

First Quarter Business Results for Fiscal Year 2020 Conference Call

August 6, 2020 (Thursday)

TSUMURA & CO.

Muneki Handa

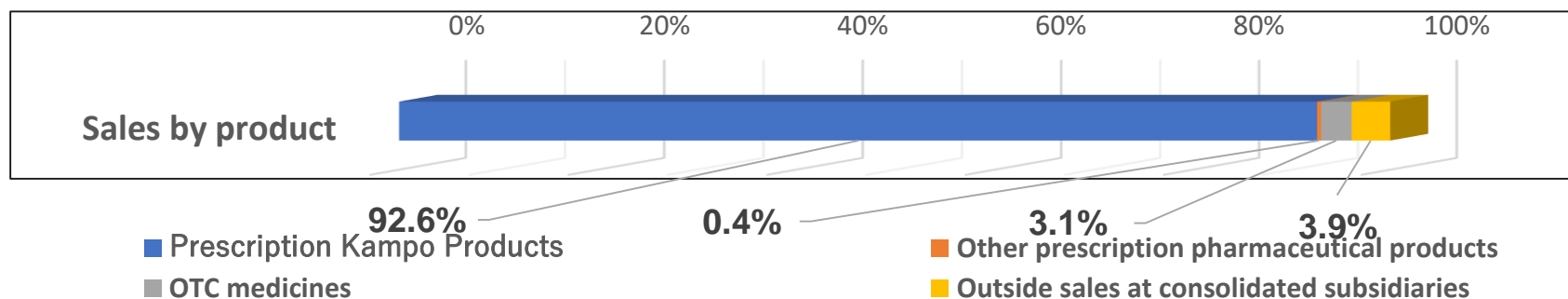
Director,

Managing Executive Officer and CFO

Summary of 1Q FY 2020 Consolidated Performance

(million yen)

	1Q FY 2020	1Q FY 2019	Vs. 1Q FY 2019		1H FY 2020 plan
			Amount	Change	
Net sales	31,768	30,699	1,068	3.5%	64,200
Operating profit (Operating profit margin)	5,732 (18.0%)	5,230 (17.0%)	502	9.6%	9,100
Ordinary profit	5,750	5,401	348	6.5%	9,400
Profit attributable to owners of parent	4,045	3,903	141	3.6%	6,800



Key Points in Performance

Net sales and profit were up year-on-year.

(million yen)

Net sales	31,768 million yen	YoY	+3.5%
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- Net sales rose 3.5% year-on-year reflecting a newly consolidated subsidiary in China.
- Net sales of the 129 prescription Kampo products decreased 0.2% year-on-year.
- Net sales of OTC medicines increased 37.4% year-on-year.

Operating profit	5,732 million yen	YoY	+9.6%
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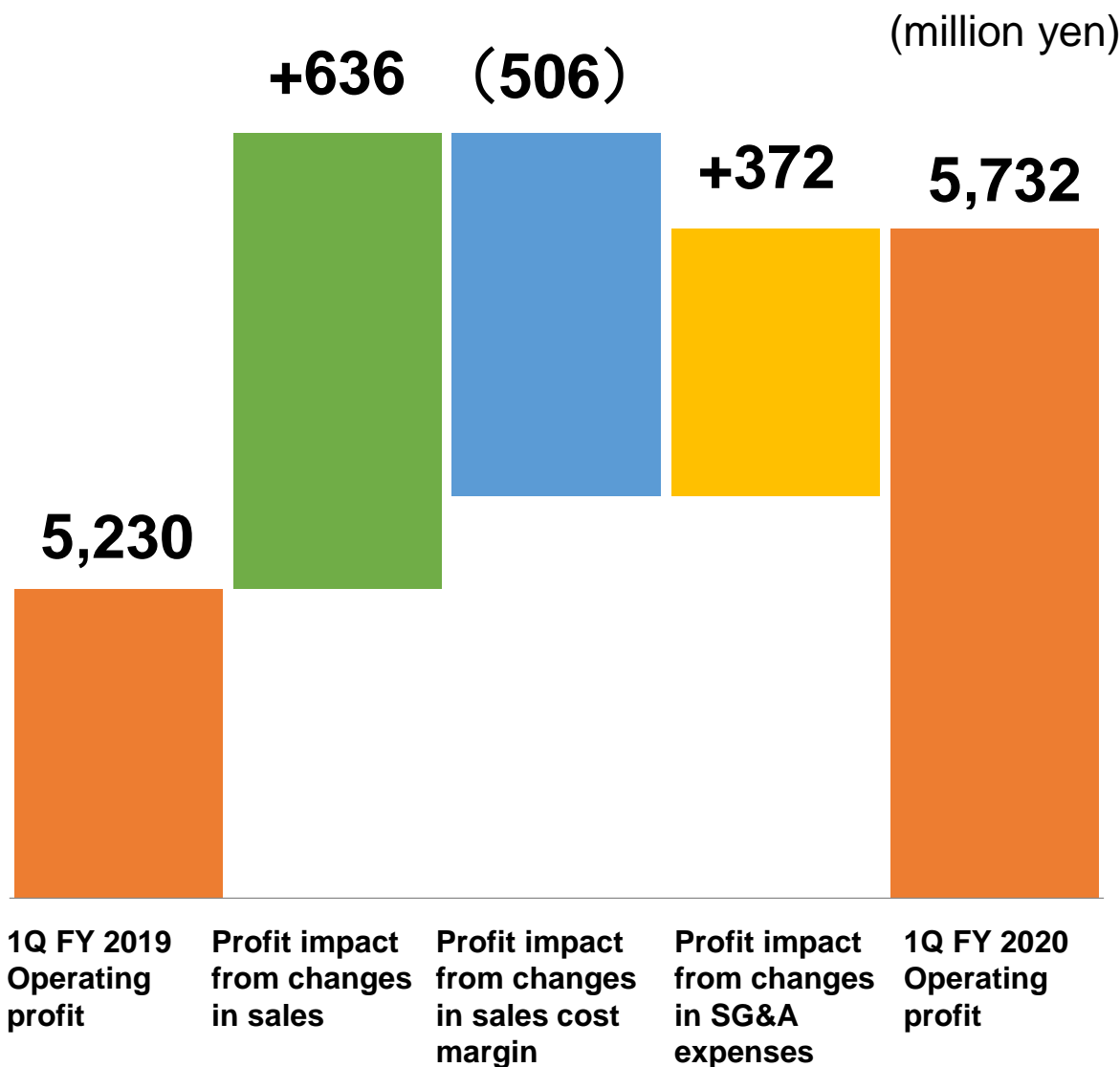
Operating profit margin	18.0 %	YoY	+1.0pt
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- The cost-to-sales ratio stood at 42.1%, up 1.6pt year-on-year. Although crude drug-related costs offset a rise triggered by the NHI drug price revision, the cost-to-sales ratio deteriorated due to negative impact from an increase in outside sales at subsidiaries.
- The SG&A ratio was 39.9%, down 2.6pt versus a year earlier, mainly reflecting unused expenses in tandem with the self-restraint of activities due to the spread of COVID-19.

Ordinary profit	5,750 million yen	YoY	+6.5%
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Profit attributable to owners of parent	4,045 million yen	YoY	+3.6%
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Factor for changes to Operating Profit (YoY comparison)



Profit impact from changes in sales cost margin

Category	Value (million yen)
Sales composition	(254)
Crude drug cost	(62)
Processing cost	191
Increase in outside sales	(381)

Profit impact from changes in SG&A expenses

Category	Value
Sales-related expenses	99
R&D expenses	28
Personnel expenses	22
Other	223

Financial Condition/Cash Flow Position

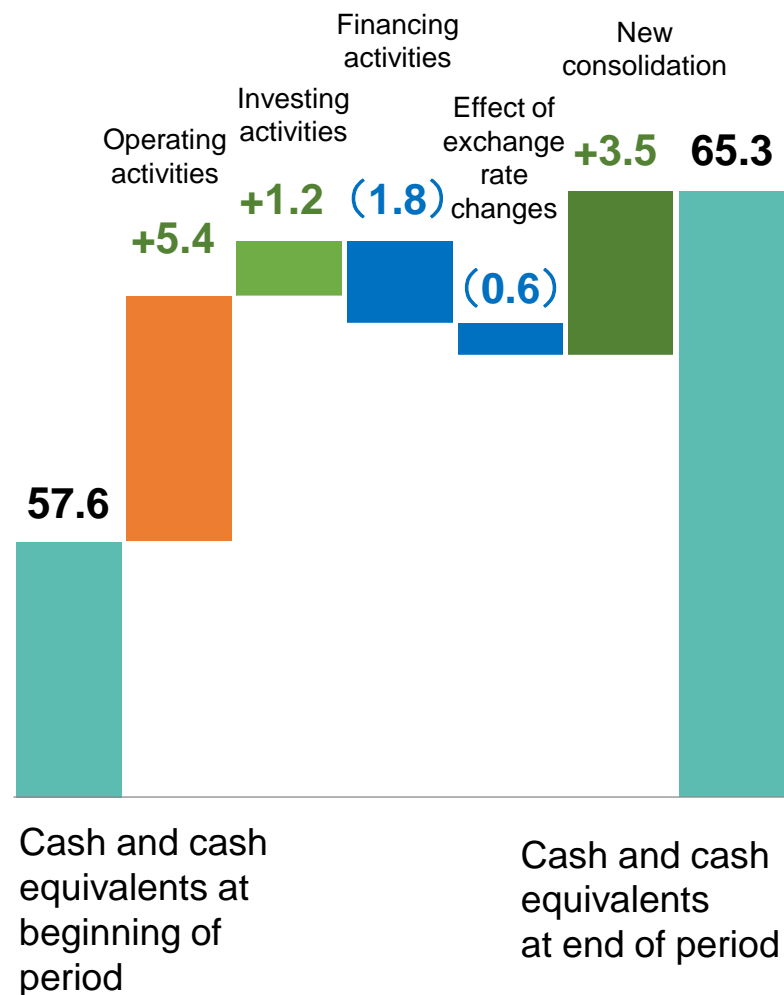
(million yen)

(billion yen)

	FY 2019 (3/2020)	1Q FY 2020	Change
Total assets	311,042	312,668	1,625
Current assets	194,288	201,075	6,786
Non-current assets	116,753	111,592	(5,160)
Total liabilities	97,993	100,268	2,275
Current liabilities	48,476	50,953	2,477
Non-current liabilities	49,516	49,314	(202)
Total net assets	213,048	212,399	(649)

Equity Ratio	66.0%	65.7%	(0.3)pt
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	FY 2019 (3/2020)	1Q FY 2020	Change
Inventories	73,310	75,163	1,852
(Merchandise and finished goods)	10,338	10,456	118
(Work in process)	12,418	14,204	1,785
(Raw materials and stores)	50,553	50,502	(50)



Roadmap for the Realization of the Long-term Management Vision

2018

2019



2021

2022



Third Medium-Term Management Plan

Growth investment

Consolidated net sales
Over **135.0**bn yen

Rapid Progress

China business vision for 2027
Overseas sales ratio
Over **50%**

Sustainably expanding the Kampo market

Building foundations for the China business

Consolidated net sales
120.9bn yen

FY 2020 consolidated net sales forecast
132.0bn yen

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

Domestic business

● **Establish Kampo medicine business**

Having one in every two doctors writing over 10 Kampo prescriptions

China business

● **Contribute to health of China's citizens**

Becoming the most trusted Chinese medicine company in China

Strategic issues

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

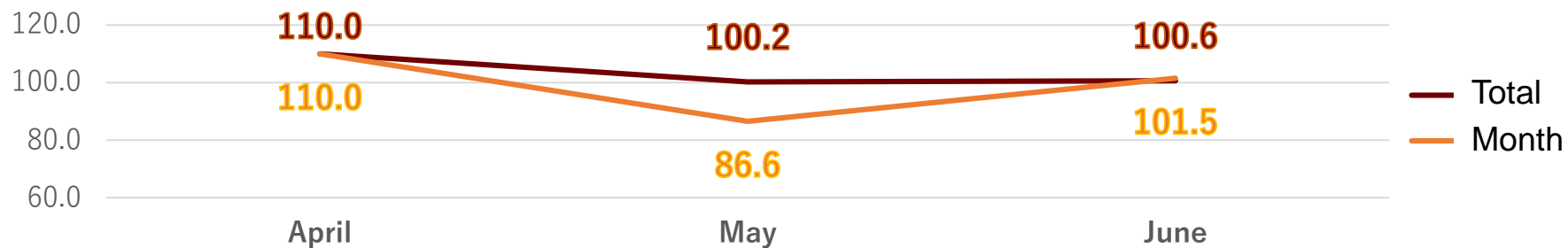
Sales of prescription Kampo products (Drug-fostering and Growing formulations)

(million yen)

	Sales ranking	Product No./name		1Q FY 2019	1Q FY 2020	YoY	
Drug-fostering program formulations	1	100	Daikenchuto	2,662	2,664	2	0.1%
	2	54	Yokukansan	1,995	1,987	(8)	(0.4)%
	3	43	Rikkunshito	1,872	1,860	(12)	(0.7)%
	9	107	Goshajinkigan	936	916	(19)	(2.1)%
	22	14	Hangeshashinto	364	350	(14)	(3.9)%
Total drug-fostering program formulations				7,831	7,779	(52)	(0.7)%
Growing formulations	4	41	Hochuekkito	1,761	1,972	211	12.0%
	5	68	Shakuyakukanzoto	1,340	1,263	(76)	(5.7)%
	6	29	Bakumondoto	1,188	906	(281)	(23.7)%
	7	24	Kamishoyosan	1,165	1,164	(0)	(0.1)%
	8	17	Goreisan	1,118	1,152	34	3.1%
Total growing formulations				6,574	6,461	(113)	(1.7)%
Total sales for 119 prescriptions other than drug-fostering and growing prescription formulations				15,073	15,168	94	0.6%
Total sales for 129 prescription Kampo formulations				29,480	29,408	(71)	(0.2)%

COVID-19 Impact

■ FY 2020 Monthly Shipments



■ 1Q FY 2020 Sales Growth YoY by Sales Channel (actual)



■ Sales (Shipments) YoY for prescriptions mentioned in the “Concept of Kampo treatments for COVID-19” (special contribution)

(million yen)

	2019-1Q	2020-1Q	YoY	
Kakkonto	754	879	124	+16.5%
Hochuekkito	1,761	1,972	211	+12.0%

* source : The Japanese Association for Infectious Diseases

Kampo Mega Web Lectures

Kampo Mega Web lectures mainly target doctors that write 10 or less Kampo prescriptions and doctors that do not write Kampo prescriptions

Theme	Prescription	Lecturer	Date	No. of viewers
FY 2019				
Kampo is a MUST for Clinical Physicians	Shakuyakukanzoto, Hochuekkito, etc.	Dr. Masanori Niimi (School of Medicine, Teikyo University)	Sept. 25, 2019	17,878
Mastering Kampo Extracts	Maobushisaishinto, Kakkonto, etc.	Dr. Masanori Niimi (School of Medicine, Teikyo University)	Dec. 16, 2019	18,855
Acute respiratory tract infection & Kampo	Maoto, Bakumondoto, etc.	Dr. Shigeki Nabeshima (School of Medicine, Fukuoka University)	Mar. 23, 2020	17,354
FY 2020				
Easy-to-understand Kampo mainly for colds, dizziness and stress	Maobushisaishinto, Ryoikeijutsukanto, etc.	Dr. Sadahiro Senpuku (Senpuku CL)	Apr. 23, 2020	23,917
Support and application of Kampo for acute febrile disease Diagnosing the common cold today	Maoto, Saikokeishikankyoto, etc.	Dr. Shin Takayama (Tohoku University)	Jun. 8, 2020	19,639
Using Kampo to deal with changes in the external environment (summer/stress)	Seishoekkito, Hochuekkito, etc.	Dr. Shuji Ono (Ono Clinic)	Jun. 25, 2020	20,306
Evidence of Kampo treatment derived from guidelines—Mainly for functional gastrointestinal disorders—	Rikkunshito, Daikenchuto, etc.	Dr. Noriaki Manabe (Kawasaki Medical School)	Jul. 2, 2020	2,0729
Kampo Lesson Heat stroke/summer fatigue	Goreisan, Seishoekkito, Hochuekkito	Dr. Shuji Ono, Supervisor (Ono Clinic)	July 3-Sep. 30, 2020 On-demand streaming	-

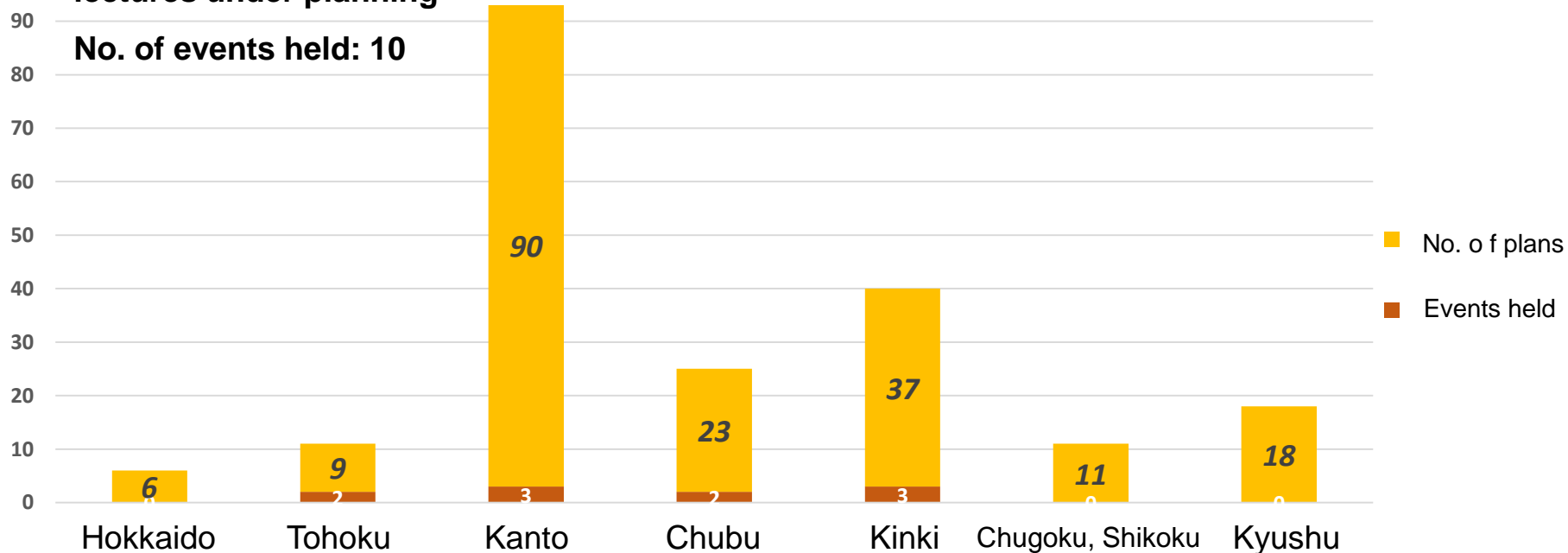
Status of Area Online Lecture Planning

Area activities : Provide detailed information taking into account regional features and facilities
→Held area events, including an “introductory seminar on Kampo medicine after graduation” to respond to the needs of doctors that want to learn about Kampo

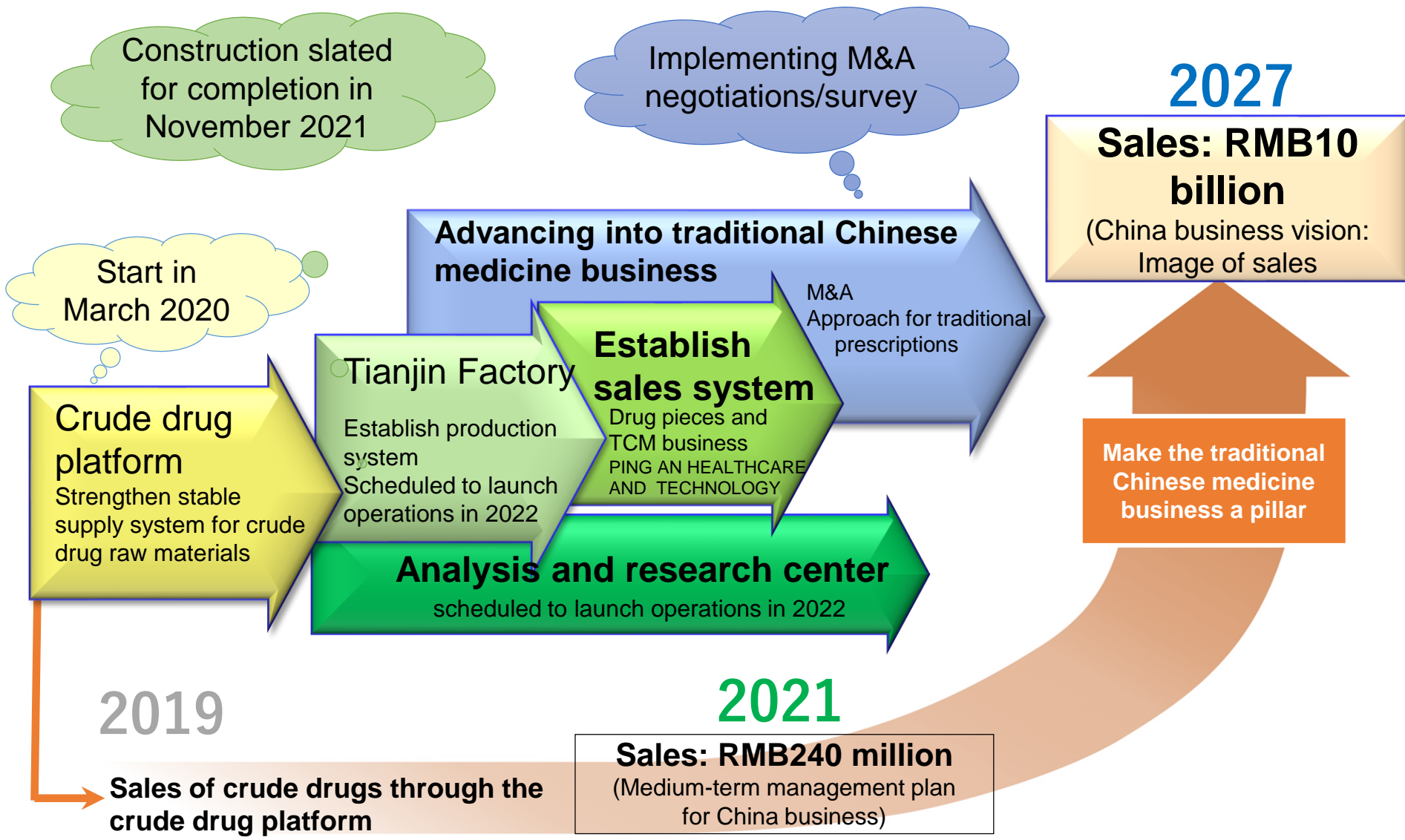
□ **Holding Case: Video distribution by lecturers who are close-knit to each respective region at branch offices**

An 8-part lecture on Kampo (1st time ⇒ 274 people, 2nd time ⇒ 330 people)

Area online lectures held via video-streaming companies that operate on a nationwide scale → 194 lectures under planning



Framework for Building Foundations for the China Business (Progress Status)



FY 2020 Forecast

(million yen)

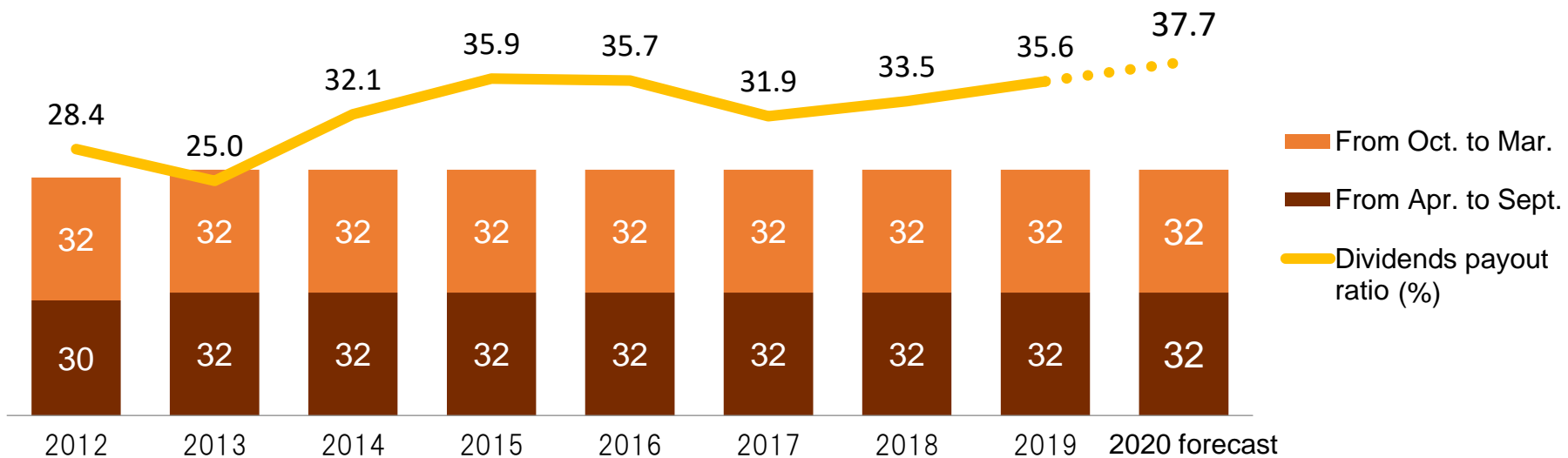
	FY 2019 results	FY 2020 forecast	Vs. FY 2019	
			Amount	Growth
Net sales	123,248	132,000	8,751	7.1%
Operating profit	18,876	17,000	(1,876)	(9.9)%
Operating profit margin	15.3%	12.9%	—	—
Ordinary profit	19,649	17,900	(1,749)	(8.9)%
Profit attributable to owners of parent	13,765	13,000	(765)	(5.6)%

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

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, 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.

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



Inquiries about this material

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