

**First Quarter Business Results
for Fiscal Year 2020
Conference Call**

August 6, 2020 (Thursday)

TSUMURA & CO.

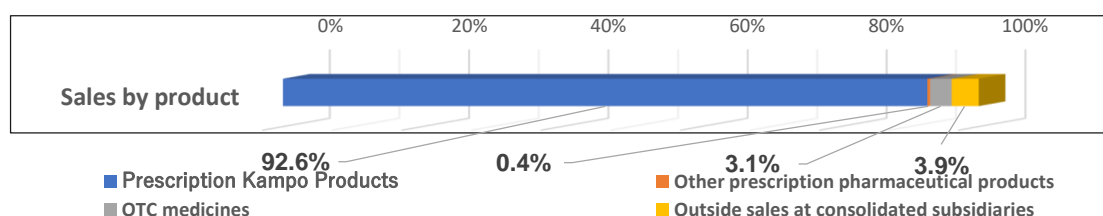
Muneki Handa

**Director,
Managing Executive Officer and CFO**

Summary of 1Q FY 2020 Consolidated Performance

(million yen)

	1Q FY 2020	1Q FY 2019	Vs. 1Q FY 2019		1H FY 2020 plan
			Amount	Change	
Net sales	31,768	30,699	1,068	3.5%	64,200
Operating profit (Operating profit margin)	5,732 (18.0%)	5,230 (17.0%)	502	9.6%	9,100
Ordinary profit	5,750	5,401	348	6.5%	9,400
Profit attributable to owners of parent	4,045	3,903	141	3.6%	6,800



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■ Summary of consolidated performance in 1Q FY 2020

Page 2 is an overview of our consolidated performance in 1Q FY 2020.

During the period under review, we booked net sales of ¥31.768 billion, a rise of 3.5% year-on-year.

This was an achievement rate of 49.5% versus our plan for the first half.

Operating profit came to ¥5.732 billion, a growth of 9.6% versus the same period a year earlier.

This is a high achievement rate of 63.0% versus our 1H plan. However, this is primarily attributable to a low level of spending, as we did not use the earmarked expenses due to restrained activities that were a result of the spread of COVID-19.

Ordinary profit was ¥5.75 billion, an increase of 6.5% from year earlier.

Profit attributable to owners of parent totaled ¥4.045 billion, an improvement of 3.6% year-on-year.

Key Points in Performance

Net sales and profit were up year-on-year.

(million yen)

Net sales	31,768 million yen	YoY	+3.5%
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- Net sales rose 3.5% year-on-year reflecting a newly consolidated subsidiary in China.
- Net sales of the 129 prescription Kampo products decreased 0.2% year-on-year.
- Net sales of OTC medicines increased 37.4% year-on-year.

Operating profit	5,732 million yen	YoY	+9.6%
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Operating profit margin	18.0 %	YoY	+1.0pt
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- The cost-to-sales ratio stood at 42.1%, up 1.6pt year-on-year. Although crude drug-related costs offset a rise triggered by the NHI drug price revision, the cost-to-sales ratio deteriorated due to negative impact from an increase in outside sales at subsidiaries.
- The SG&A ratio was 39.9%, down 2.6pt versus a year earlier, mainly reflecting unused expenses in tandem with the self-restraint of activities due to the spread of COVID-19.

Ordinary profit	5,750 million yen	YoY	+6.5%
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Profit attributable to owners of parent	4,045 million yen	YoY	+3.6%
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■ Key Points

Page 3 covers the key points in performance.

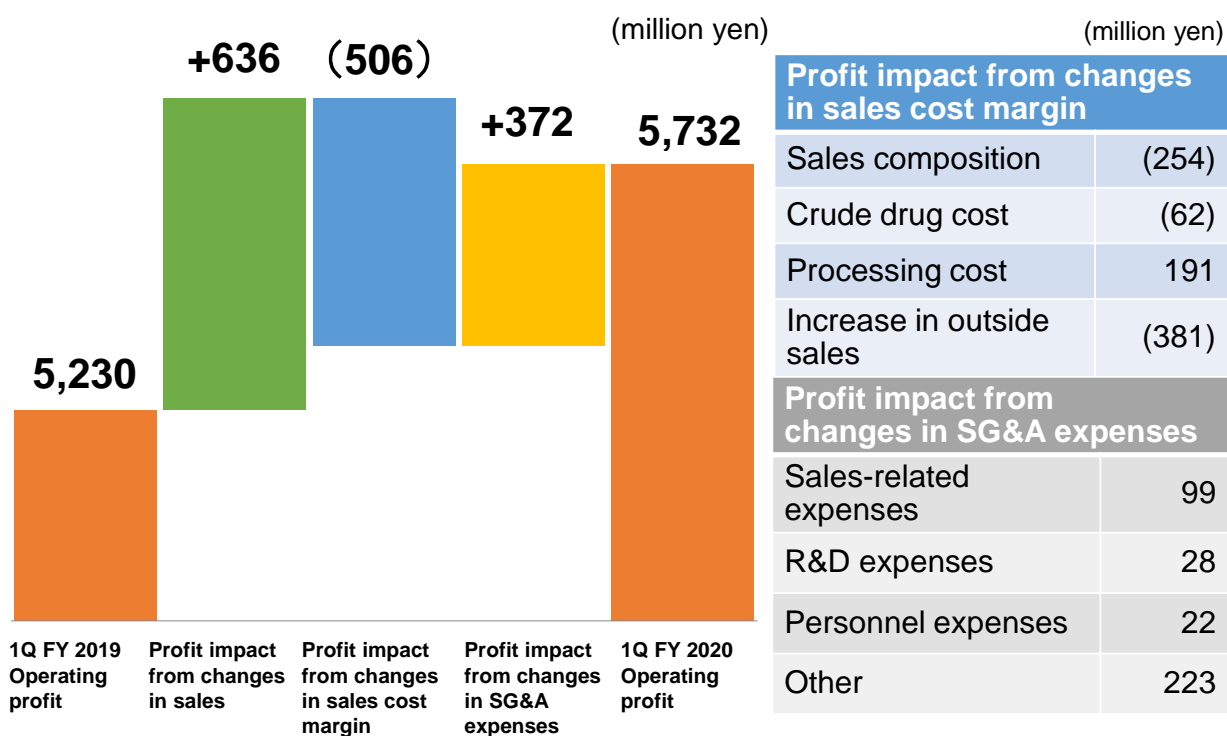
Net sales growth in the quarter under review was 3.5% year-on-year. This mainly reflects the inclusion of a subsidiary in China into the scope of consolidation.

Net sales of the 129 prescription Kampo products decreased 0.2% in contrast with the same period a year earlier. Domestic healthcare sales, including OTC Kampo products, were brisk, expanding 37.4% versus the previous year.

The cost-to-sales ratio stood at 42.1%. In a year-on-year comparison, although crude drug-related costs offset a rise triggered by the NHI drug price revision, the cost-to-sales ratio deteriorated 1.6pt due to negative impact from an increase in outside sales at subsidiaries.

The SG&A ratio was 39.9%. The ratio contracted 2.6pt year-on-year mainly reflecting unused expenses in tandem with the self-restraint of activities due to the spread of COVID-19.

Factor for changes to Operating Profit (YoY comparison)



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■ Factors for changes in Operating Profit (Year-on-Year Comparison)

Page 4 covers factors for changes in operating profit.

Net sales increased ¥1.068 billion year-on-year.

This positively impacted operating profit ¥636 million.

The impact from a change in the cost-to-sales ratio was a negative ¥506 million.

This mainly breaks down to

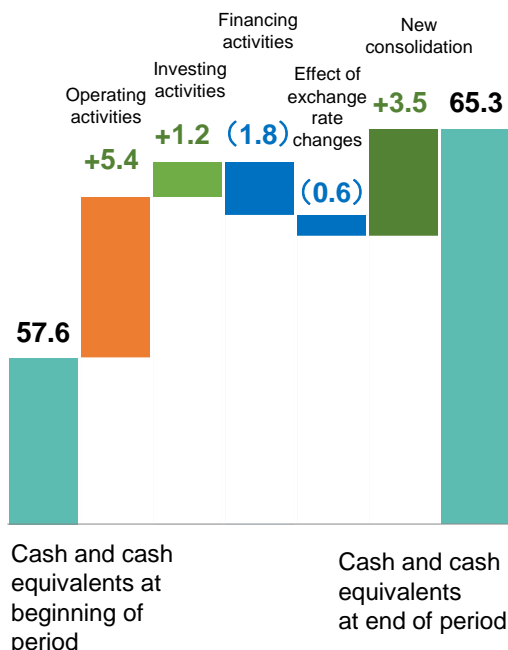
a positive impact to operating profit of ¥129 million owing to a decline in crude drug-related cost, and a negative impact to operating profit of ¥381 million reflecting an increase in outside sales and a ¥254 million impact to sales composition, mainly in tandem with the NHI drug price revisions.

In SG&A expenses, as I mentioned earlier, expenses went unused due to a self-imposed restraint on activities due to the spread of COVID-19. This contributed ¥372 million to operating profit.

Accordingly, operating profit totaled ¥5.732 billion in 1Q FY 2020.

Financial Condition/Cash Flow Position

(million yen)				(billion yen)	
	FY 2019 (3/2020)	1Q FY 2020	Change		
Total assets	311,042	312,668	1,625		
Current assets	194,288	201,075	6,786		
Non-current assets	116,753	111,592	(5,160)		
Total liabilities	97,993	100,268	2,275		
Current liabilities	48,476	50,953	2,477		
Non-current liabilities	49,516	49,314	(202)		
Total net assets	213,048	212,399	(649)		
Equity Ratio	66.0%	65.7%	(0.3)pt		
	FY 2019 (3/2020)	1Q FY 2020	Change		
Inventories	73,310	75,163	1,852		
(Merchandise and finished goods)	10,338	10,456	118		
(Work in process)	12,418	14,204	1,785		
(Raw materials and stores)	50,553	50,502	(50)		



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■ Financial Condition

Page 5 outlines our financial condition and Cash Flow Position

Total assets in the quarter under review were ¥312.668 billion, an increase of ¥1.625 billion versus the end of March 2020.

Current assets increased ¥6.786 billion, versus the end of March 2020, primarily attributable to an increase in cash and deposits, although notes and accounts receivable-trade declined.

Non-current assets decreased ¥5.16 billion, versus the end of March 2020.

Although there was an increase in buildings and structures, there was a decline in investments and other assets reflecting the new inclusion of Tsumura Shengshi Pharmaceuticals Co., Ltd. in the scope of consolidation during the current fiscal year. Liabilities came to ¥100.268 billion, an increase of ¥2.275 billion versus the end of March 2020.

Current liabilities increased ¥2.477 billion in comparison with the March 31, 2020. This was mainly attributable to a rise in other current liabilities, although notes and accounts payable-trade dropped.

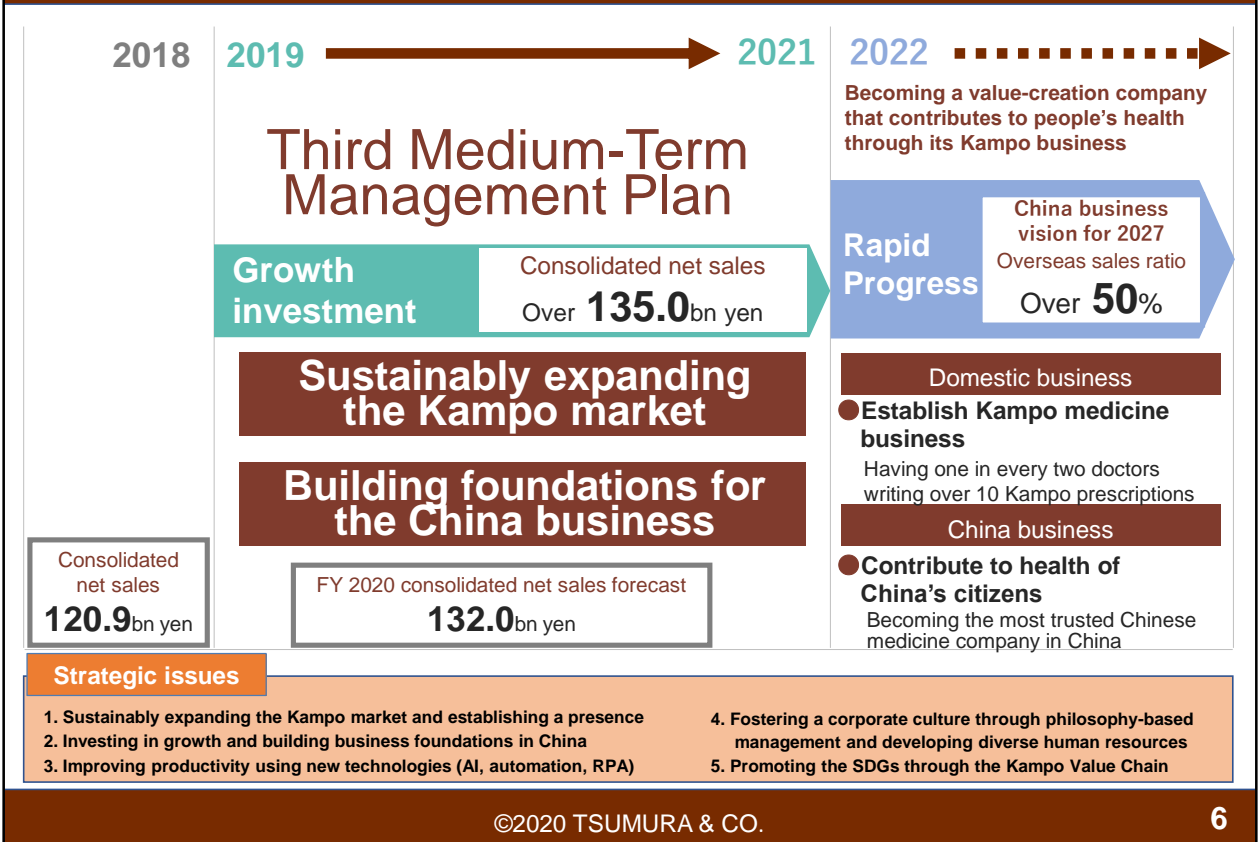
Non-current liabilities were down ¥202 million, versus the end of March 2020.

Net assets totaled ¥212.399 billion, a fall of ¥649 million versus the end of March 2020.

Accordingly, our equity ratio stood at 65.7%.

Our cash flows are as shown in the chart above.

Roadmap for the Realization of the Long-term Management Vision



■ Roadmap for the Realization of the Long-term Management Vision

Page 6 covers the roadmap to realizing our long-term vision.

In the third medium-term management plan, we aim for consolidated net sales of ¥135 billion as we position this period as a growth investment stage and look to continue achieving expansion in the domestic Kampo market and build foundations for businesses in China.

Sales of prescription Kampo products (Drug-fostering and Growing formulations)

(million yen)

	Sales ranking	Product No./name		1Q FY 2019	1Q FY 2020	YoY	
Drug-fostering program formulations	1	100	Daikenchuto	2,662	2,664	2	0.1%
	2	54	Yokukansan	1,995	1,987	(8)	(0.4)%
	3	43	Rikkunshito	1,872	1,860	(12)	(0.7)%
	9	107	Goshajinkigan	936	916	(19)	(2.1)%
	22	14	Hangeshashinto	364	350	(14)	(3.9)%
Total drug-fostering program formulations				7,831	7,779	(52)	(0.7)%
Growing formulations	4	41	Hochuekkito	1,761	1,972	211	12.0%
	5	68	Shakuyakukanzoto	1,340	1,263	(76)	(5.7)%
	6	29	Bakumondoto	1,188	906	(281)	(23.7)%
	7	24	Kamishoyosan	1,165	1,164	(0)	(0.1)%
	8	17	Goreisan	1,118	1,152	34	3.1%
Total growing formulations				6,574	6,461	(113)	(1.7)%
Total sales for 119 prescriptions other than drug-fostering and growing prescription formulations				15,073	15,168	94	0.6%
Total sales for 129 prescription Kampo formulations				29,480	29,408	(71)	(0.2)%

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■ Sales of prescription Kampo drugs (Drug-fostering and Growing formulations)

Page 7 outlines sales of prescription Kampo drugs.

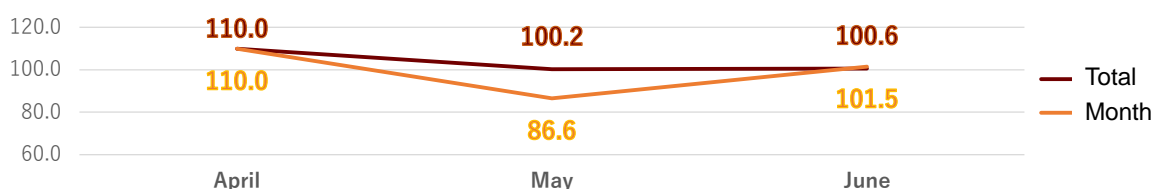
Sales of the 129 prescription Kampo formulations totaled ¥29.408 billion, a decrease of 0.2% or ¥71 million year-on-year.

Sales of drug-fostering formulations were ¥7.779 billion, down 0.7%, and sales of growing formulations totaled ¥6.461 billion, a decline of 1.7%.

Total sales for the 119 prescriptions other than drug-fostering and growing prescription formulations stood at ¥15.168 billion, an increase of 0.6%.

COVID-19 Impact

■ FY 2020 Monthly Shipments



■ 1Q FY 2020 Sales Growth YoY by Sales Channel (actual)



■ Sales (Shipments) YoY for prescriptions mentioned in the “Concept of Kampo treatments for COVID-19” (special contribution)

(million yen)

	2019-1Q	2020-1Q	YoY	
Kakkonto	754	879	124	+16.5%
Hochuekkito	1,761	1,972	211	+12.0%

* source : The Japanese Association for Infectious Diseases

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■ COVID-19 Impact

On page 8 we discuss the impact of COVID-19.

The line graph depicts disclosed monthly results. Tsumura standalone sales based on shipments were up year-on-year.

By month, sales were up 10% in April, down 13.4% in May and up 1.5% in June. This brings cumulative growth for 1Q to 0.6%.

In April, sales increased due to growth in Kampo prescriptions, which can be expected to improve symptoms in patients with COVID-19,

and a rise in long-term prescriptions. In May, sales decreased sharply due to a reactionary drop in long-term prescriptions and due to fewer people going in for medical exams due to COVID-19, and the restriction of visits to MR from medical institutions.

In June, shipments gradually improved, except in inner-city areas including Tokyo, Nagoya, Osaka and Fukuoka.

The bar graph shows actual year-on-year sales growth by sales channel in 1Q.

Sales to HPs were brisk, down only 2.7% despite the absence of activities to provide information. We believe this reflects constant activities to provide information, including the strengthening of activities to provide information on Daikenchuto to HPs in 2H FY 2019.

In sales to GPs, in areas outside of inner-city areas, there was an increase in visits at the request of medical workers. Consequently, there was a growth of 1.3%, and sales are gradually making a recovery.

Looking at sales YoY on a shipment basis for prescriptions mentioned in the “Concepts for Kampo treatments for COVID-19” (special contribution), some of these prescriptions grew year-on-year. In specific, sales rose for prescriptions for Kakkonto and Hochuekkito, among other Kampo products.

Kampo Mega Web Lectures

Kampo Mega Web lectures mainly target doctors that write 10 or less Kampo prescriptions and doctors that do not write Kampo prescriptions

Theme	Prescription	Lecturer	Date	No. of viewers
FY 2019				
Kampo is a MUST for Clinical Physicians	Shakuyakukanzoto, Hochuekkito, etc.	Dr. Masanori Niimi (School of Medicine, Teikyo University)	Sept. 25, 2019	17,878
Mastering Kampo Extracts	Maobushisaishinto, Kakkonto, etc.	Dr. Masanori Niimi (School of Medicine, Teikyo University)	Dec. 16, 2019	18,855
Acute respiratory tract infection & Kampo	Maoto, Bakumondoto, etc.	Dr. Shigeki Nabeshima (School of Medicine, Fukuoka University)	Mar. 23, 2020	17,354
FY 2020				
Easy-to-understand Kampo mainly for colds, dizziness and stress	Maobushisaishinto, Ryokeijutsukanto, etc.	Dr. Sadahiro Senpuku (Senpuku CL)	Apr. 23, 2020	23,917
Support and application of Kampo for acute febrile disease Diagnosing the common cold today	Maoto, Saikokeishikankyoto, etc.	Dr. Shin Takayama (Tohoku University)	Jun. 8, 2020	19,639
Using Kampo to deal with changes in the external environment (summer/stress)	Seishoekkito, Hochuekkito, etc.	Dr. Shuji Ono (Ono Clinic)	Jun. 25, 2020	20,306
Evidence of Kampo treatment derived from guidelines—Mainly for functional gastrointestinal disorders—	Rikkunshito, Daikenchuto, etc.	Dr. Noriaki Manabe (Kawasaki Medical School)	Jul. 2, 2020	2,0729
Kampo Lesson Heat stroke/summer fatigue	Goreisan, Seishoekkito, Hochuekkito	Dr. Shuji Ono, Supervisor (Ono Clinic)	July 3-Sep. 30, 2020 On-demand streaming	-

■ Kampo Mega Web Lectures

Page 9 covers Kampo Mega Web Lectures, which has been one of our activities for providing information in and after April.

Kampo Mega Web Lectures mainly target doctors that write 10 or less Kampo prescriptions and doctors that do not write Kampo prescriptions.

In FY 2019, we implemented 3 Kampo Mega Web Lectures. In FY 2020, we implemented 3 lectures in 1Q and 2 in July.

As with the previous fiscal year, we are receiving good reviews and many doctors are viewing the lectures.

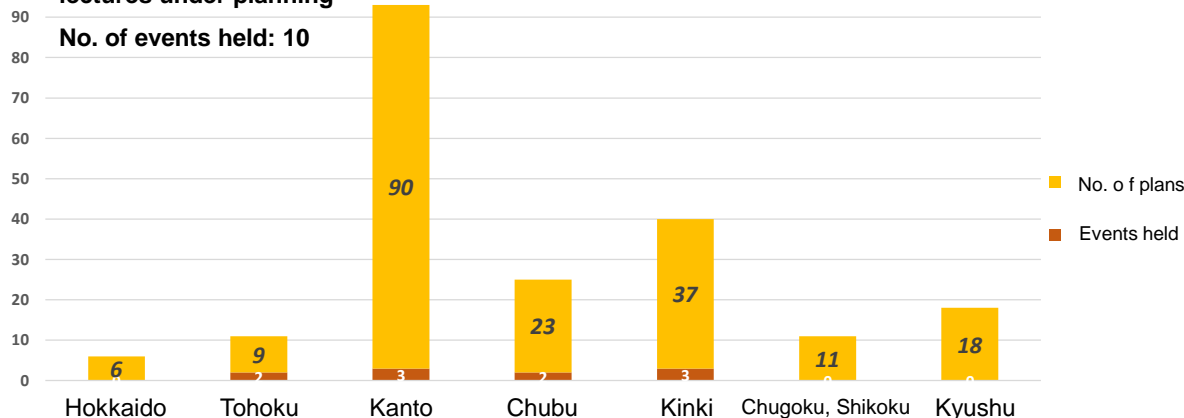
Status of Area Online Lecture Planning

Area activities : Provide detailed information taking into account regional features and facilities
 →Held area events, including an “introductory seminar on Kampo medicine after graduation” to respond to the needs of doctors that want to learn about Kampo

HoldingCase: Video distribution by lecturers who are close-knit to each respective region at branch offices

An 8-part lecture on Kampo (1st time ⇒ 274 people, 2nd time ⇒ 330 people)

Area online lectures held via video-streaming companies that operate on a nationwide scale→194 lectures under planning



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■ Status of Area Online Lecture Planning

On page 10, I will discuss the status of area online lecture planning.

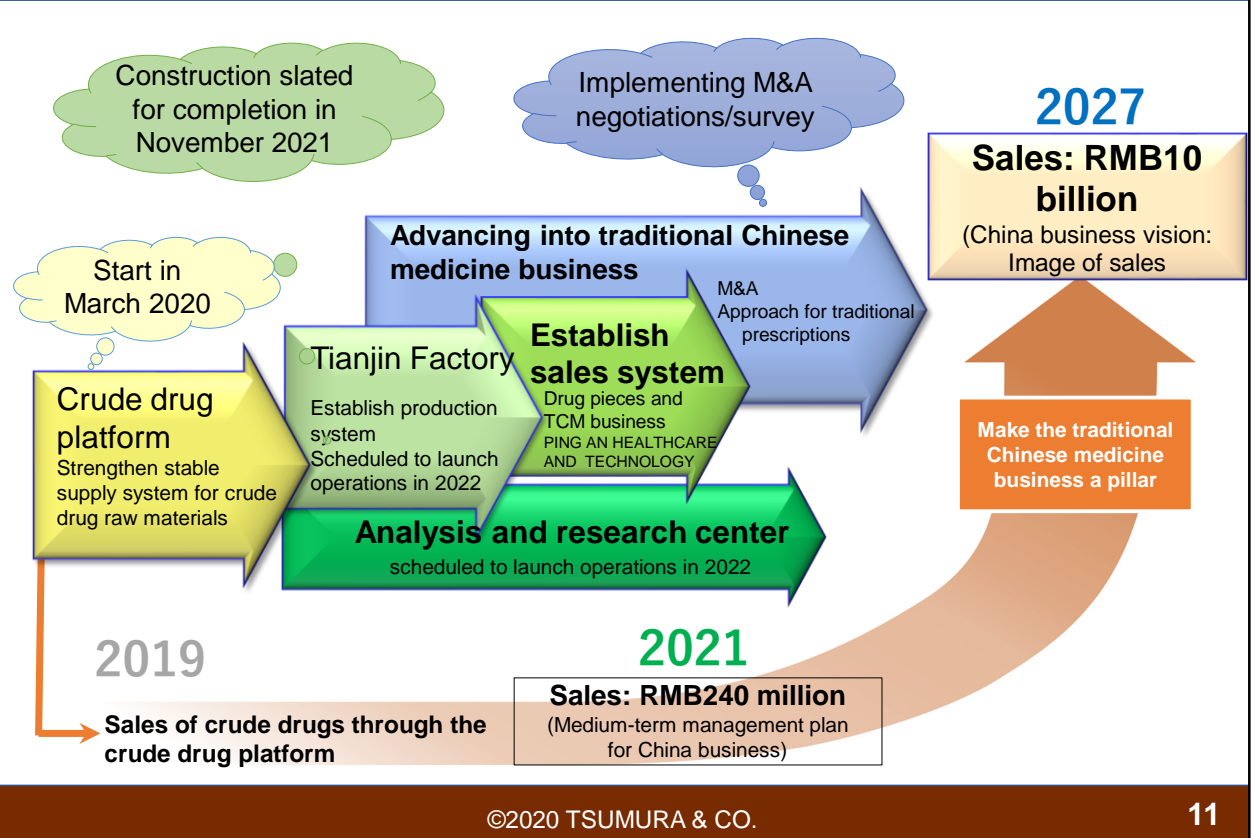
Area activities take into account regional traits and features of facilities to provide detailed information and events are held by each sales offices in response to the needs of doctors that want to learn about Kampo.

Examples of events include the eight sales offices under the supervision of one of the branch, which is implementing an 8-part lecture on Kampo conducted by lecturers who are close-knit to each respective region. 274 doctors listened to the 1st lecture and 330 listened to the second lecture.

Given that traditional sales visits to hospitals are still not being sufficiently carried out, the use of online seminars is increasing and we are seeing a certain degree of benefit. In addition, we are also embarking on new activities in line with the conditions of each area and medical area, including actively undertaking measures proposed by MRs.

Going forward, in addition to conducting hybrid sales activities—online activities and sales visit activities in line with requests from medical workers—we aim to further enhance e-promotions, and implement proactive and effective activities for providing information.

Framework for Building Foundations for the China Business (Progress Status)



■ Framework for Building Foundations for the China Business (Progress Status)

Page 11 covers our progress in building foundations for the China business.

Construction of the Tsumura Shengshi Pharmaceuticals' Tianjin Plant is expected to be completed in November 2021.

We plan to recoup the delay caused by COVID-19 and aim to start up operations in 2022.

To build a foundation for the traditional Chinese medicine business and establish a sales system, we have narrowing down our M&A candidate to one company. We are presently in negotiations and conducting a survey.

Construction of the analysis and research center is is scheduled to start operations in 2022.

FY 2020 Forecast

(million yen)

	FY 2019 results	FY 2020 forecast	Vs. FY 2019	
			Amount	Growth
Net sales	123,248	132,000	8,751	7.1%
Operating profit	18,876	17,000	(1,876)	(9.9)%
Operating profit margin	15.3%	12.9%	—	—
Ordinary profit	19,649	17,900	(1,749)	(8.9)%
Profit attributable to owners of parent	13,765	13,000	(765)	(5.6)%
	FY 2019 results	FY 2020 forecast		
Dividend (per share)	¥64	¥64		
EPS	179.96 yen	169.92 yen		
ROE	6.8%	6.2%		

The impact of COVID-19 is not reflected in the above forecast as it is difficult to accurately predict the timing of COVID-19 will peak out. Assuming the peak for COVID-19, after which is gradually continues to dissipate, we estimate a negative impact to sales of 2% to 4%. However, should it be prolonged, we will make timely and appropriate disclosure in line with changes in the situation.

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■FY2020 Forecast

Page12 covers FY2020 Forecast.

The planned annual dividend is ¥64 per share.
EPS is expected to be ¥169.92 and ROE 6.2%.

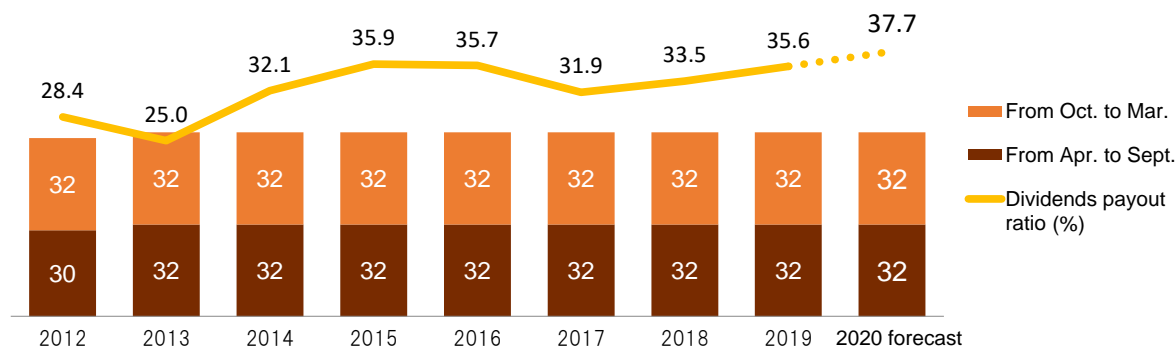
Note that at this stage, it is difficult to accurately predict when COVID-19 will end, therefore the above forecasts do not reflect the impact of COVID-19.

Assuming the peak for COVID-19, after which it gradually continues to dissipate, we estimate a negative impact to sales of 2% to 4%.

However, should it be prolonged, we will make timely and appropriate disclosure in line with changes in the situation.

Policy on Return of Profits to Shareholders

- We seek to increase corporate value through the sustainable expansion of the Kampo business and investments to build business foundations in China
- We will bear in mind the state of the mid-to-long term profit levels and cash flow to ensure stable dividends



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■ Policy on Return of Profits to Shareholders

Page13 covers return of profits to shareholders.

We plan to pay a year-end dividend of ¥32. This will put the full-year dividend payout at ¥64, including the interim dividend of ¥32.

The dividend payout ratio for FY2020 is expected to be 37.7%, based on the earnings forecast mentioned earlier.

We will continue to strive to improve corporate value through continued expansion of the Kampo business, and growth investment in and the building of foundation for China business.

At the same time, taking into account mid-to long-term profit levels and cash flow, we aim to continue to payout a stable dividend and make headway in our management of Tsumura.

Inquiries about this material

TSUMURA & CO.

Corporate Communications Department

PR Group

IR Group

TEL : 03-6361-7100

TEL : 03-6361-7101

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- 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.