

Financial Briefing for 3Q Results

13:00-13:45, February 7, 2022

<Q&A Summary>

Q.

In China, purchasing is also being centralized for traditional Chinese medical products, in accordance with medical care policies. What do you believe should be focused upon in particular to accelerate entry into market in China? Also, there are not many drug pieces being sold to hospitals. Does this mean the impact of centralized purchasing is minimal?

A.

We are focusing on medical care policy trends in China. Central purchasing is the purchasing system for pharmaceuticals at public hospitals. In light of this, there is no major impact to the crude drug platform, which consists mainly of sales of raw material crude drugs. Given that we are planning to expand sales channels to hospitals for drug pieces further out, we cannot say there will be no impact from central purchasing. However, as the formulation platform consists mainly of OTC product sales, there will be little-to-no impact from central purchasing.

Q.

Given the rise in price pressures on traditional Chinese medical products due to central purchasing, going forward do you believe there is a risk this will also have a ripple effect on the selling price of crude drugs?

A.

Price pressure is a trend that should be focused on as a business, not only for centralized purchasing. We aim to pursue value with high quality crude drugs (drug pieces) and secure an appropriate level of profits.

Q.

What is the proper ratio for MR activities to e-promotions going forward?

A.

We cannot comment on this ratio at this point. The goal is not to raise the ratio. We are aiming to adequately providing information to around 330,000 clinical physicians.

Q.

The goal is to increase e-promotions but what are your plans mainly for reducing expenses overall and to enhance efficiency?

A.

At present, the portion of expense that cannot be allocated to activities due to the impact of COVID-19 is being distributed to investment in digital technologies. Given the limited outlays for e-promotions, we can improve efficiency from the point of providing information to many physicians at any time.

Q.

Prescription opportunities are increasing for the treatment of dizziness due to COVID-19. Why is the amount of positive impact to Goreisan not included?

A.

Goreisan is widely used not only to treat dizziness but also to treat edemas in the field of cardiology. In light of this, this was excluded from the calculation of the amount of impact.

Q.

Are sales of Kamishoyosan increasing owing to prescriptions to treat the after effects of COVID-19?

A.

Based on our analysis, the growth factors for Kamishoyosan include prescriptions for COVID-19 anxiety and malaise due to changes in the external environment, and also ongoing information provision activities in the women's health domain.

Q.

In the event that the medical expense burden for later-stage elderly patients aged 75 or older rises to 20%, how should the impact to sales be viewed?

A.

We do not believe there will be a substantial impact to prescription Kampo products.

Q.

Is the growth rate for sales to hospitals (HP) underperforming that for the pharmaceutical market due to impact from visitation restrictions? Or is this due to a lack of information provision activities via e-promotions?

A.

There is still impact on MR activities due to hospital visitation restrictions. However, I believe we have expanded and deepened our activities by strengthening e-promotions. Given prices are calculated based on NHI drug prices on page 6 of these presentation materials, should the purchasing volume of high-price pharmaceuticals (anti-cancer drugs, etc.) at hospitals increase, the gap in the growth rate with low-priced Kampo drugs will appear to expand.

Q.

What is the breakdown for prescription Kampo products sales to GPs and HPs?

A.

Sales of prescription Kampo products to general practitioners (GPs) remains largely unchanged at around 80%.

Q.

Foreign exchange gain of ¥1.4 billion contributed to non-operating income. However, is this gain due to reversal to the valuation of loans to subsidiaries in China? Also, what was the impact to cost of goods sold from foreign exchange fluctuations?

A.

The foreign exchanges gain to non-operating income mainly reflects the re-evaluation of loans to subsidiaries in China from the parent. There was no substantial impact from forex forward contracts to cost of goods sold.

Q.

The depreciation in the value of the yen and appreciation of the yuan's value is forecast to continue but at present is it okay to recognize that there will be no major impact to cost of goods sold?

A.

At present, there is no substantial impact but there is a possibility of gradual impact to cost of goods sold in the medium term.

Q.

I understand that the price of raw material crude drugs is rising in China but can you provide details on market trends?

A.

Prices are rising for some items but declining for others. As an initiative to stabilize crude drug prices and quality, we have put a system in place that is less susceptible to direct impact from market prices as a result of proprietarily managed fields.

Q.

Has your forecast for investment returns changed since the time you implemented a 10% capital increase in the Ping An Insurance Group in China via a third-party allocation? In addition, is it feasible to evaluate that there was really a 10% dilution in the value of shares given the significant fluctuation in the external environment in China?

A.

At this time, it is difficult to measure the value of fundraising through dilution. In the crude drug platform in the China Business, we forecast sales in the China Business of ¥9.7 billion in the full fiscal year. The business is growing faster than expected. Meanwhile, in the formulation platform, we continue to aim to grow our business by realizing M&A deals. In light of this, we do not believe that we should give evaluation at this stage.

Q.

Will the March vision presentation and the next Medium-term Management Plan reveal, to a certain extent, the direction of M&A and profit contribution in the China Business?

A.

We plan to present a long-term vision and ideas/concepts, rather than detailed numeric targets at the March vision presentation.

Q.

The precision of briefings for the China Business is becoming murky in contrast with presentations for the domestic business. It would be great if you could provide a presentation that would provide a clue as to what is currently happening so that we can forecast earnings for Tsumura. Given there is a substantial gap between the internal sentiments and sense of value about the China Business versus views on conditions from external sources, it would be great if you could make improvements, mainly through IR events.

A.

We will aim to provide a more detailed presentation to improve your understanding of the China Business.

Q.

Do you have any information on the background and obstacles hindering the progress in M&A in the China Business?

A.

I cannot give any details on progress given there are M&A partners involved. We are not simply looking to carry out M&A in which we put a company under our auspices. It is crucial we find a partner with which we can anticipate synergies. This type of consideration takes time.

Q.

Have your M&A negotiation partners changed in the recent few years or are you continuing negotiations with the same few companies?

A.

There are some companies we are continuing negotiations with and also some new companies we are negotiating with.

Q.

Can you provide your earnings target for the overseas business? A qualitative one is fine.

A.

You can estimate this based on results form an increase in operating profit of ¥1,692 million in tandem with a rise in overseas sales and a rise in cost of goods sold of ¥958 million owing to a climb in external sales in China.

Q.

Will you hold a briefing for the new Medium-term Management Plan at the vision briefing scheduled for March 29?

A.

We plan to present details on the new Medium-term Management Plan at the FY 2021 financial briefing in May.

[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.