



Business Results Briefing for the Fiscal Year 2019

TSUMURA & CO.
May 12, 2020

Today's agenda

(1) Initiatives to Tackle COVID-19

(2) ESG Management & Sustainability Vision

(3) China Business Update

(4) FY2019 Business Results

(5) FY2020 Forecast

CEO
Kato

CFO
Handa

Business Results Briefing for the Fiscal Year 2019

- (1) Initiatives to Tackle COVID-19
- (2) ESG Management & Sustainability Vision
- (3) China Business Update

TSUMURA & CO.

Terukazu Kato, President and
Representative Director, CEO
May 12, 2020

We would like to extend our heartfelt sympathies and condolences to those who died from COVID-19. We sincerely hope that those infected by COVID-19 will quickly recover as soon as possible.

We would also like to express our deep gratitude to all medical practitioners treating patients on site and to government administrators that are working hard to prevent the spread of the infection.

In addition, we thank all of you for your continued support of Tsumura and Kampo.

I would like to explain the first three points on this slide.

Regarding the acquisition of equity interest in Tianjin China Medico Technology Co., Ltd. by Ping An Tsumura Inc., for which we signed a letter of intent on November 6, 2019, and then an agreement on February 28, 2020, the deal has been wrapped up in March.

Details of Today's Briefing

(1) Initiatives to Tackle COVID-19

(2) ESG Management & Sustainability Vision

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COVID-19 Impact: China Group Corporate Activities

Supply system for crude drug raw materials

All China group companies are under normal operation as there was no impact to the supply of crude drug raw materials.

- ✓ Systematically export crude drug raw materials essential for production
- ✓ Increase in demand for some crude drug raw materials (traditional Chinese medicines related to COVID-19), status of sowing seeds during spring

Tianjin China Medico Technology Co., Ltd. became a member of the Tsumura Group in March

Production and supply of Kampo extract powder

At present, expect to secure production volume targeted in annual plan as there is little impact

- ✓ Shanghai Tsumura Pharmaceuticals Co., Ltd. to resume operations early on and carry out normal operations. Export of extracts also going smoothly.
- ✓ In accordance with our BCP (Business Continuity Plan), collaborate with Japan to undertake production of formulations under supervision

China Group employees: No one was infected with COVID-19

[Jan. 22] Established COVID-19 Control Committee in China (Chairman: Representative Executive Officer of China)

[Feb. 11-18] Shanghai Tsumura/Shenzhen Tsumura/China Medico Technology to resumed operations [Mar. 20] Tsumura China Medico resumed construction

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This page is about the impact to the corporate activities of our China business group.

At this stage, China group companies are conducting normal operations.

As there was no impact to our supply of crude drug raw materials, China group companies were able to resume operations early.

Although demand has risen for some crude drug raw materials using in traditional Chinese medicines related to treating symptoms of COVID-19, and seeds were not sown in spring 2020 in Hubei Province, the impact to our crude drug prices is minimal.

There was also minimal impact to the production and supply of Kampo extract powder at Shanghai Tsumura Pharmaceuticals.

At present, we expect to be able to secure our planned production volume. There is also no issue with exports.

Following the acquisition of Tianjin China Medico Technology in March, our China group company now has 1,300-plus employees. None of the employees were infected as of May 11.

Activities to Support COVID-19 Measures

Tianjin China Medico Technology support activities (government request)



Tianjin China Medico Technology donated drug pieces for [Seihaihidokuto](#) to traditional Chinese medicine clinics in Huanggang, Hubei Province

Activities to Support Measures to Prevent COVID-19

[Jan. 29] Donated 5 million yen to the Chinese Embassy for the purpose of procuring medical masks, goggles, protective clothing and other supplies

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The following are activities to support COVID-19 measures.

Tianjin China Medico Technology, in accordance with a request from the government, produced and sold Seihaihidokuto drug pieces which were newly developed in China as a treatment for COVID-19.

The photo depicts a scene at the time Seihaihidokuto was donated to Chinese medicine clinics in Hubei Province.

COVID-19 Impact: Business Activities in Japan

Domestic production and distribution system

At present, all production bases and distribution centers are in normal operation

- ✓ Carrying out planned production for priority prescription Kampo and to deal with increase in demand, in accordance with the BCP (Business Continuity Plan)
- ✓ Increasing inventory of above prescription Kampo drugs by conducting unplanned production
- ✓ Also supporting production for long-term prescription trends

At present, there are no obstacles to stable supply

Kampo prescription trends

Increase in demand for specific prescriptions in tandem with dissemination of information on COVID-19 treatments using Kampo by doctors that prescribe Kampo medicine (late March-April)

- ✓ On the Japanese Association for Infectious Disease website prescriptions Dr. Keiko Ogawa (Kanazawa University) submitted special contributions (articles) related to Kampo prescriptions and related matters
- ✓ Prescriptions (as well as OTCs) related to the new traditional Chinese medicine, Seihaihaidokuto

This page is about the impact on business activities in Japan.

All domestic production-related sites and distribution centers are operating normally. At this stage, there are no obstacles to stable supply. In Japan, there are no infected employees.

From late March, there appears to be an increase in specific prescriptions in tandem with the dissemination of information on COVID-19 treatments using Kampo by doctors that prescribe Kampo medicine.

In accordance with the BCP (Business Continuity Plan), we are carrying out planned production for priority prescription Kampo and regular Kampo medicines for which demand is increasing.

We are also building up inventories for the above prescription Kampo drugs by conducting unplanned production.

Furthermore, we are supporting production focusing on long-term prescription trends.

Disseminating Information on Kampo Treatments related to COVID-19

3/9

Japanese Association for
Infectious Disease website

Dr. Keiko Ogawa (Department of Japanese-Traditional (Kampo) Medicine, Kanazawa University Hospital)
Contributed a special article titled "Concept of Kampo Medicine for COVID-19"
Article compiles alternative methods for administering prescription Kampo formulations

4/18

Japan Medical Journal website

Dr. Kenji Watanabe (Yokohama University of Pharmacy) and other urgent literary contributions
"Role of Kampo in Treating Patients with COVID-19"
Compiles considerations on the efficacy of Kampo medicine

4/18

Japan Society of Oriental
Medicine (JSOM) website

Dr. Shin Takayama (Tohoku University, Kampo Medicine in the Department of General Medicine) and others
Retrospective observational study: Clarification of the correlation between symptomatic treatment and severe aggravation in COVID-19 patients

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The following is the dissemination of information on Kampo treatment related to COVID-19.

The articles contributed by Dr. Ogawa of Kanazawa University and Dr. Watanabe, former director of Center for Kampo Medicine, Keio University School of Medicine both referenced the Diagnosis and Treatment Protocol for Novel Coronavirus Pneumonia(Trial Version 7) released by the National Health Commission, etc.
The aforementioned Seihaihidokuto is also included in this protocol.

Dr. Shin Takayama, Tohoku University, Japanese Society of Oriental Medicine, is involved in the "retrospective observational research for the purpose of clarifying the correlation between symptomatic treatment and severe aggravation in COVID-19 patients to help address growing medical needs associated with aggravation of symptoms."

We aim to provide research support in this area.

Support for research on using Kampo to treat COVID-19 patients

On the part of Tsumura, provide full support for Kampo treatment research

4/6

Request for research support and collaboration

Request from the Japanese Society of Oriental Medicine (Chairman: Takashi Ito) for cooperation to support research on Kampo treatments for COVID-19 patients
Tsumura decided to provide full support (4/8)

4/22

Articles published in industry papers

Introduced in the Yakuji Nippo: "Tsumura to lend support in investigator-initiated clinical research on prescription Kampo drugs for influenza patients, including those with COVID-19"

Other

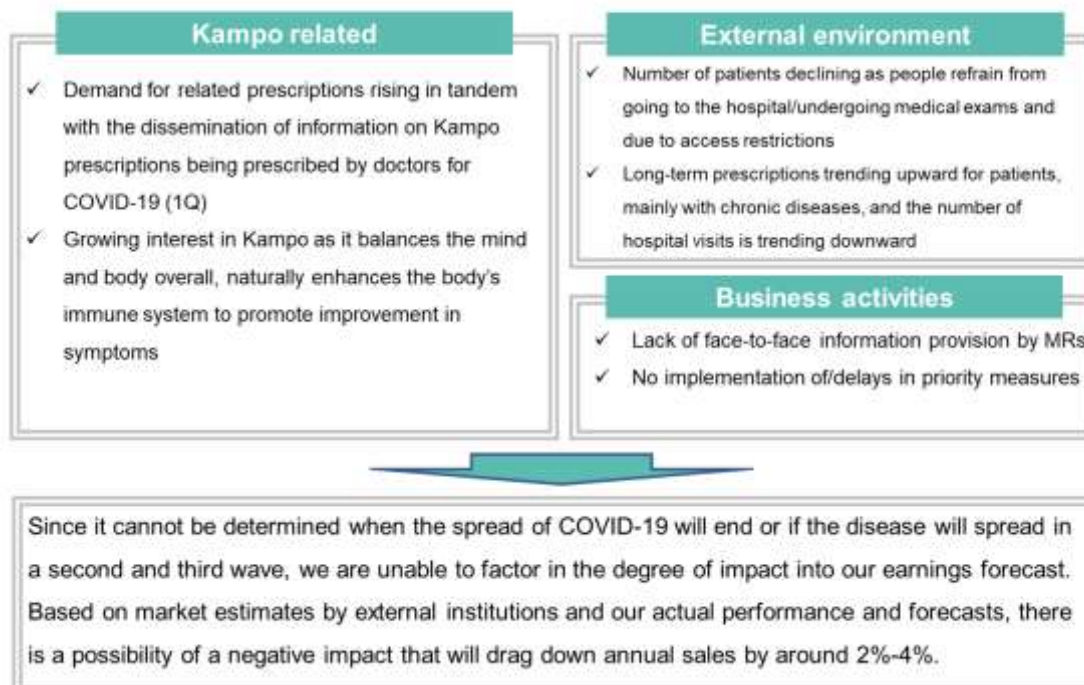
Other research support

Tsumura prescription Kampo formulation to be provided free of charge (scheduled)

The following is Tsumura's support for research on the use of Kampo medicine to treat COVID-19.

We plan to provide full-fledged support for research on Kampo medicine, as requested by Chairman Ito of the Japanese Society of Oriental Medicine, including the observational research by Tohoku University Associate Professor Takayama, who I mentioned earlier.

Degree of Impact due to Spread and Continuation of COVID-19



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On this page, the degree of impact due to the spread and continuation of COVID-19 is explained.

In 1Q, we estimate an increase in demand for COVID-19-related prescriptions, mainly in tandem with the dissemination of information on Kampo medicines. There is growing interest in Kampo medicines that enhance the body's natural healing power to promote improvement of various symptoms.

Meanwhile, due to external environmental factors shown here, given the limited sales activities via emails and the Internet, there is a shortage of information provided face-to-face to clients by MRs, and priority measures are going unimplemented or being postponed.

Since it cannot be determined when the spread of COVID-19 will end or if the disease will spread in a second and third wave, we are unable to factor in the degree of impact into our earnings forecast.

Based on market estimates by external institutions and our actual performance and forecasts under certain conditions, at this stage, there is a possibility of a negative impact that will drag down annual sales by around 2%-4%.

Details of Today's Briefing

(1) Initiatives to Tackle COVID-19

(2) ESG Management & Sustainability Vision

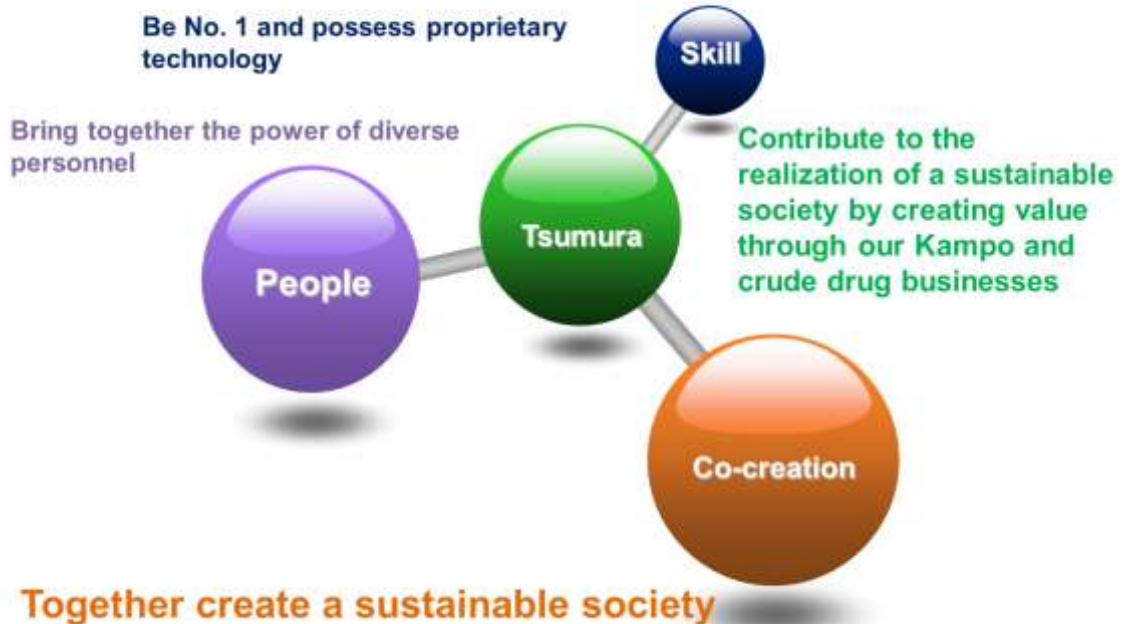
(3) China Business Update

(4) FY2019 Business Results

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As its sustainability vision, the Tsumura Group, based on its CSR policy, “The Tsumura Group contributes to value creation and to the realization of a sustainable society through its Kampo value chain. “

ESG Management and Sustainability Vision



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This page covers our ESG management and sustainability vision.

The Tsumura Group aims to continue to carry out ESG management. This is the creation of value through our primary business of Kampo and crude drugs to contribute to the realization of a sustainable society.“

We aim to create a company that possesses unique, proprietary technologies, a company that brings together diverse human resources, and a company that can together create a sustainable society.

As indicated in detail in the section on corporate governance in the Integrated Report 2019, in the special feature titled Discussion among Outside Directors, who compose the majority seats on the Board of Directors, we aim to achieve an evolution toward more highly effective corporate governance systems.

I will explain our environmental and social undertakings as well as measures to achieve SDG development goals from the three perspectives of skill, people and co-creation.

Contribute to medical care and society by creating value through the Kampo and crude drug business



Founder: Meaningful business that is part of the public interest
 Jusha Tsumura (second generation; son of founder): Kampo is not "unscientific," it is **yet** to be scientifically verified

Contribute to the creation of value and to medicine based on the following approach
 "Kampo" ≠ "synthetic medicine"

"Kampo" balances the body and mind overall and by **enhancing the body's natural healing power, it promotes improvement to symptoms**



Explore efficacy of Kampo medicine in treating COVID-19 patients

Japanese Society of Oriental Medicine and other organizations have requested Tsumura's assistance in researching Kampo for use in treating COVID-19 patients. In response to this request, we will explore the efficacy of prescription Kampo formulations through full-fledged cooperation

We inherited from our founder the belief of carrying out a “meaningful business that is a part of the public interest.”

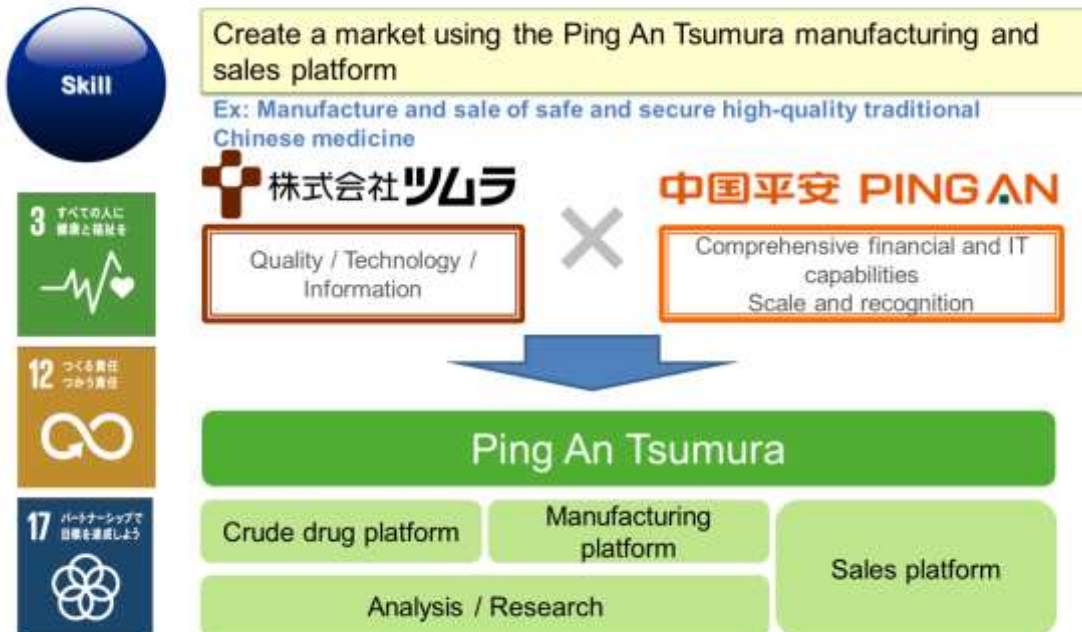
We aim to conduct management in line with this philosophy.

From Jusha Tsumura, the second generation president and son of the founder, we took the value that "Kampo is not “unscientific, it is yet to be scientifically verified” and reflected this into our corporate philosophy of "The Best of Nature and Science.”

Kampo has the potential to create and provide value not found in synthetic drugs. Kampo promotes balances between the body and mind overall. And by enhancing the body’s natural healing power, it promotes the improvement of various symptoms.

Given the lack of therapeutic drugs and vaccines for COVID-19, we are exploring the potential of Tsumura Kampo formulations that will contribute to medical care and society.

Create New Value and Market by Being No. 1 and Leveraging Proprietary Technologies



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The production and sale of safe and secure high-quality traditional Chinese medicines in China is made possible by our group's unique and proprietary technology in the "Kampo Value Chain." Through this we aim to contribute to people's health.

We are forming partnerships companies in China that have abundant financial strength, name value, and boast leading technologies, including IT and AI. Through this, we aim to build a business model for a new era, which includes the automatic selection and processing of crude drugs, scientific management of crude drug cultivation, and the alleviation of physical labor.

It is no exaggeration to say that the quality of crude drugs determines the quality of Kampo and traditional Chinese medicines. Therefore, the crude drug platform, a key function, is the core of our business.

Realize protection of the natural **environment** and a recycling-based **society** using our proprietary cultivation research technology



Expand cultivation areas by using the Ping An Tsumura crude drug platform



Ex: Forest and water conservation (nature preservation)



Ex: Develop cultivation of wild crude drugs (environmental preservation, recycling-oriented society)



The Tsumura Group aims to do its best to reduce the amount of waste generated in our business.

Moreover, for many years we have tackled the preservation of the natural environment, environmental conservation and resource recycling.

We aim to expand the functions of the Ping An Tsumura crude drug platform. We plan to fulfill our role as a leader by accelerating the recycling of crude drug resources by establishing cultivation technology to promote artificial cultivation of wild-grown crude drugs, expanding the area of cultivation, and increasing the number of wild crude drugs we research and domesticate.

Create a sustainable **society** by overcoming poverty through the consigned cultivation of crude drugs



Cultivation in poor areas using the Ping An Tsumura crude drug platform

Ex: Successful case of Chinese rhubarb (da-huang) cultivation (contribution to local economy and job creation)



Impoverished areas
(mountainous area)
Poor housing
Inadequate water and sewerage
systems
Low income and impoverished
farmers
Ethnic minorities have difficulty
finding jobs

Contribution to the local economy
Housing maintenance
Safe drinking water and toilet
Stable income for farmers
Create jobs

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This page focuses on a model for the co-creation of a sustainable society by overcoming poverty by consigning out the cultivation of crude drugs.

The proprietary cultivation of cinnamon (keihi) in Laos is a co-creation model developed through the disposal of cluster bombs and undetonated bombs, and CO2 absorption.

The photo depicts a successful model in the cultivation of Chinese rhubarb (da-huang) in a unified village in the mountainous region of China.

A long-term cultivation contract contributes to the local economy and creates stable employment.

This case cleaned up poor housing, secured safe water and toilets, and created stable income from agriculture for ethnic minorities who have difficulty finding jobs.

This matches the goal of the Xi Jinping administration which aims to "eradicate poverty." The goal is to expand and accelerate the implementation of these cases by utilizing the finance capital of the Ping An Insurance Group.

High-quality Crude Drug Cultivation, Processing and Research Conducting by People with Disabilities

People

Co-creation with Yubari Tsumura's "Harunire no Sato," a social welfare corporation

Ex: Crude drug cultivation at "Temiru Farm" in Ishikari City, Hokkaido

Co-creation

8 働きがいも
経済成長も



10 人々の平等
をなくそう



Perilla herb cultivation

High-quality perilla herb cultivation

Top-level processing technology
Boost level of skill acquisition
Continued employment in crude drug cultivation



Bukuryo Cultivation research

Indoor bukuryo cultivation research

Applications for sawdust substrate cultivation technology
Establishment of cultivation technology infrastructure
Research for commercialization

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The following is what the domestic model looks like.

From 2010, we have entered into a contract to consign cultivation operations to "Temiru Farm" in Ishikari City, Hokkaido, which is worked by people with intellectual, psychological, and developmental disabilities. This case undertakes the cultivation of perilla herbs (soyo) and Bukuryo using sawdust substrate cultivation technology.

Owing to the recognition that crude drugs were the raw material for pharmaceuticals, in this case Kampo, which contributes to people's health, farmers unable to continue cultivating vegetables are able to continue to grow crude drugs.

This model is a co-creation of a specific value, in other words a "motivating job."

I visit this farm every year. Everyone working there does so believing they are member of Tsumura.

In this way, we aim to create various value from the Kampo value chain. Using our proprietary technology, we harness the power of diverse human resources to co-create a sustainable society. This is the goal of our ESG management.

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China Business Vision

Contribute to the health of the people of China/
Stable procurement of crude drug raw materials **2027**

Ping An Tsumura Group

-Becoming the most trusted Chinese medicine company in China-

Sales: RMB10 billion
(China business vision: Image of sales)

2021

Sales: RMB240 million
(Medium-term management plan for the
China business)

- Development business via crude drug platform
- Selling products made from crude drugs, such as "Yakushoku-dogen" products and Chinese Crude Drug Pieces

2018

Make the traditional Chinese
medicine business a pillar

The China Business Vision on this page remains unchanged from our initial plan.

In the third medium-term management plan for the China business, our sales target is RMB240 million (approximately 4 billion yen). We are progressing in line with plans to achieve this goal.

On February 28, 2020, a news release titled "Tsumura Announces Conclusion of Agreement Regarding Acquisition of Equity Interest in Tianjin China Medico Technology Co., Ltd. by Ping An Tsumura Inc." was put out. The deal was concluded in March.

■ Purpose of capital tie-up

- 1) Strengthen the stable supply system for crude drug raw materials for export to Japan
- 2) Expand China business by acquiring experienced personnel in the Chinese medicine industry
- 3) Strengthen stable supply system for crude drug raw materials for use by China business (traditional Chinese medicines, etc.)

Strengthen stable supply system of crude drug raw materials by gathering knowhow from the Tsumura Group and China Medico Technology

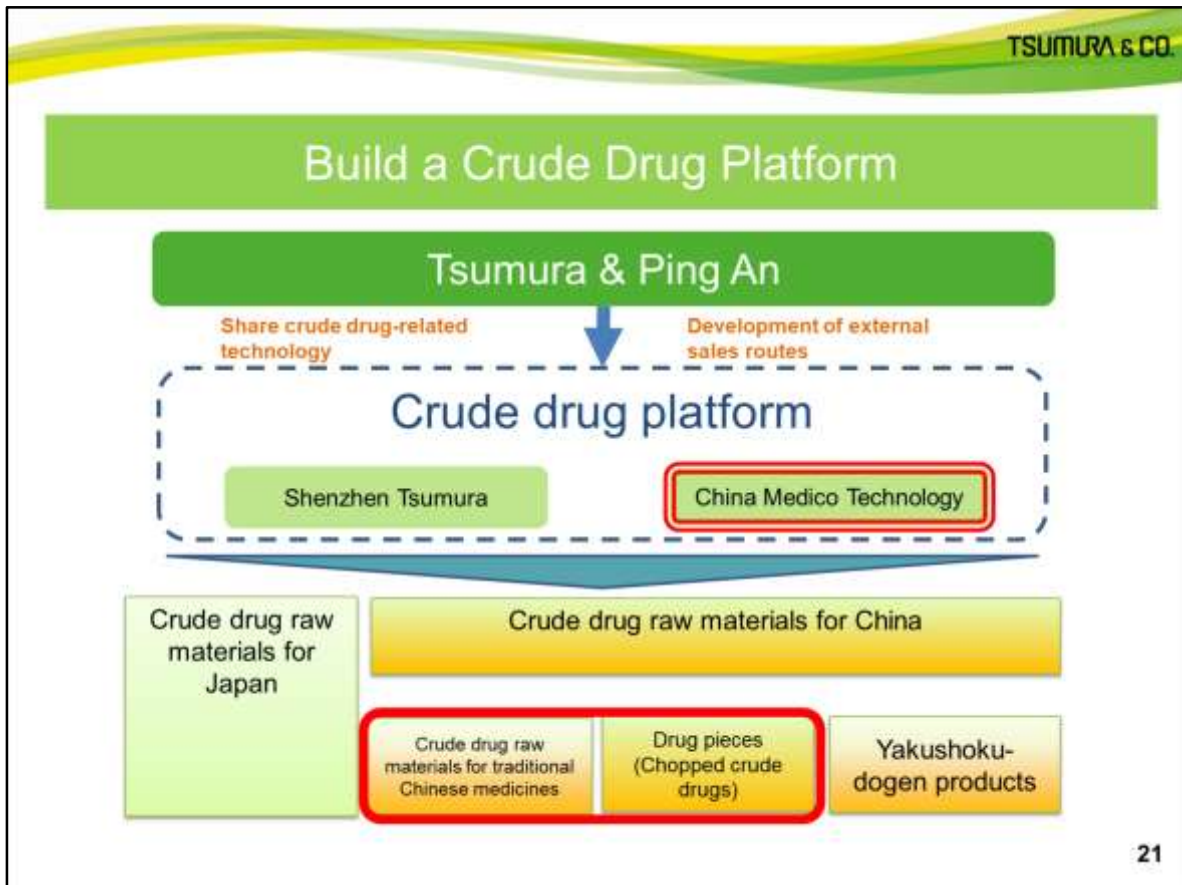
Promote expansion of the traditional Chinese medicine (crude drug raw materials) and drug pieces (chopped crude drugs) in China to establish a solid position

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This page outlines the conversion of Tianjin China Medico Technology into a group company and the launch of a new crude drug platform function.

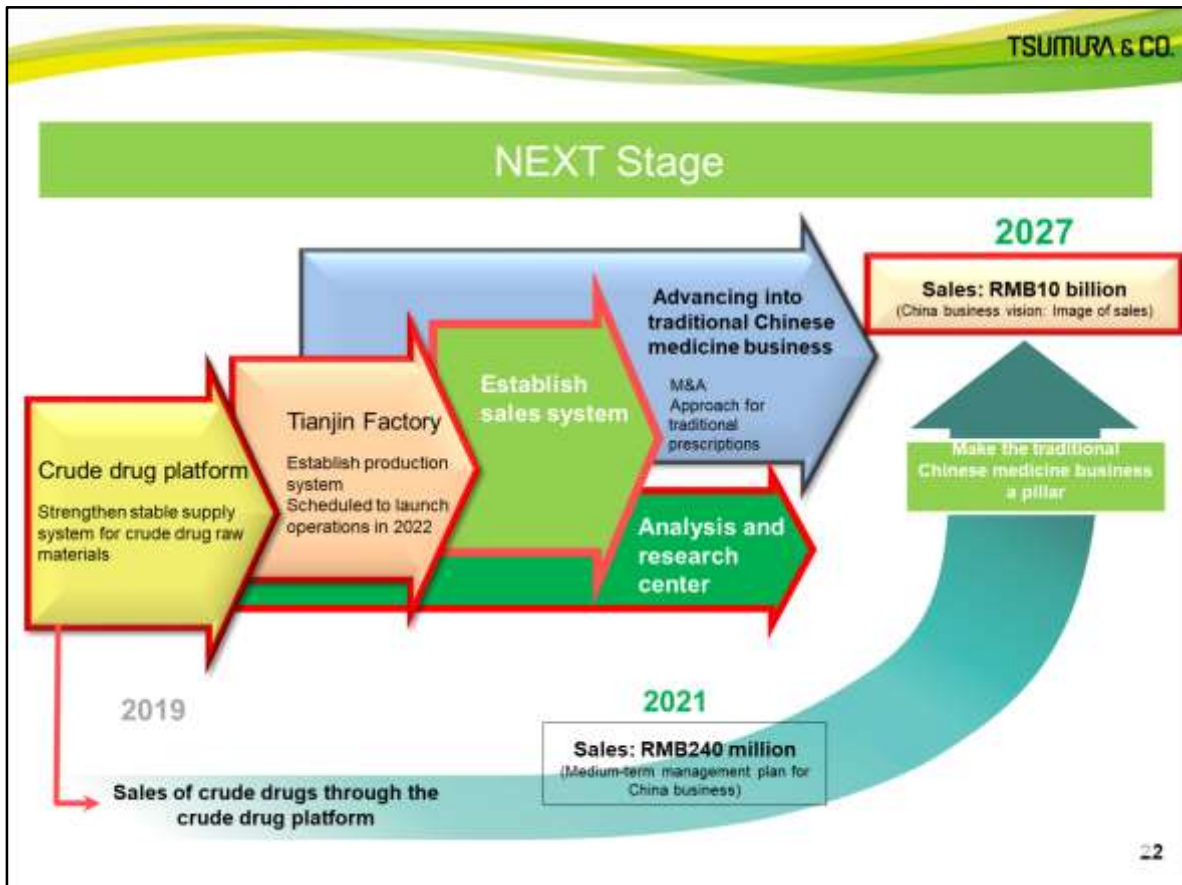
Li Gang, founder, chairman and president of Tianjin China Medico Technology, was put in charge of the crude drug platform function.

The goal, in particular, is to establish a solid position in the market via expansion, mainly the expansion of the traditional Chinese medicine (crude drug raw materials) and drug pieces (chopped crude drugs) businesses in China.



We will further expand domestic sales route in China possessed by Tianjin China Medico Technology to expand sales of crude drug raw materials and drug pieces (chopped crude drugs) for traditional Chinese medicines.

The goal and KPI for the crude drug platform function is achieve a “domestic (China)/overseas sales ratio of 50%-plus” and to create a steady supply of crude drug raw materials to Japan going forward.



This page depicts that we are on schedule with plans.

We have launched our crude drug platform function and solidified the framework for building a foundation for the China business.

The construction of the Tsumura Shengshi/Tianjin Plant is behind schedule due to COVID-19 but we plan to make up for lost time and aim to embark on operations in 2022. An extract formulation plant will be located adjacent to Tianjin China Medico Technology, which is a crude drug supply base, so it will be both efficient and convenient.

The analysis research center is one year behind our initial schedule. However, we aim to make this a cutting-edge analysis research center by introducing the Ping An Insurance Group's state-of-the-art technology.

In addition, to build an infrastructure and sales system for the traditional Chinese medical products, we have narrowed down our M&A candidates to one company and are currently in negotiations.

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TSUMURA & CO.

Muneki Handa, Director and
Managing Executive Officer, CFO
May 12, 2020

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Consolidated Performance for FY 2019

(million yen)

	FY 2019 Plan	FY 2019 Results	Achievement rate	FY 2018 Results	Vs. FY 2018	
					Amount	Change
Net sales	125,000	123,248	98.6%	120,906	2,341	1.9%
Operating profit	17,000	18,876	111.0%	18,520	356	1.9%
Operating profit margin	13.6%	15.3%	—	15.3%	—	—
Ordinary profit	18,000	19,649	109.2%	19,702	(52)	(0.3)%
Profit attributable to owners of parent	12,300	13,765	111.9%	14,593	(828)	(5.7)%

Sales by product

	FY 2019 Plan	FY 2019 Results	FY 2018 Actual
Dividend (Per share)	¥64	¥64	¥64



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This page shows a summary of consolidated performance in FY2019.

Net sales increased 1.9% year-on-year to ¥123,248 million.
As such, we achieved 98.6% of our full-year plan.

Operating profit increased 1.9% year-on-year to ¥18,876 million.
The achievement rate for the full-year plan is a high 111.0%. However, this is primarily attributable to a delay in the posting of R&D expenses. Another factor is that we did not fully use the earmarked costs reflecting the refrainment from activities due to the spread of COVID-19.

Ordinary profit decreased 0.3% year-on-year to ¥19,649 million.

Meanwhile, profit attributable to owners of parent decreased 5.7% year-on-year, to ¥13,765 million.

This was due to an extraordinary loss of ¥431 million reflecting a valuation loss on investment in an affiliated company in connection with the decision to dissolve and liquidate our joint venture company "SPH Tsumura Pharmaceutical Co., Ltd."

The planned annual dividend per share is ¥64.

Changes in Major Subsidiaries in FY 2019



Business combination date	March 30, 2020 (Deemed acquisition date is December 31, 2019)
Ratio of equity acquired	80%
Earnings at acquired companies, included in the consolidated financial statements	In FY 2019, only balance sheet items of the acquired companies were reflected in the consolidated balance sheets. Earnings at the acquired companies were not reflected in the income statement.
Goodwill	RMB765 million (¥12,016 million); preliminary calculation
Goodwill depreciation method and depreciation period	Straight-line depreciation over 20 years (approximately ¥600 million annually)

Value and breakdown of assets and liabilities received on the day of business combination

	(million RMB)	(million yen)
Current assets	1,674	26,292
Non-current assets	365	5,793
Total assets	2,039	32,086
Current Liabilities	1,212	19,029
Non-current liabilities	241	3,788
Total liabilities	1,453	22,818

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The following are changes in major subsidiaries in FY2019.

Ping An Tsumura, a consolidated subsidiary of Tsumura, acquired an 80% stake in Tianjin China Medico Technology.

In tandem with this, this company and its five subsidiaries are included in the scope of consolidation.

The deemed acquisition date is December 31, 2019, for the purpose of reflecting business performance of acquired companies in our consolidated financial statements. However, assets and liabilities for this consolidated fiscal year were only reflected in the balance sheets.

The earnings from this acquired company were not accounted for in the income statement.

The table below shows the value and major breakdown of assets received and liabilities assumed on the day of the business combination.

Key Points in Performance

Although operating profit rose, overall sales were up while profit was down due to the posting of extraordinary loss
Achieved all profit targets but underperformed sales plan

Consolidated net sales	123,248 million yen	Achievement rate vs. plan	98.6%	YoY	+1.9%
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- Net sales of 129 prescription of Kampo products rose 1.8% year-on-year. On a yen-basis, sales rose for 66 prescriptions.
- Net sales of OTC medicines grew 13.9% year-on-year.

Operating profit	18,876 million yen	Achievement rate vs. plan	111.0%	YoY	+1.9%
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Operating profit margin	15.3 %			YoY	+0pt
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- The cost-to-sales ratio stood at 41.2%(+0.3pt YoY) due to sales mix, despite a decline in the crude drug-related costs. The cost-to-sales ratio was down 0.6pt compared to plan due to a reduction in crude drug-related cost.
- The SG&A cost ratio was 43.5% (down 0.3 pt from the previous fiscal year) due to expenses incurred from refraining from business activities due to the spread of COVID-19 which has left earmarked costs unused. The SG&A cost ratio was down 1.1pt compared to plan mainly due in part to a shift in period for the posting of R&D expenses and other payments.

Ordinary profit	19,649 million yen	Achievement rate vs. plan	109.2%	YoY	(0.3)%
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Profit attributable to owners of parent	13,765 million yen	Achievement rate vs. plan	111.9%	YoY	(5.7)%
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- 5.7% decrease from the previous fiscal year was recorded due to an extraordinary loss of 431 million yen in valuation loss on investment in an affiliated company associated with the dissolution and liquidation of "SPH Tsumura Pharmaceutical Co., Ltd."

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This page outlines the key points of performance.

Despite the NHI drug price revision was implemented in October 2019, sales of prescription Kampo products rose 1.8% compared to the previous fiscal year. Domestic sales of Kampo for pharmacies and OTC Kampo products trended favorably, totaling ¥123,248 million (up 1.9% year-on-year).

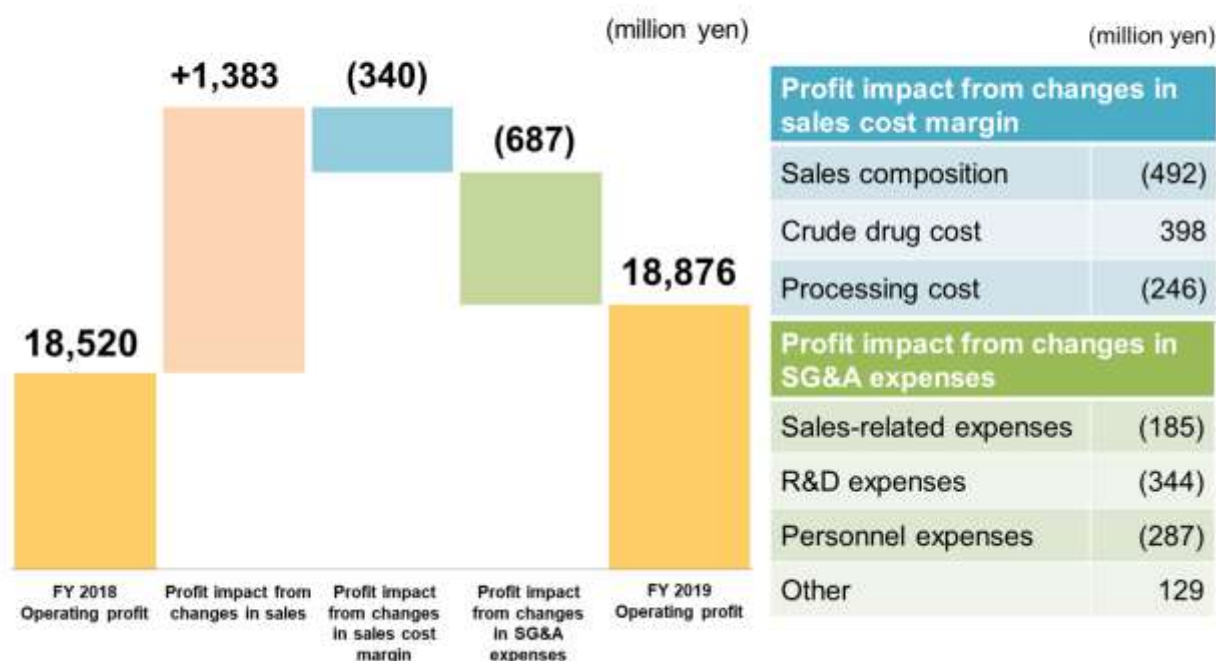
The cost-to-sales ratio stood at 41.2%. Although crude drug-related costs were lower than in the previous fiscal year, sales mix, in line with NHI drug price revisions, deteriorated 0.3pt. However, the decline in crude drug-related cost improved 0.6pt compared to plan.

The SG&A ratio was 43.5%. Although sales-related expenses rose in tandem with sales growth, compared with the previous fiscal year, there was a 0.3pt decline due to earmarked costs going unused, reflecting the refrainment from activities due to the spread of COVID-19.

Compared to plan, the SG&A cost ratio was down 1.1 pt mainly due to the shift in the posting period for R&D and other expenses.

As a result, profit attributable to owners of parent was ¥13,765 million, down 5.7% year-on-year. As I explained earlier this was due to an extraordinary loss of ¥431 million in valuation loss on investment in an affiliated company associated with the dissolution and liquidation of "SPH Tsumura Pharmaceutical Co., Ltd."

Factors for changes in Operating Profit



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This page outlines factors for changes in operating profit.

Net sales increased ¥2,341 million year-on-year. This positively impacted operating profit by ¥1,383 million.

The negative impact from a change in the cost-to-sales ratio was ¥340 million.

The main components of this breakdown include a ¥398 million reduction of crude drug costs, a positive factor for operating profit, and a ¥492 million deterioration in sales mix due to NHI drug price revisions, a negative factor for operating profit.

Changes in SG&A expenses included an increase in sales-related expenses due to sales growth and a rise in R&D and personnel expenses.

This negatively impacted operating profit at the end of FY 2019 by ¥18,876 million.

Financial Condition

Balance Sheets

(million yen)

	FY 2018	FY 2019	Change
Total assets	287,322	311,042	23,719
Current assets	190,027	194,288	4,261
Non-current assets	97,295	116,753	19,458
Total liabilities	81,181	97,993	16,812
Current Liabilities	33,320	48,476	15,156
Non-current liabilities	47,861	49,516	1,655
Total net assets	206,141	213,048	6,907
Equity ratio	70.2%	66.0%	(4.2)pt

(million yen)

B/S	FY 2018	FY 2019	Comparison
Inventory assets	51,808	73,310	21,502
(Merchandise and finished goods)	9,382	10,338	955
(Work in progress)	11,125	12,418	1,293
(Raw materials and stores)	31,299	50,553	19,254

Cash Flow Position



That said, of the ¥19,254 million increase in raw materials and stores, ¥16,236 million yen are assets belonging to China Medico.

This page shows Tsumura's financial condition.

Total assets as of the end of the fiscal year stood at ¥311.042 billion, an increase of ¥23,719 million from the end of the previous fiscal year.

Current assets increased by ¥4,261 million yen year-on-year due to an increase in inventories and other factors, and despite a decrease in advance payments. This is primarily attributable to consolidation of Tianjin China Medico Technology and its five subsidiaries.

Non-current assets increased by ¥19,458 million versus the previous fiscal year, owing to a rise in goodwill associated with the consolidation of Tianjin China Medico Technology, although the value of investment securities declined due to the decline in stock prices.

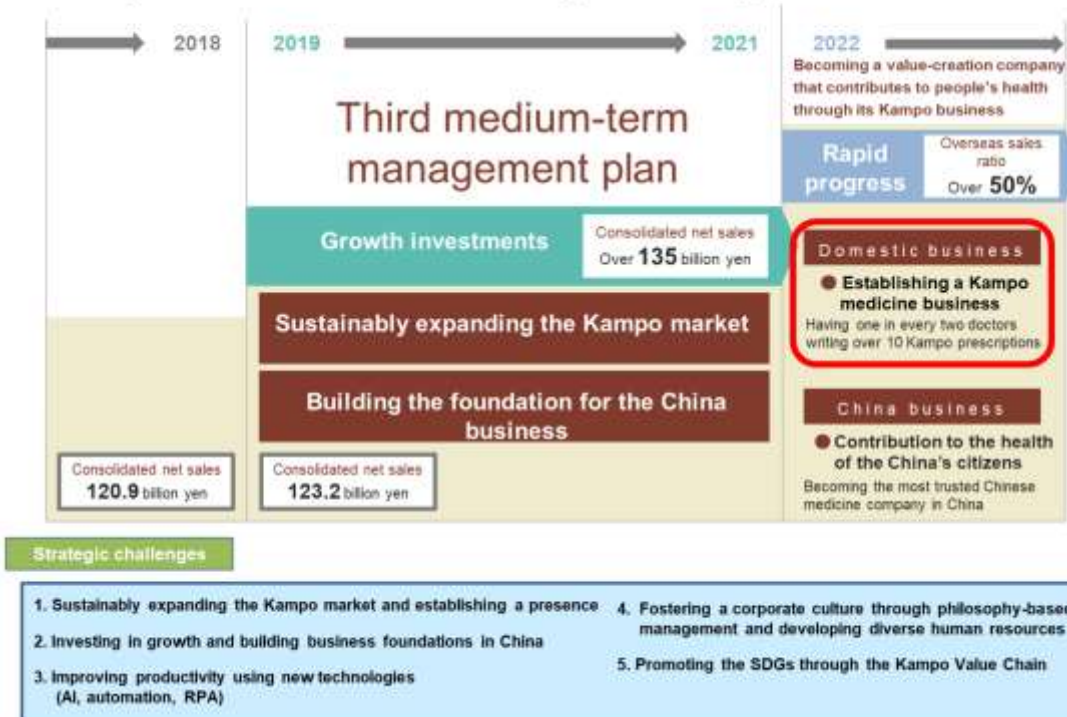
Total liabilities stood at ¥97,993 million, an increase of ¥16,812 million from the previous year. Although accrued payments rose, current liabilities increased ¥15,156 million year-on-year, due in part to an increase in short-term loans payable for the acquisition of equity in Tianjin China Medico Technology.

Total net assets were ¥213,048 million, an increase of ¥6,907 million from the previous year.

Accordingly, equity ratio was down 4.2pts to 66.0%.

Tsumura's cash flow is shown here.

Roadmap for the Realization of the Long-term Management Vision



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This page outlines our roadmap for realizing our long-term management vision.

We have made no revisions to the third medium-term management plan we announced in May 2019.

It continues to be positioned as a stage for growth investments.

We aim for consolidated net sales in excess of ¥135 billion, backed by the continued expansion of the domestic Kampo market and the establishment of a foundation for the China business. FY2020, which is the second year after the start of the plan, is a key year.

Establishing a Kampo medicine business

Number of doctors who prescribe Kampo

One in two doctors prescribe 10 or more prescription Kampo

Third Medium-Term Management Plan (FY 2019-2021): Aim for a 24,000 increase in headcount in 3 years



Headcount increased 9,900, versus a FY 2019 target of 8,000, putting the company off to a smooth start

Three pillars of Kampo medicine education

Number of universities conducting Kampo medicine education	Classroom lectures	81 universities	/ 81 universities
	Clinical training	58 universities	/ 81 universities
On-campus Kampo study sessions		80 universities	/ 81 universities
Kampo outpatient treatment		80 facilities	/ 81 facilities

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The following is the measures for the establishment of the Kampo medicine which is a domestic business strategy.

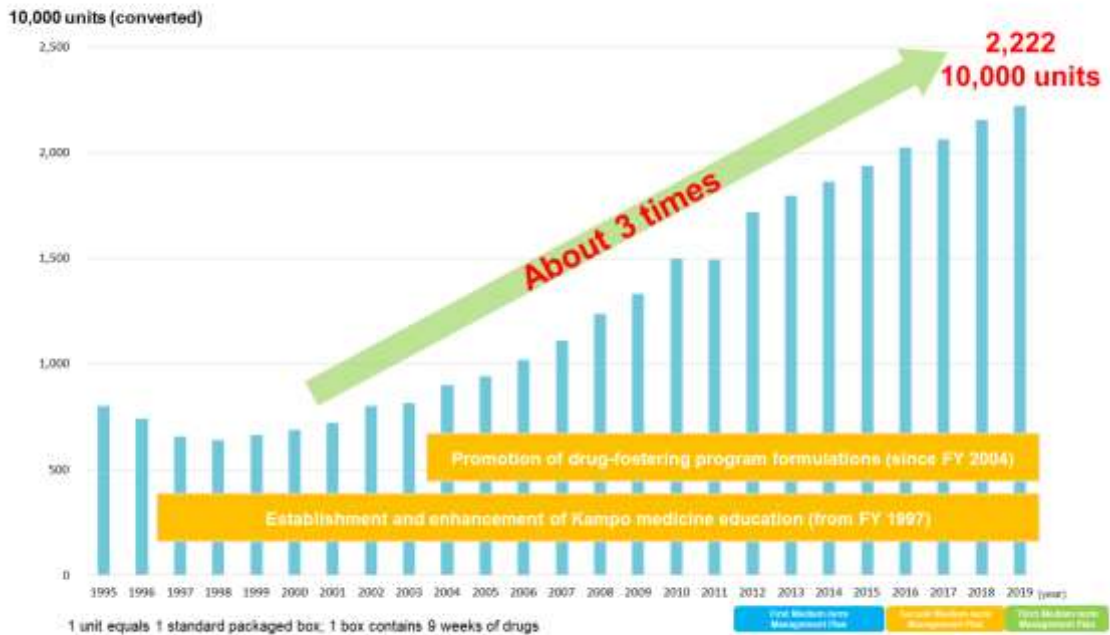
In the third medium-term management plan, as part of our goal to get one in two doctors to write Kampo prescriptions, we are aiming to increase the number doctors writing Kampo prescriptions by 24,000 in the third year of the plan.

In FY2019, we have increased our headcount by roughly 9,900 doctors, versus a target of 8,000.

In addition, as the three pillars of Kampo medicine education, we are implementing support activities for Kampo medicine education at universities, on-campus Kampo study groups, and Kampo outpatient clinics, among others.

Although it is a medium-to long-term theme, the measures being implemented in each area are progressing smoothly.

Sales of 129 prescriptions Kampo products



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The graph on this page shows the actual sales volume for the 129 prescriptions for Kampo products.

The volume has been converted so that 1 unit equals 1 standard packaged box.

The 22.22 million units sold in FY2019 is three times the 7.19 million units sold in 2001.

On a monetary basis, the growth appears moderate due to the NHI drug price revisions. This track record indicates that a large number of patients at many medical institutions are being prescribed and are using Kampo formulations.

It can be said that Kampo is an essential component of national healthcare.

Sales of prescription Kampo products (Drug-fostering and Growing formulations)

(million yen)

	Sales ranking	Product No./name		FY 2018	FY 2019	YoY	
Drug-fostering program formulations	1	100	Daikenchuto	10,430	10,357	(72)	(0.7)%
	2	54	Yokukansan	7,664	7,774	110	1.4%
	3	43	Rikkunshito	7,256	7,370	114	1.6%
	9	107	Goshajinkigan	3,625	3,603	-22	(0.6)%
	22	14	Hangeshashinto	1,350	1,390	39	3.0%
Total drug-fostering formulations				30,327	30,496	169	0.6%
Growing formulations	4	41	Hochuekkito	7,158	7,113	(45)	(0.6)%
	5	68	Shakuyakukanzoto	5,097	5,202	105	2.1%
	6	29	Bakumondoto	4,734	4,839	104	2.2%
	7	24	Kamishoyosan	4,539	4,598	59	1.3%
	8	17	Goreisan	4,124	4,491	367	8.9%
Total growing formulations				25,653	26,245	591	2.3%
Total sales for 119 prescriptions other than drug-fostering and growing prescription formulations				59,274	60,605	1,331	2.2%
Total sales for 129 prescription Kampo formulations				115,255	117,347	2,092	1.8%

Drug price revision rate for 129 formulations for prescription Kampo medicines

	October 2019	April 2020
NHI drug price revision rate	(1.8)%	(0.3)%

0% when factoring in consumption tax increase

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This page depicts sales of prescription Kampo products.

Sales of the 129 prescription Kampo products totaled ¥117,347 million, an increase of ¥2,992 million or 1.8% versus the previous fiscal year. Sales of the 5 drug fostering program formulations grew 0.6% to ¥30,496 million, and sales of the “growing” formulations rose 2.3% to ¥26,245 million.

The total sales for 119 prescriptions other than drug fostering and growing formulations grew 2.2%.

The NHI drug price revision rate in April 2020 was in the negative 0.3% range. The NHI drug price revision rate in October 2019 was in the negative 1.8% range. Consequently, from the April 2018 prices, there was an approximate impact to our drug prices at the negative 2.1% range.

We believe that reducing the NHI drug price revision rate to around 2% is the outcome of sales activities at a price that is appropriately commensurate with the value of Kampo.

Despite a tough pharmaceutical market, sales of the 129 prescription Kampo products achieved a 1.8% increase year-on-year. However, we believe that further growth is essential for Daikenchuto, Rikkunshito, and Yokukansan, which are drug-fostering program formulations.

Factors/measures for underperformance of Daikenchuto and Hochuekkito

Daikenchuto

[Key promotional points going forward]
Gastrointestinal hyperactivity

Expansion of
measures

Gastrointestinal hyperactivity
Plus efficacy in improving intestinal blood flow

Impact of briefing session measures

• University hospitals

Implementation of briefings: 98.8%

• Clinical training designated hospitals

Implementation of briefings: 77.5%

Measures for FY 2020

1. Market materializing owing to awareness-raising activities for efficacy in treating bloating
2. Approaches based on various mechanism of action of Daikenchuto, with the goal of fixing or extending the perioperative period

Gastrointestinal hyperactivity
Improve intestinal blood flow
Anti-inflammatory benefits
Effective in improving intestinal flora

Hochuekkito

1H: Bad summer weather

2H: Sales decline due to a lack of people catching colds



Strengthening medical approach
using Kampo

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This page shows the factors and measures for the underperformance of Daikenchuto and Hochuekkito sales, which were down substantially year-on-year.

From the second half, we planned to promote Daikenchuto owing to its efficacy in enhancing gastrointestinal hyperactivity, as well as its efficacy for improving intestinal blood flow. However, due to impact from a delay in briefing session measures, Daikenchuto sales decreased 0.7% from the previous year.

In this fiscal year, we will carry out awareness-raising activities regarding abdominal bloating, an efficacy of Daikenchuto, in an effort to increase the product's visibility in the market.

In addition, given the various mechanisms of action of Daikenchuto, which include gastrointestinal hyperactivity, improvement of intestinal blood flow, anti-inflammatory benefits and effectiveness in improving intestinal flora, we aim to promote understanding of the properties of Daikenchuto as a drug. Another goal for its use is to fix or extend the perioperative period.

Sales of Hochuekkito did not grow, shrinking 0.6% year-on-year due bad summer weather and a cold summer in the first half of the year, and a lack of people catching colds in the second half.

Progress of Yokukansan and Rikkunshito sales measures

Rikkunshito

Prescriptions	FY 2019	FY 2020	FY 2021
Rikkunshito	Targeting Measures ... Providing information using "DREAM Study" materials, etc.		
Hangeshashinto	Implement academic lectures focusing on gastroenterology Develop online and in-person lectures		
	Create materials based on new evidence → Dual promotion		
Further establish presence as a therapeutic drug for upper gastrointestinal tract infections			

*DREAM Study: A multi-facility, double-blind comparative study on the efficacy and safety of Rikkunshito for patients with functional dyspepsia.

Yokukansan

Yokukansan single promotion	Expansion of measures	Recommend prescribing for peripheral symptoms of dementia						
<p>■ Yokukansan</p> <p>Doctors providing support for dementia patients Receipt</p>	<p>■ Trends at facilities using Kampo</p> <table border="1"> <tr> <td>Facilities using 54 Yokukansan</td> <td>44,944 facilities</td> </tr> <tr> <td>Facilities using 108 ninjin'yoeito</td> <td>21,960 facilities</td> </tr> <tr> <td>Facilities using both Kampo products</td> <td>20,623 facilities</td> </tr> </table>	Facilities using 54 Yokukansan	44,944 facilities	Facilities using 108 ninjin'yoeito	21,960 facilities	Facilities using both Kampo products	20,623 facilities	<p>Successful activities and smooth trends. Continue to strengthen activities going forward</p>
Facilities using 54 Yokukansan	44,944 facilities							
Facilities using 108 ninjin'yoeito	21,960 facilities							
Facilities using both Kampo products	20,623 facilities							

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This page covers the progress of Yokukansan and Rikkunshito sales measures.

Out of the three drug-fostering program formulation, sales of Yokukansan and Rikkunshito were positive compared to the previous fiscal year. Details of sales activities for these formulations are as discussed earlier.

We made progress with various measures carried out for Rikkunshito to further establish its presence as a therapeutic drug for upper gastrointestinal tract infections.

We plan to enhance these measures in FY2020.

We expanded measures to promote Yokukansan as a therapeutic drug for treating peripheral symptoms of dementia, expanding from a single promotion.

We are implementing activities to get dementia support doctors to accept the use of Yokukansan, and encouraging facilities that use Yokukansan to adopt the use of ninjin'yoeito. Consequently, the total prescriptions of Yokukansan and ninjin'yoeito increased by 4.7% from the previous year.

FY 2019 e-Promotion Implementation Trends

Kampo Mega Web Lecture

Theme	Speaker	Date held	Number of viewers
"Kampo is a must for clinicians"	Dr. Masanori Niimi (Teikyo University, School of Medicine)	2019. 9.25	17,878 people
"Managing Kampo Extracts"	Dr. Masanori Niimi (Teikyo University, School of Medicine)	2019.12.16	18,855 people
"Acute respiratory tract infections and Kampo"	Dr. Shigeki Nabeshima (Fukuoka University, School of Medicine)	2020. 3.23	17,354 people

Other e-promotions

Delivery format	Number of times held	Total views
One-point video delivery	4 times	58,196 people
Web seminar (attract to venue)	5 times	11,295 people

E-promotions, including web lectures, make it possible to approach to unmet physicians, and have been effective as a channel for providing information.

Even in FY 2020, we plan to promote e-promotions that aim to have synergistic benefits with MR activities.

The following is the status of e-promotion in FY2019.

In FY2019, we held three Kampo Mega Web lectures, delivered one-point videos four times, and held five on-site customer-oriented web seminars.

E-promotion, including web lectures, is a very effective method as a channel for providing information, as it makes it possible to approach unmet physicians.

In FY 2020 as well, we plan to promote e-promotions that aim to have synergistic benefits with MR activities.

FY 2020 Activities to Disseminate Information

Priority Issues	Themes to be implemented
e-promotion	Implementation of new access, including web lectures and online interviews ➔ Realize optimal communication that maximizes MR activities
Area activities	Provide detailed information that takes into consideration features of the region and facility ➔ To respond to the needs of doctors who want to learn about Kampo, Hold an area plan, including "Introductory Seminar on Kampo"

In addition to face-to-face activities to fulfill information needs on Kampo, we aim to continually expand the Kampo market by implementing activities to disseminate information, including e-promotions.

*In consideration of the conditions caused by COVID-19, we aim to flexibly carry out plans to address needs.

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This page outlines activities for disseminating information in FY2020.

In FY2019, many physicians watched the web lectures. We aim to continue to strengthen our e-promotion planning.

Given the current environment, where MRs are refraining from making visits due to the impact of COVID-19, going forward, we plan to achieve optimal communication, by maximizing the benefit of MR activities.

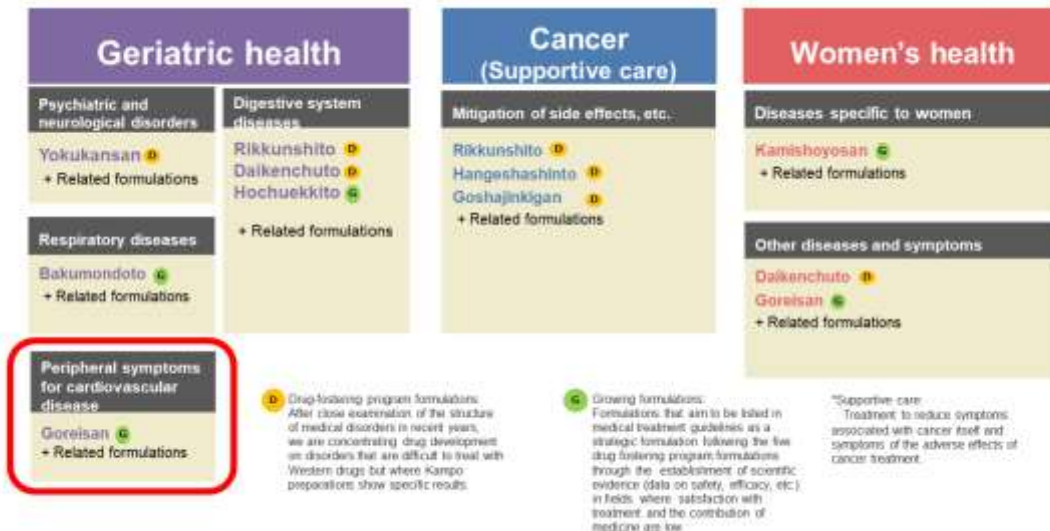
We will search for new access methods, including online interviews.

We plan to implement area planning that will respond to the needs of physicians that want to learn about Kampo.

As an area activity, we will provide detailed information taking into consideration characteristics and features of the region and facilities.

Sales Measures

- Position healthcare for the geriatrics, cancer (supportive care*) and women's health as our three key domains and focus our activities in these domains
- Deploy a sales approach that entails prescriptions in these three key domains plus drug-fostering program formulations and growing formulations



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This page covers sales measures included in the third medium-term management plan.

As you can see, we are undertaking the deployment of sales approaches related to drug fostering program formulations, growing formulations and the three key domains, so that they can be helpful in treating the diseases and domains shown here.

This time around, in the domain of geriatric healthcare, we will focus on the benefits for peripheral symptoms of cardiovascular diseases, mainly the use of Goreisan, a growing formulation.

Details of Today's Briefing

(1) Initiatives to Tackle COVID-19

(2) ESG Management & Sustainability Vision

(3) China Business Update

(4) FY2019 Business Results

(5) FY2020 Forecast

FY 2020 Forecast

(million yen)

	FY 2019 results	FY 2020 forecast	Vs. FY 2019	
			Amount	Growth
Net sales	123,248	132,000	8,751	7.1%
Operating profit	18,876	17,000	(1,876)	(9.9)%
Operating profit margin	15.3%	12.9%	—	—
Ordinary profit	19,649	17,900	(1,749)	(8.9)%
Profit attributable to owners of parent	13,765	13,000	(765)	(5.6)%

Main breakdown of negative factors impacting operating profit

Increase in R&D expenses (including carry-over portion from FY 2019)	1.23 billion yen	
Increase in SG & A expenses associated with the consolidation of China Medico Technology	1.15 billion yen	
Amortization of goodwill associated with consolidation of China Medico Technology	0.6 billion yen	Total: 2.98 billion yen

Tianjin Medico FY 2019 results

Sales	16.6 billion yen
Gross profit	3.9 billion yen
Operating profit	2.7 billion yen

*FY 2020 profit is eliminated as unrealized profit.

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We forecast net sales of ¥132 billion in FY2020.

We also target operating profit of ¥17 billion, ordinary profit of ¥ 17.9 billion, and profit attributable to owners of parent of ¥ 13 billion.

The main factors likely to negatively impact operating profit are an increase of R&D cost of ¥1.23 billion to strengthen key fields in R&D, including the carry-over portion of cost from FY2019, an increase of SG&A expenses of ¥1.15 billion due to the consolidation of Tianjin China Medico Technology, and ¥600 million for related goodwill amortization.

Meanwhile, profit from internal transactions with China Medico Technology in FY2020 are expected to be fully written off as unrealized gain.

Subsequently, contribution from China Medico Technology profits is expected to be posted in or after FY2021.

FY 2020 Forecast

(million yen)

	FY 2019 results	FY 2020 forecast	Vs. FY 2019	
			Amount	Growth
Net sales	123,248	132,000	8,751	7.1%
Operating profit	18,876	17,000	(1,876)	(9.9)%
Operating profit margin	15.3%	12.9%	—	—
Ordinary profit	19,649	17,900	(1,749)	(8.9)%
Profit attributable to owners of parent	13,765	13,000	(765)	(5.6)%

	Fiscal 2019 results	Fiscal 2020 forecast
Dividend (per share)	¥64	¥64
EPS	179.96 yen	169.92 yen
ROE	6.8%	6.2%

Impact of COVID-19

The impact of COVID-19 is not reflected in the above forecast as it is difficult to accurately predict the timing of COVID-19 will peak out. Assuming the peak for COVID-19 is from April to June, after which is gradually continues to dissipate, we estimate a negative impact to sales of 2% to 4%. However, should it be prolonged, we will make timely and appropriate disclosure in line with changes in the situation.

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The planned annual dividend is ¥64 per share.
EPS is expected to be ¥169.92 and ROE 6.2%.

Note that at this stage, it is difficult to accurately predict when COVID-19 will end, therefore the above forecasts do not reflect the impact of COVID-19.

Assuming the peak for COVID-19 is from April to June, after which it gradually continues to dissipate, we estimate a negative impact to sales of 2% to 4%.

However, should it be prolonged, we will make timely and appropriate disclosure in line with changes in the situation.

Policy on Return of Profits to Shareholders

- 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

Dividend



Note: The year-end dividend and dividend payout ratio for FY2019 are based on the assumption that the dividend item will be approved at the 84th annual shareholders' meeting

This page covers return of profits to shareholders.

We plan to pay a year-end dividend of ¥32. This will put the full-year dividend payout at ¥64, including the interim dividend of ¥32.

The dividend payout ratio for FY2020 is expected to be 37.7%, based on the earnings forecast mentioned earlier.

We will continue to strive to improve corporate value through continued expansion of the Kampo business, and growth investment in and the building of foundation for China business.

At the same time, taking into account mid-to long-term profit levels and cash flow, we aim to continue to payout a stable dividend and make headway in our management of Tsumura.

Inquiries about this material

TSUMURA & CO.**Corporate Communications Department****PR Group****TEL: 03-6361-7100****IR Group****TEL: 03-6361-7101****Cautionary items regarding forecasts**

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