Otsuka Holdings Co., Ltd.

Financial Results FY2012
(Year Ending March 31, 2013)

Q&A

May 14, 2013

Q1: In the presentation material, the total return of capital to shareholders amounts to 142.8 billion yen from fiscal 2011 to fiscal 2013, and yet you arrive at about 142.8 billion yen when tallying 30 billion yen in share buybacks in fiscal 2013 and 20 billion yen in fiscal 2012 and 30 billion yen in annual dividends for each year. Does this mean that the total return of capital to shareholders will not exceed this amount?

A1: This is the figure for the total return of capital to shareholders that is currently disclosed, and we plan to continue in line with this.

Q2: If we calculate cash flow backward, we find that 100 billion yen is used for alliances. Is this the full amount that can be used for alliances, including M&A?

A2: Cash flow figures in this presentation cover three years, so some of this includes cash flow built up prior to this. In light of current conditions, we could use loans rather than shareholder equity, but we will adapt to the circumstances. Acquisitions and capital participation are one option, but those leave us with the difficult issues of whether we can anticipate synergies after acquisition, whether it can be managed, and whether Otsuka can control it. If there is a chance, we would like to use this cash.

Q3: What is the direction of operating income plans by business segment?

A3: We have not released specific figures. The pharmaceutical segment will account for most of the increase in operating income. We forecast higher income over the previous year in all segments, including nutraceuticals.

Q4: Will Otsuka buy treasury stock on the market, or will it repurchase shares through ToSTNeT-3?

A4: We are currently considering both the timing and method.

Q5: What are the reasons why Otsuka expects sales of ABILIFY to increase in fiscal 2013?

A5: Prescription trends resemble those for Seroquel, so ABILIFY will be affected by generics. We expect prescriptions to decline over the previous year, but this should be balanced out by revenue through price hikes and others.

Q6: Are Abilify Maintena forecasts included in ABILIFY sales forecasts? What are the sales forecasts for Abilify Maintena?

A6: ABILIFY sales forecasts do not include Abilify Maintena. We expect Abilify Maintena sales to be below 10 billion yen.

Q7: Since fiscal 2012 R&D expenses included initial payment to Lundbeck for Lu AE58054, actual R&D expenses increased by 20 billion yen.
For fiscal 2013, Otsuka estimates 200 billion yen in R&D expenses. Can you tell me whether this includes impact of foreign exchange rates and lump sums payments from alliances?

A7: The impact of foreign exchange rates will increase by more than 10 billion yen compared to fiscal 2012. Forecasts for R&D expenses do not include lump sums from alliances.

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Q8: Otsuka forecasts 745 billion yen in SG&A expenses, including R&D expenses, which is an increase of about 90 billion yen over the previous year. What are the factors behind this increase, including the impact of foreign exchange rates and the decrease in SG&A expenses to be paid to Bristol-Myers Squibb (BMS)?

A8: SG&A expenses will increase by 82.8 billion yen when excluding R&D expenses. This includes impact of foreign exchange of about 30 billion yen. Just less than 30% of this 82.8 billion increase consists of carryover from an increase in personnel expenses to strengthen the sales structure in the U.S. and Europe in Q4 2012. Other operating costs, such as costs for operating activity, education and market research and consulting fees account for about 40%. The increases were greater than the decrease in promotion expenses to be paid to BMS. Personnel expenses rose because we needed a sales structure in the U.S. and Europe for Abilify Maintena and ABILIFY. Marketing costs and activity costs incurred as initial investments to speed up peak sales of Abilify Maintena are temporary and can be managed.
We expect revenue allocations with BMS to increase 16.5% this fiscal year, but this will be allocated not only to SG&A costs (decrease), but also to the cost of goods sold (decrease).

Q9: Is ADPKD indication included in sales forecasts for SAMSCA?

A9: No, it is not included.

Q10: Is there a possibility that TAS-102 could be approved this fiscal year?

A10: We have filed for approval in Japan, and the authorities will make the decision.

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Q11: Is the forecast of a 36.2 billion yen increase in the nutraceuticals segment due to new products, or does Otsuka anticipate an increase in a particular region?

A11: The increase by region in fiscal 2013 is about one-third each for Japan, the U.S., and Europe & other. We forecast higher sales due to Ion Water, the new Pocari Sweat product line in Japan, new Nature Made products in the U.S., and the Nutrition & Santé SAS products in Europe.

Q12: Sales forecast for ABILIFY in the U.S. seem low, differing from the trends through Q1 2013. Is this because Otsuka is allocating resources to Abilify Maintena?

A12: We are operating the Abilify Maintena and the ABILIFY tablet businesses separately. ABILIFY sales rose 9.8% over the previous year in Q1 2013, but 60% of antipsychotics prescriptions by volume is affected by generics, which makes it difficult for us to form projections. In the U.S., we are facing problems such as restrictions on health care access including prioritization of generic prescriptions, and managed care issues. We need to monitor developments closely. Otsuka independently started the ABILIFY tablet business in the U.S. in January 2013, but at the time the plan was drafted, it was not clear whether the sales structure could be immediately established, so our 2013 forecasts have become conservative. Moreover, the impact of Seroquel generics increased again from January 2013. We raised the price of ABILIFY twice in 2012 and also in January 2013.

Q13: The width of each business in the business structure diagram from 2015 on slide 11 of the president's presentation differs one from the other; does this reflect the size of each business?

A13: The slide was simply prepared as a conceptual diagram.