Q&A at the 17th Annual Shareholders Meeting

The contents of the question and answer has been partially revised to better understand.

Pre-submitted Questions

Pre-submitted Questions Q1:
Please explain the current situation and the impact on short-term business performance due to the change in the organizational structure of the Japan Commercial in April 2022.

A

In April 2022, we reformed the Japan Commercial into a new structure. For the purpose of providing and collecting more specialized information, we have established new sales departments that focus on specific disease areas and products, specifically, solid cancer, blood cancer, rheumatoid arthritis, and specialty care. In order to support their activities, we also reviewed all the commercial functions in the Headquarters. In addition, we have established two new departments in the Japan Commercial: the Digital Communication Department and the Commercial Excellence Department.
Since these changes took place in April, we have not yet fully verified the effectiveness of the new structure, and we are not at the stage to mention the impact on short-term business results, but we think that the new structure has been successfully launched and is functioning well so far.
We believe this new structure will enable us to keep providing the VALUE of our products to patients even in the face of drastic changes in the internal and external environment.

Pre-submitted Questions Q2:
“Other expenses” was JPY 104.3 billion which is excluded on a core basis, it would amount to approximately JPY 50 billion even after deducting the impairment loss of AT132, ASP2390, and ASP1951. What kind of expenses are these?

A

As stated on page 40 of the Notice of Convocation, a total impairment loss of JPY 47.7 billion was recorded for AT132, ASP2390, and ASP1951 in the fourth quarter of FY2021.
In addition, other expenses which incurred from the first quarter to the third quarter include: an impairment loss of JPY 21.5 billion due to the termination of the development of the DNA vaccine ASP0892, additional retirement allowance of JPY 15.8 billion due to an early retirement incentive program for employees of Astellas and domestic group companies, and an increase in the fair value of conditional consideration of JPY 7 billion due to the revision of zolbetuximab’s development plan, etc..

Pre-submitted Questions Q3:
Could you share the progress of the gene therapy program for glaucoma?

A

The gene therapy program for glaucoma is currently in the research stage. At the Astellas Gene Therapies, which serves as our core center for gene therapy, we are diligently conducting various preclinical studies to select candidates for clinical development.
The contents and progress of the research stage program are not disclosed for competitive reasons.

Pre-submitted Questions Q4:
A number of development compounds/therapies appear to have failed, what is the problem? Are there any promising development candidates to replace after Xtandi's patent expires?

A

In a medium- to long-term perspective, our most promising candidates to replace the revenue of XTANDI after its patent expires are “Strategic products,” such as XOSPATA, PADCEV, fezolinetant and zolbetuximab. The developments of these late-stage strategic products are progressing steadily.
In order to realize the long-term sustainable growth, we are working on R&D activities based on the Focus Area approach. Those programs from Focus Area approach are at an early development stage now and still prior to confirming the efficacy and safety of the investigational drugs in human.
In general, the greatest risk of failure is at this early stage of development, because animal models are not the same as the human disease, unexpected toxicities could happen. This is especially true when we pursue novel targets and utilize innovative technologies used in our focus area strategy. To manage this risk, we have a fairly broad early-stage portfolio spread across various mechanisms and technologies.
In FY2021, unfortunately, there was no program to confirm the efficacy and safety of the investigational drugs in human. However, we are confident that the Focus Area approach is showing progresses; it has created many new projects and some of the projects have initiated clinical trials.

Pre-submitted Questions Q5:
I cannot agree with the introduction of technology with big pharma in the United States because they put the highest priority on profits and do not care what happens to the rest. As long as they make profits, they have no consideration for patients and the general public. There are many excellent research institutes in Japan, so I want Astellas to prioritize the domestic approach and domestic institutes.

A

In recent years, we have not introduced any technology or product with big pharma, except in case where our business partners were later acquired by big pharma. For example, Medivation, a partner of XTANDI, was acquired by Pfizer in the summer of 2016.
Regarding alliances related to pipelines and technologies, both domestically and internationally, first of all, those pipelines and technologies must be extremely innovative to maximize the VALUE of patients, and secondly, they fit our strategy. And thirdly, they will contribute to the sustainable growth and profits of our company.
We have been actively pursuing R&D alliances with universities and other companies by utilizing our presence in Japan. For example, ASP9801, an oncolytic virus carrying an immunostimulatory gene that is currently in clinical trials, was introduced from Tottori University in March 2018. The Rx+® business program ASP5354 was also introduced from Mie University and Nagoya University. Recently, Japanese universities and companies are collaborating more, it enables domestic start-ups to grow faster. We will continue to position Japan as one of the important centers of innovation, while actively considering partnerships globally.

Questions from the venue

Questions from the venue Q1:
In Japan, I think it will be difficult to conduct clinical trials in the future due to the declining population. In addition, the environment and capacities are different in Europe and the United States, such as immigration policies and the healthcare system. I think it may be necessary to reorganize the healthcare industry in Japan and collaborate with foreign companies more. I would like to know what direction and strategies Astellas is planning to take on this matter.

A

Regarding clinical trial plans, we do not think that we are inferior to foreign-affiliated pharmaceutical companies because we have a comprehensive plan not only in Japan but globally.
We sometimes partner with the foreign-affiliated companies mainly for the anti-cancer drugs, when the monotherapy cannot show a sufficient level of efficacy. Depending on the stage, we conduct combination therapy clinical trial in partnership with the other companies.
There may be an aspect that it is difficult to conduct clinical trials in Japan due to the declining population, but we have development bases in the United States, China, and Japan. We consider the most appropriate region globally for development.
Especially in Japan, we work closely with physicians and are actively promoting the development of global products from the initial stage of development. So we do not think we are inferior in terms of the development capacity compared to the global pharmaceutical companies in the United States and Europe. On the contrary, accelerating development in Japan and other Asian countries by leveraging Japan’s strengths, we are also maximizing our strengths to promote the development of global development.

Questions from the venue Q2:
In addition to chemotherapy, new treatment options such as robotic surgery and heavy ion beam therapy are available to treat for prostate cancer. What is the advantage of XTANDI over them? Is there still room for growth in XTANDI?

A

For prostate cancer, besides chemotherapy, innovative drugs such as XTANDI have been available and surgical techniques are also advancing. However, with surgery and radiation therapy, it is difficult to eliminate cancer cells completely. There are many cases in which the cancer relapses several years after the surgery and unfortunately the cancer cells have spread throughout the body. In such cases, drugs are the best treatment.
For long-term treatment, a variety of options are required, and we believe that XTANDI, or other drugs, will contribute to elongating the life of patients.
It has been about 10 years since the launch of XTANDI, but it started with data acquisition from very late-stage cancer patients, and then accumulated evidence of efficacy and safety for early-stage cancer. Now XTANDI has indications for broad-based patients and is reimbursed in multiple countries, its sales have been growing steadily all over the world.
Recently, new data on survival rates with early use of XTANDI was presented at the American Society of Clinical Oncology (ASCO).
We have identified unmet needs that some patients are not fully satisfied with their quality of life (QoL) with chemotherapy and other treatments. By providing the physicians with data on the extension of survival rate and improvement of QoL by XTANDI, we believe it could lead them to provide better life and treatment to many patients with this drug.

Questions from the venue Q3:
I would like to know about the economic benefits of drug discovery research using robots.

A

In our drug discovery research, we are promoting so-called digital drug discovery that utilizes AI or robotics, and we are working to shorten the time required to select development candidates or improve efficiency.
Results have begun to emerge, such as successfully shortening the time required for compound optimization from two years to less than one year, and conducting tests by robots which humans cannot perform.
Since the number of robots that have been introduced are not many, economic benefits are not big at the moment. We will keep promoting such activities and establish a system that can lead to clear economic benefits.

Questions from the venue Q4:
I would like to know your current efforts of proving information to medical sites in variety ways such as MR, MSL, and online MR.
(MR: Medical Representative, MSL: Medical Science Liaison)

A

We have changed the commercial organization system of MR in Japan from geographical-based to product- and medical area-based.
In addition, the Commercial Excellence Department and the Digital Communication Department have been newly established with the aim of strengthening the digital channels and the collaboration with medical affairs.
With this new organizational structure, we utilize AI etc. to analyze needs, behavior patterns and thinking patterns of physicians, and feedback the results to MR. Based on that information, MR provides information tailored to each physician.
We are making efforts every day to search the optimal ways to provide information, not only by face-to-face interviews or through digital channels.

Questions from the venue Q5:
Regarding the core-based consolidated business results, it was explained that core operating profit and core profit decreased due to geopolitical reasons. Is it correct to understand that something unexpected happened? Can I assume that operating profit and profit will also increase if sales increase in the future?

A

If JPY depreciates throughout the period, it should have a positive impact on our company which denominated in JPY. However in FY2021, JPY depreciated sharply towards the end of the fiscal year. It impacted mainly our procuring and manufacturing business, there was little time to appreciate the effect of the JPY depreciation by actually selling manufactured products produced from procured supplies. As a result, the JPY depreciation had a negative effect on us in FY2021.
On the issue of Ukraine and Russia, the two regions together normally have sales of just under 2% of the total, it is slightly affected by the war. For employees in Ukraine, we prioritized their safety rather than business and supported them to move out of the country. Until a few years ago, we have been putting greater importance on cost of procuring raw materials and manufacturing, but due to this geopolitical problem, we cannot only focus on cost. We must ensure stable manufacturing and drug supply to all over the world. Various efforts were made to build a new procurement and distribution system, it increased the raw material costs, and how we hold the inventory has changed too.
And also, clinical trials of post-PoC products such as fezolinetant and zolbetuximab are proceeding smoothly, we have decided to invest in various launch preparation activities worldwide from FY2021. We have also set the Organizational Health Goals and invested on its initiatives.

All of these combined has caused SG&A to increase. However, the majority of these will lead to our future growth, and there were temporary factors such as the war and the rapid JPY depreciation.

Questions from the venue Q6:
Please tell us how you measure and utilize the outcomes regarding the VALUE on page 42 of the Notice of Convocation.

A

In practicing our VISION of turning innovative science into VALUE for patients, we introduced the concept of “Return on Investment” by Dr. Porter of Harvard Business School. It expresses VALUE in the form of a fraction, with numerator is the outcomes that are truly meaningful to the patient and denominator is the cost that the entire healthcare system must bear to provide those outcomes.
In the early stages of R&D, outcomes and costs are broken down into several components and qualitatively compared to the current standard of care. As development progresses, data will gradually emerge on how effective the outcomes are, compared to the standard of care. While enriching the data, we try to measure what kind of VALUE is being created. Therefore, from the very beginning, we conduct research and development focusing on what is good about our products and what needs to be improved.
One of the main reasons for using this definition for VALUE is that we realized pharmaceutical companies have been only improving outcomes, but in order to achieve sustainable healthcare we must actually reduce the cost, the denominator. For the costs of the entire healthcare system, which is the denominator, there are direct costs (ex. medicine costs, surgery costs, hospitalization costs) and indirect costs (ex. cost of maintaining the healthcare providing system such as facility management expenses for hospitals and insurance reimbursement system, cost burden on the family and medical staff who look after the patients). For example, a treatment that requires to go to the hospital once a week is less costly than a treatment that requires to be hospitalized for a month. If the form of drug is an oral drug that you can take by yourself, it creates more VALUE than an injection at the hospital. With this idea in mind, we are conducting research and development of products.

Questions from the venue Q7:
Please tell us about the impact on business by the lockdown in China due to COVID-19.

A

Business activities are severely restricted due to lockdowns, especially in Shanghai and Beijing. However, in China, digital activities or remote activities are more prevalent than in Japan or the United States. Certainly there are restrictions, but we have been continuing sales and marketing activities, which has not caused any major negative factors in the short term.
In particular, regarding the drugs that we are currently focusing on in China: XTANDI, XOSPATA, and Prograf, we have not seen any major negative factors in the short term as we have a strong relationship of trust with physicians. However the activities are severely restricted, we are following the government's instructions and conducting our activities that are allowed within.

Questions from the venue Q8:
I would like to know about the impact of the earthquake that occurred in Ishikawa Prefecture on the day before the Annual Shareholders Meeting, June 19, 2022, on the business.

A

The earthquake on June 19 had a seismic intensity of 6 on the Noto Peninsula, but Toyama City and Takaoka City in Toyama Prefecture, where our factories are located, had a seismic intensity of 2 or 3, and no damage has been reported.

Online Questions

Online Questions Q1:
Among Japanese pharmaceutical companies, companies such as Takeda Pharmaceutical, Daiichi Sankyo, and Shionogi are developing vaccines and therapeutic drugs for COVID-19, but we do not hear the name of Astellas in the press. Do you have any plan to develop new drugs for COVID-19 and other infectious diseases?

A

Based on our R&D strategy, we are not conducting any research or development directly aiming for vaccines or therapeutic agents to treat COVID-19.
On the other hand, we are offering our drugs and compounds if the government requests and also participating in the public-private partnership, to resolve COVID-19 related issues in collaboration with other related parties.
We are evaluating the possible use of our drugs that are currently in development and in the market to treat COVID-19. This way we can contribute to the R&D of the drug development of COVID-19, leveraging our strength.

Online Questions Q2:
The COVID-19 infection has not ended yet. And living with COVID-19 has becoming a normal situation. Having this environment, we often hear the news that companies are looking for new ways of working. With COVID-19, what kind of initiatives at work have been conducted at Astellas? And what future initiatives are you considering?

A

Even before the COVID-19 pandemic, we have been implementing a system of combining working from home and working in the office with appropriate balance. Therefore, we did not need to largely change the culture because we have already had.
On the other hand, we are aware of the benefits of coming to the office, for example, human development and network building amongst employees.
Now we ask each department to find their best-balance between working from home and working in the office and we also try to create working environment that could encourage employees to communicate more.
Once COVID-19 ends, we do not assume going back to the conventional way of working, meaning working only in the office. Employees in the world will be able to select the most appropriate venue and workplace.

Online Questions Q3:
ESG's "S" is the Astellas' main business, but regarding "E", will you plan to contribute to the global environment by expanding business to decarbonization utilizing the knowledge and technology accumulated through pharmaceutical business? Or is expanding business to decarbonization out of scope because of the selection and concentration of business?

A

At this moment, we have no plans to start business on decarbonization by utilizing the knowledge and technologies we have, but we still prioritize the environment issue and recognize its significance.
We are making various efforts to decarbonize, such as purchasing only the electricity generated by hydroelectricity, covering most of the electricity in the plants in Ireland by the wind power we generate, and using geothermal power depending on the location.
We are gradually switching our commercial vehicles to electric or hybrid vehicles, and we will come up with more creative ideas regarding decarbonization.

Online Questions Q4:
Please tell us about your digital transformation initiatives.

A

In order to successfully implement the three elements of CSP2021, Strategic Goals, Organizational Health Goals and Performance Goals, we have set three critical enablers for achieving CSP2021, and digital transformation is one of them.
We have implemented digital transformation throughout the process of drug discovery to the maximizing product value in the market, such as:

- Drug discovery: Robots and AI to rotate work at high speed, called as Mahol-A-Ba
  (Mahol-A-Ba: Astellas' original cell drug discovery platform developed around "Maholo", an adaptable multi-operation humanoid robot)
- Development: Decentralized Clinical Trial to ease participation to clinical trials for patients by reducing geographic barriers, eliminating the need to travel to specific study sites
- Manufacturing: Analyzing various data obtained at factories by AI in advance, leading it to more efficient and safe manufacturing
- Sales activities: System that enables MRs and MSLs to contact healthcare professionals more efficiently and effectively
- Functions to support the company operation: Unifying many processes and systems globally that had been different among regions by introducing a system that enables more efficient operations

Also, in cyber security, if humans respond manually, the response will be very slow, so we utilize digital transformation to detect suspicious activities at an early stage.

(MR: Medical Representative, MSL: Medical Science Liaison)

Online Questions Q5:
The active utilization of DX is stated in the Strategic Goal (SG) 3. In SG3, it only mentions the domestic strategy, could you tell us the global strategies of SG3?

A

The Rx+® business, which we are working on as SG3, leverages the expertise and knowledge of Astellas, which have been cultivated through its Rx business, treatment with prescription drugs, integrates innovative medical technology with cutting-edge technology in different fields, to create new healthcare solutions. This is a very compatible business with digital, so the following initiatives are starting clinical trials in the Rx+® program.

- Efforts on Digital Therapeutics: digital treatments using mobile applications
- Using the technology of Iota Biosciences acquired in 2020, a micro device with extremely low invasiveness which can be embedded in the body to collect sensing information and also send signals to nerves, etc. In addition, efforts to build a closed-loop system that can supply power from outside the body to the device without carrying the battery.
- Developing fun video games to treat diseases which could support patients to continue the treatment, or developing a system that allows patients to notify healthcare professionals immediately when something goes wrong. These ideas might be hard to imagine coming from a pharmaceutical company.

Iota Biosciences is a San Francisco-based company in the United States, a subsidiary of Astellas, and is working on various Rx+® initiatives there from a global perspective.

Online Questions Q6:
It seems that Astellas' sales highly depend on Xtandi. What is the status of Xtandi's intellectual property rights such as its duration? Is it enough to contribute to the business?

A

XTANDI's substance patents will expire in August 2027 in the United States, June 2028 in Europe, and July 2029 in Japan.
From an IP perspective, we do not currently think that there is a significant risk of infringement of these patents.
The estimated global peak sales of XTANDI is currently JPY 600 billion to JPY 700 billion, and further growth is expected.

Online Questions Q7:
Evrenzo’s sales strategy in Japan seems to be struggling, how do you plan to fix the problems and get on the growth channel in the future?

A

In FY2021, Evrenzo’s revenue grew but unfortunately fell short of the forecast. In September, after the competitive product’s limit on the prescription period has ended, they have increased their market share in HIF-PH inhibitors more than we expected.
To compete against that, from FY2022 onwards, we have changed the structure of the Japan Commercial and sorted MR into more specialized units. By this, we have strengthened our sales capabilities by having more specialized MR visiting target facilities. We have selected priority facilities with high market share to allocate resources there.
We would like to expand our market share of NDD-CKD by also targeting the cardiologists who often treat renal anemia after the nephrologists.

(MR: Medical Representative, HIF: Hypoxia-Inducible Factor, HIF-PH: HIF-Prolyl Hydroxylase)