

Pharma Foods International Co., Ltd.

2929

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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.

2. Return to profitability in 1H FY7/24

In the Company’s 1H FY7/24 consolidated results, net sales decreased 9.9% year on year (YoY) to ¥31,652mn, operating profit was ¥1,535mn (versus a loss of ¥883mn YoY), ordinary profit was ¥1,542mn (versus a loss of ¥912mn), and profit attributable to owners of parent was ¥768mn (versus a loss of ¥914mn). Despite steady sales growth in the BtoB business, net sales decreased overall due to the impact of a decline in operating rates at contracted production partners and manufacturing delays caused by distribution restrictions at raw materials suppliers in the BtoC business. On the other hand, the Company returned to profitability for each type of profit as advertising expenses decreased considerably due to the postponement of advertising activities for new products in the BtoC business. Looking at quarterly results, 1Q net sales were ¥16,142mn and operating profit was ¥601mn, and 2Q net sales were ¥15,510mn and operating profit was ¥933mn. Since 2Q FY7/23, the Company has been steadily recording operating profits as a result of efforts such as the optimization of advertising investment.

Summary

3. Forecast for FY7/24 revised downward in anticipation of greater decline in profit but this is due to temporary factors

On March 11, 2024, the Company revised its FY7/24 consolidated results downward and it is now projecting net sales to decrease by 6.5% YoY to ¥64,100mn, operating profit to decrease 25.2% to ¥2,700mn, ordinary profit to drop 18.1% to ¥2,900mn, and profit attributable to owners of parent to fall 41.6% to ¥1,800mn. In contrast to initial forecasts, net sales are now expected to decrease, compounding the decline in each type of profit. Although the BtoB business is expected to perform fairly steadily, in the BtoC business, the impact of the decline in operating rates at contracted production partners and manufacturing delays caused by distribution restrictions at raw materials suppliers that manifested in 1H is expected to delay plans for the full-scale promotion of new products such as NEW Z. However, at FISCO, we see this downward revision as the result of temporary factors in 1H, and taking into account that the Company is expected to begin the full-scale promotion of its new products in 2H and that it is making progress on controlling its advertising expenses, there is room for upside in the revised forecasts.

4. Creating new markets in the fibers, battery materials, and biostimulant fields 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. 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 net 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%. To create an upcycling market for unused resources, the Company will aim to create new markets in the fibers, battery materials, and biostimulant* fields by harnessing unused natural ingredients and realizing the advanced utilization of eggshell membranes. In February 2024, it officially agreed on and launched a five-year R&D project as part of the “Bio Manufacturing Revolution Promotion Project Research and Development Plan” promoted by the New Energy and Industrial Technology Development Organization (NEDO), a national research and development organization.

* 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).

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

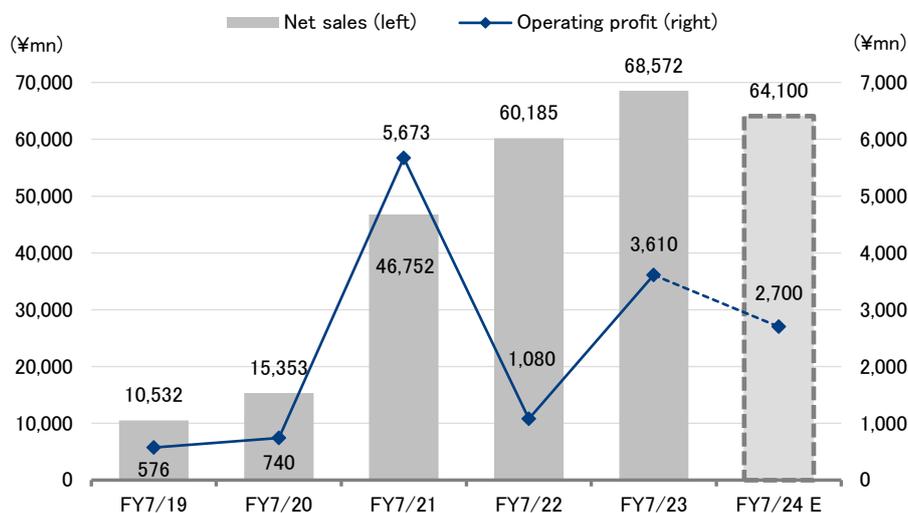
The Company is a biotechnology company that practices development based on the concept that immunity, aging, and the nervous system are three important elements in life activity and health maintenance. At FISCO, we have a high opinion of its development capabilities, from its exploration of functional ingredients and development of functional products to its creation of new markets through drug discovery and the advanced utilization of eggshell membrane materials, and we think it has strong medium- to long-term growth potential. Another factor to be evaluated is the Company’s commitment to strengthening dialogue with the stock market and investors as part of its efforts to enhance corporate value. Going forward, we will be monitoring the progress of its “Bio Manufacturing Revolution Promotion Project Research and Development Plan” (fibers, battery materials, and biostimulants) efforts following its agreement with NEDO and the Autoimmune Disease Project based on an exclusive licensing agreement with Mitsubishi Tanabe Pharma Corporation.

Summary

Key Points

- A biotechnology company aiming to create pharma foods by fusing pharmaceuticals and foods
- Return to profitability in 1H FY7/24
- Forecast for FY7/24 revised downward in anticipation of greater decline in profit but this is due to temporary factors
- Creating new markets in the fibers, battery materials, and biostimulant fields as a growth strategy
- High potential for medium- to long-term growth due to drug discovery, advanced utilization of eggshell membrane materials and other factors

Results trends



Note: FY7/24 E value is from the revised forecast released on March 11, 2024
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 (QOL).

Company profile

At the end of 1H FY7/24, 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, Meiji Yakuin 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 and Meiji Yakuin 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. At the end of 1H FY7/24, total assets were ¥37,020mn, net assets were ¥9,202mn, the equity ratio was 24.9%, and the number of issued shares was 29,079,000 shares (including 1,006,767 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 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. Additionally, in July 2022, it made joint investments with ENEOS Holdings, Inc. <5020> in ENEGO 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.

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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 e-commerce 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 e-commerce 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 Yakuin 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 Corporation
November 2023	First company in Japan to acquire international ISO/IEC 17025 certification regarding chemical testing of GABA ingredients
January 2024	Started sales of K-3, a liquid lactobacillus ferment containing GABA, as the first biostimulant agricultural material
February 2024	ovoveil, a next-generation sustainable fiber, used in Kyoto University Program-Specific Professor Naoko Tosa's Fall/Winter Collection Agreement on the "Bio Manufacturing Revolution Promotion Project Research and Development Plan" concluded with NEDO

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

Business summary

A healthcare equipment manufacturer focused on R&D that develops BtoB business, BtoC business, and Bio Medical business

1. A healthcare equipment manufacturer 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 researches and develops functional ingredients and pharmaceuticals that act on immunity, aging, and the nervous system, and then delivers the results of this original research and products to wider society through its BtoB, BtoC, and Bio Medical businesses. The BtoB business manufactures and sells functional ingredient products such as PharmaGABA®, and it also manufactures and sells pharmaceutical and non-pharmaceutical products through Meiji Yakuin Co., Ltd., which was made into a subsidiary in August 2021. The BtoC business conducts e-commerce sales and the 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.

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

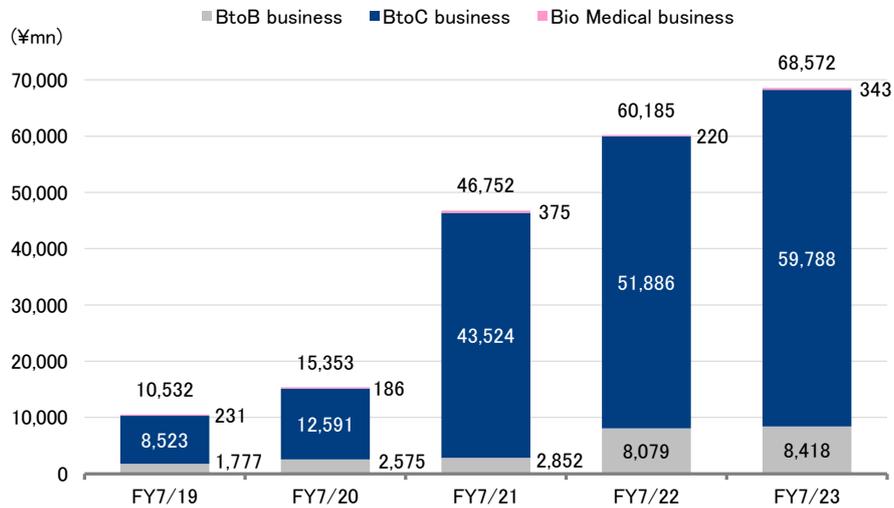


Source: The Company's results briefing materials

In the BtoB business, there has been an increase in the number of companies adopting functional ingredients such as PharmaGABA®, and Meiji Yakuin has been steadily growing its contributions since becoming a subsidiary in FY7/22. In the BtoC business, there have been contributions from Newmo® Hair Growth Formula, which was launched on the market in November 2018, as well as Meiji Yakuin's Shioranaito® GOLD since FY7/22, and the new eyelash beauty serum Eyelash Deluxe WMOA and medicated whitening gel DRcula series since FY7/23. The Bio Medical business is still at the research and development stage but it is recording lump-sum income related to joint research and licensing sales.

Business summary

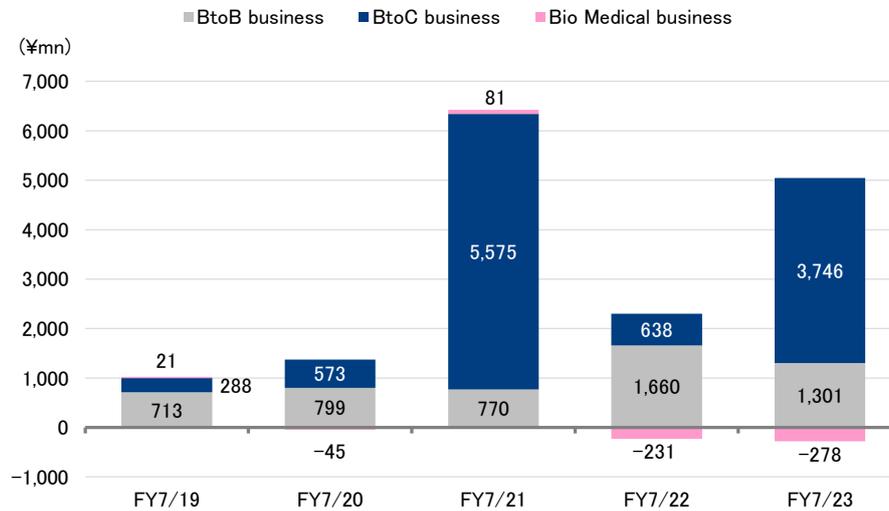
Trends in net sales by business segment



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

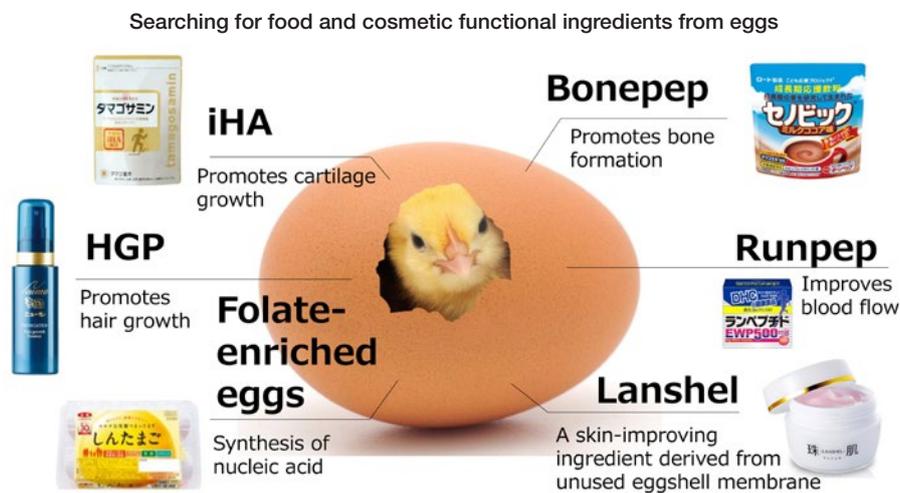
Business summary

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 the 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 include PharmaGABA®, Bonepep®, Cerepron®, Runpep®, Pharma Biomix, and HGP®. 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. Among functional ingredients, PharmaGABA® is trending upward and the Company is strengthening sales channels for its new brand (NB) products in its functional ingredient products. 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. Looking at FY7/23 net sales on an itemized basis, net sales of functional ingredients were ¥2,002mn, sales of functional products were ¥1,368mn, sales of Meiji Yakuhin's CMO were ¥4,190mn, while sales of CHC were ¥857mn. Additionally, Meiji Yakuhin orders are increasing steadily, so 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).

* 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

(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 February 29, 2024, it ranked highest with 1,086 notifications (Company data) and is maintaining the highest level of adoptions. Also, in November 2023, the Company became the first company in Japan to acquire international ISO/IEC 17025 certification regarding chemical testing of GABA ingredients.

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) 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. Also, in March 2024, the Company's Suimin Labo won a Trend Award in the New Product Spring/Summer 2024 Grand Prix awards announced by Nippon Access, Inc., a major foods wholesaler in the group led by ITOCHU Corporation <8001>.

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.

(7) 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.

(8) CHC business

In the CHC business, Meiji Yakuhi is selling its NB products to drugstores and other distribution channels. Meiji Yakuhi is working to strengthen inhouse production and sale of products such as cold syrups for children to evolve as a pharmaceutical manufacturer. Sales to cross-border EC distributors have also risen in recent years.

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

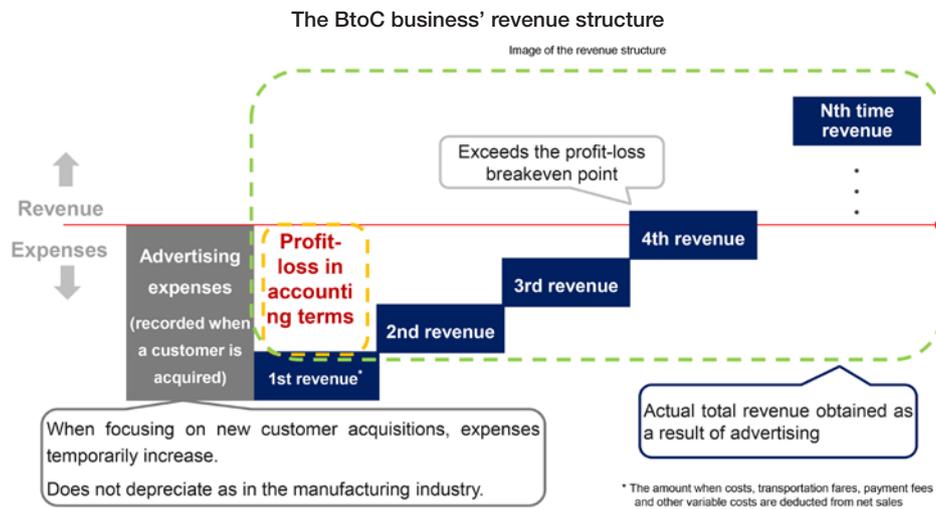
3. BtoC business

As an "invention company's e-commerce business," the BtoC business sells pharmaceuticals, 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 wholesaling to dedicated shopping channels. Furthermore, Meiji Yakuhi's repeat e-commerce business was added in 2Q FY7/22. Looking at FY7/23 net sales on an itemized basis, net sales of pharmaceutical and non-pharmaceutical products were ¥34,275mn, sales of supplements were ¥11,212mn, and sales of cosmetics were ¥12,167mn. The number of regular customers for the overall Group at the end of FY7/23 was 941,628 customers.

Business summary

Its main products in the pharmaceutical product and non-pharmaceutical product field 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 the supplements field, the main products include Tamagosamin® (iHA® formulation supplement for knee joints) and Meiji Yakuhi's Shiboranaito®. In the cosmetics field, the main products include Eyelash Deluxe WMOA and Tamahada LANSHEL® (cosmetic cream formulated from active eggshell membranes). On January 17, 2024, the cumulative number of units of Newmo® Hair Growth Formula shipped passed 25 million. Also, in September 2023 the Company took over the healthcare e-commerce business of Daicel Corporation. Going forward, the Company intends to expand its product lineup around its mainstay Newmo® Hair Growth Formula and it is starting to promote new additions to the Newmo brand such as the pharmaceutical product NEW Z and Hair Powder, a formula for artificial hair containing eggshell membranes.

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 of business. So, when the Company focuses on acquiring new customers, there is a temporary increase in advertising expenses at first. However, repeat purchases generated from the base of regular customers give rise to future profits. Also, following revisions to Japan's Act on Specified Commercial Transactions (effective June 1, 2023; digitalization of contracts, etc.), the Company has led the industry in carrying out a thorough response to these revisions, including providing detailed explanations on final confirmation screens to ensure there are no misunderstandings among customers. Furthermore, the Company is aiming to achieve zero complaints through efforts such as enhancing explanations provided by advertisements and call centers, its points of contact with customers, and improving response quality, while at the same time it is focusing on customer relationship management (CRM) measures to retain existing customers and encourage repeat purchases.



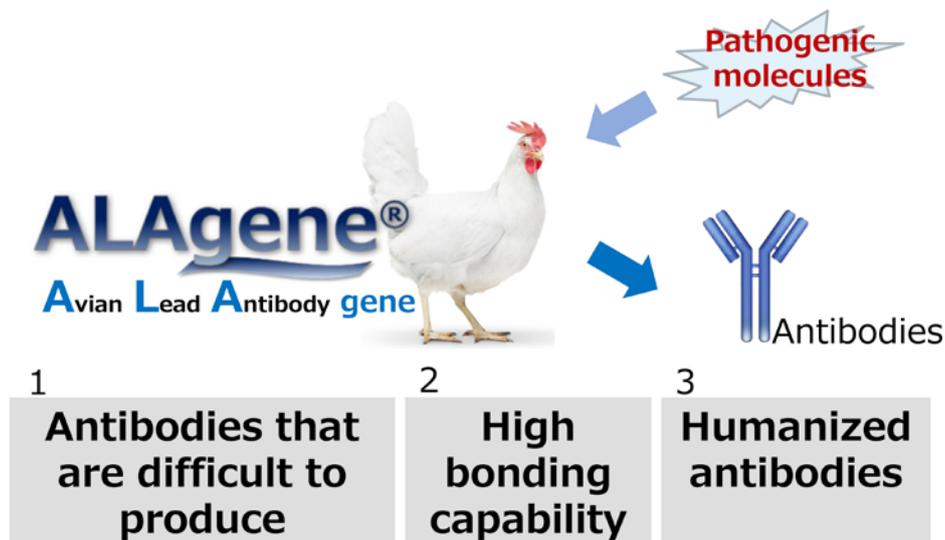
Source: The Company's results briefing materials

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 for treatment of autoimmune diseases and intractable diseases such as cancer and fibrosis. 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.

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 from the clinical trial stage onward, the pharmaceutical company to which the technology 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.

Business summary

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 reliance on certain products

5. Risk factors and challenges and countermeasures

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 responsibly 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

Return to profitability in 1H FY7/24

1. Outline of results for consolidated 1H FY7/24

In the Company's 1H FY7/24 consolidated results, net sales decreased 9.9% year on year (YoY) to ¥31,652mn, operating profit was ¥1,535mn (versus a loss of ¥883mn YoY), ordinary profit was ¥1,542mn (versus a loss of ¥912mn), and profit attributable to owners of parent was ¥768mn (versus a loss of ¥914mn). Despite steady sales growth in the BtoB business, net sales decreased overall due to the impact of a decline in operating rates at contracted production partners and manufacturing delays caused by distribution restrictions at raw materials suppliers in the BtoC business. On the other hand, the Company returned to profitability for each type of profit as advertising expenses decreased considerably due to the postponement of advertising activities for new products in the BtoC business.

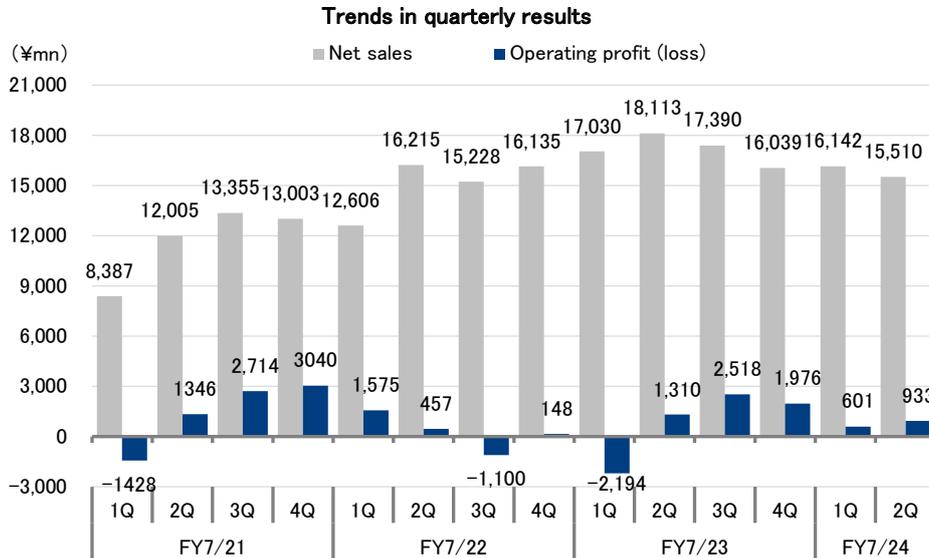
On a Company-wide basis, gross profit fell 11.6% YoY to ¥25,101mn and the gross margin decreased 1.5ppt to 79.3%. SG&A expenses decreased 19.5% YoY and the SG&A expense ratio fell 8.8ppt to 74.5%. Among SG&A expenses, advertising expenses decreased 25.6% and the ratio of advertising expenses to net sales declined 11.3ppt to 53.7%. Looking at quarterly results, 1Q net sales were ¥16,142mn and operating profit was ¥601mn, and 2Q net sales were ¥15,510mn and operating profit was ¥933mn. Since 1H FY7/23, the Company has been steadily recording operating profits as a result of efforts such as the optimization of advertising investment.

Consolidated results for 1H FY7/24

	1H FY7/23		1H FY7/24		YoY comparison	
	Results	% of sales	Results	% of sales	Change	%
Net sales	35,143	100.0%	31,652	100.0%	-3,491	-9.9%
Gross profit	28,386	80.8%	25,101	79.3%	-3,285	-11.6%
SG&A expenses	29,270	83.3%	23,565	74.5%	-5,705	-19.5%
(Research and development expenses)	413	1.2%	482	1.5%	69	16.7%
(Advertising expenses)	22,835	65.0%	16,990	53.7%	-5,845	-25.6%
Operating profit	-883	-	1,535	4.8%	2,418	-
Ordinary profit	-912	-	1,542	4.9%	2,454	-
Profit (loss) attributable to owners of parent	-914	-	768	2.4%	1,682	-
Net sales by segment						
BtoB business	4,071	11.6%	4,171	13.2%	100	2.5%
BtoC business	30,923	88.0%	27,353	86.4%	-3,570	-11.5%
Bio Medical business	138	0.4%	117	0.4%	-21	-15.2%
Other (fund management, etc.)	10	0.0%	9	0.0%	-1	-3.0%
Operating profit by segment						
BtoB business	700	17.2%	743	17.8%	43	6.1%
BtoC business	-857	-	1,732	6.3%	2,589	-
Bio Medical business	-145	-	-224	-	-79	-
Other (fund management, etc.)	-1	-	-8	-	-6	-
Adjustment amount (Company-wide costs, etc.)	-580	-	-708	-	-127	-

Note: The % of sales values in the operating profit by segment section are the profit margin in relation to each net sales
 Source: Prepared by FISCO from the Company's financial results and results briefing materials

Results trends



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

Smooth growth in the BtoB business and return to profitability in the BtoC business, despite fall in sales

2. Trends by business segment

(1) BtoB business

Net sales in the BtoB business increased 2.5% YoY to ¥4,171mn and segment profit (operating profit before Company-wide costs and other adjustments) rose 6.1% to ¥743mn. Some shipments of Meiji Yakuhin products were impacted by the 2024 Noto Peninsula Earthquake, but sales and profits increased following steady growth, particularly for the mainstay PharmaGABA®. As for net sales by item, sales of functional ingredients increased 16.0% to ¥946mn, sales of functional products decreased 51.8% to ¥372mn, sales of Meiji Yakuhin's CMO rose 11.2% to ¥2,220mn, and sales of CHC rose 30.5% to ¥632mn. In functional ingredients, sales of PharmaGABA® grew in both Japan and overseas. In functional products, the Company is strengthening marketing activities for new NB products such as Meiseki Lab and Suimin Labo. In the CMO business, the Company has been working to raise the stability of orders and enhance profit margins amid mounting demand for substitute products due to quality issues and production-related issues among generic drug manufacturers. In the CHC business, it has intensified its focus on new Meiji Yakuhin brand products for drugstores.

Results trends

BtoB business sales by item

	FY7/22					FY7/23					FY7/24		
	1Q	2Q	3Q	4Q	Total	1Q	2Q	3Q	4Q	Total	1Q	2Q	Total
Functional ingredients ^{*1}	252	431	391	633	1,708	375	440	564	620	2,002	504	441	946
Functional products ^{*2}	252	169	242	261	925	289	484	449	145	1,368	199	172	372
CMO ^{*3}	-	1,672	948	1,021	3,642	892	1,104	1,076	1,117	4,190	1,151	1,068	2,220
CHC ^{*4}	-	869	466	465	1,801	312	172	294	78	857	377	254	632
Total	504	3,143	2,048	2,382	8,079	1,869	2,201	2,384	1,962	8,418	2,233	1,938	4,171

*1 PharmaGABA, Bonepep, etc.

*2 OEM, cross-border EC, and sales of end products, including own-brand products, primarily through Bto(BtoC) channels

*3 Contract Manufacturing Organization: Contract manufacturing of pharmaceutical products

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

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

(2) BtoC business

Net sales in the BtoC business decreased 11.5% YoY to ¥27,353mn and segment profit was ¥1,732mn (versus a loss of ¥857mn YoY). By category, net sales in pharmaceuticals/non-pharmaceuticals increased 15.6% to ¥18,918mn, supplements fell 44.4% to ¥4,178mn, and cosmetics decreased 40.2% to ¥3,972mn. The mainstay Newmo® Hair Growth Formula and DRcula series maintained a high level of sales, but overall, sales fell to a level lower than forecast following the postponement of the full-scale promotion of new products such as NEW Z and Bofutsushosan due to the impact of a decline in operating rates at contracted production partners and manufacturing delays caused by distribution restrictions at raw materials suppliers, as well as the curbing of advertising spending on supplements and cosmetics due to a focus on profitability indicators. However, this considerable decrease in advertising expenses resulted in a return to profitability. The number of regular customers for the overall Group decreased by 14.3% to 900,914 customers. Although the number of regular customers has decreased following the fall in advertising expenses, it remains relatively high. Also, as a result of efforts to respond to revisions to laws and regulations, improve the quality of advertisements, and enhance the quality of engagement at call centers, in January 2024, the number of complaints to the National Consumer Affairs Center of Japan regarding the Group decreased 87.5% YoY.

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



Advertising activities for NEW Z and Bofutsushosan have been postponed due to a decline in operating rates at contracted production partners and manufacturing delays caused by distribution restrictions at raw materials suppliers.

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

Results trends

(3) Bio Medical business

Net sales in the Bio Medical business decreased 15.2% YoY to ¥117mn and segment loss was ¥224mn (versus a loss of ¥145mn YoY). Although there was an operating loss as the business is still at the R&D stage with a focus on autoimmune diseases, the contract services business for Olink Target and Olink Flex services for analyzing changes in trace amounts of proteins in the proteome analysis contributed to sales. Furthermore, progress is being made on readying an autoimmune disease antibody drug for clinical trials (Phase I).

No concerns about financial soundness

3. Financial condition

At the end of 1H FY7/24, total assets increased ¥787mn from the end of the previous fiscal year to ¥37,020mn. This was mainly due to a ¥694mn increase in cash and deposits and a ¥212mn increase in investment securities. Total liabilities climbed ¥1,215mn to ¥27,817mn. This was mainly due to a ¥792mn increase in accounts payable - other and a ¥821mn increase in income taxes payable. Total net assets decreased ¥428mn to ¥9,202mn. Although retained earnings rose ¥408mn (due to recording an increase of ¥768mn in profit attributable to owners of parent and a decrease of ¥346mn due to payment of dividends), it was offset by a decrease of ¥851mn associated with the acquisition and disposal of treasury shares. As a result, the equity ratio fell 1.7ppt to 24.9%. Over the medium- to long-term, it is desirable that the Company reduces interest-bearing debt and improves its equity 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 (simplified)

	(¥mn)					
	FY7/20	FY7/21	FY7/22	FY7/23	1H FY7/24	Change
Total assets	10,096	20,944	31,159	36,232	37,020	787
Current assets	7,437	17,933	23,513	27,530	27,683	153
Non-current assets	2,659	3,010	7,645	8,701	9,336	635
Total liabilities	5,188	12,478	24,084	26,601	27,817	1,215
Current liabilities	2,837	10,978	22,795	24,374	25,814	1,440
Non-current liabilities	2,350	1,499	1,288	2,227	2,002	-225
Total net assets	4,907	8,465	7,074	9,630	9,202	-428
Shareholders' equity	4,895	8,455	7,024	9,306	8,863	-443
(Capital stock)	2,033	2,038	2,042	2,043	2,043	-
Equity ratio	48.6%	40.4%	22.7%	26.6%	24.9%	-1.7ppt

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

Consolidated cash flows statement

	(¥mn)				
	FY7/20	FY7/21	FY7/22	FY7/23	1H FY7/24
Cash flows from operating activities	-547	5,938	-6,065	6,125	2,835
Cash flows from investing activities	-860	-442	-2,539	-1,013	-602
Cash flows from financing activities	375	1,030	7,679	2,341	-1,542
Fiscal year-end balance of cash and cash equivalents	3,282	9,794	8,845	16,306	17,001

Source: Prepared by FISCO from the Company's financial results and quarterly securities reports

■ Outlook

Forecast for FY7/24 revised downward in anticipation of greater decline in profit but this is due to temporary factors

● Overview of consolidated results forecast for FY7/24

On March 11, 2024, the Company revised its FY7/24 consolidated results downward and it is now projecting net sales to decrease by 6.5% YoY to ¥64,100mn, operating profit to decrease 25.2% to ¥2,700mn, ordinary profit to drop 18.1% to ¥2,900mn, and profit attributable to owners of parent to fall 41.6% to ¥1,800mn. Compared to the initial forecast (net sales of ¥72,047mn, operating profit of ¥3,338mn, ordinary profit of ¥3,300mn, and profit attributable to owners of parent of ¥2,784mn), net sales have been revised downward by ¥7,947mn, operating profit by ¥638mn, ordinary profit by ¥400mn, and profit attributable to owners of parent by ¥984mn. Net sales are now expected to decrease, compounding the decline in each type of profit.

Although the BtoB business is expected to perform fairly steadily, in the BtoC business, the impact of the decline in operating rates at contracted production partners and manufacturing delays caused by distribution restrictions at raw materials suppliers that manifested in 1H is expected to delay plans for the full-scale promotion of new products such as NEW Z. Progress on the optimization of advertising investment will not be enough to cover the fall in sales. Furthermore, an increase in costs associated with the strengthening of CRM measures and an increase in research and development expenses are expected to have an effect on results. However, at FISCO, we see this downward revision as the result of temporary factors in 1H, and taking into account that the Company is expected to begin the full-scale promotion of its new products in 2H and that it is making progress on controlling its advertising expenses, there is room for upside in the revised forecasts.

Consolidated outlook for FY7/24

	FY7/23		FY7/24			YoY		Comparison with initial forecast	
	Results	% of sales	Initial forecast	Revised forecast	% of sales	Change	%	Change	%
Net sales	68,572	100.0%	72,047	64,100	100.0%	-4,472	-6.5%	-7,947	-11.0%
Operating profit	3,610	5.3%	3,338	2,700	4.2%	-910	-25.2%	-638	-19.1%
Ordinary profit	3,540	5.2%	3,300	2,900	4.5%	-640	-18.1%	-400	-12.1%
Profit (loss) attributable to owners of parent	3,081	4.5%	2,784	1,800	2.8%	-1,281	-41.6%	-984	-35.3%

Note: The FY7/24 forecast is the revised forecast released on March 11, 2024

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

Growth strategy

Aiming for net sales of ¥100.0bn in FY7/26 through “new value creation 1K”

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

In order to create the new products to follow up products such as PharmaGABA® and Newmo® Hair Growth Formula, the Company is advancing R&D, including the development of 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 the Mitsui DM Sugar Holdings Co., Ltd. <2109> Group for LipiSmart®, 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 LipiSmart® from sesame. Through this, it launched a product onto the metabolic market for the first time. Furthermore, the Company has been seeing growth for its NB products in the BtoB business and new products in the BtoC business and over the next two years, it plans to develop and release over 50 new products throughout the Group (23 from the Company, 20 from FUTURE LABO, 16 from Meiji Yakuin, etc.)

Creating new markets in the fibers, battery materials, and biostimulant fields

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.

To create an upcycling market for unused resources, the Company will aim to create new markets in the fibers, battery materials, and biostimulant fields by harnessing unused natural ingredients and realizing the advanced utilization of eggshell membranes. Through this upcycling, it aims to convert the 260,000 tons of eggshells and eggshell membranes thrown away annually in Japan into high-value-added products and thereby contribute to the realization of a sustainable society.

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 "Bio Manufacturing Revolution Promotion Project Research and Development Plan" promoted by the New Energy and Industrial Technology Development Organization (NEDO), a national research and development organization. The Company signed an official agreement with NEDO in February 2024 regarding the "Bio Manufacturing Revolution Promotion Project Research and Development Plan" and started a five-year R&D project. Regarding new energy storage element materials, the Company has discovered that it is possible to develop electronic and energy storage 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 over the next five to eight years while also receiving subsidies from NEDO (for a total of approximately ¥15.0bn, including about ¥8.0bn for construction of a new Meiji Yakuin factory).

Growth strategy

“Bio Manufacturing Revolution Promotion Project Research and Development Plan” agreement

Building a platform for the comprehensive use of eggshell membranes that contributes to the SDGs (budget of over ¥5.0bn over five years)



Source: The Company's results briefing materials

In the fiber field, in February 2024, ovoveil, a next-generation sustainable fiber made using eggshell membranes, was used in Kyoto University Program-Specific Professor Naoko Tosa's Fall/Winter Collection and exhibited at New York Fashion Week (NTFW), one of the world's "Big Four" fashion weeks. The distinguishing characteristics of ovoveil are that it possesses the skin and health enhancing functions of eggshell membranes and that it has a smooth texture similar to cashmere. Going forward, the Company will engage in sales discussions regarding its use by major apparel manufacturers.

In June 2023, through joint research with the Interdisciplinary Cluster for Cutting Edge Research from Shinshu University's Institute for Fiber Engineering (IFES), 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 the biostimulant field, in September 2021, the Company created the Agri-Nutrition Basic Plan with Sanyo Chemical Industries, which integrates the development and technological capabilities of both companies with the aim of solving the global farming crisis. The Company began verification tests aimed at building a new farming system in Shintomi Town, Miyazaki Prefecture in 2022. Going forward, the plan aims 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. Additionally, in December 2023, the Company took over WakenBtech Co., Ltd.'s business concerning agricultural microbial materials containing plant-based endophytic yeasts and in January 2024 it started selling K-3, a liquid lactobacillus ferment containing GABA and the Company's its first biostimulant agricultural material, through its e-commerce sales channel. The results of research that tested K-3 on fruit and vegetable cultivation carried out at over 20 locations throughout Japan confirm that it shortens the growth times and increases the yields of tomatoes and bell peppers.

Growth strategy

In addition, in July 2022, the Company jointly invested with ENEOS 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 endeavor, 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.

Aggressive promotion of M&A/alliances

4. Creation of a new organization

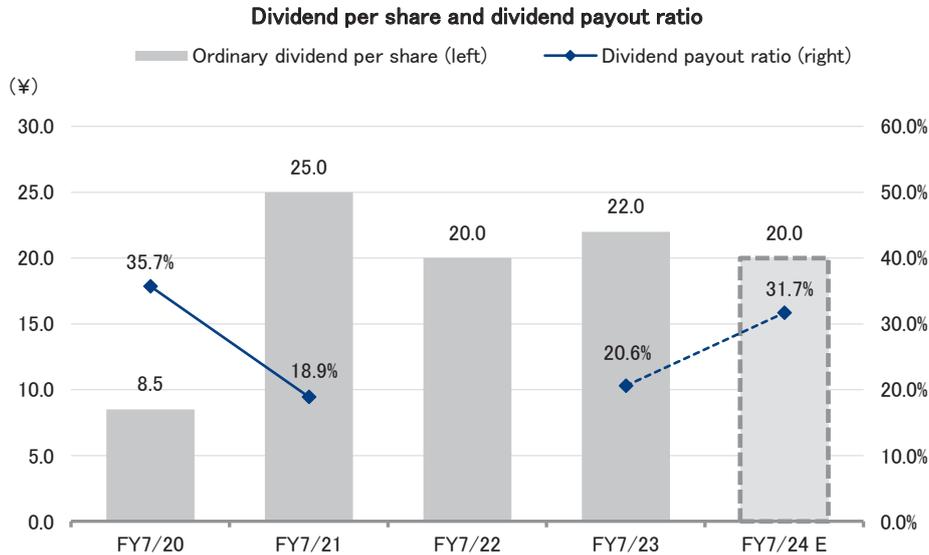
For the creation of a new organization, the Company will develop initiatives including conducting reforms for the organizational, personnel, and hiring aspects, such as providing salary levels enabling employees to work with peace of mind and incentives for growth; developing and strengthening the Global 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 net sales scale of ¥3.0bn to ¥20.0bn 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.

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 in areas such as R&D, advertising, and M&A. Based on this policy and considering the balancing of investment 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 FY7/24, the Company forecasts an annual dividend per share of ¥20.0 (interim dividend = ¥10.0; year-end dividend = ¥10.0), a ¥2.0 decrease from the previous fiscal year, with a dividend payout ratio of 31.7%. Furthermore, after comprehensive consideration that included improvements to the Company's financial position and forecasts of the realization of adequate profit, from January 9 to 19 2024, the Company carried out a share buyback to acquire 874,100 treasury shares (¥1,000mn). The total shareholder return ratio with this included is 87.2%.

Growth strategy



Note 1: Includes a commemorative dividend paid in FY7/21
 Note 2: 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
 Note 3: For FY7/23, the total shareholder return ratio including the share buyback (approximately ¥300mn) was 30.3%
 Note 4: The total shareholder return ratio including the FY7/24 E share buyback (¥1,000mn) is 87.2%
 Source: Prepared by FISCO from the Company's financial results and results briefing materials

The Company's approach to realizing management that is conscious of capital cost and share price is to enhance ROIC (Return On Invested Capital), reduce the cost of shareholder's equity, and engage in raising growth expectations through measures such as capturing revenue by strengthening CRM measures in a way that leverages its customer base, restructuring its business portfolio to cultivate new businesses and products, expanding investment in R&D, facilities, and human capital, and actively pursuing M&A. It will also work to raise its corporate value by creating further opportunities to engage in dialogue with the capital markets and investors (participation in IR fairs, holding online results briefings, holding meetings with small numbers of attendees, providing disclosure materials in English) and by strengthening ESG (environmental, social, and governance) management (in such ways as enhancing disclosure on non-financial information).

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 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.

Pharma Foods International Co., Ltd.
2929 Tokyo Stock Exchange Prime Market

28-May-2024

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

Growth strategy

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 health management. In February 2024, the Company joined the Health & Productivity Management Alliance (established in June 2023) to promote health management through practical initiatives and sharing of know-how. 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

Sales of Newmo® Hair Growth Formula have considerably transformed the Company’s revenue levels and some of the market is positioning it as an e-commerce company. However, the Company is essentially a biotechnology company that practices development based on the concept that immunity, aging, and the nervous system are three important elements in life activity and health maintenance. At FISCO, we have a high opinion of its development capabilities, from its exploration of functional ingredients and development of functional products to its creation of new markets through drug discovery and the advanced utilization of eggshell membranes materials, and we think it has strong medium- to long-term growth potential. We also commend the Company’s commitment to strengthening dialogue with the stock market and investors as part of its efforts to enhance corporate value. Going forward, we will be monitoring the progress of its “Bio Manufacturing Revolution Promotion Project Research and Development Plan” (fibers, battery materials, and biostimulants) efforts following its agreement with NEDO and the Autoimmune Disease Project based on an exclusive licensing agreement with Mitsubishi Tanabe Pharma Corporation.



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