

TSUMURA & CO.

Business Results for Fiscal 2018

President and Representative Director Terukazu Kato

May 10, 2019

Consolidated Performance for Fiscal 2018

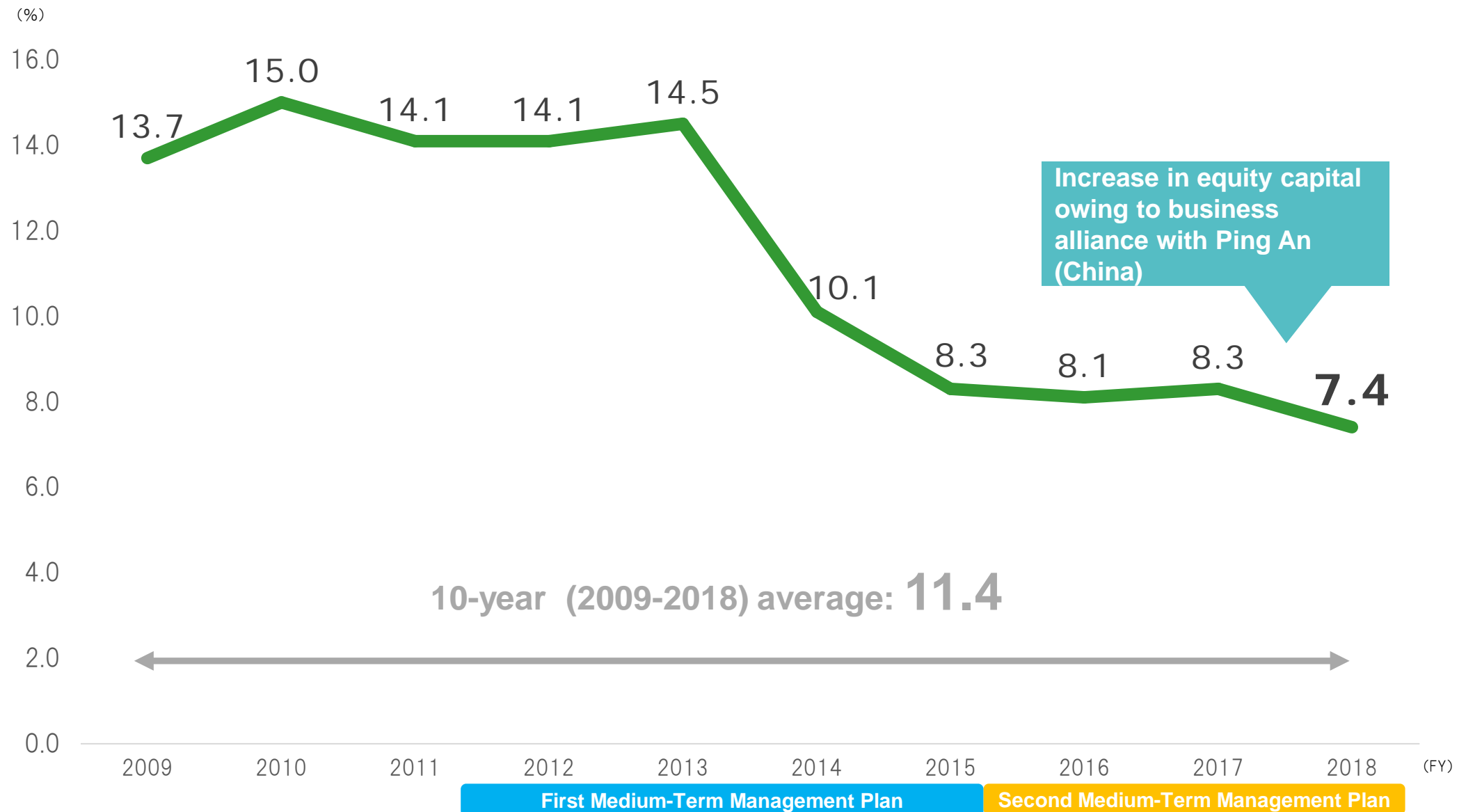
	FY 2018 Plan	FY 2018	Versus plan
Net sales	¥120,500 million	¥120,900 million	+ ¥400 million
Operating profit	¥17,500 million	¥18,500 million	+ ¥1,000 million
Operating profit margin (%)	14.5%	15.3%	+ 0.8pt
Profit attributable to owners of parent	¥12,800 million	¥14,500 million	+ ¥1,700 million
EPS (yen)	¥167	¥190	+ ¥23
ROE (%)	6.4%	7.4%	+ 1.0pt

2nd Medium-term Management Plan	Versus 2nd Medium-term Management Plan
¥120,000 million	+ ¥900 million
¥14,000 million	+ ¥4,500 million
11.5%	+ 3.8pt
¥10,000 million	+ ¥4,500 million
¥140	+ ¥50
6%	+ 1.4pt

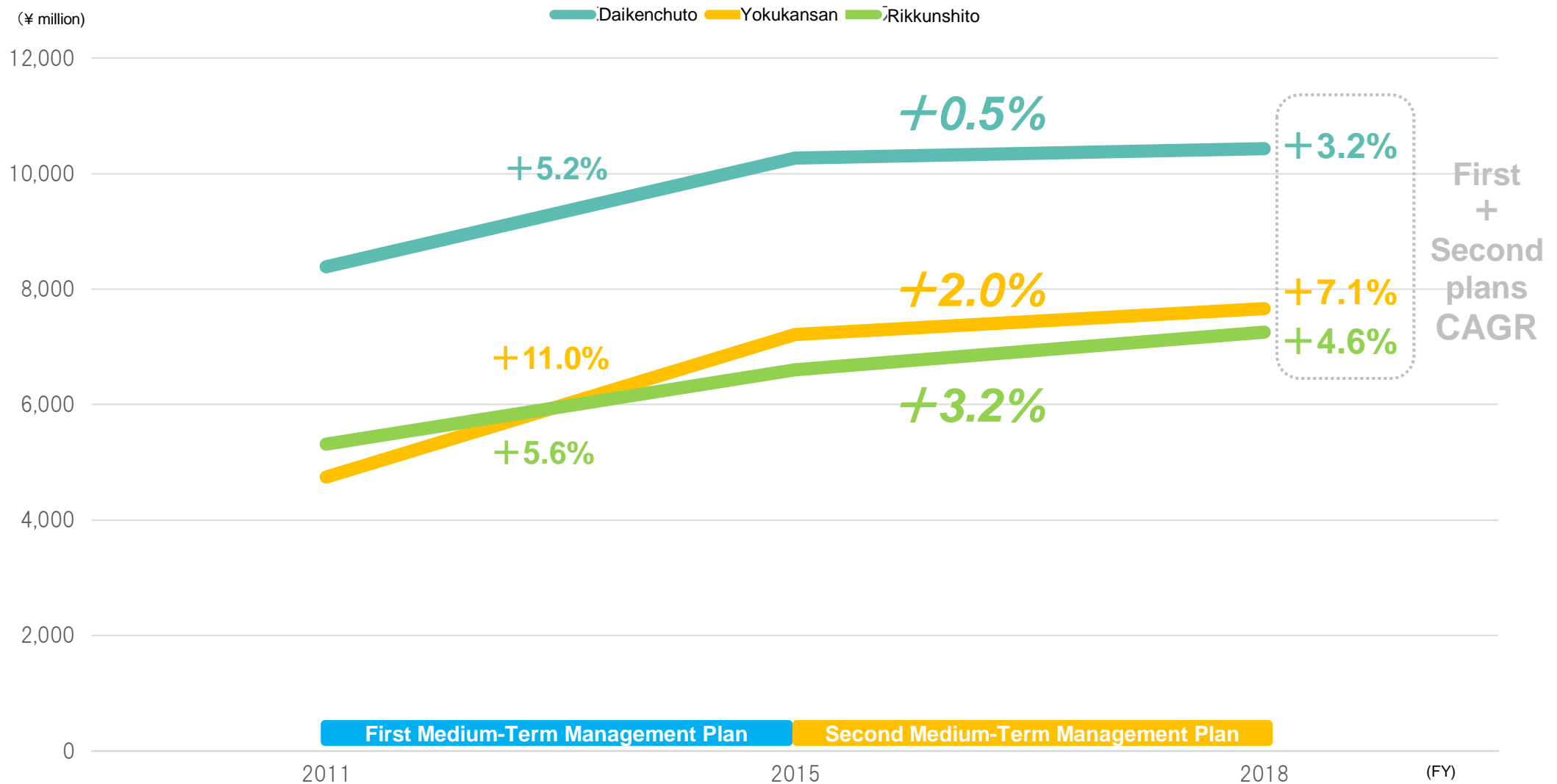


Second Medium-Term Management Plan (FY 2016 – FY 2018) Summary

Historical 10-Year ROE Trends (FY 2009 – FY 2018)



Annual Average Growth Rate for Three Drug-fostering Formulations (Daikenchuto, Yokukansan & Rikkunshito)



Second period: Annual Average Growth Rate for Three Drug-fostering Formulations: 1.7% (1st + 2nd period: 4.6%)

Issues with Quantitative Goals

“Vision for 2021” The Kampo Company

Basic Sales Strategy: Establish Kampo medicine

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

FY 2021 Goal

Aim to have three formulations, Daikenchuto, Yokukansan, and Rikkunshito, generate over ¥10.0 billion in sales, respectively

Daikenchuto

Distention due to post-surgery intestinal disorder

Yokukansan

Standalone promotion

Rikkunshito

Mainly complaint of unidentifiable upper abdomen discomfort

Expand measures in tandem with changes in business environment

In addition to above activities, fortify activities for stomach pain and bloating due to constipation

Divide use of prescriptions depending on the type of BPSD symptoms

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

BPSD: Behavioral and Psychological Symptoms of Dementia
First line treatment: First drug that should be administered for treatment



Progress with Long-Term Business Vision

Long-Term Business 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 any patient can receive treatment that includes Kampo medicine as needed in any healthcare institution or clinical department in Japan.

The
“People”
Company

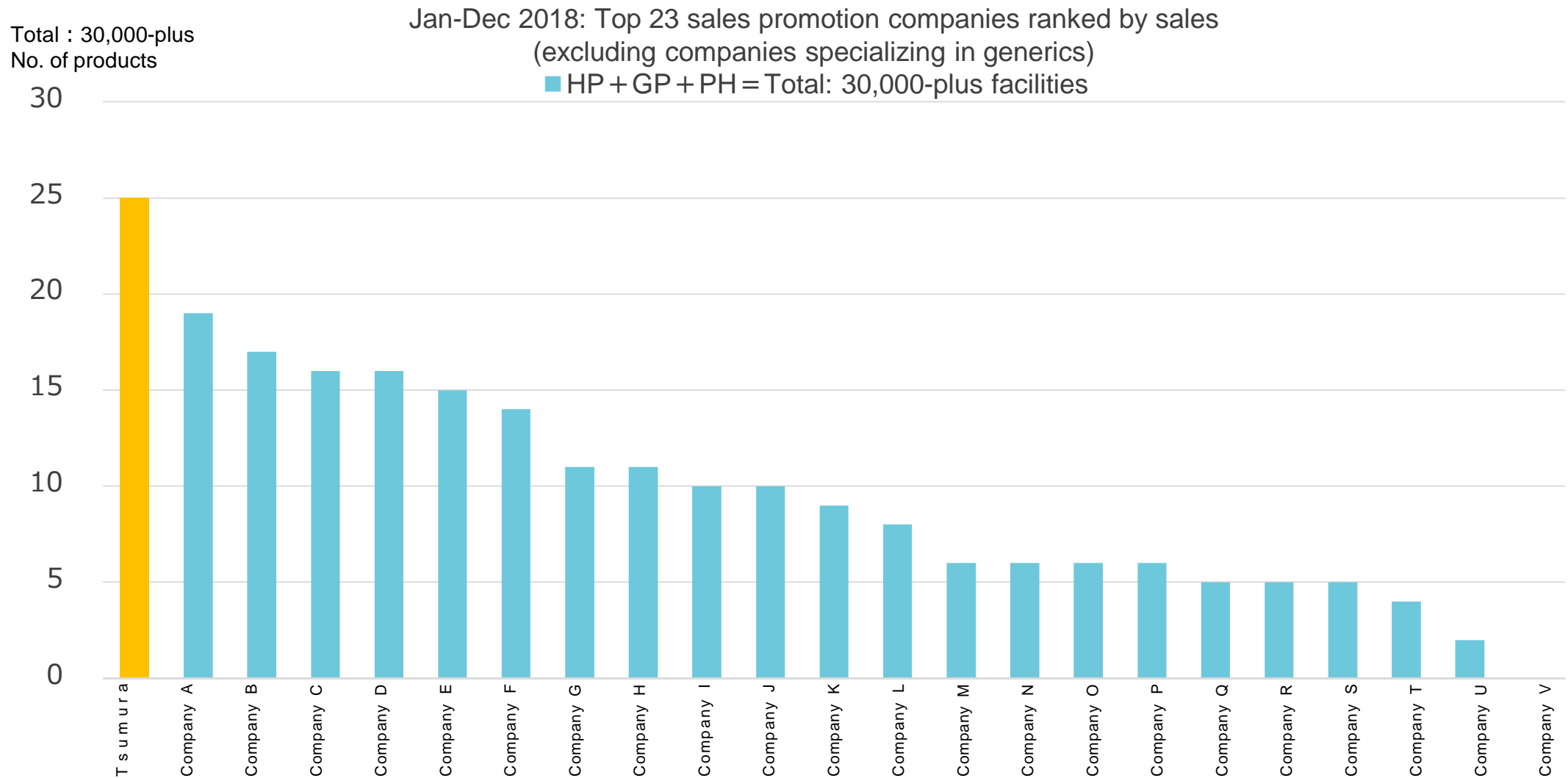
Given that Kampo medicine is a pioneering field with no previous examples to build on, we must evolve into a trusted corporate group comprised of people who are capable of independently carving out a new path forward.

The
“Global
Niche”
Company

By fully leveraging the technologies and know-how of the Tsumura Group, we will take on the challenges of developing and launching TU-100 (Dai-kenchu-to) in the U.S. pharmaceutical market and establishing new businesses in China.

The Kampo Company

—Diverse Delivery Track Record to a Number of Facilities—

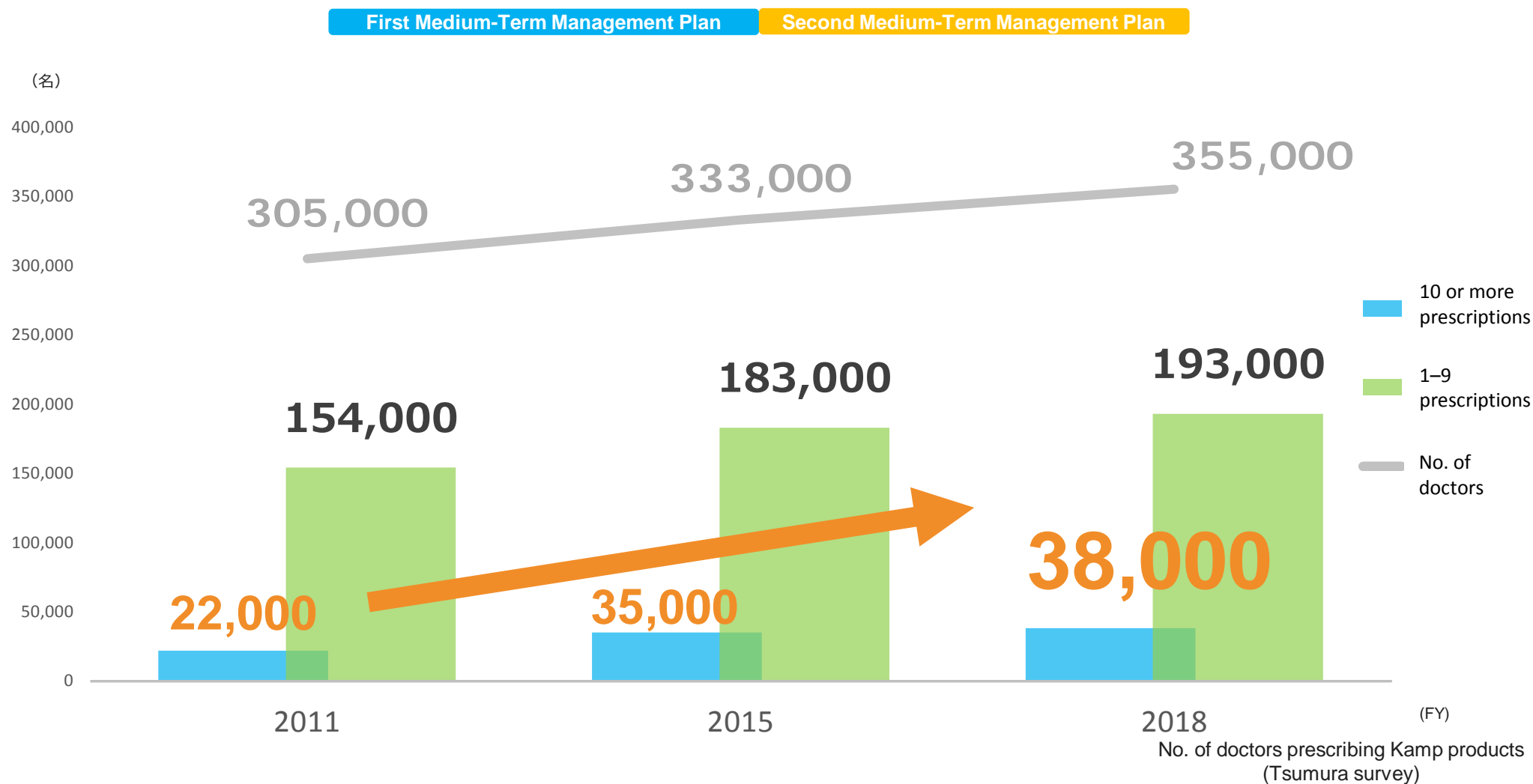


Source: Number of facilities = IQVIA JCC — Limited IQVIA JPM top 23 sales promotion companies based on sales (excluding companies specializing in generics).
Extracted IQVIA data on number of facilities based on product and sales promotion company. Talled combined value for HP · GP · PH

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The Kampo Company

—Rise in Doctors Prescribing 10 or More Prescription Kampo Products—

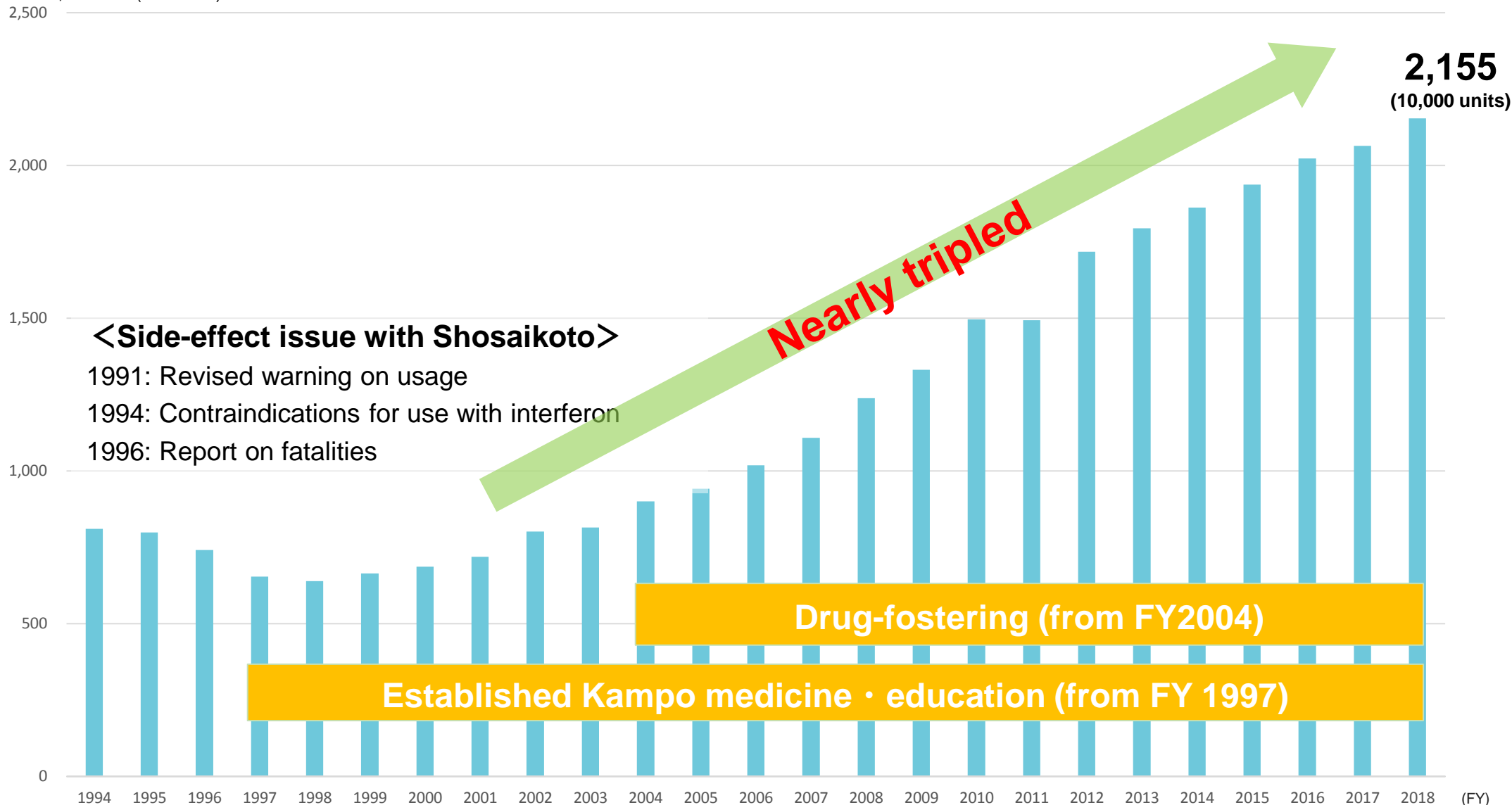


An increase of about 16,000 doctors during the 7 years of the first and second plans

The Kampo Company

—Sales Volume Trends for 129 Prescription Kampo Products—

Unit: 10,000 units (converted)



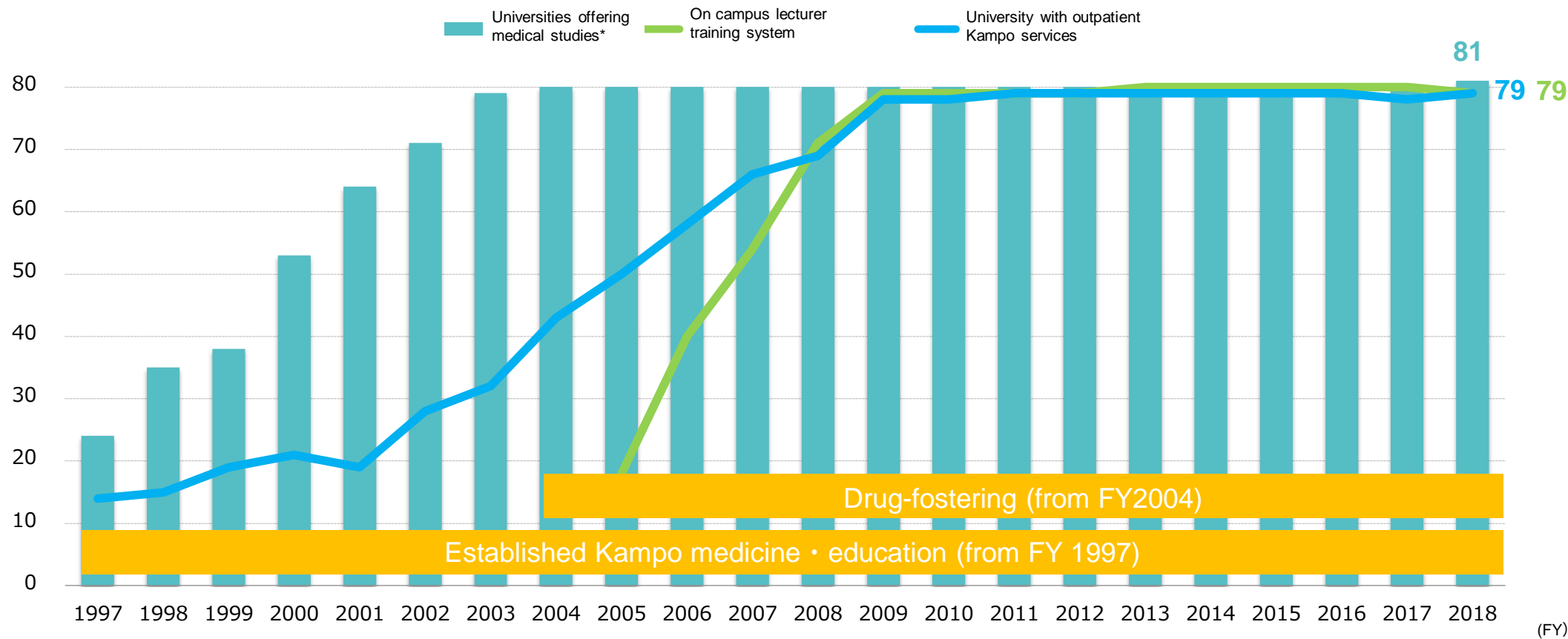
One unit refers to one standard package box. Each box contains a nine-week dosage.

First Medium-Term Management Plan

Second Medium-Term Management Plan

The Kampo Company

—Kampo Medical Training at Universities and Medical Schools—



*Excludes universities established in or after FY2017

First Medium-Term Management Plan

Second Medium-Term Management Plan

MEXT medical education model core curriculum (Announced Mar 2001, introduced in FY2002)

- Able to provide outline of Japanese Kampo drugs



MEXT medical education model core curriculum (Revised FY2016 version)

- Able to provide outline of characteristics of Kampo medicine, applications of Japanese Kampo drugs, and pharmacological actions

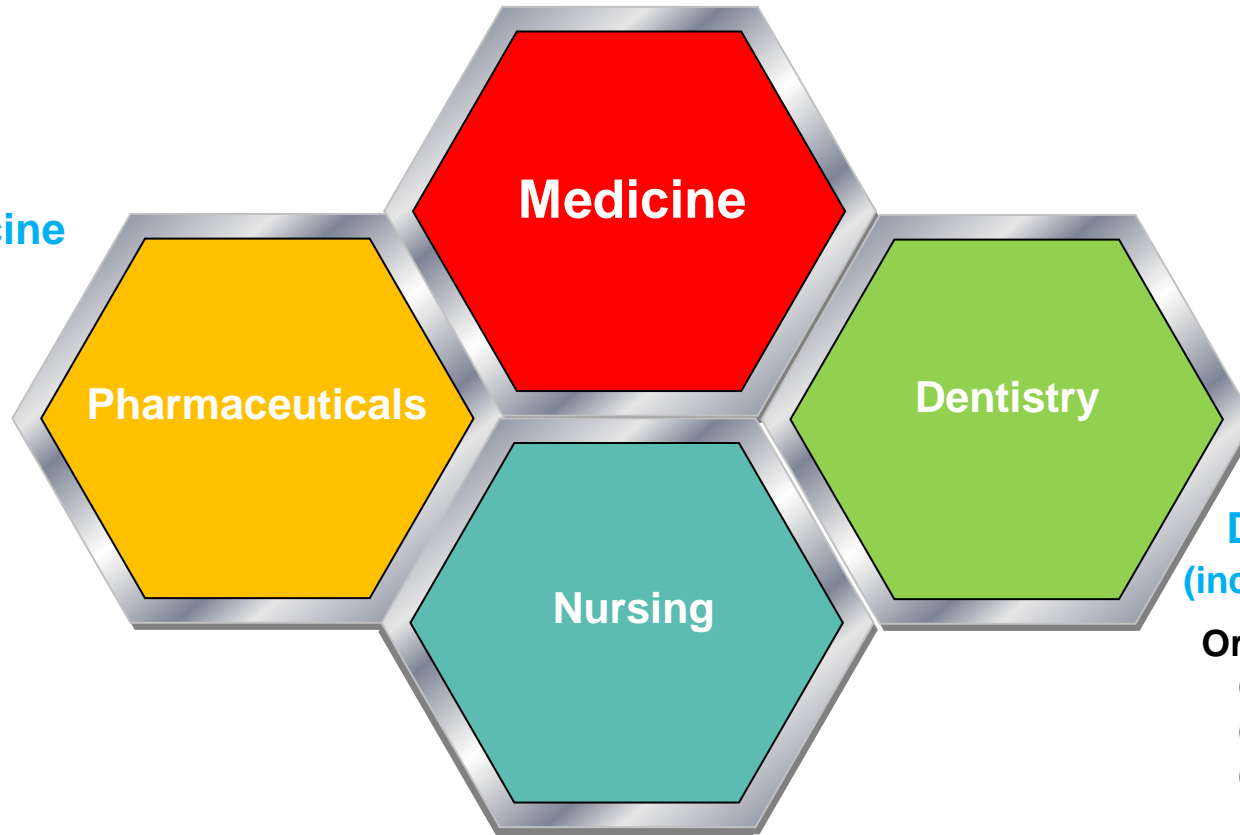
The Kampo Company

—Medical Education Model Core Curriculum—

Able to provide outline of characteristics of Kampo medicine, applications of Japanese Kampo drugs, and pharmacological actions

Kampo in medicine

- (1) Basics
- (2) Applications
- (3) Key points



Drugs (including Japanese Kampo)

- Organisms & drugs
- (1) Drugs & pharmaceuticals
 - (2) Pharmacological action
 - (3) Drug applications & pharmacokinetics
 - (4) Drug side-effects and adverse events

Human response to drugs and drug administration[※]

Be able to explain benefits of key therapies (peripheral nervous system drugs, <<omission>>, molecular-targeting drugs, medical drugs, anesthetics, main Japanese Kampo drugs), action mechanisms, applications, adverse events and nursing support

*MEXT, October 2017, Review committee on nursing personnel training at universities; Announced October 31, 2017

The “People” Company

—Establish the Tsumura Academy—

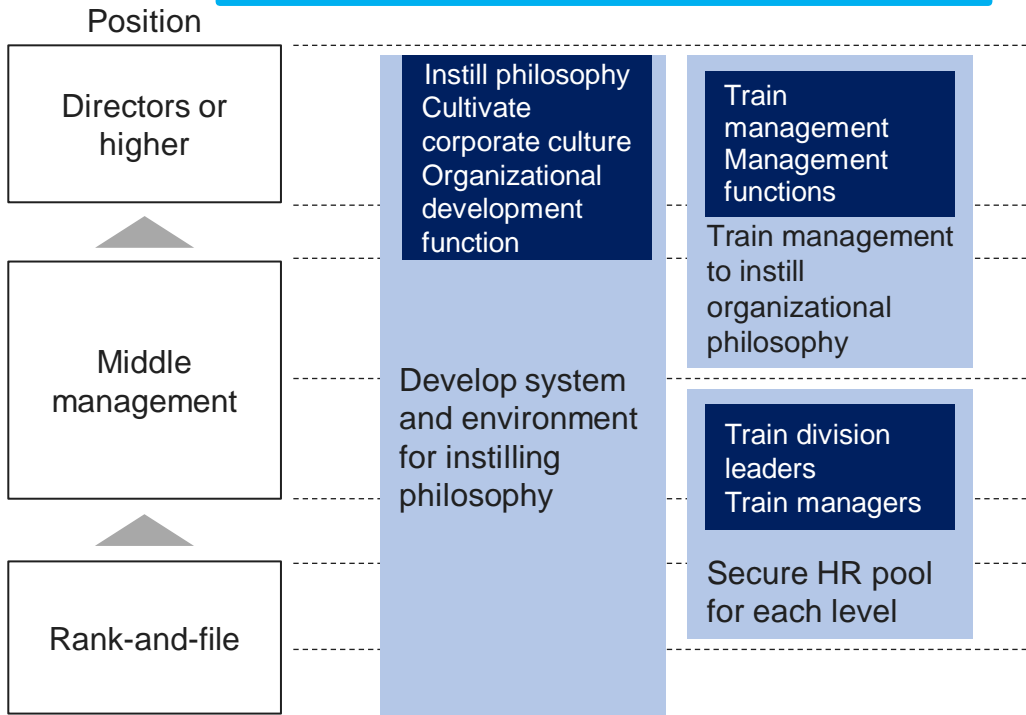
**Achievements: (1) Instill philosophy via “People” Company training
(2) Establish the Tsumura Academy**

Group

Cultivate corporate culture by instilling philosophy;
Cultivate quality culture

Overseas (China)

Train local executives in charge of China business



Goal: Continuously turn out management personnel that is able to implement management based on corporate philosophy

The “Global Niche” Company

—Development of TU-100 (Daikenchuto)—

Achievements

- (1) Development target is patients with postoperative ileus (POI)
- (2) Form an advisory team in Japan and the US

- POI is a serious Unmet Medical Need
- TU-100 has sufficient potential as a therapy for POI
- Large demand and support in medical circles in Japan for the globalization of Kampo

The “Global Niche” Company

—Development of TU-100 (Daikenchuto)—

Secondary achievements

Use the following new technologies in the development process

System biology
Metabolomics
Enteric bacteria
Big Data

Accelerate research in Kampo medicine and Kampo drugs

- Unravel the mechanism of action for Kampo
- Benefit of Kampo health economics, etc.

Use new technologies to cultivate New possibilities for Kampo

Contribute improving trust in Kampo and instilling the use of Kampo in the medical frontlines

The “Global Niche” Company

—Business in China—

Achievements: Steadily making progress building the foundation for our business in China

(1) Establish joint venture to handle Tsumura China and various businesses

(2) Start test marketing for Yakushoku Dogen products

Ping An Tsumura Products



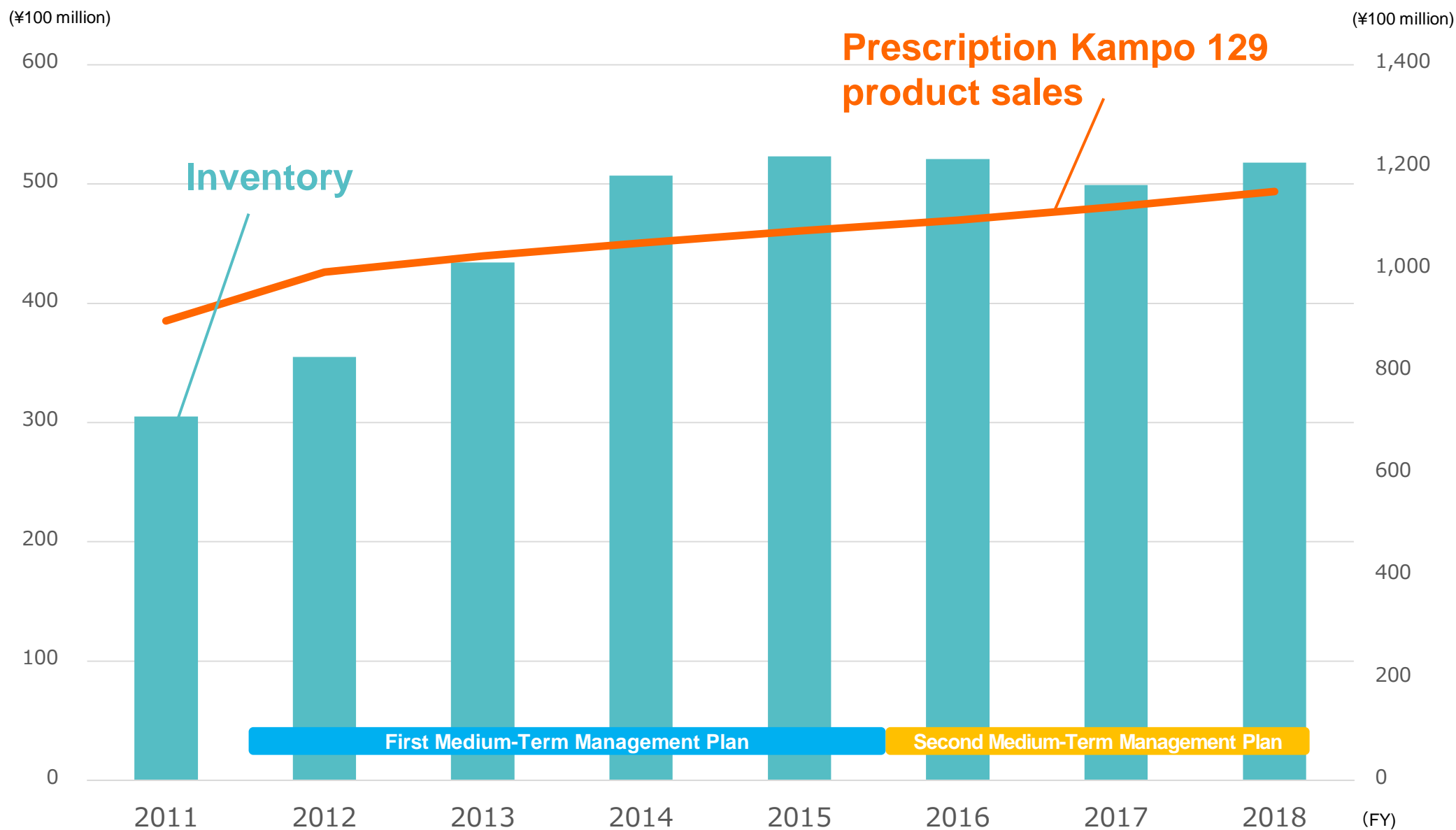
Aim to become No. 1 in Chinese medicine market and build a high-quality Ping An Tsumura brand

Cash Flows (FY 2016 – FY 2018)

(¥ billion)

	Amount	Main breakdown
Cash and cash equivalents at beginning of period	25.1	
Cash flows from operating activities	47.5	Profit (Net income + depreciation) 60.1 Increase (decrease) in accounts receivable (2.7) Increase (decrease) in inventories (1.2) Increase (decrease) in accounts payable 0.8 Increase (decrease) in advances (7.3)
Cash flows from investing activities	37.2	Purchase of property, plant and equipment (28.0) Proceeds from sale of investment securities 8.1 Working capital, etc. (16.3)
Cash flows from financing activities	21.9	Repayment of debt (17.2) Issuance of bonds 30.0 Capital increase 27.3 Buyback of own shares (5.0) Dividends paid (13.7)
Effect of exchange rate changes	-1.1	
Cash and cash equivalents at end of period	56.2	

Trends for Inventory Assets & Sales of 129 Prescription Kampo Products



CAPEX

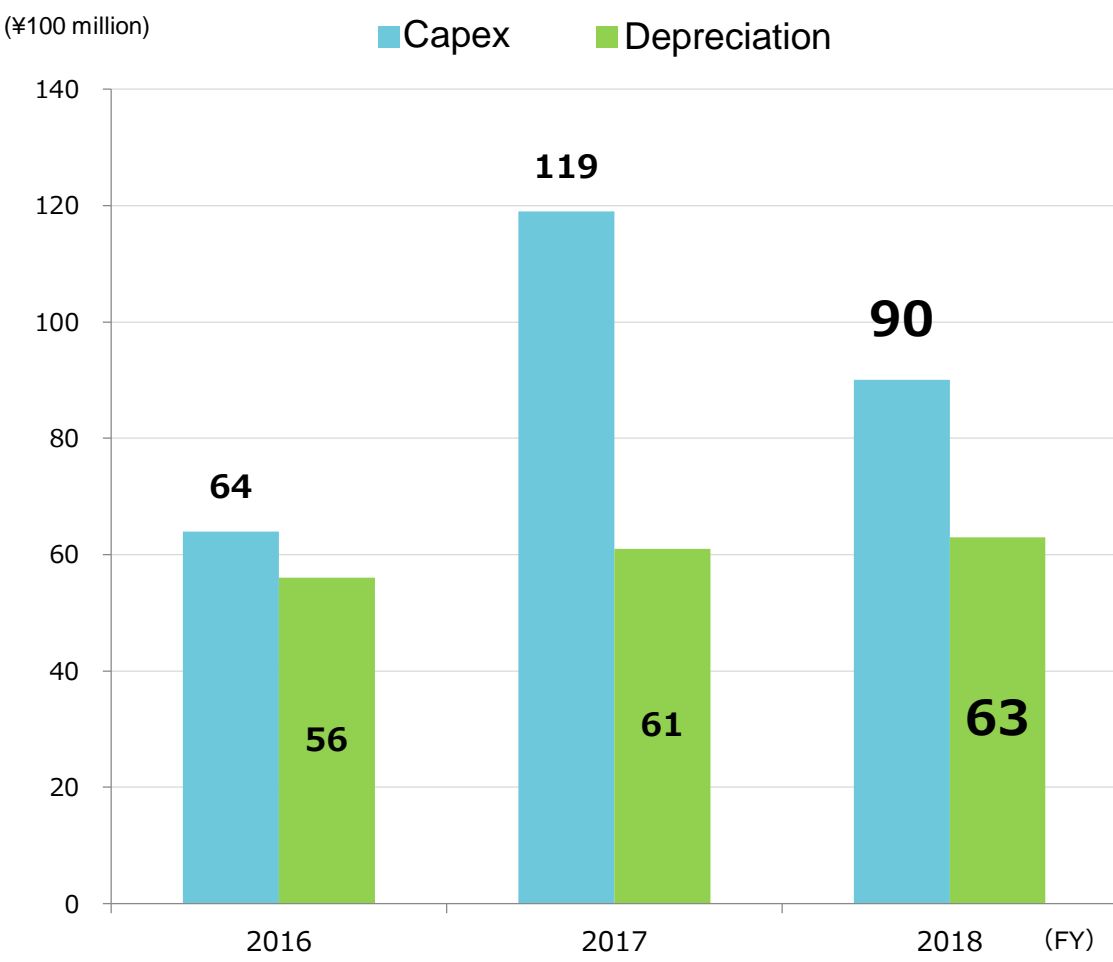
(¥ billion)

	Plan	Actual
Second Medium-Term Management Plan (FY2016-2018)	33.0	27.4

Main investments

Shizuoka Plant: New granulated packaging building

Ibaraki Plant: New No. 3 SD Building



SD: Spray dryer



Reference Materials

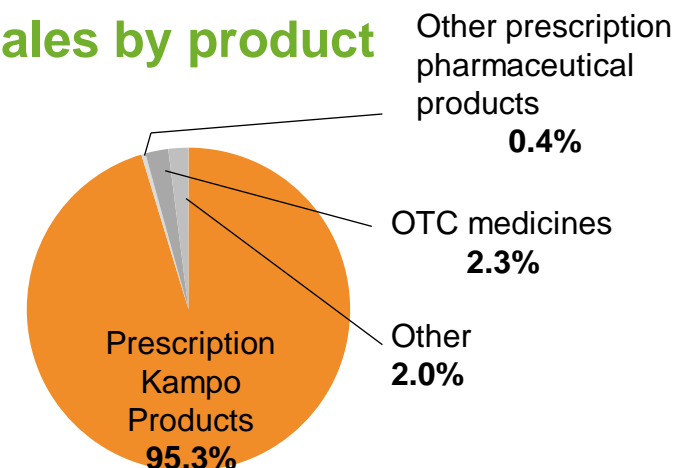
Consolidated Performance in Fiscal 2018

(¥ million)

	FY 2018 Plan	FY 2018	Achievement	FY 2017	Vs. FY 2017	
					Amount	Change
Net sales	120,500	120,906	100.3%	117,879	3,027	2.6%
Operating profit (Operating profit margin)	17,500 (14.5%)	18,520 (15.3%)	105.8%	17,050 (14.5%)	1,469	8.6%
Ordinary profit	18,000	19,702	109.5%	17,914	1,787	10.0%
Profit attributable to owners of parent	12,800	14,593	114.0%	14,504	88	0.6%

	FY 2018 Plan	FY 2018	FY 2017
EPS	¥167	¥190	¥200
ROE	6.4%	7.4%	8.3%

Sales by product



Key Points in Performance

- Achieved sales and profit plans despite negative impact from NHI price revisions (sales and profit growth year-on-year)

Consolidated net sales	¥120,906 million	Vs. planned	100.3%	YoY	2.6%
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- Net sales rose ¥3.02 billion or 2.6% owing mainly to a 2.7% growth in sales of prescription Kampo products.

Operating profit	¥18,520 million	Vs. planned	105.8%	YoY	8.6%
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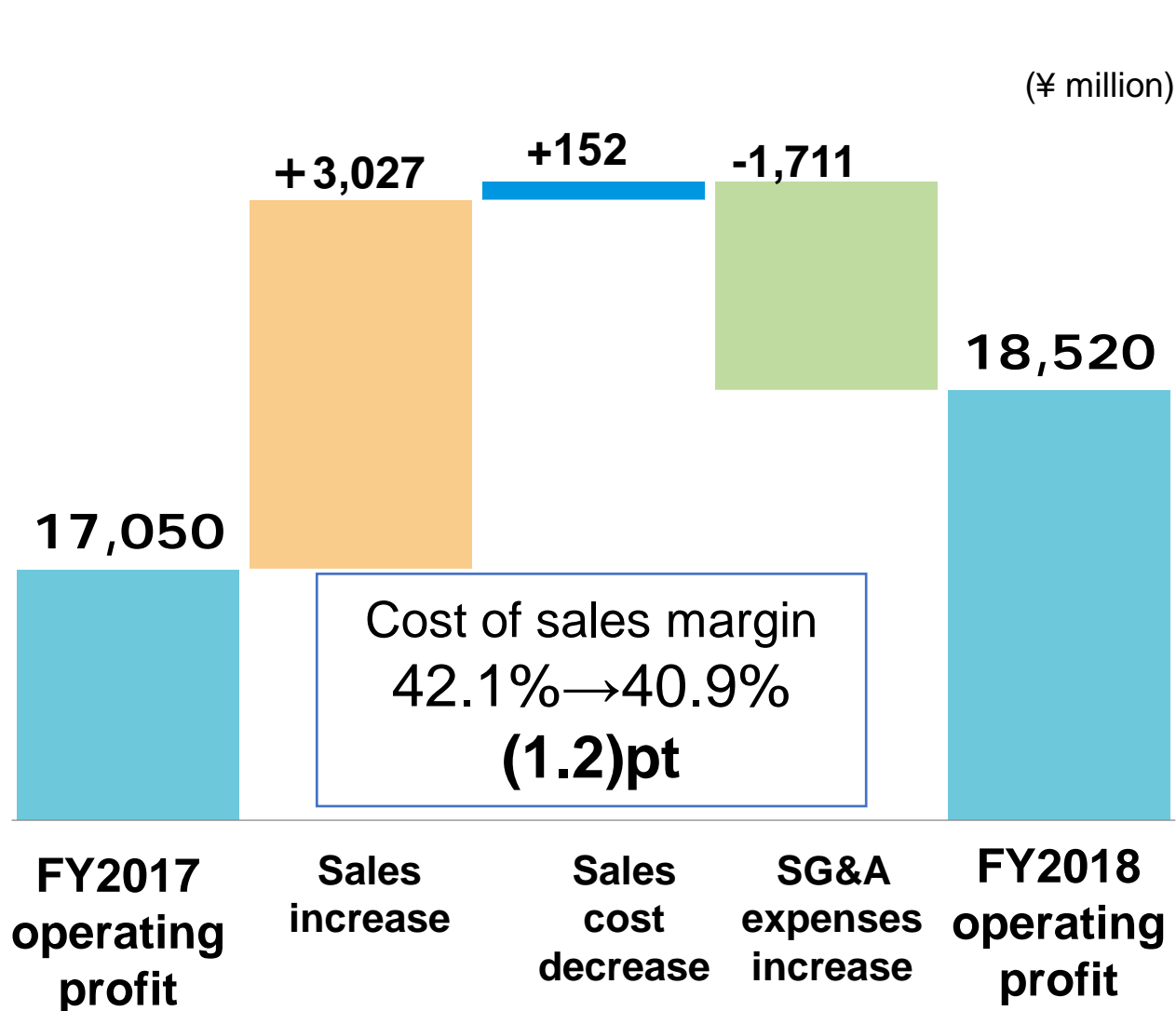
Operating profit margin	15.3 %			YoY	0.8pt
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- The cost of sales ratio was 40.9%, down 1.2pt year-on-year but up 0.2pt versus our plan, thanks to a reduction in crude drug-related costs.
- The SG&A ratio was 43.8%, up 0.3pt year-on-year and down 1.0pt versus our plan, due to an increase in sales-related costs.

Ordinary profit	¥19,702 million	Vs. planned	109.5%	YoY	10.0%
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Profit attributable to owners of parent	¥14,593 Million	Vs. planned	114.0%	YoY	0.6%
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Factors in Increase / Decrease of Operating Profit



(¥ million)

Factors of Sales increase	
Prescription Kampo 129 products	+2,980
Other	+47
Factors of Cost of sales margin	
NHI price revision	+0.5pt
Decrease in crude drug cost	(1.3)pt
Improvement of processing cost	(0.4)pt
Fluctuation of exchange rate	+0.3pt
Other	(0.3)pt
Factors of SG&A expenses	
Sales promotion expenses	+1,225
R&D expenses	(122)
Advertising expenses	(22)
Personnel expenses	+405
Other	+225

Financial Condition / Cash Flow Position

Balance Sheets

(¥ million)

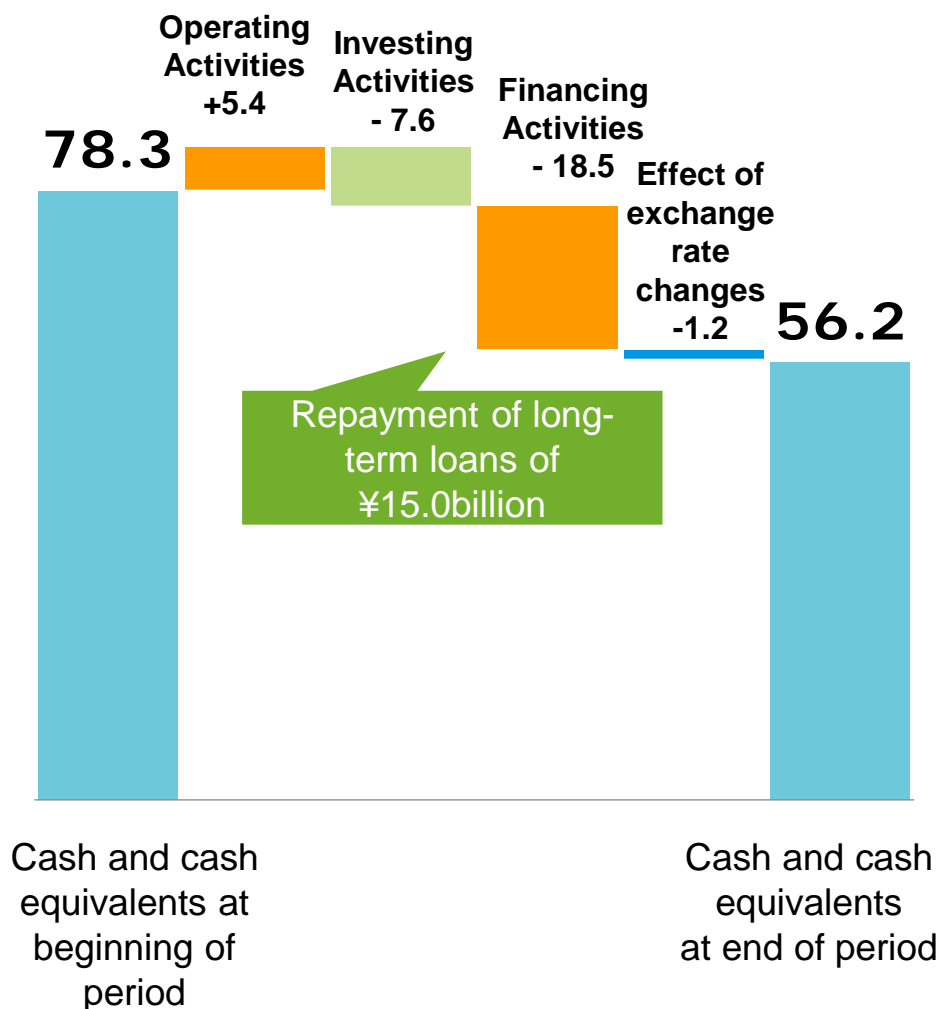
	As of Mar 31, 2018	As of Mar 31, 2019	Change
Total assets	292,379	287,322	(5,056)
Current assets	190,888	190,027	(860)
Non-current assets	101,491	97,295	(4,196)
Total liabilities	95,846	81,181	(14,665)
Current liabilities	48,766	33,320	(15,445)
Non-current liabilities	47,080	47,861	780
Total net assets	196,533	206,141	9,608
Equity Ratio	66.2%	70.2%	4.0pt

(¥ million)

Balance Sheet	As of Mar 31, 2018	As of Mar 31, 2019	Change
Inventories	49,994	51,806	1,813
Merchandise and finished goods)	8,008	9,382	1,374
Work in progress)	12,797	11,125	(1,671)
(Raw materials and stores)	29,188	31,299	2,110

Cash Flow Position

(¥ billion)



FY 2018 Sales Trends for Top 10 Ranking Prescription Kampo Products

(¥ million)

Ranking	Category	Prescription name	2011	2012	2013	2014	2015	2016	2017	2018
1	Drug-fostering formulation	Daikenchuto	8,383	9,094	9,785	9,993	10,273	10,328	10,584	10,430
2	Drug-fostering formulation	Yokukansan	4,748	6,041	6,628	6,895	7,215	7,330	7,571	7,664
3	Drug-fostering formulation	Rikkunshito	5,314	6,163	6,612	6,633	6,604	6,863	7,044	7,256
4	Growing formulation	Hochuekkito	5,885	6,567	6,883	6,965	6,968	6,947	7,098	7,158
5	Growing formulation	Shakuyakukanzoto	3,456	3,803	4,179	4,440	4,688	4,853	5,031	5,097
6	Growing formulation	Bakumondoto	3,453	3,879	3,996	4,178	4,494	4,511	4,511	4,734
7	Growing formulation	Kamishoyosan	3,700	4,102	4,264	4,285	4,465	4,465	4,534	4,539
8	Growing formulation	Goreisan	1,684	2,140	2,438	2,719	3,082	3,363	3,722	4,124
9	Drug-fostering formulation	Goshajinkigan	3,564	3,783	3,812	3,814	3,838	3,733	3,686	3,625
10	-	Saireito	3,228	3,358	3,343	3,308	3,351	3,399	3,403	3,464
18	-	Ninjin'yoeito	584	632	628	640	668	701	913	1,549
21	-	Kamikihito	862	1,013	1,102	1,211	1,237	1,249	1,342	1,422
22	Drug-fostering formulation	Hangeshashinto	902	1,120	1,181	1,230	1,250	1,276	1,334	1,350
23	-	Yokukansan-kachinpihange	636	758	816	884	1,009	1,098	1,187	1,289
		Total sales for 3 drug-fostering formulations	18,446	21,299	23,026	23,522	24,092	24,522	25,200	25,350
		Total sales for 5 drug-fostering formulations	22,913	26,203	28,020	28,568	29,182	29,532	30,221	30,327
		Total sales for 5 growing formulations	18,180	20,493	21,763	22,589	23,699	24,141	24,898	25,653
		Total sales for 129 formulations	89,964	99,457	102,680	105,193	107,599	109,647	112,274	115,255

Inquiries related to these materials

TSUMURA & CO.

Investor Relations Group

Corporate Communications Department

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.