



## **TSUMURA & CO.**

FY2024 Financial Results and Second Medium-Term Management Plan Briefing

May 12, 2025

## Event Summary

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[Company Name]	TSUMURA & CO.	
[Company ID]	4540-QCODE	
[Event Language]	JPN	
[Event Type]	Earnings Announcement	
[Event Name]	FY2024 Financial Results and Second Medium-Term Management Plan Briefing	
[Fiscal Period]	FY2025 Annual	
[Date]	May 12, 2025	
[Number of Pages]	68	
[Time]	14:30 – 16:01 (Total: 91 minutes, Presentation: 64 minutes, Q&A: 27 minutes)	
[Venue]	Webcast	
[Venue Size]		
[Participants]		
[Number of Speakers]	11	
	Terukazu Kato	President, Representative Director, CEO
	Kei Sugii	Director, Co-COO
	Hiroshi Miyake	Outside Director
	Koin Toda	Director, Co-COO, Head of China Business
	Kaoru Kobayashi	CFO, Head of the Corporate Management Division
	Koji Endo	Director, CHRO
	Akihito Konda	Director, CTO
	Shoichi Kumagai	Executive Officer, Head of Production Division
	Toshio Yamaoka	Executive Officer, General Manager of Prescription Pharmaceutical Sales Division

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	Eriko Yamashita	General Manager, International Planning Department, Research & Development Division
	Makoto Kitamura	Manager of Corporate Communications Department
<b>[Analyst Names]*</b>	Kazuaki Hashiguchi	Daiwa Securities
	Fumiyoshi Sakai	UBS 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.

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## Presentation

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**Kitamura:** The time has come, and we will now begin the briefing on the financial results of TSUMURA & CO., for FY2024. 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 hybrid format of face-to-face and web-based sessions at our headquarters venue. The explanation will be given in the presentation materials posted on our website, so please have them ready at hand or refer to the materials that will be projected.

I would like to introduce today's speakers from the Company. Kato, President and Representative Director, CEO. Sugii, Director and Co-COO. Miyake, outside director. Toda, Co-COO, Head of China Business. Kobayashi, CFO and Head of the Corporate Management Division. Endo, CHRO and Head of HR Division. Konda, CTO and Head of R&D Division. Kumagai, Executive Officer, Head of Production Division. Yamaoka, Executive Officer, Head of Sales & Marketing Division. Yamashita, General Manager of International Planning Department, Research and Development Division. These 10 members are present.

I am Kitamura from Corporate Communications Department, and I will be the moderator for today's session. Thank you.

### Today's Content



- 01 TSUMURA VISION "Cho-WA" 2031  
Towards realization
- 02 Summary of the First Medium-Term Management Plan  
(FY2022-2024)
- 03 Second Medium-Term Management Plan (2025-2027)
- 04 Financial and capital policies and FY2025 performance  
forecast
- 05 Progress of US development (TU-100)

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Here's today's agenda. The five themes you see are explained below. The briefing is scheduled for about 60 minutes. After all the explanations, we would like to answer your questions. The meeting is scheduled to end at 16:00.

Now, Kato will explain topics one through three on the agenda. Thank you.

**Kato:** Hello, everyone. This is Kato. Thank you very much for your participation in the TSUMURA & CO., FY2024 financial results and second mid-term management plan briefing. I would also like to reiterate my sincere thanks and appreciation for your continued support of our company and Kampo. Thank you very much.

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We are pleased to announce our financial results for the fiscal year ended March 2025, along with the following disclosures: the financial results summary for the same period, the second mid-term management plan, a notice regarding the appointment of director candidates, a notice regarding partial revisions to the performance-based stock compensation system, and a notice regarding the continuation of the trust-type stock grant system for our employees.

We have revised our performance-based stock compensation system to clarify the link between executive compensation and the value of our company by increasing the ratio of stock compensation in executive compensation.

## Goals of the Long-Term Management Vision for 2031



### Lively living for everyone TSUMURA VISION “Cho-WA” 2031

**We aim to create conditions in which the Tsumura Group is contributing to the well-being of all by supplying evidence-based products and services, including Kampo and traditional Chinese medicines, that suits factors including the life stage, symptoms, genetic makeup and daily life environment.**

#### Tsumura Group's Value Creation Areas



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Next, I would like to explain the content of today's proceedings. This is as shown.

First, let me indicate what we, the Tsumura Group, are aiming for. The Tsumura Group has established its purpose, “lively living for everyone,” as its ultimate business goal. Through its long-term management vision, TSUMURA VISION “Cho-WA” 2031, the Group aims to contribute to people's well-being by providing evidence-based new value in the form of naturally-derived medicine, products, and services tailored to each individual's stage of life.

In the field of treatment (of health issues), we are striving to expand standard Kampo medicine and Personalization of Kampo treatment so that each patient can receive Kampo treatment tailored to their needs, thereby contributing to medical care that leaves no one behind. We have positioned our US and Chinese operations as an extension of this effort.

In the area of pre-symptomatic diseases (disorder), we aim to scientifically define pre-symptomatic stage, develop diagnostic methods, and establish evidence-based Kampo treatment. It is a difficult challenge, but we will create great common value with society.

In the area of healthcare, we are promoting the TSUMURA healthcare Health Project within the Company, as well as aiming to provide new value through evidence-based products and services that utilize the power of crude drug. We create ultimate value in pursuit of people's true Health and happiness.

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## TSUMURA VISION “Cho-WA” 2031

<b>Business</b>	<ol style="list-style-type: none"> <li>1. Basic prescriptions: 50% of doctors prescribe all</li> <li>2. Expansion of standardization and personalization of Kampo treatment</li> <li>3. Science of pre-symptomatic diseases Three Preventive Measures (Pre-symptomatic treatment · Prevention of disease progression · post-healing care )</li> <li>4. Build a foundation for business in China (China business ratio of 50% or more)</li> <li>5. Digital transformation of the Kampo value chain</li> <li>6. Corporate Purpose management, Corporate Philosophy management, and Vision management</li> </ol>
<b>Finance</b>	<div>Capital Efficiency</div> <div><b>ROE 10%</b></div> <div>Shareholder Returns</div> <div><b>DOE 5%</b></div>

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With our corporate purpose and core corporate philosophy in mind, we have established a 10-year long-term management vision, TSUMURA VISION “Cho-WA” 2031, through backcasting. We are working to achieve the six business themes shown here by making proactive and bold investments in our businesses with the aim of enhancing our long-term corporate value.

At the same time, while maintaining financial soundness, we aim to achieve a 5% DOE in shareholder returns and a 10% ROE in capital efficiency.

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## Vision and Strategy Diagram



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This is a chart showing the diagram for our core businesses based on our sustainability vision and long-term management vision, as well as our business strategies and strategic challenges and priority measures in our mid-term management plan.

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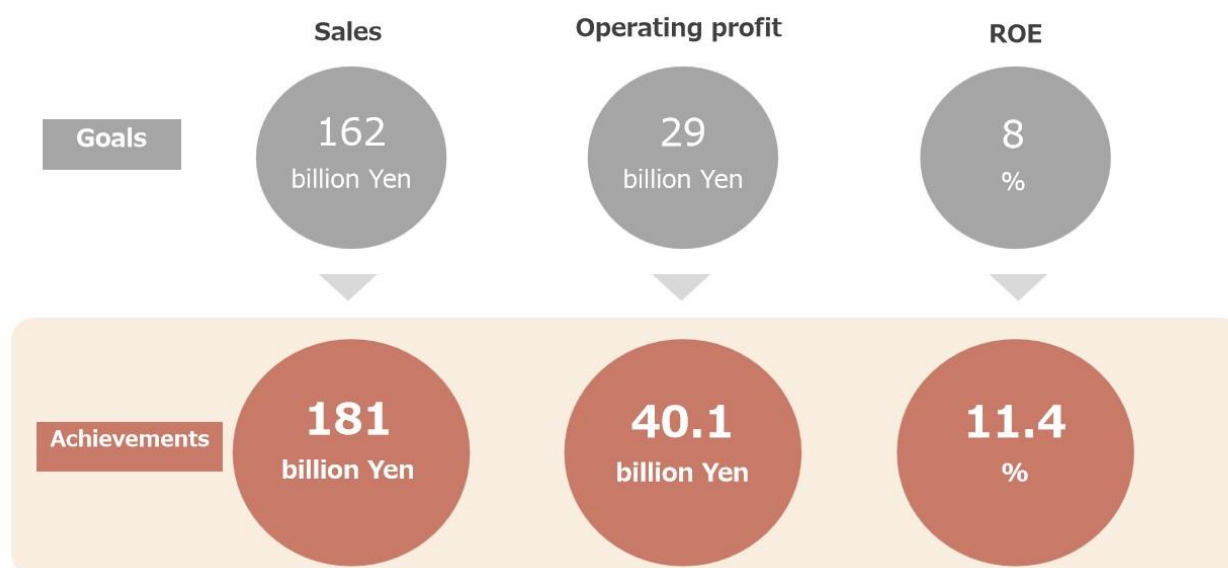
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## Numerical targets for the first medium-term management plan (FY2022-2024)



Achieved all numerical targets (sales, operating profit, ROE) in the first medium-term business plan



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I will now explain the summary of the first mid-term management plan.

As you can see, we have achieved all the numerical targets in the first mid-term management plan. Compared to the time when the plan was formulated, while there were cost increases due to significant changes in the external environment, such as inflation-driven price hikes and exchange rate fluctuations, the Company was able to achieve its targets. This was due to the continued penetration of its value-proposition activities for Kampo over the past 16 years, which mitigated the impact of the drug price cuts in the mid-term revision. Additionally, in the April 2024 NHI drug price revision, 66 items were subject to price re-evaluation as money-losing products, resulting in an increase in drug prices, which contributed to the achievement of the targets.

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- 1 Continued expansion of the Kampo market by providing Kampo solutions tailored to each individual doctor
  - 2 Promoting the creation of evidence for Kampo medicine and the Science application of pre-symptomatic diseases (disorder) medicine through KAMPOMics
  - 3 Expanding sales of crude drugs and drug pieces in China and entering the traditional Chinese medicinal products business
  - 4 Renewing IT infrastructure to reform the Kampo value chain  
Promoting the use of AI and robots in crude drug selection and manufacturing processes
  - 5 Creating value through organization and human capital and promoting reform to boost job satisfaction
-  Initiatives to Realize Our Sustainability Vision

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I would like to explain the summary of our efforts on strategic challenges, which are the qualitative objectives you have seen.

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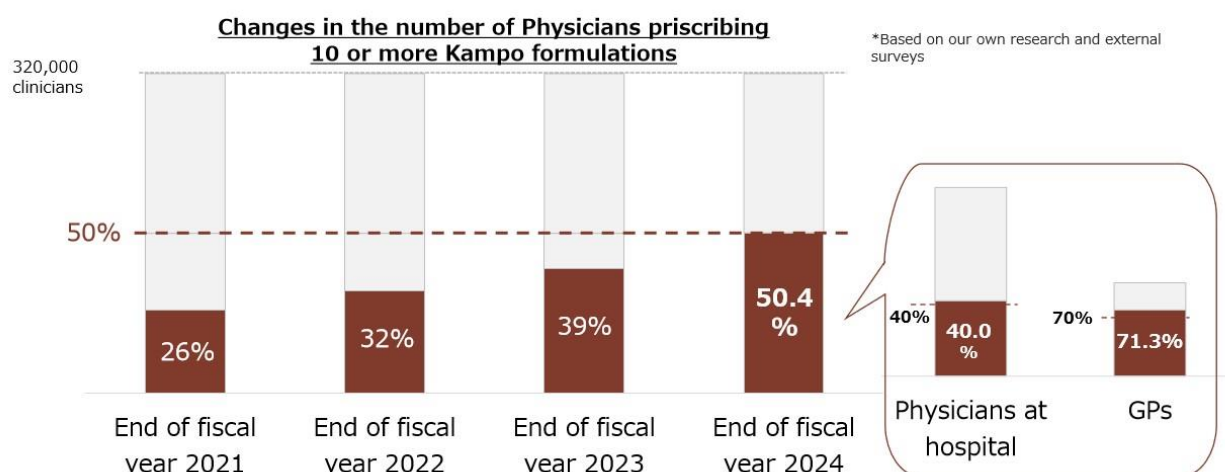
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# 1 Continued expansion of the Kampo market by providing Kampo solutions tailored to each individual doctor



In order to allow patients to receive Kampo treatment based on Kampo medicine in their daily medical practice,

Contribute to the realization of a medical field in which 50% Physicians prescribing 10 or more Kampo formulations drugs



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First of all, about the strategic challenge one.

In order to contribute to the realization of a medical practice where patients can receive Kampo treatment based on Kampo medicine in their daily practice, we have been aiming to contribute to the realization of a medical practice where more than 50% of physicians prescribing 10 or more prescription Kampo formulations, in other words, the majority of physicians, and the figure was 50.4% by the end of FY2024.

This is the result of the rapid expansion of information provision activities through e-promotion as a Kampo digital solution, especially after the COVID-19 pandemic, in addition to the real-time information provision activities by MRs. In FY2024, e-promotion accounted for more than 50% of the detail impact, which indicates the volume of information provided.

Through the use of e-promotion, we were able to provide information to physicians who had previously been unable to receive it. Additionally, by creating an environment where physicians can access the information they need, when they need it, and through the means they prefer, we have enhanced our ability to deliver information more effectively than ever before. This is the primary factor contributing to the achievement of having over 50% of physicians prescribing 10 or more Kampo formulations by the end of FY2024.

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## Comprehensive evidence package

Evidence package	Meta-analysis analysis	RCT (Randomization Comparative test)	Drugs Dynamics	Side effects Incidence survey
43 Rikkunshito	○	○	○	○
54 Yokukansan	○	○	○	○
100 Daikenchuto	○	○	○	○
* * *	○	○	○	○

Expanded range of prescriptions/areas/evidence

Qualitative improvement

<Listed prescriptions/diseases>  
Treatment guidelines  
Improved recommendation level in

Quantitative expansion

<Unlisted prescriptions/diseases>  
New inclusion in Treatment guideline

## Number of Treatment guideline included

161 cases, an increase of 10 from fiscal 2021



\*From the Treatment guideline Task Force of the EBM Committee of the Japan Society of Oriental Medicine  
Type A: There are cited papers, evidence, and recommendations are graded and described.  
Type B: Citations exist but no evidence grade or recommendation grading is provided  
Type C: No cited papers, no evidence grade, and no recommendation grading

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Secondly, I would like to discuss the strategic challenge two.

In terms of evidence building for prescription Kampo formulations, the number of medical guideline listings in 2024 was 161, an increase of 10 from FY2021.

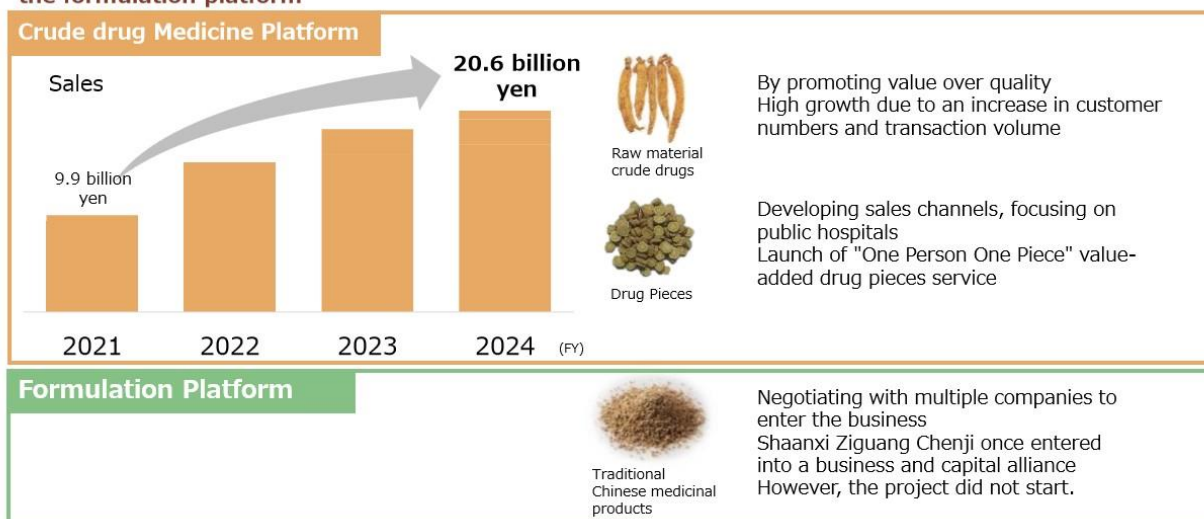
Although our goal of improving the quality of evidence and the number of Type B or higher included in the list was 103, partly due to the COVID-19 pandemic and other factors, we will continue to engage in ongoing evidence generation activities that will contribute to the expansion of evidence-based standardization of Kampo treatment based on treatment guideline.

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- Expand sales of crude drug platform, focusing on raw material crude drug and drug pieces medicine
- Continuing discussions on entering the traditional Chinese medicinal products business within the formulation platform



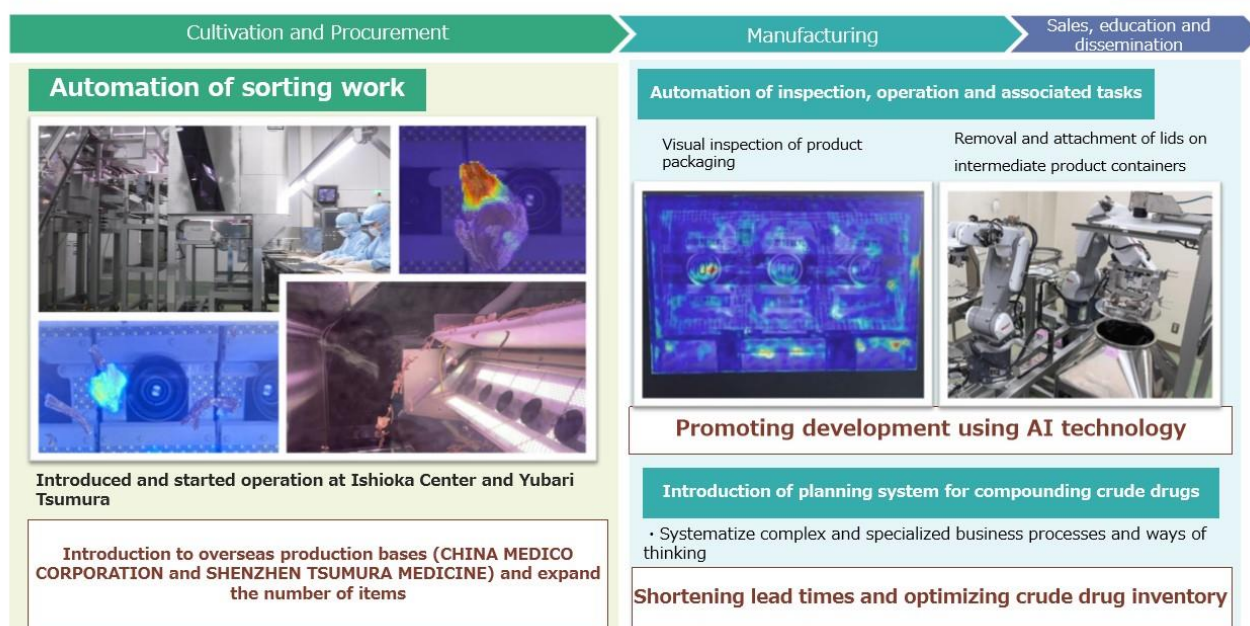
10

Thirdly, I would like to discuss the strategic challenge three.

The crude drug platform has more than doubled compared to FY2021, mainly through sales of high-quality raw material crude drugs and drug pieces with the crude drug GACP traceability, resulting in sales of JPY20.6 billion in FY2024.

In the second mid-term management plan, we will strive to expand sales and improve profitability at the same time by expanding the personalized medicine service for value-added drug pieces.

In the formulation platform, we entered into a business capital alliance with Shaanxi Unisplendour Life Care Pharmaceutical Co., Ltd. in FY2022, but the business has not yet commenced. While taking this precedent into account, we have yet to build a foundation for the traditional Chinese medicinal products business, although we are continuing discussions to consider alliances with traditional Chinese medicinal products companies. We will continue to address this as a key theme in our second mid-term management plan.



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Fourth, I would like to discuss the strategic challenge four.

In response to the long period of limited shipments in the first mid-term management plan, we have made major capital investments to increase production capacity in Japan and overseas in order to secure a stable supply system. At the same time, we have endeavored to generate results by introducing cutting-edge technologies to reduce manufacturing costs.

As part of our reform of the Kampo value chain, we have achieved automation and labor savings through the development and introduction of an AI-based automatic selection machine for crude drugs, as well as supply chain efficiency improvements through the development and introduction of a crude drug compounding instruction system.

In the area of automatic sorting machines for crude drugs, we developed a proprietary algorithm based on AI learning of image data for crude drugs with complex shapes and introduced it to the Ishioka Center and Yubari TSUMURA. In the future, we intend to introduce the system to our overseas bases and expand the range of target crude drug.

In the manufacturing process, while all lines have been robotized and automated, the automation of ancillary tasks remained a challenge; however, we have developed basic technology for the automatic removal and attachment of lids for stainless steel containers used for extract granules using robot arms. We will implement this in the production line in the second mid-term management plan.

The planning system for compounding crude drugs has been implemented to systematize the complex and specialized business processes involved in issuing instructions for crude drug lots to ensure that the prescribed ingredient balances are achieved in each prescription of Kampo products. In the future, we intend to develop this into a supply chain reform to improve CCC by shortening lead time and optimizing crude drug inventory.

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## Promoting efforts to Potential-Abilities Development and improve the work environment

### Corporate Philosophy penetration survey

— Average score for 30 questions in the Corporate Philosophy penetration survey (out of 5)

4.06      4.02      4.04

### Engagement Survey

— Overall index (maximum 5 points)

3.58      3.58      3.65

2022      2023      2024

### Measures

#### Career Challenge (Internal Recruitment system)

- Improve employee job satisfaction and motivation
- Discovering talented people and preventing them from leaving the company
- Strengthening organizational capabilities by putting the right people in the right positions

#### Self-career check-up system

- In addition to traditional career consultations, we also provide career consultation services.
- Supporting autonomous and proactive career development

#### Employee Trust Stock Compensation Plan (Stock Grant ESOP)

- Raise awareness and demonstrate abilities to realize the Vision
- Further fostering the desire to make significant contributions

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Fifth, I would like to discuss the strategic challenge five.

At the TSUMURA Academy, an in-house human resources development institution established in January 2019, we have been working to instill our philosophy, cultivate human skills, and develop management human resources. In the philosophy penetration survey, we scored four or more out of five points, and as you can see in the graph, we are continuing to do so.

In addition, we have fostered a culture of dialogue with purpose and value as the centripetal force and promoted initiatives to develop the autonomous potential of each individual and to improve the work environment.

Taking into account the results of the employee engagement survey, we have introduced the Career Challenge (Internal Recruitment System), the Self-career check-up system, and the Employee Trust Stock Compensation Plan (Stock Grant ESOP), among others.

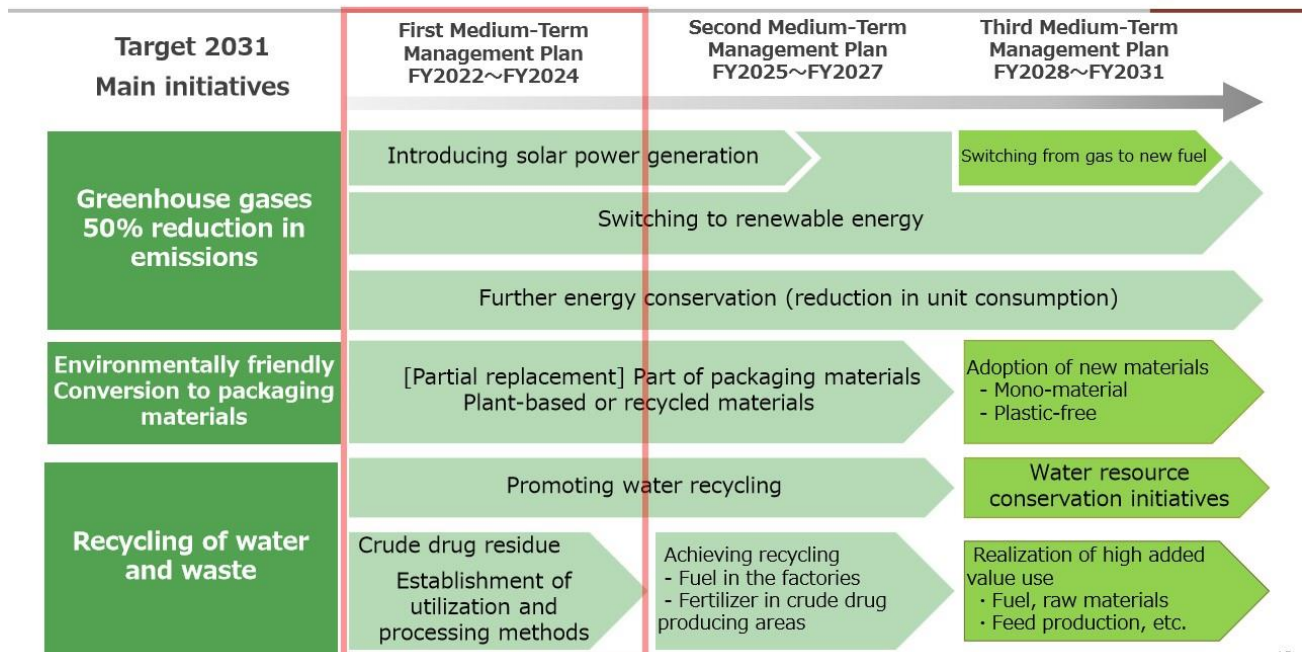
We have established an organization and human capital policy committee and have been working to strengthen organizational functions that promote management and business strategies. Going forward, we will accelerate initiatives that promote job satisfaction and motivation among each and every employee and further enhance individual capabilities and organizational strength through the appropriate placement of personnel.

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## Sustainability Targets 2031



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Finally, I would like to discuss our efforts to realize our sustainability vision.

In line with our national commitment to achieve carbon neutrality by 2050, we have established the TSUMURA Group Sustainability Vision. As a milestone, in the Sustainability Targets 2031, which spans the same period as the Long-Term Management Vision 2031, we have been promoting initiatives centered on reducing greenhouse gas emissions by 50%, switching to environmentally friendly packaging materials, and recycling water and waste, as you can see here. Progress in the first mid-term management plan was generally in line with plans.


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First Medium-Term Management Plan  
FY2022~FY2024

<p>Improve CDP rating (Climate Change)</p>	<p><b>Goal</b> B and above</p>	<p><b>Achievements</b> <b>A</b> Climate Change      <b>A</b> Water Security</p>	
<p>TCFD: Enhancing climate-related financial disclosure information</p>	<p><b>Goal</b> Basic content Analysis and disclosure</p>	<p><b>Achievements</b></p> <ul style="list-style-type: none"> <li>• Scenario analysis based on TCFD</li> <li>• LEAP analysis based on TNFD</li> </ul>	

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As a result of these efforts, we received the highest A ratings in both climate change and water security assigned to us by CDP, a non-profit organization that operates an environmental information disclosure system, as assessed by environmental rating agencies. Double-A ratings are high, within 0.3% of the total, and we will continue our efforts to maintain and improve our ratings.

For the TCFD climate-related financial disclosure information task force, we have studied the measures to be taken and disclosed indicators and targets in FY2022, including scenario analysis, risk and opportunity impact assessment, and business impact assessment based on the TCFD recommendations.

The TNFD nature-related financial disclosure task force registered with the TNFD Adopters in September 2023 and disclosed the results of its analysis of nature-related issues using the LEAP approach, locate, evaluate, assess, and prepare in FY2024.

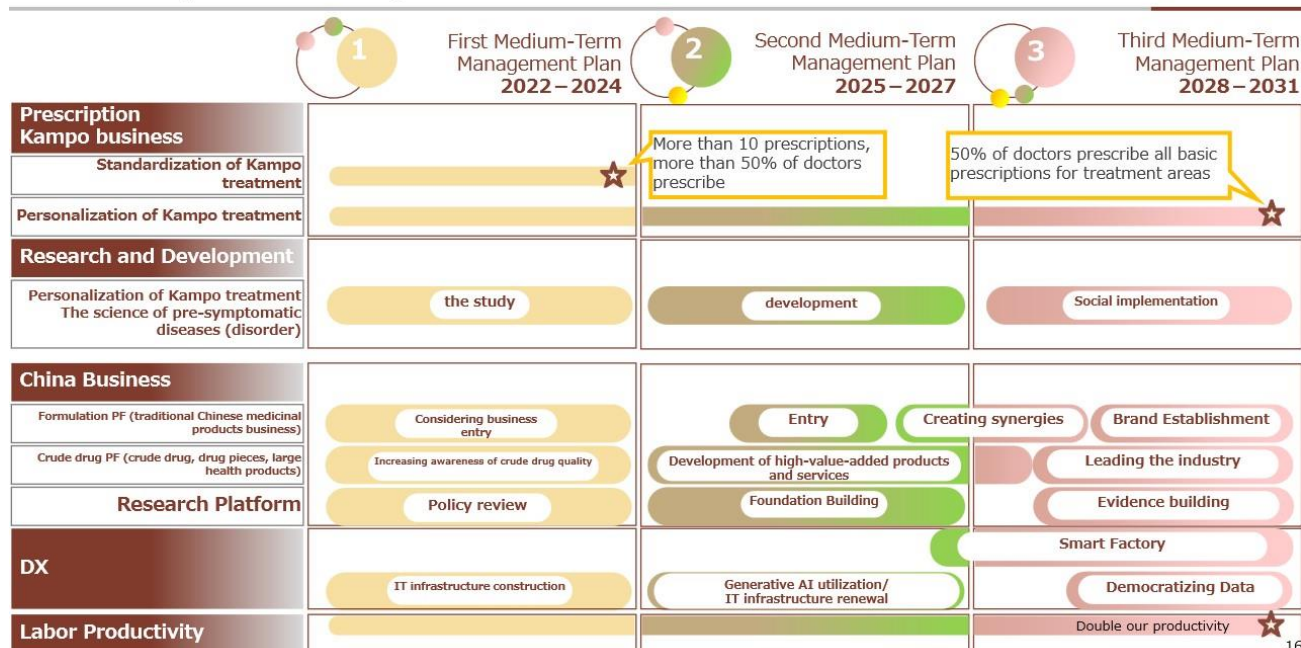
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# Roadmap to realizing TSUMURA VISION “Cho-WA” 2031



Next, I would like to explain the second mid-term management plan.

The theme of the second mid-term management plan is to promote growth strategies and investments to realize a future in harmony (Cho-WA).

Here is the roadmap to realize TSUMURA VISION “Cho-WA” 2031.

From what was presented at the time of the announcement of Vision 2031 and the first mid-term management plan, the plan for business entry of the formulation platform in the China business has been revised from the first period to the second period.

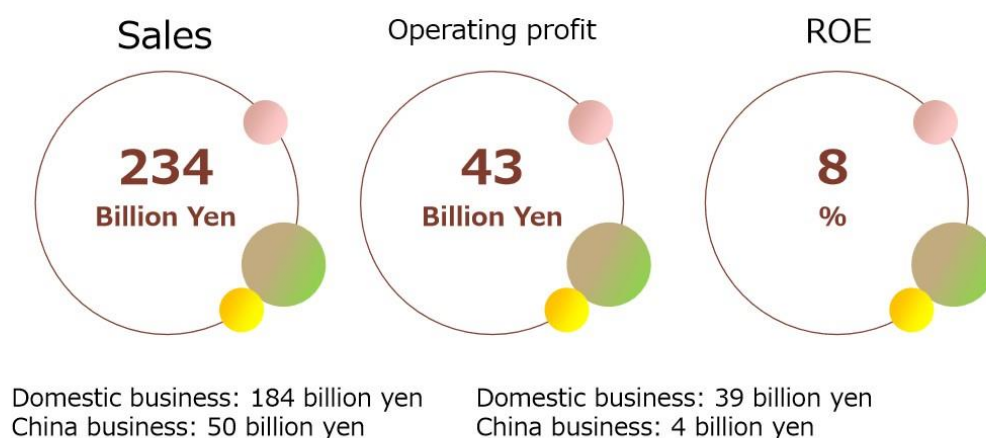
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## Numerical targets (FY2027)

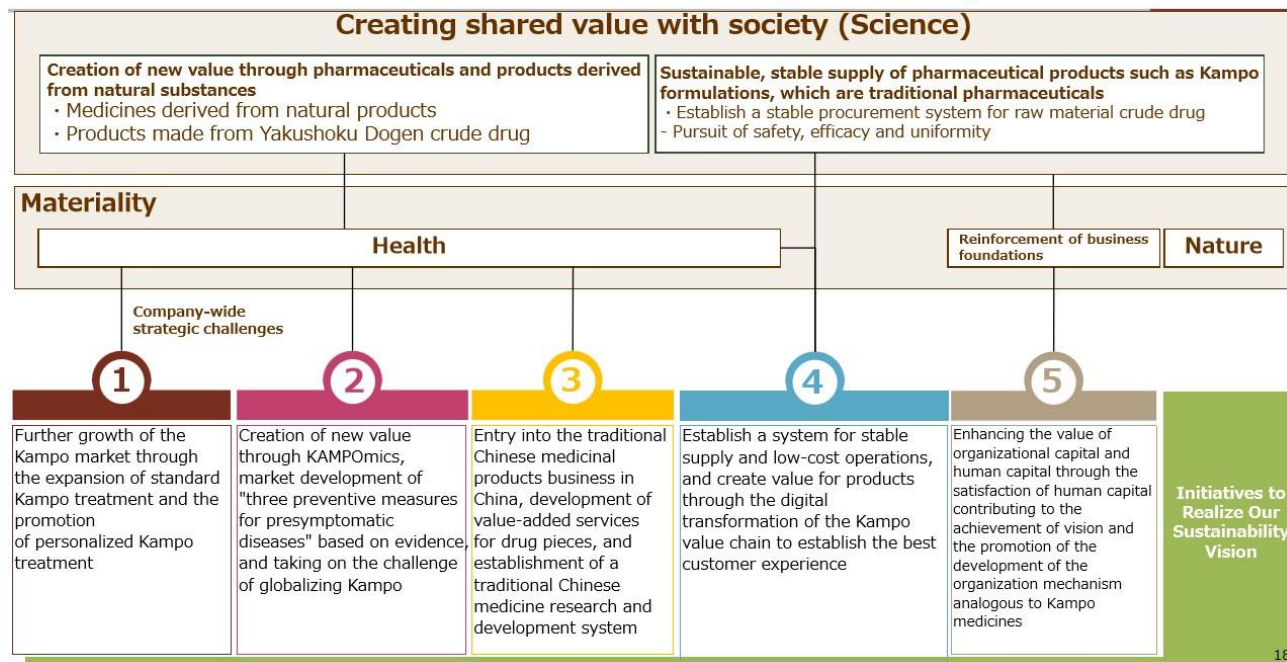


Assumptions: (NHI drug price revision) FY2025, FY2026, FY2027  
(Exchange rate) 20.1 JPY/CNY (2025-2027)

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The numerical targets for FY2027, the final year of the second mid-term management plan, are sales of JPY234 billion, operating profit of JPY43 billion, and ROE of 8%. The breakdown for domestic and China is as shown.

## Second Medium-Term Business Plan strategic challenges



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The five strategic issues, which are the qualitative objectives of the second mid-term management plan, are as shown below.

I will explain one by one. In addition, we will conclude this presentation with an explanation of our goals for the second period of our efforts to realize our Sustainability Vision.

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<u>Social Background</u>	<u>Contribution of Kampo Medicine</u>
<div data-bbox="172 347 481 488"> <b>Geriatric health</b> </div> <ul style="list-style-type: none"> <li>■ <b>Increasing elderly population</b> <ul style="list-style-type: none"> <li>- Increase in dementia patients</li> <li>- Increasing number of heart failure patients</li> <li>- Increasing frailty of body and mind</li> </ul> </li> </ul>	<div data-bbox="954 347 1401 488"> <b>Contributing to realizing a society of healthy longevity</b> </div>
<div data-bbox="172 526 481 676"> <b>Cancer (supportive care)</b> </div> <ul style="list-style-type: none"> <li>■ <b>Increase in cancer patients</b> <ul style="list-style-type: none"> <li>- Side effects and complications associated with treatment (of health issues)</li> <li>- Increase in cancer survivors</li> </ul> </li> </ul>	<div data-bbox="954 526 1401 676"> <b>Improving QOL of cancer patients</b> </div>
<div data-bbox="172 705 481 862"> <b>Women's Health</b> </div> <ul style="list-style-type: none"> <li>■ <b>Increase in the number of female workers</b> <ul style="list-style-type: none"> <li>- Menstrual disorders</li> <li>- Pregnancy disorders</li> <li>- Prenatal and postpartum disorders</li> <li>- Menopausal disorders</li> </ul> </li> </ul>	<div data-bbox="954 705 1401 862"> <b>Supporting women through all stages of life</b> </div>

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Strategic challenge one is the further growth of the Kampo market through the expansion of standardization of Kampo treatments and the promotion of Kampo market.

In order to create common value with society, the Tsumura Group will work together with medical professionals to solve the social issues in Japan, as shown below, with Kampo. The aging population has led to an increase in patients with dementia and heart failure associated with high blood pressure. Meanwhile, advances in cancer treatment have reduced mortality rates, but the number of cancer survivors, including those undergoing treatment or follow-up care, is on the rise, on the other hand. As a national policy, the government is promoting the rehabilitation (get back to society) of cancer survivors and their return to work by preventing cancer relapses and maintaining and improving their quality of life.

In addition, while the number of female workers has been increasing year by year, accounting for approximately 45% of the total workforce, women suffer from various diseases specific to their gender and, in a stressful society, experience prolonged physical and mental disorders due to autonomic nervous system and hormonal imbalances, resulting in significant social losses.

We have positioned the elderly, cancer supportive care, and women's health as three priority areas, and will continue to work toward solving these pressing social issues in Japan through Kampo.

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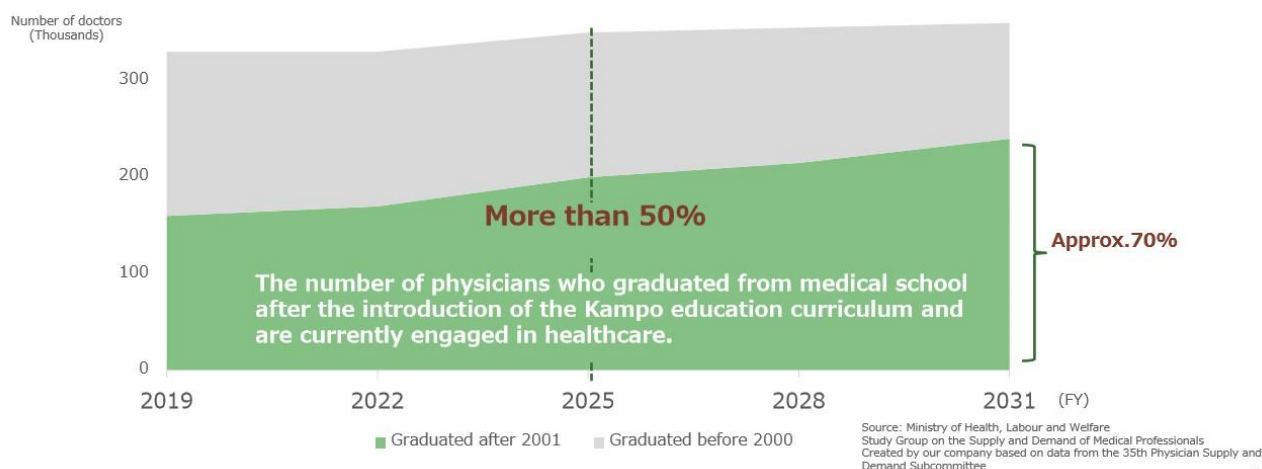
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The percentage of doctors who have received Kampo medicine education has been increasing year by year



- The percentage of physicians who graduated from medical school after the introduction of Kampo medicine education and are engaged in healthcare in 2025 is over 50%
- This is expected to increase to approx. 70% of the total by 2031



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We will introduce the background behind the continuing increase in the number of doctors practicing Kampo treatment in clinical settings.

This graph, based on data from the Ministry of Health, Labor and Welfare, shows the percentage of physicians who graduated from medical school after the introduction of Kampo medicine education at university medical schools and medical colleges and who are engaged in medical practice in each fiscal year.

Since 2001, items related to Kampo have been gradually incorporated into the Ministry of Education, Culture, Sports, Science and Technology's Model Core Curriculum for Medical Education, resulting in more in-depth study of the subject. As a result, Kampo medicine education has now been introduced in all 82 medical schools and universities.

The percentage of physicians who have graduated with an education in Kampo medicine is increasing every year and is estimated to exceed 50% by 2025. It is estimated to increase to about 70% by 2031.

Pre-graduation Kampo medicine education at a university medical school or medical university, followed by two years of clinical training with Kampo prescription as a resident under the supervision of a mentor at a designated clinical training hospital immediately after obtaining a medical license, and then accumulating experience in Kampo treatment as a practicing physician after graduation—in this era, there is a high probability that Kampo treatment will be incorporated into medical practice upon establishing a private practice.

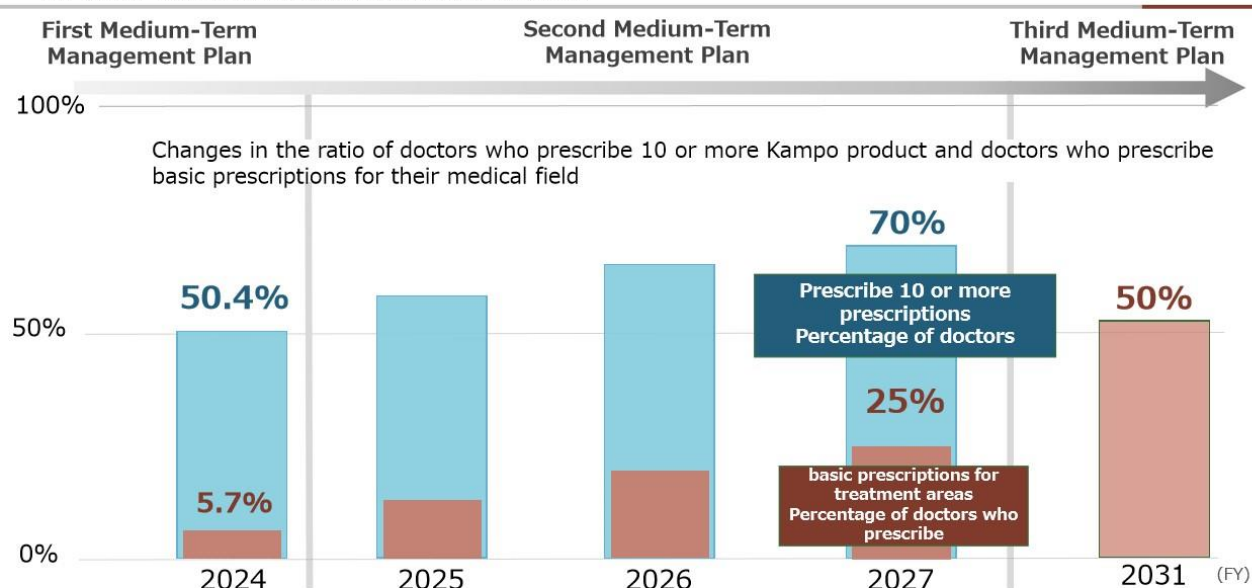
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**The number of doctors who treatment (of health issues) with basic prescriptions for each medical field will increase to 25%**



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Our goal is to contribute to the realization of a medical practice where patients can receive individualized Kampo treatment in any department of any medical institution. To achieve this goal, it is necessary to realize a medical practice where one out of two doctors, or more than 50%, treat patients with basic prescriptions for each area of medical treatment based on Kampo medicine. Because it must be a medical practice where patients with a variety of disease symptoms can receive Kampo treatment in the first or second facility.

Currently, approximately 5.7% of physicians treat patients using basic prescriptions based on Kampo medicine in each medical field; however, we aim to achieve a state where 50% of physicians are doing so by 2031. To this end, by the end of FY2027, which is the final year of the second mid-term management plan, we will strive to achieve a state where 25% of physicians are doing so, while simultaneously aiming for approximately 70% of physicians to prescribe 10 or more prescriptions.

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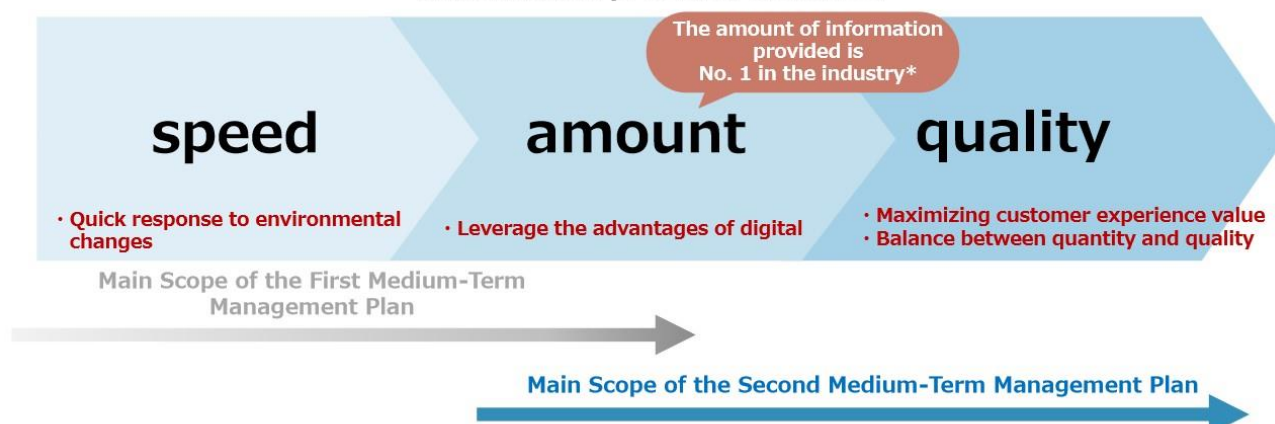
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## Developing e-promotion that balances "quantity" and "quality"

### <Information provision activities>



\*Source: Intage Healthcare Co., Ltd. "Impact Track"  
Estimated number of details through internet channels for the FY 2024.

23

The average annual actual sales of physicians prescribing basic prescriptions for treatment areas in FY2024 is approximately three to 3 1/2 times the average annual actual sales of physicians prescribing 10 formulations. We have created a database of basic information, prescription names, prescription amounts, actual sales, etc. of physicians prescribing 10 or more Kampo formulations, which now account for more than 50% of our prescriptions. We will evolve from a focus on speed and quantity to a focus on quantity and quality through a data-driven approach.

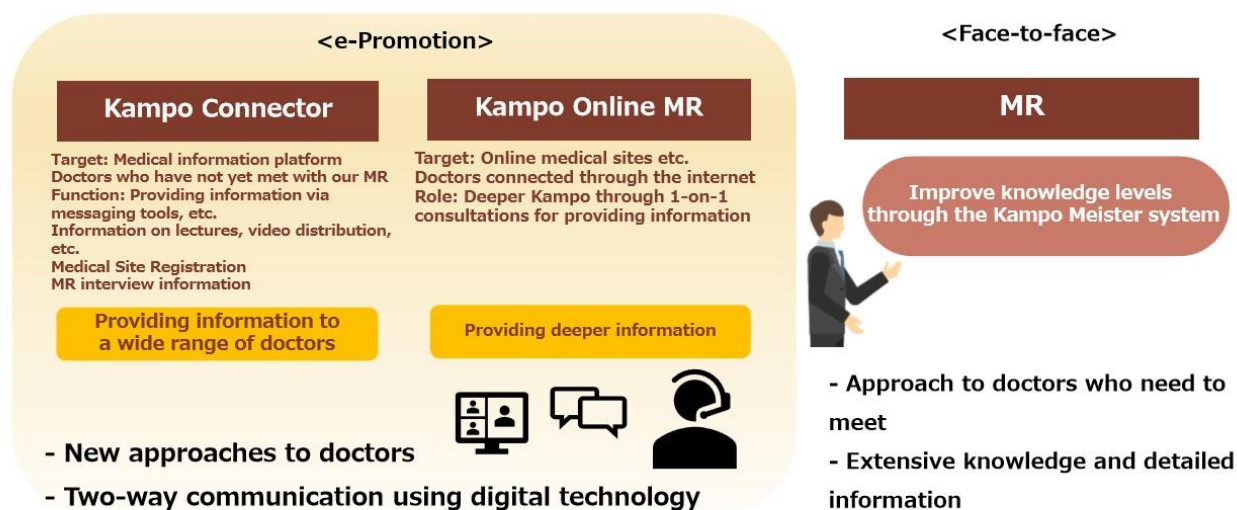
We already rank first in the pharmaceutical industry in 2024 in terms of the number of estimated details via the Internet, and we believe that our digital activities have reached a certain level of success in terms of awareness and memory of our Kampo products.

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### Expanding information channels and engaging in thorough two-way communication



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In the second mid-term management plan, we will create the best customer experience value by accurately grasping the needs of each individual physician, providing necessary and useful information for patient treatment digitally, and providing broad and deep Kampo information through real interviews with MRs.

In providing information through our Kampo Digital Solutions, we will expand our information channels by introducing Kampo Connectors, who will serve as liaisons between physicians who have newly started prescribing TSUMURA's Kampo formulations and MRs and Kampo Online MRs. Additionally, we will introduce Kampo Online MRs to physicians who are already prescribing TSUMURA's Kampo prescription formulations, as well as physicians connected through online digital platforms such as HP and GP, to support the evolution of Kampo treatment through these new information channels.

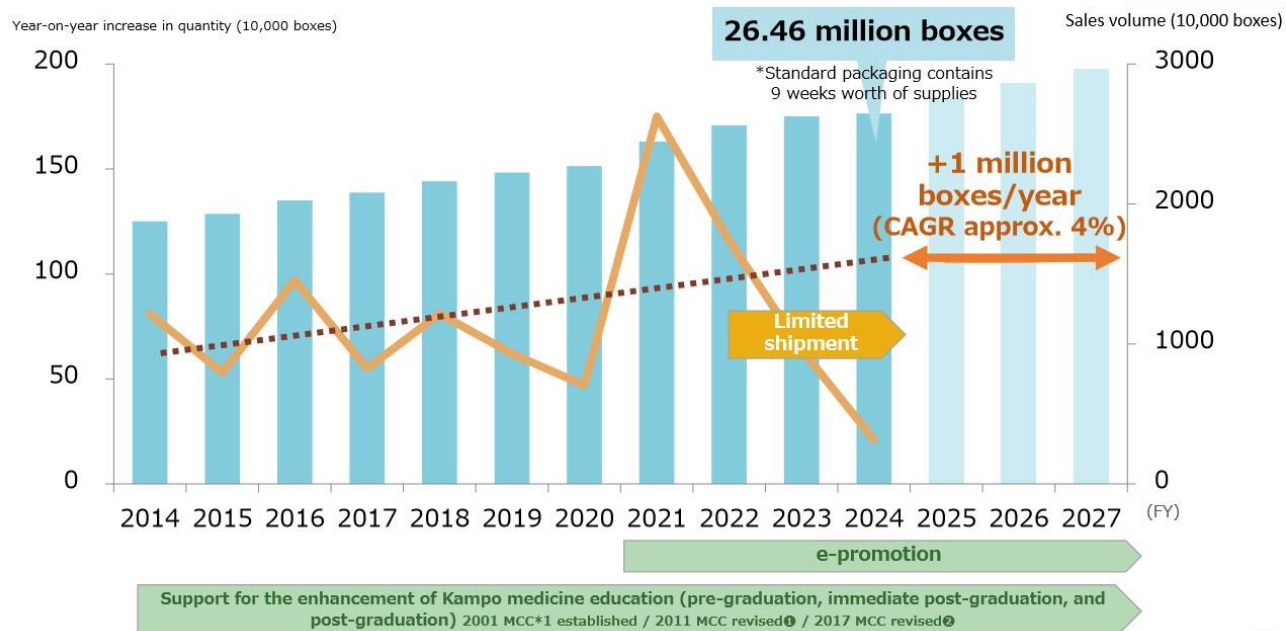
In addition, MRs will improve their level of proficiency in Kampo knowledge through the Kampo Meister System and provide flexible and extensive Kampo information beyond digital information to ensure attentive and interactive communication tailored to the needs of each individual physician.

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## Sales volume plan for prescription Kampo product prescription Kampo formulations (129 prescriptions)



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With this information provision system, we have set a sales volume target of 1 million boxes per year in standard packaging in our second mid-term management plan. In terms of CAGR, the estimate is approximately 4%.

With a basic policy of sustainable growth at cruising speed, we will conduct business activities and investments based on overall optimization, including procurement of crude drugs, securing production capacity, and building a system for providing diverse sales information.

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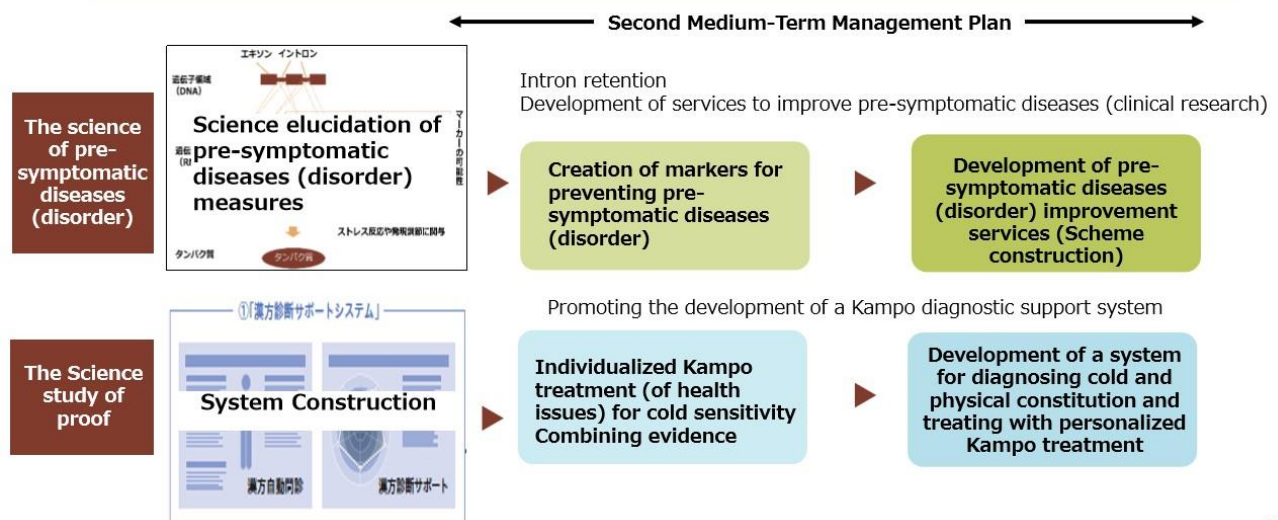
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- ◎ First Medium-Term Management Plan: Conduct basic research with an eye toward future technological developments
- ◎ Second Medium-Term Business Plan: Conduct clinical research to increase future feasibility



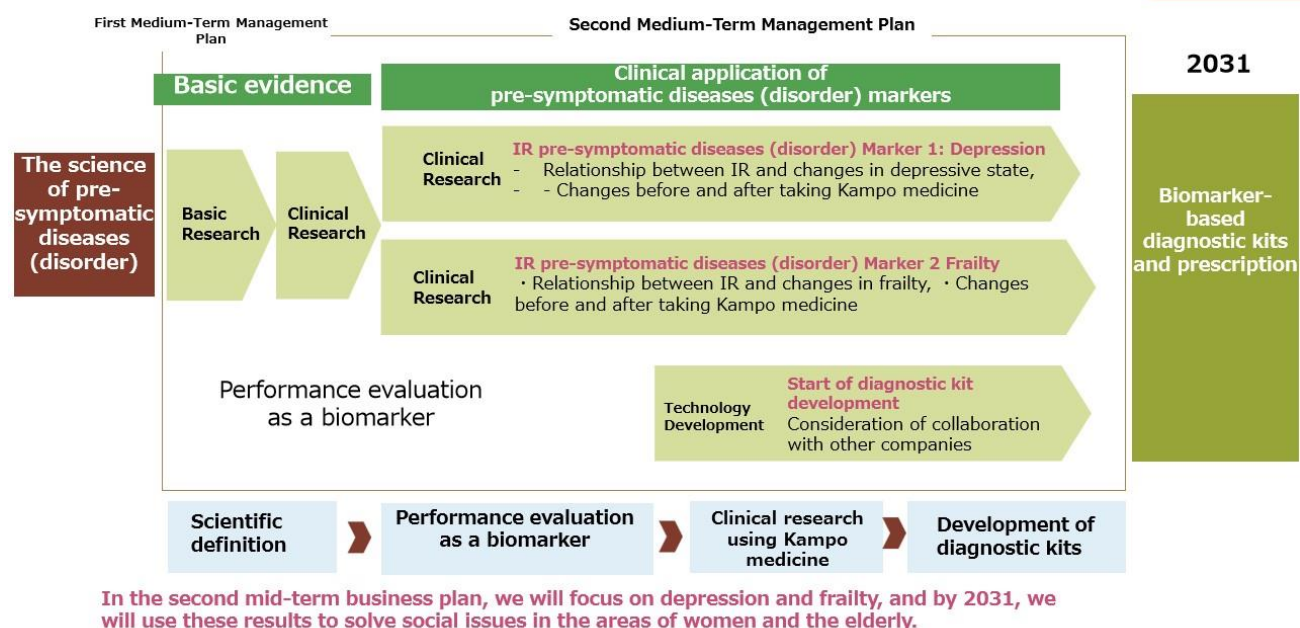
27

The strategic challenge two is the creation of new value through KAMPOMics, the market development of evidence-based three preventive measures for pre-symptomatic diseases (disorders), and the challenge of globalizing Kampo.

Our trademarked KAMPOMics is our proprietary research package that combines ingredients including cutting-edge technological research on metabolomics, genetics, gut bacteria, and systems biology to provide an integrated understanding of the complex actions of Kampo medicines.

With this KAMPOMics, we aim to scientifically define specific pre-symptomatic diseases (disorder), establish diagnostic methods, and establish evidence-based Kampo pre-symptomatic stage treatment as the science of pre-symptomatic diseases (disorder). Based on the results of the basic research to date, the second mid-term management plan will advance clinical research to increase future feasibility.

In the science of symptoms, we will promote the development of a system from constitutional diagnosis to personalized Kampo treatment by combining the development of a Kampo diagnosis support system and the creation of evidence for personalized Kampo cold treatment.



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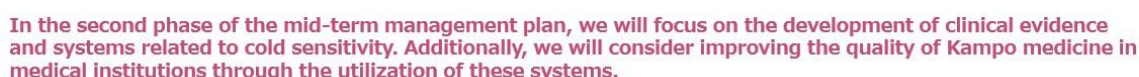
In the science of pre-symptomatic diseases (disorder), we will build on previous research results to evaluate the performance of intron retention and IR as markers of pre-symptomatic diseases (disorder), and to advance clinical research mainly in depression and frailty. To establish a scheme for services to improve pre-symptomatic diseases (disorder) using pre-symptomatic diseases (disorder) markers, we will collaborate on the practical application of diagnostic kits and accumulate cases of pre-symptomatic diseases (disorder) treatment using Kampo.

In research for personalized Kampo treatment, since 2018, we have been working with collaborating institutions on registry research using Kampo medical data and case accumulation to develop and improve the accuracy of predictive models of signs and symptoms.

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In addition, as an individualized Kampo treatment, we will conduct clinical research on clinical symptoms and genetic factors in patients with sensitivity to cold to accelerate the accumulation of clinical evidence.

### - Revised milestones based on progress in the first mid-term business plan

	First Medium-Term Management Plan FY 2022-2024	Second Medium-Term Management Plan FY 2025-2027	Third Medium-Term Management Plan FY 2028-2031
Formulation Platform	Considering business entry Partnership negotiations	Business entry and expansion Entry into the traditional Chinese medicinal products business and Foundation Building	Brand Establishment As a traditional Chinese medicinal products company Brand Establishment
Crude drug Platform	Increasing awareness of crude drug quality Centered on crude drug Sales expansion	Development of high-value- added products and services Increase sales ratio of drug pieces and value-added services	Leading the industry Towards becoming a trusted Chinese medicine company in China
Research Platform	Policy review	Foundation Building	Evidence building

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The strategic challenge three is to enter the traditional Chinese medical products business in China, develop value-added services for drug pieces and establish a traditional Chinese medicine development system.

In the Chinese business, based on the progress of the first mid-term management plan, we have revised the plan to the second mid-term management plan to enter the formulations platform business and expand the business.

In the formulations platform, there is no change in our business policy, and we are currently in contact with several potential partners, but we are proceeding with caution based on precedent.

In the crude drug platform, we are currently negotiating a technology and business alliance for the drug pieces business. Through quality improvement and expansion of value-added services, we will improve the effectiveness and convenience of treatment for patients.

The research platform is positioned to work on the formulations of ICH-level quality standards, the global standard for pharmaceuticals in the Kampo value chain, from crude drug seeds to finished products, and to be a research institute for the development and marketing of traditional Chinese medicinal products at this quality standard level. Preparations are underway to promote research in collaboration with external partners who possess excellent human resources, know-how, and research facilities.

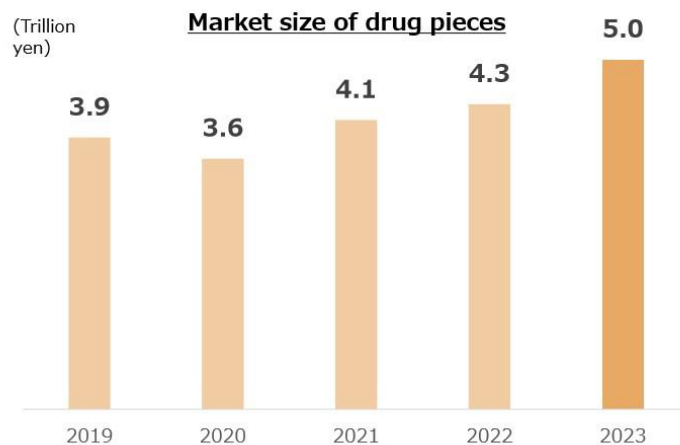
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- Drug pieces are essential drugs in a diagnostic and treatment method based on "dialectic therapy" in traditional Chinese medicine
- Supported by policies promoting the development of traditional Chinese medicine, the market has continued to grow except for the early period of the COVID-19 pandemic



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

\* Chinese Ministry of Industry and Information Technology, National Bureau of Statistics of China data (calculated at 1 yuan = 20 yen)

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As for the market environment for the drug pieces, the core business of the crude drug platform, the market size is on an expansion trend to approximately JPY5 trillion by 2023, as shown in the graph below.





In Chinese medicine, a traditional Chinese medicine, diagnosis and treatment have been based on a unique system of medicine called valves and treatment, and each patient has been treated with a prescription that suits his or her individual needs. Considered a pioneer in personalized medicine, traditional Chinese medicines remain an indispensable component of traditional Chinese medicine.

At present, as shown in the photo on the right, there are issues regarding convenience, portability, and uniformity associated with patients extracting drug pieces of traditional Chinese medicines prescribed by Chinese medicine practitioners at home. Additionally, there are concerns about efficacy and safety stemming from the raw herbal materials used.

While there are issues regarding the quality of the raw material crude drugs for these traditional Chinese medicines, the Chinese government has issued a policy that emphasizes the traceability of crude drugs, and demand for Chinese medicinal drug pieces made from GACP-controlled and traceable raw material crude drugs is expected to increase.

## China Business: “Personalized Medicine” as a Value-Added Service for Drug Pieces

- Expanding value-added services for drug pieces that improve patient convenience through uniformity and portability

Prescribed drug pieces		Extracted as prescribed and available in a variety of dosage forms		
		Decoction	Liquid Extract	Extract powder
				
Patients The effort required to brew	× (Takes time and effort)	○ (No hassle)	○ (No hassle)	○ (No hassle)
Homogeneity and stability	△	○	◎	◎
Storage and carrying Convenience	×	△	○	○
Technical difficulty	-	Low	High	High

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In the crude drug platform, we are discussing technical and business alliance in the field of the drug pieces business. We aim to provide patients with high quality drug pieces and value-added services for personalized medicine through synergy effects of the sales channels and technologies of both parties.

Our subsidiary in China, CHINA MEDICO CORPORATION, produces traditional Chinese medicines drug pieces from GACP-controlled and traceable raw material crude drug, and instead of having patients extract the herbs at home, we decoct the drug pieces according to each patient's prescription at our smart factory facilities, process and package the herbs into decoctions, liquid extracts, and extract granules, and then directly mail them to the patient. The personalized medicine service is now available.

Personalized medicine is expected to greatly improve efficacy, safety, homogeneity, and even convenience, as it allows traditional Chinese medicine based on each patient's prescription by a Chinese physician in the dosage form desired by the patient. We believe that this business has tremendous potential, as it is expected to not only expand the market for drug pieces, but also to replace prescriptions from the traditional Chinese medicinal products and compounded granules.

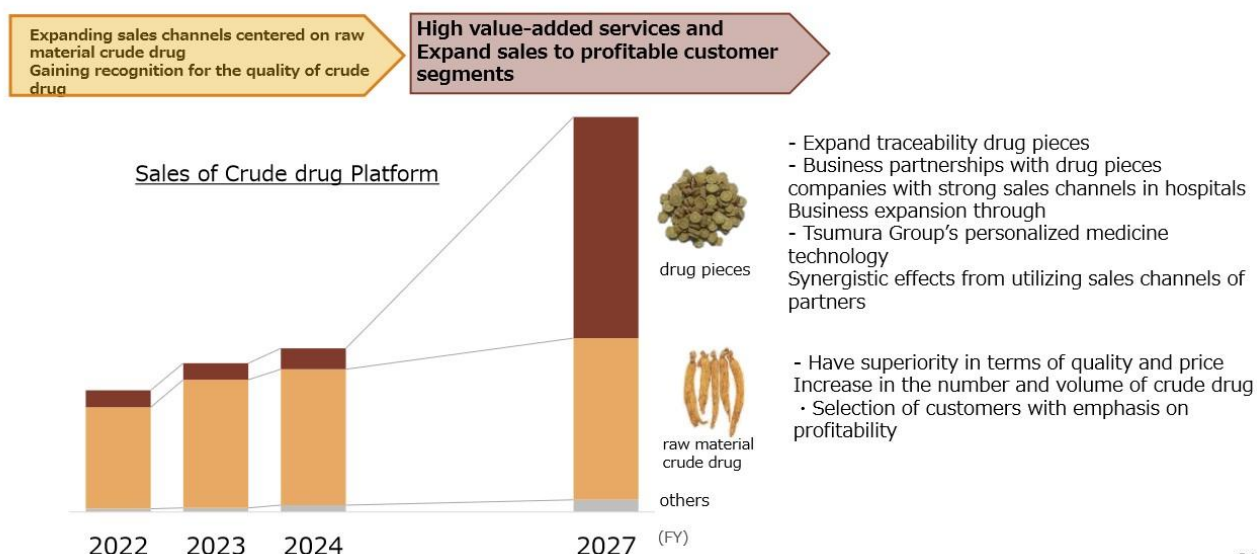
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## Aiming to expand business scale with a focus on drug pieces and Personalized Medicine



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Based on this analysis of the environment surrounding drug pieces, the crude drug platform will focus on expanding its business in the second mid-term management plan by improving business scale expansion and profitability, focusing on drug pieces with higher profit margins than raw material crude drug, and value-added services for drug pieces, particularly personalized medicine.

Specific measures for this include: first, we aim to expand the types and quantities of traditional Chinese medicines drug pieces from raw material crude drug by implementing GACP management and ensuring traceability. Second, we will work to expand sales of traceable drug pieces by leveraging our quality advantages, including business partnerships with drug pieces companies strong in hospital distribution channels and improving services for patients through Tsumura Group's proprietary personalized medicines technology. Through these measures, we aim to increase the sales ratio of drug pieces in the crude drug platform to over 50%. This will further improve the profitability of the crude drug platform and increase the overall profits of the China business.

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### Achieving both stable supply and appropriate inventory

### Product value improvement

### Low-Cost Operation

The installation base for automatic crude drug sorting machines and Expansion of target items

Accelerating manufacturing digital transformation

Innovating information provision activities through Kampo digital solutions

Improving sales plan execution accuracy and introducing production and procurement simulation

Cultivation, processing and storage of crude drug



Quality Control and Manufacturing



Sales, education and dissemination



### Labor productivity improvement

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The strategic challenge four is to establish a stable supply and low-cost operation system and improve product value by DXing the Kampo value chain for the purpose of creating the best customer experience value.

The Tsumura Group is promoting DX for purpose, which covers the entire Kampo value chain, with the aim of creating the highest customer experience value.

To further accelerate these efforts, a DX Committee will be established in FY2025, and each working group will be set up under the committee to promote DX measures across the organization. In order to create the highest customer experience value by promoting DX, we will promote Kampo digital solutions, stable supply and appropriate inventory, product value enhancement, and low-cost operations.

Specific initiatives include: innovation of information provision activities through Kampo digital solutions, as explained in the strategic challenge one; upgrading the accuracy of sales plan execution and introducing production and procurement simulations; improving the efficiency of manufacturing processes and product quality; expanding the number of locations where automatic crude drug selection machines are installed and the number of products covered; and accelerating the Acceleration of manufacturing DX to reduce the number of night workers.

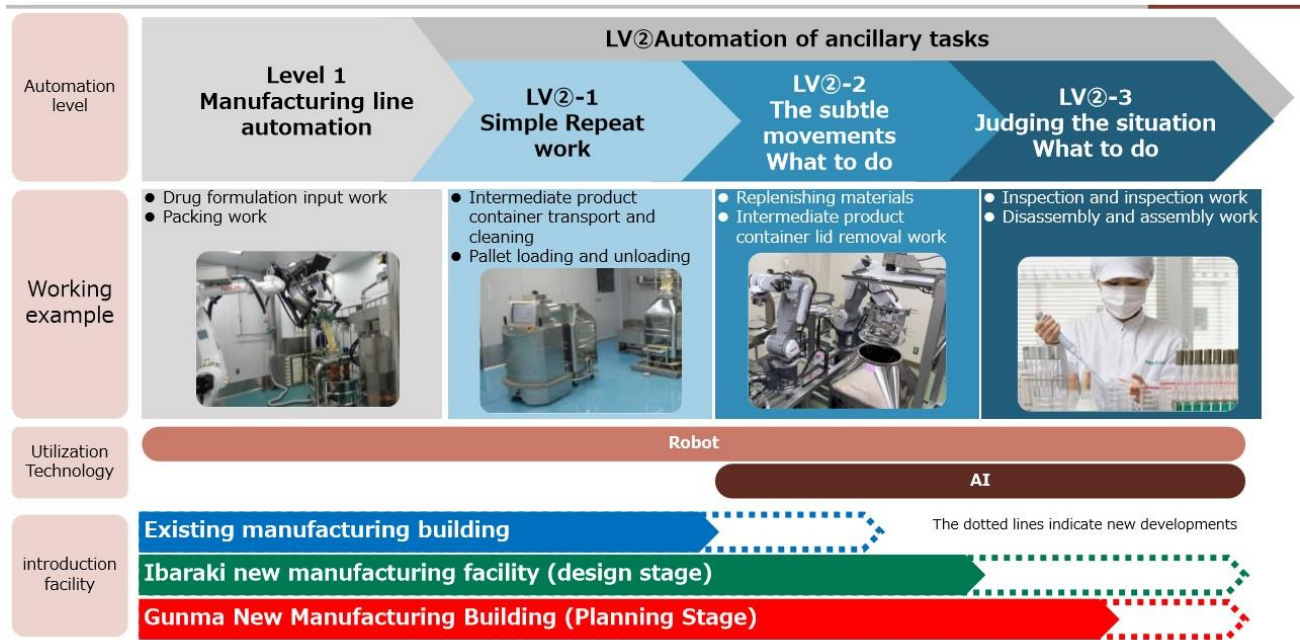
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## Expanding the scope of automation towards smart factories



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As in the first period, we plan to make large capital investments to ensure a stable supply system in the second mid-term management plan. We plan not only to increase the capacity of existing production bases, but also to expand the scope of automation of manufacturing processes at new production bases, starting from the design stage, in order to create a smart factory.

By FY2024, the final year of the first mid-term management plan, we have introduced robots to all manufacturing processes, promoting automation, manpower saving, and labor saving in the transfer of large containers and the loading and unloading of cleaning pallets.

At the same time, while placing the highest priority on product supply, we have been studying the automation of ancillary operations such as replenishing packaging materials and removing and attaching intermediate product container lids, which require minute movements, and will aim to implement these automated operations in the second mid-term management plan.

We will work on the development and implementation of automation by replacing manual labor as much as possible, focusing on tasks with visual information and utilizing new robotics technology, cameras, sensors, and even AI, aiming to realize a smart factory and double physical labor productivity.

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The strategic challenge five is to increase the value of the organization and human capital by fulfilling human capital that contributes to the realization of the Vision and promoting the development of an organization mechanism analogous to Kampo medicines.

With the corporate purpose, we are practicing management aimed at realizing our vision to embody our basic philosophy, and since 2012, we have been continuing various efforts to improve the value of our organizational and human capital, which are our core capital for this purpose.

In the first mid-term management plan, we have been working on activities to spread our philosophy, coaching, and team building, with the aim of creating an organization that is like an organization mechanism analogous to Kampo medicines, a group of people who pave new paths and are trusted by everyone in the Kampo traditional Chinese medicines business, for which there is no model in the world.

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Establish a system where the HR department provides support from recruiting and training personnel to organization development

Introduced a job-based personnel system for managerial positions



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In the second mid-term management plan, the HR division will be newly established, with three departments, human resources department, and organizational development department, and Tsumura Academy department, and the organizational development department will be newly established to further strengthen functions related to organizational development.

Organizational development is a measure that utilizes coaching and team-building techniques to address the various work styles of members within each organization, deepen their relationships with each other, and strengthen cooperation and connections among departments and members. The organizational development function will help the line manager to improve the quality of the team's relationships, thoughts, and actions, and ultimately the quality of the team's results, so that the team can achieve maximum results.

In order to increase the value of organizational and human capital that contributes to the realization of our Vision, we have introduced a job-based personnel system for management positions beginning in FY2025.

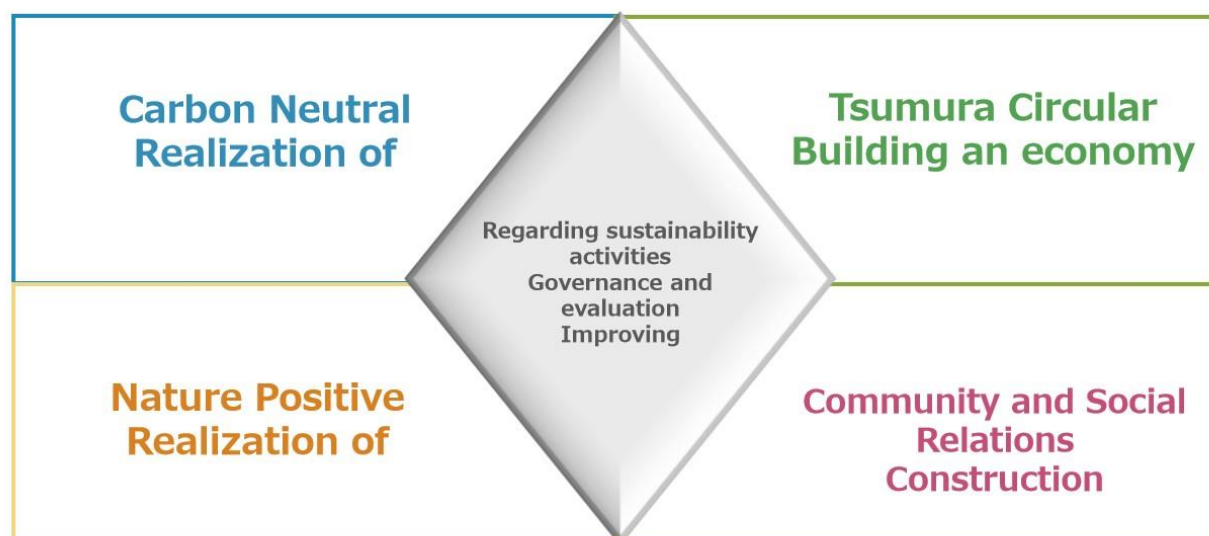
By clarifying the vision of each organization and the work required for each organizational function, and by clarifying the duties and skills required for each post, we will aim to maximize the results of each organization as a team in order to realize our vision by assigning the right people to the right places by combining the above.

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## Sustainability Category



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Finally, I would like to discuss our efforts to realize our sustainability vision.

To realize our sustainability vision, we are promoting various initiatives from the following four perspectives in order to achieve our Target 2031.

In terms of realizing carbon neutrality, we have installed solar power generation systems at each of our production sites and will continue to work on reducing GHG emissions, along with switching to CO2-free electricity at our manufacturing sites.

In terms of building TSUMURA Circular Economy, we have launched a product in which the container of bath herb has been changed to a material containing bio-polyethylene, and we will continue to promote the change to plant-derived and recycled materials in the future.

In terms of realizing nature positive, TNFD's LEAP approach will be used to evaluate and analyze nature-related risks and opportunities for crude drug production sites and production bases, and based on this analysis, measures will be taken at sites where dependence on and impact on natural capital is expected, leading to activities to protect the natural environment.

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## Sustainability Targets 2027



Sustainability Classification	Major items (issues)	Indicators (*LTI-II indicators)	2024 Prospects	Fiscal year 2027 the goal
Carbon Neutral Realization of	GHG	GHG emissions reduction (Scope 1, 2)*	18% reduction	15% reduction
Nature Positive Realization of	Cultivation research of crude drug	Cultivation of wild crude drug (number of items)*	4th item	7 items
	Recharge forests, soil and water resources	Biodiversity Conservation Activities	1 Result	4 Results
Tsumura Circular Building an economy	plastic	New material rate (%) *	0%	30%
	Industrial waste	Promoting the use of crude drug residue (Values converted into resources, %)	10.6%	30%
	water	Water reuse rate (%)	47%	60%
Community and Society Building Relationships	Crude drug producing areas and production bases	Collaboration with herbal crude drug growing areas and local communities	1 Result	6 Results
	• Conservation of the Nature environment			
	• Regional development (education, employment)	Sustainability education for executives and employees	0 Results	5 Results
	• Employee training			

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In conjunction with FY2027, the final year of the second mid-term management plan, we have set each issue and numerical target in four sustainability categories as Sustainability Target 2027, as shown in the figure below.

In addition, as targets for FY2027 linked to the mid- to long-term performance-linked stock compensation LTI-II as an incentive plan for executive compensation, we have set a 15% reduction in GHG emissions compared to FY2020, the cultivation of seven wild crude drugs, and a 30% conversion rate to new materials with an eye on de-plastics, and will work to achieve these targets. This concludes my explanation. Thank you very much.

**Kitamura:** Thank you very much. Kobayashi will then explain our financial and capital policies as well as our forecast for FY2025. Thank you.

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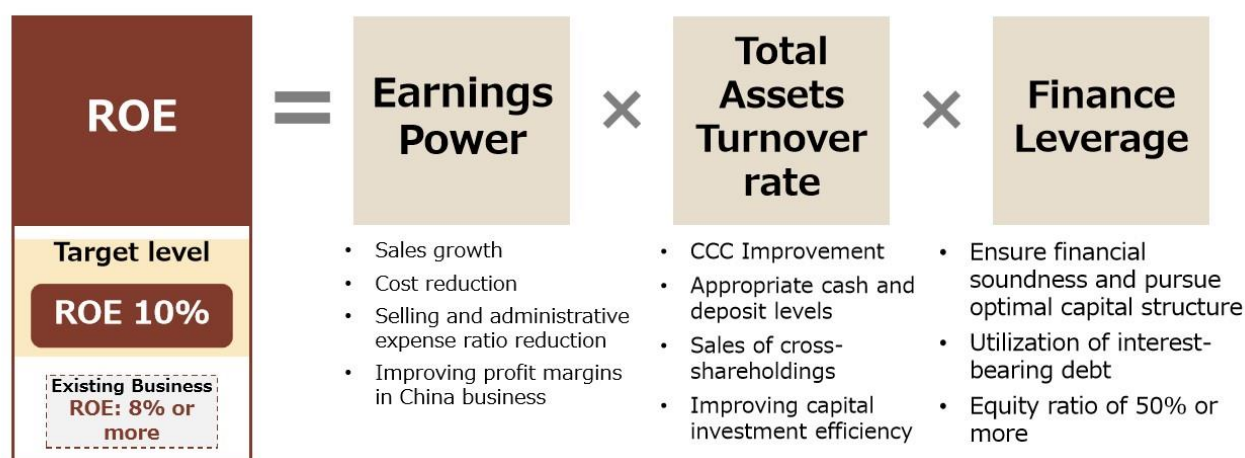
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## Realizing mid- to long-term improvement in corporate value (improving ROE)



\*Cost of equity capital: Approx. 7% Calculated using CAPM Risk-free rate: 2%, risk premium: 6%, beta value: Approximately 0.8

\*Equity spread = ROE - cost of shareholders' equity

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**Kobayashi:** Yes, I am Kobayashi, CFO and Head of Corporate Management Division. Thank you. I will explain our financial and capital policies as well as our forecast for FY2025.

Let me begin with our approach to improving ROE.

To reach our target capital efficiency level of 10% ROE, we have broken down the components into earnings power, total assets turnover rate, and financial leverage, and are working to improve each of these components. The financial and capital policies for the second mid-term management plan will also be explained for each of these elements.

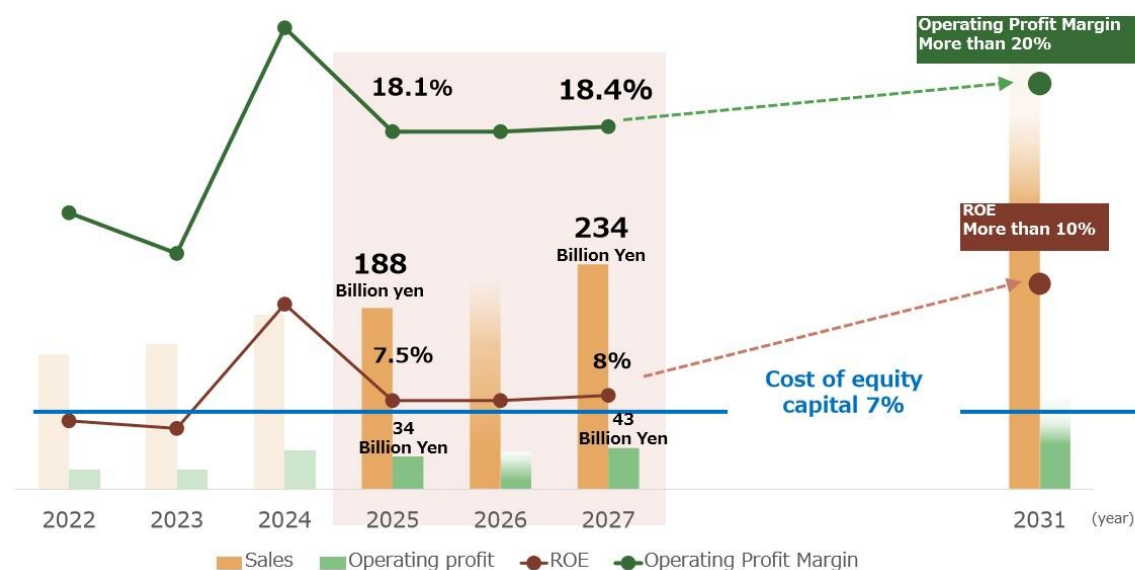
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- Operating profit margin temporarily declined due to increased depreciation and labor costs
- Aim for an operating profit margin of 20% or more and an ROE of 10% or more by fiscal 2031



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This section presents management indicators and their medium- and long-term outlook for the second mid-term management plan.

For the second mid-term management plan period, we have positioned it as a period to promote strategic investments for the development of a stable supply system and the enhancement of corporate value.

Under this policy, operating margin and ROE are expected to temporarily decline due to higher capital investment and depreciation costs associated with increased production capacity, as well as higher labor costs resulting from the up-front hiring of factory personnel in preparation for the start of operations of new production lines.

Our cost of equity is calculated at 7%, and under these circumstances, we will continue to generate a positive equity spread by ensuring that our ROE exceeds our cost of equity. On top of that, we aim to secure 8% ROE for FY2027 while continuing to make strategic investments.

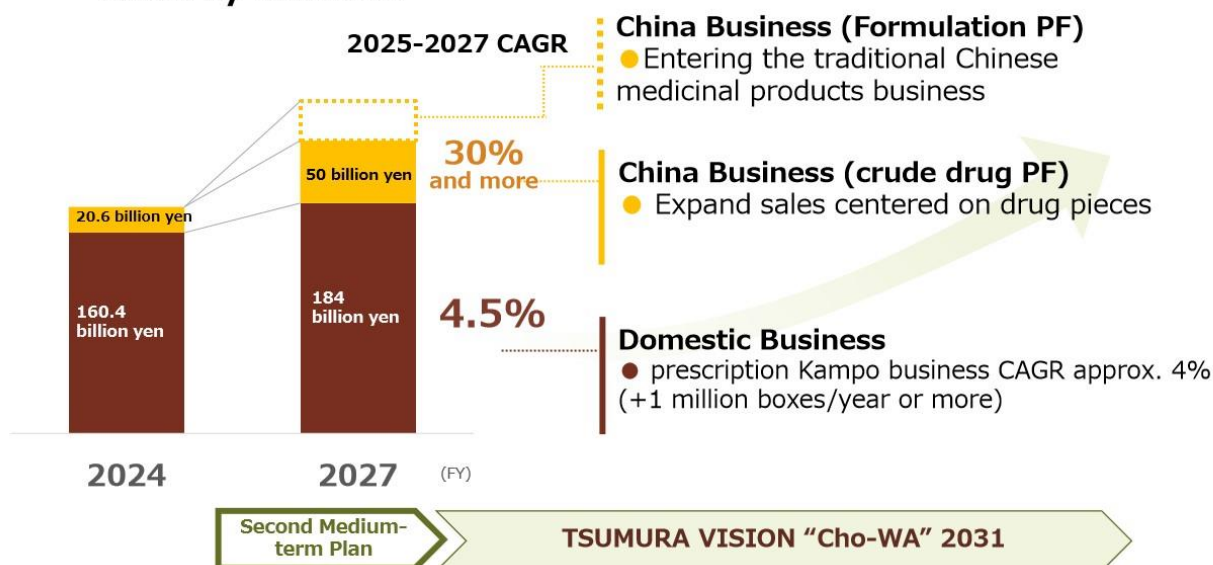
For FY2031, we aim to increase operating profit margin to more than 20% and ROE to more than 10%. Specific initiatives are explained on the following pages and beyond.

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## Sales by business



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The following is the sales plan for the second mid-term management plan by segment.

The domestic business is estimated to be JPY184 billion and the China business JPY50 billion.

In the domestic business, in addition to volume growth centered on prescription Kampo products, we aim to achieve growth in OTC Kampo products by increasing the number of outlets handling them.

In the China business, we plan to grow in the crude drug platform. In the first mid-term management plan, we expanded sales mainly of raw material crude drugs, but in the second mid-term management plan, we aim to expand sales mainly of drug pieces.

Although the expansion of the formulation platform is not factored into the planned figures, we will continue to enter the traditional Chinese medicinal products business and build a foundation for it.

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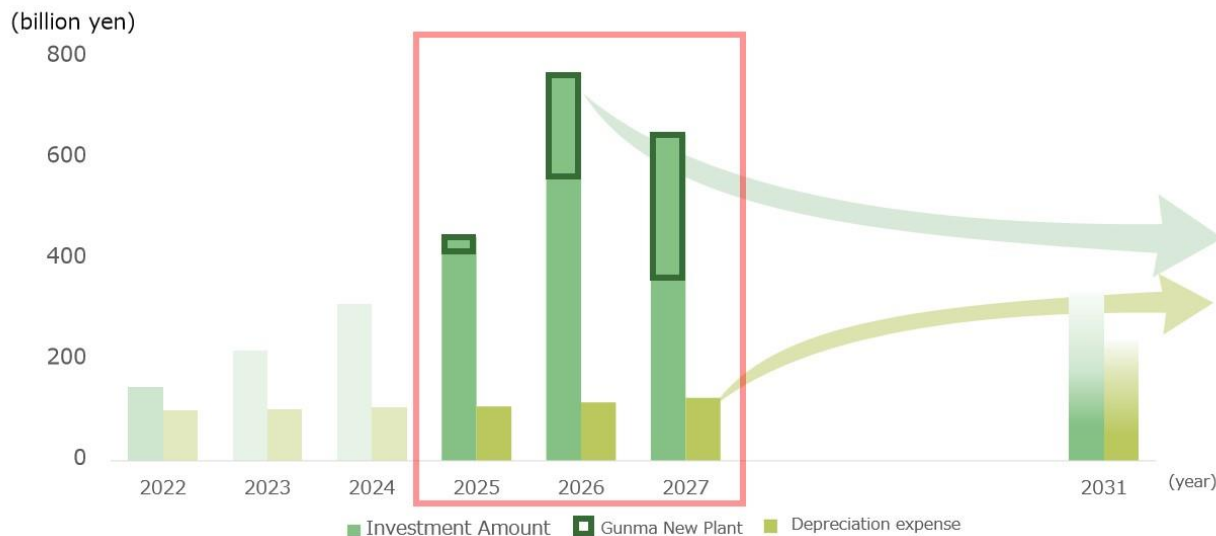
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## Improving profitability (investment, depreciation expenses)



- Investment amount is expected to peak during the second mid-term plan period and then decrease
- Depreciation expenses will increase due to the operation of new facilities



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### Investment and depreciation expenses projections.

Capital investment planned in the first mid-term management plan was JPY67.5 billion, far below the initial plan of JPY115 billion. This is the result of an overall review of construction plans, including the utilization of existing facilities, in response to rising construction costs. In response to the shortage of pharmaceutical products in the market, we have put a priority on stable supply and have forsaken large-scale facility modifications that would have resulted in a temporary shutdown of our facilities.

In addition to the Ibaraki No. 4 SD building, the No. 3 crude drug building, and the Tianjin plant, which are currently under construction, the second Mid-Term Management Plan includes the construction of a new granulation and packaging building in Ibaraki and a new plant in Gunma. Although the amount of investment is expected to grow significantly, given that construction costs have remained high at more than twice the level at which they were when the Vision was formulated, we will continue to invest for stable supply and growth by carefully checking the return on investment for each project while working to reduce and control the amount of investment.

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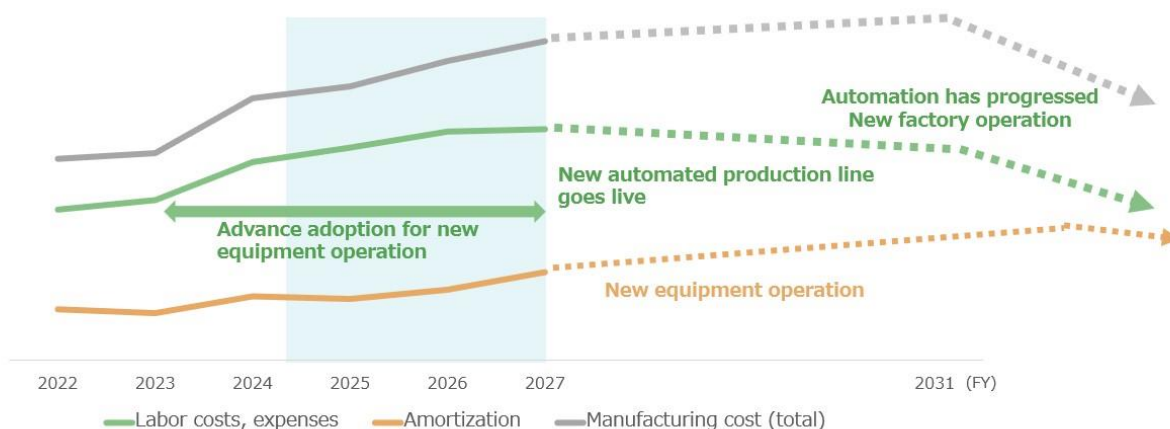


## Improving profitability (production costs)



- During the second mid-term plan, manufacturing costs will rise due to increased depreciation and labor costs.
- Labor costs are expected to gradually decrease as the new production line comes online.

Trends in manufacturing costs per unit



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Forecasted production costs.

This graph shows manufacturing costs per unit, broken down into amortization costs in orange and labor costs, etc. in green.

During the second mid-term management plan period, depreciation expenses will increase due to the start-up of the second and third manufacturing buildings at the Tianjin plant.

In addition, the construction of the Ibaraki No. 4 SD building, the new granulation and packaging building, and the new Gunma plant will be concentrated, which will combine with up-front hiring to train personnel to work on the production lines and an increase in personnel related to plant design and engineering, and labor costs are also expected to rise.

As a result, manufacturing costs per unit for the two mid-year periods are expected to increase, as shown in the upper gray line.

Looking forward to FY2031, although depreciation costs will continue to rise, labor costs are expected to decrease as the new, highly automated manufacturing lines come online.

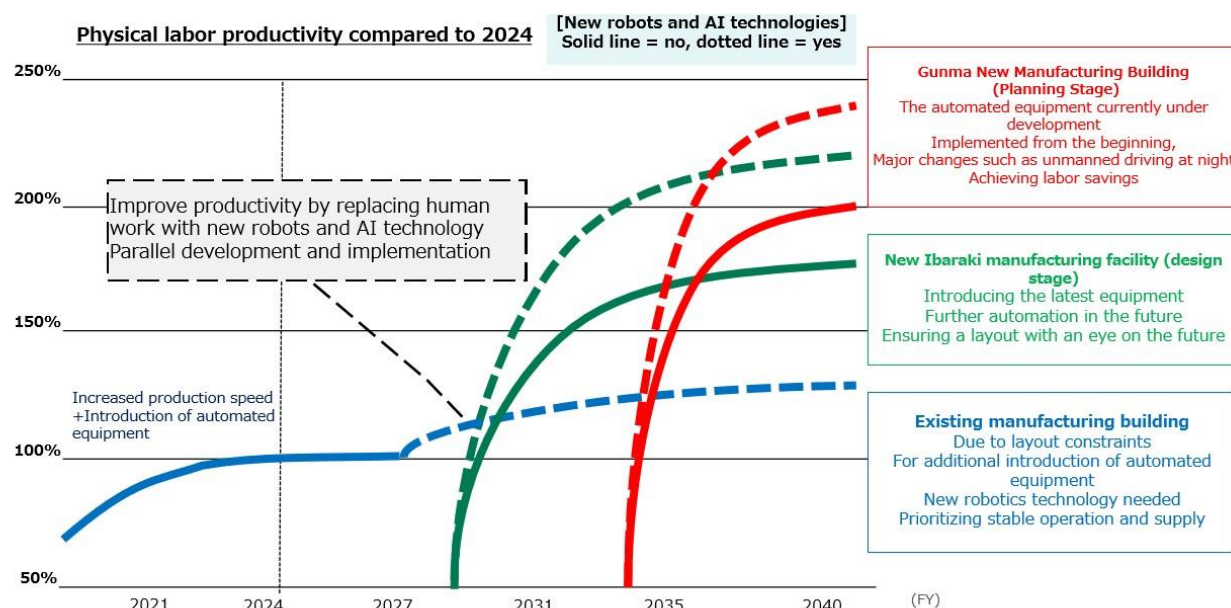
From FY2031 onward, productivity is expected to increase dramatically with the operation of the new Gunma Factory, which has been further automated.

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This graph shows the physical labor productivity of the packaging process of manufacturing.

The solid line shows the transition when new robots and AI technologies are not utilized, and the dotted line shows the transition when they are utilized.

The use of new robots and AI technology is still in the process of being considered for implementation and is not incorporated in this plan but is explained as an initiative to improve productivity.

The existing packaging building, shown in blue, will require new robot technology to install additional automation equipment due to layout constraints, but the realization of this technology will raise the bottom line as shown in the dotted line.

The green shows the Ibaraki New Manufacturing Building, which is under construction. The latest equipment will be installed, and the layout will be secured for further automation in the future.

The red shows the manufacturing building of the new Gunma plant that is planned in the future. Automated facilities currently under development will be implemented from the initial stage to achieve significant labor savings, including unmanned nighttime operation.

By combining these efforts and studies, we aim to double the physical labor productivity of the entire manufacturing process by 2035, when the new Gunma Plant will be in full operation.

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Aim to curb increases in cost rates by reducing procurement costs for crude drug



\*1 Our price index: Weighted average price based on our group's usage (2006 as 100)

\*2 Cultivated land under our own management: Farmland where our group can provide direct cultivation guidance, understand the costs involved in cultivation, and set purchase prices based on that. In the medium to long term, we will be able to procure high-quality, high-value crude drug in a stable manner at a superior position to the market.

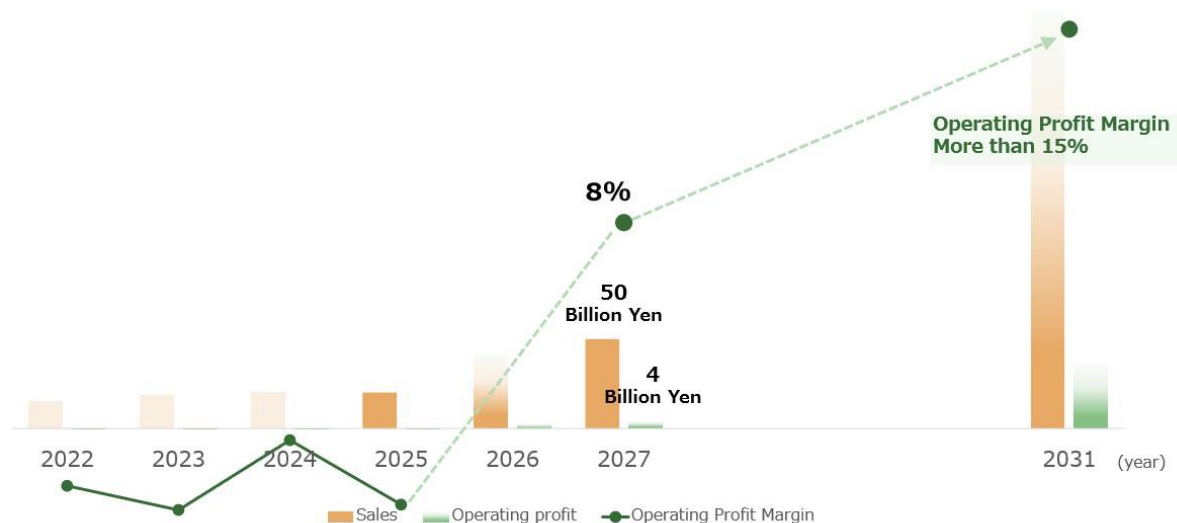
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Next, I will explain how we will improve profitability by reducing crude drug procurement costs.

This graph shows the percentage of cultivated land under our own management in total procurement and the trend in crude drug procurement costs.

Due to the expansion of our cultivated land under our own management, our procurement price index has remained stable at a low level compared to market prices, and in the last fiscal year, we achieved a cost reduction compared to the previous year. To further reduce the number of crude drugs, we will promote measures such as cultivating wild crude drugs, improving the yield of cultivated crude drugs, and automating and mechanizing the processing of production areas.

## The crude drug platform is expanding sales centered on drug pieces and value-added services



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Next, I would like to discuss the improvement of profit margins in our China business.

Although the crude drug platform, on which we have already developed our business, continues to be profitable, our overall business in China is in the red due to upfront costs for future business development.

As explained earlier in the strategic challenge three, in the crude drug platform, we will work to improve profitability and turn the overall China business profitable by expanding sales with a focus on drug pieces, which have higher added value than raw material crude drugs, and personalized medicines service.

In the formulation platform, we will strive to improve profitability by entering the traditional Chinese medicinal products business and building a foundation to realize our long-term management vision. Through these efforts, we aim to achieve an operating income margin of 15% or more for the China business as a whole in the future.

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### Improve total asset turnover by improving CCC in the operation cycle and reducing cross-shareholdings

#### CCC Improvements

##### ■ What we aim to achieve in order to realize our Vision

Shorten the operation cycle by 3 to 4 months

##### ■ Initiatives under the First Medium-Term Management Plan

• About 9 billion yen saved by shortening the accounts receivable period (CCC is reduced by about 0.5 months)

##### ■ Initiatives under the Second Medium-Term Management Plan

• Based on the planning system for compounding crude drugs  
Improved turnover of crude drug inventory

#### Reduction of cross-shareholdings

##### ■ What we aim to achieve in order to realize our Vision

Zero in principle in the mid- to long-term



##### ■ Initiatives under the First Medium-Term Management Plan

• Sale price was approx. 4.9 billion yen  
(The total amount of cross-shareholdings decreased by approximately 32%)

##### ■ Initiatives under the Second Medium-Term Management Plan

- Aim to achieve zero emissions in principle

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Next, I would like to discuss efforts to improve the total asset turnover ratio and balance sheet improvement.

We recognize that improving CCC is a medium- to long-term issue and will make improvements based on the balance and risks throughout the supply chain.

The CCC improved by about 1/2 month as a result of efforts to shorten the accounts receivable site, which were promoted in FY2024.

We aim to further shorten the CCC of the operation cycle by about three months by promoting the transformation of the entire Kampo value chain, starting from the cultivation of crude drugs, using the developed and introduced system for compounding crude drugs as a pillar of the system.

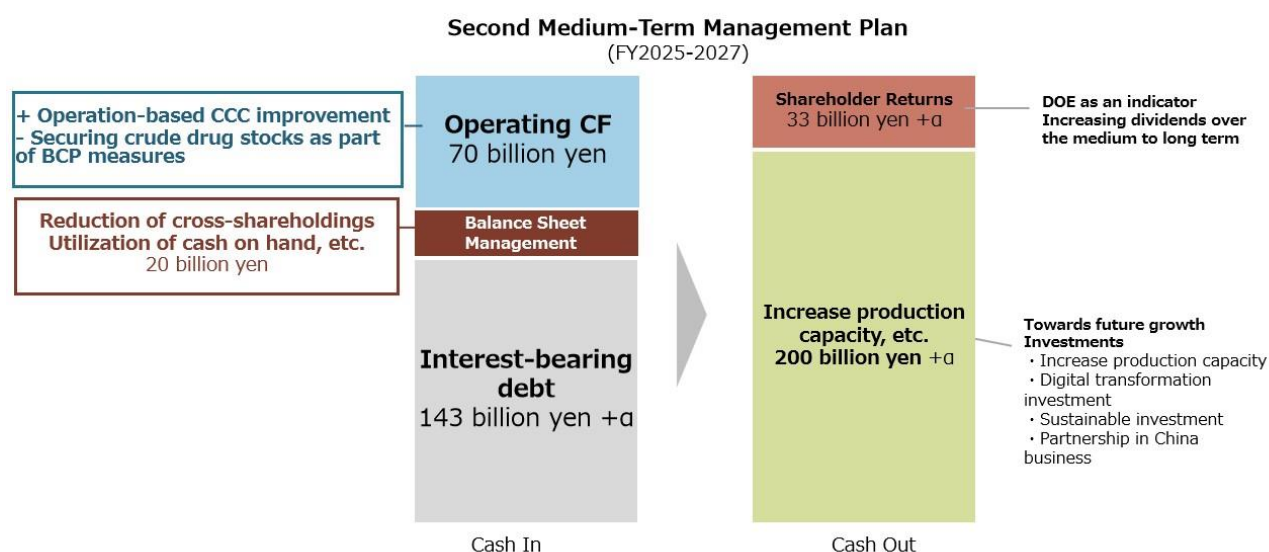
In FY2024, we reduced cross-shareholdings by approximately 30% compared to the end of FY2023, but we will not stop moving forward and will first achieve a 50% reduction as soon as possible. Although it is a prerequisite that we fully respect the wishes of our business partners through dialogue with them, we intend to accelerate our efforts with the aim of achieving zero in principle during the second mid-term management plan period.

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In addition to improving profitability and efficiency, we will generate cash by utilizing financial leverage and allocate it to further business growth and increased dividends.



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Next is financial leverage.

Here is our cash allocation for three years of the mid-term plan. Cash outflows during the second mid-term management plan period are expected to be more than JPY200 billion for investment in growth, mainly to increase production capacity in domestic operations, and more than JPY33 billion for shareholder returns.

Cash inflows to cover this amount are expected to be JPY70 billion from operating cash flow, JPY20 billion from balance sheet management such as reduction of cross-shareholdings and utilization of cash reserves, and more than JPY143 billion from interest-bearing debt.

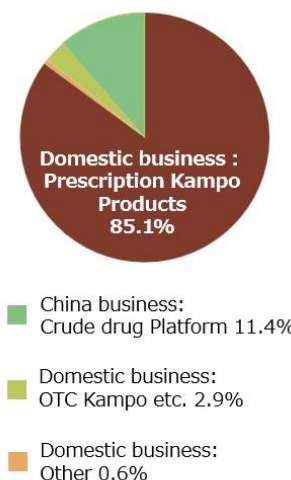
Funds for large-scale investments will be secured primarily through the use of financial leverage to improve capital efficiency by increasing interest-bearing debt. As a result, the capital adequacy ratio is expected to decline, but we will firmly pursue an optimal capital structure while ensuring financial soundness.

## FY2024 Financial Results Overview



[million yen]	FY 2024 plan (Updated February 6th)	FY 2024 Achievements	Achievement rate	YoY change	
				Amount	Rate of increase/ decrease
<b>Sales</b>	<b>182,300</b>	<b>181,093</b>	<b>99.3%</b>	<b>+30,247</b>	<b>+20.1%</b>
Domestic Business	161,800	160,459	99.2%	+28,359	+21.5%
China Business	20,500	20,633	100.7%	+1,887	+10.1%
<b>Operating profit</b>	<b>40,000</b>	<b>40,125</b>	<b>100.3%</b>	<b>+20,108</b>	<b>+100.5%</b>
Domestic Business	-	40,136	-	+19,604	+95.5%
China Business	-	(10)	-	+503	-
<b>Ordinary Profit</b>	<b>44,000</b>	<b>42,446</b>	<b>96.5%</b>	<b>+18,953</b>	<b>+80.7%</b>
<b>Profit attributable to owners of parent</b>	<b>34,000</b>	<b>32,428</b>	<b>95.4%</b>	<b>+15,721</b>	<b>+94.1%</b>
PL exchange rate* (JPY/CNY)	-	21.04	-	+1.21	-

Ratio to total sales



\*The rate is based on the overseas subsidiary's P/L and differs from the import rate for raw material crude drug.

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Finally, we will explain our financial results for FY2024 and our forecast for FY2025.

The FY2024 financial results are shown in the shaded area of the table.

Compared to the revised plan announced in February, sales fell slightly short, operating profit was achieved, but ordinary profit and profit attributable to owners of parent were not achieved.

First, sales were JPY181 billion, JPY1.2 billion below the revised plan. Although the lifting of limited shipments has led to a recovery trend in domestic sales of prescription Kampo products, the pace of recovery has been slower than expected, and the main reason for this is that sales in February were not as planned.

Volume growth during three months of Q4 was only 4.4%, compared to the revised plan's assumption of 9%.

SG&A expenses decreased compared to the revised plan mainly due to a decrease in the bonus reserve resulting from a change in the ratio of monthly salary to bonus from FY2025, and a reduction in DX-related and ERP-related outsourcing expenses.

As a result, operating profit was JPY40.1 billion, exceeding the plan.

The reasons for not achieving the plan for ordinary profit and profit attributable to owners of parent were that foreign exchange gains on loans to overseas subsidiaries were lower than the amount factored in at the time of the earnings revision due to the yen's appreciation at the end of March compared to the time of the earnings revision.

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## Key Points for FY2024 Financial Results



### - Financial results showing increased revenue and profits

<b>Net Sales</b>	<b>181,093 million yen</b>	YoY Change	<b>+20.1%</b>
<ul style="list-style-type: none"> <li>Domestic business: Medical Kampo product (129 prescriptions): 154,072 million yen, up 21.9% YoY</li> <li>OTC Kampo medicine, etc.: 5,284 million yen, up 18.8% YoY</li> <li>China Business raw material crude drugs, drug pieces, Health products etc.: 20,633 million yen, up 10.1% YoY</li> </ul>			
<b>Operating profit</b>	<b>40,125 million yen</b>	YoY Change	<b>+100.5%</b>
<b>Operating Profit Margin</b>	<b>22.2 %</b>	YoY Change	<b>+8.9pt</b>
<ul style="list-style-type: none"> <li>Cost rate: 50.0%, up 0.3pt from revised plan, down 4.4pt from same period last year: The impact of rising processing costs and rising crude drug procurement costs was absorbed by NHI drug price revision.</li> <li>SG&amp;A expense ratio: 27.9%. Compared to revised plan, down 0.5pt. Compared to same period last year, down 4.5pt. Mainly due to the impact of increased sales.</li> </ul>			
<b>Ordinary Profit</b>	<b>42,446 million yen</b>	YoY Change	<b>+80.7%</b>
<ul style="list-style-type: none"> <li>Foreign exchange gains on loans to overseas subsidiaries: 1,176 million yen</li> <li>YoY decrease of 1,017 million yen</li> </ul>			
<b>Profit</b> attributable to owners of parent	<b>32,428 million yen</b>	YoY Change	<b>+94.1%</b>
<ul style="list-style-type: none"> <li>Profit from sales of cross-shareholdings: 3,239 million yen YoY increase of 2,793 million yen</li> </ul>			

We will then explain the YoY comparisons.

Both sales and profit increased YoY.

Sales increased by 20.1% from the previous year. In the domestic business, sales of 129 prescription Kampo products increased by 21.9%, mainly due to the NHI price revision, and sales of OTC Kampo medicine increased by 18.8%, thanks to the expansion of the number of stores handling them.

The China business increased by 10.1% due to expanded sales of raw material crude drugs and drug pieces.

I will explain operating profit in the following page.

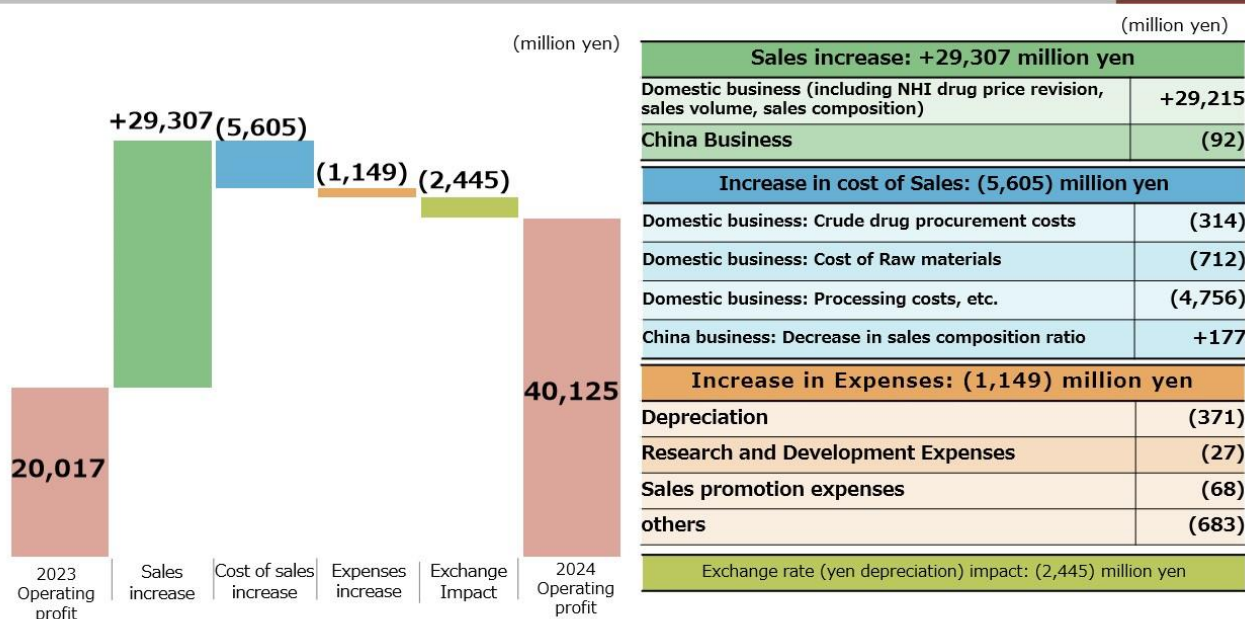
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## Factors affecting operating profit (YoY comparison)



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These are the factors for YoY change in operating profit.

Operating profit of JPY40.1 billion was an increase of JPY20.1 billion from the previous year. The impact of the sales increase will be a positive JPY29.3 billion, of which JPY29.2 billion will come from the domestic business and JPY90 million from the China business.

The impact of the increase in cost of sales was minus JPY0.7 billion. The breakdown is minus JPY4.7 billion, with the largest impact from an increase in processing and other costs. We took measures to reduce the impact of manufacturing problems in certain areas, reviewed equipment maintenance costs, and we had a certain improvement, but the increase in shipments from the Tianjin plant during the initial stage of operation had a significant impact.

Other factors included crude drug procurement costs of minus JPY0.3 billion due mainly to a JPY2.6 billion increase in unit prices of certain crude drugs such as Japanese pepper Sansho, and minus JPY0.7 billion due to higher prices for raw materials such as lactose, despite an improvement of JPY2.3 billion due to lower unrealized profits.

The impact of the increase in expenses was a negative JPY1.1 billion. This is mainly due to an increase in expenses associated with the startup of the integrated core system.

Foreign exchange impact was minus JPY2.4 billion. This is mainly due to the impact of higher import costs of crude drugs caused by the weak yen.

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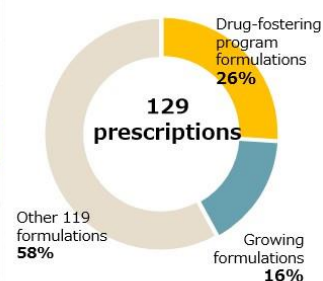
## Domestic business: Sales of drug-fostering program formulations and Growing formulations (FY2024)



(million yen)

	Sales Ranking	Product No. / Prescription Name	FY 2023	FY 2024	Year-on-year change	
Drug-fostering program formulations	1	100 Daikenchuyu *	9,851	14,769	+4,918	+49.9%
	2	54 Yokukansan *	7,447	11,147	+3,699	+49.7%
	5	43 Rikkunshito	7,454	7,199	(254)	(3.4)%
	7	107 Goshajinkigan *	3,698	5,583	+1,885	+51.0%
	25	14 Hangeshashinto	1,448	1,464	+15	+1.1%
Total drug-fostering program formulations			29,899	40,163	+10,263	+34.3%
Growing formulations	3	41 Hochuekkito	7,956	7,597	(358)	(4.5)%
	4	17 Goryo-san	6,869	7,376	+506	+7.4%
	10	24 Kamishoyosan	5,117	4,917	(200)	(3.9)%
	18	137 Kamikihito	2,290	2,238	(51)	(2.3)%
	19	108 Ninjinyoei-to	2,305	2,234	(71)	(3.1)%
Growing formulations total			24,539	24,364	(175)	(0.7)%
Total of 119 prescriptions other than drug development and growing formulations *			71,918	89,545	+17,626	+24.5%
Total of 129 prescription Kampo product prescription Kampo formulations			126,357	154,072	+27,715	+21.9%

### Sales Composition Ratio



\*In the NHI drug price revision in April 2024, Prescriptions subject to price re-evaluation as money-losing products: 66 items (3 prescriptions for drug development + 63 other prescriptions, Revision rate: +36.2% to +50.7%)

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These are sales of drug-fostering program formulations and growing formulations.

The asterisked Daikenchuto, Yokukansan, and Goshajinkigan are three of a total of 66 prescriptions that were subject to price re-evaluation as money-losing products in the April 2024 NHI price revision. Sales of these growing formulations increased significantly over the previous year, mainly due to higher NHI drug prices.

Sales of Gorrei-san expanded its growth rate over the previous year due to aggressive information provision activities in line with the needs of headache, dizziness, and other symptoms.

Sales of five formulas, Rikkunshito, Hochuekkito, Kamishoyosan, Kamikihito, and Ninjinyoei-to, including other formulas, as a whole, were more affected than expected by the limited shipments. Depending on the facility, even if there is limited shipment for a single prescription, there may be cases where information regarding the lifting of limited shipment for each item is not communicated properly, and we believe that we may have underestimated the impact of limited shipment to some extent.

Based on this analysis, as indicated in the strategic challenge one, we intend to contribute to solving social issues through the power of Kampo and achieve sustainable growth at a cruising speed by utilizing various information provision channels and providing broad and deep information tailored to the needs of individual physicians.

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## FY2025 Earnings Forecast



[million yen]	FY 2024 Achievements	FY 2025 prediction	YoY change	
			Amount	Rate of increase/decrease
<b>Sales</b>	<b>181,093</b>	<b>188,000</b>	<b>+6,906</b>	<b>+3.8%</b>
Domestic Business	160,459	167,900	+7,440	+4.6%
China Business	20,633	20,100	(533)	(2.6)%
<b>Operating profit</b>	<b>40,125</b>	<b>34,200</b>	<b>(5,925)</b>	<b>(14.8)%</b>
Domestic Business	40,136	34,700	(5,436)	(13.5)%
China Business	(10)	(500)	(489)	-
<b>Ordinary Profit</b>	<b>42,446</b>	<b>34,000</b>	<b>(8,446)</b>	<b>(19.9)%</b>
<b>Profit</b> attributable to owners of parent	<b>32,428</b>	<b>23,000</b>	<b>(9,428)</b>	<b>(29.1)%</b>
PL exchange rate (JPY/CNY)	21.04	20.30	(0.74)	-
<b>ROE</b>	<b>11.4%</b>	<b>7.5%</b>	<small>(Note) Non-operating income and expenses (mainly foreign exchange gains on loans to overseas subsidiaries, etc.) Extraordinary profits (mainly gains on sales resulting from the reduction of cross-shareholdings) It is difficult to make a reasonable calculation based on the current state of the exchange rate and stock market. This has not been factored into the earnings forecast.</small>	
<b>EPS</b>	<b>427.15 yen</b>	<b>302.95 yen</b>		

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This is the forecast for FY2025.

The outlook is for increased revenue but decreased profits. Sales totaled JPY188.0 billion, with JPY167.9 billion coming from the domestic business and JPY20.1 billion from the China business. The China business includes a negative foreign exchange impact of JPY0.9 billion.

Operating profit is JPY34.2 billion, with JPY34.7 billion in the domestic business and minus JPY0.5 billion in the China business. I will explain the increase/decrease factors on the next page.

Ordinary profit is projected at JPY34 billion, profit attributable to owners of parent at JPY23 billion, ROE at 7.5%, and EPS at JPY302.95.

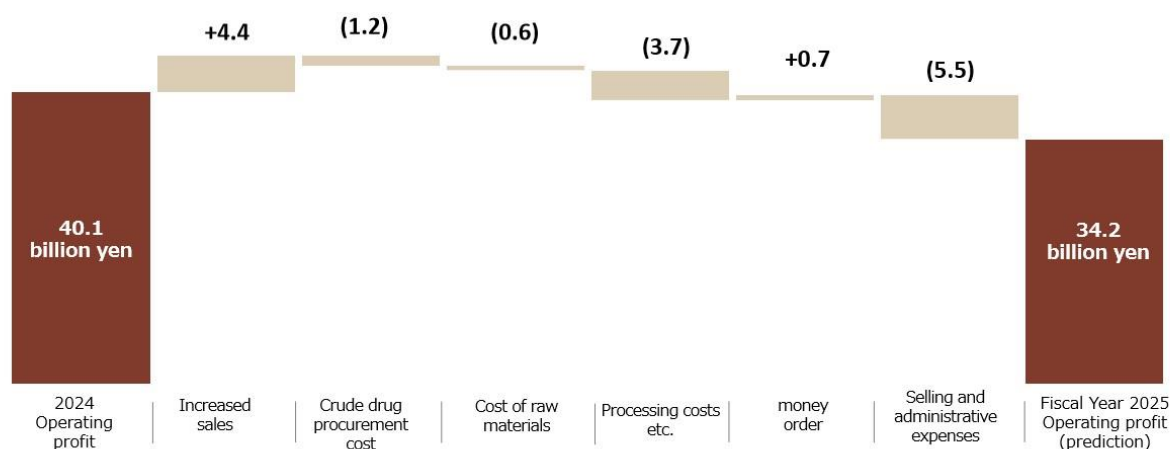
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- Profits are expected to decline as the effect of increased sales volume is outweighed by increased selling, general and administrative expenses and processing costs.



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This is an analysis of factors that may cause changes in operating profit forecast for FY2025.

This is the gross profit from increased sales in the domestic business, plus JPY4.4 billion.

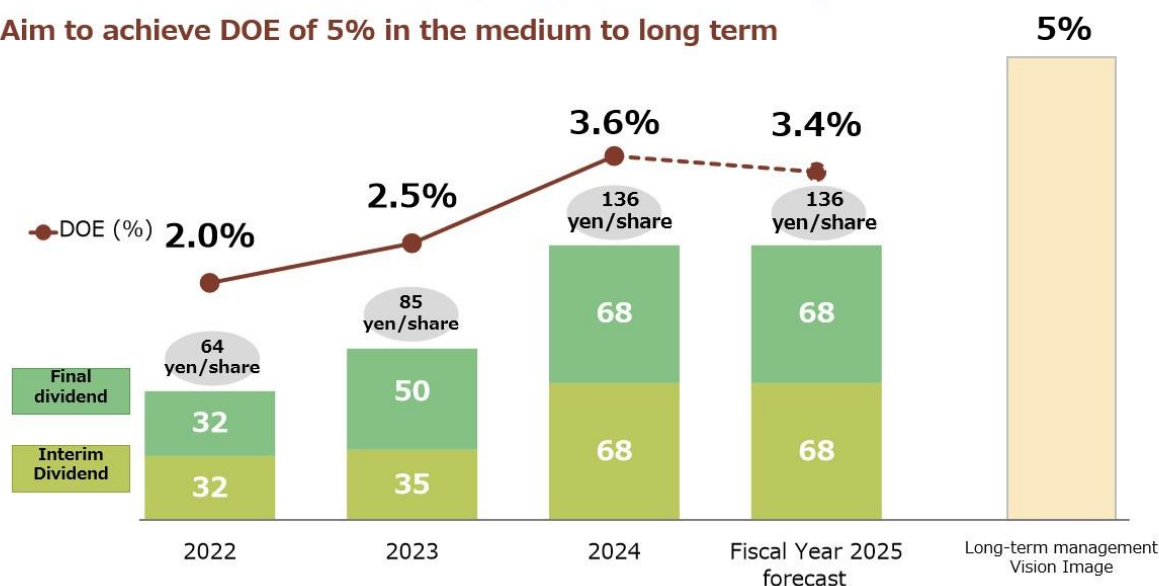
The cost of procuring crude drugs is expected to decrease by JPY1.2 billion due to a decline in the average unit price of crude drugs as a result of expanding our cultivated land under our own management, while an increase in unrealized profits is expected due to securing crude drug inventories as part of BCP measures.

We expect raw material costs to be minus JPY0.6 billion due to higher unit prices, processing costs to be minus JPY3.7 billion due to an increase in depreciation at the Tianjin plant, which is included in cost of sales, and an increase in domestic labor costs, and foreign exchange effects to be plus JPY0.7 billion due to the assumed yen appreciation.

SG&A expenses are expected to have a negative impact, JPY5.5 billion. The main breakdown is as follows: JPY2.2 billion in increased personnel expenses, mainly due to an increase in the amount of performance-linked bonuses corresponding to the previous year's profits; JPY500 million in increased R&D expenses; and JPY500 million in expenses for securing external warehouses to handle BCPs, etc.

- Based on the shareholder return policy, we forecast 136 yen in FY 2025

- Aim to achieve DOE of 5% in the medium to long term



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Final item, there is shareholder returns.

On November 7, 2023, as part of our efforts to increase corporate value over the medium to long term toward the realization of TSUMURA VISION “Cho-WA” 2031, we announced the revision of our basic capital policy and shareholder return policy with the aim of further enhancing shareholder returns while maintaining a balance between maintaining financial soundness and investing in growth under management based on balance sheet management.

Based on the earnings forecast and shareholder return policy as explained above, the annual dividend for FY2025 is projected to be JPY136 per share, the same amount as the current fiscal year. This means that the dividend will be maintained despite a decrease in income, and the dividend payout ratio will be 44.9%, a significant increase from last year's result of 31.8%, and the DOE will be 3.4%, as you can see.

Although the level of DOE will temporarily decrease, our shareholder return policy based on DOE will remain unchanged. From the next fiscal year onward, we will aim to maintain or gradually improve this level to achieve a DOE of 5%.

That concludes my presentation. Thank you for your attention.

**Kitamura:** Thank you very much. Next, Yamashita will explain the progress of the US development of TU-100. Thank you.

### Postoperative ileus (POI) is an unmet medical need in the United States

- POI is a state in which gastrointestinal motility is temporarily suppressed until gastrointestinal function recovers after surgery.
- Insufficient recovery of intestinal function after surgery ⇒ Extended hospital stay and increased medical costs

*Daily hospitalization costs in the United States: Approx. \$2,500 (approx. 360,000 yen at 145 yen to the dollar)<sup>1</sup>*

- Despite improved perioperative management, advances in surgery, and the implementation of medical treatment (of health issues), a significant number of patients experience delayed resolution of POI.

*Alvimopan is the only drug approved by the FDA to promote recovery of gastrointestinal function after surgery.*

1: Market Research Report by Evaluate for December 2024  
2: Sanfilippo 2015, Sapci 2020, Venara 2016, Blair 2023, Buscali 2022, Chapman 2019, Khawaja 2022, Gustafsson 2019

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**Yamashita:** My name is Yamashita from the International Planning Department of the Research and Development Division. Thank you. With regard to the US development of TU-100, we have now completed the analysis of the results of the late-stage Phase II study and would like to report our progress, including a review of last fiscal year's results briefing.

TU-100 is a development product manufactured from the same crude drug ingredients as Tsumura Daikenchuto, a prescription drug in Japan. We are currently conducting drug development of TU-100 in the United States with a focus on postoperative ileus (POI), which is considered an unmet medical need.

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## Overview of the TU-100 P2T4 test



**Objective: To evaluate the efficacy and safety of endoscopic and laparoscopic bowel resection in subjects undergoing intestinal resection (laparoscopic or open).**

**Evaluate the efficacy and safety of TU-100 in restoring gastrointestinal function after surgery**

Study format: Multicenter, randomized, double-blind, placebo-controlled study

Development stage: Phase 2

Number of cases: 402

Group composition: 15g/day group, 7.5g/day group, placebo group

Patient enrollment period: July 29, 2021 to March 25, 2024 (2 years and 8 months)

Test completion date: May 1, 2024



Although the COVID-19 pandemic a challenging environment for conducting the study, the target number of patients, 402, was enrolled.

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Prolonged hospitalization due to POI is a serious problem in the U.S., where health care costs are high. We have therefore challenged a large-scale Phase II study of TU-100, for which evidence is accumulating, in 402 subjects who had undergone bowel resection, with the support of 36 facilities across the US for the development concept.

At the time this study was initiated, it was during the pandemic of COVID-19, which was a very difficult environment to conduct the study, but the study was completed on target.

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## TU-100 P2T4 test results published

Release date: April 16, 2025

### What is ClinicalTrials.gov?

- A database that provides clinical trial information jointly by the National Institutes of Health (NIH) and the Food and Drug Administration (FDA) in the United States.
- Registration of clinical trial results will become mandatory from 2017

 National Library of Medicine National Center for Biotechnology Information			
ClinicalTrials.gov			
Outcome Measures			
Expand all / Collapse all			
1. Time to Gastrointestinal Recovery (GIR)			
Type: Primary   Time Frame: From the day after surgery until hospital discharge or ≤ 10 days (whichever is earlier)			
Description	Time to achieve recovery of GI motility as measured by a composite endpoint representing upper AND lower GI recovery		
Time Frame	From the day after surgery until hospital discharge or ≤ 10 days (whichever is earlier)		
Analysis Population Description	Analysis population includes subjects in the Full Analysis Set in each treatment group who receive at least 1 dose of study medication, who underwent an elective bowel resection surgery as specified in the protocol, and who provided at least 1 post-surgery assessment of the primary endpoint (TGR) during the treatment period.		
Arm/Group Title	TU-100 15 g/Day	TU-100 7.5 g/Day	Placebo
Arm/Group Description	Subjects will receive a total daily dose of TU-100 5 g TID until hospital discharge or ≤ 10 days (whichever is earlier). TU-100: Treatment with investigational product	Subjects will receive a total daily dose of TU-100 2.5 g TID until hospital discharge or ≤ 10 days (whichever is earlier). TU-100: Treatment with investigational product	Subjects will receive placebo TID until hospital discharge or ≤ 10 days (whichever is earlier). Placebo: Treatment with placebo product
Overall Number of Participants Analyzed	132	128	130
Median (90% Confidence Interval)   Unit of Measure: hours	32.6 (29.7 to 41.2)	30.8 (28.1 to 35.3)	33.4 (29.1 to 40.9)

<https://clinicaltrials.gov/study/NCT04742907?a=14&tab=results>

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The primary analysis results of the study were published on April 16 in ClinicalTrials.gov, a US clinical trials database, in accordance with US legal requirements.

So today we would like to share some of the results with you. The contents of the following explanation are not intended as advertising or medical advice.

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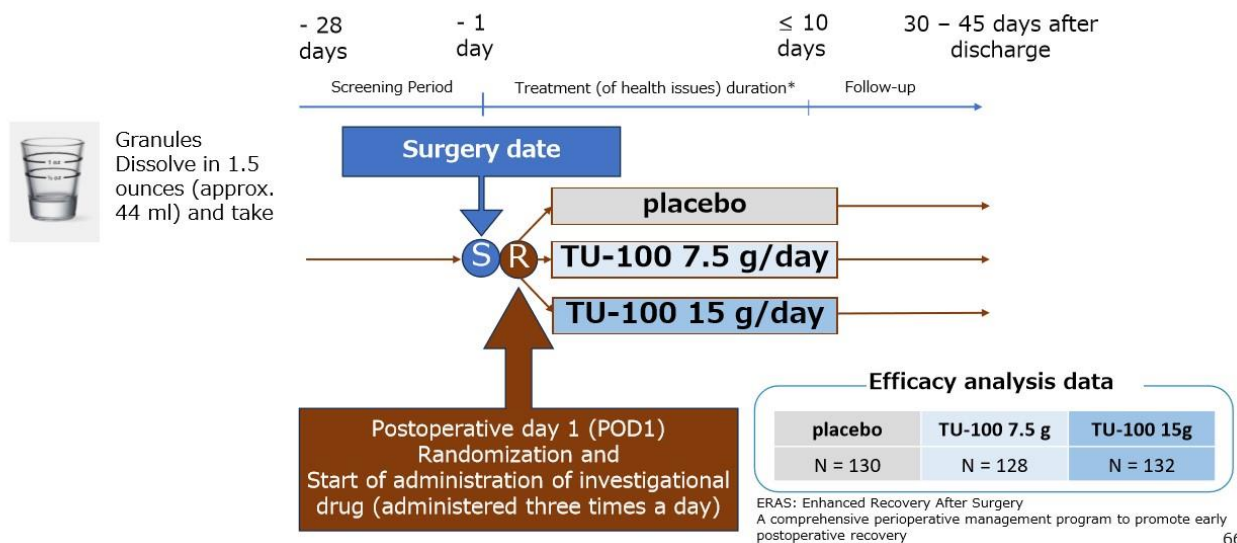
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## Study design

The study drug will be administered three times a day from the day after surgery until the end of hospitalization (up to 10 days). \*Use in conjunction with ERAS pathway



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First, as for the study design, subjects were randomly assigned to one of three groups: placebo, TU-100 7.5g, or TU-100 15g group, and received the study drug from the day after surgery.

In this study, subjects were using a combination of perioperative management called ERAS, which aims for early postoperative recovery. Furthermore, since the COVID-19 pandemic, the duration of hospitalization has tended to shorten, resulting in a shorter than expected duration of study drug administration.

## Support

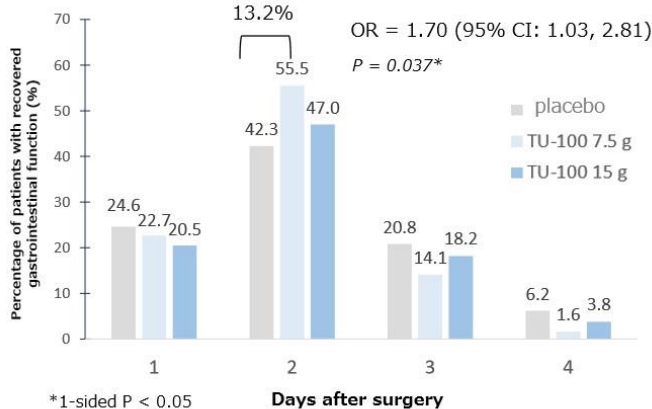
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## Key results from TU-100 P2T4 study

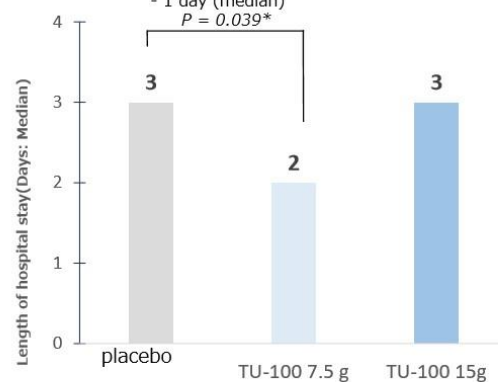


- There was no significant difference in the primary endpoint [time to recovery of gastrointestinal function]
- There were significant differences in multiple secondary endpoints in the TU-100 7.5g group (proportion of patients with recovered gastrointestinal function, length of hospital stay, etc.)
- The incidence of adverse events was 62.3% in the placebo group, 57.0% in the TU-100 7.5g group, and 59.1% in the TU-100 15g group.



A significant difference was observed in the proportion of patients who recovered gastrointestinal function on the second postoperative day in the TU-100 7.5g group compared with the placebo group.

a Responder status is analyzed using logistic regression with GIR response as the dependent variable; treatment and surgical approach (open, laparoscopic) as covariates; bp value is assessing the null hypothesis that the odds ratio is equal to 1.



A significant difference in length of hospital stay was observed in the TU-100 7.5g group compared with the placebo group.

P-value from 2-sample t-test.

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Under these conditions, there was no significant difference between the TU-100 group and the placebo group in terms of time to recovery of gastrointestinal function, the primary endpoint.

On the other hand, as shown in the figure on the left, as a secondary endpoint, the percentage of subjects whose gastrointestinal function recovered according to the number of postoperative days was evaluated, and a significant difference was observed between the TU-100 7.5 g group and the placebo group on postoperative day two, which is important for early recovery.

In addition, the median length of hospital stay, shown in the figure on the right, was reduced by one day in the TU-100 7.5g group to two days, compared to three days in the placebo group. We believe that a one-day reduction in hospital stay is a positive result for the patients and from the perspective of reducing the high cost of hospitalization in the United States, as we have been conducting the trial.

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### Changes in the medical environment

- **COVID-19 pandemic leads to shift to earlier discharge for simple bowel resections**
- There are cases where patients are discharged before a bowel movement is confirmed.

### Future medical needs

- **Complex major abdominal surgery requires longer hospital stay than bowel resection**
- Recovery of gastrointestinal function is a key milestone that influences early treatment (of health issues) outcomes and discharge decisions
- Expectations for a drug that meets the following requirements
  - Improvement of POI through promotion of gastrointestinal motility and suppression of intestinal inflammation
  - Shorter hospital stay

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Looking at the US medical environment, the relatively simple bowel resection patients who were the subject of this study were discharged from the hospital at an early stage before defecation was confirmed in the wake of the COVID-19 pandemic, and this trend is expected to remain unchanged.

We believe that the duration of hospitalization in this study was also shorter than we had expected at the very beginning of the study, making it difficult to see the effect of TU-100.

On the other hand, complex major abdominal surgery requires a longer hospital stay than bowel resection, and the recovery of gastrointestinal function will be an important factor affecting discharge decisions in the future.

This situation increases the likelihood of confirming a more definitive effect of the drug on the restoration of gastrointestinal function. Furthermore, in these areas, there is a strong need for drugs that improve POI and shorten hospital stay through multiple mechanisms, such as gastroprokinetic and anti-inflammatory actions.

We believe that TU-100 is a drug that fits these medical needs. Therefore, based on the results of this study and future medical needs, we would like to finalize our future direction with the advice of specialists and consultants in Japan and abroad.

We are planning to hold an R&D presentation by the end of this year and will report on our progress at that time. That concludes my explanation. Thank you very much for listening.

**Kitamura:** Thank you very much. As Yamashita mentioned earlier, we are planning to hold an R&D briefing by the end of this year to explain the future direction of clinical development of TU-100 and to provide an opportunity to explain our specific initiatives on the themes of the science of pre-symptomatic diseases (disorder) and personalization of Kampo medicine. We will make an announcement regarding this as soon as the date is set.

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## Question & Answer

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**Kitamura [M]:** We will now move on to the question-and-answer session. First, we will take questions from those in attendance at the venue and then from web participants. Please note that we will limit the number of questions to two per person 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.

We will now take questions from the participants at the venue. Please ask your question after stating your company name and name. What are your thoughts on that? Yes, Daiwa Securities, Mr. Hashiguchi.

**Hashiguchi [Q]:** My name is Hashiguchi from Daiwa Securities. The first question is about milestones for the China business on page 31. There was a similar slide before, but compared to the previous slide, I think there are now very few, if any, quantitative comments.

As initiatives during this second mid-term plan period, I feel that it has become somewhat unclear compared to before what kind of future you are aiming for. Could you please confirm what you are aiming for in terms of the formulation platform and crude drug platform, including quantitative aspects?

In the last issue, I believe you mentioned that by FY2031 you would have the top 10 in the formulations in the industry, the top market share for crude drugs, and total sales of JPY10 billion, so I would like to ask you about this.

**Kato [A]:** Can I answer one by one? Thank you very much for your question. It would take a long time to explain the various points, but the basic policy has not changed.

This is based on the concept in China of “dialectical treatment” mentioned earlier, where the drug pieces is quite valuable and the market size is large. Therefore, the crude drug platform has been expanding its raw material crude drug business to establish recognition of the high quality of crude drug, which are produced in accordance with GACP standards and have traceability by selling raw material crude drug so far.

However, since it has already been decided that the core of our full-scale business will be the drug pieces business, we must develop this hospital sales channel. As you know, drug pieces is not very convenient and there are also quality issues, so we believe that providing services through a smart factory that can cater to individual patients will be much more beneficial for patients. Therefore, we will focus on expanding this area.

As for the scale of the project, this is not going to change much from what we have been putting out since the personalized medicines service came out, because there have been various simulations. Basically, as a possibility that can be expanded, there is of course the possibility that the drug pieces will change to the personalized medicines service, and as I said in my little comment, in dictation, there is also the possibility that the traditional Chinese medicinal products will change to this personalized medicines service.

The market for single-flavor granules has been around for quite some time, but the market has come to recognize that these granules are not as effective as complex preparations. Therefore, the concept of the crude drug platform is to aim to go beyond what we have been aiming for by replacing such products.

As for the traditional Chinese medicinal products platform, there is an issue of Shaanxi Unisplendour Life Care Pharmaceutical, and there is some political issue behind it, so we have to proceed with caution. We are cautious about this, but they are rather cautious as well.

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We believe that what we are doing will gradually spread as it is understood that what we are doing is beneficial to the health of the Chinese people and to the Chinese industry. Doing things poorly and quickly does not necessarily lead to positive results, so we will proceed here in stages, carefully taking such things into consideration.

Even with regard to what we are presenting here as an image for 2031, there are basically various coronas and various situations, so we are not saying from the outset that we will definitely do things exactly as they are. As we have mentioned many times, in order for the Chinese public to recognize that we are a company of traditional Chinese medicines that supplies truly good products, we must reach a certain scale in order to be used by a large number of patients, our basic policy has not changed in that sense as well.

So, although you mentioned quantitative, I hope you will understand that there has been no major change from the past policy.

**Hashiguchi [Q]:** So, it hasn't changed quantitatively.

**Kato [A]:** Yes, basically the direction we are aiming for has not changed. Yes, thank you.

**Hashiguchi [Q]:** Thank you. A little bit related to that, the second question is about the financial strategy and the concept of cash allocation. On page 54, you mention an additional JPY200 billion for production capacity expansion, etc., and I understand in this plan you are going to increase leverage by increasing interest-bearing debt.

On the other hand, when I look at the graph of investment on page 48, I see that the amount of investment alone here is already about JPY200 billion. For example, in the China business, when a reasonably large deal comes in on a formulation platform, for example, I wasn't sure where the investment money would come from in this. If there are good projects in China, how much cash can be generated by leveraging the current situation while there is a certain level of cash needs for production capacity expansion?

I suppose this also goes hand in hand with how far you aim to take the China business, but I would like to know what you think of the funding source at this point.

**Kobayashi [A]:** Thank you for your question. As you mentioned, a significant portion of the cash allocation shown in the table on page 54 for the production capacity expansion and other investments is for manufacturing facilities. In addition to this, the Chinese business is also based on the possibility of M&As in the area of drug pieces.

On the other hand, as I mentioned earlier, anything beyond that, such as traditional Chinese medicinal products, the formulations platform is not included in the planned figures. I believe you understand that this is not included.

If this were to lead to some kind of major investment with a cash outflow during the current mid-Term plan period, I believe there are two possibilities.

First, regarding interest-bearing debt, we believe that we have sufficient flexibility to increase interest-bearing debt beyond the cash inflow plan presented here while maintaining financial soundness. That is one thing.

The other point I mentioned was improving CCC. We have included most of the planned figures here, but of course, this does not mean that everyone within the company agrees with them. We will continue to make efforts to improve CCC that will lead to more cash-in, taking into account various automated facilities and more efficient supply chain as a whole. That is all. Thank you very much.

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

**Kitamura [M]:** Thank you very much. Does anyone have any other questions? Yes, Mr. Sakai.

**Sakai [Q]:** My name is Sakai from UBS Securities. Excuse me, I would like to ask you again about the concept of this mid-term plan.

In the first period, you said that the first two periods of the three-year period would be an investment period, and that the company would achieve solid growth in the third year, correct? In the third period, if this, the 20% NHI price, had not been revised, you would have ended up missing your target.

Based on the lessons learned from this period, I assume that your company has already started planning for the second period. However, if you proceed with the current plan, I think you will see a decline in profits in both the first and second period. I don't know about the middle period, since the figures are not shown, but it would mean that the profit level would finally exceed JPY40 billion in the third period, wouldn't it?

Then I would ask, is there really a “Cho-WA,” Growth Strategy for Future Realization, that is being touted here? In creating this Mid-Term Management Plan, is it correct to say that the growth business that you expect the most will be in China?

I believe you mentioned that domestic sales will increase by approximately 5%. Could you please tell us whether you are confident that you will be able to offset this increase, and whether you are confident that you will be able to manage this properly?

**Kato [A]:** Okay, thank you for your question. I would like to explain the main concept, but the goal has not changed at all. The domestic business is really our core business, and since we have a large share of the market for traditional Japanese medicine, we have to support this business properly. As I indicated in this context, in terms of the business environment, I believe that there is still more space of potential market amid a background of increasing numbers of patients and increasing numbers of doctors prescribing drugs.

The concept of the mid-Term plan has not changed at all from the beginning, that is, we want to bring it to the point where the people can receive Kampo treatment properly. This is what we have set forth in our vision, and it has not changed at all.

In the midst of this trend, we wanted to prepare for the second phase by making investments in the first phase, but as you can see, there was the COVID-19 pandemic, and there was also a considerable rise in construction costs, so we were not sure at what point the situation would normalize. We are trying to use what we can use for the time being, but to be honest, we are moving things back a little bit.

That balance is now shifting into the second period, so while some of the focus that was on the first period is now spreading to the second period, it is true that the first and second periods are starting to look a little different.

The increase due to the NHI price revision mentioned earlier allowed us to land on a very high place in the final year of the first period. Of course, we are aware that without the NHI price revision, the situation would have been very serious, and we are considering how we can structure our business in this regard, not only in the China business, but also in other areas as well. We are also considering the establishment of a new business model for the China business.

For the second period, we will expand our domestic business while also doing business in China, so we do not intend to rely solely on the China business. In this sense, we are very sorry to say that the domestic market is suffering from a shortage of pharmaceuticals, and there is a great demand for a stable supply of

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pharmaceuticals. I believe that we will be able to build our core business on a firm footing by establishing a more solid status than ever before by providing a stable supply of high-quality Kampo products.

Furthermore, the labor market is extremely challenging, so we anticipate that if we do not take steps now to produce as much as possible with as few people as possible, we will face significant difficulties in the future. Therefore, our immediate priority is to establish a production system that can deliver cost performance to the next generation, or in other words, a low-cost operation, by balancing improvements that can be made within the existing limited space with reforms that can be implemented from scratch.

We have formulated the second mid-term management plan based on the idea that by doing so, we will be able to reap the fruits of our efforts in the future.

**Sakai [Q]:** I understand. The reason I asked whether your Chinese business will be a growth driver is because of this table on page 34. The point is, it is drug pieces, and it seems to be a rapidly expanding picture. Indeed, when I looked at your company's Chinese drug pieces business, I got the impression that the Chinese drug pieces market itself is enormous, but I think you said that you lack partners, or there are no partners.

Now, Mr. Kobayashi, you mentioned that you are thinking about MA as well, for drug pieces. What is the story with Hongqiao in the first place? This is whether or not that partnership is factored into these numbers. Can you tell us a little bit about this, for confirmation?

**Kato [A]:** Basically, we are continuing negotiations, so it is true that we are considering this as an assumption, and we are factoring a certain scale into our plans as well. The partnership has not yet been formally established, and we have not yet reached the stage where we are seriously considering the next steps and future business strategies with our partner companies. Therefore, it is difficult to incorporate details regarding future development and expansion potential at this stage. However, we have included certain information based on the current situation.

Therefore, as I mentioned earlier, there are many sensitive issues involved, and rather than rushing to make decisions or move forward, we would like to take our time to establish a solid framework. We apologize for the delay, but we are currently proceeding with caution. That is all.

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

**Kitamura [M]:** Thank you very much. We will now close the questions from the participants in the venue, and we will take questions from web participants. If you have any questions, please press the raise your hand button on the screen and we will nominate you.

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

**Yoshida [Q]:** Thank you for your presentation. My name is Yoshida, Tokai Tokyo Intelligence Laboratory. I have two questions. I would like to ask about the performance of the current period. I am looking at page 60. I have two questions. First, I have the impression that sales growth is not as strong as expected this time. The figures for domestic growth, in terms of sales growth, were lower than we had hoped to achieve last year, and we had expected them to be higher this term, but it seems that they have been suppressed. As background to this, it sounds as if you heard something earlier about stopping something temporarily in the process of making an investment, so please tell me about that. Would it be better to put two questions together now?

**Kitamura [M]:** Yes, I would like to have two questions.

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**Yoshida [Q]:** Yes, regarding the second point, the increase in labor costs and personnel expenses, on slide 60, there are various comments scattered throughout, including the performance-based bonuses mentioned earlier, and there were various other points as well.

In the initial explanation, you mentioned proactive hiring or hiring personnel in advance in preparation for future expansion, including training. Will this begin to some extent during the current fiscal year? Also, the performance-based bonus of JPY2.2 billion seems like a large amount. Was it not possible to do this in the previous fiscal year? If you had done this in the previous year, I don't think the fluctuation in profit would not be a large factor, but could you also tell me your thoughts on this area? That is all.

**Kobayashi [A]:** Yes, thank you very much, Mr. Yoshida. Regarding the first point, I think one of the first things you mentioned was domestic sales in the sales increase, and we have included a forecast of over 4.5% for the increase in domestic sales.

I think your question is about how to view this conservatively. As I mentioned earlier, we are aiming to steadily increase sales at a pace of 1 million boxes, and this is the figure we have factored in as we aim for growth at a cruising speed.

In that sense, now that all limited shipments have been resolved, we will of course aim to increase sales volume beyond current projections through dialogue with doctors, as they will now be able to prescribe products that were previously unavailable. However, including this factor, we currently estimate a 4% increase.

I also mentioned that we had to suspend investment during the process. I may not have explained this fully, but in the midst of the COVID-19 situation, there was a dramatic increase in demand due in part to replacement demand, so we had no choice but to make limited shipments.

Originally, we had planned to proceed as planned, including the promotion of automation within the factory and the renovation of factory equipment for automation purposes. However, in order to do so, it was necessary to temporarily suspend factory operations, among other things.

In order to ensure a stable supply, or in other words, to cope with increasing demand, we had to give up such measures. Therefore, I think it is safe to say that there is no particular relationship between the increase in sales and sales.

As for the labor cost, the labor cost is actually included in the processing cost.

As for the advanced hiring, we have been progressing with advanced hiring and will continue to do so for training purposes in preparation for future operations. If you look at the material, I would like you to look at page 49.

We expect that the number of advance hires will gradually increase during this mid-term plan period, so in terms of labor costs, we expect to continue to see an increase during the period prior to the start of operations.

And as for performance-linked bonuses.

**Kato [A]:** Okay, I will answer. Regarding personnel expenses, I believe there was a question about why it wasn't possible to implement this in FY2023. Of course, there are various standards for wage increases in society, but we also have a labor union, so after discussions with the union, we have decided to implement a wage increase for two years at a certain level.

One big part of this is that the criteria regarding bonuses will be on a so-called ordinary profit basis. Then, the large amount of ordinary income generated last year would determine what would be allocated there this

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year, and a large portion of that would go into the current fiscal year. In short, if they come in one term off, they are in this term because of this type of mechanism. That is all.

**Kitamura [M]:** Thank you. Did that answer your question, Mr. Yoshida?

**Yoshida [M]:** Yes, thank you very much.

**Kitamura [M]:** Thank you. We have about four minutes left, and I would be happy to take one more question. Aren't there any web participants? If there is one more question from the venue. Now, Mr. Hashiguchi.

**Hashiguchi [Q]:** My name is Hashiguchi from Daiwa Securities. I would like to confirm the future direction of TU-100. Is it safe to assume that development will continue as planned? If the drug is marketed at the same price as in Japan, I think it is conceivable that it will be used because its cost-effectiveness has been recognized based on the difference from the placebo. But is that enough to make it a business? So, if we were to offer this service at a price that would make it viable as a business, I'm not sure if this effect size would be acceptable.

Since we only have data for the entire group this time, could you tell us whether it is possible to identify areas where the treatment is likely to be more effective by analyzing subgroups based on factors such as background and surgical procedures?

You mentioned that the length of hospital stay is one day, but if we look at the figures listed on ClinicalTrials.gov, which are a little more rounded, I think the actual difference is smaller than one day. Could you please clarify this point as well?

**Konda [A]:** I am Konda, the person in charge. Mr. Sakai, thank you for your question. Regarding the future prospects for TU-100, we are currently consulting with domestic experts and consultants, interpreting the results of the clinical trials, and reconfirming the target for postoperative ileus in the future, as well as market needs. We are also calculating the target drug price and cost-effectiveness and conducting on-site visits and surveys. At present, we are considering various scenarios.

In any case, we would like to report promptly at the appropriate time once the next outlook is finalized, but as you can see, the reduction in the length of hospital stays has emerged as a low-invasive aspect. I think that the demand will remain unchanged in the future, as there seems to be a longer case, and that is where the demand is particularly strong. We are currently evaluating the cost-effectiveness of pursuing such opportunities in the future. I hope I can catch up a little bit, but I am not sure if I am communicating the intent of the question well enough in my answer.

**Hashiguchi [Q]:** So, you are saying that, for example, in endoscopic surgery, the difference was stronger?

**Konda [A]:** Thank you. Looking at the overall picture of the number of cases this time around, roughly 90% of the cases are laparoscopic procedures. Even when we divided them into smaller categories, there was no significant difference, but we recognize that Fto is likely to be useful for surgeries that will be in demand in the future.

**Hashiguchi [M]:** Okay, yes, please tell me again. Thank you very much.

**Konda [M]:** I'm sorry, I have to reiterate.

**Kitamura [M]:** Thank you very much. Now that our time is up, we will conclude the presentation of the financial results for FY2024. Thank you very much for your participation.

[END]

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