

Q: Does the 7.0 billion yuan (about ¥119.0 billion) sales target for the formulation platform mainly consist of traditional Chinese medical products? Or does it primarily consist of classical prescription Chinese medicine formulations? (Page 30 of the materials)

A: The formulation platform mainly consists of traditional Chinese medical products. In the event of an M&A deal, we plan to sell the traditional Chinese medical products possessed by the target company. There are not many classical prescription Chinese medicine complex formulation products and the market is also not very large. We plan to utilize Tsumura knowhow here to expand the market. In light of this, at present we are screening target companies that possess classical prescription Chinese medicine complex formulations and negotiating M&A deals. Ultimately, we plan to handle classical prescription Chinese medicine combination formulations. At the same time, there are cases where an acquisition target possesses traditional Chinese medical products that are not classical prescription Chinese medicine combination formulations. Owing to this, at this stage it is difficult to convey factors, including definite ratios. We aim to contribute to the health and medical care of the citizens of China with traditional Chinese medical products and classical prescription Chinese medicine complex formulations. There are not many companies in China that handle these two types of formulations so I believe that Tsumura can play a supportive role.

Q: Centralized purchasing is being implemented in China. There is talk of a high possibility that this will also apply to traditional Chinese medical products. Assuming that centralized purchasing is applied to traditional Chinese medical products, will this impact the China Business in the medium/long term.

A: We have reached an agreement with the Ping An Insurance Group. We plan to build a brand for general consumers and aspire to contribute to the health of consumers. In China, the centralized purchasing movement is recognized as being similar to the trend for prescription pharmaceuticals in Japan. We cannot quantitatively show the degree of impact. However, as a current trend, we are taking into account the need to sufficiently consider factors, including ratios, for business development, while also closely monitoring centralized purchasing trends.

Q: I assume that companies that supply traditional Chinese medical products to hospitals are also included in M&A targets. However, can we assume there will be no progress with M&A deals until the centralized purchasing issue is solved?

A: The impact will differ depending on the type of traditional Chinese medical products possessed by a target company. It is not that we are not dealing with prescription pharmaceuticals. We have reached an agreement with the Ping An Insurance Group to establish a brand for products for general consumers. We plan to select M&A targets taking this into account. We plan to implement M&A while closely monitoring trends in centralized purchasing.

Q: It is my opinion that the yen will continue to depreciation in value in tandem with the prolonged impact of COVID-19. What impact will forex have on the China Business, including the inventories held by subsidiaries in China? In FY 2020, what degree of forex impact did you experience?

A: Conventionally, the majority of impact to earnings from forex translations are from purchasing denominated in foreign currency. Therefore, the impression is negative when the yen depreciates in value. However, as we will be posting sales denominated in foreign currency, the impact to the income statement will be minimal owing to offset accounting. We enter into forex forward contracts when importing raw material crude drugs and extract powder. Owing to this strategy, we are basically not exposed to impact from actual spot market rates. Based on hedge accounting rules, we are implementing forex forward contracts in line with procurement plans for crude drugs and extract powder while closely observing the timing of hedging, including monitoring forex trends based on remittance plans.

Q: There was substantial negative impact to cold-related prescriptions. However, are you incorporating plans for a recovery in the cold-related market, which is an uncertainty? In addition, sales in the GP market were brisk in comparison with the pharmaceuticals market. However, sales were negative in the HP market. Taking into account the experience during COVID-19 in FY 2021, what changes do you plan to make to sales activities? (Page 9 and 13 of the materials)

A: Although there was positive impact from COVID-19, the negative impact to cold-related prescriptions exceeded this. The negative impact totaled ¥2.6 billion. In FY 2020, we underperformed our plan for sales activity costs (mainly travel and transportation costs, lecture costs, etc.) due to the impact of COVID-19. By reallocating capital (resources), we were able to put in place a system that can address e-promotions. We plan to deploy sales activities by leveraging a new approach to information provision, mainly in the HP market.

A: In FY 2021 as well, we put together a plan in which we estimate cold-related formulations will not make a rapid recovery. In HP sales, although there were external factors, including a decrease in the number of surgeries, we believe a major factor was a delay in the establishment of an online information provision system. From December 2020, we started introducing contents that can be provided digitally. Thus far, we have provided information to around 30,000 doctors working at hospitals. In addition to visitations, we plan to deploy information provision activities through e-promotions. In addition, in April 2021 we renewed our website for medical practitioners and aim to realize a system that facilitates the implementation of Web lectures. Ultimately, our goal is to realize sales activities in which each MR carries out information provision using a new approach.

Q: What is the reason you added “peripheral symptoms for frailty related to the geriatric health domain in the three important domains? Is this being impacted by COVID-19? (Page 16 of the materials)

A: Frailty is regarded as a social issue. Originally, Kampo products were frequently used to boost the stamina of individuals in a frail state. In light of this, further expansion of sales activities targeting geriatric disorders will contribute to solving social issues. We plan to address Japan’s goal to extend the healthy life span of its citizens by three or more years by 2040 with Kampo.

Q: For M&As, what financial ratios do you envisage for net assets, including intangible assets and goodwill?

A: It is difficult to showcase direct financial ratios as the impact to goodwill will differ depending on the M&A target, acquisition price and business format. We have only completed 30%-40% of the investment plans in the three-year medium-term management. The primary reason for this is that the lack of successful M&A deals. We are pushing forward with negotiations to realize M&A deals that are incorporated into the medium-term management plan.

Q: FY 2021 is the financial year of the current Medium-term Management Plan. What is the vision you plan to outline in the next Medium-term Management Plan? Is it correct to understand that Tsumura is outlining a plan for monetization, including returns on upfront investments carried out in China thus far?

A: We are deploying measures, including M&A and capex, focusing on monetizing the China Business. In the China Business, we are aiming to achieve sales of ¥10.0 billion under our next the Long-term Vision 2031. We plan to disclose this in a plan that takes the Long-Term Vision into account.

Q: What level of debt do you forecast? Also, what types of disciplinary rules are in place internally?

A: We established the current Medium-term Management Plan after already completing fund procurement therefore we plan to adequately allocate funds based on our current financial position. However, there is a possibility that we will not be able to cover investments for all business infrastructures and in the next Medium-term Management Plan with the funds we have procured. Should this be the case, we will implement a financial strategy that includes maintaining our credit rating.

Q: In the Long-term Vision 2031, Tsumura aims to achieve a sales goal for the China Business of 10.0 billion yuan (roughly ¥170.0 billion) in FY 2027. It is correct to assume you plan to grow the China Business to work toward this goal? Also, is it correct to understand that concrete sales for the China Business will be disclosed at the next full fiscal year financial results or when you disclose the Long-term Vision for 2031?

A: About the contents toward the sales image of 10 billion yuan in 2027 We plan to disclose details when we disclose the Long-term Vision 2031 and the new Medium-term Management Plan.

[Important points]

The details in these materials were not transcribed as is from the Q&A session at our financial results briefing. Taking the purpose of these materials into account, this is an abridged version.