THE BEST OF NATURE AND SCIENCE

First Quarter Business Results for Fiscal 2023

August 4, 2023

Director, and CFO
Muneki Handa

agenda

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01 **First Quarter Business Results for FY 2023**

02 Initiatives and Progress for Domestic Business

03 Initiatives and Progress for China Business

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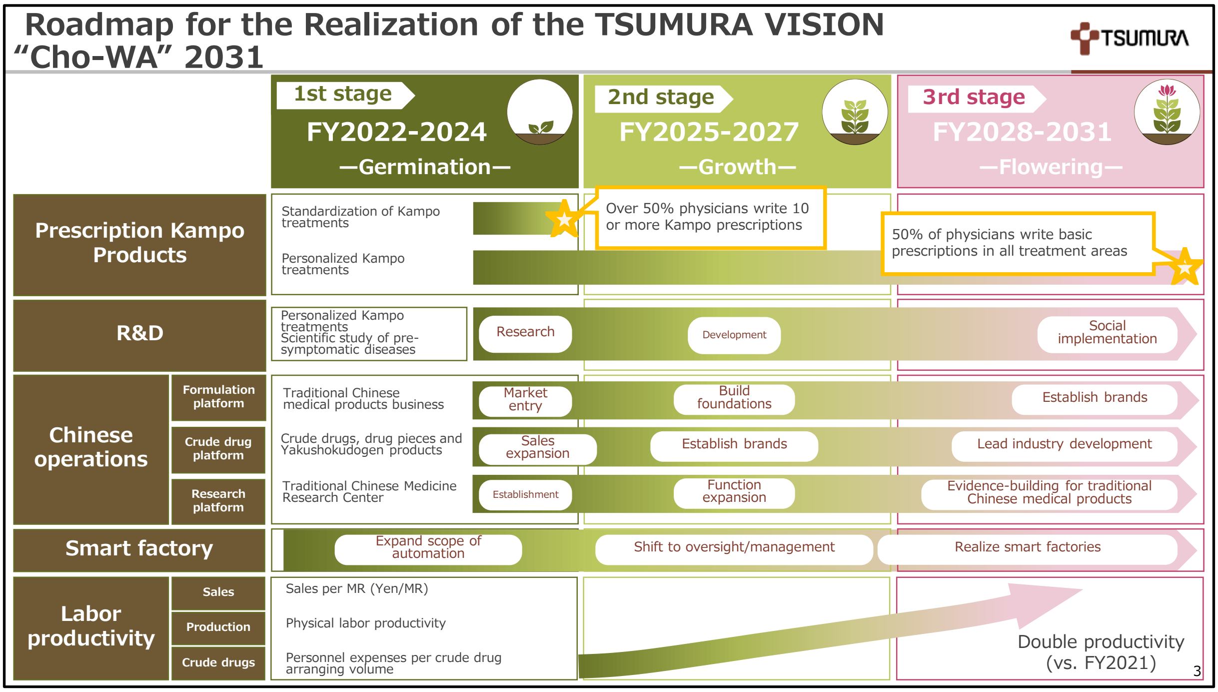
Here is the content for today’s presentation.

I will give an overview of the business results for the first quarter of fiscal 2023, discuss the initiatives and the progress we are making in our domestic business, and talk about the initiatives and the progress we are making in the China business.



This is a roadmap for the realization of the TSUMURA VISION “Cho-WA” 2031, which was announced in May 2022.

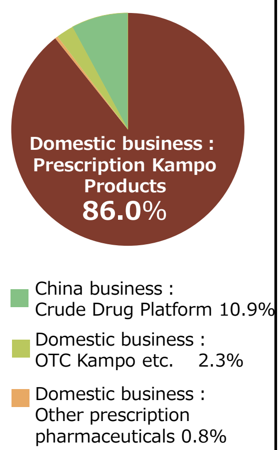
The first stage of the medium-term management plan, which will run through fiscal 2024, is positioned as the stage for conducting upfront investments and building a foundation as a step toward realizing the TSUMURA VISION.

1Q Business Results for FY 2023

【Million yen】	1Q FY 2022 results	1Q FY 2023 results	YoY Amount	YoY Change	1H plan	Progress Rate (vs. 1H plan)
Sales	**34,417**	**37,036**	**+2,618**	**+7.6%**	**74,000**	**50.0%**
Domestic business	31,562	32,988	+1,426	+4.5%	65,900	50.1%
China business	2,855	4,047	+1,191	+41.7%	8,100	50.0%
Operating profit	**6,353**	**4,684**	**(1,668)**	**(26.3)%**	**9,500**	**49.3%**
Domestic business	6,404	4,684	(1,719)	(26.9)%	9,900	47.3%
China business	(50)	0	+51	–	(400)	–
Ordinary profit	**8,665**	**5,989**	**(2,676)**	**(30.9)%**	**9,800**	**61.1%**
Profit attributable to owners of parent	**6,632**	**4,332**	**(2,300)**	**(34.7)%**	**6,800**	**63.7%**
PL translation rate (CNY)	18.32	19.36	+1.04	–	–	–

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

Ratio to total sales



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This is an overview of the business results in the first quarter of fiscal 2023.

Sales totaled ¥37.0 billion, a growth of 7.6% year-on-year.

The progress rate for sales versus our plan for the first half was 50.0%. Sales broke down to ¥32.9 billion in sales in the domestic business and ¥4.0 billion in sales in the China business.
The sales breakdown is as shown in the pie graph on the right.

Operating profit was ¥4.6 billion, a decrease of 26.3% versus the same period, a year earlier. The progress rate for operating profit in contrast with our plan for the first half was 49.3%.

Ordinary profit was ¥5.9 billion, a decline of 30.9% year-on-year. The progress rate for ordinary profit in contrast with our plan for the first half was 61.1%.

Meanwhile, profit attributable to owners of parent came to ¥4.3 billion, a reduction of 34.7% year-on-year. The progress rate for profit attributable to owners of parent in contrast with our plan for the first half was 63.7%.

Key Points in Performance

- Net sales rose reflecting growth in the domestic and China businesses
- Profit declined chiefly due to impact from unrealized gains, a rise in the cost of procuring crude drugs, and impact from a depreciation in the yen's value

Net sales	37,036	million yen	YoY	+7.6%	Progress rate (vs. 1H plan)	50.0%

- Domestic business: Total sales for the 129 prescription Kampo products: 31,838 million yen, up 5.2% year-on-year
  Total sales of the OTC Kampo formulations and other healthcare products: 837 million yen, down 7.2% year-on-year
- China business: Raw material crude drugs, drug pieces, Yakushokudogen products, etc. : 4,047 million yen, rose 41.7% year-on-year

Operating profit	4,684	million yen	YoY	(26.3)%	Progress rate (vs. 1H plan)	49.3%
Operating profit margin	12.6	%	YoY	(5.9)pt		

- Cost-to-sales ratio: 54.9%, +7.1pt YoY: In the same period of the previous year, unrealized gains contracted due to the lockdown of Shanghai; Unrealized gain is expected to rise in FY2023 owing to an increase in inventory; In addition, there is impact from crude drug procurement costs and devaluation of the yen
- SG&A ratio: 32.4%, (1.3)pt YoY: Sales growth offset growth investments, mainly in the DX transformation for Kampo value chain

Ordinary profit	5,989	million yen	YoY	(30.9)%	Progress rate (vs. 1H plan)	61.1%

- Foreign exchange gain primarily related to loans to overseas subsidiaries: 929 million yen, down 1,070 million yen year-on-year

*Foreign exchange gain not posted in plan

Profit attributable to owners of parent	4,332	million yen	YoY	(34.7)%	Progress rate (vs. 1H plan)	63.7%

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This slide depicts the key points of our performance.
In the domestic business, sales of the 129 prescription Kampo products came to ¥31.8 billion, a growth of 5.2% versus the same period, a year earlier.
Under restricted shipment conditions, sales grew reflecting information provision activities owing to e-promotions, which were partially restricted, and owing to continued prescriptions of formulations in the domain of cardiovascular diseases, and related to symptoms such as anxiety, insomnia and dizziness.
Sales of OTC Kampo products were ¥800 million, a decrease of 7.2% year-on-year, reflecting impact from an ongoing shortage of formulations related to common cold-related symptoms.
From July, we launched operations for a new manufacturing line to strengthen our production capacity for OTC Kampo products. We expect to gradually unwind our product shortage.
Sales in the China business totaled ¥4.0 billion, a rise of 41.7% in comparison with the same period, a year earlier. This reflect an increase in sales of raw material crude drugs in the crude drug platform business.

The cost-to-sales ratio was 54.9%, an improvement of 7.1pt year-on-year.
As factors triggering changes in performance, we posted an increase in unrealized gains, a rise in the procurement cost for crude drugs, a depreciation in the yen's value versus major currencies, and furthermore there was impact from soaring energy and raw material expenses.
I will explain this in detail later on.

The SG&A ratio was 32.4%, a decline of 1.3pt year-on-year.
The increase in sales absorbed the rise in outlays due to growth investments, mainly for the digital transformation of the Kampo value chain.

Operating profit totaled ¥4.6 billion, a decline of 26.3% versus the same period, a year earlier.

Under non-operating income, we posted a foreign exchange gain of ¥900 million, related to loans to overseas subsidiaries. Accordingly, ordinary profit came to ¥5.9 billion, putting the achievement rate for ordinary profit slightly higher than where we planned to be at the end of the first quarter in our first half plan.

Extrapolating from the above, profit attributable to owners of parent totaled ¥4.3 billion, a fall of 34.7% year-on-year.

Factors Triggering Changes in Operating Profit (YoY)

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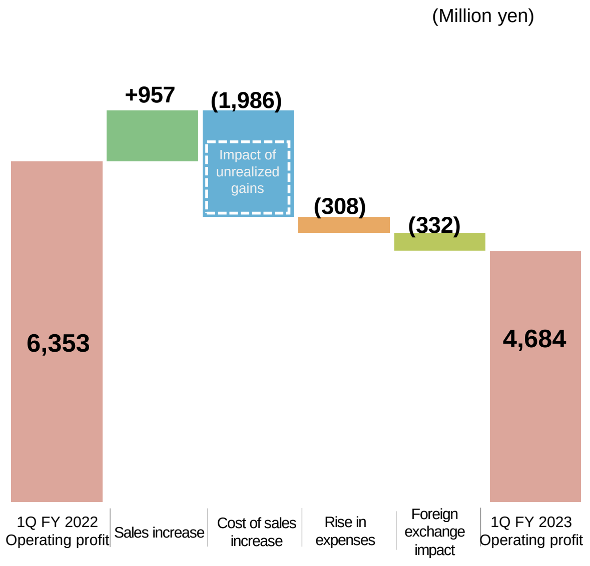

(Million yen)

Sales increase +957	
Domestic business	+789
China business	+168
Cost of sales increase (1,986)	
Domestic business: Unit sales price (of which NHI price revision impact was +395)	+554
Domestic business: Raw material crude drug cost (of which impact of unrealized gains was (1,278))	(1,709)
Domestic business: Raw material expenses	(262)
Domestic business: Processing expense, etc. (of which energy expense was (297); One-off expense at Tianjin Plant (277))	(474)
China business: Increase in crude drug PF sales	(95)
Rise in expenses (308)	
R&D expense	(71)
Salary allowance	(71)
Sales promotion expense	+14
Depreciation (Of which, decrease in temporary expenses at the Tianjin Plant +251)	+246
Other (Of which, system introduction expenses etc(185) ,activities expenses(127))	(426)
Foreign exchange (yen depreciation) impact (332)	

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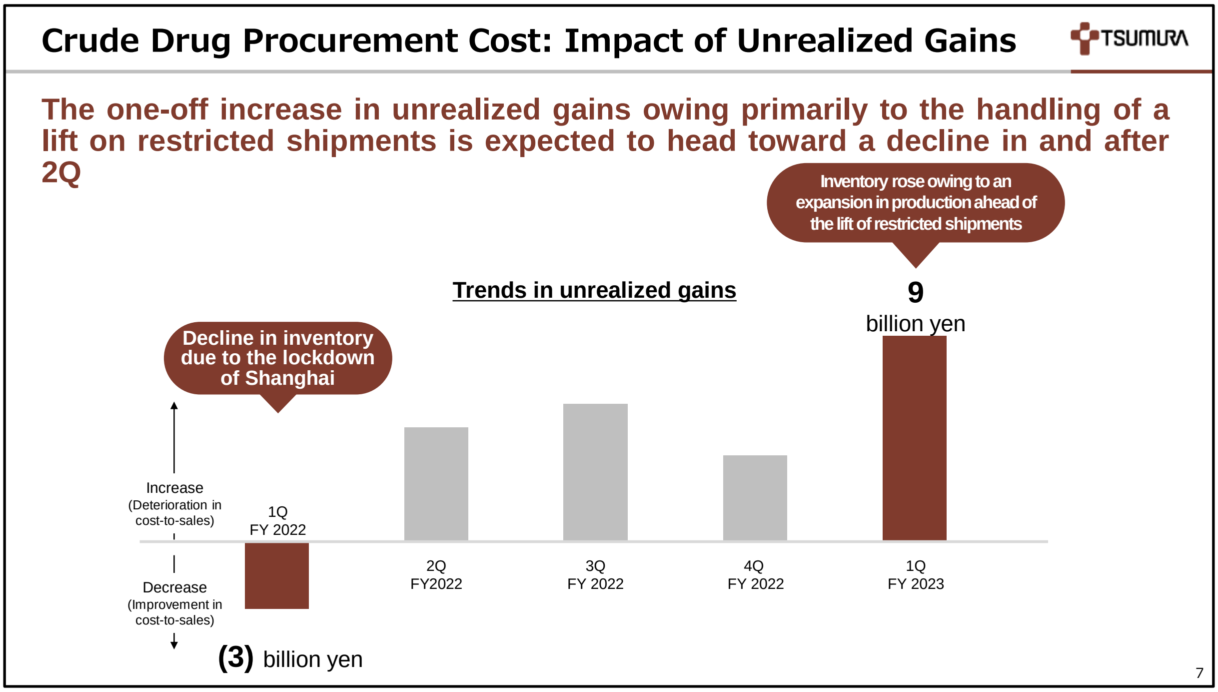
This slide outlies factors that triggered changes in operating profit. I will only explain the key points.
Operating profit was ¥4.6 billion, a decline of ¥1.6 billion year-on-year.

There was a positive impact from sales growth of ¥900 million.
This breaks down to a positive impact from sales growth in the domestic business of ¥700 million and a positive impact from sales growth in the China business of ¥100 million.

There was a negative impact of ¥1.9 billion due to an increase in cost of sales.
There was an improvement of ¥500 million reflecting a fluctuation in the unit sales price, including positive impact from the NHI drug price revisions. However, a rise in procurement cost for crude drugs led to a negative impact of ¥1.7 billion, soaring raw material costs which triggered a negative impact of ¥200 million, and an increase in process expense which resulted in a negative impact of ¥400 million.
The ¥1.7 billion impact due to an increase in crude drug procurement cost included an impact of ¥1.2 billion reflecting one-off unrealized gains.
I will explain this later.
In addition, processing expense including a ¥200 million rise in energy expense as well as a one-off expense of ¥200 million at the Tianjin Plant.
We are conducting process validation ahead of the start of shipments at the Tianjin Plant. The items that are manufactured are posted as inventory assets. The fixed costs related to the idle period for carrying out process validation are posted as cost of sales.

There was a negative impact of ¥300 million in tandem with an increase in expenses.
This was primarily attributable to a rise in system-related outlays for the digital transformation of the Kampo value chain.

The impact from foreign exchange translations was a negative ¥300 million.
There was impact from a rise in the import cost of crude drugs mainly due to a depreciation in the value of the yen.



This slide outlines the impact of unrealized gains to crude drug procurement costs.

In the first quarter of fiscal 2022, given the brisk sales in the domestic business, and the suspension of operations at the Shanghai Plant for approximately 2 months due to the lockdown of Shanghai, inventory assets substantially declined.

Consequently, unrealized gains, which are internal profit including inventory, declined. Unrealized gains impacted the direction of improvement for the cost-to-sales.

Meanwhile, in the first quarter of fiscal 2023, as a result of a rise in inventory reflecting a planned product hikes ahead of the lifting of shipment restrictions, there was an one-off rise in unrealized gains, which impacted the direction of deterioration in the cost-to-sales.

This rise in unrealized gains was an one-off event. We anticipate they will decline in and after the second quarter in tandem with the lifting of shipment restrictions.

Raw Material & Energy Expense Trends

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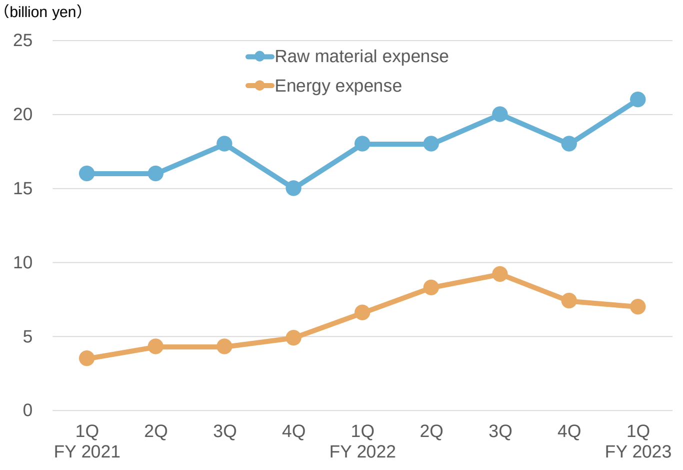

Raw material expense

・It's been risen from FY2022 due to the effects of inflation and the depreciation of the yen, and will be expected to be nearly flat after the 2Q of FY2023

Energy expense

・Sharp rise started from FY 2022, and peaked in 3Q FY 2022

・Level in 2Q FY 2023 expected to be on par with the level in 1Q FY 2023

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This slide depicts raw material and energy expense trends.

Raw materials are the crude drug used to manufacture Kampo products but also include diluting agents and packaging materials. Purchasing expense is rising from fiscal 2022 due to impact from inflation and yen depreciation.

This reflect initiatives, including the creating multiple suppliers while continuing to pay close attention to market trends. We forecast raw material expenses will likely trend flat in and after the second quarter.

Meanwhile, energy expenses rose sharply from fiscal 2022. It is our recognition that energy expenses peaked out in the second half of fiscal 2022.

In and after the second quarter of fiscal 2023, we anticipate transactions will be conducted at stable prices. We anticipate a contraction in the impact to cost-to-sales.

Financial Condition/Cash Flow Position

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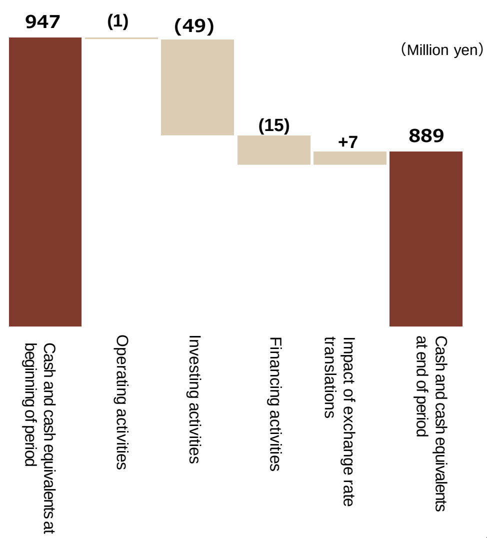
(Million yen)

	FY 2022 (March 2023)	FY 2023 1Q	Change
Total assets	**396,813**	**405,437**	**8,623**
Current assets	268,320	272,369	4,048
Non-current assets	128,492	133,067	4,574
Total liabilities	**124,566**	**126,345**	**1,779**
Current liabilities	47,205	49,402	2,197
Non-current liabilities	77,361	76,943	(418)
Total net assets	**272,246**	**279,091**	**6,844**
Equity ratio	63.5%	63.2%	(0.3)pt

	FY 2022 (March 2023)	FY 2023 1Q	Change	Of which, Exchange rate
Inventories	**101,726**	**107,501**	**5,774**	**1,306**
Merchandise and finished goods	11,257	12,659	1,402	83
Work in process	14,430	17,064	2,633	66
Raw materials and supplies	76,038	77,777	1,738	1,156



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This is our financial condition and cash flow position.

I will only explain the key points here.

Current assets increased ¥5.7 billion, primarily attributable to an increase in inventory assets in tandem with a production hike ahead of the lifting of shipment restrictions.

Non-current assets grew ¥4.5 billion, primarily attributable to impact from capital investments in tandem with the construction of the Tianjin Plant and system-related investments in tandem with reforms to the IT infrastructure.

The equity ratio stood at 63.2%, a decline of 0.3pt.

Cash flow is shown in the waterfall graph to the right.

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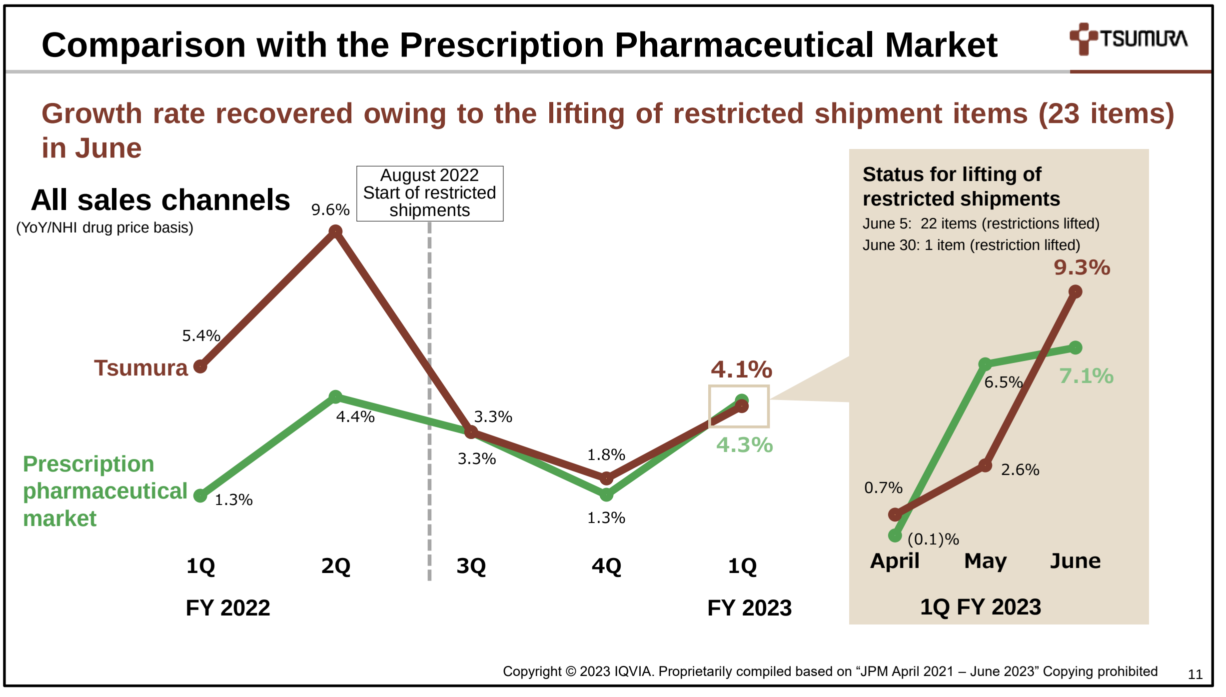
Secondly, I will explain the initiatives and the progress we have made in the domestic business.



This slide shows a comparison with the prescription pharmaceutical market.

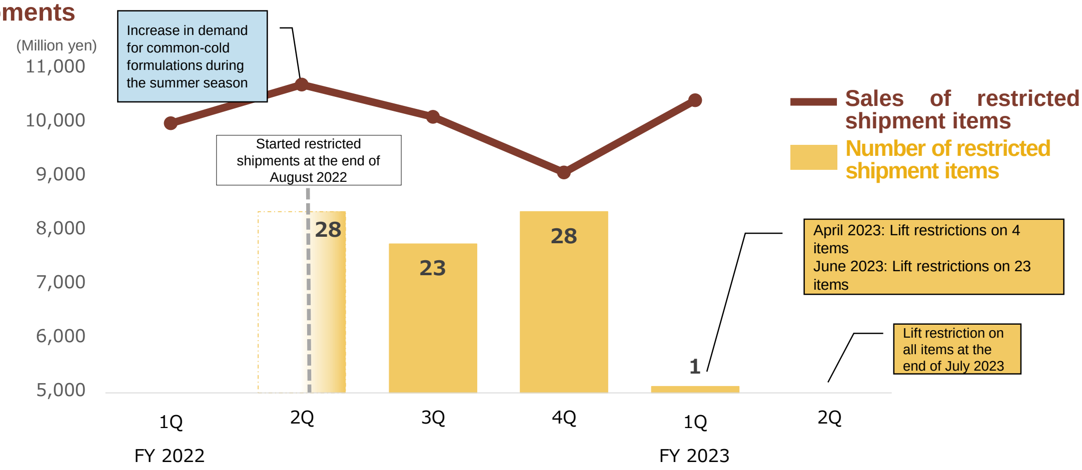
In all sales channels to hospitals and general clinics, the growth rate year-on-year on a NHI drug price basis outpaced the market.

Sales of prescription products at Tsumura trended above the market up to the second quarter in fiscal 2022. The growth rate was the on a par with the market from the third quarter of fiscal 2022 onward owing to the implementation of restricted shipments from the end of August 2022 onward.

The graph on the right depicts a break down by month in the first quarter of fiscal 2023.
In the month of June 2023, the growth rate topped the market owing to the lifting of shipment restrictions.

Sales of Restricted Shipment Items

- Sales of common-cold formulations declined in the winter months due to the start of shipment restrictions in and after the end of August 2022
- Sales of restricted shipment items recovered from June owing to a lift on restricted shipments



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Here are sales trends for restricted shipment items.

Restrictions were placed on shipments, including for antipyretic analgesic formulations due to the spread of the Omicron variant of COVID-19 from July 2022. Owing to this impact, restrictions were also placed on shipments of 28 Kampo items, including common-cold formulations such as Kakkonto and Bakumondoto.

In light of this, in and after the third quarter, the winter months when demand increases every year, we were not able to respond all demand. As a result, sales of the restricted shipment items declined.

In trends for restricted shipment items, shipment restrictions for all items were lifted at the end of July 2023.
Accompanying this, sales of items for which shipments were restricted are recovering.

Sales of Drug-fostering Program Formulations/Growing Formulations

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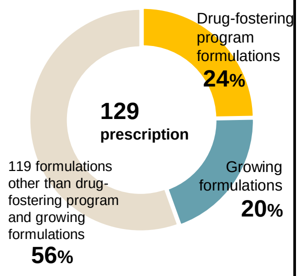
(Million yen)

	Net sales Ranking	Product No./formulation name	FY 2022 1Q	FY 2023 1Q	YoY	
Drug-fostering program formulations	1	100 Daikenchuto	2,505	2,515	+9	+0.4%
	2	54 Yokukansan	1,933	1,940	+6	+0.4%
	4	43 Rikkunshito	1,860	1,861	+1	+0.1%
	9	107 Goshajinkigan	932	995	+62	+6.7%
	23	14 Hangeshashinto	359	370	+11	+3.2%
Total sales for drug-fostering program formulations			7,591	7,683	+92	+1.2%
Growing formulations	3	41 Hochuekkito	1,881	1,931	+49	+2.6%
	5	17 Goreisan	1,542	1,801	+259	+16.8%
	6	24 Kamishoyosan	1,296	1,305	+9	+0.7%
	17	137 Kamikihito	501	590	+88	+17.7%
	18	108 Ninjin'yoeito	507	561	+54	+10.6%
Total sales for growing formulations			5,730	6,191	+461	+8.0%
Total sales for 119 formulations other than drug-fostering program and growing formulations			16,956	17,964	+1,007	+5.9%
Total sales for 129 prescription Kampo products			30,277	31,838	+1,560	+5.2%

Ratio to total sales



*Restricted shipments of Goshajinkigan to April 2, 2023

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This slide covers sales for prescription Kampo products and sales for drug-fostering program and growing formulations.

Sales for the 129 prescription Kampo products totaled ¥31.8 billion yen, a rise of 5.2% year-on-year.

In the drug-fostering program formulations, sales rose 1.2% year-on-year reflecting the partial restriction of promotions during the restricted shipment period.

Sales of growing formulations increased 8.0% year-on-year owing to the continued growth of Goreisan, Kamikihito and Ninjin'yoeito.

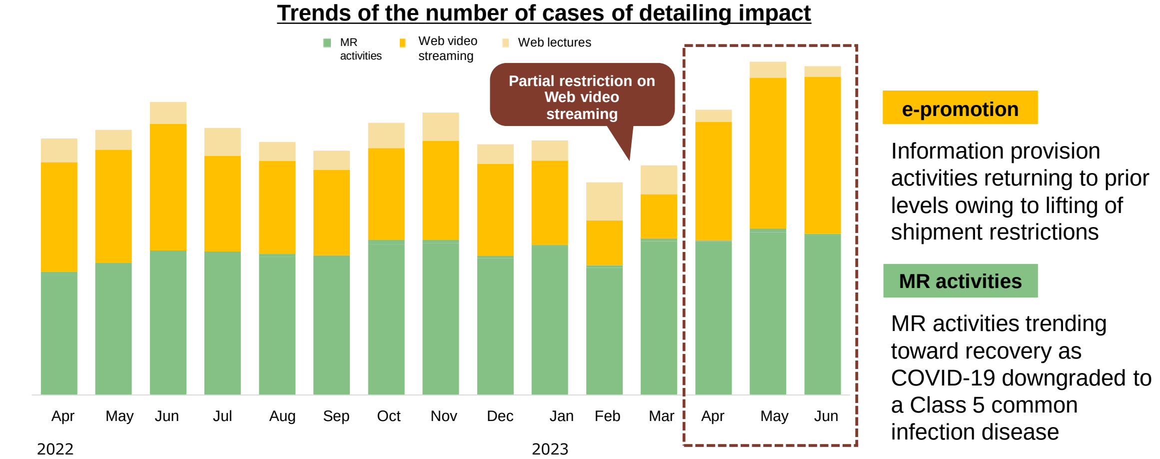
Sales of the following formulations increased. Goreisan is mainly prescribed to treat cardiovascular diseases, headaches and dizziness, and Kamikihito is used in the treatment of anxiety and insomnia. Ninjin'yoeito is prescribed to address the loss of appetite in elderly patients that are prefrail.

Sales for the 119 formulations other than drug-fostering program and growing formulations were ¥17.9 billion, an improvement of 5.9% year-on-year.

Sales for common-cold formulations are growing in tandem with the lifting of shipment restrictions.

Status of Information Provision Activities after the Lift of Shipment Restrictions

Partial restrictions, including Web video streaming, after the implementation of shipment restrictions, and resumption of activities after the lifting of shipment restrictions



＊Number of cases of detailing impact: Cases of information perception from each channel, including MR activities and the Internet
＊e-promotion: Information provision, including WEB lectures and video streaming
＊MR activities: Information provision via MRs + in-person lectures

Intage Healthcare Survey "Impact Track"

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In this slide we will discuss the status of information provision activities after the lifting of shipment restrictions.

This graph shows trends of the number of cases of detailing impact, which is the number of cases of information perception by physicians owing to MR activities (green) and e-promotions (yellow).

After the implementation of shipment restrictions, restrictions were also partially placed on Web video streaming for e-promotions. This triggered a decline in detailing impact. However, information provision activities are returning to their previous state along with the lifting of shipment restrictions.
Consequently, the number of cases of detailing impact from April onward is on the rise.

In addition, the number of interviews is trending toward recovery given the downgrade of COVID-19 to a Class 5 common infection disease.

Going forward, we aim for the number of cases of detailing impact to surpass levels in May and June. We are implementing aggressive information provision activities.

Boost Production Capacity for Domestic Business: Launching the Tianjin Plant (Tianjin Tsumura Pharmaceuticals Co., Ltd.)

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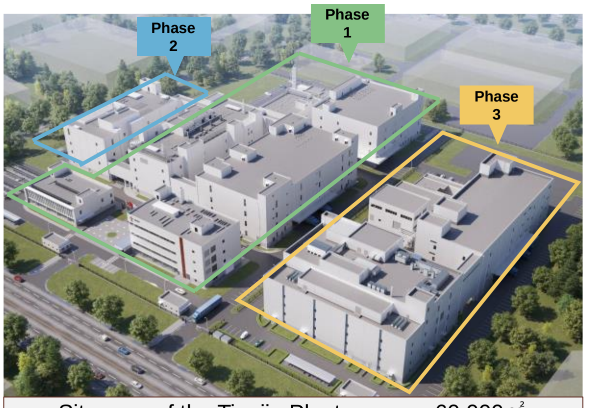
- Phase 1 construction is going through procedures to frontload the timing of the start of shipments
- Phase 2 and Phase 3 construction is in progress as planned

Production capacity for Kampo powdered extract (intermediate product) to rise about 35% owing to full-fledged operations from Phase 1 to Phase 3



Site area of the Tianjin Plant: approx. 60,000㎡

Phase 1 construction
- Kampo powdered extract production facilities, warehouse, utilities, etc.
- Investment: approx. 15.0 billion yen
- Scheduled to start shipments in FY 2023

Phase 2 construction
- Kampo powdered extract production facilities
- Investment: approx. 8.5 billion yen
- Complete construction: January 2024 (tentative)

Phase 3 construction
- Kampo powdered extract production facilities, quality control functions, etc.
- Investment: approx. 14.0 billion yen
- Complete construction: March 2025 (tentative)

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This slide showcases the progress being made in the launch of the Tianjin Plant for the purpose of strengthening production capacity.

The Tianjin Plant will manufacture Kampo powdered extract, an intermediate product, for our domestic business. Construction of this plant will take place in three phases.

Construction of Phase 1 has already been completed. Shipments are scheduled to commence in fiscal 2023. Taking into account demand trends for growth Kampo formulations, we are moving forward with procedures with relevant parties so as to frontload the timing for the start of shipments as soon as possible.

In addition, we have already embarked on Phase 2 and 3. Construction for Phase 2 is scheduled to be completed in January 2024 and Phase 3 construction is slated to be completed in March 2025.
Construction is progressing in line with plans.

Once Phases 1 to 3 are fully operational, this will boost the production capacity of Kampo extract for the entire Tsumura by approximately 35%.

Moreover, we are working to build a production system that will address an expansion in the Kampo market by successively strengthening other processes.

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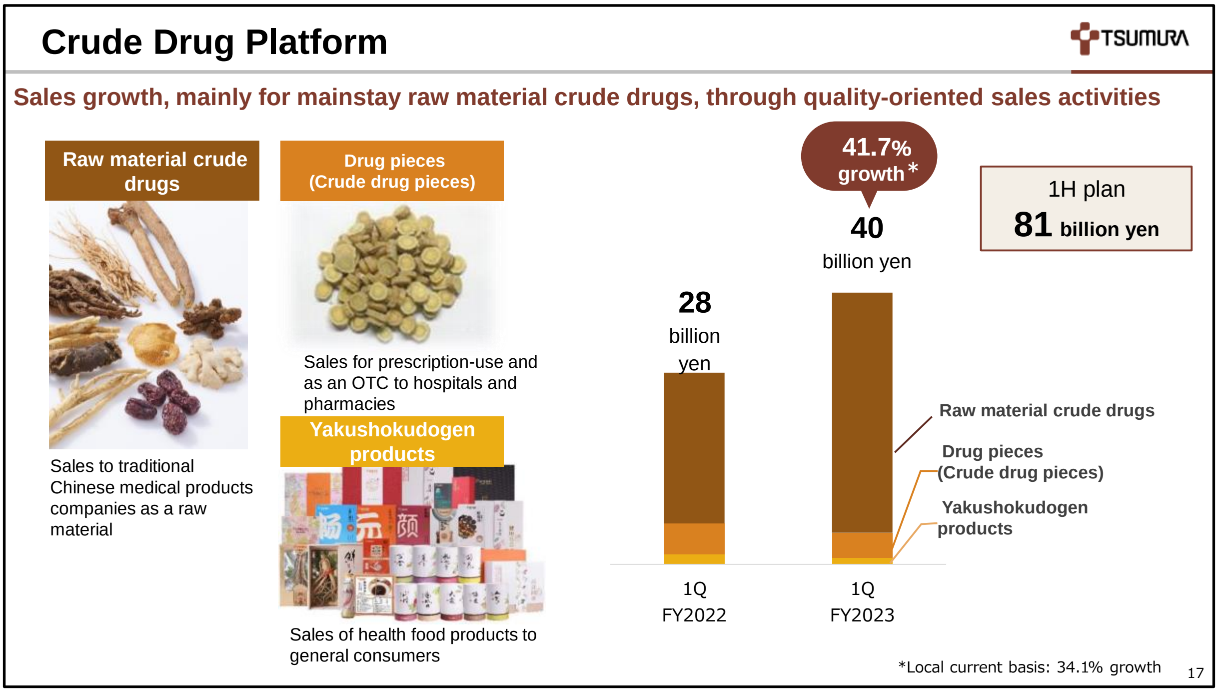
Lastly, I will explain the initiatives and progress being made in the China business.



This slides shows initiatives to expand business in the crude drug platform.

The crude drug platform mainly engages in the sales of raw material crude drugs, drug pieces and Yakushokudogen products.

Sales, mainly of raw material crude drugs, totaled ¥4.0 billion, an increase of 41.7% year-on-year, owing to the continued implementation of quality-oriented sales activities.

The scale of business operations in the crude drug platform is smoothly expanding and progress is line with plans.

Formulation Platform: July 31 Release

Notification of the signing of an agreement related to the transfer of equity interest in Shaanxi Unisplendour Life Care Pharmaceutical Co., Ltd. by Ping An Tsumura Inc.

Background

- Signed an agreement on the transfer of equity interest on April 13 (acquisition of total equity in Shaanxi Unisplendour Life Care Pharmaceutical Co., Ltd (Unisplendour)
- After the completion of all procedures for this project (May 9, 2023), we were contacted by the government of Baoji City, Shaanxi Province regarding differences in interpretation of national policy and related laws and regulations, etc. by the department in charge of the project at the Baoji municipal government.
- Following this, we repeatedly held discussions with the department in charge of the project at the Baoji municipality, and determined that conditions had not been satisfied for the continued implementation of this project.
- We understand and respect the opinions of the Baoji municipal government and transferred equity in Unisplendour.

Equity transfer partners	:	Shenzhen Hua Yu Tai Asset Management Co., Ltd., Baoji Investment (Group) Co., Ltd.
No. of shares sold	:	100% of the equity interest in Unisplendour
Sales price	:	254,788 thousand RMB
Agreement date	:	July 27, 2023
Earnings impact	:	Mild impact to FY 2023 consolidated earnings at Tsumura

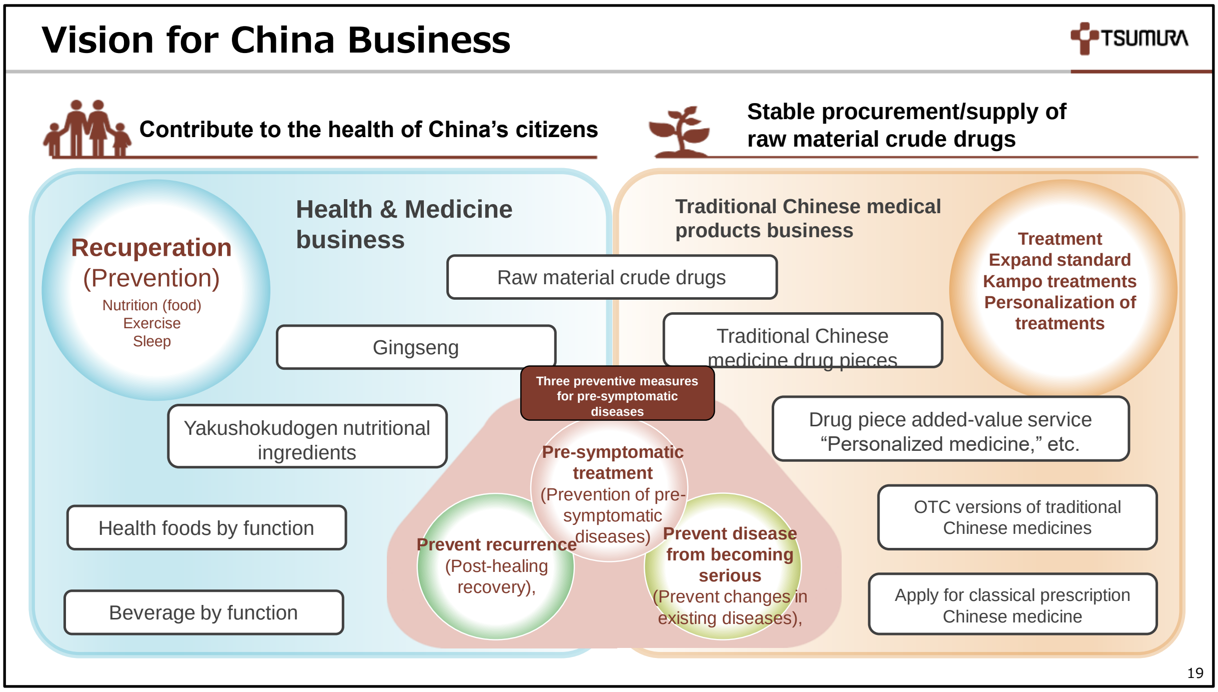
This slide outlines the details of our July 31 press release related to the formulation platform.

We signed an agreement on the transfer of equity interest on April 13, 2023. We completed all procedures for this project on May 9, 2023 and acquired 100% ownership in Shaanxi Unisplendour Life Care Pharmaceutical Co., Ltd. (hereinafter Unisplendour).

Following this, we received contact that it was found that there was a difference in interpretation of national policy and related laws and regulations by the department in charge of the project at the Baoji municipal government in Shaanxi Province.

We repeatedly held discussions with the department in charge of the project at the Baoji municipal government,and determined that conditions had not been satisfied for the continued implementation of this project. We understand and respect the opinions of the Baoji municipal government and transferred equity in Unisplendour.

This project will have minimal impact on our consolidated earnings in fiscal 2023.



As I just explained regarding the situation with Unisplendour, we completed the transfer of equity. It is our goal, as it has been thus far, to "contribute to the health of China's citizens" and achieve "stable procurement/supply of raw material crude drugs," objectives which we have been promoting as the goals of the China business.

We plan to grow into a traditional Chinese medical products and healthcare company that deploys a major healthcare business, which covers the domain of recuperation, prevention, and pre-symptomatic treatment, and the traditional Chinese medical products business, which spans the areas of treatment and pre-symptomatic treatment.

Inquires about these materials

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- 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.

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Appendix

Curbing of the NHI Drug Price Revision Ratio

- We plan to continue to promote the “value” of our prescription Kampo products and make proposals to related ministries in collaboration with industry groups
- In recent years, the reduction rate has been curtailed. In April 2023, a positive revision was implemented.