# Message from the CFO


## Establishing a stable financial framework will make us continue doing "what only Otsuka can do," which would support driving innovation and eventually result in contribution to society.

## Progress in the Third Medium-Term Management Plan

### Overview of the Plan

The period of the Third Medium-Term Management Plan is positioned as a five-year growth phase to "Advance in the Global Market as a Unique Total Healthcare Company." In the Pharmaceutical Business and the Nutraceutical Business, we will maximize existing business value and create new value, and conduct business management with a corporatewide awareness of capital cost, and thereby maintain sustainable growth while at the same time making investments for growth and ensuring returns to shareholders.

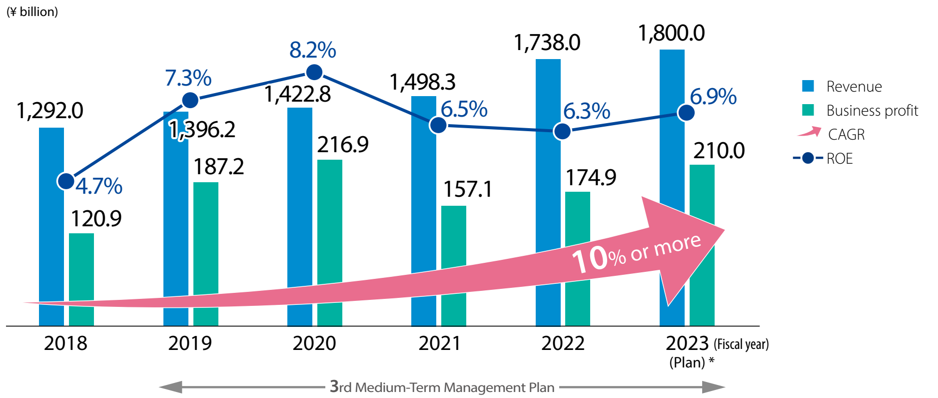
### Progress in the Middle Year (Fiscal 2022) of the Third Medium-Term Management Plan

Although our business was impacted by a variety of external factors that were not anticipated when the Third Medium-Term Management Plan was planned such as the COVID-19 pandemic, significant increase in raw material and energy costs, and exchange rate fluctuations, we were able to overcome these issues by making the best use of our strengths as a unique total healthcare company that operates diverse businesses, including the Pharmaceutical Business, which is from diagnosis to treatment, and the Nutraceutical Business, which is maintaining and improving day-to-day health.

We achieved revenue of 1,738.0 billion yen for the year, up 16.0% from the previous year as a result of the increase in revenue from four Global products of Pharmaceutical segment, three Major Brands and three Nurture Brands of Nutraceutical Business segment as well as revenue from other business segments. Business profit increased significantly to 174.9 billion yen, up 11.3% from the previous year, by controlling SG&A expenses as planned while securing aggressive R&D expenses, and we are confident that we will achieve our goal for fiscal 2023, the final year of the Third Medium-Term Management Plan. Going forward, we will continue to closely monitor the impact of the external environment, such as financial instability and exchange rate fluctuation risks on our business, and to respond in a timely and flexible manner so that we aim to achieve the goals of the Medium-Term Management Plan.

**Fiscal 2023 Targets**

- Revenue **¥1,800 billion**
- Business profit **¥210 billion** (CAGR **10.0%** or more)
- ROE **6.9% or higher**




* Announced February 2023

# Message from the CFO

## Plan for Fiscal 2023

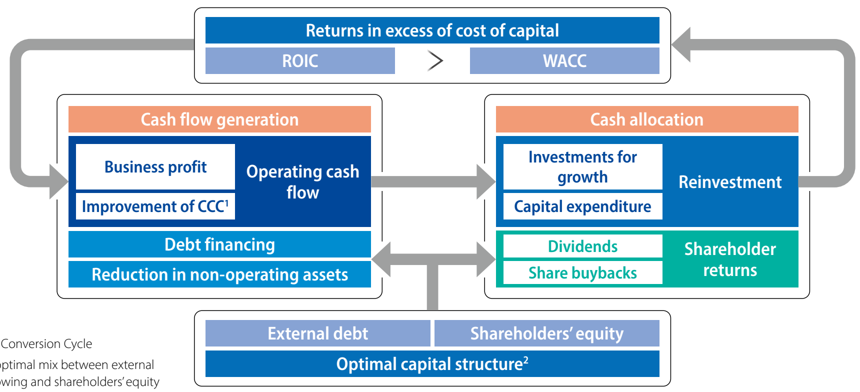
In the final year of the Medium-Term Management Plan, we target a revenue of 1.8 trillion yen in 2023, the highest in our history, and a year-on-year increase of 62 billion yen, thanks to the growth of the four Global Products and the Nutraceutical Business. With regard to the four Global Products, we achieved our sales plan of 480 billion yen for the final year of the Medium-Term Management Plan two years ahead of schedule, and we are now aiming for a new revenue target of 636.5 billion yen. In the Nutraceutical Business, *POCARI SWEAT* is also growing faster than the market growth rate, especially in Asia, and further expansion of sales areas is underway. *Nature Made* continues to grow, achieving revenue of 100 billion yen in 2021, ahead of the initial plan.

Although SG&A expenses will increase due to aggressive growth investments in new products and new areas and higher co-promotion expenses, business profit is projected at 210.0 billion yen, a 35.1 billion yen increase from the previous year due to higher sales and lower ratio of SG&A on already-launched products. Even in the midst of a drastically changing external environment, we aim to achieve growth beyond the Third Medium-Term Management Plan by demonstrating our true value as a unique total healthcare company.

## Cash Flow

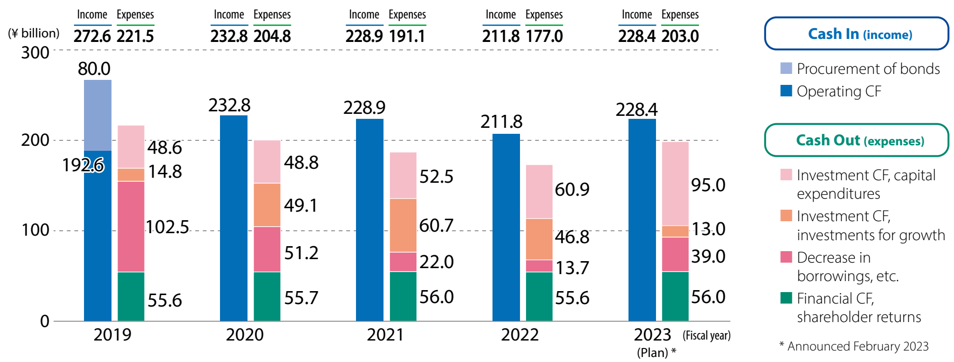
Despite various external factors, during the period of the Third Medium-Term Management Plan, we have been generating stable operating cash flow as a result of favorable business profit compared to what was originally planned and efforts to improve efficiency in assets. We also issued corporate bonds for the first time and diversified our funding sources. The generated cash has been allocated to research and development activities on existing products and new pipelines and to investment for future growth including capital expenditures in countries with rapid sales increases to implement "Existing Business Value Maximization and New Value Creation," and part of it has been secured as internal reserves. It was intended for the purpose of investment for future growth, reduction of borrowings in anticipation of upward trend of interest rates, and mitigation of cash procurement risks due to uncertain conditions in the financial markets. In fiscal 2023 there are two important upcoming milestones in the Pharmaceutical business: *REXULTI*, which was approved in North America in May for the treatment of agitation associated with dementia due to Alzheimer's disease, and the expected approval of the ultrasound renal denervation (uRDN) system, and we have now secured funding. We will continue to invest flexibly in response to growth opportunities, while balancing cash allocation to return profits to shareholders as profit increases.

**Framework of Financial Strategies**




1. Cash Conversion Cycle
2. The optimal mix between external borrowing and shareholders' equity

**Cash Flow**




## Measures for Enhancing Corporate Value

### (1) ROIC Management

Our policy for the Third Medium-Term Management Plan is to embed a commitment to "Business management with a corporatewide awareness of capital costs" throughout the group to focus on: "Existing Business Value Maximization and New Value Creation" in our two core businesses, Pharmaceuticals and Nutraceuticals. This commitment will lead to maximizing cash returns from existing businesses, allocating the generated cash to reinvestments in future growth areas, and to appropriately making stable and ongoing shareholder returns.

The period of the Third Medium-Term Management Plan is positioned as a period for "Business management with a corporatewide awareness of capital costs," with the weighted average cost of capital (WACC) set at 5.5% for the Otsuka group as a whole, so as to secure stable returns from business operations that exceed the cost of capital. Currently, we are focusing on the penetration of ROIC management, and have begun ROIC-conscious investment planning and programming throughout the Group. We believe that embedding a commitment to ROIC management is an important measure not only for improving short-term capital efficiency, but also for increasing corporate value over the medium to long term. We believe that building a stable financial foundation to continue practicing Otsuka's corporate culture of "what only Otsuka can do" from a financial perspective will lead to contributions to society through the creation of innovation. Specific individual practices and fiscal 2023 initiatives are described on the next page and beyond.

# Message from the CFO

### Maximizing Revenues from Existing Businesses

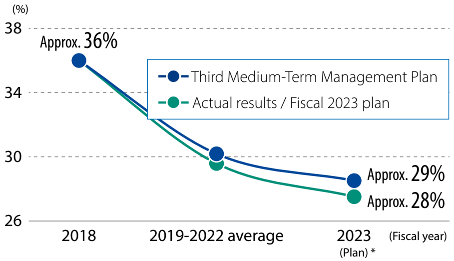
As part of our initiative for "Existing Business Value Maximization and New Value Creation," which is the framework of our Third Medium-Term Management Plan, we will maximize revenues from our two core businesses: Pharmaceutical and Nutraceutical. In the Pharmaceutical Business segment, in addition to further increasing revenue from the four Global Products we will be allocating appropriate human capital and expenses to maximize revenue from the IV solutions business and other therapeutic drugs. Also, to maximize the value of existing products, and as we diversify our products and pipelines, we are licensing out development and marketing rights and increasing royalty income. In the Nutraceutical Business segment, we will accelerate growth by further expanding the business of the three Major Brands, and increasing awareness of the product value of the three Nurture Brands. We will not only promote brand value, but also we will expand business in areas newly entered during the Third Medium-Term Management Plan.

### Cost Efficiency in Existing Businesses

As for launched pharmaceutical products, we have set a target for the selling, general and administrative expense (SG&A) ratio and are practicing to make efficient use of costs by carefully controlling expenses. We already achieved the target of 29% for the final year of the Third Medium-Term Management Plan in FY2022, and are aiming for further improvement for FY2023.

In the Nutraceutical Business, amid aggressive investment by competitors, we are aiming for efficient, disciplined control of costs through a unique method of increasing awareness of the product value.

**SG&A Expense Ratio of Pharmaceutical Products Already on the Market**



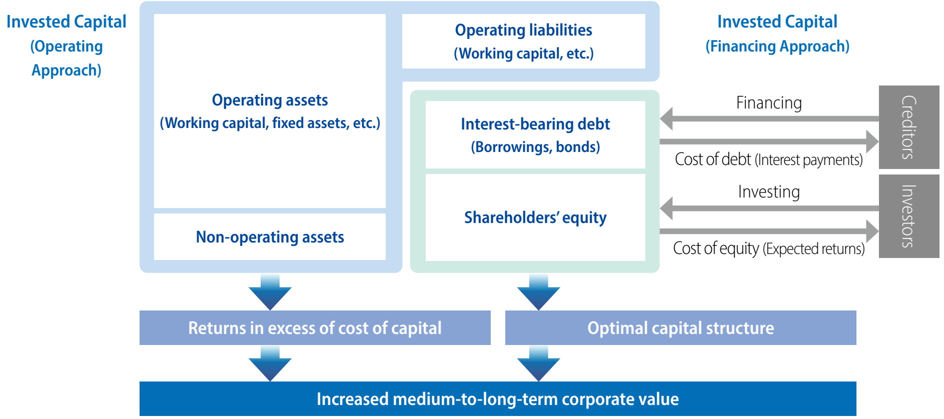

* Announced February 2023

### A Close Eye on the Balance Sheet

As for assets from the perspective of invested capital, we will emphasize efficient management of operating assets, strive to maintain appropriate inventory levels, control working capital, strengthen management of fixed assets, and promote periodic verification and reclassification of cross-shareholdings. Meanwhile, we will continue to address the issue of non-operating assets, either by finding ways to make effective use of them in our businesses or by selling them off.

From the financing perspective, we will stabilize our financial base so that it is not affected by financial instability, and improve capital efficiency by reducing interest-bearing debt. If external financing is required, we will do so on a case-by-case basis based on a comprehensive assessment of the cost and time required to access the funds, balance in terms of debt-to-equity ratio and other metrics, and credit rating. In this way, we will ensure the optimal balance between interest-bearing debt and shareholders' equity in our capital structure.

**ROIC Management from an Invested Capital Perspective**




### 2023 Initiatives

Fiscal year 2023 is an important year as we are to achieve the target of the final year of the Third Medium-Term Management Plan and it is positioned as a transition period to the next Medium-Term Management Plan. We are preparing to further enhance ROIC management for more effectiveness in the Fourth Medium-Term Management Plan. In FY2023, in addition to maximizing revenue, we will continue to work on further cost efficiency, improvement on the analysis of each business and product, consideration of management indices suitable for the Otsuka group in the future, and efficient asset and liability management with an awareness of the balance sheet. We will also work on the development of KPIs linked to the ROIC tree in preparation for the implementation of ROIC management in the Fourth Medium-Term Management Plan.

## (2) Framework of Financial Strategies to Support New Value Creation

### Corporate Department Initiatives

We support the enhancement of corporate-wide initiatives to strengthen governance in each region —Japan, North America, Europe, Asia, and China—we are also looking to expand shared services, strengthen our IT platform, promote intragroup financing, and increase efficiency of procurement functions. One example of intragroup financing is the implementation of a cash management system. Increasing the effective use of funds within Otsuka group companies across regions is helping to reduce the need for external borrowing, and interest payments, contributing to our ability to generate cash.

# Message from the CFO

**Corporate Department Initiatives in Each Region**

| | Initiatives in each region |
|---|---|
| Japan | Established Otsuka Business Support in 2019. Standardization and efficiency initiatives in human resources, IT, and accounting. |
| North America | Standardization and efficiency initiatives in human resources, procurement, finance, and IT, centered on Otsuka America, Inc. |
| Europe | Established Otsuka Holdings Europe GmbH in Germany in 2021; standardization and efficiency initiatives in human resources, finance, audit, compliance, legal, and tax operations |
| Asia | Standardization and sharing initiatives for finance, IT, and accounting work processes, and promoted shared services |
| China | Efficiency initiatives for human resources, finance, IT, audit, and compliance work processes, centered on Otsuka (China) Investment Co., Ltd. |

## Source of Funds for Investments for Growth

In principle, investments for growth are funded through the reinvestment of cash returns generated from businesses, and funds within the Otsuka group are effectively used across business segments, using funds from the cash management system in Japan, North America, and China. Where external procurement of cash is required, we are always prepared to implement the full range of options, including commercial paper, corporate bonds, bank loans, and share issues. To ensure our ability to act in a timely manner on business opportunities when they arise, we are prepared for the risk that financial uncertainty in the market may cause some procurement methods to become unavailable.

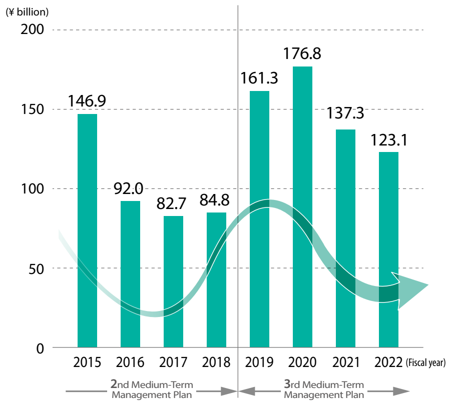
## Allocation of Funds for Investments for Growth

At the Otsuka group, we see investment as a vehicle for pursuing innovation that enables us to contribute to society. The Group uses cash generated from the organic growth of existing businesses and allocates funds to the prioritized project that will contribute to the future growth of the Otsuka group as a whole with its two core businesses, Pharmaceuticals and Nutraceuticals. For example, in the Pharmaceutical Business segment, we are not only making sustained R&D investments to strengthen our products and pipeline in the priority areas of psychiatry and neurology, oncology, and cardiovascular and renal diseases, but we are also offering uRDN therapy, a new approach in the medical device business. In the Nutraceutical Business segment, in addition to investments to expand sales channels to new areas, we are investing in building brands by increasing awareness of the product value of our three Nurture Brands and in strengthening our supply chain.

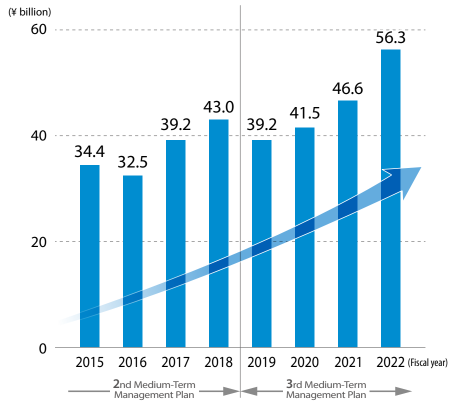
## Financial Stability through Conglomerate Management

It is generally considered that the pharmaceutical business is highly volatile because revenues tend to decline sharply after the expiration of the exclusivity period ("Patent Cliff"). In order to mitigate the impact of this volatility, the companies are required to continue to bring in new pipelines to be launched in the market by continuous investment in R&D. However, the success in this process is not guaranteed regardless of the amount of cash invested. Otsuka group has been able to support this investment process with cash stably generated not only from Pharmaceutical business but also from other business segments particularly Nutraceutical business. We believe that managing diverse business segments is helping us to make robust plan on cash demands and supplies as well as creating synergies for innovation across business segments.

**Operating Income in the Pharmaceutical Business**




**Operating Income in the Nutraceutical Business**




## (3) Shareholder Returns Policy

While our basic policy for shareholder returns is to make dividend payouts stably and continuously, we carefully consider the amount of dividends, comprehensively weigh issues such as appropriate levels of retained cash for investments for growth, maintain a solid financial standing, and achieve the optimal capital structure.

During the period of the Third Medium-Term Management Plan, earnings fluctuated due to various external factors, but our operating cash flow was stable and we were able to continue stable dividend payouts. We will be considering additional shareholder returns after performing a thorough analysis of internal reserves and cash balance at the end of the Third Medium-Term Management Plan and investments for growth for the Fourth Medium-Term Management Plan.