

TSUMURA & CO.

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Second Quarter Business Results for Fiscal 2014

November 7, 2014

President, Representative Director

Terukazu Kato



2Q Business Results for
Fiscal 2014, ending March 31, 2015

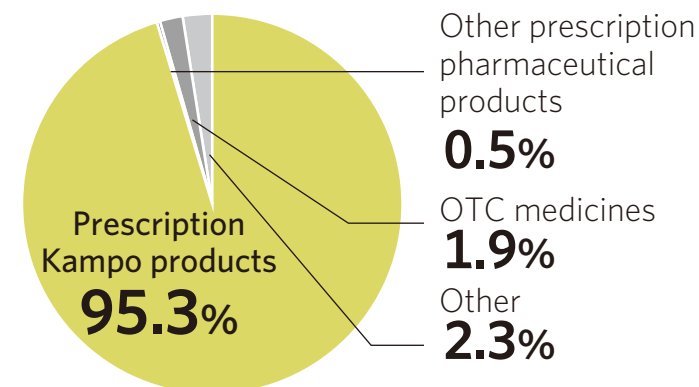
2Q Consolidated Performance for Fiscal 2014

(¥ million)

	Plan	FY2014 2Q	Achievement	FY2013 2Q	Vs. FY2013 2Q	
					Amount	Change
Net sales	53,600	52,710	98.3%	53,398	-687	-1.3%
Operating profit	7,600	8,585	113.0%	10,366	-1,781	-17.2%
Recurring income	7,700	9,191	119.4%	10,965	-1,774	-16.2%
Net income	4,800	6,128	127.7%	7,069	-941	-13.3%

	Plan	FY2014 2Q	FY2013 2Q
Operating profit margin	14.2%	16.3%	19.4%
Dividends per share	¥32	¥32	¥32

Sales by product



Key Points in Performance

Net sales achievement rate came in under target at 98.3%, but core pharmaceutical Kampo products sales rose despite the difficult market environment

Operating profit achievement rate reached 113% because of reduced operating costs due to cost management, etc.

Consolidated net sales **¥52,710 million** Vs. planned **-1.7%** YoY **-1.3%**

- Despite being negatively affected by such factors as the April NHI price revision and the consumption tax hike, core prescription Kampo product sales climbed 0.8% YoY. However, net sales achievement rate was held to 98.3% because of the greater than anticipated impact of the consumption tax increase
- Overall, net sales edged down YoY because of lack of the ¥0.93 billion in internal transaction adjustments due to exchange rate change recorded last year

Operating profit **¥8,585 million** Vs. planned **+13.0%** YoY **-17.2%**

Operating profit margin **16.3%** Vs. planned **+2.1 pts** YoY **-3.1 pts**

- Sales cost ratio rose 3.2 pts YoY, but came in 0.8 pts lower than plan
- SG&A expenses declined ¥0.36 billion YoY due to lower operating expenses, ¥1.1 billion lower than plan (SG&A expenses ratio down 1.3 pts)

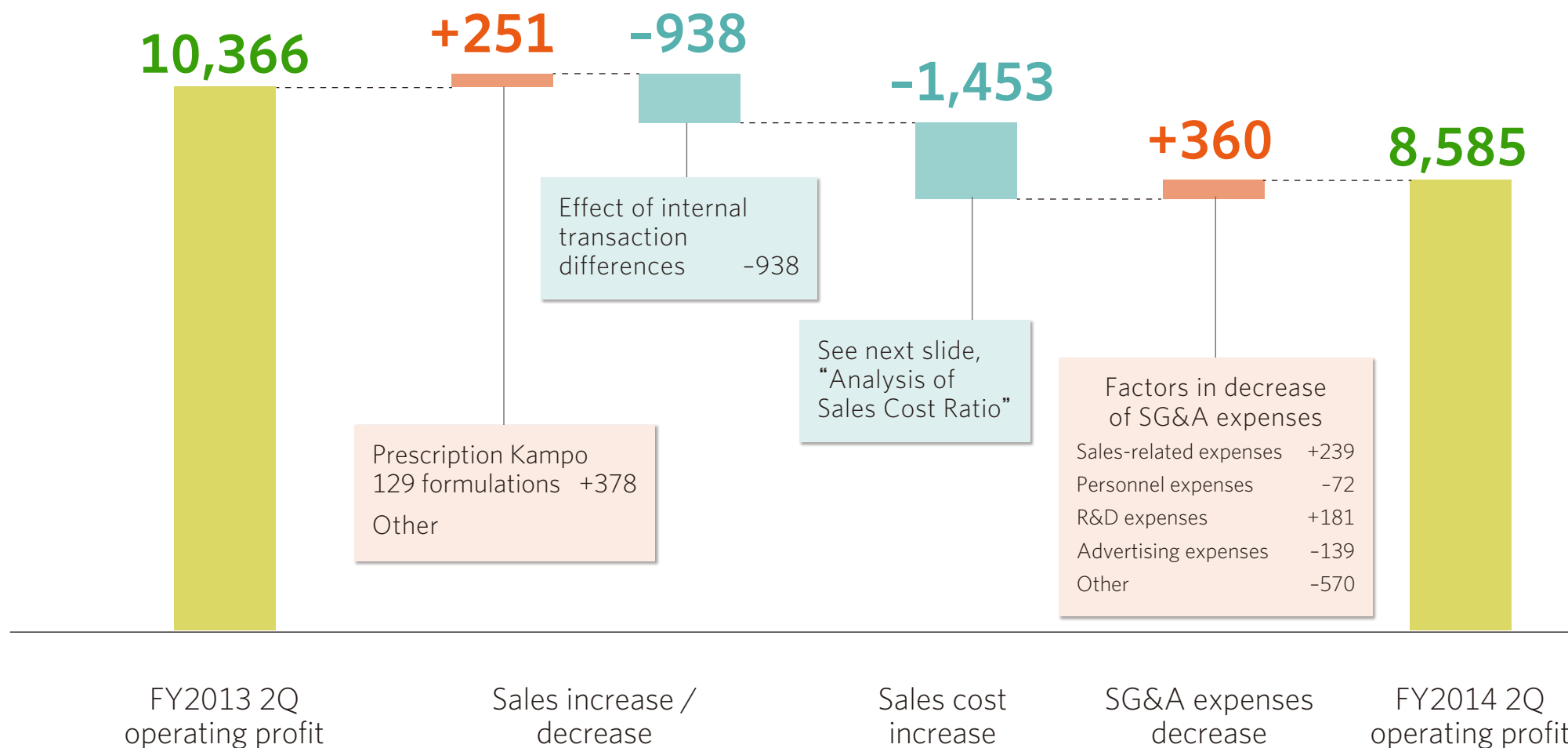
Recurring income **¥9,191 million** Vs. planned **+19.4%** YoY **-16.2%**

- Recurring income was ¥1.5 billion (19.4%) above plan due to, in addition to the above factors, recording of gain on foreign exchange as a result of weakening yen (on loans to Chinese subsidiary)

Net income **¥6,128 million** Vs. planned **+27.7%** YoY **-13.3%**

Factors in Increase / Decrease of Operating Profit

(¥ million)



Analysis of Sales Cost Ratio

- Vs. plan Plan **38.8%** ▶ FY2014 2Q **38.0%** **-0.8 pts**
- YoY FY2013 2Q **34.8%** ▶ FY2014 2Q **38.0%** **+3.2 pts**

Factors

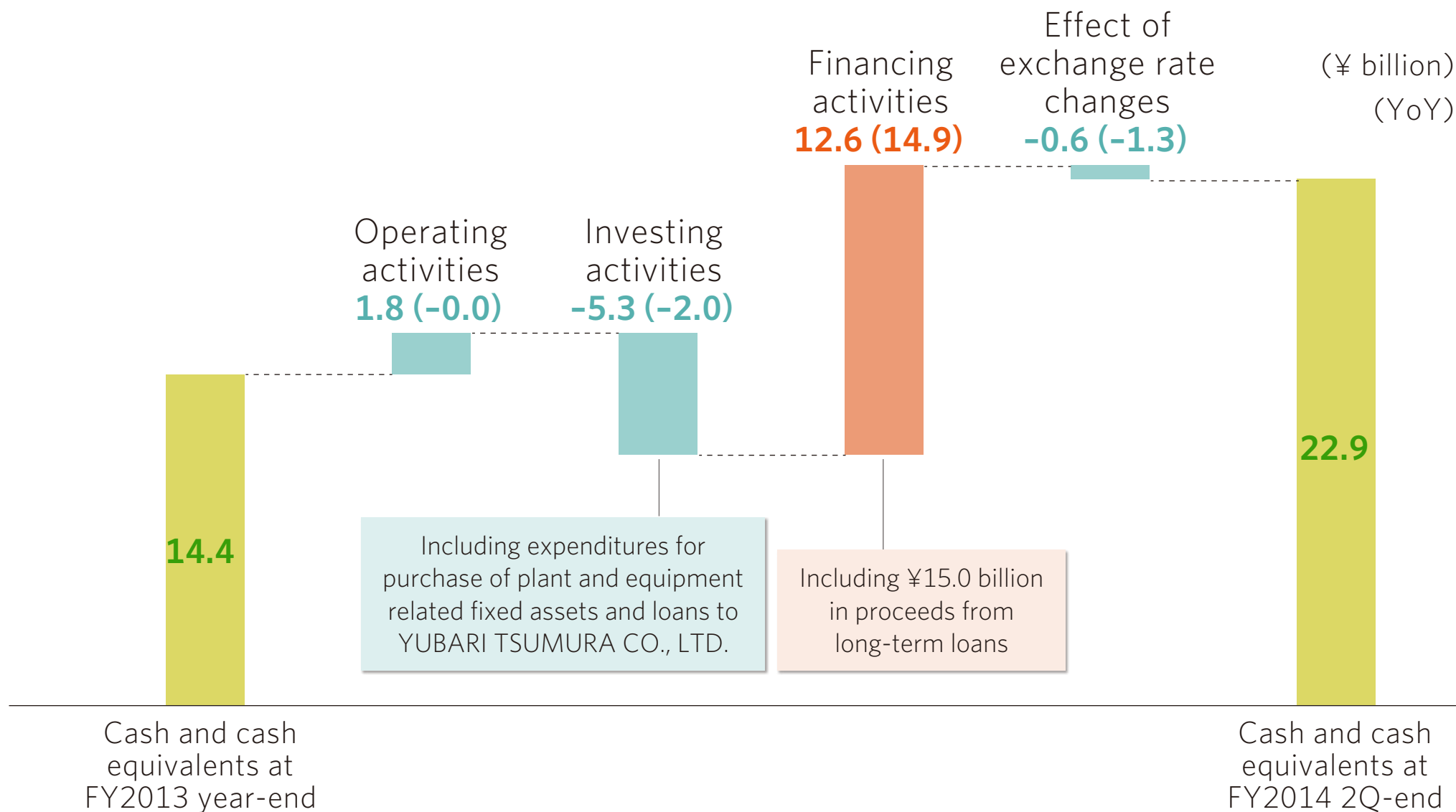
Factor	Effect
Jump in crude drug prices and exchange rate impact	+1.4 pts
NHI price revision	+1.2 pts
Other	+0.6 pts
Total	+3.2 pts

Analysis of Inventories Increase

(¥ billion)

B/S	FY2013 year-end	FY2014 2Q-end	YoY	Impact of volume change	Impact of crude drug prices	Impact of exchange rate	Other
Inventories	43.4	49.4	5.9	3.1	4.3	-0.5	-0.8
(Merchandise and finished goods)	8.8	9.9	1.0	0.5	0.5	0.0	-0.0
(Work in process)	10.5	13.0	2.4	1.6	1.3	-0.0	-0.4
(Raw materials and supplies)	24.0	26.4	2.4	0.9	2.4	-0.5	-0.3

Cash Flow Position



Crude Drug Prices

Overall procurement price of crude drugs produced in China

Representation of weighted average of **actual prices** from production region to affiliated company when 2006 price is set as 100



Capital Investment Plan

Capital investment to achieve sustained growth

☆ Scheduled start of operations

← First Medium-Term Management Plan → Second Plan →

		Capital investment project	FY2012	FY2013	FY2014	FY2015	FY2016 and after
Production-related	Shizuoka Plant	New granulation and packaging facilities, etc.					☆
		New crude drug warehouse		May			
		SD line-related					☆
	Ibaraki Plant	New granulation facility		January			
		New standard-based facilities, etc.					☆
	STP (Shanghai)	SD facility		October			
Production, other	Development / maintenance / renewal						
Crude drug related	Ishioka	Ishioka Center reconstruction		January			
	STM (Shenzhen)	Warehouse	March				
	Yubari	Yubari Tsumura building				☆	
	Crude drugs, etc.						

Capital investment: ¥3.1 billion in first half of FY2014 (¥5.0 billion planned)

The unused portion of the investment plan resulted from the postponement of payment of a portion of the amounts for the new granulation and packaging and other facilities at the Shizuoka Plant scheduled to begin operations in FY2016

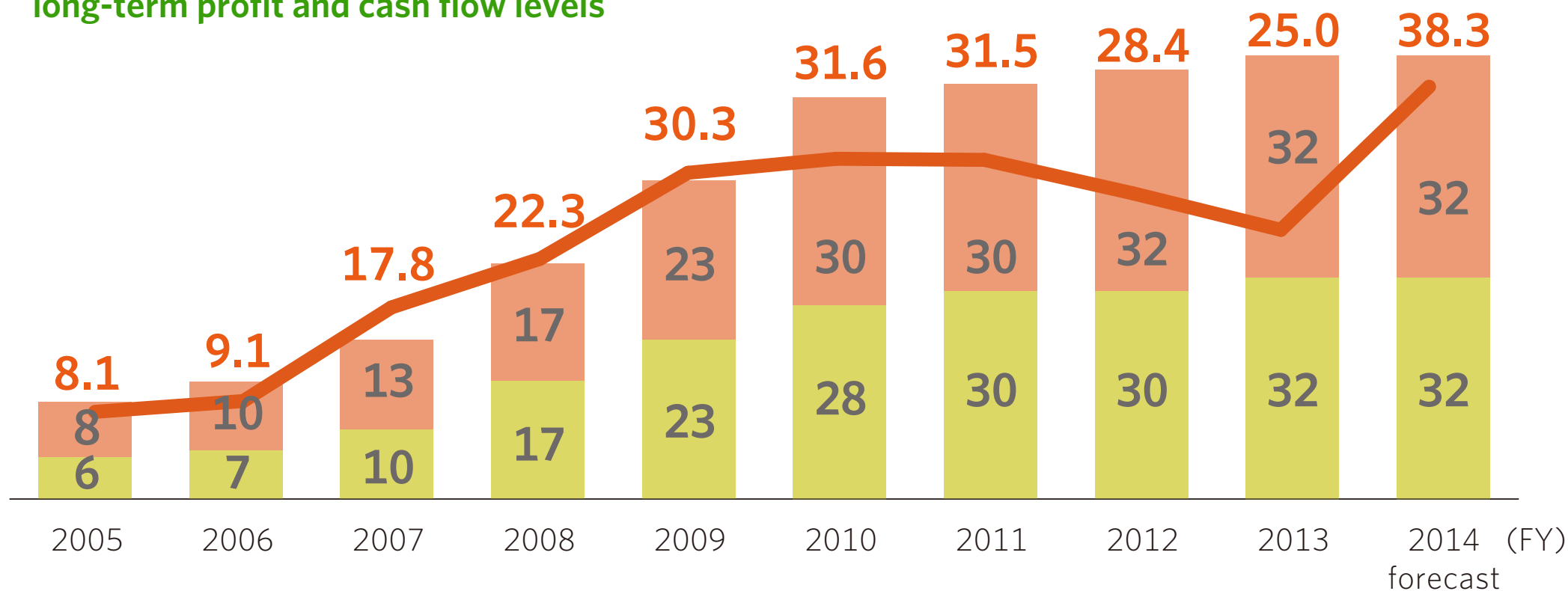
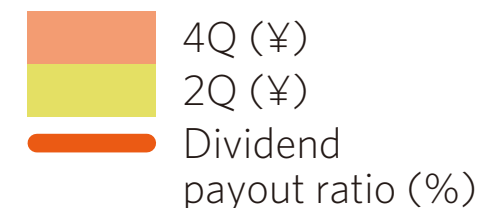
Will appropriately revise timing of new production facilities start up based on sales trends

Borrowed ¥15.0 billion from banks in June 2014 (long-term loan)

Return of Profits to Shareholders

Dividend policy

- Increase corporate value by reinvesting in business to ensure sustained development and growth of Kampo business
- Pay out appropriate dividends, keeping in mind medium- and long-term profit and cash flow levels





FY2014 (Year Ending March 2015)
Performance Forecasts

FY2014 (Year Ending March 2015) Performance Forecasts

No revision in performance forecasts

(¥ million)

	FY2013	FY2014	YoY change	
Net sales	110,057	111,400	1,342	1.2%
Operating profit	22,461	18,200	-4,261	-19.0%
Recurring income	23,966	18,400	-5,566	-23.2%
Net income	18,050	11,800	-6,250	-34.6%

	FY2013	FY2014
Operating profit margin	20.4%	16.3%
Dividends per share	¥64	¥64
EPS	¥255.94	¥167.32
ROE	14.5%	8.8%



Measures to Expand Kampo Medicine

November 7, 2014

Ryouichi Murata

Corporate Officer
Head of Sales & Marketing Division

FY2014 Pharmaceutical Product Price Growth Rates (Overall Market / Tsumura)

	April-June	July-September	August-September	April-September
Overall market price	-2.5%	-0.0%	0.6%	-1.3%
Tsumura price	1.3%	3.9%	5.3%	2.6%
Gap	3.8%	3.9%	4.7%	3.9%

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Kampo medicine education before, immediately after, and post-graduation

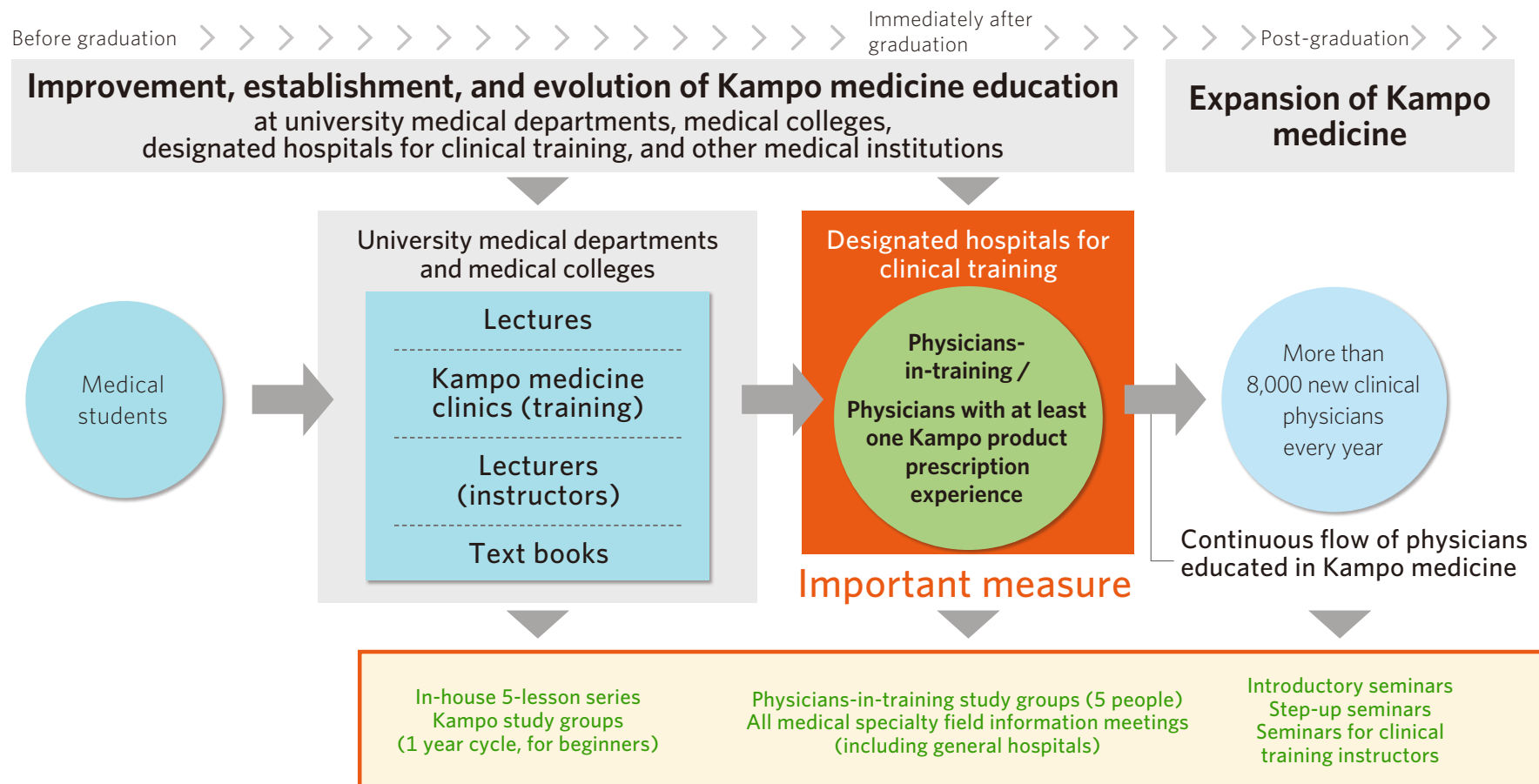
Medical education model core curriculum of Ministry of Education, Culture, Sports, Science and Technology

Announced March 2001

“A general understanding of Japanese Kampo”

March 2011 Revision

“A general understanding of Japanese Kampo (Kampo products) and their current uses”



Holding of Study Groups and Seminars for All Medical Specialty Fields at Designated Hospitals for Clinical Training

Designated hospitals for clinical training (including university hospitals)

1. Kampo study groups for early-stage physicians-in-training

Hold study groups at facilities with five or more physicians-in-training

Medical facilities with five or more physicians-in-training:
Approx. 650

FY2014 1st half record: Study groups held at 285 facilities (approx. 43%)

2. Kampo medical seminars for all medical specialty fields at designated hospitals for clinical training

Efficacy and benefits of 129 Kampo formulations enables approaches to diverse areas

Designated hospitals for clinical training: **Approx. 1,000**
Medical specialty: **Approx. 18,000**

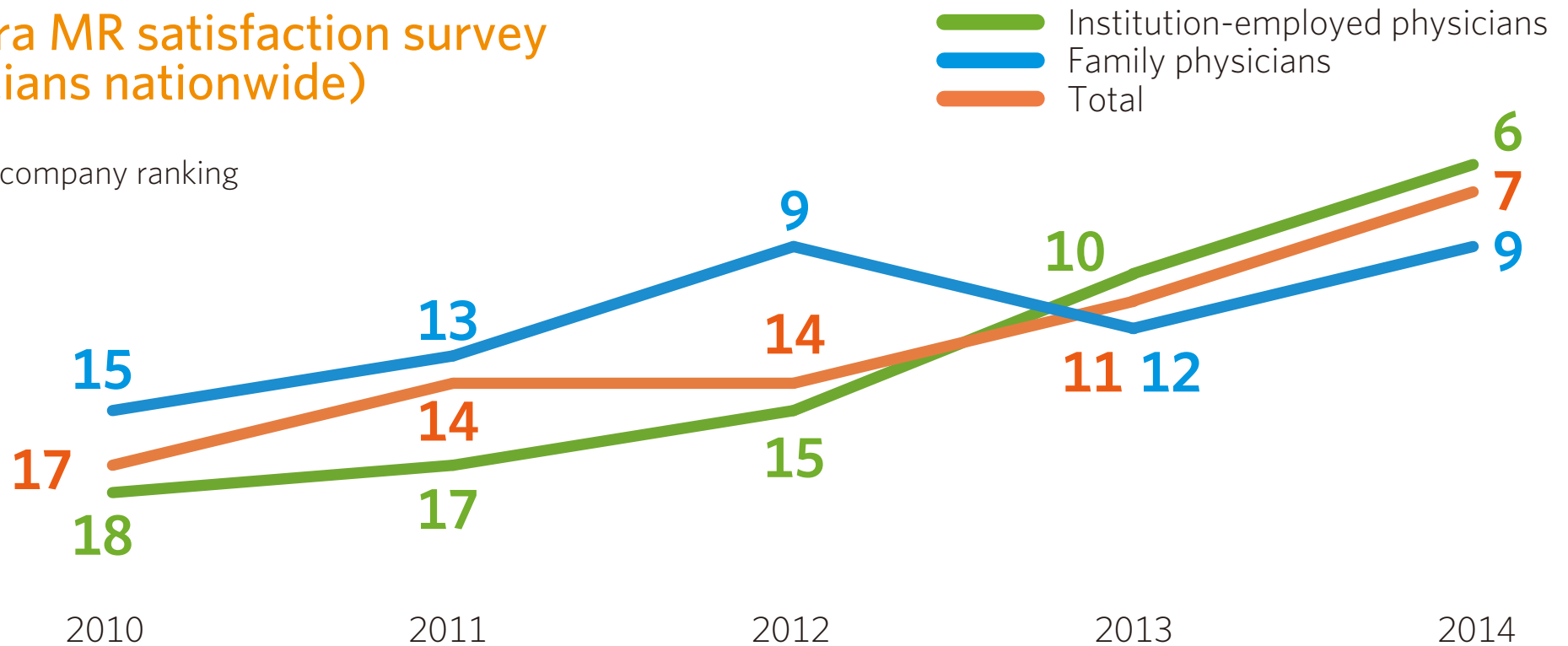
Cumulative record*: Seminars held at 13,200 facilities (approx. 75%)

*Cumulative number between April 2013 to September 2014

2014 Nikkei Medical Survey

Tsumura MR satisfaction survey (physicians nationwide)

Production company ranking



Survey Period: March to May 2014

Target Group: 42 pharmaceutical companies

Survey Method: Questionnaire sent by post to 6,000 physicians; 907 valid responses

Source: Nikkei Medical, 2014 survey on medical representatives of pharmaceutical companies

Knowing the Business Environment

Collecting Opinions from a Large Group of Physicians

Physicians at university hospitals and designated hospitals for clinical training

(Hospital administrators, college presidents, medical college deans, hospital heads, education supervisors)

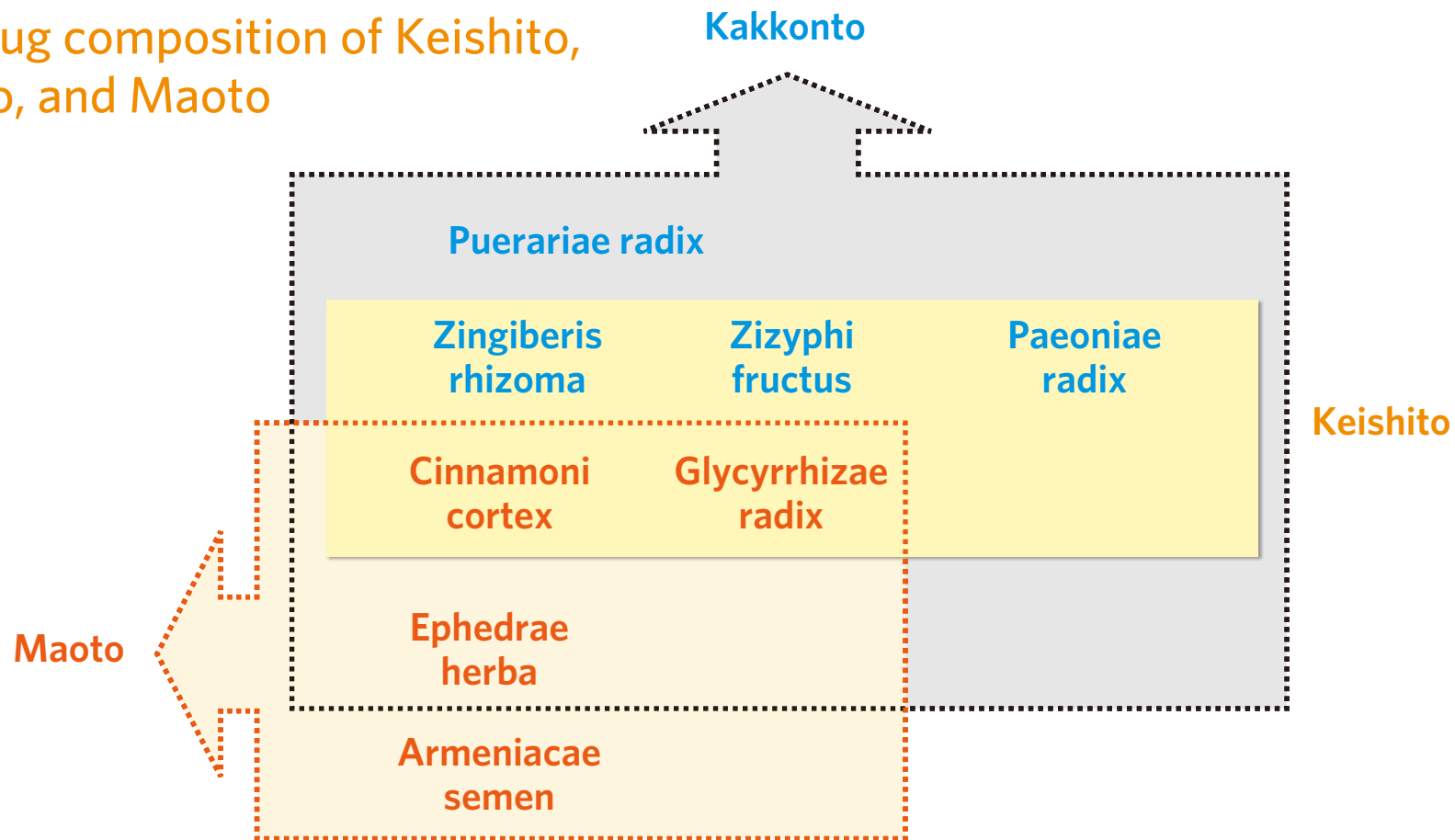
Physicians who prescribe multiple types of Kampo products

Suggestions by Physicians



Example of Formulation Selection Based on Kampo Medicine Principles

Crude drug composition of Keishito, Kakkonto, and Maoto



Ephedrae herba + cinnamomi cortex: Relieve symptoms and promote perspiration
Ephedrae herba + armeniacaese semen: Relieve cold feeling and stop coughing

Kampo Treatments for Early Stages of a Cold

Kakkonto

1

Maoto

27

45

Keishito

127

Maobushisaishinto

Suggestions by Physicians



**Continue treatment
that is effective**
**When ineffective,
recommend alternative
prescriptions**

Knowing the Business Environment

Collecting Opinions from a Large Group of Physicians

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(Hospital administrators, college presidents, medical college deans, hospital heads, education supervisors)

Physicians who prescribe multiple types of Kampo products

Responding to Expectations (Physician Suggestions) for Next Stage

Enriching past activities

Activities to establish Kampo medicine

- Support programs for introducing Kampo medicine education at medical colleges and universities
- Support for setting up Kampo medicine outpatient clinics at university hospitals
- Actively expand Kampo medicine seminar program, etc.

Promoting “drug fostering” program targeting establishing scientific evidence

Hold Kampo study groups for physicians-in-training and information meetings for all medical specialty departments at designated hospitals for clinical training



Next actions based on physician suggestions

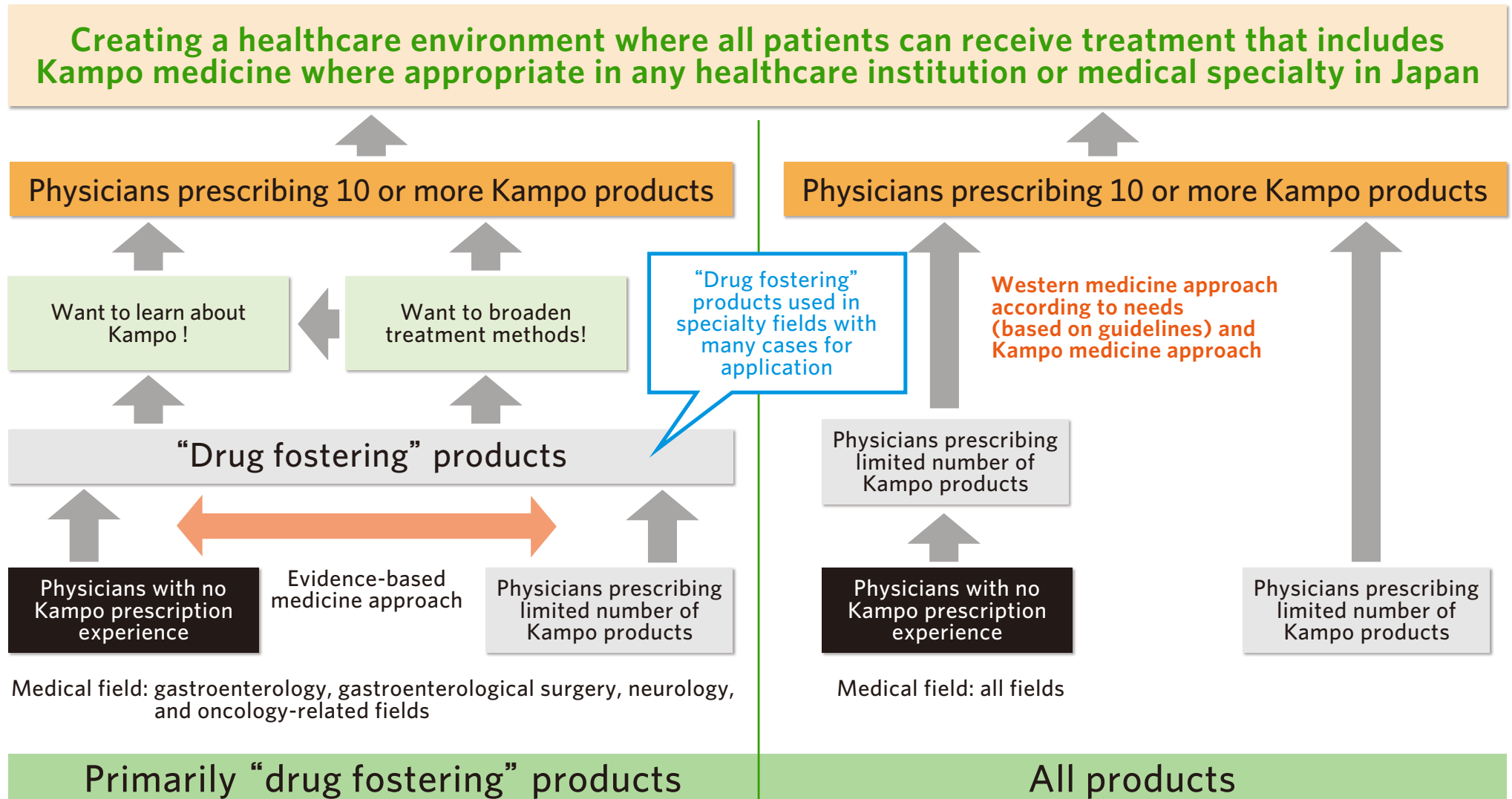
Make approaches based on scientific evidence and objective data

Base Kampo medicine approach on level of proficiency

- **Propose effective formulations adapted to condition of disorder**
- **Establish selective use of Kampo products**

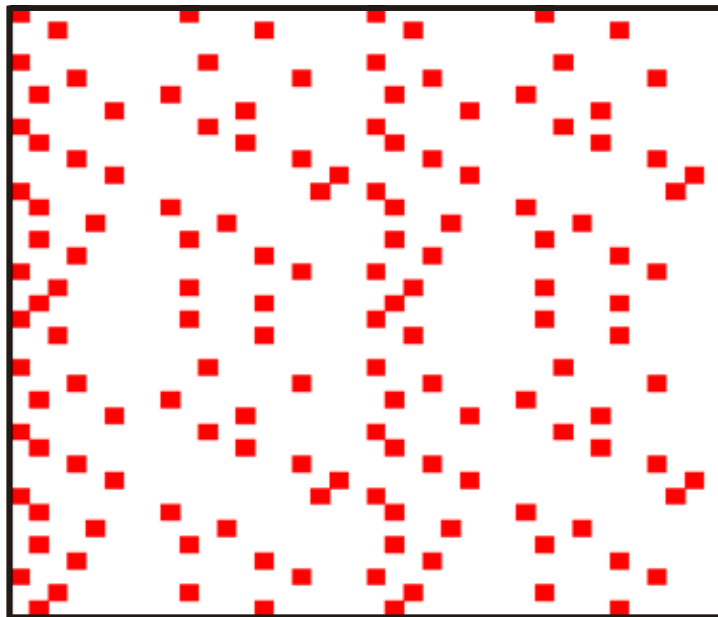
Offer 3 to 4 formulations as candidates for treating individual disorders and symptoms and provide information on them

Marketing Strategies to Expand Kampo Subscription

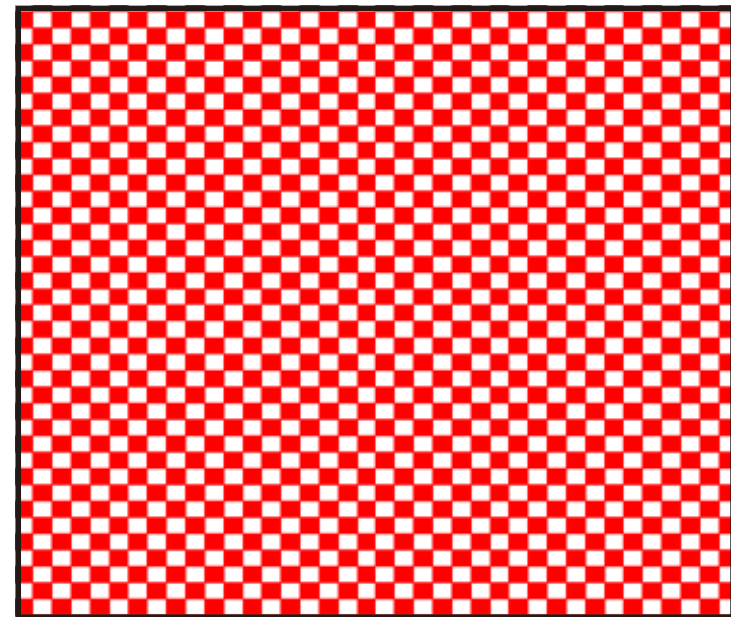


Vision for Future

Increase in physicians prescribing 10 or more Kampo products



Current status



Future

Use of 10 or more Kampo products	Use of 9 or fewer Kampo products or no Kampo prescription
Approximately 10%	Approximately 90%



Reference Material

Top 10 Kampo Products by Sales Amount

■ “Drug fostering” program formulations (¥ million)

	Product name	Main effectively treatable disorders	FY2014 2Q	FY2013 2Q	YoY change	
1	TJ-100 (Daikenchuto)	Abdominal pain / abdominal flatulence	4,883	4,811	71	1.5%
2	TJ-41 (Hochuekkito)	Reinforcement of physical strength after illness / anorexia	3,534	3,551	-16	-0.5%
3	TJ-54 (Yokukansan)	Neurosis / insomnia	3,376	3,267	108	3.3%
4	TJ-43 (Rikkunshito)	Gastritis / maldigestion / anorexia	3,247	3,258	-10	-0.3%
5	TJ-68 (Shakuyakukanzoto)	Pain accompanying sudden muscle spasms	2,214	2,127	86	4.1%
6	TJ-24 (Kamishoyosan)	Oversensitivity to cold / menstrual irregularity / climacteric disturbance	2,053	2,126	-72	-3.4%
7	TJ-107 (Goshajinkigan)	Leg pain / back pain / numbness / dysuria	1,873	1,900	-27	-1.4%
8	TJ-29 (Bakumondoto)	Coughing / bronchitis / bronchial asthma	1,768	1,733	35	2.0%
9	TJ-114 (Saireito)	Acute gastroenteritis / swelling (edema)	1,700	1,726	-26	-1.5%
10	TJ-17 (Goreisan)	Edema / diarrhea / headache / heatstroke	1,322	1,212	109	9.0%
22	TJ-14 (Hangeshashinto)	Fermentative diarrhea / neurotic gastritis / stomatitis	601	583	17	3.0%
Total sales of 129 prescription Kampo products			50,236	49,857	378	0.8%
Total sales of five “drug fostering” program formulations			13,981	13,821	160	1.2%

Kampo Efficacy Scientific Evidence (DB-RCT & Safety)

Paper publication
 Paper submitted, paper submission in preparation

Formulation	Targeted disorder	Institution in-charge	Trial collection period	Public announcements, etc.
TJ-100 Daikenchuto	Postoperative ileus after liver cancer surgery	Tokushima University, other 30 institutions	End of trial	Published in Int J Cli Oncology
	Postoperative ileus after colon cancer surgery (main trial)	Kitasato University, other 64 institutions	End of trial	Paper submission in preparation
	Postoperative ileus after colon cancer surgery (supplemental trial)	Fujita Health University, other 19 institutions	End of trial	Paper submission in preparation
	Postoperative ileus after gastric cancer surgery	Oita University, other 43 institutions	End of trial	Adopted for DDW 2014; paper submitted to Gastric Cancer
	Paralytic ileus after pancreatic cancer surgery; JAPAN-PD Study	Wakayama Medical University, other 10 institutions	End of trial	Paper submission in preparation
	Crohn's disease in remission	Keio University, other 9 institutions	- Mar. 2015 case collection ongoing	
	Gastrointestinal dysfunction after liver transplant; DKB-14 Study	Kyoto University, other 14 institutions	Aug. 2014 - May 2016 case collection ongoing	
TJ-54 Yokukansan	Intractable schizophrenia	Shimane University, other 33 institutions	End of trial	Published in Psychopharmacology
	Schizophrenia	Shimane University, other	Nov. 2014 - Oct. 2016	
	BPSD	Tohoku University, other 21 institutions	End of trial	Paper submitted
TJ-43 Rikkunshito	Intractable gastroesophageal reflux disease; G-PRIDE Study	Osaka City University, other 75 institutions	End of trial	Published in Journal of Gastroenterology (online); Published in BioMed Central Gastroenterology (additional analysis)
	Functional dyspepsia (FD); DREAM Study	Osaka City University, other	Apr. 2014 - Mar. 2016 case collection ongoing	
	Functional dyspepsia (FD); clinical pharmacological trials	University of Leuven	Dec. 2014 - Mar. 2016 trial in preparation	
TJ-107 Goshajinkigan	FOLFOX treatment peripheral neuropathy; GONE Study	Asahikawa Medical University, other 16 institutions	End of trial	Published in Cancer Chemotherapy and Pharmacology
	FOLFOX treatment peripheral neuropathy; GENIUS Study	Kyushu University, other 43 institutions	Trial halted (May 2012)	
TJ-14 Hangeshashinto	Oral inflammation from chemotherapy for colon cancer; HANGESHA-C Study	National Hospital Organization Osaka National Hospital, other 18 institutions	End of trial	Paper submission in preparation
	Oral inflammation from chemotherapy for stomach cancer; HANGESHA-G Study	Kanagawa Cancer Center, other 14 institutions	End of trial	Published in Cancer Chemotherapy and Pharmacology
TJ-54 Yokukansan	Frequency investigation of adverse drug reactions	—	End of research	Revision of package insert scheduled for November 2014
TJ-68 Shakuyakukanzoto*	Frequency investigation of adverse drug reactions	—	Analysis proceeding	

DDW: Digestive Disease Week, BPSD: Behavioral and Psychological Symptoms of Dementia, FD: Functional dyspepsia

* Shakuyakukanzoto is not a "drug fostering" program product



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