

Actions to Achieve Management That is Conscious of Capital Costs and Stock Prices



SHIONOGI

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In order to increase corporate value, we have formulated a management strategy based on our high drug discovery capabilities, and to achieve this, we will promote IR activities led by the management team regarding our expansion strategies into growth fields, financial strategy, and foundation strategy

Matters requested by the Tokyo Stock Exchange

Analysis of Current Situation

- Gain a proper understanding of the company's cost of capital and profitability
- Analyze and evaluate the current situation around these and the market valuation at Board of Directors' meetings

Planning & Disclosure

- Have the Board of Directors discuss and develop policies, targets, planning periods, and specific initiatives for improvement
- Disclose clear information on these, along with assessment of the current situation, to investors

Implementation of Initiatives

- Push forward with management that is conscious of cost of capital and stock price, based on the disclosed plans
- Engage in proactive dialogue with investors based on this disclosure

**Progress analysis
Disclosure updates**

(Involvement of the Board of Directors)
The Board of Directors analyzes and evaluates this disclosure material, the medium-term business plan, the portfolio strategy, the appropriateness of cross-shareholdings, etc.

Organization of this material

Analysis of current situation (pp. 3–4)

Strong drug discovery capabilities through focus on specific fields have supported the strong performance of the royalty business and the domestic and overseas infectious disease business, and ROE has remained at a high level. On the other hand, the PER has stagnated. We aim to improve the PER and PBR through corporate communication designed to raise future expectations

Management strategy and financial and foundation strategies that support it (pp. 5–8)

- (p. 5) Implement a portfolio strategy that leverages our strengths to tackle material issues and achieve STS2030 Revision
- (p. 6) Transform into a healthcare provider business based on stable income from drug discovery-based pharmaceutical business
- (p. 7) Implement cash allocation with an eye on business model expansion and shareholder return
- (p. 8) To expand our business model, we will improve our corporate functions, streamline our operations, and strengthen our management foundation

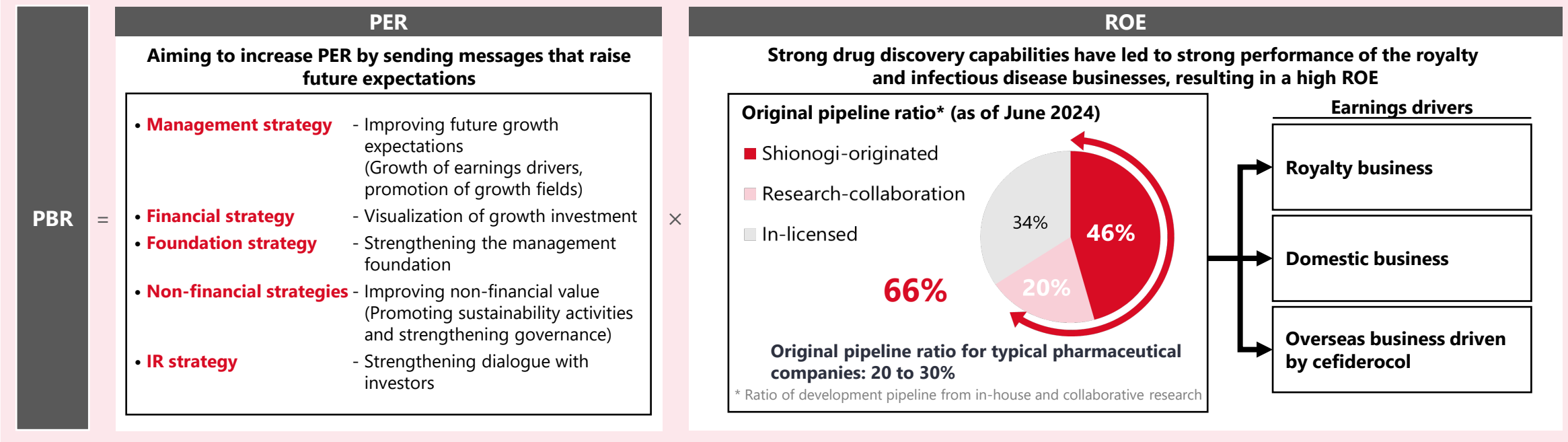
Non-financial and IR strategies for increasing corporate value (pp. 9–14)

- (p. 9) Transforming into a top-tier sustainability company by promoting sustainability activities based on dialogue results
- (p. 10-11) Promote management that is transparent and fair to stakeholders while also utilizing incentives
- (p. 12) Increase resilience in business management by strengthening risk management
- (p. 13-14) Management will take the lead in stakeholder engagement and incorporate feedback gained through dialogue into corporate management to promote the enhancement of corporate and social value

Analysis of Current Situation: Current Status of SHIONOGI

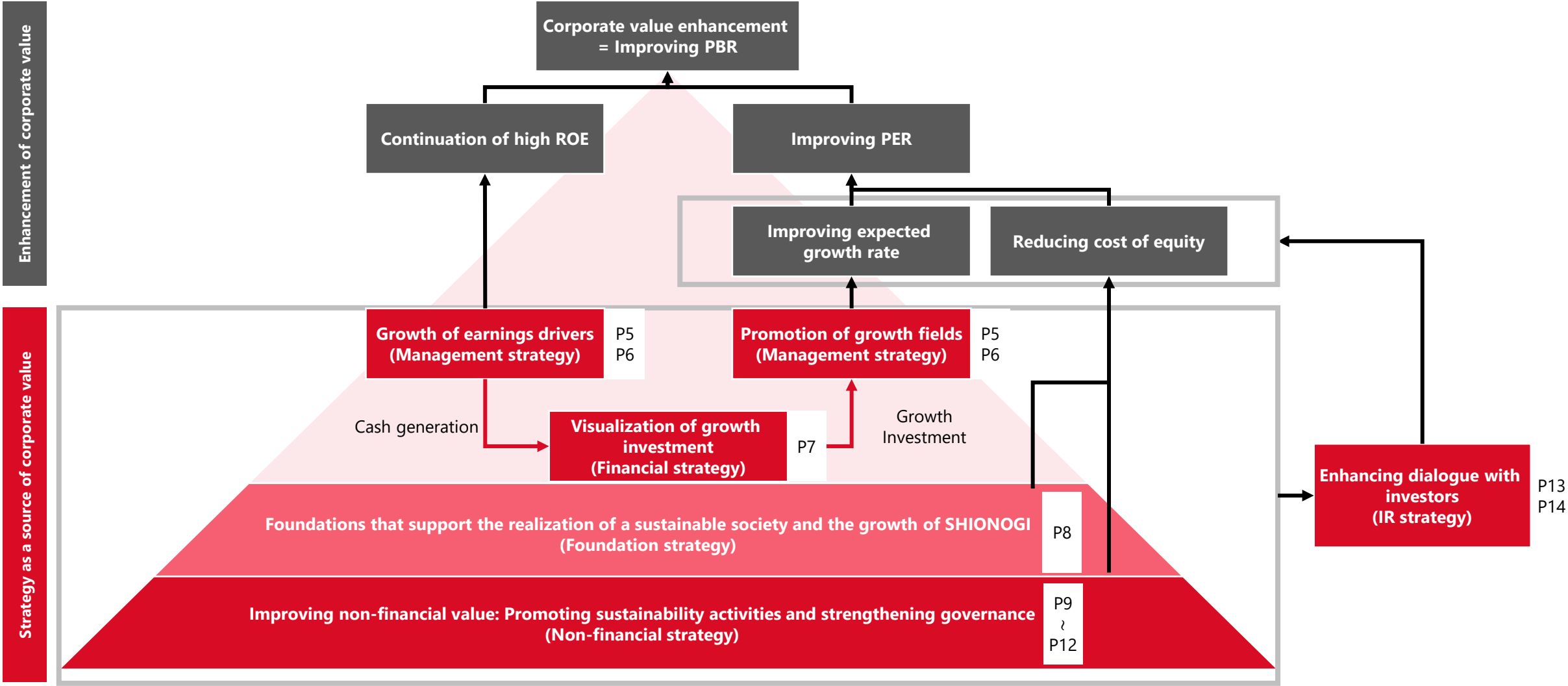
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	FY2019	FY2020	FY2021	FY2022	FY2023
PBR	2.1x	2.1x	2.3x	1.6x	1.8x
PER	13.4x	16.3x	19.9x	9.6x	13.9x
ROE	15.5%	13.9%	12.5%	17.8%	13.9%



Analysis of Current Situation: Overall Strategy of SHIONOGI

A breakdown of the elements for improving PBR to consider and implement strategies for each element



Management Strategy: Efforts to Achieve STS2030 Revision

By identifying material issues that need to be addressed in the long term and implementing a portfolio strategy that leverages SHIONOGI's strengths, we will work to achieve STS2030 Revision through step-by-step achievement of financial targets

Material Issues		
Create value by solving healthcare social issues	Protect people from the threat of infectious diseases	Create innovation
	Contribute to a healthy and prosperous life	Improved access to healthcare
Reduce negative impacts on customers and society	Supply socially responsible products and services	Respect human rights
	Strengthening supply chain management	Protect the environment
Foundations that support the realization of a sustainable society and the growth of SHIONOGI	Developing and securing human resources to support growth	Strengthening governance
	Ensure compliance	

SHIONOGI's strengths			
 <p>Innovation skills</p> <p>自社創薬比率 66% (2024年6月時点)</p> <p>パイプライン数 43 (2024年6月時点)</p>	 <p>Expertise in infectious diseases</p> <p>感染症のトータルケア</p> <p>流行予測 予防 診断</p> <p>治療 薬物開発</p>	 <p>Alliances and collaboration</p> <p>新規提携パートナー 12件 (2023年度)</p> <p>上市したソリューション 8 (STS2030集約)</p>	 <p>Human resources</p> <p>1人当たり教育研修費 8.1万円 (2023年度)</p> <p>ワークエンゲージメントスコア[*] 3.69 (2023年度)</p> <p>※ ユニタス・ワークエンゲージメントスケール</p>
Maintaining an original pipeline ratio of over 60%	Unrivalled knowledge and technology against infectious diseases	Realizing alliances with optimal partners	A source of support for sustainable growth and the creation of new value

STS2030 Revision			
Contribute to solving healthcare-related social issues Foundations that support the realization of a sustainable society and the growth of SHIONOGI and reduce negative impacts on customers and society			
Financial targets	Revenue	Overseas sales CAGR [*]	EBITDA
	800.0 B yen	15% ^{*3}	-

STS Phase2(~FY2025)			
Financial targets	Revenue	Overseas sales CAGR [*]	EBITDA
	550.0 B yen	50% ^{*2}	200.0 B yen

SHIONOGI's portfolio strategy		
Growth fields	Expansion of overseas business	Expansion of products other than prescription drugs
		Provision of new platform services
Earnings drivers	Royalty business	Domestic business
		Overseas business driven by Cefiderocol

* Excluding royalty income ^{*2} Starting from FY2022 ^{*3} Starting from FY2025

Management Strategy: SHIONOGI's Diverse Business Models

Based on stable cash inflows from our earnings drivers, the royalty business and domestic and overseas infectious disease business, we will invest in various growth fields and evolve into a healthcare provider

Growth fields

Expansion of overseas business

Strengthen in-house sales of Cefiderocol, Xocova, etc., at overseas group companies to enhance business growth and profitability in each global region

Expansion of products other than prescription drugs

Stabilize the earnings of the entire group by promoting the OTC drug business, the CDMO business, and the vaccine business, which are relatively less dependent on patents and have relatively small revenue fluctuations, while creating synergies with existing businesses

Provision of new platform services

Through collaborative invention with diverse partners, which is one of SHIONOGI's strengths, we will actively promote the creation of total care platform business for infectious diseases and total care platform business for QOL diseases

Earnings drivers

Royalty business

SHIONOGI's core HIV business will continue to grow strongly and steadily
Growth is expected to be driven by LA* and ULA formulations*²

* Long acting : Long-acting formulation

*² Ultra long acting: Ultra long-acting formulation



Dovato



Cabenuva

Domestic business

Expand in-house sales, mainly of pharmaceuticals in the infectious disease field, such as Xocova and Xofluza.
Stabilize the acute infectious disease business by providing multiple infectious disease drugs



Xocova



Xofluza

Overseas business driven by cefiderocol

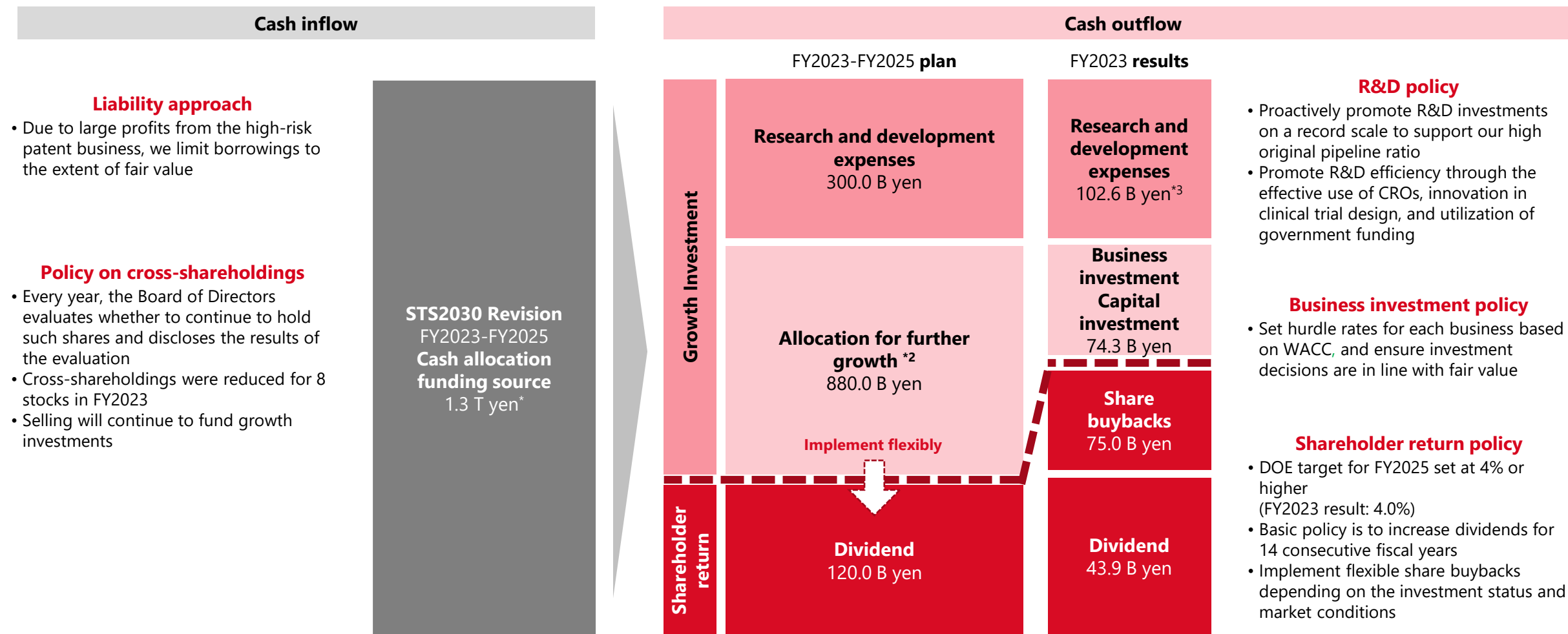
Sales of Cefiderocol in Europe, the U.S., and Taiwan have increased revenue, and we aim to achieve further growth by expanding the number of countries where it is sold



Cefiderocol

Financial Strategy That Supports Management Strategy

Based on our management strategy, we will build a financial foundation necessary for growth investments to achieve “global top-line growth centered on the infectious disease field” and “business expansion in growth fields through aggressive investments”



* Cash on hand (excluding working capital) at the end of FY2023: Approx. 400 B yen
 + “3-year operating cash flow (before deducting R&D expenses)”

*2 Capital investment (including system investment), business investment, etc.

*3 R&D expenses are based on P&L

Foundation Strategy That Supports Management Strategy

In order to evolve into a healthcare provider, we will strengthen our management foundation by implementing reforms to enhance corporate functions, while improving business efficiency

Enhancement of corporate functions

Enhancement of managerial accounting functions

- **Established a Business Administration Office in January 2023 to provide information to support decision making toward achieving STS2030 Revision**

(Achievements)

- Implemented management reports that propose solutions, such as external environment analysis that enables appropriate decision making even in situations of high uncertainty, and future outlook and measures that can be considered based on the analysis
- Supported decision making by clarifying business risks and opportunities through the setting of investment criteria that considers the cost of capital and internal resource analysis

Strengthen global corporate functions

- **Redefined corporate functions in alignment with the globalization of business**
- **Strengthened global strategy, global governance, and stakeholder engagement**

(Achievements)

- Building a foundation for the global expansion of SHIONOGI products by strengthening compliance with the laws and regulations of each country and responses to legal risks
- Placed the Finance & Accounting Department and the Human Resources Department under the Corporate Strategy Division to manage budgets and human capital utilization globally

Improving business efficiency

Improving efficiency of existing businesses

- **Transformation of HR, general affairs, and accounting/finance functions into shared services in 2023 (through a joint venture with Accenture)**

(Achievements)

- Thorough operational efficiency improvement, allocation of resources to new tasks, and improvement of employee expertise

- **Implementation of SAMS (SHIONOGI Approval System 2020)**

(Achievements)

- Fully transparent decision-making process and increased speed of reaching decisions

Realization of Dx transformation

- **Business model & operation reforms:**
Improvement of drug discovery efficiency using AI, market inventory forecast, etc.

- **Creating value by promoting data utilization:**
Creating value by developing SaMD* and disease detection algorithms

(Achievements)

- Selected as a "Noteworthy DX Company" by the Ministry of Economy, Trade and Industry and the Tokyo Stock Exchange in 2023 and 2024

* Software as a Medical Device: Medical device programs aimed at diagnosing and treating diseases

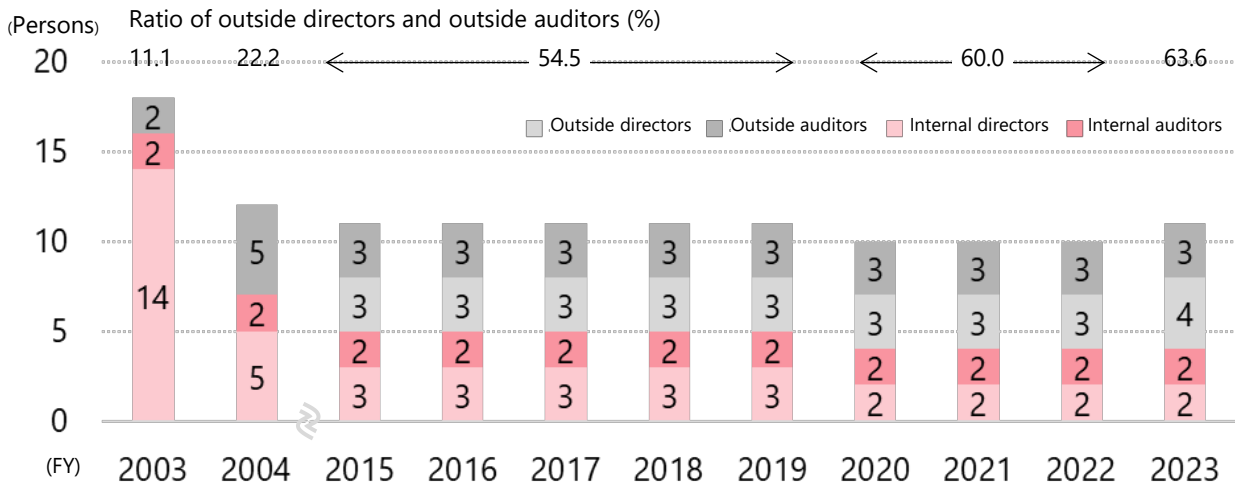
Non-financial Strategy for Corporate Value Enhancement: Reflecting It in Sustainability Activities

Transforming into a top-tier sustainability company by promoting sustainability activities from FY2019 onward based on the results of stakeholder engagement and external evaluations

	FY2019	FY2020	FY2021	FY2022	FY2023
Group strategy	Identification of material issues	Reflecting them in the medium-term business plan	Reinforcement of integration into company-wide strategies Revision of material issues	Reflecting them in the medium-term business plan	Revision of materiality indicators
					Reevaluated appropriateness and realized further involvement of management
Development of a promotion framework	Launch of cross-organizational projects	Development of a governance structure	Reflecting ESG activities in officers' compensation	Revision of the skills matrix	Revision of officers' compensation
			Clarified management's commitment and responsibility	Revised the skills matrix needed for transformation into a HaaS company	
Implementation of activities	Strengthening response to external evaluations and questionnaires Analysis and feedback of evaluation results		Formulation and implementation of a response plan based on the evaluation results		Revision of the response plan according to external evaluations
Information disclosure	Establishment of a disclosure strategy framework	Development of disclosure media	Enhancement of disclosure		Start of sustainability briefings
			Expanded disclosure of corporate activities behind financial results, including issues		Created opportunities for two-way dialogue with outside directors and officers in charge

Non-financial Strategy for Corporate Value Enhancement: Reflecting It in Governance Structure

Promoting management that is fair and transparent to stakeholders in order to ensure fair management and meet the expectations of society, based on the results of stakeholder engagement



2000s	2010s	2020s
<ul style="list-style-type: none">• Number of internal directors reduced from 14 to five• Introduction of a corporate officer system• Introduction of an outside director system• Establishment of a Nomination Advisory Committee• Establishment of a Compensation Advisory Committee• Start of opinion exchanges with corporate auditors	<ul style="list-style-type: none">• Majority passed to outside directors and outside auditors• Start of information sharing meetings with outside directors• Appointment of a female director• Changing composition of the Nomination Advisory Committee and the Compensation Advisory Committee (toward a majority of members now being outside directors)	<ul style="list-style-type: none">• Appointment of an outside director as chairperson of the Board of Directors• Increase in the number of female directors• Increase in the proportion of women in the Board of Directors• Performance review of the President conducted by the Nomination Advisory Committee

Current governance structure

- Ratio of outside directors and outside auditors (outside directors appointed to chair the Board of Directors and the committees below)
Board of Directors 67%, Nomination Advisory Committee 71%, Compensation Advisory Committee 71%
- Proportion of women on Board of Directors
Board of Directors 33%, Nomination Advisory Committee 29%, Compensation Advisory Committee 29%
- The effectiveness of the Board of Directors is evaluated using a third-party organization
SHIONOGI's scores were above the average of other companies in all 47 comparable questions

Questions in effectiveness evaluation for which SHIONOGI's scores significantly exceeded the average scores of other companies

- Advance provision of materials for the Board of Directors
- Potential management risks and how to address them; discussions on the risk management system, etc.
- Design of the management remuneration system and board discussions on the decision of specific remuneration amounts
- Appropriate supervision of the development of successor candidates for the Chief Executive Officer (CEO) and other executives
- Basic sustainability policy, initiatives to improve it, and disclosures
- Identification of actions to be taken regarding sustainability from a risk and opportunity perspective, and reflecting them in management strategies
- The internal directors speaking from a company-wide perspective as supervisors of business management and contributing to fostering free and open discussions
- Sharing the discussions at the Compensation and Nomination Advisory Committees with the Board of Directors

Non-financial Strategy for Corporate Value Enhancement: Officers' Compensation

Promoting management from a stakeholder perspective by designing an officers' compensation system that is linked to the STS2030 Revision, and continually revising the compensation system, performance evaluation system, etc.

Remuneration determination process

Officers' compensation is thoroughly discussed at the Compensation Advisory Committee
The Committee discusses the compensation system for directors and corporate officers and various issues concerned, verifies the levels of remuneration every year, and deliberates on the remuneration system, the performance evaluation system, etc., for the following fiscal year

Composition of remuneration

The targeted ratio for each type of remuneration is set at base remuneration: performance-linked remuneration*: non-monetary remuneration^{*2} = 1:1:1, on the premise that all KPIs are achieved
^{*}Performance-linked remuneration consists of executive bonuses
^{*2}Non-monetary remuneration consists of restricted stock

1	:	1	:	1
Base remuneration		Performance-linked remuneration		Non-monetary remuneration, etc.
Determined based on a basic remuneration table according to the position and responsibilities of each director, with due consideration of the operating environment and global trends		Determined based on a calculation table based on performance, such as achievement of target profits for each fiscal year, as a short-term incentive		Incentives to further increase the linkage with medium- to long-term business performance and to promote sustainable enhancement of corporate value for the Company's directors, excluding outside directors

Compensation system

Total director remuneration is determined within limits set by resolution of the General Meeting of Shareholders. This consists of base monthly remuneration, performance-linked bonuses determined by the results for the fiscal year and other factors, and since FY2018, restricted stock compensation (medium-term performance-linked and long-term). Outside directors only receive base remuneration

Base remuneration

Determined based on the basic remuneration table according to the position and role of each director, taking into consideration the business environment and public trends

Performance-linked remuneration

Determined based on a calculation table based on performance, such as achievement of target profits for each fiscal year, as a short-term incentive

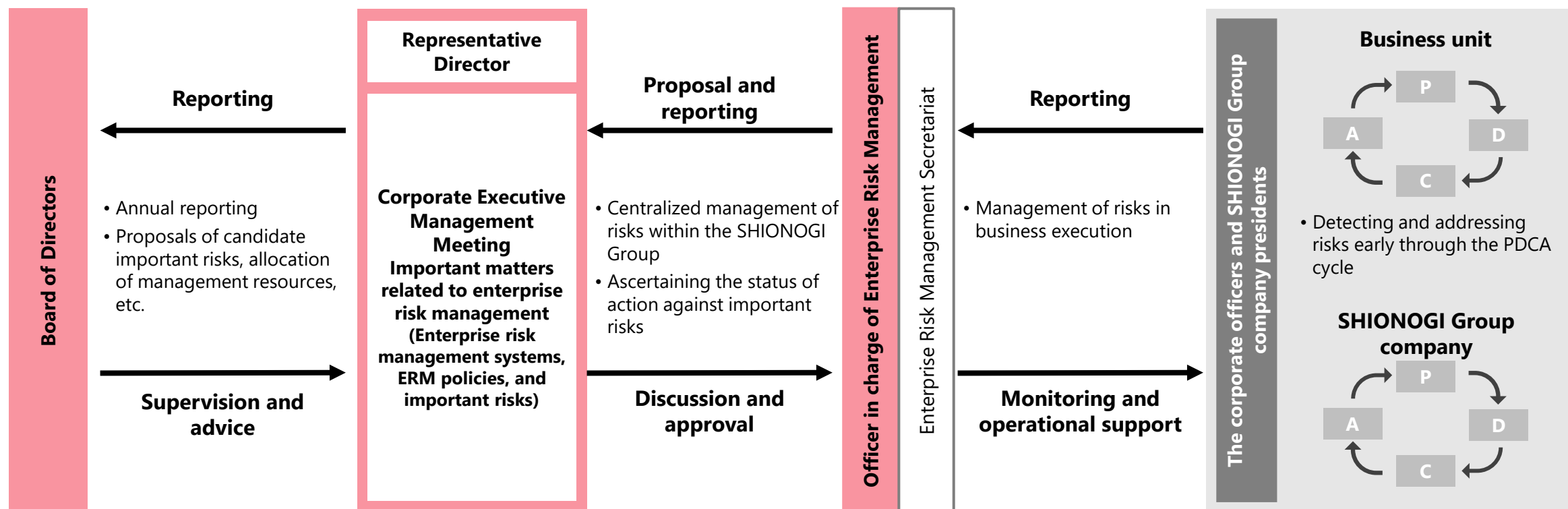
Non-monetary remuneration (stock-based compensation)

Granted based on the stock-based compensation table according to directors' rank and job responsibilities
For medium-term performance-linked stock compensation in particular, performance will be evaluated based on the degree of achievement in FY2025 for the portion to be granted in the three-year Phase 2 period from FY2023 through FY2025 of the STS2030 Revision. Performance evaluations use such quantitative indicators as revenue, overseas net sales, CAGR, EBITDA, ROE, and the ranking in total shareholder return (TSR) among 11 industry peers including SHIONOGI (relative TSR), and also incorporate the status of ESG, compliance, and investment

Non-financial Strategy for Corporate Value Enhancement: Risk Management

Strengthening resilience in business management through improved risk management in each business unit and group company based on the PDCA cycle, and building a process to ensure prompt reporting to the Corporate Executive Management Meeting and the Board of Directors

Cultivating a risk culture by strategically managing risks on both the offense and defense sides



IR Strategy for Corporate Value Enhancement (1/2)

Promoting corporate value and social value enhancement by conducting stakeholder engagement under management’s leadership and reflecting feedback obtained through dialogue in management

Management Involvement

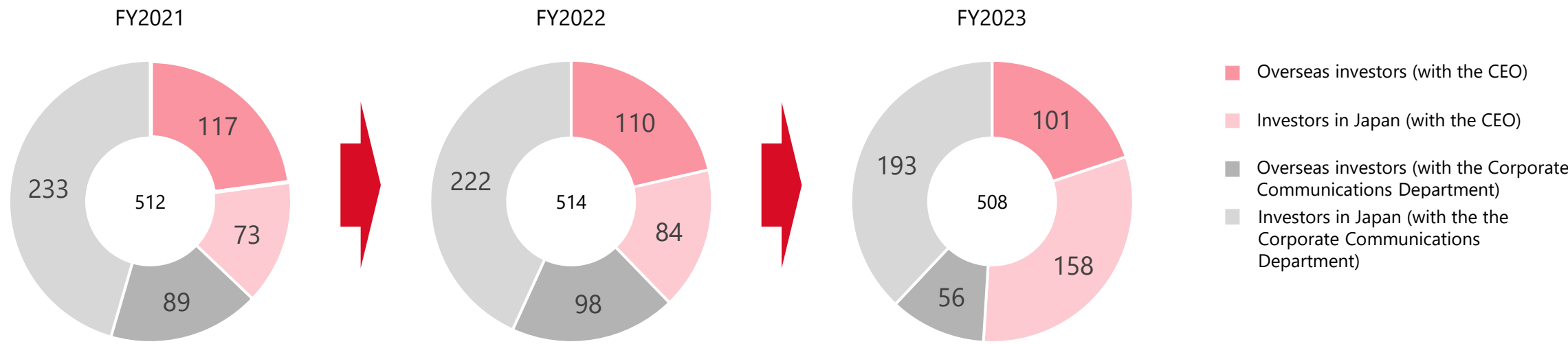
- IR policy: The essence of SHIONOGI’s corporate governance is to continue to engage its four stakeholders (shareholders/investors, customers, society, and employees) in an optimal balance. Based on this spirit, the CEO allocates 25% of his or her time to engaging with shareholders and investors
- Involvement of outside directors: Creating opportunities for communication in response to requests from shareholders and investors. Last year, outside directors took the stage at the sustainability briefing

IR promotion structure

- Promotion structure: The GM of the Corporate Communications Department also serves as the GM of the Corporate Secretariat, creating an organizational structure that enables IR activities to directly reflect the intentions of top management
- Method of feedback to management: The CEO conveys useful opinions obtained from dialogue with shareholders and investors to relevant departments in order to reflect them in management

Number of dialogues and persons in charge by investor attribute

The CEO obtains direct feedback from stakeholders



IR Strategy for Corporate Value Enhancement (2/2)

Maintaining communication with investors to maximize corporate value by analyzing their needs by their type, defining appropriate persons in charge and opportunities, and holding briefings and conducting other IR activities

Briefings held in FY2023	Frequency	Persons in charge	Main agenda for briefings
Financial results briefings	4 times a year	CEO, officer in charge of R&D, officer in charge of the healthcare business, officer in charge of corporate functions, and officer in charge of the supply chain	Financial forecasts, shareholder return, initiatives aimed at corporate value enhancement
IR sessions	About 3 to 4 times a year	CEO, officer in charge of R&D, officer in charge of corporate functions, and others	Medium-term business plan, HIV follow-up meeting, etc.
R&D Days	Once a year	CEO, officer in charge of R&D, GM of the Drug Discovery Research Division, and GM of the Drug Development and Regulatory Science Division	R&D strategy, initiatives in focus areas (infectious diseases, QOL-related diseases with high social impact)
Sustainability briefings	Once a year	CEO, outside directors, officer in charge of corporate functions, and GM of the Sustainability Management Department	Promotion of sustainable business, human capital management, corporate governance (effectiveness of the Board of Directors)
Briefings for individual investors	Once a year	GM of the Corporate Communications Department and the Corporate Secretariat	Current status of the pharmaceutical industry, SHIONOGI's characteristics, growth strategy, shareholder returns
Other IR activities in FY2023	Frequency	Persons in charge	Dialogue agenda
Participation in conferences hosted by securities companies	About 5 to 6 times a year	CEO, officer in charge of R&D	Progress of major businesses, medium- to long-term growth strategies, status of research and development, and shareholder return
Overseas NDRs	About 6 to 7 times a year	CEO, officer in charge of R&D	Progress of major businesses, medium- to long-term growth strategies, status of research and development, and shareholder return
Integrated report	About once a year	CEO, officer in charge of corporate functions	Value creation stories and status of corporate activities in the previous fiscal year
Press releases	Approx. 100 releases a year	CEO, officer in charge of corporate functions	Progress of major businesses, status of research and development, and shareholder return