

## CEO Message

# Towards becoming a Group that gives people the closest possible support, continuing to embrace challenges without the fear of change

**Naoto Kasai**  
President and CEO

Kasai joined Mitsubishi Trust Bank (now Mitsubishi UFJ Trust Bank) in 1986. After working in the Corporate Sales Department in charge of lending operations, he served as Manager of the Human Resources Department at the head office, Manager of the New Business Planning Department, and Manager of the Nihonbashi Branch. Kasai joined Nihon Chouzai Co., Ltd. in 2013. After serving as General Manager of the Sales Management Department, he was appointed as Director in 2015, Managing Director in 2016, and Managing Executive Officer in 2022. He has been in his current position since May 2024.

## We Will Build the Future of the Nihon Chouzai Group with Smiles and a Spirit of Challenge.

The operating environment for the pharmacy and generic drug industries has undergone dramatic changes in recent years, with both industries now entering into a restructuring process. On the management front, both industries have been impacted by generic drug supply issues, the rising costs of pharmaceutical raw materials due to mounting inflation, and the need to adapt to healthcare fee revisions. The roles society expects of pharmacies and pharmacists are also expanding rapidly, including the strengthening of pharmacy functions as family pharmacies, the spread of at-home healthcare, and the digital transformation of healthcare in the form of online medication guidance. In the midst of this period of change, I assumed the position of president of Nihon Chouzai Co., Ltd. on May 1, 2024. First, let me share my thoughts about the type of president I want to be.

After the decision was made that I would take the helm as president, I got an email from the business manager I know. It included this quote (in Japanese):

“The shadow of a single tree and the flow of a single river are ties to another life.”

I understand this proverb to mean that even things that seem like mere coincidences actually have a deep connection to what has happened earlier in life. I took this as an encouragement that my appointment as president was not a coincidence, that there was some significance behind it. At the same time, I wondered what that significance might be.

I started out my working life as a banker. I was involved in corporate sales for many years, during which I experienced many failures. I can't count the number of times I've gotten negative feedback from customers, but it's exactly at such times that I've always tried to stay positive and project a cheerful attitude. I determined that, even when I fail, I will keep a positive attitude, tirelessly

keep trying, and search for the future that lies beyond current circumstances. Now that I am the president of Nihon Chouzai, that stance remains unchanged.

The pharmacy and generic drug industries are expected to undergo further restructuring going forward. We will surely see calls for more forward-looking responses to these changes, including creating new value through innovation, boosting operational efficiency through collaboration with other companies, and reforming pharmacy operations. Surviving in times like these requires both embracing challenges and navigating recovery. To embrace challenges without fear of failure, and even if we fail, to use this as a learning experience to go on to succeed. I feel that this is the role that is expected of me as president.

### Since Its Founding, People Have Been the Nihon Chouzai Group's Greatest Asset.

Armed with the strengths our predecessors have built up in the Nihon Chouzai Group while pursuing our own reforms, I'm convinced that we will be able to prevail amid industry restructuring as it gains momentum going forward.

What is Nihon Chouzai's greatest strength? Our people. When I became president, I began to go around visiting all 745 of our pharmacies (as of October 1, 2024) across the country. I did this because I wanted to get a sense of how employees on the frontlines felt about their work. I was able to reconfirm some things by actually visiting the pharmacies and engaging in numerous dialogues with pharmacists and other employees. One thing I reconfirmed was the high caliber of Nihon Chouzai pharmacists, and their strong commitment to interact closely with patients and contribute to their health.

Drugs have a huge impact on the physical condition of patients with illnesses. Keenly aware that our pharmacies deal in drugs that have the potential to be life-threatening, we have established strict rules to prevent dispensing errors. The pharmacists working at these pharmacies approach their jobs with advanced skills, taking pride in being healthcare professionals. Seeing this first-hand convinced me that Nihon Chouzai's people, as assets, as well as the organizational strengths and environment that foster such assets, are of an extremely high caliber. This was something I thought I had understood after working at Nihon Chouzai for over a decade, but I was once again struck by it, and renewed my desire to continue taking care of our people, the assets Nihon Chouzai has passed down over the years—in other words, our human capital.

Operating pharmacies is not the only business of Nihon Chouzai. When we include Group companies, we boast a wide range of other capabilities, ranging from the development, manufacturing, and sale of generic drugs to the staffing and placement of healthcare professionals. Our distinctive ability to respond to various needs in the healthcare field is a powerful advantage for us in the pharmacy industry as well, and I sense that this is something we should continue to reinforce alongside our human capital.

### Three Pillars for Realizing Our Ideal for the Group

The Nihon Chouzai Group announced a Long-Term Vision 2035 in September 2024. Guided by our Group philosophy of giving people the closest possible support, the Group is aiming to be the most trusted partner in healthcare. To achieve this, we formulated three pillars: becoming the most vibrant and energetic Group in Japan, becoming a Group that can address all kinds of needs, and becoming a Group that continues to innovate.

The first pillar, becoming the most vibrant and energetic Group in Japan, reflects our desire to bring smiles to the faces of customers who visit our Group pharmacies and use our generic drugs and HR services. To achieve this, we ourselves have to become a vibrant, energetic, and hospitable presence.

The second pillar, becoming a Group that can address all kinds of needs, reflects our determination to evolve into a healthcare Group that can be closely involved in the increasingly diverse needs of customers and committed to addressing those needs. We still have a way to go in fully addressing customer needs. Waiting times at pharmacies are one example of this. Without compromising on our commitment to providing safe, secure, and high-quality healthcare, we are aiming to significantly reduce waiting times for patients. Achieving this mandates that we incorporate the latest technologies, including AI-based applications and the more widespread use of dispensing robots. We will meet customer needs by being the first to bring these technologies to bear on our operations.

The third pillar, becoming a Group that continues to innovate, is something I believe Nihon Chouzai is especially well-positioned to pursue as a company that has always prized originality and a pioneering attitude. We have developed a variety of ICT tools in-house, related to pharmacy operations, and have been taking advantage of these to provide services to patients. Numerous healthcare institutions were damaged in the Great East Japan Earthquake of 2011, and their medical records were lost. However, because our company had already digitized patient prescription information, it was possible to prescribe drugs even in disaster-stricken areas. Drawing on this experience, we developed our electronic medication notebook, *Okusuri Techo Plus*, which already has over 2 million subscribers. At the same time, some of the technological advances we are seeing today are simply astounding. An over-emphasis on self-reliance and on being distinctive runs the risk of causing us to fall behind in terms of technology and services. Going forward, therefore, we will continue to embrace the challenge of innovating through collaboration and co-creation with other companies.



Long-term vision briefing session

## Toward Management Focused on Non-Financial Assets

In terms of management indicators, we are shifting toward a management approach that stresses and invests in profitability over sales, and non-financial assets (customer assets, human assets, organizational assets) over financial assets (physical assets, financial assets).

For FY2035, the final year of our long-term vision, we have set targets of increasing ROE from 4.4% as of March 2024 to 15%, ROIC from 4.8% to 15%, and operating profit to 40–50 billion yen. These are extremely ambitious targets, but in an environment of mounting competition in the pharmacy industry, both with drugstores that handle prescriptions and the entry of players from other industries, like Amazon Pharmacy, the Nihon Chouzai Group must achieve these targets if we are to remain competitive and survive.

Realizing these ambitious management indicators requires us first to change the way we think about management. We determined the kind of Group we want to become and then, using the concept of backcasting, created a roadmap to get there. We will work to expand our asset base by visualizing the non-financial assets that have the potential to grow into financial assets down the road. I believe reforming our business structure to one that can generate the earnings we need to achieve our management targets calls for a shift to a management approach that stresses non-financial assets. I also think we have to achieve both significant growth in existing businesses while leveraging innovation to develop new businesses. P.16

## We Will Improve Profitability from a Long-Term Perspective

Let me first discuss our existing businesses. I'd like to highlight specific growth measures for the three business segments of the Nihon Chouzai Group: the Dispensing Pharmacy Business, the Pharmaceutical Manufacturing and Sales Business, and the Medical Professional Staffing and Placement Business.

In the Dispensing Pharmacy Business, we plan to expand our network, targeting the opening of 40 new pharmacies a year. We will focus in particular on strengthening our network of hybrid pharmacies, a pharmacy format unique to Nihon Chouzai that combines the elements of neighborhood pharmacies, which are in locations with convenient access, such as downtown areas or near train stations, with medical center-type pharmacies, which serve clusters of healthcare institutions. Meanwhile, we will enhance the ability of existing pharmacies to meet demand by providing online medication guidance and at-home healthcare. We will also strenuously examine unprofitable pharmacies and take steps to improve profits. In situations where we cannot expect improvement, we will take a scrap-and-build approach, and are even prepared to close down pharmacies if necessary. We will also move forward with a strategic focus on promising areas, including reallocating personnel made available through this realignment of

the network into growth areas, including medical center-type pharmacies and at-home and online healthcare. We also plan to fundamentally revisit our earnings and cost structures in pursuit of dramatic improvements in profitability.

Our top priority in the Pharmaceutical Manufacturing and Sales Business is to swiftly rectify the manufacturing management deficiencies at Choseido Pharmaceutical Co., Ltd., which have been a source of concern for patients and other stakeholders. At the same time, Nihon Generic Co., Ltd. aims to lower its cost ratio by expanding production volume while placing emphasis on stable supply and quality control. This subsidiary also aims to boost profit margins by increasing the proportion of products made in in-house. We will also reinforce collaboration with other companies and work to optimize resource allocation, pursuing greater efficiency by collaborating with other companies to integrate drugs and adopting a consortium approach to manufacturing, procurement, quality control, and sales.

We recognize the Medical Professional Staffing and Placement Business as an area that still has significant room for growth. The struggle to secure pharmacists as well as doctors, nurses, and other healthcare professionals is an issue in regional healthcare. We will further bolster our presence in healthcare fields, including by placing doctors and nurses and supporting corporate health management through initiatives to place occupational doctors and occupational health nurses.

In terms of innovation, we will also explore new areas beyond the bounds of our existing businesses. We will revise our current capital allocation, channeling 40% of long-term capital allocation into innovation and working aggressively to make headway in new business areas as we strive to secure new drivers of earnings. Nevertheless, taking on the challenge of new businesses is only possible when we have a solid foundation in existing businesses. In existing business areas, we will consider investing in AI-based applications and other digital transformation, investing in marketing based on our customer strategies, and incorporating new production technologies in the Pharmaceutical Manufacturing and Sales Business. At the same time, we will enhance capital return from a long-term perspective by cultivating profitable new businesses. P.17

## We Will Reinforce Human Capital Management to Become the Pharmacy of Choice.

While we are undertaking an array of initiatives, I believe the most crucial element in terms of realizing our long-term vision is human capital management. As I mentioned earlier, the Nihon Chouzai Group's most important asset is its people. Positioning personnel training as its most important issue, Nihon Chouzai since its founding has worked to cultivate its human assets. Human assets are one of the non-financial assets emphasized in our long-term vision. To further hone our human assets going forward, we will pursue human capital management that is linked to our



management strategies, offering growth opportunities that encourage the independent career development of employees, revitalizing personnel and organizations, pursuing the sustainable growth of organizations, and providing rewarding working environments.

I also believe customer assets are just as important as human assets. Although pharmacies are healthcare institutions, they only become places of value when they have customers. We will be even more intentional about conveying gratitude to our customers for choosing Nihon Chouzai from among the more than 60,000 pharmacies across Japan. Now, as we prepare to face intensive industry restructuring, I believe nothing is more important than fostering a sense of gratitude. We have the same sense of gratitude for the shareholders who support the Nihon Chouzai Group. Our long-term vision calls for increasing shareholder returns to 10% of long-term capital allocation. To date, our policy for shareholder returns had stressed paying stable dividends. Going forward, we intend to aim for gradual improvements in returns.

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## | Pursuing Sustainability and More Advanced Governance

Recognizing that addressing the issue of sustainability is critical to contributing to a sustainable society and continuously enhancing corporate value, the Nihon Chouzai Group considers sustainability to be a key part of its management strategies.

One area the long-term vision focuses on in particular is our response to climate change. We aim to reduce CO<sub>2</sub> emissions per pharmacy by 30% by 2030 compared to FY2020 and to reduce CO<sub>2</sub> emissions generated in the process of manufacturing generic drugs by 30% per 100 million tablets produced. We will expand the share of renewable energy we use by strengthening our collaborative framework with related companies, promoting in-house power generation, and shifting to renewable energy. In terms of supporting a circular economy, we will expand the number of items to be recycled, including blister packs for pills and sludge, and promote the recycling of waste.

Along with sustainability initiatives, we have to make further improvements in our corporate governance. We will pursue innovation by ensuring the diversity of the Board of Directors and collaborating with personnel coming from different backgrounds and with different experiences. We will also clarify the oversight and execution roles, visualize financial and non-financial performance indicators and set targets, and place emphasis on reinforcing governance and compliance among Group companies, continuing to address issues that call for consideration.

I believe the most crucial question for achieving our new long-term vision and pursuing sustainable corporate management is whether all of our employees fully understand and buy into Our Mission and our ideal for the Group, and then put these ideals into concrete action. This is a lofty goal, but I believe if we all continue to embrace challenges and have the firm resolve to achieve it, we will definitely get there. As the representative of the Nihon Chouzai Group, I will take the helm and drive the growth of the Group by pressing forward tirelessly with the measures I have outlined above.

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## | Moving forward Together with Our Stakeholders

The real intention with Long-Term Vision 2035 is to bring smiles to the faces of customers who visit our Group pharmacies and use our generic drugs, HR services, and other products and services. By definition, customers who visit our pharmacies are suffering from physical ailments or illness and struggling with feelings of anxiety. Nothing brings me more joy than to see such customers leave our pharmacies with smiles on their faces. Our employees provide thorough explanations about medications to give patients peace of mind. When we make a real connection with customers through our generic drugs, I think we can see the look of relief on their faces. To see as many such looks of relief as possible, we will continue moving ahead in our growth into a vibrant and energetic company.

I am also convinced that increasing our customers' smiles will lead to smiles for all of our stakeholders, including employees, business partners, and shareholders. To be sure, Long-Term Vision 2035 sets out ambitious targets. However, I believe continuing to tirelessly engage in our businesses will enhance the corporate value of the Nihon Chouzai Group and carry the company forward. I invite you to look forward to what the Nihon Chouzai Group is able to accomplish.