Operation Overview and Outlook

Since its foundation in 1950, our company has achieved rapid growth as a specialized manufacturer of pharmaceuticals listed in the *Japanese Pharmacopoeia (JP)*. In recent years, we have continued to expand our business by prioritizing the manufacture and sales of medical disinfectants and magnesium oxide preparations (laxatives) as the two main pillars of our business as they represent evolving products in the field of *JP* pharmaceuticals.

As part of our efforts to expand business, for the last two decades, we have been investing aggressively in both tangible and intangible resources. As examples of tangible resources, we completed the Shin-Sayama Distribution Center with an automated distribution system in 2000, obtained a new site for our plant in Iruma, Saitama, in 2002, and constructed the first building of the Iruma Plant, which is dedicated to the manufacture of new products, in 2003 and completed the second building in 2007. We extended the second and first buildings in 2009 and 2012, respectively. Since then, we have carried out aggressive capital investments in such areas as the machinery and equipment upgrades needed to manufacture high-quality ethical pharmaceuticals at the Sayama and Iruma plants.
As instances of intangible resources, with the aim of providing scientific information to medical institutions, we launched *Carlisl*e, a publication on healthcare-associated infections, in 1996 and *Y's Square*, a website providing information on hospital infection control, in 1998. Since then, we have been actively engaged in publishing academic books on information of infection prevention measures and held seminars for healthcare professionals. These have served to strengthen customer trust and enhance our brand power.

The current environment surrounding ethical pharmaceutical manufacturers remains tough as a result of the promotion of medical cost management policies by the public administration, along with the rising cost of raw materials. By focusing on the development of products that address the needs of those on the medical frontlines and enhancing patient quality of life, we have been able to expand the manufacture and sales of new products and achieve business growth. Maglax^{TM} Tablet (currently called "Magnesium Oxide Tablet *'Yoshida'*"), a magnesium oxide preparation launched in 1999, has grown to be one of our main products. We maintain a healthy balance between the two segments of laxatives (magnesium oxide preparations) and disinfectants, and this is the source of our ability to secure stable sales. We also launched Maglax^{TM} Granules 83% (currently called "Magnesium Oxide Fine Granules 83% *'Yoshida'*") in 2006, another dosage form of the magnesium oxide preparation, and Hexizac^{TM} AL Solution 1% in 2010, a chlorhexidine antiseptic preparation that has enjoyed increasing recognition in recent years. Both products are steadily being adopted in medical frontlines. We will continue to focus on such areas as new product development and improvements to existing products.

In 2023, normal everyday living returned at last as more than three years of the COVID-19 pandemic came to an end with the reclassification of COVID-19 from a class 2 to a class 5 infectious disease on May 8 under the Act on the Prevention of Infectious Diseases and Medical Care for Patients with Infectious Diseases. However, business conditions in the ethical drugs industry remain challenging because of the pressure of skyrocketing raw material prices. These business conditions forced net sales down by 300 million yen year-over-year due to factors that included the (a) failure of price hikes to permeate as expected in price negotiations with drug wholesalers, medical institutions, and others authorized to decide on delivery prices to medical institutions and other facilities, despite having focused on fully reflecting in invoice prices the price hikes on unprofitable products authorized by the Ministry of Health, Labour and Welfare and increasing the invoice prices on other low-profit products (characterized by rising rebate rates, roughly equivalent to rising discount rates), (b) discontinuing the sale of some unprofitable products, and (c) further intensification of competition (aggressive pricing substantially lower than drug prices) in the important product line of laxatives (magnesium oxide preparations). Operating profit, an indicator of our strength in our main businesses, was largely unchanged from the previous period (down 9 million yen) mainly because of such factors as (1) lower than initially anticipated increases in raw materials costs (which will fully impact the next period's results), (2) efforts to cut expenses, including labor costs, and (3) substantial increases in inventories of Company products from the end of the previous period. However, since factors (1) and (3) merely reflect carryover to 2024, we recognize that financial results continue to involve uncertainty.

Both sales and profit declined in 2024, with net sales decreasing by 165 million yen and operating profit down 151 million yen from the previous period. A key factor behind the sales decline was that the growth in gross sales of the infection control segment (including disinfectants) failed to offset the decrease in gross sales of the laxatives segment (magnesium oxide preparations), which was impacted by aggressive price cuts from competitors. The main factors behind the profit decline were:
(1) Lower gross sales, the foundation of all profits (gross profit, operating profit, ordinary profit, and net profit).
(2) A decrease in the added-value ratio (gross sales – amount of outside purchases [raw materials costs + outsourcing costs + product purchases]/gross sales), partly due to rising raw material prices driven by the yen’s continued weakness in international currency markets.
(3) Significant persistent deviations between our product delivery prices (for laxatives, disinfectants, and other products) and drug price standards, despite a gradual reduction in large-scale deviations as unit price negotiations for individual products progress in medical frontlines.

In 2025, net sales decreased by 161 million yen, while operating profit increased slightly by 7 million yen compared with the previous fiscal year. As in the previous year, a key factor behind the sales decline was that the growth in gross sales of the infection control segment (including disinfectants) was insufficient to offset the decrease in gross sales of the laxatives segment (magnesium oxide preparations), which was affected by aggressive price competition from competitors. The increase in operating profit was attributable to efforts to improve rebate rates and reduce expenses (including plant expenses and selling, general and administrative expenses) in anticipation of sluggish growth in gross sales, and these measures proved effective. However, we remain concerned about the continuing decline in gross sales, which is the source of all profits.

In 2026, we will continue to devote ourselves to corporate management while keeping firmly in mind our paramount mission as a manufacturer and marketer of ethical pharmaceuticals—namely, to comply with applicable laws and regulations and consistently fulfill our responsibility to provide a stable supply of high-quality ethical pharmaceuticals. In addition, in accordance with the intent of the Guidelines for Sales Information Provision Activities for Ethical Pharmaceuticals, which came into effect in April 2019, we reaffirm our commitment to continuing to carry out appropriate sales information provision activities.

With respect to our flagship product, magnesium oxide tablets, we are making steady preparations to launch a double-sided printed version designed to improve product identification, with a target launch in July of this year. We originally launched our magnesium oxide tablet ahead of the competition under the name *Maglax Tablet*. As a pioneer in this field, we will continue to implement various initiatives related to this product with pride and determination, with the aim of restoring gross sales. Regarding disinfectant business, the strong reputation we have steadily built through the provision of academic information is increasingly translating into business results, and we therefore believe there are sufficient prospects for future growth in gross sales. To sustain long-term growth, we remain committed to actively promoting R&D activities that accurately capture the true needs of medical professionals and bringing new products to market.

Our financial position remains extremely sound (with equity capital of 11,411 million yen and an equity ratio of 72.2% as of the end of December 2025). We believe we have firmly established the trust of financial institutions and that there are no particular concerns regarding our ability to raise funds.

Masahiro Endo, President
Yoshida Pharmaceutical Company Limited
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