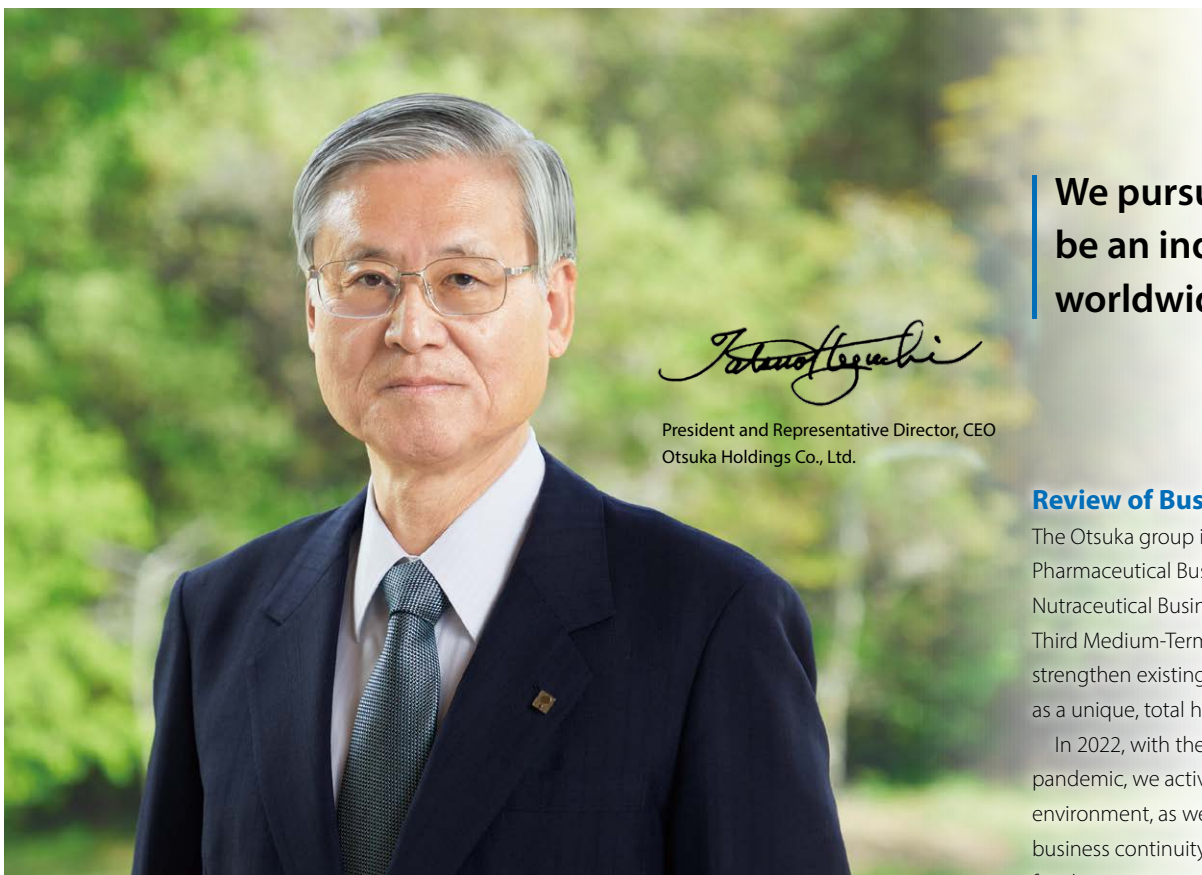


## Message from the CEO



President and Representative Director, CEO  
Otsuka Holdings Co., Ltd.

**We pursue the universal value of health and aim to be an indispensable contributor to people's health worldwide through innovative methods.**

### Review of Business and the Environment in 2022

The Otsuka group is developing its global healthcare business with two core businesses: the Pharmaceutical Business, which handles everything from diagnosis to treatment of diseases, and the Nutraceutical Business, which supports the maintenance and improvement of day-to-day health. In the Third Medium-Term Management Plan, which ends in 2023, we have been working to expand and strengthen existing businesses and create new value under the theme of advancing in the global market as a unique, total healthcare company.

In 2022, with the resumption of social activities that had been restricted due to the COVID-19 pandemic, we actively promoted marketing and sales activities, etc. that responded to the new business environment, as well as working to ensure a safe working environment for our employees and for business continuity, including building a stable product supply system. In addition, the business and fiscal environments surrounding the healthcare industry have given rise to a greater focus on treatment costs in Japan, the United States and Europe, due in part to the aging of populations, the launch of higher-priced drugs, and countermeasures against infectious diseases. Awareness of health, such as on daily preventive measures, has also been increasing.

In this business environment, in the fiscal year ended December 31, 2022, results for the Pharmaceutical Business were significantly driven by our four Global Products, including the antipsychotic drug *REXULTI/RXULTI*, while in the Nutraceutical Business, the sales of functional beverages grew and progress was made in fostering the women's health market. During fiscal year 2023 we are aiming for further growth, with record-high revenue of 1,800 billion yen, which is 100 billion yen over the Medium-Term Management Plan target, and profit of 157.5 billion yen, also a record-high.

This year marks the final year of the Otsuka group's Third Medium-Term Management Plan.

Under this plan, we have continued to provide new value along with taking on challenges in innovation, with the goal of making the breakthroughs required of a unique, total healthcare company.

We will continue to focus on what only Otsuka can do to help people around the world lead more comfortable and healthier lives, and work with our stakeholders to further co-create value and contribute to the realization of a sustainable society.

## Message from the CEO

### Responsibilities to Address in 2023 as CEO

#### Pursuing the Essence of Things through Business

Including my career as the head of a group company subsidiary, I have been involved in the management of the Otsuka group for 28 years. There is a way of thinking that I value in business, which I have gained through my experience at Otsuka. It is this: when pursuing the universal essence of things, management's perspective converge on certain elements .

I joined Otsuka Pharmaceutical in 1977, and I believe that what I have learned since then through my involvement in the development of *Calorie Mate*, product management of *POCARI SWEAT*, the restructuring of management at Pharmavite, LLC, and experience in the U.S. pharmaceutical business, are major foundations for my decision making as president. I believe that this approach is also consistent with the legacy of three generations of Otsuka founders, which I will discuss later in this report. For example, products that satisfy unmet needs often take an extremely long time to develop and promote because they do not fit into existing frameworks. However, if the product has inherent value it can be the basis for continued investment, even if it appears to be a negative investment in the short term.

We believe that failures and successes in business are themselves a mass of case studies, and that the key is to formulate a hypothesis and path to success and put them into practice. I emphasize our corporate philosophy and corporate culture, and take opportunities to talk about them with employees from time to time, because I believe that they embody the history of Otsuka's unique management perspectives, which has been proven over 100 years through the vast experiences of our predecessors, and are therefore the essence of the company. For the V<sup>2</sup>-receptor antagonist *Samsca/JINARC/JYNARQUE*, one of the Otsuka group's current major products, we had the challenge of joint clinical trials in Japan, the United States, and Europe, and it was launched after more than a quarter of a century of repeated

trial and error. This was a product that took a particularly long time to develop, and it was also an attempt to see if we could replicate the methodology of the successful development of the antipsychotic drug *ABILIFY* in the cardiovascular and renal fields. For the ADPKD indication, we had obtained approval in Japan and Europe, but approval in the U.S. was taking a lot of time and there was a difference of opinion within the company as to whether or not to continue with the additional clinical trials. I chose to complete them.

Otsuka had the experience of pioneering the new field of nutritionally adjusted foods, based on our belief that such products would definitely benefit people's health. The Otsuka group has a product called *Calorie Mate* that when launched was not well accepted in the market. However, the company had a certain "health obsession," and confidence in the proof of *Calorie Mate's* inherent value based on science. This was why Otsuka persevered in its efforts to enable its success. Similarly, obtaining the approval for *Samsca/JINARC/JYNARQUE*, was based on the belief that this medicine would definitely contribute to the health of people worldwide.

After completing additional studies and receiving approval, *Samsca/JINARC/JYNARQUE* grew into a blockbuster and is now a mainstay of the four Global Products that drive the Otsuka group's performance.

#### Three Theams to Be Addressed in 2023

The following are three themes the Otsuka group is emphasizing in 2023 to continue to grow sustainably in the future.

The first is to bring the Third Medium-Term Management Plan to completion, since this is its final year. The second is to prepare for the Fourth Medium-Term Management Plan. The third is to decisively invest in long-term management resources, namely human resource development, new technologies and new science, in order to achieve Otsuka's Vision for the next 100 years.

Regarding the completion of the Third Medium-Term Business Plan, in the Pharmaceutical Business, we will continue to expand revenue centered on our four Global Products, and we will also work to develop more global products. For example, the antipsychotic *REXULTI/RXULTI*, which is currently available in 60 countries and regions, completed clinical trials and was approved as the first drug in the U.S. to address the agitation associated with dementia due to Alzheimer's disease in May 2023. The reduction of agitation not only reduces the burden on patients, but also addresses the significant physical and mental health needs of the people around them, their caregivers and family members, who have endured problems.

Also, in medical devices, we are seeking approval for an ultrasound renal denervation system that will address unmet needs in the treatment of hypertension. This system is a minimally invasive device that

#### Essence of Management



## Message from the CEO

lowers blood pressure by cauterizing the renal sympathetic nerves involved in blood pressure and suppressing their hyperactivity. If approved, it would be the first medical device in the world to address the issue related to adherence for this condition, which is an unmet need for treatment that, on the face of things, is being met, but in fact, is not.

In the Nutraceutical Business, we will focus on establishing a presence in the consumer healthcare market by accelerating global expansion, taking on challenges in new fields, and implementing efficient management strategies. In the healthcare market, sales of supplements such as *Nature Made* and *EQUELLE* and cosmetics such as *InnerSignal* have been strong, thanks to the promotion of strategies that accurately grasp the needs of growing health consciousness and women's activities. For *Nature Made*, a new U.S. plant and research center is being established to meet demand in the U.S. market, which has grown significantly during and after the COVID-19 pandemic.

I believe that the landing point of the Third Medium-Term Management Plan is to demonstrate in a more concrete form the concept of providing total healthcare solutions through innovation, with these two businesses as the major pillars.

The second theme to be realized in 2023 is preparation for the Fourth Medium-Term Management Plan. Both the business environment and the group's structure have changed significantly since the previous plan was formulated. In addition, demands from various stakeholders to resolve issues related to the realization of a sustainable society are increasing. Against this backdrop, we have begun preparations to maximize the corporate value of the group as a whole, based on the risks and opportunities that can be anticipated during the period of the Fourth Medium-Term Management Plan.

The third theme is the development of human resources, a long-term management resource, and investment in new technologies and new science, to achieve Otsuka's Vision. In particular, I consider human resources to be the core of management resources. Today, the Otsuka group is a conglomerate with 196 group companies, including subsidiaries and affiliates, and approximately 47,000 employees, operating around the world. If we intend to create long-term value in the healthcare field, it will be essential to enhance individual capabilities and maximize the group synergies brought about by our human capital in Japan and overseas.

In 2022, Otsuka Pharmaceutical established the Osaka Research Center for Drug Discovery, which incorporates cutting-edge science and technology. Success in drug discovery innovation depends not only on internal resources, but also on the ability to network freely with external parties. In addition, global businesspeople are required to have an understanding of differences due to cultural differences among countries. Otsuka will continue its efforts to realize its vision by fostering world-class human resources, starting with outstanding researchers, and by investing in the creation of an environment for human resource development.



### The Essence of Otsuka's Management, Built over Three Generations

As we develop our business by leveraging the Otsuka group's worldwide network, along with human resource development, we focus on passing on the unique qualities of the Otsuka group. If a tree tries to grow by spreading its branches and leaves, and that tree's roots and foundation are not solid, that growth cannot be supported. What is the foundation of the tree, for the Otsuka group? It is the essence of our management, the case studies of our predecessors, which is summed up in the words Ryukan-godo, (by sweat we recognize the way), Jissho (actualization), and Sozosei (creativity) as advocated by successive generations of leaders.

The phrase Ryukan-godo was coined by Busaburo Otsuka, founder of the Otsuka group, to guide the way to the truth: "You can only understand the essence and truth of things by making your own efforts, sweating, and putting them into practice." The essence found in the process of steady and dedicated effort led to the foundation of the business. The word Jissho was left by Masahito Otsuka, the second leader of the company, and means "to formulate a hypothesis, try it, and make it happen." He dug deeply into people's needs, formulated hypotheses, put them out into the world, and satisfied people; in short, he proved the hypotheses. The word Sozosei was coined by Akihiko Otsuka, our third leader. Akihiko consistently talked about innovation and creativity based on his belief that in order to be globally competitive, we must develop innovative products by taking on difficult challenges that other

## Message from the CEO

companies are not tackling. This led to the creation of groundbreaking new drugs such as *ABILIFY*, as well as products that created new categories such as *POCARI SWEAT* and *Calorie Mate*. These three words form the basis of the unique qualities of the Otsuka group, and as the unshakable root of the tree that runs through all of our business activities, they unify the direction of all Otsuka group employees and serve as the foundation of our way of thinking.

While the Otsuka group is now gaining internationality and diversity, with sales outside Japan sales now accounting for more than 60 percent of total sales, it is becoming even more important to instill and pass on the unique qualities of our corporate culture. Even as our business expands and grows, and the number of companies in our group increases, we will continue to promote understanding of our corporate culture as the root of the Otsuka group and ensure that our philosophy is thoroughly understood.

### To Create Value as a Total Healthcare Company

#### After the 100th Anniversary Year

The Otsuka group celebrated its 100th anniversary in September 2021, and the year through August 2022 was designated as the anniversary year of the 100th anniversary, and an opportunity for all Otsuka group employees to come together to learn about the group's history and create the group's future. A variety of events were held, among them, the implementation of a program for employees throughout the Otsuka group to think about new value to be created by the group for the next 100 years. This helped us reaffirm what we value as Otsuka, and, through discussions between management and employees, helped them deepen their understanding of the corporate philosophy and culture.

The global situation is ever-changing, starting with the long-term impact of the COVID-19 pandemic from 2020. In addition, geopolitical risks and the resulting multifaceted risks to supply chains are becoming more serious, costs are rising, and global environmental issues are piling up. Along with these, the rapid evolution of science and technology, such as new drug discovery modalities like mRNA, artificial intelligence (AI) like GPT, and investment in the development of quantum computers, requires a constant reassessment of risks and opportunities in our business. In these times of extreme uncertainty, the universal desire of people is for physical and psychological stability, particularly the desire for health of both the mind and body, and happiness and satisfaction, or in other words, the well-being that is the framework for the expanded traditional concept of healthcare. This is deeply connected to total healthcare.

As mentioned earlier, universal things have an essence. If people's wishes are universal, then the value called *health* that the Otsuka group pursues is also universal. This is why the Otsuka group's strength lies

in its ability to commit to people's health worldwide in one form or another, even when the business environment changes dramatically, and the diversity of its business portfolio is also a strength in its ability to respond to changes in the environment.

The Otsuka group's business model is reflected by a diagram showing nine areas: pharmaceuticals, clinical nutrition, diagnostics, medical devices, OTC drugs, nutraceuticals, cosmetics, consumer products, and chemicals (▶P.02). The diagram simply illustrates how the interaction of each of these businesses with one another is the source of the Otsuka group's strengths.

The products and services handled by the Otsuka group are based on solid scientific evidence. For example, *POCARI SWEAT* is not just a drink; its development concept was "a sweat beverage," which is derived from the concept of the IV solutions business in relation to intracellular and extracellular fluids. In this way, the inherent value and scientific principles discovered in the Pharmaceutical Business are thoroughly verified in order to horizontally expand and reproduce them in other businesses, and are introduced to the world with the conviction that they are useful for health.

### Total Healthcare that Seeks to Encompass Care for Every Person in the World

When you think about it, Otsuka group products support people's health in a variety of ways. For example, the essence of the Otsuka group's total healthcare business model is actually quite simple from a lifestyle perspective. In everyday life, people drink *POCARI SWEAT* to replenish their fluids. If you get sick, you receive treatment through intravenous fluids or medicine. Missing nutrients are supplied with supplements. Our business is diverse, but we focus our attention on individuals. We are there for one person's life, taking care of that person's "health" in every situation throughout his or her life. This is the *raison d'être* of our total healthcare company, with its broad range of business from treatment, to prevention, and health maintenance, and Otsuka's goal is to thoroughly support each person's health from physical, mental, and social aspects.

Our theme for the next 100 years is to continue to create new value and to strengthen our structure as a total healthcare company to achieve this goal. To achieve this, we intend to enhance our portfolio and strengthen our system for developing innovative products and services. The Otsuka group will continue to be a provider of total healthcare that accompanies people in all walks of life, with a wide range of companies and diverse employees working together and combining their respective abilities. We will continue to embody our corporate philosophy of "Otsuka-people creating new products for better health worldwide"; the cornerstone of the Otsuka group. By continuing to create new value, we will work together with our stakeholders to create corporate value as an indispensable company for the next 100 years.

We look forward to your continued support and encouragement.