Progress & Prospects of the 2nd Mid-term Plan
- Laying foundations for sustainable growth -

February 12, 2016
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President and Representative Director, CEO
Otsuka Holdings Co., Ltd.
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Agenda

- Overview of FY2016 plan & Prospects of the 2^{nd} Mid-term Plan

- Progress in Pharmaceutical Business
  - Current status of regional expansion for early value maximization of each product
  - Updates on 3 global products and other key products

- Progress in Nutraceutical* Business
  - Review of business assets that support value-chain
  - Updates on global expansion and improvement of profitability

- Foundations for Sustainable Growth

*nutrition + pharmaceutical
Overview of FY2016 plan

- Business progress in line with the 2nd mid-term plan
- Establishment of infrastructure to realize sustainable growth beyond 2018
  - Aggressive investments in global products for early value maximization
  - Value maximization of new drugs in JP to achieve No.1 brand status in each category
  - Challenging to operating income ratio of 10% or more in Nutraceutical business
  - Operational efficiency improvement through continuous cost optimization

<table>
<thead>
<tr>
<th>FY2016 &lt;2nd mid-term plan&gt;</th>
<th>FY2016 Prospects</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net sales</td>
<td>11,900</td>
</tr>
<tr>
<td>R&amp;D expenses</td>
<td>1,700</td>
</tr>
<tr>
<td>Operating income</td>
<td>1,000</td>
</tr>
<tr>
<td>Net income</td>
<td>700</td>
</tr>
<tr>
<td>Forex rate assumption: US$1=¥100, Euro€1=¥140</td>
<td>US$1=¥120, Euro€1=¥135</td>
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</tbody>
</table>
### Prospects of Operating Income

- Greater progress expected from existing businesses than the 2nd mid-term plan estimate
- Investment in Avanir for sustainable growth beyond FY2018<sup>1)</sup> (Contribution FY2019 onward)
- Changing medical environments in Japan and influence of foreign exchange rates<sup>2)</sup>

<table>
<thead>
<tr>
<th></th>
<th>Operating income in 2nd mid-term plan</th>
<th>Plan in FY2016</th>
<th>Reference in FY2018*</th>
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<tbody>
<tr>
<td></td>
<td>(100 million yen)</td>
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<td>1,000</td>
<td>2,000</td>
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<td></td>
<td>Increasing income by new</td>
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<tr>
<td></td>
<td>drugs and NC products</td>
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<td>2)</td>
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<td></td>
<td>Long listed products</td>
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<td></td>
<td>(promotion of generic substitution in Japan)</td>
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<tr>
<td></td>
<td>Prospects of operating income in</td>
<td>1,100</td>
<td>1,800±α</td>
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<tr>
<td></td>
<td>existing businesses</td>
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<td>2)</td>
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<td></td>
<td>Exchange (¥100 ⇒ ¥120 /$)</td>
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<td></td>
<td>1)</td>
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<td></td>
<td>Acquisition of Avanir</td>
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<tr>
<td></td>
<td>Prospects of operating income</td>
<td>700</td>
<td>1,700±α</td>
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<tr>
<td></td>
<td>(excluding Avanir depreciation)</td>
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<tr>
<td></td>
<td></td>
<td>900</td>
<td>1,900±α</td>
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*Reference numbers that incorporate changes in major assumptions not included in the 2nd mid-term plan
Expansion of Growth Opportunities by Acceleration of New Drugs Growth and Avanir Acquisition

- 3 global products, 3 next-generation products, new drugs in Japan and new pipelines contribute to sustainable growth
- In FY2015, new products achieved much greater sales than estimate and sales target for new products in FY2018 is more than estimate in 2nd mid-term plan (¥ 430 billion)

*New drugs in Japan: products newly launched or to be launched in Japan between 2009 and 2018, excluding the 3 global products and 3 next-generation products above.
Financial Prospects  
–Maintaining Robust Financial Foundation–

- (Mid-term Plan) Investments, shareholder returns & working capital for 5 years: app. ¥1 trillion

  - Accumulated cash flow for 5 years: as planned despite uncertain factors
  - Even after strategic investments, robust financial foundation is maintained.

  (D/E ratio: 19.0% and net cash\(^1\): app. ¥ 250 billion (End of FY2015))

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1) Cash and deposits + marketable securities – short & long term debt
2) Total of net income, depreciation and R&D expense from FY2014 to FY2018
Pharmaceutical Business
Regional Expansion of New Products  –Feb.2016–

Early stage of 2nd mid-term plan  Current  Late stage of 2nd mid-term plan

* “JINARC”, the brand name of tolvaptan for ADPKD indication overseas.
# Regional Expansion of New Products –FY2018–

## Early stage of 2nd mid-term plan

- **REXULTI** bexiprazole tablets
- **Lonsurf**

## Current

- **REXULTI** bexiprazole tablets
- **Lonsurf**

## Late stage of 2nd mid-term plan

- **JINARC**, the brand name of tolvaptan for ADPKD indication overseas.

<table>
<thead>
<tr>
<th>Products</th>
<th>EU</th>
<th>JP</th>
<th>US</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>REXULTI</strong> bexiprazole tablets</td>
<td>P-3 Completion/ FY2016</td>
<td>Plan to File/ FY2016</td>
<td>✓</td>
</tr>
<tr>
<td><strong>JINARC</strong>, <strong>Samseca</strong> (chaplet)</td>
<td>✓</td>
<td>✓</td>
<td>P-3 Completion/ FY2017</td>
</tr>
<tr>
<td><strong>Lonsurf</strong></td>
<td>Filing/ FY2015</td>
<td>✓</td>
<td>✓</td>
</tr>
</tbody>
</table>

* “JINARC”, the brand name of tolvaptan for ADPKD indication overseas.

** Not approved in the corresponding areas as of February 12, 2016. Brand names to be determined after approvals.
Abilify Maintena (LAI aripiprazole) - Moving into a growth phase globally

- Launched in major markets (US, EU, JP) as scheduled
- Smooth implementation of LCM* programs to accelerate growth

【Global sales of Abilify Maintena】

Further growth

Plan to file for Bipolar indication*

<table>
<thead>
<tr>
<th>Area</th>
<th>Progress in FY2015 (Launch·LCM)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Japan</td>
<td>✓ 2015/5 Launch (including pre-filled syringe)</td>
</tr>
<tr>
<td>USA, EU</td>
<td>✓ Pre-filed syringe Approval</td>
</tr>
<tr>
<td></td>
<td>✓ Deltoid administration Approval</td>
</tr>
</tbody>
</table>

* Filing; US: planned in FY2016, other areas: planned sequentially
Result of Otsuka’s philosophy - **Creativity & Proof through Execution** -

- Aims to be the best-in-class for initial indications (schizophrenia, MDD) and the first-in-class for new indications (agitation in AD* etc.)

* Alzheimer’s disease
SAMSCA/JINARC* (tolvaptan) - Challenge to a Rare Disease-

- **SAMSCA**: Steady sales growth with original indication "aquaretic"
- **JINARC**: Challenging “ADPKD**” - a disease with unmet medical needs

![Graph showing global sales of SAMSCA/JINARC](image)

- **ADPKD P3 in US will be completed in FY2017**
- **2014A**
- **2015A**
- **2016E**
- **2020**

* Brand name in areas outside Japan
** Autosomal dominant polycystic kidney disease
Accelerate growth by establishing sales & marketing infrastructure in the US and collaboration with Servier in EU

Implement active LCM programs through licensing arrangement with Servier

✓ P-3 trial for gastric cancer has started (study completion: 2018/6)
NUEDEXTA – Approach to new category of PBA –

- Strong sales growth by utilizing new clinical data
- The only drug to treat PBA* with huge market potential, currently**

* PBA: pseudobulbar affect, **: As of February 12, 2016

*** PRISM II: Phase IV study that evaluated the safety, tolerability and effectiveness of NUEDEXTA for treatment of PBA in patients with Alzheimer's disease and other dementias, stroke and traumatic brain injury.
Nutraceutical Business
Review of Business Assets that Support Value-chain

- Product strategy, R&D
  - Continue new product R&D focused on “healthy life expectancy”

- Production
  - Acquire proprietary supplement technology of FoodState Inc. that can extract nutrients from fresh vegetables and fruits
  - Acquire unique production technologies developed by BIOCENTURY

- Marketing • Sales
  - Offer solutions that are regarded as beneficial through enhanced product values which utilize pharmaceutical expertise and scientific evidence

- Distribution
  - Build partnership with Asahi Soft Drinks to carry each other’s leading products in their reciprocal vending machines
  - Enter natural & specialty channel in the US supplement business
Updates on Global Expansion

- NC business growth driven by overseas sales growth
- Steady execution of plan in each area

<table>
<thead>
<tr>
<th>Area</th>
<th>Measures</th>
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<tbody>
<tr>
<td>Pocari Sweat</td>
<td>• Focused investments in Indonesia and China</td>
</tr>
<tr>
<td>Asia</td>
<td>N&amp;S products • Focus on growing areas such as gluten-free and soy products</td>
</tr>
<tr>
<td>EU</td>
<td>Nature Made • Foster new category</td>
</tr>
<tr>
<td>US</td>
<td>Fostering new products • Review business assets through fostering new products</td>
</tr>
<tr>
<td>JP</td>
<td></td>
</tr>
</tbody>
</table>

<Sales plan by area in 2nd mid-term plan*>

- **Asia**: 739 (11%), 598 (6%), 1,475 (5%), 1,475 (1%)
- **EU**: 598 (6%), 860 (10%), 1,410 (20%)
- **US**: 739 (17%), 946 (20%)

*Sales to customers by market
Nutraceutical Business : Diversified Revenue Structure

- Diversified sales composition by growth in each core area
- Stable revenue structure with less impact of seasonality and weather factors of functional drinks

**FY2013**
- Others: 13%
- Supplements: 21%
- Functional drinks: 45%
- Functional foods: 21%

**Total sales** ¥287.1 billion

**FY2015**
- Others: 10%
- Supplements: 29%
- Functional drinks: 38%
- Functional foods: 23%

**Total sales** ¥330.2 billion

*Total sales, including internal sales or money transfer between segments*
Profitability improvement and Structural Reform

Accelerate global expansion

Foster new products

Review business assets that support value-chain

Structural reform

Target operating income ratio of 10% or more

NC operating income

- Operating income
- Operating income ratio

Target operating income ratio of 10% or more

* Standardized company’s business year (Jan-Dec) <unaudited>
Laying Foundation for Sustainable Growth by Challenging New Markets
Otsuka has a strong commitment to fight Alzheimer’s disease, taking a broad range of R&D approaches from disease-modifying drugs to treatment of AD-associated agitation, one of the BPSD* symptoms.

* Behavioral and psychological symptoms of dementia
Study results of most of the Alzheimer’s disease-related drug candidates are expected in FY2017.

<table>
<thead>
<tr>
<th>Concept</th>
<th>Compound/ MoA</th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
<th>2019</th>
</tr>
</thead>
</table>
| Improvement in agitation | Brexpiprazole (REXULTI)  
  • D₂ and 5-HT₁A receptor partial agonist  
  • 5-HT₂A receptor antagonist                                  |      |      |      | P-3  |
| Suppression of cognitive decline | AVP-786  
  • NMDA receptor antagonist  
  • Serotonin and Norepinephrine reuptake inhibitor  
  • Sigma-1 receptor agonist  
  • Neuronal nicotinic receptor antagonist                           |      |      | Phase 3 |      |
| Prevention of AD | Lu AE58054/idalopirdine  
  • 5-HT₆ receptor antagonist                                         |      |      | P-3  |      |
|                        | Lu AF20513  
  • Amyloid β vaccine                                                |      |      | P-1  | Next step |
Initiative to Create R&D Innovation Leads to Sustainable Growth

CREATE R&D INNOVATION

New Projects

- AVANIR
- ASTEX
- OTSUKA
- TAIHO

New assets added
Drug development technology
R&D expertise

External research assets (academia, biotech)

CNS

Oncology
NC Business: Acceleration of Global Expansion

- Promoting growth through brand-building in established markets
- Expansion to new markets capitalizing on regional network

Areas where Otsuka group companies have operations

Core brands* international sales

* Core brands: SOYJOY, Pocari Sweat, Nature Made, N&S products
Roadmap of Otsuka’s Sustainable Growth

- Assured growth in CNS, Oncology areas and NC global products by FY2018
- Aiming to ensure sustainable growth beyond 2nd mid-term plan period by Alzheimer’s disease related pipeline, innovation created by combined assets of group companies, and new NC products based on healthy life expectancy

**CNS**
- Abilify Maintena
- REXULTI, NUEDEXTA

**Oncology**
- LONSURF
- SGI-110
- REXULTI, NUEDEXTA

**NC global products**
- R&D INNOVATION by asset integration
- New products based on healthy life expectancy
- NC
- Pocari Sweat • SOYJOY
- Nature Made • N&S products etc.

**FY2014**

**FY2016**

**FY2018**

**FY2023**
Introduction of Mid-term Incentive Compensation Program

- Share remuneration-type stock option based on business performance during the mid-term plan period for presidents of major group companies as well as board members of Otsuka Holdings

- Incentive compensation program based on business performance during the mid-term plan period, and scheme of performance-based interim bonuses during the mid-term plan period for executives and employees in other major domestic and overseas group companies
Summary

- Business progress in line with the 2nd Mid-term Plan
- Execution of investments from long-range perspective
- Robust financial foundation