

TSUMURA & CO.
Third Quarter Business Results
for Fiscal Year 2019

(From April 1, 2019 to December 31, 2019)

Conference Call

February 10, 2020

Muneki Handa
Director, Managing Executive Officer and CFO

Thank you for participating in 3Q FY2019 conference call.
We also appreciate your great support for us and Kampo.

Roadmap to Realizing Our Long-Term Vision



2

This is the roadmap for achieving our long-term vision, which we announced in May 2019.

[The Third Medium-Term Management Plan](#), which starts from FY2019, is positioned as the growth investment stage.

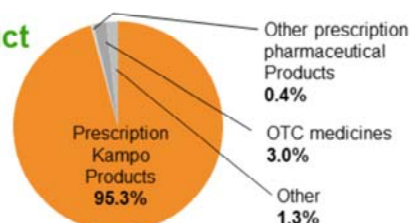
The guidelines of the plan are to sustainably expand the Kampo market in Japan and to build a business foundation for the Chinese business. To that end, we plan to aggressively carry out growth investments with the aim of attaining consolidated net sales of over 135.0 billion yen in FY2021, which will be the final year of the Third Medium-Term Management Plan.

3Q Consolidated Performance for FY 2019

(million yen)

	FY 2018 3Q	FY 2019 3Q	Vs. FY 2018 3Q		FY plan	
			Amount	Change	Amount	Achievement rate
Net sales	92,010	95,185	+3,175	+3.5%	125,000	76.1%
Operating profit	15,280	16,151	+871	+5.7%	17,000	95.0%
Operating profit margin	16.6%	17.0%	—	—	—	—
Ordinary profit	16,094	16,675	+581	+3.6%	18,000	92.6%
Profit attributable to owners of parent	11,731	11,690	(41)	(0.3)%	12,300	95.0%

Sales by product



3

The following is a summary of financial results in 3Q FY2019.

Net sales totaled 95,185 million yen, a rise of 3.5% compared to the same period of the previous fiscal year.

Accordingly, as of the end 3Q, we completed 76.1% of our full-year plan for net sales.

Operating profit stood at 16,151 million yen, a growth of 5.7% year-on-year.

The achievement rate for the full-year plan was high, due to the delay in payment of R&D and sales promotion expenses.

Ordinary profit came to 16,675 million yen, a rise of 3.6% year-on-year.

Profit attributable to owners of parent amounted to 11,690 million yen, a decrease of 0.3% year-on-year.

Key Points in Performance

Net sales were up year-on-year but profits were down marginally.

Net sales	95,185 Million yen	YoY	+3.5%
------------------	---------------------------	------------	--------------

- Net sales of the 129 prescription Kampo products rose 3.3% year-on-year.
On a yen-basis, sales rose for 80 prescriptions.
- Net sales of OTC medicines increased 15.6% year-on-year.

Operating profit	16,151 Million yen	YoY	+5.7%
-------------------------	---------------------------	------------	--------------

Operating profit margin	17.0 %	YoY	+0.4pt
--------------------------------	---------------	------------	---------------

- The cost-to-sales ratio stood at 41.1%, up 0.4pt year-on-year. Although crude drug-related costs were down, this rise reflected impact from unrealized profit.
- The cost-to-SG&A ratio was 41.9%, down 0.8pt from a year earlier, owing to a rise in sales, despite the increase in sales rebates and R&D expenses.

Ordinary profit	16,675 Million yen	YoY	+3.6%
------------------------	---------------------------	------------	--------------

Profit attributable to owners of parent	11,690 Million yen	YoY	(0.3)%
------------------------------------------------	---------------------------	------------	---------------

- An extraordinary loss of 419 million yen was recorded as a loss on valuation of equity due to the decision to liquidate an affiliate.

4

The following are key points in 3Q financial results.

Net sales were 95,185 million yen, an increase of 3.5% compared to the same period of the previous fiscal year.

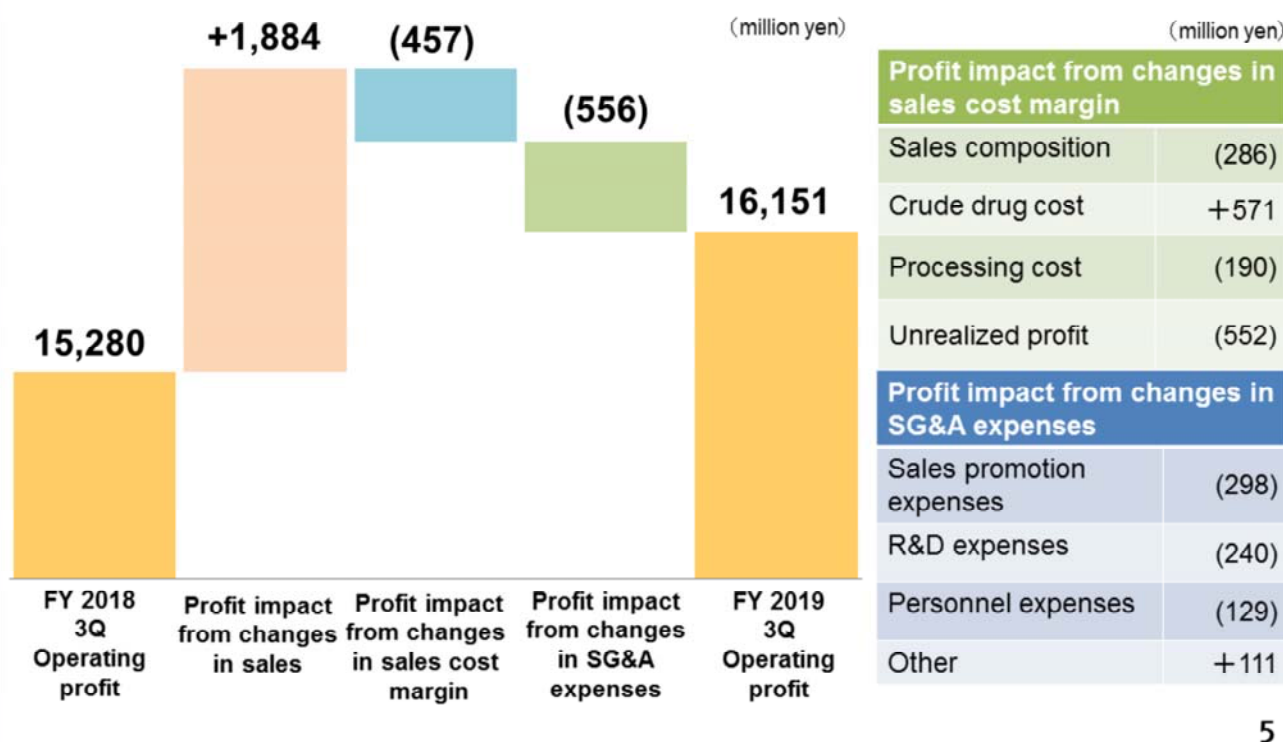
This mainly reflects a 3.3% year-on-year rise in prescription Kampo products, despite the National Health Insurance (NHI) drug price revision in October, 2019. The outcome also factors in favorable domestic healthcare sales, including pharmacy and OTC Kampo products.

The cost-to-sales ratio stood at 41.1%. In contrast with the same period of the previous fiscal year, although crude drug-related costs declined, the cost of sales ratio deteriorated 0.4 percentage point due to an increase in unrealized profit in tandem with a rise in inventory for intergroup transactions. The cost-to-SG&A ratio was 41.9%. Although sales rebates and R&D expenses increased, the overall ratio improved 0.8 percentage point underpinned by benefits from the growth in sales.

As stated in our news release titled "[Tsumura Announces Dissolution and Liquidation of its Joint Venture in China](#)," which we released on October 31, 2019, we posted an extraordinary loss of 419 million yen to reflect a valuation loss on our investment in an affiliate in tandem with the dissolution and liquidation of SPH TSUMURA PHARMACEUTICALS CO., LTD.

As a result, profit attributable to owners of parent was 11,690 million yen.

Factors for changes in Operating Profit



On this page, the factors for changes in operating profit are explained.

Net sales increased 3,175 million yen year-on-year.

This positively impacted operating profit by 1,884 million yen.

The year-on-year change in the cost-to-sales ratio had a negative impact of 457 million yen.

This chiefly breaks down to a positive impact on operating profit of 571 million yen, due to a reduction in crude drug-related costs and negative impact to operating profit of 552 million yen reflecting an increase in unrealized profit.

In SG&A expenses, although we worked to reduce other outlays, sales promotion expenses rose 298 million yen in tandem with the growth in sales. In addition, R&D and personnel expenses also grew.

Consequently, operating profit totaled 16,151 million yen.

Financial Condition / Cash Flow Position

Balance Sheet

(million yen)

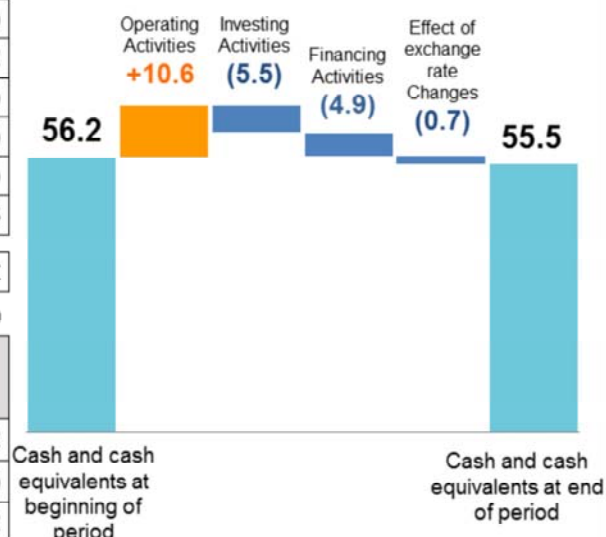
	As of March 2019	As of December 2019	Change
Total assets	287,322	286,183	(1,139)
Current assets	190,027	185,325	(4,701)
Non-current assets	97,295	100,857	3,562
Total liabilities	81,181	77,723	(3,457)
Current liabilities	33,320	30,588	(2,732)
Non-current liabilities	47,861	47,135	(725)
Total net assets	206,141	208,460	2,318
Equity Ratio	70.2%	71.4%	1.2pt

(million yen)

Balance Sheet	As of March 2019	As of December 2019	Change
Inventories	51,808	56,490	4,682
(Merchandise and finished goods)	9,382	7,361	(2,021)
(Work in process)	11,125	12,467	1,342
(Raw materials and stores)	31,299	36,660	5,361

Cash Flow Position

(billion yen)



6

This page is about financial condition and cash flow position.

Please refer to the balance sheet. Inventories rose roughly 4,682 million yen from the end of the previous fiscal year, due to impact from an increase in inventory of strategic products.

At the end of 3Q, total assets were 286,183 million yen and net assets were 208,460 million yen.

Accordingly, our shareholders' equity ratio came to 71.4%, a rise of 1.2 percentage point.

The right hand side is the chart of cash flow position.

Net cash provided by operating activities was 10.6 billion yen, attributable to an increase in trade receivables and inventories in contrast with quarterly net income, excluding the impact of depreciation expense.

Cash used in investment activities was 5.5 billion yen, mainly attributable to a decrease in time deposits and investments in the capital of subsidiaries.

Meanwhile, cash used in financing activities was 4.9 billion yen. This was primarily attributable to dividends paid.

As a result, cash and cash equivalents at the end of the period totaled 55.5 billion yen, a decline of 700 million yen from the end of the previous fiscal year.

Sales performance of prescription Kampo products

(million yen)

	Sales rank	Product No. / name		FY 2018 3Q	FY 2019 3Q	YoY Change	
Drug-fostering program formulations	1	100	Daikenchuto	8,053	8,023	(30)	(0.4)%
	2	54	Yokukansan	5,916	6,028	111	1.9%
	3	43	Rikkunshito	5,564	5,726	161	2.9%
	9	107	Goshajinkigan	2,794	2,813	18	0.7%
	22	14	Hangeshashinto	1,030	1,094	64	6.2%
Total sales of the five Drug-fostering program formulations				23,360	23,685	325	1.4%
Growing formulations	4	41	Hochuekkito	5,597	5,589	(7)	(0.1)%
	5	68	Shakuyakukanzoto	3,970	4,112	141	3.6%
	6	29	Bakumondoto	3,530	3,682	151	4.3%
	7	24	Kamishoyosan	3,533	3,621	88	2.5%
	8	17	Goreisan	3,199	3,522	323	10.1%
Total sales of the five Growing formulations				19,830	20,528	698	3.5%
Total sales 119 prescription kampo products except the five Drug-fostering, the five Growing formulations				41,395	42,759	1,364	3.3%
Total of 129 prescription Kampo products				87,834	90,722	2,888	3.3%

Growth rate of 129 prescription Kampo formulations

	FY2014	FY2015	FY2016	FY2017	FY2018	FY2019 1Q	FY2019 2Q	FY2019 3Q
Amount base	2.4%	2.3%	1.9%	2.4%	2.7%	3.3%	4.2%	3.3%
Number of items with higher yen sales	81	68	95	63	83	80	87	80

7

Sales performance of prescription Kampo products are explained on this page.

Sales of the 129 prescription Kampo products totaled 90,722 million yen, an increase of 2,888 million yen or 3.3% year-on-year.

Meanwhile, total sales of the five Drug-fostering program formulations were 23,685 million yen, a rise of 1.4% year-on-year.

Total sales of Growing formulations came to 20,528 million yen, an expansion of 3.5% year-on-year.

Total sales of the other 119 prescription Kampo products, in other words prescription Kampo preparations other than the five Drug-fostering program formulations and Growing formulations, rose 3.3% year-on-year.

Although the market for prescription drugs is harsh, we posted a strong growth of 3.3% year-on-year.

We believe we need to achieve further sales growth for Daikenchuto, Rikkunshito, and Yokukansan, which are Drug-fostering program formulations.

We are fortifying our measures for promoting Daikenchuto in the hospital market. We are implementing activities to promote the characteristics for Daikenchuto using a video on the how the product enhances intestinal motility. We are conducting presentations at hospital wards in which various professionals, including young doctors and nurses, participate.

In March 2020, we plan to hold a Web seminar for surgeons. We plan to convey the appropriate use of Daikenchuto to many doctors.

In addition, in September 2019, we conducted a Kampo Mega Web seminar as a part

of web seminars by M3, Inc.

A total of 17,878 doctors viewed the seminar.

As a result of a continued follow-up of doctors that viewed the web seminars, sales of Daikenchuto to hospitals where these doctors worked rose 6% in contrast with the national average three months after the doctors viewed the web seminar.

In December 2019, we conducted a second Mega Web seminar, focusing on the theme of the “common cold, frequent urination, insomnia and dizziness.”

This time around 18,855 doctors viewed this web seminar, overshooting the number of doctors who watched the previous web seminar. We plan to implement an ongoing follow-up of these doctors to further spread of Kampo medicine.

We aim to continue to implement activities, primarily through interviews with doctors, briefings at medical institutions, and Kampo medicine seminars, to appropriately supply information related mainly to Kampo medicine treatments and treatments guidelines for Kampo formulations, and basic and clinical evidence.

Return of Profits to Shareholders

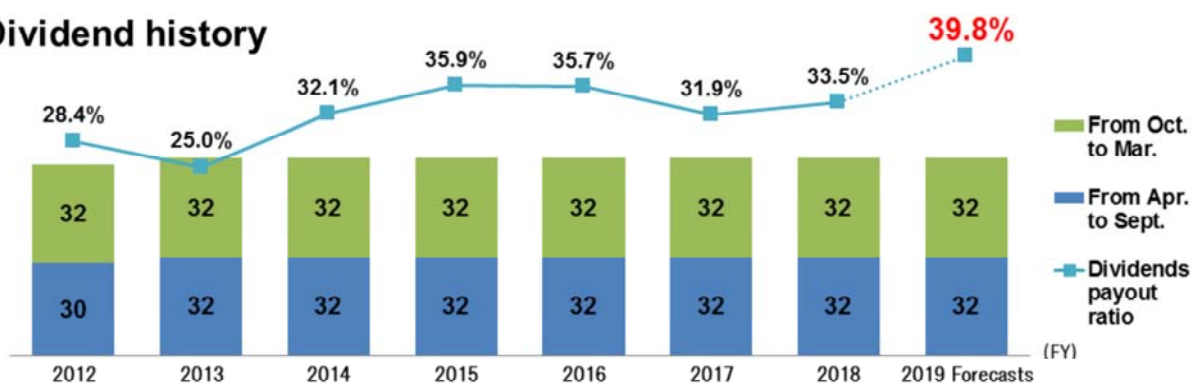
This page is about return of profits to shareholders.

Return of Profits to Shareholders

Policy

- We seek to increase corporate value through the sustainable expansion of the Kampo business and investments to build business foundations in China
- We will bear in mind the state of the mid-to-long term profit levels and cash flow to ensure stable dividends

Dividend history



The year-end dividend and dividend payout ratio for FY2019 are based on the assumption that the dividend item will be approved at the 84th annual shareholders' meeting

Our annual dividend projection is 64 yen per share, which is in line with the plan at the start of the fiscal year.

We are forecasting a dividend payout ratio of 39.8% based on the earnings forecast we discussed earlier.

We will push forward with management. We are reiterating our goal to improve corporate value through the sustainable expansion of the Kampo business, growth investments in the Chinese business, and the building of business foundations in China. In addition, we look to realize consistent and sustainable dividend payouts, taking into account factors including medium/long-term profit levels and cash flow trends.

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.