



The New Medium-Term Business Plan

March 28, 2014

SHIONOGI & CO., LTD.

**President and Chief Executive Officer
Isao Teshirogi, Ph.D.**



Growth Strategy toward 2020

Shionogi Growth Strategy (SGS2020)

The background of the slide is a wide-angle photograph of a sandy beach. The sand is light beige and shows a series of footprints leading from the foreground towards the ocean. The ocean is a vibrant turquoise color with white foam from the waves. The sky is a deep blue with wispy white clouds. On the left side, there is a dark, rocky cliff with some green vegetation.

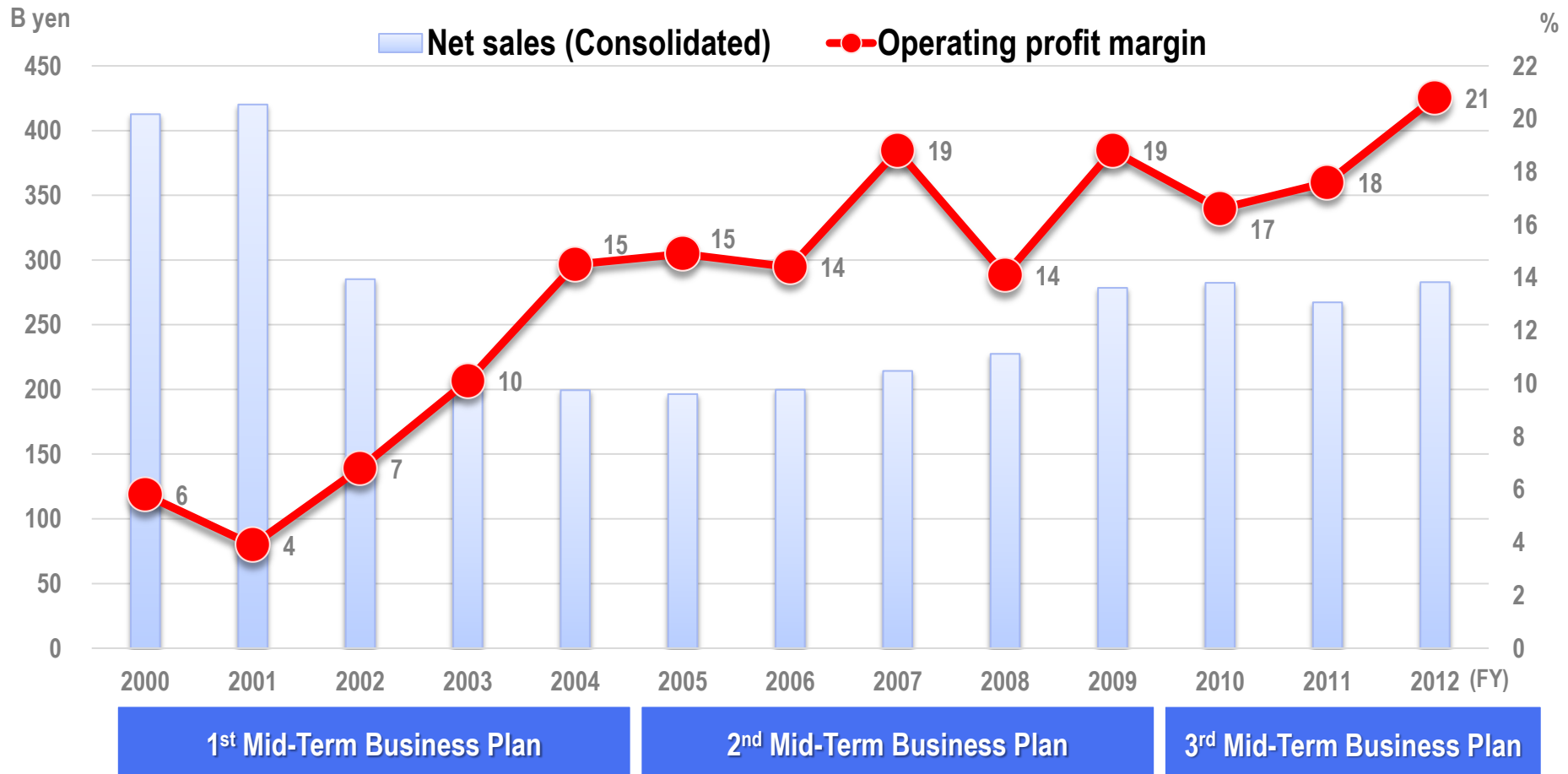
Past SHIONOGI

Strides from the 1st Mid-Term Plan to Date

SHIONOGI's Medium-Term Business Plan (since FY2000)



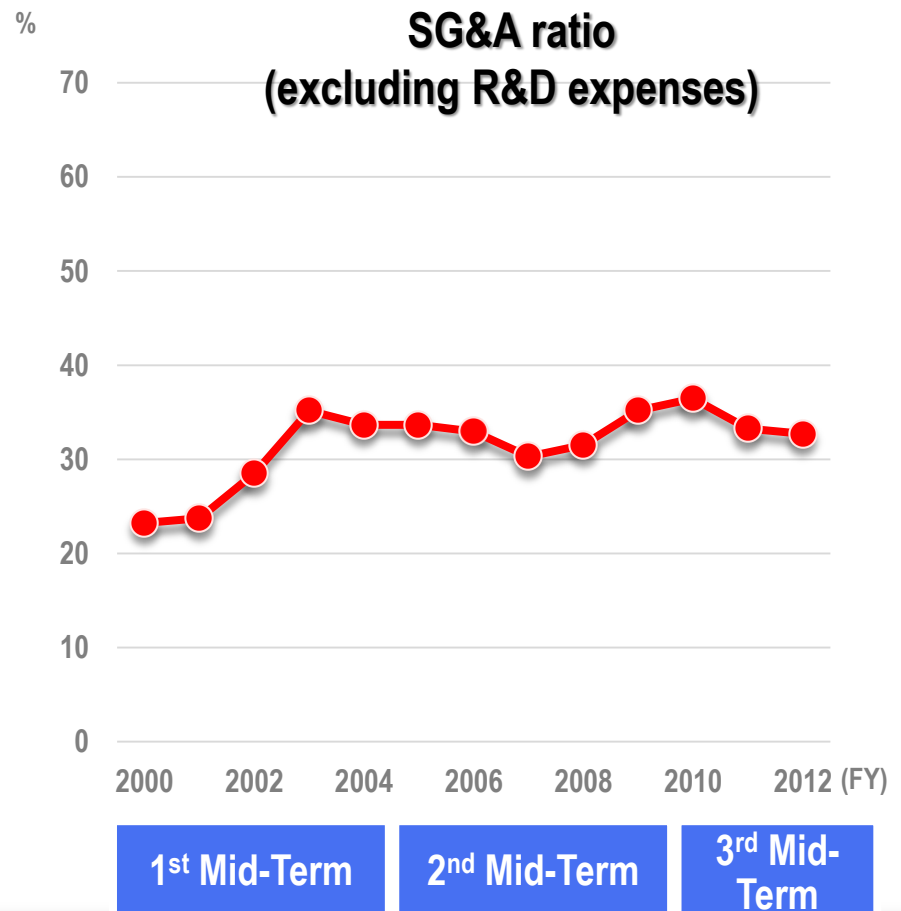
Changing to be profitable management practices



Background to Increased Profitability



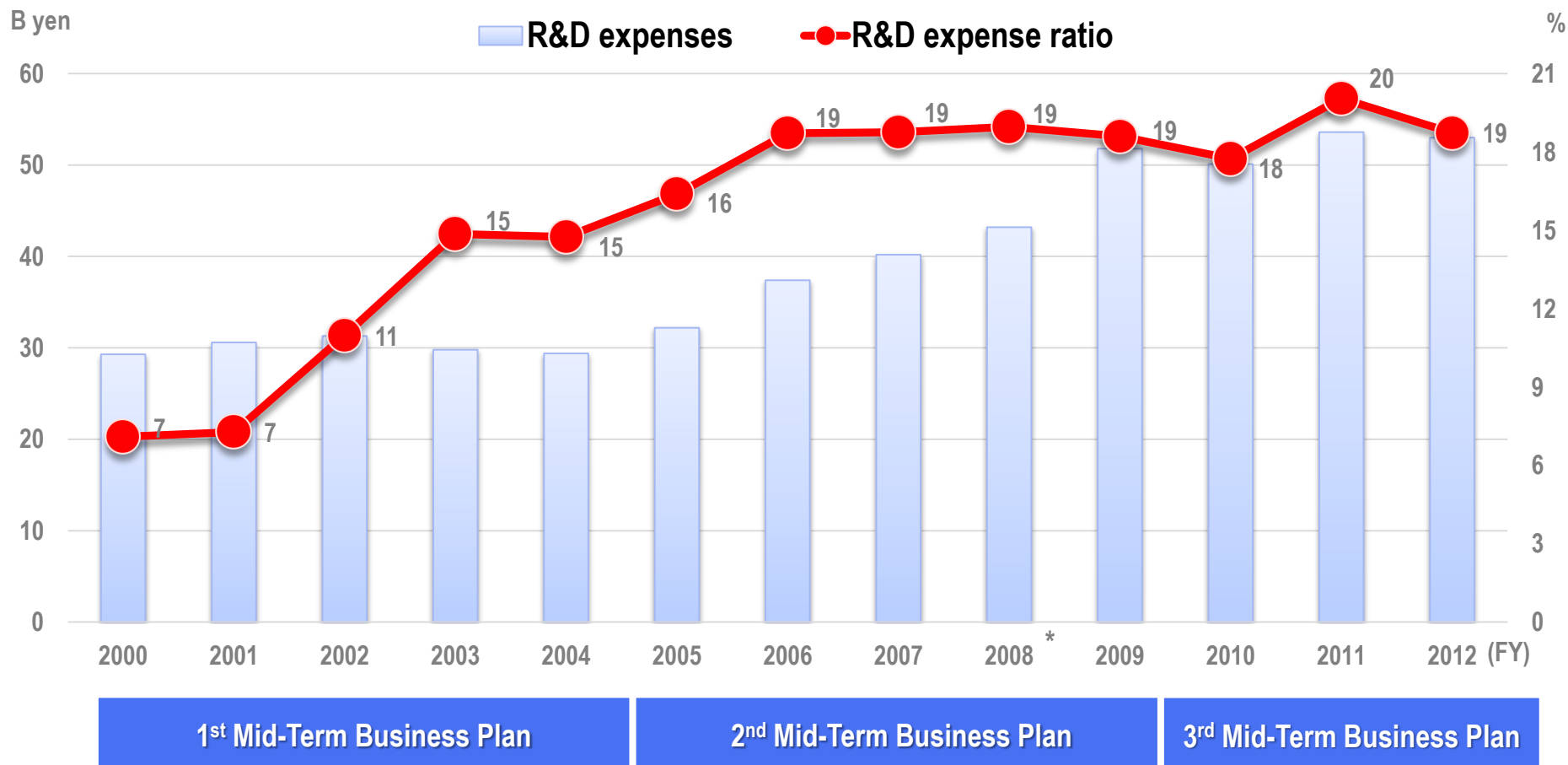
Increased earning capacity with the cost reduction and thorough managements



Strengthening the System for New-Drug Discovery



Continuous investment in R&D activities



1st Mid-Term Business Plan

“Laying the foundation” (FY2000～2004)

- Specialized in the prescription drug business ^{*1}
- Built the infrastructures for global development (established JV ^{*2} with GSK, established SUI ^{*3})

2nd Mid-Term Business Plan

“Accelerating toward significant strides” (FY2005～2009)

- Focused on prioritized disease area (Infectious diseases, Pain, and Metabolic syndrome)
- Acquired US-based Sciele Pharma, Inc.

^{*1}: Withdrawal from wholesaler business, animal health, crop science, industrial chemicals etc.

^{*2}: Joint Venture

^{*3}: Shionogi USA Inc.

3rd Mid-Term Business Plan “SONG for the Real Growth” (since FY2010)

R&D activities

- Launched *Tivicay* and *Osphena*
- Conducting the global Phase III program
- 12 internally-discovered drug candidates progressed into clinical development, and achieved greater than 50% success in moving from early to late clinical stage

Overseas business

- Changing to a business focused on new drugs and stabilized business performance (US)
- Developed business footholds in EU and China
- Strengthened global governance through GDO^{*1}, Overseas business and GSCM^{*2} divisions

Domestic sales

- Increasing the sales of 8 strategic products, and expanding their ratio to domestic Rx sales
FY2009: 28.9% FY2013 (forecast): 55.2%
- Made *Crestor* and *Cymbalta* to top-selling brands
- Improving profitability (annual sales per MR)
FY2009: 110 M yen FY2013 (forecasts): 130 M yen

Earning structure

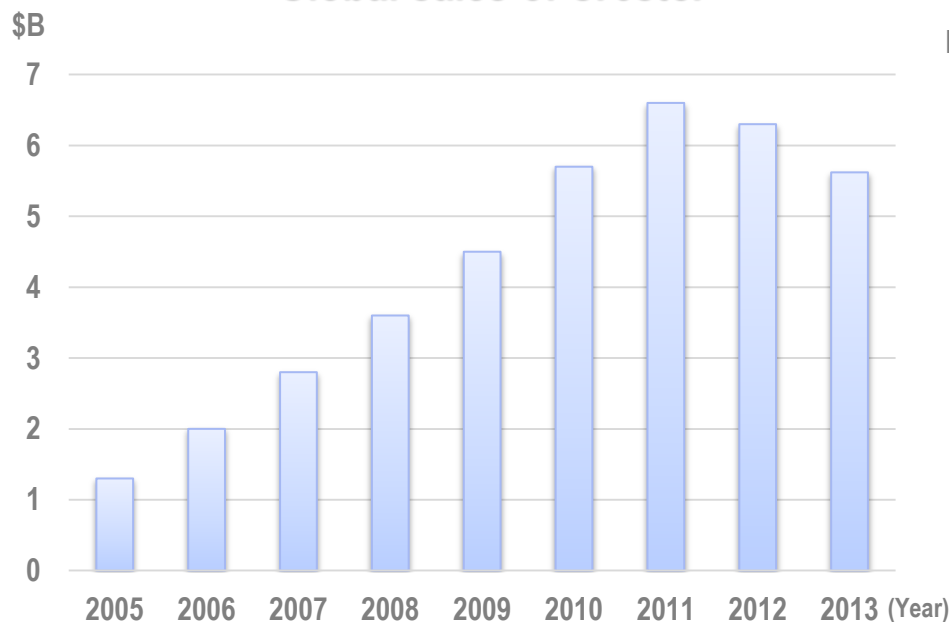
- Established a new business scheme for HIV integrase inhibitor franchise products
- Modified the *Crestor* royalty structure
- Improving cost management

Significant Outcomes from FY2000



Demonstrated drug discovery abilities at a world-class level
Evolved the royalty business model

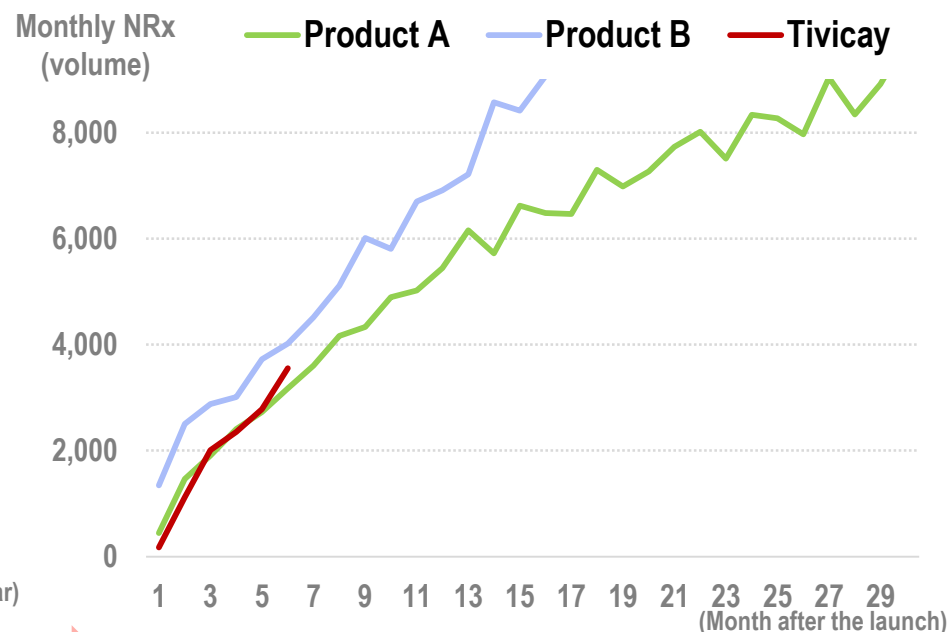
Global sales of Crestor



Licensed out after early-phase trials in Japan

Expanded global capabilities

New prescription trend of Tivicay (US)



Changed the business scheme after global co-development

“Reinforcement of business infrastructure” and “Expansion of business networks”

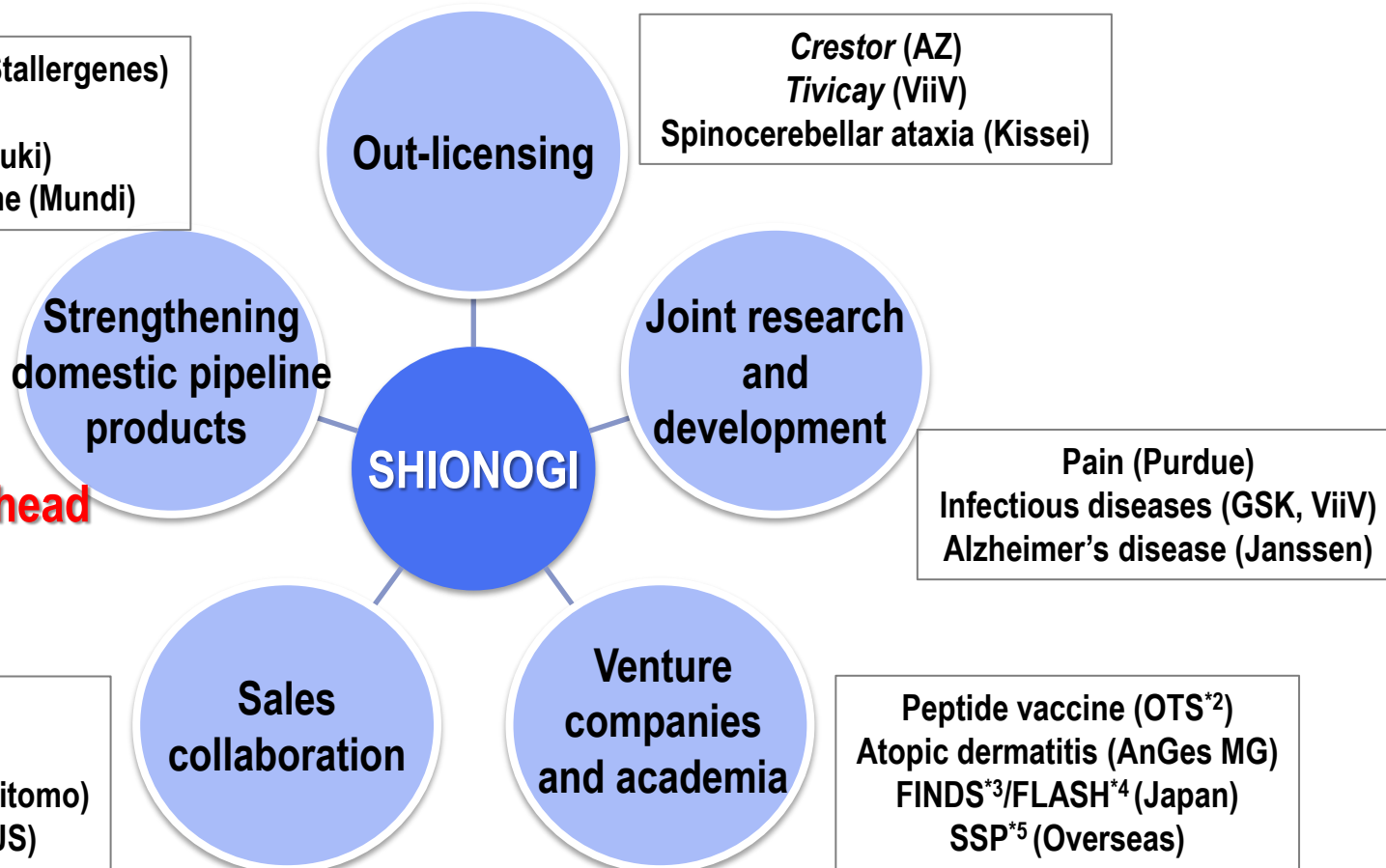
Development / NDA filing

Hyposensitization therapy (Stallergenes)
ADHD*1(Shire)
Dyslipidemia (Kotobuki)
Abuse-deterrent oxycodone (Mundipharma)

Selling

Pirespa (KDL/Marnac)
Rapiacta (BioCryst)
Metreleptin (Amylin)

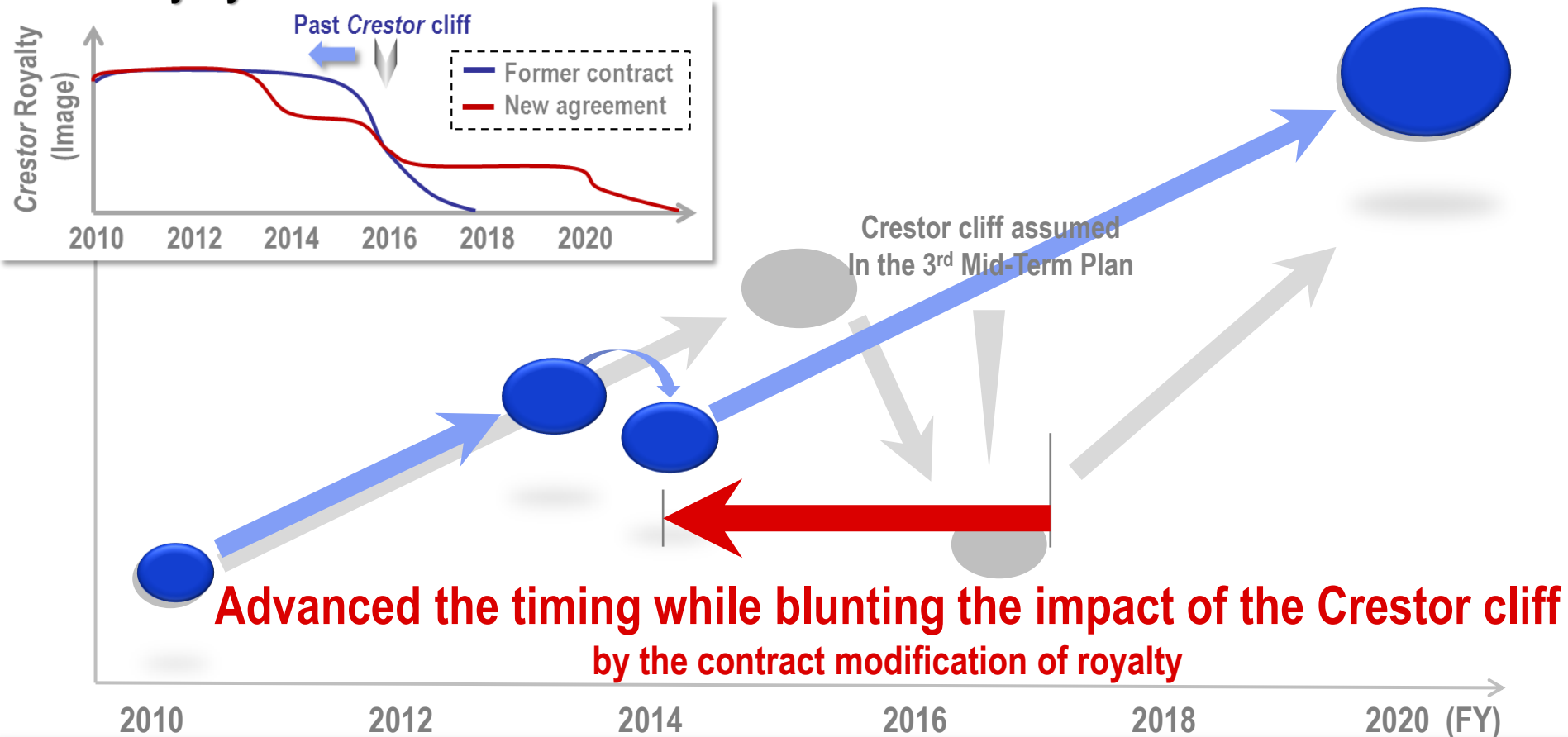
**Launched in Japan ahead
of the world**



Elected to 'Accelerate the Crestor Cliff'

Focus on securing our mid- to long-term revenue base

Crestor royalty before and after the contract modification



External Changes and Responses during the 3rd Mid-Term Plan



Rapid changes in external environment

- Difficult global economic conditions
- Increased sales competition among products
- Fluctuation in exchange rates

Adaptation to environmental changes

- Shift to new drug-driven business in the US
- Establish a new scheme for anti-HIV drugs
- Modify the contract for Crestor royalty

Forecasts for the target of the 3rd Mid-Term business plan

(B yen)


	FY2014 (Target)	FY2013 *
Net sales	375.0	284.8
(Royalty income)	(75.0)	(66.0)
Operating income	110.0	62.0
R&D expenses	65.0	53.0

**Approach to address new business challenges
(Prepare a new Mid-Term business plan : SGS2020)**

Future SHIONOGI

Shionogi Growth Strategy 2020

- Vision
- Growth Strategy

The background of the slide is a high-quality image of the Earth as seen from space. The horizon of the planet is visible, showing a thin blue line of the atmosphere against the blackness of space. The sun is visible on the left side, creating a bright, glowing effect and casting a long, soft light across the Earth's surface. The clouds are visible as white, wispy patterns over the blue oceans and darker landmasses.

**Grow as a drug discovery-based
pharmaceutical company**

What is a Drug Discovery-based Company We Pursue?



Corporate Mission “Shionogi’s purpose”

Shionogi strives constantly to supply the best possible medicine to protect the health and wellbeing of the patients we serve



- **Focusing on drug discovery research for First-in-Class^{*1} and Last-in-Class^{*2}**
- **Operate development and sales footholds in Japan, US, EU and Asia**
- **Supply the world with new drugs and medical benefit generated from the above research and development activities**

*1 First in Class (FIC) : Innovative medicines with particularly high novelty and usability that can change the existing therapeutic paradigm significantly

*2 Last in Class (LIC) : Unrivaled medicines with clear superiority over others with the same mechanism of action

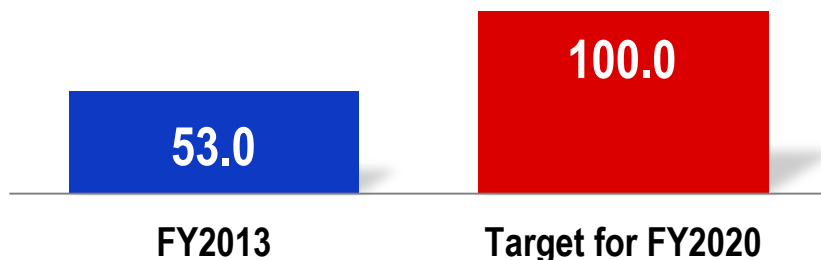
R&D expenses: more than 100 B yen R&D expense ratio: 20%

Financial Target in SGS2020 (Consolidated)

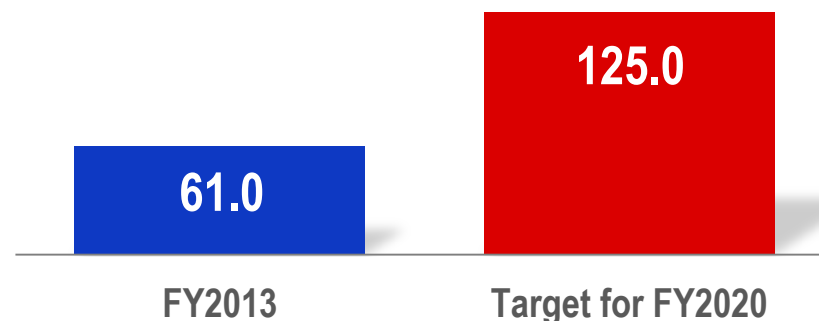


Grow as a drug discovery-based pharmaceutical company

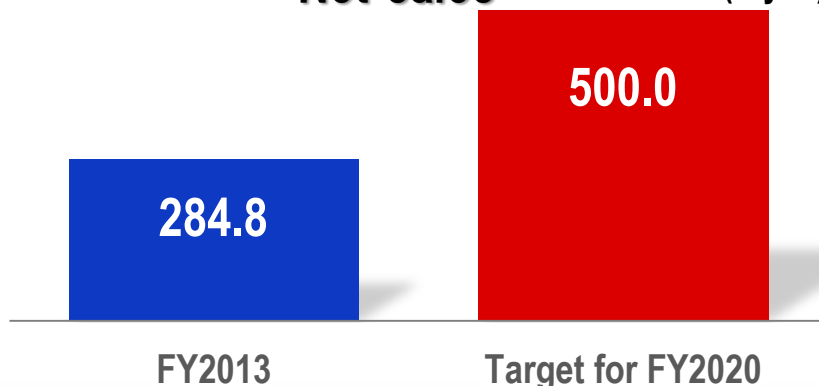
R&D expenses (B yen)



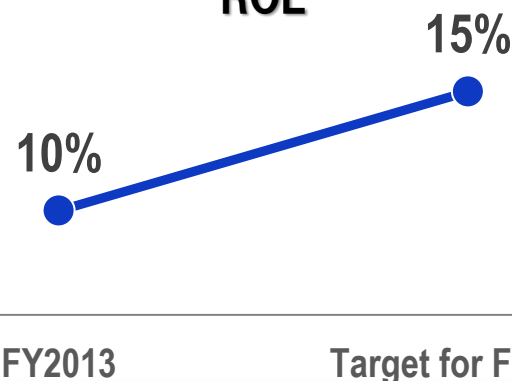
Ordinary income (B yen)



Net sales (B yen)



ROE



Future SHIONOGI

Shionogi Growth Strategy 2020

- Vision
- Growth Strategy

**“Selection and Concentration”
to “Growth led by FIC and LIC”
Continued enhancement of business operations**

Growth of Top-line

Sales area, Therapeutic area

***Selection and
Concentration***

***Growth led by FIC
and LIC compounds***

Growth of Bottom-line

Continued enhancement of business operations

2014

2020

Response to rapid environmental changes (Three-year rolling; Clarify annual results and business challenges)

Qualitative objectives

FY2016

1. Select and focus efforts toward generation and maximization of FIC/LIC compounds
2. Continued enhancement of business operations

Quantitative targets

FY2016

Net sales	320 B yen	R&D expenses	63 B yen
Ordinary income	75 B yen	ROE	11%

Sales area, Therapeutic area

Selection and Concentration

Growth of Top-line

Sales area, Therapeutic area

***Selection and
Concentration***

Strategies for “Selection and Concentration”



External environmental factors

- Rapidly-aging global society
- Even greater financial pressure on the health insurance systems of developed countries
- Uncertain economic conditions in emerging countries

Internal challenges

- Increase capabilities supporting growth drivers
- Strengthen sales force for global new drugs
- Secure royalty-independent earning capacity

Sales area

Focusing operating resources on most productive sales areas

Therapeutic area

Selection and concentration on unmet medical needs of the present, near future and future

Focusing operating resources on most productive sales area

Sales area

- **Deployment in sales areas of focus**
- **Actions to be taken in these areas**

Selection and concentration on unmet medical needs of the present, near future and future

Therapeutic area

- **Therapeutic area focus for research, development and sales activities**
- **Strengthening pipeline**

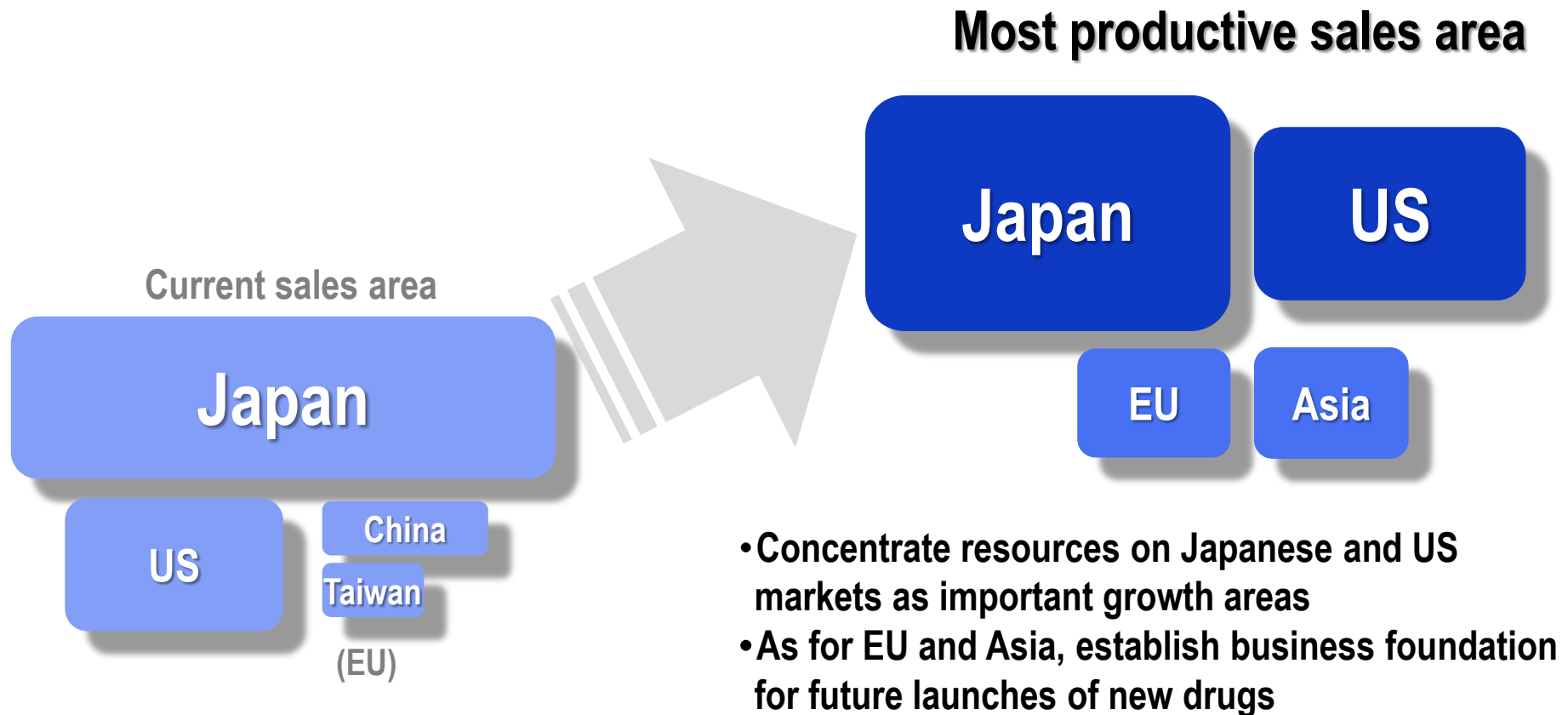
Expansion of Global Presence and Capabilities



Company capable of independently creating and offering pipeline products globally



Focusing operating resources on most productive sales areas



“Maximizing existing drugs ” and “Enhancing assets”

Gain new indication and formulation

LCM* for strategic products

*Response to changes
in selling environment*

Japan

Investment in new growth drivers

Hyposensitization therapy, ADHD
Introduction of external assets

Expand product portfolio
Expand sales of *Osphena*

**Expansion of
Women’s Health area**

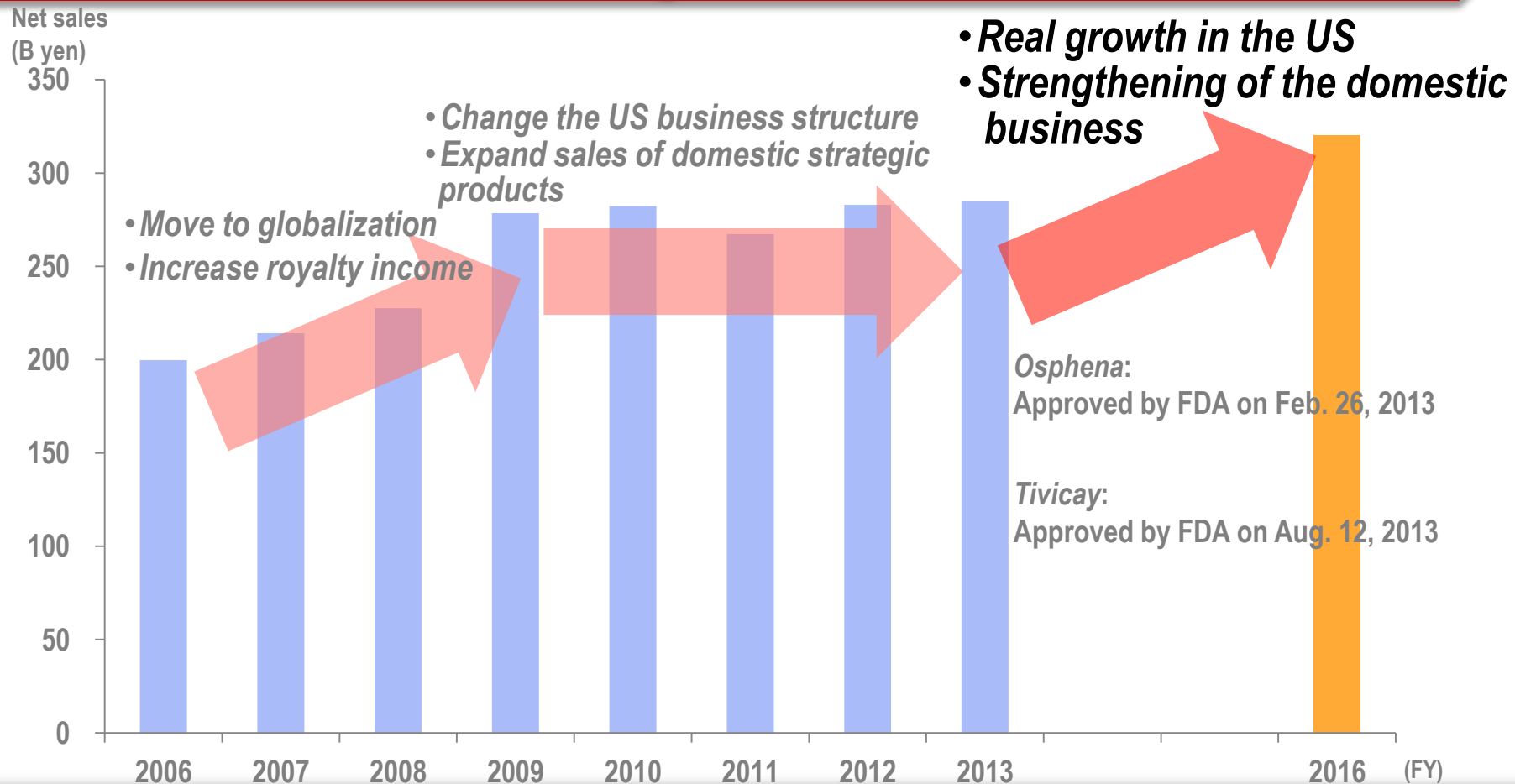
*Response to health
insurance reform and
current guidelines*

US

**Preparation for entering into
Pain area**

S-297995, Abuse-deterrent hydrocodone formulation

Strengthen the domestic business to support growth and show real growth in the US



Focusing operating resources on most productive sales area

Sales area

- Deployment in sales areas of focus
- Actions to be taken in these areas

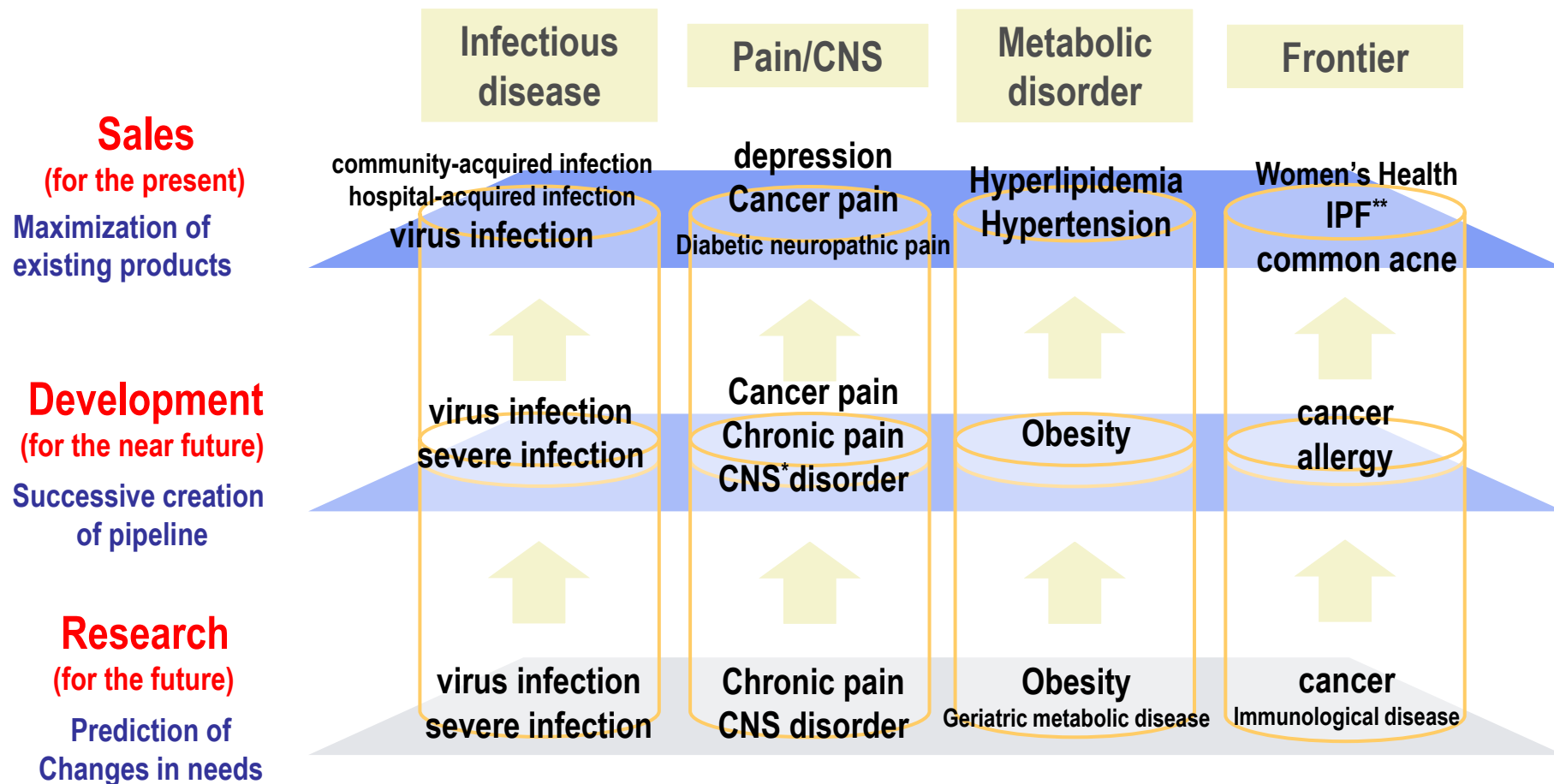
Selection and concentration on unmet medical needs of the present, near future and future

Therapeutic area

- Therapeutic area focus for research, development and sales activities
- Strengthening pipeline

Therapeutic Area Focus by Stage

Focus shifts to reflect changing needs over time



Reorganization of Research Function



Reorganized to effectively focus on the target therapeutic areas

Needs of a rapidly-aging society
(extension of HALE, support to return to productive activities)

Discovery Research Laboratory for Core Therapeutic Areas

Needs in the near future

Important therapeutic area in the past

Virus infection
Bacterial infection

Infectious
disease

Pain

Alleviation of opioid-
induced-adverse effects
Neuropathic pain
Inflammatory pain

Infectious
disease

Pain/CNS

MS

Hyperlipidemia
Type 2 diabetes
Obesity

Frontier

VVA
allergy
ITP
Cancer
ADHD
Alzheimer's

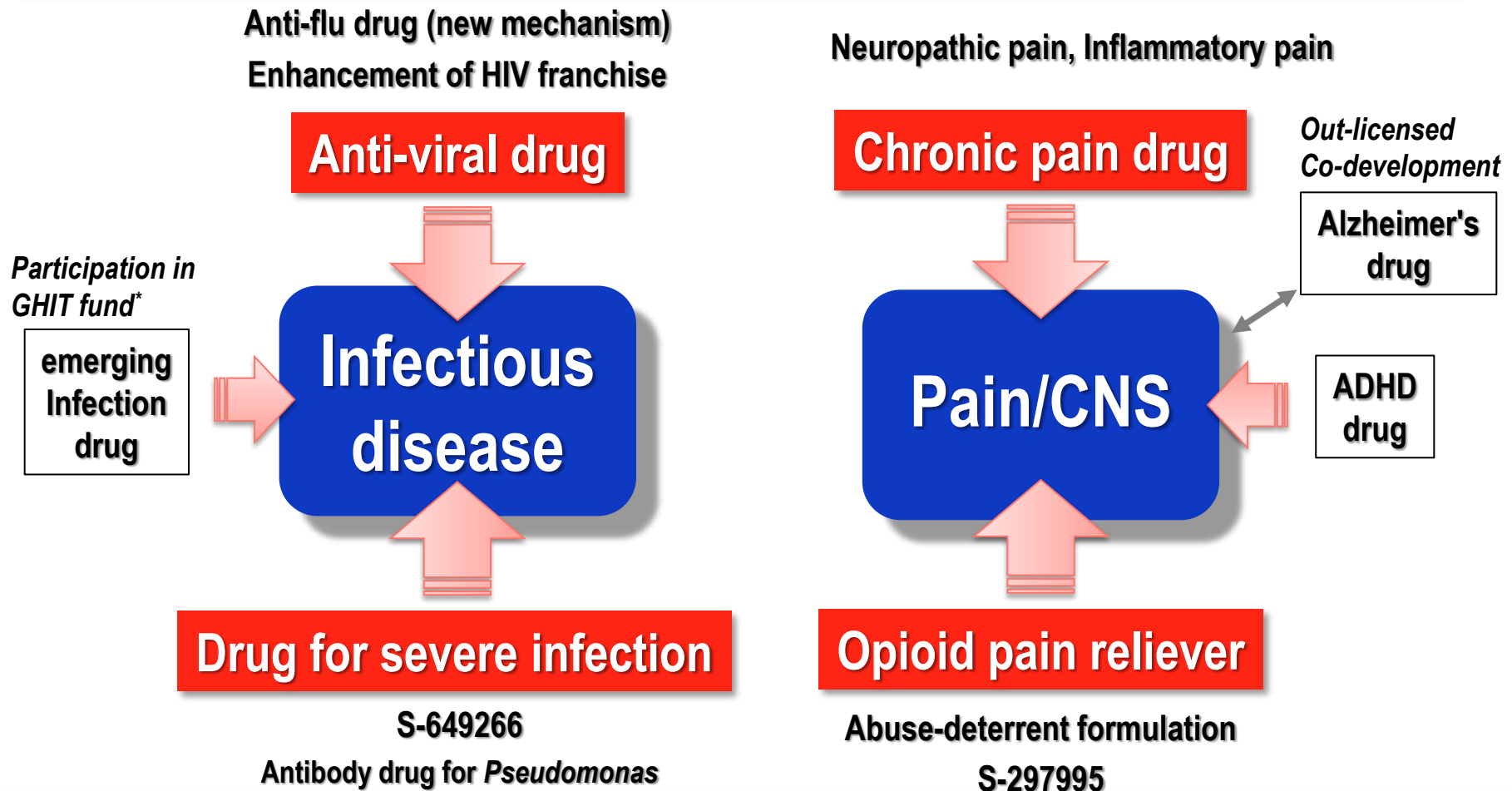
Obesity/
Geriatric metabolic
disease

Oncology/
Immunological
disease

Discovery Research Laboratory for Innovative Frontier Medicines

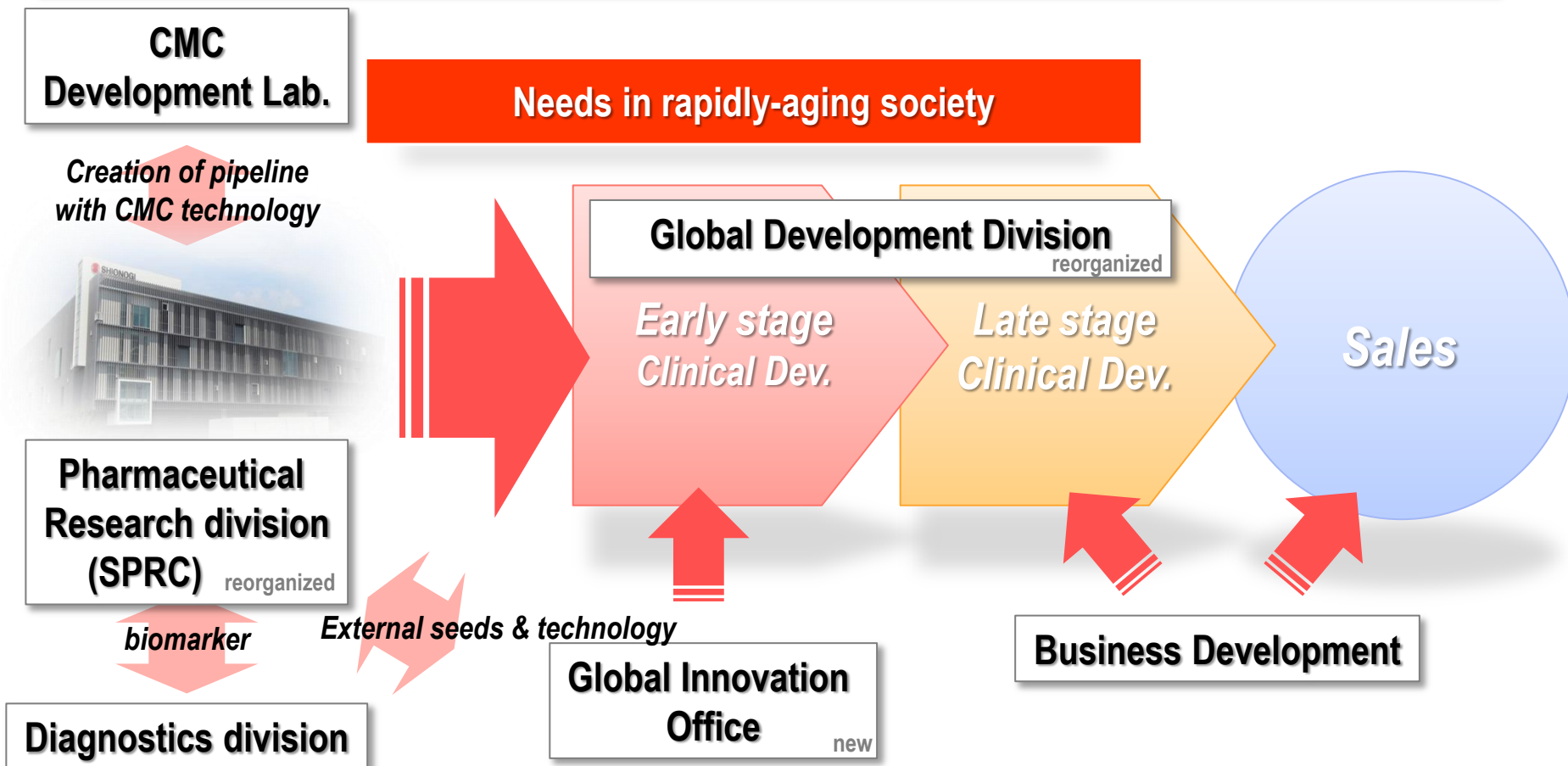
Needs in the future

Maximization of synergy with existing products



Enhancement of Pipeline

Strengthening of innovative drug discovery research Supported by a network of partnerships



Establishment of Global Innovation Office(GIO)

**Pioneer in cultivating
drug seeds from
Japanese academia**

10 discovery programs in 4 years through
FINDS*, SSP** and research collaborations
with venture companies

**Alliances with highly-
innovative venture
companies**

5 drug candidates in 4 years

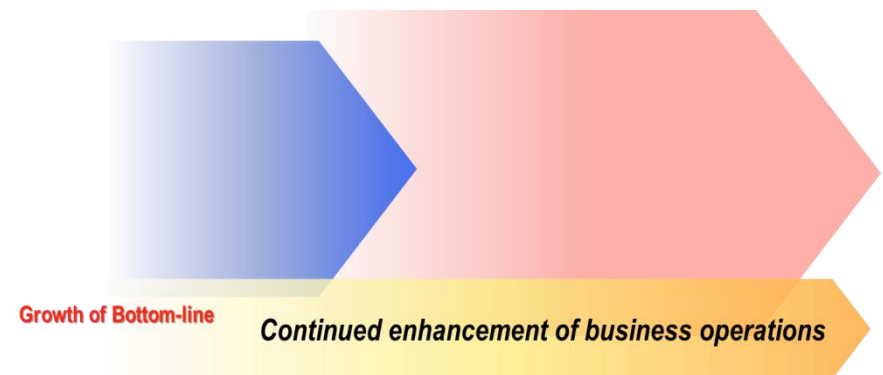
GIO Mission

“Co-creation”

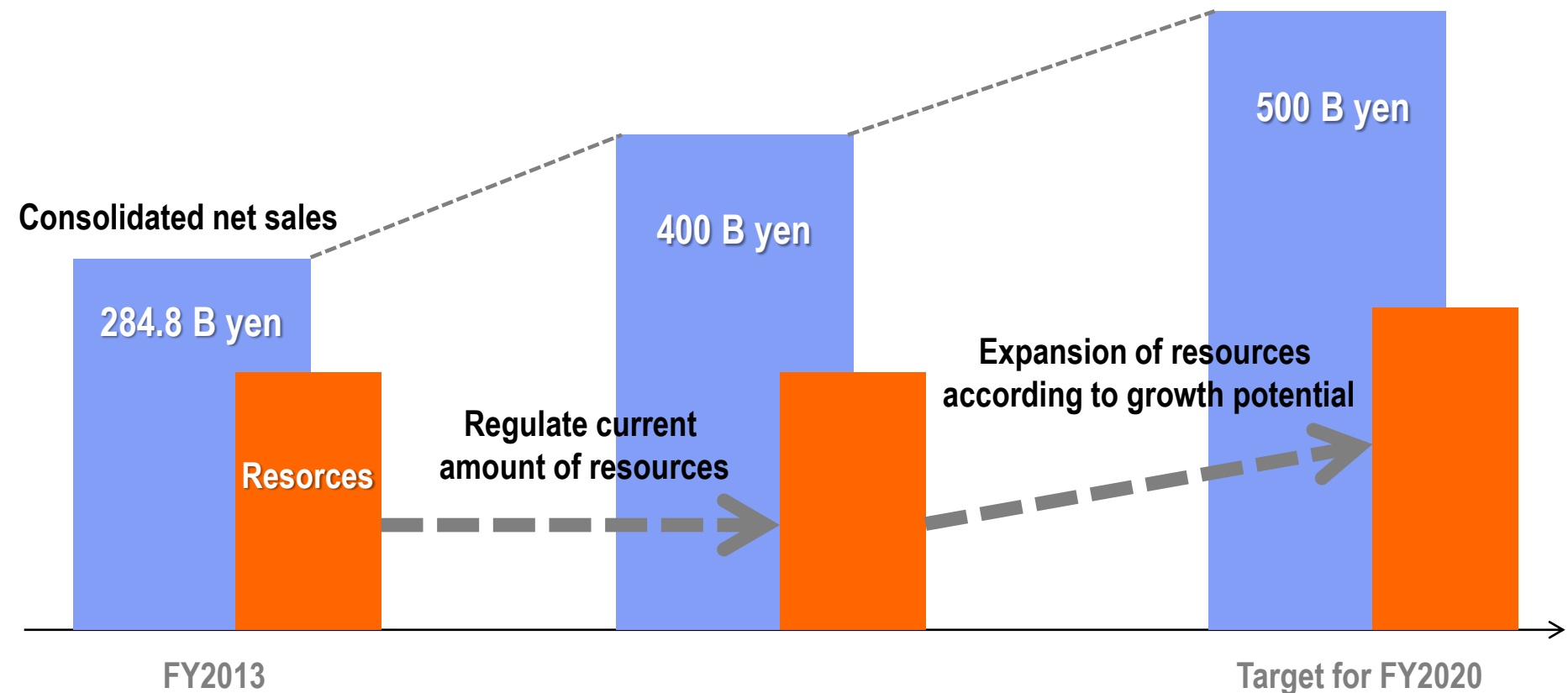
Promote in-licensing of early clinical opportunities

**Acquire seeds and technologies for research,
CMC, diagnostics and development**

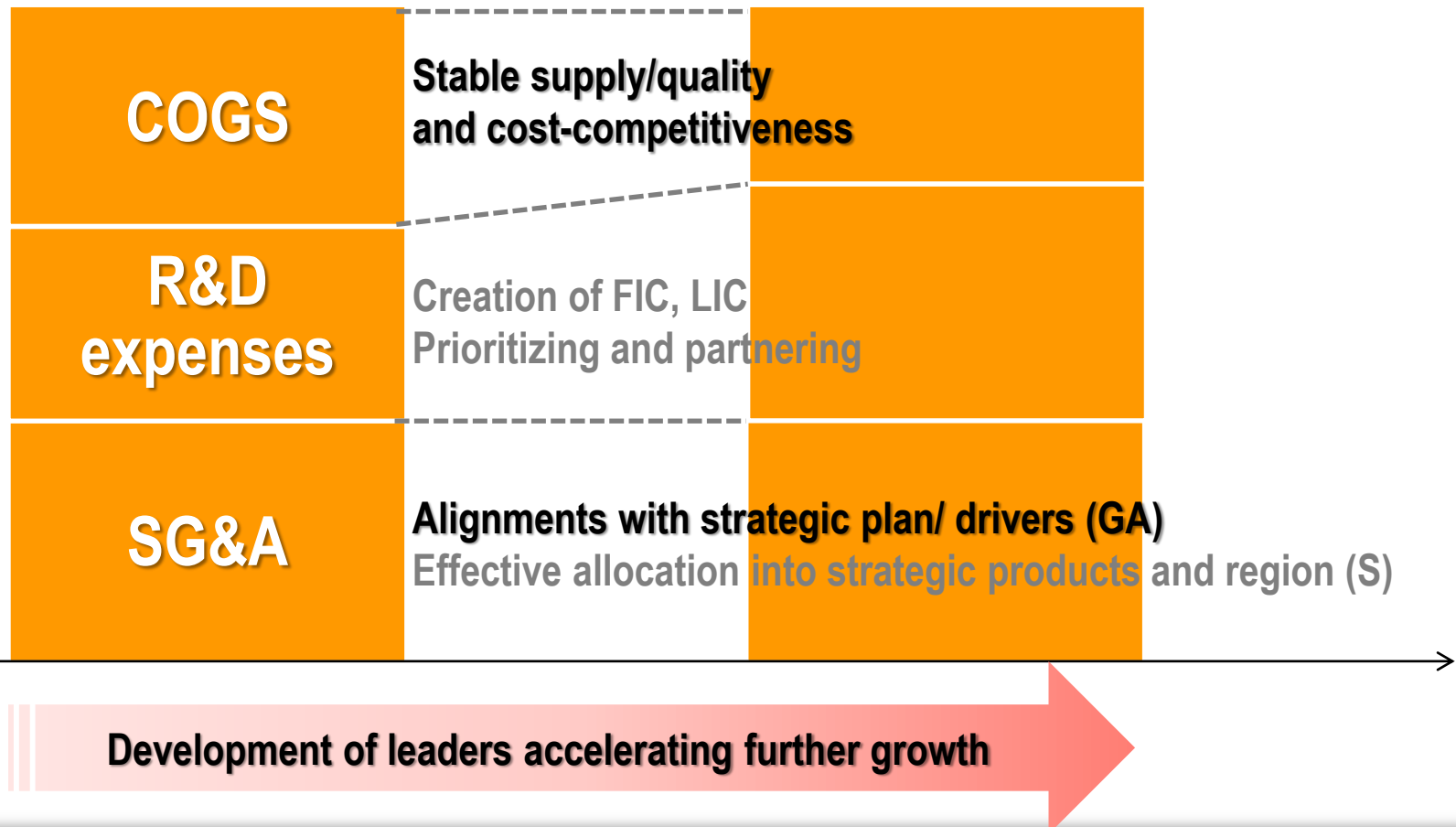
Continued enhancement of business operations



Appropriate allocation of resources according to growth stage



“Strategic cost allocation” and “Human resource development”



Target : COGS 25% Inventory turnover 5.5 months

Pursuit of manufacturing excellence

Process, exquisite quality

- Maintenance of "SHIONOGI quality"
- Building of productive process
- Support for contract partners

Establishment of global supply chain

Cost control with effective outsourcing management

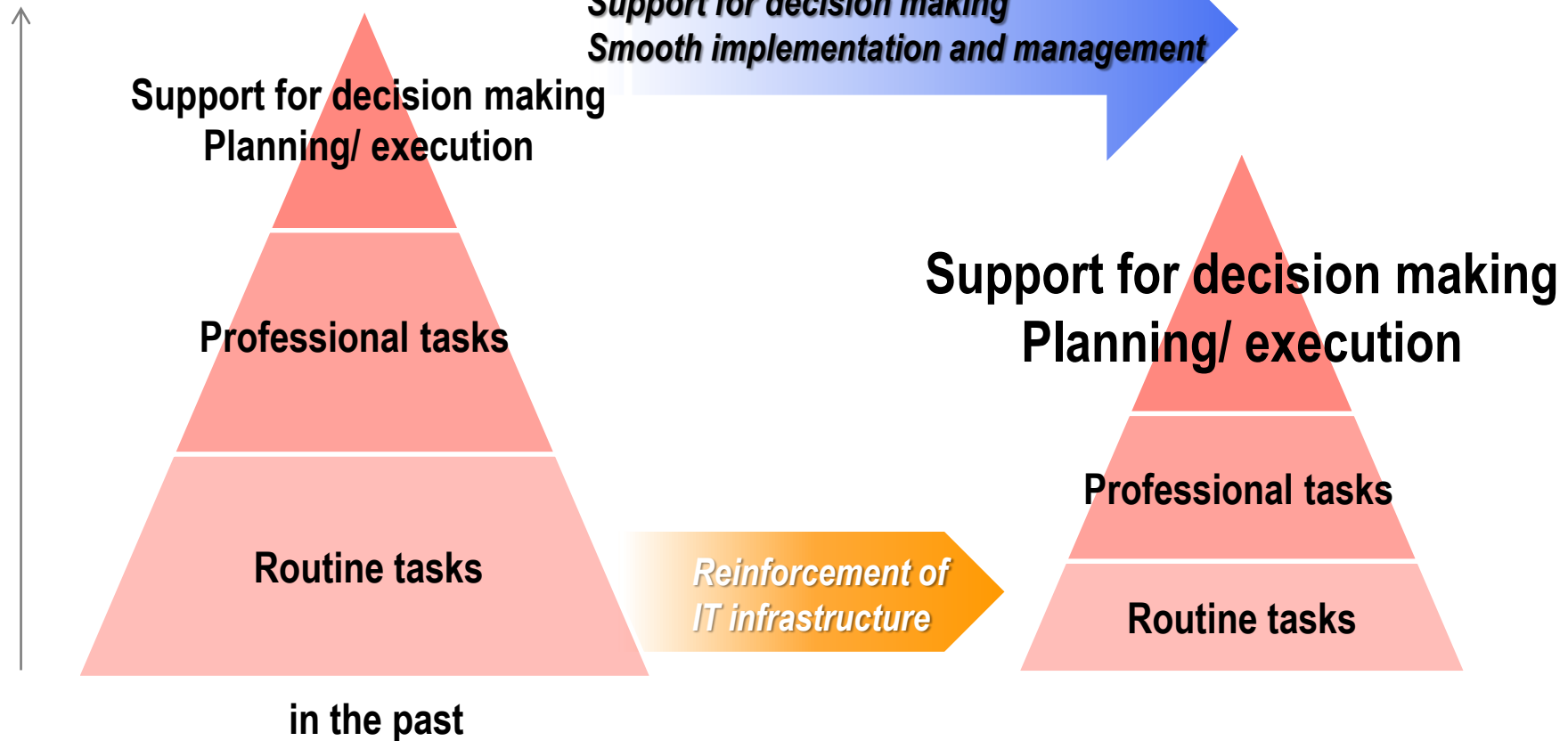
- Integration of suppliers
- Creation of global inventory control system
- Balance key factors of stable supply/ quality/ cost

Critical Role of Headquarters in Strategic Planning and Execution



Contribute to enhanced enterprise value

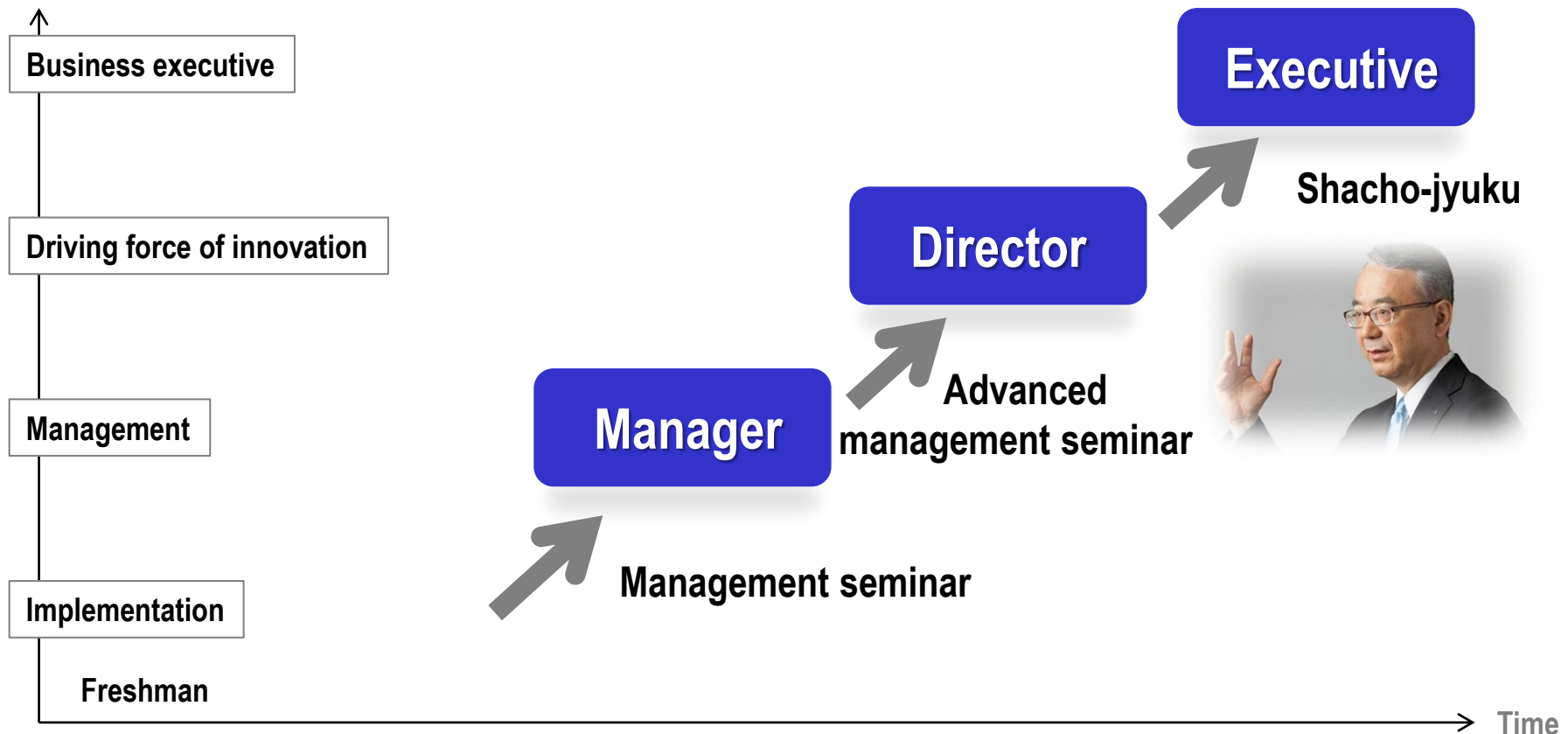
Amount of resources



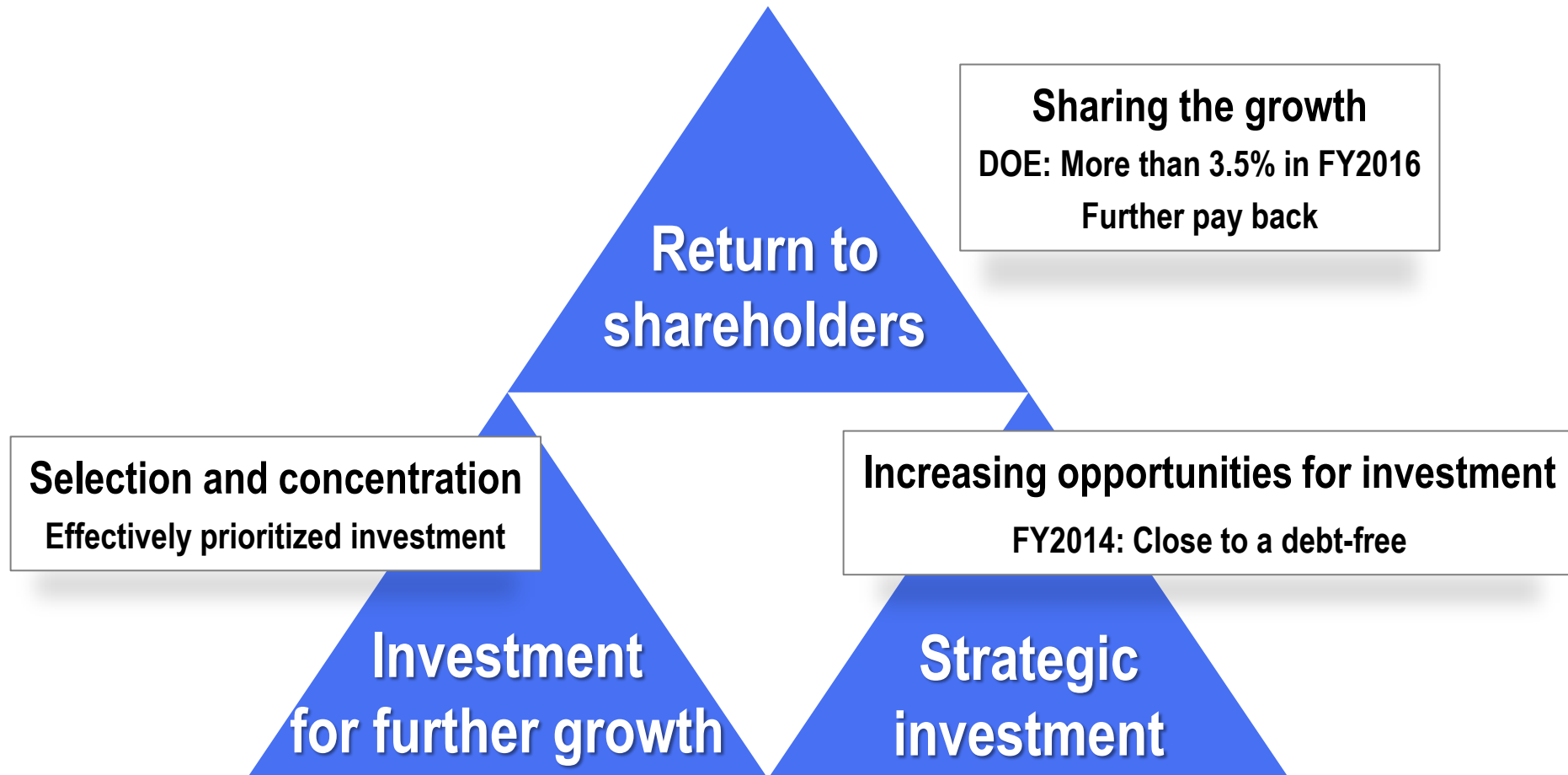
Executives committed to human resource development and to educating employees with enthusiasm

Future leaders are our most important-our most valuable-asset

ability/skill



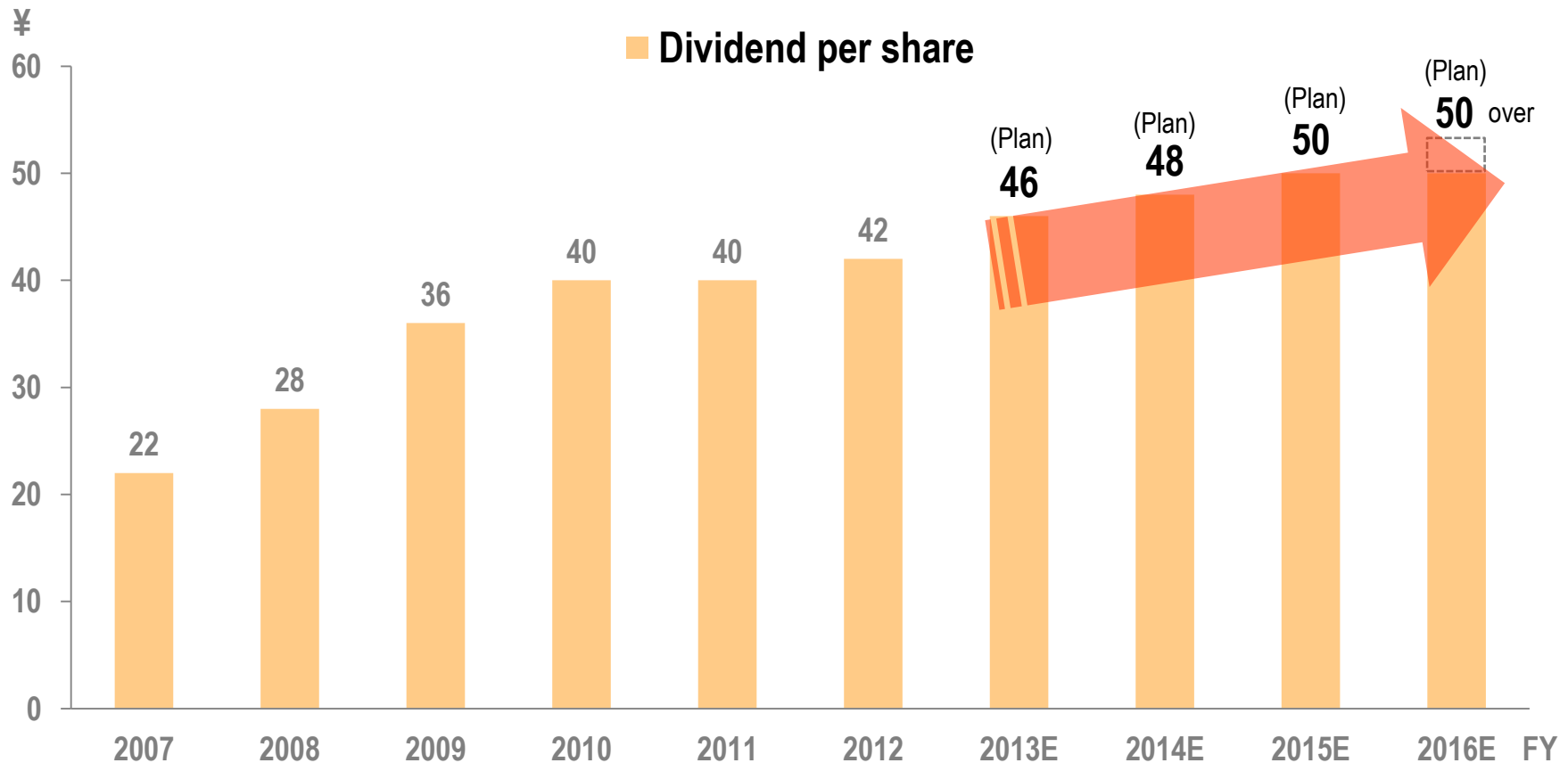
Maximization of enterprise value in harmony with three factors



Return to Stockholders to Feel the Real Growth



Dividend Policy: Planning dividend increase from FY2014



Continued Efforts toward FY2016



Qualitative objectives

FY2016

1. Select and focus efforts toward generation and maximization of FIC/LIC compounds
2. Continued enhancement of business operations

Quantitative targets

FY2016

Net sales	320 B yen	R&D expenses	63 B yen
Ordinary income	75 B yen	ROE	11%

Actions

- Resource allocation concentrated on the regions driving growth
- Pursuit of unmet medical needs of the present and the future
- Strengthening of pipeline
- Establishment of global supply chain
- Critical role of the HQ in strategic planning and execution
- Development of leaders to accelerate our further growth

Forward-Looking Statements



- Forecast or target figures in this material are neither official forecasts of earnings and dividends nor guarantee of target, achievement and forecasts, but present the midterm strategies, goals and visions. Official earnings guidance should be referred to in the disclosure of the annual financial report (*kessan tanshin*) in accordance with the rules set by Tokyo Stock Exchange.
- Materials and information provided during this presentation may contain so-called “forward-looking statements”. These statements are based on current expectations, forecasts and assumptions that are subject to risks and uncertainties which could cause actual outcomes and results to differ materially from these statements.
- Risks and uncertainties include general industry and market conditions, and general domestic and international economic conditions such as interest rate and currency exchange fluctuations. Risks and uncertainties particularly apply with respect to product-related forward-looking statements. Product risks and uncertainties include, but are not limited to, technological advances and patents attained by competitors; challenges inherent in new product development, including completion of clinical trials; claims and concerns about product safety and efficacy; regulatory agency’s examination period, obtaining regulatory approvals; domestic and foreign healthcare reforms; trend toward managed care and healthcare cost containment; and governmental laws and regulations affecting domestic and foreign operations.
- For products that are approved, there are manufacturing and marketing risks and uncertainties, which include, but are not limited to, inability to build production capacity to meet demand, unavailability of raw materials, and failure to gain market acceptance.
- Shionogi disclaims any intention or obligation to update or revise any forward-looking statements whether as a result of new information, future events or otherwise.
- This material is presented to inform stakeholders of the views of Shionogi’s management but should not be relied on solely in making investment and other decisions.
- You should rely on your own independent examination of us before investing in any securities issued by our company. Shionogi shall accept no responsibility or liability for damage or loss caused by any error, inaccuracy, misunderstanding or changes of target figures or any other use of this material.
- This English presentation was translated from the original Japanese version. In the event of any inconsistency between the statements in the two versions, the statements in the Japanese version shall prevail.