

TSUMURA & CO.

Business Results for Fiscal 2014

May 13, 2015

President, Representative Director

Terukazu Kato



Business Results for Fiscal 2014

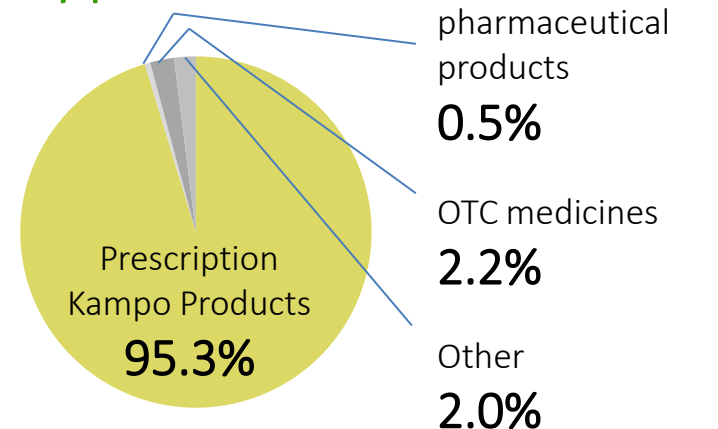
Consolidated Performance for Fiscal 2014

(¥ million)

	Plan	FY2014	Achievement	FY2013	YoY	
					Amount	Change
Net Sales	111,400	110,438	99.1%	110,057	380	0.3%
Operating Profit	18,200	19,491	107.1%	22,461	-2,969	-13.2%
Recurring income	18,400	21,583	117.3%	23,966	-2,383	-9.9%
Net income	11,800	14,075	119.3%	18,050	-3,975	-22.0%

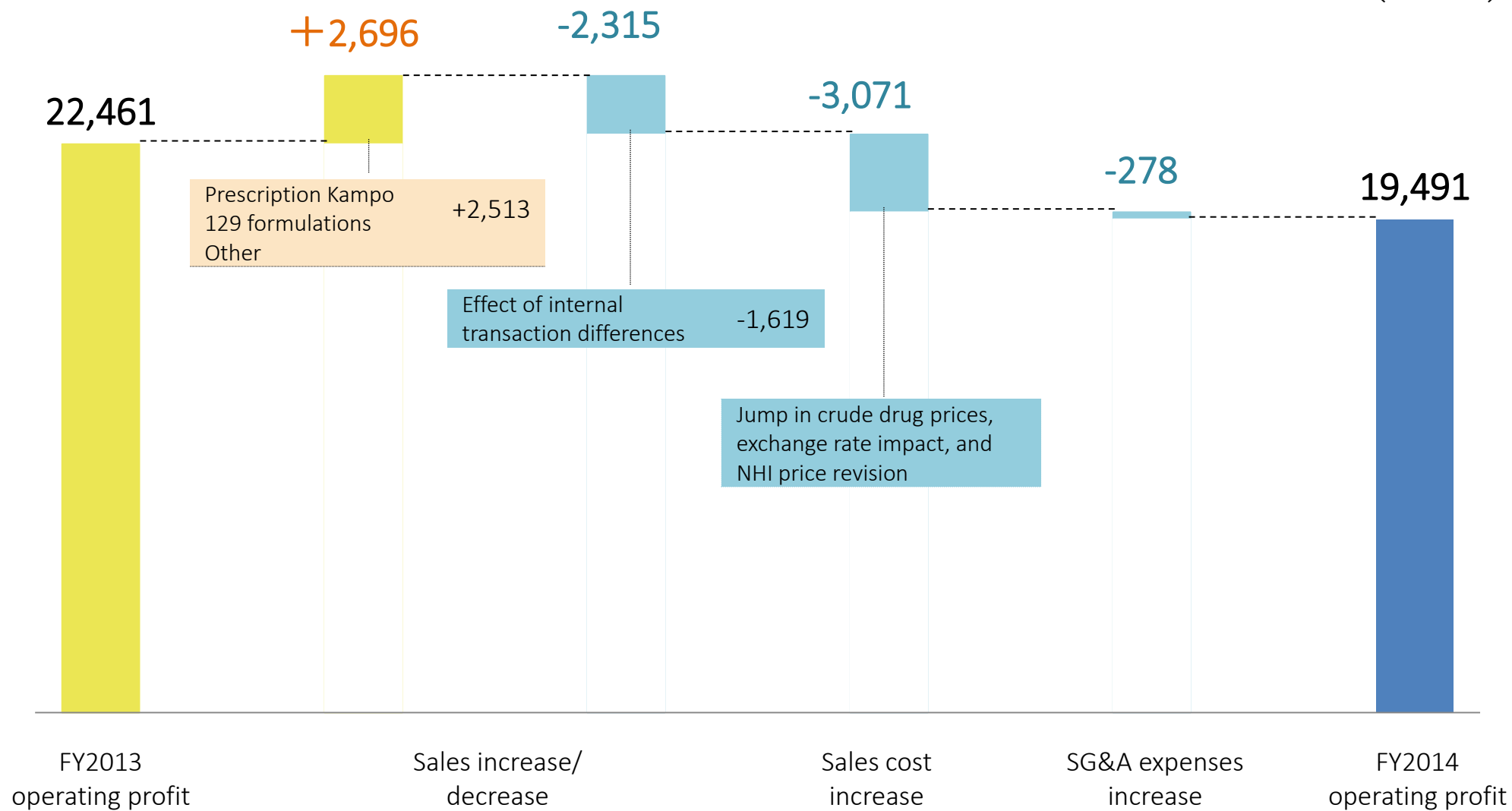
	Plan	FY2014	FY2013
Operating profit margin	16.3%	17.6%	20.4%
EPS	¥167	¥199	¥255
ROE	8.8%	10.1%	14.5%

Sales by product



Factors in Increase / Decrease of Operating Profit

(¥ million)

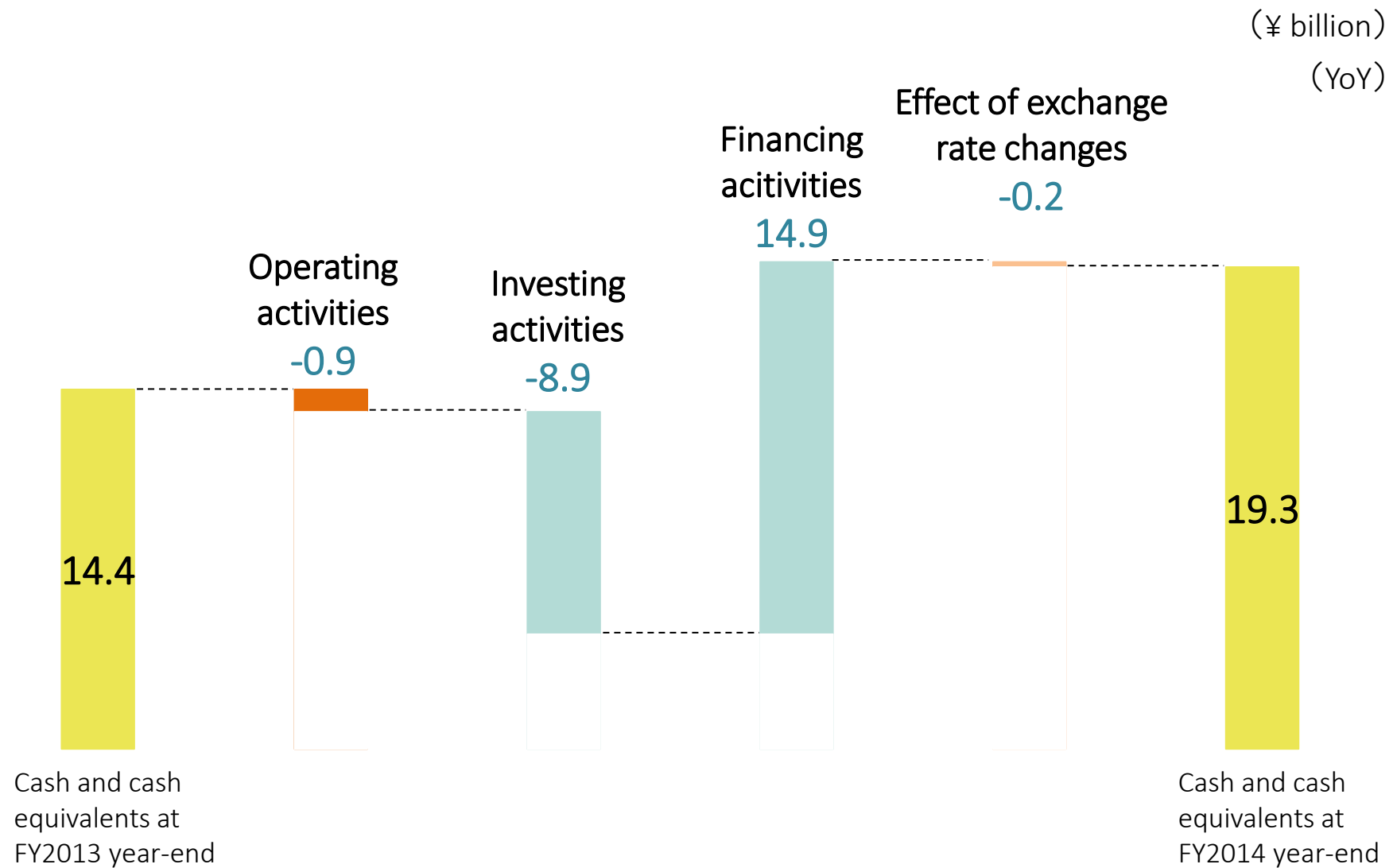



Analysis of Inventories Increase

(¥ billion)

B/S	FY2013 year-end	FY2014 year-end	YoY	Impact of volume change	Impact of crude drug prices	Impact of exchange rate	Other
Inventories	43.4	50.7	7.2	0.5	5.9	1.6	-0.8
(Merchandise and finished goods)	8.8	8.8	0.0	-0.9	0.8	0.0	0.0
(Work in process)	10.5	13.2	2.7	1.0	1.9	0.0	-0.3
(Raw materials and supplies)	24.0	28.5	4.5	0.4	3.0	1.5	-0.5

Cash Flow Position





Addressing Strategic Issues and Progress Status

1. Expanding the Kampo Medicine Market
2. Enhancing Earning Power
3. Executing Effective Financial and Capital Policies

FY2014 Pharmaceutical Product Price Growth Rates (Overall Market / Tsumura)

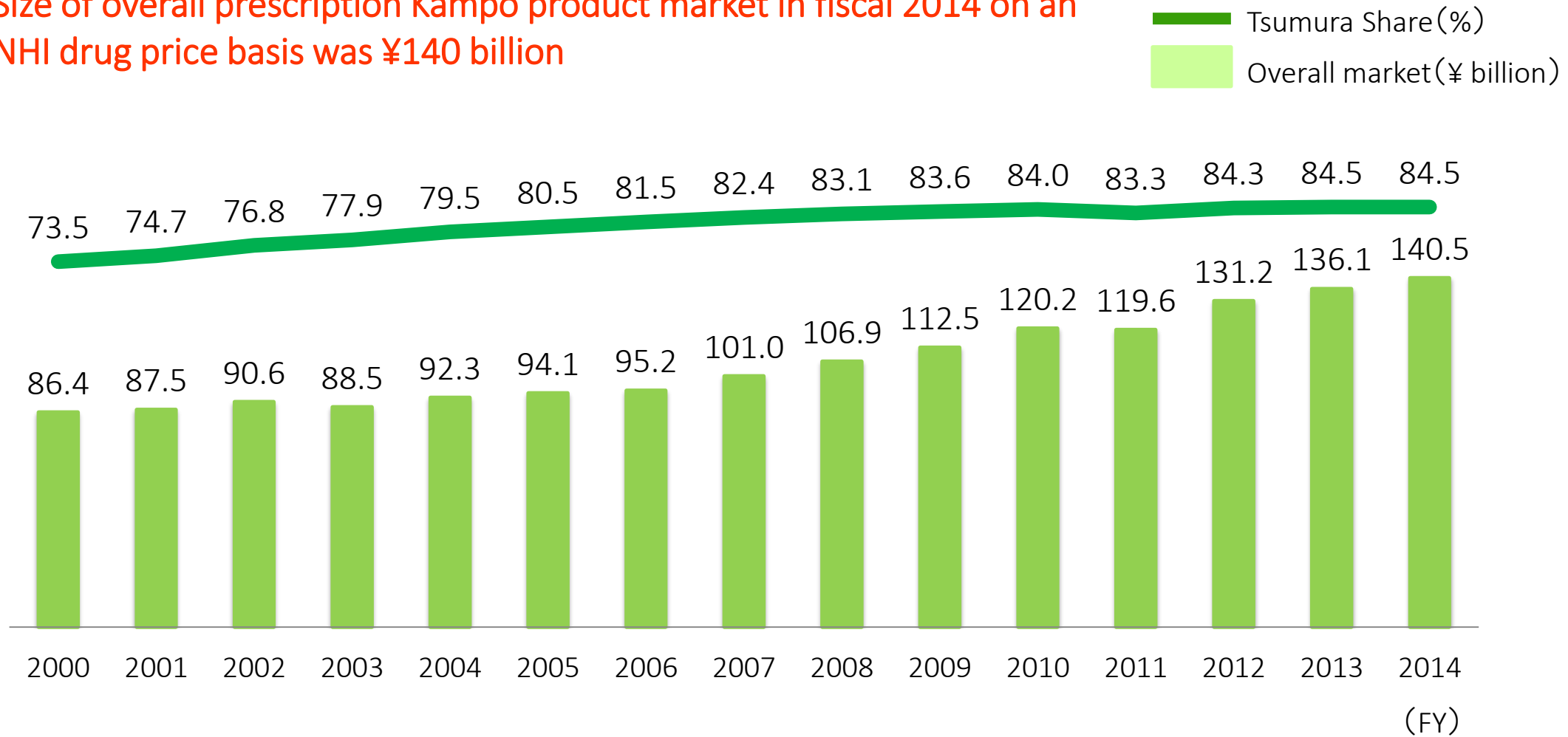
	April - June	July – September	October – December	January – March	April - March
Overall market price	-2.5%	-0.0%	1.1%	-1.0%	-0.6%
Tsumura price	1.3%	3.9%	4.8%	2.7%	3.2%
Gap	3.8%	3.9%	3.7%	3.7%	3.8%

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In FY2014, the domestic pharmaceutical market saw negative growth, chiefly reflecting the policy of reducing medical expenses, including the NHI price revision, temporary demand in the previous fiscal year in association with the consumption tax hike, and a reduction in consultation.

Prescription Kampo Product Market Trends

Size of overall prescription Kampo product market in fiscal 2014 on an NHI drug price basis was ¥140 billion



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Top 10 Kampo Products by Sales Amount

(¥ million)

	Product name	Main effectively treatable disorders	FY 2014	FY 2013	Y o Y Change	
1	TJ-100 (Daikenchuto)	Abdominal pain / abdominal flatulence	9,993	9,785	207	2.1%
2	TJ-41 (Hochuekkito)	Reinforcement of physical strength after illness / anorexia , etc.	6,965	6,883	81	1.2%
3	TJ-54 (Yokukansan)	Neurosis / insomnia , etc.	6,895	6,628	267	4.0%
4	TJ-43 (Rikkunshito)	Gastritis / maldigestion / anorexia , etc.	6,633	6,612	20	0.3%
5	TJ-68 (Shakuyakukanzoto)	Pain accompanying sudden muscle spasms , etc.	4,440	4,179	261	6.2%
6	TJ-24 (Kamishoyosan)	Oversensitivity to cold / menstrual irregularity / climacteric disturbance , etc.	4,285	4,264	21	0.5%
7	TJ-29 (Bakumondoto)	Coughing / bronchitis / bronchial asthma	4,178	3,996	181	4.5%
8	TJ-107 (Goshajinkigan)	Leg pain /low back pain / numbness / dysuria , etc.	3,814	3,812	2	0.1%
9	TJ-114 (Saireito)	Acute gastroenteritis / swelling (edema) , etc.	3,308	3,343	-34	-1.0%
10	TJ-1 (Kakkonto)	Common cold / coryza / shoulder stiffness , etc.	2,986	2,680	305	11.4%
21	TJ-14 (Hangeshashinto)	Fermentative diarrhea / neurotic gastritis / stomatitis , etc.	1,230	1,181	48	4.1%
Total sales of 129 prescription Kampo products			105,193	102,680	2,513	2.4%
Total sales of five“ Drug Fostering Program” formulations			28,568	28,020	547	2.0%

Kampo medicine education before, immediately after, and post-graduation

Medical education model core curriculum of Ministry of Education, Culture, Sports, Science and Technology

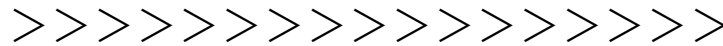
Announced March 2001

“A general understanding of Japanese Kampo”

March 2011 Revision

“A general understanding of Japanese Kampo (Kampo products) and their current uses”

Before graduation



Immediately
after graduation



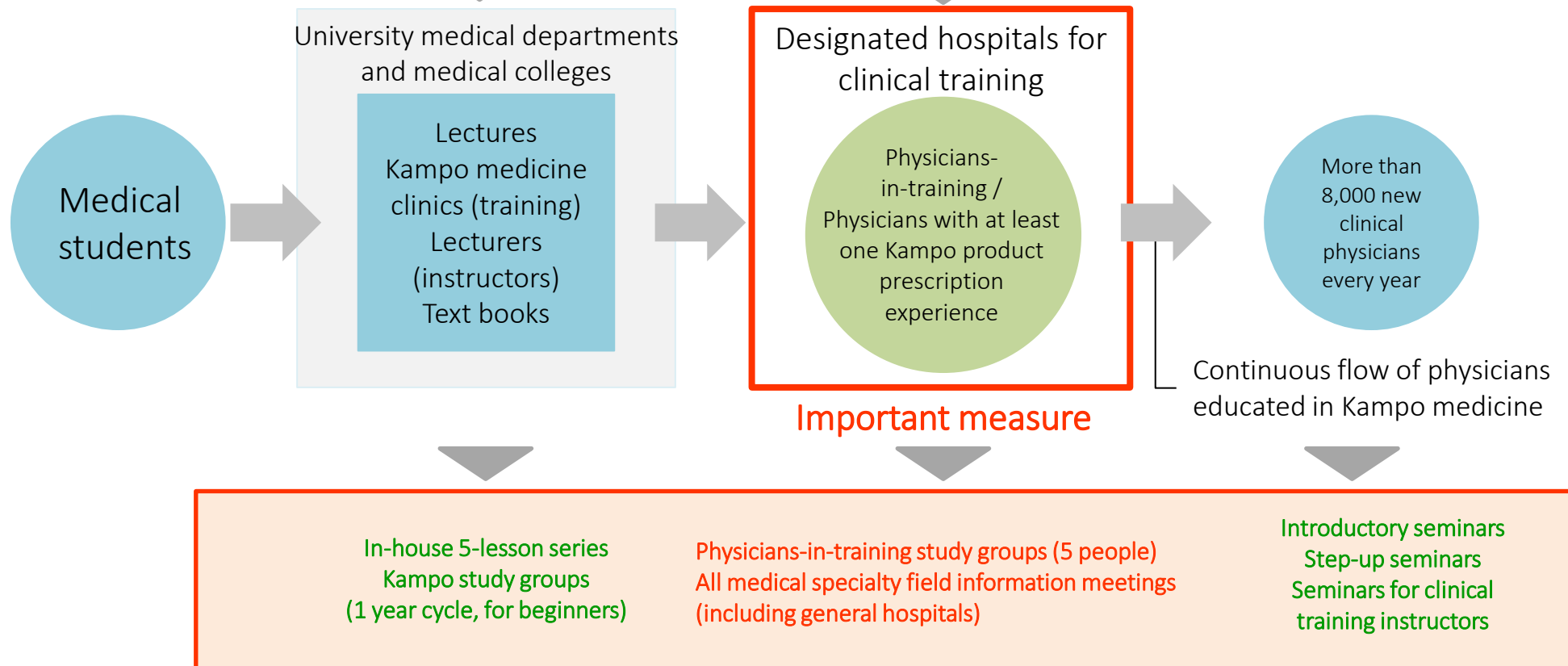
Post - graduation



Improvement, establishment, and evolution of Kampo medicine education

at university medical departments, medical colleges,
designated hospitals for clinical training, and other medical institutions

**Expansion of Kampo
medicine**



Progress Status in Main Promotion

Holding of Study Groups and Seminars for All Medical Specialty Fields
at Designated Hospitals for Clinical Training(including university hospitals)

1. Kampo study groups for early-stage physicians-in-training

Hold study groups at facilities with five or more physicians in-training

Medical facilities with five or more physicians-in-training: Approx. 650

FY2014 record: Study groups held at 448 facilities (approx. 69%)

• Study groups for physicians-in-training give important opportunities to expand the Kampo market and will be maintained.

2. Kampo medical seminars for all medical specialty fields at designated hospitals for clinical training

Efficacy and benefits of 129 Kampo formulations enables approaches to diverse areas

Designated hospitals for clinical training: Approx. 1,000
Medical specialty: Approx. 18,000

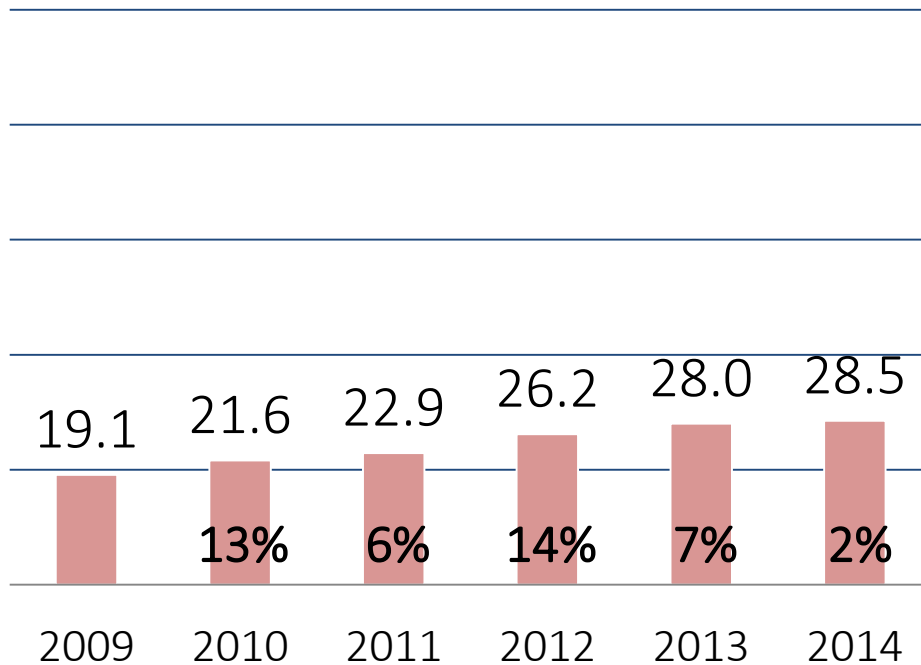
**Cumulative record*:
Seminars held at 13,727 facilities (approx. 78%)**

*Cumulative number between April 2013 to March 2015

• The Company has promoted seminars from FY2013 and has identified medical specialty fields and physicians that need seminars. In FY2014, the Company held seminars primarily for specialty fields and physicians that were expected to produce results.
• At some facilities, it is taking time for formulations to be accepted.

Analysis of sales

5 "Drug fostering" products



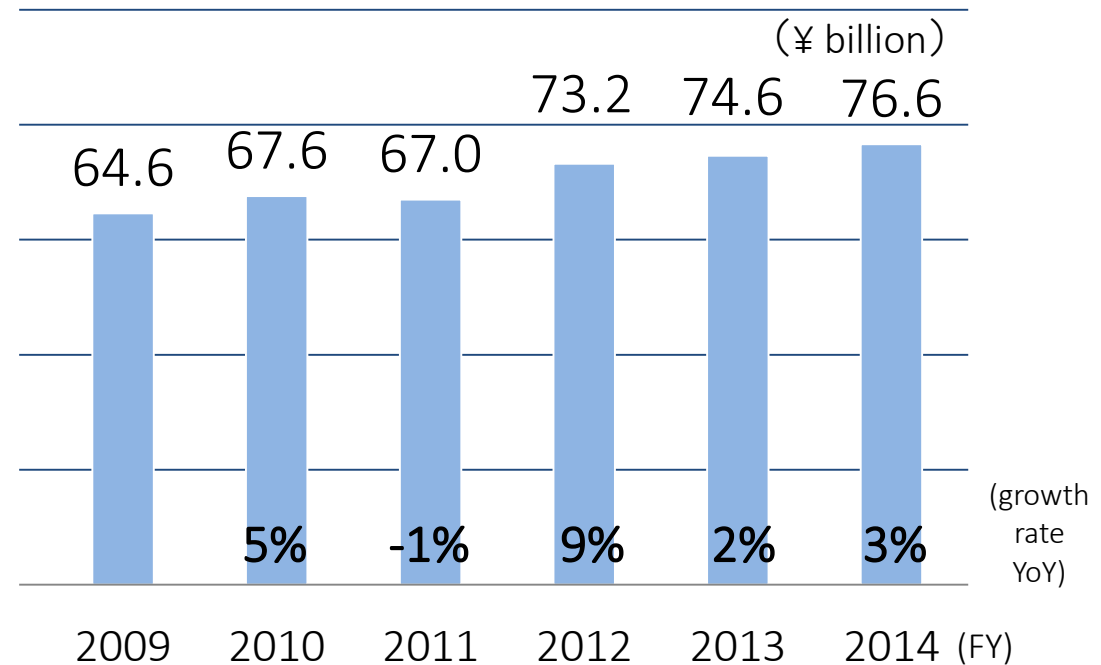
Sales of growth rate slowed down especially in HP



Strengthen an approach for

- Specialty filed at university hospitals and designated hospitals for clinical training.
- Specialist in GP

124 Kampo promotion products



Sales decreased in some current client



Promoting the selective use of approach

Offer some formulations as candidates for treating individual disorders and symptoms and provide information on them

Marketing Strategies in Fiscal 2015

Priority issues: Recovery in drug fostering products and Maintaining and expanding current client

	Target facilities		Visiting	Seminar	Event
Drug fostering products	University hospitals/ Designated hospitals for clinical training	Gastroenterology Gastroenterological Surgery Neuropsychiatry Oncology	Evidence · guideline western medicine approach	Must hold a seminar	Medial society event
	GP and others	Specialist in drug fostering field		Regularly Continuously	Society for the study of specialty field
Kampo promotion products	University hospitals/ Designated hospitals for clinical training	Each field	Approaches by disorder and symptom type	Hold a seminar at facilities where there are needs	EBM Lecture meeting
	GP and others	High-potential facilities Primary care Older person disorder Female disorder			Kampo Medicine Seminar for the post-graduation (especially a seminar for instructor in designated hospitals for clinical training)
		Current large client	Increase a number of visiting		

Drug Fostering Formulation Efficacy Scientific Evidence (DB-RCT & Safety)

■ Paper publication ■ Paper submitted, paper submission in preparation

Formulation	Targeted disorder	Institution in-charge	Public announcements, etc.
TJ-100 Daikenchuto	Postoperative ileus after liver cancer surgery	Tokushima University, other 30 institutions	Published in Int J Cli Oncology
	Postoperative ileus after colon cancer surgery (main trial)	Kitasato University, other 64 institutions	Adopted for Japanese Journal of Clinical Oncology
	Postoperative ileus after colon cancer surgery (supplemental trial)	Fujita Health University, other 19 institutions	Paper submitted
	Postoperative ileus after gastric cancer surgery	Oita University, other 43 institutions	Adopted for Journal of the American College of Surgeons
	Paralytic ileus after pancreatic cancer surgery; JAPAN-PD Study	Wakayama Medical University, other 10 institutions	Paper submission in preparation
	Gastrointestinal dysfunction after liver transplant; DKB-14 Study	Kyoto University, other 14 institutions	Aug. 2014 – May 2016 case collection ongoing
TJ-54 Yokukansan	Intractable schizophrenia	Shimane University, other 33 institutions	Published in Psychopharmacology
	Intractable schizophrenia (long-term trial)	Shimane University, other	Nov. 2014 – Oct. 2016 case collection ongoing
	BPSD	Tohoku University, other 21 institutions	Paper submission in preparation
	Autistic Spectrum Disorder (6 – 17 years old)	Shimane University, other 4 institutions	Jan. 2015 – Dec. 2016 case collection ongoing
	Medication overuse headaches	Saitama Medical University, other 4 institutions	Jan. 2015 – Dec. 2016 case collection ongoing
TJ-43 Rikkunshito	Intractable gastroesophageal reflux disease; G-PRIDE Study	Osaka City University, other 75 institutions	Published in Journal of Gastroenterology Published in BioMed Central Gastroenterology (additional analysis)
	Functional dyspepsia (FD); DREAM Study	Osaka City University, other	Apr. 2014 – Mar. 2016 case collection ongoing
	Functional dyspepsia (FD); clinical pharmacological trials	University of Leuven	Oct. 2014 – Jun. 2016 case collection ongoing
	Anorexia from chemotherapy for lung cancer; RICH Study	Fukushima Medical University	Nov. 2014 – Oct. 2016 case collection ongoing
TJ-107 Goshajinkigan	FOLFOX treatment peripheral neuropathy; GONE Study	Asahikawa Medical University, other 16 institutions	Published in Cancer Chemotherapy and Pharmacology
	FOLFOX treatment peripheral neuropathy; GENIUS Study	Kyushu University, other 43 institutions	Published in International Journal of Clinical Oncology (online)
TJ-14 Hangeshashinto	Oral inflammation from chemotherapy for stomach cancer; HANGESHA-G Study	Kanagawa Cancer Center, other 14 institutions	Published in Cancer Chemotherapy and Pharmacology
	Oral inflammation from chemotherapy for colon cancer; HANGESHA-C Study	National Hospital Organization Osaka National Hospital, other 18 institutions	Adopted for Cancer Chemotherapy and Pharmacology
TJ-54 Yokukansan	Frequency investigation of adverse drug reactions	–	Package insert revised in November 2014
TJ-68 Shakuyakukanzoto*	Frequency investigation of adverse drug reactions	–	Analysis proceeding

* Shakuyakukanzoto is not a "drug fostering" production

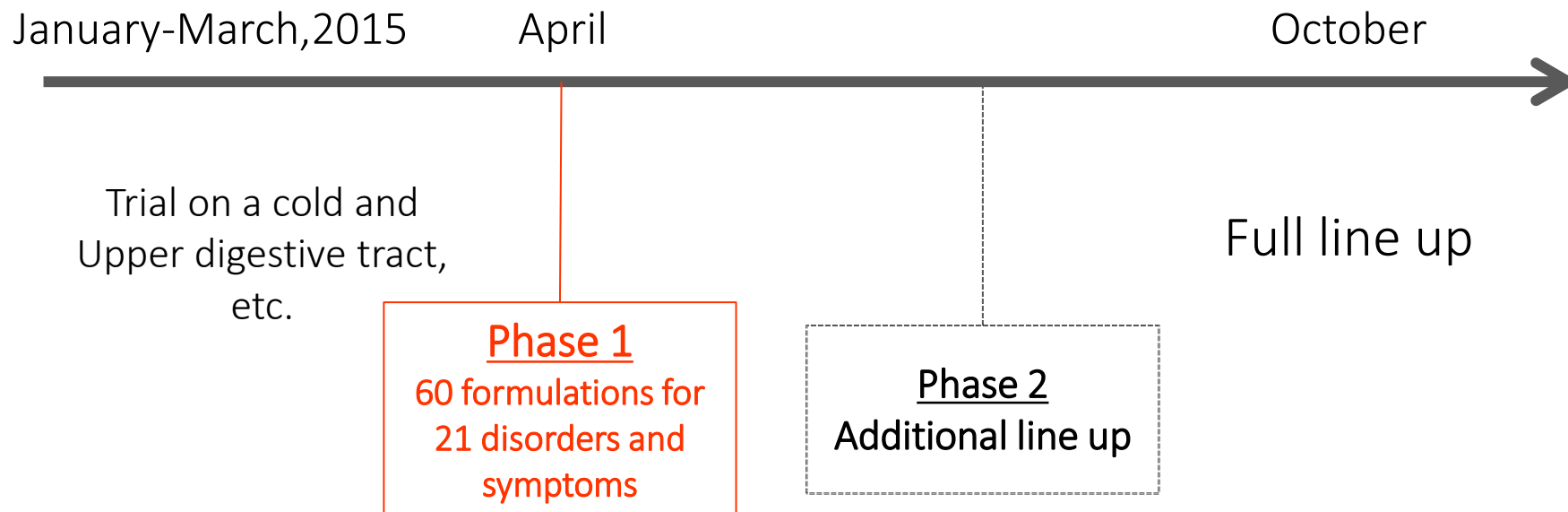
Drug Fostering Formulation Efficacy Scientific Evidence (English Papers)

In recent years, the number of papers in English on Kampo products that include high-level evidence has been increasing.

Formulation FY	TJ-43 Rikkunshito	TJ-54 Yokukansan	TJ-100 Daikenchuto	TJ-14 Hangeshashinto	TJ-107 Goshajinkigan	Total
2008	1	9	6	1	1	18
2009	6	13	4	1	1	25
2010	8	10	6	2	2	28
2011	14	14	3	2	7	40
2012	17	19	7	5	10	58
2013	20	12	8	2	4	46
2014	13	14	7	3	5	42

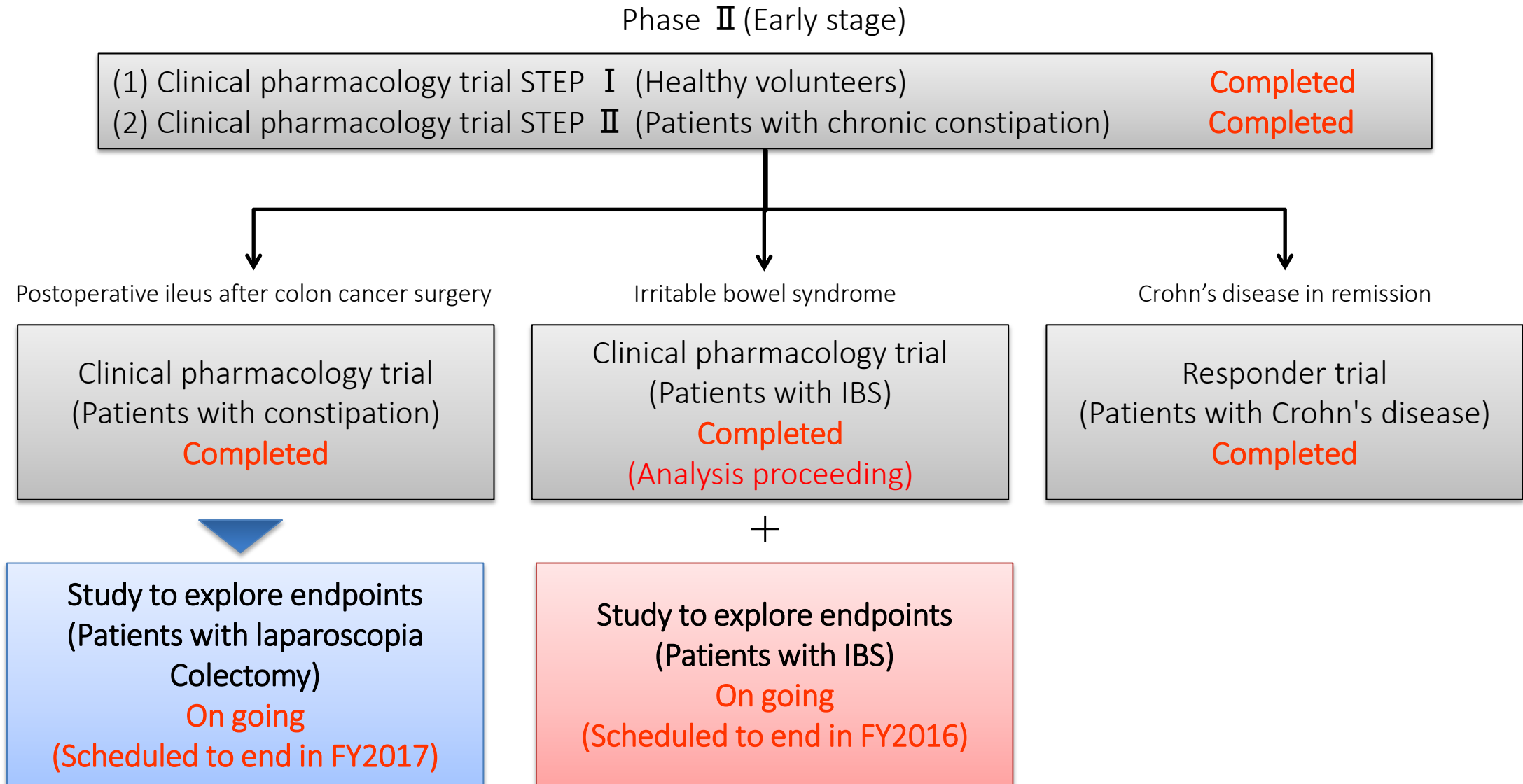
Promoting Approaches by Disorder and Symptom Type

- Propose effective formulations adapted to condition of disorder
- Establish selective use of Kampo products



- Offering three to five formulations for each disorder and symptom on which Kampo products will likely have effects
- Preparing information and material to meet the needs of physicians (evidence, medical treatment guidelines, selective use of Kampo products)
- Strengthening distributors' sales capabilities

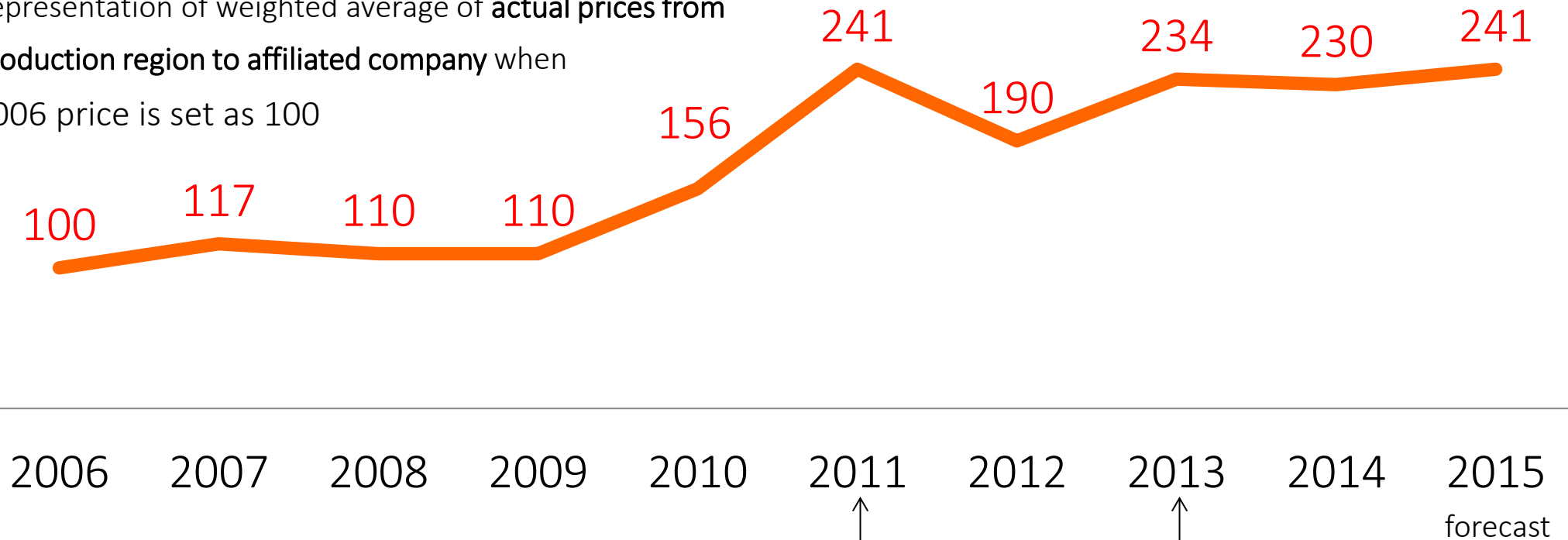
Progress of TU-100 Clinical Trials in the United States



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



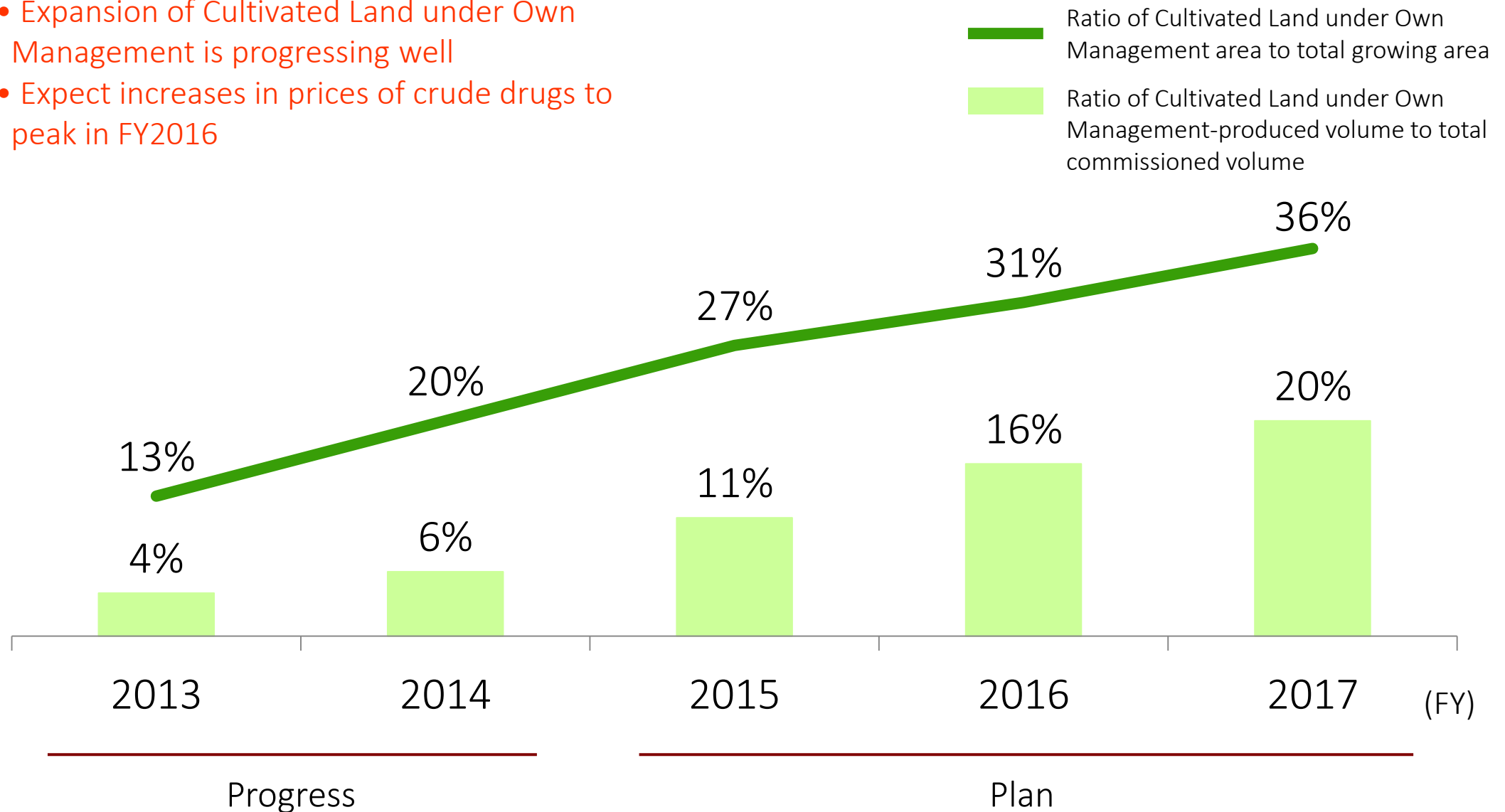
(1) Local demand in China increased; (2) Unfavorable weather; (3) Speculative investment cornering market

Price increase of ginseng, etc.

- The ginseng price is on a moderate downward trend.
- In 2015, the price is expected to rise to 241, reflecting a change in the breakdown of crude drugs to be purchased (an increase in the percentages of items having high prices, including ginseng).

Cultivated Land under Own Management Progress and Plan

- Expansion of Cultivated Land under Own Management is progressing well
- Expect increases in prices of crude drugs to peak in FY2016



Capital Investment Plan

- Phased capital investment in accordance with sales
- New investment for the improvement of productivity in accordance with an increase in production volume

☆ Scheduled start of operations

← First Medium-Term Management Plan

→ Second Plan

		Capital investment project	FY2012	FY2013	FY2014	FY2015	FY2016 and after
Production-related	Shizuoka Plant	New granulation and packaging facilities, etc.				☆	☆
		New crude drug warehouse		May			
		SD line-related					☆
	Ibaraki Plant	New granulation facility		January			
		New standard-based facilities, etc.					☆
	STP (Shanghai)	SD facility		October			
	Production, other	Development / maintenance / renewal					
Crude drug related	Ishioka	Ishioka Center reconstruction		January			
	STM (Shenzhen)	Warehouse	March				
	Yubari	Yubari Tsumura building				☆	
	Crude drugs, etc.						

Capital investment: ¥9.7 billion in FY2014 (¥12.6 billion planned) FY2015 Plan ¥11.2 billion

The unused portion of the investment plan resulted from the postponement of payment of a portion of the amounts for the new granulation and packaging and other facilities at the Shizuoka Plant and the change of operation schedule for the new standard-based facilities at the Ibaraki Plant, etc.

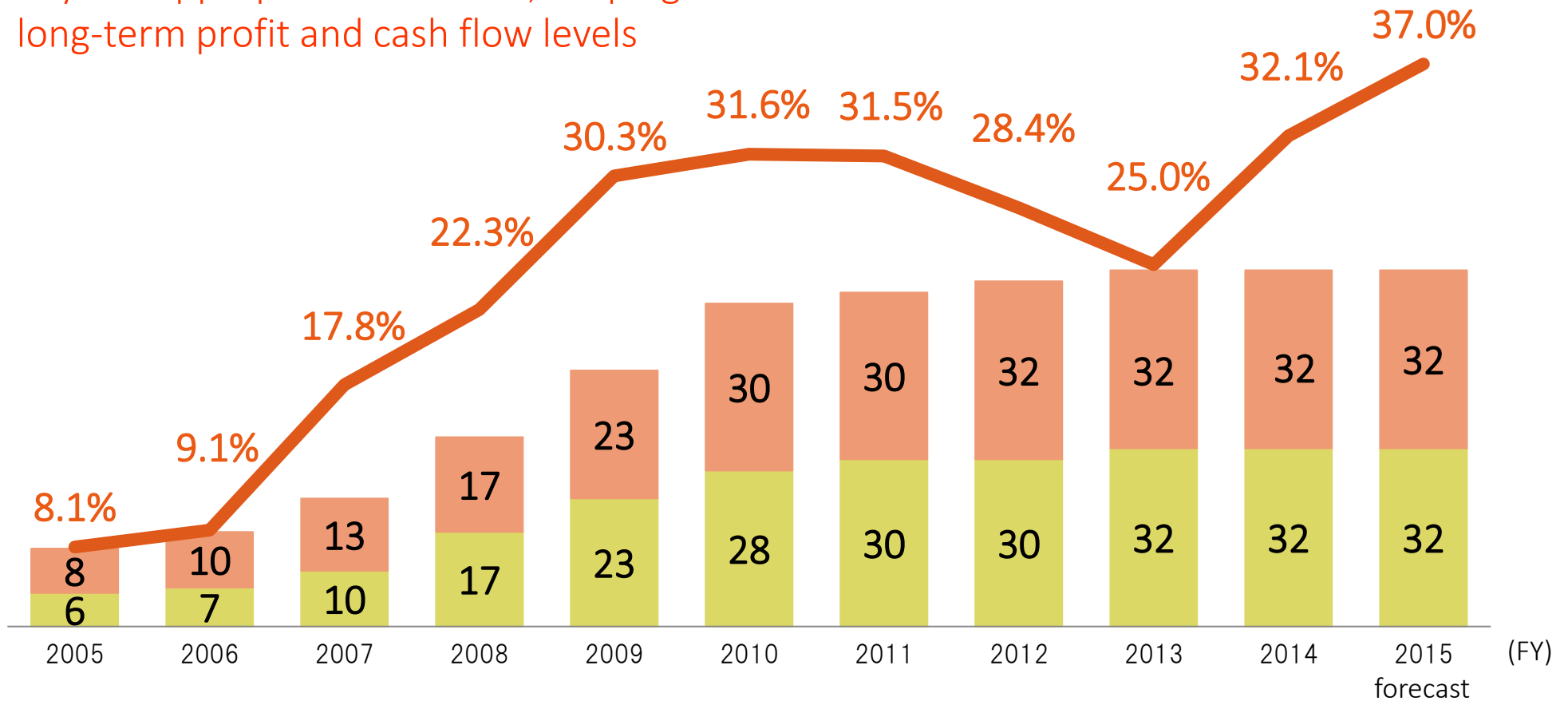
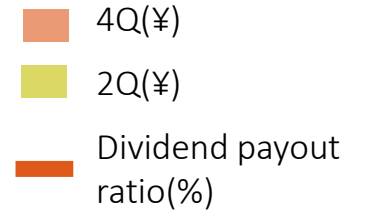
Will appropriately revise timing of new production facilities start up based on sales trends

Borrowed ¥15.0 billion for the capital investment from banks in June 2014 (long-term loan)

Return of Profits to Shareholders

Dividend policy

- Increase corporate value by reinvesting in business to ensure sustained development and growth of Kampo business
- Pay out appropriate dividends, keeping in mind medium- and long-term profit and cash flow levels



The year-end dividend and dividend payout ratio for FY2014 are based on the assumption that the dividend item will be approved at the 79th annual shareholders' meeting




FY2015 Performance Forecasts

FY2015 Performance Forecasts

(¥ million)

	FY2014	FY2015	YoY Changes	
Net sales	110,438	113,000	2,561	2.3%
Operating profit	19,491	18,000	-1,491	-7.7%
Recurring income	21,583	18,300	-3,283	-15.2%
Net income	14,075	12,200	-1,875	-13.3%

Operating profit margin	17.6%	15.9%
Dividends per share	¥64	¥64
EPS	¥199	¥173
ROE	10.1%	8.0%



TSUMURA & CO.
Investor Relations Group
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Cautionary items regarding 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.