

Messages from Outside Directors

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Evolving corporate governance while maintaining the founding family's spirit and Otsuka's unique approach

Yukio Matsutani
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From My Appointment to the Present Day

The Otsuka group achieved growth before its listing through the charismatic management of its founding family. Since its listing, the company has shifted from being an owner-operated company to one in which leadership is chosen by shareholders. Such structural transitions sometimes lead to disruptions in areas including corporate governance, but in Otsuka's case it has been relatively smooth. The group's success in this respect is no doubt partly due to CEO Tatsuo Higuchi being a long-time veteran of the Otsuka group with an understanding of the founding family's spirit and expertise in global management. As the group expands the scale of its business for further growth as a truly global company, it must address how to evolve its management and corporate

governance structures while maintaining the founding family's spirit and Otsuka's unique approach.

One of the most important issues in global corporate governance is risk management. Global governance is extremely complex, as each country has its own challenges. But although there are of course many issues to deal with, I feel that the group is steadily building an organizational structure for addressing them.

Progress and Challenges in Global Governance

Given the diversity of the Otsuka group's shareholders, customers, clients, and other stakeholders, it is essential that we carefully discuss what the best overall structure for global governance is. The group has enjoyed the benefits of

a unique corporate culture since its founding, so it will be important to examine how to become truly global while continuing to reap those benefits.

Development through Diversity

Biological evolution is a continuous process in which individual species within a group successfully adapt to the surrounding environment and pass on their genes. As environments change, it is not always easy to predict which species will be able to adapt to any given change. In that sense, I believe the rich diversity of the Otsuka group's businesses will enable it to continue evolving with the times.

On the other hand, with such rich diversity comes certain inefficiencies. The aim of global governance is to deal with these inefficiencies. However, the group must determine what is to be managed as a group, and what is to be left to local operating companies to deal with in their own ways. Markets differ by country, as does the stage of development of each group business. Even business purposes differ. Overmanaging these businesses can also lead to inefficiencies. Clarifying responsibility for the timing and criteria for investment or liquidation decisions, or for evaluating the success or failure of a particular business is important, but overmanagement can also be costly. Given the difficulty of determining what to keep and what to eliminate from an organizational perspective, it will be necessary to create a platform for decision-making based on evidence and data.

Messages from Outside Directors

Maximizing value and generating sustainable growth as a group

Ko Sekiguchi

Outside Director
Otsuka Holdings Co., Ltd.



Progress in Enhancing Group Governance

In addition to ensuring the smooth development of each operating company's businesses, Otsuka Holdings must manage with a focus on how to maximize value and ensure sustainable growth as a group.

In March 2022, Managing Director Shuichi Takagi was appointed CSO to strengthen the corporate strategy functions of Otsuka Holdings. I believe this was a significant step toward enhancing group governance. The next step is to deepen discussion on whether the goal of each operating company is aligned with that of Otsuka Holdings, and whether each of those companies has a clear role to perform within the group, keeping in mind group-wide synergy and the group's vision for 10 years from now.

Regarding finances, in its Third Medium-Term Management Plan the group stated its intention to conduct business management with a corporate-wide awareness of

capital cost. Executive Director, CFO Yuko Makino is leading these efforts. In addition, the introduction and expansion of shared services is moving forward. I consider such services to be an extremely important factor in enhancing group governance. Group companies differ in scale, structure, industry, and stage of development, so it will take considerable effort to incorporate these services. Nonetheless, I believe progress has been steady.

Importance of a Global Personnel Strategy

In addition to the introduction and operation of these shared services, global personnel functions will also fulfill a key role in group governance. Currently, each operating company is responsible for the formulation and implementation of its own personnel systems and strategies. From a global perspective, however, having

numerous personnel systems and wage structures makes it difficult to implement shared services across all of these companies, and to ensure effective personnel utilization and education that will increase group-wide value. Once the roles and responsibilities of each group company have been clarified, it will be important from an organizational perspective to create a global personnel system and strategies that are linked to the level of contribution that those companies make to the group. In addition, giving consideration to an ideal remuneration system that could cover a variety of business types would further enhance group governance.

Responsibility to Contribute to and Fulfill an Important Role in the Group

We live in an era in which continuously creating and developing novel, innovative pharmaceuticals is difficult. This is why it is important for each business and operating company to responsibly engage in initiatives with an awareness of how they contribute to the group and what role they should fulfill. In the Nutraceutical Business, the group stands in a unique, unrivaled position, and therefore has great potential for even more innovation. There are very few companies in the world who cover everything from prevention to recovery.

I also believe there is a need to improve group-wide communication and strategic consideration of investment decisions and strategies. Entrusting investment to operating companies that have extensive experience, expertise, and competitive advantages in specific fields could lead to even greater value. This is an important approach given the group's aims to take capital cost into account in management.

Messages from Outside Directors



Creating robust mechanisms in anticipation of further globalization and development

Yoshihisa Aoki
Outside Director
Otsuka Holdings Co., Ltd.

Challenges in Global Governance

Until now, management of the Otsuka group was based on competition among its operating companies. This approach enabled it to grow into a unique total healthcare company. As the world becomes more complex and the number of Otsuka group companies reaches the 200 mark, however, I believe it is time to reexamine the group's direction and review the mechanisms for keeping it on track. As a listed company, Otsuka Holdings has a responsibility to contribute to its stakeholders by further boosting management efficiency and enhancing profitability. Consequently, the group must establish a new direction and rebuild its mechanisms while maintaining its founding spirit. The appointment of Managing Director Shuichi Takagi as CSO in March 2022 reflects the group's intention to do so.

In rebuilding mechanisms, Otsuka Holdings now needs to clarify the scope and scale of responsibility it will give to each group company. To ensure that the group's direction and profitability are not affected, Otsuka Holdings needs to strengthen the management and capabilities of each operating company while respecting their independence. At the same time, it must carefully balance responsibilities under its control as a holding company with the responsibilities it entrusts to operating companies. The Otsuka group already has various management mechanisms in place, but I believe even more robust mechanisms will be required if the group continues to develop through further globalization and if the number of group companies continues to increase. Although there is already a significant focus on personnel development in the group, it is now at the stage where preparations must be made to prepare for further expansion by strengthening

human resource development, rotation, and allocation functions within Otsuka Holdings to develop and increase the number of management personnel for group companies.

Further Growth in the Nutraceutical and Consumer Products Businesses

Compared to the management foundations of the Pharmaceutical Business, those of the Nutraceutical Business and the Consumer Products Business are still in the development stage. That said, the unique development of these two businesses has led to steady growth in their foundations. In the consumer products market, systems and values are undergoing major changes due to environmental issues, the need to address infectious diseases, and other factors. If the Otsuka group were to utilize bold investments in taking these changes as opportunities to employ its unique approach, I believe the scale of the business could increase significantly.

Founding Spirit

It is not easy to manage a company while maintaining faith in its founding spirit. However, the Otsuka group's founding spirit continues to be passed on through the group's corporate philosophy. My hope is that the group can make use of this philosophy to provide even more solutions that benefit people and society.

Messages from Outside Directors

Considering management policies and business strategies to further enhance the value of the Otsuka group

Mayo Mita

Outside Director
Otsuka Holdings Co., Ltd.



The Otsuka Group's Value as an Organization

The Otsuka group has grown into a huge organization and has diverse corporate history. With so many operating companies, the Board of Directors and the Corporate Governance Committee continue to deliberate over how to show the group's true abilities and maximize its underlying value. If the group can make full use of its strong management foundation and maximize group synergy, its value will no doubt increase. To date, the creativity of each operating company has inspired mutual improvement, enabling the group to generate numerous innovations. However, the current speed and scale of change in digitalization, borderless information sharing, and other external trends is unprecedented. Amid this environment, the call is even greater for corporations to improve their

corporate value through globalization, innovation, and synergy. At the Board of Directors, we constantly consider what management policies and business strategies will best improve the value of the Otsuka group.

Innovation and Efficiency through Creativity

The Otsuka group's structure enables it to create and facilitate relationships within the group that are unlike external collaborations. Some pioneering examples include the collaboration between Taiho Pharmaceutical and Otsuka Pharmaceutical for the sale of anticancer agents in the U.S., and the partnership between Otsuka Medical Devices and Otsuka Pharmaceutical. I believe making these

successes more visible could inspire even more successful collaborations among operating companies and projects.

On the topic of investments, whether it be in R&D, IT, or the expansion of sales channels, the Otsuka group can make much larger-scale investments than single entities. As a group, it can adopt a larger risk appetite for investments in promising domains. Meanwhile, in external collaborations too, the recognition that can be gained for the group's comprehensive strengths is much more significant than that possible for a lone operating company.

On the other hand, the group must also make the correct choices as social demands change with the times. It is therefore important to create new mechanisms that allow the group to take on new challenges that can in turn lead to virtuous cycles. With so many different businesses, it is only natural that their KPIs differ—what is important is that through the setting of KPIs, management is then undertaken with a sense of ownership and responsibility. Embedding the concepts of cost of capital and ROIC throughout every operating company in the group is a difficult task, however, converting these indicators into numerical targets is a way to increase decision-making transparency for both the business execution side and the governance side regarding business details and investment priorities.

In becoming a listed company, Otsuka Holdings welcomed shareholders as a new category of stakeholder. When shareholders purchase shares in Otsuka Holdings, it is because they look forward to the sustainable growth of the group. Communicating the group's commitment to growth to each category of stakeholder will no doubt lead to improved relationships of trust.

Messages from Outside Directors



Governance under which Otsuka is always moving in the right direction and aspiring to greater heights

Tatsuaki Kitachi
Outside Director
Otsuka Holdings Co., Ltd.

Governance as Expressed in the Corporate Philosophy

For me, the Otsuka group's corporate philosophy—"Otsuka-people creating new products for better health worldwide"—is the prime expression of what the group's approach to governance should be. The words "for better health worldwide" show the group's desire to ensure better health in governance too, in that it emphasizes a constructive approach to governance, in other words looking at what to eliminate and what to revise. "Creating new products," meanwhile, is an expression of the group's willingness to take on new challenges to reach greater heights. My role as an outside director is to ensure governance under which the Otsuka group is always moving in the right direction and aspiring to greater heights.

Strive to Do What Only Otsuka Can Do

The Otsuka group's communications often reference "what only Otsuka can do" and "uniqueness." To me, rather than connotations of "specialness" or "exclusivity," these words express how the group is willing to use strong leadership to take on challenges that others cannot.

Research and development requires a long-term commitment, process management, and supportive colleagues and partners. Meanwhile, large investments do not always guarantee success in R&D; sometimes, small investments can lead to major or fascinating results. Even if the outcome of a project is difficult to foresee, it is important for R&D leaders to commit to supporting their team. It is also necessary to create networks and exchange information, and to move forward while gradually revising the direction of projects as necessary. I believe the Otsuka group can apply all of these capabilities to great effect.

Meanwhile, to maintain better health throughout society, it is important to directly address the needs of patients, consumers, and communities. A representative example among pharmaceuticals is *ABILIFY MAINTENA*, a drug developed for schizophrenia patients that offers them a more convenient prescription format and solutions to the issues they face in society and life. *POCARI SWEAT* is another example. Although sales began one bottle at a time, direct contact with consumers raised awareness of the product's advantages, and built it into a popular brand. Almost 40 years later, Otsuka developed *POCARI SWEAT ICE SLURRY*, which supports construction workers and others working under extremely hot conditions, and is now promoting it at various sites. Products such as these could not have been created through product development and marketing activities that only had efficiency in mind.

A Key Mission: Enhancing Financial Efficiency

Today, the Otsuka group comprises 200 companies (including affiliated companies), each conducting independent management as an independent company. Moreover, some of these operating companies are engaged in multiple businesses. Although this approach is suited to long-term business management, including personnel development, it is important to further reinforce the methods and tools required to manage financial accounting and managerial accounting from different perspectives. In the current environment, in which there is significant movement at the macroeconomic level, it is essential to find the most beneficial means of implementing financial management and capital efficiency across all group companies. The Otsuka group must therefore incorporate approaches for enhancing financial efficiency, such as centralized capital management and foreign exchange risk management. Improving financial efficiency is key if the group is to meet the expectations of its shareholders and investors. While this will present a significant challenge, it is one that the group must tackle.

Message from the CSO



Combining the Creativity of Each Operating Company with Group Governance

The Otsuka group currently comprises 200 companies. To date, operating companies within the group have used their accumulated creativity and strengths to offer unique businesses and undertake independent management, while inspiring mutual improvement and generating broad-ranging innovation in the process. Since the shift to a holding company structure, as well as introducing shared services and improved corporate functions, we have sought to accelerate group synergy and innovation. To that end, we have built mechanisms to optimize asset use and promote collaboration, for example through information-sharing platforms for operating companies and shared value chains.

As society continues to become more diverse and operating environments rapidly change, we must take measures to continue to meet the expectations of our stakeholders and provide social value. In this sense, it is imperative that we integrate the creativity and management capabilities of our operating companies—which are responsible for carefully examining social needs and identifying what value we should create—with group governance, which will be key to enhancing the effectiveness of group management from a systematic, overarching perspective. In particular, due to rapid recent changes in the social environment, we need to rebuild supply chain networks in certain businesses and it is difficult to anticipate what the future will bring. As the group looks to further grow in scale and promote global development, over the last few years we

have sought to reinforce both strategic, proactive approaches to cooperation (by increasing opportunities for discussion on asset strengths and strategies) and precautionary approaches to cooperation (by enhancing monitoring of our operating companies and quickly finding solutions to emerging business challenges). We must also hold further discussions on ways to create a more robust organization, including the overall direction of the group and the significance and relevance of each business.

Diversity and Value Creation

As a total healthcare company, the Otsuka group's success is grounded in the diversity of both the industries it does business in and of the human resources and expertise it brings together. Furthermore, each operating company is at a different stage of growth. One of the group's biggest strengths is its ability to integrate different ideas and values from various perspectives. This enables it to respond to change and generate entirely new value as it goes about business and management. As a holding company, we must value the creativity of each business, develop opportunities for small projects to grow into major successes, and offer support for the creation of new value through group synergy. Moving forward, we will also look at promoting interaction among employees to create new environments where they can play active roles, as well as organizational personnel development programs that leverage employee diversity.

At the Otsuka group, our aim is to continue contributing to people's lives as a total healthcare company. By building strong relationships of trust and enhancing cooperation within the group, we will strive to ensure more robust group governance and management.