

TSUMURA & CO.

Second Quarter Business Results for Fiscal 2017

(From April 1, 2017 to September 30, 2017)

November 9, 2017

President, Representative Director

Terukazu Kato

Roadmap to Realizing Long-Term Vision

Vision
For
2021

HOP

Strengthening the
growth base to achieve
greater value creation

STEP

Creating New Value
Through Innovations in Kampo

JUMP

First Medium-Term
Management Plan

Second Medium-Term
Management Plan

Third Medium-Term
Management Plan

2012

2015

2016

2018

2019

2021

(FY)

Medium-Term Management Plan

Strategic Challenges

1. Expansion and stable growth in the Kampo market
2. Continued reinforcement of profitability and maximization of cash flow
3. **Taking on the challenge of new businesses in China**

Interim for Vision for 2021

Long-Term Business Vision “Vision for 2021”

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

The “Kampo” Company

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

Expand the Kampo Market
Cost Structure Reform

Expand the Kampo Market

- Establish evidence
- Establish Japan Kampo Medicine Education Foundation
- Initiatives for Drug price revision

Cost structure reform

- Improve labor productivity
- Stable procurement structure for crude drugs

The “People” Company

“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.

Development of Human Resources
Instill philosophy

“People” creating Tsumura

- Training at subsidiaries in China
(continually implemented for five years)
- Reinforce various training

Instill philosophy

- Executive off-site meetings
- Events to celebrate 125th anniversary of founding

The “Global Niche” Company

Leveraging the technology and know-how of the Tsumura Group to their full extent, we will take on the challenge of developing and launching TU-100 (Daikenchuto) in the U.S. pharmaceutical market as well as creating new businesses in China.

Development in the U.S.
Development of Chinese Market

Development in the U.S.

- TU-100 Phase II (early stage)
(FY2018 : Finalized development policy)

Development of Chinese Market

- Entering into traditional Chinese medicine business

☆ **The Capital and Business Alliance with Ping An Insurance**

Summary of the Capital and Business Alliance with Ping An Insurance (Group) Company of China

TSUMURA & CO.

Number of new shares issued	5,986,700 shares
Number of shares disposed of	1,689,200 shares
Amount of capital raised	JPY 27,322,366,050

(Number of treasury shares held after disposal : 300,182 shares)

Ping An Insurance (Group) Company of China, Ltd.

Ping An Life Insurance Company of China, Ltd. (Allottee)

**BANK OF CHINA (HK) LIMITED –
CUSTODY ACCOUNT**
Number of shares acquired: 7,675,900 shares
(10% of the total number of issued shares)

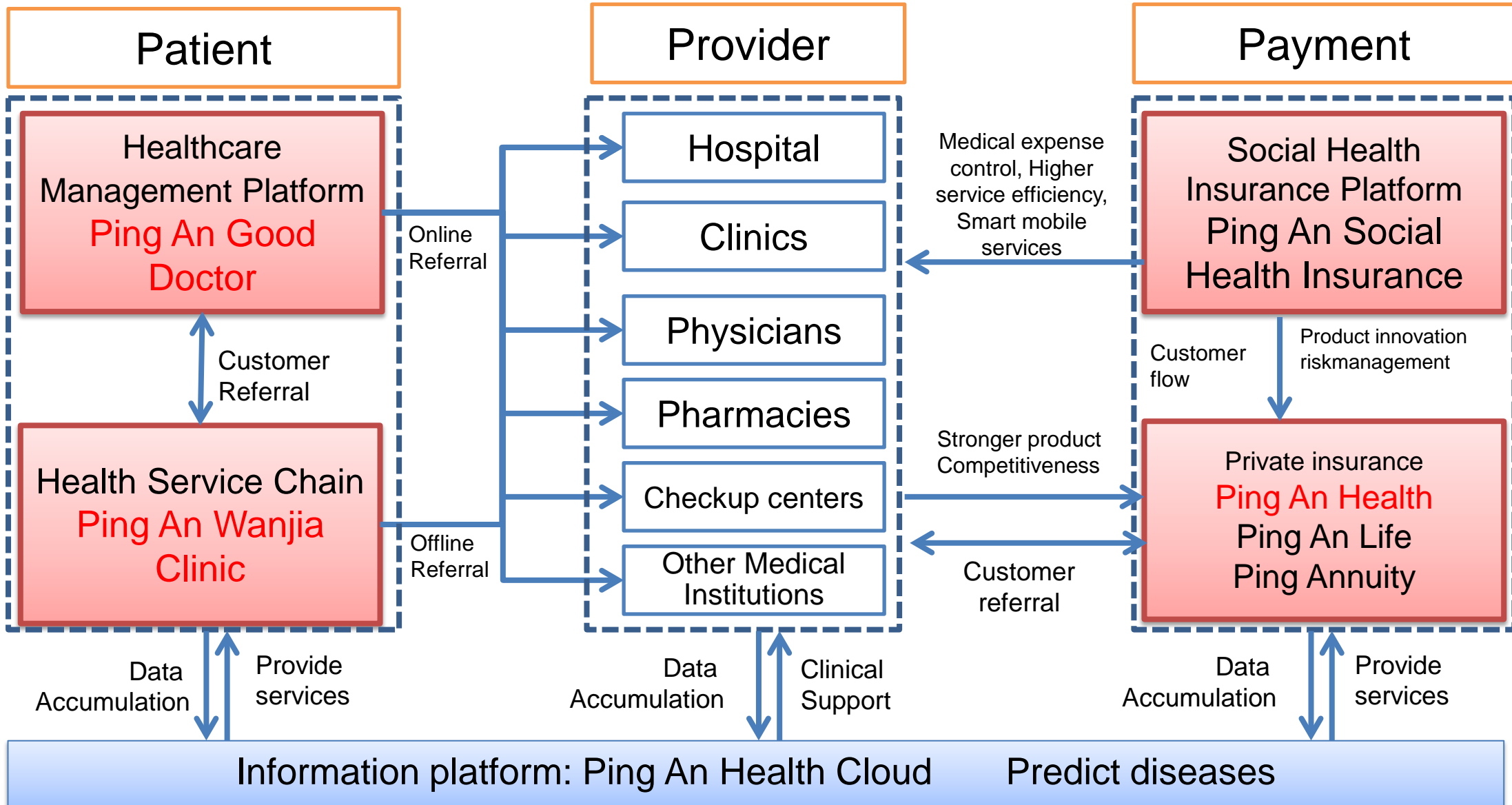
【Terms of agreement】

During the period which the capital and business alliance agreement is valid, Ping An Insurance will not increase its shareholding in Tsumura or dispatch a director to Tsumura without the prior consent of Tsumura.

【Outline of the Capital of Business Alliance】

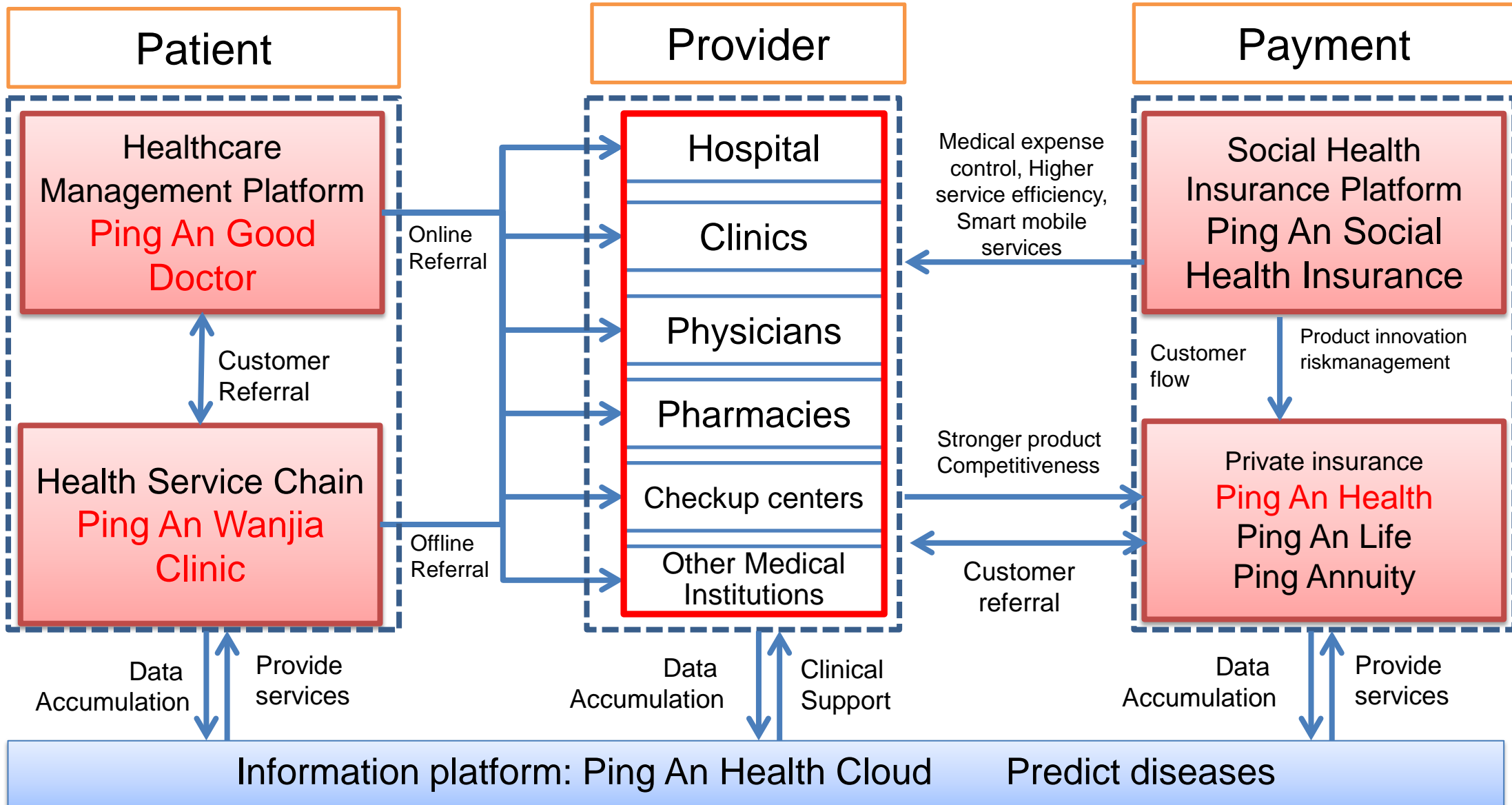
Tsumura and Ping An Insurance decided to form a business alliance, believing that this will allow them to promote the further development of the traditional Chinese medicine business in China, contribute to the health care and health of the Chinese people, and build a business model that covers everything from quality standards for traditional Chinese medicines and the cultivation of crude drugs to final products, and that this will also ensure Tsumura's stable procurement of crude drugs and raw materials while helping improve the quality of crude drugs in China and protect crude drug resources. This is an investment for the growth of businesses at the Tsumura Group and will contribute to an improvement in corporate value.

Summary of Ping An Insurance's Healthcare Strategy



Services provided by Ping An Insurance Group

Summary of Ping An Insurance's Healthcare Strategy



Services provided by Ping An Insurance Group

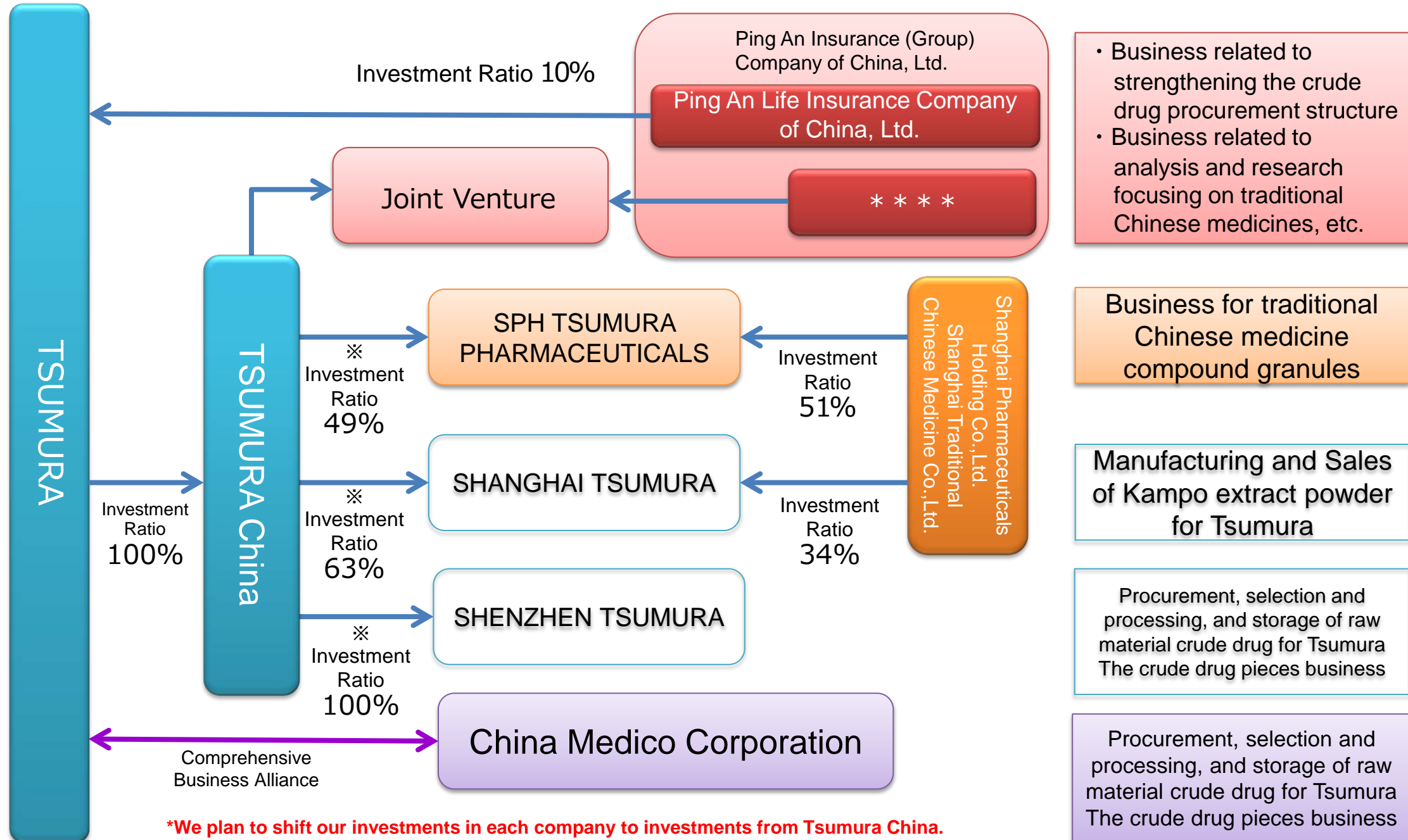
Establishment of Joint venture with Ping An Insurance (Plan)

Tsumura and Ping An Insurance plan to establish a joint venture, and to conduct the following business through the joint venture.

Details of main businesses of joint venture

<p>i. Business related to strengthening the crude drug procurement structure</p>	<p>The procurement of land for cultivation, the development of cultivation techniques, the construction and development of crude drug processing plants, and the development of processing technologies, etc.</p>
<p>ii. Business related to analysis and research focusing on traditional Chinese medicines</p>	<p>Establish an analysis and research center focusing on traditional Chinese medicines, and the development of analysis and research techniques and the provision of analysis and testing services, etc.</p>
<p>iii. Business related to traditional Chinese medicines, health food and healthcare-related daily necessities and other operations and markets</p>	<p>Use Tsumura's Kampo medicine manufacturing knowhow to conduct the business of manufacturing and selling traditional Chinese medicines.</p>

Summary of Future China Business



***We plan to shift our investments in each company to investments from Tsumura China.**

Product of the China Business

The Crude drug pieces

Raw material
crude drugs



Cutting, etc.



Crude drug pieces



Traditional Chinese medicine compound granules

Raw material
crude drugs



After cutting, etc.,
become crude drug pieces



Extraction/Separation
/Concentration



(Image photo)



Omit
Manufacturing
process

Granules



(Image photo)

Extract product based on traditional Chinese medicine (traditional Chinese medicine and traditional Chinese medicinal product)

Raw material
crude drugs



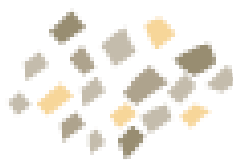
(Image photo)

Same as above, become
crude drug pieces



(Image photo)

Weighting/Mixing



(Image)

Extraction/Separation
/Concentration



(Image photo)



Omit
Manufacturing
process

Granule products, etc.



(Image photo)

Second Quarter Business Results for Fiscal 2017

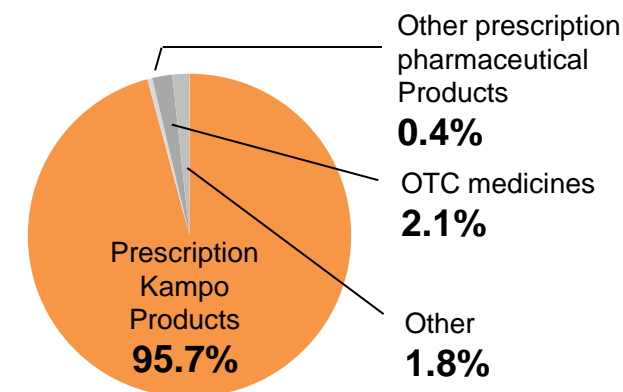
2Q Consolidated Performance for Fiscal 2017

(¥ million)

	FY 2017 2Q Plan	FY 2017 2Q	Achievement	FY 2016 2Q	Vs. FY 2016 2Q	
					Amount	Change
Net sales	58,600	58,282	99.5%	56,359	1,923	3.4%
Operating profit (Operating profit margin)	8,200 (14.0%)	8,985 (15.4%)	109.6%	7,868 (14.0%)	1,116	14.2%
Ordinary profit	8,400	9,248	110.1%	7,366	1,882	25.6%
Profit attributable to owners of parent	6,100	6,614	108.4%	5,311	1,302	24.5%

	FY 2017 2Q Plan	FY 2017 2Q	FY 2016 2Q
Dividends per share	¥32	¥32	¥32

Sales by product



Key points in Performance

➤ Underperformed sales goal but sales and profits grew year-on-year

Consolidated net sales	¥58,282 million	Vs. planned	99.5%	YoY	3.4%
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- ❑ Sales of 129 prescription Kampo products increased 3.4% year on year, and sales of 77 formulations increased in amount basis.
- ❑ Sales of OTC drugs, mainly Kampo products sold at pharmacies, rose 6.3%.

Operating profit	¥ 8,985 million	Vs. planned	109.6%	YoY	14.2%
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Operating profit margin	15.4%			YoY	+1.4pts
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- ❑ The Cost of Sales ratio fell 1.1 percentage points year on year to 41.9%, reflecting in part to an improvement in processing costs owing to an increase in production volume.
However, this was 0.3 percentage points higher than we planned due to the cost of crude drugs and a temporary gap in production capacity owing to the launch of a new manufacturing line.
- ❑ The SG&A ratio fell 0.3 percentage points year on year to 42.7%, reflecting the cost controls that accompanied improvements in operational efficiency. Cost containment and difference in time for payment of research expenses caused a decrease of 1.1 billion yen, 1.7 percentage points, for the plan.

Ordinary profit	¥9,248 million	Vs. planned	110.1%	YoY	25.6%
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Sales performance of prescription Kampo products

(¥ million)

		Product No. / name	Main effectively treatable disorders	FY 2016 2Q	FY 2017 2Q	Y o Y Change	
1	☆	100 Daikenchuto	Abdominal pain / abdominal flatulence	5,212	5,351	138	2.7%
2	☆	54 Yokukansan	Neurosis / insomnia, etc.	3,712	3,864	151	4.1%
3	G	41 Hochuekkito	Reinforcement of physical strength after illness / anorexia, etc.	3,630	3,699	68	1.9%
4	☆	43 Rikkunshito	Gastritis / maldigestion / anorexia, etc.	3,431	3,577	146	4.3%
5	G	68 Shakuyakukanzoto	Pain accompanying sudden muscle spasms, etc.	2,506	2,660	153	6.1%
6	G	24 Kamishoyosan	Oversensitivity to cold / menstrual irregularity / climacteric disturbance, etc.	2,258	2,342	84	3.7%
7	G	29 Bakumondoto	Coughing / bronchitis / bronchial asthma	1,986	2,002	16	0.8%
8	G	17 Goreisan	Edema/ diarrhea / headache / heastroke, etc.	1,715	1,921	206	12.0%
9	☆	107 Goshajinkigan	Leg pain /low back pain / numbness / dysuria, etc.	1,901	1,889	-12	-0.6%
10		114 Saireito	Acute gastroenteritis / swelling (edema), etc.	1,771	1,812	40	2.3%
21	☆	14 Hangeshashinto	Fermentative diarrhea / neurotic gastritis / stomatitis, etc.	642	692	49	7.8%
Total sales of the five Drug-fostering formulations				14,900	15,375	474	3.2%
Total sales of the five Growing formulations				12,097	12,627	529	4.4%
Total of 129 prescription Kampo products				53,974	55,784	1,810	3.4%

☆ : Drug-fostering formulations, G : Growing formulations

Analysis of Sales Catalysts

Three Important Domains

Geriatric field

Cancer domain
(supportive care)

Gynecology field

Concentration and Emphasis

Field of Gastroenterology
(Rikkunshito, Daikenchuto, Hangeshashinto, etc.)

◆ **Field of concentration: MR capabilities**
("Drug-fostering" program formulations)

New evidence of Rikkunshito and Daikenchuto, etc.

Analysis of Sales Catalysts (Rikkunshito)

(¥ million)

FY2021 Sales Goal : Over 10 billion yen

	FY 2016 2Q	FY 2017 2Q	Vs. FY 2016 2Q	
Net sales	3,431	3,577	146	4.3%

Targeting : Improvement of gastrointestinal motility

1. Pharmacology

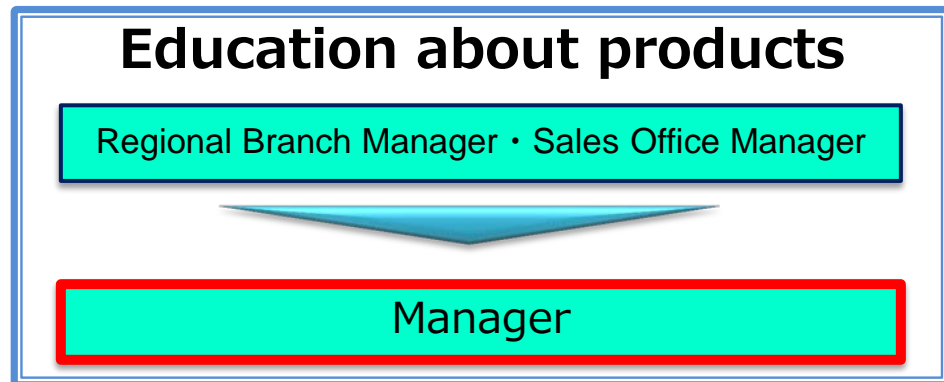
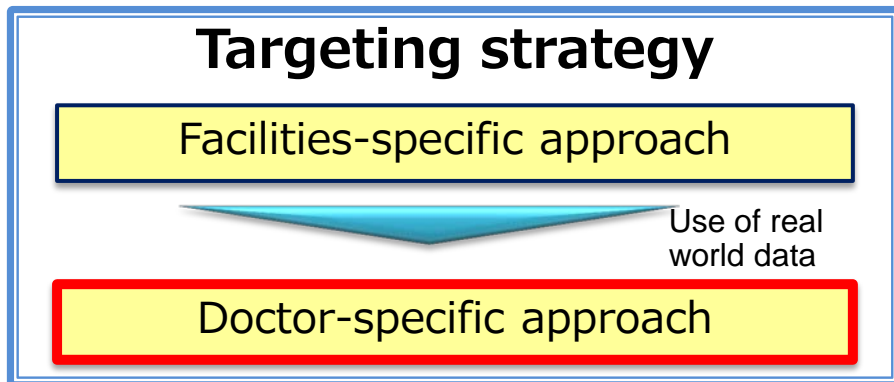
- Actions on gastric adaptive relaxation (guinea pig, human, etc.)
- Stimulation of ghrelin secretion (stimulation of appetite)(rat, human)
- Improve gastric emptying (human)
- Enhancement of digestive motility (rat, human)
- Improve stress-induced gastrointestinal function disorders (mouse, human)
- Improve gastric mucosal blood flow (guinea pig, human)
- Suppress gastric acid hypersensitivity (rat)
- Improve esophageal clearance (human)

2. New evidence

DREAM Study: Clinical trial on FD (Functional Dyspepsia) [Announcement at DDW2017]

1st Half

2nd Half



Rikkunshito Pharmacology

Enhancement of digestive motility (rat, human)

Actions on gastric adaptive relaxation (guinea pig, human, etc.)

Improve gastric emptying (human)

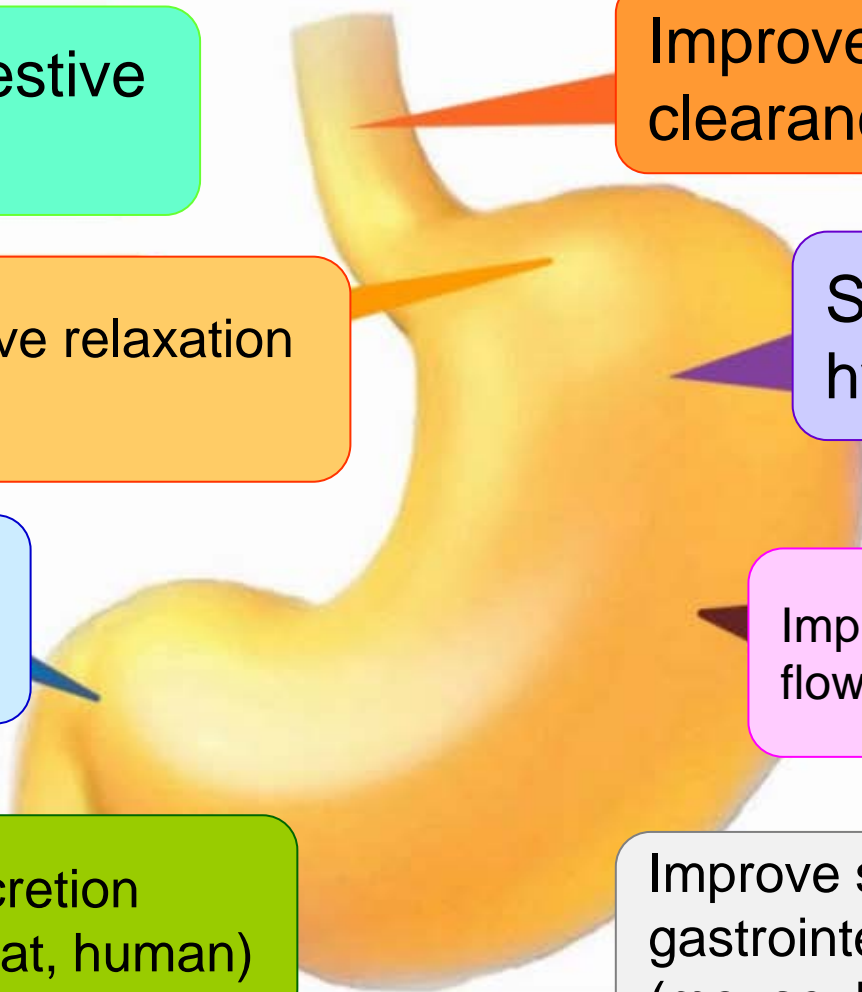
Stimulation of ghrelin secretion (stimulation of appetite)(rat, human)

Improve esophageal clearance (human)

Suppress gastric acid hypersensitivity (rat)

Improve gastric mucosal blood flow (guinea pig, human)

Improve stress-induced gastrointestinal function disorders (mouse, human)



Analysis of Sales Catalysts (Rikkunshito)

(¥ million)

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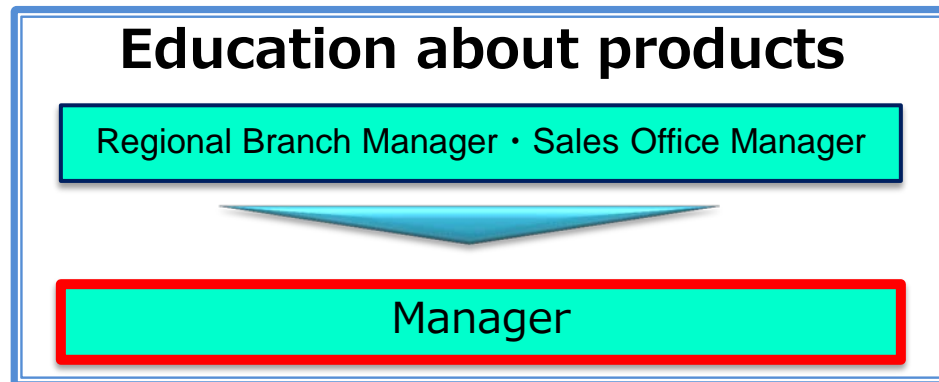
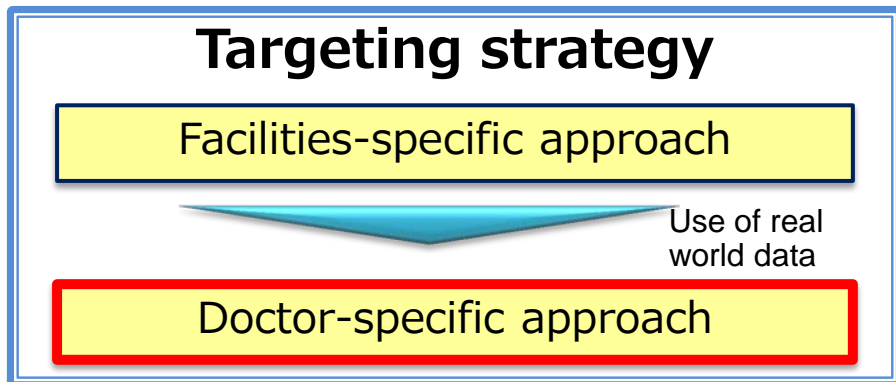
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1st Half

2nd Half



Analysis of Sales Catalysts (Daikenchuto · Hangeshashinto)

(¥ million)

Product No. / name		FY2016 2Q	FY 2017 2Q	Vs. FY 2016 2Q	
100	Daikenchuto	5,212	5,351	138	2.7%
14	Hangeshashinto	642	692	49	7.8%

Daikenchuto

- Strengthen approach to specialists in gastrointestinal surgery by disseminating evidence by top authorities at academic conferences. Sales rose year-on-year but were lower than we planned.
- The chronic constipation treatment guidelines were released in October so we plan to strengthen sales activities in the second half.

Hangeshashinto

- Owing to activities to communicate the revision to the warning label in the previous fiscal year, there was an increase in cases of usage for stomatitis, which is a side-effect of cancer treatment.
- We will continue gathering evidence to listing in the guidelines.

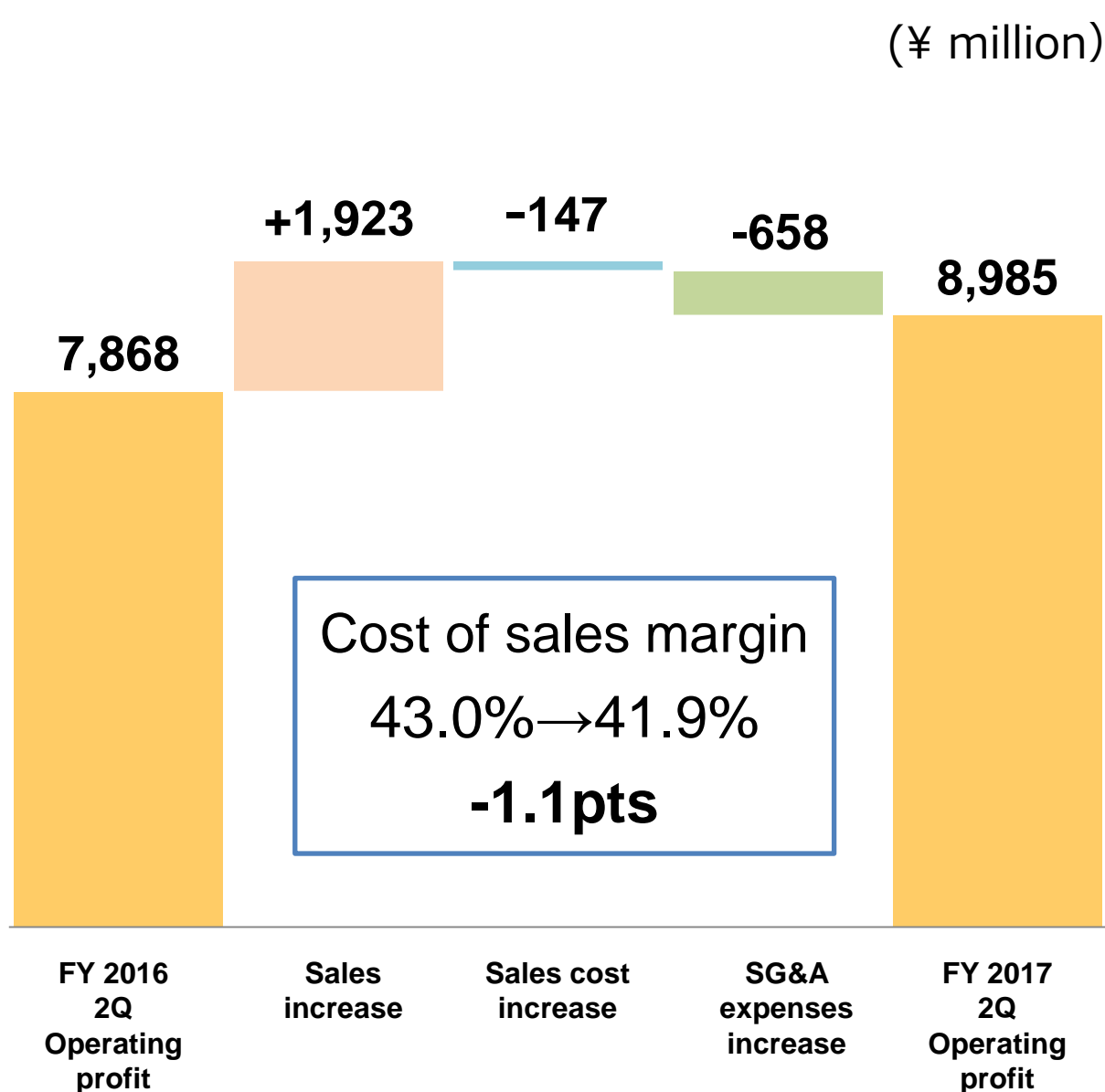
Measures for Developing New Domains

- **New collaborations with academic conferences**
 - Participate in training programs at nutrition-related academic conferences
 - Seven times from September to December
 - Development mainly for supplements*, including Hochuekkito

*Supplements: Prescribed for use to restore weakened energy

Product No.	name	INDICATIONS
41	Hochuekkito	Conditions of patients having delicate constitution, reduced digestive functions, and severe fatigability of limbs: Summer emaciation, reinforcement of physical strength after illness, tuberculosis, anorexia, gastroptosis, cold, hemorrhoid, anal prolapse, uterine prolapse, impotence, hemiplegia, and hyperhidrosis

Factors in Increase / Decrease of Operating Profit (YoY)



(¥ million)

Factors of Sales increase	
Prescription Kampo 129 products	+1,810
Other	+113

Factors of Cost of sales margin	
Increase in crude drug cost	+0.1pts
Improvement of processing cost	-0.5pts
Fluctuation of exchange rate	-0.4pts
Other	-0.3pts

Factors of SG&A expenses	
Sales promotion expenses	+187
R&D expenses	+155
Advertising expenses	-40
Personnel expenses	+184
Other	+172

Financial Condition / Cash Flow Position

Balance Sheet

(¥ million)

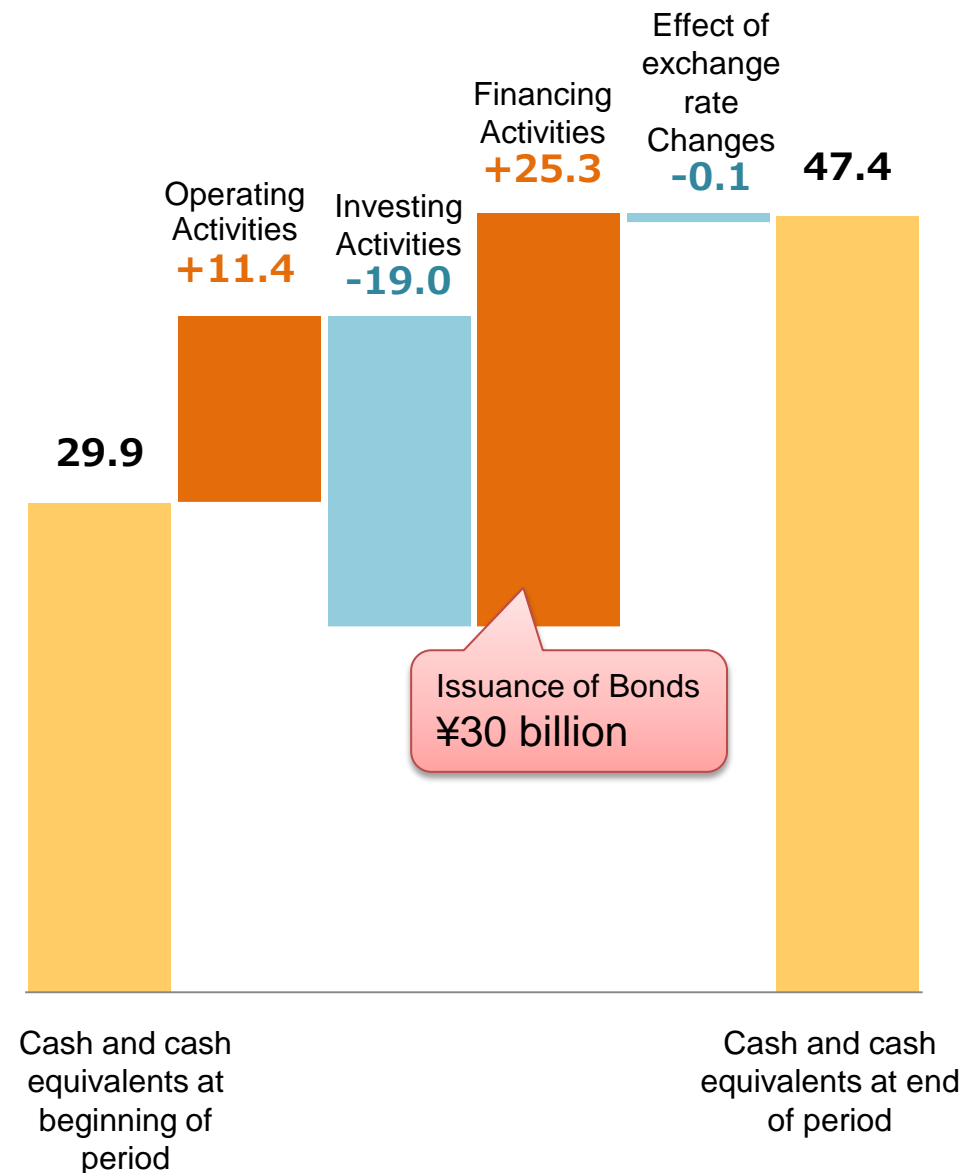
	As of March 2017	As of September 2017	Change
Total assets	222,008	258,464	36,456
Current assets	134,679	166,825	32,146
Non-current assets	87,329	91,639	4,309
Total liabilities	64,611	96,014	31,402
Current liabilities	31,883	48,200	16,316
Non-current liabilities	32,727	47,813	15,086
Total net assets	157,397	162,450	5,053
Equity Ratio	69.7%	61.8%	-7.9pts

(¥ million)

Balance Sheet	As of March 2017	As of September 2017	Change
Inventories	52,138	48,887	-3,251
(Merchandise and finished goods)	8,122	8,009	-113
(Work in process)	14,547	12,895	-1,652
(Raw materials and stores)	29,467	27,982	-1,485

Cash Flow

(¥ billion)



Topics for ESG Activities

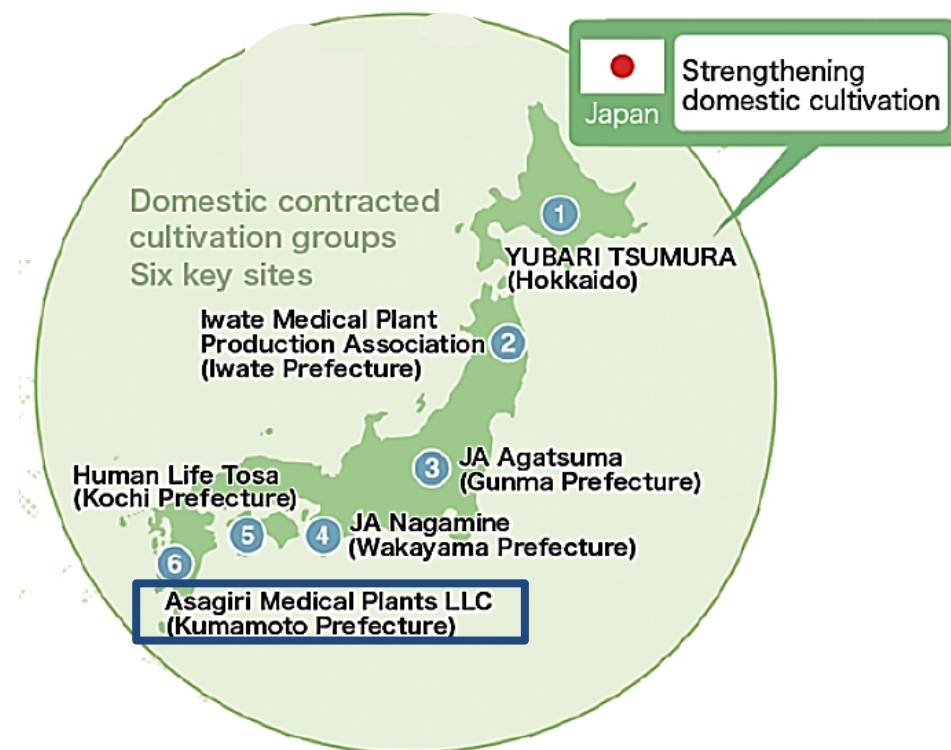
Asagiri Medical Plants LLC

Completion of Medicinal Plant Processing Plant (July)

- Constructed on the former site of Fukada junior high school in Asagiri-cho
- Total floor space of 962.5m²
- One-story steel structure
- Full-fledged operations scheduled to start up in November
- ◆ Construction cost for processing plant: Shouldered by Kumamoto Prefecture, Asagiri-cho, and the townships in the Hitoyoshi and Kuma districts
- ◆ **Processing facilities: Cost to be shouldered by Asagiri Medical Plants LLC and Tsumura**



Medicinal Plant Processing Plant



Awarded as an Outstanding Business Office for Employing People with Disabilities by the Minister of Health, Labour and Welfare

In September 2017, Selected and awarded as an Outstanding Business Office for Employing People with Disabilities by the Minister of Health, Labour and Welfare.

Awarded to businesses that actively higher a number of people with disabilities or to people with disabilities that are model workers

⇒As of the end of September 2017, the percentage of employees with disabilities at Tsumura was 3.02%.

Selection process

In the past, we had won the **Director's award** from the Japan Organization for Employment of the Elderly, Persons with Disabilities and Job Seekers (JEED). This time around JEED recommended us and the MHLW selected us for the award.

Previous awards

2011: JEED Director's award for best effort

2014: JEED **Director's award**

FY2017 Performance Forecasts

FY2017 Performance Forecasts

➤ No changes have been made from the results forecast announced on May 11, 2017.

(¥ million)

	FY 2016	FY2017	YoY	
			Amount	Change
Net sales	114,954	120,700	5,745	5.0%
Operating profit (Operating profit margin)	15,983 (13.9%)	17,600 (14.6%)	1,616	10.1%
Ordinary profit	16,399	18,100	1,700	10.4%
Profit attributable to owners of parent	12,488	12,700	211	1.7%

	FY 2016	FY2017	Impact from the Capital and Business Alliance
Dividends per share	¥64	¥64	
E P S	¥179	¥184	¥175
R O E	8.1%	8.0%	7.4%



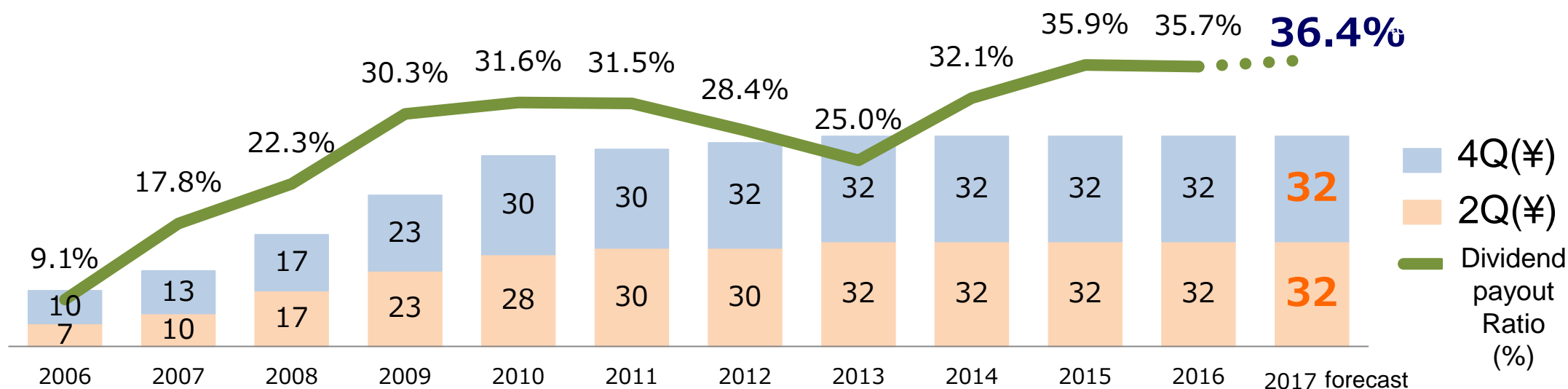
Return of Profits to Shareholders

Return of Profits to Shareholders

Policy

- To improve corporate value through capital investments in order to realize the continuous development and growth of “Kampo”
- To consider medium- to long-term profit levels and cash flows as well as carry out a stable dividend
- To acquire treasury stock in a flexible manner after making efforts in shareholder returns based on examinations and revisions for an optimal capital structure as well as giving comprehensive consideration to market trends, etc.

Dividend history



The year-end dividend and dividend payout ratio for FY2017 are based on the assumption that the dividend item will be approved at the 82nd annual shareholders' meeting

TSUMURA & CO.
Investor Relations Group
Corporation Communications Dept.

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.