

Financial Briefing for 3Q Results (Conference Call)

13:00-14:00, February 8, 2021 (Monday)

<Q&A Summary>

- **The growth rate for drug-fostering program formulations and growing formulations was low in contrast with that for the other 119 formulations. What are the factors behind this? Also, sales of Kakkonto rose although growth of prescriptions for treatments for the common cold were down. What was the growth rate for Maoto? (Page 4 of the materials)**

⇒Growth for the other 119 formulations is in fact growing at a faster pace than the drug-fostering program formulations and the growing formulations. Demand for Daikenchuto, a drug-fostering program formulation, is being substantially impacted, mainly by the fewer number of people going to hospitals for medical examinations and a decline in the number of surgeries. We believe there is no issues with our information provision activities. Bakumondoto, a growing formulation, was sharply impacted due to a decline in the number of patients with a cold but sales momentum was strong for Hochuekkito and Goreisan. We believe sales trended firmly for Hochuekkito owing to a rise in prescription opportunities to treat COVID-19 related symptoms and for Goreisan reflecting its use as a new approach for treating peripheral symptoms for circulatory disorders. Growth for the other 119 formulations, other than the drug-fostering program formulations and the growing formulations, is being shored up by an increase in expectations in Kampo for treating COVID-19 related symptoms. Sales of Kakkonto are growing as it is not only being prescribed for treating common cold symptoms but also for treating sore shoulders and fever, which is a COVID-19 related symptom. Sales decreased for Maoto, as they were largely impacted by a decline in the number of influenza patients.

- **Was the frontloaded sales plan of ¥4.0 billion for the China business previously included in the annual plan for FY 2020?(Page 15 of the materials)**

⇒This is included in our annual plan for FY 2020. In 3Q, Ping An Tsumura Pharmaceutical already posted sales of ¥3.5 billion. Sales are progressing smoothly.

- **Does the frontloaded sales plan reflect the nearly ¥4.0 billion in sales recorded by Ping An Tsumura Pharmaceutical (former Tianjin China Medico Technology)? (Page 15 of the materials)**

⇒The sales of roughly ¥4.0 billion in the frontloaded plan represents our sales outlook for the China business overall. Ping An Tsumura Pharmaceutical (former Tianjin China Medico Technology) is the main driver.

•There appears to be no progress towards the 7.0 billion yuan (about ¥119.0 billion) sales target for the formulation platform but are you making progress with M&A? (Page 15 of the materials)

⇒We are currently in negotiations with several parties in the formulation platform business. At the same time, we are making classical prescription Chinese medicine complex formulations the pillar of another business. M&A negotiations will take time. This is not negative. As we indicated in 2Q, our business lineup is coming into sight so we ask that you understand.

•There is concern that prices will decline due to centralized purchasing by the government of China. Do you forecast any impact?

⇒We cannot rule out the potential of impact in the medium/long term. However, at this stage, we believe there is no impact.

•Is it possible to conduct a numerical analysis by dividing up COVID-19, curbed medical exams, and influenza as factors impacting sales?

⇒It would be difficult to divide up the impact of each these factors to clarify their respective impact quantitatively.

•Was negative impact from a reduction in medical exams substantial?

⇒This is external data but as of December based on the number of prescriptions written, the negative impact from a decline in medical exams is said to be around 6%. We believe we are seeing the same level of impact. A major impact by clinical department is the large decline in medical exams conducted at the ENT department.

•SG&A expense rose around ¥700 million in contrast with the same period a year earlier. Is this due to an increase in online lectures?

⇒SG&A expense increased about ¥700 million was mainly attributable to a growth in SG&A expense at the newly-consolidated Ping An Tsumura Pharmaceutical (former Tianjin China Medico Technology) and goodwill amortization.

•To what degree has expense increased due to online lectures and other factors?

⇒As an additional measure, we are reallocating around ¥500 million mainly for online lectures.

•What discussions are you carrying out with Ping An Insurance of China and what degree of speed do you seek? Also, in the vision for the China Business for FY 2027, what is your forecast for margins?

⇒We are mainly pushing forward with specific investment projects for M&A with Ping An Insurance of China. At the same time, recently we have been strengthening sales, including sales of Yakushokudogen products by Ping An Good Doctor. Regarding the margin for achieving our vision, at present, the pillar of business operations at newly-consolidated Ping An Tsumura Pharmaceutical (former Tianjin China Medico Technology) is the supply of raw material crude drugs. However, in the crude drug platform we plan to grow a high-margin business by supply pieces and raw ginseng, in addition to raw material crude drugs. In the formulation platform, there is no system that mimics the NHI drug price system in Japan. We plan to utilize a platform that will secure high margins, such as the Ping An Good Doctor platform, while deploying formulations, including OTC medicines. We do not envisage margins will undershoot those in Japan.

•In 3Q, profit was up as you did not fully use your budget for SG&A expense. What are your ideas on improving marketing after COVID-19 winds down? If you plan profit structure reforms, can you please provide details?

⇒In FY 2020, we are aggressively investing to build an e-promotion system for information provision activities. We plan to continue this investment in FY 2021. We aim to establish a system that facilitates promotions without spending to efficiently increase access to medical practitioners through e-promotions. Some expenses, including travel and transportation expenses, will rise once information provision activities through visitation-based interviews recover, but we believe we can avoid a simple cost increase by concurrently using e-promotions.

•The benefit of e-promotion investments should surface in the medium/long term. Is it correct to understand that this will normalize your cost efficiency?

⇒That is what we are aiming for.

•What do you believe is necessary to etch out a sharp growth curve to achieve your 10.0 billion yuan sales vision for FY 2027? (Page 15 of the materials)

⇒Classical prescription Chinese medicine complex formulations are a major pillar of the China business going forward, but in the short term we will not be able to deploy many formulations. Rolling out businesses via M&A is the answer for achieving a sharp curve upward.

•Is it correct to understand that in FY 2022 onward your dialogue with the capital market will be about specific M&A deals?

⇒Yes, that is what we are thinking.

•Does the fluctuation in sales due to the positive/negative impact of COVID-19 only show changes solely due to COVID-19 impact? (Page 6 of the materials)

⇒Although it includes the influence of COVID-19, it shows the total increase/decrease in sales of the 129 prescription Kampo products.

•Assuming COVID-19 winds down, is it correct to understand that sales will grow due to an alleviation of negative impact?

⇒Sales of Kampo formulations, including Hochuekkito and Bofutsushosan, are growing triggered by COVID-19 related symptoms and are likely to continue to trend firmly even after COVID-19 winds down. Meanwhile, sales of formulations, including Bakumondoto, which are related to treating the common cold, dropped sharply due to COVID-19. However, we believe this group of formulations will recover owing to an increase in the number of patients. Overall, despite the impact from COVID-19, we believe the opportunities to prescribe Kampo are expanding.

•Given that Tsumura is not conducting new drug development, I think drug price protection is the ultimate protection against NHI drug price revisions. Are you considering other measures, such as decreasing the number of distribution agents? Also, I think applying this to fundamental prescription drugs is realistically difficult. Can I hear your thoughts on this?

⇒We are exhausting steps to gain understanding from agents, medical institutions and government regarding the value of prescription Kampo products, which are becoming instilled in national medical care, as well as its position among basic pharmaceuticals. We are not considering trimming down the number of distribution agents. We are carrying a certain amount of inventory to ensure stable supply. By improving the efficiency of our supply chain, we aim to reduce cost not only in distribution. We plan to maintain our profit structure.