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New Medium-Term Management Plan Briefing

Kyokawa: Good day, everyone. I'm Kyokawa of Shionogi's Corporate Communications department. I'd like to thank you all for taking time out of your busy schedules to join us today.

Shortly, we'll be beginning the briefing on our medium-term business plan.

But before that, I'd like to a introduce the people on the panel today. Starting on the right, we have President & CEO Isao Teshirogi.

Teshirogi: I'm Teshirogi. Thank you for being here.

Kyokawa: Next we have Takuko Sawada, a director, the vice president, and head of the Integrated Disease Care Division.

Sawada: I'm Sawada. Thank you very much for being here.

Kyokawa: Next, in the center, we have John Keller, a senior executive officer and head of the Global Business Division.

Keller: I'm Keller. Thank you very much for being here.

Kyokawa: Then we have Koji Hanasaki, a senior executive officer and head of the Corporate Strategy Division.

Hanasaki: I'm Hanasaki. Thank you very much for being here.

Kyokawa: Finally we have Takeshi Shiota, an executive officer and head of the Corporate Planning Department.

Shiota: I'm Shiota. Thank you for being here.

Kyokawa: Thank you very much, everyone.

Right, now I'll give you a quick rundown of what's going to happen at today's briefing.

First, Teshirogi is going to explain our business plan, after which we'll take questions. Today we have securities analysts, investors, and media people in attendance. Some of them are here, but some of them are taking part by telephone, and we'll questions from both of them.

Furthermore, as a measure to tackle the new coronavirus, we'll be disinfecting the shared microphone after each person has used it to ask a question.

I expect those of you from the media will want to take some pictures, but we'd appreciate it if you could limit yourselves to taking a few snaps at the beginning, and to not bother the

other people here. Personally, I think the page 2 to 3 is good to take pictures..

And because we don't want things to drag on too long, we'll be looking to wind things up at 5 p.m.

So let's get started. Mr. Teshirogi, over to you.

Teshirogi: Just to remind you, I'm Teshirogi. I'd like to express my deepest gratitude to you all for joining us today. And in connection with the new coronavirus, we've been having to refrain from various activities, and there are a lot of limitations on what we can do, but given that the emergency situation has eased somewhat, on June 1 we decided to hold this meeting face to face.

Some people might question the wisdom of having a face-to-face meeting at this juncture, but for us this is an incredibly important medium-term business plan, so I wanted to see your faces as much as possible, and also show you our faces, as we give our explanations, so I hope you will understand.

Once again, thank you for being here today.

We were actually wondering when it would be best to release out medium-term business plan, and we gave the matter quite a lot of thought internally. In 2014 we put out the Shionogi Growth Strategy 2020 (SGS2020), as we had been thinking about what sort of world we wanted to have created seven years on from then. We presented numerical targets for each fiscal year and for three years later, but also described what sort of company we wanted to have become seven years on. That was the style we followed.

I'll discuss this later, but SGS2020 was originally intended to cover the period until March 2021, and although we missed a number of important numerical targets, for several consecutive years we have managed to meet targets for, say, ROE and ordinary income. So we want to move into the next stage during this fiscal year, and that's why we've chosen this timing to announce our new medium-term business plan.

Similarly, regarding the style, we ourselves acknowledge that from around 2028 the patents for our HIV-related products will begin to expire, and all of you here are also aware of this. So we think that it is very difficult to understand if it is separated by 2024 and then considered separately.

We also wanted to share with you how we see ourselves up to 2030, or in other words, after we have gone beyond the HIV-related products, but because ten years from now is too far off, we want to limit numerical targets to the fiscal year, three years from now, and

five years from now, so for the time being we'll be covering the period up to March 2025. At that point, we'd like you all to judge for yourselves whether we can actually achieve our vision for 2030 after considering whether progress has been made in R&D and how our business is developing.

At that time, in 2030, the world will probably have changed substantially. Even the current corona situation has changed the world dramatically and rapidly, and there have big discussions within the company, including among younger employees, about what typical patients and physicians will be receiving and providing in terms of medical care.

By 2030, IT will have advanced tremendously, and patients themselves will have a fair idea of what condition they are in and what sorts of ailments they have. Physicians and medical personnel will be thinking about how to serve patients, but at the same time, patients themselves may increasingly be managing their own health after obtaining various data and information.

That being the case, we, who supply drugs, will need to think about what sorts of things we should provide. Supplying drugs alone, as we have done in the past, will probably not be enough to meet the needs of patients or medical personnel, so from our point of view, we'll

be providing healthcare as a service. Ultimately, the question faced by patients will be what symptoms are bothering them and how they can improve their condition. Moreover, we will need to think about how much to charge for the therapies, and how widely to provide them. For example, we'll have to consider how to provide them and in which countries. I can't imagine that we'll be able to do this all by ourselves.

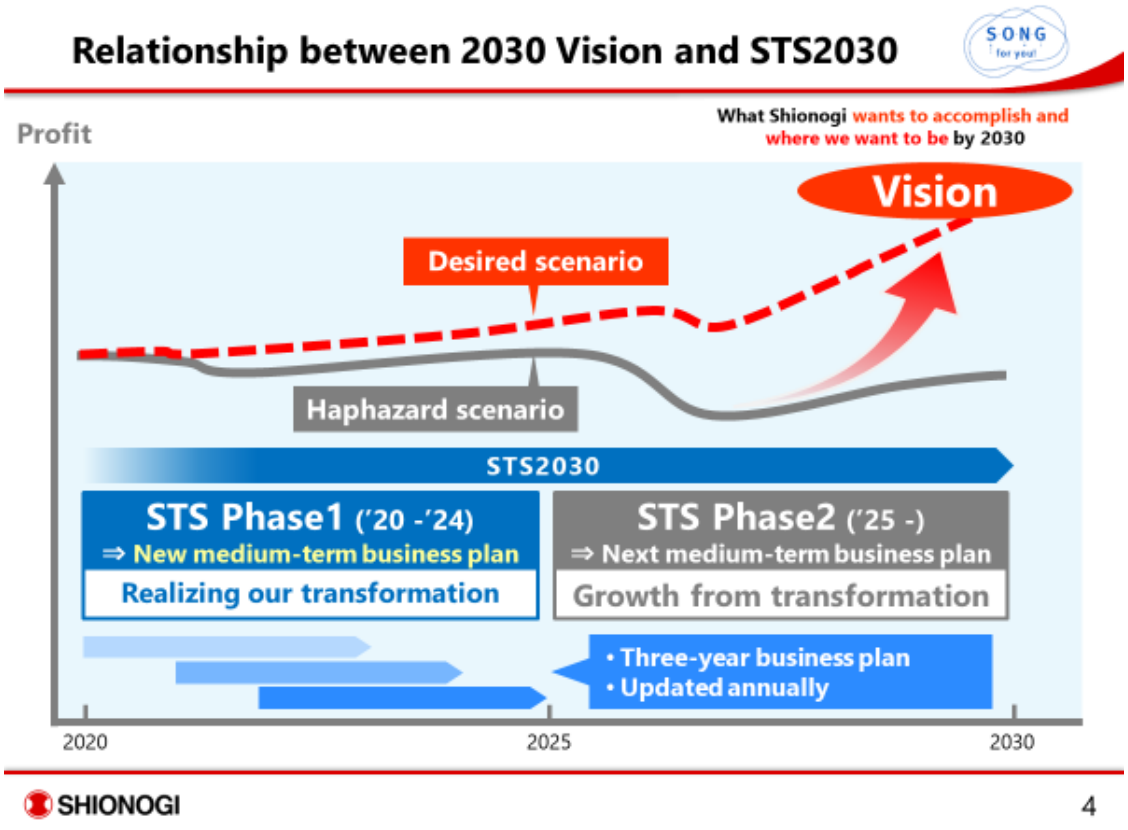
So how should we have great partnerships to provide this service to patients and medical personnel? I think that an important point going forward will be how we can shine amid such circumstances.

Therefore, our vision is to "Building innovation platforms to shape the future of healthcare." You might sigh as you realize we've used the current buzzword "platform," but we're not using it in the conventional sense. We're using it to refer to what we, as a drug-discovery based pharmaceutical company, are going to be doing, and this might include the production of medicines and diagnostic drugs as goods, and how we're going to deliver to customers. How we're going to get patients and medical personnel to assess us. When I think about how they are going to assess whether spending this amount of money to produce this or that benefit is reasonable, it's obviously impossible for us to do alone, so as a part of various groups, we want to create medical/healthcare services.

A key part of this is getting others to want to join hands with Shionogi. We want others to believe that if they partner with Shionogi, they'll be able to provide better services to patients. We want to become that sort of presence. In our case, our drug-discovery business is obviously at the core, but as it says in the first line, we really want to co-creation to become the nucleus. We can't do everything on our own, but what it means is that others will always ask Shionogi. That's the sort of company we're going to aim to become.

As for the third line, looking ahead over the next ten years, the question of how to coexist with society is going to become increasingly important. The current corona issue has enabled us to recognize, more so than we had until now, how our working on infectious diseases themselves, contributes to the achievement of SDGs. For that reason, as we consider how to change the world in terms of the SDGs, we want to also regard thinking about how to utilize the strengths we possess as one of our major goals for a decade from now.

But this will be difficult a achieve with just normal “growth,” or with normal, typical “change,” so we’ve opted for the word “transformation.” Because unless we skillfully alter the “form” of the company, we will not survivein 2030. So we’ve gone with “Shionogi Transformation Strategy,” and which we’re thinking of shortening to “STS” when we talk about it internally.



This expresses things starkly, but it's said that if we carry on as normal, from around 2028 our story will become difficult to read, partly due to the fact that we don't know by how much our royalty income from the HIV family will drop. From that gray, haphazard scenario, how can we, by 2030, become a constantly growing company as indicated by the red line? I've said this internally countless times, but we, including people in their 30s and 40s, who will be responsible for our next era, have put considerable effort into answering this question.

And given that even if we extend things as far as 2030, things would be difficult to understand, we're going to be thinking, by fiscal 2024, about how we can face 2028, and 2030. We've the numerical elements we're presenting now, and the activities we're going to be truly focusing on, mainly for the period between 2020 and 2024, as a company, our strategy looks ahead to 2028, and beyond that to 2030.

Regarding methods of announcement, we've put out our business plan for fiscal 2020, and while also presenting figures for 2022, three years beyond that, we're going to show you how the company is getting on. That's been our style up to now, and we'd like going to maintain that.

Agenda

I. Prior Medium-Term Business Plan: Review of SGS2020

II. Current Operational Environment

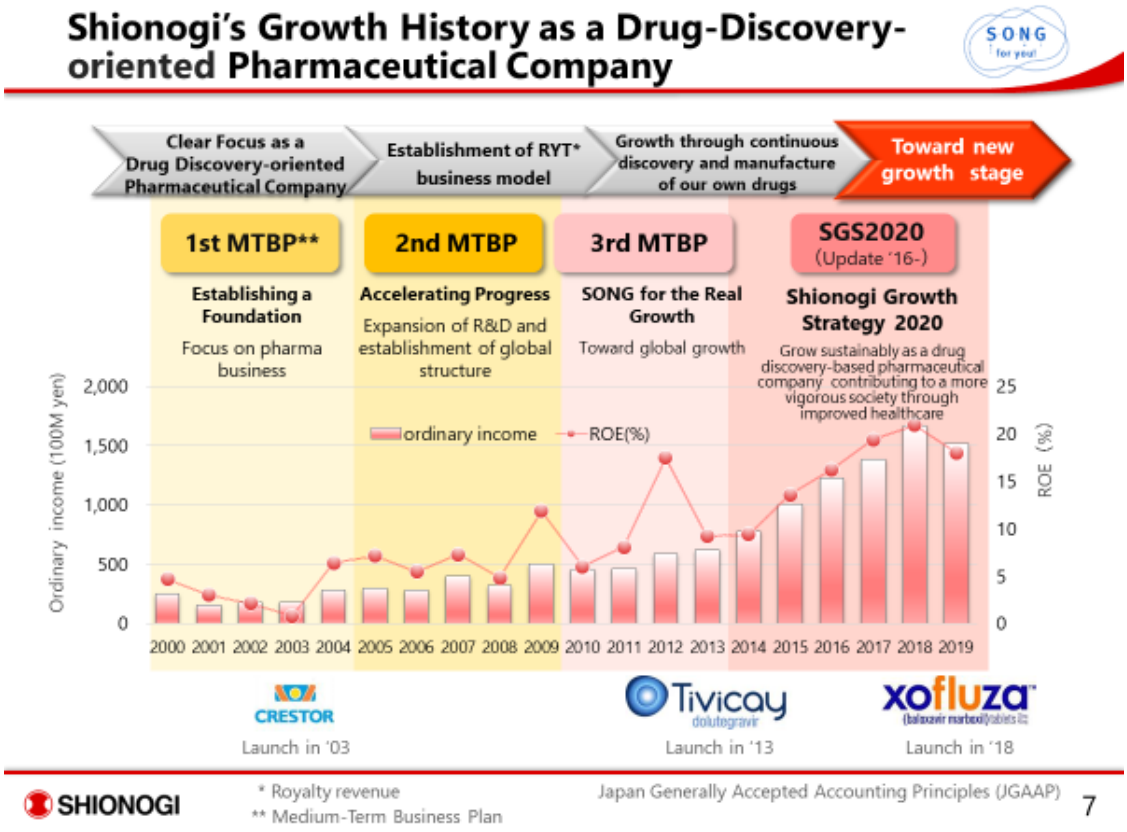
III. 2030 Vision and Strategy for Realization

IV. New Medium-Term Business Plan

- STS Phase1 (FY2020 – FY2024) -

i. R&D Strategy
ii. Top-Line Strategy
iii. Management Foundation Strategy

So this is the agenda I'm going to be following.



Here we reflect on the past.

From around the time of the first medium-term business plan, we have been doing our best, but we've now broken the chain of rising profits and rising revenues, after earning our highest profit ever in 2019. There have been various reasons for this, such as the Xofluza issue, influenza, corona, and changes in the social environment, but internally we've been having a fair amount of discussion about why this has happened to us. And having done that, we're currently intent on entering a new stage, and becoming a company that's reaching for new heights.

KPI Achievement

Sales of new products did not attain the target, but the other main KPIs in SGS2020 were achieved

	KPI	FY2020 Target (Update '16-)	JGAAP FY2019 results	JGAAP FY2018 results	Ref. IFRS*4 FY2019 results
Growth	Sales of new products*1	200 B yen	62.9 B yen	83.1 B yen	62.1 B yen
	Ordinary Income	150 B yen	151.8 B yen	166.6 B yen	-
Efficiency	ROIC*2	Over 13.5%	13.8%	16.5%	14.9%
	CCC*3	5.5 months→ 7.0 months	7.7 months	8.9 months	7.7 months
	Original pipeline ratio	Over 50%	67%	69%	67%
Shareholder Return	ROE	Over 15.0%	18.0%	20.9%	15.5%
	DOE	Over 4.0%	4.7% (planned)	4.6%	4.0% (planned)

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*1 New Products were defined in Updates to SGS2020 issued on October 31, 2016 *3 CCC : Cash Conversion Cycle
*2 ROIC: Return on invested capital: After-tax operating income ÷ (Interest bearing debt + Shareholders' equity + Non-controlling interests) × 100 (%) *4 IFRS are provisional values that have not been audited
For details of Conversion from JGAAP to IFRS (B/S), please refer to P.56

Among the objectives we included in SGS2020, and I'll discuss this later, but the one I feel we completely failed to achieve was to improve our ability to grow sales of new products. Frankly, I feel that both our sales capabilities and marketing capabilities were lacking.

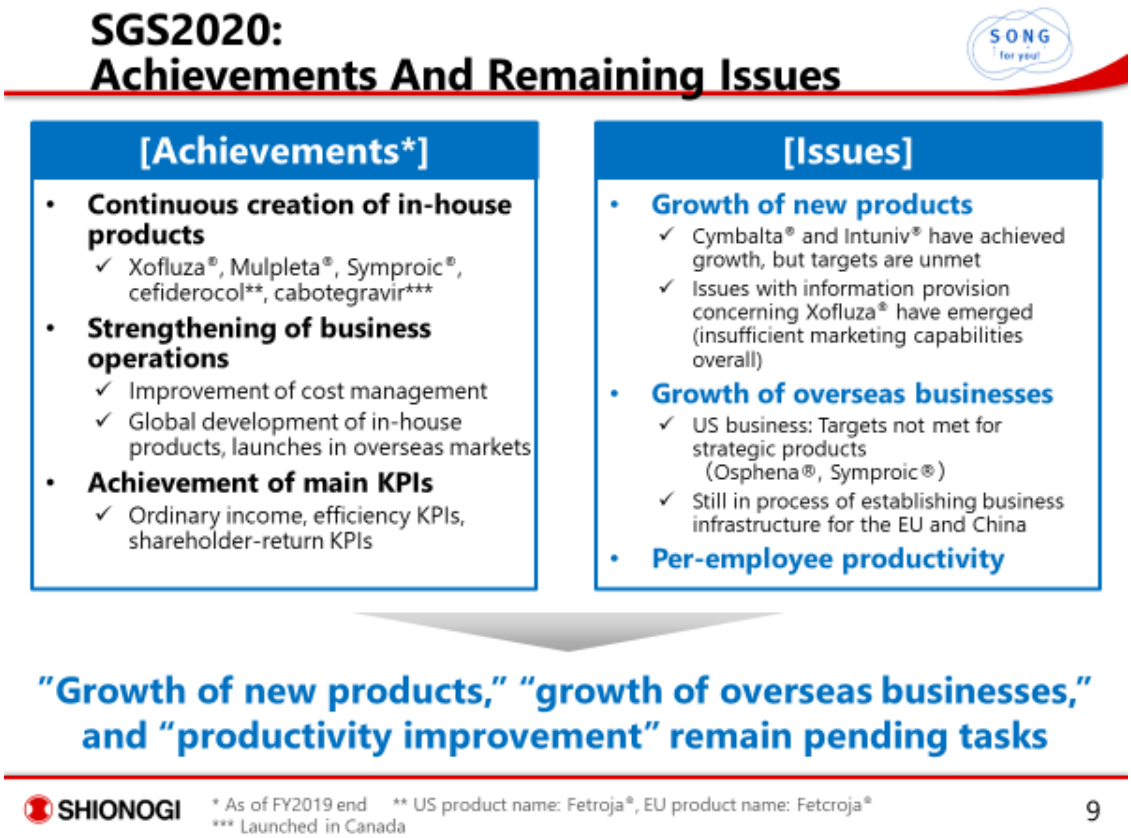
As for CCC, as old products are replaced by new ones, there have been changes, including how much inventory we need to hold, and we have studied these, but even so, we still haven't got there. But regarding other parameters, I think that we could be commended for having achieved some degree of success.

Incidentally, and I'll talk about this later, but look at the IFRS figures on the far right side. These haven't yet been fully audited, but, and it's extremely difficult for me to say this, but various items on our balance sheet, and especially our shares in ViiV, have swelled to a considerable extent, and so naturally, the balance sheet itself has expanded by around 16%.

So if you look at ROE here, you might wonder why 18 % has become 15.5%, but though the numerator is the same, the denominator has increased by 16%, so the figure has just dropped by 16%. So this 15.5 for ROE is based on that larger balance sheet.

That being the case, it is obvious that the questions of what to do about profit, which is the numerator, and how to reflect the balance sheet itself, which is the denominator, become problems when considering ROE, but in this medium-term plan, we hardly included any balance-sheet management. Based on the assumption that our profits will be gradually added to the current balance sheet, and that the balance sheet will become fairly large, we've produced this medium-term plan, but it's not the case that things can stay as they are.

But at the present time we haven't yet finished putting together a concrete plan for managing the balance sheet, so regarding this ROE, we have come up with this number on the assumption that the balance sheet will expand to some extent. As for our financial strategy, M&A strategy, and so on, when things start moving in the future, we'll have a somewhat clearer picture. At the present time there isn't anything concrete to announce, and though I'm asking you abruptly, we hope you will allow us to refrain from commenting on matters that haven't yet reached the point of fruition.



The left side shows our achievements, and although we're obvious reflecting on the fact that

we have to create more products that can sell, even with Xofluza, and also regarding Mulpleta and the drugs listed after it, we have continuously launch with new compounds developed in house. As for drug-discovery capabilities, I think that if you look at the past four to six years, you can see that we are gradually beginning to prove that we have them to some degree.

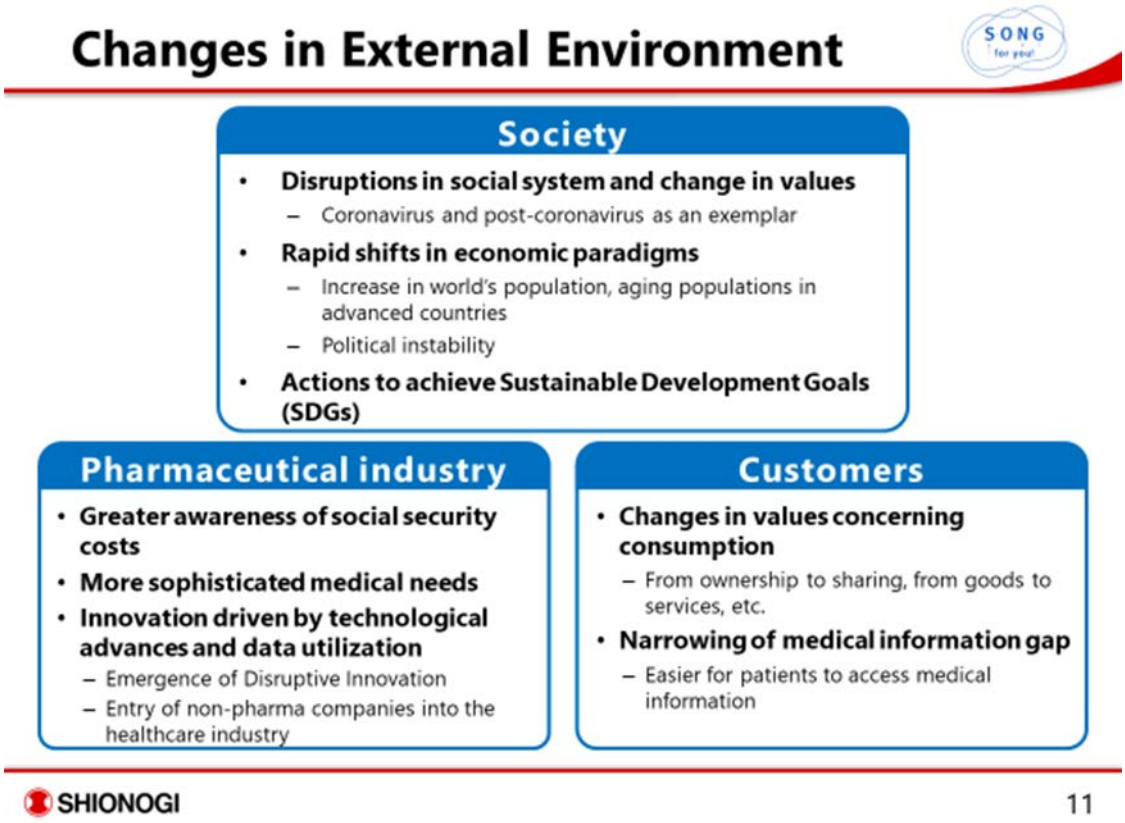
Then there's our ability to manage costs. In most cases, I think we've somehow now managed to demonstrate that we can. As for our main KPIs, namely ordinary income and shareholder-return KPIs, I think we've done fairly well.

However, regarding the growth of new products, it goes without saying that we've learned a lot from having to think about how to grow Xofluza. As for results, it's a fact that we haven't increased sales of new products all that much.

Since acquiring what was formerly U.S. company Sciele Pharma, Inc. in 2009, I have to be honest and say that our U.S. business hasn't grown. A crucial issue for us is how to achieve growth while retaining cefiderocol (Fetroja) as a base.

And similarly with China, since purchasing C&O, a generic pharma firm, neither sales not profits in China have increased. Given these outcomes, our next major phase will be working out how to grow sales not only in Japan, but also in the U.S. and China. This is going to be a big theme for us, though we're well aware that we still have a long way to go.

In addition, there's the matter of employees. We've tried fairly hard to keep things under control, but as can also be seen from the fact that, as I mentioned earlier, sales of new products haven't grown as expected, sales per employee haven't increased at all so we've included as a theme this time the question of how to resolve this issue ahead of 2030.



Regarding our operating environment, we've put corona and post-corona right at the top. This is because our view internally is that coronavirus has just made us aware of what's been happening.

Take changes in IT systems, for example. As I've already mentioned, for some time now, patients have been able to obtain all sorts of medical information, and based on that, investigating what kinds of treatments are available, so in various respects, in terms of communication with doctors, huge strides have been made at the bleeding edge of the frontline of medical care, to the extent that it feels like a completely different world compared to five years ago.

With respect to that, regarding the question of whether we pharmaceutical companies have continuously provided solutions in the form of services and goods, I think that we have probably been wholly inadequate. The current coronavirus situation has indeed produced a paradigm shift, but we feel that it's just manifested what was already there, that in a sense, it's just shown us what already existed.

That's going to the basis for thinking about how we have to change over the next ten years.

Next year, the social environment might change dramatically once again. And the year after that, it might change beyond recognition. We are wondering whether we will be able to keep up with such changes if we can detect them using some sort of network.

And there's also the economic paradigm, and it's really hard to predict how the economies of emerging countries will evolve. Even with advanced countries, it's really hard to predict how they will grow. The answer to the question of what sorts of services we must provide in response to such changes in society is shown at the very bottom. It is that we have to think about the SDGs, so as to preserve society as a whole.

And then there's the pharmaceutical industry. We've been saying this for as long as I can remember, but regarding the question of how to utilize innovation and data, which are mentioned at the bottom, I don't think we're all that far behind the rest of the industry, but even so, the speed of change is pretty rapid. Have we have accepted that, and has our ability to utilize them in our work and business been sufficient? Even this time, with fiscal stimulus being provided all over the world, medical costs and the total price of healthcare will ultimately, at some point, go back to where they were. This is certain.

With the governments of every nation unable to allocate all that much money to medical care, I think that discussions about how much to charge for reasonable services will accelerate.

As I've said countless times, there was an era a long time ago when doctors were gods. People didn't know what their condition was. People would go to the hospital and tell the doctor that they were feeling really rough, and they'd ask the doctor what was wrong with them. But now, people spend a fair amount of time investigating their own condition, and even obtain a variety of information from social media. So more and more people are going to the doctor and saying that they think they have this or that ailment.

In other words, while there used to be a clear gap between doctors and patients in terms of information about medical matters, that gap is gradually being closed. That means that we've entered an era in which we have to think about what sorts of goods and what sorts of services to provide to the patient side and the doctor side.

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The SDGs encompass various challenges, and I've said this many time, but we're involved with infectious diseases area, and we believe that our commitment to tackling things like problem of AMR and the three major infectious diseases all around the world could make a substantial contribution to achieving the SDGs.

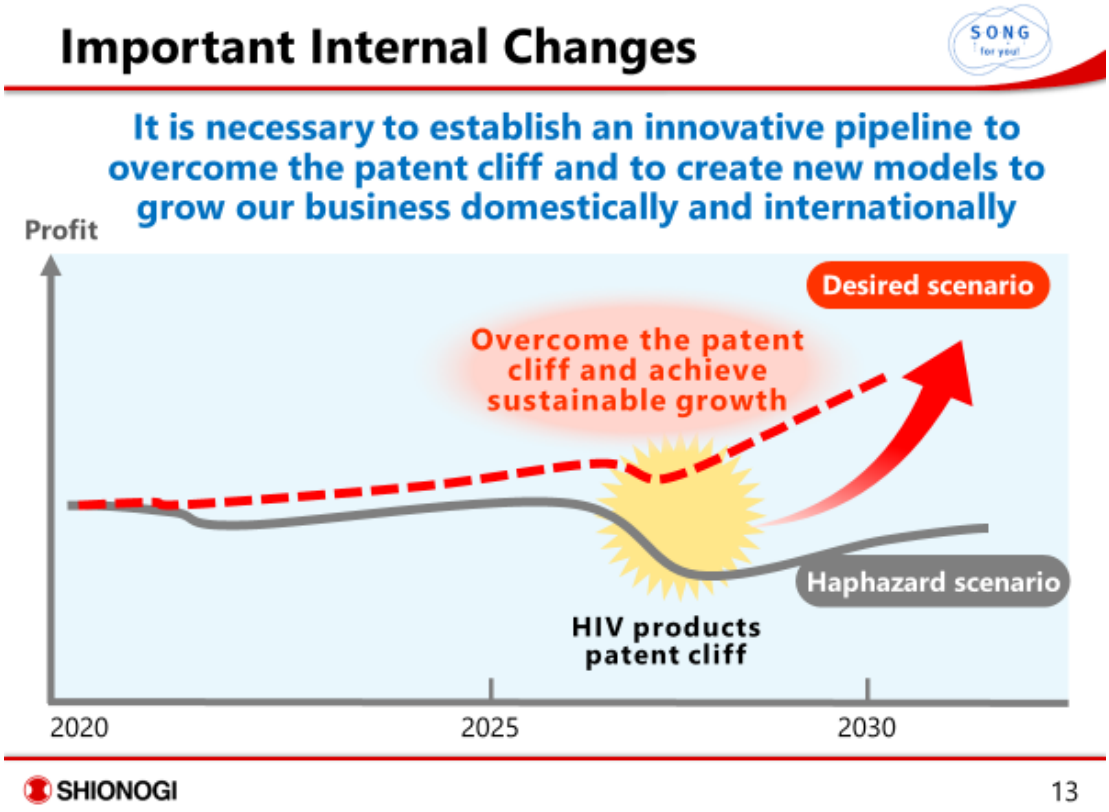
This time the big issue is novel coronavirus, and we're working on a vaccine, diagnostic products, and therapeutic drugs. We made these efforts with a fairly high priority, and if we can provide products when you are all hoping for them, I believe that Shionogi will come to be regarded as a company that people expect to come out with something new should another new infectious disease emerge.

And regarding the second point, this is even if the post-corona world comes about as a result of totally conquering the outbreak. The other day I saw a special TV program about care facilities for the elderly in France, and because of coronavirus situation, people were told not to go out. By being ordered to stay inside, by having their movements restricted, many

patients have seen their dementia worsen to a considerable degree. This is a really serious problem, but unsurprisingly, it said that even in an environment in which they can communicate with others and live totally freely, the person's dementia still progresses to some extent. But if they're then placed in an enclosed environment, it's really serious, and this French TV program said that the post-corona world would be about battling dementia.

You might be thinking that this is pretty obvious, but even if the outbreak subsides to some degree, such that we are having to coexist with this infectious disease, problems will still remain in the form of cancer and dementia, so we will always be confronting the next issue. In particular, most people are currently saying that dementia and psycho-neurological diseases will increase. So the question of what sorts of products and what sorts of services we will provide to tackle diseases like this will be extremely important.

Finally, a recurring theme is HTA, and at the risk of repeating myself, with this much fiscal stimulus, I think a fair amount of progress will be seen over the next few years in addressing the question of which medicines to offer at what prices, and whether value is commensurate with them. And we intend to move forward in considering what sorts of answers we can come up with.



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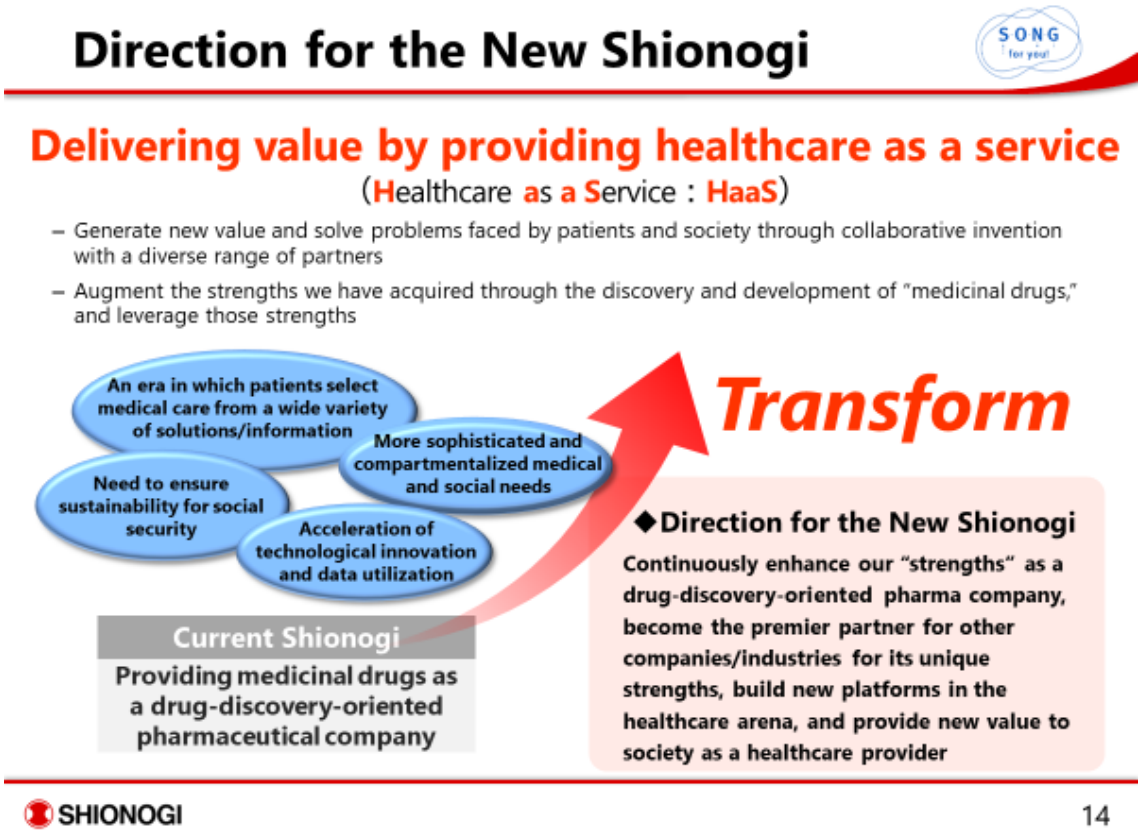
It reproduces the graph that you saw earlier, what we want to say is that we want to show you once again that we will building a foundation until 2025, and becoming a growing Shionogi in 2030.



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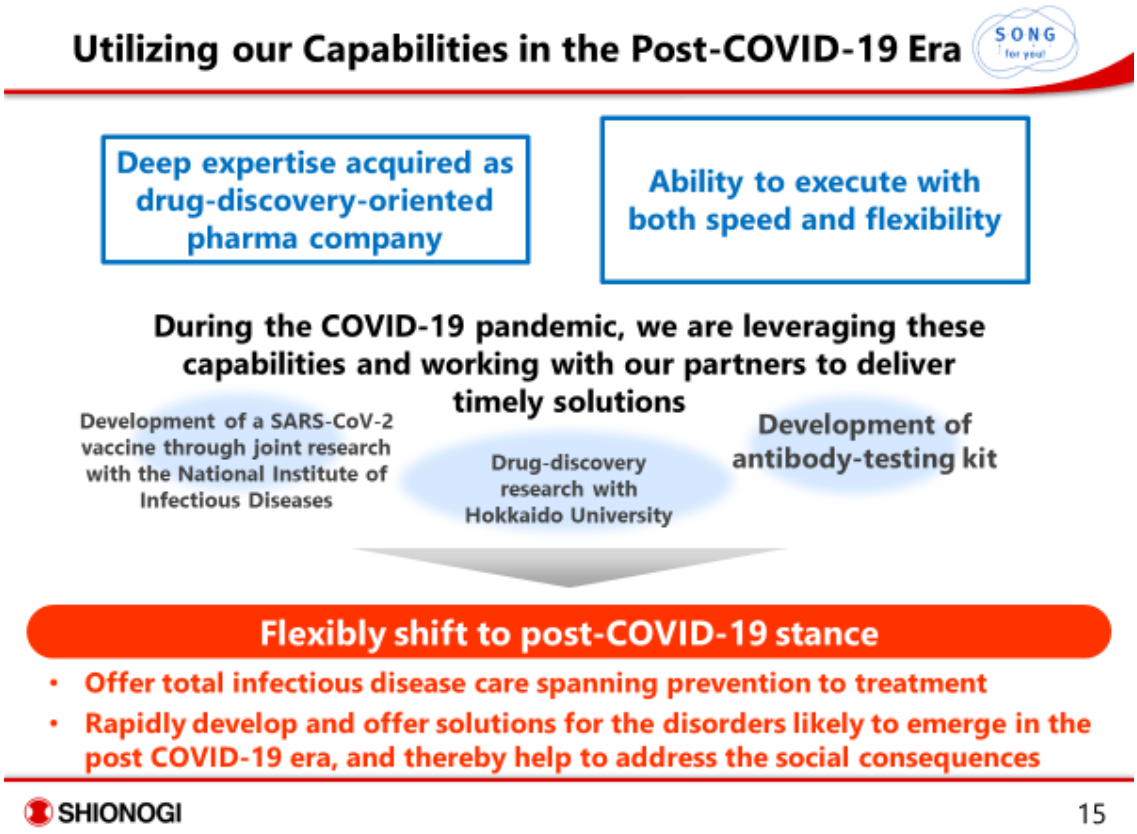
In the past, and this is shown at the bottom left, our niche has been as a drug-discovery-oriented pharmaceutical company, a company that can create things on its own, and I don't think this will every change, but I believe the task for us as we go forward is to maintain that as a core, but also work out how to leverage it.

It's not mobility, but the pharmaceutical manufacturing industry doesn't regard it as enough to just provide drugs. It sees healthcare, namely what sort of condition patients can be put in, as constituting healthcare as a whole, as constituting a service. And unless service elements are incorporated, it will be impossible to compete, so as I mentioned just a little while ago, this cannot be done alone, so we intend to join forces with partners.

This comes up later, but one example of this is our partnership with Ping An Insurance. We want to give shape to how the medicines and diagnostic drugs that we provide can be delivered to patients in a total package as a healthcare service.



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Now, I think I need to talk about novel coronavirus a little bit. This topic wasn't originally included in the medium-term plan, but we've added it here.

We've been asked about our efforts by various shareholders, and we've actually just started working on an antigen kit, so we're doing work in the areas of antigens and antibodies diagnostic products, development of vaccine and therapeutic drugs. People often remark that there aren't many pharmaceutical companies working comprehensively in all three areas. I think that in a sense this is probably one of our differentiators.

So at the present time, regarding the vaccines, we are going to start producing it in around the second half of next month, and once it's produced, we will conduct animal testing to assess toxicity and other attributes. And within the year, as soon as possible, we're going to start clinical trials, so things are moving as planned.

And as for drug discovery, as I mentioned at our R&D day back in March, if we're going to try

it, we want to make it a coronavirus-specific compound, but at the present time, to be frank with you, it's not a compound that scores full marks. It's still going to take some time If we get it to work at the 0.5-nano level, like an antivirus activity of Xofluza, for us to get the SAR down to that level. The figures for Remdesivir are 200 or 150, depending on the type of experiment, so our compound is more powerful than that. It also constitutes a clean compound, in that it has hardly any effect on viruses other than corona. And I think we'll also be able to start clinical trials of this before the year's end.

In a sense, we began getting serious in around January or February, and I think that if we can start clinical trials for both the vaccine and the corona-specific therapeutic drug before the end of the year, we'll be demonstrating our capabilities and this will serve to get people to understand what Shionogi as a company is doing, which I think will be a good thing.

Somehow, I think the vaccine is the more likely contender for clinical trials. This might sound strange, but in the case of the therapeutic drug, if there are no patients, how do they expect us to do clinical testing. But if there is a second wave, then there might still be considerable numbers of patients around the world, so we want to move into clinical trials as early as possible, and because we are focusing on producing an antiviral, I think that unless it reduces viral load, and there is a clear difference compared to a placebo group, it won't be good enough to be called a medicine.

However, the difficulty with this disease is that it's hard to get ordinary people to understand that there's always going to be a gap between drugs that reduce viral load and drugs that function as therapeutics to relieve the symptoms of the disease. Given that mildly-symptomatic patients, around 85% of patients, can recover to some degree after having only fairly mild symptoms or no symptoms at all, the virus can be controlled if we can find out easily and as early as possible whether they have antigens, or at least whether they are carrying the virus, and then have 85% to 90% of people take the medicine at the early, mildly-symptomatic stage, which will prevent their condition becoming serious.

But that being said, there are people whose overall physical condition is poor, and people with underlying ailments, and they are at risk of falling into a serious condition. Such patients could experience a cytokine storm or suffer a serious secondary infection in conjunction with pneumonia, so by concentrating on how to treat patients like that, I think that it might be possible to prevent people dying and prevent people falling into a serious condition. And to that end also, it would make sense for society to have a drug that could at least remove the

virus to some extent at the early-symptomatic stage.

What we struggle with most with Xofluza, and the same is true for Tamiflu, is that even though it's an antiviral, it won't get rid of a cough. People often get angry about that, but typically, once the viral load drops, then it's just a case of the body getting to work, and the cough starts to go away, and the fever starts to subside, but the expectation that the antiviral should do all that makes things extremely difficult for producers of antiviral drugs.

For that reason, we want to people to keep talking, with respect to various agents, and through various clinical trials, about the fact that there's a gap between eliminating or reducing the virus and controlling the disease. I'll talk a bit more about this later on.

Page 17 is again our vision for 2030 and the strategies to achieve it.

Although this is our second time, but we think this vision is the core of our platform. We would like to think about how we can become a company with the drug discovery capability that makes Shionogi attractive to many people. We must think about what we should do to become a company chosen as a partner from among 10 pharmaceutical companies.

This is page 18.

We believe that the core is drug discovery. The major advantage of partnering with Shionogi is surely the potential that makes others think “they create things.” In this sense, we want to continue to be a company that keeps creating things. While working based on new profit models, such as the Ping An model and the Stream-I model, I think we are better able to create another business model for 2030 than other drug companies.

Meanwhile, we have long boasted our high operating profit margin as one of our characteristics. This is very important for us and we will continue to see operating profit margin as a crucial parameter for the Shionogi Group and the Shionogi family as a whole in doing various businesses.

Health issues facing society include infectious diseases, of course, and mental and neurological disorders and pains caused by various stresses posed on the general public as a result of the spread of infectious diseases. And also, as we announced on CCR8 at our R&D briefing in March, for cancers or any other diseases, if we find a chemical compound possibly very competitive in the world, we will do our best, in cooperation with business partners, if necessary, to develop products with such a compound.

We do not mean to do everything by Shionogi alone but will find partners, if necessary, so that we can develop drugs for patients around the world as a good health care services. We will promote such product-based business, including partnering.
The third point, how the Shionogi persons should grow their capabilities, is an important theme for us. We see this as a major theme for 2030.

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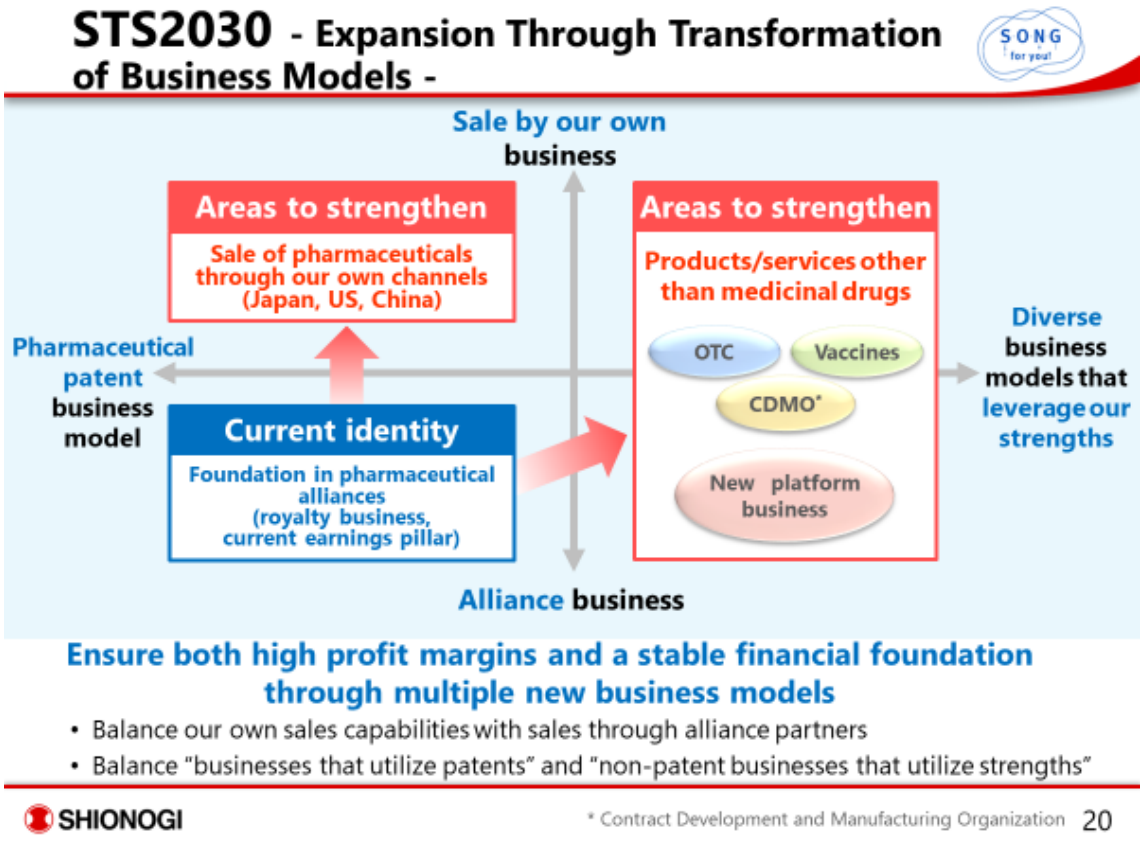
In this sense, since we should be sure that we will overcome the “dolutegravir cliff” in Phase 2 of STS2030, we see Phase 1 of STS as the preparation period for that, which is the five-year period of this medium-term business plan.



This is similar to what I explained earlier, but please take a look at the lower left box in blue. At present, we launch pharmaceutical products, and receive royalties through alliances on such products to obtain high profit margins. But we cannot keep growing with this style of business alone. So, as written in the box above, we promote sale through our own channels in at least Japan, US and China. This is the business model characteristic to a pharmaceutical company.

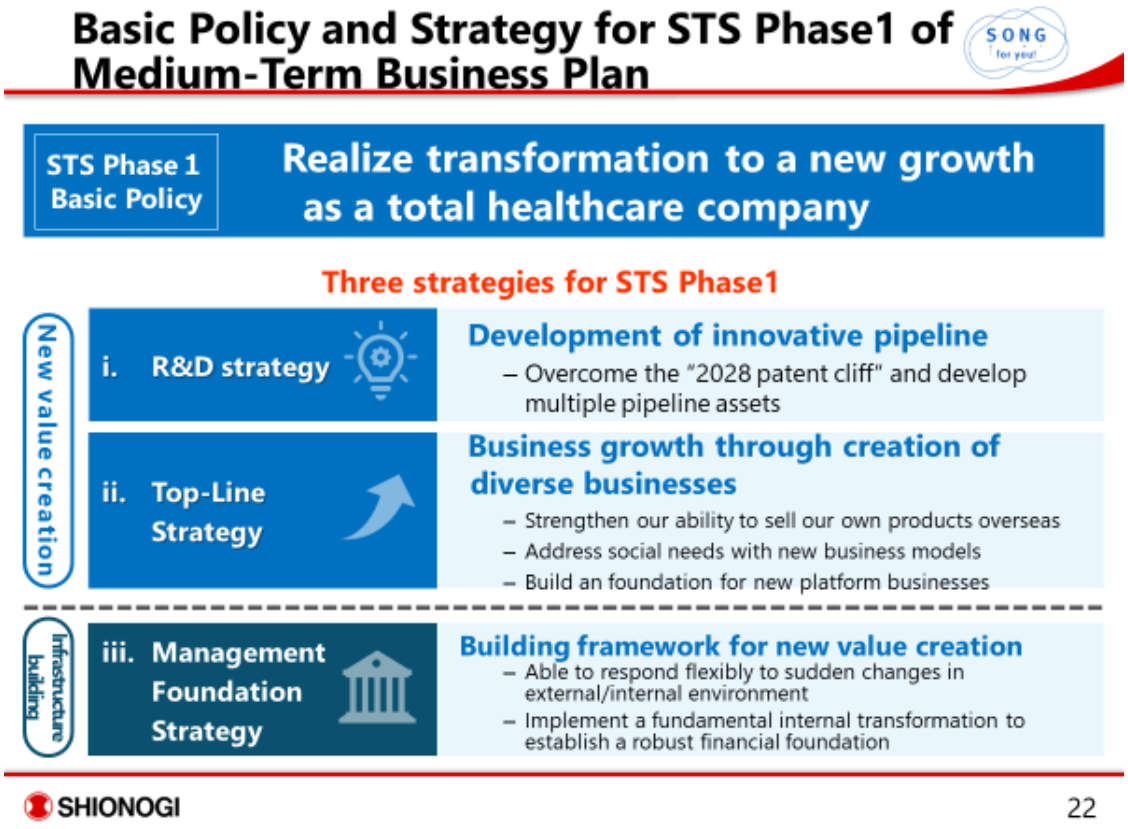
Look at the upper right part. You see OTC as a new business style. Since our business with Ping An, China includes OTC, we will provide our health care products in markets outside Japan. Or vaccines, which is a completely new field for us, are a representative business without relying on patents and intellectual properties, and we will therefore start making vaccines.

As for CDMO, Shionogi Pharma, which we have founded, earned many orders from customers other than Shionogi last year. While aiming to be an independently operating company, it should also earn profits as a Shionogi Group company.

New platform business refers to, as I mentioned several times, new business models including the ones in partnership with Pin An and Stream-I. We will of course conduct patent-based businesses since we work on pharmaceuticals. But the better a product performs, the

higher its patent cliff is. This is inevitable for pharmaceutical business. We have always been chased by this model.

So, our theme this time is to find a more moderate way to do this patent-based business. In other words, we want to develop a business model by 2030 in which we make money to some extent on patent-based business but we will not lose all the profit even if the patent expires.



Now, I would like to talk about specific actions. Page 22.

For the first five years, there are roughly three strategies. R&D strategy, top-line strategy, and management foundation strategy. As our company policy, we will concentrate various resources in these three strategies.

I will later explain each one of them, but let me emphasize R&D, which will deal with the development of the product group that enables us to overcome the “2028 patent cliff.” As I talked a little at R&D Day in March this year, this has been progressing very steadily.

It is true that clinical trials, which are conducted globally, show a little slowdown because of the COVID-19 pandemic. But looking at S-600918 as an example, Iwasaki and his members have taken flexible actions, such as shifting to countries in better conditions and increasing

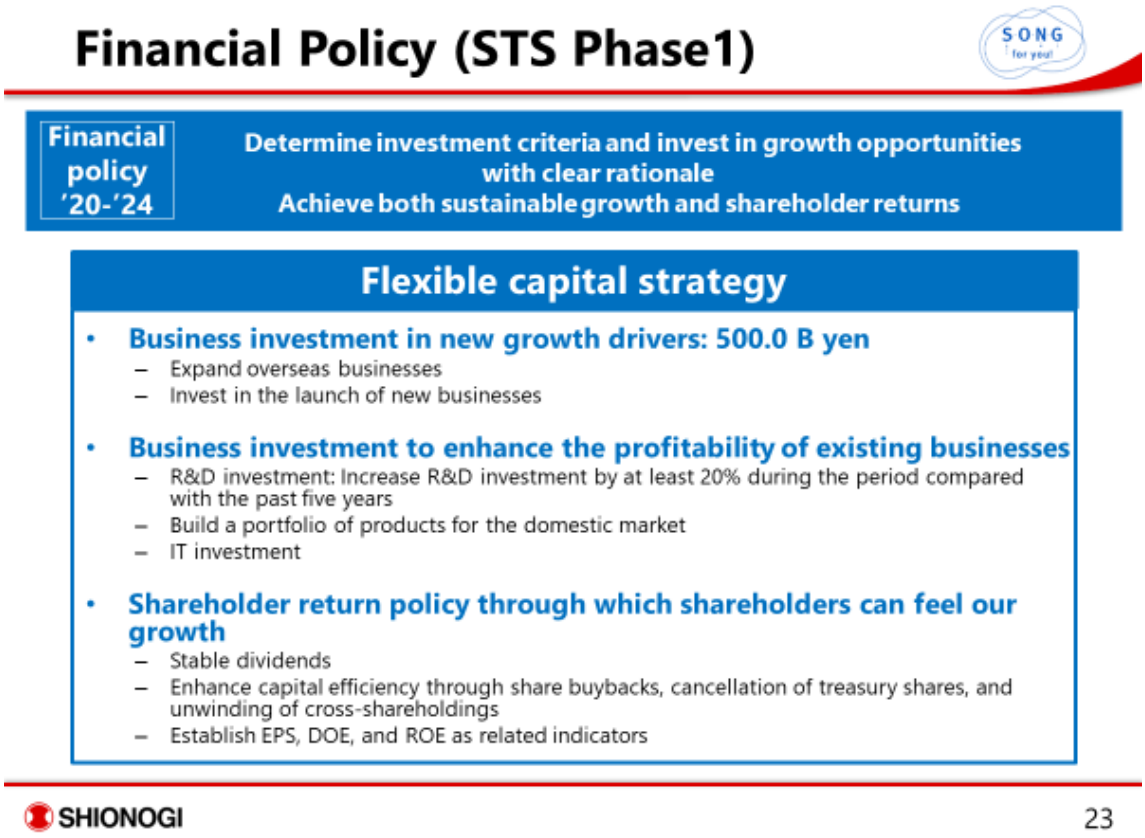
the number of hospitals there, based on talks with CRO. So, there has not been much delay. Meanwhile, however, some trials, especially additional trials that we were asked by the health care authorities to conduct, for example, should be delayed to some extent. We cannot allow delays in such trials, while we are determined to avoid delays in strategies that we deem most important by concentrating our resources in them. Overall, however, I think this strategy has been progressing very steadily.

As for the top-line strategy, we will gather various resources under control of Sawada, namely, resources of sales, marketing, medical affairs and IT. We will gather all of these resources at one place and develop from scratch a next-generation disease strategy including marketing. A disease strategy covers not only producing and selling things but also taking care of the disease. In this phase, we develop a platform for the strategy, and focus all our efforts on building a foundation for it.

The last part is about making decisions. I know that this is a matter that we should handle internally. However, facing rapid changes of these days, it is difficult for each of our Group companies to ensure that their decision-making processes function properly.

Even without the impact of COVID-19, we have noticed that the balance between decisions made by each division and decision made by the company is not appropriate, and we started streamlining our overall decision-making system last year using IT system.

COVID-19 has accelerated this process. I think that determining where to make decisions and how to reeducate the managers for that is a very important theme for this phase.



This is page 23.

As I mentioned earlier, business investment of around 500 billion yen is our target for next five years. This is quite a tough target. It is true that values of venture businesses that we planned to invest in and various other businesses have declined due to the COVID-19. However, the value of cash we currently have has also increasing. So, detailed examination is currently under way at John's as to how we can make proper investments while balancing the cash we should use and what we should buy.

I say that business investment in growth drivers will continue to be a big theme for the next five years. This does not mean we will invest no more than 500 billion yen this time. At the moment we set 500 billion as the target, but it may be more or less than that if necessary.

As for R&D investment, since it is crucial for us to overcome the HIV cliff, we plan to increase R&D investment by at least 20% compared with the past five years in average.

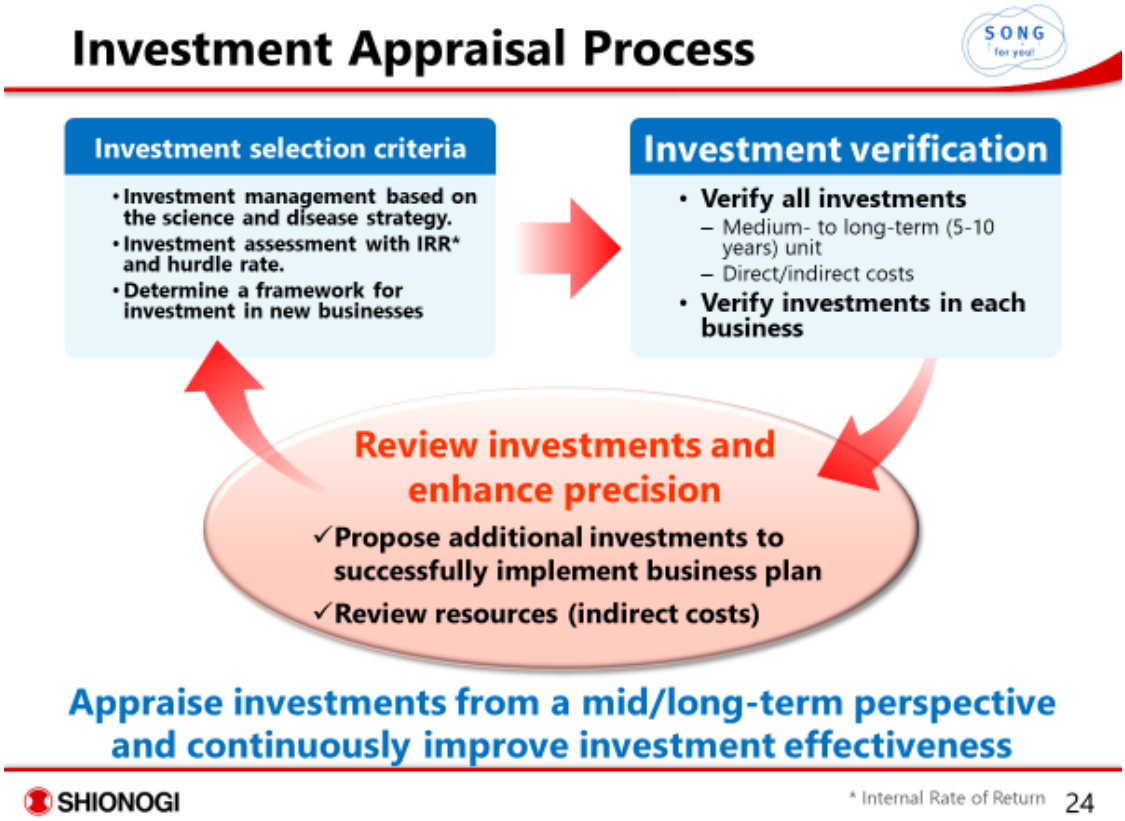
I hate inefficient processes in research and development and I have insisted that the invested money should be used more effectively. Now that operations have been substantially streamlined, I think we can be more aggressive. This is why we decided to increase R&D investment by at least 20% in average. Accordingly, we should be more severe about selling

and administrative expenses.

As for IT investment, I think that Shionogi is way behind in this field. In this rapidly changing environment, it is not easy to decide how much and in what kind of things we should invest. If we are to offer various services based on the disease strategy I described earlier, for example, we need to have the IT infrastructure at the level at least equal to our competitors. We are therefore determined to promote business investments, including IT investment, proactively.

In terms of our shareholder return policy, we will continue to hold the current stance in principle. With the recognition that we are growing as a company though with small ups and downs, we have maintained a stable dividend policy and increased the dividend for the past seven consecutive years, and we would like to maintain this trend as much as possible. We will also continue to promote share buybacks, cancellation of treasury shares, etc. flexibly while watching the market conditions.

Thus, we included EPS in the theme of this time.



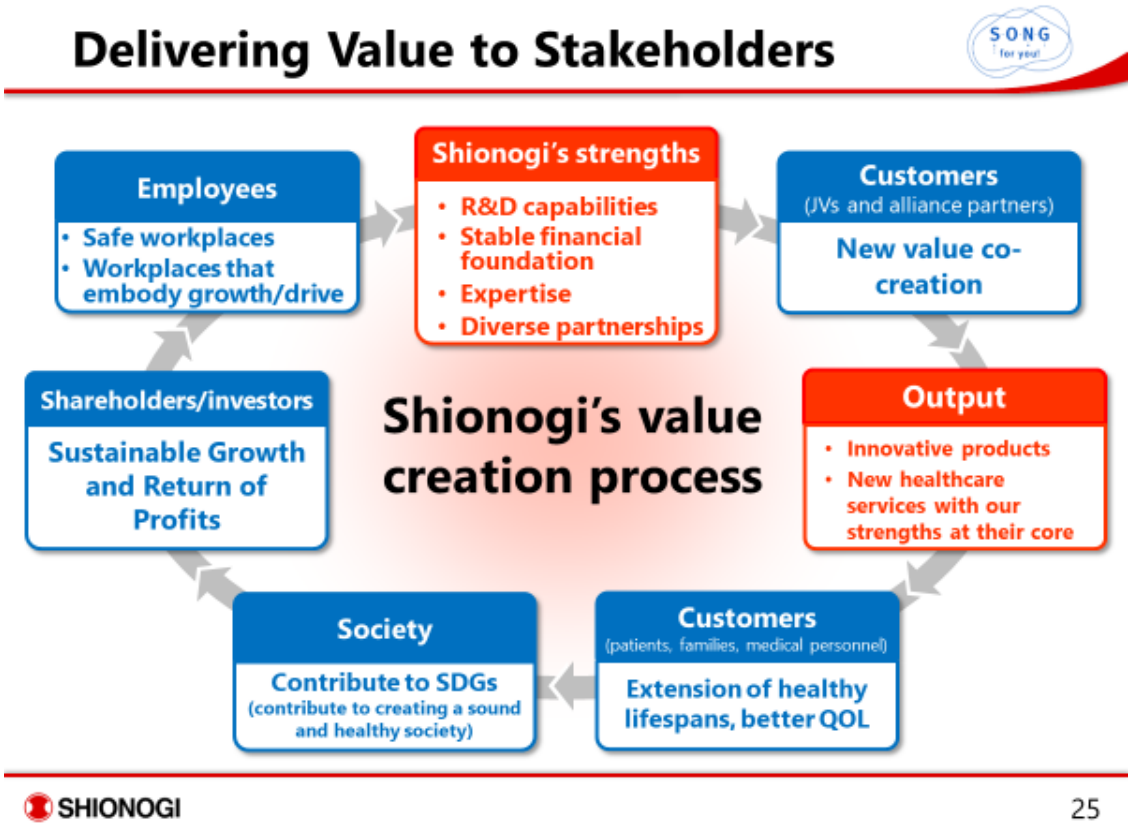
Page 24 is about investment appraisal.

Now the point is how we appraise investments in a world that is different from the one in the

past. We basically take risks. We are willing to take risks in the science or medical fields that we have decided to bet on or head for.

At the same time, we are currently building an internal system to keep a clear record of each decision made. The record will of course include IRR, hurdle rates, and the like, as well as how each investment decision was made. And whether the decision was really correct should be reviewed later, say, two years or four years later. People tend to be very serious about investment at the beginning but often fail to examine whether the investment they made was really correct.

This time, however, we should be severe about this point since we are to spend around 500 billion yen of our shareholders' money. If we make investments for the phase to overcome the next "dolutegravir cliff," we will establish internal investment appraisal processes that will enable us to examine why and how the investment was made, how it works two years later and four years later.



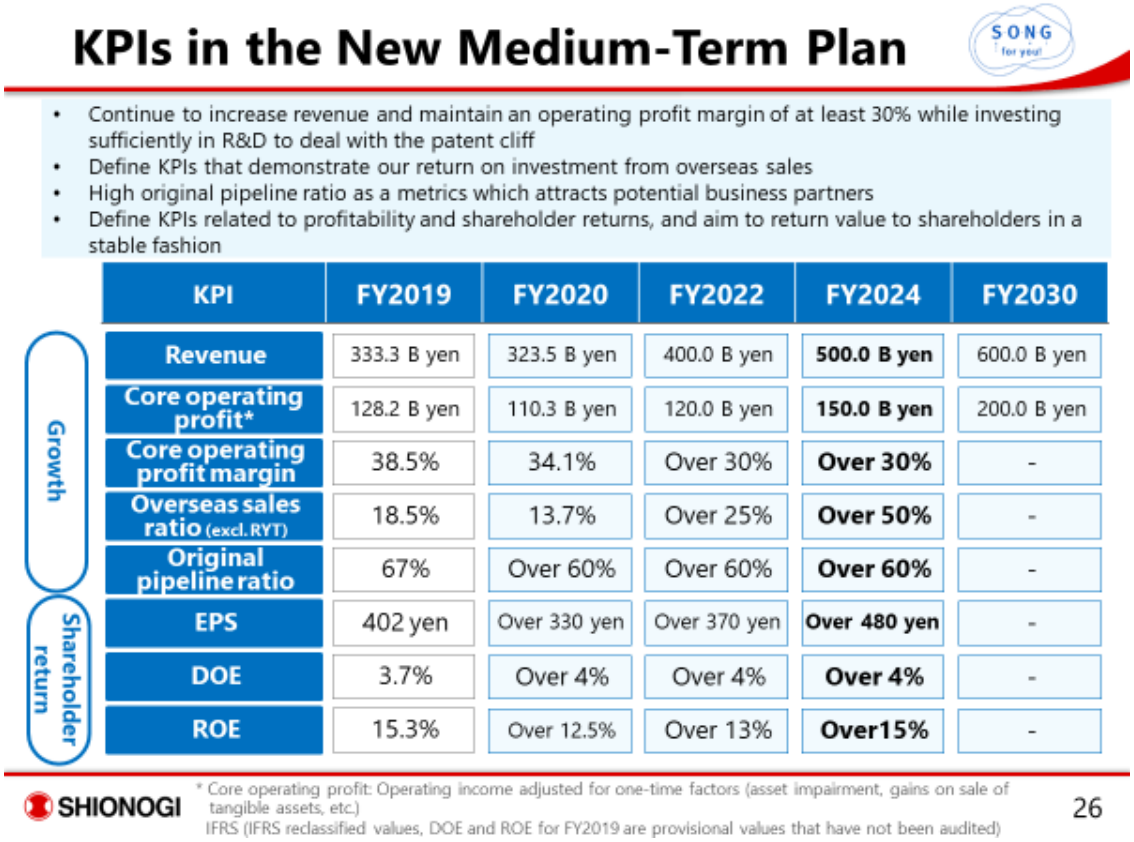
This is page 25.

We have always reminded ourselves that our life is supported by our four stakeholders.

Start with Shionogi's strength at the top, move in a clockwise direction (or a counterclockwise direction), and think what kind of value we should provide for our customers. Do we offer innovative products? Do we provide proper health care services? From a standpoint of patients as our another customers, do we really provide value that have not existed in the past and have really raised their QOL? We will measure all these points.

As to contribution to SDGs, we should assess the contribution by our company, by determining the specific actions of contribution. For shareholders and investors, we should see the impact of our growth on our stock prices and how profits are returned to them. And our employees. Are they working with motivation?

For all of these elements I roughly explained, we have KPIs to measure them. We plan to see quantitatively the progress of our medium-term business plan by measuring the KPIs, though we will not disclose all of them here.



KPIs in the New Medium-Term Plan

- Continue to increase revenue and maintain an operating profit margin of at least 30% while investing sufficiently in R&D to deal with the patent cliff
- Define KPIs that demonstrate our return on investment from overseas sales
- High original pipeline ratio as a metrics which attracts potential business partners
- Define KPIs related to profitability and shareholder returns, and aim to return value to shareholders in a stable fashion

	KPI	FY2019	FY2020	FY2022	FY2024	FY2030
Growth	Revenue	333.3 B yen	323.5 B yen	400.0 B yen	**500.0 B yen**	600.0 B yen
Growth	Core operating profit*	128.2 B yen	110.3 B yen	120.0 B yen	**150.0 B yen**	200.0 B yen
Growth	Core operating profit margin	38.5%	34.1%	Over 30%	**Over 30%**	-
Growth	Overseas sales ratio (excl. RYT)	18.5%	13.7%	Over 25%	**Over 50%**	-
Growth	Original pipeline ratio	67%	Over 60%	Over 60%	**Over 60%**	-
Shareholder return	EPS	402 yen	Over 330 yen	Over 370 yen	**Over 480 yen**	-
Shareholder return	DOE	3.7%	Over 4%	Over 4%	**Over 4%**	-
Shareholder return	ROE	15.3%	Over 12.5%	Over 13%	**Over15%**	-

SHIONOGI

* Core operating profit: Operating income adjusted for one-time factors (asset impairment, gains on sale of tangible assets, etc.)
IFRS (IFRS reclassified values, DOE and ROE for FY2019 are provisional values that have not been audited)

26

This is page 26.

Here are the KPIs we have decided to show you today.

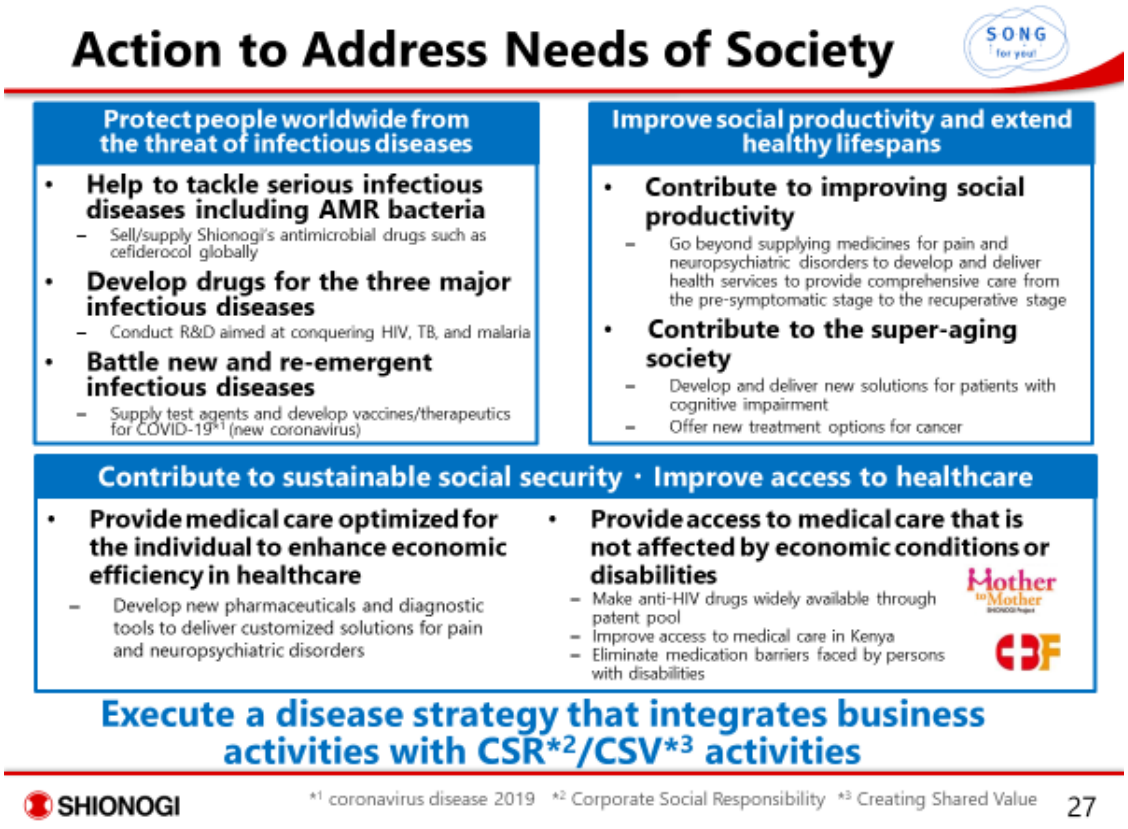
For fiscal 2020, the second column from the left, let me skip my explanation as we have already disclosed the figures. For fiscal 2022, three years from now, we set 400 billion yen

for revenue and will raise overseas sales ratio to 25% while maintaining over 30% of core operating profit margin. This means over 100 billion yen sales overseas.

As for the parameters below, we set over 370 for EPS and over 13 for ROE. As I mentioned earlier, these are the figures based on the premises that profits will steadily increase in the balance sheet.

For fiscal 2024, the final year of Phase 1 of STS, we set 500 billion yen for revenue with overseas sales ratio of 50%. This means that we plan to sell approximately 250 billion yen overseas. And the ROE at this stage will be 15%.

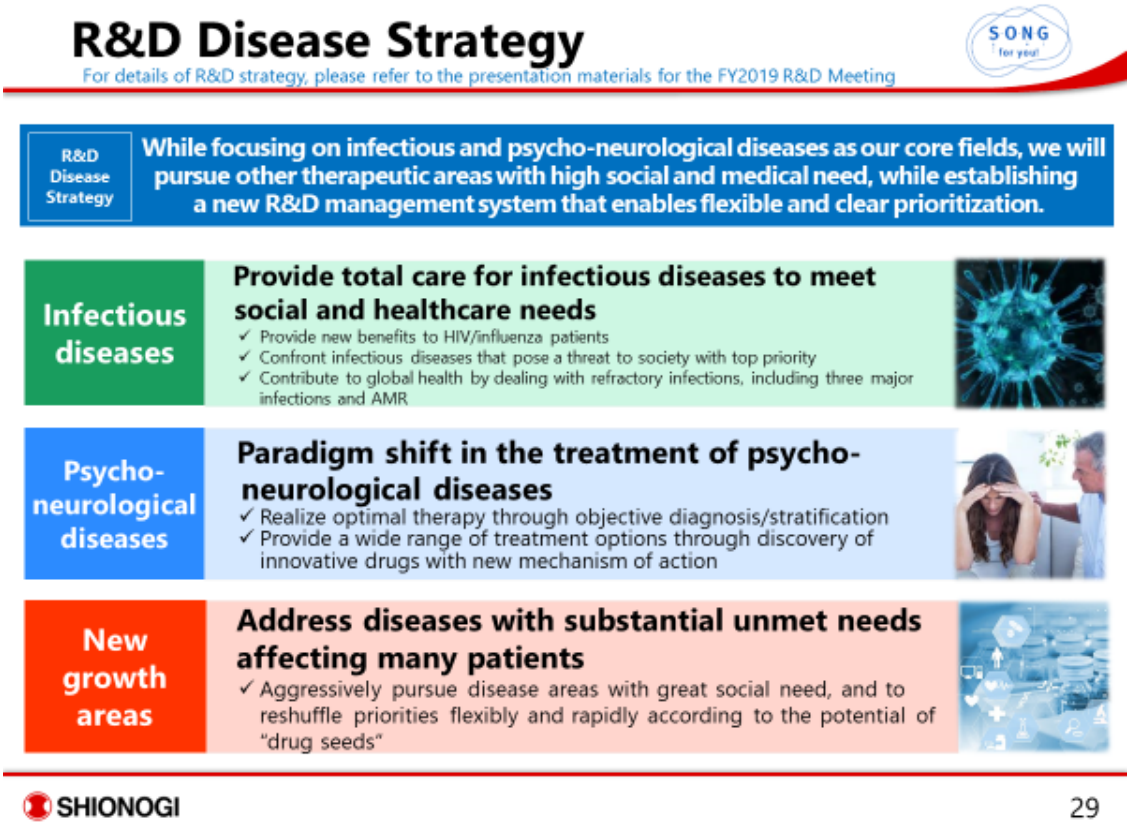
These figures will be reviewed internally for each year and every three years and will be set as targets.



Page 27 is again about action to address needs of society.

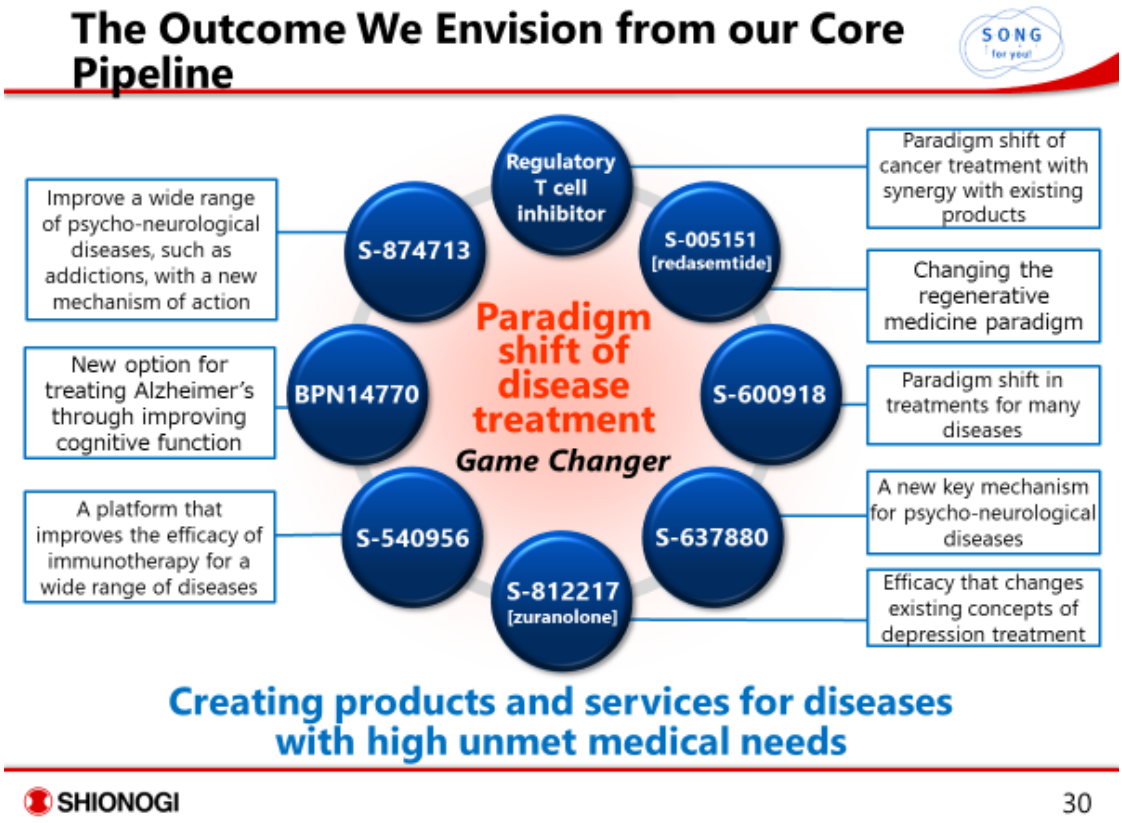
Infectious diseases, improving social productivity and extending healthy lifespans, sustainable society including SDGs. We have taken various internal actions for all of these. Especially for infectious diseases, the COVID-19 pandemic has made our employees realize that we must be really serious about infectious diseases. In this sense, we are beginning to have an image of a company that makes concrete contributions to society. And we must

improve our capabilities to become such a company.
As for pain and neuropsychiatric disorders on the right, serious social needs are expected after the COVID-19. Also, for cancers, while genome-based cancer treatments and other advanced treatments have been mostly established, there are still some unmet needs. I think our CCR8 can probably satisfy such needs. Through such contribution, we will tackle difficult diseases of the super-aging society.
At the bottom, we have steadily conducted various internal CSR activities since long time ago, such as the projects of “Mother to Mother” and communication barrier free. We will continue to further promote these activities.

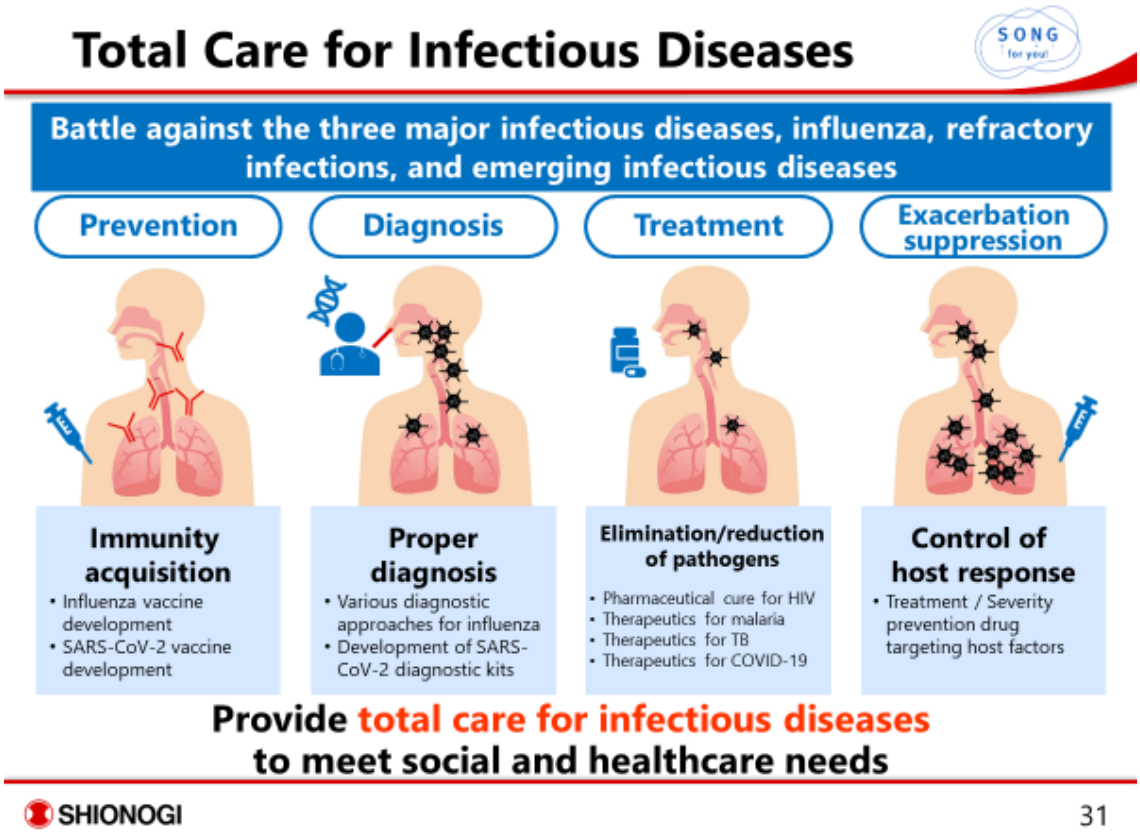


Now, I would like to give you an outline of each of the strategies for the first five years of the new medium-term business plan.
This is page 29.
For R&D, our aspirations were mostly presented at the R&D Day in March. Since I talked a lot on this at that time, let me skip the details. In the field of infectious diseases, we will focus on COVID-19, new HIV, and new anti-virus drugs and vaccines.
For psycho-neurological diseases, we are very much interested in tetra compounds, which

are expected to be significantly effective for dementia, while D3 compounds (S-874713) are applicable to a broad range of psycho-neurological diseases, including ADHD.
While focusing on these fields as our core fields, we will advance into new growth fields, such as S-600918 for chronic cough or sleep apnea syndrome, and Redasemtide for regenerative medicine, which will be explained later on. We place our great expectation on these, and I think the development has been steadily progressing.



These are our important eight chemical compounds and fields. Starting with CCR8 at the top (regulatory T cell inhibitor), Redasemtide and S-600918 on the right. On the left are BPN14770 and S-874713. As we will of course continue to tackle HIV, we will strongly promote these compounds.



This is page 31.

This is the theme that we are studying very well this time, and we are thinking about starting over.

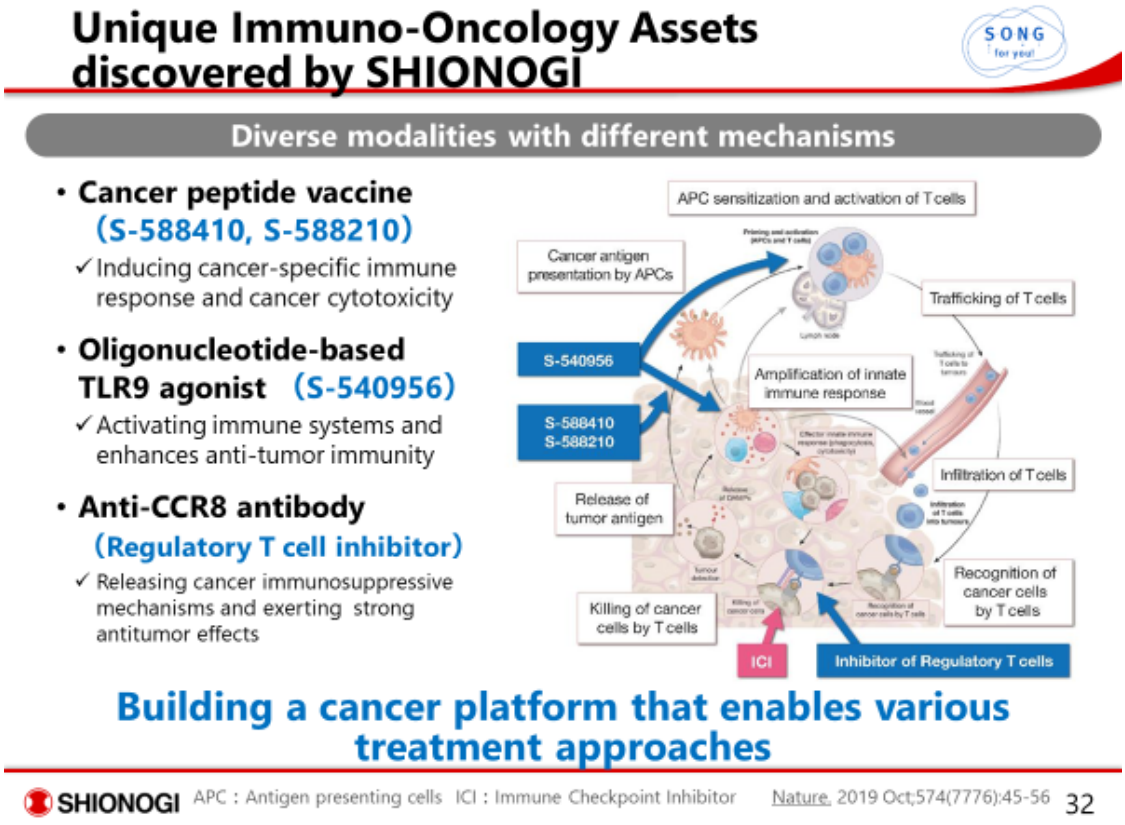
Particularly, with respect to COVID-19, we faced a lot of confusions in the course of diagnosis, which was inevitable due to a new disease. Furthermore, in the step of treatment as shown in the slide, we conducted research of drug repositioning, studying how existing drugs should be used to fight against this virus. However, we found that there were terrible confusions in the third step of treatment and the fourth step of exacerbation suppression at medical sites.

The control of viruses and the exacerbation of disease triggered by the control should have been considered separately, but it was hardly visible for us about what we should really do to help patients because the decrease in virus was not observed clearly.

Currently, we have been engaging in the research of chemical compounds for exacerbation suppression with a U.S. venture company. We believe the key point lies in the treatment to reduce the coronavirus, but what if a domino phenomenon starts at a certain stage to cause severe diseases such as pneumonia or cytokine storm as I mentioned earlier, or other fatal diseases.

For instance, IL-6 may be one answer, and we could have no other choice than setting the theme to suppress exacerbation for the new chemical compounds we are currently working on. As we have conducting research of infectious diseases, our laboratory tends to concentrate on bacteria, viruses and fungi. But we have learned a lot in the research of COVID-19 that there is a significant difference in the paradigm between regulating the virus and regulating the disease.

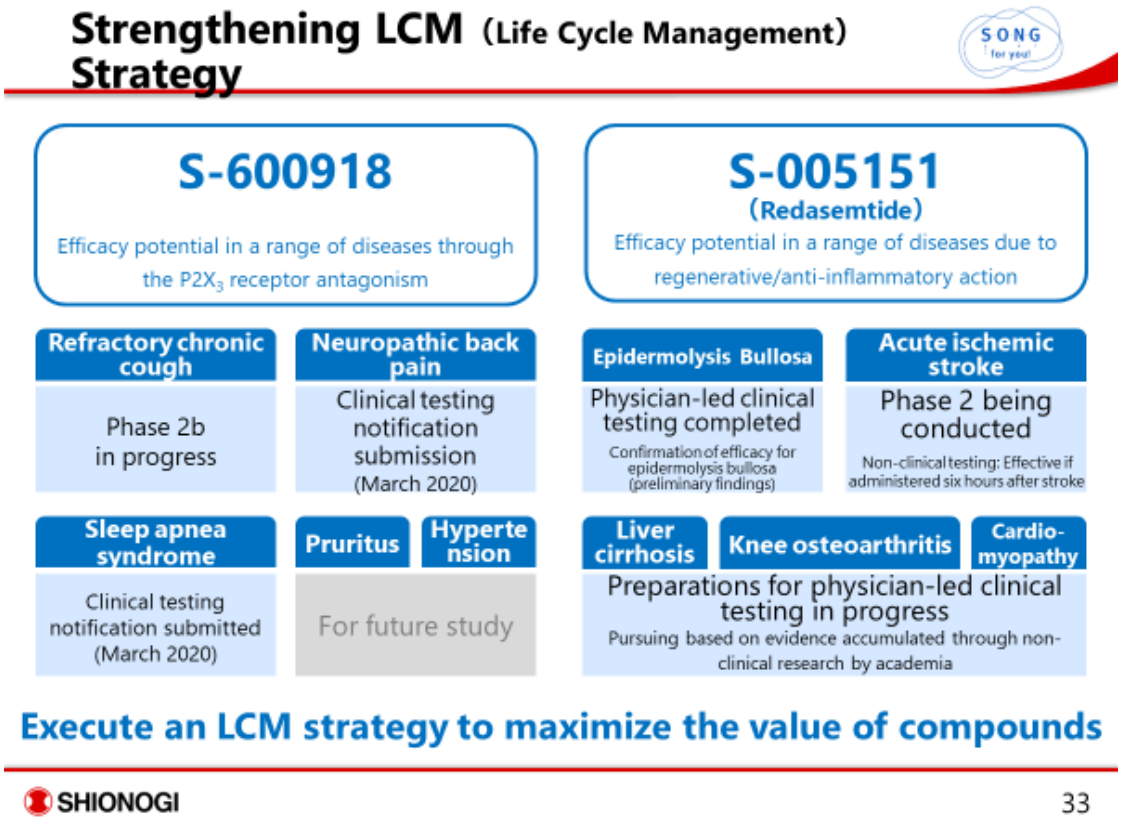
Then, we have set our research theme on how we should suppress exacerbation and at what trigger stage. We consider that if we study infectious diseases, it is not appropriate to limit our research to bacteria and viruses. To that end, we have established a new disease team that include study of immunoreaction.



This is page 32.

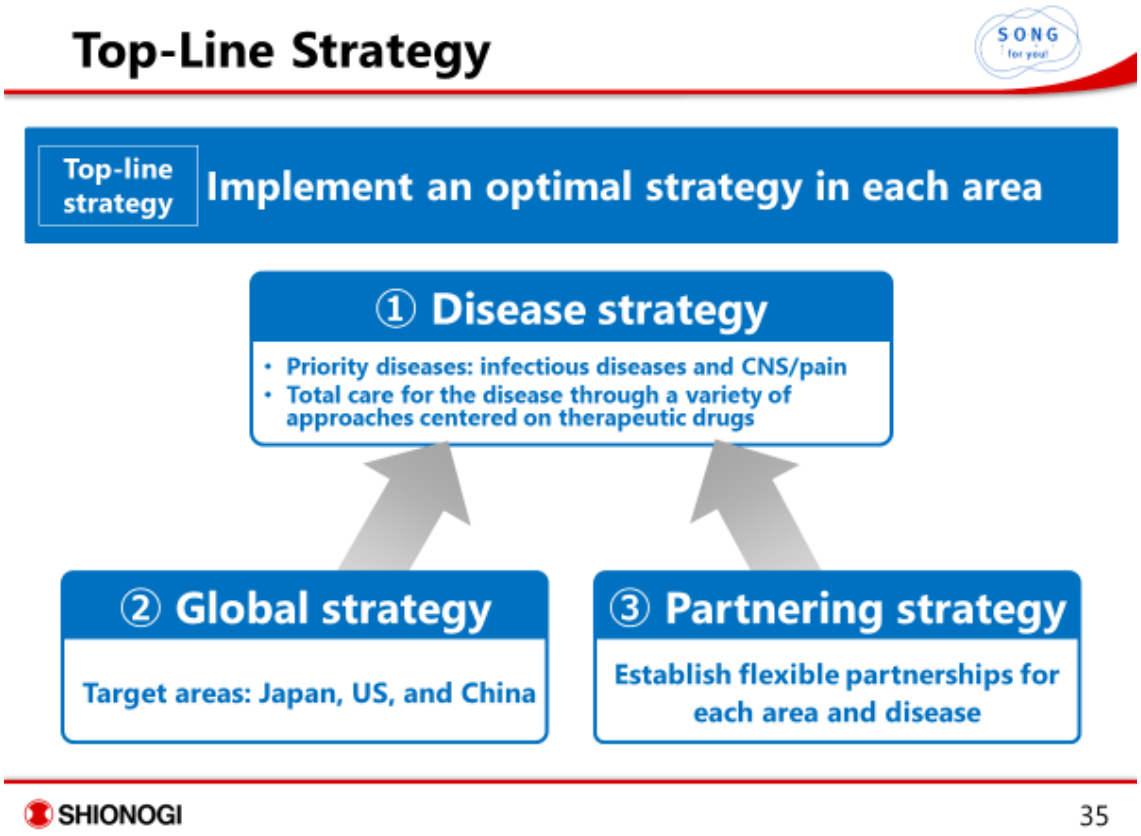
We explained almost all of this content on the R&D Day. We focus on the CCR8 antibody. In the Company, now the top priority is the coronavirus, but we conduct research on this antibody in the priority following the coronavirus. Although we have put an emphasis on this because the process is coming close to the beginning of clinical tests in the next fiscal year,

at the latest. However, as we cannot do everything by ourselves, future partnerships are now under consideration.



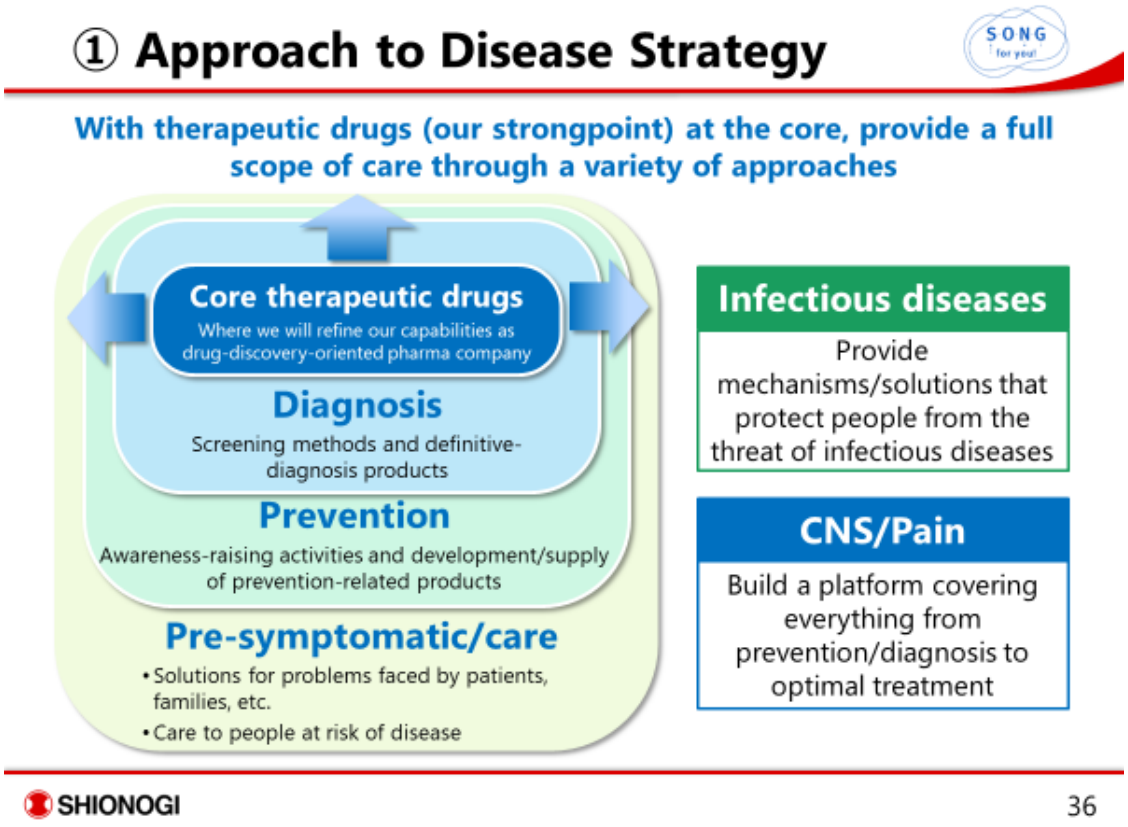
Next, regarding S-600918 and Redasemtide (S-005151). These two are included in our new LCM (Life Cycle Management) project. Traditionally, Shionogi has not been very good at simultaneous development of multiple chemical compounds. I mean, each time one chemical compound was developed, we went through the first indication, and upon completion, we sought what is needed to be developed next. This time, we plan to conduct research of two or three diseases on a parallel basis.

In order to raise the value of chemical compounds, we will make at least three indications run for S-600918. Under S-005151, we have currently two indications, and are planning to develop the third one. In this manner, we have begun our new way of working on the LCM through parallel development.



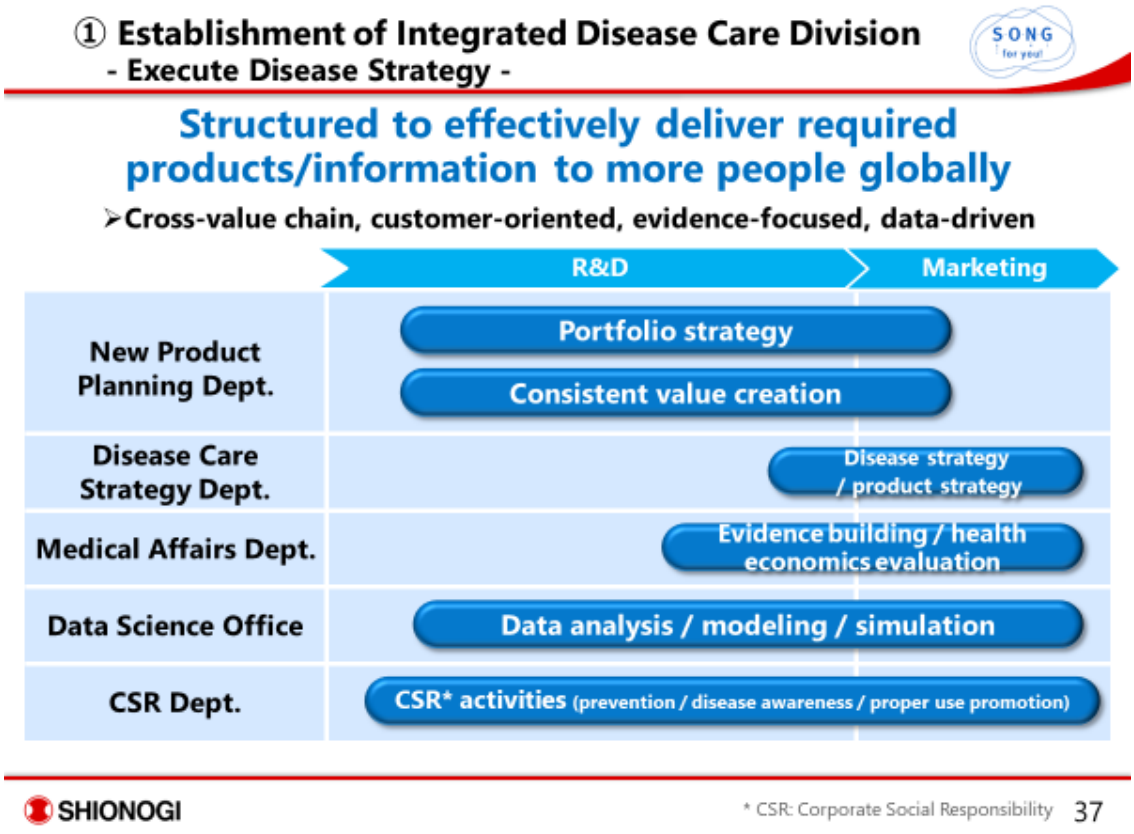
This is page 35 regarding our top-line strategy.

Concerning this strategy, we plan to focus on diseases toward the future although our promotions used to target at drugs to seek acceptance in the market. In this sense, we have been considering a total disease strategy including a global strategy on how we will be able to develop globally, and a partnering strategy on who we should cooperate with and for what kind of activities.



This is page 36.

This is the pattern diagram of the strategy I mentioned earlier. Here is core therapeutic drugs, which we produce because we are a pharmaceutical company. And this diagram shows the disease strategy of how we should diagnose a disease, and in some cases how we can prevent the disease, and how we can provide information. We handle therapeutic drugs as just one of those elements.



This is page 37. This is the basic design of the Integrated Disease Care Division, for which Ms. Sawada is responsible as the General Manager.

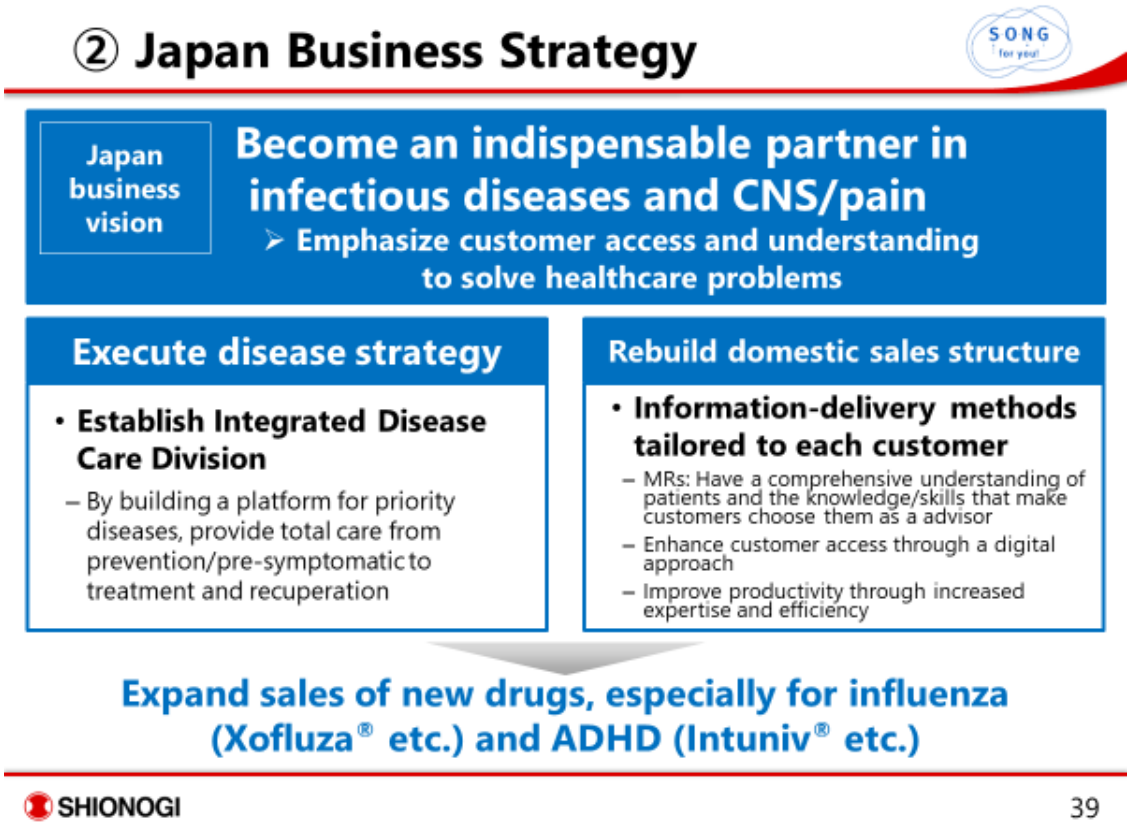
Included herein are the New Product Planning Dept. which plans marketing, and the Disease Care Strategy Dept. which designs strategies for diseases. The Medical Affairs Dept. produces various reports and papers. The Data Science Office engages in handling data for the Disease Strategy. Furthermore, the CSR Dept. engages in linking infectious diseases, pains and psycho-neurological diseases to CSR activities in an appropriate manner in order to move our business forward. Thus, the Integrated Disease Care Division will manage all these departments entirely and is the main feature of our new medium-term management plan.

② Global Strategy

With respect to the global strategy, we focus on a virus strategy including influenza and plus-corona in Japan although it will take at least 1 year and a half or two to launch next products. This is one of our priority fields for growth, and as to ADHD, we are doing relatively well to date, but it is necessary for us to develop the ADHD as a disease to link it to S-874713. Then, we will enter the development of vaccines. That is our domestic strategy.

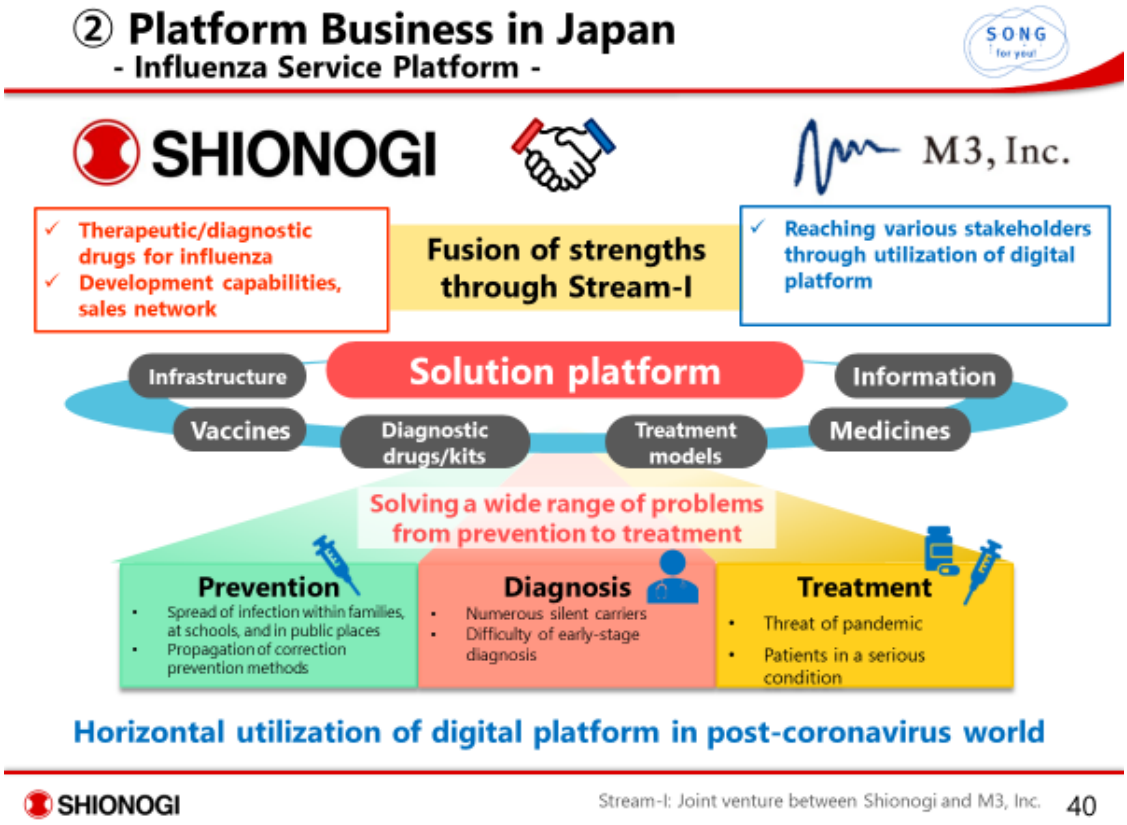
As to the United States and Europe, while working on Cefiderocol and Fetroja/Fetcroja as the core, Mr. John Keller is now planning how we should develop our business in the next step.

In China, we will start basically OTC drugs, and generic drugs such as those of C&O as well as new drugs. The drugs first approved and distributed in China will be developed into Southeast Asia. That is our planned business model in cooperation with Ping An. Upon execution of the agreement, we will make an announcement separately on our future business in China through press release or by holding this kind of briefing session.



This is page 39.

Looking at our domestic business strategy, although I already repeated twice, it is insufficient to provide only drug information. One model case is found in Stream-I as I already mentioned earlier, it is our challenge to provide a package of services including information and diseases, and prevention and treatment, followed by prognosis. To realize the package, we need to have a wide range of capabilities. If we have only one of them, it is impossible to provide this service. The Integrated Disease Care Division will carry out all of them comprehensively.



This is page 40.

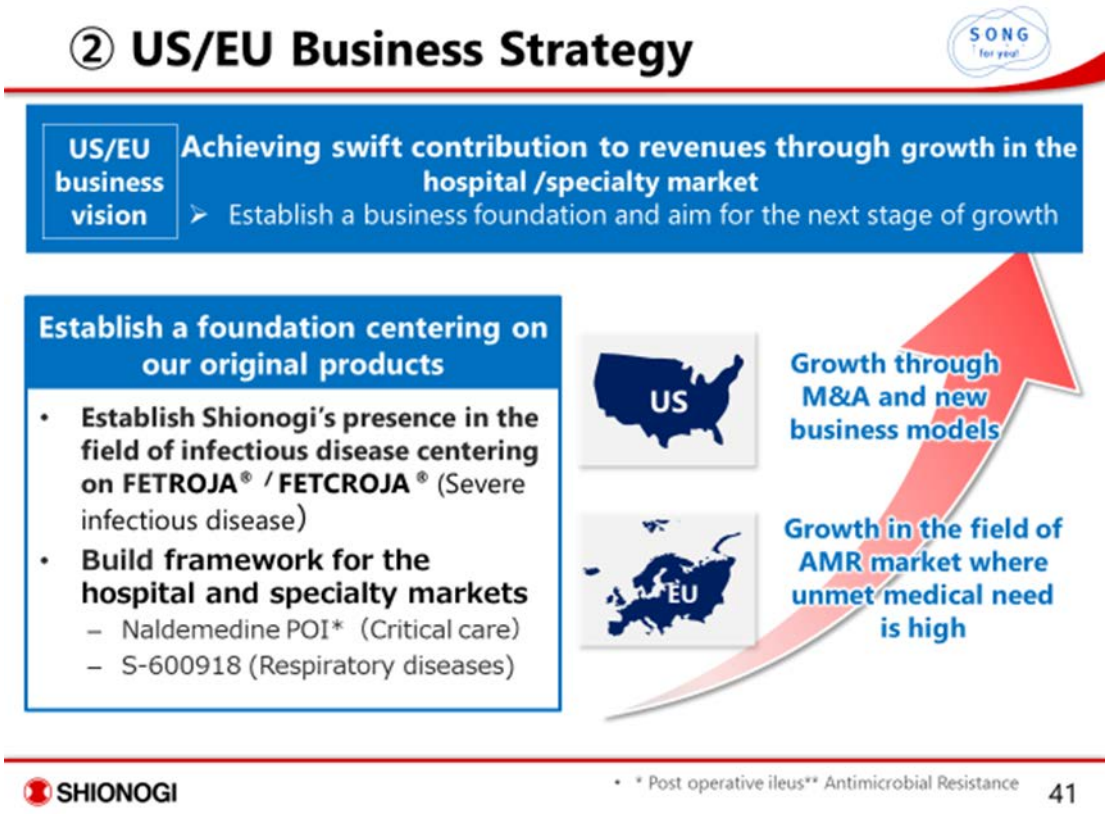
Previously, we prepared a slide which was almost the same as this one, but improved it with what we carried out during one more year this year. This slide explains about Solution Platform, referring to influenza. Recently, remote medical consultation has unexpectedly drawn a lot of attention in Japan. We do believe that the remote medical consultation suits infectious diseases although practitioners of medical associations would get upset if I say this.

If you are infected with influenza, feeling very weak with fever and pain in the joints, is it a really right decision to visit your doctor? Naturally, a doctor would say that you don't know if it is really influenza, and what would you do if other disease remain undiscovered. I understand very well what he means, but if the so-called family doctor system works properly, I think that the remote medical consultation would be sufficient if you know your underlying disease.

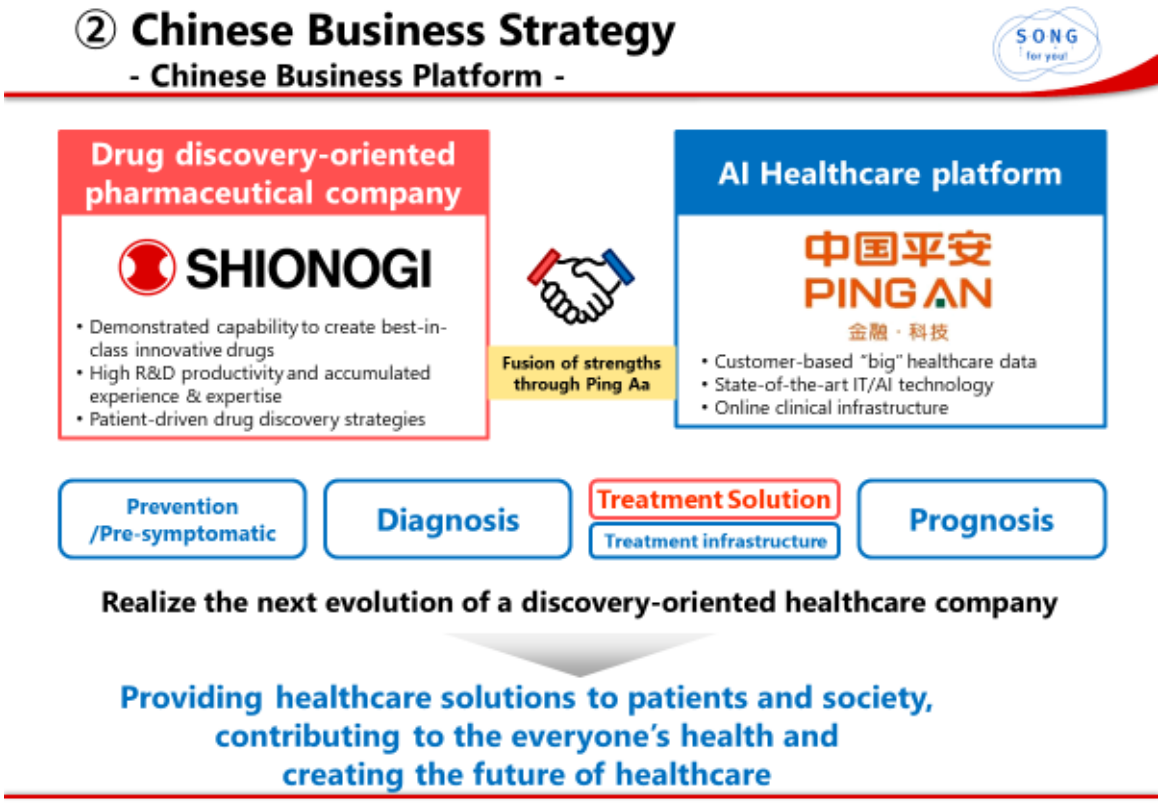
In that case, your doctor might tell you to buy an anti-influenza drug or anti-coronavirus drug from Amazon, take it and call him every day, and if the doctor finds your condition remaining bad a few days later while viewing the display, he would make a decision to take a next step.

If you feel you have recovered to a normal condition, he would put an end to his medical examinations.

In order to expand our capabilities to go farther, we believe that the processes of gathering information and connecting it to drugs, prognosis and prevention should be conducted in the form of a total package. As the first case of infectious disease, we have put this into practice, and we are confidence that the same process can be also applied to other chronic diseases as a matter of course.



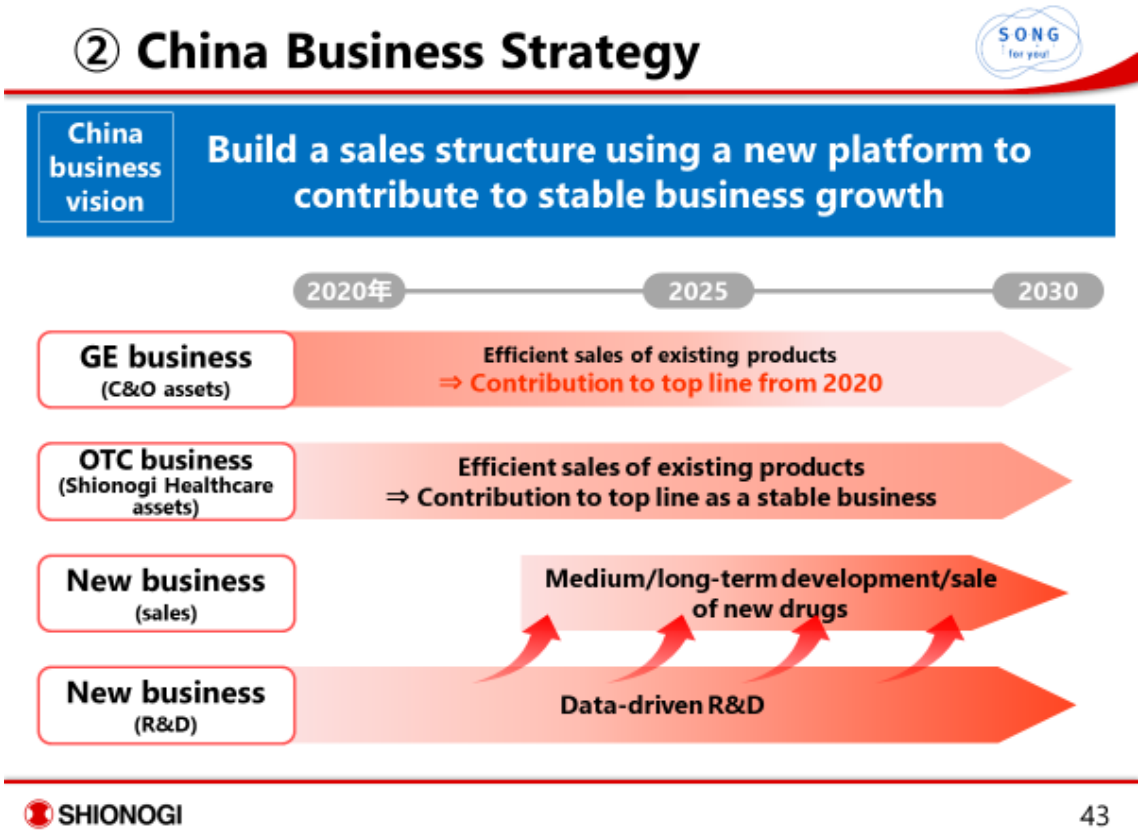
In the United States and Europe, as I have said many times, we will establish Shionogi's presence in the field of infectious disease centering on FETROJA/ FETCROJA. On the other hands, we might enter into a partnership with regard to S-600918, mainly in chronic coughing, while taking into account the possibility of working by ourselves, the same respiratory disease. However, this will depend on what kind of capabilities we will achieve through M&As. Therefore, we intend to fine-tune our strategy while considering these matters comprehensively.



Please turn to page 42.

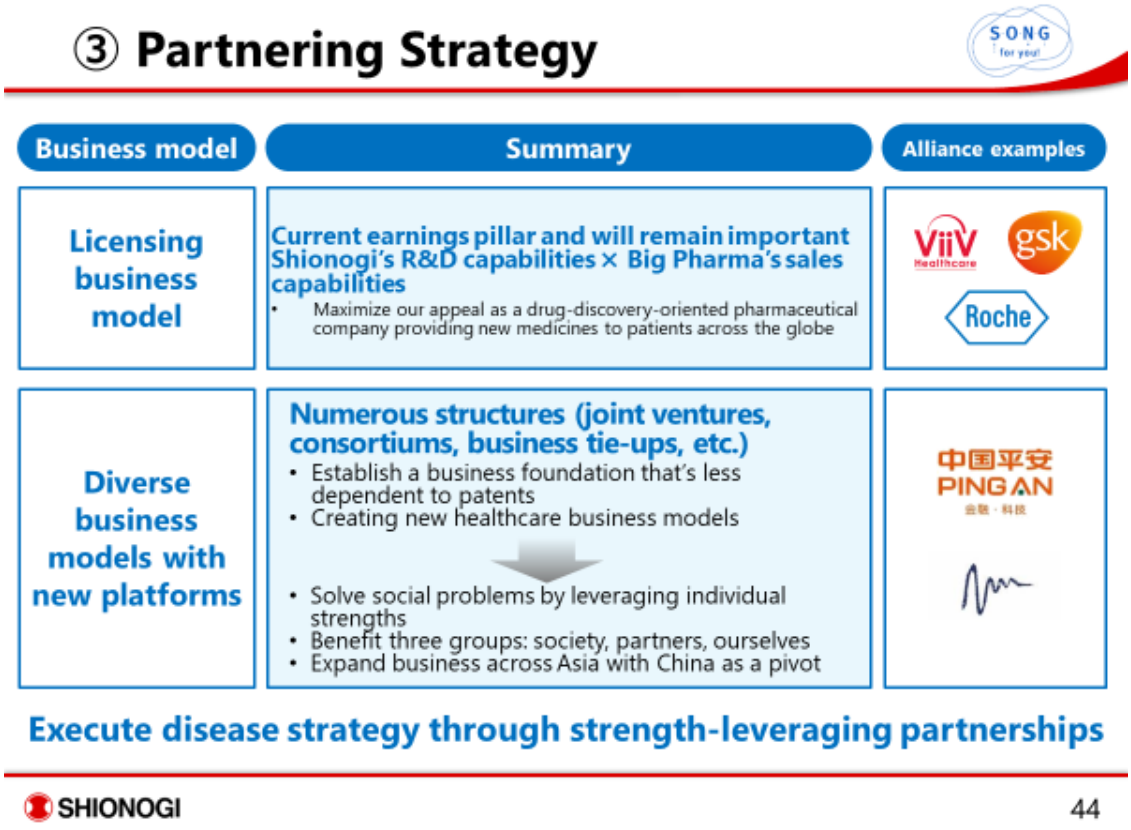
The topic on Ping An has been discussed many times so I will not go into the details, but it is one of the partnerships that we consider to be the most important in the next couple of years.

We will first establish a joint venture and try to obtain approval as soon as possible by placing our existing strengths there and putting all of the compounds that we wanted to develop in China soon in the joint venture. Going forward, we hope to discover new drugs there, especially based on IT or AI, but first on what we have. As for now, we intend to include the vaccine that we are currently developing, so we think that we are gradually obtaining the products, including vaccines, or the strengths for expanding in China and Southeast Asia.



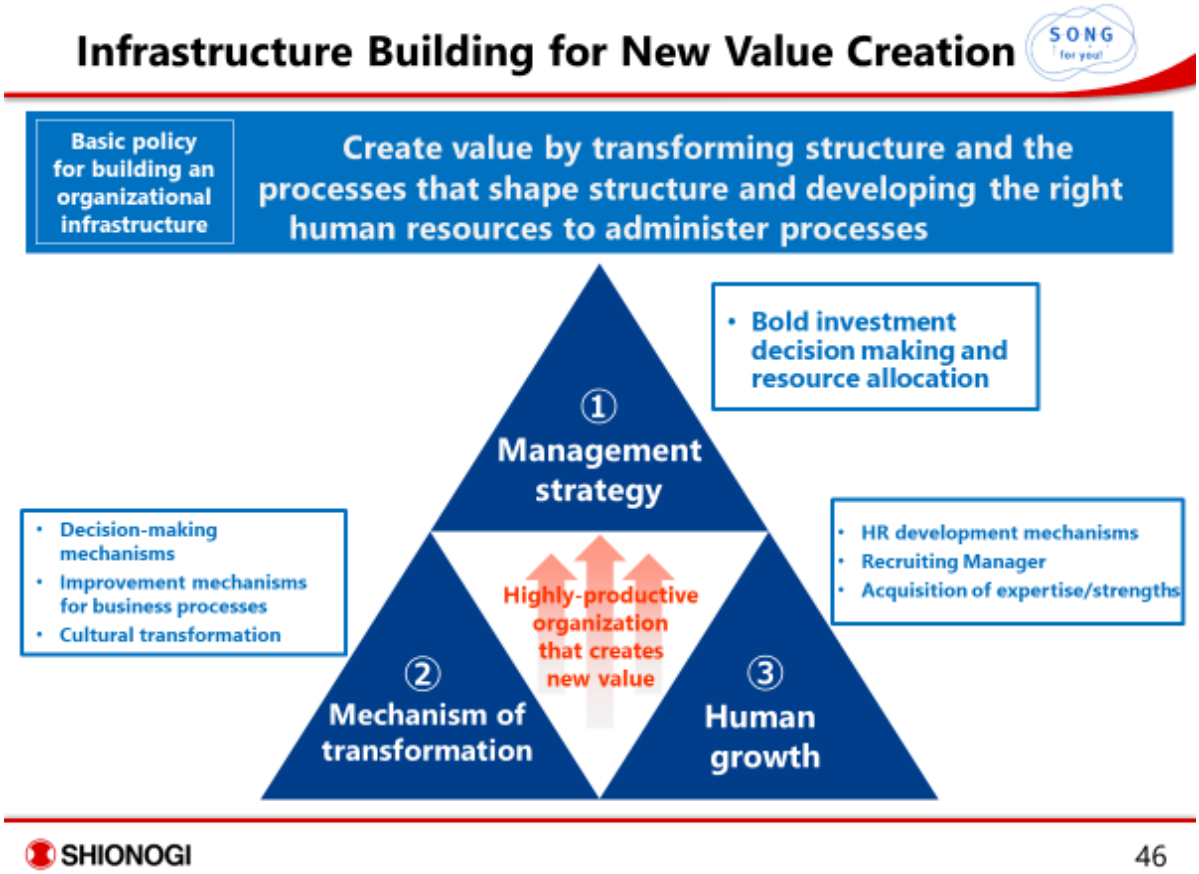
Please turn to page 43.

As I mentioned earlier, the GE business and the OTC business will start to contribute soon. As for new businesses, we will make full-scale introduction of new drugs by 2022. After that, in R&D, the joint venture will lead the new R&D method and import it back to Japan. This is the model we are thinking of.



Please turn to page 44.

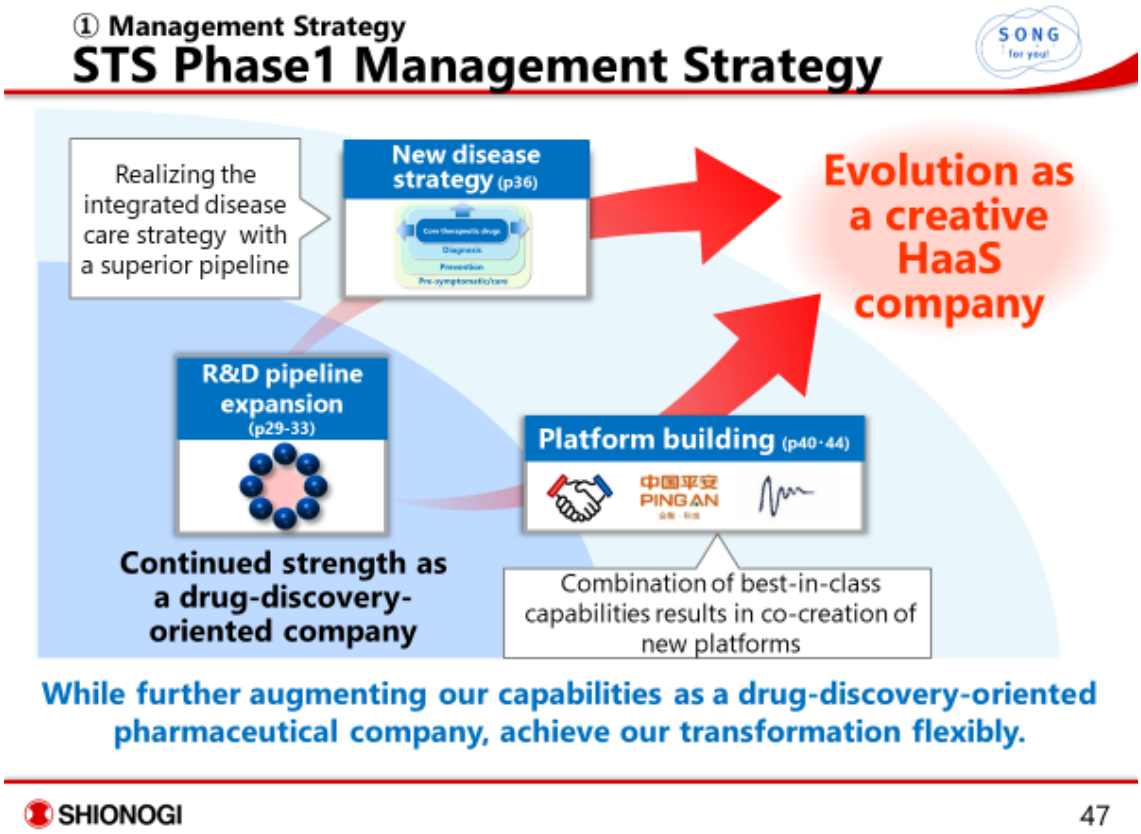
About the partnering strategy, we intend to work on the licensing business model to the extent permitted. I'm sorry to repeat, but we cannot do everything by ourselves, and it is sometimes more convenient to borrow the power of big-pharmas, especially when trying to expand globally. We will not deny making some, if not all, of our profits by partnering in revenue platform areas, while gradually increasing what we can do.



Please turn to page 46. I explained earlier.

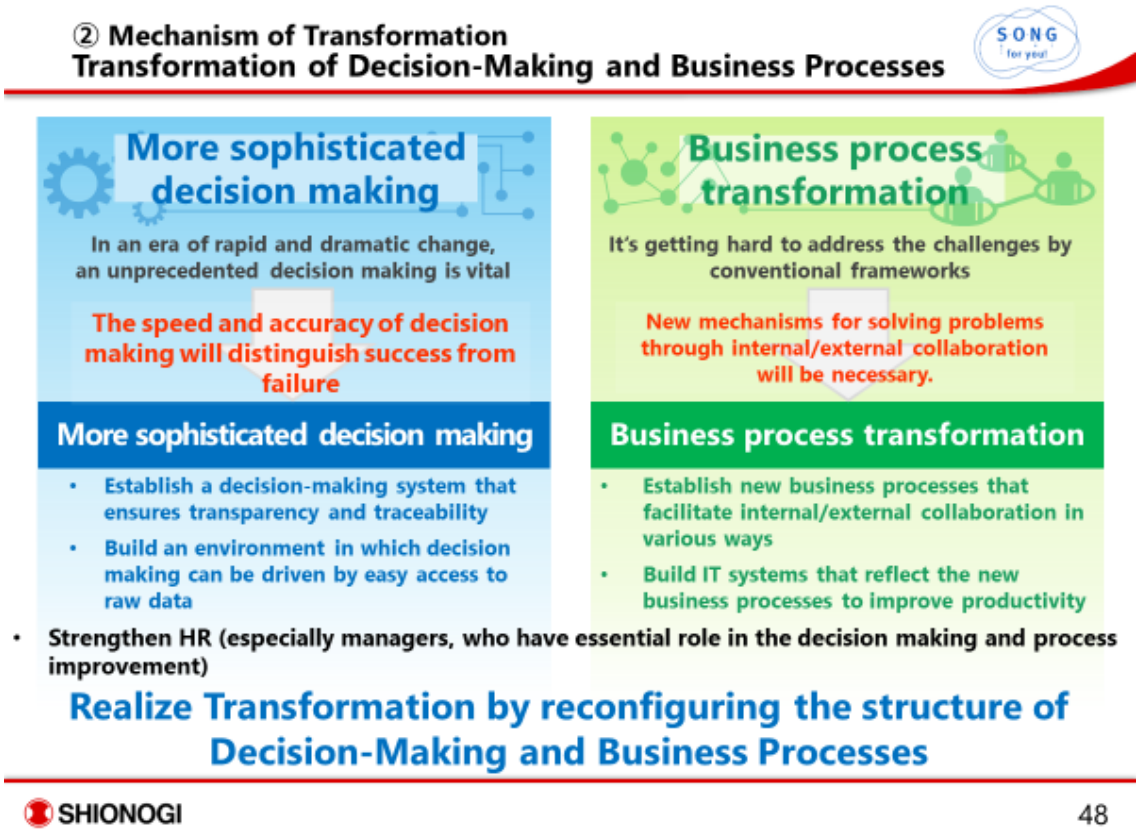
How to run a company well is the responsibility of management, and we have been in charge of that.

However, let me talk a little about what we are trying to do. It is resource allocation. As I mentioned earlier, it is about how to make investments and the process of decision-making. It is about sorting these out, including the issue that decision-making is taking too much time and sometimes matters are proceeding without understanding what has been decided by whom. Also, human resources development. We intend to work on these issues since we must also think about the next generation.



Please turn to page 47.

We intend to develop a management platform that facilitates growth as a HaaS company, while working on R&D, disease strategy and platform building.



Please turn to page 48.

For your reference, I would like to explain a little about what we are carrying out within the company. We are currently establishing an IT system that can trace back who is deciding what, when, and where.

Furthermore, this coronavirus situation has been a very good trigger, but the question is do we really have to meet physically? Unfortunately at the moment, if everyone is gone, we cannot make products at plants, even when including remote work, although continuous production may become possible in the future. Until we reach that point, products will still be made by a certain number of people. However, apart from those areas, I think the work processes are much relaxed and could at least be greatly improved in terms of efficiency.

③ Human Growth

Human Resources Development

Vision for Shionogi's Human Resources: Shionogi Way

Be the best you can be to take on new challenges

Measures for propagating the Shionogi Way

Developing a challenger mindset

- **Support for employees who learn proactively**
  - ➢ Self-investment support scheme
- **Personnel system that supports a challenger approach**
- **Opportunities for overseas study and external postings**
- **Career design support**

Measures for capability development

- **Strengthening managers, the key to attaining our vision (redefining the model manager and providing education)**
  - ➢ Greater discretion in decision making through delegation of authority, business process transformation
- **HR** training for acquisition of Key Capabilities***
- **Acquisition of specialist skills**
  - ➢ Establishment of mechanisms for developing specialist personnel (expertise required for healthcare services globally)

Shionogi Education and Training Center

SHIONOGI

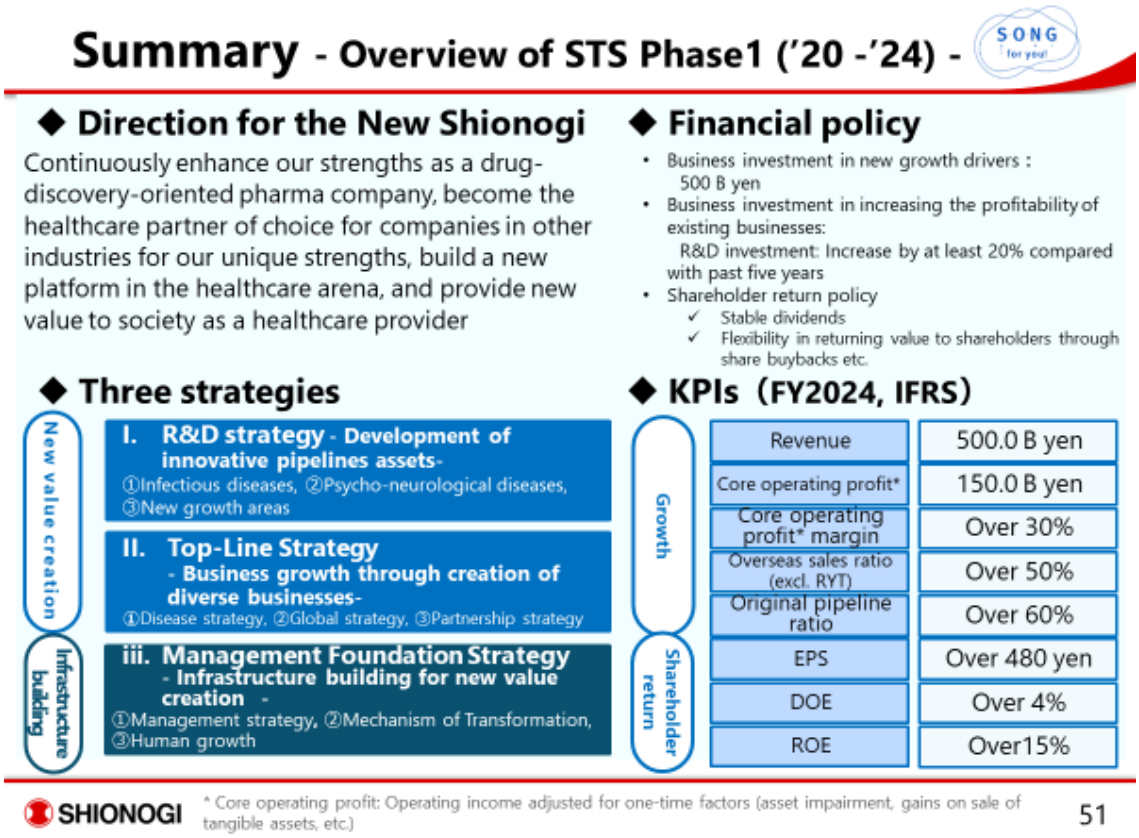
* Key Capabilities: Basic competencies that all employees should possess
** Human Resourses

Please turn to page 49.

We established the Personnel Development Center in the end of last year, and its schedule is almost full so far. I cannot book a room almost whenever I go--personnel development activities in many ways are being carried out. We intend to continue training people here, especially including the training of managers.

Please turn to page 50.

We have appointed quite young people, in their 40s or in their 30s in one instance, to the post of president or vice president of group companies in April to have them learn about running the company for two or three years, during which I or Sawada train them thoroughly twice a year, at the general meeting of shareholders and business report meetings. We have been continuing this for a long time. The company has continued the president academy and the management academy—the productivity per employee will not improve unless we develop human resources. I would like to spread the information in this area.



Finally, this is the summary page.

I will not repeat, but at least the direction we aim for is to become a strong, drug-discovery-oriented company that will be the core of the platform. At the same time, I explained the outline of how we intend to act in the next five years, in view of the next ten years, including our R&D, top line and management foundation strategies.

As for the KPI on an IFRS basis in five years' time, our management and employees will make efforts to achieve ¥500 billion in revenue, 30% or more in operating margin, and ¥150 billion or more in core operating profit.

I would like to end my presentation by asking all of you for your continued support. Thank you for your attention.

Q&A

Kyokawa: I would like to start the Q&A session.
I will first receive questions from those of you at the venue and then from those of you who are participating by phone. I'm sorry, but I would like you to limit the number of questions to one or two per person, so that we can receive as questions from as many people as possible.

I would like to receive questions from the analysts and investors at the venue. Please raise your hand and state your company and name before your question.

Hashiguchi: This is Hashiguchi of Daiwa Securities.
Listening to your presentation, I had the impression that your earnings structure will change significantly. On the other hand, your vision for 2030 is ¥200 billion of revenue and ¥60 billion of operating profit, or core operation profit, which means profit margin is roughly the same as now. What is your image of your revenue structure for this profit in 2030?

For example, in slide 20 you have divided revenue into about three groups, and I would be

grateful if you could share with us your image of the size of sales for each component.

Teshirogi: Not everything has been determined, but our vision is that 4 out of 10 is operating profit generated by selling products by ourselves, 4 out of 10 is revenue based on patents, i.e., the royalty business, and the remaining 2 is other businesses. We expect sales to grow in this ratio: 4, 4, and 2.

To be honest, the second component is currently 100, or 10, so from there it will be the portion that generates profit through our own sales and the portion that generates profit from other businesses. By increasing them and decreasing the royalty business, which we do not mean to deny as I have been saying, we intend to aim for a ratio of 4, 4, 2.

Hashiguchi: Is that the profit structure?

Teshirogi: Yes.

Hashiguchi: I understand. I would like to ask one more question. It is about the gap between your haphazard scenario and your desired scenario in the profit chart that you have indicated many times. The gap widens just a little bit around 2021 but does not widen further after that. It widens significantly from around 2025. So it looks like there are three stages—widening a little, unchanged, and then widening a lot. Please explain what happens in these stages and how they develop.

Shiota: Thank you for your question. I am Shiota of Corporate Planning. I would like to answer your question.

This is a schematic diagram and is a significantly simplified illustration. Our intention is to prepare something that can fully fill the gap at the cliff after the part that directly contributes to sales, or that is apparent, at the stage in 2024 and 2025 when the current medium-term business plan for Phase 1 ends. The starting point of this illustration is that Phase 1 is where the preparation will be completed.

Hashiguchi: What is this small gap around 2021?

Shiota: We hope to create the first gap, for example, some aggressive investment, which was explained today, such as strengthening our current pipeline as early a stage as possible.

Hashiguchi: Thank you. That will be all.

Kotani: This is Kotani of Nomura Securities. I have two questions.

The first question is about the past. Looking at your previous medium-term business plan on pages 8 and 9, it was very clear what fell short of target, which was the sales of new products. This is very important, which I think includes everything from your investment decisions and the profit decline for the current Tetra and others.

I think these include Mulpleta, Symproic, and Osphena of course. There were high expectations toward them but they fell short of target significantly. Of course, I think one of the reasons was that the forecasts were aggressive.

However, I also think it is rather clear that there was some kind of miscalculation. Please excuse my language, but looking from outside, I have a feeling that you may have been a little overconfident—thinking you had such great drugs that would definitely sell. This reminds me, I do not see expressions like “last in class” in the materials this time, and I feel that perhaps that strategy itself does not suit the current situation.

Here on page 24 of the materials, it says investments so it may be a little different, but I think you have created a Strategy Market Department or something like that and are re-examining those matters. So, my first question is, where have you miscalculated—was it really a matter of your judgment or something else—and what kind of revisions will be made this time?

Teshirogi: You have hit the jackpot. The original idea of “last in class” was about Crestor. We had always advocated that it was a wonderful product and that it would sell this much even if it was the last, and it is true that we had believed at our lab that a product with top-class efficacy would be successful.

However, there will be no chance of success going forward unless we develop a market. In other words, it will not work out like Statin, which was launched with great fanfare as the last product in a developed market. What are successful now are new mechanisms for which we developed a market.

I happened to be talking with Sawada today about whether we would come up with a drug

that costed ¥160 million, like at Novartis. We would probably end up thinking that about ¥2 million would be enough.

We were saying that it has been a long time since we actually started from thinking what kind of added value should be created by what kind of way and how to create that market, which means evaluating value based on patients, in the true sense of the word, and the market, and then moving on to research. So, the reason why Sawada and I have been visiting our labs for the last three years or so is to ask them to make such products.

Therefore, in that sense, we must make a major change to the way we work. We should shift from thinking why Mulpleta doesn't sell, why Osphena doesn't sell, to thinking perhaps we are not looking at the basis of patients and the market. Perhaps we were a little arrogant—this word may be a little strong—believing that a product will sell if it is a good product. We must think from scratch where we should provide that product.

On the other hand, we have some pride in our ability to create products in response to requests. In that sense, the message from the top was not thoroughly passed down, and the removal of the expression "last in class" was intentional so it will probably not work out.

Therefore, we will need the ability to create a product that is "first in class" and develop a market as well. Establishing a disease strategy under Sawada means that what is driven by patients and the market will be fed into the labs. If we become a company that can create products based on that, we might have a chance to compete. This is what has been pulling us down the most.

Kotani: I wish you will provide us with updates of the progress on that theme. Please do so, since I think that is extremely at the core of your company.

My second question is about the chart on page 13. In short, it is divided into two. Your current forecast is for 2024. Your forecast for overseas revenue of ¥250 billion is quite extraordinary. Will Ping An contribute greatly? If not, you must make a huge amount of investment to reach this target. Unfortunately, Cefiderocol is a difficult drug to sell much.

When thinking of this, the new drug S-600918 will not yet contribute that much, so is that the case?

The later stage of the chart is actually where there is the biggest gap between the market. The reason is that you see all the data, but we do not see any. That is S-648414, the next-generation HIV drug. But you have already seen the data. I don't know the mechanism, but it is effective. You know that it is effective. You see it because it is an anti-HIV drug.

Also, I think you are already seeing a rival drug, Islatravir, a capsid inactivator, but could you tell me the probability of your forecast that this red line will go up? That will be all from me.

Teshirogi: Our forecast for 2025 is that, as you just said, Ping An, and existing businesses in the US, Europe and perhaps Japan will have a 50% share of the growth, respectively. Especially the US and Europe 50% and Ping An 50%. For Ping An, in particular, it is relatively easy to foresee what will be approved at what timing, and we are talking with them about how to sell the products, so I don't think we will deviate from the forecast that much.

In terms of the rest, or the US and Europe, we have incorporated a model, including investments, that we developed for achieving a certain level of sales.

For the latter part of the chart, we will suffer if it was only from the HIV drug. In the eight circles that will work on during this period, we expect at least three or four products that will be launched from around 2026. We think that we can make up for this cliff if at least two of them will become a hit.

What we are trying to do this time is, to answer your first question, not thinking that a drug would sell if it was good but developing drugs that are in high demand from patients. To elaborate, we are working on what will sell. This time we have incorporated an outlook of achieving sales from around 2026 and 2027, thinking about how to allocate resources to products that would sell. The HIV drug is included of course, and CCR8, 918, and some vaccines would probably contribute. This is the basis of our forecast of revenue growth.

Kotani: Just to supplement, do you mean that you are counting on the success of two of those three—CCR8, 918 and vaccines?

Teshirogi: The HIV drug is also included.

Kotani: The HIV drug is also included. Thank you.

Sakai: I am Sakai from Credit Suisse.

I would like to know the positioning of cabotegravir in the table on page 13. In the previous PrEP, and then two months later, we obtained favorable data. This would likely lead to a fair degree of sales if the drug is launched. If this red line were to rise upward slightly before 2025, then the patent cliff after 2025 will likely be for bigger. I believe presenting this type of table is likely the ultimate risk.

This wasn't a question but I would like to know if this risk exists? Did you take this risk into account when you created this table this time around? Also, depending on when cabotegravir is ready for launch, performance in the short term will likely differ a fair amount. Can you elaborate on this a little?

Teshirogi: That is a tough area. We also believe that cabotegravir, including the PrEP, is likely to perform far better than we current estimate. The oral formulation, including biktarvy as well, is not likely change considerably. Internationally, sales are likely to gradually fluctuate but we also plan to create two compounds.

No matter what, Triumeq sales will likely the lethargically drop a certain degree. In the oral formulation market, we expect that sales are not likely to substantially change. Our wild card is the injectable formulation, including PrEP. This could expand the market. In the short term, we anticipate a considerable increase in royalty income.

In this case, we understand that the other holes we will need to fill will be larger than expected. This may seem far-fetched or like an excuse, however, this will not change the way we do anything. Nonetheless, we need to launch this new product group as soon as possible, regardless of the type of patent cliff. There is nothing we can really do therefore we recognize that we need to focus on this. The further progress that cabotegravir makes, we will be forced to take action. You are correct about this.

Sakai: I understand. I have one or two more questions, maybe just one question. You said that if current trends continue, your royalty revenue will drop to around 40% in 2030. Consequently, I personally believe that it will become very important that Shionogi drop out of the royalty business.

What are your plans for ViiV, as it is likely to come into play in and after 2030. What plans do you have for your ties with ViiV, including investment in ViiV? The balance sheets you presented earlier do not reflect this. However, at some point won't it become necessary to review your ties with ViiV, including investments? Don't you have some thoughts on this issue?

Teshirogi: I think the keyword or timeframe is obviously 2024-2025. This is also naturally the time period cabotegravir sales are likely to grow. This will also be the timing at which both we and Gilead need to focus our attention on generics in the oral formulations market. In light of this, earnings structure should change considerably at both Gilead and ViiV.

At that time, it will likely be necessary for Gilead to produce a drug product outside the field of HIV otherwise I think their company will not be profitable. They will need to consult with us, GSK or Pfizer. This will also be the timing where ViiV needs to consider whether it can continue to focus sole on HIV drugs. I think at this time it will be necessary to think about how the investment structure will change.

Cabotegravir is an intellectual asset. It is not as simple as whether we will obtain a PK or PD if it is once in 2 months. We do not believe this can easily be substituted with a generic. However, our earnings structure will change sharply. At this stage, we are examining if ViiV is important to us. This page illustrates our thoughts on topics that we need to think about at the moment.

Sakai: I understand. Thank you.

Kyokawa: Can I have a question from an analyst? Please speak into the mike when asking your question. The phone is a little difficult to hear.

Akabane: Akabane from Tokai Tokyo. I have two questions.

The first question is about page 23 or page 24. You discussed investing ¥500 billion in growth drivers and also talked about your existing businesses. Do the existing businesses and new growth drivers include regenerative medicine, peptides and UMN Pharma? Is IT included in existing businesses?

On page 40, you discuss an affiliation with the IT company M3. Does this grouping reflect the implementation of existing business operations in the field of IT? I do not understand the division into these two groups. Can you elaborate on this? That is my first question.

Teshirogi: Investment in new growth drivers is as shown on page 23. It may be a little difficult to understand. To clarify, we are currently focusing on M&A to acquire the capabilities that we do not possess at the moment.

In the section on page 23 on enhancing profitability of existing businesses, we touched upon IT investment. When you normally discuss the IT business it may tend to refer to introducing extremely high level facilities for video conferencing.

However, this is not the case for Shionogi. We are referring to matters that include how to utilize medical data or our joint venture with Ping An. IT investment for us means necessary investment in the development of data science.

We need to investment in IT, which includes personnel and facilities, to fortify our disease strategy. IT investment is IT investments that will fortify our business operations. We therefore create a separate framework for these investments.

Akabane: I understand. Previously you released annual investment plans, a breakdown of the total ¥500 billion investment plan. Do you not plan to release annual investment plan figures?

Teshirogi: At present, this ¥500 billion is one feature of our plans for the next five fiscal years. We have not decided when we will execute these investments. In FY2019, based on our assumption of a substantial milestone payment from Roche, as strategic business investments we previously earmarked ¥9 billion, ¥8 billion, ¥7 billion and ¥3 billion for investments. At present, it is very difficult to finalize when and where we will implement this investment. In light of this, we just gave a total figure of around ¥500 billion as our investment framework.

Akabane: I understand. My last question is sort of vague.

Shionogi's core business naturally focuses on infectious diseases. In Japan, there were a number of infectious disease drug manufacturers 20 some years ago such as Toyama, Fujisawa and Hokuriku.

In other words, aside from Shionogi, all other companies were in poor condition. Toyama sought out a buyer for a long time. It was finally purchase by Fuji Film, which revived the company. In other words, you are saying that your preference is to use ¥500 billion for new investments and that you also choose to focus on infectious diseases. I believe there are a number of good products out there, including in academia. In merger of Fujisawa and Yamanouchi, it's the development staff in Fujisawa were . It seems that M&A like this would be efficient. Am I incorrect?

Teshirogi: I may not have stated our intent very well. For example, internally we discussed COVID-19 quite frequently. What we learned by COVID-19 pandemic is that, we have various options to save the lives of patients in infectious disease area.

To speak frankly, at our research lab, we explored how to deal with this virus and mycosis. However, the ultimate goal was that we must help patients. To this end, we established an algorithm on how the disease becomes more severe, including the total immunity control. We incorporated a total outlook in our research, including when and at what point, and what pharmaceuticals could be used to prevent the disease from becoming more severe, and how to save the lives of patients. Working from this standpoint, I believe it is very important that we collaborate with various companies, venture companies and academia to gain a broad perspective of infectious disease management.

Pharmaceutical companies ,including Shionogi, has tended to focus on how we eliminate bacteria, viruses and mycosis when looking at infectious diseases. However, the total perspective for treating infectious diseases is to save the lives of patients. From that meaning, I believe it is still much left to do therefore investment in the infectious disease domain is valid.

Akabane: I understand. Thank you.

Kyokawa: Can we have a question from the media?

Ishii: Ishii from Iyaku Tsushinsha.

First, I would like to ask about the core of your infectious diseases and psycho-neurological diseases businesses. What is the positioning of oncology therapies? Also, in psycho-neurological diseases, what expectations do you have for a drug to improve cognitive functions?

Teshirogi: In the field of oncology, page 32 covers some of the assets we currently possess. At present, we currently possess the anti-CCR8 antibody and the adjuvant. These are our two core assets.

Frankly speaking, cancer therapy is conducted by multidrug therapy or cancer genome therapy. If we have 1 or 2 drugs, it will be very difficult to become the leading company of the field of oncology. According, we plan to look for a partner that will provide us with a combination drug that maximizes the use of our formulation.

We will naturally do what we should. However, just releasing 1 drug is not sufficient. We need to adopt a total outlook. From this perspective, the cancer peptide vaccine can be used as a base.

We do believe that BPN14770 is a promising drug. However, Tetra's clinical trials are focusing on patients with MCI and those with mild cases of Alzheimer's. The fact that the trial focuses on both, and due to an extremely short 13-week treatment period, it was too short to see any effect, even in the placebo group. The treatment period should be slightly longer.

However, we could confirm efficacy in patients with mild Alzheimer's given a high dosage. In light of this, we need to monitor to see if the drug is being properly administered in Japan, and conduct careful monitoring along with diagnostic imaging to check for drug action. We anticipate that we will obtain fairly interesting results.

However, it is necessary to conduct close monitoring in Japan over a span of 26-weeks and 52-weeks. We plan to give it a high priority and move forward.

Kyokawa: Is there anyone else from the media here today?

Idaka: Idaka, editor of Iyaku Keizai. Thank you for today. I have two questions.

I believe there was concern about domestic supply of antibiotics due to COVID-19 pundemic. I think that, as a national policy, this was a fairly large issue.

Given that there tends to be a dependence on China for raw materials and crude drugs, does this plan include ideas on producing raw materials or starting materials domestically?

Teshirogi: We are naturally considering this. However, this does not have to do with a single company trying to go it alone with large-scale facilities. We are currently in serious discussions about this with the government.

Recently focus has been on COVID-19. However, for instance domestic facilities for vaccines, the government is undertaking this as part of its political agenda. Once there is an infectious disease outbreak, we need to make sure this agenda is not forgotten.

From the issue of national security, I do not feel that it is necessary for Japan to try to have the capacity to do everything on their own in terms of supply chain or even protecting its nations. But, having no capacity at all is also not a good idea.

In regard to this, we will naturally implement an appropriate level of investment in raw materials for antibiotics, and domestic vaccine manufacturing.

Idaka: Thank you.

One more question. In your response to a question earlier, you discussed the future allocation in your profit structure as being, 4, 4 and 2. Is it correct that this reflects proprietary sales and overseas sales, particularly sales in the US? At present I believe the US and China are an issue. More than 10 years has passed since acquiring Sciele Pharma. In your medium-term business plan or 2030 vision, what plans do you have for M&A to fortify your sales strength or at what timing do you plan to implement measures? What will it take for you to implement such measures? Can you briefly discuss this?

Teshirogi: We have carried out dialogue with various companies. In a number of cases, we have negotiated up to the point where we were ready to sign an agreement but both parties put the brakes on the deal. In that sense, we are continuously on the move.

So there is nothing I can really say, because we are really just waiting for a suitable opportunity or it depends on the conditions of the other party. The strengthening of a pipeline with our sales in the US is a very important theme and we are continuing to pursue it.

I mentioned this during our presentation earlier. Given that acquisition prices are declining and some large companies need to let go of a certain business, we are frequently approached.

Naturally we have shareholders that we must answer to. We need to provide proper explanations about how we use our capital and explain that this is the proper use for this capital. This doesn't mean we should make an acquisition just because the price is cheaper. These talks are ongoing. We may find the perfect acquisition tomorrow, or 3 years from now or maybe 5 years from now.

Idaka: I get a positive impression from this. It is very promising. Thank you.

Kyokawa: We have one person left from the media.

Takagi: Takagi from the Nikkei. I have two questions.

My first question is on workstyle. Workstyles inside the company are likely to change going forward owing to COVID-19. What type of workstyle do you aim to realize?

Also, I believe Shionogi is pouring energies into various fields, including new businesses. At present, what are your thoughts about human resource allocation? At the FY2019 financial presentation, you mentioned issues in the sales division and a necessity of operational review. What are your current thought on these areas?

Teshirogi: As I said about manufacturing earlier, we cannot make the employees working in the plant zero. At our mainstay plant, employees have their temperature taken at the entrance. They then go through a double and triple disinfection process. Those employees that are healthy are allowed into the plant. Despite this, we have always made a maximum effort to ensure that product supply is not disrupted. I think other pharmaceutical companies do the same as well. As for medical- practitioners, I understand that hospital workers are making heroic efforts but the pharmaceutical industry is not just sitting on the sidelines. Despite the harsh conditions, our employees need to work to maintain the supply chain for the society.

For instance, even to continue research, the breeding of lab animals and other operations cannot be handled remotely. In light of this, in the manufacturing industry, there are employees that must continue to work. Consequently, even if we add on a new facility, it would be very difficult to reduce our headcount to zero. I think that it would be fairly difficult to apply working remotely to all employees.

Meanwhile, we are implementing a fair amount of work remotely at the sales and HQ departments. Due to the current conditions triggered by COVID-19, it is extremely difficult to undertake hiring. I think this is inappropriate therefore we are maintaining our current situation while thinking about shifting personnel to places where manpower is required.

At present, we need to hire personnel, particularly in research and development, and also key personnel for HQ departments. We need to continue to implement hiring no matter what and plan to hire 100 to 120 new employees each year. We have absolutely no plans to change this at the moment. These new hires need to compose a specific pyramid structure, based on attributes including age. Without this, it will be difficult for us to sustain our company.

Meanwhile, , we plan to gradually shift sales force to other jobs. However, we are currently working on how we plan to do this.

Takagi: Do you have any numbers that would be a yardstick for this? For example, banks create plans to improve operations by determining the percentage of personnel are floating and then make the transition to digital transformation. In the case of Shionogi, what steps are you considering right now?

Teshirogi: On one hand, in our medium-term business plan, raising per-employee productivity is being undertaken as an issue. To be honest, the number of personnel is not likely to increase. So when do we plan to reduce our headcount? Right now, we are not disclosing this.

Takagi: My last question. What is the breakdown for your overseas sales ratio target of 50%? For instance, what percentage does the US, China and other regions in Europe represent? Can you provide an overall image?

Teshirogi: At the moment, sales on a Ping An and Shionogi basis will account for around 50% of sales in China and Southeast Asia. Add to this, around 50% of our own sales in Europe and US.

Kyokawa: We are behind schedule therefore we will now take questions by phone. I will switch to the operator. However, we would like callers to limit their questions to 1 or 2 questions.

Operator: I would select who asks a question.

I would like to introduce who will ask the first question.

The first question is from Yamaguchi of Citigroup Global Markets. Please go ahead.

Yamaguchi: I am Yamaguchi. I have two simple questions.

I would first like to ask about the ¥500 billion business investment. Is this to acquire products that are currently under development? In this case, do you plan to purchase products that fit your current franchise? Or is this not always the case? That is my first question.

Teshirogi: You are correct. As I said earlier, we are engaging in a variety of fields, including cancer, and other products such as peptide and nucleic acids.

Consequently, this must constantly connect with our pipeline and leverage our franchises. Our targets are the domains of infectious disease and psycho-neurological diseases. At this stage, we are considering investment for acquiring products or pipeline rather than for improving infrastructure.

Yamaguchi: Thank you.

My second question is on the sales target of ¥500 billion. The ¥500 billion in sales you target for FY2024. You said that the gap with FY2020 is filled by investments overseas, in Asia and the US/Europe. Based on products and franchises, particularly Ping An, what products are expected to grow from FY2020 to FY2024?

Teshirogi: At the very least, in Japan the most important issue is to fortify our ADHD franchise. In addition, naturally we do not want to experience the same trouble we saw in 2019, in infectious diseases, which includes the fields of influenza and COVID-19. We therefore aim to fortify this domain.

I don't want you angry at me so I do not want to give a high sales forecast. We would like to grow sales.

As for the Ping An business, we are currently working with John and his colleagues to build forecasts. Those products that have been approved in the US, Japan and Europe, are fairly quickly approved in China. This pertains to Cefiderocol, Naldemedine, Mulpleta and naturally vaccines. As for COVID-19 drugs, talks have already begun in China. Given the vast number of people, it will not be simple for them to supply everyone. In that respect, we plan to contribute for providing supply as a product in the short term.

Yamaguchi: Thank you. Nothing else from me.

Operator: The next question will be from Ueda of Goldman Sachs. Please go ahead.

Ueda: Ueda from Goldman Sachs. I also have two questions.

First, given changes in the business environment, what changes do you forecast for the environment for each disease area?

In particular, the evaluation, including drug prices, reflects the evaluation for infectious disease products, for instance if it will rise going forward. In addition, in your long-term vision, what changes do you expect, including what are your ideas for anti-cancer drugs, which are mainstream?

Teshirogi: I will ask Sawada to provide additional comments later. At the very least, in the infectious disease domain, Governments around the world also changed their thinking about reserves due to COVID-19. When considering how to maintain capabilities, governments now understand the necessity of sustaining a certain level of reserves to keep their country operating.

Governments now understand that if a society collapses even once, the economy is hit by the same level of impact. Based on this, what invests should continue to be carried out? We also even if a plant was built by using a subsidy, this would be extremely inconvenient. The goal is to ensure that a factory or other facility remains in operation otherwise the infectious disease area will not be able to function properly.

Therefore, in regards to this, what is important is that we continually receive assistance, whether it is in the form of reserves or something else. Governments are in agreement with us now so dialogue that includes this issue needs to be carried out and action must be taken going forward.

This, without mistake, should lead to a certain degree of improvement in earnings structure in the infection disease area.

Regarding anti-cancer drugs, this is Sawada's specialty so I will ask her to comment later on. Currently, tailor-made therapies designed for a specific patient, including cancer genome therapies, are currently being developed. In light of this, CCR8 I and adjuvants are in line with this trend.

To what degree do immune checkpoint inhibitors provide treatment and what is the next step when a resistant cancer emerges? Or, to what extent can we administer a good adjuvant to lower the dosage of an anti-cancer drug to make treatment more economical treatment. We believe these are upcoming themes. I think anti-cancer drugs that satisfy this will provide a certain degree of business.

Sawada is currently in negotiations with various places in the fields of infectious disease and cancer.

Sawada: My name is Sawada.

Although my answer is almost identical to the one already given by Teshirogi, even in the

infectious disease area, drugs approved as a therapeutic drug in the US for multidrug-resistant bacterial infections have not year expanded to other regions. As this indicated, even in developed countries, the fact that sales have not spread to other regions is serious issue.

When using this as a basis for thought, if a company cannot offer a fair drug price and business model, then those drugs will not make their way into markets in other countries. This awareness is spreading widely. Not only companies, but NGOs and various other quasi-public organizations are beginning to speak out. We are holding discussions with these entities while aiming to create a fair market.

In that sense, I think we should move toward a direction where we consider old drugs and drugs that address AMR separately.

As for cancer drugs, when actually comparing the number of cancer patients or the number of patients who die from cancer with the number of patients who die from other diseases, the cost paid to for oncology treatments is far too high. This is becoming a major issue. I honestly do not believe the current price system will remain in place.

Amid this, some fairly high priced drugs are furthermore used in combination. I think that going forward we need to present a simpler treatment format, that can be carried out in a shorter period of time. We aim to develop drug formulations that can contribute to this. Even in clinical trials, I will need to consider how far to continue treatment and where to stop.

Ueda: Thank you.

My second question is on your entry into the vaccine business. On page 38 you discuss expanding from Japan to the rest of the world. Does this only concern your proprietary products? Or does this including licensing in global products to create a franchise in Japan? For example, development of a COVID-19 vaccine is quickly moving forward but will Shionogi possibly take on this vaccine? Could you discuss business development in this area?

Teshirogi: For the time being, of the roughly 5 groups of vaccines, we are developing a recombinant protein vaccine.

Regarding virus inactivation, DNA, mRNA, and viral vectors, the extent to which we enter these markets is, at the very least, not dependent on trying to make it in time for treating COVID-19. As a technological platform, I think mRNA is fairly interesting. In the short term, we will develop a recombinant protein vaccine. We also aim to create a flu vaccine. After that, we will focus on a universal vaccine. For example, our portfolio would include a flu vaccine as well as vaccines we aim to undertake for the norovirus and rotavirus.

At present, using our recombinant protein technology as a basis, we are improving our own expertise. We are receiving inquiries about COVID-19 from around the world. We therefore aim to use the technology we develop to establish a production system that can handle a certain degree of mass production.

As you probably know, developing a mass production line at a factory requires a fair amount

of technology and know-how. Once such a factory is established, the same type of factory can be replicated in other companies. It is not to simply implement mass production simply by possessing the technology. It just is not something that can be done. We aim to create this technological platform and export this knowhow, including facilities. At present, though, we plan to mainly continue developing a vaccine based on the recombinant proteins.

Ueda: Thank you. That is all from me.

Operator: The next question is from Wakao of Mitsubishi UFJ Morgan Stanley. Please go ahead.

Wakao: Wakao from Mitsubishi UFJ Morgan Stanley.

My first question is regarding page 26. You explained breakdown for the ¥500 billion in sales you target in FY2024. You forecast revenue of ¥400 billion in FY2022. Can you explain how you plan to fil the gap between the FY2022 target and reality?

In the short term, we anticipate negative factors, including the expiration of the Cymbalta patent and the loss of Crestor royalties. Therefore, to generate sales for FY2022, I think that the pipeline which you can currently see will play a central role. However, at this stage, the factors underpinning the ¥80 billion growth in sales is unclear. Can you elaborate on this?

Also, the core operating margin is 30% or over on the back of ¥400 billion in sales. Your forecast for core operating income is ¥120 billion so I have the impression that profit is thin. Does this simply reflect fairly aggressive R&D investment? Can you explain this?

Teshirogi: Regarding your second question, it is as you said. This mainly reflects R&D cost and IT investments. This is based on the assumption that additional investment will be required.

This is my own personal preference. In 2019, we underperformed the target we disclosed. Anyway, especially regarding the profit level, we were a little conservative with our figures.

As for 2022, this was partly covered in Sakai-san's question. I think our HIV royalty income will trend fairly strong. This should provide support to a certain extent. Then, in the short term, from 2022, we should see a certain degree of contribution from our China business, which we discussed earlier.

We also expect sales from Cefiderocol. It may not fly off the shelves but at this stage, given COVID-19, we have been receiving many inquiries from various governments, so sales will not be zero. There will be a net increase. Accordingly, in addition to other factors, we sufficiently believe it is possible to achieve ¥400 billion in FY2022.

Wakao: I understand. Does this also include the sales from M&A? What is your M&A plan, not only for FY2022, but also for the fiscal years through FY2030.

Teshirogi: The expected benefit from M&A up to FY2024 has been factored in. We also

discussed our plans here to invest ¥500 billion by FY2024. As a result, we estimate our outcome should be in this neighborhood, taking into account the positive and negative factors along the way. This is not set in concrete. We are not saying we will definitely post sales of this much by then. If we successfully carry out our M&A projects, then we will likely see this amount of benefit. On a basis up to FY2024, we reflected these factors to a certain extent.

Wakao: I understand. One more question. Going forward, China and Southeast Asia will obviously become very important areas for your company. You've probably already explained this repeatedly in various places, but could you repeat your focus points for China and Southeast Asia. Do you plan to pour energies into this owing to your alliance with Ping An or, even with this alliance, did you see China and Southeast Asia as a necessary growth area in the medium-to-long term. Up to now, it seems to me as if you were pouring energies into the US and European markets. Can you explain why you shift to China and Southeast Asia?

Teshirogi: Basically, it is the latter. China and Southeast Asia have always been in our sights. Without these markets, we would not likely achieve growth. After we acquired C&O, we carried out the generic drug business but it was tough. Although we did not post a loss, we also were not turning a profit.

Regulations have changed rapidly. Basically, we were given rules for the year and aimed to expand sales based on those rules. However, in the next year, the rules changed. Essentially, we were doing the same thing over and over. We have always been pondering how to competitively take this huge market depending on what we incorporate.

I think it was October 2018. China was looking to introduce drugs which were being approved in the US and Europe with alleviation or exemption of clinical trials for those drugs approved in the US or Europe. The government of China began sending out a message that it was sufficiently able to tackle new drugs.

From that point, we saw the potential for manufacturers like us that develop new drugs to competitively approach the market. We have spent around 2 years exploring ways to approach the market. If Shionogi ventured out on its own, then no one would likely trust the company.

We thought about what framework would be best for leveraging our capabilities. This is how we formed an alliance with Ping An after a year and a half or so of negotiations. This paved the way for us to concretely and aggressively take on the market. It was originally our intention to enter the market. However, we have finally obtained the platform to specifically do so.

Wakao: I understand. Thank you.

Operator: The next question is from Hashimoto of Nikkei BP. Please go ahead.

Hashimoto: Thank you.

You mentioned a few things about China earlier. I understand that you plan to pour a lot of

energy into China and your alliance with Ping An. Meanwhile, are you seeking other options given US-China trade friction, the shaky outlook for the economy in China, and risks associated with China's economy? You discussed Southeast Asia as well as China, but it seems that the China risk is growing. Can you comment on this?

Teshirogi: I think what you said is correct about China's overall economy. On the flip side, health consciousness has risen significantly in China. This is, in a way, an opportunity for China as a whole to find out how to expand its universal health insurance. However, this is also a risk for the government. If China's citizens begin worrying about their health then it could, in a way, topple the government. There is huge interest in China about the government not properly caring for the health of its citizens.

How the economy works is very tricky. As the consciousness of each and every citizen rises, the national government will have no choice but to support national healthcare. There are two situations, one where there is government-sponsored healthcare and one where citizens pay for their own healthcare. For us, we see this as a huge opportunity for healthcare.

Hashimoto: Thank you.

Operator: The next question is from Nashiki of the Yomiuri Shimbun. Please go ahead.

Nashiki: Nashiki of Yomiuri Shimbun.

First, I would like to ask you about the development related to COVID-19. First, earlier in the initial part of your explanation, I believe you said something to the effect of a drug therapy that is stronger than Remdesivir. Can you give more concrete details?

Teshirogi: Regarding COVID-19, globally, there is not established animal model that accurately represents human clinical symptoms.

Animals develop a certain degree of symptoms when the coronavirus is administered to them. However, there is no clear model, as with influenza. Under these limitation, Existing drugs, including Remdesivir, are being repositioned. However, the toxic doses and effective doses are extremely similar. In light of this, when trying to show benefits, there is always a certain level of toxicity.

In our compound, the concentration which shows anti-viral efficacy is separate from that shows toxicity. Therefore, I anticipate we can set a high dose level for our compound.

Nashiki: Thank you.

I would like to ask two questions about vaccines. Earlier you discussed clinical trials could be finished by the end of the year. If the trials go smoothly, at this point, when do you anticipate you could begin supplying the drug?

Teshirogi: UMN, which is now our subsidiary company, possess a factory in Akita. If the factory runs at full capacity, then I estimate we can produce supply for several million people a year. Negotiation with other manufacturing facility is currently going smoothly therefore we

could produce supply for 10 million people a year in the future.

Nashiki: Can you please reiterate? What month?

Teshirogi: We are implementing facilities investments based on the assumption that commercial scale facilities will be ready to start operation in January.

Nashiki: I understand. Thank you.

Operator: The next question is from Takada of the Nikkei. Please go ahead.

Takada: Takada from Nikkei. I would like to ask about your vaccine strategy.

I believe you discussed first releasing this domestically and then taking it global. I believe there is already technology for establishing a vaccine that uses the BEVS. Consequently, when competing against overseas rivals, the key point will be what features of your vaccine are more superior.

I believe you mentioned this during the part on manufacturing earlier. Manufacturing is being carried out in China and India. There are already manufacturers that are conducting mass production. Amid this competition, can you explain what strategies and superiority Shionogi has to leverage?

Teshirogi: Thank you.

Regarding the recombinant protein vaccine by BEVS, as you are all well aware, Sanofi is globally commercializing a product. They have a huge scale but at the moment I don't know other companies which have this technologies.

Consequently, regarding the recombinant protein vaccine brought up by Takada-san, it has been used for influenza and has been considered effective and safe. Therefore, I believe there is benefit as it has been fairly successful as a manufacturing method.

Should commercialization go smoothly, the next step is a scaled up of manufacturing? Globally, I believe this is likely something that only Sanofi and Shionogi can do. I believe there is sufficient competitive strength.

Takada: Thank you.

Operator: This ends our Q&A session.

Kyokawa-san, can you close this session.

Kyokawa: I slightly extended this Q&A session but I would like to end this presentation on Shionogi's Medium-Term Business Plan. Thank you all.

Teshirogi: Thank you.

[End]