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# Highlights of Major Pharmaceutical Companies' Financial Results for Fiscal Year Ended March 2019

The following is 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 2019 (FY2018) and earnings forecasts for FY2019 of Japan's major pharmaceutical companies (collectively, the "Companies"): Takeda Pharmaceutical Company Limited, Astellas Pharma Inc., Mitsubishi Tanabe Pharma Corporation, Eisai Co., Ltd. and DAIICHI SANKYO COMPANY, LIMITED.

## 1. Industry Trend

Prescription drugs are selling probably more than 800 billion US dollars a year worldwide. With expectations for continued market expansion in the U.S. and emerging countries, the global growth rate is projected to stay in the mid-single digit range for a while. By medical area, drug development is gaining momentum in such areas as cancer and autoimmune diseases, which is expected to boost sales. In Japan, on the other hand, the ethical pharmaceutical market shrank 1.8% over the year to 10,329.3 billion yen (based on drug prices) for FY2018, according to a survey by the U.S.-based IQVIA. As a possible contributing factor, reductions in drug prices and an increase in the use of generic drugs had negative impacts, overwhelming sales growth for therapeutic agents for hepatitis C and immune checkpoint inhibitors. Japan's market is thus assumed to remain flat or keep shrinking slowly.

As the pharmaceutical market is expected to expand and medical costs to rise globally, governments around the world are tightening their controls on medical spending. The U.S., the world's largest market, unveiled in November 2018 its policy to reduce drug prices under the public insurance program. Japan embarked on drastic reforms of the drug pricing system in FY2018 and introduced new rules of revising drug prices every year and bringing down the prices of long-listed drugs. In particular, its pharmaceutical industry is facing a tougher business climate and seeing an increasing number of cases in recent years where even domestic companies solicit applications for early retirement.

Meanwhile, a CAR T-cell therapy won approval in Japan recently, after Europe and the U.S. It is highly effective but at the same time extremely costly. Looking ahead, with progress in the development of regenerative medicine, gene therapy, etc., expensive medicines are expected to increase. As the discussions on prices and insurance reimbursement concerning expensive medicines may result in greater downward pressure on the prices of existing medicines when countries have limited budget on insurance, future developments in these discussions should be followed.

## 2. Financial Results

For FY2018, while the Companies' total revenue increased 6.6% over the year to 5,400.9 billion yen, operating profit dipped 2.4% to 669.0 billion yen. Individual results varied: higher revenue but lower profit for Takeda Pharmaceutical; higher revenue and profit for Astellas Pharma and Eisai; lower revenue and profit for Mitsubishi Tanabe Pharma; and lower revenue but higher profit for DAIICHI SANKYO. The total amounts were in fact greatly affected by Takeda Pharmaceutical, which achieved sales growth with contribution from Shire plc acquired in January 2019 but reduced the profit because of the costs of acquisition, etc. As regards the revenue from domestic operations, while Eisai achieved a slight increase with growth in sales of anticancer agents, the other four were unable to avoid a decline (domestic sales of ethical drugs for Mitsubishi Tanabe Pharma) due probably to the reductions in drug prices for FY2018 and growing popularity of generic drugs. In terms of the percentage of domestic operations in revenue, the lowest is less than 30% for Takeda Pharmaceutical, and the highest at over 70% for Mitsubishi Tanabe Pharma. Total R&D expenses staying almost flat from a year before at around 1 trillion yen and the revenue ratio at 18.7% suggest that R&D activities remain aggressive.

On the financial front, Takeda Pharmaceutical's financial profile changed drastically with the Shire acquisition. The acquisition price of around 6.2 trillion yen was financed almost equally by the issuance of new shares and cash payment. While this increased the equity attributable to owners of the parent, it also substantially added to the interest-bearing debt, weakening the ratio of such equity and DER. No major changes are observed for the other companies, except that Eisai reduced its debts thanks to strong results. Also, Astellas Pharma has been actively acquiring its own shares recently, and its total return ratio is high; therefore, the equity attributable to owners of the parent has been almost leveling off.

3. Highlights for Rating

For FY2019, the Companies' combined revenue is expected to jump 20.7% over the year to 6,520.0 billion yen, but the operating income to tumble as much as 62.6% to 250.5 billion yen. As with FY2018, these forecasts are affected strongly by Takeda Pharmaceutical's performance. While full-year contribution from Shire will help push up the revenue by more than 1 trillion yen, Takeda Pharmaceutical expects to report an operating loss of nearly 200 billion yen partly because of integration costs and inventory fair value adjustments. As for the other companies, Astellas Pharma and Mitsubishi Tanabe Pharma forecast lower revenue and profit, while Eisai and DAIICHI SANKYO expect growth in both revenue and profit.

Different directions in the Companies' forecasts reflect the characteristic of the pharmaceutical industry where the competitive environment and sales trends vary widely among the products. For Astellas Pharma, a decline in sales due to the expiration of patent periods for several products, including the agent for overactive bladder treatment, is dragging down the overall performance. For Eisai and DAIICHI SANKYO, on the other hand, their performance will likely be driven upward by sales growth for the products launched in recent years. In respect of the Companies' mainstay products, it is necessary to closely watch changes in the competitive environment with the expiration of patent periods, trends in drug development by other companies, etc., as well as the efforts aimed at maximizing the product value, including the addition of applications and expansion of marketing areas, and to determine business trends over the medium term. Mitsubishi Tanabe Pharma expects its operating profit to tumble 77% because the forecast does not include the royalty revenue with respect to a specific product for which the company is currently in arbitration proceedings with the licensee. Therefore, future developments in these proceedings must be closely monitored.

Constantly launching new products is vital for pharmaceutical companies to maintain and even improve their business performance. Therefore, JCR is watching, while holding medium- to long-term perspectives, the status of development pipelines, including progress in clinical trials. At a time when new drug development is becoming increasingly challenging, it is difficult to build a good product portfolio only with in-house creations, and the Companies appropriate much of the R&D expenses for the licensing of marketed products and milestone payments and also carry out corporate acquisitions to gain the marketed products and technologies. Because such spending is growing larger than before, attention must be paid to the possibility of a major impact on the financial base depending on the project.

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(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) | 2017 | 17,705 | 2,417 | 1,868 | 3,254 |
| | 2018 | 20,972 | 2,049 | 1,091 | 3,683 |
| | 2019F | 33,000 | -1,930 | -3,830 | 4,910 |
| Astellas Pharma (4503) | 2017 | 13,003 | 2,132 | 1,646 | 2,208 |
| | 2018 | 13,063 | 2,439 | 2,222 | 2,087 |
| | 2019F | 12,240 | 2,290 | 1,820 | 2,110 |
| Mitsubishi Tanabe Pharma (4508) | 2017 | 4,338 | 772 | 579 | 790 |
| | 2018 | 4,247 | 503 | 373 | 865 |
| | 2019F | 3,760 | 115 | 50 | 855 |
| Eisai (4523) | 2017 | 6,000 | 772 | 518 | 1,395 |
| | 2018 | 6,428 | 861 | 633 | 1,448 |
| | 2019F | 6,800 | 1,030 | 720 | 1,545 |
| DAIICHI SANKYO (4568) | 2017 | 9,601 | 762 | 602 | 2,360 |
| | 2018 | 9,297 | 837 | 934 | 2,037 |
| | 2019F | 9,400 | 1,000 | 720 | 2,250 |
| Total | 2017 | 50,647 | 6,855 | 5,213 | 10,007 |
| | 2018 | 54,007 | 6,689 | 5,253 | 10,120 |
| | 2019F | 65,200 | 2,505 | -520 | 11,670 |

(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 | Loans Payable and Corporate Bonds | Ratio of Equity Attributable to Owners of the Parent | DER |
|---|---|---|---|---|---|
| Takeda Pharmaceutical (4502) | 2017 | 19,974 | 9,856 | 48.6 | 0.5 |
| | 2018 | 51,595 | 57,509 | 37.2 | 1.1 |
| Astellas Pharma (4503) | 2017 | 12,682 | 0 | 68.3 | 0.0 |
| | 2018 | 12,583 | 0 | 66.3 | 0.0 |
| Mitsubishi Tanabe Pharma (4508) | 2017 | 8,828 | 5 | 84.2 | 0.0 |
| | 2018 | 8,976 | 1 | 85.0 | 0.0 |
| Eisai (4523) | 2017 | 5,935 | 1,731 | 56.6 | 0.3 |
| | 2018 | 6,281 | 1,388 | 58.6 | 0.2 |
| DAIICHI SANKYO (4568) | 2017 | 11,329 | 2,805 | 59.7 | 0.2 |
| | 2018 | 12,496 | 2,605 | 59.8 | 0.2 |

<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

Issuer: Mitsubishi Tanabe Pharma Corporation

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

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