

# Third Quarter Business Results for Fiscal Year 2022

February 6, 2023

Director, and CFO

Muneki Handa

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Third Quarter Business Results for FY 2022

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Initiatives and Progress for  
Domestic Business and China Business

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FY 2022 Earnings Forecast

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# Roadmap for the Realization of the TSUMURA VISION "Cho-WA" 2031



**1st stage**  
FY2022-2024  
—Germination—

**2nd stage**  
FY2025-2027  
—Growth—

**3rd stage**  
FY2028-2031  
—Flowering—

## Prescription Kampo Products

Standardization of Kampo treatments  
Personalized Kampo treatments

Over 50% physicians write 10 or more Kampo prescriptions

50% of physicians write basic prescriptions in all treatment areas

## R&D

Personalized Kampo treatments  
Scientific study of pre-symptomatic diseases



## Chinese operations

Formulation platform

Traditional Chinese medical products business



Crude drug platform

Crude drugs, drug pieces and Yakushokudogen products



Research platform

Traditional Chinese Medicine Research Center



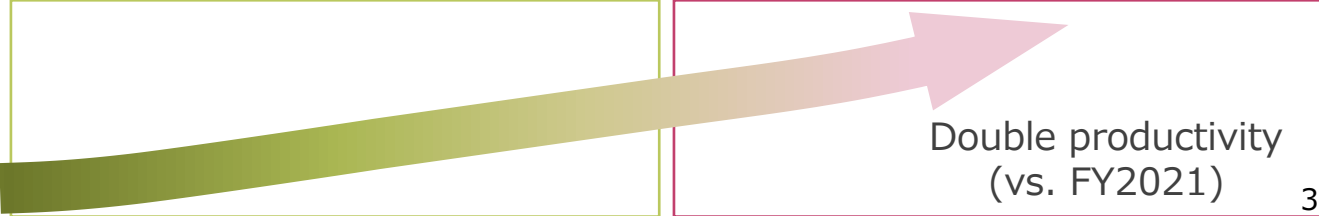
## Smart factory



## Labor productivity

Sales  
Production  
Crude drugs

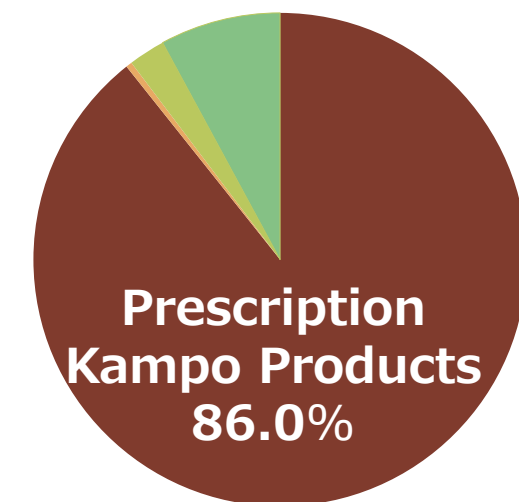
Sales per MR (Yen/MR)  
Physical labor productivity  
Personnel expenses per crude drug arranging volume



# 3Q Business Results for FY 2022

【Million yen】	3Q FY 2021 results	3Q FY2022 results	YoY	
			Amount	Change
<b>Sales</b>	<b>98,382</b>	<b>107,076</b>	<b>+8,694</b>	<b>+8.8%</b>
Domestic business	—	96,355	—	—
China business	—	10,721	—	—
<b>Operating profit</b>	<b>18,829</b>	<b>17,723</b>	<b>(1,106)</b>	<b>(5.9) %</b>
Domestic business	—	17,882	—	—
China business	—	(159)	—	—
<b>Ordinary profit</b>	<b>21,074</b>	<b>21,410</b>	<b>+335</b>	<b>+1.6%</b>
<b>Profit</b> attributable to owners of parent	<b>15,389</b>	<b>15,875</b>	<b>+486</b>	<b>+3.2%</b>
PL translation rate (CNY)	16.78	19.41	+2.63	—

Ratio to total sales



- External sales by consolidated subsidiaries 10.7%
- OTC Kampo etc 3.1%
- Other prescription pharmaceuticals 0.2%

\*Forex rate at the time overseas subsidiaries' PLs were incorporated; differs from the import rate for raw material crude drugs

# Key Points in Performance

**Sales and profit attributable to owners of parent rose owing to growth in Japan and in the China business (but operating profit was down)**

<b>Net sales</b>	<b>107,076</b>	<b>million yen</b>	YoY	<b>+8.8%</b>
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- Domestic business sales of the 129 prescription Kampo products: 91,941 million yen, rose 5.3% year-on-year  
Sales of OTC Kampo formulations and other healthcare products: 3,358 million yen, increased 18.8% year-on-year
- China business sales: 10,721 million yen

<b>Operating profit</b>	<b>17,723</b>	<b>million yen</b>	YoY	<b>(5.9%)</b>
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<b>Operating profit margin</b>	<b>16.6</b>	<b>%</b>	YoY	<b>(2.5pt)</b>
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- Cost-to-sales ratio: 50.9%, up 2.1pt year-on-year; Mainly impact from an expansion in external sales in China and soaring cost for materials other than raw material crude drugs
- SG&A ratio: 32.5%, up 0.4pt year-on-year; Chiefly reflects one-off expense for full-scale operations at the Tianjin Plant

<b>Ordinary profit</b>	<b>21,410</b>	<b>million yen</b>	YoY	<b>+1.6%</b>
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- Foreign exchange gain primarily related to loans to overseas subsidiaries: 2,906 million yen, up 1,485 million yen year-on-year (impact from the yen's devaluation)

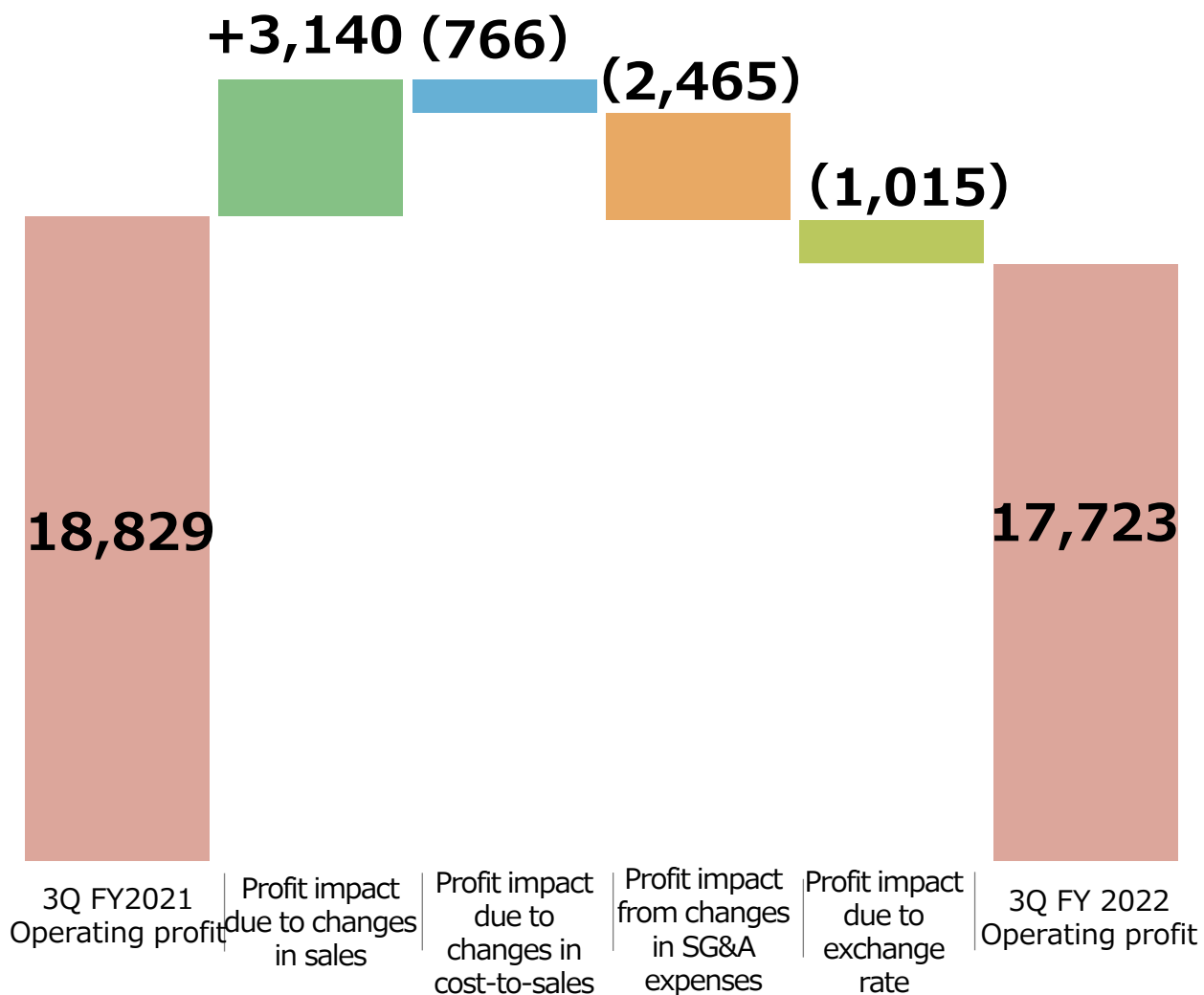
<b>Profit</b>	<b>15,875</b>	<b>million yen</b>	YoY	<b>+3.2%</b>
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attributable to owners of parent

- Extraordinary income: Refund margin owing to a reduction in paid-in capital at affiliates: 463 million yen

# Factors Triggering Changes in Operating Profit (YoY)

( Million yen )



( Million yen )

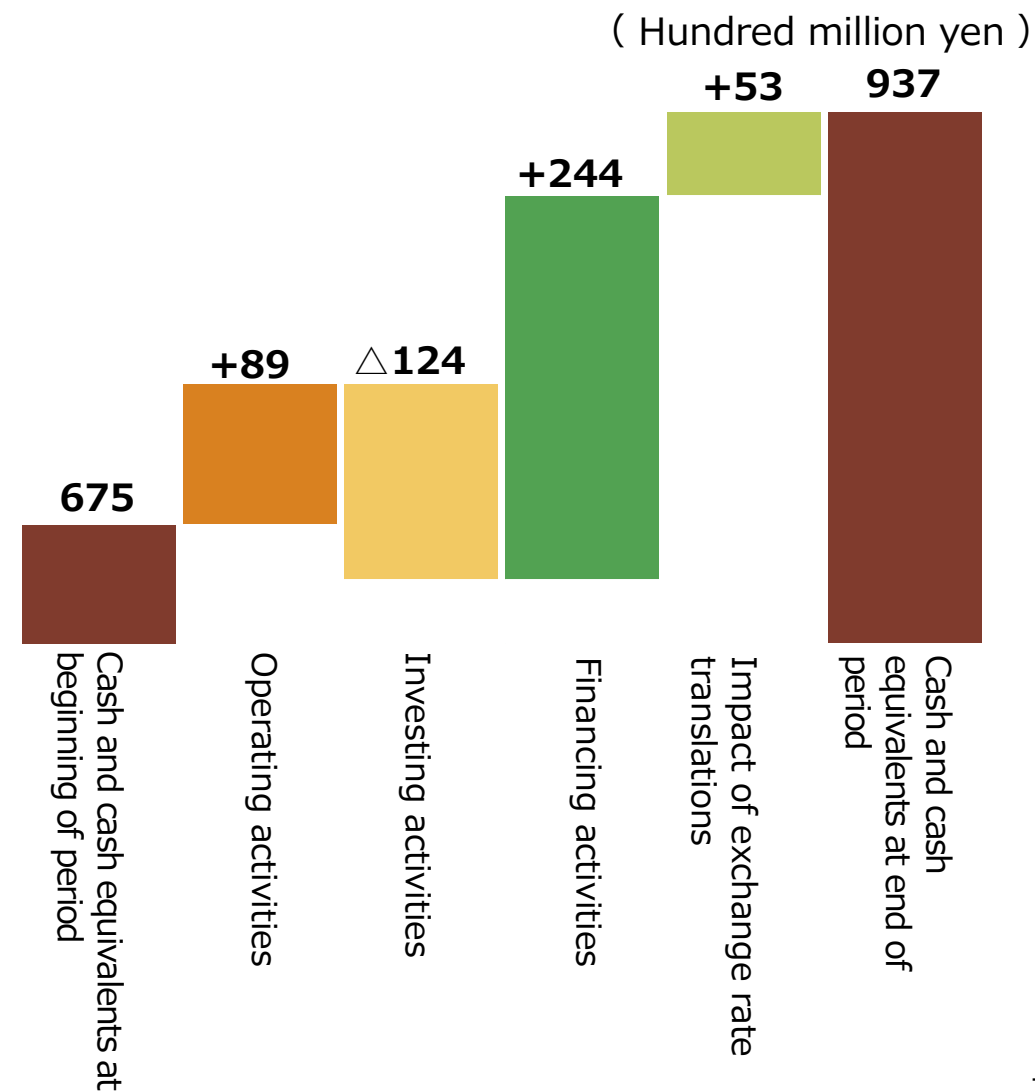
<b>Breakdown of change in net sales : +3,140</b>	
Domestic	+2,684
Overseas	+456
<b>Breakdown of change in cost-to-sales : (766)</b>	
Crude drug procurement cost	(49)
Raw material expense (other than raw material crude drugs)	(365)
Processing expense, etc.	+17
Outside sales in China	(369)
<b>Breakdown of change in SG&amp;A expense (2,465)</b>	
Depreciation (incl. one-off expense at Tianjin Plant)	(644)
R&D	(403)
Advertising	(140)
Salary allowance (incl. one-off expense at Tianjin Plant)	(116)
Sales promotions	(109)
Other (Mainly rise in volume of activities, system introduction)	(1,053)
<b>Foreign exchange impact : (1,015)</b>	

# Financial Condition/Cash Flow Position

( Million yen )

Bond issuance: 30 billion yen (Sep. 8, 2022)

	FY 2021 (March 2022)	FY 2022 3Q	Change
<b>Total assets</b>	350,981	<b>400,958</b>	49,977
Current assets	229,420	<b>270,962</b>	41,542
Non-current assets	121,561	<b>129,995</b>	8,434
<b>Total liabilities</b>	92,871	<b>121,276</b>	28,404
Current liabilities	45,875	<b>43,696</b>	(2,179)
Non-current liabilities	46,996	<b>77,580</b>	30,583
<b>Total net assets</b>	258,109	<b>279,682</b>	21,572
<b>Equity ratio</b>	68.3%	64.3%	(4.0) pt



	FY 2021 (March 2022)	FY 2022 3Q	Change	Of which, Exchange rate
<b>Inventories</b>	92,751	<b>101,079</b>	8,327	7,528
Merchandise and finished goods	10,247	<b>9,077</b>	(1,169)	406
Work in process	13,614	<b>14,072</b>	457	236
Raw materials and supplies	68,889	<b>77,929</b>	9,040	6,886

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## Product supply trends

- Sharp rise in demand for seasonal prescriptions owing to intense summer heat (150% YoY)
  - Rapid increase in demand for common cold-related prescriptions due to COVID-19 (130% - 300% YoY)
- \*Decline in production due to halt in operations at the Shanghai Plant in tandem with the lockdown of Shanghai (March 21-May 5, 2022)  
→ Implemented substitute production at plants in Japan in line with BCP (business continuity plan)

## Restricted shipments of some products from August 29, 2022

\*At present restricting shipments for 28 products

## Measures to lift shipment restrictions

- **Increase in headcount** Expanded number of production workers at each plant (Ibaraki, Shizuoka, Shanghai)
- **Boost the number of work days** In addition to the conventional continuous 24-hour operation manned by three shifts, operating on holidays and during the Lunar New Year holiday, etc.
- **Improve operating capacity** Shortened time for switching products, etc.
- **Move forward the start of shipments at the Tianjin Plant** Complete validation and acquire manufacturing approval earlier than scheduled

## From end of March: Expect to successively lift restrictions

\*However, possible changes due to the conditions of spread of influenza and COVID-19

# Progress in the Launch of the Tianjin Plant

In Phase 1, implementing process validation (PV), with plans to commence shipments in 4Q FY2023

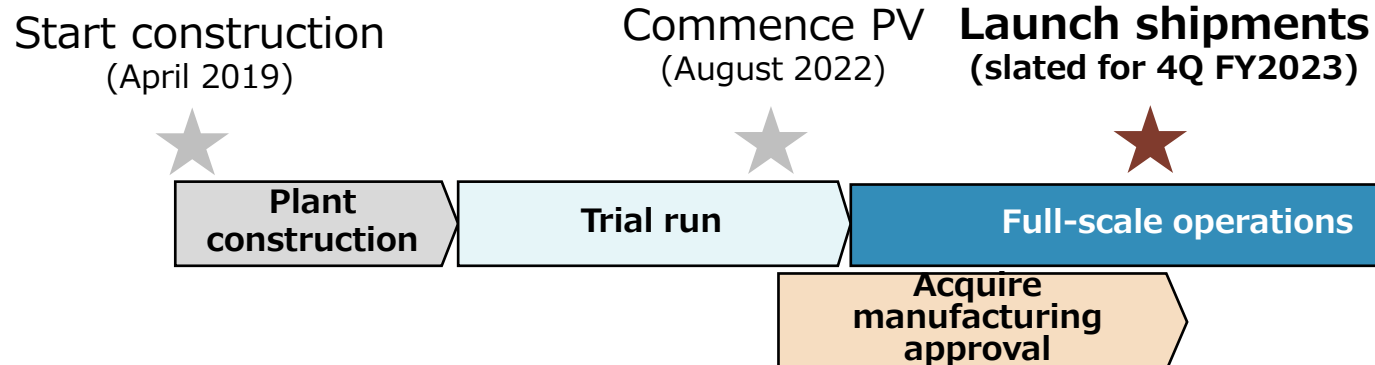
Aim to start shipments earlier by speeding up the completion of PV and acquiring manufacturing approval earlier than planned

## ■ Tianjin Plant profile

Purpose of construction	Increase production of Kampo powdered extract (intermediate products) for domestic business Increase production sites to two production sites in Japan (Ibaraki, Shizuoka) and two production sites in China (Shanghai, Tianjin)
Company name	Tianjin Tsumura Pharmaceuticals Co., Ltd.
Location	Tianjin, China
Investment	Phase 1: approx. 15.0 billion yen; Phase 2: approx. 10.0 billion yen; Phase 3: approx. 15.0 billion yen
Production output	2,250t/year *Full-scale production by Phase 3



## ■ Phase 1 launch schedule

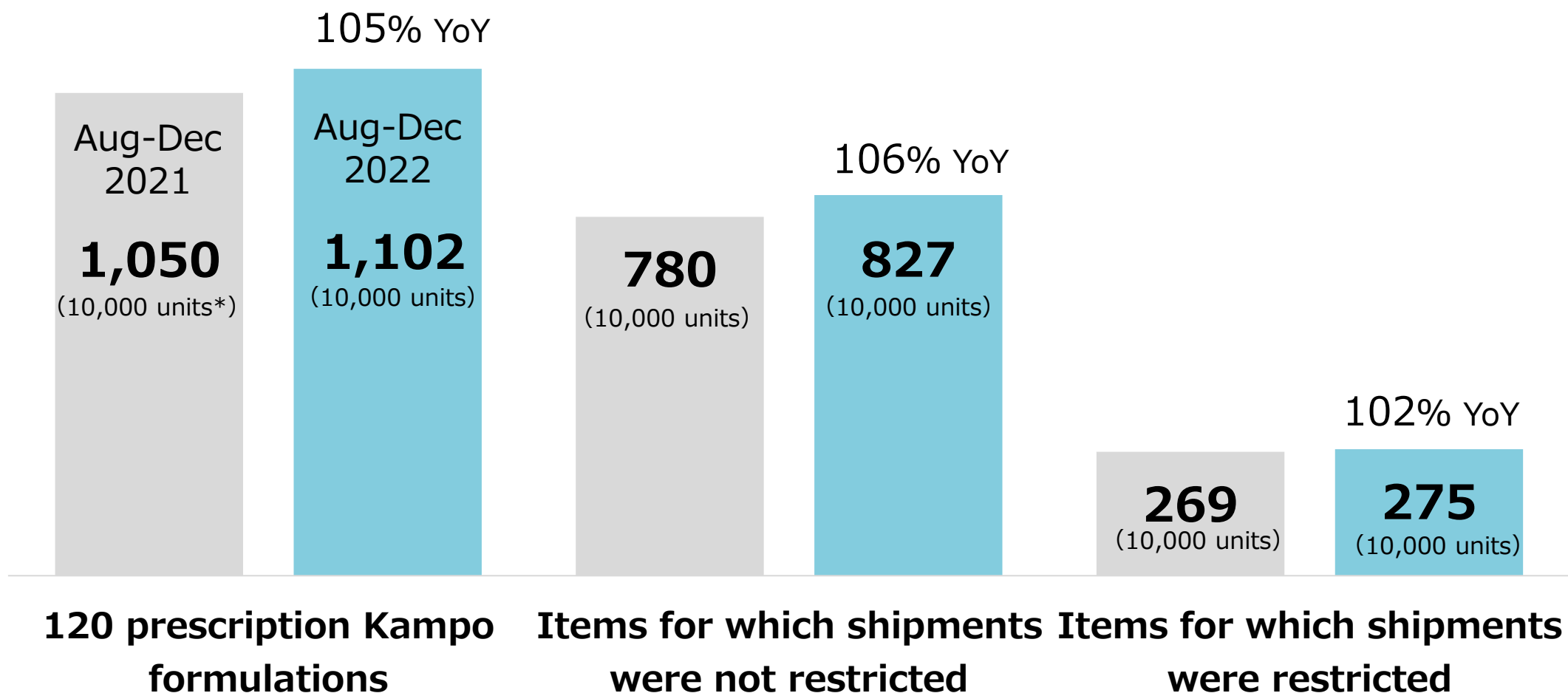


## ■ Accounting treatment for manufacturing cost

- Start of trial run up to start of PV  
→ **SG&A**
- Start of PV and thereafter  
→ **Inventory/cost**

# Shipment Volume after Shipment Restrictions (Prescription Kampo Products)

Sales of the 129 prescription Kampo formulations maintained a growth of 105% even after shipment restrictions

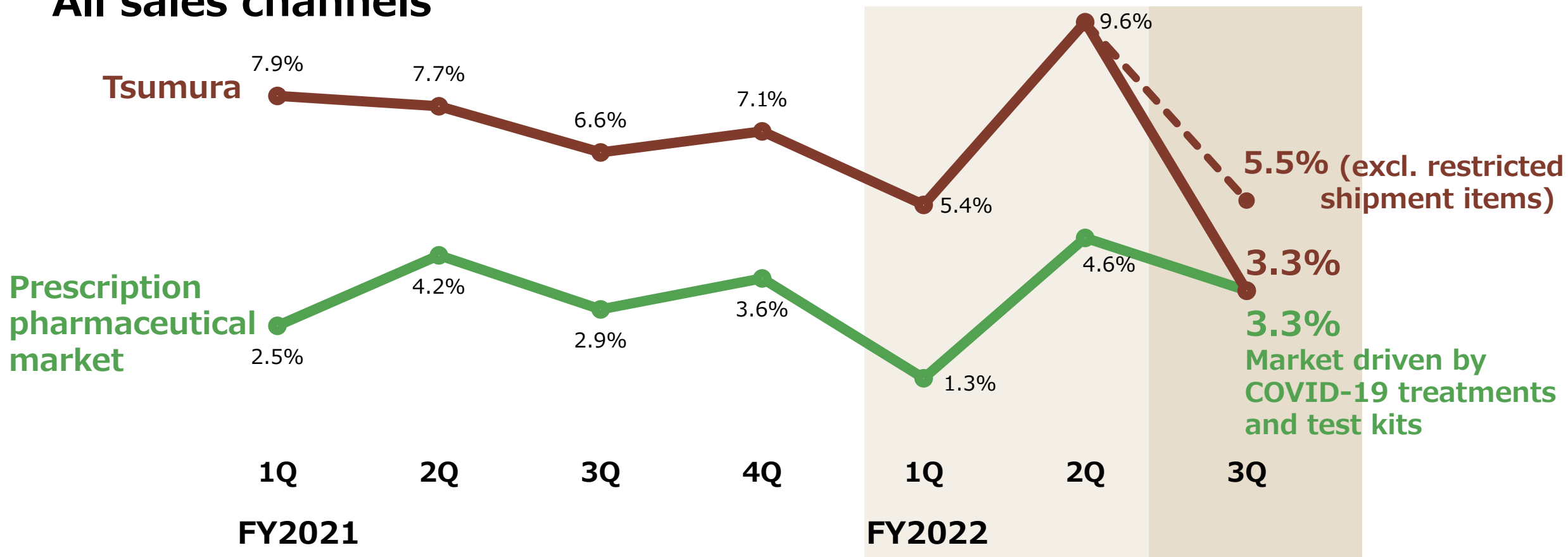


\*1 unit: Standard package (1 box) (1 box contains 9 weeks dosage)

**Grew 3.3% YoY on an NHI drug price basis; growth was sluggish due to impact from restricted shipments**

(YoY/NHI drug price basis)

## All sales channels

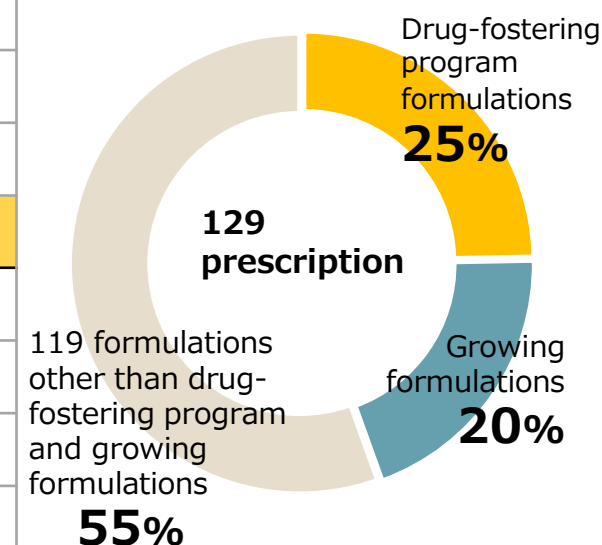


# Sales of Drug-fostering Program Formulations/Growing Formulations

( Million yen )

	Net sales Ranking	Product No./formulation name	FY 2021 3Q	FY 2022 3Q	YoY	
Drug-fostering program formulations	1	100 Daikenchuto	7,334	7,482	+147	+2.0%
	3	54 Yokukansan	5,678	5,687	+9	+0.2%
	4	43 Rikkunshito	5,548	5,644	+96	+1.7%
	8	107 Goshajinkigan	2,687	2,633	(54)	(2.0) %
	24	14 Hangeshashinto	1,052	1,078	+26	+2.5%
Total sales for drug-fostering program formulations			22,301	22,527	+225	+1.0%
Growing formulations	2	41 Hochuekkito	5,655	6,096	+441	+7.8%
	5	17 Goreisan	4,111	4,821	+710	+17.3%
	6	24 Kamishoyosan	3,752	3,935	+183	+4.9%
	16	108 Ninjin'yoeito	1,488	1,624	+135	+9.1%
	17	137 Kamikihito	1,332	1,600	+267	+20.1%
Total sales for growing formulations			16,340	18,078	+1,738	+10.6%
Total sales for 119 formulations other than drug-fostering program and growing formulations			48,650	51,335	+2,684	+5.5%
Total sales for 129 prescription Kampo products			87,293	91,941	+4,648	+5.3%

Ratio to total sales

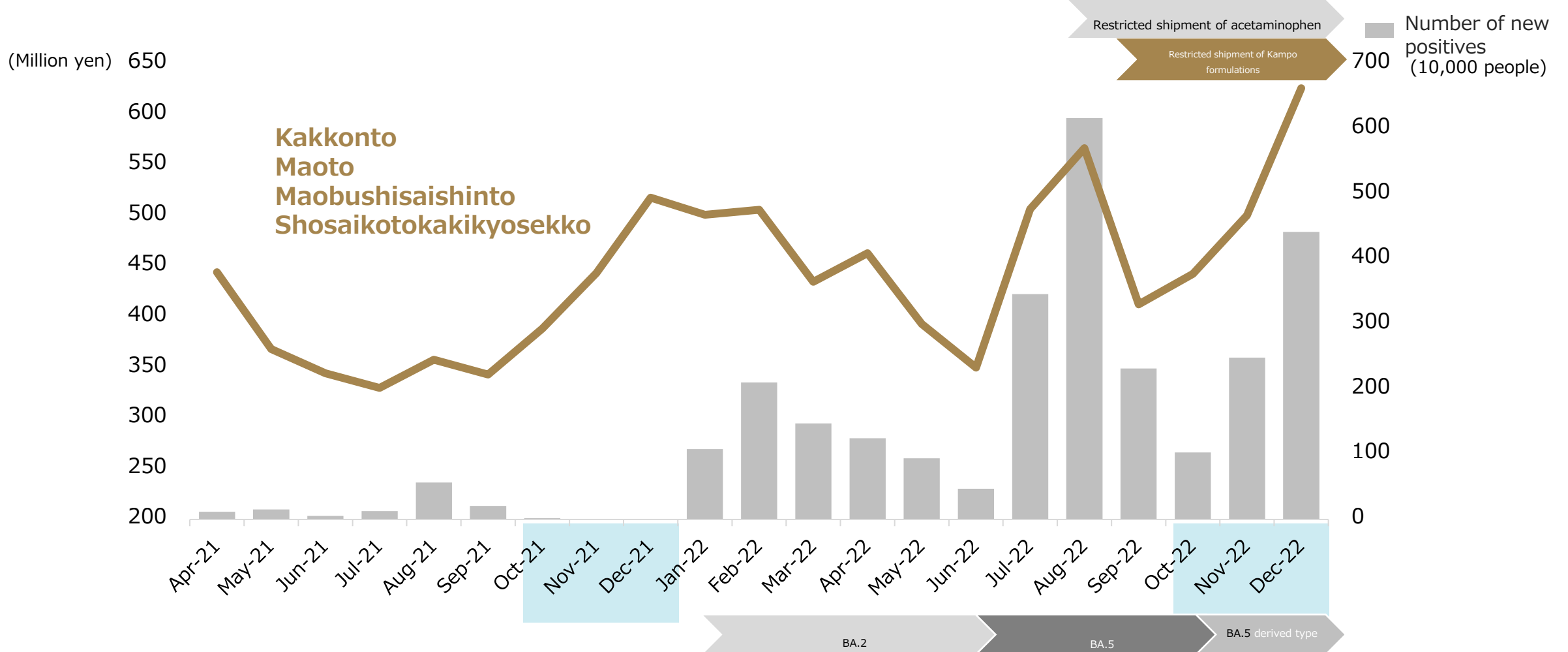


\*Shipments of Goshajinkigan restricted from August 2022

# COVID-19 Impact (1)

## Rise in demand for common cold-related formulations due to increase in COVID-19 patients

Number of new COVID-19 patients & total sales for the 4 common cold-related Kampo formulations

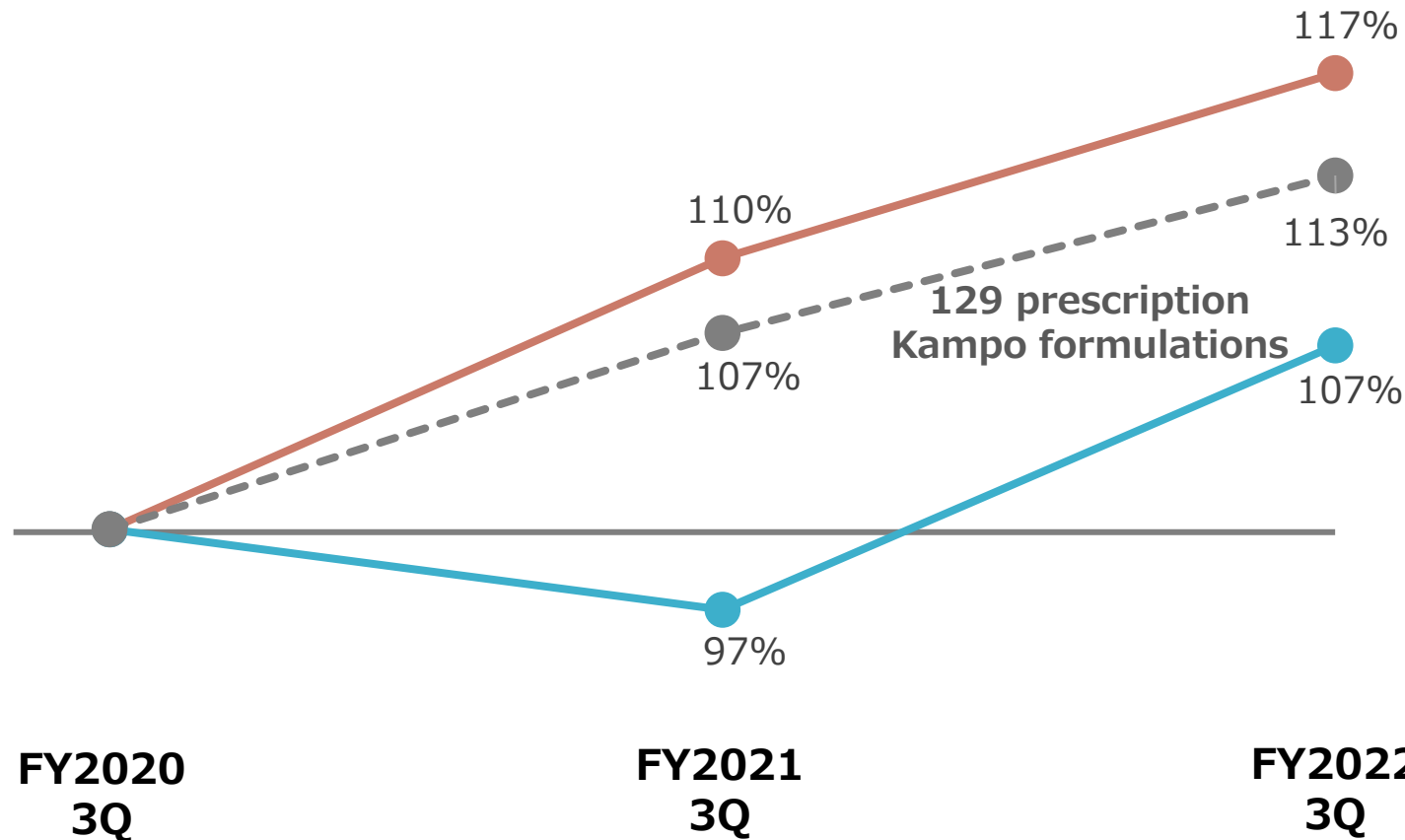


\*Shipments of Kakkonto, Maoto, Maobushisaishinto, and Shosaikotokakikyosekko were restricted from August 2022

Bar graph: MHLW open data: Number of new positives (by day)  
 Line graph: Actual sales (Invoice price: Tsumura data)

## Prescriptions being written for symptoms related to COVID-19 and a recovery in common cold-related prescriptions

(Shipment basis: Growth rate)



✓ Rise due to a change in living environment →

- Anxiety, insomnia (6 formulations)
- Fatigue (2 formulations)
- Dizziness (2 formulations)
- Skin irritation and acne due to wearing a mask (4 formulations)

✓ Rise due to spread of Omicron →

- Common cold, influenza, etc. (13 formulations)

Build a system that addresses the need for information on how to properly use Kampo products

## e-Promotions

Expand the Medical Site

- **Seminars on proper use of Kampo**
- Kampo on-line salon, etc.



## MR activities

Activities to promote the writing of prescriptions and to establish use

- **Propose proper use based on Kampo custom file**
- Hold lectures, study groups, etc.



“Kampo custom file” to better understand the proper use of Kampo

【Goal of the First Medium-term Management Plan】

**Get 50% or more of doctors to write 10 or more Kampo prescriptions**



# Milestones in the China Business

Aim to become a traditional Chinese medicine company that is a leader in the development of the traditional Chinese medicine industry, and target an overseas sales ratio of 50%

**FY2022-24**

**FY2025-27**

**FY2028-31**

Formulation platform

**Enter the traditional Chinese medical products business**

Acquire traditional Chinese medical product companies  
Application for classical prescription Chinese medicines

**Build foundation for the traditional Chinese medical products business**

External sales ratio of over 50%

**Establish a brand as a traditional Chinese medical product company**

Industry TOP10

**Sales image Over RMB7.0 billion**

Crude drug platform

**Expand sales of crude drugs, drug pieces and "Yakushokudogen" products**

Ratio of external sales Over 50%

**Establish brands for crude drugs, drug pieces and "Yakushokudogen" products**

Increase public hospital sales channels (including M&A)

**Crude drug/drug piece company that is a leader in industry development**

Top share in China

**Sales image Over RMB3.0 billion**

Research platform

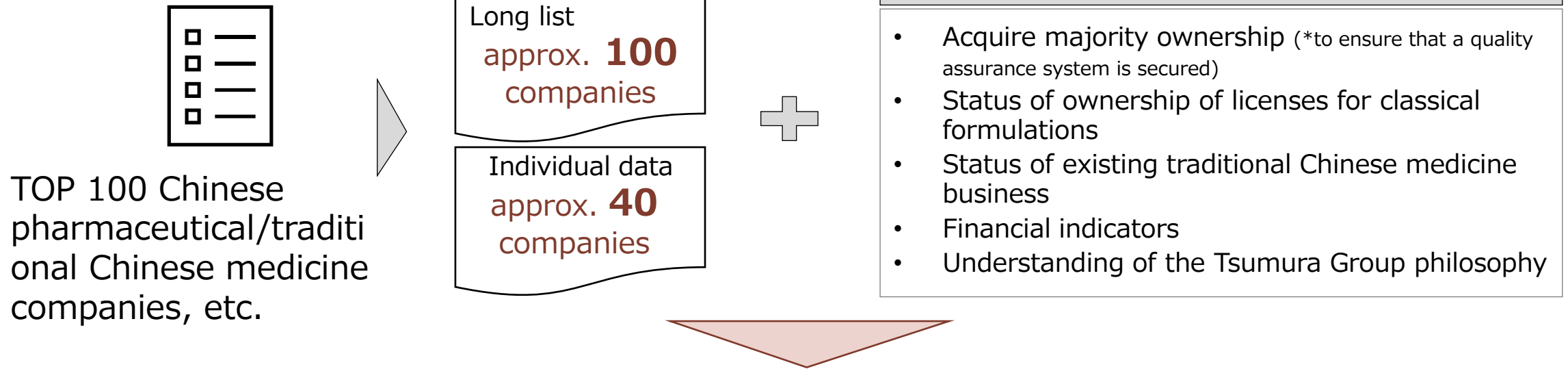
**Establish the Traditional Chinese Medicine Research Center**

**Enhance functions of the Traditional Chinese Medicine Research Center**

**Evidence-building for traditional Chinese medical products**

**【Goal for the First Medium-term Management Plan】**  
**Enter the traditional Chinese medicine market: M&A of traditional Chinese medicine companies, apply to commercially launch classical prescriptions**

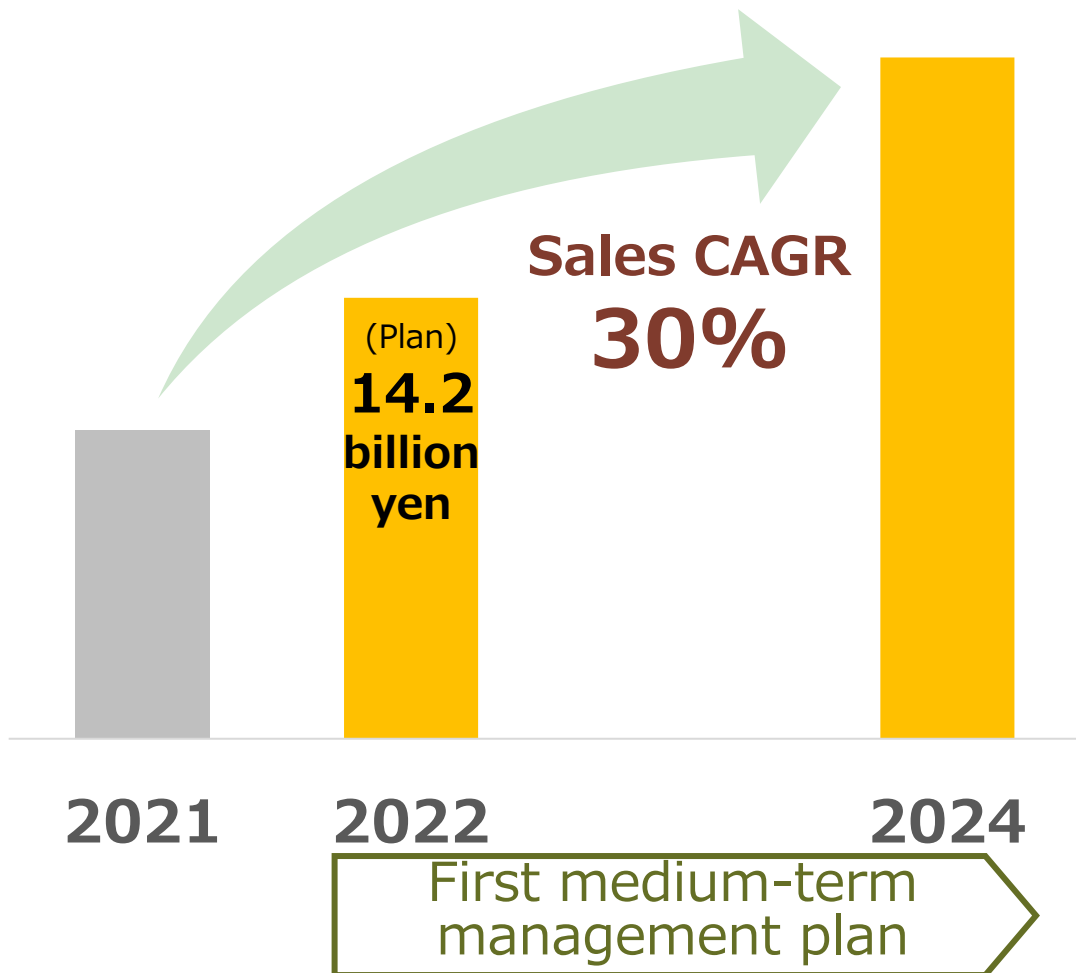
## M&A process for traditional Chinese medicine companies



**Continuing concrete negotiations with several companies**

\*Signed a letter of intent to establish a joint venture with Jianmin Pharmaceutical Group Co., Ltd. (August 3, 2022)

**【Goal for the First Medium-term Management Plan】**  
Sales CAGR of 30% reflecting an expansion in sales of crude drugs, drug pieces and “Yakushokudogen” products



### Raw material crude drugs



#### Strengthen highly competitive items

- No. 1 ginseng brand
- Expand lineup of superior items
- Enhance GACP management
- Lead the establishment of industry standards

### Drug pieces (crude drug pieces)



#### Establish high-quality drug piece brand

- Expand public hospital sales channels
- Expand Ping An Health sales channels
- Promote drug piece services

### Yakushokudogen products

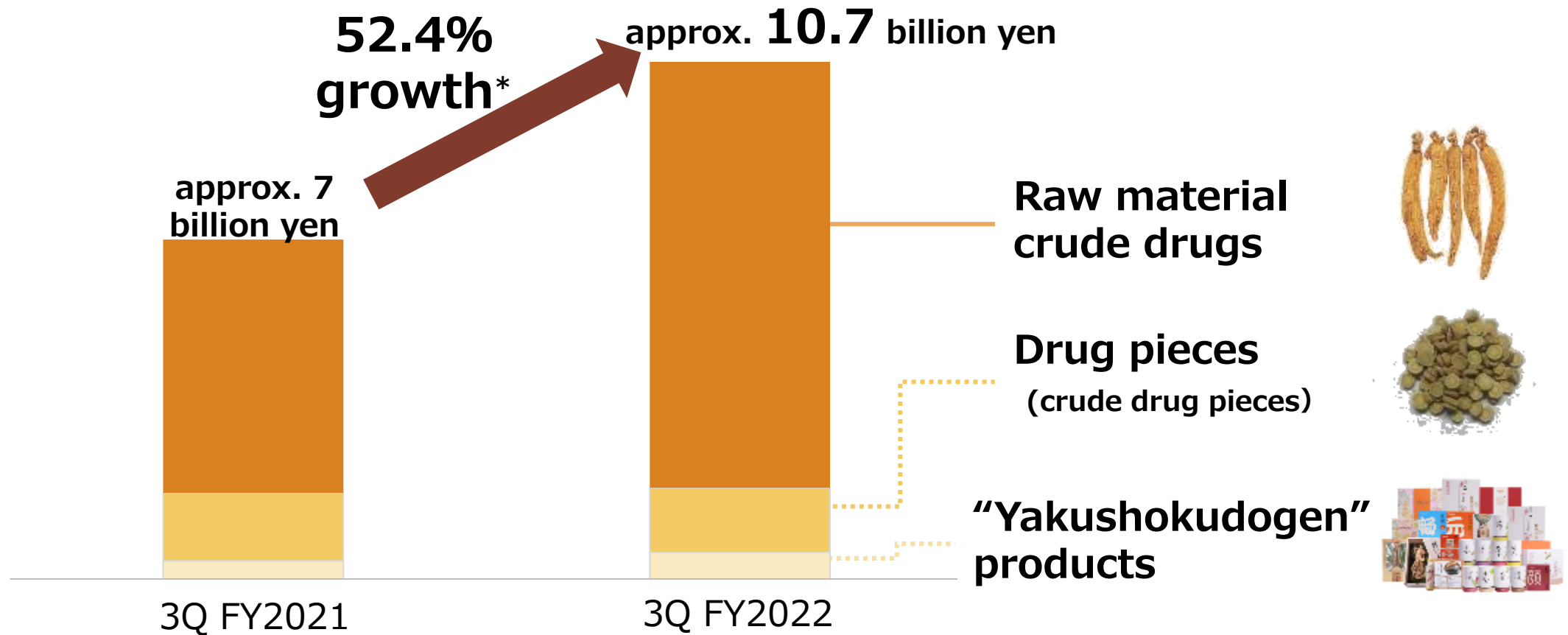


#### Build a brand that promotes the development of new products

- Develop high added value products
- Expand online sales channels
- Build a trustworthy brand

# China Business Sales (Crude Drug Platform)

- Sales, mainly of raw material crude drugs, rose
- Although the number of COVID-19 patients rose temporarily, there was not impact on the supply of raw material crude drugs and Kampo extract powder (intermediate products) to Japan and to sales in the China business



\*Local currency basis: 31.7% growth

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**FY 2022 Earnings Forecast**

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# FY 2022 Earnings Forecast

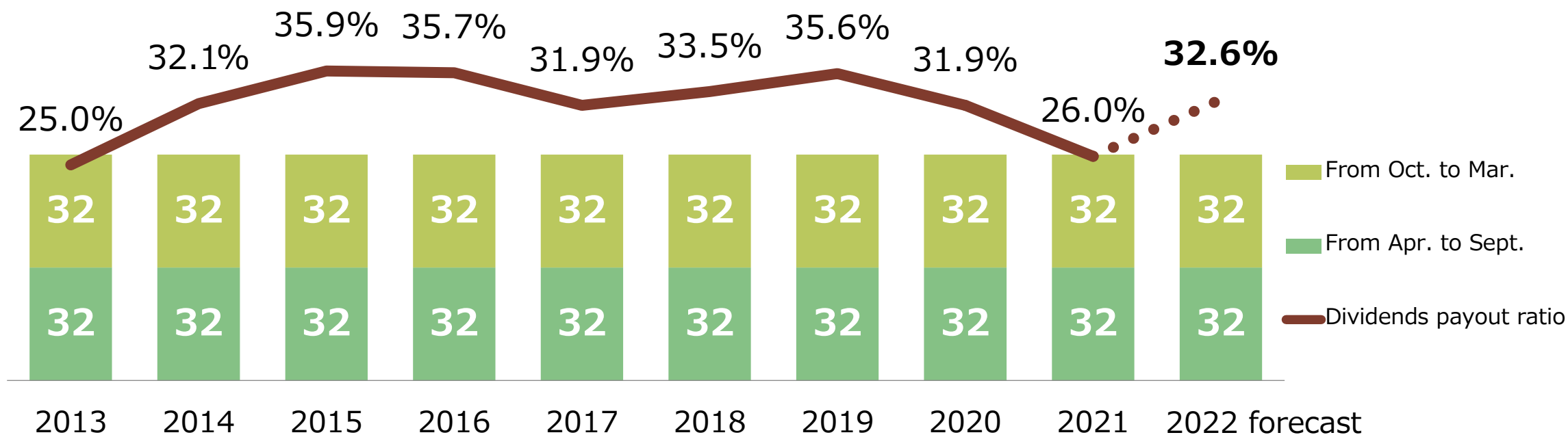
【Million yen】	FY 2021 Results	FY 2022 Forecast	YoY	
			Amount	Change
<b>Net sales</b>	<b>129,546</b>	<b>138,500</b>	<b>+ 8,953</b>	<b>+ 6.9%</b>
Domestic business	—	124,300	—	—
China business	—	14,200	—	—
<b>Operating Profit</b>	<b>22,376</b>	<b>20,800</b>	<b>(1,576)</b>	<b>(7.0)%</b>
Domestic business	—	21,200	—	—
China business	—	(400)	—	—
<b>Ordinary Profit</b>	<b>25,904</b>	<b>21,200</b>	<b>(4,704)</b>	<b>(18.2)%</b>
<b>Profit attributable to owners of parent</b>	<b>18,836</b>	<b>15,000</b>	<b>(3,836)</b>	<b>(20.4)%</b>

<b>Dividends</b> (per share)	<b>64 yen</b>	<b>64 yen</b>
<b>EPS</b>	<b>246.2 yen</b>	<b>196.1 yen</b>
<b>ROE</b>	<b>8.2 %</b>	<b>6.0 %</b>

(Note) Foreign exchange impact (non-operating profit) is not factored into the earnings forecast as it is difficult to make reasonable calculations given trends in the foreign exchange market.

## Policy

- We aim to improve our corporate value by continually expanding domestic business and through growth investments in the China business, and by building foundations. Accordingly, we plan to implement stable dividends, taking into account factors such as medium/long-term profit levels and cash flow conditions.



Note: The FY 2022 year-end dividend and payout ratio (forecast) are an estimate based on the assumption that the dividend resolution is approved at the 87th Ordinary General Meeting of Shareholders.

**Corporate Communications Dept.**

**Investor Relations Group**

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## Cautionary items regarding forecasts

- The materials and information provided in this presentation contain so-called forward-looking statements. Readers should be aware that the realization of these statements can be affected by a variety of risks and uncertainties and that actual results could differ significantly.
- Changes in Japan or other foreign countries related to healthcare insurance systems or regulations set by medical treatment authorities on drug prices or other aspects of healthcare or in interest and foreign exchange rates could negatively impact the Company's performance or financial position.
- In the unlikely event that sales of the Company's core products currently on the market be halted or should sales substantially decline due to a defect, unforeseen side effect or some other factor, there could be a major impact on the Company's performance or financial position.



# Appendix

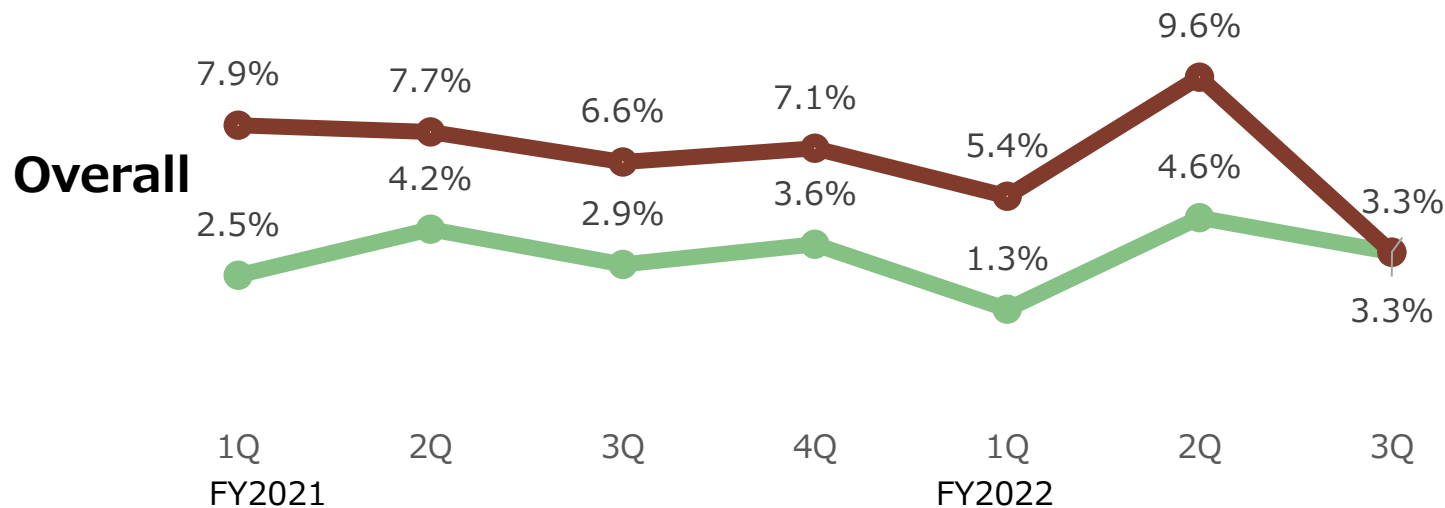
# Comparison with the Prescription Pharmaceutical Market



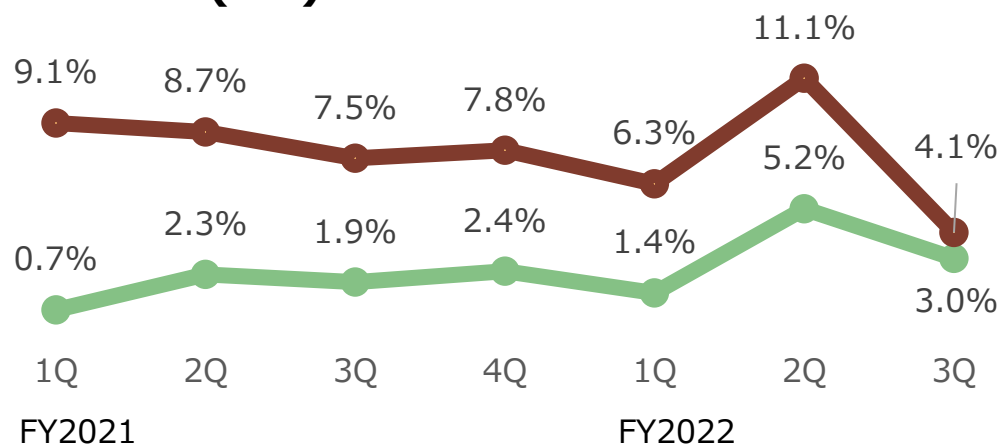
**Tsumura**

**Prescription pharmaceutical market**

(YoY/drug price basis)



## General clinics (GP)



## Hospital market (HP)

