

Pharma Foods International Co., Ltd.

2929

Tokyo Stock Exchange Prime Market

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■ Index

■ Summary	01
1. Company profile	01
2. Outline of results for FY7/22	01
3. Outlook for FY7/23	02
4. Growth strategy	02
■ Company profile	03
1. Company profile	03
2. History	03
■ Business summary	05
1. BtoB business	07
2. BtoC business	10
3. Bio Medical business	11
4. Risk factors, feature of earnings, and countermeasures	13
■ Results trends	14
1. Outline of results for FY7/22	14
2. Trends by business segment	15
3. Financial condition	18
■ Outlook	19
1. Outlook for FY7/23	19
2. Outlook by business segment	20
■ Growth strategy	21
1. Creation of new products	21
2. Creation of new markets	21
3. Creation of a new organization	22
4. FISCO's Opinion	23
■ Shareholder return policy	23
■ Initiatives for ESG and SDGs	24

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 and products 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. Company profile

With a sustainability vision of meaningful prosperity and health in an era with lives spanning 100 years, the Company seeks to realize a sustainable society in which people are happy and healthy. To achieve this goal, it develops food products, cosmetics, and pharmaceuticals based on scientific evidence and broadly provides them 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 quasi-pharmaceutical products. The BtoC business conducts e-commerce sales of supplements, quasi-pharmaceutical products, and cosmetics that blend the Company’s proprietary functional ingredients. The main product is 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 other technologies.

2. Outline of results for FY7/22

In the Company’s FY7/22 consolidated results*1, net sales increased 28.7% year on year (YoY) to ¥60,185mn, operating profit declined 81.0% to ¥1,080mn, ordinary profit fell 78.1% to ¥1,264mn, and loss attributable to owners of parent was ¥374mn (versus a profit of ¥3,841mn in the previous fiscal year). The addition of Meiji Yakuin to the scope of consolidation contributed to the increase in net sales, but profit was down substantially as a result of active investments made in R&D (+46.8% YoY), advertising (+43.8%), and alliance-building including M&A (approx. ¥3.0bn) aimed at achieving the Medium-Term Management Plan. By segment, in the BtoB business, Meiji Yakuin’s contract manufacturing organization (CMO) business performed well and contributed to results. In the BtoC business, there was growth in new products such as Eyelash Deluxe WMOA and Shiboranaito® GOLD, evolving into a support structure for Newmo® Hair Growth Formula. Also, in the Bio Medical business, patents were granted for anti-PAD*2 antibodies in Japan and anti-PAD4 antibodies in the U.S., and the Company will move to the license-out stage in the next term.

*1 The Company has applied Accounting Standard for Revenue Recognition, etc. from FY7/22, and figures for the FY7/22 results reflect application of this standard, etc. Furthermore, figures prior to application of this standard, etc. are used for YoY growth rates.

*2 Abbreviation of Peptidylarginine deiminase, an enzyme that citrullinates the target protein arginine. There are five types of PAD in the body and their relationships with various diseases have been reported.

Summary

3. Outlook for FY7/23

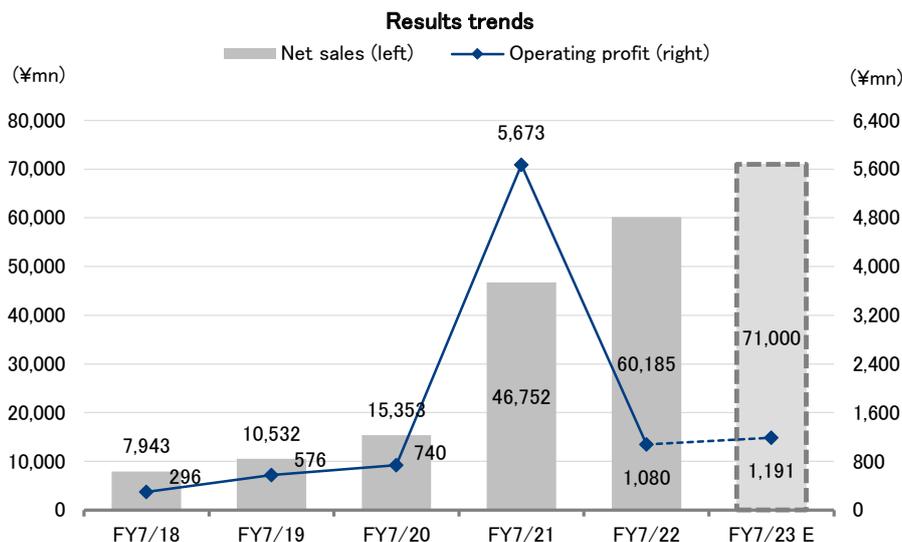
For its FY7/23 consolidated results, the Company is projecting net sales to increase by 18.0% YoY to ¥71,000mn, operating profit to increase 10.3% to ¥1,191mn, ordinary profit to edge up 0.3% to ¥1,268mn, and profit attributable to owners of parent to be ¥886mn (versus a loss of ¥374mn the previous fiscal year). The Company will continue to focus on M&A and building alliances, and intends to establish overseas sites and actively expand, but it plans to offset this by achieving higher sales in all segments. In the BtoC business, the Company may increase advertising expenses depending on sales trends during the term.

4. Growth strategy

In its Medium-Term Management Plan 2026, the Company has put forth “new value creation 1K” as a goal, and through initiatives to create new value (new products, new markets, and a new organization), it is seeking to be a company with net sales of ¥100.0bn by FY7/26. Regarding its approach to profit levels, it will conduct business development through FY7/26 without concerns over a decline in profit margin each year and intends to expand in scale while boldly taking on risk. The Company is aiming to create a structure that can secure an average operating profit margin of 10%. In the BtoC business, new products that support Newmo® Hair Growth Formula are growing steadily, and with PharmaGABA®’s dominant share and expansion of the CMO business in the BtoB business and expectations for drug discovery development in the Bio Medical business, efforts are being made to reduce the risk of dependence on hit products. Business results for the immediate future may vary depending on the level of investment in advertising, but through new product and new market creation and active business development, FISCO believes the Company has high potential for medium- to long-term growth.

Key Points

- A biotechnology company aiming to create pharma foods by fusing pharmaceuticals and foods
- In FY7/22, net sales increased, but profits declined due to active investment to achieve the Medium-Term Management Plan
- For FY7/23, forecasting increases in net sales and profits; will continue to focus on M&A and alliance-building
- Aiming for net sales of ¥100.0bn in FY7/26 through initiatives to create new value



Note: The Company has applied Accounting Standard for Revenue Recognition, etc. from FY7/22
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 FY7/22, 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 Yakuin Co., Ltd., and PF Capital) and two equity-method affiliates (Benart Co., Ltd. and Onkyo Home Entertainment Corporation). PharmaFoods Communication conducts call center operations for the BtoC business, and FUTURE LABO and medi-labo sell cosmetics, Meiji Yakuin manufactures and sells pharmaceuticals and non-pharmaceutical products.

At the end of FY7/22, total assets were ¥31,159mn, net assets were ¥7,074mn, capital was ¥2,042mn, the equity ratio was 22.7%, and the number of issued shares was 29,073,800 shares (includes 52,483 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 main functional ingredient products, sales of the GABA-containing ingredient PharmaGABA® began in September 2001, the e-commerce sales brand Tamagokichi® and the Tamagosamine® 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 November 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 Home Entertainment Corporation (made an equity-method affiliate in May 2022 through third-party allocation of shares) and entered the hearing aid business. Additionally, the Company obtained the bioscience business (proteome analysis business) 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. Most recently, in July 2022, it made joint investments with ENEOS Holdings <5020> in ENEGGO Inc., which manufactures liquid fertilizers derived from eggs.

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 Tamagosamine 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
November 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 Home Entertainment 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>

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

Business summary

Develops BtoB business, BtoC business, and Bio Medical business

The Company performs research on pharmaceuticals and functional ingredients that act on immunity, aging, and the nervous system, and based on its research results, it conducts BtoB sales of functional raw materials to food product manufacturers and other companies, conducts BtoC sales of food products and cosmetics to general consumers, and promotes the licensing out of chicken antibodies to pharmaceutical companies. The Company is a fabless company that conducts R&D, marketing and sales, established manufacturing methods and production process, and monitors health and safety management while contracting out product production to outside manufacturing partners.

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



Source: The Company's results briefing materials

The Company changed its segment categories and names from 2Q FY7/22 to provide more suitable expression of business content for the overall group. The names of these segments were switched from the Bio Seeds business, Bio Value business, and Bio Medical business to the BtoB business, BtoC business, and Bio Medical business. It also revised segment categories from the previous method based on "products and services" to a method based on "products and services" and "sales channels" accompanying the inclusion of Meiji Yakuhi's results from 2Q FY7/22.

Segment category and name changes

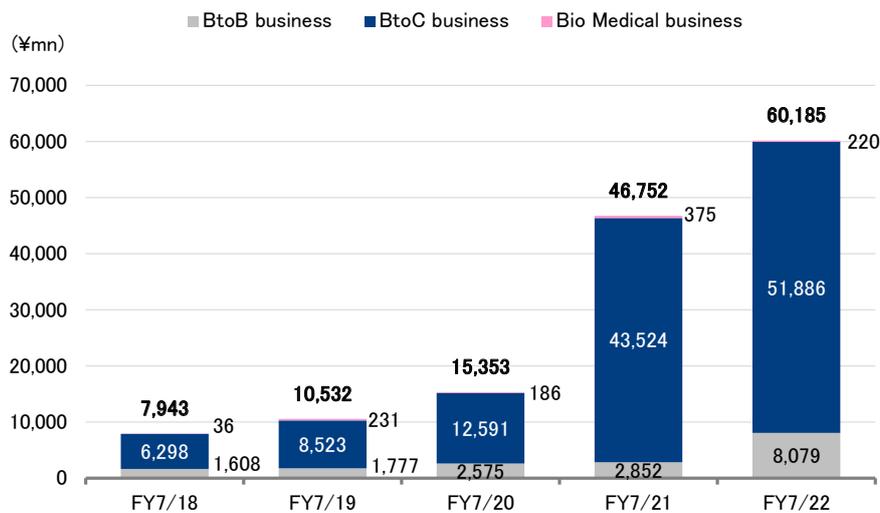
Previous segment	New segment	Main changes
Bio Seeds business	BtoB business	Newly added Meiji Yakuhi's contract manufacturing organization (CMO) business and consumer health care (CHC) business
Bio Value business	BtoC business	Newly added Meiji Yakuhi's new repeat e-commerce business
Bio Medical business	Bio Medical business	Plans to newly add Intégrale's proteomic analysis business

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

Business summary

Looking at the trends in net sales and operating profit by business segment in the most recent five periods (FY7/18 to FY7/22), in the BtoB business, net sales and operating profit grew steadily alongside the increase in the number of adopting companies. In the Integral's 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 earnings as a whole. In addition, Meiji Yakuhi's Shioranaito® GOLD also contributed to results in FY7/22. The Bio Medical business is at the development stage and it records lump-sum income relating to joint research and licensing as sales.

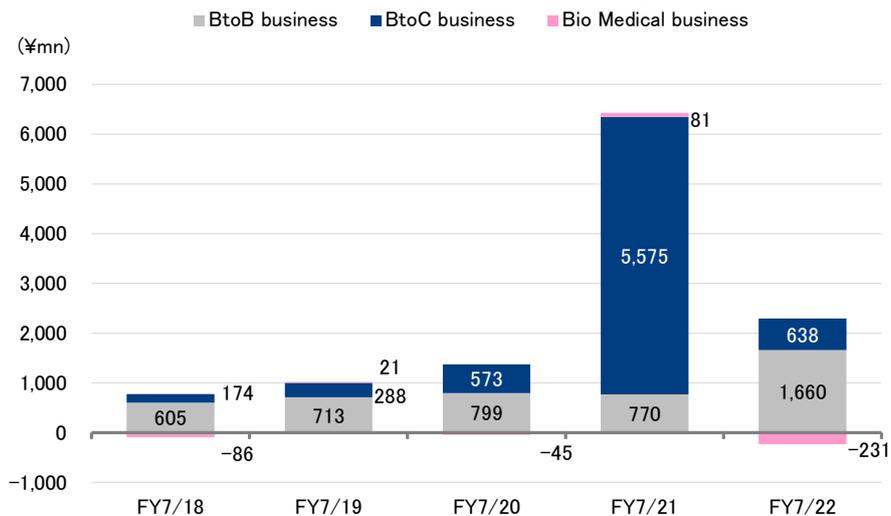
Trends in net sales by business segment



Note: Segment classifications and names changed as of 2Q 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: From FY7/19, the Company changed the method of displaying Company-wide expenses and amortization of goodwill to a method displaying the adjustment amounts. Figures for FY7/18 reflect this change.

Segment classifications and names changed as of 2Q FY7/22. The Accounting Standard for Revenue Recognition, etc. applied as of FY7/22

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

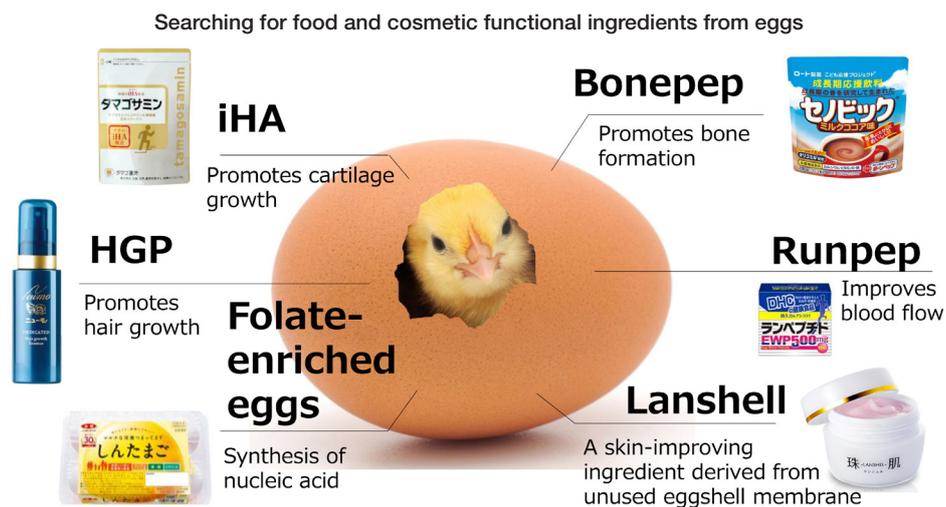
Mainstay BtoB business product PharmaGABA® holds top share in GABA production. Contributions also made by Meiji Yakuhin’s CMO and CHC businesses

1. 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. Additionally, from 2Q FY7/22, Meiji Yakuhin’s contract manufacturing organization (CMO) business*1 and CHC business*2, which sells functional foods, pharmaceuticals, and other products mainly in the drugstore channel, as new manufacturing and sales channels, has been included.

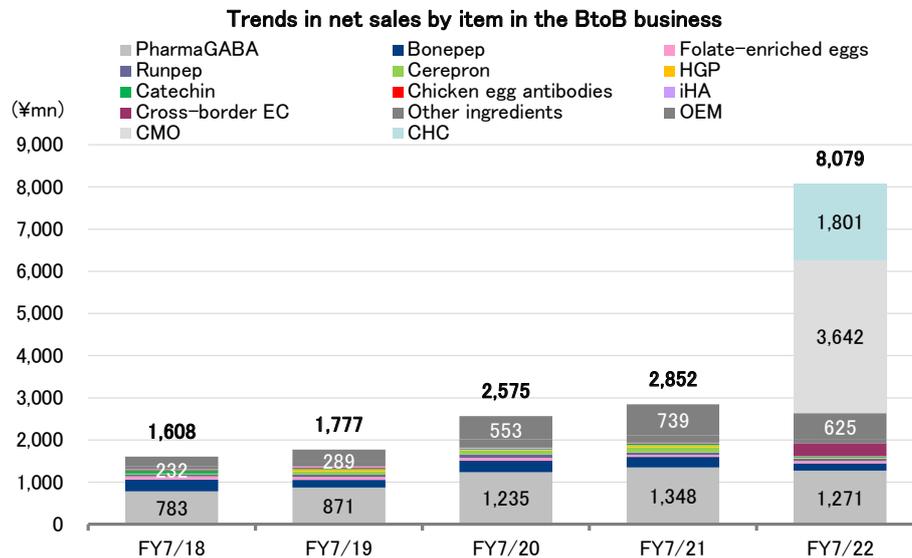
*1 Abbreviation for contract manufacturing organization.

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



Source: The Company’s results briefing materials

Business summary



Note: Net sales of CMO and CHC businesses are Meiji Yakuin's sales from August 16, 2021 to July 31, 2022
Source: Prepared by FISCO from the Company's results briefing materials

(1) PharmaGABA®

PharmaGABA® is the Company's mainstay product. GABA is a type of non-protein amino acid produced by animals and plants and microorganisms, 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 at the end of July 2022, it ranked highest with 716 notifications (Company data) and is maintaining a track record of adoptions. The growing adoptions of GABA by food manufacturers is leading to an increase in orders for PharmaGABA® made by the Company, which holds the top share of GABA.

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, China, and other regions, and its adoptions are growing. PharmaGABA® has acquired halal certification, so the plan is to launch fully fledged sales in the Southeast Asian region where there are many Muslims.

(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.

Business summary

(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) Pharma Biomix

Pharma Biomix is a feed supplement to help hens to lay folate-enriched eggs. Within Japan, it has been adopted by JA.Z-TAMAGO. CO., LTD. for its “Shin-Tamago” and “Brown Shin-Tamago” products, and overseas, it has been adopted by Pulmuone Co., Ltd. (Pulmuone) in South Korea for functional eggs.

(6) 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.

(7) 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.

(8) Moringa

Moringa is known to be a superfood and since ancient times, it has been used as herbal medication in Indian Ayurveda medicine. Research results have shown that it has an anti-aging effect, and it is being adopted for and used to create products in the foods and supplements fields.

(9) OEM business

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. As a field that it will focus on in the future, the Company is aiming to expand the OEM business for its own products.

(10) 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 a number of business suspensions due to legal violations at multiple companies in the domestic generic drug industry.

(11) CHC business

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

BtoC business strengthens the product lineup led by Newmo® Hair Growth Formula

2. BtoC business

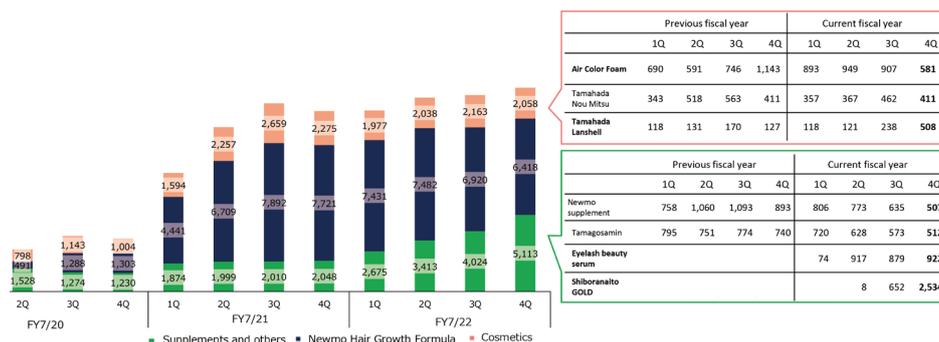
As an “invention company’s e-commerce business,” the BtoC business sells supplements and non-pharmaceutical products (under the Tamagokichi®) formulated using the Company’s proprietary functional ingredients and cosmetics (including under the FUTURE LABO brand). Sales methods comprise direct sales to consumers through e-commerce and wholesales to dedicated shopping channels. Furthermore, Meiji Yakuhi’s new repeat e-commerce business has been included from 1H FY7/22.

Main products include Tamagosamin® (iHA® formulation supplement for knee joints); non-pharmaceutical product Newmo® Hair Growth Formula (hair restoration and new growth stimulant); and Tamahada Lanshell® (cosmetic cream formulated from active eggshell membranes), Tamahada Nou Mitsu®, and Derma Qll® (keratin peeling gel) in cosmetics. In February 2021, the Company launched sales of Has V, a schedule III pharmaceutical, as phase 1 of its entry into the pharmaceutical e-commerce market in addition to launching sales of hearing aids from Onkyo in March 2022. It also launched products such as ROHTO V5 ACT-VISION, an eye care supplement from ROHTO Pharmaceutical, as a cross-selling product in FY7/22.

By item, Newmo® Hair Growth Formula, which promotes hair growth and restoration, 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 the cosmetics field, HAIR BEAUTE® ECLAT Botanical Air Color Foam (a non-pharmaceutical product), which is permanent hair dye for white hair, has been experiencing sales growth. In addition, sales from cross-selling have been strong for products such as Eyelash Deluxe WMOA, launched in FY7/22, and ROHTO V5 ACT-VISION, and rapid growth has also been seen in Shiboranaito® GOLD, a food product of Meiji Yakuhi authorized to display functional claims. 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

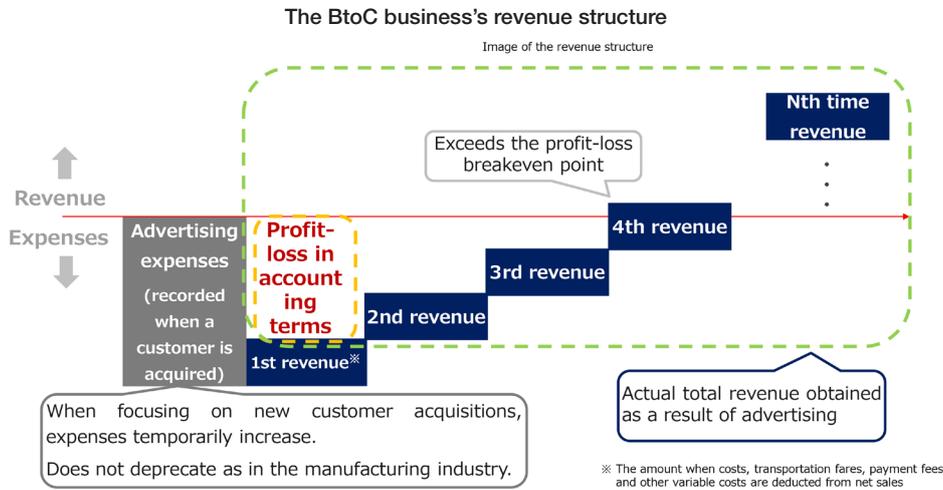
(¥mn)



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 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.

Business summary



Source: The Company's results briefing materials

Bio Medical business develops a drug discovery business using its proprietary ALAgene® technology

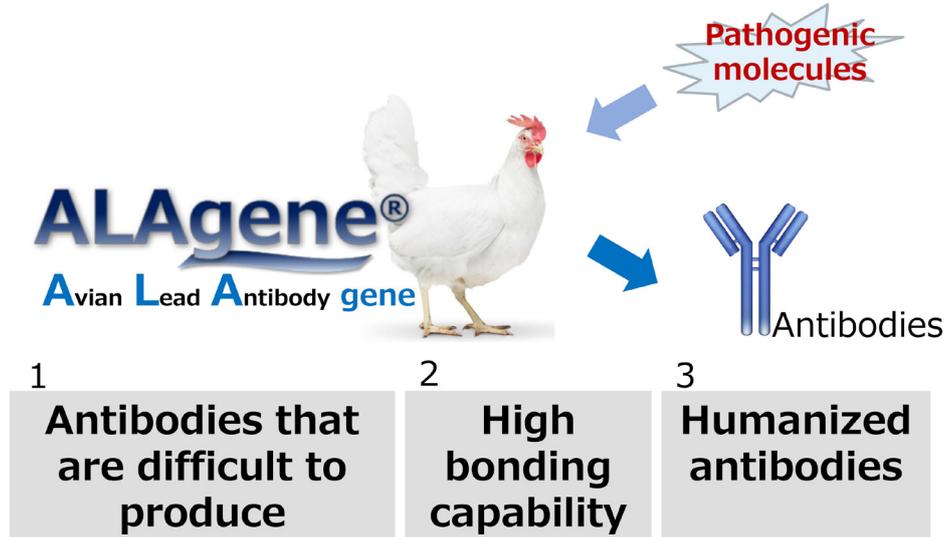
3. Bio Medical business

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. Additionally, the Company added Intégrale's proteomic analysis business, acquired through an absorption-type split on April 1, 2022.

ALAgene® technology is a foundational Company technology that makes possible the production of antibodies for drug discovery target molecules that are difficult to produce using conventional technologies. The Company is using this technology to conduct R&D into antibody pharmaceuticals indicated for patients with autoimmune diseases and malignant tumors. In addition, Reprotite®, a peptide derived from chicken egg yolk developed by the Company, has been successfully isolated and identified as a bioactive material involved in bone formation, and the Company is developing it as an important pipeline candidate. Moreover, by combining ALAgene® technology and proteome analysis technology, whose business has been transferred to the Company, it intends to further strengthen the search for drug discovery targets and their identification in order to accelerate the development of antibody drugs.

Business summary

Producing antibody pharmaceuticals from chickens



Source: The Company's results briefing materials

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. It effectively utilizes its technological capabilities to support 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.

In terms of the business model, the Company progresses development up to the non-clinical trial stage, and from the clinical trials onwards, 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 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 was granted a patent by the United States Patent and Trademark Office for anti-PAD4 antibodies (already patented in Japan). It is now moving toward licensing out in the next term.

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

Business summary

Market for Rheumatoid Arthritis Drugs

Segment	Product name	Global sales (FY2020)	Distributor
Anti-TNF alpha antibody	Humira	¥1,306.2bn	AbbVie (US) / Eisai
Soluble TNF alpha / TNF beta receptor formulations	Enbrel	¥474.3bn	Amgen / Pfizer / Takeda Pharmaceutical
Selective T-cell co-stimulation modulator	Orencia	¥286.8bn	Bristol-Myers Squibb (US) / Ono Pharmaceutical
Anti-TNF alpha antibody	Simponi	¥277.4bn	Johnson & Johnson (US) / Merck (US) / Mitsubishi Tanabe Pharma
PEGylated anti-TNF alpha antibody Fab fragment preparation	Cimzia	¥228.9bn	UCB (Belgium) / Astellas Pharma
Anti-IL-6 receptor antibody	Actemra	¥211.5bn	Roche (Switzerland) / Chugai Pharmaceutical
Anti-TNF alpha antibody	Remicade	¥168.6bn	Johnson & Johnson (U.S.) / Merck (U.S.) / Mitsubishi Tanabe Pharma

Source: Nikkei Biotechnology & Business, December 7, 2021

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

4. 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 currently there are few concerns about competition intensifying.

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 Newmo® Hair Growth Formula, a hair restoration and new growth stimulant, but it is actively promoting the development of new products, including Eyelash Deluxe WMOA, an eyelash beauty serum, and Shiboranaito® GOLD 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 progressing 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

In FY7/22, net sales increased, but profits declined due to active investment to achieve the Medium-Term Management Plan

1. Outline of results for FY7/22

In the Company's FY7/22 consolidated results, net sales increased 28.7% to ¥60,185mn, operating profit decreased 81.0% to ¥1,080mn, ordinary profit declined 78.1% to ¥1,264mn, and there was a loss attributable to owners of parent of ¥374mn (versus profit of ¥3,841mn in the previous fiscal year). The Company has applied the Accounting Standard for Revenue Recognition, etc. from the beginning of FY7/22, causing reductions of ¥121mn in net sales, ¥75mn in cost of sales, and ¥45mn in each of operating profit, ordinary profit and profit before income taxes.

Consolidated results for FY7/22

	FY7/21		FY7/22		YoY
	Results	% of total	Results	% of total	
Net sales	46,752	100.0%	60,185	100.0%	28.7%
BtoB business	2,852	6.1%	8,079	13.4%	183.3%
BtoC business	43,524	93.1%	51,886	86.2%	19.2%
Bio Medical business	375	0.8%	220	0.4%	-41.3%
Gross profit	39,724	85.0%	48,108	79.9%	21.1%
SG&A expenses	34,051	72.8%	47,028	78.1%	38.1%
Operating profit (loss)	5,673	12.1%	1,080	1.8%	-81.0%
BtoB business	770	27.0%	1,660	20.5%	115.6%
BtoC business	5,575	12.8%	638	1.2%	-88.6%
Bio Medical business	81	21.6%	-231	-105.0%	-
Adjustment amount	-754	-	-986	-	-
Ordinary profit	5,767	12.3%	1,264	2.1%	-78.1%
Profit attributable to owners of parent	3,841	8.2%	-374	-0.6%	-

Note: The Company has applied Accounting Standard for Revenue Recognition, etc. from FY7/22, and figures for the FY7/22 results reflect application of this standard, etc. Figures and year-on-year comparisons use figures and comparisons prior to application of the standard, etc.

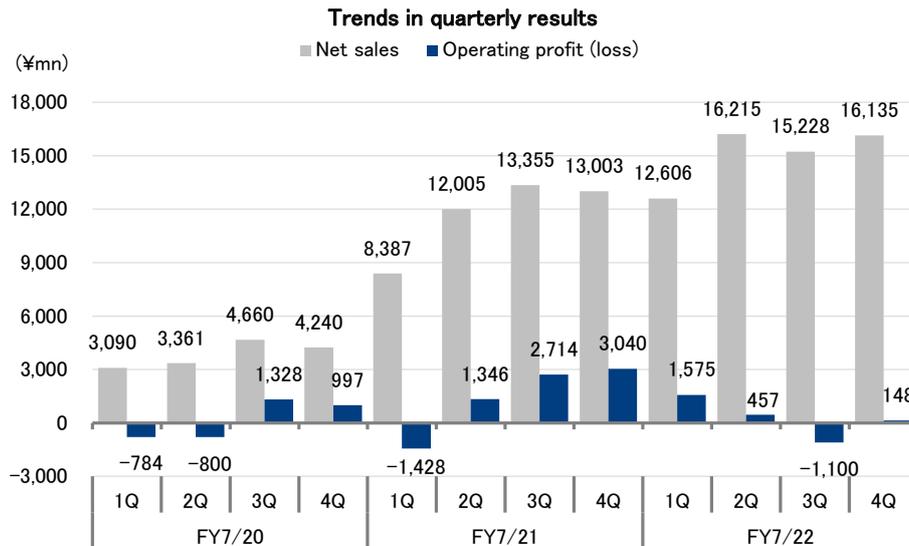
In FY7/22, BtoB business net sales include Meiji Yakuhi's net sales from August 16, 2021 to July 31, 2022

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

Sales increased due in part to Meiji Yakuhi being added to the scope of consolidation (11.5 months of results), but active investments were made in R&D, advertising, and alliance-building, including M&A, to achieve the Medium-Term Management Plan, which resulted in a large decline in profits. Investing in R&D, the Company took over the bioscience business of Intégrale in April 2022 via an absorption-type split, which was one of the factors that led R&D expenses to increase 46.8% YoY to ¥766mn. Investing to advertise new products, the Company focused on advertising Shiboranoit® GOLD, for which orders have been buoyant, from the third quarter in particular. This resulted in advertising expenses increasing by 43.8% to ¥35,748mn. Regarding advertising expenses, the Company had planned to spend around 70% of its budget of ¥30.0bn in the first half, but in considering CPO, it limited spending to around 50% (¥15.5bn). For alliance-building, the Company invested over ¥3.0bn, getting involved in new product development and new markets through investment in Onkyo and ENEGGO. As for the factors behind the change in operating profit, profit increased by ¥13,433mn owing to the increase in sales, but negative factors were an increase in cost of sales of ¥5,049mn, R&D expenses of ¥219mn, advertising expenses of ¥10,887mn, personnel expenses of ¥943mn, commission expenses of ¥236mn, freight costs of ¥331mn, and other expenses of ¥358mn.

Results trends

Looking at trends by quarter, net sales were ¥12,606mn in 1Q FY7/22, ¥16,215mn in 2Q, ¥15,228mn in 3Q, and ¥16,135mn in 4Q, so there continues to be a growth trend. By contrast, operating profit was ¥1,575mn in 1Q FY7/22 and ¥457mn in 2Q, there was an operating loss of ¥1,100mn in 3Q, followed by operating profit of ¥148mn in 4Q. While a loss was posted for the third quarter, it was due to opportunistic investment similar to 1Q FY7/21 in which a loss of ¥1,428mn was recorded due to aggressive investment in Newmo® Hair Growth Formula.



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

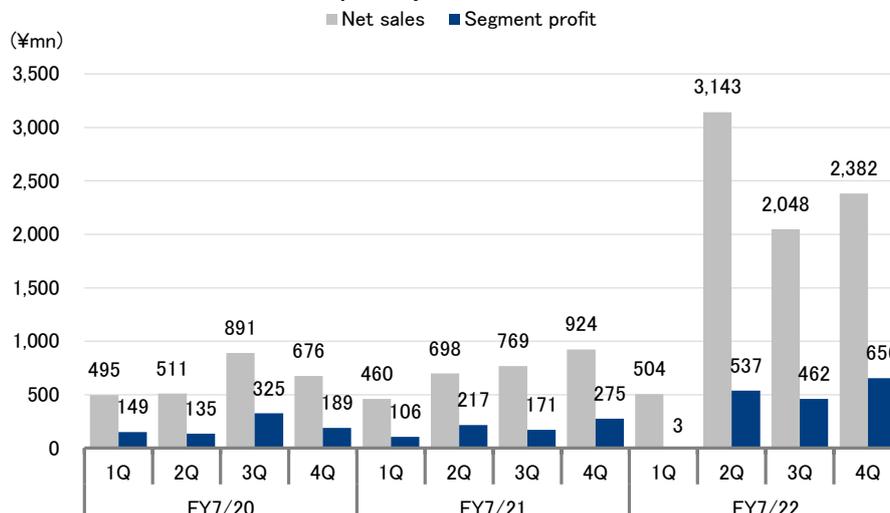
2. Trends by business segment

(1) BtoB business

Net sales in the BtoB business increased 183.3% YoY to ¥8,079mn, and segment profit increased 115.6% to ¥1,660mn. The CMO business of Meiji Yakuin performed well, contributing to both sales and profits and resulting in large increases in both. The Company is shifting its area of focus from sales of functional raw materials to sales of end products.

Results trends

Trends in quarterly results in BtoB business



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

Within functional ingredients, sales of mainstay PharmaGABA® declined 5.8% YoY to ¥1,271mn. Overseas markets decreased 3.4% to ¥589mn, but sales increased in the major markets of North America (+10.0%) and China (+100.0%). At the same time, sales from the domestic market declined 7.7% to ¥681mn. The number of GABA notifications in the foods with functional claims system totaled 716, maintaining the top spot, as of July 31, 2022. Use of GABA by food product manufactures continues to increase. Bonepep® is being increasingly adopted by overseas dairy products companies in particular, over 20 thus far, but sales declined by 29.0% YoY to ¥176mn.

Sales from the OEM business declined 15.4% YoY to ¥625mn. Diet foods and healthy beverages for healthcare companies performed well, primarily in Japan, but pouch jelly products for convenience stores fell short of expectations. In this business, the Company has proposed combinations of evidence-based materials centering on its proprietary ingredients and continues to carry out projects both domestically and overseas.

Cross-border EC business, a new business area, recorded ¥300mn in net sales. The Company increased sales to Tmall Global and other EC platforms and local distributors.

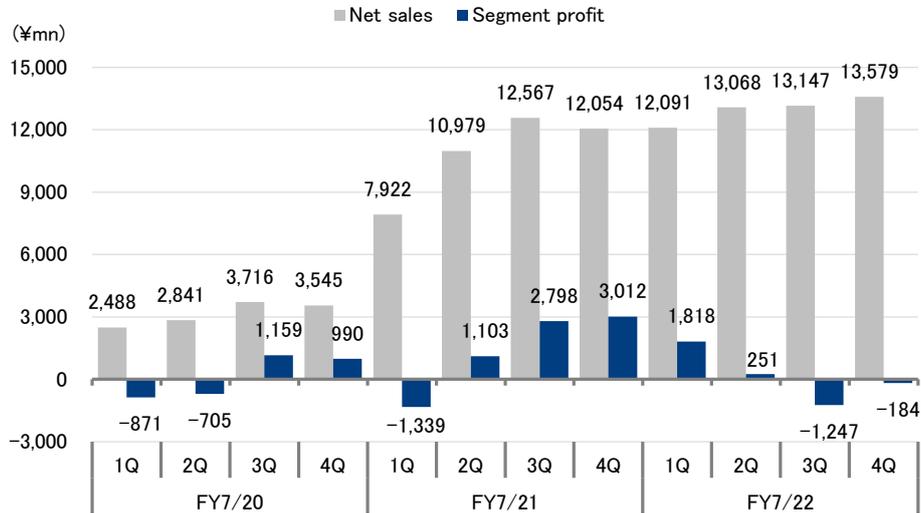
In new manufacturing and sales channels, sales from the CMO business, which consists of contract pharmaceutical manufacturing by Meiji Yakuhin, were ¥3,642mn, and sales from the CHC business, which conducts sales of functional food products and pharmaceuticals through drug store channels, etc., totaled ¥1,801mn. In the CMO business, capacity utilization rose from 60% to 105% from increased orders. The Company also finished integrating the sharp increases in personnel expenses and raw material costs into order prices.

(2) BtoC business

Net sales in the BtoC business increased 19.2% YoY to ¥51,886mn, while segment profit declined 88.6% to ¥638mn. The growth trend continued and the segment set a new record high for quarterly sales. At the same time, with a view to obtaining more regular customers, it recorded advertising expenses of ¥35,608mn (+43.2%), resulting in a major decline in segment profit.

Results trends

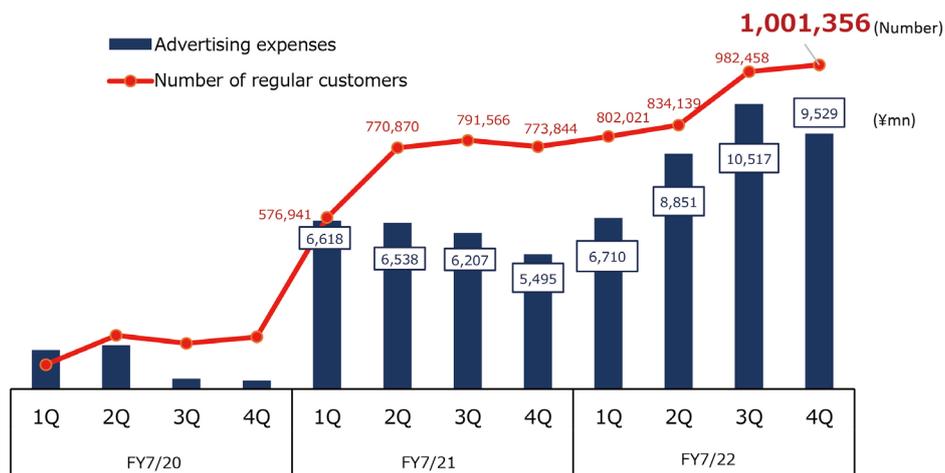
Trends in quarterly results in the BtoC business



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

The Company began aggressively investing in advertising for new products in 3Q FY7/22 while emphasizing CPO, an indicator of customer acquisition efficiency, and LTV, a profitability indicator, and, as a result, the number of regular customers as of July 31, 2022 was 1,001,356 (versus 773,844 at the end of the previous year), topping the one million mark. Repeat purchases from this customer base continue to expedite profit generation and raise profit levels. Going forward, the Company intends to mitigate risks associated with the advertising expense burden by responsibly controlling such expenses while keeping a close eye on sales, CPO and LTV trends.

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



Source: The Company's results briefing materials

Pharma Foods International Co., Ltd.

2929 Tokyo Stock Exchange Prime Market

1-Dec.-2022

<https://www.pharmafoods.co.jp/en>

Results trends

Looking by item, there was steady growth in sales of new products in support of mainstay Newmo® Hair Growth Formula, and Newmo® Hair Growth Formula itself also performed well, with sales hitting ¥27,967mn and volume topping 15 million units (as of July 23, 2022). As a result of focusing on cross-sales to customers of Newmo® Hair Growth Formula, sales of Newmo® Supplement were ¥2,724mn and sales of Newmo® Vactory Shampoo were ¥714mn. Regarding efforts to horizontally develop the Newmo® brand, promoting advertising of Eyelash Deluxe WMOA, an eyelash beauty serum, resulted in sales of ¥2,794mn. In addition, cross-selling ROHTO V5 ACT-Vision, an eye care supplement from ROHTO Pharmaceutical, to customers who purchased PFI Hakase (professor) Loupe® magnifying eyeglasses resulted in sales of ¥1,149mn. Sales of Shiboranaito® GOLD from Meiji Yakuin totaled ¥3,194mn and the number of regular customers was 209,379, as the product performed well. Driven by online media, users have been increasing rapidly, and buoyant orders are putting pressure on manufacturing lines, so advance orders continue to be required. Sales of HAIR BEAUTE® ECLAT Botanical Air Color Foam totaled ¥3,332mn, and the number of regular customers was 48,241 (as of July 31, 2022) as a result of acquiring new customers with an emphasis on CPO. In response to these increases in orders and regular customers, a new call center facility with 100 booths was established at Meiji Yakuin, as the Company continued investing to strengthen order reception functions.

(3) Bio Medical business

The Bio Medical business reported ¥220mn in net sales (-41.3% YoY) and a ¥231mn segment loss (versus a ¥81mn profit in the previous fiscal year). While it recorded lump-sum income relating to joint research and a licensing contract with Mitsubishi Tanabe Pharma as sales in the same period of the previous fiscal year, these sales were not recorded in FY7/22.

The Company began producing lead antibodies with the potential to be next-generation antibody drug candidates targeting all diseases. This project has been selected for a five-year period under the FY2021 Project Focused on Developing Key Technology for Discovering and Manufacturing Drugs for Next-Generation Treatment and Diagnosis (development of manufacturing technologies for next-generation antibody drugs with international competitiveness) of the Japan Agency for Medical Research and Development (AMED). In addition, the Company launched a dedicated AI and bioinformatics team and is conducting initiatives to identify the best antibodies as quickly as possible through AI-based selection and optimization.

3. Financial condition

At the end of FY7/22, total assets increased ¥10,214mn from the end of the previous fiscal year to ¥31,159mn. This was mainly due to increases of ¥1,786mn in notes and accounts receivable - trade, ¥2,045mn in merchandise and finished goods because of sales expansion in the BtoC business, ¥2,929mn in property, plant and equipment accompanying the acquisition of Meiji Yakuin as a subsidiary, and ¥1,236mn in investment securities related to acquisition of shares resulting from concluding capital and business alliance agreements with ROHTO Pharmaceutical and Sanyo Chemical Industries. Total liabilities at the end of FY7/22 climbed ¥11,606mn to ¥24,084mn mainly because of rises of ¥793mn in accounts payable-other related to the increase in advertising expenses and ¥12,900mn in short-term borrowings following implementation of borrowing based on a commitment line agreement, albeit with some offset via a ¥1,565mn decline in income taxes payable, etc. Total net assets decreased ¥1,391mn to ¥7,074mn due to recording loss attributable to owners of parent and dividends paid. The equity ratio hence dropped 17.7ppt to 22.7%.

Results trends

The Company's overall balance sheet has ballooned as sales have increased sharply, and its equity ratio continues to decline, but the Company also continues to expedite profit generation and raise profit levels through aggressive investment in advertising. Moreover, the increase in interest-bearing debt has not been a factor putting pressure on profits. For these reasons, FISCO believes that there are no concerns regarding the Company's financial soundness. In September 2022, the Company concluded a commitment line agreement for a total of ¥7.6bn (three-year agreement) through the Bank of Kyoto <8369>, its main bank, and five regional banks. It can be concluded that this reflects the positive evaluation given to the Company's track record in drug discovery, functional ingredient research and development, and e-commerce sales as well as the high regard the banks have for the feasibility of its Medium-Term Management Plan aimed at expansion in the healthcare domain.

Consolidated balance sheet

	(¥mn)			
	End of FY7/20	End of FY7/21	End of FY7/22	Change
Total assets	10,096	20,944	31,159	10,214
Current assets	7,437	17,933	23,513	5,580
Non-current assets	2,659	3,010	7,645	4,635
Total liabilities	5,188	12,478	24,084	11,606
Current liabilities	2,837	10,978	22,795	11,817
Non-current liabilities	2,350	1,499	1,288	-211
Total net assets	4,907	8,465	7,074	-1,391
Shareholders' equity	4,895	8,455	7,024	-1,431
Capital stock	2,033	2,038	2,042	4
Equity ratio	48.6%	40.4%	22.7%	-17.7pt

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

Consolidated statement of cash flows

	(¥mn)	
	FY7/21	FY7/22
Cash flows from operating activities	5,938	-6,065
Cash flows from investing activities	-442	-2,539
Cash flows from financing activities	1,030	7,679
Balance of cash, deposits, and cash equivalents at the end of the period	9,794	8,845

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

■ Outlook

For FY7/23, forecasting increases in net sales and profits; will continue to focus on M&A and alliance-building

1. Outlook for FY7/23

For its FY7/23 consolidated results, the Company is projecting net sales to increase 18.0% to ¥71,000mn, operating profit to increase 10.3% to ¥1,191mn, ordinary profit to edge up 0.3% to ¥1,268mn, and profit attributable to owners of parent of ¥886mn (versus a loss of ¥374mn the previous term). While continuing to focus on M&A and alliance-building, the Company plans to establish overseas sites and aggressively expand, but it expects to offset the expenditures by achieving increased sales in all segments.

Outlook

Consolidated outlook for FY7/23

	FY7/22		FY7/23		YoY
	Results	% of sales	Forecast	% of sales	
Net sales	60,185	100.0%	71,000	100.0%	18.0%
BtoB business	8,079	13.4%	8,600	12.1%	6.4%
BtoC business	51,886	86.2%	62,000	87.3%	19.5%
Bio Medical business	220	0.4%	360	0.5%	63.6%
Operating profit	1,080	1.8%	1,191	1.7%	10.3%
Ordinary profit	1,264	2.1%	1,268	1.8%	0.3%
Profit attributable to owners of parent	-374	-0.6%	886	1.2%	-

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

2. Outlook by business segment

(1) BtoB business

In the BtoB business, the Company is forecasting sales of ¥8,600mn, a YoY increase of 6.4%. In functional ingredients, it will strengthen overseas sales and build a production system overseas for stable supply in overseas markets. The Company plans to accelerate its shift from functional raw material sales to end product sales and will transition from contract production for private brands to sales of products under its own brands. For mainstay PharmaGABA®, it plans to receive large-scale orders. At the same time, the CMO business of Meiji Yakuin is expected to be operating at full capacity.

(2) BtoC business

In the BtoC business, the Company is forecasting sales of ¥62,000mn, a YoY increase of 19.5%. Newmo® Hair Growth Formula is expected to remain firm, with the Company making changes to its advertising. New products that grew steadily in FY7/22 (Eyelash Deluxe WMOA, Shiboranoito® GOLD and HAIR BEAUTE® ECLAT Botanical Air Color Foam) are also expected to continue their growth. In addition, the launch of a new brand, the DRcula Series, for which test sales were started in July 2022, appears to be proceeding steadily. It is possible that advertising expenses will be increased depending on sales trends during the term.

(3) Bio Medical business

Sales in the Bio Medical business is expected to increase 63.6% YoY to ¥360mn. The Company will expand its contract services for next-generation proteome analysis, including Olink for major pharmaceutical companies, while moving forward on antibody drug development for new diseases.

Growth strategy

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

In its Medium-Term Management Plan 2026, the Company has put forth “new value creation 1K” as a goal, and through initiatives to create new value (new products, new markets, and a new organization), it is seeking 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 over ¥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 decline 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%.

1. Creation of new products

For the creation of new products, toward creating the next hit products to follow on from products such as PharmaGABA®, Newmo® Hair Growth Formula, and Derma Qll®, the Company is progressing R&D including to develop new ingredients (wine ceramide, Lipi Smart®, sialo sugar chains, egg placenta, and eggshell membrane peptides), new applications and effects (a brain function cocktail theory drink, Moringa, Wellmune, Banafine, and collagen eggshell membrane peptides), and next-generation antibodies. It is also developing products for the scalp and skin field (creating active components for non-pharmaceutical products, hair restorer formulas, wrinkle improvers, egg placenta, and ELLE brand cosmetics), pharmaceutical e-commerce field, and oral care field.

In July 2021, the Company concluded a sales agreement with Mitsui Sugar Co., Ltd. of the Mitsui DM Sugar Holdings <2109> Group for Lipi Smart®, which is a functional foods ingredient that suppresses absorption of triglycerides and contains sesame as a raw ingredient. 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.

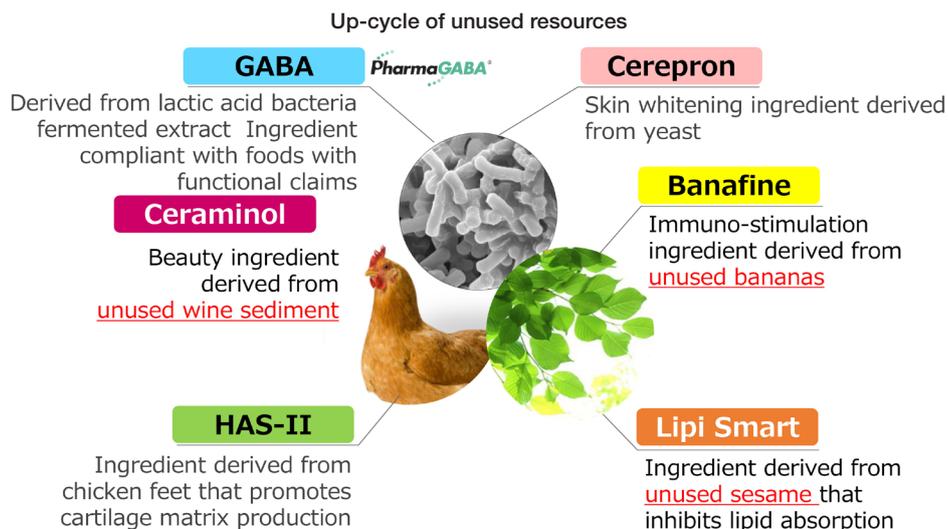
2. Creation of new markets

For the creation of new markets, the Company will progress 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 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.

Growth strategy

With regard to 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 plans to develop high value-added crops with enhanced yields, resilience, and functionality using bio-stimulants that combine technologies from both companies in 2024, begin 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. 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. 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.



Source: The Company's results briefing materials

3. Creation of a new organization

For the creation of a new organization, the Company will progress 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 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. The Company explains that “attention should be given to pursuit of collaboration with a variety of companies even now.”

Growth strategy

Recent M&A and alliances

Date	Company name	M&A and alliance	Amount	Summary
March 2021	Sanyo Chemical Industries, Ltd.	Business and capital alliance	Roughly ¥400mn	Collaboration in R&D and sales for cosmetics, agrinutrition, pharmaceuticals, and other products
July 2021	ROHTO Pharmaceutical Co., Ltd.	Business and capital alliance	Roughly ¥600mn	Collaboration in product development, production, and sales in health and beauty care and food areas
August 2021	Meiji Yakuin Co., Ltd.	Acquisition as a wholly owned subsidiary	Roughly ¥2.3bn	Utilization of managerial resources including production and drugstore sales channels
August 2021	Ai-BrainScience Inc.	Underwriting of third-party allocation of shares	¥60mn	Combination of early discovery of cognitive function decline and functional food ingredients to improve conditions
April 2022	Intégrale Co., Ltd.	Absorption-type split		Strengthening drug discovery target searches and identification through the combination of ALAgene® technology and Intégrale's proteomic analysis technology
May 2022	Onkyo Home Entertainment Corporation	Made an equity-method affiliate	Several 100 million yen	Sales of health and medical equipment and targeted AI-based searching in the drug discovery business
July 2022	ENEGGO Inc.	Received third-party share allocation jointly with ENEOS Holdings	¥100mn	Development, production and sales coordination for bio-stimulant products that use eggshell membranes and GABA

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

4. FISCO's Opinion

Because the Company's earnings level has changed substantially on the strength of Newmo® Hair Growth Formula, there are some in the market who believe it is a company whose performance varies depending on hit products and advertising investment in its BtoC business. However, in the BtoC business, new products that support Newmo® Hair Growth Formula are growing steadily, and with PharmaGABA®'s dominant share and expansion of the CMO business in the BtoB business and expectations for drug discovery development in the Bio Medical business, efforts are being made to reduce the risk of dependence on hit products. Business results for the immediate future may vary depending on the level of investment in advertising, but through new product and new market creation and active business development, FISCO believes the Company has high potential for medium- to long-term growth.

Shareholder return policy

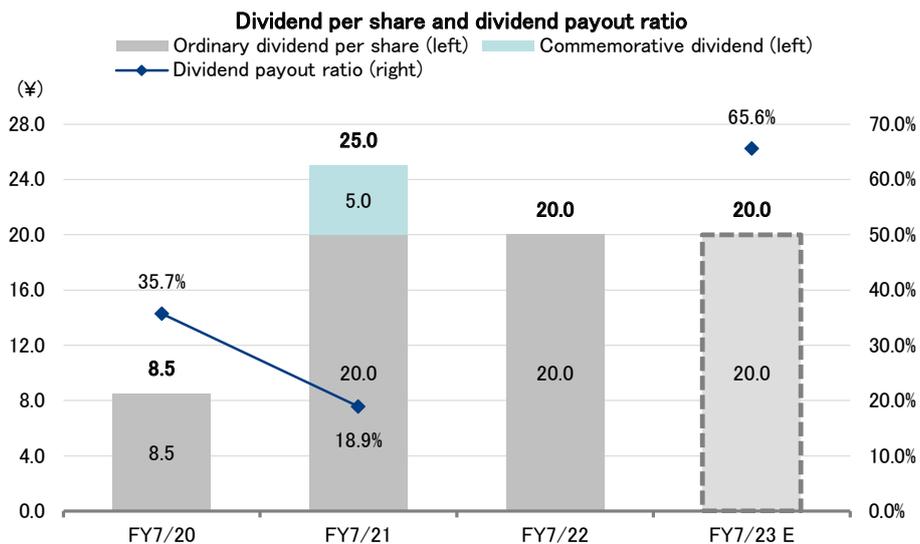
Targets total shareholder return ratio of 20% including acquisitions of treasury shares as shareholder return policy. Expects ¥20.0 for the FY7/23 annual dividend

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.

In FY7/22, it reduced the annual dividend per share by ¥5.0 YoY (same as the previous fiscal year on an ordinary dividend basis) to ¥20.0. Furthermore, in FY7/23, it plans for an annual dividend per share of ¥20.0, the same amount as the previous fiscal year (dividend payout ratio: 65.6%, total shareholder return ratio: 65.5%).

Shareholder return policy

In addition, in order to raise capital efficiency and execute a flexible capital policy based on business conditions, the Company conducts share buybacks, and in September 2021, it acquired 108,300 shares (total acquisition cost of ¥299mn). Most recently, it announced a share buyback on October 7, 2022 and plans to acquire up to 270,000 shares by October 24 (total acquisition cost of ¥300mn; 0.93% of shares outstanding excluding treasury stock).



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

Initiatives for ESG and SDGs

Formulated the Sustainability Basic Policy and bolstering related initiatives

As the Company's business itself 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, its business is consistent with the SDGs. 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. Also, as mentioned above, the Company began a new upcycling business using eggshell membranes, and its eggshell membrane fiber has been drawing attention, being featured on TV programs and the like. The Company also plans to exhibit at the Osaka Pavilion on the theme of "Eggs Save Earthlings" at World Expo 2025 in Osaka, Kansai.

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