

Interview with the CEO



Society continues to expect and demand more from Chugai. There is only one way for us to create shared value with society that meets those expectations, and thereby increases our corporate value — we must pursue innovation.

To become a top innovator in the healthcare industry, Chugai will concentrate resources in innovation that contributes to the realization of advanced and sustainable patient-centric healthcare.

Q. What does Chugai aim to achieve?

Our goal is to contribute to the realization of advanced and sustainable patient-centric healthcare through innovation that is only possible at Chugai.

Chugai aims to be a top innovator in the healthcare industry that contributes to the realization of advanced and sustainable patient-centric healthcare.

This goal is also expressed in our Mission Statement, which we updated in 2019. In 2018, we achieved the “top pharmaceutical company” target we set for ourselves in 2009. From there, we wanted to establish a clear path going forward, which led to the revisions of our Core Values and Envisioned Future.

These revisions reflected our dialogue with various stakeholders. Although our founding commitment to benefiting patients and the medical community remains unchanged, society’s expectations have changed considerably over the past 10 years. In addition to our responsibilities as the leading Japanese pharmaceutical company in therapeutic antibodies and oncology, our strong drug discovery capabilities have significantly raised expectations for our contribution to medicine worldwide. As of the end of

2019, for example, five products from Chugai research have received a total of eight breakthrough therapy designations.* Our value creation efforts are still focused on drugs, but we are broadening our contribution to patients through initiatives that maximize the value of drugs (Around the Pill) and healthcare services that transcend the boundaries of drugs (Beyond the Pill). Our market capitalization has increased six-fold in the last 10 years,

which is further evidence of the expectations stakeholders have for us.

In this context, we have made the concept of creating shared value with stakeholders our basic management policy. One expectation that all our stakeholders have in common is for Chugai to deploy its high-level scientific and technological capabilities to create value for patients and society – to provide solutions that

help solve social issues and lead to the advancement of society by innovating in ways that only Chugai can. Our employees must also have a clear understanding of this value creation path and our policy for sustainability.

* A system introduced in July 2012 by the U.S. Food and Drug Administration (FDA) aimed at expediting the development and review of drugs for the treatment of severe or life-threatening diseases or symptoms.

Q. What strategies is Chugai implementing based on that approach?

In IBI 21, we have designed strategies to share value with stakeholders and increase corporate value.

Mid-term business plan IBI 21, which started in 2019, includes Chugai's value creation strategies and growth strategies. The plan outlines a three-year strategic agenda that delineates our medium- and long-term growth story and issues for reform in light of the dramatic changes ahead in the external environment, the expectations for Chugai, and society's demands regarding sustainability, including the SDGs. To share value with stakeholders

and thereby increase our corporate value, we have laid out five strategies for accelerating innovation, maximizing value globally, and strengthening our foundation for value creation, including human capital.

In these priority strategies, we will increase our focus on integrating our drug discovery technologies and biology to create innovative drugs while enhancing the value of the solutions we provide for

addressing increasingly sophisticated and diverse needs. Personalized healthcare (PHC) will play a major role in making advanced and sustainable patient-centric healthcare a reality, and Chugai is taking the lead in promoting it as a pioneer of PHC in Japan. To concentrate more resources on this innovation, we will make changes to human resource development and our business structure, and work to strengthen sustainable platforms.

Q. How was Chugai's progress in 2019?

Our strategies progressed as planned, and financial results were good. Overall, it was a very productive year.

In 2019, the first year of IBI 21, we made good headway with each strategy.

One factor driving that progress is favorable growth in understanding and support of IBI 21 within the Company. When IBI 21 started, senior executives visited each business site to explain our strategies and engage in dialogue with employees. In a questionnaire afterward, many employees expressed empathy with the idea of creation of shared value, indicating strong resonance with management's goals. Since then, people have taken on new challenges with "patient-centric" as the key concept. I am pleased to see such a positive and vibrant atmosphere in the Company.

Departments and business functions are urgently implementing initiatives for each strategy. In research and development,

projects for middle molecule drugs, which we are focusing on as a new modality, moved forward in 2019. Other projects also made steady progress, including regulatory filings for satralizumab (SA237) in Japan, the United States and Europe, and the start of a global phase III study of nemolizumab (CIM331), which we out-licensed to a pharmaceutical company other than Roche. Looking at the performance of the solutions we provided, the use of Hemlibra expanded in Japan and overseas, while new products such as Tecentriq performed well in Japan. In the pharmaceutical industry, a product with annual sales of more than U.S.\$1 billion is called a blockbuster; Hemlibra became a major global product on that level just two years and two months after its launch. Our structural reforms also continued, including the transfer of long-term listed products and outsourcing of logistics and some other

business operations. As for sustainable platforms, we strengthened our initiatives in supply chain management and environmental management.

One area of progress that deserves special mention is the promotion of advances in PHC. In 2019, we launched FoundationOne CDx Cancer Genomic Profile (F1CDx), a cancer genomic test. We also obtained an additional approval for F1CDx as a companion diagnostic for Rozlytrek, in tandem with the launch of this tumor-agnostic therapy. Comprehensive genomic profiling of patients with gene panel testing enables the optimal diagnosis for each patient. Symbolizing the advancement of PHC, this solution was a major step forward in expanding and promoting PHC.

The success of these various initiatives was reflected in significant growth in revenues and profit. Core EPS increased 73.3 percent compared with the previous

year. We achieved record profit for the third consecutive year despite a challenging operating environment, indicating that we are on a strong growth trajectory.

► See “Overview of Mid-Term Business Plan IBI 21” on page 41.

Q. Please discuss Chugai’s business model and the risks that you see for future growth.

We will take advantage of the unique business model we have built and deal appropriately with the various risks in a challenging operating environment.

I have confidence in the business model we have built. We will continue our policy of concentrating on innovation using our scientific and technological strengths under the strategic alliance with Roche. We will also maintain our earnings structure with business in Japan as our source of revenues, and global expansion of products from Chugai research as our source of growth.

However, the operating landscape will become extremely challenging in the years

ahead. Even though we are currently enjoying growth momentum, a variety of risks exist.

In Japan, demands to reduce drug prices are becoming stronger as a result of strained healthcare finances, and with the rise of generics and biosimilars, we assume that domestic market growth will be either flat or negative. Fiscal pressure caused by shifting demographics is not exclusive to Japan, and measures to control healthcare costs in every advanced country will also require monitoring.

Technological progress in the life science field is expected to accelerate. Advances in areas such as cellular and genomic therapy and nucleic acid drugs are also expected, raising the possibility that innovative drugs with new modalities will emerge. The biggest risk for Chugai would be missing the wave of innovation. With limited resources, it is difficult to focus on every promising modality, but we are now laying the groundwork to enable us to flexibly participate in new modalities as necessary. We have chosen middle

Mid-Term Business Plan: 5 Strategies and Targets

Create Global Growth Drivers and Maximize Value

Strategy 1: Value Creation

Realize innovative drug discovery to cure and manage diseases

Strategy 2: Value Delivery

Deliver patient-centric solutions and maximize value of growth drivers

Strategy 3: Promote Advances in Personalized Healthcare (PHC)

Realize the further advancement of PHC and innovate R&D process by utilizing digital technology and data

Strengthen HR and Infrastructure That Support Chugai’s Business

Strategy 4: Strengthen Human Capital and Conduct Fundamental Structural Reform

Develop high-caliber HR talent that supports innovation, and thoroughly reform costs, systems and processes

Strategy 5: Strengthen Sustainable Platforms

Simultaneously realize company growth and sustainable social development

Core EPS CAGR¹
(2018-2021)

Around 30%²

1. Compound annual growth rate (%)

2. Three years, based on constant exchange rate.

* Core EPS CAGR is calculated based on the assumption of no stock split with a scheduled effective date of July 1, 2020.

molecules as our next-generation modality, and it is essential for us to achieve promising outcomes in the next three to five years. Therefore, we are expediting our efforts to move a middle molecule drug into the clinical phase during IBI 21.

AI and digital technology will be key factors in Chugai's innovation, but we need to bear in mind risks such as the emergence of data oligopolies and the entry of businesses such as IT business into the healthcare industry. We have created a

digital transformation roadmap toward 2030, but we will first accelerate upgrades of systems and infrastructure and connect them to areas such as AI drug discovery and efficiency in the value chain.

Regarding sustainable platforms, expectations and requirements regarding issues such as climate change countermeasures and human rights are increasing. Looking at other industries, it is clear that the pharmaceutical industry needs to step up its environmental

efforts. Chugai has made environmental initiatives a priority in establishing material issues and Strategy 5 of IBI 21, and will place greater emphasis on dealing with long-term risks.

Looking overseas, China is a huge and growing market, but we are not considering expanding there independently. We will work to maximize the value of our in-house products in cooperation with Roche.

► See "The Risks behind Our Strategies" on page 36.

Q. What is Chugai's growth outlook?

After successfully completing IBI 21, we will look beyond with a broader view to maintain and enhance our growth trajectory.

Our focus during IBI 21 is the successful execution of our strategies. For 2020, the second year of the plan, we have set a four-point priority agenda: 1) Maximize the value of growth drivers; 2) Create next-generation growth opportunities; 3) Promote digital transformation and PHC; and 4) Conduct fundamental structural

reform and strengthen sustainable platforms. Although the Japanese market is challenging, we forecast growth centered on overseas revenues. In light of this, as a quantitative target, we have raised our quantitative guidance for Core EPS CAGR from the high single digits to around 30 percent. In our dividend policy,

we had been targeting a Core EPS payout ratio of 50 percent on average, but after considering future growth opportunities and funding plans, we changed that target to 45 percent in order to maintain stable dividend payments.

► See "Mid-Term Business Plan: 5 Strategies and Targets" on page 6.

Priority Agenda for 2020

Growth Factors	
<ul style="list-style-type: none"> • Continuous creation of innovative global in-house products • Global sales expansion of in-house products • Accelerated penetration of new products in Japanese market • Additional indications of existing products in Japan and overseas • Enhancement of R&D and manufacturing facilities • Establishment of platforms to support future growth, etc. 	
Risk Factors	
<ul style="list-style-type: none"> • Biosimilars • Generics • Government pressure on pricing • Environmental changes • New modalities, etc. 	

1	Maximize the value of growth drivers	<ul style="list-style-type: none"> • Hemlibra: Achieve further market penetration • Tecentriq: Increase market share with additional indications • Satralizumab (SA237): Obtain approval and achieve rapid market penetration
2	Create next-generation growth opportunities	<ul style="list-style-type: none"> • Middle molecule project: Prepare for phase I trial • Antibody project: Start phase I trial for Switch antibody • Nemolizumab:³ File for approval of atopic dermatitis in Japan, start multinational phase III study for prurigo nodularis • Crovalimab/SKY59: Start multinational phase III study for paroxysmal nocturnal hemoglobinuria
3	Promote digital transformation and PHC	<ul style="list-style-type: none"> • File for approval of FoundationOne Liquid • Promote AI in drug discovery and acquire and train digital talent • Accelerate collaboration with external partners
4	Strengthen sustainable platforms	<ul style="list-style-type: none"> • Implement and manage new HR system • Achieve higher scores in ESG

3. Maruho Co. Inc. is filing for approval of atopic dermatitis.
Galderma S.A. is conducting the global phase III study for prurigo nodularis.



We will maintain a strong growth trajectory by investing aggressively for the future beyond IBI 21. Creation of innovative drugs will remain the core of our business, but as a top innovator, we will deliver value with a broader view. This includes providing value beyond pharmaceuticals, developing more sophisticated solutions, and innovating through collaboration with players in diverse industries, such as the IT and digital sector. We expect profit growth to be fueled mainly by new growth drivers, progress in the development of middle molecule drugs, enhancement of drug discovery and

productivity from the start of operation of new research facilities, and advances in next-generation PHC.

So, what is the key to maintaining this value creation? In my view, it all comes down to the pursuit of innovation.

Q. How will you promote innovation?

We will make Chugai a company that continues to innovate by concentrating resources in science, technology, and in human capital and corporate culture.

Chugai focuses on innovation in the creation of drugs. However, efforts to innovate are not limited to research and development operations alone. The whole company must concentrate on these efforts to be a company that continues to innovate.

That is why I am placing priority on science, technology, and on human capital and corporate culture, and we will concentrate resources in these areas. Science is the source of our value and provides the criteria for evaluating our activities. Technology is our strength and lifeline. And most important of all is our people. By strengthening talent management and diversity and inclusion (D&I) and

aggressively investing in human capital, we want to create a corporate culture that fosters innovation.

D&I is a must for accelerating innovation. We have actively promoted D&I since the launch of a working team in 2010, and the ratio of female managers has risen steadily. But we still have more to do. In a few years, gender diversity may no longer be an issue of discussion in the Company, but right now we are in the phase of intentionally and intensively promoting it, and intend to step up related activities. We plan to devote further resources to diversity of nationality, which is another area where we need to improve.

In April 2020, we will introduce a new personnel system that prioritizes assigning the right people to the right positions. Under this system, instead of assessing the abilities and past contributions of employees, we will clearly define the requirements of all positions in the company to make it easier for employees to manage their own career development and challenge themselves in higher roles. By giving opportunities to capable employees, the personnel system itself will support innovation.

Q. In conclusion, what are your aspirations for Chugai's management?

Under the new management team, we are working to increase corporate value through an emphasis on dialogue.

Our approach of assigning the right people to the right positions also applies to people in management. In the recent changes in representative directors, the appointment of Dr. Osamu Okuda to the position of Representative Director, President and COO was a transparent process of selection from multiple candidates through discussions by the Nominating Committee. We also placed importance on a smooth transition. I have high hopes for Dr. Okuda in his new position because of his character, his abilities, and his record

of achievements. He also played a central role in drafting the new Mission Statement and IBI 21, and fully shares my management philosophy. I intend to continue pursuing innovation under the new management team of Deputy Chairman Motoo Ueno, President Okuda and myself.

Chugai is well positioned for further value creation. Benefiting patients is connected directly to the value we share with stakeholders. Therefore, we remain committed to becoming a top innovator

that contributes to the realization of advanced and sustainable patient-centric healthcare.

I will redouble my efforts to communicate this value creation path in a clear and simple way both in the Company and to external stakeholders. My efforts will focus on enhancing our corporate value through an emphasis on dialogue.

Look forward to even more innovation from us.