



# Briefing on Business Results for the Fiscal Year Ended March 2005

Announced on May 12, 2005 (Briefing on May 13)

Kunio Fukujin, Chairman and CEO



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# Business Results

# Business Results Summary

## Business Environment

- + Growth of pharmaceuticals market 2.3%, Ethical drugs 2.6%
- + Joint purchase by hospitals, tough price negotiations with chain dispensing pharmacies
- + Intense competition among wholesalers

## Operational Situation

- + Achievement of the sales target, up 12.1% year on year
- + Reorganization effect from the second half. Decrease of gross profit margin due to sales price decline.
- + Start of full efforts to reduce SG&A expenses (effective from the current term)

## Efforts

- + Business reorganization in October 2004
- + Progress in formation of a corporate group
- + Healthcare Consortium vision

# Consolidated Highlights of Alfresa Holdings Corporation

(in millions of Yen)	March 2004		March 2005		Change	
	Performance	of Sales (%)	Performance	of Sales (%)	YoY change	YoY (%)
<b>Net sales</b>	1,066,577	-	<b>1,195,313</b>	-	128,735	112.1
<b>Gross profit</b>	94,435	8.85	<b>97,948</b>	<b>8.19</b>	3,513	103.7
<b>Operating income</b>	12,402	1.16	<b>6,534</b>	<b>0.55</b>	(5,869)	52.7
<b>Ordinary profit</b>	15,266	1.43	<b>10,431</b>	<b>0.87</b>	(4,836)	68.3
<b>Net income</b>	6,489	0.61	<b>3,207</b>	<b>0.27</b>	(3,282)	49.4
<b>Total assets</b>	513,188		<b>609,351</b>			
<b>Shareholders' equity</b>	108,409		<b>111,075</b>			
<b>EPS</b>	194.85		<b>91.81</b>			
<b>BPS</b>	3,207.01		<b>3,281.01</b>			
<b>ROE</b>	6.0		<b>2.9</b>			

<b>Annual dividend for the year ended March 2005 (plan): 50 yen</b>	
DOE (on the consolidated basis)	<b>1.5%</b>
Dividend ratio (on the consolidated basis)	<b>54.5%</b>
Annual dividend yield	<b>1.13%</b>

(Based on the stock price on March 31, 2005: 4,430 yen)

## Consolidated P/L of Alfresa Corporation (Wholesaling Business)

(in millions of Yen)	March 2004		March 2005		Change	
	Performance	of Sales (%)	Performance	of Sales (%)	YoY change	YoY (%)
Net sales	1,049,505	-	<b>1,178,925</b>	<b>-</b>	129,420	112.3
Gross profit	86,774	8.27	<b>90,048</b>	<b>7.64</b>	3,274	103.8
SG&A expenses	75,366	7.18	<b>84,245</b>	<b>7.15</b>	8,879	111.8
Operating income	11,408	1.09	<b>5,803</b>	<b>0.49</b>	(5,605)	50.9
Ordinary profit	14,221	1.36	<b>9,996</b>	<b>0.85</b>	(4,225)	70.3
Net income	6,826	0.65	<b>2,851</b>	<b>0.24</b>	(3,975)	41.8

\* The performance figures include figures of other businesses.

## Consolidated Results of Alfresa Corporation (Wholesaling Business)

### ◆ Consolidated net sales: 112.3% year on year

- **DAIWA and Odashima were newly consolidated from the term under review**
- **Taishodo was incorporated into Alfresa Corporation from the second half**

\* Organic growth: 102.3% (equal level with the market)

in millions of Yen

	Net sales	Ordinary profit	Net income
■ Alfresa Corporation (non-consolidated)	1,064,443	8,161	2,025
■ Kowa Pharmaceuticals Co., Ltd.	82,526	537	340
■ Ando Co., Ltd.	29,293	358	189
■ DAIWA Pharmaceutical Wholesalers Co., Ltd.	20,204	87	49
■ Odashima Limited	44,932	228	272
■ Nissho Butsuryu Service Co., Ltd.	3,561	176	99

## Consolidated Net Sales by Sales Channel (Wholesaling Business)

(in 100 millions of Yen)

	Sales amount	Ratio to total (%)	Ratio to total in previous year (%)
Hospital	3,855	32.7	34.5
Clinic	2,050	17.4	17.0
Dispensing Pharmacy	4,547	38.6	36.3
OTC pharmacy	413	3.5	3.4
Others	918	7.8	8.7
<b>Total</b>	<b>11,784</b>	<b>100.0</b>	<b>100.0</b>

# Alfresa Corporation's Dealing with Manufacturers (Wholesaling Business, Consolidated)

(March 2005)

	<b>Manufacturer</b>	<b>to Alfresa's sales (%)</b>
1	Sankyo	6 . 7
2	Takeda Pharmaceutical	6 . 3
3	Chugai Pharmaceutical	5 . 8
4	Novartis Pharma	4 . 5
5	Pfizer Japan	4 . 5
6	Yamanouchi Pharmaceutical	4 . 4
7	Daiichi Pharmaceutical	4 . 2
8	Eisai	3 . 9
9	GlaxoSmithKline	2 . 7
10	Mitsubishi Pharma	2 . 7

	<b>Manufacturer</b>	<b>to Alfresa's sales (%)</b>
11	Banyu Pharmaceutical	2 . 6
12	Kyowa Hakko Kogyo	2 . 6
13	Ono Pharmaceutical	2 . 4
14	Dainippon Pharmaceutical	2 . 3
15	AstraZeneca	2 . 3
16	Fujisawa Pharmaceutical	2 . 1
17	Taiho Pharmaceutical	1 . 9
18	Aventis Pharma	1 . 8
19	Sumitomo Pharmaceuticals	1 . 8
20	Bristol Myers	1 . 3

Ref.	Astellas Pharma	6 . 6
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## Consolidated P/L of Alfresa Pharma Corporation (Manufacturing Business)

(in millions of Yen)	March 2004		March 2005		Change	
	Performance	of Sales(%)	Performance	of Sales(%)	YoY change	YoY(%)
Net sales	20,759	-	<b>20,881</b>	-	122	100.6
Gross profit	7,675	36.97	<b>7,895</b>	<b>37.81</b>	220	102.9
SG&A expenses	6,863	33.06	<b>7,436</b>	<b>35.62</b>	573	108.3
Operating income	812	3.91	<b>459</b>	<b>2.20</b>	(353)	56.5
Ordinary profit	908	4.37	<b>657</b>	<b>3.15</b>	(251)	72.4
Net income	477	2.30	<b>251</b>	<b>1.20</b>	(226)	52.6

# Consolidated Results of Alfresa Pharma Corporation (Manufacturing Business)

(in millions of Yen)		
Segment	Product, Strategy	Sales
■ Pharmaceutical (existing product)	Nipolazin, etc. <b>(Utilization of wholesale channels of group companies)</b>	5,930
■ Pharmaceutical (transferred product)	Oraspor Dry Syrup, etc. <b>(Expansion of transferred products)</b>	1,150
■ Regent	Check Ad, etc. <b>(Fecal occult blood area, expansion of new products)</b>	1,810
■ Medical device/equipment	Surgical sutures, etc. <b>(Introduction of a new-type nebulizer to the market, enhancement of the cardiovascular field)</b>	4,140
■ Others	Trade, etc. <b>(Business expansion to China and other Asian countries)</b>	6,100
■ Development	<b>Applied for manufacturing approval of a treatment for narcolepsy (CN-801) at the end of March 2005</b>	

# Consolidate Balance Sheets of Alfresa Holdings Corporation

(in 100 millions of Yen)

	March 31, 2004	March 31, 2005	Change
<b>Current assets</b>	<b>4,272</b>	<b>5,050</b>	<b>777</b>
(Cash, deposit and securities)	592	594	1
(Trade notes and accounts receivable)	2,900	3,382	481
(inventories)	522	691	168
<b>Fixed assets</b>	<b>859</b>	<b>1,043</b>	<b>184</b>
(Tangible and intangible fixed assets)	491	595	104
<b>Total assets</b>	<b>5,131</b>	<b>6,093</b>	<b>961</b>
<b>Current liabilities</b>	<b>3,820</b>	<b>4,692</b>	<b>871</b>
(Trade notes and accounts payable)	3,663	4,506	843
(Short-term interest bearing debts)	28	51	23
<b>Fixed liabilities</b>	<b>191</b>	<b>244</b>	<b>52</b>
(Long-term interest bearing debts)	1	8	7
<b>Minority interests</b>	<b>35</b>	<b>46</b>	<b>11</b>
<b>Shareholders' equity</b>	<b>1,084</b>	<b>1,110</b>	<b>26</b>

## Consolidated Cash Flows of Alfresa Holdings Corporation

(in millions of Yen)

	March 2004	March 2005
Beginning balance of cash and cash equivalents	54,950	57,900
Cash flows from operating activities	2,297	10,169
Cash flows from investing activities	(760)	(4,039)
Cash flows from financing activities	1,428	(7,566)
Translation difference of cash and cash equivalents	(15)	(6)
Increase (decrease) in cash and cash equivalents	2,950	(521)
Ending balance of cash and cash equivalents	57,900	57,379

## Gross Profit Margin

### Review

Alfresa Corporation's 2Q result was 7.86% and the planned figure for March 2005 was 7.74%.

Regardless of rebates and allowances, the actual result for March 2005 was 7.64% due to an unexpected decrease in margins. (%)

	March 2004	September 2004	March 2005 (plan)	March 2005 (actual)
<b>Alfresa Holdings Corporation (consolidated)</b>	<b>8.85</b>	<b>8.42</b>	<b>8.30</b>	<b>8.19</b>
<b>Alfresa Corporation (consolidated)</b>	<b>8.27</b>	<b>7.86</b>	<b>7.74</b>	<b>7.64</b>
<b>Alfresa Pharma Corporation (consolidated)</b>	<b>37.24</b>	<b>38.04</b>	<b>38.12</b>	<b>37.81</b>

## Efforts for Reduction of SG&A Expenses

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### **“Low-cost Operation Promotion Committee” launched in October 2004**

**at Alfresa Corporation**

#### **“Cost Improvement Project”**

Realize SG&A expenses of 6% level (Actual result: 7.31%, non-consolidated)

- Discussing reduction of vehicle/transportation expenses, etc.
- Discussing sale of idle assets, etc.

#### **“Personnel Optimization Project”**

- 265 through early retirement + 47 through natural attrition  
= Reduction of 312 full-time employees (From October 1, 2004)  
(Reduction effect for the current term: JPY2 billion)



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# Efforts in the Year Ending March 2006

## Challenge in the Year Ending March 2006 (Mainly in the Wholesaling Business)

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Securing of Gross Profit Margin

Enhancement of Wholesale Function

Promotion of Low-cost Management

## Securing of Gross Profit Margin

### Secure gross profit margin in the first year of the Medium-term!

- Fair sales price
- Focus on sales of profitable products
- Joint purchase, joint sales promotion by group companies
- Proactive marketing of Alfresa Pharma's products



# Enhancement of Wholesale Function

## ➤ Marketing Strategy

1. Introduction and utilization of SA (Sales Assistant) system to Tokai, Kansai and other regions
2. Introduction of the new dispensing pharmacy support system
3. Provision of information and various supports for the issuers of prescriptions
4. Utilization of a drug information provider “SAFE”

## ➤ Enhancement of SPD

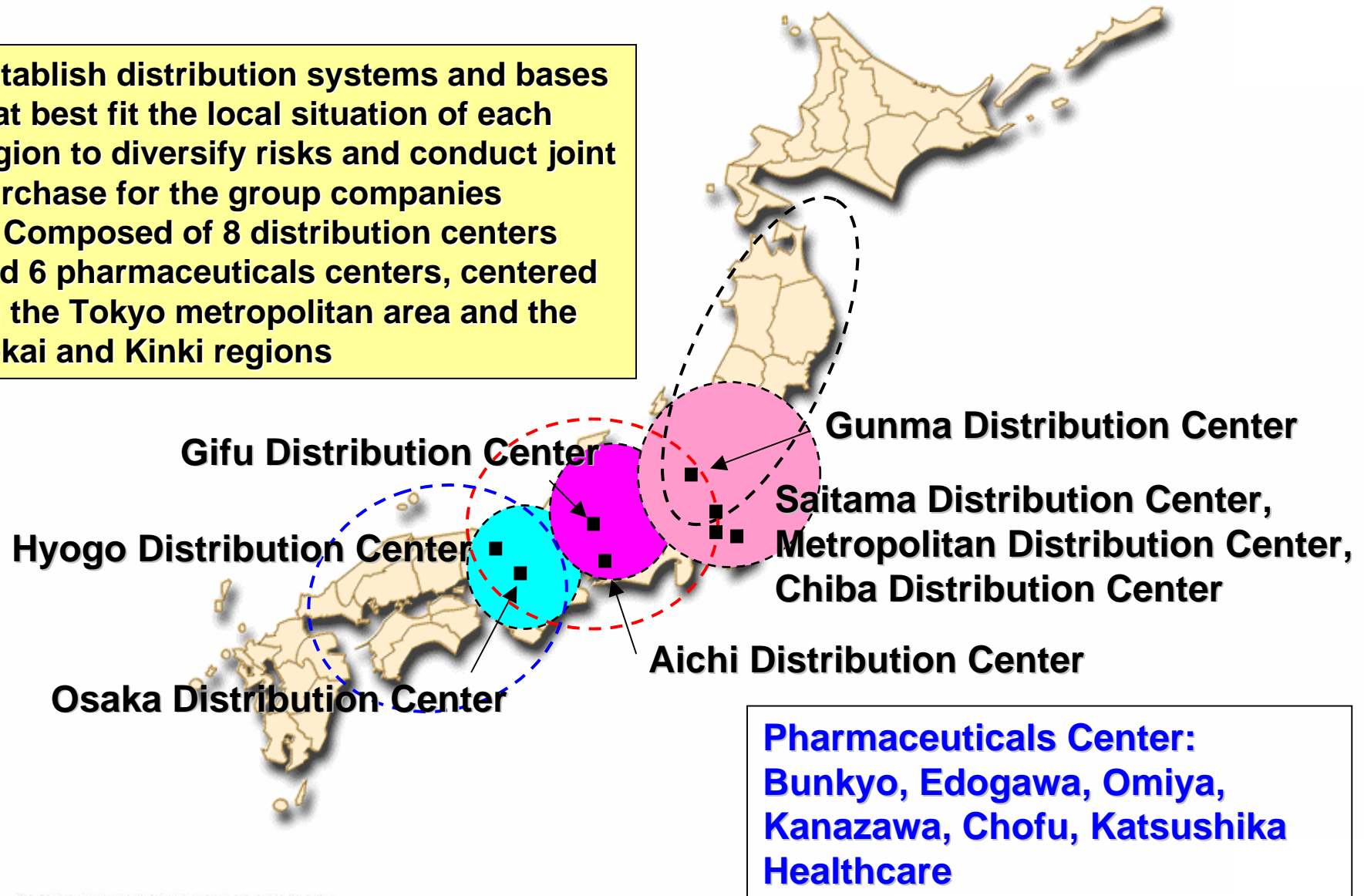
1. Development of SPD business by Alfresa PIP-Tokyo
2. Establishment of a group's integrated procurement system for medical materials



# Distribution System of Alfresa Corporation

Establish distribution systems and bases that best fit the local situation of each region to diversify risks and conduct joint purchase for the group companies

Composed of 8 distribution centers and 6 pharmaceuticals centers, centered on the Tokyo metropolitan area and the Tokai and Kinki regions



## Focus on Dispensing Pharmacy Channel

\* The Tokyo metropolitan area: 63.6%, Tohoku: 61.9%, Tokai: 46.3%, Kinki: 39.7%  
Ratio of separation of dispensing from medical practice as of May 2004

· Undeveloped channel for manufacturers (MR)

· Needs of dispensing pharmacies for frequent deliveries with small lots (support distribution)

**Wholesalers' initiatives, ingenuity, functions are important**

**Enhancement of Storage Function**  
by establishing regional pharmaceuticals centers

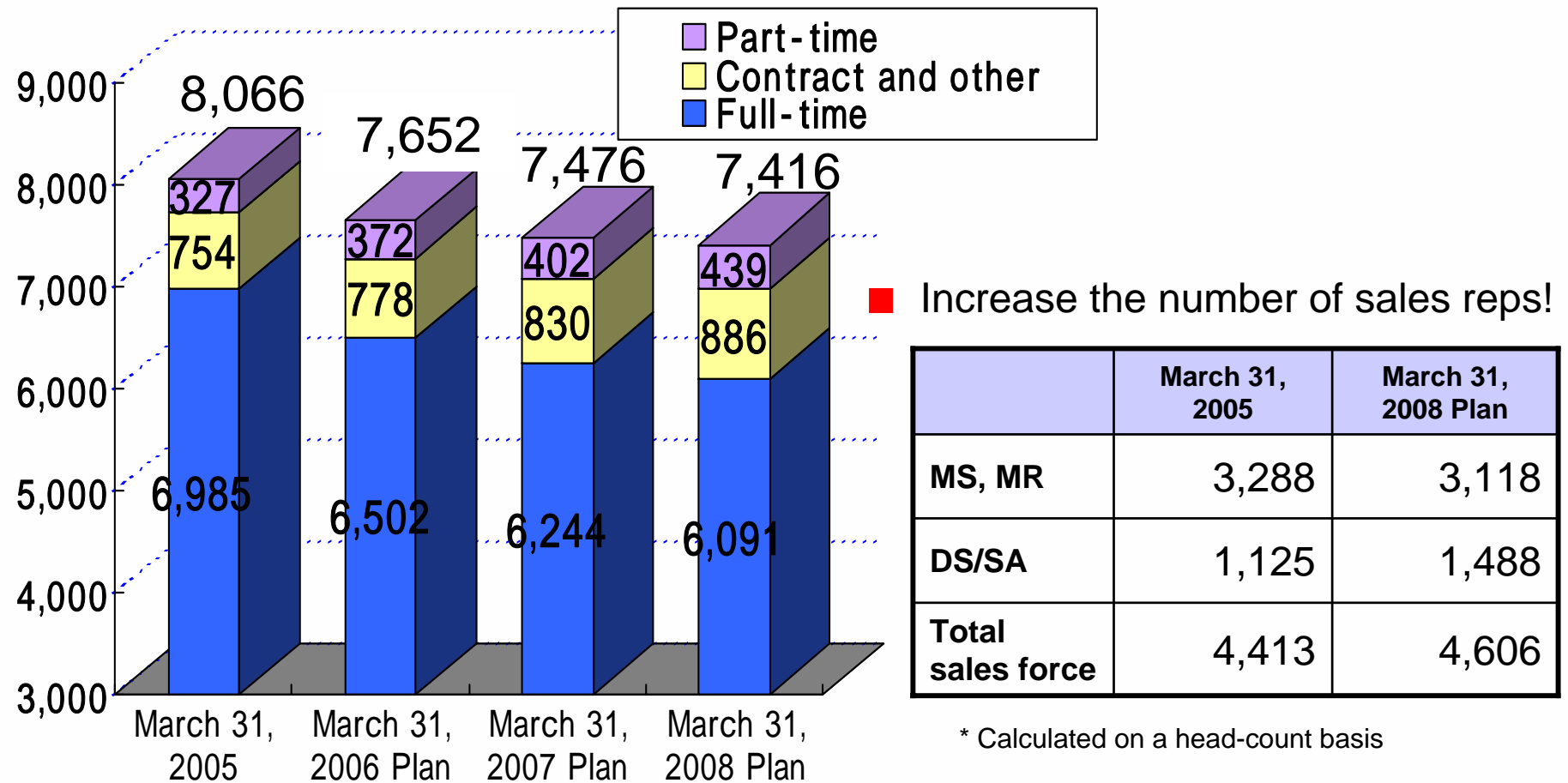
**Enhancement of Assortment Function**  
by full-line dealings with manufacturers

**Enhancement of Delivery Function**  
by increasing SA (specialized delivery staff)

***MS specializing in sales activities!***

# Promotion of Low-cost Management (Alfresa Holdings Corporation, Consolidated)

## Personnel Optimization with a Focus on Full-time Employees

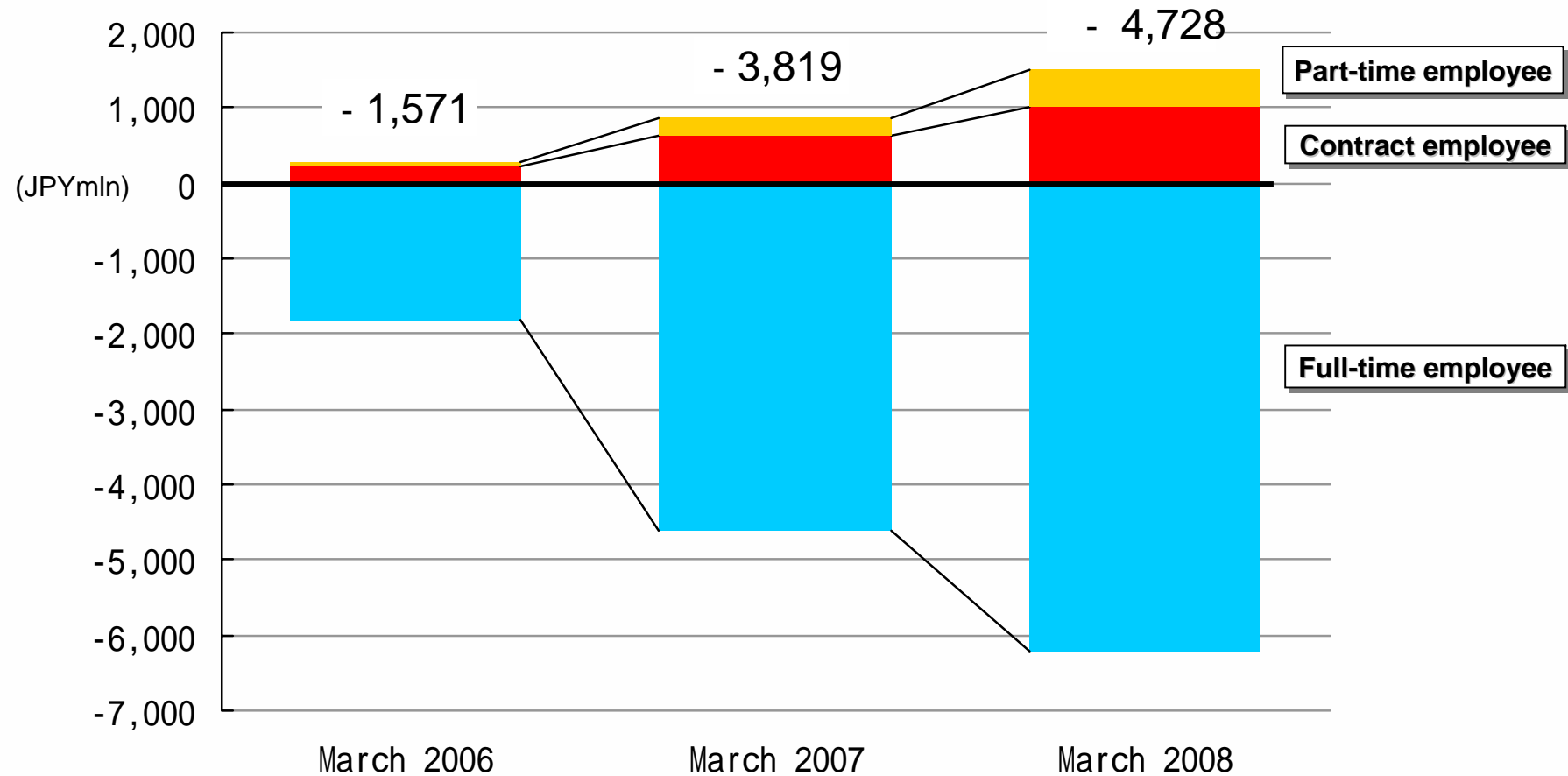


\* Calculated at an internal rate (Full-time employee 1: Contract employee 0.5 : Part-time employee 0.2)

\* Figures for March 31, 2005 include personnel of Kowa Yakuhin, OKAUCHI KANKODO and Alfresa PIP-Tokyo.

# Promotion of Low-cost Management

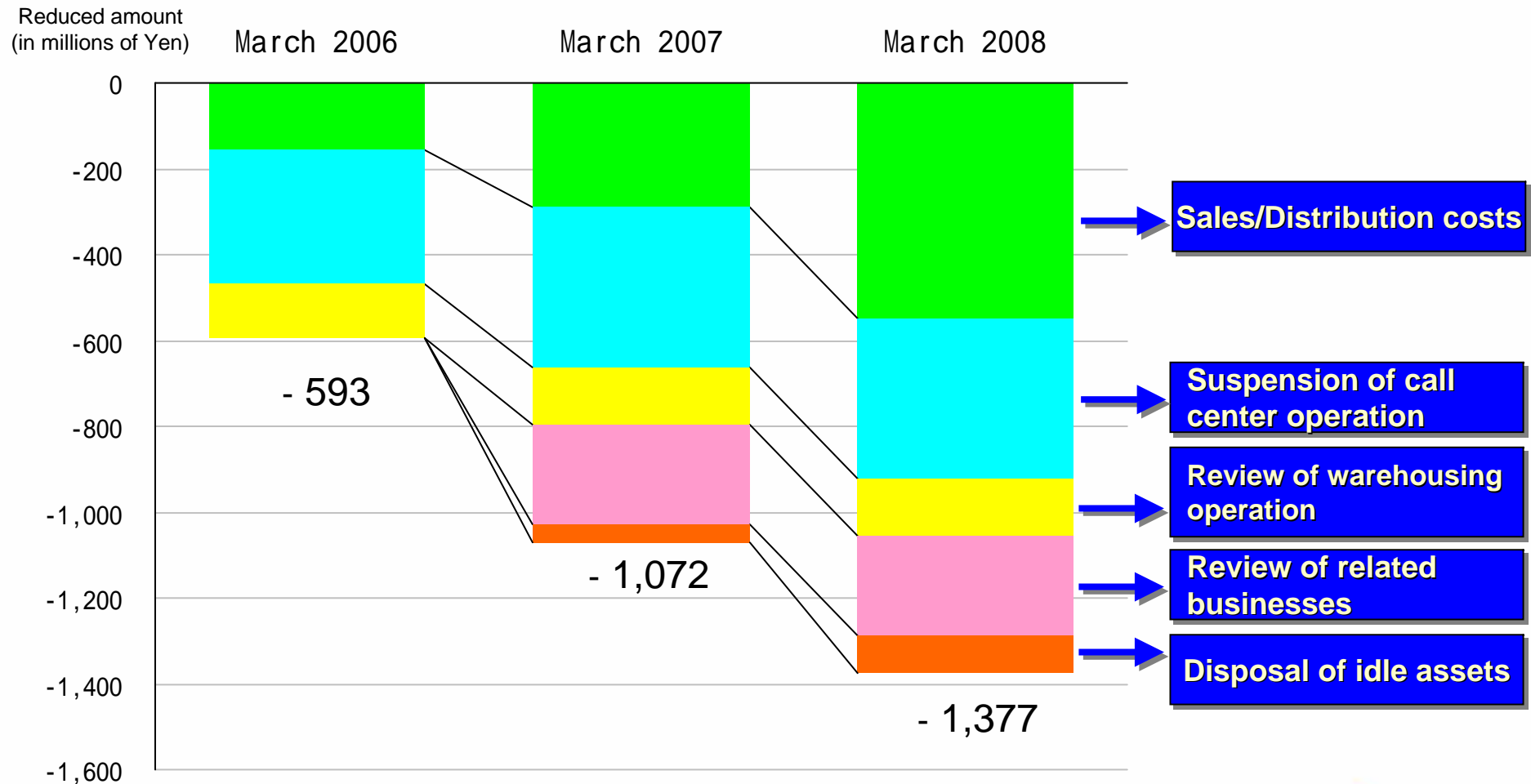
## Effect of Labor Cost Saving due to Revision of the Employment System



\*The above chart indicates the effect of labor cost saving (accumulated) based on the year ended March 2005.

# Promotion of Low-cost Management

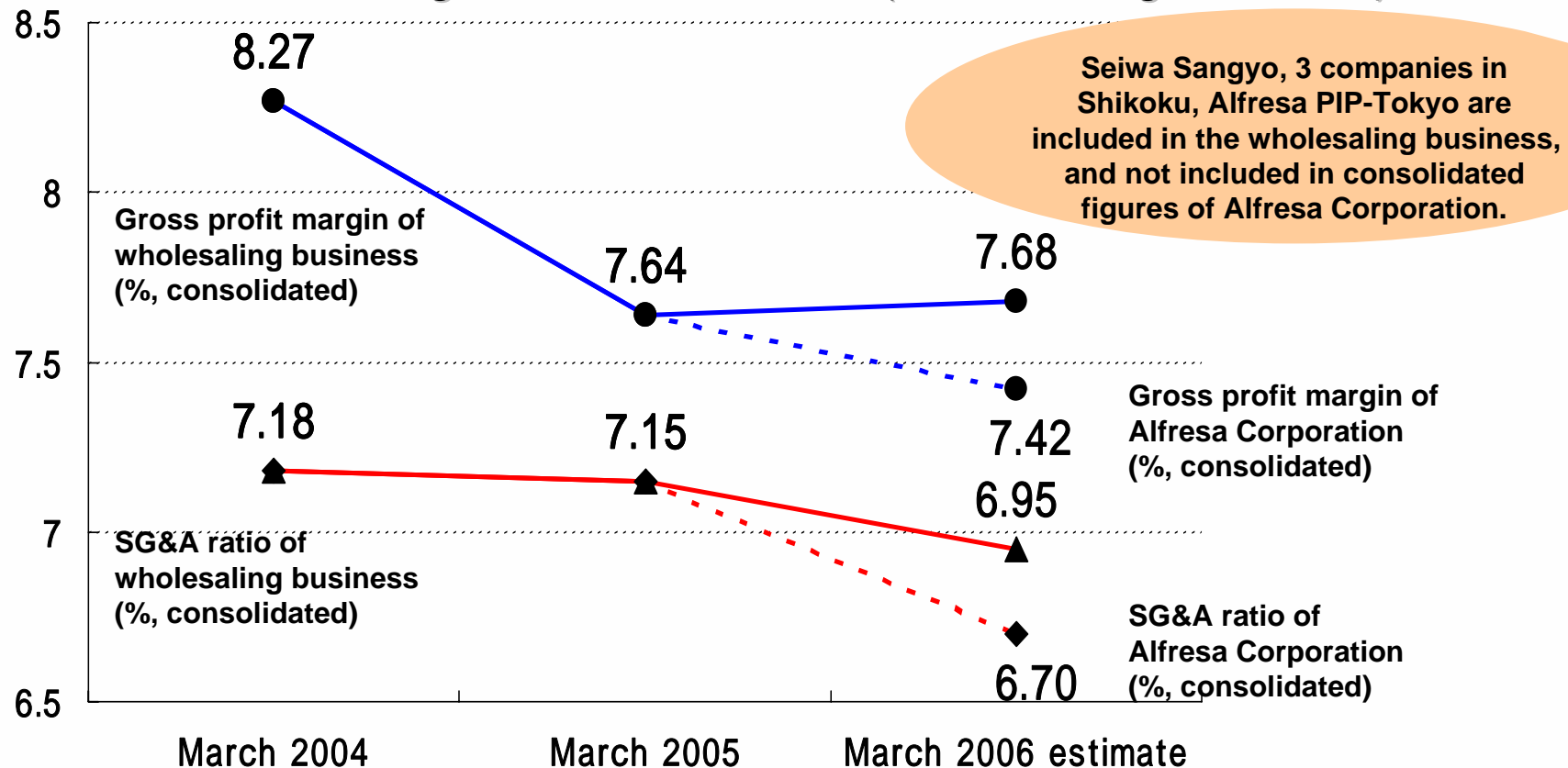
## Cost Saving Efforts in the Wholesaling Business (Nonpersonnel Costs)



\*The above chart indicates the effect of cost saving (accumulated) based on the year ended March 2005.

# Promotion of Low-cost Management

## Gross Profit Margin and SG&A Ratio (Wholesaling Business)



- Planned gross profit margin of Alfresa Corp. for the current term is 7.42% (slight decrease)
- Planned gross profit margin of the wholesaling business can be raised to 7.68% by newly consolidating other companies.





# Strategies and Outlook

## Expansion of the Alfresa Group (Capital/Business Alliance)

**Steady group formation toward the sales target of JPY2 trillion for the year ending March 2008!**



# Participation of Seiwa Sangyo through Stock Transfer

(2nd section of TSE,  
Securities code: 7411)

***Seiwa Sangyo Co., Ltd.***



**Announced on May 12, 2005!**

## Profile of Seiwa Sangyo, Terms of Stock Transfer

■ Head office	Hiroshima Prefecture
■ Representative	Hidetomi Takahashi, President
■ Capital	JPY1,144 million
■ Net sales	JPY90,455 million
■ Ordinary profit	JPY238 million
■ Net income	JPY150 million (March 2005, consolidated)

· May 12, 2005: Conclusion of stock transfer agreement

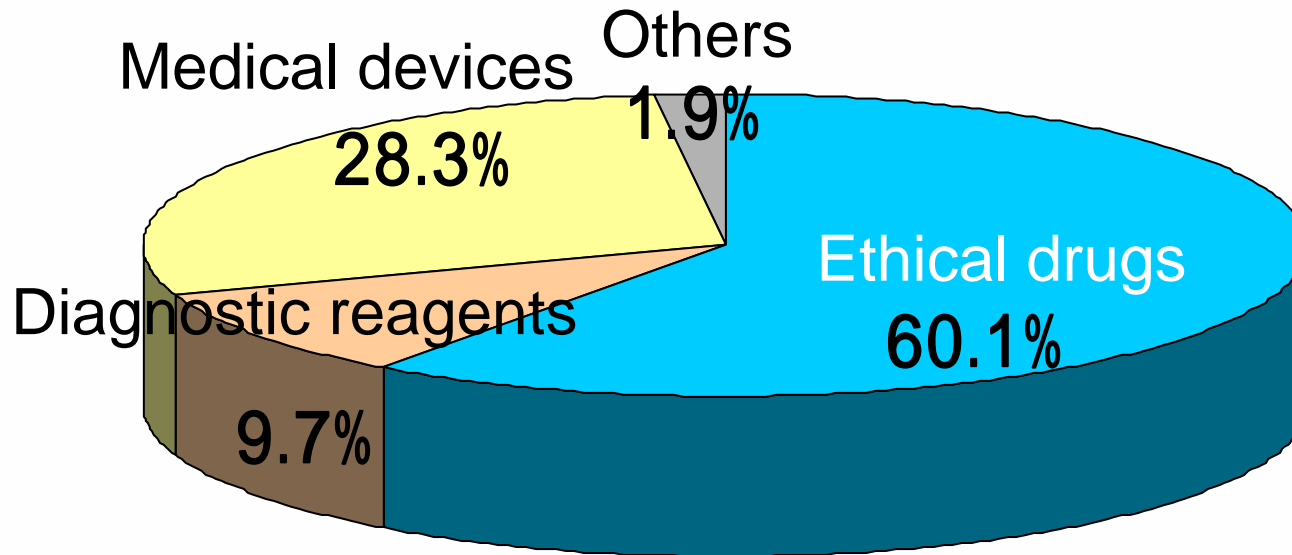
· October 1, 2005: Date of stock transfer

· Stock transfer ratio:

Alfresa Holdings 1 : Seiwa Sangyo 0.277

## Feature of Seiwa Sangyo

### Segmental Sales



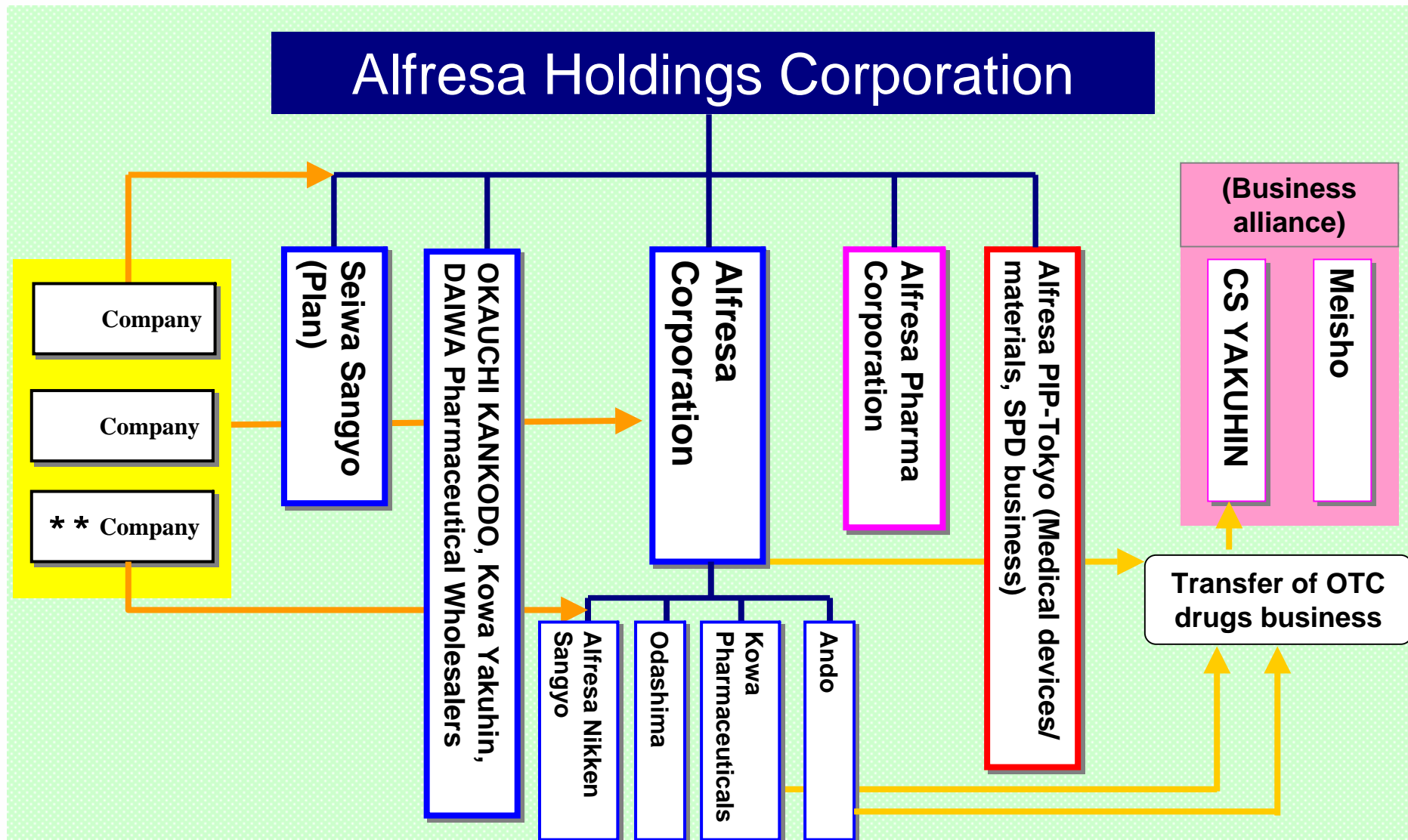
Large share of medical devices



**Strategic acquisition for the future Healthcare Consortium!**

# Structure of the Alfresa Group

(As of May 12, 2005)

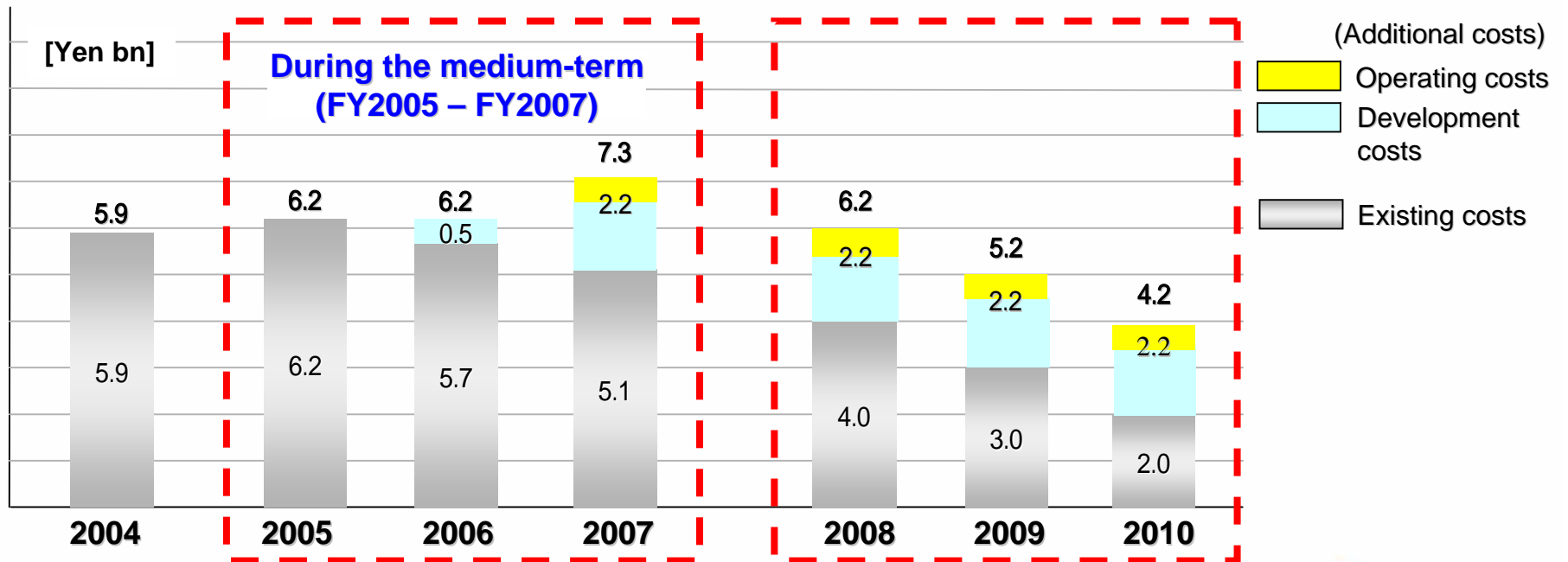


# Development of New System

## Development Schedule

2005												2006												2007						
4	5	6	7	8	9	10	11	12	1	2	3	4	5	6	7	8	9	10	11	12	1	2	3	4	5	6	7			
Business planning						System development												Trial, Transition				Preparation, Training			Cut over					

## System Costs “Additional investment in system development: JPY8 billion”



## Financial Forecast for the Fiscal Year Ending March 2006

(in millions of Yen)

	Full year forecast	YoY change	YoY (%)	of Sales (%)
Net sales	<b>1,340,000</b>	<b>144,687</b>	<b>112.1</b>	<b>100.0</b>
Gross profit	<b>110,460</b>	<b>12,512</b>	<b>112.8</b>	<b>8.24</b>
SG&A expenses	<b>99,800</b>	<b>8,386</b>	<b>109.2</b>	<b>7.45</b>
Operating income	<b>10,660</b>	<b>4,126</b>	<b>163.1</b>	<b>0.80</b>
Ordinary profit	<b>14,700</b>	<b>4,269</b>	<b>140.9</b>	<b>1.10</b>
Net income	<b>7,500</b>	<b>4,293</b>	<b>233.9</b>	<b>0.56</b>

\* Including figures of Seiwa Sangyo Co., Ltd. for the second half.

## Dividend Policy for March 2006

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### Medium-term Dividend Policy

Over 2% of dividend on equity is the target with the exact rate to be determined according to the consolidated business performance of Alfresa Holdings, fully taking into consideration such factors as the enhancement of the corporate constitution as well as future business developments.

- Under this policy, the planned dividend for the year ending March 2006 is 68 yen/year based on a DOE of 2%**

(Reference: Planned dividend for the previous FY is 50 yen/year)

Medium-term Group Target (Consolidated, Year Ending March 2008)

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## “ Group Sales JPY2 Trillion ”

1. Net sales **JPY1,385 billion**
2. Net income margin **1%**
3. ROE **10%**
4. Per-capita productivity **JPY187 million/year**



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