



Insights from the CFO Survey

Life Sciences Sector

19 April 2022

Life Sciences Sector
KPMG in Japan



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Survey Responses

Executive Summary

Based on the theme of sustainability transformation (SX), CFOs responded to a total of 29 questions for the CFO Survey 2021.

The results of the survey have now been analyzed and are summarized in this report for 16 participating companies from the life sciences sector.

01



Business Strategy

Existing businesses have been promoting SX given their close association with social issues, or the S in ESG.

02



Investment Strategy

We can see a trend of BCP focus driven by an aim to establish a stable supply-oriented system in light of the COVID-19 pandemic.

03



Risk Management

Companies are focusing on risk management activities, including strengthening their compliance system.

04



Tax

A reconsideration of the supply chain from the viewpoint of transfer pricing, custom duty and indirect taxes brings considerable tax implications.

05



Capital Policy and Corporate Funding

There is a marked tendency to expand DX investments and strengthen R&D for SX promotion.

06



Accounting and Finance

We can see a real awareness of and serious approach to SX promotion.



01 Business Strategy

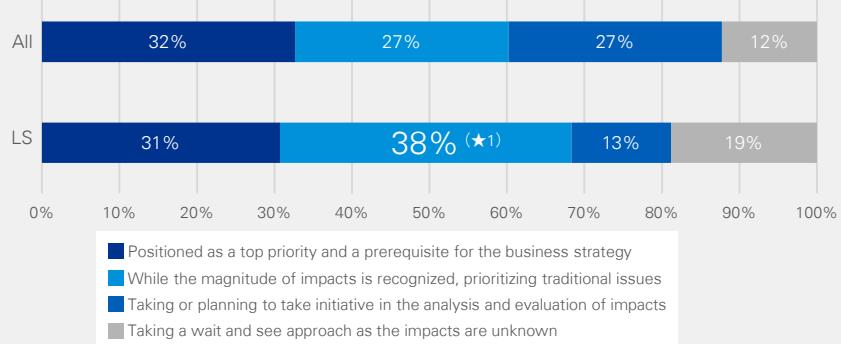


Companies in the Life Sciences(LS) sector have had a very close association with the S (Social) in ESG. Their business operations involve developing and manufacturing innovative drugs and medical devices needed by society, and providing a stable supply of such high-quality drugs and devices where needed, while providing valuable information to healthcare workers. This in itself fulfils the social mission of curing diseases, sustaining life, and improving quality of life.

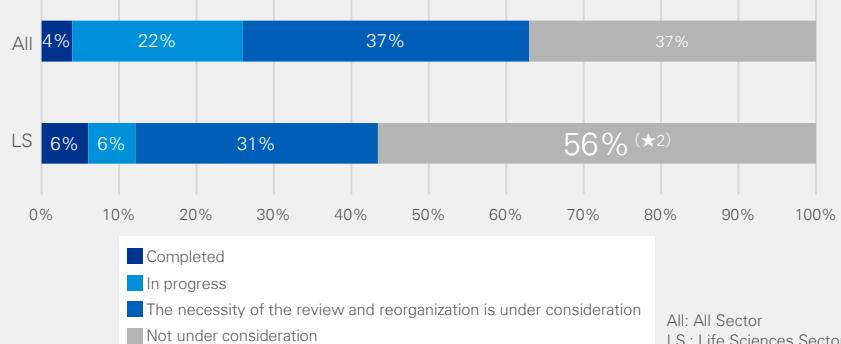


The above is reflected in the survey results, where more LS companies responded with regard to SX positioning that “[while the magnitude of impacts is recognized, prioritizing traditional issues](#)” ($\star 1$) and that [a review of their business operations on the premise of SX is “not under consideration”](#) ($\star 2$), compared to all industries.

Q Which statement best reflects the positioning of SX within your company's management issues?



Q What is the status of reviewing and reorganizing the business portfolio on the premise of SX?





02 Business Strategy

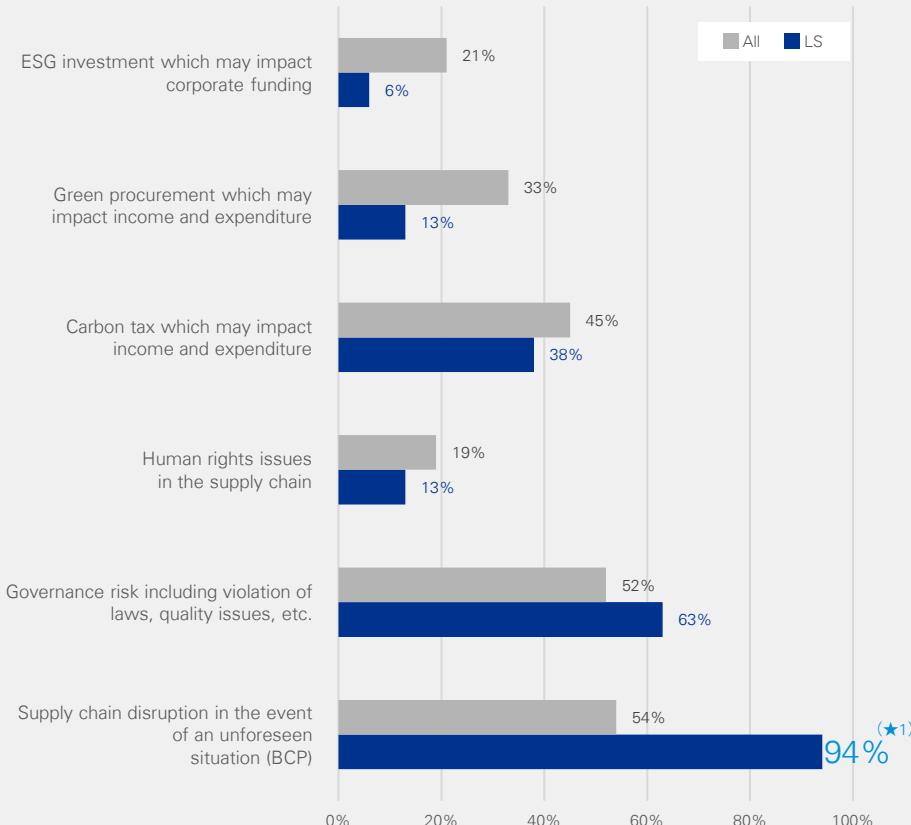


Another sector characteristic in business strategy initiatives is a trend toward focusing on the supply side. More than 90 percent of companies in the LS sector (50 percent overall) cited “[supply chain disruption in the event of an unforeseen situation \(BCP\)](#)” (★1) as having a significant impact on their business strategy.



Companies are expected to reduce the dependence of their API supply system on other countries amid the COVID-19 pandemic, and shift to a system that ensures stable supplies.

Q What are the top three concerns which you think will have a major impact on your company's current business strategy?





03 Risk Management



The survey found that around 60% of CFOs in the LS sector design and execute their risk management activities in association with material sustainability issues, while 41% overall (★1).

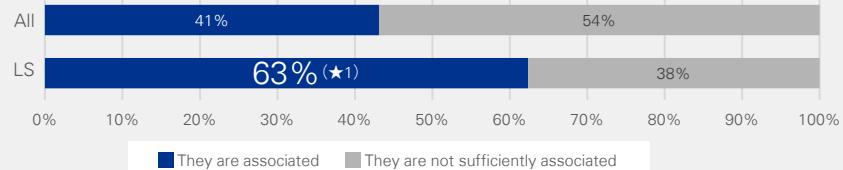


Against a backdrop of legal violations by generic drug companies and supply chain disruptions amid COVID-19, this result reflects an industry need to strengthen risk management systems for social issues including compliance and a stable supply chain.

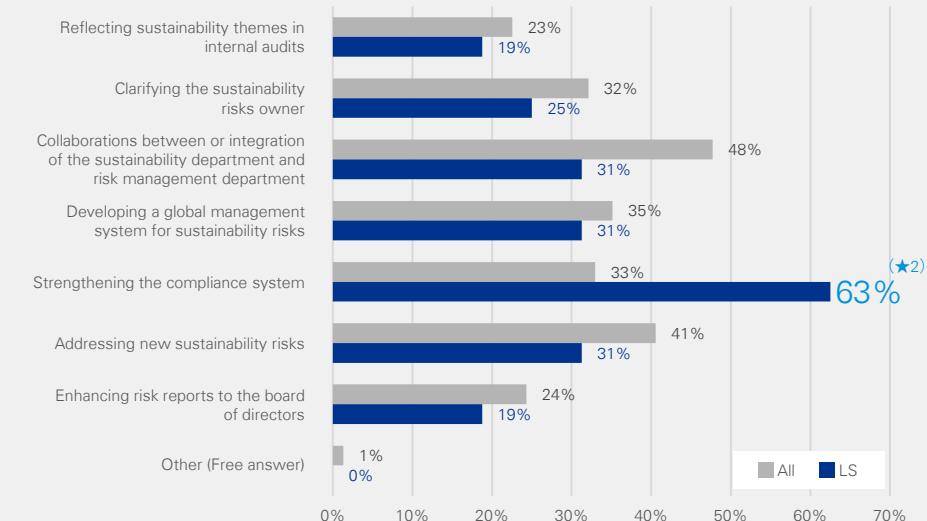


In addition, more than 60% of CFOs (30% overall) cited "strengthening the compliance system" (★2) as a particularly necessary risk management initiative for promoting SX.

Q Are the risk management activities of your company designed and executed in association with material sustainability issues?



Q What are the top three initiatives in relation to the risk management system which you think are particularly necessary in proceeding with SX?





04 Tax

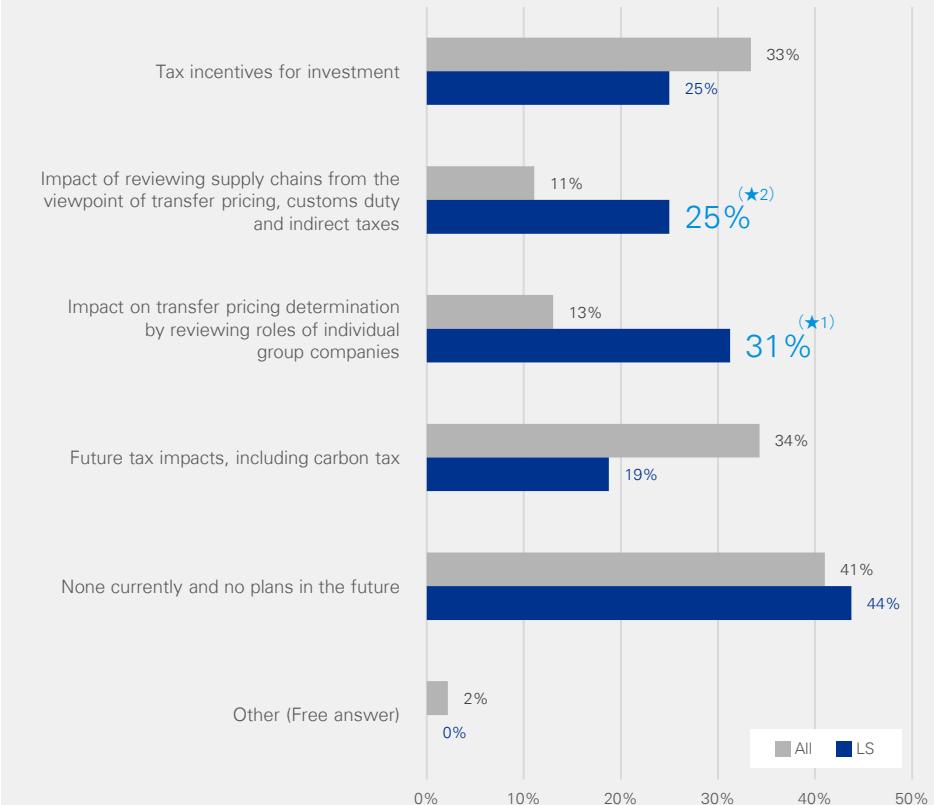


The survey also asked CFOs about tax-related measures or considerations in line with SX. The response rates for “**impact on transfer pricing determination by reviewing roles of individual group companies**” (★1) and “**impact of reviewing supply chains from the viewpoint of transfer pricing, customs duty and indirect taxes**” (★2) were higher for companies in the LS sector than other sectors.



While this result is in part influenced by SX promotion, it also reflects the tax implications of a reconsideration of supply systems mentioned before in light of supply chain disruptions amid the COVID-19 pandemic.

Q What are tax-related measures or considerations which you have implemented or plan to implement in line with SX? Please select up to three answers.





05 Capital Policy and Corporate Funding

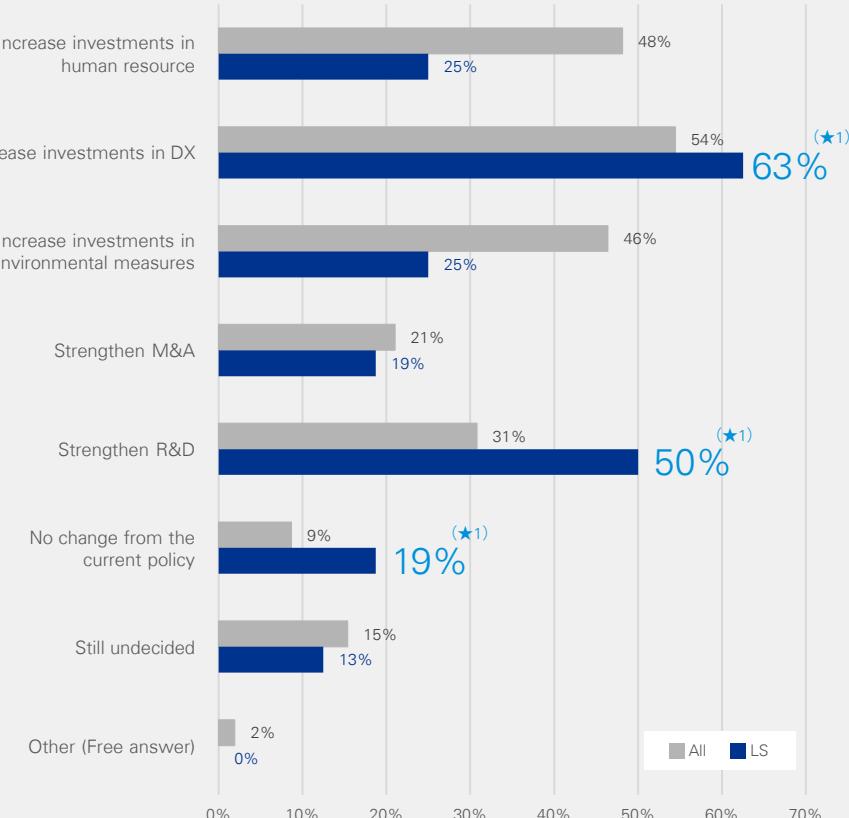


When asked how they will change their investment strategy for promoting SX, a relatively higher percentage of LS companies than in other industries responded that they plan to increase investments in DX, strengthen R&D, and no change from the current policy (★1).



These results reflect what we first mentioned in this report, that the core business of the LS sector itself is deeply associated with ESG. In particular, many companies are now more actively addressing the development of new products by strengthening R&D and the promotion of data utilization through DX as essential strategies for ensuring continuous growth of LS companies (Reference 1).

Q How will you change your investment strategy in promoting SX? Please select up to three answers.





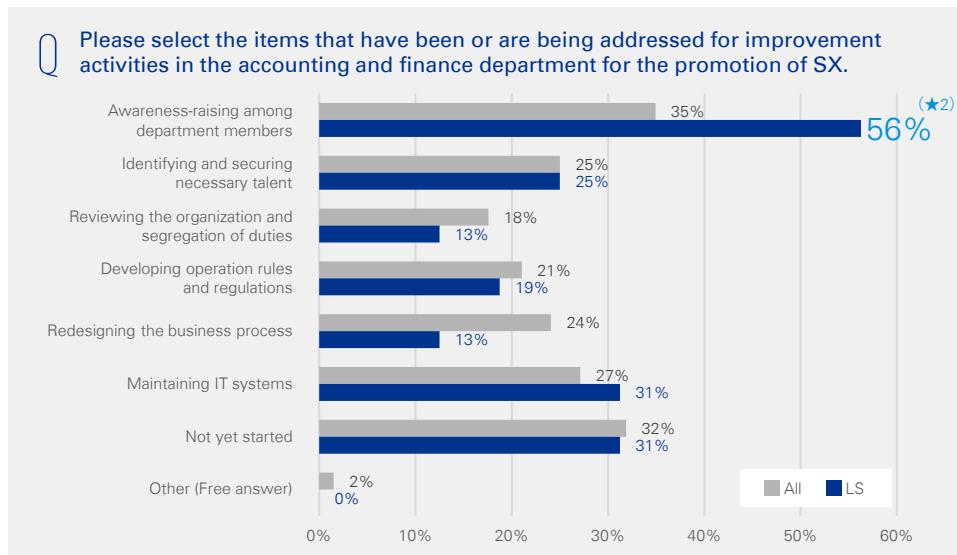
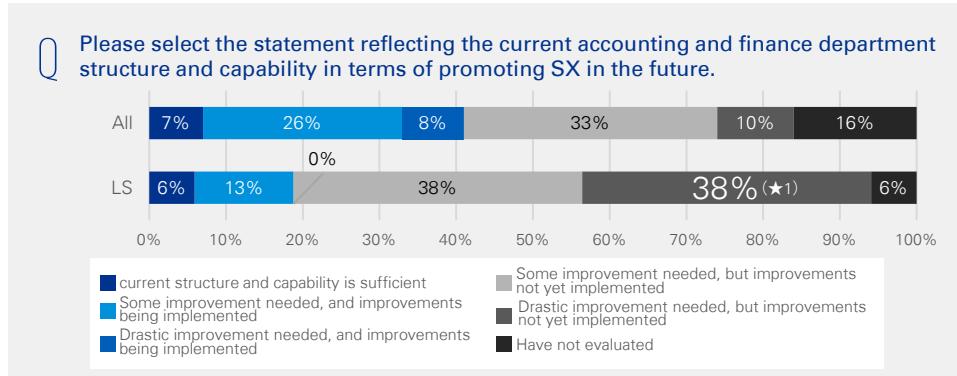
06 Accounting and Finance



LS companies were more likely to cite “[drastic improvement needed, but improvements not yet implemented](#)” (★1) with regard to the SX promotion structure within their accounting and finance departments. This result indicates that there is an awareness among LS companies, given the nature of their businesses, of the need to seriously address initiatives relating to lifestyle and the environment.



In addition, improvement activities being implemented by LS companies focused on awareness, such as [“awareness-raising among department members”](#) (★2). This result indicates that they have a serious approach to SX in the sense that they place emphasis on having relevant responsible persons take essential action, rather than implementing measures for the sake of formality.



Reference : DX Trends in Life Sciences Companies

In response to the business environment, and to new developments in technology and in policies and regulations in the LS sector, many pharmaceutical companies are looking to transform their business to that of service provider, offering value to other patient pathways, while also improving the efficiency of their core pharmaceutical business.

Business environment

- After patent expirations of blockbuster drugs in primary care, the effectiveness of innovative new drugs have shifted to specialty fields, such as intractable cancer and rare diseases, and medical care has progressed to personalized healthcare.
- Focus on preventive medicine in response to rising healthcare costs
- Entry of other industries such as IT companies into the LS sector
- Establishment of cross-sector consortiums such as Life Intelligence Consortium (LINC)

Developments in technology

- Expansion of data collection opportunities driven by the widespread use of and advancements in IoT and wearable devices
- Enhanced data analysis capabilities driven by the widespread use of AI and robots
- Active database developments driven by advancements in data storage and information processing technologies

Developments in policies and regulations

- Introduction of drug pricing control policies (e.g., drug price reform, health economic evaluation)
- Development of collaboration infrastructure for public DBs (e.g., NDB, nursing care DB)
- Urban development leading to generation of lifestyle data (super cities/smart cities)
- Establishment of The Council on the Next-Generation Medical ICT Infrastructure and Clinical Innovation Network
- Establishment of hospital and clinic collaboration and community-based integrated care systems, etc.

Major trends

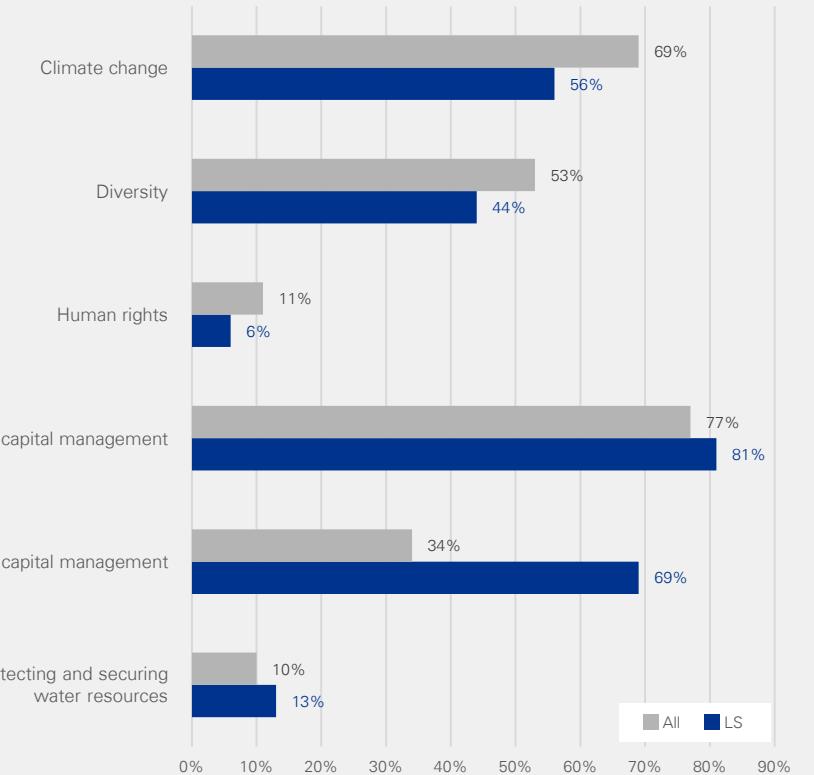
1. Decline in efficiency of pharmaceutical manufacturing and sales as the core business of pharmaceutical companies
 - Companies are taking on the challenge of drug development for diseases with a low probability of success, and drug prices are being controlled for long-listed drugs.
 - The fee-for-service reimbursement model is on the rise worldwide.
2. Creation of new usable data through the linkage of existing data and new digital technologies
 - There is a trend to link public DBs and make them available for use.
 - Registry studies are increasing for certain intractable diseases such as cancer.
 - New data generation methods are being realized at the level of apps, IoT devices and urban development.
3. Realization of sustainable medical care through efficient utilization of medical resources, including hospital and clinic collaboration and cooperation between medical and nursing care
 - Lifting restrictions on online medical care
 - Establishment of regional medical networks
4. Entry of other industries such as IT companies in the LS field and acceleration of cross-sector collaboration
 - Other industries are increasingly participating by such ways as developing data collection tools such as IoT and apps, and providing data analysis solutions.



Survey Responses

1. Introduction

Q What are the top three sustainability-related issues that you think will greatly impact your corporate value at present or in the future?

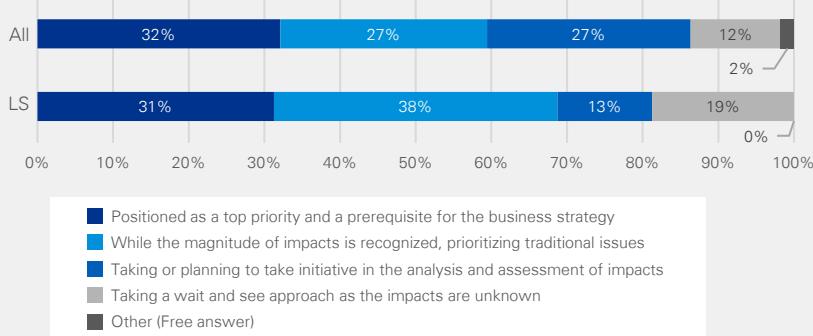


All: All sector

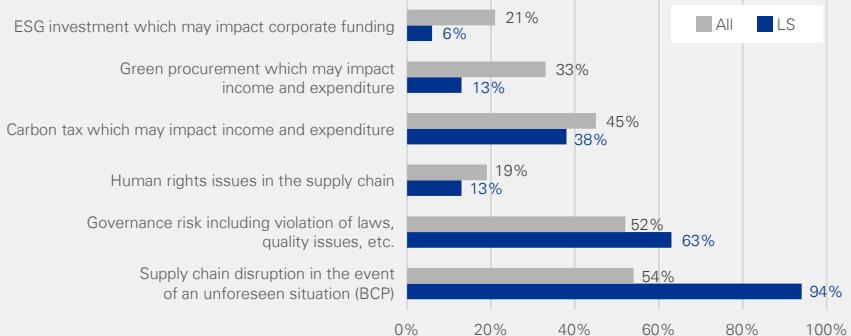
LS: Life Sciences Sector

2. Business Strategy

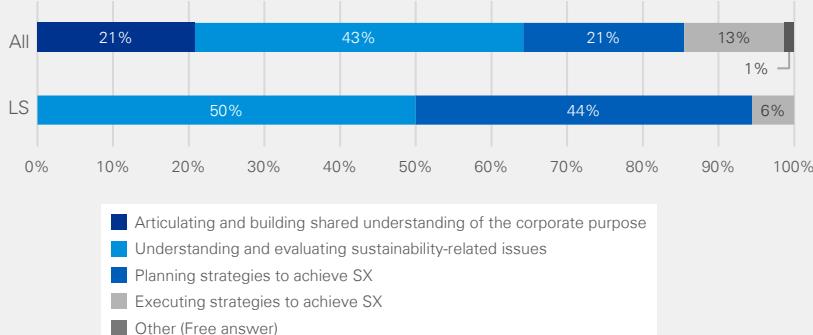
Q Which statement best reflects the positioning of SX within your company's management issues?



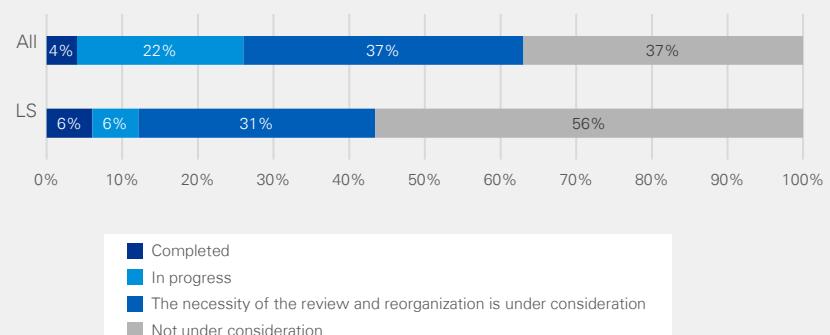
Q What are the top three concerns which you think will have a major impact on your company's current business strategy?



Q What is the most critical issue your company faces in promoting SX?

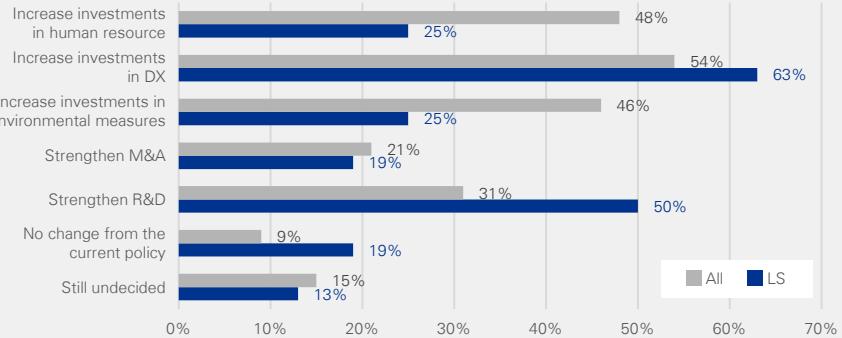


Q What is the status of reviewing and reorganizing the business portfolio on the premise of SX?

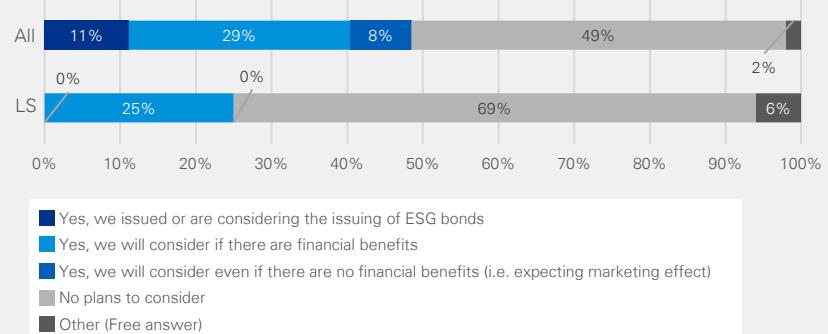


3. Capital Policy and Corporate Funding

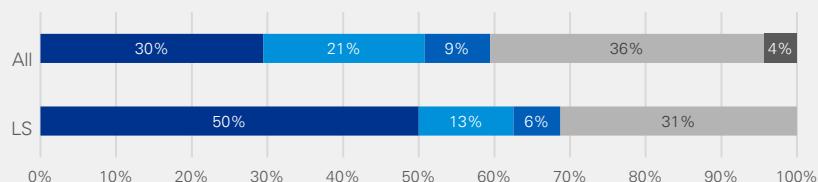
Q How will you change your investment strategy in promoting SX?
Please select up to three answers.



Q Will you utilize ESG bonds in line with SX?

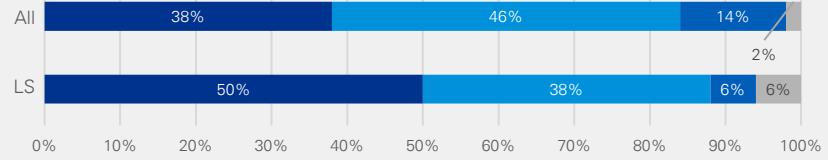


Q How will you change your means of corporate funding in line with SX?



- Make investments within the range of free cash flow
- Use interest-bearing liabilities
- Consider equity financing as needed
- No change
- Other (Free answer)

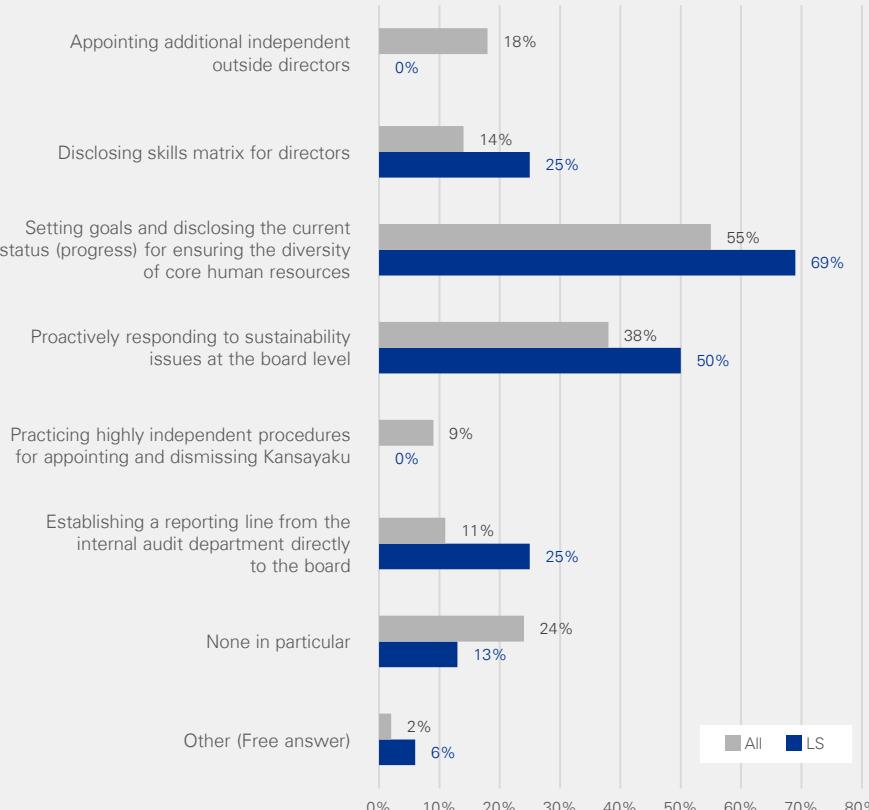
Q To what extent do you think ESG assessments and ratings will affect corporate funding excluding ESG bonds in the future?



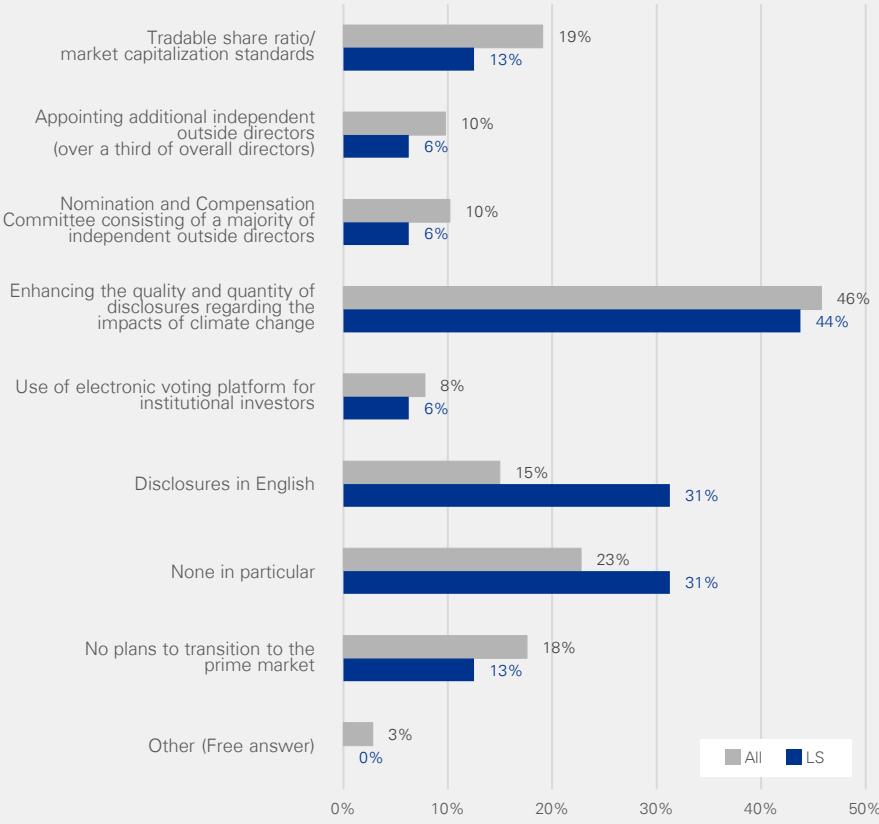
- No impact
- Considerable impact including a rise in funding cost
- Significant impact if assessment or rating is not maintained
- Other (Free answer)

4.Governance

Q The revised Corporate Governance Code published in June 2021 incorporated some SX related matters in its principles. What are the top three items additionally incorporated in this revision which you feel are challenging to address?

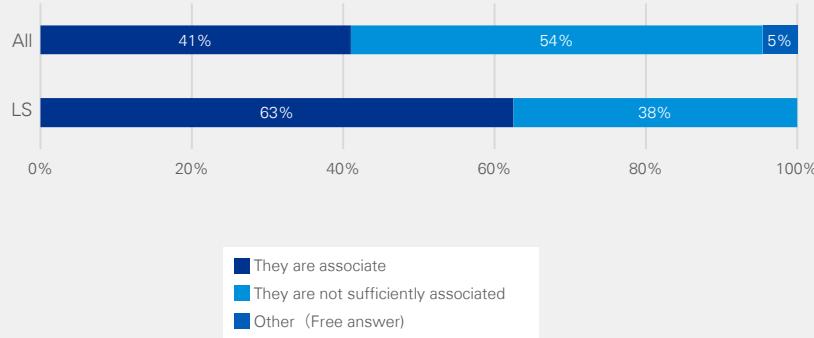


Q What are the top three criteria which you expect to be challenging when transitioning to the prime market?

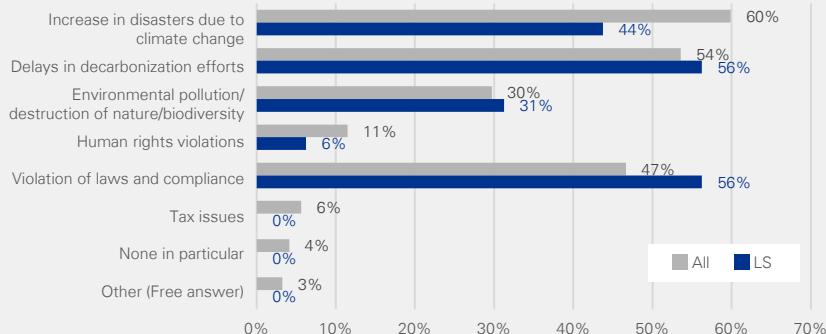


5.Risk Management

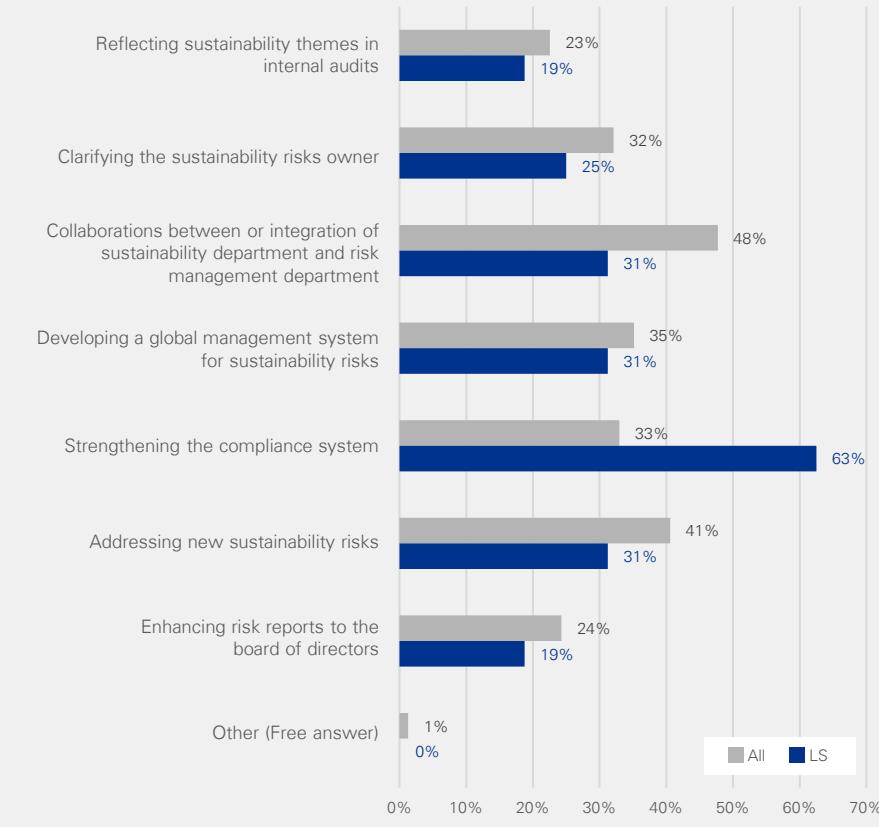
Q Are the risk management activities of your company designed and executed in association with material sustainability issues?



Q What are the top three sustainability-related risks that are of particular concern in relation to your business operations?



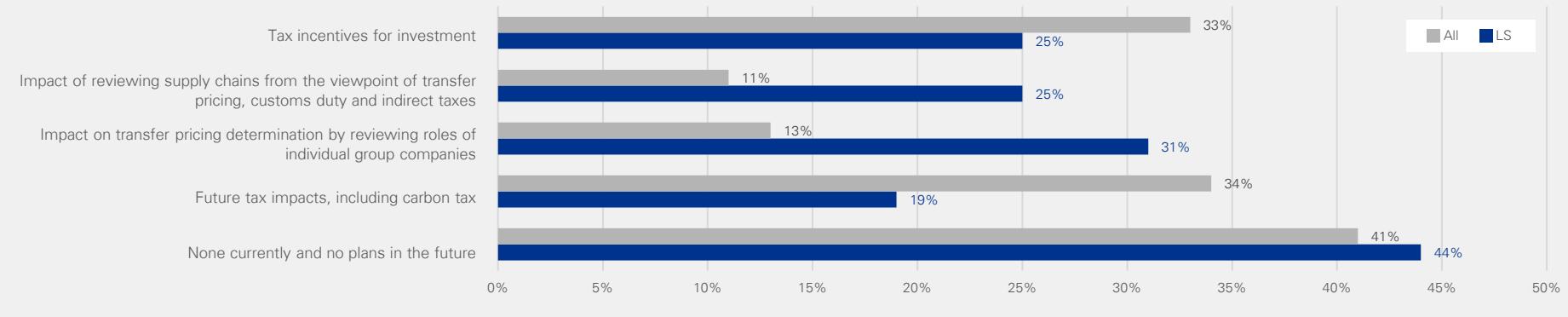
Q What are the top three initiatives in relation to the risk management system which you think are particularly necessary in proceeding with SX?



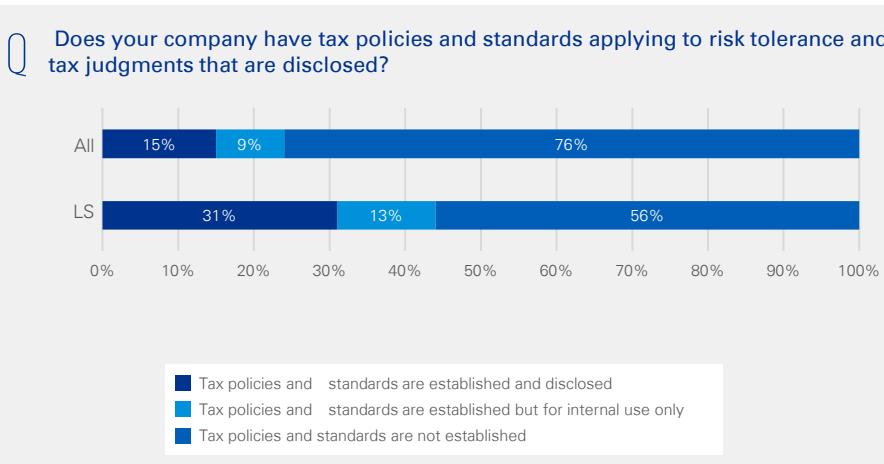
6.Tax



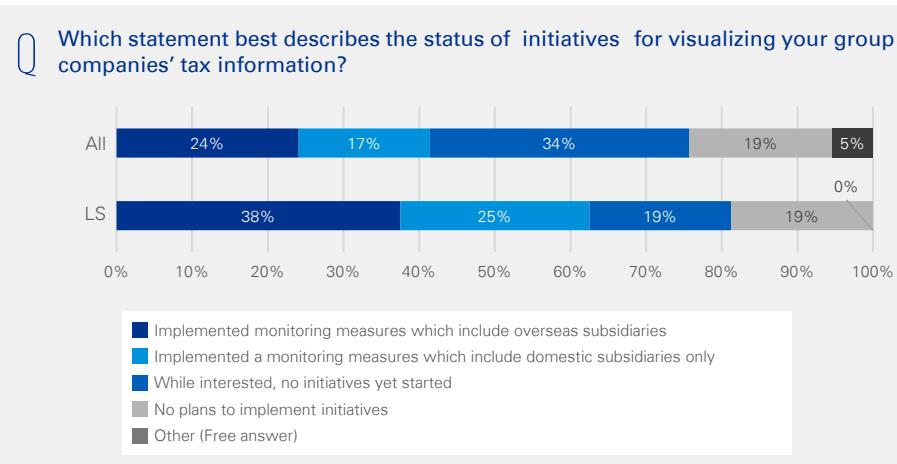
What are tax-related measures or considerations which you have implemented or plan to implement in line with SX? Please select up to three answers.



Does your company have tax policies and standards applying to risk tolerance and tax judgments that are disclosed?

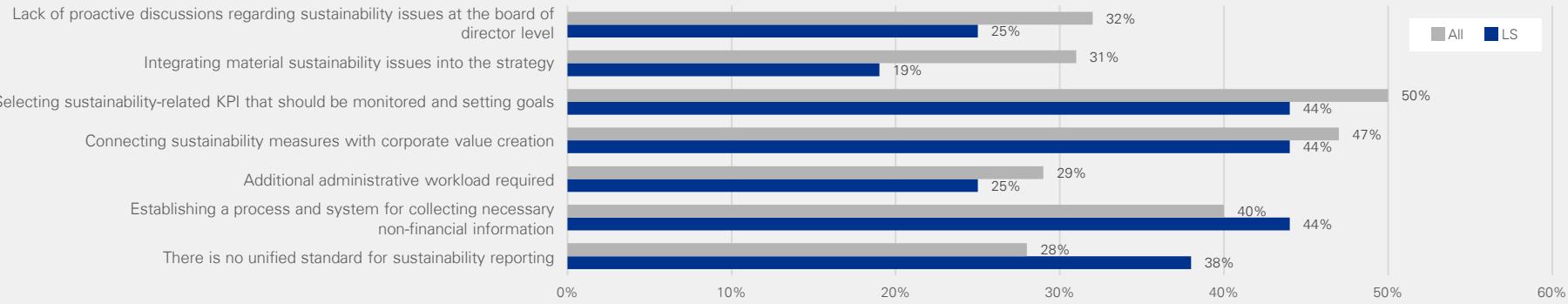


Which statement best describes the status of initiatives for visualizing your group companies' tax information?

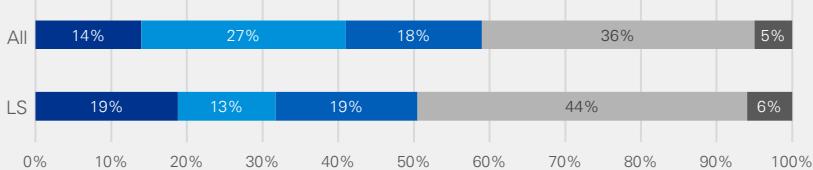


7.Comprehensive Corporate Report including Non-financial Information

Q What are the top three issues in preparing comprehensive reports which interconnect sustainability information with financial information?

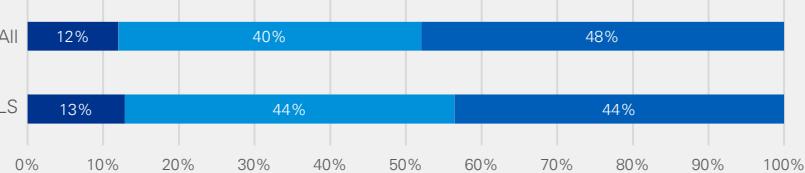


Q What is the current level of involvement of CFO in sustainability reporting?



- Sufficient involvement to date
- Fair amount of involvement to date and expect future involvement to increase
- Fair amount of involvement to date and expect future involvement to remain the same
- None currently but plan to increase future involvement
- None currently and do not expect future involvement

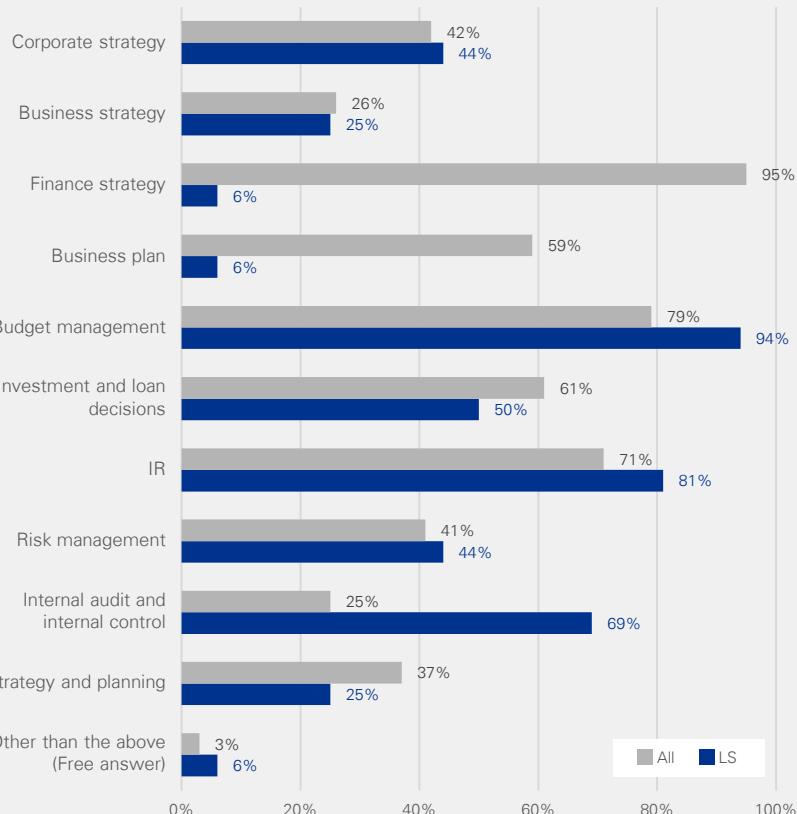
Q In the EU, mandatory requirements for external assurance of corporate sustainability reports have been proposed. What are your views on using assurance services from the viewpoint of improving the reliability of sustainability-related information?



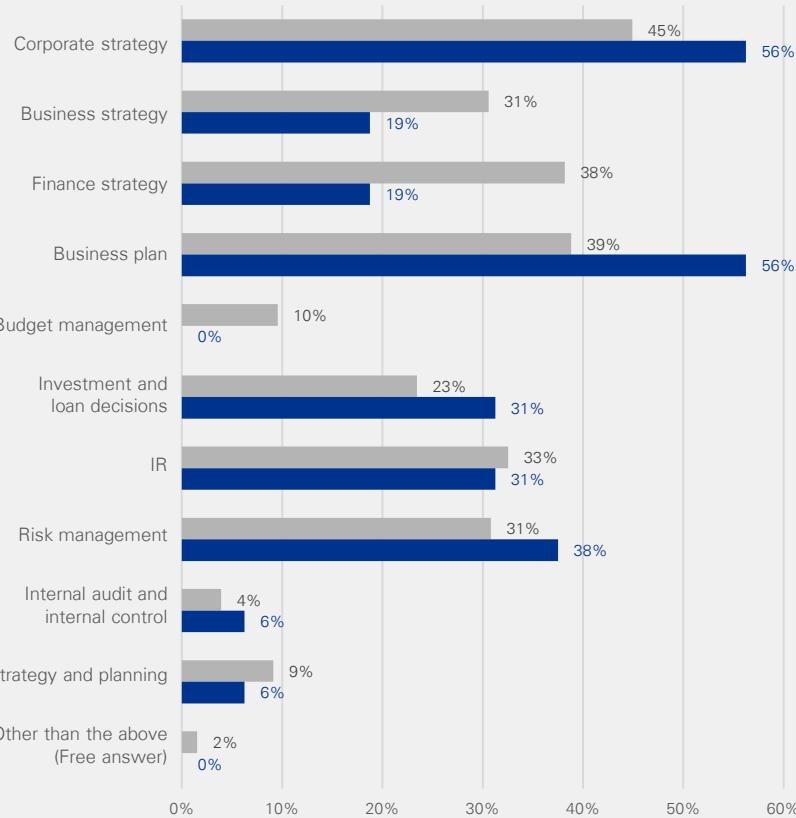
- Would consider using assurance services for the entire report, including non-financial information.
- Would consider using assurance services for some non-financial indicators, such as CO₂ emissions
- No need for assurance services

8.Accounting and Finance (1/3)

Q Please select all business area for which the CFO is currently responsible.
(Multiple choice possible)

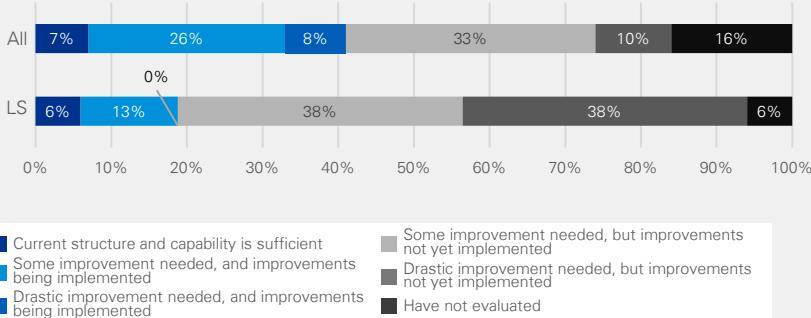


Q It is expected that management decisions driven by the linkage between financial and non-financial information will increase as the company makes progress towards SX. Of all areas that the CFO is responsible for, please select up to three areas that are considered to be of greater importance.

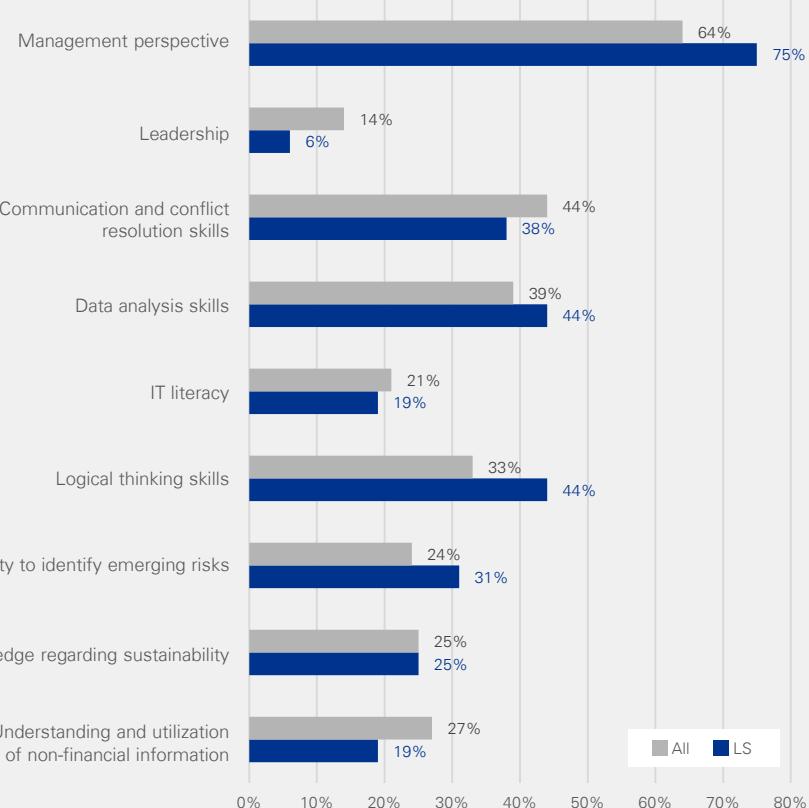


8.Accounting and Finance (2/3)

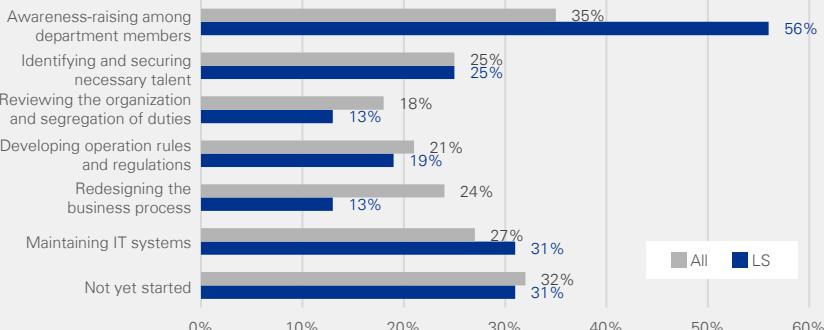
Please select the statement reflecting the current accounting and finance department structure and capability in terms of promoting SX in the future.



Please select up to three applicable items with regard to human resources and skills required for the accounting and finance department in the future.

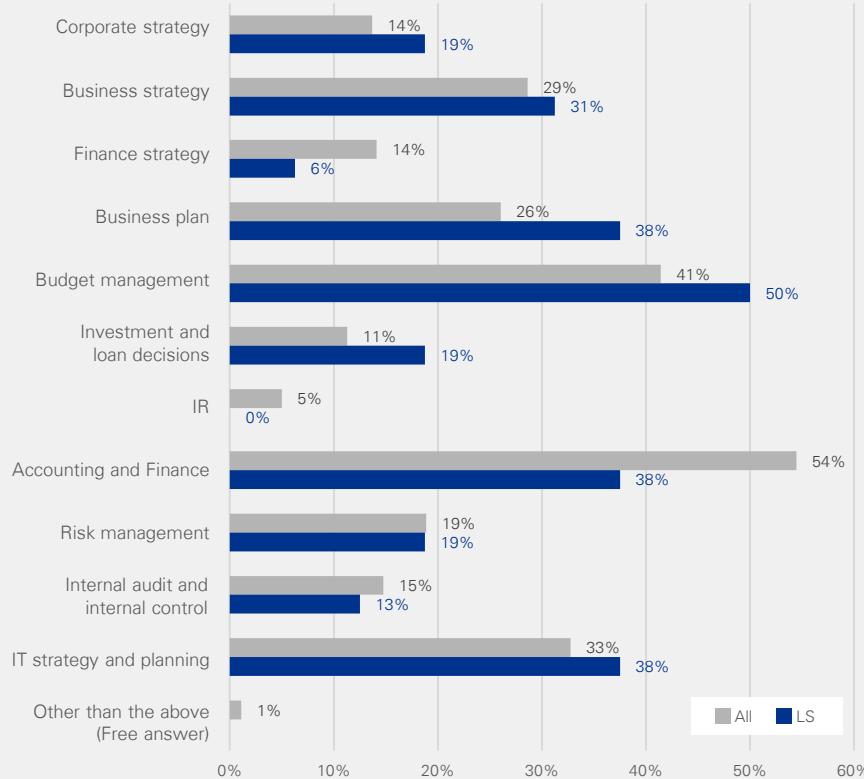


Please select the items that have been or are being addressed for improvement activities in the accounting and finance department for the promotion of SX.



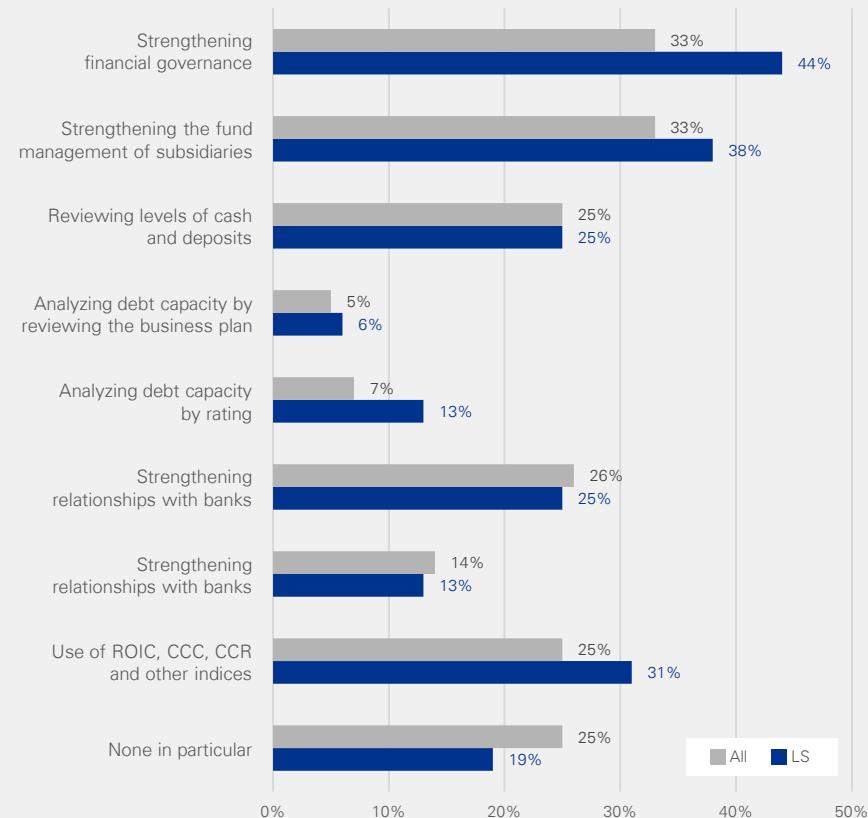
8.Accounting and Finance (3/3)

Q In view of SX promotion in the future, please select three areas for which you think digital utilization will be more necessary than ever before.

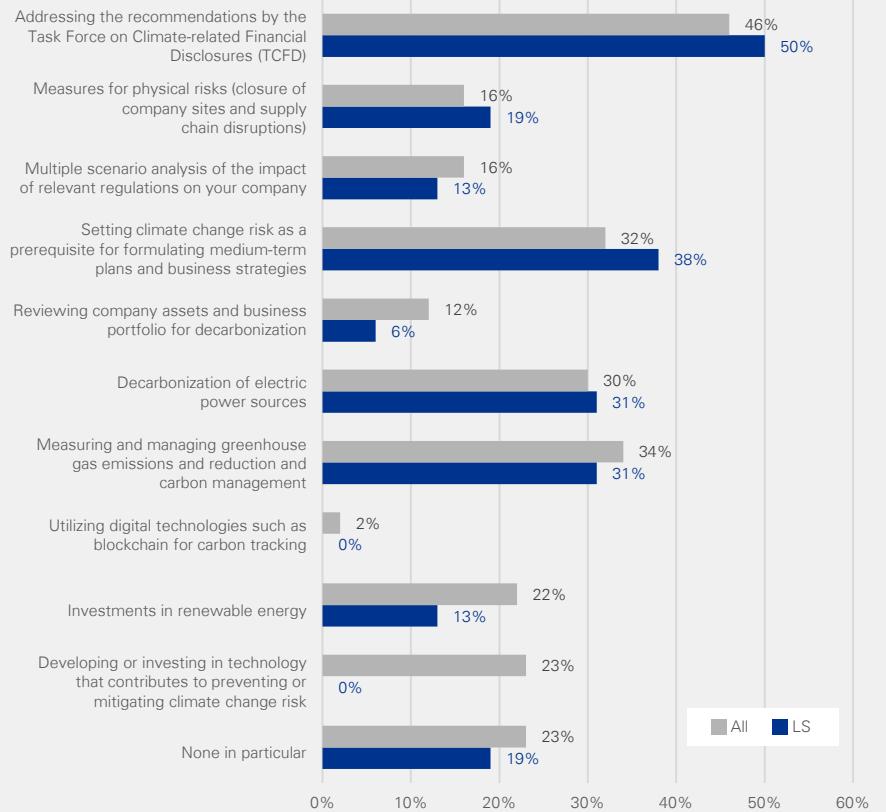


9. Impact of COVID-19

Q COVID-19 continues to affect businesses. Please select any measures that you have implemented or plan to implement with regard to corporate funding and "cash." (Multiple selections possible)



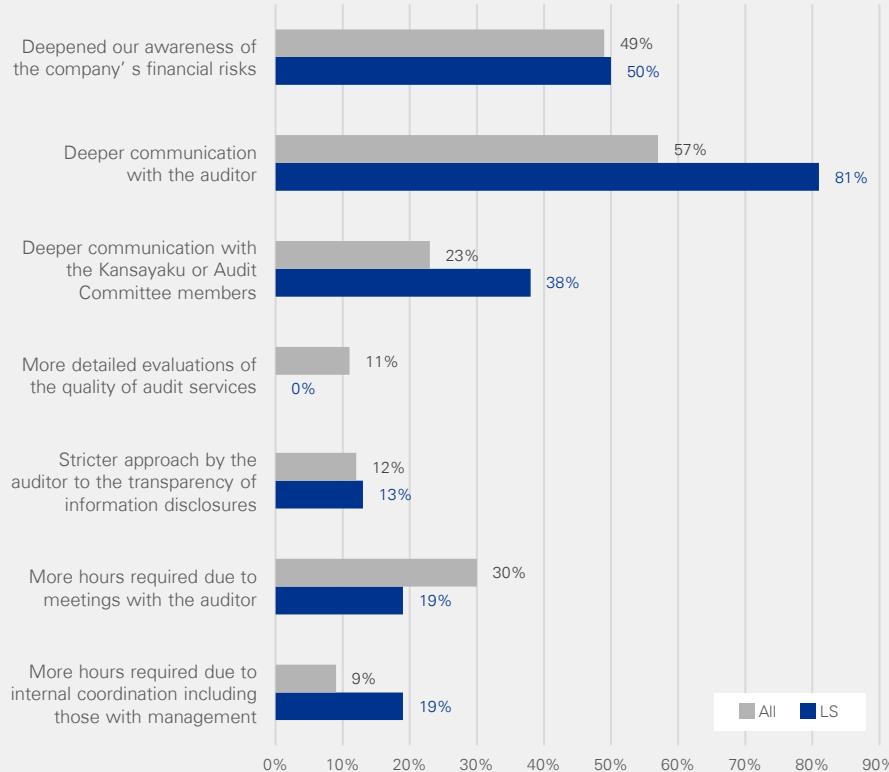
Q Please select all applicable measures that you have implemented or plan to implement in terms of dealing with climate change risk, which is receiving increasing attention from the market due to COVID-19. (Multiple selections are possible)



10. Implementation of KAM



What are the top three effects of KAM introduction you recognize?



Percentage of survey results

The percentages of the results of this survey are rounded off to the nearest whole number, and some percentages do not add up to 100%.



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