Message from General Manager of Group Finance Department

Strengthening our business foundation by revising the business portfolio and capital policy to meet the needs of shareholders

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Revising our business portfolio and capital policy

Since fiscal 2021, our PBR has stagnated at less than 1, and in January 2024, we published "Sawai Group Holdings to Review Business Portfolio and Capital Policy" in order to overcome this situation.

Regarding revising our business portfolio, we have withdrawn from the U.S. business, whose profitability continues to be less than the cost of capital. And then we prioritized investments in the Japan generic drug business, which is forecast to see greater profitability.

Furthermore, as part of our fundamental review of assets held, we will reduce our cross-shareholdings by half and sell off idle assets, including the site of the former head office and Osaka factory.

In addition, we are changing the KPIs that prioritize management from profit loss statement–centered ones to KPIs that are more conscientious of the cost of capital, including balance sheet and statement of cash flows.

In particular, we are aiming to generate an ROE of 10% or more, an ROIC of 8% or more, a net D/E ratio of 0.4 or less, capital ratio of 50% or more, and DOE of 3.0% or more. We consider that capital ratio of 50% or more is necessary to maintain our A- rating, and we will use debt financing to the extent that we can maintain our rating.

To implement management that is conscious of the cost of capital, the key question is whether not only management but also each employee considers this an issue that impacts them and actively works with this in mind. Using an inverted ROIC tree as depicted in figure 1, we aim to achieve the targets for improved capital efficiency by having the whole company work together and by incorporating the inverted ROIC tree into KPIs for each department and key measures for each workplace.

Cash allocation plan

Figure 2 is our cash allocation plan for the next three years, which appears in the Medium-Term Business Plan Beyond 2027.

We will use approximately ¥190.0 billion, roughly ¥145.0 billion from cash flows from operating activities generated from the generic drug business and ¥45.0 billion in proceeds from sale of the U.S. business and cross-shareholdings, for capital expenditures to strengthen production capacity and reinforce reliability assurance systems, which includes structure reinforcement, which includes investments in R&D, the source of growth.

Shareholder return and dividends policy

Having positioned paying profit to shareholders as an important management issue, we have revised our shareholder return and dividends policy to meet those expectations.

In addition to focusing even more on cost of capital and paying a stable, sustainable dividend, we replaced the payout ratio with the DOE as our benchmark, and we aim to generate a DOE of 3.0% or more. Over the three years of the Medium-Term Business Plan, we plan to pay total dividends of at least ¥19.0 billion and spend at least ¥33.0 billion on the purchase of treasury shares.

Future plans

By reinforcing our financial management system, we will achieve the numerical targets in the Medium-Term Business Plan through KPI management, greater ability to generate cash, and efficient investing and fund allocation.

Figure 1. Initiatives to improve capital efficiency

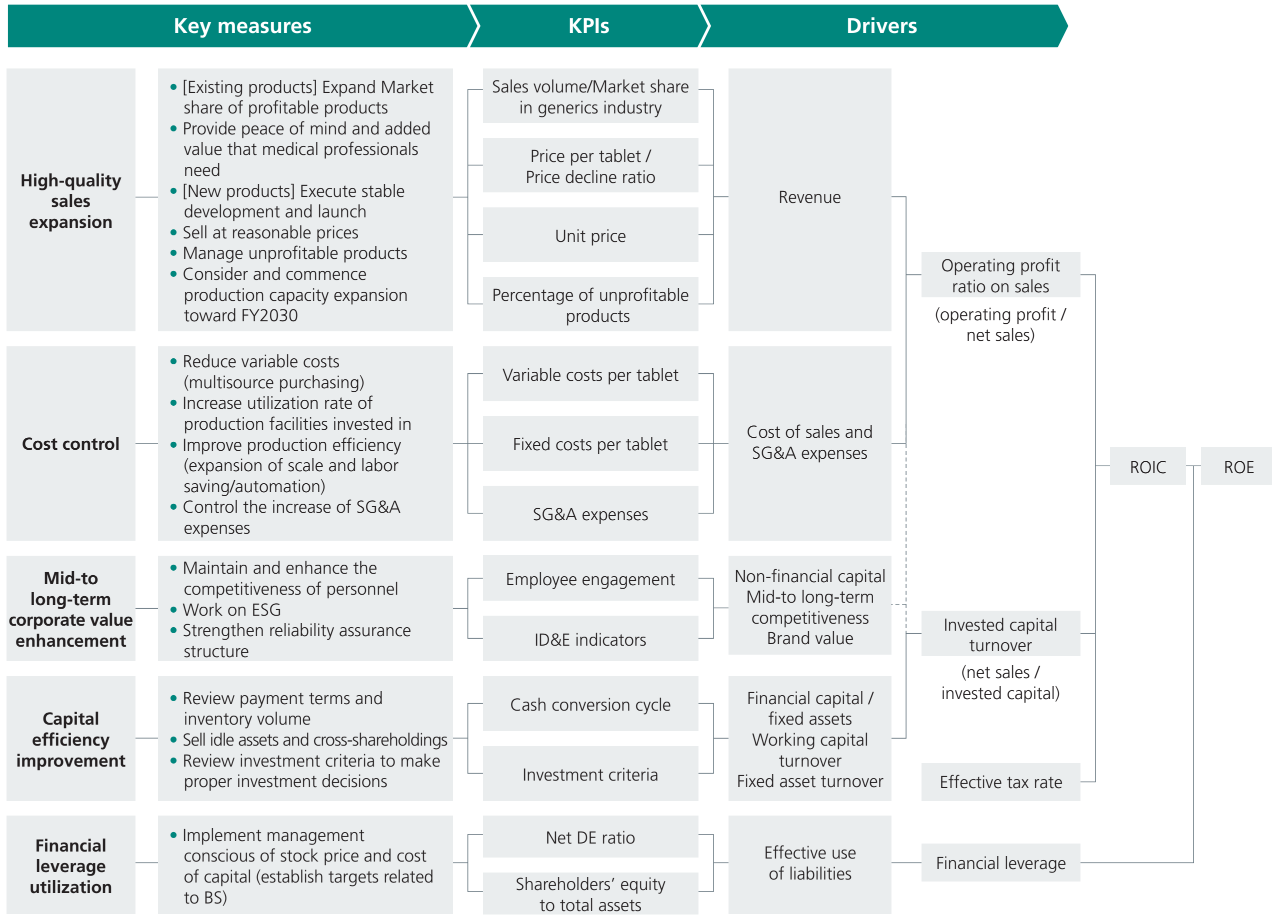

Figure 2. Cash allocation plans

	Purpose		Amount	Policy
Expected generics business operating cash flow* over three years: approx. ¥145.0 billion	**Growth investment: ¥138.0 billion + α**	**R&D investment** (generics business)	**Approx. ¥35.0 billion**	• R&D investment for launching new products, which are our sources of growth
		Generics business	**Approx. ¥78.5 billion**	• Renewal of facilities at the factories (¥27.0 billion yen over three years) • Expansion of production capacity (¥31.2 billion yen over three years) • Investment in systems to strengthen reliability assurance structure (¥3.7 billion) • Other investments
		New businesses	**Approx. ¥3.5 billion + α**	• Investment in new businesses (SG&A expenses for SWD001, R&D expenses for SWD002, R&D expenses for exporting generics, etc.)
*Before deducting R&D Expenses		**Flexible allocation**	**Approx. ¥21.0 billion + α**	• Expansion of production capacity toward FY2030 • Growth investment other than the plan
Sales of US business, cross-shareholdings, etc.: approx. ¥45.0 billion	**Shareholder returns: ¥52.0 billion + α**	**Purchase of treasury shares**	**Approx. ¥33.0 billion + α**	• Liquidation of the increase in equity capital due to the capital increase made at the time of acquiring Upsher-Smith, using proceeds from sale of the U.S. business and cross-shareholdings
Flexible financing capabilities + α with R&I rating of A-		**Dividends**	**¥19.0 billion or more in total dividends over three years**	• Stable and consistent dividend payments, with overall consideration of medium- to long-term profit levels, DOE (targeting 3% or more), etc.