January 22, 2021

Summary of the Panel Discussion and Q&A Session at the ESG Meeting (Discussion with Investors)

Date/time: Friday December 18, 2020; 14:00–15:50
(Panel Discussion and Q&A Session: 15:00 -15:50)
Attendees from Sumitomo Dainippon Pharma:
Chairman Masayo Tada, President and CEO Hiroshi Nomura,
Outside Director Nobuhiro Endo, and Executive Officer Atsuko Higuchi
Panel Discussion facilitator: Mariko Mishiro, CEO, RIDEAL

■ Panel Discussion Comments from Chairman Masayo Tada (Summary)

- Mr. Nomura has just briefed us on the business model and materiality of Sumitomo Dainippon Pharma. Our single most important task is to continuously create in-house products and deliver them to patients the world over. We also believe it is important, with respect to both business model and materiality, to always have a contingency plan and act proactively in case we are unable to fulfill this task. After all, it is people that make our materiality a reality, and so we have been most attentive to the recruitment, training, assignment, and treatment of human resources over the last ten years.
- Our material issues for governance are three-fold: effectiveness of the Board; relationships between minority shareholders and the parent company; and governance of overseas subsidiaries (those acquired from Roivant Sciences, in particular). I think it would be most appropriate to invite Outside Director Endo to talk about improvements in the first two issues and activities of the Supervisory Committee for Conflict of Interests in Transactions between Group Companies (hereinafter, the "Supervisory Committee").
- Let me then talk about the governance of the subsidiaries acquired from Roivant Sciences. We have our wholly-owned subsidiary, Sumitovant Biopharma, and its five subsidiaries, or our sub-subsidiaries. We send one of our senior employees to Sumitovant Biopharma as their Executive Vice President (EVP), who also assists their CEO, and three of their Board members are from Sumitomo Dainippon Pharma—a testimony of our commitment to the growth of the company. Sumitovant Biopharma's CEO concurrently serves as the chair of the five subsidiaries. Mr. Nomura is also a Board member of Myovant Sciences. We frequently communicate with Sumitovant Biopharma's CEO, who is invited to speak at our Management Committee meeting. Contrary to our initial expectations that the management of

the subsidiaries would entail copious resources, things have been very smooth so far. We understand that, because good governance is in place, we have been able to make Urovant Sciences our wholly-owned subsidiary and achieve progress in the development of late-stage development assets as planned.

■ Panel Discussion Comments from Outside Director Nobuhiro Endo (Summary)

- Enterprises are supposed to provide society with the value that they create. What is most important for enterprises is continuity, whereas what is important for society is, as indicated by the SDGs, sustainability. That is to say; enterprises may gain a reputation and ensure continuity only when they provide society with value and contribute to sustainability. We need to understand that society and enterprises are two sides of the same coin, with their sustainability and continuity complementary to each other. Because both sustainability and continuity need long-term perspectives, I believe that enterprises should play the role of drawing up a long-term vision for society, which is a very serious purpose indeed. I also believe that outside directors are expected to supervise governance and the course of action to take by enterprises from that perspective.
- Sumitomo Dainippon Pharma is a very earnest company and performs its duties with the utmost care in every aspect of its business. In terms of governance, they ensure that Board members are well informed at the Executive Committee so that we can discuss the agenda with relevant background information known by all, something made possible by the efforts of each relevant division. At Board meetings, free and open-minded discussions are encouraged, allowing every outside director to make comments based on their expertise.
- Comprised mainly of outside directors, the Supervisory Committee checked for a conflict of interests several months ago when Sumitomo Chemical and Sumitomo Dainippon Pharma were planning to establish a joint venture company called S-RACMO with an equity stake ratio of 49:51. The Committee examined if Sumitomo Chemical was exercising influence on Sumitomo Dainippon Pharma's free decisions and if there was any contractual issue. I am sure that Sumitomo Dainippon Pharma can remain cautiously sensitive to management issues if they sincerely listen to what those outside the company think.
- Today, I am here to hear your opinions, and I am happy to answer any question you might have in my capacity as an outside director.

■ Panel Discussion Topic 1: Corporate Governance

(Mishiro) I would like to invite your comments and suggestions on what Sumitomo

Dainippon Pharma is doing to ensure transparency of its business management, including discussions at the Supervisory Committee.

(Analyst) The Supervisory Committee is a brilliant tool to ensure transparency and is run chiefly by outside directors, which we evaluate highly. In many cases of parent-subsidiary listing in Japan, they do not have a clear set of measures to prevent conflicts of interest, but I believe that Sumitomo Dainippon Pharma's Supervisory Committee is as close to best practice as is possible. I have a couple of questions for Mr. Endo: Can the Supervisory Committee members really understand the nature of matters for discussion when a few outside directors and outside audit & supervisory board members are well-versed in the pharmaceutical business? And do you foresee any practical issues if other companies in other sectors have introduced a framework like the Supervisory Committee?

(Endo) To answer the first question, when we determine if there are conflicts of interest, it is important to be able to do so from the perspective of governance. We can comprehend contractual issues and other issues that may be encountered in a business context if we are adequately briefed. This being the case, even if we may not understand every single detail of business procedures, I believe we can safely determine if opposing interests are involved, so long as we understand the overall business process.
For the second question, it would be difficult to really see if there are conflicts of interest if the case in question is quite intricate, but I would say we can still assume what kind of power balance is in place throughout the business process. In that sense, it is very significant that Sumitomo Dainippon Pharma—a subsidiary of the parent-subsidiary listing structure—has this mechanism of the Supervisory Committee.

(Analyst) It is very impressive that the Supervisory Committee is the brainchild of Sumitomo Dainippon Pharma. I am sure that transparency will be enhanced further if you disclose the Supervisory Committee's activities wherever possible.

(Tada) If I may add, the Supervisory Committee decided that it would be in service for the benefit of the two companies if Sumitomo Dainippon Pharma would take the lead in managing S-RACMO, including day-to-day operations, establishment, and personnel affairs, because Sumitomo Dainippon Pharma owns key technologies. The Supervisory Committee thus reached the current agreement.

■ **Panel Discussion Topic 2: Materiality**

(Mishiro) You divided your material issues into two groups; how did this come about and

what positives has this structure brought to your business management?

(Nomura) At the 2018 ESG meeting, someone mentioned that we had too many material issues for them to see which ones were important. We then replied by saying that all our material issues are important, but we thought it would facilitate better understanding if we divided them into two groups. So, (in 2019,) we sorted out material issues into materiality that form the foundation for business continuity as our essential infrastructure and materiality linked to value creation of our business to drive dynamic growth. We do not think this is the final form, and we would like to hear how you think it could be made even easier to understand.

(Mishiro) Materiality can evolve through dialogue. I would like to invite your input on changes in the external environment and trends that we should be aware of.
I have many questions on how the company sets KPIs for its research and development; how do you go about deciding them, and what kinds of challenges and difficulties might you encounter in the process?

(Kimura) R&D forms the core of our business. The size of R&D expenses is far greater than in other industries, and we spend nearly 20% of our net sales on it. Because it can take as long as ten years before we can launch one pharmaceutical product, setting KPIs on R&D is always a challenge. It's possible to monitor the progress of individual experiments, but disclosing the data outside the company is a complicated and tricky process. To correctly assess progress, you need both objective and quantitative data. Currently, we disclose the data on our clinical development pipelines, that is, the status of our developing compounds in Phase 1, 2, and 3 studies. We are discussing how we should present the data on pre-clinical-stage research projects and detailed KPIs, but have yet to reach a satisfactory conclusion. As a result, our announcements have been limited to what is in our pipelines only. You are more than welcome to share your ideas and comments on how we should publish our R&D KPIs.

(Analyst) You divided material issues into materiality linked to value creation and materiality that forms the foundation for business continuity. I think it makes sense for a pharmaceutical company to structure things this way since the prime material issue is obviously the creation of innovative products, whereas respect for human rights, risk management, CSR, and corporate governance are all foundational. I think there is no need to reduce the number of material issues, as long as it is clear which issues the company deems important.
In his presentation, President Nomura mentioned that targets for material issues,

which are also described in Integrated Reports, were not established in the three deliberations at the Management Committee alone. My question then is, what steps did you take to establish them? For example, I believe that such targets should be determined after analyzing the operating environment and potential risks over the mid- and long-term by inviting outside experts' opinions and comparing your practices with others', in addition to interviewing employees. I am wondering what was done and what was not. Were outside directors involved in such a process? Also, you said that you decided to set qualitative targets only, and no quantitative targets were published. For the material issue of creating innovative pharmaceutical products, for instance, we investors hope the company will share the value being created. Without quantitative indicators, however, there is no way that we can see if the company is moving steadily toward its goals, and so we would like to see quantitative targets as well.
What is ultimately important is how you will go about achieving these material issues, but I cannot help but feel that the company is failing to show us how this is being done. You also mentioned that you will revise the Mid-Term Business Plan 2022 this year. I believe that you need to describe in the business plan how you will address these issues beyond fiscal 2022, five, ten, even twenty years ahead. So I ask that the company's strategy for realizing these material issues be incorporated into the next Mid-Term Business Plan.

(Analyst) Every listed company discloses their decision process concerning materiality in their Integrated Reports, and I think Sumitomo Dainippon Pharma should state that the company establishes material issues not just after discussions at the Management Committee but also by going through other processes such as inviting external experts' opinions, as well as state whether there exists a mechanism for revising them. This time, you decided to disclose qualitative targets only, which makes it difficult for us to see the overall picture. As it stands, if there were an ESG meeting a year later, it would be difficult to see what has changed and what has been achieved. With regard to human resources, for example, we are not sure how an increase in the number of employees sent overseas will end up enhancing future corporate value. In this regard, setting some KPIs on, say, how employee satisfaction changes over time could help shed light on otherwise unclear areas. I want to see the company take time to discuss what it emphasizes in pursuing the main business and set KPIs on issues that it deems more important than others.

(Higuchi) It may be possible to quantitatively assess employee satisfaction and engagement and analyze what factors contribute to higher engagement, but it is

difficult to determine how it leads to future corporate value. In terms of human resources development, we can quantify how many employees we have sent overseas and, in terms of training, we know how many employees have taken courses offered by the DSP Academy or how many more points they have scored in English proficiency examinations, but we are not certain how these numerical facts facilitate our value creation process.

(Mishiro) It is never easy to visualize how non-financial activities link to financial outcomes. We will continue to deepen and enhance the quality of our dialogues with investors and other valued stakeholders.

(Tada) What yardsticks we should use to assess the value that employee training creates is a challenge. If I were to give you an example of the benefits our employee training and their overseas assignments have brought, I would say the whole process of the strategic alliance with Roivant Sciences is an excellent one. For the negotiation with a company of such a novel form and the subsequent acquisition process, our employees who had similar experiences in the past or were familiar with business practices outside of Japan formed one big team to conduct due diligence and carried out the project without relying 100% on external consultants. This means a lot to our business administration, and we hope you can appreciate it too.

■ <u>Questioner 1:</u>

Q: I believe that the companies who joined Sumitomo Dainippon Pharma Group as a result of the strategic alliance with Roivant Sciences are promoting various initiatives under Sumitomo Dainippon Pharma's policies. What changes are being catalyzed by this in terms of ESG? What tasks are there left for future undertakings? And what lessons can Sumitomo Dainippon Pharma draw from working with them?

A: **(Nomura)** We now have to consider how we can successfully manage two of our listed subsidiaries, Myovant Sciences and Urovant Sciences, which is something we have never done before. I have assumed directorship and other positions at these companies, and I am learning through daily activities how we should go about strengthening the governance of our listed subsidiaries.

With regard to the "E" of "ESG," I must admit we have yet to make in-depth discussions, and so we wish to deepen our discussions in this regard as well going forward. For "S," Sumitomo Dainippon Pharma serves society by providing innovative pharmaceutical products or healthcare solutions. This new alliance with Roivant Sciences has brought with it therapeutic fields and technologies previously unfamiliar to the company,

allowing us to expand the breadth of value that we can offer. With regard to "G," we are having completely novel experiences. In the past, we used to manage our overseas subsidiaries much like we managed our Japanese subsidiaries, but I think we will have to take different approaches to their management and governance.

A: **(Tada)** The CEO at Sumitovant Biopharma is a woman with wonderful talent and personality. While the Black Lives Matter movement was at its height in the US, she was invited to give an educational presentation at another company. It certainly helped us to renew our recognition as to how important human rights issues are on a global scale over the long term.

■ **Questioner 2:**

Q: It is plain to see even from the outside that you are exceptionally competitive in the Psychiatry & Neurology area, but not much visible progress has been made in the Oncology area, chiefly because you are a latecomer, and there is a similar lack of obvious progress in the Regenerative Medicine / Cell Therapy field, primarily owing to regulatory issues. When you speak to those outside the company, please provide a larger context by weighing the relative merits of potential markets and scientific risks on the one hand and Sumitomo Dainippon Pharma's competitive edge on the other.
I was surprised to see some numbers quoted in the Mid-term Business Plan without success probabilities being adjusted. I think how Sumitomo Dainippon Pharma sees this process can be a very important message to the public. In particular, for the Oncology area and Regenerative Medicine / Cell Therapy field, where the company appears to be struggling, it would help us to assess your performance if you adjusted the way you publish your data.

A: **(Kimura)** At a point in time in the past, we released numbers without considering success probabilities, but now we make it a rule to publish numbers by including success probabilities. Because everything we do for drug discovery in those areas is new to us, it is challenging to calculate success probabilities, but we try our very best to compute the probabilities by gathering as objective numbers as possible. Meanwhile, we do have ample data on success probabilities for the Psychiatry & Neurology area because we have long been involved in this area, and you can see how successful our R&D efforts have been if you check our product line and development pipeline. We are hoping to have objective dialogues with you in the Oncology area and Regenerative Medicine / Cell Therapy field, although I must say that this is a case of easier said than done as we have just begun our ventures into these territories.