Presentation on Vision for China Business

February 14, 2018

President, Representative Director
Terukazu Kato
Today’s Agenda

1. Long-Term Business Vision
2. Business Goals
3. Business Strategy
4. Sales Forecast, Market Scale
5. Financing Plan, Schedule
1. Long-Term Business Vision
Long-Term Business Vision “Vision for 2021”

Aim to be a value-creation company that contributes to people’s health through its Kampo business

The “Kampo” Company
Contributing to creating a healthcare environment where all patients can receive treatment that includes “Kampo” medicine where appropriate in any healthcare institution or medical specialty in Japan.

The “People” Company
“Kampo” medicine is a pioneering field with no previous examples to build on worldwide. Therefore, we shall evolve into a corporate group comprised of “people” with professional skills that can independently pave the way forward for our Kampo business and is trusted by all.

The “Global Niche” Company
Leveraging the technology and know-how of the Tsumura Group to their full extent, we will take on the challenge of developing and launching TU-100 (Daikenchuto) in the U.S pharmaceutical market as well as creating new businesses in China.
Roadmap to Realizing Long-Term Vision

HOP
- Strengthening the growth base to achieve greater value creation

STEP
- Creating New Value Through Innovations in Kampo

JUMP
- Vision For 2021

First Medium-Term Management Plan
- 2012

Second Medium-Term Management Plan
- 2015 - 2016

Third Medium-Term Management Plan
- 2018 - 2019

2021 (FY)

Medium-Term Management Plan

Strategic Challenges
1. Expansion and stable growth in the Kampo market
2. Continued reinforcement of profitability and maximization of cash flow
3. Taking on the challenge of new businesses in China
2. Business Goals
Business Goals

- Contributing to China
  Further development of the traditional Chinese medicine industry ⇒ Contribution to the health of the people of China

- Stable procurement of crude drugs
  Contribute to improving the quality of crude drugs and to the preservation of crude drug resources ⇒ Stable procurement of crude drugs and raw materials for crude drugs
Business Goals (Background & External Environment)

- Increase in medical costs due to aging society
- Change in disease structure (Example: obesity among the young, etc.)
- Stability and safety of the quality of crude drugs and products

Contribute to the health of the people of China

Play a role in improving the quality of crude drugs, securing safety, and protecting crude drug resources
Stability & Safety of the Quality of Crude Drugs/Products

<Crude Drug Production in China According to the Crude Drug GACP*>

Leverage strength of our integrated crude drugs production and management system

*GACP : Good Agricultural and Collection Practice
3. Business Strategy
Summary of China Business

**TSUMURA China**

<table>
<thead>
<tr>
<th>Company</th>
<th>Investment Ratio</th>
</tr>
</thead>
<tbody>
<tr>
<td>TSUMURA SHENGSHEI</td>
<td>70%</td>
</tr>
<tr>
<td>PHARMACEUTICALS (Tianjin)</td>
<td></td>
</tr>
<tr>
<td>SPH TSUMURA PHARMACEUTICALS</td>
<td>49%</td>
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<tr>
<td>(Shanghai)</td>
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</tr>
<tr>
<td>Ping An Tsumura</td>
<td>56%</td>
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<tr>
<td>(Shenzhen)</td>
<td></td>
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<tr>
<td>SHANGHAI TSUMURA</td>
<td>63%</td>
</tr>
<tr>
<td>(Shanghai)</td>
<td></td>
</tr>
<tr>
<td>SHENZHEN TSUMURA</td>
<td>100%</td>
</tr>
<tr>
<td>(Shenzhen)</td>
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</tbody>
</table>

- **Kampo Extract powder**
- **traditional Chinese medicinal product**
- **Production**
- **Sale**

- **TSUMURA SHENGSHEI PHARMACEUTICALS (Tianjin)**
  - Kampo Extract powder
  - traditional Chinese medicinal product
  - Production
  - Sale

- **SPH TSUMURA PHARMACEUTICALS (Shanghai)**
  - Traditional Chinese medicine compound granules
  - Research and Development
  - Production
  - Sale

- **Ping An Tsumura (Shenzhen)**
  - Business related to strengthening the crude drug procurement structure
  - Business related to analysis and research focusing on traditional Chinese medicines
  - Business related to traditional Chinese medicines, health food and healthcare-related daily necessities and other operations and markets

- **SHANGHAI TSUMURA (Shanghai)**
  - Kampo Extract powder
  - Production
  - Sale

- **SHENZHEN TSUMURA (Shenzhen)**
  - Crude drug
  - Crude drug pieces
  - Procurement
  - Selection and Processing
  - Storage

※ For SPH Tsumura Pharmaceuticals, Shanghai Tsumura, and Shenzhen Tsumura, we plan to shift our investments in each company to investments from Tsumura China.
Details of Each Business Operation

**Analysis**

Establish an analysis center for the purpose of establishing high-quality standards related to traditional Chinese medicine.  
(→ Establish **cornerstone for brand building** in each business through analysis business)

**Crude drug** (Crude drug pieces, etc)

In the business for crude drugs and crude drug pieces, carry out procurement, processing, and sales  
(→ Aim to establish a **new business that will create a market** that handles high quality and high spec crude drugs)

**Traditional Chinese medicine compound granules**

Product made from extract granules taken from crude drug pieces. This is used to prepare traditional Chinese medicine.  
Focus is on this becoming a new market for traditional Chinese medicine. Enter the market with an integrated system that encompasses R&D, production and sales.

**Traditional Chinese medicinal product, etc**  
(OTC, Healthy food, HC)

Apply the formulation and commercialization techniques nurtured in the Kampo and crude drug business to develop, produce and sell traditional Chinese medicinal products.
Correlation between Each Business

- **Crude drug** (Crude drug pieces, etc)
- **Traditional Chinese medicine compound granules**
- **Traditional Chinese medicinal product, etc** (OTC, Healthy food, HC)

Secure high quality crude drugs / Establish the cornerstone for quality and specifications through analysis business

Supply value-added product & Secure quality assurance, safety, efficacy, and uniformity

*GACP*: Good Agricultural and Collection Practice
# Strengths of Analysis Technology

<table>
<thead>
<tr>
<th>Strength</th>
<th>Description</th>
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<tbody>
<tr>
<td>Abundant experience in crude drug trials</td>
<td>Assay technology that conforms to the properties of crude drugs</td>
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<tr>
<td></td>
<td>(Residual agrochemicals, toxic mold, microbes)</td>
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<tr>
<td>System for collaborating with local companies and research institutes</td>
<td>Technology to identify botanical origins based on diverse crude drug and plant specimens</td>
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<tr>
<td></td>
<td>(DNA analysis, classification)</td>
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<tr>
<td>Vast library of components derived from crude drug</td>
<td>Technology to isolate and refine crude drug compounds</td>
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<tr>
<td></td>
<td>(Supply reference standard, standard-setting)</td>
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<tr>
<td>Integrated management from cultivation to quality inspections</td>
<td>Applied to cultivation and processing technology based on test results</td>
</tr>
<tr>
<td></td>
<td>(Improve quality of crude drugs)</td>
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</tbody>
</table>

* Library: Database on and related to compounds
Business Strategy (Synergies from joint venture)

TSUMURA & CO.

Quality Technology Information

Production and sales of high-quality Kampo developed based on advanced production and analysis technologies cultivated over more than a century

PING AN

Comprehensive strength in finance & IT, scale, brand recognition

Comprehensive strength in finance and IT, solid presence in China, sales network, etc. (Client base, including online users, of 350 million people)

Ping An Tsumura

Aim to become the No. 1 brand in the market in China
Ping An Good Doctor: China’s largest online medical and healthcare management platform

- 1,000 in-house doctors online, over 60,000 affiliated doctors, and 5,000 affiliated hospitals
- More than 150 million registered users, over 250,000 medical interviews taken daily (more than 1 million daily during the summer epidemic season)
- Plan to invest ¥50 billion into R&D for a smart medical exams, including treatments using Kampo

Information platform: Ping An Health Cloud
Predict diseases

Services provided by Ping An Insurance Group
4. Sales Forecast, Market Scale
Size of Market in China (2016)

RMB 874.9 billion* (roughly ¥14.87 trillion)  
* Forex: rate: ¥17/RMB (current as of February 2018)

Source: Ministry of Industry and Information Technology of the People’s Republic of China, Southern Medicine Economic Institute of China Food and Drug Administration (CFDA)
RMB 10 billion* (roughly ¥170 billion)

Traditional Chinese medicinal products
Crude drug
Traditional Chinese medicine compound granules
Analysis

Aim for sales that are equivalent to or higher than sales in Japan on a combined business basis

* Forex: rate: ¥17/RMB (current as of February 2018)
5. Financing Plan, Schedule
## Financing Plan (disclosed on September 22, 2017)

<table>
<thead>
<tr>
<th>Specific uses for capital at Ping An Tsumura</th>
<th>Amount ( JPY billion )</th>
</tr>
</thead>
<tbody>
<tr>
<td>① Business related to strengthening the crude drug procurement structure</td>
<td>10.3</td>
</tr>
<tr>
<td>The procurement of land for cultivation, the development of cultivation techniques, the construction and development of crude drug processing plants, and the development of processing technologies, etc.</td>
<td>FY2018 to FY2020</td>
</tr>
<tr>
<td>② Business related to analysis and research focusing on traditional Chinese medicines</td>
<td>2.1</td>
</tr>
<tr>
<td>Establish an analysis and research center focusing on traditional Chinese medicines, and the development of analysis and research techniques and the provision of analysis and testing services, etc.</td>
<td>FY2018 to FY2022</td>
</tr>
<tr>
<td>③ Business related to traditional Chinese medicines, health food and healthcare-related daily necessities and other operations and markets</td>
<td>14.8</td>
</tr>
<tr>
<td>Use Tsumura’s Kampo medicine manufacturing knowhow to conduct the business of manufacturing and selling traditional Chinese medicines.</td>
<td>FY2018 to FY2022</td>
</tr>
<tr>
<td>Total</td>
<td>27.2</td>
</tr>
</tbody>
</table>
## Schedule (tentative)

<table>
<thead>
<tr>
<th></th>
<th>Second Medium-Term Management Plan</th>
<th>Third Medium-Term Management Plan</th>
</tr>
</thead>
<tbody>
<tr>
<td>2018</td>
<td>Launch investment</td>
<td>Production / sales</td>
</tr>
<tr>
<td>2019</td>
<td>Launch investment</td>
<td>Production / sales</td>
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<tr>
<td>2021</td>
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<td>2022</td>
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<td>2026</td>
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<tr>
<td>2027</td>
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</tr>
</tbody>
</table>

**TSUMURA SHENGSHI PHARMACEUTICALS (Tianjin)**

- Launch investment
- Production / sales

**SPH TSUMURA PHARMACEUTICALS (Shanghai)**

- Launch investment
- Production / sales

**Ping An Tsumura (Shenzhen)**

- Launch investment
- Start analysis
- Production / sales

Color Legend:
- Kampo Extract powder
- Traditional Chinese medicinal product
- Traditional Chinese medicine compound granules
- Analysis
- Traditional Chinese medicine, Healthy food, HC etc
Cautionary items regarding forecasts

- The materials and information provided in this presentation contain so-called forward-looking statements. Readers should be aware that realization of these statements can be affected by a variety of risks and uncertainties and that actual results could differ significantly.
- Changes in the 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 impact negatively on the Company’s performance or financial position.
- In the unlikely event that sales of the Company’s core products were halted or declined substantially due to a defect, unforeseen side effect or some other factor, it would have a major impact on the Company’s performance or financial position.