



Business Results Briefing for the Fiscal Year 2019

TSUMURA & CO.

May 12, 2020

Today's agenda

(1) Initiatives to Tackle COVID-19

(2) ESG Management & Sustainability Vision

(3) China Business Update

(4) FY2019 Business Results

(5) FY2020 Forecast

CEO
Kato

CFO
Handa

Business Results Briefing for the Fiscal Year 2019

- (1) Initiatives to Tackle COVID-19
- (2) ESG Management & Sustainability Vision
- (3) China Business Update

TSUMURA & CO.

Terukazu Kato, President and
Representative Director, CEO
May 12, 2020

Details of Today's Briefing

(1) Initiatives to Tackle COVID-19

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COVID-19 Impact: China Group Corporate Activities

Supply system for crude drug raw materials

All China group companies are under normal operation as there was no impact to the supply of crude drug raw materials.

- ✓ Systematically export crude drug raw materials essential for production
- ✓ Increase in demand for some crude drug raw materials (traditional Chinese medicines related to COVID-19), status of sowing seeds during spring

Tianjin China Medico Technology Co., Ltd. became a member of the Tsumura Group in March

Production and supply of Kampo extract powder

At present, expect to secure production volume targeted in annual plan as there is little impact

- ✓ Shanghai Tsumura Pharmaceuticals Co.,Ltd. to resume operations early on and carry out normal operations. Export of extracts also going smoothly.
- ✓ In accordance with our BCP (Business Continuity Plan), collaborate with Japan to undertake production of formulations under supervision

China Group employees: No one was infected with COVID-19

[Jan. 22] Established COVID-19 Control Committee in China (Chairman: Representative Executive Officer of China)

[Feb. 11-18] Shanghai Tsumura/Shenzhen Tsumura/China Medico Technology to resumed operations [Mar. 20] Tsumura China Medico resumed construction

Activities to Support COVID-19 Measures

Tianjin China Medico Technology support activities (government request)



Tianjin China Medico Technology donated drug pieces for [Seihaihidokuto](#) to traditional Chinese medicine clinics in Huanggang, Hubei Province

Activities to Support Measures to Prevent COVID-19

[Jan. 29] Donated 5 million yen to the Chinese Embassy for the purpose of procuring medical masks, goggles, protective clothing and other supplies

COVID-19 Impact: Business Activities in Japan

Domestic production and distribution system

At present, all production bases and distribution centers are in normal operation

- ✓ Carrying out planned production for priority prescription Kampo and to deal with increase in demand, in accordance with the BCP (Business Continuity Plan)
- ✓ Increasing inventory of above prescription Kampo drugs by conducting unplanned production
- ✓ Also supporting production for long-term prescription trends

At present, there are no obstacles to stable supply

Kampo prescription trends

Increase in demand for specific prescriptions in tandem with dissemination of information on COVID-19 treatments using Kampo by doctors that prescribe Kampo medicine (late March-April)

- ✓ On the Japanese Association for Infectious Disease website prescriptions Dr. Keiko Ogawa (Kanazawa University) submitted special contributions (articles) related to Kampo prescriptions and related matters
- ✓ Prescriptions (as well as OTCs) related to the new traditional Chinese medicine, Seihaihidokuto

Disseminating Information on Kampo Treatments related to COVID-19

3/9

Japanese Association for
Infectious Disease website

Dr. Keiko Ogawa (Department of Japanese-Traditional (Kampo) Medicine,
Kanazawa University Hospital)

Contributed a special article titled "Concept of Kampo Medicine for COVID-19"

Article compiles alternative methods for administering prescription Kampo
formulations

4/18

Japan Medical Journal website

Dr. Kenji Watanabe (Yokohama University of Pharmacy) and other urgent
literary contributions

"Role of Kampo in Treating Patients with COVID-19"

Compiles considerations on the efficacy of Kampo medicine

4/18

Japan Society of Oriental
Medicine (JSOM) website

Dr. Shin Takayama (Tohoku University, Kampo Medicine in the
Department of General Medicine) and others

Retrospective observational study: Clarification of the correlation between
symptomatic treatment and severe aggravation in COVID-19 patients

Support for research on using Kampo to treat COVID-19 patients

On the part of Tsumura, provide full support for Kampo treatment research

4/6

Request for research support and collaboration

Request from the Japanese Society of Oriental Medicine (Chairman: Takashi Ito) for cooperation to support research on Kampo treatments for COVID-19 patients
Tsumura decided to provide full support (4/8)

4/22

Articles published in industry papers

Introduced in the Yakuji Nippo: "Tsumura to lend support in investigator-initiated clinical research on prescription Kampo drugs for influenza patients, including those with COVID-19"

Other

Other research support

Tsumura prescription Kampo formulation to be provided free of charge (scheduled)

Degree of Impact due to Spread and Continuation of COVID-19

Kampo related

- ✓ Demand for related prescriptions rising in tandem with the dissemination of information on Kampo prescriptions being prescribed by doctors for COVID-19 (1Q)
- ✓ Growing interest in Kampo as it balances the mind and body overall, naturally enhances the body's immune system to promote improvement in symptoms

External environment

- ✓ Number of patients declining as people refrain from going to the hospital/undergoing medical exams and due to access restrictions
- ✓ Long-term prescriptions trending upward for patients, mainly with chronic diseases, and the number of hospital visits is trending downward

Business activities

- ✓ Lack of face-to-face information provision by MRs
- ✓ No implementation of/delays in priority measures

Since it cannot be determined when the spread of COVID-19 will end or if the disease will spread in a second and third wave, we are unable to factor in the degree of impact into our earnings forecast. Based on market estimates by external institutions and our actual performance and forecasts, there is a possibility of a negative impact that will drag down annual sales by around 2%-4%.

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(2) ESG Management & Sustainability Vision

(3) China Business Update

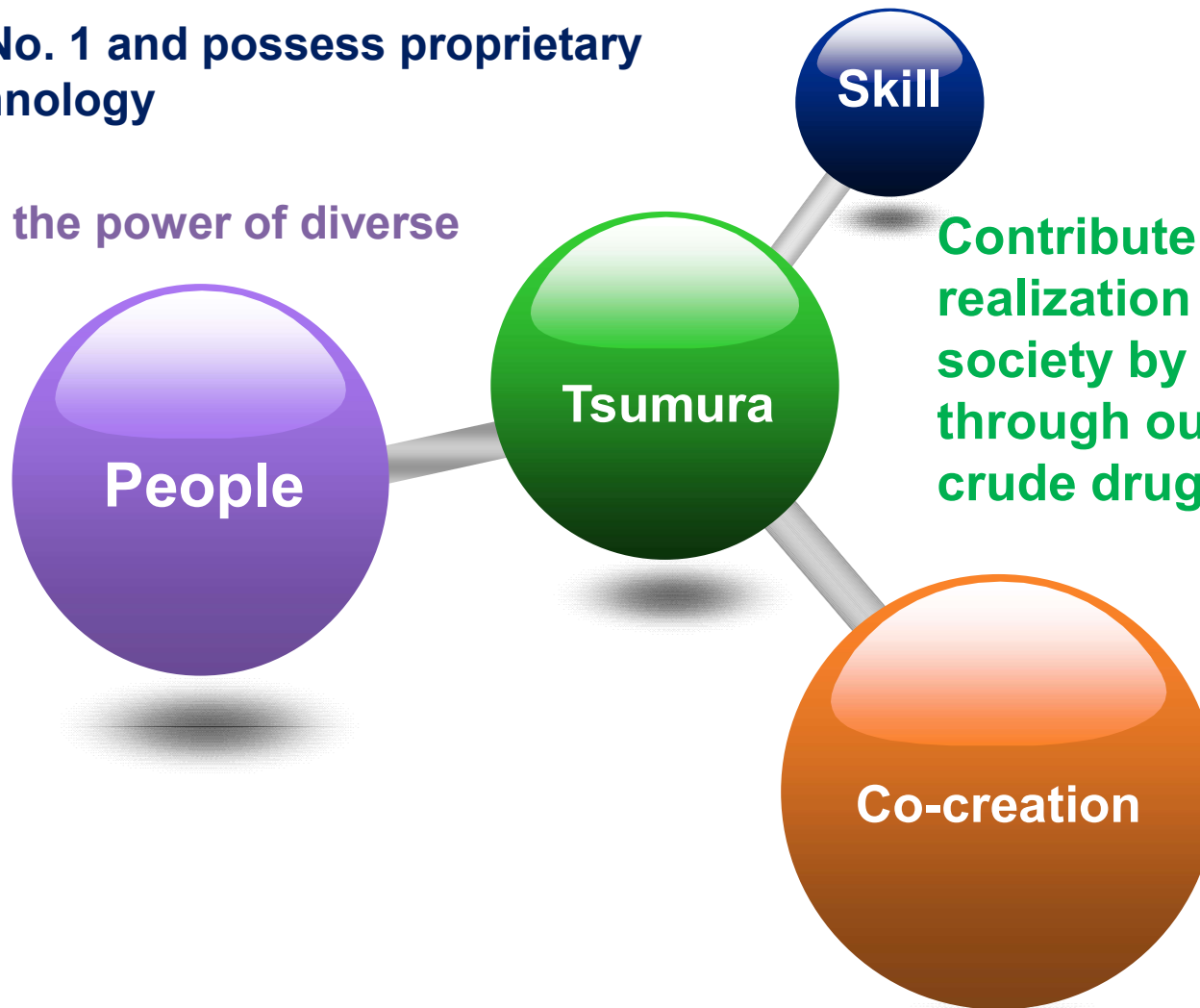
(4) FY2019 Business Results

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ESG Management and Sustainability Vision

Be No. 1 and possess proprietary technology

Bring together the power of diverse personnel



Contribute to the realization of a sustainable society by creating value through our Kampo and crude drug businesses

Together create a sustainable society

Contribute to medical care and society by creating value through the Kampo and crude drug business



Founder: Meaningful business that is part of the public interest
 Jusha Tsumura (second generation; son of founder): Kampo is not
 “unscientific,” it is **yet** to be scientifically verified

Contribute to the creation of value and to medicine based on the following approach
 "Kampo" ≠ "synthetic medicine"

"Kampo" balances the body and mind overall and by **enhancing the body's natural healing power, it promotes improvement to symptoms**



Explore efficacy of Kampo medicine in treating COVID-19 patients

Japanese Society of Oriental Medicine and other organizations have requested Tsumura's assistance in researching Kampo for use in treating COVID-19 patients. In response to this request, we will explore the efficacy of prescription Kampo formulations through full-fledged cooperation

Create New Value and Market by Being No. 1 and Leveraging Proprietary Technologies



Create a market using the Ping An Tsumura manufacturing and sales platform

Ex: Manufacture and sale of safe and secure high-quality traditional Chinese medicine



Quality / Technology / Information

Comprehensive financial and IT capabilities
Scale and recognition



Ping An Tsumura

Crude drug platform

Manufacturing platform

Sales platform

Analysis / Research

3 すべての人に
健康と福祉を



12 つくる責任
つかう責任



17 パートナーシップで
目標を達成しよう



Realize protection of the natural **environment** and a recycling-based **society** using our proprietary cultivation research technology

Expand cultivation areas by using the Ping An Tsumura crude drug platform



Ex: Forest and water conservation (nature preservation)



Forest cultivation

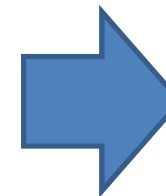


Farmland cultivation

Ex: Develop cultivation of wild crude drugs (environmental preservation, recycling-oriented society)

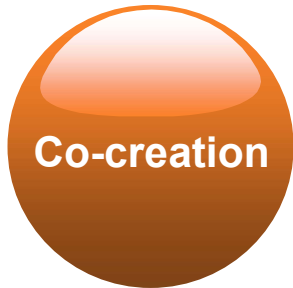


Wild crude drugs



Cultivated crude drugs

Create a sustainable **society** by overcoming poverty through the consigned cultivation of crude drugs



Cultivation in poor areas using the Ping An Tsumura crude drug platform

Ex: Successful case of Chinese rhubarb (da-huang) cultivation (contribution to local economy and job creation)



Impoverished areas (mountainous area)
Poor housing
Inadequate water and sewerage systems
Low income and impoverished farmers
Ethnic minorities have difficulty finding jobs

Contribution to the local economy
Housing maintenance
Safe drinking water and toilet
Stable income for farmers
Create jobs

High-quality Crude Drug Cultivation, Processing and Research Conducting by People with Disabilities



Co-creation with Yubari Tsumura's "Harunire no Sato," a social welfare corporation

Ex: Crude drug cultivation at "Temiru Farm" in Ishikari City, Hokkaido



Perilla herb cultivation

High-quality perilla herb cultivation

Top-level processing technology
 Boost level of skill acquisition
 Continued employment in crude drug cultivation



Bukuryo Cultivation research

Indoor bukuryo cultivation research

Applications for sawdust substrate cultivation technology
 Establishment of cultivation technology infrastructure
 Research for commercialization



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China Business Vision

Contribute to the health of the people of China/
 Stable procurement of crude drug raw materials **2027**

Ping An Tsumura Group

-Becoming the most trusted Chinese medicine company in China-

Sales: RMB10 billion
 (China business vision: Image of sales)

2021

Sales: RMB240 million
 (Medium-term management plan for the China business)

Make the traditional Chinese medicine business a pillar

- Development business via crude drug platform
- Selling products made from crude drugs, such as “Yakushoku-dogen” products and Chinese Crude Drug Pieces

2018

On February 28, 2020, a news release titled “Tsumura Announces Conclusion of Agreement Regarding Acquisition of Equity Interest in Tianjin China Medico Technology Co., Ltd. by Ping An Tsumura Inc.” was put out. The deal was concluded in March.

■ Purpose of capital tie-up

- 1) Strengthen the stable supply system for crude drug raw materials for export to Japan
- 2) Expand China business by acquiring experienced personnel in the Chinese medicine industry
- 3) Strengthen stable supply system for crude drug raw materials for use by China business (traditional Chinese medicines, etc.)



Strengthen stable supply system of crude drug raw materials by gathering knowhow from the Tsumura Group and China Medico Technology

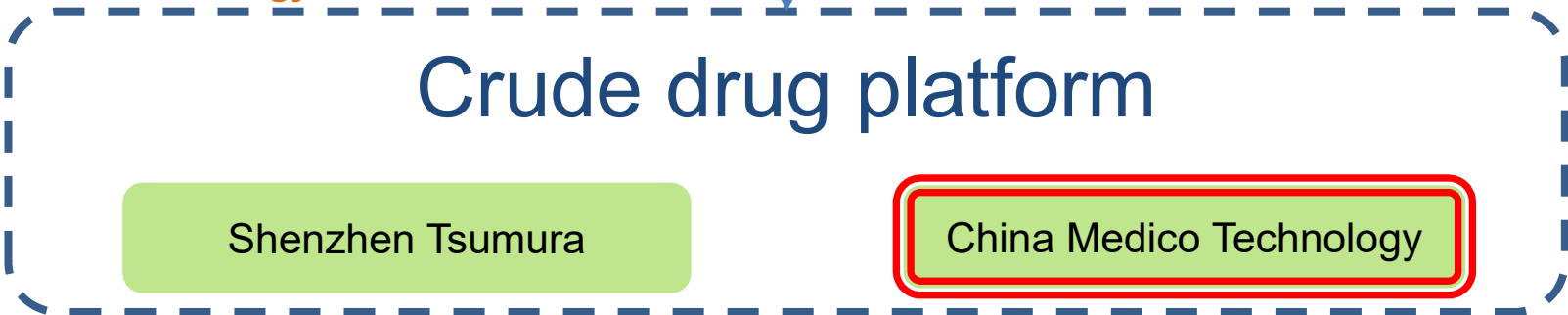
Promote expansion of the traditional Chinese medicine (crude drug raw materials) and drug pieces (chopped crude drugs) in China to establish a solid position

Build a Crude Drug Platform

Tsumura & Ping An

Share crude drug-related technology

Development of external sales routes



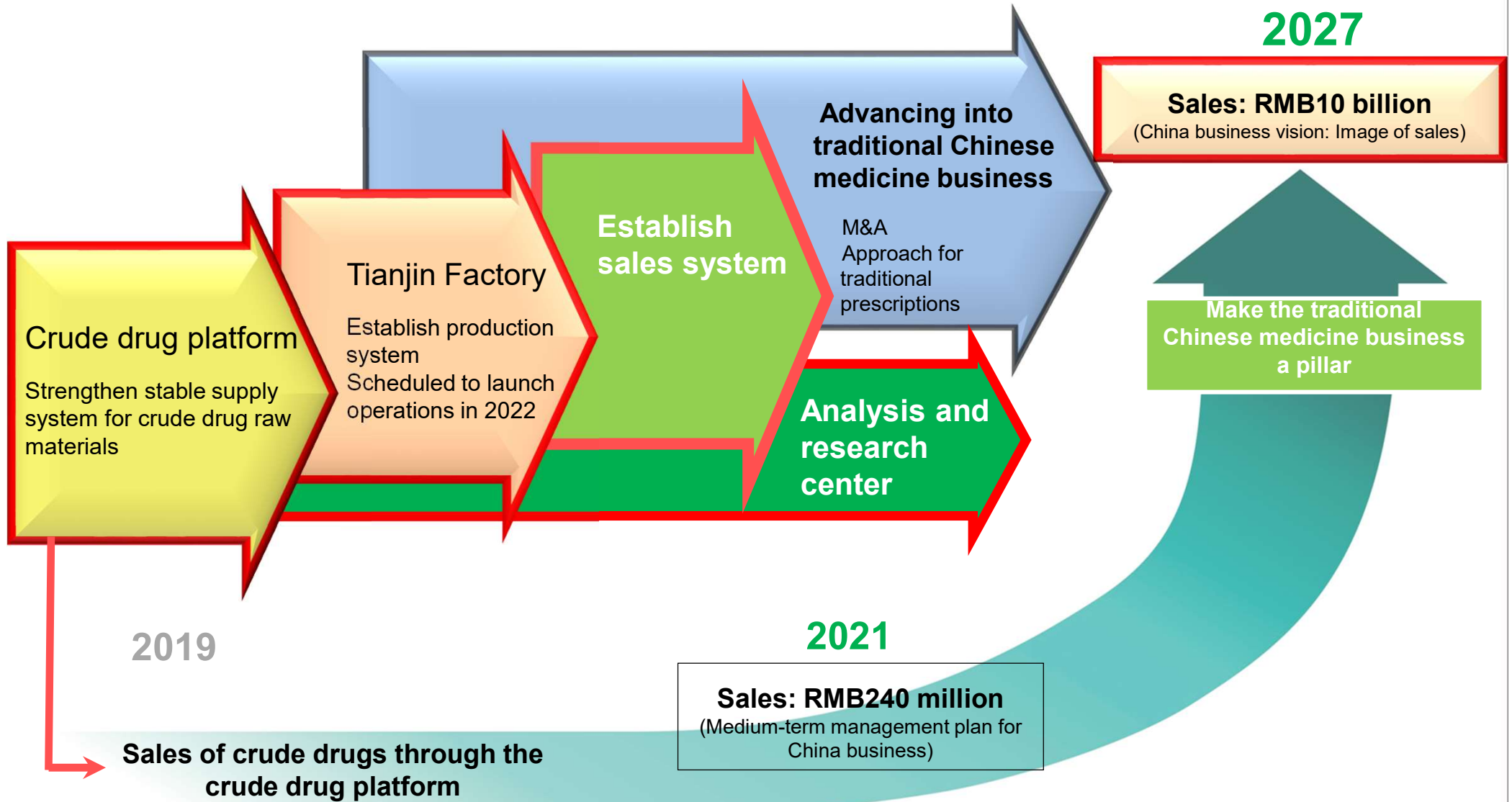
Crude drug raw materials for Japan

Crude drug raw materials for China



Yakushokudogen products

NEXT Stage



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TSUMURA & CO.

**Muneki Handa, Director and
Managing Executive Officer, CFO**
May 12, 2020

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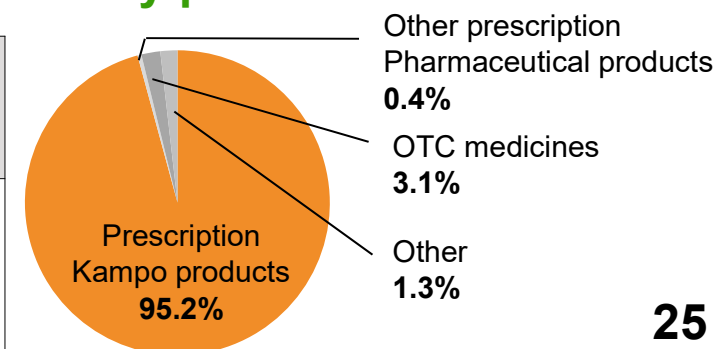
Consolidated Performance for FY 2019

(million yen)

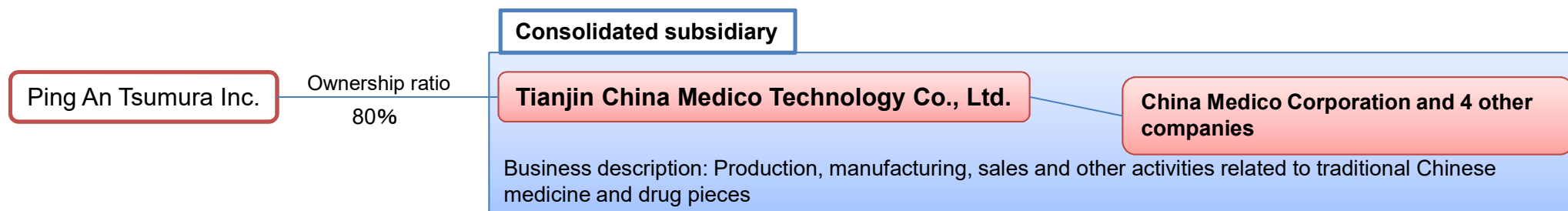
	FY 2019 Plan	FY 2019 Results	Achievement rate	FY 2018 Results	Vs. FY 2018	
					Amount	Change
Net sales	125,000	123,248	98.6%	120,906	2,341	1.9%
Operating profit	17,000	18,876	111.0%	18,520	356	1.9%
Operating profit margin	13.6%	15.3%	—	15.3%	—	—
Ordinary profit	18,000	19,649	109.2%	19,702	(52)	(0.3)%
Profit attributable to owners of parent	12,300	13,765	111.9%	14,593	(828)	(5.7)%

Sales by product

	FY 2019 Plan	FY 2019 Results	FY 2018 Actual
Dividend (Per share)	¥64	¥64	¥64



Changes in Major Subsidiaries in FY 2019



Business combination date	March 30, 2020 (Deemed acquisition date is December 31, 2019)
Ratio of equity acquired	80%
Earnings at acquired companies, included in the consolidated financial statements	In FY 2019, only balance sheet items of the acquired companies were reflected in the consolidated balance sheets. Earnings at the acquired companies were not reflected in the income statement.
Goodwill	RMB765 million (¥12,016 million); preliminary calculation
Goodwill depreciation method and depreciation period	Straight-line depreciation over 20 years (approximately ¥600 million annually)

Value and breakdown of assets and liabilities received on the day of business combination

	(million RMB)	(million yen)
Current assets	1,674	26,292
Non-current assets	365	5,793
Total assets	2,039	32,086
Current Liabilities	1,212	19,029
Non-current liabilities	241	3,788
Total liabilities	1,453	22,818

Key Points in Performance

Although operating profit rose, overall sales were up while profit was down due to the posting of extraordinary loss

Achieved all profit targets but underperformed sales plan

Consolidated net sales	123,248 million yen	Achievement rate vs. plan	98.6%	YoY	+1.9%
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- Net sales of 129 prescription of Kampo products rose 1.8% year-on-year. On a yen-basis, sales rose for 66 prescriptions.
- Net sales of OTC medicines grew 13.9% year-on-year.

Operating profit	18,876 million yen	Achievement rate vs. plan	111.0%	YoY	+1.9%
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Operating profit margin	15.3 %			YoY	+0pt
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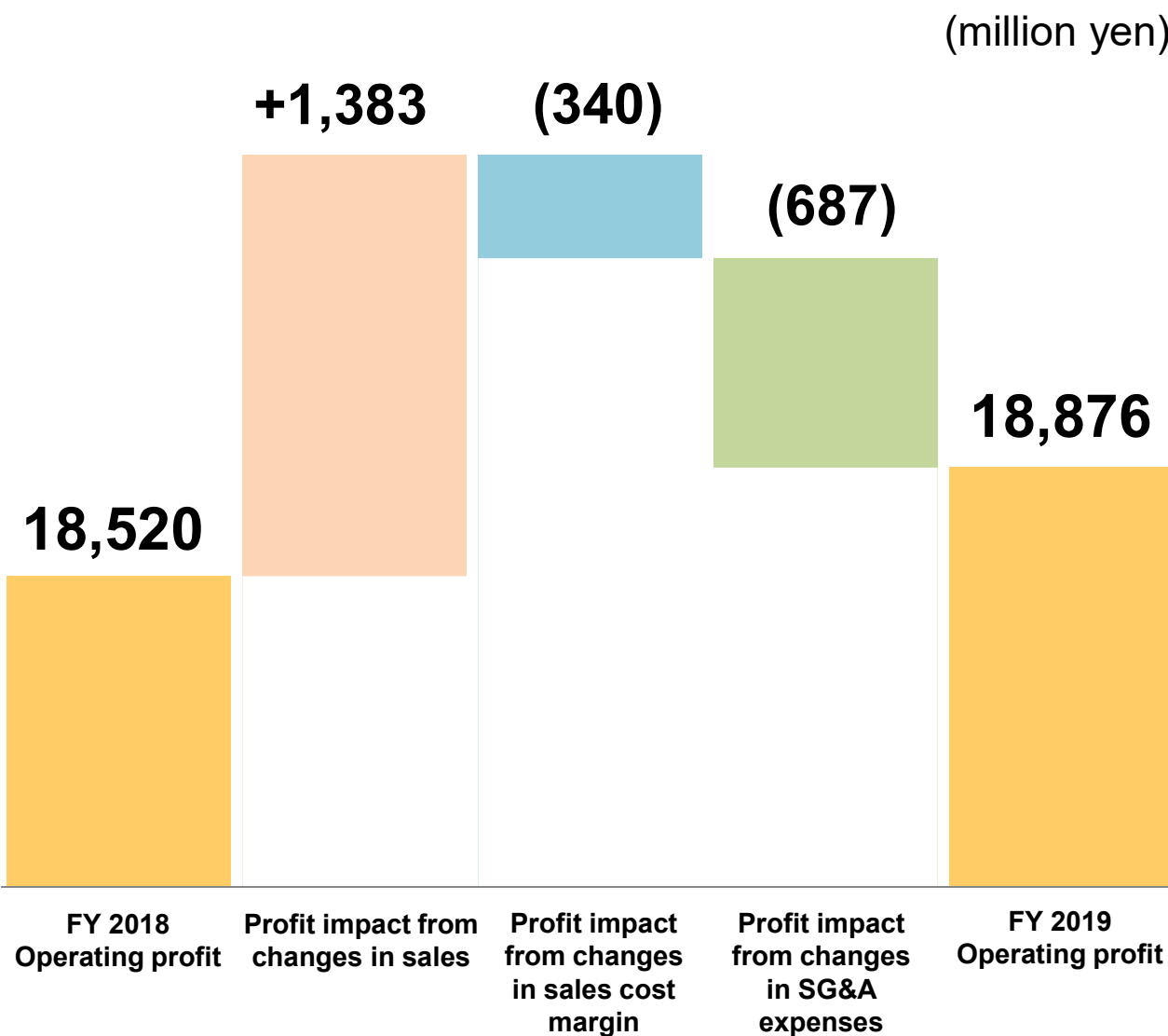
- The cost-to-sales ratio stood at 41.2%(+0.3pt YoY) due to sales mix, despite a decline in the crude drug-related costs. The cost-to-sales ratio was down 0.6pt versus plans due to a reduction in crude drug-related cost.
- The SG&A cost ratio was 43.5% (down 0.3 pt from the previous fiscal year) due to expenses incurred from refraining from business activities due to the spread of COVID-19 which has left earmarked funds unused. The SG&A cost ratio was down 1.1pt versus plan mainly due in part to a shift in period for the posting of R&D expenses and other payments.

Ordinary profit	19,649 million yen	Achievement rate vs. plan	109.2%	YoY	(0.3)%
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Profit attributable to owners of parent	13,765 million yen	Achievement rate vs. plan	111.9%	YoY	(5.7)%
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- 5.7% decrease from the previous fiscal year was recorded due to an extraordinary loss of 431 million yen in valuation loss on investment in an affiliated company associated with the dissolution and liquidation of "SPH Tsumura Pharmaceutical Co., Ltd."

Factors for changes in Operating Profit



(million yen)

Profit impact from changes in sales cost margin	
Sales composition	(492)
Crude drug cost	398
Processing cost	(246)
Profit impact from changes in SG&A expenses	
Sales-related expenses	(185)
R&D expenses	(344)
Personnel expenses	(287)
Other	129

Financial Condition

Balance Sheets

(million yen)

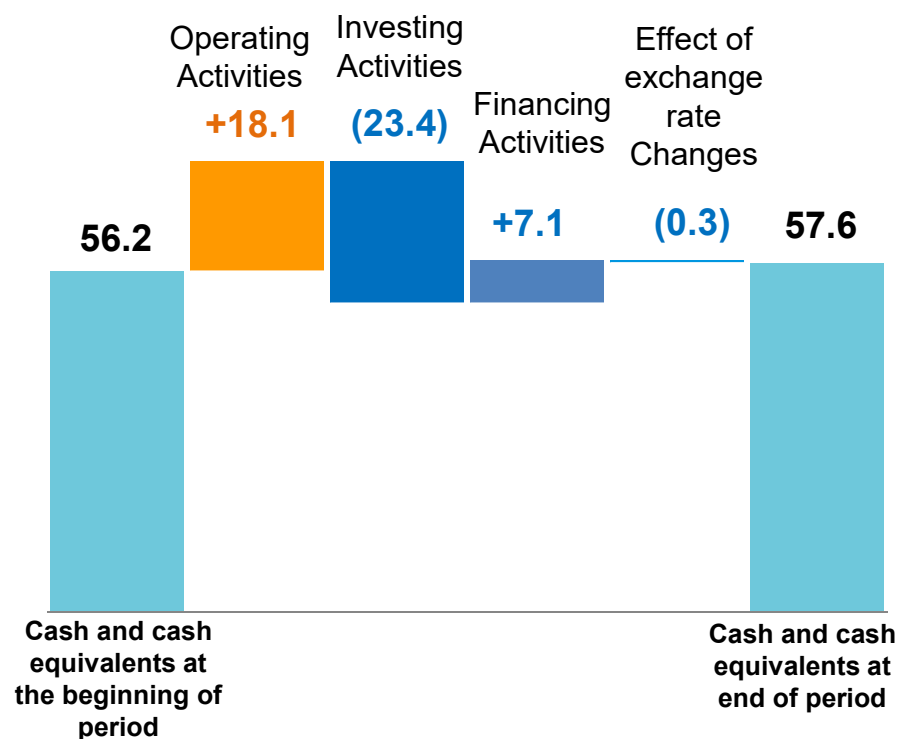
	FY 2018	FY 2019	Change
Total assets	287,322	311,042	23,719
Current assets	190,027	194,288	4,261
Non-current assets	97,295	116,753	19,458
Total liabilities	81,181	97,993	16,812
Current Liabilities	33,320	48,476	15,156
Non-current liabilities	47,861	49,516	1,655
Total net assets	206,141	213,048	6,907
Equity ratio	70.2%	66.0%	(4.2)pt

(million yen)

B/S	FY 2018	FY 2019	Comparison
Inventory assets	51,808	73,310	21,502
(Merchandise and finished goods)	9,382	10,338	955
(Work in progress)	11,125	12,418	1,293
(Raw materials and stores)	31,299	50,553	19,254

Cash Flow Position

(billion yen)



That said, of the ¥19,254 million increase in raw materials and stores, ¥16,236 million yen are assets belonging to China Medico.

Roadmap for the Realization of the Long-term Management Vision



Strategic challenges

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

Establishing a Kampo medicine business

Number of doctors who prescribe Kampo

One in two doctors prescribe 10 or more prescription Kampo

Third Medium-Term Management Plan (FY 2019-2021): Aim for a 24,000 increase in headcount in 3 years



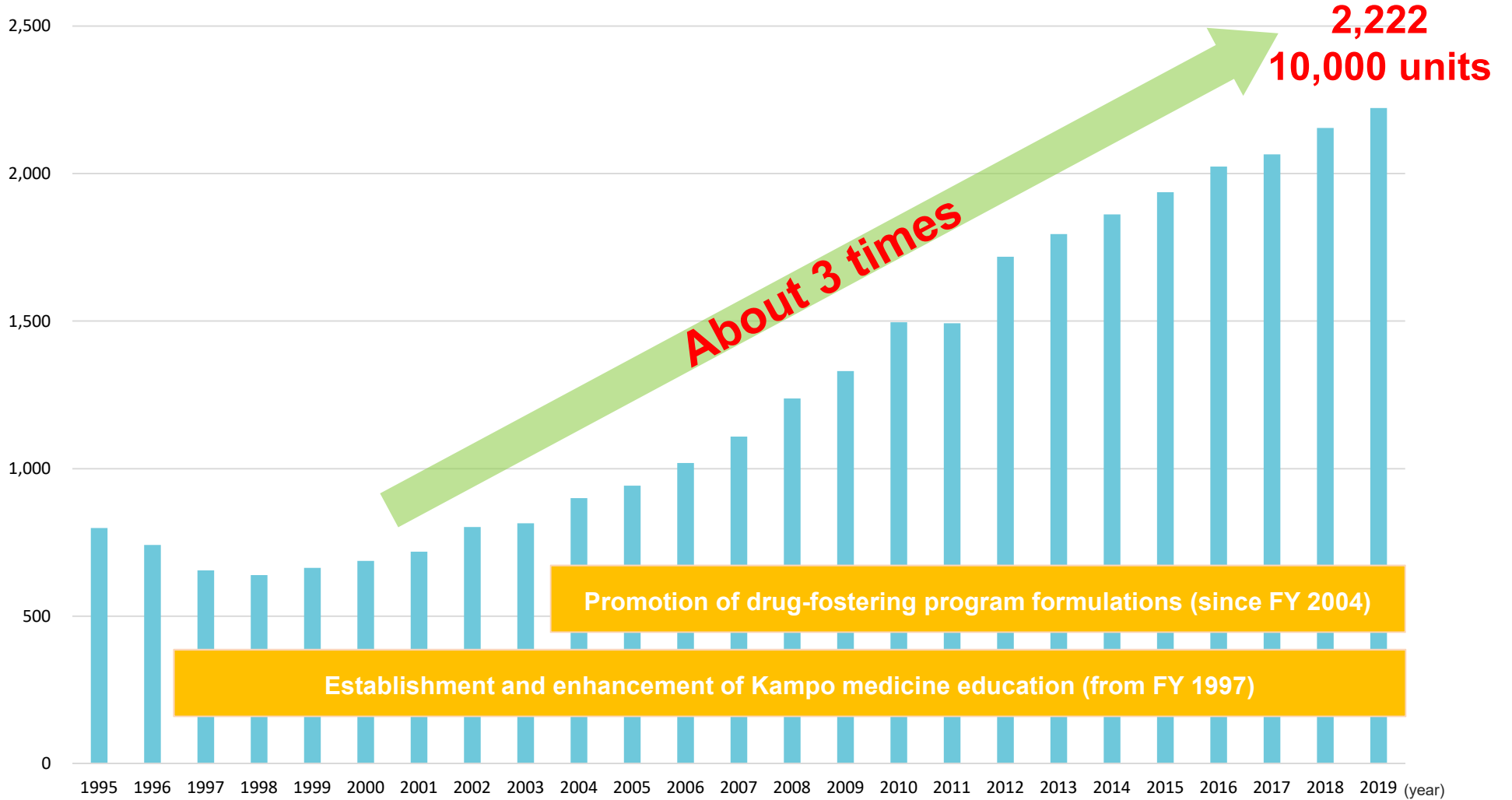
Headcount increased 9,900, versus a FY 2019 target of 8,000, putting the company off to a smooth start

Three pillars of Kampo medicine education

Number of universities conducting Kampo medicine education	Classroom lectures	81 universities	/ 81 universities
	Clinical training	58 universities	/ 81 universities
On-campus Kampo study sessions		80 universities	/ 81 universities
Kampo outpatient treatment		80 facilities	/ 81 facilities

Sales of 129 prescriptions Kampo products

10,000 units (converted)



1 unit equals 1 standard packaged box; 1 box contains 9 weeks of drugs

First Medium-term Management Plan
Second Medium-term Management Plan
Third Medium-term Management Plan

Sales of prescription Kampo products (Drug-fostering and Growing formulations)

(million yen)

	Sales ranking	Product No./name		FY 2018	FY 2019	YoY	
Drug-fostering program formulations	1	100	Daikenchuto	10,430	10,357	(72)	(0.7)%
	2	54	Yokukansan	7,664	7,774	110	1.4%
	3	43	Rikkunshito	7,256	7,370	114	1.6%
	9	107	Goshajinkigan	3,625	3,603	-22	(0.6)%
	22	14	Hangeshashinto	1,350	1,390	39	3.0%
Total drug-fostering formulations				30,327	30,496	169	0.6%
Growing formulations	4	41	Hochuekkito	7,158	7,113	(45)	(0.6)%
	5	68	Shakuyakukanzoto	5,097	5,202	105	2.1%
	6	29	Bakumondoto	4,734	4,839	104	2.2%
	7	24	Kamishoyosan	4,539	4,598	59	1.3%
	8	17	Goreisan	4,124	4,491	367	8.9%
Total growing formulations				25,653	26,245	591	2.3%
Total sales for 119 prescriptions other than drug-fostering and growing prescription formulations				59,274	60,605	1,331	2.2%
Total sales for 129 prescription Kampo formulations				115,255	117,347	2,092	1.8%

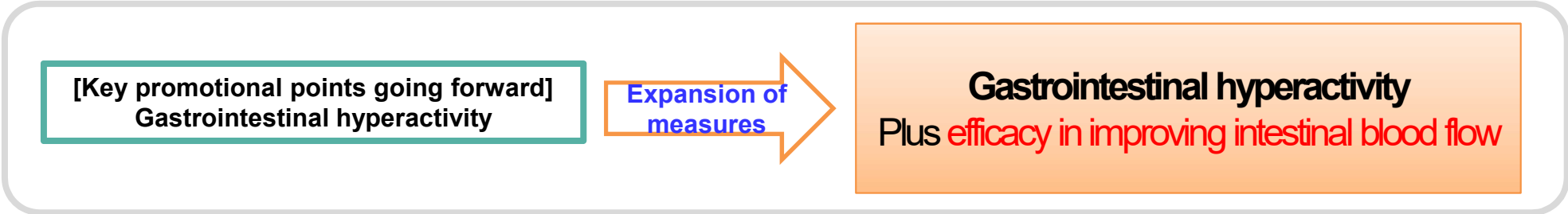
Drug price revision rate for 129 formulations for prescription Kampo medicines

	October 2019	April 2020
NHI drug price revision rate	(1.8)%	(0.3)%

0% when factoring in consumption tax increase

Factors/measures for underperformance of Daikenchuto and Hochuekkito

Daikenchuto



Impact of briefing session measures	<ul style="list-style-type: none"> University hospitals Clinical training designated hospitals 	Implementation of briefings: 98.8% Implementation of briefings: 77.5%
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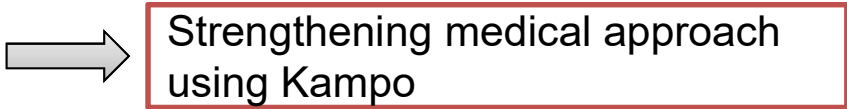
Measures for FY 2020

1. Market materializing owing to awareness-raising activities for efficacy in treating bloating
2. Approaches based on various mechanism of action of Daikenchuto, with the goal of fixing or extending the perioperative period

Gastrointestinal hyperactivity
 Improve intestinal blood flow
 Anti-inflammatory benefits
 Effective in improving intestinal flora

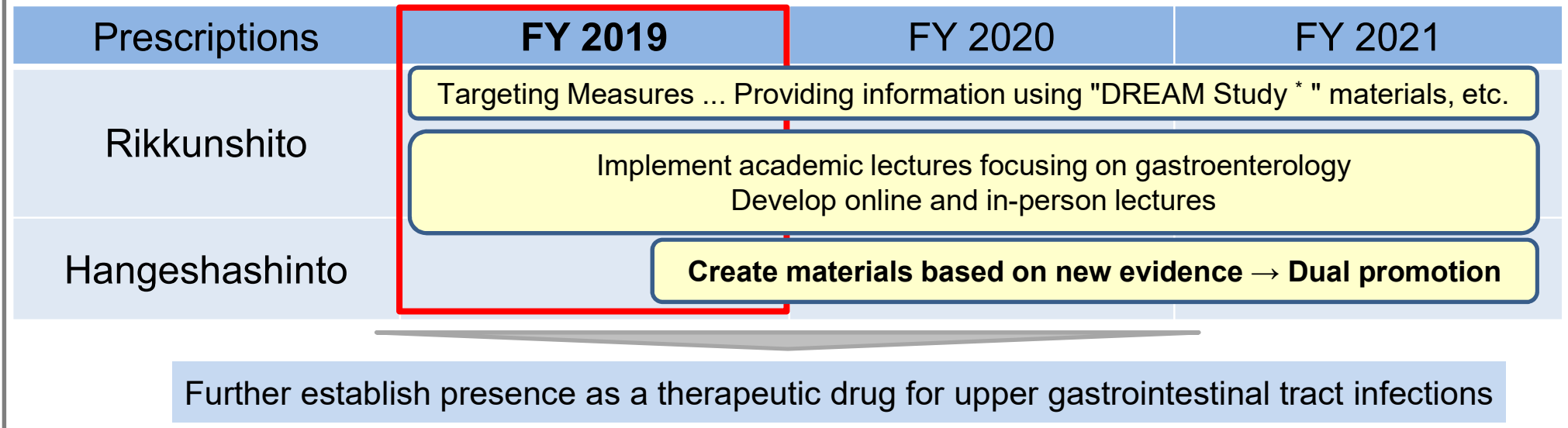
Hochuekkito

1H: Bad summer weather 2H: Sales decline due to a lack of people catching colds



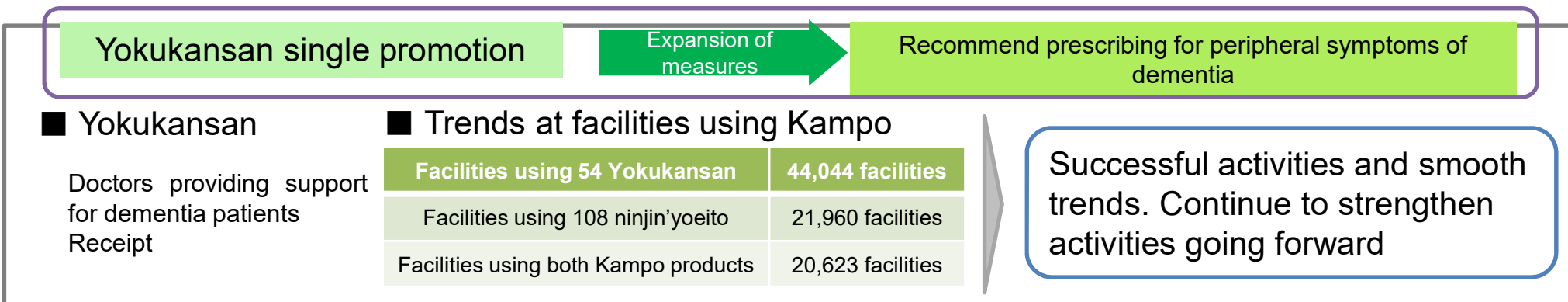
Progress of Yokukansan and Rikkunshito sales measures

Rikkunshito



*DREAM Study: A multi-facility, double-blind comparative study on the efficacy and safety of Rikkunshito for patients with functional dyspepsia

Yokukansan



FY 2019 e-Promotion Implementation Trends

Kampo Mega Web Lecture

Theme	Speaker	Date held	Number of viewers
"Kampo is a must for clinicians"	Dr. Masanori Niimi (Teikyo University, School of Medicine)	2019. 9.25	17,878 people
"Managing Kampo Extracts"	Dr. Masanori Niimi (Teikyo University, School of Medicine)	2019.12.16	18,855 people
"Acute respiratory tract infections and Kampo"	Dr. Shigeki Nabeshima (Fukuoka University, School of Medicine)	2020. 3.23	17,354 people

Other e-promotions

Delivery format	Number of times held	Total views
One-point video delivery	4 times	58,196 people
Web seminar (attract to venue)	5 times	11,295 people

E-promotions, including web lectures, make it possible to approach to unmet physicians, and have been effective as a channel for providing information.

Even in FY 2020, we plan to promote e-promotions that aim to have synergistic benefits with MR activities.

FY 2020 Activities to Disseminate Information

Priority issues	Themes to be implemented
e-promotion	Implementation of new access, including web lectures and online interviews ➔ Realize optimal communication that maximizes MR activities
Area activities	Provide detailed information that takes into consideration features of the region and facility ➔ To respond to the needs of doctors who want to learn about Kampo, Hold an area plan, including "Introductory Seminar on Kampo"

In addition to face-to-face activities to fulfill information needs on Kampo, we aim to continually expand the Kampo market by implementing activities to disseminate information, including e-promotions.

*In consideration of the conditions caused by COVID-19, we aim to flexibly carry out plans to address needs.

Sales Measures

- Position healthcare for the geriatrics, cancer (supportive care*) and women’s health as our three key domains and focus our activities in these domains
- Deploy a sales approach that entails prescriptions in these three key domains plus drug-fostering program formulations and growing formulations

Geriatric health	
Psychiatric and neurological disorders Yokukansan D + Related formulations	Digestive system diseases Rikkunshito D Daikenchuto D Hochuekkito G + Related formulations
Respiratory diseases Bakumondoto G + Related formulations	

Cancer (Supportive care)
Mitigation of side effects, etc. Rikkunshito D Hangeshashinto D Goshajinkigan D + Related formulations

Women’s health
Diseases specific to women Kamishoyosan G + Related formulations
Other diseases and symptoms Daikenchuto D Goreisan G + Related formulations

Peripheral symptoms for cardiovascular disease
Goreisan G + Related formulations

D Drug-fostering program formulations
 After close examination of the structure of medical disorders in recent years, we are concentrating drug development on disorders that are difficult to treat with Western drugs but where Kampo preparations show specific results.

G Growing formulations:
 Formulations that aim 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 with treatment and the contribution of medicine are low.

*Supportive care:
 Treatment to reduce symptoms associated with cancer itself and symptoms of the adverse effects of cancer treatment.

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FY 2020 Forecast

(million yen)

	FY 2019 results	FY 2020 forecast	Vs. FY 2019	
			Amount	Growth
Net sales	123,248	132,000	8,751	7.1%
Operating profit	18,876	17,000	(1,876)	(9.9)%
Operating profit margin	15.3%	12.9%	—	—
Ordinary profit	19,649	17,900	(1,749)	(8.9)%
Profit attributable to owners of parent	13,765	13,000	(765)	(5.6)%

Main breakdown of negative factors impacting operating profit

Increase in R&D expenses
(including carry-over portion from FY 2019) 1.23 billion yen

Increase in SG & A expenses associated with
the consolidation of China Medico Technology 1.15 billion yen

Amortization of goodwill associated with
consolidation of China Medico Technology 0.6 billion yen Total : 2.98 billion yen

Tianjin Medico FY 2019 results

Sales	16.6 billion yen
Gross profit	3.9 billion yen
Operating profit	2.7 billion yen

*FY 2020 profit is eliminated as unrealized profit

FY 2020 Forecast

(million yen)

	FY 2019 results	FY 2020 forecast	Vs. FY 2019	
			Amount	Growth
Net sales	123,248	132,000	8,751	7.1%
Operating profit	18,876	17,000	(1,876)	(9.9)%
Operating profit margin	15.3%	12.9%	—	—
Ordinary profit	19,649	17,900	(1,749)	(8.9)%
Profit attributable to owners of parent	13,765	13,000	(765)	(5.6)%

	Fiscal 2019 results	Fiscal 2020 forecast
Dividend (per share)	¥64	¥64
EPS	179.96 yen	169.92 yen
ROE	6.8%	6.2%

Impact of COVID-19

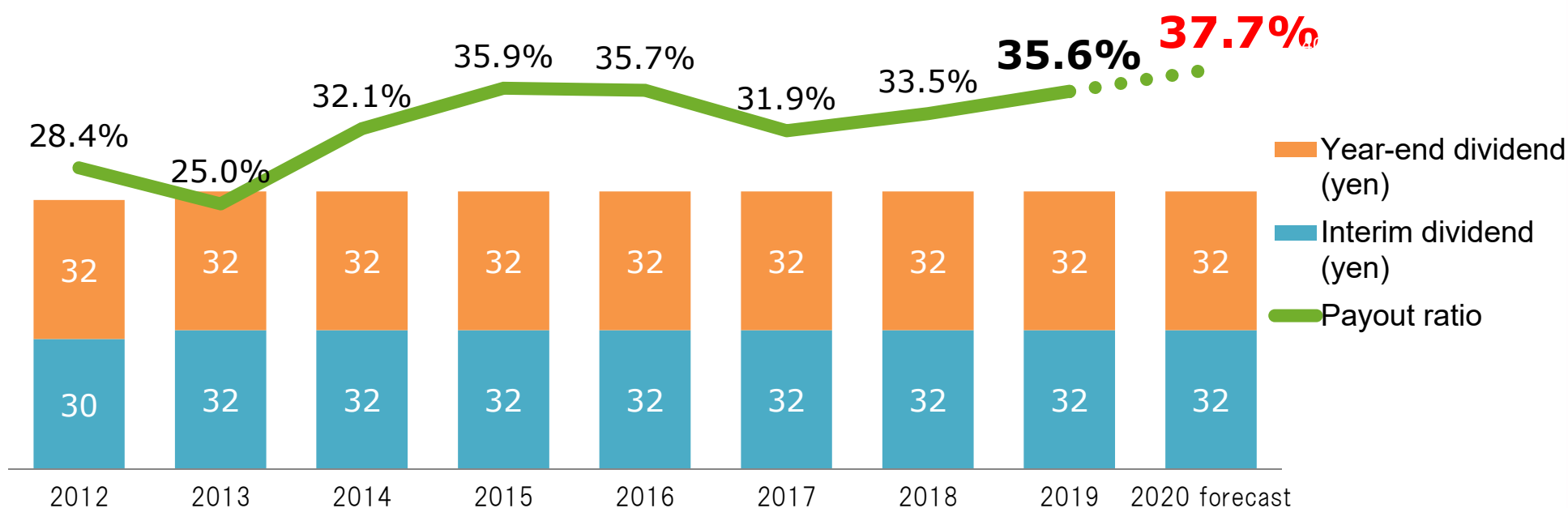
The impact of COVID-19 is not reflected in the above forecast as it is difficult to accurately predict the timing of COVID-19 will peak out.

Assuming the peak for COVID-19 is from April to June, after which is gradually continues to dissipate, we estimate a negative impact to sales of 2% to 4%. However, should it be prolonged, we will make timely and appropriate disclosure in line with changes in the situation.

Policy on Return of Profits to Shareholders

- 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



Note: 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

Inquiries about this material

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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 realization of these statements can be affected by a variety of risks and uncertainties and that actual results could differ significantly. Therefore, please be aware that actual results may differ materially from these forecasts.
- Governmental changes to the healthcare insurance systems or regulations set by medical treatment authorities on drug prices or other aspects of healthcare in Japan or other regions, or changes 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.