COMPANY RESEARCH AND ANALYSIS REPORT

# Qol Holdings Co., Ltd. (Qol)

## 3034

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# Summary


## Pharmaceutical Manufacturing Business expected to expand further with the impact of new product launches and structural reforms in the Pharmacy Business. Consolidation of DAIICHI SANKYO ESPHA boosted earnings sharply

Qol Holdings Co., Ltd. (Qol) <3034> (hereafter, also "the Company") is a major dispensing pharmacy chain positioned at No. 2 in the number of dispensing pharmacies and No. 3 in net sales (using data from listed companies). In fields other than dispensing pharmacies, the Company also operates the CSO*1 Business, a Medical Professional Referral Dispatch Business, and the Pharmaceutical Manufacturing Business. In October 2023, the Company acquired 30% of the shares of DAIICHI SANKYO ESPHA CO., LTD., which is mainly engaged in authorized generic products (hereafter, "AG products"*2), making it an equity-method affiliate. The Company then acquired an additional 21% of shares in April 2024 and made it a consolidated subsidiary. The Company plans to make DAIICHI SANKYO ESPHA a wholly owned subsidiary in a few years. The stock acquisition cost is ¥25.0bn, which will be covered by borrowings from financial institutions and cash in hand.

*1 CSO stands for Contract Sales Organization and involves CMR (Contract Medical Representative) dispatch services.
*2 AG products: generic drugs that, with permission from the new drug manufacturer, have the same drug substances, additives, manufacturing process, and so on as the new drug.

### 1. Significant sales growth in 1H FY3/25 with consolidation of DAIICHI SANKYO ESPHA

In its 1H FY3/25 (April to September 2024) consolidated results, the Company recorded a significant rise in both sales and profits, with consolidated net sales increasing 40.9% year on year (YoY) to ¥124,771mn and operating income up 71.3% to ¥6,096mn. Although the Pharmacy Business saw profits decline even as sales increased, due to rising personnel and procurement costs, the consolidation of DAIICHI SANKYO ESPHA was a factor in significantly expanding the scale of the Pharmaceutical Manufacturing Business and in increased sales and profits. However, as the Company holds a 51% ownership stake in that subsidiary, profit attributable to non-controlling interests increased and the Company also recorded an extraordinary loss, resulting in a 35.8% drop in profit attributable to owners of parent, to ¥1,211mn.

### 2. Further earnings growth expected in 2H with the impact of new product launches in December 2024

For FY3/25, the Company forecasts a significant rise in both sales and profits, with consolidated net sales up 50.0% YoY to ¥270,000 and operating income up 80.2% to ¥15,000mn. Progress rates for 1H FY3/25 may seem rather low, at 46.2% for net sales and 40.6% for operating income. However, with the Pharmacy Business weighted toward 2H, and the Pharmaceutical Manufacturing Business launching three new AG products in December 2024, further earnings growth is expected in 2H. In addition, the generic drug Zonisamide OD Tablets (Brand name: TRERIEF® OD Tablets), launched in June 2024, is selling above plan, and achieving targeted sales is seen as well within the achievable range. Regarding the Pharmacy Business, while high costs continue, the community support system premium initiative and efforts to improve productivity through advancements in digital transformation (DX) are expected to result in increased sales and profits for the full year.

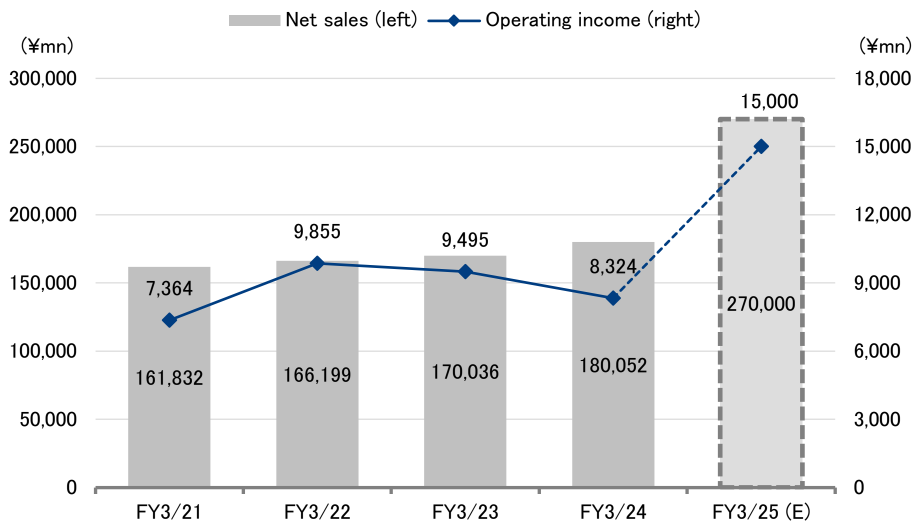
### 3. Targeting operating income of ¥24.0bn in FY3/27

The Company's medium-term three-year performance targets are net sales of ¥300.0bn and operating income of ¥24.0bn in FY3/27. In the Pharmacy Business, it is targeting annualized net sales growth of 4% or higher through new store openings and M&A, while also aiming to improve profitability by strengthening dispensing pharmacy functions as primary pharmacies for local communities, implementing DX, and restructuring Group companies. One such measure to promote DX was the November 2024 launch of Qol Dokodemo Pharmacy, an online-specialized pharmacy, launched in partnership with KDDI Corporation <9433>. The project appears to be off to a strong start, and the Company is considering expanding the effort nationwide as a new route for acquiring prescriptions. In the Pharmaceutical Manufacturing Business, it is aiming for net sales of ¥100.0bn and operating income of ¥12.0bn at DAIICHI SANKYO ESPHA. The goal is to increase earnings by launching three to four new AG products each year, and by improving the cost of sales ratio and reviewing SG&A expenses from scratch. The BPO Contracting Businesses, including CSO and pharmacist referral dispatch, boosted by growing demand for medical-related personnel,expect to see annualized organic sales growth of 10%. By expanding each of these three businesses, the Company aims to grow as a Comprehensive Healthcare Company covering everything from pharmaceutical research and development to manufacturing and sales, medical-related personnel services, and dispensing pharmacies. Among these, trends at DAIICHI SANKYO ESPHA are seen as a crucial factor in achieving performance targets, warranting close attention to future developments.

### Key Points

- Profits declined in FY3/24 due to increase in cost of sales ratio, but net sales reached record high
- On track for sharply higher record earnings in FY3/25 on consolidation of DAIICHI SANKYO ESPHA
- Targeting net sales of ¥300.0bn and operating income of ¥24.0bn in FY3/27 as a Comprehensive Healthcare Company by expanding all three businesses

Results trends




Source: Prepared by FISCO from the Company's financial results

# Company profile

## Expanding from the Pharmacy Business to the medical-related BPO Contracting Businesses and Pharmaceutical Manufacturing Business

### 1. History

Masaru Nakamura, the current Honorary Chairman, founded Qol Co., Ltd. in 1992. Qol Co., Ltd. steadily expanded its dispensing pharmacy network after opening the first pharmacy in Nihonbashi Kabutocho in 1993. In addition to opening its own stores, the Company has been expanding its dispensing pharmacy network through aggressive M&A and also moved into related and peripheral areas. The Company moved into the clinical trial-related business when it established PhaseOn Co., Ltd. in 2003, and established Qol Medis, Co., Ltd. in 2008 to start worker placements and dispatching services business.

Subsequently, the Company organized its businesses into two business segments, the Pharmacy Business* and the BPO Business (formerly the Medical Related Business). It then changed to a holding company structure in October 2018 in order to improve management efficiency and to expand the business scope. Following this, the Company changed its corporate name to Qol Holdings Co., Ltd. as a pure holding company, and is leading the Group as a whole toward enhancing corporate governance and formulating the Group's medium- to long-term growth strategy. The Pharmacy Business is conducted by Qol Co., Ltd., and other companies that joined the Group through M&A. In the BPO Business, APO PLUS STATION Co., Ltd., conducts the CSO Business, mainly CMR dispatches, and APO PLUS CAREER Co., Ltd. conducts a Medical Professional Referral Dispatch Business for pharmacists and other medical personnel. To enter the Pharmaceutical Manufacturing Business (formerly the Medical Related Business), in August 2019 the Company made Fujinaga Pharm Co., Ltd. a subsidiary, followed by the April 2024 acquisition of additional shares (for a 51% stake) in DAIICHI SANKYO ESPHA, a subsidiary of DAIICHI SANKYO Co., Ltd. <4568> involved in the manufacture and sale of generic drugs, making it a consolidated subsidiary. The Company plans to eventually make DAIICHI SANKYO ESPHA a wholly owned subsidiary, but the timing of that move has not been determined.

> * Effective from FY3/25, the Company changed its reporting segments to better reflect actual business activities. Its previous two business segments, the Pharmacy Business and the Medical Related Business, have been reclassified as the Pharmacy Business, the BPO Contracting Businesses, and the Pharmaceutical Manufacturing Business. The Pharmaceutical Manufacturing Business was part of the Medical Related Business under the previous segment classification, but under the new classification, it is now separately disclosed as the Pharmaceutical Manufacturing Business.

The Company is aiming to achieve business growth, while increasing the stability of earnings, by developing its businesses in the three domains of the Pharmacy Business, the BPO Contracting Businesses, and the Pharmaceutical Manufacturing Business. The Pharmacy Business is a business that can stably acquire earnings, but it is exposed to the risk of fluctuating earnings due to the government's medical policies (including revisions to dispensing fees once every two years). In years when there are revisions, negative factors may affect earnings. The strategy is to offset these negative factors through the BPO Contracting Businesses and Pharmaceutical Manufacturing Business to achieve stable overall earnings growth. In terms of composition by business segment (results for 1H FY3/25), the Pharmacy Business has the majority, representing 67.4% of net sales and 53.5% of operating income, followed by the Pharmaceutical Manufacturing Business at 27.2% and 34.7% respectively, and the BPO Contracting Businesses at 5.4% and 11.7%. Until FY3/24, the Pharmacy Business represented the majority of both net sales and operating income, but with DAIICHI SANKYO ESPHA as a subsidiary, the Company has gained a balanced business portfolio.

# Pursuing an approach of "One-on-one pharmacies" and "Healthcare pharmacies" through alliances with companies in other industries to increase the number of stores while utilizing M&A

## 2. Pharmacy Business

### (1) Business scale and positioning in the industry

The Pharmacy Business mainly operates dispensing pharmacies. As of the end of September 2024, the business had a total of 953 stores, of which, 931 (approximately 98%) were dispensing pharmacies and the remaining 22 were shops located in hospitals. Prescription net sales (dispensing pharmacy net sales) account for around 93% of segment sales. Remaining sales are generated by products sold through pharmacies, convenience stores and shops located in hospitals, and by sales from health foods, hygiene items and other products via Qol's official e-commerce website.

Regarding positioning in the dispensing pharmacy industry, Qol ranks second in number of stores among listed dispensing pharmacy chains after Ain Holdings Inc. <9627> (1,235 stores as of the end of July 2024) and third in net sales after Ain Holdings and Nihon Chouzai Co., Ltd. <3341>. Nihon Chouzai, which is third in the number of stores at 743 (as of September 30, 2024), has net sales that exceed those of the Company because it has developed many pharmacies located adjacent to hospitals, which generate strong sales.

### (2) Pharmacy development strategy

A feature of the Company's pharmacy development strategy is that it conducts the business through two formats that are largely different in type. The first type is the "One-on-one pharmacies," and the second type is "Healthcare pharmacies" through business alliances with different industries such as major convenience store operator Lawson, Inc. <2651>, BIC CAMERA Inc. <3048>, Ryohin Keikaku Co., Ltd. <7453>, and others.

"One-on-one pharmacies" is a concept that defines the fundamental stance in store operations for ordinary QOL Pharmacies. It is also the "core business" in its business model. The key point lies in the close cooperation between the prescribing medical institutions and QOL Pharmacies. Our understanding at FISCO is that the phrase "One-on-one" is used to express the pharmacies' deep, cooperative relationships with medical institutions. From the phrase "One-on-one," the tendency is to imagine a deep relationship between only one QOL Pharmacy and only one prescribing medical institution. But in fact, it seems that in many cases, one pharmacy builds deep cooperative relationships with multiple medical institutions.

In its "One-on-one pharmacies," the Company is aiming to utilize cooperation with medical institutions to realize efficient and low-cost operations, and to invest the results of this into improving services for patients. Specifically, it is aiming to create these pharmacies by adjusting store designs and functions in accordance with factors such as the departments of target prescribing medical institutions and the characteristics of each area. The funds for this are generated from the pharmacies' low-cost structures, including more efficient drug inventories, which is one of the benefits of "one-on-one" management. Based on the concept of "One-on-one pharmacies," the Company positions the creation of pharmacies that are selected by patients for having high utility value as the core of its pharmacy strategy. In addition, the concept of "One-on-one pharmacies," which essentially entails cooperation with medical institutions, can be said to be in line with the Japanese Government's Vision for Patient-centered Pharmacies, which is also an important point for the growth strategy.

The catalyst for Qol's deployment of "Healthcare pharmacies" through alliances with companies in other industries, which is its other format, was a revision to the Pharmaceuticals Affair Law in June 2009 that allows convenience stores, drugstores, supermarkets, and other industry stores to sell OTC drugs as registered businesses. Spurred on by this, it became possible for companies to launch a dispensing pharmacy business, such as in drugstores. As an offensive measure in response to this, the Company entered into business alliances with the two aforementioned companies, and is now proceeding with this initiative.

"One-on-one pharmacies" have somewhat restricted customer scope that enables Qol to improve efficiencies in drug inventory management. "Healthcare pharmacies," meanwhile, target unspecified large numbers of customers in locations with heavy people flow, foot-traffic pharmacies. While these sites require larger inventory investments and other outlays than the "One-on-one pharmacies," they are likely to attract more customers (and thus receive more prescriptions). Qol positions "One-on-one pharmacies" as the core model and also aims to broaden the customer base through deployment of "Healthcare pharmacies." Also, the Company has allied with Ryohin Keikaku and started opening stores inside MUJI stores in FY3/22. Ryohin Keikaku opened a "Community Health Center" inside MUJI stores as a health promotion space that holds health-themed events, offers casual health consultation, and provides a full-line of services covering disease prevention and health maintenance through to pharmaceuticals in order to contribute to the healthy living of local residents. The Company opens dispensing pharmacies as a collaborating partner in this initiative. As of the end of September 2024, there were 36 healthcare stores in alliance with Lawson, 4 inside BIC CAMERA stores, 2 inside MUJI stores, and a further 2 inside train stations.

**Overall image of the pharmacy strategy**

| Business format | Pharmacy type | Location | Function | Opening method | Degree of focus |
|---|---|---|---|---|---|
| QOL Pharmacies | One-on-one | Urban type. Clinic-adjacent | Primary pharmacist/pharmacy function, health support function | Organic, M&A | ◎ |
| | Foot-traffic pharmacies | | Primary pharmacist/pharmacy function, health support function | Organic, M&A | |
| | Hospital-adjacent pharmacies | Hospitals of a certain size | Primary pharmacist/pharmacy function, advanced pharmaceutical management function, health support function | Organic, M&A | ○ |
| Healthcare pharmacies | Foot-traffic pharmacies | Within shopping districts, within and near to train stations | Primary pharmacist/pharmacy function, health support function | Organic | ◎ |

Source: Prepared by FISCO from the Company's materials and interviews

Looking at the number of store openings by area at the end of September 2024, Kanto leads with 403 stores (42.3% of total number), followed by Kansai with 145 stores (15.2%) and Koshinetsu with 131 stores (13.7%), with the three areas accounting for over 70% in total. The Kanto area has many stores, as the Company was founded in Tokyo and focused on openings in the area. However, in the last few years, the number of stores has also been steadily increasing in the Kansai, Kyushu, and Okinawa areas, due mainly to M&A.

Number of stores by area and population composition comparisons

| | End of FY3/20 Number of stores | End of FY3/24 Number of stores | End of 1H FY3/25 | | Increase on end of FY3/20 | Population composition (2023) |
|---|---|---|---|---|---|---|
| | | | Number of stores | Composition ratios | | |
| Hokkaido | 10 | 11 | 11 | 1.2% | 1 | 4.1% |
| Tohoku | 85 | 89 | 89 | 9.3% | 4 | 6.7% |
| Kanto | 326 | 391 | 403 | 42.3% | 77 | 35.0% |
| Koshinetsu | 109 | 113 | 131 | 13.7% | 22 | 4.0% |
| Tokai, Hokuriku | 67 | 73 | 73 | 7.7% | 6 | 14.1% |
| Kansai | 132 | 145 | 145 | 15.2% | 13 | 16.3% |
| Chugoku, Shikoku | 49 | 49 | 51 | 5.4% | 2 | 8.6% |
| Kyushu, Okinawa | 27 | 49 | 50 | 5.2% | 23 | 11.3% |
| Total | 805 | 920 | 953 | 100.0% | 148 | 100.0% |

Note: Japan's population composition based on data as of 2023, according to research by the Ministry of Internal Affairs and Communications
Source: Prepared by FISCO from the Company's materials

## Company has a top share of the CMR dispatch and pharmacist referral dispatch industry

### 3. BPO Contracting Businesses

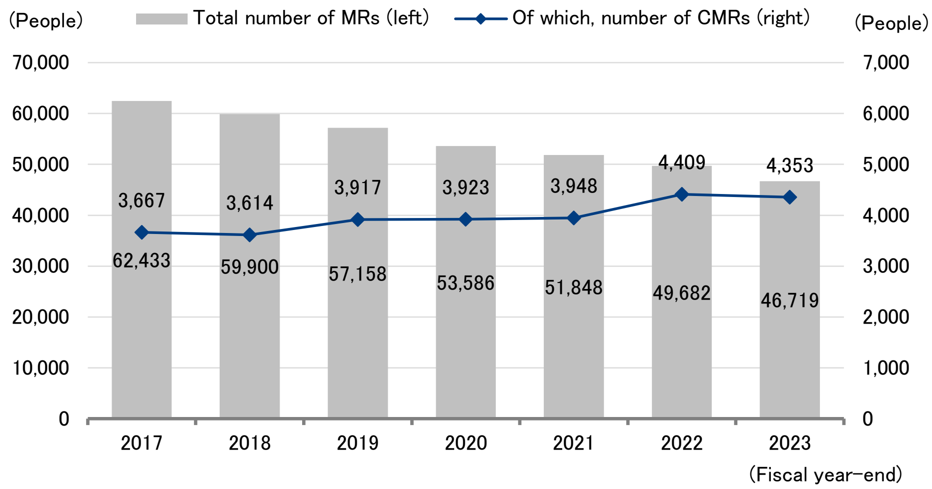
The BPO Contracting Businesses include the CSO Business (CMR dispatches), and the CRO* Business (clinical trials support services), which are mainly conducted by APO PLUS STATION; the Medical Professional Referral Dispatch Business (pharmacists, registered sales personnel, public health nurses, nurses, etc.) conducted by APO PLUS CAREER; the Medical-related Publishing Business conducted by Medical Qol Co., Ltd. Looking at the sales composition ratio in the 1H FY3/24 results, the CSO Business and CRO Business account for 70%, while the Medical Professional Referral Dispatch Business accounts for over 20%, and the Medical-related Publishing Business accounts for just under 10%.

* CRO is the abbreviation of Contract Research Organization and refers to assistance business and other services for clinical trials and other activities.

#### (1) CSO Business and CRO Business

The CSO Business involves recruiting and training MR and dispatching them to the contracted pharmaceutical companies. MR refers to sales representatives who provide doctors, pharmacists, and others with knowledge and information on the pharmaceuticals that are sold. In recent years, the development trend for new drugs among pharmaceutical companies has shifted from primary medicine (for treatment of lifestyle related diseases, etc.) that targets many customers (medical facilities and doctors) to specialty drugs (anti-cancer drugs, etc.) for which the target customers are limited. Accordingly, there has been an expanding movement toward reducing their in-house MR personnel and switching to CMR personnel. In fact, according to the 2024 MR White Paper published by the MR Education & Accreditation Center of Japan, at the end of FY2023, there were 46,719 MRs (down 6.0% YoY), representing a tenth consecutive year of decreases. The number of CMRs decreased slightly to 4,353 (down 1.3% YoY), but compared to the 3,667 recorded at the end of FY2017, there is a slight upward trend. In this situation, the Company has been leveraging its recruiting and training capabilities to increase CMR personnel, reaching approximately 620 CMR personnel as of the end of March 2024, which is an industry share of around 14%, while holding the leading position in the industry for the number of customers as well, with around 50 to 60 companies.

Number of MRs and CMRs in Japan




Source: Prepared by FISCO from the MR Education & Accreditation Center of Japan, "2024 MR White Paper"

On the other hand, the CRO Business provides total solutions from planning through to publication for clinical trials and clinical research in the respective fields of ethical drugs, OTC drugs, functional food, and healthcare products. The Company has strengths in clinical trials in the food field, and also in the pharmaceuticals field it has experience in dermatology and ophthalmology.

**(2) Medical Professional Referral Dispatch Business**

This business involves referral dispatches of pharmacists, public health nurses, registered sales personnel, and others. Of these, it mainly conducts referral dispatches of pharmacists. It ranks in the top 10 for the number of dispatched pharmacists in the industry, while it also ranks in the top 3 for public health nurses. In addition, at APO PLUS CAREER, the Company provides pharmacy business succession and management support services and consulting services on health management for corporations.

## DAIICHI SANKYO ESPHA is a major fabless manufacturer of generic drugs, primarily AG products

**4. Pharmaceutical Manufacturing Business**

The Pharmaceutical Manufacturing Business comprises two companies, Fujinaga Pharm and DAIICHI SANKYO ESPHA, with the latter representing the majority. DAIICHI SANKYO ESPHA is a fabless manufacturer specializing in planning and sales, established by DAIICHI SANKYO in 2010 to enter the generic drug market. It now boasts the third-largest level of sales in Japan for generic drugs, and, in AG products alone, was the leading company in FY2022 with a market share of approximately 26%. AG products represent about 75% of net sales, and the company commercializes products by entering into licensing agreements for the development and sale of AG products with multiple pharmaceutical companies in addition to DAIICHI SANKYO. As of the end of March 2024, the company was selling 18 products, with production outsourced to domestic pharmaceutical companies. In recent years, misconduct regarding manufacturing quality standards has been uncovered at some generic drug companies, resulting in supply disruptions, but no such problems have occurred with the Company's contractors.

Fujinaga Pharm is a pharmaceutical manufacturer established in 1941 (founded in February 1924) that mainly covers the psychiatry and dermatology fields. It primarily manufactures brand-name drugs Phenobal and Hydantol and generic drug Fujinaga lithium carbonate for sleep disorders, depression, and other indications. In addition, since December 2022, the company has manufactured and sold the SARS-CoV-2 antigen test kit Tegaruna® stick SARS-CoV-2 Ag, as an in vitro diagnostic drug.

# Business trends

## In 1H FY3/25, the impact of M&A has seen net sales, operating income and ordinary income reach new record highs

### 1. Summary of 1H FY3/25 results

In its 1H FY3/25 consolidated results, net sales, operating income, and ordinary income reached record highs, with net sales increasing 40.9% YoY to ¥124,771mn, operating income increasing 71.3% to ¥6,096mn, ordinary income increasing 69.2% to ¥6,220mn, and profit attributable to owners of parent decreasing 35.8% to ¥1,211mn. The consolidation of DAIICHI SANKYO ESPHA was the factor behind the enormous growth in the earnings of the Pharmaceutical Manufacturing Business. That said, the recording of a loss of ¥214mn related to the phased acquisition of DAIICHI SANKYO ESPHA stock, and the allocation of ¥1,122mn in profit attributable to non-controlling interest, led to a decrease in profit attributable to owners of parent. In addition, while DAIICHI SANKYO ESPHA's results exceeded expectations and operating income and ordinary income exceeded initial plan by about 13%, the recording of extraordinary losses meant that profit attributable to owners of parent failed to meet plan.

**1H FY3/25 results (consolidated)**

(¥mn)

| | 1H FY3/24 | | 1H FY3/25 | | | | |
|---|---|---|---|---|---|---|---|
| | Results | % of net sales | Initial forecast | Results | % of net sales | YoY | Compared to forecast |
| Net sales | 88,540 | - | 124,000 | 124,771 | - | 40.9% | 0.6% |
| Gross profit | 11,031 | 12.5% | - | 19,049 | 15.3% | 72.7% | - |
| SG&A expenses | 7,472 | 8.4% | - | 12,953 | 10.4% | 73.4% | - |
| Operating income | 3,559 | 4.0% | 5,400 | 6,096 | 4.9% | 71.3% | 12.9% |
| Ordinary income | 3,675 | 4.2% | 5,500 | 6,220 | 5.0% | 69.2% | 13.1% |
| Extraordinary income/losses | -64 | - | - | -1,225 | - | - | - |
| Profit attributable to non-controlling interests | -7 | - | - | 1,122 | - | - | - |
| Profit attributable to owners of parent | 1,888 | 2.1% | 2,000 | 1,211 | 1.0% | -35.8% | -39.5% |
| EBITDA* | 6,110 | 6.9% | - | 9,941 | 8.0% | 62.7% | - |

* EBITDA = Operating income + Depreciation + Amortization of goodwill
Source: Prepared by FISCO from the Company's financial results

Looking at results by business segment, the Pharmacy Business recorded net sales of ¥84,080mn, up 3.8% YoY, and operating income of ¥4,232mn, down 10.2%. The operating margin was 5.0%, down 0.8 percentage points (pp). Net sales increased due to a rise in the number of prescriptions, driven by new store openings including M&A, and an increase in prescription unit prices. However, the increased sales were insufficient to absorb higher store operating costs, such as procurement costs and personnel expenses, resulting in a decline in profit. Regarding the procurement environment, the ongoing shortage of generic drug supplies, and the trend among foreign-owned pharmaceutical companies to limit distribution to a single wholesaler per product, suggest that price negotiations with pharmaceutical wholesales remain challenging. That said, given that technical fee unit prices rose with the revision to dispensing fees enacted in June 2024, operating income in 2Q FY3/25 (July to September 2024) alone rose 13.5% YoY to ¥2,602mn, marking a return to profit growth.

Meanwhile, the BPO Contracting Businesses recorded a 1.2% YoY increase in net sales, to ¥6,755mn, with operating income up 15.9% to ¥928mn. While sales appear to have stagnated, one factor was the increase in internal net sales, from ¥173mn in the same period the previous year to ¥622mn, following the consolidation of DAIICHI SANKYO ESPHA, formerly a client of the CSO Business. The rate of growth was 7.7% when including internal transactions. In addition to expansion of the CSO Business, the Medical Professional Referral Dispatch Business performed well, centered on pharmacists. In the Pharmaceutical Manufacturing Business, the consolidation of DAIICHI SANKYO ESPHA resulted in significant earnings growth and results in excess of the fiscal year initial plan, with net sales of ¥33,936mn (versus ¥897mn in the same period the previous year) and operating income of ¥2,742mn (versus a loss of ¥142mn in the same period the previous year).

**Performance by segment**

(¥mn)

| | | 1H FY3/24 | 1H FY3/25 | YoY |
|---|---|---|---|---|
| Pharmacy Business | Net sales | 80,966 | 84,080 | 3.8% |
| | Operating income | 4,714 | 4,232 | -10.2% |
| | % of net sales | 5.8% | 5.0% | -0.8pp |
| BPO Contracting Businesses | Net sales | 6,675 | 6,755 | 1.2% |
| | Operating income | 801 | 928 | 15.9% |
| | % of net sales | 12.0% | 13.7% | 1.7pp |
| Pharmaceutical Manufacturing Business | Net sales | 897 | 33,936 | - |
| | Operating income | -142 | 2,742 | - |
| | % of net sales | -15.9% | 8.1% | 23.9pp |

Note: Net sales for each segment do not include internal sales between segments
Source: Prepared by FISCO from the Company's financial results

## The Pharmacy Business saw steady growth in the number of store openings, while the BPO Contracting Businesses performed well on the Medical Professional Referral Dispatch side

### 2. Trends by business

#### (1) Pharmacy Business

#### a) Store openings and closures and M&A status

The number of stores at the end of September 2024 stood at 953, an increase of 33 stores from the end of the previous fiscal year. The Company opened a total of 39 stores, including 12 stores opened organically (excluding shops) and 26 acquired through M&A. The Company ended its operations at 6 stores (5 stores closed, 1 transferred). Give that the initial plan for the fiscal year included opening 16 stores organically for the full year and another 30 to 40 stores (with annual sales of ¥6.5bn) via M&A, the progress rate thus far is excellent. The Company entered Yamanashi Prefecture for the first time when it made Dyna Co., Ltd., which operates 18 stores in that prefecture, a subsidiary through an M&A. It also made subsidiaries of Gyotoku Pharmacy Co., Ltd. and Bottom Heart Co., Ltd., which operate highly convenient pharmacies, including stores along the JR Yamanote Line and pharmacies open 365 days a year.

**Store openings and closures status**

| | | FY3/24 | | | | 1H FY3/25 | | | |
|---|---|---|---|---|---|---|---|---|---|
| | | Opened | | Closed | End of FY3/24 | Opened | | Closed | End of 1H FY3/25 |
| QOL Pharmacies | | Organic openings | 16 | 7 | 855 | Organic openings | 12 | 5 | 889 |
| | | Through M&A | 17 | | | Through M&A | 26 | | |
| Healthcare pharmacies | Lawson | | 0 | 0 | 36 | | 0 | 0 | 36 |
| | BIC CAMERA | | 0 | 0 | 5 | | 0 | 1 | 4 |
| | Within train stations | | 0 | 0 | 2 | | 0 | 0 | 2 |
| Shops | | | 2 | 0 | 22 | | 1 | 0 | 22 |
| Total | | | 35 | 7 | 920 | | 39 | 6 | 953 |

Source: Prepared by FISCO from the Company's results briefing materials

#### b) Status of net sales at dispensing pharmacies

In the Pharmacy Business, net sales are comprised of dispensing pharmacies' sales and product sales through channels such as shops and e-commerce. Looking at the breakdown of net sales for 1H FY3/25, both dispensing pharmacy net sales and other net sales were higher YoY, with dispensing pharmacy net sales increasing 3.8% to ¥77,973mn and other net sales increasing 4.9% to ¥6,106mn. Breaking down dispensing pharmacy net sales by store-opening period and format, among the Company's organic openings, sales at existing pharmacies increased 3.3%, or ¥785mn on a monetary basis, and sales at new stores (excluding shops) decreased 29.5% YoY, or ¥204mn on a monetary basis, due to the decline in the number of stores from 16 to 12. Also, for pharmacies acquired through M&As, etc., combined net sales for existing stores and new stores increased 4.4%, or ¥2,245mn on a monetary basis.

**Details of dispensing pharmacy net sales by opening period and by format**

(¥mn)

| | 1H FY3/24 | | | 1H FY3/25 | | |
|---|---|---|---|---|---|---|
| | Results | Change | Growth rate | Results | Change | Growth rate |
| Existing pharmacies | 23,994 | 1,872 | 8.5% | 24,779 | 785 | 3.3% |
| Newly opened pharmacies | 692 | 490 | 242.6% | 488 | -204 | -29.5% |
| M&A, etc. | 50,460 | 2,946 | 6.2% | 52,705 | 2,245 | 4.4% |
| All pharmacies | 75,147 | 5,308 | 7.6% | 77,973 | 2,826 | 3.8% |

Source: Prepared by FISCO from the Company's results briefing materials

On breaking down dispensing pharmacy net sales into the number of prescriptions and the unit price of prescriptions, the number of prescriptions increased 2.4% YoY to 8,395,000 prescriptions, while the unit price of prescriptions increased 1.3% to ¥9,288. They are affected by other factors such as the opening period and M&A. We will look at these values in detail below.

The year-on-year growth rate at existing stores, which is seen as close to the actual number of prescriptions, was 5.7%. Efforts to promote the Company's Home & Facility Dispensing Business were a factor behind the increase. The number of prescriptions at stores added through M&A, etc. rose 2.4% YoY. The number of new stores acquired through M&A increased from 17 to 26 stores YoY, a factor in rise in prescriptions.

**Number of prescriptions**

(thousands)

| | 1H FY3/24 | | | 1H FY3/25 | | |
|---|---|---|---|---|---|---|
| | Results | Change | Growth rate | Results | Change | Growth rate |
| Existing pharmacies | 2,300 | 196 | 9.3% | 2,430 | 130 | 5.7% |
| Newly opened pharmacies | 153 | 111 | 264.3% | 87 | -66 | -43.1% |
| M&A, etc. | 5,742 | 567 | 11.0% | 5,877 | 135 | 2.4% |
| All pharmacies | 8,196 | 873 | 11.9% | 8,395 | 198 | 2.4% |

Source: Prepared by FISCO from the Company's results briefing materials

Prescription unit prices overall increased by 1.3% YoY. Of these, existing stores saw a 2.2% decline YoY, but stores acquired via M&A saw a 2.0% increase YoY, for an overall rise in average unit price. The unit prices of dispensing fees were marginally lower, due in part to the impact of drug price revisions, but technical fee unit prices rose in part due to the impact of dispensing fee revisions enacted in June 2024.

**Unit price of prescriptions**

(¥)

| | 1H FY3/24 | | | 1H FY3/25 | | |
|---|---|---|---|---|---|---|
| | Results | Change | Growth rate | Results | Change | Growth rate |
| Existing pharmacies | 10,428 | -83 | -0.8% | 10,194 | -234 | -2.2% |
| Newly opened pharmacies | 4,507 | -278 | -5.8% | 5,602 | 1,095 | 24.3% |
| M&A, etc. | 8,788 | -392 | -4.3% | 8,968 | 180 | 2.0% |
| All pharmacies | 9,168 | -369 | -3.9% | 9,288 | 120 | 1.3% |

Source: Prepared by FISCO from the Company's results briefing materials

The dispensing pharmacy's technical fees, which are the equivalent of the pharmacy's added value, work on a system in which points are aggregated depending on the level of achievement of predetermined standards. The fees mainly comprise a basic dispensing fee, (categorized by number of prescriptions and concentration ratio on designated medical institutions, etc.), generic drug dispensing premium (categorized by ratio of generic drugs handled), and community support system premium (categorized by system for contribution to community healthcare, such as home and facility delivery dispensing). Of these, the generic drug dispensing premium and community support system premium offer points that vary depending on the state of each pharmacy's initiatives, providing a point of differentiation. Dispensing fees are revised every second year, and the most recent revision was made in June 2024.

The main revisions made are that the basic dispensing fee was raised by 3 points in response to higher wages for medical personnel, and an additional 4 points for companies that establish systems for implementing medical DX (including My Number Card usage records and electronic prescription systems). Also, the number of additional points for reinforcing cooperation with medical institutions to respond to emerging infectious diseases and to supply medicines in the event of disasters was increased from 2 points to 5 points. However, the number of additional points for community support system premiums was reduced by 7 points, and requirements designed to further strengthen dispensing pharmacy functions as primary pharmacies for local communities, including home dispensing, are now more detailed, with new items added.

The increase in the technical fee unit price in 1H FY3/25 can be attributed to several factors: the raising of the basic dispensing fee, as well as an increase in the proportion of stores earning the highest score of 30 points under the generic drug dispensing system additional points (up 15.3pp YoY to 54.3% as of September 2024), and an increase in the number of stores gaining additional points for having a system in place for promoting medical DX and for reinforcing cooperation with medical institutions. The generic drug handling ratio (volume basis) was 87.7% as of September 2024, up 1.6pp YoY.

**(2) BPO Contracting Businesses**

In the BPO Contracting Businesses, the mainstay CSO Business experienced increased sales due to strong demand for CMRs from pharmaceutical companies and an increase in the number of dispatches, though recruitment costs also rose. Pharmaceutical companies continue to reduce their in-house MR staff as part of cost-cutting measures, leading to an increase in the number of CMR dispatches. Recruitment focuses on hiring talent with broad experience and on training MRs in specialized fields. Meanwhile, the CRO Business saw a slight decline in sales in reaction to a large-scale outsourcing deal from a food manufacturer in the same period of the previous year.

The Medical Professional Referral Dispatch Business saw growth in pharmacist referral dispatches against a background of labor shortages, and referral dispatches of registered sales personnel for drug stores also performed well. Since April 2024, efforts to create a division of labor in the sales workflow appear to have had results. Key measures in this division of labor included a detailed review and reorganization of task allocation, such as operating job posting sites at each business location, allowing for real-time input of new postings and so on.

**(3) Pharmaceutical Manufacturing Business**

DAIICHI SANKYO ESPHA saw both net sales and operating income exceed the initial fiscal year plan on strong sales of the generic drug Zonisamide OD Tablets (Brand name: TRERIEF® OD Tablets) launched in June 2024. However, compared to the same period of the previous year, before the company was made a subsidiary, sales, and profits both declined with a drop in prices due to drug price revisions and a smaller number of new product launches.

## For FY3/25, the initial plan for net sales, operating income and ordinary income remains unchanged, with further sales growth expected in 2H due to the effect of new AG product launches

### 3. FY3/25 outlook

For FY3/25, the Company forecasts consolidated net sales up 50.0% YoY to ¥270,000mn, operating income up 80.2% to ¥15,000mn ordinary income up 64.2% to ¥15,200mn, and profit attributable to owners of parent up 2.4% to ¥5,000mn. Due to the recording of an extraordinary loss in 1H, profit attributable to owners of parent was revised downward by ¥700mn from the initial plan, but net sales, operating income and ordinary income remain unchanged, and the Company is expected to significantly surpass its previous record-high results.

1H progress rates were somewhat low, at 46.2% for net sales and 40.6% for operating income. However, the Pharmacy Business tends to see profit weighted more toward 2H due to seasonal factors. In addition, the launch of three new AG pharmaceutical products in December 2024 is expected to further boost profits at DAIICHI SANKYO ESPHA in 2H. If sales of the new products progress as planned, FISCO believes that achieving their full-year performance targets is possible. They expect to reach net sales of ¥82.5bn, operating income of ¥7.0bn and ordinary income of ¥4.8bn. Amortization of goodwill of ¥0.91bn (10-year straight-line amortization) will be deducted from operating income and minority interests of ¥2.35bn (with a minority ownership ratio of 49%) will be deducted from profit attributable to owners of parent.

**FY3/25 outlook**

(¥mn)

| | FY3/24 | | FY3/25 | | | 1H progress rate |
|---|---|---|---|---|---|---|
| | Full year results | % of net sales | Company forecast | % of net sales | YoY | |
| Net sales | 180,052 | - | 270,000 | - | 50.0% | 46.2% |
| Operating income | 8,324 | 4.6% | 15,000 | 5.6% | 80.2% | 40.6% |
| Ordinary income | 9,256 | 5.1% | 15,200 | 5.6% | 64.2% | 40.9% |
| Profit attributable to owners of parent | 4,880 | 2.7% | 5,000 | 1.9% | 2.5% | 24.2% |
| EBITDA* | 13,566 | 7.5% | 21,567 | 8.0% | 59.0% | 46.1% |
| Depreciation | 1,848 | - | 2,164 | - | 17.0% | 76.2% |
| Amortization of goodwill | 3,393 | - | 4,403 | - | 29.8% | 49.9% |
| Earnings per share (yen) | 131.11 | | 133.79 | | | |

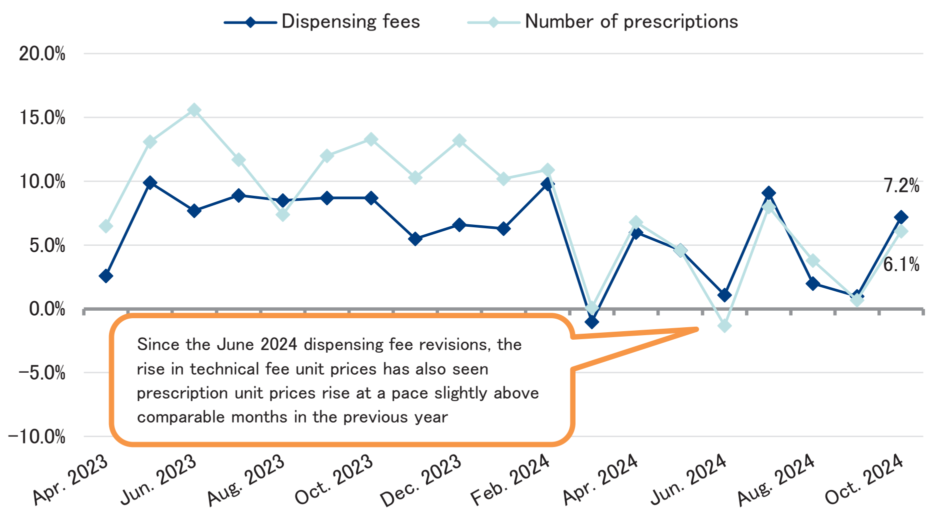
* EBITDA = Operating income + Depreciation + Amortization of goodwill
Source: Prepared by FISCO from the Company's financial results and results briefing materials

### (1) Pharmacy Business

The Pharmacy Business is expected to achieve approximately 5% YoY growth in net sales, with an increase in operating income of about 10%. This represents about a 6% increase in net sales in 2H, along with about a 26% increase in operating income. Performance assumptions include an estimated 50 new store openings through a combination of organic openings and M&A, which appears to be an achievable target based on progress through 1H. The number of prescriptions in 2H is expected to increase by about 5% YoY, with a marginal rise in prescription unit prices. The number of prescriptions in October 2024 rose 6.1% YoY, while dispensing fee sales rose 7.2%, both solid advances, and net sales seen as reaching an achievable level. On the other hand, in terms of profit, FISCO sees the key to achieving plan lies in how well the Company can progress in enhancing cost efficiency in areas such as expenses, and in improving operational efficiency* through the use of IT, while also raising dispensing technical fee unit prices, which directly ties into profit.

* The Company is working to improve pharmacist productivity by deploying an AI-OCR system to automate the work of inputting prescriptions. Efforts are also being made to improve customer service, such as reducing waiting times for making payments by introducing automated payment machines.

Dispensing fees and number of prescriptions (YoY, all stores)

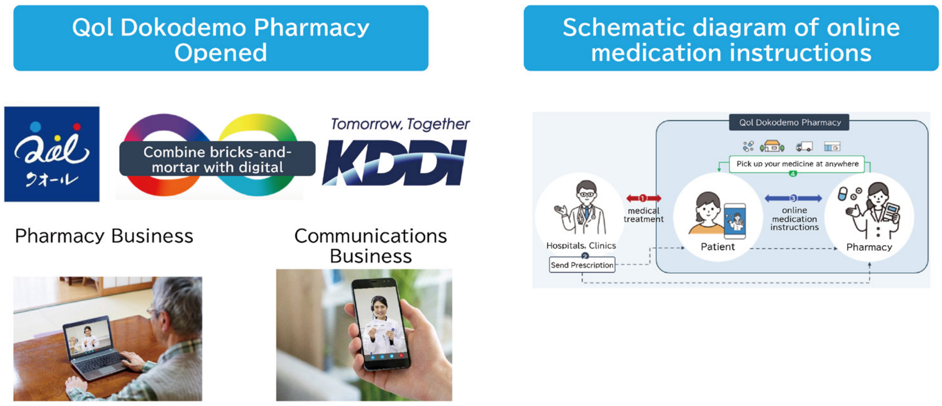



Source: Prepared by FISCO from the Company's press releases

Store openings between October and November 2024 consisted of two organic pharmacy openings. Of these, one was the Company's first online pharmacy, Qol Dokodemo Pharmacy (Saitama Prefecture), opened with the cooperation of KDDI. It provides a service that allows users to receive guidance on medications from pharmacists online, via smartphone, tablet, or other device, from any location including at home. Users can choose to have their prescription medications delivered to their home or can pick them up at a pharmacy. This is one pharmacy DX initiative, and since its launch, the service appears to be performing well. The Company has hopes this will serve as a new route for acquiring prescriptions, and is apparently considering further expansion by opening one online pharmacy in each prefecture. In July 2024, the Company also deployed the Amazon Pharmacy* online service provided by Amazon at the Qol Pharmacy Kohoku Store in Kanagawa Prefecture. While the short-term impact on results is minimal, the goal of the initiative is to accumulate expertise in pharmacy DX.

* Amazon Pharmacy is a service by which customers can use their Amazon shopping app to receive online guidance on medications from pharmacists at pharmacies registered with Amazon Pharmacy. Later, prescription medications can be delivered to a specified address, such as the user's home, or they can be picked up at the pharmacy. The service is limited to accepting electronic prescriptions.

Online-specialized pharmacy




Source: The Company's results briefing materials

**(2) BPO Contracting Businesses**

In the BPO Contracting Business the Company aims to increase sales and profits in the CSO Business by stepping up recruitment and training of CMRs, especially in the oncology field where demand is strong. The goal is to increase the number of CMRs from approximately 620 at the end of FY3/24 to 750 (1.2x) by the end of FY3/25. In the Medical Professional Referral Dispatch Business, the Company forecasts continued double-digit growth in sales and profits in FY3/25 due to strong demand, especially for drugstore staff.

**(3) Pharmaceutical Manufacturing Business**

In the Pharmaceutical Manufacturing Business, the Company assumes another year of flat sales YoY at Fujinaga Pharm in FY3/25, but it sees profits declining on higher raw material costs amid continued yen weakness. However, the impact on consolidated earnings is likely to be negligible, as sales in the business are only around ¥1.0–1.9bn.

Meanwhile, DAIICHI SANKYO ESPHA's performance forecast for FY3/25 projects a 14% YoY increase in net sales to ¥82.5bn, and a 9% increase in operating income to ¥7.0bn. This is largely due to the continuing contribution of Zonisamide OD Tablets, launched in June 2024, and the introduction of three new AG products* in December of that year. In particular, Rivaroxaban Tablets (brand name XARELTO® Tablets) and Rivaroxaban OD Tablets (brand name XARELTO® OD Tablets) are noteworthy as promising products with the potential to become one of the Company's mainstays, given that the domestic market for the original product exceeds ¥70.0bn in size. On the cost side, efforts are being made to improve the cost ratio through measures such as revising pricing strategies for individual products, negotiating with domestic production contractors, and reviewing wholesaler policies and distribution expenses, contributing to full-year profit growth. Further, for SG&A expenses, a policy has been proposed for reviewing all expenses from scratch, which is expected to contribute to improving profitability from FY3/26 onward.

* The Company will launch Rivaroxaban Tablets (brand name XARELTO® Tablets), Rivaroxaban OD Tablets (brand name XARELTO® OD Tablets), Loxoprofen Sodium Tapes (brand name LOXONIN® Tape), and Hydroxychloroquine Sulfate Tablets (brand name PLAQUENIL® Tablets).

New AG products (launched December 2024)

| Brand name | Product name | Effect | Use | Number of GE-approved companies (As of October 2024) |
|---|---|---|---|---|
| XARELTO® Tablets / OD Tablets 10mg / 15mg | Rivaroxaban Tablets / OD Tablets 10mg / 15mg [Bayer] | Selective direct effect Factor Xa inhibitor (oral anticoagulant) | Prevention of ischemic stroke and systemic embolism in patients with non-valvular atrial fibrillation / Treatment and prevention of recurrence of venous thromboembolism (deep vein thrombosis and pulmonary thromboembolism) | 7 companies |
| LOXONIN® Tape 50mg / 100mg | Loxoprofen Sodium Tape 50mg / 100mg [DSEP] | Transdermal analgesia and anti-inflammatory agent | Pain relief for muscle pain, etc. | 20 companies |
| PLAQUENIL® Tablets 200mg | Hydroxychloroquine Sulfate Tablets 200mg [DSEP] | Immune adjusters | Systemic lupus erythematosus / Cutaneous lupus erythematosus (rare disease) | 2 companies |

Source: Prepared by FISCO from the Company's results briefing materials

# Medium-term performance targets and growth strategy

## Targeting net sales of ¥300.0bn and operating income of ¥24.0bn in FY3/27 as a Comprehensive Healthcare Company by working to increase earnings in all three businesses

### 1. Medium-term performance targets

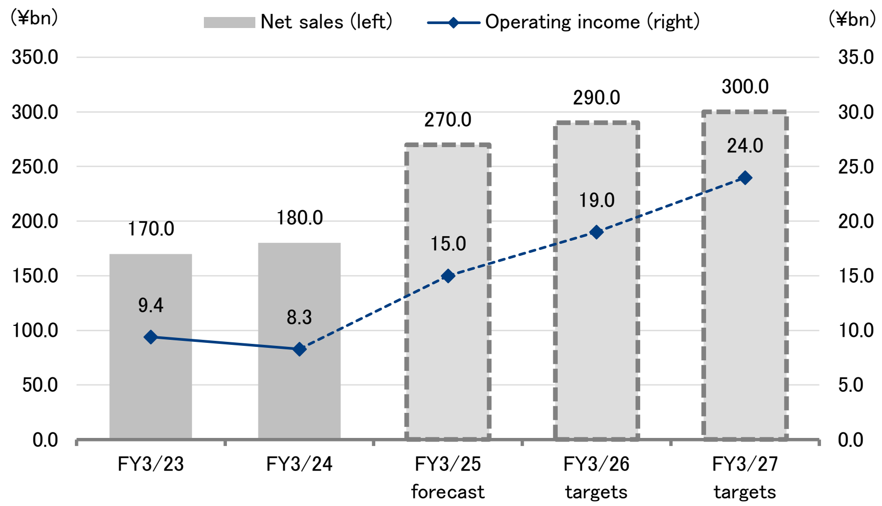
In May 2024, the Company announced its medium-term performance targets for the three years through FY3/27. It aims to achieve sustainable growth while strengthening its management base as a Comprehensive Healthcare Company covering pharmaceutical R&D (APO PLUS STATION), manufacturing and sales (DAIICHI SANKYO ESPHA, Fujinaga Pharm), medical professional services (APO PLUS STATION, Oncall), and dispensing pharmacies (Qol).

Overview of Group growth strategy


Source: The Company's results briefing materials

Performance targets for FY3/27 were set calling for net sales of ¥300.0bn and operating income of ¥24.0bn. Based on the FY3/25 plan, this represents a net sales annual growth rate of 6.7% and operating income growth rate of 26.5%. The Company aims to drive performance growth by enhancing Group synergies while working to improve profitability in each business segment.

**Medium-term performance targets**




Source: Prepared by FISCO from the Company's results briefing materials

Looking at FY3/27 performance targets by business segment, the Company forecasts net sales of ¥187.1bn and operating income of ¥11.6bn in the Pharmacy Business. It is aiming for annualized net sales growth of 4% or higher and an improvement in profitability in the order of ¥4.0bn by lifting quality. In the BPO Contracting Businesses, the Company is targeting annualized net sales and profit growth of 10% through organic growth. It has also factored in a boost from M&A of ¥1.6bn for net sales and ¥160mn of operating income. Overall targets for FY3/27 are net sales of ¥20.6bn and operating income of ¥2.6bn. In the Pharmaceutical Manufacturing Business, the Company is aiming for net sales of ¥103.1bn and operating income of ¥12.6bn driven by growth at DAIICHI SANKYO ESPHA. Improvement in profitability of the Pharmacy Business and an increase in the share of earnings from the Pharmaceutical Manufacturing Business are expected to lift the operating margin from 5.6% in FY3/25 (forecast) to 8.0% in FY3/27.

Starting from FY3/25, operating income is expected to increase by ¥9.0bn overall over two years, with 60% of that growth representing the Pharmaceutical Manufacturing Business. Therefore, DAIICHI SANKYO ESPHA can be seen as the key to achieving the medium-term performance targets, drawing attention to future developments. Amid continuing generic drug supply shortages over the past one to two years, momentum is growing for a reevaluation of industry restructuring. There are 190 companies manufacturing generic drugs in Japan, with average net sales of ¥7.0bn. As many small and medium-sized companies enter the market and intense competition continues, there is the view that a decline in awareness of compliance with manufacturing quality standards and other regulations has led to manufacturing quality issues and supply shortages. The industry is moving toward solving those issues through an industry restructuring. As a result, the generic drug industry—led by major companies—is expected to under consolidation. However, DAIICHI SANKYO ESPHA, being a fabless company with many of its production contractors being large enterprises, is considered unlikely to experience any negative impact from this consolidation.

Medium-term performance targets

(¥bn)

| | | FY3/25 forecast | FY3/26 targets | FY3/27 targets | Targets |
|---|---|---|---|---|---|
| Pharmacy Business | Net sales | 1,730 | 1,799 | 1,871 | CAGR of 4% or higher<br>Productivity of 7% or higher (¥4.0bn scale) |
| | Operating income | 85 | 101 | 116 | |
| | % of net sales | 4.9% | 5.6% | 6.2% | |
| BPO Contracting Businesses | Net sales | 157 | 181 | 206 | Organic annualized growth of 10%<br>Sales 1.5x vs FY3/24, including boost from M&A |
| | Operating income | 20 | 23 | 26 | |
| | % of net sales | 12.7% | 12.7% | 12.6% | |
| Pharmaceutical Manufacturing Business | Net sales | 848 | 922 | 1,031 | (DAIICHI SANKYO ESPHA)<br>Return operating income to FY3/23 level (¥12.0bn)<br>Lift operating margin from 9% in FY3/24 to 12% |
| | Operating income | 69 | 89 | 126 | |
| | % of net sales | 8.1% | 9.7% | 12.2% | |
| Total | Net sales | 2,700 | 2,900 | 3,000 | |
| | Operating income | 150 | 190 | 240 | |
| | % of net sales | 5.6% | 6.6% | 8.0% | |

Source: Prepared by FISCO from the Company's results briefing materials

## Targeting steady growth in the Pharmacy Business by expanding store openings and adding value, including DX-driven services

### 2. Growth strategy by business

#### (1) Pharmacy Business

In the Pharmacy Business, the Company's growth strategy is unchanged, aiming for steady growth through the basic strategy of expanding scale through strategic store openings and creating value of pharmacies. The Company aims for average annual growth in net sales of 4% or more, with a 7% improvement in productivity through DX initiatives.

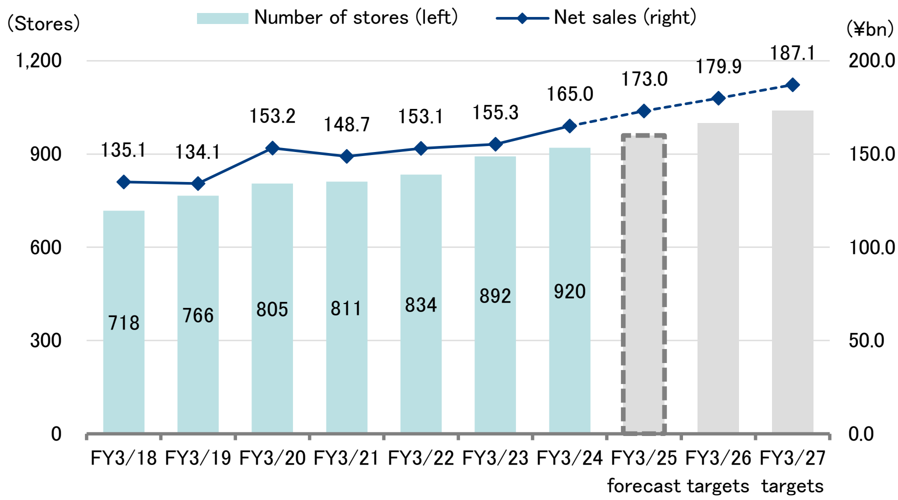
#### a) Expanding scale through aggressive M&A and store openings

The Company plans to continue opening 10 to 20 stores organically per year and securing 30 to 40 stores per year through M&A. The Company will target openings for areas with large populations, such as the three major metropolitan areas, efficiently expanding the number of stores through dominant openings and developing stores that can be expected to deliver high earnings. Similarly for M&A, its policy is to move ahead in main urban areas where it is easy to collaborate with communities.

In other strategic store openings, the Company intends to bolster openings of pharmacies specialized for Home and Facility Delivery Dispensing Business, aiming to provide the enhancement of community healthcare called for by the arrival of the super-aging society. Currently, the Company operates a total of 10 such stores, and the Company will expand the number to 50 stores over the coming years. Within a 16 km radius, which is the condition for medical service fees for pharmaceutical management in home medical care*, the Company is expected to have stable sales through agreements with business operators of nursing care facilities. Costs are higher in the initial stage of opening such stores because they require slightly larger initial investments than regular stores, such as providing dedicated shelves for at-home and in-facility patients. However, the unit price for prescriptions is around 1.5 times higher (approximately ¥9,500) on average since the medical service fee for pharmaceutical management in home medical care is added. This means that stores become highly profitable if they can secure a number of contracting facilities. As a strategy for acquiring contracting facilities, since 2022 the Company has held medical and nursing care collaboration meetings with companies operating nursing care facilities and companies providing at-home medical care, and the Company's strategy is therefore to promote this initiative even further to expand the number of contracts.

* Medical service fees for pharmaceutical management in home medical care are ¥6,500 for one patient in a single building, ¥3,200 for two to nine patients, and ¥2,900 for ten or more patients (up to four times a month per patient; eight times a month (twice a week) for patients with terminal malignant tumors, etc.). There is also an additional ¥150 or ¥500 home visit drug dispensing premium (depending on other criteria such as the supply of narcotic drugs for medicinal use, sterile dispensing, or pediatric home dispensing, etc.).

**Trends in the number of stores at the fiscal year-end and net sales of Pharmacy Business**

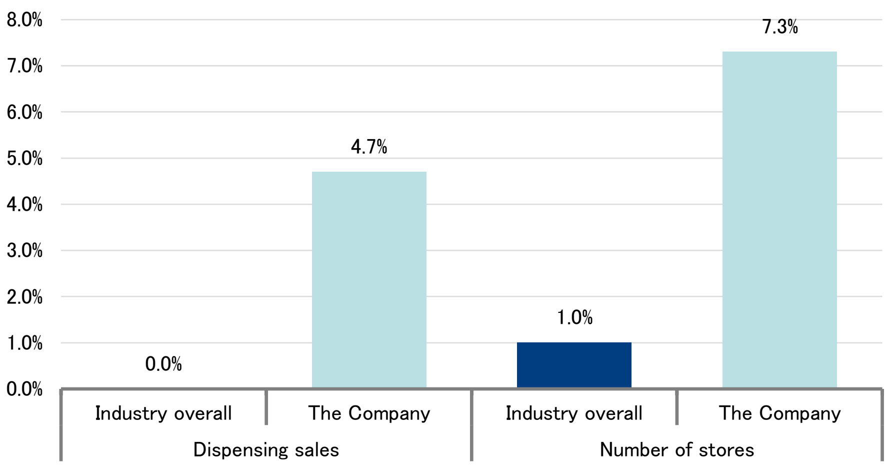



Source: Prepared by FISCO from the Company's results briefing materials

The number of dispensing pharmacies has been gradually increasing to around 62,000 at the end of FY2022 due to expansion of drugstore openings over the past few years. Meanwhile, although dispensing pharmacy fees, which correspond to sales, for FY2022 increased by 1.7% YoY to ¥7.8tn, increasing for a second consecutive year, they remain level with FY2015 due to the impact of decreased drug prices. We at FISCO recognize that this constitutes an adverse competitive environment for dispensing pharmacies. In this situation, following the lifting of the ban on online drug administration guidance in 2020, electronic prescriptions began operation in 2023. The provision of services using IT is expected to play an increasingly crucial role in pharmacy management. For example, major companies are working to retain customers through the usage of LINE mini-apps. In addition, building such systems will require capital capabilities, and this is one factor supporting the view that the industry will tend to become an oligopoly dominated by major corporations.

In this environment, major dispensing pharmacies continue sales growth through expanding the number of stores by organic openings and M&A. The Company is one such company, and the CAGR from FY2015 to FY2022 shows dispensing pharmacy sales grew 4.7% and the number of stores by 7.3%, which significantly exceeds the growth rate of the industry as a whole (dispensing pharmacy sales 0.0%, number of pharmacies 1.0%). Currently, the total sales of the 10 leading companies in the dispensing pharmacy market are around ¥1.3tn, which converts to a market share of only approximately 16%. Considering that the top 10 companies in the drugstore industry currently have a share of around 70%, it is highly likely that the major players in the dispensing pharmacy industry will proceed to form an oligopoly going forward. The Company's strategy of expanding store openings, both organically and through M&A, makes sense and FISCO believes it is possible for the Company to achieve sustainable growth through the expansion of store numbers, even if the market scale continues to be effectively topped out going forward. The Company judges whether or not to conduct an M&A based on strict in-house standards, including the scales of sales, whether or not synergetic effects will be generated, and the investment recovery period.

FY2015–FY2022 CAGR




Note: Number of the Company's stores excludes the number of shops
Source: Prepared by FISCO from the Company's results briefing materials and the Ministry of Health, Labour and Welfare's materials

**b) Improvements in both earnings and costs**

As a strategy for increasing profitability, the Company will continue to increase the number of prescriptions and its technical fees at existing pharmacies, undertake a rigorous review of productivity, and work to review costs from scratch. In its efforts to increase the number of prescriptions, the Company is strengthening its initiatives for health-support pharmacies that can not only function as primary pharmacies for local communities, but also provide various health related consultations on matters such as OTC drugs, nursing care, and diet and nutrition. Since launching an advanced reservation prescription service in April 2022 via its official LINE account, the Company has been steadily rolling out a range of other new services to retain customers. These include same-day delivery functions, online medicine administration guidance, an automatic data link function with prescription records, and a mobile order system that allows customers to complete everything from prescription acceptance to payment using their smartphones. Opening more Dokodemo Pharmacy online pharmacies is one of those strategies.

As measures to increase technical fee unit prices, the Company is working to strengthen the Home and Facility Delivery Dispensing Business. Although home dispensing still accounts for only a few percent of the total dispensing market, demand for home dispensing is expected to expand further after 2025, when the baby boomer generation reaches the age of 75. While these initiatives are being promoted for facilities, the Company also plans to develop links with hospitals and community care managers to develop the market for individual homes.

Moreover, as measures to increase productivity, the Company will continue optimal placement of pharmacists as well as streamlining operations inside pharmacies through the utilization of IT. Through these initiatives, the Company expects to achieve profitability improvement effects in the order of ¥4.0bn by FY3/27. To build new sources of earnings outside dispensing fees, the Company also plans to focus on developing new businesses in the areas of health and preventive medicine through collaboration with a major food manufacturer, and promotion of Rx-to-OTC switch.

Further, the Company plans to proceed with the restructuring and integration of its subsidiaries. Currently in the Pharmacy Business, there are 17 subsidiaries in addition to Qol, and integrating these will make it possible to reduce costs in indirect departments. While differences in human resource systems and salary levels across subsidiaries may make integration a time-consuming process, the Company plans to engage in that process as a necessary step toward improving competitiveness. Specific actions have already begun, including the November 2024 absorption by Qol of a company operating in the Kanto region.

**(2) BPO Contracting Businesses**

In the BPO Contracting Businesses, the Company is targeting annualized growth of 10%, driven by organic growth in each subsidiary and supported by M&A in peripheral business areas with potential synergies. APO PLUS STATION will focus on developing human resources in the CSO Business for specialist fields such as oncology, where demand is strong, aiming to build a workforce of 1,000 CMRs. APO PLUS STATION also plans to grow its CRO Business by focusing on contract testing for major food manufacturers.

APO PLUS CAREER aims to expand its business partners by expanding its coverage of medical roles beyond pharmacists to include medical clerical roles, industrial physicians, physicians, and nurses, and has aims to grow sales by responding to diverse needs among customer corporations, including through collaboration with its subsidiary, Oncall, which provides matching services for short-term part-time jobs for doctors and nurses.

**(3) Pharmaceutical Manufacturing Business**

DAIICHI SANKYO ESPHA has set a three-year target of restoring operating income to the level of FY3/23 while also working to improve profitability. It aims for an annualized net sales growth rate in excess of 10%. The company plans to maintain its growth trend by launching two to four AG products per year, and by increasing the volume of existing AG products carried by its group dispensing pharmacies. Although it will not reach the operating margin of 16.3% achieved in FY3/23, it plans to raise it from 8.9% in FY3/24 to the 12% level. As measures to improve profit margins, the Company has begun work on the cost side to revisit pricing strategies by product, negotiate with partners, and review wholesaler policies and distribution costs. On the expense side, it is conducting a review of all expenses from scratch, and plans to reduce costs by negotiating volume discounts for shared expenses across the entire Group.

**DAIICHI SANKYO ESPHA performance targets**

(¥bn)

| | FY3/23 | FY3/24 | FY3/25 (E) | FY3/26 (E) | FY3/27 (E) |
|---|---|---|---|---|---|
| Net sales | 78.7 | 72.3 | 82.5 | 90.0 | 100.0 |
| Operating income | 12.8 | 6.4 | 7.0 | 9.0 | 12.0 |
| Operating margin | 16.3% | 8.9% | 8.5% | 10.0% | 12.0% |

Source: Prepared by FISCO from the Company's results briefing materials

One of the group synergies foreseen going forward is a strengthening of the sales function. DAIICHI SANKYO ESPHA has about 200 MR personnel on its books, and will strengthen the sales function by making use of APO PLUS STATION CMR personnel as well. Additionally, in development synergies, the company aims to boost its development capabilities through collaboration with Fujinaga Pharm, and will also make it possible to develop products that reflect feedback from patients, pharmacists, and doctors received through the Group's dispensing pharmacies. Particularly in the latter case, there is strong potential for developing highly convenient generic products that improve adherence* over the original products. While many multiple companies enter the market for generic products, developing more user-friendly products can provide a competitive advantage in capturing greater market share.

* Adherence: This refers to the sufficient understanding of patients regarding the treatment method for a disorder, adequate acceptance of the administration method and types of drugs before implementing and continuing treatment.

# Returns to shareholders and SDGs initiatives

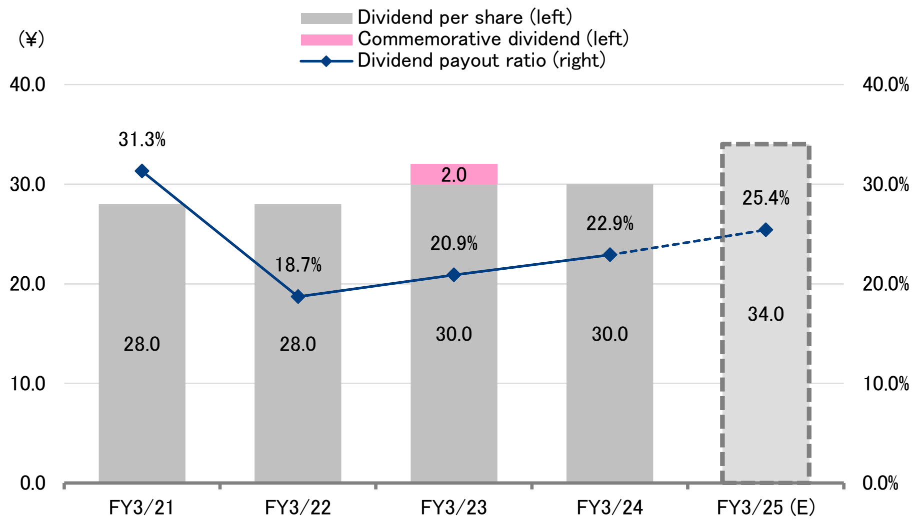
## Basic policy is to stable returns to shareholders, as well as introducing shareholder benefits program

### 1. Shareholder return policy

The Company's basic policy is to pay stable return of profits to shareholders while also giving consideration to internal reserves for future business development and reinforcement of its management foundation. It does not set an official payout ratio or other standards on dividend, but it intends to continue paying a progressive dividend without reducing it. Based on this basic policy, in FY3/25, the Company plans to raise the dividend by ¥4.0 YoY to ¥34.0 (dividend payout ratio of 25.4%). In addition, the Company will consider repurchasing its own shares as needed to execute a flexible capital policy.

The Company has also introduced a shareholder benefits program. Shareholders registered at the end of March each year are eligible for the program. Looking at the example of shareholders holding 1 unit of 100 shares, they receive a catalog gift worth ¥3,000 if they have held the shares for less than 1 year, and worth ¥5,000 if held for 1 year or longer. On calculating the investment yield per unit which combines the dividend and shareholder benefits based on the closing share price on November 29 (¥1,467), it is 4.4% if the shares were held for less than 1 year and 5.7% if held for 1 year or longer.

Dividend per share and dividend payout ratio




Source: Prepared by FISCO from the Company's financial results

Content of shareholder benefits

| Sustained ownership period | Number of shares owned | |
|---|---|---|
| | 100-499 shares | 500 shares or more |
| Less than a year | Catalog gifts worth ¥3,000 | Catalog gifts worth ¥5,000 |
| One year or longer | Catalog gifts worth ¥5,000 | Catalog gifts worth ¥7,000 |

Source: Prepared by FISCO from the Company's website

### 2. Initiatives for SDGs

Regarding initiatives for SDGs, the Company established a Sustainability Committee in May 2022 as an advisory body to the Board of Directors to strengthen activities related to the Group's sustainability. The Company plans to move ahead with such activities as sustainability trend surveys, proposals for sustainability-related management strategies, identification and review of important issues (materiality), monitoring of progress status and evaluation of achievement status.

Moreover, in December 2022, the Company announced its endorsement of the Task Force on Climate-related Financial Disclosures (TCFD). Additionally, the Company prepared a publication called Value Report 2023 (published in January 2024). This report summarizes the Company's position on sustainability and the current state of sustainability activities and targets, among other matters. Value Report 2023 can be viewed from the Company's website. Furthermore, a cross-divisional team made up of executives, middle-tier employees, and young employees was created to develop goals to be achieved in 2030 and 2050. The team is advancing discussions on its awareness of current conditions and the Company's ideal profile for the future based on the team members' diverse array of values and ideas.

2025/2030/2050 targets

| Indicator | Target year | Target value | Measures announced in FY2023 |
|---|---|---|---|
| Group's overall $CO_2$ emissions | 2050 | 100% reduction | Introduce LED lighting in stores, EVs and solar power |
| Shopping bag usage rate | 2030 | 8% or less | Reduce use of plastic shopping bags |
| | 2050 | 5% or less | |
| Disposal rate | 2030 | 1.7% | Reduce product disposal rate |
| Ratio of female managers | 2030 | 30% or more (Department manager or above) | Establish system that enables women to retain roles after life events, reduce long working hours, increase productivity |
| | | 50% (Department manager or above + pharmacy manager + head supervisor) | |
| Paid leave usage rate | 2025 | 70% | Ensure 100% of employees use five days of paid leave, systemize store shifts, reduce long working hours, increase productivity |
| | 2030 | 90% | |

Source: Prepared by FISCO from the Company's Value Report 2023

### Income statement and main indicators

(¥mn)

| | FY3/20 | FY3/21 | FY3/22 | FY3/23 | FY3/24 | FY3/25 |
|---|---|---|---|---|---|---|
| Net sales | 165,411 | 161,832 | 166,199 | 170,036 | 180,052 | 124,771 |
| YoY | 14.2% | -2.2% | 2.7% | 2.3% | 5.9% | 40.9% |
| Gross profit | 21,094 | 21,102 | 23,163 | 23,504 | 23,249 | 19,049 |
| Gross margin | 12.8% | 13.0% | 13.9% | 13.8% | 12.9% | 15.3% |
| SG&A expenses | 13,361 | 13,737 | 13,308 | 14,009 | 14,925 | 12,953 |
| SG&A expenses ratio | 8.1% | 8.5% | 8.0% | 8.2% | 8.3% | 10.4% |
| Operating income | 7,733 | 7,364 | 9,855 | 9,495 | 8,324 | 6,096 |
| YoY | 9.7% | -4.8% | 33.8% | -3.7% | -12.3% | 71.3% |
| Operating margin | 4.7% | 4.6% | 5.9% | 5.6% | 4.6% | 4.9% |
| Ordinary income | 8,024 | 7,403 | 10,094 | 10,098 | 9,256 | 6,220 |
| YoY | 11.3% | -7.7% | 36.4% | 0.0% | -8.3% | 69.2% |
| Profit attributable to owners of parent | 4,067 | 3,365 | 5,489 | 5,656 | 4,880 | 1,211 |
| YoY | 4.1% | -17.3% | 63.1% | 3.0% | -13.7% | -35.8% |
| Earnings per share (¥) | 107.23 | 89.55 | 149.51 | 152.96 | 131.11 | 32.43 |
| Book value per share (¥) | 1,074.57 | 1,124.31 | 1,189.70 | 1,314.69 | 1,414.43 | 1,439.57 |
| Dividend per share (¥) | 28.00 | 28.00 | 28.00 | 32.00 | 30.00 | 17.00 |

Source: Prepared by FISCO from the Company's financial results

### Simplified balance sheet

(¥mn)

| | FY3/21 | FY3/22 | FY3/23 | FY3/24 | 1H FY3/25 | Change |
|---|---|---|---|---|---|---|
| Current assets | 45,499 | 42,296 | 44,214 | 52,690 | 54,399 | 1,709 |
| Cash and deposits | 19,648 | 16,685 | 18,770 | 27,282 | 21,843 | -5,439 |
| Noncurrent assets | 55,062 | 53,682 | 57,689 | 65,089 | 82,887 | 17,798 |
| Property, plant and equipment | 12,730 | 12,846 | 16,108 | 16,281 | 16,791 | 510 |
| Intangible assets | 34,938 | 33,238 | 33,790 | 33,136 | 55,663 | 22,526 |
| Investments and other assets | 7,393 | 7,598 | 7,791 | 15,670 | 10,431 | -5,238 |
| Total assets | 100,571 | 95,984 | 101,905 | 117,779 | 137,286 | 19,507 |
| Current liabilities | 38,709 | 35,460 | 36,330 | 38,823 | 55,496 | 16,673 |
| Noncurrent liabilities | 20,026 | 16,642 | 16,719 | 26,118 | 23,832 | -2,286 |
| Total liabilities | 58,736 | 52,103 | 53,049 | 64,941 | 79,328 | 14,387 |
| Interest-bearing debt | 29,721 | 23,282 | 22,750 | 31,882 | 27,416 | -4,466 |
| Total net assets | 41,834 | 43,881 | 48,856 | 52,837 | 57,957 | 5,120 |

Source: Prepared by FISCO from the Company's financial results

### Cash flows

(¥mn)

| | FY3/21 | FY3/22 | FY3/23 | FY3/24 | 1H FY3/25 |
|---|---|---|---|---|---|
| Cash flows from operating activities | 12,912 | 10,112 | 11,662 | 13,533 | 477 |
| Cash flows from investing activities | -3,065 | -3,087 | -7,013 | -13,155 | 265 |
| Free cash flow | 9,847 | 7,025 | 4,649 | 378 | 742 |
| Cash flows from financing activities | -6,114 | -10,006 | -2,569 | 7,969 | -6,196 |
| Cash and cash equivalents at end of period | 19,498 | 16,516 | 18,596 | 26,944 | 21,490 |
| Equity ratio | 40.9% | 45.7% | 47.9% | 44.8% | 39.3% |
| Interest-bearing debt ratio | 71.1% | 53.1% | 47.0% | 60.3% | 50.9% |
| ROIC | 7.1% | 10.2% | 9.2% | 6.8% | - |

Source: Prepared by FISCO from the Company's financial results

## Disclaimer



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