

First Quarter Business Results for Fiscal 2021

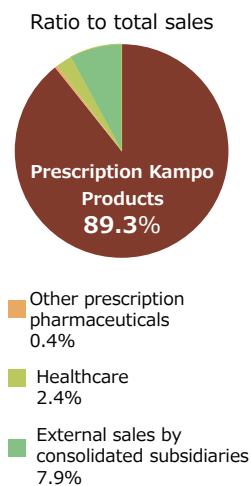
August 6, 2021
Director, and CFO
Muneki Handa

First Quarter Business Results for FY 2021



(Million yen)

	FY 2020 1Q	FY 2021 1Q	YoY		1H FY 2021 plan
			Amount	Change	
Net sales	28,396	31,771	+3,375	+11.9%	59,400
Domestic	27,413	29,513	+2,100	+7.7%	55,500
Overseas	982	2,257	+1,274	+129.7%	3,900
Operating profit (Operating profit margin)	5,657 (19.9%)	6,152 (19.4%)	+494	+8.7%	8,700 (14.6%)
Ordinary profit	5,674	7,247	+1,572	+27.7%	9,000
Profit attributable to owners of parent	4,016	5,389	+1,372	+34.2%	6,900



* The 2020 results have been rearranged to the amount after applying the PPA adjustment and new accounting revenue recognition standards.

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■ First Quarter Business Results for Fiscal 2021

Page 2 is an overview of our first quarter business results in FY 2021.

As you can see, net sales and profit rose year-on-year.

Net sales totaled ¥31,771 million, a growth of 11.9% year-on-year.

Operating profit reached ¥6,152 million, an increase of 8.7% year-on-year.

Ordinary profit came to ¥7,247 million, a rise of 27.7% year-on-year.

Quarterly net profit amounted to ¥5,389 million, an improvement of 34.2% year-on-year.

The operating profit margin was 19.4%, a decline of 0.5pts year-on-year.

Key Points in Performance



Net sales and profits increased year on year, caused by increase of domestic and overseas sales.

Net sales	31,771 million yen	YoY	+11.9%
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- Domestic sales were 29,513 million yen. Overseas sales were 2,257 million yen.
- Sales of the 129 prescription Kampo products increased 7.8% year-on-year.
- Sales of healthcare products including OTC Kampo medicines increased 12.0% year-on-year.

Operating profit	6,152 million yen	YoY	+8.7%
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Operating profit margin	19.4 %	YoY	(0.5)pt
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- The cost-to-sales ratio was 48.2%, a rise of 0.8pt year-on-year. The increase in the cost-to-sales ratio reflects impact from external sales in China.
- The SG&A ratio totaled 32.5%, a decline of 0.2pt year-on-year.

Ordinary profit	7,247 million yen	YoY	+27.7%
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- Impact of foreign exchange gain of 836 million yen.

Profit attributable to owners of parent	5,389 million yen	YoY	+34.2%
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■Key Points in Performance

Page 3 covers key points in performance.

Net sales totaled ¥31,771 million. This breaks down to domestic sales of ¥29,513 million and overseas sales of ¥2,257 million.

Sales of the 129 prescription Kampo products increased 7.8% year-on-year.

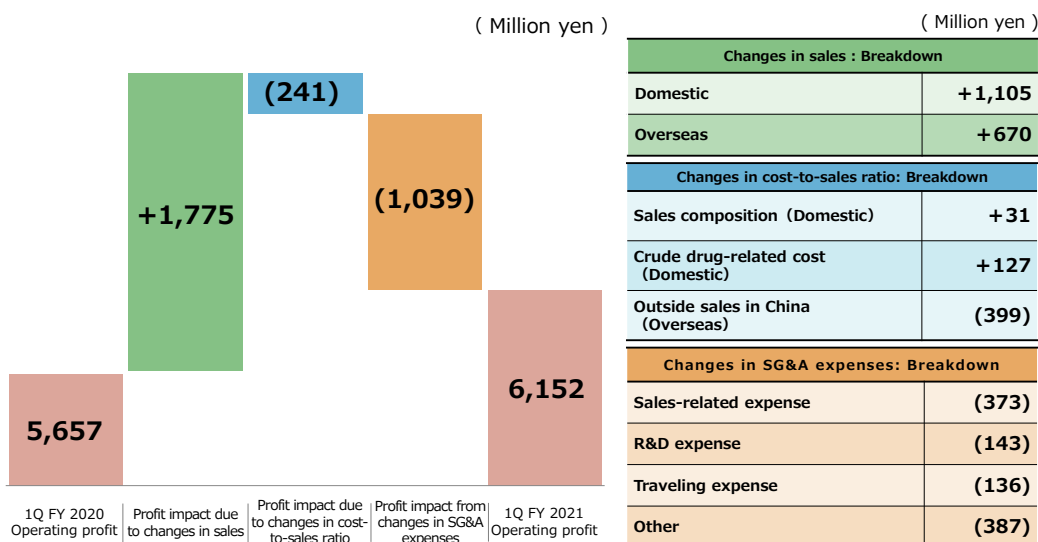
Sales of healthcare products including OTC Kampo medicines, increased 12.0% year-on-year owing to brisk store and online sales.

The cost-to-sales ratio was 48.2%, a rise of 0.8pts year-on-year, reflecting impact from external sales in China.

The SG&A ratio was 32.5%, a decline of 0.2pts year-on-year.

Ordinary profit increased 27.7% year-on-year, but this was mainly attributable to foreign exchange gain.

Factors Triggering Changes in Operating Profit (YoY)



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■ Factors Triggering Changes in Operating Profit (YoY)

Page 4 features factors triggering changes in operating profit. I will explain the key points of our performance.

Operating profit was ¥6,152 million, a rise of ¥494 million year-on-year.

Impact owing to an increase in sales was around ¥1,700 million. Here you can see a breakdown of domestic and overseas sales.

Impact owing to an expansion in our cost-to-sales ratio was a negative ¥200 million. Although crude drug-related costs declined, there was impact from external sales in the overseas and China Businesses.

Impact from a rise in expenses was a negative ¥1,000 million. There was also impact mainly from a rise in sales promotion cost in tandem with an expansion in sales, and an increase in R&D expense.

Note that in the statement of income used for comparison, the figures are PPA adjusted.

Operating profit in the first quarter of FY 2020 declined ¥75 million after being adjusted for PPA items.

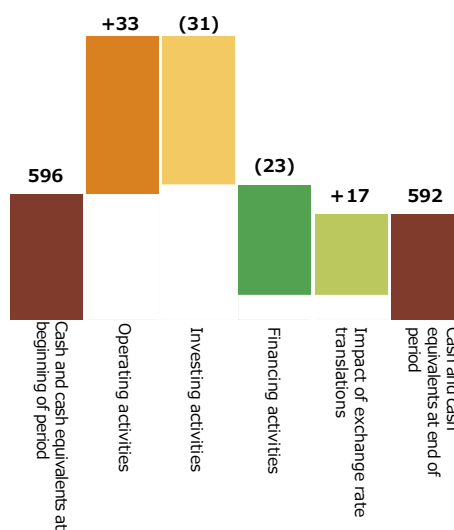
Financial Condition/Cash Flow Position



(Million yen)

	FY 2020 (March 2021)	FY 2021 1Q	Change
Total assets	319,063	326,956	7,892
Current assets	204,273	211,038	6,764
Non-current assets	114,789	115,918	1,128
Total liabilities	85,894	87,017	1,123
Current liabilities	48,380	50,034	1,653
Non-current liabilities	37,513	36,983	(530)
Total net assets	233,169	239,938	6,769
Equity ratio	68.3%	68.4%	0.1pt

(Hundred million yen)



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■ Financial Condition & Cash Flow Position

Page 5 covers our financial condition and cash flow position. I will also only explain the pertinent points here.

In comparison with the end of the previous fiscal year, current assets increased approximately ¥6.7 billion, which included a rise in inventory of about ¥3.7 billion.

There was a growth of around ¥6.5 billion in raw materials and supplies. This was primarily attributable to an expansion in the procurement of major crude drugs.

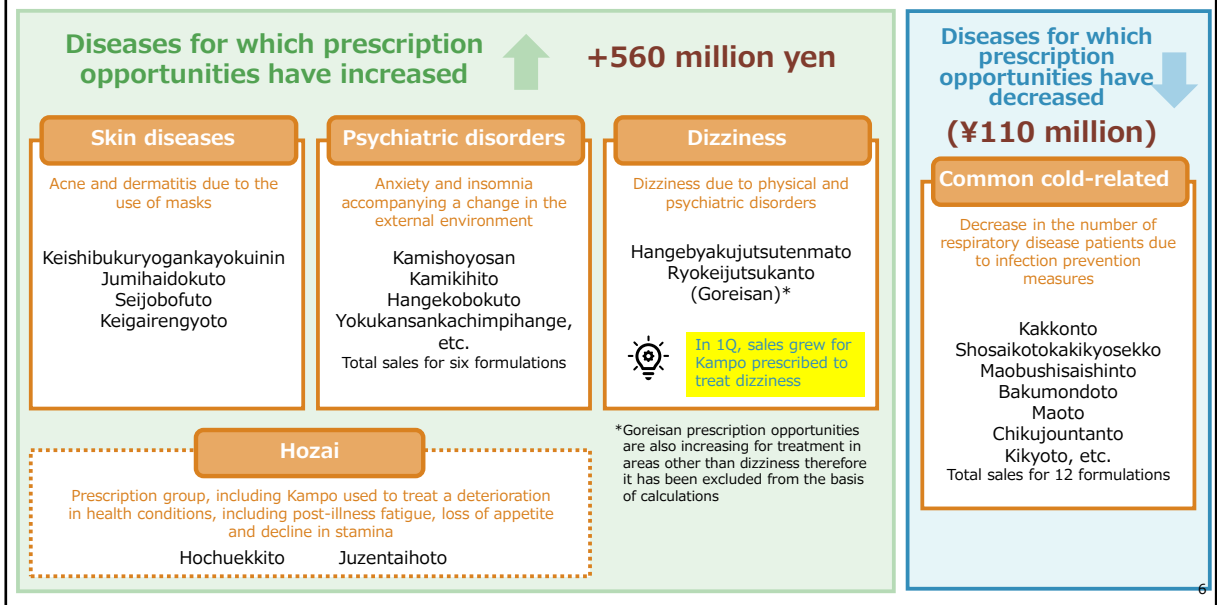
Current liabilities rose approximately ¥1.6 billion versus the end of the previous fiscal year, chiefly reflecting an increase in notes and accounts payable, and despite a decrease primarily in accrued corporate tax.

Non-current liabilities declined about ¥500 million in contrast with the end of the previous fiscal year.

Our equity ratio improved 0.1 points to 68.4%.

The waterfall chart on the right illustrates the upward trend in our cash flow performance.

COVID-19-related Symptoms and Prescription opportunities



■ COVID-19 Related Symptoms and Prescription Opportunities

Page 6 details COVID-19-related symptoms and prescription opportunities.

Of the ongoing COVID-19-related symptoms that we showed, the following are diseases for which prescription opportunities fluctuated in 1Q.

Reflecting a change in the external environment and the use of masks, prescription opportunities continued to grow for psychiatric disorders and skin diseases.

Also, prescriptions, which are referred to Kampo medicine supplements, used to treat deterioration in health conditions, including post-illness fatigue and decline in stamina, continued to grow.

A feature of 1Q was the brisk demand for prescriptions issued to treat dizziness due to physical and psychiatric disorders.

We calculate the positive impact from an increase in prescription opportunities to be ¥560 million.

Meanwhile, common cold-related prescriptions declined due to the enforcement of measures to prevent the spread of infections.

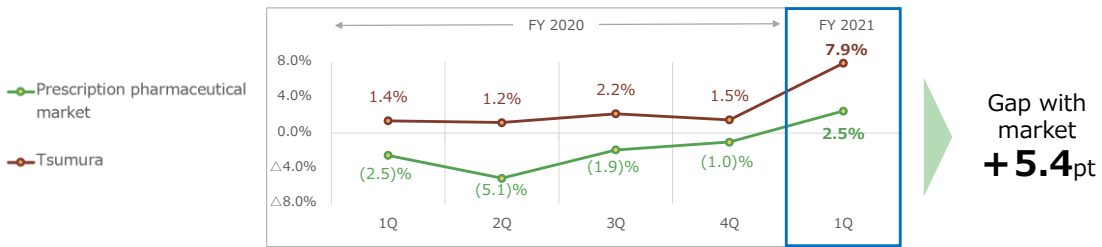
We calculate the negative impact from a decrease in prescription opportunities to be ¥110 million.

Comparison with the prescription pharmaceutical market

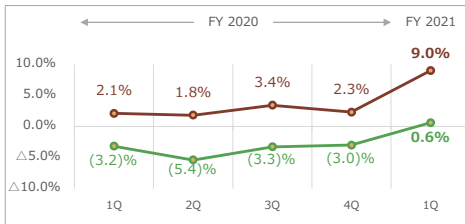


(YoY · Drug price basis)

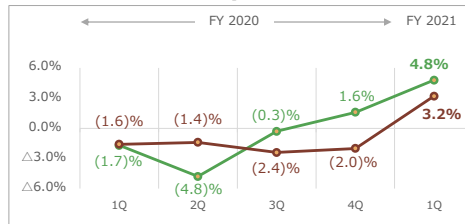
Overall



General clinics



Hospitals



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■ Comparison with the Prescription Pharmaceutical Market

Page 7 features a comparison with the prescription pharmaceutical market.

The year-on-year growth rate on an NHI drug price basis was a positive 7.9% for Tsumura in the overall market, a positive gap of 5.4 points above the market.

Looking at each market sales channel, sales to general practitioners (GP) rose 9%. This was substantial growth compared with market trends.

Meanwhile, in sales to hospitals (HP) rose 3.2%.

Although this was a recovery trend, the results underperformed in comparison with market trends.

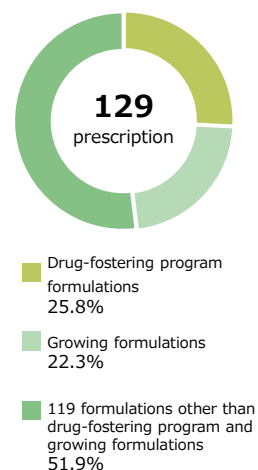
Sales of Drug-fostering Program Formulations/Growing Formulations



(Million yen)

	Net sales Ranking	Product No./formulation name	FY 2020 1Q	FY 2021 1Q	YoY	
Drug-fostering program formulations	1	100 Daikenchuto	2,385	2,430	+45	+1.9%
	2	54 Yokukansan	1,779	1,872	+93	+5.2%
	4	43 Rikkunshito	1,665	1,770	+104	+6.3%
	8	107 Goshajinkigan	820	888	+68	+8.3%
	23	14 Hangeshashinto	313	345	+32	+10.2%
Total sales for drug-fostering program formulations			6,965	7,308	+342	+4.9%
Growing formulations	3	41 Hochuekkito	1,766	1,818	+52	+3.0%
	5	17 Goreisan	1,032	1,297	+265	+25.8%
	6	24 Kamishoyosan	1,042	1,205	+162	+15.6%
	7	68 Shakuyakukanzoto	1,131	1,201	+70	+6.2%
	10	29 Bakumondoto	812	806	(5)	(0.7)%
Total sales for growing formulations			5,785	6,330	+545	+9.4%
Total sales for 119 formulations other than drug-fostering program and growing formulations			13,582	14,739	+1,156	+8.5%
Total sales for 129 prescription Kampo products			26,332	28,377	+2,044	+7.8%

Ratio to total sales



* The 2020 results have been rearranged to the amount after applying new accounting revenue recognition standards.

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■Sales of Drug-fostering Program/Growing Formulations

Page 8 outlines sales of drug-fostering program formulations and growing formulations.

Sales of the 129 prescription Kampo products totaled ¥28,377 million, a rise of 7.8% year-on-year.

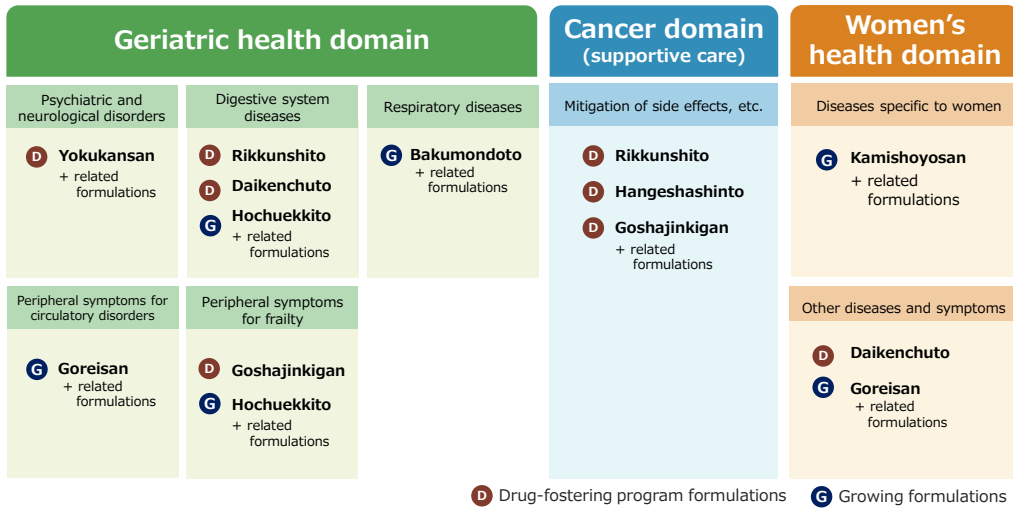
Sales of drug-fostering program formulations came to ¥7,308 million, a growth of 4.9% year-on-year.

Sales of growing formulations came to ¥6,330 million.

This was an increase of 9.4% year-on-year, as we were able to offset the negative growth in sales of Bakumondoto.

Three Important Domains of Sales Activities

- 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



■ Three Important Domains in Sales Activities

The three important domains in sales activities are shown on page 9.

As we have done thus far, we are continuing to implement activities that focus primarily on drug-fostering program and growing formulations mainly in geriatric health, cancer (supportive care) and women’s health, our three important domains.

In the domain of geriatric health, as a key measure carried out from FY 2020, we are newly adding the fields of peripheral symptoms for circulatory disorders and peripheral symptoms for frailty owing to substantial market needs.

In May 2021, we intensively conducted Web lectures based on the theme of frailty and distributed video content. 18,000 physicians viewed the Web lectures.

Tsumura website (site for medical practitioners)



Tsumura medical website for learning about Kampo, offering 24 hours access

Expand access by medical practitioners

TSUMURA MEDICAL SITE



- Explanations on the proper use of Kampo
- Also Western medicine-type, easy-to-use explanations
- Access to online lectures available
- Abundant video contents

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■Tsumura Website (for medical practitioners)

Page 10 covers our website.

From April 1, 2021, we implemented the broad renewal of the Tsumura website for medical practitioners.

We have established an environment where physicians can learn about Kampo medicine anytime, including an environment for learning about Kampo medicine throughout their lifetime, an environment for learning about Kampo via videos, and an environment for listening to live streaming of online lectures.

Overseas sales (External sales in China)



(Million yen)

	FY 2020	FY 2021
1Q	982	2,257
Full year	6,360	8,800 (forecast)

Raw material
crude drugs



drug pieces



raw ginseng



Yakushokudogen
products



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■ Overseas Sales (External Sales in China)

On page 11, we will discuss overseas sales.

Overseas sales in 1Q totaled ¥2,257 million.

In China, Tsumura is expanding external sales mainly for raw material crude drugs, drug pieces, ginseng and Yakushokudogen products.

In 1Q, overseas sales substantially grew in contrast with the same period a year earlier.

This was primarily attributable to impacted economic activities in China in 1Q 2020 (January-March 2020), including restrictions on going outside due to the spread of COVID-19.

Our forecast for overseas sales in FY 2021 is ¥8.8 billion.

FY 2021 Earnings Forecast



(Million yen)

	FY2020 results	FY2021 forecast	Vs. FY 2020	
			Amount	Growth
Net sales	116,413	122,500	+6,086	+5.2%
Domestic	110,053	113,700	+3,646	+3.3%
Overseas	6,360	8,800	+2,439	+38.4%
Operating profit	19,382	19,500	+117	+0.6%
Ordinary profit	20,866	20,000	(866)	(4.2)%
Profit attributable to owners of parent	15,332	14,200	(1,132)	(7.4)%
	FY2020 results	FY2021 forecast		
Dividend (per share)	¥ 64	¥ 64		
EPS	¥200.4	¥185.6		
ROE	7.2%	6.4%		

* The 2020 results have been rearranged to the amount after applying the PPA adjustment and new accounting revenue recognition standards.

(Notes) 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.

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■FY 2021 Earnings Forecast

On page 12, we discuss our FY 2021 earnings forecast.

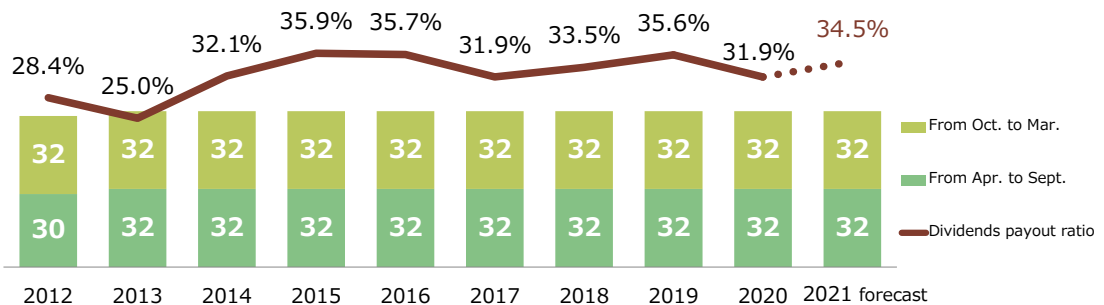
We forecast net sales of ¥122.5 billion, a growth of approximately ¥6.0 billion year-on-year, operating profit of ¥19.5 billion, ordinary profit of ¥20.0 billion, profit attributable to owners of parent of ¥14.2 billion, and an ROE of 6.4%.

The level of this earnings forecasts indicates we can achieve the numerical targets in our Third Medium-term Management Plan, for which FY 2021 is the final year of the plan.

However, as with FY 2020, we will make a timely and proper disclosure in the event that conditions change, including impact from COVID-19.

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 2021 year-end dividend and payout ratio (forecast) are an estimate based on the assumption that the dividend resolution is approved at the 86th Ordinary General Meeting of Shareholders.

■Shareholder Returns

We will cover shareholder returns on page 13.

We still aim to improve our corporate value by continuing to expand our Kampo business, through growth investments in the China business, and by building foundations.

Accordingly, in line with our basic policy to improve corporate value, we plan to implement stable dividends, taking into account factors including medium/long-term profit levels and cash flow conditions.

We are targeting an annual dividend of ¥64 and a payout ratio of 34.5%, reflecting the previously discussed earnings forecast.

This ends my presentation. Thank you for listening.

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

**Applying new accounting revenue recognition standards to
The 3rd Medium-Term Management Plan (2019-2021)**

	FY2021 Numerical goals	FY2021 Numerical goals <small>Apply new accounting revenue recognition standards</small>	FY2021 Forecast
Net Sales	Over 135.0 billion yen	Over 120.0 billion yen	122.5 billion yen
Operating Profit	Over 19 billion yen	Over 19 billion yen	19.5 billion yen
R O E	Over 6 %	Over 6 %	6.4%

Drug-fostering program formulations and Growing formulations

Looking at the recent structure of disease, the Company has selected certain diseases in fields where medical treatment needs are high that are difficult to treat with Western drugs and that Kampo products have demonstrated special efficacy for. The Company will establish a base of scientific evidence related to treating these diseases with Kampo medicine.

A growth driver that aims to be listed in medical treatment guidelines as a strategic formulation following the five "drug fostering" program formulations through the establishment of scientific evidence (data on safety, efficacy, etc.) in fields where satisfaction toward treatment and the contribution of medicine are low.

Drug-fostering program formulations

Daikenchuto

Yokukansan

Rikkunshito

Goshajinkigan

Hangeshashinto

Growing formulations

Hochuekkito

Shakuyakukanzoto

Bakumondoto

Kamishoyosan

Goreisan



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

Sales image
3 billion yuan
(about ¥51.0 billion)

Formulation platform
Traditional Chinese medicine, Classical prescription Chinese medicine complex formulations, etc.

Sales image
7 billion yuan
(about ¥119 billion)

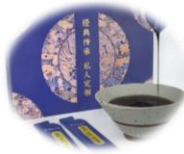
Drug piece services: Processing services to convert drug pieces into a fluid extract, decoction, and granules (Sales in the online market)

Drug pieces



Drug piece services

Fluid extract



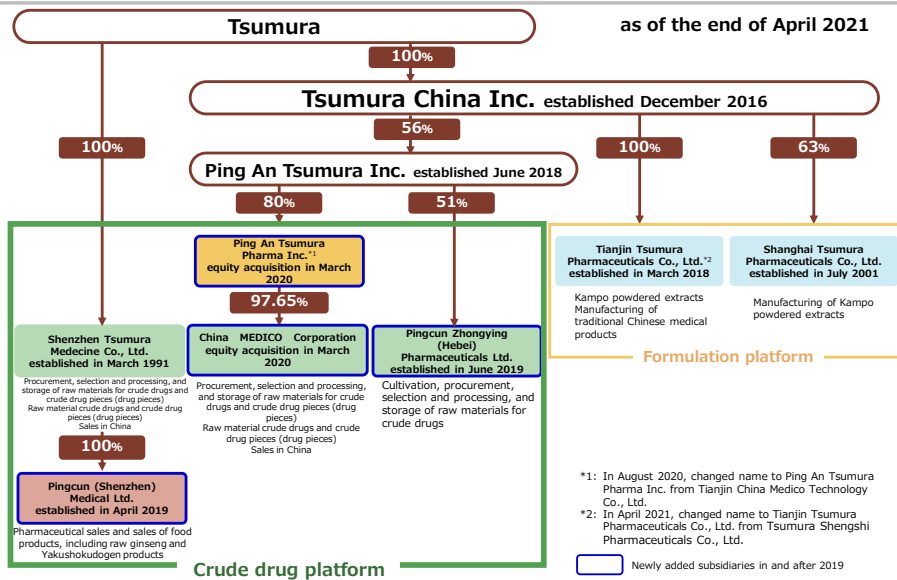
Decoction



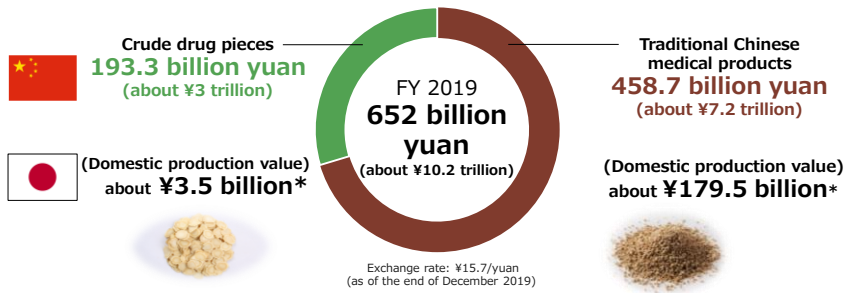
Granules



Diagram of Corporate Group Ties & Crude Drug Platform



Scale of the Traditional Chinese Medicine Market in China



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

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

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 <small>(Manufacturing of classical prescription Chinese medicine complex formulations)</small>	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)