Financial Results Briefing for the Fiscal Year Ended March 31, 2023

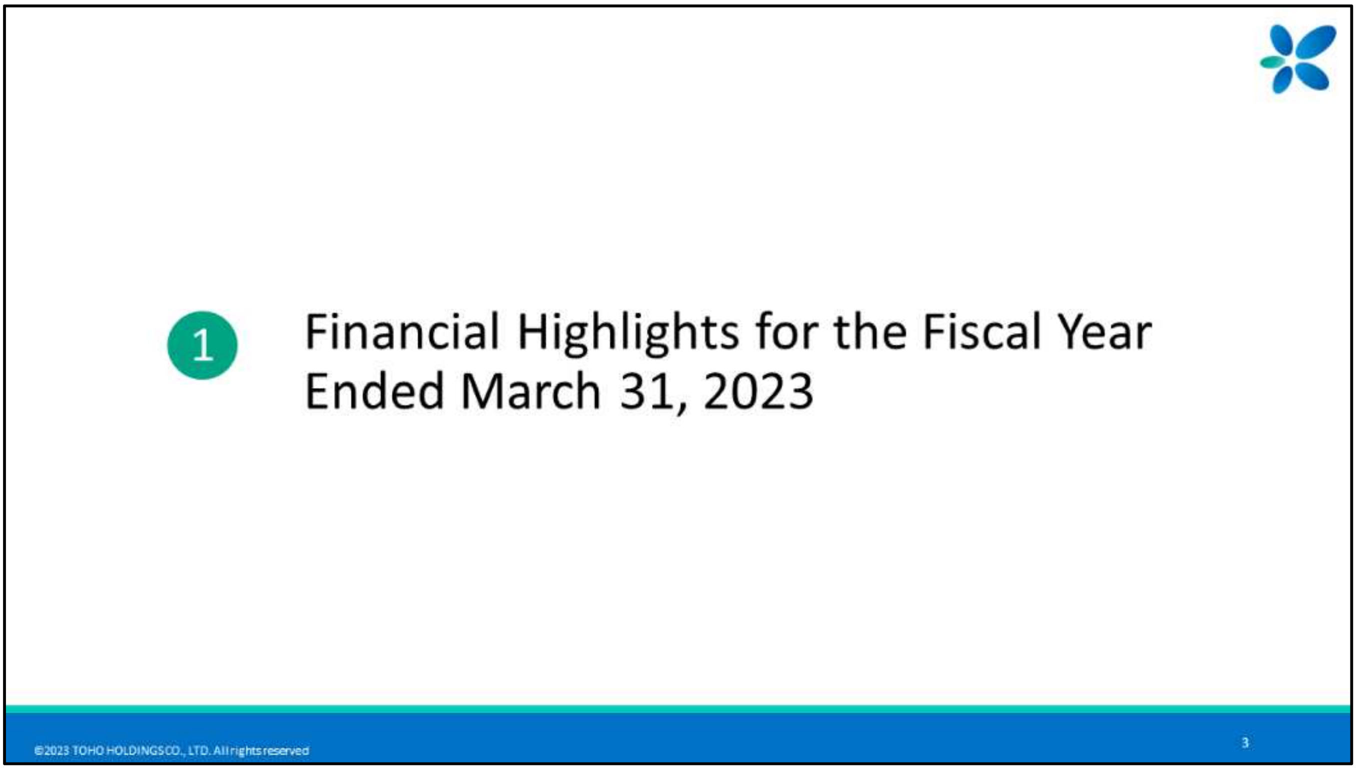
May 17, 2023 (WED)

TOHO HOLDINGS CO.,LTD.

Agenda

1. Financial Highlights for the Fiscal Year Ended March 31, 2023
2. Forecast for Fiscal Year Ending March 31, 2024
3. Daizawa Project
4. Medium-term Management Plan

Today, we would like to begin with our financial highlights for the fiscal year ended March 31, 2023, and our forecasts for the fiscal year ending March 2024. This will be followed by an overview of the Daizawa Project and the Medium-term Management Plan, both of which were announced on May 12.



First, we would like to explain the financial highlights for the fiscal year ended March 31, 2023.

Financial Highlights for the Fiscal Year Ended March 31, 2023

(Unit: million Yen)

	FY ended March 2022		FY ended March 2023		
	Sum	% of net sales	Sum	% of net sales	YoY change (%)
Net sales	1,266,171		1,388,565		9.67
Gross profit	108,687	8.58	110,814	7.98	1.96
SG&A	96,159	7.59	98,000	7.06	1.91
Operating profit	12,527	0.99	12,813	0.92	2.28
Ordinary profit	18,182	1.44	19,176	1.38	5.47
Net profit*	13,379	1.06	13,630	0.98	1.88

*Profit attributable to owners of parent

This is the consolidated profit and loss statement. As you can see, we posted increases in both net sales and profit. Both figures exceeded the forecasts we made at the beginning of the current fiscal year.

Balance Sheet (Consolidated)

(Unit: million Yen)

	FY ended March 2022		FY ended March 2023			Major factors behind the increase or decrease
	Sum	Proportion (%)	Sum	Proportion (%)	Incr. or decr.	
Current assets	513,107	73.05	533,519	74.59	20,412	Increase in accounts receivable-trade of 14,521 Increase in merchandise and finished goods of 11,048 Decrease in cash and deposits of 8,055
Non-current assets	189,268	26.95	181,768	25.41	-7,500	Decrease in property, plant and equipment of 4,382 Decrease in investments securities of 6,137
Total assets	702,376	100.00	715,288	100.00	12,912	
Current liabilities	402,819	57.35	440,188	61.54	37,369	Increase in accounts payable-trade of 15,128 Increase in current portion of bonds payable of 20,003
Non-current liabilities	58,275	8.30	32,183	4.50	-26,092	Decrease in bonds payable of 20,023 Decrease in long-term borrowings of 6,124
Total liabilities	461,095	65.65	472,372	66.04	11,277	
Net assets	241,281	34.35	242,916	33.96	1,635	Increase in retained earnings of 11,277 Increase in treasury shares of -7,388 Decrease in valuation difference on available-for-sale securities of 2,057
Total liabilities and net assets	702,376	100.00	715,288	100.00	12,912	

Equity-to-asset ratio FY ended March 2022: 34.30% FY ended March 2023: 33.93%

You are seeing the consolidated balance sheet. Please note that the far right column of the table shows major factors behind the increase and decrease from a year earlier.

Profit and Loss Statement (Pharmaceutical Wholesaling Business)

・Sales and profit increased supported mainly by increases in sales of COVID-19-related products such as therapeutic drugs and testing kits due to the seventh and eighth waves of infections, and cancer drugs and specialty pharmaceuticals.
・The Company's net sales of limited-handling products for selected wholesalers were 167.8billion yen (16.5% increase from the previous period). *Excluding COVID-19-related products
・Customer support-related profit: 6.32billion yen(Customer support systems: 3.75billion yen, Meissa 2.57billion yen)

(Unit: million Yen)

	FY ended March 2022		FY ended March 2023		
	Sum	% of net sales	Sum	% of net sales	YoY change (%)
Net sales	1,216,019		1,336,766		9.93
Gross profit	73,735	6.06	74,911	5.60	1.59
SG&A	63,767	5.24	64,468	4.82	1.10
Operating profit	9,967	0.82	10,443	0.78	4.78

With this slide, let us explain the results for pharmaceutical wholesaling. Net Sales rose to 1,336,766 million yen, a significant increase of 9.93% from the previous year. The significant increase was primarily driven by expanded sales of COVID-19-related products, cancer drugs, and specialty pharmaceuticals. All these products increased sales despite the lingering fallout of government measures to curtail medical expenses, including a 6.69% reduction in NHI drug prices in April 2022. Sales of limited-handling products for selected wholesalers continued to grow, amounting to 167.8 billion yen. This represented a year-on-year increase of 16.5%. Gross profit was 74,911 million yen, or 5.6% of net sales. The figure grew in line with the increase in net sales, but the gross profit margin dipped from the previous year. The decrease was primarily driven by two factors. One was increases in pharmaceutical manufacturers' invoice prices. The other was a year-on-year drop in shipping and handling charges for COVID-19-related products after therapeutic drugs became available through ordinary distribution channels. The gross margin shrunk even though our efforts to negotiate prices commensurate with the value of individual products, and their distribution costs resulted in higher wholesale prices. SG&A expenses rose to 64,468 million yen, up 1.1% from the previous year. They represented 4.82% of net sales, short of 5%. We continued to make efforts to reduce personnel expenses by not replenishing the attrition of our employees. As a result, we reduced personnel expenses by 900 million yen, while rising utilities expenses and commodity prices offset the reduction. As a result, operating profit increased by 4.78% year on year, or 0.78% of net sales, to 10,443 million yen. Gross profit of customer support systems continued its steady growth, amounting to 6,320 million yen, an increase of 220 million yen from the previous year.

Composition of Sales by Category and Contract Rate

Composition of sales by category

	April 2021-March 2022	April 2022-March 2023
Drugs for premium to promote the development of new drugs and eliminate off-label use	38.6%	41.5%
Patented drugs, others	32.7%	35.3%
Long-listed original drugs	15.7%	10.9%
Generic drugs	13.0%	12.2%

Contract rate

	2019/3	2020/3	2021/3	2022/3	2023/3
Value Basis	95.5%	99.7%	100.0%	100.0%	98.6%
Number Basis	86.7%	99.8%	100.0%	100.0%	100.0%

The upper part of the slide shows the composition of sales by category based on drug prices. The percentage of drugs for premium to promote the development of new drugs increased from 38.6% in the previous year to 41.5%. Likewise, that of patented drugs and others rose from 32.7% to 35.3%. During the same period, long-listed original drugs continued to decrease in share, from 15.7% to 10.9%. The percentage of generic drugs decreased from 13.0% to 12.2% as a result of the NHI drug price revisions. The lower part shows changes in the contract rate with medical institutions. As of the end of this March, it was 98.6% on a value basis and 100% on a number basis.

Profit and Loss Statement (Dispensing Pharmacy Business)

・We promoted responses to the revision of medical service fees and opened new pharmacies while closing existing ones with an emphasis on profitability.
・Declines in operating profit, affected by the revisions of NHI drug price and dispensing fees implemented in April 2022.

(Unit: million Yen)

	FY ended March 2022		FY ended March 2023		
	Sum	% of net sales	Sum	% of net Sales	YoY change (%)
Net sales	91,801		92,346		0.59
Gross profit	31,777	34.62	32,160	34.83	1.21
SG&A	28,813	31.39	29,728	32.19	3.18
Operating profit	2,963	3.23	2,431	2.63	-17.95

■Number of stores (as of March 31, 2023)

	Consolidated Subsidiaries		Non-Consolidated Subsidiaries		Affiliates Companies		Total	
TOHO HOLDINGS	4 companies	77 stores	8 companies	53 stores	2 companies	16 stores	14 companies	146 stores
PharmaCluster	6 companies	478 stores	10 companies	54 stores	2 companies	89 stores	18 companies	621 stores
Total	10 companies	555 stores	18 companies	107 stores	4 companies	105 stores	32 companies	767 stores

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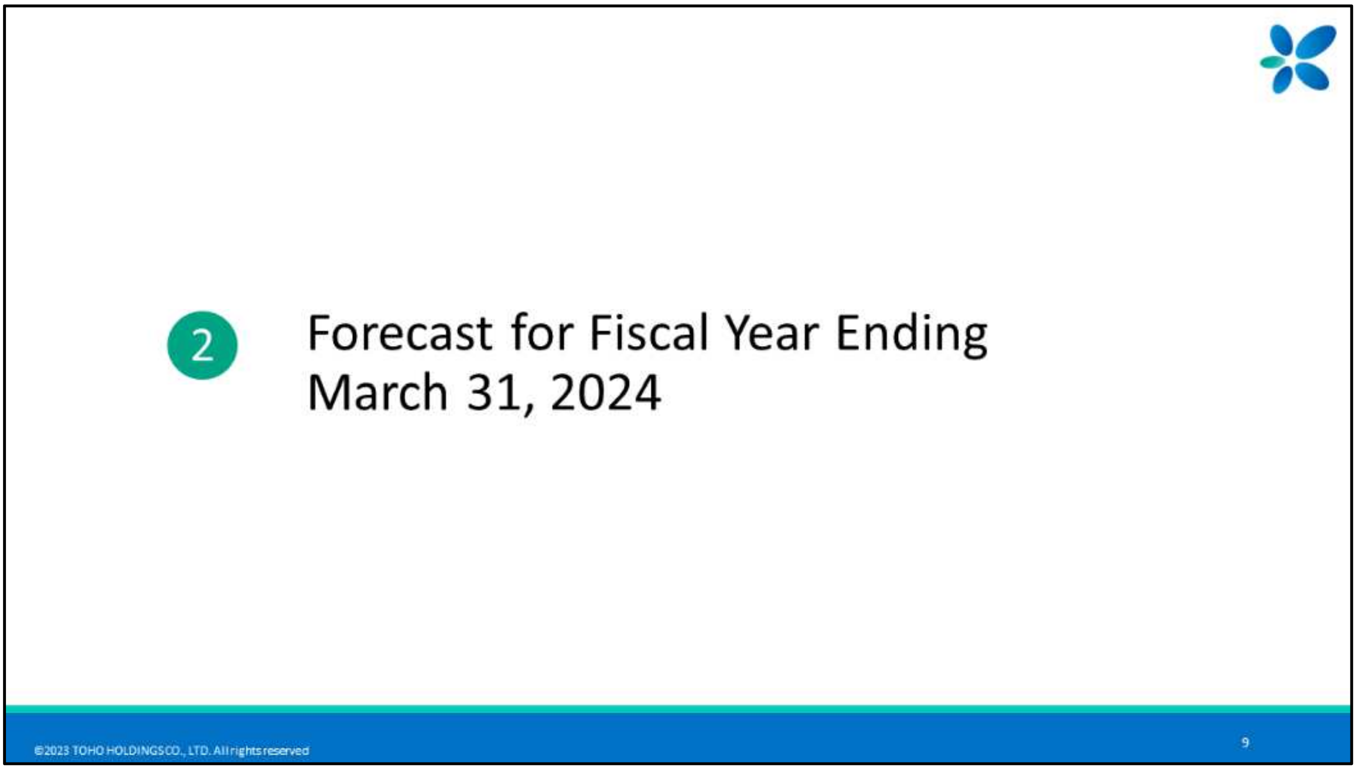
Now, we will explain the results of the dispensing pharmacy business. Net Sales rose to 92,346 million yen, up 0.59% from the previous year. This increase was supported by a trend of recovery in the number of prescription demands, despite the negative impact of the revisions of NHI drug prices and dispensing fees implemented in April 2022. Gross profit amounted to 32,160 million yen, up 1.21% from the previous year. Selling, general, and administrative expenses rose to 29,728 million yen, a year-on-year increase of 3.18%. SG&A expenses increased mainly because one subsidiary was newly consolidated. During the fiscal year ended March 31, 2023, we worked hard to cope with the revision of dispensing fees in April 2022. We also made changes to our store network to boost profitability. Although we closed 15 unprofitable stores, we opened new ones, increasing the total number of stores by ten. As a result, operating profit decreased by 17.95% year on year to 2,431 million yen.



Next, we will explain our forecast for the fiscal year ending March 2024.

Forecast for Fiscal Year Ending March 31, 2024(Consolidated)

From the fiscal year ending March 31, 2024, revenue from information service fees, which had previously been recorded as commission income of non-operating income, will be included in net sales. The change in presentation method is reflected in the consolidated forecast for that year. Therefore, the change in the presentation method is factored into the forecasts for the fiscal year ending March 31, 2024, whereas it is not factored into the results for the year ended March 31, 2023.

(Unit: million Yen)

	FY ended March 2023		FY ending March 2024 (Forecasts)			
			Forecast		YoY change	
	Sum	% of net sales	Sum	% of net sales	Incr. or Decr.	Incr. or Decr. (%)
Net sales	1,388,565		1,325,000		–	–
Gross profit	110,814	7.98	113,400	8.56	–	–
SG&A	98,000	7.06	101,900	7.69	–	–
Operating profit	12,813	0.92	11,500	0.87	–	–
Ordinary profit	19,176	1.38	13,800	1.04	–	–
Net profit *	13,630	0.98	12,300	0.93	–	–

*Profit attributable to owners of parent

	FY ended March 2023		FY ending March 2024 (Forecasts)			
			Forecast		YoY change	
	Sum	% of net sales	Sum	% of net sales	Incr. or Decr.	Incr. or Decr. (%)
Net sales	1,391,857		1,325,000		-66,857	-4.80
Gross profit	114,106	8.20	113,400	8.56	-706	-0.62
SG&A	98,000	7.04	101,900	7.69	3,900	3.98
Operating profit	16,105	1.16	11,500	0.87	-4,605	-28.59
Ordinary profit	19,176	1.38	13,800	1.04	-5,376	-28.04
Net profit *	13,630	0.98	12,300	0.93	-1,330	-9.76

[Reference] Estimate results for the year ended March 31, 2023 if revenue from information service fees had been included in net sales.

This slide shows our consolidated business forecasts. As has been disclosed in the latest financial results, we have decided to include revenues from information service fees in net sales from the current fiscal year. Previously, such revenues were recorded as commission income for non-operating income. They are important revenues earned from pharmaceutical manufacturers and other customers as part of the Group's sales activities and are expected to become more important going forward in line with changes in the information business environment. Accordingly, net sales for the fiscal year ending March 31, 2024 as shown in the upper table in the slide include revenues from information service fees. Thus, they are not directly comparable to net sales for the year ended March 31, 2023. For this reason, the table does not show year-on-year increase and decrease, or the rate of change. For your information, the lower table shows estimates for the fiscal year ended March 31, 2023 in the case of including revenues from information service fees in net sales. We will go into detail in segment-specific forecasts in the following slides. Please note here that the forecast for consolidated SG&A expenses includes approximately one billion yen as temporary expenses for the Daizawa Project, which we will explain later.

Forecast for Fiscal Year Ending March 2024 (Pharmaceutical Wholesaling Business)

(Unit: million Yen)

	FY ended March 2023		FY ending March 2024 (Forecasts)			
			Forecast		YoY change	
	Sum	% of net sales	Sum	% of net sales	Incr. or Decr.	Incr. or Decr. (%)
Net sales	1,336,766		1,273,000		−	−
Gross profit	74,911	5.60	77,500	6.09	−	−
SG&A	64,468	4.82	65,500	5.15	−	−
Operating profit	10,443	0.78	12,000	0.94	−	−

	FY ended March 2023		FY ending March 2024 (Forecasts)			
			Forecast		YoY change	
	Sum	% of net sales	Sum	% of net sales	Incr. or Decr.	Incr. or Decr. (%)
Net sales	1,339,807		1,273,000		-66,807	-4.99
Gross profit	77,952	5.82	77,500	6.09	-452	-0.58
SG&A	64,468	4.81	65,500	5.15	1,032	1.60
Operating profit	13,484	1.01	12,000	0.94	-1,484	-11.01

[Reference] Estimate results for the year ended March 31, 2023 if revenue from information service fees had been included in net sales.

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This shows our forecasts for pharmaceutical wholesaling. As in the case of consolidated forecasts, the lower table here also shows estimates for the year ended March 31, 2023 in the case of including revenues from information service fees in net sales. The forecasts are predicated on the assumption that the market will grow 1.5% as predicted by market research firms. They also factor in the impact of NHI drug price revisions this April and a drop in the sales of COVID-19-related products. Net sales will amount to 1,273 billion yen, a decrease of about 5% from the year ended March 31, 2023 in the case of including revenues from information service fees in net sales. We predict a slight increase in gross profit as we will negotiate with medical institutions so that prices will be commensurate with the value of individual products and their distribution costs, although pharmaceutical manufacturers' invoice prices are increasing and allowances from them are decreasing. We also predict that SG&A expenses will grow by about one billion yen from a year earlier for two major factors. One is the merger of non-consolidated subsidiary with TOHO PHARMACEUTICAL CO., LTD. The other is rises in electricity and other charges. Based on all these predictions, we forecast that operating profit will amount to 12 billion yen, down 11% from the previous year.

Forecast for Fiscal Year Ending March 2024 (Dispensing Pharmacy Business)

(Unit: million Yen)

	FY ended March 2023		FY ending March 2024 (Forecasts)			
			Forecast		YoY change	
	Sum	% of net sales	Sum	% of net sales	Incr. or Decr.	Incr. or Decr. (%)
Net sales	92,346		92,400		–	–
Gross profit	32,160	34.83	32,100	34.74	–	–
SG&A	29,728	32.19	30,200	32.68	–	–
Operating profit	2,431	2.63	1,900	2.06	–	–

	FY ended March 2023		FY ending March 2024 (Forecasts)			
			Forecast		YoY change	
	Sum	% of net sales	Sum	% of net sales	Incr. or Decr.	Incr. or Decr. (%)
Net sales	92,352		92,400		48	0.05
Gross profit	32,166	34.83	32,100	34.74	-66	-0.21
SG&A	29,728	32.19	30,200	32.68	472	1.59
Operating profit	2,437	2.64	1,900	2.06	-537	-22.04

[Reference] Estimate results for the year ended March 31, 2023 if revenue from information service fees had been included in net sales.

Now, let us explain our forecasts for the dispensing pharmacy business. Again, the lower table shows estimates for the year ended March 31, 2023 in the case of including revenues from information service fees in net sales. The number of prescription demands is expected to recover as economic activity is returning to normal. On the down side, NHI drug prices were revised this April. Also, technical fees have been affected by the completion of the transitional measure for the revision of additional fees for regional support in the revision last April of dispensing fees. Considering all these factors, we predict that both net sales and gross profit will remain more or less unchanged from the year ended March 31, 2023 in the case of including revenues from information service fees in net sales. We also predict that SG&A expenses will increase by 470 million yen owing mainly to rising personnel expenses. Based on all these predictions, we forecast that operating profit will amount to 1.9 billion yen, down 22% from the previous year.

Dividend Outlook

	Interim	Year End	Annual Dividend
FY ended March 2022	15yen	15yen	30yen
FY ended March 2023	16yen	16yen	32yen
FY ending March 2024 (Forecasts)	18yen (Ordinary dividend: 16yen Commemorative dividend: 2yen)	18yen (Ordinary dividend: 16yen Commemorative dividend: 2yen)	36yen (Ordinary dividend: 32yen Commemorative dividend: 4yen)

(*) We plan to pay an interim dividend of 18 yen per share and a year-end dividend of 18 yen per share for Fiscal year ending March 2024, with an annual dividend per share totaling 36 yen. Each of the interim and year-end dividends will be comprised of an ordinary dividend of 16 yen and a special dividend of 2 yen commemorating the 75th anniversary of the company's foundation.

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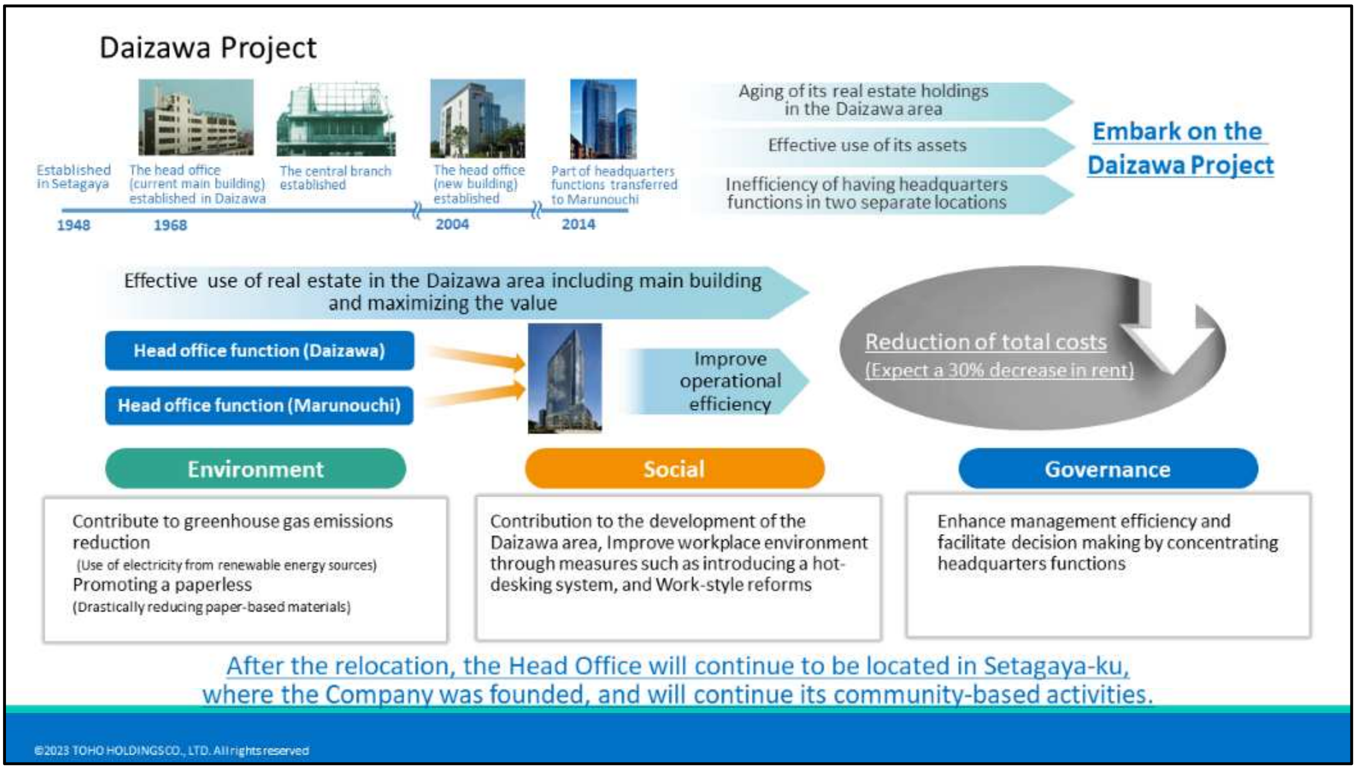
As announced at the beginning of the current fiscal year, the year-end dividend was 16 yen per share. For the fiscal year ending March 31, 2024, we plan to pay 18 yen per share each for the interim dividend and the year-end dividend. The 18-yen dividend will be made up of an ordinary dividend of 16 yen and a special dividend of 2 yen commemorating the 75th anniversary of our foundation. Thus the annual dividend will be 36 yen per share.

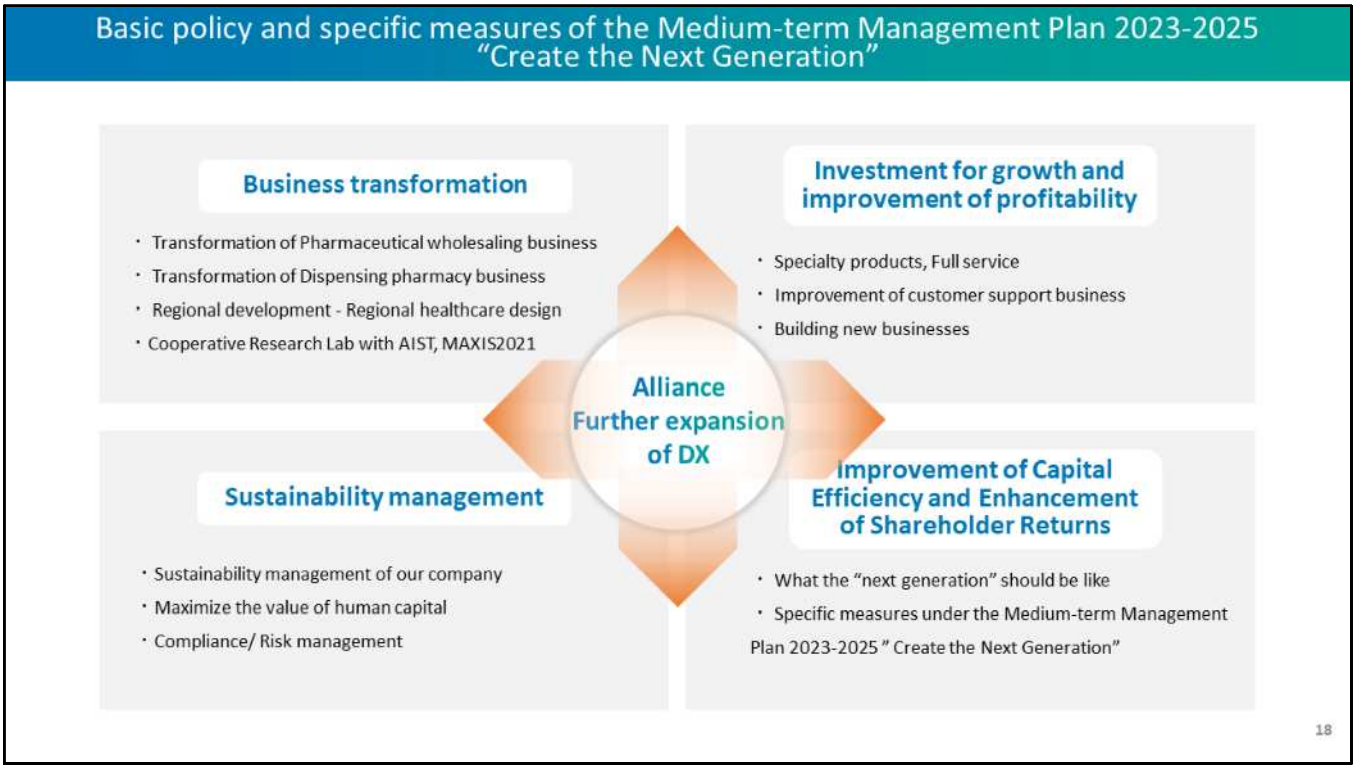
Let us now take this opportunity for the financial results briefing today to explain the Daizawa Project, which we announced a few days ago.



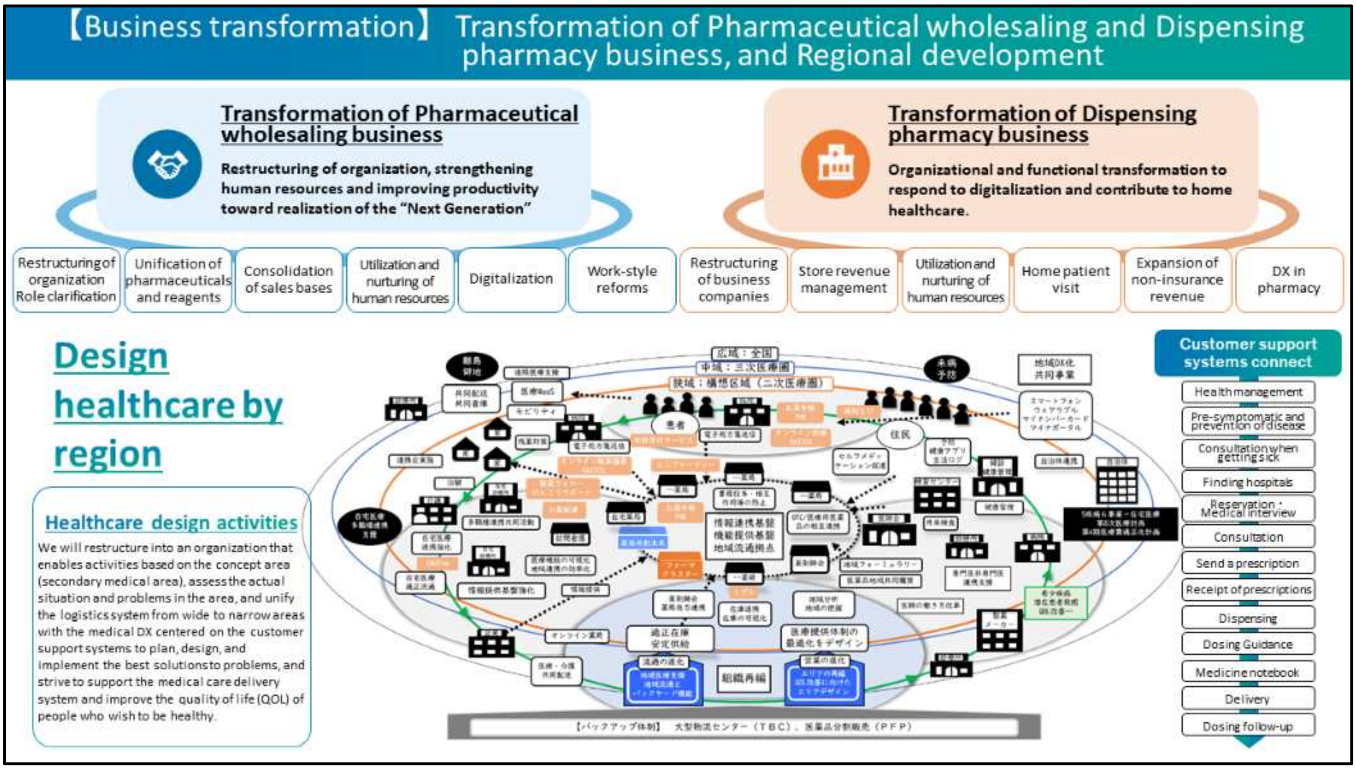
The Company was founded in 1948 in Setagaya-ku, Tokyo. The head office is located in Daizawa, Setagaya-ku, where we own several offices in addition to the head office building. We have a 75-year history of working with this particular community. The aging of the head office and other buildings has been an issue for us for some time. Over the years, we have been looking into this issue under the Daizawa Project. We have now decided to take two actions. One is to make effective use of the properties we own in Daizawa. The other is to consolidate the headquarters functions, which are now located separately in our offices in and around Daizawa and in those in Marunouchi, Chiyoda-ku. For the first action, we will examine our properties in Daizawa from various perspectives, such as the degree of deterioration of the buildings and the value of the real estate. We will also make optimal use of the properties by continuing to utilize them, rebuilding them, selling them, or converting them into profitable real estate as the case may be. Simultaneously, we will contribute to the development of the Daizawa area. We will sell the property that is being used as the main building because it is over 50 years old, and there are new restrictions on the use of the land. The new building will continue to serve as the location of the Head Office. This means that we will continue our community-based activities in Daizawa. For the second action, we will concentrate the headquarters functions in Tokyo Midtown Yaesu by around December this year to reduce total costs, including rent. Tokyo Midtown Yaesu has a stand-alone power system that provides a stable supply of energy even in the event of a large-scale disaster. We thus believe that we will be able to fulfill our mission as a medical infrastructure company even in an emergency. And, taking advantage of this consolidation of headquarters functions, we will introduce a hot desking system and promote various work styles, such as remote working, as part of our efforts to further implement work-style reforms for our employees as well as health management. In addition, we will strive to improve the quality of business operations through measures such as going paperless aimed at drastically reducing paper-based materials by promoting DX, and outsourcing routine business operations. We will also work to enhance management efficiency and to facilitate decision-making by consolidating headquarters functions. The aim is to achieve sustainable growth and enhance our longer-term corporate value.

Now, we will provide an overview of the Medium-term Management Plan 2023–2025 “Create the Next Generation,” which we announced on May 12. Today, let us focus on the main points of the plan owing to time constraints. We will post detailed material on our website soon. Please check it there.

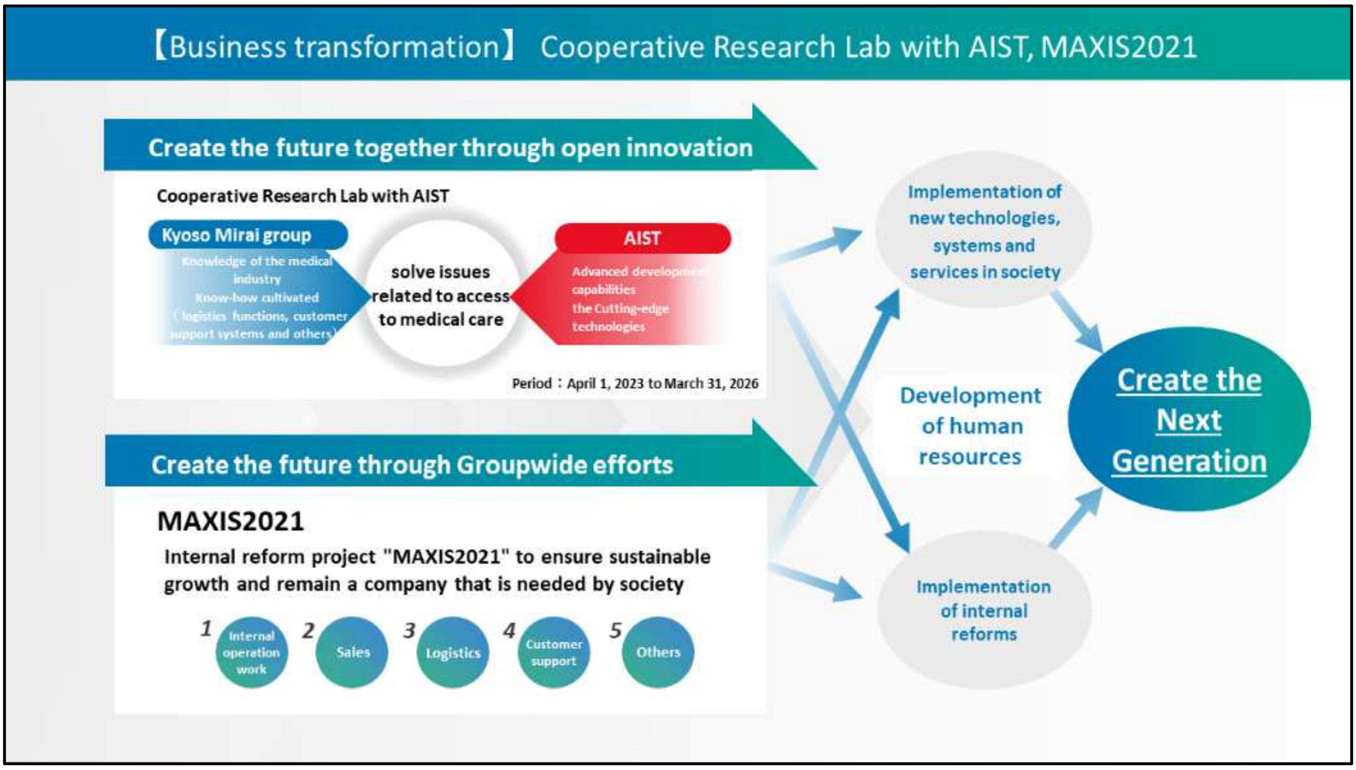
Let us start by explaining the positioning of the Medium-term Management Plan. As you know, the market environment surrounding us is ever changing. On the back of social issues such as the declining birthrate, aging population, and shrinking workforce, known as the "2025 problem" or "2030 problem," progress has been made in the construction of a "community comprehensive healthcare system" and the promotion of measures to cut medical expenses. Driven by progress in medical technology, this environment is expected to change at an ever-increasing pace in the forms of, for example, the expansion of markets for specialty products such as biomedical products and regenerative medical products, and the promotion of medical DX. In a rapidly changing environment surrounding the Company, we believe that the mission of the Kyoso Mirai Group is to provide added value and solutions to our stakeholders and contribute to society for the current and next generations. To execute this mission without fail, we have formulated the Medium-term Management Plan 2023-2025 "Create the Next Generation" with the aim of creating a foundation for the next generation. By implementing the three-year plan, we will endeavor to become a corporate group that is needed and continuously supported by all stakeholders.



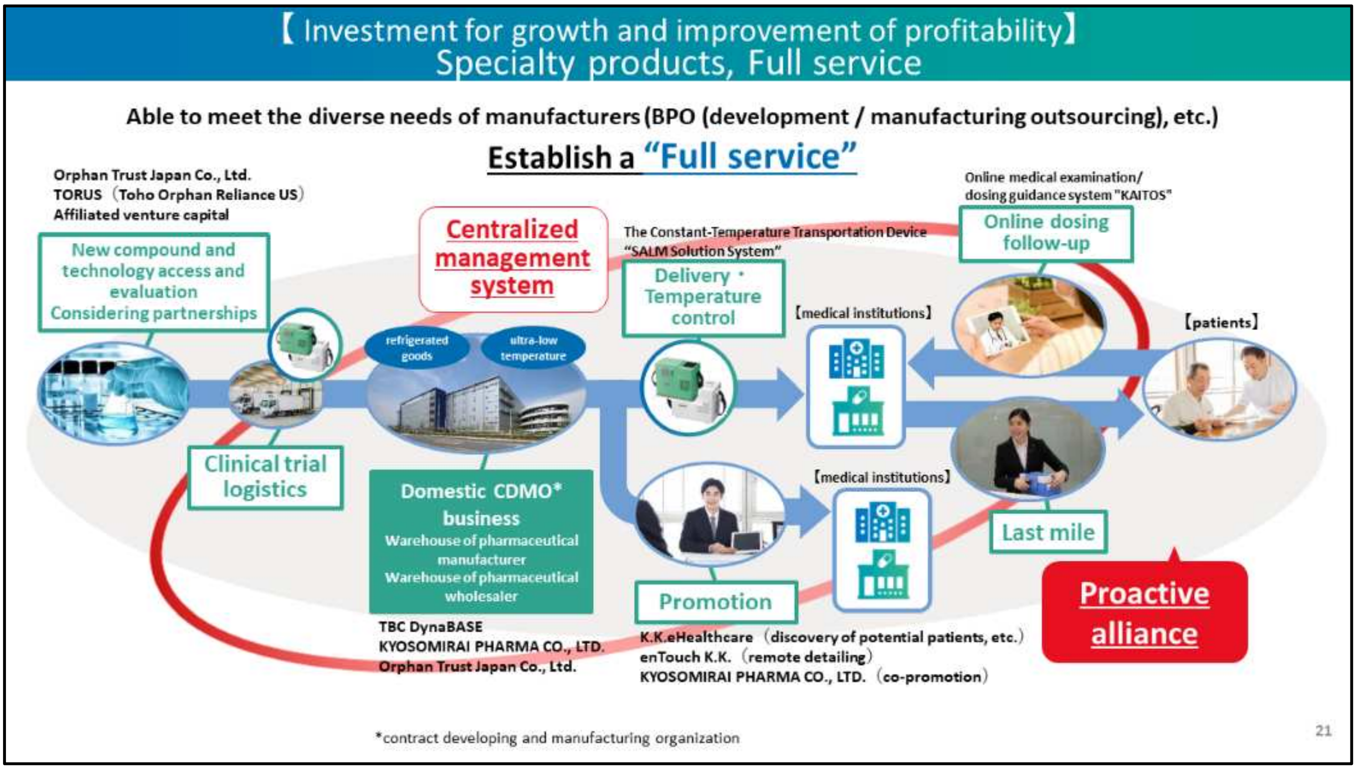
As shown in the slide, the Medium-term Management Plan has four basic policies: Business Transformation, Investment for Growth and Improvement of Profitability, Sustainability Management, and Improvement of Capital Efficiency and Enhancement of Shareholder Returns. Under these policies, we will implement specific measures. We aim to achieve the Plan by aggressively incorporating *out-of-the-box alliances* and *the further expansion of DX* under all these basic policies. Now, TOHO PHARMACEUTICAL President Akira Umada will explain specific measures under the basic policies.



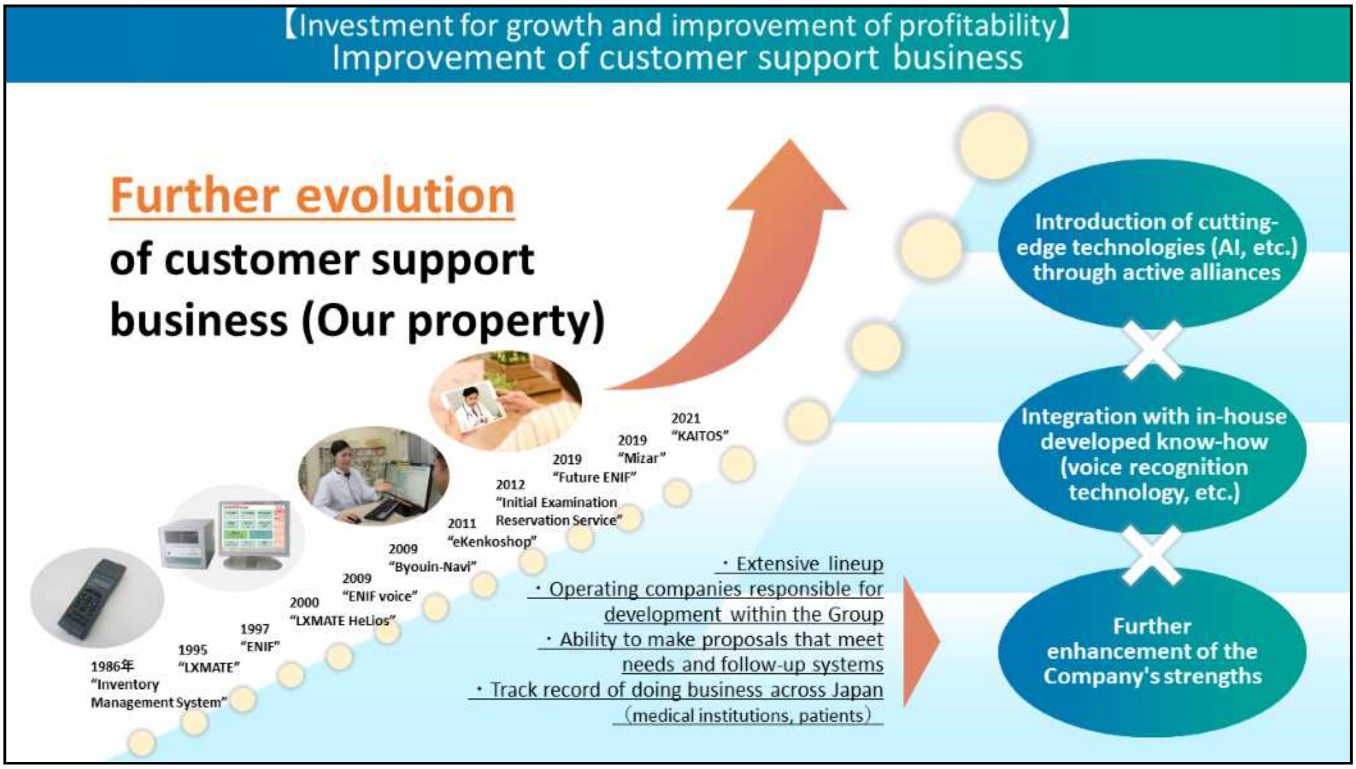
I'm Akira Umada from TOHO PHARMACEUTICAL. Let me explain the main measures of the Medium-term Management Plan. First, I will focus on the transformation of pharmaceutical wholesaling and dispensing pharmacy businesses, and regional development. In order to promote distribution improvement, which is one of the major challenges in the pharmaceutical industry, we need to move away from traditional business practices and press ahead with organizational restructuring toward realizing the next generation. We will restructure into an organization and teams that enable community-based activities revolving around the concept area, a.k.a. secondary medical area. This will involve the unification of pharmaceuticals and reagents as well as the integration of offices. We will also clarify the roles of MS (marketing specialist) and EMS (ENIF marketing supporter) and consider developing new roles and job types that are better suited to the times and current work styles. For example, we will create jobs that can make better use of senior employees' extensive experiences and develop a work environment that better accommodates live events of employees, such as child birth and child rearing. We will also introduce diverse work styles, including telework, whiling taking local conditions into account. The idea is to boost productivity. In the dispensing pharmacy business, we will restructure business companies, which now total 32 in number, toward better functioning through concentration of management functions and system integration of operating companies. We will expedite store revenue management by opening new pharmacies and closing existing ones as necessary with an emphasis on profitability. We will also expedite our contribution to home healthcare. We will aggressively implement DX to enhance efficiency in pharmacy operations, in such areas as electronic prescription and online medication instruction. As for regional development, we intend to design community-based healthcare though these transformative efforts. Next year will see a series of major changes. They will include "triple" changes to fee reimbursement arrangements in three areas: medical treatments, nursing care services, and welfare services for persons with disabilities. Also, the 8th Medical Care Plan and other changes will be in place. All these changes are expected to expedite community health care visions. Under such circumstances, we will carry out activities that are based on an accurate assessment of local situations and problems by shifting the scope of our activities to the concept area, as I have explained in the section on the transformation of the pharmaceutical wholesaling business. We will enhance our contribution to local communities with our distribution and customer support systems. We will also make health care designs that cater to local characteristics. This will involve out-of-the-box alliances. This chart may be too detailed. We will post our concept of regional development on our website soon. Please check it there.



Now, I will introduce to you two initiatives we have already launched. One is the Cooperative Research Lab with the National Institute of Advanced Industrial Science and Technology (AIST). The period for the Cooperative Research Lab, which spans three years coincides with that of the Medium-term Management Plan. The Lab is designed to combine AIST’s cutting-edge technologies and advanced development capabilities with the knowledge and expertise we have cultivated in the medical industry over the years, including our logistics functions and customer support systems. We believe that such combination will enable us to solve various issues that all people who want to stay healthy face in their access to medical care, to develop new customer support systems, and to implement new services in society. A total of 24 of our employees are involved in the Cooperative Research Lab, including in-house researchers and eight employees who have been on loan since this April. The other initiative is the internal reform project MAXIS2021. The term “MAXIS” refers to the original internal project launched in 1993. The 1993 project involved many junior employees as well as senior ones. They had intensive discussions and carried out various internal reforms, many of which are in place even today. Over the past few years, plagued by the COVID-19 pandemic, many rapid changes have taken place, including the spread of DX and work-style reforms. We also needed to make major changes. To this end, we launched MAXIS2021 as part of our internal reform efforts. Many employees, especially junior ones, are involved in MAXIS2021. They are divided into five project teams and exchange views and opinions with an open mind, free from stereotyped thinking. We believe that new systems, services, and internal reforms that will come out from these teams will pave the way for our future. We hope that many employees will accumulate various experiences through this project and become talents who are motivated and needed by society.

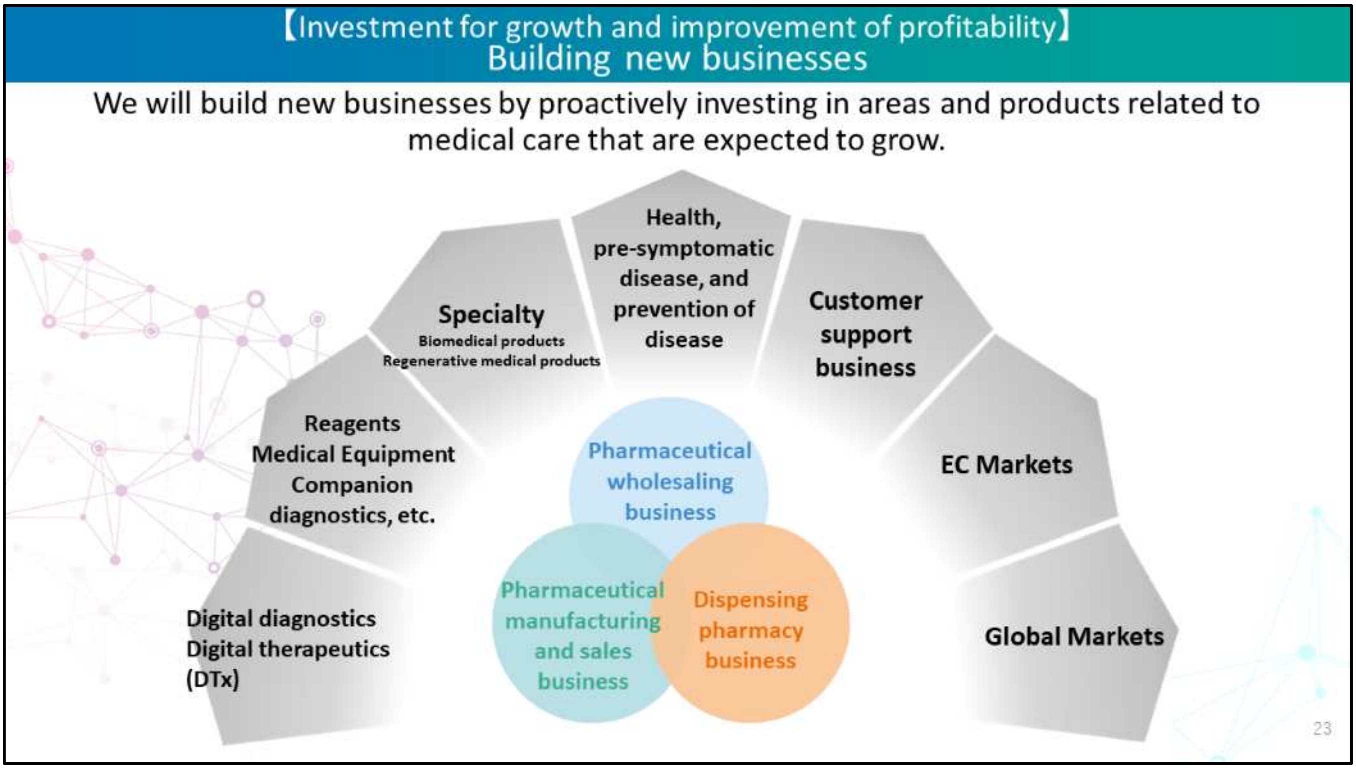


The next topic is "investment for growth and improvement of profitability." Market research firms predict that the share of specialty pharmaceuticals, such as biomedical products and regenerative medical products, will increase rapidly while the domestic pharmaceutical market will grow only slowly over the next few years. Manufacturers' development pipelines are shifting in focus from primary pharmaceuticals to specialty ones. And foreign venture businesses are increasingly entering the Japanese market. Product characteristics are being diversified, and some venture businesses have yet to develop business infrastructure or sales networks. This may be why we are receiving various requests from a growing number of manufacturers. We will establish a full service that can meet these diverse needs. Such a full service will involve working with our nationally centralized management system, building proactive alliances, and combining our unique functions. These functions will include, among other things, TBC DynaBASE in the Keihin Truck Terminal, which is designated both as an inter-municipal transport base in the Tokyo Metropolitan Government in its disaster preparedness plan and as a private sector logistic hub by the Ministry of Land, Infrastructure, Transport and Tourism; the SALM Solution System, which has recently included in its lineup SALM FZ, which can handle temperatures from minus 25 degrees Celsius; and our arrangements that accommodate different promotional approaches depending on product characteristics.

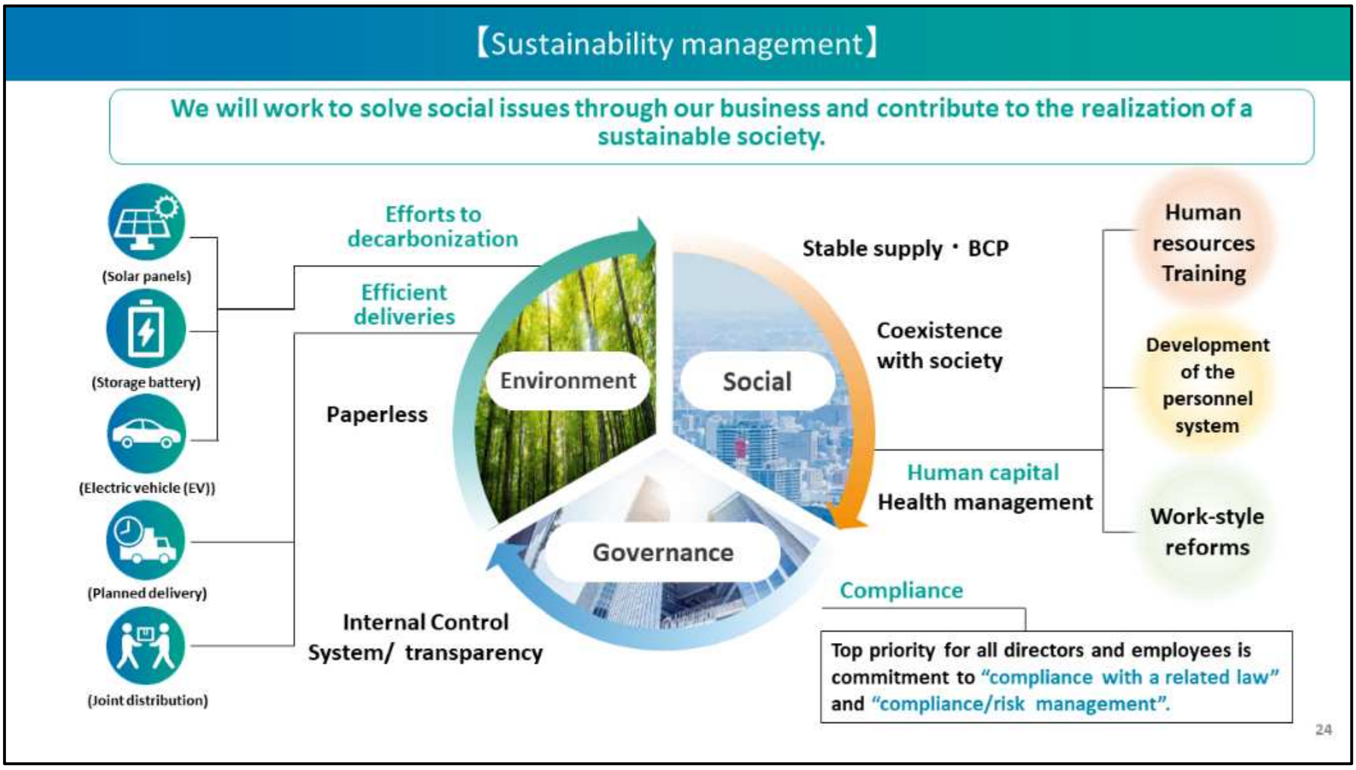


Next, I will explain our customer support business. Since its foundation, the Company has remained committed to identifying the needs of medical institutions and patients, and we have developed and offered systems that address such needs. We started out as a developer of inventory management systems that catered to the needs of our customers, including national hospitals. In 1995, we launched LXMATE, a medical appointment system for hospitals and clinics, the first of its kind developed by a pharmaceutical wholesale company. We have developed these and many other systems on our own from the perspectives of medical institutions and patients. The goal of our customer support business activities is not just to have our customers adopt our systems. The ultimate goal is to ensure that the use of our systems support them in solving problems and manage their business. As a result, our systems are now used by a great many medical institutions and patients. For example, some 30,000 units of the ordering terminal ENIF are in use, with the main users being pharmacies. Byouin-Navi, a web-portal site for finding hospitals and clinics, processes over 10 million searches per month.

The popularity of our systems is supported by three of our major strengths: an extensive lineup, group arrangements that enable in-house development, and the ability to make proposals that meet diverse needs and follow-up systems that our MS personnel have built over the years. Going forward, we will enhance these strengths, aggressively introduce AI and other cutting-edge technologies, and integrate them with our unique know-how as represented by voice recognition technology in order to develop new products and systems. The idea is to further solidify our customer support business and boost our profitability.



We will proactively invest in areas and products that are expected to grow, including specialty products and customer support business, as I mentioned earlier. We believe that such promising areas include digital diagnostics and other new technologies that have been making great progress supported by cutting-edge technologies; the areas of health, pre-symptomatic disease, and disease prevention that are growing with the spread of self-medication and a longer health life expectancy; and global markets. We will maximize group synergies that only the Kyoso Mirai Group – which is engaged in wholesaling, dispensing pharmacy, and pharmaceutical manufacturing and sales businesses – can achieve. While placing a firm focus on these three businesses, we will build new businesses through proactive investment and our endeavor for growth.



Now, I will move on to our sustainability management. As a medical infrastructure company, we will work to solve social issues through our business activities. With the aim of achieving a sustainable society, we will identify issues in the areas of the environment, society, and governance and pursue business management to resolve them. As for environmental conservation measures, we will step up our decarbonization efforts by exploring opportunities to adopt solar panels, storage batteries, and electric vehicles. As part of our initiative to reduce greenhouse gas emissions, we will ramp up our efforts to improve delivery efficiency. We continue with our activity to offer Mizar, a centralized administration system for pharmacy operations. Mizar's automated ordering function allows our customers to achieve optimal deliveries. We are convinced that this will lessen the burden on their operations and help reduce auto emissions through planned delivery. As for contributions to society, we will secure a stable supply of pharmaceuticals and design our BCP to achieve this. We will also place more emphasis on human capital in business management. We have a history of expanding our business by respecting the free thinking of our employees. In the early years of our foundation, we adopted the hancho system, a decentralized system based on small groups of employees. We will continue to cherish our corporate culture that has been developed over the years. We will also scale up the training system for our employees, promote their reskilling, strengthen their career development, and move ahead with the practice of hiring and assigning talents regardless of gender, nationality, etc. We will improve our personnel system so that we will be able to hire and utilize more seniors and mid-career workers. Also, we will further improve the workplace environment. This will involve, among other things, increasing operational efficiency with expansion of DX and improving work arrangements that better accommodate employees' life events.

We will place top priority on compliance in the governance category.

As a top priority, all employees will be committed to complying with important related laws such as the Pharmaceutical and Medical Devices Act and the Antimonopoly Act and to building workplaces free from harassment. They will also be committed to creating a workplace environment where they feel free to give warnings to their co-workers. This concludes my briefing.

【Improvement of Capital Efficiency and Enhancement of Shareholder Returns】

|What the "next generation" should be like

1. **Price Book-value Ratio（PBR）：1.0 times or higher (0.65 times in FY 2023)**
2. **Return On Equity（ROE）：More than 8% (5.6% in FY 2023)**
3. **Dividend on Equity Ratio（DOE）：More than 2% (0.9% in FY 2023)**

| Specific measures under the Medium-term Management Plan 2023-2025

1) Investment Plan： 38 billion yen

- Investment in growth fields：20 billion yen
- Investment in infrastructure：12 billion yen
- Investment in human capital： 6 billion yen

2) Purchase of treasury shares：More than 30 billion yen

We will purchase treasury shares flexibly taking capital efficiency into consideration.

3) Dividends

We will increase dividends stably with a target of a DOE (dividend on equity) of 2%.

4) Cross-shareholdings

We will unwind cross-shareholdings in a phased manner through sufficient dialogue with the partner companies.

I'm Atsushi Udoh. Let me conclude our briefing by focusing on Improvement of Capital Efficiency and Enhancement of Shareholder Returns. We intend to enhance shareholder returns by increasing our corporate value over the medium to long term with sustained growth. To this end, we will press ahead with the measures we have mentioned to boost productivity through business transformation and to improve profitability through investment for growth over the three years. This is what we in the next generation should look like, that is, PBR is at least 1.0 times; ROE is over 8%; and DOE is over 2%. To achieve these targets, we will implement the following measures during the period of the Medium-term Management Plan. With regard to investment, we plan to invest 20 billion yen in growth fields, such as the development of new customer support systems, the development of new businesses, and business tie-ups with promising venture businesses. We also plan to invest 12 billion yen in the kind of infrastructure that is needed to continue providing safe and secure medical supplies for medical institutions and safe and secure medical care for patients. Furthermore, we plan to invest six billion yen in human capital that supports all these activities. As a measure to improve capital efficiency, we will purchase treasury shares worth over 30 billion. We will make such purchase in a timely and flexible manner depending on the operating environment. In addition, we will increase dividends stably with a target of a DOE of 2%. Please note that we have already unwound most of our cross-shareholdings except shares of pharmaceutical manufacturers. We will unwind the remaining cross-shareholdings – a majority of which are shares of pharmaceutical manufacturers – in a phased manner through sufficient dialogue with the partner companies concerned. By taking all these measures, we will strive to enhance capital efficiency so as to meet the expectations of our stakeholders.

This concludes our briefing. Thank you.

References

Cash Flow

(Unit: million Yen)

	FY ended March 2022	FY ended March 2023	Major factors for FY ended March 2023
Cash and cash equivalents at the beginning of period	88,882	90,014	
Operating activities	16,341	-9	Profit before income taxes: 20,420 Increase in trade payables: -14,634 Increase in inventories: -10,854 Increase in trade payables: 14,685 Income taxes paid: -8,986
Investment activities	-11,032	4,315	Purchase of property, plant and equipment: -1,639 Proceeds from sale of property, plant and equipment: 1,807 Purchase of intangible assets: -880 Proceeds from sale of investment securities：5,866
Financing activities	-4,473	-13,060	Proceeds from long-term borrowings: 3,610 Repayments of long-term borrowings: -6,395 Purchase of treasury shares： -7,390 Dividends paid: -2,187
Cash and cash equivalents at the end of period	90,014	81,839	Increase(FY ended March 2023): -8,175

SG&A (Year on Year)

<Year on Year>

+ 1.8 billion yen
(including an increase of 1.0 billion yen for new consolidation)

Others　+2.2 billion yen
- **Newly consolidated company: +0.5 billion yen** (Dispensing pharmacy)
- **Existing consolidated companies: 1.7 billion yen**
  - Pharmaceutical wholesaling business : +1.8 billion yen
    - Commission expenses +0.8 billion yen (Increase in WMS cloud services in the distribution centers, etc.)
    - Utilities charge +0.4 billion yen (price hike)
    - Freightage & packing expenses +0.1 billion yen(Increase in the number of deliveries due to increase in cargo volume, etc.)

Personal costs -0.3 billion yen
- **Newly consolidated companies : +0.5 billion yen** (Dispensing pharmacy)
- **Existing consolidated companies : -0.8 billion yen**
  - Pharmaceutical wholesaling business : -0.9 billion yen
  - Dispensing pharmacy business : +0.1 billion yen

Capital Investment and Depreciation

【Capital Investment】

FY ended March 2023	FY ending March 2024
Results：3,309 million yen	**Results：6,791 million yen**
1. "TBC Hokuriku" (System, fixtures) : 208 million yen 2. Pharmaceutical sales office (New construction, relocation of sales office and others) : 892 million yen 3. Others : 2,209 million yen Including, replacement of core system servers : 633 million yen	1. Daizawa Project Move-in construction work・System・Furniture, fixtures, etc. : 970 million yen 2. Pharmaceutical sales office (New construction, relocation of sales office and others) : 2,506 million yen 3. Others : 3,315 million yen Including, replacement of core system servers : 474 million yen Distribution center WMS (warehouse management system) renovation, introduction of cloud-based systems, etc. : 923 million yen

【Depreciation】

FY ended March 2023	FY ending March 2024
5,767 million yen	**6,139 million yen**

Total commitment to good health

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