Business Results for FY2021 & New Medium-Term Management Plan
12:45-14:00, May 11, 2022
<Q&A Summary>

Q.
What was operating profit in the China Business in fiscal 2021? Also, how do you envisage operating profit in the China Business in fiscal 2024, the final fiscal year of the Medium-Term Management Plan?
A.
We are disclosing our profit/loss forecast for the China Business based on the fiscal 2022 plan. We will refrain from discussing the results for fiscal 2021. In fiscal 2024, we plan to realize profit in the neighborhood of several 100 million yen.

Q.
Is it correct to understand you plan to break-even in the China Business in fiscal 2023?
A.
We aim to be near break-even in fiscal 2023-2024, taking into account our expectation of profit in fiscal 2024.

Q.
What factors do you expect will negatively impact profit in fiscal 2022?
A.
We anticipate an impact to profit from an increase in SG&A of ¥3.8 billion. The majority of this rise in expense reflects an increase in subsidiaries in China, primarily expense for the start up of operations at the Tianjin Plant. Elsewhere, one factor is an increase in personnel which anticipates upfront investments and progress in business operations to build an IT foundation. Although sales are expected to grow, profit is likely to sharply drop due to an increase in the cost front.

Q.
What is your forecast for forex sensitivity?
A.
For each 1 yen drop in the value of the yen against a major currency, we anticipate a negative impact of around ¥1.3-¥1.4 billion. We are hedging against risks with forward contracts. In light of this, recent forex rates will not have a direct impact.

Q.
What factors do you believe will trigger a rebound in operating profit margin in fiscal 2024, after a deterioration in operating profit margin in fiscal 2022 and 2023?
A.
In fiscal 2023, we are looking for operating profit to touch bottom reflecting a change in forex rates, and a deterioration in cost, including a rise in R&D costs and raw and other material costs. In fiscal 2024, we

forecast an operating profit margin of 18%, reflecting a decline in the aforementioned one-off expenses and sales growth in Japan and overseas.

Q.

The Medium-Term Management Plan thus far has also focused on the investment stage. The new Medium-Term Management Plan will also focus on the investment phase. This gives the impression that the timing of the shift from growth investments to investment returns is behind schedule. Can you comment on this point?

A.

There were delays in capital investments and M&A in the previous Medium-Term Management Plan. We plan to cover these early on in our new Medium-Term Management Plan. In addition, under the new Medium-Term Management Plan, we plan to implement large-scale investments in tandem with growth in the domestic business, and recoup these investments in line with plans.

Q.

Investments triggers more investments but it does not appear to be leading to monetization. Is it possible to devise strategies that factor in corporate value and shareholder value a little more?

A.

We consistently recognize strategies that factor in shareholder value as a priority challenge. In addition to solving the remaining challenges in the previous Medium-Term Management Plan, we plan to prepare production facilities to realize plans for stable growth in prescription Kampo products in Japan, as we believe this will contribute to an expansion in shareholder value.

Q.

What form of ties with Ping An Insurance, a major shareholder, and what type of communications related to management are being planned? Also, regarding the direction of the China Business, what differences are there between the two companies?

A.

We constantly aim to carry out communications with the top management of the Ping An Group, including Chairman Ma Mingzhe. The major theme we are discussing daily focuses on the modernization and standardization of traditional Chinese medical products, which are traditional prescriptions products in China, and how to deliver these products to consumers in China. At present, other issues are not being undertaken as themes. In addition, regarding traditional medicine in China, we need to move forward while implementing various types of care, including for regulations, in China. In comparison with other operations, such as the finance business, we garner investments after gaining the understanding of the high level of difficulty involved and the time required to tackle this business. As for investments, including M&A, we plan to move forward while exchanging opinions on profit margins and evaluations.

Q.

Geopolitical risks are rising. Tsumura is recognized as one of the companies that is likely to be substantially impacted by trends in China. In addition to daily risk management, are there specific measures in place for crude drug suppliers during the period of the Medium-Term Management Plan?

A.

Crude drugs are primarily plants, which grow in indigenous areas. It is not possible to cultivate all crude drugs in Japan. Up until now, we have been developing multiple channels for production regions and producing countries.

We plan to successively implement measures that should be carried out during the period of the vision, mainly regarding the state of crude drug storage locations and the supply chain during potential emergencies.

Q.

What is the current ratio for cultivated land under our own management and what are your goals for crude drug procurement during the period of the Medium-Term Management Plan?

A.

At present, the ratio of cultivated land under our own management is 79.6%. We recognize this as an adequate level when taking buffers into consideration.

In some cases, harvest yields for crude drugs outperform projections. However, even in these cases, Tsumura basically procures all of its crude drugs from local producers to maintain ties. It is our policy to stably procure high-quality crude drugs.

[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.