

Third Quarter Business Results for Fiscal 2020

February 8, 2021(Monday)

Director,

Managing Executive Officer and CFO

Muneki Handa

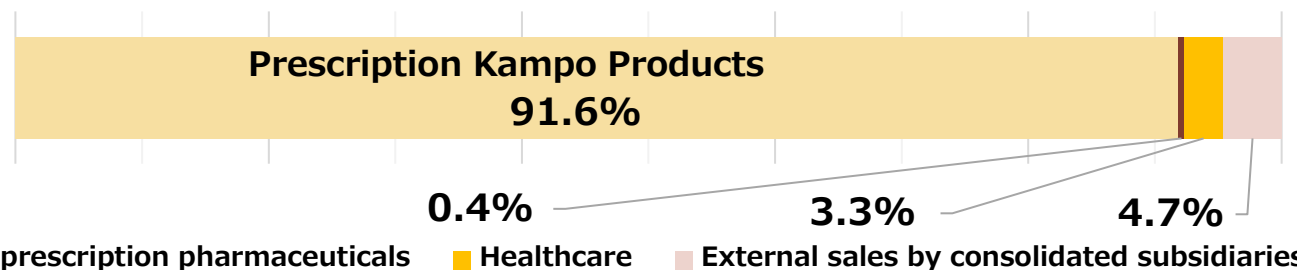
Third Quarter Business Results for FY 2020

(Million yen)

	FY 2020 3Q actual	FY 2019 3Q actual	YoY	
			Amount	Change
Net sales	99,482	95,185	+4,296	+4.5%
Operating profit (Operating profit margin)	17,560 (17.7%)	16,151 (17.0%)	+1,409	+8.7%
Ordinary profit	18,136	16,675	+1,461	+8.8%
Profit attributable to owners of parent	13,356	11,690	+1,665	+14.2%

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

Ratio to total sales



Key Points in Performance

Consequently, net sales and profits were up in comparison with the same period a year earlier.

Net sales	99,482	million yen	YoY	+4.5%
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- Net sales rose 4.5% year-on-year owing to the consolidation of a subsidiary in China.
- Sales of the 129 prescription Kampo products climbed 0.5% year-on-year.
- Sales of healthcare products including OTC Kampo medicines increased 17.4% year-on-year.

Operating profit	17,560	million yen	YOY	+8.7%
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Operating profit margin	17.7%		YOY	+0.7pt
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- The cost-to-sales ratio was 41.5%, a rise of 0.4pt year-on-year. Although crude drug-related costs were absorbed by a rise in NHI drug price revisions, the increase in the cost-to-sales ratio reflects impact from external sales in China.
- The SG&A ratio totaled 40.8%, a decline of 1.1pt year-on-year, mainly reflecting unused expenses in tandem with restricted activities due to impact from COVID-19.

Ordinary profit	18,136	million yen	YOY	+8.8%
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Profit attributable to owners of parent	13,356	million yen	YOY	+14.2%
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Sales of Drug-fostering Program Formulations/Growing Formulations



(Million yen)

	Net sales Ranking	Product No./formulation name	FY 2019 3Q	FY 2020 3Q	YoY		
Drug-fostering program formulations	1	100	Daikenchuto	8,023	8,005	(18)	(0.2)%
	2	54	Yokukansan	6,028	6,068	40	0.7%
	4	43	Rikkunshito	5,726	5,806	80	1.4%
	8	107	Goshajinkigan	2,813	2,786	(27)	(1.0)%
	24	14	Hangeshashinto	1,094	1,093	(1)	(0.1)%
Total sales for drug-fostering program formulations			23,685	23,759	73	0.3%	
Growing formulations	3	41	Hochuekkito	5,589	5,986	396	7.1%
	5	68	Shakuyakukanzoto	4,112	3,956	(156)	(3.8)%
	9	29	Bakumondoto	3,682	2,714	(967)	(26.3)%
	7	24	Kamishoyosan	3,621	3,765	143	4.0%
	6	17	Goreisan	3,522	3,850	328	9.3%
Total sales for growing formulations			20,528	20,273	(255)	(1.2)%	
Total sales for 119 formulations other than drug-fostering program and growing formulations			46,507	47,108	600	1.3%	
Total sales for 129 prescription Kampo products			90,722	91,141	419	0.5%	

■ Comparison with the prescription pharmaceutical market

(Drug price basis)

Prescription pharmaceutical market	(3.2)%	Gap with market: 4.8pt
Tsumura	+1.6% (YoY)	

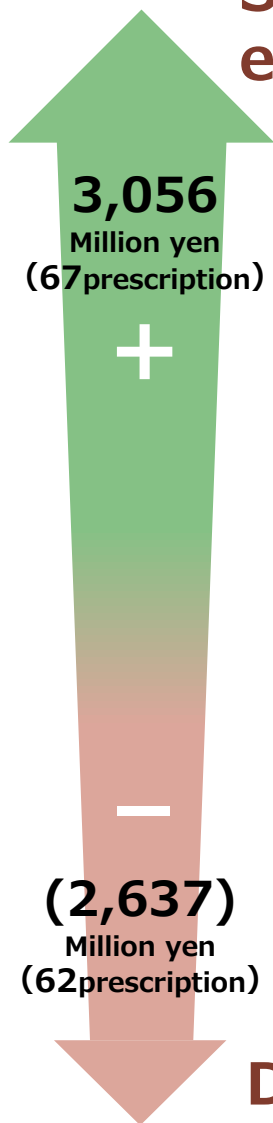
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■ Sales trends by sales channel

(Actual sale/selling price basis)

General clinics (Ratio to total sales: 77%)	+2.3% (YoY)	Although prescriptions for cold-related products declined, prescription growth was positive mainly for the treatment of skin diseases and mental disorders
Hospitals (Ratio to total sales: 23%)	(2.6)% (YoY)	Substantial impact due to restricted activities Decline mainly in the number of outpatients and surgeries performed

Skin irritation due to change in living environment and due to the use of masks



Hochuekkito (Fatigue, decline in stamina)

Bofutsushosan (Obesity)

Kakkonto (Headache, fever)

Jumihaidokuto (Dermatitis)

Shosaikotokakikyosekko (Tonsillitis)

Shoseiryuto
(Bronchitis, nasal inflammation)

Bakumondoto (Cough, bronchitis)

3Q (Oct-Dec)

Hangekobokuto
(Anxiety, insomnia)

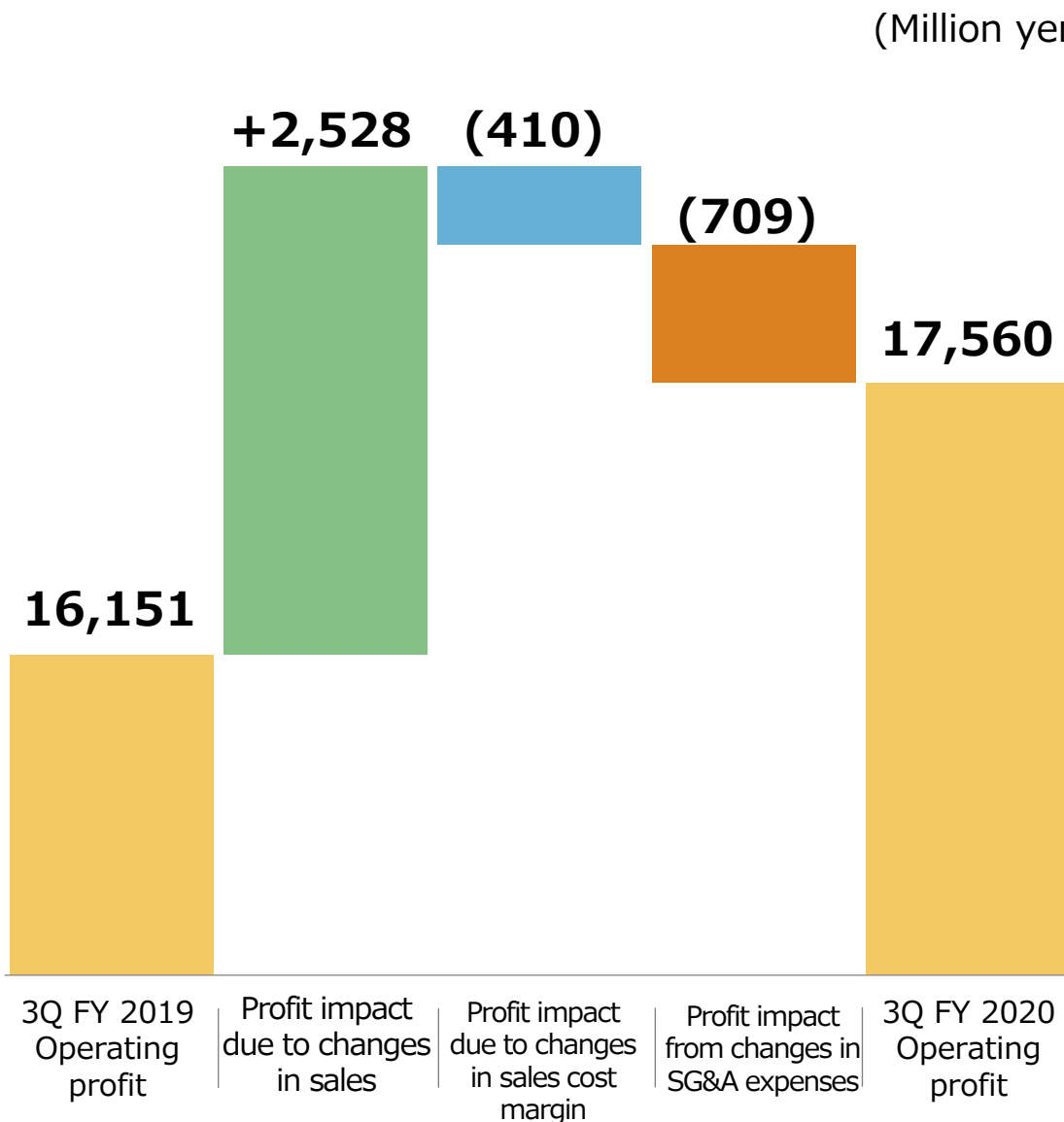
Kamishoyosan
(Irritability, anxiety)

Maoto
(Influenza, rheum/catarrh)

Chikujountanto
(Influenza, common cold)

Decline in the number of patients with influenza or the common cold

Factors Triggering Changes in Operating Profit (YoY)



(Million yen)

Changes in sales cost margin : (410) Breakdown	
Unit selling price/ composition	(497)
Crude drug cost/ Raw material cost	+1,492
Processing cost	+198
External sales in China	(1,603)

Changes in SG&A expenses : (709) Breakdown	
Sales-related expenses	(495)
R&D expenses	(184)
Travel/transportation expenses	+677
Other	(707)

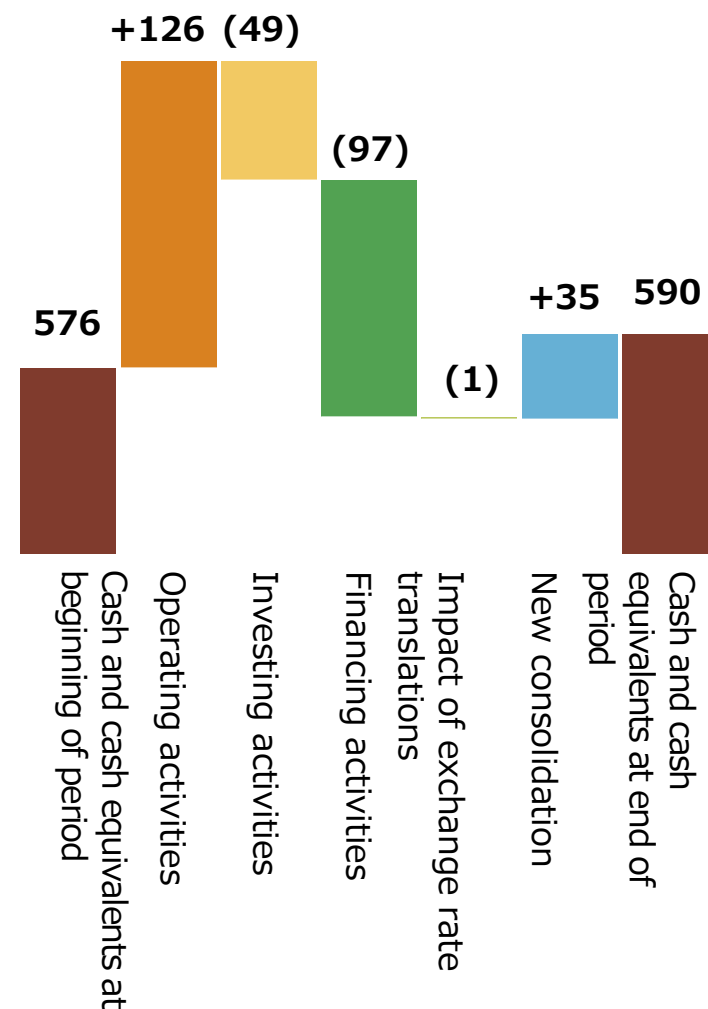
Financial Condition/Cash Flow Position

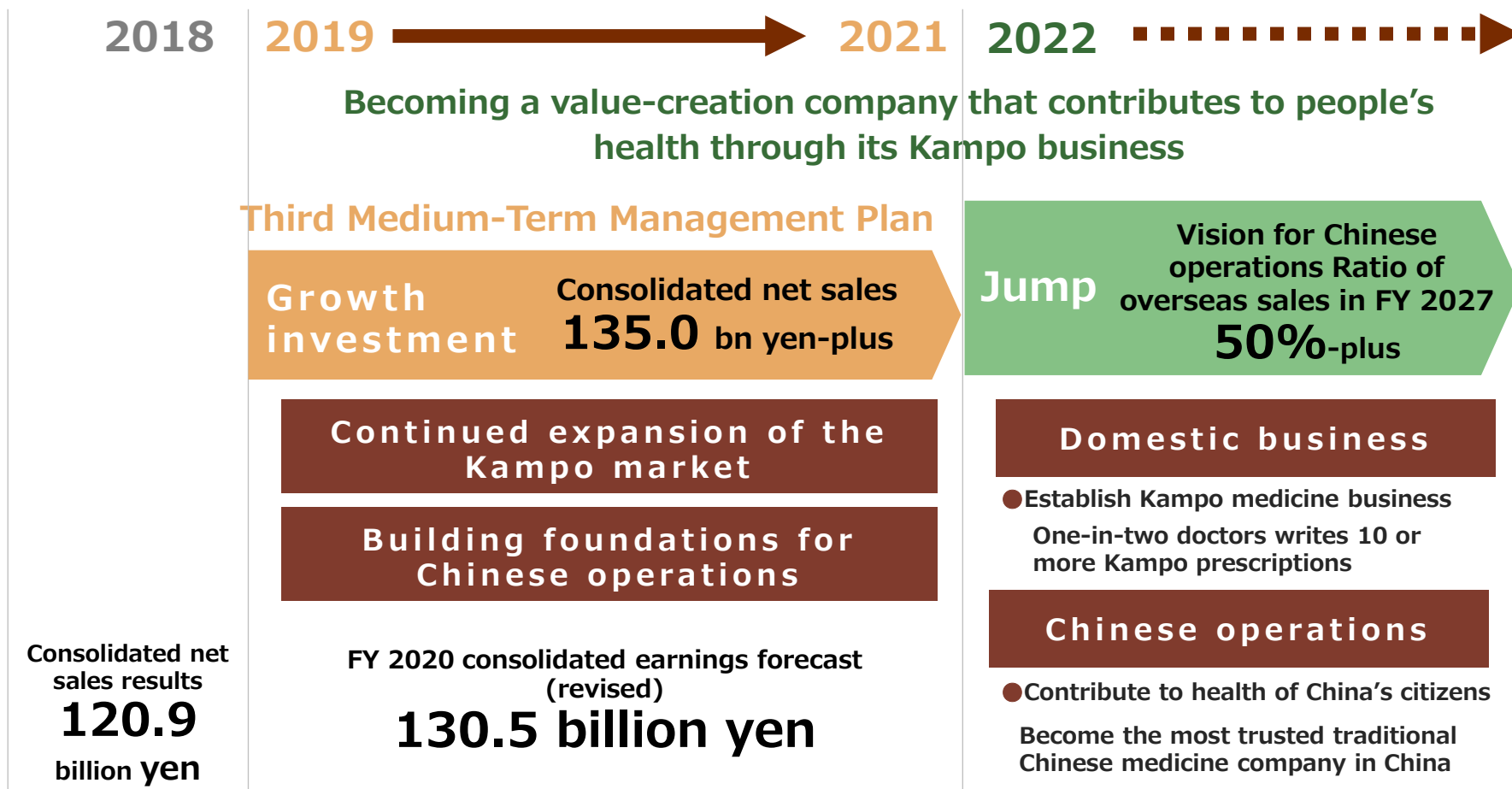
(Million yen)

	FY 2019 (March 2020)	FY 2020 3Q	Change
Total assets	311,042	312,895	1,852
Current assets	194,288	199,310	5,021
Non-current assets	116,753	113,584	(3,168)
Total liabilities	97,993	85,356	(12,636)
Current liabilities	48,476	44,995	(3,481)
Non-current liabilities	49,516	40,361	(9,155)
Total net assets	213,048	227,538	14,489
Equity ratio	66.0%	68.1	2.1pt

	FY 2019 (March 2020)	FY 2020 3Q	Change
Inventories	73,310	75,397	2,087
Merchandise and finished goods	10,338	11,973	1,634
Work in process	12,418	13,419	1,000
Raw materials and supplies	50,553	50,005	(548)

(Hundred million yen)





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 SDGs through the Kampo Value Chain

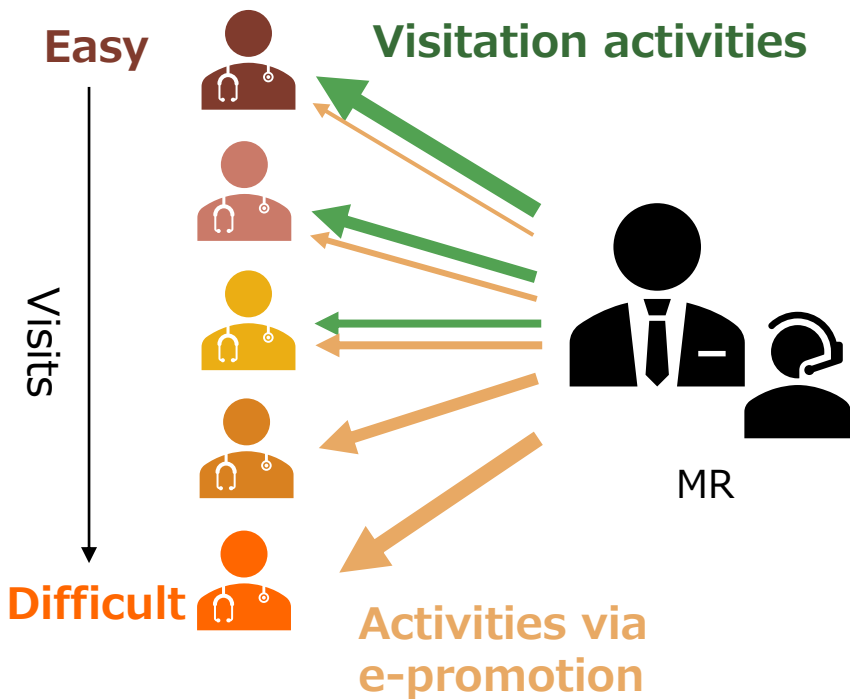
Three Important Domains in the Domestic Market

- 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
D Yokukansan + related formulations	D Rikkunshito D Daikenchuto G Hochuekkito + related formulations	D Rikkunshito D Hangeshashinto D Goshajinkigan + related formulations	G Kamishoyosan + related formulations
Respiratory diseases			Other diseases and symptoms
G Bakumondoto + related formulations			D Daikenchuto G Goreisan + related formulations
Peripheral symptoms for circulatory disorders			
G Goreisan + related formulations			

D Drug-fostering program formulations **G** Growing formulations

Visitations + e-promotion



Visitations	Visits and interviews by MRs (In-hospital briefings/information provision)
	Lectures and workshops held at venues (Kampo medicine and evidence, including practical skills* ¹)
e-promotion	Remote provision of information (Briefing/digital pamphlet)
	Online lectures/workshops (Kampo medicine and evidence)
	Website for medical practitioners (On-demand videos, CME digital* ²)

***1 Practical skills:** Abdominal, tongue, pulse and other exams used in Kampo diagnostics

***2 CME digital** : Lifetime education on Kampo medicine for medical practitioners, including physicians (Continuing Medical Education)

= New form of information provision activities



MR

Use various tools, including Zoom and LINE WORKS



Owned media

Website for medical practitioners
Renewal




Paid media

m3.com, Nikkei Medical, etc.




Remote interviews

Provision of information via MR visits to physicians that are difficult to approach



Remote presentations

Provision of information by MRs that meet the needs of doctors



On-demand videos

Possible to view at anytime and as many times as wanted



Online lectures

Provision of information by lecturers to target medical institutions nationwide



[Target] Physicians that write nine or less Kampo prescriptions and physicians that do not write Kampo prescriptions

1Q-3Q actual ■ No. of times held: **6**; ■ Total number of viewers: **133,727**

3Q themes	Prescription	Lecturer	Date held No. of viewers
Are there opportunities for the use of Kampo in treating heart failure in seniors? —7 symptoms and 11 formulations to remember—	Goreisan, Mashiningan, Hochuekkito, Daikenchuto, Goshajinkigan, Ninjinto, etc.	Dr. Junichiro Dokura Dokura Medical Clinic	October 14 23,214 viewers
Cold sensitivity and qi, blood and fluid in women	Tokishigyakukagoshuyusho kyoto Unkeito	Dr. Aya Maruyama Kasumigaseki Building Clinic	December 14 25,922 viewers

(YoY)

Prescription		Prescription	
Goreisan	+9.3%	Daikenchuto	(0.2)%
Mashiningan	+8.7%	Unkeito	(0.4)%
Hochuekkito	+7.1%	Goshajinkigan	(1.0)%
Tokishigyakukagoshuyu shokyoto	+4.0%	Ninjinto	(4.0)%

Area plans Provide detailed information taking into consideration regional traits and facility features

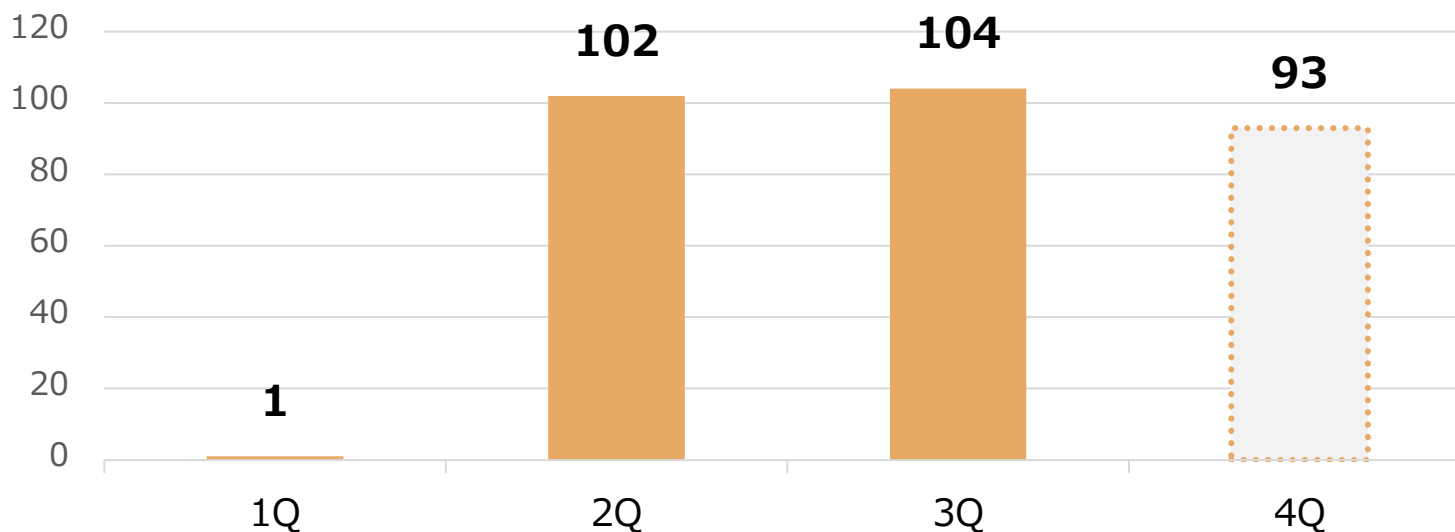
“Introductory seminar on Kampo medicine” for physicians wanting to learn about Kampo

□ Examples of themes: Dizziness, headaches, stress, sleep disorders, introduction to Kampo, etc.

【Area Web lectures】

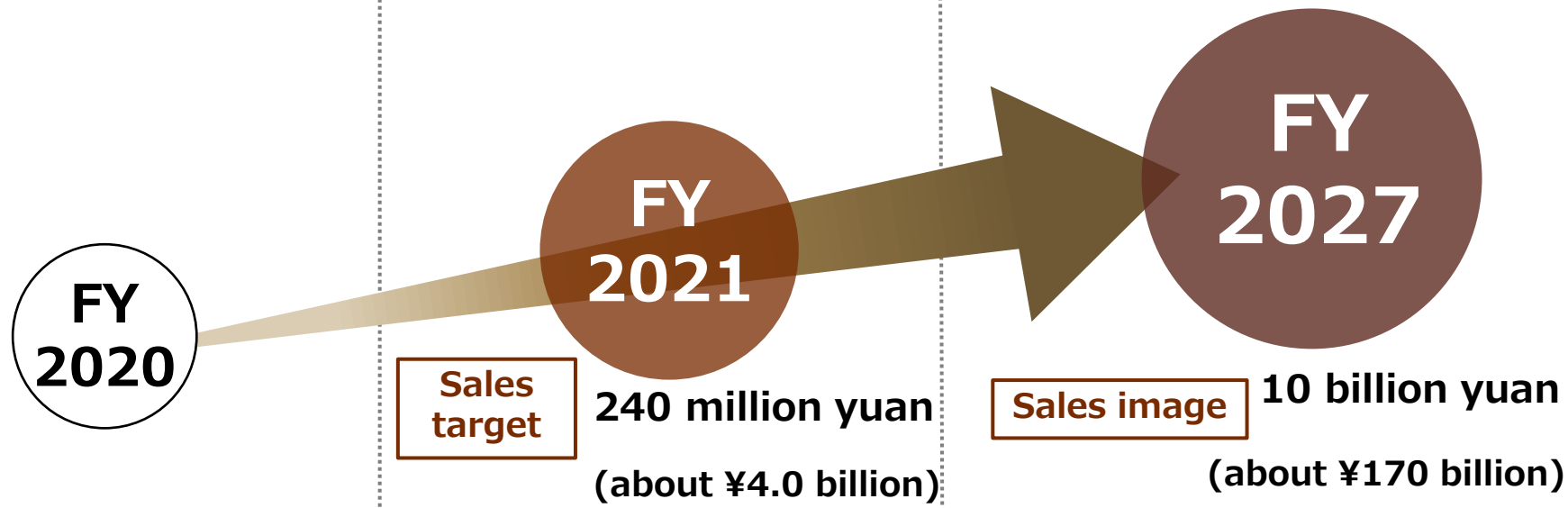
Lectures held: 207 Planned/scheduled lectures: 300

(Number of times)



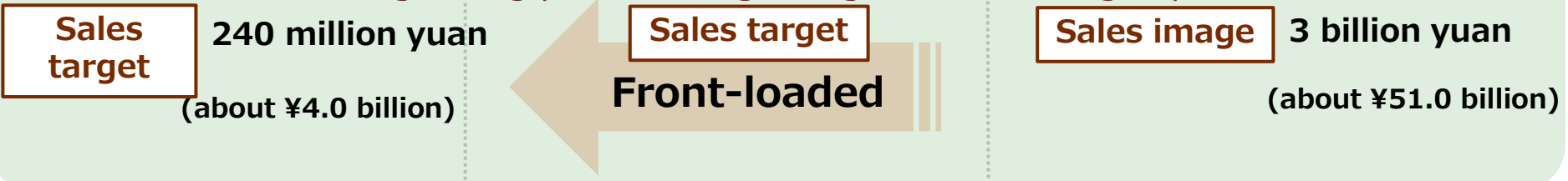
□ Examples of lectures held: As a result of holding lectures on Kampo at university hospitals that have no track record in administering Kampo, there was a ripple effect to various areas, including new use of Kampo at related hospitals.

Medium-term Management Plan and Vision for the China Business



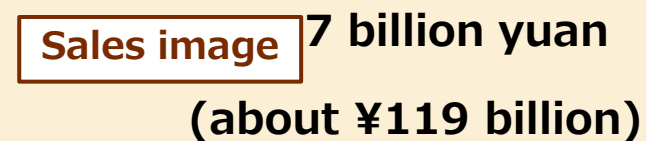
FY 2020 Plan & Vision for the Crude Drug Platform

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



Vision for the Formulation Platform

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



*Exchange rate: ¥17/yuan (as of the time of the release of the Vision)

Revisions to FY 2020 Earnings Forecast



(Million yen)

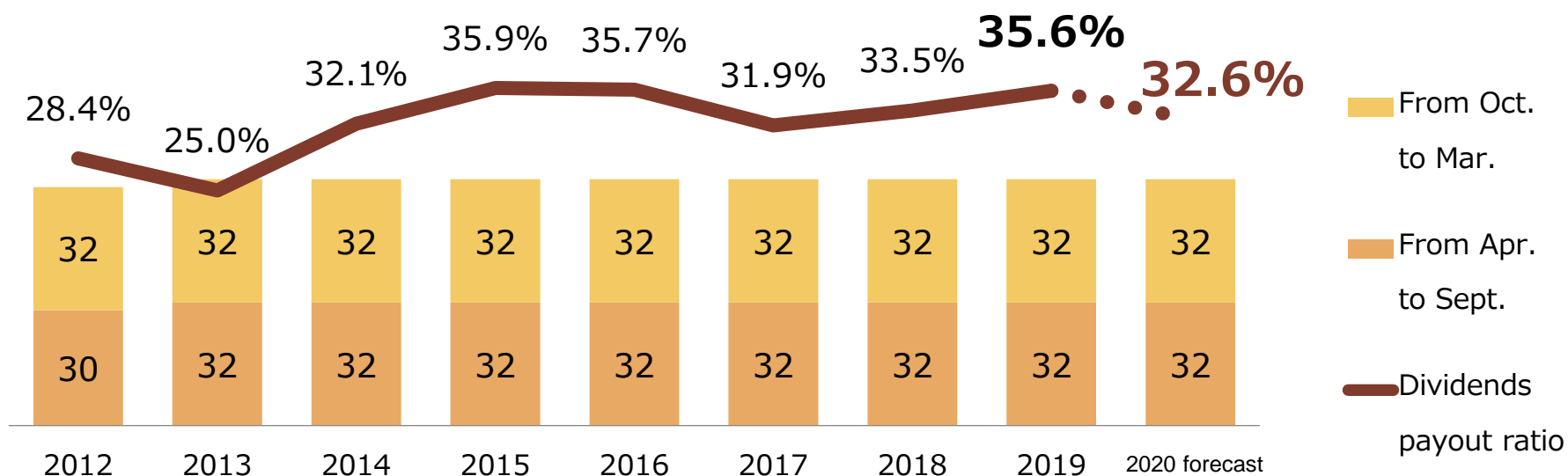
	Initial plan	Revised plan	Comparison with initial plan		YoY	
			Amount	Change	Amount	Change
Net sales	132,000	130,500	(1,500)	(1.1)%	+7,251	+5.9%
Operating profit	17,000	19,300	+2,300	+13.5%	+423	+2.2%
Ordinary profit	17,900	20,200	+2,300	+12.8%	+550	+2.8%
Profit attributable to owners of parent	13,000	15,000	+2,000	+15.4%	+1,234	+9.0%

	Initial plan	Revised plan	FY 2019
Operating profit margin	12.9%	14.8%	15.3%
Dividend (per share)	¥64 (forecast)	¥64 (forecast)	¥64
EPS	¥169.92	¥196.06	¥179.96
ROE	6.2%	7.1%	6.8%

(Note) The above forecasts were prepared based on the information available as of the date of publication of this presentation. Accordingly, the impact of risks that cannot be predicted at this time, including the impact on socio-economic activities from the further spread of COVID-19, have not been factored in. Actual earnings performance may differ from the forecasts stated herein owing to various factors going forward. We will disclose trends and conditions in a timely and proper manner should there be any changes in the circumstances surrounding our company.

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) are an estimate based on the assumption that the dividend resolution is approved at the 85th Ordinary General Meeting of Shareholders.

**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.

appendix

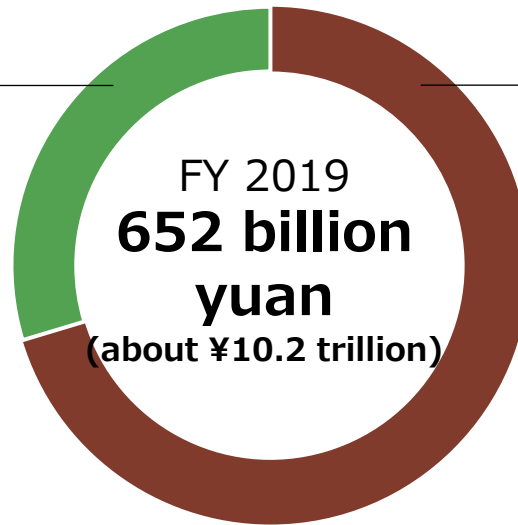
Scale of the Traditional Chinese Medicine Market in China



Crude drug pieces
193.3 billion yuan
 (about ¥3 trillion)



(Domestic production value)
 about **¥3.5 billion***



Traditional Chinese medical products
458.7 billion yuan
 (about ¥7.2 trillion)

(Domestic production value)
 about **¥179.5 billion***



Exchange rate: ¥15.7/yuan
 (as of the end of December 2019)

Source: National Bureau of Statistics of China, Ministry of Industry and Information Technology (MIIT)

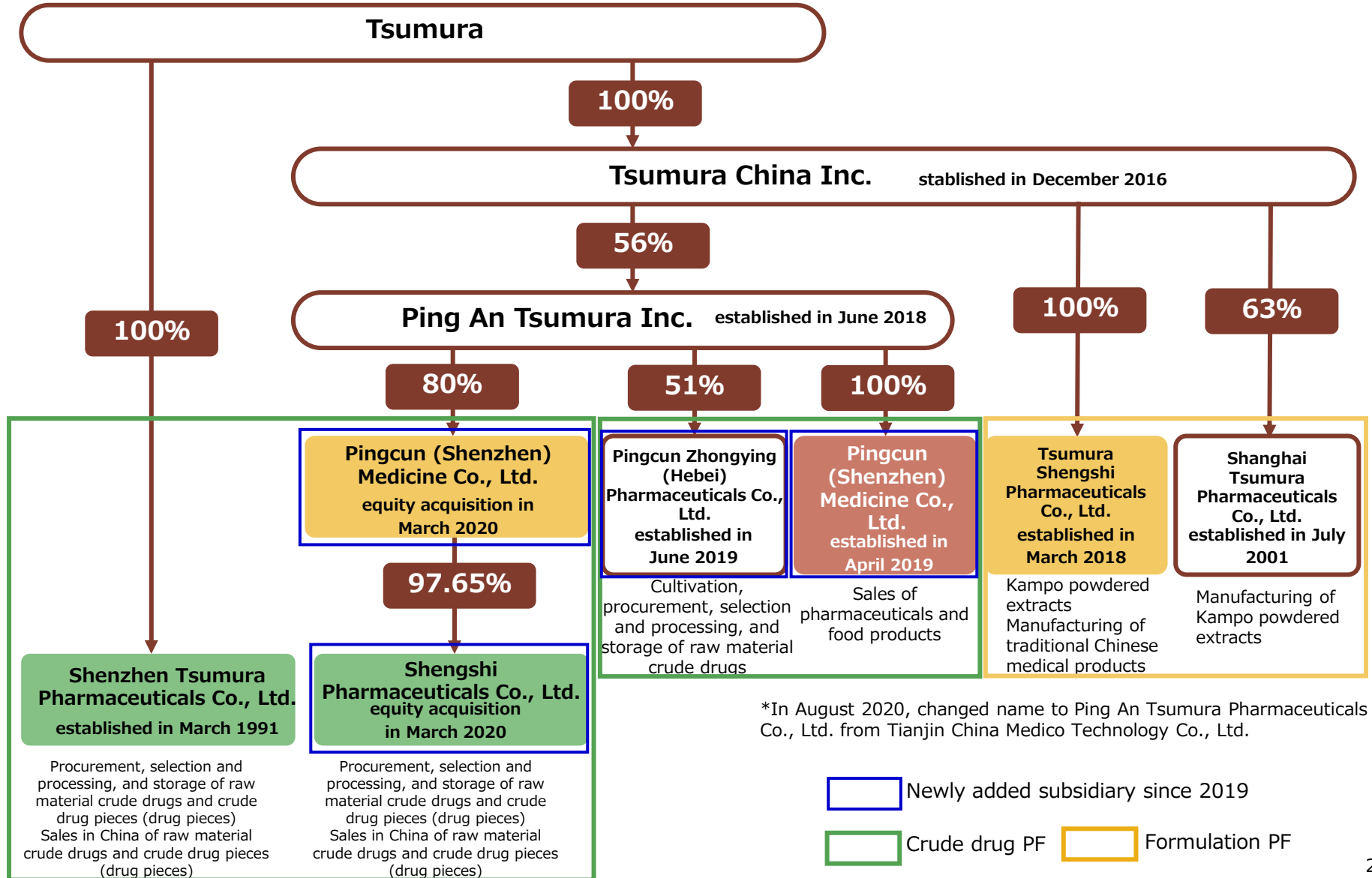
Terminology	Definition	Corresponding terminology for Kampo medicine (Meanings are not always the same)
Chinese medicine	Medicines used in traditional Chinese medicine (traditional Chinese medical products, drug pieces, etc.)	Kampo, crude drug pieces, crude drugs
Drug pieces	Same meaning as crude drug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

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

China Business: Diagram of Capital Ties

Structure of the China business and capital ties: Ownership ratios

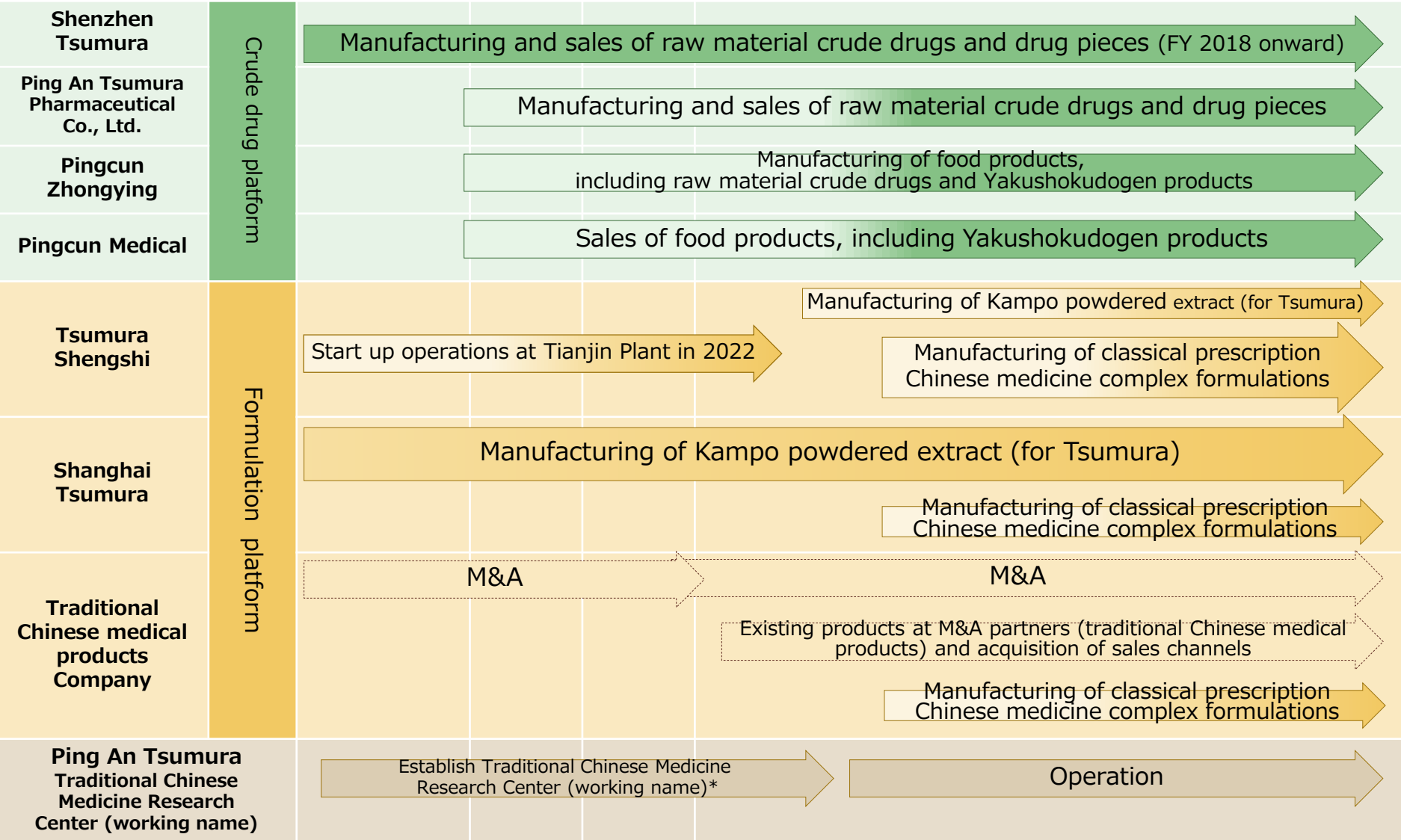
as of the end of December 2020



Roadmap for the Chinese Business Vision (image)



2019 2020 2021 2022 ~ 2027



*Change name to Traditional Chinese Medicine Research Center (working name) 22