

## Message from the CEO



The Otsuka group of companies celebrated its 100th anniversary in September 2021. We reached this milestone thanks to the support of our stakeholders, including consumers, patients, medical professionals, business partners, and local communities.

As we embark on our second century, I offer heartfelt thanks and reconfirm the determination of every Otsuka employee to pursue what only Otsuka can do, thereby contributing to people's health worldwide.

### Otsuka's Centennial, Otsuka's Values

The Otsuka group originated in the 1921 establishment of a chemical raw material manufacturer in Naruto, Tokushima Prefecture, Japan. Although the following 100 years included some tough times, we were able to overcome those challenges by adhering to concepts espoused by three generations of leaders from the Otsuka family—values that have always underpinned our business and are as relevant today as ever: *Ryukan-godo*, *Jissho*, and *Sozosei*.

*Ryukan-godo* (by sweat we recognize the way) is taken from the words of Otsuka founder Busaburo Otsuka: "In all things, only through your own sweat and toil can you discover truth and essence." For instance, a problem with the quality of magnesium carbonate in our earliest days caused considerable frustration. After much head-scratching and experimenting, a solution was discovered quite by coincidence—a fortuitous accident that would not have occurred without the everyday endeavors of those involved. In this way, unstinting effort helped create the bedrock of our business.

*Jissho* (actualization) is inspired by advice from Masahito Otsuka, a leader from the second generation: "Hypothesize, experiment, and achieve." In the world of pharmaceuticals, a drug that has satisfied 99 percent of requirements for regulatory approval is still a drug that has yet to be approved. What might seem like a measly one percent could be the first indicator of a major flaw in the project and that there is still a long, long way to go.

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When Masahito Otsuka said, “In life, doing trumps knowing,” he was referring to the need to try many approaches to overcome challenges and ensure that final one-percent gap is bridged. When a younger me first heard those words, I thought that was all very well, but surely it was necessary to study something before attempting it. It was not until later that I realized that only by being on location, and observing and listening first-hand can we truly learn how products are made at our factories, how consumers react to our products in-store, and why consumers prefer a particular product. Naturally, we need to gather facts, but it takes action to parlay those facts into real awareness and understanding.

*Sozosei* (creativity) comes from Akihiko Otsuka, a leader from the third generation. The sentiment is encapsulated in the slogan “Otsuka-people creating new products for better health worldwide,” which was adopted as the philosophy of Otsuka Pharmaceutical’s factories and

laboratories in the 1970s and has since become the Otsuka group’s corporate philosophy. These days, creativity is a common byword, but Akihiko Otsuka was saying more than four decades ago that we would be judged on our creativity and innovation. His calls for greater creativity and innovation were born of a conviction that we could become world-class only by pursuing projects that other companies found too challenging and, as a result, developing revolutionary products. In fact, it has led to blockbusters like *ABILIFY* and *Samsca/JINARC/JYNARQUE*, and the creation of new-category products such as *POCARI SWEAT* and *Calorie Mate*.

These three Otsuka leaders shared a common determination to always keep their eye on the task at hand, and an appetite for the hard work that was usually necessary to get things done. Sometimes things do not turn out as planned, but in those failures lie hints and discoveries. Today, as always, the Otsuka group corporate culture encourages people to take on

challenges, to persevere, and to pursue the truths at the heart of the matter.

### A Strategy to Stay Abreast of Changing External Risks and Opportunities

Since its appearance in 2019, the COVID-19 pandemic has had an outsized impact not only on day-to-day life, but also on industrial structures and business models, which has included significant, rapid change in the pharmaceutical industry. Today, we are faced with myriad risks and opportunities, including geopolitical turmoil, supply chain disruption, rising raw material costs, environmental problems, population issues, and the evolution of artificial intelligence and computer technology. It is very hard to predict what the world will look like in the future. For the Otsuka group to become an indispensable contributor to the health of people worldwide, we need to envision a society and economy 10 years, 20 years, and further ahead, and to be agile in our response.

No one could anticipate the ways in which the world would change when we launched our Third Medium-Term Management Plan in fiscal 2018. The Otsuka group of companies has never sat back and accepted fate—our style has always been to keep a close eye on developments, adapt flexibly, and change where appropriate. This has enabled us to adjust to the transformations brought about by the pandemic but still pursue our business in a way that is consistent with our

#### **Ryukan-godo**

(by sweat we recognize the way)

The process of discovering the core substance of something through hard work and practice

#### **Jissho**

(actualization)

Self-actualization through achievement, completion and the discovery of truth

#### **Sozosei**

(creativity)

Pursuing that which only Otsuka is capable of delivering

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management plan. I believe that the increase in popular awareness of health issues amid the new normal of the post-COVID-19 era presents us with growth opportunities, and that now is the time for us to demonstrate our true value as a unique total healthcare company.

In the Pharmaceutical Business, we have achieved the revenue targets for our four Global Products set forth in the Third Medium-Term Management Plan two years ahead of schedule. Moreover, in adapting to the changing landscape, we are carrying out R&D that includes virtual clinical trials; enhancing business continuity planning and developing labor-saving technologies to maintain a stable supply system for manufacturing; and operating a hybrid communication system in sales that combines in-person and digital methodologies. Moreover, we continue to pursue innovation with the establishment of Otsuka Pharmaceutical's Osaka Pharmaceutical Research Institute (tentative name) and our partnership with Sumitomo Dainippon Pharma (now Sumitomo Pharma) and its U.S. subsidiary Sunovion Pharmaceuticals in the psychiatry and neurology area.

In the Nutraceutical Business, we are solidifying our presence in consumer healthcare markets via a strategy that focuses on global expansion, new concepts and categories, and high-profit-margin products. In addition, our strategy emphasizes taking advantage of increased health consciousness and addressing new needs generated by women playing more active roles in the workplace.

In fiscal 2021, the middle year of the Third Medium-Term Management Plan, revenue tracked roughly in line with the initial forecast. Business profit was below target as a result of our agile approach to prioritizing investments for growth; nevertheless we will redouble our efforts to push business profit beyond the 200 billion yen target in fiscal 2023 by making ROIC (return on invested capital)-conscious investments and managing SG&A expenses.

### Our Vision for the Next 100 Years

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The support of all our stakeholders and the grounding principles left to us by generations of Otsuka family leaders have enabled the Otsuka group of companies to thrive for over a century. Observance of the leader's time-tased wisdom must, however, be coupled with flexibility in the way we view and carry out our business, so that we may adapt to changes in the market, keep up with technological advances, and respond to geopolitical risks. We cannot hope to keep up with changes in operating environments if we are unable to move with the times or adapt to the needs of specific regions. To sustain growth, we must overcome preconceptions and stereotypes, and energetically incorporate and act on diverse opinions. Those who do not dare, achieve no progress, and spark no innovation; if we seek innovation, we will find it in the insights generated out of diversity and the bold action of

taking on challenges.

I believe a business's three main drivers are its philosophy, its culture, and the capabilities of its people and organization. The Otsuka group corporate philosophy, "Otsuka-people creating new products for better health worldwide," will remain universally applicable. A company with a solid philosophical backbone is strongest in turbulent times, and we remain dedicated to seeking out the hard challenges, unafraid of change or failure. The lessons we learn in this pursuit should then be incorporated into subsequent ventures, thereby creating a cycle that enhances the capabilities of individuals and advances our ability to manage organizations comprised of such individuals.

The Otsuka group has, as a unique total healthcare company, contributed to the health of people worldwide by developing and providing creative products and services covering everything from diagnosis and treatment of diseases to health maintenance and improvement. Moving forward, increasing digitalization will surely bring major change to our industry, such as in drugs and treatments that fuse digital technology and conventional healthcare methodologies, and advancements in diagnosis and prediction of disease. We strive to be a provider of comprehensive services and products to meet the specific healthcare needs of each community in each era. The sheer variety of the Otsuka group's business portfolio gives us the foundation needed to accelerate intragroup cooperation and joint ventures in the pursuit of our unwavering

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corporate philosophy, and I am convinced that focusing on contributing to people's health will help usher in another century of sustained growth for the group and sustainability in society.

Our stance toward helping the world overcome environmental and other problems can be seen in our Sustainability Mission, launched in 2019, and our 2050 Environmental Vision, "Net Zero," launched in 2021.

Furthermore, we have newly defined *carbon neutrality*, *circular economy* and *water neutrality* as environmental material issues and have set medium-term targets to promote next-level initiatives. Already, we are working in accordance with the recommendations of the Task Force on Climate-related Financial Disclosures, an advisory board set up by the G-20 Financial Stability Board for companies to analyze and respond to the risks and opportunities brought about by climate change.

### To Our Stakeholders

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Humanity has faced pandemics before; every time the pandemics have had a major impact; every time we have used our wisdom and technical innovations to overcome them. In the case of COVID-19, the challenge facing the world is to find a way to live with the virus. We at the Otsuka group seek always to contribute to society—otherwise, there would be no reason for us to exist as a company. Every day, we work hard toward that goal, inspired by three generations of leaders from the Otsuka family buoyed by lofty aspirations, and steeled by unyielding determination.

Today, patients and consumers are more health-conscious than ever before. For our part, we pursue our business with an unwavering commitment to contribute to people's health worldwide through new products and

services. Together with business partners and all our other stakeholders, we will strive to live up to the trust and responsibility invested in us as a manufacturer, and to address and fulfill unmet medical needs and be the best partner the medical community and consumers could hope for. The Otsuka group has signed comprehensive partnership agreements with prefectures and municipalities throughout Japan, under which we help with health maintenance and improvement activities and support disaster preparation and response efforts. These activities are made possible by the group's position as a provider of unique total healthcare, and they are an ideal opportunity for us to work closely with local communities to find solutions to the challenges facing society.

Shareholders and investors can be confident in our continued commitment to transparency and fairness in management, such as through a strong governance framework and appropriate disclosures in accordance with Japan's Corporate Governance Code. Through proactive dialogue, we will continue to live up to the trust invested in us and fulfill our responsibilities to society as we remain dedicated to seeking sustained growth and generating medium-to-long-term value in accordance with our corporate philosophy.

We sincerely ask for continued support and guidance from all stakeholders, and urge you to hold high expectations for the next 100 years of the Otsuka group.