

Highlights of Major Pharmaceutical Companies' Financial Results for Fiscal Year Ended March 2020

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 2020 (FY2019) and earnings forecasts for FY2020 of Japan's major pharmaceutical companies: Takeda Pharmaceutical Company Limited ("Takeda Pharmaceutical"), Astellas Pharma Inc. ("Astellas Pharma"), Eisai Co., Ltd. ("Eisai"), DAIICHI SANKYO COMPANY, LIMITED ("DAIICHI SANKYO"), and Mitsubishi Tanabe Pharma Corporation ("Mitsubishi Tanabe Pharma").

1. Industry Trend and Impact of COVID-19 Pandemic

It is considered that the COVID-19 pandemic impact on sales of ethical drugs is limited at the moment in general. As the ethical drugs are essential for maintaining human lives and quality of life, changes in the sales cannot easily occur. The U.S.-based IQVIA estimates that the coronavirus shock will drive down the domestic ethical drug market by approximately 2.3%. Concerning development of pharmaceuticals, on the other hand, there have been delays in patient enrollment onto clinical trials. There is also possibility that it will hinder the procedures for pharmaceutical approval. It is necessary to watch impacts of delays in development schedule on business development of pharmaceutical companies over the medium term.

It is important for pharmaceutical companies, which intensively allocate their management resources to new drugs, to develop excellent drugs and maximize their earnings from the launched drugs. The drug discovery methods for development of excellent drugs have diversified from the conventional low-molecule to cell medicine, regenerative medicine, etc. Major pharmaceutical companies are positive about partnerships and M&As with academia and bio-venture companies to obtain knowledge, technologies and developed products they don't have in order to speed up their research and development. The major companies are focusing their efforts on enhancement of business bases particularly in China where many companies are developing drugs which have been launched in other countries in a hurry and there are now increasing number of development candidates that are under development at the same timing as those in Japan, U.S. and Europe.

2. Financial Results

For FY2019, while total revenue of the 5 companies increased 23.1% year-on-year to 6,649.2 billion yen, their total operating profit decreased 9.9% year-on-year to 602.7 billion yen. Their financial results were different. Takeda Pharmaceutical increased its revenue and decreased operating profit, Astellas Pharma decreased its revenue and increased its operating profit, both Eisai and DAIICHI SANKYO increased both revenue and operating profit, and Mitsubishi Tanabe Pharma decreased both revenue and operating profit. The total amounts significantly reflect the respective amounts of Takeda Pharmaceutical, which increased its revenue thanks to contributions from Shire plc it acquired in January 2019 for the full FY2019, but decreased its operating profit due partly to the recording of costs for the integration with Shire plc. Mitsubishi Tanabe Pharma plunged into an operating loss due to reasons including the facts that it did not recognize its royalty revenue in conflict with the licensee and recorded impairment loss on in-process R&D expenses. Meanwhile, Eisai and DAIICHI SANKYO ensured favorable business performance backed by the increased sales of their core products. While Astellas Pharma decreased its domestic revenue due partly to the expired patents and termination of sales agreements, other 4 companies all increased their revenue. Despite the minus drug price revision made following consumption tax hike in October 2019, their sales of key products grew, which covered the minus effects. Total R&D expenses increased by more than 100 billion yen from a year earlier to approximately 1.1 trillion yen, and the ratio of R&D expenses to revenue was 17.0%. This indicates that they are continuing their aggressive research and development activities.

As for their financials, all 5 companies keep a certain financial base. Although Takeda Pharmaceutical had loans payable and corporate bonds reaching more than 4.8 trillion yen as of March 31, 2020, it reduced the debt amount by approximately 900 billion yen over the past year

through sale of non-core assets and issue of hybrid bonds with equity content considered “medium or 50%” based on JCR’s assessment for 500 billion yen. Astellas Pharma acquired Audentes Therapeutics, Inc., a biotechnology company, for approximately USD 3 billion yen in January 2020. Through the acquisition, Astellas Pharma increased its loans and decreased ratio of equity attributable to owners of the parent by more than 10 points to a percentage in 50% to 60% range. Eisai and DAIICHI SANKYO, on the other hand, decreased their loans against the background of their favorable business trend and their ratio of equity attributable to owners of the parent increased from a percentage in 50% range to that in 60% range.

3. Highlights for Rating

For FY2020, while total revenue of the 5 companies is expected to drop 0.7% year-on-year to 6,604.5 billion yen, their total operating profit is expected to increase 31.4% year-on-year to 792 billion yen. Takeda Pharmaceutical and Astellas Pharma expect their revenue to decrease and their operating profit to increase, Eisai expects its revenue to increase and its operating profit to decrease, DAIICHI SANKYO expects both revenue and operating profit to decrease, and Mitsubishi Tanabe Pharma expects both revenue and operating profit to increase. The significant increase of operating profit of Takeda Pharmaceutical was due mainly to the decreased costs for integration with Shire plc, which were recorded in FY2019. As for the COVID-19 pandemic impact on profits in FY2020, Takeda Pharmaceutical says that it will not have any significant impact, and Eisai says that the impact will be small. Astellas Pharma, DAIICHI SANKYO, and Mitsubishi Tanabe Pharma did not incorporate the impact into their earnings forecasts.

Earnings forecasts are different among companies, reflecting characteristics of pharmaceutical industry where competitive environments and sales trends vary among products and R&D expenses can easily fluctuate due partly to progress of clinical trials for development candidates. It is important to pay attention to their maximizing product value through addition of indications and expansion of marketing areas and changes in competitive environments such as launch of generic drugs and competing drugs for their major products to revise the sales trend over the medium term. In the U.S. which is the largest drug market in the world, there will be a presidential election in November 2020. JCR will pay attention to the discussions on the healthcare system including reduction of drug costs.

As for their financials, JCR watches M&As and the following changes in the financial structure. As described above, major companies are engaged aggressively in the M&A activities, and M&As are sometimes followed one after another in quick succession, though each M&A is small in size. As a result of M&As that have been done to date, there are companies which hold large amounts of goodwill and intangible assets including Takeda Pharmaceutical. Although every company has large equity attributable to owners of the parent and thus has a certain financial tolerance, it is necessary to keep an eye on risks of impairments of these assets.

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)	2018	20,972	2,050	1,091	3,683
	2019	32,912	1,004	442	4,924
	2020F	32,500	3,550	600	4,470
Astellas Pharma (4503)	2018	13,063	2,439	2,223	2,087
	2019	13,008	2,440	1,954	2,242
	2020F	12,820	2,520	2,020	2,390
Eisai (4523)	2018	6,428	862	634	1,448
	2019	6,956	1,255	1,218	1,401
	2020F	7,190	880	670	1,655
DAIICHI SANKYO (4568)	2018	9,297	837	934	2,037
	2019	9,818	1,388	1,291	1,975
	2020F	9,700	800	560	2,280
Mitsubishi Tanabe Pharma (unlisted)	2018	4,248	503	374	865
	2019	3,798	-60	-93	794
	2020F	3,835	170	85	835
Total	2018	54,009	6,690	5,256	10,120
	2019	66,492	6,027	4,812	11,336
	2020F	66,045	7,920	3,935	11,630

(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)	2018	51,596	57,510	37.2	1.1
	2019	49,719	48,449	38.8	1.0
Astellas Pharma (4503)	2018	12,584	0	66.3	0.0
	2019	12,892	3,260	55.6	0.3
Eisai (4523)	2018	6,281	1,389	58.6	0.2
	2019	6,781	899	63.8	0.1
DAIICHI SANKYO (4568)	2018	12,496	2,606	59.8	0.2
	2019	13,058	2,242	62.0	0.2
Mitsubishi Tanabe Pharma (unlisted)	2018	8,976	1	85.0	0.0
	2019	8,522	16	81.5	0.0

*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

Issuer: Mitsubishi Tanabe Pharma Corporation

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

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