Strategies for Achieving Long-Term Vision 2035

Shift to structures that generate robust profits

Vision for 2035

Our policy is to stress profitability over sales as a management indicator. To capitalize on our competitive strengths and prevail in an increasingly harsh competitive environment, including against entrants from other industries, we decided to set the ambitious targets of achieving 15% ROE and 15% ROIC by 2035, the final year of the long-term vision. The first three years will involve a business portfolio strategy that seeks to achieve robust profits and structural reforms through business management centered around ROIC metrics. At the same time, we will pursue further digital transformation, a long-standing focus, and seek out AI-based approaches to improving labor productivity and, ultimately, capital efficiency.

Profitability Targets

ROE 15%　　ROIC 15%

Business portfolio strategy

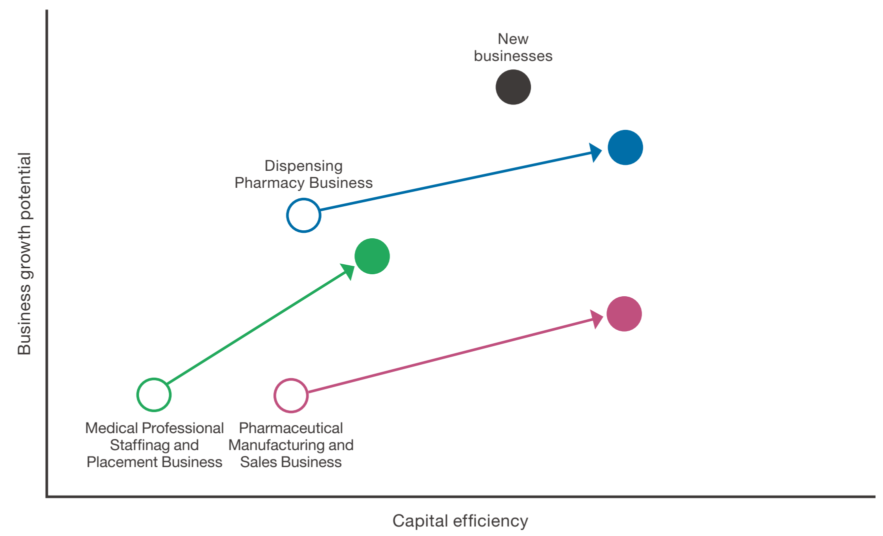
Guided by a policy of expanding the business portfolio with a focus on healthcare and peripheral areas, we will aim for growth by deepening our presence in existing businesses and exploring new areas.

With regard to our existing Dispensing Pharmacy, Pharmaceutical Manufacturing and Sales, and Healthcare Professional Staffing and Placement businesses, we will pursue capital efficiency above the cost of capital in each business. We will also step up initiatives to enhance profitability while ensuring high rates of growth.

In terms of targets for each business, our target in the Dispensing Pharmacy Business is to raise the current ROIC of around 10% by 10% or more. To this end, we will first address the issue of unprofitable pharmacies, while at the same time investing in growth areas such as at-home healthcare and online medical care, allocating resources appropriately. Profitability in the Pharmaceutical Manufacturing and Sales Business is currently extremely low, reflecting the impact of a past warehouse fire and quality issues at Choseido Pharmaceuticals. Nevertheless, we aim to increase ROIC to 6%–7% by 2035. Our plan is to more than double the current ROIC of 7%–8% in the Healthcare Professional Staffing and Placement Business.

We will also actively invest in new businesses and move forward with business creation. Ultimately, we will work to achieve high capital efficiency in new businesses and move ahead in transforming these businesses into strong earners.

Our ideal business portfolio



Strategies for Achieving Long-Term Vision 2035

Shift to structures that generate robust profits

Managing businesses and investments using ROIC as a metric

We will set ROIC targets that take into account the cost of capital in each business and incorporate these into our strategies based on the concept of an ROIC tree, to shift to structures that generate robust profits.

In the Dispensing Pharmacy Business, we are targeting drastic labor productivity gains through the use of AI, automation, and large-scale consolidation. The significant productivity gains these measures bring about will lower the ratio of labor costs to net sales and operating profit, contributing to improved ROIC. At the same time, using AI and replacing the bulk of dispensing work with machines will free up pharmacists to specialize in more patient-centered and highly specialized work.

In terms of our pharmacy strategy, we will work to enhance profitability by addressing the issue of unprofitable pharmacies, while continuing to expand the network of more profitable hybrid pharmacies. We will focus on opening highly profitable pharmacies, including large medical center-type pharmacies, chiefly in major metropolitan areas where we can expect population growth, aiming to expand the network by 500 pharmacies over the next 12 years. Furthermore, we will boost the volume of prescriptions filled per pharmacy and raise invested capital turnover from 20% to 30%, thus further increasing ROIC.

Our goal in the Pharmaceutical Manufacturing and Sales Business is to boost profitability and, ultimately, ROIC, by expanding production volume to lower the cost ratio and by increasing the proportion of products made in-house. Industry restructuring calls for a course correction away from a business of producing a wide range of drugs in small volumes. In response, the Group will proactively collaborate with other companies and boost production volume per drug through a tighter strategic focus on the products we manufacture. By increasing production volume and the proportion of products made in-house, we will seek to meet our ROIC targets.

Our goal in the Medical Professional Staffing and Placement Business is to expand our shares of the pharmacist and doctor staffing and placement businesses. Meanwhile, in the occupational healthcare professional business, where we expect further growth, we will expand the pool of occupational health nurses we place and make active use of acquisitions, seeking to significantly expand our healthcare business overall.