

Message from the newly appointed external director

Navigating a harsh business environment and transforming the Company into one that contributes to people's health in the long term

Masayuki Mitsuka, Ph.D. External Director



Despite being indispensable for the people in Japan, there are clearly issues with generic drugs

For Japan's pharmaceutical industry, the government has set the target of generic drugs accounting for 80% of the market on a volume basis, and the distinction between generic drugs and new drugs has rapidly grown clearer. This is necessary to ensure the sustainability of Japan's health insurance system. The use of generic drugs is recommended because they lessen the financial burden on patients, and thus, generic drugs have not only become indispensable for all people in Japan but also contribute to promoting SDGs for the whole of Japan on various fronts.

On the other hand, two major issues have come to light. One is concerns about the quality of generic drugs as a result of incidents at several companies that have shaken trust in generic drugs. The other issue is the sustainability of the business for the overall generic drug industry because of annual drug price revisions that have a greater impact on generic drugs than new drugs.

Amid this difficult business environment, I received an opportunity to participate in Sawai Group Holdings' management as an outside party. The Company is one that will navigate this difficult business environment from various perspectives, including market share, product track record, and financial soundness, and possesses the potential to contribute to people's health while growing in the long term.

Issue of quality provides a chance to transform the industry

The industry must overcome the issues of quality concerns, excessive number of manufacturers and retailers, and, as a result of these, the downward pressure on drug prices. Of these issues, quality concerns could provide an opportunity for the overall industry to move to the next stage. While the various companies in the industry are promoting measures to reinforce the system that places the greatest priority on compliance, governance, and

quality, it is also important to focus on whether management has set unrealistic targets for workplaces regarding production volume, deadline for obtaining approval, and similar activities, and whether sufficient human capital support is provided. As an external director, I consider it important to check whether workplace governance is effective and whether there are sound management targets that match the actual capabilities of the Company.

Focus on investing in people, the key to survival

Overall prescription drug sales in Japan hit a record high of ¥10.9 trillion in fiscal 2022, but considering the trend since 2015, sales growth is flat, having grown only from ¥10.5 trillion to ¥11.0 trillion, and this trend will continue into the future. I expect that as sales and the market share of expensive new drugs grows, generic drug manufacturers will be weeded out before new drug manufacturers. There are two keys to surviving this. The first is ensuring a production volume that guarantees one's presence in the market, and the second is possessing both strong cost competitiveness and quick development capabilities for drugs whose patents have expired.

In the pharmaceutical industry, "investing in people," an important element for innovation, and "diversity of human resources" are more critical than in other industries. In the new drug business, new drug discovery and development require the skills of highly specialized individuals, but in the generic drug business, a different type of continual innovation, one that simultaneously increases production volume, quality from a patient perspective, and cost competitiveness, is required. As an external director, I want to focus on investing in human capital that management needs, particularly the securing of highly specialized people, and diversity.