Q1. Meiji set an operating income target of JPY 110 billion in the 2020 Medium-Term Business Plan. Tell us your strategies to achieve this goal. Meiji plan to boost sales focusing on products in core domains such as yogurt and chocolate, but current sales growth appears sluggish. How will you return to a growth path? Also, how will you reduce and optimize cost to grow income?

A1. Sales growth is essential to achieve operating income of JPY 110 billion in addition to the cost reductions and optimizations (so called structural reform). We believe the sales of yogurt and chocolate in core domains still have room for growth and we want to return them to a growth trajectory by FYE March 2020. All markets experience cycles of growth and plateaus followed by subsequent growth. We will break the current plateau by providing products with health value backed by R&D.

We will continue our efforts to reduce and optimize cost during 2020 Medium-Term Business Plan. We have been focusing heavily on reducing SKUs and examining products and businesses throughout the previous Medium-Term Business Plan. Compared to past years, we estimate cost reduction effects on income growth will be mild during the 2020 Medium-Term Business Plan. Of course, we will work hard on cost reduction initiative and exceed budget plans.

Q2. The 2020 Medium-Term Business Plan calls for achieving profitability for the Drinking Milk business. What specific initiatives will you implement?

A2. It is important to focus on value-added products. We will utilize our R&D capabilities and technical expertise to develop value-added products.

Currently, we are working to increase market presence of Meiji Oishii Gyunyu (900 mL). Additionally,
we are reviewing sales strategies for other products such as low fat milk and milk beverages. The Drinking Milk business is beneficial in terms of our fixed cost burden. It is because the business has a high inventory turnover rate and does not require significant sales promotion expenses though the business is currently struggling with profitability. During the 2020 Medium-Term Business Plan, we will achieve profitability for the Drinking Milk business by further shifting our focus on high value-added products.

Q3. The 2020 Medium-Term Business Plan outlines nearly doubling net sales for the Sports nutrition business. It appears SAVAS, sports protein products, will be a key product. How will you expand sales?

A3. We think the sports protein market will continue to grow as we approach the 2020 Tokyo Olympic and Paralympic Games. In the past, the target consumers for SAVAS have been serious athletes. Recently sports protein market has grown because people enjoying sports on a casual basis and people looking to improve their physical fitness are increasing. We will capture this trend to increase sales. Taking advantage of this change in the market, we will enhance our product line and strengthen our sales channels. We will offer various product types such as jelly protein products in addition to the current powdered products. We will strengthen sales channels by expanding into e-commerce in addition to conventional sales at drugstores.

Q4. How will you change your management structure as you accelerate overseas development?

A4. We are reviewing local operations to accelerate overseas business. Thus far we have established local subsidiaries for each business in each area. We are now examining a central management companies for each region. For example, the Confectionery business requires capital in fall/winter season and Ice Cream business requires capital in spring/summer season. When integrated company is established, we can centralize capital management. We can strengthen internal business controls and compliance to risks in overseas markets. This will be good for flexible job rotations too.

Q5. During the 2020 Medium-Term Business Plan Meiji is planning high sales growth in China, Southeast Asia, and the USA. Which categories and channels will be important?

A5. We are examining to develop the overseas nutritional foods business as a new challenge. In Japan, we have established our competitiveness and are a driving the market. Accordingly we will apply these advantages aggressively overseas. The presence of e-commerce channels is increasing in each region and we must respond to this trend. We will organize our sales structure and product development that will suitable for e-commerce.
Part 2: Pharmaceutical segment

Q1. NHI drug price revisions greatly impact on earnings. How will you absorb that impact?
A1. Effects of NHI drug price revision are increasing each year because the sales of generic drugs are growing. Generally speaking, generic drugs prices are reduced at a higher rate than brand-name drugs due to the intensifying price competition.

In FYE March 2019, the impact of NHI drug price revisions are forecasted JPY 12 billion. We will secure JPY 10 billion in operating income by increasing sales of our mainstay brand-name drugs as well as through cost reduction and elimination. Cost reductions will be purchasing less expensive bulk drug and production optimization initiatives, which will include optimization in overseas factory. Because we are assuming NHI drug price revisions every other year in our business plans, we are hard at work on securing earnings. We will achieve a certain level of cost reductions.

Q2. Facing increasingly harsh market conditions, the generic drugs industry is expected to require reorganization. What is your long-term outlook for the generic drug business?
A2. Although it is unclear the industrial reorganization, there may be joint operation in some business functions. For example, one possibility is an alliance that multiple companies make a group purchase of active ingredient for bulk discount.

We are assuming severe annual NHI drug price revisions for generic drugs. Therefore instead of increasing the number of products, we achieve cost control by selection and concentration to focus on drugs in areas of our expertise and promising market/drugs. The acquisition of Medreich in India in 2015 was in line with this strategy. We control throughout the entire process, from bulk drug procurement to production.

Q3. The 2020 Medium-Term Business Plan anticipates income improvement in the agricultural chemicals and veterinary drugs business. What are the possibilities and strengths of these businesses?
A3. We believe agricultural chemicals will be a core business that will support future growth. Despite a severe earnings of agricultural business, we have been investing in R&D. As a result, we have successfully developed and out licensed three products to major global companies. There are 40 agricultural chemicals in the final development stage around the world. Of those, three are our products. I believe this shows our advanced R&D capabilities.

Our R&D capabilities in agricultural chemicals are based on our knowledge and technology of ethical pharmaceuticals, particularly antibiotics. Our domestic ethical pharmaceuticals business started with penicillin production. The fundamental technologies are fermentation, cultivation, and synthesis of derivatives from microbial metabolites. We developed the most recent three products applying these
Q4. Infectious diseases have been one of your fields of expertise thus far. The business environment has changed because of promoting the appropriate use of antimicrobials. How will this change impact Meiji earnings?

A4. We do not believe the promoting the appropriate use of antimicrobials negative for us. Appropriate use does not necessarily mean not using antimicrobials. In fact, recommended medication in guidelines will likely to increase sales volume. Because penicillin is recommended we expect high in demand for penicillin. In fact, data shows that sales volume for penicillin has nearly doubled on the Japanese market over the past 10 years. In terminal care, penicillin injectable is necessity and its demand will increase.

Meiji supplies many basic drugs* such as injectable penicillin. Stable supplies of these drugs are vital. After NHI pricing system reforms in the FYE March 2019, the system supported favorable pricing for basic drugs.

* Basic drug: Approved by NHLW. Minimum medicine needed for a basic health care system, selected on the basis of current and estimated future public health relevance, and potential for safe and cost-effective treatment.

Q5. The acquisition of KM Biologics as a consolidated subsidiary represents the new addition of a vaccine business. What benefits or synergy are you anticipating? How will you achieve appropriate governance?

A5. As seen with the appropriate use of antimicrobials, treatment with drugs is considered not sufficient to fight against infectious disease globally. The world's attention is turning from treatment to prevention for patients around the world. Our core domain is the infectious disease and has built good relationships with doctors in respiratory medicine and pediatrics. Since vaccines are administered in clinics we can provide information on both infectious disease drugs and vaccines at a time. Thus we create product lines that cover from prevention to treatment.

There is also a significant synergy benefit in R&D. We have a Bioscience Laboratories where we are developing biosimilars. KM Biologics has advanced bio technology and many excellent researchers. We are looking forward to work together and share the knowledge and expertise of both companies that will lead to innovative developments in the future.

Keys to recover the company’s reliability are thorough quality control and legal compliance. After consolidation, we will work closely to improve the reliability under Meiji’s quality control/assurance policy. The company should recognize to become a stock corporation and establish and implement a growth strategy in a timely manner.