

TSUMURA & CO. Business Results for Fiscal 2016

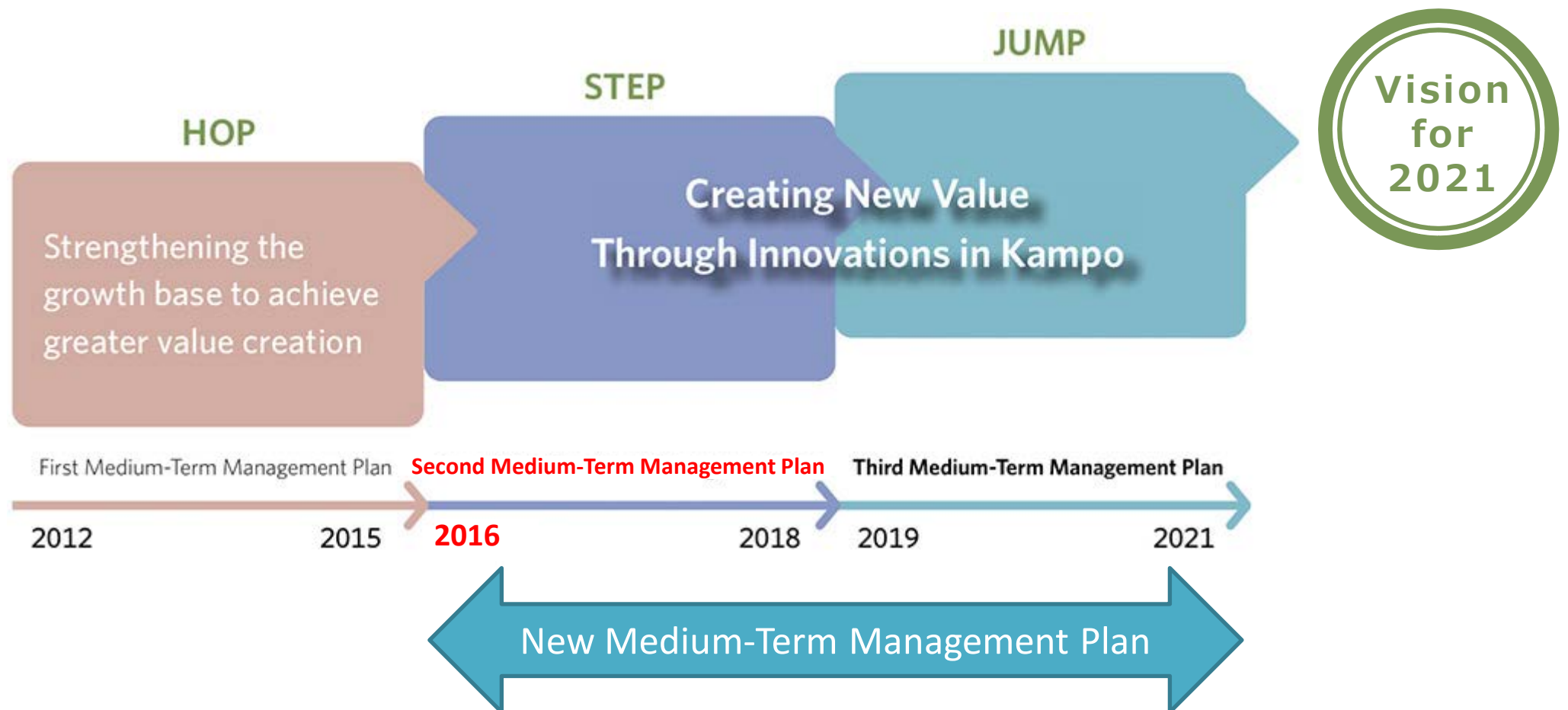
(From April 1, 2016 to March 31, 2017)

May 12, 2017

President, Representative Director

Terukazu Kato

Roadmap to Realizing Long-Term Vision



Strategic Challenges

1. Expansion and stable growth in the Kampo market
2. Continued reinforcement of profitability and maximization of cash flow
3. Taking on the challenge of new businesses in China

Tsumura Group's ESG Initiatives

Tsumura Group contributes to building sustainable society through its mainstay “Kampo and crude drugs” business

<p>E (Environment)</p> <p>Protection of resources for crude drugs and the natural environment, research on the cultivation of wild crude drugs, contribution to the realization of a recycling society, maintenance of zero emissions</p>	<ul style="list-style-type: none"> • Research on the cultivation of wild crude drugs in China (protection of resources for crude drugs and the natural environment) -Joint research with China Academy of Chinese Medical Sciences, etc. : Glycyrrhiza, Rhubarb, Atractylodes Lancea Rhizome, etc. • Research on the cultivation of crude drugs in Japan Hachinohe City, Ishikari City -Hachinohe City: research on indoor cultivation: Ginseng, Coptis Rhizome, Angelica Root, Perilla Herb, Bupleurum Root, Angelica Dahurica Root -Ishikari City: research on indoor cultivation with mushroom beds: Poria Sclerotium
<p>S (Society)</p> <p>Contribution to the revitalization of primary industries through the cultivation of crude drugs, creation of opportunities for employment of the elderly and persons with disabilities</p>	<ul style="list-style-type: none"> • Expansion of the cultivation of crude drugs in Japan, Kumamoto Prefecture (Bupleurum Root: change crops from leaf tobacco, etc.) -Execution of the agreement on the location upon the construction of a factory for processing medicinal herbs (on the former grounds of Fukada Junior High School) together with Medicinal Herb Godo Kabushiki Kaisha of Asagiri-cho • TEMIRU FARM (HARUNIRE NO SATO, persons with disabilities), etc. -Open culture: Perilla Herb, large-scale indoor cultivation: Poria Sclerotium
<p>G (Governance)</p> <p>Establishment and operation of a highly effective corporate governance system, dialogues with shareholders and investors</p>	<p>Improvement of the corporate governance system toward sustainable growth and enhancement of corporate value in the medium- to long-term: scheduled changes to a company with an audit and supervisory committee (independent outside directors constitute a majority) (after approval at the shareholders' meeting in June of this year)</p> <ul style="list-style-type: none"> - Further strengthening of supervision over business executions by the Board of Directors - More efficiency and transparency in management - Clarification of the responsibilities to be executed and more prompt decision-making through delegation of authority

Business Results for Fiscal 2016

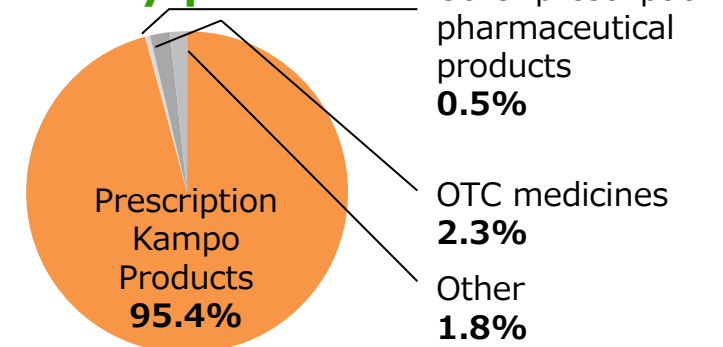
Consolidated Performance for Fiscal 2016

(¥ million)

	FY 2016 Plan	FY 2016	Achieve ment	FY 2015	Vs. FY 2015	
					Amount	Change
Net sales	115,400	114,954	99.6%	112,625	2,328	2.1%
Operating profit (Operating profit margin)	14,500 (12.6%)	15,983 (13.9%)	110.2%	19,826 (17.6%)	-3,842	-19.4%
Ordinary income	15,000	16,399	109.3%	19,494	-3,094	-15.9%
Net income attributable to owners of parent	10,700	12,488	116.7%	12,557	-68	-0.5%

	FY 2016 Plan	FY 2016	FY 2015
EPS	¥152	¥179	¥178
ROE	6.9%	8.1%	8.3%

Sales by product



Key points in Performance

- Sales increased due to steady sales of prescription Kampo products
- Income declined, mainly reflecting the influence of the NHI drug price revision and the increase in crude drug costs. However, the profit target has been achieved

Consolidated net sales	¥114,954 million	Vs. planned	99.6%	YoY	2.1%
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- Sales increased 2.32 billion yen (up 2.1%) year on year, due to steady sales of prescription Kampo products although this reflects the impact of NHI drug price revision (down 3%)

Operating profit	¥15,983 million	Vs. planned	110.2%	YoY	-19.4%
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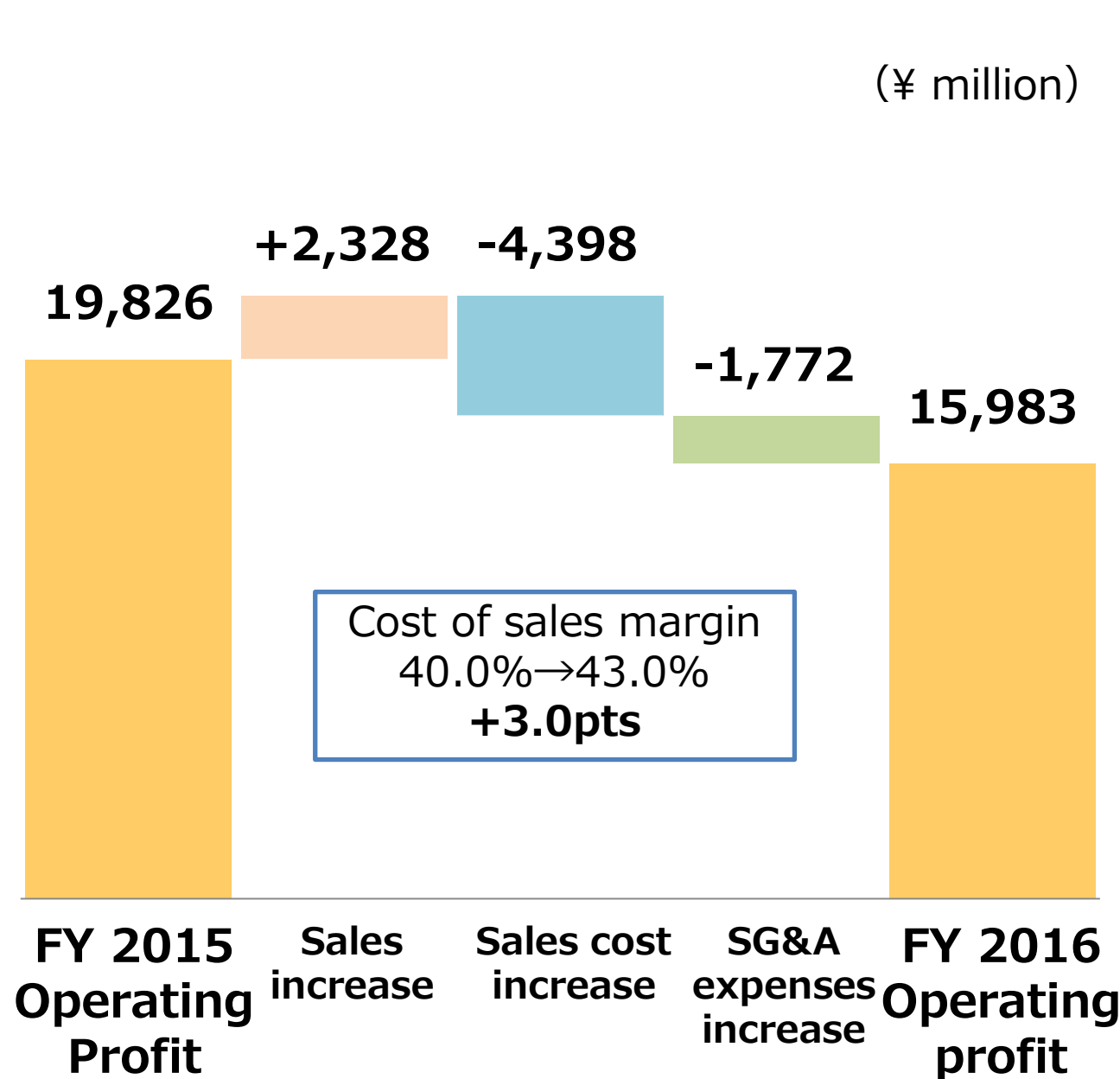
Operating profit margin	13.9 %			YoY	-3.7pts
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- The cost of sales ratio was 43.0%. It rose 3.0 percentage points year on year, mainly reflecting influence of NHI drug price revision and the increase in crude drug costs. It decreased by 0.9 percentage points for the plan mainly due to improvement of processing costs through increase in productivity
- SG&A ratio rose 0.7 percentage points year on year to 43.1%, reflecting the increase in advertising costs and personnel expenses. It fell 0.4 percentage points for the plan due to the cost control, etc.

Ordinary income	¥16,399 million	Vs. planned	109.3%	YoY	-15.9%
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Net income attributable to owners of parent	¥12,488 million	Vs. planned	116.7%	YoY	-0.5%
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Factors in Increase / Decrease of Operating Profit (YoY)



(¥ million)

Factors of Sales increase

Prescription Kampo 129 products	+2,048
Other	+280

Factors of Cost of sales margin

NHI drug price revision	+1.3Pts
Increase in crude drug cost	+2.5Pts
Improvement of processing cost	-0.4Pts
Other	-0.4Pts

Factors in decrease of SG&A expenses

Sales promotion expenses	+253
R&D expenses	+118
Advertising expenses	+171
Personnel expenses	+579
Other	+649

Financial Condition/ Cash Flow Position

Balance Sheet

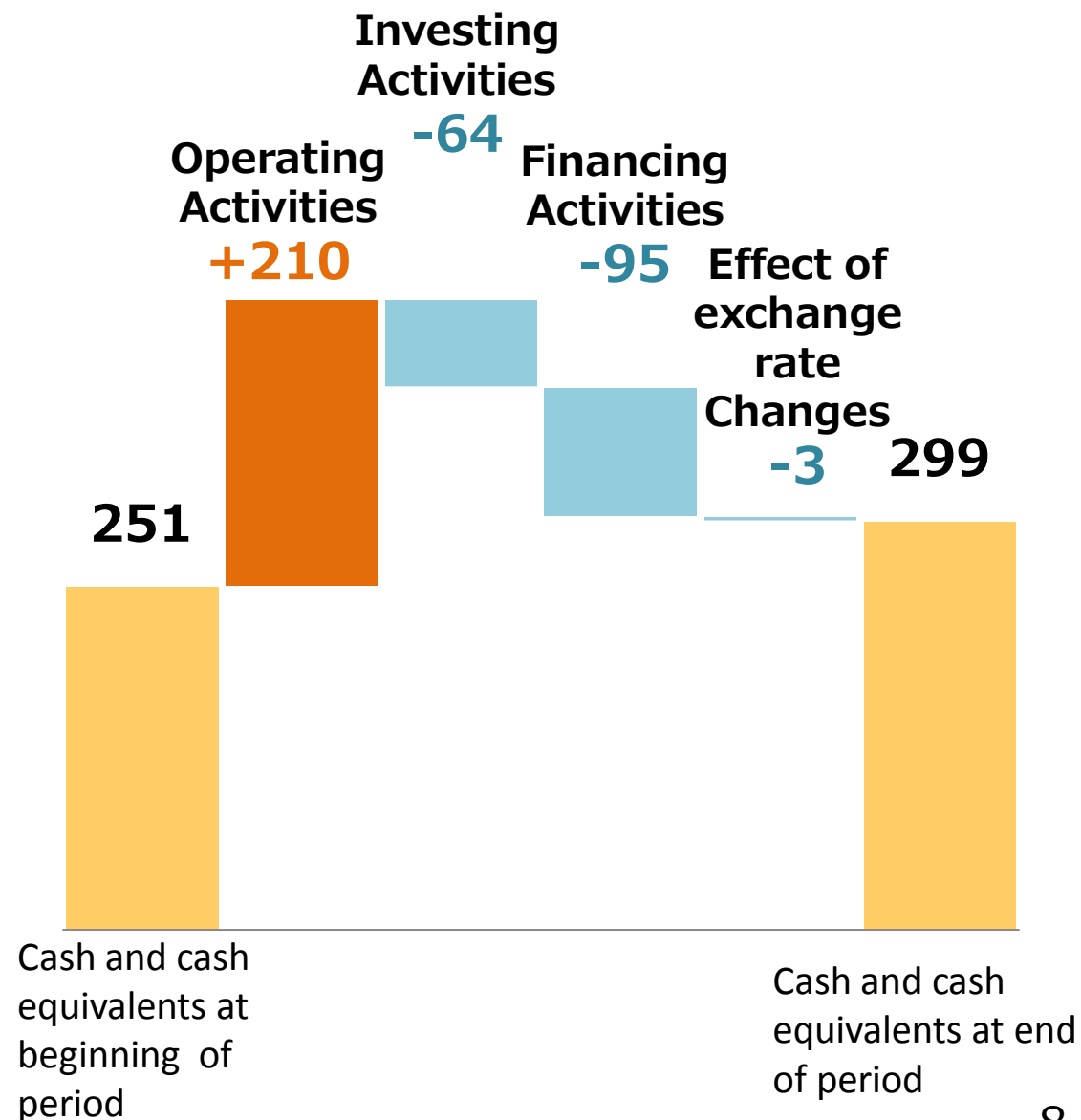
(¥ million)

	As of March 2016	As of March 2017	change
Total assets	222,468	222,008	-459
Current assets	133,668	134,679	1,010
Non-current assets	88,799	87,329	-1,469
Total liabilities	66,765	64,611	-2,153
Current liabilities	43,702	31,883	-11,818
Non-current liabilities	23,063	32,727	9,664
Total net assets	155,702	157,397	1,694

Equity Ratio	68.8%	69.7%	+0.9pts
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Cash Flow

(¥ billion)



FY2017 Performance Forecasts

FY2017 Performance Forecasts

(¥ million)

	FY2016	FY2017	YoY	
			Amount	Change
Net sales	114,954	120,700	5,745	5.0%
Operating profit (Operating profit margin)	15,983 (13.9%)	17,600 (14.6%)	1,616	10.1%
Ordinary income	16,399	18,100	1,700	10.4%
Net income attributable to owners of parent	12,488	12,700	211	1.7%

	FY2016	FY2017
Dividends per share	¥64	¥64
E P S	¥179	¥184
R O E	8.1%	8.0%

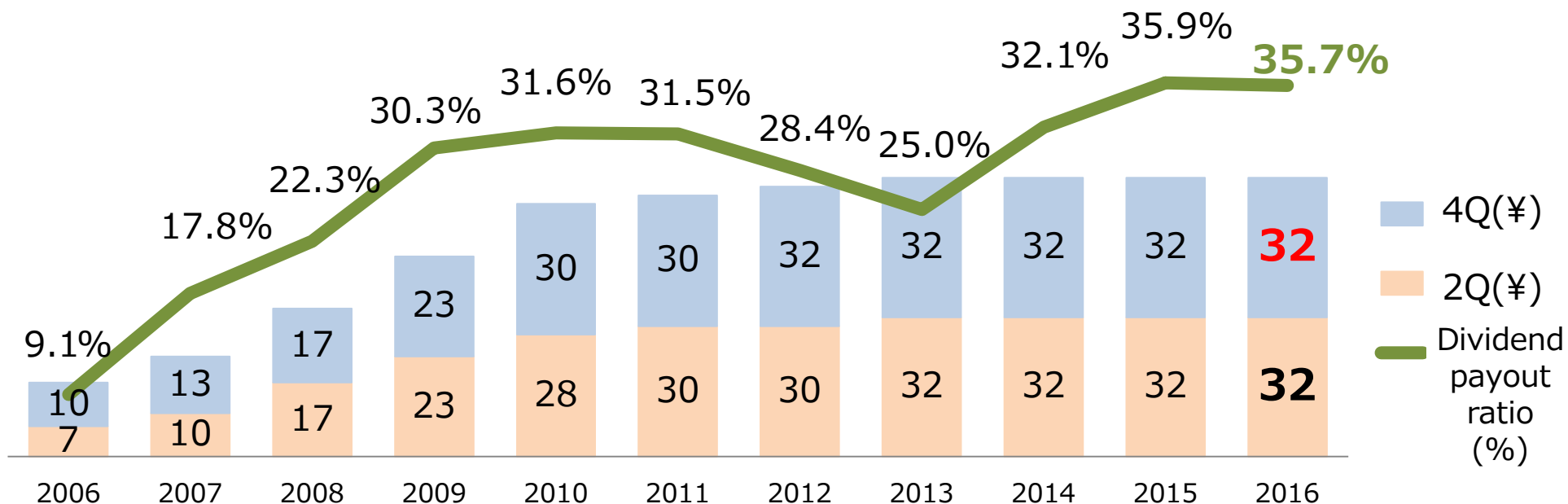
Return of Profits to Shareholders

Return of Profits to Shareholders

Policy

- ❑ To improve corporate value through capital investments in order to realize the continuous development and growth of “Kampo”
- ❑ To consider medium- to long-term profit levels and cash flows as well as carry out a stable dividend
- ❑ To acquire treasury stock in a flexible manner after making efforts in shareholder returns based on examinations and revisions for an optimal capital structure as well as giving comprehensive consideration to market trends, etc.

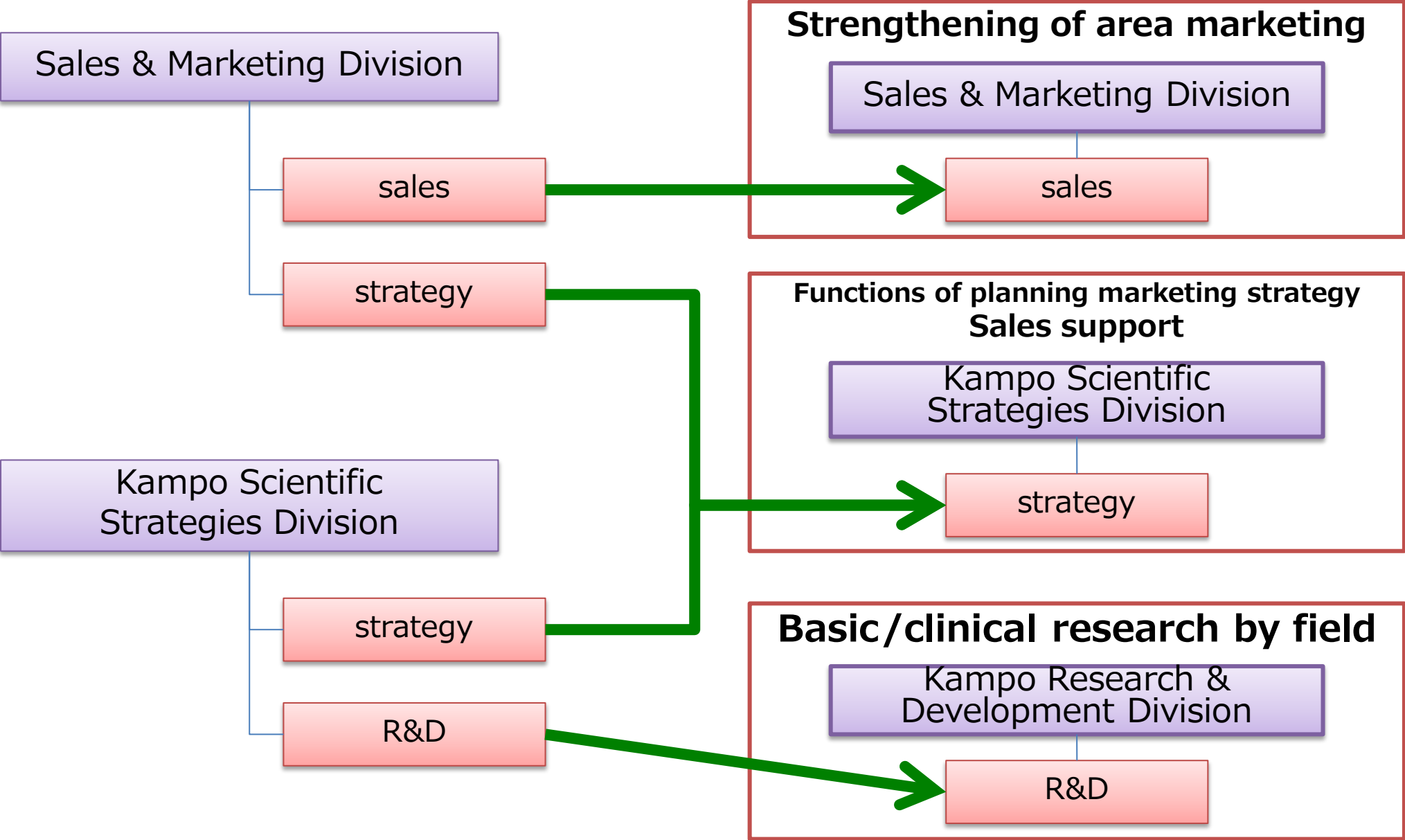
Dividend history



The year-end dividend and dividend payout ratio for FY2016 are based on the assumption that the dividend item will be approved at the 81st annual shareholders' meeting

Progress of Strategic Challenges

Strengthening of Functions by Reorganization (on April 1)



1 Expansion and Stable Growth in the Kampo Market

Marketing strategy

- ◆ **Field of concentration: MR capabilities**
("Drug fostering program" formulations)
- ◆ **New field to expand: Scheme (Growing formulations)**

Environmental changes/movements of the administration

"Kenko Nippon 21" "New Orange Plan" "Comprehensive Regional Care System"
"Plan to Accelerate Countermeasures for Cancer" "Enactment of the Act of Promotion of Women's Participation and Advancement in the Workplace"



- ◆ Expansion of fields with high needs for medical treatments, but low satisfaction rates with treatments as well as low contributions of medicines where Kampo products are specifically effective
- ◆ Actualization of potential needs and proposals for new solutions with Kampo products

References in medical treatment guidelines

1 Expansion and Stable Growth in the Kampo Market

Three Important Domains

Geriatric field

“Kenko Nippon 21” (The extension of healthy life expectancy)
“New Orange Plan” (Promotion of measures to care for dementia)
“Comprehensive Regional Care System”
(Promotion of home health care)

- BPSD (Behavioral and Psychological Symptoms of Dementia) : TJ-54 (Yokukansan), etc.
- Geriatric clinical syndrome : TJ-41 (Hochuekkito), **TJ-43 (Rikkunshito)**, TJ-107 (Goshajinkigan), etc.

Cancer domain
(supportive care)

“Plan to Accelerate Countermeasures for Cancer”
-Cancer supportive care
(Reduction in side effects caused by anticancer and other drugs)-

- Postoperative digestive tract dysfunction : **TJ-100 (Daikenchuto)**
- Anorexia, Nausea : **TJ-43 (Rikkunshito)**
- Stomatitis : TJ-14 (Hangeshashinto)
- Delirium after operation (neurosis) : TJ-54 (Yokukansan)

Gynecology field

“The Act of Promotion of Women’s Participation and Advancement in the Workplace”-Care depending on the stage in women’s life-

- Puberty : TJ-23 (Tokishakuyakusan)
- Sexual maturation : TJ-25 (Keishibukuryogan), TJ-23 (Tokishakuyakusan)
- Menopause : TJ-24 (Kamishoyosan)

1 Expansion and Stable Growth in the Kampo Market

“Plan to Accelerate Countermeasures for Cancer”
(Ministry of Health, Labour and Welfare : December 2015)

- (1)Prevention - To prevent cancer that can be avoided -
- (2)Treatment/research
 - To decrease amount of deaths due to cancer -
- (3)Life with cancer - To live with cancer -**



-Development/spread of **supportive therapy**-
<Specific proposals for implementation>

“Especially in terms of reducing complications and side effects after operations, to advance research on trophotherapy, rehabilitation therapy and **supportive therapy** using **Kampo products**”

Anorexia, Nausea : TJ-43 (Rikkunshito)
Stomatitis : TJ-14(Hangeshashinto)
Delirium after operation (neurosis) : TJ-54(Yokukansan)

In cooperation with the base facilities for cancer treatment, to accumulate evidence of the reduction of side effects of anticancer drugs

2 Continued Reinforcement of Profitability and Maximization of Cash Flow

Amount of Capital Investment

[FY2016~FY2018 (3 years)]

Announced in May 2016
Approximately 30 billion yen



As of May 2017
Approximately 33 billion yen

(¥ million)

FY2016		FY2017		Change	
Amount	% of Sales	Amount	% of Sales	Amount	%
6,455	5.6%	15,100	12.5%	8,644	133.9%

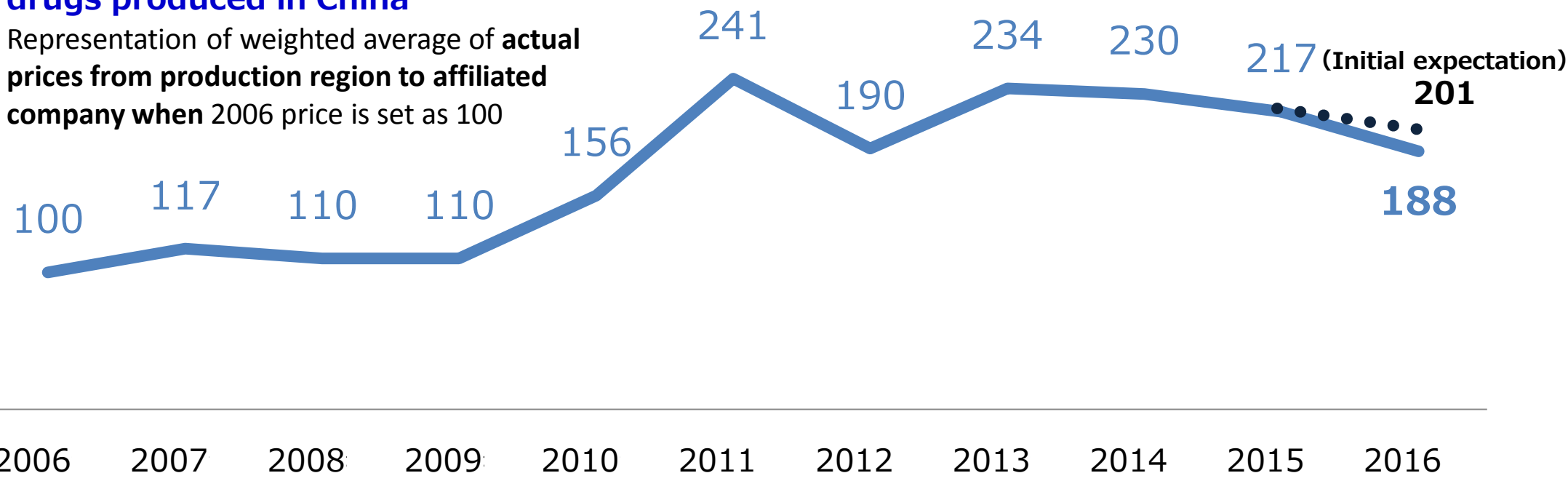
Details of capital investment are new manufacturing buildings of Ibaraki Plant, etc.

2 Continued Reinforcement of Profitability and Maximization of Cash Flow

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



Expected purchase prices in 2016
Calculated on a used amount basis, instead of a procured amount basis

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

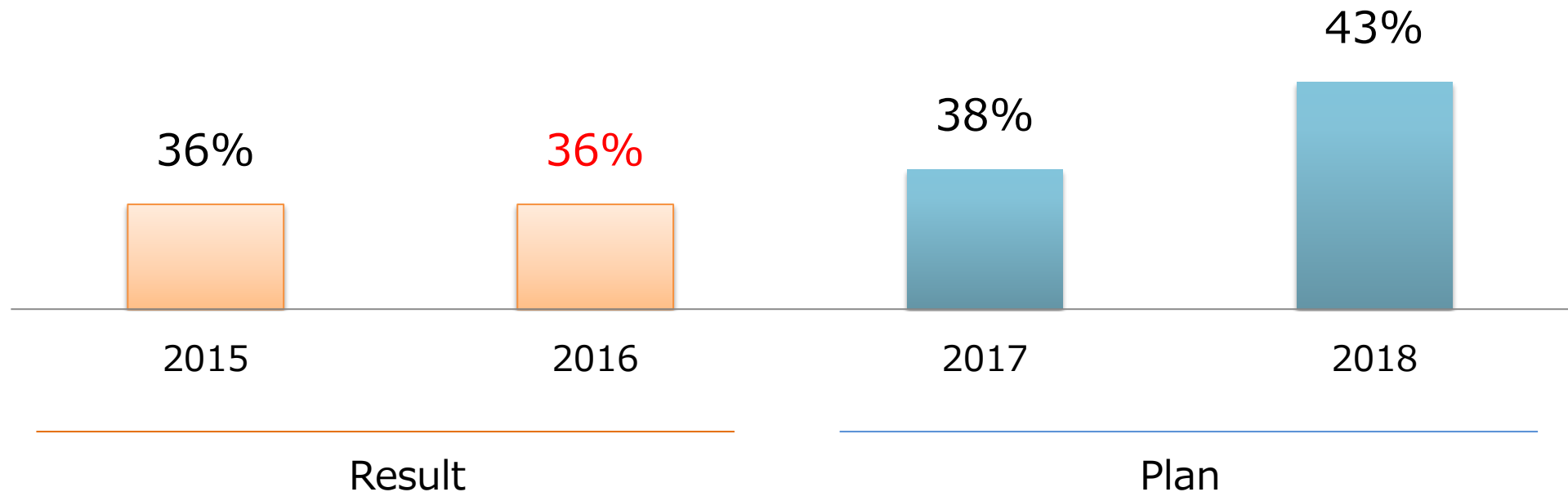
Price increase of ginseng, etc.

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

2 Continued Reinforcement of Profitability and Maximization of Cash Flow

Expansion of Cultivated Land under Own management area

- Procurement of crude drugs to ensure stable prices and increased quality assurance
- Expansion of Cultivated Land under Own management at an appropriate ratio



- Reinforce and streamline purchasing structure based on the principle of competition
- Pursue crude drug quality and further enhancement of systems to ensure safety

Volume ratio includes negotiated cultivation in China and contract cultivation in Japan.

Cultivated Land under Own management is "Farm with certain scale of cultivation area for which Tsumura directly provides cultivation guidance and has an understanding of cultivation costs and can set procurement prices."

3. Taking on the Challenge of New Business in China

Tsumura China Inc. was established in December, 2016

Control and management of supply chain, human resources, and capital in China spanning from existing businesses to new businesses, such as production of traditional Chinese medicine compound granules and export of crude drugs and extracts to Japan.

SPH TSUMURA PHARMACEUTICALS CO., LTD. was established in July, 2016

The business for traditional Chinese medicine compound granules

Trial production is ongoing for manufacturing approval

In preparation for acquiring a factory site (in shanghai area)

SHENZHEN TSUMURA MEDICINE CO., LTD.

The crude drugs pieces business in China

Working on the expansion of sales channels

Contributing to China,
where the Company
procure crude drugs, and
the health of Chinese
people

Taking on the
challenge of entering
the Chinese market

Sales Strategy

- Toward the Expansion and Stable Growth of the Kampo Market -

Managing Executive Officer
Head of Sales & Marketing Division

Ryuji Takasaki

Current status of evidence building of priority preparations

Clinical EBM, action mechanism, monitoring of frequency of side effects, ADME, medical economics data

	Preparation name / Product No.		Metaanalysis	RCT	action mechanism	Monitoring of side effects frequency surveys	ADME	Health economic data	Publish guidelines
Drug fostering formulations	Daikenchuto	TJ-100	Paper submitted	25	◎	◎	◎	◎	Pediatric chronic functional constipation disease, systemic sclerosis
	Yokukansan	TJ-54	2	14	◎	◎	◎	△	Dementing illnesses, Use of psychotropic drugs for BPSD for primary care physicians
	Rikkunshito	TJ-43	—	18	◎	On going	◎	—	Functional gastrointestinal diseases, the diagnosis and treatment of psychosomatic diseases, GERD, systemic sclerosis
	Goshajinkigan	TJ-107	—	14	△	—	○	—	Benign prostatic hyperplasia, overactive bladder syndrome, the pharmacologic management of neuropathic pain
	Hangeshashinto	TJ-14	—	5	○	—	—	—	—
Growing formulations	Hochuekkito	TJ-41	—	9	○	—	—	—	Female lower urinary tract symptoms
	Shakuyakukanzoto	TJ-68	—	9	△	○	◎	—	Amyotrophic lateral sclerosis
	Bakumondoto	TJ-29	—	5	—	—	—	—	Cough, EBM practice guidelines for asthma
	Kamishoyosan	TJ-24	—	4	—	—	—	—	Diseases in obstetrics and gynecology, the treatment and diagnosis of psychosomatic disorders
	Goreisan	TJ-17	—	2	—	—	—	◎	Chronic headache

(Note) The marks above, ◎, ○, and △, indicate the results of the three stage evaluation based on the number of articles, achievements, and other factors (on our company basis)

Result in KPI in FY2016

Item	Target	Result
Number of articles	50	51
Impact factors	100	120
Number of references in diseases and treatment guidelines (with recommendations)	25	23

Results of the Three Important Domains

- Sales growth rate of 5 Drug-fostering formulations :1.2% (up 0.34 billion yen)
- Sales growth rate of 5 Growing formulations :1.9% (up 0.44 billion yen)

Drug fostering formulations

Preparation name	Product No.	Net sales	Y o Y Change	FY 3/16	
				Amount	% of sales
Daikenchuto	TJ-100	10,328	55	0.5%	3.6%
Yokukansan	TJ-54	7,330	115	1.6%	4.9%
Rikkunshito	TJ-43	6,863	259	3.9%	7.4%
Goshajinkigan	TJ-107	3,733	-105	-2.7%	0.4%
Hangeshashinto	TJ-14	1,276	25	2.0%	4.8%
Total sales of the Drug fostering formulations		29,532	349	1.2%	4.0%

Growing formulations

(¥ million)

Preparation name	Product No.	Net sales	Y o Y Change	FY 3/16	
				Amount	% of sales
Hochuekkito	TJ-41	6,947	-21	-0.3%	2.8%
Shakuyakukanzoto	TJ-68	4,853	165	3.5%	6.3%
Bakumondoto	TJ-29	4,511	16	0.4%	3.5%
Kamishoyosan	TJ-24	4,465	0	0.0%	3.3%
Goreisan	TJ-17	3,363	280	9.1%	12.6%
Total sales of the Growing formulations		24,141	442	1.9%	5.6%

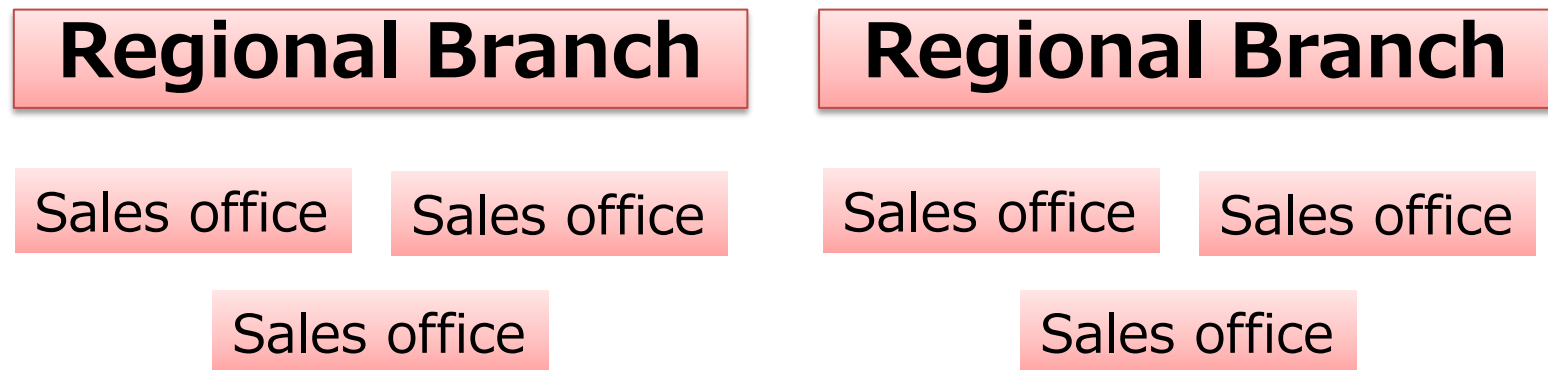
Total of 129 prescription Kampo products	109,647	2,048	1.9%	5.0%
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New Organizational System

Old System
**12 Regional
Branch**

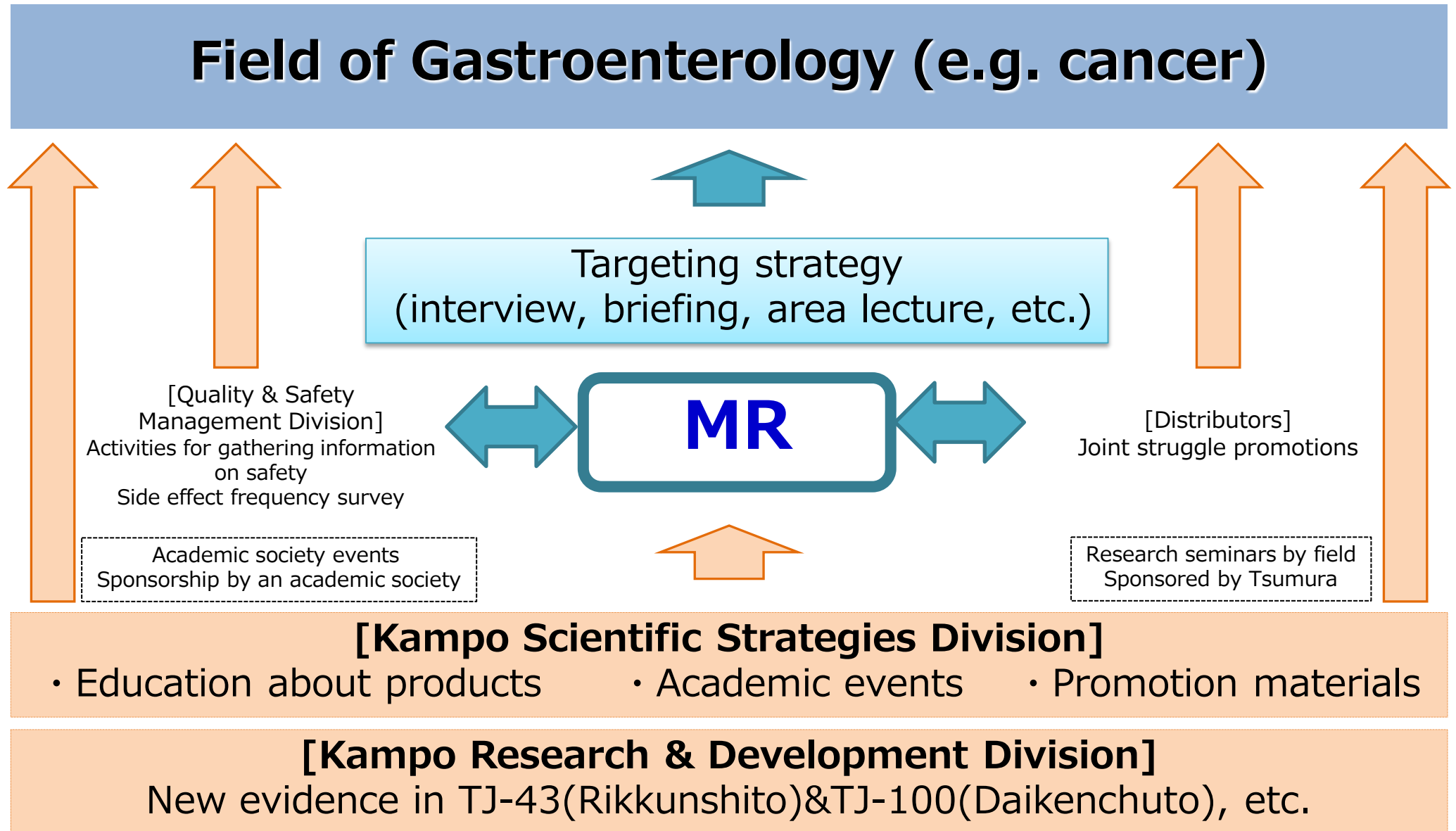


New System
**21 Regional
Branch**



Marketing Kampo Formulations in the Field of Gastroenterology

Concentration and Emphasis



Reference Material

Current sales performance of priority products

(¥ million)

	Product name		Product No.	Main effectively treatable disorders	FY 2015	FY 2016	Y o Y Change	
1	Daikenchuto	☆	TJ-100	Abdominal pain / abdominal flatulence.	10,273	10,328	55	0.5%
2	Yokukansan	☆	TJ-54	Neurosis / insomnia, etc.	7,215	7,330	115	1.6%
3	Hochuekkito	○	TJ-41	Reinforcement of physical strength after illness / anorexia, etc.	6,968	6,947	-21	-0.3%
4	Rikkunshito	☆	TJ-43	Gastritis / maldigestion / anorexia, etc.	6,604	6,863	259	3.9%
5	Shakuyakukanzoto	○	TJ-68	Pain accompanying sudden muscle spasms, etc.	4,688	4,853	165	3.5%
6	Bakumondoto	○	TJ-29	Coughing / bronchitis / bronchial asthma	4,494	4,511	16	0.4%
7	Kamishoyosan	○	TJ-24	Oversensitivity to cold / menstrual irregularity / climacteric disturbance, etc.	4,465	4,465	0	0.0%
8	Goshajinkigan	☆	TJ-107	Leg pain / low back pain / numbness / dysuria, etc.	3,838	3,733	-105	-2.7%
9	Saireito		TJ-114	Acute gastroenteritis / swelling (edema), etc.	3,351	3,399	47	1.4%
10	Goreisan	○	TJ-17	Edema / diarrhea / headache / heatstroke, etc.	3,082	3,363	280	9.1%
20	Hangeshashinto	☆	TJ-14	Fermentative diarrhea / neurotic gastritis / stomatitis, etc.	1,250	1,276	25	2.0%
Total sales of 129 prescription Kampo products					107,599	109,647	2,048	1.9%

☆ : Drug fostering formulations

○ : Growing formulations

Medical Education Model Core Curriculum

(Ministry of Education, Culture, Sports, Science and Technology)

Announcement in March 2001, introduction in fiscal 2002
Wakan-yaku can be outlined

Revision in March 2011
Characteristics of Wakan-yaku (Kampo medicine) and its
current state can be outlined

Revision in March 2017
**Characteristics of Kampo medicine and the uses and medicinal
actions** of the major Wakan-yaku (**Kampo product**) can be
outlined

TSUMURA & CO.
Investor Relations Group
Corporation Communications Dept.

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.