Financial and Capital Strategy

Strengthening capital efficiency management and financial strategy to maximize corporate value

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Business Environment Facing Execution of Our Medium-Term Management Plan

The ASKA Pharmaceutical Holdings Group is steadily advancing Medium-Term Management Plan 2025 to achieve sales of ¥70 billion, an operating profit margin of 8%, and ROE of 8% in FY2025, the final year of the plan. In FY2024, we achieved record-high sales of approximately ¥64 billion and both the operating profit margin and ROE exceeded 8%, attesting to steady progress in implementing the measures outlined in our growth strategy. These results fill us with confidence in our ability to meet the targets set in Medium-Term Management Plan 2025, as we also expect FY2025 sales to get a boost from Hataphar, the Vietnamese pharmaceutical company that we recently made a consolidated subsidiary.

Currently, the domestic market for pharmaceuticals is experiencing headwinds in the form of structural factors such as annual drug price revisions and a declining domestic population, creating a highly challenging business environment for the industry. Pharmaceutical R&D entails risks such as extended development periods and uncertainty over the probability of success. As evidenced by numerous reports of competitors suspending or halting development of new drugs, R&D efforts do not always yield the expected results. Under these conditions, we believe that for the Group to continue enhancing corporate value over the longer term, it is essential that we take a strategic approach to building out and managing the business portfolio going forward, including in new businesses and domains, in addition to enhancing the value of products and expanding the pipeline programs in our therapeutic areas.

Under Medium-Term Management Plan 2025, the ASKA Pharmaceutical Holdings Group aims to become a "total healthcare company with a strong foundation as a specialty pharma company." To achieve the goals set in this plan, we have devised four visions and seven strategies. Among the latter is "Overseas operations." Although the domestic market for prescription pharmaceuticals is expected to remain flat or shrink, in countries in Southeast Asia and other areas the pharmaceutical market is expanding amid a rapid increase in medical needs driven by population growth, rising income levels, and women's advancement in society. Vietnam, in particular, is regarded as a high-growth market in view of its population of over 100 million, political stability, and good public order. Vietnam has a GDP growth rate of roughly 5–6% and its pharmaceutical market is worth an estimated approximately ¥630 billion, expanding at a brisk CAGR of 9.4%. Like Vietnam, the Philippines is a country maintaining stable GDP growth while continuing to expand its economy. Currently, its economic growth rate is a robust 5-6%. The Philippines' population is now approximately 112.72 million* and its pharmaceutical market is worth an estimated approximately ¥700 billion, with more growth projected. Furthermore, the Philippines ranks third in East Asia and the Pacific in the World Economic Forum's Global Gender Gap Index, demonstrating progress in the advancement of women in society. On the other hand, the Philippines is also known for regional disparities in medical infrastructure and access to healthcare. The Group believes that the Philippines represents a promising market in which we can create new growth opportunities through a strategy of addressing the health issues of local women, drawing on strengths cultivated over many years in Japan including our track record of stably supplying high-quality products, our expertise in Ob/Gyn, and our know-how concerning educational activities.

*Source: Japan External Trade Organization (JETRO)

Financial and Capital Strategy KPIs

		FY2024 Actual	FY2025 Forecast	Medium-Term Plan Targets (reference)
Profitability	Net sales (Millions of yen)	64,139	75,000	70,000
	Operating profit (Millions of yen)	5,331	6,800	5,600
	Operating profit margin (%)	8.3	9.1	8.0
	Profit attributable to owners of parent (Millions of yen)	5,101	5,200	—
	Earnings per share (EPS) (Yen)	179.95	183.44	—
Capital efficiency	Return on equity (ROE) (%)	8.0	—	8.0
Financial soundness	Interest-bearing debt ratio (%)	0.17	—	—
	Equity ratio* (%)	65.0	—	—

Note: Amounts are rounded down to the nearest million yen.
*As a Group focused on the pharmaceutical business, we believe maintaining an equity ratio of 60–70% is appropriate to ensure sound management, while supporting the stable supply of pharmaceuticals and enabling long-term, high-risk R&D activities. Medium-sized peers in the same industry also generally maintain equity ratios at a similar level.

FY2024 Progress toward Medium-Term Plan Targets and Future Challenges

Under the new holding company structure, our businesses comprise the pharmaceutical business, the animal health business, the testing business, and the overseas business. We seek to maximize our corporate value by drawing on these businesses' collective knowledge, technologies, and know-how, and by fully leveraging synergies among Group companies.

In the pharmaceutical business, it is difficult to sustain growth with existing products alone, given annual drug price revisions and patent cliffs. To maintain stable profitability, it is essential to continue developing or acquiring products with strong growth potential. To "Continuously create new drugs through advanced drug discovery," one of the seven strategies outlined in Medium-Term Management Plan 2025, we are ramping up development and in-licensing activities with a view to fleshing out our pipeline, and accelerating efforts to enhance our discovery research structure. In FY2024, we in-licensed a new basic technology for ion channel drug discovery, expanding our research focus beyond the three existing priority areas of internal medicine, Ob/Gyn, and urology. New drug discovery is a long-term undertaking that can span decades and requires substantial investment. However, we believe that by expanding our revenue base by launching new drugs, we can enhance corporate value over the medium to long-term. We will continue to make strategic investments with this long-term perspective in mind.

To date, our animal health business has centered on products for industrial livestock such as cattle and pigs. Recently, though, the companion animal market has been expanding as growth in stay-at-home demand since the COVID-19 pandemic has been accompanied by an increase in households keeping cats and dogs as pets. We plan to further expand our business in this field, and if we are to accurately address market needs in both the industrial and companion animal spheres we think it is important to actively pursue non-organic growth opportunities such as new product launches and M&A.

In the testing business, while working to build up our presence in the clinical testing field, we are also actively expanding into the pet market, launching a feline hyperthyroidism test kit and a feline stress test kit in March 2025. Products such as these contribute to pet health management from an animal welfare standpoint. As a new initiative, we also launched a business focused on measuring environmental pollutants and began accepting contracts to measure levels of PFAS (per- and polyfluoroalkyl substances) in blood and water. We are developing and launching a range of test and measurement kits to meet the diverse needs of modern society, seeking also to help solve environmental issues.

In our overseas business, we think it essential to pursue business in collaboration with partner companies well versed in local conditions. In addition to making Hataphar a consolidated subsidiary in February 2025, we acquired roughly 20% of shares in Philippine pharmaceutical group FTS Ambrose, making it an equity-method affiliate and establishing a collaborative framework with FTS Ambrose group company MedChoice Pharma. MedChoice Pharma's strength lies in the endocrine field, specifically in thyroid hormone agents, where it has the second-largest market share in the Philippines. We aim to accurately meet local medical needs by harnessing both our expertise in raising awareness of thyroid diseases in the Japanese market, and our extensive experience in building a stable supply system.

Sales by Business (consolidated)

(Millions of yen)

	FY2023	FY2024	Breakdown	Actual +/-	Growth +/-
Pharmaceutical business	56,016	56,655	88.3%	639	1.1%
Animal health business	6,664	7,246	11.3%	581	8.7%
Other businesses	162	237	0.4%	74	45.8%
Total	62,843	64,139	100.0%	1,296	2.1%

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Through open innovation, the Group pursues not only in-house drug discovery but also in-licensing opportunities and joint research and development with external partners. Beginning in FY2024, we launched a research grant program for domestic academia to foster new collaboration opportunities based on promising technologies.

We are accelerating the formulation of our next medium-term management plan, incorporating input from the frontlines of our pharmaceuticals, animal health, testing, and overseas businesses. In addition to strengthening our domestic operations centered on the growing Ob/Gyn field, we are pursuing expansion into high-growth overseas markets. We have set targets for sales and other indicators by backcasting from our envisioned position 10 years from now, and are working to formulate a sustainable and actionable growth strategy that also considers non-organic growth.

Optimizing Management That is Conscious of Cost of Capital and Share Price

We have identified price-to-book ratio (PBR) improvement as an important issue for management, and one that we addressed in 2023 when we issued the press release "ASKA Pharmaceutical Holdings Takes Action to Implement Management That is Conscious of Cost of Capital and Share Price." In this press release, we outlined three initiatives to implement such management under the headings "Growth Strategy," "Strengthen Shareholder Returns," and "Strengthen IR Activities."

Under Growth Strategy, we are working to strengthen our pharmaceutical business, establish new businesses, and expand overseas, harnessing open innovation and external collaborations to strengthen our position in specialty areas. We plan to maintain or expand R&D investment at a level slightly above 10% of sales, positioning R&D as a key driver of sustainable growth. In our bid to become a total healthcare company, we are also ramping up capital and business alliances, M&A, and investments in promising fields. Our corporate venture capital fund, established in 2023 to address women's health issues, has steadily expanded its portfolio and now invests in eight companies. We are also advancing our human resources strategy by nurturing individuals who embrace challenges and can respond to environmental change and global expansion. Under Strengthen Shareholder Returns, we have shifted from our previous stable dividend policy to a performance-linked profit-sharing method indicating a dividend payout ratio of 30%, also setting a minimum dividend per share to ensure ongoing consideration for dividend stability. In FY2024, we increased the annual dividend per share by ¥15 to ¥55, and we expect to pay an annual dividend of ¥55 in FY2025 as well (interim dividend of ¥27 and year-end dividend of ¥28).

Under Strengthen IR Activities, we continue to hold financial results briefings twice annually and have been working to expand IR opportunities through initiatives such as one-on-one meetings with institutional investors and information sessions for individual investors. Furthermore, we have won increased recognition from outside the Company for our efforts to enhance the content of our integrated report, and in FY2024 we received the Best IR Award for Encouragement by the Japan Investor Relations Association. The Best IR Award for Encouragement is a great honor, as it underscores widespread recognition of our IR efforts.

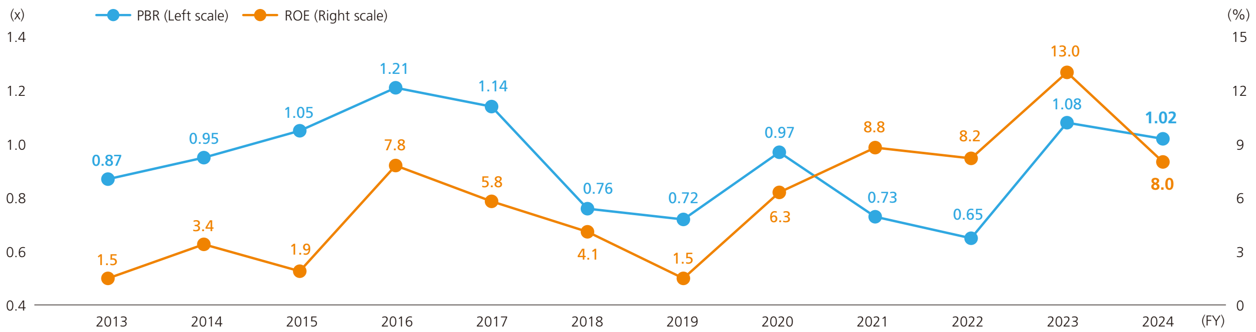
We have maintained return on equity (ROE), a benchmark for evaluating corporate value, at over 8% since FY2021 and expect to achieve our target of 8% in FY2025, the final year of Medium-Term Management Plan 2025. We will continue working to sustainably enhance ROE and demonstrate consistent growth to the market. To maintain ROE above the cost of shareholders' equity, we are working to improve our product mix by focusing on the high-margin new drug business, while also enhancing the profitability of our core pharmaceutical business and expanding overseas operations. In our next medium-term management plan, which is currently being formulated, we aim to further improve ROE through the implementation of new business strategies. Through these initiatives, we seek to overcome challenges such as rising personnel and material costs and drug price revisions, and aim to strengthen our earnings base and achieve sustainable growth.

Although our price-to-earnings ratio (PER), which plays an important role as a measure of corporate value alongside ROE, remains slightly below the industry average, it has been steadily improving. Enhancing both ROE and PER will contribute to a higher PBR. We have fostered this positive cycle through initiatives such as disclosing our policies on management conscious of cost of capital and share price and strengthening IR activities, raising PBR from around 0.6x in 2023 to above 1x at present. However, we recognize that surpassing 1x is only a starting point and that further improvement is necessary. We aim to improve PBR by enhancing our reputation, establishing a clear growth story, strengthening communication not only with institutional investors but also with individual investors, and deepening understanding and support for our business activities.

In addition to enhancing profitability, optimizing the capital structure remains an important priority. We are rigorously managing working capital and fixed assets while continuing to reduce cross-shareholdings deemed to have limited strategic significance. These efforts to improve asset efficiency are expected to contribute to higher ROE, which in turn should lead to improvements in PER and PBR. As of March 31, 2025, cross-shareholdings accounted for 16.7% of consolidated net assets, down 1.7 percentage points from the previous fiscal year-end.

We will continue to monitor ROE, PER, and PBR as inter-related indicators and work to further strengthen this virtuous cycle through profit growth, improved capital efficiency, and dialogue with investors, with the goal of maximizing corporate value.

Price-to-Book Ratio (PBR) and Return on Equity (ROE)



Cash Allocation Plan for FY2023–2025 (Released in November 2023)

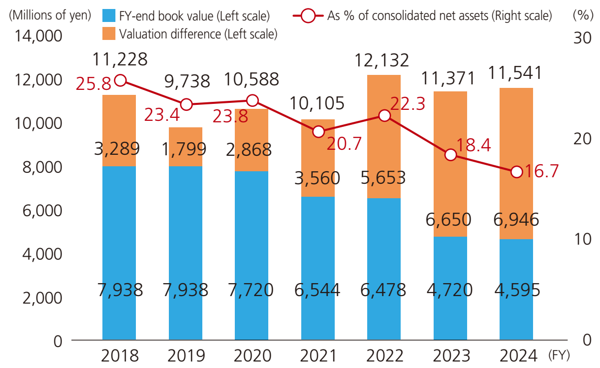
Source of funds	Investment direction		Objectives	Distribution
Operating cash flows[1] ¥20 billion Cash from sale of cross-shareholdings: ¥3 billion	Growth investment	Pharmaceutical business	Expand pipeline by strengthening R&D and business development	¥15 billion +α
		New fields	Femtech, CVC fund,[2] Digital health Testing, Animal Health (CA[3])	
		Overseas development	Establish business in Southeast Asia	
		M&A	Acquisition of competencies necessary for growth	
	Strengthen management base		Renewal and expansion of production facilities Digital transformation Investment in human capital	¥3–4 billion
Fundraising (+α)	Shareholder returns		Dividends, share buybacks	¥3–4 billion

FY2023–2024 Results

Funds obtained	Major investments	
Operating cash flows* ¥19.7 billion Cash from sale of cross-shareholdings ¥4.4 billion	About ¥12.9 billion	R&D expenses (excluding tangible assets) LF111, AKP-022, etc. Overseas business Consolidation of Hataphar as a subsidiary Investment in CVC[2], etc. Animal health and testing businesses
	About ¥4.2 billion	Facility investment (tangible) Human capital investment
	About ¥2.6 billion	Increased annual dividend per share to ¥55 from FY2024

1. Operating cash flows = Assumed operating profit + Depreciation + R&D expenses (excluding tangible assets)
2. Corporate venture capital 3. Companion animal

Reduction in Cross-Shareholdings



Note: Figures through FY2020 are ASKA Pharmaceutical figures.

Sustainable Management

The Group's business is centered on pharmaceuticals, which we recognize as having significant public and social importance. Growing female participation in society and efforts to address women's health issues have drawn increasing attention especially in recent years, even being referenced in the government's Basic Policy on Economic and Fiscal Management and Reform. As part of these developments, we have focused on the Ministry of Economy, Trade and Industry's 2024 report, *Estimated Economic Losses due to Health Issues Specific to Women*. Based on the estimated impact of menstrual symptoms on productivity and economic activity presented in the report, we calculated the economic impact of our pharmaceuticals in alleviating such symptoms, while newly quantifying the effects of our disease awareness initiatives. Through our efforts to quantify this impact, we have clarified our economic contribution in this field.

▶ See pages 5–10 for details

These initiatives also underscore our social significance from a sustainability perspective and are viewed as key messages in our dialogue with stakeholders.

My Message as Director in Charge of Finance

With the recent change in president at this year's General Meeting of Shareholders, the Group is now transitioning to a new stage in its evolution. Our mainstay pharmaceutical business remains our top priority, and we will continue to grow this business from the solid footing we have established already. We recognize that accelerating global expansion will be extremely important to our next medium-term management plan. We plan to strategically pursue this objective with the aim of growing our global operations into a central foundation for future growth. We will continue to accurately identify new growth opportunities and boldly take on risks, steadily executing our growth strategies and strategic investments with a view to the future. In this manner, we seek to sustainably enhance our corporate value and meet the expectations of our shareholders. We appreciate your ongoing support for these endeavors.