



**TSUMURA & CO.**

Third Quarter Business Results for Fiscal 2024

February 7, 2025

## Event Summary

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<b>[Company Name]</b>	TSUMURA & CO.	
<b>[Company ID]</b>	4540-QCODE	
<b>[Event Language]</b>	JPN	
<b>[Event Type]</b>	Earnings Announcement	
<b>[Event Name]</b>	Third Quarter Business Results for Fiscal 2024	
<b>[Fiscal Period]</b>	FY2024 Q3	
<b>[Date]</b>	February 7, 2025	
<b>[Number of Pages]</b>	27	
<b>[Time]</b>	13:00 – 14:04 (Total: 64 minutes, Presentation: 24 minutes, Q&A: 40 minutes)	
<b>[Venue]</b>	Webcast	
<b>[Venue Size]</b>		
<b>[Participants]</b>		
<b>[Number of Speakers]</b>	4	
	Kei Sugii	Director, Co-COO
	Muneki Handa	Director, CFO
	Yukinori Sorada	Executive Officer, Head of Sales & Marketing Division
	Makoto Kitamura	Manager of Corporate Communications Department
<b>[Analyst Names]*</b>	Kazuaki Hashiguchi	Daiwa Securities
	Kyoichiro Shigemura	Nomura Securities
	Fumiyoshi Sakai	UBS Securities
	Takashi Akahane	Tokai Tokyo Intelligence Laboratory
	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.

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# Presentation

**Kitamura:** The time has come, and we will now begin the briefing on TSUMURA & CO.'s financial results for Q3 of the fiscal year 2024. Thank you very much for taking time out of your busy schedule to join us today. This year's event is being held in a webcast format at our headquarters.

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

I would now like to introduce today's attendees: Mr. Sugii, Director and Co-COO; Mr. Handa, Director and CFO; and Mr. Sorata, Executive Officer, Head of Sales & Marketing Division. These three members are present. I am Kitamura from the Corporate Communications Department and I will be the moderator for this session. Best regards.

Explanation time is about 25 minutes. After all the explanations, we would like to answer your questions. The end time is scheduled for 2:00 PM.

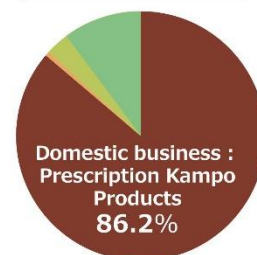
Mr. Handa will now explain the financial results for Q3 of FY2024. Thank you for your cooperation.

## Third Quarter Business Results for Fiscal 2024



[Million yen]	3Q FY 2023 Results	3Q FY 2024 Results	YoY		FY2024 Initial plan	Progress rate (vs. initial plan)
			Amount	Change		
<b>Sales</b>	<b>115,826</b>	<b>136,773</b>	<b>+20,947</b>	<b>+18.1%</b>	<b>185,000</b>	<b>73.9%</b>
Domestic business	101,929	122,880	+20,951	+20.6%	163,400	75.2%
China business	13,896	13,892	(4)	(0.0%)	21,600	64.3%
<b>Operating profit</b>	<b>19,143</b>	<b>32,380</b>	<b>+13,236</b>	<b>+69.1%</b>	<b>39,500</b>	<b>82.0%</b>
Domestic business	19,427	32,568	+13,141	+67.6%	39,490	82.5%
China business	(283)	(187)	+95	–	10	–
<b>Ordinary profit</b>	<b>22,400</b>	<b>35,151</b>	<b>+12,750</b>	<b>+56.9%</b>	<b>39,500</b>	<b>89.0%</b>
<b>Profit</b> attributable to owners of parent for the six months	<b>16,151</b>	<b>26,567</b>	<b>+10,416</b>	<b>+64.5%</b>	<b>28,500</b>	<b>93.2%</b>
PL translation rate (JPY/CNY)*	19.62	20.99	+1.37	–	21.00	–

Ratio to total sales



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

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**Handa:** My name is Handa. We would like to thank all the participants for their continued support of our company and Kampo. I will now explain the financial results for Q3 of FY2024.

This is a summary of the financial results for Q3 of FY2024. Net sales totaled JPY136.7 billion, up 18.1% from the same period last year. The breakdown was JPY122.8 billion for the domestic business and JPY13.8 billion for the China business.

The sales composition is shown in the pie chart on the right. Operating income increased by 69.1% to JPY32.3 billion, ordinary income by 56.9% to JPY35.1 billion, and net income attributable to owners of the parent by 64.5% to JPY26.5 billion.

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## Key Points in Performance



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

<b>Net sales</b>	<b>136,773</b>	<b>million yen</b>	<b>YoY</b>	<b>+18.1%</b>	<b>Progress rate (vs. initial plan)</b>	<b>73.9%</b>
<ul style="list-style-type: none"> <li>Domestic business Total sales for the 129 prescription Kampo formulations: 117,904 million yen, up 20.8% year on year Total sales of the OTC Kampo formulations and other healthcare products: 4,037 million yen, up 22.3% year on year</li> <li>China business Raw material crude drugs, drug pieces, health products, etc.: 13,892million yen, down 0.0% year on year</li> </ul>						
<b>Operating profit</b>	<b>32,380</b>	<b>million yen</b>	<b>YoY</b>	<b>+69.1%</b>	<b>Progress rate (vs. initial plan)</b>	<b>82.0%</b>
<b>Operating profit margin</b>	<b>23.7</b>	<b>%</b>	<b>YoY</b>	<b>+7.2pt</b>		
<ul style="list-style-type: none"> <li>Cost-to-sales ratio: 49.0%, (3.5)pt YoY: Impact from the increase in processing expense and the rise in crude drug procurement expenses was offset by the NHI drug price revision</li> <li>SG&amp;A ratio: 27.4%, (3.6)pt YoY: Due mainly to an increase in net sales</li> </ul>						
<b>Ordinary profit</b>	<b>35,151</b>	<b>million yen</b>	<b>YoY</b>	<b>+56.9%</b>	<b>Progress rate (vs. initial plan)</b>	<b>89.0%</b>
<ul style="list-style-type: none"> <li>Foreign exchange gain primarily related to loans to overseas subsidiaries: 1,935 million yen, (266) million yen YoY</li> </ul>						<small>*Foreign exchange gain not posted in the initial plan</small>
<b>Profit attributable to owners of parent</b>	<b>26,567</b>	<b>million yen</b>	<b>YoY</b>	<b>+64.5%</b>	<b>Progress rate (vs. initial plan)</b>	<b>93.2%</b>
<ul style="list-style-type: none"> <li>Gain on sale of cross-shareholdings : 2,950 million yen, +2,504 million yen YoY</li> </ul>						<small>*Gain on sale of cross-shareholdings not posted in the initial plan</small>

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I will explain the key points of the financial results.

Sales of 129 prescription Kampo products in the domestic business increased by 20.8% YoY to JPY117.9 billion. Sales of OTC Kampo medicine, etc. grew by 22.3% YoY to JPY4 billion due to an increase in the number of outlets handling them. Sales in the China business amounted to JPY13.8 billion, the same as in the same period of the previous year. Although sales of drug pieces increased, sales of raw material crude drug were still affected by a temporary buying freeze among clients that occurred in Q1, among other factors.

The cost-of-sales ratio was 49%, down 3.5 percentage points from the same period last year, mainly due to an increase in sales resulting from the application of the price re-evaluation as money-losing products. In addition, processing costs increased due to the impact of yen depreciation and an increase in shipments from the Tianjin plant—which is in the early stages of operation and has a high cost-of-sales ratio.

The SG&A-to-sales ratio was 27.4%, down 3.6 points YoY due to the increase in sales.

As a result of the above, the operating income margin increased by 7.2 percentage points from the same period last year.

In non-operating income, ordinary income increased by 56.9% YoY to JPY35.1 billion, due in part to a JPY1.9 billion foreign exchange gain on loans to foreign subsidiaries resulting from yen depreciation.

In addition to these factors, a gain of JPY2.9 billion on the sale of stock resulting from the reduction of policy shareholdings was recorded, resulting in net income attributable to owners of the parent of JPY26.5 billion, up 64.5% YoY.

We have revised net sales and each profit based on the percentage of progress against the initial plan. Details will be explained later.

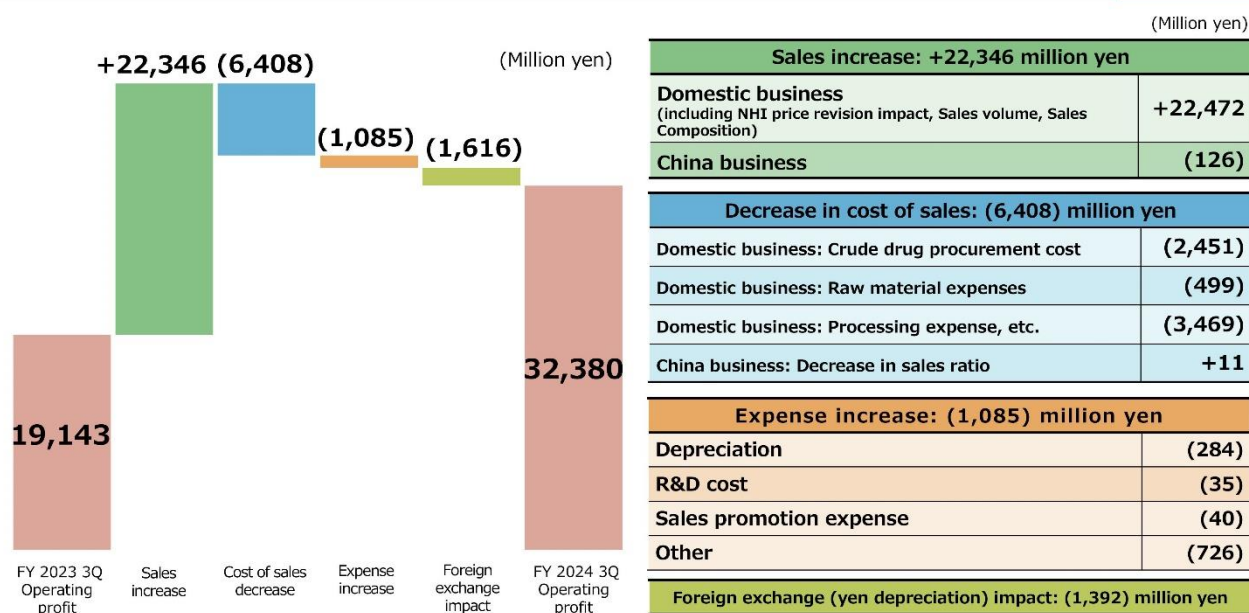
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## Factors Triggering Changes in Operating Profit (YoY)



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These are the factors behind the increase or decrease in operating income compared to the same period last year. We will explain only the key points.

Operating income increased by JPY13.2 billion from the same period last year to JPY32.3 billion. The impact of the sales increase was a positive JPY22.3 billion, of which JPY22.4 billion was from the domestic business and JPY0.1 billion was from the China business.

The impact of the increase in cost of sales was a negative JPY6.4 billion. Crude drug procurement costs were negative JPY2.4 billion, mainly due to higher unit prices of some crude drugs such as wild sojutsu and sansho, and negative JPY0.4 billion due to high costs of current materials such as lactose and packaging materials.

Processing costs were negative JPY3.4 billion. Despite efforts to reduce the incidence of manufacturing problems and a review of equipment maintenance costs, as well as the effects of improvements due to the hiring of manufacturing personnel and timing difference of equipment maintenance, the Company was affected by an increase in shipment volume from the Tianjin plant in the early stages of operation.

The impact of the increase in expenses was a negative JPY1 billion. This is mainly due to an increase in expenses associated with the startup of the integrated core system.

Foreign exchange impact was negative JPY1.6 billion. This is mainly due to the impact of higher import costs of crude drugs caused by the depreciation of the yen.

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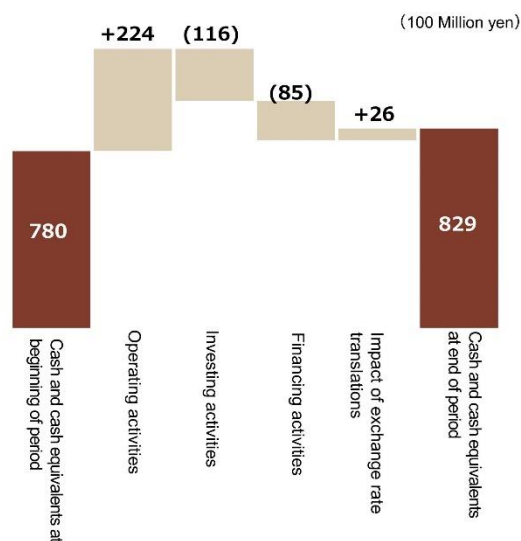
# Financial Condition/Cash Flow Position



(Million yen)

	FY 2023 (March 2024)	FY 2024 3Q	Change
<b>Total assets</b>	<b>428,254</b>	<b>463,807</b>	<b>35,553</b>
Current assets	281,292	306,610	25,317
Non-current assets	146,961	157,197	10,235
<b>Total liabilities</b>	<b>132,889</b>	<b>145,484</b>	<b>(12,594)</b>
Current liabilities	68,557	73,433	4,875
Non-current liabilities	64,332	72,051	7,719
<b>Total net assets</b>	<b>295,364</b>	<b>318,322</b>	<b>22,958</b>
Equity ratio	63.2%	62.9%	(0.3)pt

	FY 2023 (March 2024)	FY 2024 3Q	Change	Of which, Exchange rate
<b>Inventories</b>	<b>117,617</b>	<b>128,646</b>	<b>11,029</b>	1,920
Merchandise and finished goods	12,139	14,049	1,910	69
Work in process	18,309	19,232	922	95
Raw materials and supplies	87,168	95,364	8,196	1,756



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Financial position and cash flows. We will explain only the key points.

Current assets increased by JPY25.3 billion compared to the end of the previous fiscal year. The main breakdown is an increase in inventories of JPY11 billion, including JPY1.9 billion in foreign exchange gains, and an increase in cash and deposits of JPY4.9 billion. Amidst higher sales, notes and accounts receivable only increased by JPY4.8 billion due in part to the effect of shortening the collection site for accounts receivable.

Fixed assets increased by JPY10.2 billion, resulting from: JPY19.9 billion increase in tangible fixed assets due to capital investment to increase production capacity; JPY1 billion increase due to foreign exchange effects; JPY6.7 billion decrease due to amortization; and JPY4.6 billion decrease in marketable securities due to sales of policy holdings, etc.

The status of capital expenditures will be explained in more detail later in this report.

Current liabilities increased by JPY4.8 billion due to increases in short-term loans payable and income taxes payable. Long-term liabilities increased by JPY7.7 billion due to borrowings from the Japan Bank for International Cooperation (JBIC) and other co-financing sources to fund capital expenditures.

The equity ratio declined by 0.3 percentage point to 62.9%.

Cash flows are shown in the waterfall graph to the right. Operating cash flow increased significantly compared to the same period last year, due in part to the effect of shortening the accounts receivable collection site, in addition to the increase in profits.

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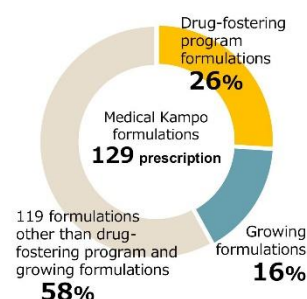
## Sales of Drug-fostering Program Formulations/ Growing Formulations



(Million yen)

	Net sales Ranking	Product No./ formulation name	FY 2023 3Q	FY 2024 3Q	YoY	
Drug-fostering program formulations	1	100 Daikenchuto ※	7,590	11,367	+3,777	+49.8%
	2	54 Yokukansan ※	5,826	8,602	+2,776	+47.6%
	5	43 Rikkunshito	5,661	5,486	(174)	(3.1)%
	8	107 Goshajinkigan※	2,827	4,281	+1,454	+51.4%
	25	14 Hangeshashinto	1,097	1,113	+15	+1.4%
Total sales for drug-fostering program formulations			23,003	30,852	+7,848	+34.1%
Growing formulations	3	41 Hochuekkito	6,185	5,879	(306)	(5.0)%
	4	17 Goreisan	5,528	5,751	+222	+4.0%
	9	24 Kamishoyosan	3,935	3,786	(149)	(3.8)%
	18	137 Kamikihito	1,782	1,740	(41)	(2.3)%
	20	108 Ninjin'yoeito	1,761	1,645	(115)	(6.6)%
Total sales for growing formulations			19,193	18,803	(390)	(2.0)%
Total sales for 119 formulations other than drug-fostering program and growing formulations ※			55,438	68,248	+12,810	+23.1%
Total sales for 129 prescription Kampo products			97,635	117,904	+20,269	+20.8%

Ratio to total sales



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

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These are sales by formulation for the domestic business of prescription Kampo products, including drug-fostering program and growing formulations. The three asterisked prescriptions for drug-fostering program formulations and 63 other prescriptions are the methods applied to the April 2024 NHI drug price revision for the recalculation of price re-evaluation as money-losing products, with a revision rate of plus 36.2% to 50.7%.

Sales of Daikenchuto, Yokukansan, and Goshajinkigan increased significantly, partly due to the effect of the application of the price re-evaluation as money-losing products. Sales of Goreisan grew due to information provision activities in line with the needs for headache and dizziness. Sales of Rikkunshito, Hochuekkito, Kamishoyosan, Kamikihito, and Ninjin-Yoeito decreased YoY due to the residual effects of advance orders that occurred in March following the NHI drug price revision in April 2024; however, on a volume basis, deliveries to medical institutions were up YoY and demand remains strong.

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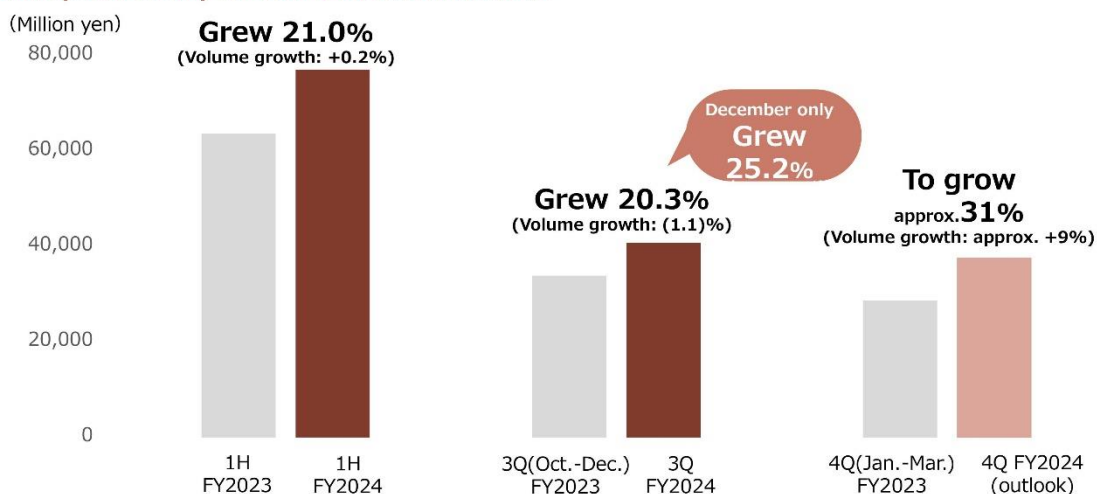
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## Domestic Business: Sales of 129 Prescription Kampo Formulations



- Volume growth in 3Q was negative due to the delay in lifting of shipment restrictions for Bakumondoto on top of the delayed sales recovery following the lifting of shipment restrictions for some formulations
- Sales for 4Q (January–March) are expected to exceed the initial annual plan; significant growth is anticipated mainly for cold-related formulations



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

With the lifting of limited shipments, we had planned for approximately 5% growth on a volume basis in H2 of the year and had hoped to add to the growth rate on a volume basis in Q3, but the actual result was negative 1.1%.

The reason for the lower-than-expected volume growth is that the recovery of sales of mainstay prescriptions such as Yokukansan, Goshajinkikan, and Shakuyakukanzoto was delayed after the lifting of limited shipments, resulting in lower sales than initially expected. In addition, the last item in the limited shipment of Bakumondoto was delayed until the end of November, which was later than originally expected, due to a review of demand assumptions based on trends in infectious diseases and an increase in inventories.

As a result, we now expect it to be difficult to achieve the 5% volume-based growth in H2 that we had projected at the beginning of the fiscal year, and we have revised downward our sales forecast for the domestic business by JPY1.6 billion. On the other hand, in the month of December, when the ban on limited shipments was lifted, the volume growth rate turned positive at 2%.

In Q4, the growth rate of mainstay prescriptions is expected to return to the planned level by strengthening the approach to physicians. Also, by expanding mainly cold-related prescriptions such as Bakumondoto, which had been limited to shipments in the previous year, we expect sales volume growth of about 9%, which is higher than the initial plan.

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## Domestic Business: Building Foundation to Provide Information to All Clinical Physicians



- Strengthening our approach to hospital-based physicians has accelerated the increase in the number of doctors prescribing more than 10 Kampo medications.
- We aim to ensure that all physicians have access to the necessary information.



Number of Clinical physicians in Japan: 320,000

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Progress is being made in efforts to increase the number of physicians prescribing 10 or more Kampo formulations. With the goal of achieving a medical practice where more than 50% of physicians prescribe 10 or more prescriptions, we are working to strengthen our approach to HP physicians in particular this fiscal year.

The figure here is an image of information coverage at our company. With the goal of providing information on Kampo to all physicians, we have been promoting various initiatives, such as strengthening our e-promotion system in addition to our MR activities, and the number of physicians we cover has increased significantly. As a result, the number of physicians prescribing 10 or more Kampo formulations among HP physicians is accelerating.

On the other hand, there are a certain number of physicians who are not receiving information on Kampo from us at this time, which is one of the challenges for us to reach over 50% of physicians prescribing 10 or more prescriptions. For physicians who have not yet received information on Kampo, we have begun distributing videos that allow them to learn about major Kampo in a short period of time, while also utilizing our medical platform.

We also conducted a survey of physicians' needs, including their level of understanding of Kampo, prescribing status, and the information on Kampo they seek. We will accelerate our efforts and aim to be in a position to deliver information to all physicians as soon as possible.

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## Domestic Business: Diversification of Information Provision on Medical Sites



- Starting new initiatives on medical sites in line with physicians' needs

### Online MR "Series Web Meetings"

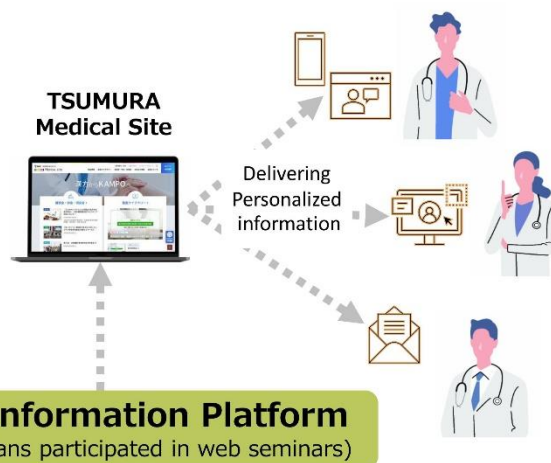


#### "Kampo Winter Course"

- Learning about Kampo from an overview
- Kampo useful in winter

### Kampo Learning Guide

- Regularly introducing Kampo learning content
- Proposing learning methods for Kampo by specialty



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For physicians who are now able to deliver information on Kampo, we have also diversified the means by which they can learn about Kampo on the Tsumura medical website.

As one specific initiative, a series of web-based interviews by Kampo online MRs began in Q3. In addition to the overview of Kampo, we are also expanding our themes to include seasonal prescriptions. The program has been well received by physicians who want to learn more about Kampo, and the number of participants and repeat attendees is gradually increasing. It also contributes to MRs' productivity by allowing them to meet with and deliver information to many physicians at once from remote locations.

In Q4, we introduced Kampo study guides for each area and began supporting the delivery of study content for a certain period of time. By regularly introducing study content and suggesting domain-specific methods of learning Kampo, we create an environment in which you can learn about Kampo, even from the basics.

These efforts will increase the number of physicians we reach. By expanding the various functions of e-promotion centered on our medical website, which we have built up to date, we will be able to analyze the information sought by individual physicians and deliver personalized information, thereby increasing opportunities for them to learn about Kampo.

The results of these efforts have begun to appear in Q4 as growth in sales volume. We will continue to evolve our information provision activities in terms of both quantity and quality, and work toward our long-term management vision of providing patients with personalized Kampo treatment at any medical institution or clinic.

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**-The construction of the Phase 2 manufacturing building at the Tianjin Plant has been completed and validation processes commenced toward production operations**



Completed Phase 2 manufacturing building

**Construction of the Tianjin Plant and operational schedule**

Phase 1 manufacturing building	<ul style="list-style-type: none"> <li>•Shipments to plants in Japan commenced in November 2023</li> <li>•Full-scale operations started in 2Q of FY2024</li> </ul>
Phase 2 manufacturing building	<ul style="list-style-type: none"> <li>•<b>The completion ceremony was held on November 29, 2024</b></li> <li>•Production operations to start in 2025 and full-scale operations scheduled to commence in 2027</li> </ul>
Phase 3 manufacturing building	<ul style="list-style-type: none"> <li>•Construction to be completed in 2025, production operations to start in 2027, and full-scale operations scheduled to commence in 2028</li> </ul>

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

Tianjin Tsumura is established as a plant to manufacture Kampo extract powder, an intermediate product of the domestic business, and construction work is underway in three phases, from phase I to phase III. For the first phase manufacturing building, full activity has continued since Q2 and production has exceeded the plan by operating on some holidays, thus shortening item changeover time and improving yields.

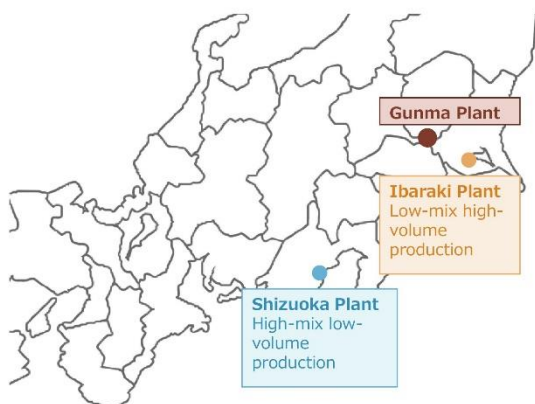
Construction of the second phase manufacturing building also progressed as planned, with a completion ceremony held on November 29, 2024. Validation and other procedures will be carried out in preparation for the start of production.

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- Acquired land with the aim of fortifying production capacity to capture growing demand for Kampo products and renewing existing production facilities
- Plan to construct production facilities for Kampo extract powder (intermediate products) and granulation and packaging process (final products)



**Outline of Gunma Plant**

Location	Meiwa-machi, Oura-gun, Gunma Prefecture
Facilities to be constructed	<ul style="list-style-type: none"> <li>• Manufacturing building for Kampo extract powder (intermediate products)</li> <li>• Granulation and packaging building</li> <li>• Quality control, warehouse building, etc.</li> </ul>
Timing for commencement of operations	FY2029 (tentative)
Purposes for land acquisition	<ul style="list-style-type: none"> <li>• Respond to growing demand for Kampo products</li> <li>• Address the suspension of operations due to the aging of existing production facilities</li> </ul>

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Next, we are working to increase production capacity at our domestic bases.

As we announced on December 18 last year, we have acquired land in Meiwa-machi, Gunma Prefecture for the construction of a factory. The acquisition price is JPY1.8 billion. We expect that demand for Kampo products will continue to grow in the future. Since it is necessary to simultaneously increase production capacity and upgrade facilities at existing plants as they become obsolete, we have decided to build the Gunma Plant because the land at our existing sites has less and less room for expansion.

The Meiwa Tobu Industrial Park is located in the southern part of Gunma Prefecture, selected as the optimal site for our company based on comprehensive consideration of the following factors: excellent transportation accessibility, the ability to secure human resources, sufficient production infrastructure such as water and electricity, good access from existing production and distribution bases, and business continuity in case of various risks in the supply chain.

Investment scale, production capacity, and the number of people to be hired have not been determined at this time and will be announced as soon as they are determined.

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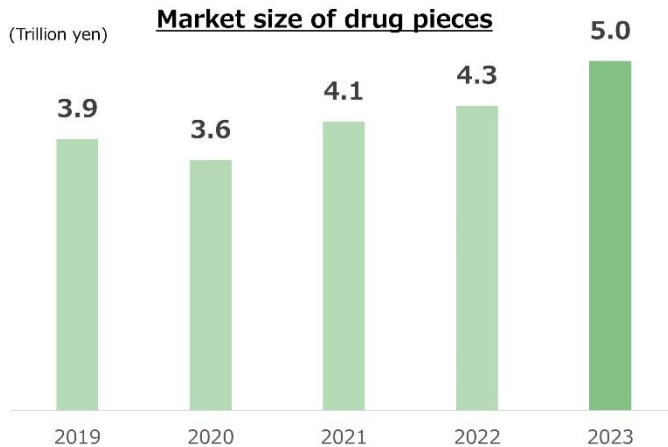
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# China Business: Trend of the Drug Pieces Market



- Drug pieces are essential drugs in a diagnostic and treatment method based on "dialectic therapy" in traditional Chinese medicine
- The market has been growing continuously except for the COVID-19 pandemic period on the back of the government policy to promote the development of traditional Chinese medicines



"Personalized Medicine" in which drug pieces are prescribed by adjusting the type and amount of drug pieces according to the symptoms of each patient

\* Data from the Chinese Ministry of Industry and Information Technology and the National Bureau of Statistics of China (1 yuan = 20 yen)

Next is the China business.

Although raw material crude drugs currently account for a high percentage of sales in the crude drug platform, we are working to expand sales of drug pieces, which have higher added value than raw material crude drugs, in order to improve profitability.

Chinese medicine is based on a diagnosis and treatment method called "dialectic therapy," which is based on a unique theory of pathology and is said to be the pioneer of personalized medicine, as it has treated patients with prescriptions suited to each individual. Chinese drug pieces will continue to be an essential drug for medical care in China.

In addition to rising medical costs due to the aging of the population, the Chinese government's policy of promoting the development of traditional Chinese medicine has also provided a boost, resulting in a high growth rate in the market size of drug pieces.

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- Provision of processing services for drug pieces to enhance the convenience of patients including uniformity and potability



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Next page, please.

There are some challenges regarding the use of drug pieces: time-consuming for patients to infuse at home, uniformity issues due to variations in ingredients, and inconvenient to carry. We are therefore working to expand the “personalized medicine” as a value-added service for drug pieces.

“Personalized medicine” is a service through which drug pieces are infused, and processed/packaged into decoction, flow extract, and extract granules according to each patient's prescription at smart factory equipment on the patient's behalf. These items are then mailed directly to the patient, greatly increasing patient convenience, and we believe the market potential is very large.

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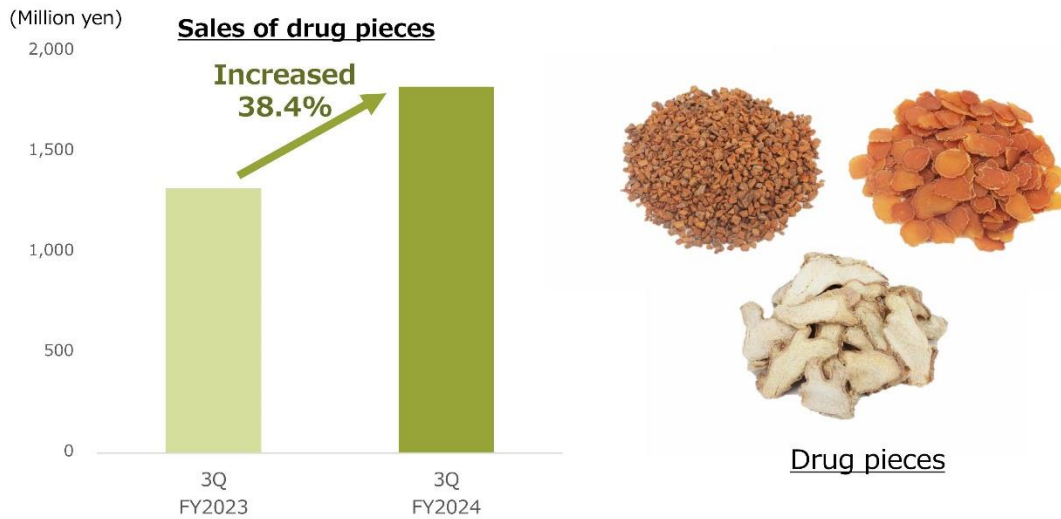
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# China Business: Sales of Drug Pieces



- Sales of drug pieces expanded as a result of the development of sales channels with a focus on public hospitals
- Aim to further boost sales by expanding sales channels including the alliance with other companies and the provision of value-added services for drug pieces



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Next, under the business environment described on this slide, sales of the crude drug platform increased by 38.4% YoY, thanks to efforts to expand in the hospital sales channel, the main target of the platform. We aim to further expand sales through sales channel expansion, including offerings with other companies, and through value-added services for drug pieces.

# China Business: Strategies Aimed at Expanding Sales of Drug Pieces



- Concluded a letter of intent with Shanghai Hongqiao Pharmaceuticals Co., Ltd. regarding technology and business alliance aimed at promoting the drug pieces business (February 6)
- Details and forms of the alliance will be disclosed as soon as they are determined

## Drug pieces business via the crude drug platform



Management from the field based on crude drug GACP



High-quality drug pieces

## Shanghai Hongqiao Pharmaceuticals Co., Ltd.

Location	Shanghai, China
Line of business	<ul style="list-style-type: none"> <li>• Manufacturing and sales of pharmaceuticals (including drug pieces)</li> <li>• Sales of medical equipment, etc.</li> </ul>
Capital	122.07 million yuan (approx. 25.8 billion yen)
Establishment	March 30, 1982

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We will now explain the progress of our partnership with other companies. Heian Tsumura, our group company in China, resolved at an extraordinary meeting of its Board of Directors held yesterday to enter into a letter of intent for a technical and business alliance with Shanghai Hongqiao Chinese Herbal Medicine Co., Ltd., a subsidiary of Shanghai Hongqiao Pharmaceutical Industry Co., Ltd.

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Hongqiao Pharmaceutical, which has a high market share in the sales of drug pieces in the hospital channel, has been negotiating a strategic technical and business alliance for the purpose of promoting the drug pieces business.

Both parties have signed a letter of intent to discuss more specific details of the technical and business alliance and capital alliance in the future. We will disclose the specific details and format of the partnership once they have been determined.

## Progress with Capital Policy



- In addition to increasing cash flows from operating activities, generate cash by improving B/S and allocate it to further business growth and shareholder returns
- Shortening the accounts receivable collection site and reducing cross-shareholdings to generate approximately 13.5 billion yen by 3Q

### Curtail the collection site for accounts receivables

#### ■ Goal

Negotiate with business partners on collection sites for accounts receivables and **shorten in stages by approximately 20%**



#### ■ Progress through 3Q

- Smooth progress in curtailing collection sites
- Account receivable reduction

Benefits: **Approx. 9.0 billion yen**

### Decrease cross-shareholdings

#### ■ Goal

Based on a policy with a principle of zero, **from FY2024, aim to realize full-fledged reduction and cut by half early on**



#### ■ Progress through 3Q

- Sales in FY2024: **Approx. 4.5 billion yen** (Total amount of cross-shareholdings to **decrease approx. 30%**)
- **Accelerate activities** with the aim of quickly cutting it in half

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Next, progress on capital policy.

In addition to strengthening operating cash flow, the Company's policy is to generate cash through balance sheet management and allocate it to shareholder returns and further business growth.

Under this policy, we are accelerating each initiative and have generated approximately JPY13.5 billion in Q3 by shortening the accounts receivable collection site and reducing policy shareholdings.

We reduced accounts receivable by approximately JPY9 billion through negotiations with distributors and wholesalers based on our policy to shorten accounts receivable collection sites by approximately 20% in stages after negotiations with our business partners. We will continue to negotiate.

We will achieve a full-scale reduction of policy shareholdings from this fiscal year, aiming to halve the number of policy shareholdings as soon as possible, in line with our policy to reduce policy shareholdings to zero in principle. As of Q3, we have sold seven issues, for a total sale amount of JPY4.5 billion. We will accelerate our efforts with the aim of halving the number of such cases as soon as possible.

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# Revision of FY2024 Earnings Forecast



## - Revised net sales and profit items in light of 3Q results and future outlook

(Million yen)	FY 2024 Earnings Forecast	FY2024 Revision Forecast	Rate of progress	Reasons for revision
<b>Net sales</b>	<b>185,000</b>	<b>182,300</b>	<b>(2,700)</b>	
Domestic business	163,400	161,800	(1,600)	Sales of prescription Kampo formulations in 3Q were below the initial forecast Sales of raw material crude drugs until Q3 fell short of the plan
China business	21,600	20,500	(1,100)	
<b>Operating profit</b>	<b>39,500</b>	<b>40,000</b>	<b>+500</b>	Cost of sales: Reduction in manufacturing expenses, hiring delays SG&A: Cost control in the China business
<b>Ordinary profit</b>	<b>39,500</b>	<b>44,000</b>	<b>+4,500</b>	Foreign exchange gain has been posted due to the depreciation of the yen
<b>Profit attributable to owners of parent</b>	<b>28,500</b>	<b>34,000</b>	<b>+5,500</b>	Gain on sale of cross-shareholdings has been posted
<b>ROE</b>	<b>10.0%</b>	<b>12.0%</b>		
<b>Dividends per share</b>	<b>136 yen</b>	<b>136 yen</b>		
<b>DOE</b>	<b>3.6%</b>	<b>3.6%</b>		

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Finally, we are revising our FY2024 forecast based on the Q3 results and future outlook.

Net sales are expected to be JPY182.3 billion, JPY2.7 billion less than the initial plan. As explained earlier, we revised downward our annual sales forecast for the domestic business by JPY1.6 billion as Q3 sales fell short of the plan, mainly due to a slower than planned recovery in sales of prescription Kampo after the lifting of limited shipments. Sales for Q3 are expected to be in line with the plan at the beginning of the fiscal year.

In the China business, we revised downward the net sales of the crude drug platform by JPY1.1 billion because sales of raw material crude drugs through Q3 were lower than planned due to the residual effect of some customers' reluctance to buy that occurred in Q1.

Operating income is expected to be JPY40 billion, JPY0.5 billion above the initial plan. The increase is due to these factors: reduction of manufacturing costs through efforts to reduce the incidence of manufacturing problems and a review of equipment maintenance; slight delay in securing manufacturing personnel in advance of the construction of a new manufacturing building at the Ibaraki Plant; and controlling of SG&A expenses in the China business to return to profitability.

Ordinary income is expected to increase by JPY4.5 billion to JPY44 billion due to the upward revision of operating income and the expected foreign exchange gains resulting from the impact of yen depreciation.

Net income attributable to shareholders of the parent company is expected to increase by JPY5.5 billion to JPY34 billion, mainly due to the recording of a gain on the sale of shares held by the Company in a strategic investment.

The dividend forecast remains unchanged. The Company plans to pay dividends for the fiscal year 2024 ending March 31, 2025, in accordance with its policy for returning profits to shareholders announced on November 7, 2023.

This concludes our explanation. Thank you very much for your attention.

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

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## Question & Answer

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**Kitamura [M]:** Okay, we will now have time for questions and answers. We will be happy to answer your questions. Please note that each person is limited to two questions at a time. 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.

Now, Daiwa Securities, Mr. Hashiguchi, please begin.

**Hashiguchi [Q]:** I am Hashiguchi. Best regards.

The first question is about the sales forecast for the domestic business in Q4. If I didn't mishear you, but when you were explaining page seven, you aim to exceed the plan at the beginning of the period. In your explanation on page seventeen, it sounded like you said that you expect sales for Q4 to be in line with your initial plan, but could you please explain the difference? After all, what are your assumptions for sales in Q4 compared to the original plan?

**Handa [A]:** Thank you for your question. We are reading Q4 as stronger than originally expected. However, even so, while this is of course an increase over the plan, it is not a large amount, such as JPY500 million or JPY1 billion, so in general, the explanation on page seventeen was given. This is how it is.

**Hashiguchi [Q]:** I understand. Thank you very much. Originally, how much was the 9% on page seven? Conversely, how did this negative 1.1 in Q3 compare to the original assumption? You mentioned earlier that H2 of the year as a whole accounted for 5% of the total, but I believe there were some fluctuations in the previous year due to the impact of limited shipments and cold-related outbreaks, etc. Could you tell us about that?

**Handa [A]:** We do not clearly disclose the quarterly figures, but as a matter of fact, the volume for Q3 was minus 1.1%, while the estimated Q4 figure is 9%, which is a slight increase from the initial estimate of around 7%. This is the image.

If we are even out in H2 of the year, Q3 was negative, so the volume growth I originally explained to you was about 5%, but I hope you can see it as a little less than 4%.

**Hashiguchi [Q]:** Yes, thank you.

Second, regarding the increase in processing costs, you mentioned that it is because the Tianjin plant has started shipping. I think there is some impact from the fact that fixed costs are allocated more heavily in the beginning because the production volume is still low. What is the quantitative impact of this on Q3, if any, and at what pace should we expect this to decrease in the future?

**Handa [A]:** Thank you. Compared to the same period last year, processing and other costs increased by just under JPY3.5 billion, of which about half was due to the TTP, or Tianjin Tsumura plant. Full operation has already begun in Q2, but even so, the initial stage costs and expenses are also included. So in that sense, half of the impact is from the previous year.

As far as the future is concerned, we hope that this impact will be seen as a gradual decrease, as it will become an investment from the next fiscal year onward.

**Hashiguchi [M]:** I understand. Thank you very much.

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**Kitamura [M]:** Thank you very much.

Now, Mr. Shigemura, Nomura Securities, please.

**Shigemura [Q]:** I am Shigemura, Nomura Securities. Best regards. I have two points.

First is the signing of a letter of intent with Hongqiao Pharmaceutical Industry of China. I would like to know how effective or binding this letter of intent is, and what is the timeline for the alliance or collaboration from this point on.

In relation to this, you mentioned the sales channels of drug pieces that Hongqiao has, but I would like to know other information as to what kind of presence the Company has in terms of sales of drug pieces, including market share, number of customers, geographical area, etc. Best regards.

**Handa [A]:** Thank you for your question. First of all, the letter of intent this time includes confidentiality obligations and certain legally binding items, but we are still in the process of discussing other projects, so those items will be finalized in the future. This is the kind of purpose.

As for the timing, the consultation itself is not something that has just started. As I mentioned at the time of the interim settlement of accounts, we have been talking with the other parties about bringing forward the consultation a little, but the timing will depend on the facts, the content of the business alliance, and the level of the method. I think the timing will be a little bit different. I would like to refrain from giving a precise date at this stage, but I would like to be able to provide an explanation as soon as possible.

Although Hongqiao is not a publicly traded company and we do not have publicly available data, I would like to give you an idea of the company's image as one of the top three companies in the area of their specialty in the drug pieces business.

**Shigemura [Q]:** Thank you very much.

Another point is how you see the impact of this year's NHI drug price revision. Since this is a mid-year revision, the deviation rate for Kampo products will probably be 5.2% multiplied by 1x. In that case, I don't think there is much subject to revision, but I am wondering what you think about that.

In addition, since the minimum drug price is to be raised this time, could you tell us whether this could have a positive or a negative effect? Please let us know what you see at this point.

**Handa [A]:** Thank you. First, I would like to discuss the NHI drug price revision. As I have said in the past, last year there was an increase in NHI prices due to the approval of a large price re-evaluation as money-losing products, and as long as this system is in place, we will of course apply for those that comply with the system. In terms of management foresight, we are aiming for a world in which drug prices do not fall. In that sense, we have been working for many years to promote understanding of the value of Kampo, and as a result, we have not received any negative revisions during the current mid-year revision period. We don't know yet about this time, of course, but management is aiming for that. I think this is what I mean.

As for the minimum drug price, there are some prescriptions that are below the minimum drug price, but we do not think it has a significant impact. That is all.

**Shigemura [M]:** I understand very well. Thank you very much.

**Kitamura [M]:** Thank you very much.

Now, Mr. Sakai, UBS Securities, please.

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**Sakai [Q]:** UBS, this is Sakai. I would like to ask you a few questions about the rules for the price re-evaluation as money-losing products. I think the fact that the rule has been continued means that your company will go for it after April of this fiscal year, but I took Mr. Handa's words to mean that you will apply for it in the future, not in the past tense. Hasn't it already been applied for?

And, speaking of unprofitable products, how many unprofitable products in your company's portfolio product count are still remaining since the last rule revision? Can you tell us a little bit about that?

**Handa [A]:** Thank you for your question. I think I worded it a bit badly, and as you pointed out, as well as the future, we have already applied for the past, i.e. last year, in order to accommodate the next revision. What I was trying to say earlier is that as long as there is such a system and as long as it conforms to the system, we would like to continue to submit applications after this year. This is what I said earlier in light of these intentions.

Then, as to how many are in the unprofitable, the application based on the application format for price re-evaluation as money-losing products is based on the rules, so it is not completely consistent with the unprofitability that we realistically see in our accounting or in our business management accounts. So, first of all, we would like you to understand this. Last year, 66 items were covered by this rule, so please forgive us not giving you the actual number, but in that sense, there are 129 items, a considerable number of applications have been submitted if they were covered in the past and will continue to be so in the future.

Sorry, please forgive us not giving you the actual number.

**Sakai [Q]:** Okay. I am just confirming, but in any case, 66 applications were filed last year for unprofitable products, and although I don't think all of them were approved, the NHI prices were revised accordingly, right?

**Handa [A]:** Yes, I see. Naturally, we have applied for more than that.

**Sakai [Q]:** Okay. Thank you very much. Then, in March of this year, domestic demand will continue to be, what do you call, temporary demand? Should we make the assumption that there will be some demand for more purchases? Based on that, you said that you have not changed your forecast for Q4, but you have already incorporated it into your forecast from the beginning of the fiscal year, so is that your judgment that you can go this far?

**Handa [A]:** Thank you for your question. In that sense, as I mentioned earlier, what we are incorporating as a management foresight is that we want to achieve a world where drug prices do not fall. Since we cannot make a plan based on the assumption that the demand will go up significantly as it did last year, we cannot assume that the demand will not go down as management foresees—this means that we are not assuming that special demand will occur this year in March.

Last year, in March and April, the 66 prescriptions for the NHI price increase had already been announced, so in that sense, we were affected, but as of now, we are in the same shape as I just mentioned.

**Sakai [Q]:** But this year, I think the official announcement from government will probably be made around the first Friday of March, and then the new NHI prices for individual products will already be public information at that time, so wouldn't that mean that such movements will naturally occur in the second, third, and fourth weeks?

**Handa [A]:** I think you are right if NHI prices move significantly.

**Sakai [Q]:** Conversely, that is what happened last year.

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**Handa [A]:** Yes. I think that would be the case if NHI prices move significantly, but we have not made any planning assumptions that NHI prices will move significantly, so we are not making any major changes to our plans in March in that sense.

**Sakai [M]:** Okay. This is getting a bit like Zen-dialog, so I'll stop now.

**Handa [M]:** I'm sorry.

**Sakai [M]:** I will go back once.

**Kitamura [M]:** Thank you very much.

Now, Mr. Yoshida of Tokai Tokyo Intelligence Labs, please.

**Yoshida [Q]:** Thanks for your help. My name is Yoshida from Tokai Tokyo Intelligence Lab. This is my first time here, so I apologize for my lack of understanding, but I would like to ask a little more about the sales volume on page seven.

I understand that the sales volume for the Q3 alone was down 1%, and that the 9% figure for Q4 was originally estimated at 7%, but I wonder if reducing sales volume through limited shipments, for example, might make it difficult for customers who have left to come back. However, in the case of your company, since you have an overwhelming market share, do you have customers waiting for that portion to be released in Q4, or did some of them go to other companies once in Q3? Can you tell us about that, including the availability of inventory in the market?

**Handa [A]:** Thank you for your question. In this sense, the return of limited shipments was slow in Q3. As you just pointed out, thanks to the fact that we have an 84% share of the market, the number does not shift much because of sudden move to other companies. However, until the perception in the medical field that there is not an adequate supply of drugs is lifted, we will need to conduct a reasonable amount of information provision activities and take the necessary time. In this sense, I feel that the limited shipments may have had some impact on the limited prescriptions or the shortened administration period, etc. I would like to ask the head of the sales division to comment on this as he feels the situation on the frontline.

**Sorada [A]:** Thank you for your question. I am Sorada, Head of the Sales Division. As Handa just mentioned, there are few major changes to other companies. We had to stop promotion of some products because we had limited shipments for a long period of time, and during that time, of course, we were not able to supply enough. In addition, doctors gave priority to existing patients and refrained from administering the drug to new patients, which of course meant that existing patients were not taking the drug forever, but they stopped taking it when their symptoms subsided. This is why the cycle of administration to new patients slowed down a little, and I believe this had a significant impact on Q3.

We feel that we started to see results from around December. We believe that the doctors' administration is regaining its previous momentum, and in fact, the January results show that we are coming to that point. As a result, we believe that we can land on the numbers that Handa described for the four quarters. That is all. Thank you very much.

**Yoshida [Q]:** Okay. Then, for the single month of December, it appears to be a 2% increase in volume, but is it correct to assume that this is because it was in the middle of December?

**Sorada [A]:** Yes, the end of December. Limited shipments have been largely unaffected. We do not expect this to have a major impact on our production, as we are working hard and have already lifted the restrictions on four items, and we plan to lift production of the remaining three items at the end of this month.

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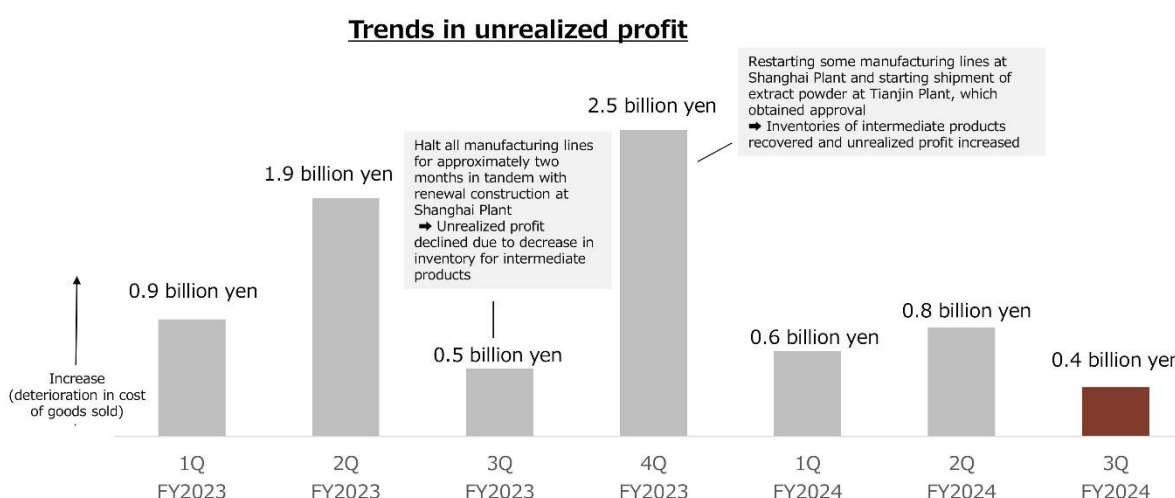
**Yoshida [Q]:** Thank you. Second question, please. I'm looking at the increase/decrease analysis on slide four. Within this amount, the cost of procuring crude drugs is JPY2.45 billion. In the Q2 cumulative total, I think it is JPY220 million. Then, we are somewhat concerned about the impact of the crude drug price increase in Q3 alone, or rather, the increase in the cost of procurement of crude drugs. Please tell me if the impact of JPY2 billion more than the previous year in the first three months alone should not be a concern when looking at next year's performance.

**Handa [A]:** Thank you for your question. The realistic impact of higher crude drug prices is evident in these Q3 results. In my previous explanations, I have mentioned that the prices of crude drugs such as sansho and sansonin have increased, and in particular, the prices of crude drugs, sansonin and sojutsu have increased by about JPY1.7 billion out of the total JPY2.4 billion.

## Domestic Business: Trends in Unrealized Profit



- Large fluctuations occurred quarterly in FY2023 due to special factors such as plant shutdown
- There were no special factors by 3Q FY2024



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However, to return to your question, I think you are asking if it is too large in Q3 when it was not so large in Q2, but this crude drug price tends to be affected by the unrealized profit that is attached to the appendix (page 21). In this sense, the YoY comparison amount here varies greatly depending on the period in which unrealized profits are realized or not. It is not that the price of crude drugs rose suddenly in Q3, but rather that the price of crude drugs rose slowly, and the unrealized profit and other factors had a large impact on the figures in this financial statement.

**Yoshida [Q]:** Okay. Then it would be processed at the Tianjin factory in China, and at the parent-subsidary transaction.

**Handa [A]:** Yes, you are right.

**Yoshida [Q]:** How do you think the actual price of crude drugs themselves have changed? I think there used to be a comment that since prices are now calming down, it will affect the direction of cheaper raw materials in a few years, or better. What is happening now?

**Handa [A]:** As for the crude drug prices themselves, we deal with 119 crude drugs, so it is difficult to speak about them all on average. The overall impression is that they have not risen much, but only to the extent

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that the value of goods has increased due to inflation and other factors. The recent increase in the price of crude drugs is due to its natural source, the balance between supply and demand, seasonal factors, rainfall, and other factors. The current situation is that the sudden rise in prices has settled down.

So, overall, there is not much change, however, among the crude drug we handle, such as sansonin, for example, the price of sansonin rose sharply, but it has now recovered about 40% from its peak. To return to your question, I would like you to understand that the overall price of crude drugs has not moved that much, but that some of the drugs that have risen significantly are now on a downward trend.

**Yoshida [M]:** Thank you for the detailed explanation. That is all.

**Kitamura [M]:** Thank you very much.

Now, Mr. Akahane, Tokai Tokyo Intelligence Lab, please.

**Akahane [Q]:** Sorry for the sequence, thank you. As you explained, there was a delay in recovery after the lifting of the limited shipments, and also Bakumondoto was indeed a limited shipment, but during this period, after all, it was the aftereffects of the coronavirus disease, wasn't it? With the flu going around, of course prescriptions are changing, so how is that affecting this Q3?

**Handa [A]:** First of all, in terms of the impact of limited shipments, as you pointed out, Bakumondoto is a prescription that is naturally released in winter, so we originally wanted to ship it a little earlier. Since we didn't want to inconvenience customers with another limited shipment, we had to build up our inventory, which was slightly later than expected at the end of November. This was a big reason for the delay.

In addition, limited shipments of Yokukansan, Goshajinkikan, and Shakuyakukanzoto were completed during H1 of the year, but as mentioned earlier, sales did not immediately recover, which had a significant impact. In that sense, the total of four prescriptions, including the three I just mentioned and Bakumondoto, would have had an impact of about JPY1 billion.

On the other hand, as you pointed out, it is an effect of influenza, but in terms of being easy to understand, it is Bakumondoto. Although shipments were limited and stopped, there has been tremendous growth since the shipments were made. After all, this is selling well as a common cold-related prescription. In addition, due to the influence of influenza, prescriptions such as maoto are also on the market. In this sense, some sales were affected negatively, while some sales were positive, but the key product, Bakumondoto, was not available until the end of November, and sales started from there. In the three quarters, the contribution was only about one and a half months. I think it's something like this.

**Akahane [Q]:** Bakumondoto is for cough symptom, so you use it for both influenza and mycoplasma. I still wonder if the prescriptions of doctors will change in that regard, an after-effect needs to be treated for the coronavirus, isn't it? So, from the outside, it looks as if it will take a long time until the next recovery once it stops without medicine, is this wrong?

**Sorada [A]:** Thank you. For long COVID-19 cases, rather than cough medicines, for example, in our company product, many patients use medicines such as Kamikihito or Hochuekkito, and the number of cases is increasing at a speed exceeding the cruising speed. With the situation that there are still not enough cough medicines in the world, Kampo formulations with cough applications also continue to be in high demand, or rather, in high need.

As you say, Bakumondoto is not only for the coronavirus, but also for influenza, so-called dry cough, or a cough that does not stop even after the infection is gone, or a cough that will not go away.

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Immediately after the lifting of the restriction, the number of influenza cases increased dramatically, so, for lack of a better word, we were able to ride the wave and Bakumondoto has continued to grow.

**Akaba [Q]:** I understand very well.

This is the last one, since it's the second question, but it's regarding e-commerce, which the CFO was quite focused on. I was thinking that since we don't have anything, we can't do much in the way of medical advertising. I heard earlier that you are putting a lot of effort into e-commerce, not just in the short term, but in the long term as well. In the past, you have cooperated with M3, but now your company is doing a lot of e-commerce on its own, isn't that right?

**Handa [A]:** Thank you for your question. I have drawn an image on page eight of building a foundation to deliver information to all physicians, we are using M3's platform, not only M3's, but also those of other companies. According to the diagram, it's the greenish area at the bottom.

On the other hand, we also have our own medical site, and in that sense, I think we are relatively unique among other companies in our industry in that we are not only borrowing from M3, but also from everyone else, and in addition to that, we are building up our own site.

**Akahane [M]:** I understand. That is all. Thank you very much.

**Kitamura [M]:** Thank you very much. Now for the second round, Daiwa Securities, Mr. Hashiguchi, please.

**Hashiguchi [Q]:** Thank you very much, this is Hashiguchi.

Regarding the technical cooperation with Shanghai Hongqiao Pharmaceutical, what are the issues they are facing and what kind of know-how, technology, or products do you think you can provide? In the past, I think you have also said that you are focusing on acquiring a majority of the capital in your alliances with other companies in the China business, but that was with the formulation platform in mind. Is it correct to understand that you are not necessarily focused on that in this alliance for the crude drug platform?

**Handa [A]:** Thank you for your question. First of all, as for Hongqiao, since we are talking about individual companies, I would like to tell you about the needs of the market in general and everyone's situation.

In this sense, drug pieces are now very much on the rise in China. Although the drug has always been rooted in the market, it is growing. Although it is not an individual case of Hongqiao, the theme of the industry is to sell drug pieces using high quality raw material crude drug.

However, in this sense, as I have already mentioned, our strength lies in our traceability system for raw material crude drug, and at this point, there are not many competitors who are doing this kind of thing as strongly as we are, In this sense, I think Hongqiao is probably in that category, but I think there is a challenge to provide such high-quality products.

Then, on the other hand, we can call it synergy, as I mentioned earlier, we also have a one-size-fits-all service, which is another way of servicing shapes that meet customer needs. We believe that the use of such a product is a very patient-friendly service that is portable, stable in quality, and easy for patients to take. Overall, we believe that synergies from the technological and business alliance between the two companies can be generated through the multiplication of such services.

And your point about majorities, you are right in the formulation platform. We believe that our manufacturing know-how is extremely important in the formulation of pharmaceutical products, so our previous statement that we are committed to the majority of our products has not changed.

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As for the crude drug platform, I think that there is some variety in the way people are concerned about the majority, or perhaps their feelings, depending on the type of business they are in and other such factors. If we are going to work together with our know-how, as in the case of pharmaceutical formulations, we may aim for a high majority, or if you are only interested in obtaining a sales channel, it is possible that this is not the case.

We have not made any specific arrangements at this time, so I am just stating our thinking. That is all.

**Hashiguchi [M]:** Thank you very much. That is all.

**Kitamura [M]:** Thank you very much. UBS Securities, Mr. Sakai, please.

**Sakai [Q]:** Sorry for the second time. You probably don't have an answer for this, but there is talk again from a certain political party about removing insurance for OTC-like products. This is coming out of a discussion about part of the budget and perhaps part of tax reform, so I think this time it is a bit more political in nature, rather than simply asking them to remove it as they did last time. However, I don't think we can remove that area so easily because it has been deeply rooted in the past, but how should we view it? I am not sure if it is a wolf boy or some kind of howler, but can you just give us a quick idea of what you think about it?

**Handa [A]:** Thank you for your question. I don't think it would be appropriate for me, as a manufacturer, to tell you how you should view these products, but we do have to consider the government's financial and institutional issues, so we are not doing things based on the premise that we will continue to operate in the same way forever. Of course, there are certain risks that need to be taken into consideration.

Since you have just commented on the similarity of OTC, what is important for us is to provide useful Kampo products to patients by prescribing them appropriately from among the 129 OTC products that match each patient's symptoms and other factors. Although OTC drugs are much smaller, it is important to prescribe them appropriately, or rather, to use them, because they are the most effective in terms of treatment. In this sense, we believe that prescribing drugs based on the judgment of physicians is something we should continue to pursue when considering the importance of this drug.

On the other hand, it is natural that there are those who need OTC drugs but do not have time to go to the clinic, and we would like to provide a wide range of drugs correctly to various patients under various circumstances. With this in mind, I was wondering if you could make some assumptions from that perspective. I am sorry, but I am afraid I have not answered your question adequately.

**Sakai [Q]:** Okay. Lastly, just to confirm one point, you mentioned that the results of the US doctor-initiated clinical trial for Daikenchuto will be published in ClinicalTrials.gov by the end of March. I would like to know whether a date has been set for this or not. Best regards.

**Handa [A]:** I have not yet heard that a definite date has been set. I said by the end of March because, as you have indicated, because I have heard that ClinicalTrials.gov is based on the rule that it is to be posted within a year. So in that sense I am assuming by the end of March, but we have not yet heard a definite date.

**Sakai [Q]:** What do you mean by "during the year?"

**Handa [A]:** It means that one year since the clinical trial ended.

**Sakai [M]:** That's what you meant. I understand. Thank you very much.

**Kitamura [M]:** It is time, but I would like to take one more question. Nomura Securities, Mr. Shigemura, please.

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**Shigemura [Q]:** Just one point, please. As for the sales in China, the recovery after the restrained buying originally explained in Q1 has been sluggish. I would like to know if there were any temporary factors that continued through Q3, or if there were any structural factors that weakened sales growth a bit.

**Handa [A]:** Thank you for your question. As you mentioned, sales have not yet been sufficient to offset the impact of the temporary buying spree in Q1.

However, while the main factor is temporary reluctance to buy, there is also the fact that the Chinese economy is not very vigorous. Of course, pharmaceuticals may not be affected simply because of the bad economy. Please note that raw material crude drugs are not only used by pharmaceutical manufacturers, but also by a wide range of customers, including those in the food industry, so it is assumed that this may have some impact. The main cause, though, is due to reluctance to buy.

As I have explained, we are seeing the recovery of last year's degree, in particular, the market has been very strong toward the end of the year, and as explained, sales of drug pieces are also increasing steadily. In that sense, we do not expect anything structural to happen that will significantly change our business plan in the future, and I think we can say that this is not the case. The temporary nature of the situation was not enough to cover the cost, and we need to consider the impact of the economic trends. That is all.

**Shigemura [M]:** Thank you very much.

**Kitamura [M]:** Thank you for your question. We will now conclude the question-and-answer session.

This concludes the presentation of financial results for Q3 of the fiscal year 2024. Thank you for your participation.

[END]

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