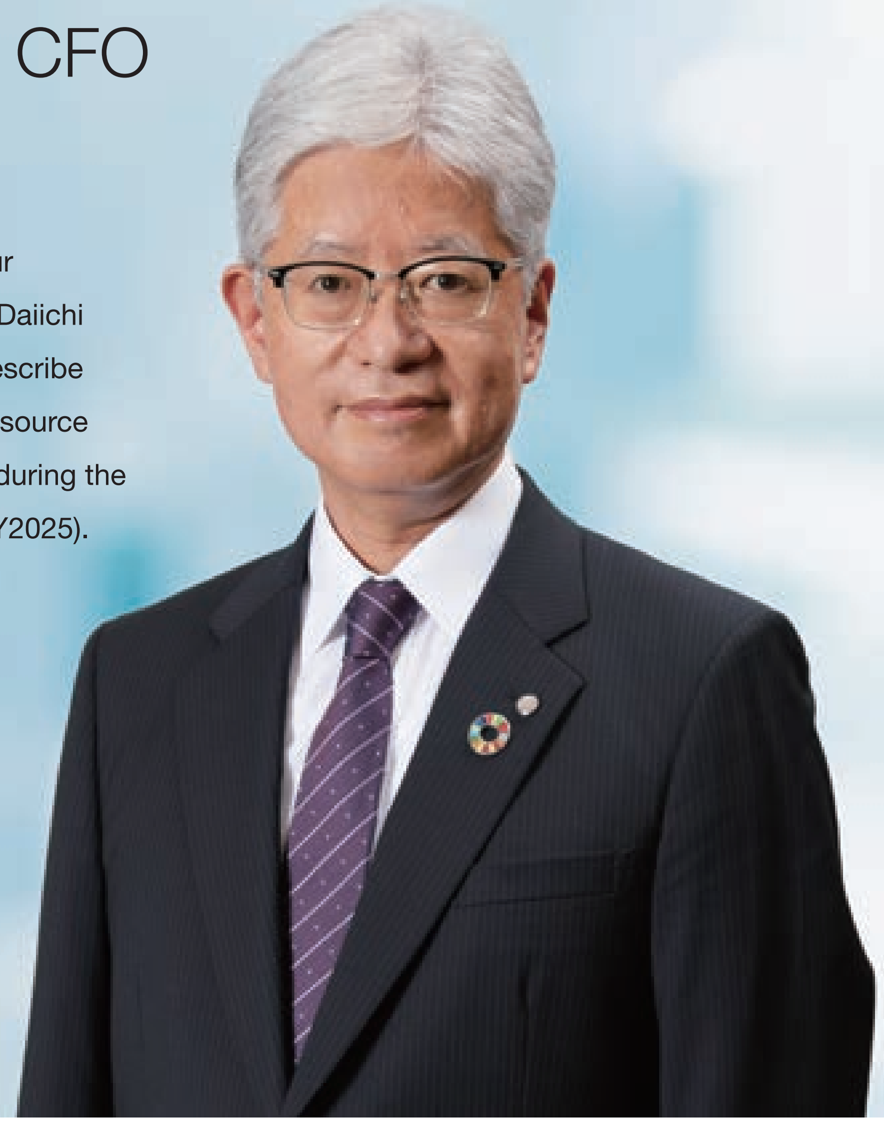
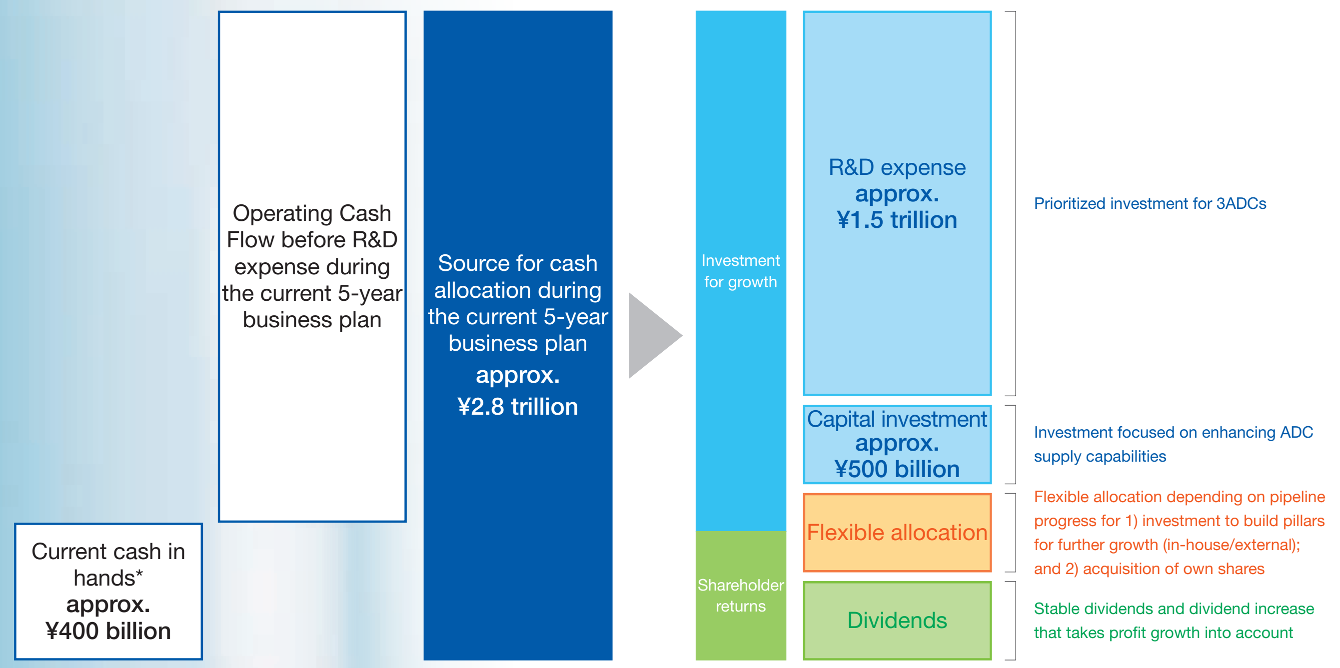
Message from the CFO

I would like to begin by thanking all of our stakeholders for the ongoing support to Daiichi Sankyo. In this section, I would like to describe "CFO's initiatives," mainly focusing on resource allocation and shareholder return policy during the current 5-year business plan (FY2021–FY2025).



Hiroyuki Okuzawa
Director, Executive Officer, CFO

Image of Cash Allocation during the Current 5-year Business Plan



* Cash in hands excluding working capital

Role as the CFO

I believe that the most important role for the CFO is to optimally allocate resources for sustainable growth of the corporation, as well as shareholder value. We will implement well-balanced resource allocation not only for our growth during the current 5-year business plan but also for building new pillars for growth in FY2026 and beyond.

Well-balanced Resource Allocation on Investment for Growth and Shareholder Returns

The current 5-year business plan is a roadmap to achieve our 2025 target of being a "Global Pharma Innovator with Competitive Advantage in Oncology" and shift to a stage where we will realize our 2030 Vision of being an "Innovative Global Healthcare Company Contributing to the Sustainable Development of Society." During this period, we will prioritize R&D and capital investments for 3ADCs, our growth drivers, as well as stable dividends and dividend increase taking our profit growth into account.

Adding the planned operating cash flow before R&D expense for the next five years to our current cash in hands, available source for cash allocation during the current 5-year business plan is estimated to be approximately ¥2.8 trillion. Our plan is to allocate approximately ¥1.5 trillion to R&D prioritizing 3ADCs; and to allocate approximately ¥500 billion to capital investment focusing on enhancing DXd-ADC production and supplying capabilities. As for the production and supply of ADCs, we plan to invest in outside contract manufacturing organizations in addition to global in-house manufacturing facilities. Our investment will depend upon the progress of 3ADCs and following DXd-ADCs to build a global supply chain with resilience that can maintain stable supply of products not only in case of rapid growth in demand but also in times of natural disasters, pandemics, and other contingencies.

Latest Information on 3ADCs and Pipeline (IR Library)
Please visit here for further information
https://www.daiichisankyo.com/investors/library/

Regarding the residual cash after allocation to R&D expense, capital investments, and dividends, we will flexibly allocate our resources to investment around building pillars for further growth, and acquisition of own shares – considering our pipeline progress and the best balance between sustainable growth and shareholder returns.

Strengthening Cash Generation for Growth Investments and Shareholder Returns

We will work to grow profitability of our current business to strengthen cash generation for our growth investments and shareholder returns. Specifically, we will make efforts to grow revenue by mainly focusing on our highly profitable products such as Lixiana, our in-house product which a major investment has already been made, while, in each region, enhancing the transformation to an operating structure that places top priority on profit growth by focusing on products with exclusivity. Additionally, we will achieve further profit growth through additional growth of American Regent and Daiichi Sankyo Healthcare businesses both of which are already making significant contributions to our consolidated profit.

In addition to increase operating cash flow through profit growth in our current business, we will also enhance our total asset turnover ratio by streamlining non-core assets to further generate cash for growth investments and shareholder returns. We are aggressively streamlining cross-shareholdings in accordance with our policy to not hold listed stocks except in cases where holding such stocks will maintain or strengthen long-term business relationship and contribute to improving our corporate value. Accordingly, we sold an aggregated total of 51 stock brands for ¥70.5 billion during the previous 5-year business plan period. Also, going forward, we will work to achieve an appropriate level of cross-shareholding shares from capital efficiency perspective. We also sold properties worth ¥39.2 billion during the previous 5-year business plan period. We will continue to proceed with sale of non-core assets at the appropriate timing while considering their significance and substitutability for our business activities, as well as their lifecycle costs such as maintenance and renovation costs and our business continuity plan (BCP).

Moreover, in order to make prioritized investment in our ADCs, we sold non-core assets including long-listed (off-patent) products in Japan and Europe and generated cash of ¥53.5 billion during the previous 5-year business plan period. We will continue to streamline non-core assets by reviewing our business portfolio, among others.

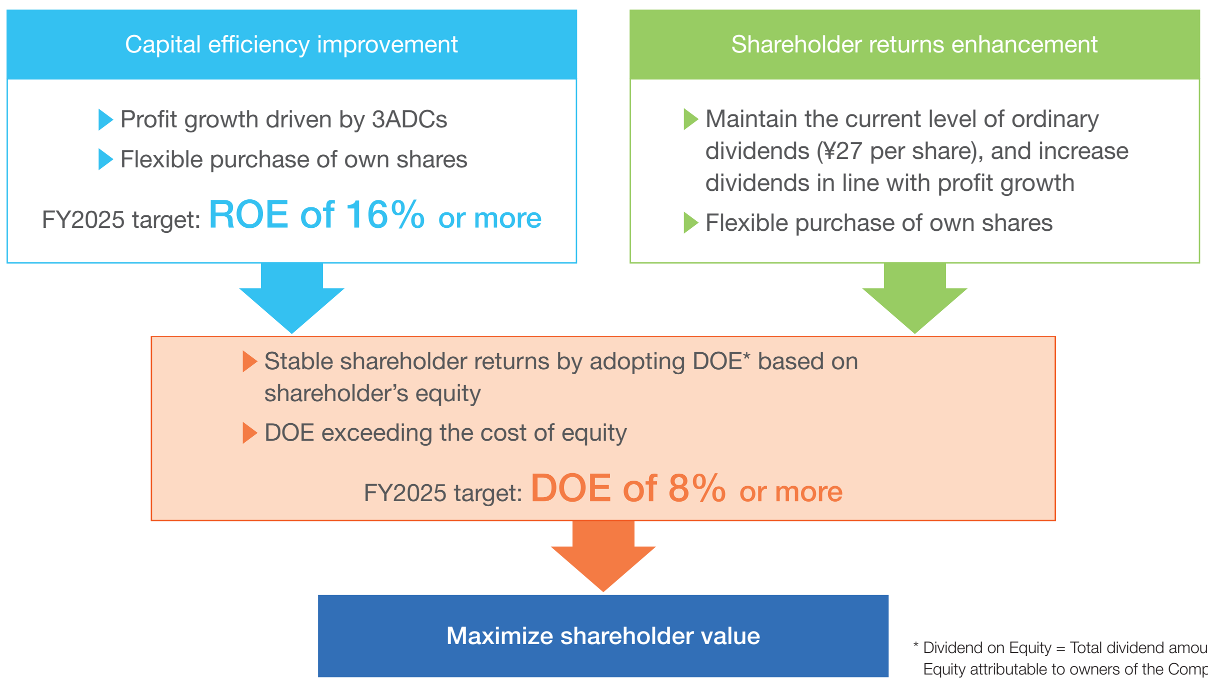
▶ Cash Generated by Streamlining Non-core Assets during the Previous 5-year Business Plan Period

(Billions of yen)

		FY2016 Results	FY2017 Results	FY2018 Results	FY2019 Results	FY2020 Results	Total
Reduce cross-shareholding shares	Sale proceeds (Number of stocks sold)	17.3 (14 brands)	14.4 (9 brands)	14.3 (10 brands)	22.0 (12 brands)	2.5 (6 brands)	**70.5** (51 brands)
	Gain on sale*1	9.3	9.8	10.6	14.4	1.1	45.3
Sale of properties	Sale proceeds	3.2	10.7	11.0	14.0	0.3	**39.2**
	Gain on sale	0.8	7.6	9.0	10.7	0.1	28.1
Business divestment	Sale proceeds	1.5	—	10.4	37.1	4.5	**53.5**
	Gain on sale	0.1*2	—	6.3*3	19.1*4	5.9*5	31.3

*1 Recorded in other comprehensive income *2 Bethlehem plant in US *3 Long listed products (JP) *4 Takatsuki plant, Long listed products (JP) *5 Long listed products (JP/EU)

▶ Shareholder Return Policy during the Current 5-year Business Plan



* Dividend on Equity = Total dividend amount / Equity attributable to owners of the Company

Shareholder Return Policy

During the current 5-year business plan, we will adopt dividend on equity, "DOE," based on shareholders' equity as a KPI for stable shareholder returns. Our target is DOE of 8% or more in FY2025, the final year of the 5-year business plan, exceeding cost of shareholders' equity. We will continue to aim for maximizing shareholder value.

We consider it essential to examine dividends by taking capital efficiency into account in the current 5-year business plan which is the transition period to a growth stage geared to achieve our 2030 Vision. For this reason, DOE which is an indicator calculated by multiplying the ROE by dividend payout ratio has been adopted as a KPI for shareholder returns.

With increased profitability through the growth of our 3ADCs, and with enhanced capital efficiency through flexible acquisition of own shares, we will aim for ROE of 16% or more in FY2025. I would like to note that the current equity ratio of around 60% is assumed to be maintained to ensure financial soundness.

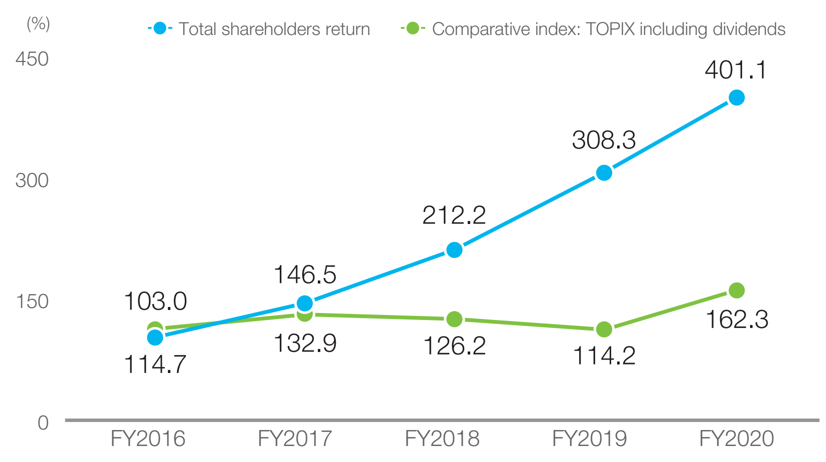
As for shareholder returns, in addition to maintaining the current ordinary dividends of ¥27 per share and dividend increase taking account of our profit growth, we will also flexibly acquire own shares for further enhancement.

Maximizing Shareholder Value

We will manage our business in a way that contributes to an increase in total shareholders return, or the total of dividends and capital gains from a rising share price divided by the investment amount.

Specifically, we will secure DOE exceeding cost of shareholders' equity by achieving profit growth and distributing dividends that take account of our profit growth. Furthermore, we intend to increase the value of our product portfolio and pipeline through continued investment aimed at sustainable growth, translating into higher corporate valuation in the stock market.

▶ Trend in Total Shareholders Return



* Calculated based on share price and dividend per share after reflecting the 3-for-1 split of common stock effective October 1, 2020

Strengthening Our Ability to Finance Drug Discovery for Sustainable Growth

In the current 5-year business plan, our target is to increase the core operating profit ratio before R&D expense to 40% in FY2025, the final year of the 5-year business plan. Core operating profit before R&D expense can be reworded as our ability to finance drug discovery that secures enough profit to cover both R&D expense for in-house drug discovery and cash to acquire external seeds and technologies for drug discovery.

We will improve the cost of sales ratio mainly through continuous cost reduction and sales expansion of highly profitable products. At the same time, we intend to contain costs by minimizing spending on low ROI expenses and improving the productivity of the entire value chain through DX. In this way, while strengthening our ability to finance drug discovery, we will remain committed to increasing the value of our product portfolio and pipeline in order to maximize shareholder value.

In Closing

As described in the materiality section, we have identified issues to be addressed for sustainable growth considering both the importance of the impact on our mid-to-long-term corporate value and the expectations of society, and have advanced management based on a long-term perspective, reflecting ESG elements in business strategies.

We are absolutely determined to achieve our financial targets for the current 5-year business plan. Furthermore, we will develop our strong financial base that allows us to create shared value with the patients, their families, healthcare professionals, our shareholders and investors, employees and other stakeholders, and will contribute to the sustainable growth of Daiichi Sankyo and the development of society.
I very much appreciate your continued support.