

# Original Value Creation and Our Business Structure

## Sources of original value creation

The Otsuka group is engaged in a diverse range of healthcare-related businesses, centered on the Pharmaceutical Business and the Nutraceutical Business. The overlap of diverse businesses makes it possible to create original products and value, contributing to the health of people around the world with unique total healthcare products and services as only Otsuka can. This section describes the value creation that results from the overlap of the Otsuka group's diverse businesses and the business structure that serves as the foundation for this value creation.

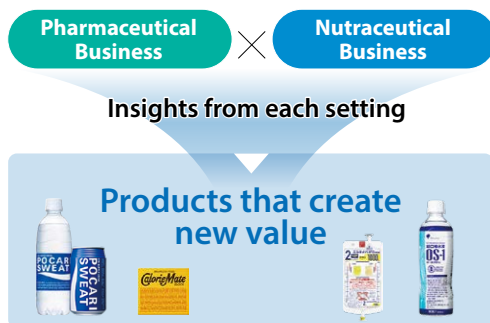
### Create new value by leveraging synergies from the overlap of diverse businesses

In product development, Otsuka leverages its strength in having diverse businesses around the world to apply insights gained from one business to another and develop new products and services that address as yet unmet needs. This Otsuka group business model has been passed down through the generations to its product developers, who continue to create new value-creating products and services today.

“ **Nutraceuticals:**  
a word created from “**Nutrition**” and “**Pharmaceuticals.**” „

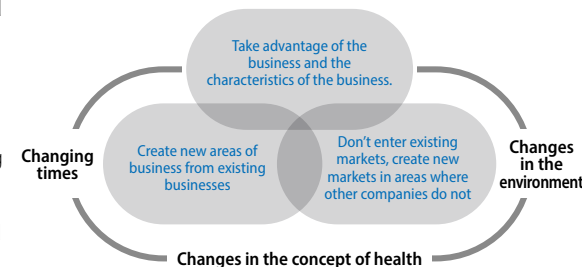
Since establishing the first private-sector clinical exercise and nutrition laboratory in 1984, the Nutraceutical Business has developed products based on thorough scientific evidence. The business name, made of “nutrition” + “pharmaceuticals,” is a clear indication of Otsuka's unique sense of responsibility and commitment to delivering products that are beneficial to health.

*Calorie Mate* was developed as a clinical nutritional food alternate to intravenous drips, taking advantage of Otsuka Pharmaceutical's accumulated technology and expertise in nutritional products. Products created from an unprecedented perspective by leveraging insights gained from different business settings have the innovative potential to create a market.



## Facing changes in the social environment and needs, and developing new possibilities

The Otsuka group develops products and services that meet diversifying needs around the world by collaborating with group companies in Japan and overseas. Also, the group strives to improve its drug discovery and development capabilities on a global level by sharing expertise and cutting-edge technologies through



collaboration and alliances not only among group companies, but also with external organizations.

The Paradise™ Ultrasound Renal Denervation System, which was submitted for approval to the U.S. FDA in 2022, was developed as a product that provides a new treatment option for the hypertension using medical devices to address the needs of patients who do not respond adequately to existing drugs and therapies. This is one of the new initiatives created through synergies between the pharmaceutical and medical device businesses of the Otsuka group.

By focusing on what only Otsuka can do, and by taking on challenges without being bound by precedent, we continue to create new value in the healthcare field.

### Contribute to the realization of a sustainable society through our business activities

A sustainable society is achieved through a combination of various areas of “health.” With climate change becoming a major social issue, the Otsuka group has set “Environment [Healthier Planet]” as a material issue, and is working to resolve this issue through its business.

Otsuka Foods is accelerating the development of plant-based food products, such as *Zero Meat*. In 2022, Otsuka Pharmaceutical began selling *POCARI SWEAT* in reusable returnable bottles using the Loop circular shopping platform.

By combining the know-how derived from our diverse businesses with new technologies, we will contribute to the realization of a sustainable society.



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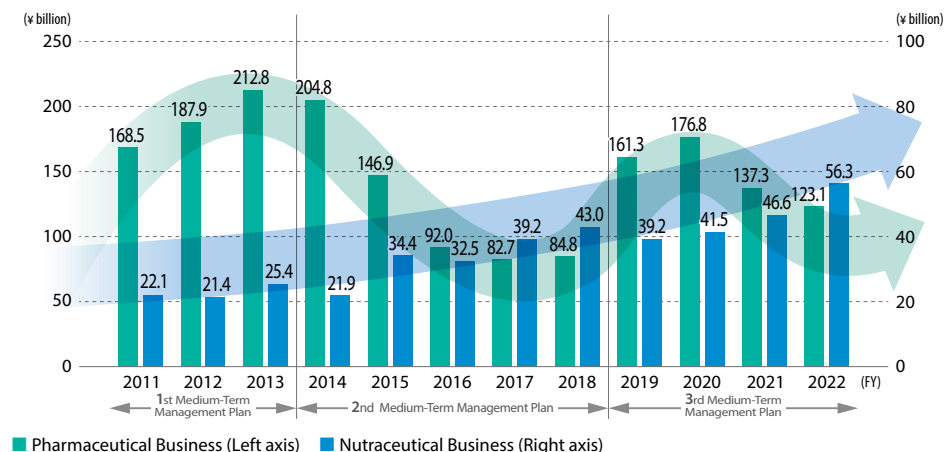
### A business structure that brings sustainable growth in corporate value

#### Stable revenue base through diverse businesses

Otsuka group not only allocates resources based on the portfolios within the medical and nutraceutical business segments, but also implements a dual management approach in which the two businesses mutually support each other through cash generated by each and personnel exchanges between the businesses. Prior to the 1990s, the main earnings driver for the group was the nutraceutical business. In addition to providing information on pharmaceutical products, the medical representatives at that time supported the growth of the group by cooperating in the group's business activities beyond their role, including involvement in the installation of vending machines at medical institutions. The profits generated by the nutraceutical business supported R&D investments in the medical business, resulting in products that are used around the world, such as the antipsychotic *ABILIFY*, which was launched in 2002. In the 2010s, cash earned from *ABILIFY*, the earnings of which was at its maximum, was invested in the development and sales expansion of the four Global Products following *ABILIFY*, as well as in organic growth investments in the nutraceutical business.

While the medical business is a major driver of Otsuka group's revenue, it is also affected by fluctuations in revenue and profit due to the expiration of exclusivity periods and uncertainty due to the

#### Operating profit of the medical and nutraceutical businesses



For the fiscal year ended December 31, 2014, figures for the nine-month period from April 1 to December 31, 2014 are shown due to a change in the fiscal year end.

low probability of success. The nutraceutical business has continuously achieved a business profit margin of 10% or more by creating many long-selling brands and as a result, the group as a whole has stable growth due to both of these businesses.

#### Multifaceted business foundation capable of responding to rapid changes in the environment

Diversified business development plays an important role in dispersing risks while continuously increasing corporate value. For example, changes in the healthcare business environment, such as the suppression of medical costs and drug price reductions (risk), can be viewed as opportunities for the nutraceutical business, such as increased health awareness and the spread of self-medication. Our unique business foundation as a total healthcare company enables us to respond to rapid changes in the environment surrounding our business and to try a variety of new things with an eye to the future.

### Governance to create synergistic value from diverse businesses

#### Spreading the corporate philosophy and essence of management

The size of the group, with 196 affiliated companies, is a source of diversity and innovation. At the same time, one of the challenges is to ensure consistency with the overall management vector on a sustained basis in the face of differing market environments, cultures, perspectives, and values. The Otsuka group continuously implements a variety of educational activities to ensure that the corporate philosophy is understood and permeates the work of each and every employee worldwide. In addition, top management proactively communicates the corporate philosophy and the essence of management passed down from successive generations of managers to employees. ▶P.49

#### Governance structure and global portfolio management

Otsuka Holdings' Board of Directors consists of several directors who also serve in management positions at operating companies. Through prompt communication and close collaboration, the Board promotes optimal investment strategies for the entire Otsuka group and corporate strategies to maximize synergies. In addition, outside directors appointed from a diverse range of human resources with expertise in various industries and markets participate in the operation of the Board of Directors from an independent standpoint. ▶P.64