Better Health, Brighter Future

Takeda Information

Financial FAQs regarding FY2019 Q4 earnings

Global Finance IR
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The following are responses to some frequently asked questions (FAQs) regarding FY2019 Q4 earnings of Takeda Pharmaceutical Company Limited (Takeda), announced on May 13, 2020.

NOTE: From FY2019 Q1, the term "Core Earnings" has been renamed "Core Operating Profit". The definitions are identical, and only the terminology has changed.[1]

Q1. What was the consensus estimate for FY2019 Q4 (January-March 2020) results?

A1. To our knowledge, analysts from twelve financial institutions[2] prepared estimates on Takeda's FY2019 Q4 (January-March 2020) results. Based on the estimates of these twelve analysts, who provided an estimate for Q4 results after the FY2019 Q3 earnings announcement:

- average estimated revenue was 790.9 bn yen
- average estimated Core Operating Profit was 175.5 bn yen
- average estimated Core Earnings Per Share (EPS) was 50 yen

Takeda's actual revenue was 771.7 bn yen, actual Core Operating Profit was 170.0 bn yen, and actual Core EPS was 27 yen for FY2019 Q4.

Q2. What was the impact of the COVID-19 outbreak on Takeda's FY2019 financial results?

A2. The overall impact of the global spread of COVID-19 on Takeda's consolidated financial results for FY2019 was not material. With regards to product demand, we saw limited impact as many of our medicines are for severe chronic or life-threatening diseases, without the requirement of a hospital elective procedure. In terms of our global supply chain, we did not recognize any material supply disruption in FY2019 due to the COVID-19 outbreak. At the same time, voluntary suspension of certain business activities such as business travel and events in response to COVID-19 led to lower spending, which resulted in limited impact on Takeda's profit.

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[1] For full definitions of Takeda's disclosure metrics and reconciliation tables, please refer to the appendix of the FY2019 Q4 earnings presentation

[2] Bank of America, Citigroup, Cowen, Credit Suisse, Goldman Sachs, Jefferies, J.P. Morgan, Mitsubishi UFJ Morgan Stanley, Mizuho Securities, Daiwa Securities, Morgan Stanley and Nomura Securities.

Q3. Why were cost synergies realized faster than expected?

A3. Takeda delivered a cost synergy run-rate of $1.1bn in March 2020 with synergies captured faster than initially expected, mainly driven by SG&A.

Within SG&A, personnel costs progressed well due to accelerated talent selection (completed for 99.6% of employees by March 2020) and the reduction of duplicate costs across central support functions. We also reduced contractor costs through higher purchase order compliance and greater procurement involvement in managing contracts. Synergies were also captured in facilities & related services with 88% of decisions made on commercial office locations across 67 countries (128/146 sites). We also rolled out a harmonized travel policy, and reduced our number of travel agencies. For R&D, we went through a full organization design, integrated Rare Diseases, and accelerated prioritization of the portfolio. For manufacturing & supply, we realized operational efficiencies through productivity improvement, as well as procurement savings in direct materials, CMOs (Contract Manufacturing), packaging and consumables.

Q4. Are you on track to achieve your $10 bn non-Core asset divestitures target?

A4. We are making solid progress on our commitment to simplify our portfolio and meet our deleveraging targets. We have not announced any time frame for divestitures, nor the specific assets due to negotiation purposes, but we have a shortlist of non-core assets under consideration. We remain confident that, despite the unprecedented market conditions due to the COVID-19 public health crisis, Takeda will execute on its goal to divest $10 bn in non-core assets and reduce its debt toward its target of 2x net debt/adjusted EBITDA within the fiscal years ending March 2022 to March 2024. We have already made substantial progress on the divestiture program, and as of May 13, 2020 have closed the sale of deals worth up to $6.160 bn, and announced additional deals worth up to $1.495 bn.

After FY2019 Q4 result announcement, we have entered into an agreement to divest a portfolio of select non-core over-the-counter (OTC) and prescription pharmaceutical products sold exclusively in Asia Pacific to Celltrion. We will receive $266 mm upfront in cash and up to an additional $12 mm in potential milestone payments, subject to customary legal and regulatory closing conditions.

Q5. Is Takeda's OTC business in Japan a potential divestiture target?

A5. Takeda Consumer Healthcare Company (TCHC) has for many years been expanding its business as a leading consumer healthcare company in the Japanese and Asian markets, building customer trust and a strong brand. While focused on our core business areas, we are constantly considering various strategic options for TCHC that will allow the company to maximize its potential.

Q6. What are the main factors to improve Reported Operating Profit in FY2020 compared to FY2019?

A6. In addition to 21.8 bn yen improvement of Core Operating Profit, we expect a reduction of 116.1 bn yen in Shire purchase accounting adjustments (mainly the unwind of inventory step up). We also expect a 61.2 bn yen decrease in Shire integration expenses in FY2020.

Q7. How much is Shire acquisition purchase accounting impact on P&L in FY2020 and in FY2021 onwards?

A7. In FY2020, we expect the annual amortization expenses associated with Shire intangibles to be 324.0 bn yen. The unwind of inventory step-up expense is expected to be 85.7 bn yen.

From FY2021 onwards, we expect the annual amortization expenses associated with Shire intangibles to be approximately 330 bn yen until FY2023, declining to approximately 210 bn yen in FY2027. The unwind of inventory step-up expense is expected to decline to approximately 33 bn yen in FY2021.

As a reminder, both amortization and the unwind of inventory step-up are non-cash expenses, and do not affect Core Operating Profit or cash flow.

Q8. Why was the core tax rate in FY2019 higher than FY2019 Q3 YTD, and why was the reported tax rate in FY2019 so favorable? What are your expectations for the core and reported tax rates in FY2020?

A8. The core tax rate in FY2019 Q4 was higher due to Japan CFC (Controlled Foreign Company) tax on Legacy Shire on-going business operations. The reported tax rate in FY2019 was very favorable, due to increased tax loss utilization forecasts, tax restructuring and benefit from Swiss Tax Reform.

In FY2020, we expect the core tax rate to be approximately 24%, with improvement compared to FY2019 due to statutory earnings mix and lower Japan CFC tax expense. On the other hand, we expect higher reported tax expenses in FY2020 driven by: 1) higher Profit Before Tax (PBT) than FY2019, 2) lack of Swiss tax reform benefit in FY2020 and 3) less benefit from restructuring in FY2020.

Q9. What were the results of the China business in FY2019 and the main drivers? Do you continue to forecast growth in FY2020 onwards?

A9. Takeda is committed to China and we have confidence in the long-term potential of the Chinese pharmaceutical market. Takeda's FY2019 underlying revenue in China grew 32% compared to the previous year, largely due to the strong performance of Albumin and Ninlaro. The availability of our innovative products in China is an important factor in meeting patients' unmet medical needs and achieving sustainable growth in the region. In the mid- to long-term, we anticipate a continued positive growth of Takeda's business in China, which we expect will be higher than the market average.

The Chinese government's recent healthcare reforms should help sustain business growth by accelerating and rewarding innovation, which is an opportunity for Takeda as we are targeting the launch of more than 15 innovative medicines over the next five years. We received approval for Entyvio and Adcetris recently.

Q10. What is the impact of the COVID-19 outbreak on Takeda's plasma-derived therapies business? Do you expect the pandemic to impact plasma volume targets/ plasma collection for FY2020 and beyond?

A10. In view of the strict screening procedures for plasma donors and the established processes for viral inactivation and removal during manufacturing of plasma-derived therapies, Takeda does not believe that the SARS-CoV-2 is a concern for the safety margins of our plasma-derived therapies. We have seen some decline in plasma donation since lockdowns and similar movement restrictions were imposed. However, our centers have been designated critical infrastructure and remain open. Similarly, we continue to move forward with opening new centers we had planned in FY2020. Extensive measures are in place to protect employees and donors, as well as to optimize plasma collection. It is too early to predict any longer-term impact on total volume as there are several factors that can partially or fully offset the decline in the coming months.

Q11. Why are you working together with other plasma manufacturers to develop CoVIg-19, an investigational treatment for COVID-19?

A11. Two key drivers of the CoVIg-19 Plasma Alliance are to accelerate development of an anti-SARS-CoV-2 hyperimmune globulin therapy including plasma collection efforts, and to potentially provide more supply efficiently if the therapy is proven to work. We believe that by bringing together the brightest minds, sharing information and leveraging collective resources and expertise, we can potentially achieve more – and faster – than by working independently. A collaborative industry approach puts patient interests and public health first. The members will work together to address key anticipated activities during each step of the process, including plasma collection, clinical development and supply and, if the product is successful, commercial scale production and rational distribution.

Q12. What was the impact of COVID-19 outbreak on Takeda's R&D activities? How much of a delay will your pipeline experience?

A12. As a result of COVID-19 outbreak, we have placed a temporary pause on the initiation of new studies, with the exception of CoVIg-19, the investigational plasma-derived therapy for COVID-19. Of the over 200 ongoing clinical trials about 50% are completely enrolled and we believe these studies, which include many of our Wave 1 programs, will likely be completed on-time or with minor delays. A small number of clinical trials continue to enroll new patients. The remaining studies are being prepared to resume and we expect those studies to resume later this year. A few of our earlier stage Wave 1 programs such as TAK-994 experienced a delay at study start up because of COVID-19 and we are working as quickly as possible as circumstances reasonably allow to resume activities related to these studies.

Q13. What is the R&D strategy of Takeda? Where is the innovation coming from?

A13.Our 14 global brands continue to generate significant opportunities through new indications and geographic expansion. With over 20 ongoing registration enabling studies in new indications and geographies, we expect our global brands to generate additional indication expansions and geographic expansions over the next 5 years. We also are targeting new launches for 15 of our transformative medicines to patients in China by 2025. Our 14 global brands, both through geographic expansion and additional indications, will sustain us for the next 5-7 years as our NME (New Molecular Entity) pipeline will continue to mature and deliver.

The expected main driver for new product launches in the near term is our Wave 1 assets (assets with strong clinical data and targeted approval dates by the end of FY2024) – 12 NMEs with the potential for 14 best-in-class/first-in-class therapies. These programs, 9 of which are in pivotal studies, have data readouts in the next 3-5 years. We expect several will lead to product launches in this time period that will sustain our future growth trajectory while our next-generation platforms mature.

We believe that long-term growth (in 2025 and beyond) will be driven by our ~30 pre-proof of concept (POC) programs and our increased investment in next generation platforms. Our research engine, comprised of our internal research capabilities and external partnerships, is quickly advancing a steady stream of next generation pre-POC therapies designed to provide transformative or curative potential for targeted populations with high unmet need, in our core Therapeutic Areas. These programs are based on targets with strong human validation, represent diverse modalities, and leverage new platform capabilities in cell therapy, gene therapy and data sciences. Programs with strong efficacy data may enable accelerated development and accelerated regulatory

pathways.

About Takeda Pharmaceutical Company Limited

Takeda Pharmaceutical Company Limited (TSE:4502/NYSE:TAK) is a global, values-based, R&D-driven biopharmaceutical leader headquartered in Japan, committed to bringing Better Health and a Brighter Future to patients by translating science into highly-innovative medicines. Takeda focuses its R&D efforts on four therapeutic areas: Oncology, Rare Diseases, Neuroscience and Gastroenterology (GI). We also make targeted R&D investments in Plasma-Derived Therapies and Vaccines. We are focusing on developing highly innovative medicines that contribute to making a difference in people's lives by advancing the frontier of new treatment options and leveraging our enhanced collaborative R&D engine and capabilities to create a robust, modality-diverse pipeline. Our employees are committed to improving quality of life for patients and to working with our partners in health care in approximately 80 countries.

For more information, visit https://www.takeda.com.

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Further information on certain of Takeda's Non-IFRS measures is posted on Takeda's investor relations website at https://www.takeda.com/investors/reports/quarterly-announcements/

Reconciliation from reported revenue to underlying revenue growth presented in accordance with IFRS are included as an appendix to FY2019 Q4 presentation.

Pro Forma Information

This document includes certain pro forma information giving effect to the Shire acquisition as if it had occurred on April 1, 2018. This pro forma information has not been prepared in accordance with Article 11 of Regulation S-X. This pro forma information is presented for illustrative purposes and is based on certain assumptions and judgments based on information available to us as of the date hereof, which may not necessarily have been applicable if the Shire acquisition had actually happened as of April 1, 2018. Moreover, this pro forma information gives effect to certain transactions and other events which are not directly attributable to the Shire acquisition and/or which happened subsequently to the Shire acquisition, such as divestitures and the effects of the purchase price allocation for the Shire acquisition, and therefore may not accurately reflect the effect on our financial condition and results of operations if the Shire acquisition had actually been completed on April 1, 2018. Therefore, undue reliance should not be placed on the pro forma information included herein.