

## Consolidated Financial Results for the 1st Quarter of Fiscal Year 2014

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Chief Financial Officer

August 1, 2014

Takeda Pharmaceutical Company Limited

## Notes on Disclosure



### *Shift to IFRS and Core earnings*

- From Q1 2014 Takeda reports its consolidated accounts according to **IFRS** and introduces **Core earnings**<sup>1</sup> as the key profit performance measure

### *Additional disclosure and transparency*

- The term **Underlying growth**<sup>2</sup> is used to simply and accurately express company performance; this measure adjusts only for forex (constant currency) and disposals / acquisitions / exceptional items
- The following new disclosure items are introduced:
  - ✓ **Core net profit** and **Core EPS**
  - ✓ **Normalized core tax rate**

<sup>1</sup> Core earnings is calculated by deducting factors such as impacts from purchase accounting and amortization / impairment loss of intangible assets, restructuring costs and litigation costs from operating profit.

<sup>2</sup> See appendix slide 23 for details

- Key highlights
- Revenue
- Income statement
- Balance sheet and Cash flow
- Appendix

## Key Highlights



### GROWTH

- Q1 underlying revenue growth of -0.2% includes the impacts of the biennial NHI<sup>1</sup> price revision in Japan and inventory reductions in emerging markets (EM)
- Q1 revenue in-line with expectations, no change to full year guidance (between 2 - 4%<sup>2</sup> underlying revenue growth).
  - Velcade, Colcrys and Dexilant grew steadily, Brintellix (US) contributing in-line with expectations
  - Low growth in EM on one-time inventory reductions; Double digit growth in EM expected for the full year
- Q1 underlying growth of +0.5% for core earnings in-line with expectations, capital allocation optimized with reinvestment of cost savings into sales and marketing to support product launches

### INNOVATION

- Entyvio was approved / launched in June in the US and in the EU. Entyvio is a humanized monoclonal antibody against  $\alpha 4 \beta 7$  integrin - a new biologic therapy for the treatment of ulcerative colitis (UC) and Crohn's disease (CD).

### EFFICIENCY

- Project Summit continues to produce strong results including additional ¥5 billion in savings in Q1

<sup>1</sup> National Health Insurance (Japan)

<sup>2</sup> The impact of LOEs is now included in growth guidance, while it had been excluded in previous guidance. This change in calculation method results in a new and more relevant guidance of "between 2 and 4%" (with LOEs) and is equivalent to the prior guidance of "between 3 and 5%" (without LOEs).

# Revenue

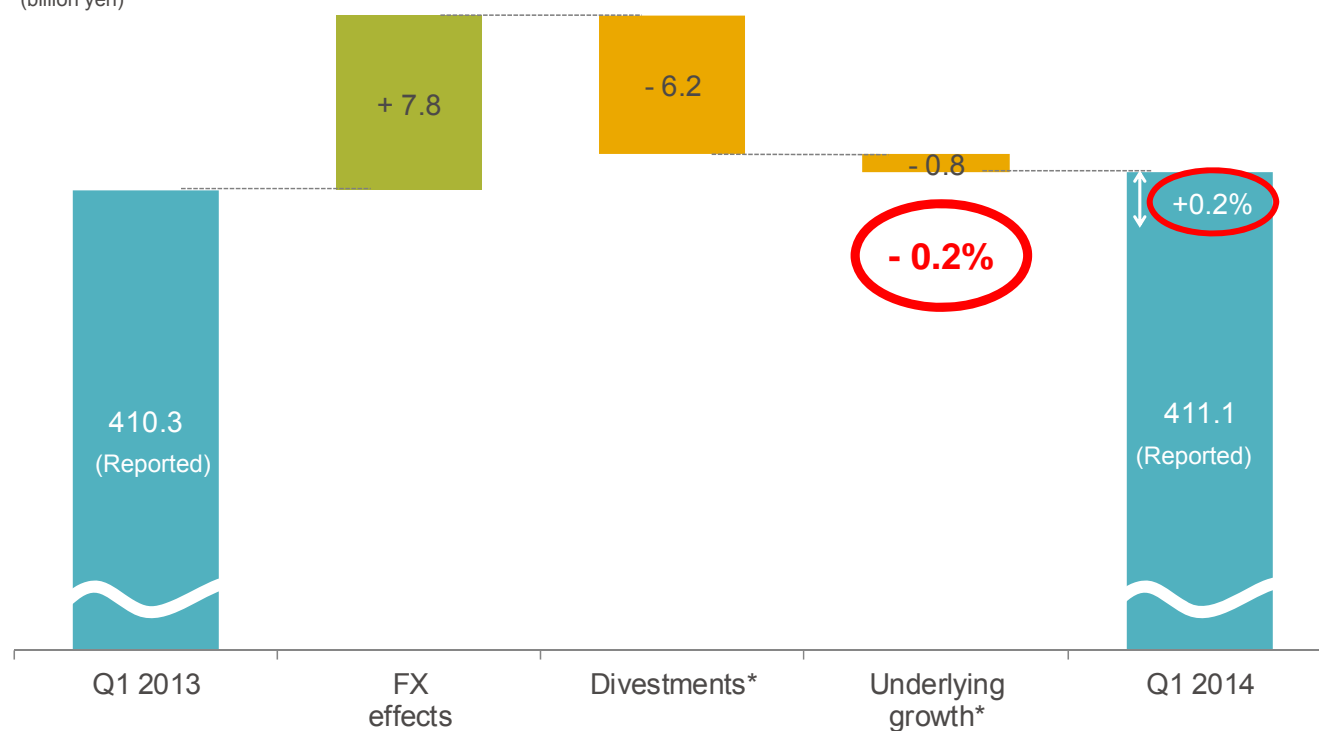
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## Underlying revenue growth at - 0.2%, reflecting largely one-off items



(billion yen)

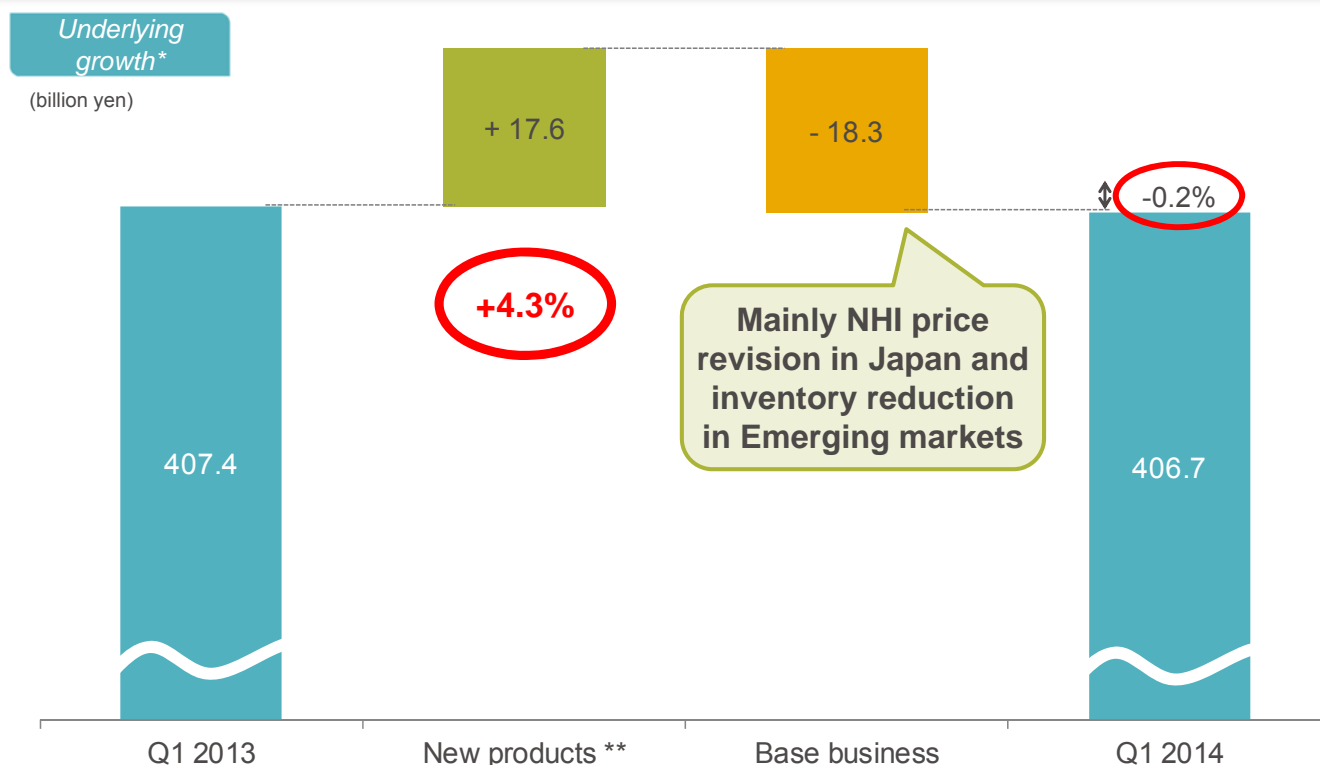


\* See appendix P.27 for details

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# Strong innovation momentum with new products contributing to over 4.3% of revenue growth



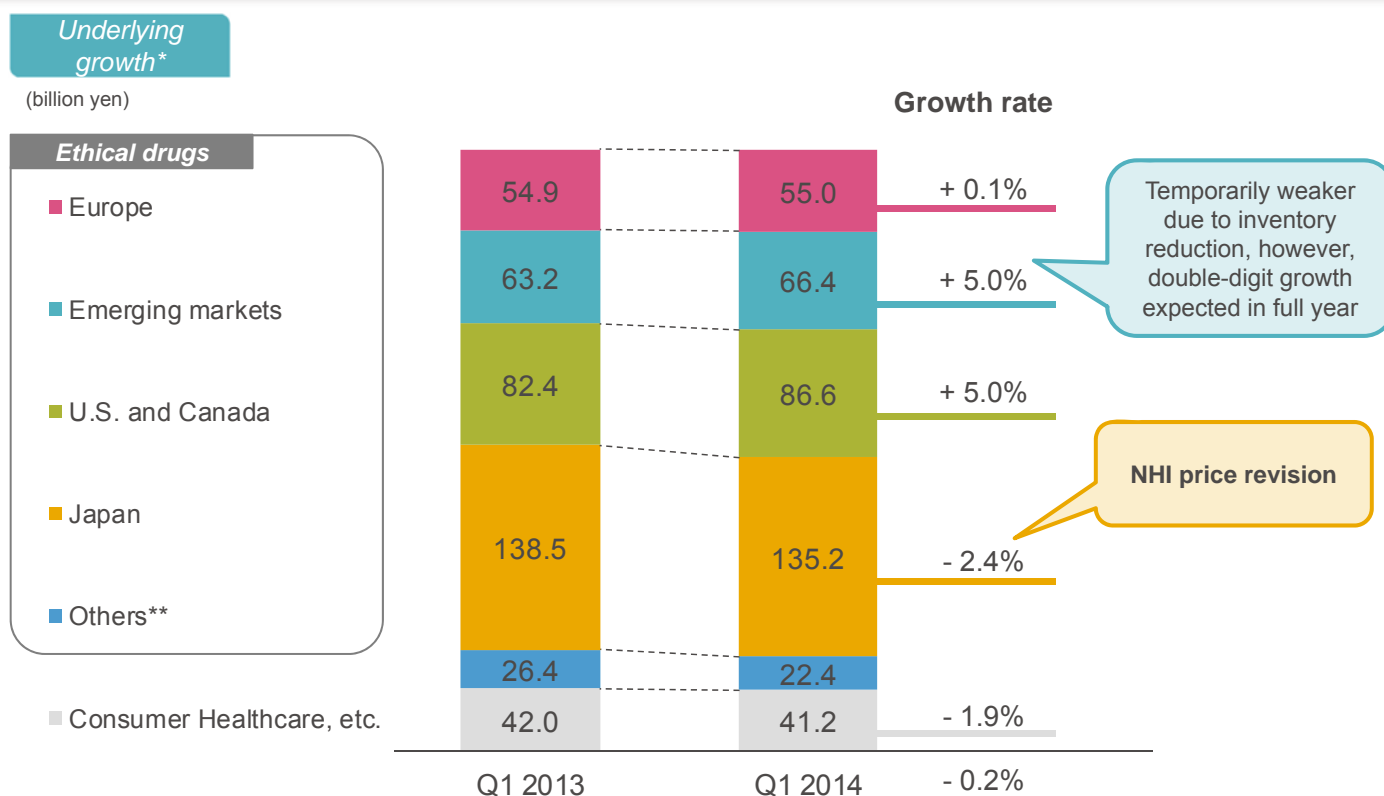
\* Underlying growth: Constant currency and w/o divestments. See appendix P.27 for details

\*\* New products: Represent products launched within 5 years and include new products in acquired companies, but excludes fixed dose drugs with existing drugs and formulation change drugs

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## Good momentum in the U.S. and EM



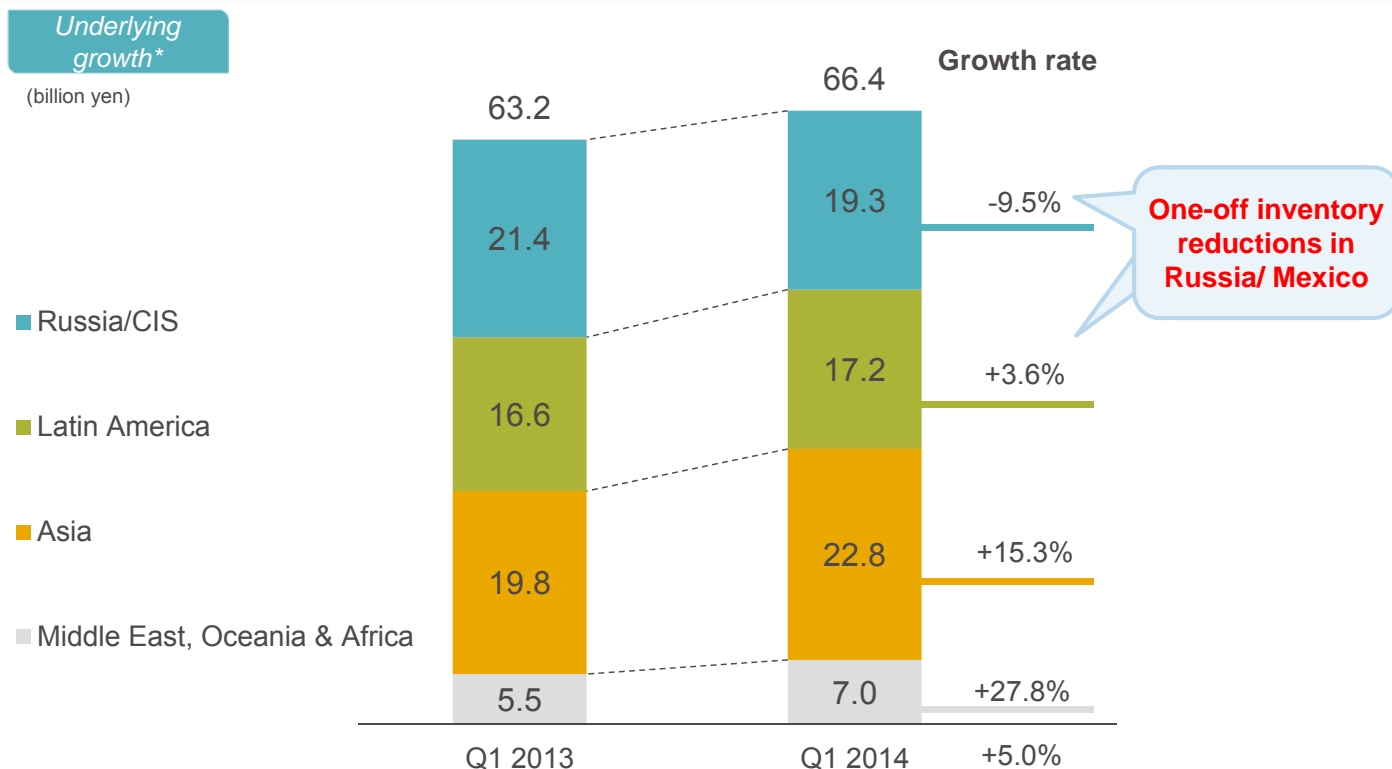
\* Underlying growth: Constant currency and w/o divestments. See appendix P.27 for details

\*\* Others: Representing mainly licensees business revenue

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# Emerging markets: Attractive growth driver hit by one-offs in Q1, fundamentals remain strong



\* Underlying growth: Constant currency and w/o divestments. See appendix P.27 for details

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## Top 10 products: New products deliver strong growth while base business impacted by NHI price revision and inventory reductions in EM



billion yen		Q1			Underlying growth*
Product name	Therapeutic areas	FY2013	FY2014	Growth	
Candesartan	Cardiovascular & metabolic	42.5	36.5	- 14.1%	- 15.1%
Velcade	Oncology	30.5	34.9	+ 14.6%	+ 8.8%
Leuporelin	Oncology	33.5	29.6	- 11.7%	- 13.7%
Pantoprazole	General medicine	23.1	25.8	+ 11.8%	+ 7.3%
Lansoprazole	General medicine	30.1	25.5	- 15.4%	- 18.0%
<u>Colcrys</u>	Immunology & respiratory	13.7	14.3	+ 4.9%	+ 0.6%
<u>Dexilant</u>	General medicine	11.1	12.7	+ 14.2%	+ 8.8%
Actos	Cardiovascular & metabolic	10.6	12.3	+ 16.9%	+ 10.2%
<u>Nesina</u>	Cardiovascular & metabolic	7.3	10.8	+ 47.8%	+ 47.5%
<u>Azilva</u>	Cardiovascular & metabolic	3.0	9.7	+ 223.4%	+ 223.4%
Other products		205.1	199.1	- 2.9%	- 0.5%
<b>Total Revenue</b>		<b>410.3</b>	<b>411.1</b>	<b>+ 0.2%</b>	<b>- 0.2%</b>

Underlines indicate new products

\* Underlying growth: Constant currency and w/o divestments. See appendix P.27 for details

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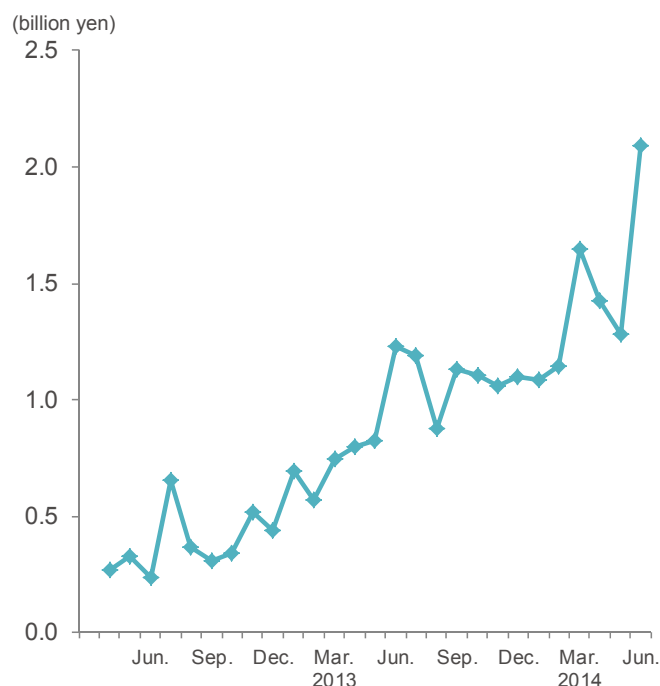
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# New products contributing significantly to growth

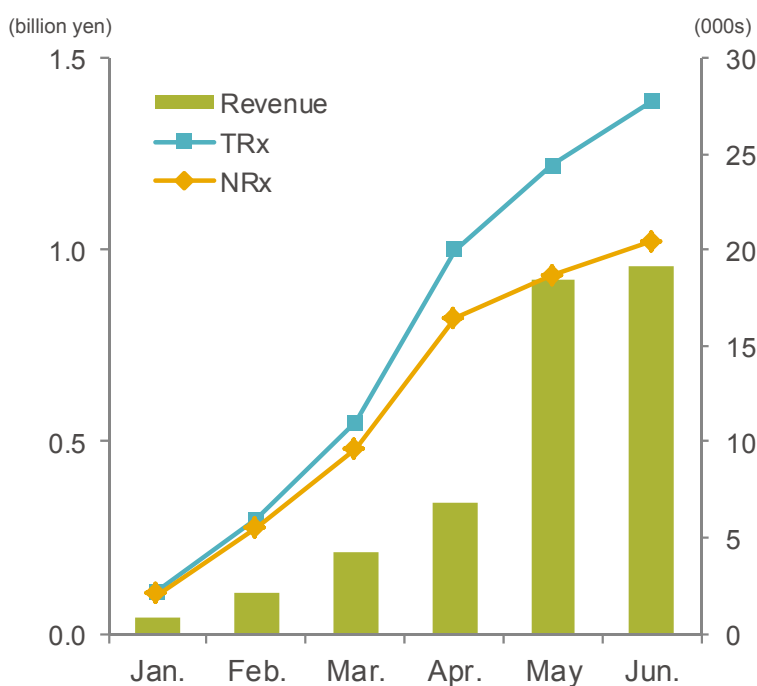


@Constant currency

Adcetris (Mainly Europe\*)



Brintellix (U.S.)



\* Including Named Patient Program (NPP) sales

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## Income statement

# Lower Core earnings in line with expectations, reflecting investment in new products



billion yen	P/L* Q1			Underlying growth**
	2013	2014	Reported growth	
Revenue	410.3	411.1	+ 0.2%	- 0.2%
Gross profit	293.1	293.1	- 0.0%	
% of Revenue	71.4%	71.3%	- 0.1 pts	
S&M	(88.1)	(99.6)	+ 13.1%	+ 4.4%
G&A	(39.3)	(35.1)	- 10.7%	- 7.4%
R&D	(78.7)	(75.0)	- 4.7%	- 5.3%
Other income / expenses	4.6	0.9	- 80.6%	
Core earnings	91.6	84.3	- 7.9%	+ 0.5%
% of Revenue	22.3%	20.5%	- 1.8 pts	

\* P/L incorporates adjustments to Core earnings.

\*\* Underlying growth: Constant currency and w/o divestments. See appendix P.27 for details

# Sustainable improvement in cost base



	P/L* FY2014 vs FY2013	
	Q1	Underlying growth
S&M	+ 13.1%	+ 4.4%
G&A	- 10.7%	- 7.4%
R&D	- 4.7%	- 5.3%
Total expenses (SG&A / R&D)	+ 1.7%	- 1.4%

Investment for new launch products (Brintellix and Entyvio)  
Positive impact of project Summit

\* P/L incorporates adjustments to Core earnings.

- Efficiency program Project Summit continues to produce strong results with good execution
- Approximately ¥5 billion yen additional savings generated in Q1
- Expect to cumulatively save an estimated ¥60 billion by the end of 2014
- Targeting >¥120 billion through 2017

## Normalized Core tax rate in the low 30s

	Q1		Change
	2013	2014	
Reported tax rate	34.4%	42.8%	+ 8.4%
Impact of non-core items	+ 1.7%	+ 5.3%	+ 3.6%
Core tax rate	32.7%	37.5%	+ 4.8%
[One-off items]			
· Reduction of deductible NOL	-	+ 3.8%	+ 3.8%
· Impact of tax reform primarily in Japan	-	+ 0.8%	+ 0.8%
· Expiration of US R&D credit	-	+ 0.6%	+ 0.6%
<b>Normalized Core tax rate</b>	<b>32.7%</b>	<b>32.3%</b>	<b>- 0.4%</b>



# Core EPS down, impacted by tax one-offs in Q1



billion yen	P/L * Q1			Underlying growth**
	2013	2014	Reported growth	
<b>Core earnings</b>	<b>91.6</b>	<b>84.3</b>	<b>- 7.9%</b>	<b>+ 0.5%</b>
% of Revenue	22.3%	20.5%	- 1.8 pts	
<b>Core effective tax rate</b>	<b>32.7%</b>	<b>37.5%</b>	<b>+4.8 pts</b>	
<b>Core net profit</b>	<b>61.8</b>	<b>51.9</b>	<b>- 15.9%</b>	<b>- 10.0%</b>
<b>Core EPS</b>	<b>78 yen</b>	<b>66 yen</b>	<b>- 12 yen</b>	<b>- 9.8%</b>

\* P/L incorporates adjustments to Core earnings.

\*\* Underlying growth: Constant currency and w/o divestments.



## Balance sheet and Cash flow

# Strong Balance sheet



billion yen	Mar. 2014	Jun. 2014	Change
<b>Non-current assets</b>	<b>2,977</b>	<b>2,906</b>	<b>- 71</b>
Intangible assets	1,136	1,099	- 37
Goodwill	815	800	- 14
<b>Current assets</b>	<b>1,593</b>	<b>1,531</b>	<b>- 61</b>
Cash and cash equivalents*	806	723	- 83
<b>Total assets</b>	<b>4,569</b>	<b>4,437</b>	<b>- 132</b>
<b>Non-current liabilities</b>	<b>1,226</b>	<b>1,243</b>	<b>+ 17</b>
Bonds and loans	705	703	- 2
<b>Current liabilities</b>	<b>803</b>	<b>741</b>	<b>- 62</b>
Bonds and loans	155	153	- 2
<b>Total liabilities</b>	<b>2,029</b>	<b>1,983</b>	<b>- 45</b>
<b>Equity</b>	<b>2,541</b>	<b>2,454</b>	<b>- 87</b>
<b>Equity ratio**</b>	<b>54.1%</b>	<b>53.8%</b>	<b>-0.2 pts</b>

\* Cash and cash equivalents: Includes short-term investments which mature or become due within one year from the reporting date

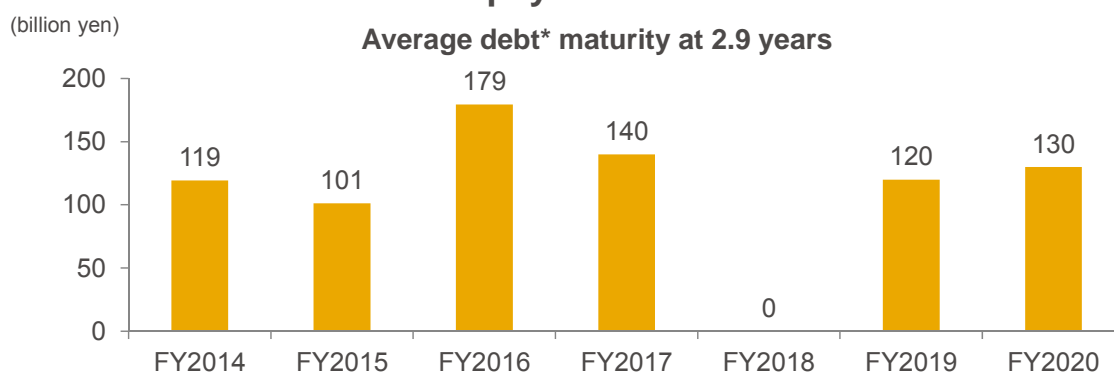
\*\* Equity ratio: Represents Ratio of equity attributable to owners of the Company to Total assets

# Liquidity secured



billion yen	Mar. 2014	Jun. 2014
<b>Gross debt*</b>	<b>- 790</b>	<b>- 791</b>
<b>Cash and cash equivalents**</b>	<b>806</b>	<b>723</b>
<b>Net cash / Net debt</b>	<b>15</b>	<b>- 68</b>
<b>Net debt / EBITDA ratio</b>	<b>0.0</b>	<b>(0.1)</b>

## Debt repayment schedule



\* Debt figures in this slide represent Bonds and loans FX rate hedged basis

\*\* Cash and cash equivalents: Includes short-term investments which mature or become due within one year from the reporting date

# Free cash flow in 2014 seasonably low in Q1



billion yen	Q1	
	FY2013	FY2014
EBITDA	104.9	113.4
Net trade working capital	- 41.7	- 36.1
Capital expenditures	- 11.5	- 21.2
Acquisition of intangible assets	- 3.3	- 18.8
Income taxes paid *	- 22.2	- 15.1
Other Balance sheet items **	- 26.1	- 22.8
<b>Operating free cash flow</b>	<b>0.1</b>	<b>- 0.6</b>

Improvements expected for free cash flow in 2014

\* Income taxes paid does not include exceptional items, i.e. Tax refund related to Prevacid transactions and tax payments related to advance pricing agreement (APA). (FY2013 75.0 bil yen)

\*\* LTIP

# Guidance FY2014: A year of investment for growth



No change to our prior guidance.

**Underlying Revenue Growth**

Between 2 and 4%<sup>1</sup>

**Core Earnings**

Flat to slightly declining

**Commercial investment**

Increase

Notes: <sup>1</sup>The impact of LOEs is now included in growth guidance, while it had been excluded in previous guidance. This change in calculation method results in a new and more relevant guidance of "between 2 and 4%" (with LOEs) and is equivalent to the prior guidance of "between 3 and 5%" (without LOEs). See slide 32 for more detailed disclosure.

# APPENDIX

## Definitions of new disclosure terms



### ***Underlying growth***

Underlying growth adjusts only for forex (constant currency) and disposals / acquisitions / exceptional items.

### ***Core earnings***

Core earnings is calculated by deducting factors such as impacts from purchase accounting and amortization / impairment loss of intangible assets, restructuring costs and litigation costs from operating profit.

# FY2014 Financial outlook



billion yen	FY2014			
	Q1 (Actual)	Q2 (Estimate)	1st Half (Estimate)	Outlook
Revenue	411.1	433.9	845	1,725
R&D expenses	(75.2)	(84.8)	(160.0)	(350.0)
Operating profit	63.7	26.3	90	150
Net profit for the year*	33.4	16.6	50	85
EPS	42 yen	21 yen	63 yen	108 yen
<b>Core Earnings**</b>	<b>84.3</b>	<b>60.7</b>	<b>145.0</b>	<b>280.0</b>
% of Revenue	20.5%	14.0%	17.2%	16.2%
<b>Core net profit</b>	<b>51.9</b>	<b>38.1</b>	<b>90.0</b>	<b>180.0</b>
<b>Core EPS</b>	<b>66 yen</b>	<b>48 yen</b>	<b>114 yen</b>	<b>228 yen</b>
Exchange Rate	Yen per USD	102	98	100
	Yen per EUR	140	140	140

\*Net Profit for the Year under IFRS represents Net Profit for the Year attributable to owners of the Company.

\*\*Core earnings is calculated by deducting any temporary factors such as impacts from purchase accounting and amortization / impairment loss of intangible assets, restructuring costs and litigation costs from operating profit.

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# FY2014 Financial outlook

- P/L impact of 1 yen change in forex



billion yen	FY2014	
	USD	EUR
Revenue	4.0	4.5
Operating profit	- 0.7	0.7
Net profit for the year	- 0.5	0.4

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# Income statement – Reported under IFRS



billion yen	Q1		Change
	2013	2014	
<b>Revenue</b>	<b>410.3</b>	<b>411.1</b>	<b>+ 0.2%</b>
<b>Gross profit</b>	<b>292.4</b>	<b>293.1</b>	<b>+ 0.2%</b>
% of Revenue	71.3%	71.3%	+0.0 pts
<b>SG&amp;A</b>	<b>(129.6)</b>	<b>(136.6)</b>	<b>+ 5.4%</b>
% of Revenue	31.6%	33.2%	+1.6 pts
<b>R&amp;D</b>	<b>(79.2)</b>	<b>(75.2)</b>	<b>- 5.2%</b>
% of Revenue	19.3%	18.3%	-1.0 pts
<b>Other income</b>	<b>8.1</b>	<b>24.1</b>	<b>+ 196.3%</b>
<b>Other expenses</b> (incl. Amortization associated with products)	<b>(34.5)</b>	<b>(41.8)</b>	<b>+ 21.3%</b>
<b>Operating profit</b>	<b>57.2</b>	<b>63.7</b>	<b>+ 11.3%</b>
% of Revenue	13.9%	15.5%	+1.5 pts
<b>Net profit for the period</b>	<b>35.9</b>	<b>33.4</b>	<b>- 7.1%</b>
<b>Core earnings</b>	<b>91.6</b>	<b>84.3</b>	<b>- 7.9%</b>
% of Revenue	22.3%	20.5%	-1.8 pts
<b>EPS</b>	<b>46 yen</b>	<b>42 yen</b>	<b>- 3 yen</b>
<b>Core EPS</b>	<b>78 yen</b>	<b>66 yen</b>	<b>- 12 yen</b>

[Exchange rate] FY2013 USD: 98yen, EUR: 127yen FY2014 USD: 102yen, EUR: 140yen

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## Revenue and Core earnings

- Adjustments from reported to underlying growth



billion yen	2014 Q1			
	Reported	Fx effect	Divestments	Underlying growth
<b>Revenue</b>	<b>411.1</b>	<b>- 3.0</b>	<b>- 1.5</b>	<b>406.7</b>
<b>Core earnings</b>	<b>84.3</b>	<b>+ 2.2</b>	<b>- 1.3</b>	<b>85.2</b>

billion yen	2013 Q1			
	Reported	Fx effect	Divestments	Underlying growth
<b>Revenue</b>	<b>410.3</b>	<b>+ 4.8</b>	<b>- 7.7</b>	<b>407.4</b>
<b>Core earnings</b>	<b>91.6</b>	<b>+ 0.6</b>	<b>- 7.4</b>	<b>84.8</b>

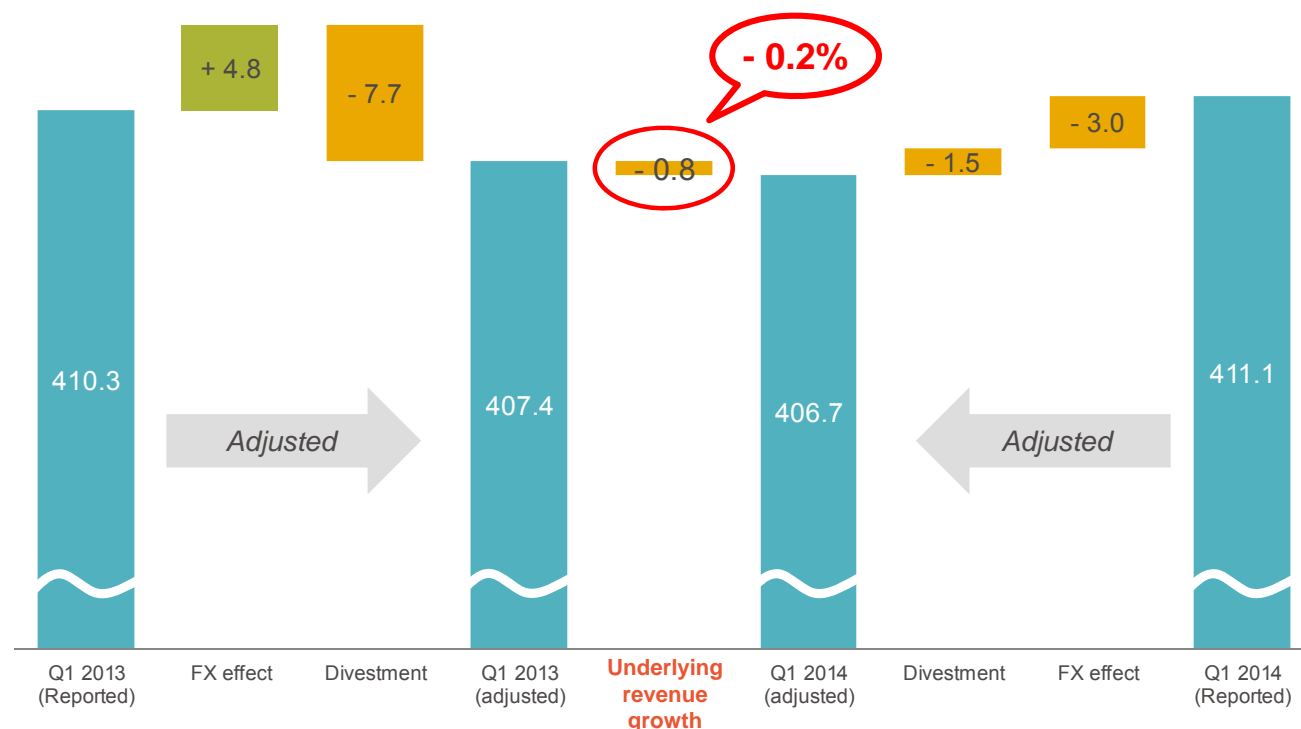
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# Details of underlying revenue growth



(billion yen)



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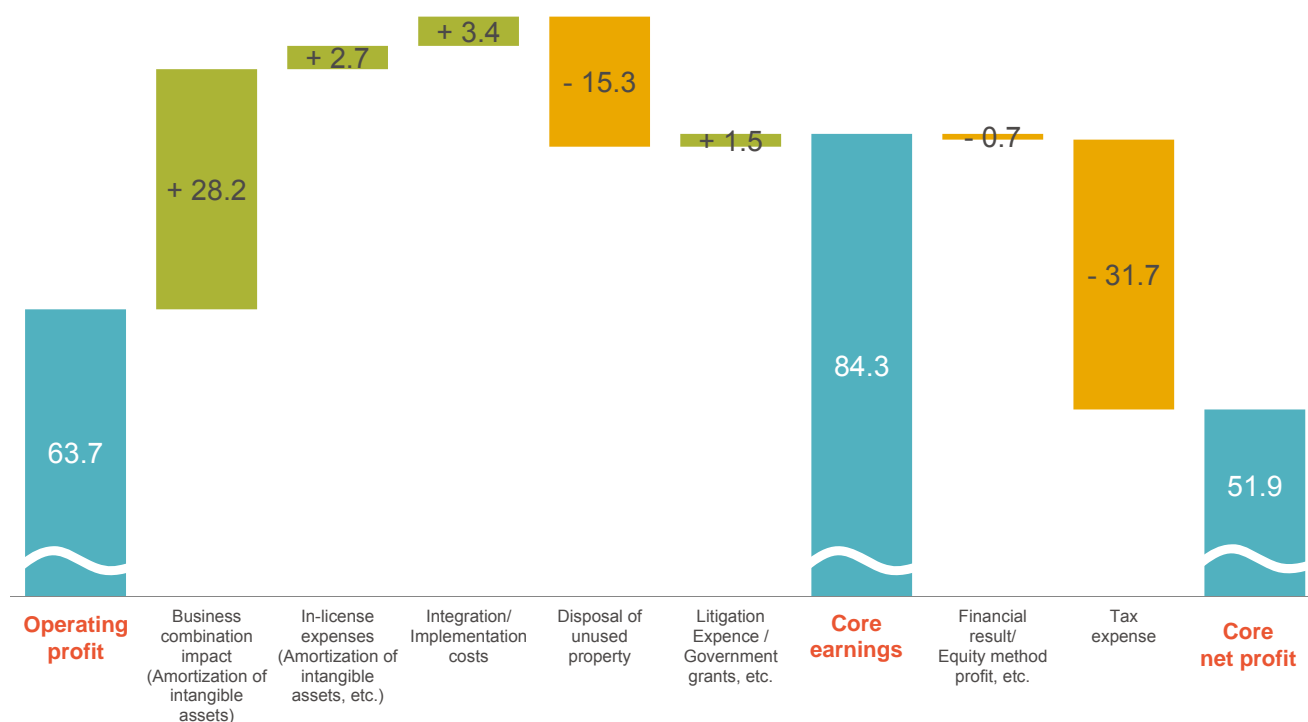
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# Core earnings

- Adjustments from Operating profit to Core earnings and Core net profit



(billion yen)



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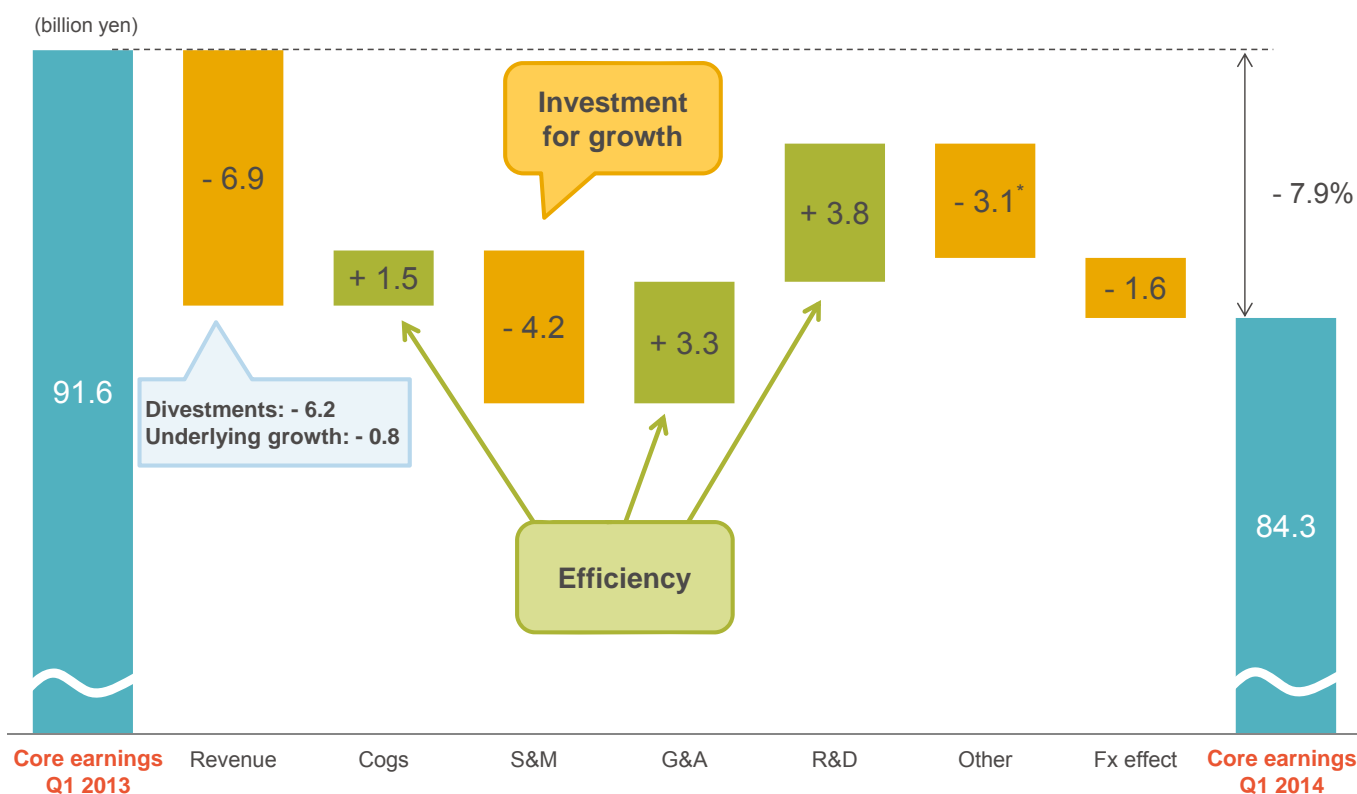
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## Normalized Core tax rate (Historical basis)



	Full year		Change
	2012	2013	
Reported tax rate	-13.2%	31.0%	+ 44.2%
Impact of non-core items	- 27.3%	- 3.6%	+ 23.7%
Core tax rate	14.1%	34.6%	+ 20.5%
[One-off items]			
· Transfer pricing adjustments	-17.6%	-	+ 17.6%
· Reduction of deductible NOL	1.3%	- 1.6%	- 2.9%
· Impact of tax reform primarily in Japan	0.6%	+ 3.7%	+ 3.1%
<b>Normalized Core tax rate</b>	<b>29.8%</b>	<b>32.5%</b>	<b>+ 2.7%</b>

## Reinvestment of efficiency savings to support growth



\*Other mainly includes charges related to the termination of TAK-700.



- Underlying revenue growth between 2 and 4%\*
- Flat to slightly declining underlying Core earnings (CE) in absolute value as savings do not fully offset increased sales & marketing investments
- Commercial investments will increase exceptionally in 2014 by about 1 pt of sales vs. prior year to support launches
  - Brintellix, Entyvio, Contrave
- Flat R&D spending
- Summit to deliver incremental savings of more than 20 billion yen

\* The impact of LOEs is now included in growth guidance, while it had been excluded in previous guidance. This change in calculation method results in a new and more relevant guidance of "between 2 and 4%" (with LOEs) and is equivalent to the prior guidance of "between 3 and 5%" (without LOEs).

## Forward-Looking Statements

This presentation contains forward-looking statements regarding the Company's plans, outlook, strategies, and results for the future.

All forward-looking statements are based on judgments derived from the information available to the Company at this time. Forward looking statements can sometimes be identified by the use of forward-looking words such as "may," "believe," "will," "expect," "project," "estimate," "should," "anticipate," "plan," "continue," "seek," "pro forma," "potential," "target," "forecast," or "intend" or other similar words or expressions of the negative thereof.

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