



**TSUMURA & CO.**

Second Quarter Business Results for Fiscal 2023

November 8, 2023

## Event Summary

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<b>[Company Name]</b>	TSUMURA & CO.	
<b>[Company ID]</b>	4540-QCODE	
<b>[Event Language]</b>	JPN	
<b>[Event Type]</b>	Earnings Announcement	
<b>[Event Name]</b>	Second Quarter Business Results for Fiscal 2023	
<b>[Fiscal Period]</b>	FY2024 Q2	
<b>[Date]</b>	November 8, 2023	
<b>[Number of Pages]</b>	36	
<b>[Time]</b>	13:00 – 14:03 (Total: 63 minutes, Presentation: 33 minutes, Q&A: 30 minutes)	
<b>[Venue]</b>	Dial-in	
<b>[Venue Size]</b>		
<b>[Participants]</b>		
<b>[Number of Speakers]</b>	8	
	Terukazu Kato	President, Representative Director, CEO
	Kei Sugii	Director, Co-COO
	Muneki Handa	Director, CFO
	Tadashi Okada	Director (Outside Director)
	Sususmu Adachi	CHRO in charge of Human Resources Department
	Yukinori Sorada	Executive Officer, Head of Sales and Marketing Division
	Akihito Konda	Executive Officer, Head of Kampo Research and Development Division
	Shoichi Kumagai	Executive Officer, Head of Production Division
<b>[Analyst Names]*</b>	Takashi Akahane	Tokai Tokyo Research Institute
	Kasumi Haruta	UBS Securities

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Fumiyoshi Sakai  
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UBS Securities  
Daiwa Securities  
SBI SECURITIES

\*Analysts that SCRIPTS Asia was able to identify from the audio who spoke during Q&A or whose questions were read by moderator/company representatives.

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## Presentation

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**Kitamura:** The time has come, and we will now begin the presentation of TSUMURA & CO.'s business results for Q2 of FY2023. Thank you very much for taking time out of your busy schedule to join us today.

This event is being held in a hybrid format of in-person at our headquarters and webcast. Please note that we will give a presentation without masks, as we have sufficient distance from the audience.

For web participation, audio will be played from the teleconferencing system. The presentation materials and video will be available on the webcast of the C-Meeting. Please note that no audio will be played from the C-Meeting. The presentation materials are also available on our website.

I would now like to introduce today's attendees.

This is Kato, President, Representative Director, and CEO. This is Sugii, Director and Co-COO. This is Handa, Director and CFO. This is Okada, Outside Director. This is Adachi, CHRO. This is Sorada, Executive Officer, Head of Sales and Marketing Division. This is Konda, Executive Officer, Head of Kampo Research and Development Division. This is Kumagai, Executive Officer, Head of Production Division. These are the eight members present.

I am Kitamura from Corporate Communications Department, and I will be your moderator. Thank you very much for your cooperation.

### Today's Agenda



01

#### Purpose-driven Value Creation & Capital Policy

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02

#### Second Quarter Business Results for Fiscal 2023 Overview

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Today's agenda.

First, Kato will explain about purpose-driven value creation and capital policy. Handa will then explain the details of the capital policy and the overview of the financial results for Q2 of FY2023.

The presentation is scheduled for approximately 30 minutes, then we would like to answer any questions you may have. The end time is scheduled for 2:00 PM.

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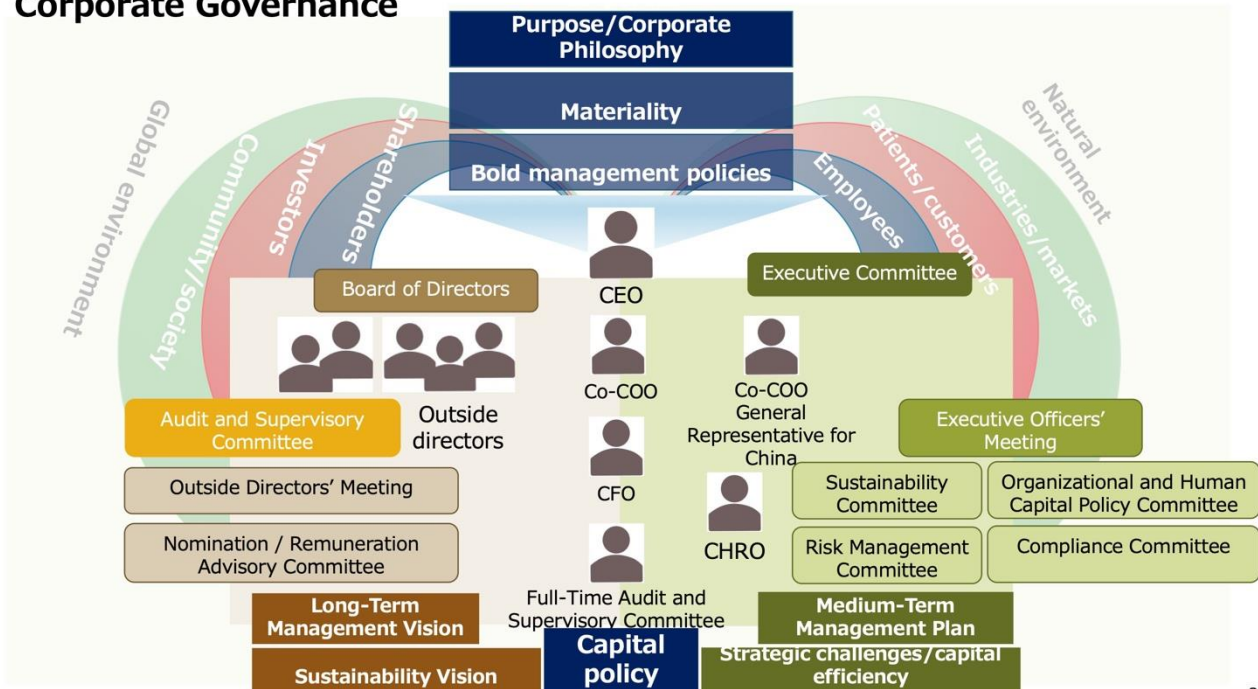
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Now, Kato will explain. Thank you.

**Terukazo Kato:** My name is Kato. Thank you very much for your participation. I would like to express my sincere gratitude to all of you for your continued support of our company and Kampo medicine.

In today's financial results briefing for Q2 of FY2023, I will first explain the cycle and story of purpose-driven value creation from a corporate governance perspective. Next, CFO Handa will explain the basic capital policy released yesterday, the new shareholder returns policy, and the Q2 financial results.

## Corporate Governance



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Let me first give you an overview of the purpose-driven value creation and capital policy.

The Board of Directors has been discussing value creation and capital policy from a purpose-driven view, as you can see in the structure.

Under the leadership of the Board of Directors, a new purpose, “Lively living for everyone,” was established. We have been studying the purpose-driven value creation cycle, process, and story.

In addition, we have adopted a fundamental management policy that will form the basis of our long-term management vision, TSUMURA VISION “Cho-WA” 2031. At the same time, we have also formulated a sustainability vision toward carbon neutrality in 2050 and environmental targets as an action plan for 2031.

The materiality has been completely updated, and based on financial theory and balance sheet management, a basic capital policy has been formulated, including capital efficiency and optimal capital structure, and a new shareholder return policy based on the policy.

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# Oversight Functions of the Board of Directors and Leadership

**Board of Directors**

June 2017

- Shift to Company with an Audit and Supervisory Committee
- The Board of Directors will consist of a majority of independent outside directors
- Established the Nomination / Remuneration Advisory Committee (Chair: Outside director)

June 2021

- Formulated a bold management policy

April 2022

- Newly established the Principles and the Corporate Purpose
- Formulated the Long-Term Management Vision, TSUMURA VISION "Cho-WA" 2031
- Established the Sustainability Vision
- Revised the TSUMURA GROUP DNA Pyramid

May 2022

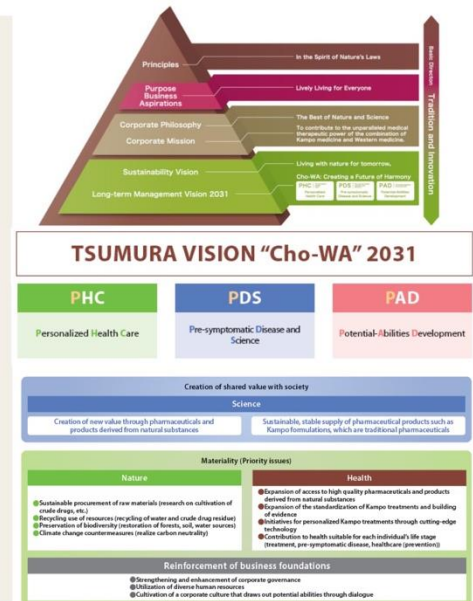
- Introduced a long-term performance-linked, stock based remuneration system

September 2023

- Updated materiality

November 2023

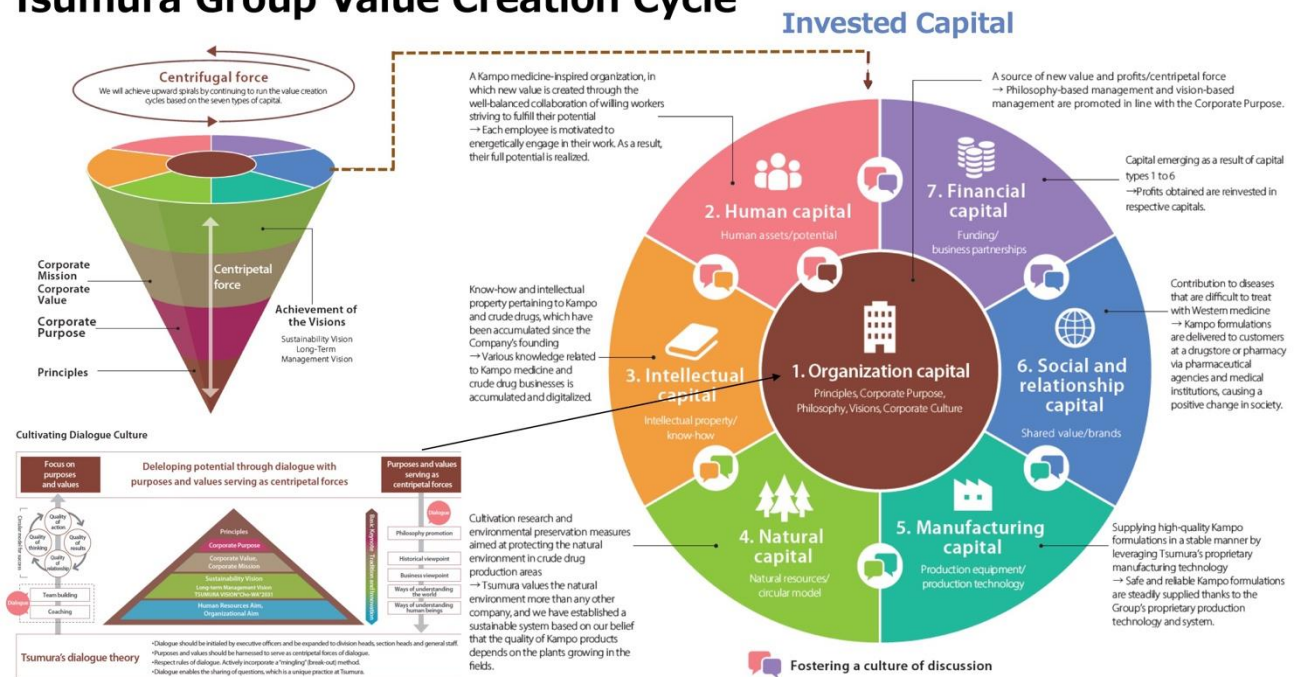
- Formulated the basic policy for the capital policy and a new shareholder return policy



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As you can see, as part of the Board's oversight and leadership role, we have been discussing organization and institutional reforms or value creation in chronological order. As described in this Integrated Report 2023, we will accelerate our efforts to enhance corporate value.

## Tsumura Group Value Creation Cycle



As shown in the diagram on the upper left, the Group's value creation cycle starts with Principles and Purpose, and spirals upward by practicing management based on Corporate Mission and Vision, with these as the core driving forces, and continuing to rotate the cycle of value creation using seven types of capital, including organization capital as invested capital.

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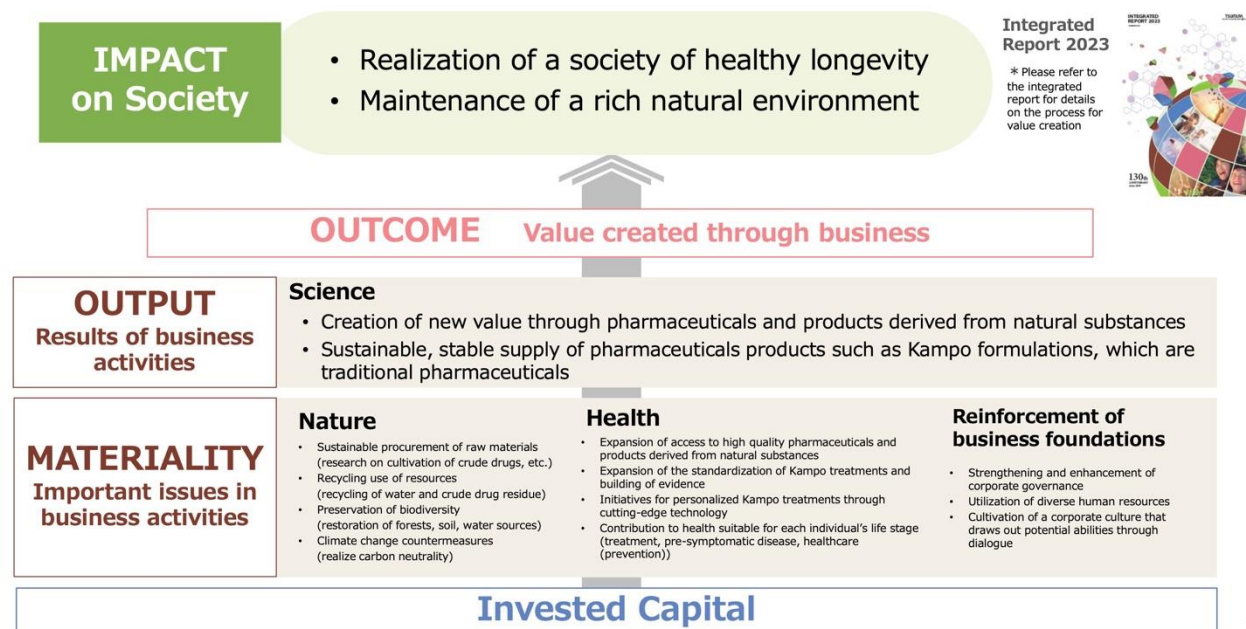
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The strength of the Group's unique organization capital is referred to as Kampo organization. As shown below left, it is a cyclical model that practices coaching and team building through dialogue based on purpose and value as a centripetal force, creating quality of relationships, thinking, action, and results.

## Tsumura Group Process for Value Creation



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Here is the value creation process based on this cyclical cycle.

Based on our fundamental corporate values of “The Best of Nature and Science,” we invest seven capitals to solve “materiality”, which are important issues in our business activities, such as nature, health, and strengthening our management foundations. And by science the results of those business activities, we create value through pharmaceuticals and products derived from natural substances, which we believe in.

At the same time, we will realize a sustainable and stable supply of pharmaceutical products such as Kampo formulations, which are traditional pharmaceuticals from procurement of raw materials crude drug, through the establishment of an advanced system.

Based on the concept of CSV, we aim to create a positive impact on society by sharing the value and outcome through these businesses and aiming to provide medical care that leaves no one behind. We will achieve and maintain both a healthy longevity society and a rich natural environment. This is the value creation process of our group.

As a group that has grown through the science of nature's wisdom, we believe that working to create common value rooted in a sustainable society and natural environment is what will give us a competitive advantage and contribute to the enhancement of our corporate value.

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## TSUMURA VISION “Cho-WA” 2031

Under the title TSUMURA VISION “Cho-WA” 2031 we are working to fulfill the potential of our three Ps as we live in greater balance with nature and welcome an era in which we support well-being for every individual, using the power of nature and science, mainly in traditional medicine, with Kampo and traditional Chinese treatments at its core.

**PHC**

Personalized Health Care

This means contributing to well-being through evidence-based provision of Kampo and traditional Chinese treatments and other products and services tailored to the individual's life stage, symptoms, genetic makeup and living environment.

**PDS**

Pre-symptomatic Disease and Science

With this we contribute to building a healthier society by establishing diagnostic methods and systems to address a given pre-symptomatic disease, defined based on evidence.

**PAD**

Potential-Abilities Development

This describes a corporate culture that employs dialogue to encourage every employee to make the most of their potential, making us a trustworthy organization as we explore Kampo and Chinese-medicine business, for which there is no other model in the world.

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In the area of treatment, we have been expanding evidence-based standard Kampo treatments, but we will create new value by establishing treatments for pre-symptomatic disease through science, as well as aiming for Kampo treatments tailored to each patient.

Furthermore, in the areas of health care and prevention, we will develop and offer new products to our customers by maximizing the scientific knowledge we have cultivated based on herbal medicines in the food category.

### Achievements to be Realized under TSUMURA VISION “Cho-WA” 2031 [Updated]



Business operations	<ol style="list-style-type: none"> <li>1. 50% of physicians will write basic prescriptions in all treatment areas</li> <li>2. Expand standard Kampo treatments and personalize Kampo treatments</li> <li>3. Scientific study of pre-symptomatic diseases Three preventive measures for pre-symptomatic diseases (treat disease before symptoms appear, prevent change in existing disease and post-healing recovery)</li> <li>4. Build foundation for the China Business (China Business to account for 50%-plus of sales)</li> <li>5. Digital transformation of the Kampo value chain</li> <li>6. Implement purpose management, philosophy management and vision management</li> </ol>
Finance	<ul style="list-style-type: none"> <li>• Capital policy (Capital efficiency/optimal capital composition)</li> <li>• New shareholder return policy</li> </ul>

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As shown above, we have already presented the six items related to our business operations as the goals to be achieved under TSUMURA VISION “Cho-WA” 2031.

We have now added capital policies, such as capital efficiency and optimal capital structure, to our new shareholder return policy.

Handa, CFO, will continue to explain the financials.

**Kitamura:** Thank you very much. Handa will then explain the details of the capital policy and the overview of the financial results for Q2 of FY2023. Thank you.

## Achievements to be Realized under TSUMURA VISION “Cho-WA” 2031 [Updated]



Business operations	<ol style="list-style-type: none"><li>1. 50% of physicians will write basic prescriptions in all treatment areas</li><li>2. Expand standard Kampo treatments and personalize Kampo treatments</li><li>3. Scientific study of pre-symptomatic diseases Three preventive measures for pre-symptomatic diseases (treat disease before symptoms appear, prevent change in existing disease and post-healing recovery)</li><li>4. Build foundation for the China Business (China Business to account for 50%-plus of sales)</li><li>5. Digital transformation of the Kampo value chain</li><li>6. Implement purpose management, philosophy management and vision management</li></ol>
Finance	<ul style="list-style-type: none"><li>• <b>Capital policy (Capital efficiency/optimal capital composition)</b></li><li>• <b>New shareholder return policy</b></li></ul>

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**Handa:** Hello, everyone. This is Handa. I am taking over the presentation from now on.

With regard to finances, we have developed and added a new capital policy, including capital efficiency and optimal capital structure, as well as a new shareholder return policy, the details of which are explained in the following pages.

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**\*Cost of equity: approx. 7%**

Calculate using the CAPM Risk free rate: 2%; Risk premium: 6%, β value: approx. 0.8

\*Equity spread = ROE – Cost of equity

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First, ROE improvement.

By improving ROE, we aim to achieve a positive equity spread that exceeds our calculated cost of shareholders' equity of 7% as soon as possible, and then set our target level for 2031 at 10% ROE. We aim to achieve an ROE of 8% or higher for existing businesses.

For our approach to improving ROE, we will use the DuPont formula to break it down into profitability, asset turnover, and financial leverage, and we will discuss our approach to improve each of these elements.

In terms of profitability, in addition to expanding the scale of sales, we aim to improve the operating profit ratio in the domestic business by reducing the cost of sales and SG&A ratio.

In the China business, we aim to achieve sales and an operating profit margin equal to or higher than those of the domestic business by entering into the formulation platform in addition to the existing crude drug platform, in terms of traditional Chinese medicine products.

With regard to total asset turnover, we aim to improve it by improving CCC, reducing cash and deposits to an appropriate level, and selling cross shareholdings.

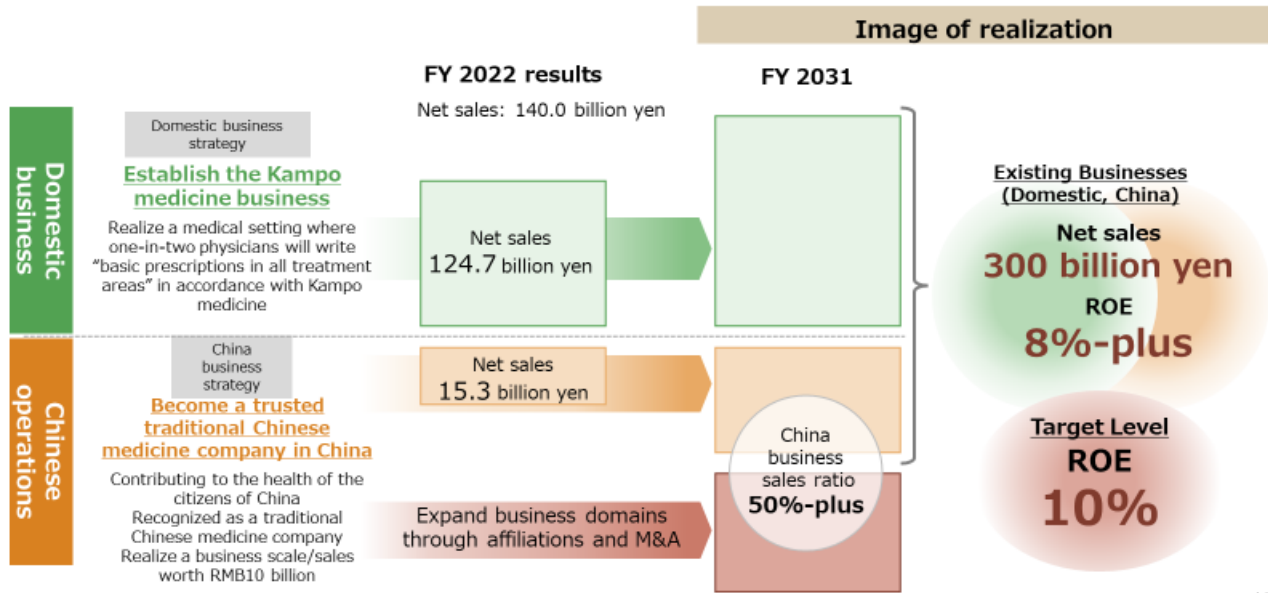
With regard to financial leverage, we will pursue an optimal capital structure while ensuring financial soundness.

In the following pages, we will discuss our policies and efforts to improve each element.

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This is an image of sales growth to improve profitability.

As our sales image for FY2031, we aim to achieve sales of JPY300 billion and an ROE of more than 8% above the cost of shareholders' equity in our existing areas of business in Japan and in our crude drug platform in China.

Furthermore, we aim to achieve business domain expansion through alliances and M&A, with the goal of achieving a China business sales ratio of 50% or more and an ROE of 10%.

As for our business strategy, which is our effort to achieve this goal, as we have explained in past briefings, our domestic business strategy is to establish Kampo medicine, specifically, to realize a medical field where more than one out of two doctors prescribe all the basic prescriptions for treatment area based on Kampo medicine.

In our China business strategy, we aim to become a trusted traditional Chinese medicine company in China and achieve sales of CNY10 billion as a business scale that is recognized as a traditional Chinese medicine company contributing to the health of the Chinese people.

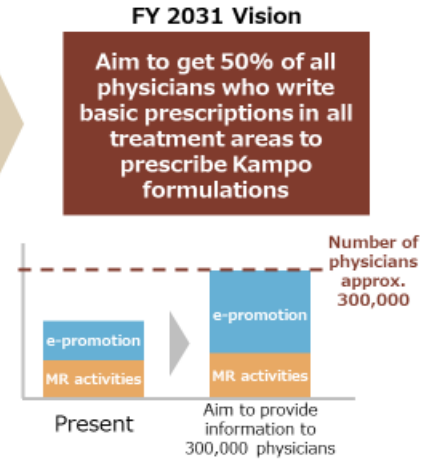
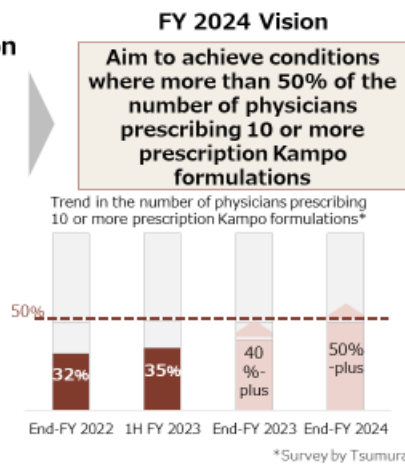
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·Aim to realize a usable system by building information provision channels so that medical practitioners can obtain necessary information

- ✓ Build a system to facilitate the provision of information via optimal channels



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To expand the scale of sales in the domestic business, we aim to achieve that each and every health care professional can obtain and utilize the information they need by dramatically improving the provision of Kampo information through DX.

Since 2020, we have been investing ahead of time in expanding our e-promotion to transform our information provision activities.

As a result, the medical Kampo business has been growing at an annual rate of 2% to 3% so far, but it will continue to grow at a rate of over 5%. We will continue to achieve the target of 50% of physicians prescribing 10 or more Kampo prescriptions, which was set in the first medium-term business plan as our ideal vision for FY2031.

We will continue to expand our e-promotion efforts and aim to be in a position to provide information to 300,000 physicians.

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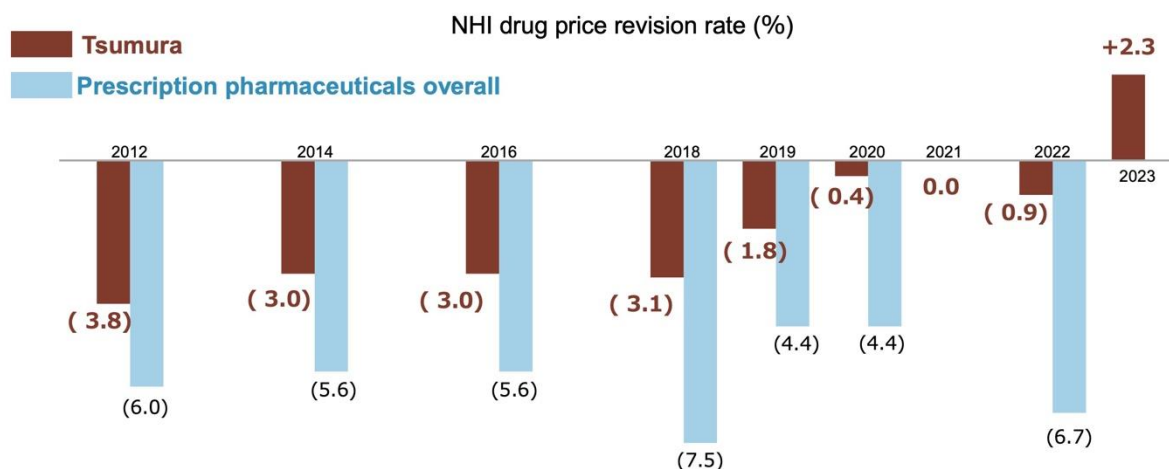
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# NHI Drug Price Revision Rate



In recent years, the rate of reduction has been shrinking, and in 2023 prices were upwardly revised in tandem with soaring consumer prices



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NHI price revision rates.

As a result of our ongoing activities to inform distributors and medical institutions about the product value and current status of Kampo medicines and to encourage transactions commensurate with the product value, the NHI price revision rate has been less than negative 1% in recent years.

In addition, with the NHI price revision in April 2023, including special measures due to soaring prices and other factors, 40 of our products were subjected to the recalculation of unprofitable products, resulting in a weighted average revision of plus 2.3% for all prescriptions. This activity will be continued in the future.

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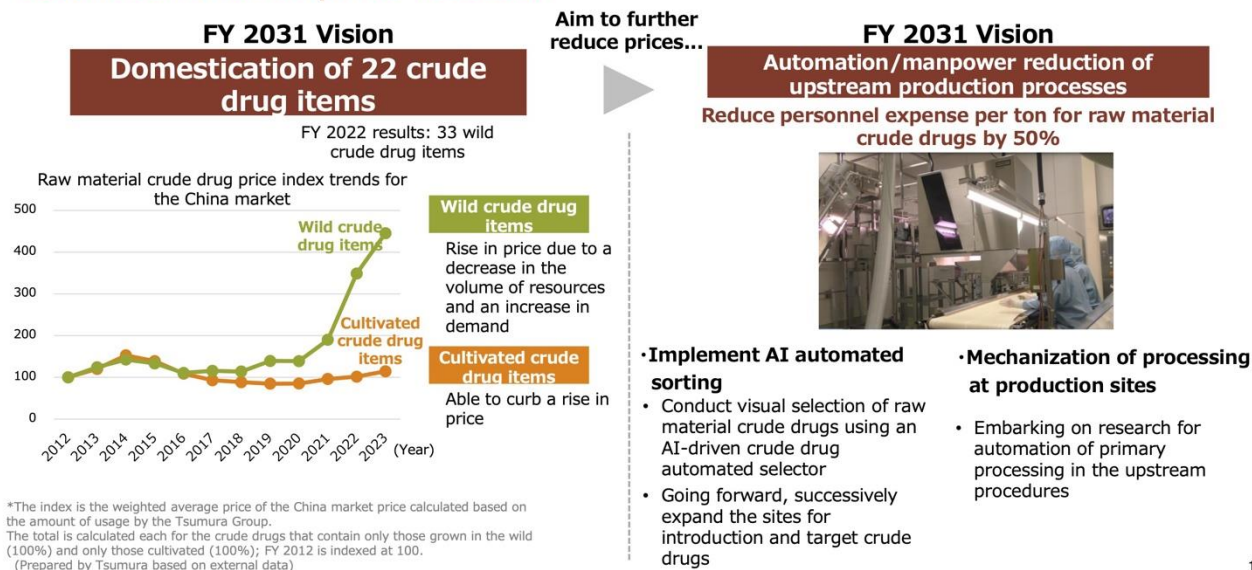
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## Reduce crude drug prices by expanding domestication of crude drugs and enhancing automation and manpower reduction



Next is our effort to reduce costs.

First, regarding the reduction of crude drug prices, there are many things that contribute to improvement: the conversion of wild crude drugs to be cultivated, the improvement of yields of cultivated crude drugs, the automation and mechanization of local production, the expansion of introducing automatic sorting machines, and the automation of quality testing.

Among them, today I will first explain the cultivation of crude drugs.

The graph on the left shows the index of wild and cultivated crude drugs in the Chinese market in 2012 marked as 100. As you can see, the price of wild products has increased significantly in recent years due to decreasing resources and increasing demand, while the price increase of cultivated products has been controlled. Therefore, we have been working for many years to cultivate wild crude drugs.

The number of wild crude drugs currently in use has been reduced to 33 items, and we aim to cultivate 22 items by 2031.

In order to reduce prices further, we will promote mechanization and automation in the upstream process of crude drug cultivation, temporary processing, and sorting, which are currently mostly done by hand, in order to save labor.

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✓ Realize low-cost plant operations

**Aim to more than double the physical labor productivity**

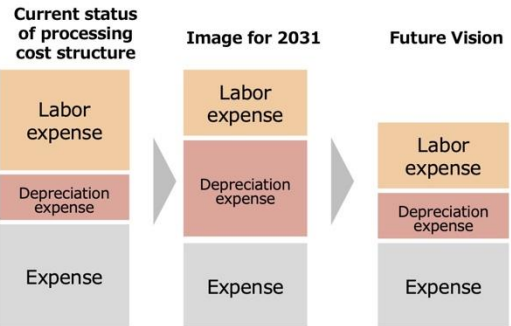
- Automation mainly by using AI technologies for inspections, operations and incidental operations
- After the completion of depreciation, operations in the long term is possible



Reduce operator manpower via automation of visual inspections of sachets, individual boxes and outer casings

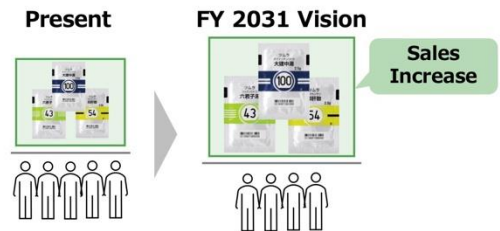


The depreciation period for SD facilities is around eight years, and the operating period is approximately 20 years



✓ More than double sales per employee by improving productivity through digital transformation (DX)

**Aim for a SG&A ratio in the lower 20% level**



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This slide shows our effort to reduce processing costs and SG&A expenses.

In factories, we aim to realize low-cost operations and more than double productivity compared to physical labor.

We have already developed technologies for a series of manufacturing processes. We will actively invest in the development and introduction of automation technologies to improve the efficiency of manual operations, such as product appearance inspections, and ancillary operations.

As a result, while labor costs will decrease due to productivity improvements in terms of processing costs, depreciation burden will temporarily increase by capital investment. However, equipment can remain in operation for a long time after the depreciation period, which will further reduce processing costs in the future.

As for SG&A expenses, we aim to achieve a SG&A-to-sales ratio in the low 20% range by more than doubling sales per employee through productivity improvement from DX. At the same time, we will maintain at least a 5% level of consolidated sales for R&D expenses, such as the scientific development of pre-symptomatic disease.

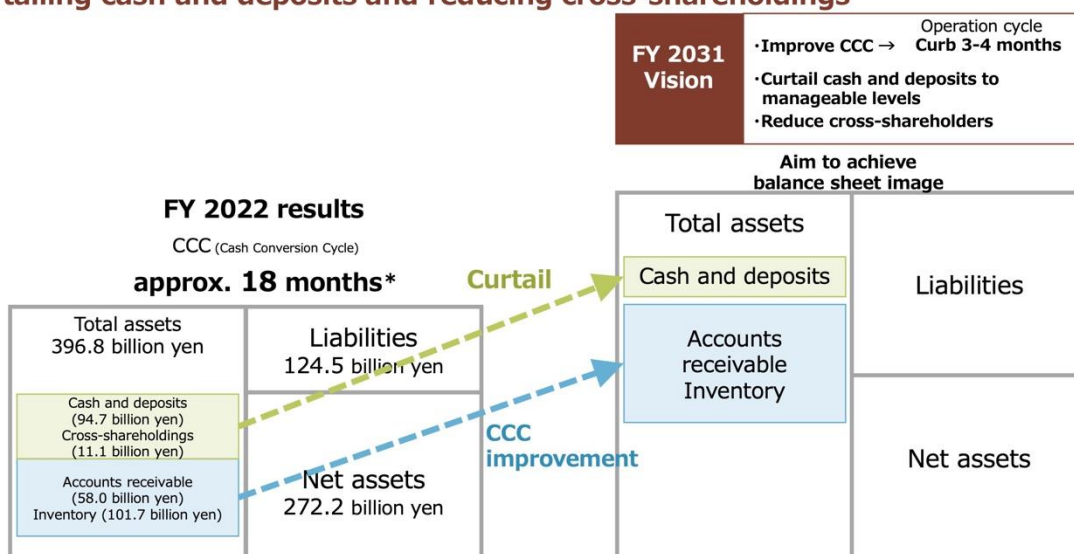
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## Improving Total Asset Turnover Rate: Initiatives to Improve the Balance Sheet

Improve total asset turnover mainly by improving the cash conversion cycle (CCC), curtailing cash and deposits and reducing cross-shareholdings



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We will work to improve our balance sheet to enhance asset and capital efficiency. We recognize that improving CCC is a medium- to long-term issue, and we will make improvements based on the balance and risks throughout the supply chain.

As a result of the acquisition of Ping An Tsumura Medicine Co., Ltd., the inventory of raw crude drugs has risen, and the CCC is currently about 18 months. However, we aim to shorten the operational cycle to three to four months by optimizing the crude drug inventory throughout our group.

Specific initiatives are explained on the following pages.

Cash and cash equivalents are being procured in advance to fund growth investments in the first medium-term management plan and the redemption of existing bonds, taking into account interest rate trends. Therefore, the level is high at this moment. We will compress it to an appropriate level through strategic investment in the future.

Furthermore, we will aim to reduce cross shareholdings over the medium to long term.

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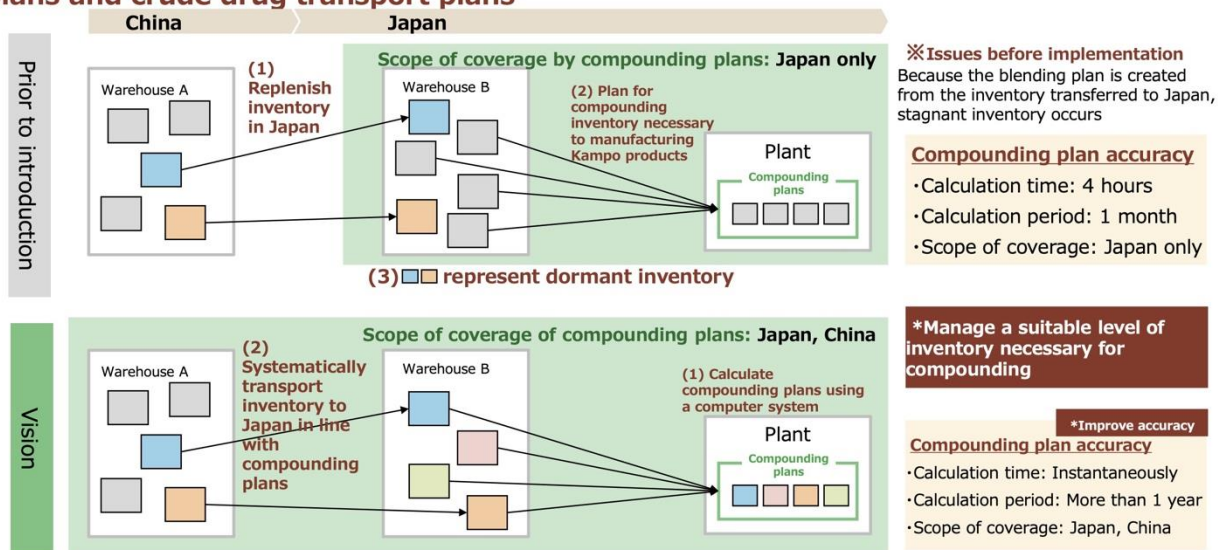
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## CCC improvement: Introduction of a crude drug compounding planning system



### Improve crude drug inventory turnover by optimizing crude drug compounding plans and crude drug transport plans



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We have introduced a crude drug preparation planning system, which was recently released. This will improve CCC by increasing the turnover rate of crude drug inventory at the four domestic and four Chinese bases and by streamlining logistics operations.

In manufacturing Kampo medicines, we formulate preparation plans for raw crude drugs with the aim of maintaining product homogeneity.

One of the challenges in the Kampo formulation plan was that it has been mainly done by manually, so we only were able to make formulation plans for about a month's worth within the scope of the inventory available in Japan. In this case, inventory first had to be replenished from China to Japan, and inventory that did not correspond to the preparation plan was at risk of becoming backlogged inventory.

With this system in place, inventory in China and Japan can be covered, and it also can be transferred from China to Japan based on the formulation plan. As a result, inventory can be managed at an appropriate level, leading to CCC improvement.

The formulation planning process has also been improved, with the calculation time becoming instantaneous and calculation periods of more than a year.

In the future, we aim to shorten the CCC by three to four months by using this system and making it as a pillar to promote the transformation of the entire Kampo value chain, which begins from the cultivation of crude drugs.

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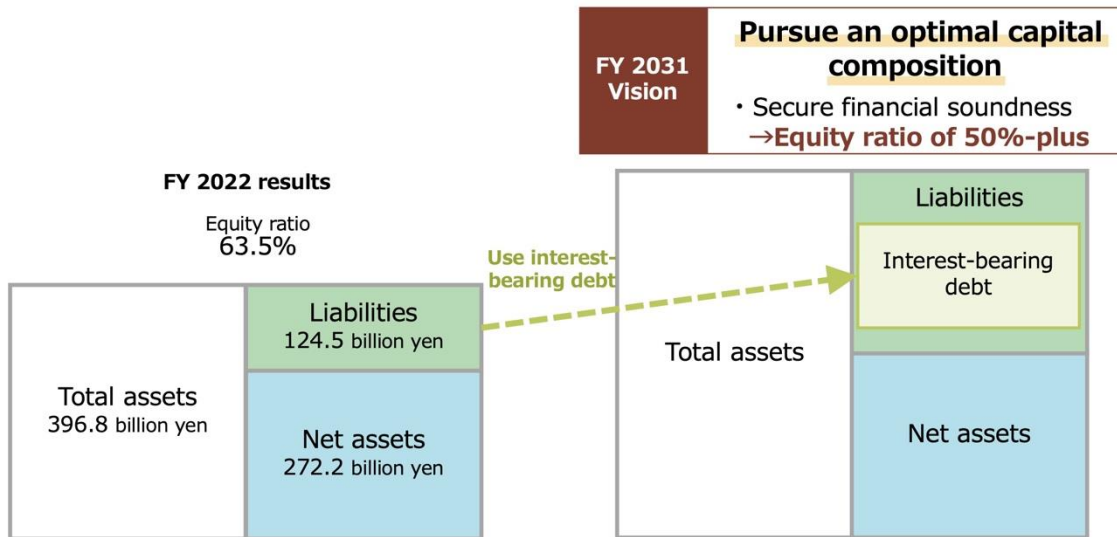
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## Secure financial soundness while pursuing an optimal capital composition

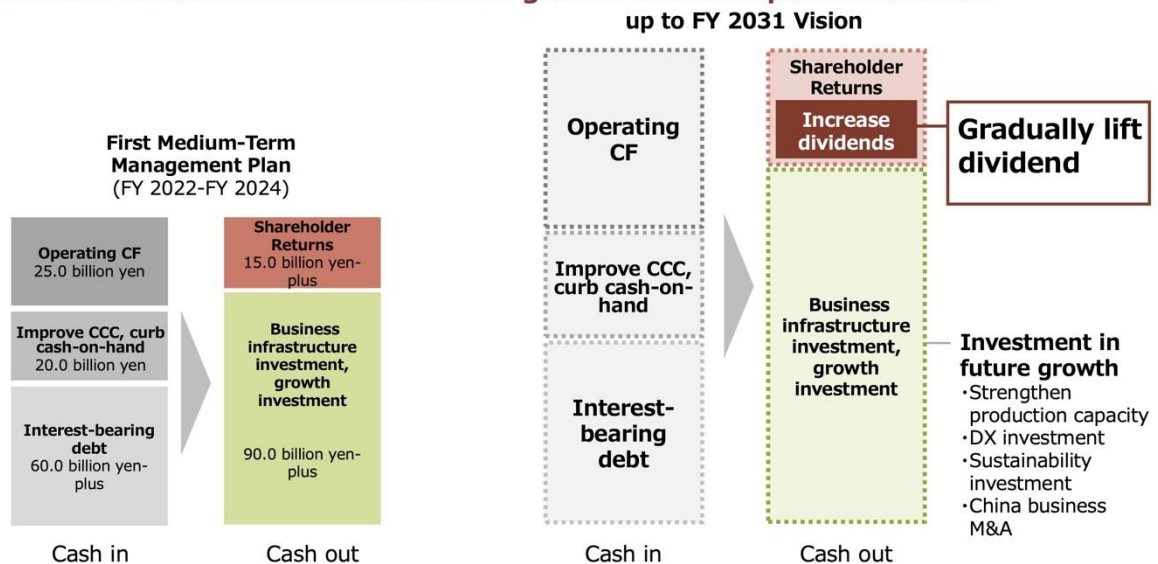


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Our goal for balance sheet management is to ensure financial soundness and pursue an optimal capital structure by reviewing net assets and interest-bearing debt ratios. In doing so, the Company sets a capital adequacy ratio of 50% or more as a standard for ensuring financial discipline.

## Cash Allocation

### Generate cash by enhancing earnings power and improving the balance sheets, and allocate cash to achieve further business growth and to expand dividends



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Cash allocation.

Cash inflows during the first medium-term management plan period through FY2024 are expected to be JPY25 billion from operating cash flow, JPY20 billion from CCC improvement and reduction of cash on hand, and more than JPY60 billion from interest-bearing debt.

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Cash outflows are expected to be more than JPY90 billion for business infrastructure and growth investments and more than JPY15 billion for shareholder returns.

Our goal by 2031 is to generate cash by increasing operating cash flow, improving CCC, and reducing cash on hand, as well as using interest-bearing debt to raise funds.

As for cash outflows, the Company will return profits to shareholders by increasing dividends in stages while making investments in business infrastructure and growth necessary to enhance corporate value.

## Pursue an Optimal Dividend Payout Policy



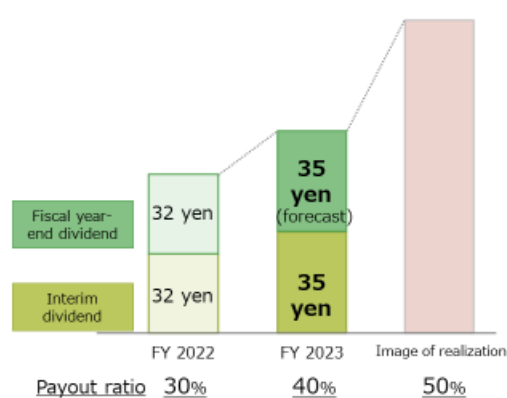
**Aim to achieve an optimal dividend payout that is based on an optimal capital composition that ensures financial soundness**

**Target level**

**DOE 5%**  
= Dividend payout ratio of 50% × ROE of 10%

**Existing Businesses DOE of 4%-plus**  
= Dividend payout ratio of 50% × ROE of 8%-plus

- ✓ **Expand dividends base on capital structure**  
Targeting a dividend payout ratio of 40% in FY2023, increasing it gradually towards FY2031



Note: The fiscal year-end dividend for FY 2023 and the dividend payout ratio (forecast) is a forecast number as it is predicated by the approval of the dividend resolution scheduled to be passed at the 88th Ordinary General Meeting of Shareholders.20

I would like to reiterate our basic thoughts on capital policy.

We believe that the greatest return to shareholders will come from increasing corporate value through business investment to ensure the sustainable development and growth of Kampo. And we view ROE as an important management indicator and will aim to achieve ROE that exceeds the cost of capital by improving profitability and asset efficiency.

We will improve management efficiency while ensuring the soundness of our financial base and appropriately distribute the funds, which are allowed from operating cash flow, debt utilization, and optimal capital structure, to shareholder returns and further growth investment.

In terms of shareholder returns, we use DOE as an indicator and aim to increase dividends while maintaining a healthy balance sheet. The level we are aiming for FY2031 is 5% DOE. We aim to achieve a DOE of 4% or more in existing businesses.

Regarding dividends for FY2023, we will increase them from the interim dividend with a target payout ratio of 40%, based on a comprehensive assessment of the status of ROE, DOE, and capital adequacy ratio, which are important indicators.

For FY2031, our basic policy is to aim for a DOE of 5% by improving ROE and raising dividends in stages.

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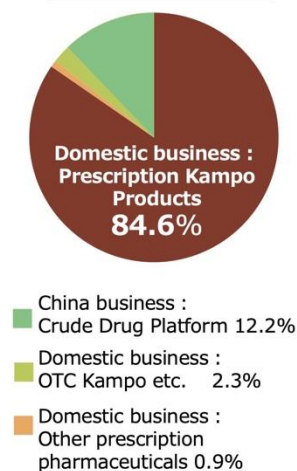


## 2Q Business Results for FY 2023

[Million yen]	2Q FY 2023 Plan (before revision**)	2Q FY 2023 results	Achievement rate	YoY	
				Amount	Change
<b>Sales</b>	<b>74,000</b>	<b>75,302</b>	<b>101.8%</b>	<b>+5,195</b>	<b>+7.4%</b>
Domestic business	65,900	66,131	100.4%	+3,208	+5.1%
China business	8,100	9,171	113.2%	+1,986	+27.7%
<b>Operating profit</b>	<b>9,500</b>	<b>10,211</b>	<b>107.5%</b>	<b>(1,465)</b>	<b>(12.6)%</b>
Domestic business	9,900	10,426	105.3%	(1,339)	(11.4)%
China business	(400)	(214)	—	(126)	—
<b>Ordinary profit</b>	<b>9,800</b>	<b>12,675</b>	<b>129.3%</b>	<b>(3,290)</b>	<b>(20.6)%</b>
<b>Profit attributable to owners of parent</b>	<b>6,800</b>	<b>9,005</b>	<b>132.4%</b>	<b>(2,884)</b>	<b>(24.3)%</b>
PL translation rate (CNY)*2	—	19.46	—	+0.48	—

\*1 Revisions have been announced in the "Notice of Revisions to Earnings Forecast" on November 1st.  
\*2 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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Next, I will provide an overview of the financial results for Q2 of FY2023.

This is a summary of the financial results for Q2 of FY2023.

Net sales and operating profit were in line with the plans.

We have revised our financial results because ordinary profit and profit attributable to owners of the parent for H1 of the fiscal year were much higher than planned due to a gain of JPY1.9 billion from foreign exchange recorded in non-operating profit as a result of the depreciation of the yen.

The numbers shown today are a comparison with the plan before the revision.

Sales were JPY75.3 billion, up 101.8% from the plan and 7.4% YoY. The breakdown was JPY66.1 billion for the domestic business and JPY9.1 billion for the China business. The sales composition is shown in the pie chart on the right.

Operating profit was JPY10.2 billion, down 107.5% from the plan and down 12.6% YoY.

Ordinary profit was JPY12.6 billion, down 129.3% from the plan and down 20.6% YoY.

Profit attributable to owners of the parent was 132.4%, a 24.3% decrease YoY.

The key points of the financial results will be explained on the next slide.

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## Key Points in Performance



### Achieved 1H plans for sales and at each profit level

<b>Net sales</b>	<b>75,302</b>	<b>million yen</b>	1H FY 2023* achievement rate	<b>101.8%</b>	<b>YoY</b>	<b>+7.4%</b>
<ul style="list-style-type: none"> <li>■ <b>Domestic business</b> Total sales for the 129 prescription Kampo products: 63,720 million yen, rose 5.9% year-on-year Total sales of the OTC Kampo products and other healthcare products: 1,751 million yen, fell 12.6% year-on-year</li> <li>■ <b>China business, raw material crude drugs, drug pieces, Yakushokudogen products, etc.:</b> 9,171 million yen, rose 27.7% year-on-year</li> </ul>						
<b>Operating profit</b>	<b>10,211</b>	<b>million yen</b>	1H FY 2023* achievement rate	<b>107.5%</b>	<b>YoY</b>	<b>(12.6)%</b>
<b>Operating profit margin</b>	<b>13.6</b>	<b>%</b>	versus 1H FY 2023 plan*	<b>+0.8pt</b>	<b>YoY</b>	<b>(3.1)pt</b>
<ul style="list-style-type: none"> <li>■ <b>Cost-to-sales ratio: 54.3%, up 0.8pt vs. 1H plan and a rise of 4.0pt year-on-year</b> Versus plan: Increase in China business sales ratio; YoY: Mainly reflects impact from a rise in crude drug procurement expense, still high energy and raw material expenses, and a depreciation in the yen's value versus major currencies</li> <li>■ <b>SG&amp;A ratio: 32.2%, down 1.4pt vs. 1H plan and a fall of 0.8pt year-on-year</b> Versus plan and year-on-year: Sales growth absorbed growth investments, including the DX of the Kampo Value Chain</li> </ul>						
<b>Ordinary profit</b>	<b>12,675</b>	<b>million yen</b>	1H FY 2023* achievement rate	<b>129.3%</b>	<b>YoY</b>	<b>(20.6)%</b>
<ul style="list-style-type: none"> <li>■ <b>Foreign exchange gain primarily related to loans to overseas subsidiaries:</b> 1,980 million yen, down 1,969 million yen year-on-year</li> </ul> <p style="text-align: right;"><small>*Forex gains are not factored into the earnings forecast.</small></p>						
<b>Profit</b> attributable to owners of parent	<b>9,005</b>	<b>million yen</b>	1H FY 2023* achievement rate	<b>132.4%</b>	<b>YoY</b>	<b>(24.3)%</b>

\* Comparison with plans prior to revisions.

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These are the key points of the financial statement.

Total sales of 129 prescription Kampo products for medical use in the domestic business grew 5.9% YoY to JPY63.7 billion. Growth was driven by continued sales growth of prescriptions related to the cardiovascular system, anxiety, insomnia, and dizziness.

Sales of OTC Kampo products and other healthcare products decreased 12.6% YoY to JPY1.7 billion due to the impact of the ongoing shortage of prescriptions for common cold. A new manufacturing line to increase production capacity is in operation, and the shortage is expected to be resolved.

In the China business, total sales grew 27.7% YoY to JPY9.1 billion due to expanded sales of raw material crude drugs on the crude drug platform.

The cost of sales ratio was 54.3%, an increase of 0.8 percentage points from the plan from an increase in sales of the China business. The increase of 4 percentage point over the same period last year was due to higher crude drug procurement costs, high energy and raw material prices, and the yen's depreciation.

The SG&A to sales ratio was 32.2%. The increase from growth investments for the DX of the Kampo value chain, etc., was absorbed by the increase in sales, resulting in a positive compared to the plan and to the same period of the previous year.

As a result, operating profit ratio increased 0.8 percentage points from the plan to 13.6%.

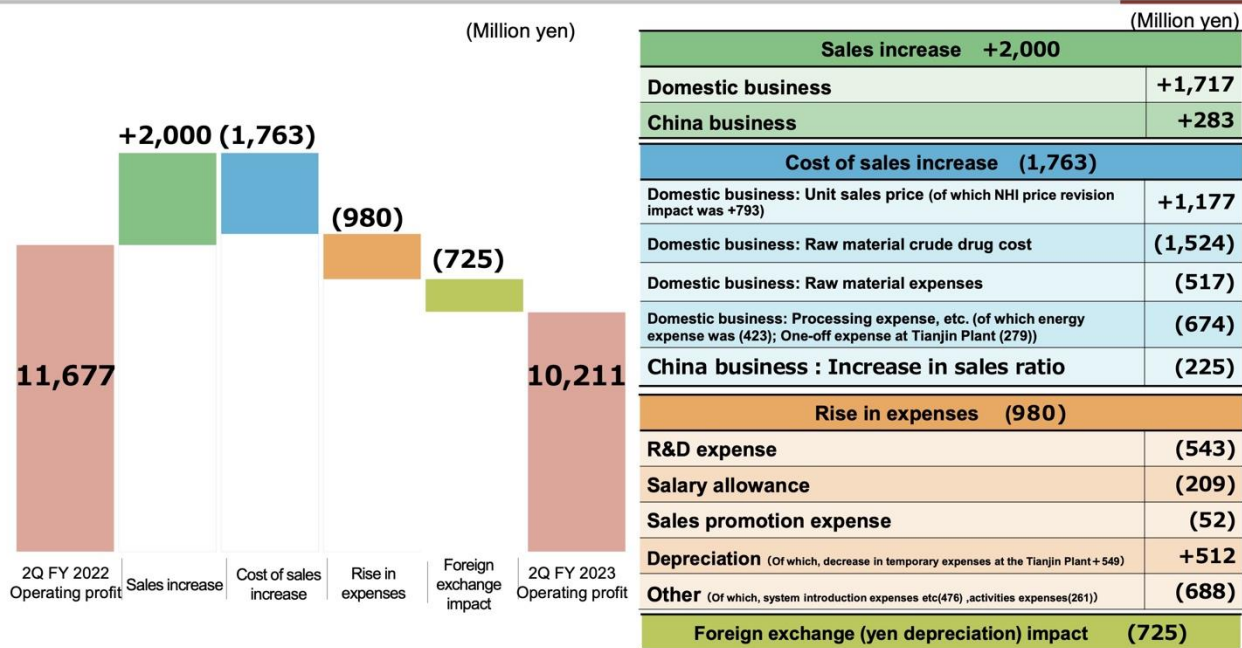
Non-operating loss and profit was significantly affected by the gain of JPY1.9 billion from foreign exchange for the loans to foreign subsidiaries due to the weaker yen, resulting in an achievement rate for ordinary profit, which was 129.3%, and for profit attributable to owners of the parent, which was 132.4%.

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## Factors Triggering Changes in Operating Profit (YoY)



Factors behind the increase or decrease in operating profit compared to the same period last year. I will explain the key points.

Operating profit decreased by JPY1.4 billion YoY to JPY10.2 billion.

The sales increase contributed a positive impact of JPY2 billion. The breakdown is as follows: domestic business, plus JPY1.7 billion; and China business, plus JPY280 million.

The impact of the increase in the cost of sales was negative JPY1.7 billion. Including the positive NHI price revision, there was an improvement of JPY1.1 billion due to changes in unit selling prices. However, there was negative JPY1.5 billion due to higher crude drug procurement costs, negative JPY500 million due to high raw material costs, and negative JPY600 million due to higher processing costs caused by high energy costs.

Process validation is underway at the Tianjin plant in preparation for the start of shipments in Q4. Manufactured items are recorded in inventories, while fixed costs during the process validation inactive period are recorded as a onetime expense in the cost of sales.

The impact of the increase in expenses was negative JPY0.9 billion. This was mainly due to an increase in R&D expenses and system-related expenses for DXing the Kampo value chain.

The foreign exchange impact was negative JPY0.7 billion. This is mainly due to the impact of higher import costs of crude drugs caused by the weak yen.

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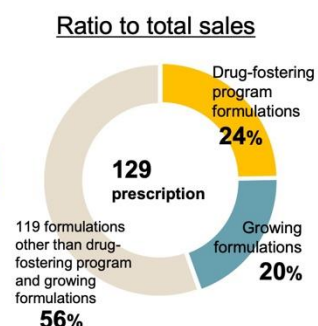


## Sales of Drug-fostering Program Formulations/Growing Formulations



(Million yen)

	Net sales Ranking	Product No./formulation name	FY 2022 2Q	FY 2023 2Q	YoY	
Drug-fostering program formulations	1	100 Daikenchuto	4,927	4,937	+9	+0.2%
	3	54 Yokukansan	3,775	3,819	+43	+1.2%
	4	43 Rikkunshito	3,698	3,685	(12)	(0.3)%
	9	107 Goshajinkigan	1,755	1,836	+80	+4.6%
	24	14 Hangeshashinto	708	716	+8	+1.2%
Total sales for drug-fostering program formulations			14,865	14,996	+130	+0.9%
Growing formulations	2	41 Hochuekkito	4,060	4,109	+48	+1.2%
	5	17 Goreisan	3,198	3,674	+476	+14.9%
	6	24 Kamishoyosan	2,583	2,578	(5)	(0.2)%
	16	137 Kamikihito	1,013	1,161	+148	+14.6%
	17	108 Ninjin'yoeito	1,034	1,127	+92	+9.0%
Total sales for growing formulations			11,890	12,650	+760	+6.4%
Total sales for 119 formulations other than drug-fostering program and growing formulations			33,435	36,074	+2,638	+7.9%
Total sales for 129 prescription Kampo products			60,191	63,720	+3,528	+5.9%



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This shows the sales of “drug foresting” program formulations and “growing” formulations.

Sales of 129 prescriptions for Kampo products totaled JPY63.7 billion, a 5.9% increase over the same period last year.

In the area of prescriptions for “growing” formulations, the growth was limited to 0.9% YoY due to the continued impact of some restrictions on promotions during the limited shipping period.

Sales of “growing” formulations grew 6.4% YoY due to continued growth in Goreisan, Kamishoyosan, and Ninjin'yoeito. Goreisan was prescribed mainly for circulatory problems, headaches, and dizziness. Kamishoyosan is for anxiety and insomnia. Ninjin'yoeito is for anorexia associated with frailty in the elderly.

Sales of the other 119 formulations grew 7.9% YoY to JPY36 billion.

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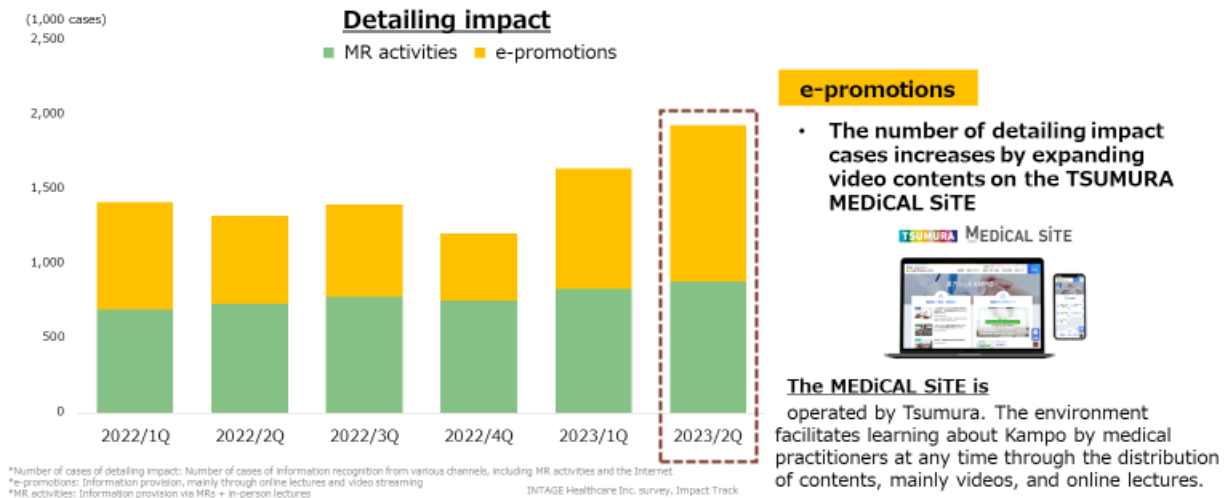


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# Status of Information Provision Activities

- Rise in the number of detailing impact cases owing to an expansion of the MEDiCAL SiTE
- In 2H, aim for detailing impact that is above the level posted in 2Q, and promote information provision activities



## Status of informational activities.

This graph shows the number of detailing impact cases, which is the number of physicians' recognition by MR activities, in green, and e-promotion, in yellow.

The number of e-promotion detailing impact cases rose due to the expansion of video content on our medical website. In addition, MR activities are on a recovery trend in terms of the number of interviews and such, as COVID-19 was downgraded to a Class 5 infection disease.

In H2 of the fiscal year, we will further expand e-promotion and actively promote information provision, aiming for the same or higher number of detailing impact cases than in Q2.

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**Achieve the 1H plan in the China business by expanding sales in the crude drug platform business**

Chinese operations	Net sales	9.17 billion yen
	Operating profit	0.45 billion yen
Formulation platform, IT infrastructure investments, etc.		Expenses, etc.
Chinese operations	Operating profit	(210) million yen

27.7% growth\*

✓ The crude drug platform business is in the black; aim for an expansion in business scale and a further improvement in operating profit margin

**Crude drug platform products**

Raw material crude drugs



Sales to traditional Chinese medical products companies as a raw material

Drug pieces



Sales for prescription -use and as an OTC to hospitals and pharmacies

Yakushokudogen products



Sales of health food products made from crude drugs to general consumers

\*Local currency basis : 24.5% growth

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Next is the status of our China business.

The China business for H1 of this fiscal was achieved due to the sales expansion of the crude drug platform.

Sales of the crude drug platform grew 27.7% YoY to JPY9.1 billion, and operating profit amounted to JPY450 million. At present, the operating margin is about 5%, but we aim to improve it by increasing the sales ratio of value-added beverages and other products.

In addition, the expansion of the sales of the crude drug platform will increase the volume of crude drugs to be procured, leading to stronger cooperation with companies in the production area. We believe that this will improve the Group's overall crude drug procurement capabilities over the medium to long term.

Furthermore, in the formulation platform, we will aim to achieve a profit margin in the China business as equal as or higher than that of the domestic business by entering the traditional Chinese medicinal business.

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## FY 2023 Earnings Forecast (No revision)



[Million yen]	FY 2022 Results	FY 2023 Forecast	YoY	
			Amount	Change
<b>Net sales</b>	<b>140,043</b>	<b>150,500</b>	<b>+10,456</b>	<b>+7.5%</b>
Domestic business	124,698	133,300	+8,601	+6.9%
China business	15,345	17,200	+1,854	+12.1%
<b>Operating profit</b>	<b>20,916</b>	<b>18,000</b>	<b>(2,916)</b>	<b>(13.9)%</b>
Domestic business	21,190	18,400	(2,790)	(13.2)%
China business	(273)	(400)	(126)	—
<b>Ordinary profit</b>	<b>23,453</b>	<b>18,600</b>	<b>(4,853)</b>	<b>(20.7)%</b>
Profit attributable to owners of parent	<b>16,482</b>	<b>13,000</b>	<b>(3,482)</b>	<b>(21.1)%</b>
Income statement exchange rate (JPY/RMB)	<b>19.55</b>	<b>19.00</b>		
<b>ROE</b>	<b>6.7 %</b>	<b>5.1 %</b>	Notes	
<b>EPS</b>	<b>215.63 yen</b>	<b>171.02 yen</b>	Foreign exchange impact (non-operating profit) was not factored into the earnings forecast given the difficulty to reasonably calculate this impact based on the status of the forex market.	

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Forecasts for FY2023.

Although we have carefully examined the annual plan, we have decided not to revise the consolidated earnings forecast for the full year from the plan at the beginning of the year.

This is because it is difficult to reasonably calculate the forecast at this time due to the possibility of significant fluctuations in foreign exchange gains and losses caused by future foreign exchange market conditions.

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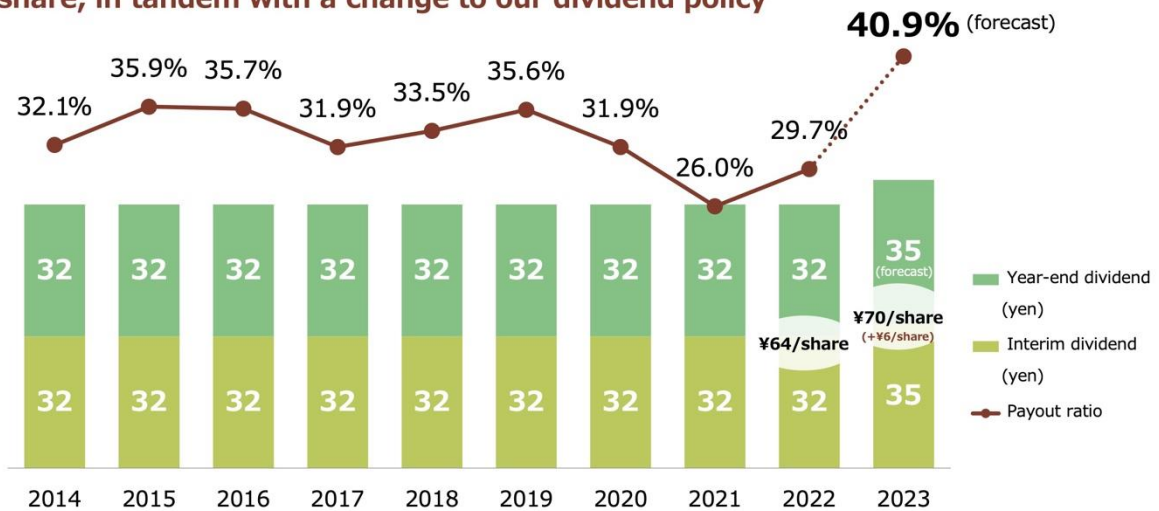
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# FY 2023 Dividend Forecast



• We are hiking our full-fiscal year dividend to ¥70 per share, from a previous ¥64 per share, in tandem with a change to our dividend policy



Note: The fiscal year-end dividend for FY 2023 and the dividend payout ratio (forecast) is a forecast number as it is predicated by the approval of the dividend resolution scheduled to be passed at the 88th Ordinary General Meeting of Shareholders. 29

Dividend forecast for FY2023.

In line with the change in the dividend policy, as explained earlier, we have revised our annual dividend forecast for FY2023 to JPY70 per share, an increase of JPY6 per share.

Of this amount, the Board of Directors resolved at its meeting held yesterday to increase the interim dividend for March 2024 by JPY3 per share to JPY35 per share.

This concludes my explanation. Your continued support would be greatly appreciated. Thank you for your attention.

**Kitamura:** Thank you very much. This is the end of the presentation.

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## Question & Answer

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**Kitamura [M]:** Okay, we will now move on to the Q&A session.

First, we will take questions from those in the venue and then from online participants. Please note that we limit to two questions per person at a time. Please note that the content and audio of the questions will be posted on our website at a later date, along with the presentation materials.

We will now take questions from the audience. Please ask your question after your company name and name. Does anyone have questions?

Now, Mr. Akahane from Tokai Tokyo Research Institute

**Akahane [Q]:** I am Akahane from Tokai Tokyo Research Institute. Thank you for taking my questions.

Since it is limited to two questions, I would like to mention that there was an upward revision to the performance, and I understand very well what you are talking about on page 24, the increase in NHI prices.

I wonder if this includes the impact of the so-called foreign exchange rate of JPY725 million on the cost of procuring crude drugs of JPY1.02 billion, so the rest is profit, or pure, or as you said earlier, like wild products. Is my understanding correct that you are raising such items?

**Handa [A]:** Thank you for your question. Let me answer your question.

The JPY725 million in foreign exchange is mainly due to the cost of crude drugs. Just over JPY500 million is for crude drugs, and the remaining JPY100 million and a bit is for processing and SG&A expenses.

Of course, there is a slight increase in sales, but the amount is still small, so the overall cost of crude drugs accounts for more than JPY500 million of the JPY725 million.

**Akahane [Q]:** I understand very well. The second question.

You don't have to be so quantitative, but can you give me your impression about the shipments of most of the items, for which the NHI price was raised, were in adjustment probably due to the difficulty of procurement?

I think Kakkonto was probably the last product until July 31, and I think there will be another cough season here. I recognize that sales have been good, and now COVID-19 and influenza are spreading rapidly. It doesn't need to be quantitative, but could you share your image of how to deal with it, in terms of COVID-19, shipment adjustments and influenza, if you have?

That is all.

**Sorada [A]:** Thank you for your question. I am Sorada, Head of the Sales and Marketing Division.

First of all, the shipment adjustment gave me a strong impression that Kampo medicines is well known, with so many doctors showing a need for them. Unfortunately, however, we caused inconvenience to many patients, and I believe that was a negative impact.

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Regarding COVID-19, since after the Omicron variant, there has been an increase in the number of doctors who have been reexamining the use of Kampo medicine, or even before, to treat the so-called Long COVID, where there are no Western medicines available.

As a result, when the Omicron strain was replaced as the main strain, the demand for Kampo medicine increased so much as there was no Western cold medicine available. We feel very sorry that we fell into limited shipments of many items at that time.

In the case of influenza, the number of prescriptions for Kampo has increased in doctors who we did not expect. This is because there was not enough cough medicine at the time, and we fell into limited shipments. Although it was from an external factor, we believe that awareness and recognition of Kampo has been further increased.

**Akahane [M]:** I understood well.

**Sorada [M]:** Thank you very much.

**Akahane [Q]:** Just to add to what you just said, especially for the hospital doctors who usually use Western drugs, there were no drugs for them to prescribe during the pandemic, right? What I would like to ask you is that doctors who had never used Kampo medicine before, especially doctors in hospitals, used Kampo medicine through this e-commerce site. Is it safe to assume that there is a considerable amount of this kind of thing?

If you can give me a quantitative idea, I would like to know if there was a volume increase in those doctors who had never used Kampo before but ended up using it since they didn't have drugs to prescribe during the pandemic. If so, I would also like to know how much there was a positive impact. Is it difficult to have a figure on this? E-commerce, or rather, sorry, e-promotion.

**Sorada [A]:** I have the impression that the e-promotion has made doctors who had not used Kampo medicines before start using them at once. In particular, the numbers of hospital doctors prescribing 10 prescriptions that we mentioned earlier has been increased.

We think e-promotion is going well as the flow is now changing from doctors in private clinics to hospital doctors.

**Akahane [Q]:** I understand very well. Is it difficult to give me a quantitative figure? Like 2% or 3% of the total or something like that? Is it difficult to put a figure on the effectiveness of e-promotion?

**Sorada [A]:** It is difficult to say, but in the past, it was often difficult to reach the 5% mark, but I think that the increase of 5% or more compared to previous year, both in terms of volume and sales. It has been an addition to what we had achieved so far.

**Akahane [M]:** I understand very well. Thank you very much.

**Kitamura [M]:** Thank you. Any other questions?

Now, UBS Securities, Ms. Haruta, please.

**Haruta [Q]:** My name is Haruta from UBS Securities.

I believe on page 11 you have indicated your vision for future growth. As for the image of growth in Japan, I believe that the CAGR of 5% for the period from 2022 to 2024 was written before, but looking at this, I think that the CAGR will be a little lower than 5% over a longer period of time.

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In H2 of FY2020, the penetration rate among physicians had increased, and I wonder if the growth rate was a little lower. Also, I wonder if the profit margin will improve in H2 due to productivity improvements. I would like to know again your long-term image of the domestic growth, although it may be a little qualitative.

**Handa [A]:** Thank you for your question.

We do not foresee any slowdown in H2 in the domestic business picture toward 2031. It is a little high now, but as Mr. Sorada mentioned earlier, we have written the forecast of nearly a 5% growth for our mainstay medical-use Kampo products, so there is no slowdown in that sense. There will be a cost part in H2.

**Haruta [Q]:** As for the profitability in Japan, I think you indicated before that domestic profitability improves after a certain investment phase. Could you confirm it again?

**Handa [A]:** Yes, you are correct. In this sense, I have explained that the profit margin of the existing businesses alone is more than 8%, and the profit margin of the domestic business is the driving force behind this.

In China, the profit margin on the crude drug platform will be higher than now, but it is difficult to achieve the same level of profit margin as for pharmaceutical products. So, in other words, the domestic profit margin will increase.

It is all about improving productivity and return on investment. As I mentioned earlier in the planning of processing costs and the automation of crude drugs, we believe that a combination of those factors will reduce costs and improve productivity, thereby increasing our profit margin.

**Haruta [Q]:** By the way, about the NHI price outlook, the recent efforts here have been successful, and you are not that worried about the medium- to long-term outlook. Do you have any thought on this?

**Terukazo Kato [A]:** My name is Kato.

There are two aspects to the NHI price, which I would like to point out.

On the one hand, as mentioned earlier, our sales force is cooperating with distributors and wholesalers to sell our products at reasonable prices based on a clear understanding of the value of our principal products. We have been explaining for more than 10 years now, and at the same time, I talked to doctors of my customers that Kampo medicine is derived from nature and cultivated by many human hands. I think our explanation has gradually become more widely accepted and gradually spreading. We recognize that this is a trend that will not change.

On the other hand, in the area of the NHI system, there have been a number of measures to recalculate unprofitable products due to inflation, and I think there is a sense of uncertainty here.

We have made progress in recognizing current issues, and from the standpoint of management predictability, we have requested that unprofitable items be included in this category as long as they remain unprofitable in the future.

We would be very grateful if we could control NHI prices on both issues by continuing to explain and make requests through the industry. However, we are not necessarily able to foresee everything because there are two sides to this issue, so we would like to ask for your understanding in this regard.

That is all. Thank you very much.

**Haruta [Q]:** Thank you very much.

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The second question is, you mentioned that it is profitable on the crude drug platform. Does this mean that the efforts to maintain a certain level of prices in sales activities are contributing, as you mentioned before? I was wondering if the increase in the number of varieties of raw crude drugs that you mentioned earlier is also contributing to the profitability.

**Terukazo Kato [A]:** In our business in China, most of our sales are from the crude drug platform business. So, we currently have two major businesses: one is selling raw material crude drugs, and the other is selling drug pieces, which is a form of the so-called prescription medicine.

In addition, there are some so-called health and medicine businesses that include functional food products, but these are very small in number. Considering the two, the ratio of sales of raw crude drugs is still very large.

The profitability of this business is now roughly 5% to 7%. We are doing this in the context of gaining recognition by providing high quality raw material crude drugs, which in turn leads to sales of the drug pieces. Since the profitability of drug pieces is naturally higher, we expect to improve the profit margin by increasing the weight of high value-added businesses while changing the sales composition in the future.

Since we have not yet reached that point, we would appreciate if you could understand that the profit margin varies slightly depending on the sales composition of high and low profit of each margin for raw material crude drugs.

Yes, thank you.

**Haruta [M]:** Understood. Thank you very much.

**Kitamura [M]:** Thank you. Any more questions from the venue?

Now, Ms Kato of Daiwa Securities, please.

**Anna Kato [Q]:** My name is Kato from Daiwa Securities. Thank you very much for your explanation today.

I would like to ask you about the revision of the capital policy and shareholder return policy that you explained at the beginning of this presentation. I would like to confirm whether there has been any change in your willingness to invest in the China business before and after the revision of this policy.

Today, you reiterated your long-term vision of increasing sales from the China business to more than 50% of total sales, and I felt that there is no limit to your willingness to invest in growth by improving your capital policy, by improving CCC, and by increasing your financial leverage. I am hoping to hear this point again from President Kato.

**Terukazo Kato [A]:** Yes, thank you.

Of course, we are not yet at the stage where we can make an official announcement, so I would like to present our current thinking.

We are still looking to expand our strength in China, and of course, we have a fairly mature organization there, and there is a need for our services, so we are hoping to enter a business that has high added-value Kambo products as our long-term goal.

Naturally, when we do business in China, we will work together with partners. As I have already mentioned, quality is, of course, vital in manufacturing, and we are seeking business alliances that put an importance on taking majority there. In other words, we are looking for a company in which we can work together with 50%

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or more equity stake. We once acquired 100% of a company called Shaanxi Unisplendour Life Care Pharmaceutical Co., Ltd. , which is a rather rare case, and then sold it because of a variety of issues.

We have variety of inquiries from there, and we are currently negotiating with several companies. We feel that they are waiting for us. The current situation in China is that the industry is widely aware of the challenges of the traditional Chinese medicines business, and we believe that we can make a contribution, even a small one, to the traditional Chinese medicines business by using our technical know-how.

As I mentioned earlier, we also need to make sure that the procurement of raw material crude drugs brings a positive effect for us, and we are also aware of the expectations for products that contribute to the health of the people of China. We are making this investment for growth based on the premise that these businesses will be realized surely from the beginning.

Thank you.

**Anna Kato [M]:** Thank you.

**Kitamura [M]:** Now, Mr. Sakai of UBS Securities, please.

**Sakai [Q]:** This is Sakai from UBS. Sorry, two people from one company.

I understand this 2031 vision, but your company is currently in the middle of a mid-term plan, and there is a plan for FY2024, isn't there? We are aware that it will be difficult to achieve this vision, so when you show the growth vision of FY2031, we are not quite convinced. I think that the explanation of how to fill the gap should have come first, but I would like to know what you thought about that and how you came up with the long-term vision and the capital policy changes.

This is the same question, one question, but the ROE of 8% in the FY2024 mid-term plan and the target for FY2031 is 10%. So, the message here is that there will be almost no growth, considering the ROE. Is it ok to understand this way?

**Terukazo Kato [A]:** I will answer the first part from me and the second part from the CFO.

First of all, of course, we are well aware of the current medium-term plan. We believe that we will meet the goals of this medium-term plan regarding the top line, as mentioned in the presentation.

However, we are aware that ROE, which is a combination of operating profit, it will not be easy to achieve. Some of the factors are, for example, where the effects of inflation, which started with energy costs, will converge or continue. Also, what kind of transition will be seen in the future given the situation where the level of exchange rates has changed drastically from when the plan was originally made. It is a fact that it will be considerably affected by those factors.

Naturally, we will make corporate efforts, including cost reductions, to anticipate such changes, but we believe that such efforts alone will not be sufficient to cover the major changes in the environment.

Under such circumstances, of course, the short-term is important. However, in light of that, the most uncertain part of the vision 2031 in terms of overall business performance was whether or not M&A of the Chinese business would actually be possible.

We have actually acquired one company, and the changes in the environment and various other circumstances that have resulted from the acquisition of that company will be taken into account, so we will be able to present a more in-depth explanation when those changes are taken into account.

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In light of this, we would like to bring the top line of the mid-term business plan to the goal of the mid-term business plan or higher as much as possible. Although reaching the profit goal is not easy now, we will do our best to meet or exceed the goal as much as possible.

The second part is from the CFO, sorry.

**Handa [A]:** Yes. As Kato has just explained, we are trying to meet and exceed the top line for the medium-term plan, but unfortunately, it is difficult to wipe out the factors from the external environment on our own. In light of this, we wanted to show that we are on a firm footing toward our vision, and that we can ultimately aim for a 10% ROE.

Mr. Sakai pointed that aiming for 8% next year, then 10% in FY2031, but it doesn't mean that we won't grow. In the short-term view, we cannot cover all the environmental factors, such as high exchange rates, energy costs, and so on, by our ability, unfortunately.

We may start from a difficult situation in areas other than the top line in FY2024, but we would like to draw a growth story in which 10% is secured in the end, and this is why we have explained this to you this time.

**Terukazo Kato [A]:** I would like to add an explanation, but we make the China business from zero. So, in terms of how much it will contribute, how much we deliver products to customers, which means how big the sales will be.

Naturally, the rate of return will improve as its scale expands, so I think the key point is how far from the rate of return will increase in the next 10 years. If we can increase our profit margin by providing higher value-added products, we will naturally need to increase our ROE to over 10%. So, I hope you understand that we are not only aiming for 10% at the maximum.

That is all.

**Sakai [Q]:** Yes, I understand. Thank you very much.

The other question is simple. I fully understand that there have been various changes in the environment during the pandemic but if I look at domestic Kampo medicine, I believe the growth has been reduced a little to about 87 prescriptions out of 129 prescriptions. Is there any special reason for this?

Even if you are doing great e-promotion, now the "drug fostering" program formulations don't go well or vice versa. I see unevenness here and there, but will the impact of COVID-19 level out in the next fiscal year and beyond? Can you tell us a little bit about that area?

**Sorada [A]:** It is true that about 40 prescriptions have not grown. This is largely due to the impact of limited shipments, more so than the impact of COVID-19. For example, we had to stop e-promotions because of the limited shipments. It is not good to advertise when we cannot provide a stable supply, so we refrained from promotions.

Also, since COVID-19 fell into Class 5, there are more opportunities for MRs to speak directly to clients at medical office briefings at large hospitals. Therefore, we believe we can achieve the top line as per the mid-term plan or even better, as mentioned earlier.

Thank you for your question.

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**Sakai [Q]:** I understand. I think that limited shipments are made because of supply problems. This may sound strange, but I think that limited shipments are made because of external circumstances, pulled by external demand, not because of your supply problem or a situation where your supply is completely short.

I suspect that some generic manufacturers are taking advantage of not releasing unprofitable items because of limited shipments, but can you mention here that this is not the case?

**Sorada [A]:** Yes. We are clean. We do not do that kind of thing at all. We do our best to provide a stable supply to patients where needs are. Since cough suppressants have disappeared from the market, our Bakumondoto and other products have replaced them quickly. We think knowing that people expect Kampo medicine is a good sign.

**Sakai [M]:** Thank you.

**Kitamura [M]:** Thank you. We have about two minutes left before the end of the meeting. I would like to take one question from the online participants. Are there any questions from the online participants?

Now, Mr. Kawamura of SBI Securities from the venue, please.

**Kawamura [Q]:** Thank you for your explanation. This is Kawamura of SBI Securities. As we are running out of time, so let me ask just one question.

The NHI price revision. I heard your explanation about your company's initiatives and the external environment, but on the other hand, there is a lot of talk about increasing patient payment for OTC products and increasing patient payment for long-term listed products.

I know that Kampo medicine is also OTC in a certain sense, and it is a long-term listed product in a sense. Is there any talk of increasing patient payment in this area, or if it will change a little in the next fiscal year? Please let me know if you can talk about it or do something about it.

Thank you.

**Terukazo Kato [A]:** Thank you.

First of all, with regard to Kampo medicine, there are both medical and OTC products, but they are completely different products. Naturally, there is a risk of side effects, so of course, we have to offer safer products for OTC.

In this context, for example, people may think Kakkonto as a cold remedy, but in medical use, 50% of use are made by orthopedic doctors. Therefore, there are several indications for the same medicine, and it is used in completely different indications.

We have always been concerned about the issue of OTC-like drugs in the field of Kampo medicine, as you have just mentioned. However, we have not been there for much of it lately. We have been explaining these differences to the industry over and over again.

In this sense, medical products naturally have a role to play. So, there are not all of the prescriptions on shelves in pharmacies, making it difficult for customers to select the products that are truly appropriate for them and their symptoms through self-medication, including proper use.

Some Kampo prescriptions are used in the surgical field or for hospitalized patients, so it would be a bit rough to argue that all OTC drugs should be used because they are also available. That is definitely not the case from

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the patient's standpoint. We have been repeatedly lobbying and explaining to them to gain their understanding.

**Kawamura [Q]:** Does it mean that we do not have to think about that cold medicine or such will be cut out from there?

**Terukazo Kato [A]:** I don't know if you don't have to think about it. Since this is a government financial issue, if it is decided to increase patient payment portions for primary illnesses, for example, let's say not for Kampo, there is a possibility that cold-related prescriptions such as Kakkonto or Shoseiryuto could be included in that category.

So, that could be the case. However, it is said that the treatment of the common cold is the most difficult of all from our point of view, and there is a possibility to find something hidden in the background of light illness. I think we need to have another discussion about whether this is really the right thing to do or not.

**Kawamura [M]:** Thank you very much.

**Kitamura [M]:** Thank you very much. We will now conclude the question-and-answer session. Thank you very much.

This concludes the financial results presentation for Q2 of FY2023.

[END]

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