


TSUMURA & CO.

TSUMURA & CO. Second Quarter Business Results for Fiscal 2015

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President, Representative Director

Terukazu Kato



Second Quarter Business Results for Fiscal 2015

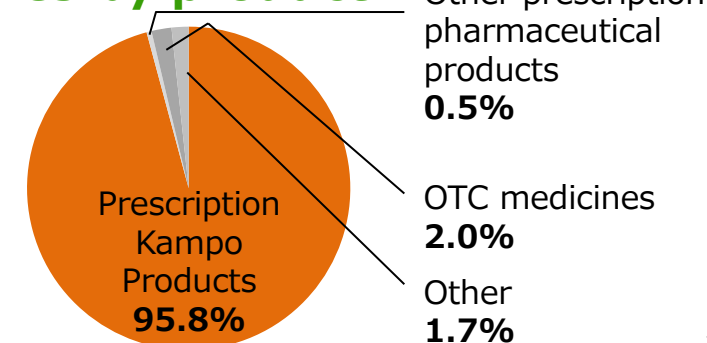
2Q Consolidated Performance for Fiscal 2015

(¥ million)

	FY 2015 2Q Plan	FY 2015 2Q	Achieve ment	FY 2014 2Q	Vs. FY 2014 2Q	
					Amount	Change
Net sales	54,800	54,560	99.6%	52,710	1,850	3.5%
Cost of sales Cost of sales margin	21,600 (39.4%)	21,024 (38.5%)	97.3%	20,049 (38.0%)	974	4.9%
Gross profit Gross profit margin	33,200 (60.6%)	33,536 (61.5%)	101.0%	32,661 (62.0%)	875	2.7%
SG&A expenses SG&A expenses margin	24,800 (45.3%)	23,680 (43.4%)	95.5%	24,075 (45.7%)	-395	-1.6%
Operating profit Operating profit margin	8,400 (15.3%)	9,855 (18.1%)	117.3%	8,585 (16.3%)	1,270	14.8%
Ordinary income	8,500	10,072	118.5%	9,191	880	9.6%
Net income attributable to owners of parent	5,400	6,538	121.1%	6,128	410	6.7%

	FY 2015 2Q Plan	FY 2015 2Q	FY 2014 2Q
Dividends per share	¥32	¥32	¥32

Sales by product



Key Points in Performance

- Both net sales and profit rose in first half, year on year, largely reflecting the steady sales of Kampo products and successive cost control.

Consolidated net sales **¥54,560 million** Vs. planned **99.6%** YoY **3.5%**

- The sales of prescription Kampo preparations rose 2.04 billion yen (up 4.1%) year on year, because inventories in medical institutions, which partly affected the sales in the first quarter, declined after July while new sales measures for proposing multiple effective formulations to doctors contributed to the sales.
- Net sales were 99.6% of the target. However, efforts are being made to achieve the full-year targets, with the sales of Kampo medicine showing signs of recovery.

Operating profit **¥9,855 million** Vs. planned **117.3%** YoY **14.8%**

Operating profit margin **18.1 %** YoY **1.8pts**

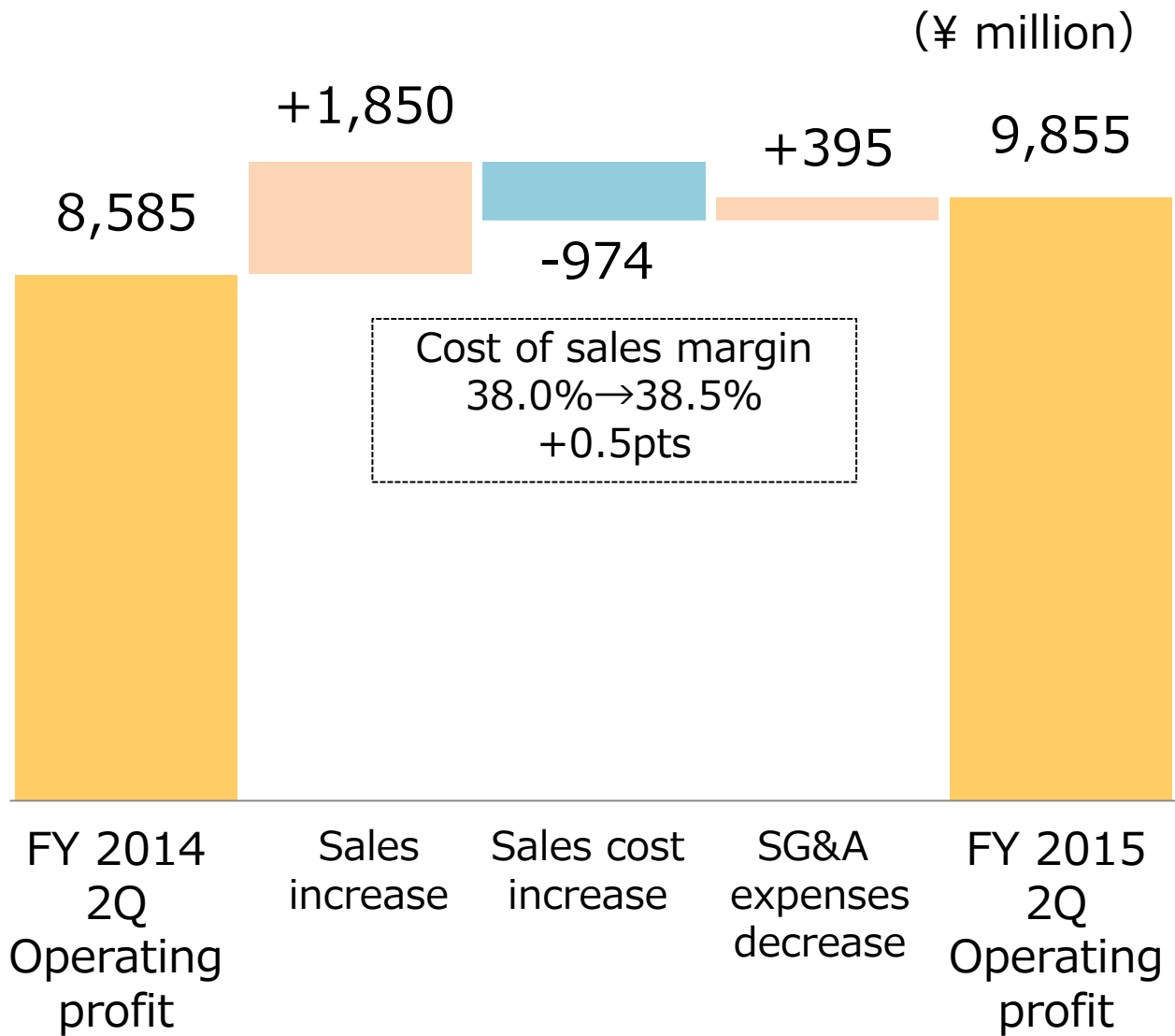
- The cost sales ratio rose 0.5 percentage points year on year, which reflects an increase in crude drug prices and the effects of exchange rates. The ratio fell short of the plan by 0.9 percentage points.
- The SG&A ratio fell 2.3 percentage points year on year as a result of cost controls that accompanied improvements in operational efficiency. It was 1.9 percentage points below the target due to the delay of the date of payment.
- Operating profit was 117.3% of the target, exhibiting excellent progress. However, forecasts for the full fiscal year remain unchanged in light of factors such as an increase in costs related to crude drugs and the status of selling, general and administrative expenses.

Ordinary income **¥10,072 million** Vs. planned **118.5%** YoY **9.6%**

Net income attributable to owners of parent **¥6,538 million** Vs. planned **121.1%** YoY **6.7%**

Factors in Increase / Decrease of Operating Profit

(¥ million)



Factors of Sales increase

Prescription Kampo 129 products	+2,044
Other	-194

Factors of Cost of sales margin

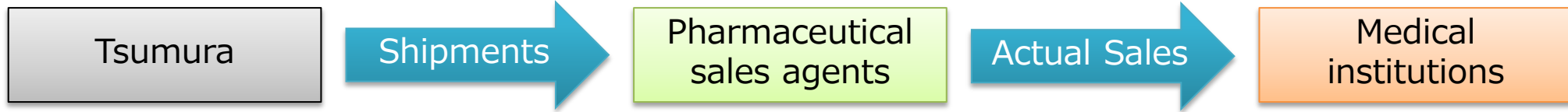
Increase in crude drug cost	+1.2pts
Effect of processing cost control	-0.5pts
Other	-0.2pts

Factors in decrease of SG&A expenses

Sales promotion expenses	+105
R&D expenses	-226
Advertising expenses	-130
Personnel expenses	-65
Other	-78

Growth rate of 129 prescription Kampo formulations

	Actual sales	Shipments
Quantity	5.6%	4.4%
Amount	5.2%	4.1%



Actual sales – Sales from pharmaceutical sales agents to medical institutions
Shipments – Sales from Tsumura to pharmaceutical sales agents

Sales status based on sales measures

(Actual Sales / Amount basis)

Growth rate of 129 prescription Kampo formulations **5.2%**

	Growth rate of FY2015 2Q	General Sales Situations
5 Drug fostering products	4.3%	<ul style="list-style-type: none"> • Targets for the first half were not achieved • Aim for early growth recovery through prioritization and focusing
124 Kampo promotion products	5.6%	<ul style="list-style-type: none"> • Sales growth of 54 formulations (for 21 disorders), which were started in April through approaches to address disorders and symptoms, were approximately 1 percentage point higher than that of 129 formulations <p>→ Increase the target disorders and propose multiple effective formulations to physicians to expand the range of treatment (23 disorders added in July)</p>
Approaches by Disorder and Symptom Type	6.3%	

Analysis of sales of 5 Drug fostering products

FY 2014

- The sales growth rate slowed down due to the decline in activities in sales channels through hospitals

First half of FY2015

- Delay in sales growth recovery at university hospitals and designated hospitals for clinical training
- Activities increased but are not yet aggressive enough

Implement product training for dedicated MRs at university hospitals and designated hospitals for clinical training



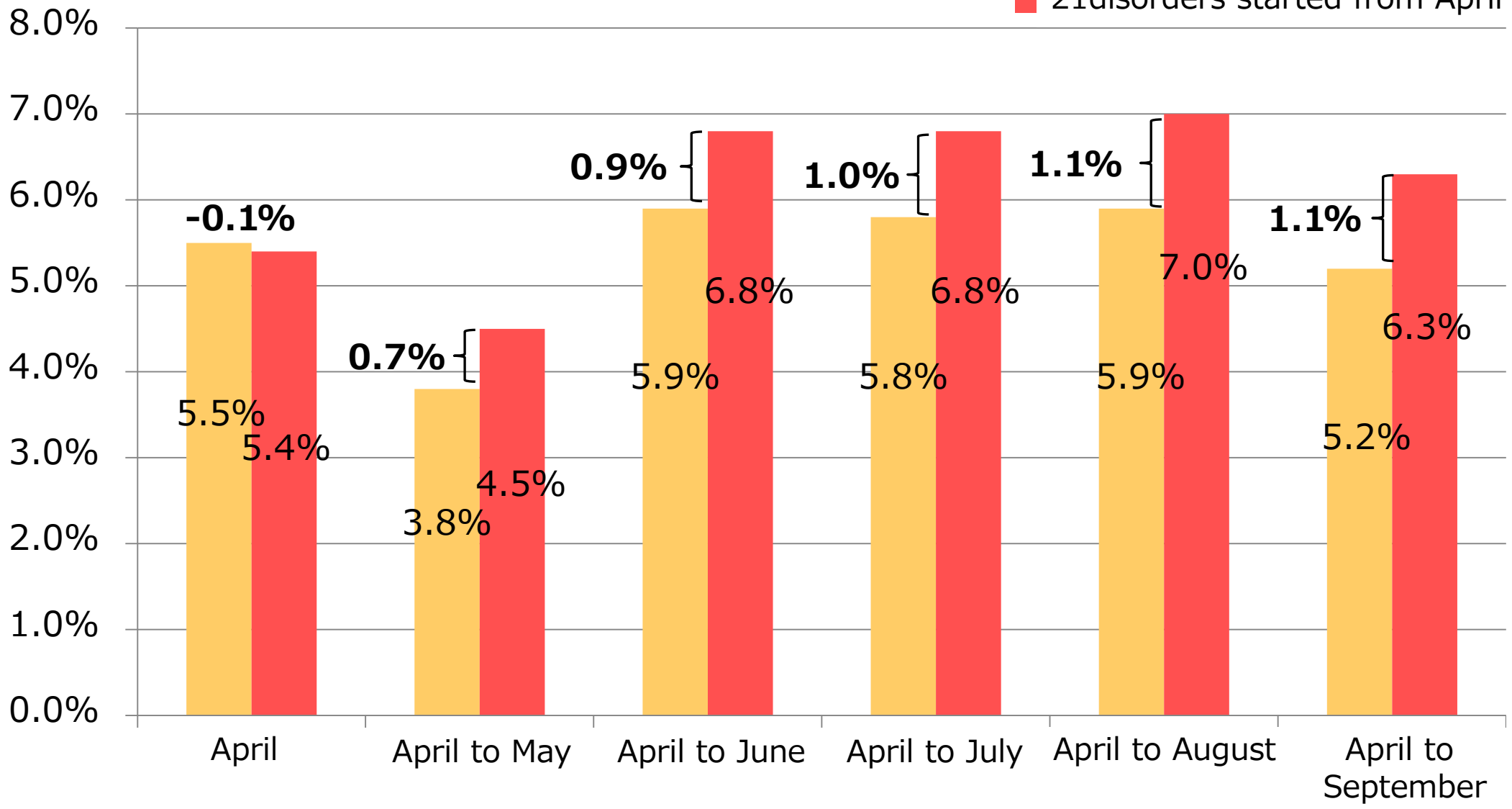
Measures to be taken going forward

Further strengthen sales initiatives, focusing on departments in the field of drug fostering at university hospitals and designated hospitals for clinical training, as well as target facilities of GP and physicians

- **Regularly conduct product training for dedicated MRs at universities and designated hospitals for clinical training**
- **Publish product information in medical magazines and promoting the new published guidelines.**

Progress in Promoting Approaches by Disorder and Symptom Type (Actual Sales / Amount basis)

- All 129 products
- 21 disorders started from April



Sales promotion target by market

Priority issues:

Recovery in drug fostering products and Maintaining and expanding current client

<p>5 "Drug Fostering" products</p>
<p>124 Kampo promotion products</p>

HP	GP
<p>Hospitals with 100 beds or more (institution-employed physicians and physicians -in-training)</p>	<p>Hospital with less than 100 beds (institution-employed physicians) Clinics (family physicians)</p>
<p>Gastroenterology Gastroenterological surgery Neuropsychiatry Oncology</p>	<p>Specialist in drug fostering field</p>
<p>Each field (With priority order)</p>	<p>High-potential facilities Primary care Older person disorder Female disorder</p>
	<p style="text-align: center;">Current large client</p>

Provide proper information, such as evidence, papers, new published guidelines and the proper application of formulations, to meet client needs, thereby responding to the diversifying needs of the market.

Progress of TU-100 Clinical Trials in the United States

Phase II (Early stage)

(1) Clinical pharmacology trial STEP I (Healthy volunteers) **Completed**
(2) Clinical pharmacology trial STEP II (Patients with chronic constipation) **Completed**

Postoperative ileus
after colon cancer surgery

Irritable bowel syndrome

Crohn's disease in remission

Clinical pharmacology trial
(Patients with constipation)
Completed

Clinical pharmacology trial
(Patients with IBS)
Completed

Responder trial
(Patients with Crohn's
disease)
Completed



+

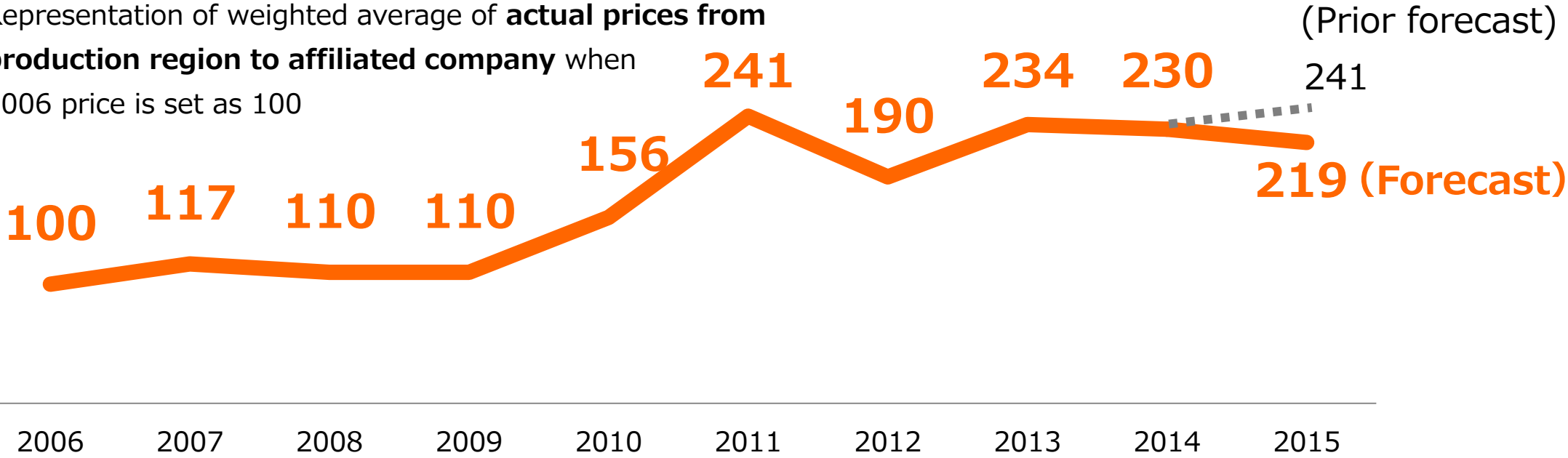
Study to explore endpoints
(Patients with laparoscopy
Colectomy)
**Scheduled to end in
FY2017**

Study to explore endpoints
(Patients with IBS)
**Scheduled to end in
FY2016**

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



(Prior forecast)

219 (Forecast)

2006 2007 2008 2009 2010 2011 2012 2013 2014 2015

Forecast

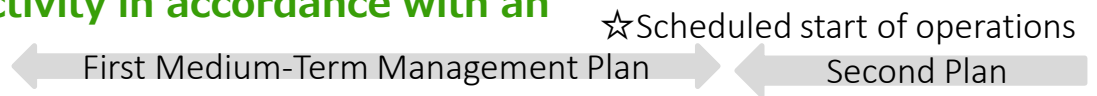
Price increase of ginseng, etc.

Decline in the unit price of ginseng was greater than expected
 (1) Purchases for speculative purposes are settling down
 (2) Supply to the market is increasing

(1) Local demand in China increased; (2) Unfavorable weather;
 (3) Speculative investment cornering market

Capital Investment Plan

- Phased capital investment in accordance with sales
- New investment for the improvement of productivity in accordance with an increase in production volume



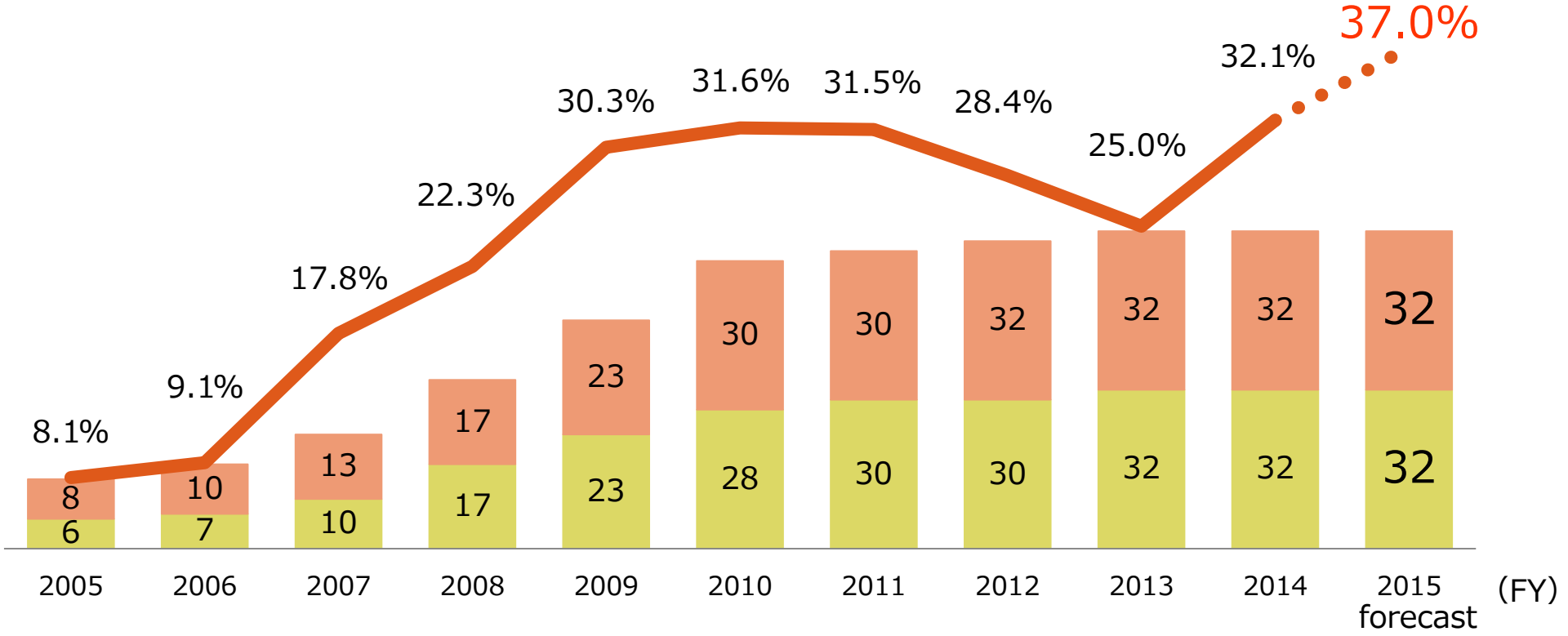
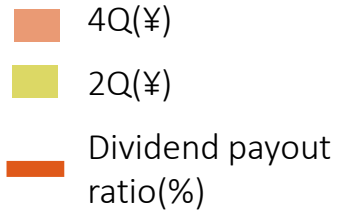
	Capital investment project	FY2012	FY2013	FY2014	FY2015	FY2016 and after
Production-related	Shizuoka Plant	New granulation and packaging facilities, etc.				☆-----→ ☆
		New crude drug warehouse		May		
		SD line-related				☆
	Ibaraki Plant	New granulation facility		February	☆ (Additional)	
		New standard-based 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			☆ (Phase 2)	
		Crude drugs, etc.	Maintenance / renewal	→		

Capital investment : FY2012 ¥9.5 billion, FY2013 ¥9.2 billion, FY2014 ¥9.7 billion **FY2015 Plan ¥11.2 billion**
 ✓ Will appropriately revise timing of new production facilities start up based on sales trends

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



The year-end dividend and dividend payout ratio for FY2015 are based on the assumption that the dividend item will be approved at the 80th annual shareholders' meeting



FY2015 Performance Forecasts

FY 2015 Performance Forecasts

➤ **No revision in performance forecasts**

(¥ million)

	FY 2014	FY 2015	YoY	
			Amount	Change
Net Sales	110,438	113,000	2,561	2.3%
Cost of sales	41,859	46,000	4,140	9.9%
Cost of sales margin	(37.9%)	(40.7%)		
Gross profit	68,578	67,000	-1,578	-2.3%
Gross profit margin	(62.1%)	(59.3%)		
SG&A expenses	49,087	49,000	-87	-0.2%
SG&A expenses margin	(44.4%)	(43.4%)		
Operating profit	19,491	18,000	-1,491	-7.7%
Operating profit margin	(17.6%)	(15.9%)		
Ordinary income	21,583	18,300	-3,283	-15.2%
Net income attributable to owners of parent	14,075	12,200	-1,875	-13.3%

	FY 2014	FY 2015
Dividends per share	¥64	¥64
E P S	¥199	¥173
R O E	10.1%	8.0%



Reference Material

Top 10 Kampo Products by Sales Amount

(¥ million)

	Product name	Main effectively treatable disorders	FY 2015 2Q	FY 2014 2Q	Y o Y Change	
1	TJ-100 (Daikenchuto)	Abdominal pain / abdominal flatulence	5,065	4,883	181	3.7%
2	TJ-41 (Hochuekkito)	Reinforcement of physical strength after illness / anorexia , etc.	3,599	3,534	65	1.8%
3	TJ-54 (Yokukansan)	Neurosis / insomnia , etc.	3,594	3,376	218	6.5%
4	TJ-43 (Rikkunshito)	Gastritis / maldigestion / anorexia , etc.	3,257	3,247	9	0.3%
5	TJ-68 (Shakuyakukanzoto)	Pain accompanying sudden muscle spasms , etc.	2,384	2,214	170	7.7%
6	TJ-24 (Kamishoyosan)	Oversensitivity to cold / menstrual irregularity / climacteric disturbance , etc.	2,236	2,053	182	8.9%
7	TJ-29 (Bakumondoto)	Coughing / bronchitis / bronchial asthma	1,972	1,768	204	11.5%
8	TJ-107 (Goshajinkigan)	Leg pain /low back pain / numbness / dysuria , etc.	1,922	1,873	49	2.6%
9	TJ-114 (Saireito)	Acute gastroenteritis / swelling (edema) , etc.	1,702	1,700	2	0.1%
10	TJ-17 (Goreisan)	Edema / diarrhea / headache / heatstroke , etc	1,560	1,322	237	18.0%
21	TJ-14 (Hangeshashinto)	Fermentative diarrhea / neurotic gastritis / stomatitis , etc.	616	601	15	2.5%
Total sales of 129 prescription Kampo products			52,280	50,236	2,044	4.1%
Total sales of five“ Drug Fostering Program” formulations			14,455	13,981	473	3.4%


Drug Fostering Formulation Efficacy Scientific Evidence (DB-RCT & Safety)

Paper publication
 Paper submitted, paper submission in preparation

Formulation	Targeted disorder	Institution in-charge	Public announcements, etc.
TJ-100 Daikenchuto	Postoperative ileus after colon cancer surgery (main trial)	Kitasato University, other 64 institutions	Published in Japanese Journal of Clinical Oncology
	Postoperative ileus after colon cancer surgery (supplemental trial)	Fujita Health University, other 19 institutions	Adopted for Journal of Gastroenterol
	Postoperative ileus after gastric cancer surgery	Oita University, other 43 institutions	Published in Journal of the American College of Surgeons
	Postoperative ileus after liver cancer surgery	Tokushima University, other 30 institutions	Published in Int J Cli Oncology
	Paralytic ileus after pancreatic cancer surgery; JAPAN-PD Study	Wakayama Medical University, other 10 institutions	Paper submitted
	Crohn's disease in remission	Keio University, other 9 institutions	Mar.2015 end of case collection
	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	Published in Psychopharmacology
	BPSD	Tohoku University, other 21 institutions	Paper submitted (GGI/Journal of the Japan Geriatrics Society)
	Schizophrenia (long-term trial)	Shimane University, other 10 institutions	Nov. 2014 – Oct. 2016 case collection ongoing
	Autistic Spectrum Disorder (6 – 17 years old)	Shimane University, other 4 institutions	Jan. 2015 – Dec. 2016 case collection ongoing
	Medication overuse headaches	Saitama Medical University, other 4 institutions	Oct. 2015 – Mar. 2017 case collection ongoing
	Smoking cessation treatment for ex-smokers who suffer from neurosis and depression	Kyoto Medical Center, other (unfixed)	Scheduled to be started in FY2015
TJ-43 Rikkunshito	Intractable gastroesophageal reflux disease; G-PRIDE Study	Osaka City University, other 75 institutions	Published in Journal of Gastroenterology Published in BMC Gastroenterology (additional analysis)
	Functional dyspepsia (FD)	Keio University, other	Published in Neurogastroenterology & Motility
	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 – trial in preparation
	Anorexia from chemotherapy for lung cancer; RICH Study	Fukushima Medical University	Nov. 2014 – Oct. 2016 case collection ongoing
TJ-107 Goshajinkigan	FOLFOX treatment peripheral neuropathy; GONE Study	Asahikawa Medical University, other 16 institutions	Published in Cancer Chemotherapy and Pharmacology
	FOLFOX treatment peripheral neuropathy; GENIUS Study	Kyushu University, other 43 institutions	Trial halted (May 2012) Published in Int J Cli Oncology (online)
TJ-14 Hangeshashinto	Oral inflammation from chemotherapy for colon cancer; HANGESHA-C Study	National Hospital Organization Osaka National Hospital, other 18 institutions	Published in Cancer Chemotherapy and Pharmacology
	Oral inflammation from chemotherapy for stomach cancer; HANGESHA-G Study	Kanagawa Cancer Center, other 14 institutions	Published in Cancer Chemotherapy and Pharmacology
TJ-54 Yokukansan	Frequency investigation of adverse drug reactions	–	Package insert revised in November 2014
TJ-68 Shakuyakukanzoto*	Frequency investigation of adverse drug reactions	–	Analysis proceeding

* Shakuyakukanzoto is not a "drug fostering" production
 FD : Functional dyspepsia
 GERD : Gastroesophageal reflux disease
 BPSD: Behavioral and Psychological Symptoms of Dementia

BMC Gastroenterology : BioMed Central Gastroenterology



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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.
- Changes in the healthcare insurance systems or regulations set by medical treatment authorities on drug prices or other aspects of healthcare or 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.