

Second Quarter Business Results for Fiscal 2023

November 8, 2023

TSUMURA & CO.

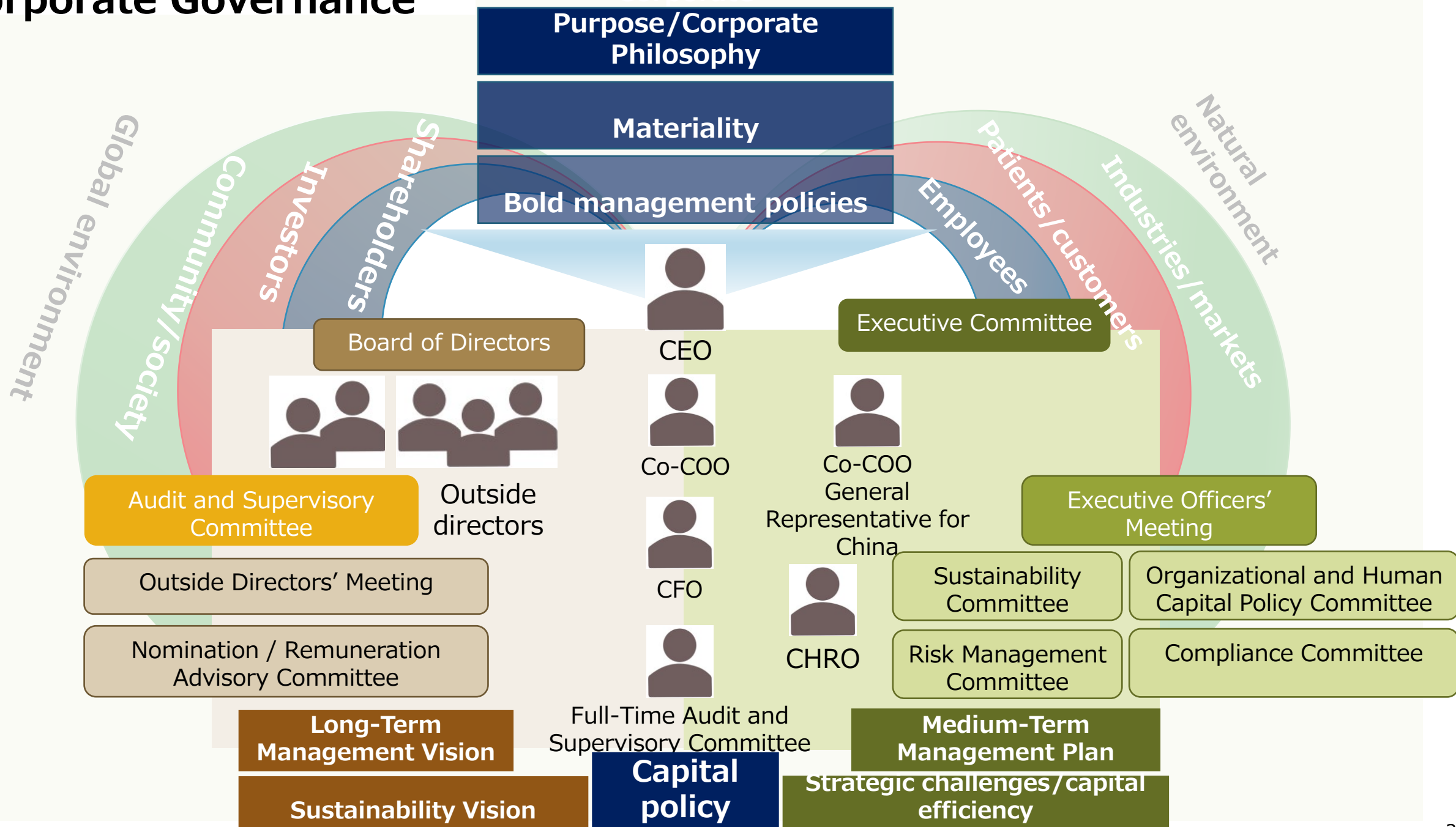
01

Purpose-driven Value Creation & Capital Policy

02

Second Quarter Business Results for Fiscal
2023 Overview

Corporate Governance



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

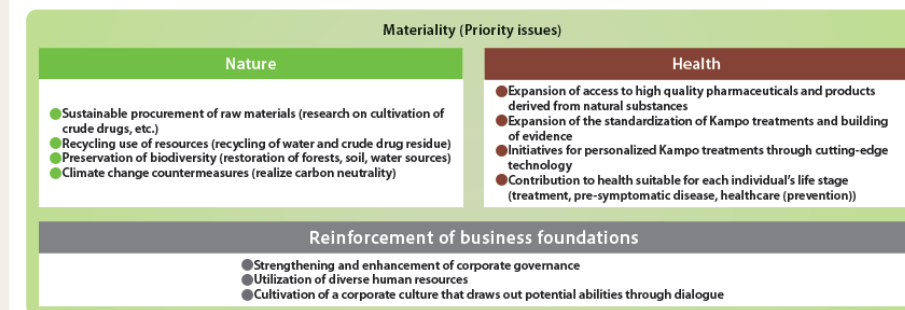
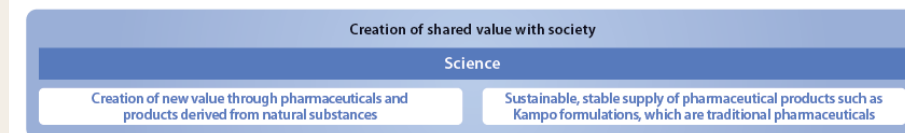
May 2022 • Introduced a long-term performance-linked, stock based remuneration system

September 2023 • Updated materiality

November 2023 • Formulated the basic policy for the capital policy and a new shareholder return policy

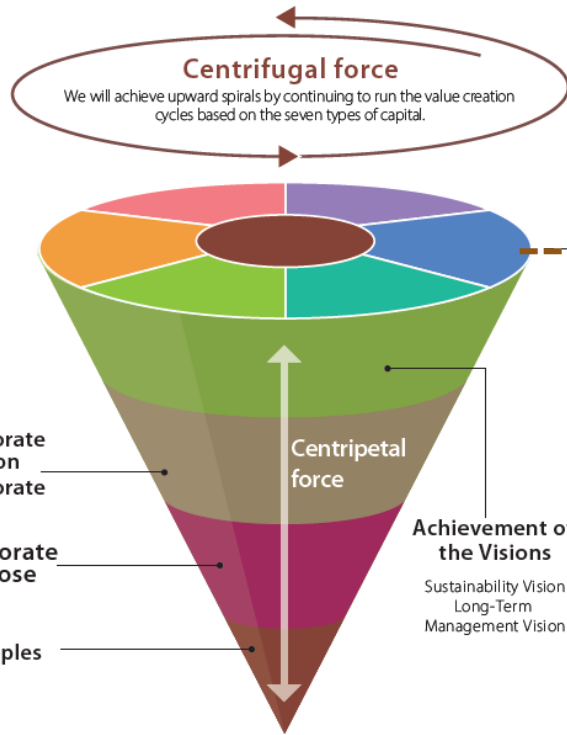


TSUMURA VISION “Cho-WA” 2031



Tsumura Group Value Creation Cycle

Invested Capital



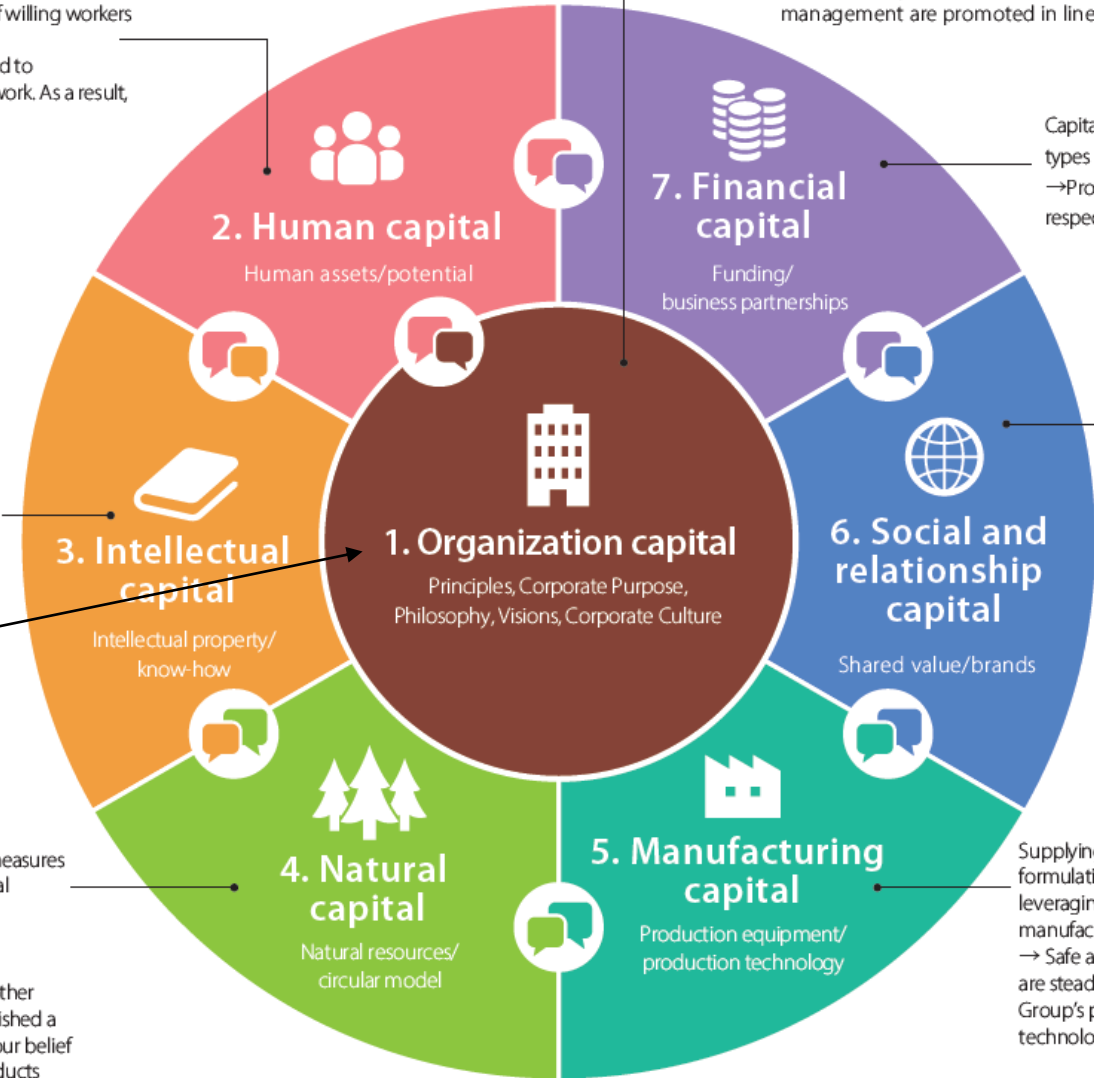
A Kampo medicine-inspired organization, in which new value is created through the well-balanced collaboration of willing workers striving to fulfill their potential
→ Each employee is motivated to energetically engage in their work. As a result, their full potential is realized.

A source of new value and profits/centripetal force
→ Philosophy-based management and vision-based management are promoted in line with the Corporate Purpose.

Capital emerging as a result of capital types 1 to 6
→ Profits obtained are reinvested in respective capitals.

Contribution to diseases that are difficult to treat with Western medicine
→ Kampo formulations are delivered to customers at a drugstore or pharmacy via pharmaceutical agencies and medical institutions, causing a positive change in society.

Supplying high-quality Kampo formulations in a stable manner by leveraging Tsumura's proprietary manufacturing technology
→ Safe and reliable Kampo formulations are steadily supplied thanks to the Group's proprietary production technology and system.

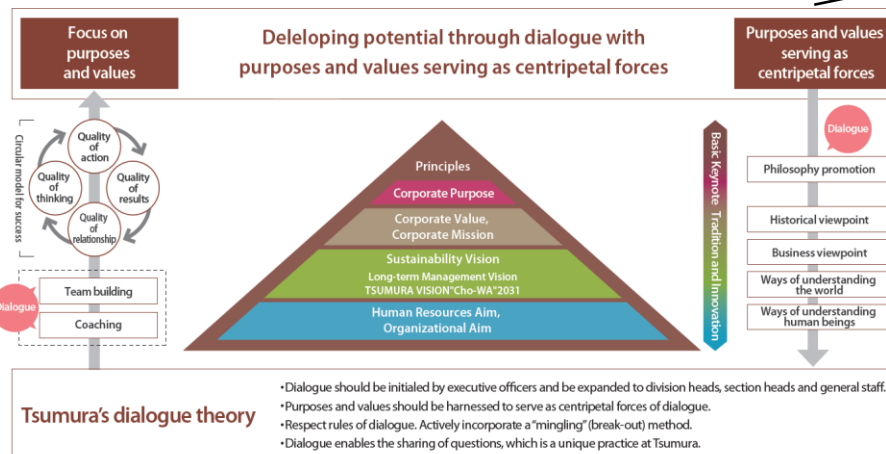


Know-how and intellectual property pertaining to Kampo and crude drugs, which have been accumulated since the Company's founding
→ Various knowledge related to Kampo medicine and crude drug businesses is accumulated and digitalized.

Cultivation research and environmental preservation measures aimed at protecting the natural environment in crude drug production areas
→ Tsumura values the natural environment more than any other company, and we have established a sustainable system based on our belief that the quality of Kampo products depends on the plants growing in the fields.

Fostering a culture of discussion

Cultivating Dialogue Culture



IMPACT on Society

- Realization of a society of healthy longevity
- Maintenance of a rich natural environment

Integrated Report 2023

* Please refer to the integrated report for details on the process for value creation



OUTCOME Value created through business

OUTPUT Results of business activities

Science

- Creation of new value through pharmaceuticals and products derived from natural substances
- Sustainable, stable supply of pharmaceuticals products such as Kampo formulations, which are traditional pharmaceuticals

MATERIALITY Important issues in business activities

Nature

- Sustainable procurement of raw materials (research on cultivation of crude drugs, etc.)
- Recycling use of resources (recycling of water and crude drug residue)
- Preservation of biodiversity (restoration of forests, soil, water sources)
- Climate change countermeasures (realize carbon neutrality)

Health

- Expansion of access to high quality pharmaceuticals and products derived from natural substances
- Expansion of the standardization of Kampo treatments and building of evidence
- Initiatives for personalized Kampo treatments through cutting-edge technology
- Contribution to health suitable for each individual's life stage (treatment, pre-symptomatic disease, healthcare (prevention))

Reinforcement of business foundations

- Strengthening and enhancement of corporate governance
- Utilization of diverse human resources
- Cultivation of a corporate culture that draws out potential abilities through dialogue

Invested Capital

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.

Business operations

1. 50% of physicians will write basic prescriptions in all treatment areas
2. Expand standard Kampo treatments and personalize Kampo treatments
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)
4. Build foundation for the China Business (China Business to account for 50%-plus of sales)
5. Digital transformation of the Kampo value chain
6. Implement purpose management, philosophy management and vision management

Finance

- **Capital policy (Capital efficiency/optimal capital composition)**
- **New shareholder return policy**

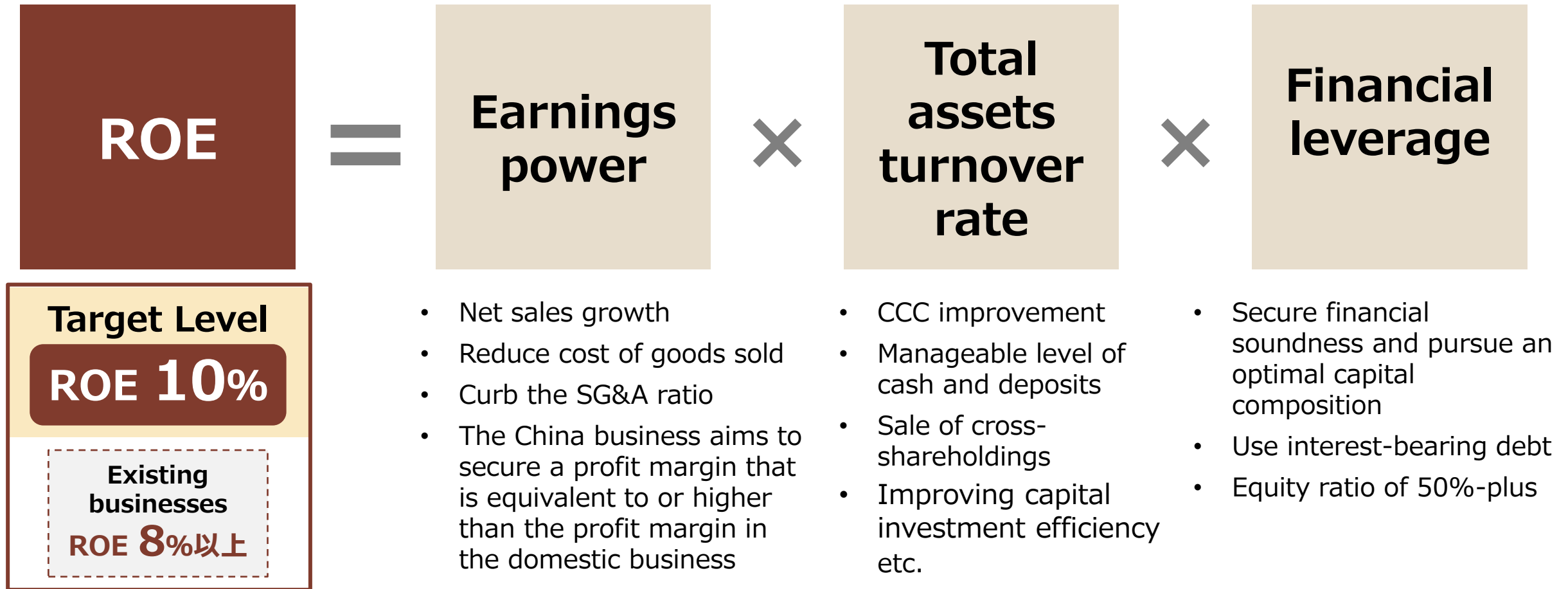
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Finance

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ROE Improvement: Quickly Realize a Positive Equity Spread Early On and Expand



***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

Net Sales: Image of Growth Aimed for in FY 2031

Image of realization

FY 2022 results

Net sales: 140.0 billion yen

FY 2031

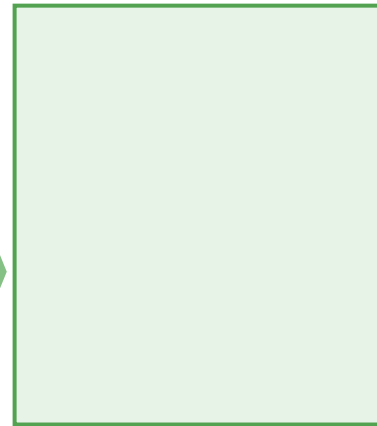
Image of realization

Domestic business

Domestic business strategy

Establish the Kampo medicine business

Realize a medical setting where one-in-two physicians will write "basic prescriptions in all treatment areas" in accordance with Kampo medicine

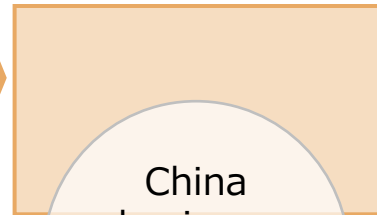


Chinese operations

China business strategy

Become a trusted traditional Chinese medicine company in China

Contributing to the health of the citizens of China
Recognized as a traditional Chinese medicine company
Realize a business scale/sales worth RMB10 billion



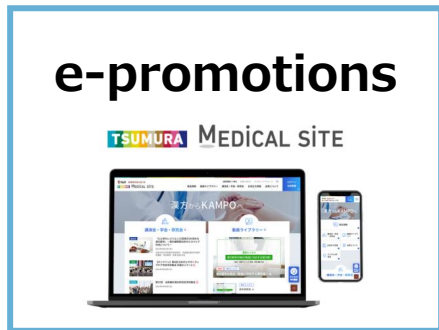
Existing Businesses (Domestic, China)

Net sales
300 billion yen
ROE
8%-plus

Target Level
ROE
10%

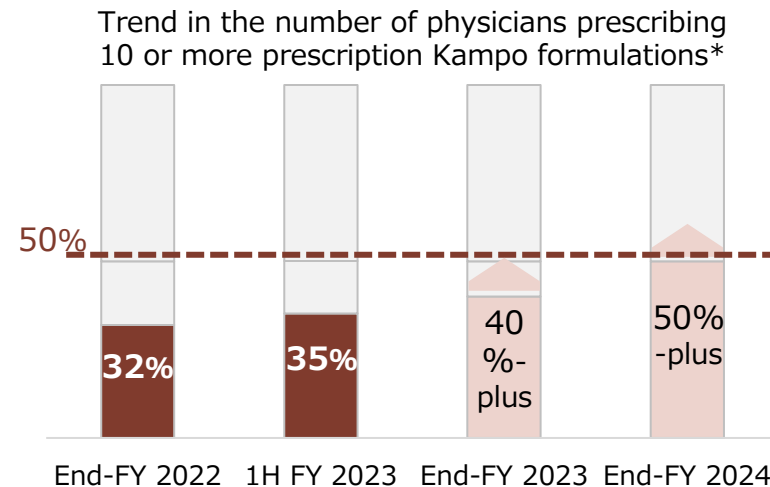
• Aim to realize a usable system by building information provision channels so that medical practitioners can obtain necessary information

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



FY 2024 Vision

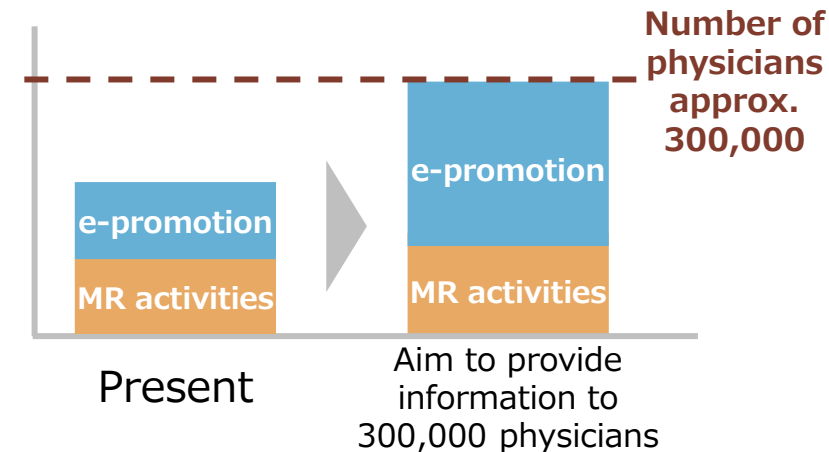
Aim to achieve conditions where more than 50% of the number of physicians prescribing 10 or more prescription Kampo formulations



*Survey by Tsumura

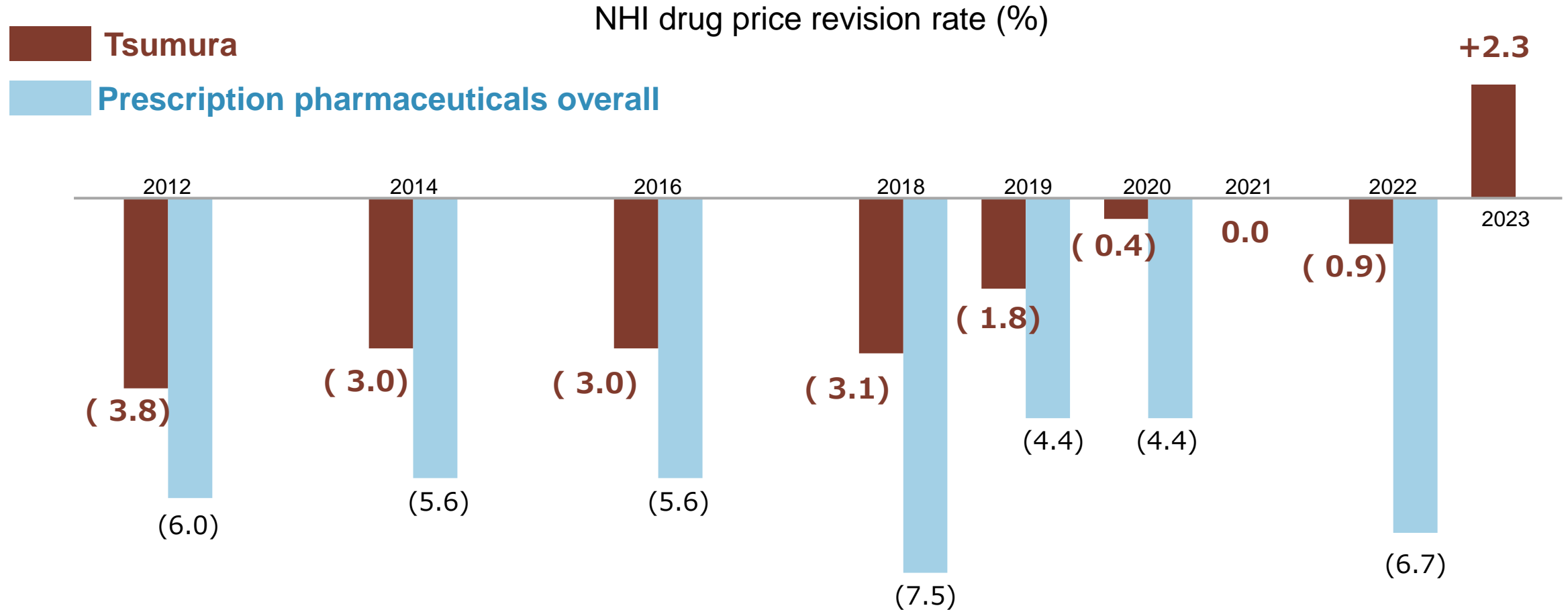
FY 2031 Vision

Aim to get 50% of all physicians who write basic prescriptions in all treatment areas to prescribe Kampo formulations



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



Improve Earnings Power: Curb Cost of Goods Sold

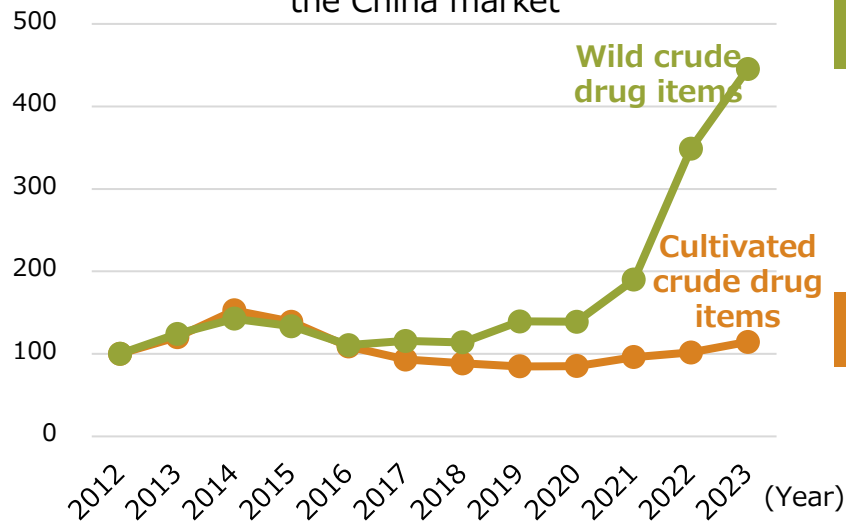
Reduce crude drug prices by expanding domestication of crude drugs and enhancing automation and manpower reduction

FY 2031 Vision

Domestication of 22 crude drug items

FY 2022 results: 33 wild crude drug items

Raw material crude drug price index trends for the China market



Wild crude drug items

Rise in price due to a decrease in the volume of resources and an increase in demand

Cultivated crude drug items

Able to curb a rise in price

Aim to further reduce prices...



FY 2031 Vision

Automation/manpower reduction of upstream production processes

Reduce personnel expense per ton for raw material crude drugs by 50%



• **Implement AI automated sorting**

- Conduct visual selection of raw material crude drugs using an AI-driven crude drug automated selector
- Going forward, successively expand the sites for introduction and target crude drugs

• **Mechanization of processing at production sites**

- Embarking on research for automation of primary processing in the upstream procedures

*The index is the weighted average price of the China market price calculated based on the amount of usage by the Tsumura Group. The total is calculated each for the crude drugs that contain only those grown in the wild (100%) and only those cultivated (100%); FY 2012 is indexed at 100. (Prepared by Tsumura based on external data)

✓ 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

Current status of processing cost structure

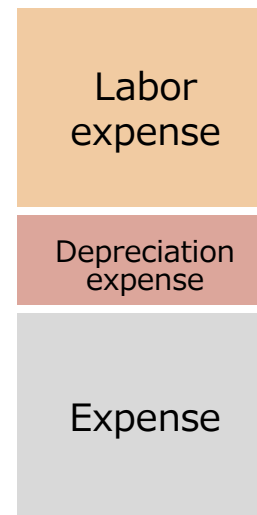
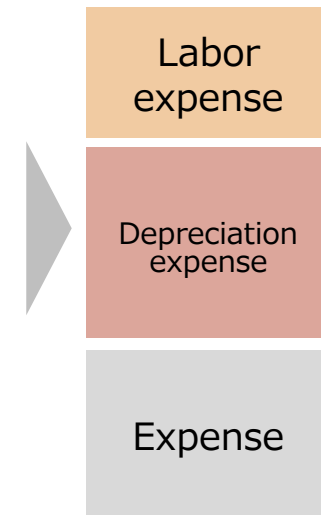
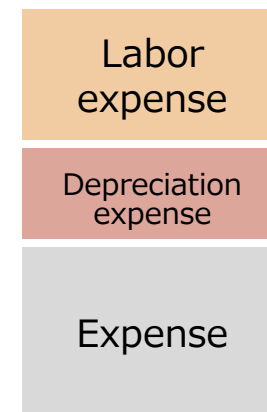


Image for 2031



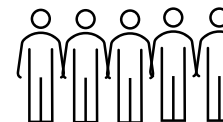
Future Vision



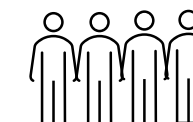
✓ More than double sales per employee by improving productivity through digital transformation (DX)

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

Present



FY 2031 Vision



Sales Increase

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

FY 2031 Vision

- Improve CCC → Operation cycle Curb 3-4 months
- Curtail cash and deposits to manageable levels
- Reduce cross-shareholders

Aim to achieve balance sheet image

FY 2022 results

CCC (Cash Conversion Cycle)

approx. 18 months*

Total assets 396.8 billion yen	Liabilities 124.5 billion yen			
<table border="1"> <tr> <td>Cash and deposits (94.7 billion yen)</td> <td rowspan="2">Accounts receivable (58.0 billion yen)</td> </tr> <tr> <td>Cross-shareholdings (11.1 billion yen)</td> </tr> </table>	Cash and deposits (94.7 billion yen)	Accounts receivable (58.0 billion yen)	Cross-shareholdings (11.1 billion yen)	Net assets 272.2 billion yen
Cash and deposits (94.7 billion yen)	Accounts receivable (58.0 billion yen)			
Cross-shareholdings (11.1 billion yen)				
Inventory (101.7 billion yen)				

Curtail

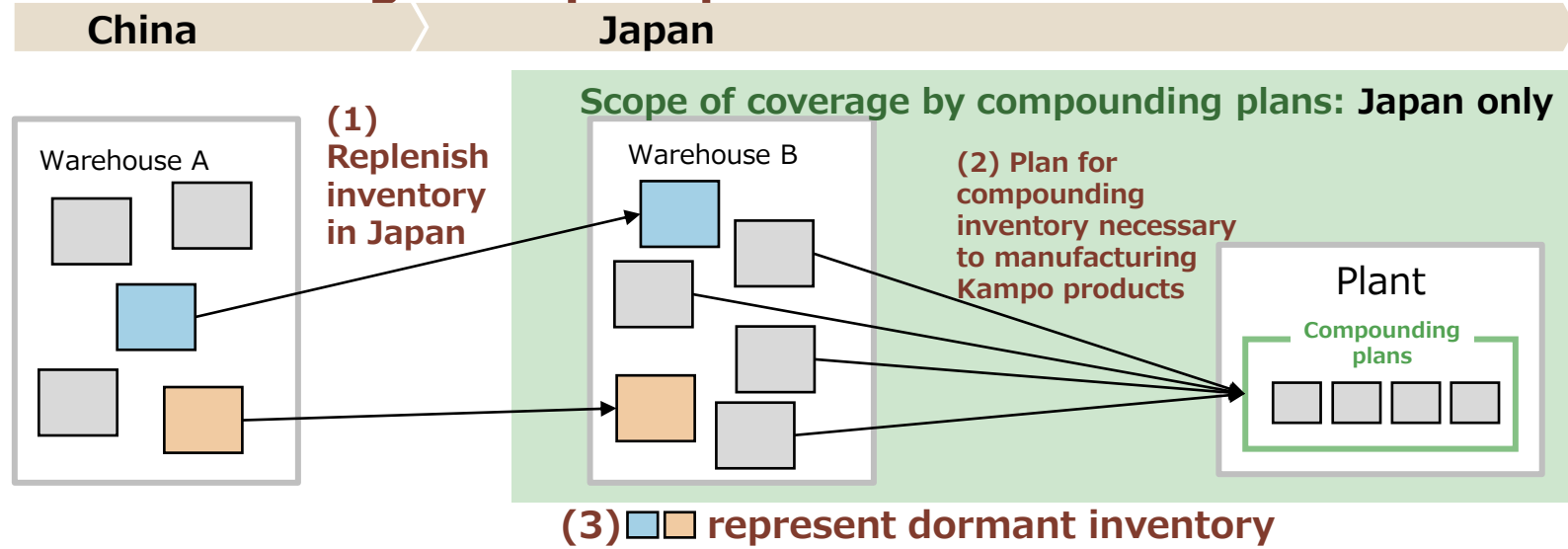
CCC improvement

Total assets	Liabilities
Cash and deposits	
Accounts receivable Inventory	Net assets

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

Prior to introduction

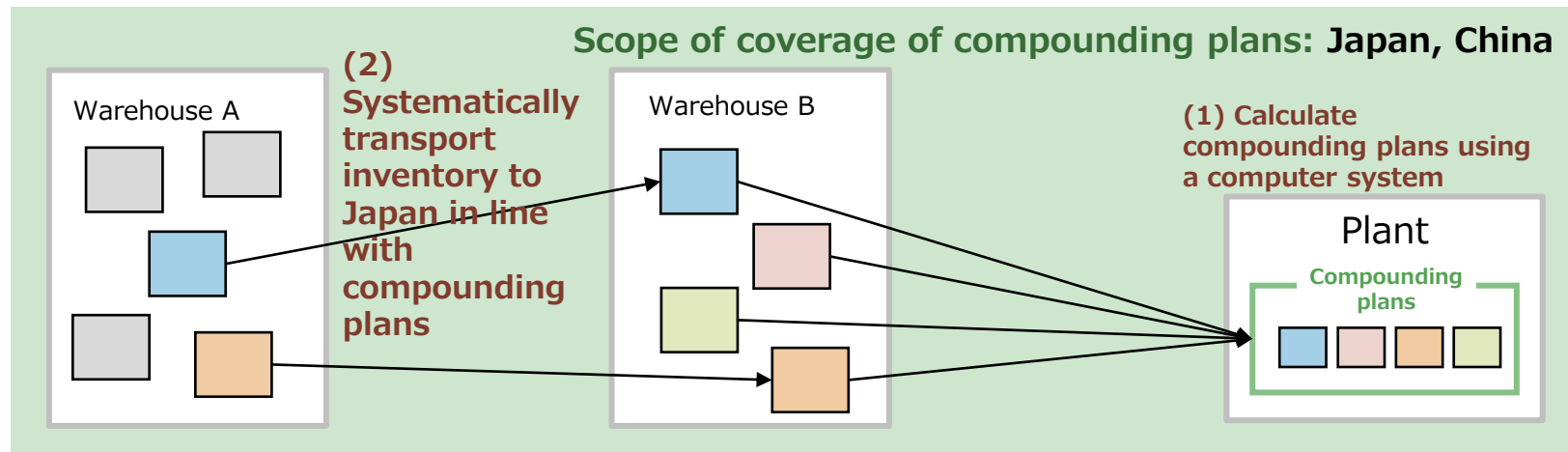


✘ **Issues before implementation**
 Because the blending plan is created from the inventory transferred to Japan, stagnant inventory occurs

Compounding plan accuracy

- Calculation time: 4 hours
- Calculation period: 1 month
- Scope of coverage: Japan only

Vision



*** Manage a suitable level of inventory necessary for compounding**

*** Improve accuracy**

Compounding plan accuracy

- Calculation time: Instantaneously
- Calculation period: More than 1 year
- Scope of coverage: Japan, China

Secure financial soundness while pursuing an optimal capital composition

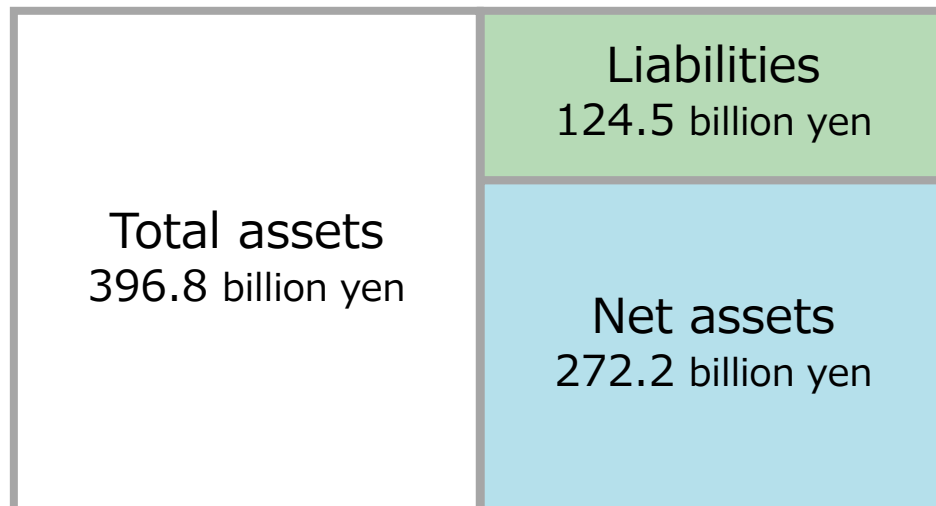
FY 2031
Vision

Pursue an optimal capital composition

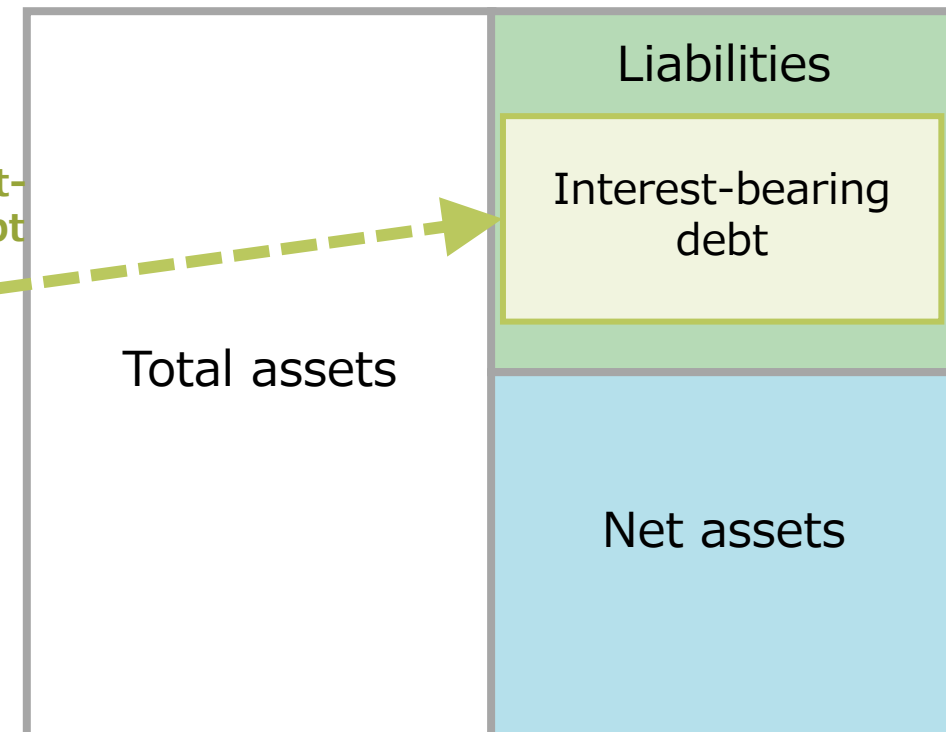
- Secure financial soundness
→ **Equity ratio of 50%-plus**

FY 2022 results

Equity ratio
63.5%

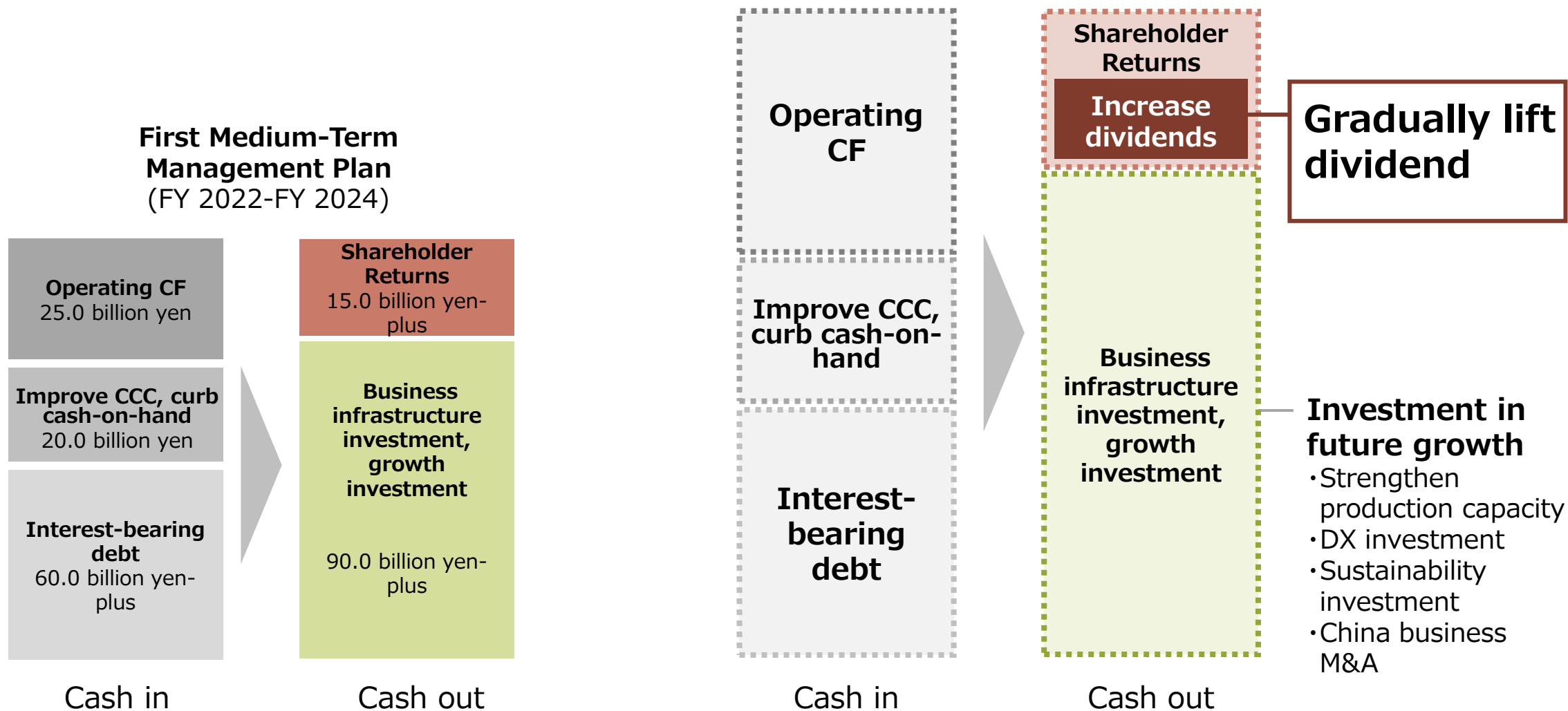


Use interest-bearing debt



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

up to FY 2031 Vision



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%

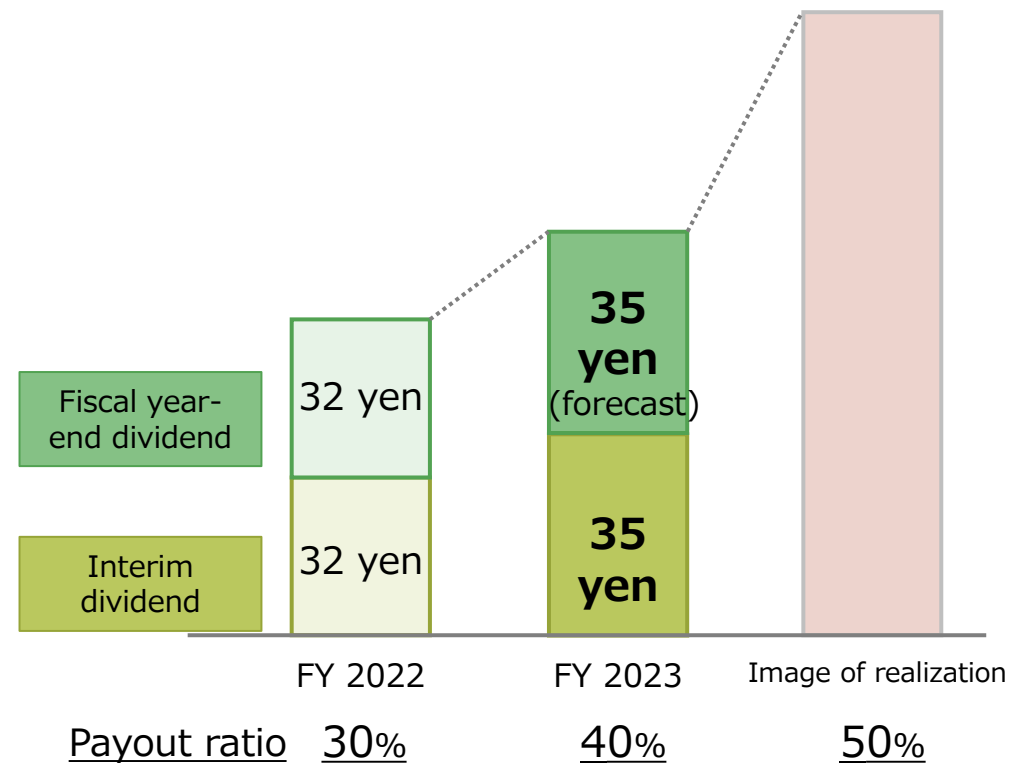
= Dividend payout ratio of 50% × ROE of 10%

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

01

Purpose-driven Value Creation & Capital Policy

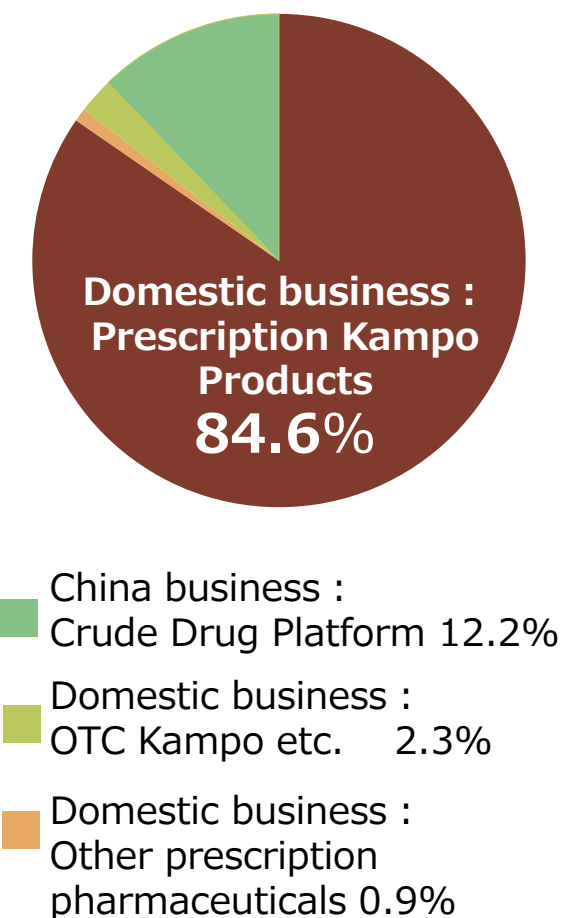
02

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

2Q Business Results for FY 2023

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

Ratio to total sales



*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

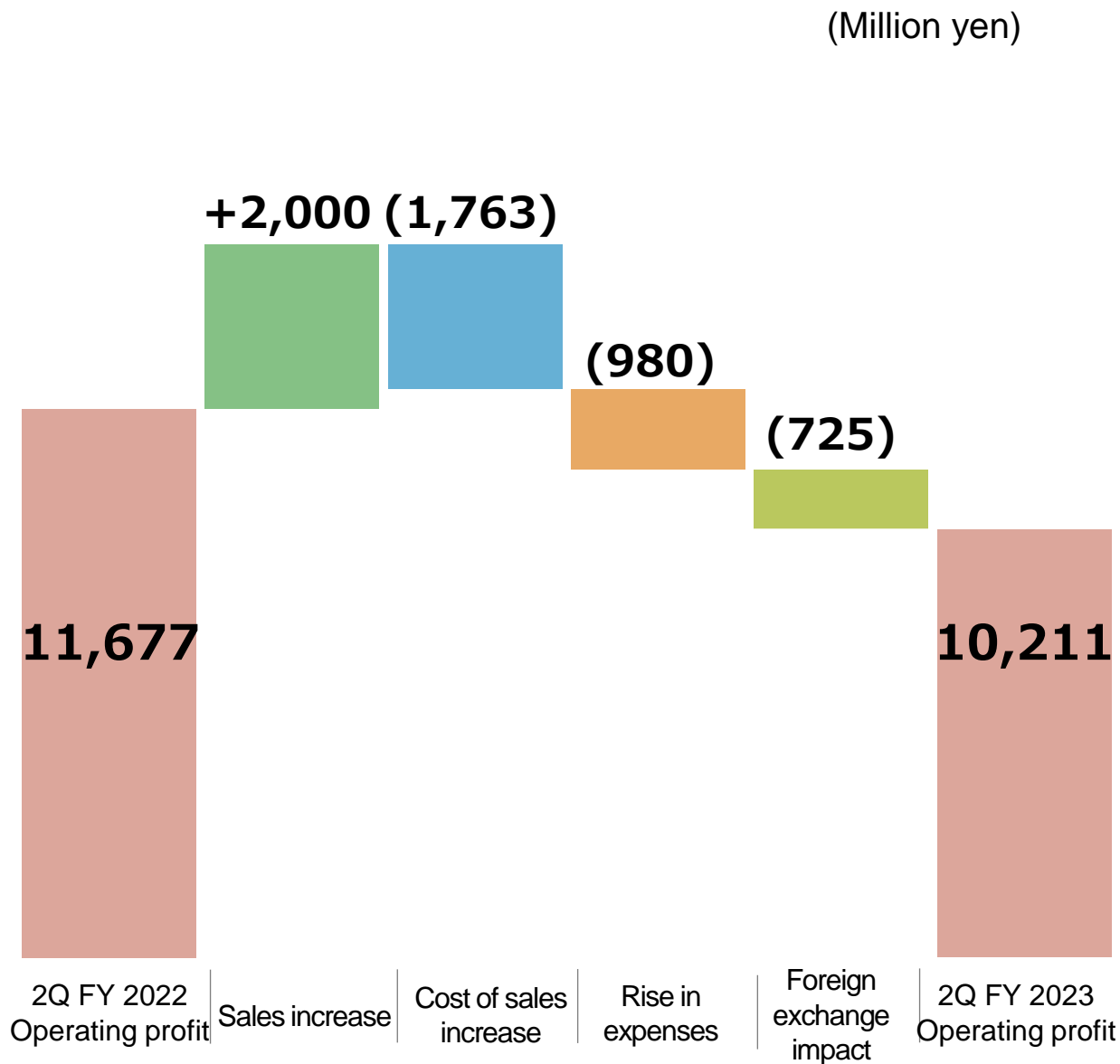
Key Points in Performance

Achieved 1H plans for sales and at each profit level

Net sales	75,302	million yen	1H FY 2023* achievement rate	101.8%	YoY	+7.4%
<ul style="list-style-type: none"> Domestic business 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 China business, raw material crude drugs, drug pieces, Yakushokudogen products, etc.: 9,171 million yen, rose 27.7% year-on-year 						
Operating profit	10,211	million yen	1H FY 2023* achievement rate	107.5%	YoY	(12.6)%
Operating profit margin	13.6	%	versus 1H FY 2023 plan*	+0.8pt	YoY	(3.1)pt
<ul style="list-style-type: none"> Cost-to-sales ratio: 54.3%, up 0.8pt vs. 1H plan and a rise of 4.0pt year-on-year 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 SG&A ratio: 32.2%, down 1.4pt vs. 1H plan and a fall of 0.8pt year-on-year Versus plan and year-on-year: Sales growth absorbed growth investments, including the DX of the Kampo Value Chain 						
Ordinary profit	12,675	million yen	1H FY 2023* achievement rate	129.3%	YoY	(20.6)%
<ul style="list-style-type: none"> Foreign exchange gain primarily related to loans to overseas subsidiaries: 1,980 million yen, down 1,969 million yen year-on-year <p style="text-align: right; font-size: small;">*Forex gains are not factored into the earnings forecast.</p>						
Profit attributable to owners of parent	9,005	million yen	1H FY 2023* achievement rate	132.4%	YoY	(24.3)%

* Comparison with plans prior to revisions.

Factors Triggering Changes in Operating Profit (YoY)



(Million yen)

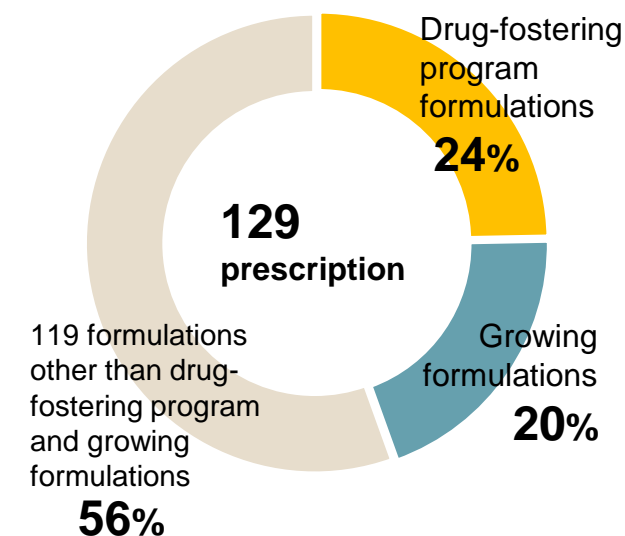
Sales increase +2,000	
Domestic business	+1,717
China business	+283
Cost of sales increase (1,763)	
Domestic business: Unit sales price (of which NHI price revision impact was +793)	+1,177
Domestic business: Raw material crude drug cost	(1,524)
Domestic business: Raw material expenses	(517)
Domestic business: Processing expense, etc. (of which energy expense was (423); One-off expense at Tianjin Plant (279))	(674)
China business : Increase in sales ratio	(225)
Rise in expenses (980)	
R&D expense	(543)
Salary allowance	(209)
Sales promotion expense	(52)
Depreciation (Of which, decrease in temporary expenses at the Tianjin Plant +549)	+512
Other (Of which, system introduction expenses etc(476) ,activities expenses(261))	(688)
Foreign exchange (yen depreciation) impact (725)	

Sales of Drug-fostering Program Formulations/Growing Formulations

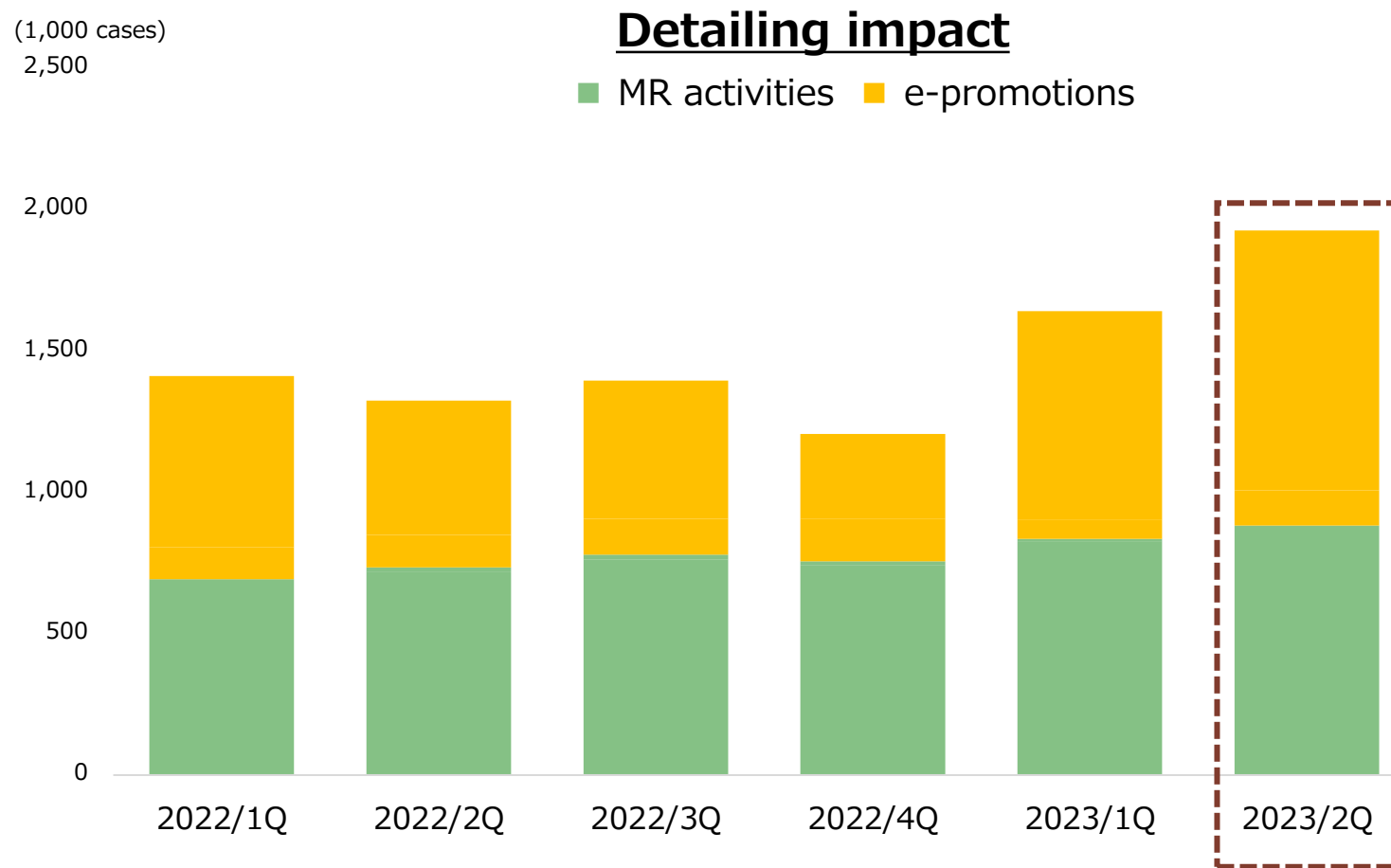
(Million yen)

	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%

Ratio to total sales



- 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



e-promotions

- The number of detailing impact cases increases by expanding video contents on the Tsumura MEDiCAL SiTE



The MEDiCAL SiTE is operated by Tsumura. The environment facilitates learning about Kampo by medical practitioners at any time through the distribution of contents, mainly videos, and online lectures.

*Number of cases of detailing impact: Number of cases of information recognition from various channels, including MR activities and the Internet
 *e-promotions: Information provision, mainly through online lectures and video streaming
 *MR activities: Information provision via MRs + in-person lectures

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

27.7%
growth*

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

✓ 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

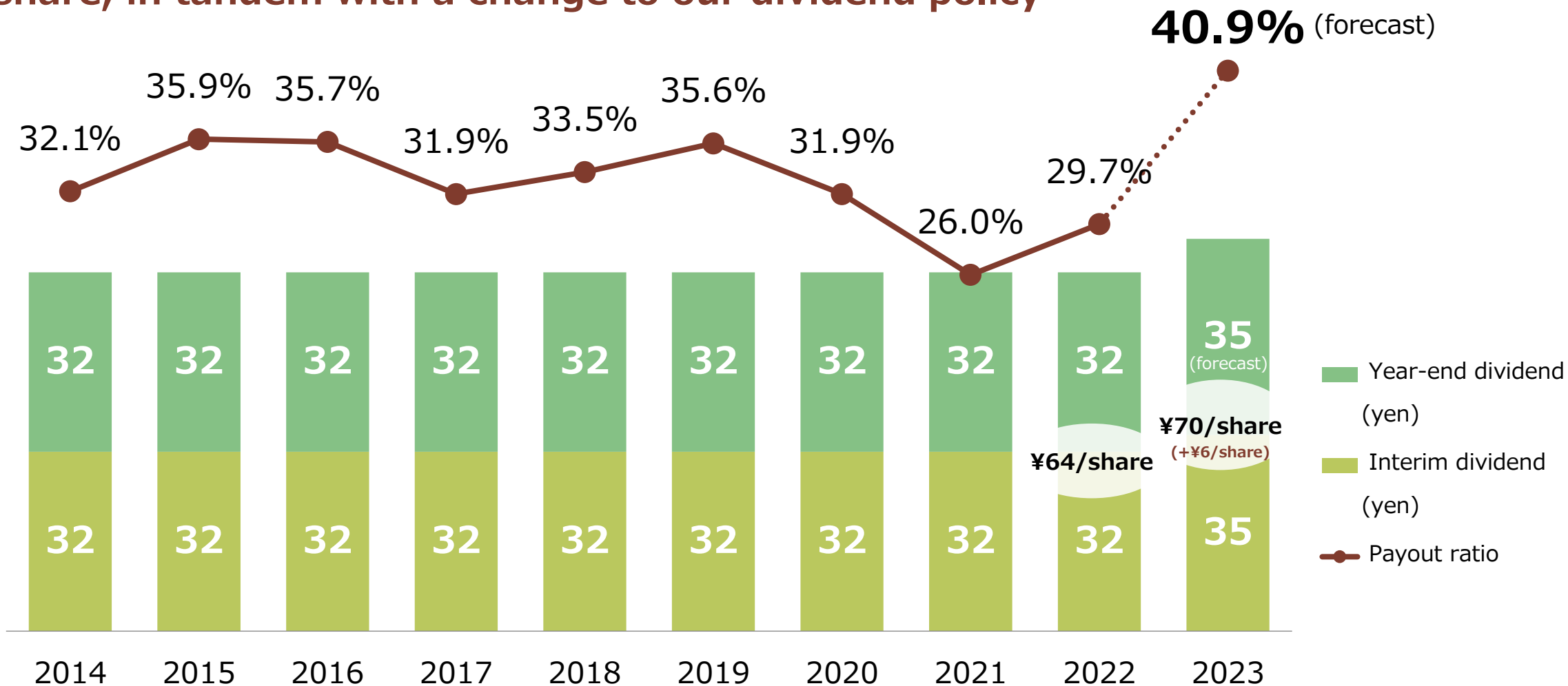
*Local currency basis: 24.5% growth

FY 2023 Earnings Forecast (No revision)

[Million yen]	FY 2022 Results	FY 2023 Forecast	YoY	
			Amount	Change
Net sales	140,043	150,500	+10,456	+7.5%
Domestic business	124,698	133,300	+8,601	+6.9%
China business	15,345	17,200	+1,854	+12.1%
Operating profit	20,916	18,000	(2,916)	(13.9)%
Domestic business	21,190	18,400	(2,790)	(13.2)%
China business	(273)	(400)	(126)	—
Ordinary profit	23,453	18,600	(4,853)	(20.7)%
Profit attributable to owners of parent	16,482	13,000	(3,482)	(21.1)%
Income statement exchange rate (JPY/RMB)	19.55	19.00		
ROE	6.7 %	5.1 %	Notes	
EPS	215.63 yen	171.02 yen	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.	

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.

Corporate Communications Dept.

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Cautionary items regarding forecasts

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

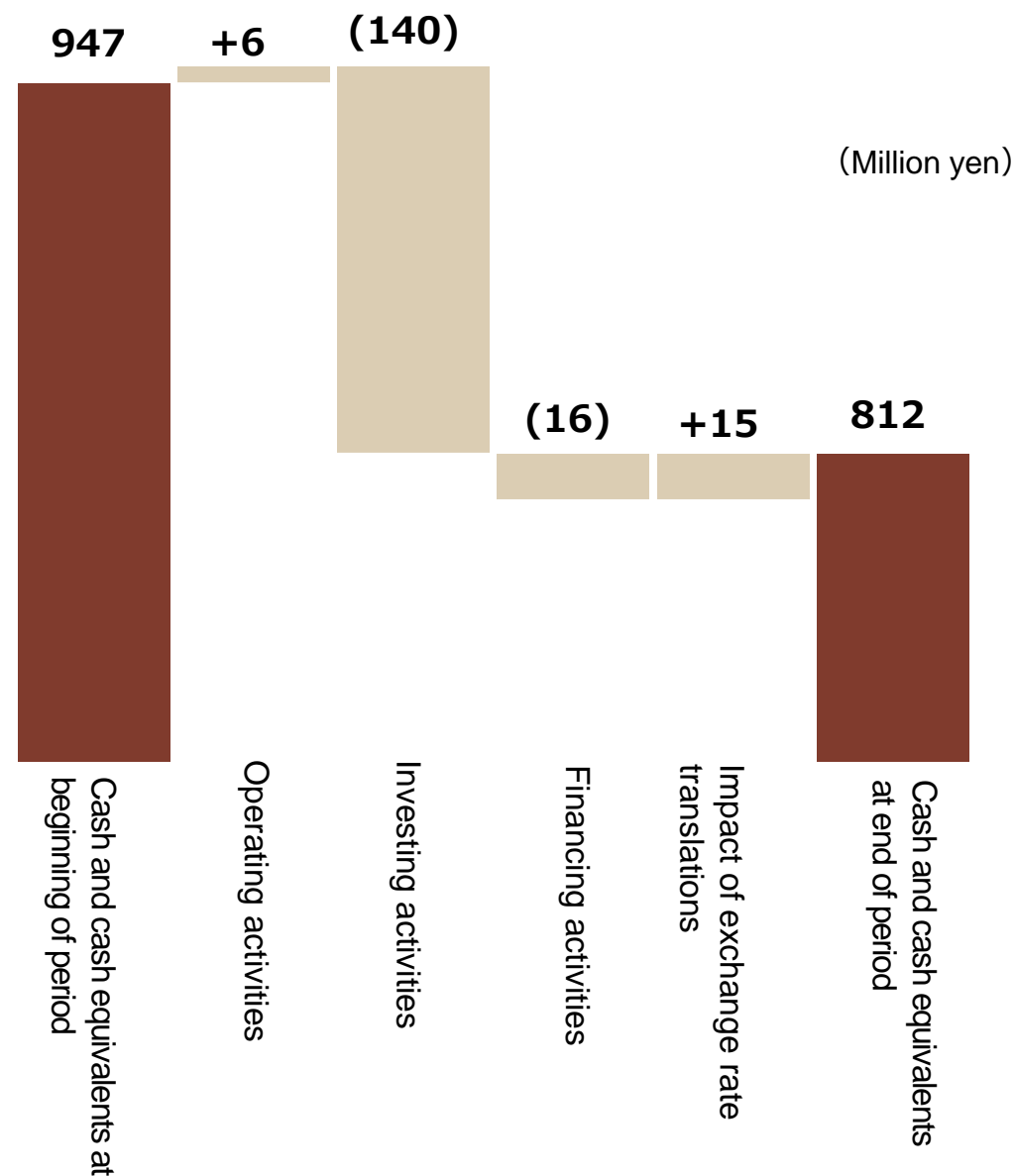
Appendix

Financial Condition/Cash Flow Position

(Million yen)

	FY 2022 (March 2023)	FY 2023 2Q	Change
Total assets	396,813	416,840	20,027
Current assets	268,320	279,260	10,940
Non-current assets	128,492	137,579	9,086
Total liabilities	124,566	127,920	3,353
Current liabilities	47,205	49,910	2,705
Non-current liabilities	77,361	78,009	647
Total net assets	272,246	288,920	16,673
Equity ratio	63.5%	63.5%	0pt

	FY 2022 (March 2023)	FY 2023 2Q	Change	Of which, Exchange rate
Inventories	101,726	112,432	10,706	3,071
Merchandise and finished goods	11,257	12,499	1,242	164
Work in process	14,430	18,525	4,095	174
Raw materials and supplies	76,038	81,406	5,368	2,732



Domestic business: The Number of Physicians Prescribing 10 or More Prescription Kampo Formulations

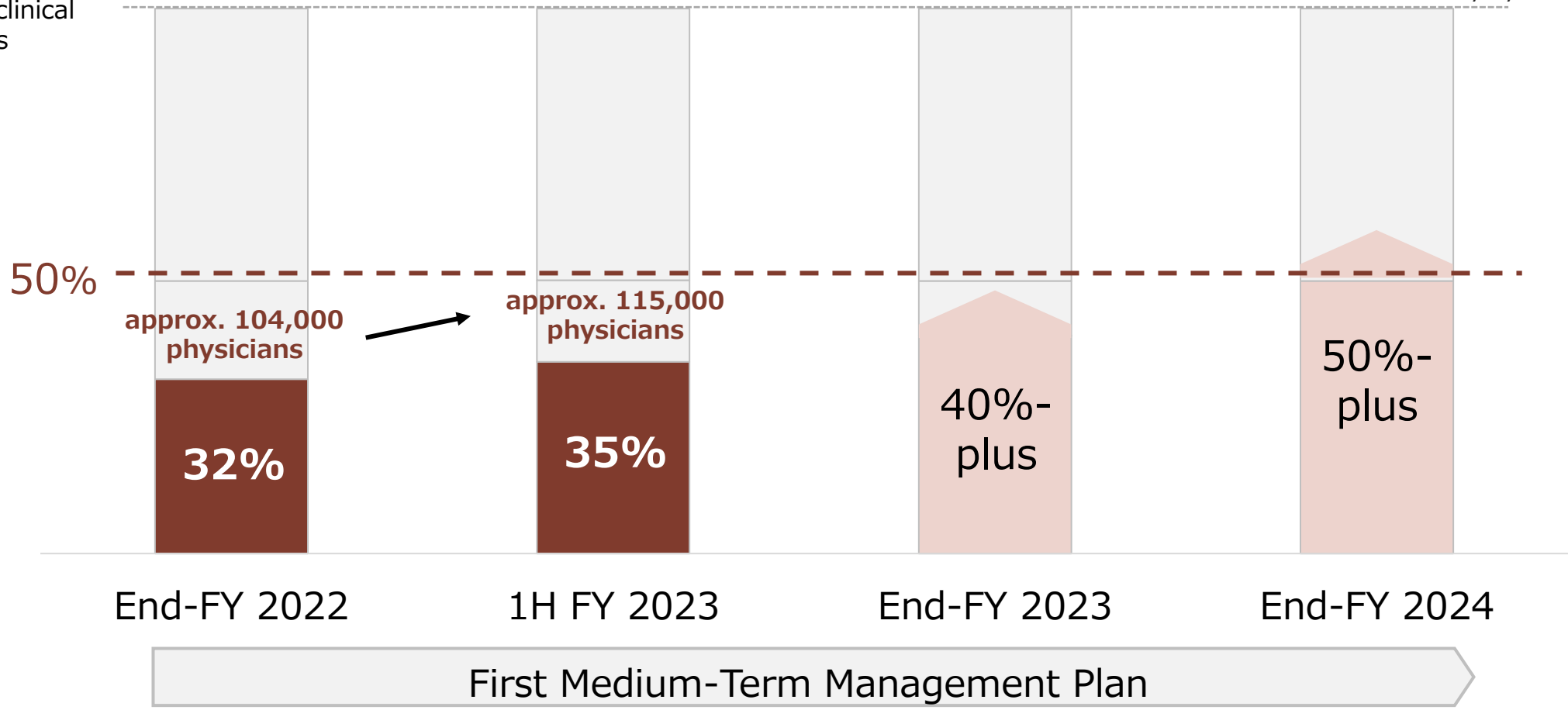


The number of physicians prescribing 10 or more prescription Kampo formulations increased by approximately 11,000 physicians, a ratio of 35%*

*The number of physicians prescribing 10 or more prescription Kampo formulations

320,000 clinical physicians

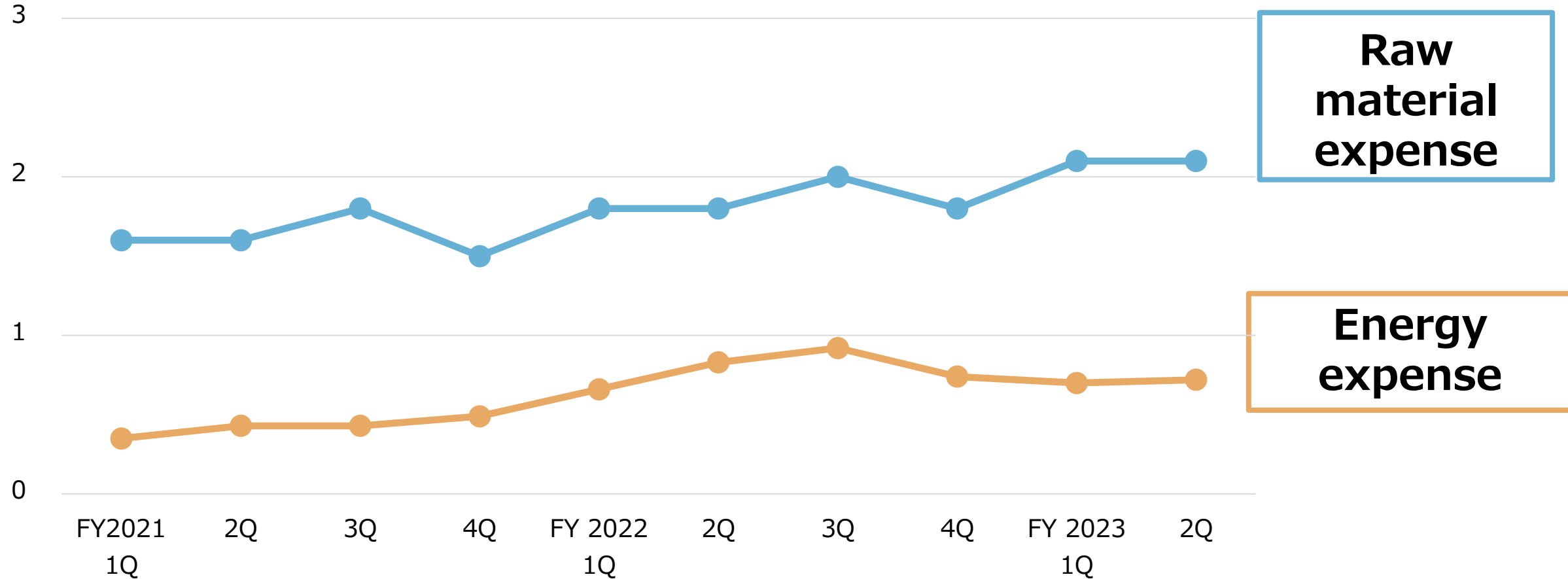
*Survey by Tsumura



Raw Materials & Energy Expense Trends

Raw material and energy expenses have been trending flat from 1Q

(Billion yen)



Raw material expense

Energy expense