



**TSUMURA & CO.**

First Quarter Business Results for Fiscal 2024

August 6, 2024

## Event Summary

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<b>[Company Name]</b>	TSUMURA & CO.	
<b>[Company ID]</b>	4540-QCODE	
<b>[Event Language]</b>	JPN	
<b>[Event Type]</b>	Earnings Announcement	
<b>[Event Name]</b>	First Quarter Business Results for Fiscal 2024	
<b>[Fiscal Period]</b>	FY2024 Q1	
<b>[Date]</b>	August 6, 2024	
<b>[Number of Pages]</b>	27	
<b>[Time]</b>	13:00 – 14:03 (Total: 63 minutes, Presentation: 20 minutes, Q&A: 43 minutes)	
<b>[Venue]</b>	Webcast	
<b>[Venue Size]</b>		
<b>[Participants]</b>		
<b>[Number of Speakers]</b>	4	
	Kei Sugii	Director, Co-COO
	Muneki Handa	Director, CFO
	Yukinori Sorada	Executive Officer, Head of Sales & Marketing Division
	Makoto Kitamura	Manager of Corporate Communications Department
<b>[Analyst/ investor Names]*</b>	Takashi Akahane	Tokai Tokyo Intelligence Laboratory
	Kazuaki Hashiguchi	Daiwa Securities
	Fumiyoshi Sakai	UBS Securities
	Kyoichiro Shigemura	Nomura Securities
	Shingo Kobayashi	Nippon Value Investors
	Kei Okamura	Neuberger Berman

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

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# Presentation

**Kitamura:** The time has come, and we will now begin TSUMURA & CO.'s financial results briefing for Q1 of FY2024. Thank you very much for taking time out of your busy schedule to join us today.

This time, we are broadcasting as a webcast at a venue in the head office. We use the presentation materials posted on our website for today's explanation, so please have them ready at hand or see the materials on the screen.

I would like to introduce today's attendees. This is Mr. Sugii, Director and Co-COO. This is Mr. Handa, Director and CFO. This is Mr. Sorada, Executive Officer and the Head of Sales & Marketing Division. These three members are attending. I am Kitamura from the Corporate Communications Department, and I will be your moderator. Thank you.

The presentation is scheduled for 20 minutes. After the presentation, we would like to answer your questions. The closing time is scheduled for 2:00 PM.

Mr. Handa will now begin the financial results briefing for Q1 of FY2024. Please begin.

**Handa:** My name is Handa. We would like to thank all the participants for the continued support of our company and Kampo.

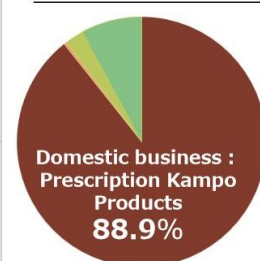
Now, I explain the financial results for Q1 of FY2024.

## 1Q Business Results for FY 2024



【Million yen】	1Q FY 2023 results	1Q FY 2024 results	YoY		FY2024 1H plan	Progress Rate (vs. 1H plan)
			Amount	Change		
<b>Sales</b>	<b>37,036</b>	<b>43,690</b>	<b>+6,654</b>	<b>+18.0%</b>	<b>89,700</b>	<b>48.7%</b>
Domestic business	32,988	40,134	+7,145	+21.7%	79,600	50.4%
China business	4,047	3,556	(491)	(12.1%)	10,100	35.2%
<b>Operating profit</b>	<b>4,684</b>	<b>10,575</b>	<b>+5,890</b>	<b>+125.7%</b>	<b>19,300</b>	<b>54.8%</b>
Domestic business	4,684	10,713	+6,028	+128.7%	19,500	54.9%
China business	0	(138)	(138)	—	(200)	—
<b>Ordinary profit</b>	<b>5,989</b>	<b>14,118</b>	<b>+8,128</b>	<b>+135.7%</b>	<b>19,300</b>	<b>73.2%</b>
<b>Profit attributable to owners of parent</b>	<b>4,332</b>	<b>11,180</b>	<b>+6,847</b>	<b>+158.1%</b>	<b>14,200</b>	<b>78.7%</b>
PL translation rate (CNY)	19.36	20.63	+1.27	—	—	—

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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This is a summary of the Q1 financial results for FY2024.

Net sales totaled JPY43.6 billion, up 18% from the same period last year. Progress against the H1 plan is 48.7%. The breakdown is JPY40.1 billion for the domestic business and JPY3.5 billion for the China business. The sales composition is shown in the pie chart on the right.

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Operating profit increased 125.7% YoY to JPY10.5 billion, 54.8% of the H1 plan.

Ordinary profit increased 135.7% YoY to JPY14.1 billion, representing progress of 73.2% toward the H1 plan.

Profit attributable to owners of the parent increased 158.1% YoY to JPY11.1 billion, representing progress of 78.7% toward the H1 plan.

## Key Points in Performance



### • Both net sales and profits increased year-on-year

<b>Net sales</b>	<b>43,690</b> million yen	YoY	<b>+18.0%</b>	Progress rate (vs. 1H plan)	<b>48.7%</b>
<ul style="list-style-type: none"> <li>Domestic business</li> </ul>	Total sales for the 129 prescription Kampo formulations: 38,820 million yen, up 21.9% year-on-year				
	Total sales of the OTC Kampo formulations and other healthcare products: 985 million yen, up 17.8% year-on-year				
<ul style="list-style-type: none"> <li>China business</li> </ul>	Raw material crude drugs, drug pieces, health products, etc. : 3,556 million yen, declined 12.1% year-on-year				
<b>Operating profit</b>	<b>10,575</b> million yen	YoY	<b>+125.7%</b>	Progress rate (vs. 1H plan)	<b>54.8%</b>
<b>Operating profit margin</b>	<b>24.2</b> %	YoY	<b>+11.6pt</b>		
<ul style="list-style-type: none"> <li>Cost-to-sales ratio: 47.7%, (7.2)pt YoY: Impact from the rise in crude drug procurement expenses and the depreciation of the yen's value against major currencies was offset by the NHI drug price revision</li> <li>SG&amp;A ratio: 28.1%, (4.3)pt YoY: Due mainly to an increase in net sales</li> </ul>					
<b>Ordinary profit</b>	<b>14,118</b> million yen	YoY	<b>+135.7%</b>	Progress rate (vs. 1H plan)	<b>73.2%</b>
<ul style="list-style-type: none"> <li>Foreign exchange gain primarily related to loans to overseas subsidiaries: 3,228 million yen, +2,299 million yen year-on-year</li> </ul>	*Foreign exchange gain not posted in plan				
<b>Profit attributable to owners of parent</b>	<b>11,180</b> million yen	YoY	<b>+158.1%</b>	Progress rate (vs. 1H plan)	<b>78.7%</b>
<ul style="list-style-type: none"> <li>Gain on sale of cross-shareholdings: 1,729 million yen, +1,729 million yen YoY</li> </ul>					

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I will explain the key points of the financial results.

Sales of 129 prescription Kampo formulations in the domestic business increased 21.9% to JPY38.8 billion. Sales of OTC Kampo medicines and other healthcare products increased 17.8% YoY to JPY900 million due to an increase in the number of outlets handling them.

Sales in the China business decreased 12.1% YoY to JPY3.5 billion as a result of a decline in sales of mainstay raw material crude drugs due to the impact of restrained purchases by some customers.

The cost-to-sales ratio was 47.7%, down 7.2 points from the same period last year. Despite higher raw material crude drug procurement costs and other costs, the cost of sales ratio decreased due to the application of the NHI drug price revision.

The SG&A-to-sales ratio was 28.1%, down 4.3 percentage points from the same period last year due to the increase in sales.

As a result, operating profit increased 125.7% YoY to JPY10.5 billion.

In non-operating loss, ordinary profit was JPY14.1 billion, due in part to a JPY3.2 billion foreign exchange gain on loans to overseas subsidiaries resulting from the weaker yen.

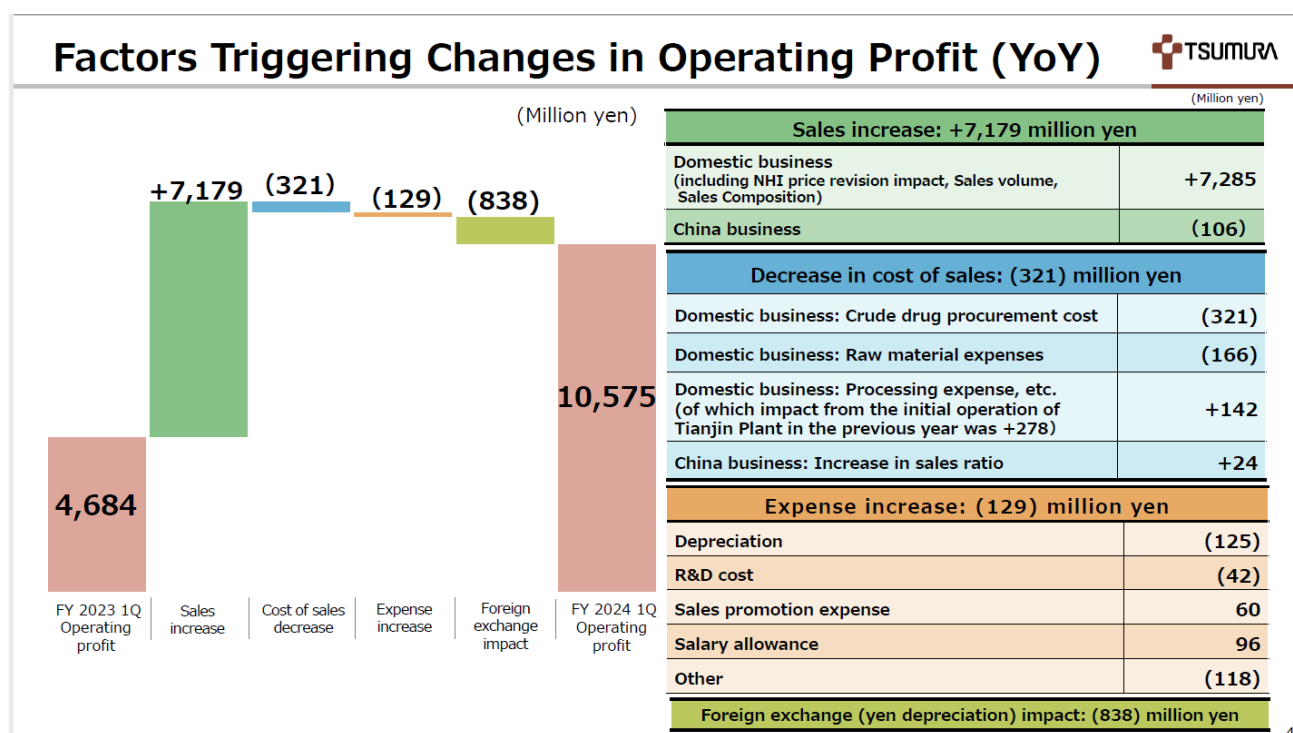
In addition to the above, an extraordinary gain on the sale of cross-shareholdings resulted in profit attributable to owners of the parent for the period of JPY11.1 billion, up 158.1% from the same period of the previous year.

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Both ordinary profit and profit are well ahead of the H1 plan, but this is mainly due to foreign exchange gains.



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

Operating profit was JPY10.5 billion, an increase of JPY5.8 billion from the same period last year.

The impact of the sales increase was JPY7.1 billion, which was plus JPY7.2 billion of the domestic business and minus JPY0.1 billion of the China business.

The impact of the decrease in cost of sales was a negative JPY0.3 billion: minus JPY0.3 billion in crude drug procurement costs, mainly due to higher unit prices of certain crude drugs, such as wild crude drugs, Japanese pepper, and jujube; and minus JPY0.1 billion due to the high costs of raw materials and supplies, such as lactose and packaging materials. Also, processing costs were plus JPY0.1 billion. This was mainly due to a decrease in reaction to the initial operation of the Tianjin plant, which had increased in the previous year. In the current fiscal year, processing costs are expected to increase temporarily due to an increase in shipments from the Tianjin plant.

The impact of the expense increase was a negative JPY0.1 billion. This was mainly due to an increase in depreciation expenses associated with the start of operation of the integrated core system.

The foreign exchange impact was minus JPY0.8 billion. This was mainly due to the impact of higher import costs of crude drugs caused by the weak yen.

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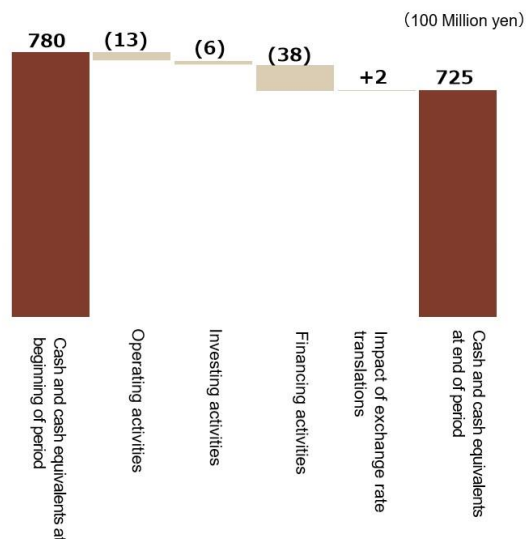
# Financial Condition/Cash Flow Position



(Million yen)

	FY 2023 (March 2024)	FY 2024 1Q	Change
<b>Total assets</b>	<b>428,254</b>	<b>445,163</b>	<b>16,909</b>
Current assets	281,292	297,395	16,102
Non-current assets	146,961	147,768	807
<b>Total liabilities</b>	<b>132,889</b>	<b>137,611</b>	<b>4,721</b>
Current liabilities	68,557	73,718	5,161
Non-current liabilities	64,332	63,892	(439)
<b>Total net assets</b>	<b>295,364</b>	<b>307,552</b>	<b>12,188</b>
Equity ratio	63.2%	63.3%	+0.1pt

	FY 2023 (March 2024)	FY 2024 1Q	Change	Of which, Exchange rate
<b>Inventories</b>	<b>117,617</b>	<b>126,911</b>	<b>9,294</b>	3,252
Merchandise and finished goods	12,139	13,522	1,383	167
Work in process	18,309	19,944	1,634	152
Raw materials and supplies	87,168	93,444	6,275	2,932



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Financial condition and cash flow position. We will explain the key points.

Current assets increased by JPY16.1 billion. The main breakdown is an increase of JPY9.3 billion in notes and accounts receivable trade due to increased sales, an increase of JPY9.2 billion in inventories, including JPY3 billion in foreign exchange factors, and a decrease of JPY5.4 billion in cash and deposits.

Fixed assets increased by JPY0.8 billion. The main breakdown is JPY2.2 billion in capital investment for the construction of the Yubari Tsumura warehouse and the Tianjin plant and minus JPY1.7 billion in sales of cross-shareholdings.

The increase in current liabilities was mainly due to an increase in accounts payable. Fixed liabilities did not change significantly.

The equity ratio increased 0.1 percentage point to 63.3%.

Cash flow is shown in the waterfall graph on the right.

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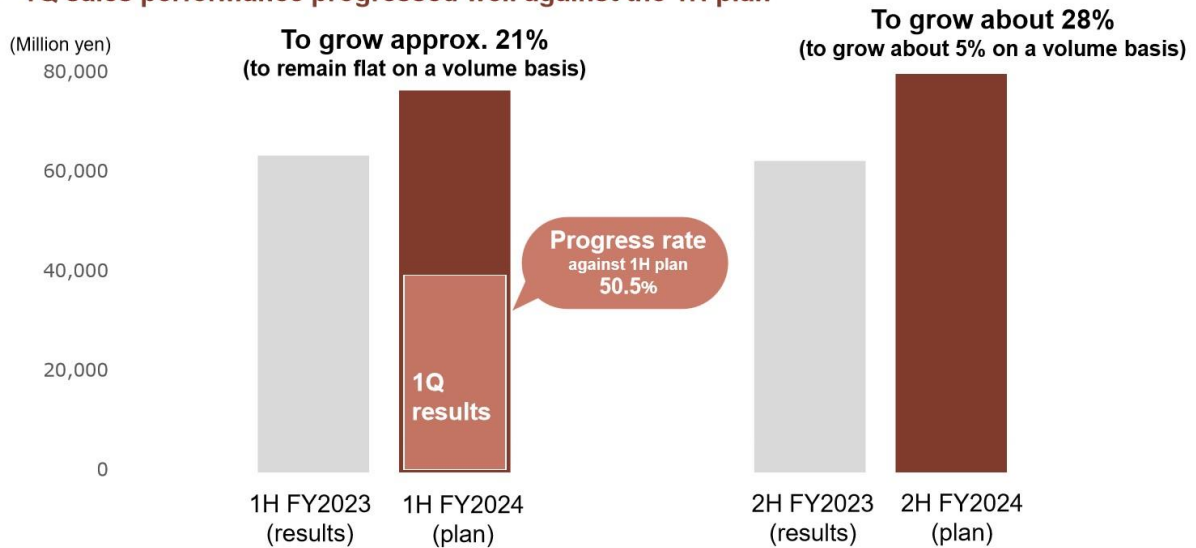
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## Domestic Business: Sales of 129 Prescription Kampo formulations

- Net sales in 2H are expected to grow about 28% year-on-year on the back of an increase in production capacity
- 1Q sales performance progressed well against the 1H plan



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I will explain the plan and progress of sales of medical Kampo products, 129 prescriptions.

In FY2024, in addition to further strengthening sales activities, we plan to increase the utilization rate of the newly built Tianjin plant, increase production capacity by completing the renewal of the Shanghai plant, and remove limited shipments. This will expand the growth rate in H2, with approximately 28% YoY growth and 5% growth on a volume basis.

The progress rate of the Q1 sales against the H1 plan was 50.5%, showing steady progress.

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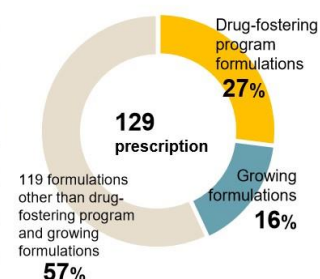
# Sales of Drug-fostering Program Formulations/Growing Formulations



(Million yen)

	Net sales Ranking	Product No./formulation name	FY 2023 1Q	FY 2024 1Q	YoY	
Drug-fostering program formulations	1	100 Daikenchuto ※	2,515	3,877	+1,362	+54.2%
	2	54 Yokukansan ※	1,940	3,040	+1,100	+56.7%
	5	43 Rikkunshito	1,861	1,757	(104)	(5.6)%
	7	107 Goshajinkigan ※	995	1,467	+472	+47.5%
	25	14 Hangeshashinto	370	358	(12)	(3.3)%
Total sales for drug-fostering program formulations			7,683	10,502	+2,819	+36.7%
Growing formulations	3	17 Goreisan	1,801	2,090	+288	+16.0%
	4	41 Hochuekkito	1,931	1,800	(131)	(6.8)%
	9	24 Kamishoyosan	1,305	1,199	(105)	(8.1)%
	19	137 Kamikihito	590	539	(51)	(8.7)%
	20	108 Ninjin'yoeito	561	527	(33)	(6.0)%
Total sales for growing formulations			6,191	6,157	(33)	(0.5)%
Total sales for 119 formulations other than drug-fostering program and growing formulations ※			17,964	22,161	+4,197	+23.4%
Total sales for 129 prescription Kampo products			31,838	38,820	+6,982	+21.9%

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%)

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These are sales of drug-fostering and growing 129 prescription Kampo formulations in Japan.

Sales of prescription Kampo formulations, 129 prescriptions, totaled JPY38.8 billion, up 21.9% from the same period last year.

The three prescriptions with an asterisk for the drug-fostering program and 63 other prescriptions are those that were subject to recalculation of unprofitable products, with revision rates ranging from a positive 36.2% to 50.7%.

Sales of Daikenchuto, Yokukansan, and Goshajinkigan increased significantly, partly due to the application of recalculation of unprofitable products. Sales of Goreisan increased following the lifting of shipment restrictions and targeted information campaigns addressing the needs of those experiencing headaches, dizziness, and other related symptoms.

On the other hand, sales of Rikkunshito, Hangeshashinto, Hochuekkito, Kamishoyosan, Kamikihito, and Ninjin'yoeito decreased from the same period of the previous year.

I will explain the detail on the next page.

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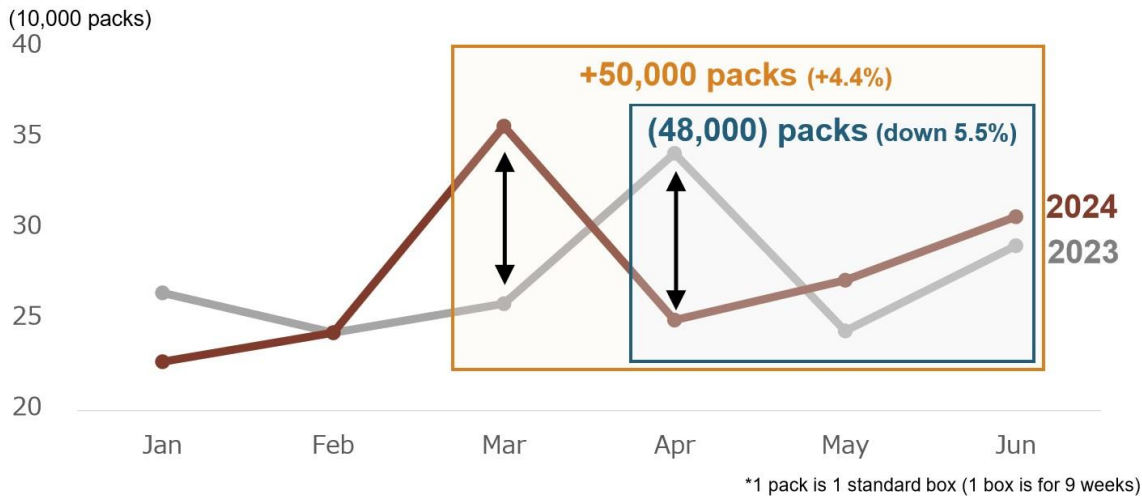
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- Sales of the following 6 formulations in March increased about 35% year-on-year

**Change in monthly sales of 6 formulations (Rikkunshito, Hangeshashinto, Hochuekkito, Kamishoyosan, Ninjin'yoeito, and Kamikihito)**



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This graph shows monthly sales volume totals for the strategic prescriptions that experienced a YoY decline in sales: Rikkunshito, Hangeshashinto, Hochuekkito, Kamishoyosan, Ninjin'yoeito, and Kamikihito.

As you can see, the sales volume in 2024 compared to 2023 shows a large increase in March and a large decrease in April. In addition to the 21 items under the restricted shipment as of March, shipment adjustments were made for items that were subject to NHI price increases due to the application of recalculation of unprofitable products. Under such circumstances, the impact was due to an increase in shipments of other products, mainly the six formulations shown here.

Due to this reaction, sales volume for the period from April to June was minus 48,000 packs compared to the same period last year. However, sales volume for the period from March to June was plus 50,000 packs, showing steady growth compared to the same period last year.

We recognize that demand for Kampo continues to be strong.

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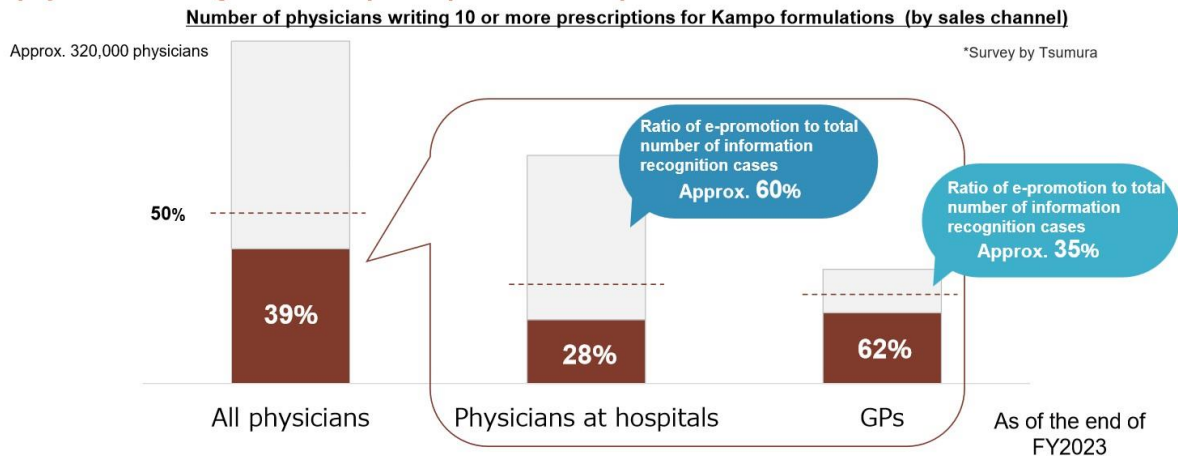
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## Domestic Business: Physicians Writing 10 or More Prescriptions for Kampo formulations



- Hospitals are the key in increasing the ratio of physicians writing 10 or more prescriptions for Kampo formulations to 50% or more.
- E-promotion accounts for approx. 60% of information recognition cases among hospitals. By further focusing on promotion activities targeting hospitals, we aim to increase the number of physicians writing 10 or more prescriptions for Kampo formulations



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

At the end of FY2023, the overall percentage of physicians writing 10 or more prescription Kampo formulations is 39%, which we show separately for physicians at hospitals, or HPs, and general practitioners, or GPs, in this graph.

As you can see, the percentage is as high as 62% in GPs, while HPs is at 28% against a target of 40%. It is a challenge for HPs to achieve more than 50% of physicians writing 10 or more prescription Kampo formulations.

In HPs, e-promotion accounts for approximately 60% of detailed impact, as measured by the number of physicians recognizing the information. This high ratio is supported by a significant number of physicians who prefer regulatory visits and online information activities. Our goal is to increase the proportion of physicians writing more than 10 prescriptions Kampo formulations by further enhancing our focus on e-promotion.


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- Large-scale Web-lectures for hospital doctors planned, with a total of over 30,000 physicians expected to attend
- Detailing impact through Web lecturers almost doubled on a year-on-year basis

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**Kampo Online Seminars (4 sessions)**  
**Kampo short lectures for hospital doctors**

<Themes>

Session 1: Symptoms suitable for Kampo (insomnia and anxiety)


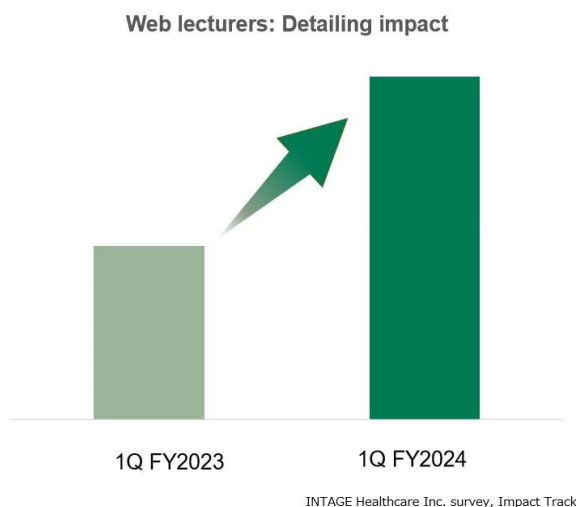
Session 2: Various symptoms in the elderly (frailty, sarcopenia, and cramps)

Session 3: Gastrointestinal symptoms (upper abdominal complaints, abdominal pain, and constipation)

Session 4: Selection of Kampo medicines for hospital doctors (summary)

<Lecturers>

Department of Kampo Medicine, Tokai University School of Medicine  
Kampo medical advisors (Dr. Nogami, Dr. Nakada, Dr. Arai)

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This is an example of our approach to hospital physicians.

In addition to conducting in-person sessions, we are focusing on web-based lectures. We are also enhancing accessibility by offering shorter sessions both during the daytime and in the evening to accommodate more physicians' schedules.

We are planning a series of four web-based lectures, Kampo short lectures for hospital doctors. This program is designed to provide an instructor to explain both Western and Kampo medicine approaches about Kampo formulations that can be useful for hospital-based physicians. It is short, 30 minutes per session, and accommodates the work styles reform of physicians. With this, a total of 30,000 physicians will participate.

Due in part to the impact of these lectures, detail impact from the lectures increased significantly, approximately doubling from the same period last year. We will continue to strengthen our approach to hospital physicians by effectively conducting web lectures.

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## Domestic Business: Initiatives to Provide Customized Information for Each Physician



- Provision of customized information for each physician through "enhancement of quantity and quality" of e-mail marketing mechanism
- The number of pageviews (PVs) of Tsumura's medical website has increased 20%

### Provision of customized information for each physician

Identify potential needs and provide relevant content based on website visits, clinical department, area of practice, and prescriptions

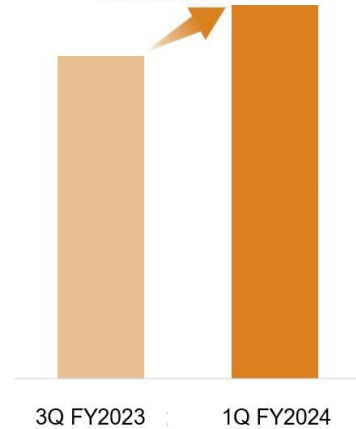
Email distribution



Email distribution



Number of PVs



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This initiative provides information tailored to each physician.

From H2 of FY2023, we have focused on "enhancement of quantity and quality" of our e-mail marketing system. By analyzing information sought by individual doctors based on their participation in lectures and other events, content viewing data, and other relevant data, we deliver personalized information and improve our recommendation functions when they visit our website.

Our medical site, which has been enriched with Kampo information, has maintained a high level of PVs compared to other companies. Due in part to the impact of an enhanced e-mail marketing system, PVs increased by 20% YoY.

In the future, we will consider various means, including the use of new technologies, to accelerate our efforts to provide information tailored to each individual physician.

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## Domestic Business: Increase in Production Capacity



- As a result of the lifting of shipment restrictions by increasing production capacity, the number of restricted shipment items has decreased to one formulation (Bakumondoto)
- Production volume of Bakumondoto will significantly increase after the completion of the renewal of Shanghai Plant

### Establishment of Tianjin Plant



- Obtainment of manufacturing approval has completed for all items as planned
- Full-scale operation of Phase 1 manufacturing lines is expected to start in 2Q

### Renewal of Shanghai Plant



- Renewal of manufacturing lines that have been in operation for more than 20 years is underway
- Construction will be completed by the end of August due to a shortened construction period, and operations are scheduled to resume

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Status of production capacity expansion.

We have completed obtaining manufacturing approvals for all planned items at the newly established Tianjin plant. In addition, the utilization rate of the Phase I manufacturing line is steadily increasing and is expected to be in full operation in Q2. With this, we are in the process of lifting the shipment restriction. The only item in limited shipments is Bakumondoto as of August 5.

Renewal of some manufacturing lines is underway at the Shanghai plant, but construction is scheduled to be completed and operations to resume at the end of August, thanks to efforts to shorten the construction schedule. The first product to be produced after operations commence is planned to be Bakumondoto.

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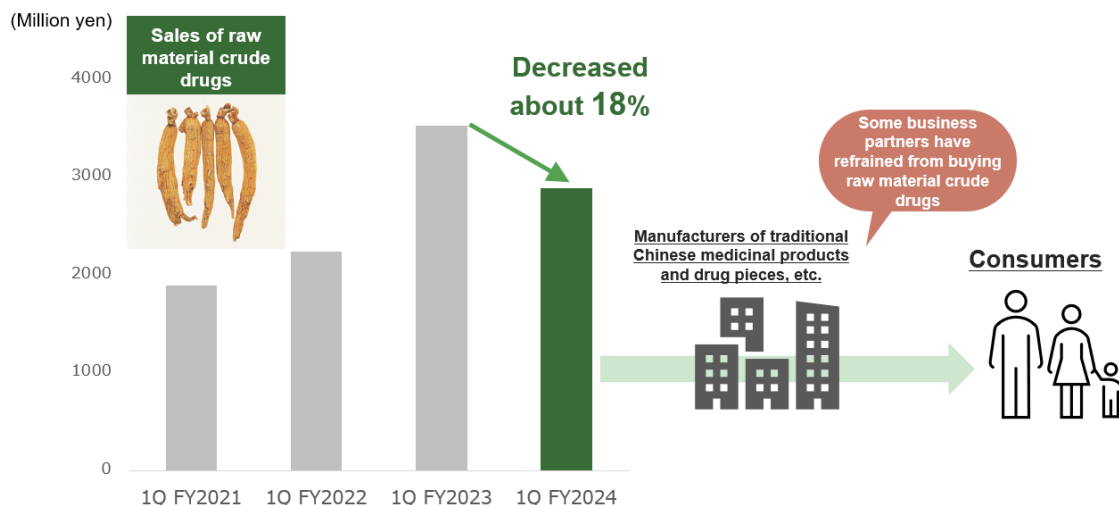


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## China Business: Sales of Raw Material Crude Drugs in Crude Drug Platform Business



- Some business partners have refrained from buying raw material crude drugs as there is speculation that crude drug price hikes are expected to ease
- Aim to expand sales by increasing the number of sale items



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Next, I will explain the situation of our China business, starting with the sales of raw material crude drugs in crude drug platform.

As shown in the graph, sales of raw material crude drugs decreased by 18% compared to the same period last year. Raw material crude drugs are sold to manufacturers of Chinese herbal medicines and drug pieces.

However, the price of jujube, which had risen sharply in recent years, has started to fall. This price stabilization has led some clients to hold off on their purchases, resulting in a decrease in sales. Currently, sales are on a recovery trend.

In addition to this, we aim to increase sales by expanding the number of items sold to existing customers.

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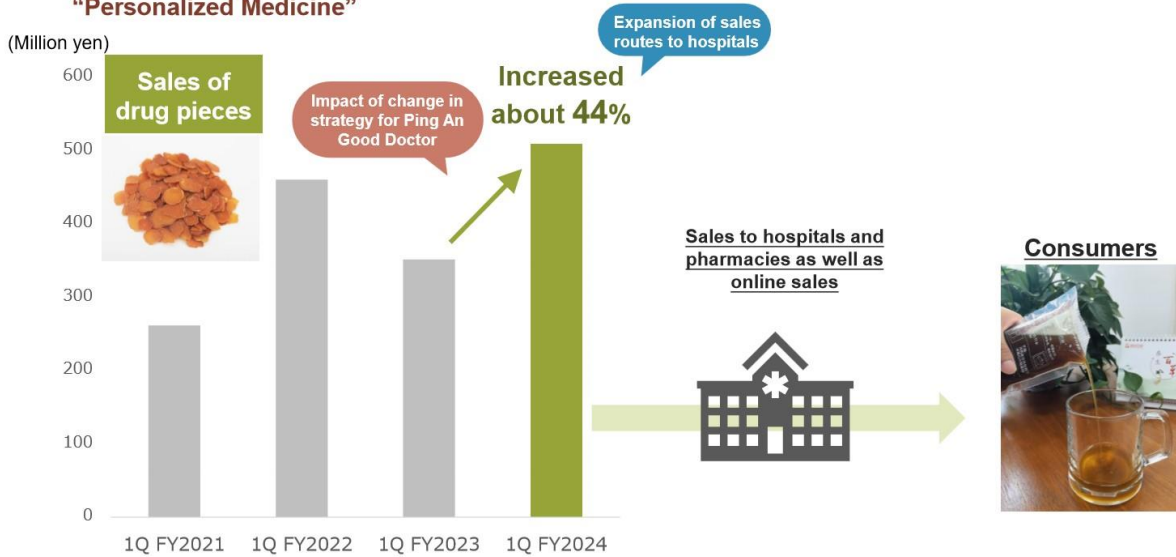
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## China Business: Sales of Drug Pieces in Crude Drug Platform Business



- Sales of drug pieces have returned to growth through the expansion of sales routes to hospitals, etc.
- Make further efforts for customer development by expanding drug piece added-value service “Personalized Medicine”



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Next is the status of sales of drug pieces in crude drug platform.

Drug pieces are processed from raw material crude drugs and sold to hospitals and pharmacies for medical use and OTC use. Compared to raw material crude drugs, it has high added value, and we aim to increase its sales ratio in the medium to long term.

In FY2023, sales of drug pieces declined significantly due to Ping An Good Doctor's change in strategy.

However, in Q1 of FY2024, the Company returned to a growth trajectory by promoting the value of our superior products, which are GACP-controlled from crude drug cultivation, and by expanding our hospital sales channels.

We will further develop our clientele by expanding the “Personalized Medicine” service, which is designed to enhance patient convenience, such as portability and homogeneity.

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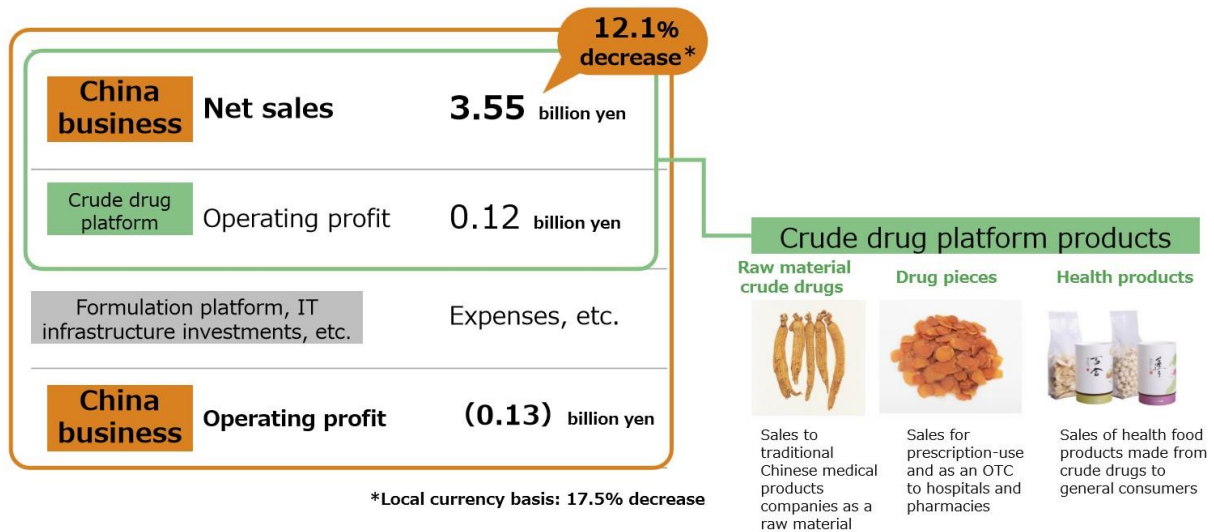
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- Aim to achieve operating profit of the China Business by improving operating profit margin in the crude drug platform



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We will continue to push forward with the expansion of sales and improvement of profitability of crude drug platform and achieve a return to profitability of operating profit for the entire China business for the full year of FY2024.

This concludes the explanation. Thank you for your attention.

**Kitamura:** Thank you very much. That is all for the explanation.

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## Question & Answer

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**Kitamura [M]:** Okay, we will now move on to the question-and-answer session.

Mr. Akahane of Tokai Tokyo Intelligence Laboratory, please.

**Akahane [Q]:** Thank you for the detailed explanation. The results were very favorable, but even so, I think a large number of areas were unprofitable products, or perhaps affected by the large NHI price increase.

I was examining the drug price increase and the sales volume, and it appears that the growth in Daikenchuto, Yokukansan, Goshajinkigan and Shakuyakukanzoto is almost due to the drug price increase. Is it the same for Kakkonto? In comparison, I think the big ones other than drug price increases were Kakkonto and Shakuyakukanzoto. What are the factors behind the NHI price increase, plus the increase in volume?

**Sorada [A]:** Both Kakkonto and Shakuyakukanzoto were under restricted shipments in the previous fiscal year. Therefore, you see a large increase compared to the same period last year.

Kakkonto is well-known as it is very effective to treat cold symptoms. I think it is a big reason since there are common colds and COVID-19.

We believe that the shipment volume of Shakuyakukanzoto has not returned to the level before the limited shipments, which caused a little inconvenience to our customers last year. We believe that Shakuyakukanzoto will grow even more.

**Akahane [Q]:** Is Bakumondoto still in the shipment restriction? As you mentioned, the prices of Shakuyakukanzoto and Kakkonto have increased, and the volume of these products has been growing. With factors such as COVID-19 and influenza, it may be difficult to predict, but is it correct to assume that you will have full volume, including Bakumondoto, after lifting the shipment restrictions?

**Sorada [A]:** Yes. We are making good progress now, including the July results or the beginning of August. I think we are doing well.

**Akahane [Q]:** Do you know when Bakumondoto's shipment limitation will be lifted?

**Sorada [A]:** We think Bakumondoto will be available in the fall.

**Kitamura [M]:** Daiwa Securities, Mr. Hashiguchi, please.

**Hashiguchi [Q]:** When do you expect the capacity expansion in Tianjin and Shanghai, which you mentioned on page 12, to affect shipment sales from your company? What kind the process is taken right now? When and how will it impact the numbers that we can see, considering the lead time? Can you give us the time frame with specific examples?

**Handa [A]:** As shown on page 12, as I mentioned in my explanation, the Tianjin plant is scheduled to be fully operational in Q2. We mainly manufacture several formulas here, such as Kakkonto and Goreisan, which are intermediate products, so in terms of lead time, we expect to ship these as finished products in H2 of the fiscal year or beyond.

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As for Shanghai, we plan to finish the renewal and restart operations at the end of August ahead of schedule. As I mentioned, we are planning to produce Bakumondoto first, which is the product causing some inconvenience to customers. So, we will also start seeing an impact from Q2.

**Hashiguchi [Q]:** Does that mean that the timing of the impact on sales would be a little earlier from Shanghai since they are producing more like a finished product?

**Handa [A]:** No, both are intermediate products. So, both Shanghai and Tianjin will be the same. However, as for the formulation, we will strengthen the production of Bakumondoto first at Shanghai, which has been in the limited shipment. So, we will see an early impact in that area. We read it this way.

**Hashiguchi [Q]:** Will it be seen on sales from Q2?

**Handa [A]:** From Q3. As of Q2, we will resume operations in Shanghai at the end of August. Intermediate products will be produced and transported to Japan, so it will have an impact from H2 onward. This is the schedule.

**Hashiguchi [Q]:** Is it possible that the price fluctuations of crude drugs, which influence crude drug sales trends in China, will become a cost reduction factor for the Japanese business in the future? If the price trend of the crude drugs you sell in China and the price trend of the crude drugs you use in your formulations sold in Japan are similar, I think it could be a factor in cost reduction in the future. I would appreciate if you can explain it, as I am not sure if there are fluctuations in prices depending on crude drugs.

Also, if you think there will be a positive impact in the future, I would appreciate your comments on the timing of that impact as well.

**Handa [A]:** First of all, the market trend of external sales in China and the trend of our purchases do not necessarily coincide completely, but we are affected by market trends. So, I think it is fair to say that the correlation is high, although there is some lagging effect.

As for external sales, as I explained, the price of jujube has settled down in the market by 30% to 40% from its peak. Despite some reluctance to buy, the reality is that prices remain higher than initially expected.

As we explained in our guidance for this fiscal year during the closing of accounts for the last fiscal year, there was a negative impact of JPY2.4 billion due to an increase in the unit price of crude drugs. The main components, jujube and Japanese pepper, significantly impact costs.

On the other hand, there is a reasonable lead time from the time of purchase until the product is shipped, so it will be the year after next rather than the next fiscal year. There may be a time lag of a year or more, although some may be affected in the next fiscal year.

As you pointed out, I would say that the lead time may be a year or more in a reasonably high, if not completely parallel, correlation.

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

**Sakai [Q]:** First of all, this diagram on page nine, you have introduced it several times in the past, but it always comes up like an eternal issue, this progress.

If the number of doctors who prescribe more than 10 prescriptions does not grow, it will take time to further expand the base of demand for Kampo medicines. Do you have any updates on this? If so, I would appreciate it if you could share it with us.

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Also, you have mentioned several times your approach to hospital physicians through web-based lectures. It would be helpful if you could explain in more detail how your company perceives the performance, or rather the effects or results, and how you can incorporate these into your business performance.

**Sorada [A]:** First of all, it is true that hospitals are lagging behind. With regard to efforts there, real activity to hospitals dropped considerably due to the pandemic.

This is not just our company, but we have seen an increase in activity since last fiscal year in areas where it had once dropped. Especially since about H2 of last year, we have been increasing the number of information sessions targeting hospitals, especially clinical training hospitals and university hospitals.

In addition, we have been able to increase the speed of training of physicians writing 10 or more prescription Kampo formulations by holding briefings not only by medical offices, but also by smaller groups of physicians in their own specialty areas.

We are in the process of speeding up by having five to six doctors at a time, as we are able to communicate with each other in both directions. Sales have significantly grown at the hospitals where we conducted briefings more than six times in one quarter. We are working on this as a company-wide measure.

This is the first time we have done a web-based lecture in a hospital at this time schedule. It was our first time to hold two 30-minute briefings in a day, and we are currently evaluating the results of this first initiative. We would like to further promote this initiative because of the number of hospital doctors participating and the length of time they spend listening to the lectures.

We also started inside sales from this fiscal year and increased the number of online MRs from one to three, targeting hospital doctors. Since five to six doctors are applying for the online interviews a day, we expect to see an acceleration here as well.

I would like to add one thing. There is a website called HOKUTO, which has a large number of doctors in their 30s, with a total membership of approximately 120,000 doctors. One of the unique features there is that the contents are available on iPhone and smartphones. Therefore, we would like to promote the expansion of the number of prescriptions targeting hospital doctors, as our materials are freely available as content to doctors on the website.

Although we have not yet reached the process of verifying the results, we would like to further promote and speed up this process to reach a majority within this fiscal year.

**Handa [A]:** I would like to supplement this with numbers.

You have said that it is an eternal challenge, but as we have just shown, 39% of physicians in total have progressed to the more than 10 prescriptions relative to the total for HPs and GPs combined. Looking back, in FY2021, we had 26%, or 84,000, and in FY2022, 32%, or 104,000, with a steady increase in the number of physicians.

On the other hand, as Sorada mentioned, the issue is HPs. If we do not promote this, reaching 50% will be difficult. However, as I mentioned, hospital doctors have a very high level of acceptance and show positive attitudes toward e-promotion in the limited time they have. In fact, we would like to use this as a weapon to promote e-promotion to provide information, which has been difficult in the past because of the difficulty of regulating visits and interviews.

**Sakai [Q]:** So, you are saying that the immediate target is about 50% for hospital physicians?

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**Sorada [A]:** We hope to have a total of about 165,000 doctors using 10 or more types of Kampo products by the end of the fiscal year.

There are approximately 200,000 doctors working in hospitals, so we are currently working to reach a target of about 100,000 hospital doctors.

**Sakai [Q]:** You mean 160,000 of the 320,000 doctors for 50%? With a simple calculation, correct? The end of the fiscal year, right? End of FY2024.

**Sorada [A]:** Yes.

**Handa [A]:** I would simply add, HPs is about 40% of the total. GPs is about 70%. If you add them up, I think it would be close to such a total.

**Sakai [Q]:** Regarding the limited shipments, I seem to recall that the IR person told us yesterday that the limited shipments were almost resolved. However, you mentioned about Bakumondoto is still in the limited availability. Is it correct to understand that you had some impact of the limited shipment in Q1?

**Sorada [A]:** In Q1, there were items that were still being shipped on a limited basis, so there was an impact. In particular, we had limited shipments of products such as Yokukansan and Bofutsushosan, which are used by a large number of patients.

One of the less visible effects of the limited shipments is the increased activity of MRs, who received numerous inquiries from dispensing pharmacies and had to respond to many of them. It is not easy to do PR activities while in limited shipments, and this has had an impact on our business.

We lifted all other products except for Bakumondoto in July. So now, we have only one product in the limited shipments which is Bakumondoto, and we believe that there is almost no impact on the market.

**Sakai [Q]:** So, you are saying that from April, the limited shipment only applies to one more item, Bakumondoto?

**Sorada [A]:** From August.

**Sakai [Q]:** From August.

**Sorada [A]:** Yes.

**Sakai [Q]:** April, May, June, and July, I remember there were still limited shipments for four months, and there were about 32 items.

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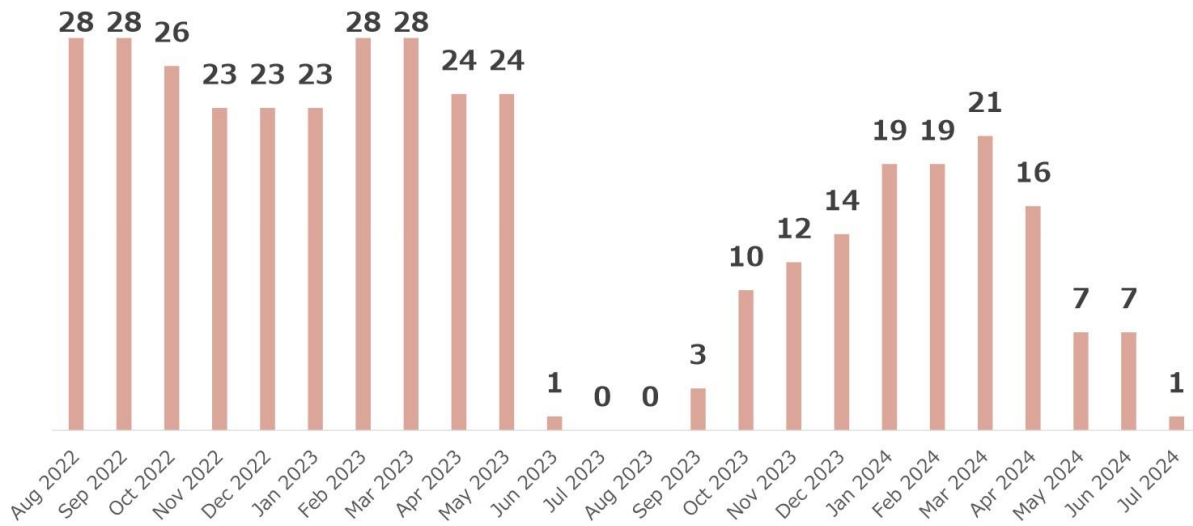
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## Domestic Business: Changes in Number of Restricted Shipment Items in 129 Prescription Kampo formulations



• There was only one restricted shipment item as of August 6 as a result of the lifting of shipment restrictions by increasing production capacity



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**Sorada [A]:** As you can see in the appendix, there were 16 items in April 2024, seven items in May, seven items in June. We lifted most of the items in July, and at the end of July, there was only one item left to lift.

**Sakai [Q]:** It is ongoing.

**Sorada [A]:** Yes.

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

**Shigemura [Q]:** This overlaps with Mr. Sakai's question, but how much would sales increase if there were more doctors with more than 10 prescriptions? I would like to know about it. For example, do you have any indicators that you can share with us in terms of sales per capita or productivity for HPs and GPs who write 10 or more prescriptions and those who do not write 10 or more prescriptions?

**Sorada [A]:** It is very difficult to keep track of the number of doctors working in hospitals.

We have verified that the sales of doctors practicing alone produce more than JPY 10,000 per month compared to those who do not, although the number of doctors writing more than 10 prescription Kampo formulas is not so large.

This is difficult because it does not suddenly come up to 10, and there are many doctors who are using seven, eight, or nine prescriptions. So, this is a comparison between that and the 10 prescriptions or the new 10 prescriptions. Although the overall appearance does not show a large jump, there are some doctors who see a sudden and rapid increase of about JPY 150,000 per month.

To be honest, it is difficult to verify. However, when the number of physicians writing more than 10 prescriptions increases, the foundation grows, or perhaps it is a strange word to say that it stabilizes, and it does not decrease. If we verify this for a single practicing physician, we are seeing a definite increase of about JPY 10,000 to 20,000 per month.

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**Shigemura [Q]:** If so, has the activity expenses to increase the number of doctors prescribing 10 or more from 39% to 50% over the last three years or so? Do you need to spend money on there? Or since you mentioned e-promotion, is it supposed to increase without spending much money when combined with that?

**Handa [A]:** Conclusively speaking, it is not something that will incur increasing costs as activities grow. As you have just commented, we have been strengthening e-promotion since FY2020, and our investment in this area has decreased compared to the beginning of FY2020.

On the other hand, the effectiveness of e-promotion has been increasing. Since it is possible to expand the number of e-promotions with a certain investment scale, we recognize that focusing on e-promotion is a powerful tool to increase the quantity and improve the quality of activities while keeping costs low.

To return to your earlier question, it is difficult to verify each individual. However, from a macro perspective, considering the target of 50% with 10 or more prescriptions, we likely would have been able to meet the mid-term plan figures even without the changes in NHI prices due to the recalculation of unprofitable products in the current mid-term plan. We hope you understand that we were setting up with this kind of macro sense.

**Kitamura [M]:** Mr. Kobayashi, of Nippon Value Investors, please.

**Kobayashi [Q]:** I have a question in relation to the previous questions that have been asked by two people.

I believe you are also working on initiatives to further increase the number of prescriptions per physician and the frequency of prescriptions, even within the bracket of 10 prescriptions or more. Is it safe to assume that even though the number has exceeded 50% of the total number of doctors, the growth will not stop there, but rather will continue to expand further and further?

**Sorada [A]:** You are correct. The standard is set at 10, but in the field of medicine, for example, more than 50% of obstetricians and gynecologists, otolaryngologists, and doctors in such specialties already use more than 10 prescriptions of Kampo formulations.

We are working to increase the number of prescriptions and the depth of use of a single prescription to ensure more doctors utilize all of the specialty prescriptions we have established in each therapeutic area.

**Kitamura [M]:** Tokai Tokyo Intelligence Laboratory, Mr. Akahane, please.

**Akahane [Q]:** I would like to ask you in terms of quantity. In Q1, there were limited shipments of up to seven items to the end. In Q2, if things continue, you will not be able to ship Bakumondoto. Bakumondoto will be available from Q3. Is this the way you see it?

**Handa [A]:** In Q1, as Sorada mentioned earlier, there were 16 in April, seven items each in May and June, and one in July, which was Bakumondoto. In Q2, there will be only one, Bakumondoto.

On the other hand, for the purpose of limited shipments, it does not mean that we do not ship at all. We have shipped about the same amount as in the previous fiscal year, and we are making adjustments for areas that exceed that amount by a large margin. This is what the limited shipment means, so I would appreciate understanding its situation.

**Akahane [Q]:** The fact that it was a limited shipment means that the supply could not keep up. Bakumondoto is used to treat coughs, Yokukansan is for insomnia, and Goreisan is for dizziness. They are also used to treat COVID-19, and the infection is spreading again. Can we view these factors as directly connected to the fact that the limited shipments lasted longer or included more items than expected?

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**Sorada [A]:** The biggest impact on Bakumondoto was an unseasonal explosion of influenza cases in July and August last year and the disappearance of cough medicine from the market during the same period, which led to higher-than-expected demand. We have been dragging on for a long time.

We also made limited shipments of Goreisan and Yokukansan and similar products due to increased demand and production adjustments. As you say, insomnia and such are still growing, and we expect demand to treat such symptoms to increase more and more.

**Akahane [Q]:** I know this is a bit of a detail, but do you have any figures on the sales or growth of Bakumondoto in Q1? This was about JPY3.8 billion in the previous fiscal year. What was Q1 like? Was it growing, albeit in limited shipping?

**Company Representative [A]:** On a volume basis, strictly speaking, it is about a 0.1% decrease, but it is almost the same.

**Akahane [Q]:** When it will become available in the fall, I can't say for sure, but it is for cough and related symptoms, so it might be used for influenza or COVID-19, and there are patients who are waiting. Is it safe to assume that sufficient demand for this will be supplied, mainly from Shanghai?

**Handa [A]:** Yes, you are right. We intend to use the restart of the Shanghai operation for the production of this first, as such a seasonal demand is possible.

**Akahane [Q]:** Including all of those questions, until June, you had seven items, and the full item, or rather, the number you are giving us, interim and full year, with the exception of Bakumondoto, which has been lifted from the limited items in Q2.

I am not sure what will happen with influenza and COVID-19 after lifting the limited shipments, but from the current perspective, as mentioned earlier about the rate of progress, products are expected to become available in Q2 and Q3, and there is also a sense that there is a considerable wait for Bakumondoto, so I think Q3 and Q4 will see a significant increase in the direction of the Company's sales. Is my understanding correct?

**Handa [A]:** You are right. Although there was not much increase on a volume basis in H1, we originally expected the Shanghai plant to resume operations in August or later, and we had assumed that the Tianjin plant would be fully operational from this fiscal year.

On the other hand, if the limited sales are lifted and information provision activities are activated, the top line will rise in Q3 and Q4. Given that we had assumed a 5% growth in volume, I believe we can say we are making almost sufficient progress as planned.

**Akahane [Q]:** The NHI price has significantly increased this time, resulting in very good outcomes. However, with the government promising a stable supply over the long term, should we anticipate bold investments in stable supply, including those in China and domestic warehouses mentioned earlier, to consider various risks?

**Handa [A]:** As I mentioned at the time of the settlement of accounts, as you pointed out, stable supply is one of the major reasons for the price re-evaluation as money-losing products, and as a manufacturer, we recognize that it is extremely important to meet this obligation.

While we reinforce it with JPY34 billion capital investment for this fiscal year centering in Tianjin in China, we plan to strengthen our production facilities and warehouses for stockpiling, including those in Japan.

**Kitamura [M]:** Neuberger Berman, Mr. Okamura. Please.

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**Okamura [Q]:** This question may overlap with the previous one, but I believe the recalculation of unprofitable items has been a tailwind for your company's performance this fiscal year. On the other hand, what can you expect beyond the next fiscal year? How are you looking at the re-calculation of unprofitable items on a volume basis? It would be greatly appreciated if you could give us some perspective, even if it is just an image.

**Handa [A]:** First of all, on a volume basis, we expect a 5% increase in H2 compared to the previous year, as I mentioned earlier. We would like to achieve a volume-based growth of 4% to 5% in the next fiscal year and beyond.

On the other hand, how this translates into sales is, as you point out, largely influenced by NHI prices. Although a specific measure has been taken this fiscal year, historically, the NHI price was reduced by 0.4% in FY2020, 0% in FY2021, and 0.9% in FY2022.

Even if this increase is a special exception, we would like to continue to conduct activities related to the value appeal of Kampo that are less affected by NHI prices as much as possible. Also, we will continue to keep those activities so that the volume base will lead to sales and profit as much as possible. This is how we see it.

**Okamura [Q]:** Just to confirm, I understand that this year was an exception for your company. When thinking about the next fiscal year and beyond, you think this will not happen next year and beyond. Do you think that at least a single-digit number would be assessed positively, by any chance?

**Handa [A]:** There is a system called recalculation of unprofitable items . We would like to use the system for unprofitable items. However, it is not up to the manufacturer to imagine or expect whether to be approved or not.

In our sales activities, we aim to minimize the impact of NHI price reductions on our business performance. We also want the medical community and wholesalers to understand the value of Kampo, ensuring our business performance remains stable without significant NHI price reductions. We intend to reflect at least a substantial volume-based increase in our business performance. This is the way of thinking.

Since there is a system, we would like to apply for it. However, manufacturers are not expected to make any predictions as a part of their business performance, nor are they able to help themselves in this way. What we can do is to minimize the impact of NHI price drops. This is how we see it.

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

**Sakai [Q]:** What is your company's current ratio of crude drugs procured from your cultivated land under your own management? I think it is already at about 80%, but I would like to know if there will be any change in this ratio with the restart of Shanghai and the new operation in Tianjin taking place, and if this will further increase to nearly 100% in the future.

Sorry to ask every time, but what is the current status of the TU-100 in the US? If I look at ClinicalTrials.gov, they are all completed. I think you mentioned the disclosure of information in the early fall, but if you can be more specific about the timing, I would like to know.

**Handa [A]:** Regarding the first point, cultivated land under our own management, as you mentioned, we procure about 80% of our products from this land. Of course, there will be the restart of operations in Shanghai and the operation in Tianjin, but we had originally planned for procurement in line with the production situation and in response to increased demand, so we believe that the percentage of the cultivated land under our own management will not change significantly.

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As you commented, our goal is not necessarily to bring the ratio to 100%. We aim to stabilize the price and quality of most of our procurement through the cultivated land under our own management, but not all of it is done there. We aim for 80% or 90%.

As for the TU-100, you mentioned early fall, but since we have to deal with the authorities, I cannot give you a definite date at this point. However, when we have a clear timing, we would like to inform you all for sure.

**Sakai [Q]:** Sorry to be persistent, but is it between early fall and before the end of the year?

**Handa [A]:** I hope you understand that it is also difficult to state that clearly here. Since it is not within our control to say if it is early fall or before the end of the year or the end of the fiscal year, I would like to leave it at that for today.

**Sakai [Q]:** Am I correct in understanding that this is because it is a physician-led clinical trial?

**Handa [A]:** Since this is a physician-led clinical trial and also with the authorities.

**Kitamura [M]:** Daiwa Securities, Mr. Hashiguchi, please.

**Hashiguchi [Q]:** I think you mentioned on page 10 today about web-based lectures in Japan. I believe this short lecture is being developed within your company's owned media and website for healthcare professionals.

E-promotion has been strengthened since FY2020, as you mentioned. In the beginning, I recall that you used paid media, such as M3, for these large lecture events. However, now that your company's owned media traffic has increased considerably, is it correct to understand that you can now achieve similar results without depending on paid media? Do we assume a steady shift is ongoing from paid media to owned media? I would like to know more about this situation.

**Handa [A]:** I think you are exactly right. As you may recall, in 2020 or 2021, we used a great deal of paid media, especially for large-scale lectures, using other companies' platforms.

One of the key points I wanted to explain is our intention to promote the delivery of information tailored to individual needs, in line with the reform of doctors' working practices. We aim to increase its reach by responding to the specific needs of each individual doctor in a detailed manner rather than making a significant investment in paid media and distributing the same information all at once. This is exactly what you just pointed.

It includes the way we proceed with lectures, and our membership has increased and our PV has gone up. We recognize that it is possible to change the measures among the background.

**Hashiguchi [Q]:** I believe one of the strengths of paid media used to be delivering e-mail marketing tailored to individual needs. However, would it be correct to say that the initiatives you introduced today were developed on your own platform?

**Sorada [A]:** Yes. Regarding e-mail, we use our own system.

**Handa [A]:** You are right, we are doing this on our own. By integrating various information, such as data from our website and referrals, we can provide information uniquely suited to each individual. This is the way of thinking.

**Kitamura [M]:** I will now close the question-and-answer session.

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This concludes the presentation of financial results for Q1 of FY2024. Thank you for your participation.

[END]

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### Support

Japan 050.5212.7790  
Tollfree 0120.966.744

North America 1.800.674.8375  
Email Support support@scriptsasias.com

