2nd Medium-Term Management Plan Overview

February 13, 2019

Tatsuo Higuchi
President and Representative Director, CEO
Otsuka Holdings Co., Ltd.
Disclaimer

- This material contains forward-looking statements regarding the financial conditions, results of operations and business activities of Otsuka and its subsidiaries (collectively the “Otsuka Group”). All forward-looking statements, due to their inherent nature, will be influenced by future events and developments for which the occurrence is uncertain, and therefore involve risks and uncertainties. Otsuka cautions you in advance that actual financial conditions, results of operations and business activities could differ materially from those discussed in the forward-looking statements.

- Otsuka disclaims any intention or obligation to update or revise any forward-looking statements whether as a result of new information, further events, or otherwise.

- Further, this material contains statements and information regarding corporate entities other than those belonging to the Otsuka Group, which have been compiled from various publicly-available sources. Otsuka has not verified any of such statements or information and does not provide any guarantees with regard to their accuracy and relevance.

- IQVIA, Euromonitor and other reports described herein (the “Reports”) represent data, research opinions or viewpoints published as part of a syndicated subscription service and are not representations of fact. The Reports speak as of their original publication dates (and not as of the date of this material), and the opinions expressed in the Reports are subject to change without notice.

- This material contains information on pharmaceuticals (including compounds under development), but this information is not intended to make any representations or advertisements regarding the efficacy or effectiveness of these preparations nor provide medical advice of any kind.
Agenda

- Establishment of Diversified Business Portfolio
  - Pharmaceutical business overview
  - Nutraceutical* business overview
  - Active investments in new growth areas and shareholder return

- 3rd Medium-Term Management Plan
  Outlook and Summary of FY2019 Guidance

*nutrition + pharmaceutical; also referred to as “NC”
Outline of the 2nd Medium-Term Management Plan

5 Year Period to Establish Diversified Business Portfolio

- Strengthen core therapeutic areas
- Nutraceutical business - structural reform, evolution and growth
- Active investment in new growth areas and shareholder return
Sales structure diversification is progressing as planned through growth in various core areas.

- **2013A**
  - Sales ¥1,452.8 bil (J-GAAP)
  - ABILIFY

- **2016A**
  - Sales ¥1,195.5 bil (IFRS)

- **2018A**
  - Sales ¥1,292.0 bil (IFRS)
  - Consumer & others
  - CNS (except ABILIFY)
  - Oncology
  - Other pharma
  - CV & Renal
  - NC

*Medium-term management plan (the figures above refer to net sales to external customers)*
Pharmaceutical Business Overview
Outline of Pharmaceutical Business Strategy

Strengthen Core Therapeutic Areas

- Maximize product values
- Aggressive R&D investments in core therapeutic areas (CNS and oncology)
Maximize Product Values

- Total sales of new products in 2018 are ¥428.1 billion almost as planned
- Global products continue to drive sales growth in 3rd MTP

* New drugs in Japan: products launched or to be launched between 2009 and 2018 (excluding the global products and next-generation products). (Global products: tolvaptan (SAMSCA/JINARC/JYNARQUE), brexpiprazole (Rexulti), Abilify Maintena
Next-generation products: TAS-102(Lonsurf), SGI-110
New pipelines: Nuedexta, Onzeta Xsail, AVP-786, centanafadine, vadadustat, fremanezumab
Regional Expansion of Global Products

- Clear all big hurdles of regional expansion for Global Products during 2\textsuperscript{nd} MTP period

<table>
<thead>
<tr>
<th>Products</th>
<th>EU</th>
<th>JP</th>
<th>US</th>
</tr>
</thead>
<tbody>
<tr>
<td>Abilify Maintena</td>
<td>✔</td>
<td>✔</td>
<td>✔</td>
</tr>
<tr>
<td>Rexulti</td>
<td>✔</td>
<td>✔</td>
<td>✔</td>
</tr>
<tr>
<td>Samsca JYNARQUE</td>
<td>✔</td>
<td>✔</td>
<td>✔</td>
</tr>
<tr>
<td>Lonsurf</td>
<td>✔</td>
<td>✔</td>
<td>✔</td>
</tr>
</tbody>
</table>
Active Investment to Core Therapeutic Areas

- Progress in numerous projects and acquisition of new pipelines for sustainable growth

**CNS**
- Enter neurology business & Strengthen psychiatry business
  - Acquisition | AVANIR
  - In-license | Fremanezumab
  - Approval | Abilify Mycite
  - Acquisition | Centanafadine

**Oncology**
- Establish drug discovery Platform & Introduce new therapeutic technology
  - Establish solid drug discovery collaboration with Astex
  - Enrich home-grown assets
  - Enter immuno- oncology space
  - Co-develop CAR-T, TCR, Adenosine receptor inhibitor

**Cardiovascular & Renal**
- Fostering next-generation core fields
  - Co-development | Vadadustat
  - Acquisition | Visterra
  - Acquisition | ReCor Medical
  - Acquisition | Veryan

**Strengthen drug discovery platform**
- Hierotope® Platform*
- Cryo EM**
- Invest in advanced technology through Taiho Ventures

*Antibody production platform by Visterra **Cryogenic electron microscopy
Nutraceutical Business Overview
Outline of Nutraceutical Business Strategy

Structural Reform and Evolution to Achieve Growth

- Review of business assets that support value-chain
- Acceleration of global expansion
- Improved profitability
Review of Business Assets that Support Value-Chain

Product Strategy, R&D
- R&D acceleration focused on “healthy life expectancy”
  - EQUELLE | Demonstrating solid growth, supporting women’s health and beauty
  - BODYMAINTE • The wise Man’s Sleep Solution | Provide new solution for customers

Production
- Enhanced production efficiency by new capital investments
  - Pocari Sweat | Strengthen products supply and seek manufacturing optimization by investing in overseas manufacturing facilities
  - Nature Made | Enhance efficiency through optimal operations at Alabama factory etc.

Marketing, Sales
- Reintroduce creative pull-marketing approach based on the philosophy of “total healthcare”
  - Offer solutions perceived as benefit through additional product values based on pharmaceutical expertise and scientific evidence

Distribution
- Establish distribution bases according to market needs
  - Create distribution to solve health problems | collaborate with local governments

Human resources, management
## Progress of Global Business Operations | Towards Further Growth

<table>
<thead>
<tr>
<th>Area</th>
<th>Main results in 2nd MTP</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Asia</strong></td>
<td><strong>Pocari Sweat</strong>&lt;br&gt;◆ Set up subsidiaries for launching in the Philippines and Thailand</td>
</tr>
<tr>
<td></td>
<td><strong>Oronamin C</strong>&lt;br&gt;◆ Start manufacturing in Indonesia to launch the product</td>
</tr>
<tr>
<td></td>
<td><strong>SOYJOY</strong>&lt;br&gt;◆ Start manufacturing in Indonesia</td>
</tr>
<tr>
<td><strong>EU</strong></td>
<td><strong>N&amp;S products</strong>&lt;br&gt;◆ Solidify manufacturing system for “Free From”* products</td>
</tr>
<tr>
<td><strong>US</strong></td>
<td><strong>Nutritional supplement</strong>&lt;br&gt;◆ Expand nutritional supplement business through FoodState acquisition</td>
</tr>
<tr>
<td></td>
<td><strong>Plant-based foods</strong>&lt;br&gt;◆ Make inroads into new category through Daiya Foods acquisition</td>
</tr>
<tr>
<td><strong>Japan</strong></td>
<td><strong>EQUELLE</strong>&lt;br&gt;◆ Launch in U.S.</td>
</tr>
<tr>
<td></td>
<td>Review business assets and foster new products</td>
</tr>
</tbody>
</table>

*products that exclude specific ingredients such as gluten free, sugar free and meat free etc.*
Improve Profitability and Structural Reform

Accelerate global expansion
Foster new products
Review of business assets that support value-chain
Structural reform

>10% OP margin
Establish business structure

Operating profit margin

<table>
<thead>
<tr>
<th>Year</th>
<th>Operating profit</th>
<th>Operating profit margin</th>
</tr>
</thead>
<tbody>
<tr>
<td>2009A</td>
<td>0.9%</td>
<td>7.1%</td>
</tr>
<tr>
<td>2010A</td>
<td>8.7%</td>
<td>8.5%</td>
</tr>
<tr>
<td>2011A</td>
<td>8.8%</td>
<td>7.0%</td>
</tr>
<tr>
<td>2012A</td>
<td>10.9%</td>
<td>12.0%</td>
</tr>
<tr>
<td>2013A</td>
<td>10.4%</td>
<td>12.7%</td>
</tr>
<tr>
<td>2014A*</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2015A</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2016A</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2017A</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2018A</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

* Standardized company’s fiscal year (Jan-Dec) <unaudited>
Active Investment in New Growth Areas and Shareholder Return
Active Investment in New Growth Areas and Shareholder Return | Financial Management

Cash flow generation and their use proceeding as planned

Net income + R&D expense + Depreciation/amortization²)

- Approx. 1,700
- 1,730

R&D expense and CapEx

- Approx. 1.150
- 1,180
- R&D Approx. 930

Cash flow accumulated in 5 years + Net cash

- Approx. 1.050
- 1,050

Net cash at the end of FY2013¹)

- Approx. 500

The 2nd medium-term management plan period

- Black : 2nd MTP
- Red : 2014-2018 Actual

Strategic investment
- Long term
- Short to mid term

Shareholder return
- Stable returns

Changes in operating assets³)
- -250
- -40

Net cash at the end of FY2018¹)

- Approx. 140

1) “Cash and deposits” + “marketable securities” – “short & long term debt”
2) Total of net income, depreciation and R&D expense from FY2014 to FY2018
3) Change in total of “operating receivable” + “inventories” – “operating payable” from FY2014 to FY2018
### 2nd MTP Overview | Performance Target

- **Operating profit before R&D expenses almost reached the 2018 reference**

<table>
<thead>
<tr>
<th></th>
<th>2nd MTP 2018</th>
<th>Excl. Impairment Loss FY2018 Actual</th>
<th>Factors for difference from 2018 target in 2nd MTP</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Target (J-GAAP)</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Revenue</td>
<td>¥ 1,440.0 bil</td>
<td>¥ 1,292.0 bil</td>
<td>&lt;Positive factors&gt;</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>✓ Pharma : Over-achievement of global product sales</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>✓ Pharma : Acquire new pipelines to ensure growth</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>✓ NC : Steady progress of global expansion</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>&lt;Negative factors&gt;</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>✓ Accelerated genetic erosion in Japan and EU</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>✓ Additional price cuts by NHI price revision in 2018</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>✓ Less than expected sales of new drugs in Japan</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>✓ Impact of discontinuation and delay of Lu AE58054 and SGI-110</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>✓ Achieved 91% of target</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>✓ Almost reached the 2018 reference</td>
</tr>
<tr>
<td>Operating profit</td>
<td>¥ 370.0 bil</td>
<td>¥ 336.0 bil</td>
<td>&lt;Positive factors&gt;</td>
</tr>
<tr>
<td>before R&amp;D Expense</td>
<td>¥ 345.0 bil</td>
<td>¥ 324.4 bil</td>
<td>✓ Contribution of NC business that establishes profitable business model</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>✓ Increased profit by re-measurement gain due to consolidation of ReCor Medical Inc.</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>✓ Over-achievement of cost optimization</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>&lt;Negative factors&gt;</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>✓ Impact on profit by revenue differences from projection</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>✓ Impairment loss and litigation and related expenses</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>✓ Additional investments for maximization of profit contribution beyond 2019</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>• Avanir acquisition etc.</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>• Steady progress seen in global products</td>
</tr>
<tr>
<td>R&amp;D</td>
<td>¥ 170.0 bil</td>
<td>¥ 192.9 bil</td>
<td></td>
</tr>
<tr>
<td></td>
<td>¥ 190.0 bil</td>
<td>¥ 216.1 bil</td>
<td></td>
</tr>
<tr>
<td>Operating profit</td>
<td>¥ 200.0 bil</td>
<td>¥ 143.0 bil</td>
<td></td>
</tr>
<tr>
<td></td>
<td>¥ 155.0 bil</td>
<td>¥ 108.3 bil</td>
<td></td>
</tr>
<tr>
<td>ROE</td>
<td>8 - 10%</td>
<td>4.7%</td>
<td></td>
</tr>
</tbody>
</table>
Establish Diversified Business Portfolio

- **Pharmaceutical:**
  Progress beyond the plan as global products drive growth

- **Nutraceutical:**
  Achieve & maintain target for operating ratio of 10% or more

- **Investment for growth and stable shareholder returns through cash flow generation as planned**
3rd Medium-Term Management Plan Outlook and Summary of FY2019 Guidance
Outlook for 3rd MTP

Turn many investments into fruitful results and make aggressive investments for sustainable growth
Summary of FY2019 Guidance

Toward sustainable growth

- Maximize value of global products
- Make aggressive R&D investments to achieve sustainable growth
- Enrich product pipelines and strengthen new technologies in core therapeutic areas
- Make aggressive investments to expand business and revenue growth in NC business
- Increase operational efficiency through optimal resource allocation

<table>
<thead>
<tr>
<th></th>
<th>FY2017</th>
<th>FY2018</th>
<th>FY2019 Forecast</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>(100 million yen)</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Revenue</td>
<td>12,400</td>
<td>12,920</td>
<td>13,900</td>
</tr>
<tr>
<td>Operating profit before R&amp;D expenses</td>
<td>2,797</td>
<td>3,244</td>
<td>3,750</td>
</tr>
<tr>
<td>R&amp;D expenses</td>
<td>1,756</td>
<td>2,161</td>
<td>2,250</td>
</tr>
<tr>
<td>Operating profit</td>
<td>1,042</td>
<td>1,083</td>
<td>1,500</td>
</tr>
<tr>
<td>Profit*</td>
<td>1,125</td>
<td>825</td>
<td>1,100</td>
</tr>
</tbody>
</table>

**Profit attributable to owners of the Company**
Acceleration of New Products Growth

- Steady progress toward achieving target sales by implementing key major initiatives for new products
- Maximizing product value through global expansion and LCM

**Growth drivers**

- **Additional indication of gastric cancer**
- **Seeking expansion in LAI bipolar market**
- **2-mth formulation in development**
- **Expanding launch countries and add new indications**
- **Growth as ADPKD medication**

*Life cycle management, 1) Lonsurf, 2) autosomal dominant polycystic kidney*
Estimated Study Completion Date of Major P3 Trials

**Psychiatry & Neurology**

- **brexipiprazole** *(Rexulti)*
  - Bipolar
  - P3-US & Europe ’19/Jan

- **AVP-786**
  - Agitation in AD*
  - P3-US & Europe ’19/Apr

- **fremanezumab**
  - Episodic migraine
  - P2/3-JP ’19/Jun

- **fremanezumab**
  - Chronic migraine
  - P2/3-JP ’19/Jun

- **AVP-786**
  - Agitation in AD
  - P3-US & Europe ’19/Dec

- **brexipiprazole** *(Rexulti)*
  - Agitation in AD
  - P3-US & Europe ’20/Dec

**Cardiovascular & Renal system**

- **vadadustat**
  - Renal anemia (dialysis)
  - P3-US & Europe ’20/Jan

- **vadadustat**
  - Renal anemia (non-dialysis)
  - P3-US & Europe ’20/Aug

**Oncology**

- **TAS-118**
  - Gastric cancer 1st line
  - P3-JP ’19/May

- **SGI-110**
  - Relapsed/refractory AML
  - P3-Global ’19/Sep

- **ASTX727**
  - MDS
  - P3-US ’19/Jun

- **SGI-110**
  - Relapsed/refractory MDS
  - P3-Global ’20/Jun

*Agitation in AD: Agitation associated with dementia of the Alzheimer’s type  ADHD: Attention deficit hyperactivity disorder  MDS: Myelodysplastic syndromes

AML: Acute myelogenous leukemia