



TSUMURA & CO.

Third Quarter Business Results for Fiscal 2023 (Conference Call)

February 7, 2024

Event Summary

[Company Name]	TSUMURA & CO.	
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[Venue Size]		
[Participants]		
[Number of Speakers]	2	
	Muneki Handa	Director, CFO
	Yukinori Sorada	Executive Officer, Head of Sales and Marketing Division
[Analyst Names]*	Takashi Akahane	Tokai Tokyo Research Institute
	Kasumi Haruta	UBS Securities
	Anna Kato	Daiwa Securities
	Iori Nakayama	Daiwa Asset Management
	Fumiyoshi Sakai	UBS Securities
	Shinichiro Hyogo	Mitsubishi UFJ Trust and Banking Corporation

*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

Kitamura: The time has come, so we will start this conference call for Q3 of FY2023 of TSUMURA & CO. Thank you very much for taking time out of your busy schedule to join us today.

To begin, I would like to introduce the attendees. Director and CFO, Mr. Handa. Also, Mr. Sorada, Executive Officer, Head of Sales and Marketing Division. Those two are attending the conference call today.

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

Next, I would like to inform you of today's topics. Mr. Handa, the Director, will provide an overview of the financial results for Q3 of FY2023. We would like to answer any questions you may have after the presentation. The call is scheduled to end at 2:00 PM. The presentation materials are available on our website. Please take a look from there.

Now, Mr. Handa will start the presentation. Thank you.

Agenda



01

Third Quarter Business Results for FY 2023

02

Initiatives and Progress for Domestic Business and China Business

03

Revision of FY2023 Earnings Forecast

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Handa: My name is Handa. We would like to thank all participants for your continued support of our company and Kampo. I would like to explain the financial results for Q3 of FY2023.

Today's topics are on page two. I will present an overview of the financial results for Q3 of FY2023 and explain about the initiatives and progress of our domestic and Chinese businesses, as well as the revision of our FY2023 earnings forecast.

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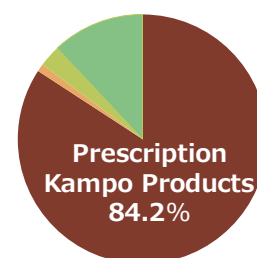
3Q Business Results for FY 2023



[Million yen]	3Q FY 2022 results	3Q FY2023 results	YoY	
			Amount	Change
Sales	107,076	115,826	+8,749	+8.2%
Domestic business	96,355	101,929	+5,574	+5.8%
China business	10,721	13,896	+3,175	+29.6%
Operating profit	17,723	19,143	+1,420	+8.0%
Domestic business	17,882	19,427	+1,554	+8.6%
China business	(159)	(283)	(124)	—
Ordinary profit	21,410	22,400	+990	+4.6%
Profit attributable to owners of parent	15,875	16,151	+275	+1.7%
PL translation rate (CNY)	19.41	19.62	+0.21	—

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

Ratio to total sales



- China business :
Crude Drug Platform 12.0%
- Domestic business :
OTC Kampo etc. 2.8%
- Domestic business :
Other prescription
pharmaceuticals 1.0%

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A summary of the financial results for Q3 of FY2023 is on page three. As you can see, the results show an increase in both sales and profit.

Net sales grew 8.2% YoY to JPY115.8 billion. The breakdown was JPY101.9 billion for the domestic business and JPY13.8 billion for the China business. The sales composition is shown in the pie chart on the right.

Operating profit increased 8% to JPY19.1 billion, ordinary profit increased 4.6% to JPY22.4 billion, and profit attributable to owners of the parent increased 1.7% to JPY16.1 billion.

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Key Points in Performance



- Sales and profit increased owing to ongoing growth in sales in both the domestic business and China business

Net sales	115,826	million yen	YoY	+8.2%
<ul style="list-style-type: none"> ■ Domestic business Total sales of the 129 prescription Kampo products : 97,635 million yen, up 6.2% year-on-year Total sales of OTC Kampo formulations and other healthcare products : 3,302million yen, down 1.7% year-on-year ■ China business Raw material crude drugs, drug pieces, Yakushokudogen products, etc. : 13,896million yen, up 29.6% year-on-year 				
Operating profit	19,143	million yen	YoY	+8.0%
Operating profit margin	16.5	%	YoY	(0.1)pt
<ul style="list-style-type: none"> ■ Cost-to-sales ratio : 52.5%, +1.6pt YoY : Mainly reflects impact from a rise in crude drug procurement expense, still high raw material expenses, and a depreciation in the yen's value versus major currencies ■ SG&A ratio : 31.0%, (1.5)pt YoY : Sales growth offset growth investments, mainly in the DX transformation for Kampo value chain 				
Ordinary profit	22,400	million yen	YoY	+4.6%
<ul style="list-style-type: none"> ■ Foreign exchange gain primarily related to loans to overseas subsidiaries 2,201 million yen, down 704 million yen year -on-year *Foreign exchange gain not posted in plan 				
Profit attributable to owners of parent	16,151	million yen	YoY	+1.7%

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The key points in performance are on page four.

Sales of the 129 prescription Kampo products for the domestic business grew 6.2% YoY to JPY97.6 billion. Prescriptions related to the cardiovascular system, anxiety, insomnia, and dizziness continued to grow.

Sales of OTC Kampo medicine and others decreased 1.7% YoY to JPY3.3 billion due to a shortage of prescription products for cold symptoms and such through Q2. The shortage is being resolved.

Sales in the China business grew 29.6% YoY to JPY13.8 billion due to expanded sales of raw material crude drugs in the crude drug platform.

The cost-to-sales ratio was 52.5%, an increase of 1.6% YoY. The increase was due to higher crude drug procurement costs, high raw material prices, and a depreciation of yen. I will explain the details later.

The SG&A ratio was 31%, down 1.5 % YoY. The increase in sales offset the increase in growth investments for the DX transformation of the Kampo value chain, etc. As a result, operating profit increased 8% YoY to JPY19.1 billion.

In non-operating income/loss, ordinary income was JPY22.4 billion from a foreign exchange gain of JPY2.2 billion related to loans to overseas subsidiaries resulting due to yen depreciation. As a result, profit attributable to owners of the parent increased 1.7% YoY to JPY16.1 billion.

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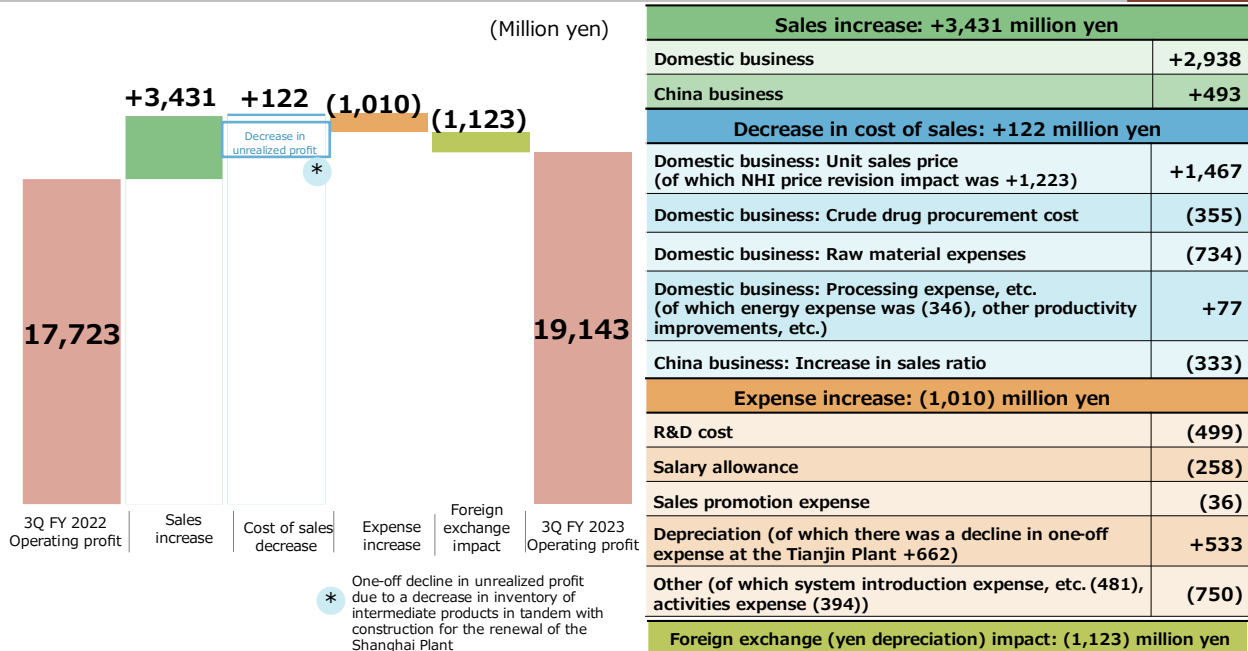
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Factors Triggering Changes in Operating Profit (YoY)



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Factors for changes in operating profit are shown on page five. I will explain only key points here.

Operating profit increased by JPY1.4 billion from YoY to JPY19.1 billion. Of this amount, increased in sales contributed a positive JPY3.4 billion. The breakdown of the increase was JPY2.9 billion for the domestic business and JPY0.4 billion for the China business.

The decrease in cost of sales contributed a positive JPY0.1 billion. Including the positive factor of NHI price revision, the change in unit sales price improved by JPY1.4 billion, while the increase in crude drug procurement cost impacted a negative JPY0.3 billion and the high cost of raw materials was negative JPY0.7 billion.

Processing and other expenses contributed a positive JPY70 million from productivity improvements and other factors, despite a negative impact of JPY0.3 billion due to higher energy prices. The crude drug procurement cost included the increase in operating profit due to a decrease in one-time unrealized profit resulting from the renovation of the Shanghai plant.

The increase in expenses brought a negative JPY1 billion. While there was a decrease in one-time expenses at the Tianjin plant, increased R&D expenses and system-related expenses for the DX transformation of the Kampo value chain brought a negative impact.

The impact from foreign exchange amounted to a negative JPY1.1 billion. This is primarily attributed to the increasing cost of importing crude drugs owing to the weak yen.

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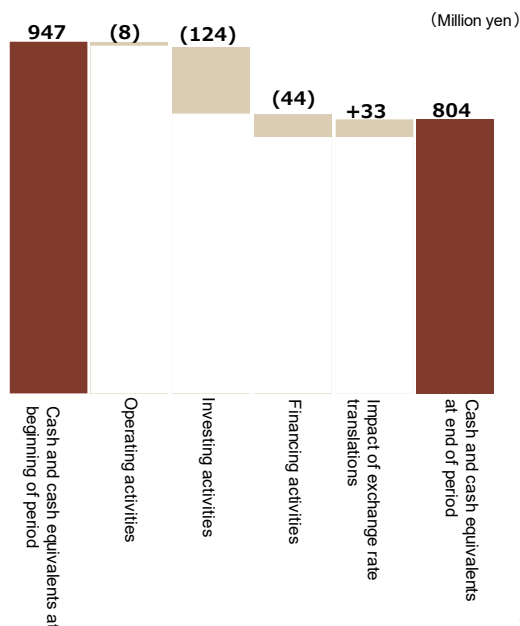
Financial Condition/Cash Flow Position



(Million yen)

	FY 2022 (March 2023)	FY2023 3Q	Change
Total assets	396,813	418,272	21,459
Current assets	268,320	278,724	10,404
Non-current assets	128,492	139,547	11,055
Total liabilities	124,566	121,144	(3,422)
Current liabilities	47,205	57,608	10,403
Non-current liabilities	77,361	63,535	(13,825)
Total net assets	272,246	297,127	24,881
Equity ratio	63.5%	64.8%	+1.3pt

	FY 2022 (March 2023)	FY2023 3Q	Change	Of which, Exchange rate
Inventories	101,726	111,899	10,172	4,644
Merchandise and finished goods	11,257	12,638	1,381	290
Work in process	14,430	15,341	911	216
Raw materials and supplies	76,038	83,918	7,880	4,137



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The financial condition and cash flow position are on page six. I would like to explain the key points only again here.

Current assets increased by JPY10.4 billion, mainly due to an increase in inventories resulting from increased sales and the impact of foreign exchange rates. Non-current assets increased by JPY11 billion mainly due to capital expenditures for the construction of the Tianjin plant and system-related investments for IT infrastructure renewal.

The increase in current liabilities and decrease in long-term liabilities were mainly due to the transfer of JPY15 billion of corporate bonds from long-term to short-term due to maturity within one year. The equity ratio increased 1.3% to 64.8%.

Cash flows are shown in the waterfall graph on the right.

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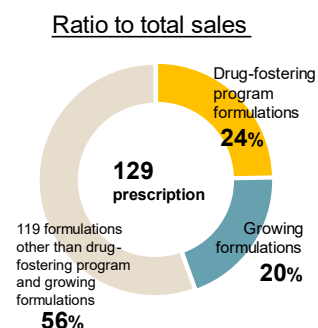


Sales of Drug-fostering Program Formulations/Growing Formulations



(Million yen)

	Net sales Ranking	Product No./formulation name	FY 2022 3Q	FY 2023 3Q	YoY	
Drug-fostering program formulations	1	100 Daikenchuto	7,482	7,590	+107	+1.4%
	3	54 Yokukansan	5,687	5,826	+138	+2.4%
	4	43 Rikkunshito	5,644	5,661	+16	+0.3%
	9	107 Goshajinkigan	2,633	2,827	+194	+7.4%
	24	14 Hangeshashinto	1,078	1,097	+18	+1.8%
Total sales for drug-fostering program formulations			22,527	23,003	+475	+2.1%
Growing formulations	2	41 Hochuekkito	6,096	6,185	+88	+1.5%
	5	17 Goreisan	4,821	5,528	+706	+14.6%
	6	24 Kamishoyosan	3,935	3,935	+0	+0.0%
	17	137 Kamikihito	1,600	1,782	+182	+11.4%
	18	108 Ninjin'yoeito	1,624	1,761	+137	+8.4%
Total sales for growing formulations			18,078	19,193	+1,114	+6.2%
Total sales for 119 formulations other than drug fostering program and growing formulations			51,335	55,438	+4,102	+8.0%
Total sales for 129 prescription Kampo products			91,941	97,635	+5,693	+6.2%



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Now, I will explain the initiatives and progress for our domestic business and Chinese businesses as in the second topic.

Sales for the drug-fostering program formulations for prescription Kampo products and the prescription for the “Growing” formulations. Sales for the 129 prescription Kampo products totaled JPY97.6 billion, a 6.2% increase YoY.

Sales of the drug-fostering program formulations increased 2.1% YoY, while the “Growing” formulations increased 6.2%YoY due to the continued growth of Goreisan, Kamikihito, and Ninjin’ yoeito. Goreisan was prescribed mainly for cardiovascular problems, headache, and dizziness, while Kamikihito was prescribed for anxiety and insomnia. Both have grown in popularity. In Q3, the number of facilities newly adopting Ninjin’s yoeito increased in particular, because it appeals for anorexia associated with frailty in the elderly category.

Also, sales of the 119 prescriptions grew 8% YoY to JPY55.4 billion on increased demand, especially for cold-related prescriptions.

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Expansion of the Information Provided on the TSUMURA MEDICAL SITE TSUMURA

- Expand contents to deliver information that suits each and every physician
- Video library, lectures/academic conferences/study groups, and Kampo custom files are popular contents

TSUMURA MEDICAL SITE contents



Video library

Learn from videos with abundant contents, including pathology/disease, explanation of Kampo formulations, proper use of Kampo products and Kampo lessons



Lectures/academic conferences/study groups

Introduction of information on co-sponsored Web lectures/academic conferences/study groups. Also implementing lectures with dialogue between lecturers and viewers



Kampo custom file

A file that compiles a leaflet that visualizes the proper use of Kampo products, information on side effects, and a leaflet concerning medication guidance



Tsumura Kampo online MR



Tsumura Kampo virtual MR



Kampo Web test



Kampo digital booth



Product information

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An initiative for expansion of the information available on TSUMURA MEDICAL WEBSITE is on page nine.

There are a large number of items in Kampo medicines that cover a wide variety of areas and diseases. Adding to it, the extent of information needed by physicians fluctuates according to their proficiency levels in Kampo medicine. Therefore, the crucial aspect for maximizing customer experience value lies in providing customized information to each physician. Therefore, we have expanded the provision of information through video distribution and online lectures on TSUMURA MEDICAL WEBSITE.

The number of physicians who become a member has steadily increased. Popular contents include video commentaries on Kampo formulation, lectures, conferences, and research meetings. We have received many orders for the custom Kampo files from physicians that visualize the use of Kampo medicines by disease and symptom.

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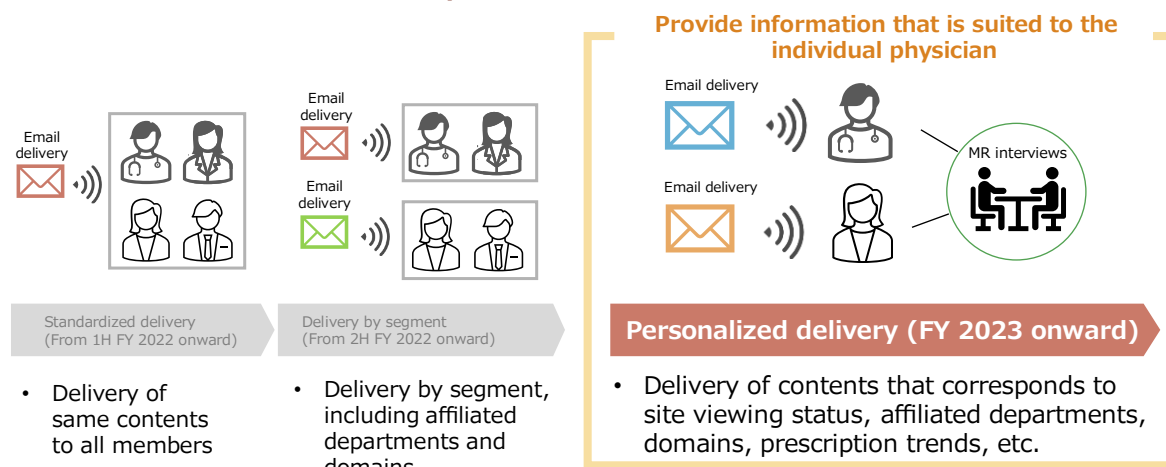
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Initiatives to Provide Information Suited to the Individual Physician

- Enhance the marketing automation system to make personalized deliveries
- Utilize a function that provides feedback to MRs to strengthen collaborations between MR activities and e-promotions



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Initiatives to provide personalized information to each physician are on page 10.

We have enhanced the marketing automation system to make personalized deliveries accumulated on TSUMURA MEDICAL WEBSITE tailored to each individual physician.

Email marketing started with general distribution, but with the renewal of the customer management system and the accumulation of data, we have moved to the phase of individualized distribution since FY2023 using the data. The information sought by each doctor is analyzed based on their participation in lectures and other events, content browsing data, etc. Additionally, a recommendation function is implemented to provide personalized information and recommendations when visiting the site.

In addition, information regarding physicians' needs is immediately fed back to MRs, we will further strengthen the collaboration between MR activities and e-promotion. We aim for an even more advanced hybrid promotion.

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Initiatives to Improve the Quality of Information Provision by MRs

- Improve quality of information provision by MRs through an advancement in conversational skills

Training for MRs using UMU

✓ Clarify respective MR issues and make improvements by combining performance evaluations conducted by humans and AI



Comprehensive evaluation

XX points

Details regarding issues

- ・XXXXXXXXXXXXXXXXXX
- ・XXXXXXXXXXXXXXXXXX

Scorer comment

Scorer (1): 90 points

- Good as the main points of the presentation were compiled in a compact manner.

Scorer (2): 80 points


- I felt there were parts of XXX's presentation that were not properly conveyed.

Scorer (3): 85 points

- Had a good image of scenes where information was conveyed to medical practitioners.

AI scoring

★★★★☆ 82
お褒めの方針スコア：100点



98
74
100
100

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UMU Performance Learning Award 2023
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UMU
refers to a service where skills are learned that can be used in actual business scenes through ongoing learning after training, including training for talking skills that envisage an actual sales scene or real-time feedback using AI

*Excerpt from the UMU Technology Japan website

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Initiatives to improve the quality of information provided by MRs are on page 11.

We are working to enhance the quality of our information delivery by improving our communication skills, ensuring that we provide each physician with the information they require in an appropriate manner.

We utilize UMU, an educational platform, to offer training sessions that simulate interviews with physicians. In addition to evaluations from superiors and co-workers, AI-based evaluations are combined to clarify area to work on for each MR that will lead to improvements. By evaluating among MRs, learning will advance.

In recognition of these efforts, we received the Superior Performance Learning Award at the UMU Performance Learning Award 2023.

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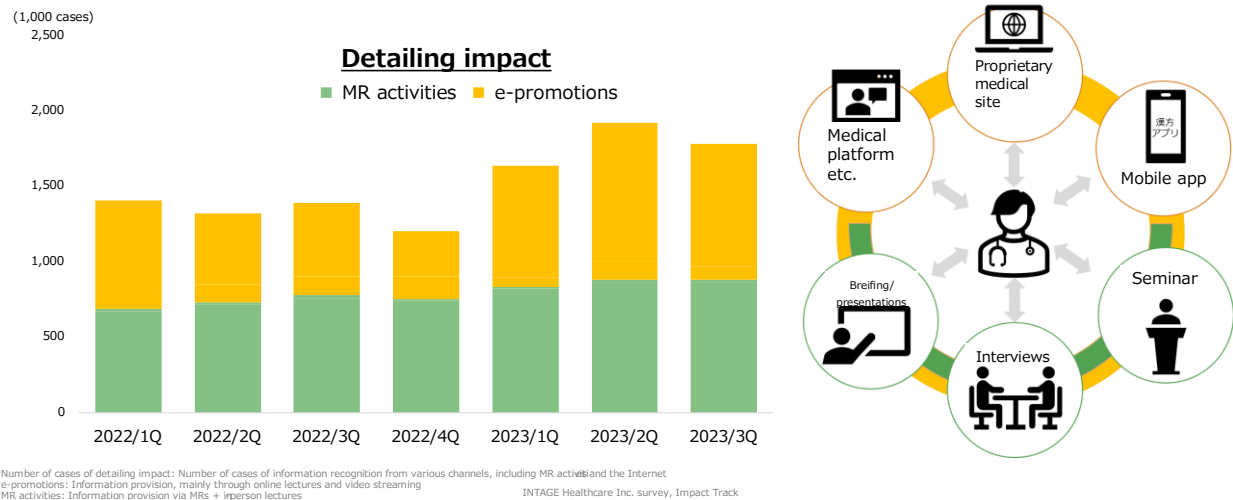
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The Status of Expansion for Information Provision Activities



- Expand the number of detailing impact cases year-on-year through hybrid information provision activities that combine e-promotions with MR activities



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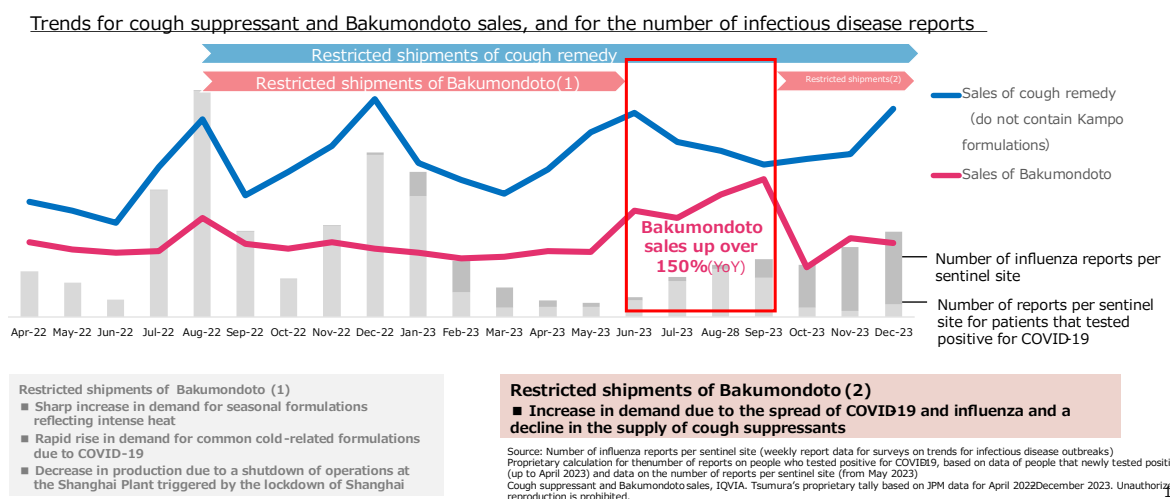
Page 12 shows the status of expansion for information provision activities. The number of detailing impacts is expanding YoY due to the e-promotion system, which delivers customized information to each individual physician as explained earlier, and efforts to enhance the quality of information provided by MRs.

For further expansion in the future, we will promote information provision activities by evolving hybrid promotion.

Domestic Business: The Status of Limited Shipments of Prescription Kampo Formulations



- Increase in demand for Kampo formulations owing to an expansion in infectious diseases and a reduced supply of cough suppressants
- Reflecting this impact, restricted shipments have once again been applied to common cold-related Kampo formulations



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Page 13 shows the status of limited shipments of prescription Kampo formulations. The line graphs shows sales of cough remedy and Bakumondoto, a Kampo product used mainly for cough.

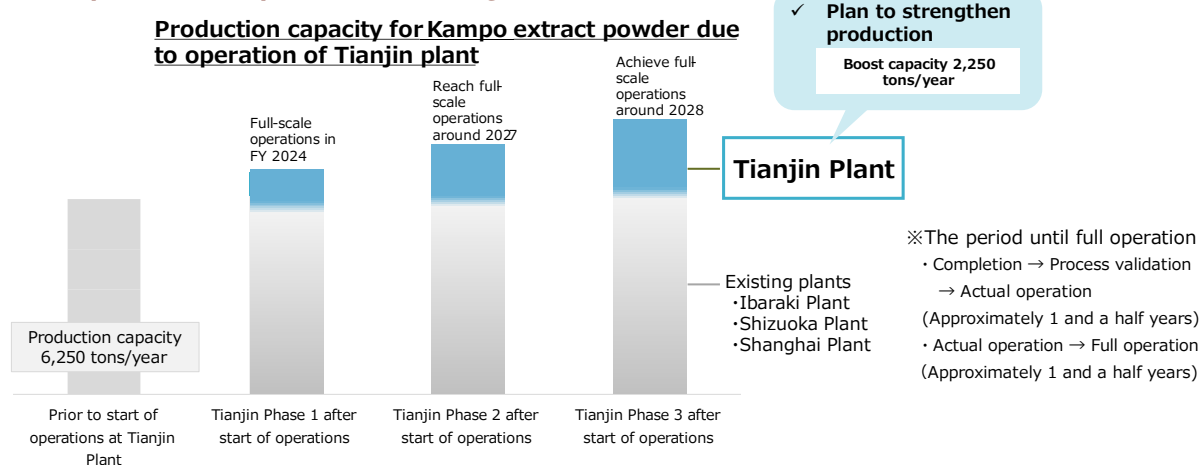
The limited shipments of Bakumondoto were lifted in June 2023. However, we decided to take another limited shipment measure from October 2023 as demand surged after the lifting due to the spread of infectious diseases such as COVID-19 and influenza, as well as a decrease in the supply of cough remedy.

For the same reason, we are also making limited shipments for 19 Kampo products other than Bakumondoto for cold-related prescriptions.

The impact of this matter on the consolidated business performance is negligible, and we will continue our efforts to secure system that secure increased sales, adjust production plans, and lift the limited shipments in due course.

Bolster Production Capacity in the Domestic Business

- In FY 2023, planning to boost production capacity by commencing Phase 1 operations at the Tianjin Plant and by increasing the number of days of operations at existing plants
- Full operation as planned until 3Q



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On page 14 is the expansion of production capacity for domestic operations. In FY2023, the Tianjin plant started an operation as a Phase I. Also, the number of operation days is increasing at existing plants to increase production capacity and in full operation as per plan.

In the future, we plan to increase production capacity, focusing on the Tianjin plant. The construction plan for the second and third phases of the Tianjin plant is progressing as planned. So, we will proceed with trial operation, validation, and other procedures to achieve full operation sooner.

In addition to this, we will sequentially increase production capacity and optimize each process at every plant to establish a production system capable of accommodating the expansion of the Kampo market.

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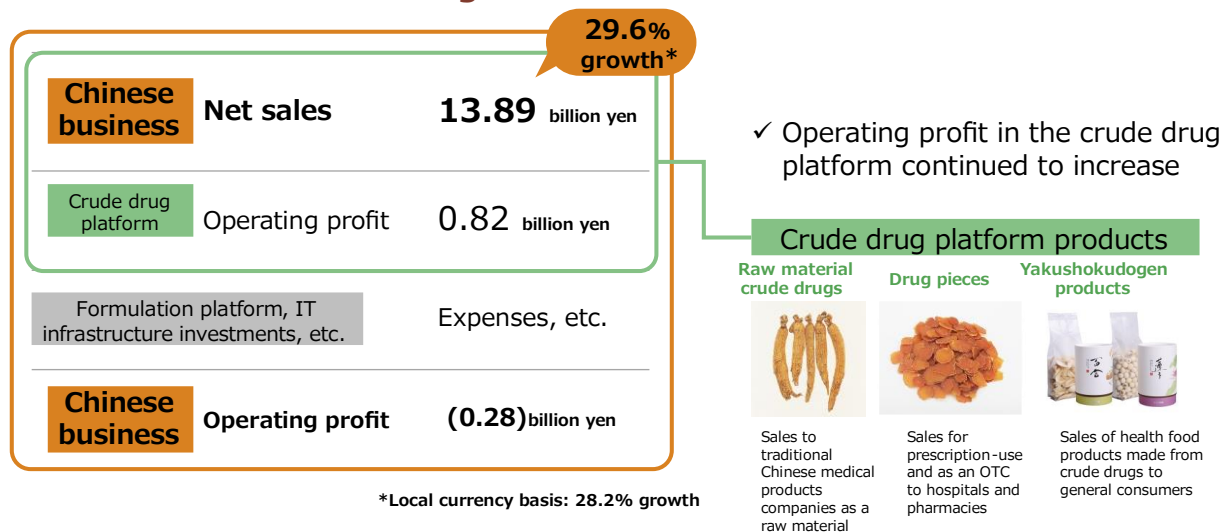
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China Business: Crude Drug Platform Business Sales Expansion

- Sales in the crude drug platform sales expanded mainly reflecting raw material crude drug sales



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The status of the China business is on page 15.

Sales in the China business grew 29.6% YoY to JPY13.8 billion due to expanded sales of mainly raw material crude drugs in the crude drug platform. As a result, operating income on the crude drug platform continued to grow to hit JPY820 million.

Revisions to FY 2023 Earnings Forecast

- Operating profit is expected to exceed the plan due to factors such as domestic processing costs and SG&A expenses being lower than the initial plan
- Posted foreign exchange gains to non-operating profit owing to a depreciation in the yen (in the previously disclosed forecast, this was not posted)

[Million yen]	Previously disclosed forecast for FY 2023	Revised forecast for FY 2023	Versus previously disclosed forecast
Sales	150,500	152,000	+1,500
Domestic business	133,300	133,300	0
China business	17,200	18,700	+1,500
Operating profit	18,000	* 19,500	+1,500
Domestic business	18,400	20,100	+1,700
China business	(400)	(600)	(200)
Ordinary profit	18,600	22,400	+3,800
Profit attributable to owners of parent	13,000	16,200	+3,200

* Special factors from 3Q to 4Q

- Factors contributing to the increase in 3Q operating profit**

Unrealized profits decreased due to a decrease in inventory of intermediate products due to renewal construction at the Shanghai plant

- Factors reducing operating profit in 4Q**

Increase in unrealized profit reflecting a recovery in the inventory of intermediate products

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Finally, I would like to explain the revision of our forecast for FY2023. The revised forecast for FY2023 is on page 17. As we announced in our news release yesterday, we have revised our forecast for FY2023.

There are two main reasons for the revision. The first reason is that processing costs in Domestic business and SG&A expenses were lower than initially planned, leading to an upward revision in operating profit. Secondly, by recording foreign exchange gains from the depreciation of the yen, ordinary profit and the items below are expected to be higher.

Gains from foreign exchange were not included in the annual plan because of the possibility of significant fluctuations. However, it has been incorporated into the current forecast in light of recent exchange rate trends.

In the China business, sales have been revised upward due to strong sales of raw material crude drugs. On the other hand, operating profit is revised downward because of a decrease in gross profit margin resulting from lower sales of high-value added drug pieces compared to the plan.

The revised forecasts are sales of JPY152 billion, operating profit of JPY19.5 billion, ordinary profit of JPY22.4 billion, and profit attributable to owners of the parent of JPY16.2 billion.

I also would like to explain the special factors for Q3 to Q4 in the operating profit forecasted for FY2023.

Due to renewal construction at the Shanghai plant, all production lines were suspended for approximately two months. This resulted in a reduction in the inventory of intermediate products in Q3 and unrealized profits, consequently leading to an increase in operating profit. In Q4, however, operating profit is anticipated to decrease to JPY19.5 billion due to a rebound in inventories of intermediate products and an increase in unrealized profit resulting from the resumption of certain production lines at the Shanghai plant and the initiation of shipments of extracted powder at the Tianjin plant.

As for the renewal construction of the Shanghai plant, we are working to shorten the construction period and ensure a stable supply of Kampo products.

There is no change in the dividend forecast for the fiscal year ending March 31, 2024, as a result of this earnings revision. We plan to pay dividends for the fiscal year ending March 31, 2024, under the shareholder return policy announced on November 7, 2023.

This concludes the presentation. Your continued support would be greatly appreciated.

Thank you for your attention.

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Question & Answer

Kitamura [M]: Thank you very much. Now we move on to the Q&A session. Please press the number 1 after pressing star on the phone to ask questions. We will call your name and connect you in order. Please state your company name, your name, and then ask questions.

Please limit to two questions per person. We appreciate your understanding. Please note that the content of your questions and the audio will be posted on our website at a later date.

Now we begin the Q&A session. First, Mr. Akahane of Tokai Tokyo Research Center. Please ask your questions.

Akahane [Q]: Thank you very much. You said two questions? I would appreciate it if you can comment on forecast if there is time.

First, about the results. If I take out the Q3 result only, rather than the cumulative results, net sales increased by 9.6%, operating profit increased by 47.7%, and ordinary profit increased by 78.6%. Any comment on this? The reason for asking is because although foreign exchange gains have actually decreased in the cumulative total, looking only at Q3, they have increased significantly as they were negative Q3 in the previous year.

Sales are also performing strongly; however, despite a reported increase of 47.7% in profits, there are impacts from unrealized profits stemming from the inventory issue in China, as mentioned earlier, along with factors such as the term end and exchange rate fluctuations. So, what do you think about the 9.6% increase in Q3 and the 47.7% rise in operating income? What image should I have in terms of your real ability?

Handa [A]: Thank you for your question. First of all, as you have pointed out, the top line has grown remarkably in terms of the quarterly results, and both operating profit and ordinary profit have increased significantly, which exceeded our initial expectations.

Of course, in terms of real ability, we feel sorry for the inconvenience of limited shipments for long time. We have restarted shipments in July, and we were working hard in sale activities since then. However, the limited shipments of cough-related Kampo products have begun due to the impact of availability of cough suppressants on the market unfortunately. The reasons for this were quite clear, and we knew that it was not caused by wide-ranging issues as were in the previous year. So, we had assumed that the overall impact would be minor to some extent from an operating standpoint, to be honest. In that sense, I think the sales division, including the top line, is working based on the assumptions.

The reason for the expanding figures, particularly when observed on a quarterly basis, is partly attributed to the year-end and New Year's holidays, as occurs annually. Wholesalers are purchasing our inventories before year-end or New Year's holidays, leading to an increase in shipments and sales in late December every year.

Furthermore, the December calendar from last year also played a role in amplifying this tendency, so our actual performance aligns with expectations and incorporates the additional elements I just mentioned.

The portion that exceeded is the unrealized profit that you pointed out, although we expected some from the beginning. The Shanghai plant had suspended all production lines for about two months, resulting in halted operations and inventory being scrapped, similar to the situation immediately after the lockdown

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was implemented last fiscal year. This contributed to realizing profits from unrealized profits and generated significant sales activity in Q3. This was the primary reason we included it in the top line.

In the ordinary income phase, there were gains from foreign exchange rates. We included this as a factor in the expansion of figures, thus incorporating it into both actual performance and expectations. I believe that including these somewhat special factors, contributed to the figures you just mentioned.

Akahane [Q]: I understand very well. The second question and this is the last one. The trend of individual product has not changed much, has it? Goreisan and Kamikihito are used for cough and insomnia as well as post-COVID-19 conditions. I wonder the reason for sales growth on those products is due to post-COVID-19 conditions and common cold, although I have no idea on the detailed breakdown.

As for individual products, as you mentioned, Bakumondoto has been growing 25% due to shipment adjustments, but it is still negative in Q3 alone. This is probably due to shipment adjustment although there is considerable demand.

You mentioned that the impact is not significant, but I believe that Bakumondoto will grow due to high demand once it becomes available. Could you please provide insights on the impact of COVID-19 and shipment adjustments on individual products? A brief and qualitative overview would be greatly appreciated, even without specific quantitative details. That is all.

Sorada [A]: Thank you for your question. My name is Sorada, and I am the head of the sales division.

Kamikihito, for example, was once used for post- COVID-19 condition, but it grows because of its ability to alleviate anxiety and other symptoms.

The increase in sales of Goshajinkigan was 7.4% in Q3, which was in shipment adjustment last year, but the recovery has been remarkable since Q3 of this year. In addition, the use of Bofutsushosan, used for obesity, has been on the rise following the approval of obesity drugs, which had limited shipments in the previous fiscal year. Goreisan continues to grow steadily.

However, the recovery of Shakuyakukanzoto is still a little slow due to the limited shipments in the previous fiscal year. However, it appears to be gradually returning to normal over time.

Akahane [Q]: How about Bakumondoto?

Sorada [A]: Cough remedies have disappeared from the market, resulting in Bakumondoto being sold three times more than usual and becoming unavailable. If we have inventory available, it is likely to be sold at approximately 200% of the previous year's amount. It is very disappointing we are not able to.

Akahane [Q]: Does this mean that it will take a while to resume?

Sorada [A]: I think it will probably be fine after April, but I am a little cautious in this Q4. We do not want to disrupt the stable supply by running out of stock or materials so we would like to maintain a stable supply in a form of limited shipments, up to Q3 or Q4, if possible.

Akahane [Q]: The sales are JPY3 billion, an increase of 25% in the limited shipment. However, they amounted to JPY800 million in Q3 alone, slightly lower. Should we expect sales in Q4 to be similar to those of Q3?

Sorada [A]: Yes, that's right. We will continue shipping in the same manner.

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

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Kitamura [M]: Thank you very much. Next, Ms. Haruta, UBS Securities. Please ask your questions.

Haruta [Q]: I am Haruta from UBS Securities. Thank you for taking my questions.

As you explained earlier, Q3 was a strong landing even though there were special factors. Although the plan has been revised upward, if I subtract the figures up to the cumulative Q3 period, the operating profit forecast is quite low, at JPY360 million. Could you explain the background of this?

I think that the elimination of unrealized profit will be quite large in Q4, as well as a rebound from one-time factors. What is your outlook on this matter?

Handa [A]: Thank you for your question. As we mentioned, this might be a common characteristic not only for our company but also for pharmaceutical manufacturers in general, with Q4 typically marked by lower sales levels.

In our company's historical financial results, the profit for Q4 alone is between a little over JPY2 billion and JPY3 billion, which is about one-sixth at best and one-eighth at most of the profit level of usual fiscal year. The profit level is slightly over JPY2 billion, which is a major characteristic of our company from a historical perspective.

As I mentioned earlier, this is because the top line comes largely in December. This is, after all, the biggest factor.

Returning to your question, if we look at the operating profit up to Q3 and then look at the fiscal year announcement, it is true that Q4 appears relatively small. Structurally, the profit decrease stemming from the decline in the top line remains significant, and as you highlighted, the impact of the Shanghai plant shutdown, which converted unrealized profit to profit in Q3, amounts to approximately JPY1.5 billion. A rebound from these impacts could be quite large.

Sales, top line declines, and then rebound from those factors. Additionally, full-scale shipments will start from the Tianjin plant, but it may have a slightly negative effect in terms of profitability or cost effectiveness, as it has just started operations.

This will be a characteristic of Q4 and we anticipate some impact from it. By all means, we are thinking that profit will be close to the level of that in the forecast for Q4.

Haruta [Q]: I understand. When you mentioned earlier about a decrease in the top line, did you mean it by QoQ? In what area were you referring to when you mentioned "structurally"?

Handa [A]: Q3 versus Q4. Sales from January 1st to nearly the 10th are typically made before the end of the year, resulting in an increase in the top line for Q3 and a decrease in Q4. This being a leap year, there is some impact from the number of operational days in Q4, if I may provide further detail.

Haruta [Q]: I understand. Thank you very much.

Secondly, I would like to ask about the crude drug platform in China. You made an upward revision against the plan. Is this because there is strong demand in Kampo medicines in the Chinese market? Or your sales activities are doing well? Could you share your insight in this area?

I think profitability will continue to be an issue, but if you could introduce some of your initiatives for Q4 and the next fiscal year, I would appreciate it.

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Handa [A]: Thank you for your question. Regarding your first point, while it's true that there is a sizable and steadily expanding market in China, I believe it's more of an individual factor for TSUMURA rather than a market factor.

In this sense, while our current focus is on raw material crude drugs, I believe that our top line is strengthening as the quality of our products is being recognized and the number of customers, as well as the volume per company, is gradually increasing.

In terms of profits from the Chinese crude drug platform, the operating profit margin has increased slightly compared to Q3 as shown on page 15. Unfortunately, our overall business in China is still in the red. However, this is not only because we are preparing for the future expansion of our crude drug platform. We are also establishing a framework for the broader development of our China business, and there are advanced costs associated with renewing our IT infrastructure which we are promoting both domestically and internationally.

Unfortunately, the final stage of our China business this fiscal year will involve some cost-intensive efforts. However, there is a potential for growth in the crude drug platform alone and I believe that we can absorb these costs by enhancing the profit margin as the volume of the platform expands.

We have also announced a medium-term plan that includes the M&A of a drug formulation platform in the next fiscal year, which we cannot include in the forecast at this time. Therefore, we anticipate that the inclusion of these items, we assume that common expenses such as the renewal of IT infrastructure, as well as the top line, will be appropriately allocated. Therefore, we assume that all measures taken now will result in an overall increase in profit in the future.

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

Kitamura [M]: Thank you for your questions. Next, Ms. Kato from Daiwa Securities. Please ask your questions.

Kato [Q]: I am Kato from Daiwa Securities. Thank you very much. I would like to ask about the China business, too.

While you just mentioned your outlook for the future of the crude drug platform and your consideration for an overall profit increase, you also mentioned a forecast for a profit decrease in the crude drug platform or an expansion of the red. You also explained that the sales of drug pieces were lower than planned as an actual result.

Of course, if sales of crude drugs increase and the volume of sales grows, profitability will improve. However, I recall one of your strategies was to increase the composition of the drug pieces. So, I would like to inquire about the reasons behind lowering the plan and the challenges you are facing. Could you tell me what countermeasures you are going to take?

Handa [A]: Thank you for pointing that out. First of all, although there is the issue of final cost allocation, profits of the crude drug platform itself on an operating basis have increased in Q3 compared to Q2, and we expect profits to increase for the year as well.

On the other hand, the final profit of the China business is unfortunately still in the red this year due to common expenses or establishing IT infrastructure. I think how to improve this in the next fiscal year is our major theme.

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On the other hand, regarding the crude drug platform you mentioned, the primary factor influencing sales remains drug pieces, as I previously explained in the presentation. Originally, our intention was to elevate the proportion of drug pieces, or in the near form of raw material crude drug in total sales. While a business model that sells value-added products typically yields higher profit margins, we aimed to expand the drug pieces business proportionately. However, it did not go as planned.

Of course, we are making reasonable progress in expanding the number of customers and the volume of deliveries in the drug pieces business. On the other hand, when it comes to comparison to the plan, we think effectiveness is a key.

As I briefly mentioned before, in the drug pieces business, we provide “Individual prescription”, based on their prescription of drug pieces. These prescription are prepared for boiling, allowing each patient to take home a personalized dose of drug pieces for easy administration. We have started this business, but the reality is that we have not made as much progress as we had hoped, partly due to the fact that the system in China is not yet fully established.

I believe that one of the keys to improving profit margins is to quickly develop new markets in this area. As we have already mentioned, the drug pieces business has also been affected by the change of policy from B-to-C to B-to-B on the Pingan’s platform.

In that sense, the platform is not exclusive to PingAn, so we are working to efficiently expand the drug pieces business by utilizing general internet platforms, such as this one, of course. I hope to provide a more detailed explanation for next year.

Kato [Q]: Very well understood, thank you.

Another point is about cost in both the actual result and the outlook. On page five, you say that other productivity improvements have been effective in terms of costs. Could you tell me the contents of this and how it will be maintained in future?

And also, please tell me if you have lowered your full-year forecast for SG&A expenses.

Handa [A]: Thank you for your questions. First of all, in the area of cost, the other productivity improvement is included in the other category, and this is the efforts of manufacturers in the production process, although I cannot give a large figure for this alone.

We secured production hours by being creative in our operations. In our case, we tend to face losses during setup and changeover. However, by performing these tasks more efficiently and systematically, we can improve production efficiency and reduce costs as a result.

I apologize, but this is mainly achieved through efforts in the manufacturing process, so it's not that simple. In this regard, we will continue to work on it in the next fiscal year and beyond. Additionally, as I mentioned earlier, we plan to shift our production process from manual labor to automation.

We are trying to be more efficient in this way, but we would like you to understand that we cannot give you a big firm number here at this time.

As for SG&A expenses, the main SG&A expenses of TSUMURA are R&D expenses, and on a consolidated basis, there are expenses in China. Specifically, there are two expenses: one is for IT infrastructure renewal and the other is for cost reduction by reducing the outsourcing. Or to streamline measures that had been contemplated during sales expansion. Although many of these areas are shown in Q3, some may be used in

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Q4. However, I believe that this will be an area that we will work on sharply from the next fiscal year onward.

In that sense, I am not able to give you a definite answer, such as “this will be certain millions of yen,” but I gave an explanation in some detail. That is all.

Kato [M]: I understand very well. Thank you for the details. That is all.

Kitamura [M]: Thank you for your questions. Mr. Nakayama of Daiwa Asset Management, please ask your questions.

Nakayama [Q]: My name is Nakayama. I would like to add questions to the question made earlier.

About the China business, drug pieces were picked up earlier, which I also have questions. From your earlier explanation, I understood that there are systematic difficulties in China, and you plan to develop channels by utilizing EC.

If we link these answers together, is it correct to understand that the pioneering strategies and channels you initially considered are challenging to explore in depth due to current regulations? Or is it correct to understand that such distortions are only appearing in a very few areas so that there is no need to change the concept of the channel significantly? Could you please explain more about this point?

Handa [A]: Thank you for your questions. I think I was a little short on words, or perhaps I explained it poorly.

In terms of channel development, there is no change in the strategy to increase the number of channels, and there are no difficulties in terms of institutional or regulatory requirements. We are still developing new hospitals and areas we can deepen, and we are making steady progress in this area. However, I believe it requires energy and time.

This does not mean that it is difficult to dig deep into the market, but it is because we have to develop new customers one by one, such as one hospital and clinic at one time, as we cannot expand our business at one swoop. It is simply taking time than our assumption. It was not an adequate explanation.

On the other hand, what I mentioned earlier as institutional is the part about “Individual prescription” . There seem to be various views on how these services should be positioned and how we make sale promotion in hospitals, including public hospitals. In that sense, we should explain this in detail to you before proceeding, and this is also something that will take some time, apart from the channel I mentioned earlier. In any case, we believe that “Individual prescription “ is a user-friendly service.

Considering who receive prescriptions and bags of many crude drugs will take them home to chop and boil at home, this is a very user-friendly service. We believe we can make progress if we promote this user-friendly service.

Nakayama [Q]: I understand. I would like to add one more thing in this area.

I understand well about the top line and the way to develop customer. Also, you explained that you realized that you could not expand the business all at once, and you had to develop customer one by one. You also notice that each hospital has their own view.

Then it comes to how to consider the expenses. You have explained us that you spent some money in investment for IT infrastructure. Now, you made action and the issues that have come up accordingly. Could

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you share us if you have an update for how to use your expenses to expand the business in Q4 and beyond with those issues in mind, if possible?

Handa [A]: Thank you. First of all, most of the burden is on the IT infrastructure development but we believe this is a must as a minimum requirement not only for the crude drug platform but also to proceed our business in China.

There is a lot of initial cost burden occurs currently, however this is not something that will continue for 3, 5, or 10 years. Of course, there will be some running cost, but I think the current burden is somewhat greater.

Also, as I mentioned earlier, we have to cover some of the operating expenses for supplying products to private platforms. So, there are costs involved in this area, but when we consider our future strategy, IT infrastructure forms the very foundation of our business. The cost of running the system is rather low, and the effectiveness of the system will become large, when time comes.

We believe that sales will be appropriately allocated in the future in light of such effects. Frankly speaking, we are positioning ourselves as a period of patience.

Nakayama [Q]: I understand. Just one more point, in addition to the current point, please.

Looking ahead to the next fiscal year, you mentioned earlier that these expenses will also be diluted by thickening the thickness of the drug formulation platform, including M&A.

We have seen examples of M&A in the last year. So, there is a possibility that M&A will occur, but since this is very difficult in terms of county-wise, there is also a possibility that there may not be anything that is suitable for your company or your culture.

If M&A conviction is going down, is there possibility that your way of using expenses will be updated, in terms of cost structure in the China business? Let's say if you see a possibility of taking plan B, how do you change the cost structure? I would appreciate if you can share something in this area, if possible?

Handa [A]: Thank you for your questions. First of all, as a basic strategy, there is no change at all in our policy of proceeding our formulation platform business in China. It is true that we had to sell the company we acquired last time unfortunately, and we are well aware of the difficulties of the country. However, we have not changed our stance or strategy in any way.

I mentioned that we will not change it in light of the original purpose. In fact, after the unfortunate sale last year, we have narrowed down our approach from a long list to a short list, as we had explained in the past.

I am not sure if it is appropriate to say "when one door shuts another door opens," but we have been receiving requests since last year from those who we had not been able to access in the past. They asked us to do business together with them as they gain a reaffirmed awareness of TSUMURA, and there are no regulatory issues in current China from preventing it.

In this situation, we have not changed our major strategy. The first thing I would like to say is that we do not intend to change our strategy of entering the formulation platform at this time.

However, since it is a business, if you are asking whether we are not considering plan B at all, we intend to go forward with plan A, M&A, to fruition by FY2024 as stated in the mid-term plan, even at this point in time. So, we are under negotiation with multiple entities.

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However, this cannot work without a partner. In case this is prolonged, the renewal of the IT infrastructure is not limited to the China business. In fact, we are proceeding with this in Japan at the same time, in terms of initial cost and we will finish initial investment between last fiscal year and this fiscal year.

We are not thinking about it after next year, but if we proceed with plan B, we will consider things in terms of cost-effectiveness within the crude drug platform, while the burden here is limited to some extent in that sense.

Nakayama [M]: I understand. Thank you for your detailed explanation. I appreciate your continued support. Excuse me.

Handa [M]: Thank you very much.

Kitamura [M]: Thank you for your questions. Let's continue with Mr. Hyogo, of Mitsubishi UFJ Trust and Banking Corporation. Please ask your questions.

Hyogo [Q]: I am Hyogo from Mitsubishi UFJ Trust and Banking Corporation. Thank you for taking my questions. So, two questions.

The first question is your approach toward dividends. I think during the capital policy review, it says that the dividend payout ratio should be 40%. Seeing from there, JPY70 for now can become JPY80 depending on interpretation. Could you tell me how do you make decision making here? This is the first question.

Handa [A]: Thank you. As you have pointed, we presented our view on future dividends on November 7 last year. As I mentioned earlier in my explanation, there has been no change in our target dividend payout ratio of 40% and ultimately 50%.

However, as you can see in the financial results, the foreign exchange gains/losses are the main reasons for the large swing in profit, which is not operating and non-recurring.

The operating profit portion is structurally related to the plan and actual results during the fiscal year. However, the foreign exchange is a non-recurring item structurally related to the spot market. So, it is not appropriate to make a final judgment based on a forecast or to a certain extent on the spot market, unfortunately.

The policy of 40% as a target remains unchanged, but we have decided to limit the expression to this time because it would not be desirable for shareholders to see dividend increases and decreases, for example, driven by spot factors that are unpredictable and cannot be viewed as averages.

Hyogo [Q]: Thank you. If I consider the next fiscal year and beyond, and if the investment period ends around this fiscal year, I think it is possible for you to increase the dividend and maintain it. Am I wrong? Or am I correct in saying that you are concerned about the part of ordinary profit that is affected by foreign exchange and other factors?

Handa [A]: Mr. Hyogo, I am very sorry that my explanation was not adequate.

Although we are concerned about the ordinary profit, our dividend policy remains consistent with the notion of increasing dividends based on this fiscal year's results, as you mentioned. We will continue to follow this policy. Our approach will involve maintaining stable dividends while keeping an eye on the dividend payout ratio, and we will work on strengthening our actual top-line and sales capabilities, despite potential influencing factors such as exchange rates.

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So, we are not trying to say that the foreign exchange rate is the reason for the increase or decrease of dividend. If I talk about the current situation only, there is a factor of exchange rate in these three months, so we think rather it is not desirable to announce an increase in dividend at this time or make major changes which are influenced by a spot factor.

I wanted to convey this message. As you pointed out in the previous section, we would like to continue to work steadily and solemnly in accordance with our policy of increasing dividends for this fiscal year and for the future.

Hyogo [Q]: I understand. The other question is that although you are making great efforts and working hard, the price-to-book value ratio is still below 1, unfortunately.

From your perspective, Mr. Handa, what factors do you think are involved in this area? From an external standpoint, I'm concerned that there may still not be a sense of conviction or understanding about the risks in our China business, as others have raised questions in this area. I would appreciate it if you could share your perspective, or your personal view, Mr. Handa, especially regarding the P/B ratio not returning to 1x.

Handa [A]: Thank you for your questions. It is true that we are not proud of the fact that our price-to-book value ratio is below 1. I myself and the Board of Directors have been discussing this issue.

In this context, I would like to point out that when we changed our view on the dividend payout ratio at the last briefing, we also presented an image of growth up to FY2031, or the vision we have set forth. What we have shown there is our existing businesses. Existing businesses are the domestic business and the crude drug platform in China. ROE of 8% on this alone. However, since we have stated that the 10% target includes the China business, one question we need to ask ourselves is whether we have a clear path to achieve the 8% target for the domestic and China businesses.

As for the stable growth of prescription Kampo formulations, and thanks to the mid-year revision last year, NHI prices did not become a major negative factor for us as they have in the past. So, if the volume rises, we should be able to see a solid increase in this area. This is the first point.

The second point is the China business, where there is [inaudible]. I believe that finding a path to 10% will be a major key to resolving the price-to-book value ratio of below 1, or even aiming for above 1. As for the crude drug platform, the top line is growing steadily. So, in regard to control of the profit margin is as I mentioned earlier.

The other thing is M&A, which we have stated that we will implement by FY2024.

Not only carrying out M&A, but also informing everyone about how the M&A will specifically contribute to future growth after bringing the M&A to fruition, and being a state where everyone is satisfied that would be a biggest key to resolve the price-to-book value ratio.

Hyogo [M]: Thank you. From an external standpoint, it is difficult to understand whether the time spent on investment is still worth it, since an alliance with Pingan in the first place. I feel that there is still a question as to whether continuing the business will really add to the value of your company.

I am looking forward that you do what you just have said in future at some timing. Thank you very much.

Handa [M]: Thank you, too. It is taking time, but I believe that we are accountable here, so I would appreciate your understanding.

Hyogo [M]: Thank you very much.

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Kitamura [M]: Thank you for your questions. The time is over but we still have last questions from Mr. Sakai of USB Securities.

Sakai [Q]: This is Sakai, of UBS. I am sorry, I am the second one from one company.

The table on page 14 shows the full operation plan for the Tianjin plant, which, if I calculate simply, will increase volume by 40% as of FY2028. I think this is for capacity, but the occupancy rate, in the plan, going forward. I wonder what percentage or how many dozens of percent we should expect.

I believe that all products will be consumed domestically. Is my understanding correct? Then I think we can pretty much anticipate top-line growth from the domestic only. I'm not sure if there is anything or I am looking at something wrong.

As for the China business, frankly speaking, I think M&A is a gamble. So, I think operation and utilization of Tianjin plant will have a significant meaning in order to solidify your foothold in Japan. Is my understanding correct?

This is my only question.

Handa [A]: Thank you for your question. We proceed based on the same understanding.

As stated on page 14, the current existing capacity is 6,250 tons. So, if 2,250 tons can be realized when the plant is fully operational in 2028, the capacity will be about 36% if it operates fully, although I said before that it would be 35%. It is possible to increase capacity by 35% or more, though not up to 40%.

And as stated, quotas. The image shown here is the time frame assuming full operation, although it might be moving forth or back about six months or so.

The first phase of the project was completed a long time ago, but it took a lot longer than you might think because of the process validation that took a lot of time to obtain permits and approvals.

Based on this background, full-scale shipments will finally begin in Q4, as I mentioned earlier. We plan to move toward full operation in the future, as we are assuming that the third phase will be in operation in 2028.

Conversely, if you consider domestic growth to be based on that much volume, you can probably verify from an arithmetic standpoint that we need that much. That is all.

Sakai [Q]: Am I correct in understanding that the amortization will begin in this Q4?

Handa [A]: Yes, that's right. That is how amortization comes on full normal.

Sakai [Q]: I understand. So, it is an offset to the top line.

Handa [A]: You are right.

Sakai [M]: In terms of the profitability of the plant, I understand. Thank you very much.

Handa [A]: It is a factory, so although I said that it would take about six months, there may be some discrepancies, of course, but this is what we are aiming for.

Sakai [M]: Understood.

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Kitamura [M]: Thank you for your questions. We apologize that we have exceed the scheduled time.

This concludes the financial results briefing. Thank you for your participation. Please make sure to hang up your phone.

Handa [M]: Thank you very much.

Sorada [M]: Thank you very much.

[END]

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