TSUMURA & CO.

First Quarter Business Results for Fiscal 2025

August 5, 2025

Event Summary

[Company Name]	TSUMURA & CO.
[Company ID]	4540-QCODE
[Event Language]	JPN
[Event Type]	Earnings Announcement
[Event Name]	First Quarter Business Results for Fiscal 2025
[Fiscal Period]	FY2025 Q1
[Date]	August 5, 2025
[Number of Pages]	40
[Time]	13:30 – 14:50 (Total: 80 minutes, Presentation: 31 minutes, Q&A: 49 minutes)
[Venue]	Webcast
[Venue Size]	
[Participants]	

[Number of Speakers]	5	
	Kei Sugii	Director, Co-COO
	Kaoru Kobayashi	CFO and Head of Corporate Management Division
	Akihito Konda	CTO and Head of Research & Development Division
	Toshio Yamaoka	Executive Officer, Head of Pharmaceutical Sales & Marketing Division
	Makoto Kitamura	Head of Corporate Communications Department
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	Kyoichiro Shigemura	Nomura Securities
	Jaeheon Lee	Morgan Stanley MUFG Securities
	Masao Yoshida	Tokai Tokyo Intelligence Laboratory
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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.

Presentation

Kitamura: The time has come, and we will now begin the briefing on financial results of TSUMURA & CO., for Q1 of FY2025. Thank you very much for your participation today.

This year's event is being held in a webinar format at our headquarters. 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.

I would like to introduce today's attendees. Sugii, Director and Co-COO; Kobayashi, CFO and Head of the Corporate Management Division; Konda, CTO and Head of R&D Division; and Yamaoka, Executive Officer, Head of Sales & Marketing Division. These four members are present. I am Kitamura from Corporate Communications Department, and I will be the moderator for today's session. It's a pleasure to meet you.

The presentation will last approximately 30 minutes, and after all explanations are complete, we would like to answer any questions you may have.

Kobayashi will now explain the financial results for Q1 of FY2025. Thank you.

Overview of financial results for the first quarter of fiscal year 2025

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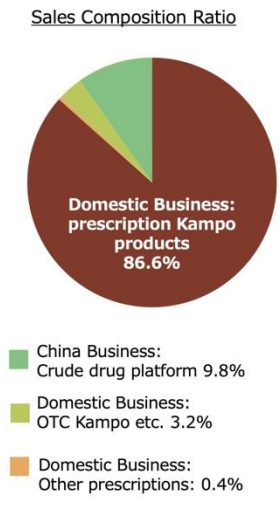
[million yen]	FY2024 1Q results	FY2025 1Q results	YoY comparison		FY2025 First Half Plan	Progress rate (Compared to the first half plan)
			Amount	Rate of increase/decrease		
Sales	**43,690**	**43,094**	**(596)**	**(1.4)%**	**91,500**	**47.1%**
Domestic Business	40,134	38,871	(1,263)	(3.1)%	82,000	47.4%
China Business	3,556	4,223	+667	+18.8%	9,500	44.5%
Operating profit	**10,575**	**7,719**	**(2,855)**	**(27.0)%**	**16,000**	**48.2%**
Domestic Business	10,713	7,981	(684)	(25.5)%	16,400	48.7%
China Business	(138)	(261)	(138)	-	(400)	-
Ordinary profit	**14,118**	**6,181**	**(7,936)**	**(56.2)%**	**16,000**	**38.6%**
Profit attributable to owners of parent	**11,180**	**4,367**	**(6,812)**	**(60.9)%**	**11,000**	**39.7%**
PL conversion rate* (JPY/CNY)	20.63	20.94	+0.31	-	-	-

*This is the average rate for the period, and is different from the import rate for raw material crude drug



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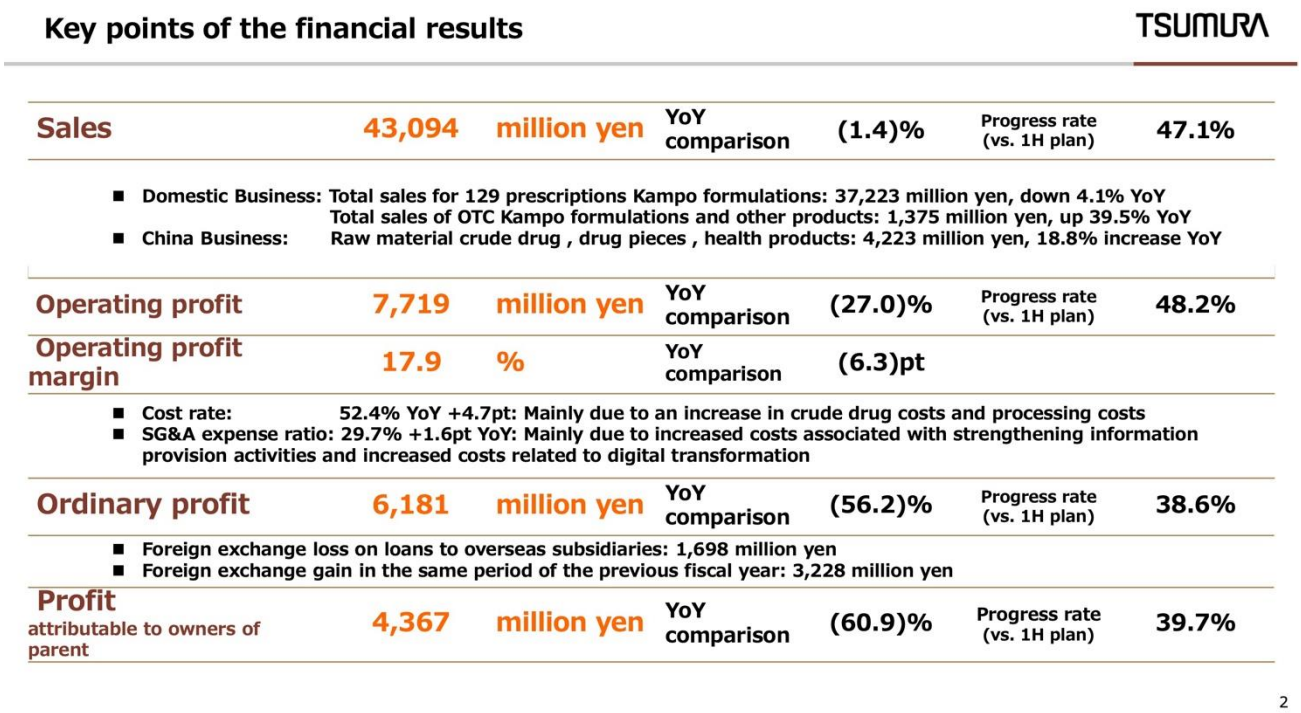
Kaoru Kobayashi: Hello, everyone. I'm Kobayashi, Head of the Corporate Management Division. We would like to thank all participants for your support of our company and Kampo.

I will now explain the financial results for Q1 of FY2025. This is a summary of the Q1 financial results for FY2025.

Sales totaled JPY43 billion, down 1.4% from the same period last year, representing 47.1% of the H1 plan. The breakdown was JPY38.8 billion for the domestic business and JPY4.2 billion for the China business.

The ratio to the total sales is shown in the pie chart on the right.

Operating profit decreased by 27% YoY to JPY7.7 billion, and progress against the H1 plan was 48.2%. Ordinary profit decreased by 56.2% to JPY6.1 billion, a progress rate of 38.6%. Profit attributable to owners of parent decreased by 60.9% to JPY4.3 billion, resulting in a progress rate of 39.7%.



I will go through the key points of our financial results.

First, let me give you a breakdown of sales. Sales of 129 prescription Kampo formulations for medical use in the domestic business decreased by 4.1% to JPY37.2 billion. I will explain the details later on. Sales of OTC Kampo medicine and other products increased by 39.5% to JPY1.3 billion due to an increase in the number of outlets handling them. Sales in the China business increased by 18.8% to JPY4.2 billion due to an increase in sales of mainstay raw material crude drugs and drug pieces.

Next, I will talk about operating profit margin. Sales cost rate was 52.4%, up 4.7 points YoY. Rising crude drug and processing costs are the main factors. The SG&A expense ratio increased by 1.6 percentage points to 29.7% due to the decrease in sales, as well as expenses associated with enhanced information provision activities and an increase in DX-related expenses. The operating profit margin decreased by 6.3 percentage points to 17.9%.

In addition, non-operating profit and loss includes foreign exchange effects related to loans to overseas subsidiaries. In addition to the reaction to the JPY3.2 billion foreign exchange gain recorded in the same period of the previous fiscal year due to the weak yen, the current fiscal year saw a JPY1.6 billion foreign exchange loss due to the strong yen, resulting in a 56.2% decrease in ordinary profit.

Factors behind changes in operating income (year-on-year)

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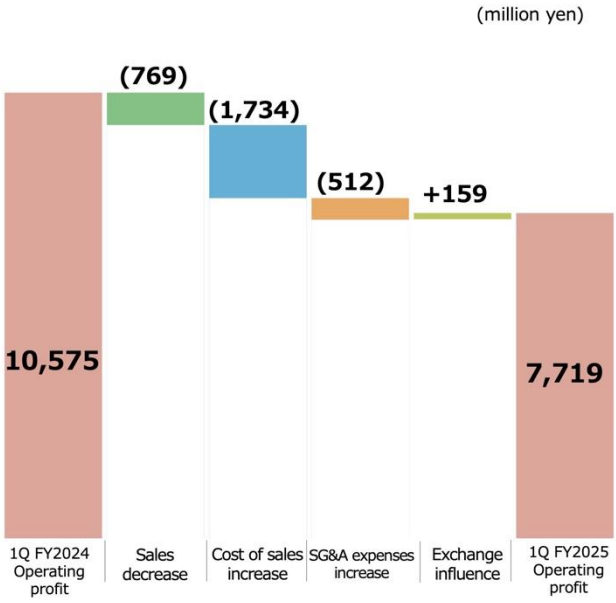

Sales decrease: (769) million yen			
Domestic Business (sales volume, sales composition)			(863)
China Business			+94
Increase in cost of sales: (1,734) million yen			
Domestic Business	Crude drug costs	Domestic crude drug costs	(200)
		Crude drug costs contained in Chinese extract powder	(707)
	Raw material costs		(128)
	Processing costs	Domestic processing costs	+288
		Processing costs for Chinese extract powder	(865)
China Business	Increase in sales composition ratio		(122)
Increase in SG&A expenses: (512) million yen			
Sales promotion expenses (increase in costs related to providing information, etc.)			(136)
Outsourcing costs (strengthening infrastructure for information provision, etc.)			(119)
Salary and allowances			(24)
Others			(233)
Exchange rate impact: +159 million yen			

3

Here are factors related to changes in operating income compared to the same period last year.

The impact of the decrease in sales was a negative JPY700 million. The breakdown is minus JPY800 million for the domestic business and plus JPY100 million for the China business.

The impact of the increase in cost of sales was negative JPY1.7 billion. Starting this time, we are presenting the impact of crude drug costs and processing costs, categorizing them as domestic and foreign, respectively.

Crude drug costs totaled minus JPY900 million, mainly due to costs included in manufacturing extracts in China, minus JPY700 million, and raw material costs were minus JPY100 million due to high lactose and packaging materials. Processing costs totaled minus JPY500 million due to the negative impact of an increase in shipment volume from the Tianjin plant, which is not yet in full operation, amounting to minus JPY800 million.

SG&A expenses had a negative impact of JPY500 million. The foreign exchange impact was a positive JPY100 million due to the effect of yen depreciation on sales in China and the utilization of foreign exchange forward contracts in a strong yen position in extract imports.

Financial Position and Cash Flows

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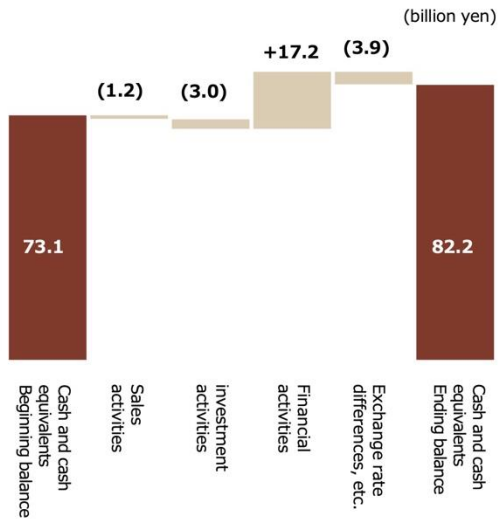
(million yen)

	FY2024 (as of the end of March 2025)	FY2025 1Q	Increase/ decrease amount
Total Assets	**464,380**	**465,585**	**1,204**
Current assets	295,709	299,261	3,551
Fixed assets	168,670	166,323	(2,346)
Total Liabilities	**134,270**	**146,289**	**12,019**
Current liabilities	61,913	70,305	8,392
Fixed debt	72,357	75,984	3,626
Total net assets	**330,110**	**319,295**	**(10,815)**
Equity ratio	64.7%	62.1%	(2.6)pt

	FY2024 (as of the end of March 2025)	FY2025 1Q	Increase/ decrease amount	Of which, Exchange rate
Total inventory	**133,784**	**134,226**	**441**	(4,164)
Goods and Products	14,939	17,819	2,880	(175)
Work in progress	20,197	21,830	1,632	(205)
Raw materials and supplies	98,647	94,576	(4,071)	(3,784)



4

Financial position and cash flows.

Current assets increased by JPY3.5 billion. The main breakdown was a JPY9.1 billion increase in cash and deposits due to borrowings mainly for investment in Hongqiao drug pieces, and a minus JPY5 billion decrease in notes and accounts receivable-trade.

Fixed assets decreased by JPY2.3 billion, of which JPY1.9 billion was attributed to tangible fixed assets. While there was an increase of JPY2.6 billion due to the construction of Yubari TSUMURA's warehouse and Tianjin plant, there was a negative JPY2.4 billion due to depreciation and a negative JPY2.7 billion due to foreign exchange effects.

Current liabilities increased by JPY8.3 billion due to an increase in short-term loans payable, despite a decrease in accounts payable and other liabilities. Long-term liabilities increased JPY3.6 billion due to an increase in long-term debt. Net assets decreased by JPY10 billion. The acquisition of treasury stock will result in a negative JPY4 billion, and the foreign exchange impact will be a negative JPY6 billion.

As a result, the equity ratio decreased by 2.6 percentage points to 62.1%.

Cash flows are shown in the waterfall graph on the right.

Domestic Business: Sales of Drug-fostering Program Formulations/Growing Formulations

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(million yen)

	Sales Ranking	Product No./Prescription Name	FY2024 1Q	FY2025 1Q	YoY comparison		[Reference: Actual sales volume] YoY comparison
Drug-fostering program formulations	1	100 Daikenchuto	3,877	3,632	(245)	(6.3)%	+4.0%
	2	54 Yokukansan	3,040	2,763	(276)	(9.1)%	+1.7%
	5	43 Rokukunshiyu	1,757	1,725	(32)	(1.8)%	+1.0%
	7	107 Goshajinkigan	1,467	1,391	(76)	(5.2)%	+3.4%
	25	14 Hangeshashinto	358	366	+7	+2.2%	+2.4%
Total drug-fostering program formulations			10,502	9,879	(622)	(5.9)%	+2.8%
Growing formulations	3	17 Goreisan	2,090	2,022	(67)	(3.2)%	+13.4%
	4	41 Hochuekkito	1,800	1,749	(50)	(2.8)%	(0.1)%
	10	24 Kamishoyosan	1,199	1,197	(1)	(0.2)%	+1.8%
	18	137 Kamikihito	539	577	+38	+7.2%	+5.9%
	19	108 Ninjin'yoeito	527	462	(65)	(12.4)%	(5.4)%
Total "growing" formulations			6,157	6,011	(146)	(2.4)%	+5.6%
Total sales for 119 formulations other than drug-foresting program and "growing" formulations			22,161	21,333	(828)	(3.7)%	+2.3%
Total sales for 129 prescription Kampo products			38,820	37,223	(1,597)	(4.1)%	+2.9%

*Actual sales volume is the volume delivered to medical institutions by pharmaceutical distributors and wholesalers.

5

These are sales of prescription Kampo formulations by "drug fostering" program formulations and growing formulations.

Sales of 129 prescription Kampo formulations totaled JPY37.2 billion, down 4.1% YoY. This was due to the impact of high distribution inventories in Q4 of FY2024, as demand slowed due to the early end of the common cold, stagnant demand for hay fever, and limited shipments of some prescriptions. This impact resulted in a 5.9% decrease in "drug fostering" program formulations and a 2.4% decrease in Growing prescriptions.

On the right side of the slide, the growth rate of actual sales volume is shown for your reference. Actual sales volume is the quantity delivered from pharmaceutical distributors to medical institutions and indicates actual demand trends. This is an increase of 2.9% with 129 prescriptions.

The difference between shipments and actual sales is explained on the next slide.

Domestic Business: Trends in growth rates of shipment volume and actual sales volume

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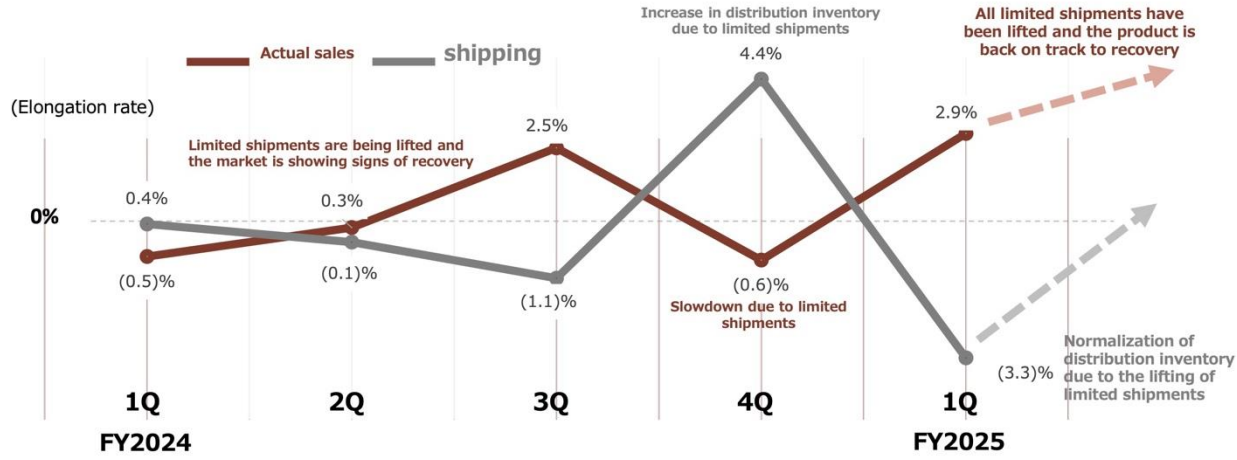
Shipments in 1Q of FY2025 will be lower than the previous year due to the impact of decreased actual sales and increased distribution inventory in 4Q of FY2024.

Trends in the sales volume growth rate of 129 Kampo prescriptions (shipments and actual sales)



6

This slide shows the growth rate of the volume of shipments from our company to pharmaceutical distributors and the actual sales volume to medical institutions.

By Q3 of FY2024, actual sales volume showed a recovery trend as the lifting of limited shipments progressed and limitations on all items were lifted at the end of November. Subsequently, in Q4, while shipments grew due to a shortage, actual sales began to decline due to sluggish demand for colds and hay fever and limited shipments of eight prescriptions again, resulting in high levels of distribution inventories.

In Q1 of this fiscal year, actual sales increased by 2.9% due to the lifting of limited shipments of all prescriptions on April 11, but shipments declined 3.3% due to distribution inventory. Since distribution inventories returned to an appropriate level at the end of Q1, we expect shipments to recover from Q2 onward in line with growth in actual sales volume.

Domestic Business: Actual sales volume trends for 129 prescription Kampo formulations

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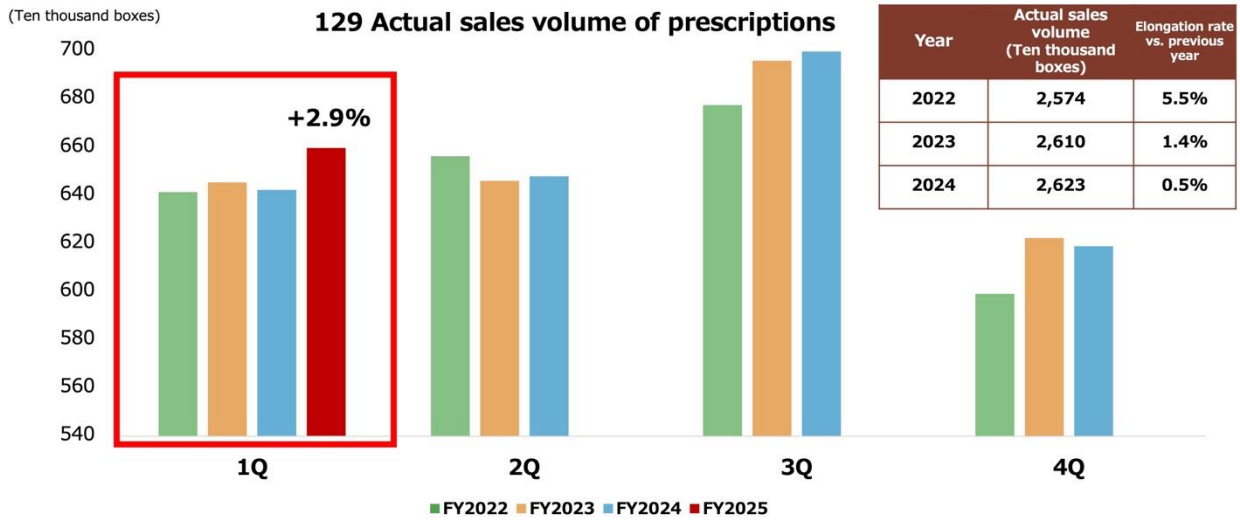
Actual sales volume* in 1Q increased 2.9% year-on-year



Year	Actual sales volume (Ten thousand boxes)	Elongation rate vs. previous year
2022	2,574	5.5%
2023	2,610	1.4%
2024	2,623	0.5%

*Actual sales volume is the volume delivered to medical institutions by pharmaceutical distributors and wholesalers.

7

Here is a graph showing the actual sales volume in FY2022 and beyond.

The volume growth rate remained low in FY2023 and FY2024 due to the limited shipments that began in August 2022. As you can see, actual sales for Q1 of this fiscal year show a change in trend in comparison with the past two fiscal years as a result of the lifting of limited shipments of all items.

On the next slide, we will explain the top three prescriptions in terms of sales, etc.

Trends in actual sales volume (Daikenchuto and Yokukansan)

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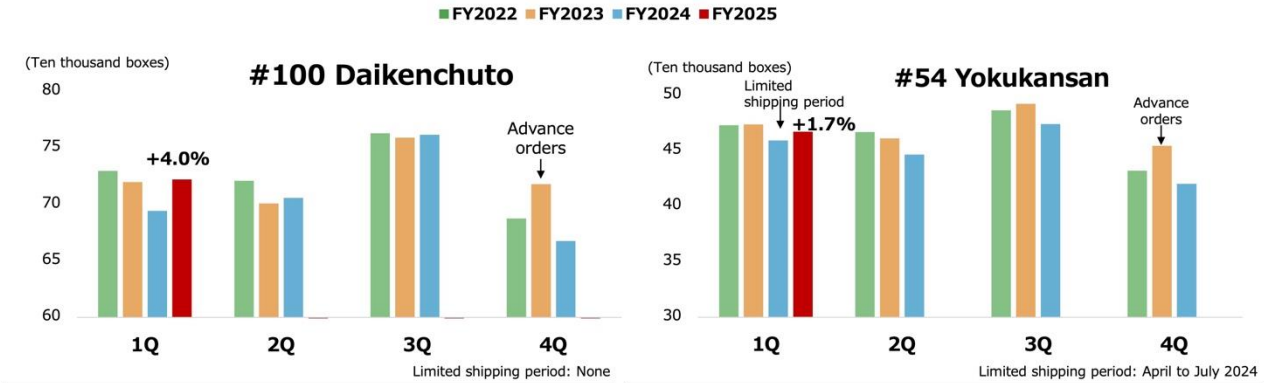

FY 2022-2023: Flat due to a decrease in the number of surgeries and the impact of limited shipments of other prescriptions caused by COVID-19.

FY 2024: Considering the impact of advanced orders in Q4 of FY 2023 due to drug price revisions, it remains almost flat.

FY 2025: Recovery trend. Aiming to recover to the quantity levels of FY 2022.

FY 2023: Continued growth but decreased due to limited shipments.

FY 2024: Decrease due to the impact of advanced orders before the limited shipments and the switch to other prescriptions. The recovery is further delayed by the re-limiting of some prescriptions.

FY 2025: Expanding to symptoms such as insomnia and irritability, in addition to psychiatric and neurological symptoms associated with dementia-related peripheral symptoms.

8

Here are the actual sales volumes of Daikenchuto and Yokukansan, both are “drug fostering” program formulations.

Sales of these two prescriptions were down or flat in FY2024 due in part to orders placed ahead of schedule in Q4 of FY2023, prior to the FY2024 NHI drug price revision, but we believe that actual sales have begun to recover since Q1 of this fiscal year.

Going forward, we will strengthen measures for both formulations, first aiming to recover to the pre-limited shipment level.

Trends in actual sales volume (Goreisan and Ninjin'yoeito)

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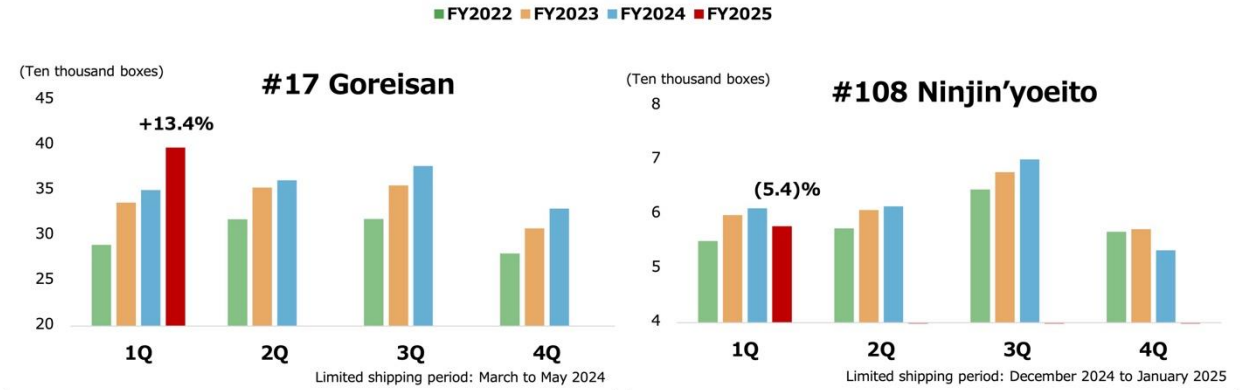

FY2023: Continued growth in neurosurgery, otolaryngology, etc. due to symptoms such as edema, dizziness, and headaches.

FY2024: Decreased during the limited shipping period, but recovered after restrictions were lifted.

FY2025: Included in the heart failure treatment guideline and prescribed for cases accompanied by edema.

FY2024: Due to limited shipments, some products were switched to other companies.

FY2025: As limited shipments were only lifted in the first quarter, it will take time for the volume to recover, but it is expected that the volume will recover to by the end of FY2025.

9

Next are Goreisan and Ninjin'yoeito, "growing" formulations.

The growth rate of Goreisan slowed down in H1 of FY2024 due to the limited shipments but has recovered since H2 after the lifting of the restrictions. Compared to formulas such as Daikenchuto and Yokukansan, which tend to be taken over a long period of time, Goreisan is often taken for short-term treatment of dizziness and headache, and we believe that recovery is relatively quicker.

As for Ninjin'yoeito, we are also aware that there was a shift to other companies' products in part due to the limited shipments in December 2024. This is one of the prescriptions that has taken time to recover, since its limitation has just been lifted in January. We will continue our activities to recover to last year's level by the end of this fiscal year.

Domestic Business: Actual sales volume trends of 129 prescription Kampo product formulations

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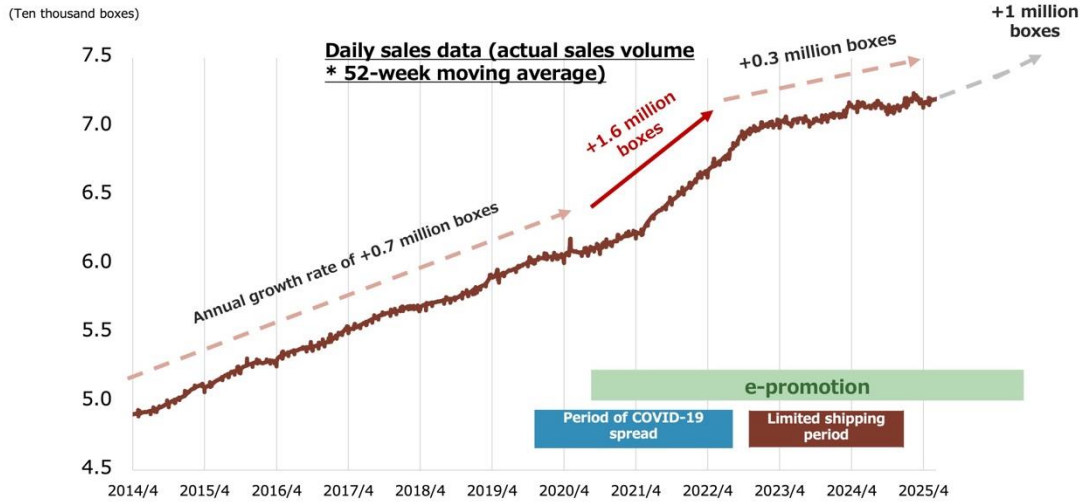
Due to the lifting of the limited shipment and the expansion of information provision activities, aiming for a pace of +1 million boxes



*Actual sales volume is the volume actually sold by pharmaceutical distributors and wholesalers to medical institutions.

10

This is the 52-week moving average actual sales volume data for the past 10 years.

Until the spring of 2021, when the COVID-19 began to expand, growth had long been at a pace of 0.7 million boxes per year. Subsequently, the pace expanded to an additional 1.6 million boxes through H1 of FY2022, thanks to demand for COVID-19 and e-promotion measures. However, we were unable to respond to the rapid increase in demand, and after we took measures for limited shipments in August 2022, the pace has been at plus 0.3 million boxes.

The increase to 1.6 million boxes per year was driven by special demand for COVID-19 treatment, but we believe that the effectiveness of information provision activities through e-promotion played a major role in achieving such a high growth rate during this period.

From the current fiscal year onward, we expect volume growth at a pace of 1 million boxes per year, exceeding the previous pace of 0.7 million boxes per year, through more aggressive e-promotion measures, in addition to strengthening individual activities by MRs.

Domestic Business: Survey on Awareness of the Complete Lift of Restricted Shipment

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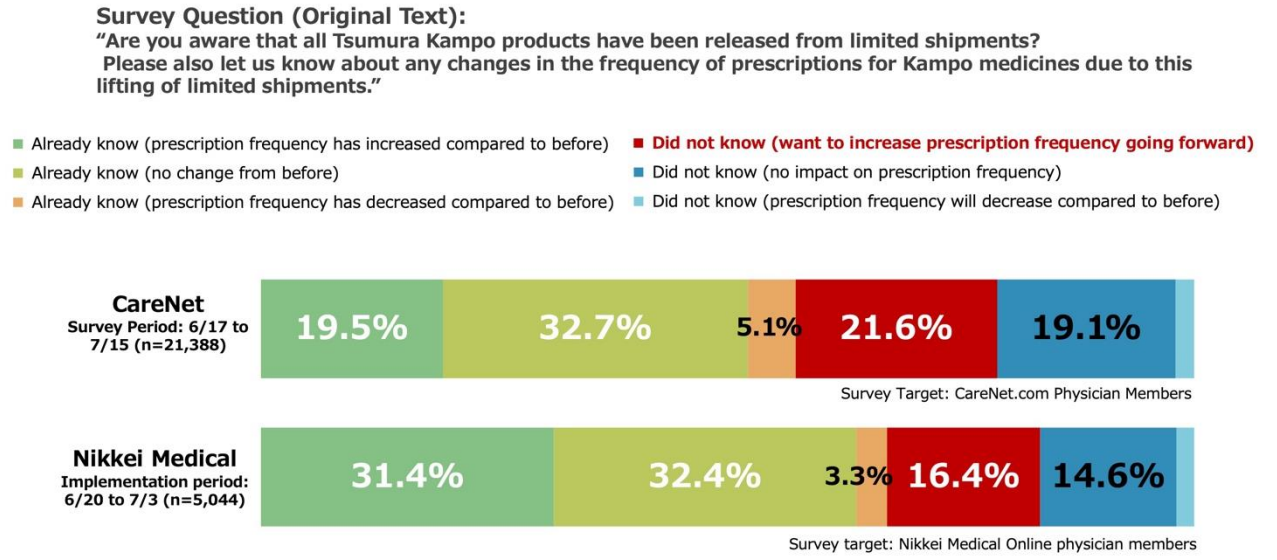


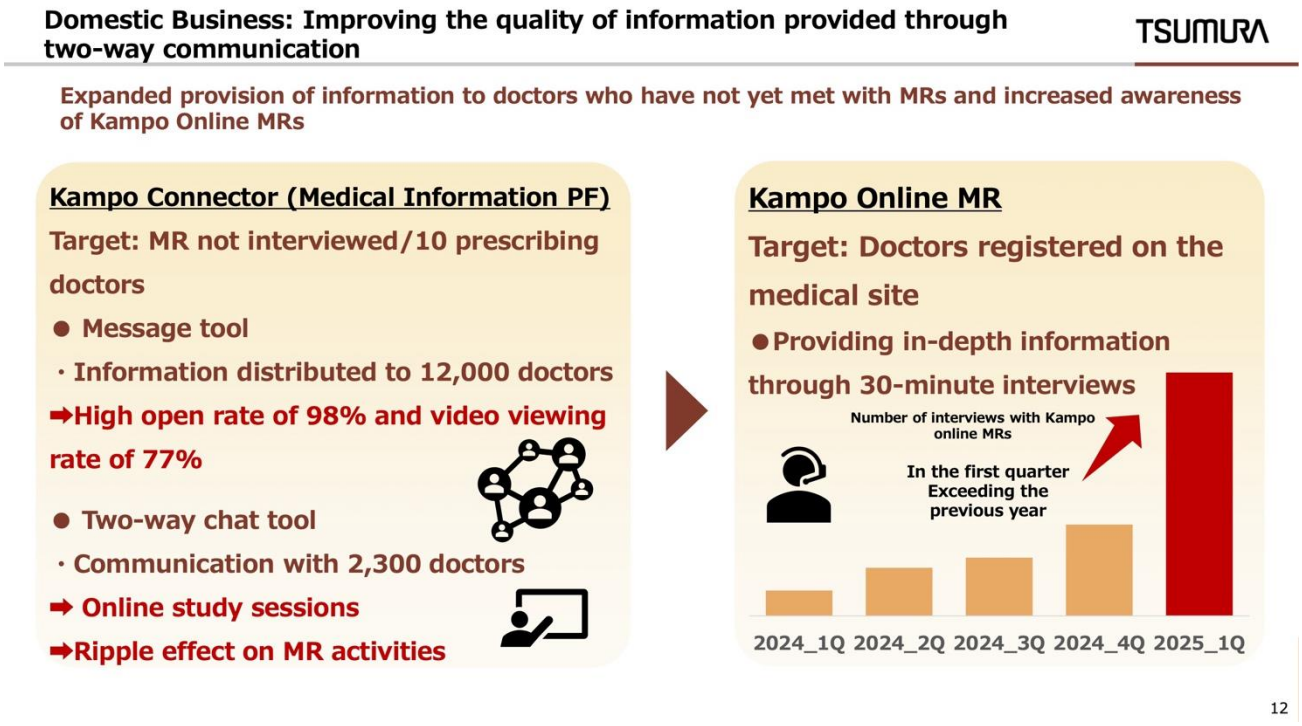
11

These are the results of a survey conducted by CareNet and Nikkei Medical, medical information platforms, among physicians who viewed our videos in June and July.

The content of the survey asked about awareness of the lifting of limited shipments of all of the Company's prescription Kampo formulations, and about future changes in prescribing frequency.

As a result, approximately 60% of doctors were aware of the lift within two months of its implementation, while the remaining 40% were not. Approximately half of them indicated that they would like to increase their prescriptions in the future.

It is estimated that about these 40% are mainly physicians at large hospitals that MRs are not able to interview in person. We believe that by providing these physicians with information on the lifting of limited shipments and other value-added information, we can expect a recovery and expansion in the number of prescribing physicians.



We would like to present our progress in providing information through two-way communication, as explained in our FY2024 financial results.

Under the theme of both quantity and quality in our second medium-term business plan, we aim to deliver the value of Kampo more deeply and widely to each and every physician through a sales model that combines digital and realistic activities.

The Kampo Connector, shown on the left side of the slide, provides information, lectures, and video distribution via message tools to approximately 12,000 people, mainly physicians and others who have difficulty in having interviews with MRs. The message open rate is over 98%, and the video viewing rate remains high at 77%.

In addition, the approximately 2,300 physicians active on the medical information platform are provided with information and online study sessions according to their needs using an interactive chat tool. Most recently, interactive communication is taking root, with approximately 100 physicians participating in study sessions.

Through announcements on these platforms and information provided by the Kampo Connector, an increasing number of physicians are requesting online individual interviews, and the online MRs on the right side of the slide are responding to this request. This fiscal year, the number of interviews has been steadily increasing, and has already exceeded the number of interviews conducted during the previous year. Requests for interviews, etc. from medical institutions with which we had no previous contact have also increased, and we have confirmed a ripple effect on MR activities.

We will continue to aim to increase opportunities by accurately identifying the needs of physicians and delivering a wide range of in-depth information on Kampo.

[Reference] Kampo product manufacturing process

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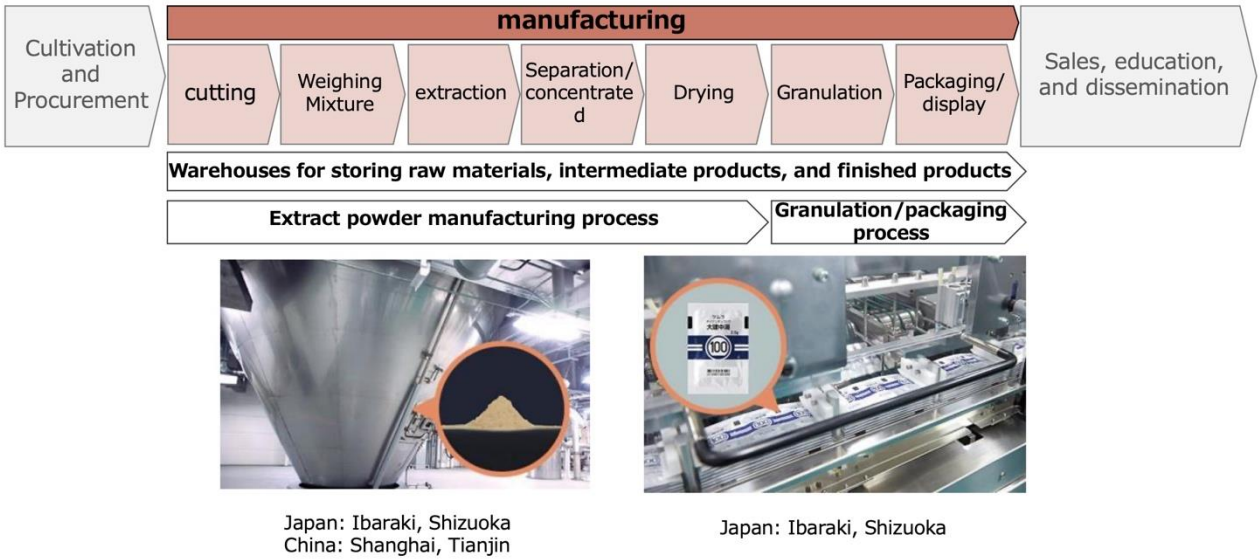

13

From here, we will explain in detail the investments envisioned for the second medium-term management plan period.

This is the manufacturing process of Kampo products.

The manufacturing process is broadly divided into two stages: the extract powder manufacturing process and the granulation and packaging process. In order to increase production capacity, large-scale capital investment is required for each stage. In addition, an expansion of warehouses for storage of raw material crude drugs, intermediate products, and finished products will be necessary to accommodate the increase in sales volume.

Since it takes about five years from the start of consideration of a plant to its start of operation, we have drawn up a medium- to long-term investment plan, taking into account various factors such as projected growth in sales volume and maintenance plans for each plant.

In the following slides, I will explain our efforts to increase production capacity and renew facilities in each process.

Equipment investment: Extract Powder Manufacturing Process

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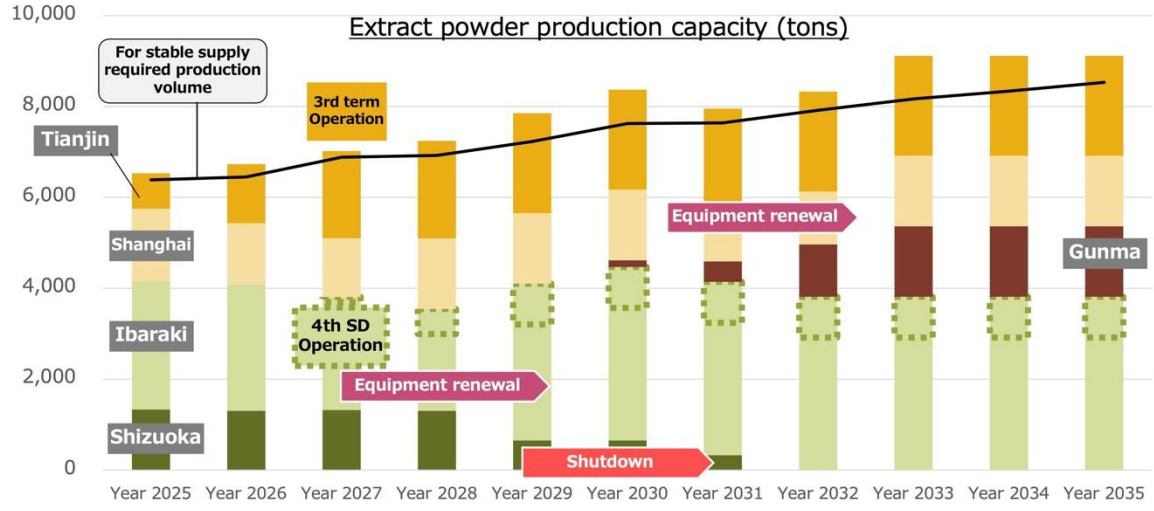
Shizuoka Plant: due to aging, planned to cease operations around fiscal year 2031, with Gunma factory being constructed as a replacement.
Ibaraki Plant: production reduction due to equipment renewal from fiscal years 2027 to 2029.
Shanghai Plant: production reduction due to equipment renewal in fiscal years 2031 to 2032.



14

Currently, in terms of manufacturing process for extract powder, in addition to our factories in Shizuoka and Ibaraki, we have factories in Shanghai and Tianjin, taking into consideration the logistics of raw material crude drugs, for a total of four manufacturing sites. In addition to responding to the increase in sales volume, we are constructing the Tianjin third phase and Ibaraki the fourth SD building to prepare for the termination of operations in Shizuoka and temporary shutdowns for facility upgrades in Ibaraki and Shanghai, and plan to proceed with construction of the Gunma Plant in the future.

The Shizuoka Plant was the first plant for prescription Kampo formulations which began its operations in 1964, but after 50 years of continuous operation, the facilities, including the building for manufacturing extract powder, have deteriorated, and the plant is scheduled to cease operations around 2031.

Since there is no site on which to build a new facility at the Shizuoka Plant, we have decided to build a new facility in Gunma, as announced in November last year, as an alternative location after considering environmental aspects such as water source and ground, as well as the risk of continuing production in the event of an earthquake or other disaster.

Equipment investment: Granulation/packaging process

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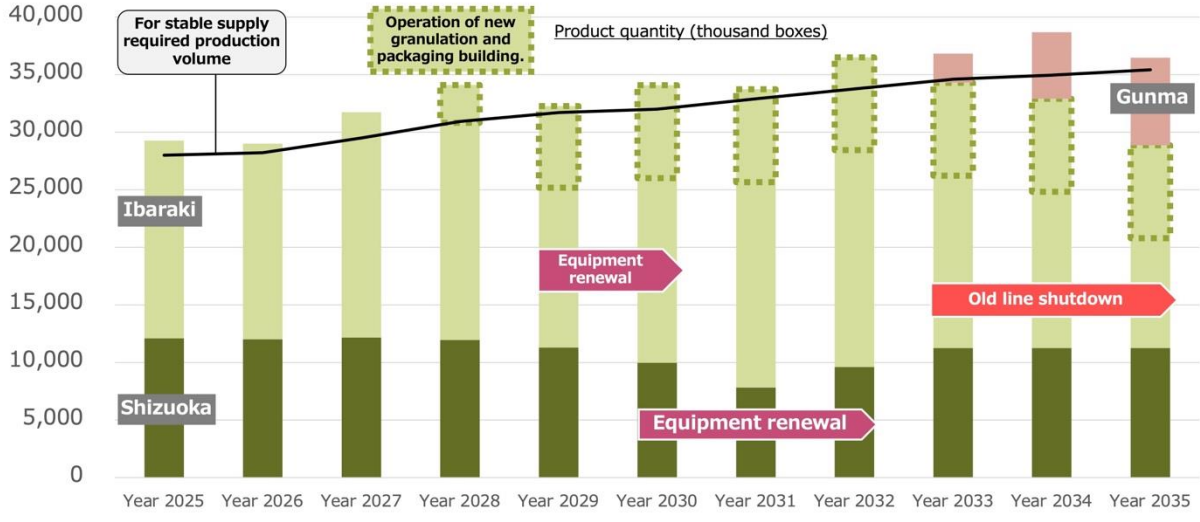
Shizuoka Plant: Production reduction due to equipment renewal in fiscal years 2030 to 2031
Ibaraki Plant: Equipment renewal in fiscal years 2029 to 2030, with the old line scheduled to stop operation in 2035 (life extension under consideration)
Gunma Plant: Designing aiming for a smart factory, including unmanned night shifts (possibility of postponement)



15

Granulation and packaging processes are available at two locations in Shizuoka and Ibaraki. Both plants are scheduled to be temporarily shut down for equipment upgrades from FY2029 onward. In addition, at the Ibaraki Plant, the oldest production lines are expected to be shut down sequentially starting in 2033, and operations will be terminated in 2035.

As announced on July 15, construction of a new granulation and packaging building is currently underway at the Ibaraki Plant. Although various automated equipment has already been installed in the current granulation and packaging processes, there are still some minor ancillary processes that require manual labor. The new granulation and packaging building will aim to further improve labor productivity by reducing labor requirements through the introduction of new automatic packaging material supply and automatic parts cleaning equipment.

In response to the anticipated termination of operations of the old line in Ibaraki, the Gunma Plant is planning to construct a new granulation and packaging building to start production around 2033. Gunma has a large site, which makes it possible to make the manufacturing facility significantly more labor-efficient than Ibaraki, including unmanned operation at night. However, in light of the current situation where large capital investments are concentrated, we are currently conducting a technical study on measures to extend the life of the old line at the Ibaraki Plant. If this becomes feasible, the construction of the granulation and packaging building at the Gunma Plant may be pushed back.

- Investments will be made with a view to increasing sales volume and the suspension of operations at aging factories
- Efforts will be made to compress investment amounts as much as possible for each individual project

Manufacturing process	Main investment details	1st mid-term plan (actual)	2nd mid-term plan (amount TBD)	Total amount
Extract powder Manufacturing process	Tianjin Factory (Phases 1 to 3 manufacturing buildings and ancillary facilities)	22 billion yen	4 billion yen	35 billion yen
	Ibaraki Factory (4th SD building)	8 billion yen	21 billion yen	29 billion yen
	Gunma Factory (1st and 2nd SD buildings and auxiliary facilities, etc.)	1.8 billion yen	50 billion yen	TBD
Granulation and packaging process	Ibaraki Factory (New Granulation and Packaging Building)	2.7 billion yen	39 billion yen	41.5 billion yen
Enhancement of storage capacity	Ibaraki Plant (3rd Crude Drug Building)	2.3 billion yen	5 billion yen	7 billion yen
	Crude drug Warehouses (Yubari, Ishioka, China)	1.4 billion yen	13 billion yen	14.5 billion yen
Others	Quality Control Building (Ibaraki)	-	8 billion yen	8 billion yen
	Renewal of production equipment, labor saving, etc.	19 billion yen	34 billion yen	TBD
Subtotal of Investments Related to the Production of Kampo product		**60 billion yen**	**174 billion yen**	
Others			6 billion yen	
	Total		**180 billion yen**	

16

Here is a list of major large-scale investments planned for the near term. We have shown this information for each of the manufacturing processes we have just described.

As explained, we will make investments, mainly those that have been moved back from the first mid-term plan, in anticipation of future sales volume growth, mainly of prescription Kampo formulations, and the shutdown of aging plants.

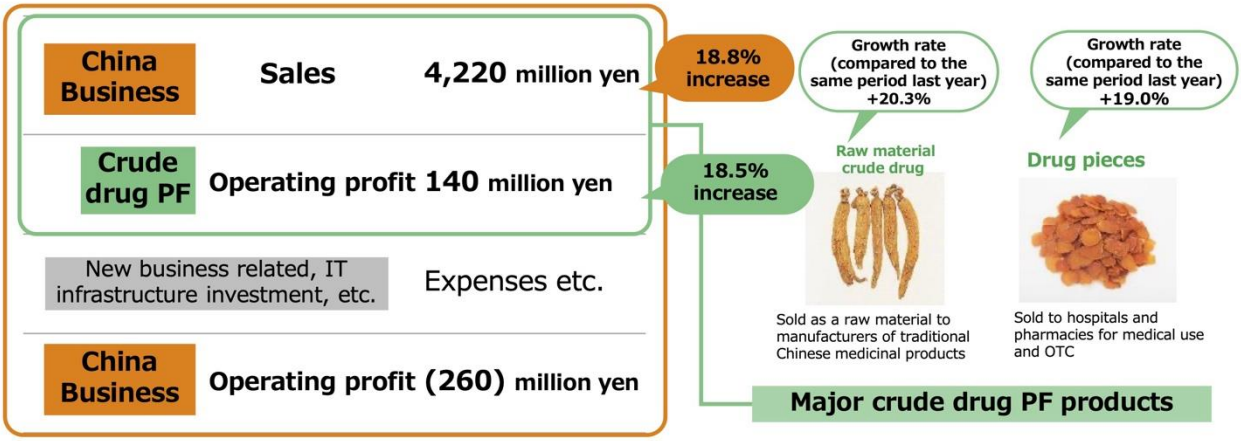
The amount of investment will peak in the second medium-term management plan. Although we are working to reduce and control the amount of investment for each project, construction costs have remained high and are expected to be in the JPY180 billion range.

We will continue to make investments that are essential for stable supply and growth, while carefully confirming the return on investment through NPV, IRR, and payback period. In addition to curbing the amount of individual investment as much as possible, we will also review our overall investment plan by extending the life of existing facilities, aiming to reduce the amount of investment during the Vision period.

China Business: Crude drug platform

TSUMURA

- Crude drug platform is experiencing increased revenue and profit.
- Due to upfront investment costs for considering and negotiating business partnerships, the operating profit for China Business is in the red.



17

From here, we will explain our business in China.

As explained at the beginning of this presentation, sales in the China business increased by 18.8% YoY to JPY4.2 billion due to expanded sales on the crude drug platform.

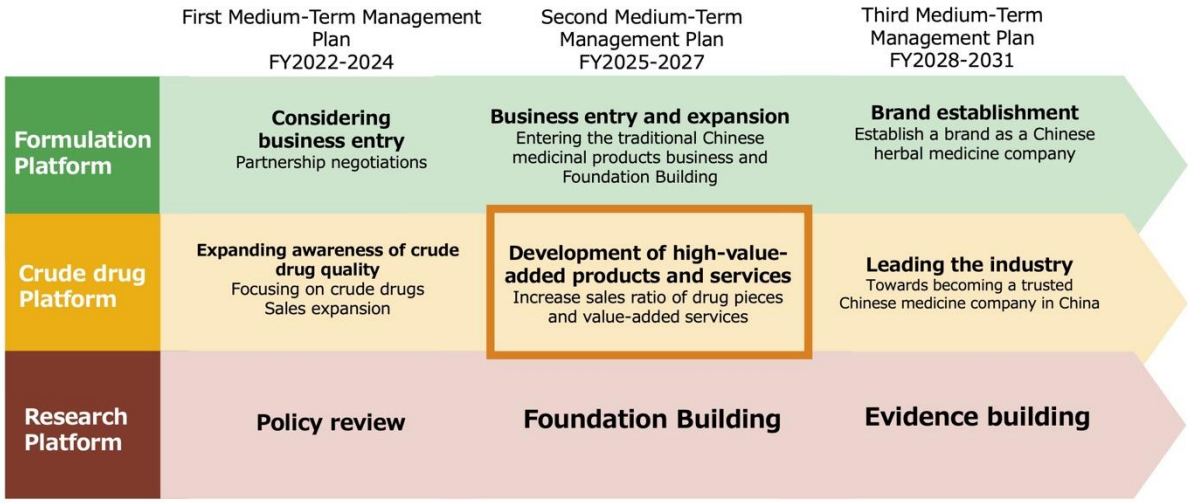
Sales of raw material crude drugs increased by 20.3%, partly due to a rebound from a slowdown in purchases by some clients that occurred in the same period of the previous year. In addition, sales of drug pieces increased by 19% due to sales expansion mainly in the hospital sales channel as a result of the promotion of quality-driven sales activities.

As a result of the above, the crude drug platform has increased revenues and profits. However, operating profit for the China business as a whole was a loss of JPY200 million due to upfront investment costs such as research for business alliances.

China Business: Partnership with Hongqiao drug pieces on Crude drug Platform

TSUMURA

Aiming to contribute to Health of the Chinese people through drug pieces and personalized medicine



18

Here are the milestones for each platform of our China business that we presented at the May presentation.

In the crude drug platform, we aimed to contribute to the development of the traditional Chinese medicines industry, and in the second mid-term plan, we aimed to improve the effectiveness of treatment of health issues for patients, increase convenience, etc. through the expansion of the drug pieces and the value-added service.

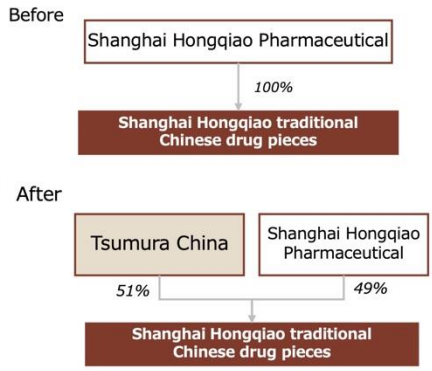
Crude drug Platform: Acquisition of stake in Shanghai Hongqiao traditional Chinese drug pieces

TSUMURA

Overview of Shanghai Hongqiao traditional Chinese drug pieces Co., Ltd.
(hereinafter referred to as Hongqiao drug pieces)

Location	Shanghai, China
Main business activities	Manufacturing and sales of drug pieces (mainly in the Shanghai area)
Capital	0.16 billion yuan (approx. 3.2 billion yen)
Finance (FY2024)	Sales revenue: 1.05 billion yuan (approx. 21 billion yen) Operating profit: 0.2 billion yuan (approx. 4.2 billion yen)
Number of employees	512 people (as of July 2025, including temporary staff)

Capital Relationship Diagram



Negotiation progress and future plans

February 6th	Signed a letter of intent regarding a technical and business partnership aimed at promoting the drug pieces business
June 18th	Conclusion of equity acquisition agreement
August (planned)	Closing

19

We would like to explain our acquisition of the equity interest in Shanghai Hongqiao traditional Chinese medicine drug pieces, as announced on June 18.

Hongqiao drug pieces is a company located in Shanghai that manufactures and sells drug pieces mainly in the Shanghai area. Sales in yen terms for FY2024 are JPY21 billion and operating profit is JPY4.2 billion. The company has about 500 employees, of which about 100 are in the sales department and 350 in manufacturing and quality control.

The capital structure is as shown on the right, and Tsumura China, a wholly owned subsidiary of TSUMURA will acquire a 51% equity interest. Administrative and other procedures for closing are currently underway and are expected to be completed by the end of August.

Crude drug Platform: Hongqiao drug pieces Plant

TSUMURA

・In anticipation of future increases in drug pieces sales volume, a new plant will be constructed in 2020, with operations scheduled to begin in 2024

・Establishment of a quality control system based on GMP

Hongqiao drug pieces Plant

Hongqiao Drug Pieces Plant Overview

Location	Qingpu District, Shanghai, China
Business details	・Production and sales of drug pieces ・Providing drug pieces decoction service
Start of operations	2024
Building area	67,000 square meters
Drug pieces production volume	6,000t (FY2024 actual results)
Manufacturing personnel	351 people (as of July 2025)

20

This photo shows the Hongqiao drug pieces factory.

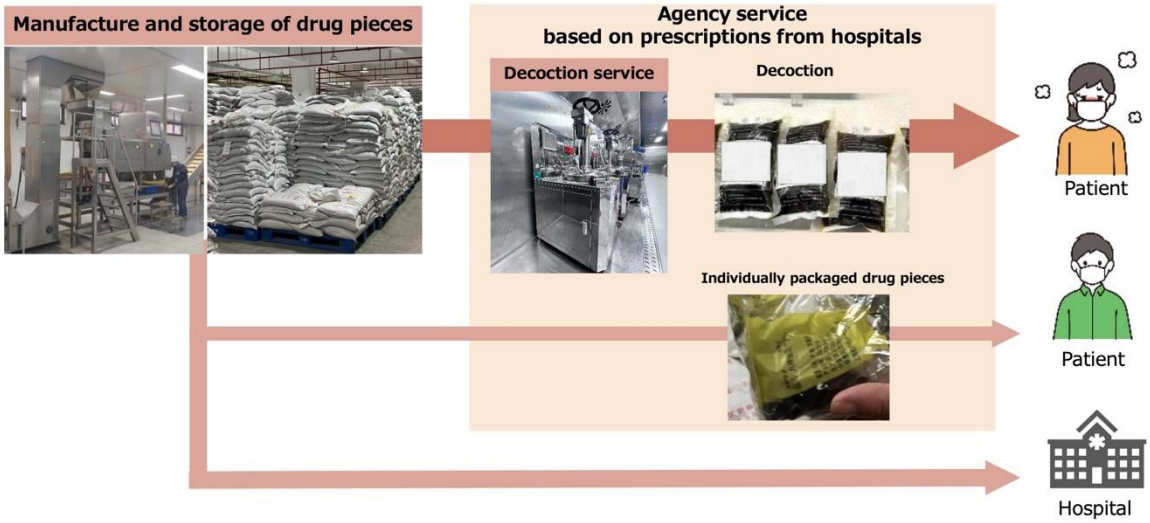
Construction of the new plant began in FY2020 and operations started in FY2024, with an eye to future increases in sales of drug pieces.

Currently, this factory is engaged in the production and storage of drug pieces, as well as providing a proxy brewing service. This plant has a quality control system based on GMP and manufactures 6,000 tons of drug pieces per year. There is also available space in the factory, which can accommodate an expansion of production volume through the addition of production lines.

Crude drug Platform: Business Activities of Hongqiao Drug Pieces

TSUMURA

We manufacture drug pieces, prepare decoctions based on prescriptions from hospitals, and deliver the decoction to patients.



21

The following is an explanation of Hongqiao drug pieces business activities.

The manufactured drug pieces are provided to patients in three main ways.

The upper section shows a proxy brewing service in which, based on the prescription from the affiliated hospital, the drug pieces are prepared and brewed to extract a concentrated liquid, which is then delivered to the patient as an infused solution. This is our main business, accounting for more than 60% of our sales.

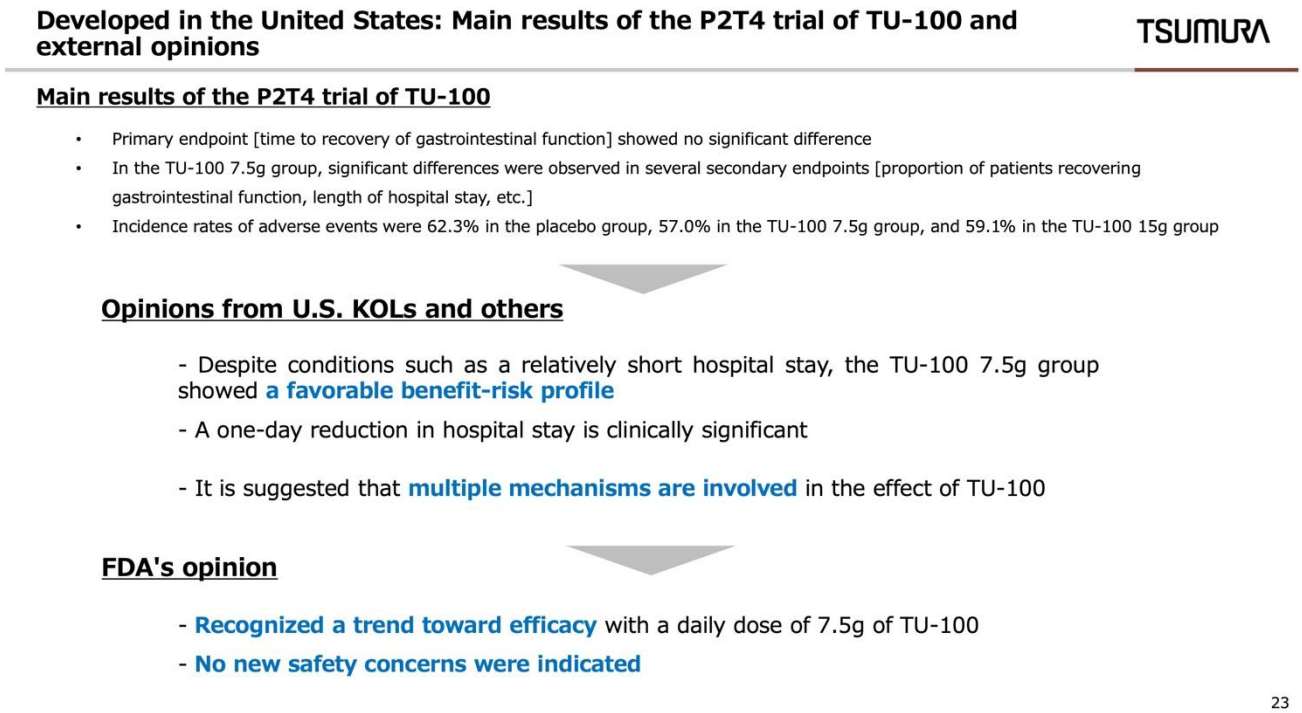
Next, the middle section shows a service that delivers drug pieces to patients in small packages based on their prescriptions. This is the traditional Chinese prescription form of drug pieces and the patients themselves brew the drug pieces at home or elsewhere to take. The newly established factory is equipped with facilities for producing and storing drug pieces from raw material crude drugs, producing infused solution, and dividing drug pieces into smaller portions, enabling us to deliver infused solutions to patients the morning after they receive their prescriptions.

In addition, as shown in the bottom row, we also have some routes to deliver drug pieces directly to hospitals.

This is about what we are aiming to achieve in the drug pieces business.

Hongqiao drug pieces are characterized by the fact that they manufacture and sell a wide variety of drug pieces. The company has secured a strong sales channel and a high market share in the Shanghai market, ranging from general hospitals to Chinese medicine clinics. And then they have the brand power of their drug pieces.

By combining this with our Group's strengths, such as high-quality crude drugs and production technology for various dosage forms on a one-to-one basis, we aim to contribute to improving the effectiveness and convenience of treatment for patients in China, and the two companies will promote the business together.



Next, I would like to update you on information regarding TU-100, the development in the US.

At the May financial results meeting, we explained the results of the P2T4 study, a late Phase II study involving 402 cases of subjects who had undergone enterectomy.

In accordance with the legal obligations in the US, the results of this study were made publicly available on ClinicalTrials.gov, a clinical trials database, in April, and we are providing this explanation in order to inform you of the status of the study as quickly as possible. We will briefly review its contents.

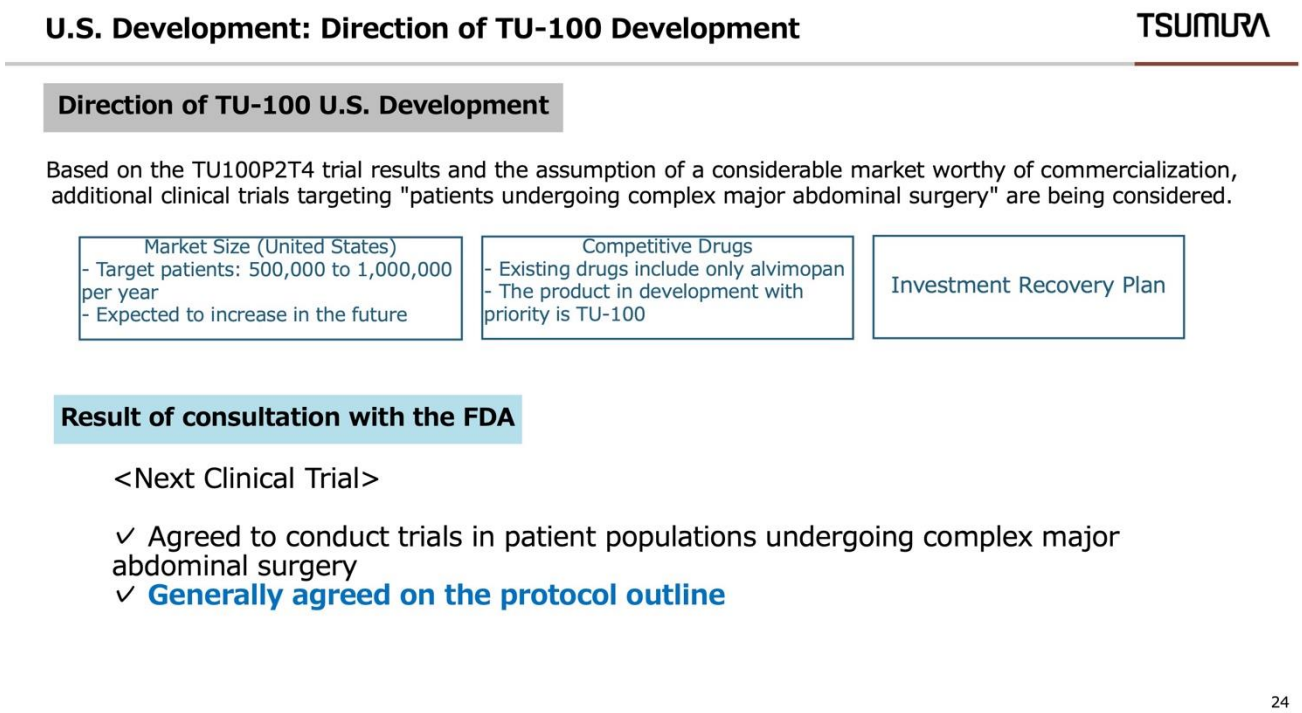
There was no significant difference in the time to recovery of gastrointestinal function, the primary endpoint. On the other hand, as a secondary endpoint, the percentage of subjects who recovered gastrointestinal function was evaluated according to postoperative days, and a significant difference was observed between the TU-100 7.5 g administration group and the placebo group on postoperative day two, which is important for early recovery.

We are pleased to report that we have received a variety of comments on the interpretation of these results from key opinion leaders in Japan and abroad, consultants with experience as development managers of competing drugs, and the US regulatory agency, the FDA.

Despite the challenging circumstances of this trial, which included shorter hospital stays and a shorter treatment period for the investigational drug due to the unexpected COVID-19 pandemic, a favorable benefit-risk profile was observed in the TU-100 7.5 g group. In particular, the one-day reduction in hospital stay was considered to have clinical significance.

TU-100 is believed to have multiple mechanisms of action, including promoting gastrointestinal motility, based on basic research evidence. It is thought that these mechanisms may have worked together to shorten the length of hospital stays. A US doctor said that the effects of TU-100 are holistic.

The FDA has also recognized that there is a trend toward efficacy in the 7.5g group in the results of the P2T4 study. No additional safety concerns were expressed.



Having received such positive external feedback, we have been discussing future directions with doctors and development consultants.

In this context, we have found a direction to conduct an additional clinical trial in a population of patients undergoing complex major abdominal surgery. This decision was made based on the fact that we can assume a certain market among these patient groups that is worth considering for commercialization, and that we have only one existing drug as a competitor, and that we are ahead of the competition in terms of products under development.

We also consulted with the FDA regarding the outline of the protocol for the next study, which was generally agreed upon. We are in the process of receiving feedback from development consultants that the FDA's response was overall positive and supportive of the decision making regarding the continued development of the TU-100.

Therefore, at present, we are positively considering the continuation of development by conducting additional tests. However, the final decision on implementation will be made by the Board of Directors based on the detailed study currently underway and the evaluation of the investment recovery plan, etc. based on that study, which will be subject to close scrutiny and discussion.

We will report on our future progress, including our final decision, at the R&D briefing scheduled by the end of this year.

Performance Forecast for Fiscal Year 2025

TSUMURA

[Million Yen]	Fiscal Year 2024 Actual Results	Fiscal Year 2025 Forecast	Year-on-Year Comparison	
			Amount	Rate of Increase/Decrease
Net Sales	**181,093**	**188,000**	**+6,906**	**+3.8%**
Domestic Business	160,459	167,900	+7,440	+4.6%
China Business	20,633	20,100	(533)	(2.6)%
Operating profit	**40,125**	**34,200**	**(5,925)**	**(14.8)%**
Domestic Business	40,136	34,700	(5,436)	(13.5)%
China Business	(10)	(500)	(489)	–
Ordinary Profit	**42,446**	**34,000**	**(8,446)**	**(19.9)%**
Profit attributable to owners of parent	**32,428**	**23,000**	**(9,428)**	**(29.1)%**
PL Conversion Rate (JPY/ CNY)	21.04	**20.30**	**(0.74)**	-
ROE	**11.4%**	**7.5%**		
EPS	**427.15 yen**	**302.95 yen**		

Future plans

- Consolidation of Shanghai Hongqiao traditional Chinese drug pieces
- Control of selling, general and administrative expenses
- Reduction of capital investment amounts
- Sale of policy-held shares

(Note) Non-operating income and expenses (mainly exchange gains related to loans to overseas subsidiaries) and according to extraordinary profits (mainly capital gains from the reduction of policy-held shares), it is difficult to estimate them reasonably due to the conditions of the foreign exchange market and stock markets, and they are not incorporated in the earnings forecast.

25

Finally, I would like to discuss the performance forecast.

No revisions have been made to the performance forecast at this time.

The consolidation effect of Hongqiao drug pieces will be reflected in the performance forecast after a detailed examination after the closing. In addition, the company is also considering measures to curb SG&A expenses and to sell policy-held shares. By making efforts to generate these effects, we aim to secure profits and improve ROE beyond the current fiscal year's plan.

As for capital investment, we are considering reducing the amount of each investment and reviewing the mid- to long-term investment plan. We will make another announcement when there is further progress.

This concludes my explanation. Thank you for your attention.

Kitamura: Thank you very much. This concludes our explanation.

Question & Answer

Kitamura [M]: Now we would like to answer your questions.

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

Daiwa Securities, Mr. Hashiguchi, please go ahead.

Hashiguchi [Q]: I'm Hashiguchi. The first question is about the slide on page six.

In Q4, the distribution inventory has increased due to limited shipments according to your explanation. However, could you please explain more about the reason for the discrepancy between actual sales and shipments in one quarter for a wide range of items, even though limited shipments were made for a limited number of items?

I think Daikenchuto, Yokukansan, and Goreisan are not directly related to colds or hay fever, as you mentioned. I would be interested to hear from you as to whether there were some other reasons as well.

Kaoru Kobayashi [A]: Overall, our impression is that the impact of limited shipments was not limited to the prescriptions concerned but rather spread across the entire market due to the fact that doctors were aware of TSUMURA's limited shipments.

Yamaoka, the Head of Pharmaceutical Sales & Marketing Division, will explain the details.

Yamaoka [A]: I am Yamaoka from the Pharmaceutical Sales & Marketing Division. I will answer the question.

As Kobayashi mentioned earlier, we have been making limited shipments for a long time since FY2022, and this has caused a sense of uneasiness in the market for items other than the limited shipments. We believe that there was a movement to buy more products in February and March due to a sense of uneasiness after the limited shipment of eight more products in December and January.

In addition, I believe that this is due to the fact that there was no cold epidemic or hay fever was not prevalent, as I mentioned earlier.

Hashiguchi [Q]: If the reason was the image that doctors have, as Mr. Kobayashi mentioned, I think the actual sales would have been better. I think it is the wholesalers who bought more because of that sense of uncertainty, since it is the shipping that is greatly growing.

I don't think there are that many wholesalers, and I feel that with a little more careful communication from your company, about why the limited shipments are happening, the prospect of lifting them, the possibility of them spreading to other items, etc., we could have reduced these fluctuations a little more. What do you think?

Yamaoka [A]: You are right. If communication about it had been a little more thorough, such a divergence would not have occurred. However, due to the limited shipments, wholesalers, distributors, and facilities/medical institutions were faced with extremely difficult talks, and we believe that this led to their desire to purchase larger quantities.

Hashiguchi [Q]: Was the possibility of such fluctuations and a rebound in shipments in one quarter included in your earnings plan for this fiscal year?

Kaoru Kobayashi [A]: Regarding this term's performance, when we made our performance forecast, we expected that the increase accompanying the lifting of limited shipments would begin a little earlier. In addition to that, despite the increase in actual sales, the increase in distribution inventory has had a negative impact, resulting in a slight delay.

However, as you can imagine, the overall feeling was that the plan was based on a certain degree of this type of movement.

In reality, actual sales figures are clearly visible, and these figures are the result of the depletion of distribution inventory. This situation is evident, and based on the current situation, shipments are returning to normal levels due to actual sales and distribution inventory being at appropriate levels.

Therefore, from now on, even if shipments return to normal levels, we cannot rest on our laurels. As I mentioned earlier, e-promotion is starting to work quite well, so we will make good use of this to improve access for doctors and return to the pace of 1 million boxes per month that I mentioned earlier.

Hashiguchi [Q]: Another question, regarding the future policy of TU-100, is it correct to say that the next test to be conducted or under consideration is positioned as a Phase II test?

Kaoru Kobayashi [A]: It will be in the form of an addition to the Phase II study. We are now beginning to discuss something called P2T5.

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

Shigemura [Q]: I'm Shigemura from Nomura Securities. I would like to have more follow-up at the current distribution inventory.

We have heard about the reasons for the high level and the fact that it has been lifted and is leveling off, but looking at inventories, or rather products and work in process, at the end of June, the level does not seem to have changed much. Still, is my understanding correct that this is a return to normal conditions and that actual sales are already coming up? Please tell us about this point.

Kaoru Kobayashi [A]: In fact, the distribution inventory has already returned to an appropriate level.

In terms of distribution inventory, the main items were considered to be at an appropriate level at around 0.5 months, but at the end of March, when inventory was high, some items were at 0.7 months or 0.6 months, with the trend being that items that sell well tend to have higher inventory levels.

That said, in May and June, many major commodities have come down to the 0.4 months level. With it now continuing. Looking at the overall picture, the fact that it exceeds 0.5 months means that sales volumes are low for certain items, which are slightly higher than others. I think these figures were presented because they were considered appropriate.

In fact, the main items have been moving firmly in this manner, in the upper half of the 0.4 months range and around the 0.5 months mark. We recognize the situation in that way.

Yamaoka, if there is any supplemental information, I would like to know.

Yamaoka [M]: You are quite right.

Shigemura [Q]: Based on that, you are currently saying that the actual sales volume increased by 2.9%, but I believe that the volume itself, this fiscal year, was you were aiming for a 4% increase. Based on the understanding that you have not yet reached that point, what do you think is lacking or what kind of push is needed to reach 4%?

Kaoru Kobayashi [M]: Since this is the area of future sales strategies, Yamaoka will answer the question.

Yamaoka [A]: As you say, we have not yet reached the rate of achievement, but our company was inevitably affected by limited shipments until April. Under these circumstances, we completely lifted the limited shipment in mid-April, but as of May 6, this information had not yet reached all facilities. We were finally able to deliver the information regarding the lifting of limitations to most facilities.

Also, since April, May, and June, we have been able to firmly implement the measures, and the activity of MRs has become busier considerably as a result of the lifting of the limited shipments. For example, we have held 760 information sessions, a 140% increase over the previous year, and events have seen a 107% increase in attendance, which I am sure will show up as actual sales and results.

We are confident that we will be able to achieve solid results in actual sales in the future, as we are taking firm measures in the three areas that have been raised by Pharmaceutical Sales & Marketing Division.

Shigemura [Q]: Second question, about the concept of cost increase.

About the cost of processing crude drugs included in Chinese extract powder, which is now disclosed separately. What factors contributed to the large increase here? What is the outlook for these processing costs from Q2 onward, please explain that as well.

Kaoru Kobayashi [M]: I had trouble hearing the middle of your question, but your question is about domestic crude drug costs?

Shigemura [Q]: It is about 707 and 865, the cost of crude drugs and processing costs for the domestic business. The question is whether expenses will continue to increase at the same rate in Q2 and beyond, or whether they will level off.

Kaoru Kobayashi [A]: First of all, I would like to conclude that we have a sense of image that both will become a little less than they are now in the medium to long term.

First, regarding the cost of crude drugs, the price of crude drugs we have been purchasing recently includes some that were purchased a little earlier, and some of those were purchased at a higher price. Based on that, we are using a fixed price between Japan and China. The cost of crude drugs, the unit cost, has been falling a bit here, the unit cost of purchase has been falling a bit. This means that what was reduced a short time ago here is now affecting here.

We are now in the process of reviewing the purchase price and lowering it slightly between Japan and China. Therefore, we currently believe that this area will be affected in the short term, with a reduction expected toward the end of this fiscal year.

On the other hand, for processing costs, this is partly due to the fact that we are not going to full production, and we are using a newly built plant, so there is a firm depreciation cost, and partly because the unit price has some impact since it is not full production. Labor costs and personnel expenses are also rising due to the fact that production is not at full capacity. We have such a situation.

As for that part, production volume will continue to increase, and as production volume increases, unit prices will decrease. This is how it works.

As such, we are considering a gradual decline as that happens.

Shigemura [Q]: Is it your understanding that this is working within the budget for the full year to some extent?

Kaoru Kobayashi [A]: That's right. We believe this is working within our budget for the full year.

Kitamura [M]: Next, Mr. Lee from Morgan Stanley MUFG Securities, please go ahead.

Lee [Q]: This is Lee from Morgan Stanley Securities. Please tell me one thing each about US TU-100 and Shanghai Hongqiao.

TU-100, you are considering conducting additional clinical trials, but if you were to conduct additional clinical trials, would this affect the goals of the second medium-term plan?

I understood that you were talking about the increase in R&D costs, etc. I think the current guidance for R&D is about JPY8.8 billion, but will this increase to about JPY10 billion? Overall, please let us know if there is any impact on the goals and numerical targets of the second medium-term plan.

Kaoru Kobayashi [A]: Since this is in terms of numbers, I will answer the question briefly. I think it is safe to say that there is almost no impact on the second medium-term plan.

The project is under consideration and if it is actually to be implemented, we would then proceed with various studies in turn, and the most expensive part would be hiring various consultants and so on. If we were to implement this in the second medium-term management plan, it would be at a point where it might happen, but the amount itself is not that significant, so we do not expect it to have a major impact.

This is just speculation, but if we were to move on to Phase III, it would cost a little more money. That being said, based on our current assumptions, we believe that the investment costs will not be as high as those claimed by new drug manufacturers.

We will elaborate on this point and consider it as a future assumption in the form of an investment recovery plan and then proceed with discussions toward making a decision on P2T5. This is the situation.

Lee [Q]: Next, about Hongqiao, which was announced as a subsidiary in June.

I already understand very well that you are asking us to wait a little longer for the P&L contribution for this fiscal year. If you can successfully close the deal by the end of this month, August, I believe you can expect a P&L contribution of up to five months. Is there any discrepancy in that understanding?

It is difficult to make assumptions without the P&L for Hongqiao, but looking at the financial figures for FY2024, sales are JPY21 billion, which means JPY8 billion to JPY9 billion for five months, and operating profit is JPY4.2 billion, so the P&L contribution for five months is expected to be around JPY1.5 billion to JPY2 billion for the fiscal year ending March 2026. Is that correct?

Also, will this P&L contribution begin in your company's financial results in October to December, Q3? First of all, please let me know the premise here.

Kaoru Kobayashi [A]: At this stage, just before closing, we are not in a position to make any definitive statements, but based on the current schedule, we believe that, at most, we will be able to incorporate for six months. This is now up to the final decision of the auditing firm.

Therefore, if we use this method, sales would be exactly half of what they would be if we simply calculated the sales.

As for the profit part, this will include the calculation of goodwill, and in the first period, we have to take a close look at inventory and other such factors in the PPA. We are currently working on this, but in terms of profit reflection, we are currently thinking that the first year will be slightly lower than the following years.

This is just my assumption, but I hope you understand it that way.

Lee [Q]: I have heard that some centralized purchasing, VBP, is occurring in Shanghai. I hear that this also applies to crude drugs and drug pieces.

Looking at the CAGR for Hongqiao over the past three years, I think it has been growing strongly at around 25% to 30%. How should we think about this Hongqiao's growth story going forward? As of today, I believe there is only so much your company can say, but I would appreciate any hints you can give me.

Kaoru Kobayashi [A]: The impact of centralized purchasing is of course not zero, but from what we are hearing, I don't think it has had that much of an impact in Shanghai. Of course, we have incorporated some of these assumptions into the plan, but probably not to such a large extent.

On the other hand, Shanghai alone has a large market. There are inevitably some aspects of the competition that we don't have a good grasp of yet, and that we won't know until after the closing is complete. In this context, I believe that there is considerable room for growth by combining the Shanghai Hongqiao network with our technology, and I believe that Hongqiao has partnered with us with this in mind.

The story is that, first, within Shanghai, we will work together to contribute to more patients in Shanghai, China, while providing new services such as one-on-one care. This is what we think.

Lee [M]: I look forward to a detailed update in the H1 results.

Kaoru Kobayashi [M]: Thank you.

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

Yoshida [Q]: I am Yoshida from Tokai Tokyo Intelligence Laboratory. I also have two questions.

First question. After all, I was under the impression that sales for this Q1 were a bit down in the initial questioning. In terms of costs, based on the questions asked so far, I think it is more or less in line with expectations. In terms of profits, I personally think that the Q1 results were lower than expected.

I'm looking at slide 25, and aside from the merger with Hongqiao, there are also comments about reducing SG&A expenses and controlling costs. Is that the right to think your message, that with the exception of Hongqiao you have not achieved in Q1, but we will get it back in Q2, Q3, and Q4?

Kaoru Kobayashi [A]: The Q1 results are generally as you understand them. As I mentioned earlier, the recovery after the limited shipments was a little slower than expected.

However, as I mentioned in the area of sales, although it was a little slow, we are now seeing improvement. Then there's another thing: the sense of responsiveness of the current sales promotion. From this point on, it looks like we can achieve the planning part of the project, as it will hold up well in the future. This is the sense in which we feel.

As for the cost part, you can think of it as an on-the-line image when viewed against the plan.

First of all, at the planning stage, the plan itself, for example, regarding SG&A expenses, we felt that these expenses were a little heavy, so we calculated the necessary expenses for SG&A expenses, and the result was the plan for SG&A expenses. However, we are currently discussing how to streamline this plan, as we have been doing for the past three months, and will continue to do so in the future.

That is the part I mentioned at the end, that we are also studying ways to control SG&A expenses, so this is no longer just a matter of going on-the-line, the plan we have been making. This is the premise we are currently discussing.

Yoshida [Q]: Second question. I would like to ask about Hongqiao.

I understand that Hongqiao is doing drug pieces, which means that they buy crude drug from somewhere else, but your company is doing crude drug through your Chinese business. If you ship high-quality crude drugs from your company to Hongqiao, I think it will become internal sales, but is this simply a matter of adding sales, or will the transaction be eliminated as internal sales? How should I think about this?

Kaoru Kobayashi [A]: This is also hypothetical, but if we sell the crude drugs that we procure in China to Hongqiao, will we make money there or not?

Once sold, the sales will go directly to Hongqiao, which will be the sales of the consolidation itself. So, of course, the more the contents of the products handled by Hongqiao become more and more crude drugs delivered by TSUMURA, the more effective this business alliance will be. This is how it is supposed to be. This is a hypothetical or theoretical story, though.

We are now going to develop a business strategy with Hongqiao, including plans for such perspectives. Since we are at this stage, I think it depends on how we can put such assumptions in place.

Yoshida [Q]: For the first few years, will Hongqiao and TSUMURA continue to sell and procure crude drugs as they have done up until now, and then later move toward synergistic activities? Is my understanding correct?

Kaoru Kobayashi [A]: I think that is correct. I think the question is when this transition will take place and whether this trend will continue.

But, of course, I am sorry only to talk about imaginary story. Hongqiao currently has reliable suppliers, so I don't think there will be any sudden changes in terms of moving to a new supplier.

I think it's more necessary to consider this from a medium- to long-term perspective.

Kitamura [M]: Next, Mr. Sakai from UBS Securities, please go ahead.

Sakai [Q]: This is Sakai from UBS Securities. I am very sorry, but I didn't hear much of Mr. Kobayashi's presentation in the first half, and I think he explained it to us.

A series of tables from the capital expenditures section on page 14. In the case of your company, if you don't invest in facilities, you won't be able to produce products, as is the case everywhere, including extracts in your case. In this context, on page 25, you mention the word "reduction of capital investment amount," but how will this be reduced in the future?

If you were to invest JPY180 billion in total assets, that would be a considerable amount of funds, and of course there would be the issue of amortization, so I would like to know how you plan to balance these issues and if you have any hints, please let us know. In particular, I would like to know if you have an idea what part you can reduce, and how, in the table on page 16. This is the first question.

Due to time constraints, I would like to ask one more question in summary. In the consolidation of Hongqiao, you mentioned amortization of goodwill. So, you are saying that you will continue to comply with the current Japanese accounting standards and respond to the consolidation of Hongqiao without changing the accounting standards?

Kaoru Kobayashi [A]: First of all, I would like to answer about the investment.

Recognizing that the amount of investment is very large and concentrated, we have spent the last three months discussing the necessity of investment and the appropriateness of the investment amount.

In this context, we have released this information. As shown on pages 14 and 15, we believe that there are no longer any large capital investments listed on page 16 that can be eliminated, in a way such as the construction of this factory. So, what we are going to do is to keep the investment in each of these factories, as low as possible. We believe that these considerations will be central to the project.

On the other hand, it does not mean that we should only talk about the last three years. It is clear that the second medium-term management plan will reach a major peak, but the investment in the third medium-term management plan, which follows the second medium-term management plan, or rather, the final medium-term management plan of this Vision period, will be the construction of the granulation and packaging building at the Gunma Plant, which I mentioned earlier. We are considering whether this can be postponed beyond the next medium-term plan, including the extension of the life of existing facilities. This is how it will look.

At this point, there is almost nothing that can be cut away to somehow create the overall shape. This is our recognition.

Sakai [Q]: Is it correct that the assumption is that you will finance the project with your own funds?

Kaoru Kobayashi [A]: The premise is that we will do this while utilizing our own funds, or rather, interest-bearing debt and leverage. This has not changed significantly from the assumptions we explained in the mid-term plan. How much can we reduce this investment amount? That's the story.

Answer for your second question about the goodwill of Hongqiao.

This is currently based on Japanese standards, and since we prepare consolidated financial statements, it is right to understand that amortization of goodwill will occur. Naturally, we will consider changes to accounting standards, including IFRS, in the future, but that is purely a matter for the future, and the current consolidated accounts are prepared in accordance with Japanese standards.

Sakai [Q]: Naturally, the question arises as to how much the value of the goodwill will be, or in other words, how much the total deal will be. Based on the closing figures for August, considering factors such as sales and capital, I think it will easily reach the JPY10 billion mark. If we proceed on that assumption, there will be no surprises, correct?

Kaoru Kobayashi [A]: As for the investment amount itself, it is difficult to say until after the closing, but it is not such a surprising figure at all. In terms of investment evaluation, we have determined that the results of the investment evaluation are appropriate, and that we can invest at a reasonable figure, so there should be no problem there.

Kitamura [M]: Next, Mr. Lee from Morgan Stanley MUFG Securities, please go ahead.

Lee [Q]: This is Lee from Morgan Stanley Securities.

Regarding domestic sales, could you tell me if the monthly results for July, which just ended, are progressing according to the initial plan? Since April to June was somewhat slow, I would like to know if you were able to recover properly in July or not.

Kaoru Kobayashi [A]: The figures for shipments in July are of course going up, which means that they are positive. For details, Yamaoka would like to add a few more details.

Yamaoka [A]: As for shipments, although they are not finalized at this point, the rate is 99.6%, which is a little below the plan. Actual sales were 97.4% of the total, falling short of the JPY400 million target. The previous year's figure was minus 2.7%.

However, July last year was the month when limited shipments were lifted, and sales were 131% higher than the previous year. When converted on a daily basis, April, May, June, and July, as I mentioned earlier, showed a gradual recovery trend, with sales increasing steadily. Therefore, we are confident that we will achieve our target in August. As of now, we are not on track to meet our July target.

Kaoru Kobayashi [A]: In terms of shipments, if you look at the same period last year, it's positive.

Yamaoka [A]: Plus 1.8%.

Kaoru Kobayashi [A]: If you look at it in terms of the same period last year, we are coming out with a positive result.

Actual sales were exceptionally high last year, so there has been some adjustment, but even though sales are increasing, the figures are negative due to last year's high sales. However, there is no change in the steady growth trend.

In Yamaoka’s explanation just now, he mentioned the figures for our internal monthly targets. That is our understanding, so there is no need to be overly pessimistic about the situation.

Lee [Q]: Finally, on page 25, let me ask Mr. Kobayashi a question.

The forecast for FY2025 was left unchanged. The future schedule includes Hongqiao and SG&A on the right side of the page. I understood it to be more of an upward revision, an upside, but please let me know if that is correct in my understanding.

While domestic sales are somewhat slow, I understand that you will continue to work hard going forward, that the contribution of Hongqiao to the P&L cannot be ignored, and that SG&A expenses are being steadily reduced. I believe there is upside potential, but please confirm that this understanding is correct.

Kaoru Kobayashi [A]: We have not announced anything, so I would say that there is nothing to say, but we have already mentioned many times that we are really considering various aspects, so I hope you can count on us. I am not saying that you should expect too much, but we are considering what we need to consider.

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

Yoshida [Q]: I am Yoshida from Tokai Tokyo Intelligence Laboratory. I have two questions.

The first point is on page 11, in the questionnaire survey section, you are using CareNet and Nikkei Medical this time. I think that the responses indicating “I didn't know” may be from doctors who are not within your company's reach.

So, you mentioned that you are currently using your own e-details and that things are going well, but are you considering using tools such as CareNet for doctors who need additional support? Can you continue to deal with it as before? Even regarding the lifting of limited shipments, this is not something that just started now. I believe your company was already aware of this in January to March. I'm just wondering if there are any other measures that could be taken?

Kaoru Kobayashi [A]: We already knew that in January to March. Certainly, there are doctors who have not been reached, and we did not believe that everyone was aware of the decision to lift all restrictions on limited shipments.

In this situation, after all the limitations were lifted in early April, we have been working to ensure that customers are clearly informed that not only e-promotions but also limited shipments have been lifted and that there will be no further restrictions, based on information from our MRs. We are also expanding the methods used to convey this information.

Whether or not we will collaborate with CareNet is something I cannot comment on at this time, but we are definitely moving in the direction of expanding our methods.

We are very grateful for your attention to this page, but we are unlikely to be able to review the details of the survey and questionnaire results conducted by CareNet and Nikkei Medical.

However, many of the doctors who responded that they were unaware of the drug are presumed to work in large hospitals, and although there are channels for accessing large hospitals, it is not possible for us or MR representatives to approach individual doctors. We cannot ask them to log in to the e-promotion platform, nor can we have an MR approach them directly and ask them to take a look. They are that kind of people.

That means we need to further refine our techniques for reaching those people, and we are working hard to do so.

The actual number of doctors accessing the site has increased significantly, so we are beginning to see the results of these activities. I believe that not all of the doctors who responded have been included yet, so there is still room for improvement. We will continue our efforts to increase the number of doctors and make improvements as necessary.

Any supplemental information, if any, from the Pharmaceutical Sales & Marketing Division.

Yamaoka [A]: The underlying purpose of this questionnaire was to inform you of the complete lifting of the limited shipment.

Another point is that even m3, which has the largest number of registered doctors, we are doing everything we can, such as posting notices about the complete lifting of shipping limitations in the pop-up window on the top page, but currently, nearly 20% of users are unaware of this information.

I believe that there are many other means of communication besides MRs on site, and we would like to make sure to notify the public again.

Yoshida [Q]: Second point, I'm afraid I'm asking about Hongqiao again, but the growth rate has been quite high for the past two years.

You may have already explained this, but I would like to know once again about their strengths. I think it's their sales force, but I think they have steadily secured routes to large hospitals and other places, but even so,

sales are increasing, so I think they are growing faster than the market average. Once again, could you tell us about their strengths on the sales?

Kaoru Kobayashi [A]: I am afraid that there is still very little information I can give you on that point. In Shanghai, they have a fairly broad network, or rather, sales network. This is true, and there is also the fact that their brand of Hongqiao is strong.

I don't really have a clear understanding of Hongqiao's market share in Shanghai, but we believe that they have the ability to capture market expansion. As for whether their sales network and brand are good compared to others in the Shanghai market, I'm not sure whether it is really strong, but I think they have something solid. That is what we think.

I am sorry, I think we will have to wait a little longer for more details here. We, too, need to do a lot of research.

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

Shingo Kobayashi [Q]: My name is Kobayashi, Nippon Value Investors.

Similar to the previous person's question, I would like to ask about the questionnaire on page 11. I understand that you are using advanced methods, but since this is a survey conducted by your company, is it correct that your company can act on requests for information from physicians who respond to the survey if they wish to do so?

Kaoru Kobayashi [M]: Yamaoka of Pharmaceutical Sales & Marketing Division will answer your question.

Yamaoka [A]: As you say, they can request information materials and be directed to our website.

Shingo Kobayashi [Q]: In relation to this, the yellow-green areas of 19.5% and 31.4% refer to “already known,” which is contrary to the answer to the previous questioner, these are areas where you have strong connections and reach.

Earlier, you mentioned that the actual sales figure is 2.9%, and the target for this fiscal year is 4%. In terms of how you plan to achieve this, would you say that the most promising area going forward is the segment that you already have close contact with?

Kaoru Kobayashi [M]: I think this also relates to future strategies, so Yamaoka of Pharmaceutical Sales & Marketing Division responds to your question.

Yamaoka [A]: As you say, we think the best target would be doctors who are already using Chinese medicine and understand its effectiveness.

In addition, regarding the red sections, who did not know about the lifting of the limitation and who want to increase prescription frequency, we have a list of these doctors and will provide them with information in a manner that ensures they are reached.

Kitamura [M]: Then I would like to end the question and answer session here.

This concludes the presentation of financial results for Q1 of FY2025. Thank you very much for your participation.

[END]

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