

The 6th AAPBS Annual Conference 2010



Roche Roche Group

Chugai's Business Strategy in Drastically Changing Environment of the Pharmaceutical Industry

2010. 10. 29

Osamu Nagayama
President and CEO
CHUGAI PHARMACEUTICAL CO.,LTD.

Challenges to Global Sustainability

Global Challenges

- Economic recession
- Potential protectionism
- Over-regulation
- Global climate change
- Explosive population growth
- Resource shortages
- Security of food supply
- Aging societies
- New diseases arising



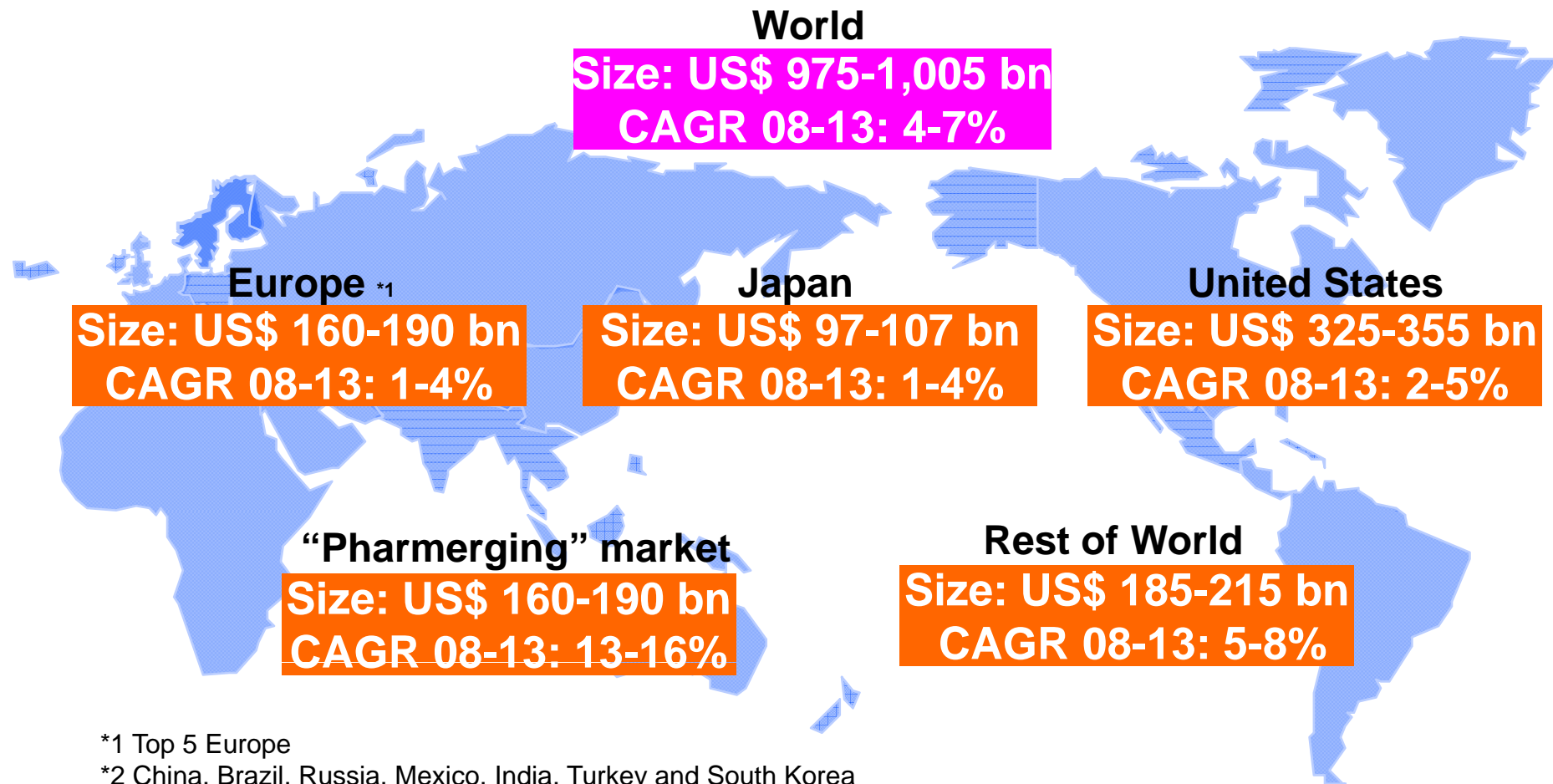
Life Sciences' Challenges*

- Equal access to innovation (affordability)
- Many diseases without enough therapy
- Possible game changers
- Relationship between innovation and market share
- Increased interdisciplinarity and open innovation

*Sir William Castell (The Wellcome Trust) in BioJapan 2010

1. Environmental Changes of Pharmaceutical Industry

Global Prescription Drug Market Forecast (-FY2013)



*1 Top 5 Europe

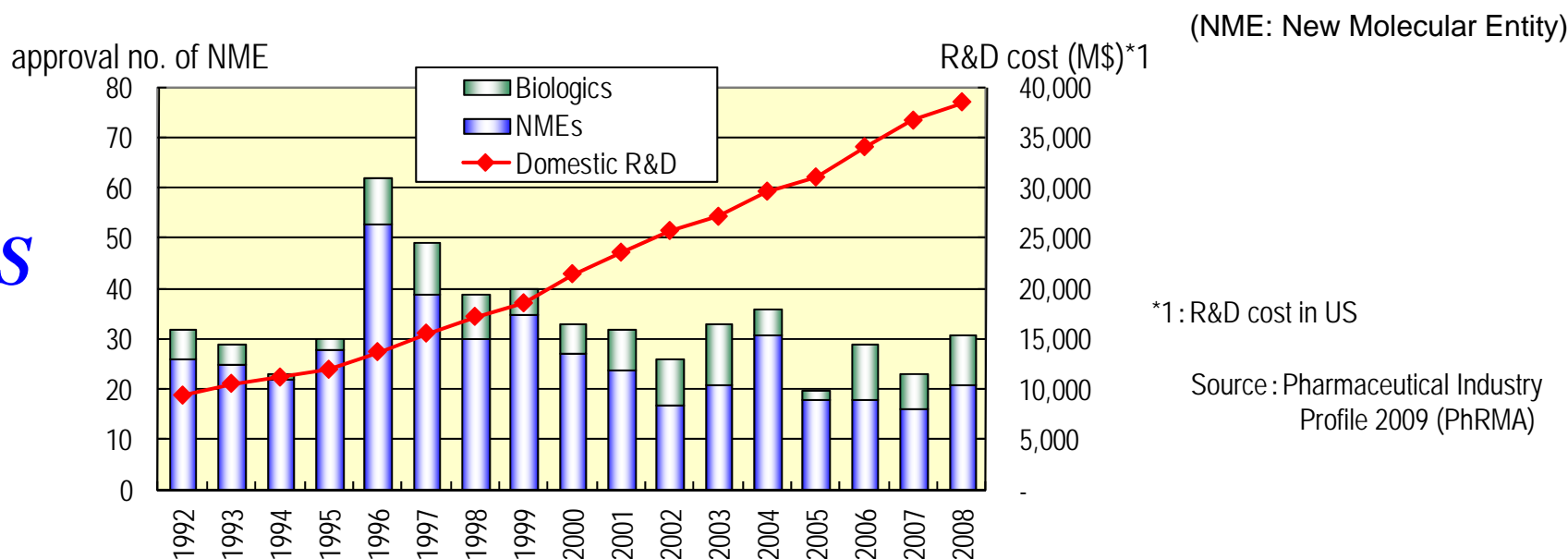
*2 China, Brazil, Russia, Mexico, India, Turkey and South Korea

Source: IMS Health, Market Prognosis, September 2009 (Copy and Re-print Restricted)

IMS STRATEGIC MANAGEMENT REVIEW – GLOBAL PHARMACEUTICAL PERSPECTIVES

Decreasing R&D Efficiency: New Drugs/R&D Costs

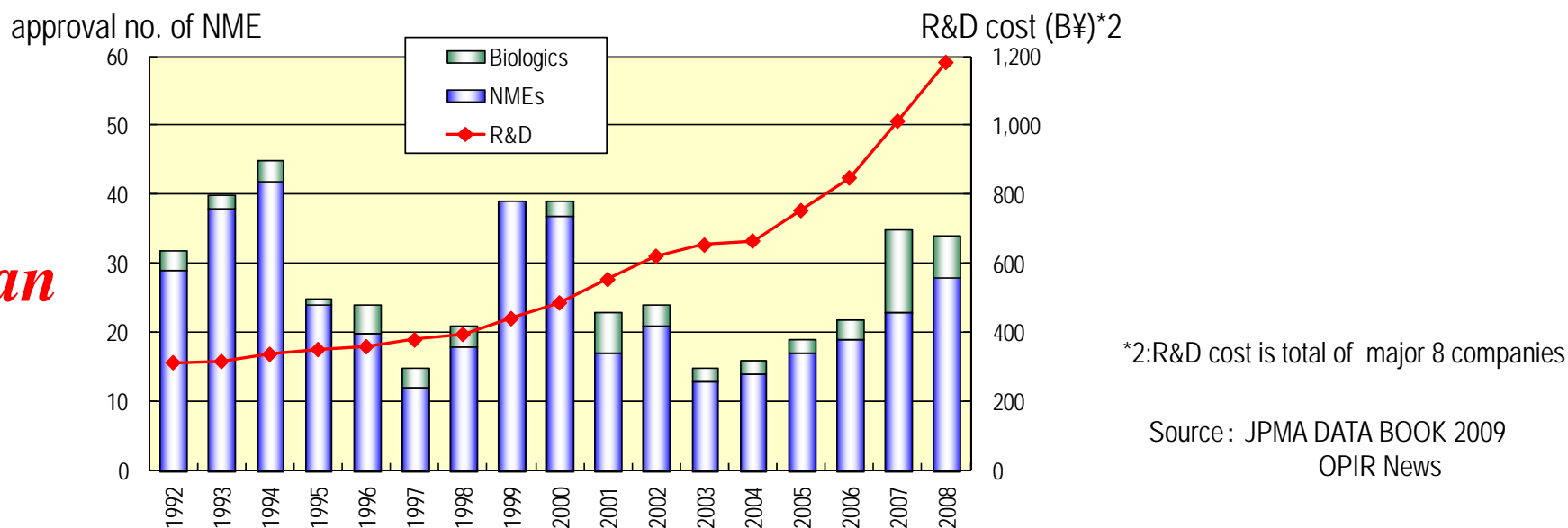
US



*1: R&D cost in US

Source: Pharmaceutical Industry Profile 2009 (PhRMA)

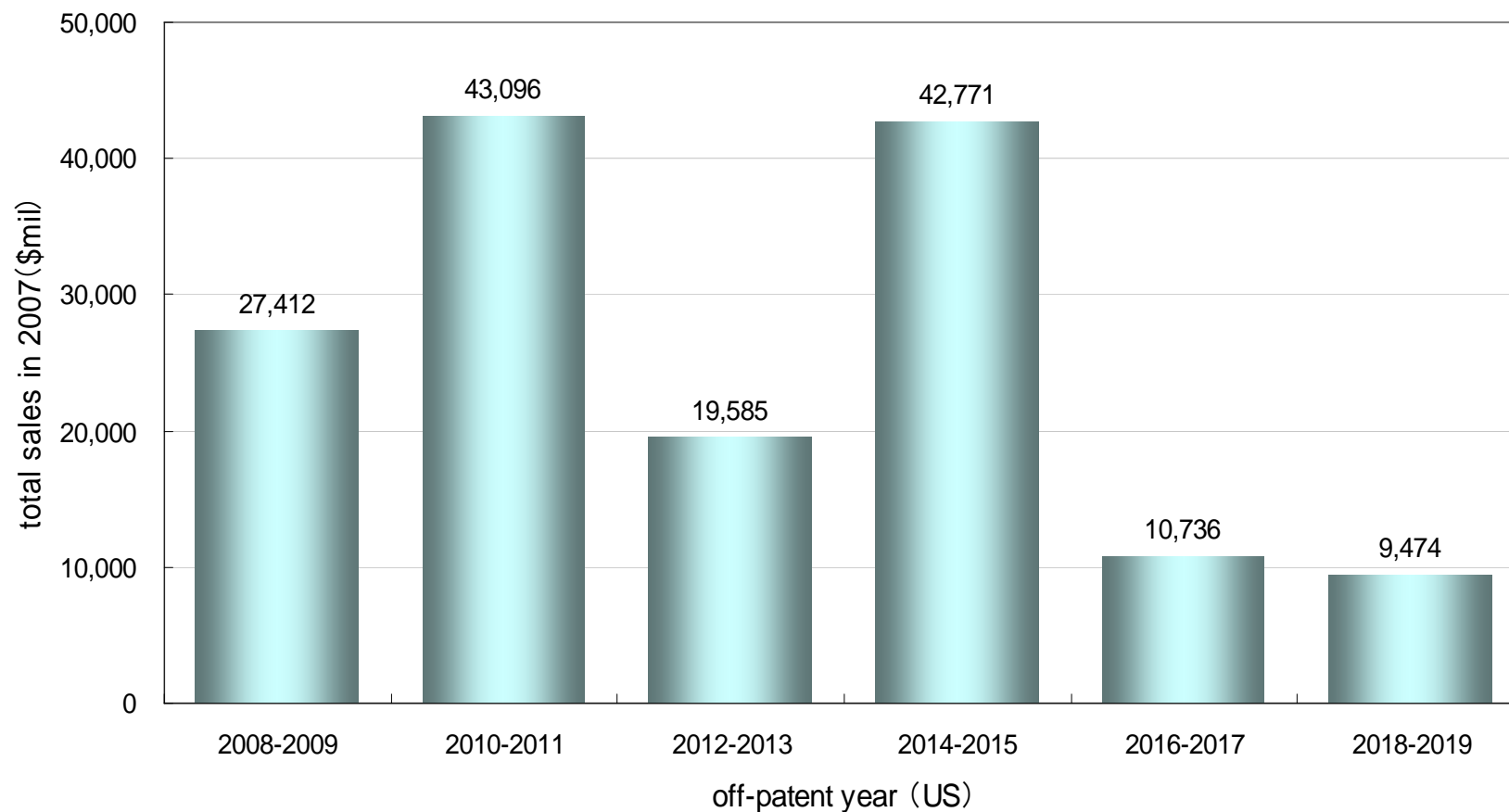
Japan



*2: R&D cost is total of major 8 companies

Source: JPMA DATA BOOK 2009
OPIR News

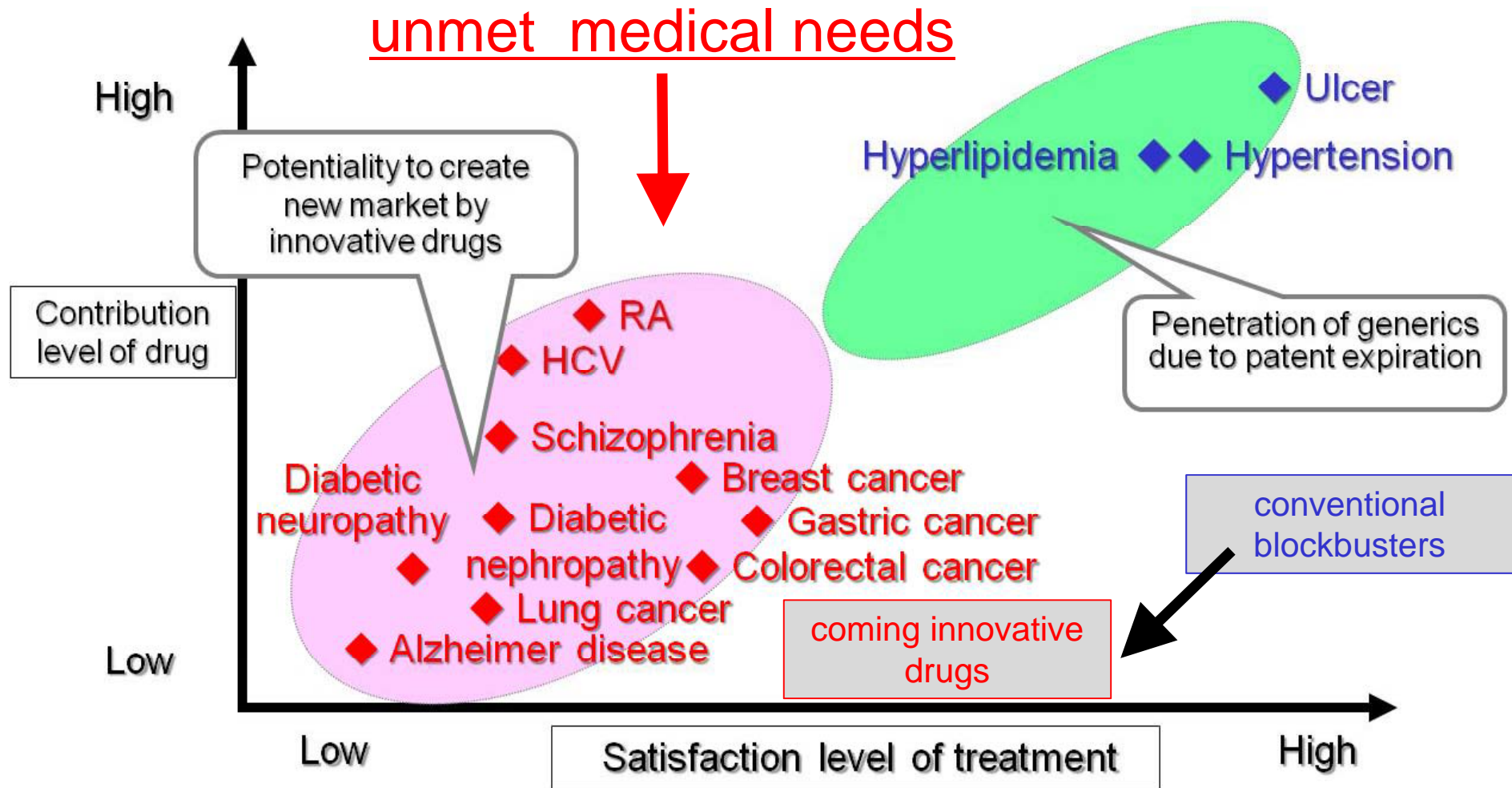
Patent Cliff around Year 2010 (Issue of 2010)



- 24 out of global top 50 products lose exclusivity (USD 90.1 billion) during FY2008-2013
- Approx. USD 132.9 billion will face patent expiries in 8 years by FY2015

=20% of global market in FY2007

Drug Target Shifts to Unmet Medical Needs

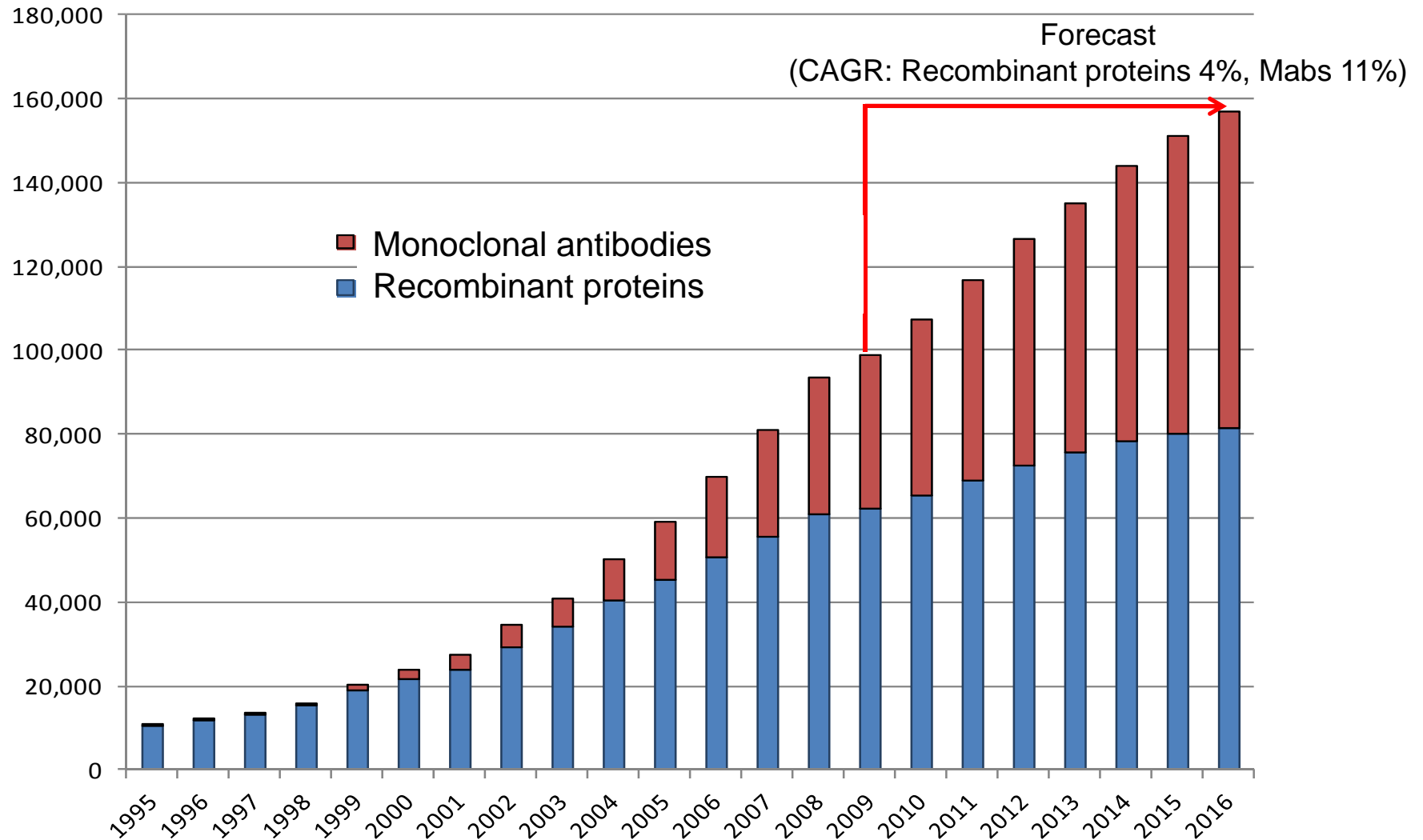


Source: Report issued by Japan Health Science Foundation

Global Biopharmaceutical Market Forecast (-FY2016)



(USD million)



Source: Evaluate Pharma (Copy and Re-print Restricted)

Increasing Biological Blockbusters

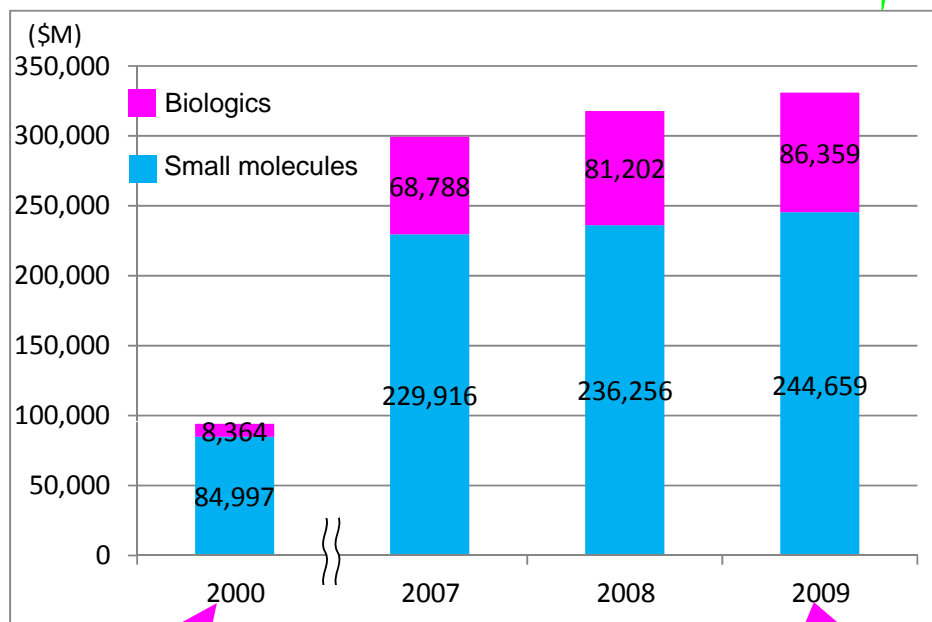
2000

Rank	Product name	Company	Sales (million USD)
4	Epogen/Procrit/Espo	Amgen/J&J/Kirin	4,666
27	Intron A/Rebetron	Schering-Plough	1,360
35	Neupogen/Gran	Amgen	1,220
40	Humarin	Eli Lilly	1,115



2009

Rank	Product name	Company	Sales (million USD)
4	Remicade	J&J/Merck(SP)/Mitsubishi Tanabe	7,143
5	Rituxan/MabThera	Biogen Idec/Roche	6,959
7	Enbrel	Amgen/Wyeth/Takeda	6,216
8	Avastin	Roche/Chugai	5,994
9	Humira	Abbotto/Eisai	5,560
12	Herceptin	Roche/Chugai	5,073
13	Epogen/Procrit/Espo	Amgen/J&J/KyowaHakko Kirin	5,026
17	Lantus	sanofi-aventis	4,414
28	Neulasta	Amgen	3,355
32	Novorapid/Novomix	Novo Nordisk	3,130
36	Aranesp/Nesp	Amgen/KyowaHakko Kirin	2,970
41	Prevnar	Wyeth	2,766
49	Lucentis	Roche/Novartis	2,386
51	Avonex	Biogen Idec	2,329
55	Rebif	Merck Sereno	2,203
59	Erbix	Lilly/BMS/Merck Serono	2,073
63	Humalog	Eli Lilly	1,959
66	Gardasil	CSL/Merck/Sanofi-Pasteur	1,852
68	Betaferon	Novartis/Bayer Schering	1,789
74	Pegasys	Roche/Chugai	1,594
78	Epogin/NeoRecormon	Chugai/Roche	1,503
79	Tysabri	Elan/Bigen Idec	1,500
88	Neupogen/Gran	Amgen/KyowaHakko Kirin	1,414
89	Arepanrix	Glaxo Smithkline	1,406
93	NovoSeven	Novo Nordisk	1,362
103	Kogenate	Bayer	1,273
118	Synagis	AstraZeneca	1,082
127	Humulin	Eli Lilly	1,022
129	Levemir	Novo Nordisk	1,006



4 products
USD 8,364 M
(9.0%)



29 products
USD 86,359 M
(26.1%)

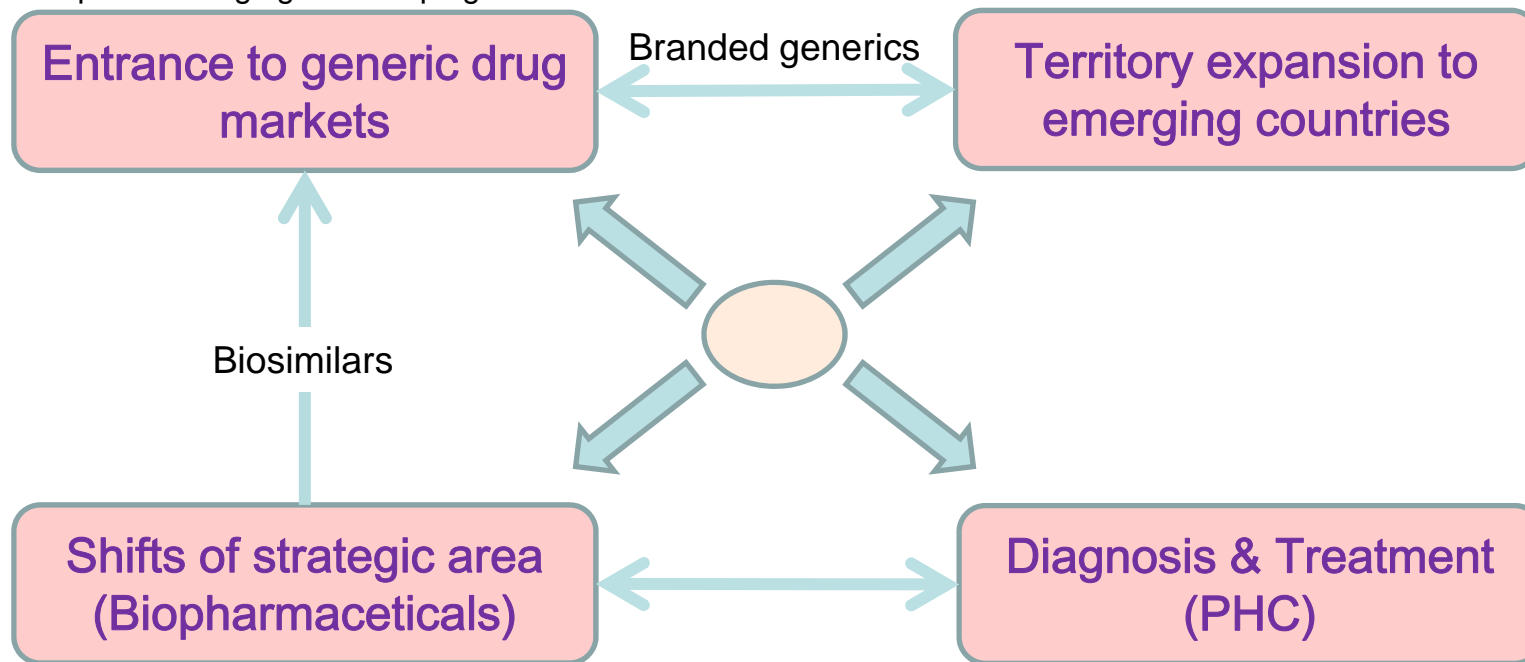
Antibody

Source: Pharma Future

Variety of Pharma's Strategic Options

Expansion of business territory (business, region)

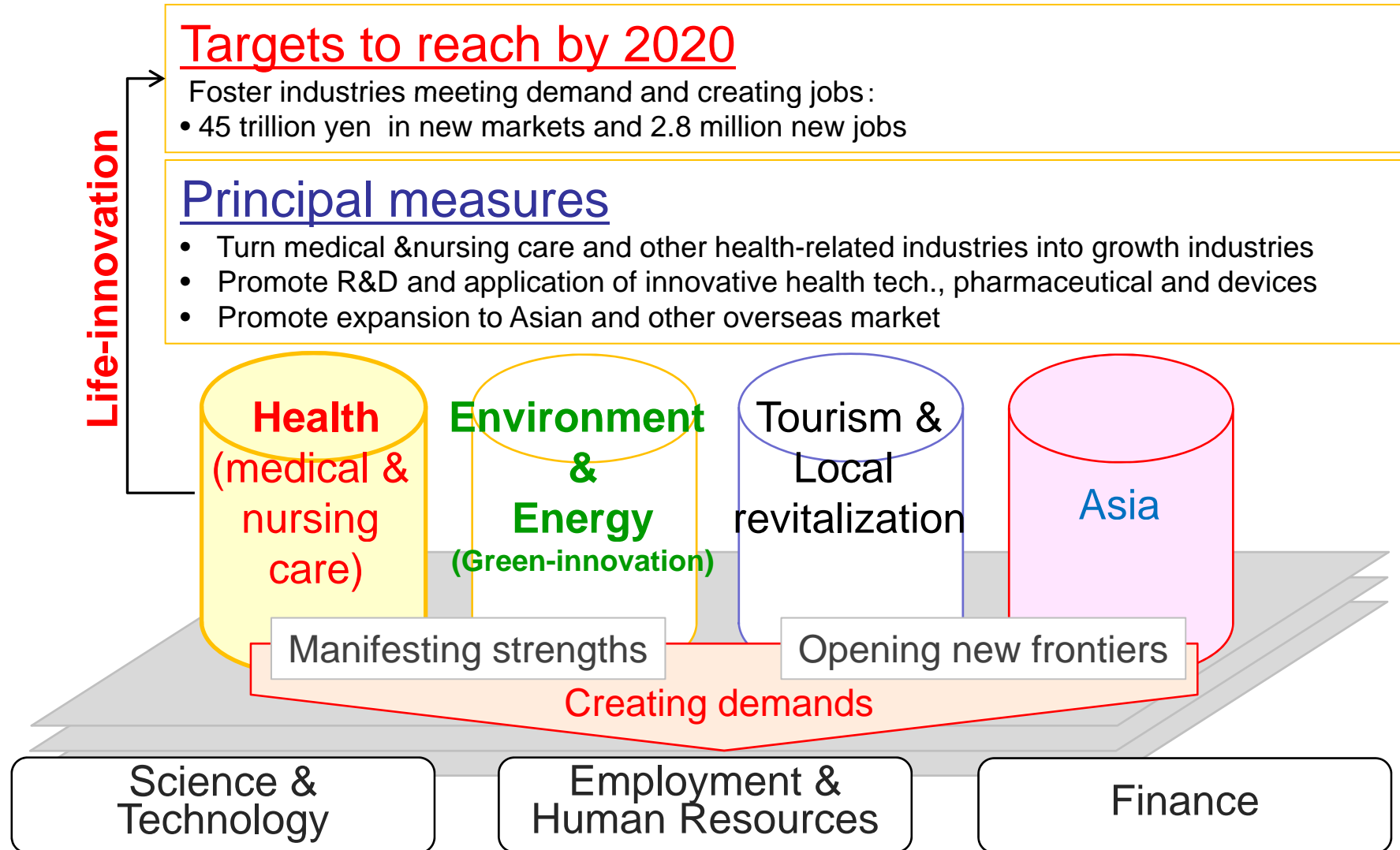
Developed / Emerging / Developing countries



- ◆ Creation of innovative new drugs
- ◆ Contribution to unmet medical needs
- ◆ Development of efficient medical treatment

2. Japan's New Growth Strategy and International Cooperation

Japan's New Growth Strategy (Healthcare area)

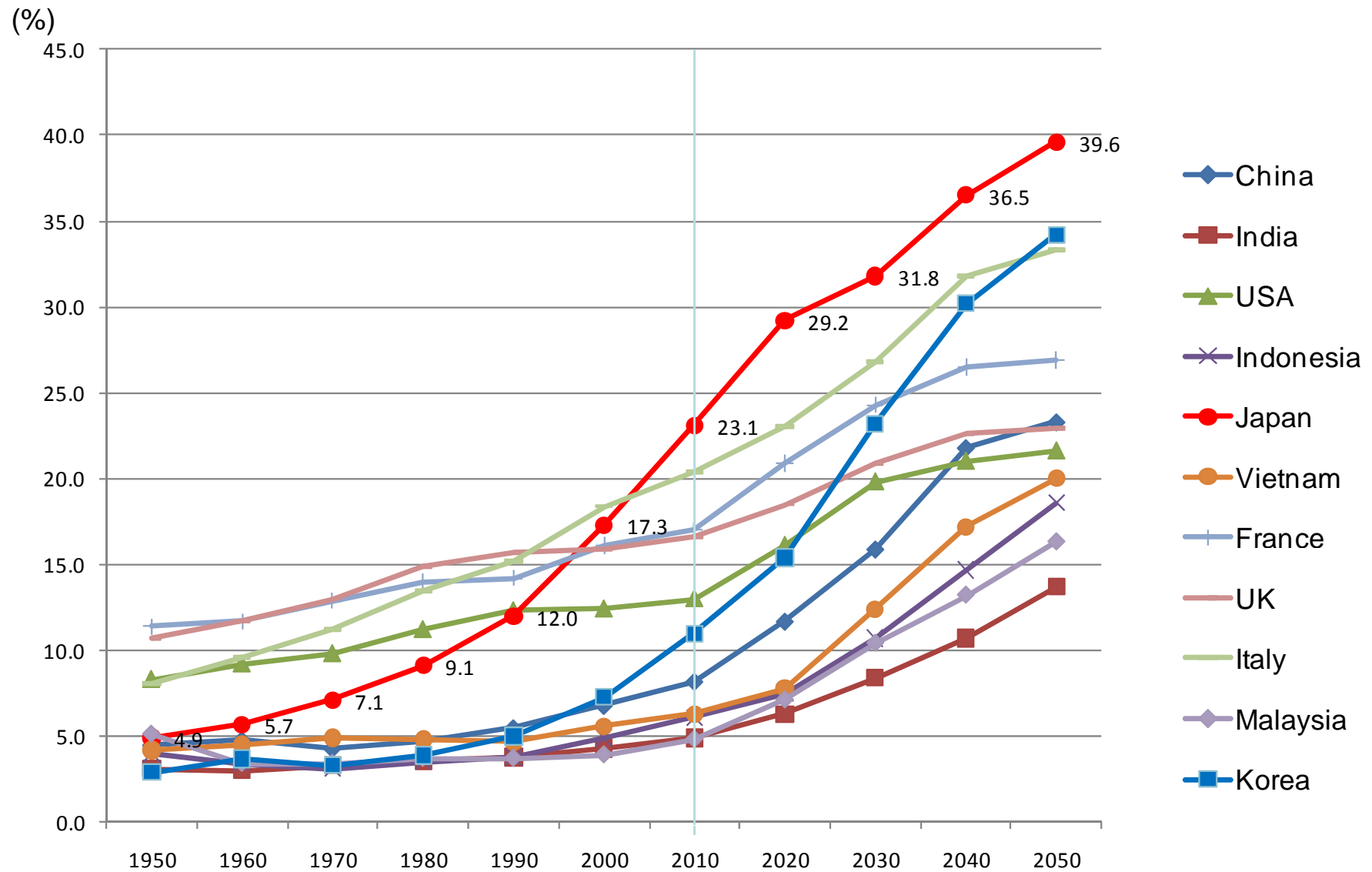


Asian Regions' Potentials

- Emerging economic growth
- Huge population and aging
- Improvement of social infrastructures
- Establishment of healthcare systems
- Upgrade of human capabilities and skills
- Increasing healthcare needs and consumers
- Accumulating knowledge and technologies
- Strong governments' initiative

- 
- A large yellow downward-pointing arrow with a thin blue outline, pointing from the list of potentials to the outcomes.
- ◆ Rapid growth of market
 - ◆ Creation of innovative products

Highly Aging in Asian Countries



Source: UN, *World Population Prospects: The 2008 Revision*

Cooperation between Asian Countries (example)

Internationally collaborative clinical trials

Genomic databases (basic, clinical)



Integrated analyses in Asian populations

Rapid patient access of innovative drugs

Biomarkers for personalized medicine



Medical supply model in aging society

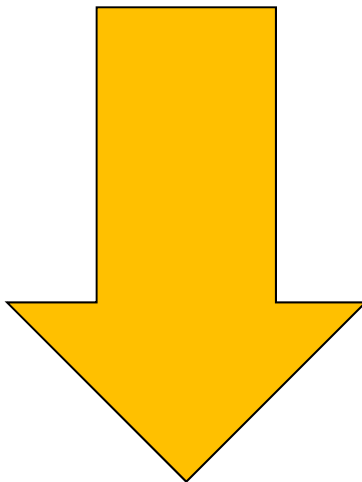
High quality and efficient medical services

3. Chugai's Business Strategy to Adapt Drastic Environmental Change

Chugai / Roche Strategic Alliance

- Roche owns majority of Chugai stakes (>50.1%*)
- Chugai merges Nippon Roche
- Chugai maintains autonomous management (listing at TSE)

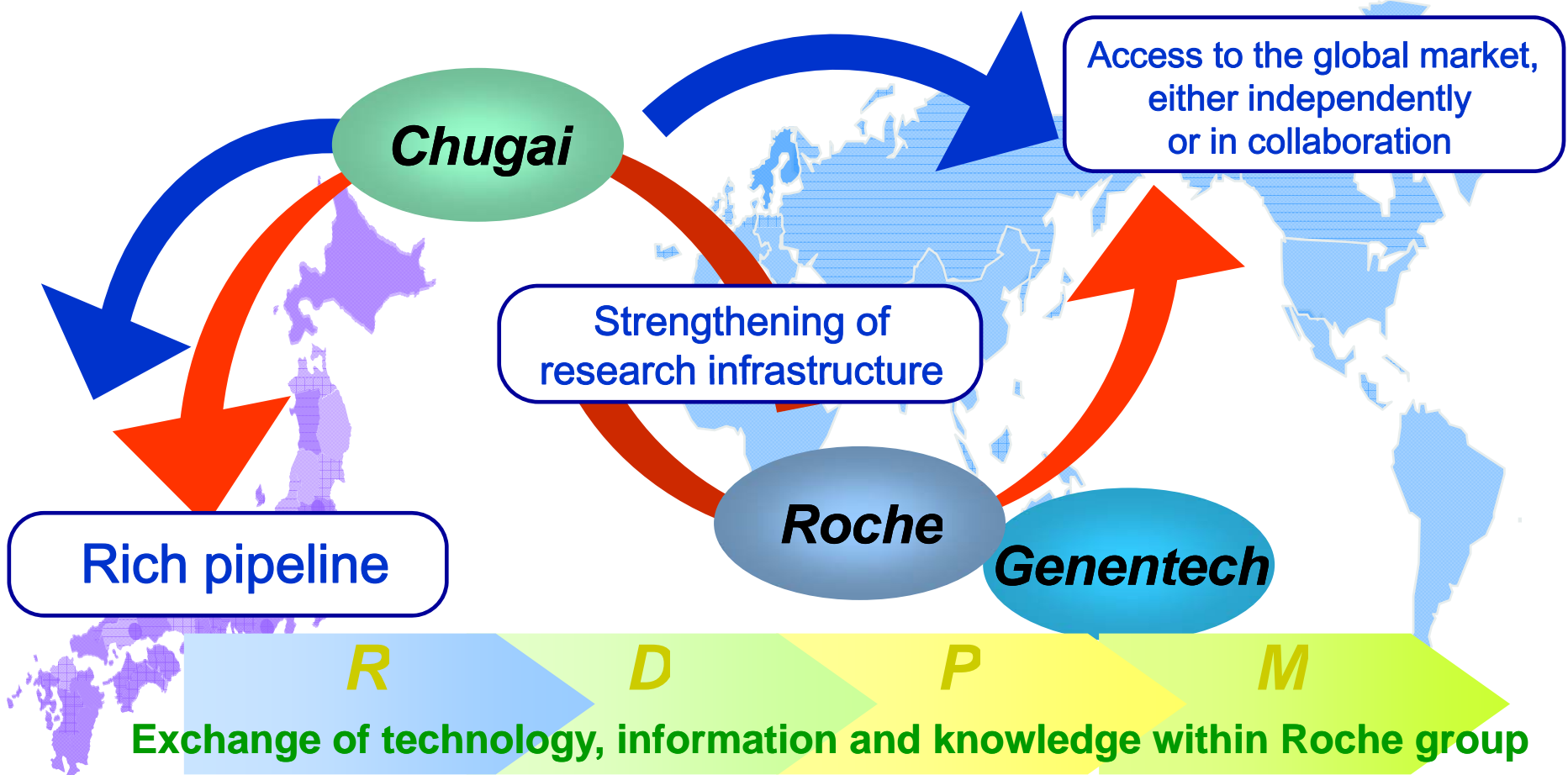
*Roche owns 59.9% of Chugai's share since FY2008



Win-Win Relationship with Network Management

Establishment of Global Competitiveness

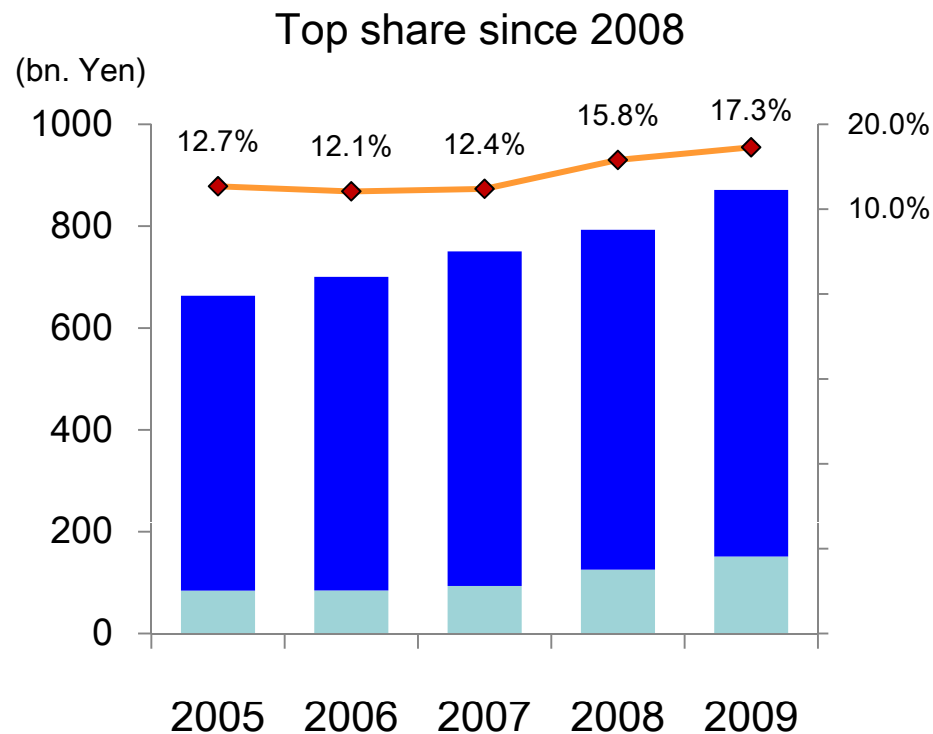
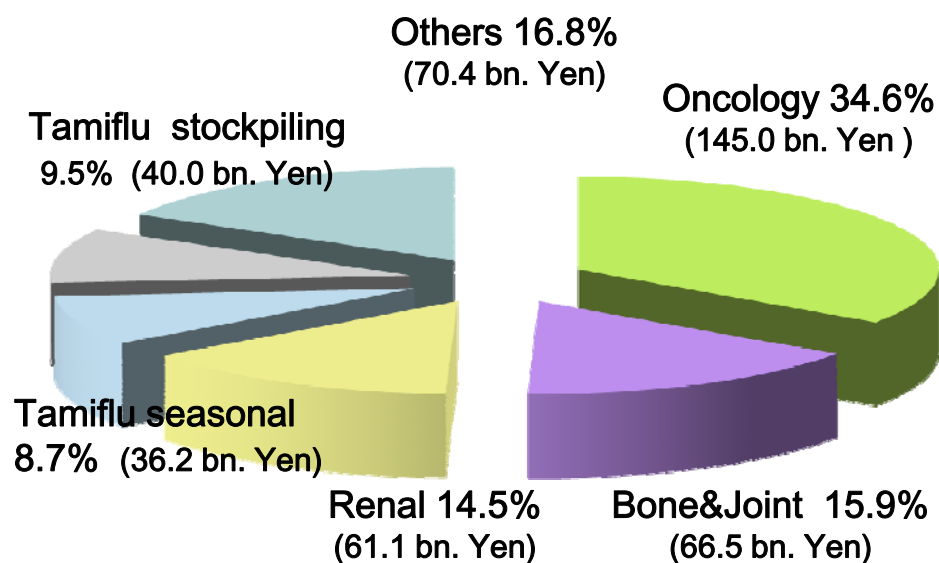
- ✓ Securing **diversity** & **creativity** through autonomous management
 - ✓ Enhancing **efficiency** & **productivity** through mutual collaboration
 - ✓ Competitiveness as the **top bio-pharmaceutical group**
- ⇨
- ✓ Continuous drug creation by leveraging **bio-technology**
 - ✓ Satisfying unmet medical needs, with a focus on **cancer**



Chugai's Strategic Areas and Sales

FY2009 sales ratio by disease area Domestic oncology market

Sales : 419.1 bn. Yen



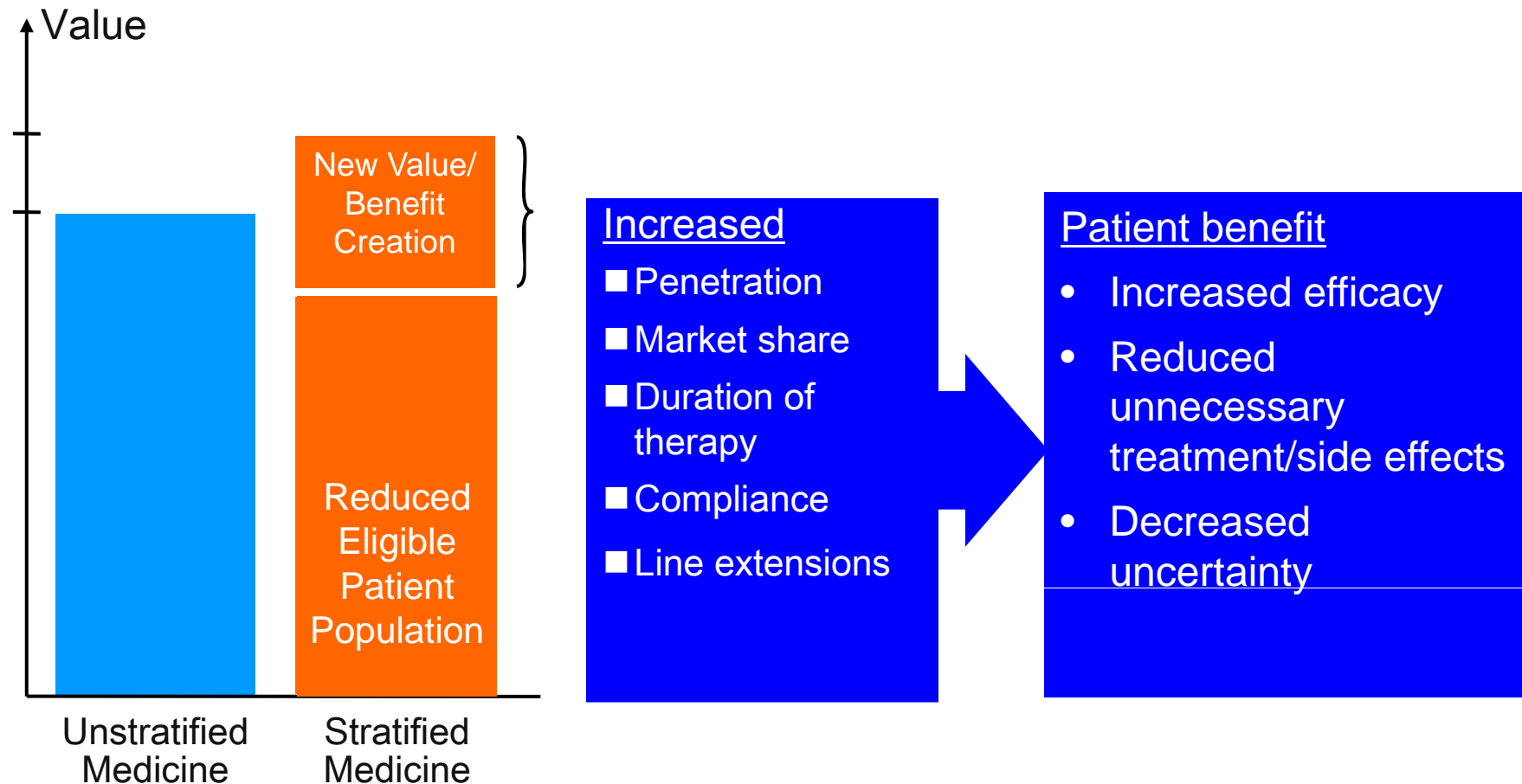
Figures calculated based on NHI price

Market sales ■
 Chugai sales ■
 Chugai share ◆

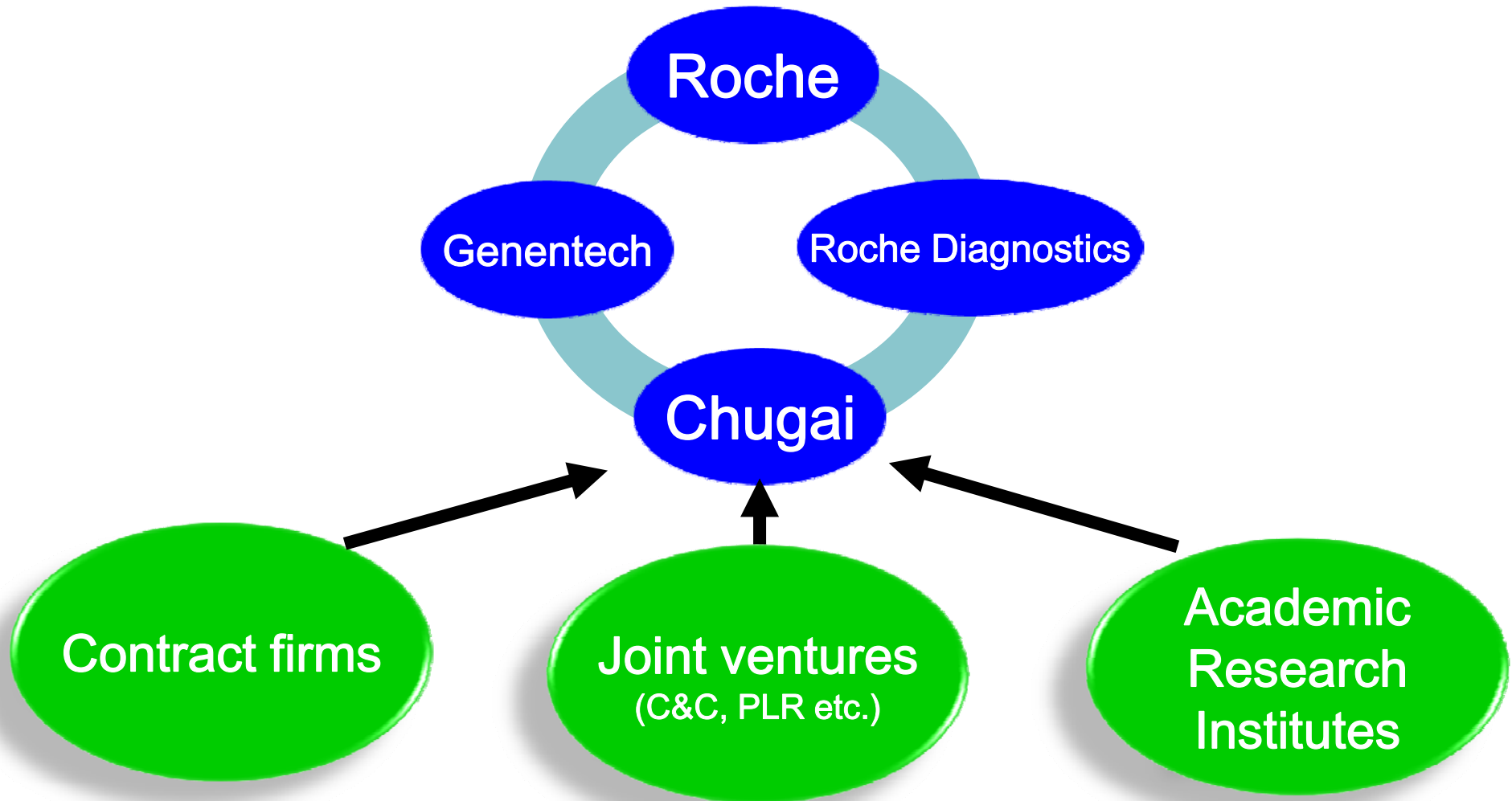
Copyright IMS Japan K.K.
 Source: IMS JPM 2005-2009 Reprinted with permission.
 The scope of the market is defined by Chugai.

Personalized Healthcare, PHC

Create patient benefits and commercial incentives



Create New Drugs via Original Research Network



Chugai's Products from Industry-Academia Collaboration



Product	Mode of Action	Indication	Launch	Sales*	Industry-Academia Collaboration
Alfarol	Vitamin D3 derivative	Osteoporosis	1981	20,000 (2002)	Univ. of Wisconsin
Sigmat	NO donor / K channel opener	Angina Pectoris	1984	19,300 (2005)	Univ. of Tokyo
Neutrogin	rG-CSF	Neutropenia	1991	39,200 (2007)	Univ. of Tokyo CEAI
Actemra	IL-6 receptor antibody	Rheumatoid Arthritis	2005	17,300 (2009)	Osaka Univ.

(*Peak or latest sales: JPY million)

Key success factors in Industry-Academia collaboration

(Management of Diversity)

- Mutual understanding and respects of value each other
- Consensus on the vector and interest toward a goal
- Complement of technologies and know-how

Innovative and competitive technologies can attract Industry-Academia collaboration

Current Chugai's Challenges

Patient-oriented	Persistence to provide value for patients
Pursuit of innovation	Pursuit of first-in-class/best-in-class innovative products and services
Human capital development	Implementation of individual talent management
Interdivisional cooperation	Establishment of an organizational culture that proactively pursues innovations across divisional lines

Late 2010's

“Top Pharma”

2010

Sales: 418.5 billion yen
OP: 70.0 billion yen

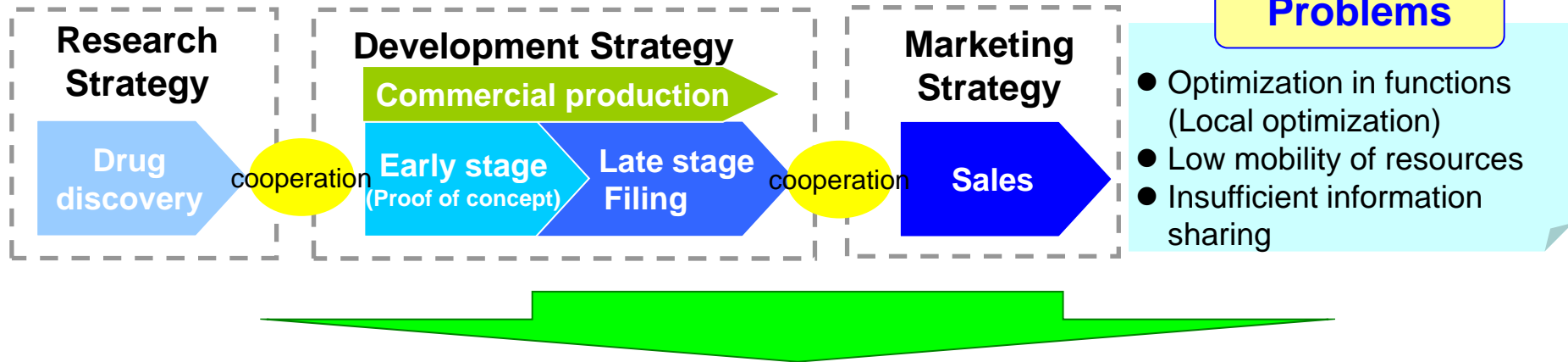
2012

Sunrise 2012
Sales: 460 billion yen
OP: 80 billion yen

Introduction of Strategic Marketing Function

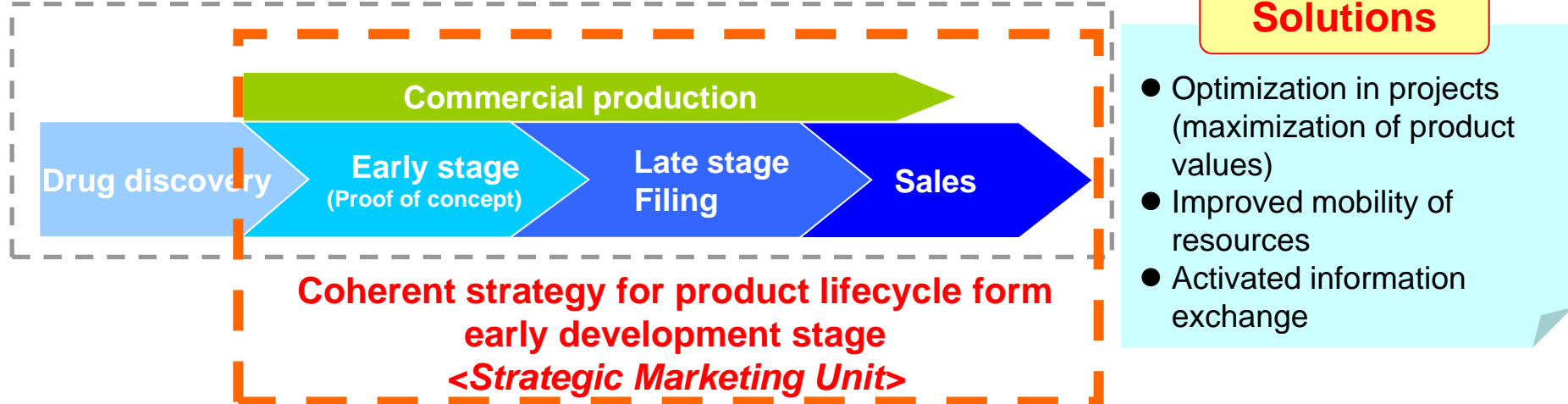
Past system

~Expertise of each function and cooperation~



Strategic Marketing

Disease area /product strategies covering from drug discovery to sales



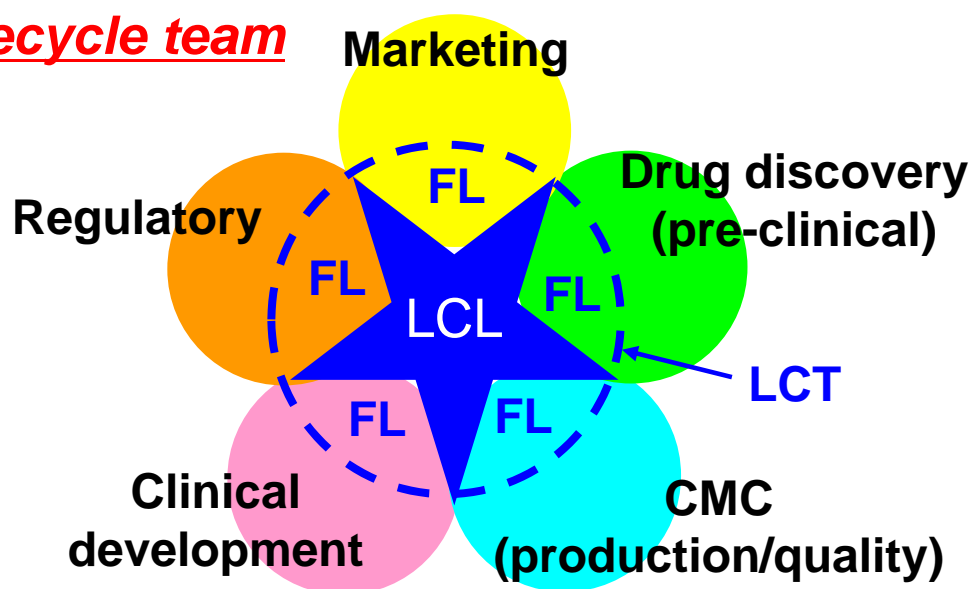
Promotion of Lifecycle Management

Lifecycle management from Sectional management

	Drug discovery (pre-clinical)	CMC (production /Quality)	Clinical development	Regulatory	Marketing
Project A					
Project B					
Project C					
Project D					

Lifecycle team (indicated by a red dashed box around Project B, C, and D)

Lifecycle team



LCL: Lifecycle leader
(promoting Lifecycle management)

FL: Functional leader
(representative from function/section)

LCT: Lifecycle team

Chugai's Human Capital Development

- Adaptation to drastically changing global market
- Explosive growth and globalization in business
- Global co-development of pipelines



***Need of
"Global Leader"***



Build up Leaders for Lifecycle Management

Further Recruitment of Foreign Worker incl. Asian

Roche-Chugai Exchange Program

Establishment of Talent Management/Diversity Management System

Enhancement of Executive-class Training Program



CHUGAI PHARMACEUTICAL CO., LTD.



A member of the Roche group