

# First Quarter Business Results for Fiscal 2022

August 4, 2022

Director, and CFO

Muneki Handa

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First Quarter Business Results for FY 2022

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Initiatives and Progress for  
Domestic Business and China Business

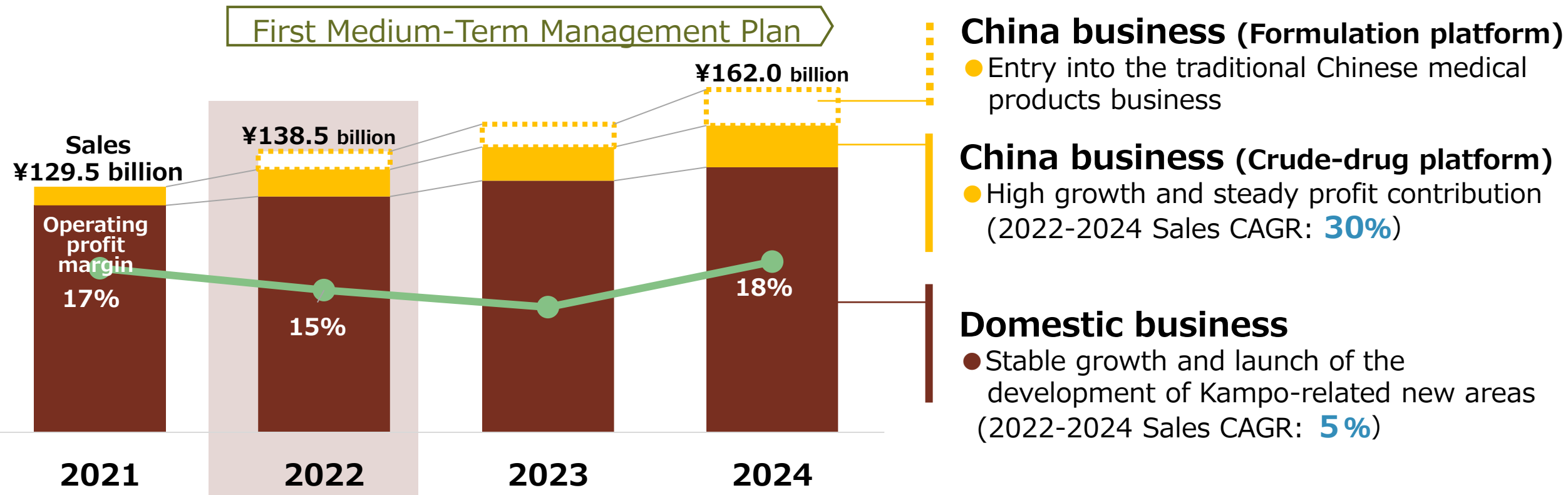
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FY 2022 Earnings Forecast

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# Summary of the FY 2022 Plan



## ● Sales

Domestic business

- Expansion of the Kampo market by providing Kampo solutions that suit each medical practitioner through the integration of e-promotions and MR activities

China business

- Sales expansion of high-quality raw material crude drugs, drug pieces and “Yakushokudogen” products

## ● Cost of sales

- Rise in sales in the China business, depreciation in the yen’s value, soaring commodity prices, etc.
- Improved production efficiency owing to a rise in sales volume

## ● SG&A expense

- One-off expenses, including for validation, ahead of full-fledged operations at the Tianjin Plant
- Upfront expenses, including a rise in headcount and outlays to build an IT infrastructure in the China business

# 1Q Business Results for FY 2022

## Key points in performance Sales and profits increased year on year

### Sales

- Prescription Kampo products: ¥30,277 million (growth of 6.7%)
- OTC Kampo products, etc.: ¥914 million (growth of 18.0%)
- China business (crude-drug platform): ¥2,855 million

### Cost of sales

- Decline in unrealized profit owing to lower inventory assets
- CoGS ratio dropped 0.4pt to 47.8%

### SG&A expense

- Increase in R&D expense
- One-off expenses ahead of full-fledged operations at the Tianjin Plant
- SG&A ratio rose 1.2pt to 33.7%

### Operating profit

- Negative impact from yen depreciation: ¥191 million
- Loss in the China business due to expense for building foundations, mainly the formulation platform
- Operating profit margin deteriorated 0.9pt to 18.5%

### Ordinary profit

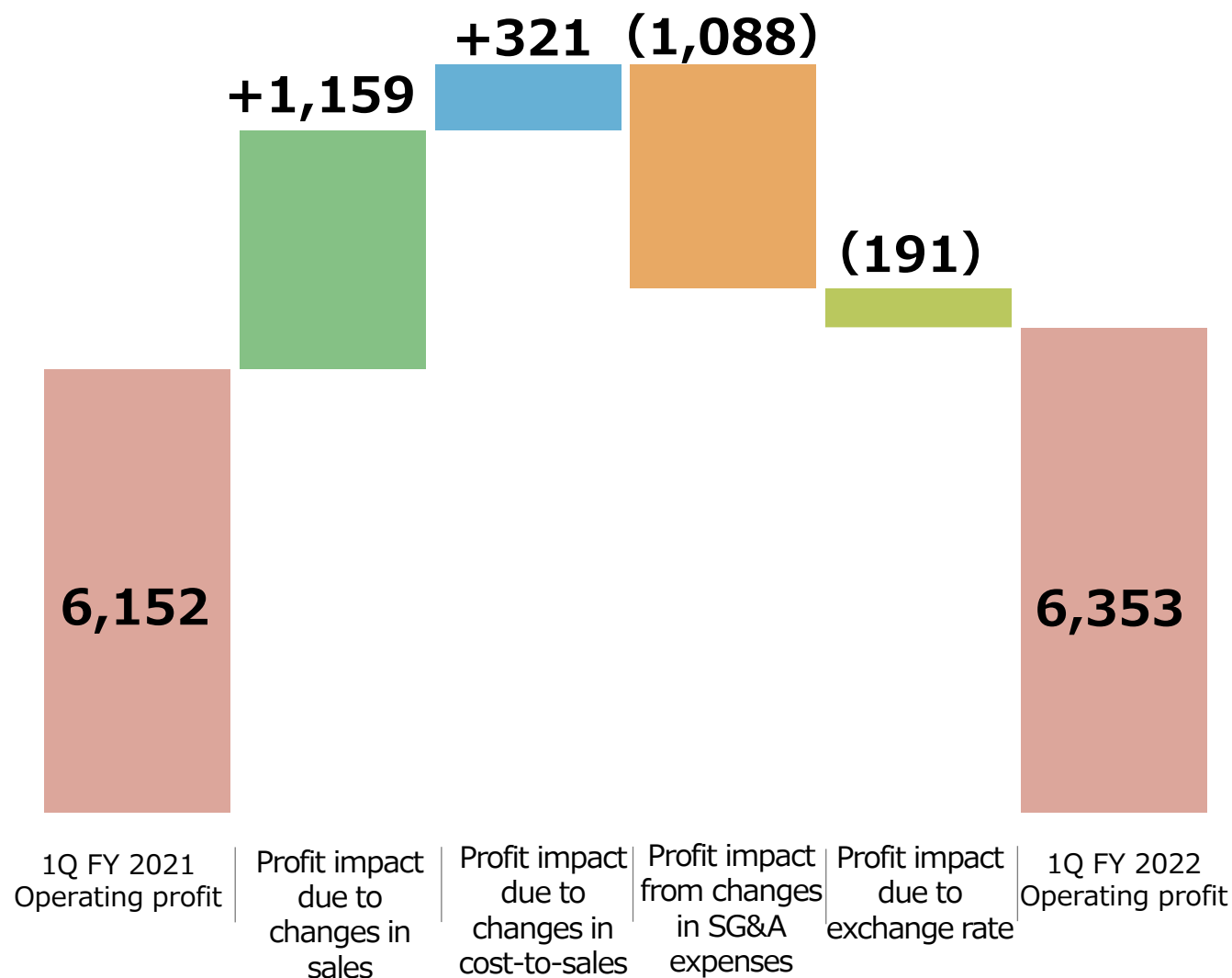
- Forex gain related to loans to overseas subsidiaries: ¥1,999 million

[Million yen]	1Q FY 2021 results	1Q FY 2022 results	YoY	
			Amount	Change
<b>Sales</b>	<b>31,771</b>	<b>34,417</b>	<b>+2,645</b>	<b>+8.3%</b>
Domestic business	—	31,562	—	—
China business	—	2,855	—	—
[Ref.] Domestic	29,513	31,562	+2,048	+6.9%
[Ref.] Overseas	2,257	2,855	+597	+26.5%
<b>Cost of sales</b>	<b>15,298</b>	<b>16,462</b>	<b>+1,164</b>	<b>+7.6%</b>
<b>SG&amp;A expense</b>	<b>10,321</b>	<b>11,601</b>	<b>+1,280</b>	<b>+12.4%</b>
<b>Operating profit</b>	<b>6,152</b>	<b>6,353</b>	<b>+201</b>	<b>+3.3%</b>
Domestic business	—	6,404	—	—
China business	—	(50)	—	—
<b>Ordinary profit</b>	<b>7,247</b>	<b>8,665</b>	<b>+1,418</b>	<b>+19.6%</b>
<b>Profit</b> attributable to owners of parent	<b>5,389</b>	<b>6,632</b>	<b>+1,243</b>	<b>+23.1%</b>
PL translation rate (CNY)	16.37	18.32	—	—

# Factors Triggering Changes in Operating Profit (YoY)

( Million yen )

(百万円)



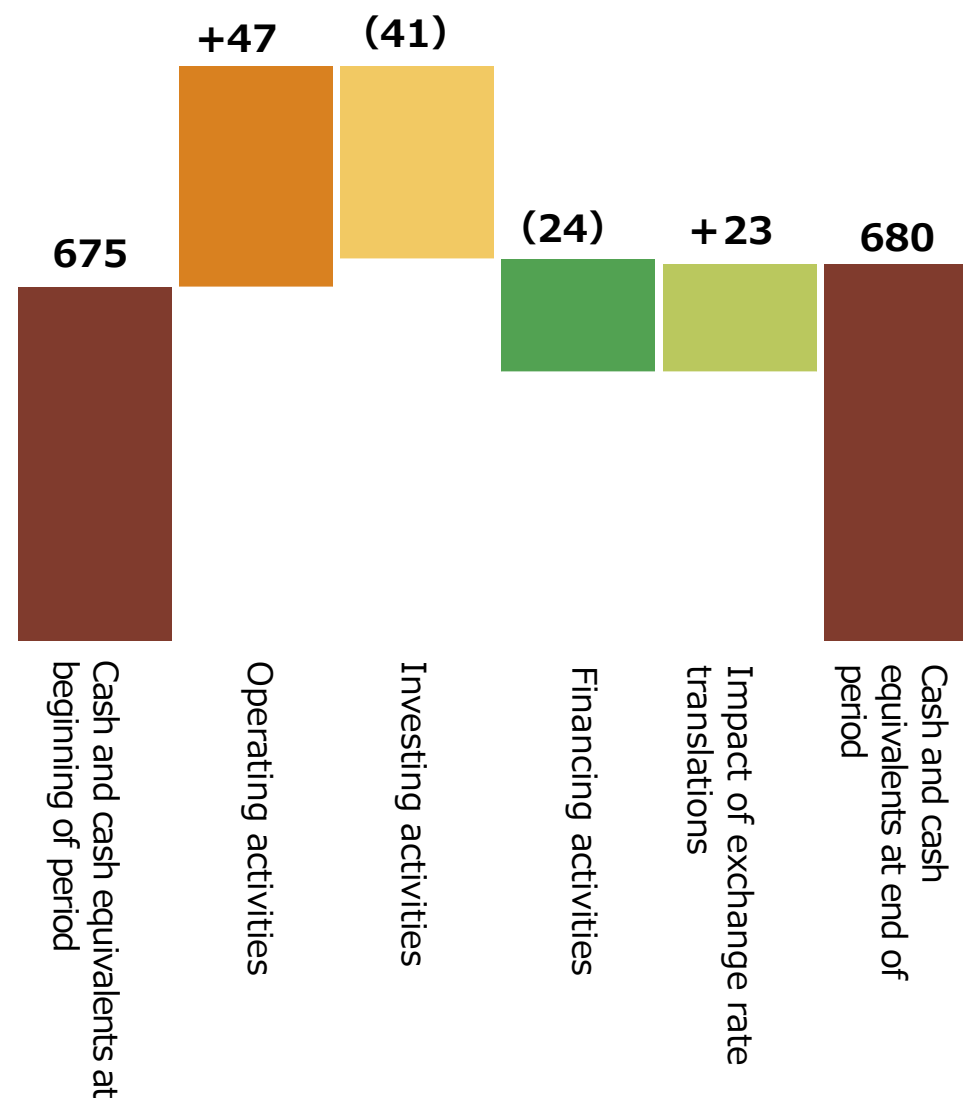
<b>Changes in sales : +1,159 Breakdown</b>	
Domestic	+1,120
Overseas	+39
<b>Changes in cost-to-sales : +321 Breakdown</b>	
Crude drug-related cost (Domestic)	+438
Row material cost (Domestic)	(63)
Processing cost etc (Domestic)	(169)
Outside sales in China (Overseas)	+115
<b>Changes in SG&amp;A expenses:(1,088) Breakdown</b>	
R&D expense	(350)
Depreciation	(248)
Other	(490)
<b>Exchange rate</b>	<b>(191)</b>

# Financial Condition/Cash Flow Position

( Million yen )

( Hundred million yen )

	FY 2021 (March 2022)	FY 2022 1Q	Change
<b>Total assets</b>	350,981	<b>362,580</b>	11,598
Current assets	229,420	<b>237,849</b>	8,428
Non-current assets	121,561	<b>124,731</b>	3,170
<b>Total liabilities</b>	92,871	<b>93,512</b>	640
Current liabilities	45,875	<b>46,799</b>	923
Non-current liabilities	46,996	<b>46,713</b>	(283)
<b>Total net assets</b>	258,109	<b>269,068</b>	10,958
<b>Equity ratio</b>	68.3%	<b>68.8%</b>	+0.5pt



	2021年度 (2022.3)	2022年度 1Q	Change	Of which, Exchange rate
<b>Inventories</b>	92,751	<b>95,902</b>	3,151	3,806
Merchandise and finished goods	10,247	<b>10,368</b>	120	233
Work in process	13,614	<b>13,054</b>	(560)	110
Raw materials and supplies	68,889	<b>72,480</b>	3,590	3,462

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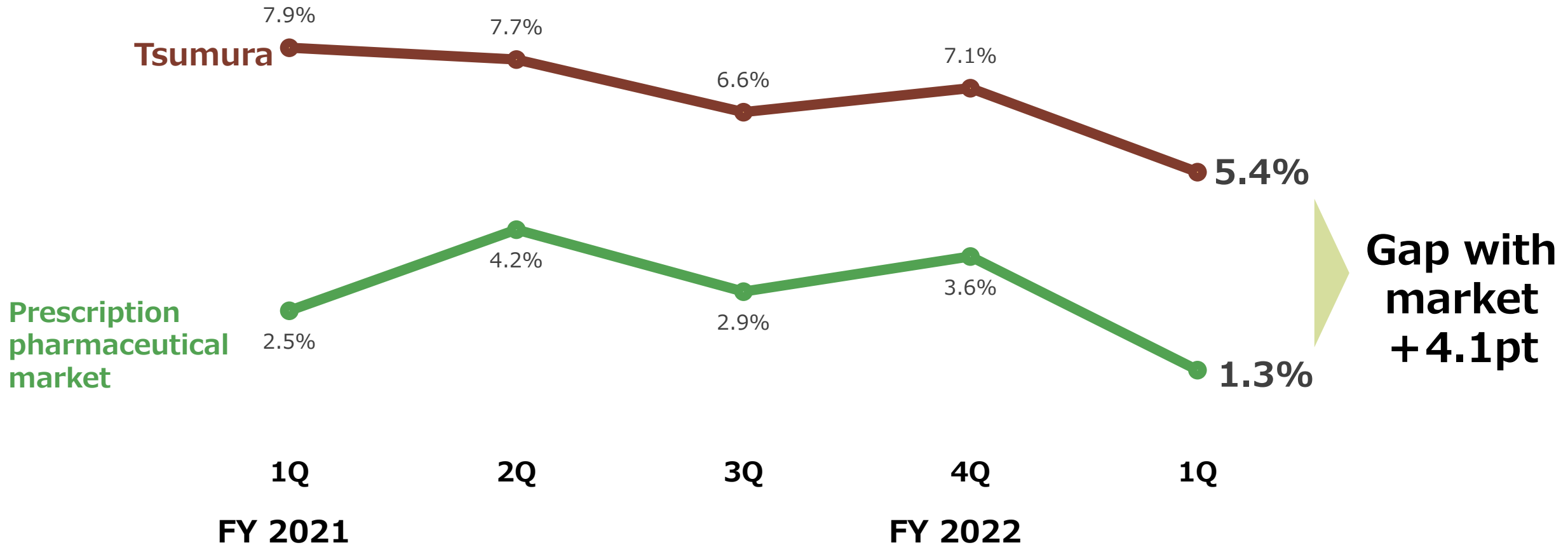
FY 2022 Earnings Forecast

# Comparison with the Prescription Pharmaceutical Market

In 1Q, the market grew 5.4% YoY; the gap with the market grew 4.1 points

## All sales channels

(YoY/drug price basis)



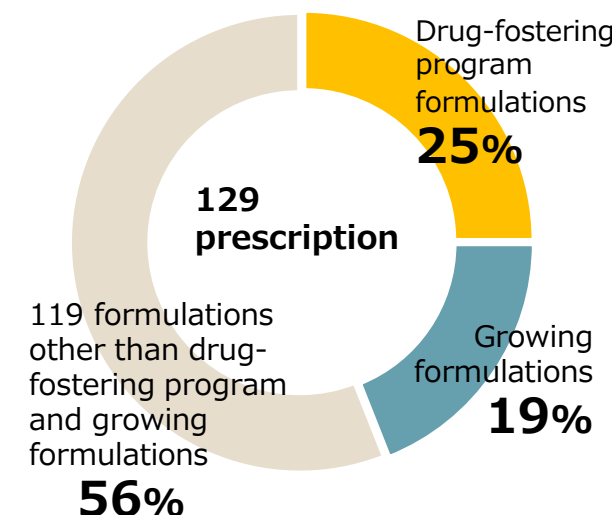


# Sales of Drug-fostering Program Formulations/Growing Formulations

( Million yen )

	Net sales Ranking	Product No./formulation name	FY 2021 1Q	FY 2022 1Q	YoY	
Drug-fostering program formulations	1	100 Daikenchuto	2,430	2,505	+74	+3.1%
	2	54 Yokukansan	1,872	1,933	+60	+3.2%
	4	43 Rikkunshito	1,770	1,860	+90	+5.1%
	8	107 Goshajinkigan	888	932	+43	+4.9%
	23	14 Hangeshashinto	345	359	+13	+3.9%
Total sales for drug-fostering program formulations			7,308	7,591	+282	+3.9%
Growing formulations	3	41 Hochuekkito	1,818	1,881	+63	+3.5%
	5	17 Goreisan	1,297	1,542	+244	+18.8%
	6	24 Kamishoyosan	1,205	1,296	+91	+7.6%
	17	108 Ninjin'yoeito	484	507	+23	+4.9%
	18	137 Kamikihito	411	501	+90	+22.0%
Total sales for growing formulations			5,217	5,730	+512	+9.8%
Total sales for 119 formulations other than drug-fostering program and growing formulations			15,852	16,956	+1,104	+7.0%
Total sales for 129 prescription Kampo products			28,377	30,277	+1,900	+6.7%

## Ratio to total sales



Newly added from FY 2022

\*Growing formulations up to FY 2021

68 Shakuyakukanzoto

29 Bakumondoto

# Indications for New Growing Formulations in the Three Important Domains

## Build basic and clinical evidence with the aim of achieving write-ups in treatment guidelines



<Efficacy/benefits>  
**Decline in stamina after illness, fatigue, poor appetite,** night sweats, cold hands and feet, anemia



**Geriatrics**

Physically frail  
(fatigue, poor appetite)



<Efficacy/benefits>  
Following symptoms of a person that does not look well due to a weak constitution:  
Anemia, **insomnia, anxiety, neurosis**



**Geriatrics**

Mentally frail

**Cancer (supportive care)**

Anxiety

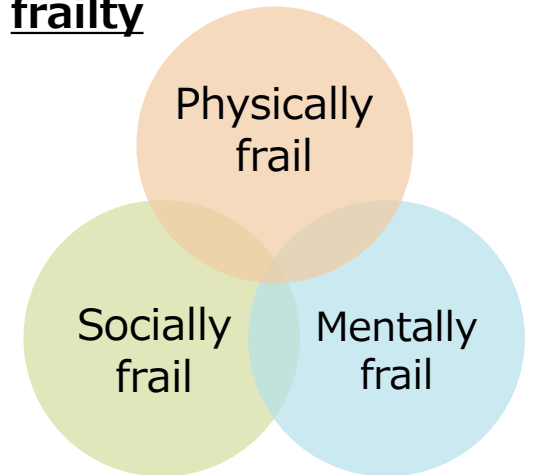
**Women's health**

Anxiety/insomnia

### \*What is frailty?

A condition between being healthy and requiring nursing care, a condition where mental and physical activity has decline

### \*Three components of frailty



Target the continued expansion of the Kampo market by providing Kampo solutions that suit each medical practitioners

## e-promotions

- **Kampo online salon**
- Web lectures
- Video library etc.

TSUMURA MEDICAL SITE



## MR activities

- **Activities for formulation and permanent use**
- **Small study groups**
- Lectures/study groups etc.



Information collaborations

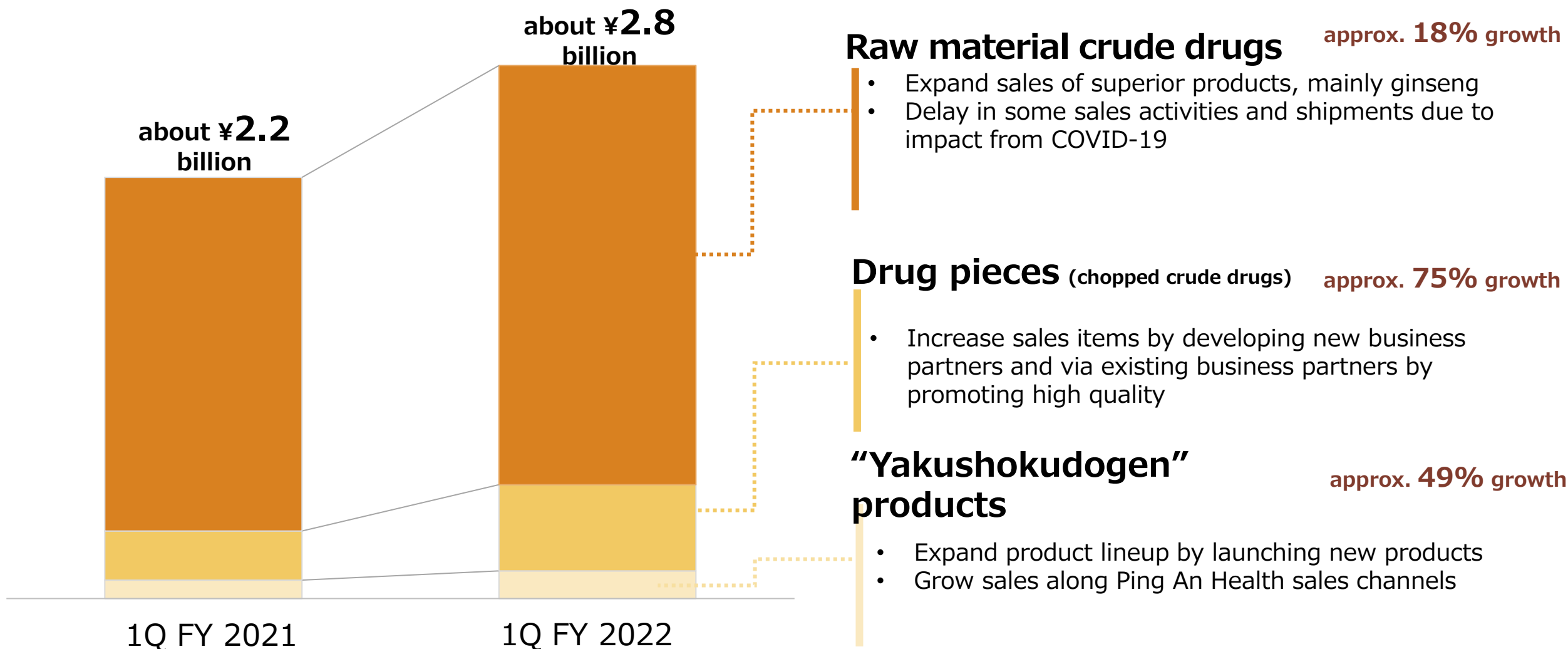
Propose optimal measures by using and analyzing information

Implement measures, improve activities

Implement measures, improve activities

# Overseas Sales (China Business)

In the crude-drug platform, expand sales of raw material crude drugs, drug pieces and “Yakushokudogen” products



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**FY 2022 Earnings Forecast**

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# FY 2022 Earnings forecast

【Million yen】	2Q FY2022 Initial Plan	2Q FY2022 Revised Plan	Compared to the Initial plan		FY2022 Plan
			Amount	Change	
<b>Net sales</b>	<b>67,000</b>	<b>68,900</b>	+1,900	+2.8%	<b>138,500</b>
Domestic business	—	—	—	—	124,300
China business	—	—	—	—	14,200
<b>Cost of sales</b>	<b>33,500</b>	<b>34,700</b>	+1,200	+3.6%	<b>69,800</b>
<b>SG&amp;A expenses</b>	<b>23,700</b>	<b>23,500</b>	(200)	(0.8) %	<b>47,900</b>
<b>Operating Profit</b>	<b>9,800</b>	<b>10,700</b>	+900	+9.2%	<b>20,800</b>
Domestic business	—	—	—	—	21,200
China business	—	—	—	—	(400)
<b>Ordinary Profit</b>	<b>10,000</b>	<b>14,000</b>	+4,000	+40.0%	<b>21,200</b>
<b>Net profit</b> attributable to owners of parent	<b>7,400</b>	<b>9,600</b>	+2,200	+29.7%	<b>15,000</b>

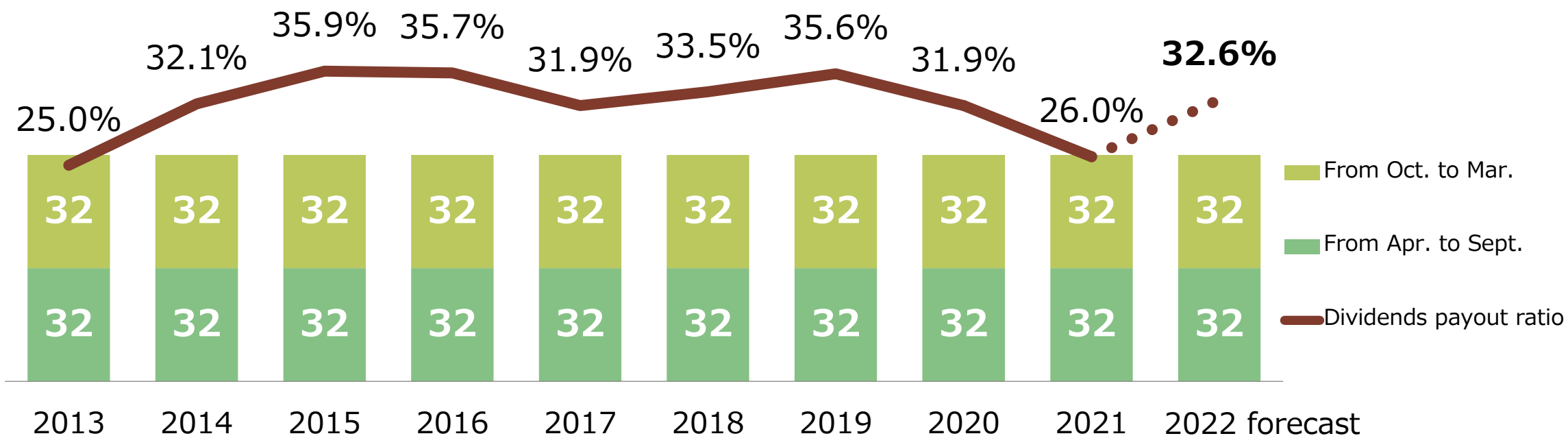
<b>Dividends</b> (per share)	<b>64円</b>
<b>EPS</b>	<b>196.1円</b>
<b>ROE</b>	<b>6.0%</b>

# Key Point of revised plan

<b>Net Sales</b>	2Q Revised Plan 68,900 million yen	Compared to the Initial plan	+ 1,900 million yen
<ul style="list-style-type: none"><li>■ The domestic business exceeded the initial plan due to the temporary impact of the re-expansion of COVID-19 and extreme heat, but the full-year level is expected to be in line with the plan.</li></ul>			
<b>Cost of sales</b>	34,700 million yen		+1,200 million yen
<ul style="list-style-type: none"><li>■ Unrealized profit is declining due to a decline in inventory due to the suspension of production (lockdown) at the Shanghai Plant. The level of unrealized profit in the first half and the full year is expected to be as planned due to an increase in inventory caused by the resumption of production.</li></ul>			
<b>SG&amp;A expenses</b>	23,500 million yen		(200)million yen
<ul style="list-style-type: none"><li>■ Full-year SG&amp;A expenses are expected to be in line with the plan, although some of SG&amp;A expenses have not been used due to restrictions on activities caused by lockdowns in various parts of China.</li></ul>			
<b>Operating Profit</b>	10,700 million yen		+900 million yen
<b>Ordinary Profit</b>	14,000 million yen		+4,000 million yen
<ul style="list-style-type: none"><li>■ Foreign exchange gains related to loans to overseas subsidiaries will be approximately 2.8 billion yen in the first half (year-end exchange rate: 20.37 yen/yuan). We will not revise full-year plan due to difficult to make rational calculations for the future exchange rate conditions.</li></ul>			
<b>Net profit</b> attributable to owners of parent	9,600 million yen		+2,200 million yen

## Policy

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



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



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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

# [Revise content of disclosure] Disclosure by Segment & Area

- Disclose segment information (sales and operating profit) by business from FY 2022

**Domestic business:** The company that makes final sales to external customers is Tsumura and/or a domestic affiliate

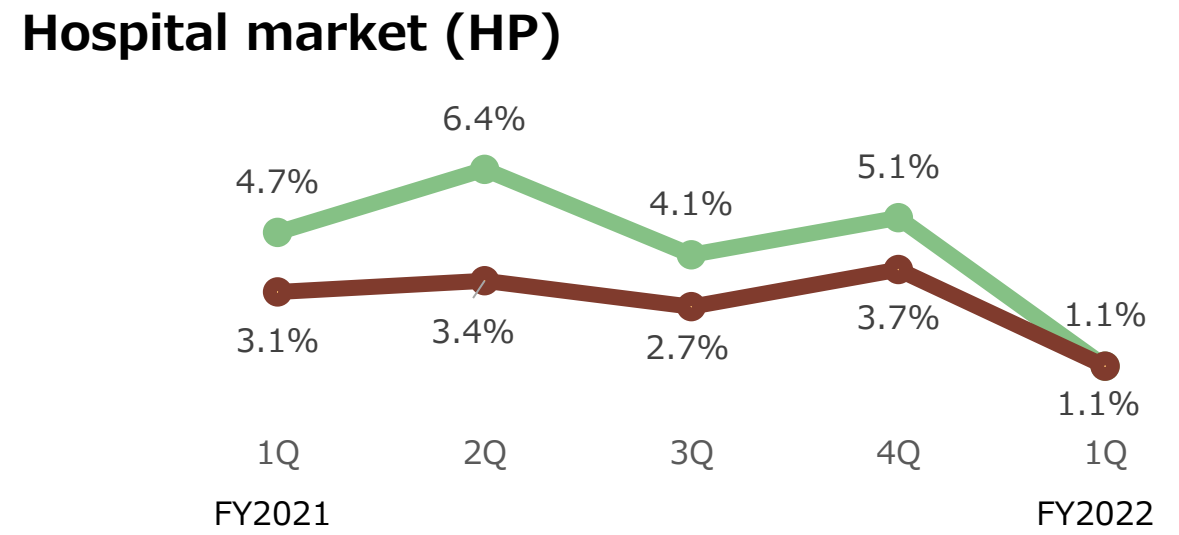
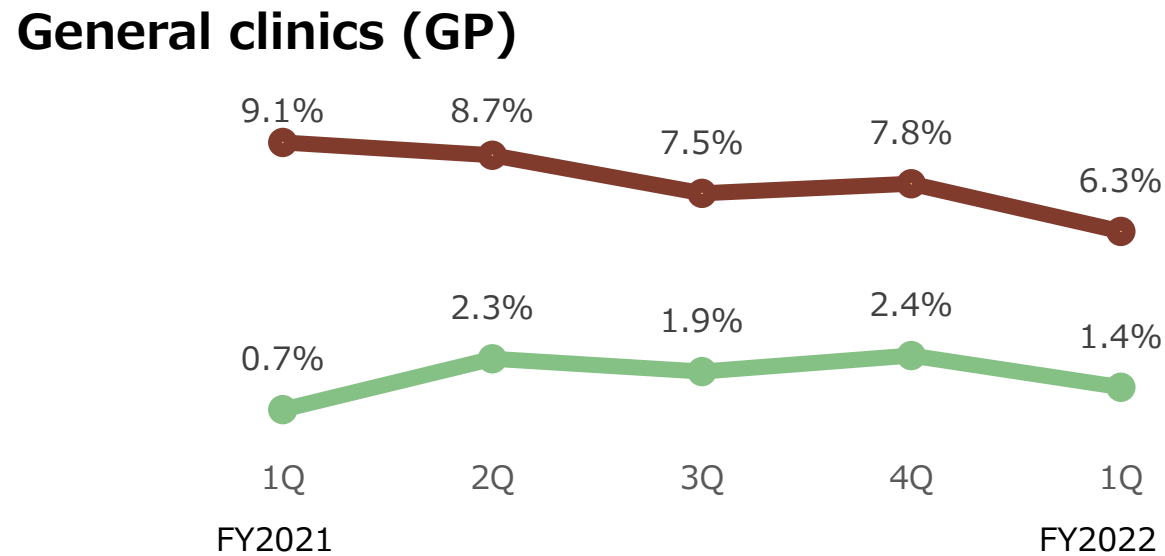
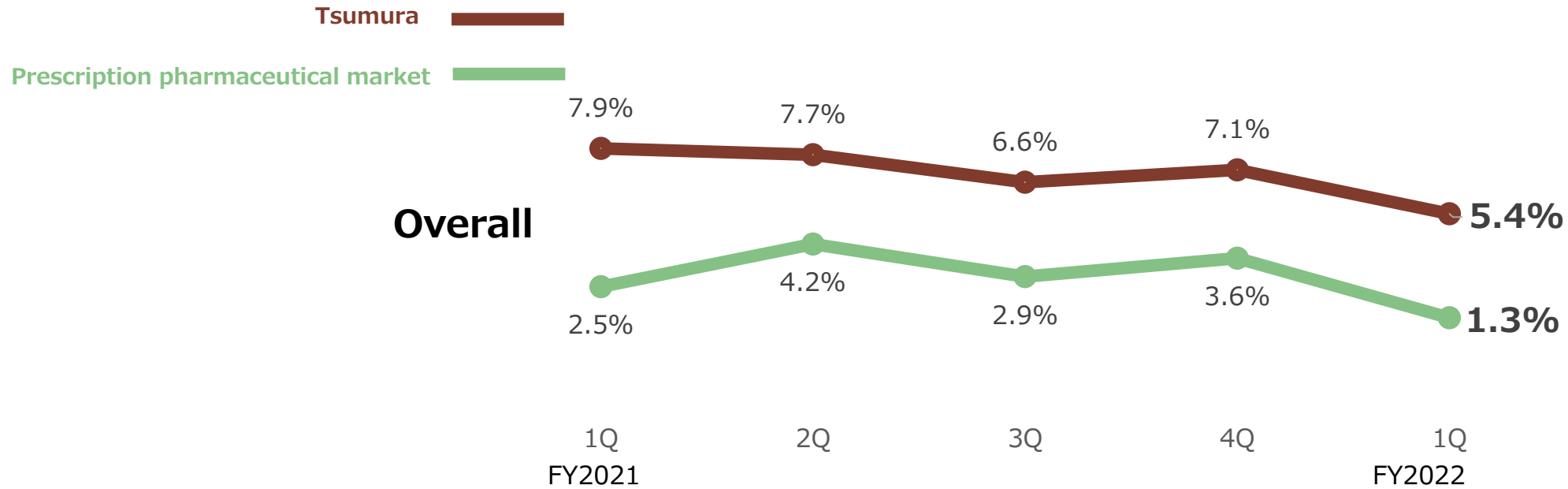
**China business:** The company that makes final sales to external customers is an affiliate in China

		Segment (FY 2022 onward)	
		Domestic business	China business
By area (FY 2020 onward)	Domestic	<ul style="list-style-type: none"> <li>• Prescription Kampo products</li> <li>• Other prescription pharmaceuticals</li> <li>• OTC Kampo products, etc. (domestic sales)</li> <li>• External sales at domestic affiliates</li> </ul>	—
	Overseas	<ul style="list-style-type: none"> <li>• OTC Kampo products, etc. (overseas sales)</li> </ul>	<ul style="list-style-type: none"> <li>• Crude-drug platform (raw material crude drugs, drug pieces and “Yakushokudogen” products)</li> <li>• Formulation platform</li> </ul>

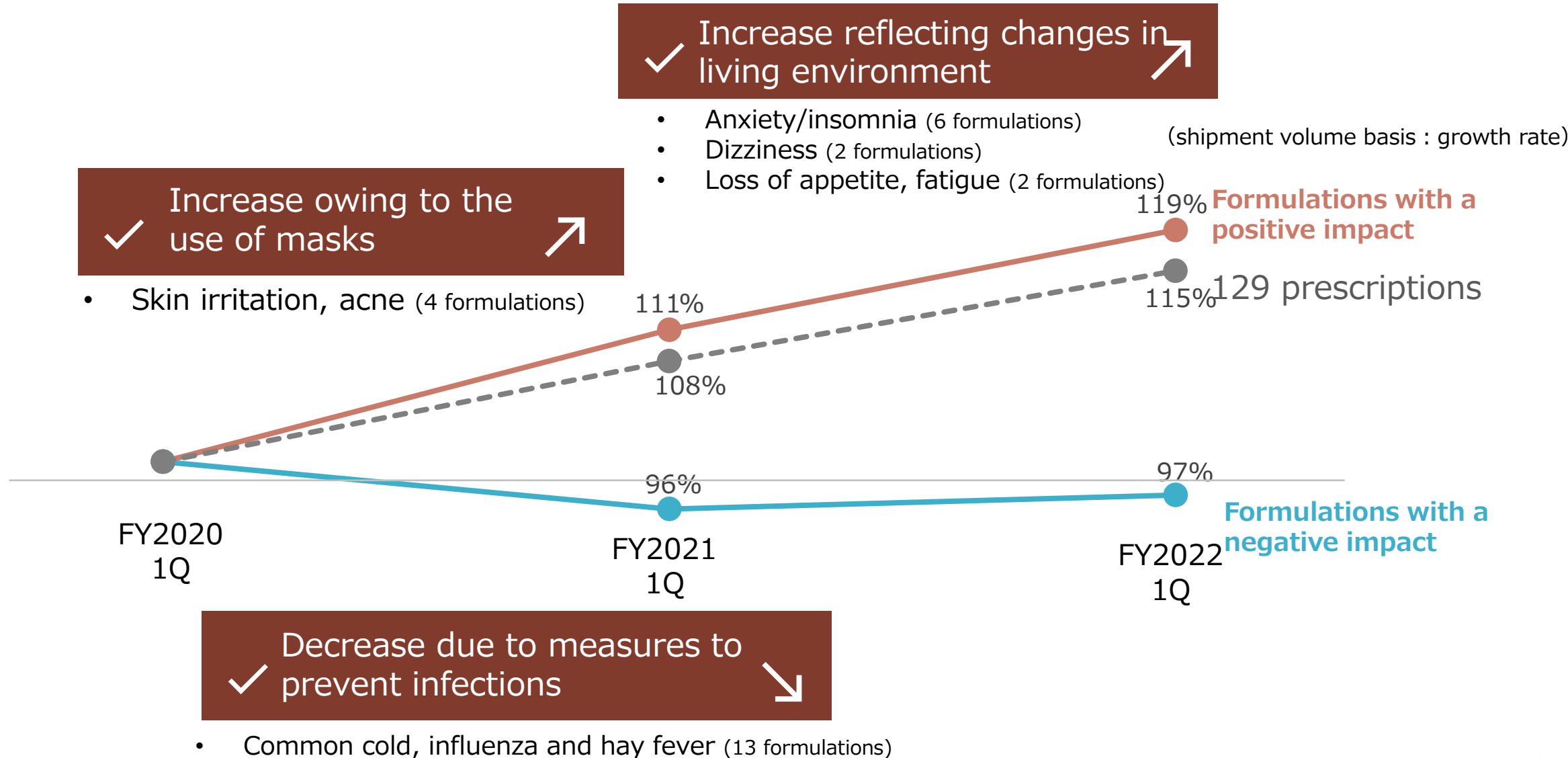
# Comparison with the Prescription Pharmaceutical Market



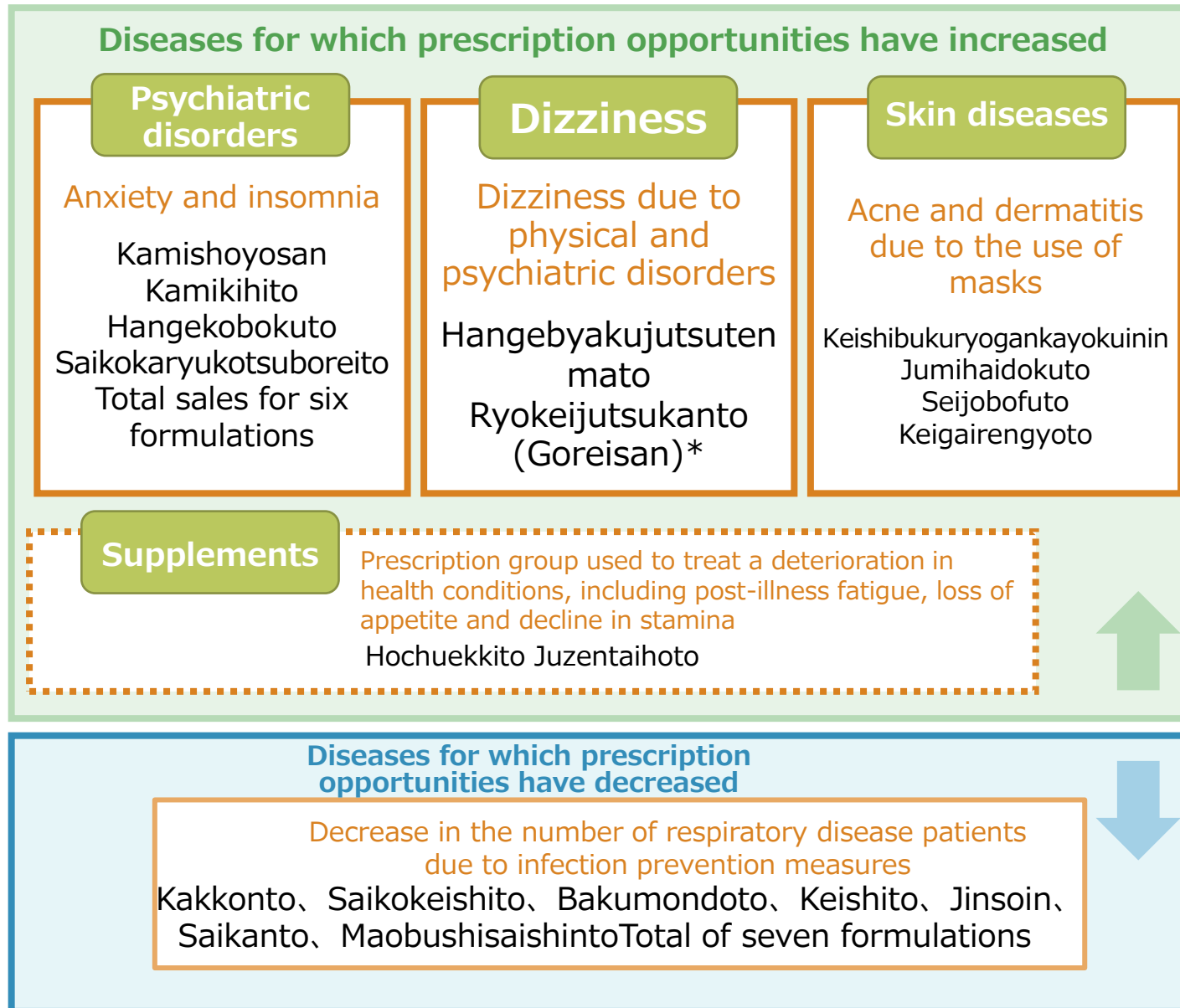
(YoY/drug price basis)



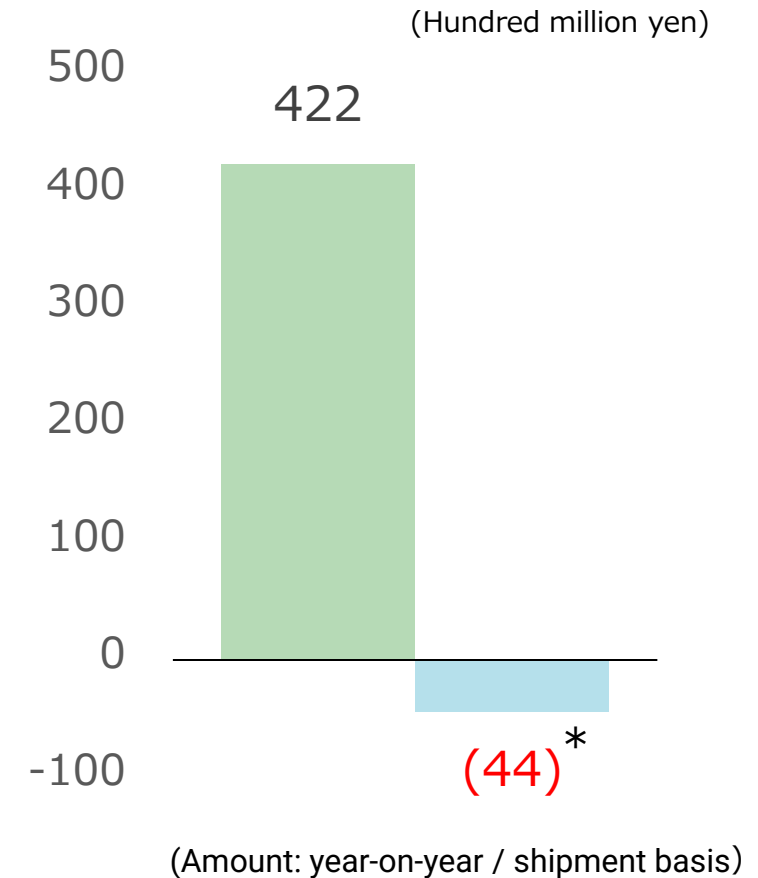
## 129 prescription Kampo products grew roughly 4% owing to positive-impact formulations in 1Q



# COVID-19 Related Symptoms and Prescription Opportunities



Trends in the monetary impact owing to a fluctuation in prescription opportunities (FY 2022 1Q)



\*Calculated only for 7 prescriptions decreased from the previous year

\*Goreisan prescription opportunities are also increasing for treatment in areas other than dizziness therefore it has been excluded from the basis of calculations

# Important Domains & Drug-Fostering Program/Growing Formulations

## Geriatric health domain

Psychiatric and neurological disorders

- D** **Yokukansan**
- I** **Yokukansankachimpihange**
- + related formulations

Respiratory diseases

- I** **Bakumondoto**
- + related formulations

Peripheral symptoms for circulatory disorders

- G** **Goreisan**
- + related formulations

Peripheral symptoms for frailty

- G** **Ninjin'yoeito**
- G** **Kamikihito**
- G** **Hochuekkito**
- D** **Goshajinkigan**
- + related formulations

Digestive system diseases

- G** **Rikkunshito**
- G** **Daikenchuto**
- + related formulations

## Cancer domain (supportive care\*)

Mitigation of side effects, etc.

- D** **Rikkunshito**
- D** **Hangeshashinto**
- D** **Goshajinkigan**
- G** **Hochuekkito**
- G** **Kamikihito**
- I** **Juzentaihoto**
- + related formulations

## Women's health domain

Diseases specific to women

- G** **Kamishoyosan**
- G** **Kamikihito**
- I** **Tokishakuyakusan**
- + related formulations

Other

- D** **Daikenchuto**
- G** **Goreisan**
- I** **Shakuyakukanzoto**
- + related formulations

**D** Drug-fostering program formulations: Focusing on the structure of diseases in recent years, in treatment domains with a high degree of medical needs, there are patients in dire distress of finding new drug therapies; narrow down target to patients in which prescription Kampo formulations are demonstrating specific effects and prescribe to build evidence (scientific basis)

**G** Growing formulations: As focal formulations to follow the five drug-fostering program formulations, aim for write ups in treatment guidelines by building evidence (safety and efficacy data, etc.) in domains with a low treatment of satisfaction and a low degree of contribution to medicine

**I** Important formulations: Important formulations following drug-fostering program formulations and growing formulations for the penetration of Kampo in important domains

## The plant will be established as a site in charge of manufacturing powdered extracts (intermediate products) for the domestic business



### Phase 1 construction

- Construct the No. 1SD (powdered extract production), warehouse, etc.
- Construction to be completed in May 2022, full-fledged operations scheduled to be started up at the end of FY 2022
- Investment: approx. ¥15.0 billion

### Phase 2 construction

- Construct the No. 2 SD (powdered extract production)
- Construction to be completed in FY 2023, full-fledged operations scheduled to be started up in FY 2025
- Investment: approx. ¥10.0 billion

### Benefits from establishment

- Powdered extract production capacity for the domestic business: **20% increase**
- Labor productivity improvement owing to automation\*<sup>1</sup>: **13% improvement**
- CO2 emissions reduction owing to the introduction of energy-saving technologies\*<sup>2</sup>: **5,700 t/year reduction**
- Reduction of water intake, mainly reflecting the reuse of cooling water\*<sup>3</sup>: **70%**

※1 Comparison with the Shanghai Plant

※2 Comparison with the case where energy-saving technology was not introduced (1st and 2nd period total)

※3 Planned values for the 2nd phase of the Tianjin Plant