

IR Investor Telephone Conference: Thu. August 6, 2020 from 1:00 p.m.

〈Q&A Summary〉

• **Sales of Drug-fostering program formulations and Growing formulations were down year-on-year (with the exception of Hochuekkito, for which sales were brisk). Sales were strong for the 119 kampo products (except the five Drug-fostering, the five Growing formulations). Kakkonto and Hochuekkito were also covered during the Mega web lecture. We do not know if this was a benefit of the Mega web lecture or COVID-19? (page 7 of the materials).**

⇒Sales of prescription Kampo products dropped sharply overall due to the negative impact of COVID-19. Individual, sales performance was brisk for Hochuekkito. Sales of Bakumondoto, which is prescribed by ENTs, was down year-on-year. This reflects impact from limited medical consultations at ENTs, pediatricians and orthopedics. Meanwhile, it is our recognition that the Mega web lectures, which we are strategically conducting, are having a certain degree of benefit on Kakkonto and Hochuekkito sales. Some special contributions and other articles introducing Kampo products are also having a positive impact.

• **COVID-19 is having both a positive and negative impact, but are there any figures that are being quantitatively analyzed?**

⇒In the overall market for prescription pharmaceuticals, in contrast with the analysis that says the overall market in April–June shrunk 2.5%, Tsumura has seen a growth of 1.4%. Although there was some negative impact from COVID-19, we are also presenting the positive factors.

• **The 1st half achievement rate for your sales plan was 49.5%. How do you evaluate this given the impact of COVID-19? (page 2 of the materials)**

⇒We attained 49.5% of our sales plan for the 1st half. We believe this is not bad. Given the impact of COVID-19, we acknowledge that a 2%–4% decline in sales is possible. In light of this, we see this as a relatively acceptable start when comparing it to our initial estimate.

• **What was the level of sales at Tsumura Shengshi Pharmaceuticals? I believe you estimate sales of around 5.0 billion yen. How do you evaluate your progress towards this goal?**

⇒Sales at the Shengshi Group were around 900 million yen, with the business in China sales totaling about 1.0 billion yen. Sales in the China business are approximately 5.0 billion yen overall. Some view this as a low achievement rate versus our plan. China was hit by COVID-19 in February. Given this, I do not think 1.0 billion yen in China-related sales is pessimistic (Note: The Shengshi Group's sales for January–March 2020 are incorporated into our 1Q sales).

• **Cost of sales increased 500 million yen-plus. Does this partially include unrealized profit? (page 4 of the materials)**

⇒ Some of the unrealized profits are included in the portion of crude drug costs. The drug price revision is the main reason for the increase in sales of 254 million. The external sales of the Shengshi Group have increased due to the high cost. Monetarily, this is within the scope of what you can see.

• **The cost of sales portion of China sales of around 1.0 billion yen, which includes 1Q sales at the Shengshi Group, correlates with the 381 million yen in the cost increase due to external sales increase? (page 4 of the materials)**

• Yes, that is correct.

• **I think Tsumura's OTC sales were around 1.0 billion yen, but does the 37% sales growth reflect an increase in Hochuekkito and Kakkonto owing to the impact of COVID-19? Will this growth be sustainable going forward? (page 3 of the materials)**

⇒ OTC sales were also impacted by COVID-19 and there were also online purchases. I do not know if this growth is sustainable and it is difficult to state in terms of growth rate. This is likely to continue as a trend going forward.

• **Is the prescription that sales are increasing in OTC linked to the Kampo prescription that can be expected to improve the symptoms of COVID-19 infectious disease patients with prescription drugs?**

⇒ From the viewpoint of Kampo formulations that are expected to improve COVID-19 symptoms, as with prescription Kampo products, Hochuekkito and Kakkonto are strong sellers. OTCs are also being sold for the indirect effects of COVID-19, such as overeating and stress.

• **In the China market overall, when comparing the January–March quarter with the April–June quarter, can you explain your performance? A qualitative explanation of performance would be fine.**

⇒ In China, the recovery from COVID-19 came about earlier. I think it is okay to recognize that sales returned to normal in April–June as progress was made suppressing the impact of COVID-19.

• **When you said the China market is making a comeback, does this mean sales are up year-on-year or flat?**

⇒ We envisage nearly flat performance as a market. A factor was that Seihaihidokuto was frequently used due to the impact of COVID-19. As a market, it is gaining more attention.

• **When separating sales between HPs and GPs, demand from GPs have recovered but demand from HPs is negative. At of June, the recovery in HP sales was sluggish? Can you tell us the ratio of HP sales at Tsumura?**

⇒HP sales in the Tokyo metropolitan area have not yet recovered. On a macroeconomic basis, note that the ratio of GP sales is over 70% while the ratio of HP sales is under 30%. Sales of Daikenchuto is 50% for GPs and 50% for HPs. The sales ratio of HP is higher compared to other products, but among our 129 prescription Kampo products, there is no trend in prescriptions that mimic this.

• **Demand from GPs is returning, so do you expect the rebound in 2Q to be more trouble-free than in 1Q?**

⇒This is believed to also reflect impact from a rise in the number of infected persons with COVID-19 in the recent week for Summer vacation. I believe the trend you have pointed out does exist.

• **Drug-fostering program formulation and Growing formulation sales were down year-on-year but sales of other products were up. Are sales of Kampo products, including Kakkonto, rising owing to expectations they will improve symptoms for COVID-19 patients or are sales of other Kampo products also growing?**

⇒ The answer changes depending on what extent we consider as Kampo products that are expected to improve symptoms for COVID-19 patients. In addition to the growth in Kakkonto sales, there was also a growth in sales of formulations for those looking to care for their obesity from being isolated at home and for those who aim to stabilize their mental or emotional state. In light of this, it can be said that the sales growth reflects indirect impact from COVID-19. This result not only reflects direct but also indirect growth.

• **Talking about trends in and after 1Q, are Kakkonto and Hochuekkito growing in 2Q also?**

⇒Although I cannot say for certain, given the scenes in which formulations were being used, we anticipate this trend will likely continue.

• **Tsumura Shengshi Pharmaceuticals contributed to consolidated sales at Tsumura by around 900 million yen. What was the level of profit contribution?**

⇒ As for profits, sales of Tsumura Shengshi Pharmaceuticals to the outside of the Group are about 900 million yen, Most of the sales of Tsumura Shengshi Pharmaceuticals are internal transactions, and some of them are unrealized profits, so they will not be factored into consolidated profit in 1Q results.

- **Operating income is being impacted by the negative sales?**

⇒ Given that the portion of unrealized profit will be eliminated, in addition to goodwill amortization, there is no contribution to profit.

- **In 1Q, Operating income were up 500 million yen year-on-year, but gross profit increased around 200 million yen, indicating a savings in SG&A. Your cost consumption is behind schedule. A part of it may be carried forward and the rest may be totally suppressed due to a restriction of activities from the impact of COVID-19. What portion of this cost is being carried forward?**

⇒ It is still 1Q so a complete carry forward is only around several tens of millions of yen in R&D costs. (less than 50 million yen.) The costs that were not used for transportation and other activities were not carried forward. Meanwhile, we explained that Tsumura is conducting Kampo Mega Web lectures. Costs that previously earmarked for transportation and outsourcing but were not used due to a restriction of activities, are being allocated to costs for activities to newly provide information.

- **Peers are also likely to implement digitalized sales activities. Have you started any type of discussion on the number of MRs or the sales structure?**

⇒ We do not expect a substantial change for some time. The Kampo Mega Web lecture has benefit on those doctors for which sales activities were carried out after the lecture was conducted. It is difficult to gain benefit from just one of these activities. For the time being, we plan to implement hybrid activities. At the very least, we aim to allocate resources to areas that have recently shown to be most effective.

- **Was there impact to the business model with the Ping An Group?**

⇒ There was no impact to the business model with the Ping An Group. In China, domestically, there is growing expectations in traditional Chinese medicine so we see expectations being placed in our business model rather than a need to change it.