



TSUMURA & CO.

Third Quarter Business Results for Fiscal 2025

February 6, 2026

Event Summary

[Company Name]	TSUMURA & CO.	
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[Time]	13:30 – 14:33 (Total: 63 minutes, Presentation: 26 minutes, Q&A: 37 minutes)	
[Venue]	Webcast	
[Venue Size]		
[Participants]		
[Number of Speakers]	5	
	Kei Sugii	Director, Co-COO
	Kaoru Kobayashi	CFO and Head of Corporate Management Division
	Shoichi Kumagai	Executive Officer, Head of Production Division
	Toshio Yamaoka	Executive Officer, Head of Pharmaceutical Sales & Marketing Division
	Makoto Kitamura	Head of Corporate Communications Department
[Analyst Names]*	Kazuaki Hashiguchi	Daiwa Securities
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*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.

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Presentation

Kitamura: It's now time, and we would like to start the fiscal year 2025 Q3 financial results briefing. Thank you very much for your participation despite your busy schedule.

The explanation will be given in the presentation materials posted on our website, so please have them ready at hand or refer to the materials that will be projected.

First, let me introduce today's attendees. Sugii, Director and Co-COO; Kobayashi, CFO and Head of the Corporate Management Division; Kumagai, Executive Officer and Head of the Production Division; and Yamaoka, Executive Officer and Head of the Sales & Marketing Division. These four members are present.

I am Kitamura from the Corporate Communications Department, and I will be your moderator. Thank you very much.

The explanation time is about 30 minutes. After all the explanations, we would like to answer your questions. The event is scheduled to end at 14:30.

Now, Kobayashi will give you the presentation on the fiscal year 2025 Q3 financial results. Thank you very much.

Kobayashi: Hello everyone. I'm Kobayashi, CFO and Head of the Corporate Management Division. Thank you very much for your participation in our fiscal year 2025 Q3 financial results briefing. I would also like to reiterate my sincere gratitude and appreciation for your continued support of our company and Kampo.

Before I begin my explanation, I would like to make one assumption regarding the current financial results.

As mentioned in Q2 presentation, the balance sheet of Shanghai Hongqiao Traditional Chinese Drug Pieces has been consolidated from the interim financial results. The consolidation of the income statement has also started in the Q3 as scheduled and is now reflected in the sales and operating profit of the China business.

Although the PPA is scheduled to be completed by the end of the fiscal year, the accounting treatment for the PPA is based on provisional goodwill in the Q3 financial results. Details will be explained later.

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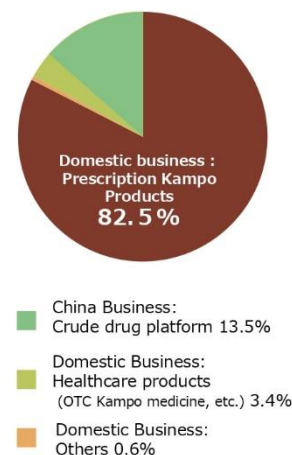


Third Quarter Business Results for Fiscal 2025

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[Million yen]	3Q FY 2024 Results	3Q FY 2025 Results	YoY	
			Amount	Rate of Increase/ Decrease
Sales	136,773	145,176	+8,402	+6.1%
Domestic business	122,880	125,543	+2,662	+2.2%
China business	13,892	19,632	+5,739	+41.3%
Operating profit	32,380	28,862	(3,518)	(10.9) %
Domestic business	32,568	28,211	(4,357)	(13.4) %
China business	(187)	651	+ 838	—
Ordinary profit	35,151	31,907	(3,244)	(9.2) %
Profit attributable to owners of parent	26,567	23,151	(3,416)	(12.9) %

Ratio to total sales



1

I would now like to present a summary of the financial results for Q3 of the current fiscal year.

Sales increased by 6.1% from the same period last year to JPY145.1 billion. The breakdown was JPY125.5 billion for the domestic business and JPY19.6 billion for the China business. The sales composition ratio is shown in the pie chart on the right.

Operating profit decreased by 10.9% to JPY28.8 billion, ordinary profit decreased by 9.2% to JPY31.9 billion, and net profit attributable to owners of the parent decreased by 12.9% to JPY23.1 billion.

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Key Points in Performance

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Net Sales	145,176	million yen	YoY	+6.1%
<ul style="list-style-type: none"> Domestic business Total sales for the 129 prescription Kampo formulations: 119,816 million yen, up 1.6% year on year Total sales of healthcare products(OTC Kampo medicine,etc) : 4,919 million yen, up 21.8% year on year China business Raw material crude drugs, drug pieces, health products, etc.: 19,632million yen, up 41.3% year on year 				
Operating profit	28,862	million yen	YoY	(10.9) %
Operating profit margin	19.9	%	YoY	(3.8) pt
<ul style="list-style-type: none"> Cost ratio: 52.2% +3.2pt YoY YoY: Temporary increase in unrealized profits, increase in the sales ratio of the China business SG&A expense ratio: 27.9% +0.5pt YoY YoY: increase in salaries and allowances, costs related to information provision 				
Ordinary profit	31,907	million yen	YoY	(9.2) %
<ul style="list-style-type: none"> Foreign exchange gain primarily related to loans to overseas subsidiaries: 2,926 million yen, +991 million yen YoY *Foreign exchange gain not factored into earnings forecast 				
Profit attributable to owners of parent	23,151	million yen	YoY	(12.9) %
<ul style="list-style-type: none"> Gain on sale of cross-shareholdings : 2,193 million yen, (757) million yen YoY *Gain on sales of cross-shareholdings from the third quarter onward are not factored into earnings forecast 				

2

I will explain the key points in the financial results.

First, here is the breakdown of sales.

In the domestic business, the total sales for the 129 prescriptions Kampo formulations increased by 1.6% YoY to JPY119.8 billion.

Sales of health care products increased by 21.8% YoY to JPY4.9 billion due to an increase in the number of stores handling OTC Kampo medicine and other products, as well as the strong sales of the bath additive "Bath Herb".

The China business increased by 41.3% YoY to JPY19.6 billion due to the consolidation of Shanghai Hongqiao Drug Pieces, as well as growth in sales of raw material crude drugs and drug pieces at Ping An Tsumura Pharma Inc. and SHENZHEN TSUMURA MEDICINE CO.,LTD

We will explain the cost ratio and SG&A expense ratio in the middle section.

The cost ratio was 52.2%, up 3.2 percentage points from the same period last year. This is due to a one-time increase in unrealized profit resulting from an increase in raw material crude drug inventories in Japan, including for BCP purposes, and an increase in the ratio of sales from the China business due to the consolidation of Hongqiao Drug Pieces.

The SG&A expense ratio was 27.9%, up 0.5 percentage points YoY. This is mainly due to an increase in salary and benefits, expenses associated with the strengthening of information provision activities for physicians, and DX-related expenses.

As a result, the operating profit margin was 19.9%, down 3.8 percentage points YoY.

Ordinary profit decreased by 29.8% YoY in the interim results due to the recognition of foreign exchange losses related to loans to subsidiaries; however, in Q3, the depreciation of the yen led to the recognition of foreign exchange gains, narrowing the YoY decline to a 9.2% decrease to JPY31.9 billion.

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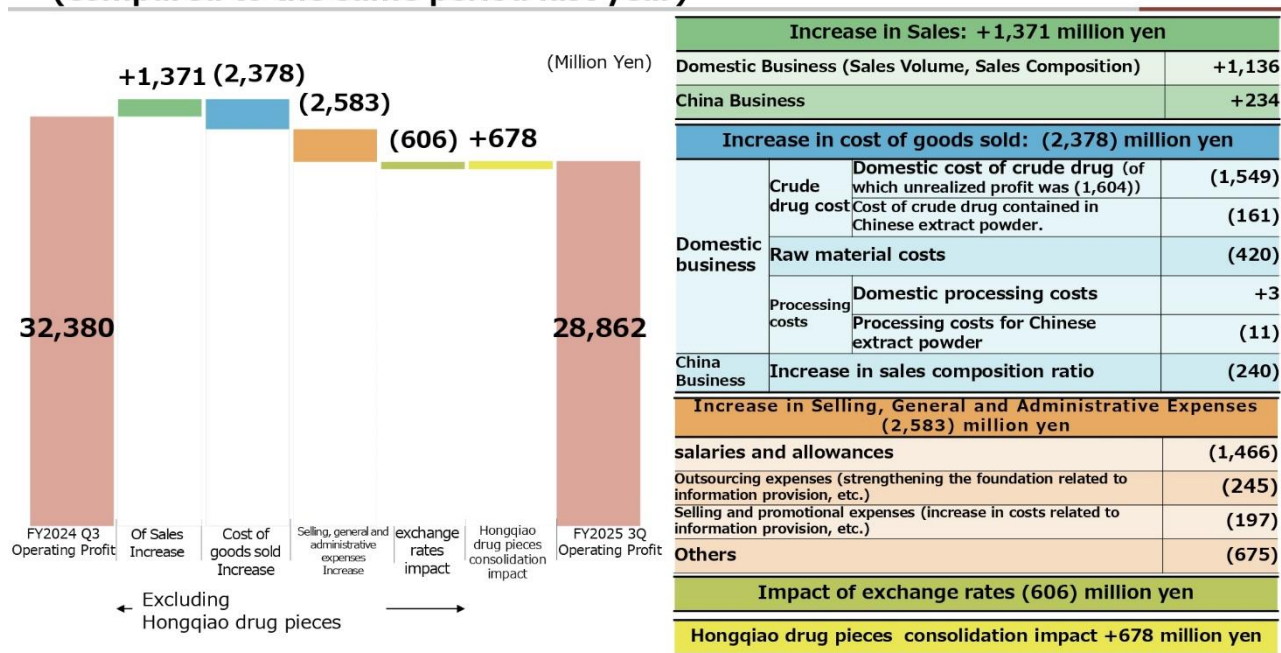
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Factors for changes in operating profit (compared to the same period last year)

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Factors for changes in operating profit compared to the same period last year.

First, I will explain the factors behind the increase or decrease in operating profit, excluding the effect of the consolidation of Hongqiao Drug Pieces.

The impact of the sales increase was a positive JPY1.3 billion. The breakdown was JPY1.1 billion for the domestic business and JPY0.2 billion for the China business, both positive.

The impact of the cost increase was negative JPY2.3 billion. The cost of crude drugs in the domestic business was negative JPY1.7 billion, mainly due to an increase in unrealized profit resulting from an increase in raw material crude drug inventories, and the cost of raw materials was negative JPY0.4 billion due to high prices for lactose, packaging materials, and other items.

Domestic processing costs did not affect the change in operating profit, as the increase in labor costs was offset by cost reductions and lower amortization expenses.

The impact of the increase in SG&A expenses was negative JPY2.5 billion. The decrease of JPY1.4 billion is due to increases in salaries and allowances, as well as to enhanced information provision activities and DX-related expenses.

The impact of the foreign exchange was negative JPY0.6 billion.

Finally, the consolidation of Hongqiao Drug Pieces had a positive impact of JPY0.6 billion.

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Financial condition and cash flow

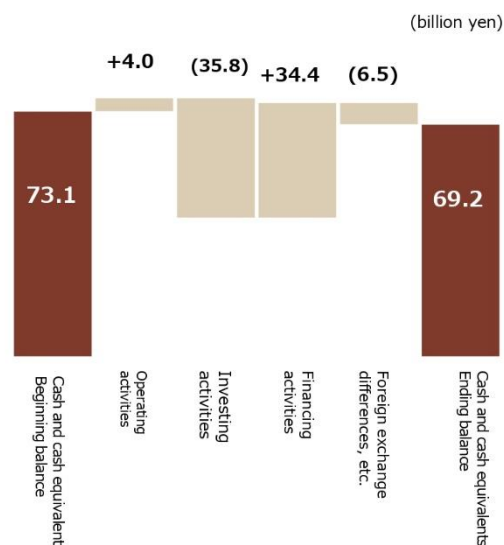
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(Million yen)

	FY2024 (End of March 2025)	FY2025 3Q	Increase/ Decrease Amount	Including, Hongqiao Consolidation Impact
Total Assets	464,380	549,684	85,304	23,753
Current Assets	295,709	331,558	35,848	16,640
Fixed Assets	168,670	218,126	49,455	7,113
Total Liabilities	134,270	211,040	76,770	19,060
Current liabilities	61,913	125,058	63,145	6,126
Long-term Liabilities	72,357	85,982	13,624	12,933
Total Net Assets	330,110	338,643	8,533	4,692

Equity Ratio	64.7%	55.5%	(9.2)pt
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	FY2024 (End of March 2025)	FY2025 3Q	Amount of increase/ decrease	Of which, foreign exchange
Total inventory assets	133,784	150,837	17,054	(3,290)
Merchandise and Products	14,939	21,761	6,822	(270)
Work in Progress	20,197	24,509	4,312	(163)
Raw materials and stored goods	98,647	104,567	5,920	(2,857)



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Financial condition and cash flows.

Current assets increased by JPY35.8 billion compared to the end of the previous fiscal year. The main components were an increase of JPY17.9 billion in accounts receivable due to the consolidation of Hongqiao Drug Pieces, and an increase of JPY17.0 billion in inventories due to the consolidation of Hongqiao Drug Pieces, increased production volume, and the impact of building up raw material crude drug inventories.

Fixed assets increased by JPY49.4 billion.

Of this amount, tangible fixed assets increased by JPY28.7 billion overall, including JPY27.7 billion in capital investment in the granulation and packaging building at the Ibaraki Plant, the No. 4 SD building, and the SD building at the Tianjin Plant, as well as JPY8.8 billion due to the consolidation of Hongqiao Drug Pieces.

Intangible fixed assets increased by JPY19.4 billion due to the impact of acquiring a stake in Hongqiao Drug Pieces.

The capital investment plan for the current fiscal year is JPY44.5 billion, but we have reduced this by about JPY3 billion by closely examining the specifications and costs for each individual project. We have also postponed the construction of the Ibaraki Quality Control Building and some other projects, so we expect to reduce our annual investment by a total of about JPY6 billion.

In addition, studies and technical verification are underway to further extend the life of existing facilities. From the next fiscal year onward, in addition to the granulation and packaging building and the No. 4 SD building currently under construction at the Ibaraki Plant, we plan to invest in the new Gunma Plant.

If we are able to extend the life of the existing facilities, we expect to be able to reduce our investment in the new Gunma Plant during the second mid-term business plan period. The technical difficulty is very high, and it is taking time to study the issue, but we plan to explain the results of the study at the timing of the full-year financial results.

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Then, in liabilities, current liabilities increased by JPY63.1 billion, and long-term liabilities increased by JPY13.6 billion. This is due to an increase in long- and short-term borrowings for various investments.

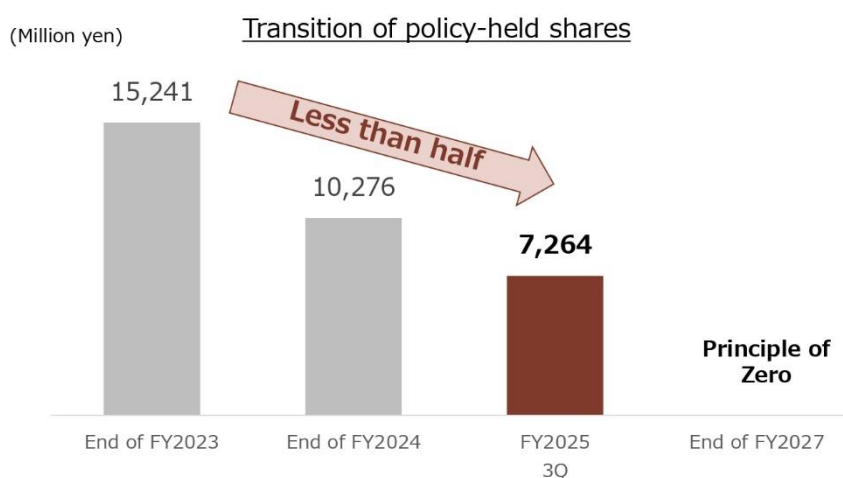
Net assets increased by JPY85 billion.

As a result, the equity ratio decreased by 9.2 percentage points to 55.5%. Cash flows are shown on the right.

Reduction of Policy Shareholdings

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Policy shareholdings have been halved (compared to the end of fiscal FY 2023), and continuous reduction will be carried out going forward.



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I would like to explain the progress regarding the reduction of policy shareholdings.

With regard to policy shareholdings, we aim to achieve zero policy shareholdings in principle during the second mid-term business plan period while fully respecting the wishes of our business partners through dialogue with them.

In the current fiscal year, we first worked to halve the number of issues as early as possible, and with the sale of two issues in Q2, this goal has already been achieved. In Q3, we sold an additional five issues by agreement with our business partners.

As a result, the balance of policy shareholdings was JPY7.2 billion on a market value basis. In addition, a total of seven issues were sold this fiscal year, resulting in a JPY2.1 billion gain on sales as extraordinary income.

We will continue to promote efforts for reduction.

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Domestic business: Sales by prescription of prescription Kampo formulations

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(Million yen)

	Sales Ranking	Product No. / Formulation Name	FY2024 3Q	FY 2025 3Q	Year-on-Year Comparison		[Reference: Actual Sales Volume*] YoY
Drug-fostering program formulations	1	100 Daikenchuto	11,367	11,426	+58	+0.5%	+1.9%
	2	54 Yokukansan	8,602	8,629	+27	+0.3%	+2.7%
	5	43 Rikkunshito	5,486	5,626	+140	+2.6%	+0.8%
	7	107 Goshajinkigan	4,281	4,347	+66	+1.5%	+2.6%
	24	14 Hangeshashinto	1,113	1,198	+85	+7.7%	+5.4%
Total of drug-fostering program formulations			30,852	31,229	+377	+1.2%	+2.1%
"growing" formulations	3	17 Goreisan	5,751	6,526	+775	+13.5%	+15.4%
	4	41 Hochuekkito	5,879	5,970	+91	+1.6%	(0.9) %
	9	24 Kamishoyosan	3,786	3,958	+171	+4.5%	+2.2%
	17	137 Kamikihito	1,740	1,908	+167	+9.6%	+6.7%
	19	108 Ninjin'yoeito	1,645	1,636	(8)	(0.5) %	(4.5) %
Total of "growing" formulations			18,803	20,001	+1,197	+6.4%	+6.3%
Total of 119 prescriptions excluding Drug-fostering program formulations and "Growing" formulations			68,248	68,585	+336	+0.5%	+0.7%
Total of 129 prescription Kampo formulations			117,904	119,816	+1,912	+1.6%	+1.9%

*Actual sales quantity refers to the quantity delivered from pharmaceutical agents and wholesalers to medical institutions.

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Sales by drug fostering program formulations and growing formulations in prescription Kampo products.

Sales of 129 prescription Kampo products reached JPY119.8 billion, an increase of 1.6% compared to the same period last year. The sales of drug fostering program formulations totaled JPY31.2 billion, up 1.2% YoY, and those of growing formulations totaled JPY20 billion, up 6.4% YoY. Goreisan, which increased by 13.5% YoY, led the overall growth.

Through Q2, half of the 10 drug fostering program formulations and growing formulations, five out of 10, showed a YoY decline; however, in Q3, only Ninjin'yoeito recorded a decrease. As a result, the total of 129 prescriptions also recovered to a positive level compared to the same period last year.

The actual sales volume, which is shown on the right as a reference and indicates actual demand, grew at a slightly slower rate than in Q2, with the total of 129 prescriptions increasing by only 1.9% YoY.

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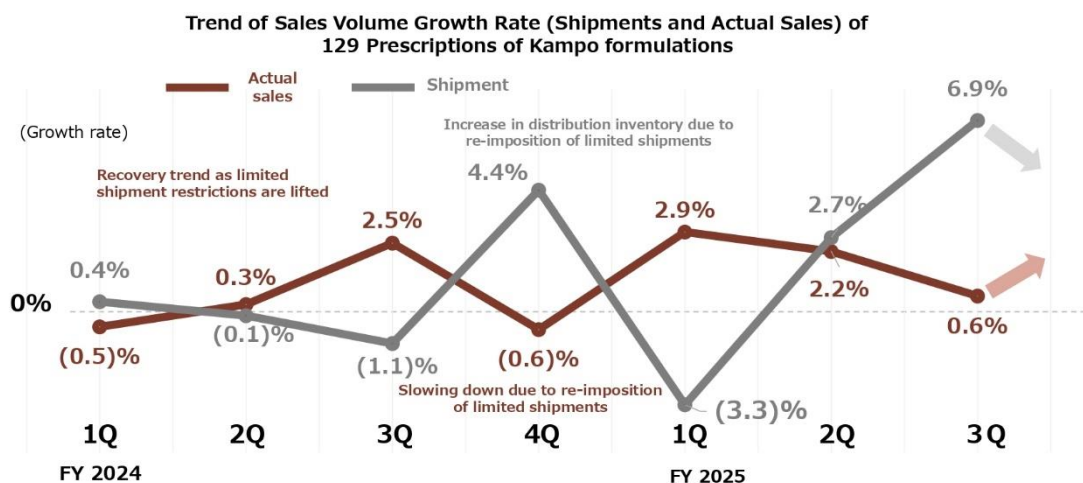
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Domestic Business: Trends in Growth Rates of Shipment Volume and Actual Sales Volume

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Along with the business days at the end of the year and the beginning of the new year, the distribution inventory remains at a high level due to the lower-than-expected spread of infectious diseases.



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This graph shows the quarterly growth rate of shipment volume from our company to pharmaceutical distributor wholesalers and the actual sales volume from pharmaceutical distributor wholesalers to medical institutions.

At the end of Q1 of this fiscal year, distribution inventories were at an appropriate level, and in Q2, actual sales and shipments were at the same level. However, in Q3, shipments were ahead of actual sales, resulting in an increase in distribution inventories.

At the end of Q3, distribution inventories usually tend to be larger than in other quarters due to the year-end and New Year's business day factor.

In addition, the epidemic of influenza and other infectious diseases, which began earlier than usual around the end of October, peaked earlier than expected, and actual sales in December were lower than expected compared to the monthly shipment volume in December, which anticipated a certain demand for cold-related prescriptions, resulting in a slight increase in distribution inventories in Q3.

Since distribution inventories are expected to settle to normal levels by the end of the fiscal year, shipments in Q4 are expected to be made while keeping an eye on the decrease in distribution inventories due to actual sales.

We will explain the actual sales situation on the following pages.

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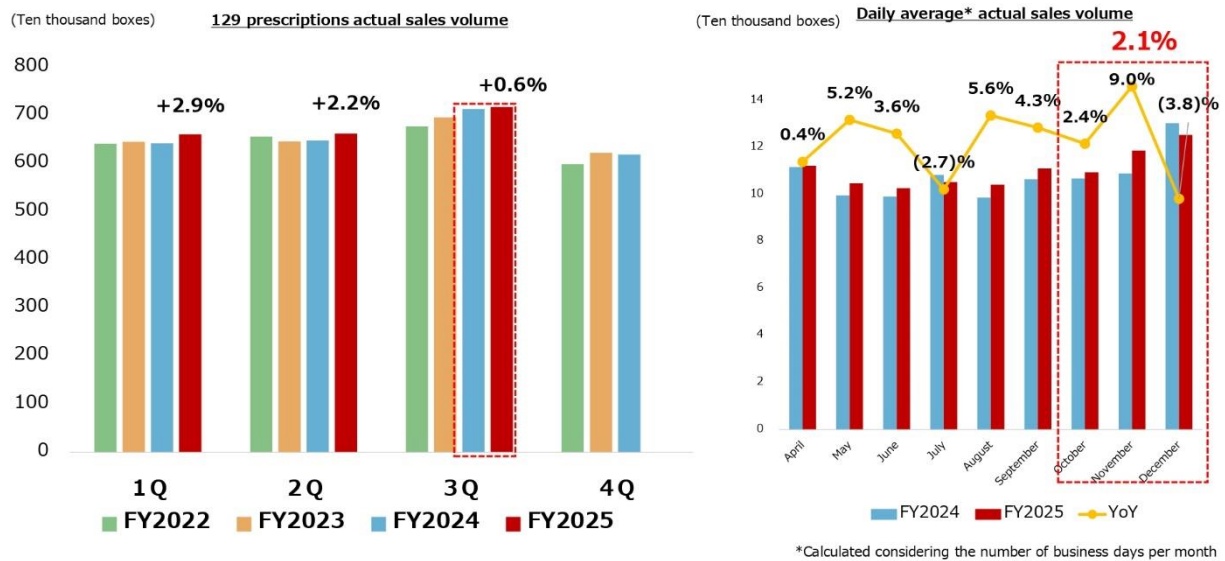
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Domestic business: Actual sales volume trends for 129 prescription Kampo formulations TSUMURA

Year-on-year growth continues, with daily average actual sales sales volume up 2.1%

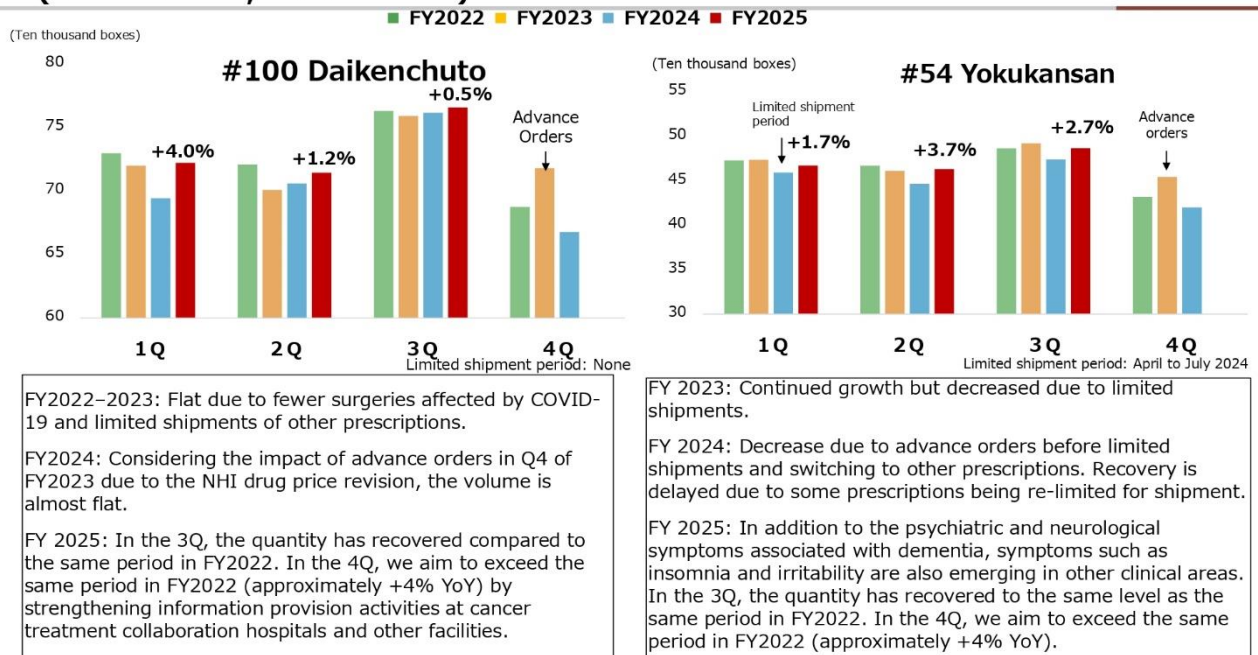


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Trend of sales volume of 129 prescriptions of Kampo formulations.

Q1 and Q2 grew by 2.9% and 2.2%, respectively, and Q3 grew by 0.6%. Since there was one fewer business day in Q3 than in the same period of the previous year, the calculation taking into account the number of business days shows a YoY increase of 2.1%, as shown in the graph on the right.

Domestic Business: Actual Sales Volume Trends (Daikenchuto, Yokukansan) TSUMURA



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I will now explain the trend of actual sales volume by prescription for drug fostering program formulations and growing formulations.

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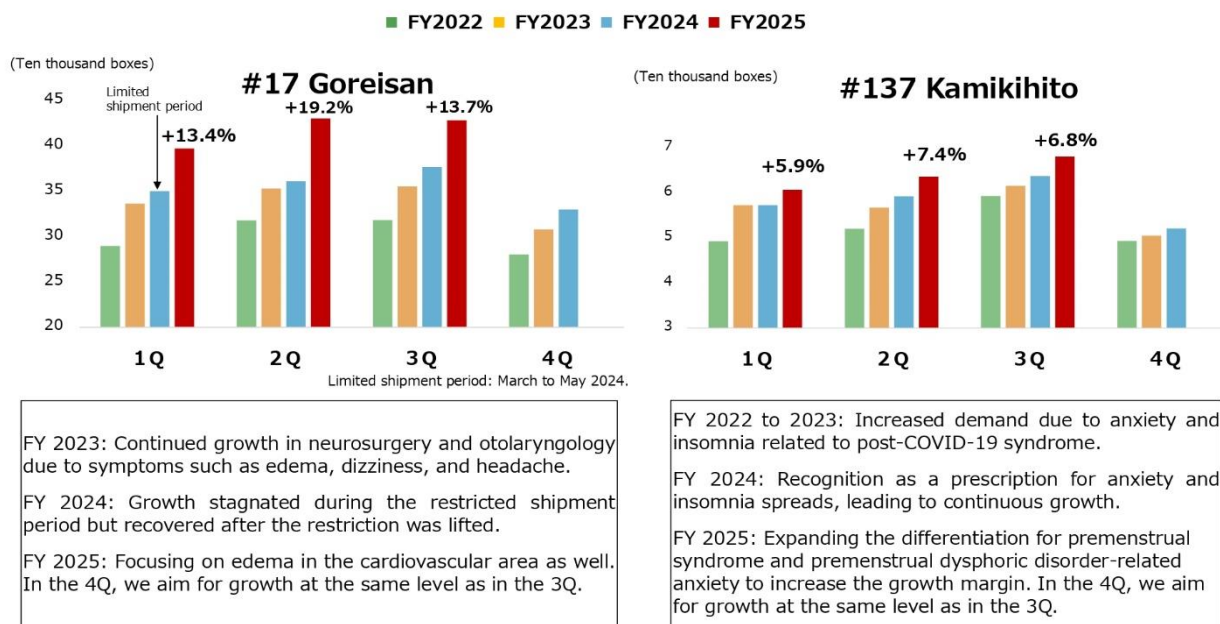
First, Daikenchuto and Yokukansan.

These two prescriptions had been decreasing or remaining flat in FY2024 due to the impact of the advance order in Q4 of FY2023 prior to the FY2024 NHI drug price revision.

In FY2025, sales increased compared to the previous year due to various measures, but have yet to reach past actual sales results. In Q4, we will continue our approach to the target therapeutic areas, aiming to achieve positive growth in both formulations compared to the FY2022 results.

Domestic Business: Actual Sales Volume Trends (Goreisan, Kamikihito)

TSUMURA



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Next, we will explain two formulations that are growing steadily.

As for Goreisan, in addition to the growth in dizziness and headaches seen during the rainy season, we are also focusing our efforts on edema in the cardiovascular field.

Kamikihito has gained recognition for treating symptoms of anxiety and insomnia during the COVID-19 disaster, and continues to grow due to its differentiated use for conditions such as premenstrual syndrome and anxiety in premenstrual mood disorders.

We will continue activities for both formulations to maintain and expand the current strong performance in Q4.

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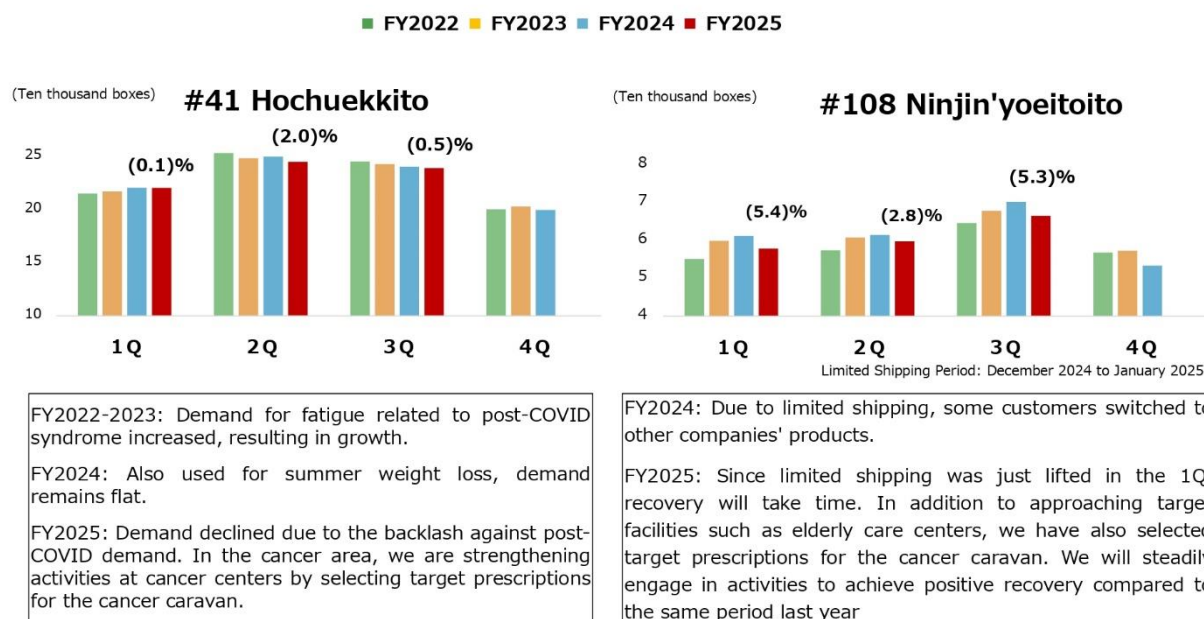
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Domestic Business: Actual Sales Volume Trends (Hochuekkito, Ninjin'yoeito)

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Next, Hochuekkito and Ninjin'yoeito, which continued to decrease from the previous year.

Although Hochuekkito experienced growth from FY2022 to FY2023 due to demand for post-COVID-19 syndrome and other symptoms of fatigue, its sales have remained sluggish, due in part to a reaction to that growth. As a supportive therapy in the field of oncology, we are strengthening information provision activities at cancer base hospitals and other facilities to stimulate demand.

Ninjin'yoeito is a prescription that has also experienced some migration to other companies' products due to limited shipments at the end of FY2024. In the Q3, sales declined again to the minus 5% level, due in part to a rebound from the growth before previous year's limited shipments.

Although it has taken some time to recover after the lifting of limited shipments, we are stepping up our approach to target customers, including elderly care facilities and cancer base hospitals.

Although a rapid recovery in Q4 is not expected for both prescriptions, we intend to first aim for a return to positive year-over-year growth. . In November, we held a lecture at Cancer Caravan 2025 on the theme of general malaise and fatigue, which both prescriptions cover, with over 10,000 physicians and pharmacists in attendance.

Currently, MRs are conducting follow-up activities with participating physicians, etc., in sequence, which will lead to an increase in actual sales.

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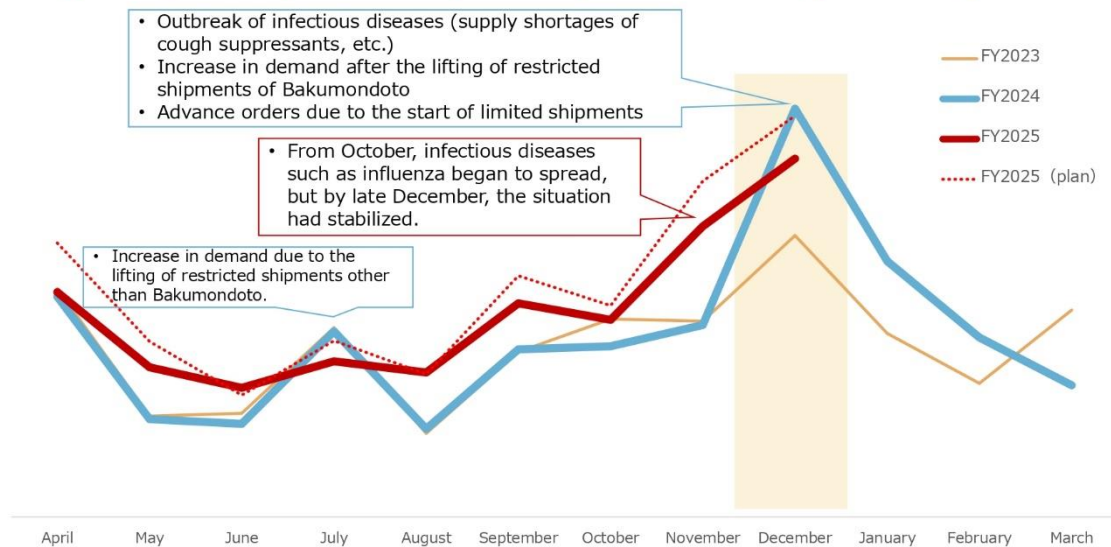
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While the growth pace compared to the previous year is accelerating, it is falling short of the plan.



12

This is the daily sales performance by month based on the actual sales volume.

The difference in the number of operating days from the same month of the previous year affects actual sales, so we see the data as a volume comparison per day.

Compared to last year's results shown in blue, the current year's results shown in solid red are higher than last year's except for July and December, when there was a temporary increase in demand due to the lifting of limited shipments. The growth rate compared to the previous year is on an increasing trend.

In December of last fiscal year, there was an increase in demand due to the uncertain supply of cough suppressants for infectious disease outbreaks and a temporary increase in demand due to the lifting of limited shipments of Bakumondoto. This, combined with rush demand for limited shipments of Ninjin'yoeito and other products, resulted in an extremely high level of actual sales volume compared to previous years.

In December of the current fiscal year, the number of cold-related prescriptions was negative compared to the previous year due to sluggish growth, but the trend in the pace of growth is expected to remain unchanged.

On the other hand, we had planned to raise the actual sales growth rate to a level exceeding 5% from Q3, but the actual results fell short of that projection. Although we will continue to strengthen each sales measure, it will be difficult to recover all of them in Q4, and we view the achievement of the plan for this fiscal year as a difficult situation.

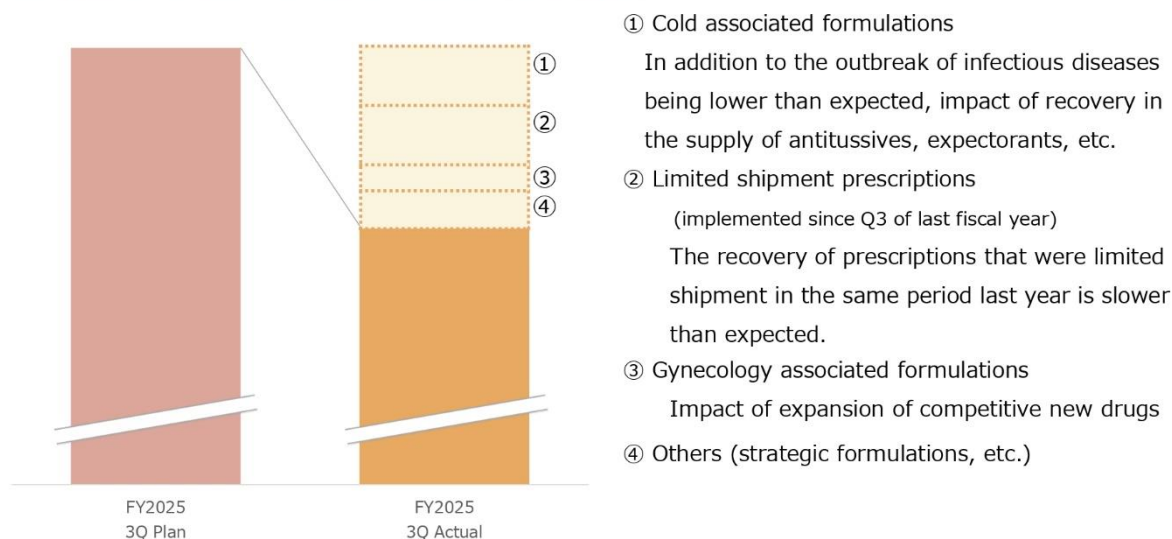
The plan variance in actual sales is explained on the next page.

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Analysis of factors for failure to meet targets



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The following is a breakdown of the factors behind the underachievement compared to the planned versus actual.

As you can see, there are four main categories of factors contributing to underachievement.

The first is a cold-related prescription. The Company failed to achieve its forecast due to lower-than-expected outbreaks of infectious diseases and the impact of a recovery in the supply of antitussives, expectorants, and other products.

The second is a group of formulations whose shipments were limited in December of last year. Recovery after the lifting of the limitation has taken longer than expected, and the plan has not been achieved.

The third is a gynecology-associated formulation. Due to the impact of the expansion of the competitive new LEP formulation and the residual effects of limited shipments in previous years, prescriptions in the women's related area did not reach the plan.

The fourth is other strategic prescriptions. The situation with regard to the drug fostering program formulations and growing formulations is also somewhat below plan, although there is some variation from prescription to prescription.

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Women's health**Project to consult about menstrual issues**

Total number of supporting facilities for the project
Over 1,700 facilities

Implementation Details
Started in October: Collaborating with gynecological medical institutions to promote consultations and visits through the display of posters and stickers.

Prescription Trends
Tokishakuyakusan and Keishibukuryogan are struggling due to the impact of competing new drugs. Kamishoyosan and Kamikihito are showing growth.

Future Developments
We will promote activities to increase prescription opportunities alongside the expansion of supporting facilities.

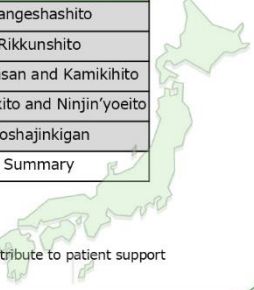

Cancer (supportive care)**Cancer Caravan 2025**

Total number of participating physicians
Over 10,000 people each time

Implementation status
5 of 6 sessions completed
Approximately 300 satellite venues were set up

Times	Theme	Main formulations
1	Oral Mucositis	Hangeshashito
2	Loss of appetite, Nausea and vomiting	Rikkunshito
3	Psychiatric symptoms	Yokukansan and Kamikihito
4	General malaise and fatigue	Hochuekkito and Ninjin'yoeito
5	Peripheral neuropathy	Goshajinkigan
6	Comprehensive review, side mechanisms of action.	Summary

Future developments
The next FY event has also been decided.
Continue proposing formulations that contribute to patient support



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This is an initiative in the women-related area.

The project to consult about menstrual issues, launched in October, is making progress in collaboration with medical institutions that provide gynecological care. A total of 1,700 facilities have endorsed our efforts to lower the hurdles to consultations and visits through the display of posters and stickers, and we are promoting patient awareness and prescription proposals.

While the sales of Tokishakuyakusan and Keishibukuryogan for menstrual-related symptoms are struggling due to the expansion of new competing drugs, the sales of Kamishoyosan and Kamikihito for mental symptoms are growing, and we will continue to increase prescription opportunities, including those for menopausal symptoms.

In the area of oncology (supportive care), as mentioned in the previous section, we have already held the Cancer Caravan 2025 five times. Approximately 300 satellite locations were set up each time, and more than 10,000 physicians and pharmacists attended.

Participating physicians commented that their knowledge of the complex actions and evidence of Kampo medicines had deepened and that they had learned these are used to prevent symptoms from worsening.

As for the cancer caravan, it is scheduled to be held next year as well, and we will propose the use of Kampo formulations to support patients in the areas of supportive care and living with cancer.

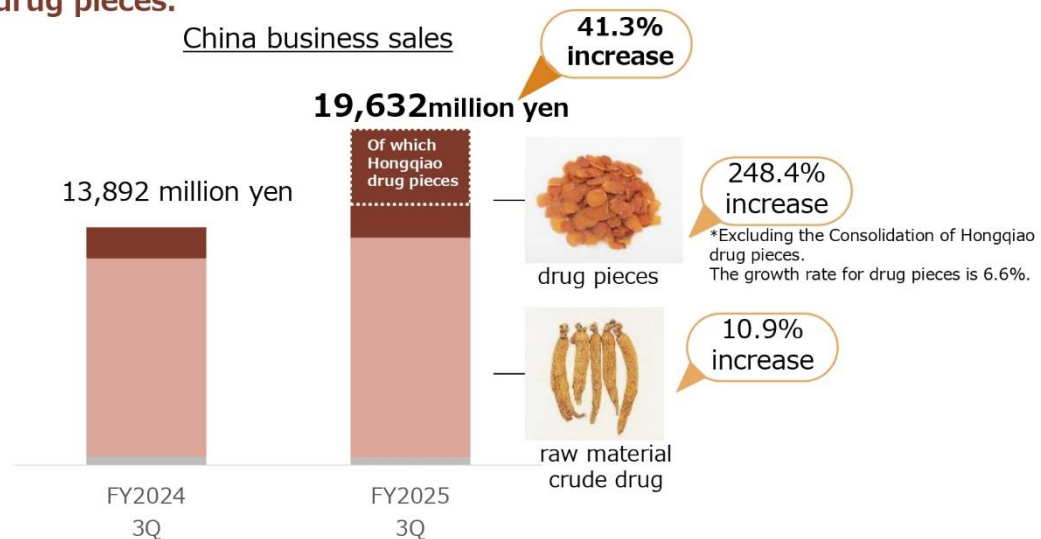
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Sales of the crude drug medicine platform increased for both raw material crude drug and drug pieces.



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Here is the status of our China business.

As explained in the financial results summary, China business sales grew by 41.3% YoY, partly due to the start of consolidation of the income statement of Hongqiao Drug Pieces from Q3 of the fiscal year.

Sales of drug pieces increased significantly, partly due to the consolidation effect of Hongqiao Drug Pieces. Excluding Hongqiao Drug Pieces, sales volume increased by 6.6% YoY due to the promotion of quality-driven sales activities.

Sales of raw material crude drugs grew by 10.9% YoY due to an increase in sales volume, despite a decline in unit sales prices caused by lower crude drug prices.

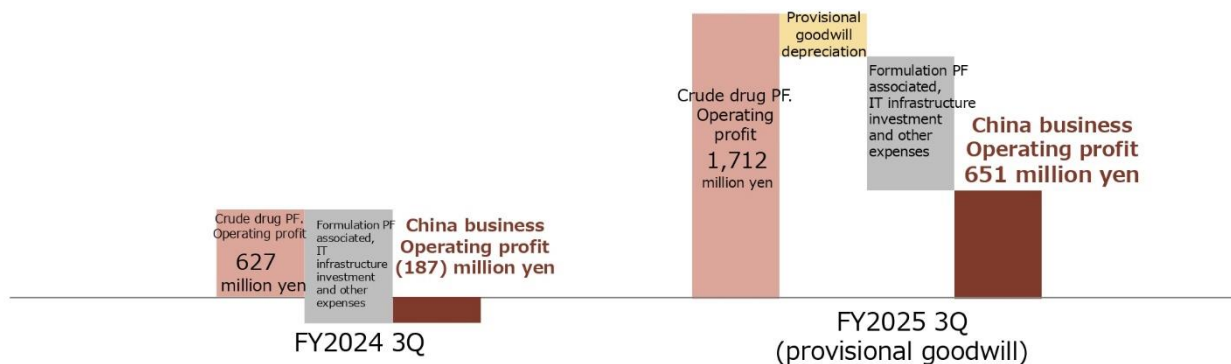
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The Chinese business turned profitable due to a significant increase in operating profit of the crude drug platform from the consolidation of Hongqiao drug pieces.



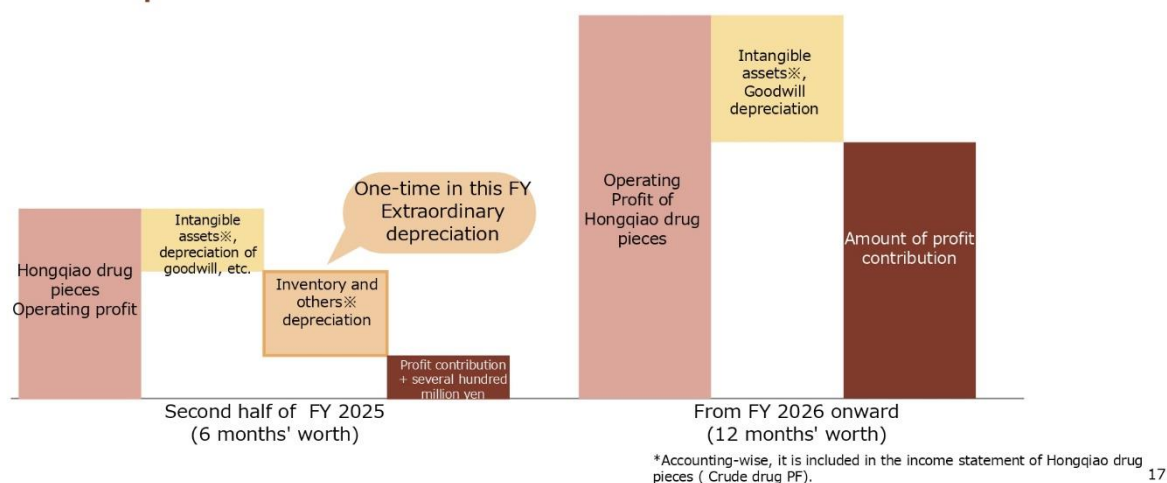
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Next is the operating profit of the China business.

Although the PPA of Hongqiao Drug Pieces is scheduled to be completed by the end of the fiscal year, as I explained at the beginning of this meeting, the accounting treatment for the PPA is conducted based on provisional goodwill in the Q3 financial results.

Operating profit of the China business, shown in orange in the center, based on the amortization of provisional goodwill, was JPY650 million due to a large increase in operating profit of the crude drug platform, including Hongqiao Drug Pieces.

- In FY2025, a one-time expense for inventories, etc. will be posted, so the profit contribution will be minor
- From FY2026 onward, as the one-time expenses disappear, the profit contribution amount is expected to increase



This is the outlook on the P&L impact after PPA implementation in Hongqiao Drug Pieces.

At the time of the interim results, we had assumed that the contribution to operating profit from the consolidation of Hongqiao Drug Pieces would be minimal due to the amortization of inventories after the PPA and costs related to accounting procedures specific to the first year, etc.

Therefore, we had expected the Chinese business operating profit for the current fiscal year to land in the red, as planned at the beginning of the fiscal year.

The PPA estimate as of today assumes amortization of approximately JPY1.5 billion in H2 of the current fiscal year, due to a smaller-than-expected inventory valuation and a longer amortization period for intangible assets such as customer-related assets, etc. The difference from operating profit of Hongqiao Drug Pieces is expected to contribute a few hundred million yen in profit.

In addition, we expect operating profit from the China business to be profitable in FY2025 as a result of improved profitability of existing businesses.

From FY2026 onward, the contribution to profit from Hongqiao Drug Pieces is expected to increase, as one-time amortization expenses for inventory and other assets will cease, and only amortization expenses for intangible assets, goodwill, and other assets will be incurred.

The results of the PPA and the operating profit of the China business, reflecting the PPA, will be presented in the full-year financial results for FY2025.

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While achieving the sales target is challenging, we aim to meet the profit target.

[Million yen]	3Q FY 2025 Results	FY2025 Plan (Revised on November 10)
Sales	145,176	198,000
Domestic business	125,543	167,900
China business	19,632	30,100
Operating profit	28,862	35,000
Domestic business	28,211	35,500
China business	651	(500)
Ordinary profit	31,907	34,500
Profit attributable to owners of parent	23,151	24,300

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Full-year outlook.

As explained earlier, domestic sales of prescription Kampo products have been lower than expected, making it difficult for us to achieve our sales plan. Nevertheless, we will continue our efforts to increase actual sales by linking the digital and real worlds in order to narrow the margin of underachievement as much as possible.

In addition, we will continue to aim to achieve our profit targets by controlling SG&A expenses through thorough company-wide cost management, including a review of various activities.

Lastly, as we plan to announce this evening along with the personnel changes, we have decided to make organizational changes, the main one of which is to shift to an in-house company system starting next fiscal year.

We will have three companies: the pharmaceutical company, responsible for prescription Kampo products; the health care company, which will be responsible for the self-care and wellness business centered on OTC Kampo products; and the China business company, which will be responsible for the business in the Chinese market.

The next fiscal year will be a period of substantial transition, during which we will clarify responsibilities by business segment and expand the delegation of authority, with the aim of speeding up decision-making and improving profitability. We intend to further enhance our corporate value by gradually improving our governance structure, independent profit management system, and other systems.

Details will be explained at the timing of the full-year financial results.

This is the end of my presentation. Thank you very much for listening.

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Question & Answer

Kitamura [M]: Now we would like to start the question-and-answer session.

Please note that the content and audio of your questions will be posted on our website at a later date, along with the presentation materials.

Mr. Hashiguchi, please.

Hashiguchi [Q]: I'm Hashiguchi from Daiwa Securities. Thank you very much.

The first is: What is your current outlook for prescription Kampo products for the next fiscal year and beyond?

I believe that in the mid-term plan you announced last year, you expected growth in the 4% range, but so far we have seen a divergence from that. Given this situation, what assumptions are you now considering for the budget for the next fiscal year?

Also, as Mr. Kobayashi mentioned at the end of the presentation, this fiscal year you are working to absorb the downturn in sales by curbing expenses, etc. What are your thoughts on this for the next fiscal year?

Kobayashi [A]: I will address the first point first, and if there are any additions, I will ask Yamaoka to explain.

Outlook for the next fiscal year and beyond: In terms of tens of thousands of boxes, this fiscal year, the original pace of 1 million boxes has remained between 600,000 and 700,000 boxes and has not reached 1 million boxes.

In terms of YoY, we have determined that we will be able to reach the 1 million box pace for the next fiscal year based on the status of current measures and various analyses of what we can and cannot do. We have a rough idea regarding the 1 million boxes compared to this year's results. Of course, we are in the process of refining this image, so please take it as it is at the moment.

Then, about the costs: In this fiscal year, we reviewed our initial plan for expenses once, twice, and three times during the term, which is unusual for our company. In this context, we have also made efforts to raise awareness toward costs.

For the next fiscal year, we will not review or revise the costs, but will always remember the cost-consciousness in an evaluation system that will allow the field to think about it by themselves. I think that we will also proceed with the structural reform of the in-house company system that I mentioned at the end of my presentation.

We hope you understand that we are not thinking of loosening the direction at all with respect to awareness toward costs and expenses.

Regarding your first question, Yamaoka might have some additional information.

Yamaoka [A]: I am Yamaoka, the MA executive in charge.

As for the next fiscal year, we have taken a hard look at the issues that caused us to fall short of the plan this fiscal year, and the limited shipments we made until April had a significant impact on us. In addition, we would

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like to improve the precision of our other measures and plan to achieve the same pace of positive 1 million boxes in the next fiscal year.

Hashiguchi [Q]: Second point: I would like to understand a little more about the impact of the consolidation of Hongqiao Drug Pieces.

As for your explanation on the operating profit you mentioned at the beginning, page three, there was a positive impact of JPY678 million in operating profit. On the other hand, at the end of the presentation, you mentioned the Company only added a few hundred million yen for the full year. How can we understand the difference in impact between this Q3 and Q4?

Kobayashi [A]: I think you can get a rough idea if you notice the change from provisional goodwill to amortization after the PPA had an impact.

At the provisional goodwill stage, the current goodwill amortization amount is in the range of JPY200 to 300 million; however, in terms of amortization after the PPA is completed, since this is the first year of inventory setup, it will have a significant impact. Therefore, amortization of approximately JPY1.5 billion will be reflected this fiscal year.

In Q4, although of course there is an increase in the sales profit of Hongqiao Drug Pieces in relation to that, the goodwill portion will largely be reflected in the full year, which is related to what you just mentioned.

Kitamura [M]: Mr. Shigemura of Nomura Securities, please go ahead.

Shigemura [Q]: I am Shigemura from Nomura Securities.

As Mr. Hashiguchi just commented, sales are expected to be difficult this fiscal year, at about 4% of your original vision, but there is a change in the trend toward the active use of Kampo in clinical settings. Is there anything you can tell us about that has not yet reached actual sales but is an outcome?

For example, in H1 of the year, I believe there was a 30% increase in detail impact. If this trend continues, I would appreciate it if you could suggest what we should look for, in terms of the timing of when this will lead to sales.

Kobayashi [M]: I would like to ask Yamaoka to explain this point. Mr. Yamaoka, thank you.

Yamaoka [A]: As Kobayashi mentioned earlier, last fiscal year, for example, we held the cancer caravan six times this fiscal year. The program is attended by doctors involved in the treatment of cancer and has been viewed by over 10,000 people each time. We were able to set up about 240 satellite sites at clinical training hospitals around the country, and many doctors came and watched the program there as well.

As a result, for example, in a seminar held in November basically on fatigue, Hochuekkito was in a very difficult situation, almost similar YoY, but it increased by 13% at the participating facilities.

We believe that by incorporating measures such as these, which allow us to make prescribing suggestions for medical issues, we can create an environment in which Kampo can be used more and more in clinical settings.

Shigemura [Q]: Just to add a little question, I would like to know how your company's activities are reflected in sales, and at what timing or with what time lag.

If you have any feedback from doctors, or some sort of pushback that they are holding off on buying Kampo for a bit, I would be interested to know what you perceive to be some of the barriers.

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Yamaoka [A]: For example, there was the cancer caravan mentioned earlier. We implemented this in mid-November, and while it can be used immediately to boost December sales, confirming its effectiveness takes two to three months. Particularly for groups like a filler material, such as Hochuekkito, confirming the effect can take time.

Therefore, we generally expect results to appear within 2 to 3 months to about half a year after implementing the measure.

Shigemura [Q]: One more point: there might be a limitation you can tell us now, since you are going to announce it later, about the company system.

As mentioned in a comment earlier, each company will manage its own expenses, but I think the intention of creating one healthcare company related to OTC, especially, has not had a large weight in the past. I would like to know if there is any connection to the expansion strategy here. Or, if it is in the medical area, do you expect to be able to control expenses better than before by separating it from healthcare?

Kobayashi [A]: The internal company system is based on the idea that each company and each business have different characteristics, and by allocating responsibility and authority to each company, sales and profits are managed within each company in a way that allows for independent profitability.

In all companies, including healthcare, the company presidents will be responsible for how to increase the profits of their companies, and in this context, although it will depend on each company's approach, cost reductions will also be carried out in the company's way.

We have been and will continue to think of ways to root such a culture and raise awareness of expenses based on ROIC, and we will continue to do so in the future. However, we are talking about creating a system that will enable us to do so more effectively under the leadership of the company presidents.

In the area of healthcare, we include the healthcare company under our company system. I think you may recall that our vision originally included the three P's, and one of the three P's is PHC, personalized health care.

Our policy here is to focus not only on the so-called medical field, but also on areas such as pre-symptomatic diseases and curing. We have set forth the vision to focus on our efforts here. Therefore, a major policy in this vision is to grow this healthcare area significantly.

We are still a small company, but we are now putting our efforts into new products and into the field of so-called curative products and health foods other than so-called OTC Kampo products. In order to accelerate the growth of that field, we believe that one of the reasons for this company system is to create an independent company that can make speedy decisions and promote the growth of the Company.

Shigemura [Q]: As a supplementary question, the company system, although it is your internal matter, if it is divided, does that mean that KPIs, for example, the ROIC mentioned earlier, profitability, and growth rate targets, will be reflected in disclosure items, or disclosure, or as your company's goals?

Will they appear as a new disclosure style in the mid-term business plan? If they are published in that way, it will be easier for us to use them as a reference.

Kobayashi [A]: Yes. The earnings management system under the Company system itself, which I mentioned earlier, is in a transition period and needs to be firmly established from now on. Depending on that, there is a possibility that the method of disclosure may change a little.

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However, we have always had a desire to establish a management system to disclose ROIC to the public, even before the Company system was introduced. While the timing of when this can be done is a consideration, we intend to actively explore disclosing ROIC going forward.

Kitamura [M]: Continuing on, Mr. Lee of Morgan Stanley MUFG Securities, please go ahead.

Lee [Q]: I'm Lee of Morgan Stanley.

Please make one point before asking a question. In the future, I would like to ask you to disclose the Chinese business in the disclosure material, and, if possible, the sales of Shengshibaicao and Hongqiao. You disclose separately raw materials crude drug, and drug pieces, and health products, but I believe that this Hongqiao will be an important KPI in the future.

With the current approach to disclosure, it took me a while to understand it. I hope you will positively consider this point.

The first question is about Hongqiao. You have factored it into the P&L this time, but is it correct to say that you have factored in Hongqiao's July to September sales, that is, for the three-month period? In that case, I would like to know what percentage this Hongqiao is growing in YoY, in local currency and Chinese yuan.

In addition, you mentioned that domestic sales are weak, and I saw that sales in China are also progressing slowly compared to the plan. Mr. Kobayashi said that it would be difficult to achieve consolidated sales and that you would secure profits, but I felt that China was also weak. Please tell me the reason for that as well.

Kobayashi [A]: Regarding your first request, we will consider it. How much information we can provide on each individual company would depend on each circumstance, so we will consider it. Thank you very much for your patience.

Regarding the situation with the China business, first of all, Hongqiao Drug Pieces, as you understand, has been consolidated for the three months from July to September in this Q3.

As for Hongqiao Drug Pieces, the unit price of raw material crude drug and drug pieces has been declining in China, and although the volume has been increasing, sales have not been growing as fast as expected. In this context, the sales of Hongqiao are not quite growing, or are close to leveling off, although the volume is increasing. I hope you get the idea.

In the China business as a whole, we are aware that sales are growing despite a decline in unit prices. Sales of raw material crude drugs other than Hongqiao are also increasing, so sales are also growing. However, there are some items with high profit margins and some with low profit margins, so there is a slight impact on profit margins, and I guess that's where we are right now, that profit margins seem to be a bit lower.

Lee [Q]: Follow-up, please. The current situation you mentioned about Hongqiao is flat at YoY. I am getting a little worried about the outlook for the next fiscal year and beyond.

I was also wondering if this could be connected to the discussion at the time of the acquisition about such impairments and such, but toward the mid-term plan, Rainbow Bridge will grow well. In other words, is it safe to assume that the Company will grow properly in the next fiscal year and beyond?

Kobayashi [A]: Yes. As for Hongqiao, as I have explained before, what we are going to expand by taking advantage of the sales strength of Hongqiao is, after all, the approach of one person, one prescription.

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Using Tsumura's technological capabilities, we will build a smart factory for one person, one prescription, and expand the prescriptions in large hospitals with high-value-added products, which is one person, one prescription. We are aware that other companies in Shanghai have not been able to do the same thing, so our competitiveness here is very high. However, we are in a situation where that has not been done yet.

This itself is being planned now, so we have not yet decided when it will be ready for operation, but we expect that we will be able to grow as per our strategy with it. So, for our part, I hope you understand that we are not worried.

Lee [Q]: I look forward to it.

Second, this may overlap with Mr. Hashiguchi's Q&A, but it is a little early. I would like to ask about how to think about the next fiscal year. I understand that you can enter a period of re-growth in the next fiscal year.

At this point, what factors are impeding growth? For example, like the unit price of Hongqiao, and in the domestic market, if we look at Q3, only the period from October to December, the volume has increased, but as a result, the weakness of H1 of the fiscal year has remained. I would appreciate it if you could tell me if there are any factors you are concerned about as CFO when looking at the next fiscal year.

Kobayashi [A]: In China, it is a reality that the unit price of crude drugs in the market is decreasing. That will take a little time, and I am wondering whether it will remain in this kind of price range.

If there is no growth in volume, I think the China business will not be able to grow, and I think we have to watch the market trend in China very carefully about that.

In Japan, there are still some prescriptions that have not returned in the next fiscal year, such as Ninjin'yoeito, Yokukansankachinpihange, and so on. In such areas where recovery is still slow and more effort is needed, we need more time and effort to bring them onto a growth trajectory, so we need to watch them carefully.

As for other prescriptions, it is a matter of how well the measures are attached to each other, and we would like to develop measures to increase the growth trajectory.

Lee [M]: Let me follow up with you later date again.

Kobayashi [M]: Thank you very much.

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

Yoshida [Q]: I'm Yoshida, Tokai Tokyo Intelligence Laboratory.

I'm looking at page 18. Regarding the progress against the full-year plan, your plan for the China business is negative 500 million for the full year, but in the last part of Mr. Kobayashi's explanation, it sounded as if it would be several hundred million positive. Even if there are about 1.5 billion in inventory amortization in Q4, is it still a few hundred million positive?

Fluctuation in profits in the domestic and Chinese businesses. Do you envision a slight upswing in China and a downswing in Japan, aiming for 350 for the full year? Could you tell me a bit more about this point?

Kobayashi [A]: As you understand, about 1.5 billion of goodwill, or amortization, will be factored in, but for Hongqiao, we expect about 500 million of Hongqiao's profit to remain for the current fiscal year.

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On the other hand, the other projects, except for Hongqiao, have been in a negative balance due to the high costs at the end of the fiscal year, and due to the offset by the negative landing, the net result is a positive several hundred million.

Yoshida [Q]: Well, domestic operations might underperform by that amount. If we assume a negative 5 for the China operations but a positive 2 to 3 billion for domestic operations, that would likely be an upside of around 7 to 8 billion. But domestic operations might underperform by that amount. The idea is that you'll catch up, right?

Kobayashi [A]: Let me see. Regarding our domestic operations, I believe sales will depend on how close we can get to our plan. However, as I mentioned, the situation is quite challenging when it comes to making up for the shortfall in H1 of the current fiscal year.

In consideration of this, there will inevitably be a negative impact from sales in Japan, and of course we will keep costs down, but in the end, we will achieve the plan as a whole, even though there will be a slight negative impact in Japan from the positive growth in China.

Yoshida [Q]: On the second point, I would like to confirm a few things about the impact of the exchange rate.

On the slide of the increase/decrease profit analysis, page three, the cumulative impact for Q3 was a negative factor of 600 million. Looking solely at Q3, I estimate the negative impact to be around 700 to 800 million. If the current exchange rate level of the Chinese yuan persists into the next fiscal year, should we be concerned about this?

Kobayashi [A]: Regarding foreign exchange, the depreciation of the yen will, of course, have a negative impact on the flow of foreign exchange, but since 70 to 80% of this is controlled by forward exchange contracts, the impact will not be significant, and we have not factored that much of an impact into our plans.

Yoshida [M]: You mentioned in your previous explanations that 70 to 80% is covered, but I was surprised by your analysis of the increase/decrease this time, and I wondered if the 60 to 70 million in three months is quite large, so I asked you a question.

Kobayashi [A]: There are some open spaces. I think that influence is also included.

Kitamura [M]: We have a little more time, and I would like to take your second question.

Mr. Hashiguchi of Daiwa Securities, please.

Hashiguchi [Q]: I would appreciate your comments on how the recent changes in Japan-China relations have affected, or should be considered likely to affect in the future, the procurement of crude drugs for the Japan market and the conventional business in China.

What particularly concerns me is the impact on the PMI with Hongqiao, as you mentioned earlier, specifically, obtaining the necessary approvals for implementing the one person, one prescription service system, or constructing new facilities. Could you comment on the presence or potential impact on these initiatives, as well as the status of negotiations with third parties regarding the next M&A?

Kobayashi [A]: First of all, there has been no impact on our operations in China. We have no information on any particular obstacles or potential obstacles to the procurement of raw materials. There is no particular negative information available at this time regarding the impact of the one person, one prescription approach on licensing.

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Regarding M&A, I certainly recognize that there are areas requiring caution on the part of the companies we engage with. However, I would like you to understand that there is no change whatsoever in our intention to successfully conclude at least one M&A transaction related to our formulation platform during this mid-term plan period.

Hashiguchi [Q]: One more point: You mentioned that you are aiming to achieve the profit target in this fiscal year's plan, but are you talking about net income, including gain on sales of investment securities, or operating profit as well?

Kobayashi [A]: We are working on achieving operating profit.

Kitamura [M]: Continuing on, Mr. Lee of Morgan Stanley, please go ahead.

Lee [Q]: I would like to ask Mr. Sugii.

I believe the NHI drug price revision is coming up next month. Listening to the discussions at the Central Social Insurance Medical Council last December and in January of this year, I am wondering if there is a tailwind, if anything, more positive talk.

Once again, I would like to ask you to update the situation, including this NHI drug price revision and your company's unprofitable products, and although your comments will be limited, I would like to ask you to clear my mind.

Sugii [A]: First of all, as you know, the current situation is not disclosed yet, so I cannot give you a clear answer here.

As you are aware, the gap between NHI prices and actual prices has been narrowing year by year when looking at the whole industry and the overall situation for NHI drug price revision, and the negative revision rate, as well as the industry as a whole, has been gradually decreasing.

This is true for our company as well, and we have also continued to promote the value of Kampo, which has resulted in a fairly small number of negative revisions in recent years, and we do not expect this situation to change in the foreseeable future.

However, there is talk that the industry as a whole, for example, will be reviewing the minimum drug price this time. While there may be some positive factors, our current outlook is that overall, we do not anticipate such a large change. That is our current outlook.

Lee [Q]: As for unprofitable items, I think your company holds 129 prescriptions, but roughly, more than half of them are still unprofitable. May I understand it that way?

Sugii [A]: Yes, you are right. However, once half of the unprofitable items, over 60 items, were recalculated and adopted in last year's 2024 revision, but the situation has changed further since then, so some additional items have become unprofitable. Since replacements are now emerging, it won't be as simple as the remaining portion being what wasn't done last time. There is also ongoing replacement.

Lee [Q]: So, you are saying that the situation is not that optimistic yet, and that it is still very difficult.

Sugii [A]: Also, there is no guarantee that an application for recalculation will be approved, of course. Since this is not within our control, it is difficult to say what the outlook is.

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

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Shigemura [Q]: Just a quick question, please.

You have talked about the review of your capital expenditure. First, to clarify, the reduction of 6 billion in investment for the current fiscal year ending March 2026, is this referring to the current fiscal year?

On top of that, will the depreciation projection change accordingly? Will the investment amount for the next fiscal year also be reduced from the initial forecast to roughly the same scale? Is that the situation? Please tell us as much as you can about the current situation.

Kobayashi [A]: First of all, as you are aware, I said 6 billion. That is for the current fiscal year. I think the impact of depreciation is small there, even if this 6 billion is reduced.

We are gradually pushing back the cost with delayed schedules, and the cost that has been cut won't incur depreciation expenses. These steady reductions or setbacks in capital expenditure will have a subtle effect on depreciation expenses.

On the other hand, as I mentioned earlier, in order to achieve a large reduction, we are considering extending the life of existing facilities, although there are many technical issues that need to be verified, and it seems like a high hurdle.

If this can be achieved, the amount of capital investment itself for the next and following fiscal years will be reduced to a greater extent, and the increase in depreciation and amortization during the period of this mid-term plan will be considerably curbed.

In any case, we are currently working to see if this can really be achieved, and we would like to report on the results of our study at the time of the full-year closing of accounts.

Shigemura [M]: I look forward to your update.

Kobayashi [M]: Thank you very much.

Kitamura [M]: Since the time has come, we would like to end the question-and-answer session.

This concludes the fiscal year 2025 Q3 financial results briefing. Thank you very much for your presentation.

[END]

Document Notes

1. *Portions of the document where the audio is unclear are marked with [inaudible].*
2. *Portions of the document where the audio is obscured by technical difficulty are marked with [TD].*
3. *Speaker speech is classified based on whether it [Q] asks a question to the Company, [A] provides an answer from the Company, or [M] neither asks nor answers a question.*
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