TSUMURA & CO.

Second Quarter (Interim Period) Business Results for Fiscal 2024

November 8, 2024

Event Summary

[Company Name]	TSUMURA & CO.
[Company ID]	4540-QCODE
[Event Language]	JPN
[Event Type]	Earnings Announcement
[Event Name]	Second Quarter (Interim Period) Business Results for Fiscal 2024
[Fiscal Period]	FY2025 Q2
[Date]	November 8, 2024
[Number of Pages]	36
[Time]	13:00 – 14:04 (Total: 64 minutes, Presentation: 38 minutes, Q&A: 26 minutes)
[Venue]	Webcast
[Venue Size]	
[Participants]	
[Number of Speakers]	8

Terukazu Kato	President, Representative Director, CEO
Kei Sugii	Director, Co-COO
Muneki Handa	Director, CFO
Hiroshi Miyake	Outside Director
Yukinori Sorada	Executive Officer, Head of Sales & Marketing Division
Akihito Konda	Executive Officer, Head of Research & Development Division
Shoichi Kumagai	Executive Officer, Head of Production Division
Makoto Kitamura	Manager of Corporate Communications Department

[Analyst Names]*	Kazuaki Hashiguchi	Daiwa Securities
	Fumiyoshi Sakai	UBS Securities

Takashi Akahane	Tokai Tokyo Intelligence Laboratory
Kyoichiro Shigemura	Nomura Securities

*Analysts that SCRIPTS Asia was able to identify from the audio who spoke during Q&A or whose questions were read by moderator/company representatives.

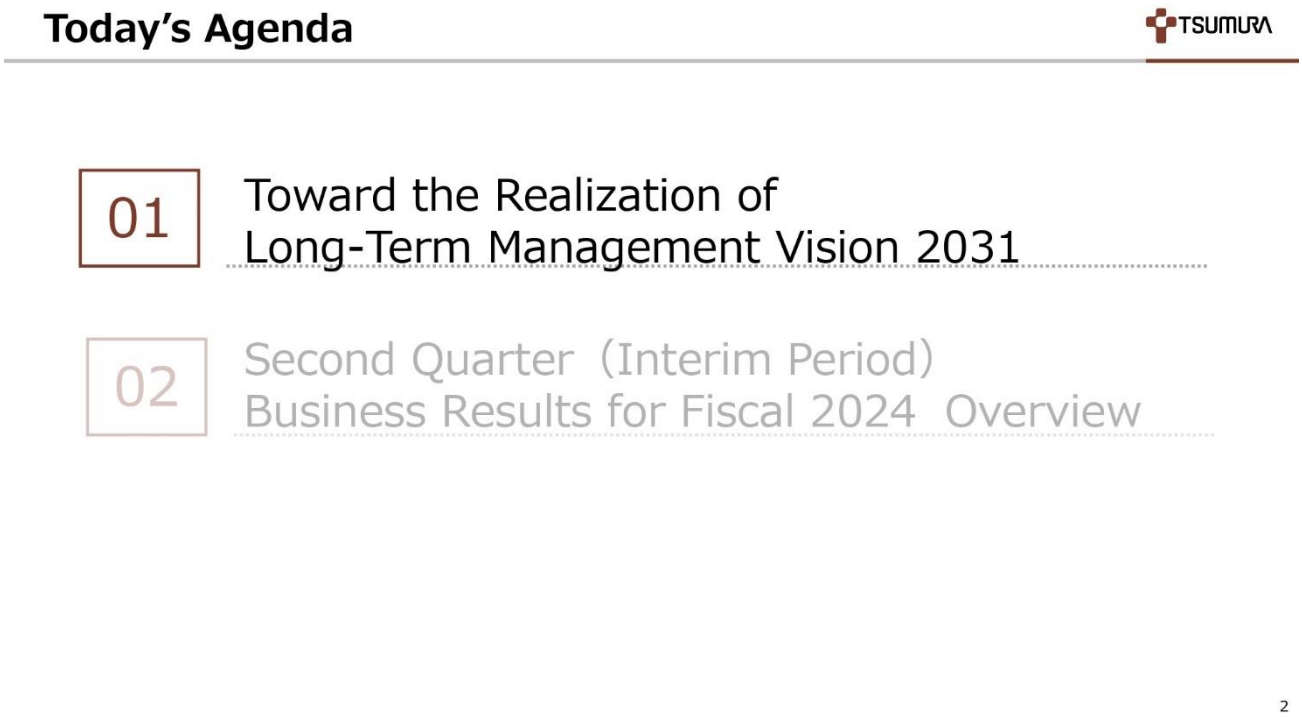
Presentation

Kitamura: The time has come, and we will now begin the presentation of TSUMURA & CO.'s financial results for Q2 of FY2024. Thank you very much for taking time out of your busy schedule to join us today.

This event is held in a hybrid format. In-person at our headquarters and webcast. We will use the presentation materials posted on our website for the presentation. So, please have them ready at hand or view them on the screen.

Here are today's attendees. Mr. Kato, President, Representative Director, CEO. Mr. Sugii, Director and Co-COO. Mr. Handa, Director and CFO. Mr. Miyake, Outside Director. Mr. Sorada, Executive Officer, Head of Sales & Marketing Division. Mr. Konda, Executive Officer, Head of Research & Development Division. Mr. Kumagai, Executive Officer, Head of Production Division. These seven members are attending.

I, Kitamura of the Corporate Communications department, will be the moderator for this presentation. Thank you very much for your cooperation.



This is today's agenda.

We will explain the two themes as you see. We will explain them for approximately 30 minutes. After that, we would like to answer your questions. The program is scheduled to end at 2:00 PM.

Now, Mr. Kato will begin the explanation of how we will realize our Long-Term Management Vision for 2031. Thank you, Mr. Kato.

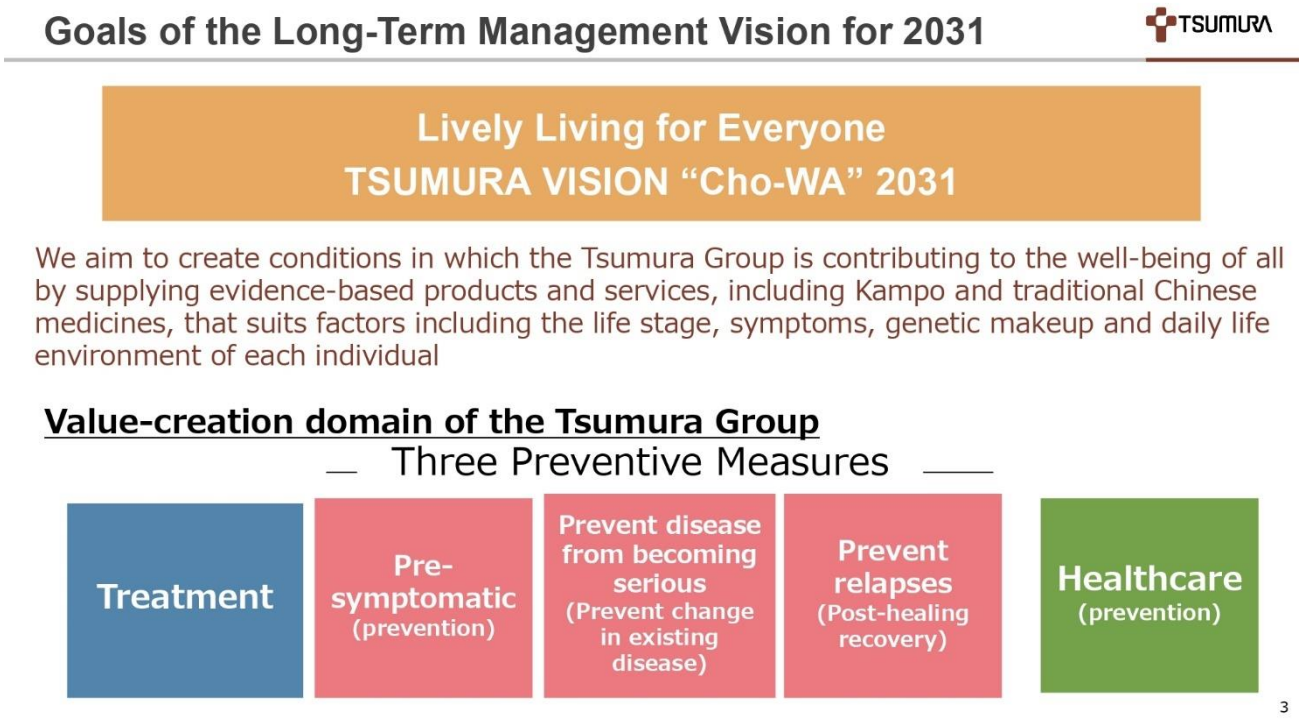
Kato: Hello everyone, my name is Kato. Thank you very much for attending TSUMURA CO.'s interim financial results briefing for Q2 of FY2024.

We would like to thank you again for your continued support of our company and Kampo. Thanks to the NHI drug price revision in April of this year, many prescription items of prescription Kampo products were subject to re-calculation of unprofitable products, and we could raise the drug price substantially for the first time under the current drug price system.

We are working to strengthen the foundation for a stable supply for prescription Kampo products. The item under the limited shipment remains one and is expected to be shipped around the end of November.

I would like to express my gratitude to the Japan Kampo Medicines Manufacturers Association (JKMA), of which I serve as chairperson, for its eight years of research activities and presentations since its establishment in 2016, with the JKMA acting as the secretariat. The association has compiled and submitted two sets of proposals to the relevant ministries and agencies. We sincerely thank all members of the study group for their efforts.

We would also like to express our gratitude to the Federation of Pharmaceutical Manufacturers' Associations of Japan (FMPJ), our parent organization, for their support in submitting JKMA's requests to the Central Social Insurance Medical Council. We also appreciate the Ministry of Health, Labor and Welfare and the Central Social Insurance Medical Council for their understanding and support.

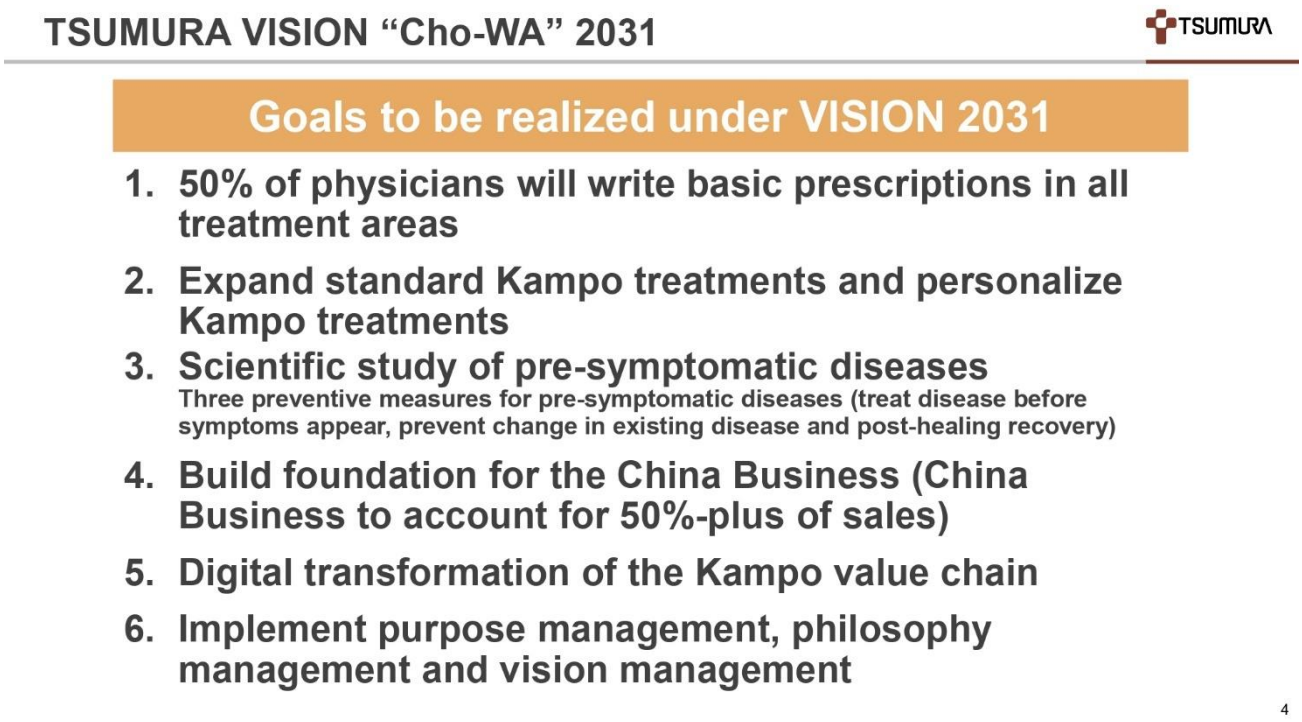


What we, the TSUMURA Group, aim for in our long-term management is the business aspiration that we ultimately achieve our corporate purpose: "Lively Living for Everyone." In order to realize our corporate purpose, TSUMURA VISION "Cho-WA" 2031, our long-term management vision, aims to solve Japan's most concerning social issues, realize a better society, and increase corporate value by optimally allocating management resources.

The most concerning issue in Japan is the acceleration of an aging society with a declining birthrate. The priority issue that we, the TSUMURA Group, must address is how to bring healthy life expectancy, the period during which people can live their lives to the fullest, closer to the average life expectancy.

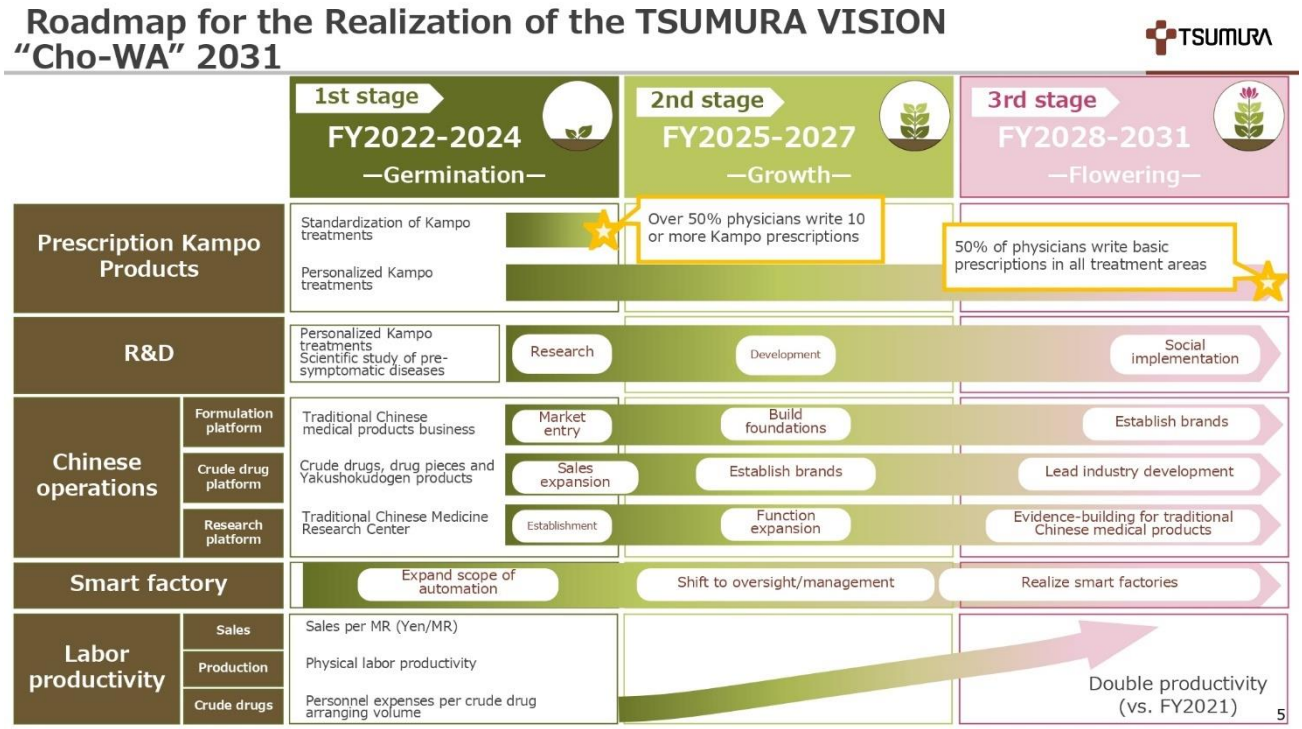
We are also exploring new business opportunities in China and Southeast Asia, regions likely to face similar challenges, to share Japan's advancements in problem-solving through traditional medicine and natural product-derived therapies, where Japan leads the region.

In the area of treatment, the realization of a medical practice where each individual can receive personalized Kampo treatment. In the area of pre-symptomatic diseases, the realization of the three preventive measures for pre-symptomatic diseases, which aim to treat medical conditions at the early stage of the disease. In the area of curing, we are working to realize the provision of product services that contribute to the optimization of food, nutrition, exercise, sleep and stress management.



Here are six specific goals to achieve under VISION2031.

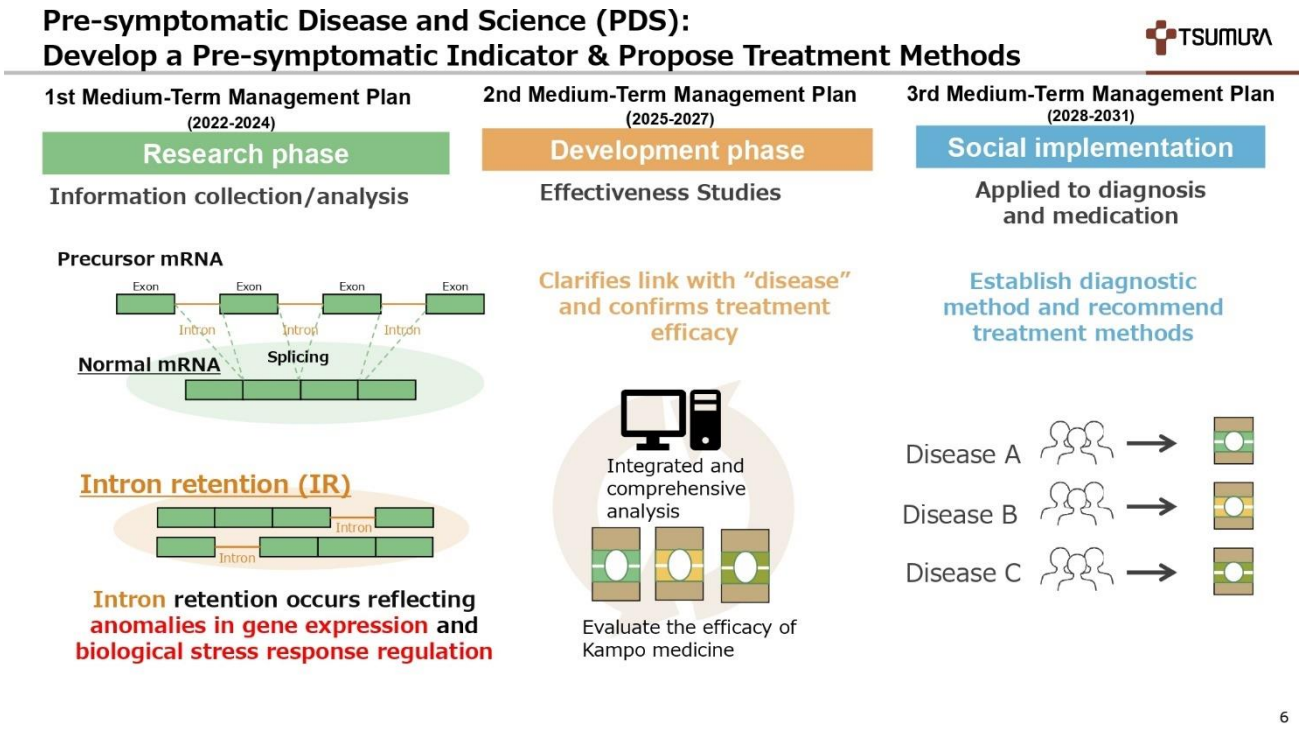
With regard to the implementation of purpose management, philosophy management, and vision management, a book was published and released by PHP Research Institute in September about our corporate philosophy and management. We believe that it has gained understanding of our group's organizational and human capital policy initiatives widely and has received a certain level of positive feedback.



We will explain the current progress and future prospects in the roadmap to realize TSUMURA VISION "Cho-WA" 2031.

In the prescription Kampo business, sales growth and an increase in the number of physicians prescribing 10 or more Kampo formulations are steadily increasing as the standard Kampo treatment expands.

In the bottom line, it says about doubling labor productivity. Indicators in the sales and crude drug departments are growing and progressing as planned in order to achieve low-cost operations. In the production division, we plan to automate the production process at the timing of installing new equipment, and based on this plan, we will realize improvement in labor productivity. In other divisions, we are actively promoting DX initiatives.



Next, I will give an overview of progress in research and development.

Regarding PDS (Pre-symptomatic Diseases and Science), one of Ps out of three in VISION 2031, our goal is to help build a healthier society by establishing evidence-based diagnostic methods for pre-symptomatic diseases and proposing personalized treatment approaches tailored to individual needs.

We are investigating disease progression and onset by visualizing intron retention using a technology that comprehensively measures gene expression in vivo. We are collaborating with Professor Norihiro Okada from the Department of Health and Longevity Genome at Kitasato University's School of Pharmaceutical Sciences to clarify the conditions that may be classified as pre-symptomatic diseases.

As shown in the upper left figure, when DNA is transcribed into precursor messenger RNA, both exons and introns are read repeatedly. Typically, a splicing process occurs, linking the necessary exons while removing unnecessary introns to produce proteins. However, intron retention can occur, a rare phenomenon where unwanted introns remain in the mRNA.

Intron retention is believed to play a role in pre-symptomatic disorders like aging and depression, as it has been shown to occur not only due to abnormalities in gene expression but also as part of the regulatory response to environmental stresses.

Research Findings on Pre-disease Conditions (September 30, 2024: Kitasato University Press Release)

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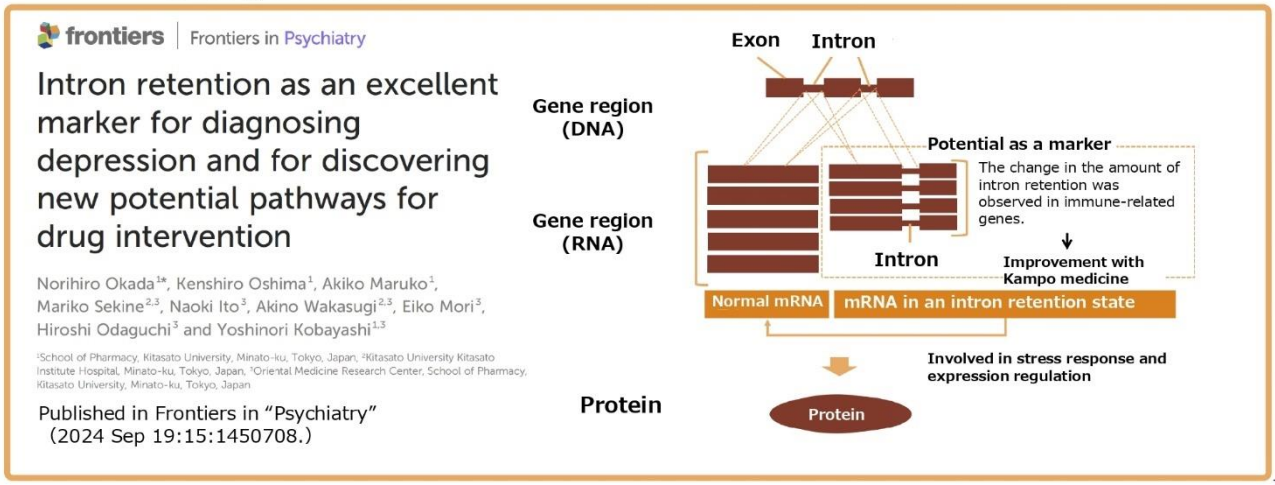
Results 1 **Analysis of intron retention revealed that it could serve as an excellent marker for depression.**

Results 2 **The administration of Kampo medicines resulted in the recovery of intron retention at the genetic level.**



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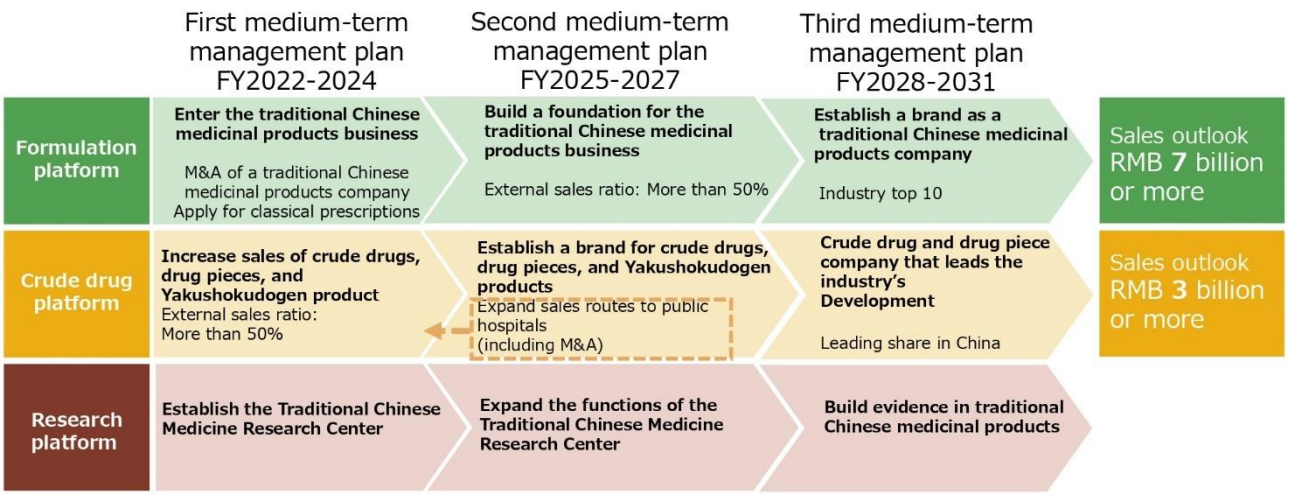
As an example of the results of the research on pre-symptomatic diseases that we are conducting with Professor Norihiro Okada, we would like to introduce a press release by Kitasato University on September 30, 2024.

A study at Kitasato University analyzing intron retention in blood cells from individuals with mild depressive symptoms found that intron retention could serve as a promising marker for depression.

In addition, the study showed that the administration of Hangekobokuto to the same subjects restored intron retention in the gene. For more information, please refer to the press release.

Through these studies, we aim to establish diagnostic methods and build evidence for Kampo treatment in order to make "pre-symptomatic diseases" a science and to implement it in society.

China Business : Progress of each platform



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Next, I will explain the progress of our China business by platform.

In the formulation platform, we have been focusing on M&A of traditional Chinese medicinal products companies as a means to enter the traditional Chinese medicinal products business. In April 2023, we entered into an agreement to acquire 100% of the equity of Shaanxi Unisplendour Life Care Pharmaceutical Co., Ltd, a traditional Chinese medicinal products company, but transferred the equity in July of the same year.

We are currently in contact with a number of potential buyers, but due to the need to proceed with caution based on the last experience we are running a little behind the schedule we had envisioned during the first mid-term business plan.

Conversely, in the crude drug platform, we are currently considering M&A for a drug pieces company in advance of the second Mid-term Business Plan in order to further expand sales channels for drug pieces.

The quality of TSUMURA Group's crude drug has been highly evaluated, and we are proactively expanding our sales channels, focusing on raw material crude drugs and drug pieces, and are continuing to grow sales at a CAGR of 30%. As we will explain in more detail on the next page, we are currently focusing on expanding sales of drug pieces in order to improve profitability.

The Research Platform aims to establish ICH-level quality standards, the global benchmark for pharmaceuticals, across the entire supply chain of crude drugs, from seedlings to finished products. It is positioned as a research institute dedicated to the development and commercialization of traditional Chinese medicinal products that meet this quality standard.

To advance research through collaboration with external partners who have outstanding talents, expertise, and research facilities, we are preparing to establish a research institute in the Greater Bay Area, a region close to Shenzhen Tsumura, where many research hubs are concentrated.

China Business: Expand Sales of Drug Pieces via the Crude Drug Platform

- The CoGS ratio in the crude drug platform improved due to an increase in sales composition ratio along with the expansion in sales of drug pieces
- Promote development of customers by expanding sales channels, including M&A, and with drug piece added-value services

Sales of the crude drug platform's drug pieces sales increased approximately 40% YoY and the sales composition ratio rose 3.9 percentage points due to expanded sales in the hospital sales channel, which is the main target of the platform. This has led to an improvement in the cost ratio and profit margin.

Traditional Chinese Medicine is rooted in a diagnostic and treatment method known as "dialectic therapy," based on a unique theory of pathology. It is considered a pioneer of personalized medicine, as it prescribes treatments tailored to each individual patient and drug pieces are essential drugs and will continue to be in China. In addition, we aim to increase the sales ratio of traditional Chinese medicine drug pieces, which has higher added value compared to raw material crude drug.

On the other hand, traditional Chinese medicine drug pieces require patients to prepare for taking like infusing and face issues with consistency and portability due to variations in ingredients. To address this, we are enhancing our tailored treatments for individuals as a value-added service for drug pieces.

Our tailored treatment business offers a smart service that utilizes smart factory facilities to infuse traditional Chinese medicine drug pieces based on each patient's prescription, then processes and packages them into decoctions, granular extracts, or extract powders, and delivers them directly to the patient. We believe this service holds significant value and strong market potential, as it standardizes and modernizes traditional Chinese medicine drug pieces made from high-quality crude drugs. We hope that those of you who participated in our tour of Tianjin Tsumura Pharmaceuticals and Ping An Tsumura Pharmaceuticals understood the importance.

China Business: Easing of Foreign Investment Negative List

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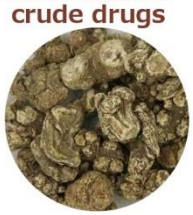
Processing (specifically for traditional Chinese medicinal products)

In accordance with the theory of Traditional Chinese Medicine (TDM), drugs pieces are processed, including "steaming," "boiling," and "roasting," with the goal of reducing changes in drug piece drug efficacy and toxicity, and preservation

Raw material crude drugs



Crude drug name: Byakujutsu

Drug piece after processing

Charred byakujutsu Fried byakujutsu

Foreign companies cannot conduct process owing to foreign investment regulations

Sep. 8, 2024: Proclamation of a deregulation notification (enacted November 1)

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Another recent major topic related to our business in China is the easing of the foreign investment negative list and a way of processing medicines, which are in the foreign investment regulations in China.

In traditional Chinese medicine, drink pieces are produced from crude drug in accordance with the regulations of the Pharmacopoeia of the People's Republic of China, but there are cases where drug pieces are further processed by a method called Shuji. "Shuji" refers to the process of steaming, boiling and frying based on TCM theory, in order to change the medicinal effects of the drink or to reduce or preserve its toxicity.

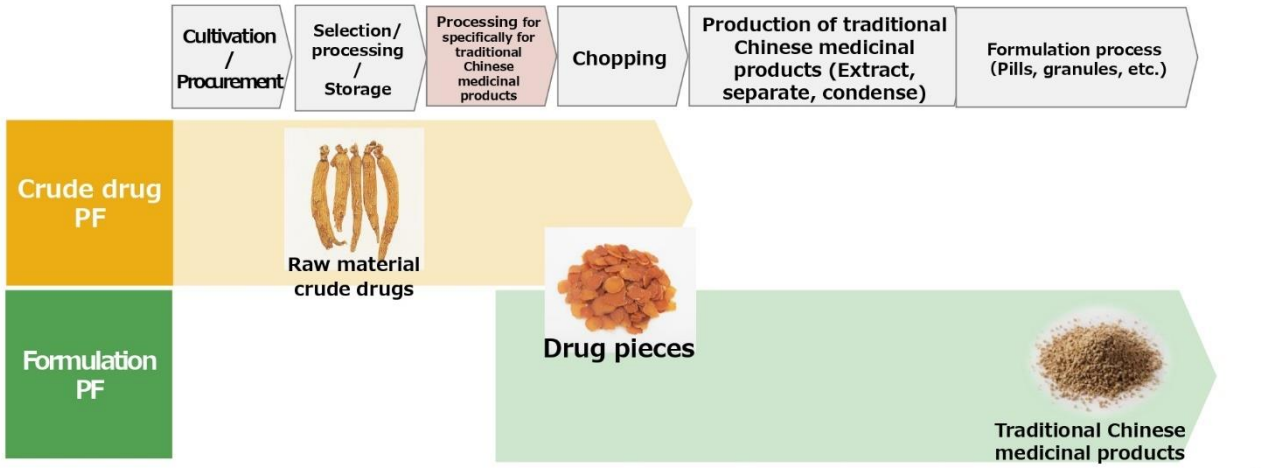
Additionally, many prescriptions use drug pieces that are processed as raw materials during the production of traditional Chinese medicinal products, which has long been a bottleneck in the traditional Chinese medicine product business.

Until now, foreign-invested companies such as ours have not been allowed to engage in the Shuji process due to foreign investment restrictions. However, on September 8 of this year, the Chinese government officially announced the removal of the Shuji process from the negative list.

China Business: Easing of Foreign Investment Negative List

Tsumura Group is able to implement all production processes as it is now capable of doing processing specifically for traditional Chinese medicinal products

[Manufacturing processing for drug pieces/traditional Chinese medicinal products]



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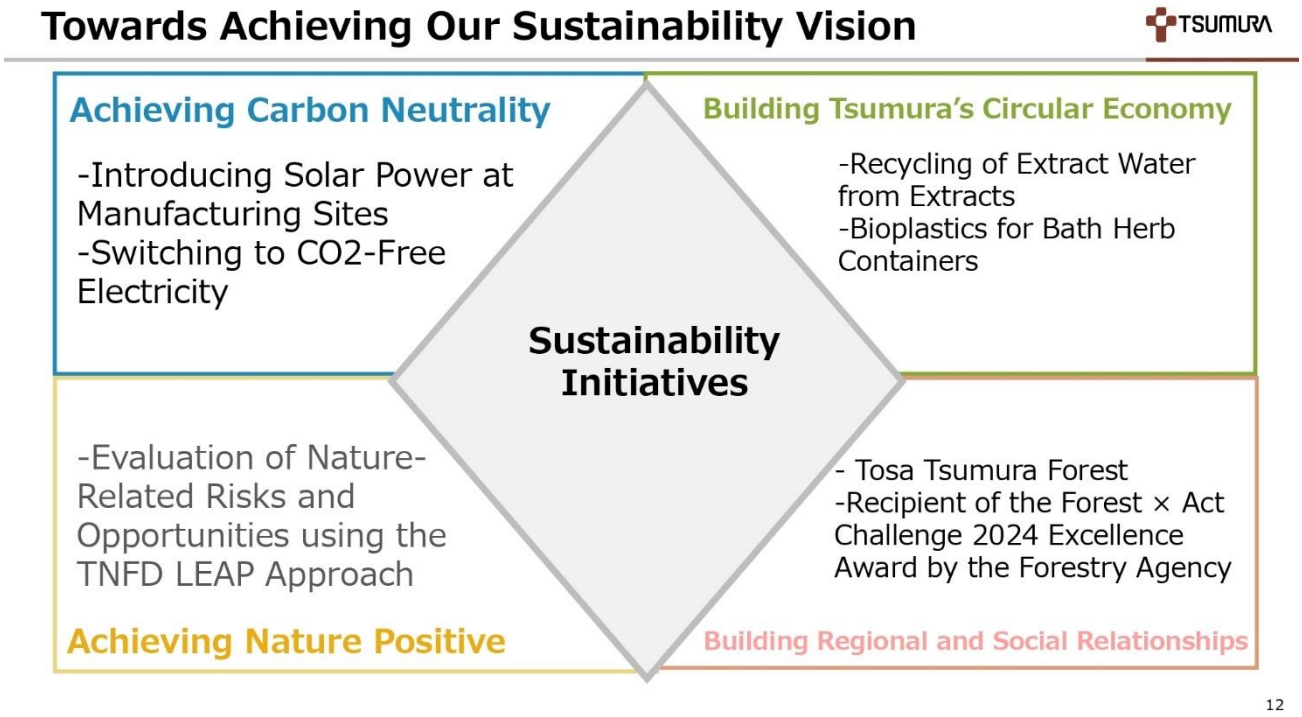
The process of Shuji is as shown. This is one of the processes for manufacturing traditional Chinese medicine drug pieces. It has been a bottleneck in the expansion of the sales items and sales channels of the crude drug platform.

In addition, within the formulation platform, the Group's business plan during the M&A of Shaanxi Unisplendour Life Care Pharmaceutical Co., Ltd. was to manufacture traditional Chinese medicinal products using drug pieces as raw materials, in compliance with regulations and without performing the Shuji process. However, differing interpretations of the regulations in the local district led us to the decision to transfer our equity to the Company.

The relaxation of restrictions on foreign investment regulations will allow our group to handle all manufacturing processes for drug pieces and traditional Chinese medicinal products. We see this as a tailwind for all of our business in China. The relaxation of foreign investment regulation has also made it possible to move forward with potential M&A of drug pieces companies on the crude drug platform.



Finally, this is an update to realize our sustainability vision.

We are promoting various initiatives from the four perspectives of achieving carbon neutrality, building Tsumura's Circular Economy, achieving nature positive and building regional and social relations.

To achieve carbon neutrality, we have installed solar power generation systems at our Shizuoka and Ibaraki plants, Ishioka Center, Shenzhen Tsumura, and Tianjin Tsumura. Together with the switch to CO2-free electricity at our manufacturing sites, we expect to achieve our GHG emissions reduction target for the current fiscal year of -3% from FY2020 level.

As part of establishing the Tsumura Circular Economy, we plan to launch a product in February 2025 that features a bath herb container made from bio-polyethylene material. It can reduce plastic by 28% in a large bottle.

To achieve Nature Positive, we conducted an evaluation and analysis of nature-related risks and opportunities for crude drug production areas and sites, using the TNFD approach published in September. In the future, we will implement measures at locations where reliance on and impact on natural capital are anticipated, linking these efforts to activities that help preserve the natural environment.

In the area of community and social relationship building, the Tosa Tsumura Forest project which aims at conserving the natural environment and promoting regional development in Kochi Prefecture, a key crude drug producing area in Japan, received the Award of Excellence in the Forestry Agency's Forest x Act Challenge 2024.

This is an update from me.

That is all for my explanation. Thank you very much.

Kitamura: Thank you very much. Mr. Handa will give an overview of the financial results for Q2 of FY2024. Please begin.

Second Quarter (Interim Period) Business Results for Fiscal 2024

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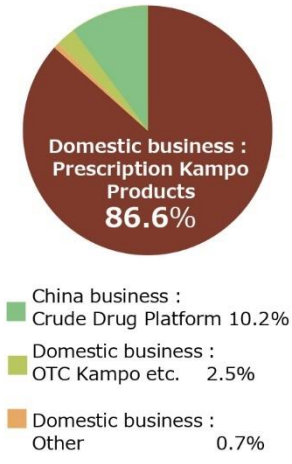
[Million yen]	2Q FY 2024 Plan	2Q FY 2024 results	Achievement rate	YoY	
				Amount	Change
Sales	**89,700**	**89,071**	**99.3%**	**+13,768**	**+18.3%**
Domestic business	79,600	79,973	100.5%	+13,842	+20.9%
China business	10,100	9,097	90.1%	(74)	(0.8)%
Operating profit	**19,300**	**21,075**	**109.2%**	**+10,863**	**+106.4%**
Domestic business	19,500	21,196	108.7%	+10,770	+103.3%
China business	(200)	(121)	–	+93	–
Ordinary profit	**19,300**	**23,402**	**121.3%**	**+10,727**	**+84.6%**
Profit attributable to owners of parent for the six months	**14,200**	**17,502**	**123.3%**	**+8,497**	**+94.4%**
PL translation rate (CNY)*2	–	21.07	–	+1.61	–

Ratio to total sales



＊ Forex rate at the time overseas subsidiaries' PLs were incorporated; differs from the import rate for raw material crude drugs

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Handa: My name is Handa. I will present an overview of the financial results for Q2 of FY2024.

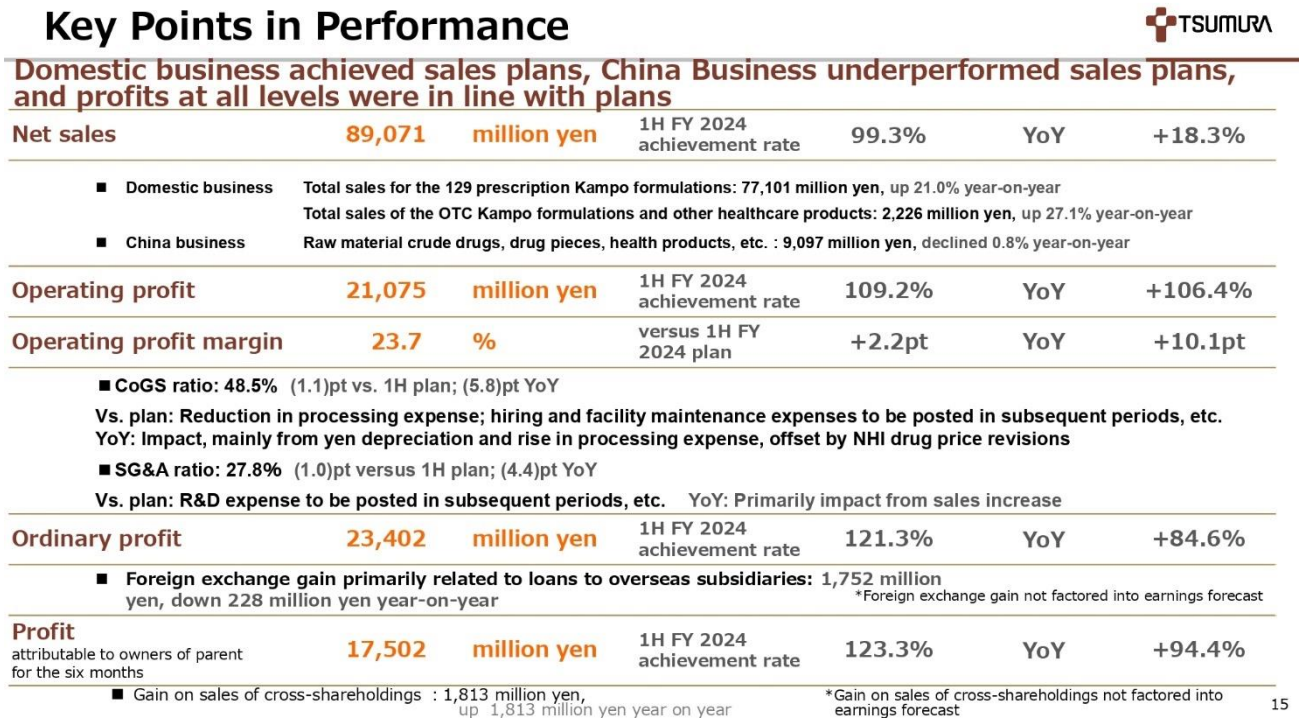
This is a summary of the financial results for Q2 of FY2024.

Sales in Japan achieved the plan, while sales in China fell short of the plan. Operating profit, ordinary profit, and interim profit attributable to owners of the parent achieved the plan.

Sales were JPY89 billion, up 99.3% from the plan and 18.3% from the same period last year. The breakdown was JPY79.9 billion for the domestic business and JPY9 billion for the China business. The sales composition is shown in the pie chart on the right.

Operating profit was JPY21 billion, 109.2% of the plan. Compared to the same period of the previous year, sales increased 106.4%. Operating profit of the China business still remains in the red, but the profit deficit has narrowed from Q1 and the plan has been achieved.

Ordinary profit was JPY23.4 billion, 121.3% of the plan. YoY growth was 84.6%. Interim profit attributable to parent company shareholders was JPY17.5 billion, 123.3% of the plan. Compared to the same period last year, there was a 94.4% increase.



These are key points.

Sales of 129 prescription Kampo products in the domestic business increased 21% from the same period last year to JPY77.1 billion. Sales of OTC Kampo medicine increased 27.1% YoY to JPY2.2 billion due to an increase in the number of outlets.

Sales in the China business decreased 0.8% from the same period of the previous year to JPY9 billion. Although sales of drug pieces increased, sales of raw material crude drugs declined. This is mainly due to the lingering effects of a temporary halt in purchasing among suppliers that occurred in Q1.

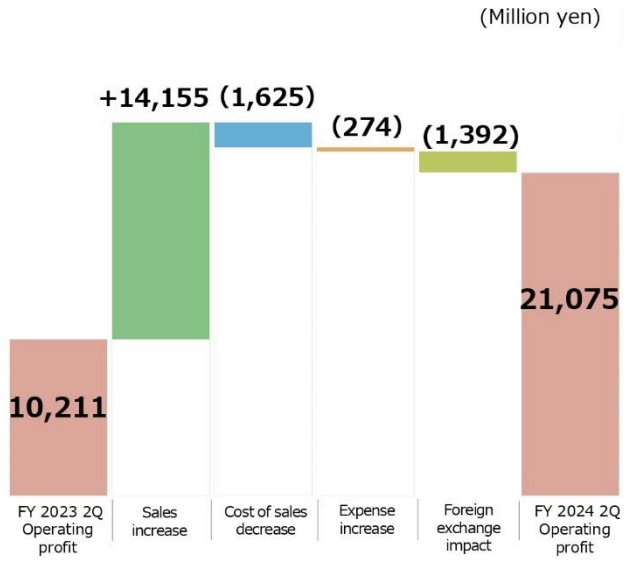
The cost of sales ratio was 48.5%, down 5.8 points from the same period last year. Although processing costs rose due to yen depreciation and increased shipments from the Tianjin plant which is currently in its early operational phase with a high cost of sales ratio, this was offset by higher sales driven by the application of the unprofitable product recalculation. The variance from the plan was due to efforts to reduce manufacturing issues, a reassessment of facility maintenance costs, the hiring of additional manufacturing personnel, and the postponement of the facility maintenance schedule. We will explain the details later.

The SG&A-to-sales ratio was 27.8%, down 4.4 points from the same period last year due to the increase in sales. It was minus 1.1 points against the plan due to the postponement of some R&D and other activities.

As a result of the above, the operating profit margin increased 10.1 percentage points from the same period of the previous year and 2.2 percentage points from the plan to 23.7%.

In terms of non-operating income and expenses, we achieved 121.3% of recurring profit target as a result of a JPY1.7 billion of foreign exchange gain related to loans to overseas subsidiaries due to the weaker yen. The achievement rate for profit attributable to owners of the parent was 123.3%, due to a gain of JPY1.8 billion from the sale of stock resulting from the reduction of cross shareholdings.

Factors Triggering Changes in Operating Profit (YoY)



(Million yen)

Sales increase: +14,155 million yen	
Domestic business (including NHI price revision impact, Sales volume, Sales Composition)	+14,259
China business	(104)
Decrease in cost of sales: (1,625) million yen	
Domestic business: Crude drug procurement cost	(220)
Domestic business: Raw material expenses	(319)
Domestic business: Processing expense, etc.	(1,139)
China business: Decrease in sales ratio	+54
Expense increase: (274) million yen	
Depreciation	(240)
R&D cost	+2
Sales promotion expense	+111
Other	(147)
Foreign exchange (yen depreciation) impact: (1,392) million yen	

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Factors behind the increase or decrease in operating profit compared to the same period last year. We will explain key points only.

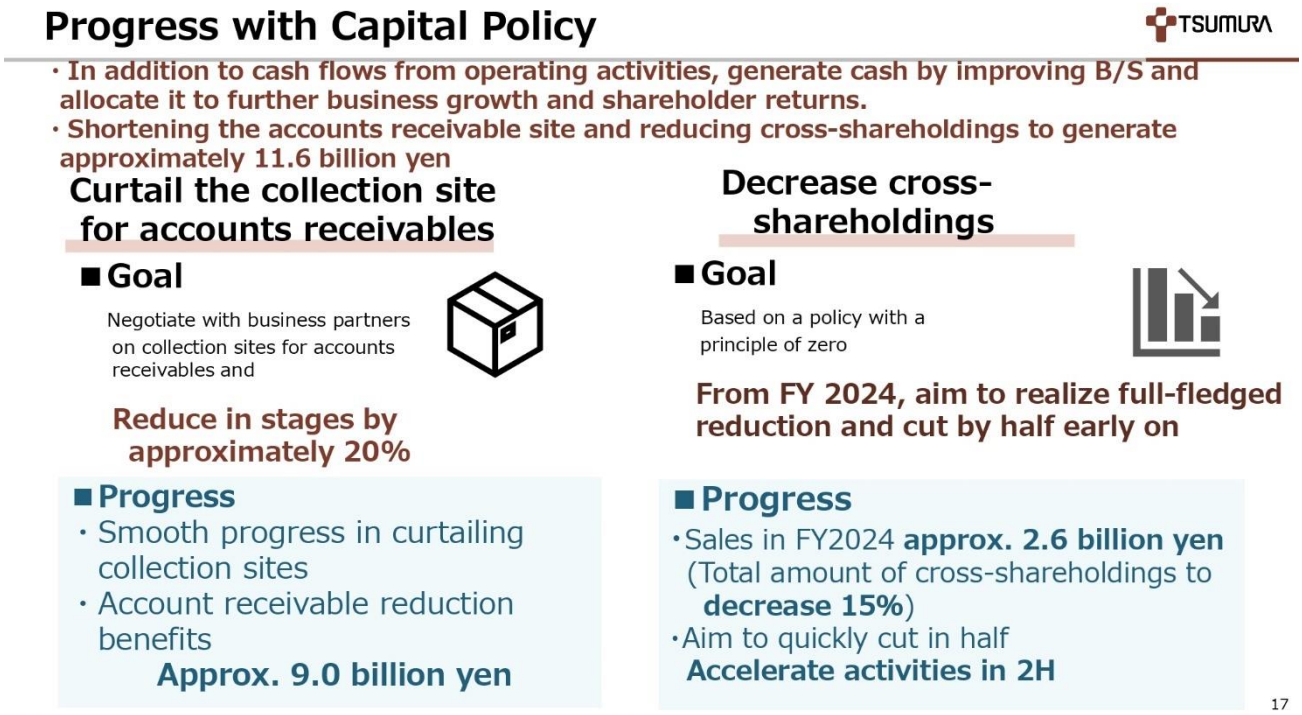
Operating profit increased by JPY10.8 billion from the same period last year to JPY21 billion.

The impact of the sales increase was a positive JPY14.1 billion. The breakdown is as follows: plus JPY14.2 billion for domestic business, minus JPY0.1 billion for China business.

The impact of the increase in cost of sales was minus JPY1.6 billion. The crude drug procurement costs were minus JPY0.2 billion, mainly due to higher unit prices of some crude drugs such as Atractylodes Lancea Rhizome and Japanese pepper. The high cost of raw materials, including lactose, as well as packaging materials, resulted in a JPY 0.3 billion decrease. Processing costs were minus JPY1.1 billion. Despite efforts to reduce the incidence of manufacturing problems and review of facility maintenance, as well as the effects of improvements due to the hiring of manufacturing personnel and the postponement of facility maintenance periods, we were affected by the increased volume of shipments from the Tianjin plant in the early stages of operation.

The impact of the increase in expenses was minus JPY0.2 billion. This was mainly due to an increase in depreciation associated with the startup of the integrated core system.

Foreign exchange impact was minus JPY1.3 billion. This is mainly due to the rising cost of importing crude drugs due to the weak yen.



Progress on capital policy.

The policy is to generate cash by B/S management in addition to cash flows from operating activities and allocate it to further business growth and shareholder returns.

Under this policy, we are accelerating each initiative. In H1, we generated approximately JPY11.6 billion by shortening the accounts receivable collection site and reducing cross shareholdings.

To shorten the period from the accounts receivable collection site, we reduced accounts receivable by approximately JPY9 billion. This was achieved through negotiations with distributors and wholesalers, in line with our policy to gradually reduce the collection period by about 20% after discussions with business partners. We will continue to negotiate.

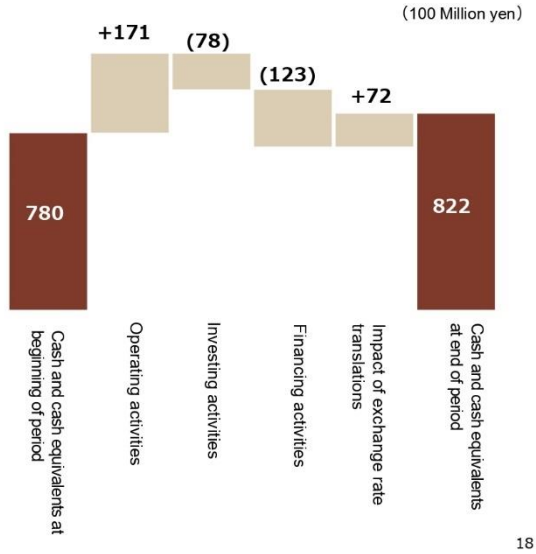
Regarding cross-shareholdings, we have established a policy to eliminate them entirely. We will begin a full-scale reduction this fiscal year, aiming to cut holdings by half as quickly as possible. In H1, we sold four brands for the total sale amount of JPY2.6 billion. We will accelerate this in H2 of the fiscal year with the aim of cutting them in half at an early date.

Financial Condition/Cash Flow Position

(Million yen)

	FY 2023 (March 2024)	FY 2024 2Q	Change
Total assets	**428,254**	**453,462**	**25,208**
Current assets	281,292	300,784	19,491
Non-current assets	146,961	152,678	5,716
Total liabilities	**132,889**	**129,588**	**(3,300)**
Current liabilities	68,557	55,715	(12,841)
Non-current liabilities	64,332	73,872	9,540
Total net assets	**295,364**	**323,873**	**28,509**
Equity ratio	63.2%	64.9%	+1.7pt

	FY 2023 (March 2024)	FY 2024 2Q	Change	Of which, Exchange rate
Inventories	**117,617**	**131,492**	**13,875**	7,422
Merchandise and finished goods	12,139	14,080	1,941	369
Work in process	18,309	19,554	1,244	263
Raw materials and supplies	87,168	97,857	10,689	6,790



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Financial condition and cash flow. We will explain key points only.

Current assets increased by JPY19.4 billion compared to the end of last fiscal year. The main breakdown is a JPY13.8 billion increase in inventories, including a JPY7.4 billion foreign exchange impact, and a JPY4.2 billion increase in cash and deposits. Notes and accounts receivable were at the same level as at the end of last fiscal year due to the effect of shortening the accounts receivable collection site as explained earlier, despite the increase associated with higher sales.

Fixed assets increased by JPY5.7 billion. JPY7.3 billion in increase in tangible fixed assets due to capital investment to increase production capacity, JPY4.7 billion increase due to foreign exchange impact, JPY4.5 billion decrease due to amortization, and JPY2.2 billion decrease in marketable securities due to sales of cross shareholdings. The status of capital expenditures will be explained in detail on the next page.

Current liabilities decreased by JPY12.8 billion due to redemption of bonds, despite an increase in accounts payable. Long-term liabilities rose by JPY 9.5 billion due to new capital investment funding secured through a syndicated loan led by the Japan Bank for International Cooperation.

The equity ratio increased 1.7 percentage points to 64.9%.

Cash flow is shown in the waterfall graph to the right. Operating cash flow increased significantly due to higher profits and the shortening of the accounts receivable collection site as explained earlier.

Investment to Further Strengthen the Stable Supply System (Capital Expenditures)

- **In FY2024, scheduled to invest 34.0 billion yen to further strengthen the stable supply system and to improve productivity**
- **Although a portion of payment deadlines will be carried forward to a subsequent period, investments are basically in line with plans**

Goal	Main investment details	Investment			Investment period
		FY2024 Plan	1H FY2024 Payments	Total	
Enhance production capacity/improve productivity (Kampo extract powder manufacturing process)	Shanghai Plant (renewal)	1.0 billion yen	0.6 billion yen	3.0 billion yen	FY2021 - FY2024
	Tianjin Plant (Phase 2, Phase 3)	9.5 billion yen	3.7 billion yen	25.0 billion yen	FY2021 - FY2026
	Ibaraki Plant (No. 4 SD Bldg.)	7.5 billion yen	0.2 billion yen	30.0 billion yen	FY2024 - FY2026
Enhance production capacity/improve productivity (Granulation and packaging process)	Granulation and packaging building	3.0 billion yen	0.1 billion yen	*Institutional approval of the total investment will be made in the second half of the fiscal year or later.	FY2024 - FY2027
Boost storage capacity/improve productivity	Ibaraki Plant (No. 3 Crude Drug Building)	2.5 billion yen	0.0 billion yen	8.0 billion yen	FY2024 - FY2026
	Yubari Tsumura (medicinal plant warehouse)	1.5 billion yen	0.7 billion yen	2.5 billion yen	FY2023 - FY2025
Other (Increase lines, renew, improve productivity, etc.)		9.0 billion yen	2.8 billion yen	—	—
Total		34.0 billion yen	8.1 billion yen	—	—

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This is the status of capital investment to further strengthen the stable supply system.

With the establishment of a new plant in Tianjin and the securing of an increased production system, including the early start of operations, and the adjustment of production plans, we have proceeded with the lifting of limited shipments, and at present we only have one prescription of Bakumontodo. In addition to the early termination of the limited shipments, we will continue to make the necessary investments to ensure a stable supply system for future volume growth. In addition, we will develop and install automated equipment in conjunction with new or renovated factories to double production.

Currently, we are making investments mainly in the large-scale projects shown in the table here, and I would like to explain the progress of these investments.

In FY2024, we plan to invest JPY34 billion in tangible fixed assets, up JPY15 billion from the previous year, driven by accelerated production capacity expansion, automation for productivity improvement, and new warehouse construction. Investment in H1 amounted to JPY8.1 billion. The main breakdown is JPY3.7 billion for the second and third phases of construction in Tianjin Tsumura, and JPY700 million for the construction of a crude drug warehouse at Yubari Tsumura.

From FY2025 onward, we will continue evaluating investments in the renewal of aging facilities, further expansion of production capacity, automation to enhance productivity, and downstream processes like granulation and packaging. We will announce our decisions once they are finalized.

Domestic Business: Fortifying Production Capacity (Overseas Sites)

TSUMURA

・Securing production volume that exceeds plans owing to benefits from the first phase of the newly-constructed Tianjin Plant and the completion of the renewal of the Shanghai Plant

Newly-constructed Tianjin Plant

Tianjin Plant (Tianjin, China)

Phase 1	・Started shipments to plants in Japan from November 2023 ・**Full-scale operations from 2Q FY2024**
Phase 2	・**Scheduled to hold completion ceremony at the end of November 2024** ・Production operations slated to start in 2025, full-fledged to get underway in 2027
Phase 3	・Construction to be completed in 2026, and production to start in 2027, and full-scale operations scheduled to start in 2028

Shanghai Plant (Shanghai, China)

1SD	・**Renewal construction completed at the end of August, and production operations and shipments resumed**
2SD	・Production operations underway as usual

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We will provide details on the progress of production capacity expansion at our overseas sites.

The Tianjin plant is manufacturing Kampo extract powder, an intermediate product for the domestic business, and is planned to be constructed in Phases 1 through 3. For the first term, shipments began in November of last year, and full operation began in Q2 of this fiscal year. Thanks to efforts such as operating on holidays, reducing item changeover times, and improving yields, production has surpassed the plan. Construction of the second and third phases is progressing as planned, and a completion ceremony for the second phase is scheduled for the end of this month.

The Shanghai plant, which was upgrading a manufacturing line that had been in operation for over 20 years, completed the renewal work at the end of August, following an accelerated construction period shortened by about two months. Operations and shipments have begun.

Domestic Business: Fortifying Production Capacity (Domestic Site)

- At the Ibaraki Plant, embarked on construction of the No. 4 SD Building and No. 3 Crude Drug Building to strengthen production capacity
- Cutting-edge facilities that introduce newly-developed robots and automation technology

Ibaraki Plant: Image of completion

Ibaraki Plant (Ibaraki, Japan)

Name	No. 4 SD Building	No. 3 Crude Drug Building
Investment	Approx. 30.0 billion yen	Approx. 8.0 billion yen
Floors	7 floors (41 meters)	2 floors (33 meters)
Functions	Manufacturing of Kampo extract powder (intermediate) Manufacturing capacity: 950t/year	Storage of raw material crude drugs Storage amount: 1,000t
Est. construction completion date	End of FY2027	
Features	• **Substantially curb manpower** through the introduction of newly-developed automation technology • Shorten time of cleansing during item changeover, etc. ➡**1.7-time rise in labor productivity** *Comparison of No.4 SD Building with the No. 3 SD Building	

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Next is the progress of production capacity expansion at domestic bases.

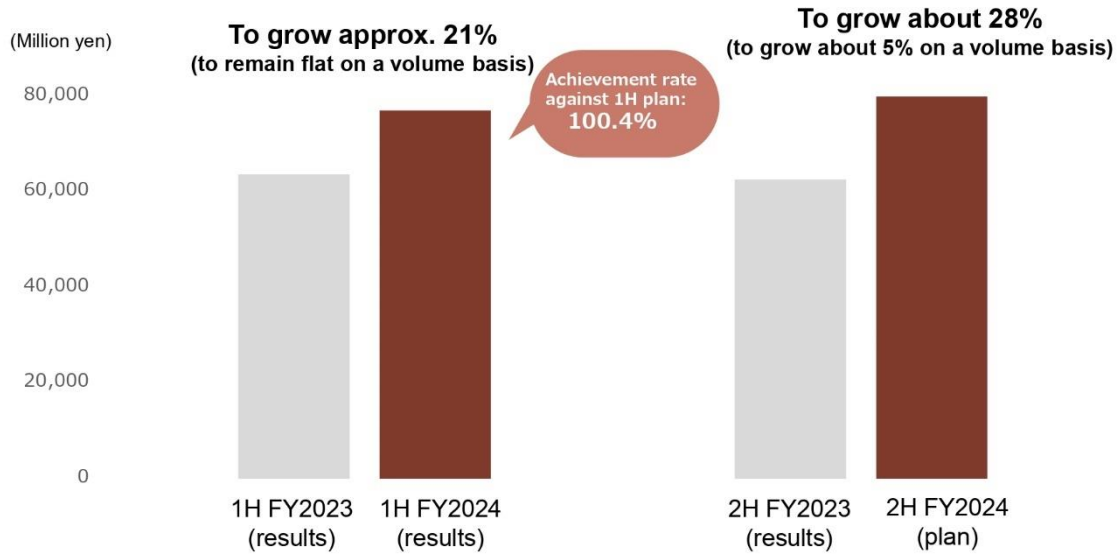
At the Ibaraki Plant, our largest production base in Japan, we have decided to construct No.4 SD building for the production of intermediate products, such as Kampo extract powder, and No.3 warehouse for the storage and sampling of raw material crude drugs in order to increase production capacity, and held a completion ceremony on September 3. Investments are expected to be approximately JPY30 billion for No.4 SD building and approximately JPY8 billion for No.3 building for crude drug.

The No. 4 SD building, which manufactures Kampo extract powder, has larger spray-drying equipment than the Tianjin plant I just described. The annual production capacity of Kampo extract power is expected to be 950 tons. In terms of productivity improvement, we have introduced technologies to automate preparation work between processes, which had been difficult to automate. Also, we implemented an automate sampling for quality testing and have reduced cleaning time when switching items by increasing equipment capacity. Labor productivity is expected to increase 1.7 times compared to No.3 SD building.

In addition, No.3 crude drug building, which is under construction adjacent to No.4 SD building, is designed to store approximately 1,000 tons of raw material crude drug, which is expected to increase the storage capacity at the Ibaraki Plant by 1.7 times. It enables automatic transportation of goods after delivery combined with an automatic rack system. In addition, as a BCP measure, the building has an earthquake-resistant structure, and the automated warehouse uses seismic isolation racks to minimize damage in the event of an earthquake.

Domestic Business: Sales of 129 Prescription Kampo formulations

- Sales and volume of prescription Kampo formulations (129 formulations) both achieved 1H plans
- Aim to achieve annual plan by lifting restricted shipments and strengthening promotions in 2H



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Next is the status of sales of prescription Kampo products (129 prescriptions) in the domestic business.

Despite the negative impact of the NHI drug price revision, and challenges like early orders in March, higher sales of cold prescriptions during last summer's influenza outbreak, and a temporary rebound after lifting shipment restrictions, strategic use of promotions led to a 0.2% increase in sales volume and a 21% increase in value, including the effects of the NHI price revision. The achievement rate against the H1 plan was 100.4%.

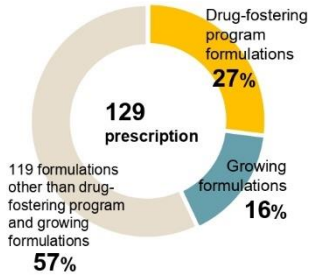
In H2 of the fiscal year, we will aim to achieve the annual plan by quickly lifting the limited shipments of the one remaining item and further strengthening promotions.

Sales of Drug-fostering Program Formulations/Growing Formulations

(Million yen)

	Net sales Ranking	Product No./formulation name	FY 2023 2Q	FY 2024 2Q	YoY	
Drug-fostering program formulations	1	100 Daikenchuto ※	4,937	7,510	+2,573	+52.1%
	2	54 Yokukansan ※	3,819	5,816	+1,996	+52.3%
	5	43 Rikkunshito	3,685	3,581	(104)	(2.8)%
	8	107 Goshajinkigan ※	1,836	2,830	+993	+54.1%
	26	14 Hangeshashinto	716	726	+9	+1.3%
Total sales for drug-fostering program formulations			14,996	20,465	+5,468	+36.5%
Growing formulations	3	41 Hochuekkito	4,109	3,937	(171)	(4.2)%
	4	17 Goreisan	3,674	3,897	+223	+6.1%
	9	24 Kamishoyosan	2,578	2,441	(136)	(5.3)%
	18	137 Kamikihito	1,161	1,125	(35)	(3.1)%
	19	108 Ninjin'yoeito	1,127	1,085	(42)	(3.8)%
Total sales for growing formulations			12,650	12,487	(162)	(1.3)%
Total sales for 119 formulations other than drug-fostering program and growing formulations ※			36,074	44,149	+8,074	+22.4%
Total sales for 129 prescription Kampo products			63,720	77,101	+13,381	+21.0%

Ratio to total sales



*66 prescriptions subject to recalculation of unprofitable products (3 drug-fostering program formulations + 63 other formulations) (+36.2% to +50.7%)

23

This is the sales of “growing” formulations and prescription Kampo product in the domestic business.

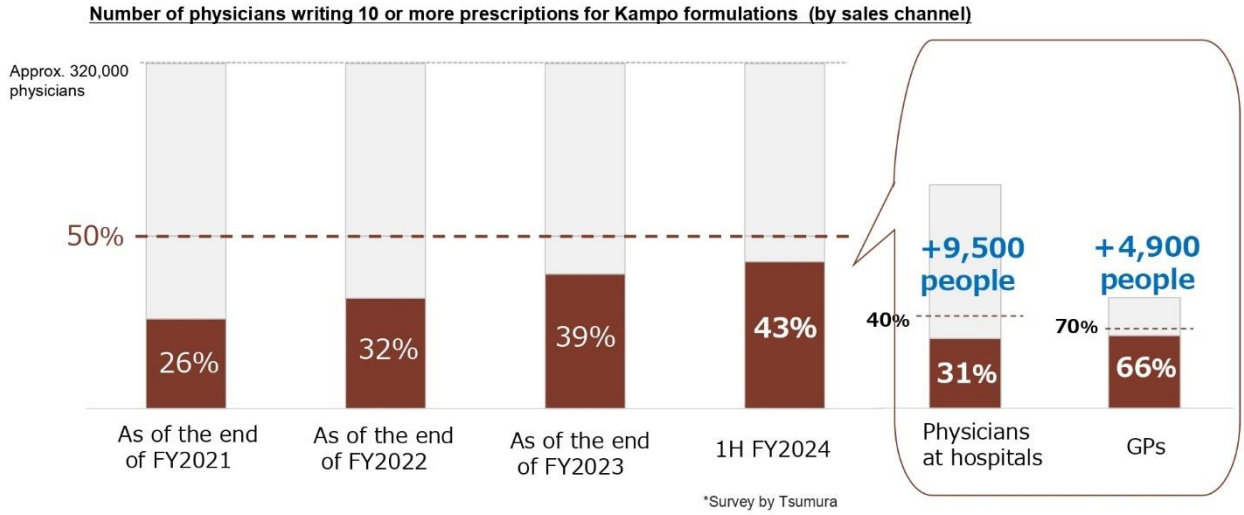
The three asterisked prescriptions for growing drugs and 63 other prescriptions are those that were subjected to price re-evaluation as money-losing products with a revision rate ranging from a positive 36.2 to 50.7%.

Sales of Daikenchuto, Yokukansan, and Gosyajinkigan increased significantly, partly due to the effect of the application of price re-evaluation as money-losing products. Sales of Goreisan grew due to information promotion that meet the needs of headache, dizziness, and other symptoms.

Sales of Rikkushito, Hochuekkito, Kamishoyosan, Kamikihito and Ninjin’ yoeito decreased from the same period of the previous year due to the impact of front-loaded orders that occurred in March following the NHI drug price revision, but demand remains strong as sales volume of these products to medical institutions increased YoY.

Domestic Business: Physicians Writing 10 or More Prescriptions for Kampo formulations

- Physicians writing 10 or more prescriptions for Kampo formulations to substantially increase at hospitals owing to the strengthening of e-promotions
- In the medical field, aim to realize 1-in-2 physicians that write 10 or more prescriptions for Kampo formulations



24

This is the situation for physicians prescribing 10 or more prescription Kampo formulations.

As of September 30, 2024, the overall percentage of physicians prescribing 10 or more prescriptions was 43%. The breakdown was 31% of hospital doctors and 66% GPs.

To reach HP physicians, which has been a challenge, we provide information tailored to each physician through a series of four web lectures titled "Short Lectures of Chinese Medicine for Hospital Doctors" and by enhancing the quantity and quality of our e-mail marketing system.

As a result, the number of doctors has increased by roughly 9,500 compared to the end of the previous fiscal year. We will continue to utilize digital technology to reach HP physicians with more detailed information on their areas of practice and analysis of the needs of individual physicians, with the aim of achieving a medical practice where more than 50% of physicians prescribing 10 or more Kampo formulations.

Domestic Business: Appeal to Proper Use of Kampo Formulations

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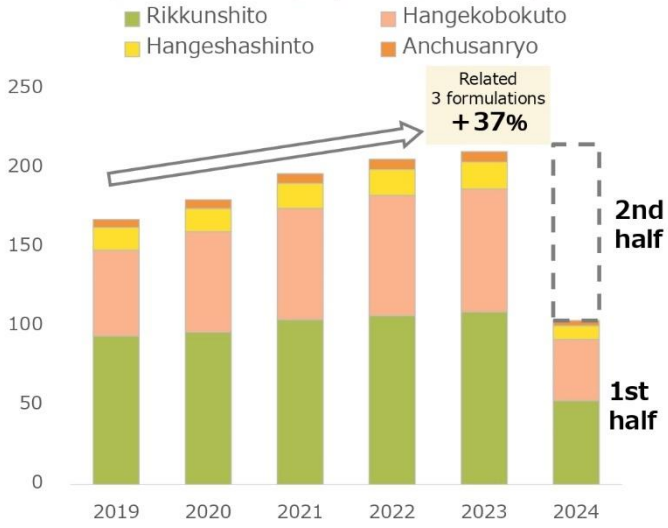
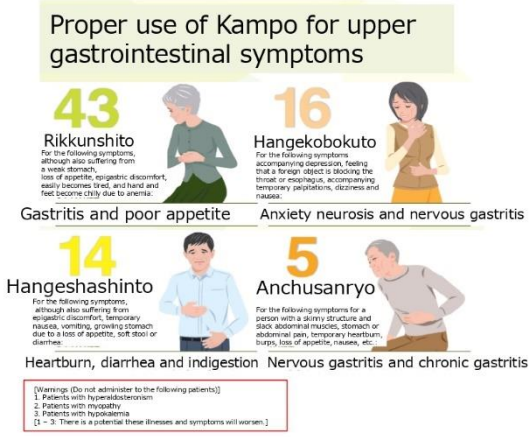
- **In addition to strategic formulations, related formulations are also likely to grow owing to requests for the proper use of Kampo formulation**



Example of materials to be used



(FY) 25

This is about the use of different Kampo products.

In the past, physicians mainly sought information on basic and clinical evidence of Kampo products. As the number of physicians using Kampo products increases, the need for information on the different uses is increasing.

As shown in the graph on the left, alongside upbringing prescriptions like Rikkunshito and “under the “drug fostering” program formulations, related prescriptions are also increasing, driven by the promotion of their use for upper gastrointestinal tract symptoms.

To the right is an example of promotional materials used for different purposes. By offering prescriptions tailored to each individual's physique and constitution, even for similar symptoms, the number of strategic prescriptions has continued to grow, steadily expanding the base of Kampo.

China Business: Working to Turn Profitable

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- Sales in the China Business undershot 1H plans but operating profit outperformed 1H plans owing to a decline in SG&A expense
- In the full-fiscal year, we aim to generate operating profit in the China Business

China business	Net sales	9.09 billion yen
Crude drug platform	Operating profit	0.44 billion yen
Formulation platform, IT infrastructure investments, etc.	Expenses, etc.	
China business	Operating profit	(0.12) billion yen

Elongation over the same period of the previous year ▲5.7%

Elongation over the same period of the previous year +40.2%

Raw material crude drugs

Drug pieces

Sales to traditional Chinese medical products companies as a raw material

Sales for prescription-use and as an OTC to hospitals and pharmacies

Main Products of Crude drug platform

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The status of our China business.

As explained by Mr. Kato at the beginning of this presentation, sales of the crude drug platform for drug pieces grew 40.2% YoY.

On the other hand, sales of raw material crude drugs decreased by 5.7% YoY. Although sales declined 18% YoY mainly due to a temporary halt in purchasing among clients that occurred in Q1, they recovered in the three months of Q2 with a 5% increase.

As reported at the beginning of this report, operating profit improved from Q1 and achieved the H1 plan, although it is still in the red due to the effect of reduced SG&A expenses. We continue to aim to return to profitability for the full year by expanding sales of the crude drug platform and controlling SG&A expenses.

FY2024 Earnings Forecast (No Revisions)

TSUMURA

Earnings are on track with the full-year plan, and we are maintaining our forecast.

【百万円】	2H FY2023 (results)	FY 2024 Earnings Forecast	Rate of progress
Net sales	**89,071**	**185,000**	**+48.1%**
Domestic business	79,973	163,400	+48.9%
China business	9,097	21,600	+42.2%
Operating profit	**21,075**	**39,500**	**+53.4%**
Domestic business	21,196	39,490	+53.7%
China business	△121	10	–
Ordinary profit	**23,402**	**39,500**	**+59.2%**
Profit attributable to owners of parent	**17,502**	**28,500**	**+61.4%**
Income statement exchange rate (JPY/RMB)	–	**21.00**	–
EPS	**230.51円**	**375.35円**	
Dividend per share	**68円**	**136円**	

Factors Behind High Operating Profit Progress

- **First-Half Focused Operating Profit Plan**
  Expenses for supply stability are planned mainly for the second half
- **Cost Reductions (COGS, SG&A)**
  Lower manufacturing trouble rates, maintenance cost review, and water reuse.

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Finally, here is our forecast for FY2024.

Although 48.1% of net sales were achieved in H1 of the fiscal year, we believe that we are on track to achieve the full-year plan, as the domestic business is slightly weighted toward H2 of the fiscal year and the Chinese business fell slightly short of the plan.

Operating profit has increased partly due to efforts to reduce manufacturing issues, a review of maintenance costs, water reuse, and other cost-saving measures. However, the progress rate appears slightly higher because we plan to allocate more expenses in H2 of the fiscal year to strengthen the stable supply system, and some costs, primarily R&D expenses, have been deferred to later periods.

Regarding items ordinary profit and below, the percentage of progress toward the full-year plan is high due to the recording of foreign exchange gains related to loans to subsidiaries, which were not recorded in the budget, as a result of yen depreciation. Also, extraordinary gains from the sale of cross shareholdings are recorded, which is being promoted as a capital policy.

Foreign exchange gains are not expected to change at this time due to the possibility of large fluctuations caused by the current exchange rate and the difficulty of accurately forecasting such gains.

This concludes my explanation. Thank you for your attention.

Kitamura: Thank you very much. This is the end of the explanation.

Question & Answer

Kitamura [M]: Okay, now we move on to question & answer.

Mr. Hashiguchi of Daiwa Securities.

Hashiguchi [Q]: My name is Hashiguchi from Daiwa Securities.

I would like to ask you a few questions about the progress of your China business and its future prospects. Regarding the timing of M&A, I believe you mentioned that the formulation is behind schedule and the crude drug platform is ahead of schedule.

On the slide on page eight, where it is separated into FY2024 and FY2025, it says M&A on the left for formulations and M&A on the right for crude drugs. It means that it seems unlikely during this fiscal year for formulations, while it is conceivable that crude drugs may well be possible during this fiscal year. That is how I understood it, is that correct?

Kato [A]: We didn't mention [inaudible], and now we have an environment where we can start considering it first. It's not the formulation platform, it's the crude drug platform.

As I mentioned earlier, the relaxation of foreign investment regulations is very significant. To launch the drug pieces business, we recognized that offering a full lineup would be impossible without performing Shuji. Thus, we decided to wait until foreign investment regulations were lifted and included this in our strategy for the second medium-term plan. The regulation has been lifted and means that the timing is now for us to consider various options immediately.

This is getting to an early start, and I wasn't referring to the possibility of doing this during the current fiscal year, but we are starting to consider it soon.

We moved quickly with the formulation platform, but as I mentioned earlier, we had to transfer it again due to differing interpretations of the foreign investment regulations. Given the need to avoid repeating the same mistake, we are proceeding with caution. Although we initially aimed to complete this during the first mid-term plan, the current circumstances require a more cautious approach, leading to delays. This was the explanation.

I hope you understand that I did not necessarily mention here that there is a possibility that we could do it this fiscal year ahead of schedule.

Hashiguchi [Q]: This slide is basically the same as the one you presented two and a half years ago.

Kato [A]: Of course it is the same.

Hashiguchi [Q]: Regarding M&A in crude drugs, this description makes it sound as if the main purpose is to expand sales channels for public hospitals. However, the environment has changed in the past two and a half years, so is this the main purpose of M&A that is being considered now?

Kato [A]: You are right.

Hashiguchi [Q]: You mean it.

Kato [A]: Yes. Although the current situation is still being carried out mainly by a company called China medico corporation, it is true that sales of drug pieces are increasing while expanding the sales channels of public hospitals by our own.

However, in order to acquire sales channels more efficiently or at an earlier stage, we will work with companies that are already in the market. We have a policy of taking majority as our basic approach, so it is an M&A, but it is definitely an M&A with the objective of making it possible to enter such a sales channel in a public hospital in an efficient manner.

Hashiguchi [Q]: Why is the formulation being delayed, or rather, why is it being proceeded with cautiously? If anything, it is the crude drug platform that Shuji tends to bottleneck.

Kato [A]: Both. In China, the process of making traditional Chinese medicinal products is essentially the same as producing drug pieces, as it involves using drug pieces as raw materials. As a result, the drug pieces business within the crude drug platform closely aligns with the TCM drug business, where TCM drugs are made based on drink strip formulations.

Hashiguchi [Q]: Then what else remains as a constraint? Because you are proceeding with caution, you have few options. Therefore, without taking time, it is difficult to find a suitable partner for your company's idea. So, the number is just small. But do you think that if you take time, you will surely find them? Or is there some situation or point still left where there is still a bump on the eye like Shuji and you have to wait for the environment to change?

Kato [A]: We have actually negotiated with several companies about the traditional Chinese medicinal products business in the past, and we have considered it. However, after seeing the case of Shaanxi Unisplendour Life Care, everyone has taken a step back.

With the relaxation of foreign investment regulations, we have started re-negotiation. There are, of course, new negotiations, but there are also instances of renegotiation. Especially in the case of renegotiation, since concerns were raised once in the middle of the negotiations and they were aborted, we do not want to be in the same place where it will not happen.

This is partly because we are cautious, but also because the other party is cautious. Pushing forward at the planned speed would be risky, so we are proceeding at a suitable pace while considering the circumstances of our counterparts. If so, I am now wondering if it will be difficult to achieve by the end of this fiscal year, the first mid-term management plan. This is how I interpret it.

Kitamura [M]: Mr. Sakai, UBS Securities.

Sakai [Q]: UBS, this is Sakai.

I am sorry to ask a question that is unrelated to financial results. Ping An Insurance is a major shareholder of your company, and I understand that Chinese regulations now concern insurance companies are investing in healthcare and pharmaceuticals. In your case they have 20% of your share.

Kato [A]: 10%.

Sakai [Q]: Was it 10%? What kind of situation is this, what is the situation now? This foreign investment regulation. Please share if there is any movement, including the intertwining of this, capital structure and if there are any factors that we have to be prepared for.

Kato [A]: I also visited Ping An about three weeks ago. We are aware of what Sakai-san has just said, and we have asked them directly if there is any such impact. We have also confirmed that there will be no change in our objectives and investment in China, as our objective is not only to invest in China but also to work together in a business alliance with China.

Sakai [Q]: I would like to know if there is a change.

Kato [A]: When there is a change, yes, of course.

Sakai [Q]: I think it will be quite a big move.

Also, back in Japan with the financial results. I have asked the IR personnel, the table on page 23. Nurturing and "growing" formulations for domestic business. I have a feeling that the domestic volume would increase 5% annually, which used to be 3%. As Mr. Handa mentioned earlier, the base is expanding.

The table shows that the prices of Daikenchuto and Yokukansan have increased by about 50%, so it is natural that the sales basis would increase. However, the growing formulations have a large negative value.

We were told that this is because the impact of the so-called hoarding at the end of March still remains in these first and second quarters. I think it makes sense, but I wonder if this 5% growth and volume increase is really justified by this. It seems that you have assumed of 5% in H2, but what is the certainty of that and how do you see it on the ground?

Sorry to pull up an old story. When you thought that the "drug fostering" program formulations were good, the next time growing formulation was bad, and vice versa. I would like to confirm this pattern will not be repeated.

Kato [A]: I will explain the situation and then the general manager of the sales division will speak.

First of all, the 5% assumption is based on the assumption that there is no emergency situation for limited shipments like now.

I apologize for the limited shipments. However, I want to assure you that these limitations are not due to any irregularities or major issues on our part. In fact, the situation has arisen because we have significantly increased our shipping volume in response to the growing demand for Kampo prescriptions due to shortages of new drugs. As a result, while we are shipping more than ever before, and it has led to the limited shipments. This means that we have been able to make limited shipments in order to reach Kampo for our patients so far.

Since this was the first time for us to experience, our MRs were at the mercy of first having to apologize for the limited shipment and then having to properly explain it. Therefore, there has been a period in which we have not been able to conduct normal promotional activities, and that is where we are again this time, with H1 showing almost the same volume growth as in the previous year.

The negative is also explained earlier by Solder. H1 is based on shipments, so what we sell to wholesalers is the shipment basis, and what wholesalers sell to medical institutions, pharmacies, drugstores, and drugstores is the actual sales. Actual sales are positive, so there is real demand, and demand is not getting smaller.

In this context, as I explained earlier, the limited shipment of one more product, Bakumontodo will be lifted at the end of this month in H2. Then it means that you can return to normal business activities. We are already going in that direction. With that in mind, the growth rate for H2 is 5%, which means that we can return to the 5% level I mentioned earlier.

Also, regarding the probability of this, I would like to have Mr. Sorada answer, who is in charge of the headquarters.

Sorada [A]: For example, we have about 65,000 customers for the “growing” formulations, Hochuekkito. A quick look at the numbers for the fourth through the ninth quarters shows an increase of about 400 cases. We have taken some measures in H1 with regard to Hochuekkito and Juzentaihoto, a group of Kampo products known as complementary agents.

As a result, there are about 13,000 doctors who have newly used Hochuekkito, for example. It is our opinion that these doctors used this as trial. This will be changed from trial to permanent after October. This is what we are working on now throughout the Sales division.

In the first half of H1, we were making many limited shipments, so MRs' cell phones were ringing continuously from morning to night. Now that this is no longer the case, we are seeing a significant increase in external activities.

In the same way, for Goreisan, we have taken measures to treat weather pain, headaches and other physical ailments caused by low pressure. In Q2 alone, about 10,000 doctors have newly used Goreisan to treat such conditions. We are also working to create a formulation that can be used regularly for physical conditions caused by changes in air pressure.

There are still many doctors that we can approach to provide information. By supplementing this with digital and physical MR activities, we hope to achieve a new cruising speed of 5% this fiscal year. This is what we are working on.

Sakai [Q]: To put it simple, 5% can be achieved by equalizing sales activities.

Sorada [A]: Yes. It also includes doing deeper and wider digital activities.

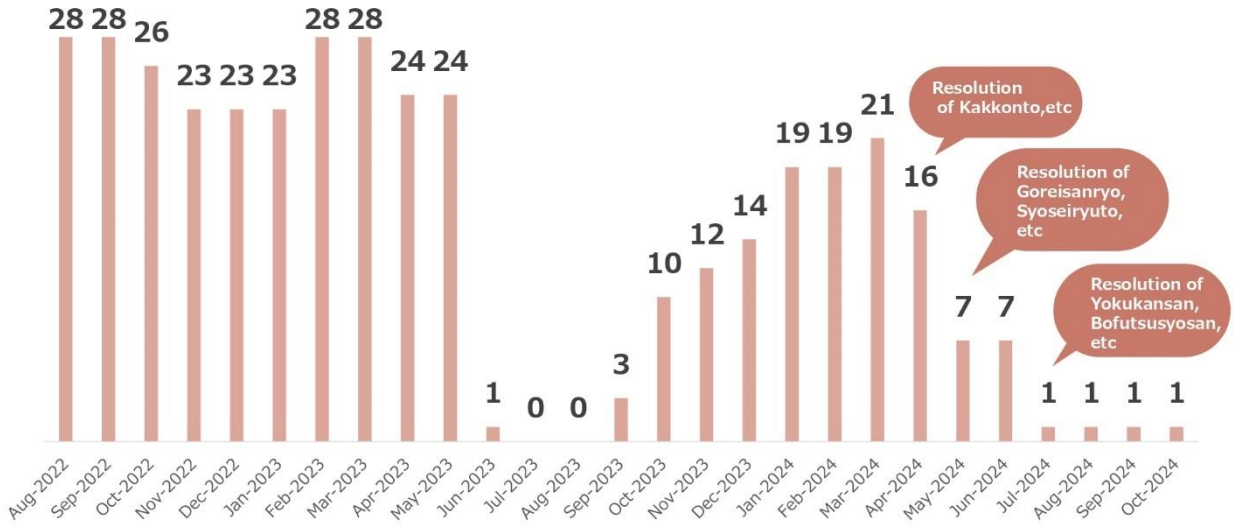
We have been pushing e-promotion, but we are now working to make it more in line with the needs of doctors. We are proceeding over the fourth to ninth fiscal years. From October onward, we intend to further advance in this way, although it is still not enough, and to put even more effort into e-promotion than MR activities.

Kitamura [M]: Mr. Akahane from Tokai Tokyo Intelligence Laboratory.

Domestic Business: Changes in Number of Restricted Shipment Items in 129 Prescription Kampo formulations

TSUMURA

- There was only one restricted shipment item(Bakumondoto) as of November 8
- Aim for an early resolution by fortifying production capacity



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Akahane [Q]: I have one question for actual and one question for forecast.

First of all, in the actual results, the table I am looking at is the data and page two of this sub that you gave us, and page 31 of the briefing materials that you gave us.

As mentioned earlier, the overall NHI price has risen by about 21%, and the market is performing well. Although sales increased at the beginning of the fiscal year and demand is anticipated, shipments of several products, including Goreisan and Yokukansan which are on page 31, were limited. The actual results are very good, with 2.1 times the profit, but do you have any idea how much the shipping situation affected the H1 results?

Sorada [A]: It is difficult to know exactly but considering the growth of the surrounding items and the growth of these items before the limited shipments, I think the total amount was close to JPY2 billion. This could be a bit much.

Handa [A]: When creating our plans at the start of the term, we based them on the assumptions you just mentioned. As Sorada pointed out, H1 ended in line with those expectations, so I would like you to consider that when looking at the figures.

Akahane [Q]: I would like to ask how many business opportunities were missed because of the lack of products. My second question is that it will show in H2 as Bakumontodo will be shipped this month and there will be no limited shipment. Is it safe to assume that H2 will be considerably better?

Looking at individual products, things like Goreisan are growing very well. Bofutsushosan, which was released from shipment during H1, so the bottom line is quite good if you can really ship them at full capacity.

The reason I am asking so persistently is that your company's stock price is falling because you did not revise your full-year results, but I am wondering if H2 will be better, isn't it? Aside from the unrealized profit on the last page, I wonder if it is okay to say that all the shipments have been adjusted and the H1 business opportunity has been missed but it will be [inaudible].

Also, I would like to ask one more time about H2. President Kato mentioned last time that shipping adjustments have been made, but Bakumontodo is used for coughs and such. Can we see that we have enough inventory in case influenza or COVID-19 hit? Is it safe to assume that there will be no more shipment adjustments in this H2, including other products but not only Bakumontodo? I want to ask how we should look at H2.

Sorada [A]: We are looking at the timing of the release of Bakumontodo while fully discussing it with production. As for Bakumontodo, it is all good. Even if we suddenly release two months' worth in a month, we will not make another limited shipment. It's okay.

Mycoplasma pneumoniae is now widespread. This has led to a considerable increase in demand for cough medicines, especially those for use in children, such as Makyokansekito and Gotoko.

This is probably due in part to the fact that many Western medicines for cough suppressants are still being shipped on a limited basis. Since our Production division has been carefully examining the situation, we are not currently considering another limited shipment.

Akahane [Q]: This is true for infectious diseases, but there are still shipping adjustments for generics. So, should we assume that this will be included, build up our inventory, and still be okay?

Kato [A]: We can make assumptions for some cases but not for others. Each standard is completely different. We can not suddenly increase Kampo products' production capacity for tomorrow. To be clear, it takes more than three years to build a new factory.

Therefore, we assume that we will be able to respond to some extent to the demand for Kampo under the current circumstances, but we cannot say for certain that we will be able to respond in the event that an extraordinary situation arises. We would like you to understand it.

Kitamura [M]: Mr. Shigemura from Nomura Securities, please.

Shigemura [Q]: I am Shigemura from Nomura Securities. I would like to make two quick points.

In terms of M&A potential for the China business, what are the key criteria for companies you would like to add to the crude drug platform and the manufacturing platform, respectively? I think there are various factors such as the size of sales, trade area, or manufacturing function. This is my first question.

Kato [A]: There are some conditions for M&A that I was given in the past, but one is that we will not do the traditional Chinese medicinal products business unless we get the majority. We have knowledge and this is something that is not easily compromised.

Basically, we consider both medical and OTC drugs, but since OTC drugs are more discretionary. Discretion means that we can set prices in various ways, it costs a certain amount of money to produce good quality products. Therefore, we will basically continue to look for places that have OTC items that are relatively inexpensive and have what are called classical prescriptions.

As for the drug pieces company, there are quite a few restrictions, and we do not have that many options. So, we are considering looking for a company that can agree on reasonable terms. We will be exploring potential areas, including trade areas.

Shigemura [Q]: Another question is cross shareholding. How much money is currently outstanding and how is the money from this sale being used, as the cash flow is increasing. Please let me know if it is to be used for shareholder return or for investment.

Handa [A]: As of the end of last year, there were more than 15 billion shares held by cross shareholdings. Of that amount, JPY2.6 billion was sold in H1 of the fiscal year. Since we have said that we will halve the amount as soon as possible, we have not said that it will be during the fiscal year, but we would like to accelerate the process in H2, rather than taking three or four years to achieve the early goal.

Another point is that we would like to use the cash flow generated from this sale, including the shortening of the accounts receivable collection site, to increase production, invest for the future, and increase shareholder returns. This is how we would like to allocate the funds.

Kitamura [M]: Thank you for your question. Since we passed the time, I would like to conclude the question & answer session here.

This concludes the presentation of financial results for Q2 of FY2024. Thank you for your participation.

[END]

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