

# Financial Strategy and Medium-to Long-Term Investment Policy

## Advancing R&D and Strategic Investments to Create Corporate Value with a Robust Financial Capital Base

ONO grew significantly with the launch of OPDIVO, which has been recognized as a ground-breaking anti-cancer drug. However, with OPDIVO's patent expiration approaching in 2031, we have been executing a medium-term management plan since FY2017 to ensure sustained growth beyond this period. This medium-term management plan divides the 15 years from FY2017 to FY2031 into three five-year phases and outlines strategies for global growth as we aim to become a Global Specialty Pharma that delivers innovative drugs to the world.



**Masaki Itoh**

Corporate Officer / Division Director,  
Corporate Strategy & Planning,  
Business Management Division

Material Issues	7 Strengthening of Financial Capital	
<b>Vision over the medium- to long-term</b> <ul style="list-style-type: none"> <li>Based on our corporate philosophy, "Dedicated to the Fight against Disease and Pain," we strive to maintain and expand a robust financial base that leads to drug discovery, with the aim of becoming a Global Specialty Pharma that creates innovative new drugs that truly benefit patients, and responds to unmet medical needs.</li> </ul>		<b>Indicators</b> (FY2022 to FY2026) <ul style="list-style-type: none"> <li>Revenue CAGR: In the high single digits: 39.1% for FY2021</li> <li>Operating profit to revenue ratio: Maintain 25% or higher: 31.8%</li> </ul>
		<b>FY2023 Evaluation</b> <ul style="list-style-type: none"> <li>○</li> <li>○</li> </ul>

## Financial Policy

Currently, we are in the second medium-term management plan and our four growth strategies are "Maximization of product value – from a patient-centered perspective –" "Reinforcement of pipelines and acceleration of global development," "Realization of direct sales in the U.S. and Europe," and "Expansion of business domains." In addition to these, we are engaged in both the financial and non-financial activities of "corporate transformation through Digital & IT" and "expansion of intangible assets," the management infrastructures to support growth strategies. We invest the funds generated from our business activities in these growth strategies. [Long-term vision and four growth strategies → See p. 18](#)

As a pharmaceutical company centered on drug discovery, it is important to have a growth strategy that takes a medium- to

long-term perspective, rather than a short-term perspective, in order to continuously create new drugs. Financial strategy, therefore, requires maintaining a stable financial foundation and a sound and strong balance sheet to support this growth. Additionally, stable shareholder returns must be provided to investors. Therefore, in order to provide stable shareholder returns, we announced a progressive dividend policy and a target payout ratio of 40% from FY2024. We have also been conducting share buybacks as needed, and will continue our financial activities by balancing investment, shareholder returns, and a stable financial foundation.

### Growth strategy targets (FY2022–2026)

	FY2021 Result	FY2022 Result	FY2023 Result	FY2024 Forecast	FY2026 Target
Revenue (¥ billion)	361.4	447.2	502.7	450.0	Revenue CAGR High single-digit
Operating profit margin (% of revenue)	28.6	31.7	31.8	27.1	Maintain 25% or higher
R&D expenses (¥ billion)	75.9	95.3	112.2	112.0	—
R&D expense ratio (% of revenue)	21.0	21.3	22.3	24.9	20~25%

\*Compared to FY2021

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Cash Allocation Policy

Cash allocation has progressed largely in line with the scenario in the second medium-term management plan launched in FY2022. We have allocated 600 billion yen from accumulated profits and newly generated cash to R&D investment and have been operating with the intention of utilizing the remaining significant investment capacity as a strategic investment framework. As such, we have allocated 250 billion yen towards enhancing the drug discovery business, expanding business domains, and reinforcing the management foundation.

In the short to medium term, the Financial Division is working to visualize surplus funds while balancing activities to maximize product value, R&D, and shareholder returns. This approach allows for quick responses to investment opportunities to strengthen our pipeline. Additionally, we will generate cash reserves by promoting the liquidity of cross-shareholdings in the medium to long term.

We expect to achieve the growth strategies outlined in the medium-term management plan by steadily executing investment plans through such cash allocation. In particular, we have

made “realization of direct sales in the U.S. and Europe” a reality through ONO-4059 in-house drug discovery and M&A, and are also steadily securing assets for the direct marketing of multiple products in the U.S. and Europe.

**R&D Investment**

In FY2023, R&D expense reached 112.2 billion yen, exceeding 100 billion yen for the first time. This is nearly double the 57.5 billion yen at the start of the medium-term management plan in FY2017, and activities to expand the new drug pipeline leveraging our strong R&D capabilities are progressing well. Growth investments are not only focused on strengthening the drug discovery business but also include investments in business domain expansion and strengthening the management foundation. In June 2024, we acquired the US venture Deciphera Pharmaceuticals for approximately USD 2.4 billion (about 380 billion yen), further expanding our pipeline and steadily strengthening our direct sales system in the U.S. and Europe.

Returns and TSR Considering Capital Costs

As a listed company, our investment decisions have traditionally been based on the cost of equity capital as the hurdle rate. Regarding the cost of equity capital, in addition to the CAPM-based approach, we work to increase corporate value while recognizing the cost of implied capital, which reflects investor expectations. We anticipate that the years following the major acquisition in FY2024 will be challenging in terms of performance until the results of the M&A materialize. However, we have announced a progressive dividend policy to maintain the current level of shareholder returns and dividend policy.

We recognize that TSR is an important metric for investors as it reflects the results of their investments. We will increase income gains through a progressive dividend policy, targeting a payout ratio of 40%. At the same time, through enhancing fundamentals, engaging in vigorous IR activities, and other efforts to achieve sustainable corporate value growth, we aim to improve market evaluation and increase TSR.

<https://www.ono-pharma.com/en/company/strategy.html>

Sources of Cash and Allocation of Investments (FY2022-FY2026)

Sources of cash	Allocation of investments										
Newly generated cash	<table><tr><th>Measures</th><th>FY2023 initiatives</th></tr><tr><td>R&amp;D ¥600 billion scale</td><td><ul style="list-style-type: none"><li>• Capture global rights to pipeline products</li><li>• Collaborate to expand research pipeline</li><li>• Invest in drug discovery ventures</li></ul></td></tr><tr><td>Strategic investments ¥250 billion</td><td><ul style="list-style-type: none"><li>• Strategic investment to strengthen the drug discovery business, expand business areas, and strengthen the corporate infrastructure</li><li>• Create overseas bases</li><li>• Create healthcare businesses</li><li>• Invest in venture companies</li></ul></td></tr><tr><td>Shareholder return</td><td><ul style="list-style-type: none"><li>• Stable dividends distribution and flexibly considering share buybacks</li><li>• Increase in annual dividend per share of ¥10 (¥70 → ¥80)</li></ul></td></tr><tr><td>Funds on hand</td><td><ul style="list-style-type: none"><li>• Capacity to invest to further increase corporate value</li><li>• M&amp;As for drug discovery and technology ventures</li></ul></td></tr></table>	Measures	FY2023 initiatives	R&D ¥600 billion scale	<ul style="list-style-type: none"><li>• Capture global rights to pipeline products</li><li>• Collaborate to expand research pipeline</li><li>• Invest in drug discovery ventures</li></ul>	Strategic investments ¥250 billion	<ul style="list-style-type: none"><li>• Strategic investment to strengthen the drug discovery business, expand business areas, and strengthen the corporate infrastructure</li><li>• Create overseas bases</li><li>• Create healthcare businesses</li><li>• Invest in venture companies</li></ul>	Shareholder return	<ul style="list-style-type: none"><li>• Stable dividends distribution and flexibly considering share buybacks</li><li>• Increase in annual dividend per share of ¥10 (¥70 → ¥80)</li></ul>	Funds on hand	<ul style="list-style-type: none"><li>• Capacity to invest to further increase corporate value</li><li>• M&amp;As for drug discovery and technology ventures</li></ul>
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\*In June 2024, we acquired Deciphera Pharmaceuticals based on our strategic investment and capacity for further enhancing corporate value.

Investment in Talent to Create Significant Added Value

In an era of digital transformation and rapidly changing industrial structures, human capital and other intangible assets are becoming key factors that determine a company’s competitive advantage. We therefore recognize that the focus of shareholders and investors is shifting from tangible assets to the expansion of intangible assets. Among these, human capital is particularly emphasized, and we invest heavily in researchers at our research institutes and other human resources. We dispatch researchers to world-class universities and research institutions both in Japan and overseas, where they accumulate valuable experience in drug discovery while continuously learn cutting-edge science, technology, and drug discovery methods

through interactions with top scientists. We believe that these activities enable us to bring in external capital, enhance our research and development capabilities, and ultimately increase our intellectual capital, leading to significant achievements.

Our efforts to increase intangibles assets in our capacity as those responsible for finance include activities related to research and development platforms, sales organizations, talent acquisition, and M&A. Moving forward, we will collaborate with the business strategy department on cash generation and its management in order to overcome the patent expiration of OPDIVO in 2031 and achieve further growth.

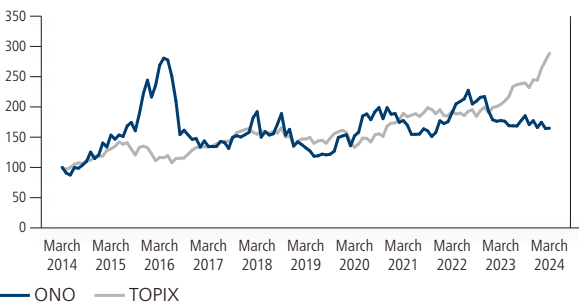
Cash Management for Growth and Corporate Value Creation and the Mission of the Finance Department

It is essential to strengthen financial capital to support investments for growth in order to achieve growth and increase corporate value. Cash management, based on medium-term capital allocation that supports investment activities and shareholder returns, is important. This requires maximizing income and optimizing expenses, as well as cash management constantly considering the appropriate cash position for the entire Group.

A foundation for creating value is important to generate sustainable growth and provide society with value, such as innovative drugs. We consider digital technology and IT that

contributes to corporate transformations; stronger financial capital, the resource for growth; greater human resources who contribute to transforming the Company into a Global Specialty Pharma; an intellectual property strategy, which is indispensable for a pharmaceutical company; and partnerships with parties outside the Company, which includes open innovation, the life-line for corporate growth, as this foundation, and focus on achieving each one. In this context, we believe that strengthening financial capital, which is the source of growth, is an important mission entrusted to the finance department.

Total Shareholder Return (TSR)

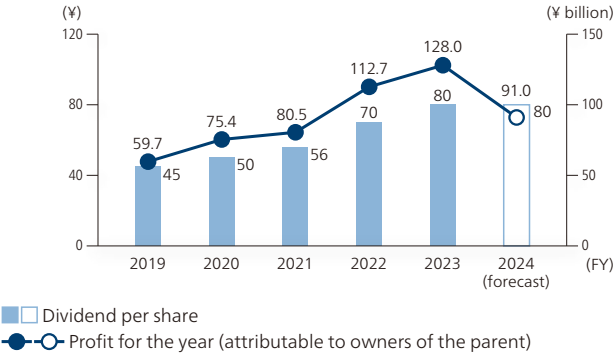


Stock Performance (Total Shareholder Return)

	1-year	3-year	5-year	10-year
	Cumulative	Annual	Cumulative	Annual
ONO	-8.3	-7.9	-2.7	+27.0
TOPIX	+41.3	+52.5	+15.1	+96.2

- Total Shareholder Return (TSR): Total return to shareholders. Total return on investment including capital gains and dividends
- TSR is calculated based on the cumulative dividends and stock price for ONO and based on the stock price index including dividends for TOPIX (created based on Bloomberg data)
- Graph values are indexed to the market value by TSR with the closing price data at the end of March 2014 as 100 (holding period is until the end of March 2024)
- Returns are expressed as a percentage change in the initial investment amount, which is commonly used to measure return on investment.

Shareholder Returns



Fiscal year	2019	2020	2021	2022	2023	2024 (planned)
Total dividends (¥ billion)	22.5	25.0	27.7	34.2	37.9	41.3
Payout ratio (%)	38.0	33.1	34.5	30.3	30.0	41.3
Share buybacks (¥ billion)	29.6	—	30.0	—	50.0	—
Total return ratio (%)	87.2	33.1	71.6	30.3	69.1	—