

HCS 4573 R-Tech Ueno, Ltd.

Sector; Pharmaceutical

27-Jun-08

Basic drug pharma which is changing from OEM drug maker to drug discoverer

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report@ftg.jp**Company profile**

Representative Yukiko Hashitera URL: <http://www.rtechueno.com/>

Head Office Yamato Life Insurance Bldg., 10F, 1-1-7 Uchisaiwaicho, Chiyoda-ku, Tokyo

Business line Research and development, manufacture, sales, export and import of pharmaceutical products

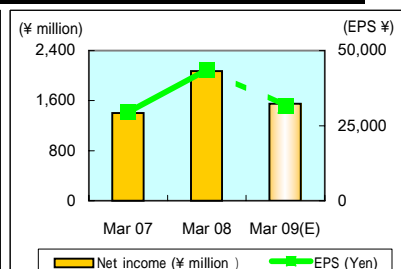
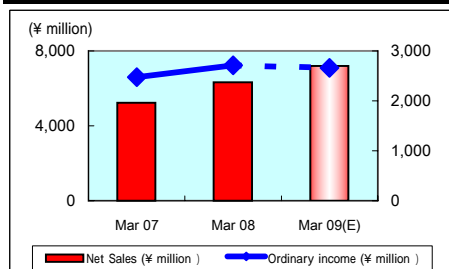
Shares issued 47,480 shares (3/31/2008)

Major Holders Special owners 87.3%, Foreign owners 34.4%, Japanese Funds 0.0%
S&R Technology Holdings, LLC 34.4%, Ryuji Ueno 16.8%, Sachiko Kunou 10.5%,
OPE Partners No.2 Investment Fund 5.3%

Established June 2000
Listed March 2008

23-Jun-08
Stock price (¥) 1,260,000
PER (E) 37.6
ROE (E) 30.2%
Market cap (¥ million) 61,910
Volume 261
Trade Unit 1

	Net Sales	Ordinary income	Net income	Dividend	EPS	ROE
	(¥ million)	(¥ million)	(¥ million)	(Yen)	(Yen)	(%)
Mar 07	5,227	2,474	1,402	7,000	29,536	86.0
Mar 08	6,332	2,713	2,070	7,500	43,604	56.2
Mar 09(E)	7,204	2,663	1,550	8,000	31,550	30.2
May 08 (Interim)	3,534	1,261	734			

**Industry trend**

Size of Japanese drug market is ¥7 trillion, second to that of USA. Medical drug is about ¥6 trillion of the total ¥7 trillion. Characteristics of Japanese drug market are as follows. ①Review of drug price (every 2 years, downward trend), ②Shrinkage of existing drug market and expansion of generic drug market. This trend is created by the Ministry of Health, Labor and Welfare. The ministry announced "Vision for new drug industry" in 2007. The seven visions are as follows. ①global mega pharma②global niche pharma③global category pharma④generic pharma⑤OTC pharma⑥basic drug pharma⑦firm of other industries, venture. Japanese drug makers are required to focus on their strong fields by the Ministry. The patent of Japanese mega drugs will be expired around 2010 and be replaced by generics. Therefore, stiffer competition and shakeout is expected in the Japanese drug industry. Foreign drug makers come to play important roles and are likely to be key players in the Japanese drug market. (source: the Ministry of Health, Labor and Welfare "Vision for new drug industry" (August 30, 2008), "drug industry, foreign VS Japanese makers" authored by Shinichi Uchida)

Business strategy

R-Tech Ueno, Ltd. is a venture firm mainly engaged in OEM drug manufacturing (over 90% of total sales). The OEM drug are "Rescula eye-lotion" for the cure of glaucoma and high eye pressure, and "Amitiza" for the cure of chronic and idiopathic constipation. Both main ingredient is "proston", functional fat acid. Rescula is sold by Santen (4536) in Japan, Astellas (4503) in Taiwan and South Korea, by Novartis of Switzerland in other countries. Amitiza is sold mainly by Takeda (4502) in North America. Amitiza's efficacy as a cure of costive hypersensitivity syndrome was approved by FDA at the end of April 2008. The company posted a high operating margin of 42.8% in FY March 2008. The business results forecast for FY March 2009 is as follows. Sales ¥7.204 billion (YoY 13.8%). Ordinary income ¥2.663 billion (YoY -1.8%). Net income ¥1.55 billion. (YoY -25.1%). The expected decrease of incomes is mainly due to the investment in plant for the output increase in Amitiza. The company plans to develop Rescula as a hair growth tonic (because Rescula promotes cilia) and to start clinical trials for the cure of dry eye (in FY March 2009). It starts to develop business as a drug discoverer by conducting R&D in earnest in addition to the OEM business. (reference: Nikkei Business Online > small innovative firm > true face of IPO firm renewal June 12, 2008 issue)

Corporate analysis by IR STREET

Strength	Opportunity
1.High technology--high profitability (Ordinary income ratio : 42.8% (FY March 2008))	1.Increase of glaucoma patient due to aging population--market expansion of glaucoma eye-lotion
2.Licensee are Japanese and foreign mega pharmas (Astellas, Takeda, Novartis)	2.Amitiza : Approved efficacy for cure of costive hypersensitivity syndrome (FDA)
3.Patent acquisition of "proston" (over 650 worldwide)	
Weakness	Risk
1.The number of employees is 82 (as of the end of March 2008)	1.Trend of Japanese health service and drug tariff
2.Sales by third party(sales by licensee)	2.Patent expiration of Rescula eye-lotion (2008~2011)
3.R&D system for new drug	3.Heavy reliance on specific licensees (especially, Santen and Takeda)

Peer comparison

	Fiscal Year end	Sales	YoY	Ordinary income	YoY	Ordinary income ratio	EPS
		(¥ million)	(%)	(¥ million)	(%)	(%)	(¥)
R-Tech Ueno	Mar 09(E)	7,204	13.8%	2,663	-1.8%	37.0%	31,550
BIOFERMIN PHARMACEUTICAL CO., LTD.(4517)	Mar 09(E)	8,300	-3.5%	1,870	0.9%	22.5%	95
Santen Pharmaceutical Co., Ltd.(4536)	Mar 09(E)	104,000	0.6%	15,600	-24.6%	15.0%	115
TORII PHARMACEUTICAL CO., LTD.(4551)	Mar 09(E)	35,900	-12.1%	4,500	-18.1%	12.5%	102

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