

**TSUMURA & CO.**

TSUMURA & CO.  
Second Quarter Business Results  
for Fiscal 2012

November 9, 2012

President, Representative Director

**Terukazu Kato**

## 2Q Consolidated Performance for Fiscal 2012, ending March 31, 2013

(¥ Million)

	Plan	FY2012 2Q	Vs. planned		Vs. FY2011 2Q	
			Amount	Change	Amount	Growth
Net sales	47,800	<b>51,048</b>	3,248	6.8%	5,185	11.3%
Operating profit	8,800	<b>11,034</b>	2,234	25.4%	1,203	12.2%
Recurring income	8,900	<b>10,976</b>	2,076	23.3%	1,065	10.7%
Net income	5,600	<b>6,884</b>	1,284	22.9%	1,742	33.9%

	Plan	FY2012 2Q	FY2011 2Q
Operating profit margin	18.4%	<b>21.6%</b>	21.4%
Dividends per share	¥30	<b>¥30</b>	¥30

## Key Points in 2Q Performance

**Net sales**                      **¥51,048 million**      Vs. planned **+6.8%**      YoY **11.3%**

**Sales exceeded target because of favorable prescription Kampo sales**

- Strengthened MR sales call activities (calling on as yet unvisited physicians)
- Increased number of Kampo medicine seminars, lectures, and other presentations

**Operating profit**            **¥11,034 million**      Vs. planned **+25.4%**      YoY **12.2%**

**Operating profit margin**            **21.6%**      Vs. planned **+3.2 pt**      YoY **0.2 pt**

- Sales growth offset worsening cost of sales ratio (2.6 pts), supporting record 2Q operating profit
- Increased production (higher production efficiency) resulted in cost of sales ratio coming in 0.2 pt lower than targeted 33.7%

**Recurring income**    **¥10,976 million**      Vs. planned **+23.3%**      YoY **10.7%**

- Record high 2Q recurring income

**Net income**                      **¥6,884 million**      Vs. planned **+22.9%**      YoY **33.9%**

- Previous 2Q had extraordinary losses  
(¥670 million loss on devaluation of investment securities and ¥290 million loss on disaster)

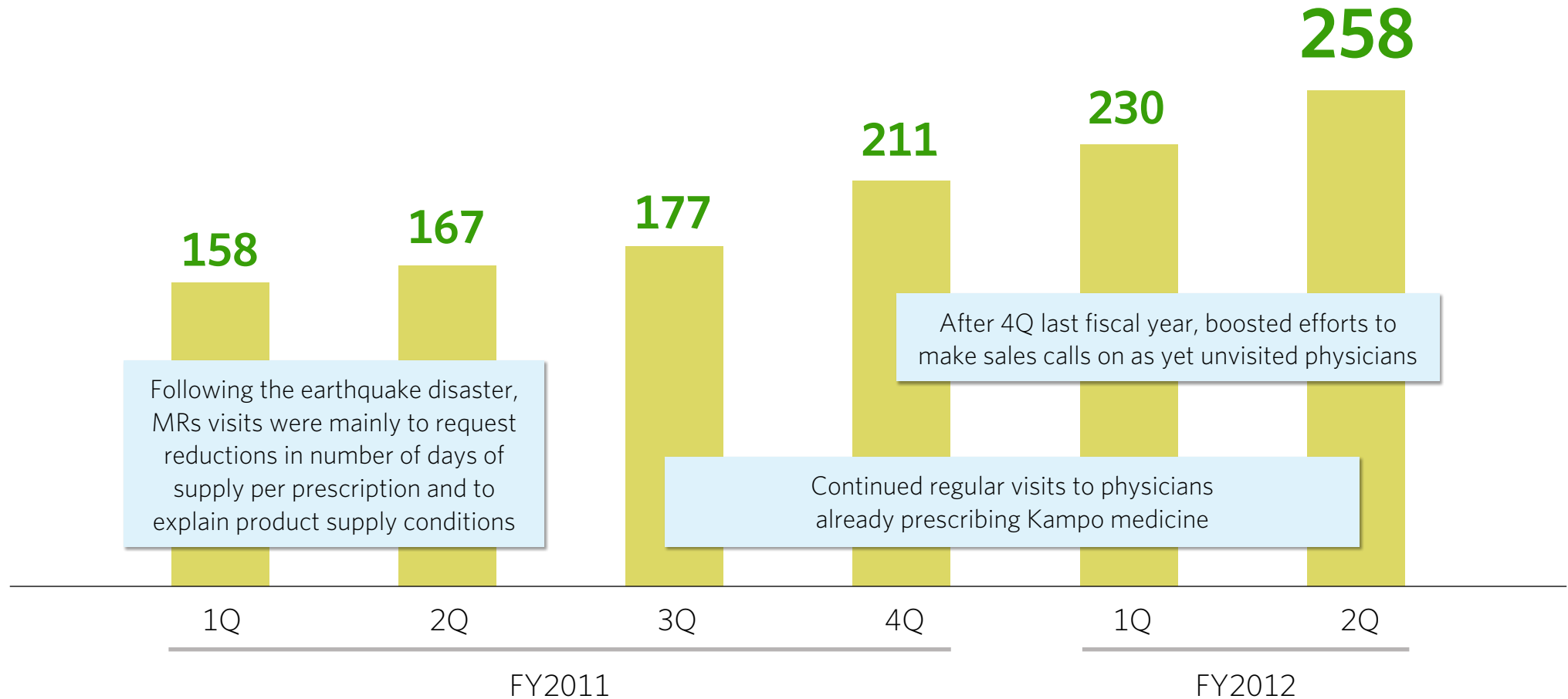
## Top 10 Kampo Products by Sales Amount

“Drug Fostering Program” formulations (¥ Million)

	Product name	FY2012 2Q	FY2011 2Q	YoY change		Actual sales growth
1	TJ-100 (Daikenchuto)	4,460	4,055	404	10.0%	14.7%
2	TJ-41 (Hochuekkito)	3,414	2,967	446	15.0%	15.1%
3	TJ-43 (Rikkunshito)	3,021	2,529	492	19.5%	19.0%
4	TJ-54 (Yokukansan)	3,000	2,298	702	30.6%	30.8%
5	TJ-24 (Kamishoyosan)	2,060	1,826	233	12.8%	17.5%
6	TJ-68 (Shakuyakukanzoto)	1,947	1,731	216	12.5%	16.2%
7	TJ-107 (Goshajinkigan)	1,894	1,769	124	7.1%	7.3%
8	TJ-114 (Saireito)	1,710	1,726	-15	-0.9%	0.6%
9	TJ-29 (Bakumondoto)	1,681	1,453	227	15.6%	18.9%
10	TJ-62 (Bofutsushosan)	1,336	1,260	75	6.0%	7.0%
—	TJ-14 (Hangeshashinto)	535	444	91	20.5%	25.5%
<b>Total of 129 prescription Kampo products</b>		<b>48,330</b>	<b>43,431</b>	<b>4,899</b>	<b>11.3%</b>	<b>13.3%</b>

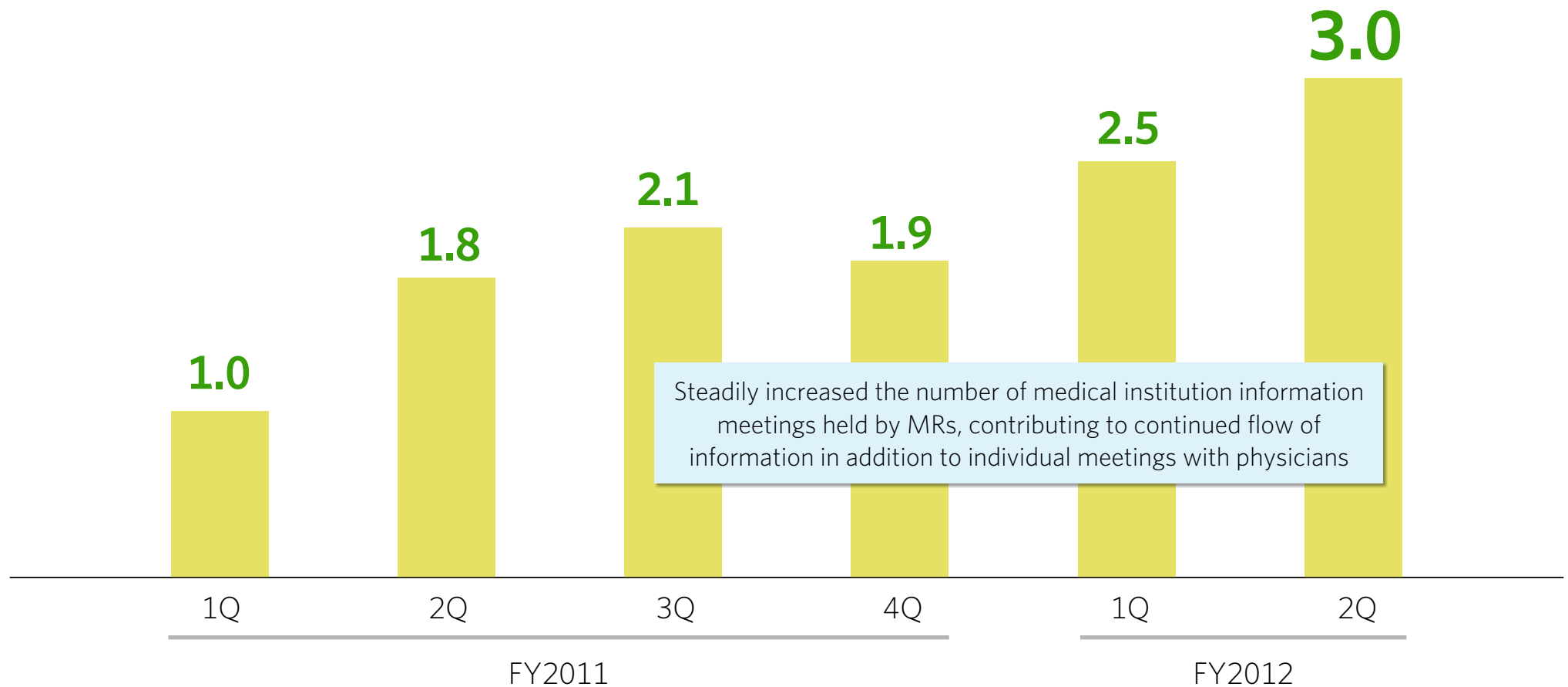
# MR Activities (1): Sales Calls on Physicians

Monthly number of sales calls on physicians per MR  
(times)



# MR Activities (2): Medical Institution Information Meetings

Number of medical institution information meetings per MR  
(times)

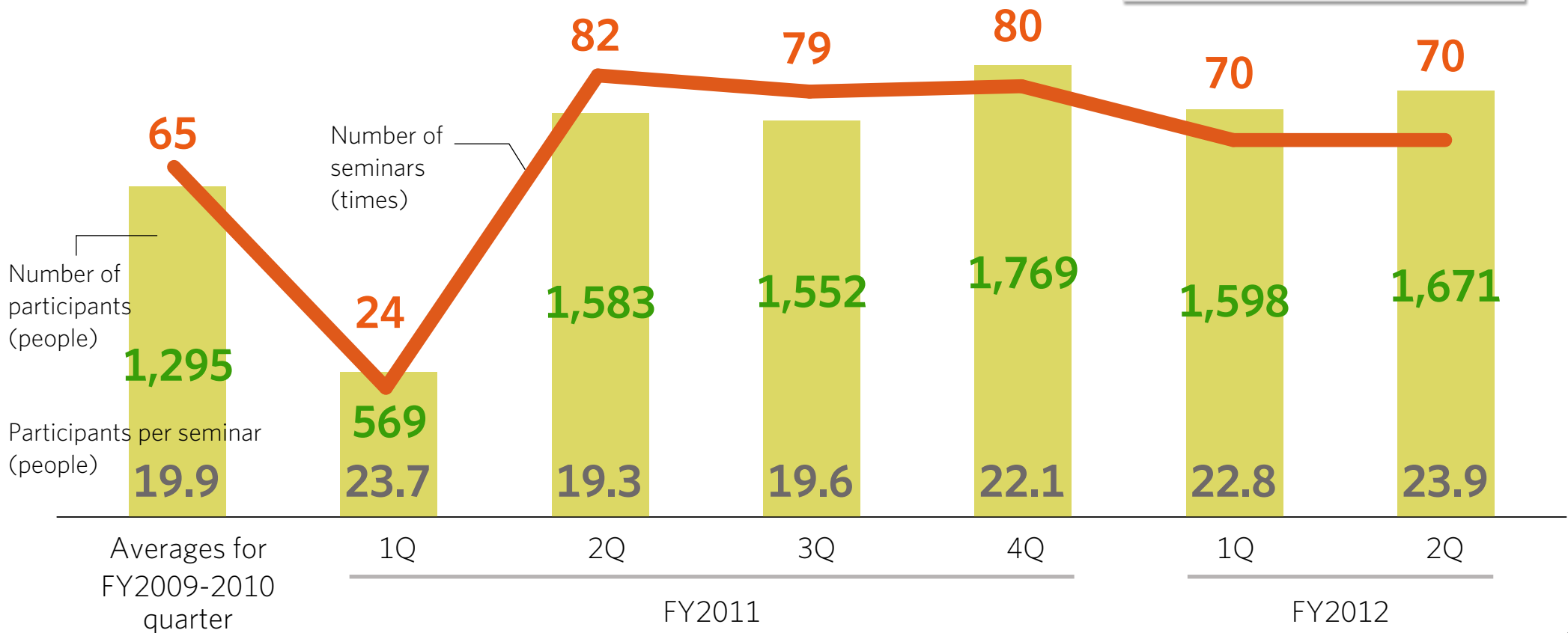


# MR Activities (3): Kampo Medicine Seminars

## Introductory and step-up seminars

The increase in number of physicians interested in Kampo medicine has boosted number of participants in individual seminars, improving efficiency

Planned seminars for FY2012  
**319 times**

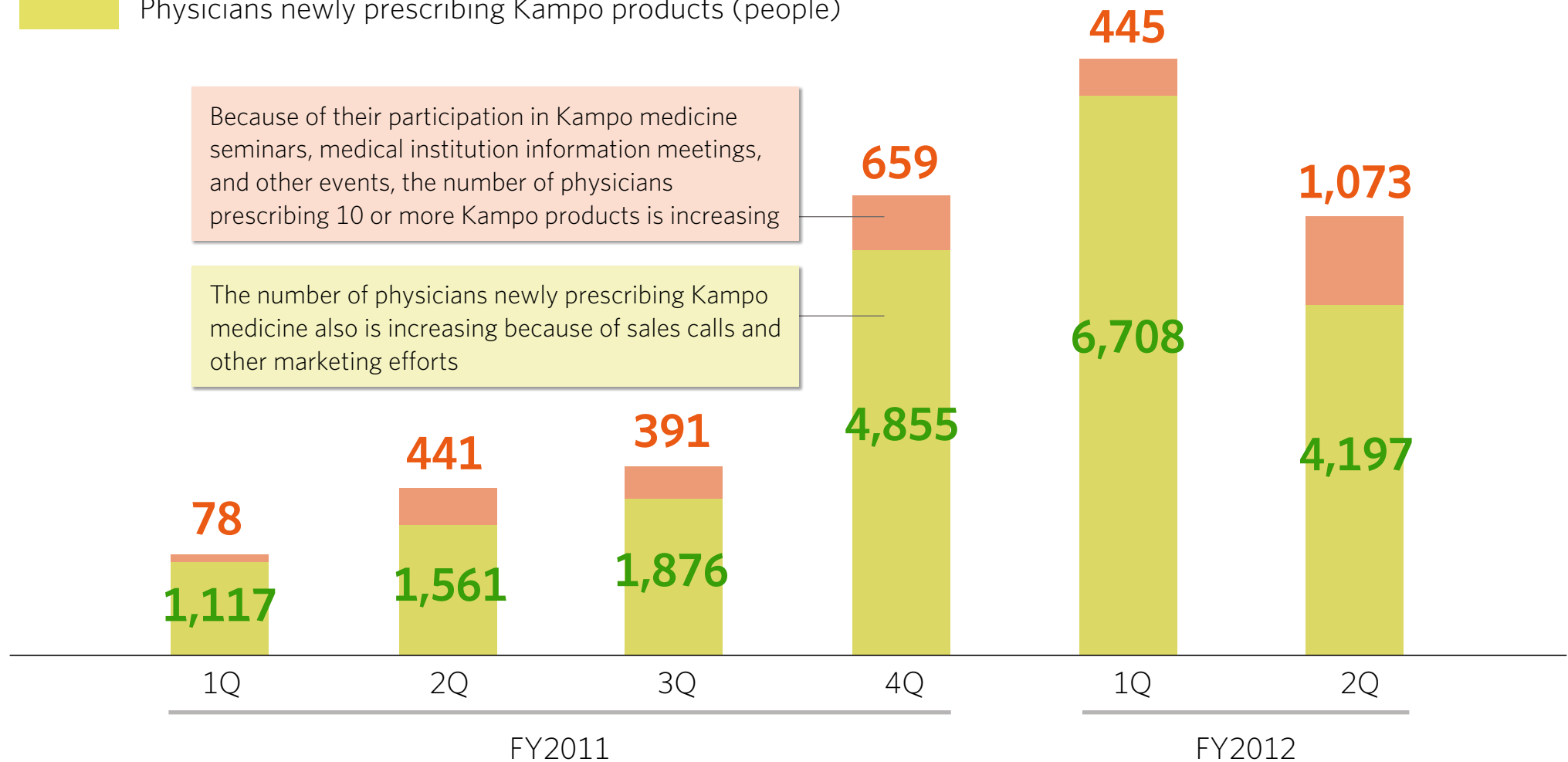


# Growth in Physicians Prescribing Kampo Medicine

- Physicians prescribing 10 or more Kampo products (people)
- Physicians newly prescribing Kampo products (people)

Because of their participation in Kampo medicine seminars, medical institution information meetings, and other events, the number of physicians prescribing 10 or more Kampo products is increasing

The number of physicians newly prescribing Kampo medicine also is increasing because of sales calls and other marketing efforts





## Analysis of 2Q Cost of Sales Ratio Compared with Last Fiscal Year

FY2011 2Q **30.9%** ► FY2012 2Q **33.5%** **2.6 pt increase**

Factors	FY2012 2Q	Full-year forecast	
		Announced May 2012	Revised
Jump in crude drug prices	1.6 pt	2.3 pt	1.9 pt
NHI price revision	1.2 pt	1.2 pt	1.0 pt
Raw materials price increase	0.2 pt	0.1 pt	0.1 pt
Unrealized gain	0.5 pt	0.1 pt	0.2 pt
Others	-0.9 pt	-0.3 pt	-0.7 pt
<b>Total</b>	<b>2.6 pt</b>	<b>3.4 pt</b>	<b>2.5 pt</b>

## Analysis of Inventories Increase

(¥ Billion)

B/S	FY2011 year-end	FY2012 1Q	FY2012 2Q	Impact of volume increase	Impact of crude drug prices	FY2012 year-end (estimate)	YoY difference (estimate)
Inventories	30.5	32.8	34.4	1.2	0.4	33.6	3.1
(Merchandise and finished goods)	6.1	5.6	6.0	0.2	0.2	7.7	1.6
(Work in process)	7.8	8.2	8.2	0.0	0.0	6.7	-1.1
(Raw materials and supplies)	16.6	19.0	20.2	1.0	0.2	19.2	2.6

## Revision of FY2012 Full-Year Performance Forecasts

(¥ Million)

	Original plan	Revised plan	Vs. planned		YoY	
			Amount	Change	Amount	Growth
Net sales	99,100	<b>104,500</b>	5,400	5.4%	9,049	9.5%
Operating profit	19,200	<b>22,800</b>	3,600	18.8%	1,566	7.4%
Recurring income	19,400	<b>22,900</b>	3,500	18.0%	1,116	5.1%
Net income	12,100	<b>14,400</b>	2,300	19.0%	968	7.2%

	Original plan	Revised plan	YoY
Operating profit margin	19.4%	<b>21.8%</b>	22.2%
Dividends per share	¥60 (Forecast)	<b>¥62</b> (Forecast)	¥60

**TSUMURA & CO.**

TSUMURA & CO.  
Medium-Term Management Plan  
(FY2012-2015)

November 9, 2012

President, Representative Director

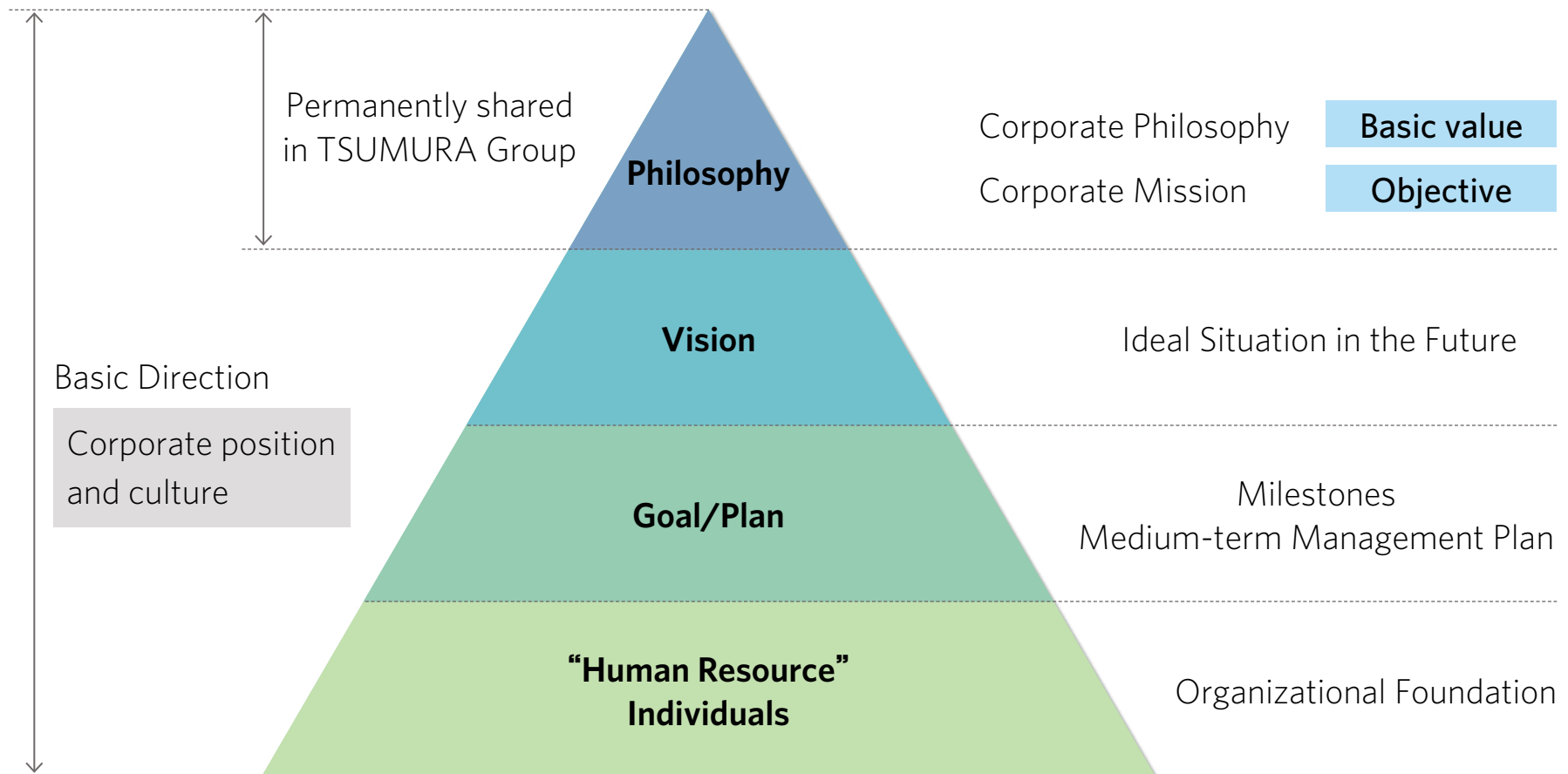
**Terukazu Kato**



# Basic Policies

# Philosophy-Based Management

## TSUMURA-DNA PYRAMID



# Basic Philosophy

## Corporate Philosophy

“The Best of Nature and Science”

The unchanging basic values that the Tsumura Group is committed to pursuing

## Corporate Mission

To contribute to the unparalleled medical therapeutic power of the combination of Kampo medicine and Western medicine

Tsumura’s significance (purpose) of existence in the eyes of the public



**The decision-making criteria for all corporate activities**

## Long-Term Business Vision “2021 Vision”

Aim to be a value-creation company that contributes to people’s health through its Kampo medicine business

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### The “Kampo” Company

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We shall contribute to creating a healthcare environment in Japan where all patients can receive treatment that includes Kampo medicine where appropriate in any healthcare institution or medical specialty.

### The “People” Company

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Kampo medicine is a pioneering field with no previous examples to build on worldwide. Therefore, we shall evolve into a corporate group comprised of people with professional skills that can independently pave the way forward for our Kampo business and is trusted by all.

### The “Global Niche” Company

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Leveraging the technology and know-how of the Tsumura Group to the maximum, we will make efforts to develop new business, such as launching TU-100 (Daikenchuto) in the U.S. pharmaceutical market and enhancing the quality of raw material crude drugs produced in China.





# FY2012-2015 Medium-Term Management Plan

# Operating Environment: The Future of Medical Treatment in Japan

- Expanding medical treatment needs because of growing elderly population
- Large increase in elderly people 65 years old or older over the next 30 years  
→ **Growth in the number of elderly people with multiple and chronic disorders**

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- Rise in treatment needs of patients with female disorders because of increase in population of women working all their lives
  - Higher percentage of women working all their lives because of the decline in the workforce between the ages of 15 to 64  
→ **Increase in disorders particular to women**

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- Expansion in the role of primary care
  - Possible implementation of a general physician (primary care) system

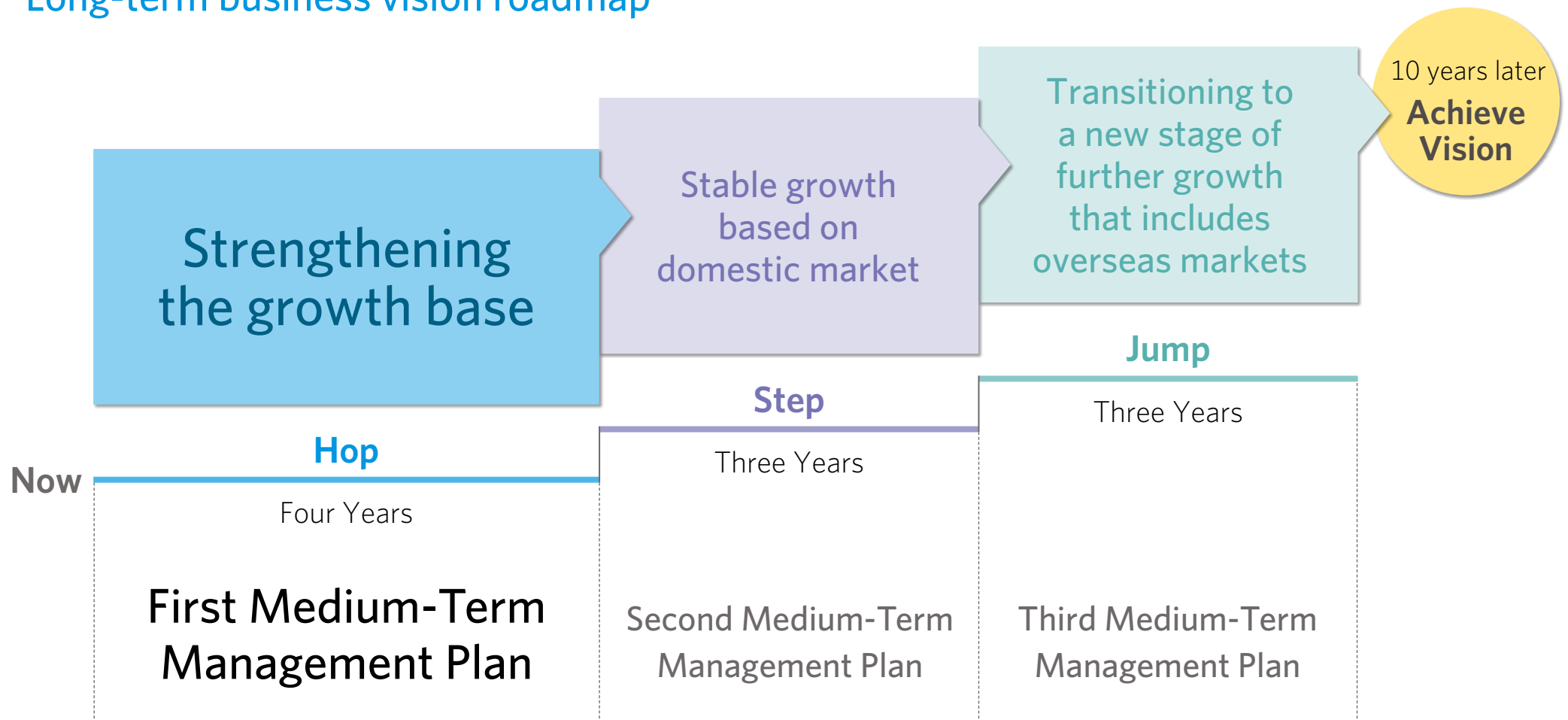


New Medium-Term Management Plan Theme

Strengthening the Growth Base  
to Achieve Greater Value Creation

# Positioning of the New Medium-Term Management Plan

## Long-term business vision roadmap



# Strategic Issues

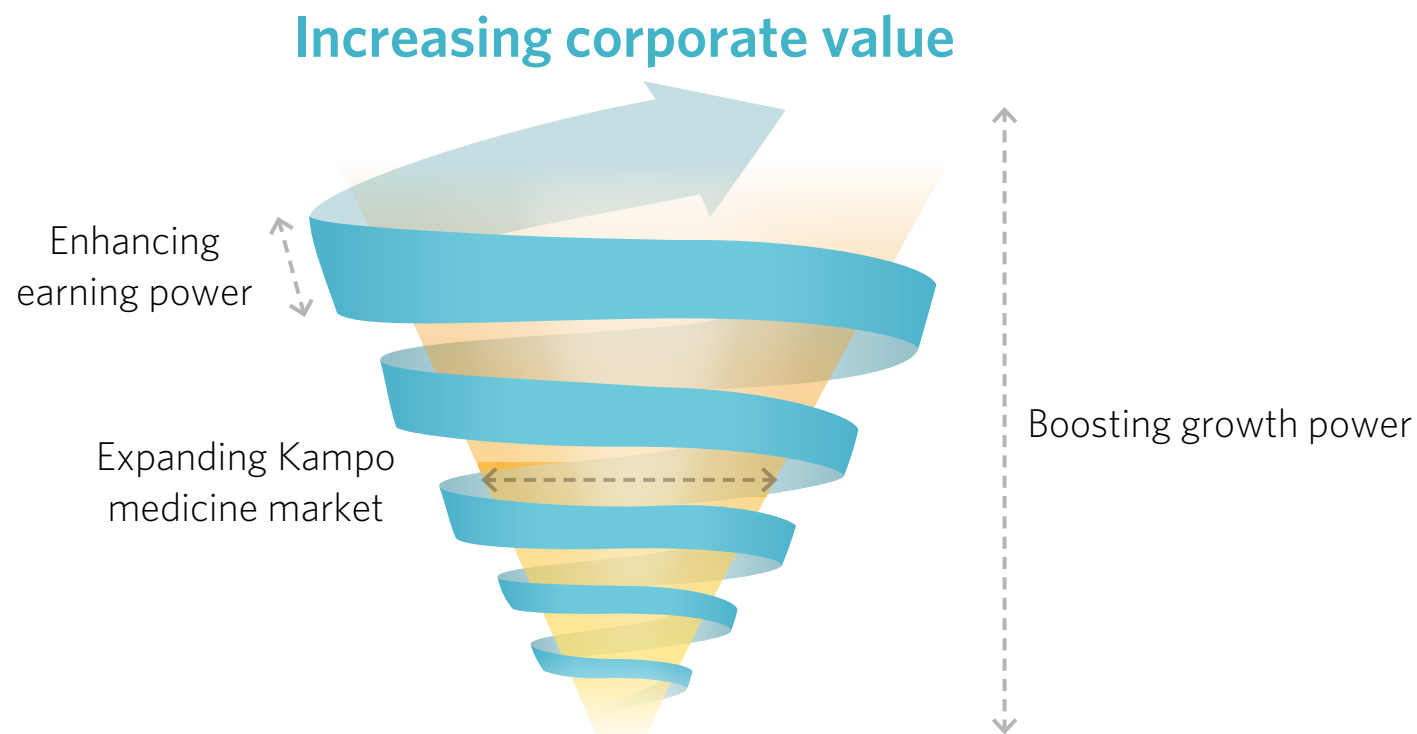
**1 Expanding the Kampo Medicine Market**  
Expand the prescription Kampo product market in Japan

**2 Enhancing Earning Power**  
Reform the Company's cost structure through the introduction of new technology and other measures

**3 Executing Effective Financial and Capital Policies**  
Increase corporate value by executing effective financial and capital policies

# Reaching Cruising Speed for Boosting Growth and Corporate Value

Aim for sustained growth at optimum speed by pursuing our strategic issues



**Strengthening the growth base to achieve greater value creation**

Expand the prescription Kampo product market in Japan

Reform the Company's cost structure through the introduction of new technology and other measures

Increase corporate value by executing effective financial and capital policies

## FY2015 (ending March 31, 2016) Performance Targets

Net sales **¥123.0 billion**

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Operating profit **¥29.5 billion**

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Operating profit margin **24%**

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Net income **¥19.0 billion**

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EPS **¥269**

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ROE **14%**

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Strategic Issue 1:

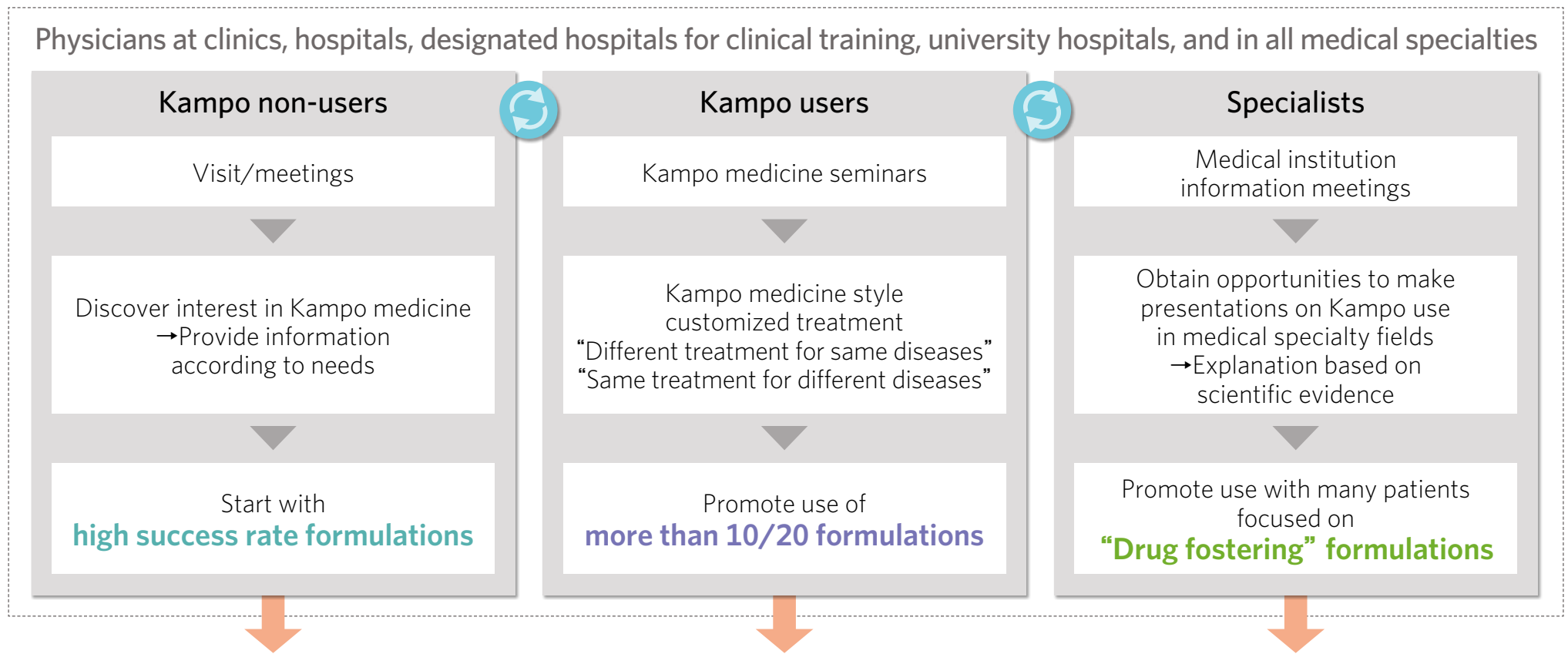
Expanding the Kampo Medicine Market

Expand the prescription Kampo product market in Japan



# Expansion Strategy for Kampo Medicine Market

Pursue marketing strategies that respond to the needs of physicians (institutions)



**Kampo products used in daily medical practice in all medical institutions and specialty fields**

# Strategic Expansion in Use of Different Kampo Formulations

Aim for efficient increase in popularity of Kampo treatments



# Kampo Medicine Education System

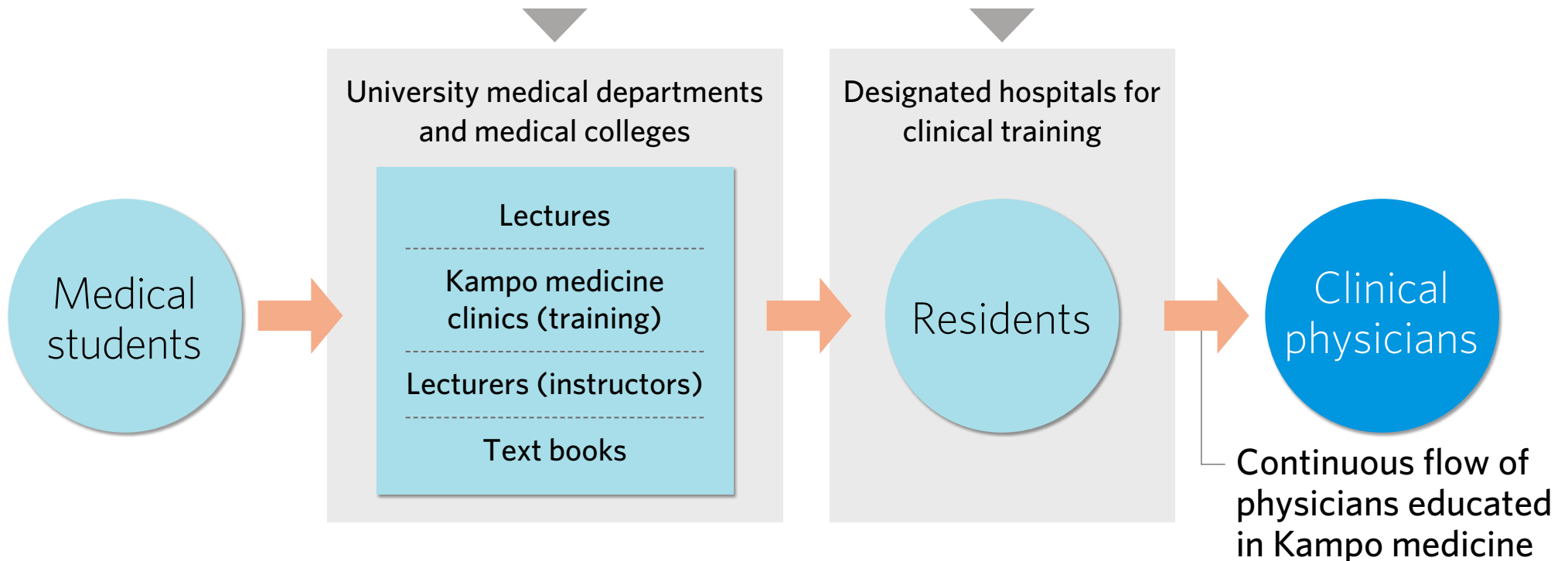
Before graduation > > > > > > > > > > > >

Immediately after graduation > >

Post-graduation > >

**Improvement, establishment, and evolution of Kampo medicine education at university medical departments, medical colleges, designated hospitals for clinical training, and other medical institutions**

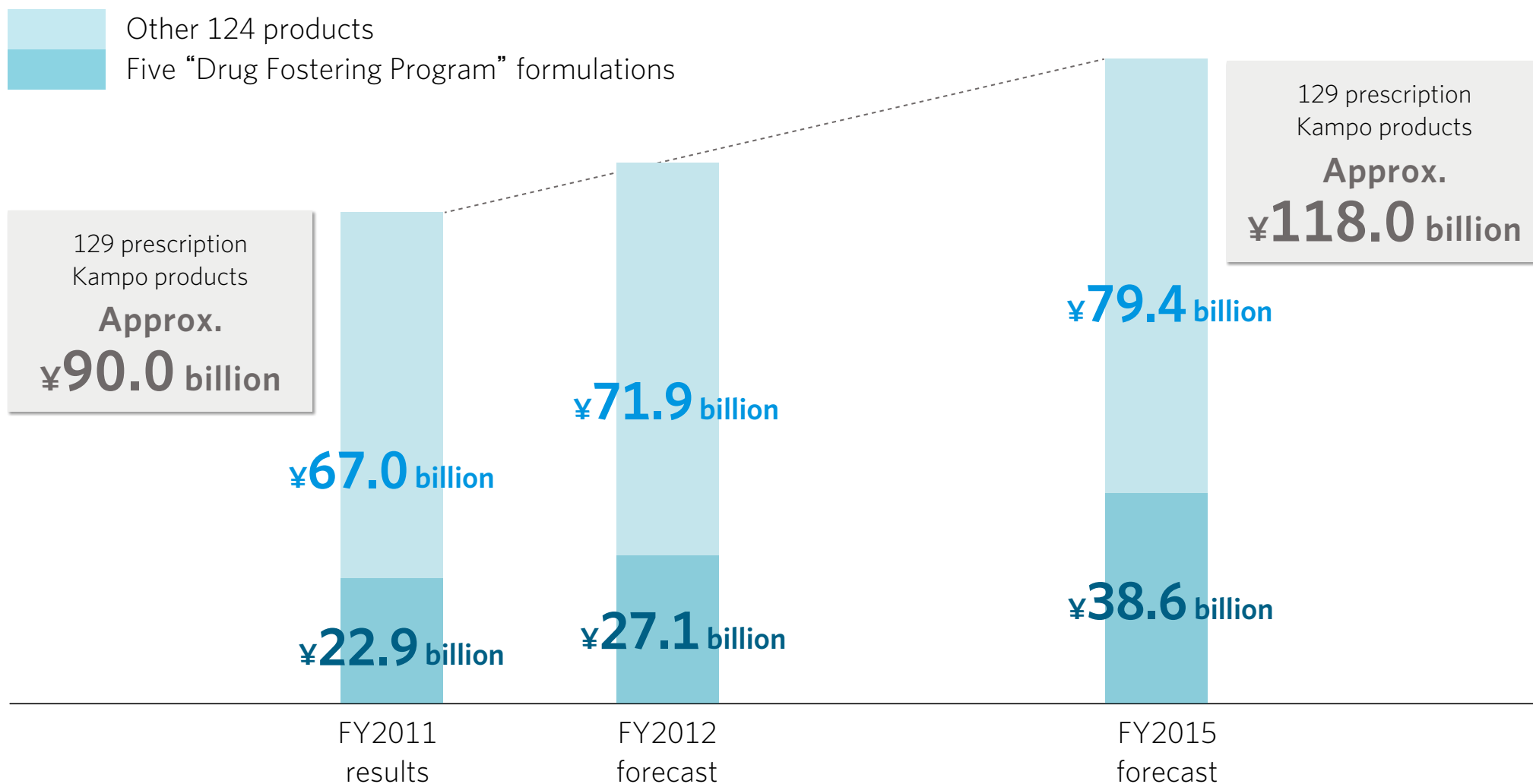
**Kampo Medicine Seminars**




# Double Blind Trials (DBT) of “Drug Fostering Program” Formulations

Formulation no.	Research project Target diseases Target no. of cases	Institution in-charge No. of institutions	No. of cases	FY2011				FY2012				FY2013				FY2014				FY2015			
				1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q
TJ-100 DKT Forum	Colon Team (clinical pharmacology) 400	Kitasato University Approx. 50 institutions	386 (88) (Jun 2011 completed)	Jan 2009 - Jun 2011								<ul style="list-style-type: none"> <li>Colon Team Presentation at the Japan Surgical Society planned for 04/13</li> <li>Clinical Pharmacology Team Presentation at the Japan Surgical Society planned for 04/13</li> </ul>											
	Hepatic Surgery Team 200	Kushiro Rosai Hospital Approx. 30 institutions	231 (May 2011 completed)	Feb 2010 - May 2011								<ul style="list-style-type: none"> <li>Oct 2012 JDDW 2012 Kobe</li> </ul>											
	Stomach and Esophagus Team 240	Oita University Approx. 30 institutions	204 (As of Sep 2012)	Jan 2011 - Dec 2012																			
TJ-100	JAPAN-PD STUDY 220	Wakayama Medical University 11 institutions	—					Aug 2012 - Aug 2014															
	Crohn's disease 120	Keio University 10 institutions	—					Jun 2012 - May 2014															
TJ-43	FD 430	Keio University Grants-in-Aid for Scientific Research	—	Feb 2011 - Jan 2013																			
	Gastroesophageal reflux disease 240	Osaka City University	—	Aug 2011 -				<ul style="list-style-type: none"> <li>Sep 2012 completed</li> </ul>															
TJ-54	Schizophrenia 120	Shimane University Grants-in-Aid for Scientific Research	—	Mar 2011 - Feb 2012				<ul style="list-style-type: none"> <li>Sep 2012 completed</li> </ul>															
	BPSD 140	Tohoku University Grants-in-Aid for Scientific Research	—	Feb 2011 - Jan 2013																			
TJ-107	GONE 80	Asahikawa Medical University	93 (Mar 2010 completed)																				
	GENIUS 310	Kyushu University Grants-in-Aid for Scientific Research	186 (May 2012)	Oct 2010 - Mar 2013				<ul style="list-style-type: none"> <li>May 2012 halted and analyzing</li> </ul>															
TJ-14	HANGESHA-C 90	National Hospital Organization Osaka National Hospital	93 (May 2012 completed)	Oct 2010 - May 2012				<ul style="list-style-type: none"> <li>Oct 2012 ESMO 2012 Vienna</li> </ul>															
	HANGESHA-C 90	Kanagawa Cancer Center	94 (Jul 2012 registration completed)	Oct 2010 - Sep 2012				<ul style="list-style-type: none"> <li>Sep 2012 completed</li> </ul>															

# Sales Forecast: Past Trends and Cumulative Growth in Formulations





Strategic Issue 1:  
Expanding the Kampo Medicine Market

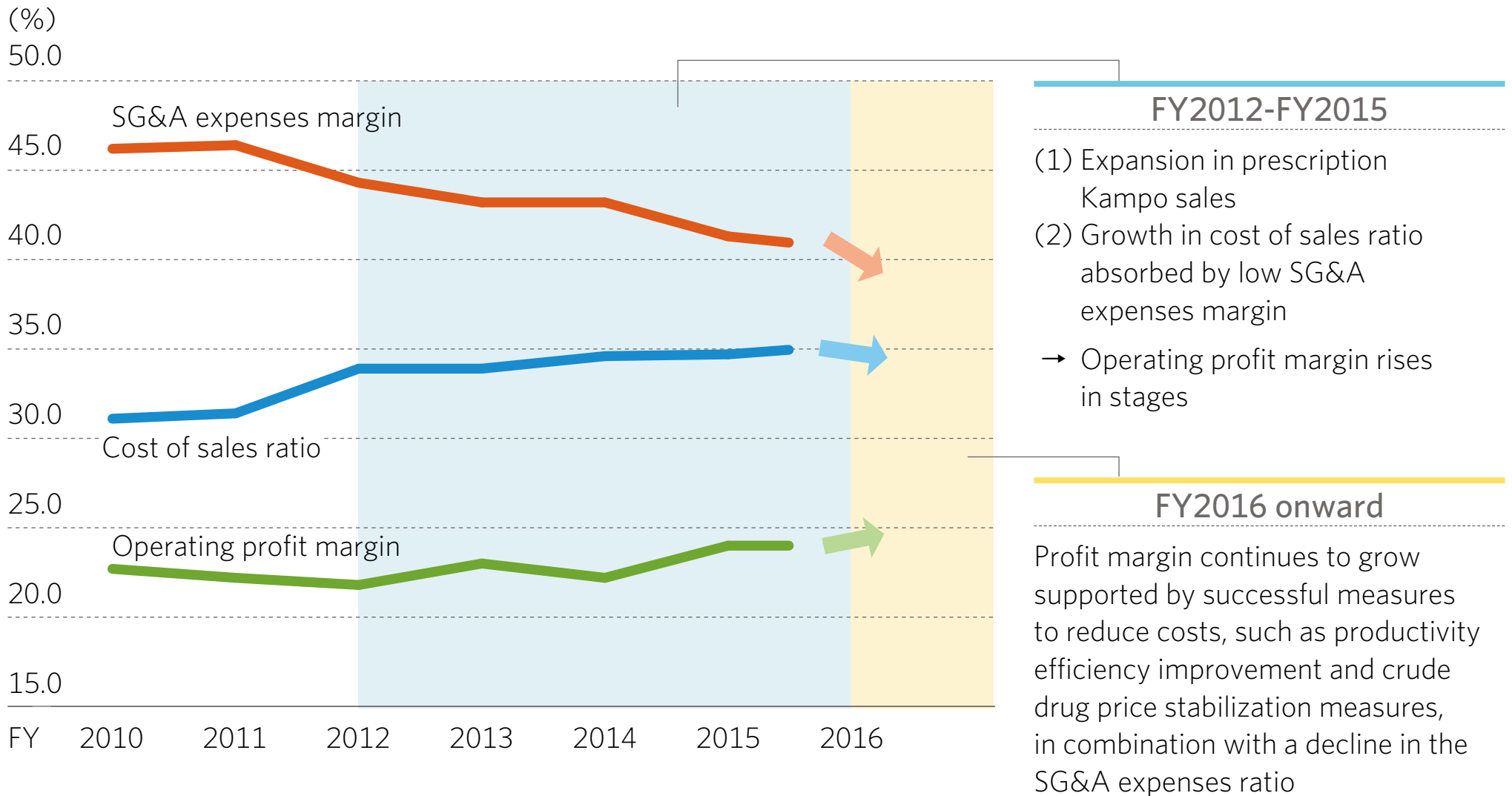
Development of  
TU-100 (Daikenchuto) in U.S. market



## Strategic Issue 2: Enhancing Earning Power

Reform the Company's cost structure through the introduction of new technology and other measures

# Improvement in Profitability Scenario from a Medium-Term Perspective





## Reform of Cost Structure

- **Determination and implementation of continued cost reduction measures to cover increases in such expenses as depreciation expense**
- **Building a new manufacturing system that is more efficient and uses less manpower and strengthening of operating system**
- **Increase production efficiency for raw material crude drugs by expanding cultivated land under own management\***

Licorice: Aiming to achieve large-scale cultivation by 2013 and shift to 100% cultivated supply in future

Ginseng: Established a base for cultivating ginseng in Baishan, China in fall of 2012 and plan to start harvesting in 2015

Also taking such measures as expanding SHENZHEN TSUMURA MEDICINE-managed farm\* for cultivation of priority crude drugs

\* Farms for which Tsumura directly provides cultivation guidance and has an understanding of cultivation costs and can set procurement prices (including farmland managed through partner companies)

- **Improve marketing efficiency through scientific evidence based promotion activities**

# Measures to Reduce Manufacturing Cost

Establish a manufacturing base that will contribute to a lower manufacturing cost by proceeding with reform of cost structure by introducing new Kampo medicine production technology and achieving greater production efficiency for crude drugs

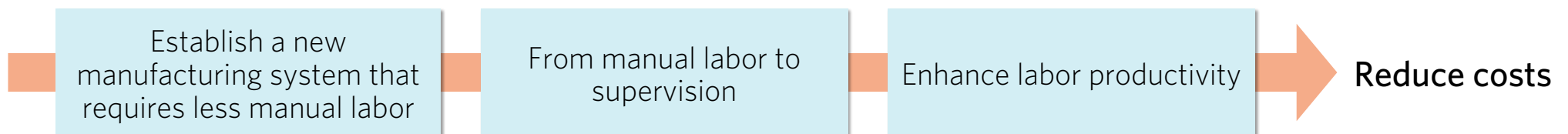
- **Increase the current manufacturing capacity**

Determine and introduce optimal processes for operating system

- **Determine and introduce new production technology**

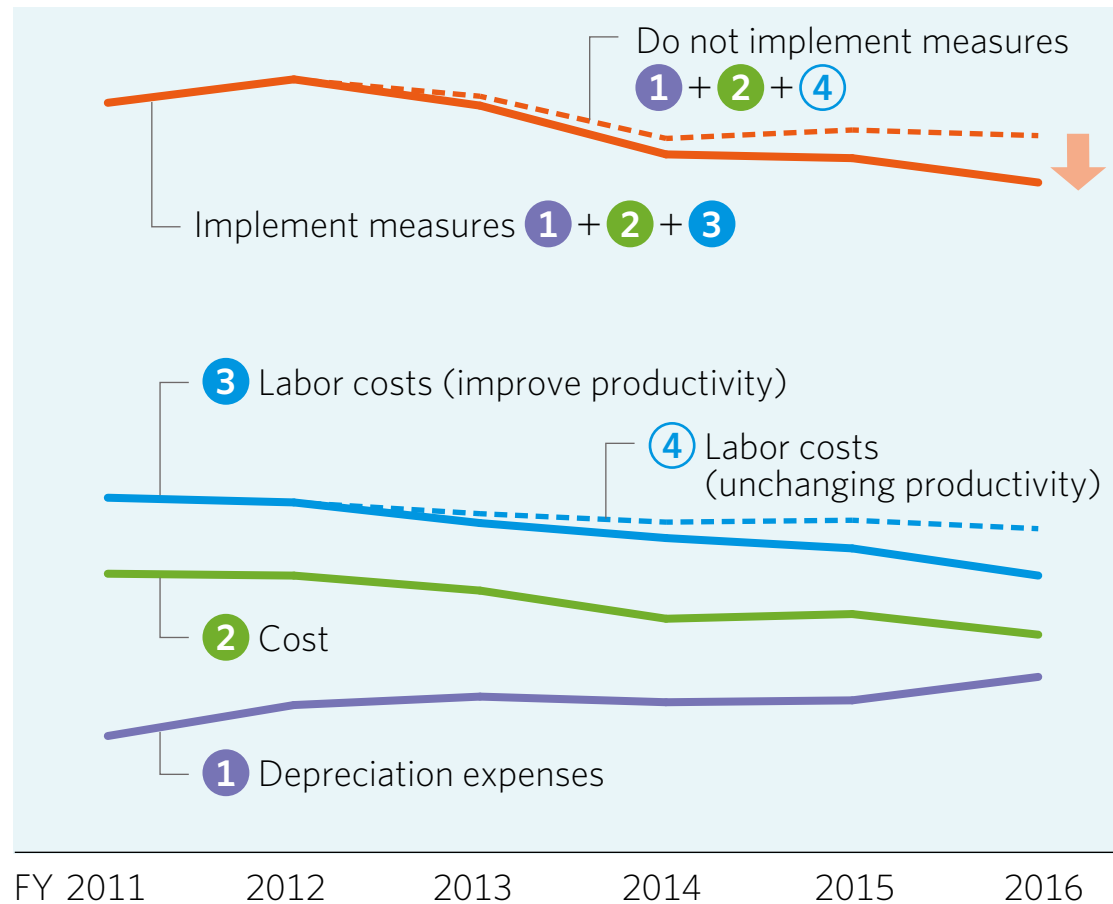
Build a new manufacturing system that is more efficient and uses less manpower

- **New powdered extract production system** → scheduled to come on stream in FY2016 (Ibaraki Plant)
- **New granulation systems**
  - scheduled to come on stream in FY2013 (Ibaraki Plant)
  - scheduled to come on stream in FY2015 (Shizuoka Plant)
- **New packaging system** → scheduled to come on stream in FY2015 (Shizuoka Plant)
- **Increased use of robot technologies and other measures**



# Raising Productivity Through the Introduction of New Production Technology and Other Measures

## Visualization of possible movement in unit manufacturing costs



### Characteristics of Tsumura's capital investments

- Make capital investments through a **step-up process** to raise capacity (powdered extract, granulation, packaging) at each production process
- **Highly flexible** policy that can be adjusted to demand/sales trends
- Capital investment in **new production technology**

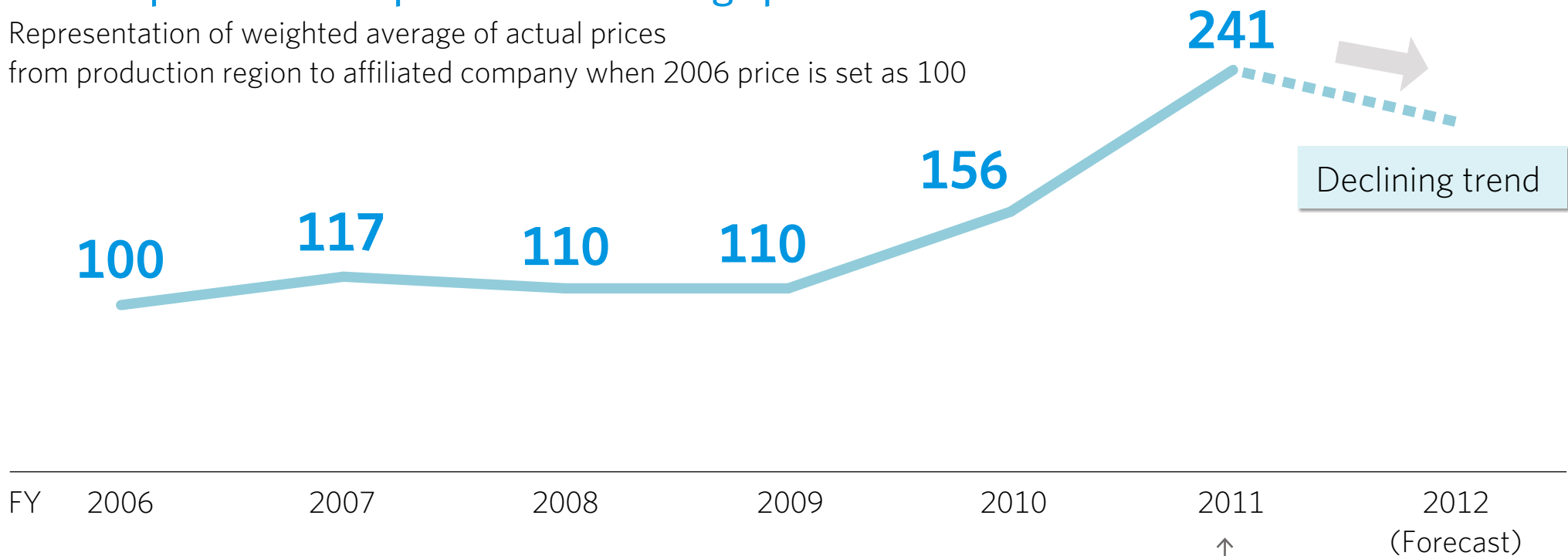
Depreciation expenses rise in greater proportion to the increase in production unit volume. On the other hand, the Company can expect an improvement in labor productivity based on the use of new technology and strengthening of the operating system, enabling Tsumura to target lower production costs.

Taking into account the product life of Kampo products and the useful life of facilities when evaluating the return on investment period, Tsumura's capital investments are profitable.

# Stability of Crude Drug Prices





## Overall procurement price of crude drugs produced in China

Representation of weighted average of actual prices from production region to affiliated company when 2006 price is set as 100



- (1) Local demand in China increased;
- (2) Unfavorable weather;
- (3) Speculative investment cornering market

## Impact on Cost of Sales Ratio

Factors	Impact on cost ratio	
Crude drug price		<b>+4.0 pt</b>
NHI drug price revision (FY2012, FY2014)		<b>+2.5 pt</b>
Depreciation expenses		<b>+0.6 pt</b>
Production increase, greater efficiency (new technology), others		<b>-3.8 pt</b>
<b>Cost of sales ratio</b>	FY2011→FY2015 <b>+3.3 pt</b>	

# Selling, General and Administrative Expense (SG&A)

Tsumura's R&D investment system → capital investment necessary to support future growth  
U.S. drug development, clinical and basic research in Japan, crude drug cultivation research, and others

R&D investment over the four years from FY2012 to FY2015

approx. **¥24 billion**

Will pursue improved efficiency for other expenses (mainly fixed costs)



**SG&A will decline in stages**

**Expect reduction in SG&A to net sales ratio to the 41% level  
by the end of current medium-term management plan (FY2015)**


FY2011 → FY2015

SG&A ratio  **5.1 pt**

Operating profit margin  **1.8 pt**

## Capital Investment to Achieve Sustained Growth

- Expect total capital investment to be approx. ¥55 billion during FY2012-FY2015
- Depreciation expenses will rise about ¥500 million annually
- Will only make capital investments to meet demand growth
- Allocated to production and crude drug storage facilities, maintenance, and others
- Plan to fund all capital investments internally



Strategic Issue 3:  
Executing Effective Financial and  
Capital Policies

Increase corporate value by executing  
effective financial and capital policies



# Financial and Capital Policies

## Expand earnings

- Achieve sustained growth in pharmaceutical Kampo product sales by strengthening marketing activities
- Increase profitability by reforming cost structure through greater productivity and sales efficiency and other measures

## Increase asset efficiency

- Control raw material crude drug inventories
- Improve capital efficiency
- Consider selling of non-operating assets (some securities, etc.)

## Enhance return of profits to shareholders

- Increase corporate value by reinvesting in business to ensure sustained development and growth of Kampo business
- Keeping in mind medium- and long-term profit levels, pay out appropriate dividends
- Flexibly consider share buybacks

**Increase corporate value by executing effective financial and capital policies**

→ Aim for 14% ROE

# Human Resource Policy

- Kampo medicine is a pioneering field with no previous examples to build on worldwide. Therefore, we shall nurture human resources with professional skills that can independently pave the way forward for our Kampo business.
- We will continue to target increasing our percentage of employment of people with disabilities to 4% on a nonconsolidated basis as well as creating environments where they can work easily.
- We will provide work environments that promote gender equality where a diverse workforce can realize their potential.
- We are committed to the Tsumura Group's own unique brand of employment diversity in cultivation, processing, and other areas of our Kampo business operations. Within this policy, we target expanded employment of people with disabilities and the elderly and job creation among farmers who cultivate crude drugs in Japan, China, and Laos.



# Environmental Resource Policy

- We consider the natural environment of its crude drug production regions in all countries to be an important resource in our business.
- We carry out cultivation research and environmental protection measures to ensure sustainable supplies of crude drugs.
- Tsumura implements recycling measures rooted in the Earth, such as recycling crude drug botanical residues.



For further information, please contact:

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TSUMURA & CO.  
Investor Relations Group  
Corporation Communications Dept.

**Phone: 81-3-6361-7107**

#### **Cautionary items regarding forecasts**

- The performance targets for the medium-term management plan stated in these materials are merely indicators of targeted direction and not official performance forecasts. Please refer to the disclosure provided in the annual business report (*tanshin*) in accordance to the regulations of the Tokyo Stock Exchange for the official performance forecasts.
- The materials and information provided in this presentation contain so-called forward-looking statements. Readers should be aware that realization of these statements can be affected by a variety of risks and uncertainties and that actual results could differ significantly.
- Changes in the 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 impact negatively on the Company's performance or financial position.
- In the unlikely event that sales of the Company's core products were halted or declined substantially due to a defect, unforeseen side effect or some other factor, it would have a major impact on the Company's performance or financial position.