CFO Message

As we aim to achieve our 2025 goals and realize our 2030 Vision, we are committed to pursuing sustainable growth by balancing investments for future growth with shareholder returns.

Executive Officer
Head of Global Corporate Planning
and Management, CFO

Koji Ogawa

A Look Back Over the Past Year

It has been a year since I assumed the role of CFO in April 2023. Reflecting on this past year, I find the following three points particularly significant. First, the decision to establish a strategic alliance with Merck & Co., Inc. in the United States. This alliance has enabled us to deliver our products to more patients, more quickly, while also enhancing our internal capacity, resources, and capabilities. The second significant point is that we updated the expectation on numerical targets (KPIs) for FY2025 under our current 5-year business plan (FY2021-FY2025) and simultaneously decided to acquire our own shares. Over the past year, I have had the opportunity to engage in dialogue with many investors and shareholders. Based on these engagements, I believe we have successfully balanced future-oriented growth investments with enhanced shareholder returns. The final point is the preparation for the launch of our global organizational structure. Aiming to become a true business partner, we initiated a new global organizational structure with standardized processes in April 2024. With this structure, we believe we can now execute swift and accurate decision-making and optimal resource allocation on a global scale, under the leadership of the CFO. Moving forward, I am committed to continuing to provide leadership toward realizing our 2030 Vision of becoming an "Innovative Global Healthcare Company Contributing to the Sustainable Development of Society."

Progress and update on the current 5-year business plan (FY2021-FY2025)

The Daiichi Sankyo Group is working on its current 5-year business plan (FY2021-FY2025) aimed at achieving its FY2025 target of becoming an innovative global healthcare company with a competitive advantage in oncology and shift to further growth to achieve our 2030 Vision. Specifically, by implementing the four strategic pillars and strengthening the foundation that supports these strategies, we aim to achieve our KPI targets of ¥1.6 trillion in revenue (¥600 billion or more from the oncology business), a core operating profit ratio before R&D expenses*1 of 40%, Return on Equity (ROE) of 16% or more, and DOE (dividend on equity ratio)*2 of 8% or more in FY2025, which is the final fiscal year of the plan.

Three years have passed since the launch of the current 5-year business plan, and the four strategic pillars are progressing smoothly, increasing our confidence in achieving the FY2025 goals. I will provide an update on the progress of "Maximizing 3ADCs" and "profit growth for current business and products."

Regarding the most important of the four strategic pillars, "Maximizing 3ADCs," our global product, the anticancer agent Enhertu®, has been growing steadily across countries and regions, exceeding our initial expectations.

In the United States, we have secured market leadership across all indications obtained, particularly in breast cancer. While market share has grown to a significantly high level, Enhertu represents a major shift from traditional standard treatments, and some physicians remain cautious about switching from established therapies. Currently, we are strengthening information provision to such physicians while aiming to further expand our market share. In Europe, market share is steadily growing in major markets like Germany and France, and market penetration is progressing smoothly in Italy, where the product was newly launched in 2023. In Japan as well, prescriptions are steadily increasing, particularly for breast and gastric cancers, securing top market share across all obtained indications. Furthermore, in the ASCA (Asia, South & Central America) regions, prescriptions have grown significantly, especially in Brazil and China.

Regarding "profit growth for current business and products," the sales of our global product, the anticoagulant Lixiana® are progressing smoothly in Japan, Europe, and the ASCA regions. Additionally, sales of the pain treatment Tarlige® in Japan, the iron deficiency anemia treatment Venofer® in the U.S., and the hypercholesterolemia treatments Nilemdo®/Nustendi® in Europe have shown steady growth, significantly contributing to the creation of resources for investments in sustainable growth and shareholder returns. Furthermore, the profits from the steadily growing American Regent, which sells iron deficiency anemia treatment drugs and generic injectables in the United States, and Daiichi Sankyo Healthcare, which sells OTC pharmaceutical products in Japan, are steadily growing. It is expected that their profits will account for approximately half of the consolidated core operating profit in FY2024.

*1 Excluding temporary income and expenses (gains/losses related to sales of fixed assets etc.) from operating income
*2 Dividend on Equity = Total dividend amount / Equity attributable to owners of the company

Expectation on achieving FY2025 KPIs
(As of Apr. 2024)

	At the time of planning 5YBP	As of Apr. 2024
Revenue	1.6 Tr JPY	2.1 Tr JPY
Revenue in Oncology	600 Bn JPY	1,000 Bn JPY
Core Operating Profit ratio*1 before R&D expenses	40%	40%
ROE	16%	16%
DOE*2	8%	8.5%
Currency rate assumptions	1 USD=105 JPY 1 EUR=120 JPY	1 USD=145 JPY 1 EUR=155 JPY

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Expectation on FY2025 KPI achievement (as of April 2024)

Based on the steady progress over the three years since the start of the current 5-year business plan, we anticipate that FY2025 revenue will reach ¥2.1 trillion, exceeding our target of ¥1.6 trillion by ¥500 billion, driven by increased revenue projections in the oncology field.

In FY2025, we anticipate that revenue from the oncology field will exceed ¥1 trillion within the consolidated revenue. However, the revenue forecast for Dato-DXd in FY2025 has been revised downward due to a reevaluation of the target patient population based on clinical trial results and adjustments to the timeline. On the other hand, for Enhertu, we anticipate further revenue growth in the breast cancer market based on clinical trial results. Additionally, due to the revenue impact from the upfront payment received upon entering into the strategic alliance with Merck in the U.S. for HER3-DXd, I-DXd, and DS-6000, we expect oncology revenue for FY2025 to exceed ¥1 trillion, surpassing the target of ¥600 billion by ¥400 billion.

With the increase in revenue, we expect higher costs of sales and selling, general, and administrative expenses. However, improvements in cost ratios due to changes in product mix and efficient, effective expense management will enable us to continue aiming for a core operating profit margin before R&D expense of 40%. Furthermore, as the potential of our R&D pipeline continues to expand smoothly, we will actively invest in research and development for sustained growth. We aim to maintain a ROE of 16% or more. Additionally, we anticipate that our DOE will exceed our target of 8% and reach 8.5% or more, due to improved capital efficiency and enhanced shareholder returns.

Three years have passed since the start of the current 5-year business plan, we strongly feel that the profit expansion phase moving beyond the investment phase is now approaching.

Well-Balanced investment for growth and shareholder returns (Cash Allocation)

During the current 5-year business plan period, we will follow a policy of well-balanced cash allocation between investment for growth and shareholder returns. Specifically, a portion of the cash allocation will be dedicated to investment for growth (such as R&D and capital expenditures) and shareholder returns. The remaining portion will be flexibly allocated based on the progress of the R&D pipeline, considering a balance between further growth-oriented R&D investments and shareholder returns.

The cash allocation for the current 5-year business plan period, comprising the initial cash on hand at the start of the current 5-year business plan and the operating cash flow before R&D expenses over the five years, is expected to increase by approximately ¥900 billion to around ¥3.7 trillion compared to the initial forecast, due to the receipt of upfront payments from the strategic alliance with Merck in the U.S. The increased cash allocation will primarily be used for enhancing R&D investments, capital expenditures for future growth, and further strengthening shareholder returns.

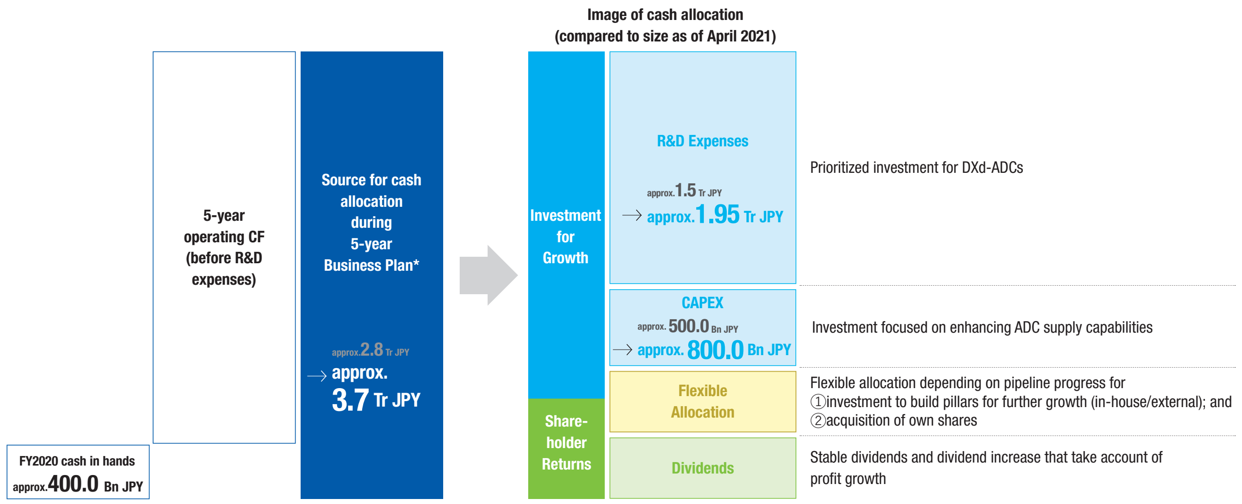
For R&D expenses prioritized for the development of DXd ADCs, we plan to increase the allocation by ¥450 billion compared to the initial forecast of the current 5-year business plan, totaling approximately ¥1.95 trillion over the five years. Of this, the R&D expenses for FY2024 and FY2025 are expected to be around ¥1 trillion, due to the initiation of new trials for products such as Enhertu. Compared to the initial forecast, for HER3-DXd, I-DXd, and DS-6000, we will accelerate development to maximize product value through strategic alliance with Merck in the U.S., which will speed up expansion trials and the initiation of new trials. On the other hand, due to the impact of development cost sharing from the strategic alliance, the projected R&D expenses for these three products have decreased compared to one year ago. The resources secured through development cost sharing will be actively invested in initiatives for sustainable growth, progressing towards building new pillars of growth following the 5DXd ADCs. Additionally, we anticipate an increase in R&D expenses due to expanded medical affairs activities (new evidence creation and delivery) along with such as expanding evidence creation and information dissemination related to the expansion of indications for Enhertu, and the launch of Dato-DXd and HER3-DXd. We will also further strengthen our R&D infrastructure including expanding our development staff to accelerate and expand the development of 5DXd ADCs and other products.

Regarding capital expenditures, we plan to increase the allocation by ¥300 billion compared to the initial forecast of the current 5-year business plan, totaling approximately ¥800 billion over five years. The primary purpose of this increase is to strengthen our production infrastructure, with a significant portion allocated to enhancing the production infrastructure for DXd ADCs. We will address the growing demand for DXd ADCs resulting from the steady growth of the Enhertu business, advancements in the development of Enhertu and Dato-DXd, and the strategic alliance and development progress with Merck in the U.S. for HER3-DXd, I-DXd, and DS-6000. Going forward, we will continue to invest in both our own production facilities and external contract manufacturing organizations in a balanced manner. For DXd ADCs production facilities, we will invest not only in our plants in Japan but also in utilizing our facilities in the U.S. and Germany as DXd ADCs production sites.

We will further strengthen shareholder returns through increased dividends in line with profit growth and flexible acquisition of our own shares. These aspects will be explained in detail in the following section.

Well-balanced investment for growth and shareholder returns

Cash allocation



Shareholder return policy

In the current 5-year business plan, we have adopted DOE as a KPI for shareholder returns, aiming to achieve a rate of 8% or more, which exceeds the cost of equity capital, in FY2025.

DOE is an indicator that combines ROE and the dividend payout ratio, encompassing both capital efficiency and shareholder returns, which are crucial for enhancing corporate value. As the company transitions to a profit growth phase under the current 5-year business plan, it is essential to consider dividends in conjunction with capital costs and capital efficiency. Therefore, we have adopted DOE as our key indicator.

Regarding ROE, we aim to achieve a rate in the high 11% range for the FY2024 and 16% or more for the FY2025 by expanding capital efficiency through revenue growth driven by Enhertu and flexible acquisition of our own shares.

Regarding the equity ratio, we consider approximately 60% to be an appropriate level from both financial security and capital efficiency perspectives. Although the equity ratio has temporarily decreased due to the strategic alliance with Merck, where a portion of the upfront payment received is recorded as deferred revenue (liability) for future sales revenue, we expect to gradually bring the equity ratio back to around 60% over the coming years as we recognize deferred revenue as sales revenue. Regarding cross-shareholdings, we generally do not hold listed shares, except when it is deemed to contribute to maintaining or strengthening long-term business relationships and enhancing our corporate value. We are progressively selling these shares, taking into account their impact on the market and other factors.

We aim to further enhance shareholder returns through increased dividends in line with profit growth and flexible acquisition of our own shares. With the expansion of Enhertu sales, the likelihood of achieving the key numerical targets for FY2025 has increased, so we plan to continue increasing dividends in FY2024, as we did in FY2022 and FY2023. Additionally, to enhance shareholder returns and improve capital efficiency, we have decided and are implementing own shares acquisition program with a total purchase amount of ¥200 billion and a maximum of 55 million shares.

As a result of these initiatives, we expect DOE to exceed the target of 8% by 0.5%, reaching 8.5% or more.

DOE (Dividend on Equity) = Total Dividends ÷ Shareholders' Equity
= ROE (Net Income ÷ Shareholders' Equity) × Payout Ratio (Total Dividends ÷ Net Income)

Commitment as CFO towards maximizing shareholder value

In the year since my appointment as CFO, I have engaged in discussions with many shareholders and investors about our Group's sustainable growth through advancements in the oncology business and our innovative development pipeline. Through these dialogues, I aim to enhance our company's valuation in the stock market. Our company aims to manage in a way that contributes to the increase in Total Shareholder Return (TSR), which is the sum of dividends and capital gains divided by the investment amount. As of the end of July 2024, our market capitalization exceeds ¥11 trillion, and the PBR (Price-to-Book Ratio) is over 6 times, indicating that our company's value is highly appreciated by the stock market. Moving forward, we will continue to strive for maximizing corporate value through active dialogue with shareholders, investors, and all stakeholders.