

March 29, 2022 (Tue.) 13:00 - 14:30 Sustainability Vision & Long-Term Management Vision 2031
Presentation (for Investors and Analysts)

〈Q&A Summary〉

Q.

Have you extended the deadline for your sales goal in the China Business from RMB10 billion in 2027 to 2031? (Page 76)

A.

We envisaged sales of RMB10 billion in 2027 based on our outlook for recognition by and the level of trust among the citizens of China. We are not pushing our goal back to 2031. We first need to see if we can accomplish these goals. In addition, we are aiming for sales of RMB10 billion-plus in 2031.

Q.

The number of physicians writing 10 or more Kampo prescriptions likely increased 80,000 over the ten-year period from 2011 to 2021. Although there were NHI drug price revisions, during the same period sales only rose around 30%. Can you explain this? (Page 26).

Also, to achieve a percentage of 50%-plus for the number of physicians writing 10 or more Kampo prescriptions by 2024, I believe this will require an annual increase of 30,000 physicians. Do you plan to establish your next Medium-Term Management Plan based on this assumption? (Page 43)

A.

In the case of physicians that 10 or more Kampo prescriptions, this is not based on a count of physicians that go from zero to 10 prescriptions in one leap. It includes those physicians that are already writing 8 or 9 prescriptions. We aim to encourage these physicians to boost their use of Kampo prescriptions to 10. We want you to understand this, including the method used to count these physicians.

In FY2021, the number of physicians writing 10 or more Kampo prescriptions was rising at a pace of 10%. Owing to the introduction of e-Promotions, we are able to contact more physicians. We believe this is one factor that is contributing to the expansion in prescribing physicians.

We anticipate a sales growth of around 5% going forward. Owing to advances in digital technology, we look for a further increase in prescriptions among physicians already writing 10 or more prescriptions, including physicians we did not have a grasp on thus far, and also aims to carry out activities to encourage physicians writing less than 10 Kampo prescriptions to write 10 or more prescriptions as early as possible.

Q.

The percentage of Kampo use is high among women. Physicians that write Kampo prescriptions for women also realize there is a high percentage of women and therefore recognize women's health as an important domain. What actions do you plan to specifically take going forward? Also, do you plan to pour energies into aging and pre-symptomatic diseases further out?

A.

In the domain of women's health, as one example, we plan to tackle "creating an overall healthy body

that makes getting pregnant easier” as a major theme as insurance coverage will extend to infertility treatments starting April 2022.

In pre-symptomatic disease treatments, we are considering taking approaches from frailty/pre-frail, mild cognitive impairment (MCI), peripheral symptoms of dementia and from the three aspects of women’s health, which includes cold sensitivity.

Reports from upfront research indicate a high correlation in women between cold sensitivity and multiple health complaints. We plan to continue to allocate our resources to the domain of women’s health.

Q.
Please update us on your US development (TU-100), including your contact with the US FDA. What progress is being made in the enrollment of patients for the development of a new treatment?

A.
We are frequently meeting with the US FDA from various angles. Although there has been impact due to COVID-19, we are receiving guidance, including consulting, and doing our best to increase the number of facilities participating in the treatment. We are preparing to make up for lost time in cases as COVID-19 winds down.

Q.
When do you think you will complete phase II of development (for TU-100) in the US?

A.
We are scheduled to complete phase IIb in FY2024.

Q.
I understand that M&A is the near-term milestone for the China Business. What issues are you facing in current negotiations and what are you focusing on? Also, can you also explain in a little more detail what role members of the Ping An Insurance Group are playing? Furthermore, while you are aiming to complete M&A deals by FY2024, do you have a Plan B should you not find a suitable target company or if the deal does not meet your conditions? (Page 76)

A.
A hurdle (obstacle) in negotiations is majority ownership, which is a core condition for M&A. Also, we require that the partner possess many classical prescriptions. However, there are not many companies with these conditions. We are currently in negotiations with those that do. There is ample possibility and we are aiming to realize an M&A deal(s) in 2024 at the latest.

Amid this, the Ping An Insurance Group is providing substantial cooperation in those areas where Tsumura is weak. For instance, in due diligence, financial inspections and government-related areas, we are receiving support from the Ping An Insurance Group.

Although we do not have a Plan B, in the event we only end up applying for approval to launch classical prescriptions, which we are carrying out at the same time, while the overall image is likely to be delayed,

we plan to grow this business with our full strength.

Q.

I believe in his portion of the presentation, Mr. Kui stated that the investments by the Ping An Insurance Group in Tsumura are long-term. Are the areas that he sees as issues regarding Tsumura's initiatives/actions in the China Business or are there areas he wants Tsumura to pour more energy into? (Page 88)

A.

The Ping An Insurance Group views Tsumura as a long-term strategic partner and has a large amount of confidence in Tsumura. Also, Ping An Tsumura is a joint venture of these two companies. The Ping An Insurance Group has a high level of confidence in this business going forward.

The traditional Chinese medicine market is growing. However, standardization of production is a fairly large issue. In Japan, Tsumura is producing Kampo formulations that are highly uniform. The Ping An Insurance Group sees this as an area of high value and aims to contribute to the health of the citizens of China by employing Tsumura's high management standards in the production of traditional Chinese medicine.

One issue is the restrictions in China on foreign investment. Nonetheless, we anticipate further deregulation going forward. We aim to provide Tsumura our full support to Tsumura in various areas, including negotiations with the government in China.

In addition, at this stage, I believe that there is little variation in the products being sold in China. Further out, we aim to pour energies into facilitating the sale of Yakushokudogen products and Kampo formulations, Tsumura's major strength, in China.

Q.

In your presentation, you said there were around 10 candidates for M&A in China. Can you explain what is holding up progress with these deals? Assuming that pricing and majority ownership are bottlenecks, can you explain how you plan to overcome these obstacles?

A.

Acquiring majority ownership is the most important core condition for us in carrying out M&A. Without majority ownership, it is difficult to incorporate Tsumura's philosophy and quality. Our goal is not to simply consolidate acquisitions. From the perspective of contributing to the health of the citizens of China and to the development of the industry in China, acquiring majority ownership is a core condition of M&A.

However, acquiring majority ownership in companies we are targeting that feature favorable conditions is difficult given the market in China is sizeable and is expected to grow further going forward. Our one opinion is to partner up with a subsidiary of one of these blue-chip companies. Nonetheless, we want to somehow secure majority ownership to make the China Business a success.

Q.

You said that you will not end up paying a premium to acquire majority ownership. Can you comment on this from a financial viewpoint?

A.

We plan to move forward with this while consulting with the Ping An Insurance Group.

Q.

I believe that in the case of the Ping An Insurance Group, investment in Tsumura is recognized as a very appealing, long-term investment. Since the third-party allotment to raise capital for the Ping An Insurance Group by 10%, it appears that the China Business has not added value to corporate value of Tsumura. Assuming the China Business boasts appeal and a high level of potential, I believe that it should be reflected in Tsumura's corporate value. As the Ping An Insurance Group, can you comment on this?

A.

The Ping An Insurance Group is investing insurance funds for the long term. The company views Tsumura as a long-term strategic investment. We understand that this will take time. On the flip side, we believe the value of this business is substantial in scale. The size of China's population is 10-times that of Japan. Traditional Chinese medicine is very popular with the citizens of China therefore we are immensely confident about the growth of this business going forward. It will take time but we believe Tsumura's stock price has sufficient potential for growth.

[Important points]

The details in these materials were not transcribed as is from the Q&A session at our financial results briefing. Taking the purpose of these materials into account, this is an abridged version.