

Current Business Climate

The business climate in which the Group operates is becoming more challenging by the year, due to the effects of medical care cost-containment policies and drug price revisions, and uncertainty in R&D. We nonetheless expect our mainstay Ob/Gyn market to sustain steady growth, as demand remains stable against a backdrop of government policies promoting women's participation in the work force, and mounting interest in medical care tailored to women's different life stages.

Expansion in Obstetrics and Gynecology Market Arising from Growing Need for Women's Medical Care

The business climate for domestic pharmaceutical manufacturers remains harsh because of policies aimed at containing medical care costs and drug price revisions. Even so, we expect our core Ob/Gyn market to continue realizing stable and sustainable growth, against a backdrop of women's social advancement, lifestyle diversification, and supportive government policies.

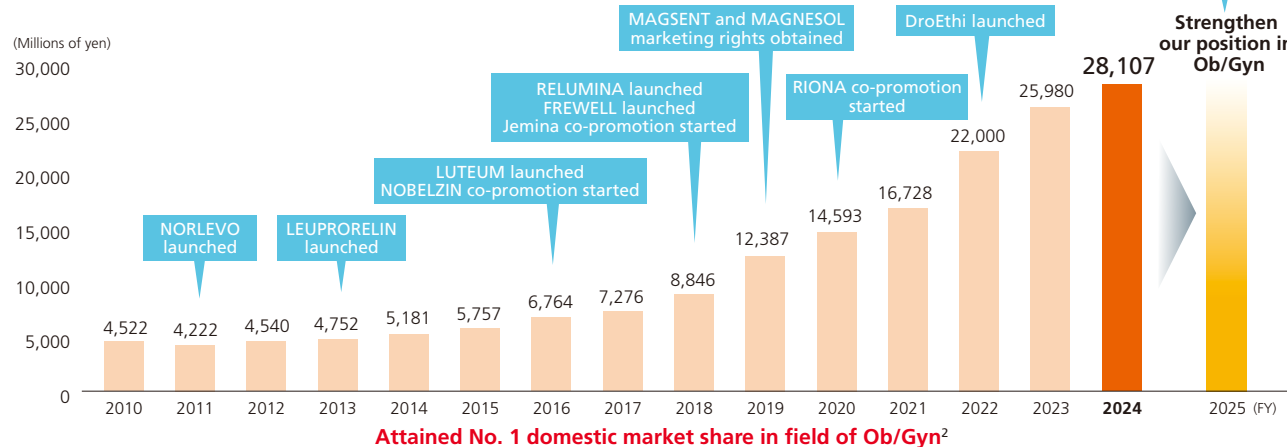
The domestic market for Ob/Gyn-related drugs is still expanding steadily and is expected to reach ¥107.9 billion by 2026.¹ Amid a growing need for treatments addressing a broad array of health conditions specific to women (such as

dysmenorrhea, uterine fibroids, endometriosis, infertility, and menopausal issues), there is increasing demand not only for medicines but also for digital therapeutics, wearable devices, and other femtech products.

We aim to further grow our presence in the Ob/Gyn market and improve our corporate value by developing and supplying products and services that accurately address these needs.

1. Source: Fuji Keizai Co., Ltd., *Data Book for Prescription Drugs 2024*, No. 4
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Sales of ASKA Pharmaceutical's Ob/Gyn Products



2. Company estimate

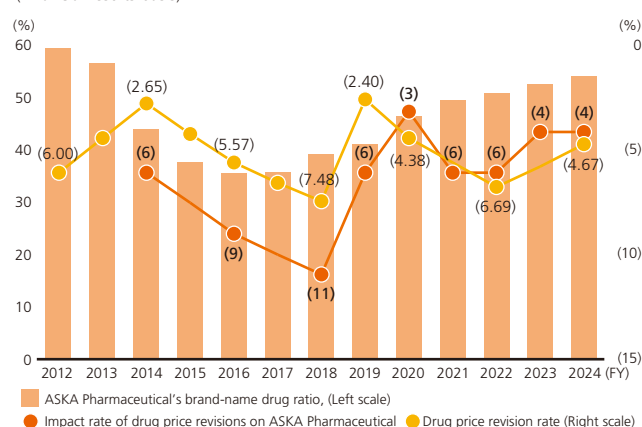
Note: Amounts have been rounded down to the nearest million yen.

Impact of Drug Price Revisions Aimed at Containing Medical Costs, and Our Strategic Shift toward New Drug Development

Government drug price revisions containing medical costs previously took place biennially but shifted to an annual basis in 2021. Amid this persistent risk of drug price reductions, the business climate for pharmaceutical companies is more challenging than ever. Although there have been positive signs in such forms as repricing for unprofitable drugs in areas of high medical needs (aimed at ensuring a stable supply of pharmaceuticals while also addressing higher raw material costs) and premiums to promote innovation in drug discovery, annual drug price revisions continue to have a significant impact, with price cuts for generic drugs tending to surpass those for brand-name drugs. In response, the Group has focused on new drug development, seeking to increase the weighting of brand-name drugs with a view to stabilizing margins. We aim to realize sustained growth by continuing to roll out innovative new drugs.

ASKA Pharmaceutical's Brand-name Drug Ratio, Drug Price Revision Rate, and Impact Rate

(Financial results basis)

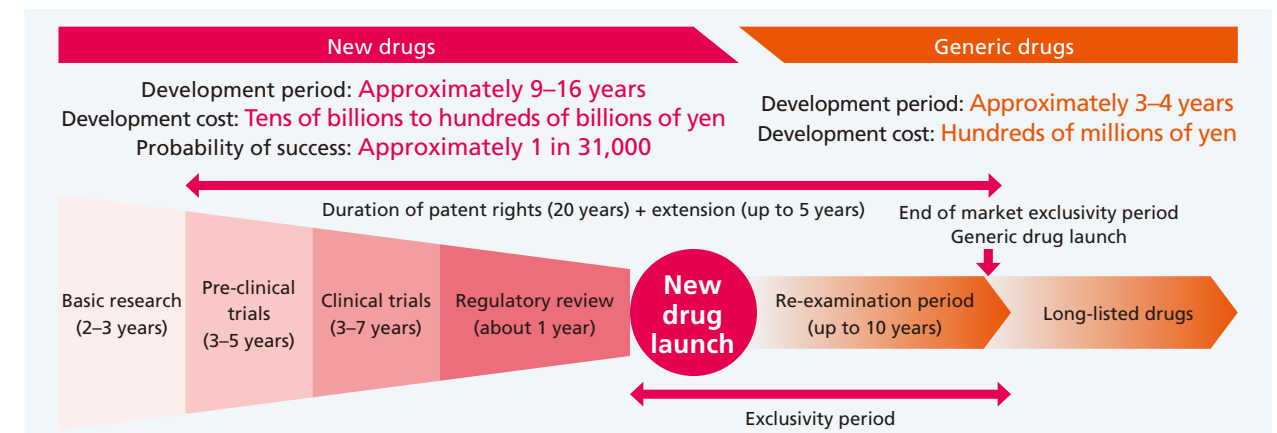


Uncertainties and Our Growth Strategies in Pharmaceutical R&D

Pharmaceutical R&D takes place over long periods (approximately 9–16 years) and requires massive investment (tens of billions to hundreds of billions of yen). There is also great uncertainty, as the probability of success is extremely low (approximately 1 in 31,000). Generic drugs, on the other hand, tend to reach the market relatively quickly and at low cost, with a development period of approximately three to four years and a development

cost of hundreds of millions of yen. On the other hand, the generic drug market is marked by fierce competition that can lead to price wars. To create innovative new drugs expeditiously and efficiently against this backdrop, the Group seeks to strengthen its R&D capabilities by proactively utilizing open innovation while strengthening business collaboration through increased alliances at home and abroad.

Pharmaceutical Company Business Model (Prescription Pharmaceuticals)



Risks and Opportunities

To achieve sustainable improvement in corporate value, the Group has incorporated environmental, social, and governance (ESG) initiatives in its management and seeks to resolve social issues through its business activities.

From an environmental perspective, we are prioritizing climate change initiatives and resource recycling. We also strive to reduce our environmental footprint through energy conservation, waste reduction, etc. In doing so, we reduce regulatory risk while also creating opportunities to enhance our social stature.

In terms of social (S) and governance (G) initiatives, we see opportunities in the government's policy of promoting women's participation in the work force and women's resulting advancement in society along with changes in their lifestyles. We are contributing to women's health and diversification in their lifestyles through our products and

services, primarily in the Ob/Gyn field. Sales of one of our core products, RELUMINA (a uterine fibroids and endometriosis agent), have grown rapidly, reaching ¥10 billion in FY2024.

We also appropriately manage risks associated with R&D and collaboration with external partners, and we are strengthening our decision-making through dialogue with internal and external stakeholders. Risks include annual drug price revisions under the government's policy of containing medical costs, the uncertainty and high costs associated with R&D, and intensifying competition as pharmaceutical patents lose exclusivity.

We assign an order of priority to issues in each ESG field using a probability and impact matrix analysis. We conduct regular reviews to ensure a good balance between reducing our environmental footprint, contributing to society, and strengthening governance, and we develop strategies aimed at maximizing opportunities while mitigating risks.

