

TSUMURA & CO.

Second Quarter Business Results for Fiscal 2019

(From April 1, 2019 to September 30, 2019)

November 7, 2019

Muneki Handa
Director and Executive Officer, CFO

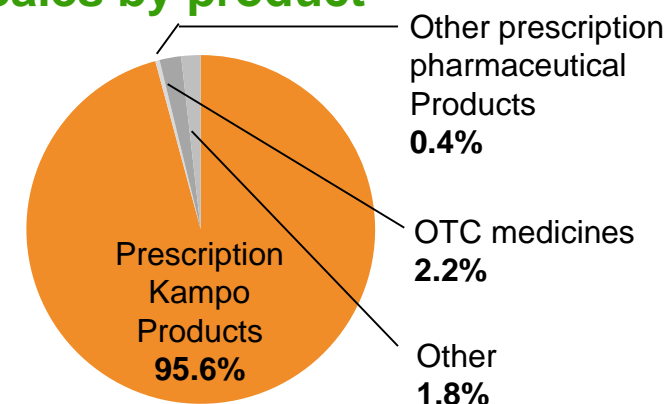
2Q Consolidated Performance for Fiscal 2019

(¥ million)

	FY 2019 2Q Plan	FY 2019 2Q	Achievement	FY 2018 2Q	Vs. FY 2018 2Q	
					Amount	Change
Net sales	61,500	60,802	98.9%	58,268	2,533	4.3%
Operating profit	8,100	9,776	120.7%	8,950	826	9.2%
Operating profit margin	13.2%	16.1%	-	15.4%	-	-
Ordinary profit	8,700	9,856	113.3%	9,566	290	3.0%
Profit attributable to owners of parent	6,000	7,037	117.3%	7,082	(44)	(0.6)%

	FY 2019 2Q Plan	FY 2019 2Q	FY 2018 2Q
Dividends per share	¥32	¥32	¥32

Sales by product



Key Points in Performance

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

Net sales undershot plans but profits at all levels achieved plans.

Consolidated net sales	¥60,802 million	Vs. planned	98.9%	YoY	4.3%
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□ Net sales of the 129 prescription Kampo products rose 4.2% year-on-year.

On a yen-basis, sales rose for 87 prescriptions.

□ Net sales of OTC medicines increased 15.9% year-on-year.

Operating profit	¥9,776 million	Vs. planned	120.7%	YoY	9.2%
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Operating profit margin	16.1 %			YoY	+0.7pt
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□ The cost-to-sales ratio stood at 40.9%, up 0.5% year-on-year. Although crude drug-related costs were down, this rise reflected impact from unrealized profit. The cost-to-sales ratio also undershot plans by 0.9pt, due to a delay in the timing of impact from unrealized profit.

□ The cost-to-SG&A ratio was 43.0%, down 1.2pt from a year earlier, owing to a rise in sales and despite the increase in sales rebates and R&D costs. The cost-to-SG&A ratio was also 2.0pt lower than planned, owing mainly to a delay in the timing of payment of R&D costs and expenditures.

Ordinary profit	¥9,856 million	Vs. planned	113.3%	YoY	3.0%
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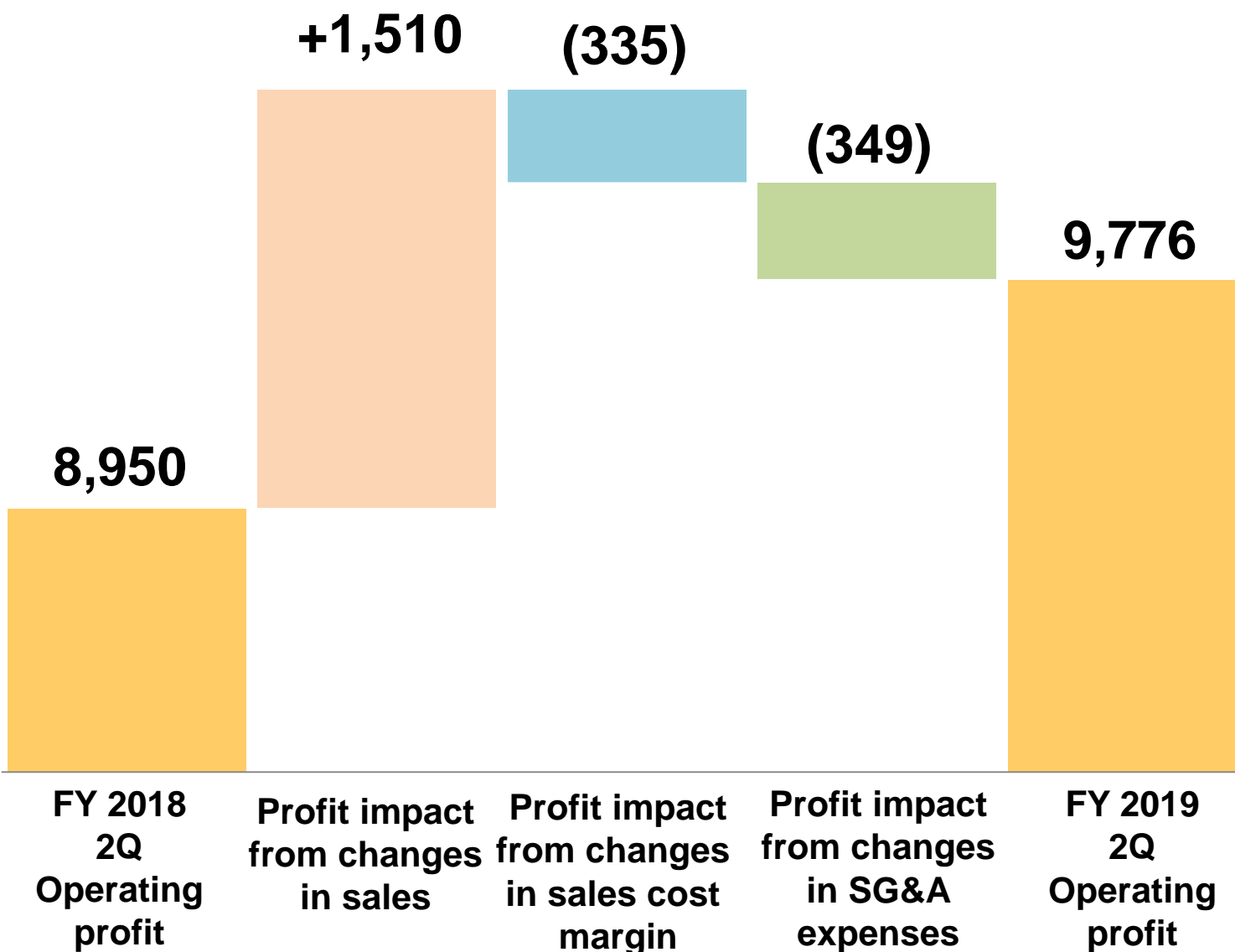
Profit attributable to owners of parent	¥7,037 million	Vs. planned	117.3%	YoY	(0.6)%
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□ A gain on the sale of investment securities (¥324 million) was posted as extraordinary income. Owing to this, 2Q net income was down 0.6% year-on-year but up 17.3% versus plans.

Factors for changes in Operating Profit

(¥ million)

(¥ million)



Profit impact from changes in sales cost

Decrease of crude drug cost	+486
Increase of unrealized profit	(670)
Other	(151)

Profit impact from changes in SG&A expenses

Sales promotion expenses	(238)
R&D expenses	(142)
Personnel expenses	(113)
Other	+144

Financial Condition / Cash Flow Position

Balance Sheet

(¥ million)

	As of March 2019	As of September 2019	Change
Total assets	287,322	287,010	(312)
Current assets	190,027	187,678	(2,349)
Non-current assets	97,295	99,331	2,036
Total liabilities	81,181	80,170	(1,010)
Current liabilities	33,320	33,222	(97)
Non-current liabilities	47,861	46,948	(912)
Total net assets	206,141	206,839	697

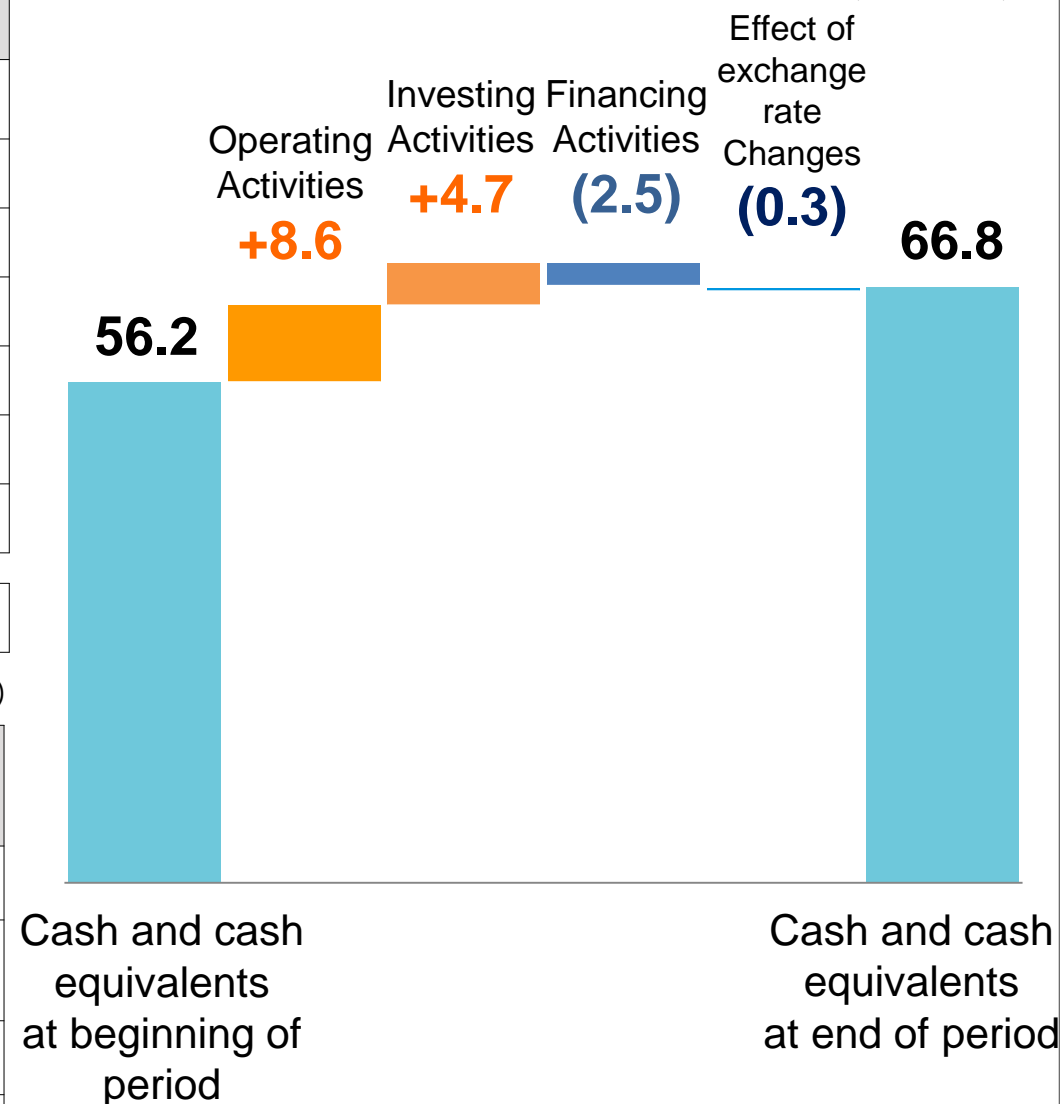
Equity Ratio	70.2%	70.6%	0.4pt
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(¥ million)

Balance Sheet	As of March 2019	As of September 2019	Change
Inventories	51,808	56,726	4,917
(Merchandise and finished goods)	9,382	7,258	(2,124)
(Work in process)	11,125	13,493	2,367
(Raw materials and stores)	31,299	35,974	4,675

Cash Flow Position

(¥ billion)



Roadmap to Realizing Our Long-Term Vision



Third medium-term management plan

Becoming a value-creation company that contributes to people's health through its Kampo business

Rapid progress

Overseas sales ratio
Over **50%**

Growth investments

Consolidated Sales
Over **135** billion yen

Domestic Business

● **Establishing a Kampo medicine business**

Having one in every two doctors writing over 10 Kampo prescriptions

Chinese Business

● **Contributing to the health of China's citizens**

Aiming to become a number one Chinese medicine company
-Becoming the most trusted Chinese medicine company in China-

Sustainably expanding the Kampo market

Building the foundation for the Chinese business

Consolidated Sales

120.9
billion yen

Strategic Challenges

1. Sustainably expanding the Kampo market and establishing presence
2. Investing in growth and building business foundations in China
3. Improving productivity using new technology (AI, Automation, RPA)
4. Fostering a corporate culture through philosophy-based management and developing diverse human resources
5. Promoting SDGs through the Kampo Value Chain

Sales performance of prescription Kampo products

(¥ million)

	Sales rank	Product No. / name		FY 2018 2Q	FY 2019 2Q	YoY Change	
Drug-fostering formulations *1	1	100	Daikenchuto	5,226	5,262	36	0.7%
	2	54	Yokukansan	3,848	3,953	104	2.7%
	3	43	Rikkunshito	3,559	3,719	160	4.5%
	9	107	Goshajinkigan	1,806	1,831	25	1.4%
	22	14	Hangeshashinto	670	717	47	7.0%
Total sales of the five Drug-fostering formulations				15,110	15,484	373	2.5%
Growing formulations *2	4	41	Hochuekkito	3,680	3,670	(9)	(0.3)%
	5	68	Shakuyakukanzoto	2,629	2,724	94	3.6%
	8	29	Bakumondoto	2,004	2,210	206	10.3%
	6	24	Kamishoyosan	2,263	2,348	84	3.7%
	7	17	Goreisan	2,112	2,318	206	9.8%
Total sales of the five Growing formulations				12,691	13,273	581	4.6%
Total of 129 prescription Kampo products				55,799	58,141	2,341	4.2%

Major factors triggering underperformance in 1H

※ Sales of “Drug Fostering” program formulations, which account for 25% of total sales, grew 2.5% YoY (Total sales growth for overall prescription Kampo products was 4.2%)

*1 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.

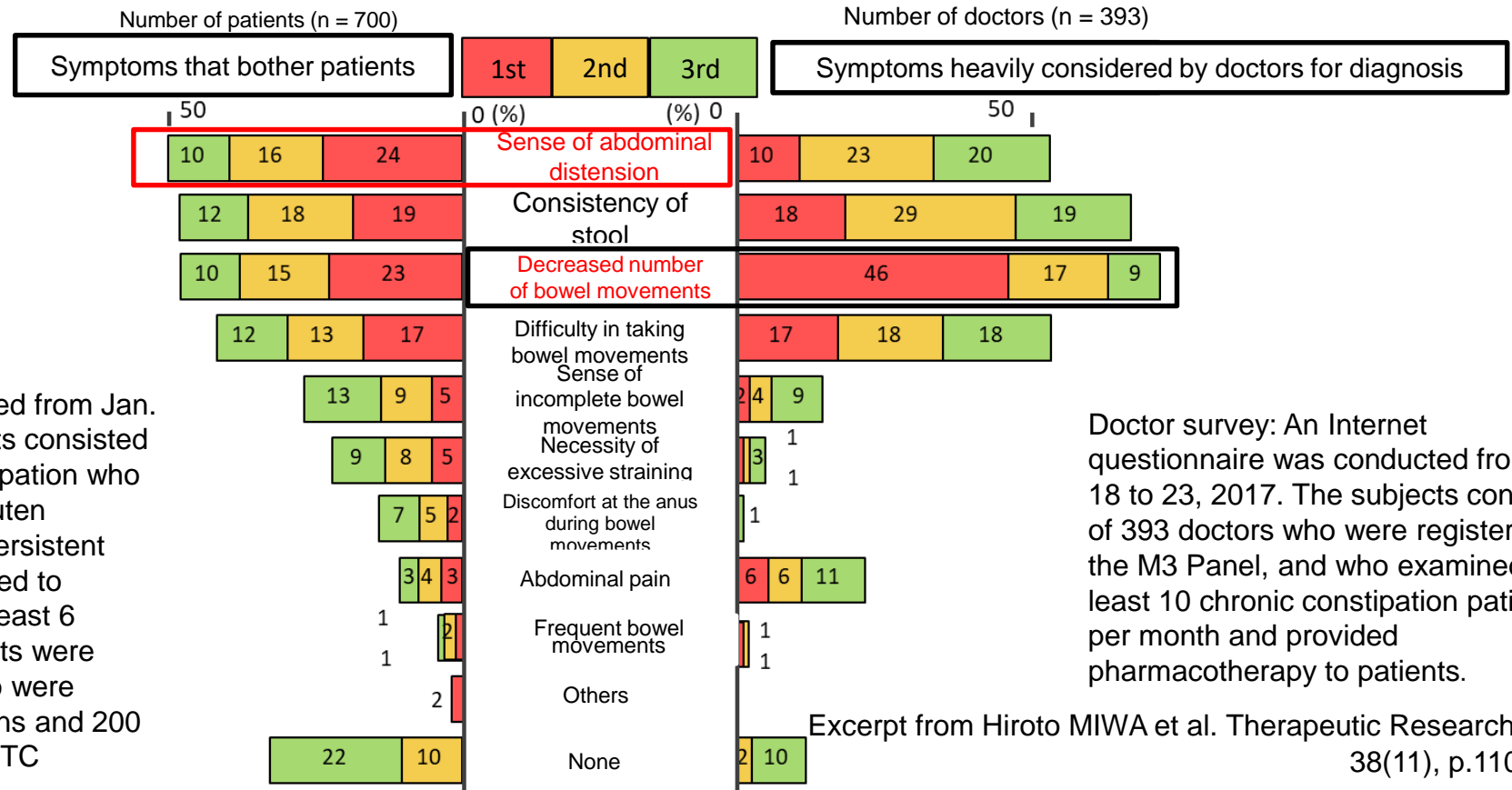
*2 A growth driver that aims to be listed in medical treatment guidelines as a strategic formulation following the five “drug fostering” program formulations through the establishment of scientific evidence (data on safety, efficacy, etc.) in fields where satisfaction toward treatment and the contribution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

Sales Strategy for Daikenchuto “While showing year-on-year growth, mitigation of the sense of abdominal distention also must be an appealing feature.”

“Chronic constipation symptoms that are particularly bothersome to patients, and symptoms heavily considered by doctors in diagnosis”

Q. Please indicate the three most troublesome symptoms of your chronic constipation.

Q. Please indicate the three most significant symptoms of chronic constipation you consider



Patient survey: An Internet questionnaire was conducted from Jan. 19 to 27, 2017. The subjects consisted of those with chronic constipation who were registered in the Rakuten Research Panel and had persistent symptoms considered related to chronic constipation for at least 6 months. In total, 700 patients were surveyed: 500 patients who were treated at medical institutions and 200 patients who were taking OTC medicines.

Doctor survey: An Internet questionnaire was conducted from Jan. 18 to 23, 2017. The subjects consisted of 393 doctors who were registered in the M3 Panel, and who examined at least 10 chronic constipation patients per month and provided pharmacotherapy to patients.

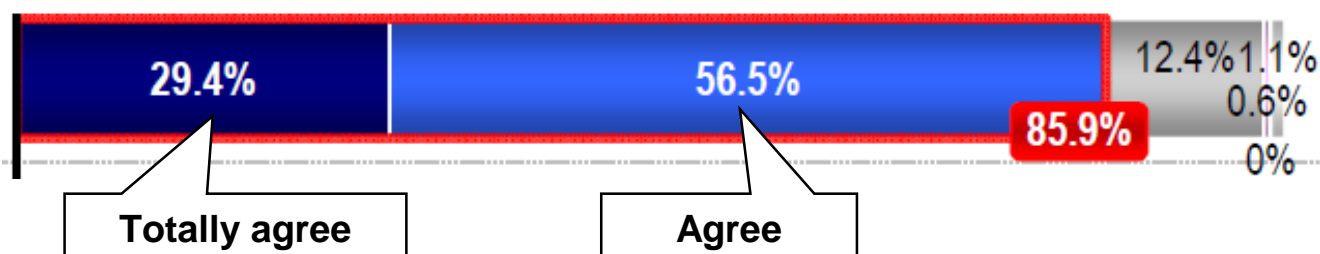
Excerpt from Hiroto MIWA et al. Therapeutic Research. 2017, 38(11), p.1101-1110.

Promoting its effects to mitigate the sense of abdominal distention associated with constipation in the growing “constipation” market

Sales Strategy for Daikenchuto

■ Opinions of doctors on abdominal surgery

Q. It is important to improve blood flow in the intestinal tract in the perioperative period. (n = 177)



Surgeons regard “improved intestinal blood flow and enterobacterial conditions” as important in perioperative management.

Questionnaire conducted on m3.com member doctors (Aug. 2019)

Daikenchuto, with its action of improving intestinal blood flow, may be promising in satisfying medical demands in perioperative management to enable early ambulation and early discharge.

**【Major benefit promoted in the past】
Enhancement of enterokinesis**

Wider application

**Improvement of
intestinal blood flow**

Sales Strategy for Rikkunshito

Medicinal action of Rikkunshito

- Enterokinesis enhancement (Canine)
- Action on gastric adaptive relaxation (in vitro)
- Action on gastric mucosal injury (Rat)
- Suppression of decreased gastric mucosal blood flow (Rat)
- Action on appetite stimulation (Mouse and rat)

Rikkunshito features diversified actions, and its efficacy for upper abdominal symptoms of functional dyspepsia (FD) with complicated pathology has been proven in a double-blind comparison study.

Prescription	FY2019	FY2020	FY2021
Rikkunshito	Targeting strategy: Provide information using materials such as the "DREAM Study"*		
	Hold academic lectures centering on gastroenterology Offer web lectures and real lectures		
Hangeshashinto	Documentation of new evidential information → Providing more effective sales promotion		

Enhancing presence as a remedy for upper gastrointestinal diseases

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

Sales Strategy for Yokukansan

Yokukansan
sole promotion

Wider
application

Propose prescription
for various symptoms
of dementia

■ Peripheral symptoms and dementia disease course

		Weight loss		
		Wandering	Improper behavior	
Hypobulia	Weight loss	Delusion	Disinhibition	Weight loss
False recognition	Anxiety / depression	Hallucinations	Repetitive behavior	Abulia

Prodromal
phase

Phase I

Phase II

Phase III

■ Institutions employing Yokukansan

Institutions
employing 54
Yokukansan

Approx. 44,000
institutions

Institutions
employing 108
Ninjinyoeito

Approx. 21,000
institutions

Institution
employing both
medicines

Approx. 7,500
institutions

■ Proposed prescriptions according to the symptoms of dementia

▪ **54 Yokukansan**

(Indications: Neurosis, nervousness, etc.)

▪ **83 Yokukansankachinpihange**

(Indications: Neurosis, nervousness, etc.)

▪ **108 Ninjinyoeito**

(Indications: Fatigue, anorexia, etc.)

▪ **137 Kamikihito**

(Indications: Insomnia, dysphoria, etc.)

Approaches in the Kampo Medicine Seminar

KAMPO Mega Web Lecture

17,878 doctors participated by viewing. (Held on Sep. 25, 2019)
→ Invite them to seminars in their nearest areas.

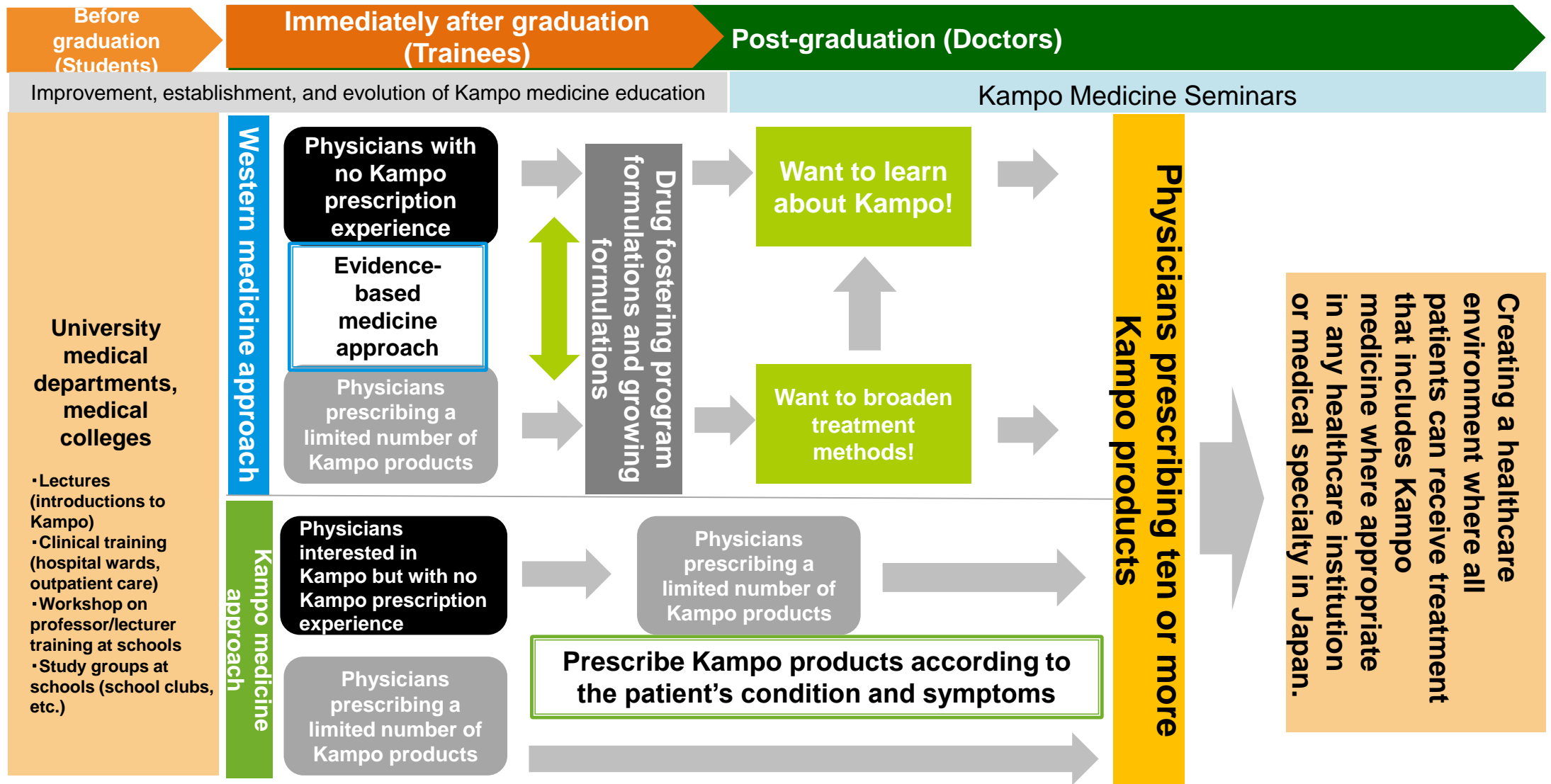
Introductory Seminar for Postgraduates in Kampo Medicine

In FY2019, 33 seminars will be held throughout Japan.
1,062 participated in the seminars in the April to September period. →
Among them, 512 were new participants.

Introductory Research Seminar for each domain

Introductory seminars are held in Urological Kampo, Obstetrical & Gynecological Kampo, and Neurosurgical Kampo.

Approaches to “doctors prescribing 10 or more Kampo products”



Approaches to “doctors prescribing 10 or more Kampo products” are successfully underway.

Key Sales Measures in the 2nd Half of the Year

Item	Details
Gastrointestinal domain	<ul style="list-style-type: none"> ▪ Daikenchuto: Promote benefits of its effects to mitigate the sense of abdominal distention associated with constipation. Promoting its action to improve intestinal blood flow, and holding presentations for multidisciplinary personnel
	<ul style="list-style-type: none"> ▪ Rikkunshito: Utilize dual materials* with Daikenchuto, and enhance presence in the upper gastrointestinal prokinetic agent market.
Geriatric field	<ul style="list-style-type: none"> ▪ Yokukansan: Propose prescription according to various symptoms of dementia. ▪ Provide prescription information related to problems with the elderly with regard to “eating, sleeping, and excretion.”
Web Lecture Introductory seminar	<ul style="list-style-type: none"> ▪ Invite viewers of the Web Lecture to the introductory seminar. ▪ Hold the second Web Lecture and provide a follow-up plan. ▪ Follow up new participants among doctors participating in the introductory seminar in the 1st half of the year.

* Dual material: Material that details two prescriptions at the same time.

Continuously provide information to attain “sustainable expansion of the Kampo market”

FY2019 Performance Forecasts

FY2019 Performance Forecasts

- No changes have been made from the results forecast announced on May 10, 2019.

(¥ million)

	FY2018	FY2019	YoY Change	
			Amount	Change
Net sales	120,906	125,000	4,093	3.4%
Operating profit	18,520	17,000	(1,520)	(8.2)%
Operating profit margin	15.3%	13.6%	-	-
Ordinary profit	19,702	18,000	(1,702)	(8.6)%
Profit attributable to owners of parent	14,593	12,300	(2,293)	(15.7)%

	FY2018	FY2019 Forecast
Dividends Per share	¥64	¥64
EPS	¥190	¥160
ROE	7.4%	6.0%

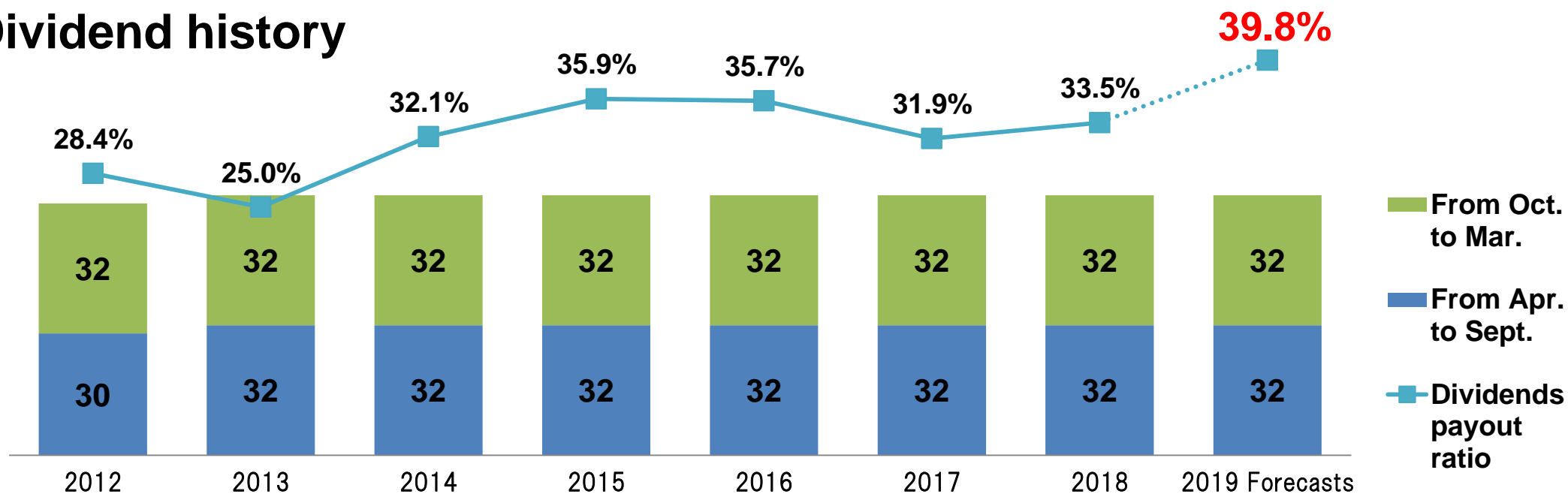
Return of Profits to Shareholders

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

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.
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- 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.