TSUMURA & CO.

First Quarter Business Results for Fiscal 2026

August 6, 2026

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 2026	
[Fiscal Period]	FY2026 Q1	
[Date]	August 6, 2026	
[Number of Pages]	30	
[Time]	13:00 – 14:04 (Total: 64 minutes, Presentation: 28 minutes, Q&A: 36 minutes)	
[Venue]	Webcast	
[Venue Size]		
[Participants]		
[Number of Speakers]	4	
	Kei Sugii	Representative Director COO and President, Prescription Pharmaceuticals Company
	Kaoru Kobayashi	CFO and Head of Corporate Management Division, Prescription Pharmaceuticals Company
	Toshio Yamaoka	Executive Officer Head of Pharmaceutical Sales and Marketing Division, Prescription Pharmaceuticals Company
	Makoto Kitamura	Head of Corporate Communications Department, Corporate Management Division, Prescription Pharmaceuticals Company
[Analyst Names]*	Kazuaki Hashiguchi	Daiwa Securities
	Kyoichiro Shigemura	Nomura Securities

Jaeheon Lee	Morgan Stanley MUFG Securities
Masao Yoshida	Tokai Tokyo Intelligence Laboratory

*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: Since the time has arrived, we will now begin the Q1 Business Results Briefing for FY2026 of TSUMURA & CO.

Thank you for taking time out of your busy schedule to join us today. This time, this event is being held in a webinar format at our headquarters. The presentation will be based on the briefing materials posted on our website, so please have a copy on hand or follow along with the slides we will be projecting.

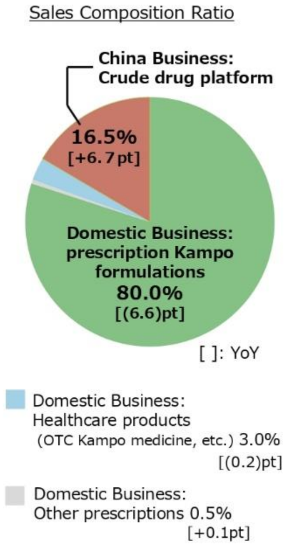
I would like to introduce our attendees today. This is Sugii, Representative Director and COO. This is Kobayashi, CFO and Head of Corporate Management Division. This is Yamaoka, Executive Officer and Head of Pharmaceutical Sales and Marketing Division. The three people are in attendance. I'm Kitamura from the Corporate Communications Department, and I'll be serving as the moderator today. Thank you.

The presentation is scheduled for about 30 minutes. After all presentations are made, we would like to answer any questions you may have. The end time is scheduled for 2:00 PM.

Now Kobayashi will explain the financial results for Q1 of FY2026. Thank you.

Overview of financial results for the first quarter of fiscal year 2026 TSUMURA

[billion yen]	FY2025 1Q results	FY2026 1Q results	YoY		FY2026 First Half Plan	Progress rate (Compared to the first half plan)
			Amount	Rate of increase/ decrease		
Sales	**43.0**	**49.7**	**+6.6**	**+15.3%**	**102.5**	**48.5%**
Domestic Business	38.8	41.4	+2.6	+6.7%	81.7	50.8%
China Business	4.2	8.2	+4.0	+94.8%	20.8	39.6%
Operating profit	**7.7**	**7.8**	**+0.1**	**+2.1%**	**17.2**	**45.8%**
Domestic Business	7.9	7.4	△0.4	△6.0%	16.3	46.0%
China Business	△0.2	0.3	+0.6	–	0.9	42.5%
Ordinary profit	**6.1**	**9.7**	**+3.5**	**+57.8%**	**16.4**	**59.5%**
Profit attributable to owners of parent	**4.3**	**6.4**	**+2.0**	**+47.8%**	**11.1**	**58.2%**



2

Kobayashi: This is Kobayashi, the CFO. To all participants, thank you for your continued support of our company and Kampo.

Now I would like to explain the financial results for Q1 of FY2026.

First, an overview of the financial results. Sales totaled JPY49.7 billion, a 15.3% increase compared to the same period last year, and progress toward the H1 target stood at 48.5%. The breakdown was JPY41.4 billion for the domestic business and JPY8.2 billion for the China business.

As shown in the graph on the right, the sales breakdown shows that the prescription Kampo formulations in the domestic business accounted for 80% of total sales, a decrease of 6.6 percentage points compared to the same period last year, while sales from the China business increased by 6.7 percentage points to 16.5%.

Operating profit increased by 2.1% YoY to JPY7.8 billion, representing 45.8% of the H1 target.

Ordinary profit increased by 57.8% to JPY9.7 billion, and the progress rate is 59.5%.

Profit attributable to shareholders of the parent company increased by 47.8% to JPY6.4 billion, representing 58.2% of the annual target.

Key Points in Performance

TSUMURA

Sales	49.7	billion yen	YoY	+15.3%	Progress rate (vs. 1H plan)	48.5%
■ Domestic Business: Total sales for 129 prescriptions Kampo formulations: 39.7 billion yen, up 6.8% YoY Total sales of healthcare products (OTC Kampo medicine, etc.) : 1.4 billion yen, up 6.9% YoY ■ China Business: Raw material crude drug , drug pieces , health products: 8.2 billion yen, up 94.8% YoY						
Operating profit	7.8	billion yen	YoY	+2.1%	Progress rate (vs. 1H plan)	45.8%
Operating profit margin	15.9	%	YoY	(2.0)pt		
■ Cost rate:54.5% YoY +2.1pt : Increase driven by foreign exchange effects and a higher sales contribution from the China business ■ SG&A expense ratio: 29.6% YoY (0.1)pt : Increase in SG&A expenses remained within the growth in sales						
Ordinary profit	9.7	billion yen	YoY	+57.8%	Progress rate (vs. 1H plan)	59.5%
■ Foreign exchange gain on loans to overseas subsidiaries: 2.1 billion yen ■ Foreign exchange loss in the same period of the previous fiscal year: 1.6 billion yen						
Profit attributable to owners of parent	6.4	billion yen	YoY	+47.8%	Progress rate (vs. 1H plan)	58.2%

3

I will explain the key points of the financial results.

First, here is the breakdown of sales. Sales of the prescription Kampo formulations in the domestic business segment rose 6.8% YoY to JPY39.7 billion. Sales of healthcare products rose 6.9% YoY to JPY1.4 billion, driven by an increase in the number of stores carrying OTC Kampo medicine and other products. Sales from the China business rose 94.8% YoY to JPY8.2 billion, driven not only by the consolidation of Shanghai Hongqiao Traditional Chinese Drug Pieces, but also by increased sales of raw material crude drug and drug pieces at Ping An Tsumura Pharma and SHENZHEN TSUMURA.

I will now explain the cost of goods sold ratio and the SG&A expenses ratio shown in the middle section.

The cost of sales ratio was 54.5%, up 2.1 percentage points from the same period last year. This is due to the impact of the weak yen on the cost of importing Kampo extract powders and other items, as well as an increase in the proportion of sales from the China business, following the consolidation of Hongqiao Traditional Chinese Drug Pieces.

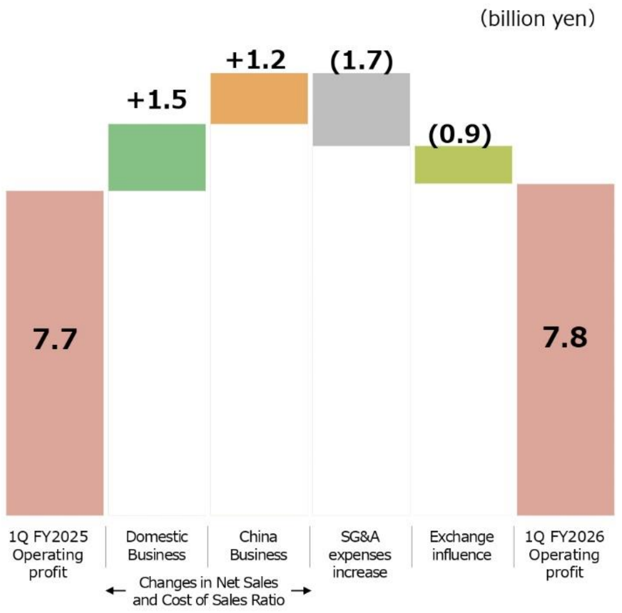
The SG&A ratio stood at 29.6%, down 0.1 percentage point from the same period last year. SG&A expenses increased within the range of the sales growth rate, driven primarily by salaries, various allowances, and R&D expenses.

As a result of the above, the operating profit margin decreased by 2 percentage points to 15.9%.

In nonoperating income and expenses, we recorded a foreign exchange gain of JPY2.1 billion related to loans to overseas subsidiaries due to the depreciation of the yen. As a result, ordinary profit rose 57.8% YoY to JPY9.7 billion, marking a strong performance.

Factors for changes in operating profit (YoY)

TSUMURA



Domestic Business +1.5 billion yen		
Increase in Sales (Sales Volume, Sales Composition)		+1.3
Decrease in Cost of Sales Ratio		+0.2
	Domestic cost of crude drug	+0.4
	Domestic processing costs	+0.3
	China Extract Powder Costs (Crude Drug Costs and Processing Costs)	(0.3)
	Raw material costs	(0.1)
China Business +1.2 billion yen		
Increase in Sales		+0.4
Decrease in Cost of Sales Ratio		+0.7
Increase in SG&A expenses (1.7) billion yen		
Consolidation of Hongqiao drug pieces (including amortization of intangible assets and goodwill: (0.3))		(0.7)
Salary and allowances*		(0.3)
Research and Development Expenses*		(0.1)
Others*		(0.4)
Impact of exchange rates (0.9) billion yen		

* Excluding the impact of the consolidation of Hongqiao drug pieces

4

Factors affecting the YoY change in operating profit.

First, I will explain the impact of changes in net sales and the cost of goods sold ratio, broken down by our domestic and China operations.

The domestic business had a positive impact of JPY1.5 billion on the combined total of net sales and cost of goods sold. The increase in sales had a positive impact of JPY1.3 billion, and the cost of sales ratio also improved, excluding the impact of foreign exchange, resulting in a positive impact of JPY200 million.

I will now explain the breakdown of the cost of goods sold ratio. Domestic crude drug costs increased by JPY400 million due to a decline in the average procurement unit price, domestic processing costs increased by JPY300 million, as higher labor costs were offset by unutilized other manufacturing expenses. Meanwhile, for Chinese extract powders, although both the unit price of crude drugs and processing costs both decreased, the processing costs are relatively high, and the increase in the proportion of production volume in China resulted in a negative impact of JPY300 million. Raw material costs resulted in a negative impact of JPY100 million due to higher unit prices for lactose, film, and other items.

Next, the China business has a positive impact of JPY1.2 billion due to net sales and the cost of goods sold.

The breakdown was as follows, a JPY400 million increase in net sales and a JPY700 million improvement in the cost of goods sold ratio due to a rise in the proportion of drug pieces. The impact of the increase in SG&A expenses resulted in a negative impact of JPY1.7 billion on a consolidated company-wide basis. A loss of JPY700 million resulted from an increase in SG&A expenses related to Hongqiao Traditional Chinese Drug Pieces. This figure includes JPY360 million in amortization expenses for intangible assets and goodwill. Apart from the impact of Hongqiao Traditional Chinese Drug Pieces, there was a decrease of JPY300 million due to increases in salaries and allowances, and a decrease of JPY100 million due to increased research expenses. It should be noted that JPY200 million of the increase in salaries and allowances is attributable to a onetime adjustment resulting from a change in the method of recording provisions for bonuses at one of our subsidiaries in China, and this adjustment is expected to be reversed starting in Q2.

Finally, the foreign exchange impact was a negative JPY900 million.

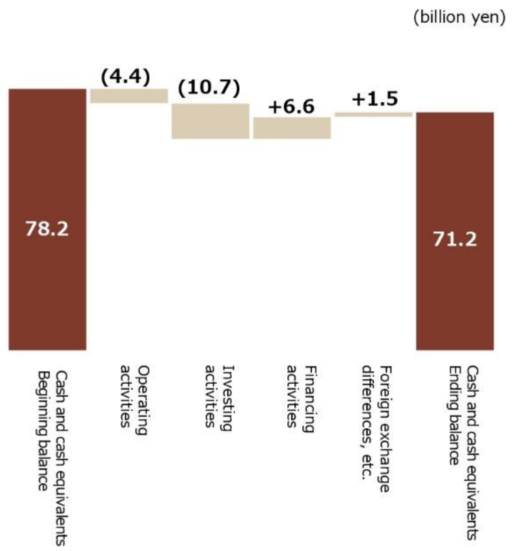
Financial condition and cash flow

TSUMURA

(billion yen)

	FY2025 (as of the end of March 2026)	FY2026 1Q	Amount of increase/ decrease
Total Assets	**592.7**	**602.1**	**9.3**
Current Assets	349.2	354.9	5.6
Fixed Assets	243.5	247.2	3.6
Total Liabilities	**221.1**	**223.3**	**2.1**
Current liabilities	83.2	100.0	16.7
Long-term liabilities	137.9	123.2	(14.6)
Total Net Assets	**371.6**	**378.8**	**7.2**
Equity Ratio	54.3%	54.3%	+0.0pt

	FY2025 (as of the end of March 2026)	FY2026 1Q	Amount of increase/ decrease	Of which, foreign exchange
Total inventory assets	**164.0**	**170.1**	**6.0**	3.2
Merchandise and Products	24.2	25.7	1.5	0.2
Work in Progress	25.1	29.9	4.8	0.2
Raw materials and stored goods	114.6	114.3	(0.2)	2.7



5

Financial condition and cash flows, current assets increased by JPY5.6 billion compared to the end of the previous fiscal year. This was due to a JPY6 billion increase in inventory resulting from higher production volumes and the weak yen.

Fixed assets increased by JPY3.6 billion. This is primarily due to an increase in tangible fixed assets resulting from capital expenditures, mainly at the Ibaraki and Tianjin plants.

In the liabilities section, we have reclassified JPY15 billion in corporate bonds, with a maturity of one year or less from long-term liabilities to current liabilities.

Net assets increased by JPY7.2 billion.

As a result, the equity ratio stood at 54.3%, the same level as at the end of FY2025.

Cash flow is shown in the graph on the right.

Operating cash flow tends to be negative in Q1 each year due to corporate income tax payments. However, this time, it stood at a negative JPY4.4 billion, largely because accounts receivable increased significantly compared to the end of the previous fiscal year.

Domestic business:
Sales by prescription of prescription Kampo formulations

TSUMURA

(Million yen)

	Sales Ranking	Product No. / Formulation Name	FY2025 1Q	FY2026 1Q	YoY		[Reference: Actual Sales Volume*] YoY
Drug-fostering program formulations	1	100 Daikenchuto	3,632	3,836	+204	+5.6%	+2.6%
	2	54 Yokukansan	2,763	2,863	+99	+3.6%	+1.1%
	5	43 Rikkunshito	1,725	1,857	+131	+7.6%	+1.2%
	7	107 Goshajinkigan	1,391	1,516	+125	+9.0%	+4.8%
	25	14 Hangeshashinto	366	419	+52	+14.3%	+8.3%
Total of drug-fostering program formulations			9,879	10,492	+613	+6.2%	+2.4%
"Growing" formulations	3	17 Goreisan	2,022	2,323	+300	+14.9%	+14.8%
	4	41 Hochuekkito	1,749	1,861	+111	+6.4%	(1.0)%
	9	24 Kamishoyosan	1,197	1,335	+138	+11.5%	+4.9%
	17	137 Kamikihito	577	661	+83	+14.5%	+9.5%
	20	108 Ninjin'yoeito	462	551	+89	+19.3%	+5.5%
Total of "growing" formulations			6,011	6,734	+723	+12.0%	+8.0%
Total of 119 prescriptions excluding Drug-fostering program formulations and "Growing" formulations			21,333	22,532	+1,199	+5.6%	+2.7%
Total of 129 prescription Kampo formulations			37,223	39,759	+2,535	+6.8%	+3.4%

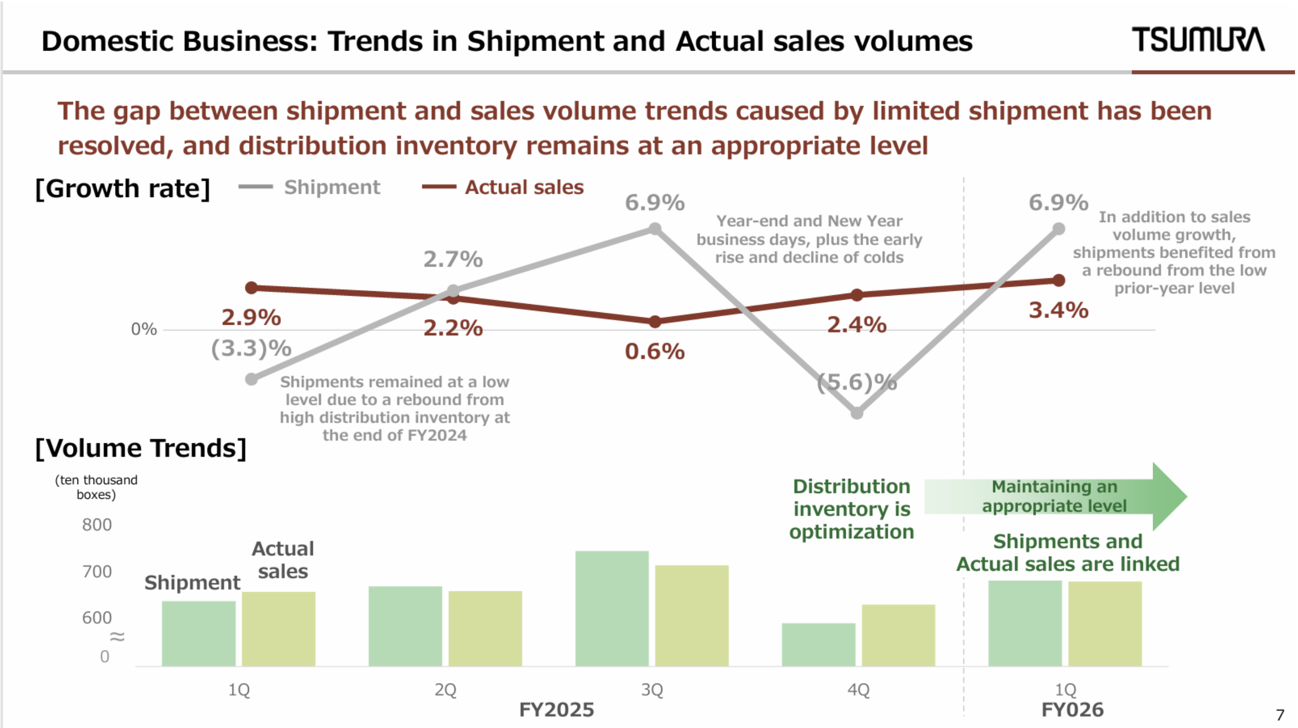
*Actual sales quantity refers to the quantity delivered from pharmaceutical agents and wholesalers to medical institutions.

6

These are the sales figures by prescription Kampo formulations for drug-fostering program formulations and "growing" formulations.

Total sales amounted to JPY39.7 billion, up 6.8% YoY. Breaking this down, drug fostering program formulations totaled JPY10.4 billion, an increase of 6.2% YoY, while prescriptions for growing formulation totaled JPY6.7 billion, an increase of 12%. In addition to a rebound from the low shipment levels in Q1 of the previous fiscal year, shipments increased significantly due to the continued growth of Goreisan and the effects of ongoing initiatives.

On the right, the actual sales volume, which indicates actual demand and is shown here for reference, totaled 129 prescriptions, representing a 3.4% increase compared to the same period last year. Both shipments and actual sales are growing, but there is a difference in the growth rates. I will explain this point on the next slide.

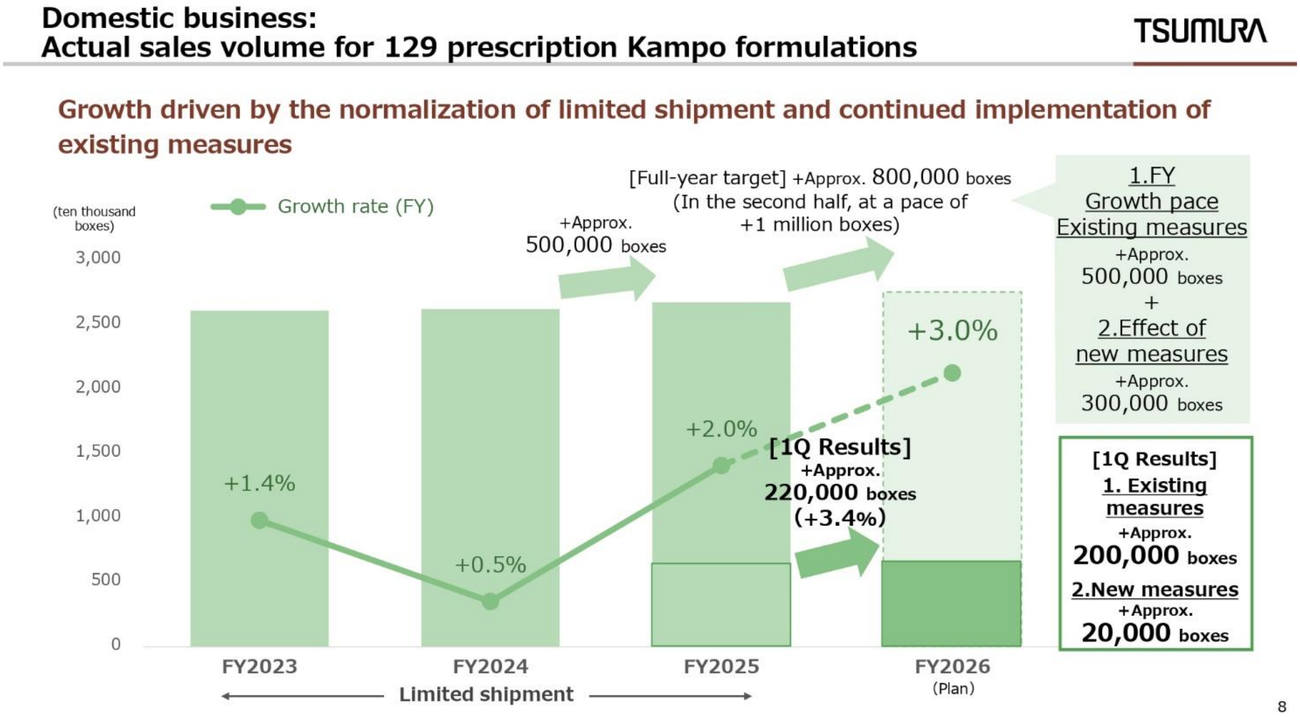


This chart shows the trends in shipment volumes from our company to pharmaceutical distributors and wholesalers, as well as actual sales volumes from those distributors and wholesalers to medical institutions.

First, please take a look at the trend in the expansion rate shown in the top section. As indicated by the gray line, shipments were affected by high levels of distribution inventory at the end of FY2024, which led to a decline in shipment volumes during Q1 of FY2025, the same period in the previous year. This was followed by a rebound, resulting in a high growth rate that exceeds the actual sales shown by the red line.

On the other hand, if you look at the sales trends shown in the bar chart below, you'll see that shipments and actual sales were at the same level in Q1, which demonstrates that shipments moved in line with actual demand. As a result, distribution inventory at the end of Q1 remained largely unchanged from the end of the previous fiscal year and is being maintained at an appropriate level.

We have determined that the discrepancy between shipment and actual sales trends, which had arisen due to factors such as the difficulty in forecasting demand following the limited shipment, has now been resolved, and we expect normal supply and demand conditions to continue going forward.



Next, I will explain the growth in sales volume of prescription Kampo formulations.

In Q1, shipments increased by approximately 220,000 boxes, or 3.4%, compared to the same period last year, due to the resolution of the impact of limited shipments, as well as the effects of various measures that have been ongoing since last fiscal year. For this fiscal year, we plan to achieve an annual increase in actual sales of approximately 800,000 boxes, of which 500,000 boxes are expected to come from existing initiatives carried over from last fiscal year and 300,000 boxes are expected to come from new initiatives.

In Q1, of the approximately 220,000-box increase, 200,000 boxes were attributable to existing initiatives, which are driving current growth. On the other hand, while the costs associated with the new measures are limited to approximately 20,000 boxes, we have anticipated, since the plan was formulated, that the effects would be realized primarily in H2 of the fiscal year, and progress is currently generally within the expected range.

Domestic business: Growth of Existing Measures in Important domains

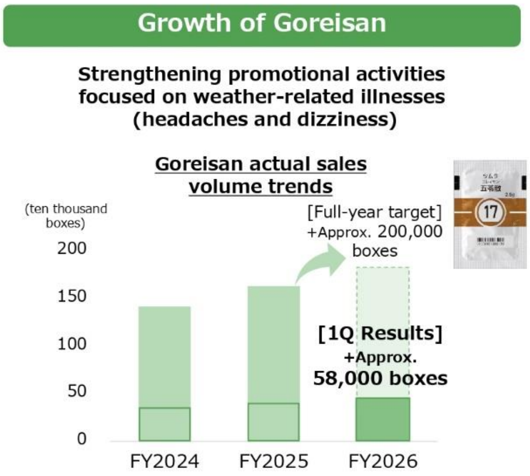
TSUMURA

In addition to the growth of Goreisan, existing measures focused on Important domains contributed to sales volume growth

Top 20 Prescriptions by Sales Volume Growth in 1Q (YoY)

Cancer-related prescriptions / Women's health-related prescriptions

1	Goreisan	11	Keishikashakuyakuto
2	Hachimijiogan	12	Kamikihito
3	Daikenchuto	13	Bouiougito
4	Kamishoyosan	14	Keishibukuryogan
5	Goshajinkigan	15	Yokukansan
6	Keishibukuryogankayokuinin	16	Choreito
7	Mashiningan	17	Saikokaryukotsuboreito
8	Ryokeijutsukanto	18	Hangeshashinto
9	Hangekoubokuto	19	Yokukansan-Ka-chinpi-hange
10	Shakuyakukanzoto	20	Sokeikakketsuto



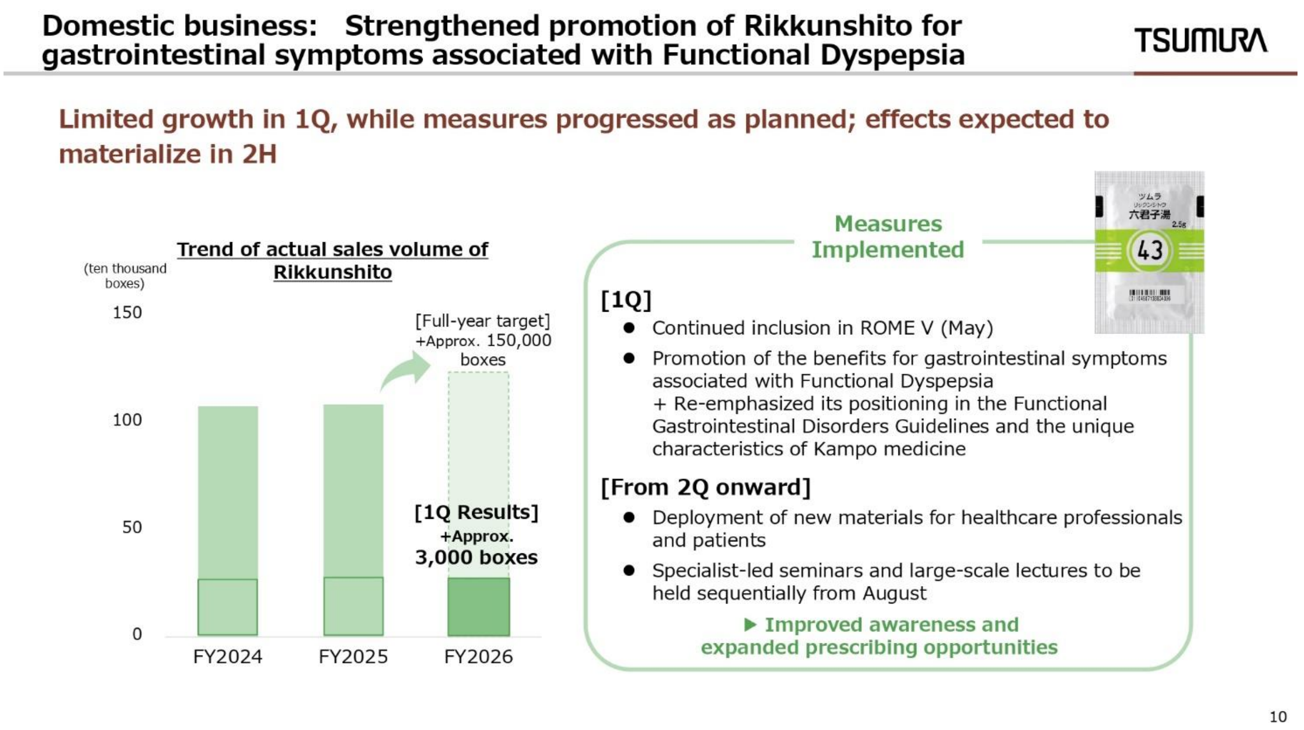
9

Now let me begin by explaining the status of our existing initiatives on the next slide.

The table on the left shows the top 20 prescriptions that saw an increase in actual sales volume during Q1. As you can see, the list includes many prescriptions related to areas where our company is focusing its efforts, such as cancer-related and women's health-related prescriptions. In our priority areas, we have continued to implement various initiatives, including the Cancer Caravan, since last fiscal year, and we believe these efforts are reflected in the growth in actual sales. Furthermore, by promoting the appropriate use of prescriptions, with a focus on basic prescriptions for treatment areas, we are expanding prescribing opportunities even beyond strategic prescriptions.

In addition, Goreisan continues to drive growth. Please see the right graph.

Sales of Goreisan increased by approximately 58,000 boxes as a result of our ongoing efforts to provide information focused on weather-related ailments, such as headaches and dizziness. We are also making very steady progress toward our full-year target of an increase of 200,000 boxes.



Next, I will explain our efforts regarding new initiatives.

As I mentioned at the briefing in May, we are implementing two new initiatives aimed at further expanding prescribing opportunities in this fiscal year.

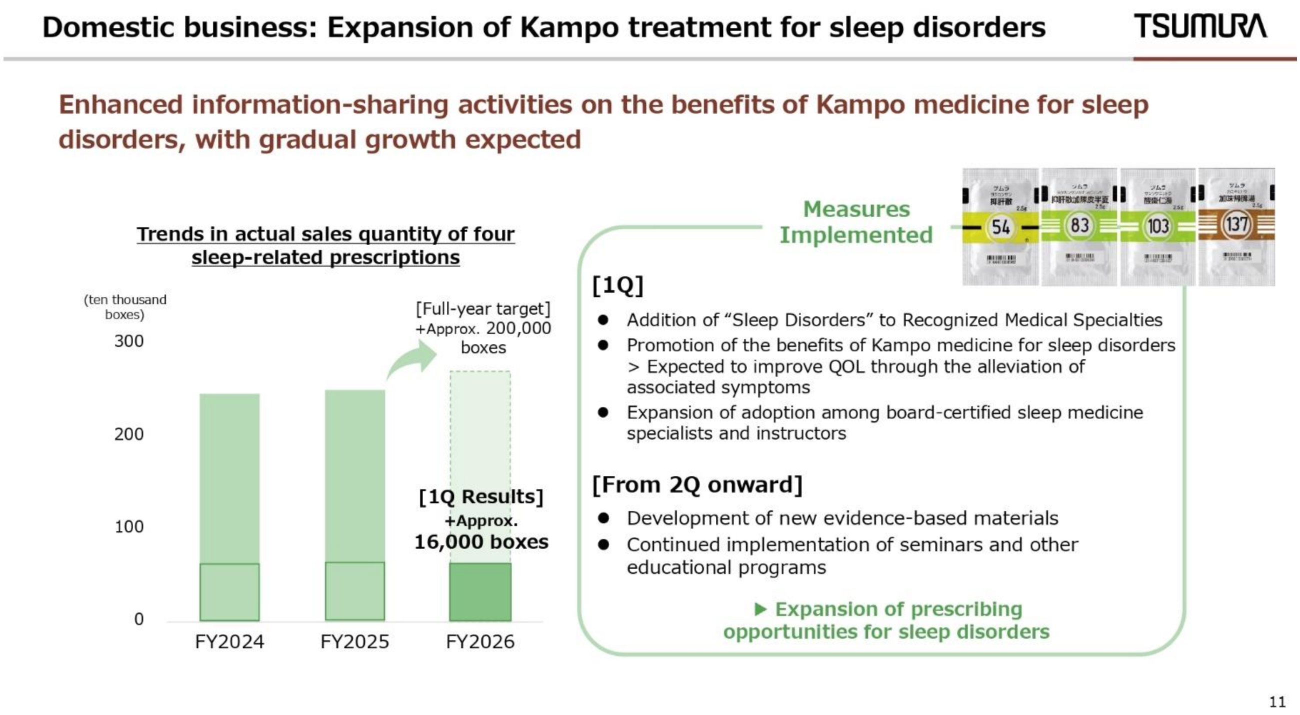
The first is to strengthen the marketing of Rikkunshito. Following the continued inclusion of our product in Rome V, the international diagnostic criteria for functional gastrointestinal disorders, in May of this year, we have been stepping up our outreach efforts since Q1 to provide information on its efficacy for treating gastrointestinal symptoms associated with functional dyspepsia.

Furthermore, we are using this opportunity to reemphasize the product’s role within the guidelines for functional gastrointestinal disorders and to highlight its diverse pharmacological effects, a characteristic of multi-component combination drugs, and we have received positive feedback from physicians.

Actual sales growth for Q1 was approximately 3,000 boxes, but since the initiative was launched only recently, it is still too early to expect results, so this is generally in line with expectations.

Starting in Q2, we will begin full-scale rollout of new materials for medical institutions and patients regarding the inclusion in Rome V. We also plan to hold events, such as seminars led by medical specialists, large-scale lectures, and symposiums, about once a month.

Through these activities, we will work to raise awareness of Rikkunshito and promote its widespread adoption, thereby leading to a significant expansion of prescribing opportunities in the second half of the fiscal year.



The second is the expansion of Kampo treatment to treat sleep disorders.

Actual sales volume for the four related prescriptions increased by approximately 16,000 boxes. In the field of sleep disorders, amendments to the Enforcement Order of the Medical Care Act took effect on June 1, making it possible to officially list and advertise sleep disorders, in conjunction with the names of basic medical specialties, such as internal medicine and psychiatry. It is said that moving away from the vague term, "sleep clinic," and officially establishing it as a specialized medical department will help lower the barrier to seeking treatment.

In the field of treatment for sleep disorders, many challenges have been identified, including drug dependence, carryover drowsiness the following day, and the risk of dizziness and falls among older adults. In addition to improving sleep disorders themselves, Kampo treatment can comprehensively address various symptoms experienced by patients, such as anxiety and fatigue. As such, it is a valuable treatment option that contributes to improving quality of life, and we are working to expand its use, led by certified instructors and specialists from the Japanese Society of Sleep Research.

In Q1, coinciding with the lifting of restrictions on advertising treatments for sleep disorders, we began providing information on the benefits of Kampo treatment in the field of sleep disorders. Going forward, we will strengthen our information dissemination efforts, including the development of new materials based on evidence and the hosting of seminars, to facilitate a gradual expansion of prescriptions.

That concludes my explanation of the status of these two new initiatives. Although all of these measures are still in their early stages, we aim to expand actual sales in line with our fiscal year plan as the various initiatives scheduled for the future begin to yield results.

Next, I will explain the current situation at the healthcare company.

As explained in the highlights of our financial results, sales of healthcare products increased by 6.9% YoY and continue to perform strongly.

In our healthcare business, we focus on a lifetime health support model that provides comprehensive support, from maintaining daily health, to post-treatment recovery and relapse prevention, and we primarily operate in the two categories shown here.

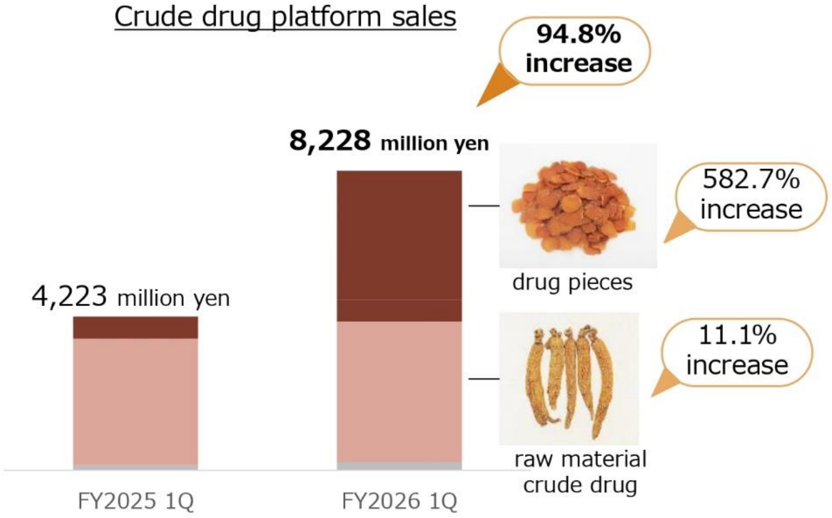
In the over-the-counter, OTC, and quasi-drug markets, we are working to expand our reach among consumers by leveraging the expertise and brand reputation we have built through our prescription Kampo formulations, and the number of stores carrying our OTC Kampo products, as well as the number of items available, is steadily increasing. With regard to food as medicine, Yakushoku Dogen products, we are committed to providing products and services tailored to each individual’s health needs, based on the philosophy of wellness and with a strong emphasis on an evidence-based approach. Although our sales volume is currently small, we view this as a phase of strategic development through up-front investment and will continue to lay the groundwork for medium to long-term business growth.

Furthermore, the acquisition of shares in YOMEISHU SEIZO CO., LTD., which was announced in February of this year, is proceeding smoothly, and we plan to consolidate its financial statements into our consolidated financial statements during Q2. As shown on the right side of the slide, we plan to incorporate the products subject to business succession, such as medicinal Yomeishu, into our respective portfolios across two business areas. We will provide details on the specific business strategy for the healthcare company following the consolidation of YOMEISHU SEIZO, along with our ROIC plan, once the acquisition is complete.

China business: Crude drug platform

TSUMURA

- **Sales of the crude drug platform increased for both raw crude drugs and drug pieces**
- **Sales of drug pieces rose significantly following the consolidation of Hongqiao drug pieces**



13

Next, I will explain the operations of the China business.

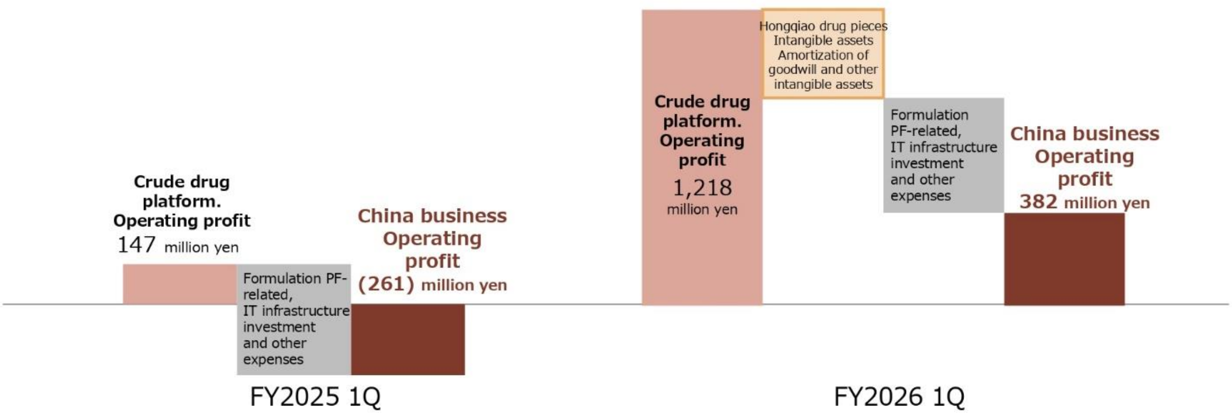
First, here is an overview of sales for our China operations. As explained earlier, due in part to the consolidation of Hongqiao Traditional Chinese Drug Pieces' income statement starting with the Q3 financial results for FY2025, sales of drug pieces grew significantly, and total revenue for the China business increased by 94.8% compared to the same period last year.

Sales of raw material crude drug increased by 11.1% YoY, driven by higher sales volumes, despite a decline in the average selling price due to falling crude drug prices. On a like-for-like basis, excluding the impact of the consolidation of Hongqiao Traditional Chinese Drug Pieces, sales remained largely flat, amid a decline in average selling prices and a noticeable trend toward people postponing medical visits. Through sales activities centered on quality, we are working to expand sales by developing new hospital accounts and increasing our share at key hospitals.

China business: Operating profit

TSUMURA

China business turned profitable, driven by a significant increase in operating profit of the Crude drug platform following the consolidation of Hongqiao drug pieces



14

Next, I will explain the operating income for our China business.

The China business posted a profit of just under JPY400 million, driven by a significant increase in operating profit from the crude drug platform, including Hongqiao Traditional Chinese Drug Pieces. This figure includes JPY360 million in amortization expenses for intangible assets, such as goodwill, related to Hongqiao Traditional Chinese Drug Pieces.

Although the market environment in China remains extremely challenging, our China business is further tightening cost controls while advancing a key customer strategy focused on profitability and improving its sales mix, which is leading to steady profit generation.

Furthermore, with regard to one patient, one formula, a key driver of our medium to long-term growth, we are proceeding with the development of automation equipment for the manufacturing processes of products such as extract granules. Based on the current schedule, progress is generally proceeding smoothly toward the start of operations at the Hongqiao Traditional Chinese Drug Pieces facility in FY2027.

By implementing cutting-edge one patient, one formula smart production technology, we can not only improve productivity and ensure consistent quality in our drug pieces business, but also provide high value-added services tailored to each individual patient. This will ultimately lead to growth in both the expansion of drug pieces sales and the improvement of profit margins, and we will move forward with this initiative diligently.

As we have explained so far, we were able to get off to a start in Q1 that was generally in line with our expectations. In our domestic operations, we have managed to overcome the impact of limited shipments and achieved growth in actual sales through measures to expand prescription coverage. Even in China, where the business environment remains challenging, we have secured solid profits through initiatives focused on profitability.

FY2026 Earnings Forecast (Announced on May 13)

TSUMURA

[million yen]	FY 2025 Results	FY 2026 prediction	YoY change	
			Amount	Rate of increase/decrease
Sales	**192,615**	**213,600**	**+20,984**	**+10.9%**
Domestic Business	161,172	167,600	+6,427	+4.0%
China Business	31,442	46,000	+14,557	+46.3%
Operating profit	**35,219**	**37,500**	**+2,280**	**+6.5%**
Domestic Business	35,024	34,800	(224)	(0.6)%
China Business	195	2,700	+2,504	+1,281.4%
Ordinary Profit	**40,036**	**35,500**	**(4,536)**	**(11.3)%**
Profit attributable to owners of parent	**28,117**	**26,200**	**(1,917)**	**(6.8)%**

ROE	**9.0%**	**8.0%**
EPS	**376.28yen**	**351.46yen**

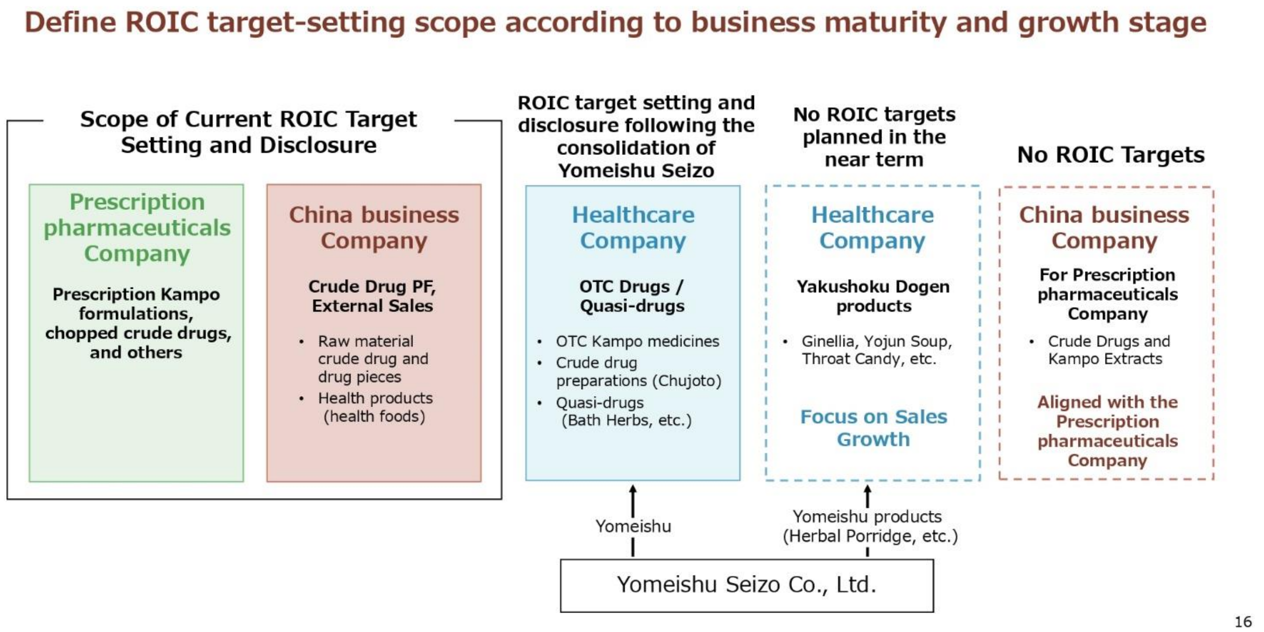
(Note)
Among non-operating income and expenses, foreign exchange gains related to loans and other receivables to overseas subsidiaries are not included in the earnings forecast, as it is difficult to make a reasonable estimation due to fluctuations in foreign exchange rates.
With regard to extraordinary income, a portion of gains on sales of investment securities is included.

15

We are also making steady progress toward the earnings forecast we announced on May 13, and we are seeing positive signs that we will achieve our full-year targets. Starting in Q2 and beyond, we will remain committed to achieving both sales growth and improved profitability, and we will continue to implement each initiative step by step.

There are no changes to our shareholder return policy announced in May. We will continue to pursue optimal dividends based on an optimal capital structure that ensures financial soundness and enhances corporate value through business growth.

Furthermore, we believe that improving capital efficiency is essential for further enhancing corporate value and increasing ROE in the future, in addition to ensuring business growth and profitability. With that in mind, I will now explain the company-specific ROIC plans that we launched this fiscal year.



Under the internal company system we introduced in April of this year, we have designated ROIC as a key management indicator, established guidelines and rules for company-level ROIC, and formulated a plan accordingly.

For each company, we focus not only on sales and operating profit, but also on profitability relative to invested capital, with the aim of enhancing corporate value from both the perspectives of earnings power and capital efficiency. First, regarding the concept of company-specific ROIC, we do not evaluate all businesses uniformly using ROIC, regardless of their characteristics or status.

For businesses that have reached a certain scale or have established a solid revenue base, we will focus not only on business expansion, but also on improving capital efficiency by prioritizing ROIC. However, for businesses that require proactive up-front investment to support future growth, we will, for the time being, evaluate them separately, focusing on sales growth and expansion of their foundation, rather than relying solely on ROIC.

Based on this approach, we have established ROIC targets for the prescription pharmaceuticals company and the external sales business of the China business company at this time.

The healthcare company will finalize its plans after completing the acquisition of shares in YOMEISHU SEIZO. Following the consolidation of YOMEISHU SEIZO, of the two business segments, the OTC Kampo medicine and OTC drugs business, comprising with medicinal Yomeishu, will be subject to ROIC management. Meanwhile, since the food as medicine business is currently in a phase where growth investments take priority, we plan to set and pursue KPIs related to business scale expansion rather than ROIC for the time being.

Company-wide and Company-specific ROIC: Financial Targets

TSUMURA

Establish company-specific ROIC targets and build a framework to improve capital efficiency

ROIC Calculation Unit		Business Positioning and Strategic Direction	FY2026 plan	FY2027 Second medium-term management plan	FY2031 Target level
Entire company consolidated (entire group)		-	**6.2%**		**High-8% to around 9%**
Prescription pharmaceuticals Company		Stable Growth and Profit Expansion	**7.1%**		**High-7% to around 8%**
Healthcare Company	**OTC Drugs / Quasi-drugs**	**Strategic Growth Driver** • Expansion of Points of Sale • Yomeishu Value Reinvention, Customer & Channel Transformation, and Business Portfolio Transformation	ROIC target setting and disclosure following the consolidation of Yomeishu Seizo		
	Yakushoku Dogen products	**Upfront Investment and Strategic Development** • Development of Products and Services Supporting Lifelong Health • Synergies with Yomeishu Seizo's product development function	For the time being, focus on sales growth No ROIC Targets Planned		
China Business Company	For Prescription pharmaceuticals Company	• Supply of Crude Drugs and Kampo Extract Powder to the Prescription Pharmaceuticals Company (Aligned with the Prescription Pharmaceuticals Company)	No ROIC Targets		
	Crude Drug PF, External Sales	**Crude Drug and Decoction Piece Business: Key Growth Driver** • Expansion of sales and profit in the Drug Pieces Business through "Personalized Medicine" **Health Products Business: Strategic Development** • Expanded Product Lineup and Sales Channels for Food and Other Products	**3.2%** (Reference) Excluding amortization of goodwill **4.0%**		**Around 10%**

17

Now I'd like to explain the numerical targets for company-wide and company-level ROIC.

First, we are projecting a consolidated ROIC of 6.2% for FY2026. Furthermore, since our 2031 vision sets a target ROE of 10% or higher, our target ROIC for FY2031 will be in the upper 8% range to around 9%. To achieve this level, we plan to steadily increase our profit growth year by year.

Next, I will outline the plans by company.

The ROIC target for this fiscal year at our group's core, prescription pharmaceuticals company, is 7.1%. Since we view the period covered by the second midterm management plan as a time to establish a stable supply system and lay the groundwork for future growth, we anticipate that ROIC for FY2027 will remain largely flat. Under our 2031 vision, in addition to revenue growth, we will drive productivity improvements through DX and physical AI, aiming to achieve both high profitability and high capital efficiency, with a target of between the high 7% range and around 8%.

For the healthcare company, we plan to disclose its ROIC plan for OTC drugs/quasi-drugs as early as the Q2 earnings announcement. The specific business strategy following the consolidation of YOMEISHU SEIZO is still being formulated. That said, our basic approach is to achieve sustainable sales growth through recreating the brand value of medicinal Yomeishu, the customer base and channel changes achieved by leveraging the strengths of both companies, and building a business portfolio centered on a lifetime health support model, while prioritizing investment efficiency based on ROIC. We plan to strategically nurture this business to become the third pillar in our shift toward a multi-pillar structure.

Finally, the China business is a key growth area that will drive future revenue growth. However, the ROIC target for FY2026 is 3.2%, and even excluding the impact of amortization of goodwill related to Hongqiao Traditional Chinese Drug Pieces, it stands at around 4%. Given that raw material crude drug currently accounts for a high proportion of sales and that we are in the process of expanding our highly profitable drug pieces business, our ROIC target is set at a low level.

Going forward, we will aim for significant sales growth and an improvement in ROIC by increasing the proportion of our highly profitable drug pieces business and promoting the one patient, one formula initiative and value-added services. We are targeting an ROIC of approximately 10% by 2031.

Finally, an announcement, we are pleased to announce the release of a 17-video series titled, "Quality is our Promise."

Guided by the philosophy that the quality of Kampo products begins in the fields, our company is committed to ensuring consistent quality throughout the entire process, from the cultivation and procurement of crude drugs, to research, quality control, manufacturing, and information provision.

In this series, we introduce our company's initiatives by sharing a message from our CEO expressing our commitment to consistently delivering high-quality Kampo products, along with the dedication of each employee who supports quality at every stage of the process and the perspectives of our contract growers. We hope you will take a moment to review these videos, as it provides insight into the quality foundation and competitive advantages that underpin our sustainable growth.

That's all from me. Thank you very much for your attention.

Kitamura: Thank you. That concludes the presentation.

Question & Answer

Kitamura [M]: Now we would like to take questions from everyone.

Please note that each person is limited to two questions at a time. Please also note that the content of your questions and the audio recording will be posted on our website at a later date, along with the presentation materials.

If you have any questions, please press the raise-your-hand button on the screen. We will call on your name, so please state your question after mentioning your company name and your name.

Since someone has raised the hand, Mr. Hashiguchi from Daiwa Securities, please go ahead.

Hashiguchi [Q]: This is Hashiguchi from Daiwa Securities. Thank you.

First, regarding the slide on page eight, while I think the overall increase of 220,000 cases is on track compared to the full-year plan of an 800,000-case increase, I feel there is a significant discrepancy in the breakdown shown on the right. Looking at this breakdown, I would appreciate it if you could elaborate a bit more on how we should interpret the full-year outlook.

I do think that, generally speaking, the effectiveness of existing measures tends to diminish with each passing period, while at the same time, I recognize that it takes time for the results of new measures to actually show up in the numbers. Based on the feedback from doctors so far, could you comment on whether achieving this target of 300,000 boxes is now within reach or whether we still need to make one or two more pushes?

Kobayashi [A]: Yes, Mr. Hashiguchi, thank you very much. First, I'll give an overview, and then I think Yamaoka will take it from there.

First, let's look at page eight. 220,000 cases, while that's a positive trend, looking at the breakdown between existing and new initiatives, there seem discrepancy. I assume your question is about what the full-year results will look like.

First, regarding the growth of 200,000 boxes under our existing measures, this is progressing very smoothly. Although we received a comment suggesting that this effectiveness might be diminished, we believe that, looking at the past year, including the increase in sales of Goreisan, related to weather-related illnesses, the trend indicates that we will be able to maintain this level firmly over the course of the year. Given that, since we were able to increase sales by 200,000 boxes this quarter, I believe there is a good chance we can reach nearly 800,000 cases by continuing with our existing measures to some extent.

Naturally, there will be some fluctuations due to seasonal factors and other reasons. For example, even after we entered this Q2, we were affected by a typhoon. While factors such as what might happen if it gets hotter from here on out will certainly have an impact, based on current trends, we are hopeful that existing measures could very well result in sales exceeding 500,000 boxes.

As for the new initiatives, Yamaoka will discuss the response to them later, but as this is Q1 and we've only just begun, I think we all understood from the start that it's still too early to see any figures reflecting sales growth.

While the response has been very positive, our actual activities will really get underway starting in Q2, so I think the response we see then will give us a better sense of whether or not it will lead to us actually achieving that 300,000-box target. As for whether we've received a clear response along the lines of, we can definitely reach 300,000 boxes, I don't think that's quite the case yet, but I'd like to have Yamaoka go into a bit more detail on that.

Yamaoka [A]: This is Yamaoka. Thank you for your question. Mr. Hashiguchi, thank you for your support always.

First, regarding new initiatives, I'd like to discuss insomnia. As for this matter, Since June, sleep disorders can now be officially advertised as a medical specialty, and the topic of insomnia has been covered on television, in the media, and elsewhere.

In this context, there is currently a major reevaluation taking place regarding the treatment of insomnia. Previously, benzodiazepines and non-benzodiazepines were used, but now orexin-based medications have become mainstream. The key change is that clinics can now officially advertise sleep treatment as a specialty. So far, if patients had not been visiting clinics or hospitals for sleep treatment, at the point of first administering medication, in addition to sleep guidance, we recommend Kampo treatment as an option alongside sleep hygiene guidance.

As a result, we have heard significant feedback from doctors that they would prefer to start with Kampo rather than jumping straight to sleep medication. Given this, we would like to continue promoting the value of Kampo treatment in line with market needs.

As for Goreisan, while it has been a very popular prescription since last year, as you all know, Weather fluctuations have become even more pronounced this year than last year. Among them, the number of people complaining of concerns about their physical condition is increasing, so that area is also growing steadily and is performing better than last year. That is all.

Hashiguchi [Q]: Thank you very much.

The second point concerns the cost ratio. I believe the original target for H1 was 53.5%. This figure stands at 54.5% for the Q1, which appears to be about 1 percentage point higher than H1 plan. Could you please explain the reasons for this and how we should interpret the figures starting from Q2?

Kobayashi [A]: Yes, thank you.

One factor driving up the cost ratio is the impact of exchange rates. Regarding processing fees for extract powder, there were instances where the per-unit processing cost in China was set higher for Q1. Since we will review it in Q2, I believe the figure here will be a bit lower, with room for reduction beginning in Q2 and beyond. In any case, the biggest factor is the impact of exchange rates.

Also, by the way, the raw material costs section is also having a slight negative impact. Regarding this matter, due to the situation in the Strait of Hormuz, we are seeing a slight increase in unit prices not only for lactose, but also for the film. As I mentioned at the May briefing, while there will be some impact, I stated that it would be limited or rather, within a range that we can absorb. I think this situation will continue for a little while longer, so while I mentioned a negative impact of JPY100 million earlier in the section on raw material costs, I believe this figure may end up being slightly higher, which is not part of our original plan.

However, since these costs are partially offset by factors such as the unit processing costs mentioned earlier, we believe they will not have a significant impact.

Hashiguchi [Q]: Thank you very much.

Regarding the first point, the impact of exchange rates, I understand that, for your company, particularly in areas such as the procurement of crude drugs, there is a significant time lag between actual exchange rate fluctuations and their impact on the income statement. How should I interpret this as a factor contributing to the deviation from the plan announced in May?

Kobayashi [A]: As you are aware, regarding the impact of exchange rates on cost, for both imported extract powders and imported crude drugs, the actual impact depends on the exchange rate at the time of its usage. In terms of the use of crude drugs, this means that we used a large amount of those whose prices have risen on the exchange.

As for the impact of exchange rates itself, this forecast is based on the average difference between the rates one year ago and today. The actual unit cost of inventory is determined by factoring in items that were added even earlier than that. Since we're bringing in exactly the right amount, differences are bound to arise in that regard. However, a significant portion of the inventory consists of items purchased during past periods of yen weakness, rather than those acquired during the recent period of yen weakness, so because that range is so wide, the reality is that this part is bulging out.

Hashiguchi [Q]: Thank you very much.

In that case, while the unit processing cost for the extract powder may decline starting in Q2, should we assume that, overall, the cost to sales ratio will remain slightly higher than originally anticipated and is likely to continue trending that way going forward?

Kobayashi [A]: Regarding exchange rates, for the most recent batch of extract powder, the period between import and use is short, so the impact of exchange rates will be felt. Although Q1 saw a significant impact from exchange rates, we have been told that the impact of exchange rates is expected to be somewhat smaller starting in Q2 and beyond. I expect the gap to narrow a bit more than what we're seeing right now with the exchange rate fluctuations.

In addition, since the revision to China's unit processing costs will take effect, I believe we can reduce the cost to sales ratio a little further. As for exchange rates, while I can't say for certain exactly how things will play out, that's my general sense of the situation.

Hashiguchi [M]: Okay, thank you. That is all from me.

Kobayashi [M]: Yes, thank you.

Kitamura [M]: Thank you.

Next, Mr. Shigemura of Nomura Securities, please.

Shigemura [Q]: This is Shigemura of Nomura Securities. Thank you for taking my questions.

First of all, I'd also like to ask about the current cost ratio. Given the 2.1-point decline this time, I wonder how much of that was due to exchange rate effects and how much was due to changes in the product mix. If that's the case, I think it might provide some insight into whether the impact of exchange rate fluctuations will ease somewhat going forward or whether China's continued growth will once again have a significant impact on you. I would appreciate your thoughts on this.

Kobayashi [A]: Yes. That's right about the impact of exchange rates. Could you wait a moment, please?

Shigemura [M]: Yes.

Kobayashi [A]: Exchange rate fluctuations account for a significant portion of this. Out of the 2.1 percentage points, approximately 1.5 percentage points are attributable to exchange rate fluctuations.

Shigemura [Q]: Yes. Regarding the mix, down 6 points for Japan, and China up, that leaves about 0.6, right?

Kobayashi [A]: Yes.

Shigemura [Q]: In that case, as mentioned in your earlier explanation, assuming you can slightly reduce foreign exchange costs and cover the rest through processing costs, while local operating expenses are expected to increase slightly, does this mean that, although the situation won't deteriorate to 2.1 as initially projected, it's unclear whether it will be 1 or 1.5, and that the cost to sales ratio is likely to remain under pressure for the current fiscal year?

Kobayashi [A]: Well, I feel that if the impact of exchange rates lingers a bit, there's a possibility costs might end up slightly higher than planned, but we can reduce processing costs in China. In addition, since the cost of crude drug is on a downward trend, looking at the current situation in China, I think this downward trend might accelerate a bit further. We believe there is room to reduce the cost ratio a little further in that area, so we expect to see an improvement over the current cost ratio. They said they would make every effort, including managing manufacturing expenses, to bring the cost ratio in line with the plan. This is how I see it.

Shigemura [Q]: Thank you.

Excuse me for a moment, I have one more thing to add. Based on what you've explained so far, if the impact of exchange rates depends on the timing of usage, does that mean it's difficult to directly measure the exchange rate sensitivity simply because of the current yen depreciation?

Kobayashi [A]: Yes. In theory, our calculations indicate that our foreign exchange sensitivity ranges from 1.5 billion to 1.6 billion, but in practice, since the timing of foreign exchange transactions for the items we purchase varies, we are unable to measure this sensitivity very precisely, which is a distinctive feature of our company.

Shigemura [Q]: Okay, I understand.

Second question. Thank you for disclosing the ROIC this time. I think this is a case of walking the talk. I'm sorry to go back to the very beginning, but could you please explain again why you chose ROIC rather than ROE or operating profit margin?

In this case, for medical applications, the figures ranged were from 7.1% to 7% to 8%, and for China, the range was 4% to 10%. As criteria for measuring cost effectiveness across each segment, I'd like to know whether these figures were derived by prioritizing the investment aspect or whether you are placing the highest priority on top line growth. Could you please explain the priority order behind the thinking that led to these figures?

Kobayashi [A]: First, regarding the question of why we're focusing on ROIC, given that our company has set a company-wide ROE target, specifically, based on our current target, we are aiming to become a company that can consistently achieve a 10% ROE by 2031. This brings us to the question of what metrics each company should use to achieve that goal.

Although our operating profit margin is fairly high, our ROE is currently still around 8%, which is a bit disappointing given our operating profit margin. The reason for this, as I understand it, is that the investment efficiency is simply poor.

Under these circumstances, while it goes without saying that each company will have its own KPIs for sales and profits and will work toward achieving them, those metrics alone are insufficient as evaluation criteria for ROE. We have therefore determined that ROIC is the most appropriate metric for managing the business with a focus on investment efficiency, which is why we are implementing it this time.

As for what each company should prioritize based on these figures, it comes down to both the top line or in a sense, costs, and efficiency. As for the prescription pharmaceuticals company, since sales growth is stable, and explosive growth is not possible, we must focus not only on sales, but also on improving efficiency, so I understand that we'll be proceeding by closely monitoring metrics such as those from CCC as benchmarks.

On the other hand, with regard to our China business, while we will continue to keep a close eye on investment efficiency, our top priority is to drive sales growth. I think the focus will likely be on achieving sales growth while maintaining profitability. I hope I answered your questions.

Shigemura [Q]: Thank you very much.

Will you be able to continue measuring and disclosing this information going forward?

Kobayashi [A]: Yes. We have disclosed the plan today. Since ROIC is calculated on a fiscal year basis, we will disclose the actual results for each fiscal year, and we intend to continue disclosing our plans on an annual basis.

Shigemura [M]: Understood. I would really appreciate it if you could do that. That is all from me. Thank you.

Kitamura [M]: Thank you very much.

Next, Mr. Lee of Morgan Stanley MUFG Securities, please go ahead.

Lee [Q]: Yes. I'm Lee of Morgan Stanley MUFG Securities. Thank you for taking my questions.

First, let me go over one point each regarding Japan and China. Regarding the domestic market, I believe Mr. Kobayashi commented that the limited-quantity shipments have now been fully distributed. However, I have the impression that, up until last year, during the limited-quantity shipment period, doctors and medical institutions would switch to other companies' medical Kampo products, and that this was a significant challenge for your company last year. Is it correct to understand that this issue has now been completely resolved?

In addition, China, in the presentation, you said sales of drug pieces were flat, but I get the impression that sales in China are a bit weak. I know that Q1, which, over there, is January through March, tends to be a bit sluggish every year because of the Lunar New Year and other factors. Was this simply due to the impact of the Lunar New Year or as you mentioned in your explanation, there were factors, such as a decline in unit prices and a decrease in prescription opportunities. Was performance in China in Q1 a bit weaker than your company had anticipated? How did it actually turn out? I'd like to confirm this point.

Kobayashi [A]: Thank you, Mr. Lee.

Regarding the first point, I mentioned that, there were some cases, to a certain extent, where prescriptions shifted to other companies during the limited shipment period. As for whether all of those prescriptions and others that reportedly went to other companies are being recovered, I think there are some that are and others that aren't, so I don't believe they've all been fully recovered.

However, it is true that actual sales for prescriptions that were significantly affected by the limited shipments have returned to pre-limitation levels. Therefore, we understand that since prescriptions are expanding in other areas, we are successfully making up for the shortfall.

Next, regarding Chinese drug pieces, we understand that there is a growing trend of people delaying medical visits in the Chinese market. In that sense, though I'm not sure if it's appropriate to say this compared to our initial projections, we recognize that, even relative to our plans, the market has become quite challenging in terms of sales. I don't think this is simply due to the Lunar New Year, as you mentioned earlier, rather I believe we have no choice but to acknowledge that the market itself is shrinking somewhat.

Therefore, with regard to sales in China, we will, of course, do our best to achieve our initial targets. The way we plan to keep working hard on this is by developing new hospital accounts or rather, it's not just about new hospitals, but about market share within those hospitals, so rather than growing in tandem with the expansion of the market, we plan to grow by increasing our share in areas where the market itself isn't growing, as well as by pushing into new hospitals. We will continue to work toward achieving our sales targets, but I think the difficulty level has increased slightly compared to when we originally made our plans.

To offset that, what we are doing right now at our China business is focusing on cost control to firmly secure profits. It's not just about cost control. We're also carefully evaluating our customers, selling firmly to those with strong creditworthiness who can secure profit margins. Through these efforts, we aim to improve profitability and firmly secure profits. We are also engaged in these kinds of activities.

Lee [Q]: Thank you, Kobayashi-san.

In Mr. Shigemura's explanation, he touched ROIC. I believe you mentioned that revenue growth is important for the China business, but I suppose this is where things get a little tricky, isn't it? I'd appreciate your comment on this.

Kobayashi [A]: Yes. We should make a slight distinction between short-term and long-term perspectives. From a medium to long-term perspective, China is, after all, a region that will continue to grow. Of course, while there are no specific plans at this time in the short term, I believe we will continue to expand, including through new business partnerships and the like.

That said, looking at the immediate future, specifically the upcoming earnings reports, given the current market conditions, we are striving to increase sales despite the circumstances.

Lee [Q]: Understood very well. Thank you.

Second and the last question, for an overview of the full fiscal year, on page eight of the materials, following up on Mr. Hashiguchi's question, given the full-year forecast of 800,000 boxes, when looking at Q1 alone, I wondered if you're on track for 900,000 boxes for the full year and if things are going very smoothly.

While there were some ups and downs in the breakdown, the overall picture shows that existing businesses are performing well, so regarding domestic sales, I'd say the initial guidance was perhaps a bit conservative. I'd like to first confirm that there is upside potential for the full fiscal year. In addition, there's the introduction of the Company system. Mr. Kobayashi, during the recent earnings call, I believe you mentioned that, in connection with the introduction of this company-based system, you would be conducting a fundamental review of full-year SG&A. Could you please confirm, as a final point, whether there have been any changes to your thinking on this matter? That is all from me.

Kobayashi [A]: Yes, thank you.

First, regarding page eight, as for the upside in sales, we certainly have expectations in that regard. Our existing initiatives got off to a very strong start in Q1, far exceeding expectations. Furthermore, regarding the growth of Goreisan, I believe we can maintain this pace over the next year, so if we continue on this trajectory, we should exceed the 500,000-box target set by our existing initiatives. It depends on how the new measures turn out, but I think there's a good chance that the increase in the share of existing measures will provide an upside for quantity growth for the first year.

That said, of course, while I mentioned that existing initiatives are subject to seasonal factors, and that new initiatives are currently within our expectations, this is, of course, still just the beginning, so we will aim for upside by ensuring we execute these initiatives thoroughly. That's how it goes.

Also, regarding the company-based system, specifically in terms of SG&A, we will incorporate ROIC as a performance metric within this system, ensure thorough disclosure of that information, and continue to monitor it going forward. When we focus on efficiency rather than just the absolute figures for sales and profits, it becomes clear that we must strictly control costs. This will be carried out thoroughly under the leadership of each company head, and those efforts have already begun.

In that sense, I intend to continue to do my best both now and in the future.

Lee [M]: Okay, understood clearly. I'm looking forward to it. Thank you. That is all from me.

Kitamura [M]: Thank you.

Well then, since we're approaching the end of our session, I'd like to take one final question. Mr. Yoshida of Tokai Tokyo Intelligence Laboratory, please ask your questions.

Yoshida [Q]: Thank you for your help. This is Yoshida from Tokai Tokyo Intelligence Laboratory.

Well, this might end up being a sort of summary of the questions and answers so far. Just to confirm, operating profit for Q1 was quite a bit lower than I had expected, and I was wondering why that was the case. I understand there were various factors, such as exchange rate fluctuations, but regarding the factors that should lead to an improvement in Q2, and I know I'm repeating myself here, it's because processing costs in China are expected to decrease, correct?

Kobayashi [A]: Yes.

Yoshida [Q]: One more thing, I heard that the prices of crude drug are also falling, so the trend is downward over the course of Q2, is that correct?

Kobayashi [A]: Yes. As you are aware, regarding processing costs, for crude drugs, though this varies by specific item, there has been a sustained downward trend recently. Therefore, I expect we'll see a slight improvement in the cost ratio or rather, a slightly greater reduction in crude drug costs compared to this quarter. That's about the extent of it.

Yoshida [Q]: Okay. Aside from that, are there any other temporary factors that might be causing Q1 to look weak?

Kobayashi [M]: Is that the cost ratio?

Yoshida [Q]: Speaking of the cost to sales ratio, and looking at operating profit specifically, Q1 figures seem a bit weak. I was wondering if there were any factors at play that might be temporary and are expected to disappear going forward.

Kobayashi [A]: Yes. Since some of the SG&A expenses include onetime items, SG&A expenses, which include our target figures, had a negative impact of JPY1.7 billion on operating profit for Q1. Of course, we'll work on reducing the factors here that are temporary, but I believe there's considerable room to reduce other factors as well, so we'll be moving forward with this.

As for production costs, we do hope that the impact of exchange rate fluctuations will decrease to some extent. However, our plan is to reduce processing costs, even though raw material costs may rise slightly, and to offset this with lower processing costs and reduced costs for crude drug. We also intend to keep manufacturing expenses under control.

Yoshida [Q]: Understood. Thank you.

My second question is about the production volume outlook for the current fiscal year. On slide 11, regarding the expansion of Kampo treatment for sleep disorders, I had a little trouble hearing Mr. Yamaoka's comment earlier. This increase of 16,000 boxes started in June, so is this the result of just one month's efforts? I apologize for being so specific, but could you please explain a little more about what kind of impact we can expect from adding this sleep disorder to the list of medical specialties?

Kobayashi [M]: Yes. Now over to Yamaoka.

Yamaoka [A]: As for the 16,000 boxes, since this is the result for one quarter, and with such a form of representation being added from June, we had already started activities from the previous fiscal year. We actually began these activities as early as the previous quarter.

Among these, the basic premise is that, especially by being promoted, the number of patients visiting the clinic increases, and the market is also revitalized. Within that, there are quite a few examples of products with few side effects and, as Kobayashi mentioned earlier, examples such as sleeping pills that can cause elderly people to become unsteady or fall over.

For these patients, prescribing Kampo allows them to smoothly regain restful sleep, and this is the kind of prescription approach we are proposing. I hope I answered your question.

Yoshida [Q]: I'm specifically interested in that change in June, the 16,000 boxes. Does that mean this June had a big impact or maybe it doesn't really matter since you've been active since last year? I wasn't really sure about that part though.

Kobayashi [A]: Mr. Yoshida, I don't think we can necessarily conclude that these current 16,000 boxes are solely the result of the new measures, rather the fact is that sales of these four formulations have increased by 16,000 boxes. As for the extent to which the effects of these measures are reflected in these figures, to be honest, the initiative began in June, and it was only after it started in June that we were finally able to produce the new materials. We have now produced them and are in the process of rolling them out.

At this point, of course, we are providing information, such as through MR, within the scope of what we can share, but I believe the effects of that will not become apparent until at least Q2. I think it would be better to view this figure of 16,000 boxes as growth driven by the inherent strength of each prescription rather than the effect of the measures themselves.

Yoshida [M]: Understood. Thank you. That is all from me.

Kobayashi [M]: Yes, thank you.

Kitamura [M]: Thank you very much. This concludes the question-and-answer session.

This concludes the financial briefing for Q1 of FY2026. Thank you for your participation.

[END]

____

Document Notes

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

Disclaimer