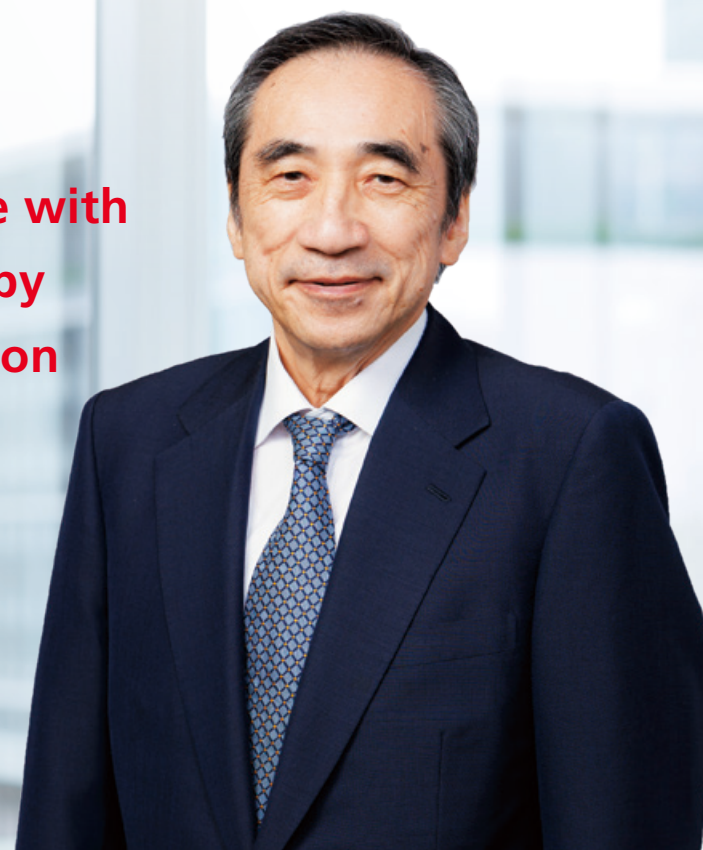


Message from the President

Looking to become a total healthcare company in line with our corporate philosophy by leveraging employees' vision and passion for growth

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The importance of women's health and animal health has become more widely recognized within society. Against this backdrop, ASKA Pharmaceutical Holdings performed well again in FY2023, with both sales and profits reaching record highs and ROE (return on equity) improving. In this section of the report, President Yamaguchi explains the challenges of the latter half of Medium-Term Management Plan 2025. He also discusses initiatives for the implementation of management that is conscious of the cost of capital and the share price, the underlying motive for accelerating open innovation involving industry, government, and academia, and mechanisms for advancing human capital management.

Progress of the Medium-Term Management Plan

Consolidated net sales in FY2023, which marks the midway point of the five-year medium-term management plan, reached a record high amid growth in both the pharmaceutical business centered on the Ob/Gyn field, and the animal health business. Operating profits similarly rose 27% year on year to a record high. ASKA Pharma Medical, which operates our testing and diagnostics business, is gradually pursuing its contract measurement business utilizing newly developed microdetermination technologies. As yet, though, this business is still at the initial investment stage.

The goals we have set for FY2025, the final year of our current medium-term management plan, are consolidated net sales of ¥70 billion, an operating profit margin of 8%, and ROE of 8%. We devised seven strategies¹ to achieve

these goals, and at this juncture these strategies and the associated measures are progressing largely according to plan. In fact, we achieved our goals for operating profit margin and ROE ahead of plan in the third year of the current medium-term plan.

Among the seven strategies, we realize that more work needs to go into "Overseas operations." In January 2024 we executed a capital increase in Ha Tay Pharmaceutical Joint Stock Company (Hataphar), our equity-method affiliate in Vietnam, with a view to strengthening our alliance. In the remaining year or so of the medium-term management plan, we will look to ramp up collaboration with Hataphar and other local companies to lay the groundwork for rolling out our business across Southeast Asia.

Toward Sustainable Growth

While our earnings have been favorable of late, the business climate faced by ASKA Pharmaceutical Holdings is changing at a pace we could not have foreseen. I consider "specialty" to be a particularly important element in achieving sustained growth while adapting to these changes. As I touched on in last year's Integrated Report, in the Group's core pharmaceutical business we are focusing on internal medicine (gastrointestinal and thyroid), Ob/Gyn, and urology, all highly specialized areas. We recognize that continuous value creation through new drug development and provision of services that only we can offer in these three priority areas is a vital factor in achieving sustainable growth. We further acknowledge the essential relationship from a technological and business process perspective between the core pharmaceutical business, the animal health business, and testing business, based on achieving positive results for all. In our view, sustainable growth depends on diversifying our revenue streams through collaboration between these three businesses and building a management structure that can respond to future risks and changes in the environment.

As a member of top management, I regard "human capital" as our most important management resource. Our

human resources are the foundation for the Group's three main businesses, whose highly specialized nature stems from the abilities of the employees responsible for each department and worksite. Since 2021, when the current medium-term management plan kicked off, we have put considerable effort into recruiting and training personnel capable of dealing with rapid changes in the business and social climate and rolling out new businesses as well, while simultaneously working to create an environment in which a diverse range of human resources, including women, career professionals, and seniors, can play an active role.

The second element I want to single out is "technology." In addition to further refining the R&D capabilities that have supported the continuous discovery of new drugs since our founding in 1920, in recent years we have ramped up open innovation involving industry, government, and academia. As a third important element, I want to highlight the activity that turns financial capital into new products and services, namely "investment." We believe that prioritizing these three elements will enable the Group to adapt to the changing times and medical trends and continue growing and evolving.

Value Creation and Collaboration with Other Industries

As noted elsewhere, the ASKA Pharmaceutical Group aspires to become a total healthcare company with a strong foundation as a specialty pharma company. Among the seven strategies outlined earlier, one is to "provide new value to realize total healthcare." In terms of the value we provide, we believe the expectations of our stakeholders are highest when it comes to the drug discovery capabilities we have accumulated over a century or so of doing business. That is to say, we think it is incumbent on us to continue coming up with new drugs in the field of Ob/Gyn and in areas of unmet medical need, to help build a society in which women can shine even more brightly, and to enhance animal welfare.

In order to meet these expectations, we need to supplement the expertise and knowledge amassed by our predecessors with even more unique perspectives and creativity. This was the thinking behind our 2020 move to relocate the Kawasaki Research Center in its entirety to Shonan Health Innovation Park (Shonan iPark). This new research facility is helping the Company to form independent connections both domestically and overseas, by acting as a neutral platform not influenced by any particular company or organization. The new facility also has enabled our Group researchers to broaden their horizons through exchanges with researchers from other pharmaceutical companies, companies from different industries, academia, and other external organizations, as well as facilitating the creation of new technologies and businesses through collaboration

between industry, government, and academia. We take pride in the belief that the full relocation of our research facility has further strengthened our capacity for engaging in open innovation and created a research framework able to adapt more nimbly to rapid technological advances.

In no time at all following the relocation, we had one person from outside the Company express admiration for our decision to close an entire research facility and relocate it, given that a research center effectively is the heart of companies. Another person wished to know if we had concerns about research data and other trade secrets leaking, due to the non-dedicated nature of the facility. While of course we have doubled and redoubled efforts to protect the confidential aspects of our business, in relocating to Shonan iPark we were deliberately seeking out the "show window effect" that is unique to open facilities of this kind. It was our full intention to put ASKA Pharmaceutical Group products and pipeline programs on display with a view to catching the eye of other Shonan iPark residents and enabling objective evaluation and confirmation from other parties.

The people who gather in this space are researchers and businesspersons engaged in the healthcare and life science fields both in Japan and overseas. Sometimes, these individuals appear to hold our products in even higher regard than we do, although doubtless the opposite is true in some cases. Ultimately, though, the new research facility affords us

1. Seven Strategies ▶ See page 32 for details

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real-time insight into whether the Group’s R&D findings are significant enough to win approbation from the medical world, and whether they could represent the solutions required. Furthermore, by broadening our horizons through increased opportunities for personnel exchanges and joint projects, we are able to identify unmet medical needs that previously had missed our gaze, and single out significant disease areas to be tackled.

I am particularly hopeful that the perception of “creativity” within the Company will change with input from outside. “Creative” jobs and products inevitably become outdated. As new drug development is a process taking place over the

Direction of Ob/Gyn Market

In recent communications with Company employees, I have sought to convey the message that if the Group is to continue offering value to society, we must all work together to create a company with a solid organizational framework and “visible face,” in other words, a company whose raison d’être is readily apparent. Our strategy is not to bring various operating companies under our umbrella through M&A, but rather to delve even deeper into our areas of specialty and give greater definition to the image we present to the world.

I believe that the Group now has a clearly defined image in the eyes of medical professionals and veterinary professionals as well as livestock producers and the customers of our testing and diagnostics business. In recent years, we have also built a greater profile among investors. However, the Group still has minimal presence in the world at large, and even if people are aware of our existence, they rarely have a full understanding of what we do. I therefore believe the management team needs to pull together to devise measures for rendering our company more visible to society, as alluded to above. Since the 2016 enactment of the Act on the Promotion of Women’s Active Engagement in Professional Life, women’s health concerns have emerged as an important social theme. I believe we can go a long way toward increasing our public profile in the manner described above by raising society’s awareness of the contributions we can make to addressing such concerns.



medium to long term, I therefore think the best course of action is to publish results once a certain stage has been reached, enabling objective evaluation and confirmation of the data’s true value, which can then inform revisions to the plan or point toward use of the data in the next project.

In short, I believe that Shonan iPark, as home to about 150 companies and organizations and more than 2,000 people,² can serve not only as a forum for accelerating collaboration between different industries, but also as a microcosm of the markets that we deal with every day.

2. As of April 2023

As I did last year, I would like to touch briefly upon the growth potential in the Ob/Gyn market. The market for Ob/Gyn pharmaceuticals continues to expand against the backdrop of the various changes in the environment faced by women, including regulatory change, women’s advancement, and improvements in health literacy. Not only has ASKA Pharmaceutical already become the leading company in the Ob/Gyn field in Japan, but also, we have a full and diverse lineup of products offering total support for women across the many stages of their life. There remains room, though, for enhancing the general public’s knowledge and understanding of the health issues specific to women, and the pharmaceuticals used to treat them. Moreover, the reality is that there are many women out there who have yet to receive a formal diagnosis from a physician. It was precisely for this reason that in 2020 we commenced awareness-raising activities through Health Lab Mint* for Women’s health, centering on provision of information via a dedicated website. We believe that more and more women would seek advice from medical institutions if they thought that the symptoms plaguing them for many years could be cured or at least alleviated through medication. If that happens, we expect the number of women active in corporate organizations and the community to increase and that they will further contribute to society, leading also to ongoing expansion in Group businesses.

Going forward, we plan to continue deepening our expertise in Ob/Gyn products and veterinary pharmaceuticals while at the same time launching various new businesses across the entire healthcare market, covering prevention, testing and diagnostics, treatment, and prognosis. In the year or so remaining of our current medium-term management plan, we aim to become a total healthcare company through ongoing investment in and exploration of adjacent markets, the early establishment of a Femtech business, and an expanded lineup of companion animal products and minimally invasive hormone level measurement kits.³ We are also introducing to the Japanese market Ob/Gyn products that already are widely used overseas, as the past decade or so has seen the launch of many

3. Kits that can measure stress levels using hair and nail samples

new and improved products that are both easier to ingest and have fewer side effects. We furthermore intend to consider men’s health in our awareness-raising activities, as we think

greater participation of women in society and the workplace is impossible without the understanding of men.

Management Conscious of Cost of Capital and Share Price

With a view to practicing management that is conscious of the cost of capital and share price, in November 2023 we devised three initiatives: growth strategy (disclosure and optimization of cash allocation); strengthen shareholder returns; and strengthen IR activities (creation of dialogue opportunities, expansion of information disclosures). We also decided on a progressive reduction in cross-shareholdings. Our PBR (price-to-book ratio) is now above 1×⁴ and still improving, which we think attests to the regard in which the Company is held on capital markets.

Looking ahead, we will continue to pursue sustainable growth by investing proactively in our pharmaceutical business and new areas while also hastening overseas expansion. In addition, we will work to bring information disclosure up to the level expected by the market. While actively engaging in ESG management, we will also vigorously implement actions conscious of cost of capital and share price with a view to further enhancing corporate value.

4. As of September 2024

Human Capital Management

The Company’s terms “vision,” “four visions,” and “the foundation for formulating the medium-term management plan” include many words designed to provide impetus to employees at the frontline in R&D, production, and sales, as well as keywords intended to provide direction when employees are uncertain what action to take. The employees of each Group operating company maintain a strong awareness of these guidelines and foundation as they work to complete the tasks in front of them one by one. It is not difficult to imagine that employees gain valuable experience and new skills every time they complete a mission, in doing so building confidence in their own abilities. At town hall meetings and other such occasions, I myself have discerned an incredible sense of self-confidence in the manner that employees talk and behave. I believe that more and more of our employees feel pride in being part of a corporate group that is directly involved in the lives of people and animals, especially in women’s health.

Going forward, I think it will become all the more important to build a workplace culture and mechanism in which individuals experience respect for their beliefs and ideas and are able to realize them through work. The Group is committed to building a diverse organization that is not bound by attributes such as gender, nationality, or race, and fostering a corporate culture in which employees’ unique ideas and vision for the future of healthcare lead naturally to innovation. At the same time, we have introduced many different schemes for supporting our employees’ diverse values and work-life balance. For example, at core Group company ASKA Pharmaceutical, we adopted a flex-time system and then in 2020 we introduced a full-flex-time system with no core hours for even greater flexibility. Jobs that provide individuals with a sense of purpose and challenge are in alignment with ASKA Pharmaceutical Holdings’ management policies, and by ensuring that each Group entity creates an environment in which employees can enthusiastically immerse

themselves, we are gradually drawing closer to realizing our goal of becoming a “total healthcare company.”

As outlined above, the depth of human capital within the Group is increasing, as is employee engagement. There remain issues to be resolved, though. Among our employees there are some who may be full of confidence and pride in their work but are unwilling to try new experiences and embrace risks and challenges. In a workforce of approximately 800, it is only natural that employees differ in terms of character and temperament. If employees become content with the status quo, it becomes difficult for them to acquire a range of important skills, potentially inhibiting innovation. We accordingly are looking at partially altering our existing personnel systems and associated programs for human resources development in the hope of nurturing more employees keen to dive into new experiences.

Development of global human resources is a particularly pressing issue. To augment existing personnel with years of experience in in-licensing and out-licensing new drugs between the US and European markets, we need to cultivate individuals to help us deploy world-class pharmaceuticals around the globe with a focus on Southeast Asia. As one such initiative, over the past year or so we have been encouraging exchanges at the new plant construction project being carried out with Hataphar. When imparting pharmaceutical production technologies and know-how to their counterparts at Hataphar, our Japanese team members are in turn learning on many levels. Through collaboration with Hataphar we seek to foster a diverse range of human resources capable of growing our presence in Asia and taking our business in a variety of new directions.

We will continue using changes in the business and social climate as opportunities for our Group to grow, while at the same time creating a framework for employees to embrace challenge.