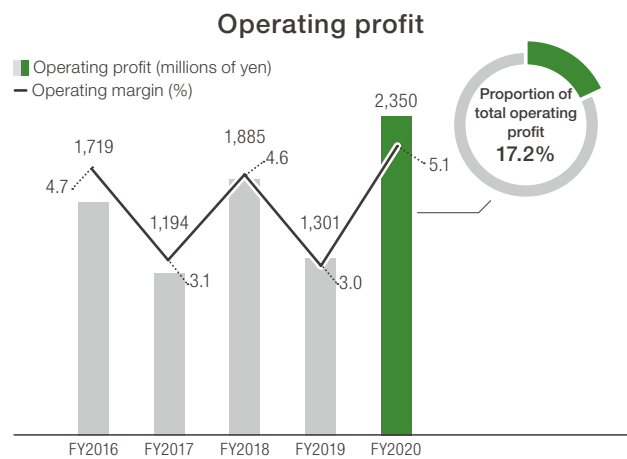
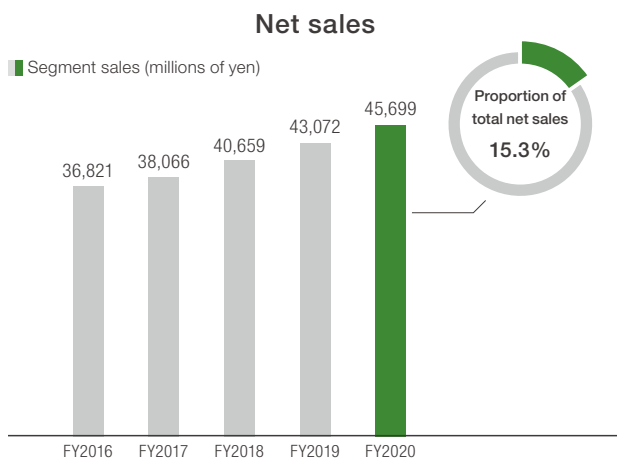




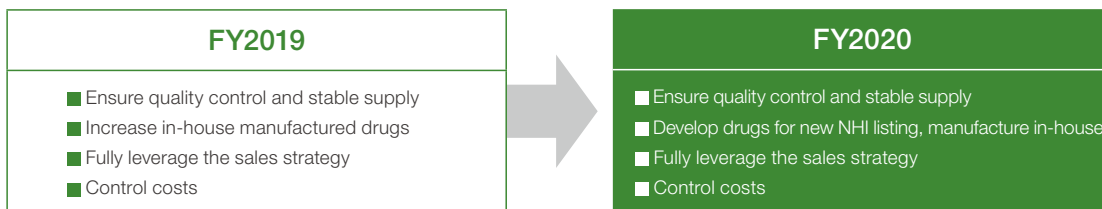
Pharmaceutical Manufacturing and Sales Business

Nihon Generic Co., Ltd.
Choseido Pharmaceutical Co., Ltd.



Growth Strategy: Realizing a Virtuous Cycle

Growth Strategy



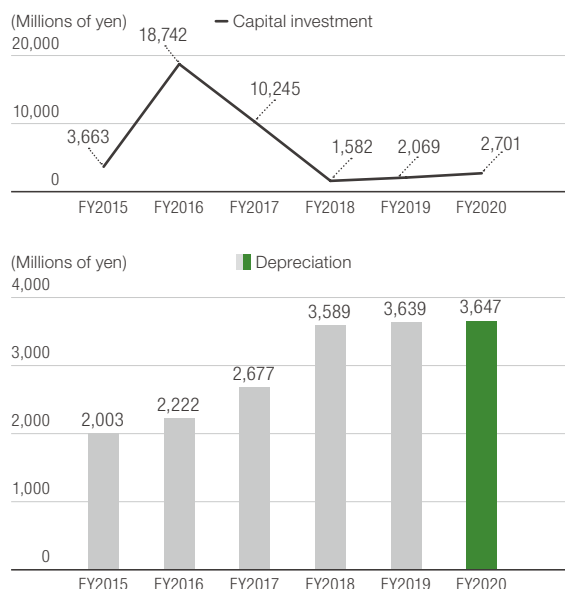
The completion of Nippon Generic's Tsukuba Plant No. 2 in March 2018 and the relocation and consolidation of the Tsukuba Research Institute in June 2018 marked the end of a series of investments that had been carried out over several years. There were concerns that higher depreciation and utilities and personnel costs associated with the new plant going online would place downward pressure on profitability from March 2019. However, by revising the sales strategy, expanding the number of new drugs manufactured in-house, and boosting efficiency by shifting product lines of existing plants, we were able to significantly expand the output of generic drugs, leading to solid growth in both sales and profits.

There were constraining pressures on profitability in FY2020, notably NHI drug price revisions. Nevertheless, operating profit rose to 2,350 million yen, owing to increases in both internal sales and sales of new drugs.



Nippon Generic Tsukuba Plant No. 2

Capital Investment and Depreciation



License acquisition → Sales of in-house manufactured drugs

New NHI drug price listings of generic drugs are carried out twice a year in Japan, in June and December, at which time it becomes possible to release drugs whose patents have expired. In 2020, Nihon Chouzai acquired approval for 21 drugs with 11 ingredients. This included several drugs that enjoy a large market, although most were sold internally as in-house manufactured drugs. This, together with strong sales of existing drugs, contributed to higher sales and gross profit. By continuing to launch new drugs and expand the proportion of drugs manufactured in-house, we can expect growth in sales going forward.



June 2020 Newly NHI price listed: 16 drugs

Drug name	
Celecoxib Tablets 100mg JG	Memantine hydrochloride OD Tablets 20mg JG
Celecoxib Tablets 200mg JG	Galantamine OD Tablets 4mg JG
Ezetimibe Tablets 10mg JG	Galantamine OD Tablets 8mg JG
Levocetirizine Hydrochloride Tablets 5mg JG	Galantamine OD Tablets 12mg JG
Imidafenacin Tablets 0.1mg JG	Dutasteride Capsule 0.5mg AV JG
Imidafenacin OD Tablets 0.1mg JG	Tadalafil Tablets 2.5mg ZA JG
Memantine Hydrochloride OD Tablets 5mg JG	Tadalafil Tablets 5mg ZA JG
Memantine Hydrochloride OD Tablets 10mg JG	Rabeprazole Sodium Tablets 5mg JG

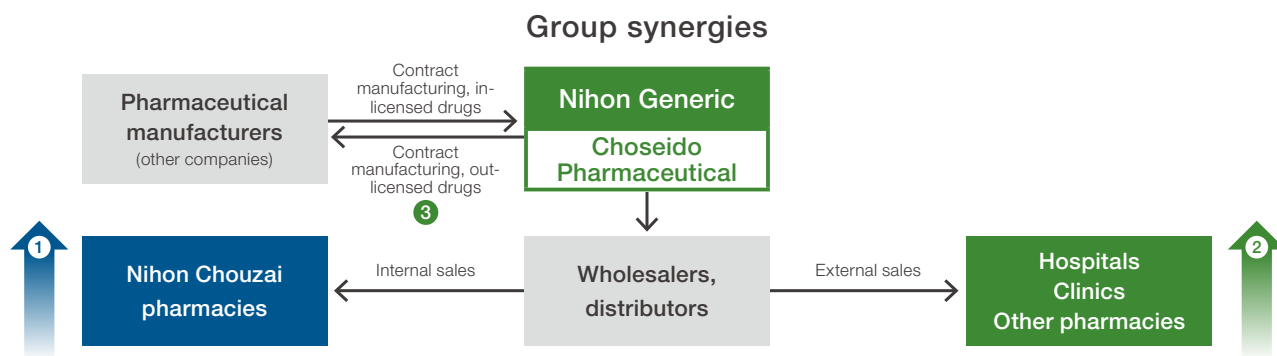
December 2020 Newly NHI price listed: 5 drugs

Drug name	
Pregabalin OD Tablets 25mg JG	Silodosin OD Tablets 2mg JG
Pregabalin OD Tablets 75mg JG	Silodosin OD Tablets 4mg JG
Pregabalin OD Tablets 150mg JG	

Growth Strategy: Realizing a Virtuous Cycle

Harnessing Group Synergies to Expand the Business

- 1 The Nihon Chouzai Group boasts a business model that is unparalleled in Japan’s pharmacy sector, in which the Pharmaceutical Manufacturing and Sales Business operated by Nihon Generic and Choseido Pharmaceutical expands in tandem with growth in the Group’s Dispensing Pharmacy Business. Having both dispensing pharmacies and drug manufacturers within the same Group enables us to harness Group synergies to steadily grow both businesses.
- 2 The Group has built a unique business model, unmatched by any other pharmacy operator or drug manufacturer in Japan. Nihon Chouzai pharmacies purchase generic drugs made by Nihon Generic and Choseido Pharmaceutical through wholesalers. As a result, the distribution network for our generic drugs has expanded nationwide through these wholesale channels. This, in turn, feeds into growth in external sales.
- 3 The Group has also established a leading position in the Japanese pharmaceutical manufacturing industry by contracting in manufacturing from other pharmaceutical manufacturers as well as out-licensing our own drugs to other manufacturers.



Internal sales

Expecting synergies with Nihon Chouzai’s pharmacy network strategy
Internal sales in the Pharmaceutical Manufacturing and Sales Business rise in conjunction with the expansion of the Dispensing Pharmacy Business’s pharmacy network through organic growth or acquisitions.

Nihon Chouzai pharmacies shifting pharmaceutical inventories to generic drugs made by Nihon Generic and Choseido Pharmaceutical
For the generic drugs they dispense, Nihon Chouzai pharmacies as a general rule handle products manufactured in-house. The pharmacies are further stimulating sales by transitioning their pharmaceutical inventories from brand-name drugs and off-patent drugs to generic drugs in a timely manner.

External sales

Extending generic drug use into new customer areas
The Group is working to boost external sales by extending the adoption of its generic drugs by pharmacy chains other than Nihon Chouzai, major university hospitals, and corporate infirmaries, as well as strengthening its presence within the pharmaceutical sector.

Formularies
As momentum grows in Japan to adopt the use of drug formularies, more and more major hospitals and other institutions are moving forward in creating their own formularies. One expected outcome of this is a dramatic upsurge in the use of generic drugs. The Pharmaceutical Manufacturing and Sales Business is also taking steps to establish a framework to take full advantage of this trend.

Entry into the over-the-counter (OTC) drug business
The Group entered the new OTC drug business in anticipation of further harnessing Group synergies. Following the launch of Minoxidil in 2018, the Group in January 2020 launched its second OTC product, Loxoprofen Tablets JG. We plan to start by placing OTC products in Nihon Chouzai pharmacies, and then make use of a PDCA cycle to further expand this business line.

Business Expansion through Contract Manufacturing, Out-Licensing

Contract manufacturing

Manufacturing of drugs developed by other companies at Nihon Generic and Choseido Pharmaceutical plants.

About contract manufacturing

Transferring large-lot drug production from the Tsukuba Plant to the Tsukuba Plant No. 2 freed up the production lines, enabling the Group to take on even more contract manufacturing of drugs from other companies. In recent years, demand for such manufacturing has grown in connection with increasing use of generic drugs in Japan. Because the Group has the capacity to accept more contract manufacturing, we are seeing an increase in requests from other companies.

In addition, the Kawauchi Plant of Choseido Pharmaceutical is dedicated to the production of cephem antibiotic formulations, boasting the largest market share in Japan. The originality of this plant is unparalleled in the industry.

The NHI drug price revision system, coupled with demands for more rigorous quality assurance and other factors, is expected to put even greater downward pressure on profitability for Japanese pharmaceutical manufacturers. We expect some caution among manufacturers about investing in new facilities, as well as a much sharper division of focus product areas between manufacturers. To respond to these developments, the Group will maintain a production framework capable of handling production scales ranging from small-lot to mass production, while expanding our contract manufacturing business across a broader range of drug lines, from off-patent drugs to generic drugs.

Out-licensing

Sales by other companies of drugs for which the Group has obtained manufacturing and marketing approval (in-house licensed drugs).

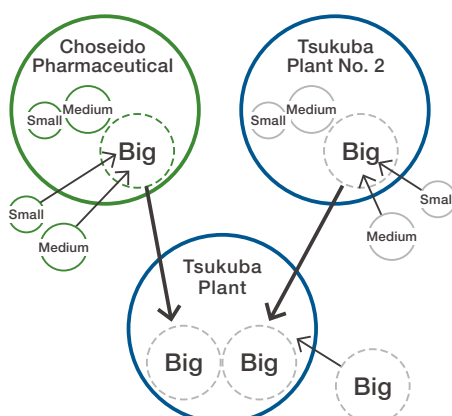
The freeing up of excess capacity with the start of operations at the Tsukuba Plant No. 2 has positioned the Group to be able to more aggressively engage in manufacturing of drugs for out-licensing. The Group boasted 473 in-house licensed products as of March

2021, representing a solid product lineup capable of responding to inquiries from other manufacturers. We are building on this foundation to expand the manufacturing for out-licensing.

Optimization of production resources

Securing more contract manufacturing, out-licensing business

The Group is making effective use of each of its production facilities. Transferring production of large-lot drug lines to the completed Tsukuba Plant No. 2 freed up production lines at the Tsukuba Plant and Choseido Pharmaceutical plants, creating a foundation from which to pursue more contract manufacturing, out-licensing, and other new businesses.



Plant Profiles

Nihon Generic

Tsukuba Plant

- Small to medium scale production
- Tablets

Tsukuba Plant No. 2

- Medium to large scale production
- Tablets

Choseido Pharmaceutical

Headquarters Plant

- Small to medium scale production
- Tablets, capsules, powders

Headquarters No. 2 Plant

- Small to medium scale production
- Tablets, capsules, powders

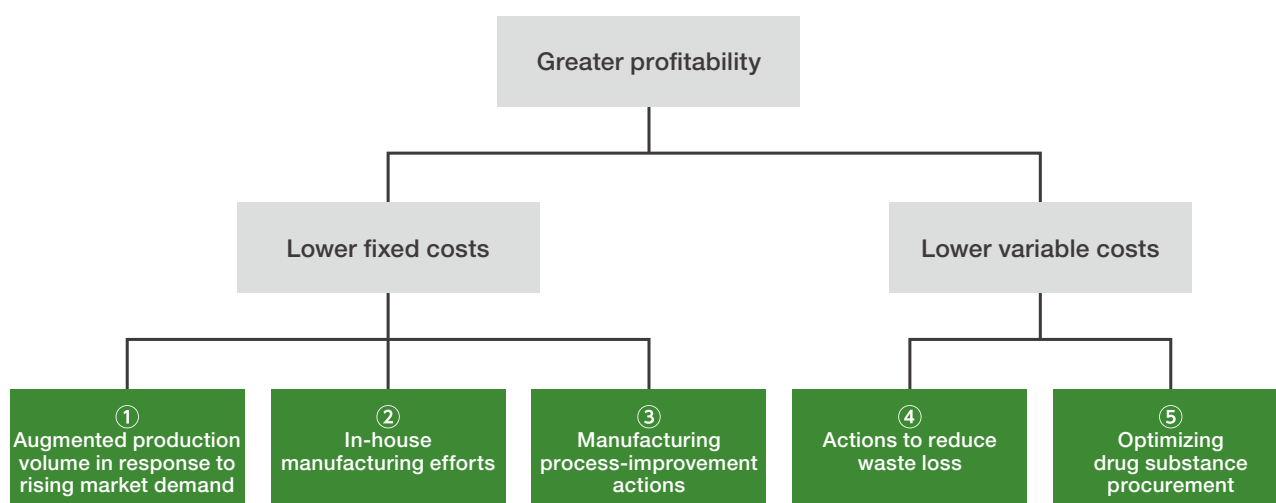
Kawauchi Plant

- Small to medium scale production (dedicated to antibiotics)
- Tablets, capsules, powders

Growth Strategy: Realizing a Virtuous Cycle**Boosting Profitability****Capping fixed costs and boosting profitability**

In anticipation of public policy measures to reduce healthcare costs, such as the promotion of generic drugs and annual NHI drug price revisions, as well as working style reforms and other changes in the labor environment, the Group is working to fully capitalize on its

existing resources, seeking to capture more production business and boost profitability. The main thrust of boosting profitability will involve steps to lower fixed and variable costs.

**① Augmented production volume in response to rising market demand**

Japan's generic market is growing, as the government continues to set an 80% minimum target for the use of generic drugs by volume. In addition, major hospitals and other institutions are already taking steps to introduce drug formularies into their management, a trend which is expected to spread to standardized formularies in the various regions of the country.

Ongoing growth in demand for generic drugs is expected to drive expansion of this market and rising production volumes.

② In-house manufacturing efforts

The Group is taking steps to expand in-house manufacturing at its plants, focusing on drugs that are currently outsourced to other manufacturers. Since these drugs are already being used by Nihon Chouzai pharmacies, medical institutions, and pharmacies outside the Group, the production shift will not directly feed into higher sales, but will lead to improvements in plant utilization and in the gross margin ratio.

③ Manufacturing process-improvement actions

We are working to lower fixed costs through more efficient manufacturing by setting goals for the detailed

review and improvement of the manufacturing process and by means of an ongoing PDCA cycle. Part of our improvement efforts focus on employee education, as we aim to foster a corporate culture where employees can take satisfaction in bringing about improvements. To this end, we are building a mechanism to support ongoing improvement activities while sustaining employee motivation.

④ Actions to reduce waste loss

By formulating and implementing efficient production schedules that allow us to produce the right amount of products at the right time, we are working to reduce waste product disposal at our plants. In our sales efforts, we are carrying out improvement actions with an eye to the cash conversion cycle. We have also formulated a supply chain management strategy tailored to the characteristics of each product line, such as where there is a large gap between production and sales volumes. These efforts are leading to lower waste loss and greater operational efficiency.

⑤ Optimizing drug substance procurement

To ensure a stable supply of drugs, we are pursuing the utilization of multiple sources of drug substances. Also, by dealing with multiple suppliers, we are able to achieve a lower purchase price for drug substances.

R&D

R&D that Maximizes Group Synergies

Efficient R&D focused on the drugs most used by Nihon Chouzai pharmacies

- The ability to grasp expected sales volumes at Group pharmacies in advance makes possible accurate profit and recovery forecasting and efficient development planning.
- We have built an R&D framework that allows other manufacturers to participate in joint development without concern. Even for drugs newly NHI listed after their patents have expired, the drug volume used by Group pharmacies can be projected with

relative certainty. This enables us to carry out development according to plan.

- The largest users of the drugs we develop are pharmacies. Because the Group must meet demand from these users, we engage in a wide range of research and development not weighted toward any particular disease type. Handling an array of drugs gives rise to a virtuous cycle, ultimately enabling us to accumulate the latest expertise and technology.

Minimizing investment in capacity expansion by developing drugs suited to each plant

- In June 2018, Nihon Generic consolidated two separate laboratories into the Tsukuba Research Institute. The Group now has laboratories at two sites, one at Nihon Generic and one at Choseido Pharmaceutical. Leveraging the technological capabilities and expertise each lab specializes in

yields a framework for the efficient development of new drugs. Having expanded the drug lineup to a certain level, we have entered a stage of increasing the proportion of drugs for which we have obtained manufacturing approval, and actively moving forward with R&D.

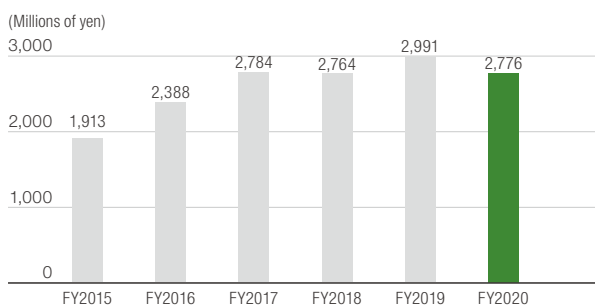


Nihon Generic Tsukuba Plant No. 2

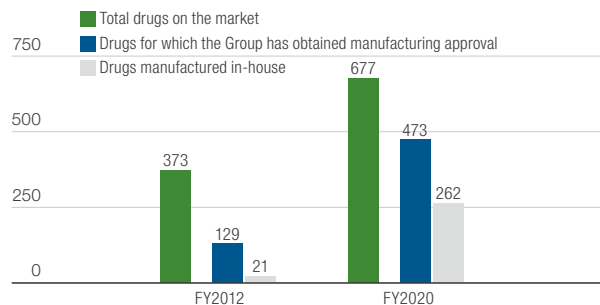


Choseido Pharmaceutical Tokushima Research Institute

R&D expenses (consolidated)



Number of drugs on the market



Quality Control

The Group strives to manufacture high-quality drugs, setting quality targets every fiscal year and making sure that all executives and employees are familiar with them.

FY2019 Quality Objectives

1) Foster a Quality Culture

- Implement compliance training and conduct a fact-finding survey of contract manufacturing partners

2) Maintain approval documentation that matches actual manufacturing conditions

- Conduct an annual audit of approval documentation and conditions on the ground at manufacturers and distributors
- Eliminate inconsistencies between approval documentation and conditions on the ground through appropriate pharmaceutical regulatory procedures

3) Practice quality risk management

- Promote projects that comply with the Guideline for Elemental Impurities (ICH Q3D)

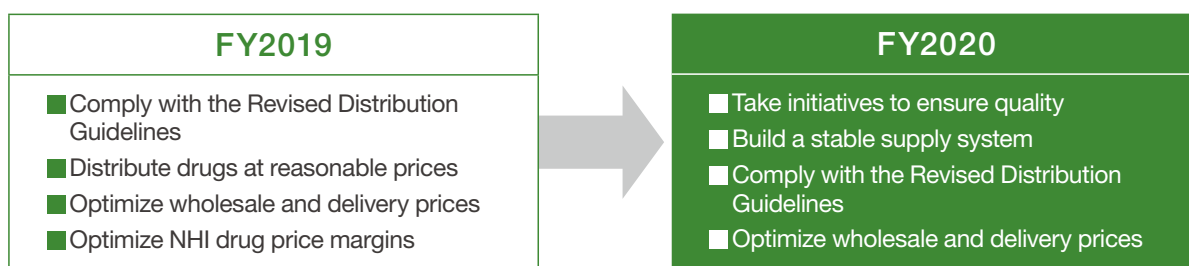
4) Enhance quality information provided to medical institutions and patients

- Step up the ability to support customers in consultation settings

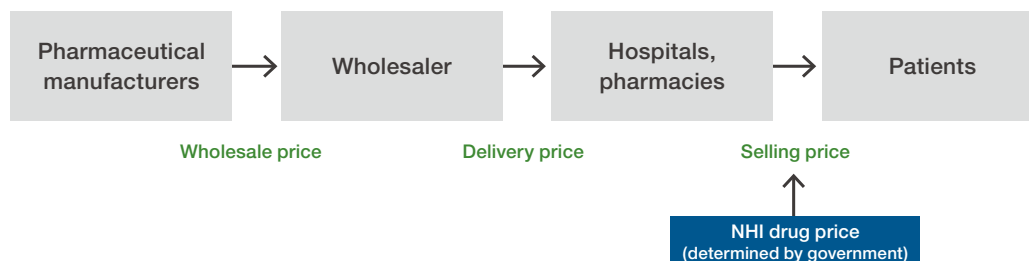
5) Ongoing improvement and implementation of a robust quality system

- Conduct gap analysis and eliminate gaps with regard to revised Good Manufacturing Practice (GMP) regulations (August 2021)
- Establish management procedures related to data integrity

Market Environment



Distribution channels for prescription drugs in Japan



Revised Distribution Guidelines

(in effect from April 2018)

- (1) Set appropriate market prices to eliminate negative primary margins on sales
- (2) Promote swift drug price settlement and unit price-based per product transactions
- (3) Rectify excessive discount negotiations

Guidelines for the Improvement of Commercial Transaction Practices of Ethical Drugs

(Revised Pharmaceuticals and Medical Devices Act, 2nd Revision)

- (1) Organizational framework to comply with GMP and other laws and regulations
- (2) Formulation of standard practices to be observed
- (3) Education, training, and assessment of executives and employees
- (4) Creating, managing, and keeping work records

Concerning the Setting of Appropriate Wholesale Prices and Discounts

(October 3, 2018 notification from Economic Affairs Division, Health Policy Bureau, Ministry of Health, Labour and Welfare)

- (1) Set appropriate discounts in line with evaluation of wholesale functions
- (2) Reflect discounts used to correct wholesale prices in actual wholesale prices

Generic Drug Supply Guidelines

(March 2014, Federation of Pharmaceutical Manufacturers' Association of Japan)

- (1) Establish organizations, persons in charge to contribute to stable supply
- (2) Formulate stable supply manuals

Topics

Upgrade of Nihon Generic brand website

Nihon Generic will renew its website to better provide information on the generic drugs offered by the Nihon Chouzai Group to a wider range of stakeholders, including medical personnel, in an easy-to-understand format.

The Nihon Chouzai Group directly draws on “Voices from the Field,” the feedback received from its more than 680 pharmacies throughout Japan, in product development efforts. We are working to more clearly communicate this competitive advantage, which is unique among Japanese pharmaceutical manufacturers, while also aiming to establish and build greater recognition of the JG (Japan generic) brand of Nihon Generic drugs.

In addition, as a pharmaceutical company that seeks to listen to the voices of users, we are upgrading the Nihon Generic website to make it more responsive to user feedback and easier to use.



Smartphone compatibility



Drug information page

Content to be expanded (partial)

- Enhanced features on the drug information page
- Measures to promote generic drugs
- Sustainability and SDG initiatives
- Virtual plant and research facility tours