

TSUMURA & CO.

Business Results for Fiscal 2017

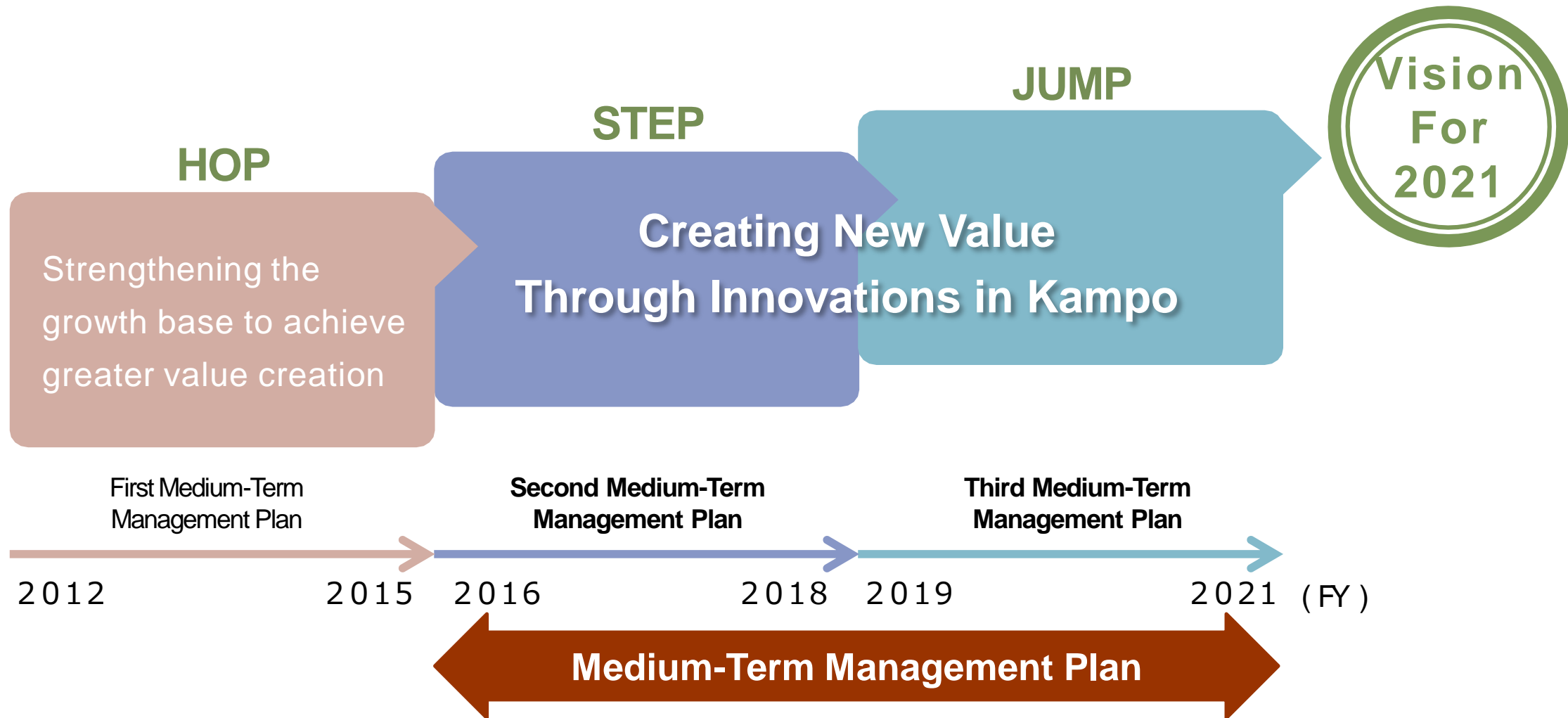
(From April 1, 2017 to March 31, 2018)

May 11, 2018

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

Business Results for Fiscal 2017

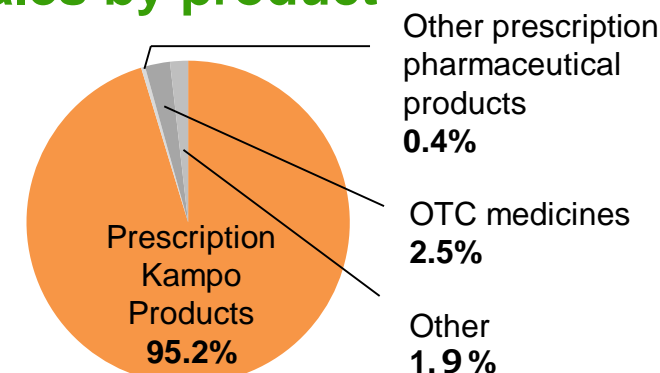
Consolidated Performance for Fiscal 2017

(¥ million)

| | FY 2017 Plan | FY 2017 | Achievement | FY 2016 | Vs. FY 2016 | |
|---|-------------------|---------------------------------|-------------|-------------------|-------------|--------|
| | | | | | Amount | Change |
| Net sales | 120,700 | 117,879 | 97.7% | 114,954 | 2,924 | 2.5% |
| Operating profit (Operating profit margin) | 17,600 (14.6%) | 17,050 (14.5%) | 96.9% | 15,983 (13.9%) | 1,067 | 6.7% |
| Ordinary profit | 18,100 | 17,914 | 99.0% | 16,399 | 1,515 | 9.2% |
| Profit attributable to owners of parent | 12,700 | 14,504 | 114.2% | 12,488 | 2,015 | 16.1% |

| | FY 2017 Plan | FY 2017 | FY 2016 |
|-----|-----------------|-------------|---------|
| EPS | ¥175 | ¥200 | ¥179 |
| ROE | 7.4% | 8.3% | 8.1% |

Sales by product



Key Points in Performance

- Underperformed operating profit and ordinary profit goals due to lower than expected sales
- Sales and profits were up year-on-year

| | | | | | |
|-------------------------------|-------------------------|-------------|--------------|-----|-------------|
| Consolidated net sales | ¥117,879 million | Vs. planned | 97.7% | YoY | 2.5% |
|-------------------------------|-------------------------|-------------|--------------|-----|-------------|

- ❑ Net sales rose ¥2.92 billion or 2.5% owing mainly to a 2.4% growth in the sale of pharmaceutical products but was 2.3% lower than planned.

| | | | | | |
|-------------------------|------------------------|-------------|--------------|-----|-------------|
| Operating profit | ¥17,050 million | Vs. planned | 96.9% | YoY | 6.7% |
|-------------------------|------------------------|-------------|--------------|-----|-------------|

| | | | | | |
|--------------------------------|---------------|--|--|-----|---------------|
| Operating profit margin | 14.5 % | | | YoY | 0.6pts |
|--------------------------------|---------------|--|--|-----|---------------|

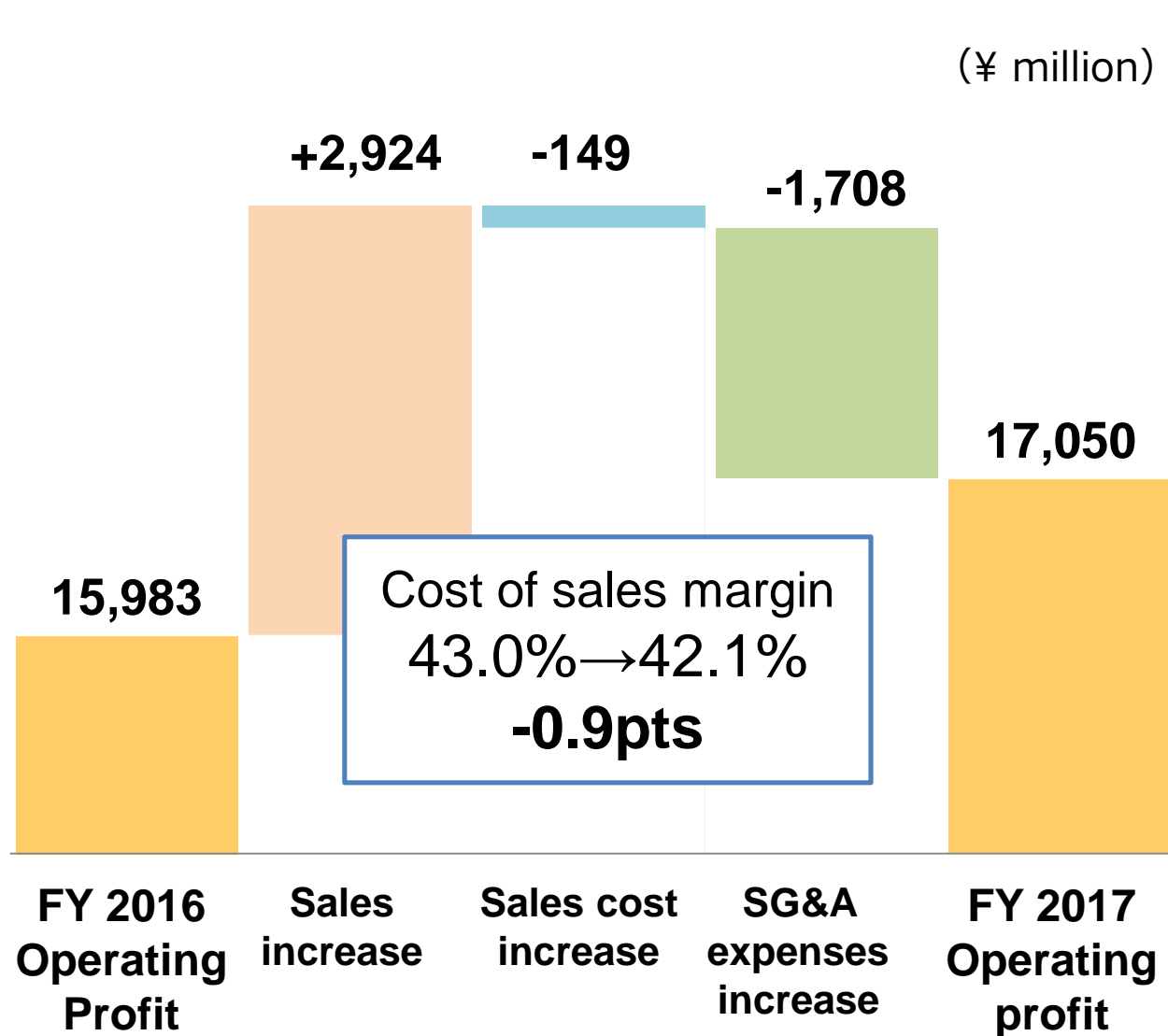
- ❑ The cost of sales ratio stood at 42.1%, down 0.9 points year-on-year, mainly reflecting a decline in crude drug-related costs. Meanwhile, the cost of sales ratio was 0.3 points lower than planned thanks in part to an improvement in processing costs on the back of an enhancement to productivity.
- ❑ The SG&A ratio was 43.5%, a rise of 0.4 points year-on-year (0.5 points higher than planned). Although the ratio was properly managed, the rise reflects underperformance in sales.

| | | | | | |
|------------------------|------------------------|-------------|--------------|-----|-------------|
| Ordinary profit | ¥17,914 million | Vs. planned | 99.0% | YoY | 9.2% |
|------------------------|------------------------|-------------|--------------|-----|-------------|

| | | | | | |
|--|------------------------|-------------|---------------|-----|--------------|
| Profit attributable to owners of parent | ¥14,504 million | Vs. planned | 114.2% | YoY | 16.1% |
|--|------------------------|-------------|---------------|-----|--------------|

- ❑ Extraordinary income was posted to reflect a ¥1.49 billion gain on the sale of investment securities.

Factors in Increase/Decrease of Operating Profit



(¥ million)

Factors of Sales increase

| | |
|---------------------------------|--------|
| Prescription Kampo 129 products | +2,626 |
| Other | +298 |

Factors of Cost of sales margin

| | |
|--------------------------------|---------|
| Increase in crude drug cost | -0.5pts |
| Improvement of processing cost | -0.2pts |
| Fluctuation of exchange rate | -0.1pts |
| Other | -0.1pts |

Factors of SG&A expenses

| | |
|--------------------------|------|
| Sales promotion expenses | +433 |
| R&D expenses | -38 |
| Advertising expenses | +160 |
| Personnel expenses | +505 |
| Other | +647 |

Financial Condition

Balance Sheet

(¥ million)

| | As of March 2017 | As of March 2018 | Change |
|--------------------------|------------------|------------------|--------|
| Total assets | 222,008 | 293,701 | 71,692 |
| Current assets | 134,679 | 192,401 | 57,722 |
| Non-current assets | 87,329 | 101,300 | 13,970 |
| Total liabilities | 64,611 | 97,168 | 32,556 |
| Current liabilities | 31,883 | 48,766 | 16,882 |
| Non-current liabilities | 32,727 | 48,402 | 15,674 |
| Total net assets | 157,397 | 196,533 | 39,135 |

| | | | |
|---------------------|-------|--------------|---------|
| Equity Ratio | 69.7% | 65.9% | -3.8pts |
|---------------------|-------|--------------|---------|

(¥ million)

| Balance Sheet | As of March 2017 | As of March 2018 | Change |
|----------------------------------|------------------|------------------|--------|
| Inventories | 52,138 | 49,994 | -2,144 |
| (Merchandise and finished goods) | 8,122 | 8,008 | -114 |
| (Work in process) | 14,547 | 12,797 | -1,750 |
| (Raw materials and stores) | 29,467 | 29,188 | -279 |

(¥ million)

| | As of March 2017 | As of March 2018 | Change |
|----------------------------|------------------|--------------------|----------------|
| Capital stock | 19,487 | 30,142 | 10,654 |
| Capital surplus | 1,940 | 14,027 | 12,087 |
| Retained earnings | 129,937 | 140,040 | 10,102 |
| Treasury shares | -5,393 | -814 | 4,579 |
| Total shareholders' equity | 145,972 | 183,396 | 37,423 |
| Treasury stock | 1,989K shares | 300K shares | -1,689K shares |

Capital stock and capital surplus increased

- Capital and business alliance with Ping An Insurance

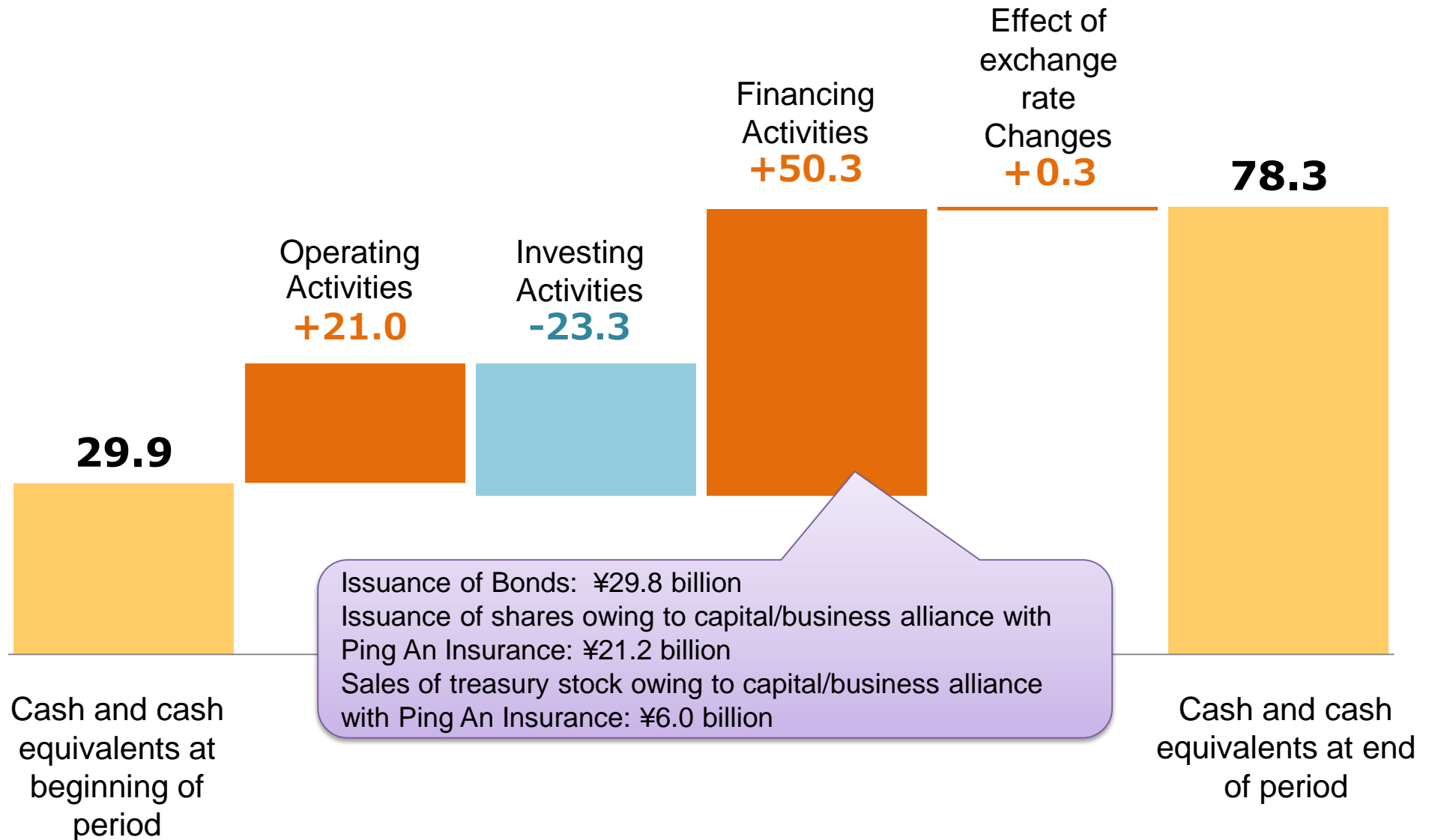
Decline in treasury stock

- Capital and business alliance with Ping An Insurance

*Ping An Insurance (Group) Company of China, Ltd.

Cash Flow Position

(¥ billion)



Initiatives for & Progress in Tackling Strategic Issues

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

1. Expansion and stable growth in the Kampo market

Sales performance of prescription Kampo products

(¥ million)

| | Sales ranking | Product No. / name | | FY 2016 | FY 2017 | YoY Change | |
|--|---------------|--------------------|------------------|----------------|----------------|--------------|-------------|
| Drug-fostering formulations | 1 | 100 | Daikenchuto | 10,328 | 10,584 | 256 | 2.5% |
| | 2 | 54 | Yokukansan | 7,330 | 7,571 | 240 | 3.3% |
| | 4 | 43 | Rikkunshito | 6,863 | 7,044 | 181 | 2.6% |
| | 9 | 107 | Goshajinkigan | 3,733 | 3,686 | - 47 | - 1.3% |
| | 21 | 14 | Hangeshashinto | 1,276 | 1,334 | 58 | 4.6% |
| Total sales of the five Drug-fostering formulations | | | | 29,532 | 30,221 | 689 | 2.3% |
| Growing formulations | 3 | 41 | Hochuekkito | 6,947 | 7,098 | 151 | 2.2% |
| | 5 | 68 | Shakuyakukanzoto | 4,853 | 5,031 | 177 | 3.7% |
| | 7 | 29 | Bakumondoto | 4,511 | 4,511 | - 0 | - 0.0% |
| | 6 | 24 | Kamishoyosan | 4,465 | 4,534 | 68 | 1.5% |
| | 8 | 17 | Goreisan | 3,363 | 3,722 | 358 | 10.7% |
| Total sales of the five Growing formulations | | | | 24,141 | 24,898 | 756 | 3.1% |
| Total of 129 prescription Kampo products | | | | 109,647 | 112,274 | 2,626 | 2.4% |

Growth rate of 129 prescription Kampo formulations

| | FY 2012 | FY 2013 | FY 2014 | FY 2015 | FY 2016 | FY 2017 |
|---------------------------------------|---------|---------|---------|---------|---------|----------------|
| Value base | 10.6% | 3.2% | 2.4% | 2.3% | 1.9% | 2.4% |
| Number of items with higher yen sales | 125 | 66 | 81 | 68 | 95 | 63 |
| Drug price revision rate | -3.8% | — | -3% | — | -3% | — |

1. Expansion and stable growth in the Kampo market

Important Domains (Elderly, Cancer, Female) Three Drug-fostering Formulations: Sales Performance

Aim to have three formulations, Daikenchuto, Yokukansan, and Rikkunshito, with over ¥10.0 billion in sales by fiscal 2021



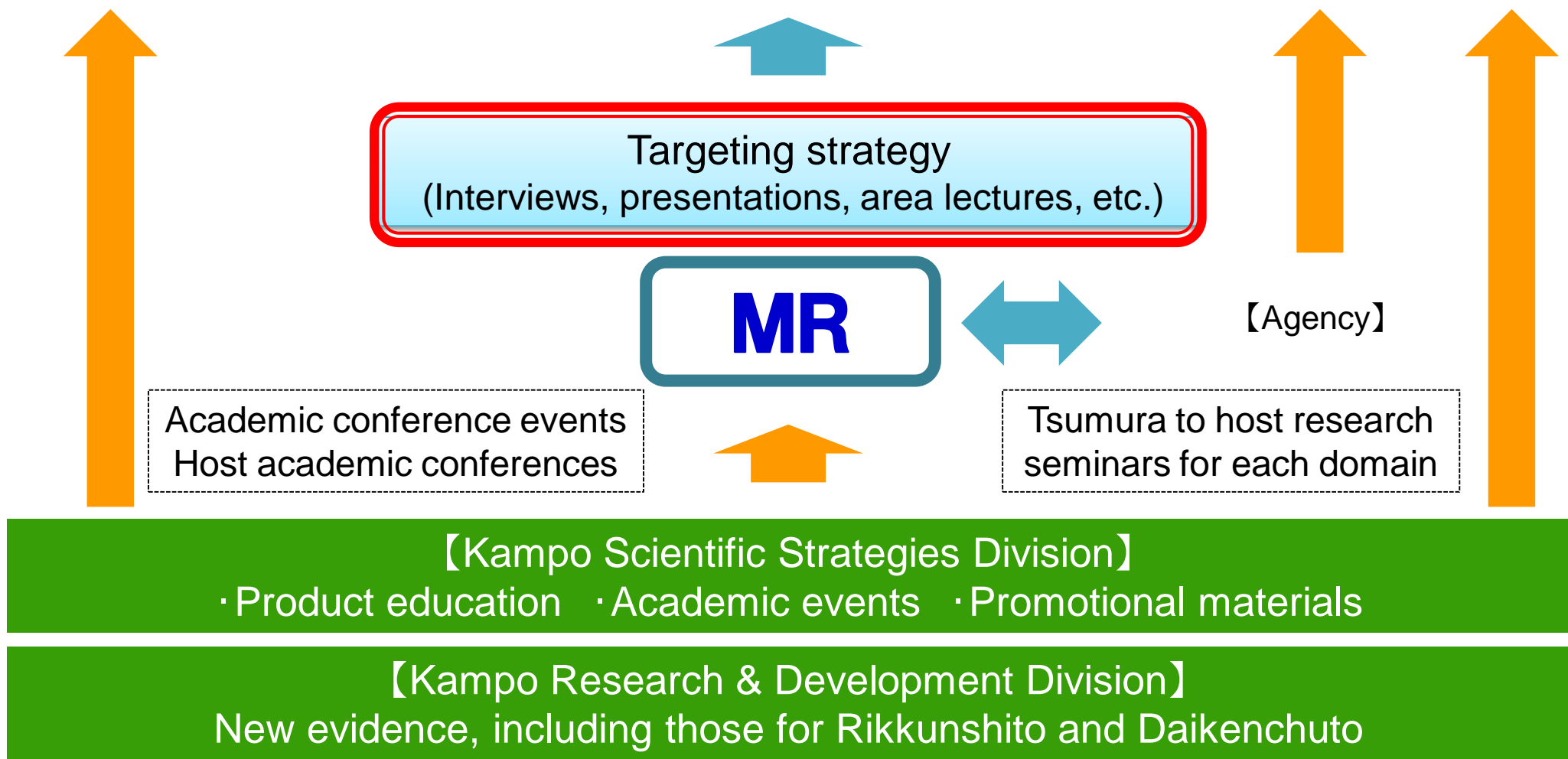
Issue: Must fortify prescriptions

Fortification of Rikkunshito, in particular, is necessary

1. Expansion and stable growth in the Kampo market

FY2017 Sales Measures (Focus on the field of gastroenterology)

Field of Gastroenterology (Cancer domain)



1. Expansion and stable growth in the Kampo market

FY2017 Key Factors for Underperforming Sales (Rikkunshito)

| 2H FY2017 | Ratio of target facilities | Market scale |
|-----------|----------------------------|------------------|
| HP | 56% | about 25% |
| GP | 44% | about 75% |



Sales were negatively impacted as activities centered on HPs, which accounted for around 25% of the market, while activities targeting GPs, which accounts for a much larger share, were weak.

HP: Hospitals with more than 100 beds (hospital doctors and residents)

GP: Hospital (hospital doctors) and clinics (private-practice doctors) with 100 or less beds

1. Expansion and stable growth in the Kampo market

FY2018 Measures for Rikkunshito Target Facilities

Increase targets and further strengthen activities focusing on GPs

2H FY2017 target facilities

| | No. of facilities | Ratio to total facilities |
|----|-------------------|---------------------------|
| HP | 429 | 56% |
| GP | 341 | 44% |



1H FY2018 target facilities (current as of April 2018)

| | No. of facilities | Ratio to total facilities |
|----|-------------------|---------------------------|
| HP | 607 | 22% |
| GP | 2,213 | 78% |

FY2018 Rikkunshito Gastroenterology Strategy

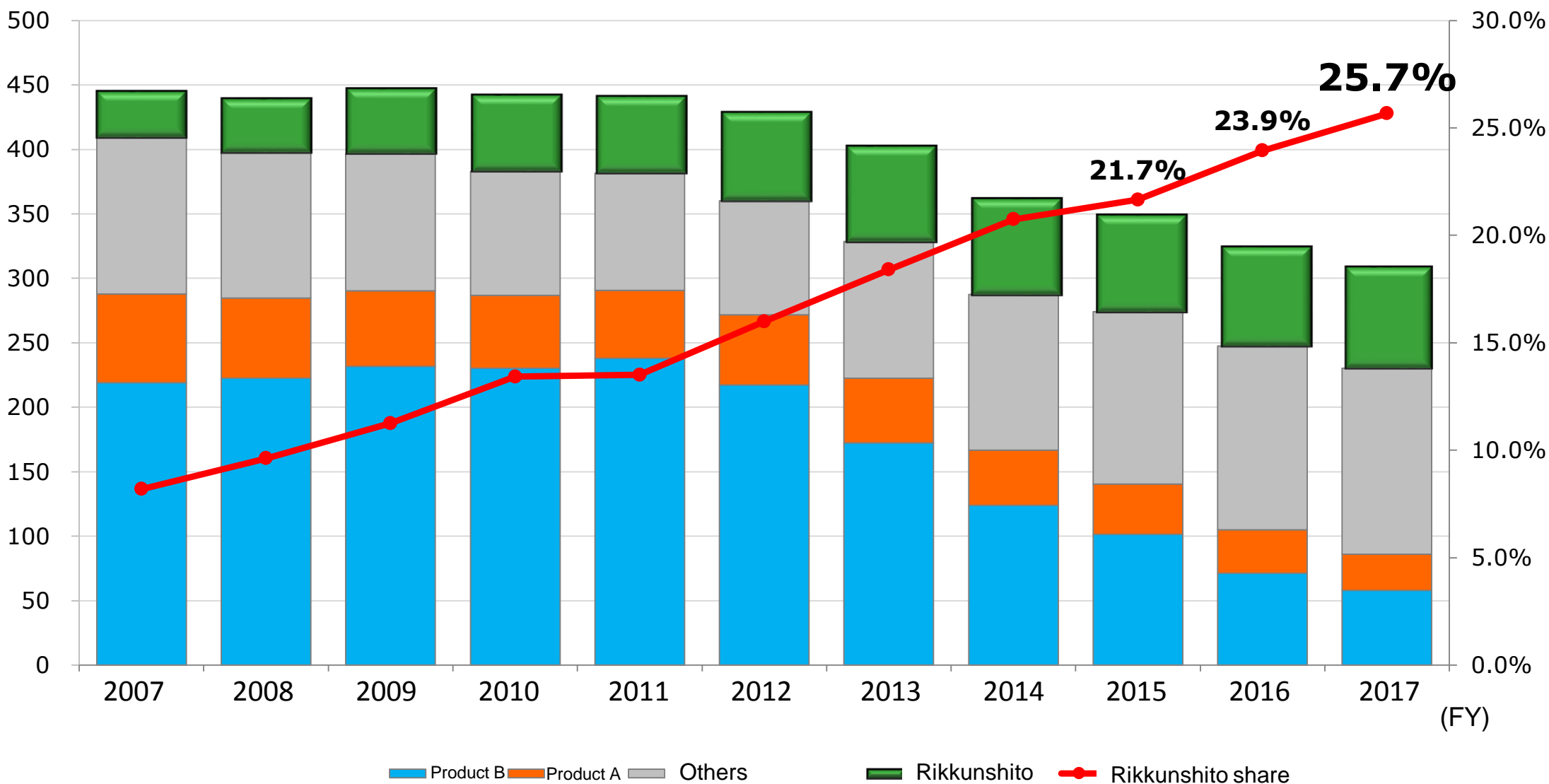
Clarify target patients and conduct full-fledged implementation of strategy

- HP: · Cancer domain(supportive care)
 · Introduce clinical pathway after surgery for gastrointestinal cancer
- GP: Establish first-line treatment for upper gastrointestinal tract diseases
 (including functional dyspepsia)

1. Expansion and stable growth in the Kampo market

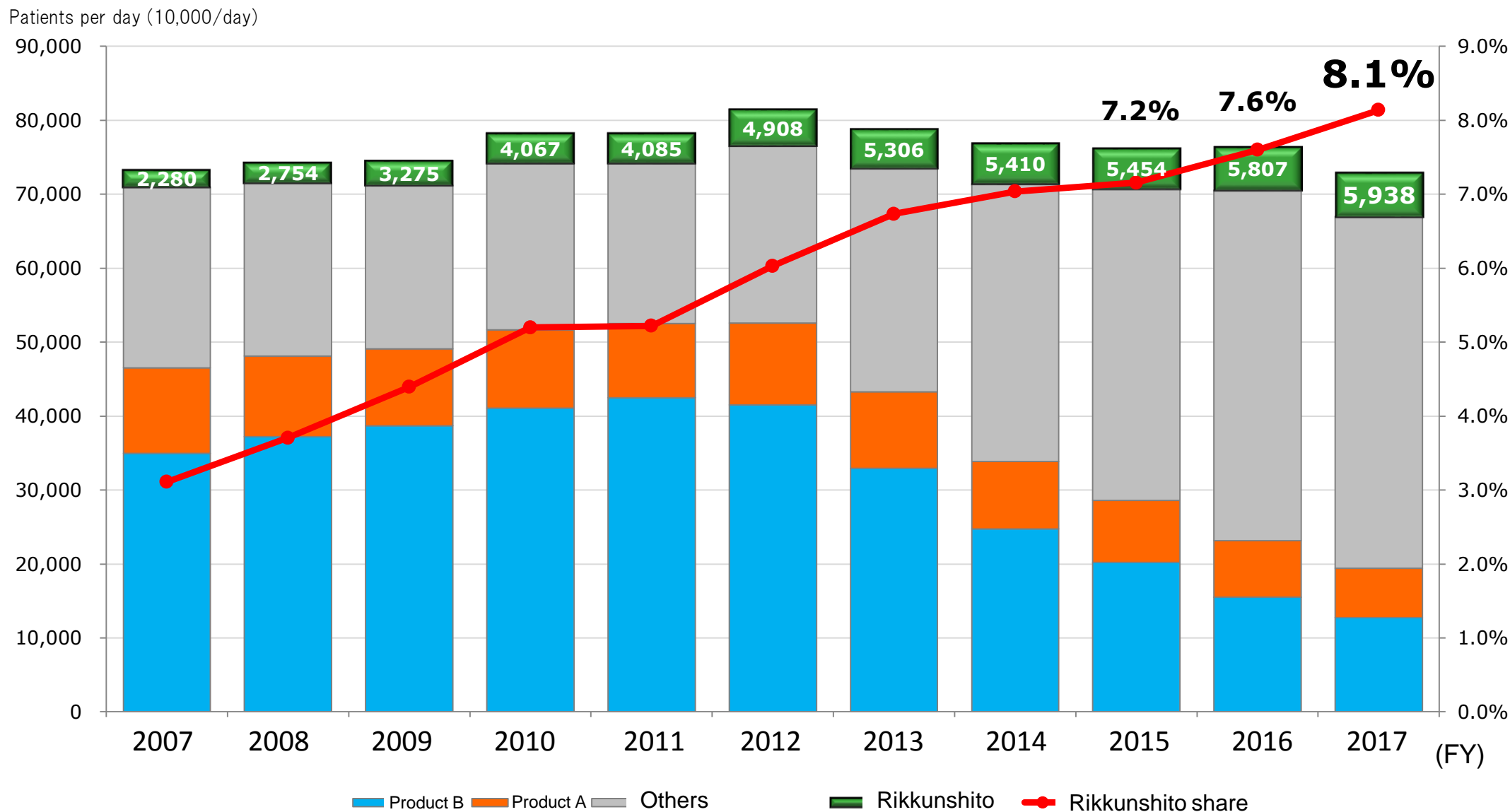
Market trends (value) for gastrointestinal prokinetic agents

¥ billion (drug price)



1. Expansion and stable growth in the Kampo market

Market trends (volume) for gastrointestinal prokinetic agents



1. Expansion and stable growth in the Kampo market

FY2018 Sales Measures

(1) Gastroenterology Strategy

Expand Rikkunshito's share of market for gastrointestinal prokinetic agents

- Currently, there is no new development by other companies in this market
- The strength of Kampo products can be leveraged (Example: can be effectively prescribed when a patient suffers mental anxiety)
- Many other Kampo products, aside from Rikkunshito, can also be prescribed for gastrointestinal diseases

Volume market share

8%

(FY2017)



11%

(FY2021)

DREAM Study

Multiple facility, double-blind comparison study of efficacy and safety of Rikkunshito for functional dyspepsia patients

1. Expansion and stable growth in the Kampo market

Summary of DREAM Study Results

1. Significant improvement in patient satisfaction with treatment

Results of primary outcomes (OTE*: stomach condition)

2. Significant improvement when stomach feels heavy after eating/easily feels full

Results of secondary outcomes (PAGI-SYM)

【Ref.】 Correlation between upper gastrointestinal tract condition and psychiatric symptoms

Consider Hospital Anxiety and Depression Scale (HADS) for psychiatric symptoms

*OTE: Overall treatment efficacy

Source: Tominaga, K. et al. Neurogastroenterol Motil. 2018, DOI: 10.1111/nmo. 13319.

1. Expansion and stable growth in the Kampo market

FY2018 Sales Measures

Specific measures to expand market for Rikkunshito

Primary domain is the upper gastrointestinal tract

Multiple component drug with multiple pharmacological actions and improves various symptoms, therefore **potential for use as a first-line treatment when treatments are first started**

Supportive therapy for cancer

Rikkunshito is a ghrelin enhancer which improves appetite during the perioperative period, improves stamina and has great potential for contributing to the prevention of post-operative complications and successful completion of treatments using anti-cancer drugs

Materials will be created to illustrate the positive results of DREAM Study (end-May) and used to support MR activities.

1. Expansion and stable growth in the Kampo market

FY2017 Growing Formulations (Mechanisms)

Goreisan

Consolidated net sale ¥3,722 million YoY 10.7%

In GPs, Goreisan is used in primary patients to treat ailments, including nausea and diarrhea. At HPs, there was positive benefit from information exchanges, mainly among doctors. Accordingly, sales growth was strong.

Ninjin'yoeito

Consolidated net sale ¥913 million YoY 30.2%

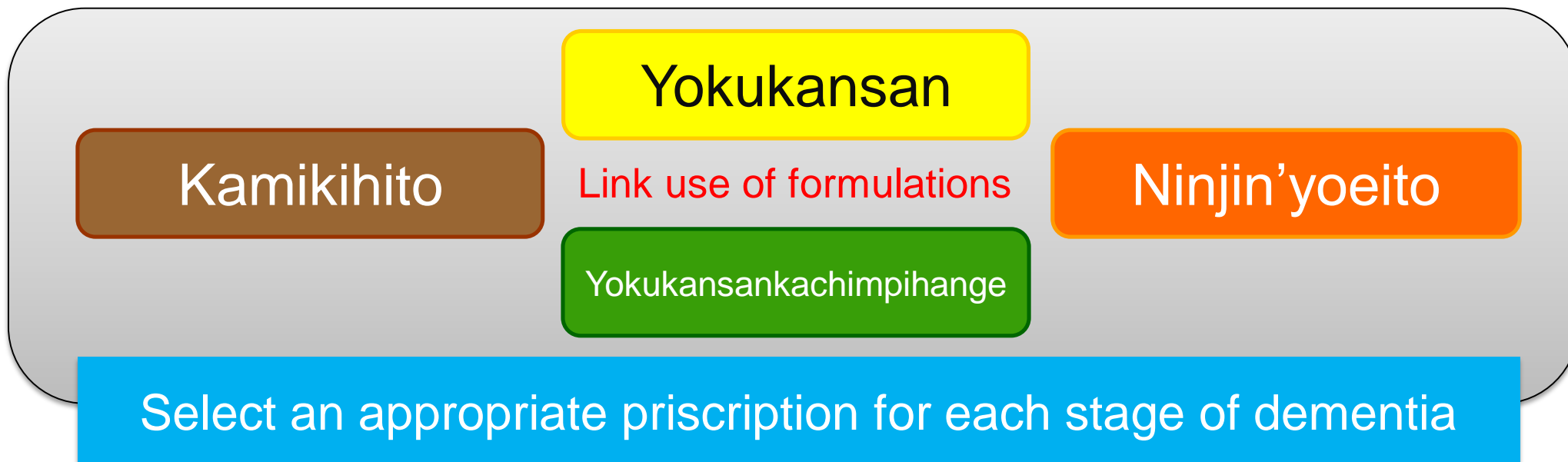
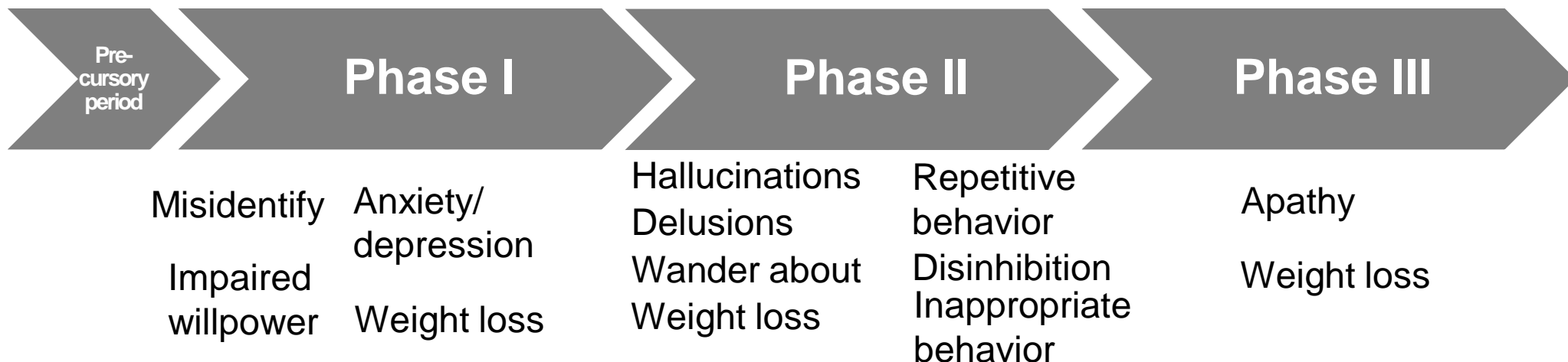
Sales grew substantially owing to benefit from the early implementation from January of the Kampo Prescription BPSD Network Strategy, which is discussed later on.

Anticipate growth in areas where there is a low level of satisfaction with treatments and low level of contribution from drugs

1. Expansion and stable growth in the Kampo market

FY2018 Sales Measures

(2) Kampo BPSD Network Strategy



BPSD: Behavioral and Psychological Symptoms of Dementia

1. Expansion and stable growth in the Kampo market

FY2018 Sales Measures

(3) Other strategies

Regional Comprehensive Care System measures

- Activities to boost awareness of Kampo among doctors that are key to regional comprehensive care systems

GP seminars (Kampo base camp)

Implement Kampo medicine seminars for general practitioners, board certified trainers and other doctors to contribute to the wider use of Kampo among GPs, who serve as leaders in regional comprehensive care systems

Regional healthcare support workshops

Recommend the use of Kampo for various illnesses suffered by elderly patients to solve regional issues and contribute to creating an environment where seniors can live their own life in a community they are familiar with
⇒ Plan and hold workshops in all 47 prefectures over a 4 year period

1. Expansion and stable growth in the Kampo market

FY2018 Sales Measures

GP seminars (Kampo base camp)

Kampo lectures helpful for primary care

1st Use of Kampo in palliative care

—Hangeshashinto, Hochuekkito, Rikkunshito, etc.—

2nd Kampo in the field of gastroenterology

—Goreisan, Rikkunshito, Daikenchuto, etc.—

3rd Use of Kampo for psychological symptoms

—Saikokaryukotsuboreito, Yokukansan, Ninjin'yoeito, etc.—

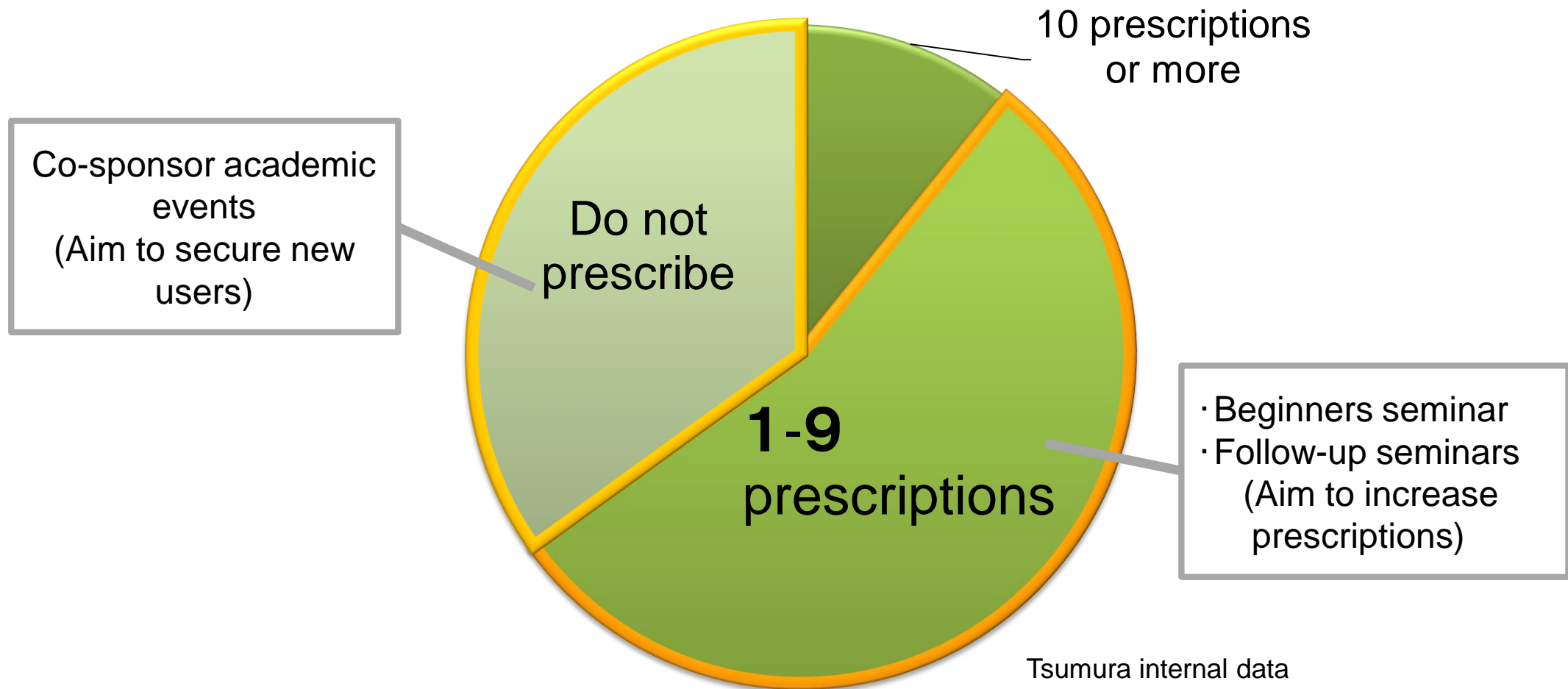
4th Kampo medicine diagnostic methods

—Stomach exam, tongue exam, interview, etc.—

Divide Japan into 8 blocks to carry out seminars

1. Expansion and stable growth in the Kampo market

Percentage of Doctors Prescribing Kampo



Room for improvement in frequency of prescriptions written. Large market potential. Kampo boasts sufficient growth potential going forward.

1. Expansion and stable growth in the Kampo market

OTC Kampo Formulations: Renewal of the Tsumura Kampo Series (March 2018)



Concept

Correctly convey and pass on information about Tsumura Kampo products

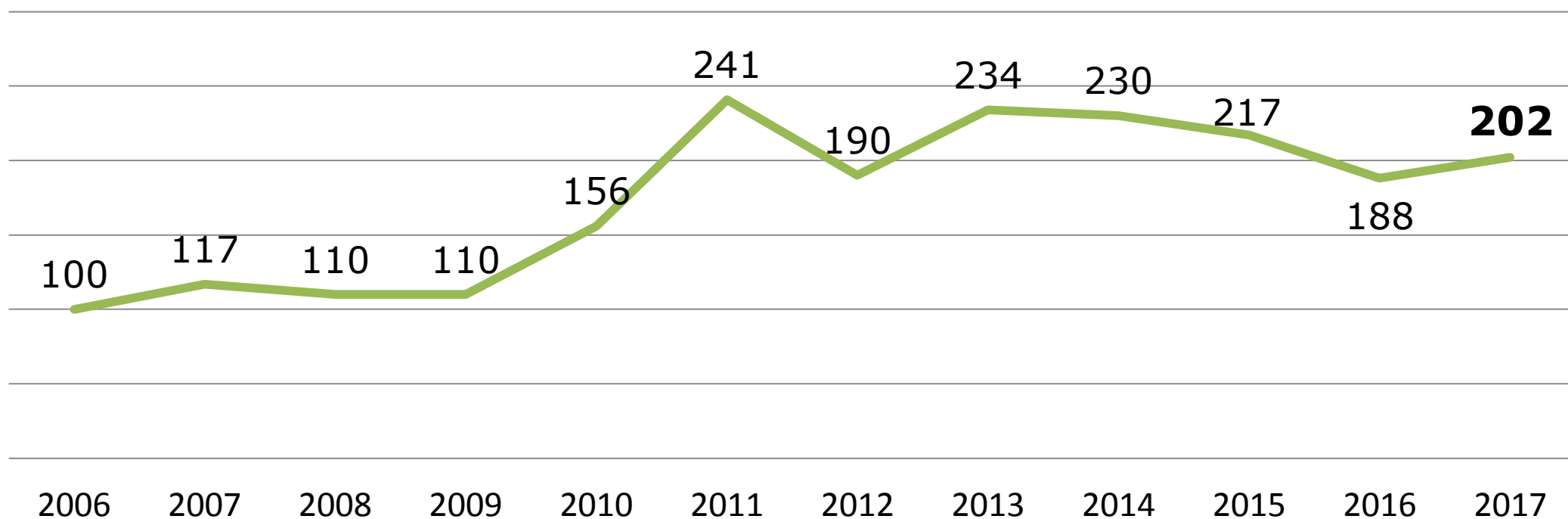
2. Continued reinforcement of profitability and maximization of cash flow

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.

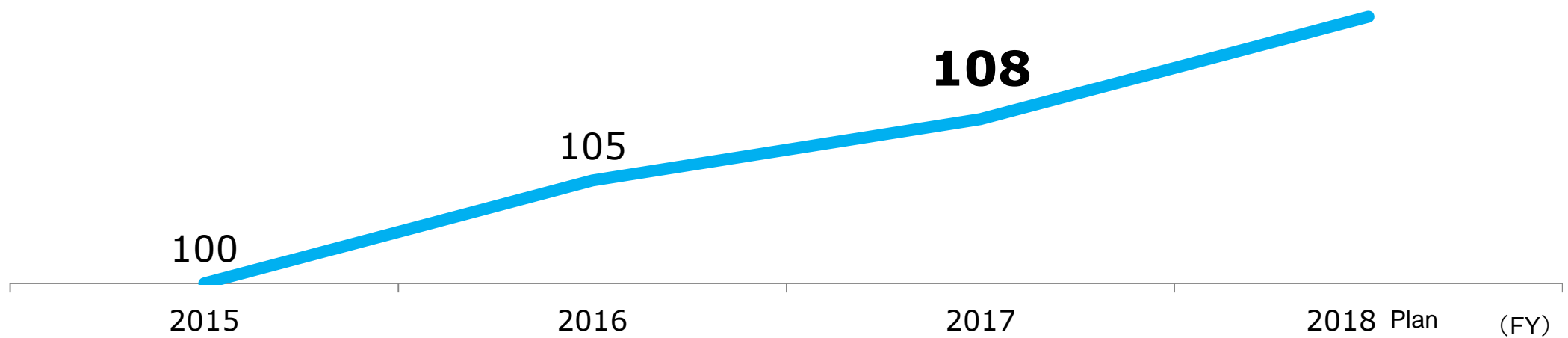
↑
Decline in the unit price of ginseng was greater than expected
(1) Purchases for speculative purposes are settling down
(2) Supply to the market is increasing

2. Continued reinforcement of profitability and maximization of cash flow

Improve Labor Productivity

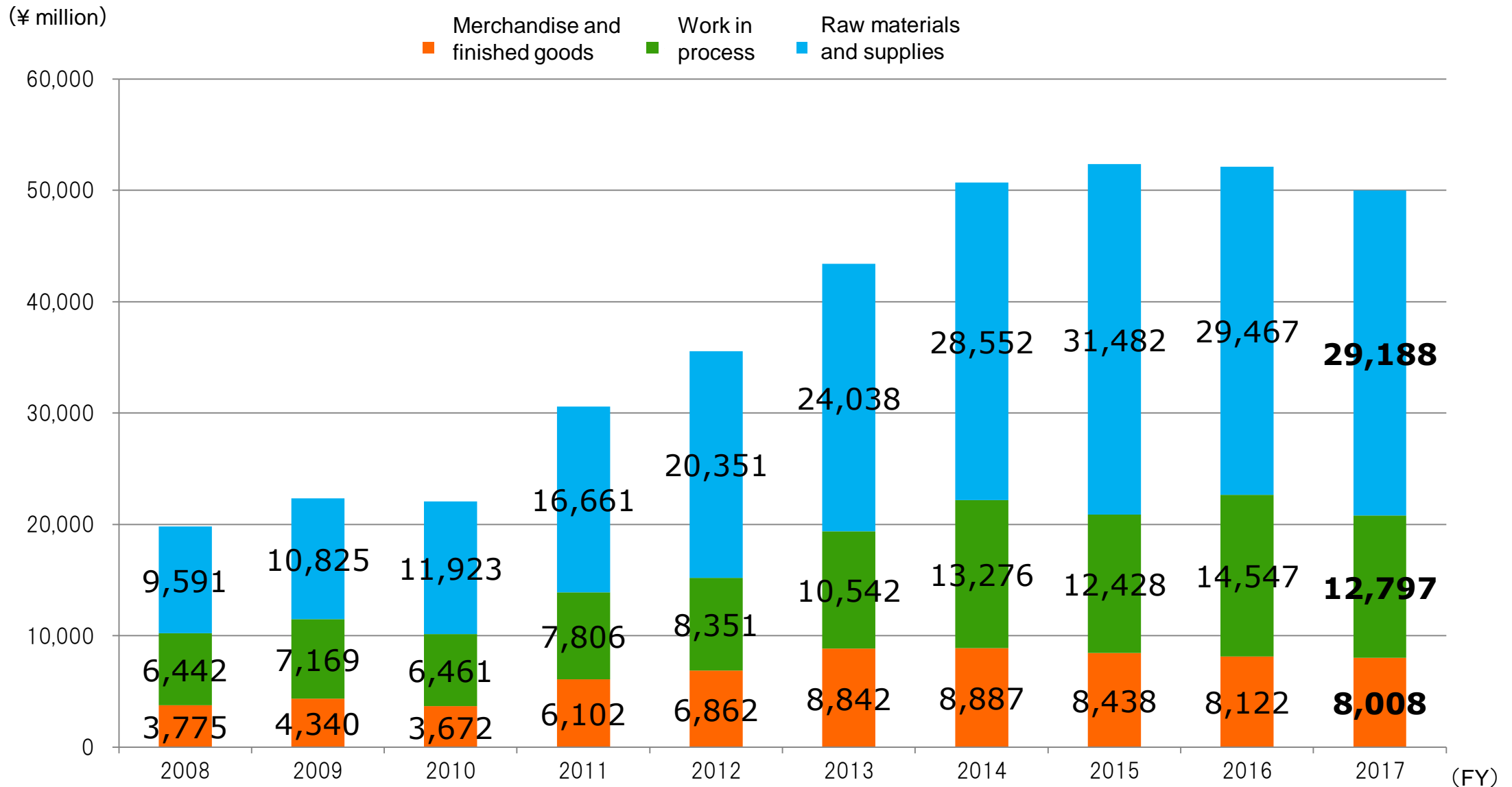
Effect of improved labor productivity
 Aim for 30% increase in FY2021 compared to FY2015

(%)



2. Continued reinforcement of profitability and maximization of cash flow

Inventory Asset Trends



3. Taking on the challenge of new businesses in China

Progress in China Business

| Name of Company | Location | Progress |
|--|----------|--|
| Tsumura China Inc. | Shanghai | Reorganize group's investment business in China |
| TSUMURA SHENGSHI PHARMACEUTICALS CO., LTD. | Tianjin | Acquire plant land and prepare to launch construction |
| SPH TSUMURA PHARMACEUTICALS CO., LTD. | Shanghai | <ul style="list-style-type: none"> · Design production process for traditional Chinese medicine compound granules · Acquire plant land and prepare to launch construction |
| Ping An Tsumura Inc. | Shenzhen | <ul style="list-style-type: none"> · File application to set up company · Prepare to launch construction of analysis and research center · Activities to fortify procurement of crude drugs |
| SHANGHAI TSUMURA PHARMACEUTICALS CO., LTD. | Shanghai | Construct small-scale plant that can produce extract granules |
| SHENZHEN TSUMURA MEDICINE CO., LTD. | Shenzhen | Produce and sell cut crude drugs |



Shenzhen Tsumura Medicine
Cut crude drugs

Status of Development in the United States

Summary of US Development of TU-100 (Daikenchuto)

Implementing clinical trials for TU-100 in three domains: IBS, POI, and Crohn's disease

| | | FY2012 | FY2013 | FY2014 | FY2015 | FY2016 | FY2017 |
|---------------------|-----------------|---|--------|--------|--------|--|--------|
| Quality control | | Through meetings with FDA, agree on quality evaluation methods using biological assessments and HPLC-FP | | | | <ul style="list-style-type: none"> • Agree on quality control systems • Establish database for crude drug quality • Managing agrichemicals, heavy metals, microbes, aflatoxin, etc. | |
| Efficacy and safety | IBS | Endpoint search clinical trials (IBS patients) PII (early stage) | | | | | |
| | POI | Endpoint search clinical trials (patients with laparoscopic colectomy) PII (early stage) | | | | | |
| | Crohn's disease | Responder trials (patients with Crohn's disease) PII (early stage) | | | | | |
| | Safety, etc. | Side effects*1 | ADME*2 | | | | |

*1 Submit results of surveys on the frequency of adverse drug reaction manifestation to the FDA

*2 Submit clinical pharmacokinetic results on healthy U.S. citizens to the FDA

IBS: Irritable bowel syndrome, POI: Postoperative Ileus
ADME: Absorption, Distribution, Metabolism, Excretion

Summary of US Development of TU-100

Step1

- Comprehensive evaluation of obtained results (Recurrence, indicator sensitivity, patient enrollment difficulties)
- Needs after launch (development pipeline, launch of innovative new drug)

Step2

Detailed analysis of clinical data in Japan and abroad
Opinions from authoritative doctors in Japan and US
Opinions from consultants (former FDA officer)
Have third-party research company survey needs

- Treatment of postoperative ileus is currently a serious unmet medical need
- High level of need to shorten hospital stay and alleviate complications given the special attributes of US healthcare
- TU-100 has sufficient potential for use as a treatment for postoperative ileus

Policy Going Forward for US Development of TU-100

Target patients for development
Postoperative ileus (POI) patients



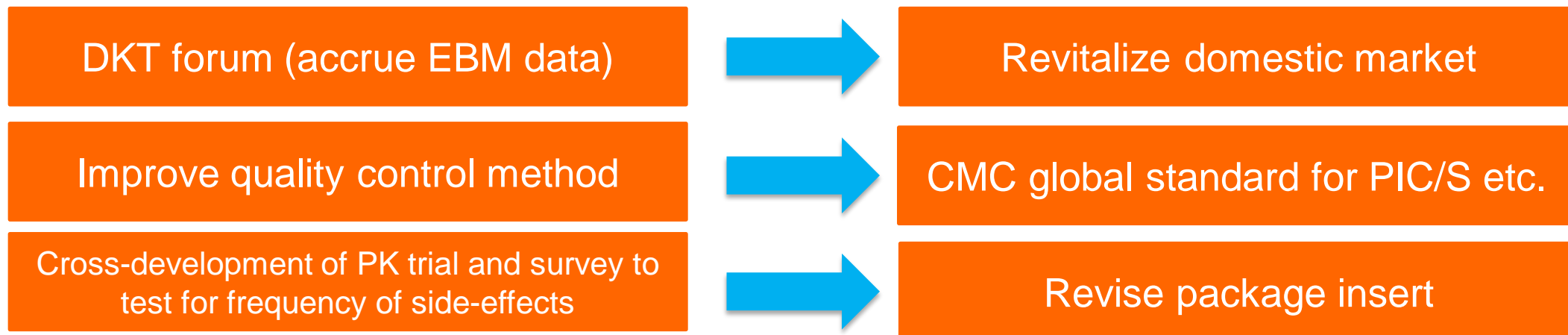
Advisory team comprised of specialists in Japan and experts in statistics
analysis
⇒ Jointly propose strategies and trials

Advisory team comprised of US specialists

Results Obtained from US Development of TU-100

- Pharmacokinetics (PK) trial
- Survey to test for frequency of side-effects
- Intestinal bacteria research
- Tackle new quality control methods

Deploy results of US development in Japan



In line with proposal for a workshop on the vision for the future of Kampo

Topics for ESG Activities

Transformation of Corporate Governance Structure

| | Measure | Summary |
|--------|--|---|
| FY2015 | <p>Increase outside directors (3)</p> <p>Set up outside directors meeting</p> <p>Introduce executive officers charged with a specific task</p> | <p>Fortify oversight function of the Board of Directors by increasing the number of outside directors and make it clear that executive officers are ultimately responsible for the execution of business operations, to speed up decision making and to efficiently execute business operations</p> |
| FY2016 | <p>Introduce performance-based equity compensation system</p> | <p>Introduce a system whereby remuneration for executive officer/directors and executive officers is clearly linked to the company's earnings performance and the value of its shares</p> |
| FY2017 | <p>Transition to a company with an audit and supervisory committee</p> <p>Set up nomination and remuneration advisory committee</p> | <p>Transition to a company with an audit and supervisory committee to fortify the oversight functions of the Board of Directors and further improve the soundness and transparency of management (under this structure, more than half of the Board of Directors are outside directors)</p> |

Measures to Improve the Efficacy of the Board of Directors

-After disclosing the CGC in December 2015, began implementing a proprietary evaluation to assess the efficacy of the Board of Directors from FY2016,

Improve the soundness and transparency of management
Fortify oversight functions of the Board of Directors

FY2017

Change institutional design

Transition to a company with an
audit and supervisory committee

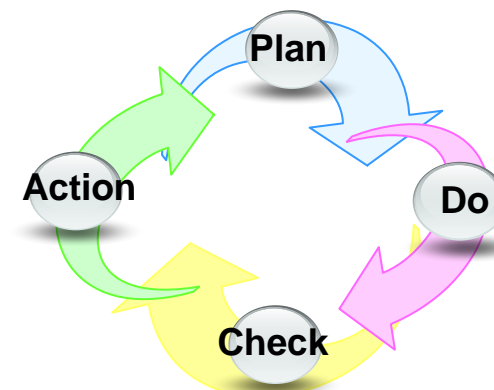
Set up nomination and
remuneration advisory committee

Revise Board of Directors rules

FY2018

Tackle various measures

Evaluate the efficacy of the Board
of Directors
Build a problem-solving PDCA cycle



Corporate Furusato Nozei Program (Yubari City)

Plan to donate a total of ¥300 million over 3 years starting from 2017



Taken April 28, 2018 at Yubari city hall with Yubari Mayor Suzuki

FY2017

- Regional revitalization plan
Project for the creation of Yubari's future
 - (1) Certified children's park development project
 - (2) Expansion of free childcare for kindergarteners
 - (3) Increase free medical care for children
 - (4) Local personnel training programs
 - (5) Project to support business start-ups and become certified or licensed
- Regional revitalization plan
Yubari 100-year plan: Proactive agricultural and forestry industries
 - (1) Project to develop a production infrastructure for Yubari melons
 - (2) Project to create local industry resources (program for raising medicinal plants)

FY2018 Performance Forecasts

FY2018 Performance Forecasts

(¥ million)

| | FY 2017 | FY 2018 | YoY | |
|---|-------------------|---------------------------------|--------|--------|
| | | | Amount | Change |
| Net sales | 117,879 | 120,500 | 2,620 | 2.2% |
| Operating profit (Operating profit margin) | 17,050 (14.5%) | 17,500 (14.5%) | 449 | 2.6% |
| Ordinary profit | 17,914 | 18,000 | 85 | 0.5% |
| Profit attributable to owners of parent | 14,504 | 12,800 | -1,704 | -11.8% |

| | FY 2017 | FY 2018 |
|---------------------|---------|-------------|
| Dividends per share | ¥64 | ¥64 |
| EPS | ¥200 | ¥167 |
| ROE | 8.3% | 6.4% |

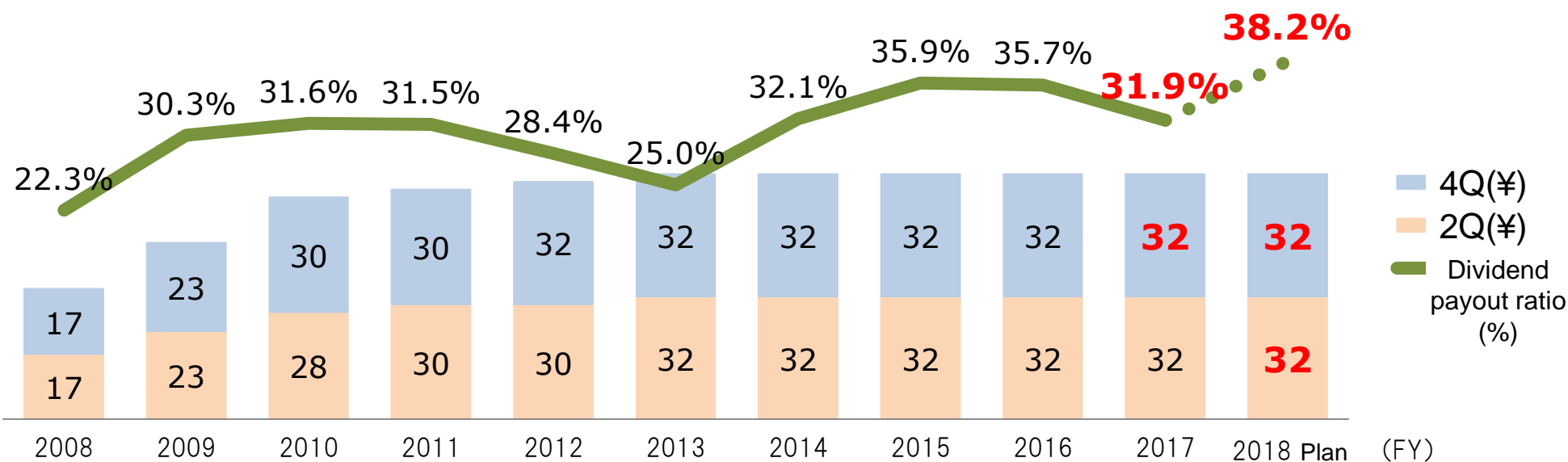
Return of Profits to Shareholders

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
- ❑ Aim to return profit to shareholders based on a consideration and review to ensure an optimal capital structure while flexibly implementing a share buyback program by comprehensively taking into account market trends and other factors.

Dividend history



The year-end dividend and dividend payout ratio for FY2017 are based on the assumption that the dividend item will be approved at the 82st annual shareholders' meeting

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.