Financial Results and Financial Analysis

Consolidated Financial Results for Fiscal 2019

Consolidated Financial Results

(Billions of yen)

	FY2018 Results	FY2019 Results	YoY	
Revenue	929.7	981.8	+52.1	(+5.6%)
Cost of sales	364.6	343.2	-21.4	
SG&A expenses	277.7	302.3	+24.6	
Research and development expenses	203.7	197.5	-6.2	
Operating profit	83.7	138.8	+55.1	(+65.8%)
Profit before tax	85.8	141.2	+55.3	(+64.5%)
Profit attributable to owners of the Company	93.4	129.1	+35.7	(+38.2%)

Yen exchange rates for major currencies (Annual average rate)

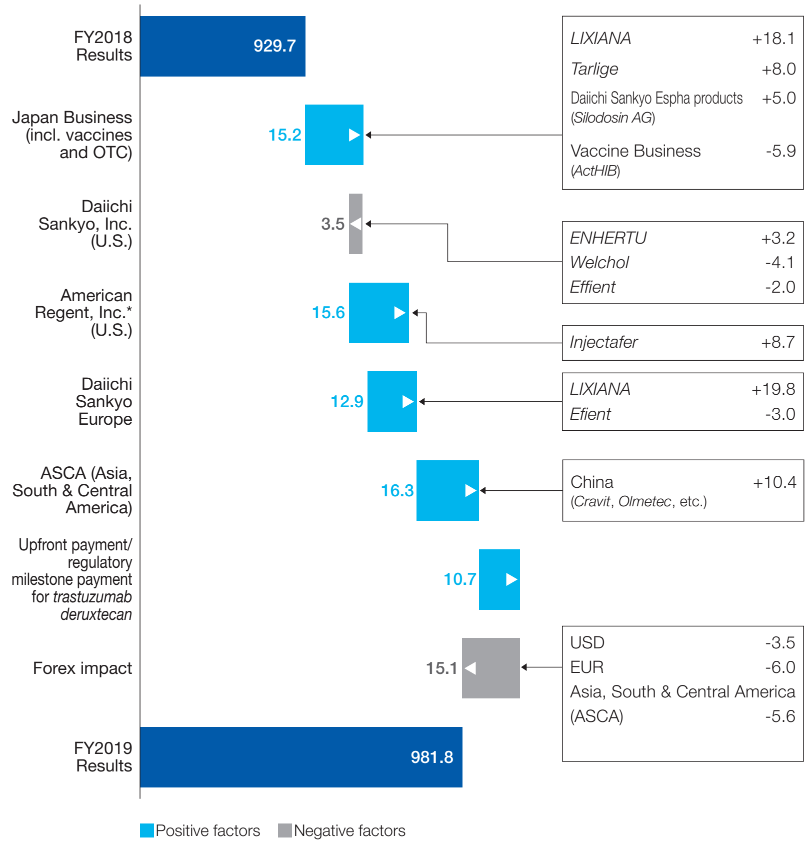
	FY2018 Results	FY2019 Results	YoY
USD/JPY	110.91	108.75	-2.16
EUR/JPY	128.40	120.83	-7.57

1. Revenue

Consolidated revenue in fiscal 2019 increased by ¥52.1 billion, or 5.6% year on year, to ¥981.8 billion.
The impacts of foreign exchange placed downward pressure on revenue to the extent of ¥15.1 billion. When these impacts are excluded, revenue was up ¥67.2 billion.

Revenue

Increased by ¥52.1 billion (Increased by ¥67.2 billion excl. forex impact)



* Formerly Luitpold Pharmaceuticals, Inc.

In the Japan Business, the Vaccine Business experienced a decrease in revenue, but overall revenue increased by ¥15.2 billion following higher sales of our mainstay innovative pharmaceuticals such as *LIXIANA* and *Tarlige* and the contribution of Daiichi Sankyo Espha products and other products.

In the United States, revenue from Daiichi Sankyo, Inc. declined ¥3.5 billion year on year following a decrease in revenue from *Welchol* and *Effient*, despite the contribution of *ENHERTU*, which was launched in January 2020.

American Regent Inc. saw a revenue increase of ¥15.6 billion year on year following higher sales of *Injectafer*.

Revenue at Daiichi Sankyo Europe GmbH increased ¥12.9 billion year on year due to an increase in *LIXIANA* sales, despite a decrease in sales from *Efient*.

In the Company's operations in ASCA, Asia and South & Central America, revenue was up ¥16.3 billion year on year due to the growth in revenue in China.

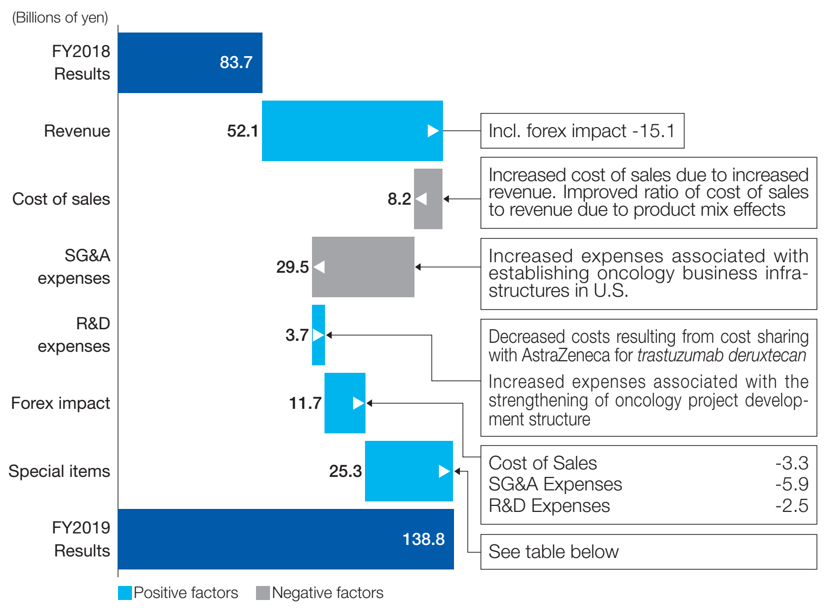
Consolidated revenue increased by ¥52.1 billion due to an upfront payment for *trastuzumab deruxtecan* (*DS-8201*; brand name in Japan and the U.S., *ENHERTU*) and ¥10.7 billion of revenue recognized for this fiscal year from the revenue of regulatory milestone payment for approval in the United States. For *trastuzumab deruxtecan*, Daiichi Sankyo concluded a joint development and co-promotion agreement with AstraZeneca in March 2019.

2. Operating Profit

Operating profit in fiscal 2019 increased ¥55.1 billion, or 65.8% year on year, to ¥138.8 billion.
When the impacts of foreign exchange influences and special items are excluded, the actual increase in operating profit was ¥33.2 billion.

Operating profit

Increased by ¥55.1 billion (Increased by ¥33.2 billion excl. forex impact and special items)



Special items

(Billions of yen)

	FY2018 Results		FY2019 Results		YoY
Cost of sales	Impairment loss (intangible assets)*1	15.1	Restructuring costs in supply chain	1.3	-26.3
			Impairment loss (intangible assets)*2	6.3	
			Gain on sales of subsidiary*3	-18.8	
SG&A expenses	Gain on Sales of fixed assets	-3.5	Gain on Sales of fixed assets*4	-10.6	+1.0
			Environmental expenditures*5	8.2	
Total		11.6		-13.7	-25.3

-: Cost decreased items *1 *Zelboraf* and *MOVANTIK*
*2 *MorphaBond*, *RoxyBond*, and *Zelboraf*
*3 Gain on sales of Takatsuki plant transfer
*4 Gain on sales of Nihonbashi building
*5 Former Yasugawa plant

Consolidated revenue in fiscal 2019 increased ¥52.1 billion, including impact from foreign exchange to the extent of ¥15.1 billion.

Cost of sales increased with the growth in revenue but was up only ¥8.2 billion year on year as the ratio of cost of sales to revenue was improved as a result of the change in the product mix.

SG&A expenses increased ¥29.5 billion year on year, owing to an increase in expenses associated with establishing our oncology business infrastructure in the United States, among other factors.

R&D expenses dropped ¥3.7 billion year on year due to decreased costs resulting from cost sharing with AstraZeneca for *trastuzumab deruxtecan*, among other factors.

Foreign exchange influences caused a decrease of ¥11.7 billion in expenses.

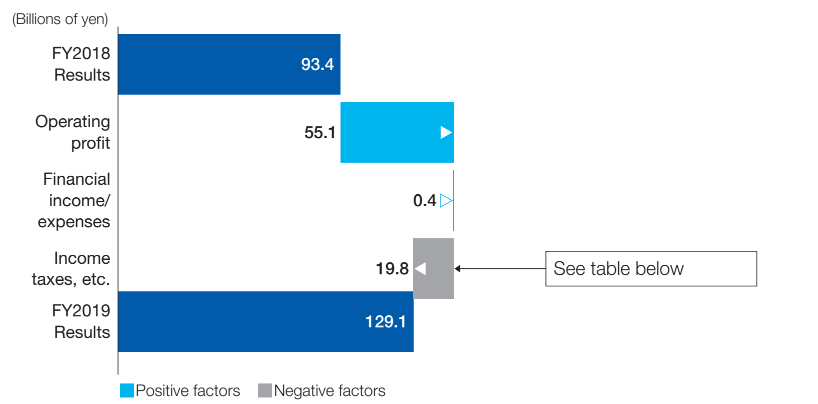
Special items in fiscal 2018 included impairment loss in intangible assets related to *Zelboraf* and *MOVANTIK*, resulting in a total increase of ¥11.6 billion in expenses. However, special items in fiscal 2019 included gain on sales of Takatsuki plant transfer and Nihonbashi building, resulting in a decrease of ¥13.7 billion in expenses, and a decrease of ¥25.3 billion in expenses year on year.

3. Profit Attributable to Owners of the Company

Profit attributable to owners of the Company increased ¥35.7 billion, or 38.2% year on year, to ¥129.1 billion.

Profit attributable to owners of the Company

Increased by ¥35.7 billion



Income taxes, etc.

(Billions of yen)

	FY2018 Results	FY2019 Results	YoY
Profit before tax	85.8	141.2	+55.3
Income taxes, etc.	-7.6	12.2	+19.8
Tax rate	-8.8%	8.6%	+17.5%

Operating profit increased ¥55.1 billion, or 65.8% year on year, including foreign exchange influences and special items.

Income taxes, etc. increased ¥19.8 billion year on year. In fiscal 2018, income taxes etc. were negative because the future taxable income amount increased in the previous fiscal year in conjunction with the strategic collaboration for *trastuzumab deruxtecan* (*DS-8201*) and it became possible to recognize additional deferred tax assets. As a result, the income tax rate increased compared to the previous fiscal year although profit attributable to owners of the Company increased.

Financial Results and Financial Analysis

Financial Position

1. Assets, Liabilities, and Equity

ASSETS

Total assets at the end of fiscal 2019 amounted to ¥2,105.6 billion. Trade and other receivables as well as other financial assets decreased, whereas cash and cash equivalents as well as deferred tax assets increased. These, among other factors, resulted in an increase of ¥17.6 billion compared to the end of the previous fiscal year.

Liabilities

Total liabilities at the end of fiscal 2019 amounted to ¥799.3 billion. Other financial liabilities (non-current liabilities) increased, whereas trade and other payables as well as bonds and borrowings (non-current liabilities) decreased. These, among other factors, resulted in a decrease of ¥39.0 billion in total liabilities compared to the end of the previous fiscal year.

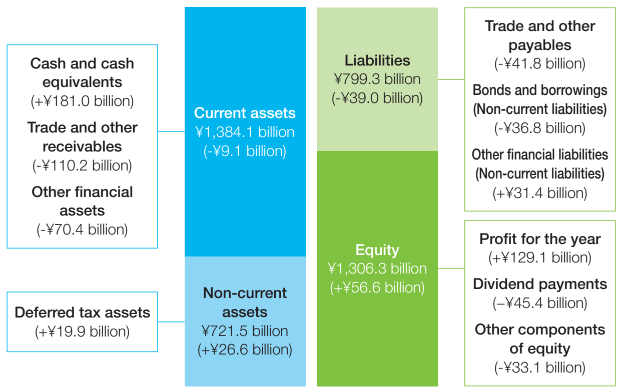
Equity

Total equity at the end of fiscal 2019 amounted to ¥1,306.3 billion. Dividend payments contributed to a decrease, whereas profit attributable to owners of the Company recorded for the year among other factors ultimately led to an increase of ¥56.6 billion compared to the end of the previous fiscal year.

Summary of consolidated statement of financial position

As of March 31, 2020: parentheses ( ) indicate comparison to March 31, 2019

Consolidated total assets ¥2,105.6 billion (+¥17.6 billion)



2. Cash Flows

Cash and cash equivalents at the end of fiscal 2019 increased by ¥181.0 billion year on year to ¥424.2 billion.

Cash flows from operating activities

Cash inflows from operating activities were ¥196.6 billion (¥92.0 billion in the previous fiscal year) due to a profit before tax amounting to ¥141.2 billion, depreciation and amortization amounting to ¥52.6 billion, and other non-cash items, as well as upfront payment for the *trastuzumab deruxtecan* strategic collaboration, among other contributing factors.

Cash flows from investing activities

Cash inflows from investing activities were ¥81.7 billion (¥142.5 billion outflow in the previous fiscal year) due to payments into time deposits, ¥37.1 billion of gain on sales of Takatsuki plant transfer, and ¥13.9 billion of gain on sales of Nihonbashi building, among other factors, despite capital expenditure and acquisitions of intangible assets.

Cash flows from financing activities

Cash outflows from financing activities were ¥91.6 billion (¥66.2 billion outflow in the previous fiscal year) due to dividend payments of ¥45.4 billion, repayments of bonds of ¥40.0 billion, and other factors.

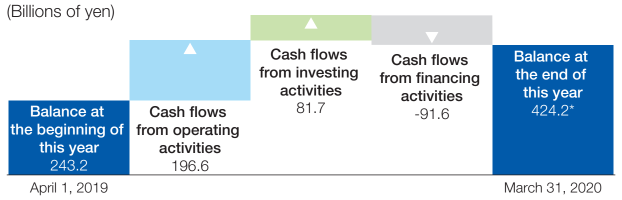
(Billions of yen)

	FY2018 Results	FY2019 Results	YoY
Cash flows from operating activities	92.0	196.6	+104.6
Cash flows from investing activities	-142.5	81.7	+224.2
Cash flows from financing activities	-66.2	-91.6	-25.4
Net increase in cash and cash equivalents	-116.7	186.6	+303.3
Effect of exchange rate change on cash and cash equivalents	2.1	-5.6	-7.8
Cash and cash equivalents at the end of the year	243.2	424.2	+181.0
Free cash flows*	-50.5	278.3	+328.8

* Free cash flows = Cash flows from operating activities + Cash flows from investing activities

Summary of consolidated statement of cash flows

(Billions of yen)



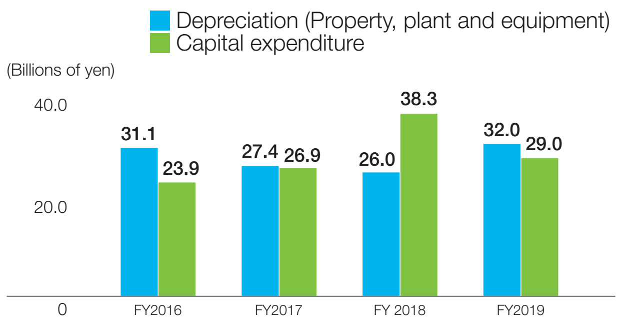
* incl. effect of exchange rate (-¥5.6 billion)

3. Capital Expenditure

In fiscal 2019, we focused ¥29.0 billion of capital expenditure on the enhancement of production facilities for oncology products and iron injectable in the United States.

(Billions of yen)

	FY2018 Results	FY2019 Results	YoY
Capital expenditure	38.3	29.0	-9.3
Depreciation (Property, plant and equipment)	26.0	32.0	+6.0



Financial Results Forecasts for Fiscal 2020

Sales revenues are projected to decrease 1.2% year on year to ¥970.0 billion, as a result of the NHI drug price revision in Japan, the expiration of the exclusive sales period for *Memary*, and the termination of sales of a part of vaccines, which will be offset by revenue increase from *LIXIANA*, our mainstay products, and from *ENHERTU* and *Tarlige* which were launched in the previous fiscal year.

Operating profit is projected to decrease 42.4% year on year to ¥80.0 billion due to an expected increase in expenses resulting from the continued intensive investment in the oncology business, including the expansion of development plan for *ENHERTU*, and the booking of a one-time gain from the sale of a subsidiary in the previous fiscal year.

Profit attributable to owners of the Company is expected to decrease 56.6% year on year to 56.0 billion, due to the fact that the normal tax rate is assumed in fiscal 2020 while the tax rate in the previous fiscal year was low due to the introduction of consolidated taxation system, etc.

Forecasts are based on an assumption of foreign exchange rates at ¥110 to the U.S. dollar and ¥120 to the euro.

The impact of the *DS-1062* strategic collaboration is not included.

As it is difficult to accurately estimate the timing of convergence of COVID-19 at this point, the above forecasts do not reflect the impact of COVID-19. If global activity restrictions continue until the fourth quarter, the Company expects a negative impact of 2% to 4% (¥20.0 to ¥40.0 billion) on revenue due to factors such as the refraining of medical care. At the same time, the Company expects a decrease in expenses due to a decline in business activities, so the impact on operating profit is expected to be negligible.

Consolidated financial results forecast for fiscal 2020

(Billions of yen)

	FY2019 Results	FY2020 Forecast	YoY	
Revenue	981.8	970.0	–11.8	(–1.2%)
Operating profit	138.8	80.0	–58.8	(–42.4%)
Profit before tax	141.2	80.0	–61.2	(–43.3%)
Profit attributable to owners of the Company	129.1	56.0	–73.1	(–56.6%)

Yen exchange rates for major currencies (Annual average rate)

	FY2019 Results	FY2020 Forecast
USD/JPY	108.75	110.00
EUR/JPY	120.83	120.00

Shareholder Returns

In order to achieve sustainable growth in corporate value, the basic policy of management is to decide profit distributions based on a comprehensive evaluation of the investments essential for implementing the growth strategy and profit returns to shareholders.

Our shareholder return policy calls for a total return ratio*1 of 100% or more cumulatively for the fiscal 2016 through fiscal 2022, and annual ordinary dividend payments of ¥70 per share or more (pre-split base*2). On the basis of this policy, Daiichi Sankyo intends to pay stable dividends while flexibly acquiring shares of its own stock.

Under this basic policy, Daiichi Sankyo achieved ordinary dividend payments of ¥70 per share in fiscal 2019. As a result, the total return ratio was 35.1% for fiscal 2019 and 84.2% cumulatively over four years.

In fiscal 2020, the Company plans to issue annual dividends per share of ¥81, an increase of ¥11 per share compared to fiscal 2019 (¥40.50 per share as interim dividend and ¥13.50 per share as year-end dividend [post-split base*2]).

*1 (Total dividends + Total acquisition costs of own shares) / Profit attributable to owners of the Company
*2 Daiichi Sankyo resolved to implement a three-for-one split of its common stock effective on October 1, 2020 at the Board of Directors meeting held on April 27, 2020.

Shareholder returns policy (cumulative targets for FY2016 through FY2022)

	FY2016 Results	FY2017 Results	FY2018 Results	FY2019 Results	FY2020 Plan
Dividend per share (pre-split base*2)	¥70	¥70	¥70	¥70	¥81
Purchase of treasury shares	¥50.0 billion	¥50.0 billion	—	—	Flexible
Total return ratio*1	180.7%	159.1%	48.5%	35.1%	—
	84.2%				