PRESSRELEASE

SHIONOGI

Notice Regarding Actions to Achieve Management Conscious of Capital Costs and Stock Prices

OSAKA, Japan, October 29, 2024 - Shionogi & Co., Ltd. (Head Office: Osaka, Japan; Chief Executive Officer: Isao Teshirogi, Ph.D.) announced that at the Board of Directors meeting held on October 28, 2024, the company analyzed its current situation and decided on future policies to achieve management that is conscious of capital costs and stock prices. Please refer to the attached document for details.

Forward-Looking Statements

This announcement contains forward-looking statements. These statements are based on expectations in light of the information currently available, assumptions that are subject to risks and uncertainties which could cause actual results to differ materially from these statements. Risks and uncertainties include general domestic and international economic conditions such as general industry and market conditions, and changes of interest rate and currency exchange rate. These risks and uncertainties particularly apply with respect to product-related forward-looking statements. Product risks and uncertainties include, but are not limited to, completion and discontinuation of clinical trials; obtaining regulatory approvals; claims and concerns about product safety and efficacy; technological advances; adverse outcome of important litigation; domestic and foreign healthcare reforms and changes of laws and regulations. Also for existing products, there are manufacturing and marketing risks, which include, but are not limited to, inability to build production capacity to meet demand, lack of availability of raw materials and entry of competitive products. The company disclaims any intention or obligation to update or revise any forward-looking statements whether as a result of new information, future events or otherwise.

For Further Information, Contact:

SHIONOGI Website Inquiry Form: https://www.shionogi.com/global/en/contact.html

Actions to Achieve Management that is Conscious of Capital Costs and Stock Prices

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Actions to Achieve Management that is Conscious of Capital Costs and Stock Prices

In order to increase corporate value, we have formulated a management strategy based on our high drug discovery capabilities, and to achieve this, we will promote IR activities led by the management team regarding our expansion strategies into growth fields, financial strategy, and foundation strategy

Matters requested by the Tokyo Stock Exchange	Organization of this material
Analysis of Current Situation • Gain a proper understanding of the company's cost of capital and profitability • Analyze and evaluate the current situation around these and the market valuation at board of directors meetings	**Analysis of current situation (pp. 3-4)** Strong drug discovery capabilities through focus on specific fields have supported the strong performance of the royalty business and the domestic and overseas infectious disease business, and ROE has remained at a high level. On the other hand, the PER has stagnated. We aim to improve the PER and PBR through corporate communication designed to raise future expectations
Planning & Disclosure • Have the board of directors discuss and develop policies, targets, planning periods, and specific initiatives for improvement • Disclose clear information on these, along with assessment of the current situation, to investors	**Management strategy and financial and foundation strategies that support it (pp. 5-8)** (p. 5) Implement a portfolio strategy that leverages our strengths to tackle material issues and achieve STS2030 Revision (p. 6) Transform into a healthcare provider business based on stable income from drug discovery-based pharmaceutical business (p. 7) Implement cash allocation with an eye on business model expansion and shareholder return (p. 8) To expand our business model, we will improve our corporate functions, streamline our operations, and strengthen our management foundation.
Implementation of Initiatives • Push forward with management that is conscious of cost of capital and stock price, based on the disclosed plans • Engage in proactive dialogue with investors based on this disclosure	**Non-financial and IR strategies for increasing corporate value (pp. 9-14)** (p. 9) Transforming into a top-tier sustainability company by promoting sustainability activities based on dialogue results (pp. 10-11) Promote management that is transparent and fair to stakeholders while also utilizing incentives (p. 12) Increase resilience in business management by strengthening risk management (p. 13-14) Management will take the lead in stakeholder engagement and incorporate feedback gained through dialogue into corporate management to promote the enhancement of corporate and social value

Progress analysis
Disclosure updates

(Involvement of the Board of Directors)
The Board of Directors analyzes and evaluates this disclosure material, the medium-term business plan, portfolio strategy, the appropriateness of cross-shareholdings, etc.

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Analysis of Current Situation: Current Status of SHIONOGI

Strong drug discovery capabilities through focus on specific fields have supported the strong performance of the royalty business and the domestic and overseas infectious disease business, and ROE has remained at a high level. On the other hand, the PER has stagnated. We aim to improve the PER and PBR through corporate communication designed to raise future expectations

	FY2019	FY2020	FY2021	FY2022	FY2023
PBR	**2.1x**	**2.1x**	**2.3x**	**1.6x**	**1.8x**
PER	**13.4x**	**16.3x**	**19.9x**	**9.6x**	**13.9x**
ROE	**15.5%**	**13.9%**	**12.5%**	**17.8%**	**13.9%**

PBR = **PER** × **ROE**

PER

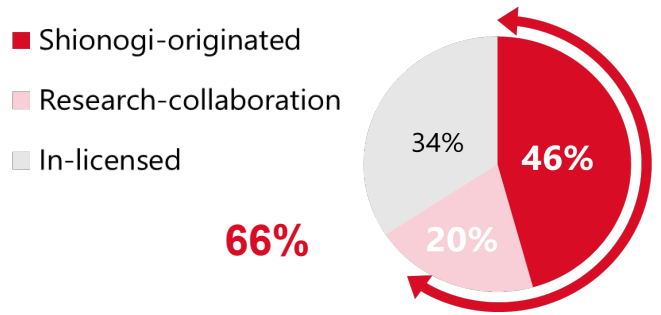
Aiming to increase PER by sending messages that raise future expectations

- **Management strategy** - Improving future growth expectations (Growth of earnings drivers, promotion of growth fields)
- **Financial strategy** - Visualization of growth investment
- **Foundation strategy** - Strengthening the management foundation
- **Non-financial strategies** - Improving non-financial value (Promoting sustainability activities and strengthening governance)
- **IR strategy** - Strengthening dialogue with investors

ROE

Strong drug discovery capabilities have led to strong performance of the royalty and infectious disease businesses, resulting in a high ROE

Original pipeline ratio* (as of June 2024)



Original pipeline ratio for typical pharmaceutical companies: 20 to 30%

* Ratio of development pipeline from in-house and collaborative research

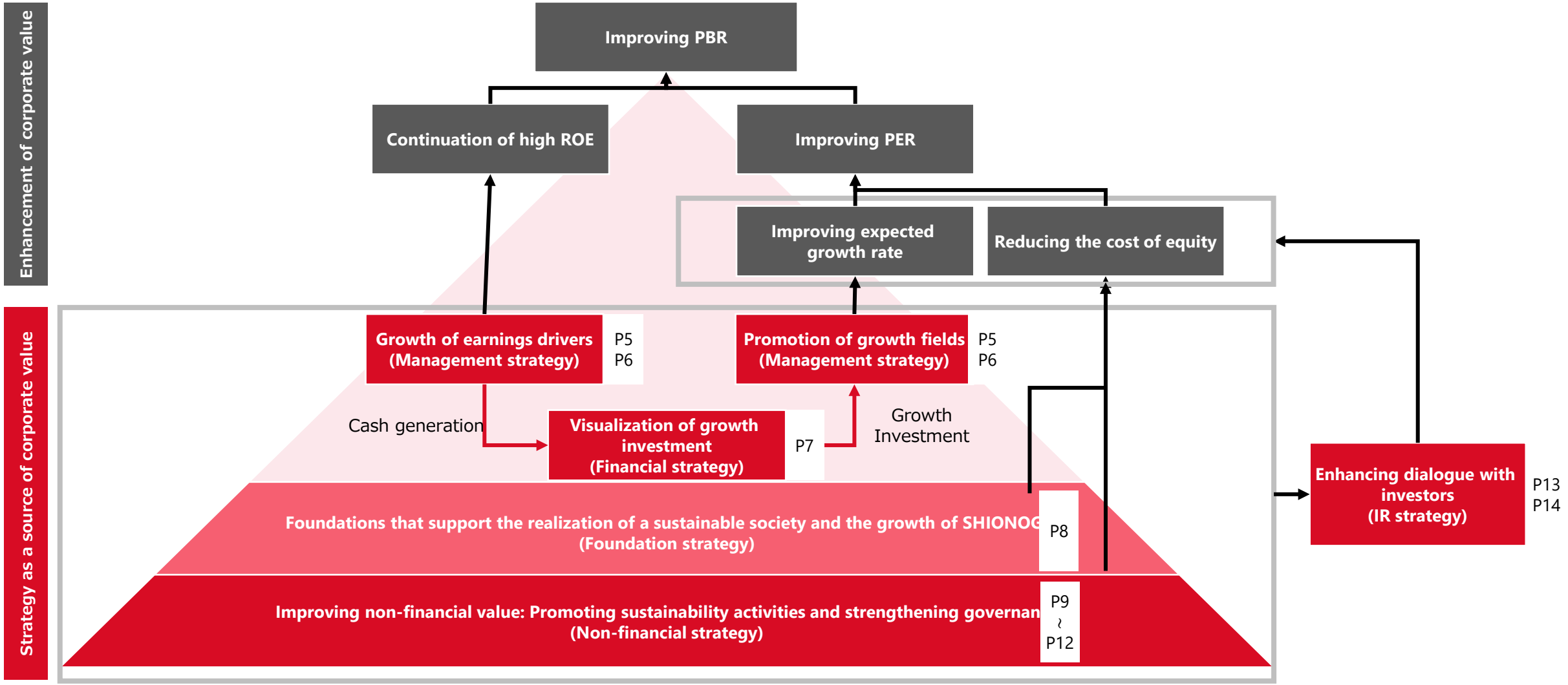
Earnings drivers

- **Royalty business**
- **Domestic business**
- **Overseas business driven by Cefiderocol**

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Analysis of Current Situation: Overall Strategy of SHIONOGI

A breakdown of the elements for improving PBR to consider and implement strategies for each element



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Management Strategy: Efforts to Achieve STS2030 Revision

By identifying material issues that need to be addressed in the long term and implementing a portfolio strategy that leverages SHIONOGI's strengths,we will work to achieve STS2030 Revision through step-by-step achievement of financial targets.

Material Issues

Create value by solving healthcare social issues	Protect people from the threat of infectious diseases	Create innovation
	Contribute to a healthy and prosperous life	Improved access to healthcare
Reduce negative impacts on customers and society	Supply socially responsible products and services	Respect human rights
	Strengthening supply chain management	Protect the environment
Foundations that support the realization of a sustainable society and the growth of SHIONOGI	Developing and securing human resources to support growth	Strengthening governance
	Ensure compliance	

SHIONOGI's strengths



Maintaining an original pipeline ratio of over 60%



Unrivaled knowledge and technology against infectious diseases



Realizing alliances with optimal partners



A source of support for sustainable growth and the creation of new values

STS2030 Revision

Contribute to solving healthcare-related social issues
Foundations that support the realization of a sustainable society and the growth of SHIONOGI and Reduce negative impacts on customers and society

Financial targets	Revenue	Overseas sales CAGR*	EBITDA
	800.0 B yen	15% *3	-

STS Phase2(~FY2025)

Financial targets	Revenue	Overseas sales CAGR*	EBITDA
	550.0 B yen	50%*2	200.0 B yen

SHIONOGI's portfolio strategy

Growth fields

- Expansion of overseas business
- Expansion of products other than prescription drugs
- Provision of new platform services

Earnings drivers

- Royalty business
- Domestic business
- Overseas business driven by Cefiderocol

* Excluding royalty income *2 Starting from FY2022 *3 Starting from FY2025

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Management Strategy: SHIONOGI's Diverse Business Models

Based on stable cash inflows from our earnings drivers, the royalty business and domestic and overseas infectious disease business, we will invest in various growth fields and evolve into a healthcare provider

Growth fields

Expansion of overseas business
Strengthen in-house sales of Cefiderocol, Xocova, etc., at overseas group companies to enhance business growth and profitability in each global region

Expansion of products other than prescription drugs
Stabilize the earnings of the entire group by promoting the OTC drug business, CDMO business, and vaccine business, which are relatively less dependent on patents and have relatively small revenue fluctuations, while creating synergies with existing businesses

Provision of new platform services
Through collaborative invention with diverse partners, which is one of SHIONOGI's strengths, we will actively promote the creation of total care platform business for infectious diseases and total care platform business for QOL diseases

Earnings drivers

Royalty business
SHIONOGI's core HIV business will continue to grow strongly and steadily.
Growth is expected to be driven by LA* and ULA formulations* [2]

* Long acting : Long-acting formulation
* [2] Ultra long acting: Ultra long-acting formulation



Dovato



Cabenuva

Domestic business
Expand in-house sales, mainly of pharmaceuticals in the infectious disease field, such as "Xocova" and "Xofluza."
Stabilize acute infectious disease business by having multiple infectious disease drugs



Xocova



Xofluza

Overseas business driven by Cefiderocol
Sales of "Cefiderocol" in Europe, the U.S., and Taiwan have increased revenue, and we aim to achieve further growth by expanding the number of countries where it is sold



Cefiderocol

Financial Strategy That Supports Management Strategy

Based on our management strategy, we will build a financial foundation necessary for growth investments to achieve "global top-line growth centered on the infectious disease field" and "business expansion in growth fields through aggressive investments"

Cash inflow

Liability approach

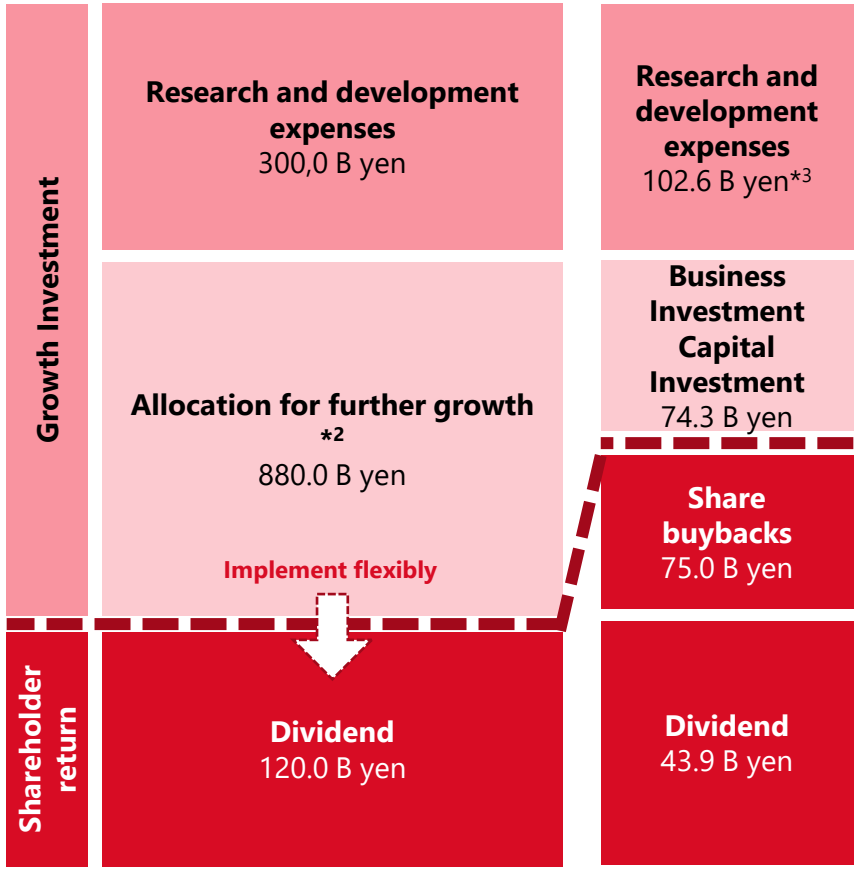
- Due to large profits from the high-risk patent business, we limit borrowings to the extent of fair value

Policy on cross-shareholdings

- Every year, the Board of Directors evaluates whether to continue to hold such shares and discloses the results of the evaluation
- Cross-shareholdings were reduced for 8 stocks in FY2023
- Selling will continue to fund growth investments

STS2030 Revision
FY2023-FY2025
Cash allocation funding source
1.3 T yen*

Cash outflow



R&D policy

- Proactively promoting R&D investments on a record scale to support our high original pipeline ratio
- Promoting R&D efficiency through effective use of CROs, innovation in clinical trial design, and utilization of government funding

Business investment policy

- Set hurdle rates for each business based on WACC and ensure investment decisions are in line with fair value

Shareholder return policy

- DOE target for FY2025 set at 4% or higher
  (FY2023 result: 4.0 %)
- Basic policy is to increase dividends for 14 consecutive fiscal years
- Implement flexible share buybacks depending on investment status and market conditions

* Cash on hand (excluding working capital) at the end of FY2023: Approx. 400 B yen + "3-year operating cash flow (before deductingR&D expenses)"

* 2 Capital investment (including system investment), business investment, etc.

* 3 R&D expenses are based on P&L

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Foundation Strategy That Supports Management Strategy

In order to evolve into a healthcare provider, we will strengthen our management foundation by implementing reforms to enhance corporate functions, while improving business efficiency

Enhancement of corporate functions

Enhancement of managerial accounting functions

・**Established a Business Administration Office in January 2023 to provide information to support decision making toward achieving STS2030 Revision.**

(Achievements)

・Implemented management reports that propose solutions, such as external environment analysis that enables appropriate decision making even in situations of high uncertainty, and future outlook and measures that can be considered based on the analysis

・Supported decision making by clarifying business risks and opportunities through the setting of investment criteria that considers the cost of capital and internal resource analysis

Strengthen global corporate functions

・**Redefined corporate functions in alignment with the globalization of business.**

・**Strengthened global strategy, global governance, and stakeholder engagement**

(Achievements)

・Building a foundation for the global expansion of SHIONOGI products by strengthening compliance with the laws and regulations of each country and responses to legal risks

・Placed the Finance & Accounting Department and the Human Resources Department under the Corporate Strategy Division to manage budgets and human capital utilization globally

Improving business efficiency

Improving efficiency of existing businesses

・**Transformation of HR, general affairs, and accounting/finance functions into shared services in 2023 (through a joint venture with Accenture)**

(Achievements)

・Thorough operational efficiency improvement, allocation of resources to new tasks, and improvement of employee expertise

・**Implementation of of SAMS (SHIONOGI Approval System 2020)**

(Achievements)

・Fully transparent decision-making process and increased speed of reaching decisions

Realization of Dx transformation

・**Business model & operation reforms:**
Improvement of drug discovery efficiency using AI, market inventory forecast, etc.

・**Creating value by promoting data utilization:**
Creating value by developing SaMD* and disease detection algorithms

(Achievements)

・Selected as a "Global Digital Transformation Partner" by the Ministry of Economy, Trade and Industry and the Tokyo Stock Exchange in 2023 and 2024

* Software as a Medical Device: Medical device programs aimed at diagnosing and treating diseases

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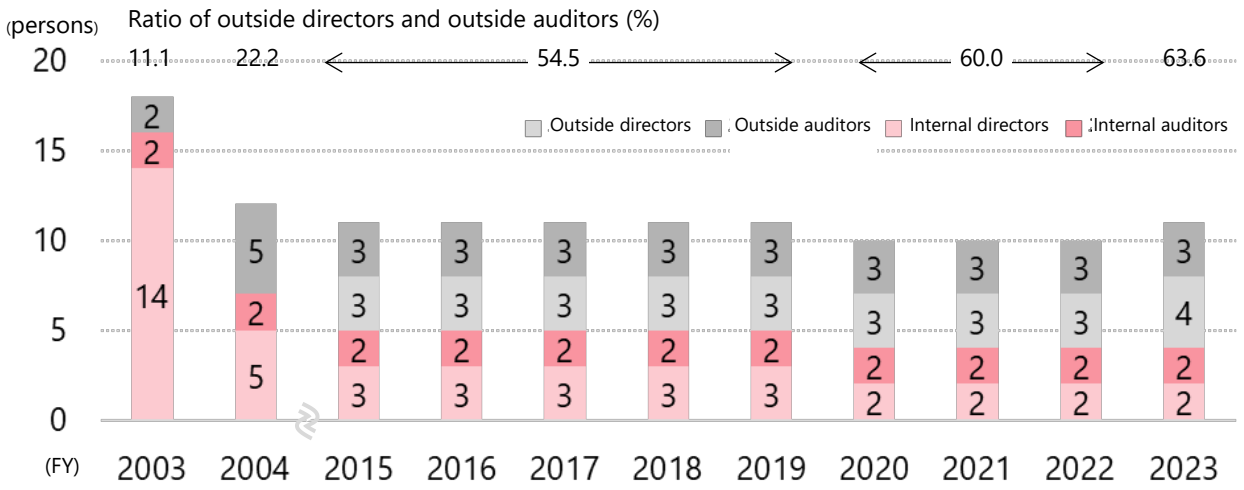
Non-financial Strategy for Corporate Value Enhancement: Reflecting It in Sustainability Activities

Transforming into a top-tier sustainability company by promoting sustainability activities from FY2019 onwards based on the results of stakeholder engagement and external evaluations

	FY2019	FY2020	FY2021	FY2022	FY2023
Group strategy	Identification of material issues	Reflecting it in the medium-term business plan	Reinforcement of integration into company-wide strategies Revision of material issues	Reflecting it in the medium-term business plan	Revision of materiality indicators
					Reevaluated appropriateness and realized further involvement of management
Development of a promotion framework	Launch of cross-organizational projects	Development of a governance structure	Reflecting ESG activities in officers' compensation	Revision of the skill matrix	Revision of officers' compensation
			Clarified management's commitment and responsibility	Revised the skills matrix needed for transformation into a HaaS company	
Implementation of activities	Strengthening response to external evaluations and questionnaires Analyzing and feeding back of evaluation results		Formulation and implementation of response plan based on the evaluation results		Revision of response policy to external evaluations
Information disclosure	Establishment of disclosure strategy framework	Development of disclosure media	Enhancement of disclosure		Start o sustainability briefings
			Expanded disclosure of corporate activities behind financial results, including issues		Created opportunities for two-way dialogue with outside directors and officers in charge

Non-financial Strategy for Corporate Value Enhancement: Reflecting It in Governance Structure

Promoting management that is fair and transparent to stakeholders in order to ensure fair management and meet the expectations of society, based on the results of stakeholder engagement



2000s	2010s	2020s
・Number of internal directors reduced to five from 14 ・Introduction of a corporate officer system ・Introduction of an outside director system ・Establishment of a Nomination Advisory Committee ・Establishment of a Compensation Advisory Committee ・Start of opinion exchanges with corporate auditors	・Majority passed to outside directors and outside auditors ・Start of Information sharing meetings with outside directors ・Appointment of a female director ・Changing composition of the Nomination Advisory Committee and the Compensation Advisory Committee (to majority of members now being outside directors)	・Appointment of an outside director as chairperson of the Board of Directors ・Increase in number of female directors ・Increase in proportion of women in the Board of Directors ・Performance review of the President conducted by the Nomination Advisory Committee

Current governance structure

・Ratio of outside directors and outside auditors (outside directors appointed to chair the Board of Directors and the committees below)

Board of Directors 67%, Nomination Advisory Committee 71%, Compensation Advisory Committee 71%

・Proportion of women on Board of Directors

Board of Directors 33%, Nomination Advisory Committee 29%, Compensation Advisory Committee 29%

・The effectiveness of the Board of Directors is evaluated using a third-party organization.

SHIONOGI's scores were above the average of other companies in all 47 comparable questions.

Questions in effectiveness evaluation for which SHIONOGI's scores significantly exceeded the average scores of other companies

・Advance provision of materials for the Board of Directors

・Potential management risks and how to address them; discussions on the risk management system, etc.

・Design of the management remuneration system and board discussions on the decision of specific remuneration amounts

・Appropriate supervision of the development of successor candidates for the Chief Executive Officer (CEO) and other executives

・Basic sustainability policy, initiatives to improve it, and disclosures

・Identification of actions to be taken regarding sustainability from a risk and opportunity perspective and reflecting them in management strategies

・That the internal directors speak from a company-wide perspective as supervisors of business management and contribute to fostering free and open discussions

・Sharing the discussions at the Nomination and Compensation Advisory Committees with the Board of Directors

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Non-financial Strategy for Corporate Value Enhancement: Officers' Compensation

Promoting management from a stakeholder perspective by designing officers' compensation system that is linked to PSTS2030 Revision and continually revising the compensation system, performance evaluation system, etc.

Remuneration determination process

Officers' compensation is thoroughly discussed at the Compensation Advisory Committee
The Committee discusses the compensation system for directors and corporate officers and various issues concerned, verifies the levels of remuneration every year, and deliberates the remuneration system, the performance evaluation system, etc., for the following fiscal year

Composition of remuneration

The targeted ratio for each type of remuneration is set at base remuneration: performance-linked remuneration*: non-monetary remuneration*2 = 1:1:1 on the premise that all KPIs are achieved

*. Performance-linked remuneration consists of executive bonuses. *2 Non-monetary remuneration consists of restricted stock.

1	:	1	:	1
Base remuneration		**Performance-linked remuneration**		**Non-monetary remuneration, etc.**
Base remuneration is determined based on a base remuneration table according to the position and responsibilities of each director with due consideration of the operating environment and global trends		Determined based on a calculation table based on performance, such as achievement of target profits for each fiscal year, as a short-term incentive		Incentives to further increase the linkage with medium- to long-term business performance and to promote sustainable enhancement of corporate value for the Company's directors, excluding outside directors

Compensation system

Total director remuneration is determined within limits set by resolution of the General Meeting of Shareholders. This consists of base monthly remuneration, performance-linked bonuses determined by results for the fiscal year and other factors, and since FY2018, restricted stock compensation (medium-term performance-linked and long-term). Outside directors only receive base remuneration.

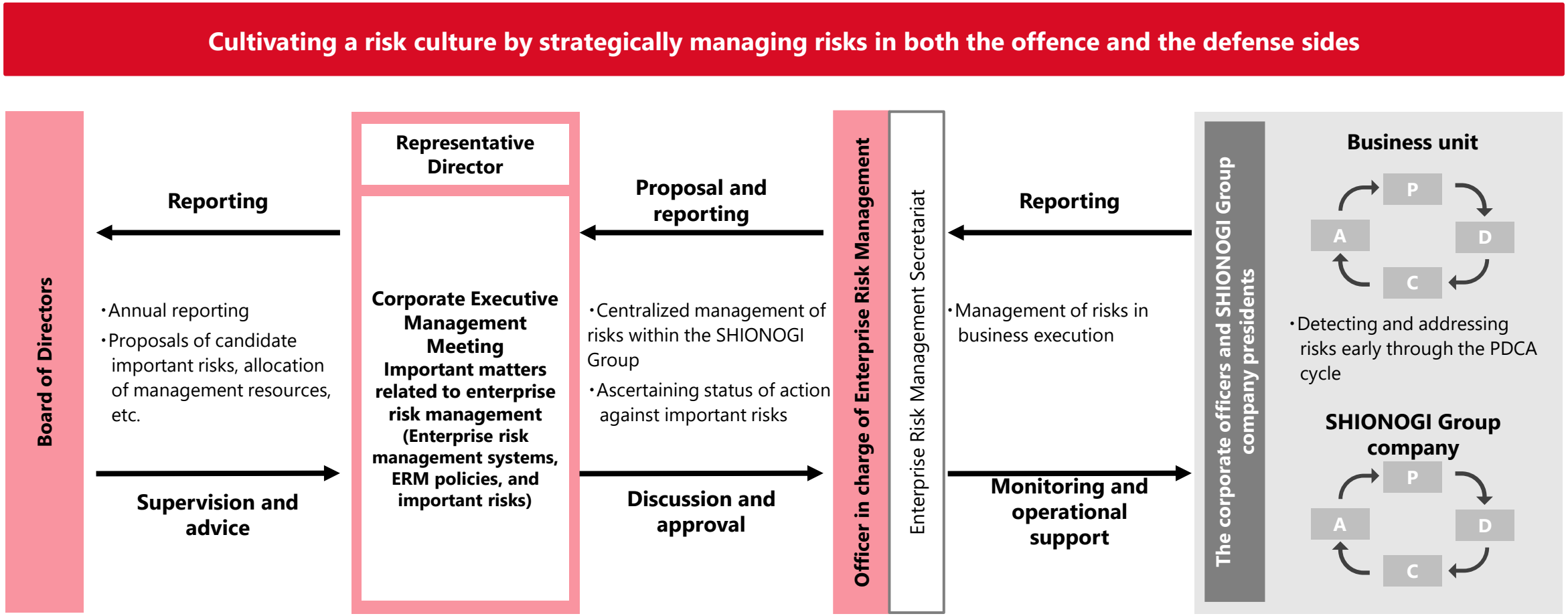
Base remuneration
Determined based on the basic remuneration table according to the position and role of each director, taking into consideration the business environment and public trends.

Performance-linked remuneration
Determined based on a calculation table based on performance, such as achievement of target profits for each fiscal year, as a short-term incentive.

Non-monetary remuneration (stock-based compensation)
Granted based on the stock-based compensation table according to directors' rank and job responsibilities.
For medium-term performance-linked stock compensation in particular, performance will be evaluated based on the degree of achievement in FY2025 for the portion to be granted in the three-year Phase 2 period from FY2023 through FY2025 of the STS2030 Revision. Performance evaluations use such quantitative indicators as revenue, overseas net sales, CAGR, EBITDA,ROE and the ranking in total shareholder return (TSR) among 11 industry peers including SHIONOGI (relative TSR) and also incorporate the status of ESG, compliance, and investment.

Non-financial Strategy for Corporate Value Enhancement: Risk Management

Strengthening resilience in business management through improved risk management at each business unit and group company based on the PDCA cycle and building a process to ensure prompt reporting to the Corporate Executive Management Meeting and the Board of Directors



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IR Strategy for Corporate Value Enhancement (1/2)

Promoting corporate value and social value enhancement by conducting stakeholder engagement under management's leadership and reflecting feedback obtained through dialogue in management

Management Involvement

・IR policy: The essence of SHIONOGI's corporate governance is to continue to engage its four stakeholders (shareholders/investors, customers, society, and employees) in an optimal balance. Based on this spirit, the CEO allocates 25% of his or her time to engaging with shareholders and investors

・ Involvement of outside directors: Creating opportunities for communication in response to requests from shareholders and investors. Last year, outside directors took the stage at the sustainability briefing

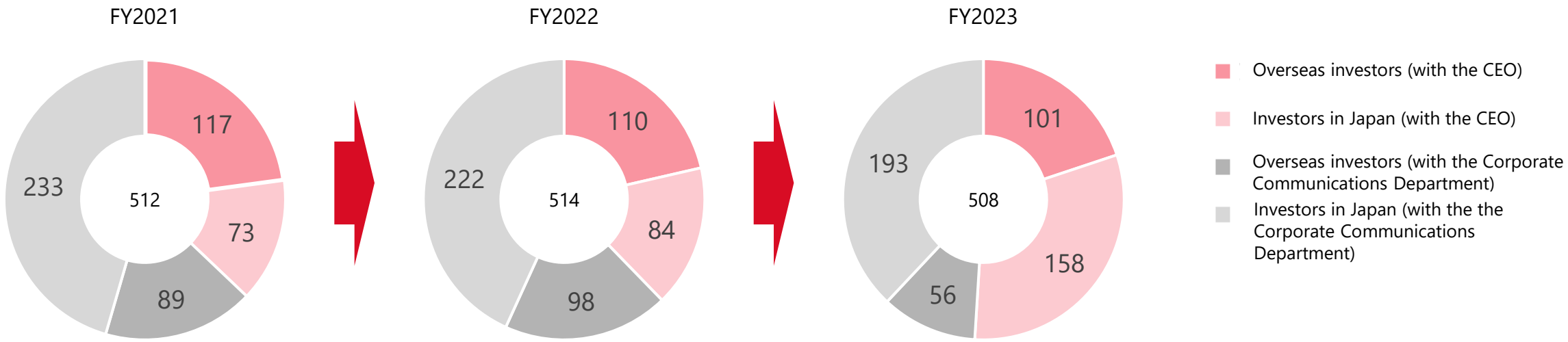
IR promotion structure

・Promotion structure: The GM of the Corporate Communications Department also serves as the GM of the Corporate Secretariat, creating an organizational structure that enables IR activities to directly reflect the intention of top management

・Method of feedback to management: The CEO conveys useful opinions obtained from dialogue with shareholders and investors to relevant departments to reflect them in management

Number of dialogues and persons in charge by investor attribute

CEO obtains direct feedback from stakeholders



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IR Strategy for Corporate Value Enhancement (2/2)

Maintaining communication with investors to maximize corporate value by analyzing their needs by their type, defining appropriate persons in charge and opportunities, and holding briefings and conducting other IR activities

Briefings held in FY2023	Frequency	Persons in charge	Main agenda for briefings
Financial results briefings	4 times / year	CEO, officer in charge of R&D, officer in charge of healthcare business, officer in charge of corporate functions, and officer in charge of supply chain	Financial forecasts, shareholder return, initiatives aimed at corporate value enhancement
IR sessions	About 3 to 4 times / year	CEO, officer in charge of R&D, officer in charge of corporate functions, and others	Medium-term business plan, HIV follow-up meeting, etc.
R&D Days	Once / year	CEO, officer in charge of R&D, GM of the Drug Discovery Research Division, and GM of the Drug Development and Regulatory Science Division	R&D strategy, initiatives in focus areas (infectious diseases, QOL-related diseases with high social impact)
Sustainability briefings	Once / year	CEO, outside directors, officer in charge of corporate functions, and GM of the Sustainability Management Department	Promotion of sustainable business, human capital management, corporate governance (effectiveness of the Board of Directors)
Briefings for individual investors	Once / year	GM of the Corporate Communications Department and the Corporate Secretariat	Current status of the pharmaceutical industry, SHIONOGI's characteristics, growth strategy, shareholder returns
Other IR activities in FY2023	Frequency	Persons in charge	Dialogue agenda
Participation in conferences hosted by securities companies	About 5 to 6 times / year	CEO, officer in charge of R&D	Progress of major businesses, medium- to long-term growth strategies, status of research and development, and shareholder return
Overseas NDRs	About 6 to 7 times / year	CEO, officer in charge of R&D	Progress of major businesses, medium- to long-term growth strategies, status of research and development, and shareholder return
Integrated report	About once / year	CEO, officer in charge of corporate functions	Value creation stories and status of corporate activities in the previous fiscal year
Press releases	Approx. 100 releases / year	CEO, officer in charge of corporate functions	Progress of major businesses,status of research and development, and shareholder return