

Financial/Capital Strategy

Nippon Shinyaku is prioritizing investment for future growth and establishing a revenue base not dependent on royalty revenues.

TAKANORI EDAMITSU

Director, Business Management & Sustainability

To overcome the patent cliff of Upravi and achieve growth, the 7th Five-Year Medium-Term Management Plan is positioned as a phase for prioritizing investment. We will actively promote investment in R&D, in-licensed products, and other areas to achieve sustainable, long-term growth.

Progress of the 7th Medium-Term Management Plan

FY2024 results

In our financial results announced in May 2024, Nippon Shinyaku anticipated revenue of ¥150.0 billion and operating profit of ¥31.0 billion as our expected results in FY2024. Compared to this, our actual results were revenue of ¥160.2 billion (106.8% achievement ratio) and operating profit of ¥35.4 billion (114.2% achievement ratio). In both cases, our results exceeded initial expectations.

Under the 7th Medium-Term Management Plan that started in FY2024, we are engaging in the three key themes of “Fostering growth drivers to replace Upravi,” “Expanding global development,” and “Continuous pipeline expansion” in order to overcome Upravi’s patent cliff and achieve sustainable growth. We made steady progress toward addressing these themes in FY2024, making a good start in the first year of the plan.

First, in terms of “Fostering growth drivers to replace Upravi,” we launched Vyxeos and Jaypirca and added indications for Fintepla, and took measures to further foster these products. We did not just launch these products into the market, but also ensured we delivered accurate and timely information in line with the needs of healthcare workplaces. In addition to holding meetings with MRs, we strengthened the provision of information in an omni-channel approach that leverages digital technology. This accelerated the penetration of

information to medical professionals and contributed to increasing revenue beyond our expectations.

Next, for the theme of “Expanding global development,” we continued to expand our organizational structure to ensure close communication with medical professionals, patient organizations, and insurers, as we mark five years since the launch of in-house sales of Viltepso in the U.S. The result was 20% year on year growth.

Finally, for “Continuous pipeline expansion,” we continued our active investment in R&D, in-licensing, and other areas, resulting in R&D expenses of ¥34.3 billion, more than the ¥31.5 billion in the initial plan. Since this includes an increase of costs for products in late stage development that were in-licensed during the plan period and an increase in manufacturing costs for investigational new drugs that result from progress of the pipeline, we believe that these are strategic investments that will lead to future growth.

FY2025 forecast

In FY2025, we anticipate revenue of ¥173.0 billion and operating profit of ¥30.0 billion. In Japan, we expect sales growth from our new products group, including Vyxeos and Fintepla, and we forecast a year on year increase in revenue. However, due to an increase in expenses such as the sales costs of NS Pharma resulting from preparations for new product launches and contract research expenses that arise from the continuing development of nucleic acid products, we expect a decrease in

year on year operating profit.

In the medium term, through the contribution of products such as CAP-1002, and RGX-121/111 and ATSN-101 that were in-licensed in FY2024, we aim to achieve revenue of ¥230.0 billion and operating profit of ¥30.0 billion, which are our quantitative targets for FY2028. The period of the 7th Medium-Term Management Plan is positioned as a phase for prioritizing investment to overcome the patent cliff of Upravi. Although we expect a year on year profit decrease in FY2025, the extent of the operating profit drop is less than we anticipated when announcing the 7th Medium-Term Management Plan. We expect FY2025 to be the bottom and to recover quickly after that. Furthermore, we expect to enter a growth phase from FY2029, with the aim of achieving revenue of ¥300.0 billion and operating profit of ¥50.0 billion by FY2030.

Capital Allocation Anticipating Medium- to Long-term Growth

Our basic policy on capital allocation is to promote the three key themes in the 7th Medium-Term Management Plan and actively make strategic investments that will lead to sustainable growth while ensuring financial soundness. In FY2024, we invested ¥34.3 billion in R&D to launch new products and develop our pipeline. We made ¥3.5 billion in capital investments, including in the Sales and Marketing Division and digital areas of R&D.

In the Sales and Marketing Division, we made information provision activities more efficient by using data analysis and an omni-channel approach. By delivering the required information quickly to medical professionals, we are promoting the early

market penetration of new products. In the R&D Division, we invested in building an AI drug discovery platform, and candidate products in the research stage have already emerged using this system. We also invested ¥33.0 billion as part of our flexible allocation, mainly to acquire new in-licensed products that we expect to launch globally during the period of the 7th Medium-Term Management Plan. When we formulated the 7th Medium-Term Management Plan, we anticipated cash resources of ¥370.0 billion that combined operating cash flow before deduction of R&D expenses, cash on hand, and other items over five years. However, thanks to these active investments, we now expect to increase the operating cash flow by accelerating the launch of new products.

In the future, we plan to use the increased cash to make investments that anticipate medium- to long-term growth and return profits to shareholders appropriately.

Concept of Non-financial Capital

Achieving both social value and economic value

For a company to continue to exist and grow sustainably, it is essential to implement sustainability management that takes into account not only the growth of the company itself, but also the impact on the global environment and society. To promote this, Nippon Shinyaku has identified five important material issues for the Company and society: “Realizing a healthy future by creating innovation,” “Developing diverse human resources and realizing employee well-being,” “Resolving social issues and coexisting with the community,” “Strengthening efforts to protect the global environment,” and “Strengthening governance.”

Based on a strong governance system, we will develop human resources and promote business activities that are considerate of society and the global environment as we aim to realize a healthy future by creating innovation. In the Pharmaceuticals Business, we are developing and launching new drugs and providing them globally for diseases with unmet treatment needs, such as rare diseases, enabling us to deliver social value in the form of a new quality of life for patients and their families. Nippon Shinyaku will also gain economic value as a result, helping us to promote sustainability management that achieves both social value and economic value.

Investment policy for acquiring and developing transformative talent

As we promote global expansion based on the 7th Medium-Term Management Plan, simply following conventional

Capital Allocation

	Cash resources	Allocation	FY2024 results	
	Additional operating CF amount	Additional amount		
Maximize operating CF by promoting “Three key themes” toward the “Vision for 2035”	5-year operating CF ¥275.0 billion (Before deduction of R&D expenses)	R&D expenses ¥190.0 billion	R&D expenses ¥34.3 billion	Distributed additional operating CF amount to growth investments and shareholder returns
		Capital investment ¥38.0 billion	Capital investment ¥3.5 billion	Active investment to promote global development
		Flexible allocation ¥100.0 billion	Flexible allocation ¥33.0 billion	New R&D and manufacturing facilities, renovations, and digital investments in response to growth
		Dividends ¥42.0 billion	Dividends ¥8.4 billion	Licensing activities and arranging overseas bases to implement growth strategies. Considering shareholder returns through acquisitions of treasury stock
	Cash on hand, etc. ¥95.0 billion			Maintain stable dividends while taking into consideration the dividend on equity ratio (DOE)

work procedures risks increasing workloads and costs, making it difficult to generate sustainable profits. To prevent this, it is important to proactively transform work styles by leveraging digital technologies. We define human resources in charge of such DX as "DX transformative talent," and we are developing such talent step-by-step. Specifically, we are helping employees obtain practical skills by learning basic knowledge of digital technologies, and through initiatives such as selective training programs and support for acquiring public qualifications. Since improving business literacy is also essential for promoting DX, we provide in-house training for business administration and a support system for obtaining an MBA, and we have included these educational expenses in the 7th Medium-Term Management Plan. To make sure that the knowledge acquired through education is applied in actual work, the priority DX themes were set in consultation with management to promote digital investments.

Increasing Shareholder Value

Management that considers capital costs

Management is required that considers capital costs and the stock price. To this end, the Company recognizes that stable supplies of pharmaceutical products and functional food are critical for all of our stakeholders, including medical

professionals, patients, and society. Furthermore, our policy is to maximize shareholder value through both shareholder returns and investing for future growth while ensuring that we have working capital and financial soundness. This concept is represented graphically by the logic tree. To quantitatively evaluate the increase in shareholder value, the 7th Medium-Term Management Plan sets a target for ROE (return on equity [shareholders' equity]) of 8% or more by FY2028 and we aim to increase the return on equity by increasing profits through the efficient leverage of shareholders' equity. Furthermore, to make the profitability of the Pharmaceuticals Business and Functional Food Business more transparent, we set a target for ROIC (return on invested capital) of 9% or more by FY2028 for both businesses.

The 7th Medium-Term Management Plan specifies the capital allocation and we will maintain profitability at the target value or higher by thoroughly reducing costs and allocating management resources based on the priorities set forth in our business strategies. Particularly in the case of large investments such as the development of pharmaceuticals and in-licensing, we will make investment decisions with the weighted average cost of capital (WACC) as the hurdle rate. Both the ROE and ROIC target values were set to a level exceeding the WACC and we are also introducing ROIC management to ensure that we can achieve the targets.

The FY2024 results showed an ROE of 13.9%, and an ROIC of 17.9% in the Pharmaceuticals Business and 9.4% in the Functional Food Business, with all results above the targets. Since the policy during the period of the 7th Medium-Term

Management Plan is to actively promote investments, conservative targets were set for ROE and ROIC in FY2028, and at present we are making good progress toward achieving them.

The growth of dividends and increases in the stock price both contribute to increased shareholder value. These are generally considered to be verifiable using long-term total shareholder return (TSR). The stock price is sometimes evaluated through methods such as using a multiple of EPS or the present value of free cash flow, and future profit growth is considered to be linked directly with growth in the stock price. In the future, we will continue to grow profits through strategic investments as we aim to further increase shareholder value.

Dividend policy

The 7th Medium-Term Management Plan assumes total dividends of ¥42 billion over the five-year period, as our policy is to maintain a stable dividend while taking the DOE into consideration. Based on this policy, even though we expect a decrease in profits in FY2025, we will pay out the same dividend as FY2024 of ¥62 per share for both the interim and year-end dividend, for a total annual dividend of ¥124 per share. We will use the ¥100.0 billion that has been set as the flexible allocation segment of capital allocation to make active investments in anticipation of future growth, such as acquiring licenses and arranging overseas bases to implement sustainable growth. We are also considering stock buybacks as one option

for shareholder returns, which would be funded from this flexible allocation.

To our shareholders and investors

Although our stock price has declined, we believe that it will recover in the future as we carry out the future growth initiatives outlined in the 7th Medium-Term Management Plan and if investors understand our strategy. We will facilitate this understanding by actively publicizing information through IR activities, because we know the importance of improving even further our communications with shareholders and all of our other stakeholders.

As such, we established a new IR Section dedicated to IR activities in FY2024, which is implementing various new initiatives. These include improving information disclosure through briefings and other methods, distributing briefing videos, and participating in events for individual shareholders.

During the period of the 7th Medium-Term Management Plan, we will overcome the Upravi patent cliff and build a foundation for sustainable growth, and we will also further strengthen the base from which we deliver products and services to the world. We hope that you will look forward to the future growth of Nippon Shinyaku in our quest to become a global healthcare company.

Logic tree

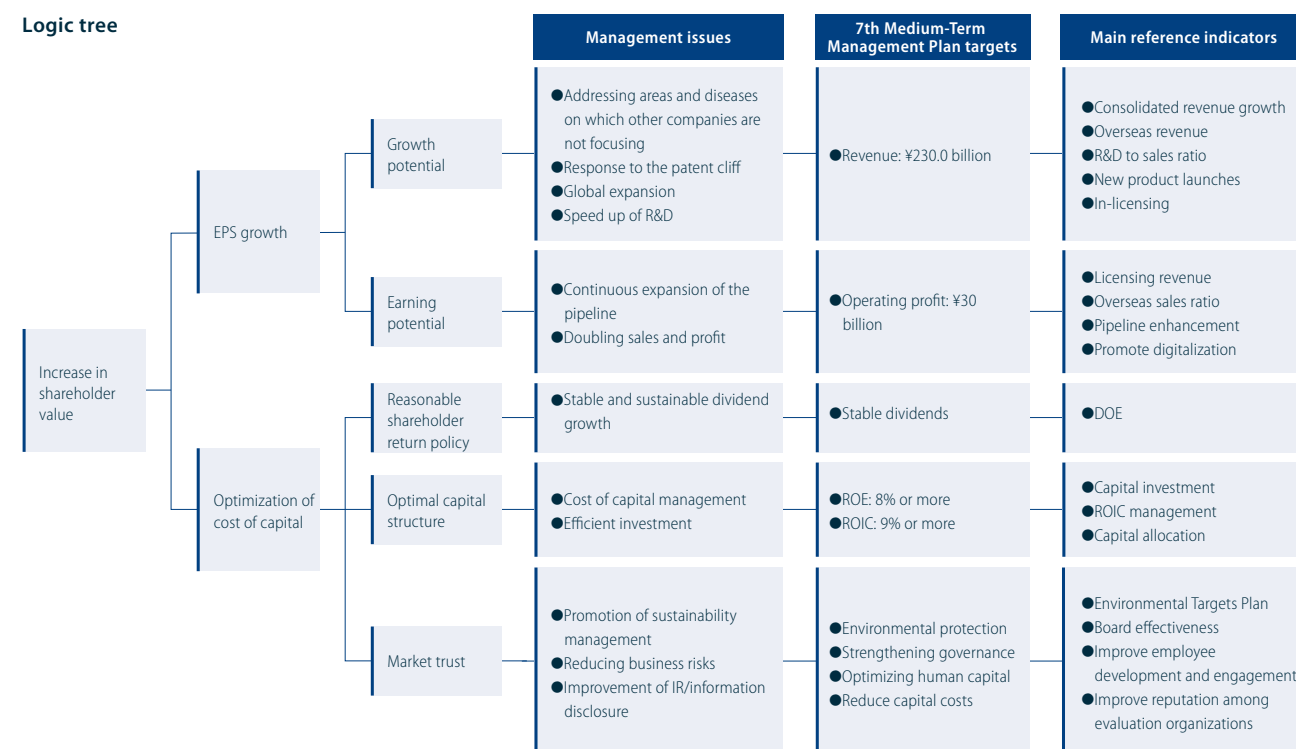
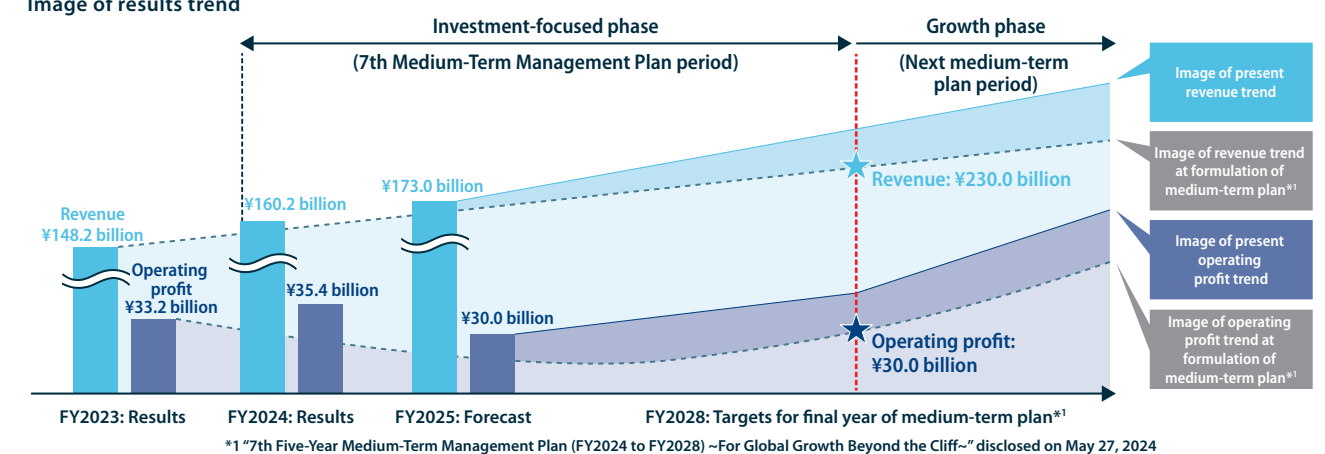


Image of results trend



Stock price performance

	One year	Three years		Five years		Ten years	
		Cumulative	Annualized rate	Cumulative	Annualized rate	Cumulative	Annualized rate
Nippon Shinyaku	-12.2%	-50.0%	-20.6%	-48.4%	-12.4%	6.4%	0.6%
TOPIX	-1.5%	47.2%	13.8%	113.4%	16.4%	117.4%	8.1%

* Total shareholders' return (TSR) is the total return on investment that takes into consideration capital gains and dividends.

* Nippon Shinyaku calculates TSR using cumulative dividends and change in stock price, and for the TOPIX, the dividend-included stock price index is used (calculated by Nippon Shinyaku using Japan Exchange Group data).

* Figures in the graph assume the closing price on March 31, 2015, is 100, and the TSR-based market value is indexed to that (held through March 31, 2025).

* The return is the percent change of the initial investment generally used when calculating return on investment.