

Meiji Holdings Co., Ltd.

Briefing on Pharmaceutical Segment - Business Strategy of KM Biologics - for Analysts and Institutional Investors

Q&A Summary

Date and time: December 10, 2018, 3:30 - 5:00 pm

Presenters:

**Masahiko Matsuo**

Chairman and Representative Director, KM Biologics Co., Ltd.

**Toshiaki Nagasato**

President and Representative Director, KM Biologics Co., Ltd.

**Q1 Show us the forecast for your FYE March 2020 results and subsequent fiscal years.**

A1 We are preparing the Medium-Term Business Plan FYE March 2020 – FYE March 2021. We would like to decline to make a comment about the detailed forecast results. We are in the middle of the process of making honest efforts to regain public trust; thus we are focusing on recovering sales. We will pursue sales and an increase in income as our next step.

**Q2 Tell us about the synergic effects with Meiji Seika Pharma (MSP). When do you expect the effects will manifest themselves?**

A2 One of the synergic effects with MSP is that MSP started selling our flu vaccine in September. MSP focuses on the infectious diseases and pediatric areas. By using its sales reps' dedicated promotional activities, we believe we will recover trust from our consumers and accordingly restore our business performance.

**Q3 As an incorporated company you should secure fair profits. Show us your strategy. What is your profitable products and business?**

A3 We must improve our employees' cost consciousness. We are preparing the Medium-Term Business Plan and examining tactics to reduce costs.  
Human vaccines, which account for 70% of our sales, drive sales and income.

**Q4 Chemo-Sero-Therapeutic Research Institute (Kaketsuken) failed to comply with Good Manufacturing Practices (GMP). Corporate culture is very difficult to change. Tell us your strategy to improve the corporate culture effectively.**

A4 As you pointed out, it is very hard to change corporate culture immediately. I will

work hard to achieve this. I, as the president of KM Biologics, have been meeting with employees and listening to their comments and opinions a lot. I believe they will think that “the Company cherishes them” when we listen to what they have to say sincerely and then improve the issues they raise. They will strongly believe “the Company has changed” and improve the corporate culture accordingly.

We are reorganizing corporate structures. We set up a reporting structure in October to report information directly and correctly to the President. We will reorganize the facilities respectively in January next year. Our analysis revealed that the closed organizational culture led to some problems in the past. We will periodically rotate jobs to create a transparent and open organization.

**Q5 I’ve heard that many employees left Kaketsuken over the past few years. Do you have any concerns about a shortage of manpower?**

A5 We have no concerns about a lack of adequate manpower. It’s true that some employees, who were dissatisfied with Kaketsuken, quit their jobs. After establishing the new company, KM Biologics, the number of employees retiring has been decreasing and operations are running quite well. We are recruiting mid-career professionals and promoting part-time employees to permanent employees. In addition, we are placing experts from the Meiji Group in the Production and Quality Assurance Divisions. We are working on streamlining the production processes to save labor and developing human resources in the R&D Division for the future.

**Q6 R&D is critical to achieving future growth. Tell us about KM Biologics’ competitive advantage.**

A6 There are many leading universities in bioscience in Kyushu and their graduates are joining us. Consequently, we have established superior R&D capabilities. Due to a supply-demand imbalance in the vaccine market, vaccine has been in tight supply recently. The flu vaccine, our mainstay product, needs continuous improvement such as increasing antibody titers against each virus efficiently. One of our competitive advantages is that we have advanced R&D capabilities thanks to our outstanding researchers.

Joint research with other institutes is important too. We have established a Biosafety Level 3\* Laboratory. Not many institutes have such a stringent safety system to control hazardous microorganisms. Therefore, we have many opportunities to work with various institutes on interesting materials. This is also our competitive advantage.

We will develop innovative products by working with MSP and other institutes.

\* Biosafety level 3 (BSL-3) is applicable to clinical, diagnostic, teaching, research, or production facilities where work is performed with agents that may cause serious or potentially lethal diseases through inhalation, to the personnel, and may contaminate the environment.

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