

TSUMURA & CO.

Second Quarter Business Results for Fiscal 2018

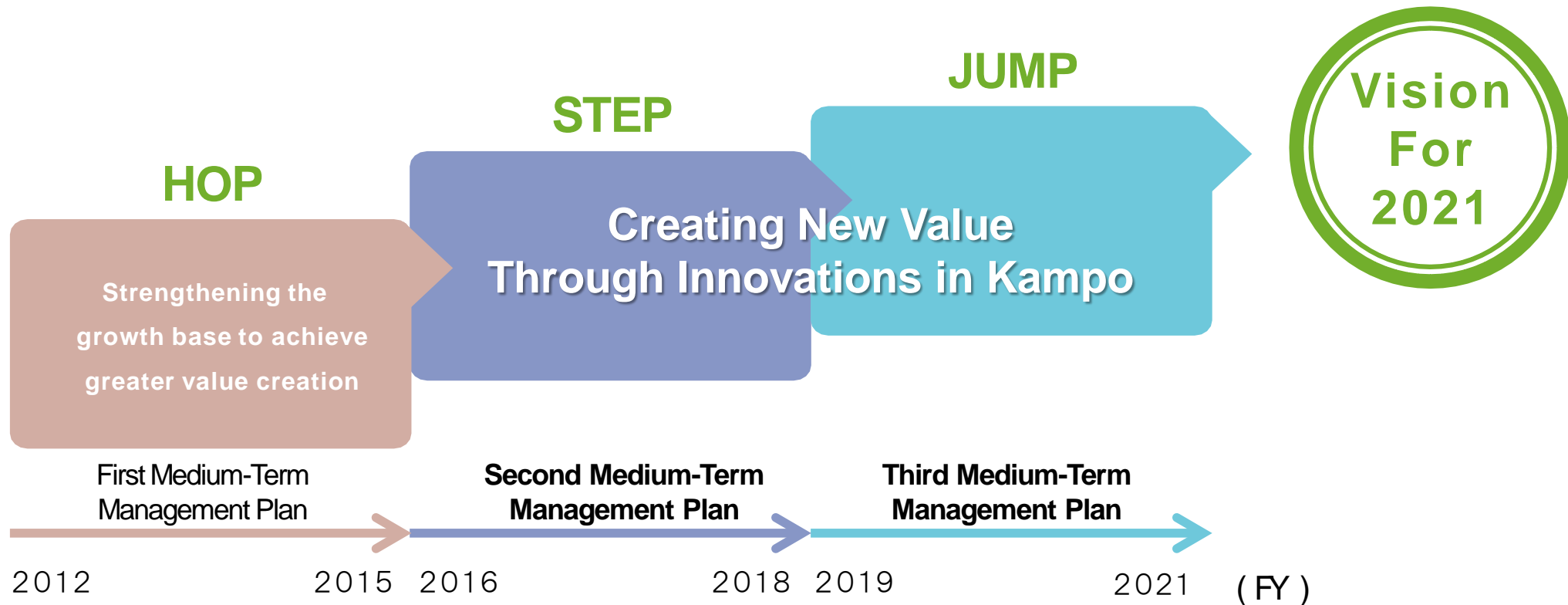
(From April 1, 2018 to September 30, 2018)

November 7, 2018

President, Representative Director

Terukazu Kato

Roadmap to Realizing Long-Term Vision



Strategic Challenges

1. Expansion and stable growth in the Kampo market
2. Continued reinforcement of profitability and maximization of cash flow
3. Taking on the challenge of new businesses in China

Long-Term Business Vision “Vision for 2021”

Aim to be a value-creation company that contributes to people’s health through its Kampo business

The “Kampo” Company

Contributing to creating a healthcare environment where all patients can receive treatment that includes “Kampo” medicine where appropriate in any healthcare institution or medical specialty in Japan.

The “People” Company

“Kampo” medicine is a pioneering field with no previous examples to build on worldwide. Therefore, we shall evolve into a corporate group comprised of “people” with professional skills that can independently pave the way forward for our Kampo business and is trusted by all.

The “Global Niche” Company

Leveraging the technology and know-how of the Tsumura Group to their full extent, we will take on the challenge of developing and launching TU-100 (Daikenchuto) in the U.S. pharmaceutical market as well as creating new businesses in China.

Philosophy & Vision Penetration Seminar & Training, Tsumura Academy

Second Quarter Business Results for Fiscal 2018

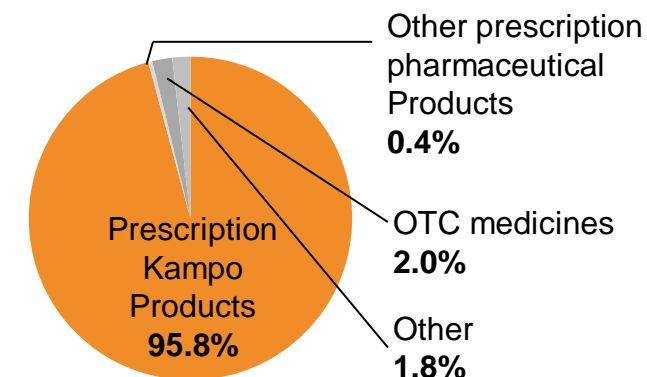
2Q Consolidated Performance for Fiscal 2018

(¥ million)

	FY 2018 2Q Plan	FY 2018 2Q	Achievement	FY 2017 2Q	Vs. FY 2017 2Q	
					Amount	Change
Net sales	58,900	58,268	98.9%	58,282	(14)	(0.0)%
Operating profit	9,100	8,950	98.4%	8,985	(35)	(0.4)%
Operating profit margin	15.4%	15.4%	-	15.4%	-	-
Ordinary profit	9,100	9,566	105.1%	9,248	317	3.4%
Profit attributable to owners of parent	6,800	7,082	104.2%	6,614	468	7.1%

	FY 2018 2Q Plan	FY 2018 2Q	FY 2017 2Q
Dividends per share	¥32	¥32	¥32

Sales by product



Key Points in Performance

- Given negative impact from NHI drug price revisions, net sales were ¥14 million lower than a year earlier and underperformed plans by ¥631 million.
- Operating profit also undershot plans but ordinary profit and profit attributable to owners of parent achieved plans.

Consolidated net sales	¥58,268 million	Vs. planned	98.9%	YoY	(0.0)%
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- Net sales of prescription Kampo products were basically level year-on-year (¥14 million)

Operating profit	¥8,950 million	Vs. planned	98.4%	YoY	(0.4)%
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Operating profit margin	15.4 %			YoY	+0.0pt
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- The cost of sales ratio stood at 40.4%, down 1.5 points versus a year earlier due in part to a decline in crude-drug costs. Meanwhile the ratio is 0.3 point higher than planned.
- The SG&A ratio was 44.2%, a rise of 1.5 points year-on-year due in part to an increase in sales-related costs. Meanwhile, the ratio was 0.3 points lower than planned.

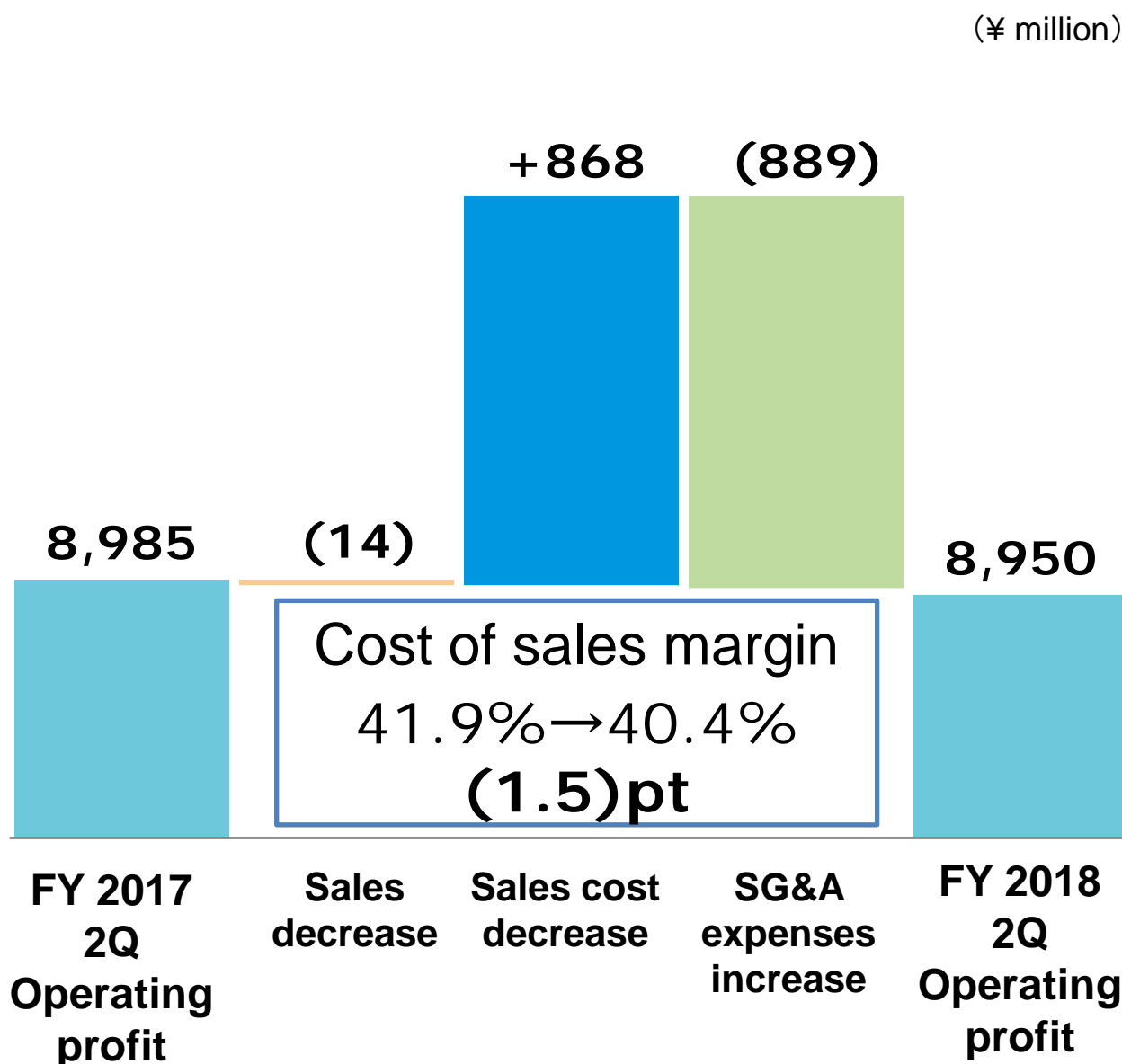
Ordinary profit	¥9,566 million	Vs. planned	105.1%	YoY	3.4%
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- This reflects a forex translation gains year-on-year (¥214 million) in tandem with loans to overseas subsidiaries. In the same period a year earlier, we posted bond issuance costs (¥143 million).

Profit attributable to owners of parent	¥7,082 million	Vs. planned	104.2%	YoY	7.1%
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- Extraordinary income was posted reflecting a gain on the sale of investment securities (¥324 million).

Factors in Increase / Decrease of Operating Profit



(¥ million)

Factors of Sales increase	
Prescription Kampo 129 products	+14
Other	(28)
Factors of Cost of sales margin	
NHI price revision	+0.7pt
decrease in crude drug cost	(1.4)pt
Improvement of processing cost	(0.3)pt
Fluctuation of exchange rate	(0.1)pt
Other	(0.4)pt
Factors of SG&A expenses	
Sales promotion expenses	+382
R&D expenses	+13
Advertising expenses	+63
Personnel expenses	+242
Other	+188

Financial Condition / Cash Flow Position

Balance Sheet

(¥ million)

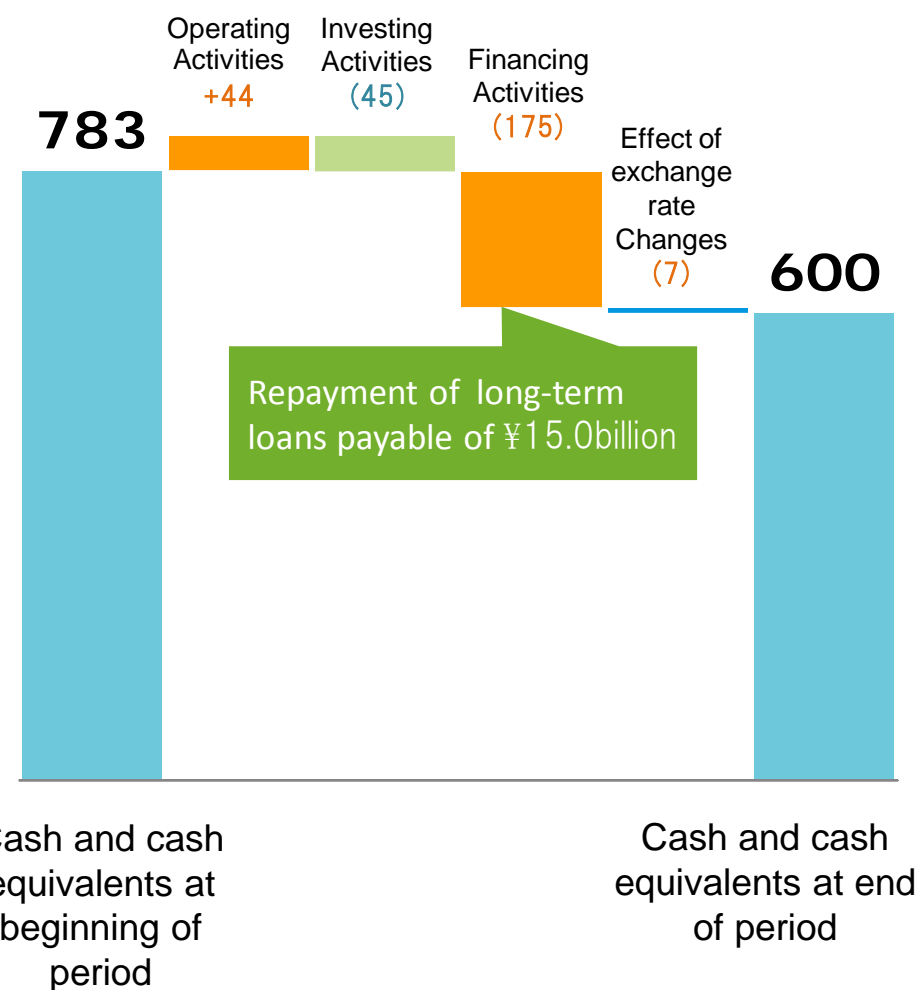
	As of March 2018	As of September 2018	Change
Total assets	292,379	278,880	(13,499)
Current assets	190,888	184,517	(6,371)
Non-current assets	101,491	94,363	(7,128)
Total liabilities	95,846	77,596	(18,250)
Current liabilities	48,766	29,922	(18,843)
Non-current liabilities	47,080	47,673	592
Total net assets	196,533	201,283	4,750
Equity Ratio	66.2%	71.1%	4.9pt

(¥ million)

Balance Sheet	As of March 2018	As of September 2018	Change
Inventories	49,994	50,713	718
(Merchandise and finished goods)	8,008	9,415	1,406
(Work in process)	12,797	11,618	(1,178)
(Raw materials and stores)	29,188	29,678	490

Cash Flow Position

(¥ billion)



Initiatives for & Progress in Tackling Strategic Issues

1. Expansion and stable growth in the Kampo market
2. Continued reinforcement of profitability and maximization of cash flow
3. Taking on the challenge of new businesses in China

Sales performance of prescription Kampo products

(¥ million)

	Sales rank	Product No. / name		FY 2017 2Q	FY 2018 2Q	YoY Change	
Drug-fostering formulations	1	100	Daikenchuto	5,351	5,226	(125)	(2.3)%
	2	54	Yokukansan	3,864	3,848	(16)	(0.4)%
	4	43	Rikkunshito	3,577	3,559	(18)	(0.5)%
	9	107	Goshajinkigan	1,889	1,806	(82)	(4.4)%
	22	14	Hangeshashinto	692	670	(22)	(3.2)%
Total sales of the five Drug-fostering formulations				15,375	15,110	(265)	(1.7)%
Growing formulations	3	41	Hochuekkito	3,699	3,680	(18)	(0.5)%
	5	68	Shakuyakukanzoto	2,660	2,629	(30)	(1.2)%
	8	29	Bakumondoto	2,002	2,004	1	0.1%
	6	24	Kamishoyosan	2,342	2,263	(79)	(3.4)%
	7	17	Goreisan	1,921	2,112	190	9.9%
Total sales of the five Growing formulations				12,627	12,691	63	0.5%
Total of 129 prescription Kampo products				55,784	55,799	14	0.0%

Drug-fostering formulations : Looking at the recent structure of disease, the Company has selected certain diseases in fields where medical treatment needs are high that are difficult to treat with Western drugs and that Kampo products have demonstrated special efficacy for. The Company will establish a base of scientific evidence related to treating these diseases with Kampo medicine.

Growing formulations : A growth driver that aims to be listed in medical treatment guidelines as a strategic formulation following the five "drug fostering" program formulations through the establishment of scientific evidence (data on safety, efficacy, etc.) in fields where satisfaction toward treatment and the contribution of medicine are low.

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The “Global Niche” Company

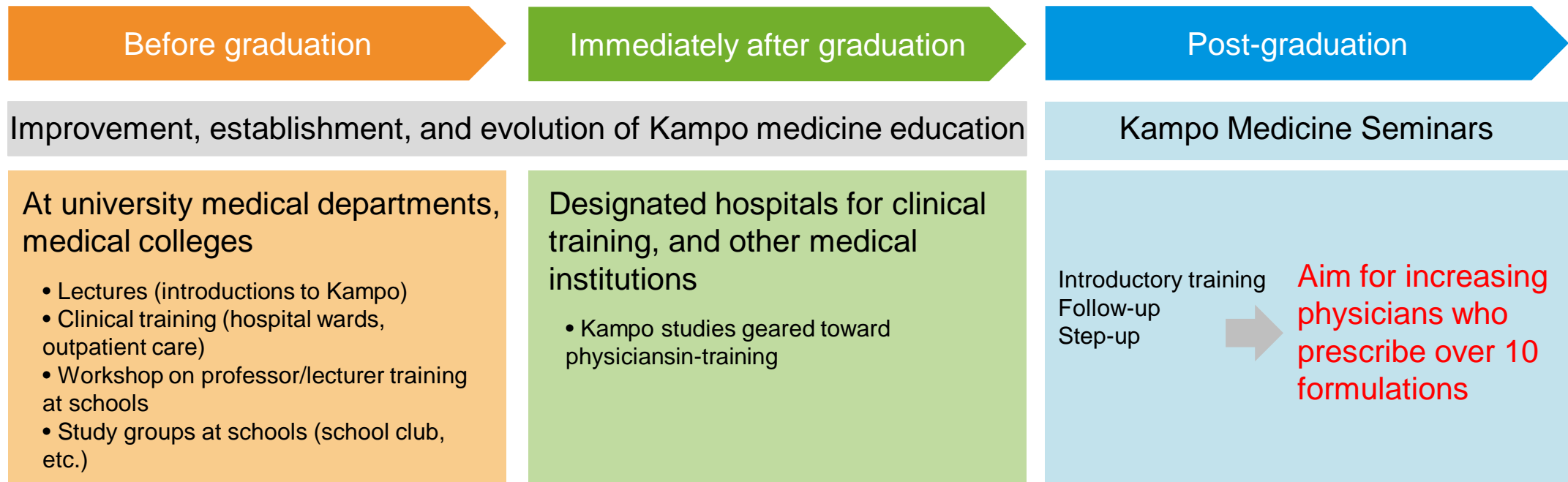
Leveraging the technology and know-how of the Tsumura Group to their full extent, we will take on the challenge of developing and launching TU-100 (Daikenchuto) in the U.S. pharmaceutical market as well as creating new businesses in China.



Basic Sales Strategy :
Establish Kampo medicine

Supporting Education Related to Kampo Medicine for Doctors

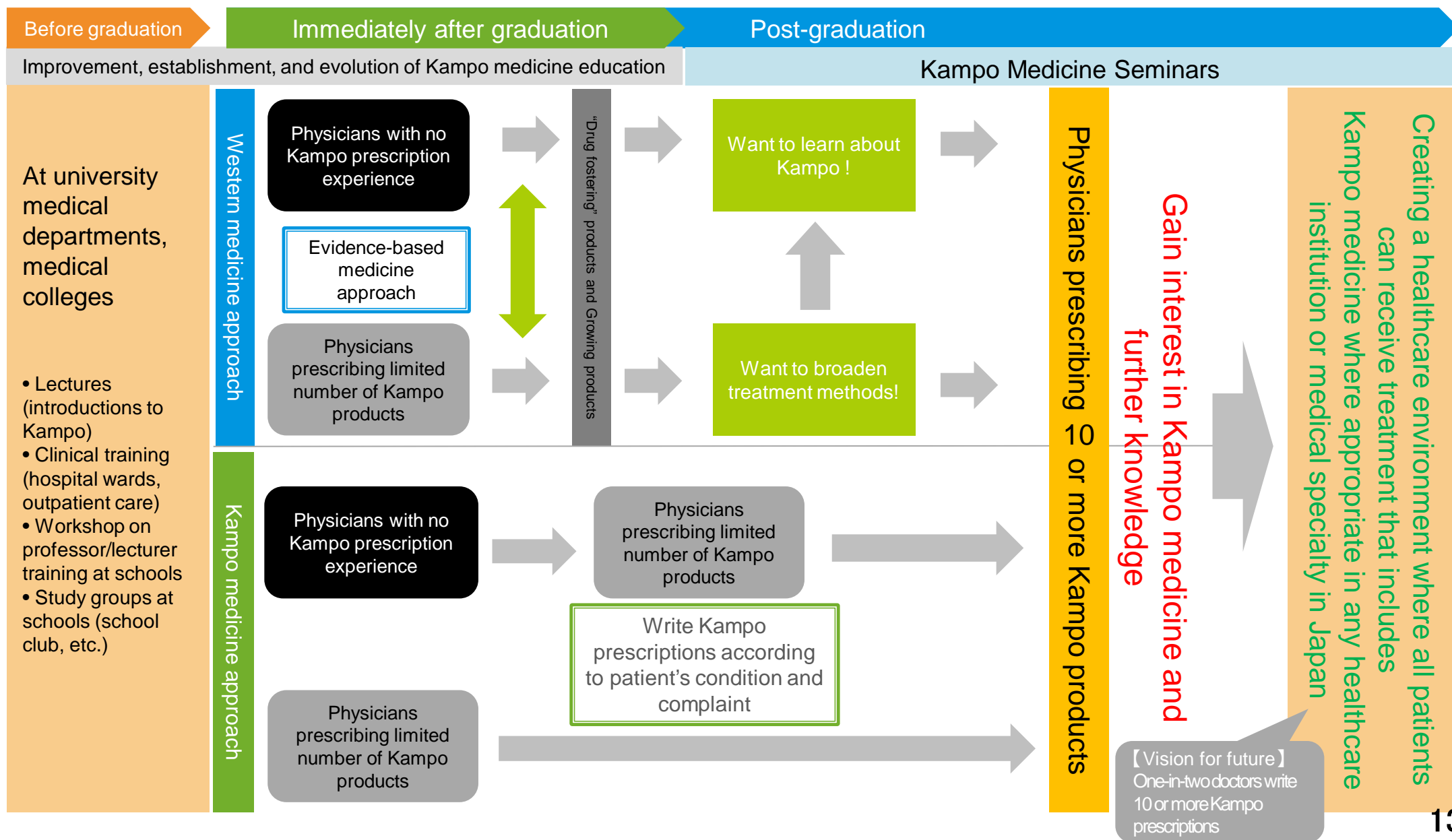
Supporting Kampo medicine education before, immediately after, and post-graduation



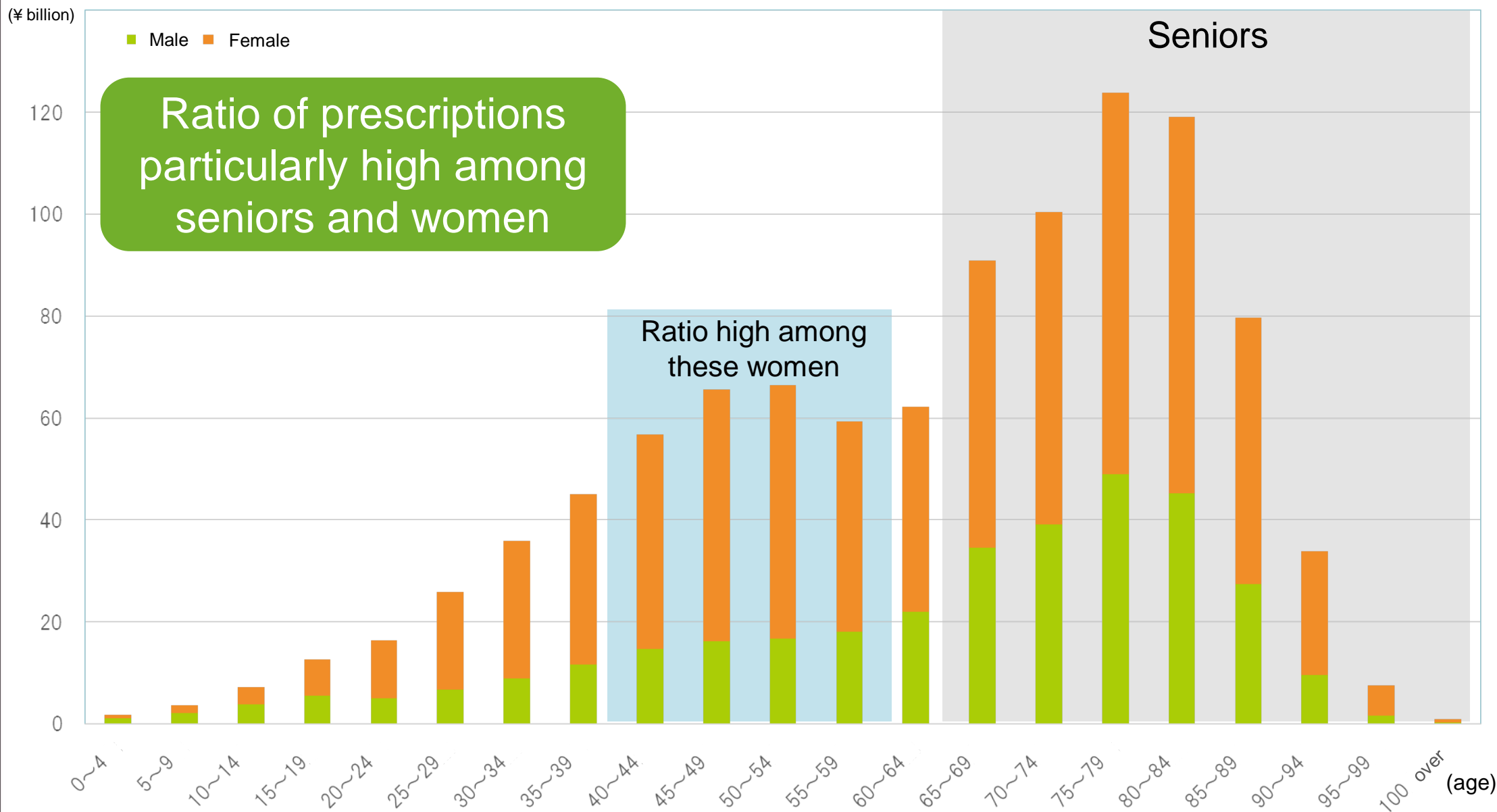
【Vision for future】

One-in-two doctors write 10 or more Kampo prescriptions

Method of Approaching Doctors that Write 10 or More Kampo Prescriptions



Annual Sales of Prescription Kampo Products (All markets/NHI price base)



Source: Compiled by Tsumura based on MHLW Third NDB Open Data, (MHLW: https://www.mhlw.go.jp/stf/seisakunitsuite/bunya/0000177221_00002.html)
 Calculation based on top 100 products of prescription Kampo manufacturers

1. Expansion and stable growth in the Kampo market

Three Important Domains and Key Sales Measures

Government measures

Kenko Nippon 21

New Orange Plan

Comprehensive Regional Care System
Promotion of general physicians and home healthcare

Plan to Accelerate Countermeasures for Cancer

Promotion of Women's Participation and Advancement in the Workplace

Three Important Domains	Key sales measures
<p>Geriatric field</p>	<p>Gastroenterology field</p> <ul style="list-style-type: none"> · Expand Rikkunshito's share of market for gastrointestinal prokinetic agents · Divide use of Kampo prescriptions for constipation <p>Kampo BPSD Network</p> <ul style="list-style-type: none"> · Select an appropriate prescription for each stage of dementia
<p>Cancer domain (supportive care)</p>	<p>Gastroenterology field</p> <ul style="list-style-type: none"> · Improve appetite for post-surgery weight loss (Rikkunshito) · Improve feeling of post-surgery distention (Daikenchuto) · Alleviate side-effects that accompany cancer treatments (Hangeshashinto, etc.)
<p>Gynecology field</p>	<p>Gynecology field</p> <ul style="list-style-type: none"> · Mobilize people to the Gynecological Kampo Medication Seminar, etc. · Fortify promotion of prescriptions related to female disorders <p>Gastroenterology field</p> <ul style="list-style-type: none"> · Divide use of Kampo prescriptions for constipation

1. Expansion and stable growth in the Kampo market

Analysis of Sales Catalysts (Rikkunshito)

(¥ million)

Underperformance factors

	FY2017 2Q	FY2018 2Q	YoY Change	
Net sales	3,577	3,559	(18)	(0.5)%



- Impact due to change to timing for the introduction of new DREAM Study*¹ materials
Lack of impact*² on doctors in 1Q. Benefits from the introduction of the materials are likely to emerge in or after 2Q.
- Inadequate promotion to private practitioners other than gastroenterology specialists
Insufficient promotion of competitive edge of drugs over rival products and effective pathology.

Aim to further enhance presence in the gastroenterology field.

*1 DREAM Study : Multiple facility, double-blind comparison study of efficacy and safety of Rikkunshito for functional dyspepsia patients

*2 Impact: Degree of recognition and impression among doctors

1. Expansion and stable growth in the Kampo market

Prescription Intention among Doctors & Achievement Rate (Rikkunshito)

(%)

	Apr.	May	Jun.	Jul.	Aug.	Sept.
Positive prescription intention among doctors*	37.7	34.1	38.3	40.1	41.5	39.0
Rikkunshito Plan achievement (Actual sales)	94.7	95.0	98.3	100.1	100.3	100.9



* Source: Anterio, "Impact Track"
Achievement rate for Rikkunshito plan calculated based on internal data

Steady increase in achievement rate after introduction of DREAM Study materials

* Doctor awareness survey by a third party selected from one of the seven items below. (① and ② represent positive prescription intent)

- ① Likely to newly prescribe ② Likely to increase prescriptions ③ Maintain current prescription levels ④ Likely to reduce prescriptions
- ⑤ Likely to stop prescriptions ⑥ Likely to not prescribe going forward ⑦ Cannot make a decision at present

1. Expansion and stable growth in the Kampo market

Measures related to Rikkunshito

Current issues

Further improve closing* precision among target doctors

Improve proposal capabilities that encompass factors such as market environment, regional traits, and trends in patient conditions.

Activities going forward

Further shore up individual MR proposal capabilities by sharing specific approach methods based on successful examples.

Establish position as a first-line treatment for upper gastrointestinal tract diseases

*Closing: Skill to acquire consent after finishing an interview and making a proposal

1. Expansion and stable growth in the Kampo market

Measures related to Daikenchuto

(¥ million)

	FY2017 2Q	FY2018 2Q	YoY Change	
Net sales	5,351	5,226	(125)	(2.3)%

**Underperformance factors**

- Not sufficiently handling change in environment at HPs with a high use ratio

Increase in cases where use was halted due to transfer from HP*¹ to GP*² due to shorter hospitalization trends and reduction in post-hospitalization prescriptions

Maintain and expand prescriptions at **HPs** and fortify ongoing prescribing of Daikenchuto at partner **GPs**

* 1 HP : Hospitals with more than 100 beds (hospital doctors and residents)

* 2 GP : Hospital (hospital doctors) and clinics (private-practice doctors) with 100 or less beds

1. Expansion and stable growth in the Kampo market

Kampo BPSD Network

(¥ million)

Product No. / name		FY2017 2Q	FY2018 2Q	YoY Change	
54	Yokukansan	3,864	3,848	(16)	(0.4)%
137	Kamikihito	694	709	15	2.2%
108	Ninjinyoueito	403	678	274	68.1%
83	Yokukansankachinpihange	605	637	32	5.4%
Total		5,567	5,873	306	5.5%

Increased usage at key facilities (universities, clinical research centers, Dementia-related Disease Medical Centers)

Expand further division of use targeting dementia support doctors

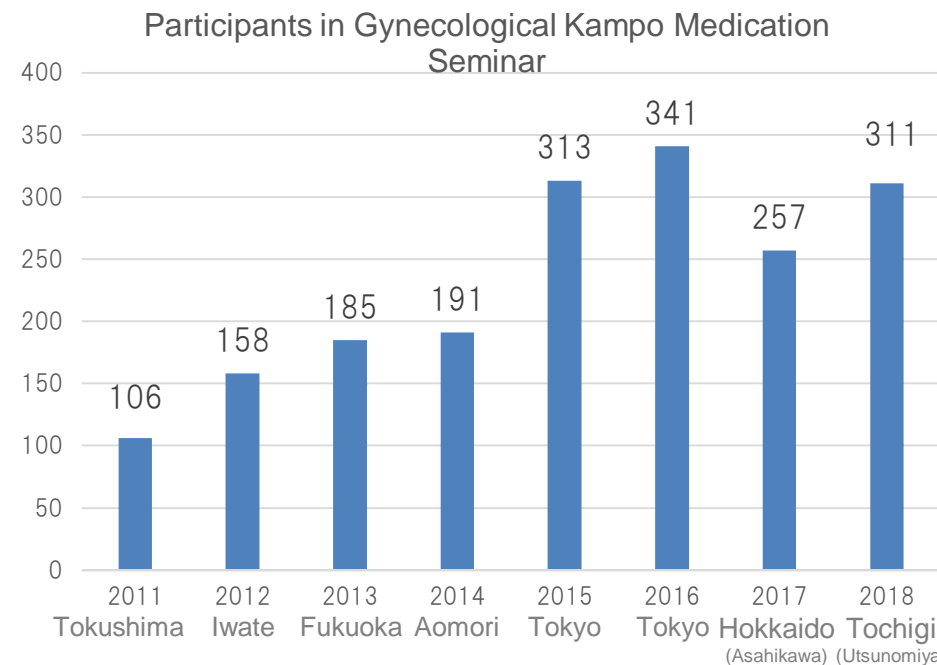
1. Expansion and stable growth in the Kampo market

Gynecology field: Hold Gynecological Kampo Medication Seminar, etc.

Host Gynecological Kampo Medication Seminar



Seminar for female outpatient clinic doctors



Seminar participants are increasing annually at meetings held outside Tokyo

[Reference] August 26, 2018 meeting at Utsunomiya: 311 participants and 56 lectures

Continue to implement study groups and seminars, and further revitalize with more extensive content

1. Expansion and stable growth in the Kampo market

2H Key Measures

	GP	HP
Rikkunshito	Use new evidence	Mainly hub hospitals that collaborate on cancer treatment
Daikenchuto	Establish position in clinic-hospital collaborations*	Mainly surgery
BPSD	Increase prescriptions to dementia support doctors	Further fortify promotions to universities, clinical research centers, Dementia-related Disease Medical Centers
Other	<ul style="list-style-type: none"> ➤ Collaborate with scientific society events Hochuekkito: TNT luncheon seminar Goreisan: Japanese Society for Kampo Medicine and Neurological Surgery, etc. ➤ Strengthen information provision activities in line with treatment guidelines 	

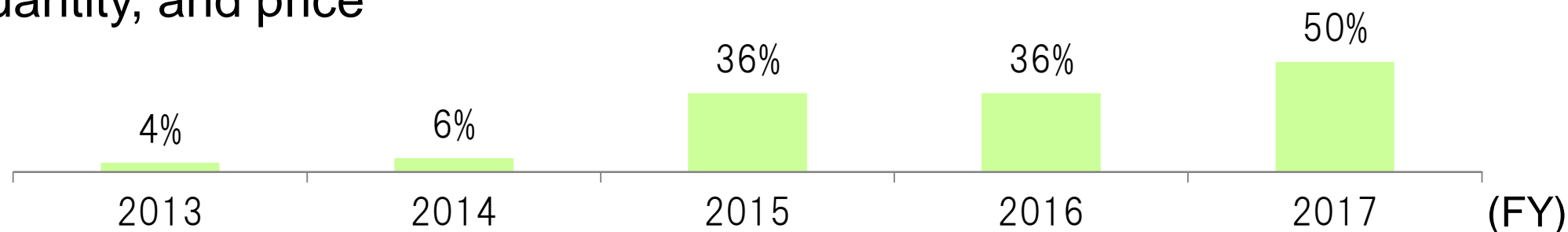
Continue full-fledged information provision activities aimed at establishing Kampo medicine

*Clinic-hospital collaborations: Division of roles and functions between hospitals and clinics. Both cooperate to provide efficient and effective healthcare.

2. Continued reinforcement of profitability and maximization of cash flow

Expansion of Cultivated Land under Own management*1 area

Goal: Procurement system for crude drugs that offers stable quality, quantity, and price



Consistent with standards in the TSUMURA GACP for crude drugs*2



Supply crude drugs for Japan and crude drugs for new business in China

*1 Cultivated Land under Own management : Cultivated Land under Own management is “Farm with certain scale of cultivation area for which Tsumura directly provides cultivation guidance and has an understanding of cultivation costs and can set procurement prices.”

*2 TSUMURA GACP (Good Agricultural and Collection Practice) for crude drugs: Meets the WHO’s GACP guidelines. Employing the TSUMURA GACP for crude drugs, Tsumura’s own proprietary guidelines, the Tsumura Crude Drug Production Management Standards references the GAP certifications system, which is used to manage processes for general agricultural crops, and adds a training and audits, and bestowing certifications.

3. Taking on the challenge of new businesses in China

Progress in China Business - Ping An Tsumura -

Launch test marketing of “raw” ginseng and 16 herbal products that use crude drugs as a raw material

Yakushoku Dogen



“Ginseng”

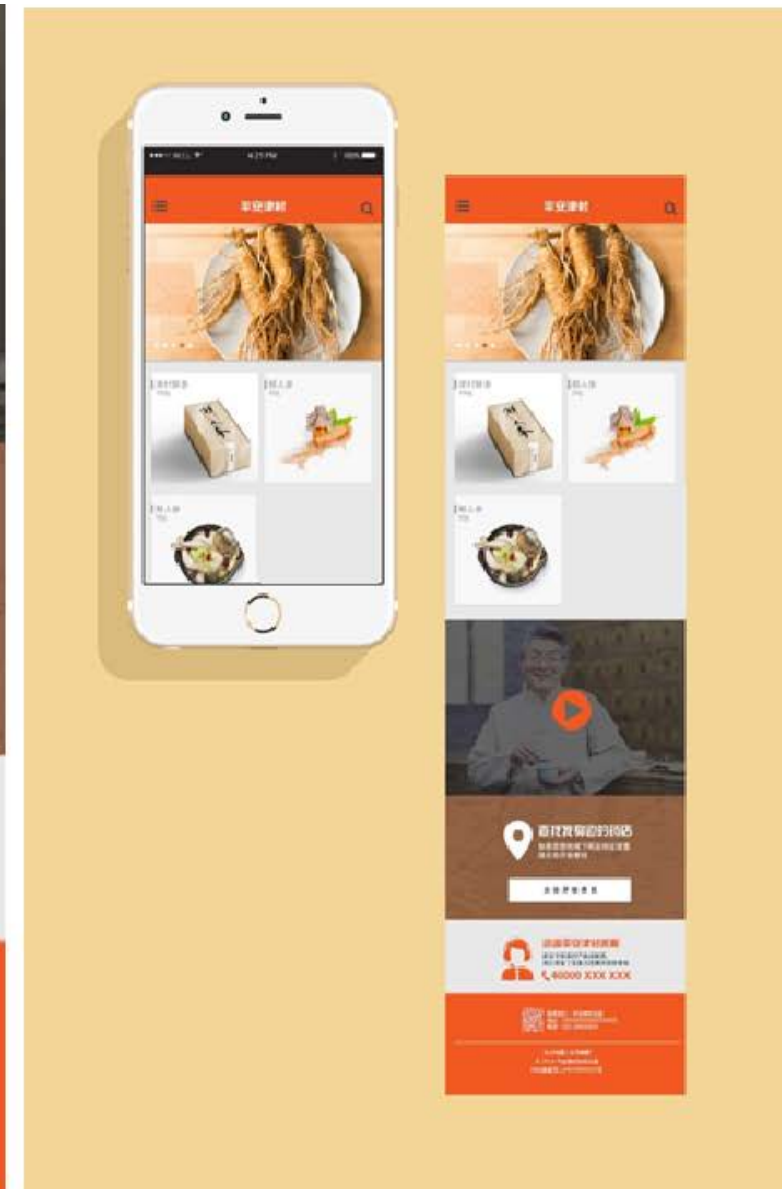
“Lilium Bulb”

“Lycium Fruit”

Yakushoku Dogen means that medicine used to cure illnesses and food which we eat daily are both indispensable for nurturing life and maintaining health. They both stem from the same origins.

3. Taking on the challenge of new businesses in China

Progress in China Business -Ping An Tsumura-



Ping An Tsumura's smartphone website

3. Taking on the challenge of new businesses in China

Progress in China Business - Ping An Tsumura Analytical Research Center -



Topics for ESG Activities

Domestic crude drug cultivation measures

Contribute to primary industry revitalization, including training of successors, stabilization of farming revenue, and conversion of crops, including leaf tobacco, and use of abandoned farmland, through the expansion of domestic crude drug cultivation as a stable procurement system for crude drugs.

Capital and Business Alliance with MYFARM

- Cooperate in revitalizing abandoned farmland and generating revenues from agricultural businesses.
- Jointly develop cultivation technologies using large-scale automation.
- Implement crude drug production training, mainly at the Agri-innovation School run by MYFARM.



Lecture at Agri-innovation School

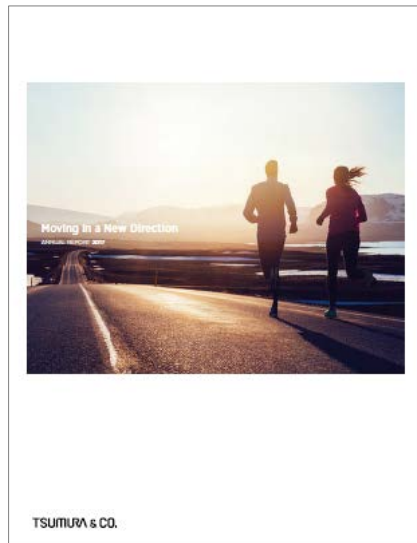


Field training

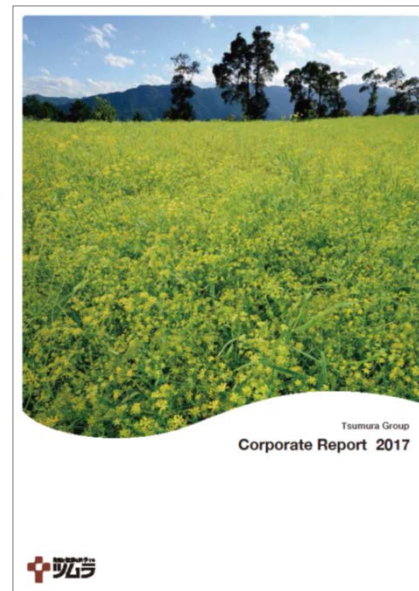
Integrated Report 2018

We will issue an Integrated Report that clarifies our measures for improving corporate value from the point of sustainability and from a medium/long-term outlook (starting from FY2018).

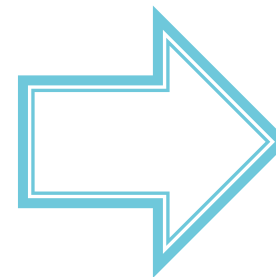
2017



Annual Report



Corporate Report



2018



Integrated Report

FY2018 Performance Forecasts

FY2018 Performance Forecasts

- No changes have been made from the results forecast announced on May 10, 2018.

(¥ million)

	FY2017	FY2018	YoY Change	
			Amount	Change
Net sales	117,879	120,500	2,620	2.2%
Operating profit	17,050	17,500	449	2.6%
Operating profit margin	14.5%	14.5%	-	-
Ordinary profit	17,914	18,000	85	0.5%
Profit attributable to owners of parent	14,504	12,800	(1,704)	(11.8)%

	FY2017	FY2018
Dividends Per share	¥64	¥64
EPS	¥200	¥167
ROE	8.3%	6.4%

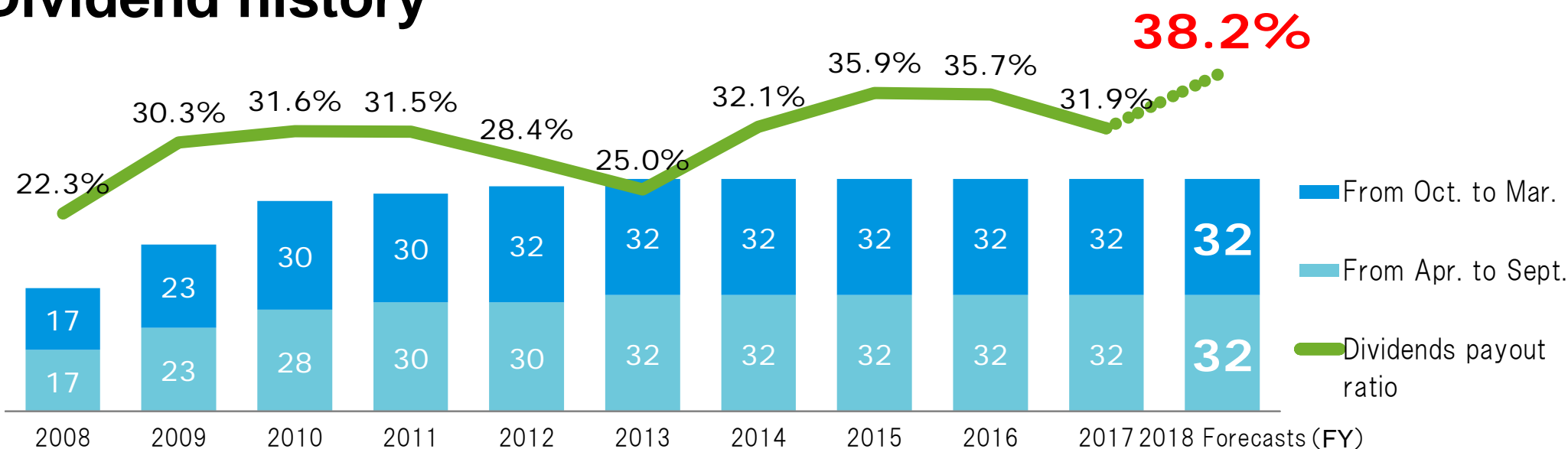
Return of Profits to Shareholders

Return of Profits to Shareholders

Policy

- To improve corporate value through capital investments in order to realize the continuous development and growth of “Kampo”
- To consider medium-to long-term profit levels and cash flows as well as carry out a stable dividend
- Aim to return profit to shareholders based on a consideration and review to ensure an optimal capital structure while flexibly implementing a share buyback program by comprehensively taking into account market trends and other factors.

Dividend history



The year-end dividend and dividend payout ratio for FY2018 are based on the assumption that the dividend item will be approved at the 83rd annual shareholders' meeting

TSUMURA & CO.
Investor Relations Group
Corporate Communications Dept.

Cautionary items regarding forecasts

- The materials and information provided in this presentation contain so-called forward-looking statements. Readers should be aware that realization of these statements can be affected by a variety of risks and uncertainties and that actual results could differ significantly.
- Changes in the 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 impact negatively on the Company's performance or financial position.
- In the unlikely event that sales of the Company's core products were halted or declined substantially due to a defect, unforeseen side effect or some other factor, it would have a major impact on the Company's performance or financial position.