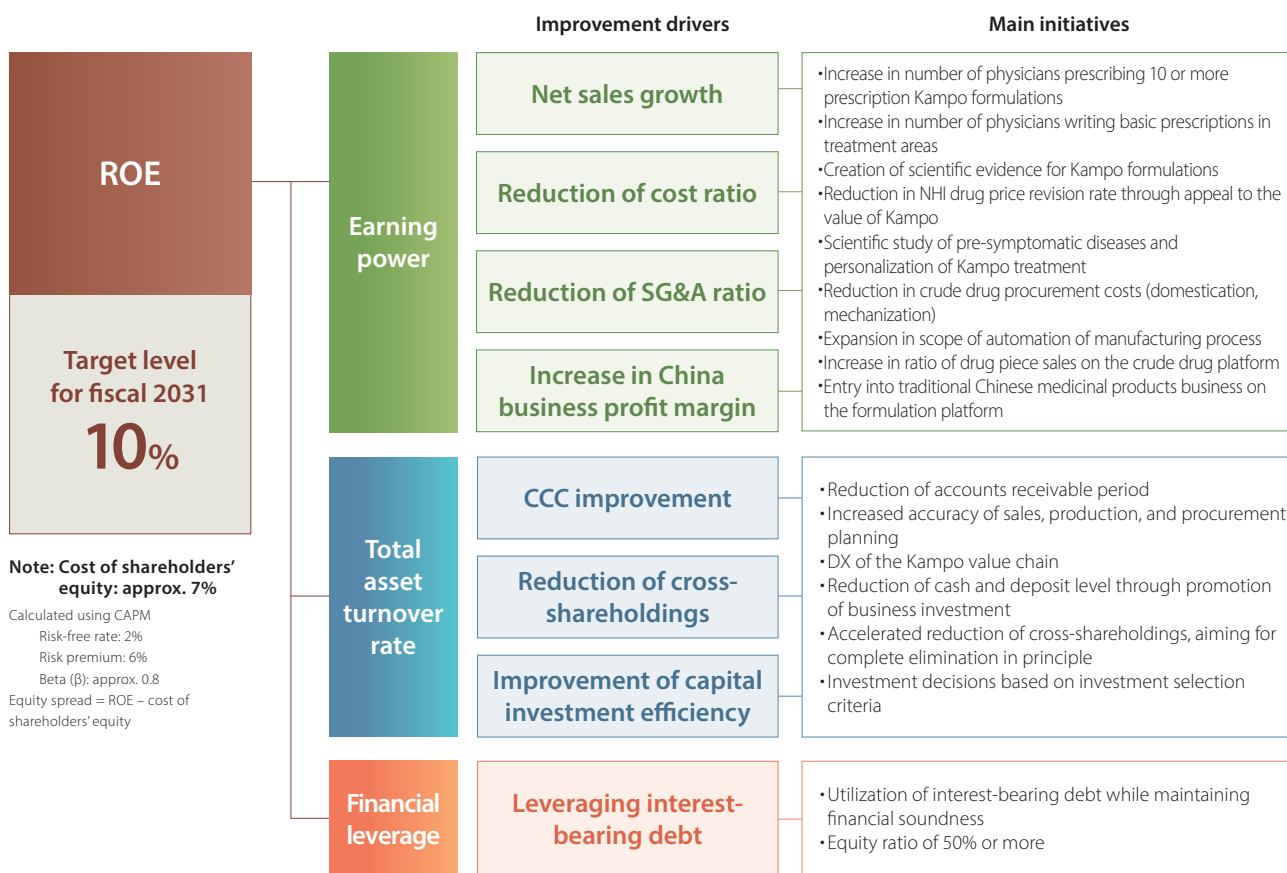


Progress on Financial Strategy

Realizing Medium- to Long-Term Increase in Corporate Value (Increase in ROE)

The Tsumura Group aims to increase its corporate value through aggressive investments to sustainably develop and grow its businesses. We believe this ultimately provides the greatest return to shareholders and investors. We are working to achieve our five strategic challenges, which are qualitative targets, and our medium- to long-term environmental targets toward realizing our long-term management vision

and sustainability vision. In addition, we view ROE as an important management indicator related to the sustainable enhancement of shareholder value, and we have broken it down into three elements—"earning power," "total asset turnover rate," and "financial leverage"—accelerating initiatives to spur improvement.



Action Plan for the Second Medium-Term Management Plan

① Earning Power

In terms of net sales growth, we aim to achieve CAGR of 4.5% for net sales in the domestic business by growing sales volumes of prescription Kampo formulations by 1 million boxes per year (CAGR approx. 4%) through an increase in the number of physicians writing basic prescriptions in treatment areas and further establishment of evidence, and by increasing the number of stores carrying OTC Kampo products. In the China business, we aim to achieve net sales CAGR of 30% and improve the profit margin by expanding sales centered on

drug pieces on our crude drug platform. For the formulation platform, we will quickly enter the traditional Chinese medicinal products business and establish a foundation.

In terms of cost of goods sold, we are working to reduce manufacturing costs, including crude drug procurement costs. In the period of the second medium-term management plan, we expect to see a temporary increase in manufacturing costs per unit, mainly in labor costs and depreciation, due to advance hiring of human resources for manufacturing lines and technology-related roles. However, by expanding the scope of automation of manufacturing processes anticipating

the use of new robots and AI technology, and implementing it in new factories, we will gradually achieve low-cost operations through automation by fiscal 2031. To reduce the procurement cost of crude drugs, along with expanding the domestication of naturally grown crude drugs, we are advancing automation of cultivation, primary processing and sorting. We will deploy automation rapidly at every site, aiming to increase labor productivity by two times or more compared to fiscal 2021 from around fiscal 2035 onward.

In SG&A expenses, we intend to maintain R&D expenses that contribute to the scientific study of pre-symptomatic diseases and the establishment of evidence of efficacy of Kampo formulations at around 5% of consolidated net sales. Moreover, thanks to benefits from improved productivity through DX in the Kampo value chain, our aim is to hold the SG&A ratio to the low 20% range by more than doubling net sales per employee compared to fiscal 2021.

②Total Asset Turnover Rate

We aim to improve the total asset turnover rate via CCC improvement, the sale of cross-shareholdings, improved capital investment efficiency, and other means.

For CCC improvement, which is also a medium- to long-term issue, we are acting while considering balance and risks throughout the entire supply chain. As a result of an initiative in fiscal 2024 to shorten the accounts receivable period, the CCC has improved, with a reduction of around 0.5 months. Anchored by the planning system for compounding crude drugs that we have developed and adopted, we aim to

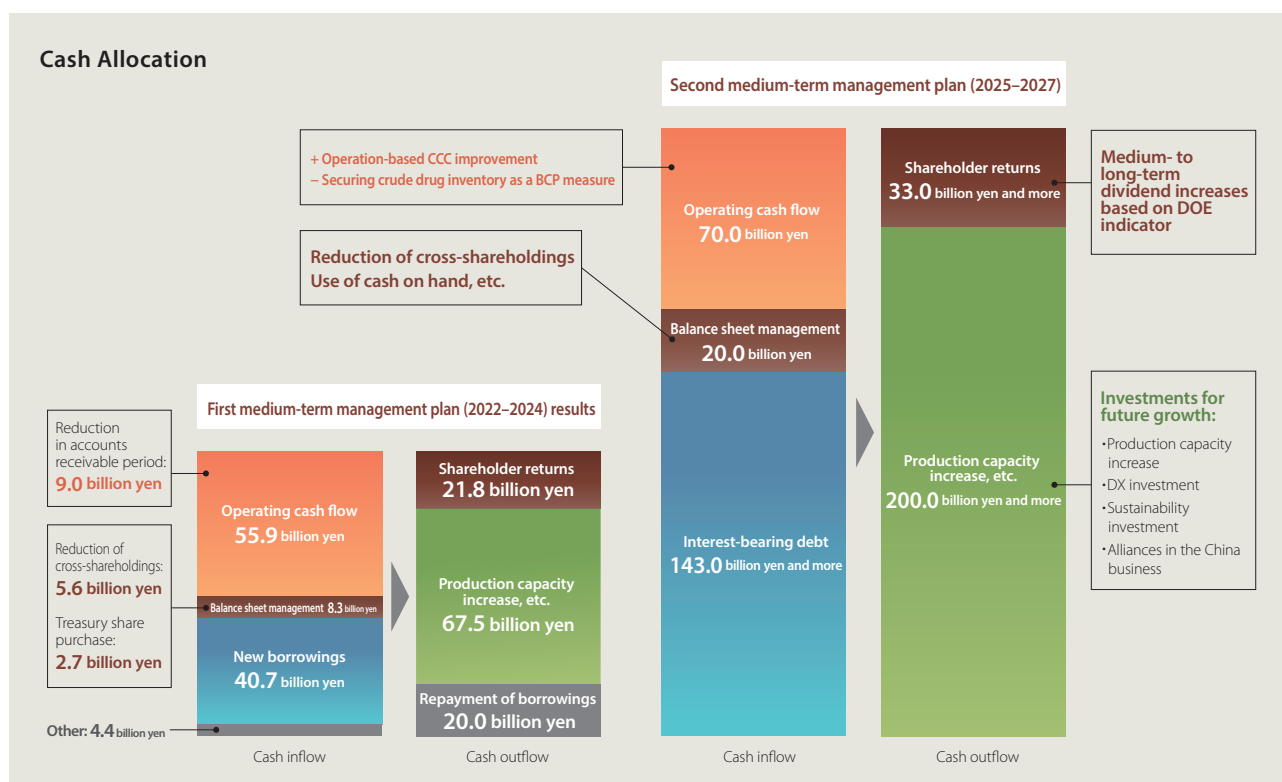
further shorten the CCC for our operation cycle by about three months by promoting transformation throughout the entire Kampo value chain, beginning with crude drug cultivation.

With regard to cross-shareholdings, in fiscal 2024, we managed to reduce the volume by around 30% compared with the previous year, and our immediate target is to achieve a reduction by half. In addition, we intend to accelerate this process with the aim of eliminating cross-shareholdings in principle during the period of the second medium-term management plan.

In our approach to capital investment, we have positioned the three years of the second medium-term management plan as a period for "promoting growth strategies and investments for Creating a Future that Achieves 'Cho-WA,'" and we plan to make growth investments of approximately 180.0 billion yen centered on increasing production capacity in the domestic business. To better ascertain the costs and benefits of investments, we have adopted investment selection criteria such as NPV and IRR for management decision-making conscious of cost of capital and capital efficiency.

③Financial Leverage

Our basic approach to funding growth investment under the second medium-term management plan is to utilize financial leverage, such as interest-bearing debt, which will increase capital efficiency. Accordingly, we expect the equity ratio to decrease; however, we will pursue the optimal capital structure while ensuring financial soundness.



Note: As of May 12, 2025 (second medium-term management plan)

Investment Plans Related to Kampo Formulation Production

After considering future sales volume increases centered on prescription Kampo formulations and operation stoppage and maintenance plans for aging plants, we will make investments, primarily in projects that were pushed back from the first medium-term management plan.

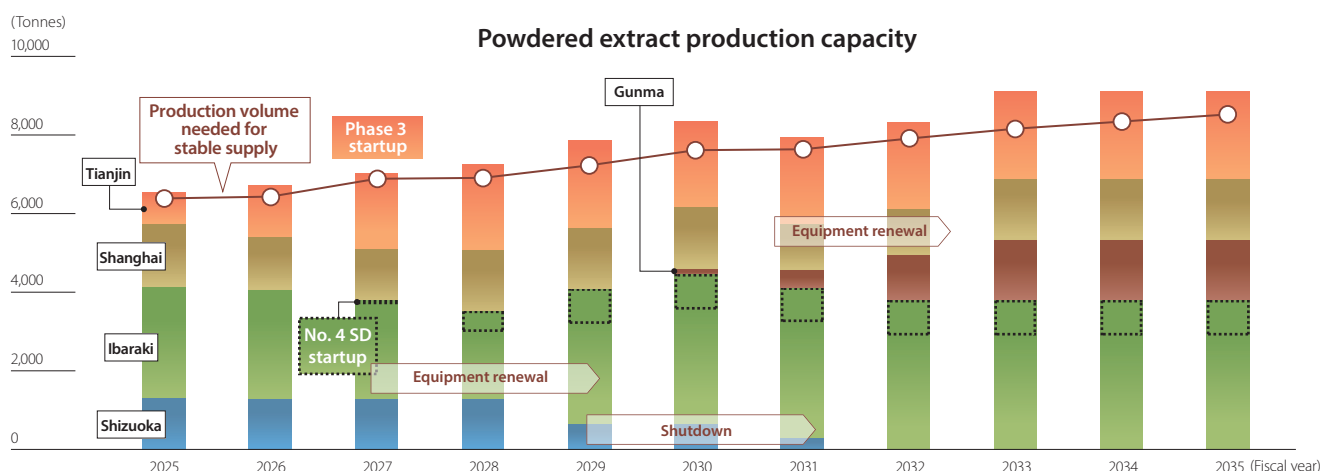
In the manufacturing process for powdered extracts, we plan to cease operations at our Shizuoka Plant in around 2031 due to aging. In addition, to deal with temporary suspension of operations for equipment renewals at our Ibaraki and Shanghai Plants, we are currently constructing a third-phase manufacturing building at the Tianjin Plant and a No. 4 SD Building at the Ibaraki Plant. We also plan to proceed with construction of a plant in Gunma.

In our granulation and packaging process, we plan to temporarily suspend operations at both our Ibaraki and Shizuoka Plants from fiscal 2029 onward for equipment renewals. Moreover, at the Ibaraki Plant, we plan to cease operation of old manufacturing lines in phases from fiscal 2033

onward. To accommodate these plans, we are promoting the construction of a new granulation and packaging building incorporating further automation technologies at our Ibaraki Plant. Meanwhile, at our Gunma Plant, we are examining construction of a granulation and packaging building with the aim of dramatically reducing labor with unmanned overnight operations and so forth. At the same time, we are conducting technical reviews with the aim of postponing the shutdown of old manufacturing lines at the Ibaraki Plant, and pushing back the construction of the Gunma Plant.

While high construction costs are also a factor, we expect to invest around 180.0 billion yen in relation to production of Kampo formulations over the period of the second medium-term management plan. We will aim to reduce and curb the amounts of individual investments, while meticulously examining the investment effects for each project, as we continue to invest to ensure stable supply and growth.

Capital Investment and Production Capacity in the Powdered Extract Manufacturing Process



Capital Investment and Production Capacity in the Granulation and Packaging Process

