

Pharma Foods International Co., Ltd.

2929

Tokyo Stock Exchange Prime Market

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Summary

A biotechnology company aiming to create pharma foods by fusing pharmaceuticals and foods

Pharma Foods International Co., Ltd. <2929> (hereafter, also “the Company”) is a biotechnology company whose basic policy is to conduct business that contributes to people’s health by aiming to create pharma foods through fusing pharmaceuticals and foods. By focusing on raw ingredients derived from nature and providing proprietary technologies that are based on scientific evidence, it is creating food ingredients that clearly function to improve both health maintenance and QOL (Quality of Life).

1. Business description

With a mission of advancing food and drug research to help people, the Company seeks to realize a sustainable society in which people are happy and healthy. To achieve this goal, it performs research on pharmaceuticals and functional ingredients that act on immunity, aging, and the nervous system, and broadly provides its proprietary research results and products to society in three business: the BtoB business; BtoC business; and Bio Medical business. The BtoB business manufactures and sells functional ingredient products such as PharmaGABA®, and through Meiji Yakuin Co., Ltd., which was made into a subsidiary in August 2021, it manufactures and sells pharmaceutical and non-pharmaceutical products. The BtoC business conducts e-commerce sales and wholesale distribution of supplements, non-pharmaceutical products, and cosmetics that blend the Company’s proprietary functional ingredients, including Newmo® Hair Growth Formula, a hair restoration and new growth stimulant. The Bio Medical business is involved in drug discovery using ALAgene® technology, the Company’s proprietary technology for producing antibodies from chickens, and also provides a proteome analysis service. Furthermore, as a new domain, the Company is aiming to create a new market through the advanced utilization of eggshell membranes. The Company is a fables company that conducts research and development while contracting out production to outside partnering production facilities.

2. Significant increase in sales and profit in FY7/23

In the Company’s FY7/23 consolidated results, both sales and profits increased significantly. Net sales increased 13.9% year on year (YoY) to ¥68,572mn, operating profit was up 234.1% to ¥3,610mn, ordinary profit was up 179.9% to ¥3,540mn, and profit attributable to owners of parent was ¥3,081mn (versus a loss of ¥374mn in the previous year). Sales were driven by the mainstay products PharmaGABA® and Newmo® Hair Growth Formula, as sales increased and were solid in all segments. Looking at profits, the Company is continuing to actively invest in R&D and advertising, and in addition to the impact of the increase in sales, revisions to unit prices in CMO (Contract Manufacturing Organization) in the BtoB business and optimization of advertising investment in the BtoC business also contributed to profits. Among SG&A expenses, advertising expenses increased 8.7% YoY to ¥38,865mn, but the ratio of advertising expenses declined 2.7 percentage points to 56.7%.

Summary

3. Forecasting a slight decline in profit in FY7/24 but there is room for upside

For its FY7/24 consolidated results, the Company is projecting net sales to increase by 5.1% YoY to ¥72,047mn, operating profit to decrease 7.5% to ¥3,338mn, ordinary profit to drop 6.8% to ¥3,300mn, and profit attributable to owners of parent fall 9.6% to ¥2,784mn. In terms of net sales, the Company expects sales of its mainstay products to be solid, and for net sales to grow as new products also contribute, but it is forecasting slight declines for all profit lines. In addition to an increase in advertising expenses (up 2.9% year on year to ¥40,000mn), expenses related to the start of full-scale R&D investment and capital investment for the social implementation of new value creation set forth in the growth strategy are being accounted for. However, overall the Company's forecasts seem very conservative, and we at FISCO believe that there is room for upside in the Company's forecasts, taking into account factors such as growth in new products and the effects of controlling advertising investment.

4. Promoting the creation of new value (new products, new markets, new organization) as a growth strategy

In its Medium-Term Management Plan 2026 (FY7/22-FY7/26), the Company has established "new value creation 1K" as a goal, and through initiatives to create new value (new products, new markets, and a new organization), seeks to be a company with net sales of ¥100.0bn by FY7/26. Regarding profit levels, the Company will conduct business development through FY7/26 without concern over a decline in profit margin each year and intends to expand in scale while boldly taking on risk. In new product creation, the Company is seeing growth in national brand ("NB") products in the BtoB business such as Meiseki Lab and Kinniku Lab, as well as new products in the BtoC business (such as Eyelash Deluxe WMOA and the medicated whitening gel DRcula series). In new market creation, the Company is advancing its Agri Nutrition Basic Plan to create an upcycle market for unused resources. In addition, the Company plans to invest in R&D and make capital investments to develop and mass produce eggshell membrane materials that have properties suitable for a wide range of industrial uses, including electronic materials made from eggshell membrane nanofibers.

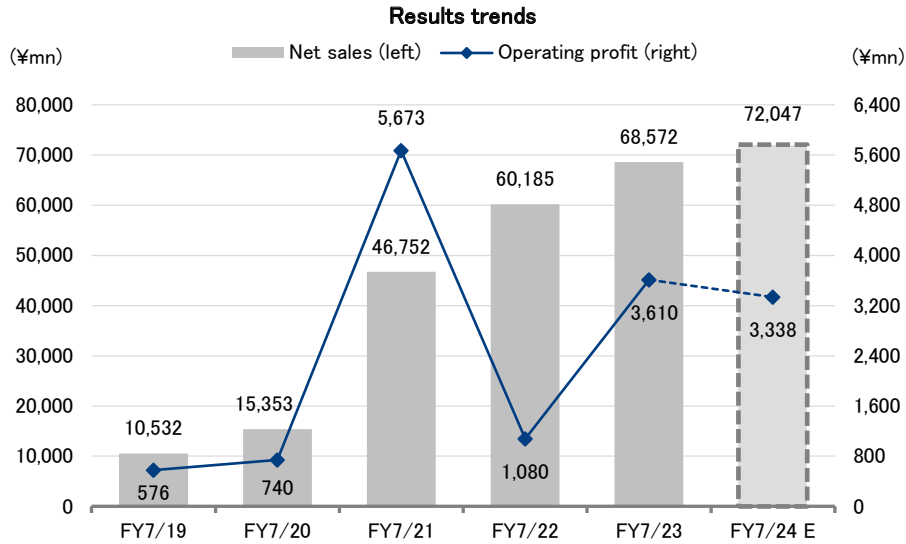
5. High potential for medium- to long-term growth due to drug discovery, eggshell membrane materials and other factors

The Company's profit level has changed significantly, driven by the hit product Newmo® Hair Growth Formula, and there are some people in the market who say it is a company with results that fluctuate depending on hit products in the BtoC business and advertising expenses. However, considering that in the BtoB business the adoption of PharmaGABA® is on the rise, the contribution of Meiji Yakuhin's CMO to profits is increasing, in the BtoB business there is growth in NB products such as Meiseki Lab and Kinniku Lab, and there is growth in new products such as Eyelash Deluxe WMOA and the DRcula series in the BtoC business, at FISCO we positively evaluate the Company as making progress in reducing its dependence risk on specific hit products. In the medium to long term, expectations are high for drug discovery and development in the Bio Medical business, as well as for new businesses that make advanced use of eggshell membrane materials. Although the Company's immediate performance may fluctuate due to advertising investment, we at FISCO believe that the Company's medium- to long-term growth potential based on the creation of new products and new markets is strong.

Key Points

- A biotechnology company aiming to create pharma foods by fusing pharmaceuticals and foods
- In FY7/23, sales and profits rose significantly
- Forecasting a slight decline in profit in FY7/24, but there is room for upside
- Promoting the creation of new value (new products, new markets, new organization) as a growth strategy
- High potential for medium- to long-term growth due to drug discovery, eggshell membrane materials and other factors

Summary



Source: Prepared by FISCO from the Company's financial results

Company profile

Creates food ingredients that clearly function to improve both health maintenance and QOL

1. Company profile

The Company is a biotechnology company whose basic policy is to conduct management that contributes to people's health by aiming to create "pharma foods" by fusing pharmaceuticals and foods. With a development concept of immunity, aging, and the nervous system, three important elements in life activity and health maintenance, the Company examines everyday foods and ingredients like eggs, milk, green tea, rice, and lactic acid bacteria for components that act on these three elements, and by providing proprietary technologies and products based on scientific evidence, it creates food ingredients that clearly have functions helpful to health maintenance and enhancing quality of life.

At the end of FY7/23, the location of the Company's headquarters was in Nishikyo Ward, Kyoto City, and the Pharma Foods International Group consisted of the Company, its five consolidated subsidiaries (PharmaFoods Communication Inc., FUTURE LABO Inc., medi-labo Co., Ltd., Meiji Yakuhin Co., Ltd., and PF Capital Co., Ltd.) and two equity-method affiliates (Benart Co., Ltd., and Onkyo Corporation). PharmaFoods Communication conducts call center operations for the BtoC business, and FUTURE LABO and medi-labo sell cosmetics, Meiji Yakuhin manufactures and sells pharmaceuticals and non-pharmaceutical products. PF Capital Co., Ltd. (which became a subsidiary following acquisition of the CVC operating company in May 2022) manages the PF Visionary Fund, a limited liability investment partnership established in January 2023.

Company profile

At the end of FY7/23, total assets were ¥36,232mn, net assets were ¥9,630mn, capital was ¥2,043mn, the equity ratio was 26.6%, and the number of issued shares was 29,079,000 shares (includes 233,994 treasury shares).

2. History

The Company was established as Pharma Foods Research Co., Ltd. in September 1997 in order to develop and sell functional food ingredients, and then changed its trade name to Pharma Foods International Co., Ltd. in October 2004. Regarding the functional ingredient products, sales of the GABA-containing ingredient PharmaGABA® began in September 2001, the e-commerce sales brand Tamagokichi® and the Tamagosamin® with iHA® formulation supplement were launched in August 2012, and Newmo® Hair Growth Formula, a non-pharmaceutical product formulated with HGP® (Hair Growth Peptide), was launched in December 2018.

In M&As and alliances, the Company concluded capital and business alliance agreements with Sanyo Chemical Industries, Ltd. <4471> in March 2021, and with ROHTO Pharmaceutical Co., Ltd. <4527> in July 2021, respectively. In August 2021, it invested in Ai-BrainScience Inc., which develops a cognitive function diagnosis app, while it also made a wholly owned subsidiary of Meiji Yakuin. In December 2021, it concluded a business alliance agreement with Onkyo Corporation (made an equity-method affiliate in May 2022 through third-party allocation of shares) and entered the hearing aid business.

The Company obtained the bioscience business (proteome analysis service) of Intégrale Co., Ltd., which possesses top-level results and technological capabilities in protein analysis in Japan, via an absorption-type split in April 2022. Additionally, in July 2022, it made joint investments with ENEOS Holdings <5020> in ENEGGO Inc., which manufactures liquid fertilizers derived from eggs. The Company concluded a memorandum of understanding in December 2022 regarding the establishment of a joint venture involving three companies with respect to a health food factory in Vietnam. The joint venture consists of the Company, FPT Digital Retail Joint Stock Company ("FRT"), owner of Vietnam's major pharmacy chain Long Chau Pharmacy, and Sato Connect Gate Joint Stock Company by VTM Group ("SCG").

In March 2023, the Company concluded a capital and business alliance agreement with LB Co., Ltd., which has strengths in manufacturing yogurt and lactic acid beverages (underwriting of third-party allocation of class A preferred shares), while in July 2023 the Company concluded a business tie-up with Takara Bio Inc. <4974>, and in September 2023 the Company took over the healthcare e-commerce business of Daicel Corporation <4202>.

Regarding shares, the Company listed shares on the Tokyo Stock Exchange (TSE) Mothers Market in June 2006, switched to the TSE Second Section in December 2016, and moved to the TSE First Section in February 2021. It transitioned to the Prime Market accompanying the change in TSE market categories in April 2022.

Company profile

History

Date	Event
September 1997	Pharma Foods Research Co., Ltd. was established in order to develop and sell functional food ingredients
May 2001	Market launched Ovopron®, a helicobacter pylori chicken egg antibody
September 2001	Market launched PharmaGABA®, an ingredient containing GABA
October 2003	Market launched Pharma Foods Delicious Catechin™, an ingredient containing catechin
October 2004	Changed trade name to Pharma Foods International Co., Ltd.
March 2005	Market launched PF Alpha Lipoic Acid™, an ingredient containing alpha lipoic acid
June 2006	Listed on the TSE Mothers market
October 2006	Market launched Runpep®, an egg white peptides ingredient
April 2007	Established Hiroshima Bio Medical Co., Ltd. in order to conduct an R&D business in the field of blood purification therapy using chicken egg antibodies and to conduct a business for test drugs and reagents (Company's investment ratio: 49%)
February 2012	Launched the Bio Value business
July 2012	Market launched iHA®, a hyaluronic acid production-stimulating ingredient Invested in and made an affiliate of Benart Co., Ltd., which conducts a solar power generation business, in order to enter the renewable energy field (Company's ratio of shareholding: 33.3%)
August 2012	Market launched the e-commerce sales brand Tamagokichi® and Tamagosamin with iHA®
October 2012	Sold some of its shares of Benart (Company's ratio of shareholding: 50%, currently an equity-method affiliate)
September 2013	For the fully fledged development of the drug discovery business, conducted an absorption merger of Hiroshima Bio Medical and established the Bio Medical Department
September 2014	Opened the Company's own call center for the Tamagokichi® e-commerce sales brand
May 2015	Acquired the ISO 9001 quality management system certification
August 2015	Established PharmaFoods Communication Inc. to conduct call center operations for health foods and cosmetics (made a wholly owned subsidiary in December 2018, currently a consolidated subsidiary)
November 2016	To expand the Bio Value business, made FUTURE LABO Inc. a subsidiary (currently a consolidated subsidiary)
December 2016	Listing was changed to the TSE Second Section
October 2018	Concluded a joint research agreement with Mitsubishi Tanabe Pharma Corporation for antibody pharmaceuticals indicated for the treatment of autoimmune diseases
December 2018	Market launched Newmo® Hair Growth Formula, a non-pharmaceutical product formulated with HGP®
January 2021	Concluded an exclusive licensing agreement with Mitsubishi Tanabe Pharma for a new therapeutic antibody to treat autoimmune diseases
February 2021	Listing was upgraded to the TSE First Section
March 2021	Concluded a capital and business alliance agreement with Sanyo Chemical Industries <4471>
July 2021	Concluded a capital and business alliance agreement with ROHTO Pharmaceutical <4527>
August 2021	Invested in Ai-BrainScience Inc., which is developing a cognitive function diagnostic app Made a wholly owned subsidiary of Meiji Yakuhin Co., Ltd., which manufactures and sells pharmaceuticals and non-pharmaceutical products
September 2021	Formulated the Agriculture and Nutrition Basic Plan with Sanyo Chemical Industries
December 2021	Concluded a business alliance agreement with Onkyo Corporation and entered the hearing aid business Entered a new upcycle business using eggshell membranes
April 2022	Obtained the bioscience business of Intégrale Co., Ltd. via an absorption-type split Transitioned to the Prime Market accompanying the change in TSE market categories
May 2022	Made Onkyo an equity-method affiliate
July 2022	Received third-party allocation ENEGGO shares jointly with ENEOS Holdings <5020>
December 2022	Concluded memorandum of understanding related to establishment of a three-company joint venture with respect to a health food factory in Vietnam, between the Company, FRT, and SCG
January 2023	Established PF Visionary Fund, a limited liability investment partnership
March 2023	Concluded a capital and business alliance agreement with LB Co., Ltd.
July 2023	Business alliance with Takara Bio
September 2023	Took over the healthcare e-commerce business of Daicel

Source: Prepared by FISCO from the Company's securities report and press releases

Business summary

A fables company focused on R&D that develops BtoB business, BtoC business, and Bio Medical business

1. A fables company focused on R&D

With a mission of advancing food and drug research to help people, the Company seeks to realize a sustainable society in which people are happy and healthy. To achieve this goal, it engages in the BtoB business in which it researches, develops, and manufactures functional ingredients and pharmaceuticals that act on immunity, aging, and the nervous system, the BtoC business that conducts e-commerce sales and wholesale distribution of supplements, non-pharmaceutical products and cosmetics that blend the Company's proprietary functional ingredients, and the Bio Medical business which is involved in drug discovery using ALAgene® technology, the Company's proprietary technology for producing antibodies from chickens, and also provides a proteome analysis service. Furthermore, as a new domain, the Company is aiming to create a new market through the advanced utilization of eggshell membranes. The Company is a fables company that conducts research and development, marketing, sales, establishes manufacturing methods and production processes, and confirms sanitation management, while contracting out production to external partnering production facilities.

Development of pharmaceuticals and functional ingredients that act on immunity, aging, and the nervous system



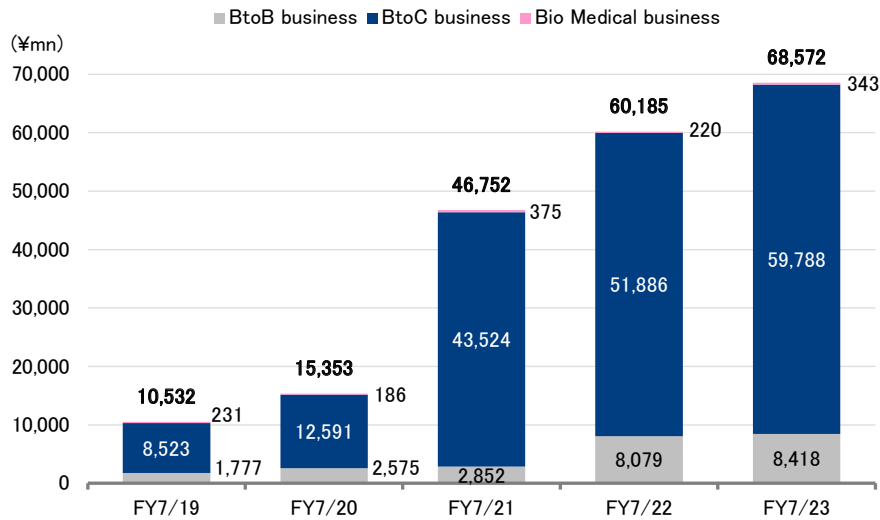
Source: The Company's results briefing materials

Looking at the trends in net sales and operating profit by business segment, in the BtoB business, net sales and operating profit grew steadily in conjunction with the increase in the number of companies adopting PharmaGABA® and other functional ingredients, while Meiji Yakuhin began contributing to results in FY7/22. In the BtoC business, Newmo® Hair Growth Formula, which was launched on the market in November 2018, has become a hit product and is contributing greatly to overall earnings. In addition, Meiji Yakuhin's Shiboranaite® GOLD also contributed to results from FY7/22, while from FY7/23 the new eyelash beauty serum Eyelash Deluxe WMOA and the medicated whitening gel DRcula series both also have been contributing to results. The Bio Medical business is at the research and development stage of its pipeline, and it records lump-sum income related to joint research and licensing sales.

We encourage readers to review our complete legal statement on "Disclaimer" page.

Business summary

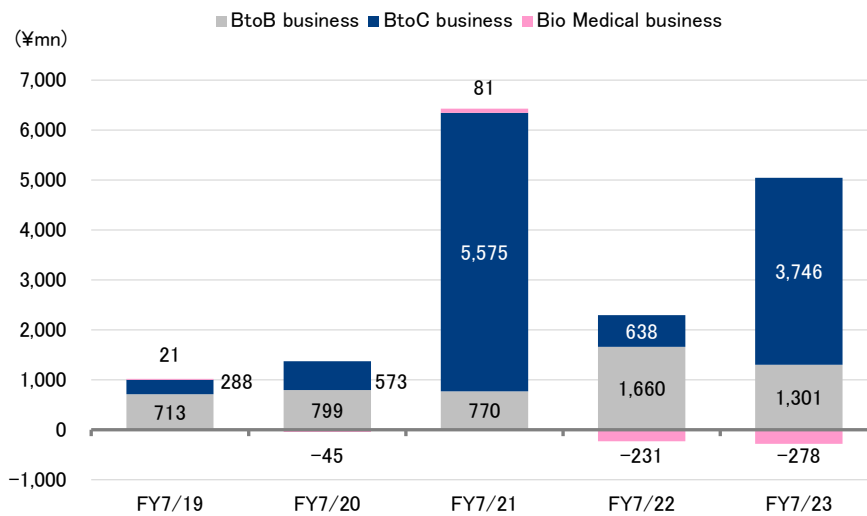
Trends in net sales by business segment



Note: Segment classifications and names changed as of FY7/22. The Accounting Standard for Revenue Recognition, etc. applied as of FY7/22

Source: Prepared by FISCO from the Company's financial results

Trends in operating profit by business segment



Note: Segment classifications and names changed as of FY7/22. The Accounting Standard for Revenue Recognition, etc. applied as of FY7/22

Source: Prepared by FISCO from the Company's financial results

Business summary

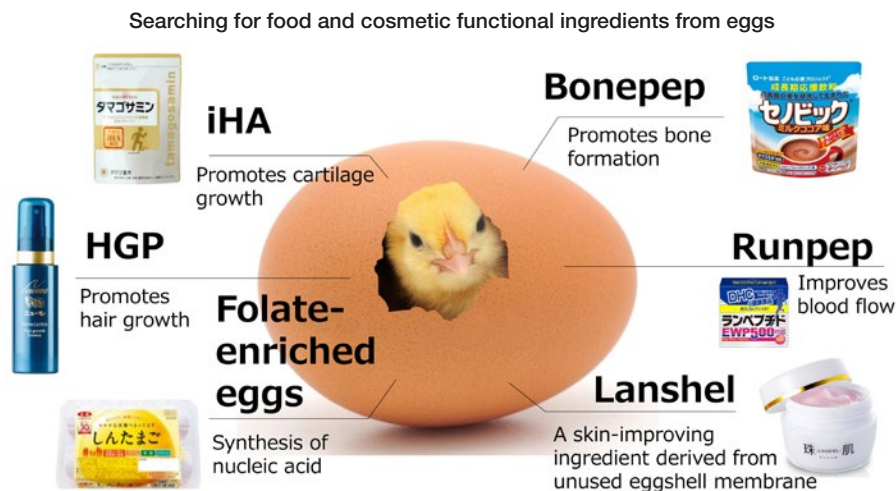
Mainstay BtoB business product PharmaGABA® holds top share in GABA production. Contributions also made by Meiji Yakuhin's CMO and CHC businesses

2. BtoB business

The BtoB business handles R&D and manufacturing of functional ingredients, health foods, pharmaceuticals, and other products and sells them to food and pharmaceutical manufacturers, distributors, and others. The Company's main functional ingredient products are PharmaGABA®, Bonepep®, Cerepron®, Runpep®, Pharma Biomix, HGP®, iHA®, and Moringa. In functional products, in addition to the conventional OEM and cross-border e-commerce, from FY7/23 Meiseki Lab and other NB products are being sold in the BtoB channel. Additionally, from 2Q FY7/22, as new manufacturing and sales channels, the Company is carrying out Meiji Yakuhin's CMO business of contract manufacturing of pharmaceutical products and CHC business*, which sells functional foods, pharmaceuticals, and other products in the drugstore channel and elsewhere.

* Abbreviation for consumer health care (refers to selling pharmaceuticals, functional foods, and other products at drugstores)

In the BtoB business, in FY7/23 on an itemized basis, net sales of functional ingredients increased 17.2% YoY to ¥2,002mn, net sales of functional products rose 47.8% to ¥1,368mn, net sales of Meiji Yakuhin's CMO grew 15.0% to ¥4,190mn, while CHC fell 52.4% to ¥857mn. In functional ingredients, sales of PharmaGABA® are expanding, while in functional products, newly added NB products are contributing to net sales.



Source: The Company's results briefing materials

Trends in net sales by item

	(¥mn)		
	FY7/21	FY7/22	FY7/23
Functional ingredients	2,109	1,708	2,002
Functional products	743	925	1,368
CMO	-	3,642	4,190
CHC	-	1,801	857
Total	2,852	8,079	8,418

Note: Meiji Yakuhin was consolidated from 2Q FY7/22

Source: Prepared by FISCO from the Company's results briefing materials

Business summary

(1) PharmaGABA®

PharmaGABA® is the Company's mainstay product. GABA is a type of non-protein amino acid found in vegetables, fruits, and grains, and is said to act as a neurotransmitter in the brain's inhibitory system. The Company separated the GABA-producing lactic acid bacteria in food and established a method of producing GABA through a fermentation method, which it sells as PharmaGABA®. PharmaGABA® is able to display functional claims, including relieving stress, reducing fatigue, improving blood pressure, and improving sleep quality, and its adoption for foods with functional claims is growing. In the number of GABA notifications in the foods with functional claims system as of September 21, 2023, it ranked highest with 999 notifications (Company data) and is maintaining the highest level of adoptions.

PharmaGABA® has also been found to have other effects, including increasing muscle mass, improving cognitive functions, and improving skin elasticity, and the evidence for it is strengthening. The Company is also selling it overseas and is aggressively expanding sales activities in North America, South Korea, and other regions, and its adoptions are growing. In FY7/23, CENTR in the United States began selling beverages that claim to enhance cognitive function containing PharmaGABA® in California, Texas, and online, thereby marking the first time such beverages have been offered in North America. In South Korea, PharmaGABA® has been adopted by Amorepacific Group's Vitalbeautie brand of beauty drinks. With PharmaGABA® having acquired halal certification, the Company intends to fully launch sales in the Southeast Asian region where there are many Muslim people.

(2) Bonepep®

Bonepep® is a functional ingredient derived from egg yolk protein that was developed as a component to stimulate bone growth. A typical product that adopts it is Senobic sold by ROHTO Pharmaceutical.

(3) Cerepron®

Cerepron® is a functional ingredient derived from yeast as a skin whitening ingredient in food (active yeast extract powder) that can be expected to have skin whitening effects. Demand for skin whitening is increasing particularly in overseas markets, and its adoptions are growing mainly in Southeast Asia.

(4) Runpep®

Runpep® is a functional ingredient derived from egg white protein that was developed to be a component with blood vessel expansion and blood flow improvement effects. It is being adopted for products relating to improving blood flow and reducing exercise fatigue, diet-related products, and male-function products.

(5) HGP®

HGP® is a functional ingredient derived from egg yolk protein that was developed as a component that stimulates hair restoration and growth. Research results have been obtained that demonstrate the effects of taking the oral formulation, and it is being adopted by Japanese manufacturers and others.

(6) iHA®

iHA® is a functional ingredient derived from egg yolk protein that was developed as a component stimulating the production of hyaluronic acid. Research results have verified its effects in animal experiments, and it is being adopted for the Company's e-commerce sales products and the products of domestic manufacturers.

(7) Functional products

In OEM business, in addition to selling various functional ingredients, the Company not only conducts outsourced OEM production but also plans and sells products including health foods and supplements that utilize the evidence cultivated in the development of functional ingredients, both in Japan and overseas, as an OEM business.

Business summary

Under its policy going forward, the Company aims to shift from sales of functional raw materials to sales of end products, and seeks to expand the business, positioning NB products as a growth driver. In FY7/23, the Company began selling its Meiseki Lab product, the first in a series of its own NB products, at major convenience stores. The drink, which contains 200 mg of GABA, is expected to help maintain people's ability to think logically, which is said to decline with age. Subsequently, the Company launched sales of new products including Kinniku Lab, which facilitates the maintenance of muscle mass, Morning Lab - Energized from the Morning, which reduces the temporary decline in vigor and sense of vitality that arises during work and study, Sleep-enhancement Drink, which is useful for improving sleep quality, and GABA Green Tea, which is helpful for lessening temporary mental stress and fatigue while working and studying, as it expands the product lineup.

In March 2023, the Company concluded a capital and business alliance agreement with LB Co., Ltd., which has strengths in manufacturing long-life yogurt and lactic acid beverages. The Company aims to expand its NB business, focusing on major convenience stores and drugstores, particularly through joint development of beverages and other such products using functional ingredients.

As for the OEM business overseas, the Company has achieved expanded adoption of PharmaGABA® in North America and South Korea, and in December 2022 it concluded a memorandum of understanding regarding establishment of a three-company joint venture with respect to a health food factory in Vietnam, with FRT, owner of Vietnam's major pharmacy chain Long Chau Pharmacy, and SCG. This entails construction of a health food factory in Vietnam with plans to make sales through Long Chau Pharmacy (details to be decided), adjustments are to be made going forward concerning details such as scheduling regarding joint venture company establishment and factory construction, as well as the investment ratio.

(8) CMO business

In the CMO business, Meiji Yakuhi receives consignments to manufacture ethical pharmaceuticals and OTC pharmaceuticals from pharmaceutical companies. Manufacturing inquiries have been trending upward at Meiji Yakuhi following several business suspensions due to legal violations at multiple companies in the domestic generic drug industry.

(9) CHC business

In the CHC business, Meiji Yakuhi is selling its NB products to drugstores and other distribution channels. Sales to cross-border EC distributors have also risen in recent years.

BtoC business strengthens the product lineup led by NewmoR Hair Growth Formula, with growth in new products as well

3. BtoC business

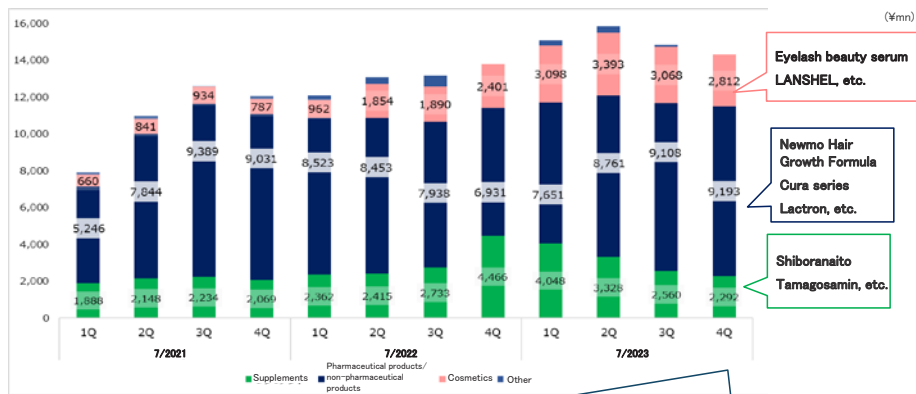
As an "invention company's e-commerce business," the BtoC business sells non-pharmaceutical products and supplements formulated using the Company's proprietary functional ingredients and cosmetics. Sales methods comprise direct sales to consumers through e-commerce and wholesales to dedicated shopping channels. Furthermore, Meiji Yakuhi's new repeat e-commerce business has been included from 2Q FY7/22.

Business summary

Regarding the main products, in the pharmaceutical product and non-pharmaceutical product field, main products include Newmo® Hair Growth Formula, which promotes hair growth and restoration, the DRcula series of medicated whitening gel toothpastes, and Meiji Yakuhi's Lactron series of intestinal regulation and digestive medicines. In supplements, the main products include Tamagosamin® (iHA® formulation supplement for knee joints) and Meiji Yakuhi's Shiboranaito® GOLD. In cosmetics, the main products include Eyelash Deluxe WMOA and Tamahada LANSHEL® (cosmetic cream formulated from active eggshell membranes). Regarding Shiboranaito® GOLD, as a successor product, the Company has launched sales of Shiboranaito 2, a food product with functional claims derived from black ginger.

Looking at net sales by category in FY7/23, net sales of pharmaceutical and non-pharmaceutical products increased 7.6% to ¥34,275mn, sales of cosmetics rose 76.5% to ¥12,167mn, while sales of supplements declined 0.9% to ¥11,212mn. Newmo® Hair Growth Formula has become a hit product, reaching No. 1 in sales in the hair care market in just two years since its launch and contributing greatly to overall earnings. In addition, rapid growth in sales has occurred with products such as Eyelash Deluxe WMOA, launched in FY7/22, and the DRcula series. Going forward, the Company intends to expand its product lineup around its mainstay Newmo® Hair Growth Formula.

Net sales by item in the BtoC business



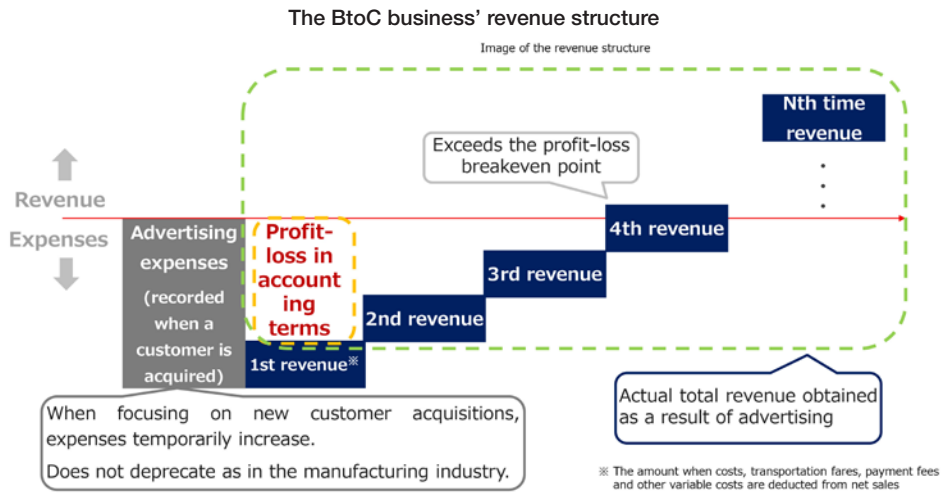
Steady sales of Newmo® Hair Growth Formula, growth in whitening gel and other new products

Up until now, the Company has disclosed sales by major product, but in order to more appropriately reflect revenue breakdown information and for competitive considerations, sales disclosures have been divided into "Supplements," "Pharmaceutical products/non-pharmaceutical products," and "Cosmetics."

Source: The Company's results briefing materials

It is necessary to be aware that the revenue structure of the BtoC business is a structure in which advertising expenses and sales occur in different periods. Specifically, advertising expenses are recorded at the time a new customer is acquired, but net sales are recorded continuously over the regular course. So, when the Company focuses on acquiring new customers, this temporarily causes expenses to increase. However, repeat purchases generated from the base of regular customers give rise to future profits.

Business summary



Source: The Company's results briefing materials

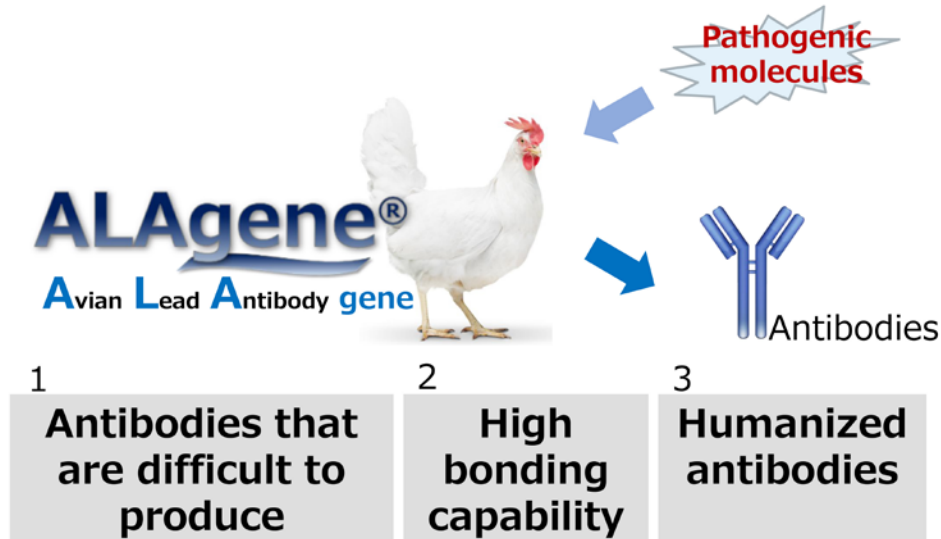
Bio Medical business develops a drug discovery business using its proprietary ALAgeneR technology

4. Bio Medical business

The Bio Medical business is a drug discovery business that uses ALAgene® technology, the Company's proprietary technology to produce antibodies derived from chickens, and a technology to develop bioactive peptides derived from chicken egg yolk. Also, based on the technologies obtained from R&D relating to functional ingredients overall, the Company is conducting the LSI (Life Science Information) business, in which external companies outsource work such as analyses and efficacy evaluation tests to the Company, and supports the R&D of various manufacturers, mainly in the food industry, including by acquiring and analyzing data on functions, analyzing the components of various ingredients, and creating requests for finished products. The proteome analysis service "OLINK," which the Company took over from Intégrale Co., Ltd. in April 2022 (started Japan's first Olink Target contract service in June 2022, and Olink Flex contract service in February 2023), is also steadily growing. In July 2023, the Company formed a business alliance with Takara Bio with the aim of further expanding the OLINK service. By linking the contracted services of both companies, the Company will have a system capable of responding to customer needs in a one-stop manner, and they will collaborate on promotional activities going forward.

Business summary

Producing antibody pharmaceuticals from chickens



Source: The Company's results briefing materials

ALAgene® technology is a foundational Company technology for producing antibodies with better drug efficacy than antibodies and existing drugs for treating illnesses that have been untreatable up until now. The Company is using this technology to conduct R&D into antibody pharmaceuticals indicated for patients with various diseases such as autoimmune diseases and fibrosis. Moreover, by combining ALAgene® technology and proteome analysis technology, the Company intends to further strengthen the search for drug discovery targets and their identification in order to accelerate the development of antibody drugs.

In terms of the business model, the Company progresses development up to the non-clinical trial stage, and the pharmaceutical company to which the development-candidate antibody has been licensed-out conducts the manufacture, development and sales. The Company receives license revenue, including joint research lump-sum payments, lump-sum contract payments, development milestone payments, sales royalties after the market launch, and sales milestone payments.

In the Autoimmune Disease Project*, which primarily addresses rheumatoid arthritis, the Company promoted joint research with Mitsubishi Tanabe Pharma Corporation on antibody pharmaceuticals for two years beginning in October 2018, which resulted in concluding an exclusive licensing agreement in January 2021. In addition, in April 2022, the Company was granted a patent in Japan for anti-PAD2 antibodies and in August 2022 was granted a patent by the United States Patent and Trademark Office for anti-PAD4 antibodies (already patented in Japan). The aim is to start clinical trials quickly. In addition to this, the Company is expanding the drug discovery pipeline through joint research with universities throughout Japan.

* The autoimmune disease therapy market is over ¥5tn (the Company's estimate).

Reducing the risk of dependence on certain products

5. Risk factors, feature of earnings, and countermeasures

The risk factors include competition, delays in responding to product development and technological innovation, reliance on specific products, laws and regulations including the Pharmaceuticals and Medical Devices Act and Food Sanitation Act, and the protection of personal information.

Regarding competition, PharmaGABA®, which is the mainstay product in the BtoB business, holds the top share for GABA production, so it appears that there are very few concerns about competition for the time being.

The risk factors in the BtoC business include the effects of consumer preferences and purchasing trends, the extent of the reliance on specific products, an increase in advertising expenses and sales that are less than forecast. Regarding reliance on specific products, the Company is currently highly reliant on the hair restoration and new growth stimulant Newmo® Hair Growth Formula, but it is actively promoting the development of new products, including Eyelash Deluxe WMOA and the DRcula series, in an effort to reduce reliance risk by expanding its product lineup. At the same time, with respect to advertising expenses, the Company is working to reduce related risks by responsively controlling the expenses while observing sales, CPO*1, and LTV*2 trends.

*1 Abbreviation for Cost Per Order. It means the amount of advertising expenses required to acquire one customer.

*2 Abbreviation for Life Time Value.

In the Bio Medical business, a long period of time is required from the development of a new drug until its market launch, so there is risk relating to future uncertainty (development delays, discontinuations, etc.). To deal with this risk, when developing a drug's business, the Company cautiously determines factors such as its market potential and the possibility of an actual market launch, and formulates a business plan for it covering a long period of time.

Results trends

Significant increase in sales and profit in FY7/23

1. Outline of results for consolidated FY7/23

In the Company's FY7/23 consolidated results, both sales and profits increased significantly. Net sales increased 13.9% YoY to ¥68,572mn, operating profit was up 234.1% to ¥3,610mn, ordinary profit was up 179.9% to ¥3,540mn, and profit attributable to owners of parent was ¥3,081mn, partly due to a decrease in tax expenses (versus a loss of ¥374mn in the previous year). Sales were driven by the mainstay products PharmaGABA® and Newmo® Hair Growth Formula, as sales increased and were solid in all segments. Looking at profits, the Company is continuing to actively invest in R&D and advertising, and in addition to the impact of the increase in sales, revisions to unit prices in CMO in the BtoB business and optimization of advertising investment in the BtoC business also contributed to profits. On a Company-wide basis, gross profit grew 14.9% YoY, while the gross margin increased 0.7ppt to 80.6%. SG&A expenses were up 9.9% YoY, but the SG&A expense ratio fell 2.8ppt to 75.3%. Among SG&A expenses, advertising expenses increased 8.7% YoY to ¥38,865mn, but the ratio of advertising expenses declined 2.7ppt to 56.7%. As a result, the operating margin increased 3.5ppt to 5.3%. Compared to the revised forecast announced on July 18, 2023 (downward revision of net sales and upward revision of all profit lines), net sales, operating profit and ordinary profit were all generally in line with the forecast, while profit attributable to owners of parent was significantly higher than the forecast.

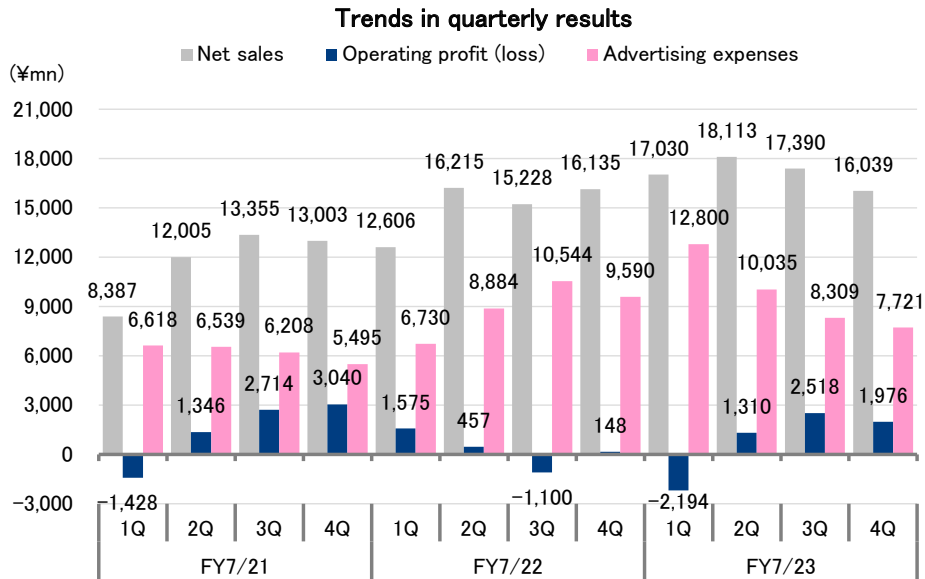
Consolidated results for FY7/23

	FY7/22		FY7/23		YoY
	Results	% of total	Results	% of total	
Net sales	60,185	100.0%	68,572	100.0%	13.9%
BtoB business	8,079	13.4%	8,418	12.3%	4.2%
BtoC business	51,886	86.2%	59,788	87.2%	15.2%
Bio Medical business	220	0.4%	343	0.5%	55.8%
Other (fund management, etc.)	-	-	21	0.0%	-
Gross profit	48,108	79.9%	55,279	80.6%	14.9%
SG&A expenses	47,028	78.1%	51,669	75.3%	9.9%
Operating profit (loss)	1,080	1.8%	3,610	5.3%	234.1%
BtoB business	1,660	20.5%	1,301	15.5%	-21.6%
BtoC business	638	1.2%	3,746	6.3%	486.9%
Bio Medical business	-231	-	-278	-	-
Other (fund management, etc.)	-	-	-5	-	-
Adjustment amount	-986	-	-1,154	-	-
Ordinary profit (loss)	1,264	2.1%	3,540	5.2%	179.9%
Profit (loss) attributable to owners of parent	-374	-	3,081	4.5%	-

Source: Prepared by FISCO from the Company's financial results

On a quarterly basis, in 1Q the Company aggressively deployed advertising costs (+90.2% YoY to ¥12,800mn), and as a result there was an operating loss of ¥2,194mn, but from 2Q operating profit increased significantly (2Q: ¥1,310mn; 3Q: ¥2,518mn; 4Q: ¥1,976mn) due to factors including the increase in net sales as well as the optimization of advertising investment (2Q: ¥10,035mn; 3Q: ¥8,309mn; 4Q: ¥7,721mn).

Results trends



Source: Prepared by FISCO from the Company's results briefing materials

Significant increase in profit in BtoC business

2. Trends by business segment

(1) BtoB business

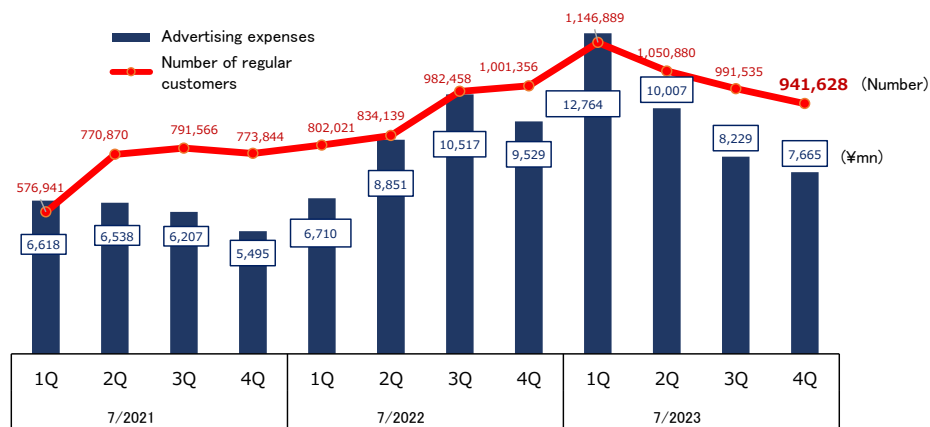
Net sales in the BtoB business increased 4.2% YoY to ¥8,418mn and segment profit (operating profit before Company-wide costs and other adjustments) rose 21.6% to ¥1,301mn. As for net sales by item, sales of functional ingredients increased 17.2% to ¥2,002mn. Sales of functional products climbed 47.8% to ¥1,368mn, sales of Meiji Yakuhi's CMO rose 15.0% to ¥4,190mn, and sales of CHC fell 52.4% to ¥857mn. In functional ingredients, the mainstay PharmaGABA® saw an increase in the number of domestic food manufacturers adopting it, as well as an increase in adoption in the U.S. and South Korea, as sales were a new record high. In functional products, the large increase in sales was the result of strong cross-border e-commerce as well as the Company's efforts to expand the NB product lineup, including Meiseki Lab and Kinniku Lab. In the CMO business, the Company has been striving to improve profit margins by implementing cost pass-through and narrowing down its range of products under contract amid mounting demand for substitute products due to quality issues and production-related issues among generic drug manufacturers. The CHC business encountered a decrease in net sales, but intensified its focus on new branded products for drugstores. Segment profit declined due to factors including the decline in sales in the CHC business.

Results trends

(2) BtoC business

The BtoC business reported ¥59,788mn in net sales (up 15.2% YoY) and a ¥3,746mn segment profit (up 486.9%). By category, net sales in pharmaceuticals/non-pharmaceuticals increased 7.6% to ¥34,275mn, cosmetics rose 76.5% to ¥12,167mn, and supplements fell 0.9% to ¥11,212mn. The mainstay Newmo® Hair Growth Formula enjoyed a high level of sales, and there was significant growth in sales of Eyelash Deluxe WMOA and the DRcula series. In terms of the cumulative number of units shipped, Newmo® Hair Growth Formula topped 22.00 million units as of July 22, 2023, while Eyelash Deluxe WMOA surpassed the 2.30 million unit mark as of September 8, 2023, and DRcula series hit the 1.30 million unit mark on September 8, 2023, and the Lactron series surpassed the 1.28 million unit mark as of September 20, 2023. In terms of profit, in addition to the increase in sales, the optimization of advertising investment contributed to the large increase in profit. The number of regular customers for the overall Group declined from 1,146,889 customers at the end of 1Q to 941,628 customers at the end of 4Q in conjunction with the optimization of advertising investment, but the number was maintained at a relatively high level. The repeat purchases brought by this regular customer base will lead to profit generation in the future.

Trends in advertising expenses and number of regular customers in the BtoC business



Source: Prepared by FISCO from the Company's results briefing materials

(3) Bio Medical business

The Bio Medical business reported ¥343mn in net sales (up 55.8% YoY) and a ¥278mn segment loss (¥231mn loss in the previous fiscal year). The business posted a loss due to the fact that it is in the R&D stage for products such as autoimmune disease antibody drug discovery, but on the sales front its Olink Target service for analyzing changes in trace amounts of proteins in the proteome analysis contract services business performed well.

Results trends

No concerns about financial soundness

3. Financial condition

At the end of FY7/23, total assets increased ¥5,073mn from the end of the previous fiscal year to ¥36,232mn. This was mainly due to a ¥7,460mn increase in cash and deposits despite a ¥2,644mn decrease in notes and accounts receivable – trade. Total liabilities at the end of FY7/23 climbed ¥2,517mn to ¥26,601mn. This was mainly because of an increase of ¥2,000mn in short-term borrowings following implementation of borrowing based on a commitment line agreement enlisting the syndicate method, and an increase of ¥1,239mn in long-term borrowings, which offset a decrease of ¥349mn in accounts payable – other resulting from the optimization of advertising expenses. Total net assets increased ¥2,556mn to ¥9,630mn, due to a ¥2,492mn increase in retained earnings. As a result, the equity ratio rose 3.9ppt to 26.6%. The balance of interest-bearing debt (total of long- and short-term borrowings) increased ¥3,239mn to ¥20,096mn, but the ratio of interest-bearing debt declined 29.7ppt to 208.7%.

Over the medium to long term, it is desirable to further improve the equity ratio, reduce interest-bearing debt, and lower the interest-bearing debt ratio. However, considering that cash and deposits are currently at a high level, and interest-bearing debt is not putting pressure on profits, at FISCO we believe there is no cause for concern regarding the Company's financial soundness.

Consolidated balance sheet

	(¥mn)				
	End of FY7/20	End of FY7/21	End of FY7/22	End of FY7/23	Change
Total assets	10,096	20,944	31,159	36,232	5,073
Current assets	7,437	17,933	23,513	27,530	4,017
Non-current assets	2,659	3,010	7,645	8,701	1,056
Total liabilities	5,188	12,478	24,084	26,601	2,517
Current liabilities	2,837	10,978	22,795	24,374	1,579
Non-current liabilities	2,350	1,499	1,288	2,227	939
Total net assets	4,907	8,465	7,074	9,630	2,556
Shareholders' equity	4,895	8,455	7,024	9,306	2,282
Capital stock	2,033	2,038	2,042	2,043	1
Equity ratio	48.6%	40.4%	22.7%	26.6%	3.9ppt

Source: Prepared by FISCO from the Company's financial results

Consolidated cash flows statement

	(¥mn)			
	FY7/20	FY7/21	FY7/22	FY7/23
Cash flows from operating activities	-547	5,938	-6,065	6,125
Cash flows from investing activities	-860	-442	-2,539	-1,013
Cash flows from financing activities	375	1,030	7,679	2,341
Fiscal year-end balance of cash and cash equivalents	3,282	9,794	8,845	16,306

Source: Prepared by FISCO from the Company's financial results

■ Outlook

Forecasting a slight decline in profit in FY7/24 but there is room for upside

● Overview of consolidated results forecast for FY7/24

For its FY7/24 consolidated results, the Company is projecting net sales to increase by 5.1% YoY to ¥72,047mn, operating profit to decrease 7.5% to ¥3,338mn, ordinary profit to drop 6.8% to ¥3,300mn, and profit attributable to owners of parent to fall 9.6% to ¥2,784mn. In terms of net sales, the Company expects sales of its mainstay products to be solid, and for net sales to grow as new products also contribute, but it is forecasting slight declines for all profit lines. In addition to an increase in advertising expenses (up 2.9% year on year to ¥40,000mn), expenses related to the start of full-scale R&D investment and capital investment for the social implementation of new value creation set forth in the growth strategy have been taken into consideration. Advertising expenses may fluctuate depending on sales trends, but the Company plans to continue to optimize them while taking into consideration CPO and LTV trends. As for Meiji Yakuin, orders are increasing and the current factory operating rate is over 100%. In addition to this, in the future the Company aims to evolve into a pharmaceutical (OTC drug) manufacturer rather than just contract manufacturer of pharmaceuticals, and to this end it plans to construct a new factory (scheduled to start operation in five years as registration for manufacturing is required). However, overall the Company's forecasts seem very conservative, and we at FISCO believe that there is room for upside in the Company's forecasts, taking into account factors such as growth in new products and the effects of controlling advertising investment.

Consolidated outlook for FY7/24

	FY7/23		FY7/24		YoY
	Results	% of sales	Forecast	% of sales	
Net sales	68,572	100.0%	72,047	100.0%	5.1%
Operating profit	3,610	5.3%	3,338	4.6%	-7.5%
Ordinary profit	3,540	5.2%	3,300	4.6%	-6.8%
Profit (loss) attributable to owners of parent	3,081	4.5%	2,784	3.9%	-9.6%
Advertising expenses	38,865	56.7%	40,000	55.5%	2.9%

Source: Prepared by FISCO from the Company's financial results

Growth strategy

Aiming for net sales of ¥100.0bn in FY7/26 through initiatives to create new value

1. Medium-Term Management Plan 2026

In its Medium-Term Management Plan 2026 (FY7/22-FY7/26), the Company has established “new value creation 1K” as a goal, and through initiatives to create new value (new products, new markets, and a new organization), seeks to be a company with net sales of ¥100.0bn by FY7/26. Looking at a breakdown of this goal, it is targeting ¥70.0bn in growth from existing businesses and ¥30.0bn from new value creation, and it has committed to an average sales growth rate of 20% or higher and a 20% total payout ratio, including share buybacks, through to FY7/26. Regarding profit levels, the Company will conduct business development through FY7/26 without concern over a decline in profit margin each year and intends to expand in scale while boldly taking on risk. Through this, it is aiming to create a structure that can secure an average operating profit margin of 10%.

Growth in BtoB business NB products and new products in the BtoC business

2. Creation of new products

For the creation of new products, to create the next hit products to follow up products such as PharmaGABA® and Newmo® Hair Growth Formula, the Company is advancing R&D including to develop new ingredients, new applications and effects, and next-generation antibodies. It is also developing products for the scalp and skin field, pharmaceutical e-commerce field, and oral care field.

In July 2021, the Company concluded a sales agreement with Mitsui Sugar Co., Ltd. of Mitsui DM Sugar Holdings Co., Ltd. <2109> Group for Lipi Smart®, which is a functional foods ingredient that suppresses absorption of triglycerides. Through joint development with Mitsui Sugar, the Company has developed a proprietary technology (patent pending) to manufacture Lipi Smart® from sesame. Through this, it launched a product onto the metabolic market for the first time. Most recently, the Company has been encountering growth when it comes to its own NB brand merchandise launched by the BtoB business and new products of the BtoC business.

Creation of new markets with advanced utilization of eggshell membranes

3. Creation of new markets

For the creation of new markets, the Company will advance initiatives for the expanding health market, including to strengthen brands and develop overseas markets (US market, China market through cross-border EC, and Southeast Asia market through halal certification), deepen the e-commerce business in the domestic market (develop new products and services that utilize the D2C platform of 1,000,000 people), shift the business orientation from BtoB to BtoC (develop the Company's own brand products for the distribution networks of major drugstores and convenience stores), conduct initiatives for SDGs (create upcycle markets for unused resources), and enter the health support devices and medical devices fields (health devices, facial beauty devices, measuring devices, and hearing aids).

Of these initiatives, to develop the US market, the Company is aiming to acquire GARS (Generally Recognized as Safe) certification from the FDA (US Food and Drug Administration) for PharmaGABA®. By acquiring the FDA's GARS certification, it will widen its current target of supplements to general food and beverages. This will lead to its adoption by major food and beverage manufacturers in the US, which can be expected to result in its rapid growth in the US market. The Company's efforts in seeking to tap the Southeast Asian market have involved conclusion of a memorandum of understanding regarding establishment of a joint venture company in Vietnam, where it plans to build a health food factory. Meanwhile, the Company apparently has its sights set on expanding into Southeast Asian markets other than Vietnam in the future.

Regarding creating an upcycling market for unused resources, the Company intends to harness unused natural ingredients and utilize technology for new value creation from natural products in farming. Specifically, it created the Agri-Nutrition Basic Plan in September 2021 with Sanyo Chemical Industries that integrates the development and technological capabilities of both companies aimed at solving the global farming crisis. The Company has begun verification tests aimed at building a new farming system in Shintomi Town, Miyazaki Prefecture in 2022, and the future schedule is to develop high value-added crops with enhanced yields, resilience, and functionality using biostimulants* that combine technologies from both companies in 2024, conduct sales via the Company's e-commerce sales channel of high-performance health foods and cosmetics made from unused portions of high-value-added crops in 2025, expand target crops and promote sixth sector industrialization and brand formation in 2026, and develop a sustainable farming system in 2030.

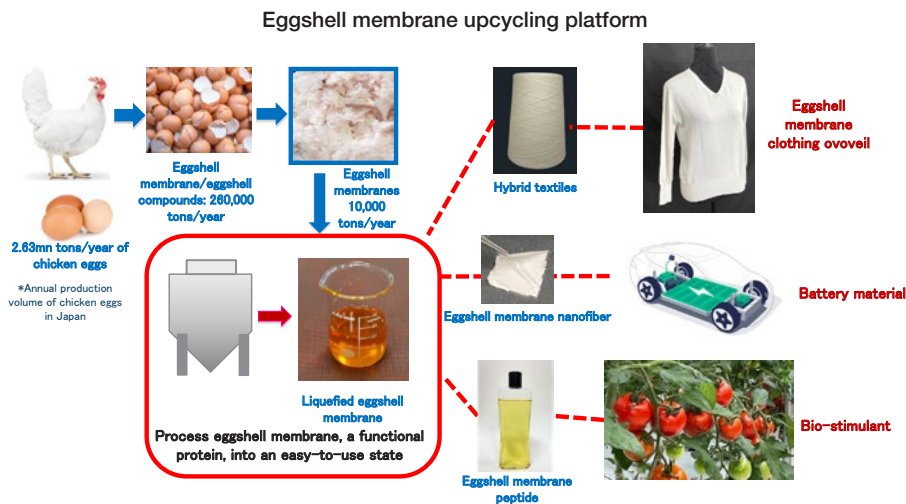
* Biostimulant. A new technology that reduces damage to plants caused by climate and soil conditions and provides healthy plants by controlling abiotic stress on plants (quoted from the website of the Japan Biostimulant Association).

The Company also announced its entry into the fiber and plant vitalizing agent markets through advanced utilization of eggshell membranes as a new unused resources upcycling business in December 2021. Through this upcycling, it aims to convert the 260,000 tons of eggshells thrown away annually in Japan into high-value-added products and thereby contribute to the realization of a sustainable society. The Company is currently in negotiations looking toward engaging in sales involving Ovoveil eggshell membrane fiber. In addition, in July 2022, the Company jointly invested with ENESO Holdings in ENEGGO, which manufactures liquid fertilizers from eggs, and signed a business alliance agreement with GreenTechno21 Co., Ltd. and its subsidiary ENEGGO. Through this, it will procure eggshells and eggshell membranes on the largest scale in Japan and work to bolster its chemicals business, which includes eggshell membrane fiber, liquid fertilizers, and other products.

Growth strategy

In June 2023, through joint research with Shinshu University's Institute for Fiber Engineering (IFES) of Interdisciplinary Cluster for Cutting Edge Research, the Company succeeded in producing the world's first nanofiber membrane using an eggshell membrane. Going forward, the Company will form an industry-academia partnership with IFES, and will advance research with the aim of applying eggshell membrane nanofibers to the medical field, including biomembrane wound dressings, and to the energy materials domain, such as supercapacitors.

In September 2023, the commercialization of utilization of an eggshell membrane upcycling platform in three areas (hybrid fibers, new energy storage element materials, and agricultural bio-stimulant peptides) was chosen as a commissioned and subsidized project for the "Biomufacturing Revolution Promotion Project" promoted by the New Energy and Industrial Technology Development Organization (NEDO), a national research and development organization. Regarding new energy storage element materials, the Company has discovered that it is possible to develop energy storage element materials with excellent electrical properties by converting eggshell membrane hydrolyzate into nanofibers. In the future, the Company aims to develop and mass-produce eggshell membrane materials that have properties suitable for a wide range of industrial uses, including electronic materials made from nanofibers, not just in the textile and agricultural fields. The Company plans to invest a total of over ¥5.0bn (approximately ¥15.0bn including construction of a new Meiji Yakuin factory) over the next five to eight years while also receiving subsidies from NEDO.



Source: The Company's results briefing materials

Aggressive promotion of M&A/alliances

4. Creation of a new organization

For the creation of a new organization, the Company will develop initiatives including conducting reforms for the organizational, personnel, and hiring aspects, such as providing salary levels enabling employees to work with peace of mind and incentives for growth; developing and strengthening the Global Solution Team, including building overseas manufacturing and overseas sales bases; and proactively conducting M&A and entering into alliances. Within these initiatives, the Company will utilize cash on hand and its financing framework for M&A and alliances, and has set its sights on companies with a sales scale of ¥10.0bn in relation to new products and markets. In January 2023, the Company established and initiated operations of PF Visionary Fund, a limited liability investment partnership. By investing in startup companies, the Company seeks to accelerate innovation in the antibody drug discovery and healthcare business.

We encourage readers to review our complete legal statement on "Disclaimer" page.

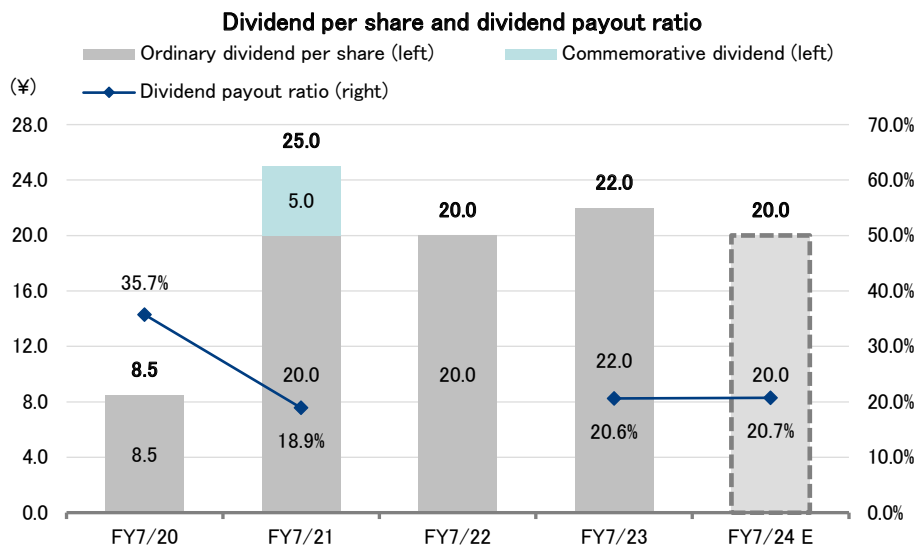
Growth strategy

Targets total shareholder return ratio of 20% including acquisitions of treasury shares as shareholder return policy

5. Shareholder return policy

The Company’s basic policy for returning profits to shareholders is, based on its business policy of achieving both corporate growth potential and profitability, to actively return profits to shareholders through dividends and other means, while continuing to expand investment for aspects such as R&D, advertising and M&A. Based on this policy and considering maintaining a balance between investing in growth, securing financial soundness, and strengthening returns to shareholders, it targets a total shareholder return ratio of 20%, including acquisitions of treasury shares.

For FY7/23, the Company paid an annual dividend per share of ¥22.0 (interim dividend = ¥10.0; year-end dividend = ¥12.0), a ¥2.0 increase from the previous fiscal year, and the dividend payout ratio was 20.6%. The Company also conducted a share buyback (total acquisition cost = approximately ¥300mn), and including this the total shareholder return ratio was 30.3%. For FY7/24, the Company plans to pay a dividend of ¥20.0 per share (interim dividend = ¥10.0; year-end dividend = ¥10.0), a ¥2.0 decrease from FY7/23, resulting in an expected dividend payout ratio of 20.7%.



Note: The Company conducted a share buyback (¥300mn) in FY7/22 as well, but because there was a net loss that year the dividend payout ratio and the total shareholder return ratio were not calculated

For FY7/23, the total shareholder return ratio including the share buyback (approximately ¥300mn) was 30.3%

Source: Prepared by FISCO from the Company’s financial results

Bolstering sustainability management

6. Sustainability management

The Company's business is consistent with the SDGs in that it involves the development and sales of food and cosmetic functional ingredients and products made from naturally derived raw ingredients that relate to people's life activities and health maintenance. It formulated the Sustainability Basic Policy in December 2021 and is bolstering initiatives in ESG (environment, social, governance) management and SDGs. The Company presents a sustainability vision of meaningful prosperity and health in an era with lives spanning 100 years and intends to make efforts so that its own business growth contributes to realization of a sustainable society as a company that provides comprehensive support in health maintenance. Key issues (materiality) are enhancement of people's QOL, upcycling of unused resources, and respect for diversity. Through its responses to these issues, the Company aims to achieve its sustainability vision and further enhance corporate value.

Joint research on improving cognitive functioning through food was launched in April 2022 with a team of vascular dementia specialists from the National Cerebral and Cardiovascular Center. The research is aimed at removing brain waste, promoting cerebral circulation and activating nerve cells through a "brain function cocktail" that includes GABA. In March 2023, the Company was recognized as a "Certified Health and Productivity Management Outstanding Organization 2023" (large enterprise category) by the Ministry of Economy, Trade and Industry, as an excellent company aggressively working on sustainability management. The Company also plans to exhibit at the Osaka Pavilion on the theme of "Eggs Save Earthlings" at Expo 2025 in Osaka, Kansai.

High potential for medium- to long-term growth due to drug discovery, advanced utilization of eggshell membrane materials and other factors

7. FISCO's opinion

The Company's profit level has changed significantly, driven by the hit product Newmo® Hair Growth Formula, and there are some people in the market who say it is a company whose results fluctuate depending on hit products in the BtoC business and advertising expenses. However, considering that in the BtoB business the adoption of PharmaGABA® is on the rise, the contribution of Meiji Yakuin's CMO to profits is increasing, and in the BtoB business there is growth in NB products such as Meiseki Lab and Kinniku Lab, and growth in new products such as the Eyelash Deluxe WMOA and the DRcula series in the BtoC business, at FISCO we positively evaluate the Company as making progress in reducing its risk of dependence on specific hit products. In the medium to long term, expectations are rising for drug discovery and development in the Bio Medical business, as well as for new businesses that make advanced use of eggshell membrane materials. Although the Company's immediate performance may fluctuate due to advertising investment, we at FISCO believe that the Company has strong medium- to long-term growth potential based on the creation of new products and new markets, as well as its aggressive M&A strategy.

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