

Otsuka Holdings Co Ltd

The 3rd Medium-Term Management Plan FY 2019 - 2023

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, future events, or otherwise.
- Furthermore, this material contains statements and information regarding corporate entities other than those belonging to the Otsuka Group, which have been compiled from various publically-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.
- The IQVIA, Euromonitor international 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.

- **Value Creation Model and Goals**
- **Position and Performance Targets**
- **Growth Strategies**
 - Pharmaceutical Business
 - Nutraceutical* Business
 - Financial Policy

* (NC) Nutraceutical = nutrition + pharmaceuticals

Essence of Management – Basis of Our Value Creation Model



Otsuka-people creating new products
for better health worldwide



This diagram shows the essence of management which serves as a basis for Otsuka’s value creation model.

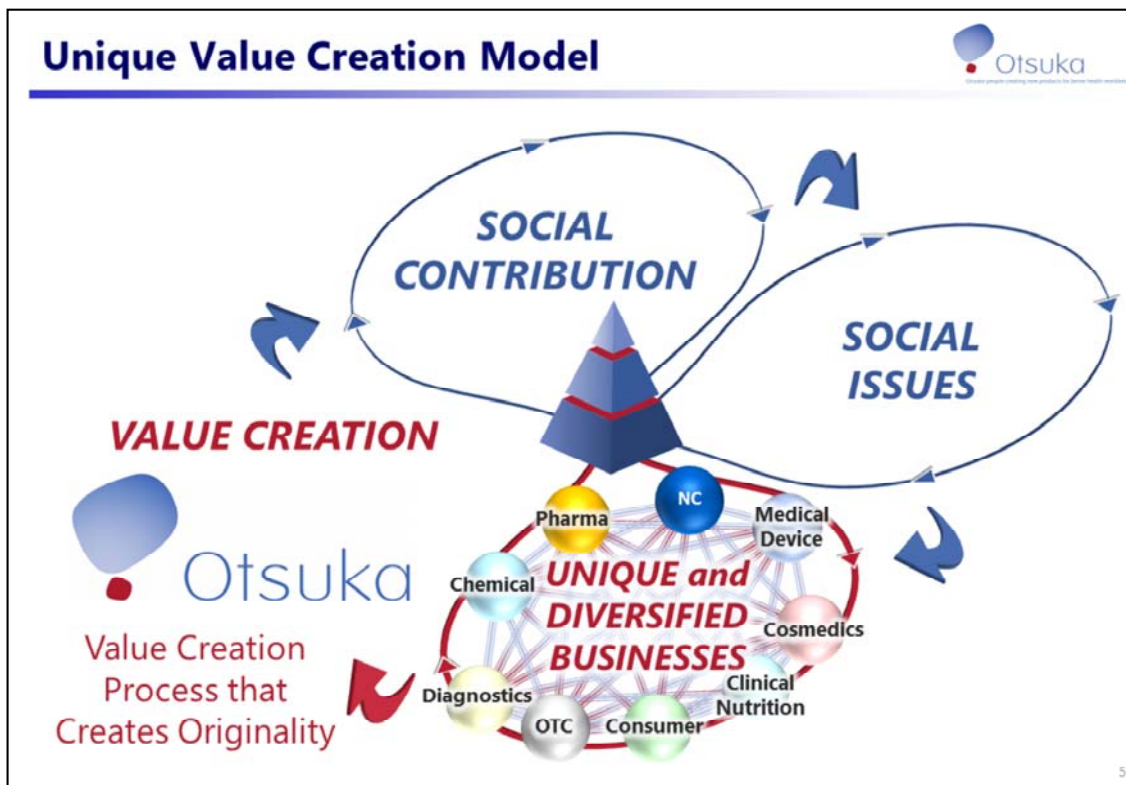
Under our corporate motto, “Otsuka people creating new products for better health worldwide”, we have been creating numerous new forms of value.

Behind our efforts to realize new value creation, there are three phrases that generations of the Otsuka-founding family have left for us as a fundamental guidance.

One is “Ryukan Godou” or “Commitment”, meaning essence and truth can be found only through hard work and execution.

The second phrase is “Jisshou”, or “Actualization”, meaning making achievements by tenaciously accomplishing your role thereby the essence of business can be found.

The third phase is “creativity” which symbolizes our corporate culture of not imitating others and pursuing our original ways to realize what only Otsuka can do in all value chains of business from R&D to marketing.



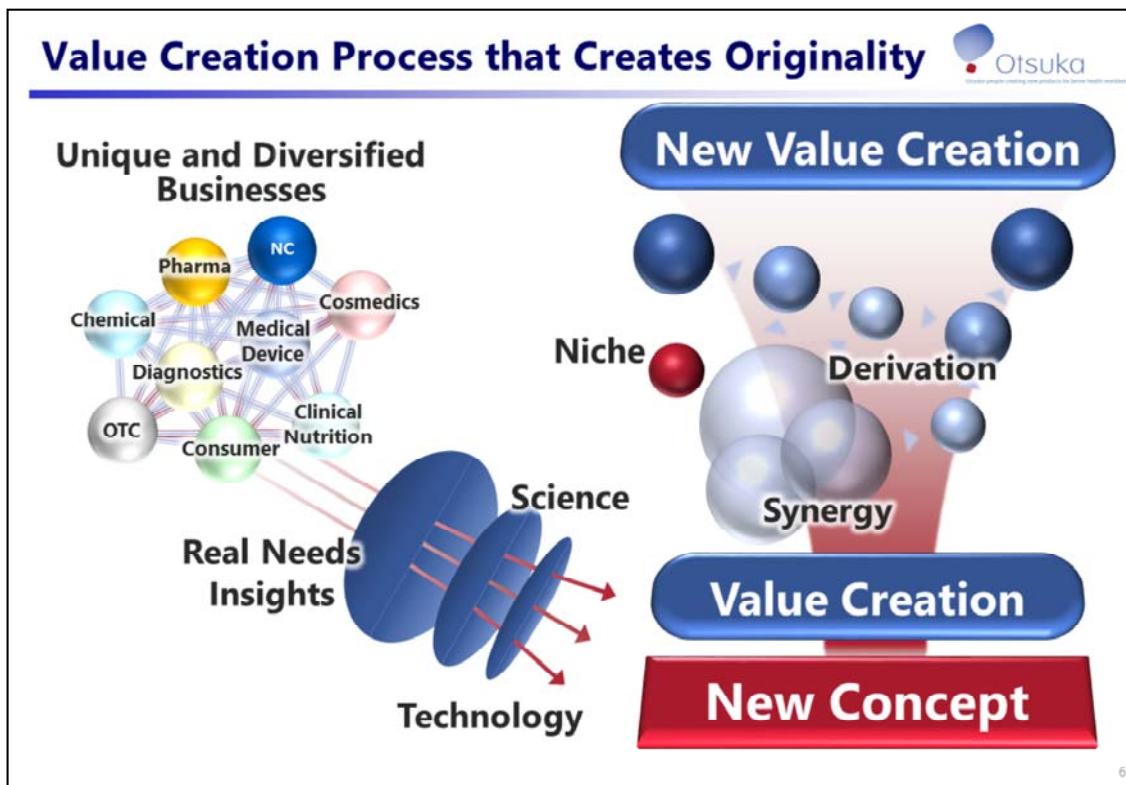
This is a schematic slide of Otsuka’s original value creation model.

Values are created by turning the social issues into a form of unique business, and, through such efforts, we have been contributing to people’s health worldwide.

Such social contributions of ours find new social issues which are addressed by our value creation undertakings. In this manner, the model has been circulating.

This model can be realized only by adhering to our philosophy represented by phrases of “Ryukan Godou” “Jisshou” and “Creativity” in all phases of discovery of social issues, unique and diverse business operations, new value creation, and social contribution.

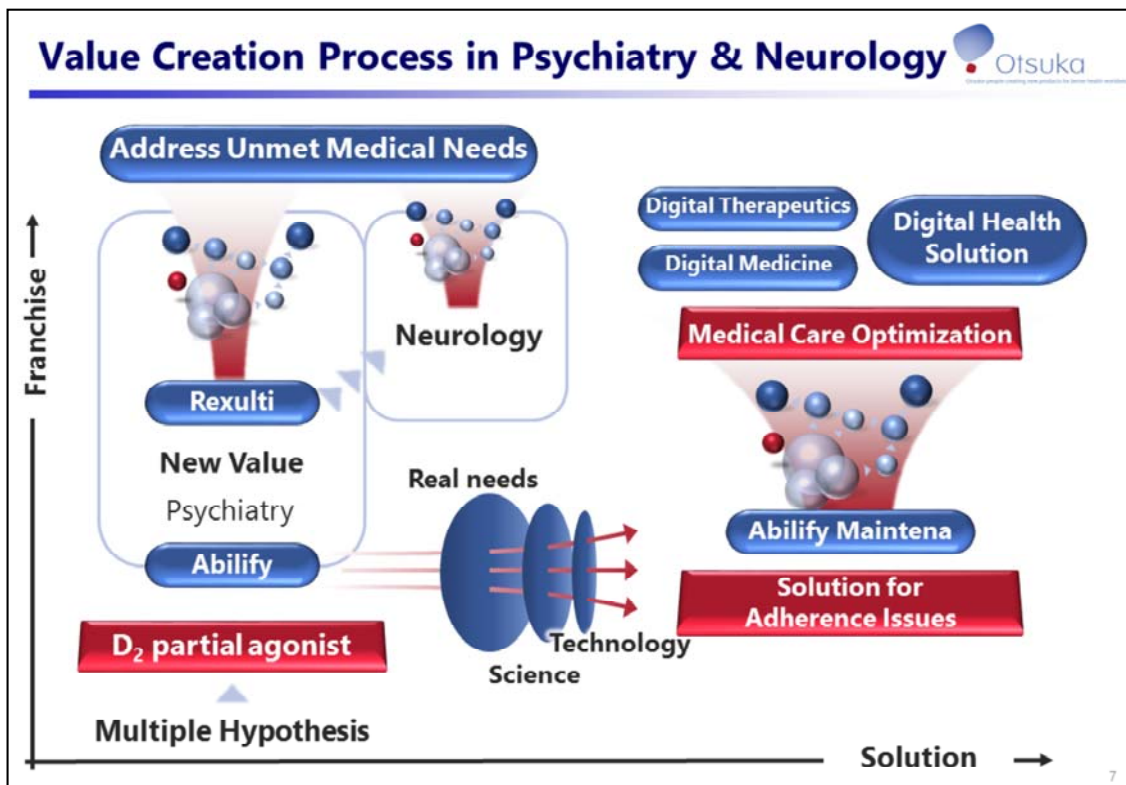
In the following slides, I will introduce actual examples of the value creation process which are quite unique and most important.



Unique feature of Otsuka is to connect various businesses, combine assets, pursue true needs from insights, and create new concepts and products by combining technologies and science in an organized fashion.

Furthermore, we have a corporate culture that utilizes such created values for overlapping other businesses to cultivate niche spaces and another new values.

Such corporate culture based on the three ideas of former management leaders that had been passed on from the foundation until today has penetrated into the daily activities of every Otsuka employee as part of our DNA.



Next, I will explain value creation process in our psychiatry and neurology business by presenting an example from the past.

In the 1980's, we started research activities in the CNS space, trying to prove the hypothesis we set and successfully discovered *Abilify*, which had a new concept of Dopamine D₂ partial agonist.

To maximize the potential of *Rexulti*, we have further expanded its use to the neurological area during the 2nd mid-term plan period and will explore new business opportunities that address unmet treatment needs in the psychiatric and neurological areas.

In the psychiatric area, we are taking on challenges to address other needs related to adherence, namely the development of a long-acting injectable (LAI) formulation and further optimization of treatment with digital medicine, therapeutic apps, and digital health solutions. Otsuka is taking on the challenge of creating new value in areas that are quite different from conventional business models, for which only Otsuka can become value creator.

**To become an indispensable contributor
to people's health worldwide**



This is what Otsuka aspires to be.

As a total healthcare company that supports the maintenance and promotion of daily health as well as provides diagnosis and treatment of diseases, we aspire to be an indispensable company that creates original products both in the pharmaceutical and nutraceutical areas to address the unmet needs and yet-to-be imagined needs.

Position and Performance Targets

**Advance in the Global Market as a
Unique Total Healthcare Company
~ Five-Year Growth Phase ~**

- **Existing Business Value Maximization and New Value Creation**
- **Business management with a corporate-wide awareness of capital costs**

We have positioned next 5 years as a period to advance to become a world-class total health care company.

We will focus on maximization of existing business value as well as new value creation in our core businesses of pharmaceutical and nutraceutical while being conscious of capital cost in our business operations.

Outline of the 3rd MTM Plan



- **Performance Target: Business Profit CAGR of 10% or more**
 - ✓ By organic growth of mainstay products and brands on Pharmaceutical and NC business
 - ✓ Implement aggressive R&D investments and continue development of new drugs that drive revenue growth on and beyond next MTM
- **Business Strategy: Existing business value maximization and new value creation**
 1. **Strategic initiatives for mainstay products and brands accelerate growth**
 - ✓ Strengthen strategic initiatives on growth drivers:
 - 4 Global Products of the Pharmaceutical business
 - 4 Major Products & 4 Nurture Products of the NC business
 2. **Nurture next generation businesses and products**
 - ✓ Launch and nurture new drivers for sustainable growth on Pharmaceutical and NC business
- **Financial Policy: Business management with a corporate-wide awareness of capital costs**
 - ✓ Balancing investments for future growth and shareholders return
 - ✓ Securing funds for investments for growth and shareholders return

11

This summarizes the goals of our major initiatives we have set forth to achieve.

As performance target, we aim for a CAGR of 10% or more in business profit growth, which is achievable with steady organic growth of major products and brands of our pharma and NC businesses.

While securing a 10% or more profit growth, we will make aggressive R&D investments, mainly in new drug development to drive revenues in the next management plan period and onward.

As for our business strategy, growth will be accelerated by strategic initiatives for key products and brands.

We will actively carry out strategic plans to nurture next generation products and businesses.

With regard to financial policy, our focus is to attain optimal balance between investments for growth and shareholders return and to secure funds to realize them.

Key Performance Targets



- **Business profits: CAGR 10% or more**
- **Revenue and Business profits before R&D expenses: Surpass historic highs**
- **R&D expenses: Continue aggressive investments for sustainable growth**

(¥billion)	2018A	2021E	2023E	CAGR 2018A-2023E
Revenue	1,292.0	1,500.0	1,700.0	5.6 %
Business profit before R&D expenses	313.8	390.0	460.0	7.9 %
Ratio/Revenue	24.3 %	26.0 %	27.1 %	
R&D expenses	192.9	230.0	260.0	6.1 %
Business profit	120.9	160.0	200.0	10.6 %
Ratio/Revenue	9.4 %	10.7 %	11.8 %	
ROE	4.7 %	≥ 6.0 %	≥ 8.0 %	

Note: Exchange rate assumptions ¥110/\$, ¥130/euro
 Not including performance growth by strategic investments (M&A etc)
 Business profit = Revenue – COGS – SG&A + Share of profit of associates – R&D expenses

12

I will talk about our performance targets.

Business profits in FY2023, the last year of the plan, is set at ¥200 billion with CAGR of 10% or more.

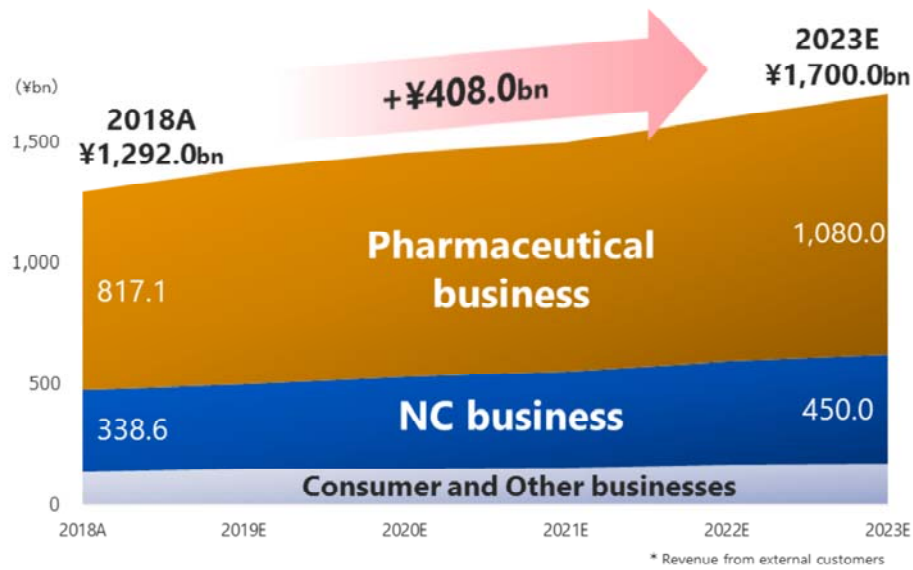
We believe this targets are achievable as we have seen strong sales growth of our main products and brands of pharma and NC businesses due to the sufficient investments we have made so far.

We aim for sales of ¥1.7 trillion and business profit before R&D expenses of ¥460 billion, both of which are record highs.

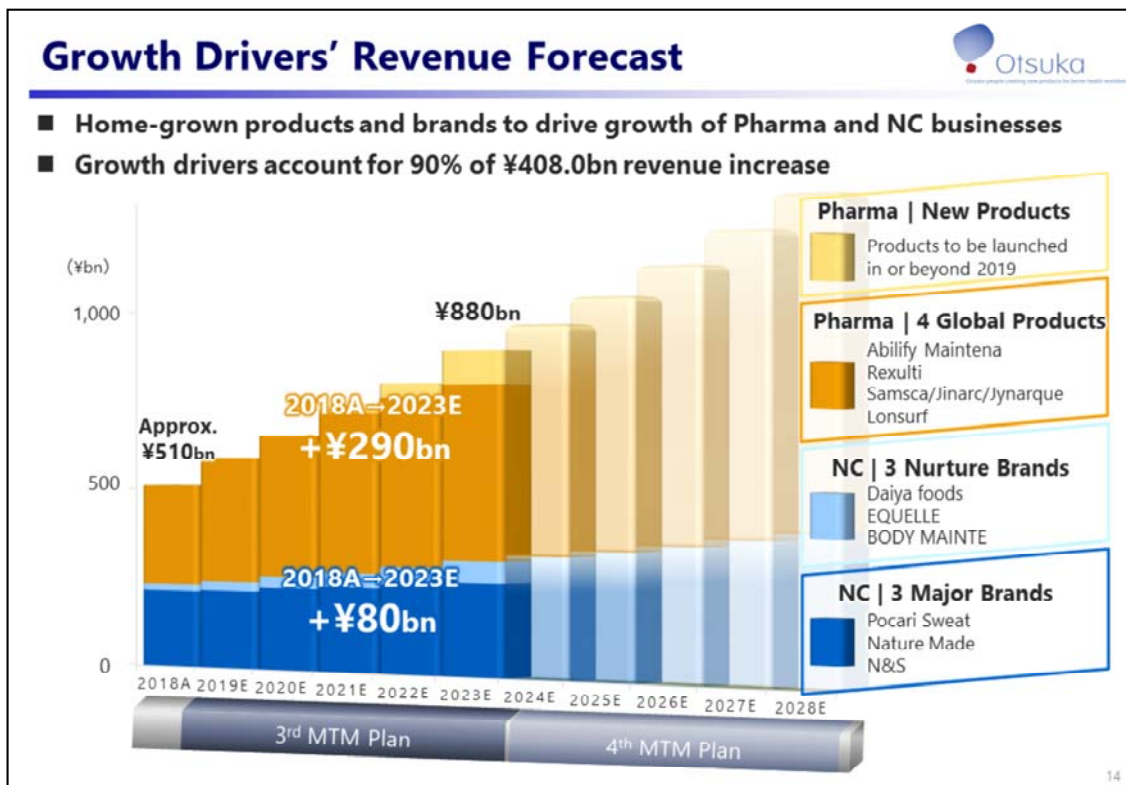
To ensure sustainable growth, R&D expenses are set at ¥260 billion. While continuing aggressive R&D investments, we also set the ROE target to be 8% or more.

Revenue Plan by Organic Growth

- Revenue forecast ¥1,700bn in 2023, ¥408.0bn increase from 2018, by organic growth of pharmaceutical business and NC business



The plan is based on the organic growth of existing businesses. In FY2023, the final year, both the pharma and NC businesses are set to make significant contributions to sales expected to reach ¥1.7 trillion, up by ¥408.0 billion.



This shows groups of key growth drivers in the plan.

In the pharmaceutical business, 4 global products, namely, *Abilify Maintena*, *Rexulti*, *Samsca/Jinarc* and *Lonsurf*, and new products such as AVP-786, vadadustat, which are expected to be launched during this plan period, will push sales by ¥290 billion in total.

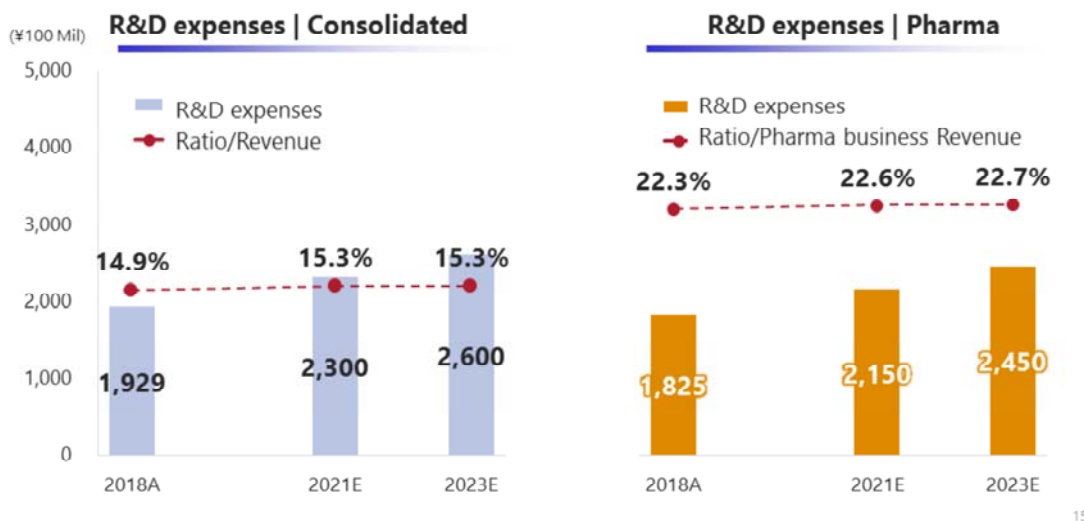
On the other hand, in the NC business, sales of 3 major brands, namely Pocari Sweat, Nature Made, and Nutrition et Sante, and 3 nurture brands, such as products of Daiya Foods, Equelle and Body Mainte will increase by ¥80 billion.

These products are important contributors in the plan as their incremental sales accounts for about 90% of total sales increase of ¥408 billion.

Aggressive R&D Investments Support New Value Creation



- Aggressive R&D investments support Otsuka's original business model in the two core businesses of pharma and NC
- Pharma business: maintain high level of R&D investments



I will explain our aggressive R&D investments to support our new value creation efforts.

Otsuka's unique business model consisting of two core businesses of pharma and NC allows us to make investments in high-risk pharma business more aggressively while suppressing the overall R&D ratio to total sales.

During this management plan period, R&D expenses are estimated to be around 15% of total sales. In the pharmaceutical business, however, the ratio is expected to be higher and stable at 22%.

We will continue to pursue this unique business model and aim for further expansion through value creation.

Pharmaceutical Business

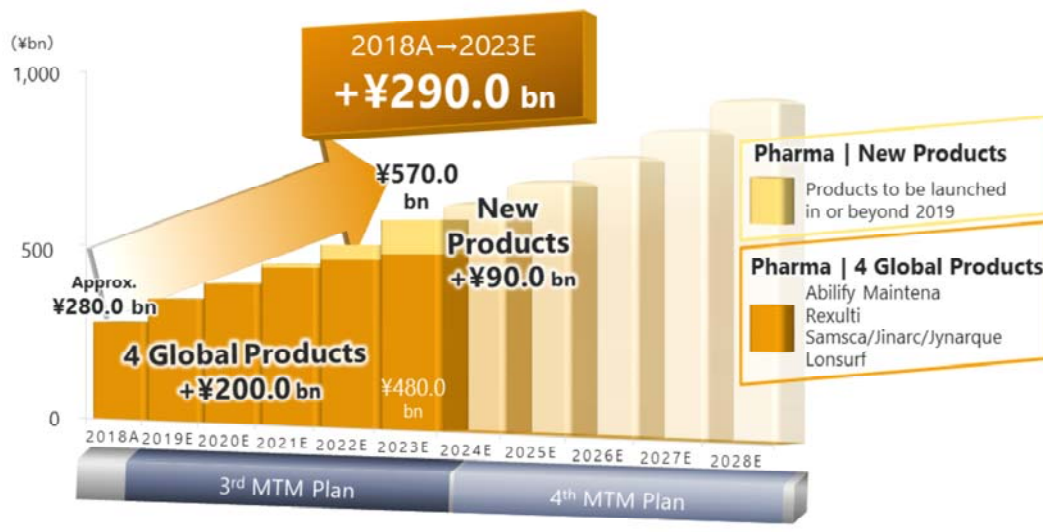
Existing Business Value Maximization and New Value Creation

- **Maximize Values of Existing Businesses**
- **Challenge New Frontiers that “Only Otsuka Can Do”**
- **Generate Innovation From Creative and Diverse Research Platforms**

With the theme of value maximization of existing business and new value creation, we will work on these three targets.

Growth Drivers' Revenue Forecast

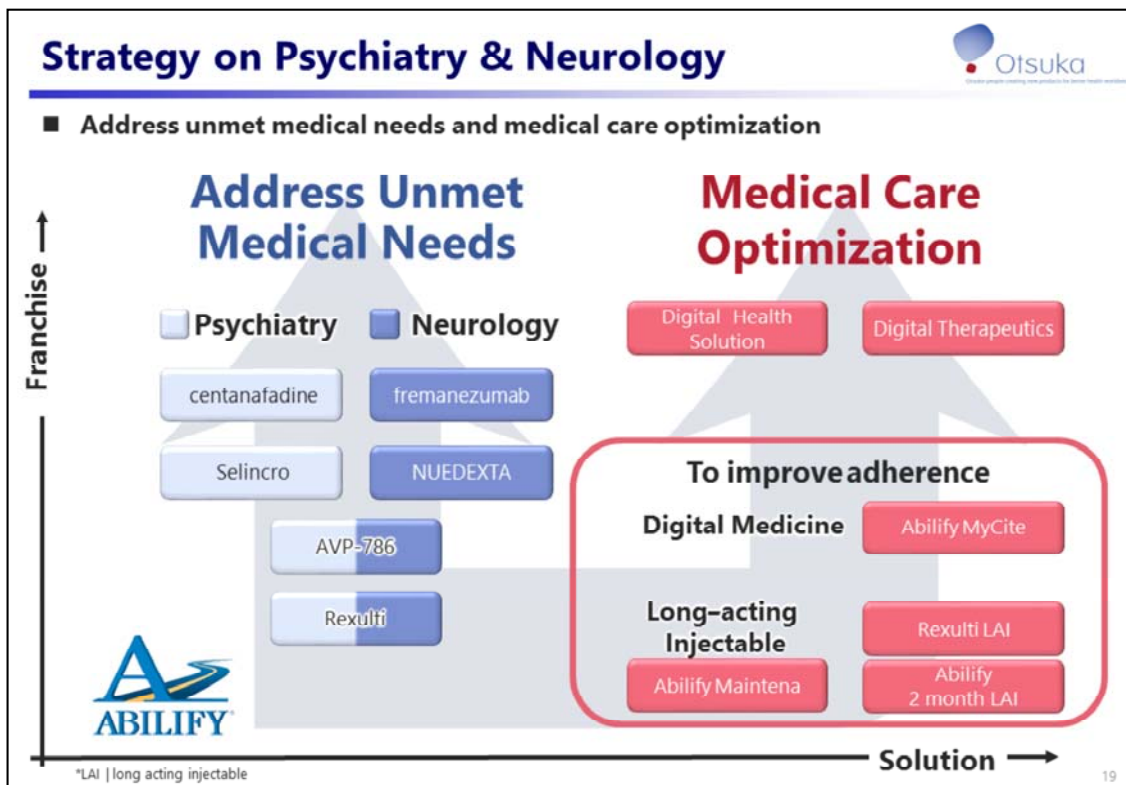
- Aim to maximize value of 4 Global Products
- Challenge to launch New Products that drive sustainable growth during and beyond the 4th MTM plan period



Sales revenue plan of the products that drive our pharmaceutical business growth.

We estimate ¥200 billion in sales after maximizing their values of 4 global products and ¥90 billion sales from new products scheduled to be launched during this period that will further accelerate the growth.

Next, I will explain about them by each therapeutic area.



I will talk about our key strategy on CNS: psychiatric and neurology area.

We have been strengthening our product portfolio and research pipeline not only in the psychiatry area through *Abilify* but also in the neurological area to expand our CNS franchise.

We will continue with our R&D efforts to contribute to solutions to the unaddressed medical needs in this therapeutic space.

At the same time, we will look into the optimization of medical care and explore establishment of business models to improve adherence by digital solutions and therapeutic app. We will create new values and advance them to a profitable business level as quickly as possible.

Address Unmet Medical Needs and Maximize Product Value



- AD patients population increases with advancement of aging society
- BPSD including agitation is one of the big social issues for patients, caregivers and healthcare providers
- Challenge to solve this issue with Rexulti and AVP-786, which have different MOAs

AD agitation patients in the US in 2027 (estimate)¹⁾

3.31 million | AD diagnosed patients

2.50 million | AD agitation diagnosed patients

1% ≈ \$150~200 Million²⁾

¹⁾ ©[2018 Alzheimer's Disease Epidemiology - Mature Markets Data] DR/Decision Resources, LLC. All rights reserved. Reproduction, distribution, transmission or publication is prohibited. Reprinted with permission ²⁾ Annual estimate for illustrative purposes

20

Next, I will introduce how we will address the unmet medical needs of dementia of the Alzheimer type and how we will maximize product values.

Patient population of Alzheimer's disease is estimated to increase along with our aging society.

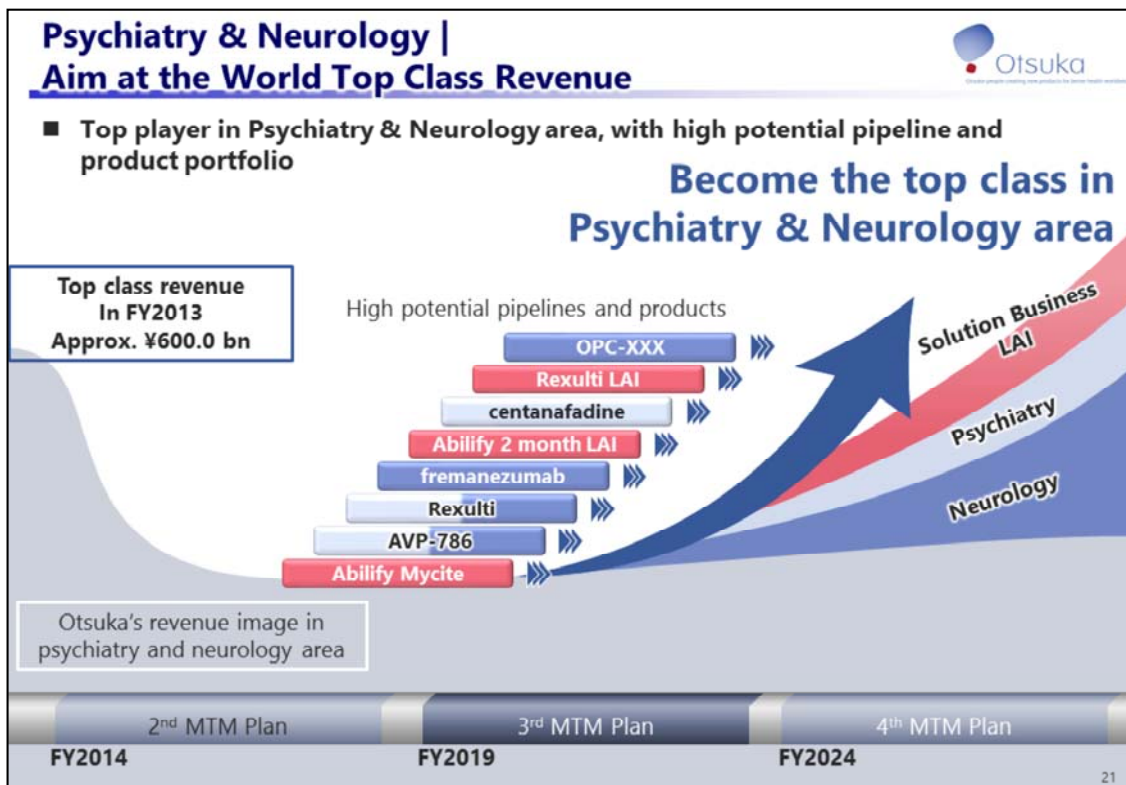
With this background, behavioral disorders, including agitation, are recognized as major social issues for patients, family members, and healthcare professionals.

Otsuka is taking on the challenge of addressing this issue with Rexulti and AVP786, two drugs with completely different mechanisms of action.

In one estimate, diagnosed patients with dementia of the Alzheimer's type in the US will increase to 3.31 million, of which 2.5 million will develop the symptom of agitation.

If 1% of such patients with agitation receive drug treatment, the market size is expected to be \$150-200 million.

So our efforts are to address such a big social problem with huge market potential.

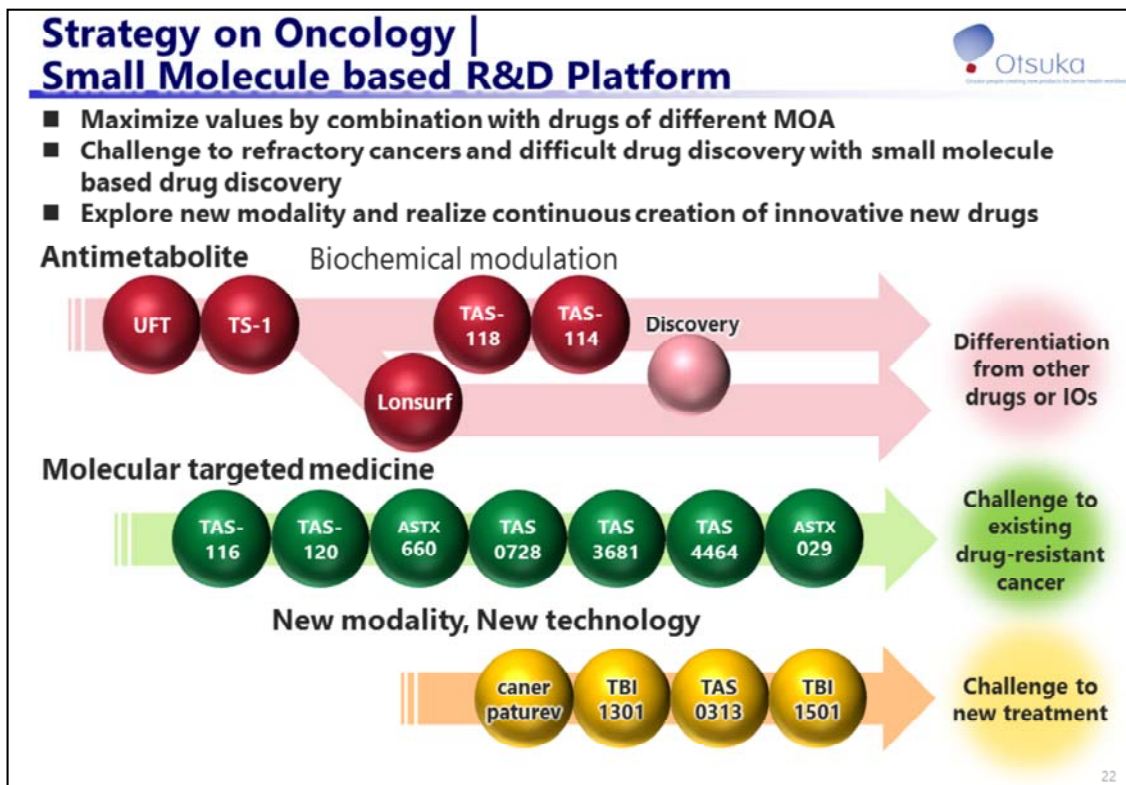


This slide shows our aspiration to be the world class player in the CNS space.

In 2013, Otsuka was in the leading position as global player in the CNS in terms of share of sales.

We have a lineup of products and research assets with high potential and we strongly believe we are one of the few companies that will be able to become a top player in this field.

We will continue aggressive investments to enhance our strengths and strongly position ourselves as “Otsuka - the CNS company.”



Next is our strategy in oncology.

Taiho Pharmaceutical has established drug discovery platform and accumulated know-how through advancing biochemical modulation over the past 50 years.

It is proceeding with small molecule R&D activities aiming for co-existence with other anticancer drugs including immunotherapy.

In the discovery of molecular targeting agents, fragment based drug discovery technology by Taiho and Astex is fully utilized. With their technology we will aim for discovery of drugs with innovative mechanisms of action to treat drug resistant cancers.

With small molecule compounds as its main drug class, we are also studying possibility of generating synergies with new modalities such as cancer vaccines, CAR-T, TCR-T, and oncolytic virus.

We will address unmet medical needs capitalizing on our long history of R&D and new drug discovery platform to develop small molecule compounds.

Strategy on Oncology | Structure for Value Maximization



- Aim to maximize the oncology business value by leveraging strengths of group companies' assets



 TAIHO PHARMA



 Otsuka
Otsuka Pharmaceutical Co., Ltd.

23

Next, I will explain how we will structure our group organization for business value maximization.

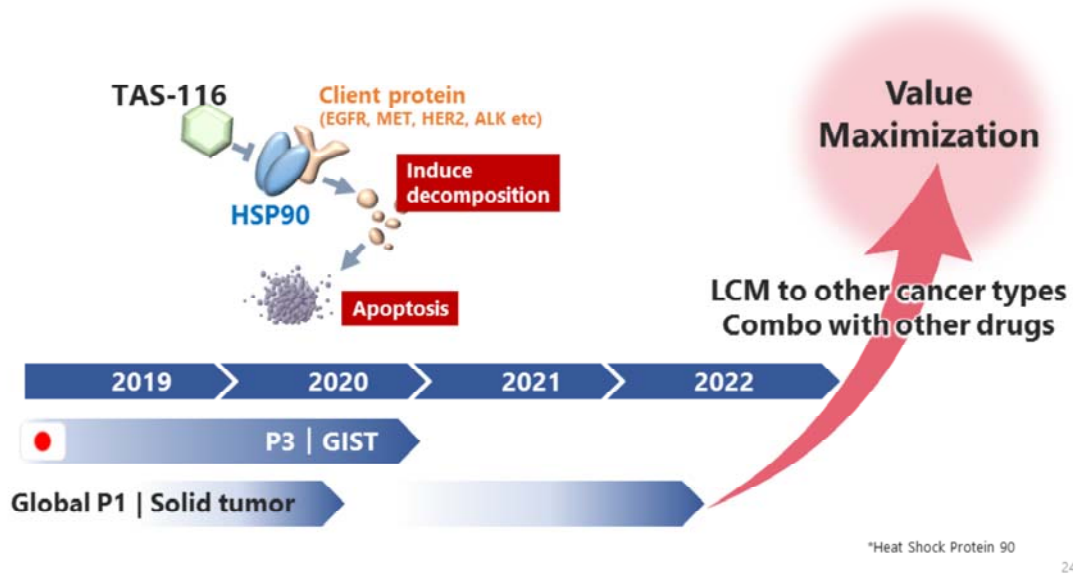
Otsuka Group oncology business has established a strong position in Japan, but has relatively short history overseas where it needs to enhance its presence.

We will set the coming 5 years as a period when we put together all the accumulated assets of Taiho, Astex and Otsuka in drug discovery, clinical development, production and sales to maximize the value of our oncology business.

TAS-116 | Challenge to “First-in-Class”



- TAS-116, an oral HSP90* inhibitor created by our tenacious R&D efforts
- HSP90 attracted attention as a target, but no drugs available in the market

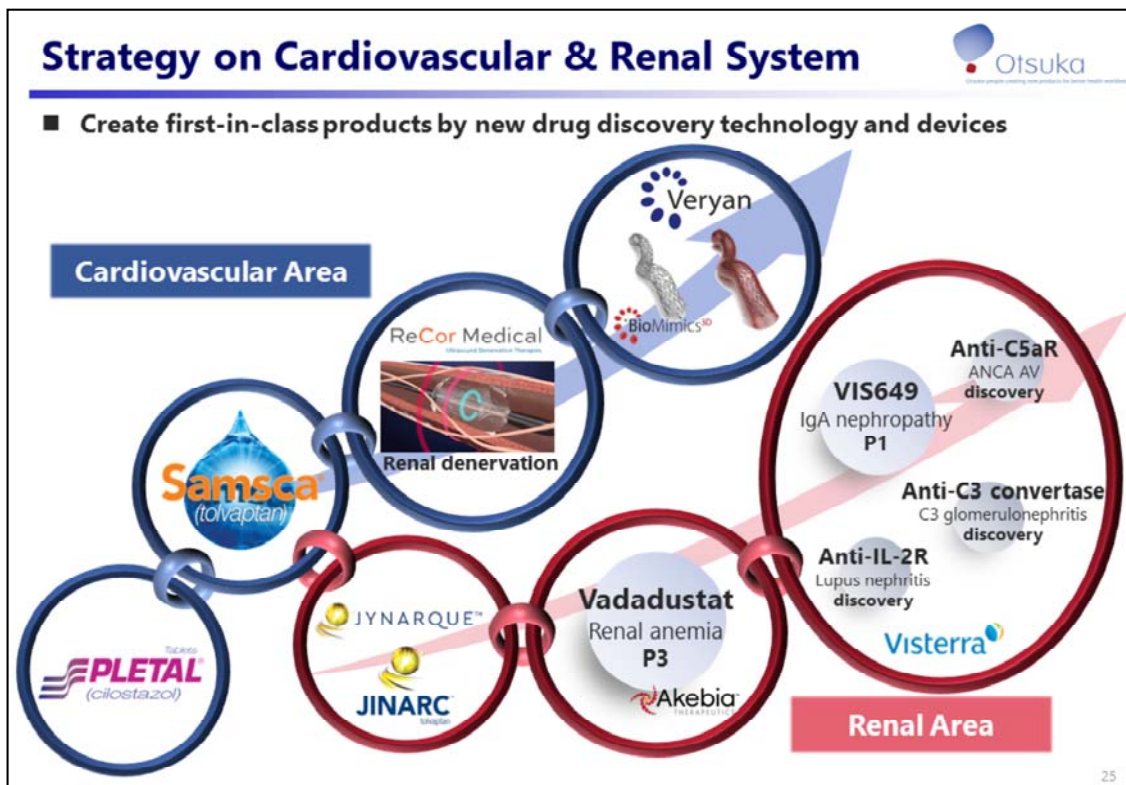


I will touch upon one drug candidate, TAS-116, which reflects Otsuka’s characteristics in oncology.

Heat shock protein 90 has attracted attention as a drug target, but there have been no drugs launched as its inhibitor.

We tried to determine the potential of this compound through our long-standing R&D knowhow and philosophy of “Ryukan Godou” and continued development tenaciously. As a result, we succeeded in taking this compound to the phase 3 stage for the treatment of a rare disease called GIST (gastrointestinal stromal tumor).

Our business plan is for this compound, in its initial phase, to contribute to a small number of patients, but its potential as a first-in-class drug is huge and our expectations are high. We will focus on the ongoing clinical trials to demonstrate the future potential of the compound.



Next is our strategy for cardio-renal area.

In order to grow Otsuka's pharmaceutical business and ensure sustainable growth beyond 2030, we need to develop one more core therapeutic area in addition to CNS and oncology. For the expansion of such business, we made many investments during the 2nd mid-term plan period.

Taking advantage of our expertise in cardio-renal area with anti-platelet agent *Pletal's* marketing experience in Japan, we have launched *Samsca* globally.

With the additional indication of ADPKD for *Samsca/Jinarc*, we are accumulating new expertise in this renal disease area.

In the renal space, we have been making efforts to reinforce our franchise and enrich our pipeline by licensing in vadadustat for renal anemia and acquiring Vistarra.

In addition to the in-licensing efforts, progress has been made for discovering a home-grown drug candidates as well.

In the cardiology space, our main focus is on medical devices.

We have acquired renal denervation system by Recor Medical and unique stent product by Verylan. We are moving ahead steadily with a hope of combining these with our strong assets to build up this business as soon as possible.

In this manner, we will utilize overlapping and derivation of businesses to create a robust business segment.

Further Contribution to ADPKD Treatment and Product Value Maximization



- Implementing multiple initiatives to maximize product value by improving diagnosis and treatment of ADPKD

Sales forecast* of JINARC/JYNARQUE*



Enhancement of disease awareness and proper use of JINARC/JYNARQUE

- ✓ Promote better understanding of clinical conditions and diagnosis of rapidly progressive ADPKD
- ✓ Promote efficacy and safety of JINARC/JYNARQUE
- ✓ Support REMS and product access

This shows how we will maximize the value of Jinarc and contribute to ADPKD treatment.

We plan to launch multiple initiatives to improve ADPKD treatment and to maximize product value.

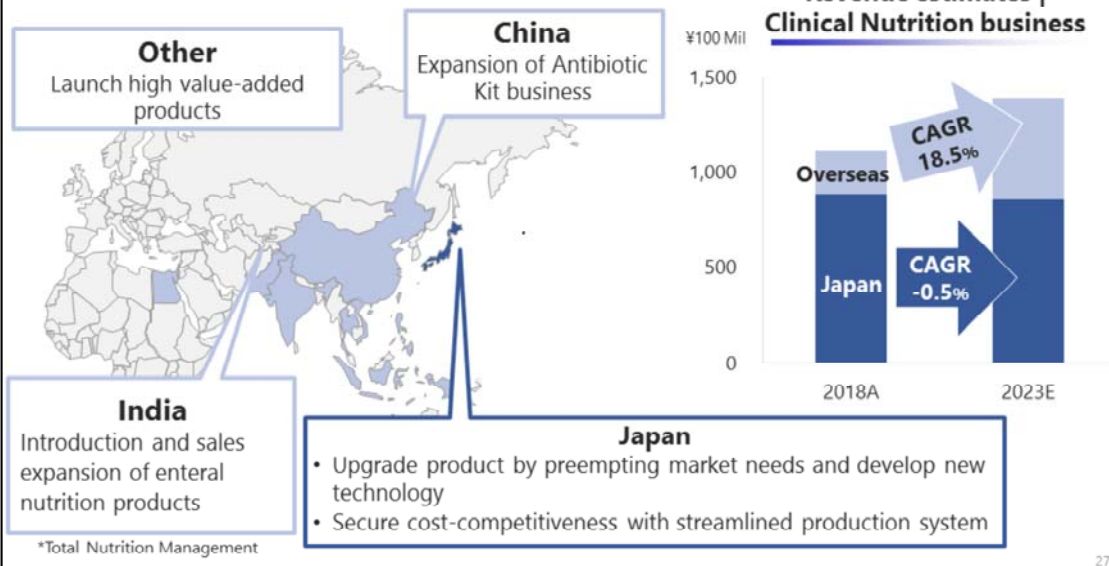
Our promotional activities include understanding of disease state of rapid progressing patients and disseminating efficacy and safety information of the drug.

We will also ensure the safe use of the drug and support patient access to the drug to maximize product value in the U.S.

Strategy on Clinical Nutrition | Global Operation of High Value-added Products



- Overseas | Launch high value-added products and implement TNM*
- Japan | Maintain stable profitability

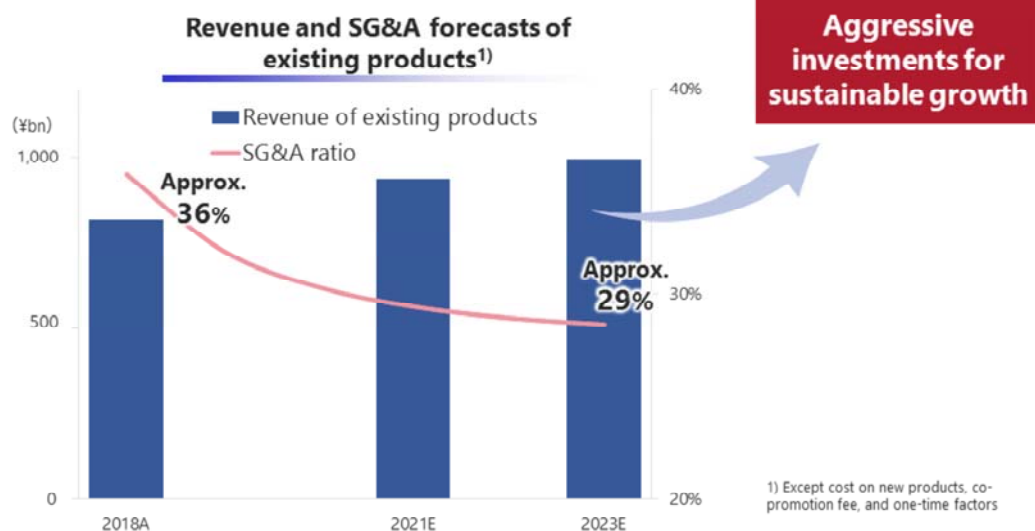


We will expand our clinical nutrition business globally with high value added products overseas. Together with global expansion and total nutrition management, we set the ambitious target of 18.5% CAGR.

On the other hand, in the challenging market in Japan, we will secure stable profit level and improve existing products with expertise that only Otsuka has and with the development of new technology in these fields, we will expand this business globally in the future.

Existing Product Value Maximization Enables New Investments

- Profits gained through value maximization of global products in the 2nd MTM plan enables active investments for sustainable growth



From now let's take a look at value maximization of the existing products that support the strategies I have explained.

This shows the sales revenue and SG&A ratio excluding new products to be launched during this plan period.

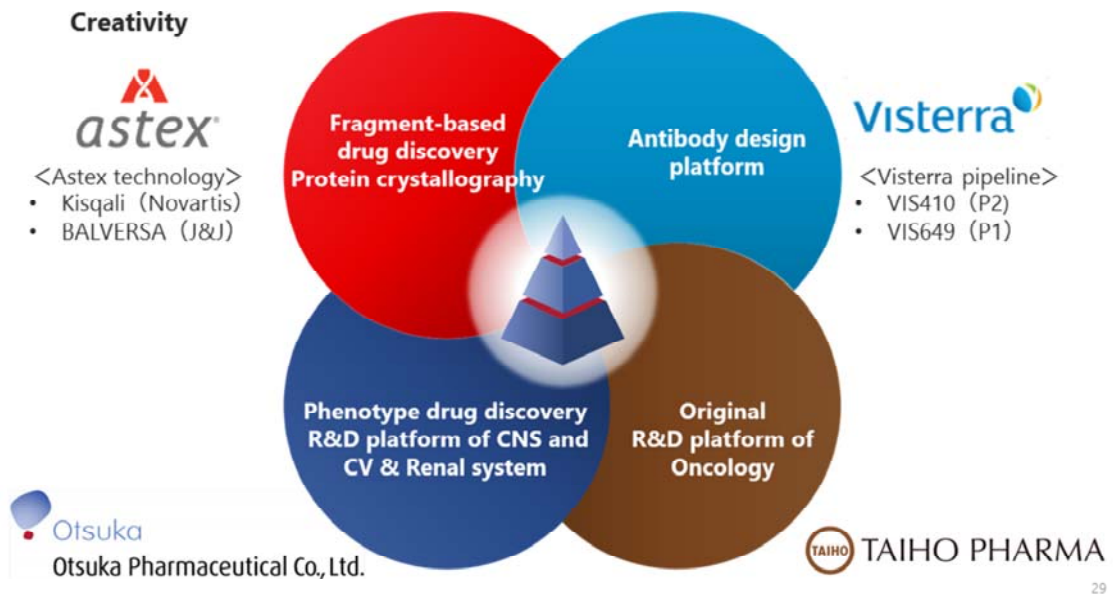
Our plan is to ensure strong increase in sales of these products while suppressing the SG&A ratio.

Profits to be generated from existing products will be invested in additional indications and marketing activities of new products to boost their sales as quickly as possible to realize sustainable growth.

Transformable Innovation Platform



- Create innovation by combining existing drug discovery platform and world's cutting-edge technology: activities to show Commitment, Actualization, and Creativity



This is regarding the last theme, innovation creation using unique and diverse research platform.

In this dramatically changing healthcare industry, creation of innovative new drugs is more important than ever.

We will combine drug discovery platform centering on small molecules over the years and cutting edge technology to generate innovation through value creation process based on “Ryukan godou” “Jisshou” and “Creativity”.

Nutraceutical Business

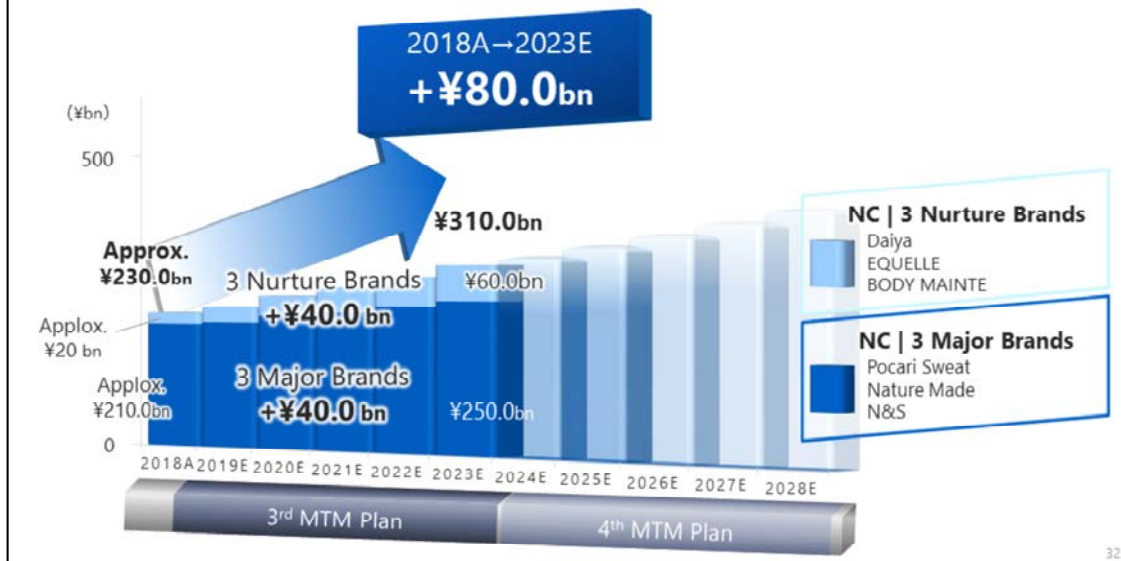
Existing Business Value Maximization and New Value Creation

- **Create New Concepts Keeping an Eye on Changes in the Environments**
- **Challenge to New Categories and New Areas**
- **Continuous High Profit Structure**

Just like the Pharmaceutical business, we will set value creation and maximization of existing businesses as our main themes and take on the creation of new concepts focusing on business environment changes, challenges to new categories and new areas, and continued efforts to maintain high profit structure.

Growth Drivers' Revenue Forecast

- 3 Major Brands | Challenge to new category and new area to be “100 billion-yen-brands”
- 3 Nurture Brands | Construct business platforms to be main brands in the future



Fist, sales plan for a group of key drivers.

Our target is to increase sales by ¥80 billion during this five year period.

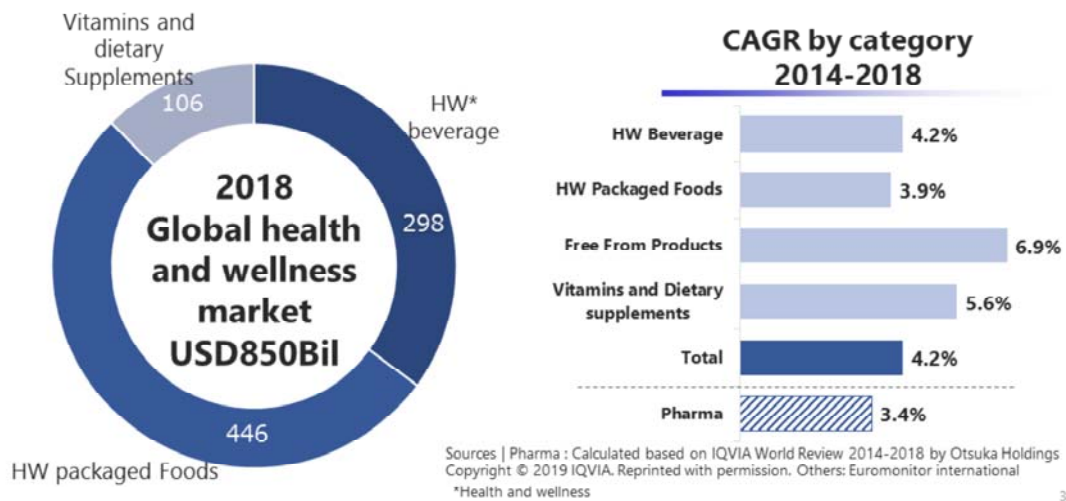
The increase comes from 3 major brands and 3 nurture brands, each of which contributes to a ¥40 billion sales increase.

From here I will explain our initiatives to develop new concept focusing on changes of business environment.

Target: Attractive High Growth Markets



- Global health related market: USD850Bil, CAGR(2014-2018) 4.2%
- Same growth rate as global pharmaceutical market
- Rising health consciousness accelerates the market growth



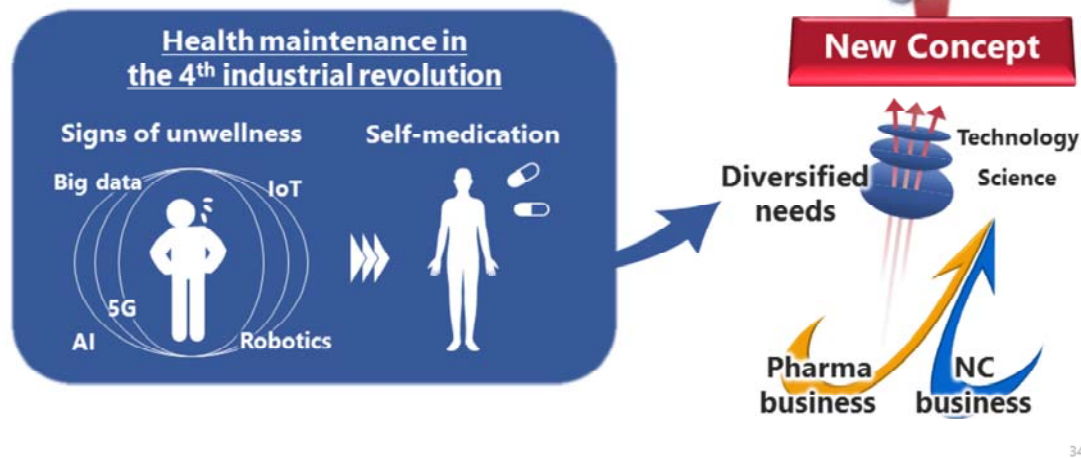
First, let's look at the market for health related products Otsuka has special interest in. The global market has been growing with the CAGR of 4.2% between 2014 and 2018, surpassing the growth rate of the pharmaceutical business. So we recognize that we are targeting an attractive market.

In addition, as health consciousness is mounting, the speed of growth of this market is expected to accelerate.

New Concept on the 4th Industrial Revolution



- Needs for health maintenance are diversifying with advance of science and technology
- Create new concepts combining diversified needs with Otsuka's unique business model



Amid such a health conscious environment, world trends are going through rapid changes.

Scientific technology is advancing drastically, which we describe as the 4th industrial revolution as represented by IoT, Big Data, AI, 5G, and robotics.

For example, until recently some diseases would be left unrecognized until diagnostic testing or obvious symptoms appeared, and so many people would just endure the condition if it was not severe.

In the future, signs of the diseases will be captured as digital information and each individual will be able to manage their health proactively.

Despite this vastly changing environment, Otsuka's business approach remains unchanged.

We stick to our corporate philosophy of continued value creation.

To capture the diverse needs in new age, we will make full use of our science and technology established in NC and pharmaceutical businesses to formulate new concepts and thereby contribute to people's health promotion by offering new values.

Accelerate Global Expansion

- Accelerate global expansion and build a foundation for 3 Major Brands to be “100 billion-yen-brands” and for 3 Nurture Brands to be future main brands



Next is our challenge to expansion to new area and category of business.

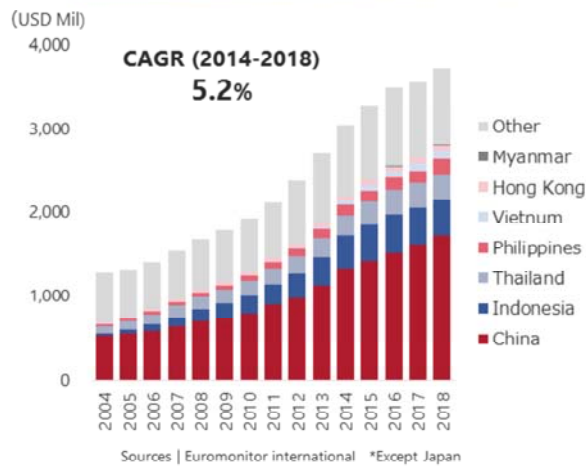
We will accelerate our global expansion taking advantage of product attributes and characteristics and build a platform to grow 3 major products to ¥100 billion brands and make 3 nurture brands as the next generation brands to support our future business.

Challenge to “100 billion-yen-Brand” | Pocari Sweat



- Focus on promoting importance of hydration in growing markets mainly in Asia where people’s health consciousness is rising
- Develop growth base by business expansion to new categories for sustainable growth

Sports drink market | Asia-Pacific*



Sales of Pocari Sweat | Overseas



36

I will show you the details on the market environment and growth strategy on each of the major products, *Pocari Sweat*, Supplements and plant-based foods.

First, *Pocari Sweat*:

The sports drink market in the Asia-Pacific region has been expanding with a CAGR of 5.2% between 2014 and 2018. In this health-conscious growing market, we will promote our product concepts through marketing activities unique to Otsuka to enhance brand equity.

In this growing region, the expected CAGR of *Pocari Sweat* in the next five years is 9.4%, surpassing the overall market growth rate.

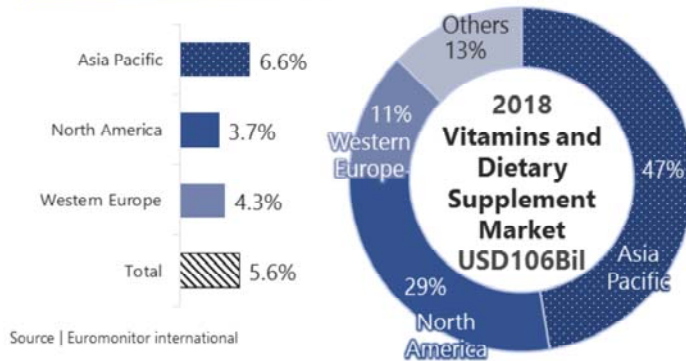
In addition, we will continue to expand to new areas, mainly in Asia to ensure sustainable growth of the *Pocari Sweat* brand.

Challenge to “100 billion-yen-Brand” and New Categories | Nutritional Supplement



- Nature Made | Challenge to new categories to be “100 billion-yen-brand”
- EQUELLE | Challenge to create new category and new market in North America
- New operation in highly growing Asia-Pacific areas

Nutritional supplement market CAGR 2014-2018



Source | Euromonitor international

Challenge to new categories North America

- ◆ Personalized nutrition



- ◆ Create new category and new market

EQUELLE



37

Next is our supplement business.

The *Nature Made* business has been expanding mainly in the US. In addition to its market growth, we will grow this business by introducing a new category of personalized vitamins, enabling a platform to raise this business to a ¥100 billion brand.

Another focus of ours is to penetrate product concept of *Equelle*, one of our 3 nurture brands to create a new market not only in Japan but also in North America.

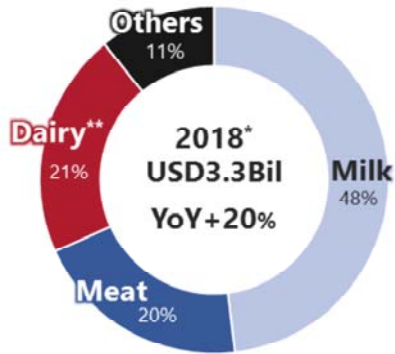
To further develop our business platform, we will evaluate entry into another high-growth market, the Asia-Pacific region.

Category Leader of Plant-based Foods in North America: Daiya Foods



- Address health issues of health conscious consumers with aggressive marketing in highly growing plant-based alternatives market

US plant-based alternatives market



Revenue forecasts | Daiya Foods



*Sources | PBFA-commissioned data from Nielsen (52 weeks dollar sales ending June 2018)
**Ice cream, Yogurt, Cheese, Creamer, Butter, Dressing

38

This is regarding plant-based products of Daiya Foods, one of our new focuses in the NC business.

We are aggressively conducting marketing activities as a category leader to solve health issues of health conscious consumers, mostly of the millennial generation, and expand the market for this type of products.

The plant-based alternative market in the US showed year-on-year growth rate of 20% plus between July 2017 and June 2018. We plan to achieve sales CAGR of 25% in the market, putting efforts in expanding sales channels and product lineup of the core products such as cheese alternatives.

During the 3rd mid-term plan period, we will establish robust platform for this business in North America so that we will be able to expand to new regions as well.

Revenue Forecasts by Category



- Each categories' revenue grows at same pace as or faster pace than market, mainly with 3 Major Products and 3 Nurture Products

Nutritional Supplement

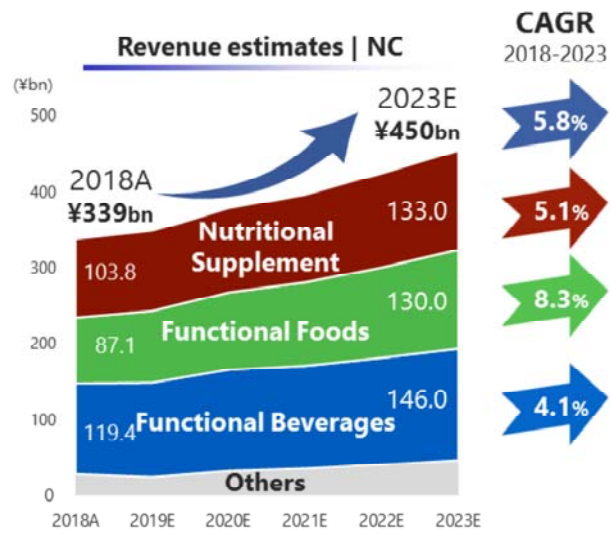
Nature Made
EQUELLE
Kenja-brand etc.

Functional Foods

Calorie Mate N&S
Daiya SOYJOY

Functional Beverages

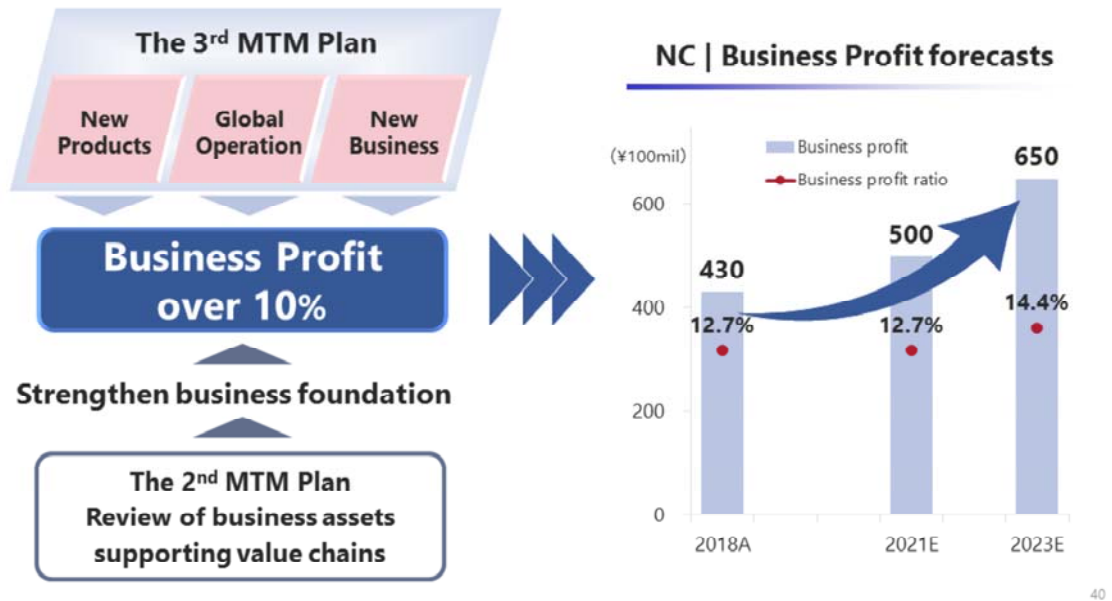
Pocari Sweat OS-1
Oronamin C Tiovita etc.
BODY MAINTENANCE



Centering on these growth drivers, we plan to boost the sales of functional drinks and supplements at the same speed as the market growth and sales of functional foods at faster speed than the market growth rate so that we can achieve ¥450 billion sales revenue in the last year of the management plan.

Continuation of Stable Revenue Bases

- Continued high profit structure and sales expansion lead to stable revenue base



This is the last slide for NC business strategy to explain how to maintain our high profit business scheme.

Through the review of management assets that supported the value chain, we could build a solid business platform and improve the profitability of the NC business, which was the biggest theme for the 2nd mid-term plan for the NC business.

As a result, we are now able to maintain a profitability of 10% or more.

In the 3rd mid-term business plan period, we will promote new products with a new concept, expand our global business footprint, and grow new businesses such as plant-based food products while maintaining a 10% profitability and increasing sales. Thus we will further increase the amount of our business profit.

Financial Policy

From here on, I will introduce our financial policy.

Business Management with a Corporate-wide Awareness of Capital Costs

- **Balancing Investments for Future Growth and Shareholders Return**
- **Clarifying Main Investment Areas**
- **Enhancing Management Efficiency**

42

In the next 5 years, we will implement business management with a corporate-wide awareness of capital costs.

Here are the 3 key points:

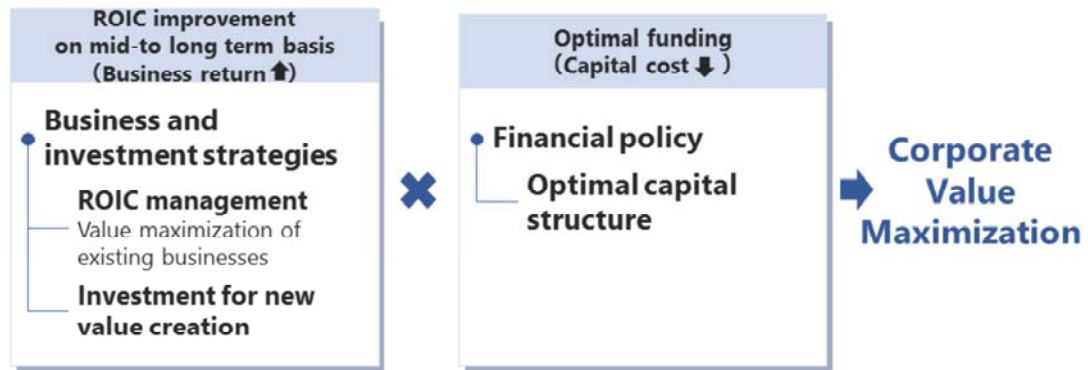
Balancing investments for future growth and shareholders return,

Clarifying main investment areas, and Enhancing management efficiency.

Corporate-wide Awareness of Capital Costs

■ Implementing “Business management with a corporate-wide awareness of capital costs” throughout the group

- ✓ Increased awareness of capital costs reflecting business risks
- ✓ Performance evaluation based on capital costs



43

First point is to implement “business management with a corporate-wide awareness of capital costs” throughout the group.

We are going to increase an awareness of capital costs company-wide reflecting business risks and introduce performance evaluation based on capital costs.

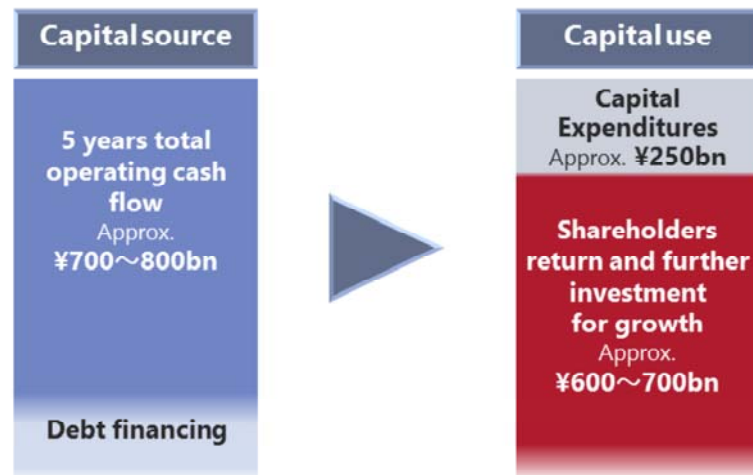
As for business and investment strategy, we are going to improve our ROIC on mid-to long term basis by starting ROIC management and investing for new value creation.

With regard to financial policy, we will optimize our capital structure in order to lower our capital costs.

By combining these efforts on business and investment side and also financing side, we are going to maximize Otsuka’s corporate value.

Balancing investments for future growth and shareholders return

- Disciplined investments based on capital costs
- Ensure solid financial foundation and aim ROE \geq 8%
- Keeping with our basic policy of stable dividends, further shareholders return depending on the profit growth



44

This shows how we are going to balance growth investment and shareholders return. Cumulative operating cash flow in the next five year period is estimated at ¥700 billion to ¥800 billion.

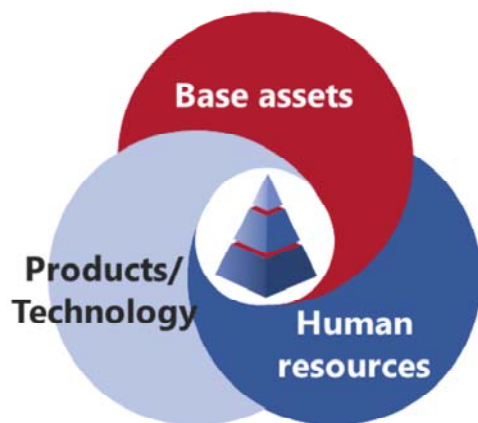
We will make a disciplined use of cash and make each investment decision considering ROIC.

Also we will target an ROE of 8% or more while maintaining a solid financial position

As for the shareholders return policy, we will maintain stable dividends and consider additional shareholders return depending on our profit growth.

Clarifying Main Investment Areas

- Investments that generate greater values by combining with our existing business assets
- Investments that fit our short-, mid- and long-term strategies



Main investment areas	
Pharma	<ul style="list-style-type: none">● Products and pipelines on Psychiatry & Neurology area● Products and pipelines for Japanese market● New technology
NC	<ul style="list-style-type: none">● New business● Pioneering high-growth markets

45

Next I will explain the main areas of investments.

we will consider investments that will generate greater values by combining them with existing assets.

Specifically, we will look for investment opportunities in which we can share assets such as products, technologies, human talents and most importantly Otsuka's management essence, and that fit our short-, mid-, and long-term strategies.

In the pharmaceutical business, we will invest to reinforce our portfolio and pipeline in the area of our utmost focus, CNS.

Also we will work on enriching our product lineup and pipeline for the Japanese market, which is one of our management issues.

In the NC business, we will make active investments in new businesses focusing on the future social issues.

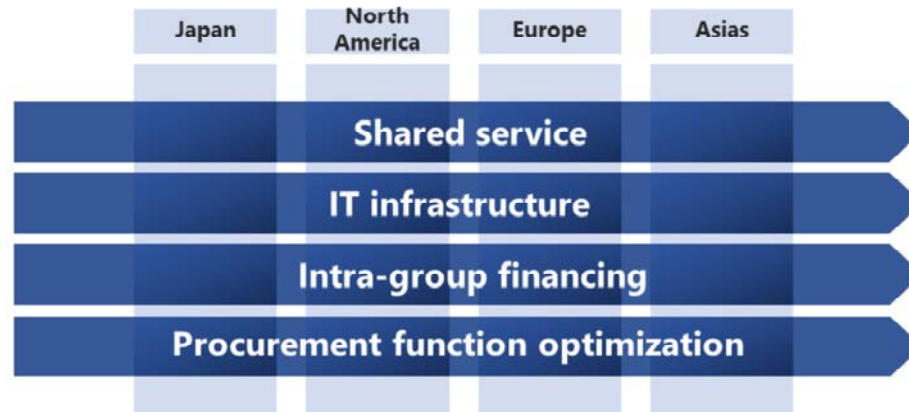
Initiatives to Enhance Management Efficiency



- Group-wide management infrastructure to support accelerated global business operations

Initiatives to enhance management efficiency

- Task-standardization and optimization
- Strengthen internal control functions
- Correspond to regulatory environment



46

Next is our effort to enhance management efficiency.

In this plan, for better management efficiency, we will seek standardization of our tasks and improve operational efficiency, reinforce internal control functions, and correspond to regulatory environment

Specifically, we will move ahead with shared service on a global basis, IT platform unification, promotion of group finances and optimization of procurement function.

We will provide an update on the progress and impact of this initiative at future meetings when we announce our business results.

Outline of the 3rd MTM Plan



- **Performance Target: Business Profit CAGR of 10% or more**
 - ✓ By organic growth of mainstay products and brands on Pharmaceutical and NC business
 - ✓ Implement aggressive R&D investments and continue development of new drugs that drive revenue growth on and beyond next MTM
- **Business Strategy: Existing business value maximization and new value creation**
 1. **Strategic initiatives for mainstay products and brands accelerate growth**
 - ✓ Strengthen strategic initiatives on growth drivers:
 - 4 Global Products of the Pharmaceutical business
 - 4 Major Products & 4 Nurture Products of the NC business
 2. **Nurture next generation businesses and products**
 - ✓ Launch and nurture new drivers for sustainable growth on Pharmaceutical and NC business
- **Financial Policy: Business management with a corporate-wide awareness of capital costs**
 - ✓ Balancing investments for future growth and shareholders return
 - ✓ Securing funds for investments for growth and shareholders return

47

This is the summary of my presentation today.

Our performance target in this plan is for an annual profit growth of 10% or more.

We will challenge new value creation and maximization of existing businesses for both the pharma and NC businesses.

As financial policy, we set the theme of capital cost-conscious management for better business management in the coming 5 years.

That's the outline of our 3rd mid-term management plan.

Otsuka celebrates its 100th anniversary during this business plan period. We are determined to continue our efforts to contribute to society through our unique value creation model and its steady implementation.

In the next 5 years, we aspire to play meaningful roles as a unique total healthcare company that contributes to people's health worldwide.

We would appreciate your expectations to our advance and continued support for Otsuka Group.

Thank you for your attention.