



Roundtable Discussion with Outside Directors

A New Step Forward for the Nihon Chouzai Group: Current Challenges and Hopes Going Forward

The Nihon Chouzai Group formulated Long-Term Vision 2035 in September 2024, outlining for stakeholders how the Group intends to grow going forward, grounded in a philosophy of giving people the closest possible support.

What is needed for the Nihon Chouzai Group to achieve Long-Term Vision 2035? The four outside directors sat down to exchange their views on where the Group currently stands, their hopes for the future, and outstanding issues, among other topics.

Photo (from left): Mikiharu Noma, Shio Harada, Yoshimitsu Onji, and Tomomi Nakano

After a Sudden Change in Top Management: Continuing to Evolve while Carrying on the Commitments of the Previous President

Onji I was shocked when Yosuke Mitsuahara, the previous president, suddenly stepped down due to health concerns, but I believe he did a wonderful job in the nearly five years since he took over as president in June 2019.

Noma I agree. That's exactly why this abrupt change gave us a lot to think about. I think it caused employees, inside directors, and especially the new President Kasai considerable apprehension.

Harada I was personally worried that Group employees would be really shaken up, but I think it was great that President Kasai conveyed a very clear message to them—that of becoming the most vibrant and energetic Group in Japan. President Kasai also went around visiting Nihon Chouzai pharmacies across the country, actively engaging with employees. Thanks in part to his efforts, I think there's been no noticeable disruptions within the Group, and people keep going about their business.

Nakano I became an outside director in June 2024, so I can't make comparisons with the way things were before, but I feel that Board meetings have been very positive. Although we had many serious discussions, President Kasai's positive attitude was apparent, which led me to expect great things from the Nihon Chouzai Group going forward.

Onji We can thank President Mitsuahara's contributions in large part for creating an active Board of Directors where people can exchange opinions freely and frankly. He focused on creating a very lean company, not only in terms of the Board of Directors but also by laying the groundwork for a long-term vision. During his tenure, though, the Group experienced a number of issues, including the discovery of manufacturing management deficiencies at Choseido Pharmaceutical and a fire at a Group warehouse, which surely called for a great deal of effort on his part. This was the context in which this change in leadership came about, but my hope is that President Kasai and everyone involved in the Group will faithfully carry on the legacy President Mitsuahara built up.

Long-Term Vision 2035: A Vision Created by Listening to the Views of Young Employees

Nakano When Long-Term Vision 2035 came out, my impression was that it sets out some very high hurdles for the Group. The Group's current ROE is 4.4%, but the vision calls for raising this to 15% and raising ROIC from 4.8% to 15%. This will be difficult if the Group simply keeps moving in its current direction—such challenging targets will require the Group to incorporate new initiatives. I also



Yoshimitsu Onji
Outside Director

take it that the key will be whether management can effectively instill the vision throughout the Group, persuading all employees that the vision will be hard to realize unless everyone takes a personal stake in the targets and works hard to achieve them.

Harada The Group announced the long-term vision after extensive discussions, lasting about a year and a half. I think the bottom-up approach taken was a smart call—putting next-generation core members at the center of repeated discussions and feeding their opinions back to management. The core members were quite candid. Some of their opinions went well beyond the existing framework that has tended to hold the Group back at times, and these were reflected in the final output. I feel that it was precisely this kind of thinking-outside-the-box discussion that allowed the Group to come out with Long-Term Vision 2035.

Noma The process did indeed take a while, but during that time the kind of “intellectual combat” that went on between management and employees, among

other things, resulted in more in-depth discussions. It’s true that the ROE and ROIC targets are high, but the process of discussing these targets has begun to generate greater awareness of capital costs and share prices among executives and employees. So I suspect this was a valuable process in terms of enhancing corporate value.

*A concept proposed by Japanese management scholar Ikujiro Nonaka. The SECI model of knowledge creation (centered around the concepts of socialization, externalization, combination, and internalization) entails thorough-going dialogue to convert the knowledge held by individuals into organizational knowledge.

Onji I believe announcing a long-term vision is vital, not only for various stakeholders outside the Group but also as a way of indicating to Group employees the kind of company Nihon Chouzai is aiming to become. In this sense, it’s highly significant that discussions that included younger employees took place throughout the exploratory and decision-making process, and that a robust process was followed.

After determining ROIC and other management indicators, the Group is also setting its sights on human capital management. Given that it operates in an industry in which pharmacists and other employees need to be able to derive a sense of fulfillment from their work, the emphasis the Group is placing on human capital management is something to be commended.

Towards Achieving the Long-Term Vision: Human Capital and Other Resources Supporting Growth in the Nihon Chouzai Group

Noma Shifts in the operating environment and demographic changes, along with other factors, are expected to spur restructuring in the healthcare industry to which the Nihon Chouzai Group belongs.

How the Group navigates this restructuring will be a major challenge going forward.

I believe if the Nihon Chouzai Group can take effective advantage of its human capital, operational strengths, and its generic drug manufacturing and sales business, it will be able to take a leading role in transforming the industry. There are opportunities for growth in the way that the company maintains and augments these resources, and I sense that an exciting future awaits the Group.

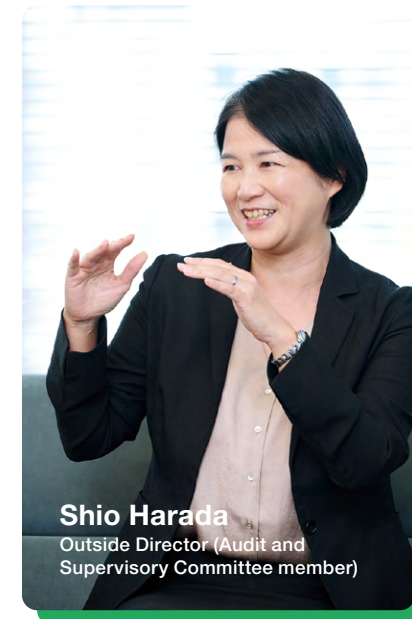
Harada It’s my feeling as well that the Nihon Chouzai Group has tremendous advantages in terms of its human capital. The pharmacists working at Nihon Chouzai pharmacies possess a high level of professional self-awareness and expertise, so the key will be how to combine their human capabilities with greater efficiency.

Onji Many characteristics of both the Dispensing Pharmacy and Pharmaceutical Manufacturing and Sales businesses set them apart from ordinary retail and manufacturing businesses—including dealing with government reforms to the healthcare system, helping to curb the costs of social security, and making efforts to closely engage with patients in delivering healthcare. Meanwhile, although they are in the same healthcare sector, the Medical Professional Staffing and Placement and Information Provision and Consulting businesses are quite different in nature. The Group has to find ways of capitalizing on the strengths of engaging in multiple businesses with different characteristics, while also balancing out the advantages and disadvantages of each business to achieve stronger performance. This kind of challenge doesn’t exist in most other industries.

Nakano I agree. Members of the healthcare industry are required to operate in compliance with various laws and regulations, and there is always a risk that healthcare system reforms and other factors can bring about dramatic changes in the business environment. Such challenges are unique to this industry. I think the only way to navigate them is to mount an agile response. However, the Group has also been investing in systems, and I believe it will be critical to make good use of the information accumulated through these systems to boost efficiency. I think using systems to increase work efficiency can also enable pharmacists to handle a higher volume of prescriptions, and I look for the Group to make greater use of AI-based applications and systems.

How the Nihon Chouzai Group Can Improve: Stimulating Deeper Group-Wide Dialogue around the Long-Term Vision

Nakano When a problem arises in the Group, if there is a gap between how management is thinking and employees out in the field are thinking, or a gap between that and the thinking underlying the long-term vision, this can undermine sound management. The follow up to the manufacturing management



Shio Harada
Outside Director (Audit and
Supervisory Committee member)

deficiencies that occurred at Choseido Pharmaceutical, which became a Group subsidiary in 2013, pointed out a lack of adequate communication between Group management and the executives and employees of the subsidiary. Going forward, I think more effort needs to be put into actions to instill the vision of management throughout the organization as a whole.

Onji That need to instill the vision you are talking about is the reason why, as I said, I think it was highly significant to bring younger employees into repeated discussions in the process of sounding out the long-term vision. In companies where a single family holds the majority of shares, decisions tend to be made in a top-down manner. My understanding is that the Nihon Chouzai Group has made a new start, intending to become a much more bottom-up company. That's something I would like the Group to focus on even more.

President Kasai has talked about becoming the most vibrant and energetic Group in Japan. I'd love to see smiles on the faces of all Group employees. But my sense is that the Group is still only halfway there—serious thought needs to be given to finding ways of making sure that there are smiles of employees on the front lines and fostering a vibrant organization.

Noma I fully agree with what you're saying. On that score, I'd like to suggest that there are two major challenges at hand. The first is reinforcing succession planning. Nihon Chouzai is a company whose operations are firmly centered on pharmacies out in the field. So, figuring out how to cultivate management talent from the front lines is a real challenge. That's why a succession plan is essential to making the Nihon Chouzai Group more sustainable. The second challenge involves discussions around how to approach investments, in terms of deepening existing businesses and exploring new businesses, and how to balance such investments with shareholder returns. I'd like to see more in-depth deliberation on this point. Of course, from our vantage point as outside directors, we also play a crucial role in

ensuring that the interests of minority shareholders and the common interests of all shareholders are protected.

Harada In terms of succession planning, I believe the Group should continue striving to promote more women to managerial and executive positions from within the company. Because the proportion of female employees is very high in the Group, it's also important to make more diverse working styles available to employees. This involves reaching out to women who have the ability and want to keep working but have to leave the workforce to raise children or for other reasons. The key is to foster an environment in which such women can fulfill their innate potential, such as by allowing a wider range of working styles, expanding the paths to advancement, and offering educational opportunities. I'd like to see further progress on this front because it will lead to an environment that actually facilitates work for all employees, both men and women, and will also feed into greater innovation.



Tomomi Nakano
Outside Director (Audit and
Supervisory Committee member)

Expectations for the Future: Bringing Well-Being to Employees and Customers through Sustainability Management

Onji To achieve Long-Term Vision 2035 will of course require all executives and employees to come together and carry forward the management of the Group. In addition, by emphasizing human capital management, my hope is that the Group will be an organization where employees can lead fulfilling lives marked by well-being, glad that they work at Nihon Chouzai.

Noma Investors and shareholders look for growth in the financial value of the Group, and management also tends to focus on Group performance. But employees working in pharmacies and out in the field, whose mission is to provide people with the closest possible support, derive a sense of joy and contentment from contributing to the health and well-being of customers. Ultimately, as this is reflected in financial outcomes, all stakeholders will be satisfied. So, I want management to do everything it can to foster workplaces that facilitate employee well-being.

Nakano What you said really resonates with me. I don't think short-term corporate performance is what motivates employees on a day-to-day basis. This is where I believe sustainability management comes into play. A company grows over the long term, not in the short term. In this context, sustainability aims to expand intangible assets, such as human capital and customer assets. Nihon Chouzai publishes a Sustainability Data Book, and has done a good job applying that document to the SDGs goals in setting various performance indicators. I think employees will be driven to put in the effort if they can sense that they are doing something useful for society. Young people today in particular tend to place importance on their own growth and development. So, if employees can take the sustainability initiatives of the Nihon Chouzai Group on board, I feel the Group can make headway in bringing about employee well-being and growing the company.

Harada As an outside director, I would like to be more intentional about offering advice in terms of whether everyone is moving forward toward a common goal.

Noma FY2024 got off to a tough start. Group executives and employees surely have a greater sense of crisis over the business than we do as outside directors. This sense of crisis bore fruit in a long-term vision that revealed a really strong determination. My hope is that all stakeholders will be inspired by this vision to expect a bright future for the Nihon Chouzai Group.



Mikiharu Noma
Outside Director