

Message from the Chairman



Helping people to lead healthier,
happier lives by providing
distinctive products of high quality

S. Maekawa

Shigenobu Maekawa
Chairman

Move to new management structure

The global COVID-19 pandemic has led to continuing uncertainty, which in turn has resulted in business conditions for Nippon Shinyaku remaining in a state of rapid flux.

If we are to build on the unique business presence that we have in healthcare to become an indispensable player capable of sustained growth, we must accelerate our global development and redouble our focus on developing overseas markets.

To support a more international outlook under these conditions, we decided to move to a new management structure in which I would be succeeded as President by Mr. Toru Nakai, who has the required international business experience to help us respond flexibly to societal changes that demand speed and diversification.

In my new role as Chairman of the Board of Directors, I will support our efforts to realize the growth of Nippon Shinyaku's business over the medium and long term by enhancing our corporate governance.

What it takes to be “a company with a meaningful existence in the healthcare field”

Nippon Shinyaku's business philosophy is about helping people lead healthier, happier lives by supplying unique and high-quality products; by earning the trust of society; and by developing each employee. Under this policy, we are seeking to generate sustained growth by developing groundbreaking new drugs and functional foods that deliver original value, while at the same time playing our proper social role as a corporate citizen to contribute to community development. In the pharmaceuticals business, we are primarily targeting diseases with unmet treatment needs in four therapeutic areas, giving hope to patients suffering from illnesses by supplying medicines that are distinctive and of high quality. In the functional food business, we seek to use our high level of technical expertise as a pharmaceutical maker to create products with high added value to satisfy market needs.

Leveraging our traditional strengths in drug discovery based on small molecules and nucleic acids, we aim to launch new products that cater to market needs by further enhancing our R&D capabilities as well as accepting the challenge of new modality development. We are working to boost productivity through active AI utilization and promotion of advanced IT, along with the deployment of digital transformation (DX) technologies. Our aim is to develop our operations globally by creating new business opportunities.

We also continue to upgrade our focus on ESG (environmental/social/governance) management so we can continue to play a critical role in a sustainable society. An essential aspect of managing the business going forward is to accept the materiality of our efforts to help achieve the UN Sustainable Development Goals (SDGs). Our business activities are not just about pursuing sales and profits: by helping to address societal issues, our aim is to raise corporate value while aspiring to remain a company with a meaningful existence in the healthcare field.

A robust governance structure is essential to support these kinds of activities. Our aim is to ensure sound management that operates with a high degree of integrity and transparency as we work to respond promptly to change. Besides ongoing gains in corporate value, we are targeting enhanced Board effectiveness, along with further improvements in our systems for executing business policies.

Message to stakeholders

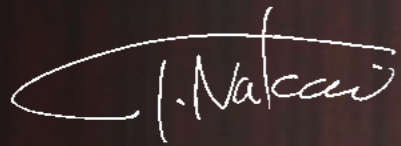
This report aims to inform stakeholders about the initiatives at Nippon Shinyaku that aim to promote sustained growth. We hope it will provide a useful tool for communicating with stakeholders.

With the end of the pandemic in sight, we are focused on conducting business activities with integrity while actively undertaking dialogue with stakeholders so that we can earn the trust of society as we work to build our business.

Realizing sustained growth is a constant challenge. We hope that you will extend Nippon Shinyaku your continued support and understanding.

Message from the President

What it takes to be “a company with a meaningful existence in the global healthcare field”



Toru Nakai
President



On my appointment as President

I was appointed President in June 2021.

Since joining Nippon Shinyaku in 1995, I have worked in many divisions and roles: as a medical representative, in charge of NHI pricing, and in marketing, among others. One highly valuable experience was working in the Global Business Division, which included some time spent overseas. While I was heading up this division, I pushed ahead with the development of a global pharmaceutical business by building up the organization and working in partnership with

related divisions such as R&D, manufacturing, distribution, sales, and administration. The constant collaboration with partners inside and outside the company based on repeated trial-and-error has afforded me a deep insight into the Group's operations. I believe one of my strengths is that I can use this unique bird's-eye perspective to take appropriate management decisions quickly. I recognize that it is my duty as President to be thinking constantly about what Nippon Shinyaku needs to do, and to display the leadership to help harness our collective abilities to those ends. I see the qualities needed to fulfil

this duty as the ability to launch into the unknown; to be unafraid of change; to see it through to the end; to think for oneself habitually; and to be inclined to accept diversity.

I take on this heavy responsibility of the top job with a sense of urgency to apply our efforts to accomplishing everything that we should do or want to do for the future of Nippon Shinyaku. We do not want to look back later and regret having failed to do these things.

The role and mission of Nippon Shinyaku

We celebrated the centennial of Nippon Shinyaku in 2019. At the time that it was founded, most medicines were imported into Japan from overseas. The name of the company, which means “new drugs from Japan,” reflects the founder's desire to produce high-quality medicines with Japanese expertise, and build a company that would develop its business overseas.

Since its inception, the creation of novel medicines has been at the core of Nippon Shinyaku's identity. Our recent growth in sales has been driven by distinctive new products such as Defitelio, Gazyva and Upravi. Annual global sales of Upravi, which was developed in-house, exceed ¥100 billion, putting it in the blockbuster category. In 2020, we launched Viltepso, a treatment for Duchenne muscular dystrophy (DMD), in the US and Japan. It is the first antisense oligonucleotide discovered in Japan, and is contributing to further steady growth in sales.

For Nippon Shinyaku to enjoy sustained growth while pursuing an independent path, we must have our eye fixed on the global challenge as we work to generate a constant stream of highly innovative and distinctive new products to introduce to world markets. To this end, I believe it is essential that we continue to improve our existing technologies in small molecules and nucleic acid medicines, while also looking to

develop and acquire new drug discovery technologies to find therapies for diseases with unmet therapeutic needs and for rare and intractable diseases that currently have no treatment. Focusing on the fields where the major players are not involved can be a significant factor in the growth of Nippon Shinyaku, while also providing us with a *raison d'être*. Even if the number of patients who benefit from the medicines we develop is small, our goal must still be to create the medicines that alleviate suffering from the disease.

In our other core business of functional foods, we are working to supply markets with unique products in four focus areas – health food ingredients, preservatives, protein preparations, and supplements. These products are contributing to better health and enriched lifestyles.

The role and mission of Nippon Shinyaku is to help as many people as possible at the earliest juncture by supplying high-quality medicines and functional foods. It is my firm belief we must aim to expand the business by aspiring to be a company with a meaningful existence in the global healthcare field.

Modern society is seeing the emergence of many issues. Besides environmental problems, we also have the demographic challenge of a smaller workforce caused by low birth rates and an aging population. At the same time, the COVID-19 pandemic has resulted in a significant shift in lifestyles and the way we do many things. At Nippon Shinyaku, we have responded by introducing new ways of working, using new flextime and telework systems to help employees find their most productive work-life balance while improving the office environment. Through such initiatives, we are building workplaces where our employees find it easier to work so that we better respect different values. This in turn will help us to fulfill the company's role and mission.

Message from the President

Our three commitments

Creating a meaningful existence in the global healthcare field

Gauged using multiple business metrics, Nippon Shinyaku achieved significant growth under my predecessor Shigenobu Maekawa, the current Chairman. We will follow the path he created in policy terms while also doing more to respond to the trends of the time such as diversification of drug discovery modalities, globalizing markets, evolving workstyles, and greater diversity of values. Achieving these goals translates to three commitments, which I outline below.

1. Continue to launch at least one distinctive product each year

I believe we want Nippon Shinyaku to be a company that contributes to society by constantly delivering value in the form of distinctive new drugs offering benefits to patients and their families. The three core pillars supporting this mission are still in-house drug discovery, in-licensing, and product life cycle management (PLCM). However, we must be prepared to revise the specific details of these programs continually and promptly, without being swayed by earlier success or precedents.

2. Generate at least 50% of consolidated sales from overseas

Our operating margins bear comparison with the profitability metrics of major or second-tier pharmaceutical companies. In terms of the proportion of sales derived from overseas, however, the figure of 26.0% that we achieved in fiscal 2020 is lower than these companies, where the ratio is typically at least 30%. It is vital that Nippon Shinyaku develop a stronger presence in overseas markets if we are to forge sustained growth in the future. This means our policy must be to develop operations not just in the US, but also in Europe, China and other markets, so we



can target a higher proportion of overseas sales. Although the Japanese market is struggling for various reasons, we can continue to show our value as a company by developing and launching a continual stream of distinctive new products.

3. Target at least 100% gains in net sales and operating income

We must also be committed to building a foundation to expand Nippon Shinyaku's net sales in the future to ¥300 billion, and from there to ¥500 billion.

Let me outline the specific policies that we will pursue. In pharmaceuticals, we will invest aggressively to upgrade our R&D capabilities through advanced drug discovery technologies, and to develop new drug-discovery modalities outside of nucleic acid medicines. Our core disease targets will be areas of unmet therapeutic need, focusing mainly on the four areas of urology, hematology, intractable and rare diseases, and gynecology. We will seek to develop and upgrade an R&D pipeline filled with products with global potential. In functional food, we will use our advanced expertise as a manufacturer of medicines to supply high-value-added products that address societal needs such as reduction of food waste and efforts to combat aging. Our overall aim remains to generate sustained growth and increased corporate value.

6th Five-Year Medium-term Management Plan

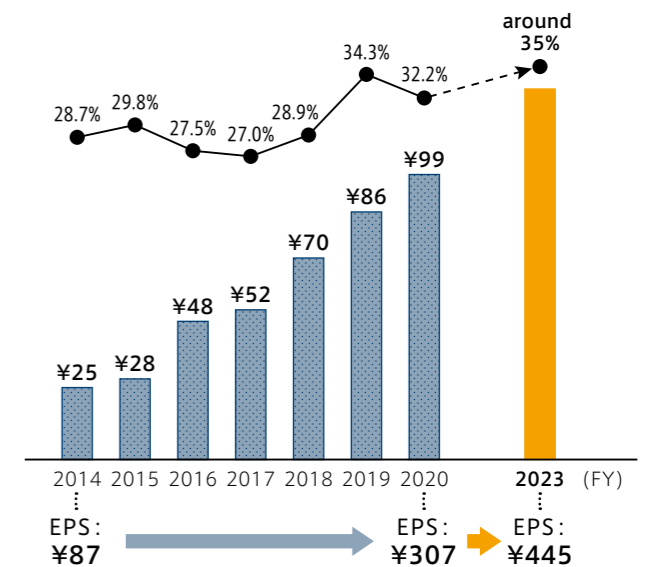
Under the 6th Five-Year Medium-term Management Plan covering the period to the end of March 2024, our targets for the final year of fiscal 2023 are net sales of ¥150 billion and operating income of ¥40 billion. Compared with the results in the final year of the 5th Five-Year Medium-term Management Plan (FY2018), these targets represent a 30% gain in net sales (equivalent to a CAGR of 5.5%) and a 90% gain in operating income (or CAGR of 14.2%). The aim of the 6th Plan is to expand the earnings base developed in the 5th Plan so that it is robust enough to support sustained future growth. We have set a range of quantitative targets that we aim to achieve through "six actions."

Separately, we are actively investing in the tangible and intangible asset base of Nippon Shinyaku's human, knowledge and information resources, along with our experience and facilities. Investments aim to upgrade our R&D, human capital and IT capabilities, and to foster gains in productivity. Specific objectives include upgrading the development pipeline by strengthening our R&D set-up; investing in technology for the Discovery Research Laboratories; capital spending to increase the efficiency of existing technologies; and actively utilizing AI, IoT and robotic process automation

(RPA) to help raise productivity. These growth investments are part of achieving another goal of the 6th Plan, to maintain double-digit ROE. We achieved this in fiscal 2020, when we recorded ROE of 13.5%.

Our policy is to balance the investment of profits to create a stronger earnings base with the returns to shareholders. Under the 6th Plan, we are targeting a dividend payout ratio of approximately 35%, with dividends per share (DPS) expected to rise along with earnings per share (EPS). DPS was ¥99 in fiscal 2020, comprising an interim dividend of ¥49 per share and a final dividend of ¥50 per share. We plan to increase DPS by ¥4 in fiscal 2021, to ¥103.

Dividend per share / Payout ratio



6th Five-Year Medium-term Management Plan numerical targets for FY2023

(Consolidated)	FY2018 results	FY2020 results	FY2023 target	CAGR ^{*1}
Net sales	¥114.7 billion	¥121.8 billion	¥150.0 billion	5.5%
Pharmaceuticals	¥100.2 billion	¥106.4 billion	¥133.0 billion	5.8%
Functional Food	¥14.4 billion	¥15.4 billion	¥17.0 billion	3.4%
Operating income	¥20.6 billion	¥26.1 billion	¥40.0 billion	14.2%
Net income attributable to owners of the parent	¥16.3 billion	¥20.7 billion	¥30.0 billion	13.0%
EPS ^{*2}	¥242	¥307	¥445	13.0%
ROE ^{*3}	12.5%	13.5%	10% or more during term of 6th Plan	

*1 CAGR: Compound Annual Growth Rate

*2 EPS: Earnings Per Share

*3 ROE: Return On Equity

Message from the President

ESG-based management

To create a future of sustainable growth for Nippon Shinyaku, we must contribute to efforts to realize a sustainable society through ESG-based management. This means focusing more on non-financial aspects such as addressing environmental issues or supporting employee wellbeing. We review regularly both the content and goals of our ESG initiatives, in line with our materiality analysis, so that we can improve while also responding flexibly to societal changes. We will continue doing what we can to support the creation of a sustainable society by helping to achieve the SDGs, which in the process will help us to increase our corporate value.

1 Environmental [E]

We are further upgrading environmental initiatives aimed at addressing issues that relate to climate change, based on lower greenhouse gas emissions and a range of other measures. This will help us achieve the 6th Nippon Shinyaku Environmental Targets Plan that we formulated in fiscal 2020, and, later, the long-term goals we identify as material.

Since fiscal 2020, our emissions disclosures encompass not only Scope 1 and Scope 2 emissions, but also the Scope 3 emissions related to our supply chain. The massive production and consumption of limited planetary resources associated with our way of life entails a huge environmental impact. As a company, we are working to assess our emissions more precisely and manage hazardous substances to support more eco-friendly production activities.

2 Social [S]

One of Nippon Shinyaku's management policies is to "develop each employee." We recognize human resources as the driving force for sustained growth. We aim to cultivate pleasant working environments full of smiling people and vitality, and to support the physical and mental health of employees as well as the families who support them. As we work to develop our global business, we must also respect diversity and treat people the same, irrespective of factors such as age, gender, ethnicity or nationality. At a time when conditions are changing rapidly, the risks of making decisions as an overly homogenous group are magnified, and it is vital

to promote initiatives that support greater diversity and inclusion. Over 60% of the workforce at our US subsidiary NS Pharma are local hires. One of the next steps is to ensure we have more globally minded people working at our head office in Kyoto.

Personally, I try to communicate actively with employees as much as possible. I want every employee to feel motivated to take on bright and exciting challenges in pursuit of the next goal, never settling for the status quo.

3 Governance [G]

Effective governance is essential if we are to be accountable to all stakeholders. Mindful of the risks associated with any serious breach of compliance, we have established a compliance management system and instituted measures to support the effective functioning of the Board of Directors and the Board of Auditors. We are also working to enhance transparency and independent oversight by reinforcing the supervisory functions of the external directors, among other measures.

Closing remarks

One of my favorite aphorisms is the advice to go find the 'mountain of flowers' where no one else goes before its blooms disperse. The phrase is frequently used as a maxim for stock market investors, advocating the contrarian thinking that profits can often be made by going against the excessive movements caused by herd psychology, or by deliberately investing in the areas where others have not focused attention. I believe this is in line with our style of management at Nippon Shinyaku because of how highly we value originality. The second half of the phrase captures the need to act both decisively and quickly, whichever path you choose. As stated in Nippon Shinyaku's guidelines for action, it is important to meet challenges with a sense of urgency when you are operating in a rapidly changing environment.

Under the new management structure, we will continue to aspire to be a company with a meaningful existence in the global healthcare field, and will target sustained growth by creating distinctive products of high quality, based on the spirited pursuit of originality by every employee. In closing, I ask all stakeholders for their continued support and understanding.

