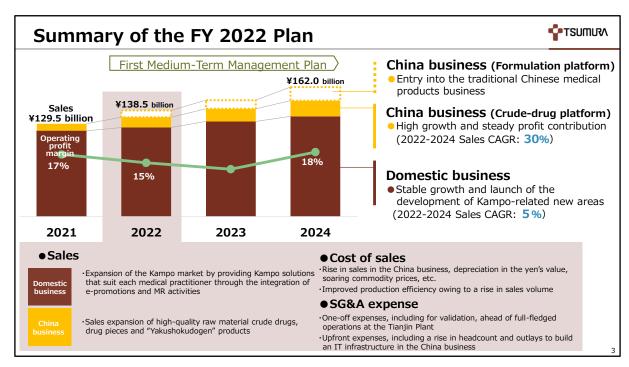
TSUMURN.

# First Quarter Business Results for Fiscal 2022

August 4, 2022
Director, and CFO
Muneki Handa

agenda	<b>∳</b> TSUMU <b>₹</b> \
01	First Quarter Business Results for FY 2022
02	Initiatives and Progress for Domestic Business and China Business
03	FY 2022 Earnings Forecast
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Page 2 shows the content of today's agenda. I will be giving you a run-down of first quarter business results in FY 2022, actions in the domestic business and China business, the progress we are making, and our earnings forecasts for fiscal 2022.



Page 3 depicts a summary of our plan for FY 2022.

As I explain the earnings results for the first quarter of FY 2022, I will confirm key points in the FY 2022 plan.

In the domestic business, we aim to increase the number of physicians that write 10 or more Kampo prescriptions and plan to continue expanding the Kampo market, by providing Kampo solutions that suit each medical practitioner through the supply of necessary information at the right time and via optimal channels by integrating e-promotions and MR activities.

In the China business, we plan to expand sales of high-quality raw material crude drugs, drug pieces and "Yakushokudogen" products.

We estimate cost of sales will be impacted by a deterioration in the cost-tosales ratio in tandem with an increase in sales in the China business, and due to impact from depreciation in the yen's value, and soaring commodity prices. In the domestic business, we are working to diminish negative impact as we plan to enhance production efficiency by increasing sales volume.

SG&A expense is expected to rise due to an increase in outlays to launch operations at the Tianjin Plant and also to mainly boost headcount and build an IT infrastructure to promote the China business.

The Tianjin Plant is being constructed to strengthen the production system for the domestic business.

The 5% growth in the domestic business is higher than previous levels. Assuming this growth rate remains intact over the next decade, the quantity of materials and resources will need to increase around 1.7-times, in comparison with the level in FY 2021. We are therefore pushing forward with the construction of this plant to ensure the stable supply of product.

Reflecting the above, in FY 2022 we forecast a decline in operating profit margin year-on-year. However, we aim to substantially grow sales in the domestic and China businesses with the goal of improving our operating profit margin during the First Medium-Term Management Plan.

1Q Busii	ness R	esults f	or FY	2022	<b>∳</b> TSUMUR	
	1Q	10 FY 2022	YoY		Key points in performance	
[Million yen]	FY 2021 results	results	Amount	Change	Sales and profits increased year on year	
Sales	31,771	34,417	+ 2,645	+8.3%	Sales	
Domestic business	_	, 31,562	_	_	<ul> <li>Prescription Kampo products: ¥30,277 million (growth of 6.7%)</li> </ul>	
China business	_	2,855	_	_	<ul> <li>OTC Kampo products, etc.: ¥914 million (growth of 18.0%)</li> </ul>	
[Ref.] Domestic	29,513	31,562	+2,048	+6.9%	China business (crude-drug platform): ¥2,855 million	
[Ref.] Overseas	2,257	2,855	+597	+26.5%	Cost of sales	
Cost of sales	15,298	16,462	+1,164	+7.6%	<ul> <li>Decline in unrealized profit owing to lower inventory assets</li> <li>CoGS ratio dropped 0.4pt to 47.8%</li> </ul>	
SG&A expense	10,321	11,601	+1,280	+12.4%	SG&A expense	
Operating profit	6,152	6,353	+201	+3.3%	<ul> <li>Increase in R&amp;D expense</li> <li>One-off expenses ahead of full-fledged operations at the Tianiin Plant</li> </ul>	
Domestic business	-	6,404	-	-	SG&A ratio rose 1.2pt to 33.7%	
China business	-	(50)	_	_	Operating profit	
Ordinary profit	7,247	8,665	+1,418	+19.6%	Negative impact from yen depreciation: ¥191 million     Loss in the China business due to expense for building	
Profit	F 200	6 622	11 242	+23.1%	foundations, mainly the formulation platform  Operating profit margin deteriorated 0.9pt to 18.5%	
attributable to owners of parent	5,389	6,632	+1,243	+23.1%	Ordinary profit	
PL translation rate (CNY)	16.37	18.32	_	_	■ Forex gain related to loans to overseas subsidiaries: ¥1,999	

Page 4 is a summary of earnings performance in the first quarter of FY 2022. As shown in the slide, we achieved a rise in sales and profit in the first quarter.

Sales totaled 34,417 million yen, a growth of 8.3% year-on-year. This breaks down to sales in the domestic business of 31,562 million yen, and sales in the China business of 2,855 million yen.

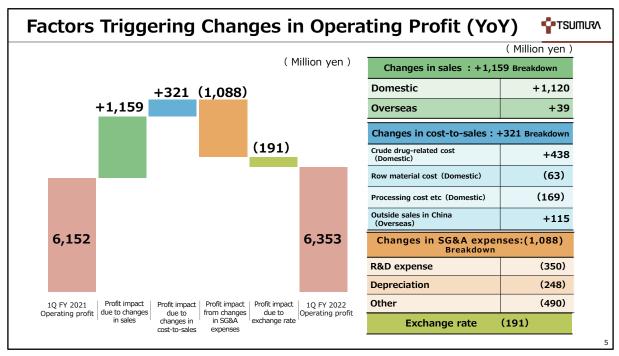
As a portion of our domestic sales, sales of the 129 prescription Kampo products grew 6.7% year-on-year. I will explain this in detail later on. Meanwhile, sales of OTC Kampo products rose 18.5% year-on-year owing to an increase in the number of stores carrying our OTC Kampo products. Overseas sales grew 26.5% year-on-year, reflecting an expansion in sales in the crude-drug platform.

In cost of sales, there was positive impact from brisk domestic sales, but sales of intermediates, an inventory asset, declined reflecting a shutdown of operations for around one month at the Shanghai Plant due to the lockdown of Shanghai.

Consequently owing to a decline in unrealized gains, intercompany profit included in inventory, the cost-to-sales ratio was 47.8%, a decline of 0.4 points year-on-year.

The SG&A ratio was 33.7%, an uptick of 1.2 points year-on-year. This reflected one-off expenses, including an increase in R&D expense and outlays for validation up to the official start of operations at the Tianjin Plant. Accordingly, operating profit came to 6,353 million yen, in 1Q, a growth of 3.3% year-on-year.

Ordinary income totaled 8,665 million yen, a rise of 19.6% year-on-year, owing to impact from forex gain related to loans to overseas subsidiaries. Net profit attributable to owners of parent was 6,632 million yen, an expansion of 23.1% year-on-year.



Page 5 is on factors triggering changes in operating profit.

This time around, we will breakdown the impact from forex given the rapid depreciation in the yen's value. I will only explain the key points.

Operating profit totaled 6,353 million yen, an increase of 201 million yen year-on-year.

The impact from a change in sales was positive, adding around 1.1 billion yen. The breakdown for Japan and overseas is as follows.

The positive impact to operating profit due to changes in cost-to-sales was around 320 million yen.

There was positive impact to operating profit due to changes in crude drug expense of around 440 million yen, reflecting a decrease in unrealized gains, which are intercompany profit included in inventory.

In addition, there was positive impact to operating profit owing to an improvement in gross profit margin of about 120 million yen, reflecting a growth in sales of drug pieces in the China business.

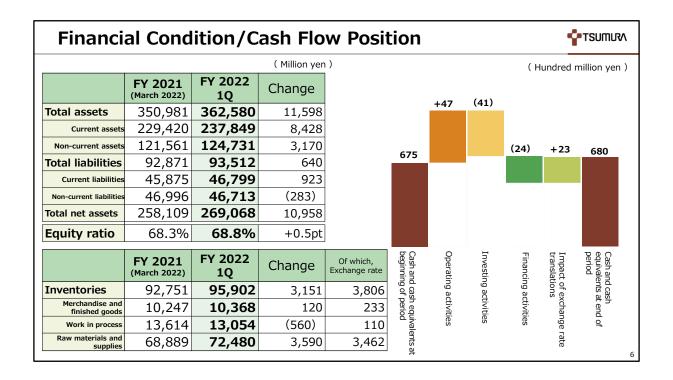
Meanwhile, raw material costs increased about 60 million yen due to soaring commodity prices, and processing cost, etc. was around 170 million yen reflecting higher energy costs. These were negative factors that hindered operating profit.

The impact from changes in expenses had a negative impact of roughly 1.1 billion yen.

This breaks down to a rise in R&D expense of around 350 million yen, an increase in depreciation expense, including validation outlays ahead of full-fledged operations at the Tianjin Plant, of about 250 million yen, and also impact from an increase in various wage allowances in tandem with the increase in headcount at the China business (Undisclosed: 60 million yen), and a rise in sales promotion expense in tandem with an expansion in sales (Undisclosed: 60 million yen).

The amount of forex impact was roughly a negative 190 million yen, mainly due to forex translations at overseas subsidiaries.

Note that the impact from forex to the purchasing of crude drugs and other materials was not substantial due to the use of forward contracts.



Page 6 showcases our financial condition and cash flows.

I will only explain the key points here.

Current assets increased around 8.4 billion yen. This is primarily attributable to a rise of about 2.4 billion yen in notes and accounts receivable – trade, and boost of around 3.1 billion yen in inventory.

The expansion in inventory is chiefly attributable to impact from forex translations.

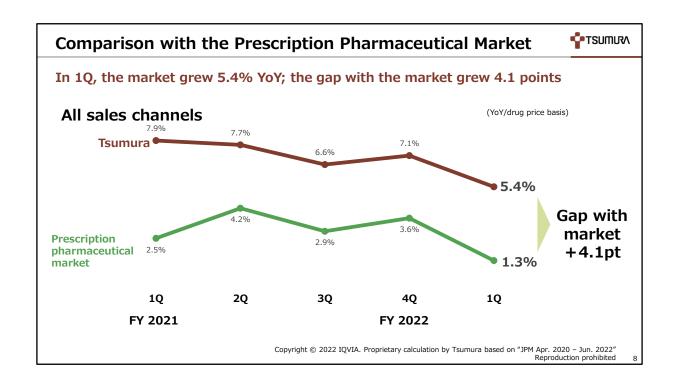
Non-current assets increased approximately 3.1 billion yen, mainly attributable to the renewal of the Shanghai Plant and construction of the Tianjin Plant.

The equity ratio was 68.8%, a climb of 0.5 points.

Our cash flows are as shown in the waterfall graph on the right.



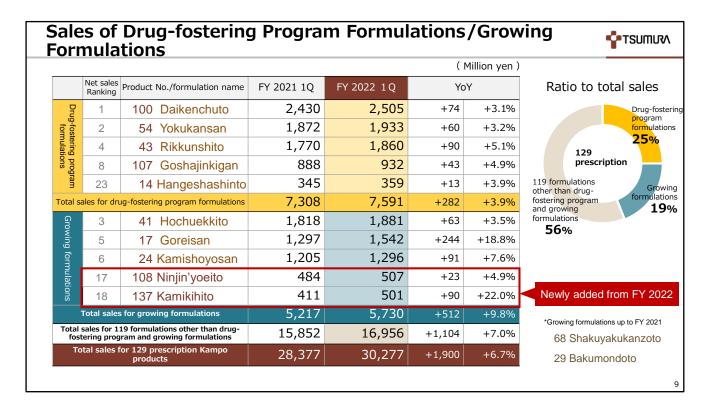
Next, I will discuss activities in the domestic business and China business, and the progress we are making.



Page 8 shows a comparison with the prescription pharmaceutical market. The graph depicts our year-on-year growth rate on a drug-price basis for all sales channels (HP and GP).

Trends are in line with overall market. Our growth rate was a positive 5.4%, and the gap with the market was a positive 4.1 points.

You can confirm a comparison based on sales channels in the appendix.



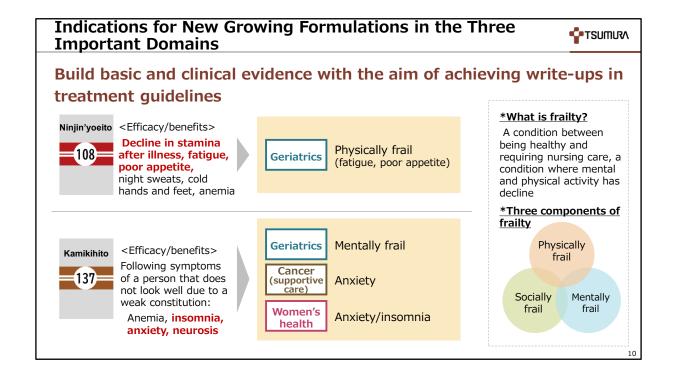
Page 9 covers sales for prescription Kampo products and sales for drug-fostering program and growing formulations.

Sales for the 129 prescription Kampo products totaled 30,277 million yen, a rise of 6.7% year-on-year.

Sales of five drug-fostering program formulations was 7,591 million yen, an increase of 3.9% year-on-year, and sales of five growing formulations was 5,730 million yen, an expansion of 9.8% year-on-year.

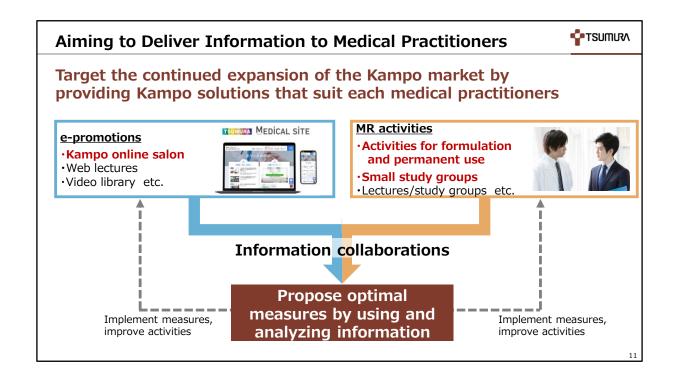
Sales for the 119 formulations other than drug-fostering program and growing formulations were 16,956 million yen, an improvement of 7.0% year-on-year. In growing formulations, we shuffled our product lineup by adding Ninjin'yoeito and Kamikihito as new growth drivers.

Looking at sales ratio, drug-fostering program formulations accounted for 25% of total sales, growing formulations made up 19%, and other products represented 56%.



Page 10 depicts the domains and diseases targeted by Ninjin'yoeito and Kamikihito, which are two new growing formulations.

Ninjin'yoeito is effective and beneficial (indication) mainly for treating a postillness decline in stamina, fatigue and a poor appetite. This formulation is anticipated to contribute to extending a person's healthy life expectancy. Kamikihito is effective and beneficial (indication) mainly for treating insomnia and anxiety. Due in part to the overall mood of society, there are an increasing number of people suffering from anxiety and insomnia. In Tsumura's three important domains, this formulation is likely to be helpful. One example is geriatric patients suffering from frailty. We are building basic and clinical evidence for the use of Ninjin'yoeito to treat physical frailty and the use of Kamikihito to treat mental frailty. We aim to receive write-ups in treatment guidelines.



Page 11 shows our schematization of activities to deliver information to medical practitioners.

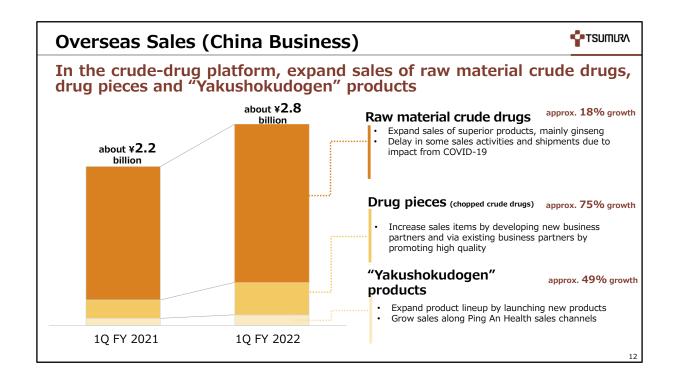
On our medical website, we are distributing a variety of information, including streaming Web lectures.

Recently, we had received praise from participants in our "Kampo online salon," an interactive lecture.

We are linking data, including MR activities, with information on these events and data on video viewing, and are proposing optimal measures by utilizing and analyzing information.

In particular, we aim to firmly ensconce prescriptions by having MRs confirm the use of formulations and propose proper use to physicians that gained an interest in Kampo through e-promotions.

In addition, we are moving forward with plans, including conducting small Kampo study groups, consisting mainly of physicians with an interest in Kampo. We aim to continue expanding the Kampo market by further evolving hybrid promotions that are a mix of digital technologies and MR activities, by having medical practitioners obtain necessary information at the proper time from an optimal channel, and through the use of this information.



Page 12 outlines overseas sales trends.

Overseas sales were roughly 2.8 billion yen, a growth of 26.5% year-on-year. In the crude-drug platform, sales expanded for raw material crude drugs, drug pieces and "Yakushokudogen" products.

Sales of raw material crude drugs rose 18% year-on-year, an outcome of activities to expand sales of superior products, mainly ginseng. We believe we will achieve our 1H plan, despite some delays that have

We believe we will achieve our 1H plan, despite some delays that have occurred in sales activities and shipments due to lockdowns triggered by COVID-19.

Sales of drug pieces (chopped crude drugs) grew 75% year-on-year reflecting the new development of customers and the expansion of sales items for existing customers owing to the promotion of high quality. Sales of "Yakushokudogen" products increased 49% year-on-year. This outcome reflects our plans to expand product lineup with the launch of new products and the growth of sales along Ping An Health (former Ping An Good Doctor) sales channels.

### **China Business Update (News Release on August 3)**



#### **Formulation Platform**

# Signing of Letter of Intent Concerning Establishment of Joint Venture with Jianmin Pharmaceutical Group Co., Ltd.

- Sign a letter of intent about the establishment of a joint venture for the purpose of manufacturing and selling traditional Chinese medicinal products in China.
- To conclude a joint venture agreement, we will proceed with discussions on specific details of the partnership.

#### **Research Platform**

# Establishment of PINGAN TSUMURA TRADITIONAL CHINESE MEDICINE TECHNOLOGY CO., LTD.

- · company which operates a research platform.
- Formulating quality standards covering the entire supply chain from the seeding of crude drugs to final products, researching the production and quality of crude drugs, and researching the quality of traditional Chinese medicinal products.

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Page 13 is an update of activities in the China business.

We issued two news releases on August 3.

The first new release was related to an M&A deal to enter the traditional Chinese medicine business in the formulation platform.

Thus far, we have continued to carry out negotiations with companies that possessed production and sales rights for traditional Chinese medicines with the goal of entering the traditional Chinese medicine business.

This time around, we reached an agreement on basic matters with Jianmin Pharmaceutical Group Co., Ltd. to establish a joint venture, and approved the signing of a letter of intent to this effect.

This letter of intent will indicate a mutually shared recognition so that both parties can implement discussions moving forward related to concrete details for this partnership.

I would like to once again disclose this information when a joint venture contract has been concluded.

The second news release covered the establishment of Ping An Tsumura Traditional Chinese Medicine Technology Co., Ltd.

In the research platform, this company will be in charge of establishing quality standards in the overall supply chain, from crude drug seedlings to the final product, production and quality research for crude drugs, and quality research for traditional Chinese medicine products.

Further out, we plan to standardize crude drug and formulation quality and spread sales in the market in China. Through this, we aim to improve our corporate value, mainly by winning the trust of consumers in China and improving the level of brand recognition.

From October 2022, we will lend out facilities at Shenzhen Tsumura Medicine Co., Ltd., a wholly-owned subsidiary of Tsumura, and embark on a portion of R&D operations.

Note that construction of a dedicated building is scheduled for 2024.

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Lastly, I will present our earnings forecast for FY 2022.

[Million yen]	2Q FY2022 Initial Plan	2Q FY2022 Revised Plan	Compared to the Initial plan		FY2022 Plan
, , , ,			Amount	Change	
Net sales	67,000	68,900	+1,900	+2.8%	138,500
Domestic business	_	-	_	-	124,300
China business	_	_	_	_	14,200
Cost of sales	33,500	34,700	+1,200	+3.6%	69,800
SG&A expenses	23,700	23,500	(200)	(0.8) %	47,900
Operating Profit	9,800	10,700	+900	+9.2%	20,800
Domestic business	_	-	_	_	21,200
China business	_	-	_	-	(400)
Ordinary Profit	10,000	14,000	+4,000	+40.0%	21,200
Net profit attributable to owners of parent	7,400	9,600	+2,200	+29.7%	15,000
				Dividends (per share)	64円
				EPS	196.1円
				ROE	6.0%

Page 15 showcases our earnings forecasts for 1H and the full-fiscal year. We issued a news release on August 3, 2022 regarding a revision to our earnings forecast. We expect to post a forex gain of 2.8 billion yen under non-operating income, reflecting impact from depreciation in the yen's value. In conjunction with this, we forecast 1H ordinary profit and net profit attributable to owners of parent to widely surpass our plan at the start of the fiscal year. In light of this we revised our earnings forecast. In 1H, after revisions, we forecast net sales of 68.9 billion yen, operating profit of 10.7 billion yen, ordinary profit of 14.0 billion yen, and net profit attributable to owners of parent of 9.6 billion yen. We closely scrutinized our full-fiscal year plan but refrained from making revisions. We therefore reiterate our forecasts for net sales of 138.5 billion yen, operating profit of 20.8 billion yen, ordinary profit of 21.2 billion yen and net profit attributable to owners of parent of 15.0 billion yen.

Key Point of r	eviseu pian		7130110		
Net Sales	2Q Revised Plan 68,900 million y	/en Compared to the Initial plan	+1,900 million yen		
	business exceeded the initial plan due to the temp but the full-year level is expected to be in line wit		e-expansion of COVID-19 and		
Cost of sales	34,700 million yen	34,700 million yen			
Shanghai Plant	fit is declining due to a decline in inventory due to t. The level of unrealized profit in the first half and entory caused by the resumption of production.				
SG&A expense	<b>S</b> 23,500 million yen	23,500 million yen			
	A expenses are expected to be in line with the plar strictions on activities caused by lockdowns in vari		SG&A expenses have not been		
<b>Operating Prof</b>	it 10,700 million yen		+900 million yen		
<b>Ordinary Profit</b>	14,000 million yen		+4,000 million yen		
(year-end exch	nge gains related to loans to overseas subsidiaries nange rate: 20.37 yen/yuan). We will not revise fur the future exchange rate conditions.				
Net profit attributa to owners of parent	ble 9,600 million yer	1	+2,200 million yen		

Page 16 involves key points in the revised earnings plan.

We upwardly revised our 1H net sales forecast 1.9 billion yen. In the domestic business, performance surpassed our plan at the start of the fiscal year, reflecting growth in formulations related to one-off impacts from another expansion in the spread of COVID-19 and due to the heat wave. However, we reiterated our full-fiscal year net sales outlook.

We are sticking with our forecast for cost of sales in 1H and the full-fiscal year. Although inventory assets are decreasing in tandem with the shutdown of the Shanghai Plant and as such unrealized gains are also declining, unrealized gains are expected to rise on the back of an increase in inventories as production in resumed.

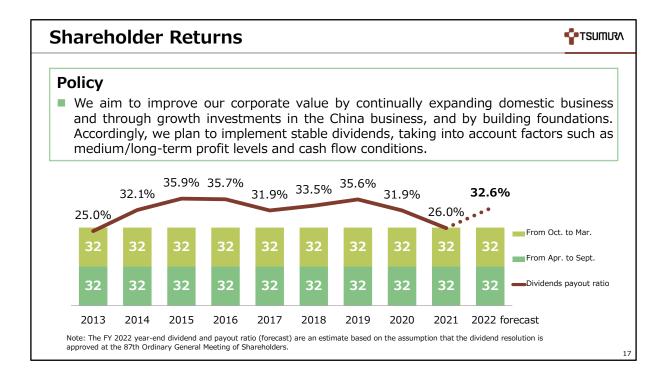
We downwardly revised our 1H SG&A expense forecast 200 million yen as expenses go unused in the China business reflecting a restriction of activities in each region, including Shanghai. We expected SG&Q expense to be used in line with plans for the full-fiscal year.

Consequently, we upwardly revised our operating profit forecast for 1H by 1.1 billion yen.

We upwardly revised our ordinary profit forecast by 4.0 billion yen, as we anticipate the posting of around 2.8 billion yen in gains from forex translations related to loans extended to overseas subsidiaries, reflecting impact from depreciation in the yen's value.

A sharp fluctuation in forex translation gains/loss is likely depending on trends in the forex market going forward. In light of this, at this stage, it is difficult to make a reasonable forecast. We are therefore reiterating our full-fiscal year forecast.

Extrapolating from the above, we upwardly revised our forecast for 1H net profit attributable to owners of parent by 2.2 billion yen to 9.6 billion yen.



Page 17 covers shareholder returns.

We aim to enhance our corporate value. In addition to further expanding the Kampo business in Japan, we plan to strengthen our business foundations in China by executing growth investments, mainly in M&A, in the China business.

We ask for your continued support of our endeavors.

### Inquires about these materials

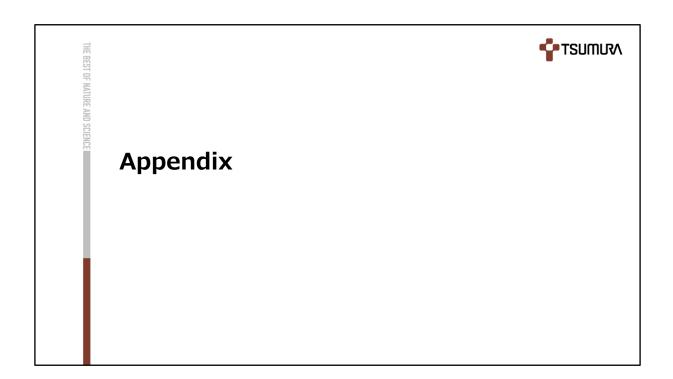


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#### Cautionary items regarding forecasts

- The materials and information provided in this presentation contain so-called forward-looking statements. Readers should be aware that the realization of these statements can be affected by a variety of risks and uncertainties and that actual results could differ significantly.
- Changes in Japan or other foreign countries related to healthcare insurance systems or regulations set by medical treatment authorities on drug prices or other aspects of healthcare or in interest and foreign exchange rates could negatively impact the Company's performance or financial position.
- In the unlikely event that sales of the Company's core products currently on the market be halted or should sales substantially decline due to a defect, unforeseen side effect or some other factor, there could be a major impact on the Company's performance or financial position.

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## [Revise content of disclosure] Disclosure by Segment & Area \*\*TSUMURA

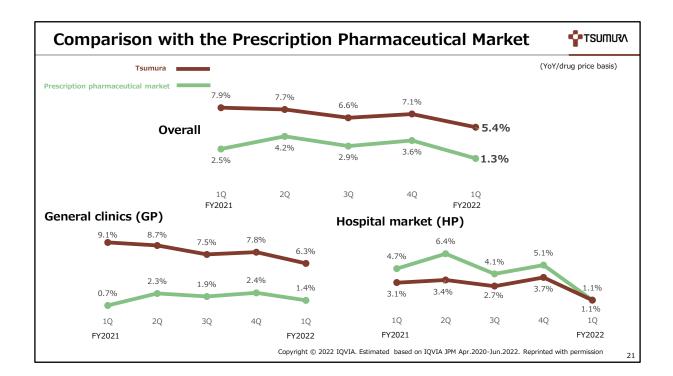


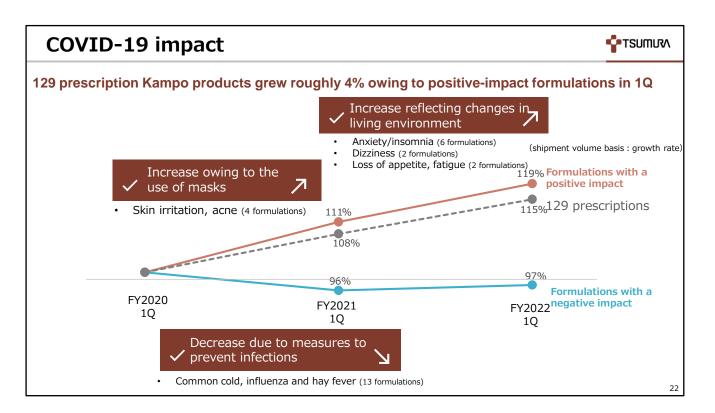
Disclose segment information (sales and operating profit) by business from FY 2022

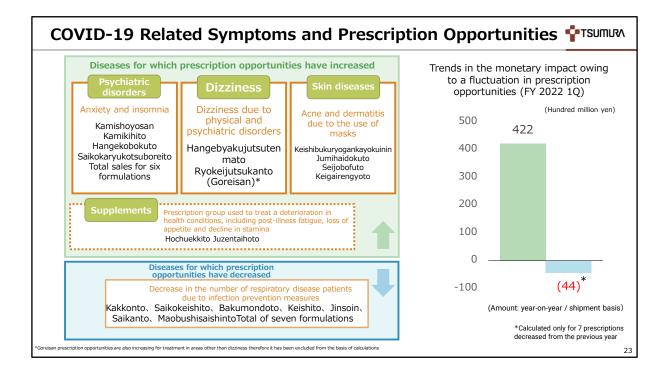
**Domestic business**: The company that makes final sales to external customers is **Tsumura** and/or a domestic affiliate

China business: The company that makes final sales to external customers is an <u>affiliate in</u>

		Segment (FY 2022 onward)			
		Domestic business	China business		
By area (FY 2020 onward)	Domestic	<ul> <li>Prescription Kampo products</li> <li>Other prescription pharmaceuticals</li> <li>OTC Kampo products, etc. (domestic sales)</li> <li>External sales at domestic affiliates</li> </ul>	_		
cimara,	Overseas	•OTC Kampo products, etc. (overseas sales)	<ul> <li>Crude-drug platform (raw material crude drugs, drug pieces and "Yakushokudogen" products)</li> <li>Formulation platform</li> </ul>		







#### Important Domains & Drug-Fostering Program/Growing TSUMURA **Formulations** Women's health **Cancer domain** Geriatric health domain (supportive care\*) domain Mitigation of side effects, etc. Diseases specific to women D Yokukansan G Kamishoyosan **G** Ninjin'yoeito D Rikkunshito **G** Kamikihito Yokukansankachimpihange Hangeshashinto **G** Kamikihito **Tokishakuyakusan** + related formulations **G** Hochuekkito D Goshajinkigan Respiratory diseases **D** Goshajinkigan G Hochuekkito + related formulations + related formulations Bakumondoto **G** Kamikihito + related formulations Juzentaihoto Daikenchuto **G** Goreisan Rikkunshito + related formulations Daikenchuto G Shakuyakukanzoto **G** Goreisan + related formulations + related formulations + related formulations Important formulations: Drug-fostering program formulations: Growing formulations: Important formulations following drug-Focusing on the structure of diseases in recent years, in As focal formulations to follow the five drug-fostering fostering program formulations and treatment domains with a high degree of medical needs, program formulations, aim for write ups in treatment

guidelines by building evidence (safety and efficacy data,

low degree of contribution to medicine

etc.) in domains with a low treatment of satisfaction and a

there are patients in dire distress of finding new drug

effects and prescribe to build evidence (scientific basis)

prescription Kampo formulations are demonstrating specific

therapies; narrow down target to patients in which

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growing formulations for the penetration of

Kampo in important domains

## Profile of the Tianjin Plant (TIANJIN TSUMURA PHARMACEUTICALS CO., LTD.)



The plant will be established as a site in charge of manufacturing powdered extracts (intermediate products) for the domestic business



#### Phase 1 construction

- ·Construct the No. 1SD (powdered extract production), warehouse, etc.
- ·Construction to be completed in May 2022, full-fledged operations scheduled to be started up at the end of FY 2022
- ·Investment: approx. ¥15.0 billion

#### Phase 2 construction

- ·Construct the No. 2 SD (powdered extract production)
- ·Construction to be completed in FY 2023, full-fledged operations scheduled to be started up in FY 2025
- ·Investment: approx. ¥10.0 billion

#### **Benefits** from establish -ment

- Powdered extract production capacity for the domestic business: 20% increase
- Labor productivity improvement owing to automation\*1: 13% improvement
- CO2 emissions reduction owing to the introduction of energy-saving technologies\*2: 5,700 t/year reduction
- Reduction of water intake, mainly reflecting the reuse of cooling water \*3: 70%

  - 2. Comparison with the Shanghai Plant
     2. Comparison with the case where energy-saving technology was not introduced (1st and 2nd period total)
     2. Planned values for the 2nd phase of the Tianjin Plant