

Highlights of Major Pharmaceutical Companies' Financial Results for Fiscal Year Ended March 2022

The following are Japan Credit Rating Agency, Ltd. (JCR)'s perception of the current status and highlights for rating concerning the financial results for the fiscal year ended March 2022 (FY2021) and earnings forecasts for FY2022 of the following four Japan's major pharmaceutical companies (the "Companies"): Takeda Pharmaceutical Company Limited ("Takeda Pharmaceutical"), Astellas Pharma Inc. ("Astellas Pharma"), Eisai Co., Ltd. ("Eisai") and DAIICHI SANKYO COMPANY, LIMITED ("DAIICHI SANKYO").

1. Industry Trend

Demand for pharmaceuticals, which are indispensable for the maintenance of life and quality of life, is stable. In recent years, the global ethical pharmaceuticals market has been growing at an average annual rate of about 5%, and the market size is considered to have expanded in 2021. While the negative impact of the COVID-19 pandemic has generally been limited, companies such as Pfizer, BioNtec, and Moderna, which manufacture and sell the vaccine, have seen significant sales growth.

In FY2021, the domestic ethical pharmaceuticals market grew by about 3%. In addition to a recovery of sales after a temporary drop due to the COVID-19 pandemic, growth in sales of anticancer drugs and other products offset the impact of the revision of drug prices implemented in April 2021. However, the pressure to restrain drug costs remains strong, as drug prices were reduced by about 600 billion yen on a medical cost basis in April 2022. As the business environment becomes increasingly severe, it will be important for new drug makers to continue to launch superior products and maximize the revenues from them. The focus of attention will be on R&D in response to the diversification of therapeutic approach and progress in strengthening the business base in China and other overseas markets.

A series of problems related to manufacturing and quality control were uncovered mainly at generic drug manufacturers, including Kobayashi Kako and Nichi-Iko Pharmaceutical, and they were ordered to suspend operations in 2021. In response, Kobayashi Kako transferred its production facilities and personnel of related divisions to Sawai Group Holdings in March 2022, and withdrew from the manufacture and sale of pharmaceuticals. Nichi-Iko Pharmaceutical posted a large loss in FY2021 due to deteriorating performance caused by delays in the restart of plant operations and an impairment loss on goodwill of a US subsidiary acquired in 2016, forcing it to file for Turnaround ADR in May 2022. This was an opportunity to reaffirm that thorough manufacturing and quality control based on proper governance, discernment and business management of acquisition targets, and building a strong financial base are extremely important factors in ensuring the sustainability of a pharmaceutical company's operations.

2. Financial Results

For FY2021, the four companies posted combined revenue of 6,666.3 billion yen (up 10.1% year-on-year) and operating profit of 743.3 billion yen (down 2.3% year-on-year). Revenue increased for all companies, while operating profit decreased for Takeda Pharmaceutical, and increased for all three companies except Takeda Pharmaceutical. In terms of revenue, sales of each company's mainstay products were generally favorable, and the positive effect of currency translation due to the weaker yen also contributed to revenue growth. By region, revenue increased for all companies except for Japan, but in Japan, Takeda Pharmaceutical's revenue increased, DAIICHI SANKYO's revenue remained flat, and Astellas Pharma's and Eisai's revenues decreased. Takeda Pharmaceutical's domestic revenue includes the sale of its diabetes products portfolio, and the reality is that it is difficult for the Companies to increase revenue in Japan, where pressure to curb drug costs is intensifying. Their total operating profit strongly reflects Takeda Pharmaceutical's trend, with the main reason for Takeda Pharmaceutical's lower profit being the disappearance of gains from the sales of its OTC business and non-core assets recorded in the previous fiscal year. On the other hand, other three companies all secured profit growth. The growth of mainstay products offset the increase in R&D and other expenses. Total R&D expenses amounted to approximately 1.2 trillion yen, up more than 10% from the previous fiscal year, and accounted for 18.0% of revenue (17.5% in the previous fiscal year). In addition to the impact of foreign currency translation, this is thought to reflect the aggressive R&D activities of each company

On the financial front, each company maintained a certain level of financial base. Takeda Pharmaceutical has over 4 trillion yen in loans payable and corporate bonds as of the end of March 2022, but its net debt/adjusted EBITDA ratio, as defined by it, declined from 4.7x as of the end of March 2019 to 2.8x as of the end of March 2022, indicating that its financial structure has been steadily improving. The ratio of equity attributable to owners of the parent of three companies excluding Takeda Pharmaceutical was almost unchanged from the previous fiscal year at around 60%, indicating that they have maintained a favorable financial structure.

3. Highlights for Rating

For FY2022, the Companies forecasts to achieve a revenue in total of 6,983 billion yen (up 4.8% year-on-year) and operating profit of 949 billion yen (up 27.7% year-on-year). Three companies other than Eisai are forecasting higher revenues, based on the robust sales trends of mainstay products and assumed foreign exchange rates. Eisai is considered to expect that it will be affected by the drug price revision in Japan and a decrease in lump-sum revenue related to its mainstay products. All companies are forecasting higher operating profit, and Astellas Pharma and DAIICHI SANKYO will have large profit growth rates. The reason behind these two companies' plans is that they expect a decrease in one-time expenses, such as impairment loss on intangible assets, which was recorded in the previous fiscal year.

There has been variation in the direction of each of the Companies' performance forecasts in every year. This reflects the characteristics of the pharmaceutical industry, where the competitive environment and sales trends vary greatly from product to product, and R&D expenses tend to fluctuate depending on the progress of clinical trials of development candidates. Regarding each company's major products, it is important to pay attention to its efforts to maximize product value by adding new indications and expanding the sales territory, and changes in the competitive environment, such as launch of generic drugs and rival drugs, and to review the medium-term revenue outlook from time to time.

In terms of finances, JCR is watching M&As and their accompanying changes in financial structure. Major companies are proactively using M&As, and even if each deal in size is small, multiple deals can be carried out in rapid succession. In addition, as a result of M&As and other developments to date, there are some companies that have a large amount of goodwill and intangible assets, including Takeda Pharmaceutical. Although each company's equity attributable to owners of the parent is ample and has a certain level of financial durability, attention should be paid to these impairment risks.

Akihisa Motonishi, Yosuke Sato

(Chart 1) Financial Results of Major Pharmaceutical Companies

(JPY 100 mn)

	FY	Revenue	Operating Profit	Net Profit Attributable to Owners of the Parent	R&D Expenses
Takeda Pharmaceutical (4502)	2020	31,978	5,093	3,760	4,558
	2021	35,690	4,608	2,301	5,261
	2022F	36,900	5,200	2,920	5,700
Astellas Pharma (4503)	2020	12,495	1,361	1,206	2,245
	2021	12,962	1,557	1,241	2,460
	2022F	14,430	2,690	2,080	2,540
Eisai (4523)	2020	6,459	518	421	1,503
	2021	7,562	538	480	1,717
	2022F	7,000	550	580	1,590
DAIICHI SANKYO (4568)	2020	9,625	638	760	2,274
	2021	10,449	730	670	2,541
	2022F	11,500	1,050	830	3,070
Total	2019	60,558	7,609	6,147	10,580
	2020	66,663	7,433	4,691	11,979
	2021F	69,830	9,490	6,410	12,900

(Source: Prepared by JCR based on financial materials of above companies)

(Chart 2) Financial Structure of Major Pharmaceutical Companies

(JPY 100 mn, %, times)

	FY	Equity Attributable to Owners of the Parent	Corporate Bonds and Loans Payable	Ratio of Equity Attributable to Owners of the Parent	DER
Takeda Pharmaceutical* (4502)	2020	54,230	43,854	42.0	0.8
	2021	59,330	40,954	45.0	0.7
Astellas Pharma (4503)	2020	13,861	2,000	61.0	0.1
	2021	14,603	1,400	62.6	0.1
Eisai (4523)	2020	7,032	899	64.5	0.1
	2021	7,488	949	60.4	0.1
DAIICHI SANKYO (4568)	2020	12,721	1,838	61.0	0.1
	2021	13,509	1,635	60.8	0.1

*Figures for Takeda Pharmaceutical are those after consideration of equity content of subordinated bonds.

(Source: Prepared by JCR based on financial materials of above companies)

<Reference>

Issuer: Takeda Pharmaceutical Company Limited

Long-term Issuer Rating: A+ Outlook: Stable

Issuer: Astellas Pharma Inc.

Long-term Issuer Rating: AA+p Outlook: Stable

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