

Financial Results Briefing for the First Half of Fiscal Year Ending March 31, 2025

November 13, 2024 (WED)



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Agenda

- ① Financial Highlights for the First Half of Fiscal Year Ending March 31, 2025
- ② Forecast for Fiscal Year Ending March 31, 2025
- ③ Action Plan Developed Based on Verification Results of Management Strategy Committee
 - Aiming to Accelerate the Medium-Term Management Plan, Improve its Effectiveness and Further Enhance Corporate Value –



1 Financial Highlights for the First Half of Fiscal Year Ending March 31, 2025

First, we would like to explain the financial highlights for the First Half of Fiscal Year Ending March 31, 2025.



Profit and Loss Statement (Consolidated)

- Establishment of "Governance Enhancement Special Committee"
- Acquisition of own shares: ¥15 billion (by the end of March 2025), and cancellation of all shares acquired
- Business alliance with PHARUMO, Inc., (DX support for dispensing pharmacies) and Blue innovation Co., Ltd., (developing and providing DX solutions utilizing drones and robots)
- Investment in Hirosaki Lifescience Innovation, Inc. (developing, manufacturing regenerative medical products) and WACON Co., Ltd., (manufacturing and sales of logistics equipment, including constant-temperature containers of pharmaceuticals)

(Unit: million Yen)

| | 1st half of FY ended March 2024 | | 1st half of FY ending March 2025 | | |
|-------------------------|---------------------------------|----------------|----------------------------------|----------------|----------------|
| | Results | % of net sales | Results | % of net Sales | YoY change (%) |
| Net sales | 734,846 | | 754,974 | | 2.74 |
| Gross profit | 56,635 | 7.71 | 58,384 | 7.73 | 3.09 |
| SG&A | 50,142 | 6.82 | 51,004 | 6.76 | 1.72 |
| Operating profit | 6,492 | 0.88 | 7,380 | 0.98 | 13.68 |
| Ordinary profit | 7,945 | 1.08 | 8,596 | 1.14 | 8.19 |
| Net profit* | 8,782 | 1.20 | 5,383 | 0.71 | -38.70 |

*Profit attributable to owners of parent

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This is the consolidated profit and loss statement.

Net Sales rose to 754,974 million yen, an increase of 2.74% from the previous year.

Net income for the six months ended September 30, 2024 was down 38.7% year on year.

This was due to a gain on sale of investment securities recorded in the same period of the previous year.

Both sales and profits exceeded the initial earnings forecast.

The factors behind this will be explained later in the results of the Pharmaceutical Wholesaling segment.

As an initiative for the six months under review based on the Medium-Term Management Plan announced in May last year, we established a Governance Enhancement Special Committee to promote sustainable management by strengthening governance.

Furthermore, in addition to the dividend increase to be explained later, we announced the acquisition of 15 billion yen of own shares in August in an effort to improve shareholder returns.

We are also actively investing and forming alliances for growth, as shown in the slide.



Balance Sheet (Consolidated)

(Unit: million Yen)

| | FY ended March 2024 | | 1st half of FY ending March 2025 | | | Major factors behind the increase or decrease |
|---|---------------------|---------------|----------------------------------|---------------|----------------|--|
| | Results | Ratio(%) | Results | Ration(%) | Incr. or decr. | |
| Current assets | 597,888 | 77.30 | 588,234 | 76.32 | -9,654 | Increase in merchandise and finished goods of 8,358 Decrease in cash and deposits of 24,743 |
| Non-current assets | 175,538 | 22.70 | 182,476 | 23.68 | 6,938 | Increase in investment securities of 5,305 |
| Total assets | 773,427 | 100.00 | 770,711 | 100.00 | -2,716 | |
| Current liabilities | 471,305 | 60.94 | 462,815 | 60.05 | -8,490 | Decrease in income taxes payable of 3,299 Decrease in accrued consumption taxes of 3,019 |
| Non-current liabilities | 52,684 | 6.81 | 45,251 | 5.87 | -7,433 | Decrease in bonds payable of 8,944 |
| Total liabilities | 523,990 | 67.75 | 508,066 | 65.92 | -15,923 | |
| Net assets | 249,437 | 32.25 | 262,644 | 34.08 | 13,207 | Increase in retained earnings of 4,317 Increase in valuation difference on available-for-sale securities of 2,644 Decrease in treasury stock of 4,884(+) |
| Total liabilities and net assets | 773,427 | 100.00 | 770,711 | 100.00 | -2,716 | |

Equity-to-asset ratio FY ended March 2024: 32.22% 1st half of FY ending March 2025: 34.05%

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 of specialty pharmaceuticals and other limited-handling products for selected wholesalers continued to grow steadily.
: The Company's net sales of limited-handling products for selected wholesalers were 126.6 billion yen (28.1% increase from the previous period). *Excluding COVID-19-related products
- Gross profit of customer support systems: 1.9 billion yen
- Consolidation of sales bases : Number of sites decreased by two and sales offices decreased by three

(Unit: million Yen)

| | 1st half of FY ended March 2024 | | 1st half of FY ending March 2025 | | |
|------------------|---------------------------------|----------------|----------------------------------|----------------|----------------|
| | Results | % of net sales | Results | % of net sales | YoY change (%) |
| Net sales | 709,414 | | 728,733 | | 2.72 |
| Gross profit | 38,955 | 5.49 | 40,357 | 5.54 | 3.60 |
| SG&A | 32,143 | 4.53 | 32,351 | 4.44 | 0.65 |
| Operating profit | 6,811 | 0.96 | 8,005 | 1.10 | 17.53 |

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Now, we will explain the results of the pharmaceutical wholesaling business.

Net Sales rose to 728,733 million yen, an increase of 2.72% from the previous year.

The prescription pharmaceuticals market during this first half continued to be affected by measures to curb medical expenses, such as the reduction of NHI drug prices in April 2024.

In addition, sales of COVID-19-related products decreased from the corresponding period of the previous year.

However, thanks to growth in specialty pharmaceuticals, vaccines, and other products, the market showed positive growth.

We slightly outperformed market growth owing mainly to continued growth in sales of specialty pharmaceuticals and orphan drugs.

Sales of products whose handling is limited to selected wholesalers, excluding COVID-19 drugs, continued to increase and reached 126.6 billion yen, up 28.1% year-on-year, contributing to the Company's solid sales.

Gross profit was 40,557 million yen, up 3.6% year-on-year. Gross margin was 5.54%, slightly higher than in the previous year.

This is mainly because wholesale prices increased thanks largely to our efforts to negotiate unit prices for individual products to better reflect their individual value and distribution costs and negotiate separately for drugs that are particularly needed for medical purposes with the Guidelines for the Improvement of Commercial Transaction Practices of Ethical Drugs for Manufacturers, Wholesalers, and Medical Institutions/Pharmacies that were revised in March 2024, although there was lower margin from the transaction with pharmaceutical companies.

As for customer support systems, we worked to propose simplified Mizar and promoted the switch from ENIF to the fee-based Future ENIF.

However, gross profit from customer support systems declined by 100 million yen year on year to 1.9 billion yen, negatively affected by the delayed introduction of the ENIFvoice series and the revised release timing of new products.

SG&A expenses increased 0.65% from the previous year to 32,351 million yen.

The SG&A expense ratio was 4.44%, a further improvement from the prior year.

Despite incurring higher freight and packing costs and higher personnel expenses attributable to the merger of non-consolidated subsidiaries, we continued to work to cut costs by improving operational efficiency.

As a result, operating profit increased by 17.53% year on year to 8,005 million yen.

The operating margin improved from the previous fiscal year to 1.10%.



Composition of Sales by Category and Contract Rate

Composition of sales by category

| | April 2023-September 2023 | April 2024-September 2024 |
|---|---------------------------|---------------------------|
| Drugs for premium to promote the development of new drugs and eliminate off-label use | 35.3% | 38.4% |
| Patented drugs, others | 40.3% | 40.5% |
| Long-listed original drugs | 14.4% | 10.6% |
| Generic drugs | 10.1% | 10.4% |

Contract rate

| | 2020/9 | 2021/3 | 2021/9 | 2022/3 | 2022/9 | 2023/3 | 2023/9 | 2024/3 | 2024/9 |
|--------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| Value Basis | 95.6% | 100.0% | 95.0% | 100.0% | 95.4% | 98.6% | 95.2% | 99.5% | 95.1 % |
| Number Basis | 80.6% | 100.0% | 71.1% | 100.0% | 69.6% | 100.0% | 69.3% | 100.0% | 62.2% |

The upper part of the slide shows the composition of sales by category based on drug prices. The percentage of drugs for a premium to promote the development of new drugs increased from 35.3% in the same period last year to 38.4%. During the same period, longlisted original drugs decreased in share from 14.4% to 10.6%, indicating a continued change in the product mix. The lower part shows changes in the contract rate with medical institutions. As of the end of this September, it was 95.1% on a value basis and 62.2% on a number basis.



Profit and Loss Statement (Dispensing Pharmacy Business)

- In order to implement the transformation of the dispensing pharmacy business, which is a key measure of the Medium-term Management Plan, we pressed ahead with the reorganization of operating companies. Consequently, the number of dispensing pharmacy companies decreased from 27 at the end of March 2024 to 17 by July 1 this year.
- Seven stores were closed or transferred based on profitability, and eight stores were opened.
- Occurrence of temporary expenses associated with the integration of subsidiaries.

(Unit: million Yen)

| | 1st half of FY ended March 2024 | | 1st half of FY ending March 2025 | | |
|------------------|---------------------------------|----------------|----------------------------------|----------------|----------------|
| | Results | % of net sales | Results | % of net sales | YoY change (%) |
| Net sales | 46,598 | | 47,111 | | 1.10 |
| Gross profit | 15,871 | 34.06 | 16,163 | 34.31 | 1.84 |
| SG&A | 14,976 | 32.14 | 16,181 | 34.35 | 8.05 |
| Operating profit | 895 | 1.92 | -18 | -0.04 | — |

■ Number of stores (as of September 30, 2024)

| | Consolidated Subsidiaries | | Non-Consolidated Subsidiaries | | Affiliates Companies | | Total | |
|---------------|---------------------------|------------|-------------------------------|-----------|----------------------|-----------|--------------|------------|
| TOHO HOLDINGS | 0 company | 0 store | 2 companies | 6 stores | 2 companies | 18 stores | 4 companies | 24 stores |
| PharmaCluster | 8 companies | 578 stores | 7 companies | 68 stores | 1 company | 37 stores | 16 companies | 683 stores |
| Total | 8 companies | 578 stores | 9 companies | 74 stores | 3 companies | 55 stores | 20 companies | 707 stores |

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Now, we will explain the results of the dispensing pharmacy business.

Net Sales rose to 47,111 million yen, up 1.1% from the previous year.

Although the NHI drug prices were lowered in April, net sales grew supported by an increase in the number of prescriptions filled and an increase in technical fees.

Gross profit amounted to 16,163 million yen, up 1.84% from the previous year.

In order to implement the transformation of the Dispensing Pharmacy business, a key measure of the Medium-Term Management Plan, we reorganized our Dispensing Pharmacy business companies and reduced their number from 27 as of March 31, 2024 to 17 by July 1 this year.

Moreover, in a bid to improve profitability, we are opening and closing stores with an emphasis on profitability as shown in the slide.

However, SG&A expenses advanced by 1.2 billion yen from a year earlier to 16,181 million yen because of temporary expenses associated with the integration of operating companies.

As a result of the above, we recorded an operating loss of 18 million yen.



2 Forecast for Fiscal Year Ending March 31, 2025

Next, we will explain our forecast for the fiscal year ending March 2025.



Forecast for Fiscal Year Ending March 31, 2025(Consolidated)

(Unit: million Yen)

| | FY ended March 2024 | | FY ending March 2025 | | | | 1st half of FY ending March 2025 | |
|------------------|---------------------|----------------|----------------------|----------------|------------|--------|----------------------------------|--------------|
| | Results | % of net sales | Forecast | % of net sales | YoY change | % | Results | Progress (%) |
| Net sales | 1,476,712 | | 1,492,000 | | 15,288 | 1.04 | 754,974 | 50.60 |
| Gross profit | 119,148 | 8.07 | 120,200 | 8.06 | 1,052 | 0.88 | 58,384 | 48.57 |
| SG&A | 99,817 | 6.76 | 102,000 | 6.84 | 2,183 | 2.19 | 51,004 | 50.00 |
| Operating profit | 19,331 | 1.31 | 18,200 | 1.22 | -1,131 | -5.85 | 7,380 | 40.55 |
| Ordinary profit | 21,787 | 1.48 | 20,100 | 1.35 | -1,687 | -7.74 | 8,596 | 42.77 |
| Net profit * | 20,657 | 1.40 | 12,500 | 0.84 | -8,157 | -39.49 | 5,383 | 43.06 |

*Profit attributable to owners of parent

This slide shows our consolidated business forecasts.

No changes have been made to the earnings forecast announced in May.

On the right-hand side of this table are the progress rates of the 1st half results against the full-year plan. Compared to the initial forecast, progress in this first half was 50.6% for net sales, 40.55% for operating profit, and 43.06% for net profit.

Although the progress rate for profits was below 50%, we will continue to work toward achieving our full-year earnings forecasts through measures such as securing gross profit according to plan in all segments and reducing SG&A expenses.



Forecast for Fiscal Year Ending March 2025 (Pharmaceutical Wholesaling Business)

(Unit: million Yen)

| | FY ended March 2024 | | FY ending March 2025 | | | | 1st half of FY ending March 2025 | |
|-------------------------|---------------------|----------------|----------------------|----------------|---------------|---------------|----------------------------------|--------------|
| | Results | % of net sales | Forecast | % of net sales | YoY change | % | Results | Progress (%) |
| Net sales | 1,424,488 | | 1,437,000 | | 12,512 | 0.88 | 728,733 | 50.71 |
| Gross profit | 83,537 | 5.86 | 82,400 | 5.73 | -1,137 | -1.36 | 40,357 | 48.98 |
| SG&A | 64,083 | 4.50 | 65,300 | 4.54 | 1,217 | 1.90 | 32,351 | 49.54 |
| Operating profit | 19,453 | 1.37 | 17,100 | 1.19 | -2,353 | -12.10 | 8,005 | 46.81 |

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This shows our forecasts for pharmaceutical wholesaling business.

The right-hand side of the table shows the percentage progress of the first half results against the full-year plan.

Compared to the initial forecast, progress was 50.71% for net sales, 46.81% for operating profit, and profit was below baseline progress.

With renegotiation of delivery prices with some medical institutions scheduled for the second half of the fiscal year, we will continue to strive to achieve the full-year plan by negotiating prices commensurate with individual product values as well as distribution costs and negotiating separately for drugs that are particularly needed for medical purposes.



Forecast for Fiscal Year Ending March 2025 (Dispensing Pharmacy Business)

(Unit: million Yen)

| | FY ended March 2024 | | FY ending March 2025 | | | | 1st half of FY ending March 2025 | |
|------------------|---------------------|----------------|----------------------|----------------|------------|-------|----------------------------------|--------------|
| | Results | % of net sales | Forecast | % of net sales | YoY change | % | Results | Progress (%) |
| Net sales | 93,789 | | 96,700 | | 2,911 | 3.10 | 47,111 | 48.72 |
| Gross profit | 31,894 | 34.01 | 34,200 | 35.37 | 2,306 | 7.23 | 16,163 | 47.26 |
| SG&A | 30,348 | 32.36 | 31,700 | 32.78 | 1,352 | 4.45 | 16,181 | 51.04 |
| Operating profit | 1,546 | 1.65 | 2,500 | 2.59 | 954 | 61.71 | -18 | — |

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This shows our forecasts for the dispensing pharmacy business.

The right-hand side of the table shows the percentage progress of the first half results against the full-year plan.

Compared to the initial forecast, progress was 48.72% for net sales.

Since an operating loss was recorded in the first half of the fiscal year under review, no progress was shown.

In the second half, we will accelerate our response to the revision of dispensing fees and continue to promote DX by introducing applications that enhance patient convenience and further utilizing customer support systems to improve profitability.



Dividend Outlook

| | Interim | Year End | Annual Dividend |
|---|--|--|--|
| FY ended March 2023 | 16yen | 16yen | 32yen |
| FY ended March 2024 | 18yen <small>(Ordinary dividend: 16yen Commemorative dividend: 2yen)</small> | 22yen <small>(Ordinary dividend: 20yen Commemorative dividend: 2yen)</small> | 40yen <small>(Ordinary dividend: 36yen Commemorative dividend: 4yen)</small> |
| FY ending March 2025 (Forecasts) | 25yen | 40yen | 65yen |

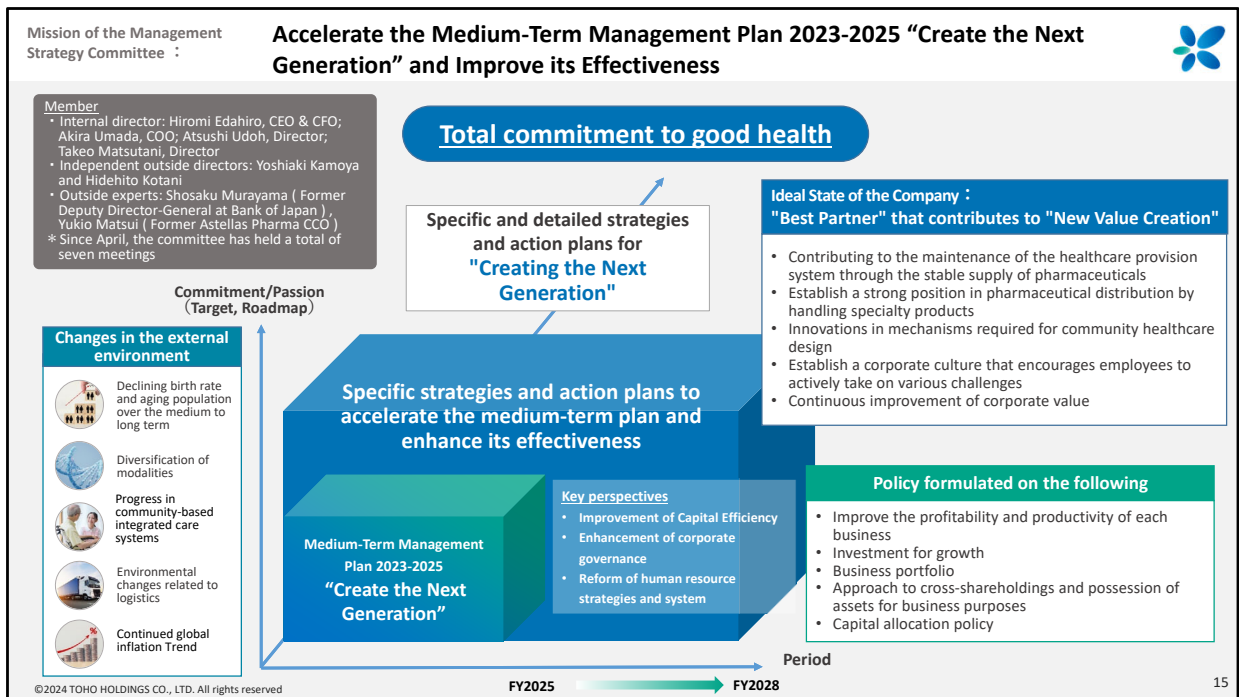
In line with our dividend policy of "steadily improving toward 2% DOE," we have revised our year-end dividend forecast to 40 yen, an increase of 15 yen from the previously announced 25 yen per share. As a result, the annual dividend is expected to be 65 yen, an increase of 25 yen from the previous fiscal year.

As announced at the beginning of the current fiscal year, the interim dividend was 25 yen per share. In line with our dividend policy of steadily improving toward 2% DOE and the Action Plan aiming to achieve DOE of 2% by the fiscal year ending March 31, 2026, the year-end dividend forecast was raised to 40 yen per share, up 15 yen from the previously announced 25 yen per share. The Action Plan, which I have just mentioned, was developed based on the discussion at the Management Strategy Committee and will be described in detail later. As a result, the annual dividend is expected to be 65 yen, an increase of 25 yen from the previous fiscal year.

3 Action Plan Developed Based on Verification Results of Management Strategy Committee

– Aiming to Accelerate the Medium-Term Management Plan,
Improve its Effectiveness and Further Enhance Corporate Value –

I would like to explain our action plan developed based on verification results of Management Strategy Committee.





We established a Management Strategy Committee in April of this year with a view to accelerating the initiatives under the Medium-Term Management Plan that began in FY2023 and clarifying the action plan to enhance its effectiveness.

Since the establishment of the Committee in April, we have held a total of seven meetings of the Committee with members including outside experts, which are shown in the upper left of the slide. In proceeding with the discussion, we first examined the major changes in the external environment that are expected to have an impact on our business strategy and organized them into five major trends as shown below left. In light of these changes in the external environment, we confirmed the ideal state of the Company, and organized the gap between the ideal state and the current state of the Company as “issues to be addressed.”

We then discussed measures to address these issues from the perspectives of improvement of capital efficiency, enhancement of corporate governance, and reform of human resource strategies and system, and formulated policies based on the five items listed in the lower right corner of the slide.

Consequently, without changing the basis and direction of the ongoing Medium-Term Management Plan, we developed a strategy and action plan to ensure that the targets are met, with a specific time frame and commitment, and a clear roadmap.

| Aim to exceed the following targets in the fiscal year ending March 31, 2029 (Consolidated) | DOE and cross-shareholding ratios are as follows |
|--|---|
| <p>ROE more than 8% (Maintain a level higher than the cost of equity* in the future) <small>*Approximately 6% as of the end of September 2024</small></p> | <p>DOE more than 2% (By March 2026)</p> |
| <p>Operating profit margin more than 1.5%</p> | <p>Net assets of cross-shareholdings less than 15% (March 2026) less than 10% (March 2029)</p> |

Increase profits and actively return profits to shareholders in order to achieve the above

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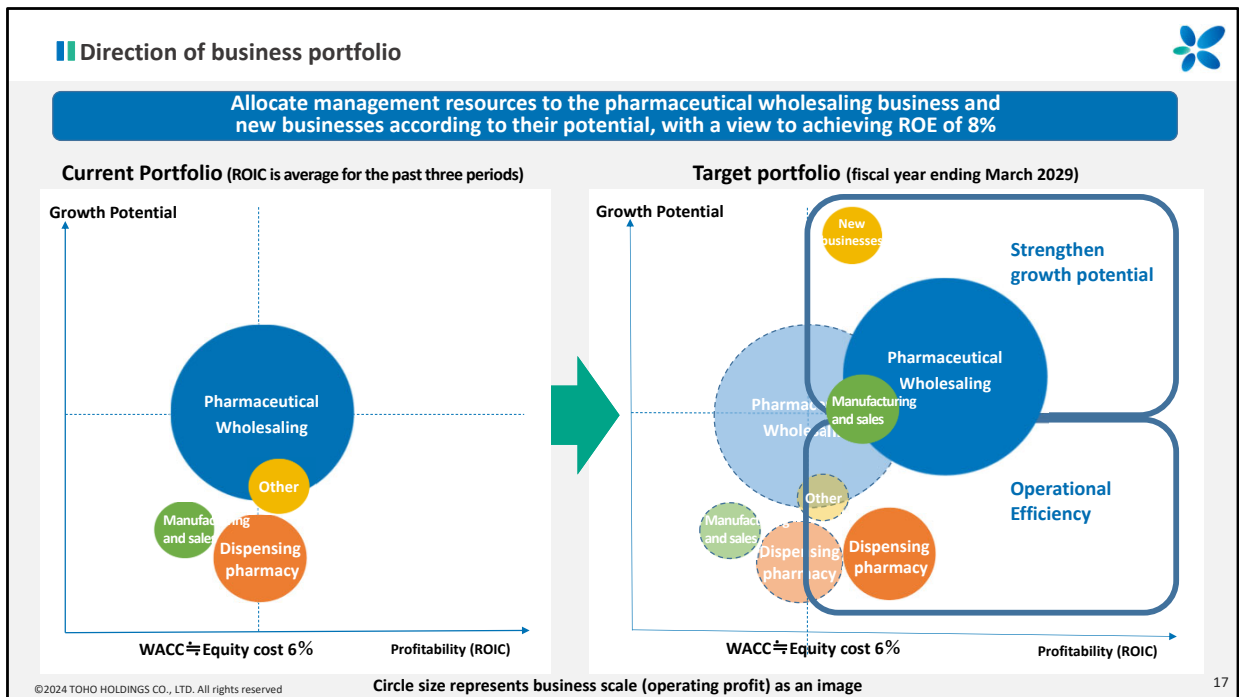
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First of all, the numerical targets. The most time-consuming part of the Management Strategy Committee’s deliberations in determining these targets was the question of which businesses to focus the Group’s management resources on. During the discussion, the Committee always considered which business would contribute the most to achieving an ROE of 8% or more.

Accordingly, it established the profit level necessary to achieve an ROE of 8% or more, discussed the strategies of each business in detail from the viewpoint of profit contribution, determined the prioritization of each business in the business portfolio, and set a plan to achieve an ROE of 8% or more in the fiscal year ending March 31, 2029, along with an operating profit margin of 1.5% or more on a consolidated basis. The Company’s cost of equity is approximately 6%. From this fiscal year onward, we will aim to have ROE continuously exceed the cost of equity.

Meanwhile, from the viewpoint of proactively returning profits to shareholders while achieving business development, and securing investment funds to support business growth, we have decided to raise the dividend level so that DOE will be at least 2% by the fiscal year ending March 31, 2026, the final year of the current Medium-Term Management Plan.

At the same time, we will steadily reduce our cross-shareholdings to less than 15% of net assets by the fiscal year ending March 31, 2026, and to less than 10% by the fiscal year ending March 31, 2029 in a bid to secure funds for investment.



Using these bubble charts, I will explain the direction of business portfolio reform to aim for an ROE of 8% or more and an operating profit margin of 1.5% or more.

The chart on the left shows the current portfolio, while the chart on the right shows the portfolio to be realized in the fiscal year ending March 31, 2029.

It will take a little time, but let me explain the structure of this bubble chart first.

The horizontal axis represents profitability, the vertical axis represents growth potential, and the size of the circle represents the scale of each business based on its operating profit.

Because the profits of the Pharmaceutical Wholesaling business are larger than those of other businesses, the blue circle for the Pharmaceutical Wholesaling business would be much larger than the other circles if it were shown as it is, so it is shown in a slightly smaller size.

The Pharmaceutical Wholesaling business accounts for a large portion of the Company's business portfolio, and the chart should be understood only as an illustration.

The light-colored circles on the right chart show the current portfolio, which should provide a visual confirmation of how the Company intends to change its portfolio for the fiscal year ending March 31, 2029 from the current one.

The profitability on the horizontal axis of the current portfolio chart is the average ROIC of each business over the past three years.

Since it is important in capital efficiency-oriented management to judge the profitability of each business in terms of whether it is higher or lower than the weighted average cost of capital, WACC, rather than simply looking at the profitability level, we have specified that the Company's WACC level is approximately 6%.

In our case, since the net debt balance is negative, the debt balance is not reflected in the calculation of WACC and the cost of equity is used as WACC as well.

At present, except for the Pharmaceutical Manufacturing and Sales business, ROIC is almost at the WACC level, but the Company aims to have a business portfolio in which all businesses exceed WACC in the fiscal year ending March 31, 2029.

Now, let me explain the size and position of each business circle.

First, the circle representing the Pharmaceutical Wholesaling business, which is the largest business in the Company in terms of scale, will become larger than the current size and shift to the upper right because we will further strengthen its growth potential and increase its profit amount and profitability through aggressive operational streamlining.

The orange circle of the Dispensing Pharmacy business will remain unchanged in size and shift to the right

because we will, without pursuing expansion of business scale or investing significant management resources in the business, strive to improve operational efficiency so as to increase its profitability.

The Pharmaceutical Manufacturing and Sales business, represented by the green circle, meanwhile, includes the generic business and the Contract Development and Manufacturing Organization (CDMO) business.

As we intend to pursue expansion of the CDMO business, growth potential and profitability of the Pharmaceutical Manufacturing and Sales business as a whole will improve, and the green circle will shift to the upper right. In the Pharmaceutical Manufacturing and Sales business, we plan to strengthen management resource allocation to the CDMO business from the perspective of contributing to the enhancement of the Pharmaceutical Wholesaling business, while maintaining a stable supply of generic drugs needed by many medical institutions and pharmacies.

The yellow circle in the left chart representing the Other business is the fourth business segment of the Company and indicates other peripheral businesses.

By linking the other peripheral businesses with the Pharmaceutical Wholesaling and Dispensing Pharmacy businesses, we will find seeds that have the potential to grow significantly in the future, with a view to making them the second earnings pillar after the Pharmaceutical Wholesaling business, not just in the next five years, but beyond that.

Therefore, there will be no noticeable improvement in size and profitability of the “Other” business five years from now, but as shown in the chart on the right, we will work to develop other peripheral businesses into new businesses with higher growth potential than any of the other businesses.

It depends on the size of the seed, but the current policy is to allocate a large amount of funds and personnel.



Pharmaceutical wholesaling business

- Enhancement of functions (logistics functions and full-line services) to secure competitive advantage in handling specialty products
- Improving productivity through quality improvement and reinforcement of sales and delivery systems (introduction of team system, etc.)
- Improving the profitability of customer support systems, Evolving and strengthening value-added business models

Dispensing pharmacy business

- Strengthen profitability by improving operational efficiency while making consolidation of subsidiaries, which we are currently working on as top priority
- Participate in community-based integrated care systems as a new business opportunity that also leverages our unique networks, including the Kyoso Mirai Group in Pharmacy network

Pharmaceutical manufacturing and sales business

- Steadily promote the stable supply of generic drugs
- With regard to the CDMO (Contract Development and Manufacturing Organization) business, we will pursue the possibility of expanding the business, as it may lead to the establishment of a new business that is profitable on its own, along with strengthening the pharmaceutical wholesaling business by building and expanding full-line services for specialty products

New business

- Development of services and systems that can contribute to the creation of new value for patients, medical institutions, pharmacies, local governments, and pharmaceutical companies through innovation realized through the reorganization and integration of existing customer support systems and the functions of system-related subsidiaries in the TOHO HOLDINGS Group and alliances with external parties
- Building new businesses in areas other than prescription pharmaceuticals

The growth strategies for each business are shown on this slide.

Although not detailed in the slides, I will first explain in concrete terms the four measures we are taking to strengthen our core Pharmaceutical Wholesaling business.

The first is “enhancement of functions in the distribution of specialty products.”

An external data company estimates that 60% of the drugs to be launched in the next five years will be specialty pharmaceuticals, and approximately 50% of the domestic market will be made up of specialty pharmaceuticals in five years.

In such a market environment, as a company whose core business is pharmaceutical wholesaling, we are committed to our social mission of providing a stable supply of pharmaceuticals.

And in the distribution of specialty pharmaceuticals expected to grow in the future, we will focus our resources on expanding our full line of services to meet the needs of various manufacturers, in addition to taking advantage of our existing strengths, such as centralized management functions through a single, Group-wide core system and BCP measures.

The Management Strategy Committee also has intensively been discussing what functions we are lacking in the distribution of specialty products and what functions we should focus on in the future, and we are beginning to see the issues that need to be addressed.

We will draw up a roadmap to address each of these issues and respond quickly.

Second, we will promote reinforcement of sales and delivery systems and improvement of productivity.

As for the introduction of the team system, we have already announced our plan to construct a sales system centered on the secondary medical care area and an efficient delivery system centered on stable supply. In parallel with this, we will, in order to improve productivity of each team, promote the introduction of a framework that will improve the quantity and quality of their activities and help them conduct efficient sales activities.

We believe that through these efforts, we can improve productivity per employee and provide added value to manufacturers and customers.

Third, we will push ahead with reinforcement of the logistics system.

This is a measure to support the first measure shown on the slide, “enhancement of functions in the distribution of specialty products,” and the second measure, “reinforcement of sales and delivery systems and improvement of productivity.”

In terms of logistics, the needs of manufacturers and customers are expected to change in the future.

We also recognize that there are challenges regarding delivery that need to be tackled and that the current logistics system is inadequate in some areas to overcome them.

We will provide details in the near future, but we are determined to invest in and strengthen our logistics system.

Finally, we will strengthen our efforts in customer support systems.

We have a number of customer support systems designed to help customers solve their problems, and these systems have been well received by customers and patients.

However, while we have developed a great many customer support systems in-house, we have faced the problem that the resources of sales and headquarters staff could not be concentrated.

Going forward, we will review the systems from the viewpoint of future potential and profitability. After the review, we will concentrate our resources on systems that are expected to grow and contribute to sales and profits.

Now that I have spent some time explaining the Pharmaceutical Wholesaling business, let me move on to talk about our other businesses.

In the Dispensing Pharmacy business, we aim to improve operational efficiency through the integration of business companies engaged in the business.

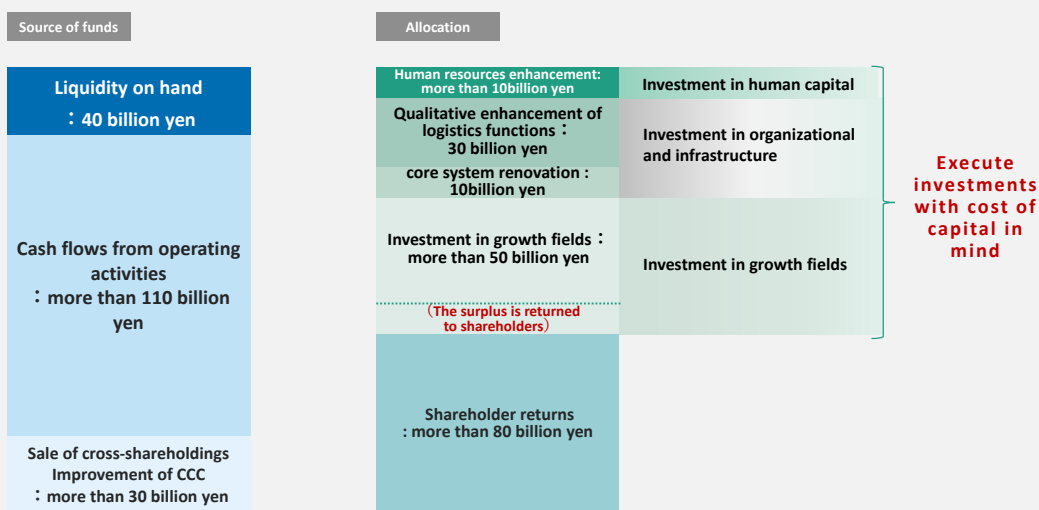
At the same time, we will maintain and improve profits through participation in the community-based integrated care system.

In the Pharmaceutical Manufacturing and Sales business, as I explained earlier, we will continue to maintain a stable supply of generic drugs, while striving to expand the CDMO business.

In the other peripheral businesses, which are conducted by system development companies and others, we will focus on our strengths in customer support systems and the strengths of related companies, and aim to improve growth potential as a new business through consolidation, alliances with external parties, and other measures to create innovations. As for the direction of new business, we are looking at the development of services and systems that can contribute to the "creation of new value" for patients and other stakeholders in the Company, and the development of businesses other than prescription drugs, which we have not handled before.



Adequate returns to shareholders while giving top priority to business investment with cost of capital in mind



Now, let me move on to the next topic, capital allocation, that is securing and allocating funds to support the business development.

The source of funds will be secured mainly by the operating cash flow generated based on the aforementioned Action Plan.

In addition to this, proceeds from the sale of cross-shareholdings and cash or other liquid assets will also be used. As shown in the “Allocation” column on the right, this fund will be allocated to human capital investment, organizational infrastructure investment, and growth investment with the highest priority given to business investment that will support the Company’s future growth.

At the same time, active shareholder returns will be implemented.

Specifically, more than 10 billion yen in human capital investment will be allocated to new initiatives such as improving remuneration levels, introducing a new incentive plan, and training and hiring in line with personnel strategies and system reforms.

We will make even more aggressive investments in human resources, which will be the most important foundation for the implementation of the strategies and Action Plan.

The organizational and infrastructure investment of 40 billion yen is planned to be broken down into 30 billion yen in qualitative enhancement of logistics functions; and 10 billion yen in core system renovation.

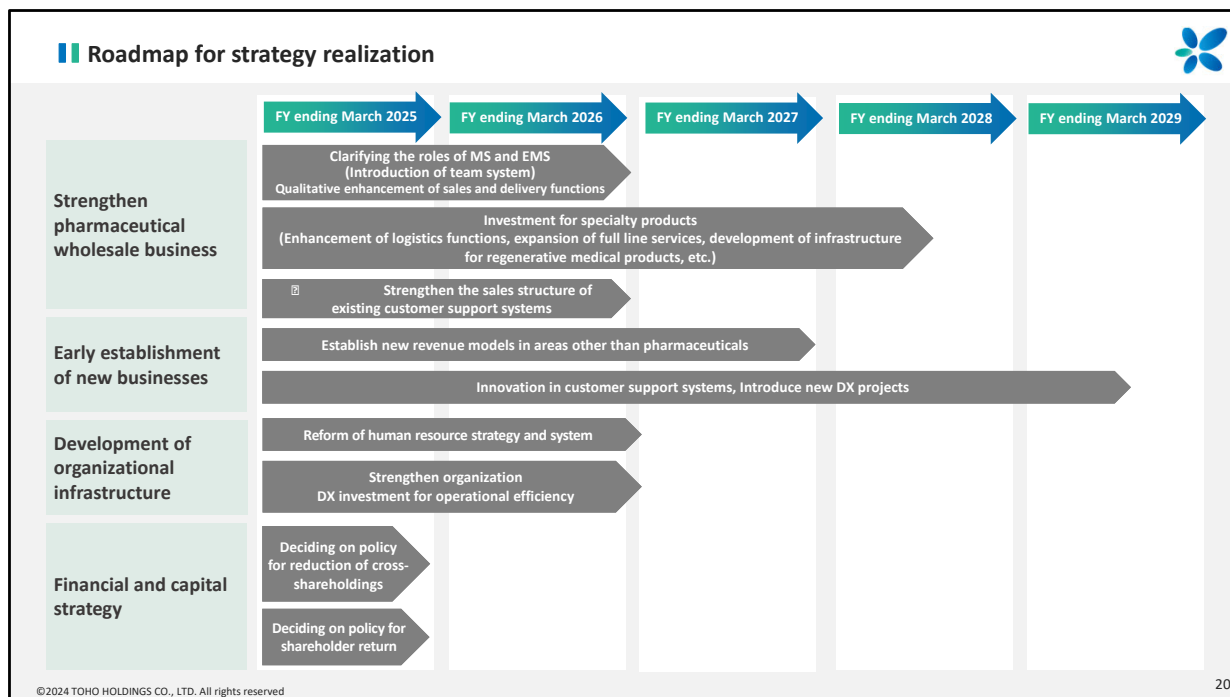
On the other hand, the growth investment of 50 billion yen or more is the minimum amount necessary to aggressively pursue investments aimed at complementing and strengthening functions that play an important role in the Company’s growth strategy, such as investments in companies that will lead to the acquisition of specialty products and the early development of new businesses, as well as alliances with and acquisitions of companies that will accelerate the promotion of DX.

In addition to these, further investment may be needed to accelerate aggressive and bold alliances with other companies and organizations to bolster our core Pharmaceutical Wholesaling business base or obtain required functions.

Accordingly, actual investment could significantly exceed the planned investment.

Even if the amount of investment is more than planned, we will firmly execute the 80 billion yen in shareholder returns.

In the event that aggressive investment leads to a shortage of funds even with an increase in operating cash flow, we are planning to offset the shortage by improving the CCC or cash conversion cycle, selling more of our cross-shareholdings, using more of our liquidity on hand, borrowing, and securitizing our real estate holdings with the highest priority placed on financial stability.



In order to ensure that the Company is firmly committed to the steady promotion of the strategy and the realization of its results, we have organized our roadmap into these four tasks and clarified the completion schedule for each.

In terms of strengthening the Pharmaceutical Wholesaling business, we intend to establish a foundation by the end of the fiscal year ending March 31, 2026 so that it will lead to significant growth in the fiscal year ending March 31, 2027 and beyond.

We will invest in establishing a distribution base for specialty products as soon as possible, although it may take time in some cases, depending on regulations and procedures.

With regard to the early establishment of new businesses, the main focus will be to find seeds that will enable expansion of the business scale from the fiscal year ending March 31, 2029, but we will aim to develop new businesses other than innovative customer support systems and pharmaceuticals that will start contributing to earnings at an early stage.

Regarding the development of the organizational infrastructure, in line with the policy of enhancement of corporate governance and reform of human resource strategies and system, the drastic reform of the human resource system and the organization, and the introduction of the operational support system are scheduled to be completed by the end of next fiscal year.

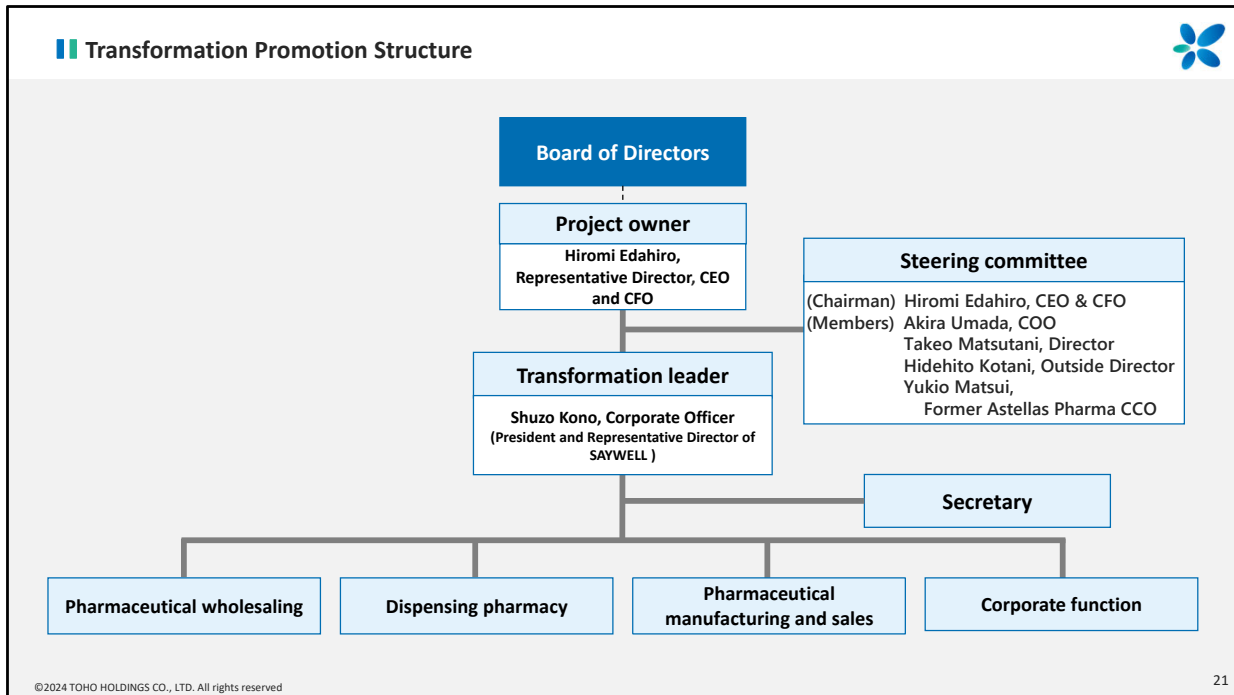
The financial and capital strategies will be implemented in accordance with the policy of reducing cross-shareholdings and the medium-term shareholder return policy, which have been established in this Action Plan.

Here, I would like to touch a little on the plan for the sale or securitization of real estate and other assets held by the Company. The major assets we currently hold are logistics centers.

Although we have confirmed the probability of executing sale or securitization transaction of these logistics centers as a means of financing if we need more funds for growth investment than planned, there is currently no need to actually execute this.

We have only agreed not to execute such transactions for the time being, as with bank borrowing and corporate bond issuance. Therefore, they are not mentioned in the roadmap.

As a whole, we will promptly undertake all tasks and strive to produce results ahead of schedule.



As I have explained so far, we have formulated an Action Plan to accelerate the implementation of the Medium-Term Management Plan and enhance its effectiveness.

From now on, the implementation of this Action Plan and the realization of the targets for the fiscal year ending March 31, 2029 will be the most important issues, and we named this initiative the Transformation Project.

As shown in this structure diagram, I will act as an owner of this Group-wide project for achieving the targets.

Corporate Officer Shuzo Kono, who is the President of SAYWELL, a consolidated pharmaceutical wholesaling subsidiary, will be assigned as a Transformation leader to assist me.

A Steering Committee will be established as a mechanism to support important decision making for the project. The Steering Committee will consist of not only internal members but also external members and will operate under a system that ensures the execution of Transformation.

We will appoint a person in charge of promoting each business division and corporate function under the leadership of Shuzo Kono, which will help us reach out to each division.

This structure will ensure accurate and timely confirmation of the progress of the plan, necessary course corrections, and important decision-making in a flexible manner. In addition, in order to raise awareness of this project among all employees and to instill a commitment to the realization of strategic goals in them, a process will be introduced for each and every employee to work as a team to realize the strategic goals and maximize corporate value, and the implementation phase will begin by the end of the year.

The Board of Directors will monitor the progress of the roadmap and disclose information on a quarterly basis.

Finally, the Action Plan calls for the implementation of a strategy to significantly increase corporate value by allocating management resources in a weighted manner to the Pharmaceutical Wholesaling business, which is the largest business in the Group, and to new businesses that are expected to grow significantly in the future. In order to realize this strategy and achieve results, the key to success is to secure the trust of various partners in the Company's activities in the healthcare system centered on the commitment to good health, which is essential for the growth of these two businesses, and based on the secured trust, to build business alliances that will support our growth strategy. By further developing the many management resources we have accumulated over the years, especially the trust of our business partners, we will earn the trust of all our stakeholders. "Total Commitment to Good Health".

In order to realize a major transformation for the Company, we will move forward with the Action Plan with unwavering determination.



References

Cash Flow



(Unit: million Yen)

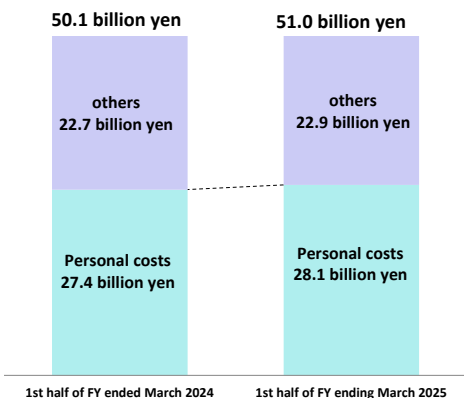
| | 1st half of FY ended March 2024 | 1st half of FY ending March 2025 | Major factors for 1st half of FY ending March 2025 |
|--|------------------------------------|-------------------------------------|---|
| Cash and cash equivalents at the beginning of period | 81,839 | 128,673 | |
| Operating activities | 53,933 | -10,744 | Profit before income taxes: 8,541 Depreciation: 2,817 Increase in trade receivables: -2,853 Increase in inventories: -8,167 Decrease in accrued consumption taxes : -3,019 Income taxes paid: -6,739 |
| Investment activities | 3,515 | -4,590 | Purchase of property, plant and equipment: -2,241 Purchase of investment securities: -1,155 Purchase of shares of subsidiaries and associates: -934 |
| Financing activities | -5,775 | -10,187 | Decrease in short-term borrowings: -881 Increase in segregated deposits for purchase of treasury shares: -4,795 Purchase of treasury shares: -2,707 Dividends paid: -1,381 |
| Cash and cash equivalents at the end of period | 133,516 | 103,925 | Increase(1st half of FY ending March 2025): -24,747 |

SG&A (Year on Year)



<Year on Year>

+ 0.86 billion yen



| Others +0.08 billion yen | |
|---|-------------------|
| Pharmaceutical wholesaling business: | -0.52 billion yen |
| Rent expenses on real estate | -0.35 billion yen |
| Depreciation | -0.27 billion yen |
| Research and development expenses | -0.13 billion yen |
| Commission expenses | +0.28 billion yen |
| Dispensing pharmacy business: | +0.60 billion yen |
| Commission expenses | +0.21 billion yen |
| Personal costs +0.78 billion yen | |
| Pharmaceutical wholesaling business | +0.17 billion yen |
| Dispensing pharmacy business | +0.60 billion yen |

Capital Investment and Depreciation



【Capital Investment】

| 1st half of FY ended March 2024 | 1st half of FY ending March 2025 | FY ending March 2025 |
|---|---|---|
| Results : 1,647 million yen | Results : 3,068 million yen | Forecasts : 8,225 million yen |
| <p>1. Pharmaceutical sales office (New construction, relocation of sales office and others) : 589 million yen</p> <p>2. Replacement of core system servers : 459 million yen</p> <p>3. Others : 599 million yen Including, system development, etc. : 190 million yen Replacing an IP Phone, etc. : 156 million yen</p> | <p>1. Pharmaceutical sales office (New construction, relocation of sales office and others) : 790 million yen</p> <p>2. Renewal of distribution center facilities : 614 million yen</p> <p>3. Others: 1,664 million yen</p> | <p>1. Pharmaceutical sales office (New construction, relocation of sales office and others) : 3,006 million yen</p> <p>2. Renewal of distribution center facilities : 2,131 million yen</p> <p>3. Others: 3,088 million yen</p> |

【Depreciation】

| 1st half of FY ended March 2024 | 1st half of FY ending March 2025 | FY ending March 2025 |
|---------------------------------|----------------------------------|----------------------|
| 2,934 million yen | 2,632 million yen | 5,787 million yen |