

## Announcement of Actions to Implement Management that is Conscious of Cost of Capital and Stock Price

Kaken Pharmaceutical Co., Ltd. (“Kaken” or the “Company”, Head Office: Bunkyo-ku, Tokyo; President and Representative Director, Hiroyuki Horiuchi) announced that the Company has disclosed information regarding “Actions to Implement Management that is Conscious of Cost of Capital and Stock Price”.

The following is a summary of the disclosure.

### 1. Evaluation of the Current Situation

Kaken’s corporate philosophy is to “help improve the quality of life of patients by serving as many people as possible to return smiles of happiness to their faces, through supplying superior pharmaceuticals”. The Company implemented “Long-Term Business Plan 2031” (“Business Plan”) and has been pursuing strategies to achieve the plan. However, the domestic prescription pharmaceutical business is facing a difficult business environment due to annual NHI price revisions and other factors. ROE for the fiscal year ending March 31, 2024, was 5.7%. The Company believes that the main reasons for the declining trend in ROE are a lower net income margin due to lack of launch of new high-margin products and a lower total asset turnover ratio due to cash not been invested effectively.

As for P/B ratio, it was at 0.91x as of March 31, 2024. The Company analyzed that this is due to a declining ROE as well as a lack of sufficient pipeline expansion and disclosures to attract the market for the launch of the next new drug.

#### Indices

	Fiscal year ending March 31, 2022	Fiscal year ending March 31, 2023	Fiscal year ending March 31, 2024
Net sales (millions of yen)	76,034	72,984	72,044
Operating income (millions of yen)	17,064	7,998	9,513
Net income (millions of yen)	9,549	5,440	8,025
ROE (%)	7.0	4.0	5.7
PBR (times)	1.06	1.01	0.91
Stock price at end of period (yen)	3,890	3,695	3,459

### 2. Policies and Targets

Kaken aim to achieve a P/B ratio of over 1.0x by steadily executing the strategies to achieve the visions set forth in our Business Plan, which was announced in May 2022.

### 3. Initiatives

#### 1) Improve profitability

Strategic investment of 200 billion yen over 10 years of the plan is set in the Business Plan. Taking financial discipline into account, the Company will utilize cash as the priority source of strategic investment including research and development, in-licensing and M&A, etc. to expand pipelines and launch new drugs to execute 3Xs strategies to achieve Business Plan.

Strategies of Long-term Business Plan 2031 “3Xs” -Three Transformations-

- R&D Transformation
- Overseas Expansion Transformation
- Management Base Transformation

#### 2) Reduce cross-shareholdings

Within the next five years, the Company will reduce our cross-shareholdings by 30% from the level as of March 31, 2024.

#### 3) Proactive IR activities

Aim to further reduce the cost of capital by actively communicating with investors through establishment of Corporate Communications Department and by expanding disclosures of materiality revisions and sustainability information (e.g. holding sustainability meeting).

#### 4) Revision of Bonus and Stock Compensation Plan for Directors (excluding Outside Directors)

Revisions were made for the bonus and stock compensation plan for directors, aiming to strengthen incentives to increase mid- to long-term corporate value.

Through the above efforts, Kaken will strive to improve mid- to long-term corporate value to meet the expectations of shareholders.

(Reference)

This matter is included in the presentation materials for the consolidated financial results for the fiscal year ending March 31, 2024.

[https://www.kaken.co.jp/english/invest/library/ir\\_meetings.html](https://www.kaken.co.jp/english/invest/library/ir_meetings.html)

“Action to Implement Management that is Conscious of Cost of Capital and Stock Price” by pursuing Long-Term Business Plan 2031

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# Agenda

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- 1** Aim of the Long-Term Business Plan 2031
- 2** “Action to Implement Management that is Conscious of Cost of Capital and Stock Price”  
(Analysis and Evaluation – Actions for Improvement)

# 1 Aim of the Long-Term Business Plan 2031

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# Background of the Implementation of Long-Term Business Plan 2031

- Implemented Long-Term Business Plan 2031, in May 2022, based on 4 reasons

## Financial Performance

- ✓ Net sales and operating profit are in downward trend since FY2015
- ✓ ROE, 25.3% in FY 2015, declined as well

Details in P4

## Investment

- ✓ Expansion of pipelines were limited due to lack of reinvestments in new projects during the time of recovering investment

Details in P4

## In-licensing /R&D

- ✓ Discontinuation of projects under development expected to cover the patent cliff of Clenafin

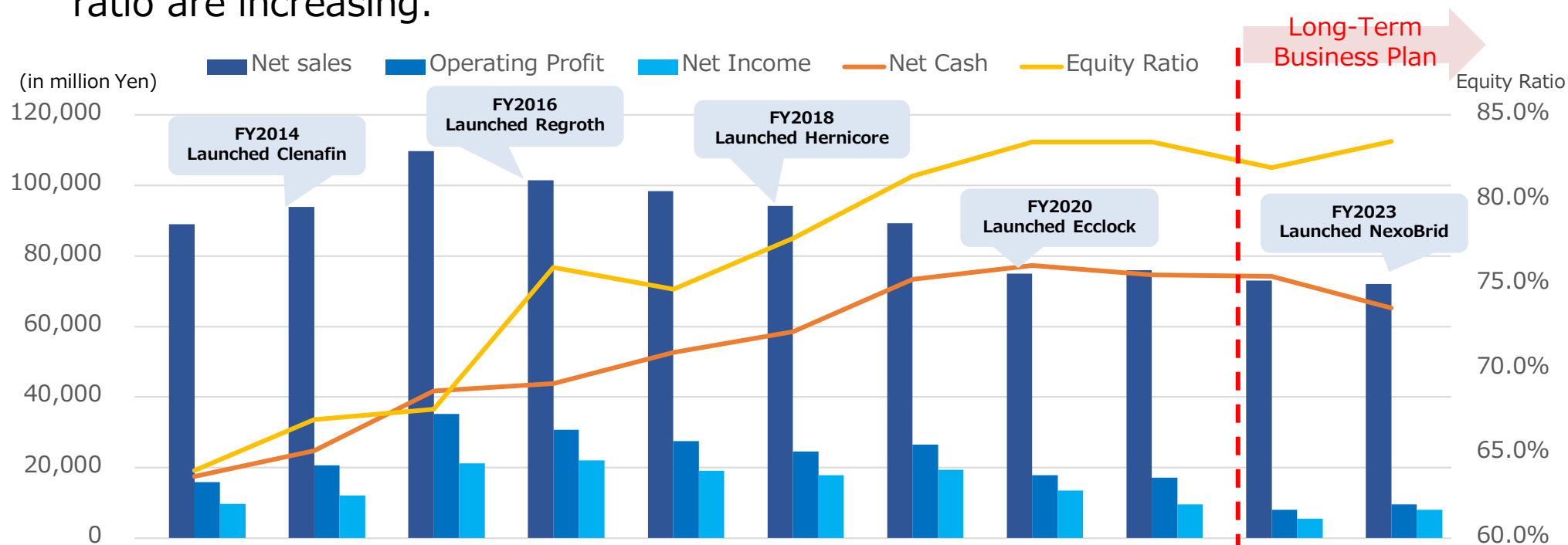
## Market Valuation

- ✓ PER and PBR at 23.92x and 3.73x, respectively, at its peak also declined

Details in P5

# Trends on Financial Performance (FY2013 - FY2023)

- Operating profit is in downward trend since FY2015. Net cash ratio and equity ratio are increasing.



年度	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
R&D Expenses (in Million Yen)	7,045	7,615	5,883	6,450	8,152	10,261	6,418	6,736	8,420	15,789 (6,545)*	12,543
Projects under Development	3	3	3	3	4	4	4	4	7	8	8
Clinical Trial processed by Alliance Partner						2**	2	1			
Marketing Alliance											2

\* one-time in-licensing fees included in R&D expenses

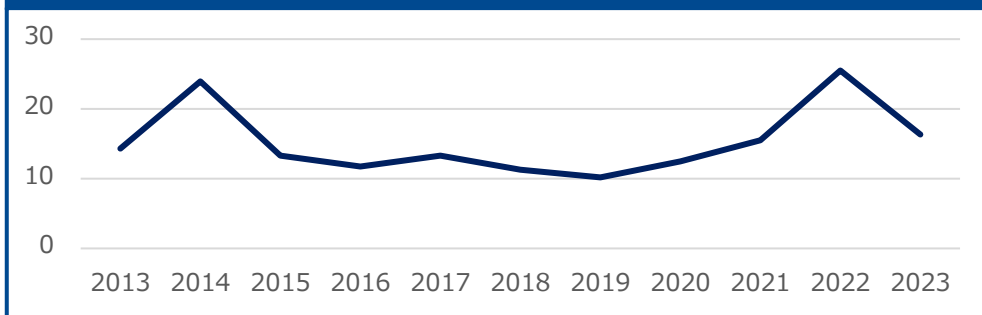
\*\*one-time in-licensing fee for Lenabasum was recorded in long-term prepaid expenses

# Valuation in the stock market (FY2013 - FY2023)

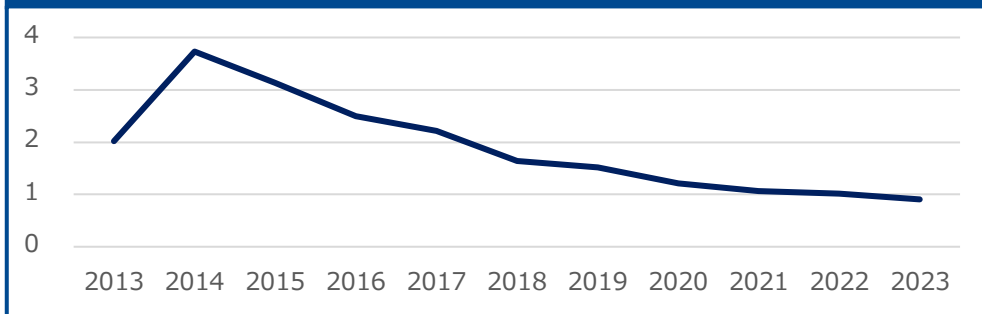
- PBR and stock price are in downward trend.

## PER/PBR trend

### PER (multiple)

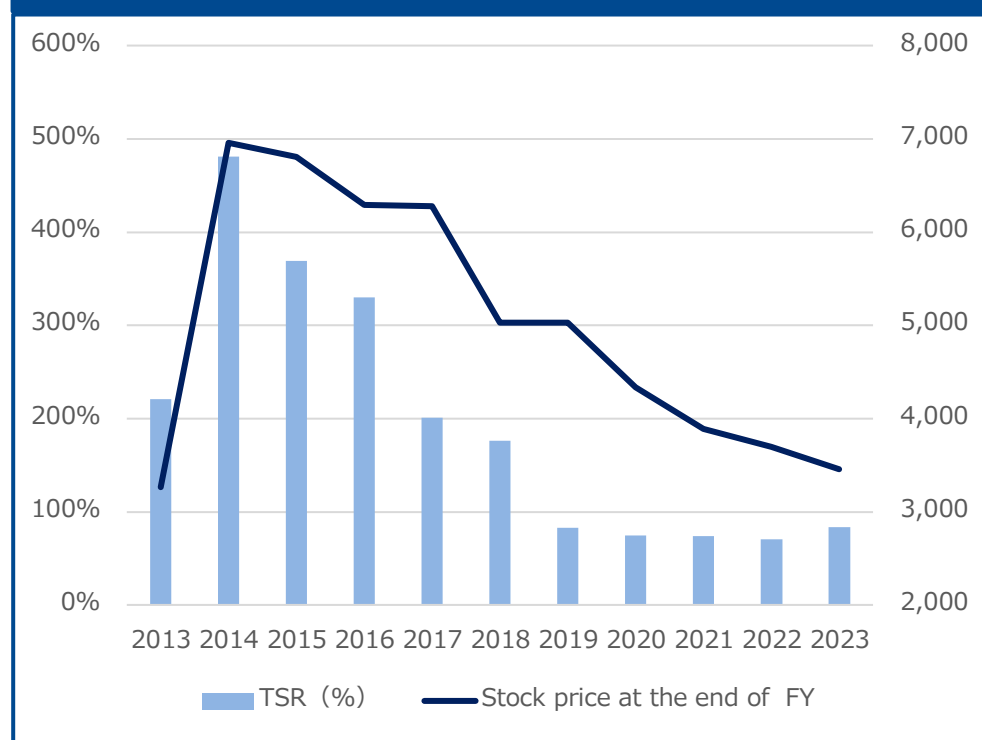


### PBR (multiple)



## TSR/stock price trend

### 5 year TSR (%) / stock price (Yen)





# Long-Term Issues to Achieve Sustainable Growth

- Implemented strategies to resolve long-term issues arose from analysis of past 10-year results

## Analysis of past 10-year results

Financial Performance	<ul style="list-style-type: none"><li>✓ <b>Net sales and operating profit</b> are <b>in downward trend</b> since FY2015</li><li>✓ ROE, 25.3% in FY 2015, declined as well</li></ul>
Investment	<ul style="list-style-type: none"><li>✓ Expansion of pipelines were limited <b>due to lack of reinvestments in new projects</b> during the time of recovering investment</li></ul>
In-licensing /R&D	<ul style="list-style-type: none"><li>✓ Discontinuation of projects under development expected to cover the patent cliff of Clenafin</li></ul>
Market Valuation	<ul style="list-style-type: none"><li>✓ PER and PBR at 23.92x and 3.73x, respectively, at its peak <b>also declined</b></li></ul>

## Long-term issues for sustainable growth

Research and Development	<ul style="list-style-type: none"><li>➤ Improve launch probability</li><li>➤ Expand pipelines</li><li>➤ Take on challenges in global R&amp;D</li></ul>
Overseas Expansion	<ul style="list-style-type: none"><li>➤ Strengthen our own overseas expansion</li></ul>
Management Base	<ul style="list-style-type: none"><li>➤ Human resource strategy</li><li>➤ DX strategy</li><li>➤ Production strategy</li></ul>

# VISION and Strategy for Long-Term Business Plan 2031

## VISION

1. A company that contributes to longer healthy life expectancy by developing and supplying innovative new drugs in a speedy manner.
2. A research-based pharmaceutical company with a global presence, primarily in the areas of dermatology and orthopedics.

## Strategy for achieving the VISION

“3Xs”

~ Three Transformations ~



# Strategy of Long-Term Business Plan 2031

## “3Xs” ~Three Transformations~

<b>1<sup>st</sup> X</b>	<b>R&amp;D Transformation</b>	<ol style="list-style-type: none"><li>1. Utilize KAKEN’s own research base</li><li>2. Expand into new therapeutic areas</li><li>3. Take on challenges in new modalities</li><li>4. Actively invest in research and development</li></ol>
<b>2<sup>nd</sup> X</b>	<b>Overseas Expansion Transformation</b>	<ol style="list-style-type: none"><li>1. Enhance line-up of global products from in-house drug discovery and licensing of products already commercialized or under development</li><li>2. Maximize the value of global products through our own development and commercialization overseas</li></ol>
<b>3<sup>rd</sup> X</b>	<b>Management Base Transformation</b>	<ol style="list-style-type: none"><li>1. Develop human resources capable of pursuing transformation as professionals and improve the working environment</li><li>2. Create a corporate culture capable of continuous transformation by utilizing data and digital technologies</li><li>3. Maximize product value and establish reliable and high-quality manufacturing capabilities from the viewpoint of “patients first”</li></ol>

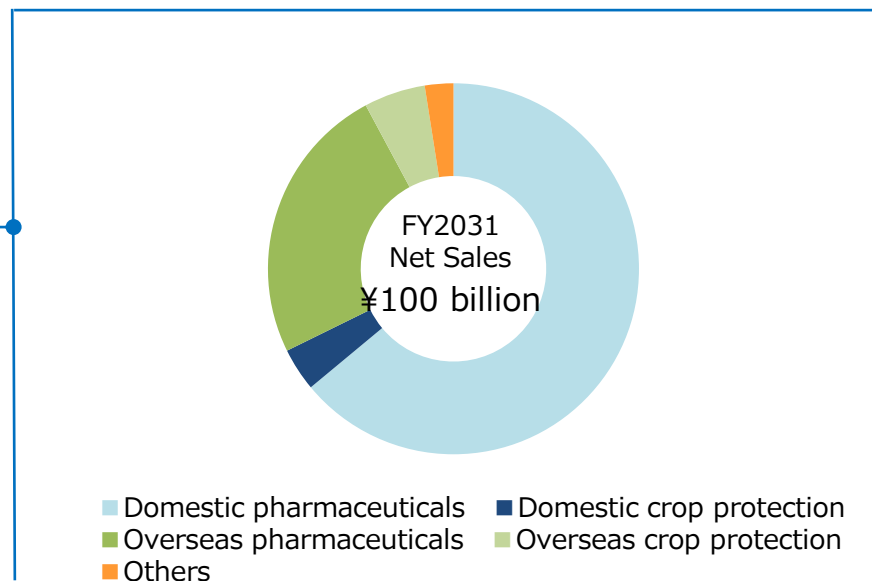
# Target KPIs of Long-Term Business Plan 2031

## Target KPIs

	(FY2026)	<b>FY2031</b>
<b>Net Sales</b>	¥80 billion	<b>¥100 billion</b>
<b>Operating Profit</b>	¥18 billion	<b>¥28.5 billion</b>
<b>ROE</b>	8% or higher	<b>10% or higher</b>
<b>Overseas Sales Ratio</b> *	10% or higher	<b>30% or higher</b>

\* Total of pharmaceuticals and agrochemicals

## Targeted Sales Breakdown



## Investment and Shareholder Return Policy

<b>Strategic Investment</b>	◆ ¥200 billion or more over the 10 years of the plan
<b>Shareholder Returns</b>	◆ Continuous and stable dividends ◆ Flexible share buybacks

# Strategic Investment in Long-Term Business Plan 2031

- Utilize cash as the priority source of strategic investment at ¥200 billion

	Target	Investment Policy	Amount ~FY2031
R&D Expenses*	Pharmaceuticals	<ul style="list-style-type: none"> <li>➤ Expand pipelines to increase net sales</li> <li>➤ Relieve timing gap between recovery of investment and reinvestment in new projects</li> </ul>	¥120 billion
	Crop Protection	<ul style="list-style-type: none"> <li>➤ Targeting ¥10 billion net sales in FY2031, mainly in Polyoxin</li> </ul>	
In-licensing/M&A etc.	In-licensing/M&A	<ul style="list-style-type: none"> <li>➤ Increase in-licensing projects through expanding target areas -&gt; Rare diseases as new therapeutics area</li> <li>➤ Increase in-licensing opportunities through investment in funds</li> </ul>	¥80 billion
	Overseas Expansion	<ul style="list-style-type: none"> <li>➤ Establish our own marketing capabilities in the US for KP-001</li> <li>➤ Secure and expand new global products</li> </ul>	

\* include Capital expenditures and DX investments

# “Road Map” for Strategic Investment

- Conduct strategic investment setting milestones in FY2026.

Target		Target KPIs for FY2031	Target KPIs for FY2026 (milestones)
R&D Expenses*	Pharmaceuticals	<ul style="list-style-type: none"> <li>➢ Secure projects under development capable of launching eight new products over the 10years of the plan (maintain at least six projects in Phase I or later phases at any given time)</li> <li>➢ Shorten the period from drug discovery to NDA by two-thirds</li> <li>➢ Increase launch frequency of products by three times</li> </ul>	<ul style="list-style-type: none"> <li>➢ six projects in Phase I or later phases</li> <li>➢ Try new processes in each project to accelerate NDA period</li> <li>➢ Start projects planned with new drug discovery methods and modalities</li> </ul>
	Crop Protection	<ul style="list-style-type: none"> <li>➢ Achieve ¥10 billion in net sales</li> </ul>	<ul style="list-style-type: none"> <li>➢ ¥7.0 billion or more in net sales (including ¥3.5 billion or more in Polyoxin sales)</li> <li>➢ Preparation of manufacturing platform for active ingredients for fermentation agrochemicals</li> </ul>
In-licensing/M&A etc.	In-licensing/M&A	<ul style="list-style-type: none"> <li>➢ Secure 10 in-licensed products over the 10 years of the plan (including five for overseas development)</li> </ul>	<ul style="list-style-type: none"> <li>➢ Secure at least one in-licensed product every year</li> <li>➢ Secure products that can be launched or contribute to sales by FY2026 -&gt; preparation to cover the patent cliff of Clenafin</li> </ul>
	Overseas Expansion	<ul style="list-style-type: none"> <li>➢ Consider to establish our own overseas sales and marketing operations</li> </ul>	<ul style="list-style-type: none"> <li>➢ Establish our own system for conducting clinical study in the US from Japan using global CRO</li> <li>➢ Start in-house manufacturing of investigational drug and commercial products for KP-001</li> <li>➢ Determine the possibility of opening an office in the US</li> </ul>

\* include Capital expenditures and DX investments

# What Kaken Aim for

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Kaken aim to increase mid- to long-term corporate value through execution of strategies to achieve VISION for Long-Term Business Plan 2031

- ❑ Achieve ROE target of 10% through allocating cash as priority source for strategic investment and continuous launch of revolutionary drugs
- ❑ Reduce cost of capital and expand pipelines to improve PER



**Realize PBR of 1.0x or higher**

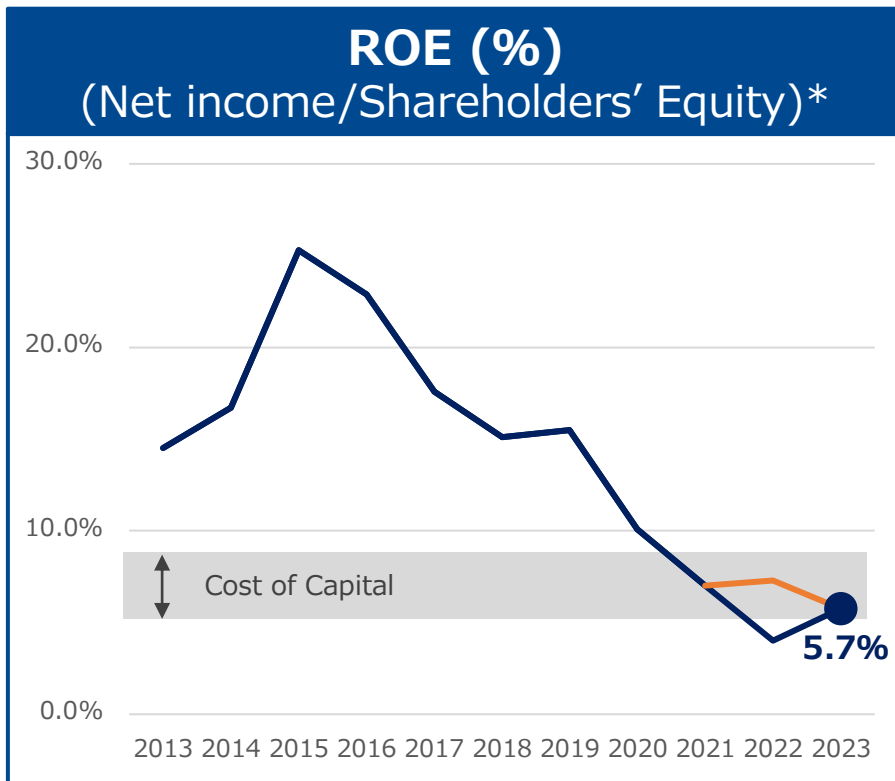
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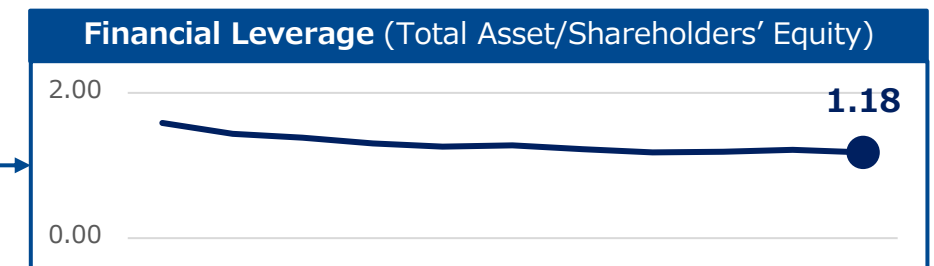
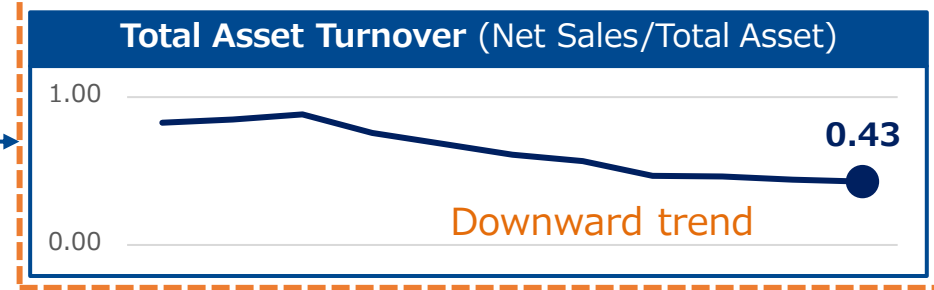
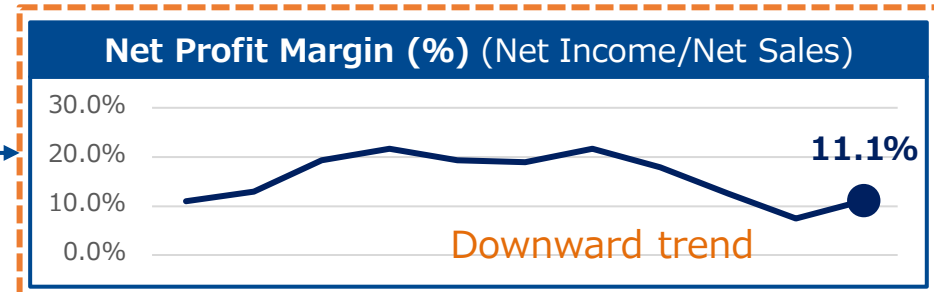


# Analysis | ROE

- Under DuPont Analysis, ROE is in downward trend as a result of decline in net profit margin and total asset turnover



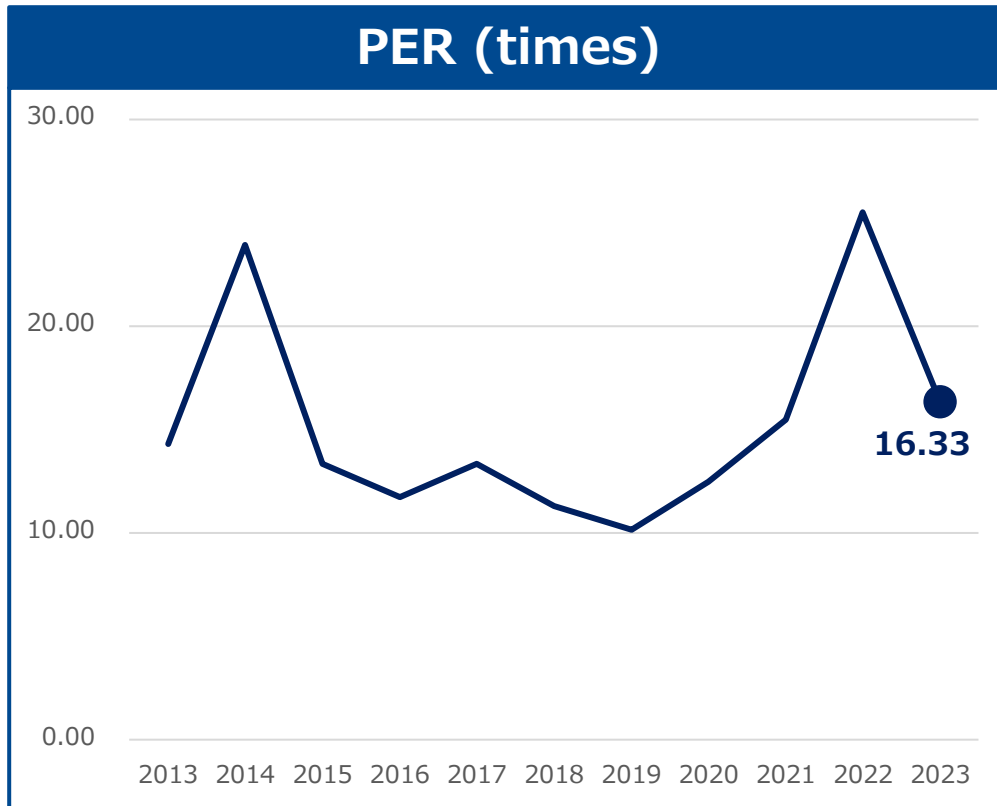
Long-Term Business Plan 2031 target  
ROE in FY2031: 10%



\* Orange line describe ROE calculated excluding the impact of one-time in-licensing fees

# Analysis | PER

## ■ PER fluctuates in low teens



### Reference

- Average PER as of March 2024

Prime section (Manufacturing) 20.4x

Prime section (Pharmaceutical) 23.3x

Source: Japan Exchange Group Data & Statistics

## PER

PER had fluctuated in low teens since the launch of Clenafin.

PER is in lower level compared to average PER of pharmaceutical companies in Prime market.

## Cost of capital

We understand the cost of capital is lower than our target ROE of 10%. In order to improve PER, it is necessary to expand pipelines and lower cost of capital through sustainability management, enhance disclosures and communication with investors.

# Actions to Improve PBR Based on the Current Analysis and Assessment

- We take actions to resolve issues to achieve ROE and PER target.

## Analysis / Assessment

## Initiatives

Target  
FY2031

ROE

- ✓ Profitability is in downward trend since no new high margin drugs had not been launched
- ✓ Total asset turnover is in downward trend and could not spend cash effectively.

- **Pursue 3Xs strategy to expand pipelines** and increase net sales and profits
- **Prioritize strategic investment** based on cash flow allocation\*
- Set **reduction policy of cross-shareholdings**
- Communication with investors by Corporate Communications Department
- Reset materiality issues and investors' meeting on sustainability
- Revision of stock compensation plan and director's compensation plan

10% or higher

PER

- ✓ PER fluctuated in low teens since the launch of Clenafin. Not enough expansion of pipelines and disclosures were made to attract the market.

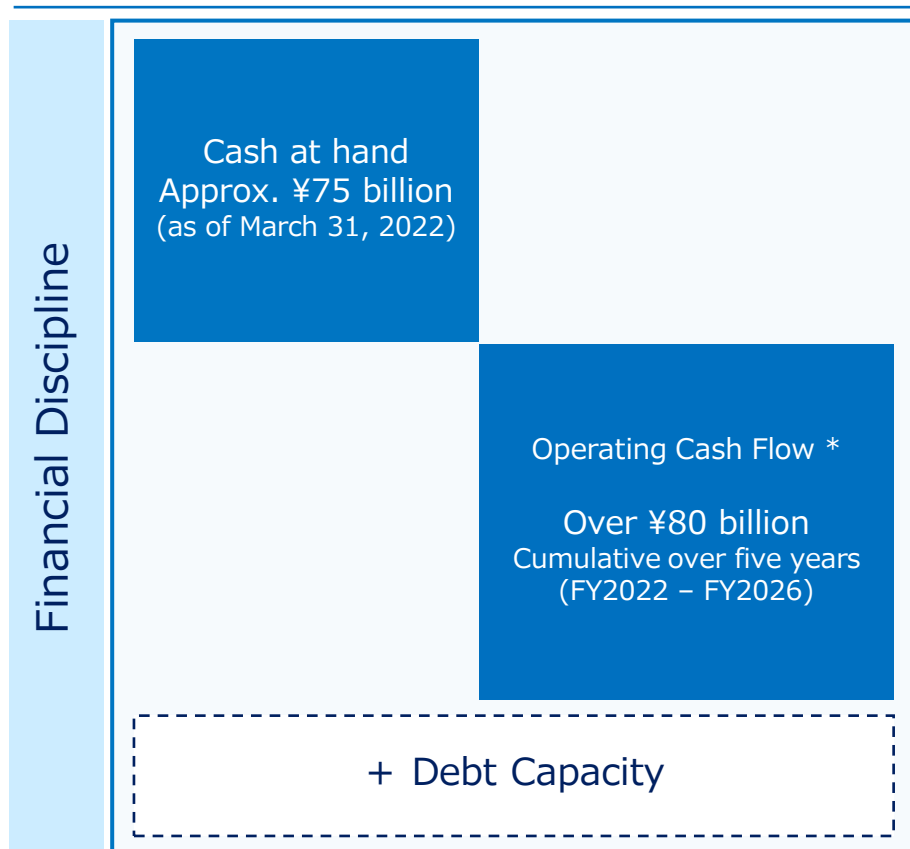
- \* Communicated with investors based on ROE calculated by excluding the impact of one-time in-licensing fees from profit
- \* Utilize cash as priority source of strategic investment
- \* Consider debt borrowing when its necessary

Further improvement  
(lowering cost of capital)

# Cash Flow Allocation (~FY2026)

- Taking financial discipline into account, we will utilize cash as the priority source of strategic investment

## Cash at hand and operating cash flow



## Cash flow allocation

<b>Strategic Investment</b>	R&D Investment (incl. CapEx and DX Investment)	Around ¥70 billion FY2022 - FY2026  ( ¥120 billion FY2022 – FY2031 )
	In-licensing, M&A, etc.	Around ¥30 billion FY2022 - FY2026  ( ¥80 billion FY2022 – FY2031 )
<b>Shareholder Returns</b>	Shareholder Return Policy	Dividend Payout Ratio: 30% or higher Shareholder Return Ratio: 50% or higher **
	Dividends	Continuous and stable dividends in consideration of current level
	Share Buybacks	Flexible share buybacks

\* Cumulative operating cash flow is calculated excluding R&D investment and one-time fees for in-licensing.

\*\* Dividend payout ratio and shareholder return ratio are calculated excluding one-time fees for strategic investment from profit attributable to owners of the Company

# Reduction Policy on Cross-Shareholdings

- Newly implemented reduction policy including scale and timeframe

## Guideline on cross-shareholdings

### CG Code Principle 1-4

- With regards to cross-shareholdings, we hold shares when we determine the shareholdings would improve our corporate value in mid- to long-term perspective in consideration of corporate strategy and maintain and strengthen our relationship. Otherwise, we will reduce the holding appropriately.
- The board assess whether the benefits and risks from each holding qualitatively and quantitatively in consideration of meanings, merits and risks together with economics, including cost of capital, at the board meeting every year.

## Reduction Policy

**Reduce 30% compared to  
March 2024 within 5 years**

# Progress on Strategic Investment (~FY2023)

## ■ R&D and in-licensing are making progress steadily

	Target	Target KPIs for FY2031	Target KPIs for FY2026 (milestones)	Results
R&D Expenses*	Pharmaceuticals	<ul style="list-style-type: none"> <li>➢ Secure a development pipeline capable of launching eight new products over the 10 years of the plan (maintain at least six projects in Phase I or later phases at any given time)</li> <li>➢ Shorten the period from drug discovery to NDA by two-thirds</li> <li>➢ Increase launch frequency of products by three times</li> </ul>	<ul style="list-style-type: none"> <li>➢ six projects in Phase I or later phases</li> <li>➢ Try new processes in each project to accelerate NDA period</li> <li>➢ Start projects planned with new drug discovery methods and modalities</li> </ul>	<ul style="list-style-type: none"> <li>➢ <b>Launched 1 product</b> (NexoBrid)</li> <li>➢ <b>Increase in number of projects under development</b> FY2022: 8 projects FY2023: 8 projects</li> </ul>
	Crop Protection	<ul style="list-style-type: none"> <li>➢ Achieve ¥10.0 billion in net sales</li> </ul>	<ul style="list-style-type: none"> <li>➢ ¥7.0 billion or more in net sales (including ¥3.5 billion or more in Polyoxin sales)</li> <li>➢ Preparation of manufacturing platform for active ingredients for fermentation agrochemicals</li> </ul>	<ul style="list-style-type: none"> <li>➢ Overseas expansion: processing as planned</li> <li>➢ Strengthen manufacturing capacity: decided investing in new facility</li> </ul>
In-licensing/M&A etc.	In-licensing/ M&A	<ul style="list-style-type: none"> <li>➢ Secure 10 in-licensed products over the 10 years of the plan (including five for overseas development)</li> </ul>	<ul style="list-style-type: none"> <li>➢ Secure at least one in-licensed product every year</li> <li>➢ Secure products that can be launched or contribute to sales by FY2026 ⇒preparation to cover the patent cliff of Clenafin</li> </ul>	<ul style="list-style-type: none"> <li>➢ <b>In-licensed two projects in two years</b> (Seladelpar, Tildacerfont)</li> <li>➢ <b>Succession of 2 products with manufacture and sales approval</b></li> <li>➢ <b>No in-licensing of projects expected to launch by FY2026</b></li> </ul>
	Overseas Expansion	<ul style="list-style-type: none"> <li>➢ Consider to establish our own overseas sales and marketing operations</li> </ul>	<ul style="list-style-type: none"> <li>➢ Establish our own system for conducting clinical study in the U.S. from Japan using global CRO</li> <li>➢ Start in-house manufacturing of investigational drug and finished products of KP-001</li> <li>➢ Determine the possibility of opening an office in the U.S.</li> </ul>	<ul style="list-style-type: none"> <li>➢ Development, Regulatory Affairs: processing as planned</li> <li>➢ Manufacturing: processing as planned</li> <li>➢ Own sales and marketing operations: under consideration of advance form</li> </ul>

\* include CapEx and DX investments

# Communication with Shareholders and Investors

- Conducted communication with shareholders and investors through investor meeting and individual meeting

## Number of investors meeting conducted

FY2023: 38 times (28 investors)

## Main attendants

### Investor meetings

All directors  
(excluding outside directors)

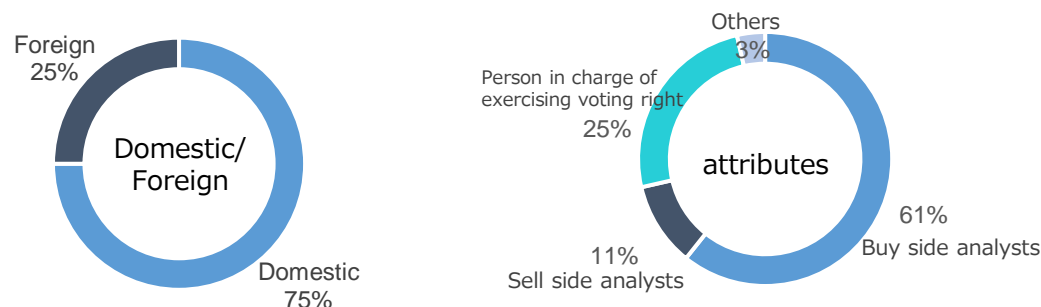
### Individual meetings

Director in charge of investor relations  
GM of Corporate Communications Department

### Shareholders meeting

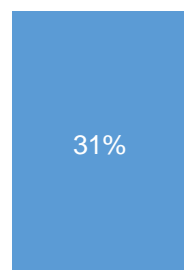
All directors and audit & supervisory board members

## Attribute of investors \*



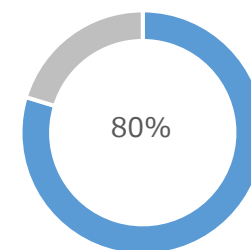
## Dialogue with shareholders

Covers approx. 30% of shares issued \*\*



dialogue and meeting held (vs. shares issued)

Held dialogue with approx. 80% of domestic financial investors \*\*\*



\* include sell side analysts

\*\* include domestic and foreign financial investors, business companies and financial institutions

\*\*\* percentage represents shares held by domestic financial investors

# Communication with Shareholders and Investors

- Feedbacks are made to board members for opinions from shareholders and investors

## Major topics and themes in the meeting

- ✓ Earnings forecast and market environment
- ✓ Progress of projects under development
- ✓ Growth strategies and R&D principles
- ✓ Progress on Long-Term Business Plan 2031
- ✓ Policies on investment and shareholder returns
- ✓ Status on ESG Activities
- ✓ Expectation on expansion of disclosures and IR activities

## Feedbacks made

Internal discussion

- Exchange information with management on specific topics when necessary
- Give feedbacks to board members the topics and themes of the meetings semi-annually

Utilize outside specialist

- Held perception survey by outside specialist and gave feedbacks of the outcome to board members in FY2023



# Revision of stock compensation plan and director's compensation plan

- In order to achieve VISION of Long-Term Business Plan 2031, director's compensation plan and stock compensation plan were revised to pursue strategic investment and to increase mid- to long-term corporate value

Director's compensation	Segment	Until FY2023	FY2024 and after
	Evaluation Index	(1) Consolidated operating income (2) Consolidated net income	(1) Consolidated net sales (2) Adjusted consolidated operating income * (3) Number of in-licensing and M&A (4) Number of projects under development
	comparison	Previous year result	target

## Key points of revision

- Changed comparison method from previous year result to target
- Incorporated new evaluation index for director's compensation to focus more on pursuing strategic investment implemented in the Long-Term Business Plan 2031

\* Excluding the impact of one-time in-licensing fees for strategic investment from operating income

Stock compensation	Evaluation index for FY2024 and after		weight
	TSR (3 years) ✓ Compare with "TOPIX-17 Pharmaceutical"		25%
	Adjusted ROE ✓ Excluding the impact of one-time in-licensing fees for strategic investment from profit attributable to owner of the company projects under development which obtained PoC ✓ PoC obtained: validity of new drug is demonstrated under clinical trial		25%
	Employee engagement ✓ Gauge "job satisfaction" of employees using the positive response rate of measurement system		25%

- incorporated new evaluation index of TSR and non-financial index (employee engagement) revised from net sales and operating income for stock compensation
- In addition, incorporated pipelines and human capital which are key aspects for improvement of mid- to long-term corporate value