

Takeda Pharmaceutical

Japan/Pharmaceuticals

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UBS Research

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Chairman of the Board Hasegawa to retire

- Retirement may have followed the natural course
- What is surprising is the retirement of Corporate Strategy Officer Honda
- Focus for FY results is on cost-saving programme
- Valuation: PT ¥5,400

Takeda Pharma announced on 13 April candidates for new directors of the board to be proposed at its Annual General Meeting (AGM) in June. Mr. Hasegawa, who has been Chairman of the Board, will not stand for re-election and will be appointed as Corporate Counselor at the company's request. Mr. Hasegawa was President in 2003-2014 and committed to making Takeda an international company. A successor chairman will not be appointed and CEO Weber will become the top executive for the company. Mr. Hasegawa's retirement inevitably marks the end of an era. We believe this should not be viewed as a concern, but rather as a sign of trust in CEO Weber. Mr. Hasegawa will also retire from external board of directors at TEPCO Holdings in June 2017.

What is surprising is the retirement of Corporate Strategy Officer Honda

Mr. Honda has been the Senior Vice President of Corporate Strategy since 2012. Mr. Hasegawa acknowledged in Nikkei Business (March 2015) that Mr. Honda was a candidate as president and that he contributed to strategy planning after the appointment of Dr. Weber. He is 58 years old and for us this seems a bit early to retire from the board of a Japanese company.

Focus for FY results is on cost-saving programme

CFO Kehoe will participate on the board of directors from June and is expected to display further leadership. We will focus on the cost-saving program to be announced with FY results on 10 May. We believe its share price may have discounted net savings of around ¥30bn.

Valuation: PT ¥5,400

Our PT for Takeda Pharmaceutical is based on DCF analysis using our 10-year earnings forecasts (WACC 5.0%). The next pipeline events include the PDUFA action date for Ariad's ALK-positive 2L+ non-small cell lung cancer treatment brigatinib on 29 April and Ninlaro's 1L trial TOURMALINE-MM2 in Q2.

12-month rating	Neutral
12-month price target	¥5,400.00
Price	¥5,186.00

Trading data and key metrics

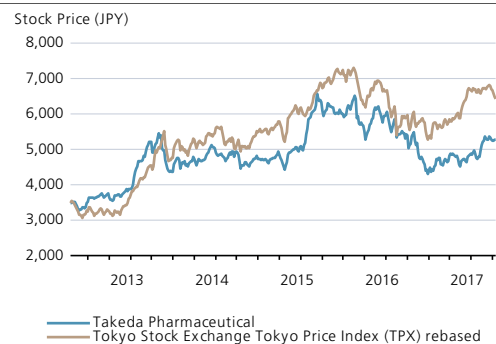
52-wk range	¥5,515-4,132
Market cap.	¥4,063bn/US\$37.0bn
Shares o/s	783m (ORD)
Free float	85%
Avg. daily volume ('000)	2,064
Avg. daily value (m)	¥10,569.3
Common s/h equity (03/17E)	¥1,899bn
P/BV (03/17E)	2.1x
Net debt / EBITDA (03/17E)	2.9x
RIC	4502.T
BBG	4502 JP

Sources: UBS, Bloomberg

EPS (reported, basic)

	UBS	Cons.
03/17E	116.0	126.9
03/18E	136.0	150.4
03/19E	94.3	151.4

Performance



Sources: Bloomberg, UBS

Definitions of terms and abbreviations are available in the appendix section of this report, and more extensively on internet at www.ubs.com/glossary

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Analyst certification and required disclosures begin on page 2**

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Takeda Pharmaceutical

Company Profile: Takeda Pharmaceutical

Since its foundation in 1781, Takeda has become a leading Japanese drugmaker with a business base founded on the principle of constant innovation and creation. It established local units in Southeast Asia in the 1960s and in the US and Europe after that, and has aimed to become an R&D-driven firm. Management has been keen on joint research with leading universities and research institutes in Japan and overseas, and pipeline strengthening has been the most important theme in recent years. Earnings have been growing, led by Actos (a nationally strategic drug for treating diabetes) and Blopress (for hypertension).

Statement of Risk

We value Japan's pharmaceuticals companies mainly based on a DCF model with a long-term (10-year) forecast, using a risk-free rate of 0.5%, an equity risk premium of 7.0%. Risks include: 1) Price cut frequency, rate cuts and unexpected price cuts. The industry avoided an April 2017 price cut; however, the risk of an October 2019 price cut and an annual price cut persists. In addition, criticism from the Ministry of Finance, payors and physicians about expensive drugs continues. In the US, criticism for expensive drug price has been heightened. 2) Pipeline development failure. The probability of success for clinical trial is not 100% and it could be suspended at any time. Competitors may emerge due to scientific advancement out of the blue. In addition, if the company fails to develop in-licensed products, there would be risk to recognize impairment losses. 3) Product recall due to adverse events. Regulators have become aggressive in accelerating drugs for severe diseases and products can be approved without extensive patient experience in clinical trials. A pharmaceutical product has the risk of an unexpected adverse event due to its nature, with risks of recall and economic loss. 4) Intellectual property risk. The pharmaceutical business is an intellectual property business in essence. There is risk of invalid patents and infringing on other parties' patents unexpectedly. 5) Risks of international sales. Revenue could be impacted by currency fluctuation and tenders in emerging markets. 6) Risk of announcing M&A regarded as expensive. Pipeline acquisition deals are important to complement lack of pipelines. However there could be some risk for acquiring with a high price tag. 7) Partnership risk. Japanese companies have many partnerships with other companies for development and commercialization. Development at a partnership company could risk affecting a Japanese company as a counterparty.

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Highlights (¥bn)	03/14	03/15	03/16	03/17E	03/18E	03/19E	03/20E	03/21E
Revenues	1,691	1,777	1,807	1,719	1,698	1,744	1,856	1,955
Operating profit	139.3	(129.3)	130.8	161.1	189.5	143.0	218.9	272.3
Pre-tax profit	158.9	(145.4)	120.5	148.9	162.0	114.1	191.8	245.6
Net profit (reported)	106.7	(145.8)	80.2	90.6	106.2	73.6	128.1	167.8
EPS (reported, ¥)	135.1	(185.4)	102.3	116.0	136.0	94.3	164.1	214.9
Profitability/valuation	03/14	03/15	03/16	03/17E	03/18E	03/19E	03/20E	03/21E
EBIT margin %	8.2	-7.3	7.2	9.4	11.2	8.2	11.8	13.9
ROIC (EBIT) %	6.7	(5.5)	6.0	6.5	7.2	5.7	9.0	11.5
EV/EBITDA x	10.9	71.9	16.7	13.9	12.1	14.8	11.7	10.0
PE (reported) x	35.3	NM	57.3	44.7	38.1	55.0	31.6	24.1
Net dividend yield %	3.8	3.6	3.1	3.5	3.5	3.5	3.5	3.5

Source: Company accounts, Thomson Reuters, UBS estimates. Metrics marked as (UBS) have had analyst adjustments applied.

Valuations: based on an average share price that year, (E): based on a share price of ¥5,186 on 13 Apr 2017 18:30 JST

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UBS 12-Month Rating	Rating Category	Coverage ¹	IB Services ²
Buy	Buy	45%	29%
Neutral	Hold/Neutral	39%	27%
Sell	Sell	15%	16%

1:Percentage of companies under coverage globally within the 12-month rating category.

2:Percentage of companies within the 12-month rating category for which investment banking (IB) services were provided within the past 12 months.

Source: UBS. Rating allocations are as of 31 December 2016.

UBS 12-Month Rating	Definition
Buy	FSR is > 6% above the MRA.
Neutral	FSR is between -6% and 6% of the MRA.
Sell	FSR is > 6% below the MRA.

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Global Equity 12-Month Rating Definitions

Buy: FSR is > 6% above the MRA. **Neutral:** FSR is between -6% and 6% of the MRA. **Sell:** FSR is > 6% below the MRA.

Key Definitions

Forecast Stock Return (FSR) is defined as expected percentage price appreciation plus gross dividend yield over the next 12 months.

Market Return Assumption (MRA) is defined as the one-year local market interest rate plus 5% (a proxy for, and not a forecast of, the equity risk premium).

Under Review (UR) Stocks may be flagged as UR by the analyst, indicating that the stock's price target and/or rating are subject to possible change in the near term, usually in response to an event that may affect the investment case or valuation.

Exceptions and Special Cases

Core Banding Exceptions (CBE): Exceptions to the standard +/-6% bands may be granted by the Investment Review Committee (IRC). Factors considered by the IRC include the stock's volatility and the credit spread of the respective company's debt. As a result, stocks deemed to be very high or low risk may be subject to higher or lower bands as they relate to the rating. When such exceptions apply, they will be identified the Companies Mentioned or Company Disclosure table in the relevant research piece.

Company Disclosures

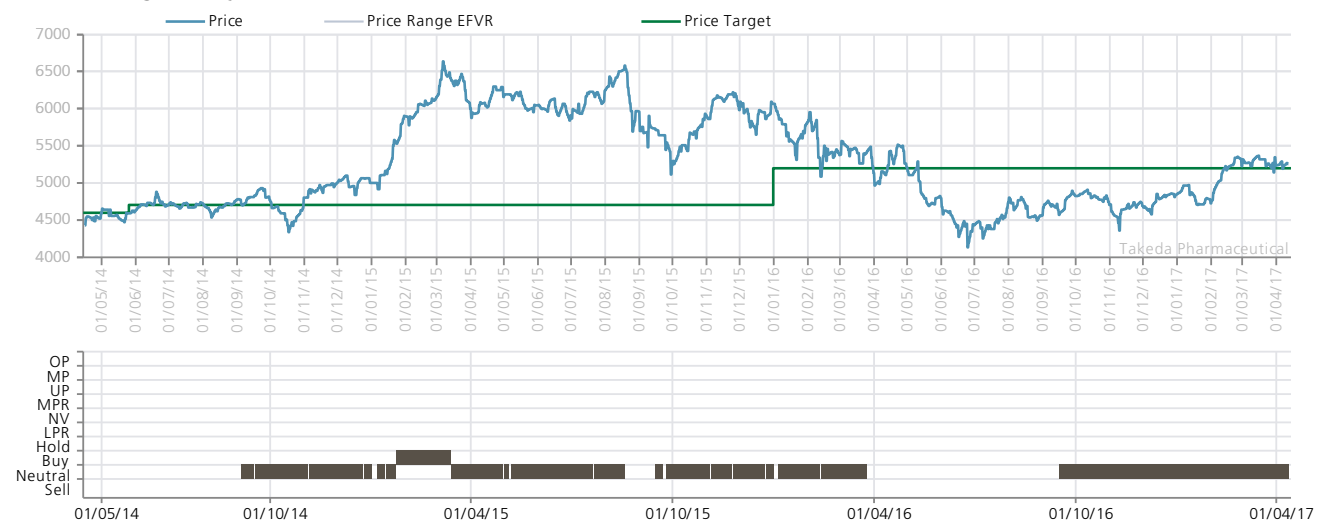
Company Name	Reuters	12-mo rating	Price	Price date
Takeda	4502 JP	Neutral	¥5,250	12 Apr 2017

Source: UBS. All prices as of local market close.

Ratings in this table are the most current published ratings prior to this report. They may be more recent than the stock pricing date

Disclosures (13 April 2017)

Global rating history -- Takeda Pharmaceutical, 4502 JP



Source: UBS CIO as of 13 April 2017

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Terms and Abbreviations

Term / Abbreviation	Description / Definition	Term / Abbreviation	Description / Definition
1H, 2H, etc. or 1H11, 2H11, etc.	First half, second half, etc. or first half 2011, second half 2011, etc.	1Q, 2Q, etc. or 1Q11, 2Q11, etc.	First quarter, second quarter, etc. or first quarter 2011, second quarter 2011, etc.
2011E, 2012E, etc.	2011 estimate, 2012 estimate, etc.	A	actual i.e. 2010A
ADR	American depositary receipt	ARPU	Average Revenue Per User
AUM	Assets under management = total value of own and third-party assets managed	Avg.	average
bn	Billion	bp or bps	Basis point or basis points (100 bps = 1 percentage point)
BVPS	Book value per share = shareholders' equity divided by the number of shares	CAGR	Compound annual growth rate
Cant Inc/Capita	Cantonal income per capita (Switzerland only)	Capex	Capital expenditures
CF	Cash flow	CFO	1) Cash flow from operations, 2) Chief financial officer
COGS	Cost of goods sold	COM	Common shares
Cons.	Consensus	Core Tier 1 Ratio	Tier 1 capital minus tier 1 hybrid securities
Cost/Inc Ratio (%)	Costs as a percentage of income	CPI	Consumer price index
CR	Combined ratio = ratio of claims and expenses as a percentage of premiums (for insurance companies)	CY	Calendar year
DCF	Discounted cash flow	DDM	Dividend discount model
Dividend Yield (%)	Dividend per share divided by price per share expected i.e. 2011E	DPS	Dividend per share
E	expected i.e. 2011E	EBIT	Earnings before interest and taxes
EBIT Margin (%)	EBIT divided by revenues	EBITDA	Earnings before interest, taxes, depreciation and amortization
EBITDA Margin (%)	EBITDA divided by revenues	EBITDA/Net Interest	EBITDA divided by net interest expense
EBITDAR	Earnings before interest, taxes, depreciation, amortization and rental expense	EFVR	Estimated fair value range
EmV	Embedded value = net asset value + present value of forecasted future profits (for life insurers)	EPS	Earnings per share
Equity Ratio (%)	Shareholders' equity divided by total assets	EV	Enterprise value = market value of equity, preferred equity, outstanding net debt and minorities
FCF	Free cash flow = cash a company generates above outlays required to maintain/expand its asset base	FCF Yield (%)	Free cash flow divided by market capitalization
FFO	Funds from operations	FY	Fiscal year / financial year
GDP	Gross domestic product	Gross Margin (%)	Gross profit divided by revenues
H	half year	h/h	Half-year over half-year; half on half
hist av.	Historical average	Interbank Ratio	Interbank deposits due from banks divided by interbank deposits due to banks
Interest Coverage	Ratio that expresses the number of times interest expenses are covered by earnings	Interest exp	Interest expense
ISIN	International securities identification number	K	One thousand
LLP/Net Int Inc (%)	Loan loss provisions divided by net interest income	LLR/Gross Loans (%)	Loan loss reserves divided by gross loans
LPR	Least Preferred: The stock is expected to both underperform the relevant benchmark and depreciate in absolute terms.	Market cap	Number of all shares of a company (at the end of the quarter) times closing price
m/m	Month-over-month; month on month	mn or m	Million
M and A	Merger and Acquisition	MP	Marketperform: The stocks expected performance is in line with the sector benchmark
MPR	Most Preferred: The stock is expected to both outperform the relevant benchmark and appreciate in absolute terms.	n.a.	Not available or not applicable
NAV	Net asset value	Net Debt	Short- and long-term interest-bearing debt minus cash and cash equivalents
Net DPS	Net dividends per share	NIM or Net Int Margin (%)	Net interest income divided by average interest-bearing assets
Net Margin (%)	Net income dividend by revenues	NV	Neutral View: The stock is expected to neither outperform nor underperform the relevant benchmark nor significantly appreciate or depreciate in absolute terms.
n.m. or NM	Not meaningful	NPL	Non-performing loans
OP	Outperform: The stocks is expected to outperform the sector benchmark	Op Margin (%)	Operating income divided by revenues
p.a.	Per annum (per year)	P/BV	Price to book value
P/E or PE	Price to earnings / Price Earnings Ratio	P/E Relative	P/E relative to the market
P/EmV	Price to embedded value	PEG Ratio	P/E ratio divided by earnings growth

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Term / Abbreviation	Description / Definition	Term / Abbreviation	Description / Definition
PPI	Producer price index	Prim Bal/Cur Rev (%)	Primary balance divided by current revenue (total revenue minus capital revenue)
Profit Margin (%)	Net income divided by revenues	q/q or QQQ	Quarter-over-quarter; quarter on quarter
R and D	Research and development	ROA (%)	Return on assets
ROAE (%)	Return on average equity	ROCE (%)	Return on capital employed = EBIT divided by difference between total assets & current liabilities
ROE (%)	Return on equity	ROIC (%) or ROI	Return on invested capital
Shares o/s	Shares outstanding	Solvency Ratio (%)	Ratio of shareholders' equity to net premiums written (for insurance companies)
sotp or SOTP	Sum of the parts	Tax Burden Index	Swiss tax index; 100 = average tax burden of all cantons
tgt	Target	Tier 1 Ratio (%)	Tier 1 capital divided by risk-weighted assets; describes a bank's capital adequacy
tn	Trillion	UP	Underperform: The stock is expected to underperform the sector benchmark
Valor	Swiss company identifier	WACC	Weighted average cost of capital
CIO	UBS WM Chief Investment Office	x	multiple / multiplier
y/y or YOY	Year-over-year; year on year	yr	Year
YTD	Year-to-date		

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