

Financial/Capital Strategy



Nippon Shinyaku will strategically invest in the expansion of its development pipeline and global business development

Takanori Edamitsu

Director, Business Management & Sustainability

We will achieve long-term growth by making strategic investments to maximize the value of our development pipeline and product portfolio, thereby honoring the trust of our customers, society, and other stakeholders.

Progress and results of the 6th Medium-term Management Plan

In FY2022, although the impact of COVID-19 pandemic gradually subsided, higher energy resource and raw material prices due to the prolonged crisis in Ukraine, as well as the depreciated yen and price hikes, had a significant impact on our corporate activities. In this external environment, despite the revision of drug prices by the MHLW and the reactionary decline from the loss of sales revenue of the priority review voucher* designated by the U.S. Food and Drug Administration (FDA), revenue increased 4.9% year on year due to increased sales of Viltepso, a treatment for Duchenne muscular dystrophy (DMD) and Upravi, a treatment for pulmonary arterial hypertension and chronic thromboembolic pulmonary hypertension, royalty income from overseas sales of Upravi, and sales growth in the Functional Food business. In the Pharmaceuticals business, revenue increased 1.1% year on year due to growth in sales of Viltepso and Upravi, as well as royalty income from overseas sales of Upravi. In the Functional Food

business, revenue increased 31.8% year on year due to growth in sales of protein preparations and other products. On the other hand, regarding profit, operating profit decreased 8.8% year on year and profit attributable to owners of parent decreased 8.7% year on year due to a reactionary decline following the lump-sum revenue from the priority review voucher in the previous fiscal year. However, we recognize that revenue and profit also increased, excluding the reactionary decline following the lump-sum revenue recorded in the previous period.

* Priority review voucher: A system under which a pharmaceutical company that has obtained approval for a new drug for an eligible rare disease is granted priority review rights (for three months) when applying for approval of its own new drug in another therapeutic area. The rights can also be transferred (sold) to a third party.

Forecast for the Final Year of the 6th Five-Year Medium-term Management Plan

Nippon Shinyaku has set quantitative targets for the final year of the 6th Medium-term Management Plan (FY2023) of ¥150 billion in sales, ¥40 billion in operating income, ¥445 in EPS, and 10% or more in ROE throughout the period of the plan. However, due to negative factors such as the impact of the off-year drug price revision by the MHLW and the delay in the

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

	FY2018 results	FY2022 results	FY2023 forecast	6th Five-Year Medium-term Management Plan targets
Net sales/Revenue	¥114.7 billion	¥144.1 billion	¥145.0 billion	¥150.0 billion
Pharmaceuticals	¥100.2 billion	¥121.9 billion	¥123.5 billion	¥133.0 billion
Functional Food	¥14.4 billion	¥22.1 billion	¥21.5 billion	¥17.0 billion
Operating income / Operating profit	¥20.6 billion	¥30.0 billion	¥32.0 billion	¥40.0 billion
Net income attributable to owners of parent / Profit attributable to owners of parent	¥16.3 billion	¥22.8 billion	¥25.0 billion	¥30.0 billion
EPS	¥242	¥338	¥371	¥445
ROE	12.5%	12.1%	—	10% or more during term of 6th Plan

launch of Viltepso in the U.S. due to the impact of the COVID-19 pandemic, the forecast for FY2023 falls short of these quantitative targets.

Although we must accept harsh evaluations for the fact that we fell short of our targets and that we are behind schedule in the development of some products, we believe that the establishment of our own marketing system in the U.S. and the increase in the pipeline of products developed in-house are commendable achievements.

Management policy and investment Strategy

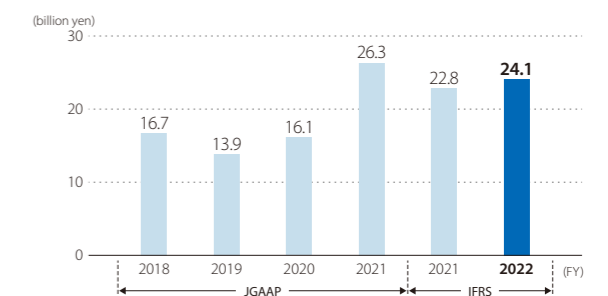
Our Company's management policy indicates that it will "Supply Unique and High-quality Products" and "Earn the Trust of Society." In businesses that deal with pharmaceuticals and functional food, stable supply is extremely important in gaining the trust of stakeholders including medical professionals, patients, and society. In order to ensure a stable supply amidst the current circumstances of a volatile external environment, our policy is to aggressively make necessary investments while maintaining a solid working capital position. Since we have no interest-bearing debt, i.e., enjoy a so-called a debt-free status, we use our weighted average cost of capital (WACC) based on our own analysis of the yield expected by shareholders from the Company as the hurdle rate, which is

one guiding factor in investment decisions. We have also set ROE as an indicator for capital efficiency, and a medium-term target of 10% or more ROE during the period of the 6th Five-Year Medium-term Management Plan.

R&D investments

In R&D, we are making strategic investments to maximize the value of our development pipeline and product portfolio in order to launch an average of at least one new product per year through R&D promotion of in-house products and in-licensing, as well as distribution partnerships. We are also conducting R&D to help DMD patients with other types of genetic mutations that are hard to treat with Viltepso, which was launched in 2020. The funds for R&D are being allocated from internal funds. During the period of the 6th Five-Year Medium-term Management Plan, we placed the highest priority on R&D investment, planning to invest ¥120 billion, which is now expected to total approximately ¥110 billion over the five years after adjusting for the FY2023 outlook.

R&D investments



Financial/Capital Strategy

Capital investment

Capital investments are made, with an awareness of cost of capital and other factors, to expand and streamline production facilities and to strengthen R&D capabilities, using our own funds. In December 2023, the ¥5.6-billion construction of a nucleic acid drugs API purification plant at the Odawara Central Factory is scheduled to be completed. Capital investment over the period covered by the 6th Five-Year Medium-term Business Plan is expected to total approximately ¥23 billion.

Human capital investment

Nippon Shinyaku believes that human resources are the driving force behind sustainable growth, and has adopted the management policy of "Develop Each Employee." Based on the idea that unique products are the product of unique people, we are committed to investing in human resources with a respect for diversity. In FY2022, we invested ¥0.14 billion in human resource development, and we expect to invest ¥0.16 billion in FY2023. Although the results of our human resource development efforts will not be immediately reflected in our business performance, we believe that they will lead to sustainable growth in the future.

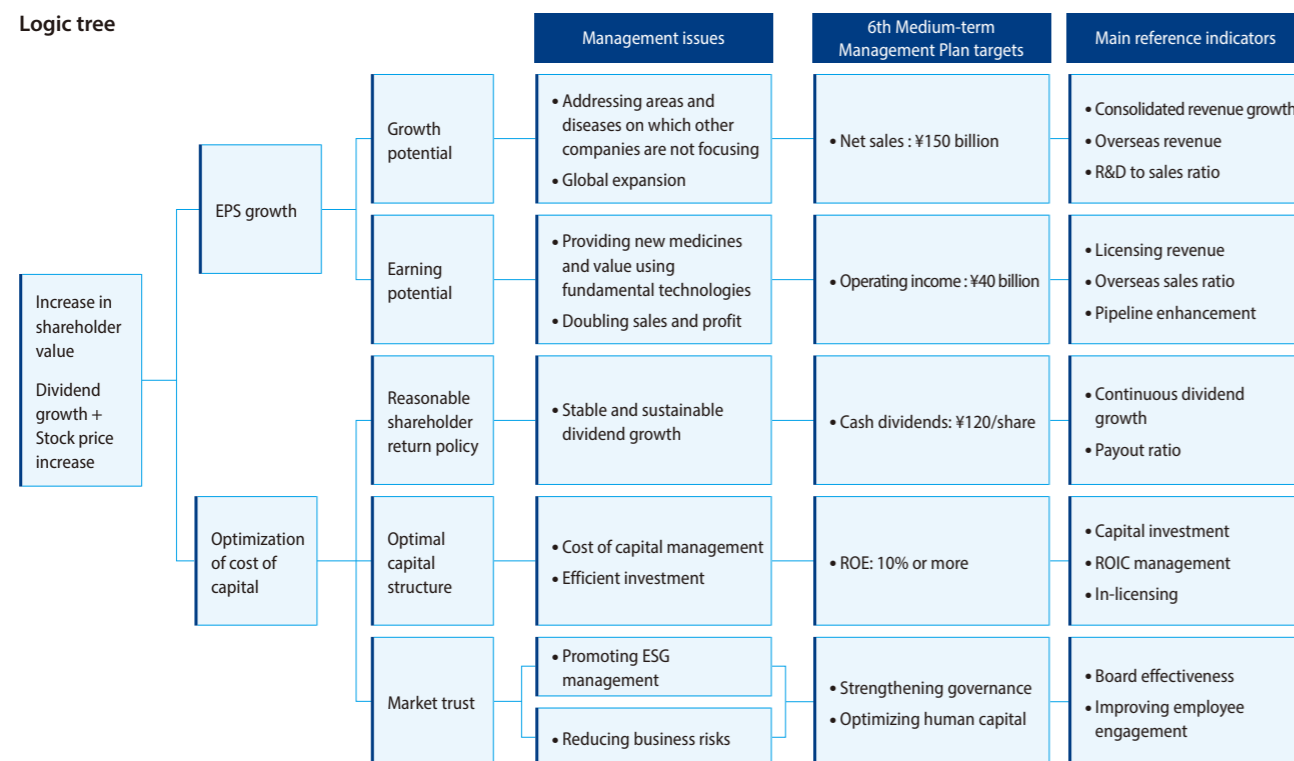
Shareholders' return policy

Increasing shareholder value

The Nippon Shinyaku logic tree is a graphical representation of the connection between related indicators to show how the Nippon Shinyaku Group's management issues and strategies will lead to increased shareholder value, for the purpose of increasing said value. From a financial perspective, some of the factors that increase shareholder value are dividend growth and stock price rise, which are generally considered to be verifiable using long-term TSR. In addition, stock price is sometimes calculated as a multiple of EPS, and EPS growth is directly related to stock price growth.

Following its basic policy of maximizing corporate value, Nippon Shinyaku will strengthen its R&D structure and expand its development pipeline. Furthermore, we will make investments and return profits to shareholders in order to build an organizational structure that can withstand intensifying competition and adapt to global business development, while being conscious of our capital structure and cost of capital.

Logic tree



Total Shareholders' Return (TSR)



Stock price performance

	One year	Three years		Five years		Ten years	
		Cumulative	Annualized rate	Cumulative	Annualized rate	Cumulative	Annualized rate
Nippon Shinyaku	-28.6%	-27.4%	-10.1%	-11.4%	-2.4%	385.4%	17.1%
TOPIX	5.8%	53.4%	15.3%	31.8%	5.7%	142.1%	9.2%

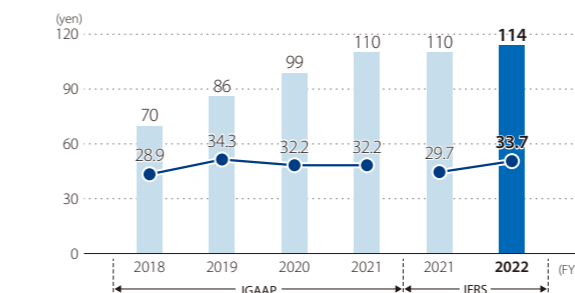
• Total shareholder's return (TSR) is the total return on investment that takes into consideration capital gains and dividends.
 • Nippon Shinyaku calculates TSR using cumulative dividends and change in stock price, and for the TOPIX, the dividend-included stock price index is used (calculated by Nippon Shinyaku using Bloomberg data, etc.)
 • Figures in the graph assume the closing price on March 31, 2013, is 100, and the TSR-based market value is indexed to that (held through March 31, 2023).
 • The return is the percent change of the initial investment generally used when calculating return on investment.

Sustainable dividend growth

Over the past 10 years, Nippon Shinyaku's TSR has outperformed the Tokyo Stock Price Index. We review our shareholder return policy each time we formulate our Medium-term Management Plan, and we will work to grow EPS to increase shareholder value over the medium to long term with TSR in mind to grow dividends and to increase the stock price.

We have set a dividend payout ratio of around 35% on a consolidated basis as a performance-linked dividend for the period of the 6th Five-Year Medium-term Management Plan, and in FY2022 we paid a dividend of ¥114 per share. In

Dividend per share / Payout ratio



FY2023, we plan to increase this by ¥6 to ¥120 per share. We have increased dividends for 11 consecutive years since FY2012, and we intend to achieve sustainable dividend growth in the future.

In addition, by promoting ESG management not only from a financial perspective but also from a non-financial perspective, we strive to gain the trust of the market and optimize our cost of capital.

During the period of the next 7th Medium-term Management Plan, the patent for Upravi, which has large sales volume, will expire. In the area of intractable and rare diseases, the shift to generic drugs tends to be gradual, but is also affected by price revisions by the MHLW. Therefore, we hope to overcome this patent cliff and achieve an increase in revenue and profit by expanding the market for Viltepso and sequentially launching other products. We will consider asset allocation in the discussions about the formulation of the 7th Medium-term Management Plan and will indicate it at the time of the announcement.