

Financial Briefing (for Analysts and Institutional Investors)

13:00-13:49, August 6, 2021

<Q&A Summary>

Q. In 1Q, sales in the China Business were within the range of expectations. In the domestic business, sales appeared to have outperformed forecasts. Please provide a summary of your earnings performance and expenses.

A. Sales in China are progressing smoothly versus our forecast of 8.8 billion yen. Sales in Japan are trending briskly reflecting the growth capacity of the market for prescription Kampo products. This is underpinned not only by an increase in prescription opportunities for Kampo medicines to treat COVID-19 related symptoms but also benefits from the penetration of new information provision activities via e-promotions, including online lectures.

Expenses are in line with budget. Meanwhile, there is a slight delay in R&D expenses due to impact from COVID-19, but we plan to resolve this within FY 2021.

Q. In the China Business, I understand you were previously in M&A negotiations with several companies. What is the current status of these talks? Have negotiations reached a bottleneck?

A. We are carrying out M&A negotiations with several companies. In-depth talks, including on business schemes to further leverage the strengths of both parties through M&A, are taking time. However, this is not a bottleneck.

Q. In the process of negotiations with multiple companies, is there a possibility that M&A will be carried out simultaneously with 2 or 3 companies?

A. The possibility of conducting M&A with several companies does exist as we are not narrowing down our M&A to one company. In the event we carry out M&A with more than one company, we plan to prioritize these M&A deals, and conduct them in line with the degree of priority, as opposed to doing them all at once.

Q. What are raw material crude drug market and procurement conditions like in China? Also, are you undertaking measures to alleviate impact from changes in market trends and to mitigate procurement risks?

A. The crude drug platform business, which includes raw material crude drugs, is making smooth progress. There have also been no major changes in the market environment. As we announced on our website the other day, we experienced some negative impact to the cultivation and procurement of crude drugs due to damage from the torrential rains that hit Liaoning Province, China in July 2021. However, since we hedged our risks, including maintaining multiple cultivation areas, there was no major impact to the cultivation and procurement of raw material crude drugs.

Q. Demand for Kampo medicine is rising but is the range of demand expanding? Assuming this horizon is expanding, do you forecast a continuity in demand when COVID-19 winds down?

A. Prescription opportunities are rising for various symptoms related mainly to skin diseases and mental disorders arising due to impact from COVID-19. As for continuity after COVID-19 winds down, we believe there is a likelihood of an impact to sales of Kampo to treat skin diseases in the event fewer people wear masks. However, we believe prescriptions for Kampo to treat mental disorders is likely to continue accordingly. Recently, the number of doctors newly prescribing Kampo is increasing reflecting information provision activities, including e-promotions. Even if COVID-19 winds down, we estimate prescription opportunities will continue to increase.

Q. Going forward, outside of women's health and geriatric health, in what areas of disease do you expect prescription opportunities to increase?

A. In our three important domains of geriatric health, cancer (supportive care) and women's health, we forecast ongoing growth owing to a high level of medical care needs. In the treatment of other types of disorders, Goreisan, which, for instance, is being prescribed for dizziness, is being widely prescribed for use in treatments other than COVID-19 related symptoms, including for cardiovascular disorders, an area being focused on as a sales activity, and also to treat headaches caused by irregular weather conditions.

Q. Goreisan, which is the largest contributor to sales, was not included in the 560 million yen contribution to sales from Kampo used to treat COVID-19 related symptoms. What was the impact to Goreisan sales reflecting COVID-19?

A. We are unable to clearly divide the impact to Goreisan from COVID-19 and the impact from other factors. The growth in sales of Goreisan has been substantially impacted thus far by continued activities carried out as sales measures, mainly in the field of cardiovascular disorders.

Q. In and after 2Q, what changes will you experience in prescription opportunities for Kampo in the treatment of mental disorders, skin diseases and dizziness?

A. Although this will differ depending on the COVID-19 related symptom, assuming a decline in the number of people wearing masks, there is a possibility that prescription opportunities will decrease for the use of Kampo to treat skin disorders. Consequently, their growth curve will not be the same versus the previous fiscal year. Meanwhile, the number of patients suffering from mental disorders or dizziness is expected to increase moving forward. In light of this, we can anticipate a different growth curve in comparison with that for prescriptions for skin disorders. In addition, supplements are Kampo medicines that are used post illness therefore they are prescribed for post-COVID-19 symptoms. The number of COVID-19 patients is increasing so we anticipate prescription opportunities will also increase.

Q. Although sales are growing, your gross profit dipped 0.8pt. Is this due to impact from the cost-to-sales ratio in the China Business?

A. There are multiple factors. In the China Business, the main factor is the high cost-to-sales ratio on raw material crude drugs, which are a pillar in the crude drug platform. We are also pouring energies into high value-added products. We aim to boost the ratio of these products as we move forward.

Q. In 1Q alone, Tsumura achieved 53.5% of its 1H sales target and 70.7% of its 1H operating profit target. My impression is that earnings will improve further in 2Q. What is your outlook for performance?

A. In the domestic business, a potential risk factor is impact to economic activities from another wave of COVID-19. Expenses will mainly be reallocated to new types of information provision activities such as e-promotions. Should we determine there is a gap with the outlook we announced, we will revise our earnings forecast in a timely and proper manner.

Q. In previous fiscal years, Tsumura underperformed its sales plans but in many cases cleared profit plans owing to lower-than-planned spending. In 1Q, you reviewed your expenses and it appears that sales grew owing to measures that were implemented. Has management changed its mindset on how it views profit structure?

A. Contributions in FY 2021 reflect benefits from measures, including reforms, implemented thus far, such as the revision of our expense budget. The impact from COVID-19 has brought about substantial change to our business structure. The ideal for earnings and the method we use to put together our budget has changed. We are putting in place a system that will reasonably allocate expenses in line with business progress. We aim to continue to improve our topline and secure profit.

Q. In the China Business, which mainly consists of the acquired Ping An Tsumura Pharmaceutical (former Tianjin China Medico Technology), earnings are progressing in line with plans. For instance, one example is that sales are growing along sales channels to hospitals. Can you provide specifics on the factors underpinning this sales growth?

A. At present, we are growing sales primarily by expanding sales to traditional Chinese medical product manufacturers through Ping An Tsumura Pharmaceutical (former Tianjin China Medico Technology), which serves as a sales channel. Sales activities directed at major hospitals is a major theme for Tsumura. We aim to push forward with the development of sales channels.

Q. Do you plan to hold a presentation on the China Business in FY 2021?

A. We are planning to hold a presentation on our China Business, when the timing is right for showing the degree at which this business is growing.

Q. In the domestic business, I believe earnings are reflecting benefits from e-promotions. However, do you plan to undertake new measures going forward?

A. As we have done thus far, we plan to deploy e-promotions in various formats. We are also looking to enhance e-promotions, including the online lectures and through video content, on our website for medical practitioners, which was renewed in April 2021. In FY 2021, to address a wide range of medical needs, we also plan to effectively deploy strategies through e-promotions in each area carried out thus far. Also, we are planning to introduce a system to interactively exchange information with doctors.

Q. Regarding regulatory trends in China, are there signs that both positive and negative changes will occur?

A. In various industries, we recognize restrictions by regulatory authorities in China to be the most significant risk factor. In August 2016, the State Council of the People's Republic of China established an outline for the Healthy China 2030 Plan. In 2020, the government indicated it would ease up on regulatory applications for classical prescription Chinese medicines. At this stage, we do not view the government's intentions, in line with changes in healthcare economics in China, to be negative.

[Important points]

The details in these materials were not transcribed as is from the Q&A session at our financial results briefing. Taking the purpose of these materials into account, this is an abridged version.