

Awakening ROHTO

Asset Value Investors Limited
8th April 2025

About AVI

Asset Value Investors Limited (AVI) Overview

- A listed investment trust manager established in London, UK in 1985
- Managing client funds investing in global equities for 40 years
- Accepted the Principles for Responsible Institutional Investors (Japanese version of the Stewardship Code), and is committed to constructive “purposeful dialogue” (engagement) to enhance corporate value and sustainable growth
- As a closed-ended trust listed on the London Stock Exchange, AVI Global Trust (AGT) and AVI Japan Opportunity Trust (AJOT) are its flagship funds with Japan exposure
- Total AUM approximately 340 billion yen¹

Investment in the Japanese market

- Currently, approximately 120 billion yen¹ is invested in Japanese equities through AGT, AJOT and other funds
- Investing in over 30 Japanese companies¹
- Targeting companies that are considered to be undervalued by the market in relation to their intrinsic value, and engaging them with a long-term perspective



ROHTO Shareholder Register

AVI is currently the sixth largest shareholder of Rohto Pharmaceutical.

#	Shareholders	Ownership (%)	Market value ¹ (JPY bn)	No. of shares (mm)
1	MFS International Ltd.	7.6%	37.6	17.3
2	Yamada family (founder) ²	6.9%	34.5	15.8
3	Mitsubishi UFJ Financial Group	6.8%	33.6	15.4
4	Nomura Asset Management Co., Ltd.	3.1%	15.5	7.1
5	The Vanguard Group, Inc.	3.0%	14.9	6.8
6	Asset Value Investors Limited	2.3%	11.6	5.3
7	SPARX Asset Management Co., Ltd.	2.1%	10.6	4.9
8	Nippon Life Insurance Co.	1.9%	9.2	4.2
9	Norges Bank Investment Management	1.6%	8.0	3.7
10	Daiwa Asset Management Co. Ltd.	1.4%	7.1	3.2
11	Nikko Asset Management Co., Ltd.	1.4%	7.0	3.2
12	Artisan Partners LP	1.2%	5.9	2.7
13	FIL Investments (Japan) Ltd.	1.0%	5.2	2.4
14	BlackRock Fund Advisors	1.0%	5.1	2.4
15	The Hyakugo Bank Ltd	0.9%	4.4	2.0

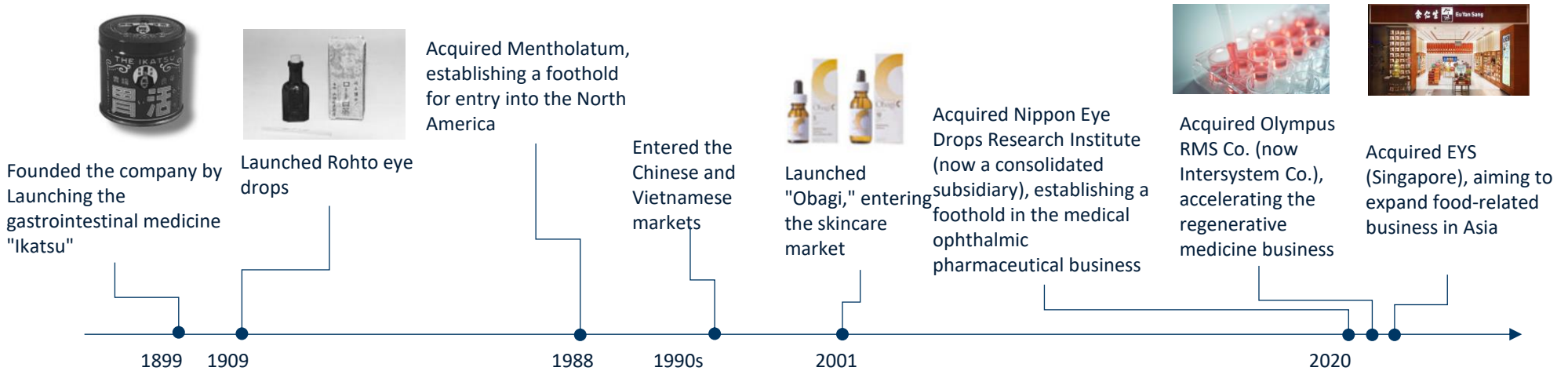
Note 1: As of 4th April 2025

Note 2: The number of shares held by Yamada Kosan, Yamasho Kosan, and Yamada Kiyoko have been combined based on the disclosure of securities reports, etc. However, there was no disclosure of the most recent semi-annual report for the number of shares held by Yamada Kunio, and according to a dialogue with the board of directors in March 2025, it was stated that there was a possibility that the shares held by Yamada Kunio had been transferred to an asset management company, and so they have been excluded from the number of shares held stated above

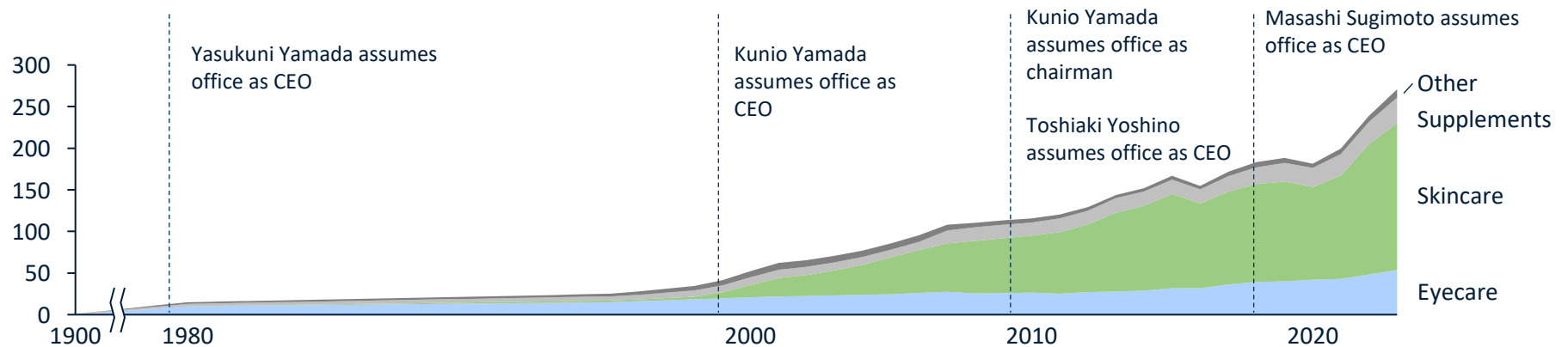
Source: AVI, based on Rohto Pharmaceutical Co Ltd's annual securities reports, large shareholding reports from various companies, and other publicly available materials. The Rohto Pharmaceutical Employee Stock Ownership Group has been removed from the above list because the number of shares held by the group was not stated in the annual securities report for the fiscal year ending March 2024. The number of shares held at the end of the fiscal year ending March 2023 was 3,201,000.

Evolution of Rohto's Business Portfolio

Rohto has actively explored new business areas such as eye drops and skincare, while pursuing international expansion. Notably, since Kunio Yamada, the current Chairman, assumed the role of CEO in 1999, the skincare business has grown remarkably.



Rohto Pharmaceutical's revenue by business¹, JPY bn



Note 1: Total sales for the period ending March 2001 and sales by business segment for the period ending March 2005 are estimated values.
Source: Rohto Pharmaceutical website, Rohto Pharmaceutical Annual Securities Report

Grown to Global Leading Company Driven by Skincare Business

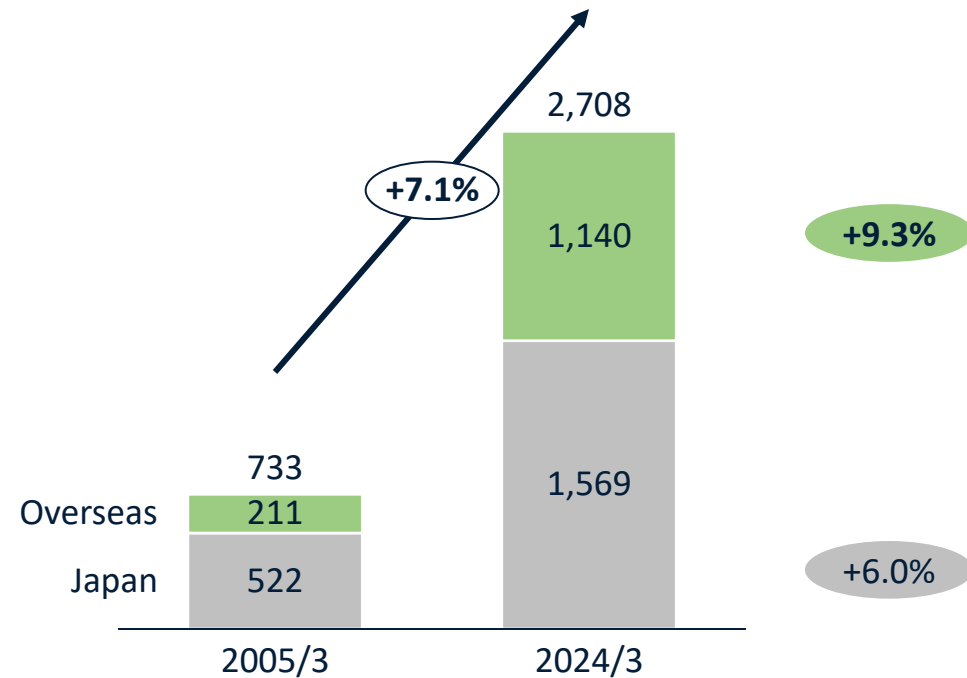
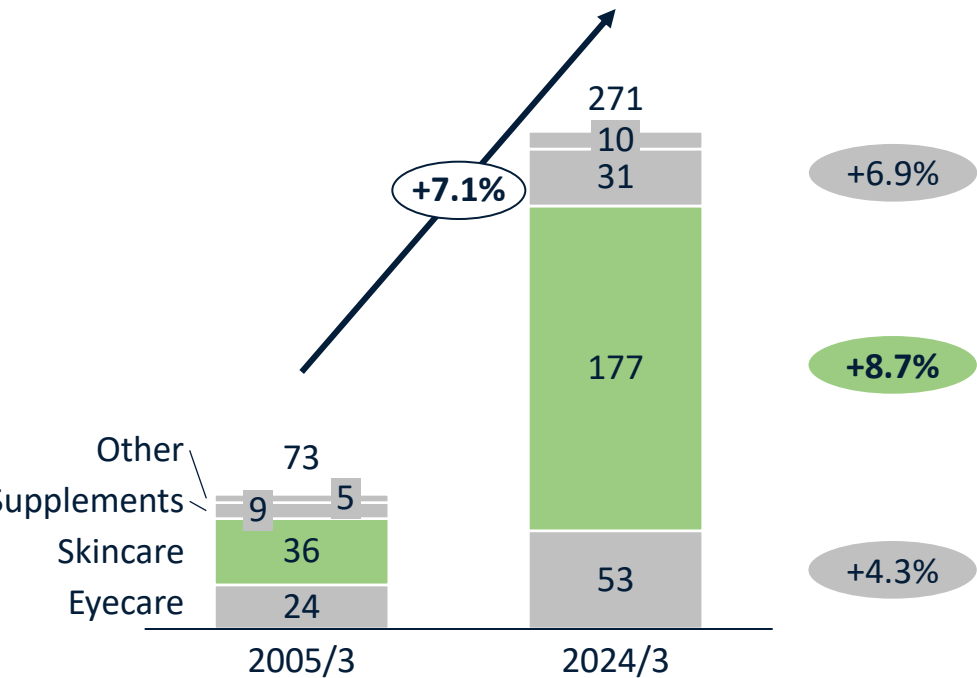
Driven by its skincare business, Rohto Pharmaceutical has achieved steady growth, with sales exceeding 270 billion yen, and has evolved into a global company with 42% of its revenue generated from overseas markets.

Rohto revenue by business segment, JPY Bn

Rohto revenue by region, JPY Bn

CAGR by business segment xx%

CAGR by region xx%



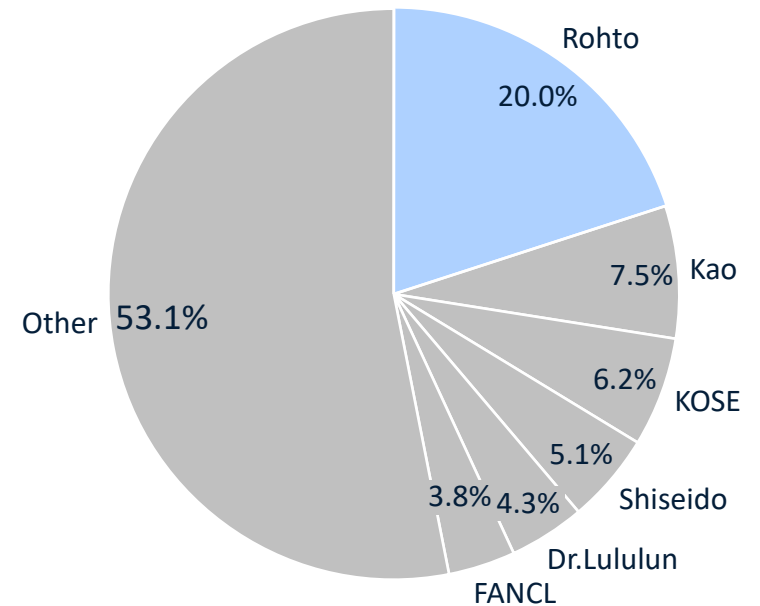
Domestic Skincare: Became Top in Drugstore Selection Channel

In the domestic skincare business, products such as "Hada Labo," "Melano CC," and "Obagi" have captured significant market share in the self-selection segment in pharmacies. Rohto holds the leading market share in this segment.

Pharmacy self-sel skincare mkt in Japan by brand

Brand	Share, %	Company
Hada Labo	7.4	Rohto
Curél	6.8	Kao
Melano CC	5.8	Rohto
Obagi	5.0	Rohto
LuLuLun	4.3	Dr.LuLuLun
AQUA LABEL	3.8	Shiseido
FANCL	3.8	FANCL
CLEAR TURN	3.0	KOSE
QUALITY 1st	2.7	QUALITY 1st
Nameraka Honpo	2.7	Tokiwa Pharmaceutical

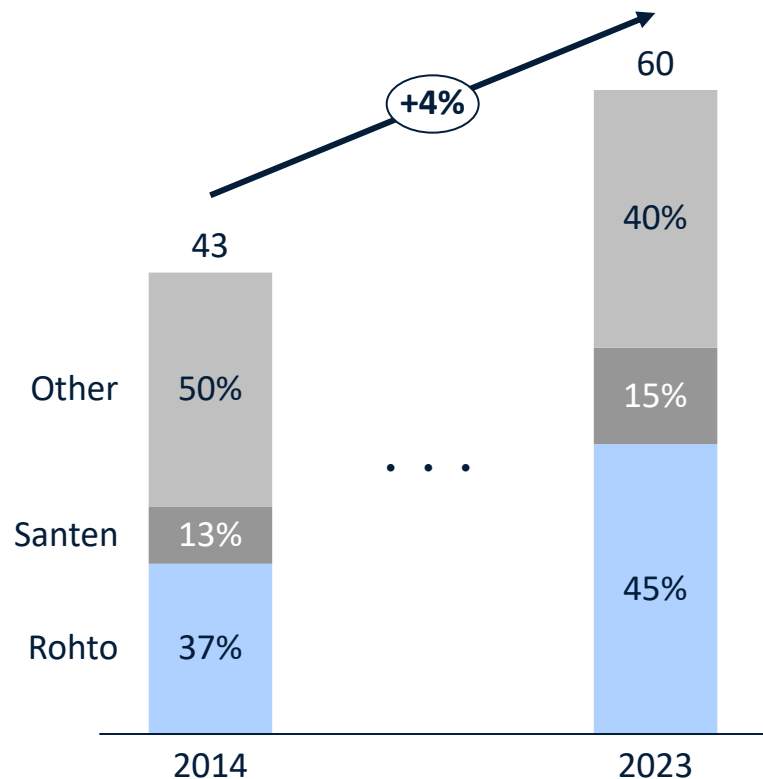
Pharmacy self-sel skincare mkt in Japan by company, %



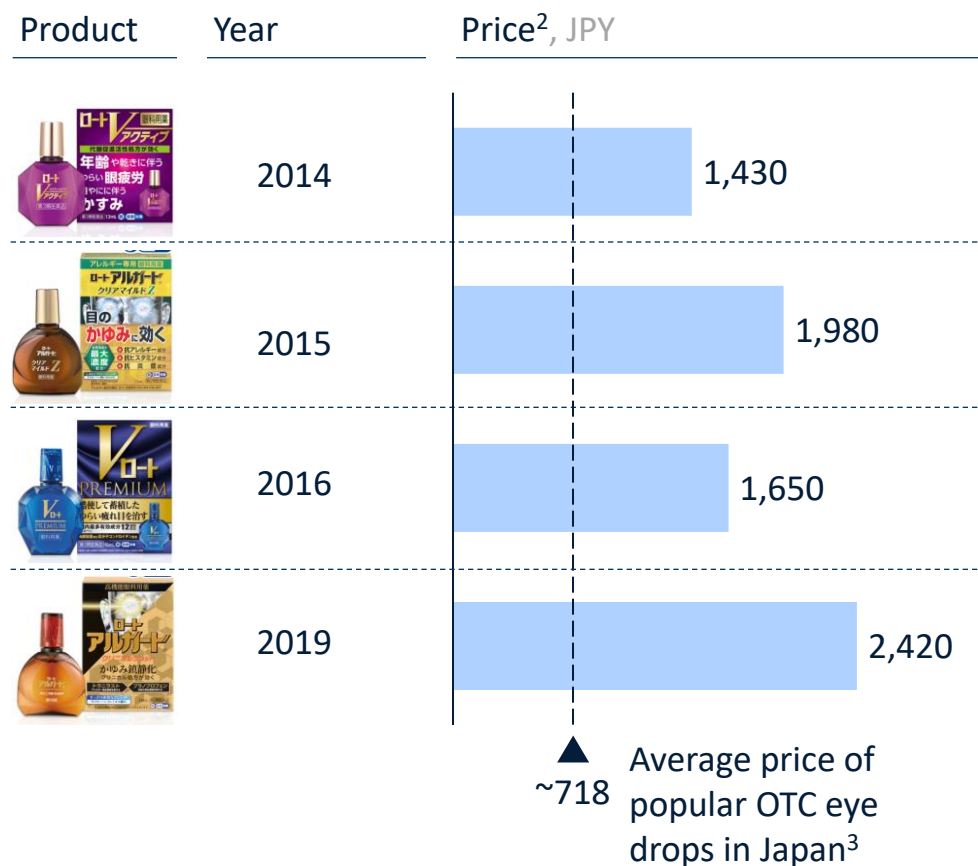
Domestic OTC Eyecare: Long Time Top Player

In the domestic OTC eye drops market, Rohto has maintained its position as the undisputed industry leader for many years. In recent years, the company has focused on up-market products, aiming for further growth.

Domestic OTC eyecare market¹, JPY Bn



Maintained high margin with up-market products



Note 1: AVI estimates based on the above data

Note 2: Suggested retail price on the Rohto Pharmaceutical website

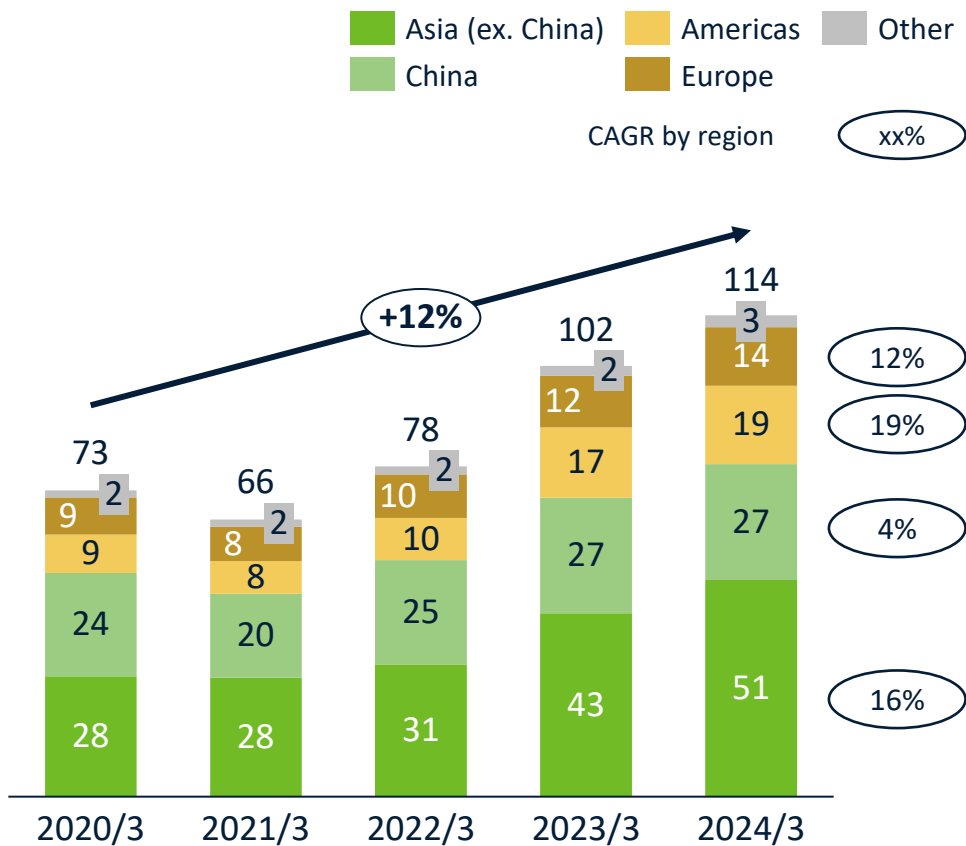
Note 3: Average price of the top 30 popular eye drops on Kakaku.com

Source: Rohto Pharmaceutical Annual Securities Report, company materials, company website, Fuji Keizai, Yano Research Institute

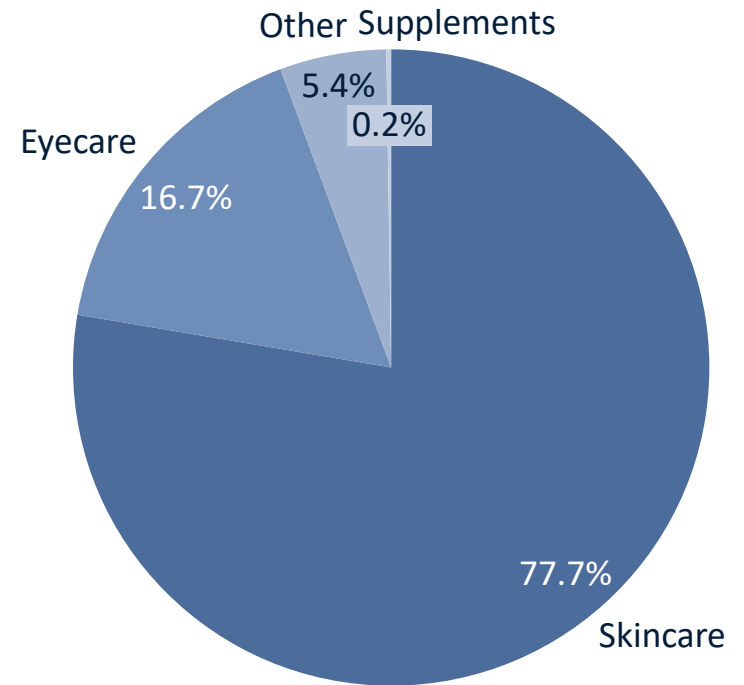
Overseas Business: Steady Growth in All Businesses and Regions

Overseas revenue has grown steadily (CAGR: 12%). Although growth in China slowed due to macroeconomic factors, other regions have maintained strong growth. The product mix is focused on skincare and eyecare, with little emphasis on supplements.

Rohto overseas revenue by region, JPY Bn



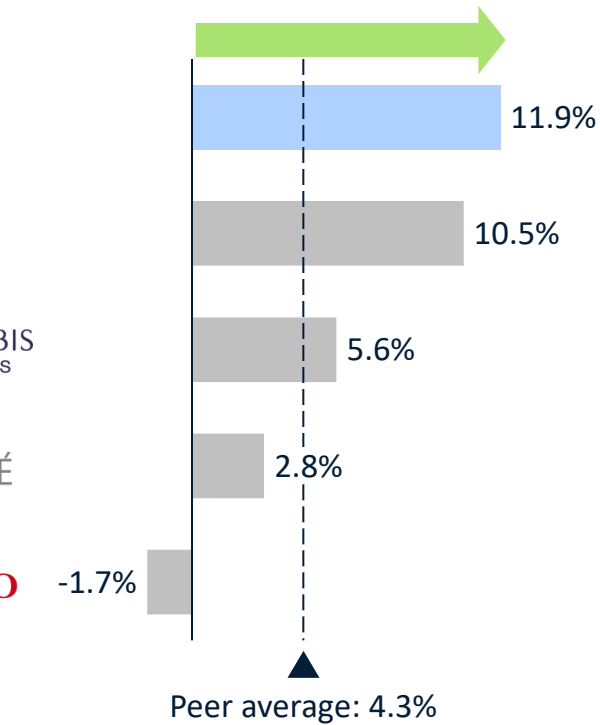
Rohto overseas revenue split, 2024/3, %



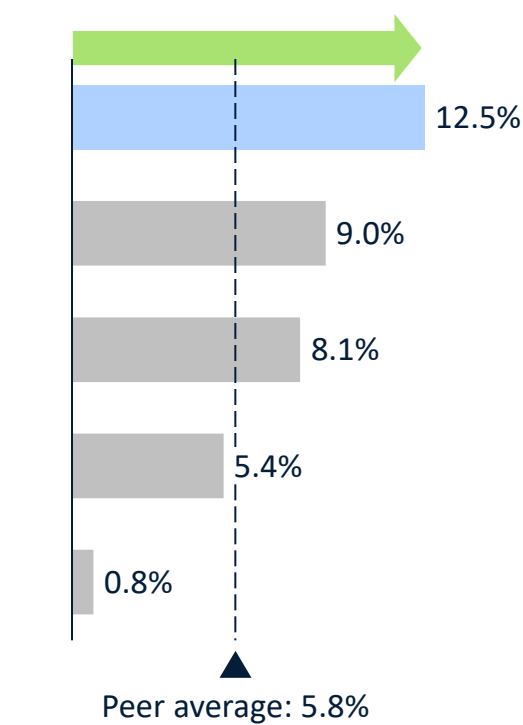
Rohto Outperforms Competitors in Major Metrics

As a result of its business growth both domestically and internationally, Rohto's business performance significantly outperforms that of major competitors in the cosmetics and toiletry industry.

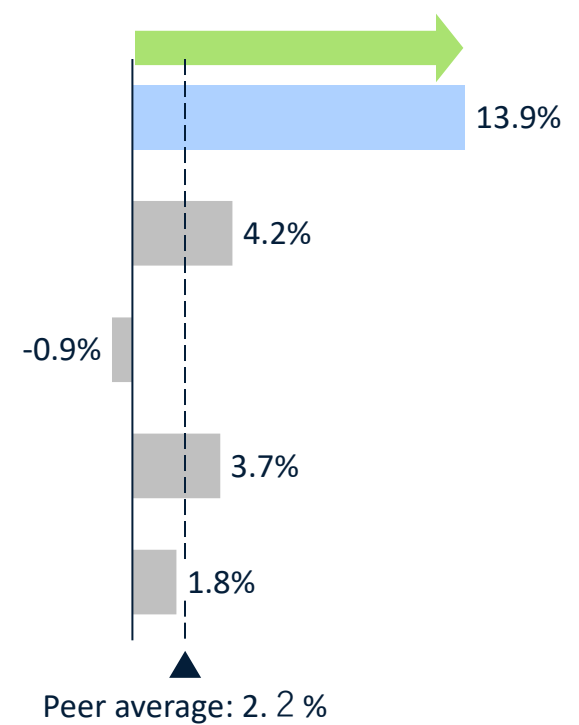
ROE¹



EBIT Margin¹



Annual Revenue Growth², %



Note 1: As of the end of December 2024, latest 12 months

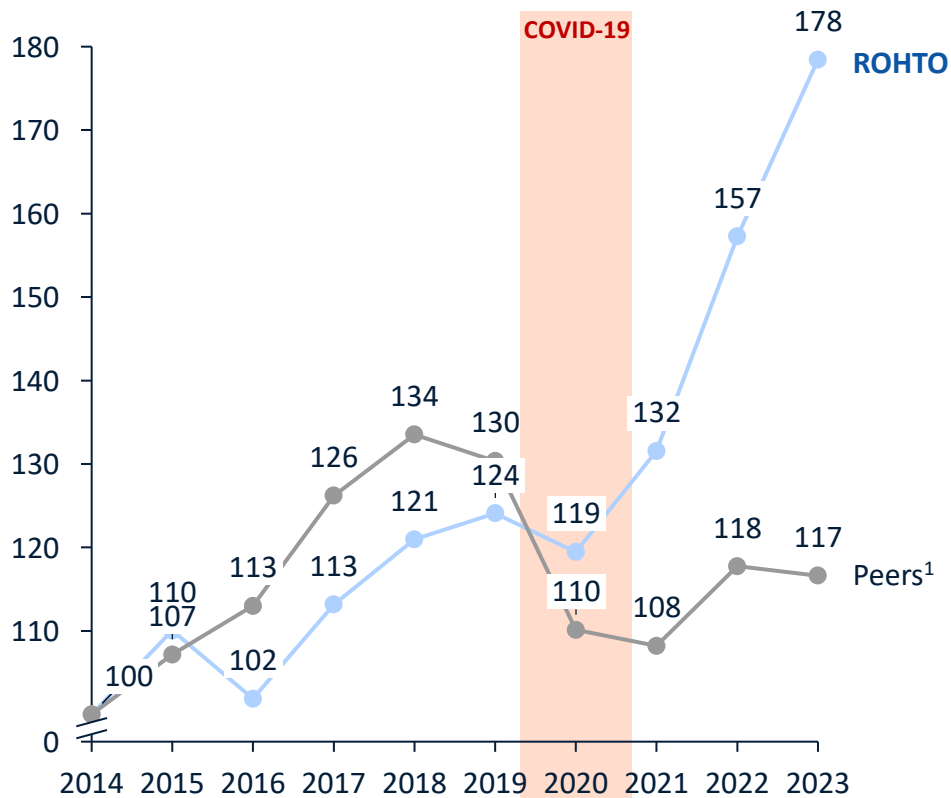
Note 2: The latest 5-year period from the end of the fiscal year ending December 2018 to the end of the fiscal year ending December 2024, and for Rohto, the annualised figures for the 4.75-year period from the fiscal year ending March 2019 to the fiscal year ending December 2024 LTM are shown.

Source: Each company's securities report, SPEEDA

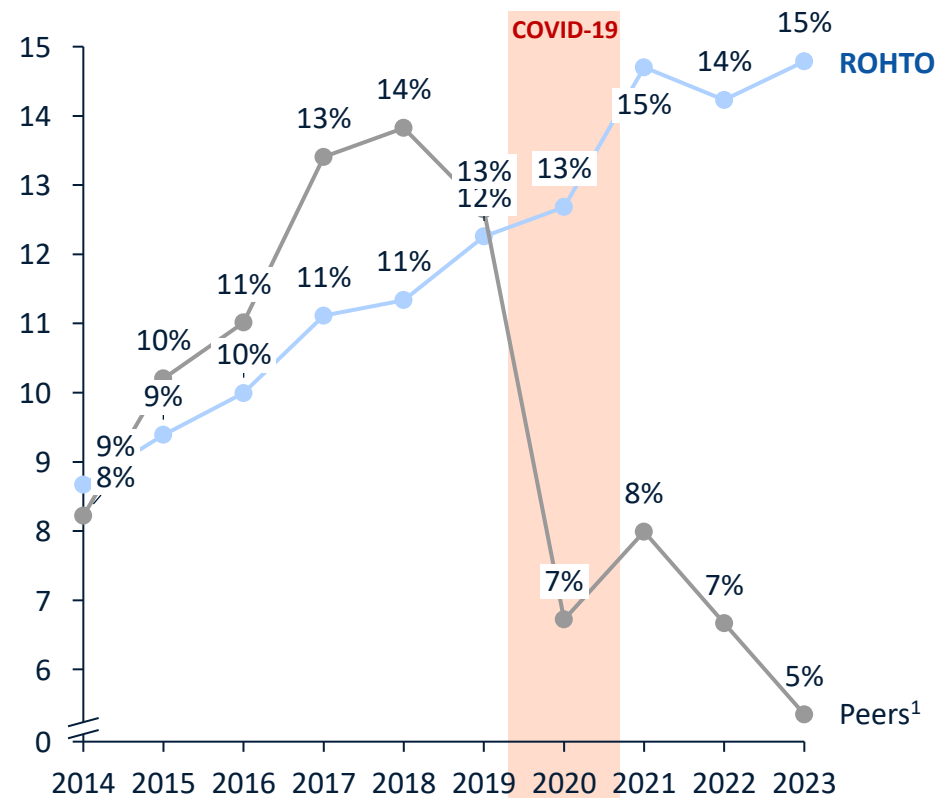
Consistent Business Growth Track Record

Rohto's business performance has consistently and significantly exceeded that of its industry peers in the past.

Revenue trajectory over the last 10 years, Indexed



EBIT margin trajectory over the last 10 years, %



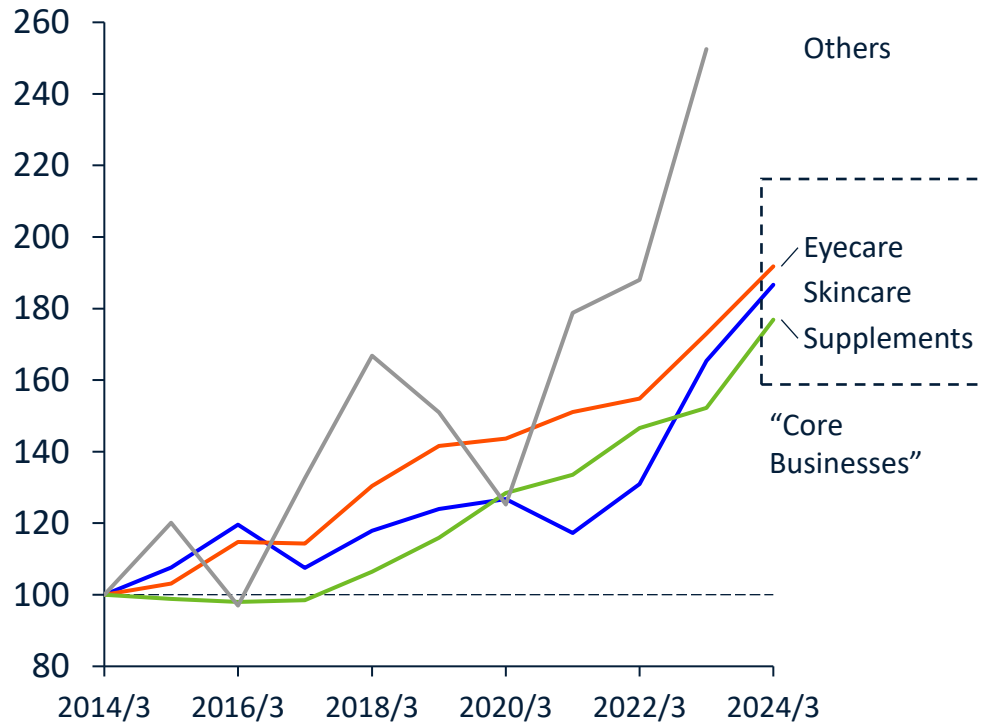
Note 1: Average of Shiseido, Kao, Kose, and Pola Orbis

Source: SPEEDA, companies' financial statements. For fiscal years, Rohto's figures are based on the results for the year ending March, while other companies' figures are based on the results for the year ending December

Considerations for Mid/Long-Term Growth

Rohto's "core business," as defined by the company, has demonstrated consistent growth, nearly doubling over the past decade. However, this growth rate may slow in the near future, making it essential to consider the long-term strategy.

Rohto revenue by business, (2014/3=100%)



Long-term considerations by business

Eyecare
While profitability is considered relatively high, growth in the main domestic market has plateaued. Although growth in Asia remains strong, Rohto's market share in the U.S. and Europe is still limited, making the prospects for sustained revenue growth uncertain.

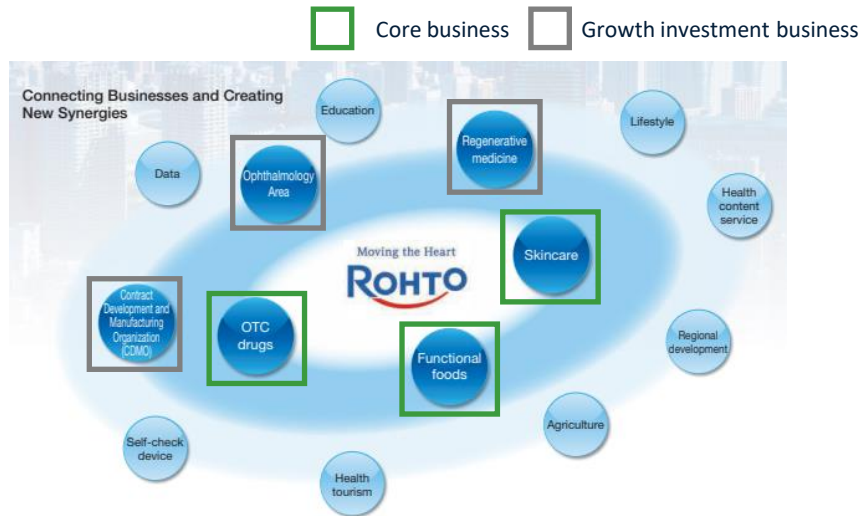
Skincare
Growth is being driven by products like "Hada Labo" (domestic sales of 17.5 billion yen) and "Melano CC" (domestic sales of 16.1 billion yen). However, given the limitations on shelf space expansion, it will not be easy to continuously introduce hit products and maintain growth rates. While growth in Asia remains steady, as with the eye care segment, Rohto's market share in the U.S. and Europe is still limited, making the prospects for sustained revenue growth uncertain.

Supplements
The supplements segment has seen c.20% annual growth in recent years, driven by the success of "Rohto V5." However, around 99% of sales are concentrated in the domestic market, which could result in growth stagnation. It is crucial to effectively leverage the recently acquired EYS and shift focus towards expansion in Asia.

Lack of a Clear Equity Story

Rohto's equity story fails to clearly outline business priorities. The next driver of business growth toward 2030 remains uncertain, especially in the regenerative medicine business, where the absence of clear product launch prospects is a source of concern for shareholders and investors.

The conceptual diagram for the "Management Vision for 2030" lacks a clear focus...



The conceptual diagram representing the "core business," which currently accounts for over 95% of sales, and the "growth business," which has yet to generate significant revenue, depicts both as circles of the same size and color. **This presentation fails to convey a focused and clear management strategy**

... the company's investment in growing domain and M&A also bring the impression that "the next pillar of growth is uncertain"

Regenerative medicine R&D stages

Stage				
Non-clinical	P1	P2	P3	Application
██████████	██████████	██████████	██████████	██████████
██████████	██████████	██████████	██████████	██████████
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Although it is stated that progress is "virtually as scheduled," **there are still no projects in the P3 stage or beyond in the pipeline,** despite more than 10 years of research.

Other businesses



Rohto Recipe



Yaeyama Farm

Employee Voices on the Business Portfolio and Management Structure

The opinions of employees regarding the business portfolio and management situation are not all positive, and there is room for management to listen.

Overall comments about business portfolio



“The business is too shallow and broad, and as a result, each business is weak. There is nothing that can be called technology. There are many hasty decisions, and they are frequently reversed later.”
-R&D, working for 10-15 yrs (current employee)

Management of prescription drug business



“Rohto just started working in prescription drugs and have many weaknesses. There are many points where people who transfer from prescription pharma-co to Rohto will experience culture shock.”
-QA, working for ~5 yrs (current employee)

Growth investments



“There is an increase in investment in new areas, and it could be said that we are earning money (from existing core businesses) to invest in these new areas. I am concerned about the financial situation.”
-QA, working for 20+ yrs (current employee)

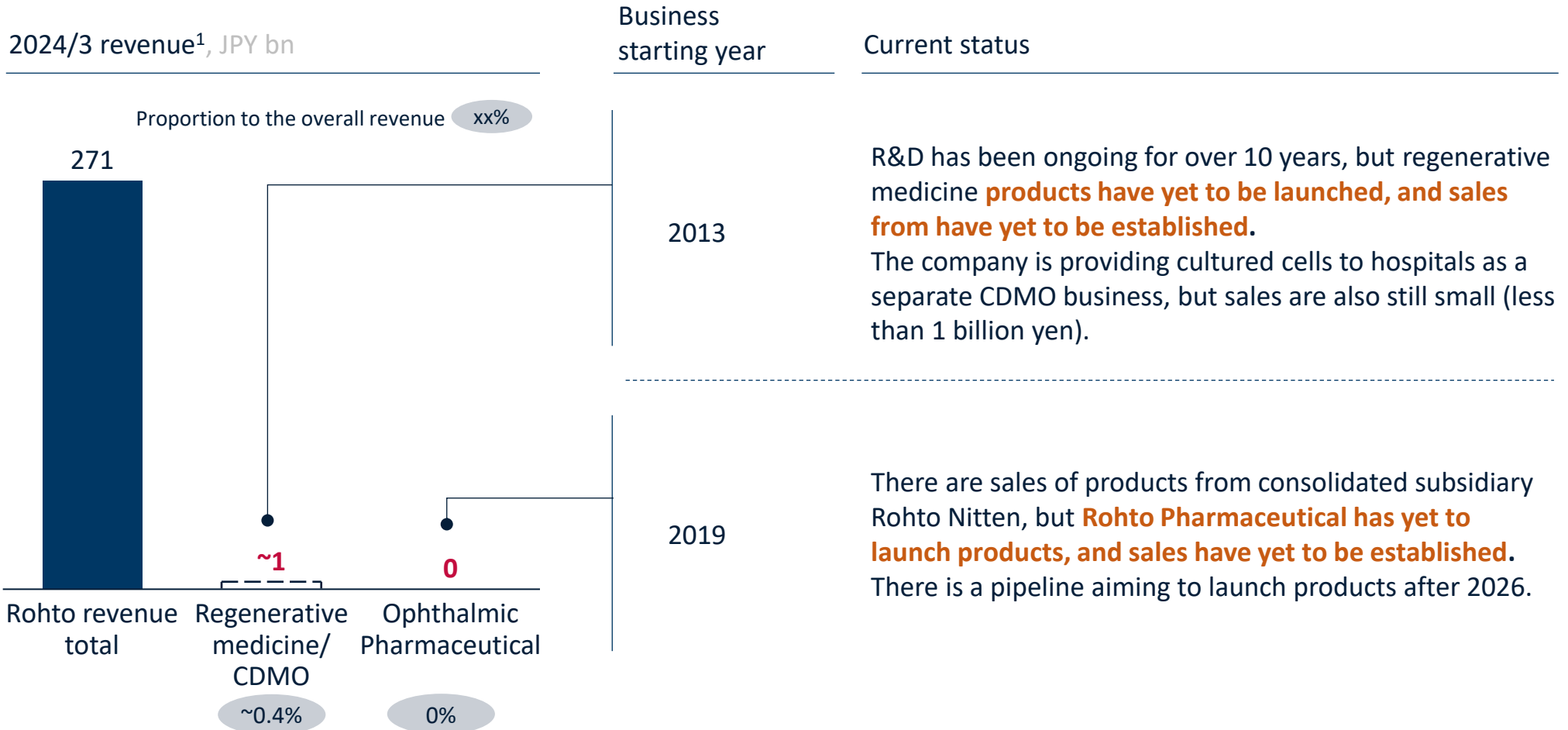
Corporate culture



“There is a tendency to not accept diverse ways of thinking, saying ‘that's just how it is at Rohto.’ The company should address the issues it is facing head-on.”
-R&D, working for ~10 yrs

Struggling Regenerative Medicine and Ophthalmic Pharma Business

Rohto has recognised the importance of finding the next pillar of its business and has been actively investing in the regenerative medicine and ophthalmic pharmaceutical businesses, but both are struggling.

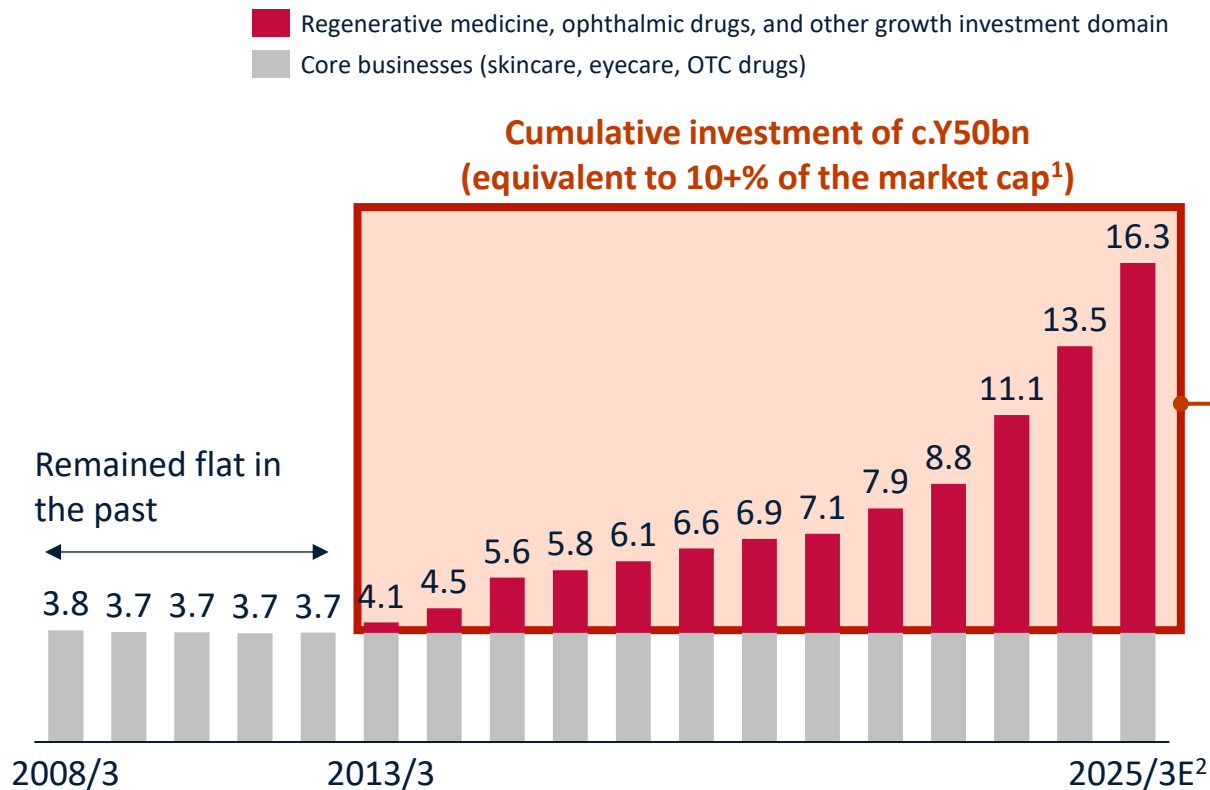


Note 1: Estimates based on interviews with IR manager
 Source: Rohto Pharmaceutical Annual Securities Report, interviews with IR manager

Continuing Aggressive Investments in Challenging Businesses

The fields of regenerative medicine and ophthalmic prescription drugs are proving difficult, but Rohto is still continuing to invest huge amounts of money in research and development in these domains.

Rohto's R&D expense trajectory, JPY bn



Comments by Rohto Pharmaceutical

“ There has been no increase in R&D spending in core businesses. It is safe to assume that **the increase in investment from 2013 onwards is for regenerative medicine and ophthalmic drugs.** ”

Apart from CDMO (sales of less than Y1bn), **neither the regenerative medicine business nor the ophthalmic drugs for medical use business have been able to bring products to market, so sales are zero.** ”



Rohto Pharmaceutical
IR meeting with AVI

Note 1: The cumulative investment amount is based on the Q&A from the IR interview with Rohto Pharmaceutical. The share price is as of 20 March 2025

Note 2: As the total R&D expenditure for the year ending March 2025 has not been disclosed, we have simply estimated it as double the R&D expenditure as of the half-year report for the year ending September 2024.

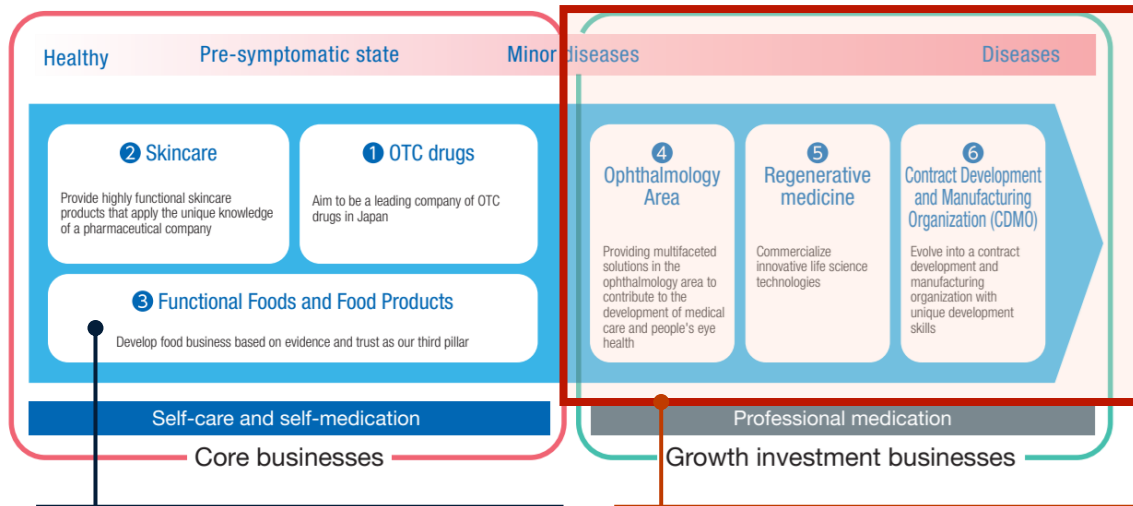
Source: Rohto Pharmaceutical Annual Securities Report, Engagement with Rohto Pharmaceutical

Need to Reevaluate the Positioning of Growth Investment Businesses

Despite Rohto continuing to achieve solid growth and meeting challenging yet realistic goals in its Core businesses, the company appears to be undervalued due to its unclear vision of “growth investment businesses” and its communication with the market

Rohto’s conceptual image about businesses (“Business Area Vision 2030”)

Domains addressed in Business Area Vision 2030



In line with its management goal of developing functional foods as a third pillar, the company has also made some management decisions that can be evaluated as positive, such as the **acquisition of Singapore-based Chinese medicine and consumer healthcare company Eu Yan Sang.**

The company has positioned its regenerative medicine business, for which there is no post-P3 pipelines, as a “growth investment business” and, in its vision for 2030, it appears as if it is allocating the same level of management resources to this business as to its “core businesses,” which account for more than 95% of sales.

AVI’s concerns and future expectations

- Despite investing a total of over ¥50bn in business over a period of more than a decade, **the ophthalmic and regenerative medicine businesses have generated almost no sales. A strategic re-examination of these businesses is required.**
- By positioning the medical ophthalmology and regenerative medicine businesses as high-priority “growth investment businesses,” **the company may be misunderstood by the stock market as having unfocused management.**
- **If Rohto reassess the positioning of the growth investment businesses, successfully complete the PMI for EYS, and establish EYS as a third pillar of growth, it will be possible to overcome these concerns mentioned above.**

Significant Undervaluation Against Industry Peers

As a result, despite the aforementioned superior cosmetics and OTC business performance, Rohto is trading at a significant discount to its industry peers.

EV/EBITA multiple¹

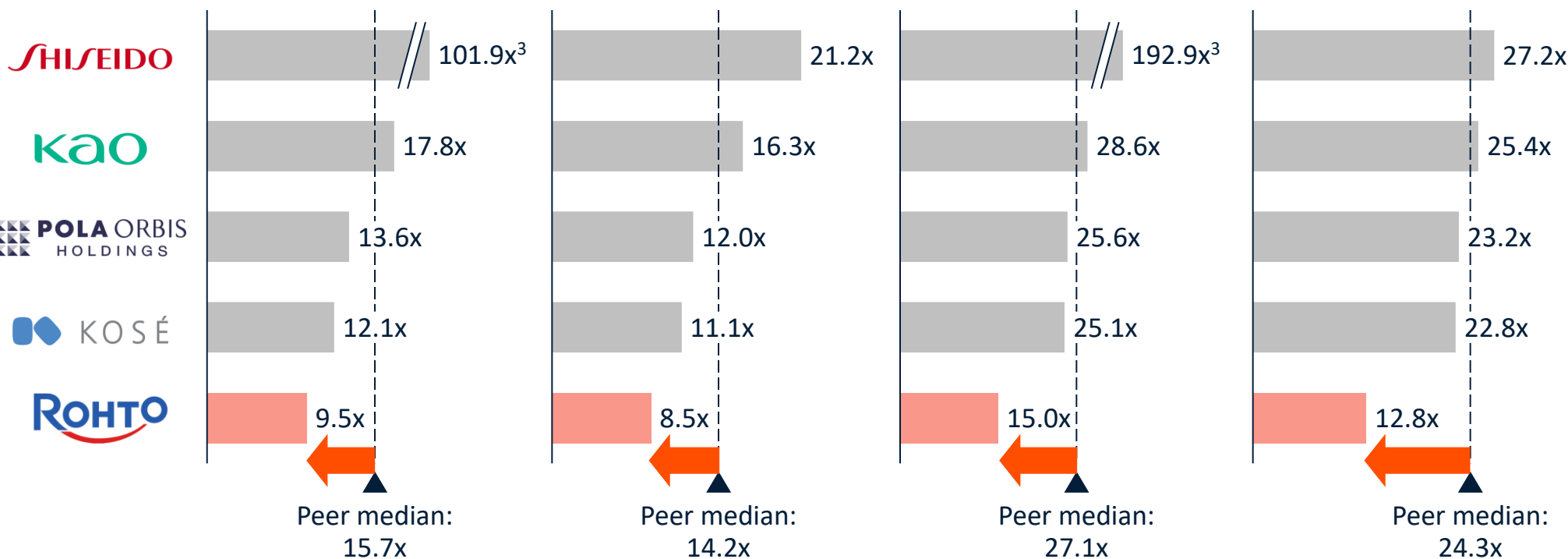
NTM

2Y Fwd.

P/E multiple²

NTM

2Y Fwd.



Note 1: Enterprise value is calculated after taking into account after-tax securities and after-tax long-term net financial assets at a tax rate of 30.6%. NTM is the expected EV/EBITA multiple as of the end of December 2025 and two years later as of the end of December 2026. Share price as of 20 March 2025

Note 2: NTM is the expected PER ratio as of the end of December 2025 and the expected PER ratio two years ahead as of the end of December 2026. Share price as of 20 March 2025

Note 3: Shiseido's earnings forecast (one period ahead) is based on the most recent company guidance, in light of the possibility that the earnings forecasts of securities companies have not been revised based on the results of the annual financial results as of February

Source: Each company's annual securities report, Factset consensus, Capital IQ, SPEEDA, AVI analysis

Disappointing Shareholder Returns Since Announcing Vision 2030

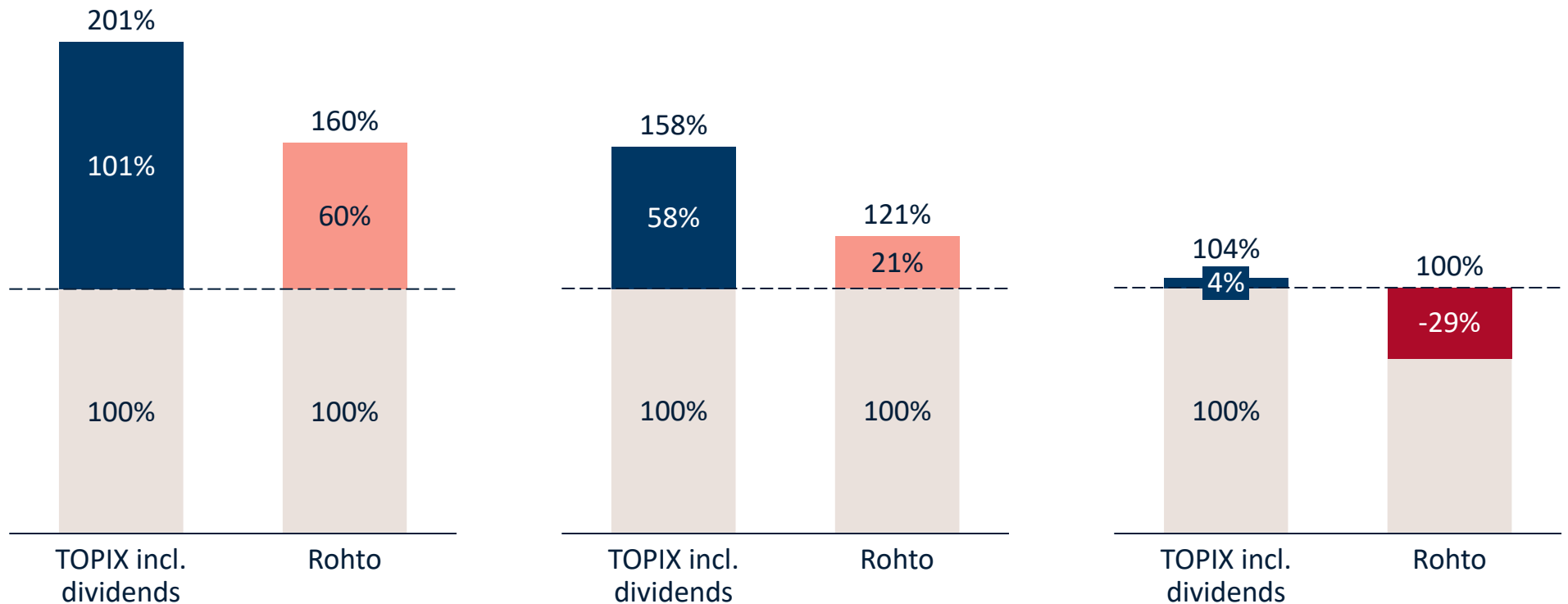
Since the announcement of its “2030 Management Vision: Connected for Well-being” in February 2019, Rohto has underperformed the TOPIX index in terms of shareholder returns over every period.

Total Shareholder Returns (“TSR”) ¹

Since the announcement of the 2030 Management Vision, February 2019

Last 3yrs

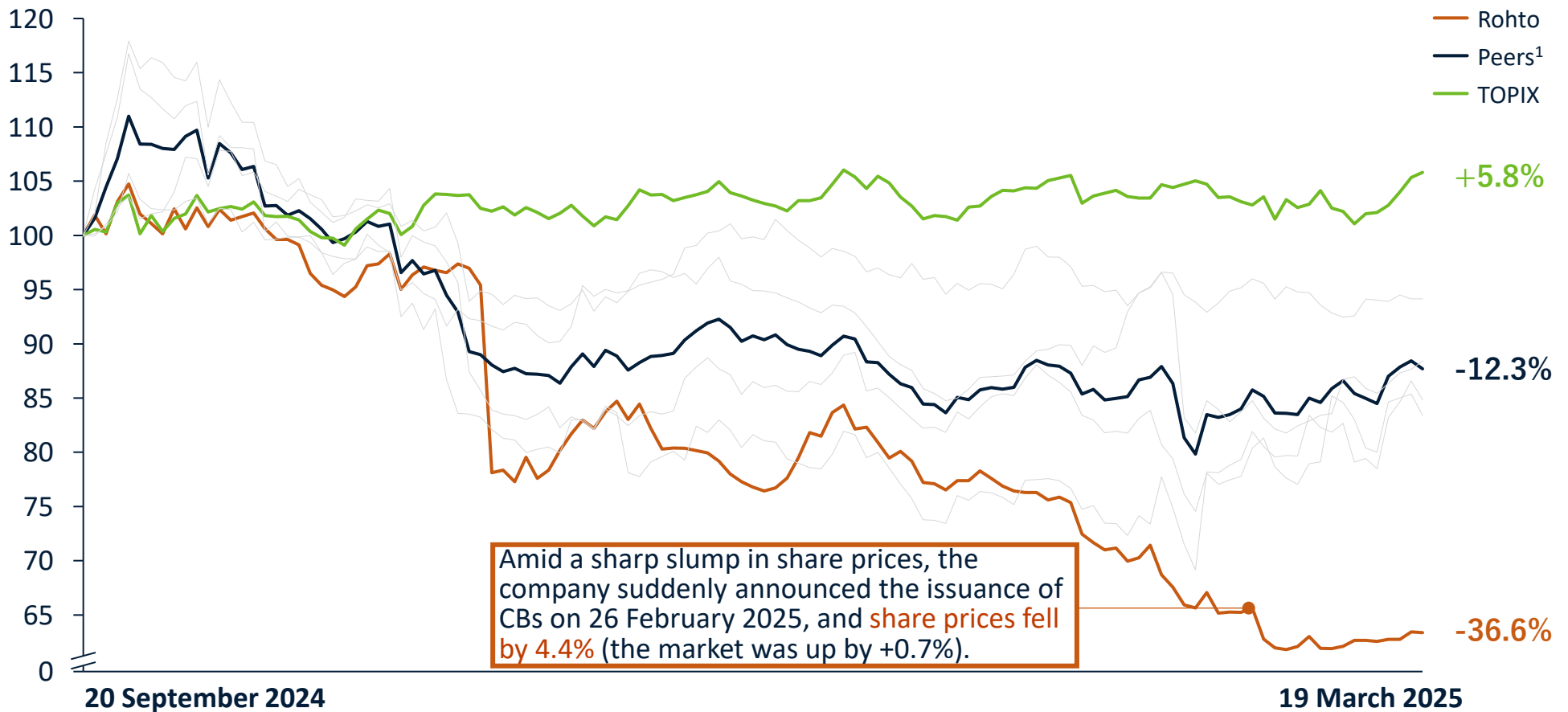
Last 1yr



Significant Underperformance in the Last 6 Months

Amid a sharp slump in share prices across the sector, the company suddenly made a disclosure about issuing dilutive euro-yen denominated CBs, a management decision that showed disregard for shareholder returns.

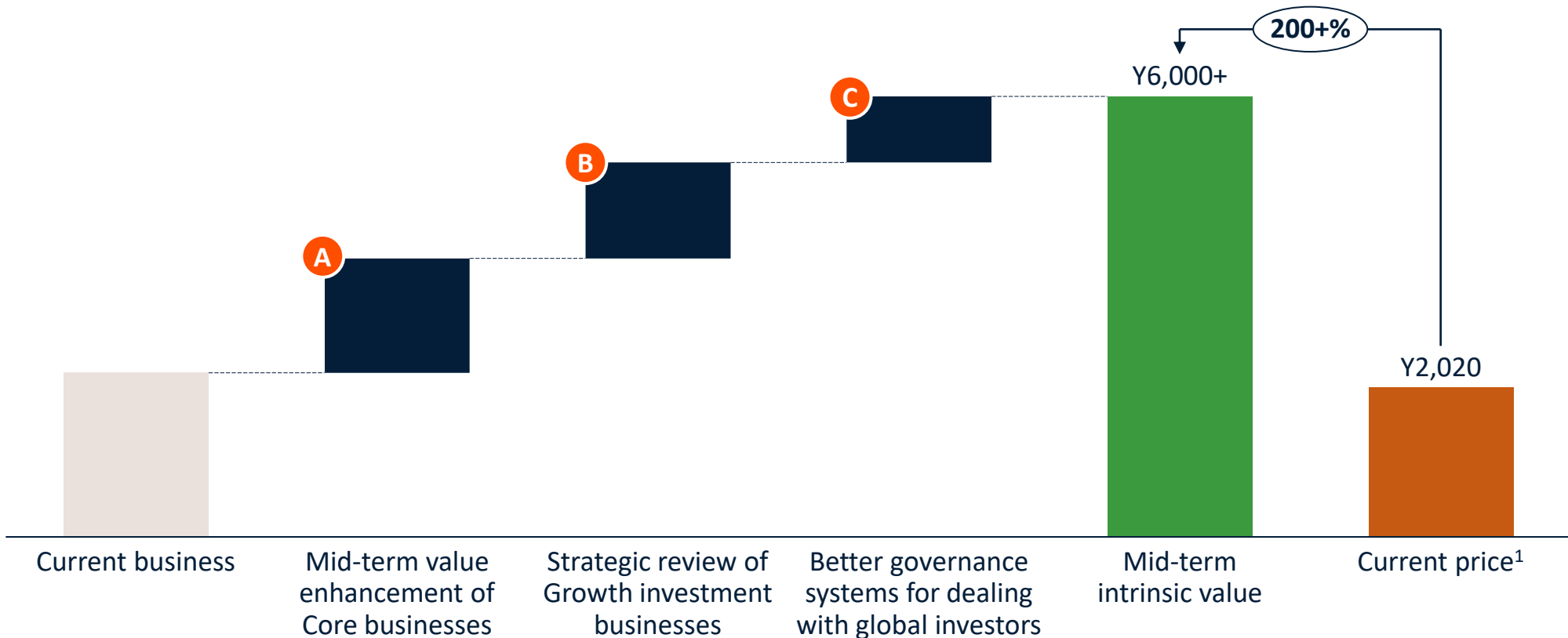
Share price performance over the past six months, indexed to 100 as of 20 September 2024



The Intrinsic Value of Rohto Exceeds Y6,000/share

If Rohto takes appropriate measures to enhance its corporate value, such as strengthening IR by appropriately engaging in dialogue with shareholders and clarifying its business focus, then the intrinsic value is at least three times the current share price.

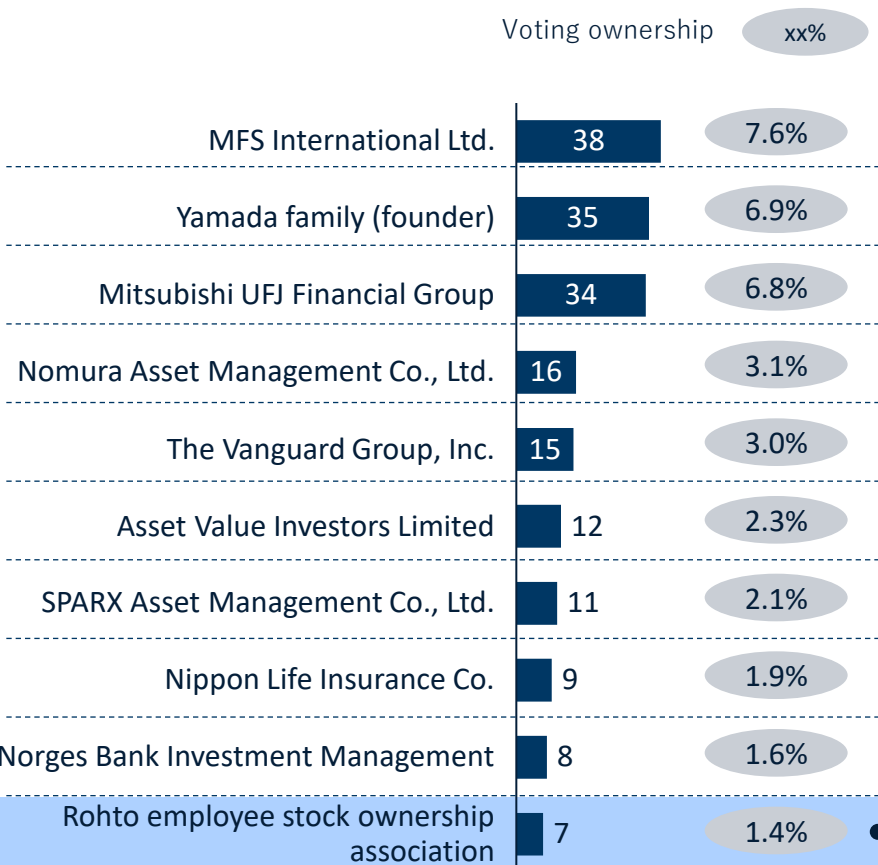
Estimation of intrinsic value of Rohto, JPY per share



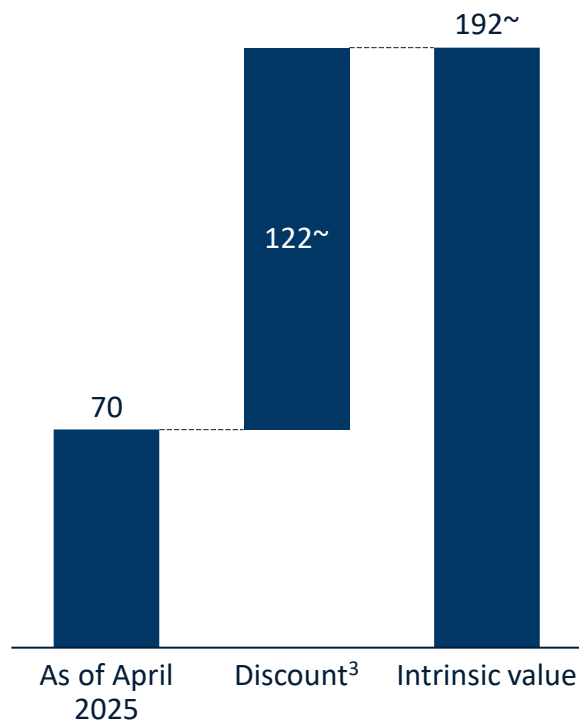
Enabling Rohto to Provide Y12bn in Value to Employees

By achieving intrinsic value, it will be able to provide an additional Y12bn in total to Rohto Group employees, who own approximately 1.4% of Rohto Pharmaceutical shares, or an average of Y1.7m per employee.

Rohto's large shareholders¹, JPY bn



Rohto employees stock ownership, JPY bn



By achieving intrinsic value, each employee will receive an additional **minimum of c.Y1.7 million** on average²

Note 1: The figures for the Rohto Group employee ownership are based on the securities report for the fiscal year ending March 2023 (the figures for the fiscal year ending March 2024 have not yet been disclosed), and the figures for the other companies are based on the most recent information available to the public.

Note 2: Calculated based on the assumption that all employees (7,259 at the end of the fiscal year ending March 2024) are members of the employee shareholding association.

Note 3: Assuming a share price of 6,000 yen

Source: AVI, based on securities reports, SPEEDA, large-volume shareholding reports, and other publicly available materials

Summary of Suggestions by AVI

Mid-term value enhancement of Core businesses

- ① Strategic pricing in the skincare business with better IR communication
- ② Additional investment in sheet mask business
- ③ Additional investment in Mentholatum USA business
- ④ Appropriate use of management resources to maximise synergy with EYS
- ⑤ Scaling back or withdrawing from the regenerative medicine business

Strategic review of Growth investment businesses

- ⑥ R&D expenses breakdown disclosure btwn. “Core” and “growth investment”
- ⑦ Carve-out of ophthalmic prescription drug business through JV formation

Better governance systems for dealing with global investors

- ⑧ Enhancement of DE&I for internal directors
- ⑨ Enhance independence in the board of directors
- ⑩ Improvement of management compensation and disclosure detail
- ⑪ Disclosure of reduction in cross-shareholdings
- ⑫ Reduction of WACC through segment disclosure enhancement
- ⑬ Disclosure of mid-term plan
- ⑭ Improvement of engagement in dialogue with shareholders
- ⑮ Requesting more frequent contact by institutional investors through TSE
- ⑯ Establishment of sustainability task force
- ⑰ Develop improved sustainable procurement framework and risk management

A

Mid-term value enhancement of Core businesses

B

Strategic review of Growth investment businesses

C

Better governance systems for dealing with global investors

A Agenda

Delay in Proactive Price Increase Actions

While Rohto has issued negative guidance regarding price increases as of the end of FY2024/3, its competitors have been referring to initiatives to secure profit margins since the end of 2023 or earlier.

IR guidance on price revisions by companies when raw material prices rise, FY2024/3 or FY2023/12



“We will implement our pricing strategy globally.”



“There will be a price increase when the new product is launched.”



“Kao has been promoting strategic price increases ahead of the industry. The main premise is to continue with this policy.”



“We further focus on prestige products”



“We are not considering a blanket price increase at the moment.”

At the heart of the management team’s thinking may have been that the best strategy was to provide consumers with high-quality products at reasonable prices, and that raising prices in response to external circumstances was a bad thing.

Toner Price Comparison: Rohto reluctant to increase Hada Labo price

Compared to competing brands, Rohto has been somewhat reluctant to raise the price of Hada Labo toner. There is room to consider a price increase of around 3-5%.

Toner price change by brand, August 22nd 2023 – August 22nd 2024, JPY

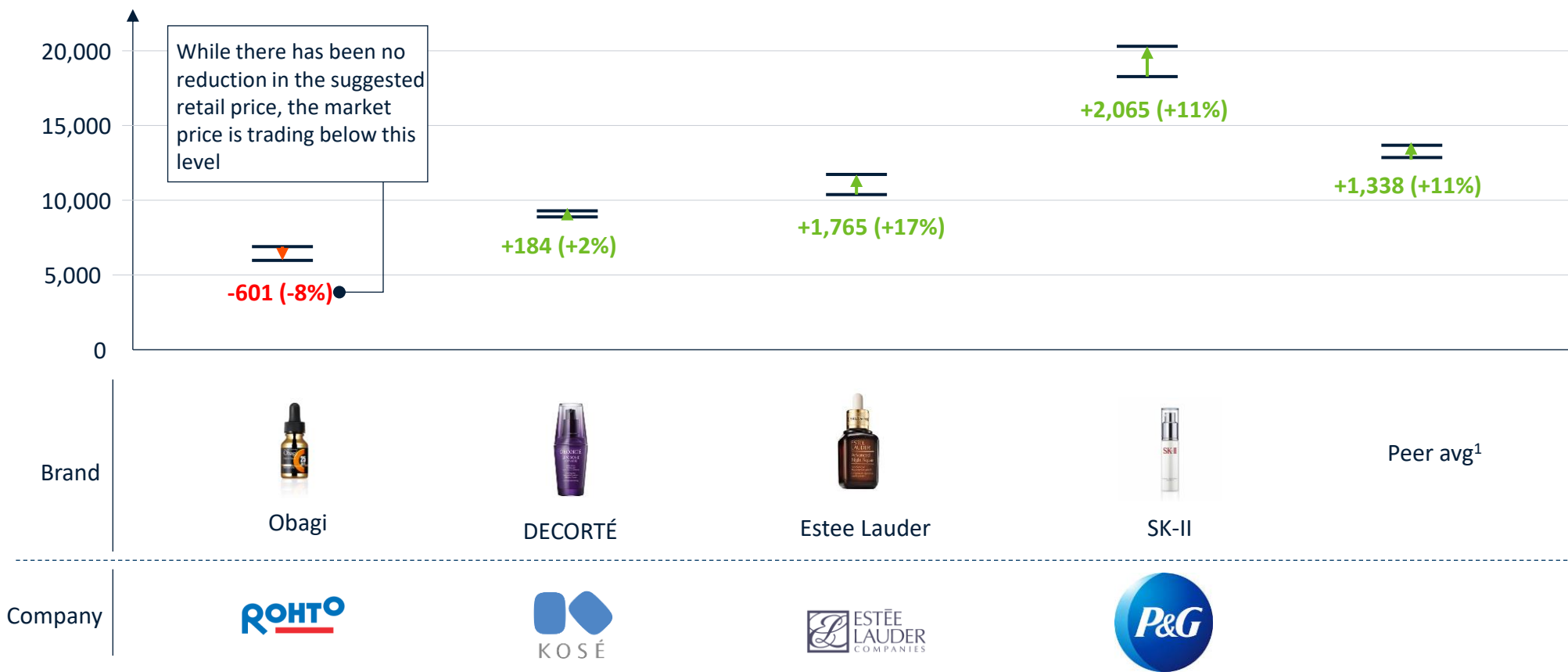


Note 1: Average of Nameraka Honpo, AQUALABEL and Curél
Source: Price.com, excluding refills for each brand. The average of the lowest prices was used for the seven most popular SKUs.

Facial Serum Price Comparison: Rohto maintained price of Obagi while competitors increased prices

Rohto has maintained pricing for Obagi while peers have implemented price increases. Considering the price hikes in mid-to-high-end beauty serums, a ~10% increase is worth considering.

Serum price change by brand, August 22nd 2023 – August 22nd 2024, JPY

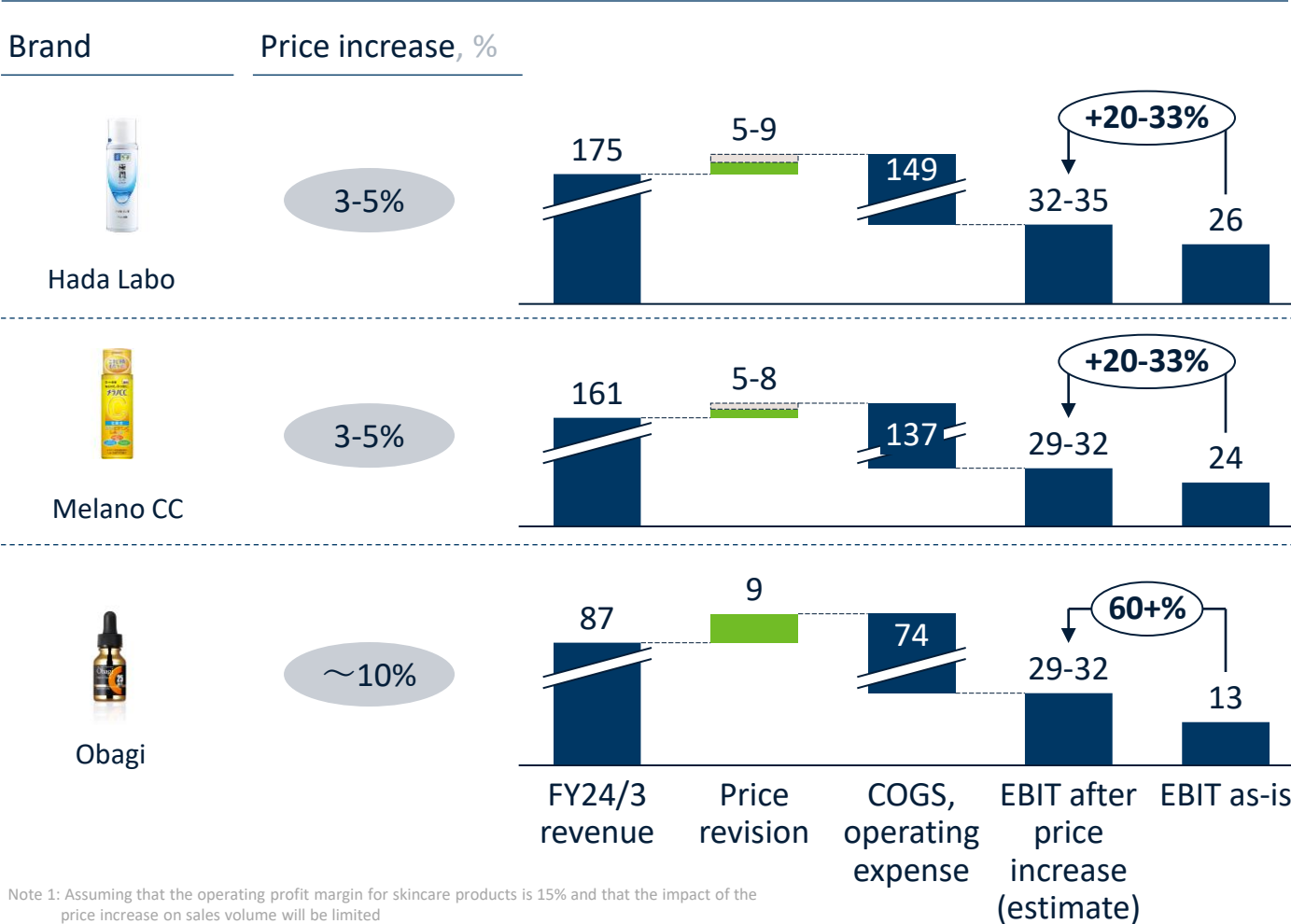


Note 1: Average values for COSME DECORTE, ESTEE LAUDER and SK-II
Source: Price.com, excluding refills for each brand. The average of the lowest prices was used for the 2-8 most popular SKUs selected.

Suggestion #1: Strategic pricing in the skincare business with better IR communication

Rohto should view pricing as an important management strategy and be proactive in its disclosure.

Estimate for the effect of price increase¹, JPY Bn



Suggestion

- Mass brands such as Hadalabo and Melano CC should consider raising prices by around 3-5%, while premium brands such as Obagi should consider raising prices by up to 10%.
- Rohto should continue to strategically review price revisions in conjunction with product renewal or launches, and should communicate this message to investors in a positive tone.

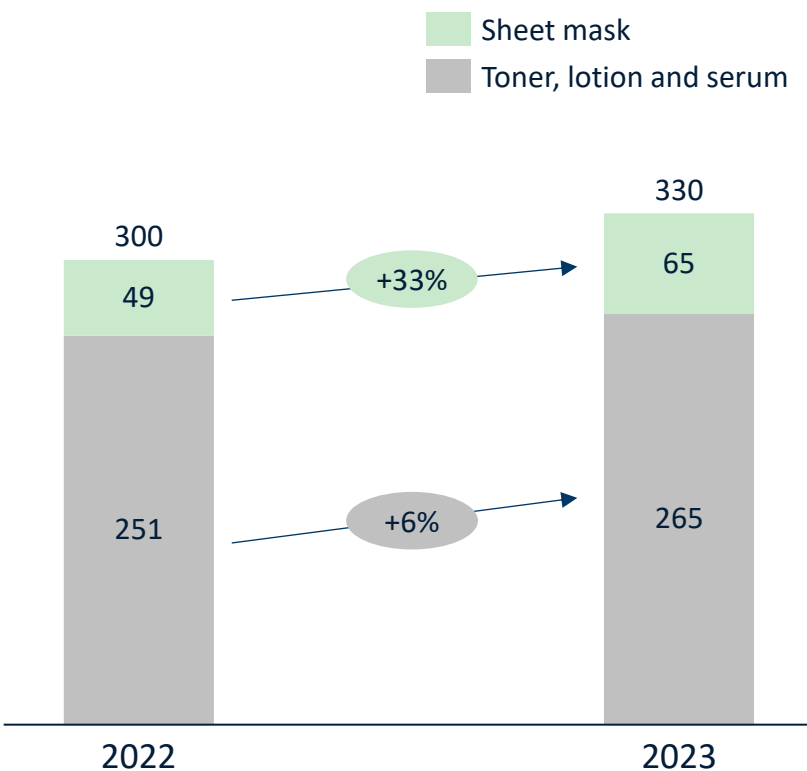


Note 1: Assuming that the operating profit margin for skincare products is 15% and that the impact of the price increase on sales volume will be limited
Source: Rohto Pharmaceutical Company disclosure

Sheet Masks Making Significant Strides in the Domestic Market

Since 2022, sheet masks have experienced rapid growth following the COVID-19 pandemic. In the domestic pharmacy segment, sheet mask brands, such as LuLuLun, have made significant advances.

Domestic skincare market by product type¹, JPY Bn



Skincare product sales rankings by brand

	Brand	Product type	Company
1	Hada Labo	General skincare	Rohto
2	Curél	General skincare	Kao
3	Melano CC	General skincare	Rohto
4	Obagi	Serum	Rohto
5	Lululun	Sheet mask	Dr. Lululun
6	AQUA LABEL	General skincare	Shiseido
7	FANCL	General skincare	FANCL
8	Clear Turn	Sheet mask	KOSÉ
9	QUALITY FIRST	Sheet mask	QUALITY FIRST
10	Nameraka Honpo	General skincare	Tokiwa

Note 1: AVI created with reference to the following article from Nikkei
 Source: Nihon Keizai Shimbun 'Sheet masks: average price rises due to large-volume sales, making special care a daily routine', expert interview

Suggestion #2: Additional investment in sheet mask business

In the domestic market, standalone sheet mask brands are gaining popularity. Launching independent sheet mask brands, separate from popular brands like Hada Labo, or making additional investment in the marketing of existing products could be an option.







Domestic sheet mask brands for women by revenue

	Product name	Company
1	Lululun Hydra EX (28)	Dr. Lululun
2	Lululun Precious Green	Dr. Lululun
3	Lululun Precious Red	Dr. Lululun
4	Lululun Precious White	Dr. Lululun
5	Cica Daily Soothing Mask	VT
6	Derma Laser	QUALITY FIRST
7	Keananadeshiko	Ishizawa Lab
8	Clear Turn Cho Noko Hoshitsu	KOSÉ
9	Lululun Pure	Dr. Lululun
10	Lululun Hydra EX (7)	Dr. Lululun
11	Clear Turn Hada Hukkura	KOSÉ
12	Clear Turn Yakuyo Bihaku	KOSÉ
13	The Derma Mask	QUALITY FIRST
14	Sophina	Kao
15	Melano CC	Rohto



Many popular sheet mask products are part of **independent brands that focus primarily on sheet masks**

Rohto's sheet mask lineup

Product name	Product image
Hada Labo	
50 no Megumi	
Melano CC	
Promedial	
Koji Hada	
Atorrege	



Rather than being independent sheet mask brands, Rohto's products are positioned as **sheet mask versions of existing lotion, emulsion, and serum brands**

Overseas Skincare Business: Opportunity in Europe and Americas

In Asia, Rohto has a wide range of brand offerings, but the product lineup in Europe and the United States is limited, leaving room for growth.

Skincare revenue, JPY Bn

Major brands by region

Former Mentholatum employee's comments

	Subsidiary	Hada Labo	50 no Megumi	Sun screen	Acnes	Selsun	Lip balm	Male cosmetics	HadaLabo Tokyo ²	Deep Heat	
Asia											
		✓	✓	✓	✓	✓	✓	✓		✓	
		※Rohto sells some products (e.g., Melano CC) via direct EC									
Europe	   Poland				✓					✓	✓
					DAX brand						
Americas								✓		✓	✓
								Only OXY			

“The products are of excellent quality, and with marketing investments of around 1 million USD for every 10-15 SKUs, more brands could have been successfully launched. However, the management was too focused on short-term results and reluctant to make the necessary upfront investments.”



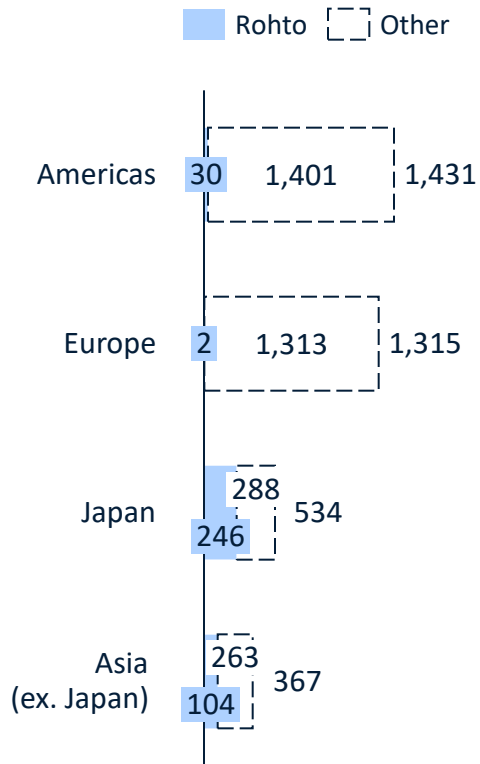
Mentholatum USA
Former employee

Overseas OTC Eye Drops Market: Opportunity in Americas and Asia

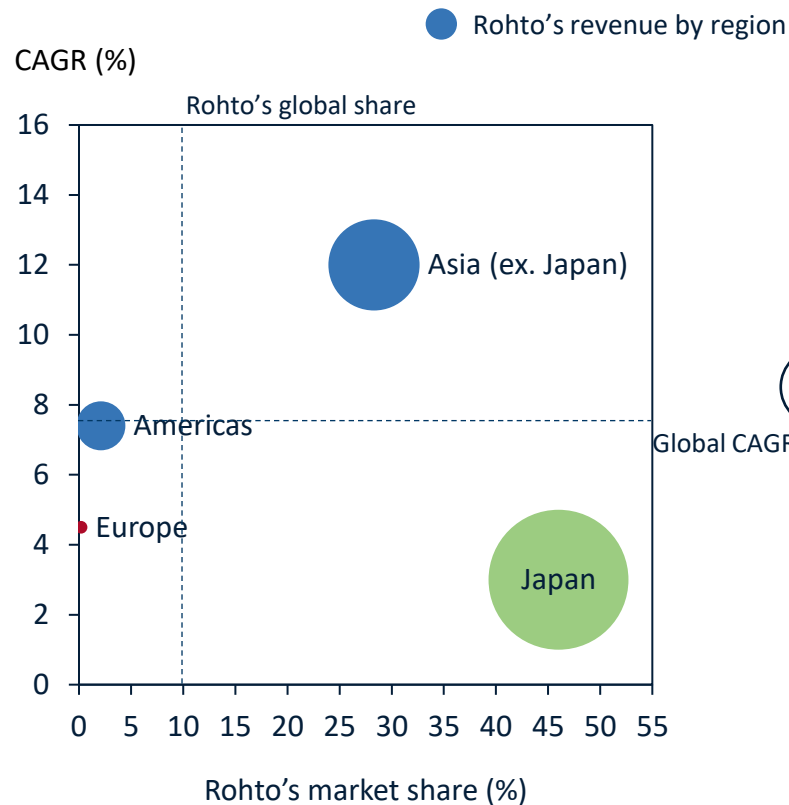
In the OTC eye drops market, there is significant opportunity for growth in both the Americas and Asia. Particularly in the U.S., where market share is still low, there is a need for aggressive investment.

Details on following pages

OTC eye drop global market¹, 2023, USD mn



OTC eye drops market CAGR by region and Rohto's market share by region



Priority by region and details




- United States (**High Priority**): Actively invest in marketing and sales with the short-term goal of increasing market share from 2% to 5%.
- Asia (ex. Japan) (**High Priority**): Continue making aggressive investments to expand market share in the region.
- Japan (**Medium Priority**): Focus on maintaining market share with minimal investment, redirecting profits towards investments in Asia and the United States.
- Europe (**Low Priority**): Avoid excessive expansion, but continue operations in the UK, Poland, and the Middle East.

Note 1: Figures for the US, Europe and Asia are taken from Grand View Research and Business Market Insights. Figures for Japan are taken from Fuji Keizai. Sources: Grand View Research, Business Market Insights, Fuji Keizai

US OTC Eyedrops Market: Rohto's products are of high quality

Rohto's eye drops in the US market are of high quality with competitive prices.

Major eye drops brands and reviews on EC websites in the US

Company	SKU	# of reviews ¹	Average rating	Price range
	Max Strength Redness Relieving	11,259	4.7	\$4.6-14.0
	All-In-One Multi Symptom	5,591	4.4	\$5.3-9.0
	Cool Relief	3,675	4.7	\$6.5-12.0
	Dry Aid Lubricant	2,776	4.8	\$6.9-16.0
	Optic Glow Redness Reliever, Whitening	1,098	4.5	\$9.2-15.5
	Lumify Redness Reliever	45,898	4.6	\$11.4-19.0
	Refresh, Tears Lubricant	27,693	4.7	\$6.6-10.4
	Systane Complete Multi-Dose	14,121	4.5	\$10.0-17.5

Positive reviews



Hilary

Reviewed 5 months ago

It worked immediately and removed the redness and then the swelling dryness and irritation went away within 15 minutes. I'm so happy I found these eye drops. Much better than competitor brands and at a good price too.



Love these drops after a long day on the computer!

dogdad83

a year ago

These eye drops are AWESOME. Neat little leak proof bottle and works instantly. I'm 63 I work on a computer all day... I use these often, and recommend them highly.

US OTC Eye Drops Market: Rohto has some shelf share, but with room for improvement

Rohto's products have secured a certain amount of shelf space in pharmacies, but they are still secondary to other popular brands. In addition to expanding sales resources, the company should also consider increasing the number of SKUs

Shelf allocation for the eye drops section at a major chain pharmacy

Comment from former employee



“Refresh”:
Allergan

“Systane”:
Alcon

“Blink”:
Bausch +
Lomb



Rohto

“Visine”:
Johnson
&
Johnson

““ Getting products placed in as many stores as possible is a top priority. **I believe the sales team did an excellent job in this regard.** While the shortage of staff isn't as severe as in marketing, **it's undeniable that the team was understaffed.** Having two additional staff members would have been a significant help. ””



Former employee in the US business, marketing

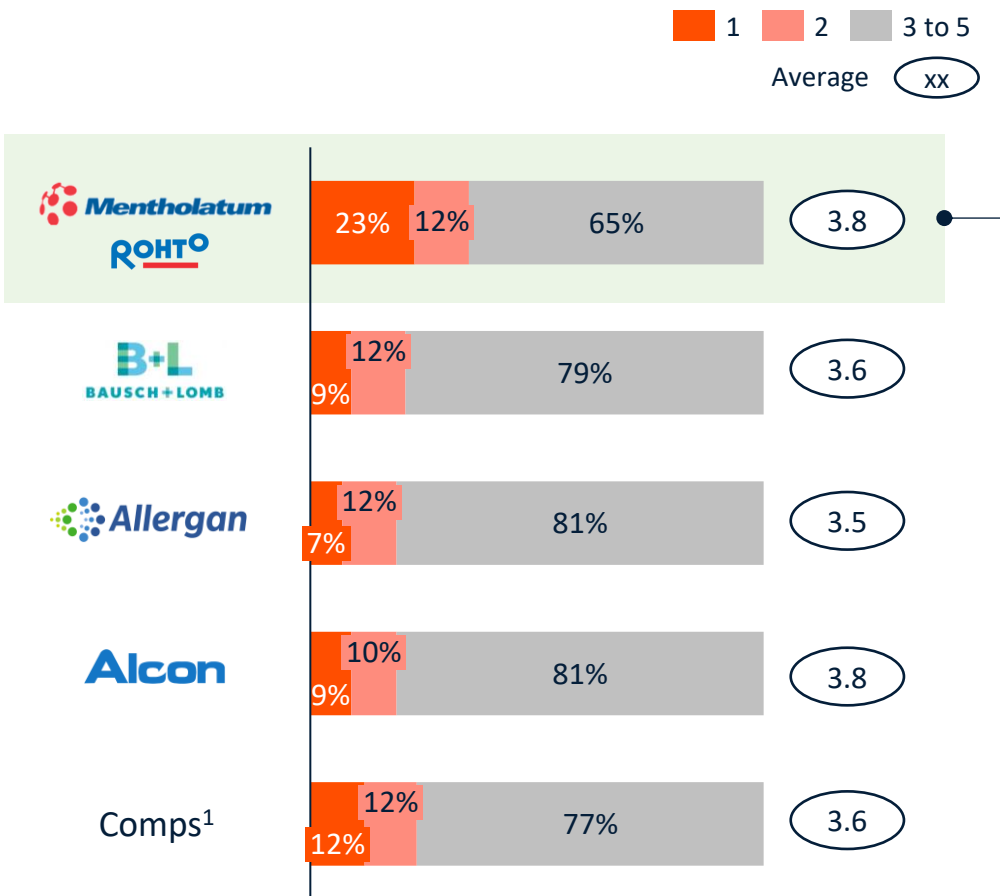
*Store at Duane Reade Pharmacy by Walgreens, 100 Delancey St, New York, NY 10002, United States

Source: AVI on-site survey, interview with former Mentholatum USA employee

Improvement Opportunity for Mentholatum USA

Although the average rating is slightly higher than that of competitors, there are also many negative comments from employees, suggesting that there is room for improvement in the working environment and corporate culture.

Glassdoor ratings distribution



Note 1: Average of Bausch + Lomb, Allergan and Alcon
Source: Glassdoor

Negative reviews on Glassdoor

Theme	Quote
Management's incapability	<i>Management has no clue about the American consumer, goes on incoherent ramblings, and does not add any value to the company</i>
High turnover / Insufficient staff	<i>Upon starting here in 2019, I noticed a drastic amount people leave shortly after.</i> <i>There's too few people doing too much work. Every team member is asked to wear too many hats.</i> <i>You can learn a lot because they're understaffed</i>
Risk-averse culture	<i>This company is so dated and behind on every single consumer trend. They move at a snail's pace for any decent opportunities that come</i> <i>They're unwilling to take risks in every way, leaving the company in the dust behind their competitors</i> <i>If you want your ideas to be always shut down work here</i>

Former Employees' Voices: Improving working conditions with proactive investment is an urgent priority

While Rohto and Mentholatum products are highly regarded even by former employees, the working conditions appear not ideal, and the excessively cautious attitude of management towards investment is also a point of concern.

Comments from the former employees

Positive



I worked with **wonderful colleagues**, and the company has **excellent products**

The company has very good products with great potential. Although I left due to dissatisfaction, **if I were an investor, I would definitely want to buy in**. With proper investment, **it could achieve 72 billion yen (500 million USD) in sales within five years** (current sales are 18.6 billion yen)

The relationship between marketing and sales was very strong, and the head of sales was a **sharp and highly competent** individual

I found it helpful that Rohto Japan regularly sent expats. **They served as a bridge for communication between the Japanese headquarters and Mentholatum USA**. Communication could otherwise become sparse

Negative



While this salary might be acceptable in Buffalo, NY, **it is considerably low by LA standards**.

I got a new job to a lower position than I had at Mentholatum, but my **working hours decreased and my salary increased by about \$20,000**

At one time, there were about 10 people on the team, but **by the time I left, there were only 3**. Despite increasing sales, replacements were not hired.

Some department heads (Directors) were so overwhelmed with work that **they would cry in the office almost every other week**.

A highly talented colleague ("Rock-Stars") was frustrated with the unchanging conditions and quit twice.

It's disappointing that the management is so focused on short-term results that **they hesitate to invest in marketing**.

Suggestion #3: Additional investment in Mentholatum USA business

As a first step towards expanding international business, additional investment in Mentholatum USA is worth considering.

Current status

- Many popular skincare brands in the Japanese and Asian markets are not sold in the U.S. market
- Eye drops that offer nearly 40 SKUs in Japan are highly regarded for their quality in the U.S. market as well, but currently, only 7 SKUs are available
- Mentholatum USA faces chronic issues related to employee wages and working hours

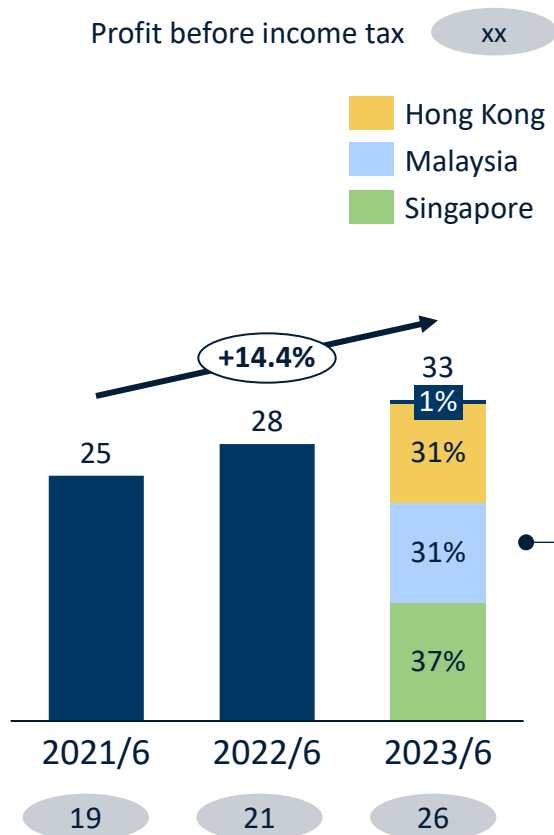
Suggestions

- Consider making proactive additional investments in product development, marketing, and sales resources to expand the product lineup in the skincare and eye care fields
- Consider increasing the number of employees and improving working conditions at Mentholatum USA

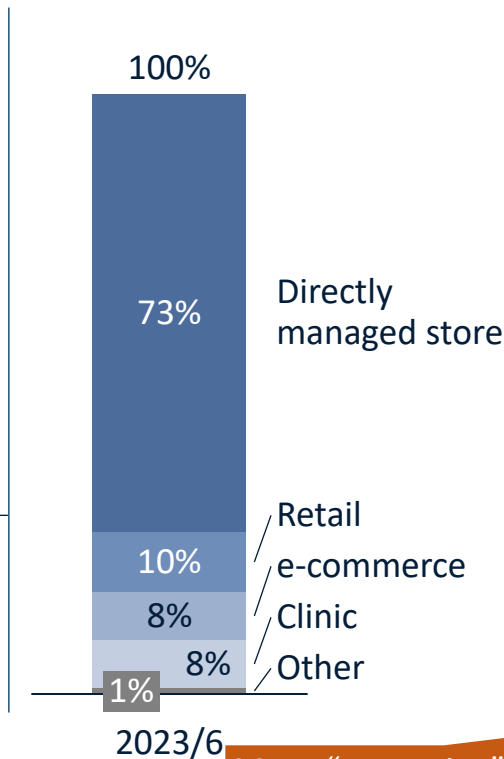
Eu Yan Sang International Ltd. (EYS): Overview

EYS is a rapidly growing Traditional Chinese Medicine (TCM) and natural consumer health company, operating in three countries with various sales channels. Though attractive, Rohto's acquisition may have been overpriced – future PMI efforts are crucial.

EYS revenue¹, JPY bn



Channel mix, %

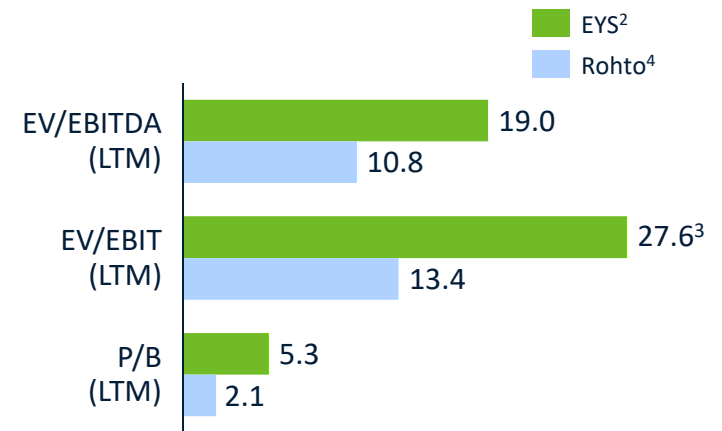


Acquisition by Rohto in 2024

Ownership structure, %



Valuation multiple comparison



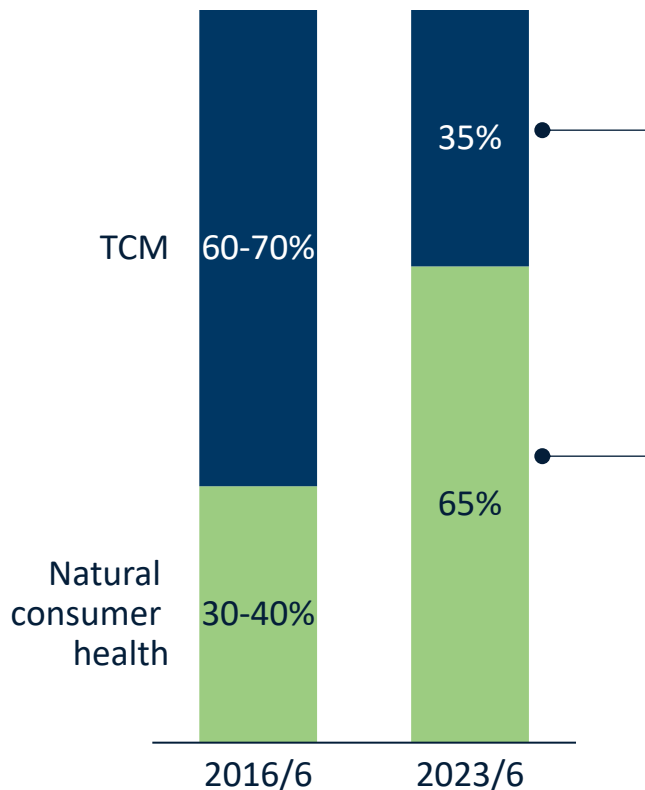
More "expensive" investment than Rohto itself

Note 1: Original data is in SGD, conversion rate 1 SGD = 110.8 JPY
 Note 2: 2024/6 figure is operating profit before audit, 2: Quarterly data not available, latest FY end data
 Note 3: Based on disclosed FY2023 financials and does not include long-term securities
 Note 4: Based on FY2024 operating profit due to data availability
 Sources: PRTIMES, Rohto Pharmaceutical financial results for the fiscal years ending March 2024 and June 2024, and materials released by each company

EYS: Products

EYS grew its business in the natural consumer healthcare segment in the last ~7 years. Most of EYS’s main products are in the premium category (e.g., 2,856 USD for a pack of wild cordyceps, 89.9 USD for a bottle of bird’s nest)

EYS revenue by product type, %



Sub-product type

Main products

TCM



- Bo ying compound (15.6 USD)
- Gold Label Bak Foong Pills (49.9 USD)
- Wild cordyceps (2,856 USD)

Food



- Bird's nest (89.9 USD)
- Pure chicken essence (74.9 USD)
- Herbal medicine soup (24.9 USD)

Supplement



- Pure cordyceps (46.9 USD)
- Lingzhi cracked spores powder (75.9 USD)

EYS: Sales Channels

EYS has four main channels. Directly managed stores and retail take up ~85% of total revenue.



EYS: Production

EYS owns GMP-certified plants in Hong Kong and Malaysia.

EYS's production locations



GMP plant in Hong Kong

- Awarded the GMP certification by the Therapeutic Goods Administration (TGA) of Australia and ISO9001:2008 by Hong Kong Quality Assurance Agency in 2002
- Attained the "Proprietary Chinese Medicine Good Manufacturing Practice" certification from the Chinese Medicines Traders Committee of the Hong Kong SAR in 2006

GMP plant in Malaysia

- Acquired Malaysia Ministry of Health GMP (Good Manufacturing Practice) certification in 1997
- Focuses on manufacturing of pills, capsules and powders as well as packaging of soups and teas

Synergy Option i: EYS's geographical expansion

In addition to its existing presence in regions such as Hong Kong, Malaysia and Singapore, EYS shall also be exploring opportunities to expand into new markets, such as mainland China and Taiwan (or other Southeast Asian countries such as Vietnam).

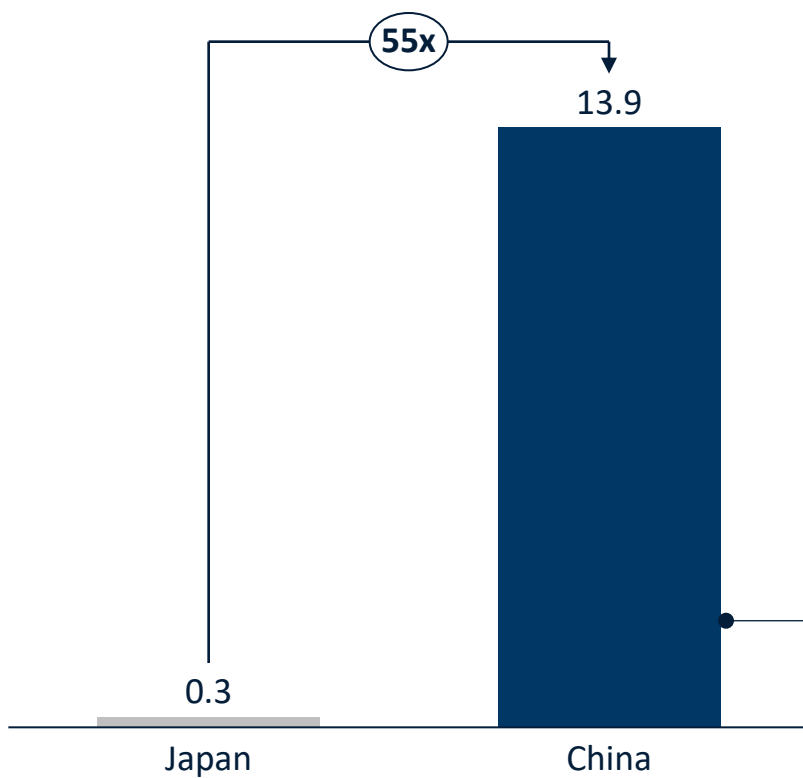
Geographical expansion assessment

Criteria	Mainland China	Taiwan	Japan (OTC)	Japan (prescription)	US
Market size	Massive market of 13.9 JPY Tn	Sizable market of ~0.1 JPY Tn	Small market of < 0.1 JPY Tn	Sizable market of ~0.2 JPY Tn	Small and dispersed market
Competition	Quite a few competitors but highly fragmented	Quite a few competitors but highly fragmented	Krasie has ~30% but the rest is fragmented, and Rohto has ~10%	Dominated by Tsumura (85%) and Krasie (10%)	Mostly mom-and-pop stores in Chinatown
Product fit	TCM is well-known among the general public	TCM is well-known among the general public	TCM is not well known as Kampo is the mainstream	TCM is not well known as Kampo is the mainstream	TCM is well-known among the Chinese population
Legal requirements	May face backlash from the local government	Mentholatum already operates in Taiwan	Rohto already operates in Japan	Approval may take time	EYS already imports products to the US
Sales & Distribution	Can take advantage of Mentholatum	Can take advantage of Mentholatum	Can take advantage of domestic resources	Can take advantage of Rohto Nitten	Can take advantage of Mentholatum

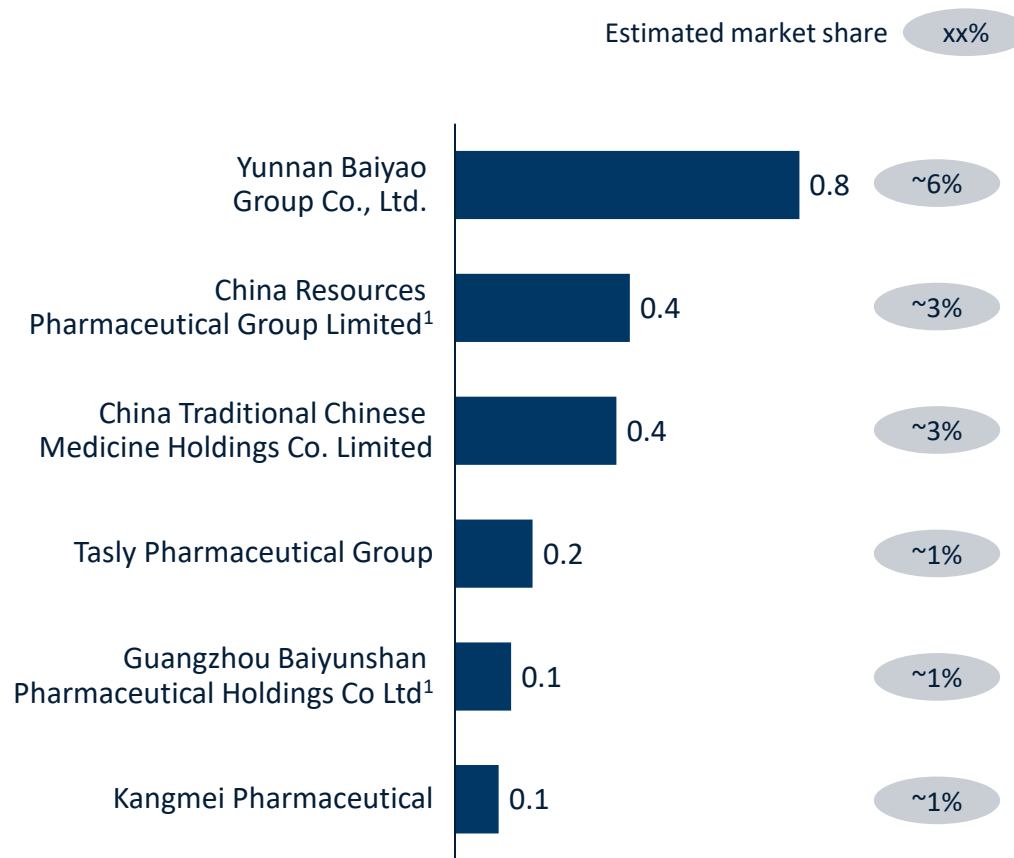
Expansion into Mainland China: Market size and competition

The Chinese traditional medicine market is approximately 13.9 trillion yen, around 55 times larger than the Japanese Kampo market. However, the market is highly fragmented with no companies holding a dominant market share.

Kampo market in Japan and TCM market in China, JPY Tn



Major TCM companies by revenue (examples), JPY Tn



Note 1: Sales of TCM only
Source: Tsumura website, annual reports of each company

Expansion into Mainland China: Considerations when entering the market

Since around 2022, Tsumura has aimed at expanding its traditional Chinese medicine business. However, it should take care when selecting local partners, drawing on lessons from the experience of others.

Progress of Tsumura's entry into mainland China market



 **“ The primary goal is to complete an M&A transaction. We aim to enter the Chinese market by acquiring a company that already holds a license for traditional Chinese medicine (TCM), thereby obtaining sales rights and manufacturing facilities. In addition to acquisitions, we will explore various possibilities, including business partnerships. The objective is to finalize this by the end of the 2024 fiscal year ”**

Tsumura
CFO,
Muneki
Handa

Nikkei Interview

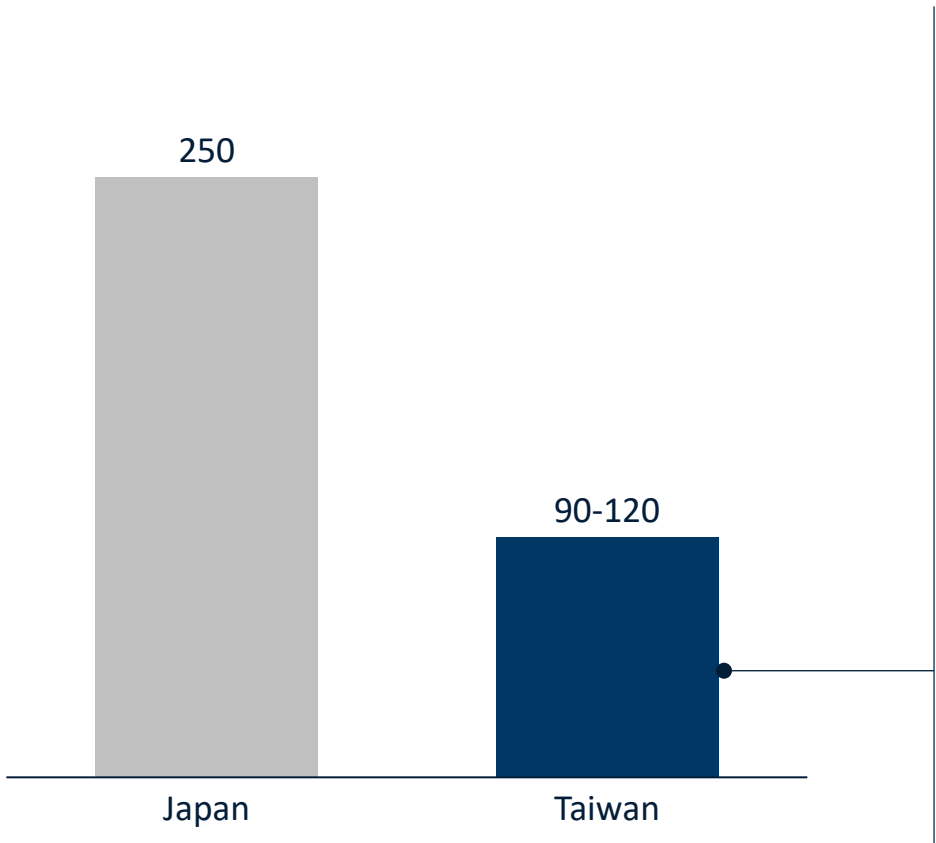
Considerations for entry into mainland China

- Selection of Partners
 - It is necessary to acquire local entities holding sales rights or to establish joint ventures.
 - Attention must also be paid to local legal regulations during this process.
- Selection of Markets
 - Since the competitive environment and brand recognition of EYS vary significantly by region, selecting the right market to enter is critically important.
 - Although the competitive environment in cities like Shenzhen and Guangzhou is tough, their large economic scale and proximity to Hong Kong, where the EYS brand is well recognized, should also be considered as potential footholds.

Expansion into Taiwan

While smaller than the Japanese Kampo market, Taiwan's TCM market remains significant, approximately 0.09-0.12 JPY Tn in size. Like mainland China, it is fragmented and dominated by small and medium-sized enterprises, presenting an opportunity for EYS.

Kampo market in Japan and TCM market in Taiwan, JPY bn



Major TCM companies (not exhaustive)

TCM manufacturer	Approximately 90 companies, including Welgen Biotech, Yansen Biotech, TaiwanJ Biotech, KenYong Biotech, Der-Yen Biotech, TSBio, Brain-Eye Biotech, SynCore, Tai-Chung Biotech, Chiaphone Biomedicine, BioCell Biotech, and TaiwanLide, meet Taiwan's GMP standards.
TCM and health food companies	Chung Mei Brothers Pharmaceutical, Tien-Ming Pharmaceutical, Yung Shin, Standard Chem & Pharm, Everspring Biotech, Juntendo, Wampole Biotech, Grape King Biotech, Far East Biotech

Note 1: Good Manufacturing Practice (GMP)
Source: Analysis of the current situation of trade and research and development in the Taiwanese herbal medicine industry

Expansion into Japan

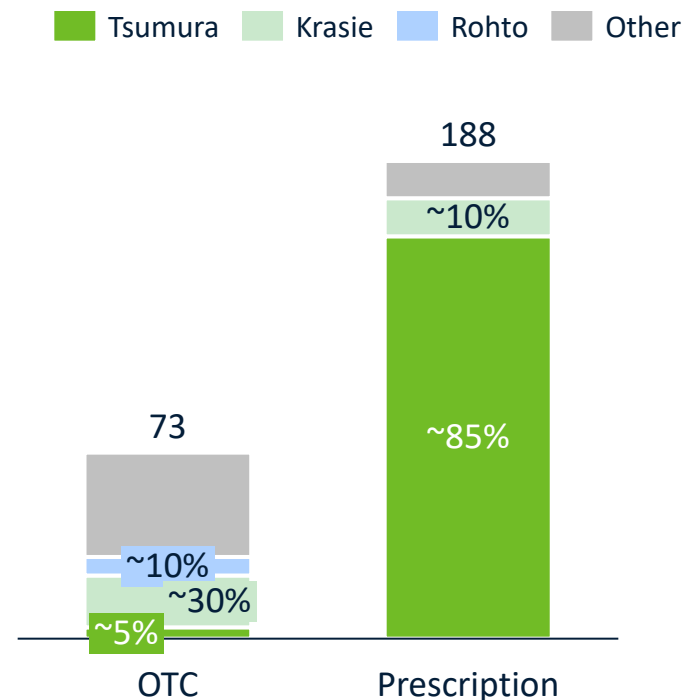
Japan's TCM market features a unique set of products that differ from typical TCM. The market can be divided into 1) OTC and 2) prescription, which are each dominated by Krasie and Tsumura, respectively.

TCM (中药) and Kampo (漢方) are similar but distinct medicines

	Geography	Consumption pattern
TCM	<ul style="list-style-type: none"> China Countries with significant overseas Chinese population (e.g., Singapore, Malaysia, major US cities) 	<ul style="list-style-type: none"> Not highly standardized OTC or recommended by TCM doctors
Kampo	<ul style="list-style-type: none"> Japan <ul style="list-style-type: none"> Based on Chinese medicine brought to Japan in 5-6 century but developed independently 	<ul style="list-style-type: none"> Highly standardized based on evidence-based research OTC or prescribed by doctors

Kampo market is dominated by Tsumura (prescription) and Krasie (OTC)

Kampo market¹, JPY Bn



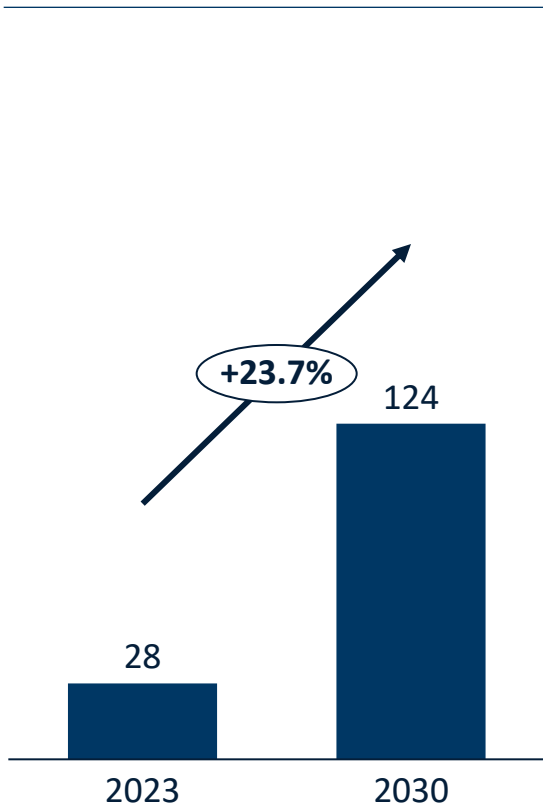
1: AVI estimate based on Tsumura and Crasie corporate websites and 新井一郎 「日本の漢方製剤産業の歴史」

Source: Nihon Keizai Shimbun "Tsumura CFO: "M&A in Chinese business, Chinese herbal medicine by 2024"".

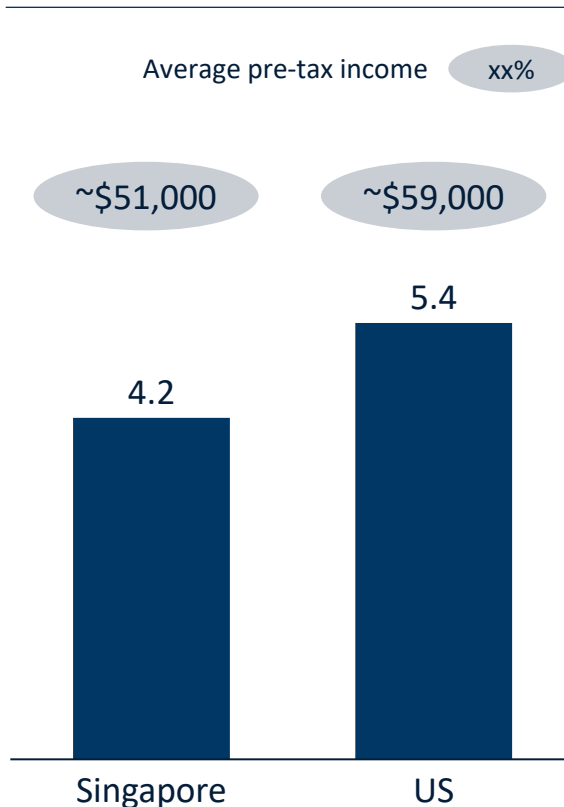
Expansion into the US: Market size and competition

The complementary and alternative medicine market in the US is rapidly expanding. With a large Chinese population and high income levels, the US TCM market is on par with Singapore. TCM has also gained traction among the non-Chinese population.

US complementary and alternative medicine market, USD Bn



Chinese population, Mn



TCM is spreading to non-Chinese population



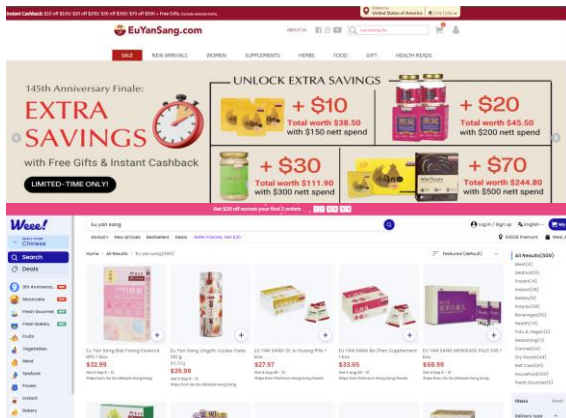
“
In this Chinatown traditional Chinese medicine clinic, at least half of the patients were White, Mexican, or Indian.
 ”

Expansion into the US: EYS's current status in the US

Currently, EYS sells products through e-commerce and independent TCM shops. Given the dispersed Chinese population in the US and competition with independent TCM shops, the focus should be improving existing channels rather than setting up direct stores.

EYS's existing sales channels in the US

E-commerce



In addition to the official online store of Eu Yan Sang International, EYS products are also sold on Asian-focused online marketplaces such as Amazon, Weee!, and Yami

Independent TCM shops



EYS products are sold in independently operated TCM shops primarily in cities with large Chinatowns, such as New York and San Francisco, focusing on both the East and West Coasts

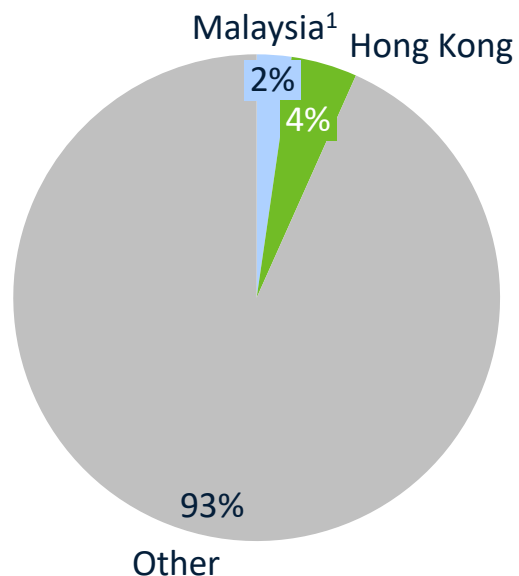
Next step for EYS

- The Chinese population in the U.S. is dispersed across major cities, and even in large cities like New York (~900,000) and San Francisco (~600,000), it would be challenging to establish profitable EYS-owned stores due to competition with local, independently operated traditional Chinese medicine shops.
- In the near term, efforts should focus on strengthening e-commerce (most EYS products are currently out of stock on Amazon US) and increasing the availability of EYS products in independently operated traditional Chinese medicine shops

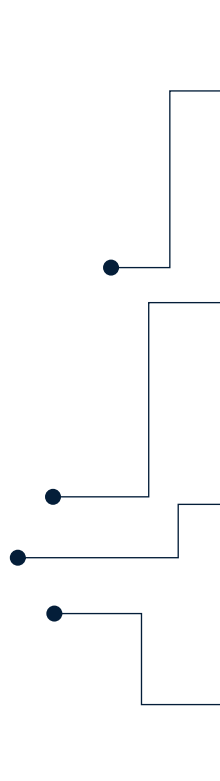
Synergy Option i: Leverage EYS's sales channels to sell Rohto products (1/2)

It would be worth considering using EYS's distribution channels to sell Rohto products in Malaysia and Hong Kong, where future sales growth is expected.

Rohto revenue by region, %



EYS sales ratio by distribution channel, %



EYS sales channels by region

Channel	Singapore	Malaysia	Hong Kong
Number of directly managed stores	42	71	62
Number of retail locations that sell EYS products	699	120	1,878
Number of EC members	237,000	320,000	255,000
Number of clinics	21	5	3

Note 1: The Singapore business is overseen through Malaysia, and there is a certain amount of sales recorded (sales are included in the Malaysia business), such as sales of cosmetics and eye drops.
Source: Rohto Pharmaceutical financial results announcement materials for the fiscal year ending March 2024

Synergy Option i: Leverage EYS's sales channels to sell Rohto products (2/2)

It is worth considering selling Rohto products through all four of EYS's channels. The most effective strategy would be to leverage the existing EYS sales team to expand retail sales. However, this approach would require additional investment in sales resources.

Fit Analysis Between EYS's Distribution Channels and Rohto Pharmaceutical's Products

	Skincare	Eyecare	Supplements	Recommended channel strategy
Directly managed stores				<ul style="list-style-type: none"> Skincare and eyecare may be difficult to sell as they do not align with EYS's brand as a TCM company It is uncertain whether Kampo products, which are not known to local customers, will sell
Retail				<ul style="list-style-type: none"> Selling Rohto Pharmaceutical products in drugstores, supermarkets, etc., is relatively easy, but additional investment in sales personnel is necessary
EC				<ul style="list-style-type: none"> Although direct stores are less likely to damage the brand, careful examination is needed to determine whether there is demand for Rohto Pharmaceutical products among existing EYS customers
Clinic				<ul style="list-style-type: none"> There is potential for supplements, but in Singapore, where 21 out of EYS's 29 clinics are located, it may be legally difficult to have TCM doctors prescribe specific company's medicines

Comment from former EYS employee

“It would likely be challenging to sell Rohto products in EYS-owned stores from a branding perspective, as it could lead to customer confusion and potentially harm both brands. Utilizing retail channels should not pose significant issues. However, since the supplement buyer and the skincare buyer at retail stores are typically different, new relationship-building efforts will be required.”

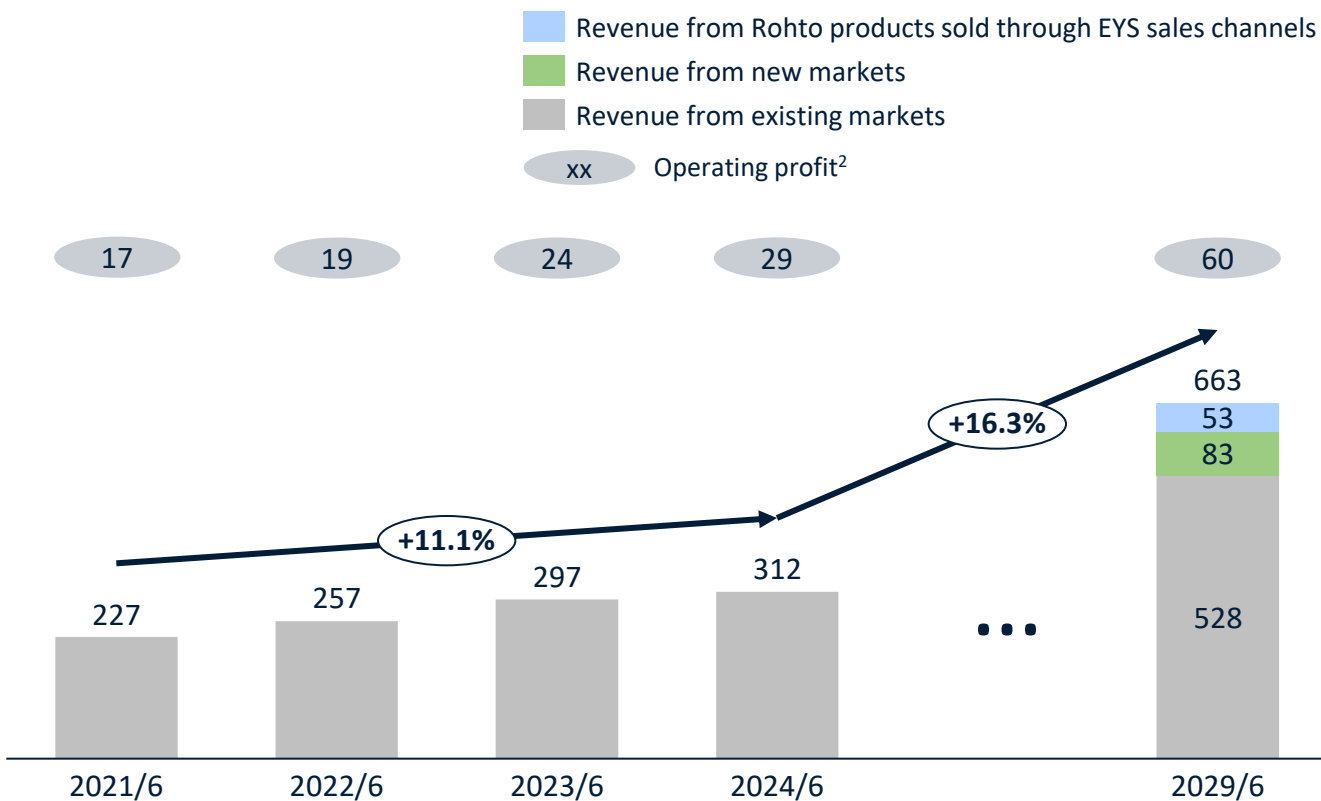


Former EYS employee

Suggestion #4: Appropriate use of management resources to maximise synergy with EYS

While efforts may already be underway, AVI welcomes appropriate use of management resource investments in EYS to increase the overseas sales ratio of Rohto's supplements business and grow it into the company's third core pillar.

EYS revenue estimate including synergy maximization initiatives¹, SGD mn



Recommendation

- Consider making proactive investments in EYS's sales resources to expand the sales of Rohto products in pharmacies and supermarkets in Singapore, Malaysia, and Hong Kong
- As a first step into mainland China, consider Shenzhen, which is close to Hong Kong where EYS has strong brand recognition and has a large economic scale (about 1.3 times the GDP of Hong Kong)
- Outside of mainland China, consider expanding into Taiwan, which has a large economic scale similar to Shenzhen (about twice the GDP of Hong Kong)



Note 1: The following assumptions have been made: EYS sales in existing regions will grow at an annual rate of 11.1%; new regions of expansion will be Shenzhen and Taiwan, where market share of around 5% will be achieved by 2029; sales from cross-selling of Rohto products will account for 10% of sales in existing EYS regions; operating profit margin will be 9

Note 2: Ordinary income until 2023

Source: Rohto Pharmaceutical earnings briefing materials

Summary of Suggestions by AVI: Mid-term Value Enhancement of Core Businesses

Mid-term value enhancement of Core businesses

① Strategic pricing in the skincare business with better IR communication

② Additional investment in sheet mask business

③ Additional investment in Mentholatum USA business

④ Appropriate use of management resources to maximise synergy with EYS

Strategic review of Growth investment businesses

⑤ Scaling back or withdrawing from the regenerative medicine business

⑥ R&D expenses breakdown disclosure btwn. “Core” and “growth investment”

⑦ Carve-out of ophthalmic prescription drug business through JV formation

⑧ Enhancement of DE&I for internal directors

⑨ Enhance independence in the board of directors

⑩ Improvement of management compensation and disclosure detail

⑪ Disclosure of reduction in cross-shareholdings

Better governance systems for dealing with global investors

⑫ Reduction of WACC through segment disclosure enhancement

⑬ Disclosure of mid-term plan

⑭ Improvement of engagement in dialogue with shareholders

⑮ Requesting more frequent contact by institutional investors through TSE

⑯ Establishment of sustainability task force

⑰ Develop improved sustainable procurement framework and risk management

A

Mid-term value enhancement of Core businesses

B

Strategic review of Growth investment businesses

C

Better governance systems for dealing with global investors

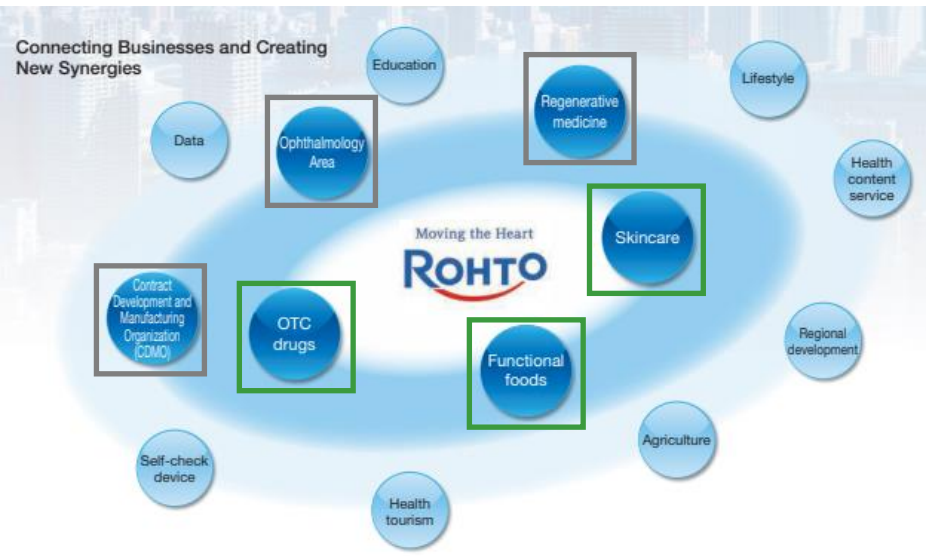
A Agenda

Time for a Review of "Vision 2030" after the First Disclosure 6yrs Ago

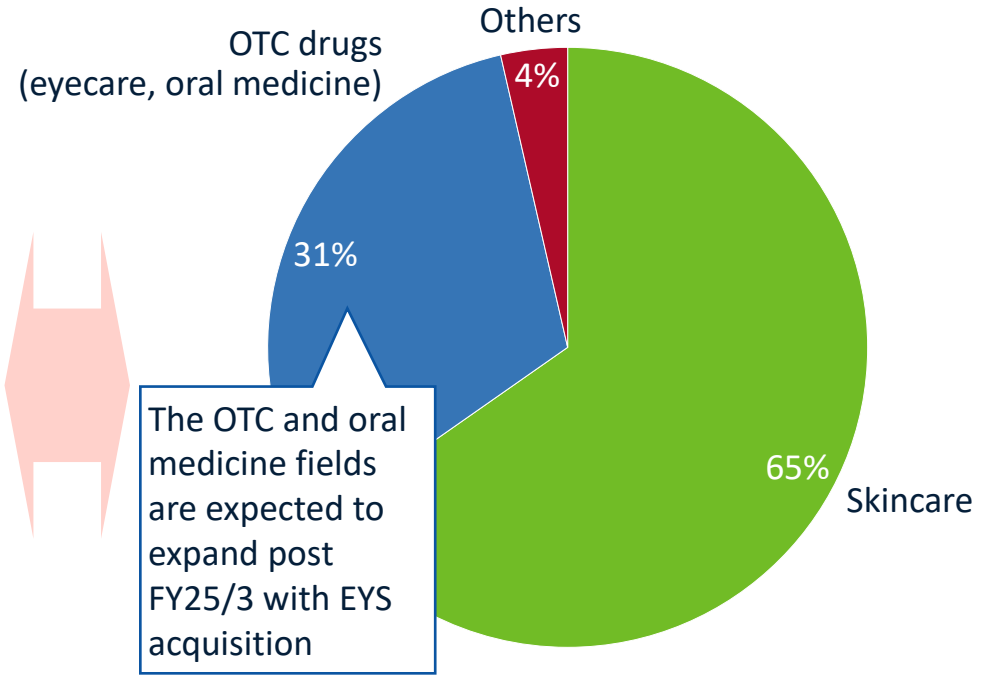
Six years have passed since the disclosure of the "Management Vision for 2030," making it an appropriate time to re-evaluate the mid-long term business strategy in light of the progress made in business development and the current market environment.

"Management Vision for 2030"

Core business Growth investment business



Rohto revenue mix, FY2024/3

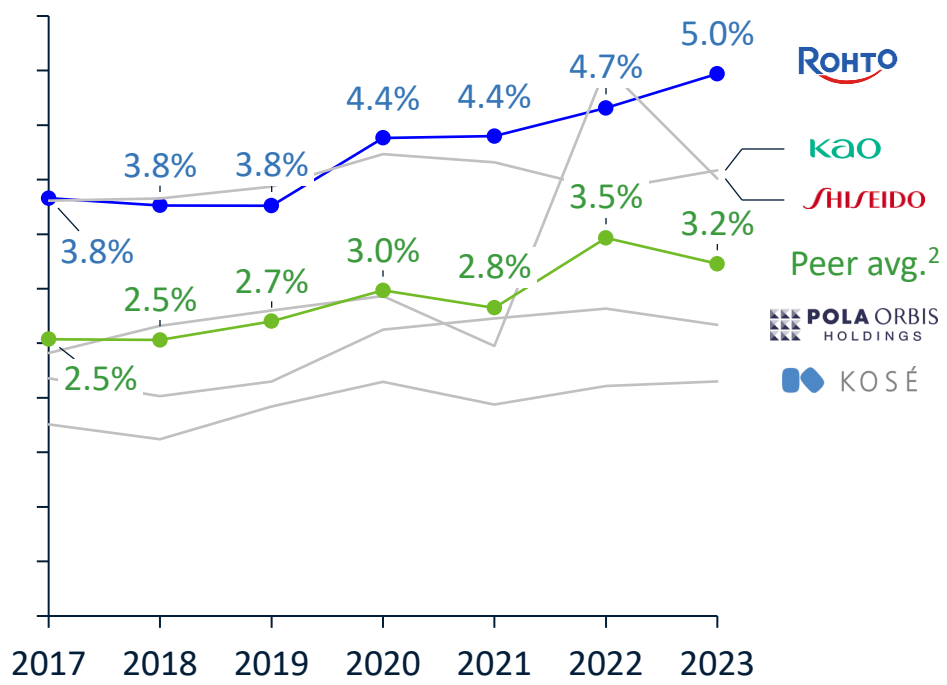


Six years have passed since the launch of the "2030 Management Vision Connected for Well-being" in February 2019, yet there are still no clear signs of success in the regenerative medicine, CDMO, and medical ophthalmology fields – areas identified as "growth investment businesses"

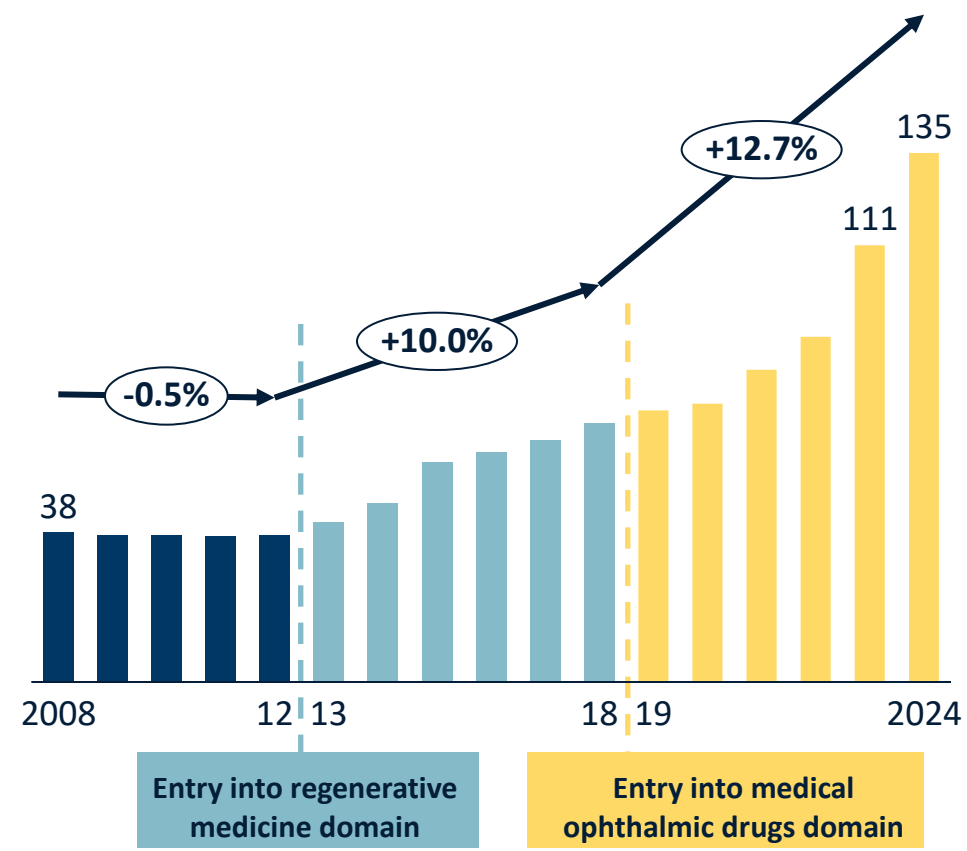
Rapid Increase in R&D Investment in “Growth Investment Businesses”

Although Rohto has invested more in R&D than its competitors, it appears that much of this investment was in “growth investment businesses” such as regenerative medicine and ophthalmic drugs for medical use.

R&D % to sales, each fiscal year %¹



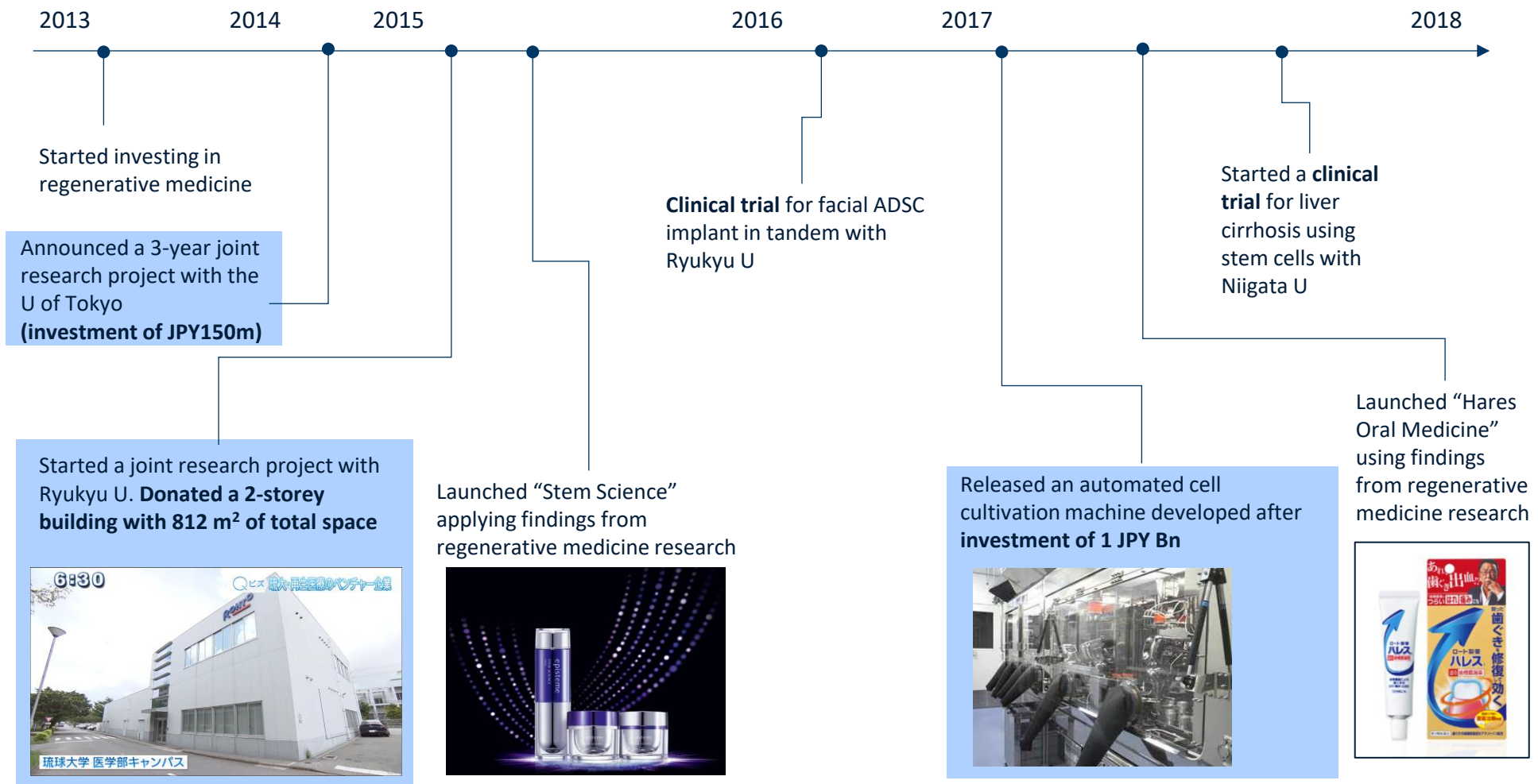
Rohto R&D expense trajectory, JPY bn



Note 1: The figures for Rohto are for the end of March of the following year, and the figures for the competitors are for the end of December of each year.
 Source: Each company's annual securities report

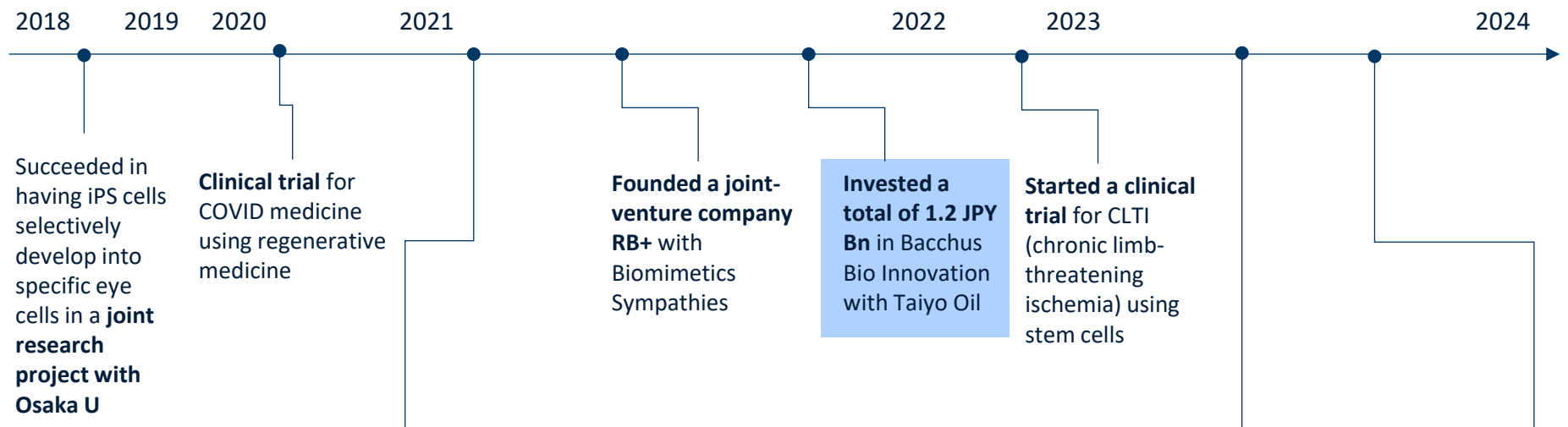
Rohto's Investment History in Regenerative Medicine (1/2)

Rohto has been actively investing in regenerative medicine, leading multiple joint research projects, conducting clinical trials, establishing joint ventures, and acquiring regenerative medicine research companies...




Rohto's Investment History in Regenerative Medicine (2/2)

...However, despite 12 years of continuous investment, the regenerative medicine business is yet to directly deliver profits.



Acquired Olympus RMS for approximately 1.5 JPY Bn¹



- Has been **in the red** for at least **8 years in a row**
- Since the acquisition (2021-24), generated a total of **1.4 billion JPY** of loss

Joined Fujita Medical Innovation Center Tokyo



Opened an office at Nakanoshima Cross for acceleration of regenerative medicine research

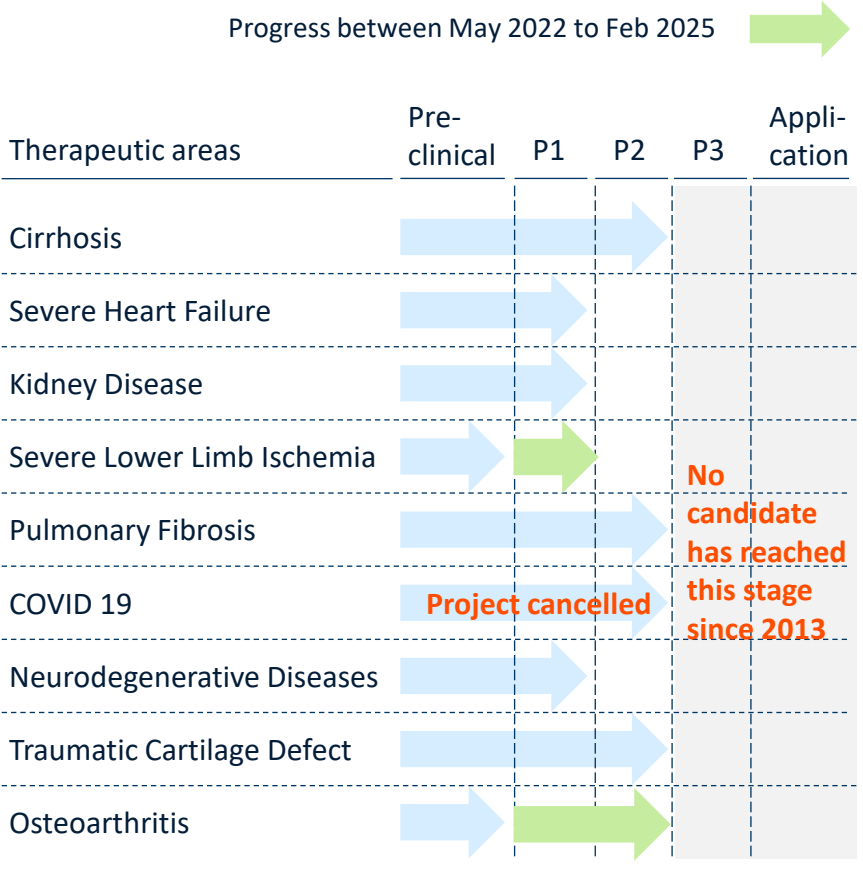


Note 1: The acquisition price has not been disclosed, but the net expenditure amount according to Rohto Pharmaceutical's securities report is around 1.5 billion yen.
 Sources: Osaka University, Rohto Pharmaceutical press release, Rohto Pharmaceutical disclosure materials, Nikkei newspaper, Kobe University Graduate School of Science, Technology and Innovation, Ryukyu Shimpo

Unproductive R&D and Ongoing Losses at Interstem

No research projects in Rohto's regenerative medicine business have progressed to Phase 3 since 2013. Meanwhile, Interstem, which was acquired in 2021, has continued to run at a loss despite the 1.5 billion yen estimated acquisition cost.

R&D progress



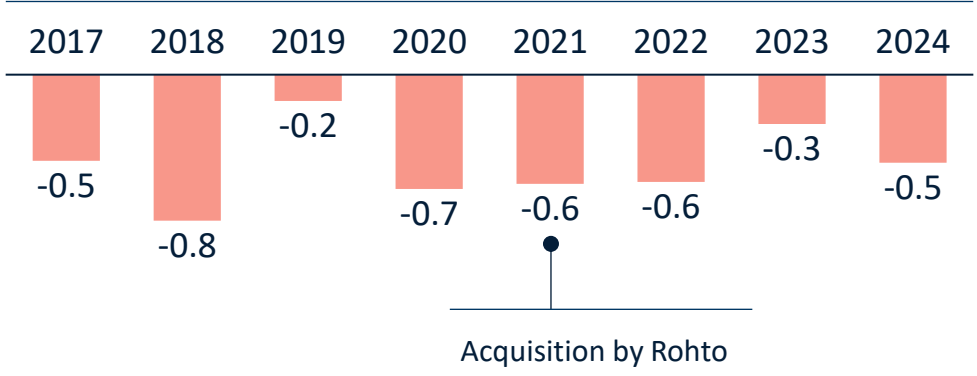
Acquisition of Interstem



In March 2021, Rohto Pharmaceutical announced the acquisition of Olympus RMS Co. (now Interstem Co.).

The acquisition amount was not disclosed, but it is estimated to be approximately 1.5 billion yen according to securities reports

Net income of Interstem, JPY Bn

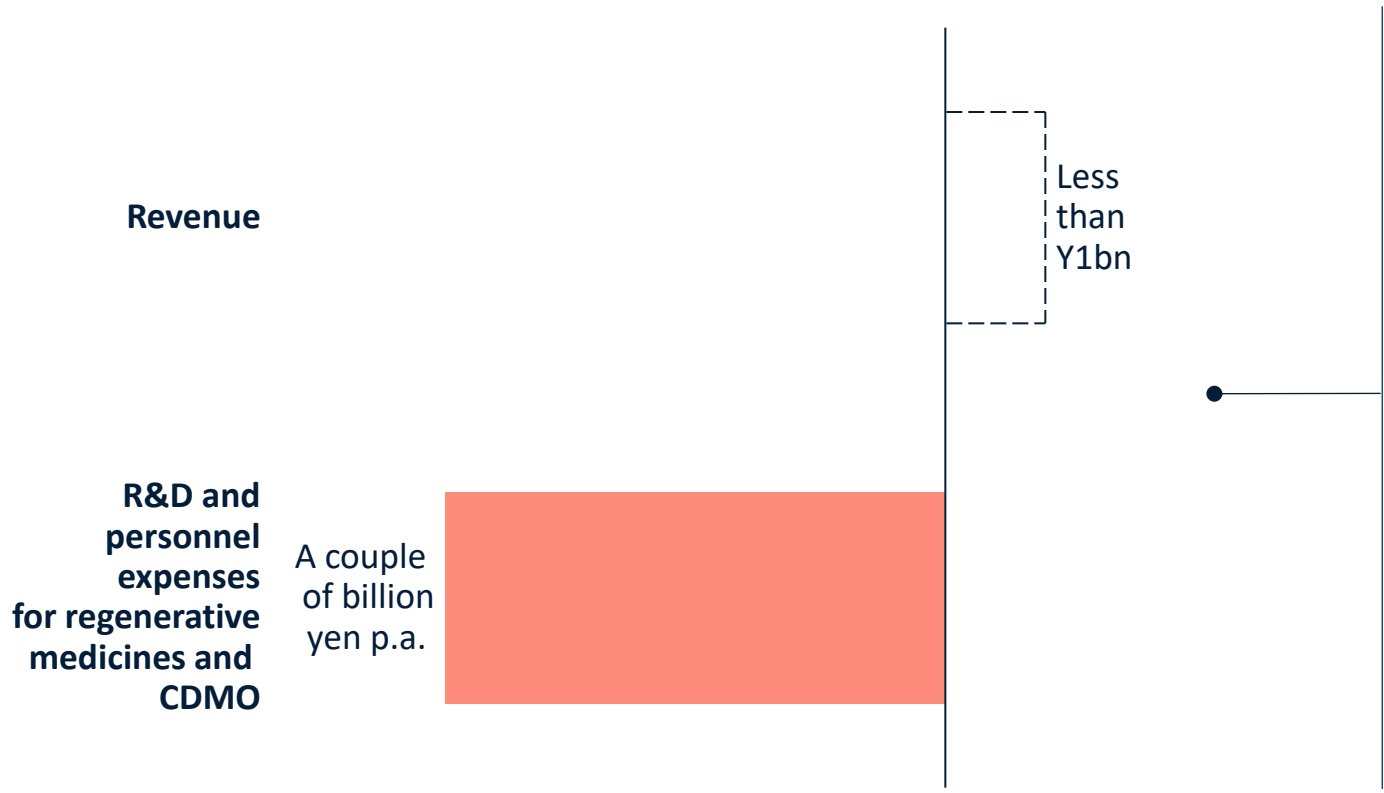


Sources: Rohto Pharmaceutical Annual Securities Reports, Financial Results Briefing Materials for the Fiscal Years Ending March 2023 and March 2024, and Interstem Financial Statements

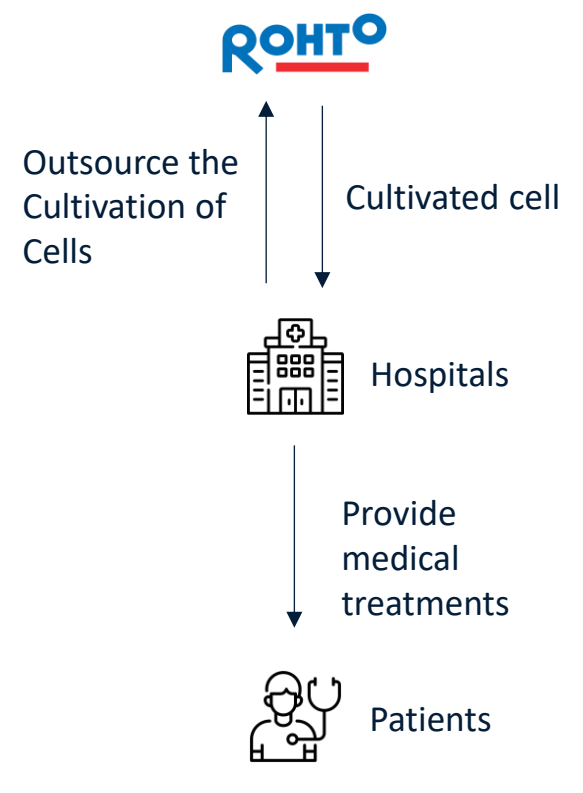
Seeking Revitalisation through CMO/CDMO, but Business Still in Red

Since 2013, the company has invested several billion yen in its regenerative medicine business each year, but it has yet to generate notable sales.

Estimated revenue and cost, JPY bn




Current business model





Growing Deficits due to Stubborn Commitment

Rohto has suffered from tunnel vision in pursuit of its long-term grand vision, particularly in its continued focus on regenerative medicine, which has raised concerns that shareholder interests are being neglected.

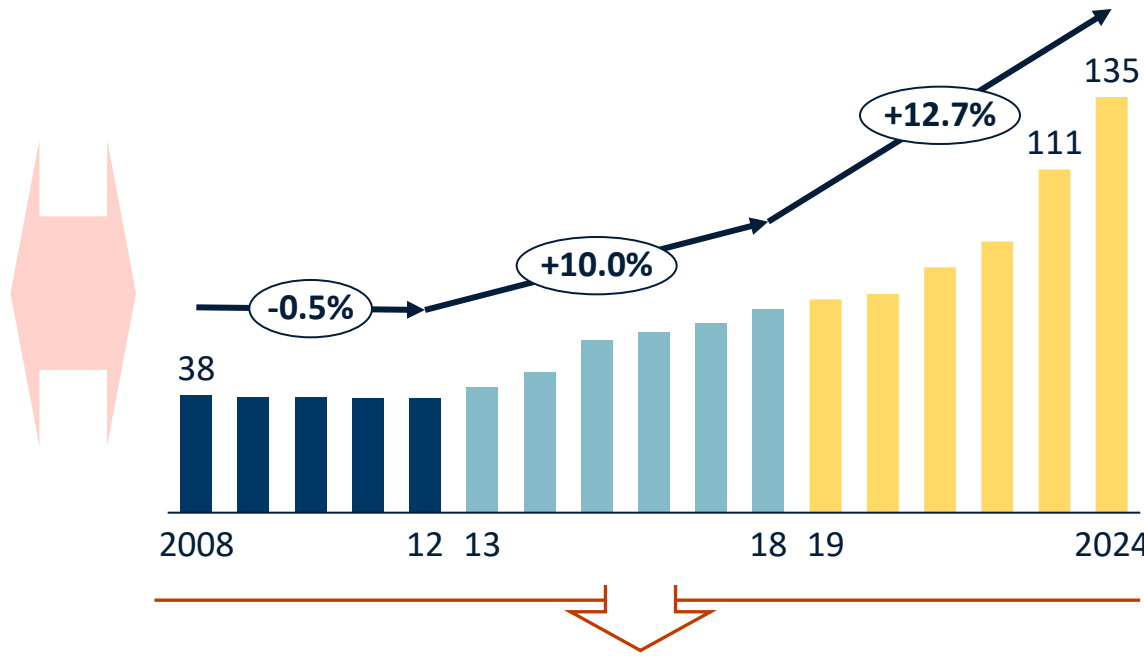
Comments from the Rohto management team

 Our business strategy of making upfront investment in future growth businesses of ophthalmology, regenerative medicine, and CDMO, while the three core businesses of OTC drugs, skincare, and functional foods are growing robustly and generating sufficient earnings **has proven to be effective.**

 ...achieving stable growth and generating ample operating cash flow, which we allocate to **growth investment in new business fields such as regenerative medicine** and M&A, environmental responses, and shareholder returns. **I believe this capability is a key source of the Group's financial strength.**

 ...for new business domains such as regenerative medicine and ophthalmology, **we continue to undertake long-term investment as a way of exploring knowledge.**

Rohto R&D expense trajectory (recap), JPY bn



Rohto has invested billions of yen in growth businesses every year for more than a decade, but Rohto has not been able to confirm a “proven” progress in which new businesses contribute to earnings.

Insufficient Compliance with TSE's Requests

TSE identified the lack of strategic review of unprofitable businesses as a potential source of misalignment with investors. It is recommended that fundamental actions be taken, with an emphasis on optimal allocation of management resources, guided by best practices from a sector peer.

TSE: Cases Where Companies Are Not Aligned With Investors

Examples of Misalignment #1

Insufficient focus is given to downsizing or withdrawing from unprofitable business

- While it is of course important to invest in growth areas and improve the profitability of existing businesses, **this alone is not enough to achieve medium- to long-term improvements in corporate value.**
- In Japan, there are many companies that cannot quit existing businesses while their profitability is continuously below their cost of capital with no prospect of improvement, so their decision not to downsize or withdraw is not very convincing.
- Companies should consider more drastic measures, including the downsizing or withdrawal (sale, carve-out, etc.) of unprofitable businesses.
- **In some cases, it may be difficult to publicly announce the specific details of the situation regarding the downsizing or withdrawal of existing businesses, but even just indicating the policy or approach regarding downsizing or withdrawal can reassure investors.**



TSE: Key Points Considering The Investor's Point of View

Point 2

Implementing fundamental initiatives with an awareness of the appropriate allocation of management resources

- What shareholders and investors with a medium- to long-term perspective expect from a company is rather to **promote fundamental initiatives and realize appropriate allocation of management resources.**
- As an effort to ensure the appropriate allocation of management resources, a cash allocation policy should be formulated to determine how capital, including future cash flows, will be allocated for investment in growth and shareholder returns.
- Examples:
 - **The company set internal criteria for reviewing inefficient businesses and regularly monitored and conducted revisions (such as business transfers). – Kao Corporation**

Suggestion #5: Scaling back or withdrawing from the regenerative medicine business

To ensure that management is prioritising the effective allocation of resources, the company should disclose its policy for reevaluating the regenerative medicine business.

Current status

- Rohto Pharmaceutical urgently needs to develop a third pillar of growth after skincare and eyecare. Given it has already invested heavily in EYS, the immediate issue for management is to focus on integrating EYS and creating synergies.
- In this context, although it has invested several billion yen a year in regenerative medicine for over 12 years, it has not yet been able to achieve an investment return that exceeds the cost of capital.
- From the perspective of protecting the common interests of shareholders and ultimately maximising corporate value on a sustainable basis, it is important to quantitatively analyse and consider the prospects for contributing to the improvement of corporate value, rather than simply investing actively in businesses with greater potential for the future.
- At present, no information is disclosed to investors about the time frame over which the company aims to achieve a certain scale in the regenerative medicine business, the amount of investment required to achieve this scale, or when the company will assess whether it has achieved its goals.



AVI's suggestions

- To ensure that disciplined investment policy is maintained, the company will publicly disclose the deadline for achieving targets in the regenerative medicine business, and if it is not expected to achieve a return that exceeds the hurdle rate (WACC) within that timeframe, Rohto will consider various options such as scaling back, withdrawing or spinning off the business.
- In addition, the company will disclose the maximum annual R&D expenditure for regenerative medicine in order to ensure that the level of R&D expenditure is appropriate relative to the cash flow that will be generated in the future.

Suggestion #6: R&D expenses breakdown disclosure btwn. “Core” and “growth investment”

Introducing the disclosure of research & development cost breakdowns by business segment will improve transparency and, in turn, contribute to lowering the cost of capital.

Current disclosure (available in the Japanese version)

<アメリカ> (America)

消費者のヘルス&ビューティーのニーズに応えるべく、製薬会社としての技術基盤を応用し、一層の安全性、有効性、機能性を向上させた、競争優位性のある製品の開発を進めております。

当連結会計年度における研究開発費の金額は、**445百万円**であります。

(JPY)

<ヨーロッパ> (Europe)

消費者のヘルス&ビューティーのニーズに応えるべく、製薬会社としての技術基盤を応用し、一層の安全性、有効性、機能性を向上させた、競争優位性のある製品の開発を進めておりますが、今期は新たにオーストリアで点眼剤を発売し市場参入しました。

当連結会計年度における研究開発費の金額は、**216百万円**であります。

(JPY)

<アジア> (Asia)

消費者のヘルス&ビューティーのニーズに応えるべく、製薬会社としての技術基盤を応用し、一層の安全性、有効性、機能性を向上させた、競争優位性のある製品の開発を進めております。「セルサン」等のヘアケア製品が大幅に伸長しました。

当連結会計年度における研究開発費の金額は、**966百万円**であります。

(JPY)

<その他> (Others)

消費者のヘルス&ビューティーのニーズに応えるべく、製薬会社としての技術基盤を応用し、一層の安全性、有効性、機能性を向上させた、競争優位性のある製品の開発を進めております。

当連結会計年度における研究開発費の金額は、**36百万円**であります。

(JPY)

Only R&D expenses by region are disclosed, so it is unclear how much is invested in R&D by business segment.

AVI's suggestion

- In addition to the current disclosure by region, the breakdown of R&D expenses by business (e.g. skincare, internal medicine, eye care, growth investment business, etc.) shall be disclosed.

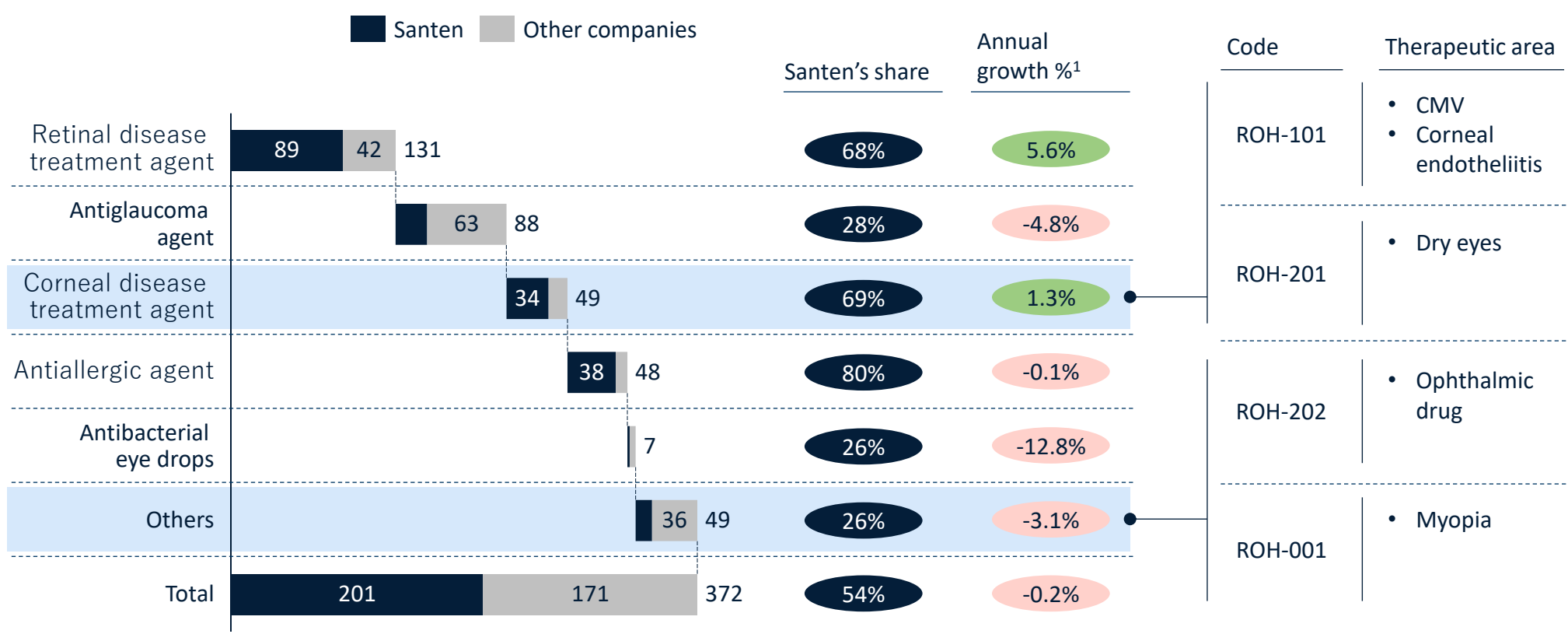


Ophthalmic Prescription Drugs Market and Rohto's Pipeline

While corneal disease treatment is dominated by Santen, Rohto seems to be aiming to penetrate into the domain. Rohto appears to have intention in targeting a relatively niche market, one where Santen is unlikely to bring further resources.

Prescription ophthalmic drugs market in Japan (Santen Pharma's estimate), JPY Bn

Rohto's pipeline

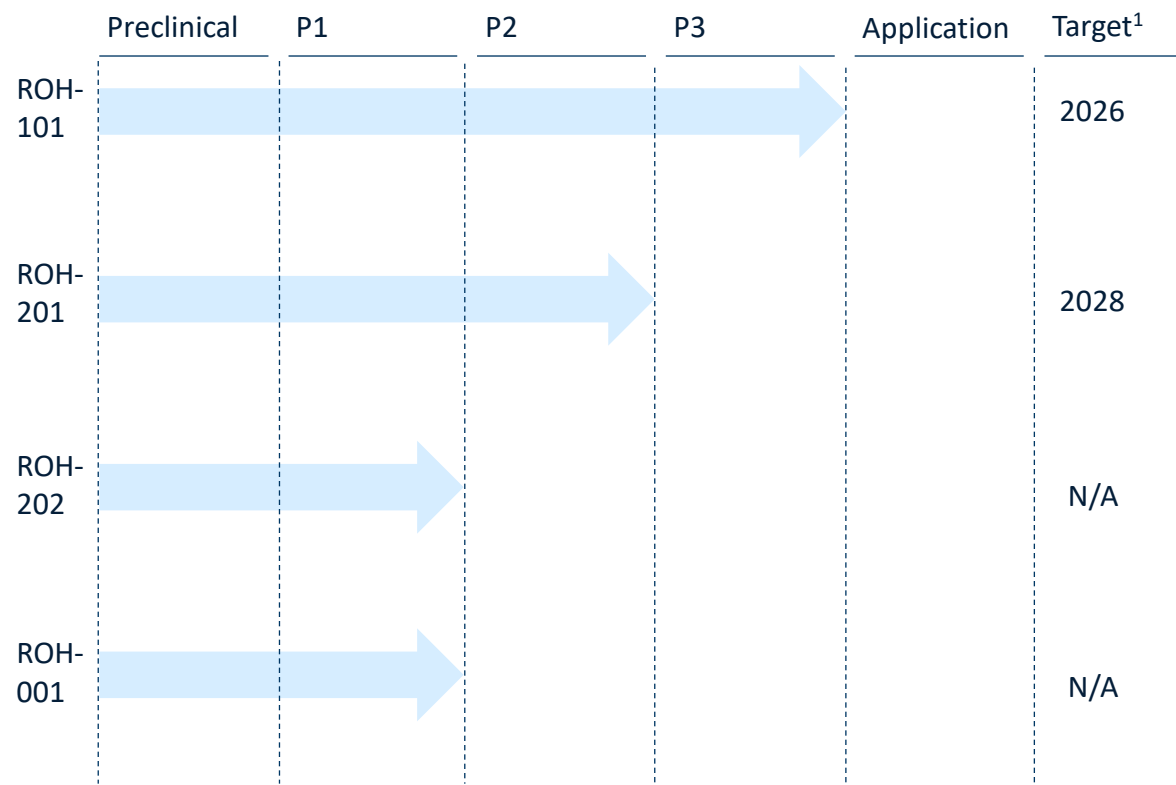


Note 1: 2019-2023
Source: Santen Pharmaceutical disclosure materials

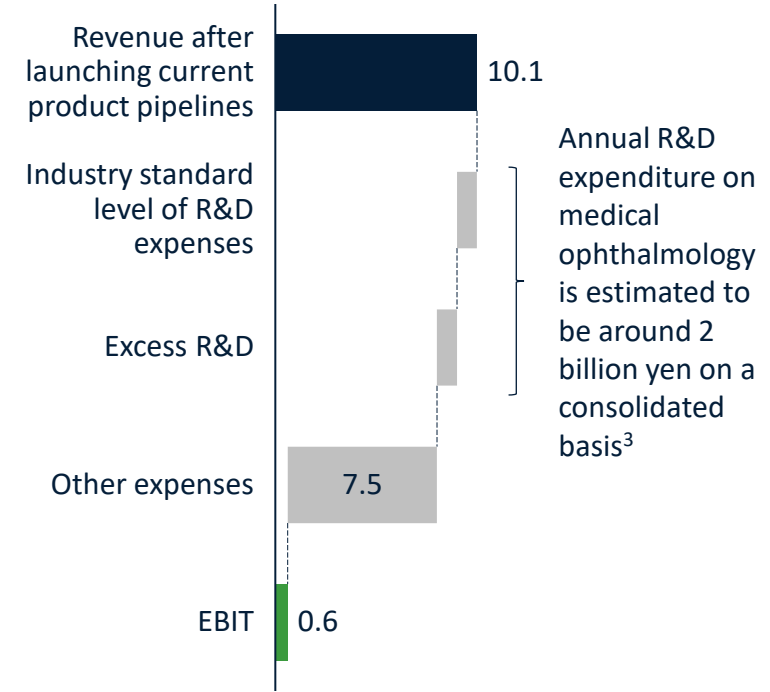
Pipeline Progress and Projected Future Profit Contribution

Only two products in the pipeline have specified target launch dates, and even under AVI's optimistic assumptions, the ophthalmology business is projected to contribute only around Y600m to profits in 2030.

Current status of Rohto's pipeline



Aspirational financial projection for the prescription drugs business², JPY Bn



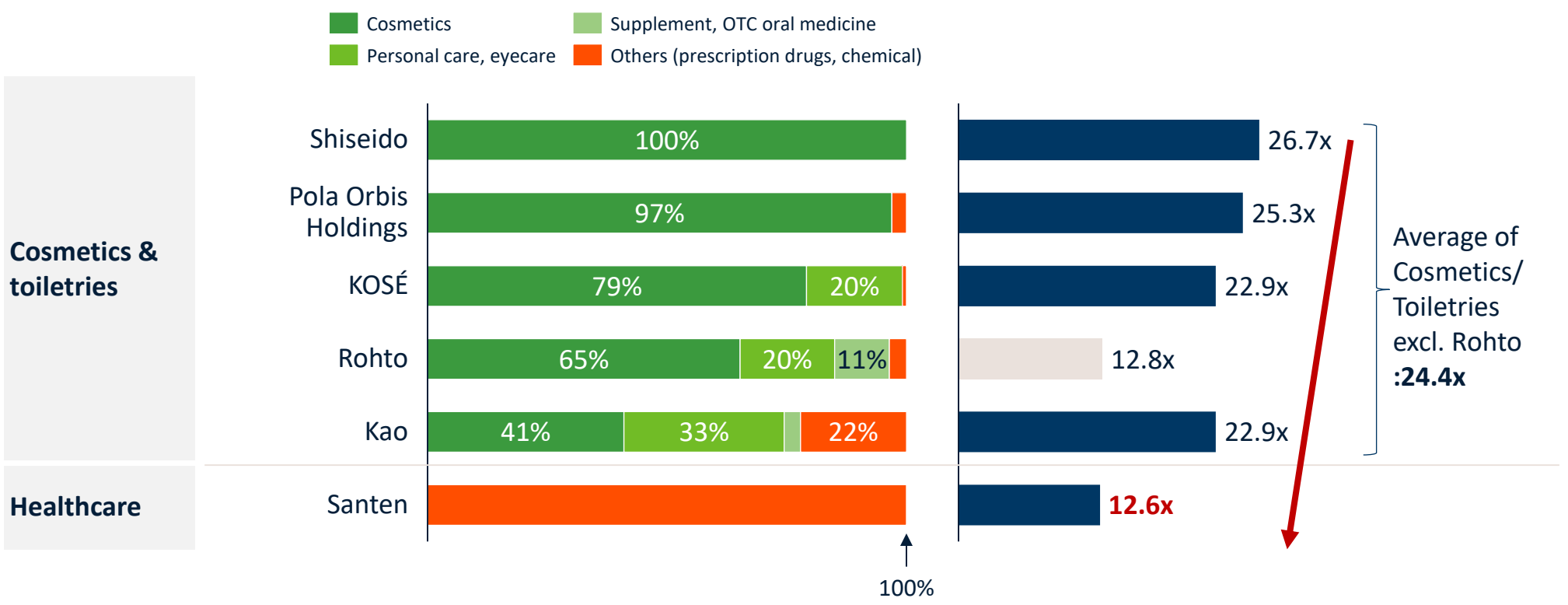
Note 1: This is Rohto's own target, and not an agreement with its partner.
 Note 2: The following assumptions have been made in the calculations: a) The pipeline will be launched as planned, and together with existing products, Rohto will capture around 10% of the market that Santen has not yet captured by 2030, b) Based on Santen's financial disclosures, the operating profit margin excluding the above 'other R&D expenses' (assuming that Rohto's R&D expenses are higher than Santen's ratio to sales) is estimated to be around 15%, and c) based on Santen's financial disclosure, industry standard R&D expenses are estimated to be around 10% of sales
 Note 3: Based on IR interviews and interviews with former Rohto employees
 Source: Rohto Pharmaceutical FY2024 Financial Results Briefing Materials, Santen Pharmaceutical Financial Results Briefing Materials, Santen Pharmaceutical Annual Securities Report, AVI Research

Valuation Difference Between Cosmetics/Toiletries vs. Healthcare

Steering the company toward a greater focus on pharmaceuticals, such as prescription drugs and regenerative medicine, which are relatively more volatile by nature, is likely to be negatively evaluated from valuation perspective.

Revenue mix of each company, as of the end of the latest financial year

P/E multiple, 2yr forward¹



Note 1: As many cosmetics companies have seen a significant downturn in their profits in the most recent period, we have conducted our analysis and comparisons based on a two-year period. The PER ratio for the two-year period is the forecast for the end of December 2026. The share price is as of 20 March 2025.
 Source: Each company's annual securities report, Factset consensus, Capital IQ, SPEEDA, AVI analysis

Recent Strengthening Business & Capital Alliance with Wakamoto

Rohto Pharmaceutical and Wakamoto formed a business alliance in 2020 and have since collaborated closely, including joint product sales, and in 2025, Rohto acquired 11.46% of Wakamoto’s voting rights.

Collaboration between Rohto and Wakamoto to date



Ratachimo Combination Eye Drop ‘Nitten

- Efficacy: Glaucoma, ocular hypertension
- Manufacturer: Rohto Nitten Pharma Co., Ltd.
- Distributor: Wakamoto Pharmaceutical Co., Ltd.

Since the comprehensive business alliance in 2020, Rohto and its subsidiaries have maintained a close business relationship with Wakamoto for five years.

Rohto public disclosure (Japanese; Feb 2025)

2025年2月6日

各 位

会社名 ロート製薬株式会社
 代表者名 代表取締役社長 杉本 雅史
 (コード番号 4527 東証プライム)
 問合せ先 広報・CSV推進部 部長 塚田 歩
 (TEL. 06-6758-1211)

Notice regarding the purchase of Wakamoto Pharmaceutical stock わかもと製薬株式会社（証券コード 4512）株式の買集め行為に該当する 株式取得についてのお知らせ

当社は、本日わかもと製薬株式会社（所在地：東京都中央区、代表取締役社長：五十嵐新、以下「わかもと製薬」という。）の株式を株式会社東京証券取引所における単一銘柄取引で以下の通り取得（以下「本株式取得」という。）することといたしました。

なお、本株式取得は、わかもと製薬の議決権の5%以上の取得となり、金融商品取引法第167条第1項および同法施行令第31条に規定する「公開買付けに準ずる行為」として政令で定める買集め行為に該当することから、お知らせします。

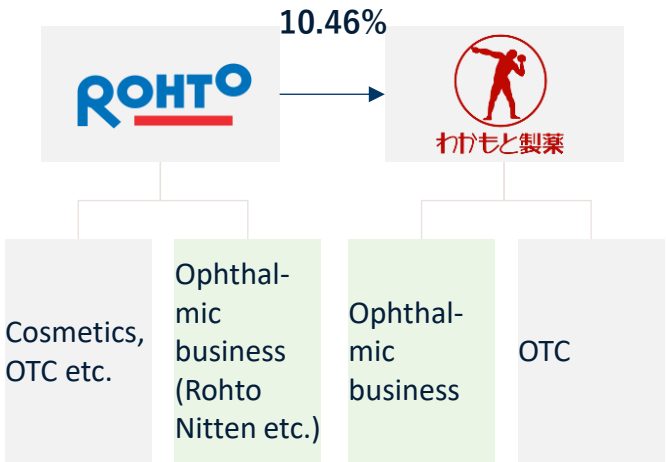
記

(1) 対象者の名称	わかもと製薬株式会社（証券コード 4512）
(2) 取得株式数	普通株式2,866,900株（予定）
(3) 総株主の議決権の数に対する割合	11.46%（予定）※
(4) 株式取得日	2025年2月6日（予定）

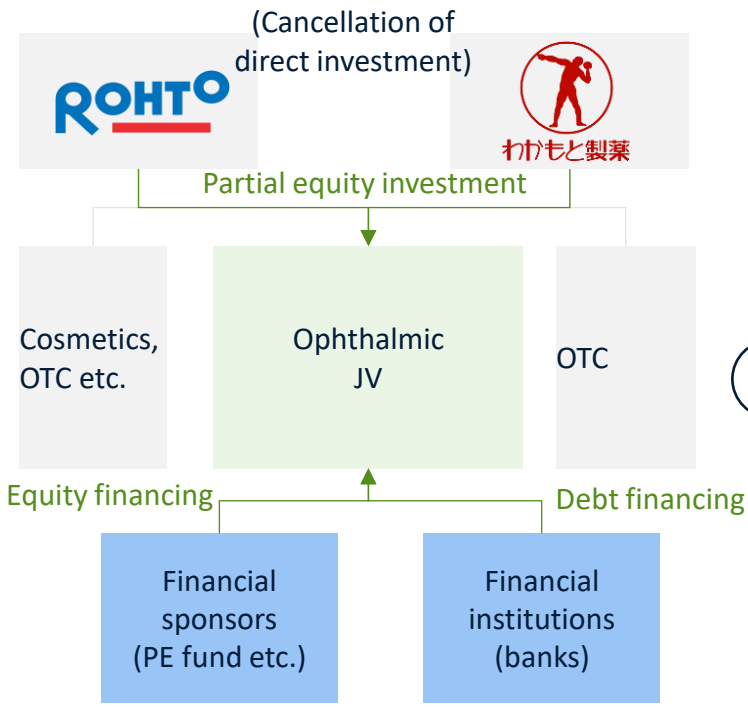
Suggestion #7: Carve-out of ophthalmic prescription drug business through JV formation

To demonstrate management that is conscious of capital efficiency in the future, amid intense competition in the ophthalmology sector, Rohto and Wakamoto should establish a JV for medical ophthalmology and seek third-party financing.

Current alliance status



Forming JV in the ophthalmology field



AVI's suggestions

- To further develop the collaboration with Wakamoto in the field of ophthalmology, a JV shall be formed, and Rohto will invest equity in the JV using financing from financial sponsors and banks.
- By covering the cost of R&D and other investments necessary for business growth from PE funds and banks, the ophthalmology business can achieve sustainable, high-growth management, while Rohto and Wakamoto can achieve capital-efficiency

Summary of Suggestions by AVI: Strategic Review of Growth Investment Businesses

Mid-term value enhancement of
Core businesses

- ① Strategic pricing in the skincare business with better IR communication
- ② Additional investment in sheet mask business
- ③ Additional investment in Mentholatum USA business
- ④ Appropriate use of management resources to maximise synergy with EYS

**Strategic review of Growth
investment businesses**

- ⑤ Scaling back or withdrawing from the regenerative medicine business**
- ⑥ R&D expenses breakdown disclosure btwn. “Core” and “growth investment”**
- ⑦ Carve-out of ophthalmic prescription drug business through JV formation**

Better governance systems for
dealing with global investors

- ⑧ Enhancement of DE&I for internal directors
- ⑨ Enhance independence in the board of directors
- ⑩ Improvement of management compensation and disclosure detail
- ⑪ Disclosure of reduction in cross-shareholdings
- ⑫ Reduction of WACC through segment disclosure enhancement
- ⑬ Disclosure of mid-term plan
- ⑭ Improvement of engagement in dialogue with shareholders
- ⑮ Requesting more frequent contact by institutional investors through TSE
- ⑯ Establishment of sustainability task force
- ⑰ Develop improved sustainable procurement framework and risk management

A

Mid-term value enhancement of Core businesses

B

Strategic review of Growth investment businesses

C

Better governance systems for dealing with global investors

A Agenda

Board of Directors

The board of directors at Rohto has issues with respect to DE&I and the board independency.

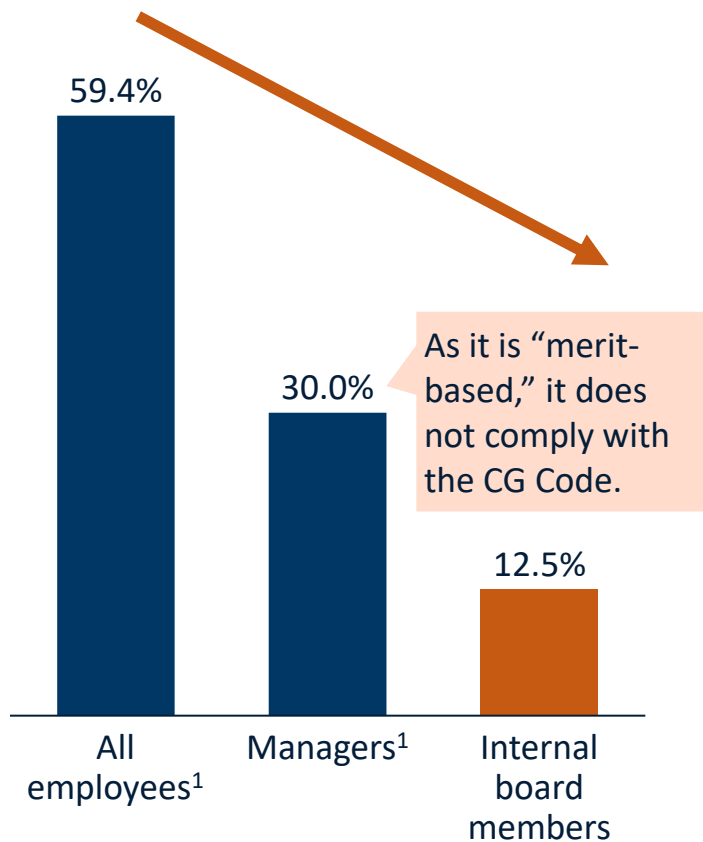
	Directors	Roles	Gender	Age	Tenure	Career background	
Internal	1 Kunio Yamada	Chairman	Male	68	33	Founder family, Rohto (1980~)	<ul style="list-style-type: none"> Although around 60% of the company's employees are female, 88% its board of directors are male.
	2 Masashi Sugimoto	CEO	Male	62	5	Takeda Pharmaceuticals	
	3 Masaya Saito	CFO	Male	60	13	Rohto (1986~)	
	4 Shinichi Kunisaki	CTO	Male	68	14	Suntry	
	5 Hidetoshi Segi	CSO	Male	61	6	Japan Vicks	
	6 Yasunori Kawasaki	CHRO	Male	64	1	Nippon Life Insurance	
	7 Masae Yamanaka	AI/CX	Female	60	New	Japan IBM etc.	
	8 Yoichi Honma	R&D	Male	56	New	Rohto (1992~)	
External	9 Akie Iriyama	(External)	Male	51	5	Mitsubishi Research Institute etc.	<ul style="list-style-type: none"> Less than majority independent external directors
	10 Haruka Mera	(External)	Female	36	4	READYFOR	
	11 Tatsuo Uemura	(External)	Male	76	2	Professor of Senshu University etc.	
	12 Eriko Hayashi	(External)	Female	47	2	Oebashi Law Firm etc.	
	13 Maiko Katadae	(External)	Female	49	New	UTEK etc.	



Suggestion #8: Enhancement of DE&I for internal directors

As a company whose skincare products account for 65% of total sales, Rohto should support the promotion of DE&I initiatives within Rohto's board of directors, particularly with respect to gender and ethnic diversity.

Female employee ratio by title



Current internal directors



With skin care products ~70% of total sales, there is room for improvement in DE&I

AVI's suggestion

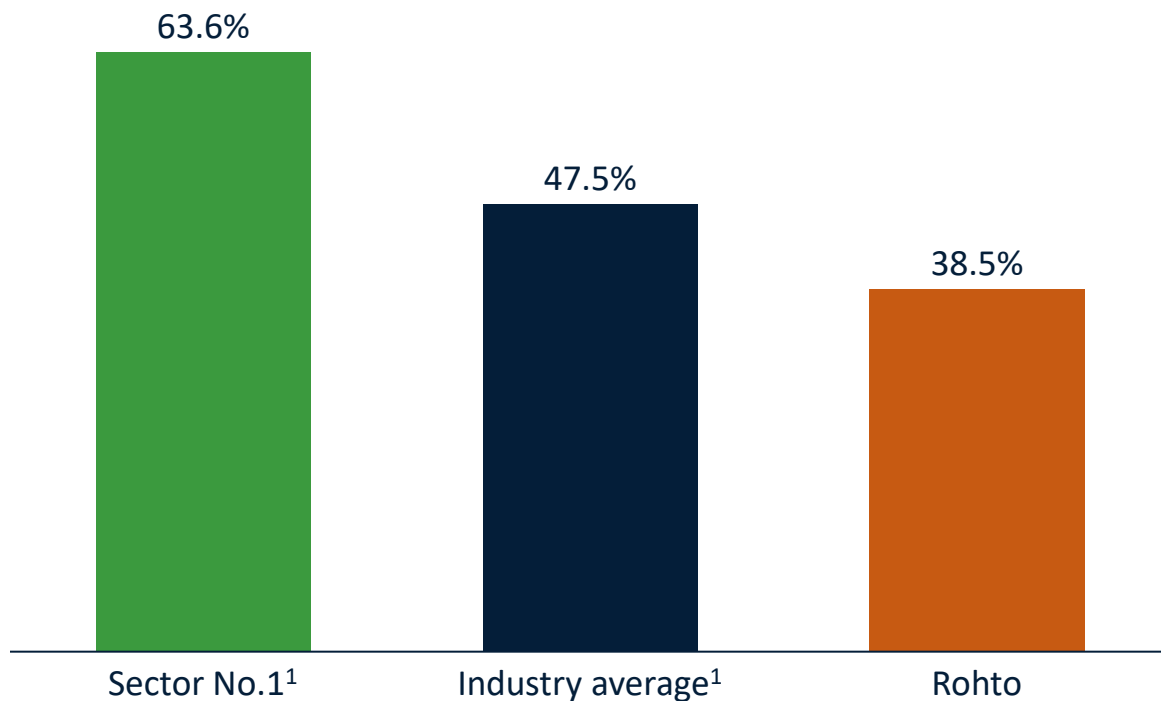
- ROHTO will promote DE&I initiatives to strengthen the diversity of gender and ethnicity in its board of directors.



Suggestion #9: Enhance independency in the board of directors

Increase the independency of the board of directors, ensuring that a majority of board members are independent outside directors.

Board independency comparison with sector peers



AVI's suggestion

- More than half of the board will be independent outside directors



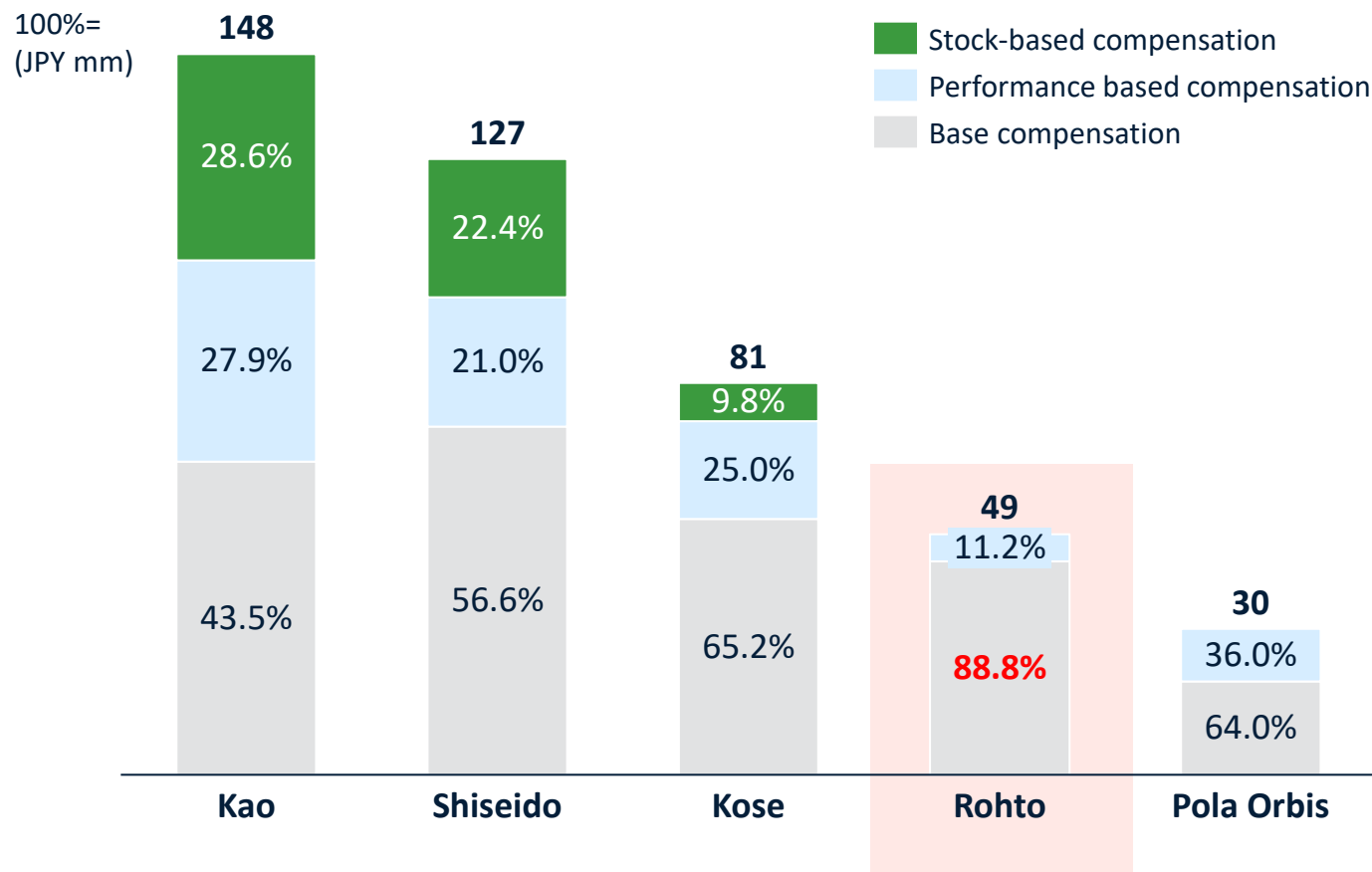
Note 1: Shiseido is the industry leader. The industry average is the average of the ratio of independent directors at Shiseido, Kose, Pola Orbis and Kao at the end of the 2023/12 or 2024/3 fiscal year, or at the end of the general meeting of shareholders after that date.

Source: Notice of convocation of general meeting of shareholders for each company (as of 23 March 2025)

Comparison of Management Compensation with Peers

The current level of executive compensation at Rohto is one of the lowest in the industry, and the proportion of fixed compensation is particularly high.

Average per-director management compensation and breakdown, Latest financial year



- The absolute amount of compensation is lower than that of industry peers, with the average compensation per person, excluding Chairman Yamada, at just 29 million yen
- The proportion of fixed compensation is the highest among industry peers

Good Practices for Disclosure of Management Compensation (1/2)

The FSA has also noted that it would be beneficial for companies to disclose not only targets and results, but also the evaluation coefficients used in the management remuneration, as well as to set KPIs that align with investors interests, such as TSR.

FSA “Good practices of disclosure about management compensation”



It is useful to disclose not only targets and achievements, but also coefficient for each evaluation item as well as the overall weighted coefficient.

It is useful to set KPIs such as TSR (Total Shareholder Return) and EPS (Earnings per Share) in terms of alignment with investors, and to disclose in specific details

- As a company listed on the Prime market, Rohto has a responsibility to explain to the market in a concrete and accurate way what kind of remuneration system it has designed in line with its management commitment
- In addition, given that Rohto is currently undervalued by the market, with its intrinsic value being underestimated, it is expected to disclose how it will ensure alignment with investors as a listed company.

Good Practices for Disclosure of Management Compensation (2/2)

More specifically, it is good disclosure practice to provide detailed information on performance-linked management compensation, including the rationale for choosing each KPI, evaluation weights, targets, actual results, and achievement rates.

FSA “Good practices of disclosure about management compensation”



賞与に係る業績指標の目標と2020年度の実績は以下のとおりです。

KPI	根拠 Rationale	ウェイト Weight	目標 Target	実績 Actual	Achievement		Weight*score	
					ratio 達成率	スコア Score	ウェイト とスコア	
実質的な 売上収益 Adj. revenue	<ul style="list-style-type: none"> パイプラインの進展・拡大を含む成長の指標であること 製薬業界における重要な成功の指標であること 	30%	33,105 億円	33,272 億円	100.5%	110.1%	33.0%	
実質的な Core営業利益 Adj. core EBIT	<ul style="list-style-type: none"> 支出の規律徹底を含む利益確保の指標であること シナジー効果を反映できること 買収完了後の当社の主要な成功の指標として株主の皆様すでに説明していること 	40%	9,722 億円	10,059 億円	103.5%	123.1%	49.2%	
実質的な Core EPS Adj. core EPS	<ul style="list-style-type: none"> プラン対象者と株主の皆様との利益が合致していること 買収完了後の当社の主要な成功の指標として株主の皆様すでに説明していること 	30%	410円	442円	107.9%	152.9%	45.9%	
支給率 Total payment ratio								128.1%

“Regarding performance-linked compensation, the fact that the basis for setting, evaluation weight, targets, results, achievement rates, etc. are specifically stated for each KPI indicator is a positive point.” (FSA)

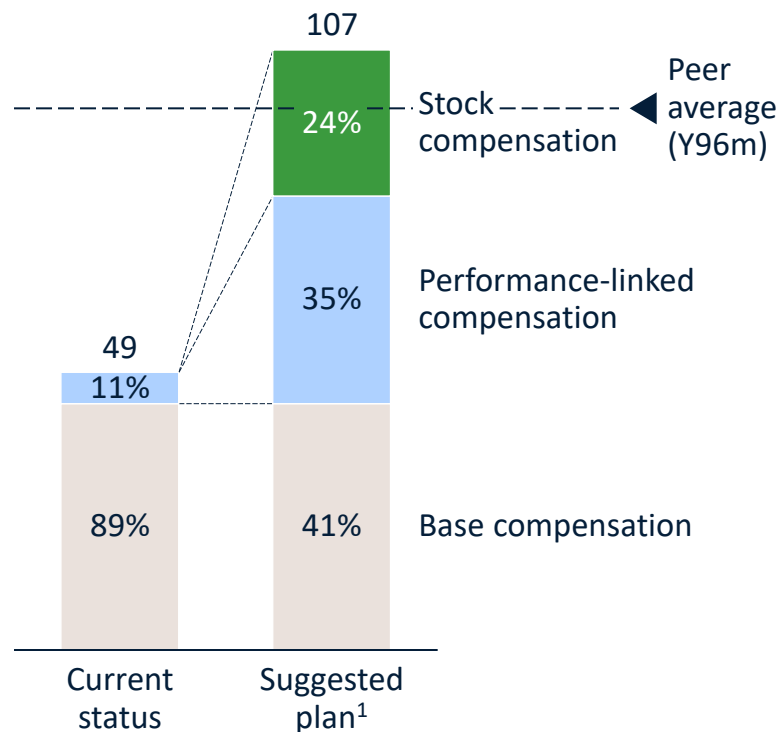
The FSA also values the disclosure of detailed information on KPIs used in performance-linked executive compensation, including their allocation, targets, results and achievement rates.

Suggestion #10: Improvement of management compensation and disclosure detail

To better align with shareholders' common interests, we suggest revisions to the executive compensation system including increasing the total compensation amount, raising the proportion of stock-based and performance-linked compensation, and initiating detailed disclosure of KPI design.

Suggestion for improving the remuneration structure for board of directors, JPY mm

- Given Rohto's superior performance to peers, management compensation should be greater
- A compensation system in which base pay accounts for 90% of total remuneration falls short in aligning incentives with the objective of enhancing corporate value



AVI's suggestion



- The remuneration system should be structured so that the average remuneration per board member exceeds 100 million yen when performance targets are achieved.
- Remuneration breakdown should be approximately 40% base, 35% performance-linked and 25% stock-based compensation.
- In addition, KPI targets should be chosen to link executive remuneration to objectives that the company considers important for management and shareholder value, and these KPI targets should be disclosed in detail.

Note 1: Assuming that the target achievement rate is the same as for the fiscal year ending March 2024
Source: Each company's most recent securities report (as of 23 March 2025)

Opaque Attitude Towards Cross-Shareholdings

While the Tokyo Stock Exchange and proxy advisory firms have adopted a stricter stance on strategic shareholdings, Rohto's cross-shareholdings have continued to rise in both the number of issues and total value.

TSE guidelines for cross-shareholdings

When companies hold shares of other listed companies as cross-shareholdings, they should disclose their policy with respect to doing so, including their policies regarding the reduction of cross-shareholdings

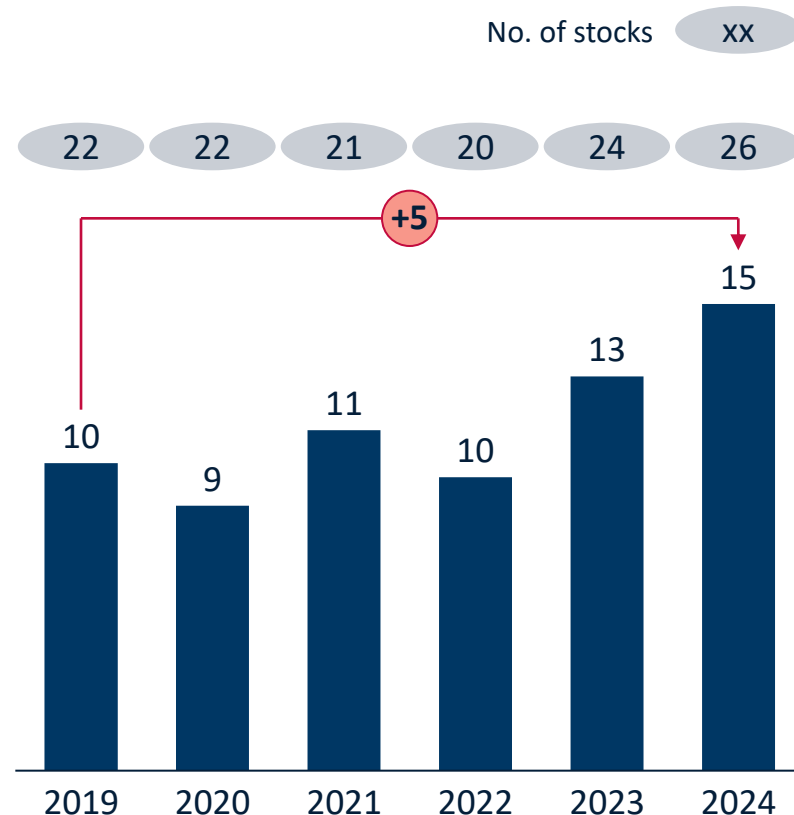
Tokyo Stock Exchange
Corporate Governance Code

Rohto's policy

For shares with limited justification for holding, we will strive to reduce cross-shareholdings by selling them after obtaining sufficient understanding from the companies where the cross-shareholdings exist, while also considering the impact on the market

From Rohto Pharmaceutical's Corporate Governance Report (December 2018)

Rohto cross-shareholdings, JPY bn



Insufficient Disclosure About Cross-Shareholdings

Rohto's disclosure regarding its cross-shareholdings is insufficient. While a purpose for each holding is stated in the securities report, in many cases a template answer is provided, lacking explanation of the specific business reason or benefit.

Market expectations for disclosure on cross-shareholdings vs. current status

Details of Rohto's disclosure of the purpose of holding cross-shareholdings

Items ¹	Expectations by investors/analysts ¹	Rohto's current disclosure
Reduction plan and amount	Very important factor to consider when exercising voting rights. It is desirable to disclose this information together with specific policies for reducing cross-shareholdings in the future.	No disclosure
Voting criteria	It is useful for voting guidelines to be disclosed in detail from the perspective of transparency. In addition, it would be even better if voting results were disclosed , particularly if there were any cases where the proposals were opposed.	No disclosure
Rationale for ownership	It is important to state specific business reasons and benefits , not just using templates.	Insufficient disclosure


To strengthen cooperation with a view to future business expansion and efficiency through technical cooperation, etc.


To expand sales of our products by strengthening business relationships (to stabilise and expand product distribution)


To maintain and develop cooperative relationships related to our company's financial transactions

Note 1: Based on FSA "Reference Casebook of Good Practices on the Disclosure of Narrative Information 2022" (updated version on 24th March 2023)

Source: FSA "Reference Casebook of Good Practices on the Disclosure of Narrative Information 2022" (updated version on 24th March 2023), Rohto annual report

Suggestion #11: Disclosure of reduction in cross-shareholdings

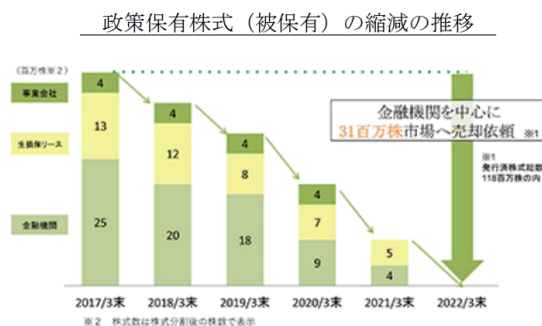
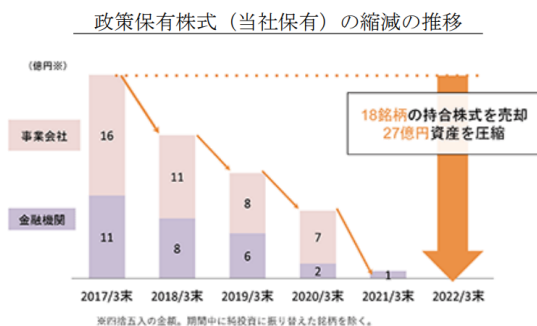
Disclose a specific timeline and target amount for reducing strategic shareholdings.

FSA “Good practices of disclosure about cross-shareholdings” (Nicigas example)



Unbundling of cross shareholdings

We completely unbundled not only our own cross shareholdings but also all of NICIGAS shares held by the other parties as cross shareholdings by 2022/3. This is because we believe that our own cross shareholdings are an obstacle to improving our return on assets and that the unbundling of NICIGAS’ shares held by other parties will lead to improved discipline in the Company's corporate management.



AVI’s suggestions

- Disclose specific targets and timelines for reducing strategic shareholdings, such as “selling more than 20 billion yen worth of cross-shareholdings each year while reducing cross-shareholdings to one-third of their current level by the end of the FY2031/3.”
- The criteria for exercising voting rights for strategic shareholdings shall be clarified and disclosed.
- Rather than using a template, the purpose of holding each company's shares should be disclosed in detail, and the effectiveness of holding them should be verified and disclosed in quantitative terms by comparing it with the cost of capital.
- The cash obtained from selling the shares could be used to invest in the core businesses or to return to shareholders



Rohto's Current Disclosure of Business Information

The company's IR disclosure policy is not investor-friendly, particularly for new investors seeking detailed information on the profitability of each business segment and medium-term business goals.

Segment disclosure by business



- The segment disclosure published by the company in its earnings report is **only by region**¹
- The disclosure in the FACT BOOK **only discloses sales** by different categories, such as “eye care, skin care, oral medicine, and other”

Mid-term plan disclosure



ロートグループ総合経営ビジョン2030 Connect for Well-being

Well-beingとは身体も心もイキイキとし、さまざまなライフステージにおいて笑顔あふれる毎日を過ごすこと

ロート製薬は、世界の人が Well-being を実感できる時間を少しでも長くするように、医薬品、スキンケアに加え、さまざまな事業でイノベーションを起こし幅広く「つなげていく」

それを実現するために、社内外の仲間同士を、組織と組織をしっかりと「つなげていく」

そして、信頼の基盤の上に人材を育成し、一体感ある組織を作り上げ人々の更なる Well-being に「つなげていく」

- The **long-term guidelines** of the “Rohto Group Integrated Management Vision 2030 Connect for Well-being” formulated in February 2019 is the **only announcement so far**.
- The Mid-term Plan has not yet been disclosed.

Rohto Pharmaceutical's IR disclosure policy is limited in scope, focusing only on single year performance, as if to say, “we serve mainly for our long-term shareholders, who are our ‘valued customers’ and have known and supported our company for many years”

Segment Disclosure Policy

As Rohto considers itself primarily as a health and beauty care business, and thus the company does not disclose segment profits or assets by business, such as for its prescription drug or functional foods businesses. However, this is inconsistent with the categories outlined in management’s long-term strategy.

Segment disclosure in Rohto's financial statements

“The Company undertakes manufacture and sales activities mainly in the health and beauty care categories. ...Accordingly, the Company comprises the four geographical reportable segments of Japan, America, Europe, and Asia based on our manufacturing and sales structure.”

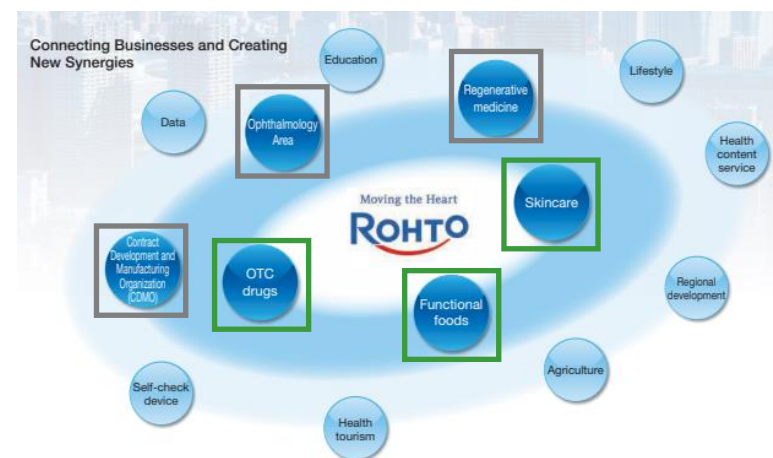
Current Fiscal Year (Apr. 1, 2023– Mar. 31, 2024)

	Reportable segment (Note 1)					Others (Note 2)	Total	Adjustment (Note 3)	Reported in consolidated statements of income (Note 4)
	Japan	America	Europe	Asia	Subtotal				
Net sales									
Revenue From Contracts with Customers	156,851	18,565	13,884	78,751	268,053	2,786	270,840	—	270,840
(1)Sales to customers	156,851	18,565	13,884	78,751	268,053	2,786	270,840	—	270,840
(2)Inter-segment sales and transfers	3,317	1,508	130	4,356	9,313	43	9,357	(9,357)	—
Total	160,168	20,074	14,015	83,108	277,367	2,830	280,197	(9,357)	270,840
Segment profit	24,437	1,205	1,385	12,028	39,057	240	39,298	750	40,048
Segment assets	231,000	27,860	13,908	102,107	374,876	2,347	377,224	(31,049)	346,175
Segment liabilities	67,529	3,392	3,546	26,673	101,142	398	101,540	(2,401)	99,138
Other items									
Depreciation	6,091	552	234	1,337	8,215	36	8,251	—	8,251
Amortization of goodwill	401	27	—	7	436	—	436	—	436
Increase in property, plant and equipment and intangible fixed assets	7,153	489	421	1,847	9,911	189	10,100	—	10,100

Note 1: Sales by brand and product matrix distributed separately
Source: Rohto Pharmaceutical public relations materials

- Rohto has defined three core business areas (skin care, OTC drugs, and functional foods), while there are a further three growth investment business areas (regenerative medicine, ophthalmology, and contract development and manufacturing (CDMO)). Including other areas, there are 14 business areas in total
- These **business profits and segment assets are not disclosed**¹

Core business Growth investment business



Segment Disclosure Across “Beauty-Care” Companies

When making investments, Rohto is proactive in describing individual businesses as “core businesses,” “third pillars” or “growth investment businesses”, however, its segment disclosures reflect a double standard, stating only that the company operates mainly in the “health and beauty care categories.”

Status of disclosure of profits and assets by business for companies in the beauty care industry

Implications to investors



業種別	報告セグメント (百万円)					合計	調整額	調整後合計
	日本	アジア	ヨーロッパ	アジア	その他			
売上高	208,200	25,107	15,469	361,547	103,283	5,540	235,996	-
10 医薬品事業 売上高	208,200	25,107	15,469	361,547	103,283	5,540	235,996	-
10 化粧品事業 売上高	0	0	0	0	0	0	0	0
10 化粧品事業 営業利益	0	0	0	0	0	0	0	0
10 化粧品事業 資産	0	0	0	0	0	0	0	0
合計	208,200	25,107	15,469	361,547	103,283	5,540	235,996	-
セグメント利益	46,800	1,884	191	281,815	51,384	110	131,171	11,007

- Only regional segment disclosure is available¹

Unclear business profitability or progress of new businesses



業種別	報告セグメント (百万円)					合計	調整額	調整後合計
	日本	アジア	ヨーロッパ	アジア	その他			
売上高	400,000	1,214	101,274	1,000	170,304	-	170,304	-
10 化粧品事業 売上高	400,000	1,214	101,274	1,000	170,304	-	170,304	-
10 化粧品事業 営業利益	100,000	1,000	100,000	100,000	100,000	-	100,000	-
10 化粧品事業 資産	100,000	1,000	100,000	100,000	100,000	-	100,000	-
合計	400,000	1,214	101,274	1,000	170,304	-	170,304	-
セグメント利益	100,000	1,000	100,000	100,000	100,000	-	100,000	-
セグメント資産	100,000	1,000	100,000	100,000	100,000	-	100,000	-

- Disclose both (i) revenue and EBIT by business, and (ii) matrix of business x region

In particular, as demonstrated by Kao Corporation, disclosures such as sales by region and a business matrix, along with sales, profits and assets by business, are desirable disclosures for business analysis.



業種別	報告セグメント (百万円)					合計	調整額	調整後合計
	日本	アジア	ヨーロッパ	アジア	その他			
売上高	400,000	1,214	101,274	1,000	170,304	-	170,304	-
10 化粧品事業 売上高	400,000	1,214	101,274	1,000	170,304	-	170,304	-
10 化粧品事業 営業利益	100,000	1,000	100,000	100,000	100,000	-	100,000	-
10 化粧品事業 資産	100,000	1,000	100,000	100,000	100,000	-	100,000	-
合計	400,000	1,214	101,274	1,000	170,304	-	170,304	-
セグメント利益	100,000	1,000	100,000	100,000	100,000	-	100,000	-
セグメント資産	100,000	1,000	100,000	100,000	100,000	-	100,000	-

- Disclose revenue, segment profit, segment asset by business



業種別	報告セグメント (百万円)					合計	調整額	調整後合計
	日本	アジア	ヨーロッパ	アジア	その他			
売上高	400,000	1,214	101,274	1,000	170,304	-	170,304	-
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10 化粧品事業 営業利益	100,000	1,000	100,000	100,000	100,000	-	100,000	-
10 化粧品事業 資産	100,000	1,000	100,000	100,000	100,000	-	100,000	-
合計	400,000	1,214	101,274	1,000	170,304	-	170,304	-
セグメント利益	100,000	1,000	100,000	100,000	100,000	-	100,000	-
セグメント資産	100,000	1,000	100,000	100,000	100,000	-	100,000	-

- Disclose revenue, segment profit, segment asset by business



コア事業利益 (コア営業利益率)	2023年 年間	2024年 年間	前年差
日本*	13 (0.5%)	281 (0.9%)	+267
中国	70 (2.8%)	123 (4.8%)	+53
アジアパシフィック 地域別	93 (7.1%)	60 (0.9%)	-9
米国	112 (9.7%)	2 (0.2%)	-110
欧州	33 (2.7%)	37 (2.6%)	+3
グローバル その他	171 (12.9%)	20 (0.6%)	-151
その他*	-228 (-16.9%)	249 (1.9%)	+222
調整額	176	60	-116
合計	388 (4.1%)	364 (3.7%)	-24

- After selling off the toiletries division to focus on core areas, the company shifted its business to a single cosmetics segment and began disclosing information by region.

Note 1: Sales by brand and product matrix distributed individually (profit by business not disclosed)
Source: Publicly available materials from each company

Suggestion #12: Reduction of WACC through segment disclosure enhancement

The company should begin disclosing sales figures in a matrix format by business x region, as well as segment profits and assets for each business. Additionally, the company should disclose information on its growth investment businesses to help investors better understand the progress of new business developments.

Review of current issues with segment disclosure and TSE's requests

- Investors are not provided information on the revenue and profitability of Rohto's individual businesses, such as skincare, eye care, Chinese herbal medicine and oral medicine, functional foods, and regenerative medicine, as well as regional breakdowns. **This results in significant information asymmetry between shareholders and the board of directors.**



"To realize medium- to long-term corporate value, companies are expected not only to work on improving profitability, but also to be aware of the need to reduce cost of capital. To do so, it is important to reduce information asymmetry through effective information disclosure, and to increase investor confidence in corporate profitability and growth potential."

AVI's suggestions

- To reduce information asymmetry between shareholders and the board, and to help lower the cost of capital, the company should begin disclosing sales in a matrix format by business x region, as well as segment profits and assets for each business.
- The company should also disclose information on assets and profitability for its growth investment businesses to promote greater transparency and disciplined management.



Mid-Term Plan and Long-Term Vision Disclosure Comparison

Rohto has not disclosed its medium-term KPI targets or mid-term business plan, and there is no clear indication of the management’s commitment to these goals.

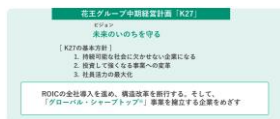
Status of disclosure of medium-term plans and long-term visions by companies in the beauty care industry

Implications to investors



- The latest long-term vision is “Connect for Well-being,” which was disclosed in Feb 2019.
- No mid-term plan has been disclosed.

Unclear mid-term business plan and commitment level



- Kao Group's medium-term management plan ‘K27’ announced in August 2023



- “2024-2026 Medium-term Management Plan” was announced at the December 2023 financial results meeting



- Medium- to long-term vision ‘Vision for Lifelong Beauty Partner’ announced in November 2024



- The updated version of the medium- to long-term management strategy “SHIFT 2025 and beyond” was announced in February 2024.

The disclosure content allows existing and new investors to understand the management team's medium- to long-term commitment

Value of Mid-term Plan


Medium-term management plans are among the most valuable disclosures for investors, as they provide insight into management's level of commitment.

Tokyo Stock Exchange – Corporate Governance Code

Responsibilities of the Board

The board should view the establishment of corporate goals (business principles, etc.) and the setting of strategic direction as one major aspect of its roles and responsibilities. It should engage in constructive discussion with respect to specific business strategies and business plans.

Recognizing that a mid-term business plan (chuuki keiei keikaku) is a commitment to shareholders, the board and the senior management should do their best to achieve the plan.



The medium-term management plan is valuable for investors, as it helps them understand the board of directors' strategy, as agents of the shareholders (principals), through the management indicators and targets they set and oversee.

Suggestion #13: Disclosure of mid-term plan

By initiating disclosure of medium-term plans and setting clear KPI targets that reflect capital efficiency and profitability, such as operating income, and ROE/ROIC, Rohto can demonstrate management's commitment to shareholders and investors.

Rohto's current intentions about mid-term plan

"There is a risk of new products being a hit or a miss, so it doesn't make sense to devote a lot of internal resources to creating a 3-5 year plan. On the other hand, we do perform numerical simulations"



Rohto
Board
member

"What I've been thinking about recently is that, **while it's not a commitment**, I personally think it would be good to release something **that would give investors a sense of the direction we're taking**"

The medium-term plan is a particularly important disclosure for investors, as it signals the company's "commitment" to investors; however, the management team at Rohto has yet to recognise this

AVI's suggestion

- Rohto should start disclosing its medium-term plan, and define KPIs that reflect capital efficiency and profitability, such as operating profit, ROE/ROIC, and set and disclose medium-term clear targets



Principles of CG Code on Shareholder Engagement

Although Rohto has declared its intention to “comply” with the Corporate Governance Code, the actual wording suggests that its basic approach relies on IR handling investor engagements, with management only receiving relayed information, reflecting a level of commitment that is closer to “explain” than genuine compliance.

Principles of Corporate Governance Code

Companies **should, positively** and to the extent reasonable, respond to the requests from shareholders to engage in dialogue (management meetings) so as to support sustainable growth and increase corporate value over the mid- to long-term.

Taking the requests and interests of shareholders into consideration, to the extent reasonable, **the senior management, directors, including outside directors, and kansayaku, should have a basic position to engage in dialogue (management meetings) with shareholders.**

Status of disclosure of Rohto's CG reports

Under the supervision of the Vice President and Director, the Corporate Planning Department, Accounting and Finance Department, Public Relations and CSV Promotion Department, etc., work together (omission), and the opinions and matters of interest received are **shared with the management** and related business departments through the director in charge.

Despite the claim of compliance, the actual disclosure is vague, using abstract terms such as “supervision,” “work together” and “share.” **There is no mention of top management directly meeting with investors or shareholders, nor is there any indication of a positive attitude toward shareholder engagement.**

TSE's Call for Action to Make Corporate Governance a Reality

Even as some Japanese companies declare themselves “compliant” to the Corporate Governance Code, the Tokyo Stock Exchange has raised concerns that their efforts may fall short of the investor expectations.

Tokyo Stock Exchange:

“Why is it that management is required to take the perspective of shareholders and investors into account?”

“

“Although 90% of the companies listed on the Prime Market say that they are compliant, on the other hand, as I mentioned earlier, the difference in PBR and ROE compared to other countries means that **the percentage of companies that are actually compliant is not increasing.**”

“We want to promote constructive dialogue between investors and listed companies, but **it seems that the two sides are looking at things from quite different perspectives.**”

”



Rohto's IR Approach, Reluctant to Engage in Purposeful Dialogue

Despite the CG Code clearly requiring this, Rohto has demonstrated a reluctant attitude toward dialogue, stating that meetings can be arranged “in response to strong requests.” In reality, Rohto remains far from proactive in its shareholder engagement, and AVI has been unable to arrange any meetings with outside directors thus far.

Examples of responses to AVI and interview requests over the past year



Rohto
IR manager

I apologise for the delay in my reply. I am very sorry, but due to the recent acquisition and other matters, it will be difficult for me to respond to your request as the directors will be travelling overseas for the first quarter and beyond.

With regard to the interview with Internal Director Saito, as he is travelling overseas for M&A, it is difficult to confirm the schedule at this time.

Regarding your request for a meeting with Internal Director Saito, he is currently extremely busy with overseas projects, so it is difficult to make any promises at this time.

As we mentioned the other day, the CFO is almost always out of the office on business trips overseas from November to February, so it is difficult to arrange a meeting.

Our company's IR system is set up so that I am the sole person in charge of IR, and the person who supervises is Saito, who is the vice president and CFO. Therefore, **I would like you to understand that I will be the one to handle regular IR interviews. However, in light of your strong request, I would like to arrange a meeting between AVI and Saito.**

We understand that your company has requested a meeting with our outside director. However, **we have never held a meeting between an outside director and an investor**, and we consider this as a future discussion topic internally.

Questionable Response by Rohto Compared to TSE Listing Rules

This kind of IR response from Rohto is inadequate, even when assessed against the basic expectations set by TSE listing rules.

Principles of Corporate Governance Code (recap)

- Companies **should, positively** and to the extent reasonable, respond to the requests from shareholders to engage in dialogue (management meetings) so as to support sustainable growth and increase corporate value over the mid- to long-term.
- Taking the requests and interests of shareholders into consideration, to the extent reasonable, **the senior management, directors, including outside directors, and kansayaku, should have a basic position to engage in dialogue (management meetings) with shareholders.**

TSE Securities Listing Regulations

- When a listed domestic company complies or does not comply with each principle of the "Corporate Governance Code", **it shall explain reasons for such compliance or non-compliance in the report prescribed in Rule 419.**
- Listed companies shall **respect the intent and spirit of "Corporate Governance Code" and make efforts to enhance their corporate governance.**
- Where any change has occurred to the details of a report including the matters regarding corporate governance specified by the Enforcement Rules, an issuer of a listed subsidiary-linked dividend stock **shall submit a report after the change without delay.**

Rohto Pharmaceutical is listed on the Prime Market, the TSE's highest market segment open to a wide range of investors, including foreign investors. However, in terms of compliance with the Corporate Governance Code, as required under TSE listing rules, the company's stance is inadequate. The head of the IR department has stubbornly refused to hold meetings with the top 10 long-term shareholders, **stating such meetings are typically handled by the IR manager, rather than board of directors. This response is hardly appropriate for a company listed on the Prime Market.**

Prime Market's Original Concepts

Continuing to withhold transparency from global investors is unacceptable for a company listed on the Prime Market.

Tokyo Stock Exchange – the concepts of the new market segments

Prime Market

For companies which have appropriate levels of market capitalization (liquidity) to be investment instruments for many institutional investors, **keep a higher quality of corporate governance**, and commit to sustainable growth and improvement of medium- to long-term corporate value, **putting constructive dialogue with investors at the center**.

The current market segments

Prime

The market oriented to companies which centre their business on constructive dialogue with global investors

Standard

The market oriented to companies with sufficient liquidity and governance levels to be investment instruments

Growth

The market oriented to companies with high growth potential

To date, Rohto's stance on shareholder engagement has fallen far short of being "centred on constructive dialogue with global investors," Notably, the company has not allowed any shareholders to meet with independent outside directors. This approach counters the TSE's various reforms aimed at attracting global investors to the Japanese market. Even during the previous administration, the then-Prime Minister travelled to London to appeal to foreign investors, asking "Why are Japanese stocks so cheap?"¹ Similarly, the newly introduced NISA system was intended to encourage investment to increase household wealth. **If global investors attempting dialogue with Rohto get the impression that "Japan has not changed at all" and consequently change their attitude towards investment in Japan, it could cast a shadow over the entire market. Rohto's dismissive attitude toward dialogue with global investors is particularly concerning for a company listed on the highest-ranked "TSE Prime Market," which represents the Corporate Japan.**

Suggestion #14: Improvement of engagement in dialogue with shareholders

Rohto's current IR policy is not fully aligned with the issues recognised by the board, with even internal directors calling for improvements. We recommend that the company improve its policy to place greater emphasis on shareholder engagement.

Director's comments on the current shareholder engagement policy of Rohto



Rohto
director

"The IR manager meets with investors frequently. Individual meetings between the executive vice president and investors are sometimes held online, but the current situation is that there are only one or two such meetings per year."

"We haven't been doing many 1on1 meetings with other directors, **but we need to start considering it.**"

"(With the aim of closing the valuation gap with other peers,) one of our issues is to communicate with investors better with an awareness of cost of capital and stock prices, and **we'd like to improve that respect slightly more.**"

The internal director acknowledged that communication with shareholders and investors is a key management issue, demonstrating awareness of the needs to change toward more cost of capital and share price-conscious management.

They expressed a desire to work toward improvements in the future.

AVI's suggestion

- In the Corporate Governance Report, the company will revise its policy on shareholder dialogue to reflect a more proactive stance in accommodating investor requests for individual meetings with the CFO, other members of top management, and outside directors.



Slow Response to TSE' Request: Management that is Conscious of Cost of Capital and Stock Price

Compared to its industry peers, Rohto Pharmaceutical is lagging behind in its response to the TSE's requests.

List of companies that have disclosed information regarding "Action to Implement Management That Is Conscious of Cost of Capital and Stock Price"

Sector code	Sector	Market segment	Securities code	Company name	Disclosure status		Date of disclosure update (MM/DD/YY)	Wish to have more active contact from institutional investors			English disclosure
					Disclosure status in compliance with the request	Change in disclosure status from last month		Application status	Start Date of Publication (MM/DD/YY)	Where to contact	
3250	Pharmaceutical	Prime	4151	Kyowa Kirin Co.,Ltd.	Disclosed			✓	3/14/25	IR&PR Group, Corporate Communications Department	Available
3250	Pharmaceutical	Prime	4502	Takeda Pharmaceutical Company Limited	Disclosed						Available
3250	Pharmaceutical	Prime	4503	Astellas Pharma Inc.	Disclosed		12/23/24				Available
3250	Pharmaceutical	Prime	4506	Sumitomo Pharma Co.,Ltd.	Disclosed						Available
3250	Pharmaceutical	Prime	4507	Shionogi & Co.,Ltd.	Disclosed						Available
3250	Pharmaceutical	Prime	4516	Nippon Shinyaku Co.,Ltd.	Disclosed		6/27/24				Available
3250	Pharmaceutical	Prime	4519	CHUGAI PHARMACEUTICAL CO.,LTD.	Disclosed		12/20/24				Available
3250	Pharmaceutical	Prime	4521	KAKEN PHARMACEUTICAL CO.,LTD.	Disclosed						Available
3250	Pharmaceutical	Prime	4523	Eisai Co.,Ltd.	Disclosed		12/23/24				Available
3250	Pharmaceutical	Prime	4527	ROHTO PHARMACEUTICAL CO.,LTD.	Disclosed						

Compared to peer companies, Rohto Pharmaceutical is slightly behind in terms of 'actions to achieve management that is conscious of capital costs and share prices' in the following respects:

- Disclosure complying with the requests has already been made
- No application has been made for "wishing to have more active contact from institutional investors"
- Information has not been updated regarding management that is conscious of cost of capital and share prices
- English disclosure regarding the TSE's request is not available yet

Suggestion #15: Request more frequent contact by institutional investors through TSE

To expand and deepen dialogue with institutional investors in a way that contributes to enhancing corporate value, Rohto should apply to the TSE to request “more active contact from institutional investors.”

Tokyo Stock Exchange:

“Why is it that management is required to take the perspective of shareholders and investors into account?”



“Recently, I've been very disappointed to see so many companies trying to make appointments with investors who don't say anything too harsh.”

“I think that there are quite a few people in Japan who have a perception of dialogue as being like confrontation or a stand-off, but **the fact is that the company management is also thinking about improving the company's medium-to long-term corporate value, and of course, that is something that will also bring returns to investors, so the direction that they are aiming for should be exactly the same.**”

“I think that we need to expand on the idea that we are all comrades facing in the same direction.”

The Tokyo Stock Exchange has also pointed out the importance of deepening dialogue with investors as ‘comrades facing in the same direction’.





At present, it is difficult to conclude that Rohto Pharmaceutical is adequately listening to investors or that management is considering the perspectives of shareholders and investors.

AVI's suggestions

- The current sluggish stock price alone is clearly insufficient to attract meaningful interest from investors.
- Regarding dialogue with investors, it goes without saying that increasing the number of meetings is important, but also to improve the quality of dialogue and a demonstrate a willingness to listen to investor opinions.
- To address its market valuation discount to peers and to accelerate the exchange of information with investors aimed at improving corporate value over the medium to long term, **Rohto should apply as soon as possible to “request more active contact from institutional investors.”**

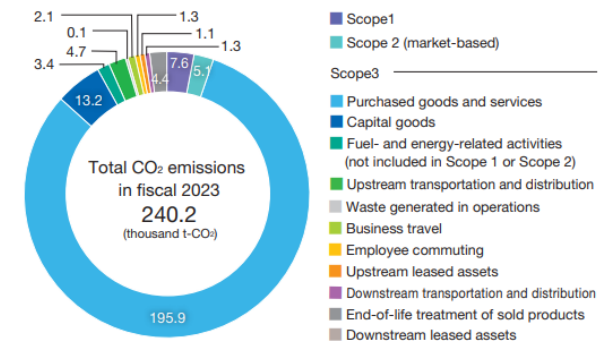
Substandard SBTi¹ and CDP² Scores

Rohto Pharmaceutical is behind its competitors in terms of SBTi¹ certification and CDP² scores, and it has only set CO₂ reduction targets for Scope 1 and 2.

Companies	SBTi ¹ certificate	CDP ² scores
 SHISEIDO	✓ 2030 SBTi target approved - 1.5° pathway	<ul style="list-style-type: none"> Climate Change (A) Forests (A) Water Security (B)
 KOSÉ	✓ Mid and long-term SBTi targets approved - 1.5° pathway	<ul style="list-style-type: none"> Climate Change (A) Forests (A-) Water Security (A)
 kao	✓ Mid and long-term SBTi targets approved - 1.5° pathway	<ul style="list-style-type: none"> Climate Change (A) Forest (A) Water Security (A)
 POLA ORBIS HOLDINGS	✓ 2023 and 2029 SBTi targets approved - 1.5° pathway	<ul style="list-style-type: none"> Climate Change (A) Forests (B) Water Security (A)
 ROHTO	✗ No formal commitment	<ul style="list-style-type: none"> Climate Change (B) Water Security (B)

Rohto's current initiatives

- No CO₂ reduction targets have been set for Scope 3 (emissions calculations began in 2021)
- The majority of Rohto's total CO₂ emissions are due to Scope 3



Note 1: Science-based target initiative.

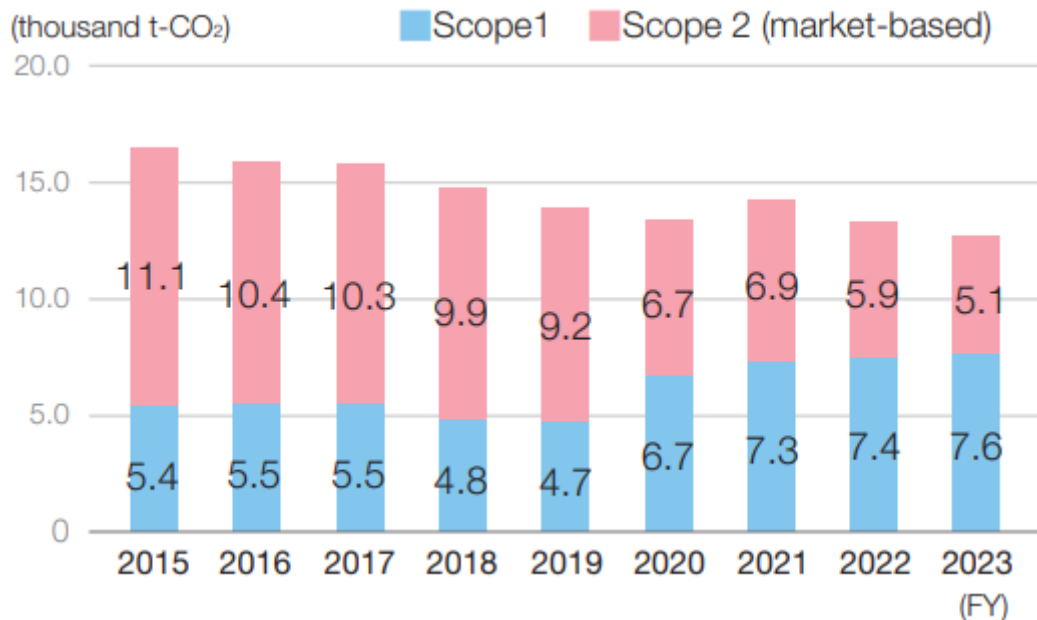
Note 2: Carbon Disclosure Project.

Source: Company press releases, integrated reports, AVI ESG team research.

Suggestion #16: Establishment of Sustainability Task Force

Establish a Sustainability Taskforce, obtain SBTi certification for Scope 1, 2, and 3, and disclose a more robust set of targets and implementation plans for the entire group, including water risk.

Status of Rohto's initiatives on climate change



AVI's suggestion

- Set science-based scope 1, 2 & 3 emission targets, validated by SBTi
- Define a robust group-wide environmental strategy and targets including water risk analysis and management
- In addition to the functions of the Sustainable Management Promotion Department at the current Rohto Pharmaceutical headquarters, establish a sustainability taskforce with representatives from each subsidiary to drive sustainable practices and facilitate the exchange of practical solutions to achieve long-term sustainability targets across the whole group

Inferior Sustainable and Responsible Supply Chain Management

Rohto lags significantly behind its competitors in both its efforts toward sustainable and responsible procurement and the quality of its related disclosure.

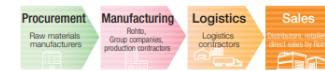
Companies	RSPO ¹ certification	Sustainable and responsible supply chain management
 SHISEIDO	 Target: 100% in 2026 Actual: 51% in 2023	<ul style="list-style-type: none"> • Uses Sedex³ and EcoVadis frameworks in addition to Shiseido SAQ²
 KOSÉ	 Target: 100% in 2030 Actual: 30% in 2023	<ul style="list-style-type: none"> • Uses Sedex³ framework in addition to Kose SAQ²
 kao	 Target: 100% in 2025 Actual: 39% in 2024	<ul style="list-style-type: none"> • Uses Sedex³ and EcoVadis frameworks in addition to Kao SAQ²
 POLA ORBIS HOLDINGS	 Target: 100% in 2029 Actual: 22% in 2023	<ul style="list-style-type: none"> • Uses Sedex³ framework
 ROHTO	Only the fact Rohto joined in 2023 was disclosed, with no disclosure of current status or goals.	<ul style="list-style-type: none"> • The only disclosure is that supplier CSR was implemented in 2023

Rohto's current initiatives

- The monitoring status for sustainable and responsible supply chain (e.g. items checked and results of the SAQ survey, future policy, etc.) has not been disclosed.

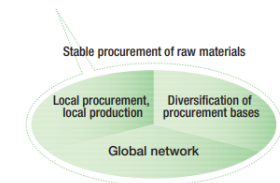
Building a Sustainable Supply Chain

From procurement of raw materials and manufacturing through inventory management, logistics and delivery, and sales, we are committed to building a sustainable and responsible supply chain with various stakeholders who support Rohto.



Sustainable and Responsible Sourcing

Amid climate change, pandemics, conflicts, and other global issues, we view realizing stable procurement of raw materials in order to provide safe and secure products to our customers as an important issue. We have been working to diversify our procurement bases by utilizing our global network. Local procurement and local production also contribute to risk diversification and sustainability.



Note 1: Roundtable on Sustainable Palm Oil

Note 2: Self-assessment questionnaire

Note 3: Supplier Ethical Data Exchange

Source: Publicly available information, websites, integrated reports

Suggestion #17: Building better sustainable procurement framework and risk management

To achieve a sustainable supply chain, Rohto should adopt a robust framework and set clear targets, particularly for high-risk raw materials, and ensure that the management and oversight of negative externalities are visible to investors.

Status of Rohto's sustainable supply chain initiatives

<p>(Translation)</p> <p>ROHTO GROUP CSR PROCUREMENT GUIDELINES</p> <p>July 2023</p> <p>ROHTO Pharmaceutical Co., Ltd.</p>	<p>● Procurement Basic Policy</p> <p>To provide safe, secure, and quality products and services, we, the Group, conduct fair and impartial transactions and promote procurement activities considering our social responsibility for human rights, occupational safety and health, environment, and other social challenges in cooperation with our business partners involving our supply chain ("Suppliers.") Further, through building good relationships with the Suppliers, we will contribute to the realization of a "Well-being" society.</p> <ol style="list-style-type: none">1. Quality and Safety To provide customers with our safe, secure, and quality products and services, we will procure materials, goods, and services, the quality and safety of which are ensured.2. Stable Procurement To steadily provide the products and services that customers seek, we aim to ensure stable procurement in cooperation with the Suppliers.3. Compliance Promotion In compliance with all related laws, regulations, and rules ("Applicable Laws"), we will conduct procurement activities based on a higher sense of ethics and social convention.4. Fair and Impartial Procurement We will choose Suppliers who engage in fair, impartial, and transparent transactions after comprehensively evaluating their management policy, quality, cost prices, delivery time, environmental initiatives, and other factors.5. Considerations for Human Rights and Occupational Safety and Health We will advance our procurement activities considering human rights and occupational safety and health of the Suppliers.6. Considerations for Environment To develop environment-oriented business activities, we will proactively work on procuring materials, goods, and services that are friendly to the global environment.7. Co-prosperity with Suppliers based on Mutual Trust Relationship
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AVI's suggestion



- Implement robust responsible supply chain processes and practices to identify, monitor and mitigate sustainability risk
- Define clear goals for procurement of high-risk sustainable raw materials e.g., 100% RSPO certified palm oil
- Ensure transparent disclosure to build trust that negative externalities in the supply chain are being effectively managed, thereby protecting shareholder value

Summary of Suggestions by AVI: Better Governance Systems for Dealing with Global Investors

Mid-term value enhancement of
Core businesses

- ① Strategic pricing in the skincare business with better IR communication
- ② Additional investment in sheet mask business
- ③ Additional investment in Mentholatum USA business
- ④ Appropriate use of management resources to maximise synergy with EYS

Strategic review of Growth
investment businesses

- ⑤ Scaling back or withdrawing from the regenerative medicine business
- ⑥ R&D expenses breakdown disclosure btwn. “Core” and “growth investment”
- ⑦ Carve-out of ophthalmic prescription drug business through JV formation

**Better governance systems for
dealing with global investors**

- ⑧ Enhancement of DE&I for internal directors**
- ⑨ Enhance independence in the board of directors**
- ⑩ Improvement of management compensation and disclosure detail**
- ⑪ Disclosure of reduction in cross-shareholdings**
- ⑫ Reduction of WACC through segment disclosure enhancement**
- ⑬ Disclosure of mid-term plan**
- ⑭ Improvement of engagement in dialogue with shareholders**
- ⑮ Requesting more frequent contact by institutional investors through TSE**
- ⑯ Establishment of sustainability task force**
- ⑰ Develop improved sustainable procurement framework and risk management**

A Summary

Summary of Suggestions by AVI (Recap)

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