

## Message from the Financial and Accounting Officer

We will steadily make needed investments for medium- to long-term growth.



**Eizo Tabaru**  
Member of the Board,  
Managing Executive Officer

### **Fiscal 2018 review**

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In fiscal 2018, domestic sales of ethical drugs decreased ¥10.5 billion year on year due to the effects of drug price revisions, a decline in long-listed drugs, the impact of the transfer of the generic drug business, and other factors.

On the other hand, sales of Radicava increased ¥14.7 billion year on year, which contributed to a ¥16.5 billion increase in overseas ethical drug sales. However, because arbitration with Novartis over royalty income began, overseas sales of ethical drugs declined ¥16.0 billion year on year mainly due to the Company not recognizing revenue in accordance with IFRS 15 on a portion of Gilenya royalties.

Although the current situation is uncertain, we will steadily proceed with efforts to successfully invest for medium- to long-term growth from fiscal 2019 and beyond.

### **Acquiring the ability to win in battle**

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The royalty business is an effective means for maximizing product value by delivering developed drugs to patients around the world. The predecessor company before merger would have faced difficulties with rapid clinical development and global market penetration even for Gilenya and Invokana, which have become profit pillars. Radicava was successful in establishing the self-distribution business in the United States, one of the challenges of the Medium-Term Management Plan 16–20. Considering the balance and risk-balance between development costs and profits, we will continue with the growth strategy of expanding the self-distribution business globally and maintaining the royalty business.

I have worked in the financial field for a long period of time and have experience setting up plants overseas and in post-merger integration (PMI). Thanks to my extensive experience working and engaging with people overseas from diverse cultural backgrounds, I was able to develop and sharpen my negotiating and decision-making skills. We are now working Companywide to develop the “ability to win” through repeated “successful experiences” such as with self-distribution in the U.S. and development overseas. Three global products positioned as growth drivers [Radicava oral suspension (MT-1186), plant-based VLP vaccine (MT-2271), Parkinson’s disease treatment agent (ND0612)] and late-stage drug candidates all boast of being products with original value. In order to deliver these to patients around the world, we will rapidly gain the “ability to win” a wide range of business battles and take a giant leap forward.

## Achieve medium- to long-term growth

Through the strengthening of priority areas such as Immuno-inflammation, diabetes and kidney as well as the pursuit of operational production reforms and base restructuring we expect to generate a total ¥600 billion over the five-year period from fiscal 2019–2023. Therefore, we anticipate we can fully cover shareholder returns and R&D investments.

R&D investment of ¥80 billion annually is planned for the aforementioned five-year period. Therefore, of the three global products under development, Radicava oral suspension and plant-based VLP vaccine (MT-2271) will be launched in fiscal 2021, and ND0612 will definitely finish launching in fiscal 2022. Moreover, we will advance our innovative drug candidates MT-8554 and MT-7117, which will be our new growth drivers, to late-stage development as quickly as possible.

To expand our business base in the U.S. and Europe and upgrade and expand our product lineup, we also flexibly conduct strategic mergers and acquisitions following those of Medicago and NeuroDerm. We are considering the acquisition of “investees with pipelines” that are developed and marketed using our knowhow, and “investees with products” that are already profitable in the market. We will continue to examine investments that can maximize synergies with existing business bases, including our sales system for specialty areas created with Radicava. We have set a limit for strategic investments, such as M&A, of ¥300 billion for the five years from 2019 to 2023. As of March 31, 2019, we have cash on hand of about ¥370 billion, an amount sufficient to cover our strategic investment allowance. However, ¥300 billion is not an upper limit,

but merely an estimate. If we decide that a project is good and matches the above strategy, we will consider additional financing by procuring new funds.

## A message to shareholders and investors

The Company’s basic management policy is to secure funds for sustainable growth taking into account capital efficiency to enhance shareholder returns on a stable and continuous basis. Based on this policy, we plan to pay a dividend of ¥56 per share in fiscal 2018, which we will maintain until fiscal 2020. As for the acquisition of treasury shares as a shareholder return policy, we determine the return based on a comprehensive evaluation of stock price trends, company performance, cash flow, and management environment.

In addition to the recent difficult business performance, revenue will not be recognized during Gilenya’s arbitration period, so the impact could be even greater. However, that portion of revenue that is not recognized will be recognized in lump sum depending on the arbitration results. We will also push forward to achieve the medium-term management plan, which was revised in November 2018.

Due to the nature of arbitration, many shareholders may feel uneasy by the lack of explanation provided to everyone, but pipeline development and important strategies, including the promotion of overseas business, are steadily progressing with the aim of medium- to long-term growth. We hope you will look forward to the dramatic growth we have planned for the future, and we ask for your continued support.

## Growth investments and shareholder returns (fiscal 2019 – 2023)

