



### Feature 3

## Organization Capital that Drives Our Value Creation Cycle

#### Back- ground

**Increased cooperation between organizations and the growth of individuals are essential for establishing the world's most unique Kampo and traditional Chinese medicine business**

The Tsumura Group has been conducting basic and clinical research for Kampo formulations for about half a century. Through this work, we have accumulated technologies and expertise for analyzing and formulating multi-component formulations. Looking ahead, we will not only work to expand the Kampo medicine market in Japan, but also to leverage our accumulated intellectual capital to maximize the potential of traditional Chinese medicine in China with the aim of contributing to the development of the overall industry. To achieve this, we need to raise the overall level of business activity even further, including stable procurement of raw material crude drugs, quality assurance, and environmental conservation.

The Group is currently working to innovate the Kampo value chain by adopting advanced technologies and promoting DX. We are steadily promoting measures to realize

the long-term management vision that we formulated in 2022, envisaging a society in which the traditional medicine of Japan and China can support the well-being of each individual.

To reinforce the Kampo business in Japan and the traditional Chinese medicine business in China, it is essential to have close cooperation between Group companies in Japan and overseas so that the knowledge possessed by each company and division is used across the organization. Since 2012, we have been promoting the concept of "Tsumura, the People Company," and implementing organization and human capital management that connects the growth of individuals to that of organizations and companies. In addition, we have made potential-abilities development (PAD) a part of our long-term management vision, and based on this, we are promoting system reforms and organizational adjustments.

#### Tsumura's Potential-Abilities Development (PAD) Initiative

### PAD

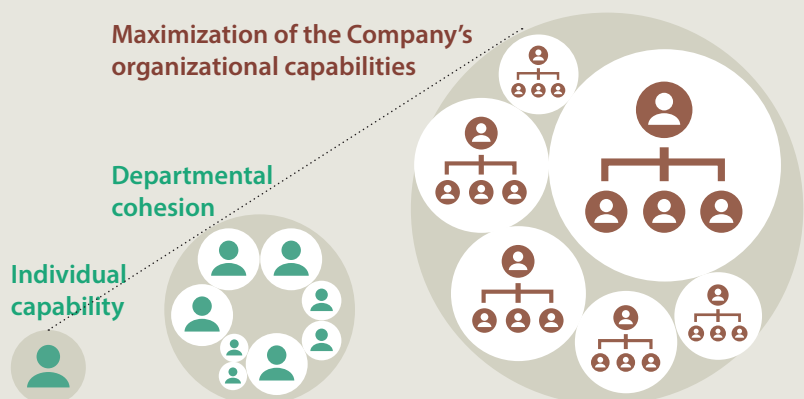
#### Potential-Abilities Development

Tsumura's PAD initiative is about developing the abilities of its people and organizations. The goal is to become a group of people who are universally trusted, with a corporate culture that employs dialogue to encourage every employee to make the most of their potential. With this group, we will develop the only Kampo and traditional Chinese medicine business model of its kind in the world. In this way, we aim to achieve an organization mechanism analogous to Kampo medicines, in which individual crude drugs that each have a role achieve efficacy by working together.

#### Maximization of the Company's organizational capabilities

#### Departmental cohesion

#### Individual capability

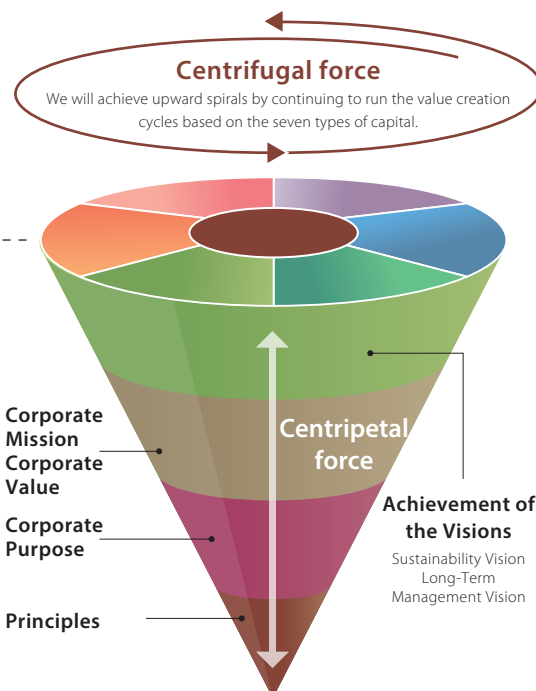


## We will develop human resources based on organization capital to create a beneficial cycle that generates social value

To create social value through the Tsumura Group's products and services, we place organization capital\* at the center of management, based on our Philosophy. We harness this organization capital to increase centripetal force, aiming to realize our sustainability vision and long-term management vision as the autonomous activities of our employees accumulate to form a great centrifugal force.

Furthermore, we nurture human resources who can reflect our Visions and Corporate Philosophy in their daily activities and make appropriate decisions, creating a cooperative and collaborative organization in an effort to generate a virtuous cycle for all of the capitals. Our approach to this is to engage in activities that promote understanding of our Philosophy, such as having dialogues focused on the purpose of work and creation of value. Through these activities, we maintain an organizational culture that encourages the expression of employees' latent potential, while aiming to be a pioneering corporate group opening up new pathways in a Kampo and traditional Chinese medicine business that is unique in the world.

\* The International Integrated Reporting Council's "International Integrated Reporting Framework" presents six capitals as a concept for examining an organization's approach to inherent value creation. To these, the Tsumura Group has added "organization capital" as a seventh capital. This capital is our own original concept. Just as Kampo medicines are composed of a combination of several crude drugs, we aim to create an organization that brings together many people with unique capabilities and individuality in a well-balanced state to create our ideal social value.



## Process for Value Creation

### Fiscal 2024 results



#### 1. Organization capital

- Organization mechanism analogous to Kampo medicines
- **132**th anniversary of founding
- Corporate Philosophy survey: **4.04** pt



#### 2. Human capital

- Number of employees (consolidated): **4,272**
- Education expense per person (non-consolidated): ¥ **115** thousand
- Percentage of employees with disabilities: **2.23** %
- Engagement survey: **3.65** points



#### 3. Intellectual capital

- R&D expenses: ¥ **8,355** million
- Raw materials for crude drug traceability system based on Tsumura GACP
- Tsumura Quality Management System to ensure the uniform quality of Kampo formulations
- Tsumura's proprietary research package (KAMPOMics®)



#### 4. Natural capital

- Energy used: **2,140** TJ
- Water used: **2,248,893** t
- Water recycling rate (Ibaraki, Shizuoka and Shanghai, Tianjin): **60.8** % on average
- Percentage of industrial waste recycled: **99.7** %
- Countries supplying raw material crude drugs:  
China approx. **90** %; Japan, Laos and others approx. **10** %
- Percentage of cultivated land under the Group's own management: **85.9** %



#### 5. Manufacturing capital

- Selection, processing and quality management:  
**2** sites in Japan, **2** sites in China
- Manufacturing plants: **2** sites in Japan, **2** sites in China
- Research centers: **1** site in Japan, **1** site in China
- Capital expenditure: ¥ **28,650** million



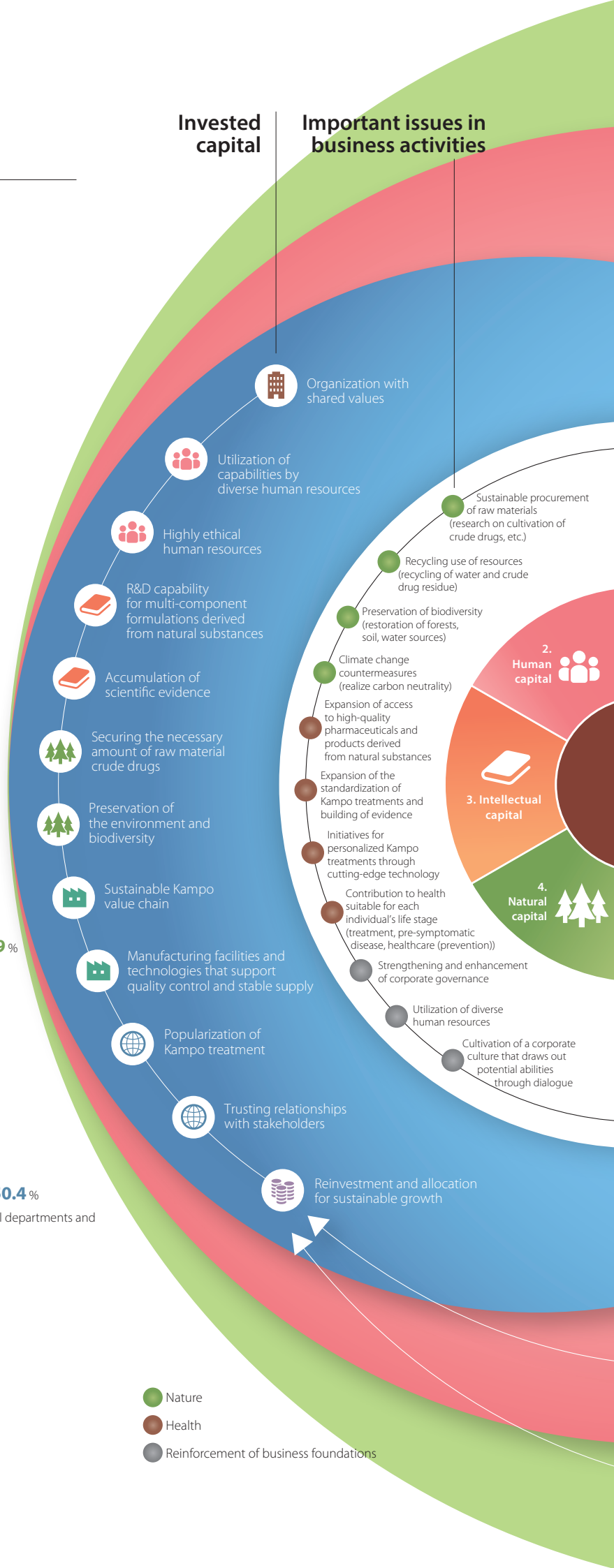
#### 6. Social and relationship capital

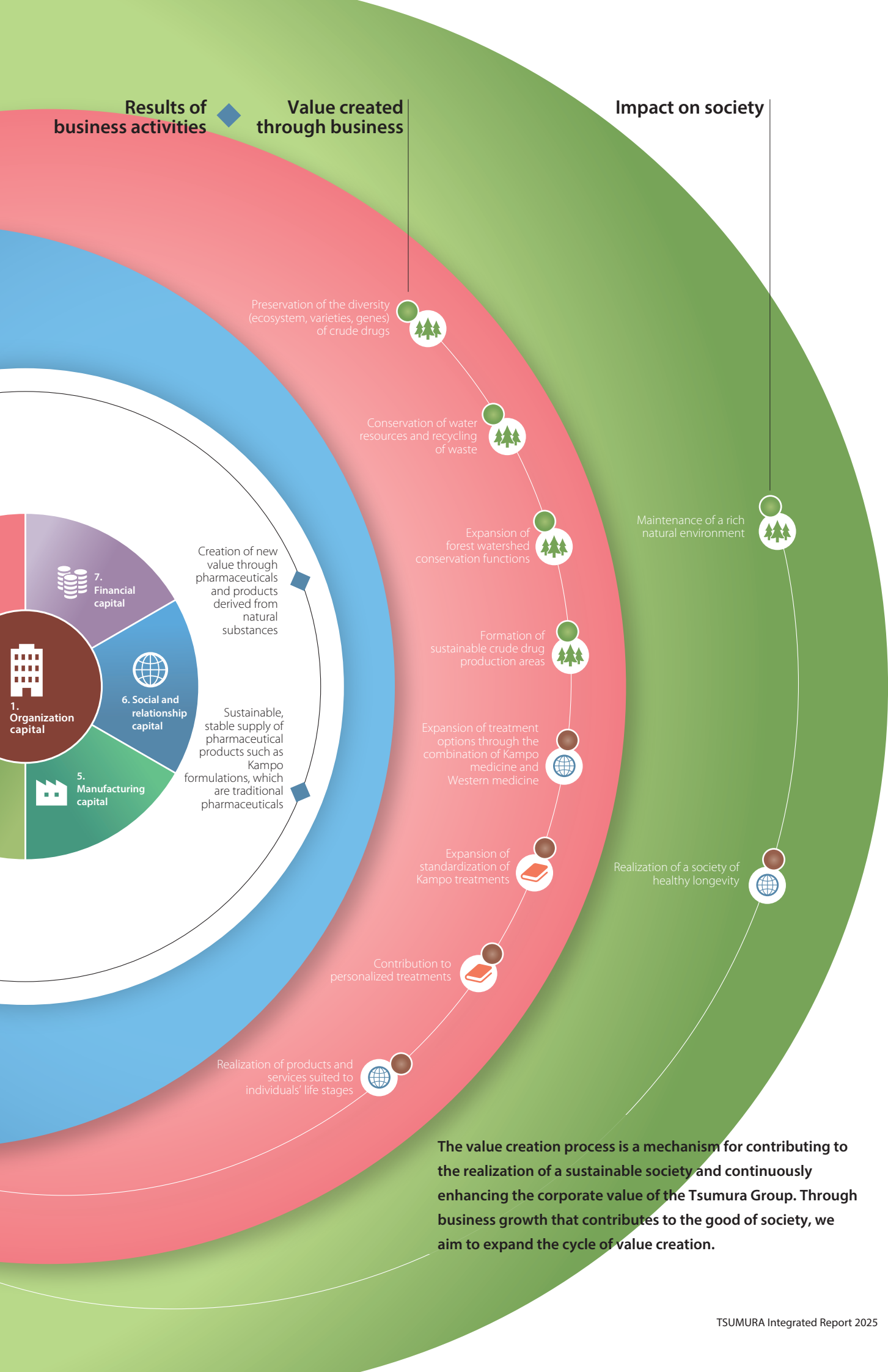
- Percentage of physicians prescribing 10 or more Kampo prescriptions: **50.4** %
- Kampo medicine education being implemented at all university medical departments and medical colleges
- Number of write-ups in treatment guidelines: **161**
- Number of consultations at customer consultation desk: **30,825**



#### 7. Financial capital

- Net sales: ¥ **181,093** million
- Operating profit: ¥ **40,125** million
- Free cash flow: ¥ **8,849** million
- Total assets: ¥ **464,380** million
- Shareholders' equity: ¥ **300,530** million





The value creation process is a mechanism for contributing to the realization of a sustainable society and continuously enhancing the corporate value of the Tsumura Group. Through business growth that contributes to the good of society, we aim to expand the cycle of value creation.

## We are raising productivity across the whole company and engaging in continuous dialogue to foster an organizational culture that can generate higher added value

The continued decline and aging of Japan's population is having a serious impact on all industries. At Tsumura, we have seen a significant initial impact on our domestic business, and we recognize that increasing labor productivity is a particularly pressing issue. Taking a wider view, the development of human resources to lead our global business is also an urgent priority. For this reason, it is necessary to raise the capabilities of individuals and foster an organizational culture capable of producing higher added value. To achieve this, the Group has adopted the concept of an "organization mechanism analogous to Kampo medicines" as its ideal for the Group's organization. This organization mechanism analogous to Kampo medicines is a concept in which each member uses their respective skills to perform their role and responsibilities, just as individual crude drugs work together in a Kampo medicine to achieve overall harmony, thereby producing a

stronger result as a team.

In April 2025, we conducted a major organizational reform aimed at enabling this kind of organization to function properly in order to increase labor productivity. Among other measures, we established a dedicated section responsible for organization development and integrated our sales organizations. We expect this to have the effects of eliminating overlapping roles, accelerating our strategy execution, and clarifying responsibilities. In parallel with this, we are continuing our activities to spread the TSUMURA GROUP DNA Pyramid throughout the organization by way of dialogue between employees.

Furthermore, in fiscal 2023, we started a cross-divisional project for quantitative analysis of pre-financial capital, and we will identify and review measures that have been effective in increasing performance.

Please refer to "Value Relevance Analysis of Organization and Human Capital" on page 29 for details.

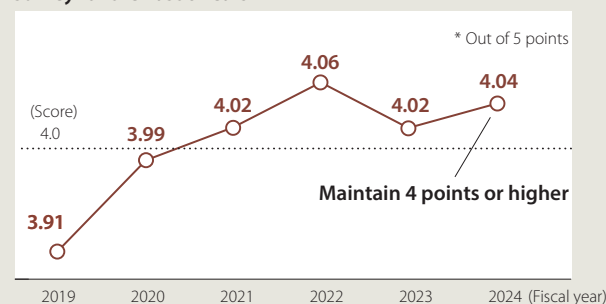
### Initiatives to Cultivate a Unique Culture of Dialogue at Tsumura

In 2019, the Tsumura Group established the Tsumura Academy to spread the Corporate Value and cultivate human resources who have the autonomy to think and act for themselves. Within this internal organization, we regularly hold cross-organizational dialogues in the form of Philosophy Discussion and Coaching Meetings. From 2022, we started developing internal coaching trainers to lead a culture of dialogue and draw out the potential of individuals. As of April 1, 2025, we have 83 internal trainers, who are active as leaders in promoting the Corporate Philosophy within their respective organizations.

In addition, following the principle of the organization mechanism analogous to Kampo medicines, we are also engaged in team building, to create an organization that grows continuously while repeatedly

achieving its goals. Both of these initiatives are Tsumura Academy programs centered on dialogue. Through these initiatives, we have maintained a score of 4.0 or higher on the annual employee engagement Corporate Philosophy survey.

**Average Score of the 30 Questions of the Corporate Philosophy Survey for the Past 6 Years**



### Strengthening the Organization Structure to Enhance Value Creation Capability

To establish an organization mechanism analogous to Kampo medicines, which has high work productivity and added-value generation capacity, we carried out a major organizational reform in April 2025. First, we established the new Corporate Management Division to deepen cooperation between management support divisions and strengthen promotion of the China business and the corporate governance structure. At the same time, in order to strengthen the human resources and organization that are the source of corporate value generation, we established the Human Resources Division, which will oversee the Group's human resource development function.

In addition, as we need to accelerate our research and

development activities globally, we integrated the Research & Development Division and the International Pharmaceutical Research & Development Division into a single Research & Development Division. The division will strengthen collaboration between Japan, China, and the United States as well as encourage research and development of traditional Chinese medicinal products and entry into the ASEAN market and so forth. We also integrated the Sales & Marketing Division and the Marketing Division into a new Sales & Marketing Division.

With these reforms, we will address urgent issues in terms of labor productivity and global operations, aiming to deliver results as an organization.



**By applying new systems, I help promote individual growth and organizational development, and build the value of our organization and human capital.**

**Koji Endo**

CHRO  
Head of Human  
Resources Division



Our Human Resources (HR) Division, newly established in April 2025, carries the responsibility of reinforcing the foundation of the TSUMURA GROUP DNA Pyramid: human resources, organization, and corporate culture. Specifically, it means promoting individual growth through potential-abilities development (PAD) as designated in our long-term management vision, and elevating the group of individuals as an organization mechanism analogous to Kampo medicines to build social value and productivity. In fiscal 2025, the HR Division set up the Organization Development Department as an independent subdivision. To embody Tsumura's Purpose and Corporate Value and realize our long-term management vision, the department assists organizations within the Group in exerting maximum team power as an organization mechanism analogous to Kampo medicines and maintaining positive results. We hope that individual employee efforts to sharpen their respective abilities will lead to major results guiding the entire organization to achieve its goals as a team.

For more strategic cultivation and deployment of human resources, Tsumura created a human resource portfolio in 2023 to highlight the skills and experience of each employee, envisioning growth five to ten years out. In fiscal 2025, we started a job-based personnel system for managers. The core of this is a job-specific skills map to delineate the levels of skill needed to embody Tsumura's Purpose and Corporate Value and realize our long-term management vision, as well as those needed in current jobs. Managers are required to reskill and self-train to achieve the map's skill levels. As regular HR practice, this helps when assigning people who have reached certain skill levels to more important posts. We strongly believe this creates a healthy, competitive environment and promotes mutual support among employees for growing together.

With progress in our effort to realize our long-term management vision as well as changes in the external environment, we will revise the skills map as needed for required levels of experience and quantitative ranges. Because of the ongoing diversification of employee work style needs, more people have positive views of having side jobs and changing jobs. In response, we understand the need to revise the assessment criteria of the Group's skills map to be more specialized or generalized so it is not limited to internal

standards and helps us develop human resources that are rated highly in the labor market.

In fiscal 2023, we began a project to visualize pre-financial capital. One of the ways we are doing this is to use the Yanagi model<sup>\*2</sup> and others in quantitative analysis of the value of organization and human capital that our policies create, to prove whether they lead to financial value. This derives from our determination to clearly explain to our stakeholders with analytical results that our management and human resources strategies are integrated. In undertaking this initiative for two years or so, we were able to verify a correlation or link between financial value and the DEI-related measures we deploy and disclose in human capital management. Based on what we have learned from this, we also plan to enhance preparatory and/or follow-up employee training for future improvement and upgrade our programs and HR policies to amplify our human capital. We will continue analysis and exploration to find clues for better organizational health and employee self-reform.

Since fiscal 2024, we have been implementing the KENKO Investment for Health program with a focus on our unique approach to healthcare, in keeping with our Purpose, "Lively Living for Everyone." We will begin quantitative analysis and visualization of correlations between this initiative and the effects of health promotion efforts, mental health, and the proportion of people with suboptimal findings in physical checkups, and work proactively using the eight relevant indicators we have selected. With our CEO leading the campaign, we carry forward the KENKO Investment for Health initiative, designed to achieve both better employee health and greater corporate value.

The Tsumura Group has consistently centered people in its vision, as in "Tsumura, the People Company" in fiscal 2012 and potential-abilities development (PAD) since fiscal 2022, placing human capital at the core of corporate value creation alongside organization capital. We will continue working to grow in sustainable ways, with management strategies based on our Corporate Philosophy, cultivating the people who will lead a brighter future for the Kampo and traditional Chinese medicine businesses.

<sup>\*2</sup> A model developed by Ryohei Yanagi, introduced in his book *CFO Policy* (Chuo Keizaisha, 2020)

## FOCUS Value Relevance Analysis of Organization and Human Capital

In relation to the value creation cycle based on seven capitals, the Tsumura Group undertakes initiatives for “pre-financial capital” to obtain understanding from investors by visualizing its connection to future financial value, and to clarify the challenges for each initiative and work to improve them. In fiscal 2023, we started a cross-divisional project for quantitative analysis of pre-financial capital, focused on visualizing the value of pharmaceuticals derived from natural substances, the value created by the Kampo value chain, and the value of organization and human capital.

In fiscal 2023, we used the non-financial capital and equity spread synchronization model (Yanagi model), and conducted a landscape analysis\* of our overall ESG activities. In tandem with this, we also conducted a value relevance analysis\* to take an objective view of our overall ESG activities based on the correlation between our ESG indicators and price-to-book ratio (PBR) and explore our organization and human capital policies. In this analysis, we established a hypothesis about the process in which the value created by our organization and human capital policies leads to financial value, and verified the connection between ESG indicators and financial indicators. The following year, in fiscal 2024, having completed the definition of our human resource portfolio and proceeded with examination of a skills map,

we again conducted a value relevance analysis focused on organization and human capital. We held several workshops, mainly for members of the Human Resources Department, to explore and verify how each human resource measure is related to financial value. In the workshops, we established a hypothetical narrative of the correlation between each measure and financial value, then attempted to verify the value chain based on multi-year data related to human capital. This resulted in the identification of a desirable correlation between fostering a corporate culture and human resource development. We plan to review our indicators for each measure and consider changes and so forth, also taking into account undesirable correlation results.

Looking ahead, we will further expand our analysis target, using the optimal analysis methods to clarify the correlation with financial value, such as quantifying the value created by the Company's unique Kampo value chain starting from crude drug cultivation, and the value of Kampo formulations derived from natural materials. We will use our analysis results to strengthen our strategies and measures, leading to a certain increase in corporate value.

\* In addition to the Yanagi model (CFO Policy, 4th ed. (Chuo Keizaisha, 2025)), we also employ value relevance analysis, which involves mapping the value chain from each non-financial capital initiative to corporate value creation and verifying it through regression analysis of the correlations between adjacent value elements, taking into account delayed penetration effects (analysis performed by Abeam Consulting Ltd.).

### Items for Which a Desirable Correlation Was Detected

#### Fostering a corporate culture

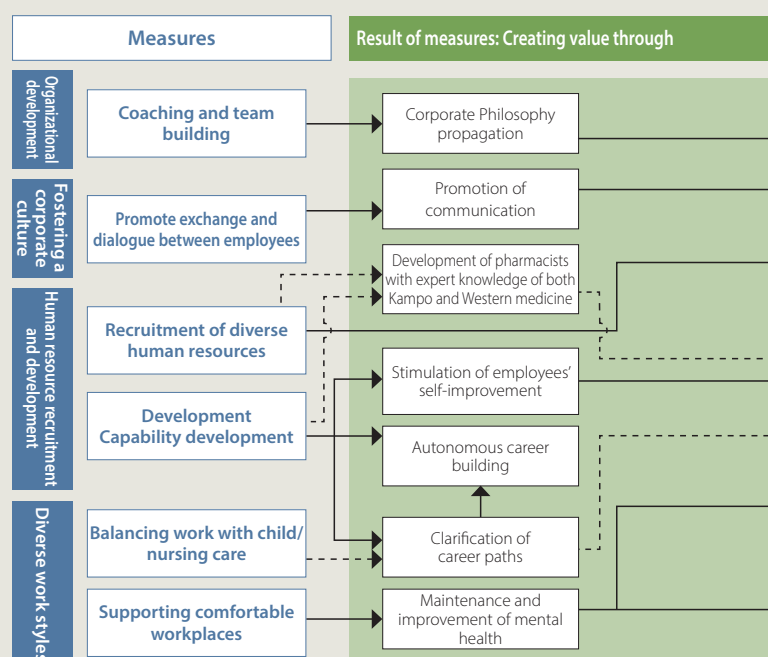
Team building and coaching training were shown to increase team cohesion, generating internal synergies such as the spread of these practices to other divisions and teams. This demonstrated a chain of effects that contributed to improving the quality of human resources. The propagation of our Corporate Vision and Purpose, together with improvements to psychological safety, was shown to increase the quality of human resources via a chain of effects leading to higher engagement.

#### Human resource development (increasing the quality of human resources by improving skills)

When nurturing candidates for management, a chain of effects contributing to enhancement of management capabilities and the increase in team cohesion led to propagation of the Corporate Philosophy, demonstrating that this chain contributes to increasing the quality of human resources.

Enhancing the employee education system contributes to increasing both employee engagement and human resource quality, demonstrating a chain of effects that leads to an increased desire to join the Company among job seekers.

### Fiscal 2024 Value Relevance Analysis



## Creating Value through Organization and Human Capital

**We will accelerate the execution of organization and human capital policies and enhance them while demonstrating the chain of effects that links them to financial value.**

Takao Sugahara

Head of Organization  
Development Department,  
Human Resources Division



The point of Tsumura's conducting value relevance analysis of its organization and human capital is to visualize the degree to which investments in these areas contribute to our business performance. This enables us to identify measures that are generating financial value and improve our organization and human capital policies. Moreover, to show the level of certainty that these investments will increase corporate value over the medium to long term, it is also important to visualize and quantify pre-financial capital and reflect the analysis results in our value creation narrative.

In fiscal 2024, we discussed our ideal value chain narrative in a workshop setting, mainly looking at the measures that we are focusing on, and formulated a hypothesis for their correlation to financial value. To demonstrate the correlation between measures and financial figures, we compiled the relevant indicators and conducted a value relevance analysis. As we anticipated, the results showed a correlation for some items, while no correlation was demonstrated for others. During this

verification process, we reaffirmed the importance of coordinating the implementation of management and business strategies with organization and human capital policies, and the necessity of pursuing appropriate results indicators for each measure.

The chain of effects that links organization and human capital policies to enhancement of organization and human capital and strategic challenges was broadly demonstrated in the analysis results. Looking ahead, we will accelerate the execution of each measure, and enhance them. Meanwhile, with regard to the chain of effects connecting organization and human capital enhancement with financial value, we have insufficient data to visualize correlations, mainly with regard to strategic challenges and stakeholder value. We recognize that the key challenges in demonstrating the chain of effects leading to financial value based on the value we provide to society are strengthening the collection and management of relevant data and promoting coordinated efforts across divisions.

