Yano Research Institute
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RESEARCH SUMMARY

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Research on the OTC Drug Market in Japan 2008

Research Outline

Yano Research Institute has conducted a study on the OTC drug market in Japan with following conditions.

1. Research period: June to October 2008
2. Research targets: 18 leading OTC drug manufacturers in Japan
3. Research methodologies: Face-to-face interviews, telephone and email surveys, and literature search

Definition of OTC Drug
OTC or over-the-counter drug is the type of medication that can be purchased at a local pharmacy without a doctor's prescription. Major pharmacologic effects include common cold drugs, health drinks, vitamin preparations, digestive remedies and analgesics.

Key Findings

- **The market size of OTC drugs through pharmaceutical channel for 2007 is 738 billion yen, 0.4% decrease over the previous year.**
  The market size of OTC drugs (incl. quasi-drugs) through pharmaceutical channel (sales channel to drugstores and pharmacies) was estimated at 738 billion yen, down by 0.4 percent from the previous year. On the other hand, if food channel (sales channel to convenience stores, general merchandise stores and supermarkets) is included, the market size of OTC drugs (incl. quasi-drugs) increased, mainly in the health drink sector, for the first time in eight years.

- **Common cold drugs, health drinks and lifestyle-related disease products drives market expansion.**
  By pharmacologic effect, common cold drugs and health drinks drove market expansion. In addition Chinese medicines to prevent lifestyle-related diseases such as metabolic syndrome and facial whitening products sold well in 2007.

- **While OTC drug market expands due to the revised Pharmaceutical Affairs Law, securing profits may be difficult.**
  The revised Pharmaceutical Affairs Law will be fully enforced in June 2009 and entrants into the pharmaceutical drug business from other industries, such as general merchandise stores and convenience stores are expected to increase.

Report format:

Published report: "OTC Drug Market 2008" Issued in: October 31 2008
Language: Japanese Format: 417 pages in A4 format
Price: 110,000 yen (5,500 yen of consumption tax will be additionally charged for sales in Japan.)

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Research Summary

1. Market Overview

The OTC drug market has entered a full reorganization period in these several years. New drug development companies, which mainly develop ethical drugs, further focused on strengthening the ethical drug business, and many divestitured and span off the OTC drug business. Under this situation the OTC drug market has been sluggish. Although the OTC drug market seemed to have stopped declining in 2007 due to good selling common cold drugs and health drinks, it faced a tough market environment again in 2008 due to deteriorating recession and sharp decline in consumption.

On the other hand the industry is expecting the full enforcement of the revised Pharmaceutical Affairs Law in June 2009, and new drug development companies' promotions are active for encouraging switch OTC drugs, which would result in market expansion.

2. Trends of Major Five OTC Pharmacologic Categories

a. Common Cold Drug

The common cold drug market declined by 2.0 percent in 2006 over the previous year due to warm winter, while it increased to 78 billion yen by 4.0 percent in 2007 due to favorable conditions for switch OTC drugs and the products appealing effects by disease condition.

b. Health Drink and Mini Health Drink

In 2007 the health drink and mini health drink market grew to 200 billion yen (shipment value basis), up 1.5 percent from the previous year due to well adjusted store inventory and hot summer. The health drink market was worth 138 billion yen, up 3.8 percent from the previous year, while the mini health drink market was worth 62 billion yen, down 3.1 percent from the previous year.

c. Vitamin Preparation

The vitamin preparation market for 2007 increased by 1.5 percent to 69.5 billion yen over the previous year. The driving factors include: 1) increase in demand of products for middle- and old-aged people, 2) market expansion of beauty skin and facial whitening for women, 3) increase in demand of products for relaxation of eye strain, stiff shoulder and back pain due to long use of computers.

d. Digestive Remedy

The digestive remedy market for 2007 decreased by 2.2 percent to 45 billion yen over the previous year. The demand is sluggish due to increasing health consciousness and young people's away from drinking. Companies are expanding product lineup, revising package design, and developing products that clearly state pharmacologic effects.

3. Market Perspective

In June 2009 the revised Pharmaceutical Affairs Law will be enforced, and sales system of OTC drugs is reviewed. It is the first revision in approximately 50 years since the system inauguration in 1960. The risks to cause side effects are classified into three. The highest risk Class I is obliged with face-to-face sales by pharmacists. The new system allows the retailers to sell Class II and Class III drugs that represent the majority of OTC drugs if they place a Registered Seller. Thus entries from other industries, such as general merchandise stores and convenience stores, are expected, which is a favorable opportunity for OTC manufacturers to expand sales channels.

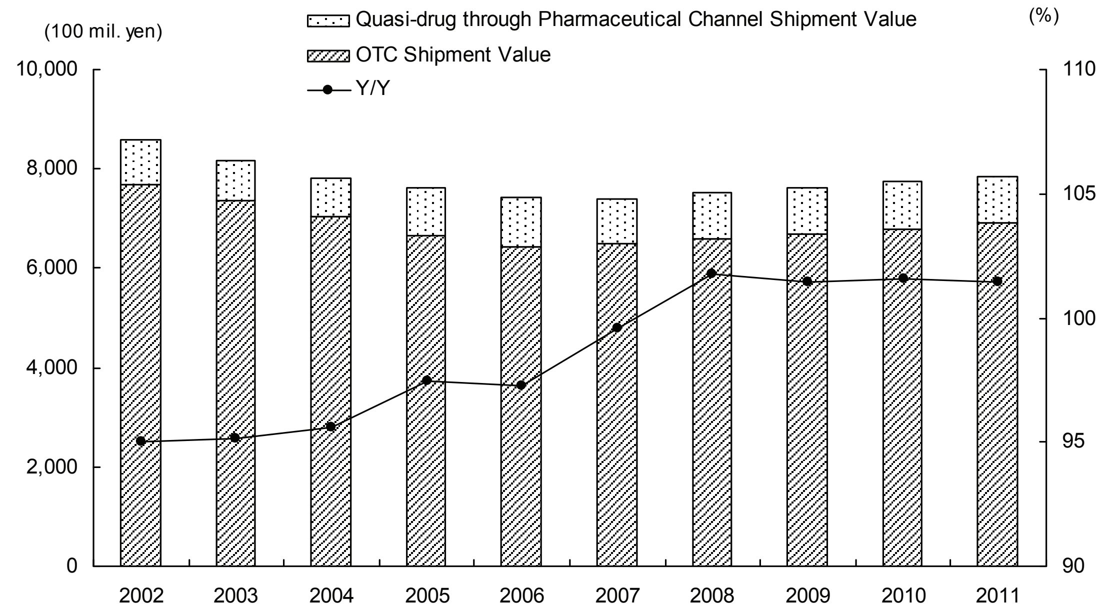
However, the market competitions will be intensified due to entries from other industries. The market may probably fall into price competitions, and the rate of market growth is anticipated to grow slightly year by year. It is important for OTC drug manufacturers to develop high functional and value added products that differentiate from others to avoid price competitions.

The notable markets in the near future are lifestyle-related disease prevention drugs against high blood pressure, obesity and high cholesterol, and facial whitening products. Due to aging society the demands for drugs to improve stiff shoulder, joint pain and back pain are increasing. Manufacturers are expected to launch attractive products in these prospective markets to survive.

Moreover, switch OTC drugs that have strong pharmacologic effects are promising to differentiate from others. It is expected that switch OTC drugs will increasingly be developed mainly by new drug development companies that have a plenty of materials to be switched to OTC drugs.

(Note) Registered Seller is the one who has sales experience for more than one year and has passed qualification examination administered by prefecture or state government

[Changes in OTC Drug Market Size]



(Unit: 100 mil. yen, %)

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
OTC Shipment Value	7,698	7,359	7,041	6,672	6,443	6,500	6,600	6,700	6,800	6,900
Quasi-drug through Pharmaceutical Channel Shipment Value	900	820	780	950	970	880	910	920	940	950
Total Shipment Value	8,598	8,179	7,821	7,622	7,413	7,380	7,510	7,620	7,740	7,850
Y/Y	95.0	95.1	95.6	97.5	97.3	99.6	101.8	101.5	101.6	101.4

* The figures are based on manufacturer shipment value.
* The figures of OTC drug shipment value for the year 2007 and before are based on “” by the Ministry of Health, Labour and Welfare and those for the year 2008 and after are estimated by Yano Research Institute.
* The figures of quasi-drugs through pharmaceutical channel shipment value are estimated by Yano Research Institute with forecasts for the year 2008 and after.

[Changes in Market Size of Major Five OTC Pharmacologic Categories]

(Unit: Mil. yen, %)

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Common Cold Drug	76,000	73,000	75,500	76,500	75,000	78,000	79,000	80,000	82,000	83,000
(Y/Y)	(101.3)	(96.1)	(103.4)	(101.3)	(98.0)	(104.0)	(101.3)	(101.3)	(102.5)	(101.2)
Health Drink	162,500	154,000	148,000	144,000	133,000	138,000	144,000	146,000	150,000	153,000
(Y/Y)	(95.6)	(94.8)	(96.1)	(97.3)	(92.4)	(103.8)	(104.3)	(101.4)	(102.7)	(102.0)
Mini Health Drink	75,500	71,000	68,000	66,000	64,000	62,000	63,000	64,000	65,000	65,000
(Y/Y)	(96.8)	(94.0)	(95.8)	(97.1)	(97.0)	(96.9)	(101.6)	(101.6)	(101.6)	(100.0)
Vitamin Preparation	69,000	71,000	69,500	69,500	68,500	69,500	70,000	71,000	72,000	73,000
(Y/Y)	(96.5)	(102.9)	(97.9)	(100.0)	(98.6)	(101.5)	(100.7)	(101.4)	(101.4)	(101.4)
Digestive Remedy	47,000	46,000	45,000	45,500	46,000	45,000	45,500	45,500	46,000	46,500
(Y/Y)	(97.9)	(97.9)	(97.8)	(101.1)	(101.1)	(97.8)	(101.1)	(100.0)	(101.1)	(101.1)

Estimated by Yano Research Institute Ltd.

* The figures are based on manufacturer shipment value.
* The figures include quasi-drugs.
* The figures for the year 2008 and after are forecasts.