

Feature: As a Unique Total Healthcare Company

The Otsuka group operates diverse healthcare businesses centered on the Pharmaceutical Business and the Nutraceutical Business. The combination of diverse businesses enables us to produce creative products and value. This is why we are able to contribute to people's health worldwide through total healthcare that only Otsuka can deliver. In this feature, we describe how the Otsuka group creates value through the combination of diverse businesses, and how the process is supported by our revenue structure and governance.

Creative Product Marketing and Value Creation through the Combination of Diverse Businesses

It is important for us to adapt to change and the needs of the times. This entails an ongoing focus on issues relating to changes in the social environment, including lifestyle changes, the super-aging of societies, unforeseen major disasters, the spread of infectious diseases, and the need for environmental conservation. The Otsuka group provides continuous support to address various health issues and social needs, leveraging its strengths as a total healthcare company.

Delivering Innovative Products through Synergy Effects

The technologies and expertise accumulated in the IV solutions and clinical nutrition product businesses since 1946 are the basis for many of the innovative products that we have developed to date.

For example, the development of *POCARI SWEAT* was inspired by the idea of a drinkable IV solution that could easily replenish fluids and electrolytes lost by the body. Similarly, the development of *Calorie Mate* was inspired by concentrated liquid food regimens and conceived as a nutritional food product that could be an alternative to IV solutions. Both these R&D projects leveraged the knowledge and production expertise related to the group's clinical nutrition products, which in turn has led to the development of unprecedented science-based products. The world's first commercial retort pouch food product *Bon Curry* was also developed by applying sterilization-related technology and expertise accumulated through the production of IV solutions.

In the Nutraceutical Business, we established Japan's first private research institute for clinical exercise and nutrition in 1984,

and we continue to develop science-based products. At the Saga Nutraceuticals Research Institute, we conduct research on the relationship between soybean isoflavones and women's health, in addition to research on exercise and nutrition. We particularly focused on equol (an ingredient produced when daidzein is metabolized by intestinal bacteria), which we used to develop *EQUELLE*, a dietary supplement that supports women's health and beauty. At the Otsu Nutraceuticals Research Institute, we conduct research under the theme "intestines and nutrition." This has led to the development of *BODYMAINTÉ*, which utilizes plant-derived lactic acid bacteria B240 and has evidence-based efficacy in health management.

➔Page 38, *EQUELLE* and *BODYMAINTÉ*



HINEX-R, concentrated liquid food that was the forerunner of *Calorie Mate*

Toward Realizing a Sustainable Society with Physical, Mental and Social Well-being

Given the climate change is becoming a major social issue, the Otsuka group has developing and marketed nutritional foods with a long-term view of the earth's health. Soybeans are a part of Japan's traditional food culture, and have been referred to as "the meat of the fields." Having welcomed Daiya Foods of Canada to the Otsuka group in 2017, and we are accelerating the marketing of plant-based food products on a global basis. By combining new technologies with know-how acquired through the group's diverse businesses we are providing new value that addresses various social needs.

➔Page 38 *Daiya*



Daiya Foods website, "Who We Are"
<https://daiyafoods.com/who-we-are/>



Otsuka's Soylution
<https://www.otsuka.co.jp/en/nutraceutical/about/soylution/about/>



In the Pharmaceutical Business, to provide comprehensive solutions for healthcare issues we promote various innovative initiatives that combine our expertise and experience in psychiatry and neurology with cutting-edge digital technologies. *ABILIFY MYCITE* the world's first "digital medicine" facilitates the monitoring of drug adherence and behavior in patients. It expands the available options for more suitable therapies and can lead to improved communication among patients, caregivers, and healthcare professionals. In the psychiatry area, text information makes up 90% of medical records. Otsuka Pharmaceutical and IBM Japan jointly developed *MENTAT*, an electronic medical record analysis solution that analyzes text information using text mining technology¹ to support the identification of optimal approaches for patients. The Otsuka group continues to take on the challenge of developing new medical solutions, aiming to improve quality of life for patients, relieve the burden placed on others, facilitate recovery, and enhance communication in the psychiatry area, where drug adherence management and repeated relapse and rehospitalization are among the many issues faced.

Life expectancy is extending globally, and one in two people born in 2007 in the developed world will live past age of 100. This era of the 100-year life-span will call for, mental and social well-being, in addition to physical well-being. As social environments and lifestyles become increasingly diverse, the Otsuka group address various issues to improve all three forms of well-being and to realize a sustainable society.

1. Electronic medical records in psychiatry contain free descriptions of various information that is difficult to quantify (e.g. medical history and symptoms), and more than 90% of information is in text form. *MENTAT* is an electronic medical record analysis solution that uses natural language processing technology to organize and analyze electronic medical records in psychiatry, which were previously considered difficult to aggregate in a database, and presents that information in a form that is useful for medical settings and hospital management.



Business Structure for Achieving the Sustainable Enhancement of Corporate Value

The Otsuka group's diverse business operations play an important role in its sustainable growth, including when it is necessary to respond to changes in the business environment. In this section we describe how we analyze risks and opportunities from the perspective of our business structure, and how we sustainably enhance our corporate value, as a total healthcare company.

History of Building a Revenue Foundation with Diverse Businesses

Since its foundation, the Otsuka group has developed innovative products ahead of the times that lead to the resolution of social issues relating to healthcare, and has continued to grow while diversifying its businesses. Business diversity has in turn supported this sustainable growth by making the group's revenue structure resilient to risks and ready to act on opportunities. In the 1990s, when the Otsuka group launched *POCARI SWEAT*, the main revenue source was the Nutraceutical Business. In addition to providing pharmaceutical information, medical representatives in those days cooperated in group cross-business activities, such as, by promoting the installation of vending machines in medical institutions. The revenues earned through the Nutraceutical Business were invested into research and development in the Pharmaceutical Business. Through tireless research and development, we developed *ABILIFY*, an antipsychotic launched in 2002, and other products that have contributed to better health worldwide. In this way, the Pharmaceutical Business has become the main revenue driver of the Otsuka group. The Nutraceutical Business has also developed many other long-selling brands, continuously achieving a business profit margin of 10% or higher. Our IV solutions business, which we have been engaged in since soon after our founding, maintains a leading share of more than 50% in Japan², and supports the sustainable growth of the group as a stable revenue base.

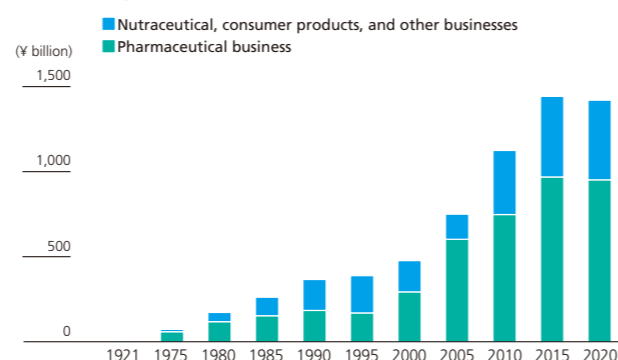
² Market defined by Otsuka. Copyright © 2021 IQVIA. Created based on MAT, December 2020 JPM. Reprinted with permission.

Diverse Business Foundation that Enables Adaptation to Various Environmental Changes

The Pharmaceutical Business and the Nutraceutical Business have substantially different business characteristics, and have achieved sustainable growth by respectively diversifying various risks in the business environment. For example, in the Pharmaceutical Business, medical expenses and drug prices have been reduced. However, these can be regarded as opportunities that lead to the advancement of health awareness and the dissemination of self-medication. We have multi-faceted business platforms and ideas unique to a total healthcare company, which enables us to adapt to rapid changes in the business environment and to take on various challenges envisioning the future.

- ➡ Opportunities and risks in the Pharmaceutical Business Page 32
- ➡ Opportunities and risks in the Nutraceutical Business Page 39

Revenue performance



Inter-Business Communication and Governance

While diversity is a source for new ideas and innovations, maintaining consistency in the direction of overall business management across different market environments, cultures, viewpoints, and values is a key issue. The Otsuka group has operates a global portfolio management structure with Otsuka Holdings at its core, and a governance structure that disseminates the corporate philosophy and the essence of management while ensuring close inter-business communication, with the view to creating synergistic value from its diverse businesses.

Dissemination of the Corporate Philosophy and the Essence of Management

The Otsuka group pursues the corporate philosophy "Otsuka-people creating new products for better health worldwide." We continuously implement various educational activities in order to promote the understanding and dissemination of this corporate

philosophy in the business practice of each employee across the world. At the same time, our executive management sends out proactive messages concerning the corporate philosophy and the essence of management that have been handed down by historical management executives.

- ➡ Message from the President Pages 6-9

Governance System and Global Portfolio Management

The composition of the Board of Directors of Otsuka Holdings includes multiple executive directors that serve concurrently on the management teams of operating companies. The Board promotes optimal group-wide investment strategies, and corporate strategies aimed at maximizing synergy, underpinned by the rapid relay of information and close-knit cooperation. Diverse

human resources familiar with a variety of industries and markets are appointed as outside directors, who bring a third-party viewpoint to the operations of the Board of Directors. In 2018, the Global Business Support Department was established to strengthen the monitoring of operating companies under the Executive Director in charge of Business Portfolio Management.

- ➡ Corporate Governance Pages 52-57
- ➡ Discussion on Corporate Governance Pages 60-65

Cooperation with Local Communities

The Otsuka group is promoting community-based health maintenance and improvement initiatives, as well as disaster prevention and relief activities. Here we describe activities for supporting people's health that are only possible for Otsuka as a total healthcare company.

Getting Closer to Consumers by Delivering New Value

In the Nutraceutical Business, in applying the knowledge and expertise we have accumulated through our products, including on such topics as health promotion, prevention of lifestyle-related diseases, dietary education, sports promotion and disaster countermeasures, we promote contribution to local communities. We have concluded health cooperation agreements with all 47 prefectures in Japan. Through these agreements we implement awareness activities for health promotion, provide speakers for lectures, and supply relief goods in the event of an emergency or disaster. In recent years, we have also provided new specialized information concerning our Pharmaceutical Business, in addition to preventive health information focused on nutrition, exercise, and recuperation. We provide support as only a total healthcare company can, through disease awareness activities and by helping healthy people stay healthy in both body and mind. At present, mental care needs are increasing, so we also plan to support the mental health of people in local communities, leveraging our strengths in the psychiatry and neurology area.

In addition, the combined initiatives of the Pharmaceutical

Business and the Nutraceutical Business in disaster prevention and response have provided local support closely aligned to consumer needs as a total healthcare company.

Healthcare needs vary substantially depending on an individual's circumstances, as well as over time and by region. Furthermore, the global COVID-19 pandemic has substantially transformed people's lifestyles. It is expected that health issues and social issues will become increasingly diverse and complex. The Otsuka group will continue its development through future-oriented value creation and its focus on diverse businesses, thereby enhancing its long-term corporate value based on the provision of total healthcare and making a social contribution.



Support for municipalities under the COVID-19 pandemic (photo provided by Sugunami-ku)



Naoshi Sato
Senior Vice President
Associate General Manager,
Nutraceuticals Division
Director of Societal Health
Relations Department
Director of Promotion and
Advertisement Department
Otsuka Pharmaceutical

Working to Resolve the Diversifying Health Issues of Consumers

In the Nutraceutical Business, we have continuously carried out health awareness activities by leveraging the assets that we acquire through R&D. We have been identifying health issues through dialog with local residents, and we continue to relationships support for resolving issues in cooperation with local communities. Based on the relationships of trust that we have established, we have concluded cooperation agreements with all 47 prefectures in Japan. Through new initiatives to complement these partnerships with expert strengths from the Pharmaceutical Business, we will help resolve increasingly diverse consumer health issues. Now we are in the era of the 100-year life span, I sense being able to identify social issues and health issues, including what information to provide, when and how to provide it, will be important in adapting to the continually changing healthcare environment and providing optimal solutions.