Message from the CFO

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Targeting sustainable growth and increased corporate value, we will enhance our cash flow generation and capital efficiency through optimal resource allocation.

Business Management with a Corporate-wide Awareness of Capital Cost

The Third Medium-Term Management Plan is positioned as a period for adopting business management with a corporate-wide awareness of capital cost under a strategy of maximizing existing business value and creating new value. We will promote this approach throughout the group as we target sustainable growth.

While we already consider cost of capital in deciding on individual investments or recognizing impairment losses, we included “business management with a corporate-wide awareness of capital cost” in the Third Medium-Term Management Plan so as to instil a broad awareness of cost of capital throughout the group, not just as it relates to individual investments. This will lead to sustainable, more effective cash flow generation and greater investment efficiency.

Under the Second Medium-Term Management Plan, we pursued a policy of active strategic investment using revenues from growing global sales of ABIPY, and succeeded in diversifying our revenue structure. Furthermore, given that looming patent expirations were a major management issue, we executed this diversification with a focus on restructuring our revenue base from growing global sales of psychiatry, oncology, and cardiovascular and renal areas.

We are applying ROIC to maximize investment efficiency, with a group-wide target of at least 15% above the cost of capital (5.5%). On the other hand, contributing to society through ongoing innovation is important to us, so if investments that include a certain amount of risk are aligned with the group’s corporate philosophy or are conducive to sustainable growth, then we will continue to take on these challenges. To implement this stance, we believe a comprehensive group-wide financial framework is essential. It must be based on steady cash flow generation from existing assets, and other measures that include issuing bonds and commercial paper or borrowing from financial institutions where necessary.

A Financial Framework Conducive to Improving Medium-to-Long-Term Corporate Value

Securing Cash Returns in Excess of Cost of Capital

Achieving true improvement in corporate value means more than simply generating profit; we must enhance free cash flow generation. We will therefore focus more strongly on improving our profit structure.

We will secure operating cash flows through organic business growth, reinvest in growth areas and distribute returns to shareholders, while maintaining an appropriate level of financial leverage. Furthermore, we will establish a framework that achieves returns from reinvested capital in excess of the cost of capital, which will drive profit growth, and in turn enable us to make further growth investments and enhance shareholder returns.

Cash Flow Allocation Policy

We will balance the allocation of cash flows between prioritizing growth investments aimed at generating ongoing increases in medium-to-long-term returns in excess of cost of capital, and delivering stable shareholder returns.

For growth investments, we will consider investments that have synergy with existing management assets to generate greater value. In the Pharmaceutical Business, our main investments will be aimed at enhancing our products and pipeline in the psychiatry and neurology, oncology, and cardiovascular and renal areas. In the Nutraceutical Business, we will actively invest in new businesses that meet society’s future needs.

Our basic policy for shareholder returns is to maintain stable dividends. While emphasizing the continuity and stability of dividends, we will consider additional shareholder returns depending on profit growth, applying a comprehensive approach to securing sufficient cash returns, to pursue growth investments, a solid financial standing and the optimal capital structure.

Capital Structure Optimization Policy

When considering the optimal capital structure, as the basis we use the debt capacity level needed to maintain our current AA− rating, taking into account factors such as the required level of shareholders’ equity given our credit rating and business risks, as well as the rate of return expected by investors.

At the same time, we will appropriately control the scale of invested capital in accordance with our debt capacity, and maintain financial discipline in our growth investments.

Tax Policy

As a multinational enterprise, the Otsuka group recognizes that the appropriate payment of taxes in adherence with applicable laws and regulations in each country and region contributes to local economies. Among increased calls for tax transparency worldwide, we are committed to making improvements in this regard. In accordance with the Otsuka Group Global Code of Business Ethics, the Otsuka group works to ensure appropriate payment of taxes under a principle of compliance that is shared by all employees, including those at departments outside the purview of the CFO.

Moreover, we strive to build constructive relationships with relevant tax authorities by maintaining and providing reliable data. In accordance with its tax compliance policy (see page 66), the Otsuka group will implement effective management, strengthen governance, build constructive and positive relationships with respective tax authorities and fulfill its tax obligations in all countries and regions.