



Summary of Consolidated Financial Statements for the Second Quarter of the Term Ending March 31, 2021(Japan GAAP)

November 5, 2020

Name of Listed Company: **TSUMURA & CO.**
 Code: 4540
 Representative: President, Representative Director and CEO
 Contact: Head of Corporate Communications Dept.
 Telephone: 81-3-6361-7100

Exchange: Tokyo Stock Exchange
 URL: <https://www.tsumura.co.jp>
 Name: Terukazu Kato
 Name: Ritsuko Inukai

Scheduled date of submission: November 6, 2020

Scheduled date of dividend payment commencement: December 4, 2020

Preparation of supplementary materials for the quarterly financial statements: Yes

Holding of the quarterly results briefing: Yes (for institutional investors and securities analysts and news media)

(Figures are rounded down to the nearest one million yen.)

1. Consolidated business results for the Second quarter of the term ending March 31, 2021

(From April 1, 2020 to September 30, 2020)

(1) Financial results (year to date)

(Figures in percentages denote the year-on-year change.)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
Six-month period ended September 30, 2020	63,994	5.2	11,124	13.8	11,114	12.8	8,083	14.9
Six-month period ended September 30, 2019	60,802	4.3	9,776	9.2	9,856	3.0	7,037	(0.6)

(Note) Comprehensive income : Six-month period ended September 30, 2020: 6,604million yen [120.7%]
 Six-month period ended September 30, 2019: 2,993million yen [(58.4)%]

	Profit per share	Fully diluted profit per share
	Yen	Yen
Six-month period ended September 30, 2020	105.66	—
Six-month period ended September 30, 2019	92.03	—

(2) Consolidated financial conditions

	Total assets	Net assets	Shareholders' equity ratio
	Million yen	Million yen	%
As of September 30, 2020	308,415	223,924	68.0
As of March 31, 2020	311,042	213,048	66.0

(Reference) Shareholders' equity: As of September 30, 2020: 209,670 million yen As of March 31, 2020: 205,377million yen

2. Dividends

	Dividend per share				
	End of Q1	End of Q2	End of Q3	End of FY	Total
	Yen	Yen	Yen	Yen	Yen
Year ended March 31, 2020	—	32.00	—	32.00	64.00
Year ending March 31, 2021	—	32.00			
Year ending March 31, 2021 (Projection)				32.00	64.00

(Note)Revisions to dividends projection published most recently: No

3. Projections of consolidated business results for the term ending March 31, 2021

(From April 1, 2020 to March 31, 2021)

(Figures in percentage show the rate of increase or decrease from the previous fiscal year for full-year and from the second quarter of the previous fiscal year for second quarter (aggregate).)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent		Profit per share
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen
Full-year	132,000	7.1	17,000	(9.9)	17,900	(8.9)	13,000	(5.6)	169.92

(Note) Revisions to dividends projection published most recently: No

The forecasts do not reflect the effects of the COVID-19 pandemic because its ending and how it will affect the Group's businesses is difficult to predict accurately at this point. As for the COVID-19 pandemic's effects, expenses centered on those for activities remain intact at the end of the first half under review due to causes including restrictions on information activities. Meanwhile, Kampo preparations for a variety of disorders are increasing in the clinical environment. The Company assumes that the pandemic will have limited effects on its plans if it advances activities through e-promotions and other strategies. The Company predicts that the uncertainty about the future will continue. The Company will disclose information timely and appropriately when any change occurs.

Notes

(1) Important changes of subsidiaries during the term

(change of specified subsidiaries that lead to a change in the scope of consolidation): No

(Note) TSUMURA SHENGSHI PHARMACEUTICALS CO., LTD. was included in the scope of consolidation in the first quarter because its importance had increased, although the company does not meet the conditions for transfer of specific subsidiaries.

(2) Application of special accounting practices in consolidated quarterly financial statements preparation: Yes

(Note) For details, see "2. Quarterly Consolidated Financial Statements and Key Notes (4) Notes to the Quarterly Consolidated Financial Statements (application of specific accounting treatment to the preparation of quarterly financial statements)" on page 10 of the material attached hereto.

(3) Changes in accounting principles and procedures and the method for indication, etc.

- 1) Changes associated with the revision of accounting principles, etc.: No
- 2) Change other than 1): No
- 3) Accounting estimate change: No
- 4) Retrospective restatement: No

(4) Number of shares issued (common stock)

- 1) Number of shares issued at the end of the term (including treasury stock) (shares)
- 2) Number of treasury stock at the end of the term (shares)
- 3) Average number of shares during the term (shares)

FY 3/2021 2Q	76,758,362	FY 3/2020	76,758,362
FY 3/2021 2Q	250,139	FY 3/2020	250,049
FY 3/2021 2Q	76,508,283	FY 3/2020 2Q	76,472,210

* This Summary of Quarterly Consolidated Financial Statements is exempt from quarterly review procedures.

* Explanation about the proper use of financial projections and other important notes

(Note about forward-looking information)

In these materials, earnings forecasts and other statements about the future are forward-looking statements based on the information currently available and certain assumptions that the company regards as reasonable. Accordingly, the Company cannot make promises to achieve such forecasts. Actual financial results may differ materially from these forecasts depending on a number of important factors. Please see "1. Qualitative information on quarterly results (3) Description of projections of consolidated business results" on page 3 for information regarding the forecast of consolidated financial results.

○Contents of accompanying materials

1. Qualitative information on quarterly results	2
(1) Description of operating results	2
(2) Description of financial condition	3
(3) Description of projections of consolidated business results	3
2. Quarterly Consolidated Financial Statements and Key Notes	4
(1) Quarterly Consolidated Balance Sheets	4
(2) Quarterly Consolidated Statements of Income and Quarterly Consolidated Statements of Comprehensive Income	6
Quarterly Consolidated Statements of Income	
For the Second Quarter Consolidated Accumulative Term	6
Quarterly Consolidated Statements of Comprehensive Income	
For the Second Quarter Consolidated Accumulative Term	7
(3) Quarterly Consolidated Statements of Cash Flows	8
(4) Notes to the Quarterly Consolidated Financial Statements	10
(Notes on premise of a going concern)	10
(Notes on case of extreme change in shareholder's equity amount)	10
(Transfer of important subsidiaries during the quarter under review)	10
(Application of specific accounting treatment to the preparation of quarterly financial statements)	10

1. Qualitative information on quarterly results

(1) Description of operating results

During the first half under review, the prescription medicine market continued to confront difficult circumstances under the adverse effects of the COVID-19 pandemic. In this environment, Kampo formulations for prescriptions marketed by Tsumura & Co., and its consolidated subsidiaries (the “Group”) showed signs of a recovery in sales, reflecting factors including a slow recovery in the number of outpatients at general clinics and the resumption of visiting activities despite restrictions imposed by medical institutions.

As a result, net sales for domestic businesses grew 1.7% year on year. Including sales at a Chinese subsidiary newly added to the scope of consolidation, net sales rose 5.2% year on year, to 63,994 million yen. Looking at profit, operating profit was 11,124 million yen (up 13.8% year on year), ordinary profit was 11,114 million yen (up 12.8% year on year), and profit attributable to owners of parent was 8,083 million yen (up 14.9% year on year).

The cost-to-sales ratio rose 0.7 percentage point year on year, supported by an increase in external sales subsidiaries posted for certain products whose cost ratios were high, even though reduced costs related to crude drugs absorbed the cost increase arising from NHI drug price revisions. In addition, the cost-to-SGA ratio fell 1.9 percentage points year on year, partly due to the voluntary cancellation of activities due to the coronavirus outbreak. As a result, the operating profit margin was 17.4%, rising 1.3 percentage points from a year ago.

[Consolidated business results]

(Unit: million yen)

	FY 3/2020 2Q	FY 3/2021 2Q	Year-on-year change (ratio of change)
Net sales	60,802	63,994	3,191 5.2%
Operating profit	9,776	11,124	1,348 13.8%
Ordinary profit	9,856	11,114	1,257 12.8%
Profit attributable to owners of parent	7,037	8,083	1,045 14.9%

To expand the Kampo market and establish its presence there in a sustained manner, which is a strategic challenge adopted in the Medium-Term Management Plan, the Company has positioned geriatric health, cancer (supportive care) and women’s health as three important domains. The Company has been active in providing information on matters focused on “Drug fostering” program formulations*1 and “Growing” formulations*2. In the first half under review, net sales for overall prescription Kampo products increased 1.1% year on year, in spite of NHI drug price revisions and restrictions imposed on information activities in keeping with the effects of the COVID-19 pandemic.

Net sales for Daikenchuto, a drug fostering program formulation that represents a staple item for Tsumura & Co. (the “Company”), decreased 0.5% year on year. The Company is enforcing information activities at all hospitals. At the same time, the Company is continuously accelerating activities for winning new markets, focusing on a sense of abdominal flatulence, which is viewed to produce a low level of satisfaction with treatment at general clinics among constipation symptoms. In growing formulations, Hochuekkito, Goreisan and Kamishoyosan performed solidly.

Looking at sales activities, the Company increased web seminars, which have proven somewhat effective under sustained conditions that prevent the sufficient execution of conventional visit-based information provision activities. Moreover, the Company is aggressively executing measures through its medical representatives. The Company is advancing new activities that match conditions in respective areas and medical districts.

The Company will continue upgrading e-promotion and advancing positive and effective information activities, in addition to using online and conventional visit-based for different purposes according to requests made by health care professionals. Demand for Kampo medicine among health care professionals is increasingly growing and diversifying. The Company will continue its activities for providing appropriate information on subjects, including evidence in basic and clinical medicine, clinical practice guidelines in which Kampo products are described, and the proper use of Kampo medicine based on Kampo diagnosis.

*1 “Drug fostering” program formulations:

Formulations the Company is addressing by looking hard at the structure of diseases in recent years, targeting diseases that are difficult to treat with new drugs for which prescription Kampo preparations prove specifically effective in domains where demand for medical treatment is high, and calling the establishment of evidence “drug fostering”

*2 “Growing” formulations:

Growth drivers aimed at registration in clinical practice guidelines as strategic formulations after five drug fostering program formulations by constructing evidence (such as data on safety and effectiveness) in domains where the degree of satisfaction with medical treatment and the degree of drug contribution are low

(2) Description of financial condition

The financial position at the end of the second quarter under review was as follows:

Total assets at the end of the second quarter under review decreased 2,626 million yen from the end of the previous fiscal year, to 308,415 million yen. Current assets increased 784 million yen from the end of the previous fiscal year, mainly due to a rise in work in progress, which offset a fall in raw materials and supplies. Non-current assets decreased 3,411 million yen from the end of the previous fiscal year, mainly due to a decrease in other investments and other assets associated with the consolidation of Tsumura Shengshi Pharmaceuticals Co., Ltd. from the fiscal year under review, offsetting an increase in buildings and structures.

Total liabilities were 84,490 million yen, a decrease of 13,502 million yen from the end of the previous fiscal year. Current liabilities decreased 3,981 million yen from the end of the previous fiscal year, mainly due to a decline in short-term borrowings, which offset an increase in long-term borrowings scheduled for repayment within one year that resulted from their transfer. Non-current liabilities declined 9,521 million yen from the end of the previous fiscal year mainly due to the transfer of long-term borrowings to current liabilities. Net assets totaled 223,924 million yen, an increase of 10,875 million yen from the end of the previous fiscal year. Shareholders' equity rose 5,351 million yen from the end of the previous fiscal year, mainly reflecting an increase in retained earnings. Accumulated other comprehensive income dropped 1,059 million yen from the end of the previous fiscal year, chiefly attributable to a fall in foreign currency translation adjustment. Non-controlling interests increased 6,582 million yen from the end of the previous fiscal year.

As a result, the equity ratio rose 2.0 percentage points, to 68.0%.

Cash flows in the first half under review were as follows:

During the first half under review, cash provided by operating activities was 10,654 million-yen, cash used in investing activities was 2,539 million yen, and cash used in financing activities was 7,206 million yen.

Cash provided by operating activities was 10,654 million yen. Looking at its breakdown, profit before income taxes of 11,105 million yen was a major cash inflow item and income taxes paid of 3,316 million yen was a major cash outflow item. Compared to a year ago, cash inflow increased 1,957 million yen.

Cash used in investing activities was 2,539 million yen. Looking at its breakdown, purchase of property, plant and equipment of 4,136 million yen was a major cash outflow item. Compared to a year ago, cash outflow increased 7,278 million yen.

Cash used in financing activities was 7,206 million yen. Looking at its breakdown, repayments of short-term borrowings of 13,398 million yen was a major cash outflow item. Compared to a year ago, cash outflow rose 4,676 million yen.

As a result, cash and cash equivalents increased 195 million yen from the end of the previous fiscal year, and when combined with the increase in cash and cash equivalents of 3,519 million yen associated with the consolidation of a subsidiary, reached 61,407 million yen.

(3) Description of projections of consolidated business results

The projections of consolidated business results for the fiscal year ending March 31, 2021, which were published on May 11, 2020, remain unchanged.

The forecasts do not reflect the effects of the COVID-19 pandemic because its ending and how it will affect the Group's businesses is difficult to predict accurately at this point. As for the COVID-19 pandemic's effects, expenses centered on those for activities remain intact at the end of the first half under review due to causes including restrictions on information activities. Meanwhile, Kampo preparations for a variety of disorders are increasing in the clinical environment. The Company assumes that the pandemic will have limited effects on its plans if it advances activities through e-promotions and other strategies. The Company predicts that the uncertainty about the future will continue. The Company will disclose information timely and appropriately when any change occurs.

The Company's Shizuoka Plant, Ibaraki Plant and Ishioka Center, LOGITEM TSUMURA CO., LTD. and YUBARI TSUMURA CO., LTD. and the bases of Group companies located in China have all put measures in place to prevent the virus from spreading and are operating as usual. With the safety of its employees, customers and business partners as its number one priority, the Company will continue seeking to prevent the spread of the coronavirus, determining a course of action based on Government guidance and action plans while seeking to continue business in an appropriate manner.

2. Quarterly Consolidated Financial Statements and Key Notes

(1) Quarterly Consolidated Balance Sheets

(Unit: Million yen)

	As of March 31, 2020	As of September 30, 2020
Assets		
Current assets		
Cash and deposits	61,957	63,278
Notes and accounts receivable-trade	47,161	46,559
Merchandise and finished goods	10,338	10,874
Work in process	12,418	13,916
Raw materials and supplies	50,553	48,197
Other	11,882	12,268
Allowance for doubtful accounts	(22)	(21)
Total current assets	194,288	195,073
Non-current assets		
Property, plant and equipment		
Buildings and structures	68,672	76,264
Other	91,603	92,480
Accumulated depreciation	(83,069)	(86,263)
Total property, plant and equipment	77,207	82,481
Intangible assets		
Goodwill	12,016	11,357
Other	1,324	1,399
Total intangible assets	13,341	12,757
Investment and other assets		
Investment securities	10,750	11,406
Retirement benefit asset	1,213	1,415
Other	14,241	5,281
Allowance for doubtful accounts	(0)	(0)
Total investment and other assets	26,204	18,103
Total non-current assets	116,753	113,341
Total assets	311,042	308,415

(Unit: Million yen)

	As of March 31, 2020	As of September 30, 2020
Liabilities		
Current liabilities		
Notes and accounts payable - trade	10,128	8,729
Short-term borrowings	22,874	11,075
Current portion of long-term borrowings	—	9,376
Income taxes payable	3,607	3,641
Provision for sales returns	10	10
Other	11,856	11,662
Total current liabilities	48,476	44,495
Non-current liabilities		
Bonds payable	30,000	30,000
Long-term borrowings	12,394	3,004
Retirement benefit liability	72	70
Other	7,049	6,920
Total non-current liabilities	49,516	39,995
Total liabilities	97,993	84,490
Net assets		
Shareholders' equity		
Share capital	30,142	30,142
Capital surplus	14,041	13,837
Retained earnings	158,610	164,167
Treasury shares	(678)	(678)
Total shareholders' equity	202,116	207,468
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	2,767	3,156
Deferred gains or losses on hedges	87	335
Revaluation reserve for land	2,673	2,673
Foreign currency translation adjustment	(1,318)	(3,060)
Remeasurements of defined benefit plans	(949)	(903)
Total accumulated other comprehensive income	3,260	2,201
Non-controlling interests	7,671	14,254
Total net assets	213,048	223,924
Total liabilities and net assets	311,042	308,415

(2) Quarterly Consolidated Statements of Income and Quarterly Consolidated Statements of Comprehensive Income
 Quarterly Consolidated Statements of Income / For the Second Quarter Consolidated Accumulative Term

(Unit: Million yen)

	Six-month period ended September 30, 2019 (From April 1, 2019 to September 30, 2019)	Six-month period ended September 30, 2020 (From April 1, 2020 to September 30, 2020)
Net sales	60,802	63,994
Cost of sales	24,893	26,596
Gross profit	35,908	37,397
Selling, general and administrative expenses	26,132	26,272
Operating profit	9,776	11,124
Non-operating income		
Interest income	315	265
Dividend income	133	135
Share of profit of entities accounted for using equity method	—	69
Other	104	190
Total non-operating income	552	660
Non-operating expenses		
Interest expenses	63	167
Share of loss of entities accounted for using equity method	39	—
Foreign exchange losses	237	485
Other	132	18
Total non-operating expenses	472	671
Ordinary profit	9,856	11,114
Extraordinary income		
Gain on sales of non-current assets	2	0
Gain on sales of investment securities	0	4
Total extraordinary income	2	4
Extraordinary losses		
Loss on sales of non-current assets	1	0
Loss on retirement of non-current assets	20	13
Total extraordinary losses	21	13
Profit before income taxes	9,837	11,105
Income taxes	2,729	3,198
Profit	7,108	7,906
Profit (loss) attributable to non-controlling interests	70	(176)
Profit attributable to owners of parent	7,037	8,083

Quarterly Consolidated Statements of Comprehensive Income / For the Second Quarter Consolidated Accumulative Term

(Unit: Million yen)

	Six-month period ended September 30, 2019 (From April 1, 2019 to September 30, 2019)	Six-month period ended September 30, 2020 (From April 1, 2020 to September 30, 2020)
Profit	7,108	7,906
Other comprehensive income		
Valuation difference on available-for-sale securities	(1,233)	389
Deferred gains or losses on hedges	(1,714)	248
Foreign currency translation adjustment	(1,135)	(1,969)
Remeasurements of defined benefit plans, net of tax	(23)	45
Share of other comprehensive income (loss) of entities accounted for using equity method	(8)	(16)
Total other comprehensive income (loss)	(4,115)	(1,302)
Comprehensive income	2,993	6,604
Comprehensive income attributable to		
Owners of parent	3,040	7,024
Non-controlling interests	(47)	(419)

(3) Quarterly Consolidated Statements of Cash Flows

(Unit: Million yen)

	Six-month period ended September 30, 2019 (From April 1, 2019 to September 30, 2019)	Six-month period ended September 30, 2020 (From April 1, 2020 to September 30, 2020)
Cash flows from operating activities		
Profit before income taxes	9,837	11,105
Depreciation	3,243	3,871
Amortization of goodwill	—	294
Increase (decrease) in allowance for doubtful accounts	(0)	2
Interest and dividend income	(448)	(400)
Interest expenses	63	167
Share of loss(profit) of entities accounted for using equity method	39	(69)
Loss (gain) on sales and retirement of property, plant and equipment	19	13
Decrease (increase) trade receivables	1,550	515
Decrease (increase) in inventories	(5,342)	(762)
Increase (decrease) in trade payables	204	(1,181)
Loss (gain) on sales of short-term and long-term investment securities	(0)	(4)
Decrease (increase) in retirement benefit asset	(280)	(144)
Increase (decrease) in retirement benefit liability	6	4
Other	1,266	199
Subtotal	10,157	13,611
Interest and dividends received	475	528
Interest paid	(62)	(169)
Income taxes paid	(1,873)	(3,316)
Net cash provided by (used in) operating activities	8,696	10,654
Cash flows from investing activities		
Decrease (increase) in time deposits	14,226	2,321
Purchase of property, plant and equipment	(6,065)	(4,136)
Proceeds from sales of property, plant and equipment	4	0
Purchase of intangible assets	(335)	(105)
Purchase of short-term and long-term investment securities	(21,127)	(18,162)
Proceeds from sales and redemption of short-term and long-term investment securities	21,121	18,178
Purchase of investments in capital of subsidiaries	(2,996)	(451)
Loan advances	(0)	(155)
Collection of loans receivable	1	1
Other	(88)	(31)
Net cash provided by (used in) investing activities	4,739	(2,539)

(Unit: Million yen)

	Six-month period ended September 30, 2019 (From April 1, 2019 to September 30, 2019)	Six-month period ended September 30, 2020 (From April 1, 2020 to September 30, 2020)
Cash flows from financing activities		
Proceeds from short-term borrowings	—	1,848
Decrease in short-term loans payable	—	(13,398)
Proceeds from share issuance to non-controlling shareholders	—	7,567
Dividends paid	(2,447)	(2,448)
Dividends paid to non-controlling interests	(56)	(49)
Payments from changes in capital of subsidiaries that do not result in change in scope of consolidation	—	(699)
Other	(25)	(26)
Net cash provided by (used in) financing activities	(2,529)	(7,206)
Effect of exchange rate change on cash and cash equivalents	(349)	(712)
Net increase (decrease) in cash and cash equivalents	10,556	195
Cash and cash equivalents at beginning of period	56,243	57,692
Increase in cash and cash equivalents resulting from inclusion of subsidiaries in consolidation	—	3,519
Cash and cash equivalents at end of period	66,800	61,407

(4) Notes to the Quaterly Consolidated Financial Statements

(Notes on premise of a going concern)

No relevant items.

(Notes on case of extreme change in shareholder's equity amount)

No relevant items.

(Important changes of subsidiaries during the term)

No relevant items.

TSUMURA SHENGSHI PHARMACEUTICALS CO., LTD. was included in the scope of consolidation in the first quarter because its importance had increased, although the company does not meet the conditions for transfer of specific subsidiaries.

(Application of specific accounting treatment to the preparation of quarterly financial statements)

(Deferment of cost variance)

Cost variance caused by seasonal changes in operation rates, etc. is expected to be eliminated for the most part by the end of the cost accounting period, which is, therefore, deferred as “current assets (other) or current liabilities (other).”