



# Briefing on Business Results for the First Half of the Fiscal Year Ending March 2006

November 17, 2005

Kunio Fukujin, Chairman and CEO

アルフレッサ ホールディングス株式会社

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- Interim Results

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# Interim Results

# Business Results Summary



## Business Environment

- + Six-month cumulative total (April – September) :  
Market growth 4.9% (Ethical drugs 5.0%)
- + Growth of drugs for lifestyle diseases, etc.
- + Remission of sales price decline

## Operational Situation

- + Negotiations based on sales prices in light of marginal gains
- + Net sales increased 17.6% from a year earlier;  
Organic growth (excluding new consolidation) was 6.5%
- + Increase in consolidated subsidiaries
- + Introduction of the Sales Assistant (SA, delivery professionals)  
system to the Kansai and Tokai regions
- + Promotion of low-cost operations

# Alfresa Holdings (Consolidated)

(1H: April – September, 2005)

(in millions of Yen)

	1H Plan	of Sales (%)	1H Actual	of Sales (%)	Ratio to 1H Plan	YoY (%)
Net sales	650,000	100.0	667,726	100.0	102.7	117.6
Gross profit	52,650	8.10	52,484	7.86	99.7	109.7
SG&A expenses	49,100	7.55	48,245	7.23	98.3	109.0
Operating income	3,550	0.55	4,239	0.63	119.4	118.4
Ordinary profit	5,700	0.88	6,489	0.97	113.8	115.3
Net income	3,100	0.48	3,209	0.48	103.5	104.2

# Wholesaling Business



(1H: April – September, 2005 )

(in millions of Yen)

	1H Plan	of Sales (%)	1H Actual	of Sales (%)	Ratio to 1H Plan	YoY (%)
Net sales	6 4 2,0 0 0	1 0 0 . 0	6 5 9,5 2 3	1 0 0 . 0	1 0 2 . 7	1 1 7 . 8
Gross profit	4 8,6 4 0	7 . 5 8	4 8,6 0 1	7 . 3 7	9 9 . 9	1 1 0 . 5
SG&A expenses	4 5,1 7 0	7 . 0 4	4 4,5 5 2	6 . 7 6	9 8 . 6	1 0 9 . 8
Operating income	3,4 7 0	0 . 5 4	4,0 4 8	0 . 6 1	1 1 6 . 7	1 1 8 . 4
Ordinary profit	5,3 3 0	0 . 8 3	6,2 5 7	0 . 9 5	1 1 7 . 4	1 1 5 . 6
Net income	2,8 5 0	0 . 4 4	2,8 6 6	0 . 4 3	1 0 0 . 6	1 0 4 . 7

# Manufacturing Business (Alfresa Pharma, Consolidated)

(1H: April – September, 2005 )

(in millions of Yen)

	1H Plan	of Sales (%)	1H Actual	of Sales (%)	Ratio to 1H Plan	YoY (%)
Net sales	10,400	100.0	10,360	100.0	99.6	100.4
Gross profit	3,990	38.37	3,942	38.05	98.8	100.4
SG&A expenses	3,890	37.40	3,874	37.40	99.6	107.1
Operating income	100	0.96	67	0.65	67.0	21.8
Ordinary profit	180	1.73	169	1.63	93.9	51.5
Net income	100	0.96	51	0.49	51.0	26.8

# Consolidated Balance Sheets of Alfresa Holdings

(in millions of Yen)

	March 31, 2005	End of current 1H (September 30, 2005)	Change
<b>Current assets</b>	<b>505,006</b>	<b>502,049</b>	<b>(2,957)</b>
(Cash, deposit and securities)	59,402	46,863	(12,539)
(Trade notes and accounts receivable)	338,202	349,706	11,504
(inventories)	69,111	66,994	(2,117)
<b>Fixed assets</b>	<b>104,345</b>	<b>114,327</b>	<b>9,982</b>
(Tangible and intangible fixed assets)	59,591	62,809	3,218
<b>Total assets</b>	<b>609,351</b>	<b>616,377</b>	<b>7,026</b>
<b>Current liabilities</b>	<b>469,200</b>	<b>464,124</b>	<b>(5,076)</b>
(Trade notes and accounts payable)	450,682	446,169	(4,513)
(Short-term interest bearing debts)	5,176	4,049	(1,127)
<b>Fixed liabilities</b>	<b>24,405</b>	<b>25,972</b>	<b>1,567</b>
(Long-term interest bearing debts)	800	1,044	244
<b>Minority interests</b>	<b>4,670</b>	<b>4,337</b>	<b>(333)</b>
<b>Shareholders' equity</b>	<b>111,075</b>	<b>121,943</b>	<b>10,868</b>

# Consolidated Cash Flows of Alfresa Holdings

(in millions of Yen)

	Previous 1H	Current 1H
Beginning balance of cash and cash equivalents	57,900	57,379
Cash flows from operating activities	(3,887)	(7,021)
Cash flows from investing activities	(3,246)	(6,467)
Cash flows from financing activities	(1,049)	(1,454)
Translation difference of cash and cash equivalents	2	11
Increase (decrease) in cash and cash equivalents	(8,180)	(14,932)
Ending balance of cash and cash equivalents	50,641	44,360

# Report on the First Half - 1

## Expansion of the Group

April 2005	OKAUCHI KANKODO, Ltd. (Kagawa Pref.) became a wholly owned subsidiary.
April 2005	Kowa Yakuhin Co., Ltd. (Tokushima Pref.) became a wholly owned subsidiary.
April 2005	DAIWA Pharmaceutical wholesalers Co., Ltd. (Ehime Pref.) became a wholly owned subsidiary.
April 2005	NIKKEN SANGYO CO., LTD. (Gifu Pref.) became a subsidiary. (Share acquisition on February 14)
<u>Announcement</u>	
May 2005	Conclusion of a stock exchange agreement with SEIWA SANGYO CO., LTD. (Hiroshima Pref.)
Sep. 2005	Conclusion of a basic agreement regarding the management integration with Meisho Co., Ltd. (Ishikawa Pref.) scheduled around April 1, 2006

### Business alliance

April 2005	CS YAKUHIN CO., LTD. (Aichi Pref.)
Sep. 2005	Konishi Medical Instruments Co., Ltd. (Osaka Pref.)

# Report on the First Half - 2

## Net Sales

Up 17.6% from a year earlier  
(Organic growth: 6.5%)

### ◆ New consolidated subsidiaries

- Alfresa Pip-Tokyo Corporation (SPD business, wholesaling of medical materials)
- Alfresa Nikken Sangyo Corporation (Gifu Pref.)
- OKAUCHI KANKODO, Ltd. (Kagawa Pref.)
- Kowa Yakuhin Co., Ltd. (Tokushima Pref.)

In October 2005, OKAUCHI KANKODO, Kowa Yakuhin and DAIWA Pharmaceutical Wholesalers merged to form **Shikoku Alfresa Corporation!**

### ◆ Partial transfer of the business regarding over-the-counter drugs to **CS YAKUHIN CO., LTD.** (Business cooperation agreement in April 2005)

- August 2005: Operations of Alfresa Corporation in North Kanto and Ando Co., Ltd. Total of approx. JPY4.1 billion

# Report on the First Half - 3

## Gross Profit

Upper figures: Amount (in millions of yen)

Lower figures: Percentage (%)

	March 2005 Actual	Sep. 2005 Plan	Sep. 2005 Actual	Difference	March 2006 Plan
<b>Alfresa Holdings (Consolidated)</b>	97,948	52,650	52,484	(166)	110,460
	8.19	8.10	7.86	(0.24)	8.24
<b>Wholesaling business</b>	90,048	48,640	48,601	(39)	101,660
	7.64	7.58	7.37	(0.21)	7.68
<b>Manufacturing business (Alfresa Pharma)</b>	7,895	3,990	3,942	(48)	8,800
	37.81	38.37	38.05	(0.32)	39.29

- Fiscal year without a NHI drug price revision -  
Sales prices dropped slightly below the plan (Now in remission)
- Consolidated gross profit nearly reached the target -  
JPY52,650 million (Plan)    JPY52,484 million (Actual)

# Report on the Wholesaling Business

## 1. Maintenance of delivery prices

- . Fair delivery prices
- . Abided by authorized price limit

## 2. Enhancement of marketing capability

- . Pursued unified policies company-wide
- . Strengthened sales of AMI products (profitable products)
- . Focused on new products and development of new customers
- . Stepped up consulting services (SPD, provision of information)

## 3. Success in business integration

- Establishing the company structure of Alfresa Corporation and enhancing its functions

# Report on the Manufacturing Business (Alfresa Pharma)

- **March 2005:** Applied for manufacturing approval of a treatment for narcolepsy.
- **July 2005:** Signed a contract with AnGes MG, Inc. to jointly develop atopic dermatitis therapeutic medicine in Japan
- **July 2005:** Signed a contract with Rohto Pharmaceutical Co., Ltd. to market POCT reagents which can detect influenza virus antigens, manufactured by that company.
- **August 2005:** Launched “NicoBloc,” a product that reduces the amount of nicotine and tar.
- **October 2005:** Announced a take over of the production and distribution rights of an antidepressant agent “Anafranil” from Novartis Pharma K.K.



# Report on the SPD Business - 1

## Alfresa Pip-tokyo Corporation

- Opening of business: April 1, 2005
- Business lines: SPD business, wholesaling of medical materials
- Capital structure: Alfresa Holdings 51% , PIP-Tokyo Co., Ltd. 49%
- Number of employees: 395
- Net sales in 1H: JPY7,273 million

· SPD implementation: 65 institutions

**(Centering on the Tokyo metropolitan area  
and the Kinki and Tokai regions)**

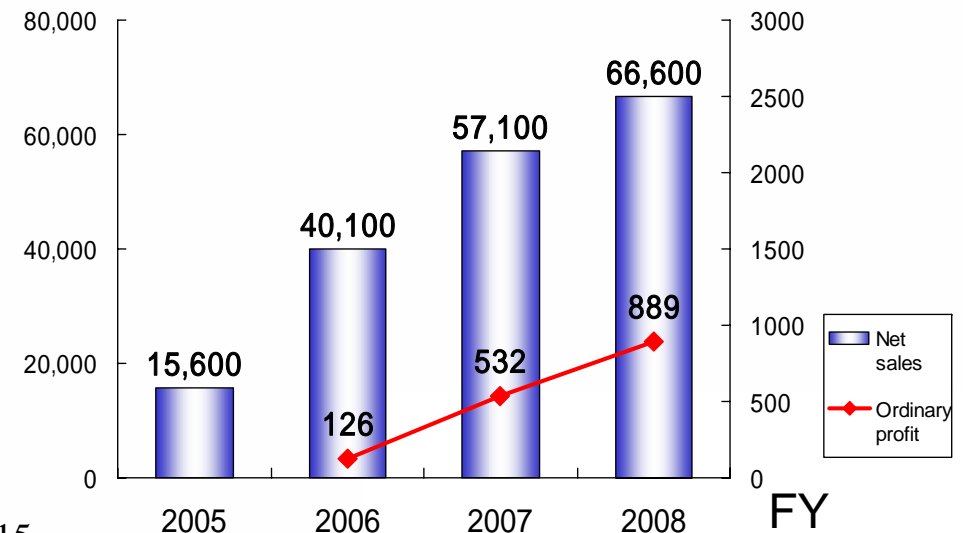


Plan for the year ending March 2008:  
220 institutions

(Planning to expand the business nationwide)

Alfresa Holdings Corporation

Business plan (Net sales/Ordinary profit)  
Unit: JPY million



## Report on the SPD Business - 2

- Expanding and enhancing the SPD business on a group-wide basis following the launch of Alfresa Pip-tokyo Corporation's operations in April 2005.

- Organized an SPD business study group  
Promoting the SPD business as a group, collaborating with cooperative wholesalers

### ◆ Group-wide result

**127 institutions (on a cumulative basis)**



**Policy of  
expansion  
and  
enhancement!**

# Promotion of Low-cost Management

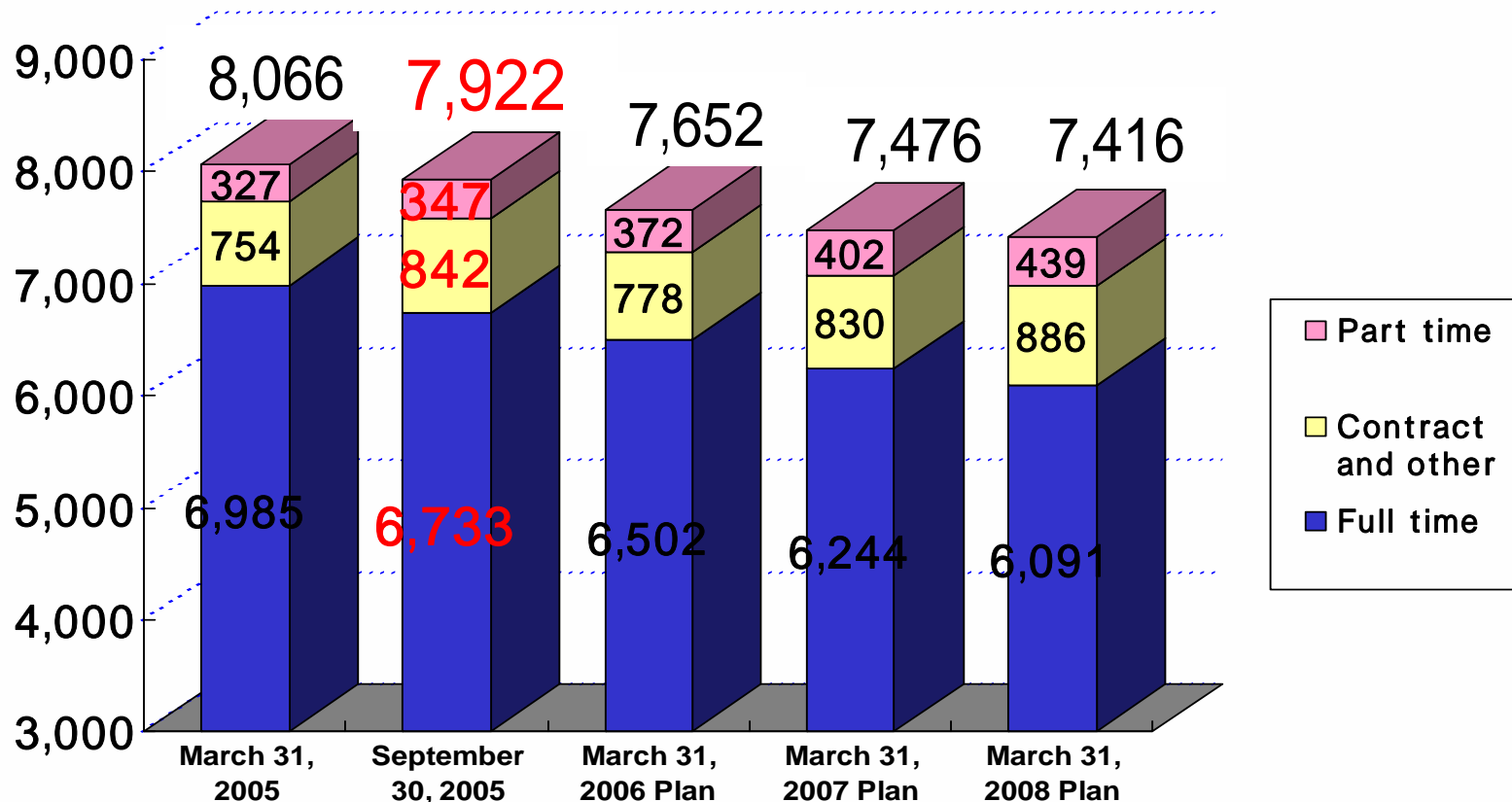
## Efforts for Cost Reduction

\* Consolidated SG&A expenses ratio as of end March 2005: 7.65%  
end September 2005: **7.23%** -0.42P

- Personnel reduction (See the next slide)
  - **Personnel expenses decreased JPY1,300 million from a year earlier**
- Suspension of order-receipt center operations
  - **Reduction of JPY120 million in the first half**
- Other (liquidation of nursing-care supply shops, etc.)

# Converted Number of Employees (Alfresa Holdings, Consolidated)

## Promotion of Personnel Reduction

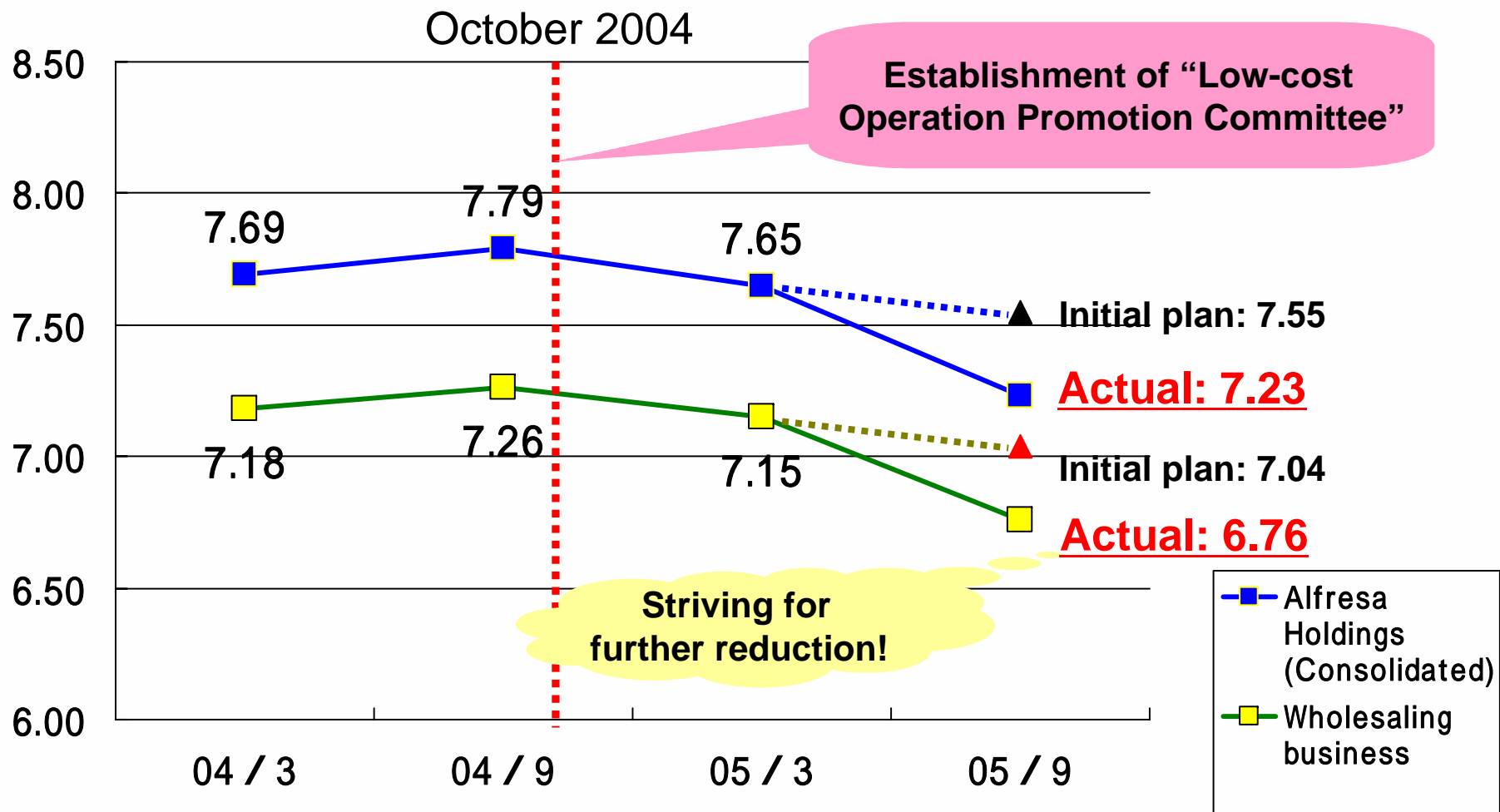


(\* Full-time employees, contract and other employees, and part-time employees are weighed by conversion ratio of 1, 0.5 and 0.2, respectively.)

(On the basis of the consolidation when the medium-term management plan was formulated; SEIWA SANGYO and Meisho are excluded.)



# SG&A Expenses





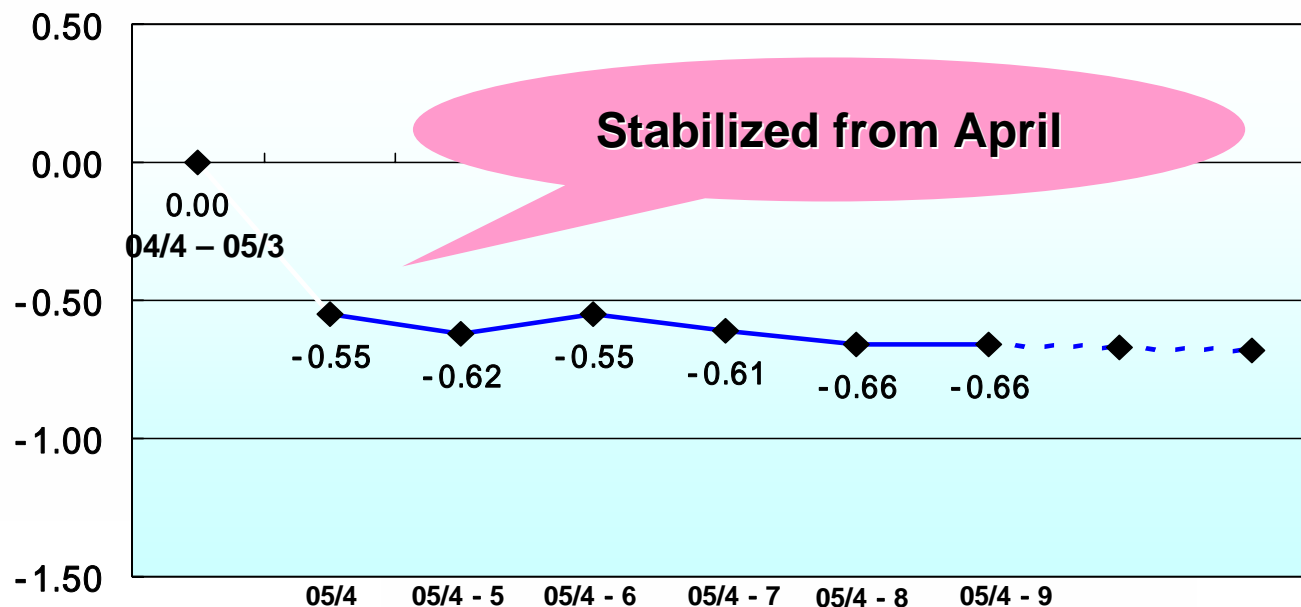
## Efforts in the Second Half

# Efforts in the Second Half



## Wholesaling Business- 1

- Securing of gross profit
  - Fair sales prices, promotion of profitable products
  - **Review of unprofitable dealings**
  - **Measures to cope with the NHI drug price revision in the next FY**



\* Change in cumulative sales price at Alfresa Corp. (non-consolidated)

# Efforts in the Second Half

## Wholesaling Business- 2

### ➤ **Low-cost operations**

- For further reduction of SG&A expenses
  - . Personnel reduction
  - . Streamlining of the delivery structure by introducing the SA system
  - . Liquidation of subsidiaries

### ➤ **Establishment of the delivery system**

- Building the system of logistics operations and bases to better match regional characteristics
  - Began construction of the Meguro Pharmaceuticals Center in November 2005 (Urban pharmaceuticals center)
- Full introduction of the SA (Sales Assistant; delivery professionals) system to the Kansai region in November 2005
- Preparing to introduce the SA system to the Tokai region

# Efforts in the Second Half

## Alfresa Pharma- 1

Launch of new products in the second half (including plan)

- Enhancement of pharmaceuticals business

- \* **January 2006: “Anafranil”**

- Upgrade of the lineup of POCT products

- \* **November 2005: a POCT reagent to detect influenza virus antigens “CHECK Flu A·B”**

- Assortment of surgical sutures

- \* **February 2006: The first absorbable monofilament suture (surgical suture) by a domestic manufacturer “Monodiox”**

# Efforts in the Second Half

## Alfresa Pharma-2

### Development

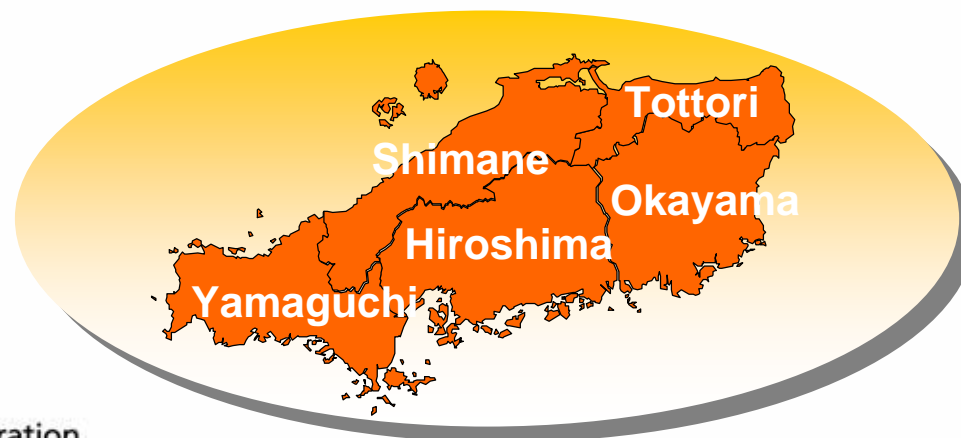
- **Expansion of indications of modafinil, a treatment for narcolepsy (chronic sleep disorder)**
  - Obstructive Sleep Apnea Syndrome, etc.
- **Joint development with AnGes MG, Inc.**
  - Atopic dermatitis therapeutic medicine using NF- $\kappa$ B decoy oligodeoxynucleotide

# New Consolidated Subsidiary

## SEIWA SANGYO CO., LTD.

- ✚ Net sales for the year ended March 31, 2005: JPY90.4 billion  
(Net sales for the current 1H: JPY47 billion)
- ✚ Sales network in the Chugoku region
- ✚ High sales ratio of medical devices and diagnostic reagents  
(approx. 38.0%)

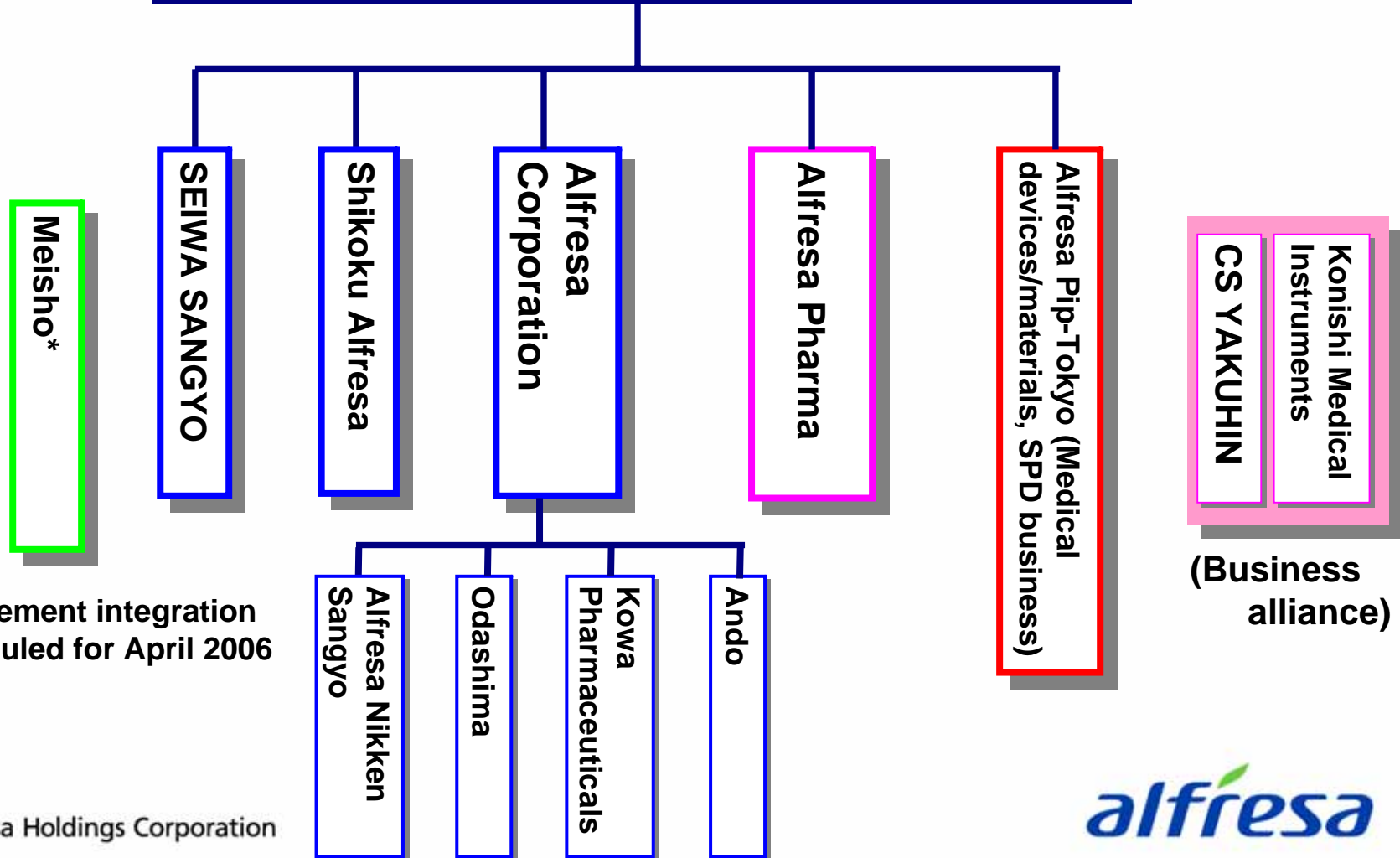
**Contributes to the Alfresa Group's vision to be a  
"Healthcare Consortium"**



# Organizational Chart of the Alfresa Group

(As of October 1, 2005)

## Alfresa Holdings Corporation



\* Management integration is scheduled for April 2006

# Alfresa Holdings (Consolidated) Financial Forecast for the Fiscal Year Ending March 2006

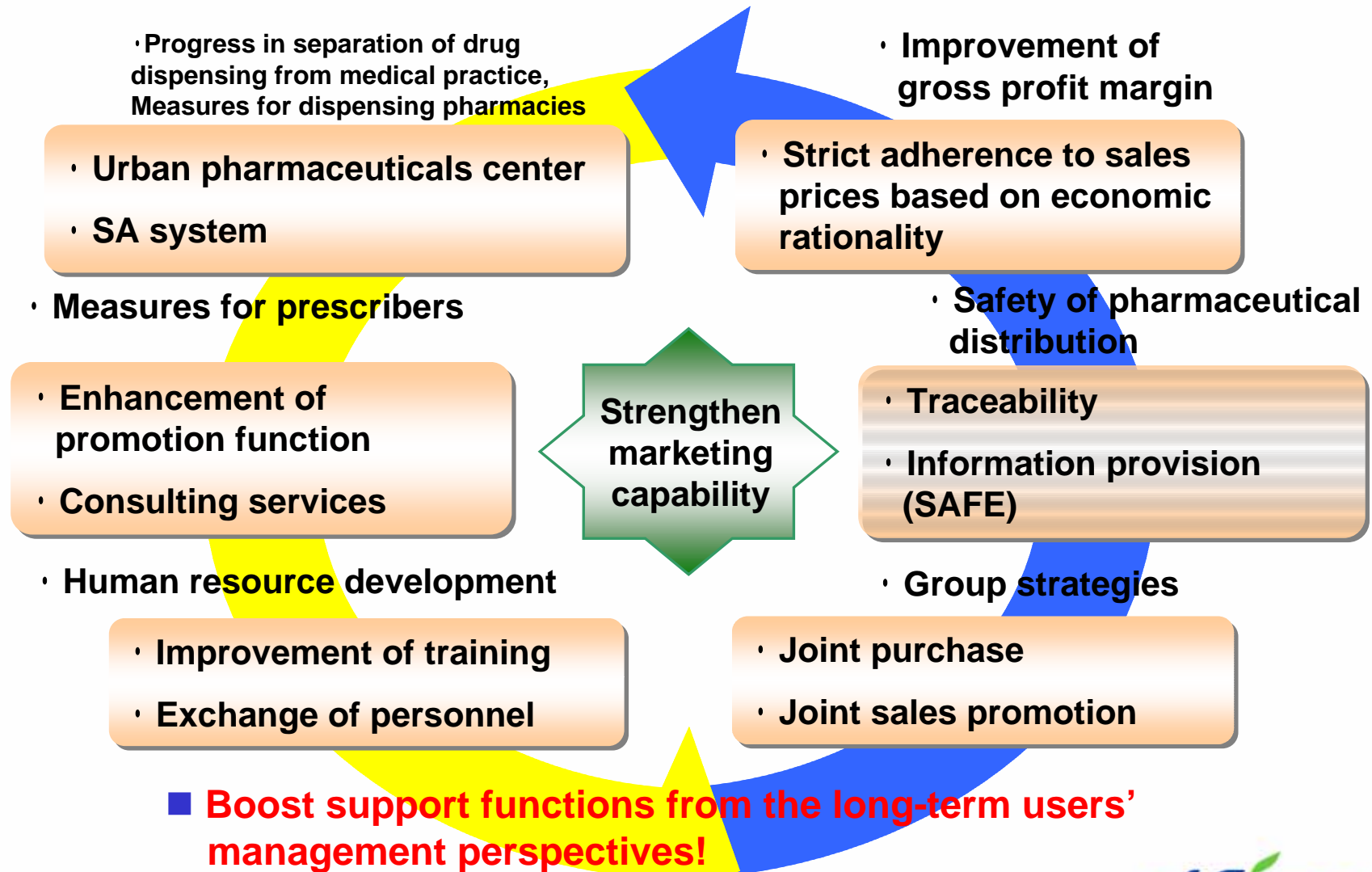
(in millions of Yen)

	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>



# Future Strategies

# Strengthen Marketing in the Wholesaling Business (Ethical Drugs)



# Progress of the System Integration

## New Main System

2005					2006												2007							
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			

**End of business planning**

- October 2005: End of business planning
- Vendor (Hitachi, Ltd.)
- System development is now in progress; on schedule toward the cutover
- Investment amount: JPY8 billion

**Scheduled launch in the western areas**

**Scheduled launch in the eastern areas**

**After peaking in 2006, system costs will be reduced from 2007 onward!**

# Development of the Group Formation

- October 2005: Start of Shikoku Alfresa Corporation
- October 2005: SEIWA SANGYO CO., LTD. was newly consolidated
- April 2006: Scheduled management integration with [Meisho Co., Ltd.](#)
  - Net sales: JPY69.8 billion (FY05/3)
  - Ordinary profit: JPY1 billion
  - High market share in the Hokuriku district  
(Approx. 32% - Total of Ishikawa, Fukui and Toyama prefectures)
- FY08/3: Aiming for nationwide operations and group-wide net sales of JPY2 trillion!
- Expansion of peripheral businesses



# Advances into Overseas Market (China)

- Rapid growth in the Chinese pharmaceuticals market

Pharmaceuticals market FY2004: JPY4.5 trillion

FY2006 – 07: Estimated to exceed JPY6 trillion

- Chinese demand for Japanese-made pharmaceuticals and other products
- Collaboration with drug manufacturers, business partners and a cooperative trading company
- Potential new areas (East Asia)



Investment in  
Japan Medicine & Cosmetics Corporation

# Overview of Japan Medicine & Cosmetics

- Corporate name: Japan Medicine & Cosmetics Corporation  
(tentative English name)
- Location: Huizhou, Guangdong
  - \* (The head office is located in Shenzhen, Guangdong)
- Establishment: May 2005
- Representative: Ichiro Nishimura (CEO)  
One of our staff is dispatched as a director
- Capital: 6 million U.S. dollars
- Capital investors:

SANKYU PHARMACEUTICAL CO., LTD. 70.0%

[Alfresa Holdings Corporation](#) 15.0%

ITOCHU group 15.0%

# Reinforcement of Group Governance

## **Advisory board**

- Advice and proposals to the overall management by external advisors

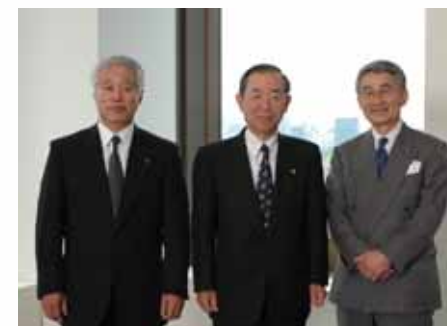
## **Holding of Group President Conferences and other conferences**

(Interdivisional conferences such as sales, system, logistics and administration conferences)

- Full implementation of group strategies
- Sharing information among management executives and unifying their values

## **Human resource development in the group**

- Alfresa Business School
- Alfresa Executive Program



(Left) Hironobu Goto: Corporate Auditor,  
Nomura Research Institute, Ltd.

(Center) Uichiro Niwa: Chairman, ITOCHU Corporation

(Right) Mitsuo Hirose, President, Maverick Japan Inc.

# Reinforcement of Group Governance (CSR Management)

## Alfresa Group's Approach to CSR

✦ The Alfresa Group will **sincerely respond to customers' needs** putting emphasis on **compliance**, aiming to achieve CSR management in **consideration of the environment**.

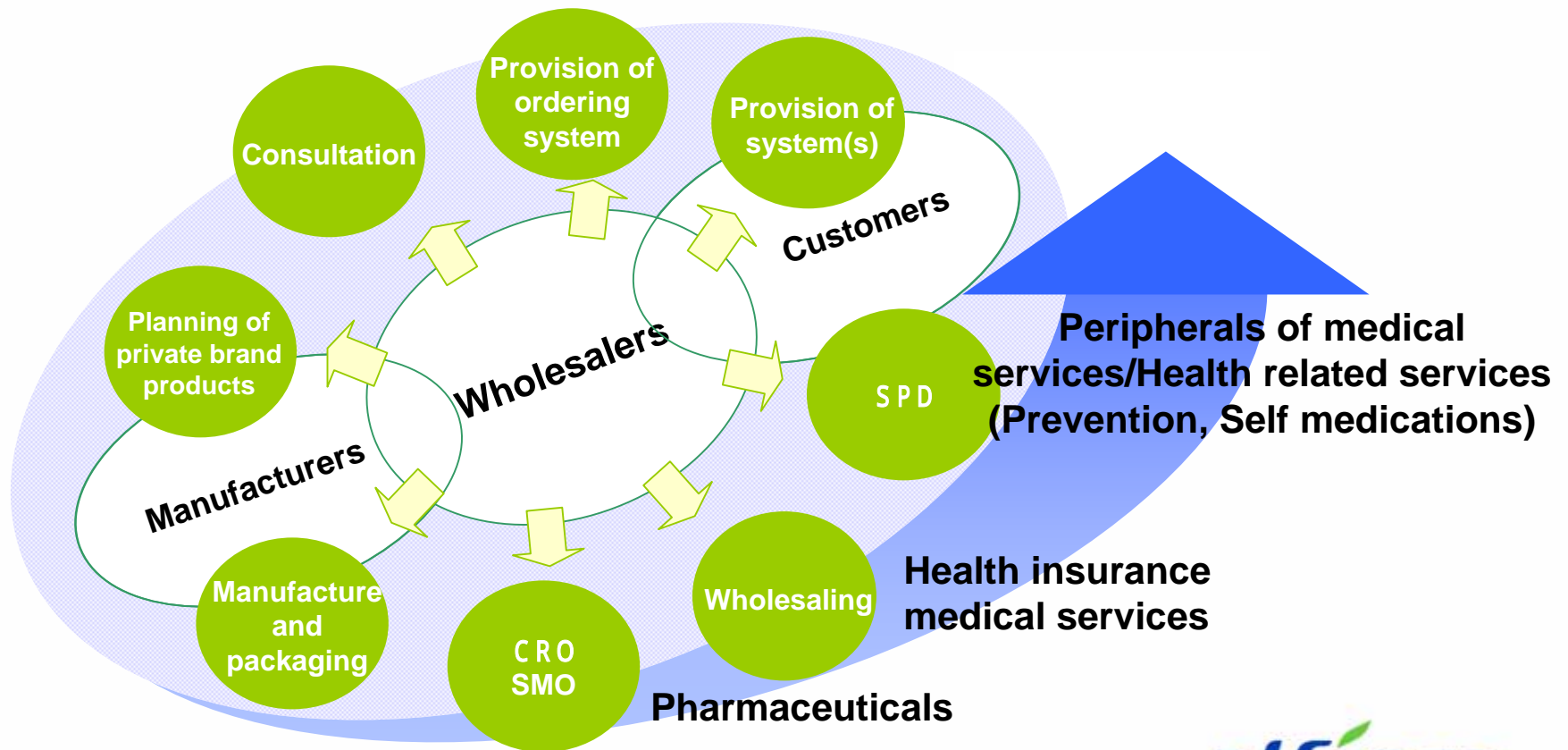
- **March 2005: Set up the CSR Promotion Committee**
- **April - July 2005: Established a research and promotion system with an outside promotion organization as an advisor**
- **Conducted “in-house questionnaires on CSR”**
- **Established the “Alfresa Group’s Charter of Conduct”**
- **Created and distributed compliance manuals**
- **Joined the Japan Association for the United Nations World Food Programme**



(Compliance manual)

# “Healthcare Consortium” Vision

We seek to become a “**Healthcare Consortium**” that creates innovative value by forming alliances not only with group companies but also other firms to offer comprehensive medical care and healthcare information, products and services.



*alfresa*

アルフレッサ ホールディングス株式会社

