

# Daiichi Sankyo's Growth Strategy

## Message from the CFO

Dear stakeholders, my name is Toshiaki Sai, and I took up the position of CFO and Head of Corporate Strategy & Management Division in the Company in April 2018. In the Corporate Strategy & Management Division, there are four functions served by the CFO: planning business strategies, promoting management, planning and executing financial strategies, and conducting IR activities. I will support the CEO and COO while performing these functions to manage the business in order to accomplish the 2025 Vision and the 5-year business plan.



Toshiaki Sai  
Member of the Board,  
Executive Vice President and CFO



### Toward the Improvement of Corporate Value

Improving the ROE and reducing the capital cost are two important roles held by the CFO toward improving corporate value. I would like to explain what initiatives Daiichi Sankyo has so

far carried out and what initiatives the Company will conduct from now.

### 1. Improving ROE

We are implementing a variety of initiatives to achieve the goal of more than 8% ROE as outlined in the 5-year business plan.

(1) In order to enhance profit generation capabilities, we have taken steps to achieve further cost reductions and streamlining within the entire group through activities called "Realization of Process Excellence." Major initiatives include enhancement of the procurement function and optimization of structures for production, marketing & sales, and R&D including repositioning of bases. Regarding the enhancement of the procurement function, the 5-year business plan sets forth a goal to achieve ¥50 billion in cost reduction for indirect materials, and we have accomplished ¥13.2 billion and ¥18.2 billion of cost reductions in fiscal 2016 and fiscal 2017, respectively. Concerning the optimization of operating structures, in the past two years since the start of the 5-year business plan, we have sold or closed two bases within our production organization structures and closed three bases within our R&D organization structures. We have also implemented optimization within our marketing & sales organization structures in Europe and the United States. We will further accelerate initiatives to enhance profit generation capabilities in the future.

Additionally, we will focus on reinforcement of investment decisions as well as on optimization of business portfolio.

When making decisions on business investment or capital expenditure, which has a significant impact on future business profits, we will support such decision makings by taking the future business environment, vision, and strategy into consideration and by setting hurdle rate, discount rate and other standards in response to market and business risks. Regarding optimization of business portfolio, while taking the synergy between businesses into consideration, I would like to offer financial suggestions with capital cost in mind.

(2) We will realize streamlining of total assets and enhance our total asset turnover ratio. We will aim at shortening of the CCC (cash conversion cycle) and while maintaining a balance with a stable supply, we will aggressively pursue optimization in inventories on a global basis. With regard to assets including real estate, we aim to realize liquidation of non-core assets at the appropriate timing while considering not only the necessity of the assets to business activities and their ability to be replaced, but also life-cycle costs (maintenance costs needed to maintain functions subject to deterioration and renovation costs required to improve the required performance) and business continuity plans (BCPs). With regard to optimization of capital expenditure, we will carry out efficient investments based on the order of priority. We also started the reduction of cross-shareholdings, and sold our holdings of 14 different

stocks for a total amount of ¥17.3 billion in fiscal 2016, and 9 different stocks for a total of ¥14.4 billion in fiscal 2017. We will pursue further cost reductions in the future so as to achieve an appropriate level of capital efficiency.

(3) With regard to financial leverage, while taking the future of business and trends of financial markets into consideration, we will pursue the realization of the optimal ratio of capital to liability. How much should we return to shareholders and to what extent should we reduce equity by using cash generated from operating income, asset reduction, and debt increase? We will find out the best way and realize it.

### 2. Reducing Capital Cost

(1) It is said that the capital cost is generally the expected rate of return, a percentage return expected to be earned by investors, and that the expected rate of return is proportional to the risk in that corporation. An exhaustive risk management and initiatives in ESG issues will also be crucial in order to eliminate the risk of tarnishing corporate value. As for an exhaustive risk management, I will oversee group-wide risk management as the CFO and risk management officer. Regarding initiatives in ESG issue, focusing on initiatives taken as a corporation, we are proactively disclosing such initiatives in order to reduce risks from investors' perspective. In the previous fiscal year, Daiichi Sankyo was the first Japanese company from the pharmaceutical sector to be listed on DJSI World, a world-leading ESG index, as well as the first Japanese company in the sector to be selected for the Silver Class distinction by RobecoSAM. In addition, through the further proactive disclosure of information, we would like to be a company selected by investors, which will lead to greater corporate value.

(2) Engagement means having a conversation with purpose, and we will foster mutual understanding and further improve corporate value through healthy discussions between investors and our management team. In the distribution of IR information, we will disclose information in a timely manner while giving consideration to transparency and fairness, and we will endeavor to undertake IR activities so as to narrow the gap in the corporate value envisioned by people inside and outside of the Company. In particular, we will proactively disclose information on the values of pipelines, which are difficult to represent numerically, and we will further pursue activities to promote understanding among investors. In the previous fiscal year, we strengthened the distribution of pipeline information through initiatives including organizing conference calls aimed at investors after holding presentations at major academic conferences in Europe and the United States, and we conducted about 350 interviews. As CFO, I myself will engage by proactively holding conversations with investors and analysts, toward realization of engagement.

