

Financial Briefing for 1Q Results

13:00-13:45, August 4, 2022

<Q&A Summary>

**Q.**

The growth rate for sales of Goreisan and Kamikihito is high but the number of individuals showing symptoms including insomnia and anxiety is increasing.

**A.**

The number of individuals with symptoms, including anxiety, insomnia and dizziness, is increasing owing in part to the impact of COVID-19.

**A.**

There is evidence for the benefits of Kamikihito. This is making it easier for physicians to select the formulation for prescription. Going forward, we believe that prescriptions related to the treatment of anxiety will grow. Goreisan is a formulation that regulates the body water metabolism. Sales of Goreisan are growing sharply in part reflecting the impact from the intense heat.

**Q.**

Recently, the number of COVID-19 patients is increasing. What are trends like for Kampo products to treat the after-effects of COVID-19?

**A.**

Our products continue to be utilized in line with patient symptoms. For instance, there is a write-up for Tokishakuyakusan in the guidelines to treat olfactory impairment for dysosmia after suffering from a cold. Consequently, physicians are prescribing the Kampo product.

**Q.**

You stated that the purpose of Ping An Tsumura Traditional Chinese Medicine Technology Co., Ltd., which you established, is to carry out research. Is this research aimed to roll out traditional Chinese medicine in the market in China or will this be research mainly to expand the indications for Kampo?

**A.**

We are aiming to promote high quality in the market in China owing to the establishment of crude drug and formulation quality standards and quality research functions. In our research platform, we are promoting the high quality of Tsumura through the objective and detailed showcasing of our quality.

**Q.**

What is the purpose of reshuffling your Growing formulations?

**A.**

The aim of Growing formulations is to acquire a write-up in guidelines owing to evidence-building and to thereby standardize Kampo treatments. Bakumondoto and Shakuyakukanzoto, former Growing formulations, have already garnered many write-ups in treatment guidelines. Given that we have achieved our goal to a certain degree, we reshuffled our line-up for Growing formulations. For our new Growing formulation additions, Ninjin'yoeito and Kamikihito, we aim to achieve treatment guideline listings, mainly thanks to write-ups in new clinical dissertations that are scheduled to be released.

**Q.**

Does your discussion about the letter of intent related to the establishment of a joint venture with Jianmin Pharmaceutical Group Co., Ltd. (Jianmin Pharmaceutical) overlap with the entry into the traditional Chinese medical products business via M&A, which you discussed earlier?

**A.**

The signing of the letter of intent to establish a joint venture with Jianmin Pharmaceutical is but one of activities for entry into the traditional Chinese medical products business via M&A. It is our policy to achieve our conventional goal through joint ventures and not through acquisitions.

**Q.**

Is it correct to understand that your goal to enter the traditional Chinese medical products business via M&A will be nearly complete with the establishment of a joint venture with Jianmin Pharmaceutical?

**A.**

At the present stage, we have signed a letter of intent. In the event that this leads to a full-fledged agreement, this will turn out to be one deal that reaches fruition.

**Q.**

What is the schedule for signing the agreement to establish a joint venture with Jianmin Pharmaceutical?

**A.**

We aim to realize this goal early on. However, we have just signed the letter of intent and that this will be followed by a full-fledged negotiation stage, therefore I cannot divulge a time schedule at this moment.

**Q.**

What is the factor behind a decline in 2Q operating profit in your earnings forecast?

**A.**

The major factor will be impact on unrealized gains. In 1Q, we shored up our operating profit forecast by around 1.0 billion yen, reflecting brisk domestic sales and a shutdown of production due to the lockdown of Shanghai, and owing to a decline in unrealized gains, which are intercompany profits included in inventories. In 2Q, we estimated operating profit will decline in contrast with 1Q. This reflects a return to trajectory for inventory plans owing to the resumption of production in Shanghai.

**Q.**

At present, what is the status of operations at the Shanghai Plant which was hindered by impact from a lockdown. In addition, what impact did the lockdown have on sales activities in China?

**A.**

Operations at the Shanghai Plant were shut down from March 14 to May 5, 2022 due to impact from the lockdown. After the lockdown was lifted, a portion of production was resumed on May 6 and full-fledged production operations were resumed on and after June 4.

As for sales activities, shipments and billing at the China Business is slightly behind schedule due to impact from the lockdown. However, operations have returned to normal since June and we expect progress to be in line with our plan for 1H.

**Q.**

I believe that your plan for fiscal 2022 reflects the impact of the lockdown in Shanghai. What was performance like versus your plan?

**A.**

In tandem with the shutdown of operations at the Shanghai Plant due to the lockdown, inventory was compensated for with alternative production at a plant in Japan. In 1Q, we shored up our operating profit forecast by around 1.0 billion yen, due to a decline in unrealized gains, which are intercompany profits included in inventory.

**Q.**

The growth rate for drug-fostering program formulations appears to be low. What was performance like versus plans?

**A.**

The growth rate for drug-fostering program formulations is not high. However, we believe that sales of drug-fostering program formulations were off to a smooth start in 1Q.

**A.**

Drug-fostering program formulations are already widely penetrating the market and are being

administered to many patients. For instance, sales of Yokukansan, which is frequently used to treat BPSD (Behavioral and psychological symptoms of dementia), are growing reflecting the increase in patients with BPSD. Rikkunshito was listed as the first recommendation to treat functional dyspepsia in the treatment guidelines for functional gastrointestinal diseases and is therefore being widely prescribed in daily treatment. Meanwhile, going forward we plan to develop new patients for Hangeshashinto and Goshajinkigan.

**Q.**

Will it be possible to achieve the long-term sales vision of 7.0 billion yen-plus, including the time schedule, by establishing a joint venture with Jianmin Pharmaceutical? Or will other measures be necessary to achieve this goal?

**A.**

We are in the middle of talks with our joint venture partner, including discussions on strategies going forward. We will let you know once we reach the stage for signing a joint venture agreement.

[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.