

Financial Results and Financial Analysis

Consolidated Financial Results for FY2020

Consolidated Financial Results

	FY2019 Results	FY2020 Results	YoY	
Revenue	981.8	962.5	-19.3	(-2.0%)
Cost of sales	343.2	338.3	-4.9	
SG&A expenses	302.3	333.1	30.8	
Research and development expenses	197.5	227.4	29.9	
Operating profit	138.8	63.8	-75.0	(-54.0%)
Profit before tax	141.2	74.1	-67.0	(-47.5%)
Profit attributable to owners of the Company	129.1	76.0	-53.1	(-41.2%)

Yen exchange rates for major currencies (Annual average rate)

	FY2019 Results	FY2020 Results	YoY
USD/JPY	108.75	106.06	-2.69
EUR/JPY	120.83	123.70	+2.87

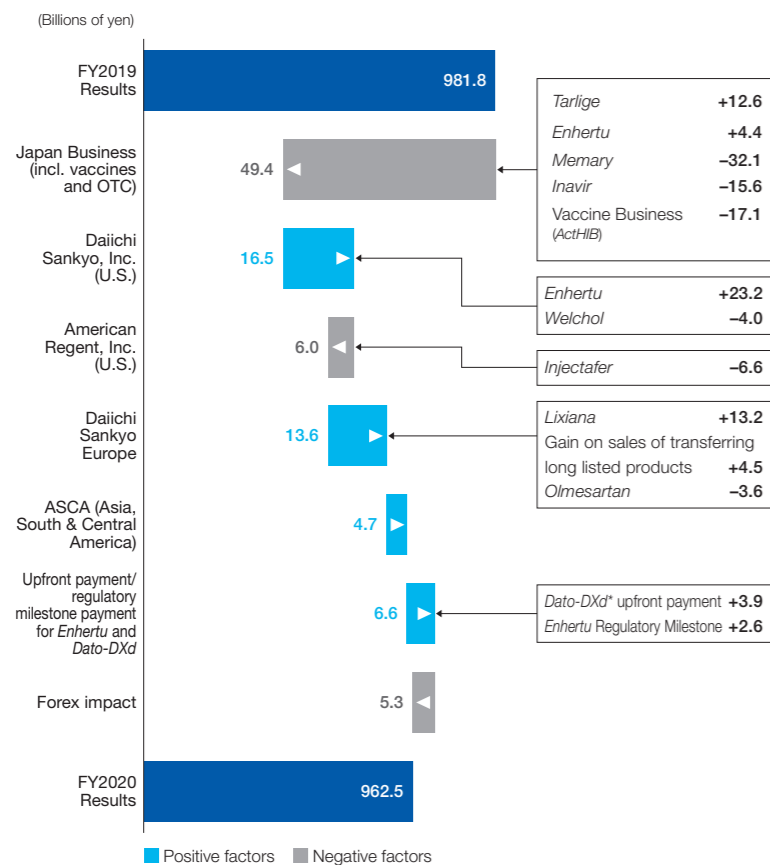
1. Revenue

Consolidated revenue in FY2020 decreased by ¥19.3 billion, or 2.0% year on year, to ¥962.5 billion.

The foreign exchange impact placed downward pressure on revenue to the extent of ¥5.3 billion. When the impact is excluded, the decrease in revenue was ¥14.0 billion.

Revenue

Decreased by ¥19.3 billion (Decreased by ¥14.0 billion excl. forex impact)



*Datopotamab deruxitecan (DS-1062)

In the Japan Business, products including *Tarlige* experienced an increase in revenue, but overall revenue decreased by ¥49.4 billion due to such factors as a decrease in *Memary* sales resulting from generic drugs entering the market, termination of vaccine business alliance, and a decrease in *Inavir* sales resulting from the reduced spread of seasonal influenza.

In the United States, revenue from Daiichi Sankyo, Inc. increased by ¥16.5 billion year on year due to the contribution of *Enhertu*, which was launched in January 2020.

American Regent Inc. saw a revenue decrease of ¥6.0 billion year on year following a decrease in revenue from *Injectafer* under the influence of the spread of COVID-19.

Revenue at Daiichi Sankyo Europe GmbH increased by ¥13.6 billion year on year due to an increase in *Lixiana* sales, despite a decrease in sales from *olmesartan*.

As for ASCA (Asia and South & Central America) business, the revenue increased by ¥4.7 billion year on year due to an increase in *edoxaban* sales.

For this fiscal year, ¥6.6 billion of revenue was recognized from the revenue of upfront payment for *Dato-DXd* (DS-1062; *Datopotamab deruxitecan*) and the revenue of regulatory milestone payment associated with *Enhertu*'s approval for indication of second-line treatment of gastric cancer in the United States and indication of third-line treatment of breast cancer in Europe. For *Dato-DXd*, Daiichi Sankyo concluded an agreement with AstraZeneca in July 2020.

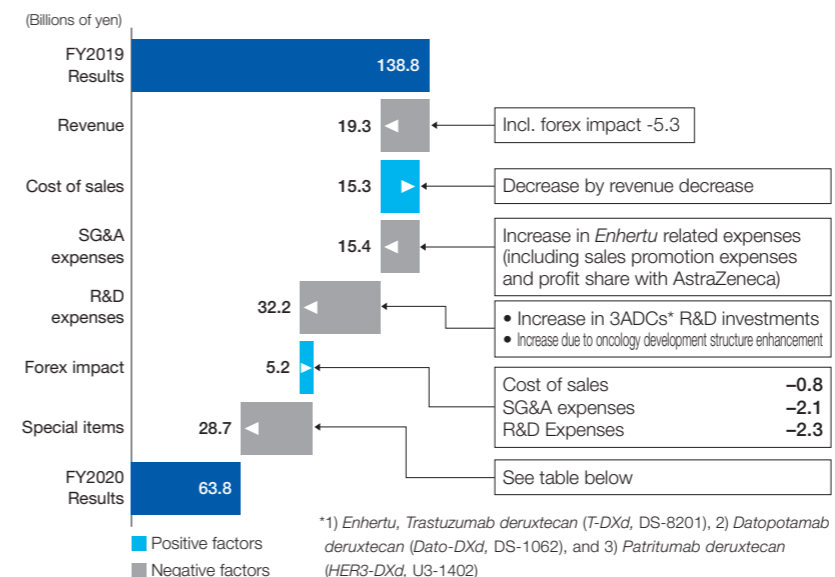
2. Operating profit

Operating profit in FY2020 decreased by ¥75.0 billion, or 54.0% year on year, to ¥63.8 billion.

The actual decrease in operating profit excluding the foreign exchange impact and special items (Items having a transitory and material impact on operating profit) was ¥46.3 billion.

Operating profit

Decreased by ¥75.0 billion (Decreased by ¥46.3 billion excl. forex impact and special items)



*1) *Enhertu*, *Trastuzumab deruxitecan* (T-DXd, DS-8201), 2) *Datopotamab deruxitecan* (Dato-DXd, DS-1062), and 3) *Patritumab deruxitecan* (HER3-DXd, U3-1402)

Special items

	FY2019 Results	FY2020 Results	YoY
Cost of sales	Restructuring costs in supply chain	1.3	
	Impairment loss (intangible assets)*1	6.3	11.2
	Gain on sales of subsidiary*2	-18.8	
SG&A expenses	Gain on sales of fixed assets*3	-10.6	15.0
	Environmental expenditures*4	8.2	17.4
Total	-13.7	15.0	28.7

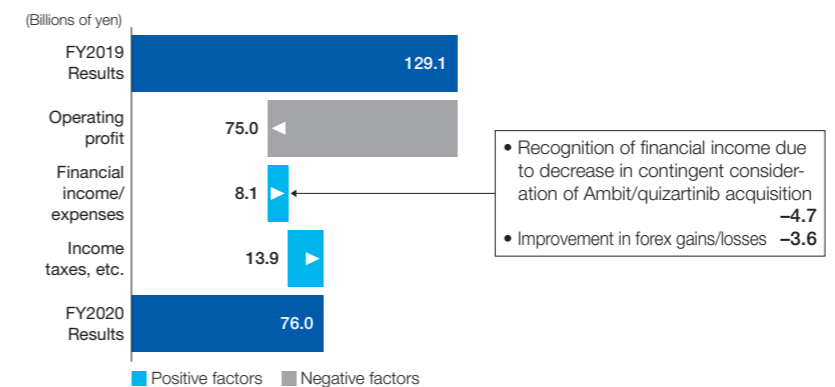
*1 Morphabond, Roxybond, Zelboraf *2 Takatsuki Plant *3 Nihonbashi Building *4 Former Yasugawa Plant

3. Profit attributable to owners of the Company

Profit attributable to owners of the Company decreased ¥53.1 billion, or 41.2% year on year, to ¥76.0 billion.

Profit attributable to owners of the Company

Decreased by ¥53.1 billion



Income taxes, etc.

	FY2019 Results	FY2020 Results	YoY
Profit before tax	141.2	74.1	-67.0
Income taxes, etc.	12.2	-1.7	-13.9
Tax rate	8.6%	-2.3%	-

Consolidated revenue in FY2020 decreased ¥19.3 billion, including impact from foreign exchange to the extent of ¥5.3 billion.

Cost of sales was down ¥15.3 billion due to a decrease by revenue decrease.

SG&A expenses increased by ¥15.4 billion year on year, owing to an increase in *Enhertu* related expenses (including sales promotion expenses and profit share with AstraZeneca), despite of the impact of decrease in expenses according to the spread of COVID-19. R&D expenses increased by ¥32.2 billion year on year due to an increase in 3ADCs* R&D investments.

Expenses decreased by ¥5.2 billion due to the foreign exchange impact.

Special items caused an increase of ¥28.7 billion in expenses. Special items in FY2019 included gain on sales of subsidiary associated with Takatsuki plant transfer, resulting in a total decrease of ¥13.7 billion in expenses. However, special items in FY2020 included loss compensation associated with the termination of alliance for vaccine business, resulting in an increase of ¥15.0 billion in expenses.

Operating profit decreased by ¥75.0 billion including the foreign exchange impact and special items.

Income taxes, etc. decreased ¥13.9 billion year on year. Income tax rate was 8.6% in FY2019, resulting from decision of introduction of consolidated taxation system, whereas in FY2020, income taxes etc. were negative because the future taxable income amount increased and recognized additional deferred tax assets in conjunction with enhanced product value of 3ADCs.

Financial Results and Financial Analysis

Financial Position

1. Assets, Liabilities, and Equity

ASSETS

Total assets at the end of FY2020 amounted to ¥2,085.2 billion. Cash and cash equivalents as well as trade and other receivables decreased, whereas inventories and other financial assets (non-current assets) increased. These, among other factors, resulted in a decrease of ¥20.4 billion compared to the end of the previous fiscal year.

Liabilities

Total liabilities at the end of FY2020 amounted to ¥813.1 billion. Trade and other payables as well as other non-current liabilities increased, whereas bonds and borrowings decreased. These, among other factors, resulted in an increase of ¥13.8 billion in total liabilities compared to the end of the previous fiscal year.

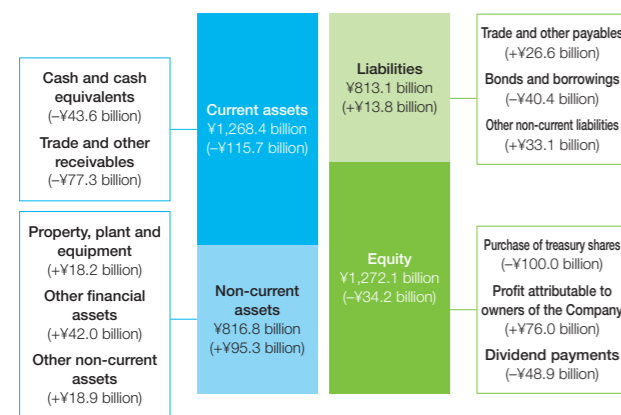
Equity

Total equity at the end of FY2020 amounted to ¥1,272.1 billion. Profit attributable to owners of the Company recorded for the year contributed to an increase, whereas dividend payments and purchase of treasury shares (29.47 million shares at a cost of ¥100.0 billion) among other factors ultimately led to a decrease of ¥34.2 billion compared to the end of the previous fiscal year.

Summary of consolidated statement of financial position

As of March 31, 2021: parentheses () indicate comparison to March 31, 2020

Consolidated total assets ¥2,085.2 billion (–¥20.4 billion)



2. Cash Flows

Cash and cash equivalents at the end of FY2020 decreased by ¥43.6 billion year on year to ¥380.5 billion.

Cash flows from operating activities

Cash inflows from operating activities were ¥192.2 billion (¥196.6 billion in the previous fiscal year) due to a profit before tax amounting to ¥74.1 billion, depreciation and amortization amounting to ¥57.4 billion, and other non-cash items, as well as upfront payment and regulatory milestone payment for the *Enhertu* strategic collaboration and upfront payment for the *Dato-DXd* strategic collaboration among other contributing factors.

Cash flows from investing activities

Cash outflows from investing activities were ¥39.2 billion (¥81.7 billion inflow in the previous fiscal year) due to factors including capital expenditure and acquisitions of intangible assets, despite payments into time deposits among other factors.

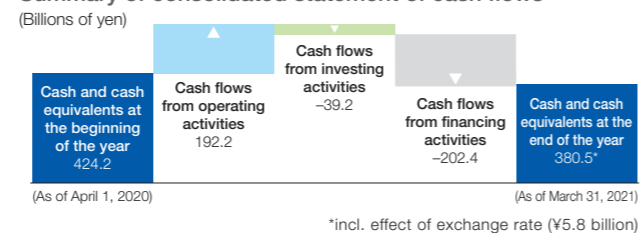
Cash flows from financing activities

Cash outflows from financing activities were ¥202.4 billion (¥91.6 billion outflow in the previous fiscal year) due to purchase of treasury shares, dividend payments, repayments of bonds and borrowings, and other factors.

	FY2019 Results	FY2020 Results	YoY
Cash flows from operating activities	196.6	192.2	–4.4
Cash flows from investing activities	81.7	–39.2	–120.9
Cash flows from financing activities	–91.6	–202.4	–110.8
Net increase in cash and cash equivalents	186.6	–49.5	–236.1
Effect of exchange rate change on cash and cash equivalents	–5.6	5.8	11.4
Cash and cash equivalents at the end of the year	424.2	380.5	–43.6
Free cash flows*	278.3	153.0	–125.3

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

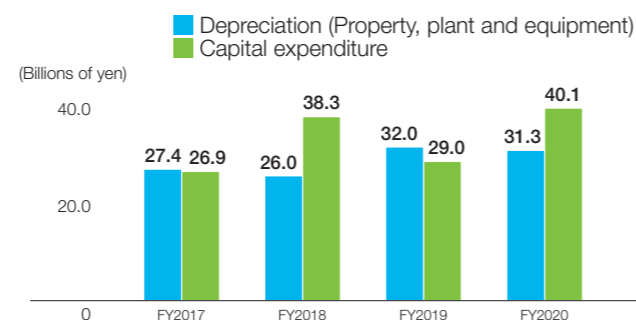
Summary of consolidated statement of cash flows



3. Capital Expenditure

We continuously invest in plants and equipment, aiming to enhance and streamline production facilities as well as strengthen and facilitate research and development. The investment amount for FY2020 was ¥40.1 billion.

	FY2019 Results	FY2020 Results	YoY
Capital expenditure	29.0	40.1	11.2
Depreciation (Property, plant and equipment)	32.0	31.3	–0.8



Forecast for FY2021

The revenue is expected to increase by 2.9% year on year to ¥990.0 billion due to an increase in revenue for our mainstay products such as *Enhertu*, *Lixiana* and *Tarlige* although there are factors for decrease in revenue such as the NHI drug price revision in Japan and the termination of the sales collaboration for *Nexium*.

Core operating profit is expected to decrease by 11.2% to ¥70.0 billion year on year due to an expected increase in expenses resulting from the continued intensive investment in the oncology business, including the increase of profit share payments to AstraZeneca due to increased sales of *Enhertu*

and the expansion of 3ADC development plan, etc.

Operating profit is expected to increase by 9.7% to ¥70.0 billion year on year due to posting loss compensation of ¥15.0 billion for the vaccine business to Sanofi in the previous fiscal year and no plan to make a temporary gains/losses in FY2021.

Profit attributable to owners of the Company are expected to be ¥50.0 billion, which is 34.2% decrease year on year due to the fact that the normal level is assumed for FY2021 while additional deferred tax assets increased and negative income taxes were negative through increasing future taxable income amount in FY2021.

Forecast of consolidated financial results for FY2021

	FY2020 Results	FY2021 Forecast	YoY
Revenue	962.5	990.0	27.5 (+2.9%)
Core operating profit*	78.9	70.0	–8.9 (–11.2%)
Operating profit	63.8	70.0	6.2 (+9.7%)
Profit before tax	74.1	70.0	–4.1 (–5.6%)
Profit attributable to owners of the Company	76.0	50.0	26.0 (–34.2%)

Yen exchange rates for major currencies (Annual average rate)

	FY2020 Results	FY2021 Forecast
USD/JPY	106.06	105.00
EUR/JPY	123.70	120.00

*From FY2021, the Group will disclose core operating income, which excludes temporary gains/losses from operating income, as an indicator of ordinary profitability. Temporary gains/losses include gains/losses on sales of fixed assets, gains/losses associated with business restructuring (excluding gains/losses on sales of developed and launched products), impairment loss on property, plant and equipment, intangible assets and goodwill, compensation for damages or settlement, and other non-temporary and material gains/losses.

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.

Based on the policy introduced in the previous 5-year business plan (FY2016-FY2020) to pay a total return ratio*¹ of 100% or more through distributing stable ordinary dividend of ¥70 or more yearly as well as exercising the agile purchase of treasury shares, the annual dividend for FY2020, on a pre-split*² basis, increased by ¥11.0 from the previous fiscal year, to ¥81.0 per share.

Furthermore, to increase shareholder returns and enhance capital efficiency, we purchased 29.47 million treasury shares for the cost of ¥100.0 billion from November 2020 to March 2021.

As a result, the total return ratio was 200.3% for FY2020 and 105.6% cumulatively over five years.

For FY2021, based on the shareholder return policy*³ of the current 5-year business plan (FY2021-FY2025), we intend to pay an annual dividend of ¥27 (on a post-split*² basis) per share.

Total return ratio during the period of the previous 5-year business plan (FY2016-FY2020)

	FY2016 Results	FY2017 Results	FY2018 Results	FY2019 Results	FY2020 Results
Dividend per share (pre-split* ² basis)	¥70	¥70	¥70	¥70	¥81
Purchase of treasury shares	¥50.0 billion	¥50.0 billion	—	—	¥100.0 billion
Total return ratio* ¹	180.7%	159.1%	48.5%	35.1%	200.3%

*¹ (Total dividends + Total acquisition costs of own shares) / Profit attributable to owners of the Company

*² We implemented a three-for-one split of our common stock effective on October 1, 2020.

*³ For the shareholder return policy of the current 5-year business plan (FY2021-FY2025), please refer to "Message from the CFO" on page 37.