ASKA Pharmaceutical Holdings Co., Ltd.
FY2023 Financial Results Meeting

QA Summary

May 29, 2024

Q&A Financial Results Meeting for FY2023

Q1: 4Q in FY2023 sales exceeded initial expectations. Please explain the reason for this.

A1: Sales were higher than expected, especially in the obstetrics and gynecology product group. In addition, the product mix improved due to solid sales of products with a good cost of sales ratio, such as RELUMINA and RIFXIMA, which are brand-name drugs, resulting in an improvement in the cost of sales ratio. As a result, sales and profits exceeded initial expectations.

Q2: The Medium-Term Management Plan 2025 sets a sales target of 70 billion yen, but the plan presented here for the fourth year is 63 billion yen. How do you plan to respond to the gap between the two targets? In contrast, as of FY2023, the company achieved an operating margin of 10.3%, exceeding the mid-term plan target of 8%. In addition, sales of obstetrics and gynecological products are well over 20 billion yen. Are you considering revising the mid-term plan targets?

A2: Regarding the target sales of 70 billion yen, we hope to achieve this goal by promoting globalization, including financial inclusion for Hataphar in Vietnam. We are currently reviewing the plan and formulating the next Medium-Term Management Plan. As discussions proceed, target figures may be revised if necessary. However, nothing has been decided at this time.

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Q3: In relation to the cash allocation progress, I understand that there will be an allocation of 10 billion yen plus an additional amount, for growth investments over the next two years. Could you provide your insights on future consumption patterns?

A3: Various projects are currently in progress, so the level of R&D expenses depends on their advancement. As clinical and non-clinical trials continue steadily, R&D expenses are expected to increase. In addition, we will further invest in Hataphar as part of our global expansion. We are considering investing in countries other than Vietnam. Although the allocation of funds has not been clearly defined yet, we plan to raise funds based on the project and make bold investments for growth.

Q4: Regarding R&D trends, the progress of LF111 is ahead of schedule. Is there a possibility that other products under development (TRM-270, AKP-022, etc.) will also make faster progress? Additionally, could you explain the reason for the 5.575 billion yen in R&D expenses planned for this fiscal year, which is an increase from the previous year? Are upfront payments for future in-licensing of new drugs included in R&D expenses?

A4: LF111 has made impressive progress, moving ahead of schedule, thanks to the successful promotion of clinical trial recruitment in Phase III trials. While there is a possibility that other items will also progress earlier than expected, we want to reiterate our unwavering commitment to moving forward with the goal of achieving the schedule as planned. R&D expenses will increase as more drugs in the pipeline enter the late clinical development stage. Generally, upfront payments for in-licensing are included in R&D expenses.

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Q5: Capital expenditures this fiscal year were higher than expected. Will this increase result in an increase in depreciation for the next fiscal year or a decrease in profit for the next fiscal year?

A5: We plan to invest in expanding production capacity at the Iwaki Factory so that we can start manufacturing some of the products that we currently outsource. Once the new facilities are ready, we will start manufacturing these products in-house, which will lead to depreciation expenses. However, the amortization of distributorship for products we acquired in the past is decreasing steadily. Overall, we do not expect depreciation to significantly affect our future earnings.

Q6: Will the increase in production volume and other effects associated with the shift to in-house production affect earnings?

A6: We do not expect an increase in sales due to the switch from outsourcing to in-house production of some products. We expect an improvement in the cost of sales ratio. We believe the shift to in-house production will have a positive impact on the bottom line.

Q7: Regarding the operation of Hataphar's plant, please tell us about future developments, such as when commercial production will begin and the products it handles.

A7: Distribution through commercial production at the new plant is scheduled to begin in 2027. Production items are under consideration, not limited to specialty areas.

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[Notes]

- Please note that the content of this material is a summary based on the purpose of the questions and answers.
- Forward-looking statements contained herein are based on our assumptions and beliefs in light of the information available to us as of the date of preparation and involve known and unknown risks and uncertainties.
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