

## **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**

- Today, I will explain the three points you see.

## 1. Summary of 2Q FY 2020 Consolidated Performance

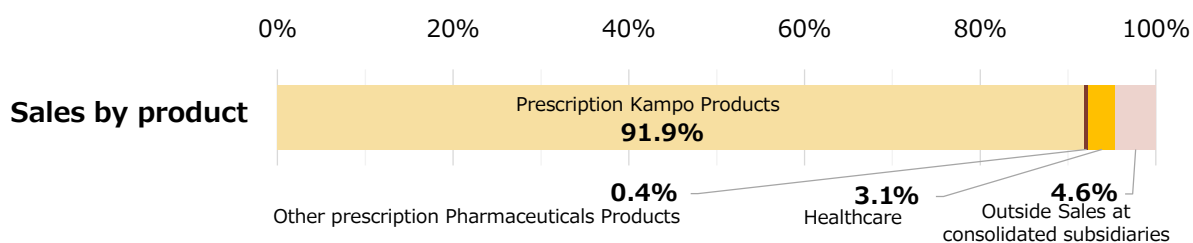
- First, I will provide a summary of our earnings results for 2Q FY 2020.

## 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



- The results for 2Q are as shown. Although there was impact from COVID-19, net sales totaled ¥63.9 billion, slightly below plan. Meanwhile, operating and ordinary profits came to ¥11.1 billion and quarterly profit attributable to owners of parent was ¥8.0 billion. Profits at all three levels outperformed plans.
- Our operating profit margin stood at 17.4%, versus a plan of 14.2%, and a rise of 1.3pts year-on-year.
- On a year-on-year basis, net sales and operating profit increased.
- The graph for sales ratios shows that outside sales by consolidated subsidiaries accounted for 4.6% of total sales, with outside sales by consolidated subsidiaries in China making up 3.8% of total sales.

## 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.

<b>Net sales</b>	<b>63,994</b> million yen	<b>Plan achievement rate</b>	<b>99.7%</b>	YoY	<b>+5.2%</b>
<ul style="list-style-type: none"> <li>Net sales rose 5.2% year-on-year owing to the consolidation of a subsidiary in China.</li> <li>Sales of the 129 prescription Kampo products climbed 1.1% year-on-year.</li> <li>Sales of healthcare products including OTC Kampo medicines increased 25.2% year-on-year.</li> </ul>					
<b>Operating profit</b>	<b>11,124</b> million yen	<b>Plan achievement rate</b>	<b>122.2%</b>	YoY	<b>+13.8%</b>
<b>Operating profit margin</b>	<b>17.4%</b>			YoY	<b>+1.3pt</b>
<ul style="list-style-type: none"> <li>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.</li> <li>The SG&amp;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&amp;A ratio was 3.0pt lower than plan primarily due to a delay in conducting research and unused expenses.</li> </ul>					
<b>Ordinary profit</b>	<b>11,114</b> million yen	<b>Plan achievement rate</b>	<b>118.2%</b>	YoY	<b>+12.8%</b>
Profit attributable to owners of parent	<b>8,083</b> million yen	<b>Plan achievement rate</b>	<b>118.9%</b>	YoY	<b>+14.9%</b>

4

- One key point in performance was that net sales grew ¥3.1 billion or 5.2% year-on-year. This reflected contribution of ¥2.2 billion in outside sales by Tianjin China Medico Technology Co., Ltd., which became a consolidated subsidiary of the Tsumura Group in March.
- Sales of the 129 prescription Kampo products climbed 1.1% year-on-year. This reflected impact from the NHI drug price revisions in October 2019 and April 2020, a curb in medical exams, and restrictions on visitations.
- Sales in healthcare, which also include OTC medicines, rose 25.2% year-on-year owing to brisk store and online sales.
- The cost-to-sales ratio was 41.6%, undershooting our plan by 0.1pt but up 0.7pt year-on-year. In a year-on-year comparison, although we absorbed the impact of NHI drug price revisions with the decline in crude drug-related costs, the cost-to-sales ratio rose due to impact from outside sales in China.
- The SG&A ratio was 41.1%, which was 3.0pt below plan and down 1.9pt year-on-year. This was mainly attributable to unused budget due to restricted activities in tandem with the COVID-19 impact. In comparison with plans, there was also impact from a delay in the implementation of R&D activities.

# 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

5

- Reflecting the impact from the NHI drug price revisions, sales of the 129 prescription Kampo products stood at ¥58.7 billion, a growth of ¥600 million or 1.1% year-on-year.
- Sales of the five drug-fostering program formulations totaled ¥15.5 billion, a climb of 0.2% year-on-year and sales, on a volume basis, rose 1.3%. Although down on a monetary basis, sales for Daikenchuto and Goshajinkigan were both up 0.1% on a volume basis. All five drug-fostering program formulations exhibited positive growth on a volume basis.
- Sales of the five growing formulations came to ¥13.1 billion, a decline of 0.8% year-on-year. Influenza and common colds were suppressed owing to the use of masks and hand-washing as measures to prevent the spread of COVID-19. Consequently, in cold-related formulations, Bakumondoto sales substantially dropped year-on-year.

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

(Drug Price base)

Prescription pharmaceutical market	<b>(3.8)%</b>	Gap with market <b>5.1pt</b>
Tsumura	<b>+1.3%</b> (YoY)	

Copyright © 2020 IQVIA.  
Calculated based on IQVIA JPM April-Sep.2020 MAT  
Reprinted with permission

## ■ Gradually resuming general clinic visitation activities Continuing to restrict hospital visitations and activities

(Actual sales · amount base)

Sales trends		Although a recovery in sales to ENTs is trailing, sales to dermatologists and psychiatrists are positive.
General clinics (Ratio to total sales: 76%)	<b>+1.1%</b> (YoY)	
Hospitals (Ratio to total sales: 24%)	<b>(3.0)%</b> (YoY)	Substantial impact due to restricted visitations and activities Decline in number of surgeries, termination of outpatient services, etc.

6

- In the April-June period (1Q), there was significant impact from COVID-19 but at present the prescription pharmaceutical market is trending toward recovery. As for figures on an NHI drug price and actual sales basis, although the prescription pharmaceuticals market shrank 3.8% in comparison with the same period in the previous year, Tsumura posted a growth of 1.3%, outdistancing the market by 5.1pt.
- Looking at each market sales channel, sales to general practitioners (GP) rose 1.1%. Meanwhile the recovery in sales to ENTs and gynecologists is behind schedule. Sales to hospitals (HP) were down 3.0%. This reflects the ongoing restrictions to MR visitations and sales activities. In addition, there continues to be impact mainly from a decline in the number of surgeries and the suspension of outpatient treatments.
- In addition, there continues to be a curb in medical exams for seniors. Based on our analysis, this impact is triggering the negative sales growth for Shakuyakukanzoto.

## 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



**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

**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.

**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.

Survey by Tsumura

7

- Next I will introduce examples of Kampo treatments being used for symptoms related to COVID-19. According to our survey, there are growing expectations among physicians and patients that Kampo will ease their symptoms.
- The following Kampo medicines are being used to treat various symptom, fever at the onset of infection, lingering fatigue after treatment, anxiety triggered by trying to prevent infection, insomnia, loss of appetite, obesity due to a lack of exercise, and acne caused by wearing a mask. We believe that sales are growing for these Kampo medicines.



### 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**

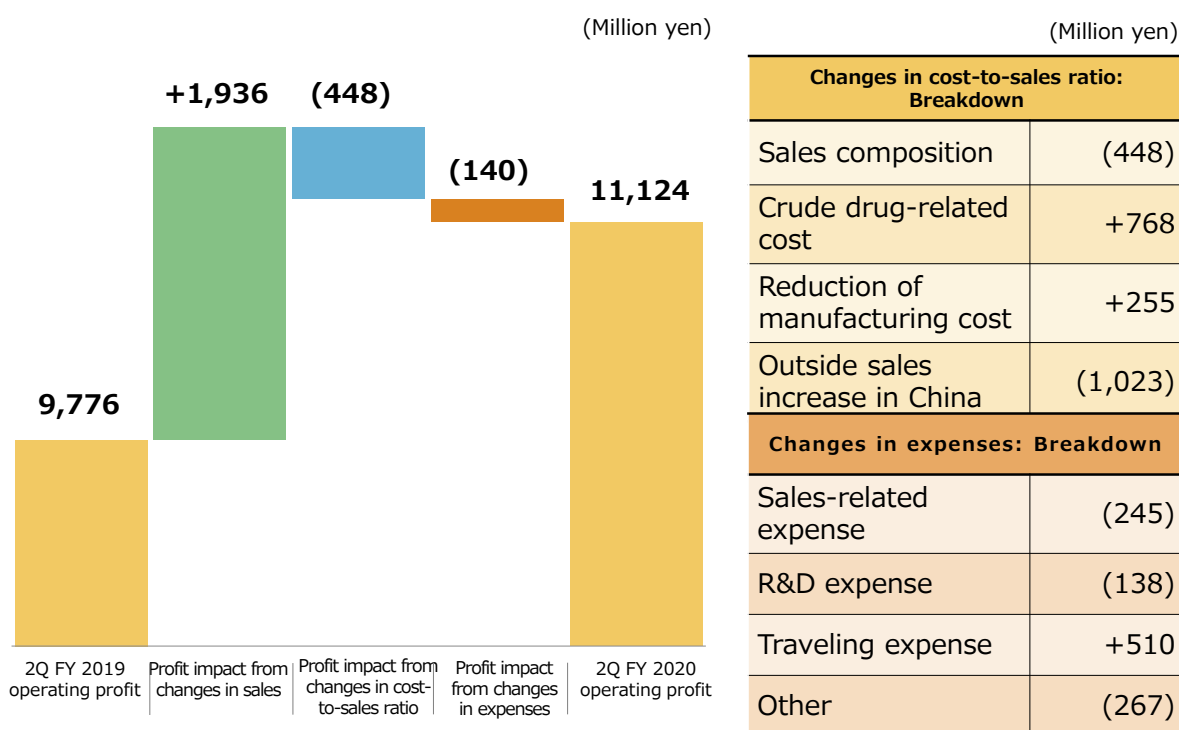
Dr. Takao Namiki (Chiba University), Dr. Shin Takayama (Tohoku University), etc.

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

8

- In addition, on October 7, the Japan Society for Oriental Medicine released information on research pertaining to the use of Kampo treatments for COVID-19.
- As you can see, information on surveys of the actual administration of Kampo treatments already being carried out and specific names of Kampo formulations have not been disclosed. However, it did give details on the Tohoku University's research on the benefits of Kampo treatments and the study at Chiba University on preventive benefits for healthy individuals.

## Factors Triggering Changes in Operating Profit (YoY)



9

- Operating profit totaled ¥11.1 billion, a rise of ¥1.3 billion year-on-year. This reflects the following factors: A positive impact of ¥1.9 billion from sales growth, a negative impact of ¥400 million due to an increase in the cost of sales, and a negative impact of ¥100 million due to an increase in expenses.
- The increase in cost of sales of ¥400 million reflects the following. Although the decline in crude drug-related and manufacturing costs offset the increase in impact from an increase in unit sales prices due to NHI drug price revisions and impact from sales mix, there was positive impact from outside sales by a new consolidated subsidiary in China.
- The increase in expense of ¥100 million reflects a slight rise due to an expansion in sales-related cost in tandem with sales growth mainly at the China Business and higher R&D costs, including those related to COVID-19, despite unused travel and transportation expenses due to restrictions on sales activities.

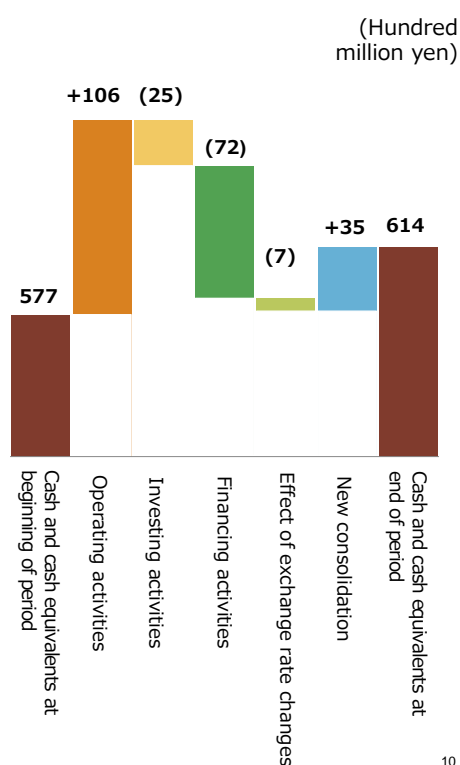
# Financial Condition/Cash Flow Position



(Million yen)

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

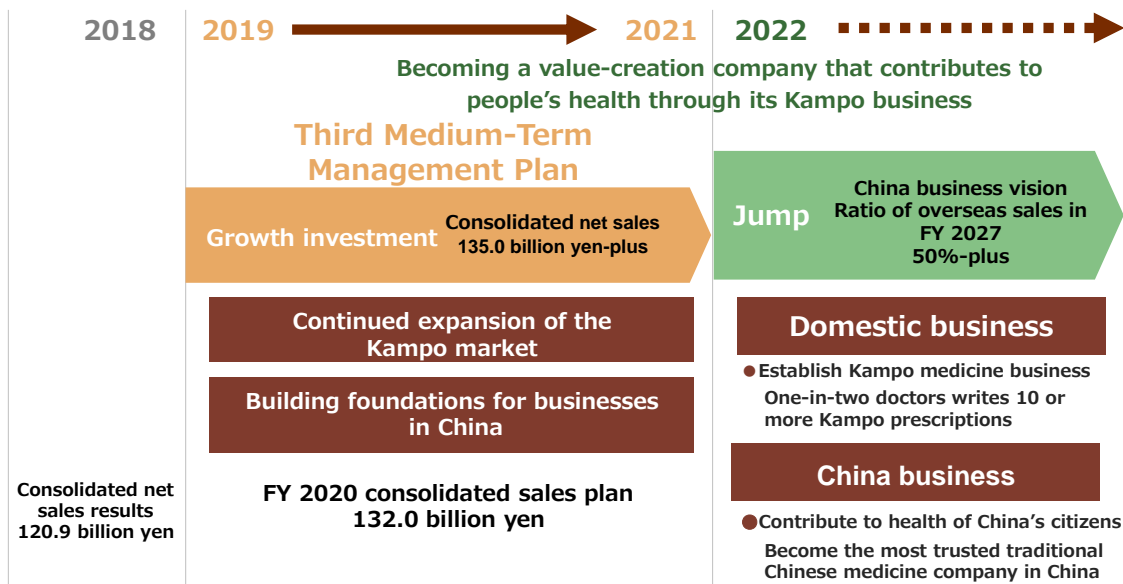
	FY 2019 (March 2020)	2Q FY 2020	Change
<b>Inventories</b>	73,310	<b>72,989</b>	(321)
<b>Merchandise and finished goods</b>	10,338	<b>10,874</b>	536
<b>Work in process</b>	12,418	<b>13,916</b>	1,497
<b>Raw materials and stores</b>	50,553	<b>48,197</b>	(2,355)



10

- This slide shows a comparison in financial condition and cash flow position with the end of the prior fiscal year. I will explain the key points.
- In current assets, inventory assets decreased ¥300 million. This breaks down to a ¥2.3 billion drop in raw materials and stores, a ¥500 million rise in merchandise and finished goods, and an increase of ¥1.5 billion in work in process. The rise in work in process reflects impact from the Ibaraki No. 3 SD Building for which construction was completed in June.
- Non-current assets declined ¥3.4 billion. This reflects an increase of ¥5.2 billion in tangible non-current assets primarily in tandem with the consolidation of Tsumura Shengshi Pharmaceutical Co., Ltd. in the current fiscal year. Meanwhile, there was a ¥8.1 billion decrease in investments and other assets accompanying the elimination of investment in and loans provided to the subsidiary, and a decline of ¥500 million in intangible non-current assets coupled with goodwill amortization owing to the acquisition of equity in the Tianjin China Medico Technology Group.
- Total liabilities reflected repayment of short-term borrowings by a consolidated subsidiary in China, movement between current and non-current accounts by transferring the portion of long-term borrowings by Tsumura scheduled to be paid back within a year.
- Equity ratio was 68.0%.

- These are our cash flows in 2Q.



## Strategic challenges

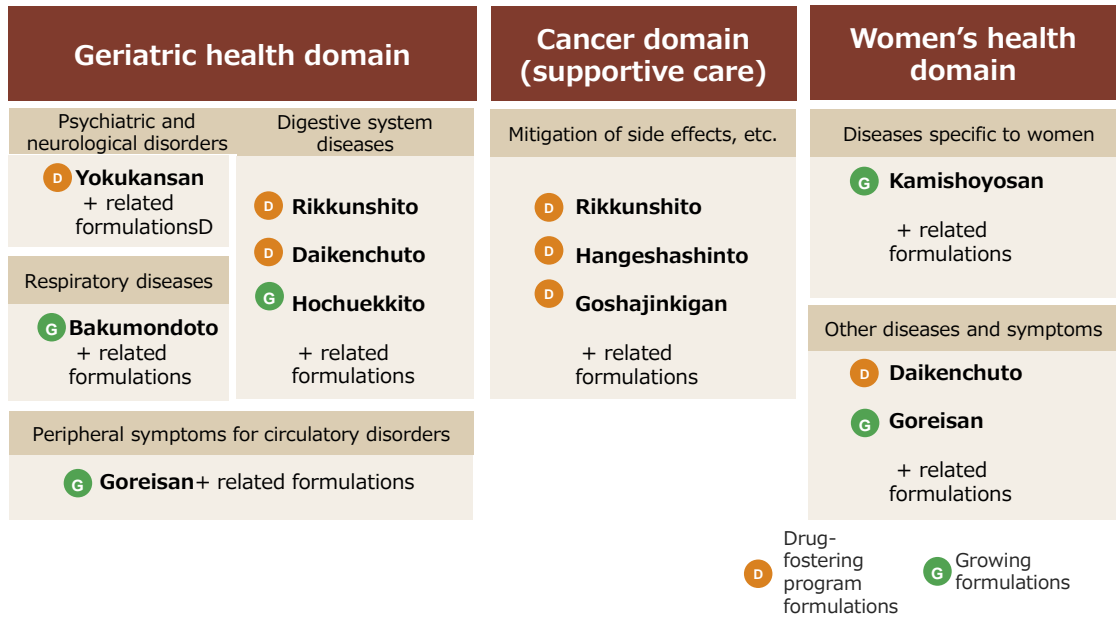
1. Sustainably expanding the Kampo market and establishing a presence
2. Investing in growth and building business foundations in China
3. Improving productivity using new technologies (AI, robotization, RPA)
4. Fostering a corporate culture through philosophy-based management and developing diverse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

11

- Next, I will explain the goals of the Third Medium-Term Management Plan and the progress we have made in our strategic challenges, based on the roadmap for realizing our long-term vision.
- In the Third Medium-Term Management Plan, we aim to achieve consolidated net sales of ¥135.0 billion-plus. In FY 2020, we plan to record consolidated net sales of ¥132.0 billion. There is a delay in activities due to COVID-19, but we are making a diligent effort to achieve this goal.
- I will explain Strategic Challenge 1 and 2 later on.
- In Strategic Challenge 3, we completed the introduction of automation and robotic technology into all Kampo formulation manufacturing processes. We are likely the first company in the world to attempt automation of the manufacturing process from raw material crude drugs to powdered extract raw material, which is not something that other pharmaceutical manufacturers are doing. Furthermore, we aim to automate and reduce manpower in the supply chain.
- In Strategic Challenge 4, at the Tsumura Academy, an internal personnel training organization where I serve as dean, we are seeing good results from ongoing training, as excellent outside lecturers provide guidance via a Web environment, as employees work from home during COVID-19.
- Strategic Challenge 5 is reported in detail in the Integrated Report 2020, which is uploaded to our corporate website. We will send you a copy of the Integrated Report 2020 later.

# Three Important Domains in the Domestic Market

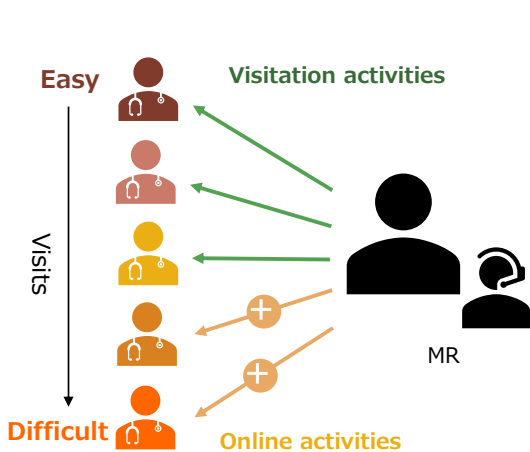
- Positioned geriatric health; cancer (supportive care) and women's health as the three important domains and aim to concentrate our activities in these domains
- We plan to deploy a sales approach in the drug-fostering program formulations, growing formulations and three important domains



12

- In Strategic Challenge 1, sustainably expanding the Kampo market and establishing a presence, as you can see, we established the three important domains, the geriatric health domain, cancer domain (supportive care) and women's health domain. We aim to continue to carry out activities, mainly for drug-fostering program formulations, and growing formulations, and to establish Kampo medicine, which is a consistent business strategy, to expand the market.
- In the geriatric health domain, in addition to continuing to undertake priority measures pertaining to dementia and frailty, we are also incorporating a new target, the circulatory domain, which has been a weakness thus far. We plan to expand the Kampo market in this domain.
- In the cancer domain (supportive care), around 7-10 types of Kampo are recommended to ease the symptoms of side-effects from various anti-cancer drugs, including loss of appetite, numbness/pain, diarrhea/constipation, stomatitis, fatigue/exhaustion and other symptoms. We are contributing mainly to help patients continue with their anti-cancer drug therapies.
- In the women's health domain, we are gathering fundamental and clinical evidence on Kamishoyosan for use in treating gynecological disorders. Furthermore, we are conducting new clinical research. For other diseases and symptoms, we are developing formulations to treat those diseases and symptoms frequently suffered by women, including abdominal bloating, headaches and dizziness.

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



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

- Due to the impact of COVID-19, in addition to the MR visitation activities conducted thus far, we are looking at and undertaking major innovations for the future regarding how we should properly provide information online.
- Factoring in the particulars for providing information on Kampo medicine and Kampo formulations, in addition to implementing individual interviews through visitations to suit the needs of physicians and cases where we implement lectures/workshops, we are continuing to build a system that will provide necessary information when required that covers essential methods, including offering video contents through online information provision activities, online lectures/workshops, and on a website for physicians, and to provide digital contents for ongoing Kampo medicine education.
- Many physicians are participating in our online lectures. Through this, we encounter new physicians interested in Kampo or already prescribing Kampo. We aim to verify the efficacy of these online activities, and investment in our future.

## 【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%

14

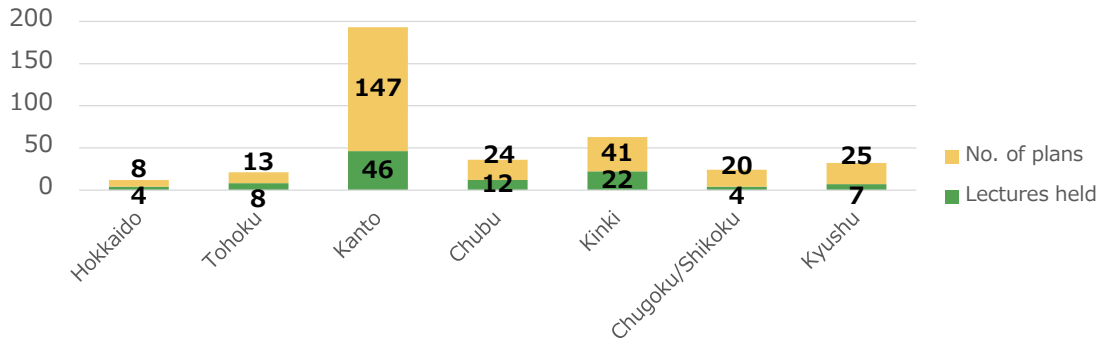
- Mega Web Lectures were held four times in the first half targeting physicians that write nine or less Kampo prescriptions and physicians that do not write Kampo prescriptions. We get around 20,000 physicians viewing each lecture.
- By combing this with follow-up activities conducted by MRs, we are already seeing a contribution to a growth in prescriptions.
- By combining Mega Web Lectures with visitations and online interviews, it is possible for us to provide information to an even wider audience than before. We are confident this will contribute to an increase the number of physicians prescribing Kampo and a growth in the number of prescriptions.



## 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)

- The results for online area lectures is shown in the graph. Thus far we have held 103 lectures.
- In the Kinki area, we held a lecture based on the theme of measures to deal with frailty in seniors, which 180 physicians viewed. We are implementing plans that match the needs of each region.
- There are also needs for learning to use Kampo in practice, not online. As an area plan, we are continuing to hold beginner Kampo medicine seminars.

## 2. China Business Update

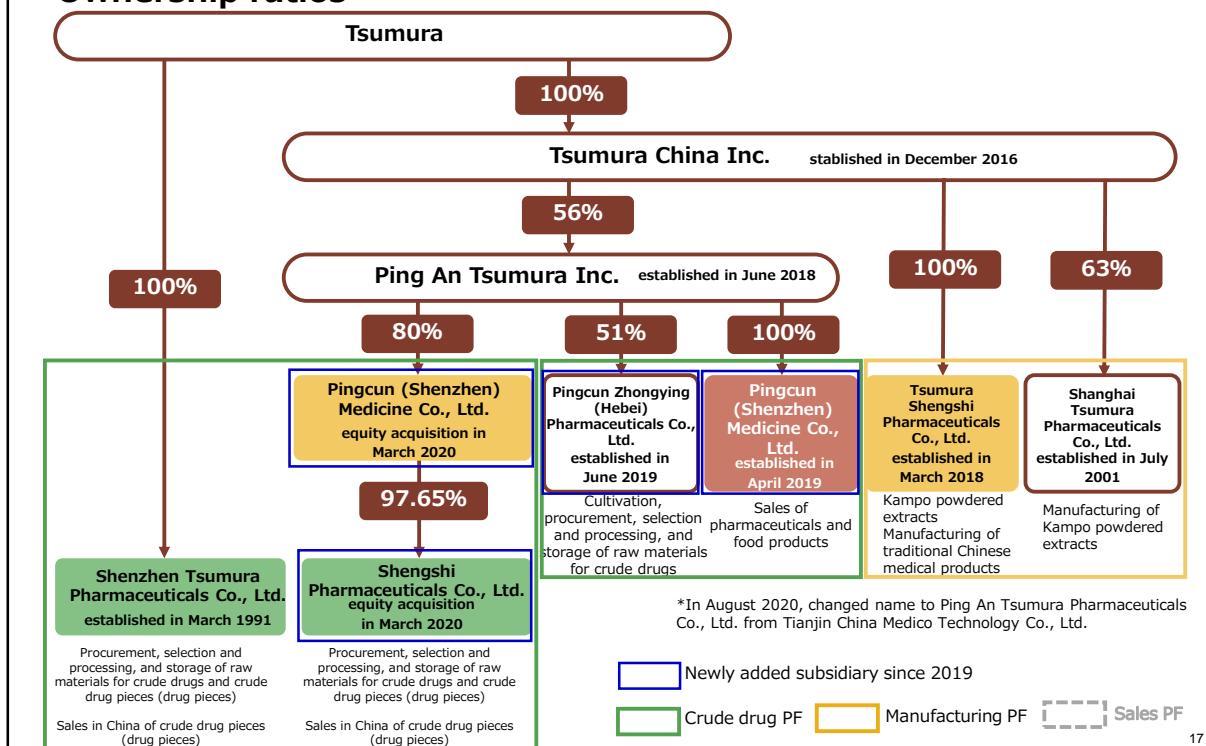
- Continuing on, I will give an update on our China Business, Strategic Challenge 2: Growth Investment and Building Business Foundations in China.

# China Business: Diagram of Capital Ties

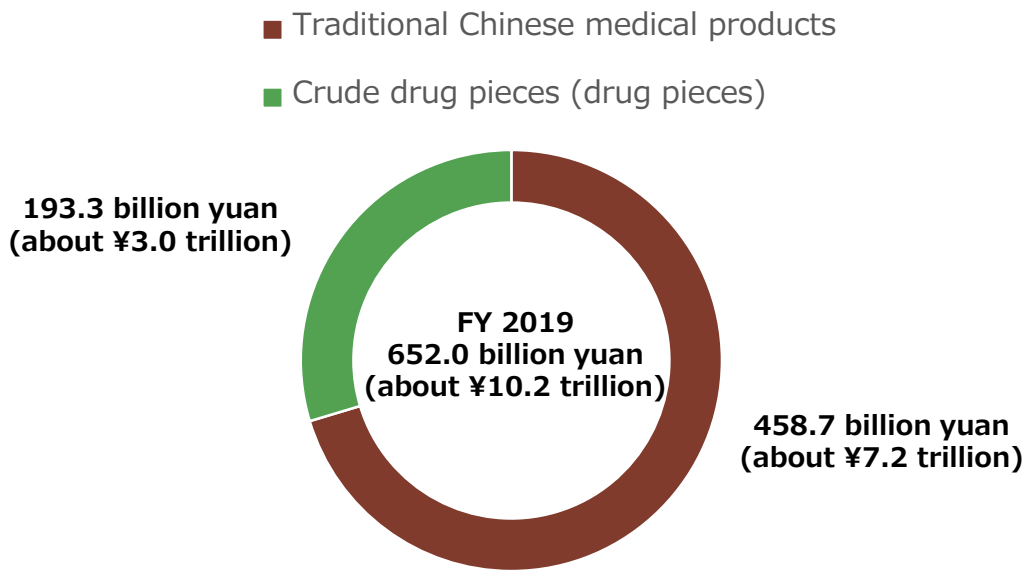


## Structure of the China business and capital ties: Ownership ratios

as of the end of September 2020



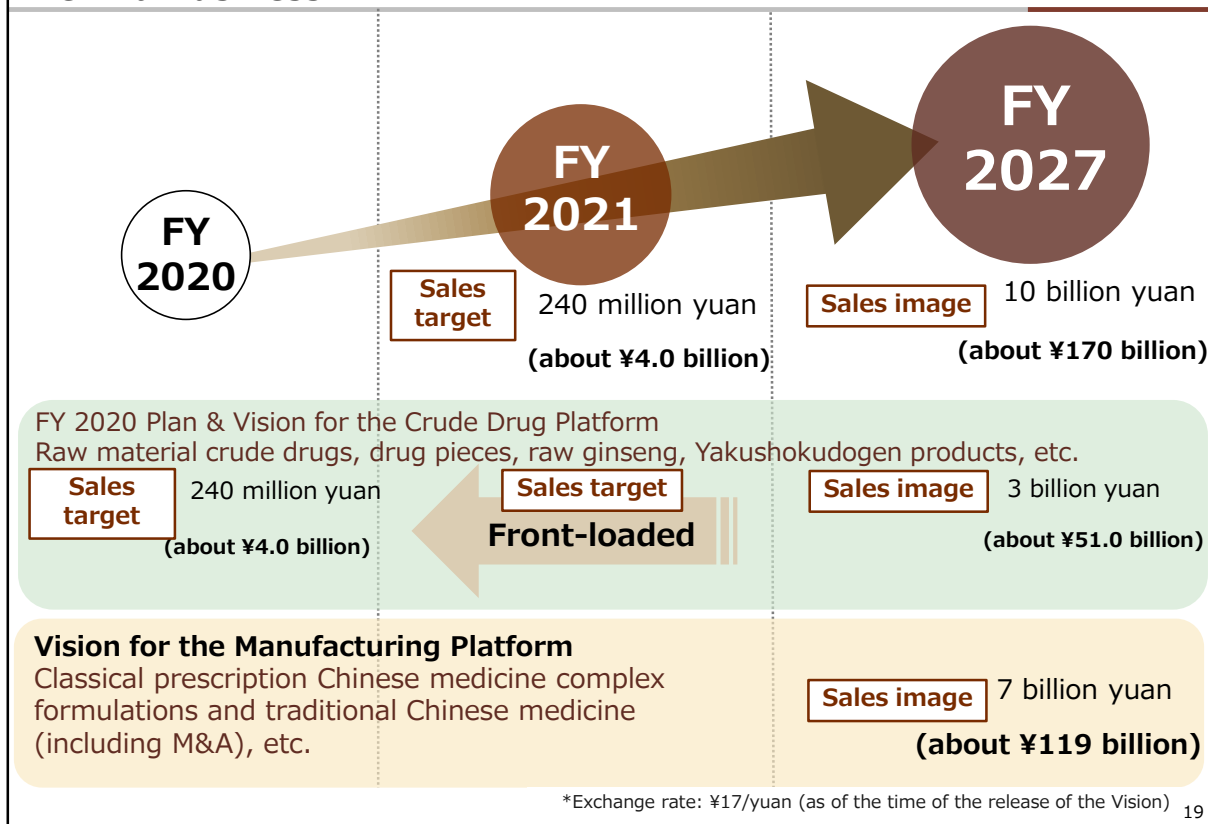
- First, I will provide an update on the structure of our China Business and capital alliances.
- Tsumura Shengshi Pharmaceuticals Co., Ltd., which is the second from the right, was established in March 2018. We plan to complete construction of a production plant in 2022. This company became a consolidated subsidiary in the current fiscal year. Along with Shanghai Tsumura Pharmaceuticals, this company handles core functions in our manufacturing platform in China.
- The company to the left is Pingcun (Shenzhen) Medicine Co., Ltd., which was established in April 2019. Currently, the crude drug platform handles sales functions for food products, including Yakushokudogen products. Also to the left is Pingcun Zhongying (Hubei) Pharmaceuticals Co., Ltd., which was established in June 2019. In addition to cultivating, procuring, selecting and processing and storing raw material crude drugs, the company also handles production functions for food products, including Yakushokudogen products.
- Also to the left is Tianjin China Medico Technology Co., Ltd., an equity-method affiliate that was converted into a consolidated subsidiary in March 2020. This company changed its name to Ping An Tsumura Pharmaceuticals Co., Ltd. in August 2020. The subsidiaries of this company, Shengshi Pharmaceuticals Co., Ltd. and Shenzhen Tsumura Pharmaceuticals Co., Ltd. handle core functions in the crude drug platform. In addition to the cultivation, procurement, selecting and processing, and storage of raw material crude drugs, the company also conducts sales of raw material crude drugs and drug pieces.
- In the traditional Chinese medical products business, we are building sales platform functions, including plans for M&A going forward.



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)

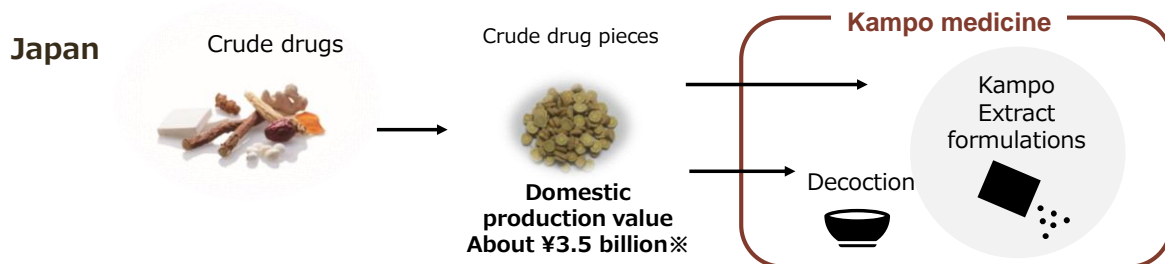
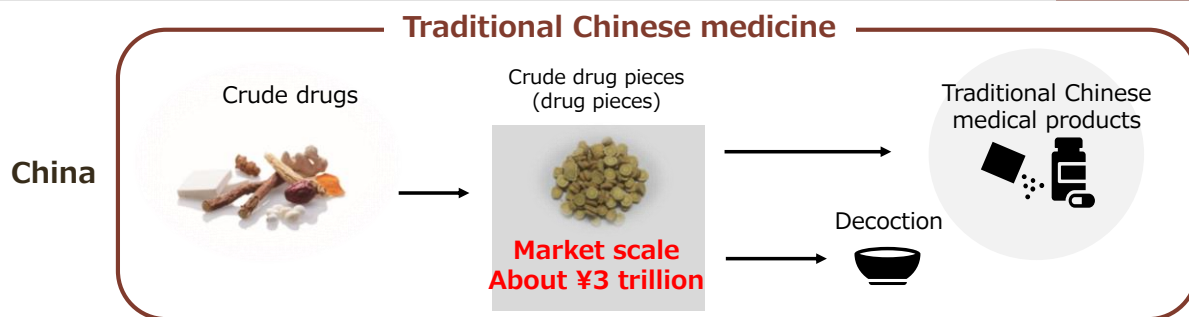
- According to the most recent data from the National Bureau of Statistics of China, the scale of the traditional Chinese medicine market in China in 2019 stood at 652.0 billion yuan (roughly ¥10.2 trillion), of which traditional Chinese medicine accounted for 458.7 billion yuan (about ¥7.2 trillion) and crude drug pieces made up 193.3 billion yuan (around ¥3 trillion).

## Medium-term Management Plan and Vision for the China Business



- This is an update of our vision for the China Business.
- In the China Business, a business vision as a crude drug platform function is mainly established by Ping An Tsumura Pharmaceuticals, its subsidiary, Shengshi Pharmaceuticals, and Li Gang, who was appointed president of Shenzhen Tsumura Medicine. In addition to the raw material crude drug cultivation, procurement, processing/selection, quality control and storage functions, we aim for sales of 3.0 billion yuan (around ¥51.0 billion) as our sales image for FY 2027, mainly by selling raw material crude drugs and drug pieces, and raw ginseng.
- In the Third Medium-Term Management Plan, we established a sales plan to achieve 240 million yuan (around ¥4.0 billion) in sales in 2021, through the sale of raw material crude drugs and drug pieces, raw ginseng and Yakushokudogen food products at Shenzhen Tsumura Medicine and Pingcun (Shenzhen) Medicine. However, owing to the acquisition of equity in Tianjin China Medico Technology in March 2020, we are front-loading this plan to FY 2020. There are delays in progress due to impact from COVID-19. However, we aim to make a recovery by achieving this plan.
- In the manufacturing platform, going forward, we will carry out M&A with traditional Chinese medicine companies and establish manufacturing and sales functions for the classical prescription Chinese medicine combination formulation business. Our sales image for FY 2027 is 7.0 billion yuan (around ¥119.0 billion). We will also newly establish a vision for each business in response to trends in policies by the Chinese government's regulatory authorities and M&A deals with traditional Chinese medicine companies.

# Crude Drug Pieces (Drug Pieces) in China

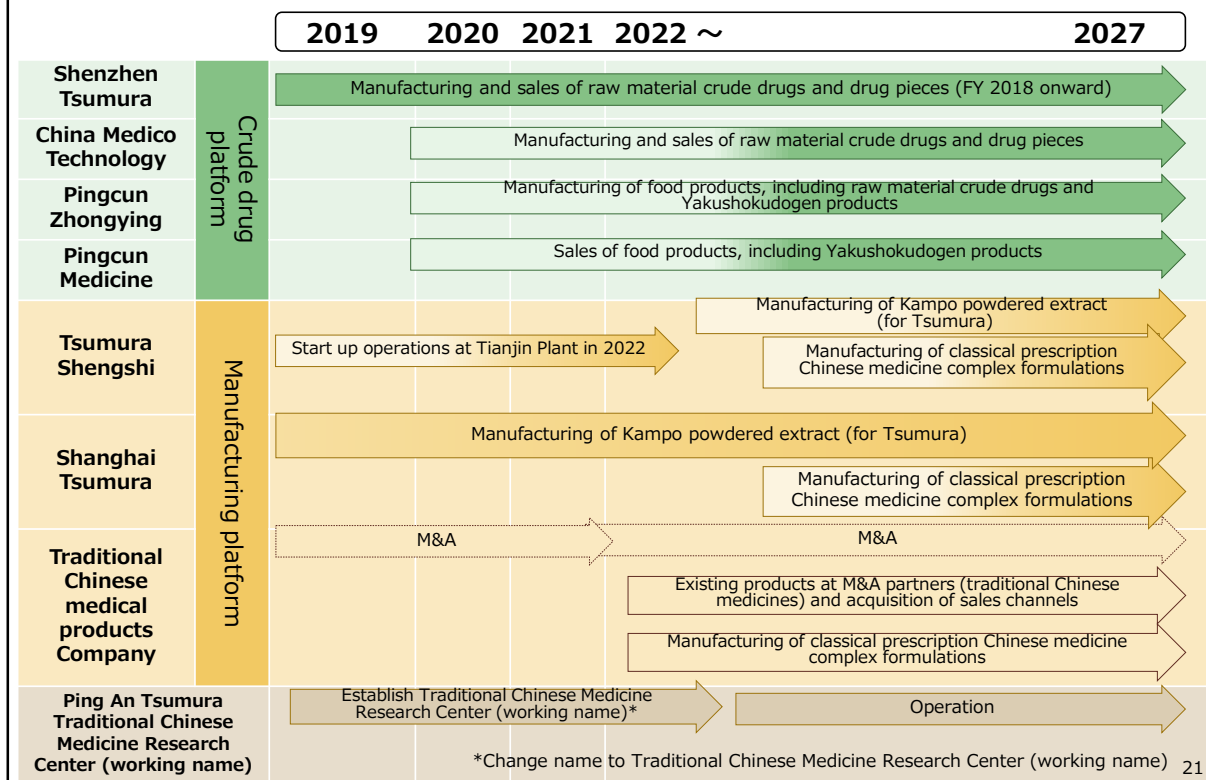


Terminology	Definition	Corresponding terminology for Kampo medicine (Meanings are not always the same)
Traditional Chinese medicine	Medicines used in traditional Chinese medicine (traditional Chinese medical products, drug pieces, etc.)	Kampo, crude drug pieces, crude drugs
Drug pieces	Same meaning as 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

\*Source: Production statistics, including for Kampo formulations, Japan Kampo Medicine Manufacturers Association 20

- In the crude drug platform, the focus of sales is drug pieces, which has a market size of around ¥3 trillion in China. In Japan, the size of this market is around 1/1,000th the size of the Chinese market.
- In Japan, along with the Meiji Restoration, the proclamation of health policy and administration led to the requirement of physician licenses, at which time Kampo began to die out. In China, there is a system in place requiring licenses for both doctors of Chinese medicine and western medicine. In light of this, treatments using traditional Chinese medicine are becoming widely popular.
- Basically, traditional Chinese medicine is prescribed in accordance with each patient's individual symptoms, dosages are adjusted for the individual patient, and prescribed in the form of drug pieces.
- The sales of drug pieces through the crude drug platform aims to differentiate based on the quality and efficacy of the crude drugs. We aim to provide drug pieces based on new and trusted standards. We plan to have hospitals and other medical institutions only use commercialized drug pieces that pass high-quality standards and which meet the criteria of Tsumura's GACP guidelines for crude drugs produced in line with a high-quality management level for cultivation, processing/selection and trial analysis.
- Even in the crude drug platform, our goal is to become a trusted traditional Chinese medicine company by expanding business scale and territory through M&A and business alliances, depending on necessity.

# Roadmap for the Chinese Business Vision (image)



- Lastly, I will present a roadmap for the Chinese Business Vision for each crude drug and manufacturing platform.
- In the manufacturing platform, we aim to enhance the powdered Kampo extract manufacturing system for Tsumura. Furthermore, we look to invest in the building of foundations to further the traditional Chinese medicine business through M&A deals, and to advance the classical prescription Chinese medicine combination formulation business without delay and in line with trends in Chinese government policies.

### 3. FY2020

#### Earnings Forecast · Dividend Forecast

- Next, I will explain our earnings and dividend forecast for FY 2020.



## FY 2020 Earnings Forecast: No Revisions



(Million yen)

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

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

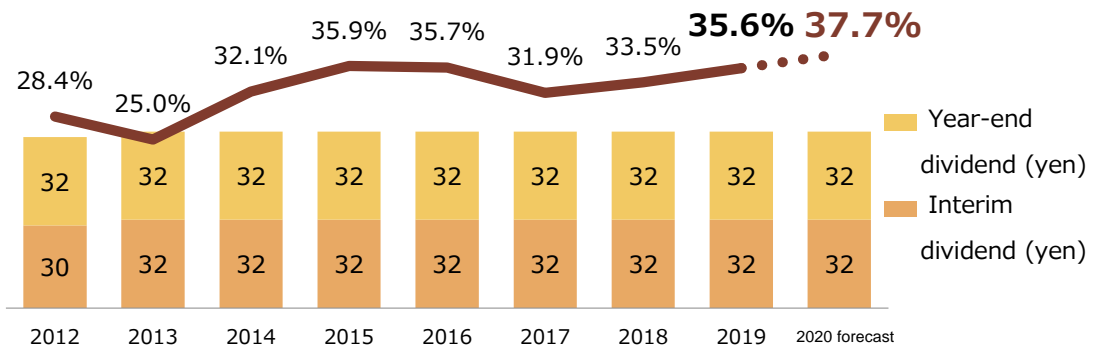
At present, we have not reflected the impact of COVID-19 into our earnings forecast as it is difficult to accurately estimate when COVID-19 will wind down and the total level of impact. The impact of COVID-19 is primarily in cost going unused, mainly the activities budget, due in part to restrictions 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.

23

- We have not factored the impact from COVID-19 into our FY 2020 earnings forecast. Given performance in 2Q, we are reiterating our forecast for the time being.
- We are sticking with our initial forecast of net sales of ¥132.0 billion, operating profit of ¥17.0 billion, ordinary profit of ¥17.9 billion and profit attributable to owners of parent of ¥13.0 billion.
- It is difficult to accurately forecast earnings mainly given factors such as when the COVID-19 pandemic will wind down and the possibility of further spread of the virus during the winter months. We will provide a timely and adequate disclosure when conditions change.

## 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.

24

- Lastly, I would like to talk about shareholder returns.
- We still 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.
- We plan to payout an annual per-share dividend of ¥64, which is an interim dividend of ¥32 and a fiscal year-end dividend of ¥32. We are targeting a payout ratio of 37.7%, reflecting the previously discussed earnings forecast.

**Corporate Communications Dept.**  
**Investor Relations Group**  
**investor\_madoguchi@mail.tsumura.co.jp**

### 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.