

## Corporate Governance Research: Astellas Pharmaceutical (4503)

### Summary:

Astellas has become one of the best corporate governance companies, further improving for the year. Board size became more compact, cutting a director, while outside directors maintain majority of the board. Clear guidelines and advisory committees that are chaired by outside directors secure determination of nomination and compensation for directors. Also, incentive plan for compensation has changed to remuneration using common shares from stock option plan in this year. This is another progress for the year. Astellas have achieved quantitative goal of ROE15% in MTP and profits are properly returned to shareholders through high enough cash dividend from FCF and share buyback. Continuously implemented share cancelation helped ROE push higher as well.

### CG Rating

**A**

92 (07/2016)

B+ 81 (07/2015)

### Shareholders:

1) Japan Master Trust trust a/c (6.18%), 2) Japan Trustee trust a/c (5.27%), 3) State Street bank Trust (5.18%), 4) Nippon Life Insurance (2.90%), 5) Bank of Tokyo-Mitsubishi UFJ (1.99%), 6) JP Morgan Chase Bank 385632 (1.88%), 7) JP Morgan Chase Bank 385632 (1.79%), 8) State Street bank Trust treaty 505234 (1.56%), 9) JP Morgan Chase Bank 380055 (1.48%), 10) Japan Trustee trust a/c 7 (1.36%)

### Organizational Structure: *structure is maintained from the previous year*

Company with corporate auditors

"Board of directors comprises 6 persons (5 males and 1 female) among which 4 of them are highly independent outside directors. It principally serves the oversight function of the execution of business and also makes decisions on important business execution."

Board of Directors: *total number of directors decreased 1, whereas number of outside directors remained*

Term of office: 1 year

Chair of board: president (*changed from chairman*)

Number of directors: 6 (*decreased from 7 of the previous year*)

Outside directors: 4 (Independent directors: 4)

Yutaka Kato - chairman of Sojitsu, being in charge of 1 other outside director

Hironobu Yasuda - lawyer, being in charge of 1 other outside director

Etuko Okajima - consultant, being in charge of 3 other outside director

Yoshihru Aizawa - professor of Kitazato University

Nomination committee: 5 (Outside directors: 3)

Compensation committee: 5 (Outside directors: 3)

Corporate Auditors: 5

Outside auditors: 5 (Independent auditors: 3)

Toshiko Oka - consultant, being in charge of 1 other outside director

Hitoshi Kanamori - lawyer

Noriyuki Uematsu - chartered accountant, being in charge of 2 other outside auditor

Total independent directors + auditors: 7

*Compact board size helps directors activate discussion productively. Total number of directors decreased to 6, reducing an execution (inside) director and remaining 4 outside directors. The majority of the Board of Directors and each committee are comprised of outside directors, which*

*would reinforce supervision of business operation by board of directors. Regarding outside directors, background of members seems diversity that helps to bring different opinion and views. Etsuko Okajima is in charge of 3 other outside director than this company. Some limit of holding additional post of directors might be needed going forward, while her attendance and performance are monitored.*

## Nomination of Directors

Nomination committee: "As advisory bodies to board of directors, Astellas establishes nomination committee and compensation committee, a majority of which are composed of outside directors, respectively, so as to ensure transparency and objectivity of deliberation process of human resources (regarding election and dismissal of directors, corporate auditors and executive officers) and remuneration systems. Each committee is chaired by an outside director."

*Both committees of nomination and compensation are comprised of outside directors and chaired by outside directors, too. This would ensure transparency and objectivity of determining process, but there still remain an issue whether advisory committees really force the decision-making effectively.*

## Compensation of Directors: *performance based plan replaced stock option plan*

Incentive plan of Compensation: performance based remuneration (*change from stock option*)

Person to be entitled stock option:

Disclosure of remuneration of each director: Partially disclosed

Guideline of remuneration: Yes

*As issues on stock option were pointed due to asymmetry of profit/loss profile and potential dilution of shareholders value by stock option, the change from stock option to performance-based remuneration by using common shares is a forward step of improvement. Guideline of remuneration should be fully disclosed and remuneration for each director is ideally disclosed, too.*

## Compensation Guideline

Compensation of Directors: "(Bonus) Astellas has a short-term incentive compensation scheme, of which the compensation is based on the level of attainment of company-wide operating targets including performance of net sales, operating profit margin and EVA in a single year. (Stock compensation plan) Since 03/2016, Astellas has introduced a performance-linked stock compensation scheme, for the purpose of increasing awareness of contribution to sustainable growth and corporate value. The mid-to-long-term stock incentive plan is based on performance-linked coefficient regarding the level of attainment of mid-to-long-term targets. Coefficient will be determined within a range of 0 to 200% based on net sales, operating profit margin, ROE and etc. for 3 years."

*Guideline is provided in short-term and mid-to-long-term. Each scheme includes clear targets of measuring performance. Targets such as sales, operating profit, EVA and ROE are likely to be comparable standpoint with shareholders.*

## Evaluation on Board of Directors

Evaluation on Board: "As for the analysis and evaluation of the effectiveness of board of directors for the fiscal year ending March 31, 2016, the chairman of board of directors, while referring to the opinion of 3<sup>rd</sup> party external advisors, conducted a survey mainly on the oversight function of board of directors based on questionnaires to all directors and all audit & supervisory board members, and based on the results of this survey, board of directors performed its analysis and evaluation."

*Evaluation team that includes 3<sup>rd</sup> party opinions would help cooperate governance work more effectively.*

Shareholders Meeting: *all items are maintained from the previous year*

Notice of Convocation: sent 3 weeks prior to AGM  
 Date of AGM: held on another day on which many companies hold shareholders meetings  
 Electronic Voting: Yes  
 Disclosure of AGM information on company web site: Yes  
 Notice of Convocation in English: Yes

Investors Relation: *all items are maintained from the previous year*

IR meetings for analysts: semiannually (explanation by representative director: Yes)  
 Overseas IR meetings for analysts: Yes (explanation by representative director: Yes)  
 Disclosure of IR information on company web site: Yes  
 IR department: IR team, Public Relations Department, and Disclosure Committee

Relationship with other Stakeholders: *all items are maintained from the previous year*

Guideline of respecting stakeholders: "Astellas Group aims to be enterprise worthy of being selected and trusted by all stakeholders including customers, shareholders, employees and community."  
 ESG: "CSR Committee is established to carry out cross-sectional discussions concerning matters including policies and plans for important social contribution activities that are essential to fulfill social responsibilities. In addition, CSR Group is assigned under the Healthcare Policy & CSR Department to strengthen plans, proposals and function of promotion regarding overall global CSR activities which are linked to business strategies."

Takeover Defense: *all items are maintained from the previous year*

Takeover defense Plan: No

Items that company does not implement Code of Corporate Governance

"We implement all items on Code of Corporate Governance."

Cross Holding Shares

Cross holding shares: "Astellas does not hold shares of other companies except in cases where such shareholdings are deemed to contribute to medium-to-long-term increase of the company's corporate value. The rationale of each shareholding is examined annually by the board of directors from viewpoint of the company's mid-to-long-term business strategies."  
*Dollar value of holding shares other than investment purpose: JPY49,864 million (03/2016) and JPY67,125 million (03/2015). Holdings are steadily decreasing. Holding shares/total sale is 3.63% (03/2016) and 5.38% (03/2015).*

Mid-Term Growth Target

Quantitative Target by company	ROE15%, DOE6% FY03/2017
ROE	15.0% (03/2016) actual
<i>ROE and dividend paid per shareholders equity has been achieved.</i>	

Shareholder Return

Dividend per Share	JPY32 (03/2016) actual, JPY34 (03/2017) company guidance
Dividend Payout	35.7% (03/2016) actual, 36.7% (03/2017) company guidance
Share Buyback	JPY119,264 million (03/2016) actual, up to 4,000 million (03/2017)
Operating CF=JPY313 billion (Net Profit=JPY193 billion, Depreciation= JPY69 billion), Capex=JPY262 billion, Dividend Paid=JPY25 billion (03/2016) actual	
<i>FCF was JPY50 billion. Dividend paid/FCF was 134.8%, higher than dividend payout ratio of 35.7%</i>	

*for 03/2016. Cash based payout is much higher than accounting profit based payout of 35.7%.  
Continuous share buyback pushed shareholder return higher.*

#### Capital Policy

Equity Issuance	No (03/2016) actual
Share Cancellation	38 million shares (03/2016) actual, 68 million shares (03/2017)
<i>ROE increased to 15.0% from 10.5%.</i>	

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