

Message from the CFO

We are continuing to improve capital efficiency aimed at establishing sustainable growth and enhancing corporate value into the long term

Taku Nakaoka Senior Executive Officer,
Group Chief Financial Officer



Progress improving profitability and capital efficiency

(1) Profitability improved less than planned

“Beyond 2027,” our medium-term business plan, sets improving capital efficiency as a key step in strengthening the management foundation. We have shifted management focus to key performance indicators (KPIs) related to controlling capital costs and, in fiscal 2024, implemented measures to enhance profitability and capital efficiency. Our targets are ROE of 10% or more, ROIC of 8% or more, a net debt-to-equity ratio (D/E) of 0.4 or less, a capital ratio of 50% or more, and DOE of 3.0% or more.

However, we did not attain the profit targets for fiscal 2024, as both operating income and net income attributable to owners of the parent declined from the previous year, owing to litigation loss provision expenses for Sawai Pharmaceutical products^{*1}.

^{*1} Details are provided in the following disclosure items.
May 27, 2025 Notice Regarding Court Ruling Lawsuit Filed Against the Company's Consolidated Subsidiary
<https://pdf.irpocket.com/C4887/hZTq/bYXz/wCMb.pdf>
June 3, 2025 Notice Regarding Recording of Other Expenses (Provision for Loss on Litigation) <https://pdf.irpocket.com/C4887/A2Jy/lkCM/Ovf5.pdf>

(2) Net D/E ratio is being controlled below the target level

Litigation loss provision expenses kept both ROE and ROIC below our fiscal 2024 targets, with ROE at 6.2% and ROIC at 4.3%. To raise ROE to the targeted 10% level, our chief strategies are to improve profitability by developing and launching new products, continue applying pricing strategies to raise unit prices, and reduce product impairment and disposal losses. We are also curbing growth in shareholders' equity by actively returning profit to shareholders.

The net D/E ratio declined due to the sale of the U.S. business then rose with the acquisition of treasury stock, but was ultimately held at 0.3 for fiscal 2024, below the 0.4

target. Maintaining the ratio below the target line requires a careful balance between operating and investment cash flows. We are working to reduce working capital needs by shortening the cash conversion cycle and improving capital efficiency, while strictly controlling production and inventory to maximize efficiency, reduce excess inventory, and shorten turnover periods.

In fiscal 2025, we will launch initiatives in the core generic drugs business focused on achieving the medium-term plan's final-year targets. The initiatives will improve profitability and lower costs with the aims of increasing revenue and profits and lifting the ROE and ROIC capital efficiency metrics.

(3) ¥33 billion share buyback program

From July 2024 to February 2025, we acquired 16,016,600 shares of outstanding stock, equal to 12.2% of total shares, for ¥33 billion with the primary objective of improving capital efficiency. The purchase amount used proceeds from the sale of the U.S. business and, with the intention of returning profit to the market, was set at the approximate amount received in the public offering conducted when acquiring the U.S. business.

The shares acquired were cancelled on April 30, 2025 to eliminate the possibility of releasing of treasury shares and avoid risk of stock dilution for shareholders and investors.

These capital policies reduced capital turnover and increased our financial leverage, resulting in only a marginal decline in ROE from fiscal 2023.

Cash allocation plan

The medium-term business plan prioritizes growth investments for research and development, production capacity expansion, and reliability assurance. The plan is to invest total capital of ¥190 billion, comprising ¥145 billion in operating cash flow generated by the generic drug business and ¥45 billion in proceeds from asset sales, such as the U.S. business and cross-shareholdings.

While operating cash flow was lower than initially planned in fiscal 2024, our plans for capital investment in the generic drug business, for developing new businesses and delivering shareholder returns progressed largely as planned.

Free cash flow was positive in fiscal 2024 due to the U.S. business sale. We expect free cash flow to be slightly positive in fiscal 2025 and fiscal 2026 when factoring out litigation-related compensation payments. We plan to invest over ¥100 billion during the final two years of the

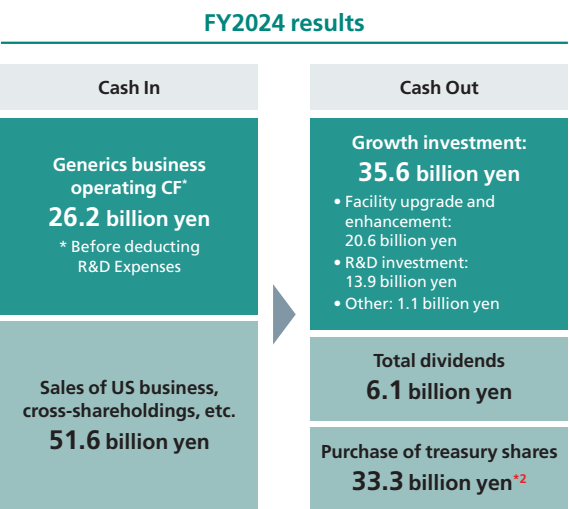
medium-term plan, with a minimum of ¥2.4 billion for development of new businesses.

Shareholder return and dividend policy

In fiscal 2024, we increased the dividend from ¥43.3 to ¥53.0 per share, which raised the dividend on equity ratio (DOE) from 2.7% to 3.4%, reaching a record high. Our dividend policy is to maintain for stable and consistent dividends while comprehensively considering anticipated medium- and long-term profits, dividend on equity, and other factors.

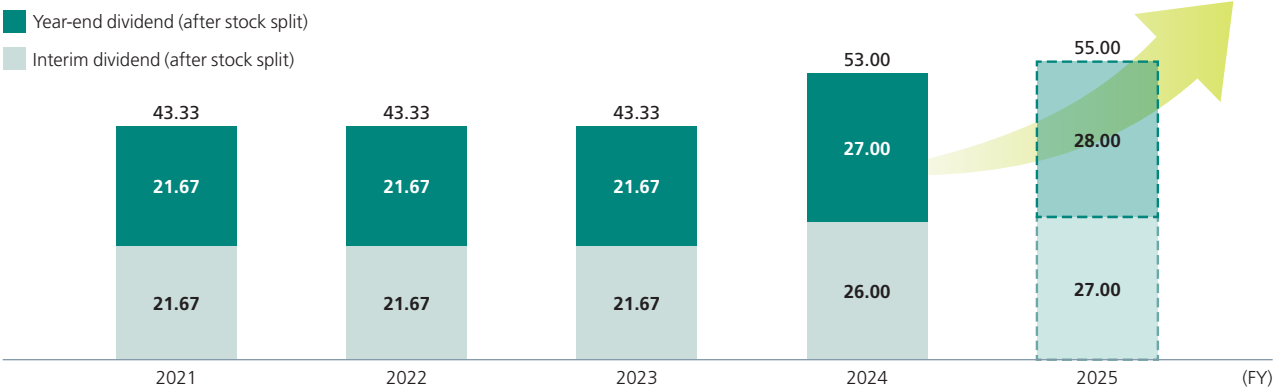
We intend to flexibly implement share buyback programs, while taking into account free cash flow, market trends, and other factors, as part of efforts to improve capital efficiency and return value to shareholders. The medium-term plan allocates ¥19 billion for shareholder return over three years, which provides leeway to repurchase additional shares or raise dividends conditions permit.

Cash allocation



^{*2} Includes fees associated with repurchasing outstanding shares

Dividends



Note: Based on the price after the stock split on October 1, 2024.

FY2025/FY2026 forecast

