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For Immediate Release

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Otsuka Announces the Third Medium-Term Management Plan: Achieving Sustainable Growth

Otsuka Holdings Co., Ltd. (the “Company”) announces its Third Medium-Term Management Plan, a five-year road map that commences in FY2019, the fiscal year ending December 31, 2019. The overview of the plan is outlined briefly as follows.

■ Overview of the Second Medium-Term Management Plan

In the Second Medium-Term Management Plan, the Company set the priority issue of diversifying the revenue structure to realize sustainable growth. The Company strove to achieve its key strategic points of strengthening the core treatment fields in the Pharmaceutical business and conducting structural reform of the Nutraceutical* business.

In the Pharmaceutical business, under an external environment that has been more severe than initially assumed, the Otsuka group of companies (the “Group”) has managed to establish a base for spurring growth of the Group. This has involved making smooth progress with respect to launching products in the markets of major areas with respect to growth drivers that include the antipsychotic agent *Abilify Maintena*, the antipsychotic agent *Rexulti*, the V₂-receptor antagonist *Samsca/JINARC/JYNARQUE*, and the new anti-cancer agent *LONSURF*, and maximizing product values particularly through additional indications.

In the Nutraceutical business, the Group has drastically reformed its revenue structure and consequently generated an operating margin of over 10%, thereby achieving a major target of the plan ahead of schedule through efforts that have included developing original new products, accelerating the global development of core brand products, and reviewing the management resources that support its value chain.

As a result, we have achieved the diversification of our revenue structure, which had been a priority issue.

* Nutraceuticals = nutrition + pharmaceuticals

■ Changes in the External Environment

The healthcare industry is experiencing a period of changing environment. An aging society, the introduction of expensive drugs, outbreaks of communicable disease, etc. are contributing an ever-increasing health care budget and making governments of Japan, the United States and those in the Europe become more aware of costs for medical treatments. Facing limited financial resources, those governments are weighing the balance between benefits and costs of medical treatments. The NHI pricing system reforms and the penetration of generic drugs are progressing while expensive medical treatments and new technologies are evolving as well.

Under these circumstances, the consciousness for health including disease preventive measures is steadily increasing.

■ The Third Medium-Term Management Plan

Advance in the Global Market as a Unique Total Healthcare Company ~ Five-Year Growth Phase ~

The Company has been creating new value, underpinned by its corporate philosophy of “Otsuka-people creating new products for better health worldwide” and driven by the management spirit of “*Ryukan-godo*” (Commitment), “*Jissho*” (Actualization), and “*Sozosei*” (Creativity). Integral to this value creation have been (1) new concepts created from the organic fusion of unique and diverse businesses, insights into the world’s true needs, and technological and scientific knowhow; (2) synergies and derivation of diverse operations; and (3) cultivation of niche areas of business.

The Company continues to operate with the aim of becoming an “indispensable contributor to people’s health worldwide” by offering original products of the Pharmaceutical business and the Nutraceutical business to address both unmet medical needs and yet-to-be-imagined needs as a total healthcare provider which supports daily maintenance and improvement of health and extends from the diagnosis through to treatment of disease.

The Company has chosen the statement, “Advance in the Global Market as a Unique Total Healthcare Company ~ Five-Year Growth Phase ~” to describe the positioning of the Third Medium-Term Management Plan. Through pursuing “New value creation” and “Existing business value maximization” in the two core businesses of the Pharmaceutical business and the Nutraceutical business, and “Capital cost-oriented business management,” the Company aims to achieve sustainable growth.

Performance Targets: Business profit growth of more than 10% compound annual growth rate (CAGR)

- Achievement of targets through steady growth of mainstay products and brands in the Pharmaceutical business and the Nutraceutical business (organic growth)
- Aggressive R&D investments and continuous development of new drugs that drive revenue growth on and beyond next medium-term management plan

	2018 (Actual)	2021 (Target)	2023 (Target)	(Billions of yen) CAGR 2018-2023
Revenue	1,292	1,500	1,700	5.6%
Business profit before R&D investment	313.8	390.0	460.0	7.9%
Profit margin (before R&D investment) (%)	24.3%	26.0%	27.1%	
Research and development expenses	192.9	230.0	260.0	6.1%
Business profit	120.9	160.0	200.0	10.6%
Profit margin (%)	9.4%	10.7%	11.8%	
ROE	4.7%	6.0% or more	8.0% or more	

Note: Foreign currency exchange rate assumptions: US\$1 = ¥110 and €1 = ¥130.

The notion of growth achieved through acquisitions and other forms of strategic investment is not factored in.

Business profit = Revenue – Cost of sales – Selling, general and administrative expenses + Share of loss (profit) of associates – Research and development expenses

Business Strategy: New value creation and existing business value maximization

1) Accelerate growth through strategic initiatives geared to mainstay products and brands

Enhance strategic initiatives upon designating the following products and brands as growth drivers: four global products in Pharmaceuticals (*Abilify Maintena, Rexulti, Samsca/JINARC/JYNARQUE, LONSURF*), three major brands in Nutraceuticals (*POCARI SWEAT, Nature Made, Nutrition & Santé SAS* products), three growth brands in Nutraceuticals (Daiya Foods Inc. products, *EQUELLE, BODY MAINTÉ*).

2) Initiatives geared to next-generation business and products

Launch and foster new products that spur sustainable growth in the Pharmaceutical business and the Nutraceutical business.

Pharmaceutical business:

The Company will address the challenge of expanding into new frontiers that “Only Otsuka Can Do,” providing solutions to unmet medical needs and generating innovation from original and diverse research platforms.

Nutraceutical business:

The Company will maintain high profit-margin structure by creating new concepts with sights set on changes in the business environment and addressing challenges of expanding into new categories and new areas.

Financial Policy: Business management with a corporate wide awareness of capital costs

- Balancing investment for future growth and shareholder return
- Focusing on acquiring funds for growth investment and shareholder returns
- Establishing a management platform to support rapid global expansion aimed at realizing disciplined management in practice

■ Reference

Presentation material of the plan is available on the website below:

<https://www.otsuka.com/en/ir/library/presentation.html>

Based on the Otsuka Group’s corporate philosophy “Otsuka-people creating new products for better health worldwide,” the Group strives to contribute to healthier lives for people around the world.

Disclaimer:

- This material contains forward-looking statements regarding the financial conditions, results of operations and business activities of the Group. All forward-looking statements, due to their inherent nature, will be influenced by future events and developments for which the occurrence is uncertain, and therefore involve risks and uncertainties. The Company cautions you in advance that actual financial conditions, results of operations and business activities could differ materially from those discussed in the forward-looking statements.
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