

To whom it may concern:

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Notice of Action Plan Developed Based on Verification Results of Management Strategy Committee
- Aiming to Accelerate and Improve the Effectiveness of the Medium-Term Management Plan and Further Enhance Corporate Value –

The Group established the Management Strategy Committee in April 2024, and has held discussions with the aim of determining a specific action plan to accelerate initiatives under the four basic policies: (1) Business transformation, (2) Investment for growth and improvement of profitability, (3) Sustainability management, and (4) Improvement of capital efficiency and enhancement of shareholder returns, of Medium-Term Management Plan 2023–2025 "Create the Next Generation," which began in FY2023, and to further enhance the effectiveness of the initiatives. We are pleased to announce that based on recommendations from the Management Strategy Committee, the Board of Directors today decided on the following specific action plan.

Composition of this Release

- I. “Ideal State of the Company” and Current Issues Based on Environmental Analysis
- II. Strategy and Action Plan
 - A. Improvement of Capital Efficiency
 - B. Enhancement of corporate governance
 - C. Reform of human resource strategies and system
- III. Roadmap
- IV. Promotion Structure

I. “Ideal State of the Company” and Current Issues Based on Environmental Analysis

In proceeding with the discussion, we first examined the major changes in the external environment that are expected to have an impact on our business strategy and identified the following.

Changes in the external environment

1. Declining birth rate and aging population over the medium to long term
 - Shrinking workforce
 - Continued counteracting trend in medical and pharmaceutical spending
 - Limited growth in the pharmaceutical market
2. Diversification of modalities
 - Increase in specialty products
 - Changes in products handled and transaction forms
 - Development of new treatment methods such as therapeutic apps

- Increase in medical devices based on the latest technologies
3. Progress in community-based integrated care systems
 - Increase in home medical care
 - Acceleration of cooperation between medical care and nursing care
 - Changes in insurance points for medical treatment fees and dispensing fees
 - Progress in Self-Medication (health, pre-symptomatic disease, prevention of disease)
 - Expansion of medical DX
 4. Environmental changes related to logistics
 - More sophisticated requests for disaster response enhancement measures
 - Stricter guidelines on GDP (Good Distribution Practice)
 - Changes in the labor environment caused by the 2024 problem and other factors
 5. Continued global inflation
 - Cost increase (energy prices, etc.)
 - Upward pressure on wages
 - Rising costs of purchases from manufacturers

Ideal state to be achieved

Based on the changes in the external environment and our current strengths and weaknesses, we have reorganized our vision of what we should be as follows.

- In response to our social mission of providing a stable supply of pharmaceuticals, we contribute to the maintenance of the healthcare delivery system through high-quality logistics established through tireless creativity and ingenuity, and continue to be a company that is needed by society.
- Through the handling of specialty products (biomedical products, including orphan drugs, regenerative medical products, etc.), the market for which is expected to grow, we have established a unique and indispensable position in the distribution of pharmaceuticals in Japan.
- In the customer support business, which is our strength, we contribute to solving community healthcare issues and realize community healthcare design through new businesses created from innovation by promoting DX and proactive alliances. We have also established a system to reliably deliver necessary pharmaceuticals to patients through the information obtained from these activities.
- We provide a place where talented people gather and can play an active role; a corporate culture that helps employees continue growing and developing and proactively take on various challenges has been established.
- We continue to evolve into a sustainable organization by continuously improving the quality of governance, organization, and internal management systems, so that we can make strategic decisions quickly and appropriately and ensure their implementation in the face of future changes in the environment.
- By promoting our business to realize our mission statement and continuously enhance our corporate value based on a strong financial foundation, we meet the needs of all our stakeholders in a meticulous and professional manner and have become indispensable to society as a trusted partner.

Current Issues

Next, after confirming the gap between the ideal and the current situation, we have summarized the issues that need to be addressed as follows.

- Improve profitability and productivity in the core pharmaceutical wholesaling business
- In addition to upgrading the current logistics infrastructure, establish a competitive advantage in the distribution of specialty products, a growth field in the prescription pharmaceuticals market in the future
- Expand profits in the customer support business by leveraging existing sales networks and establish new revenue models in areas other than pharmaceuticals
- Establish a revenue model within a community comprehensive healthcare system
- Build a governance structure (especially strengthening group management) and organizational/personnel structure that can respond to unprecedented changes in the environment, and utilize DX to improve operational efficiency
- Streamline SG&A expenses for the entire Group

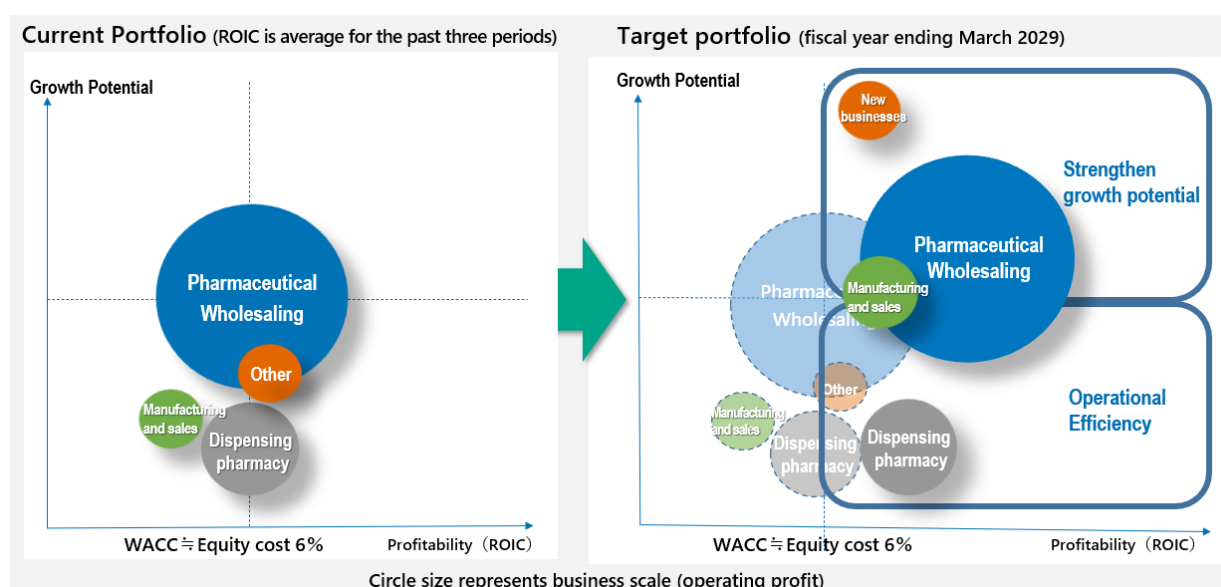
II. Strategy and Action Plan

In hammering out measures to address the above issues, we considered prioritization of business portfolio, placing utmost importance on the perspective of improving capital efficiency, i.e., achieving ROE targets by enhancing profitability. As a result, we have finally decided to allocate management resources, from the perspective of business potential and return on capital, to the following: measures to strengthen sales and marketing to improve profitability and productivity in our core pharmaceutical wholesaling business; establishment of a competitive advantage in specialty product distribution; and new businesses that leverage our strength in the customer support business. In order to promote this business portfolio reform, we have also confirmed our direction in terms of “enhancement of corporate governance” and “reform of human resource strategies and system” to strengthen our organization and human resource infrastructure, with an eye to enhancing a holdings structure and utilizing DX.

A. Improvement of Capital Efficiency

Direction of business portfolio

The direction of our business portfolio by the fiscal year ending March 31, 2029, is as follows.



Growth strategies for each business

1. Pharmaceutical wholesaling business

We will continue to evolve and strengthen our business infrastructure, including advanced management functions and BCP readiness based on the unified core system that we have built, as well as the value-added business model that we have cultivated through the customer support business. In addition, by expanding the functions necessary to secure a competitive advantage in the handling of specialty products and other products for which future growth is expected, and by promoting productivity improvement through qualitative enhancement and reinforcement of sales and logistics systems, we will position ourselves as an indispensable partner in the distribution system for pharmaceuticals and healthcare-related products.

2. Dispensing pharmacy business

We will place the highest priority on the integration of subsidiaries, which we are currently working on, and will thoroughly streamline operations. In addition, as a new business opportunity, we aim to participate in a community comprehensive healthcare system by utilizing our unique networks, such as the Kyoso Mirai Group in Pharmacy network.

3. Pharmaceutical manufacturing and sales business

We will continue to steadily promote the stable supply of generic drugs. On the other hand, with regard to the CDMO (Contract Development and Manufacturing Organization) business, we will pursue the possibility of expanding the business, as it may lead to the establishment of a new business that is profitable on its own, along with strengthening the pharmaceutical wholesaling business by building and expanding full-line services for specialty products.

4. New business

We will contribute to the creation of new value for patients, medical institutions, pharmacies, local governments, and pharmaceutical companies through innovation realized through the reorganization and integration of existing customer support systems and the functions of system-related subsidiaries in the TOHO HOLDINGS Group and alliances with external partners (M&A, capital and business alliance, business alliance, etc.). At the same time, we will build new businesses in areas other than prescription pharmaceuticals.

In order to implement the above strategies, we will, while steadily achieving organic growth with our pharmaceutical wholesaling business at the core, accelerate aggressive and bold alliances with other companies and organizations with the aim of maximizing corporate value by reinforcing our business foundation or acquiring functions that address issues.

Target

- ROE: more than 8%, Operating profit margin: more than 1.5% (until FY ending March 2029)
- DOE: more than 2% (until FY ending March 2026)
- Reduction of Cross-Shareholdings: less than 15% of net assets (As of the FY ending March 2026) , less than 10% (As of the FY ending March 2029)

Financial and capital strategy

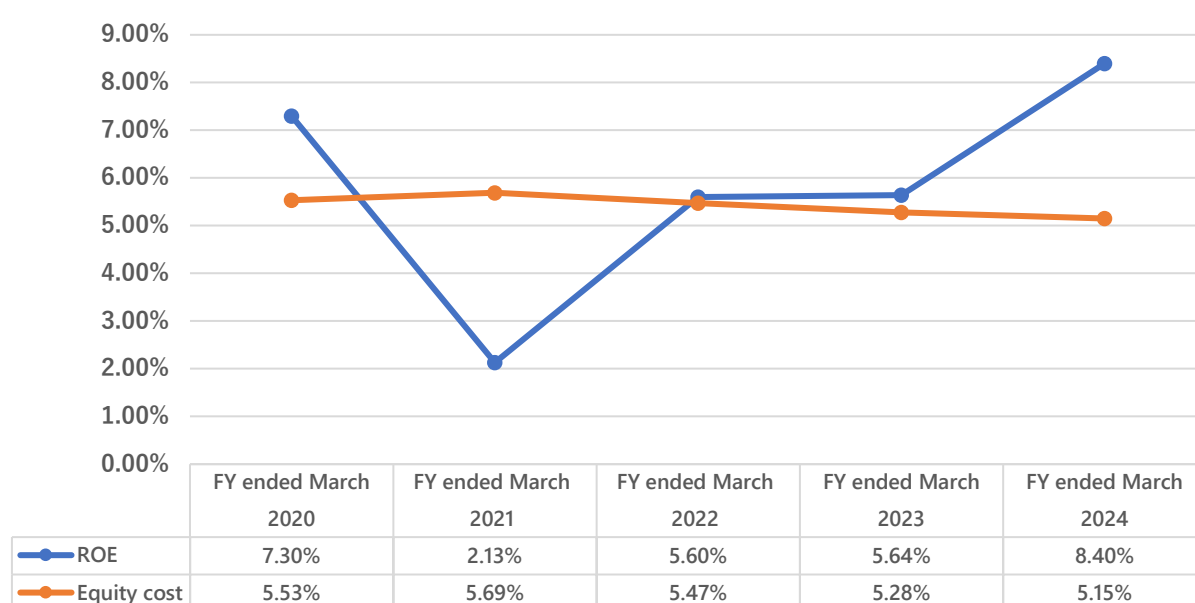
1. Promotion of capital efficiency-conscious management and medium-term shareholder return policy

• Approach to cost of equity*

The Company's cost of equity calculated using the CAPM (Cap Asset Pricing Model) was determined to be approximately 6% in consideration of calculation results using various methods, past results, and possibility of changes in interest rates. We aim to reduce the cost of equity by further expanding opportunities for dialogue with the market and improving the quality of sustainability management, including strengthening governance.

*In the case of the Company, since the net debt balance (debt - cash and cash equivalents) is negative, the debt balance is not reflected in the calculation of WACC (Weighted Average Cost of Capital) and the cost of equity is also used as WACC.

Trends in ROE and Equity Cost



• Analysis of the current status of KPIs for financial and capital strategies

- The ROE for the fiscal year ended March 31, 2024, was 8.4%, exceeding the cost of equity. However, the calculation included the gain on the sale of shares as a special factor. Without it, the core ROE for the year was about 5.9%, and that for the fiscal year ending March 31, 2025, is expected to be around 5%, indicating that the target will not be reached based solely on business profits derived from the main business.
- The DOE is about 1%, which is below the “next generation”’s ideal target of 2%.
- Although the PBR currently exceeds 1.0 times, in order to further increase corporate value, it is important to accelerate the initiatives of the current Medium-Term Management Plan and further enhance their effectiveness. Therefore, we established the Management Strategy Committee and formulated a specific action plan.
- The balance of cross-shareholdings remained high at just under 20% of net assets (as of March 31, 2024).

- Future policy
 - We aim to enhance corporate value through expansion of business profits and proactive shareholder returns, including stable dividend increases and flexible share buybacks, to improve capital efficiency.
 - We will return cumulative profits of 800 million yen to shareholders through the fiscal year ending March 31, 2029.
 - We will establish a revenue and financial base that will enable ROE to at least exceed the cost of equity of 6% going forward, achieve 8% or more in the fiscal year ending March 31, 2029, and remain at 8% or more thereafter, by making the improvement of capital efficiency a top management issue.
 - We will increase DOE to 2% or more by the end of the current Medium-Term Management Plan period (the end of the fiscal year ending March 31, 2026)
 - We will achieve a ratio of cross-shareholdings to net assets of less than 15% by the end of the fiscal year ending March 31, 2026, and less than 10% by the end of the fiscal year ending March 31, 2029.

2. Capital allocation

The following is a breakdown of the investments required to implement business strategies and achieve numerical targets, as well as shareholder returns (cumulative amount from the fiscal year ending March 31, 2025, to the fiscal year ending March 31, 2029).

- Investment in human capital : more than 10 billion yen (the current medium-term plan is 6 billion yen)
 - Improvement in remuneration levels
 - Introduction of a new incentive plan
 - New initiatives in line with the human capital investment policy (training, hiring, etc.)
- Investment in organizational and infrastructure : 40 billion yen (the current medium-term plan is 12 billion yen)
 - 30 billion yen in qualitative enhancement of logistics functions
 - 10 billion yen in core system renovation
- Investment in growth fields : more than 50 billion yen (the current medium-term plan is 20 billion yen)
 - Alliances with and acquisitions of companies leading to acquisition of specialty products
 - Alliances with and acquisitions of companies aimed at early development of new businesses
 - Alliances with and acquisitions of companies that accelerate DX
- Shareholder returns : more than 80 billion yen
 - Stable dividend increases in line with profit growth to be continued once DOE of 2% is achieved
 - We will purchase treasury shares flexibly taking capital efficiency into consideration.

On the other hand, we plan to secure the funds for implementing the above as described below.

- Cash flows from operating activities : more than 110 billion yen
- Sale of cross-shareholdings : more than 30 billion yen
- Liquidity on hand : 40 billion yen

Other potential sources of funds include borrowings and liquidation of real estate holdings, and the possibility of underwriters, procurement and liquidation costs, etc., have been checked. We will continue to closely monitor the status of the debt market, the real estate securitization market, etc., in case quality business investment projects exceeding the capital costs come up more than planned in the future.

B. Enhancement of corporate governance

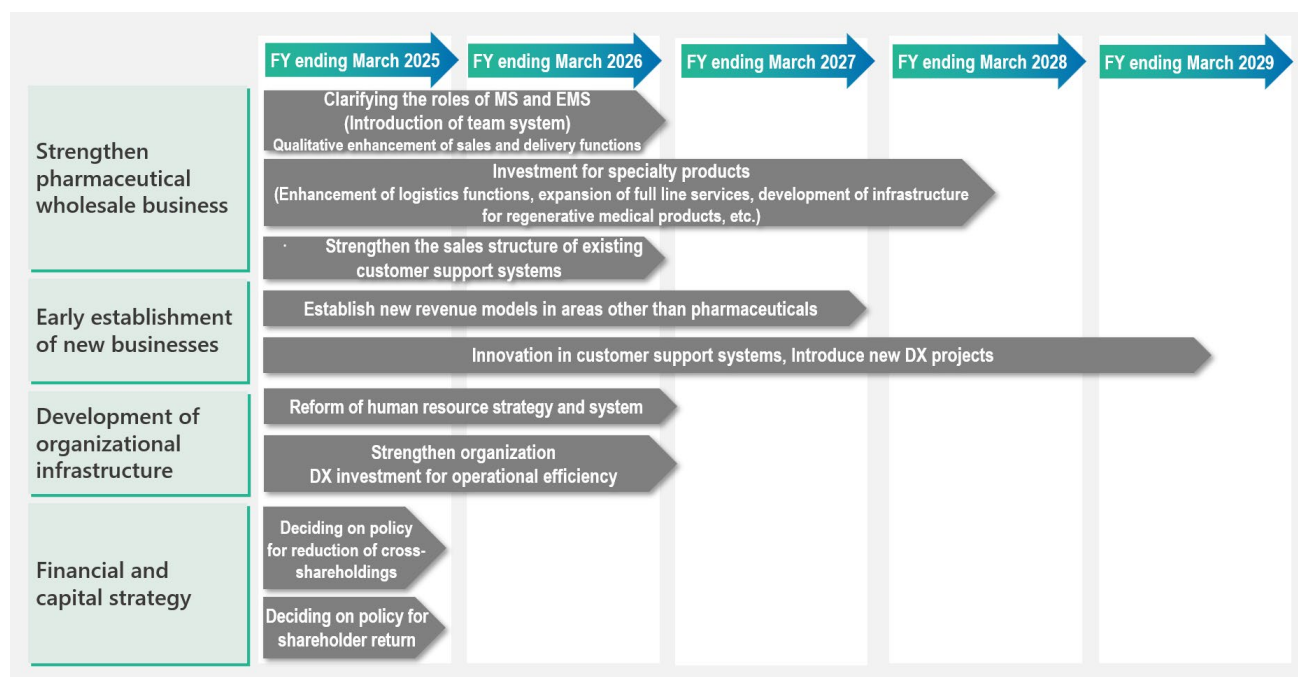
- To strengthen our governance from various perspectives, we have already established Sustainability Promotion Committee, Investment Committee, and Strengthening Governance Special Committee.
- We have clarified the roadmap of the action plan and its promotion structure and strengthened the control of TOHO HOLDINGS so that each company and business unit in the TOHO HOLDINGS Group will work together to promote the action plan with a strong commitment to achieving the strategic and numerical targets toward maximization of the Group's corporate value.
- Specifically, a new system has been introduced to flexibly determine strategic goals for each business and evaluate the results thereof at TOHO HOLDINGS, with the aim of reforming the awareness of all employees and the management structure and processes of subsidiaries and business units toward the realization of management that places the highest priority on improving capital efficiency rather than simply expanding the scale of operations.
- We will cultivate a culture of compliance that not only ensures employees of TOHO HOLDINGS and all its subsidiaries and business units comply with the Antimonopoly Act, the Pharmaceutical and Medical Device Act, and other related laws and regulations, as well as GDP (Good Distribution Practice), GMP (Good Manufacturing Practice), and other existing rules, but also enables them to serve as models for society in all their activities.

C. Reform of human resource strategies and system

- We will cultivate a corporate culture that helps each and every employee understand the "ideal state" of the Company, set their own ideal, and fearlessly take on challenges and grow toward the ideal.
(Specific measures)
 - Reform of the human resource system to enable the formulation of employee goals and action plans that are more closely linked to the realization of business strategies, and the treatment of employees based on appropriate evaluation of their achievements
 - Realization of an organization in which appropriate human resources are allocated to the roles and responsibilities in the promotion of the action plan
 - Bold appointment of talented human resources to realize the strategy (in addition to internal appointments and mid-career recruitment from outside the company, acquisition of companies to secure new human resources also considered)
 - Design and implementation of plans to develop human resources that will proactively take on challenges to realize strategies, and development of operational support systems to support them

III. Roadmap

The roadmap for the realization of our strategy has been organized into the following four issues, and the roadmap for each has been clarified. Due to the nature of the pharmaceutical wholesaling industry (stable supply of pharmaceuticals being the top priority, time lag in strategic decisions by partners, compliance with regulations, etc.), it may take time to produce results, but we will promptly start tackling all issues, achieve our targets, and maximize our corporate value.

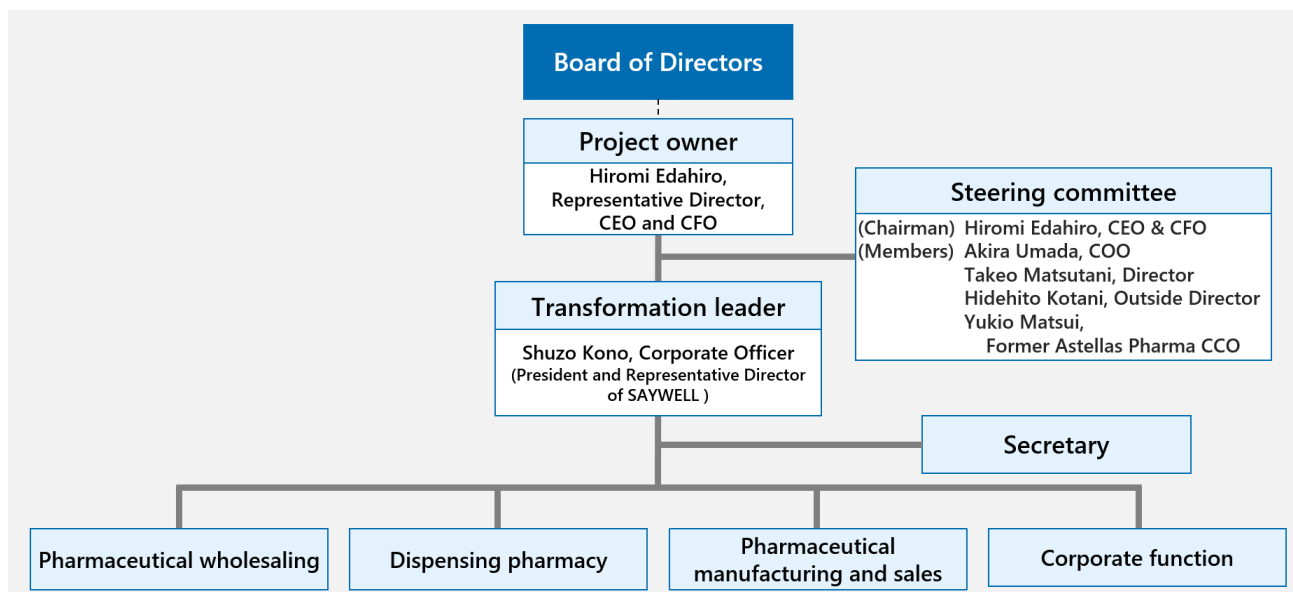


IV. Promotion Structure

The Management Strategy Committee has been established for the following purposes: (1) formulation of a specific action plan to improve the profitability and productivity of each business (including indirect departments); (2) discussion on growth investments in existing, peripheral, and new businesses; (3) study of business portfolio with cost of capital and stock price in mind; (4) analysis of cross-shareholdings and ownership of assets used for business; and (5) decision on capital allocation policy based on the above.

For these purposes, the Committee had been proceeding with deliberation since April, and has now compiled an action plan to accelerate the initiatives of Medium-Term Management Plan 2023–2025 "Create the Next Generation," and enhance the effectiveness thereof.

From now on, the most important task will be to promote the action plan and achieve the targets for the fiscal year ending March 31, 2029. Accordingly, CEO will lead this corporate-wide initiatives to achieve the targets as shown in the structure chart below. As a mechanism to this end, we will introduce a process to make Group-wide efforts to promote the realization of strategic objectives and the maximization of corporate value, and start the implementation phase by the end of the year. The Board of Directors will monitor the progress of the roadmap and disclose information on a quarterly basis.



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