

April 11, 2019

Sumitomo Dainippon Pharma Co., Ltd.

Sumitomo Dainippon Pharma Announces Mid-term Business Plan 2022
(FY2018 - FY2022)

Sumitomo Dainippon Pharma Co., Ltd. (Head Office: Osaka, Japan; Representative Director, President and CEO: Hiroshi Nomura; Securities Code: 4506, First Section of TSE) today announced its Mid-term Business Plan 2022 (FY2018-FY2022).

Sumitomo Dainippon Pharma conducts business in alignment with its Corporate Mission: “to broadly contribute to society through value creation based on innovative research and development activities for the betterment of healthcare and fuller lives of people worldwide.” We define CSR-based management as implementing this Corporate Mission. We also contribute to meeting the United Nations Sustainable Development Goals (SDGs) through our business activities.

Looking to the future, we expect transformative and significant changes to occur in our operating environment including the impact of further progress in the Fourth Industrial Revolution, an ever-aging population with a consequent decline in the working population, and a relative decline in the international presence of Japan and Europe with the rise of China and other emerging economies. As the pharmaceutical sector embraces these new realities, we are entering a “time for change,” a period in which we must establish an innovative business model that is not merely an extension of conventional models.

Out of our sincere commitment to resolving social issues in the ever-changing healthcare sector, we have drawn up a new Vision and Mid-term Business Plan 2022 (FY2018-FY2022) which will guide us through the five-year period that commenced in FY2018.

I. Vision

“For Longer and Healthier Lives
We unlock the future with cutting-edge technology and idea”

With a focus on the three research areas of Psychiatry & Neurology, Oncology, and Regenerative Medicine/Cell Therapy, we will contribute to the healthcare sector not only through the provision of pharmaceutical products and regenerative medicine/cell therapy but also by working to deliver other healthcare solutions, in line with our objective of becoming a “Global Specialized Player” by 2033.

II. Mid-term Business Plan 2022 (FY2018-FY2022)

1. Basic policy: Re-building the business foundation

Rebuilding the business foundation through “establishing growth engine” and “building of

flexible and efficient organization”, preparing for the “time for change” and post-LATUDA® (after loss of its exclusivity in the U.S.) revenue replacement.

2. Key issues

(1) Establishment of growth engines

- ① Enhancing the innovation base with new approaches to drug discovery
 - All three focus areas of Psychiatry & Neurology, Oncology, and Regenerative Medicine/Cell Therapy have high unmet medical needs and offer opportunity to leverage our experience and expertise. Therefore, we will continue to focus on those areas. We will also dedicate efforts to the Infectious Diseases area to further contribute to global health.
 - To maximize our competency, we will expedite drug discovery that utilizes external expertise integrated with internal capabilities, mainly at our sites in Japan and the U.S.
 - We will take on the challenge of making innovations, using big data and digital technology. Also we will forge ahead with initiatives designed to realize precision medicine through understanding pathophysiology and etiology by way of state-of-the-art science and technology, utilizing biomarkers, etc.
- ② Delivering highest performance of clinical development
 - We will strengthen our capability to ensure highest performance, while preparing for post-LATUDA® era. We will take three approaches; namely, goal setting for securing success, managing business risks, and adopting cutting-edge technology.
 - In the Psychiatry & Neurology area, we will place priority on accelerating development of SEP-363856 (product code). In the Oncology area, we will place priority on ensuring solid and speedy development of napabucasin (generic name) as well as rapidly pursuing early-stage clinical development to establish the oncology franchise.
- ③ Pipeline expansion through strategic investment
 - During the period of this Mid-term Business Plan, we will enable investment of 300 to 600 billion yen in M&A opportunities. One priority area for investment is acquiring pipeline assets in the Psychiatry & Neurology area, which we hope will contribute to profits in FY2023 and onward. Other priority areas include acquisition of pipelines and technologies in the three focus areas, which we hope will contribute to profits in FY2028 and onward.
- ④ Regional strategy centering in Japan, North America and China
 - We will reinforce business infrastructure in China as the third pillar after Japan and North America. In order to capitalize on the growth momentum in the Southeast Asia market, we will strengthen functions of our subsidiaries in that region.
 - In Japan, our basic policy will be to build foundation to achieve annual revenue of 200 billion yen during the next Mid-term Business Plan period (FY2023-FY2027). In North America, our basic policy will be to maximize value of LATUDA® and establishing post-LATUDA® growth trajectory. In China and other Asian countries, our basic policy will be to expand our presence in growth markets.
- ⑤ Launching frontier business
 - Anticipating that the future medical needs of society will be met not only by

pharmaceuticals, but also by new solutions, we will launch a frontier business in order to realize “wide-ranging well-being” in an integrated manner with pharmaceuticals. In addition to treatment of diseases, we aim to provide solutions for social issues and personal challenges, with a focus on preventive medical care and patient care. Accordingly, we will build a business platform that is geared chiefly to areas in which we can create synergies with our own pharmaceutical business.

- We will initiate multiple pilot trials for healthcare solution business seeds, aspiring to establish frontier business as growth engines during the next Mid-term Business Plan period (FY2023-FY2027).

(2) Building a flexible and efficient organization

- To support growth engine, we will establish a flexible and efficient organizational foundation that empowers people to get things done by realizing organizational and operational reform, fostering a corporate culture that accelerates such reform, and developing talent, in parallel with digital innovation.
- We will pursue operational excellence and build an agile and flexible organization to proactively address changes in business environment.
- While maintaining a “culture with resilient and detailed execution,” we will foster talent responsive to environmental changes and encourage innovation and flexibility.
- We will achieve both new value creation and operational reform through digital technology.

3. Business Goals

(1) Business Goals for FY2022

Revenue	600 billion yen
Core operating profit	120 billion yen
ROIC*1	10%
ROE*2	12%

Forex rate: US\$1 = JPY110, RMB1 = JPY16.5

*1 ROIC = (“Core operating profit” – “Income tax expenses”) / (“Equity” + “Interest-bearing debts”)

*2 ROE = “Net profit” / “Equity”

(2) Dividend policy

- We will maintain a consistent payment policy but also consider reflecting any improvement in the Company’s performance in the dividend payment.
- We will aim for five-year average payout ratio of 20% or higher

(3) ROE (long-term)

- We will aim for ROE of 10% or higher over the long term.

In FY2023, a significant decline in revenue and profit is expected following LATUDA®'s loss of its exclusivity in the U.S. However, during the period of this Mid-term Business Plan, we will make ongoing efforts to re-build our business foundation by establishing new growth engine and building of flexible and efficient organization, so that the transition to new generation of products and revenue will contribute to cover the decline and lead to our sustained growth, and we will aspire to establish position as a “Global Specialized Player” in 2033.

Announcement of the new Mid-term Business Plan originally scheduled for March 2018 was postponed following the filing of a consolidated patent infringement lawsuit regarding ANDAs (Abbreviated New Drug Applications) for LATUDA® in the U.S. (Please see the press release dated February 14, 2018).

Disclaimer Regarding Forward-looking Statements

The statements made in this press release contain forward-looking statements based on management's assumptions and beliefs in light of information available as of the day of this release, which involve both known and unknown risks and uncertainties. Actual results of those matters covered in the forward-looking statements including financial forecast may differ materially from those contained in this release, due to a number of factors.

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