

Highlights of Major Pharmaceutical Companies' Financial Results for Fiscal Year Ended March 2021

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 2021 (FY2020) and earnings forecasts for FY2021 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

The impact of COVID-19 pandemic on the ethical drug market is limited. For Pharmaceuticals, essential for the maintenance of life and the quality of life, there is a stable demand. The global ethical drug market expanded in 2020, expected to continue to grow at a certain pace going forward. Currently, vaccination against the COVID-19 is under way both in and out of Japan, which would be a factor driving the performance of pharmaceutical companies that produce and sell the vaccine.

Against the expanding global ethical drug market, the domestic market grew negative by about 3% in FY2020. The intensification of measures to curb drug costs is behind this, and the future growth rate is also expected to be slightly negative from around 0%. In addition, in 2020, a smoking cessation treatment app was first covered by the health insurance in Japan. Large manufacturers have also entered the development of treatment apps. It can be said that conventional medical care and pharmaceuticals are competing with such new services to get their shares of the limited medical expenditures. The business environment for new drug manufacturers, in particular of small molecular drugs, is getting increasingly challenging, as shown by the start of annual revisions to drug prices in April 2021. It became important for new drug manufacturers to continue to launch superior products and maximize the revenue from them. Attention will be paid to the progress made in R&D in response to diversification of treatment methods and strengthening of the business foundation overseas, including in China. Meanwhile, in the generic pharmaceutical industry, serious problems related to manufacturing and quality control occurred in Kobayashi Kako Co., Ltd. and Nichi-Iko Pharmaceutical Co., Ltd. JCR needs to watch a decline in confidence in the industry as a whole, the instability of product supply, and the impact of these factors on business performance.

2. Financial Results

In FY2020, the Companies in total achieved a revenue of 6,055.8 billion yen, down 3.4% year on year, and an operating profit of 760.9 billion yen, up 25.0% year on year. Revenue fell in all the Companies, while operating profit rose at Takeda Pharmaceutical and declined at other three Companies. Sales of mainstay products were generally steady at all the Companies, but revenue declined due to the expiration of the exclusive sales period, a decrease in lump-sum income, business divestitures, termination of sales contracts, and the impact of foreign currency rates, among others. Looking at by region, the Companies as a whole saw a decline in domestic revenue. In particular, Astellas Pharma saw a sharp 19.2% year-on-year decline in revenue, mainly because that recently marketing agreements concluded with major foreign firms have ended successively. Overseas, Astellas Pharma and Daiichi Sankyo ensured an increase in revenue. The figure of the total operating profit is strongly reflecting trends at Takeda Pharmaceutical. Takeda Pharmaceutical secured a significant increase in profit thanks to factors such as recording of a gain on the divestiture of the domestic OTC business, in addition to a decrease in system integration-related expenses at Shire plc it acquired in 2019. Meanwhile, the other three Companies saw a lower profit by around 50% from the previous from year. The main factors behind this were recording of impairment losses at Astellas Pharma, a decrease in lump-sum income related to its mainstay products at Eisai, and an increase in R&D expenses at Daiichi Sankyo. The total R&D expenses were approximately 1 trillion yen, almost unchanged from the last fiscal year, and was 17.5%. JCR sees that positive R&D activities are ongoing.

On the financial front, each of the Companies maintains a certain level of financial base. Takeda Pharmaceutical had loans and bonds of more than 4.3 trillion yen at the end of March 2021, but completed the transfer of non-core assets of up to USD 5.1 billion in FY2020 and sold real estate and securities of USD 1.4 billion. This led to a reduction in net interest-bearing debt of at least 800 billion yen from the end of the previous fiscal year, and the ratio of equity attributable to owners of the parent to total assets improved to the 40% level. Astellas Pharma is also attempting to reduce the amount of borrowing that increased due to the acquisition of Audentes Therapeutics, Inc. in 2020, and the ratio of equity attributable to owners of the parent to total assets was restored to the 60% range at the end of March 2021.

3. Highlights for Rating

For FY2021, the Companies are expected in total to achieve a revenue of 6,364 billion yen, up 5.1% year on year, and an operating profit of 881 billion yen, up 15.8% year on year. Revenue is forecast to increase for all the Companies, based on the robust sales trends of mainstay products and other factors. While Takeda Pharmaceutical expects a decline in operating profit, the other three Companies plans a profit increase. Astellas Pharma projects a large increase in operating profit because the impact of the impairment loss on intangible assets related to developed products recorded in the previous fiscal year will disappear.

There is variation in the direction of each of the Companies' performance expectations. This is because it reflects the characteristics of the pharmaceutical industry, such as the competitive environment and sales trends that vary greatly from product to product, and that R&D expenses are susceptible to change depending on the progress of clinical trials of development candidates. On each of the Companies' main products, it is important to pay attention to their efforts to maximize product value by adding indications and expanding the sales territory, and changes in the competitive environment, such as launching of generic drugs and rival drugs, and to review the medium-term trend in revenue from time to time.

In terms of finances, JCR is watching M&As and their accompanying changes in its financial structure. Major firms are actively implementing M&As, and even if the each size of the transactions is small, a number of deals could be carried out in rapid succession. In addition, as a result of M&As, etc., in the past, there are Companies that has a large amount of goodwill and intangible assets, including Takeda Pharmaceutical. Although each of the Companies' 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)	2019	32,911	1,004	442	4,924
	2020	31,978	5,093	3,760	4,558
	2021F	33,700	4,880	2,500	5,220
Astellas Pharma (4503)	2019	13,008	2,439	1,954	2,242
	2020	12,495	1,360	1,205	2,244
	2021F	13,230	2,650	2,090	2,420
Eisai (4523)	2019	6,956	1,255	1,217	1,401
	2020	6,459	517	421	1,503
	2021F	6,810	580	445	1,600
DAIICHI SANKYO (4568)	2019	9,817	1,388	1,290	1,974
	2020	9,625	637	759	2,273
	2021F	9,900	700	500	2,660
Total	2019	62,692	6,086	4,903	10,542
	2020	60,557	7,607	6,145	10,578
	2021F	63,640	8,810	5,535	11,900

(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	Loans Payable and Corporate Bonds	Ratio of Equity Attributable to Owners of the Parent	DER
Takeda Pharmaceutical* (4502)	2019	49,734	48,433	38.8	1.0
	2020	54,230	43,854	42.0	0.8
Astellas Pharma (4503)	2019	12,891	3,260	55.7	0.3
	2020	13,861	2,000	61.0	0.1
Eisai (4523)	2019	6,781	899	63.8	0.1
	2020	7,031	899	64.5	0.1
DAIICHI SANKYO (4568)	2019	13,058	2,242	62.0	0.2
	2020	12,720	1,838	61.0	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

Japan Credit Rating Agency, Ltd.

Jiji Press Building, 5-15-8 Ginza, Chuo-ku, Tokyo 104-0061, Japan
Tel. +81 3 3544 7013, Fax. +81 3 3544 7026

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