



# Fiscal 2014 Financial Results SGS2020 Rolling Plan

May 11, 2015



# Overview of FY2014 Financial Results

# Summary of FY2014 Results

- ◆ Sales and operating income on track
    - Total sales of Crestor<sup>®</sup> by Shionogi and AstraZeneca K.K. achieved ¥100B on a list price basis in Japan
  - ◆ Ordinary income is higher than the levels achieved in any prior full fiscal year (record-high levels for 3 consecutive years)
  - ◆ Net income is higher than the last fiscal year even though an allowance was recorded for prior period income taxes
- 
- ◆ Accelerating development and new drug applications for high priority compounds (S-297995, S-649266, additional indications for Cymbalta<sup>®</sup>, etc.)
- 
- ◆ Share buyback and dividend increase demonstrated Shionogi's strong commitment to increase its shareholder returns
  - ◆ Improvement of cash flow through reducing inventories and selling underutilized assets

# Financial Results (Consolidated)

(Units: B yen)

	FY2014 forecasts*	FY2014 results	Achievement(%)	FY2013 results**	Y on Y	
					change(%)	change
Sales	273.5	274.0	100.2	289.7	(5.4)	(15.7)
Operating income	49.5	50.4	101.7	61.9	(18.6)	(11.5)
Ordinary income	58.0	77.9	134.3	62.2	25.2	15.7
Net income	30.0	44.1	146.9	40.6	8.5	3.5

All numerical values are rounded to the nearest unit

- Ordinary income : higher than the levels achieved in any prior full fiscal year (record full year ordinary income levels for three consecutive years)

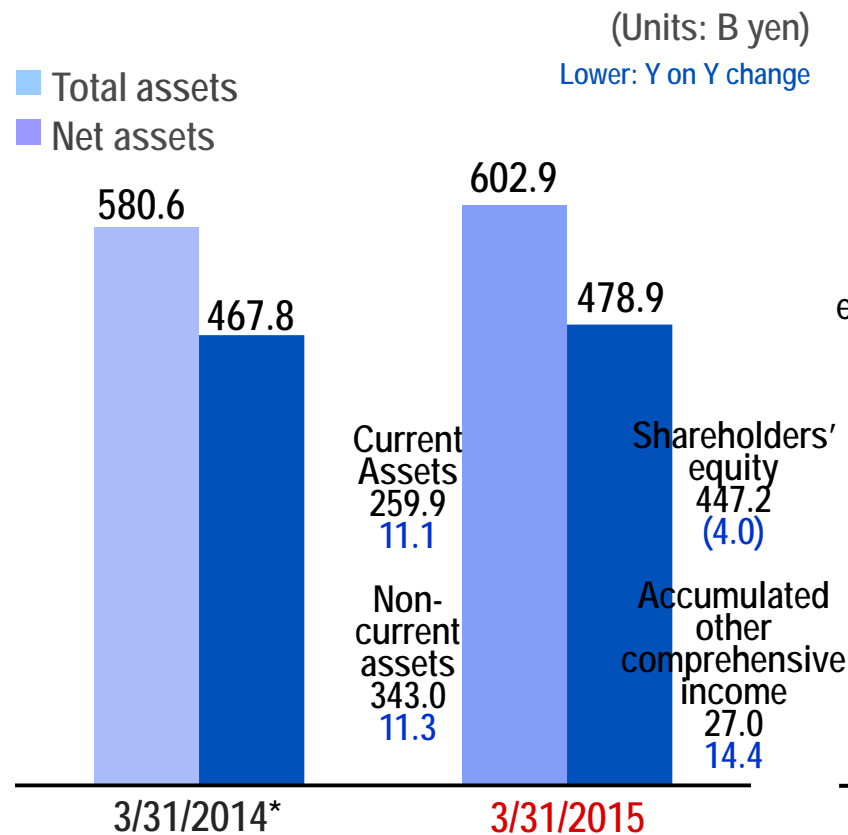
Exchange rate (average)	FY2014 forecasts	FY2014 results	FY2013 results	Y on Y
USD (\$) – JPY (¥)	105	109.76	100.18	+9.58 yen depreciation
EUR (€) – JPY (¥)	140	138.69	134.23	+4.46 yen depreciation
GBP (£) – JPY (¥)	170	176.68	-	-

\* The consolidated earnings forecasts announced on Oct. 29, 2014

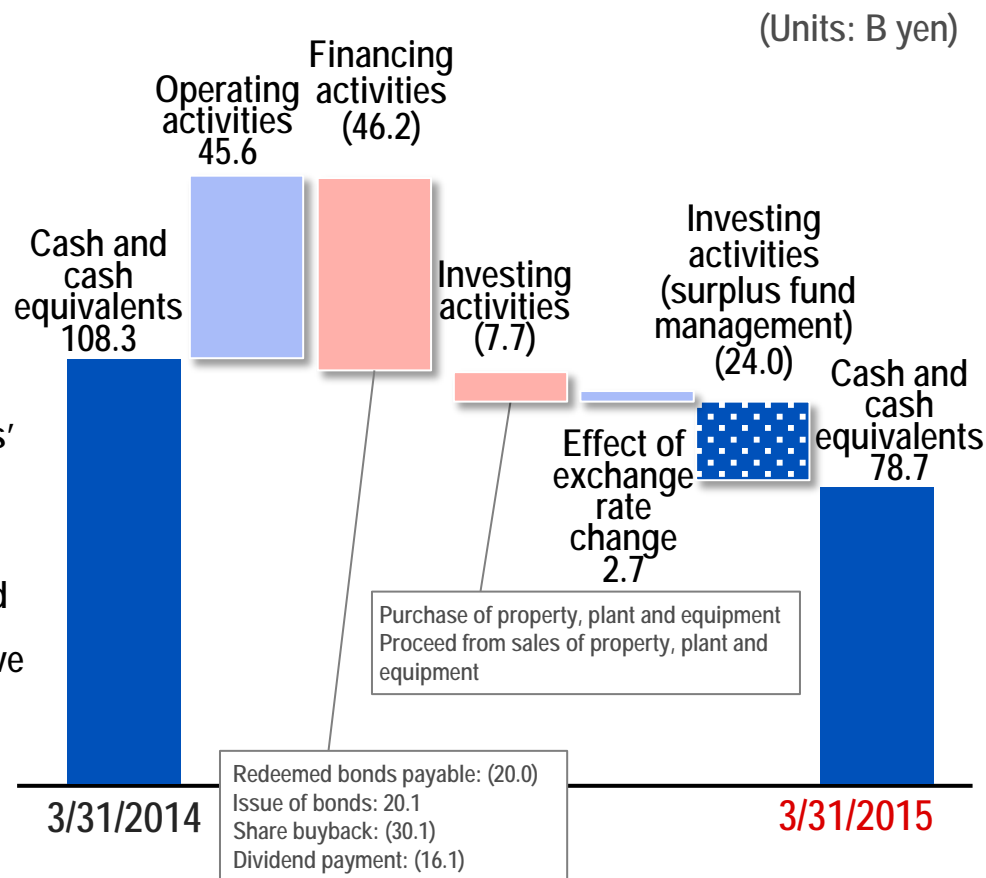
\*\* The accounting policy for R&amp;D expenses was changed effective Apr. 1, 2014. Figures for FY2013 were restated to reflect this change

# Financial Position and Cash Flow (Consolidated)

## ◆ Financial Position



## ◆ Cash Flow



	3/31/2014*	3/31/2015
Equity ratio	79.9%	78.7%

\* The accounting policy for R&D expenses was changed effective Apr. 1, 2014. Figures for FY2013 have been restated to reflect this change

# Statements of Income (Consolidated)

(Units: B yen)

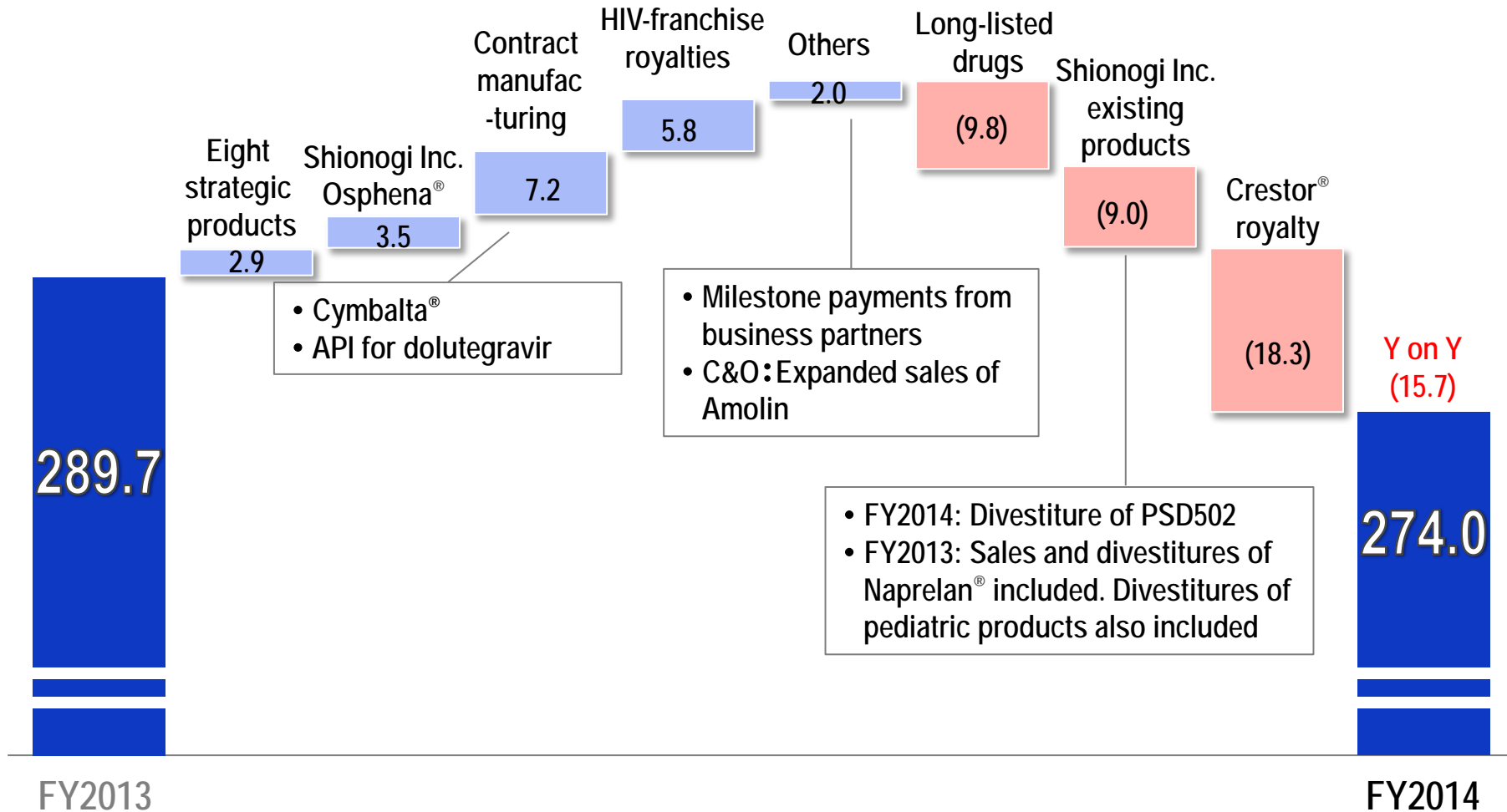
	FY2014		achievement(%)	variance	FY2013 results	Y on Y	
	forecasts	results				change(%)	change
Prescription drugs	163.5	161.4	98.7	(2.1)	168.3	(4.1)	(6.9)
Total of 3 key products	72.0	69.7	96.7	(2.3)	66.3	5.0	3.4
Total of 8 strategic products	99.3	95.8	96.5	(3.5)	92.9	3.1	2.9
Overseas subsidiaries/export*	29.8	28.7	96.2	(1.1)	34.0	(15.8)	(5.3)
Shionogi Inc.	17.7	15.9	90.1	(1.8)	21.4	(25.4)	(5.5)
Osphena®	7.0	4.6	65.3	(2.4)	1.1	315.8	3.5
C&O	7.5	6.9	92.3	(0.6)	5.9	17.9	1.0
Contract manufacturing*	12.9	15.6	121.1	2.7	8.4	86.4	7.2
OTC and quasi-drugs	4.6	4.6	99.2	(0.0)	4.5	1.1	0.1
Royalty income	60.0	60.7	101.1	0.7	70.7	(14.2)	(10.0)
Crestor®	49.0	47.4	96.8	(1.6)	65.7	(27.8)	(18.3)
HIV franchise	—	5.8	-	-	—	-	5.8
Others	2.7	3.1	113.6	0.4	3.8	(19.6)	(0.7)
<b>Total</b>	<b>273.5</b>	<b>274.0</b>	<b>100.2</b>	<b>0.5</b>	<b>289.7</b>	<b>(5.4)</b>	<b>(15.7)</b>

Eight strategic products: Crestor®, Irbetan® franchise, Cymbalta® (3 key products), and OxyContin® franchise, Finibax®, Differin®, Pirespa®, Rapiacta®



# Change in Sales vs. Previous Year

(Units: B yen)

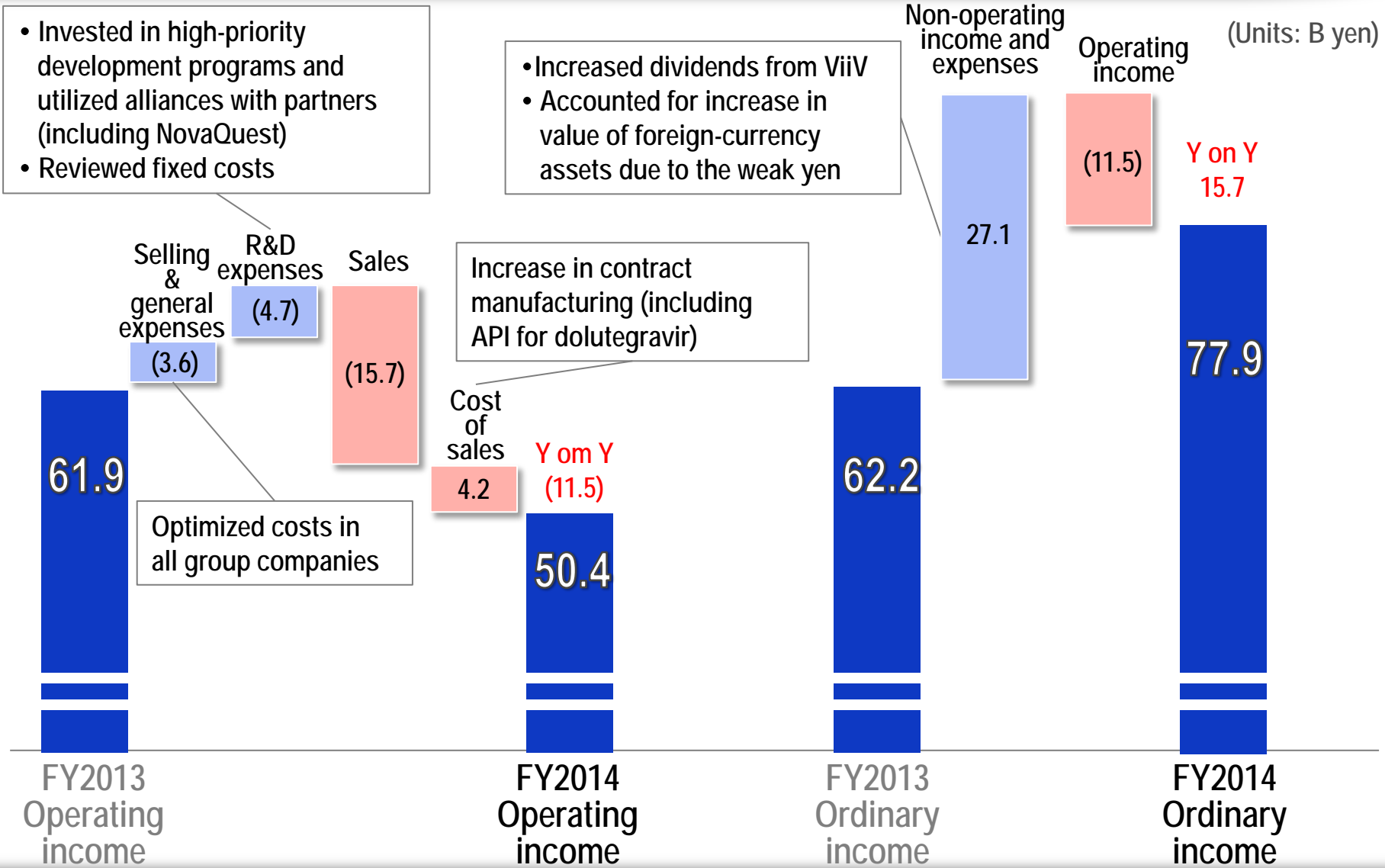


# Statements of Income (Consolidated)

	FY2014		achievement(%)	variance	FY2013 results	Y on Y	
	forecasts	results				change(%)	change
Sales	273.5	274.0	100.2	0.5	289.7	(5.4)	(15.7)
[Royalty income]	60.0	60.7	101.1	0.7	70.7	(14.2)	(10.0)
Cost of sales	28.7 [36.8]	30.0 [38.5]	104.7	3.7	26.9 [35.6]	5.4	4.2
Gross profit	195.0	191.8	98.4	(3.2)	211.7	(9.4)	(19.9)
SG&A expenses	53.2	51.6	97.2	(4.1)	51.7	(5.6)	(8.4)
Selling & general expenses	93.5	92.6	99.0	(0.9)	96.2	(3.8)	(3.6)
R&D expenses	52.0	48.9	94.0	(3.1)	53.6	(8.8)	(4.7)
Operating income	18.1	18.4	101.7	0.9	21.4	(18.6)	(11.5)
[Excluding royalty income]	(10.5)	(10.3)	-	0.2	(8.8)	-	(1.5)
Non-operating income and expenses	P8.5	P27.5	323.7	19.0	P0.4	-	27.1
Ordinary income	21.2	28.4	134.3	19.9	21.5	25.2	15.7
Extraordinary income and loss	P5.0	P4.2	83.4	(0.8)	P1.0	333.1	3.2
Income before income taxes and minority interests	63.0	82.1	130.2	19.1	63.2	29.9	18.9
Total income taxes, etc.	33.0	38.0	115.1	5.0	22.6	68.3	15.4
Net income	30.0	44.1	146.9	14.1	40.6	8.5	3.5



# Change in Earning Structure vs. Previous Year



# Three Acquired Strengths and Three Challenges

## Strength-1

Development of business alliances for joint sales in Japan

## Strength-2

Competitive drug discovery capabilities and flexible partnering strategies worldwide

## Strength-3

Careful cost management as an organizational climate

Next business challenges

## Challenge-1

Strengthening Japanese business as a business base

## Challenge-2

Strengthening capability to support new global products

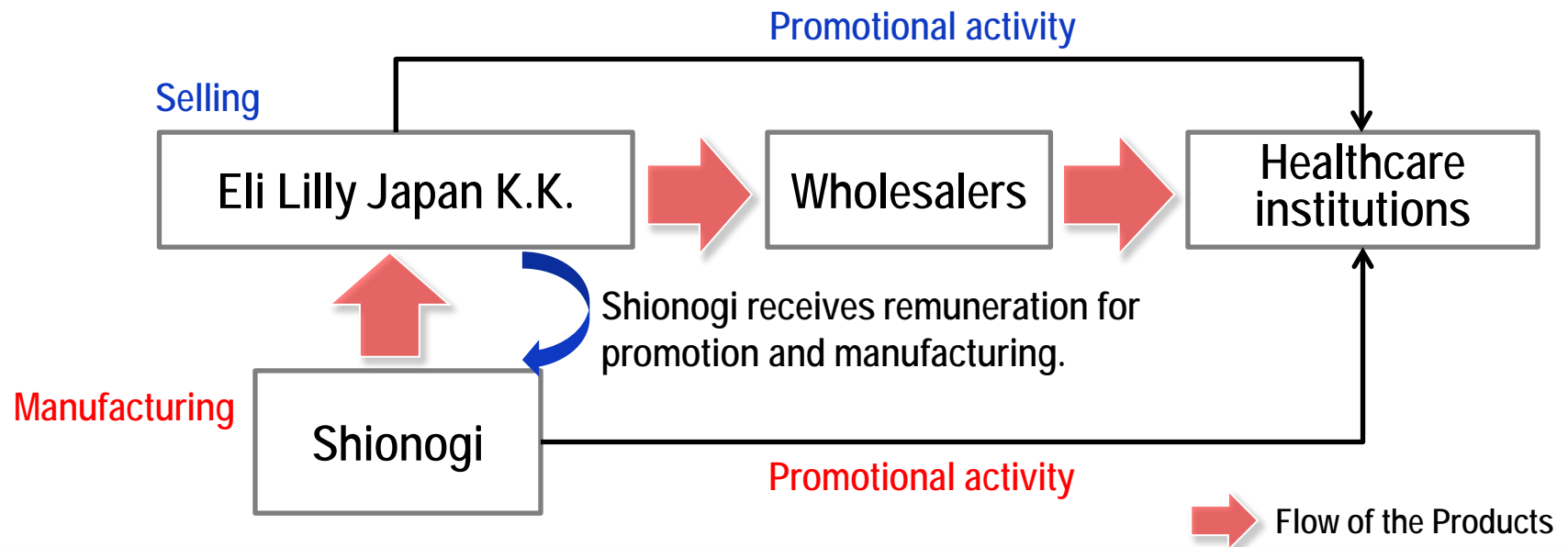
## Challenge-3

Developing an operating structure independent of royalty income

# FY2015 Financial Forecasts

# Changes to Cymbalta<sup>®</sup> Contract

- ◆ Sales structure changed from 1brand-2channel to 1brand-1channel. (Sales channel is consolidated through Eli Lilly Japan K.K.)
- ◆ Both companies jointly provide medical information on Cymbalta<sup>®</sup>, as in the past. Shionogi receives remuneration for promotional activity.
- ◆ Shionogi manufactures the final product and supplies it to Eli Lilly Japan K.K.. Shionogi receives remuneration for manufacturing.



# Financial Forecasts (Consolidated)

(Units: B yen)

	FY2015 forecasts		FY2014 results	Y on Y	
	full year	1H		change(%)	change
Sales	296.0	138.0	274.0	8.0	22.0
Operating income	72.5	28.5	50.4	43.9	22.1
Ordinary income	79.5	28.0	77.9	2.1	1.6
Net income attributable to owners of the parent	52.0	17.0	44.1	18.0	7.9

Note: All numerical values are rounded to the nearest unit

- Operating income: higher than the levels to be achieved in the full year of any prior fiscal year, in two years
- Ordinary income: higher than the levels to be achieved in the full year of any prior fiscal year for four consecutive years

(Units: Yen)

Exchange rate (average)	FY2015 forecasts	FY2014 results
USD(\$)-JPY(¥)	120	109.76
EUR(€)-JPY(¥)	130	138.69
GBP(£)-JPY(¥)	175	176.68

# Statements of Income (Consolidated)

(Units: B yen)

	FY2015 forecasts		FY2014 results	Y on Y	
	full year	1H		change(%)	change
Prescription drugs	167.0	79.2	161.4	3.5	5.6
Total of 3 key products	78.8	37.2	69.7	13.1	9.1
Total of 8 strategic products	105.3	49.4	95.8	9.9	9.5
Overseas subsidiaries/export*	30.4	14.8	28.7	6.0	1.7
Shionogi Inc.	17.4	9.0	15.9	9.1	1.5
Osphena®	7.4	3.0	4.6	61.9	2.8
C&O	8.0	3.4	6.9	15.6	1.1
Contract manufacturing*	7.6	3.7	15.6	(51.3)	(8.0)
OTC and quasi-drugs	4.7	2.5	4.6	3.0	0.1
Royalty income	83.3	36.5	60.7	37.3	22.6
Crestor® and HIV franchise	74.5	32.0	53.2	39.9	21.3
Others	3.0	1.3	3.1	(2.2)	(0.1)
<b>Total</b>	<b>296.0</b>	<b>138.0</b>	<b>274.0</b>	<b>8.0</b>	<b>22.0</b>

# Statements of Income (Consolidated)

(Units: B yen)

	FY2015 forecasts		FY2014 results	Y on Y	
	full year	1H		change(%)	change
Sales	296.0	138.0	274.0	8.0	22.0
[Royalty* income]	74.5	32.0	53.2	39.9	21.3
Cost of sales	24.8 [33.2]	25.6 [33.3]	30.0 [37.2]	(10.6)	(8.7)
Gross profit	222.5	102.7	191.8	16.0	30.7
SG&A expenses	50.7	53.8	51.6	6.1	8.6
Selling & general expenses	101.0	50.2	92.6	9.1	8.4
R&D expenses	49.0	24.0	48.9	0.3	0.1
Operating income	24.5	20.7	18.4	43.9	22.1
[Excluding royalty* income]	(2.0)	(3.5)	(2.9)	-	0.9
Non-operating income and expenses	P7.0	L0.5	P27.5	(74.6)	(20.5)
Ordinary income	26.9	20.3	28.4	2.1	1.6

Note: Small numbers in red are percent of sales, and numbers in red provided in parentheses are percent of sales excluding royalties

\* Royalty income from AstraZeneca and ViiV for the sales of Crestor® and HIV franchise

# Basic Policy for Income Allocation

- ◆ Maximizing enterprise value by balancing three factors: return to shareholders, investment for future growth and strategic investment
- ◆ Increase shareholder return by sharing our mid- to long-term growth (including share buyback)
- ◆ Annual cash dividends of 56 yen per share in FY2015

Fiscal year	Dividends per share			DOE	ROE
	Half-year	Year-end	Annual		
2013	yen 22.00	yen 24.00	yen 46.00	3.5%	9.2%
2014	24.00	(forecast) 28.00	(forecast) 52.00	3.7%	9.4%
2015	(forecast) 28.00	(forecast) 28.00	(forecast) 56.00	-	(forecast) 10.6%



# SGS2020 Rolling Plan (Targets for FY2017)

# Progress toward Achieving FY2016 Targets



Ordinary income target was achieved 2 years ahead of schedule

	FY2014 (Results)	FY2015 (Forecasts)	FY2016 (Targets)
<b>Net sales</b>	274.0 B yen	296.0 B yen	320.0 B yen
<b>Cost of sales</b>	30 %	25 %	25 %*
<b>Ordinary income</b>	77.9 B yen	79.5 B yen	75.0 B yen
<b>ROE</b>	9.4 %	10.6 %	11.0 %

Advance core businesses and get on track for further growth

FY2015

FY2016

FY2017

FY2018

FY2019

FY2020

Clear priorities and focused resourcing

*Evolution of  
Core business*

Growth led by FIC and LIC compounds

*Shift Gears for Growth*

Net sales 350.0 billion yen  
Ordinary income 90.0 billion yen  
ROE 12%

Net sales 500.0 billion yen  
Ordinary income 125.0 billion yen  
ROE 15%

# Action Plans to Achieve FY2017 Targets



## Quantitative targets

Net sales **350.0 B yen**

Ordinary income **90.0 B yen**      ROE **12%**

## Actions

- Maximize the value of Crestor<sup>®</sup> and Cymbalta<sup>®</sup> in Japan
- Improve revenues from Osphena<sup>®</sup> in the US
- Strengthen pipeline in the core therapeutic areas
- Develop an operating structure independent of royalty income

# 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.
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