



TSUMURA & CO.

Third Medium-Term Management Plan (Fiscal 2019 – Fiscal 2021)

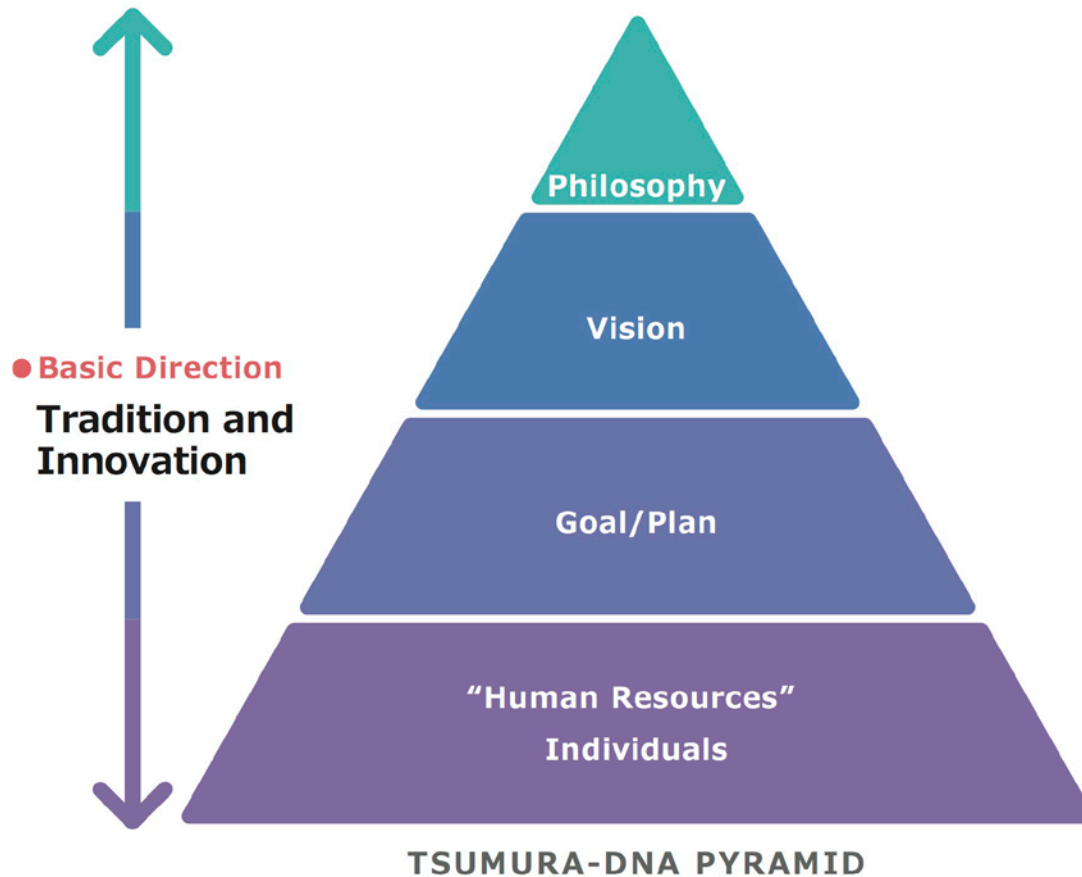
Creating New Value Through Innovations in Kampo

Next Stage

President and Representative Director Terukazu Kato

May 10, 2019

Philosophy-Based Management



- **Corporate Philosophy: Basic values/beliefs**
The Best of Nature and Science
Corporate Mission:
Aim to continue to be a necessary company for society
To contribute to the unparalleled medical therapeutic power of the combination of Kampo medicine and Western medicine
- **Vision for 2021: Long-term business vision**
The "Kampo" Company
The "People" Company
The "Global Niche" Company
- **Medium-term management plan**
Creating new value through innovations in Kampo
-Next Stage-
- **Organizational foundation**
Organization comprising people that share Tsumura's beliefs and mission, follow the same direction as the Company's vision, and strive for self-fulfillment

Long-Term Business Vision for 2021

Aim to be a value-creation company
that contributes to people's health through its Kampo business



Contributing to creating a healthcare environment where any patient can receive treatment that includes Kampo medicine as needed in any healthcare institution or clinical department in Japan.

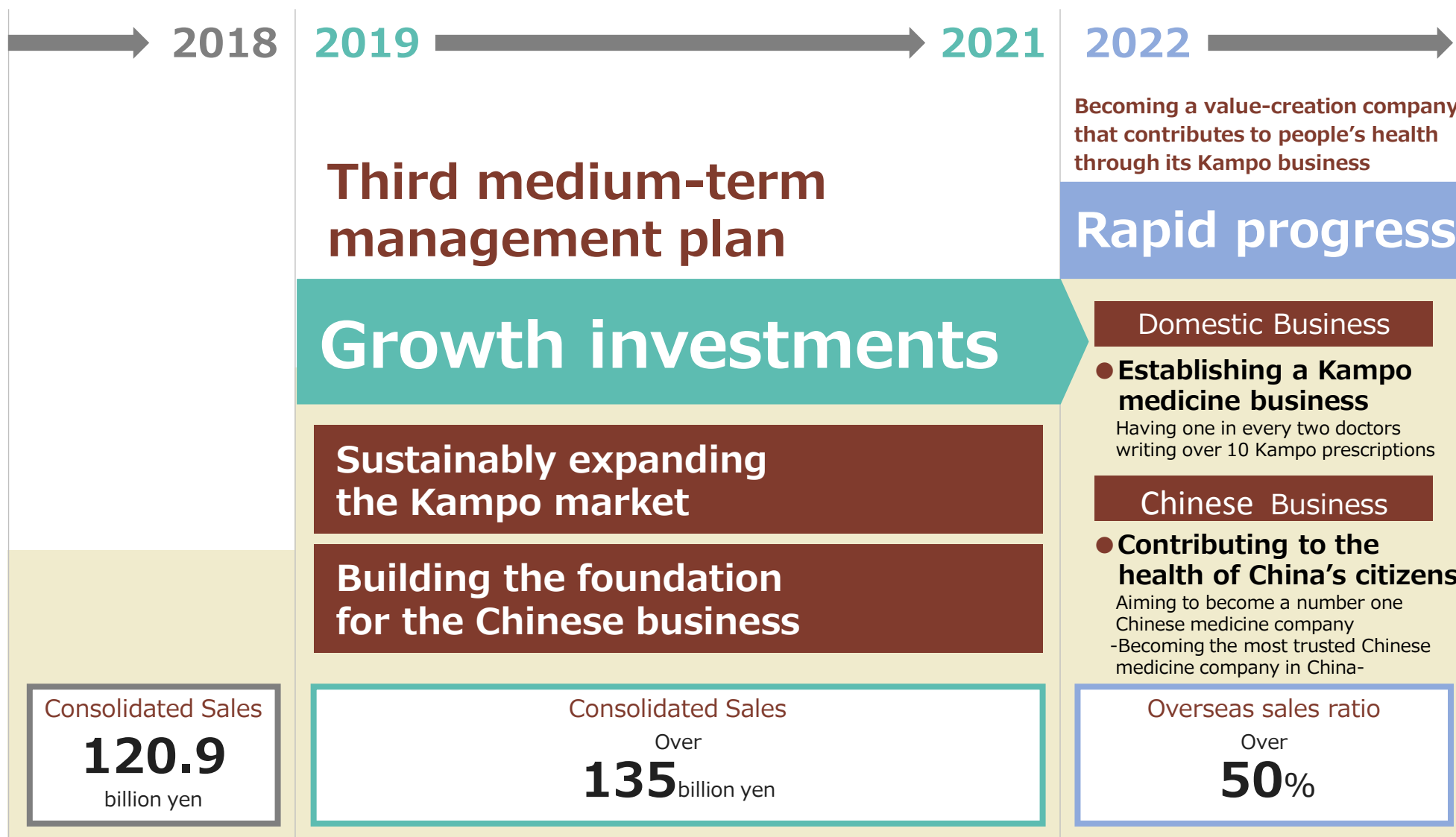


Given that Kampo medicine is a pioneering field with no previous examples to build on, we must evolve into a trusted corporate group comprised of people who are capable of independently carving out a new path forward.



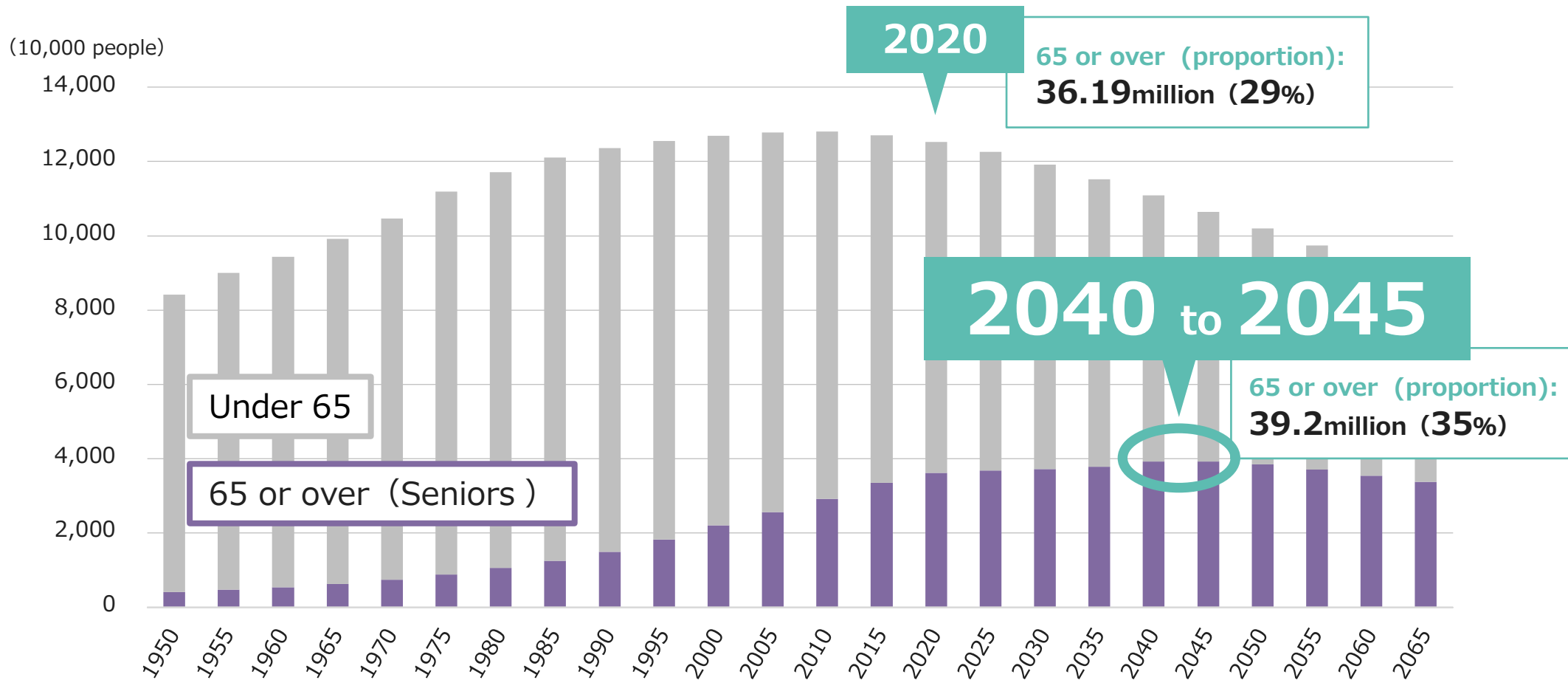
By fully leveraging the technologies and know-how of the Tsumura Group, we will take on the challenges of developing and launching TU-100 (Dai-kenchu-to) in the U.S. pharmaceutical market and establishing new businesses in China.

Roadmap to Realizing Our Long-Term Vision



Business Environment: Demographics

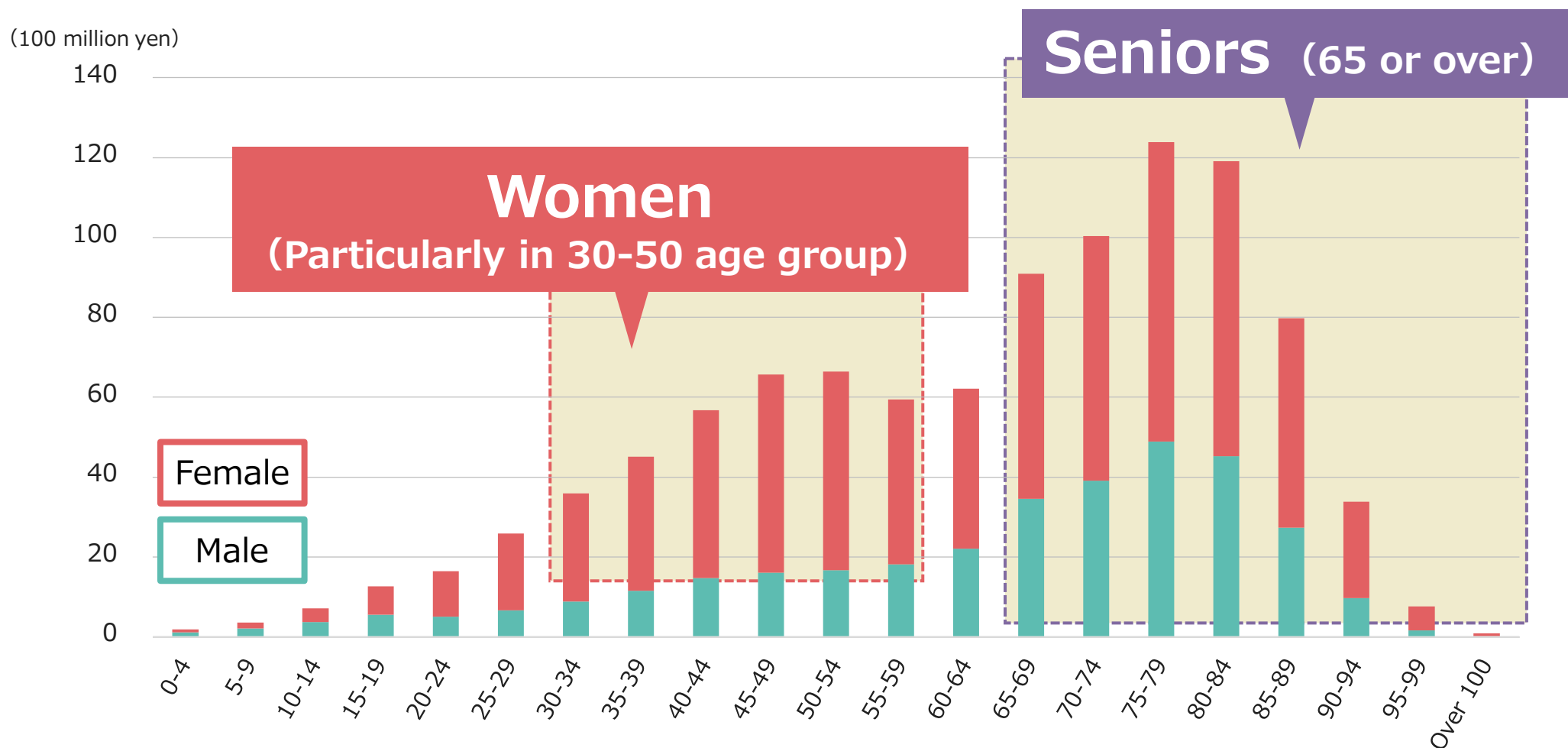
Japan's elderly population will continue to grow until it peaks between 2040 and 2045



Source: Annual Report on the Aging Society 2017 by the Cabinet Office

Business Environment: Demand for Kampo Preparations Based on NDB Open Data

Seniors and women have high prescription ratios

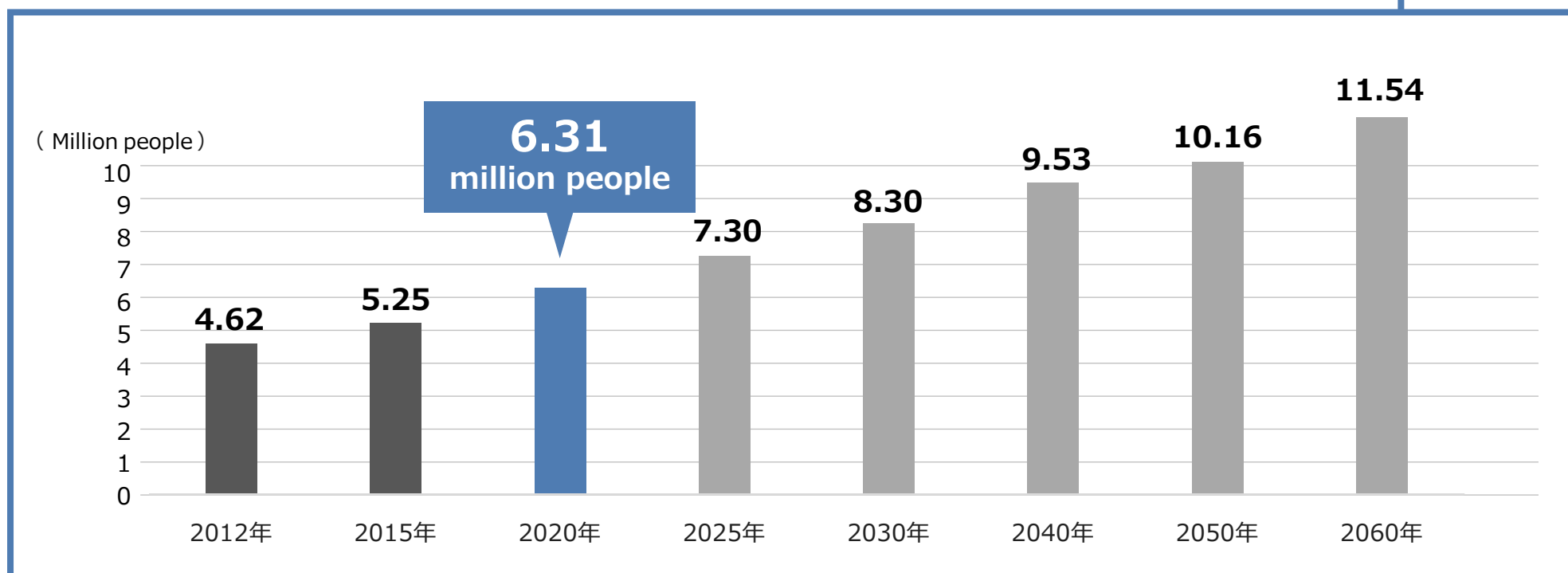


Source: Third NDB Open Data by the Ministry of Health, Labour and Welfare
Calculation based on top 100 products of prescription Kampo manufacturers

Business Environment: The Number of Patients with Dementia

The number of patients with dementia is increasing

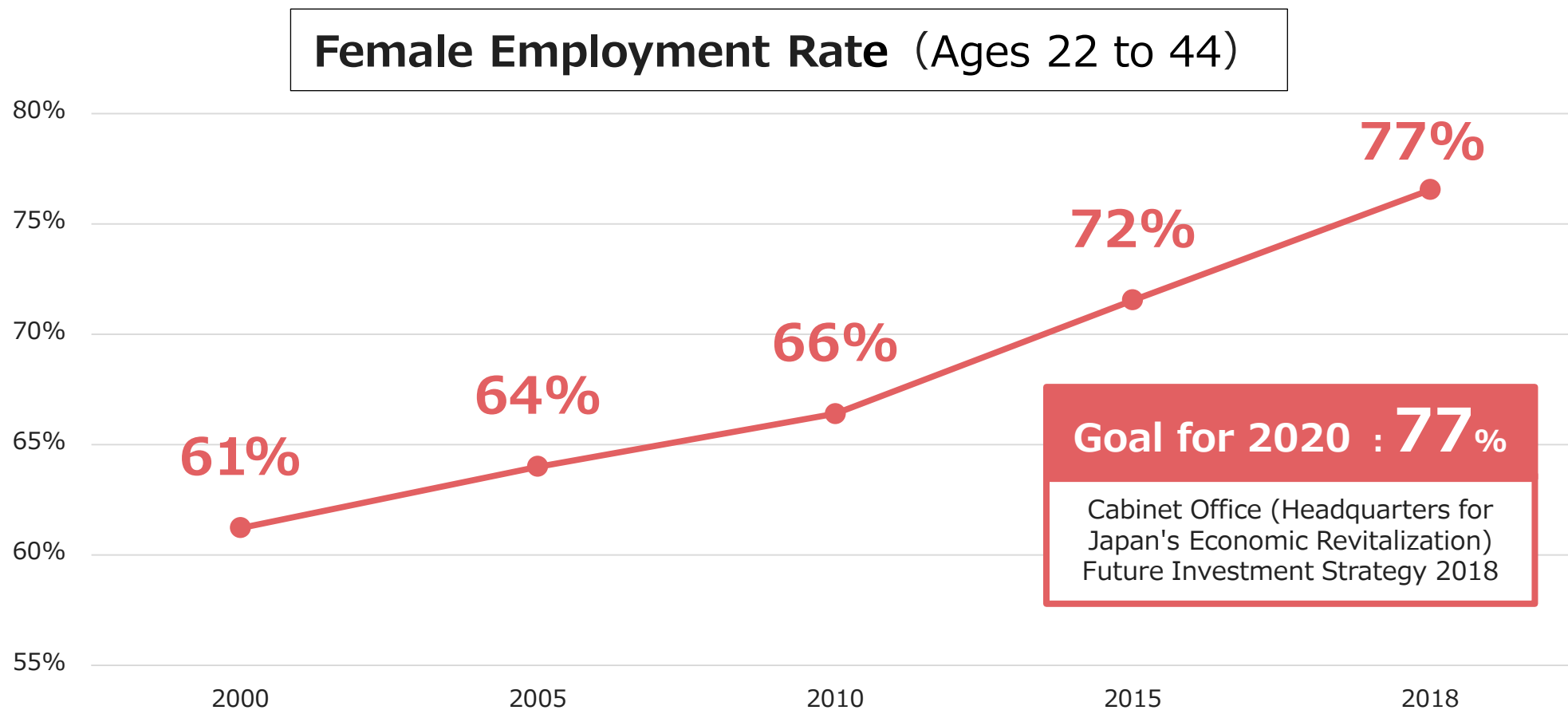
Common diseases among seniors : High Blood Pressure Diabetes Cerebrovascular Disease **Dementia** Etc.



Source: Comprehensive Strategy to Accelerate Dementia Measures (New Orange Plan) by the Ministry of Health, Labour and Welfare

Business Environment: Change in Female Employment Rate

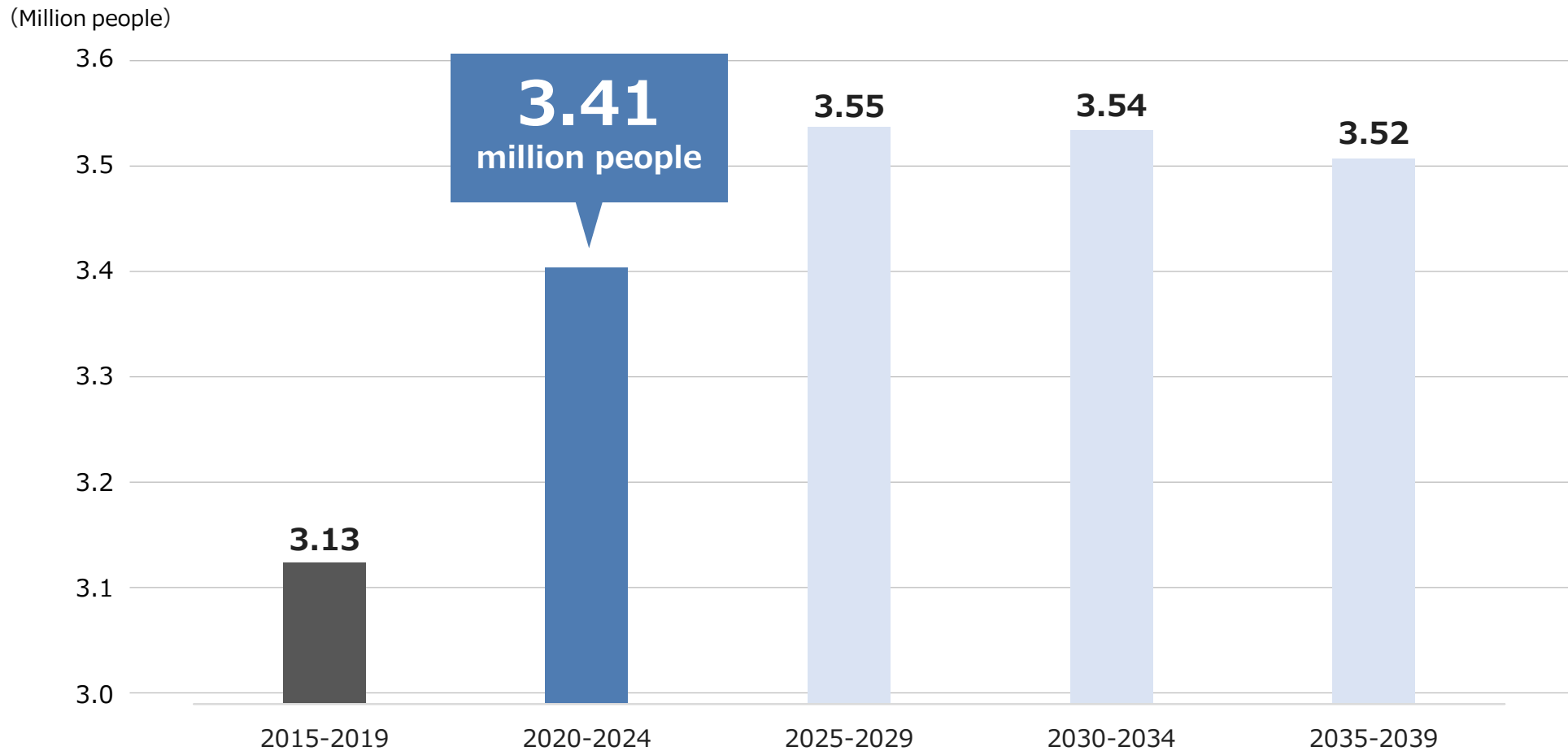
Diseases unique to women are expected to receive greater attention in the future to keep the female workforce in good health



Source: From the Cabinet Office (Headquarters for Japan's Economic Revitalization) Future Investment Strategy 2018, Ministry of Internal Affairs and Communications Labour Force Survey

Business Environment: The Number of Cancer Sufferers

The number of cancer sufferers will increase until 2029



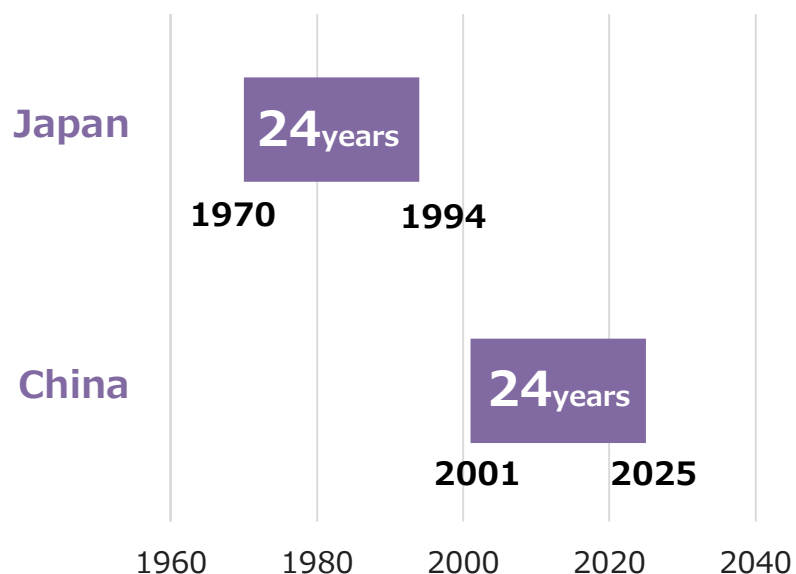
Source: Cancer Registry and Statistics. Cancer Information Service, National Cancer Center, Japan
The number of people suffering from cancer defined as "the number of living people who have been diagnosed with cancer within the past five years."

Business Environment: The Chinese Market

Going forward, the Chinese population will age as fast as the Japanese

Rate of aging

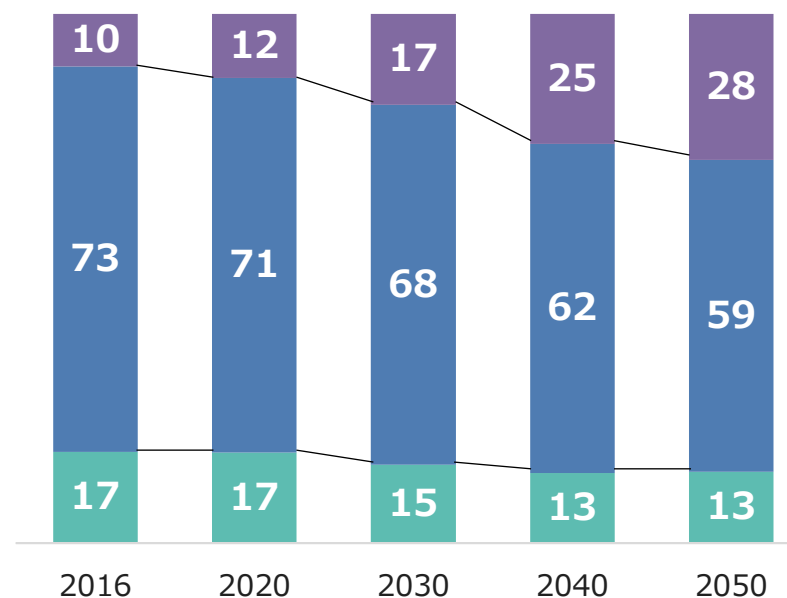
The number of years required for the proportion of people over 65 to rise from 7% to 14%



Source: Population Statistics (National Institute of Social Security and Population Research 2019)

Population distribution (%)

■ Under 15 ■ 15 to 64 ■ Over 65



Source: International Development of Healthcare Country Report, China (March 2018, Ministry of Economy, Trade and Industry)

Business Environment: The Chinese Market

August 2016 – China State Council Presentation, “Healthy China 2030” Plan Outline

Background – Change in spending views due to aging population issue and increased income

Main Goals

Expand the scale of the health service industry

Extend average lifespan and reduce the death rate

Improve medical standards

Complete implementation of the health insurance system

Improve environment

In relation to medical care

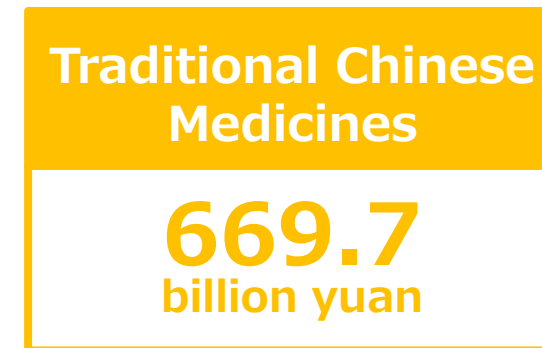
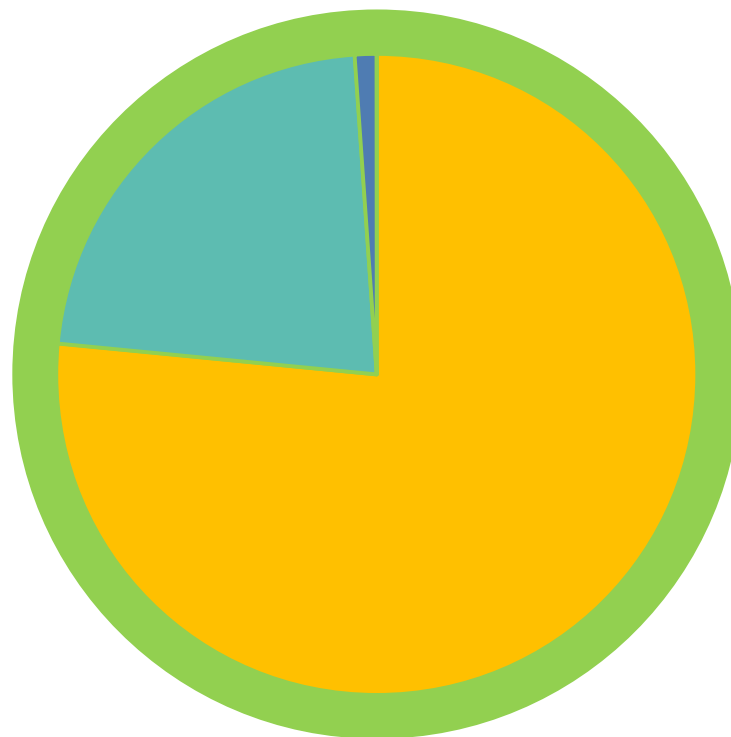
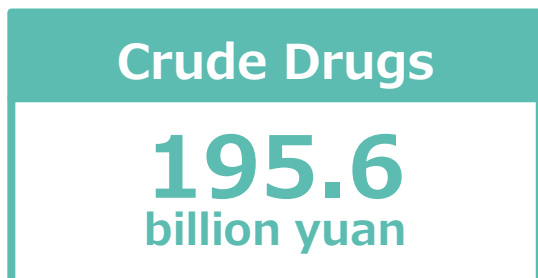
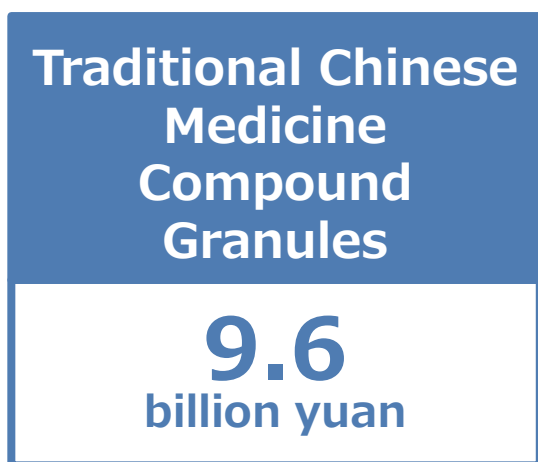
Focus on both contemporary medicine and traditional Chinese medicine, normalize and increase traditional Chinese medicine production, and engage in theoretical study and medicine development

July 2017 – Enforcement of the Medicine Law of the People’s Republic of China

Business Environment: The Chinese Market

Scale of the Traditional Chinese Medicine Market in China

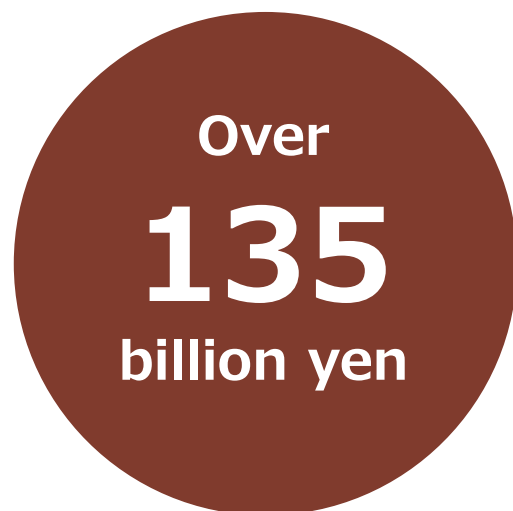
874.9 billion yuan (Approx **14.4** trillion yen)



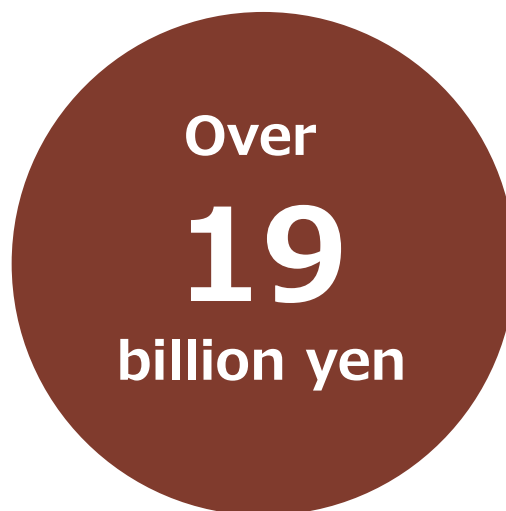
Source: Ministry of Industry and Information Technology of the People's Republic of China
CFDA Southern Medicine Economic Research Institute (2016)
Exchange rate: 16.5 yen to the yuan

Numerical Targets (FY 2021)

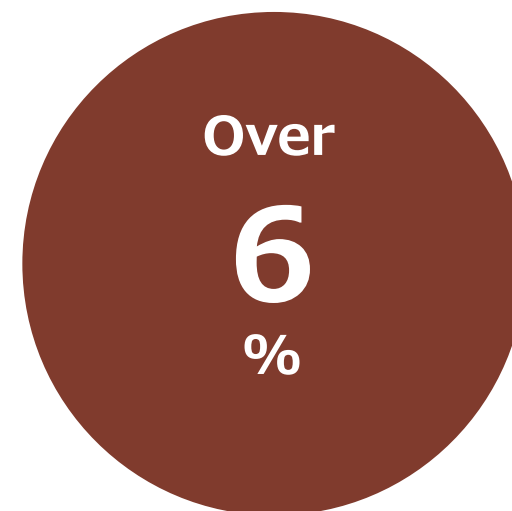
Net sales



Operating profit

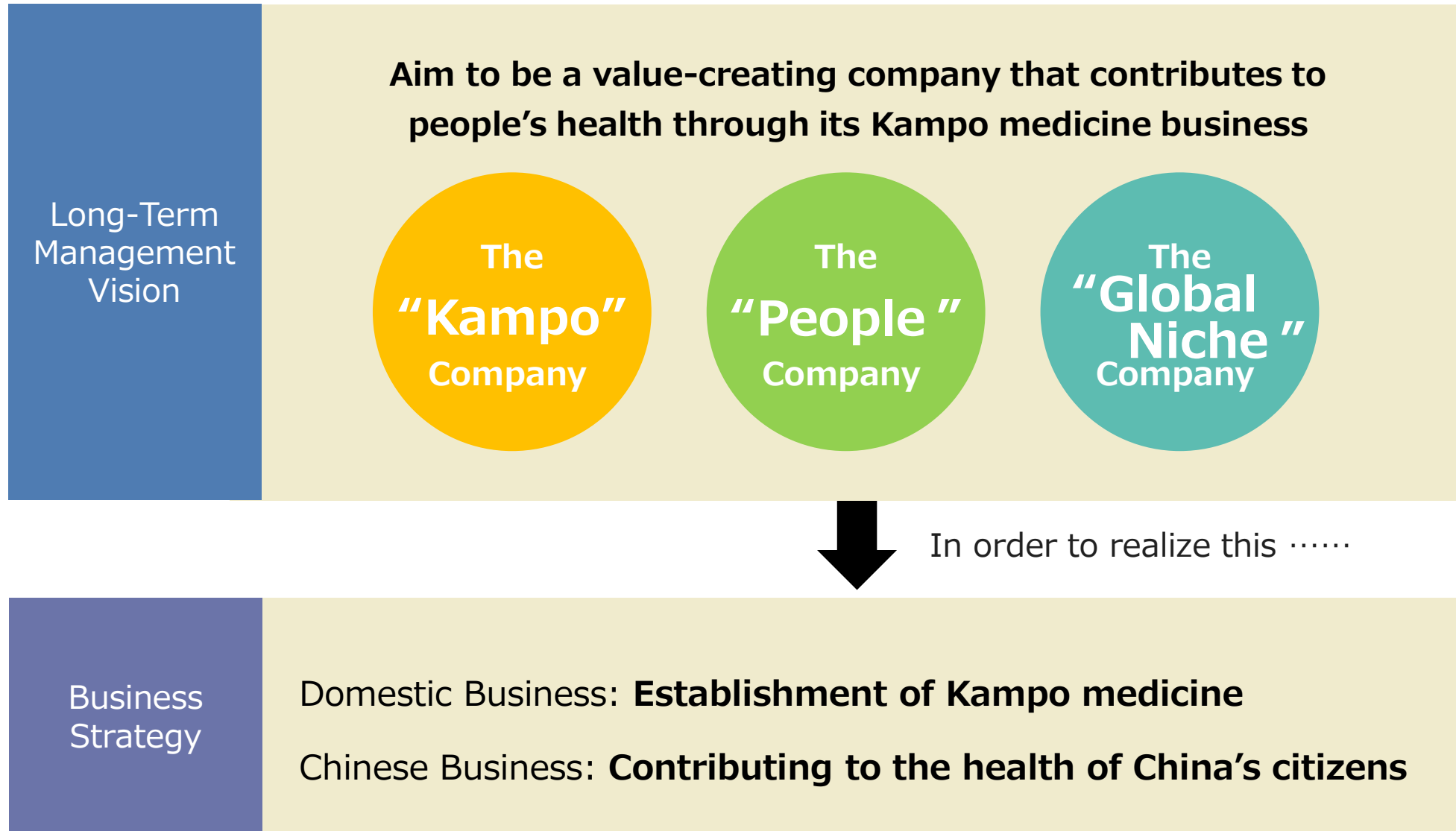


ROE



Assumptions : (NHI drug price revision) FY 2019, FY 2020, FY 2021
(Exchange rate) 112 yen to the US Dollar
16.5 yen to the Chinese Yuan

Business Strategy

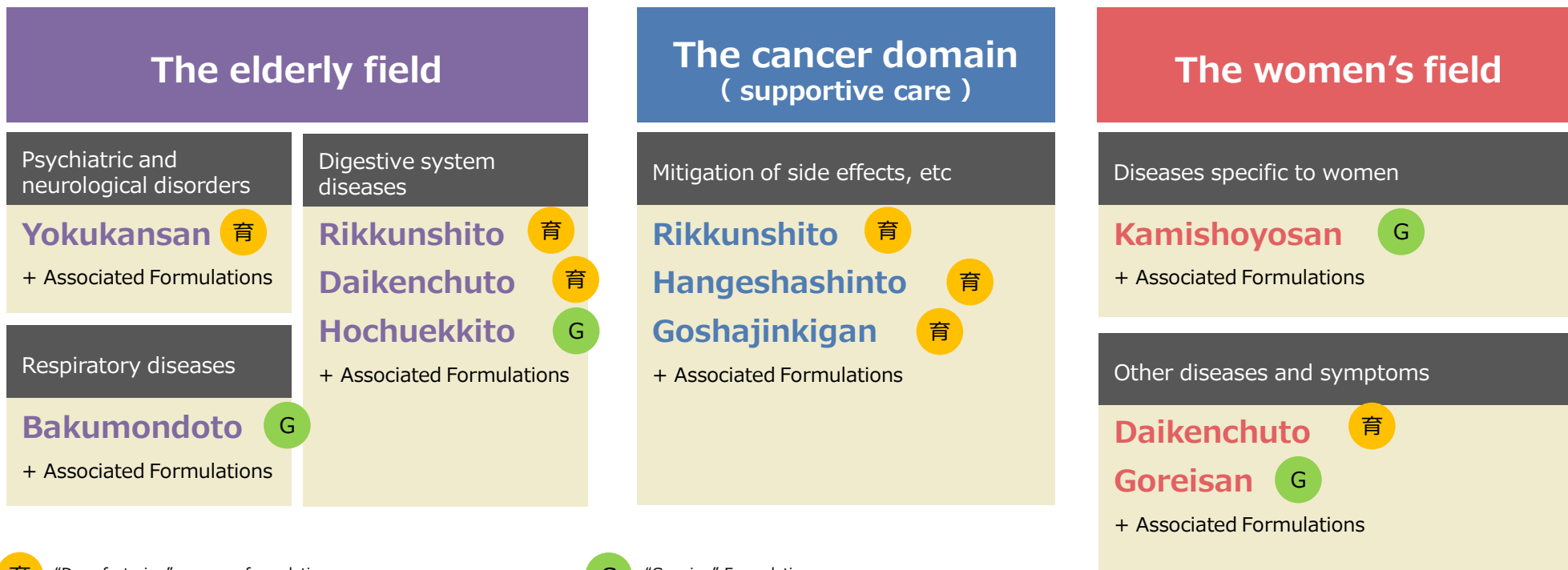


Strategic Challenges

- 1** Sustainably expanding the Kampo market and establishing presence
- 2** Investing in growth and building business foundations in China
- 3** Improving productivity using new technology
(AI, Automation, RPA)
- 4** Fostering a corporate culture through philosophy-based management and developing diverse human resources
- 5** Promoting SDGs through the Kampo Value Chain

Sales Measures

- Concentrate our efforts on the three important domains: the elderly field, the cancer domain (supportive care*), and the women’s field
- Conduct a marketing approach based on “drug fostering” program formulations, “growing” formulations and formulations associated with the three important areas.



育 “Drug fostering” program formulations :
Looking at the recent structure of disease, the Company has selected certain diseases in fields where medical treatment needs are high that are difficult to treat with Western drugs and that Kampo products have demonstrated special efficacy for. The Company will establish a base of scientific evidence related to treating these diseases with Kampo medicine.

G “Growing” Formulations :
A growth driver that aims to be listed in medical treatment guidelines as a strategic formulation following the five “drug fostering” program formulations through the establishment of scientific evidence (data on safety, efficacy, etc.) in fields where satisfaction toward treatment and the contribution of medicine are low.

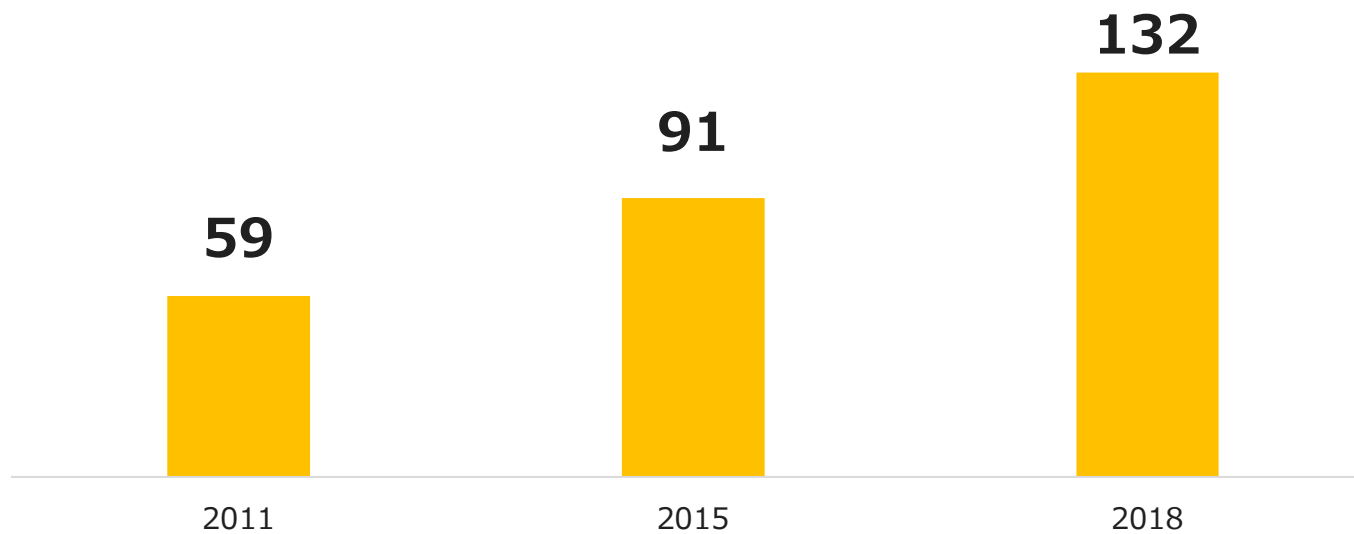
* Supportive care :
Treatments to reduce symptoms caused by the cancer itself as well as side-effects related to cancer therapy

Building Evidence

As evidence builds for Kampo medicines,
the publishing of treatment guidelines * increases

* Treatment Guidelines: Articles that include recommendations based on scientifically-supported systematic techniques.
One piece of information used for making decisions in clinical settings.

Shift in the number of published treatment guidelines



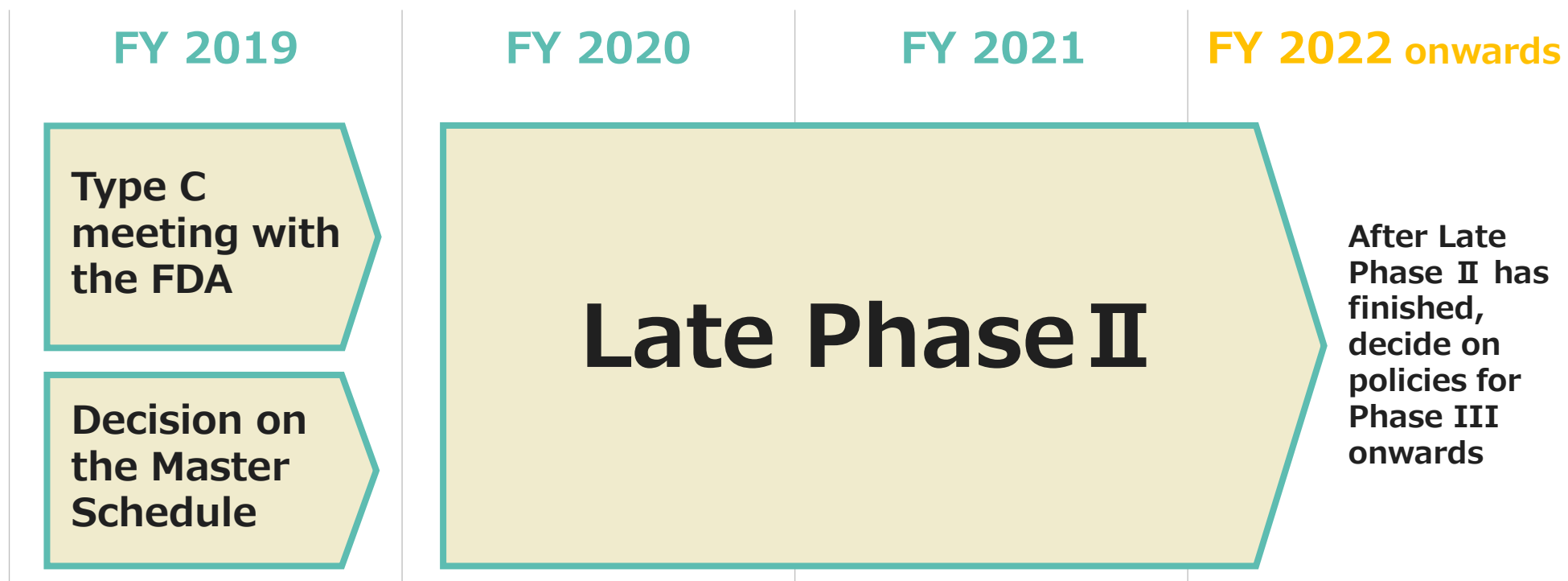
Source: Document on the total numbers of Type A, B, C produced by this company based on The Japan Society for Oriental Medicine EBM Task For

TU-100 (Daikenchuto) Development

Policies for TU-100 (Daikenchuto) development in the United States

Target disease – **Postoperative Ileus (POI)**

Carry out **Late Phase II**, aiming for early completion



The Chinese Business

FY 2019 – FY 2021

- Aiming to expand sales of existing products
- Advancing preparations to enter traditional Chinese medicine market

2021

Net sales : 240 million yuan
(Chinese Business Plan)

Selling products made from crude drugs, such as “Yakushokudogen” products and Chinese Crude Drug Pieces

2027

Net sales : 10 billion yuan
(Chinese business sales image)

Primary focus on the traditional Chinese medicine business

2018

The Chinese Business

**“Yakushoku-dogen”
products, etc.**



**“Yakushoku-dogen”
products** **Raw ginseng
products**

**Chinese Crude
Drug Pieces**



**Chinese Crude
Drug Pieces**

**Traditional Chinese Medicines
Traditional Chinese Medicine
Compound Granules**



**Compound
Granules**

Analysis Research Center



Visualization of the completed building

Tianjin Factory

(TSUMURA SHENGSHI PHARMACEUTICALS CO., LTD.)



Visualization of the completed building

Efficiency Measures to Improve Productivity

Cultivation



- Improving yields and ensuring a stable supply of crude drugs through cultivation management systems (data collection/analysis)

Processing



- Automated sorting of crude drugs through AI image recognition

Improving Productivity

Production



- Labor saving at factories through automation of production process
- Preventing equipment failures with AI-based early warning system

Activity/work

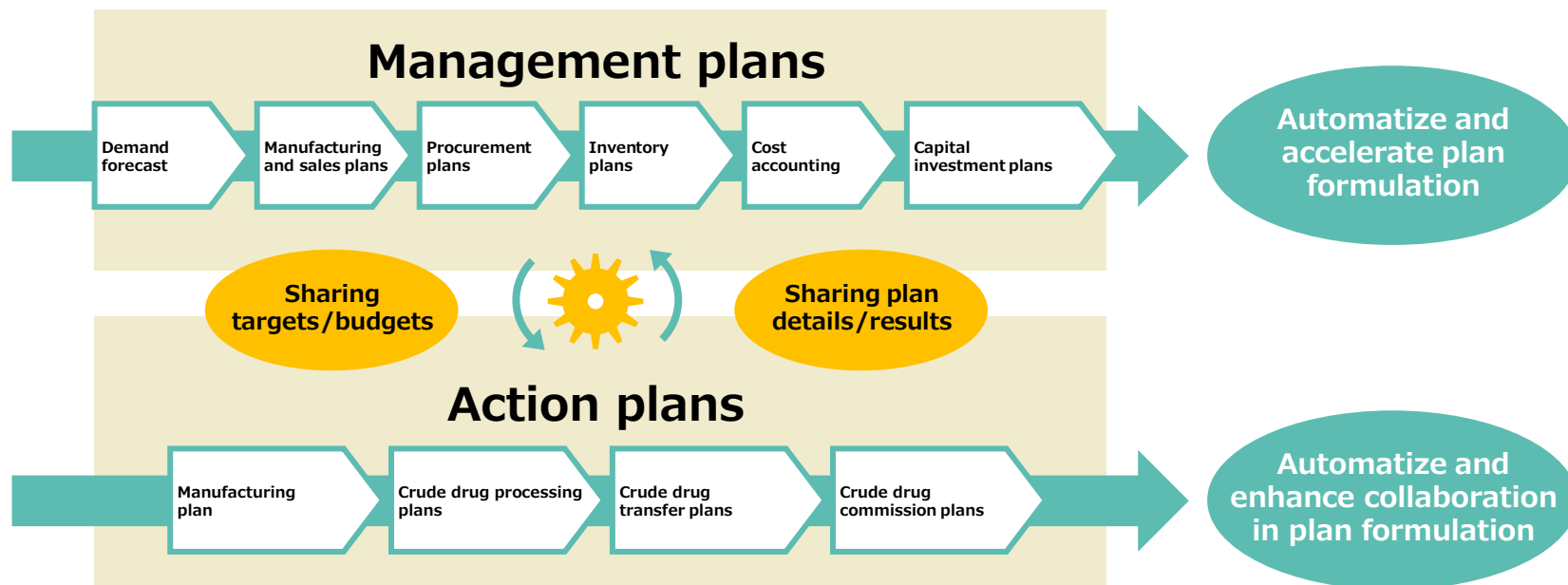


- Analyzing sales activities with AI
- Automating standard tasks through RPA*

* RPA : Robotic Process Automation

Optimizing the Overall Group Supply Chain

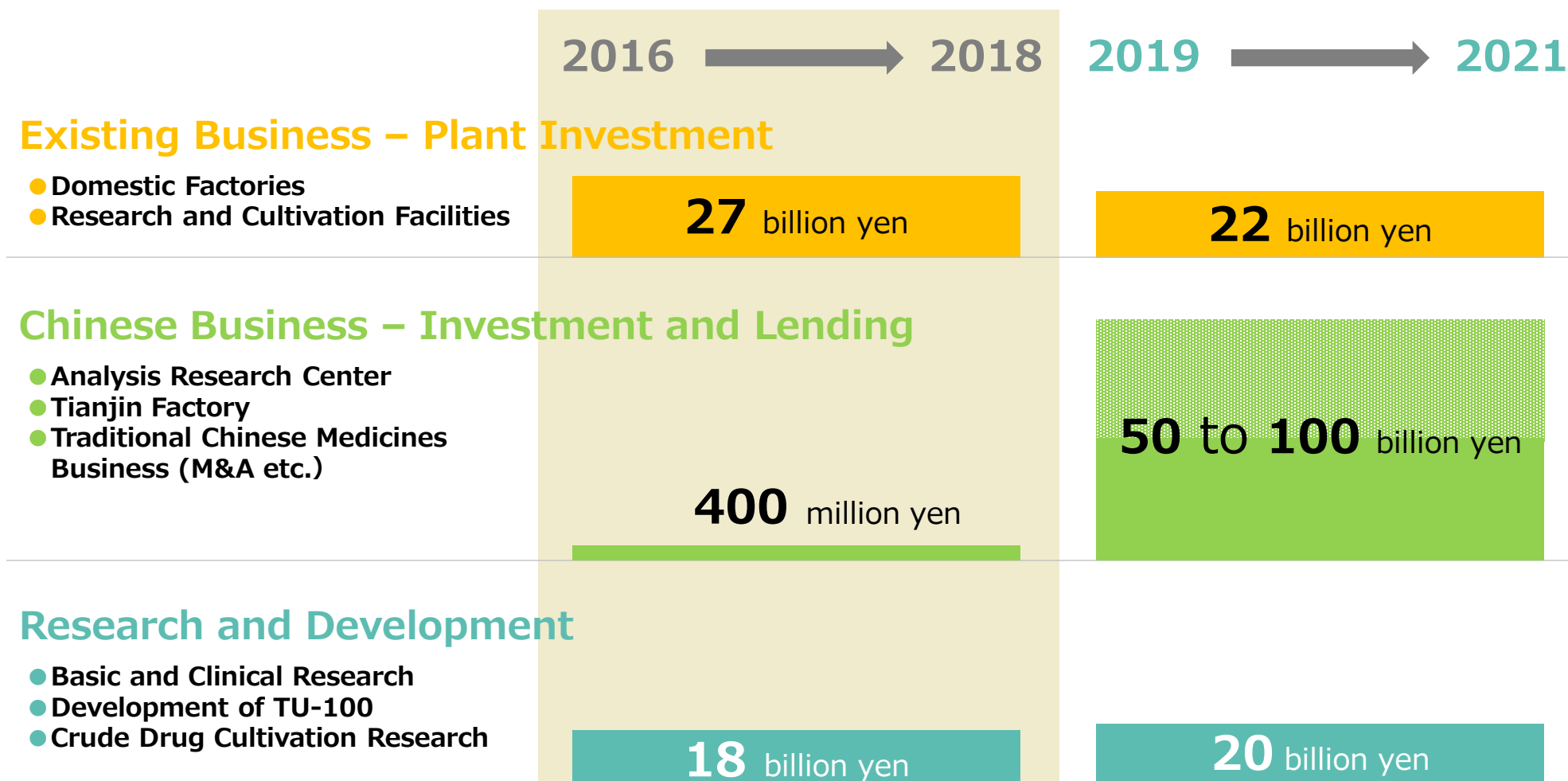
Innovations in SCM to optimize everything from demand forecast to crude drug commissioning plans



- Accelerate plan formation and shorten rolling periods to promptly anticipate future risks
- Optimize the inventory placement by bolstering cooperation between Chinese and Japanese business bases

Effective Resource Distribution

Resource distribution reflecting on mid-to-long-term business goals



Training Personnel Who Can Implement Philosophy-Based Management

Established Tsumura Academy in January 2019

- 1 Planning and running systematic educational programs taught by internal and external lecturers to continuously produce and train human resources capable of practicing management based on our group's basic philosophy.
- 2 Permeating our philosophy to group employees, carrying out seminars and programs with the goal of enhancing skills, and fostering a corporate culture in alignment with our basic direction.

Tsumura Academy

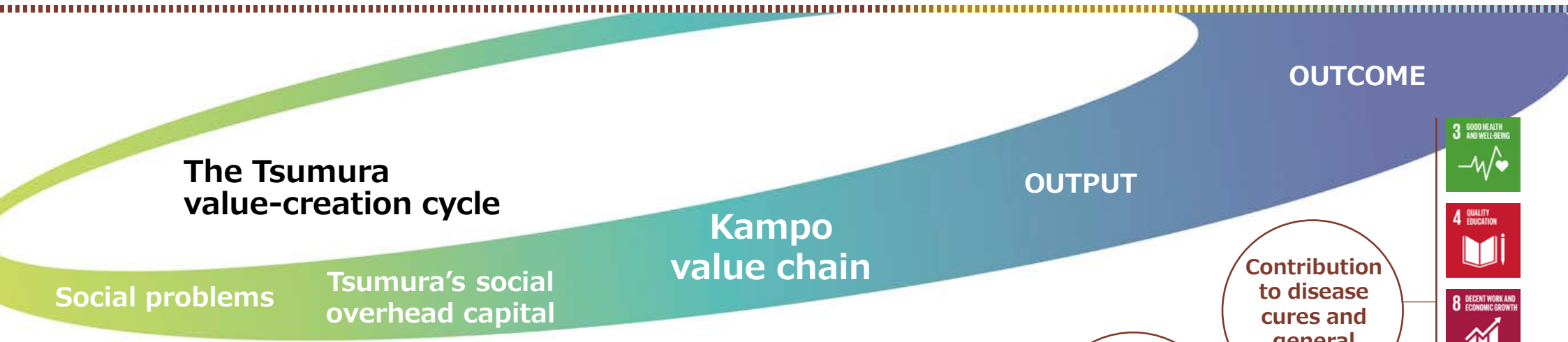
**Training
Management**

For executives and above

**Fostering
Corporate Culture**

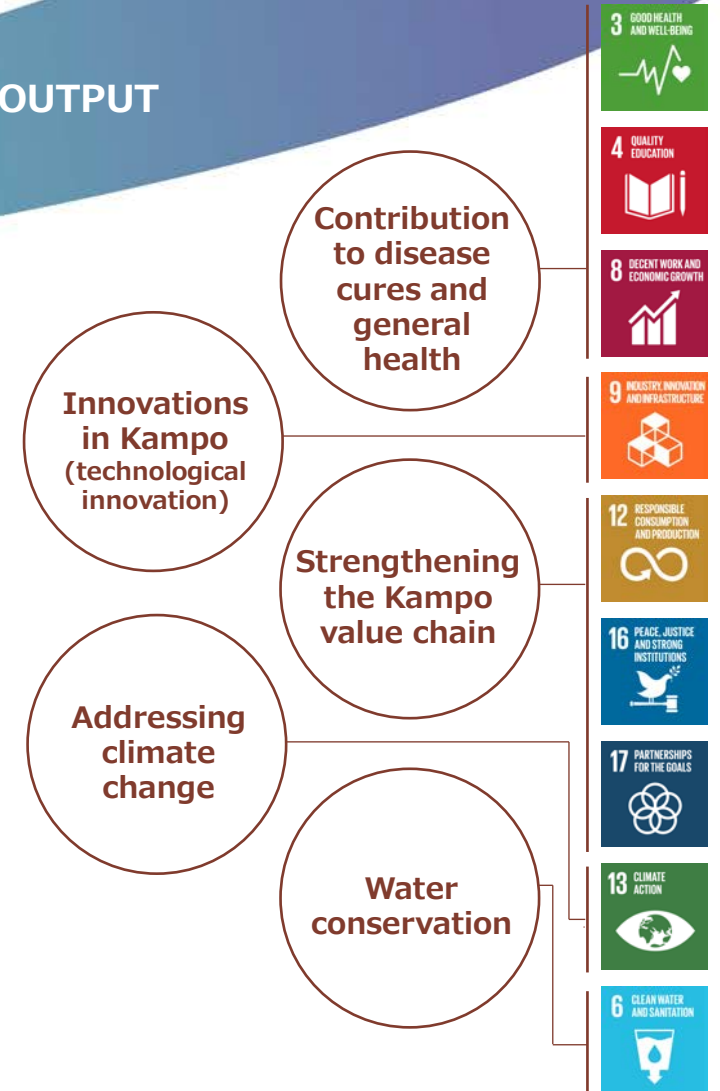
For all employees

Efforts Towards SDGs



Kampo value chain essential efforts

- 1 Further investigate the efficacy of Kampo, address various disease structures and contribute to the health and welfare of even more people
- 2 Adopt cyclical systems such as renewable energy, and promote efficient use and conservation of resources such as water
- 3 Through cultivation of and research into crude drugs, increase the sustainable use of natural resources and the creation of job opportunities, and improve the link between agriculture and welfare



Shareholder Return Policy

- We seek to increase corporate value through the sustainable expansion of the Kampo business and investments to build business foundations in China
- We will bear in mind the state of the mid-to-long term profit levels and cash flow to ensure stable dividends

FY 2019 Earnings Forecast

(million yen)

	FY 2018	FY 2019 Forecast	Year-to-year Comparison	
			Amount	Growth Rate
Net Sales	120,906	125,000	4,093	3.4%
Operating Profit Operating Profit Margin	18,520 (15.3%)	17,000 (13.6%)	▲1,520	▲8.2%
Ordinary Income	19,702	18,000	▲1,702	▲8.6%
Attributable to owners of parent Net Income for the Period	14,593	12,300	▲2,293	▲15.7%
Dividends (per share)	64yen	64yen		
ROE	7.4%	6.0%		

Inquiries related to these materials

TSUMURA & CO.

Investor Relations Group

Corporate Communications Department

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.