

• **Your achievement rate for your first half sales plan was 99.7%. What factors triggered this underperformance? (Page 4 of the materials)**

⇒ On a monetary basis, year-on-year comparison total sales for 129 prescription Kampo formulations rose 1.1% but sales to hospitals (HP) continued to be negatively impacted by COVID-19.

We are not satisfied with our current conditions given that progress is behind plans. We achieved 99.7% of our plan for consolidated net sales but since this includes sales from the China Business, I believe that in the domestic Kampo business we need to put a new system in place to support sales activities for supplying information.

⇒ The total sales for 129 prescription Kampo formulations increased year on year but we did not sufficiently provide hospitals with information during COVID-19, therefore sales ended up being approximately 1.5% lower than our initial plan. From the second half, we plan to fortify our system for providing information by using the Internet and online tools.

• **Was the ¥2.2 billion sales plan reflecting the conversion of China Medico Technology into a consolidated subsidiary originally part of your plan for fiscal 2020?**

⇒ This is included in our initial plan.

• **It will likely be necessary to expand sales channels to grow the traditional Chinese medical products business. Do you have any specific M&A deals in mind? Are the products you plan to sell already in your portfolio? (Page 21 of the materials)**

⇒ The target of acquisition is traditional Chinese medical products companies. While we do aim to secure sales channels the target of our acquisition is the products these companies already possess. And, a condition of our M&A deals is that Tsumura takes majority ownership. We recognize that it is extreme vital that we carry out management using the Tsumura GACP for crude drugs, which is a source of our competitiveness. The target of acquisition is companies with high-quality concept products that we can sell under the Ping An Tsumura brand name.

In addition, a new category, classical prescription Chinese medicine combination formulations, was brought about by Chinese government policy. Going forward, foreign-owned companies will also be able to sell these classical prescription Chinese medicine combination formulations in China. Given that we do not know when this will come about, our priority is on acquiring traditional Chinese medical product manufacturers.

• **Are you planning to conduct sales over the platforms such as the Ping An Group's Good Doctor?**

⇒ We can utilize other e-commerce websites, including the Ping An Group's Good Doctor. In addition, we also possess the existing networks of traditional Chinese medical product manufacturers that we acquired so we can simultaneously use those sales channels as well.

• **Majority ownership is a condition for your M&A deals. Do you have a time schedule for carrying out alliances?**

⇒ I cannot give you specific goals as we also need to consider the circumstances of our partners. The acquisition of China Medico Technology took roughly three years. In addition to sorting our conditions, we also need to be on the same page regarding our future goals and philosophy. Moreover, to contribute to the health of the citizens of China, both companies need to thoroughly discuss what needs to be done. I believe that clarifying our objectives is important.

- **Aside from the sales channels of acquired companies and using the sales channels of the Ping An Group, you explained switching to sales of high quality crude drugs. It is correct to assume this means you plan to switch to high quality crude drugs for existing products of companies you acquire step by step?**

⇒ Yes, that is correct. In the GACP that Tsumura is aiming to realize, we look to commercialize raw materials that guarantee the quality of crude drugs, gradually carry out changes, and ultimately aim to establish the Ping An Tsumura brand.

Going forward, I believe the level of demand and awareness of quality will rise in the market in China. Consequently, Tsumura aims to be first in the market to establish a brand and present substantive quality while carrying out sales.

- **As your post-M&A action plan, do you plan to place priority on gradually switching to higher quality existing products as opposed to rapidly growing sales?**

⇒ This is not a matter of which goes first, we aim to tackle this simultaneously. The expansion of sales channels will entail utilizing the sales channels of companies we acquire as well as those belonging to the Ping An Group. Concurrent with this, we plan to make changes to crude drugs in areas where this will be possible. Our goal is to create better and more effective products. We therefore also plan to change R&D and manufacturing systems.

- **You envisage sales of ¥51.0 billion in fiscal 2027. Your sales forecast for the China Business in fiscal 2020 is ¥5.0 billion. Does this mean your strategy is to expand sales by around 10-fold going forward? Is it correct to understand that the ¥3.0 trillion crude drug pieces market will be the main impetus for sales growth? (Page 19 and 20 of the materials)**

⇒ Yes, that is correct. We envision achieving sales of ¥51.0 billion by building a crude drug platform.

In China, the crude drug pieces and crude drug markets are crucial. CEO Li of Ping An Tsumura Pharmaceuticals, is assembling an overall business structure. The scale of the drug pieces market is large as the drug pieces are used to treat individual disorders but there is an issue with their quality. China Medico Technology is a blue-chip company that has won awards in China. We plan to take this opportunity to achieve rapid expansion. Our goal is to become a trusted traditional Chinese medicine manufacturer, that is a fixed player in the drug pieces business.

- **Sales are trending up steadily mainly for drug-fostering program formulations, and total sales are on nearly flat growth. Meanwhile, Kakkonto and Hochuekkito sales are rising owing to impact from COVID-19. Is it correct to understand that overall growth is underpinned by COVID-19 demand? (Page 5 and 7 of the materials)**

⇒ Daikenchuto, a drug-fostering program formulation, is being prescribed to patients for use after surgical operations, mainly at university hospitals. Amid the COVID-19 headwinds, unit sales of Daikenchuto rose 0.1%. We look for further growth in sales of Daikenchuto as we recognize there is still ample demand for the Kampo formulation. I believe that despite the COVID-19 headwinds, we achieved an increase in unit sales of drug-fostering program formulations owing to innovative sales activities. In addition, we recognize demand, for Kampo formulations such as Kakkonto, Maoto and Hochuekkito, also grew owing to the impact of COVID-19.

- **Are these the results of a proprietary analysis of COVID-19 by Tsumura? (Page 7 of the materials)**

⇒ This is based on a survey by our company. This is not all due to the impact of COVID-19. This is just an example of products that boasted substantial sales growth.

- **SG&A costs are sharply declining at many companies due to COVID-19, but have risen marginally at Tsumura.**

**Does this reflect the large ratio of digital content? (Page 9 of the materials)**

- ⇒ Comparing SG&A costs year on year, our situation differs from other companies in part reflecting the acquisition of China Medico Technology. However, in Japan, business trip expenses and other outlays are declining. We are incurring cost related to sales promotion activities conducted online targeting facilities that we are unable to visit. Going forward, we are looking into strengthening our own unique system for these online activities. These expenses will likely arise in and after the second half.
- ⇒ We held four Mega Web Lectures in the first half. These expenses are rising but are not surpassing the overall expense of conducting conventional lectures that require visits to a facility.

- **As discussed on page 7, are formulations also being used in China due to the impact of COVID-19?**

- ⇒ Basically, treatment is not being carried out using the same formulations as in Japan. In China, currently proprietary traditional Chinese medical products or new formulations created from a combination of crude drug pieces are being developed for use in treatment.

- **Will it be difficult to realize the China Business vision without M&A?**

- ⇒ Our goal in the China Business is to provide Japanese concepts that do not exist in China and product concepts that will solve issues. Our ultimate goal is to contribute to the health of the citizens of China. We plan to also launch extract granules once the government lifts regulations, which are the same for Japanese Kampo, in other words classical prescription Chinese combination formulations.

In the update, we were able to formulate a vision for acquisition targets for the crude drug platform, in which we aim for sales of 10 billion yuan. Ahead of this, we plan to develop a market for crude drug pieces. In the future, it will be possible to sell products in the form of the decoction created from crude drug pieces. In light of this and considering the expandability of the business, we estimate these sales will account for 3.0 billion yuan of our 10 billion yuan sales target. As for the remaining 7.0 billion yuan, we plan to build on these numbers after we receive approval for the classical prescription Chinese medicine combination formulations.

- **What are your thoughts on the outlook for China-related earnings, the outlook for plans and the subsequent profitability?**

- ⇒ At present, we plan to conduct sales of crude drug pieces and raw material crude drugs, mainly from China Medico Technology, to manufacturers of traditional Chinese medical products. At present, sales mainly of crude drug pieces are growing at a pace of 20%-plus annually. Our sales target moving forward is traditional Chinese medicine hospitals in each province that handle large quantities of crude drugs. First, our most important strategy is to capture share at these hospitals. After that, we plan to improve our profit margin by securing praise for product quality. Looking to 2027, business operations at traditional Chinese medical product companies will be the process through which we generate full-fledged sales and boost our profit. Further out, we aim to achieve profit margins that will outshine those in Japan.

- **What is your forecast for profit contribution by the merged subsidiary in China for fiscal 2020 and fiscal 2021?**

- ⇒ China Medico Technology, which is a new consolidated subsidiary, will not contribute to profit in the current fiscal year as its main business constitute intragroup transactions. Given that gains from intragroup transactions will be eliminated as unrealized profit unless Tsumura carries out sales, we anticipate profit contribution from the next fiscal year onward. I will provide concrete numbers a little further out.