

Message from the CFO



We will practice business management with an awareness of capital cost, and pursue sustainable growth and enhanced corporate value by maximizing business value and making growth investments.

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Progress of the Third Medium-Term Overview of the Plan

Overview of the Plan

The Third Medium-Term Management Plan is positioned as "Advance in the Global Market as a Unique Total Healthcare Company: Five-Year Growth Phase".

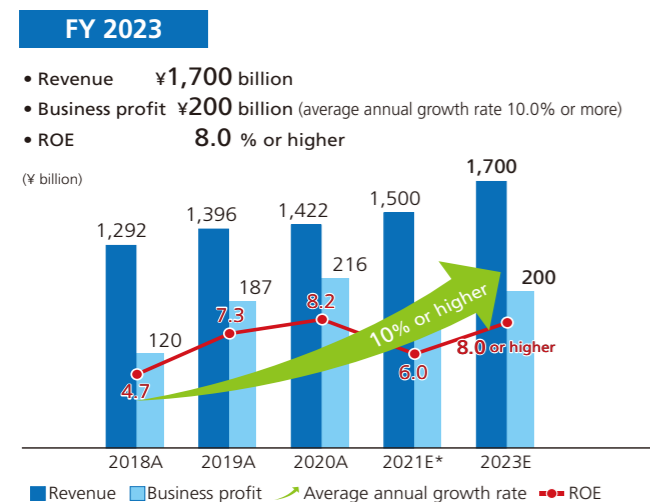
In the Pharmaceutical Business and the Nutraceutical Business, we will maximize existing business value and create new value, as well as conduct business management with a corporate-wide awareness of capital cost, and thereby maintain sustainable growth while making growth investments and ensuring returns to shareholders.

Business Progress

Performance targets for the Pharmaceutical Business under the five-year period of the Third Medium-Term Management Plan are set at increasing revenue by 200 billion yen from the 4 Global Products and by 90 billion yen from New Products that are scheduled for launch. The plan calls for revenue of 1,080 billion yen in 2023, its final fiscal year.

In fiscal 2020, IV solutions and certain therapeutic drugs were affected by reduced visits to medical institutions, fewer surgical operations, lower hospital bed occupancy, and other factors

• Third Medium-Term Management Plan



attributable to the COVID-19 pandemic. However, increased revenue from the 4 Global Products (*ABILIFY MAINTENA*, *REXULTI*, *Samsca/JINARC/JYNARQUE*, and *LONSURF*) has driven business performance, leading to progress ahead of the Plan.

We will continue working to achieve the plan's targets through various measures adapted to the "new normal."

We are pursuing challenging targets for the 3 Major Brands (*POCARI SWEAT*, Nutrition & Sante brand, and *Nature Made*) and for the 3 Nurture Brands (*BODYMAINTÉ*, *EQUELLE*, and *Daiya*) in the Nutraceutical Business. In fiscal 2020, in line with heightened health awareness, mainly with regard to disease prevention, our brands in the Nutraceutical Business were favorably received, with many consumers selecting *Nature Made* and *Daiya* products. In particular, revenue from *Daiya* plant-based food products has been increasing faster than market growth.

Our Nutraceutical Business involves diverse products and business fields, which makes it adaptable to rapid changes in the external environment and contributes to stable business operations in the medium to long term.

Plan for the Middle Year (Fiscal 2021) of the Third Medium-Term Management Plan

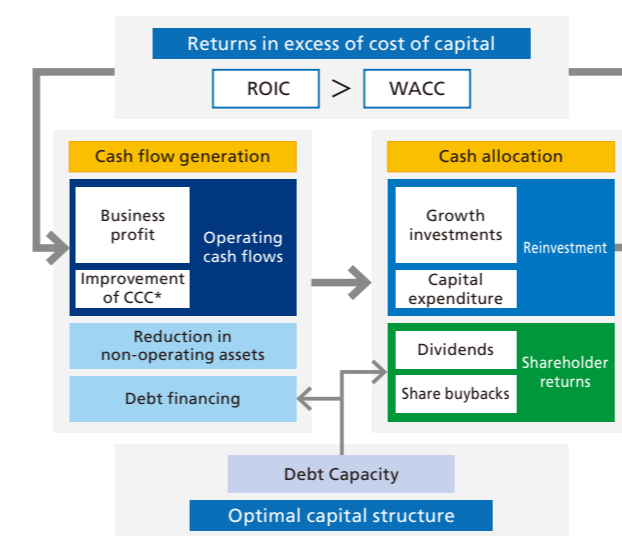
Fiscal 2021 is the middle year of the Third Medium-Term Management Plan. We plan to achieve revenue for the year of 1,423 billion yen, revised downward by 5.1% from the initial target of 1,500 billion yen.

We plan to achieve business profit of 190 billion yen, revised upward by 18.8% from the initial target, based on the growth of the 4 Global Products and the Nutraceutical Business, and have so far been making steady progress.

Measures for Enhancing Corporate Value

To achieve our goals under the Third Medium-Term Management Plan of maximizing existing business value and creating new value, we consider it important to strike a balance between organic growth of existing businesses and sustainable investment in new value creation. Instilling business management with a corporate-wide awareness of capital cost throughout the Otsuka group will enable us to maximize cash returns from existing businesses, allocate funds to growth investments, and strengthen our financial foundation, thereby allowing stable and ongoing shareholder returns.

• Framework of Financial Strategies



* Cash Conversion Cycle

Maximizing Existing Business Value through ROIC Management

During the Second Medium-Term Management Plan, we advanced the diversification of our revenue structure in order to counteract the patent expiration of *ABILIFY*. Doing so led to business profit in fiscal 2020 that set a record high since our listing on the First Section of the Tokyo Stock Exchange, and business performance recovered to the level before the patent expiration. Since then, however, factors relating to the COVID-19 pandemic, including people staying at home, have had a certain impact on our performance. From the viewpoint of business continuity, this situation has renewed our appreciation of the importance of diversity in our business portfolio, which combines the Pharmaceutical Business and the Nutraceutical Business, in mitigating business risks in emergency situations and in being able to make investments for sustainable growth.

We have set a standard for group-wide ROIC of at least 1% above the cost of capital (5.5%). In addition to measures for maximizing business returns, we are reviewing and improving business asset efficiency, and have set KPIs according to business characteristics. Furthermore, by introducing incentives linked to business performance, we are instilling ROIC management throughout the group, thereby maximizing existing business value.

Framework of Financial Strategies to Support New Value Creation

During the Third Medium-Term Management Plan, we aim to maximize returns on a cash basis and optimize the allocation of investment with a focus on our balance sheet. We will do so by strengthening product lifecycle management and business portfolio management, enabling us to link a diversified profit structure to new growth investments.

In the Pharmaceutical Business, to further our key strategies with regard to cash allocation we will first generate additional cash through cost optimization (controlling the ratio of selling, general and administrative expenses for products already on the

market), which will complement cash earned from the 4 Global Products. This cash is to be invested in sustainable R&D aimed at strengthening products and our pipeline in the psychiatry and neurology, oncology, and cardiovascular and renal areas. These investments are targeted at creating new value in answer to unmet medical needs, including diseases with no existing therapeutic drugs; in new concepts that integrate drugs with digital technologies, such as *ABILIFY MYCITE*; and in medical devices that apply new approaches such as ultrasound renal denervation treatment.

By refining manufacturing technologies, enhancing product quality and implementing rationalization measures, the IV solutions business has achieved stable cash creation in the Japanese market. To link this to development in overseas growth markets, we are reinvesting and reallocating funds among business areas as well as regional markets.

In the Nutraceutical Business, we will earn stable cash from the 3 Major Brands, whose markets are mature, and reallocate funds to creating new categories and developing new regions. We will build brands and strengthen manufacturing and marketing structures for the 3 Nurture Brands by making proactive investments and promoting the value of our products.

As a provider of total healthcare solutions, from daily health maintenance and promotion to the diagnosis and treatment of diseases, the Otsuka group emphasizes social contribution through innovation. We are always ready to take on challenges in investments that are aligned with our corporate philosophy, and that will help us to enhance our corporate value and social contribution.

In principle, these growth investments are funded through the reinvestment of cash returns from businesses, and from the stable cash supply structure established within the Otsuka group, centering on Europe, North America and Japan. We make decisions based on achieving the optimal capital structure without overreliance on any particular source of funding, taking into consideration business risks, credit ratings, expected rate of return among investors, and other factors. We have secured diverse funding means in case the impact of the COVID-19 pandemic is prolonged, including the issuance of corporate bonds, commercial paper, and funding from financial institutions through commitment lines.

The corporate department supports cost efficiency and smooth business operations by establishing a group-wide business foundation. Specific activities include promoting business and cost efficiency by expanding shared services and establishing IT infrastructure for non-manufacturing operations of the group centering on Japan, and standardizing purchasing at non-manufacturing departments. The corporate department also promotes asset efficiency by reviewing cross-shareholdings, which are held in accordance with Japan's Corporate Governance Code, and by utilizing or selling idle assets.

Our basic policy for shareholder returns is to maintain stable dividends. While emphasizing the continuity and stability of dividends, we will consider additional shareholder returns depending on profit growth, applying a comprehensive approach by securing sufficient cash returns to pursue growth investments, a solid financial standing and the optimal capital structure.

In coming years, we will continue to pursue business return and capital efficiency by promoting measures for business management with a corporate-wide awareness of capital cost.