

Case Study : Annual Report 2009 of Eisai Co., Ltd.

(the relation between financial and non-financial)

Financial Review

Financial Highlights

The pharmaceutical industry is expected to create revolutionary therapeutic drugs and provide high-quality information, services and products. However, the industry is facing dramatic environmental changes with the worldwide promotion of measures designed to curb medical expenses; rising costs for development of new drugs; and a surge in major business acquisitions and corporate restructuring to bolster R&D capabilities. In addition, it is becoming increasingly necessary for companies to manage risks relating to such issues as drug side effects and intellectual property. Compounding these issues, the global financial crisis and economic downturn are expected to impact the pharmaceutical industry going forward.

Against this backdrop, for the current fiscal year, Eisai Co., Ltd. and its subsidiaries ("Eisai") reported consolidated net sales of ¥781.7 billion, an increase of 6.5% compared with the previous fiscal year. Operating income surged 417.2%, to ¥91.8 billion. Net income stood at ¥47.7 billion, compared with a ¥17.0 billion net loss recorded in the previous fiscal year. Sales of *Aricept*[®], an Alzheimer's disease treatment, steadily increased, advancing 4.4% year on year, to ¥303.8 billion, while sales of the proton pump inhibitor (PPI) *Pariet*[®] (U.S. trade name: *Aciphex*[®]) dropped 9.1%, to ¥159.9 billion. Antiemetic agent *Aloxi*[®] recorded sales of ¥36.5 billion, while DNA methylating agent *Dacogen*[®] posted sales of ¥15.1 billion. By region, North America and China both substantially increased in sales, while Japan recorded a steady performance. Despite proactively investing resources in R&D programs, Eisai recorded an increase in operating income for the year. This reflected the effect of the special merger-related accounting treatment such as in-process R&D expenses and other expenses recorded in connection with Eisai's acquisition of MGI PHARMA, INC. in the previous fiscal year. As a result of the above, basic earnings per share (EPS) for the fiscal year under review amounted to ¥167.35, compared to a loss of ¥59.80 in the previous fiscal year. On an "adjusted" basis excluding non-cash consolidated items subject to special merger-related accounting treatment associated with the previous year's acquisition of MGI PHARMA, INC., from the (current accounting standard) GAAP-based results, Eisai's consolidated business results were as follows: ¥781.7 billion in net sales (up 6.5%), ¥120.3 billion in operating income (up 8.6%), and ¥69.3 billion in net income (down 2.0%). Operating income increased due to higher net sales and more efficient use of selling, general and administrative expenses. However, net income on an "adjusted" basis declined due to increases in interest expenses, loss on devaluation of investment securities and loss on impairment of long-lived assets. As a result of the above, earnings per share (EPS) on an "adjusted" basis came to ¥243.36 (down ¥5.24 year on year). Eisai uses cash income^{*1} as an indicator of cash-generating ability. Cash income is the total amount of cash that can be used for such applications as growth investments and business development, dividend payments, debt repayments, and the like.

The Group's management considers it a tool to evaluate growth potential and strategies. For the fiscal year under review, cash income amounted to ¥119.0 billion (up 11.3% from the previous fiscal year), and cash income per share^{*2} amounted to ¥417.78 (up ¥41.96 from the previous fiscal year).

*₁ Cash income is calculated as follows: Net income (loss) + depreciation of PP&E and amortization of intangible assets + IPR&D expenses + amortization of goodwill + loss on impairment of long-lived assets (including loss on devaluation of investment securities)

*₂ Cash income per share is calculated as follows: Cash income ÷ number of shares issued and outstanding (excluding treasury stock)

※The above underlined sentences are stated by WICI Japan.