

Second Quarter Business Results for Fiscal 2020

November 6, 2020 (Friday)

President and Representative Director, CEO

Terukazu Kato

Agenda

- 1. Summary of 2Q FY 2020
Consolidated Performance**
- 2. China Business Update**
- 3. FY2020
Earnings Forecast · Dividend Forecast**

1 . Summary of 2Q FY 2020 Consolidated Performance

Second Quarter Business Results for FY 2020

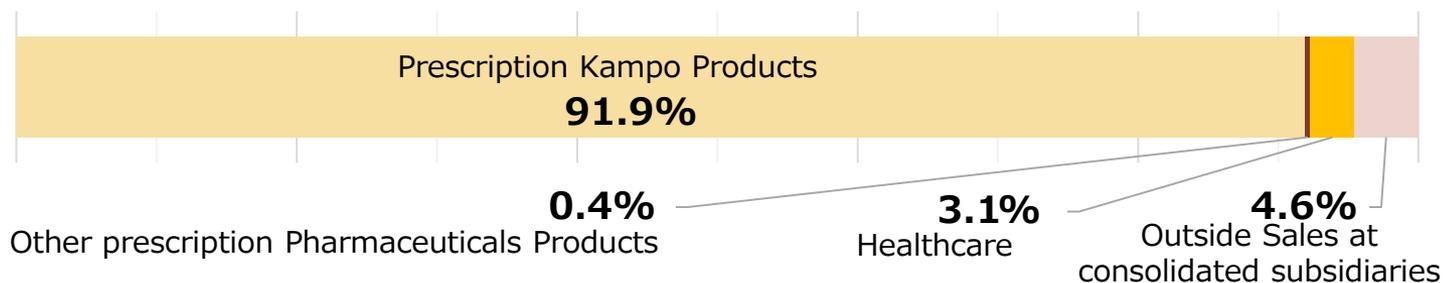


(Million yen)

	1H FY 2020 plan	2Q FY 2020 results	Achievement rate	2Q FY 2019 results	YoY		FY2020 Plan
					Amount	Change	
Net sales	64,200	63,994	99.7%	60,802	3,191	5.2%	132,000
Operating profit (Operating profit margin)	9,100 (14.2%)	11,124 (17.4%)	122.2%	9,776 (16.1%)	1,348	13.8%	17,000 (12.9%)
Ordinary profit	9,400	11,114	118.2%	9,856	1,257	12.8%	17,900
Profit attributable to owners of parent	6,800	8,083	118.9%	7,073	1,045	14.9%	13,000

0% 20% 40% 60% 80% 100%

Sales by product



Key Points in Performance

Consequently, net sales and profits were up in comparison with the same period a year earlier. In contrast with plans, net sales underperformed but all three levels of profit outperformed.

Net sales	63,994	million yen	Plan achievement rate	99.7%	YoY	+5.2%
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- Net sales rose 5.2% year-on-year owing to the consolidation of a subsidiary in China.
- Sales of the 129 prescription Kampo products climbed 1.1% year-on-year.
- Sales of healthcare products including OTC Kampo medicines increased 25.2% year-on-year.

Operating profit	11,124	million yen	Plan achievement rate	122.2%	YoY	+13.8%
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Operating profit margin	17.4%				YoY	+1.3pt
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- The cost-to-sales ratio was 41.6%, up 0.7pt year-on-year. Although crude drug-related costs were absorbed by a rise owing to the NHI drug price revision, the increase reflects impact of outside sales of China.
- The SG&A ratio was 41.1%, a decline of 1.9pt year-on-year, mainly reflecting unused expenses due to restricted activities in tandem with the impact of COVID-19. The SG&A ratio was 3.0pt lower than plan primarily due to a delay in conducting research and unused expenses.

Ordinary profit	11,114	million yen	Plan achievement rate	118.2%	YoY	+12.8%
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Profit attributable to owners of parent	8,083	million yen	Plan achievement rate	118.9%	YoY	+14.9%
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Sales of Drug-fostering Program Formulations/Growing Formulations

(Million yen)

	Sales ranking	Product No./Formulation name	2Q FY 2019	2Q FY 2020	YoY	
Drug-fostering program formulations	1	100 Daikenchuto	5,262	5,237	(25)	(0.5)%
	3	54 Yokukansan	3,953	3,978	25	0.6%
	4	43 Rikkunshito	3,719	3,774	55	1.5%
	8	107 Goshajinkigan	1,831	1,808	(22)	(1.3)%
	24	14 Hangeshashinto	717	711	(6)	(0.9)%
Total sales for drug-fostering program formulations			15,484	15,509	25	0.2%
Growing formulations	2	41 Hochuekkito	3,670	3,979	308	8.4%
	5	68 Shakuyakukanzoto	2,724	2,595	(129)	(4.8)%
	10	29 Bakumondoto	2,210	1,648	(562)	(25.4)%
	7	24 Kamishoyosan	2,348	2,415	67	2.9%
	6	17 Goreisan	2,318	2,527	208	9.0%
Total sales for growing formulations			13,273	13,165	(107)	(0.8)%
Total sales for 119 formulations other than drug-fostering program and growing formulations			29,384	30,104	719	2.5%
Total sales for 129 prescription Kampo products			58,141	58,779	638	1.1%

All positive growth in quantity

■ Net sales trended toward recovery despite impact from COVID-19

Prescription
pharmaceutical market

(3.8)%

Tsumura

+1.3%
(YoY)

Gap with market
5.1pt

(Drug Price base)
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■ Gradually resuming general clinic visitation activities Continuing to restrict hospital visitations and activities

Sales trends

General clinics

(Ratio to total sales: 76%)

+1.1%
(YoY)

(Actual sales · amount base)
Although a recovery in sales to ENTs is trailing, sales to dermatologists and psychiatrists are positive.

Hospitals

(Ratio to total sales: 24%)

(3.0)%
(YoY)

Substantial impact due to restricted visitations and activities
Decline in number of surgeries, termination of outpatient services, etc.

Rising expectation that Kampo will alleviate symptoms (Physicians and patients)

YoY
() Amount base

Fatigue Hochuekkito: +8.4% (+10.5%)
Ninjin'yoeito: +2.9% (+3.2%)

Many patients claim they cannot get rid of the fatigue after being treated for COVID-19.

Fever Kakkonto: +12.2% (+13.4%)
Maoto: +15.4% (+15.4%)

Kampo is easy to use to alleviate symptoms of fever

Loss of appetite Rikkunshito: +1.5% (+3.1%)
Hochuekkito: +8.4% (+10.5%)

Prescribed to patients concerned about a decline in stamina due to fatigue and a loss of appetite due to changes in the external environment



Insomnia Yokukansankachimpihange: +7.4% (+8.8%)
Kamikihito: +2.5% (+3.8%)

Many patients who are seniors are suffering from sleep disorders, mainly due to anxiety over infection.

Anxiety Hangekobokuto: +16.7% (+17.1%)
Kamikihito: +2.5% (+3.8%)

Increase in the number of patients claiming they suffer from anxiety in tandem with changes in the external environment

Obesity Bofutsushosan: +9.7% (+10.9%)

Many people are stuck at home or in self-isolation. As a result many patient are concerned of obesity.

Acne Jumihaidokuto: +9.8% (+11.3%)
Seijobofuto: +26.6% (+28.6%)

As many patients are wearing masks to prevent infection so there is a pronounced increase in acne consultations.

October 7 Press conference held by the Japan Society for Oriental Medicine

Research related to Kampo treatments

- 1) Medical fact-finding investigation of COVID-19 patients registered for a retrospective study
(Dr. Shin Takayama, Tohoku University)
- 2) Treatment benefits reflecting prospective intervention in COVID-19 patients
(Dr. Shin Takayama, Tohoku University)
- 3) Preventive benefits for healthy individuals reflecting prospective intervention for COVID-19
(Dr. Takao Namiki: Chiba University)

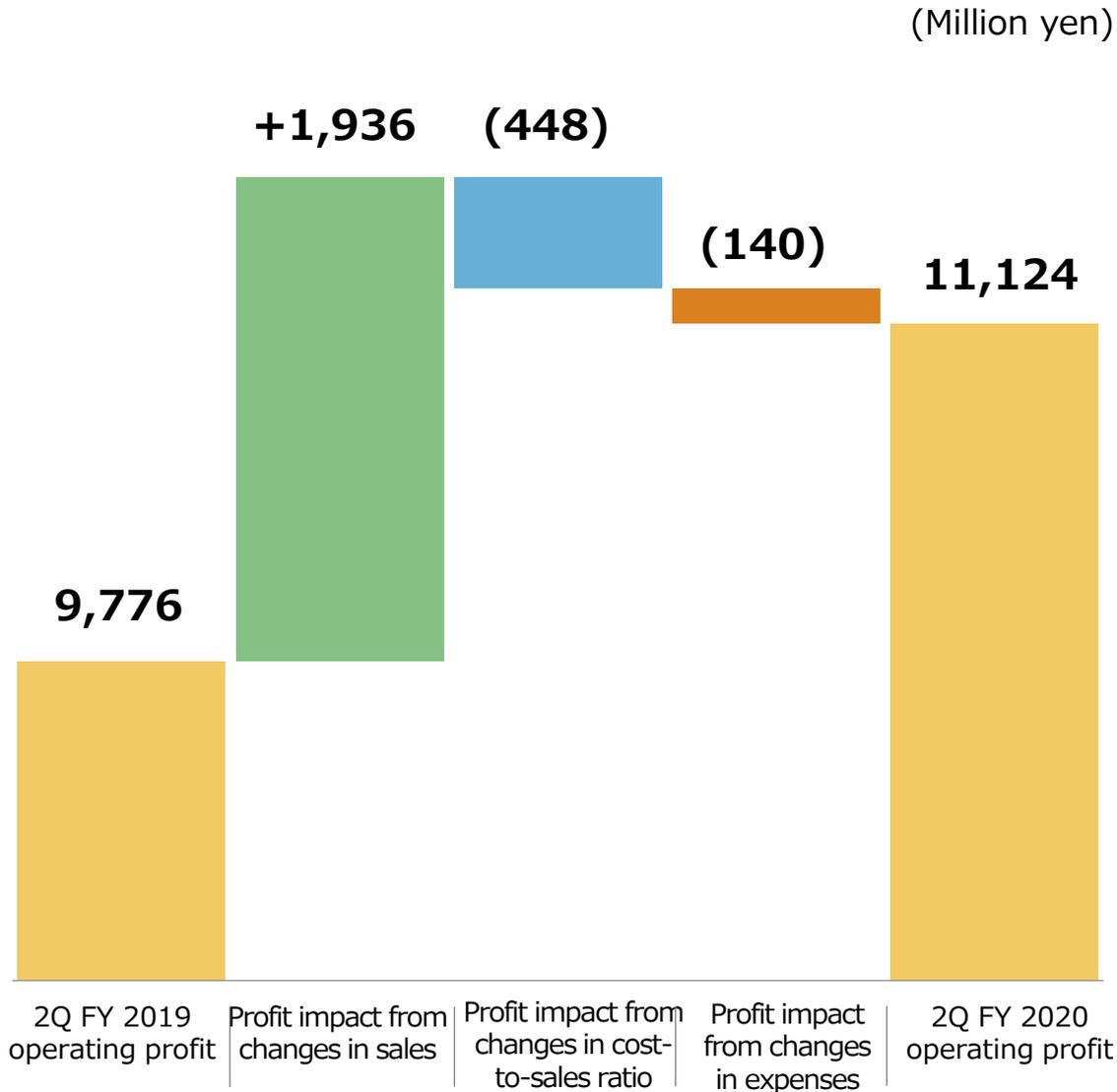
October 9

**Yakuji Nippo
website**

Dr. Takao Namiki (Chiba University), Dr. Shin Takayama (Tohoku University), etc.

Commence large-scale clinical studies to confirm benefits of Kampo to prevent development of COVID-19, targeting 6,000 medical practitioners, mainly at Chiba University and Tohoku University

Factors Triggering Changes in Operating Profit (YoY)



(Million yen)

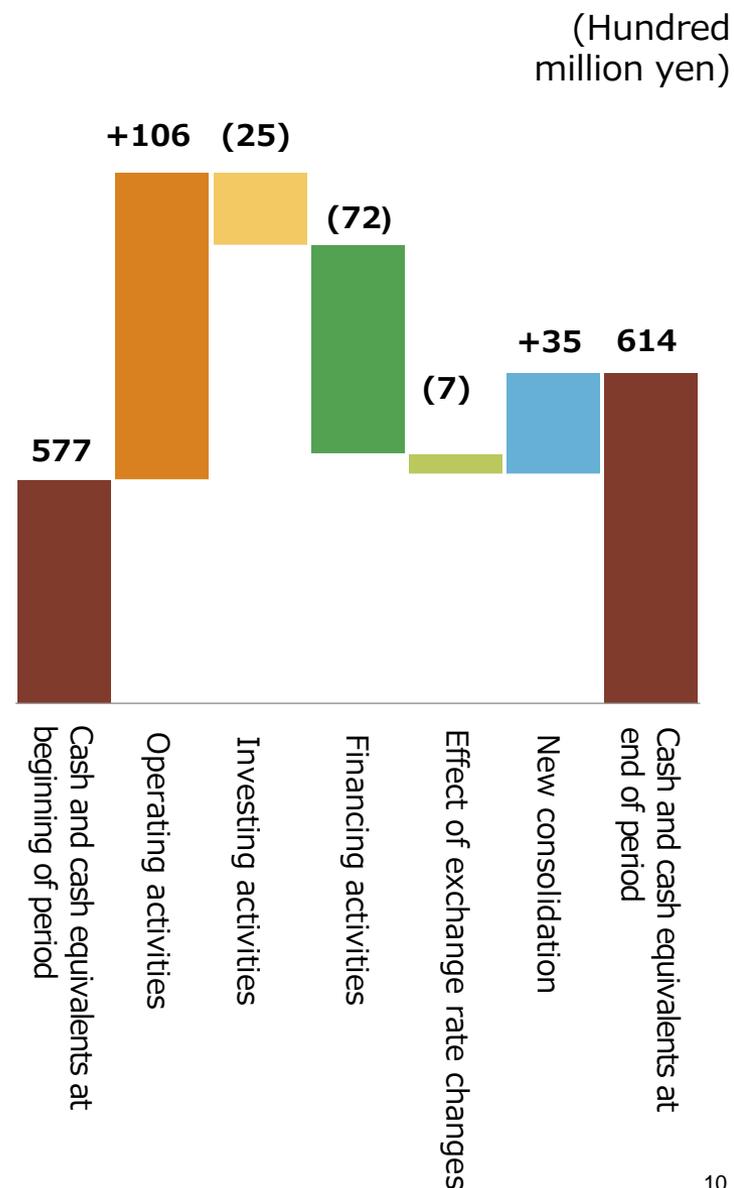
Changes in cost-to-sales ratio: Breakdown	
Sales composition	(448)
Crude drug-related cost	+768
Reduction of manufacturing cost	+255
Outside sales increase in China	(1,023)
Changes in expenses: Breakdown	
Sales-related expense	(245)
R&D expense	(138)
Traveling expense	+510
Other	(267)

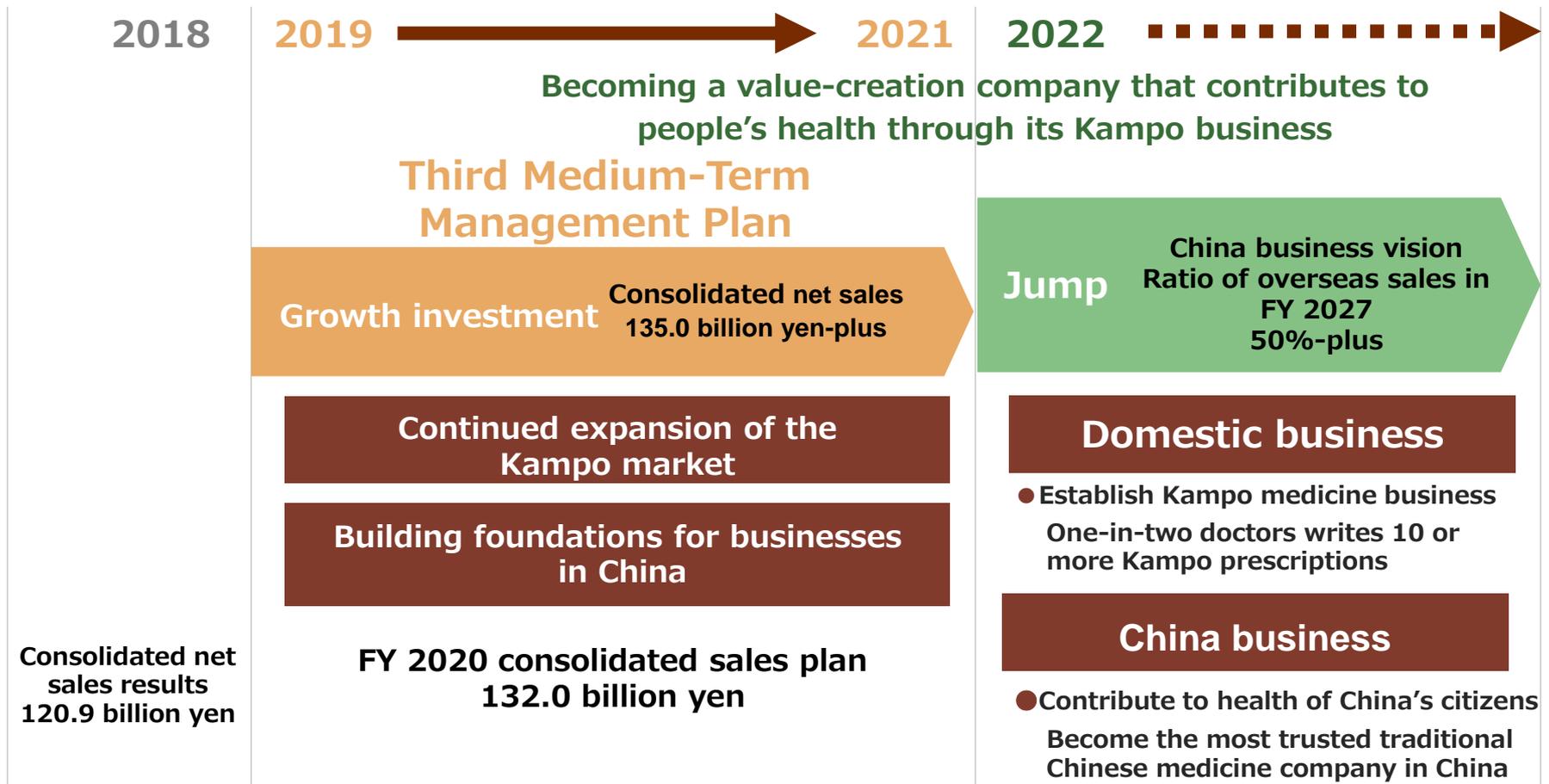
Financial Condition/Cash Flow Position

(Million yen)

	FY 2019 (March 2020)	2Q FY 2020	Change
Total assets	311,042	308,415	(2,626)
Current assets	194,288	195,073	784
Non-current assets	116,753	113,341	(3,411)
Total liabilities	97,993	84,490	(13,502)
Current liabilities	48,476	44,495	(3,981)
Non-current liabilities	49,516	39,995	(9,251)
Total net assets	213,048	223,924	10,875
Equity ratio	66.0%	68.0%	2.0pt

	FY 2019 (March 2020)	2Q FY 2020	Change
Inventories	73,310	72,989	(321)
Merchandise and finished goods	10,338	10,874	536
Work in process	12,418	13,916	1,497
Raw materials and stores	50,553	48,197	(2,355)





Strategic challenges

1. Sustainably expanding the Kampo market and establishing a presence
2. Investing in growth and building business foundations in China
3. Improving productivity using new technologies (AI, robotization, RPA)
4. Fostering a corporate culture through philosophy-based management and developing diverse human resources
5. Promoting the SDGs through the Kampo Value Chain

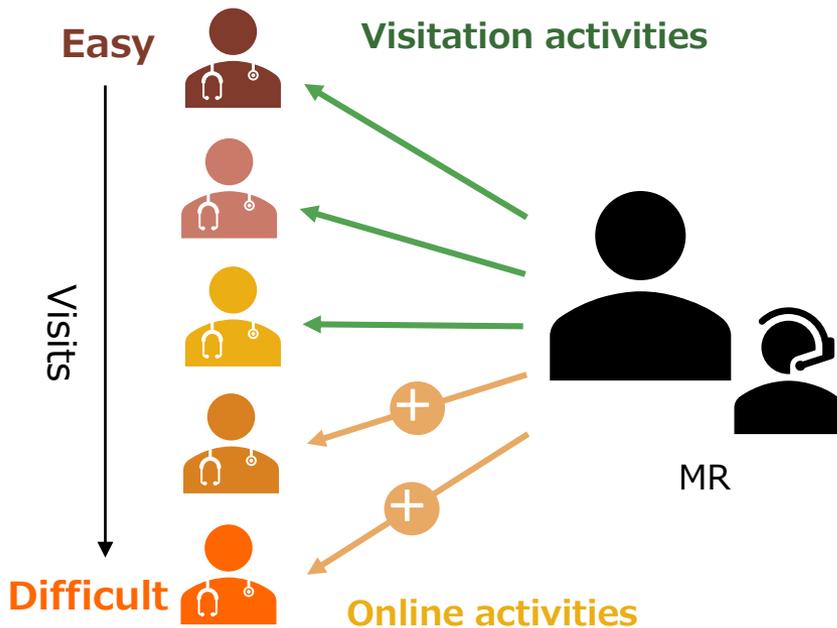
Three Important Domains in the Domestic Market

- Positioned geriatric health; cancer (supportive care) and women’s health as the three important domains and aim to concentrate our activities in these domains
- We plan to deploy a sales approach in the drug-fostering program formulations, growing formulations and three important domains

Geriatric health domain		Cancer domain (supportive care)	Women’s health domain
Psychiatric and neurological disorders	Digestive system diseases	Mitigation of side effects, etc.	Diseases specific to women
<p>D Yokukansan + related formulations</p>	<p>D Rikkunshito</p> <p>D Daikenchuto</p> <p>G Hochuekkito</p> <p>+ related formulations</p>	<p>D Rikkunshito</p> <p>D Hangeshashinto</p> <p>D Goshajinkigan</p> <p>+ related formulations</p>	<p>G Kamishoyosan</p> <p>+ related formulations</p>
Respiratory diseases			Other diseases and symptoms
<p>G Bakumondoto + related formulations</p>			<p>D Daikenchuto</p> <p>G Goreisan</p> <p>+ related formulations</p>
Peripheral symptoms for circulatory disorders			
<p>G Goreisan+ related formulations</p>			

 Drug-fostering program formulations
  Growing formulations

Distinguish use between visitations and online activities depending on demands from medical practitioners



Visitations	Visits and interviews by MRs (In-hospital briefings/information provision)
Visitations	Lectures and workshops held at venues (Kampo medicine and evidence, including practical skills*1)
Online	Remote provision of information (Briefing/digital pamphlet)
Online	Online lectures/workshops (Kampo medicine and evidence)
Online	Member website (Video contents, CME digital*2)

Practical skills*1

Abdominal, tongue, pulse and other exams used in Kampo diagnostics

CME digital*2

Lifetime education on Kampo medicine for medical practitioners, including physicians (Continuing Medical Education)

【Target】 Physicians that write nine or less Kampo prescriptions and physicians that do not write Kampo prescriptions

Theme	Prescription	Lecturer	No. of viewers
Easy-to-understand Kampo for colds, dizziness and stress	Maobushisaishinto Ryokeijutsukanto	Dr. Sadahiro Senpuku Senpuku CL	23,917
Prescription and application of Kampo for acute febrile disease—Treatments for the common cold today	Maoto Saikokeishikankyoto	Dr. Shin Takayama Tohoku University	19,639
Using Kampo to deal with changes in the external environment (summer/stress)	Seishoekkito Hochuekkito	Dr. Shuji Ono Ono Clinic	20,306
Evidence of Kampo treatment derived from guidelines —Mainly for functional gastrointestinal disorders—	Rikkunshito Daikenchuto	Dr. Noriaki Manabe Kawasaki Medical School	20,729

(YoY)

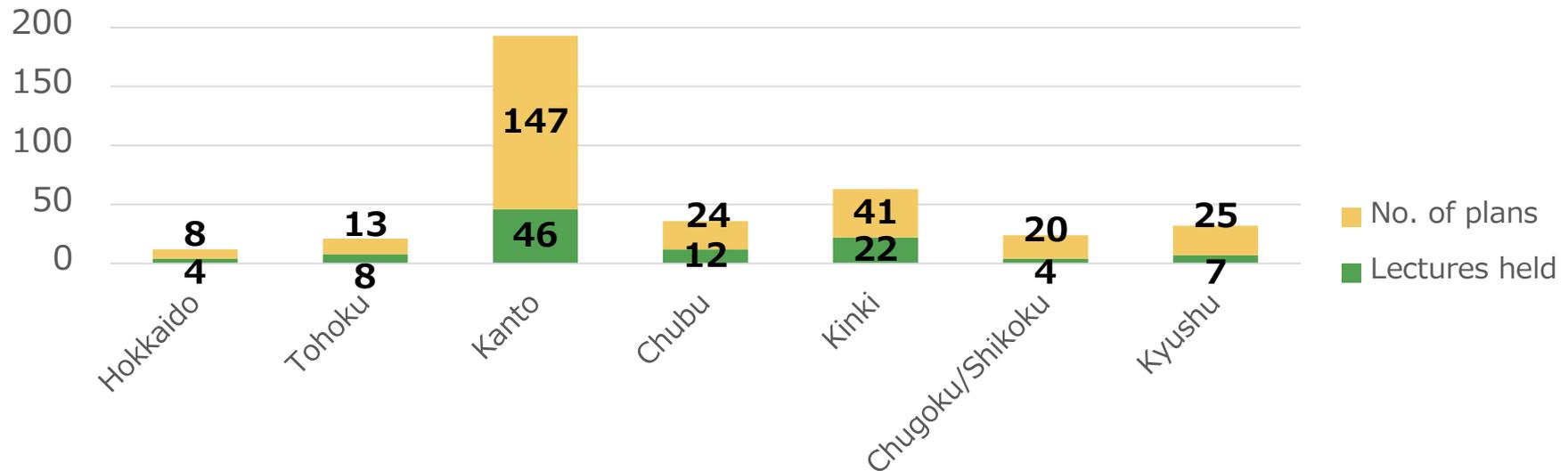
Prescription	
Maoto	+15.4%
Hochuekkito	+8.4%
Ryokeijutsukanto	+7.6%
Seishoekkito	+6.6%
Saikokeishikankyoto	+1.6%
Rikkunshito	+1.5%

Prescription	
Daikenchuto	-0.5%
Maobushisaishinto	-8.6%

Area plans

Provide detailed information taking into consideration regional traits and facility features
 “Introductory seminar on Kampo medicine after graduation” for physicians wanting to learn about Kampo

【Area Web lectures】 Planned/scheduled lectures: 278 Held lectures: 103



□ Example of lecture held: In regions with a high ratio of seniors, successfully implemented a lecture on frailty* measures for seniors

No. of viewers: Max. 180 (Kinki region)

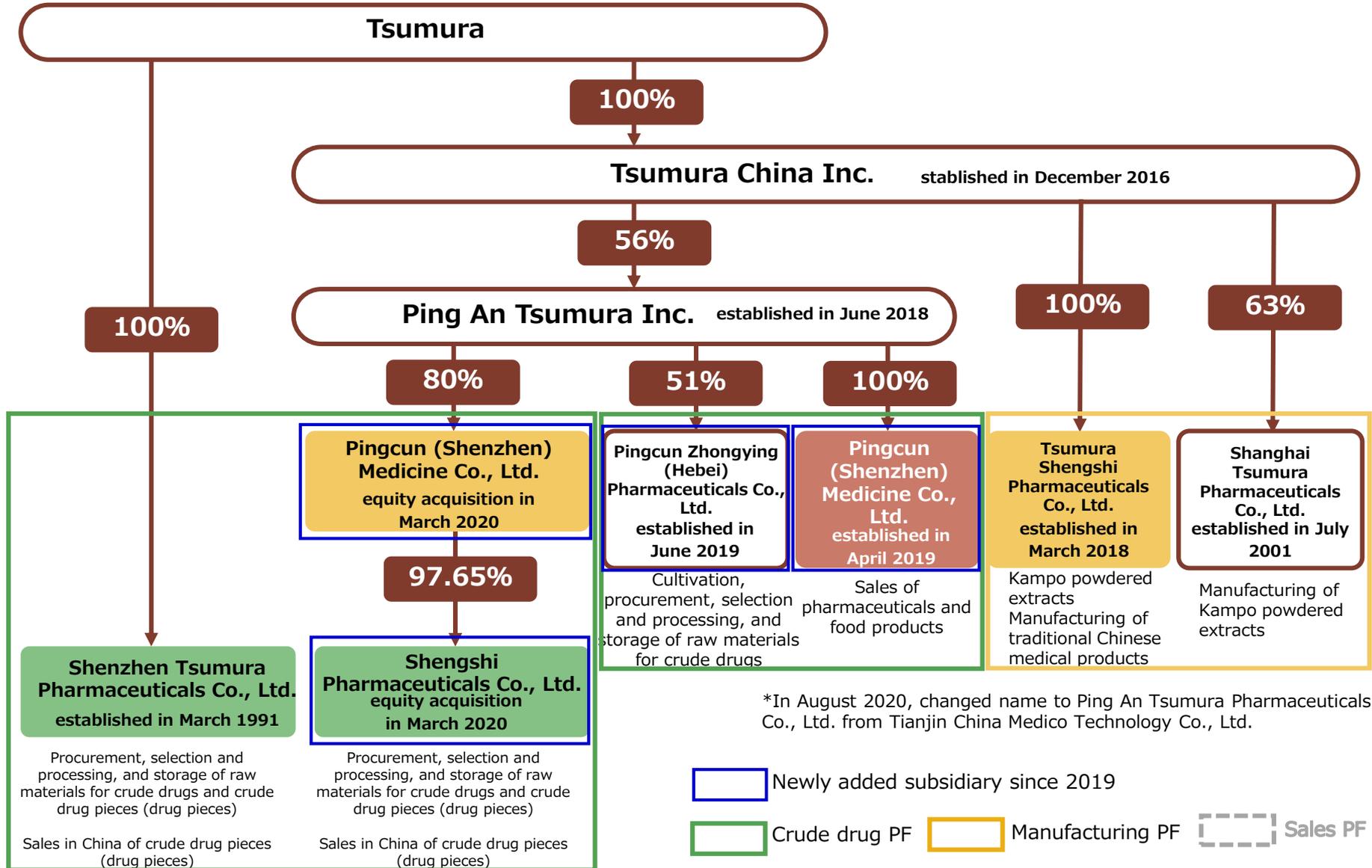
*Frailty is a condition whereby there is increased vulnerability to health disorders due to a change in various functions or a decline in reserve capacity in tandem with aging (Source: The Japan Geriatrics Society)

2. China Business Update

China Business: Diagram of Capital Ties

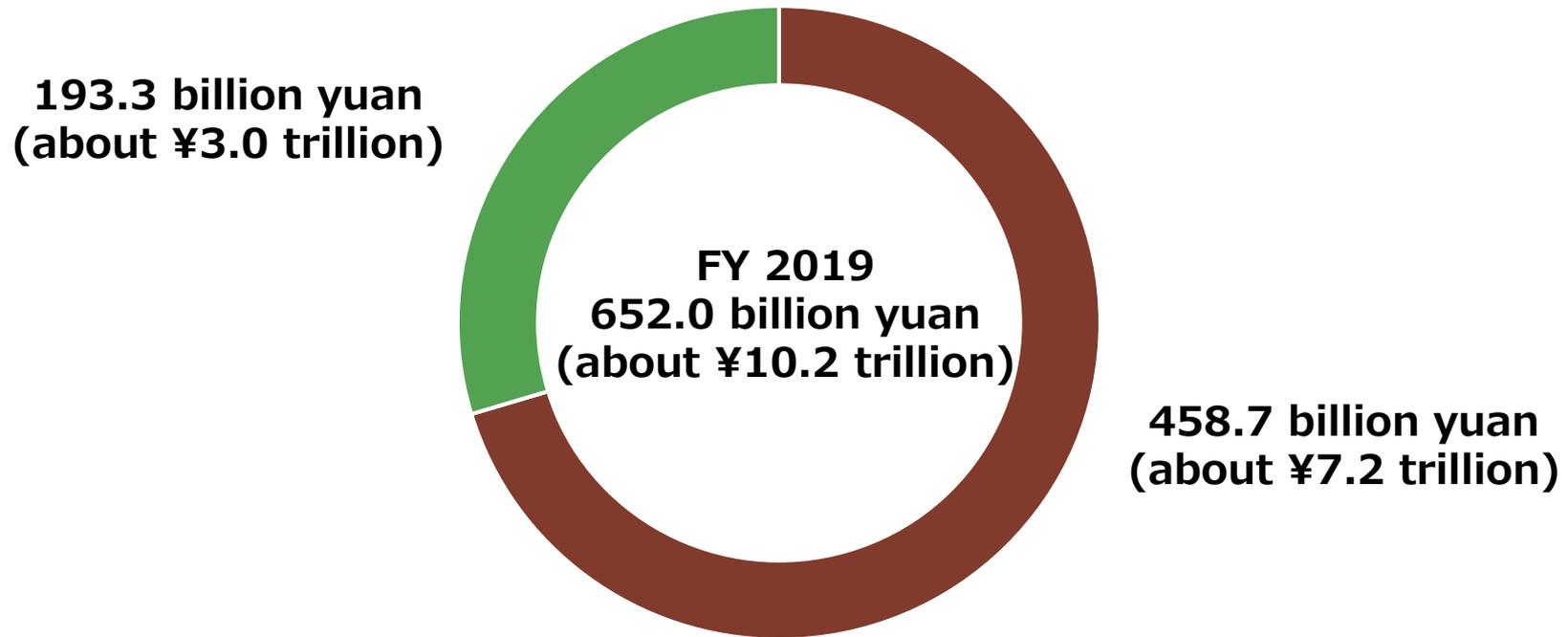
Structure of the China business and capital ties: Ownership ratios

as of the end of September 2020



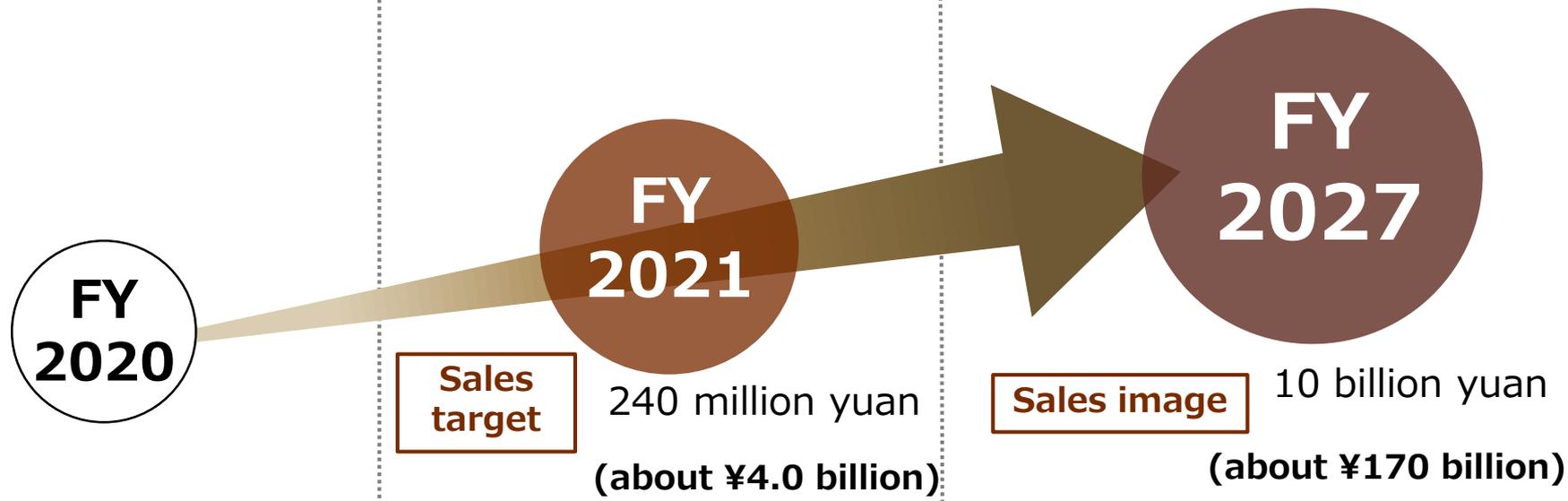
*In August 2020, changed name to Ping An Tsumura Pharmaceuticals Co., Ltd. from Tianjin China Medico Technology Co., Ltd.

- Traditional Chinese medical products
- Crude drug pieces (drug pieces)



Source: National Bureau of Statistics of China, Ministry of Industry and Information Technology (MIIT)
*Exchange rate: ¥15.7/yuan (as of the end of December 2019)

Medium-term Management Plan and Vision for the China Business



FY 2020 Plan & Vision for the Crude Drug Platform

Raw material crude drugs, drug pieces, raw ginseng, Yakushokudogen products, etc.

Sales target 240 million yuan
(about ¥4.0 billion)

Sales target
Front-loaded

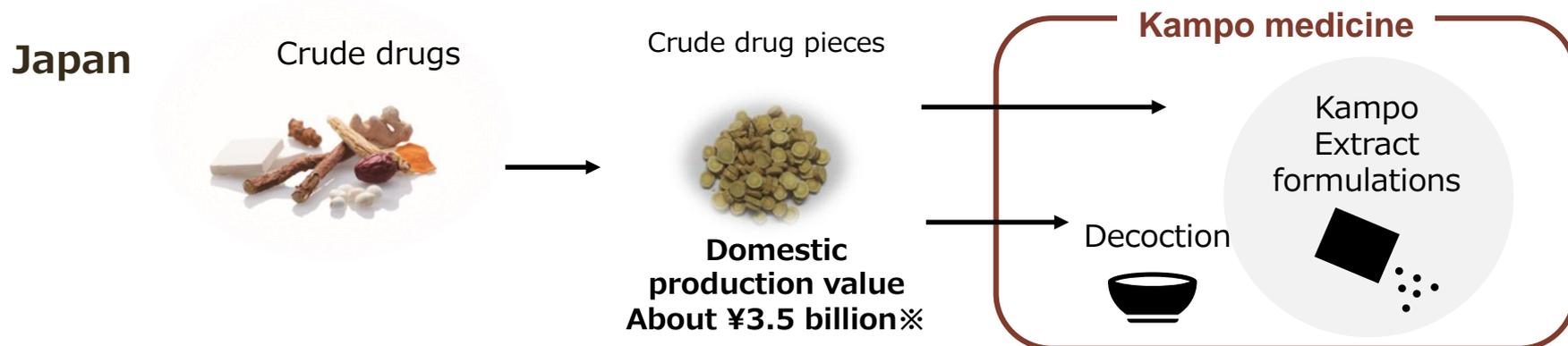
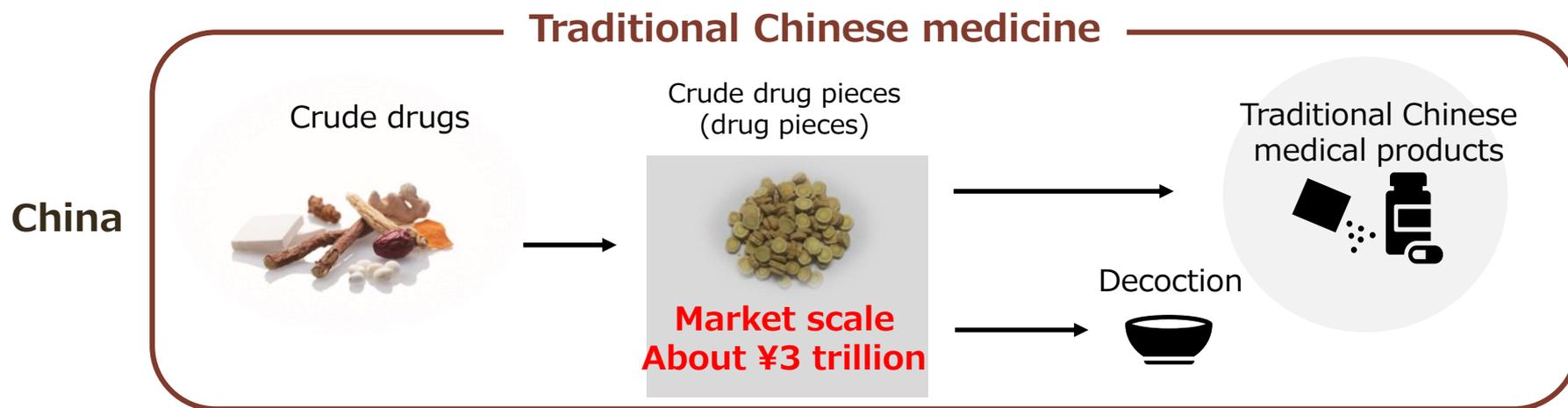
Sales image 3 billion yuan
(about ¥51.0 billion)

Vision for the Manufacturing Platform

Classical prescription Chinese medicine complex formulations and traditional Chinese medicine (including M&A), etc.

Sales image 7 billion yuan
(about ¥119 billion)

Crude Drug Pieces (Drug Pieces) in China

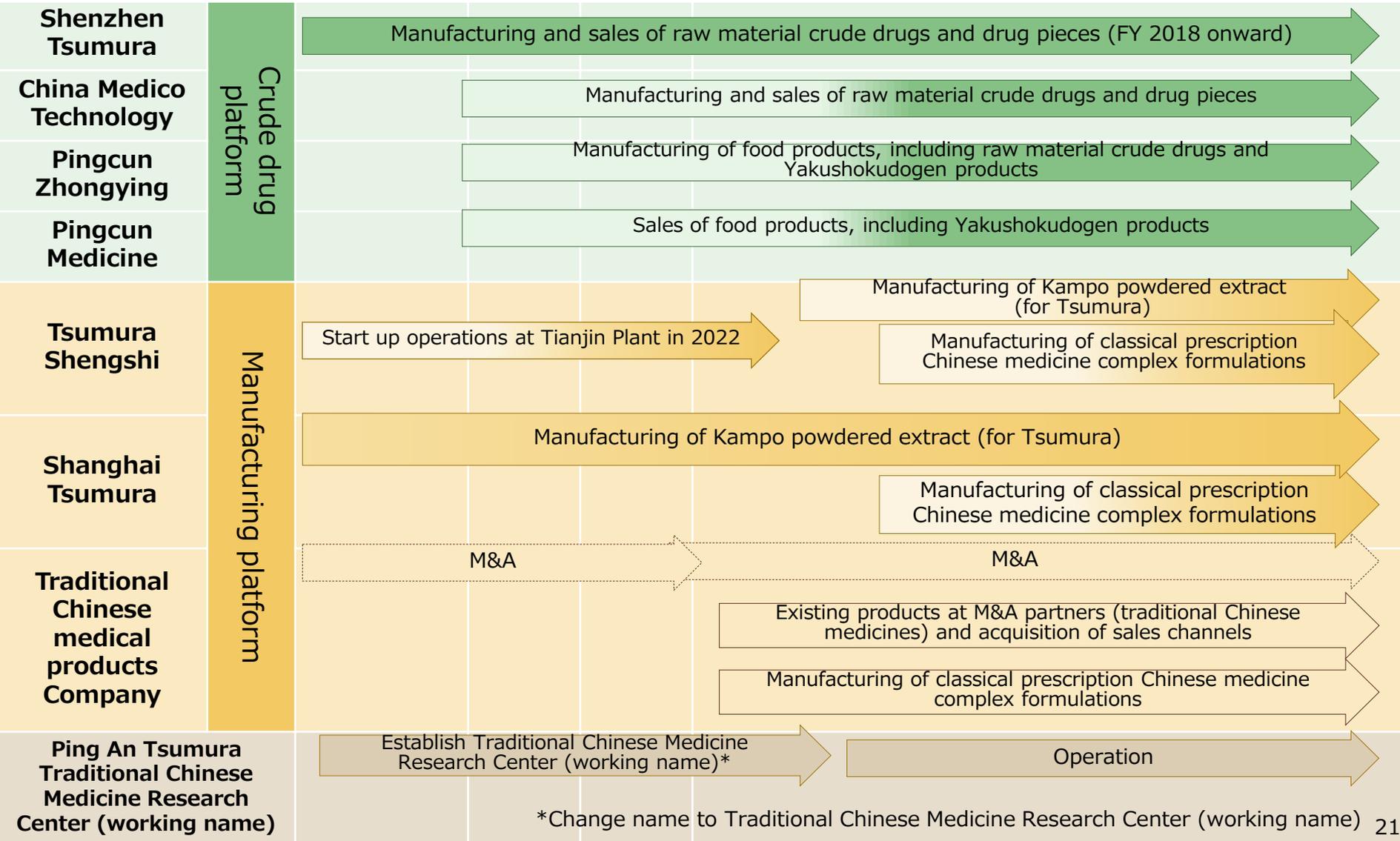


Terminology	Definition	Corresponding terminology for Kampo medicine (Meanings are not always the same)
Traditional Chinese medicine	Medicines used in traditional Chinese medicine (traditional Chinese medical products, drug pieces, etc.)	Kampo, crude drug pieces, crude drugs
Drug pieces	Same meaning as crude drug pieces Use as a decoction	Crude drug pieces
Traditional Chinese medical products	Drugs in the form of granules, pills or other shapes based on the theories of traditional Chinese medicine	Kampo extract formulations

Roadmap for the Chinese Business Vision (image)



2019 2020 2021 2022 ~ 2027



*Change name to Traditional Chinese Medicine Research Center (working name) 21

3 . FY2020

Earnings Forecast · Dividend Forecast

FY 2020 Earnings Forecast: No Revisions

(Million yen)

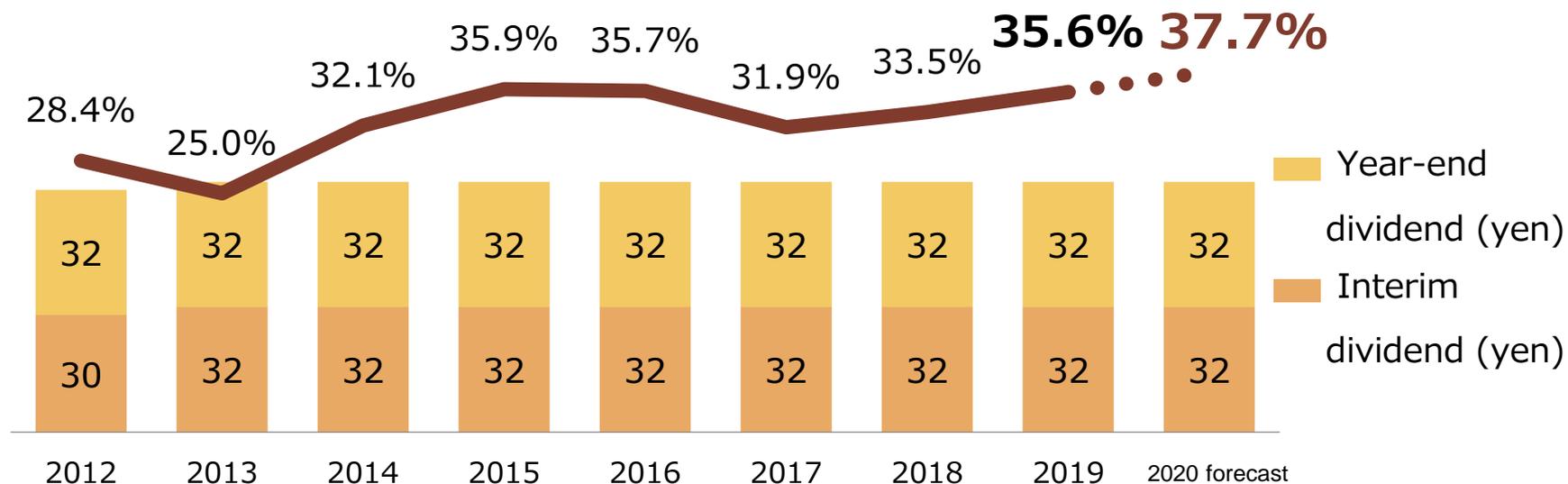
	FY 2019 results	FY 2020 forecast	YoY	
			Amount	Change
Net sales	123,248	132,000	8,751	7.1%
Operating profit (Operating profit margin)	18,876 (15.3%)	17,000 (12.9%)	(1,876)	(9.9)%
Ordinary profit	19,649	17,900	(1,749)	(8.9)%
Profit attributable to owners of parent	13,765	13,000	(765)	(5.6)%

	FY 2019 results	FY 2020 forecast
Dividend (per share)	¥64	¥64
EPS	¥179.96	¥169.92
ROE	6.8%	6.2%

At present, we have not reflected the impact of COVID-19 into our earnings forecast as it is difficult to accurately estimate when COVID-19 will wind down and the total level of impact. The impact of COVID-19 is primarily in cost going unused, mainly the activities budget, due in part to restrictions on activities to provide information through to the end of the second quarter. Meanwhile, there is an increase in Kampo prescriptions being prescribed by various physicians. In addition, we are implementing activities that use e-promotions. Accordingly we estimate the impact of this to our plans is limited. Going forward, we anticipate the outlook will remain cloudy. We will disclose conditions in a timely and proper manner should there be any changes.

Policy

- We aim to improve our corporate value by continually expanding our Kampo 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 2020 year-end dividend and payout ratio (forecast) is an estimate based on the assumption that the dividend resolution is approved at the 85th 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.