Pharmaceutical Market Trends

Looking at growth rate estimates for pharmaceutical markets around the world, the markets in the U.S., Europe, China, and ASEAN are expected to record annual growth in the range of 3% to 8% over the period from 2017 to 2022. In other words, continued growth is anticipated in global markets.

On the other hand, the level of growth in our home market of Japan is approaching zero. One major reason is that the Japanese government is taking steps to control the increases in social security expenses resulting from expansion in the population of senior citizens. To that end, the government is rapidly reducing NHI drug prices, which are the official prices of ethical drugs, and promoting the use of generic drugs, etc. We do not expect this trend to change in the short term.

In general, NHI drug prices are revised every two years, and the effect of those revisions differs in accordance with each company’s product portfolio. An NHI drug price revision was implemented in April 2018, and we estimate the effect on our fiscal 2018 revenue will be approximately ¥21.0 billion. In particular, the Company will be significantly affected by the new G1/G2 rules. These rules are for long-listed drugs for which 10 years have passed since the launch of generic drugs. G1 products are defined as long-listed drugs for which the generic drug substitution rate is 80% or more, while G2 products are long-listed drugs for which the generic drug substitution rate* is less than 80%. Drug prices are to be lowered in stages, with G1 drug prices reduced to the level of the generic drug prices after 6 years and G2 drug prices reduced to approximately 1.5 times the generic drug prices after 10 years.

In addition, the government is considering the implementation of an NHI drug price revision accompanying an increase in the consumption tax rate in 2019. We believe that we need to consider our future business operations based on the assumption that the government will carry out increasingly severe NHI drug price revisions on an annual basis.

* Substitution rate = Number of generic drugs / (Number of original drugs for which there are generic competitors + Number of generic drugs)

Message from the Financial and Accounting Officer

Eizo Tabaru
Board Director
Managing Executive Officer
In charge of Finance & Accounting Department

Market Data

Worldwide Pharmaceutical Market
(including OTC products)
Billions of U.S. dollars

Domestic Ethical Drugs Market
(including OTC products)
Trillions of yen

Market Share of Generic Drugs
(Volume basis)

Note: OTC drugs are included.
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January 2013–December 2017,
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Note: OTC drugs are included.
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April 2013–March 2018,
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Source: Ministry of Health, Labour and Welfare

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Advancing Operational Productivity Reforms

“Reforming operational productivity” is one of the four strategic priorities in Medium-Term Management Plan 16–20. For fiscal 2020, the final year of the plan, we have established a numerical objective calling for reducing cost of sales by ¥8.0 billion and SG&A expenses by ¥12.0 billion, for a total of ¥20.0 billion in cost reductions in comparison with fiscal 2015.

In working to reform our operational productivity, we have focused on securing the resources for SG&A expenses and R&D expenses, which are increasing due to the acceleration of U.S. business development and the increase in late-stage drug candidates. However, as described above, the domestic market environment is becoming increasingly challenging at a pace exceeding expectations. Furthermore, our business environment is worsening to a greater extent than we envisioned when we formulated the current medium-term management plan. For example, Invokana royalty revenues are slowing down. Accordingly, we face an urgent issue, and need to do more than simply achieve the initial objectives.

In this setting, in fiscal 2017 we were able to achieve cost reductions of ¥14.0 billion, versus our target of ¥10.0 billion. In addition, for fiscal 2018 we have set an objective of ¥19.0 billion, and are on track to accelerate the achievement of that numerical objective. This is the result of the success of the measures that we have implemented. However, we will not be satisfied with these results. Rather, we will step up our efforts.

Reforming Employee Awareness

To overcome this challenging business environment and record growth in fiscal 2021 and thereafter, I believe that we need to foster a change in the ideas and awareness of each employee in regard to the manner in which we move our work forward. Previously, work was generally handled at the department level and then passed on to the next department. With that style of working, however, it will be difficult to survive in business environments where the speed of change has increased, including not only Japan but also the U.S. and Europe. To survive we must evolve. In this type of environment, we need to shift to a system under which all employees and organizational units advance their work in a way that is suitable for the business environment. We have to transition to a system that enables us to address increasing speed and intensifying competition.

There are always competitors in the market. Unless we advance our work at the same speed as our competitors, or even faster, we will not be able to compete successfully. We must continually ask ourselves to what extent we will complete our work and when we will finish it. I would like to see the Company achieve true reforms in operational productivity by leveraging the experience of employees and organizations in order to rapidly achieve objectives and resolve issues.

Moreover, when our attitudes change, our actions and statements will change. I also believe that it will be extremely important to foster a change in attitudes so that the objectives and issues of individual employees are approached from a Companywide viewpoint. We need to visualize issues from a Companywide perspective and strive to foster collaboration inside and outside the Group. In this way, we can implement measures that fully leverage the Company’s potential and always act with consideration for speed. We need to “transcend limits” and “fully achieve our goals to the end” I believe that these types of changes among individual employees will lead to changes in Mitsubishi Tanabe Pharma and will become the driving force that enables the Company to overcome the current challenging business environment and record sustained growth in the years ahead.

Advancing Operational Productivity Reforms

**SG&A Expenses**
- Reducing Companywide fixed expenses
- Targeting a 5,000-person domestic workforce, moving ahead with reduction of work and reevaluation of duplicated functions

(Reference) Number of employees in Japan on a consolidated basis

- **End of fiscal 2015**: 6,089 people
- **Reduction of 931 people**
- **End of fiscal 2017**: 5,158 people

**Cost of Sales**
- Reduction through reevaluation of procurement methods for active pharmaceutical ingredients
- Increasing productivity by improving production technologies

Reinvestment in growth strategies