

H.U. GROUP / IR DAY 2022

LTS BUSINESS: STRATEGY AND KEY UPDATES

December 9th, 2022

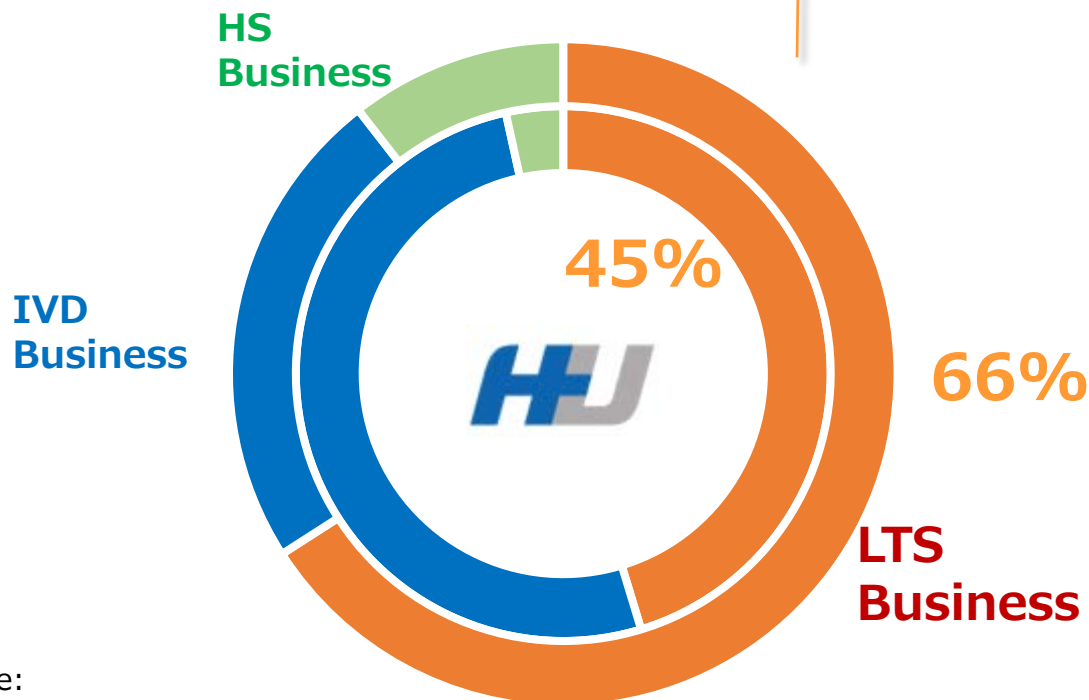
Shunichi Higashi

LTS Business of H.U. Group

LTS Business (FY2021)

Net sales: JPY 179.9 billion

Operating profit: JPY 23.6 billion



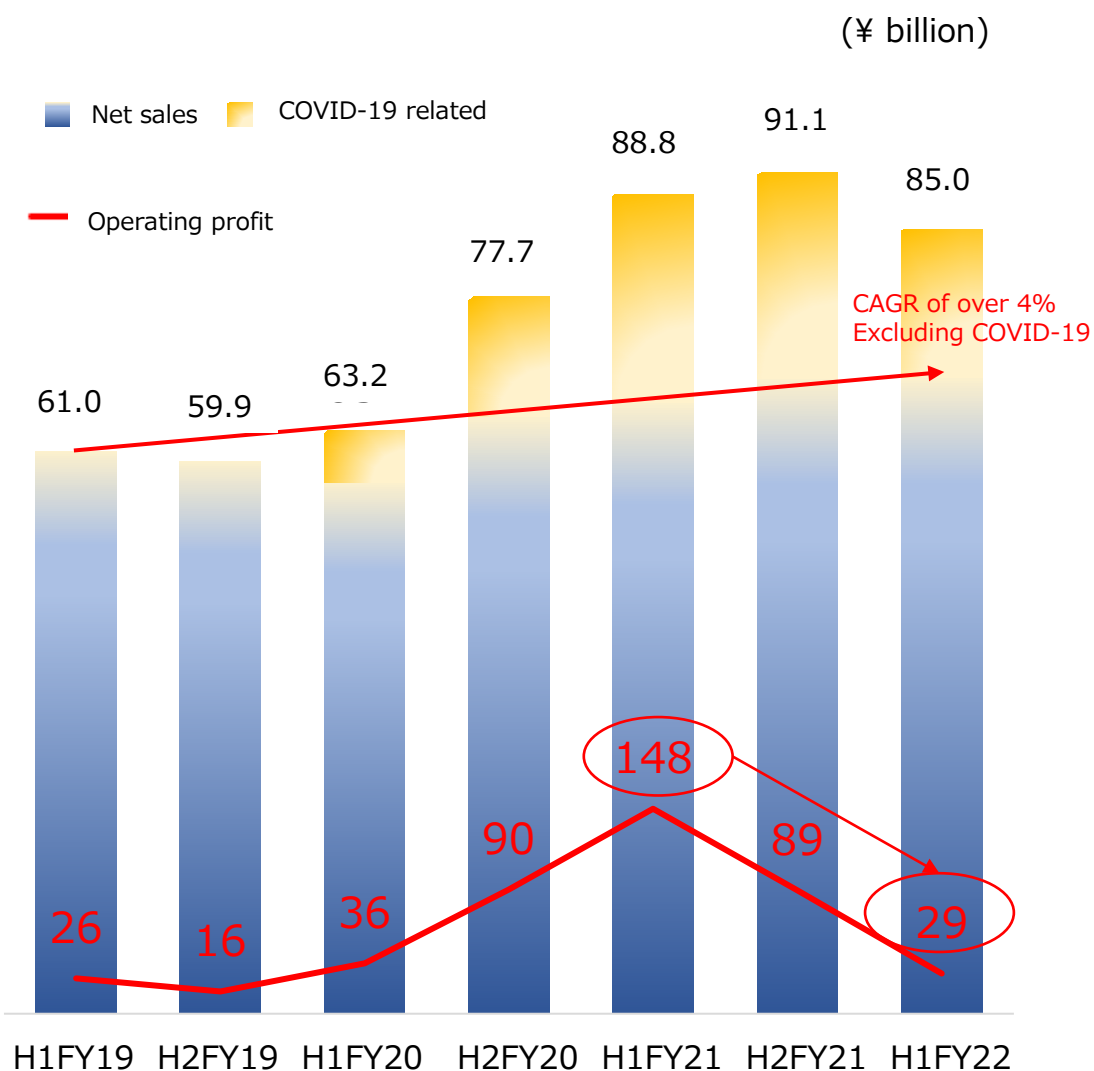
Note:

- Outer ring: Share of net sales
- Inner ring: Share of operating profit

Characteristics of Business

- The mainstay lab testing service targets the domestic market
 - ✓ Market size: JPY 775 billion (FY2021)
 - ✓ CAGR: 1.5% growth before COVID-19
 - ✓ Market share of H.U. Group: 23.2%*
- Main players in the lab testing market
 - ✓ Three of the top companies, including BML, LSI Medience, FALCO HD, Hoken Kagaku, account for approximately 60% of the market share, but there are more than 100 small- and mid-size players in the market
- H.U. Group has strength in esoteric tests and a high customer share in large hospitals
- In addition to lab testing services, H.U. Group is developing testing-related businesses such as lab testing peripheral services, CRO, food and environmental testing, and medical examination-related services.

LTS Business Performance Transition (each half-year)



Topics

Net sales

- **Significant sales growth in response to COVID-19 testing demands**
- **Net sales excluding COVID-19-related tests also growing at a CAGR of over 4%**
 - Increase of advanced testing fields such as genomic testing
 - While winning contracts with new clients, the number of testing in existing clients is smaller compared to FY2019

Operating Profit

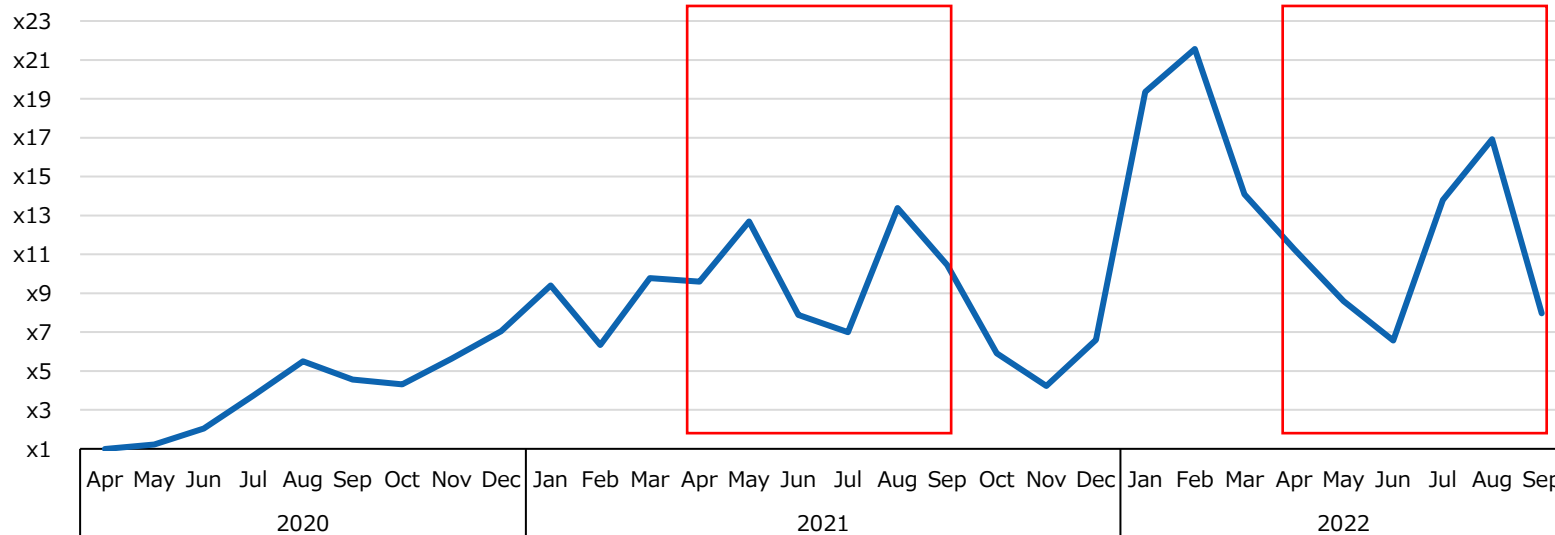
- **Profit driven by increase of COVID-19-related testing**
- **FY22 H1 decreased by ¥11.8 bin YoY**
 - Downward revision of COVID-19-related testing reimbursement, mainly PCR testing
 - Increase of costs related to AkirunoCube including one-time costs for parallel operation within Hachioji
 - Rising price of energy and materials

Status of COVID-19-related Testing

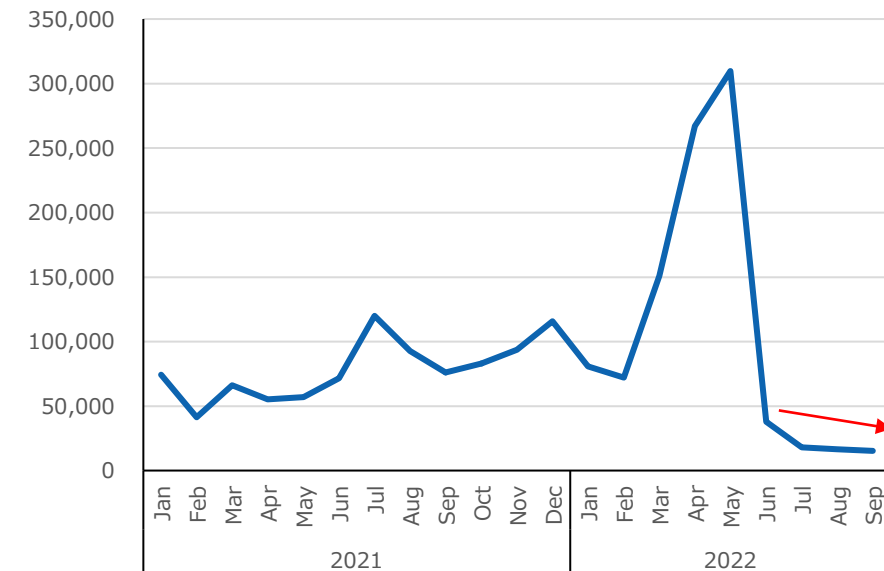
- Number of PCR tests
 - Fluctuating along with the spread of infections
 - H1 FY2022 was same level as previous year
- Number of quantitative antigen tests at airport quarantines
 - Declined sharply from June due to the easing of travel restrictions and remaining at a low level

Number of COVID-19 PCR tests conducted







Index: No. of tests conducted by H.U. in April 2020 = 1



No. of quantitative antigen tests at airport quarantines for entrants¹



Medium-term Growth Strategies

	Progress and results to date	Status
Lab reorganization and regional optimization nationwide <ul style="list-style-type: none"> • Improve cost competitiveness and quality through the consolidation and automation of testing and build optimal lab network 	<ul style="list-style-type: none"> • Testing transferred from Hachioji to Akiruno • Started Operation of Fukuoka lab and JV lab in Sapporo • Established new STAT labs 	
Optimization of logistics <ul style="list-style-type: none"> • Collaborate with MEDIPAL HD by developing joint collection and distribution system 	<ul style="list-style-type: none"> • Established Medisket and joint operation started from integration of storage functions 	
Contribution to advanced medical fields <ul style="list-style-type: none"> • Expand testing services in advanced medical fields (cancer genome, etc.) • Create business opportunities through test development by Group companies 	<ul style="list-style-type: none"> • Genome-related testing sales grew • Started WGS business 	
Integration of Sales Forces <ul style="list-style-type: none"> • H.U. Group integrated proposals/hybrid proposals • Regional strategies and channel strategies 	<ul style="list-style-type: none"> • Completed establishment of sales forces and gained contracts through group-integrated solution proposal 	
Promotion of Healthcare × ICT <ul style="list-style-type: none"> • Develop digital-based healthcare support services • Focus on community healthcare demand 	<ul style="list-style-type: none"> • Installed by testing centers operated by Medical Associations and local government • Used for data management of COVID-19-related tests 	
Expansion of customer base/testing services <ul style="list-style-type: none"> • Expand medical examination/preventive business • Expand food and environmental testing business 	<ul style="list-style-type: none"> • Medical examination business growth • Improvement of profitability of food testing 	

Progress of Key Initiatives in the Medium-term Plan: Reorganization and Optimization of Labs Nationwide

Reorganization and regional optimization of labs nationwide



Testing has been relocated to Akiruno Lab.
Operation of ALF* Fukuoka Lab and Sapporo JV Lab
Installation of new STAT Lab completed

Complete relocation to H.U. Bioness Complex
Consolidation of testing workload from regional laboratories

Efficiency improvement and cost reduction at Akiruno Lab

■ 1st floor: Automated testing area

- One of the world's largest automated line will be installed.
- TAT will be shortened through 24-hour operation system.
- Introduction of AIV (autonomous intelligent vehicles) , manpower-saving mechanisms such as automated specimen storage

■ 2nd floor: Infectious disease and bacteria testing area

- The testing pre-treatment process will be automated by conveyor line linked with 1st floor and specialized sorting equipment in 2nd floor
- Automated testing lines will be installed for testing of infectious disease viruses as well as for bacterial testing to efficiently perform advanced testing.

■ 3rd floor: Genetic and pathological testing area

- Genetic and pathological testing that requires advanced techniques such as diagnostic imaging will be performed.
- AI-based diagnostic imaging, pre-treatment automation, and other efficiency mechanisms
- Installed a next-generation sequencing system (NGS) to meet the rapidly increasing demand for genetic testing such as cancer genome.

Averaged cost reduction per ID in FY2024 (vs FY2019)
General testing: -15% Esoteric testing: -7%
(impact from AkirunoCube only)

Progress
and results
to date

Future
issues

Financial Impact of AkirunoCube for FY2022

(¥ billion)

	FY22 H1 Results	FY22 full-year forecast		Reasons for revision
		Initial	Current	
Costs	One-time costs	-2.4	-3.6	<ul style="list-style-type: none"> • Delayed operation coursed planned expenses not incurred • Extension of parallel operation period and validation period
	D&A	-1.8	-5.0	<ul style="list-style-type: none"> • Postponement of expensing period
	Running costs ¹	-1.7	-3.8	<ul style="list-style-type: none"> • Postponement of expensing period
	Total costs	<u>-5.9</u>	<u>-12.4</u>	
Effects	Efficiency effects	—	+1.4	<ul style="list-style-type: none"> • Delay of cost improvement

1. Includes the rent

Transformation of Collection and Logistics Functions (Collaboration with MEDIPAL HOLDINGS)

Transformation of collection and logistics functions



MEDIPAL HOLDINGS

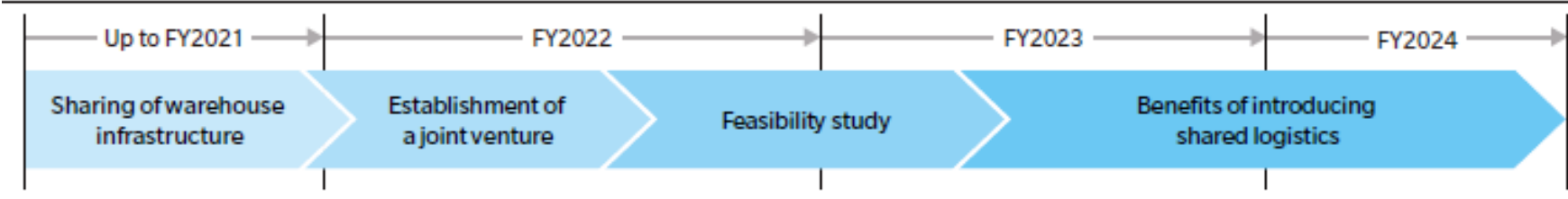


H.U.GROUP

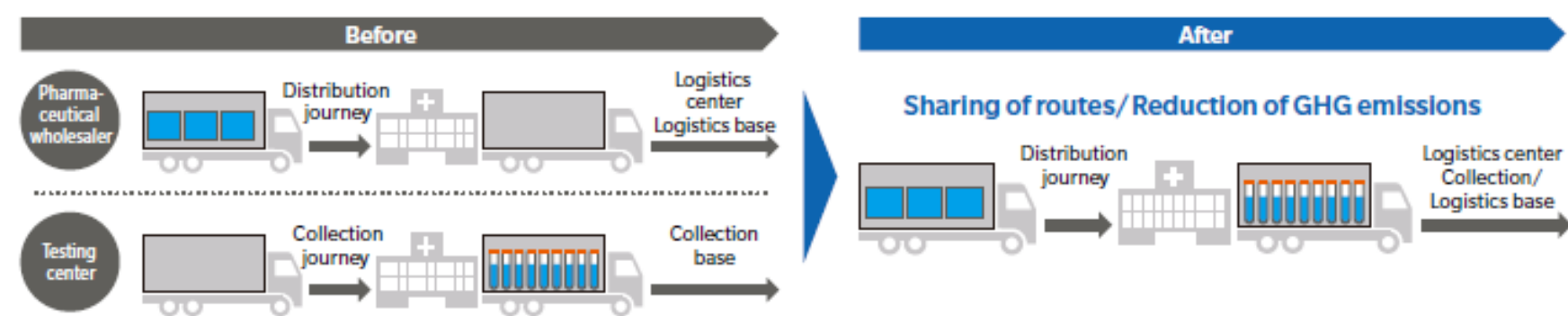


Employee approx. 10,000
Vehicle approx. 6,000

Timeline



Outline diagram of shared logistics



Impact from logistics optimization

Blueprint of efficiency improvement

Integration of warehouse infrastructure/ Oder system

Integration of logistic route, vehicles and offices
(Goal: declined by 20%)

20-30% improvement in collection cost per ID by FY2025 (compared to FY2021)

FY2023

FY2024

FY2025

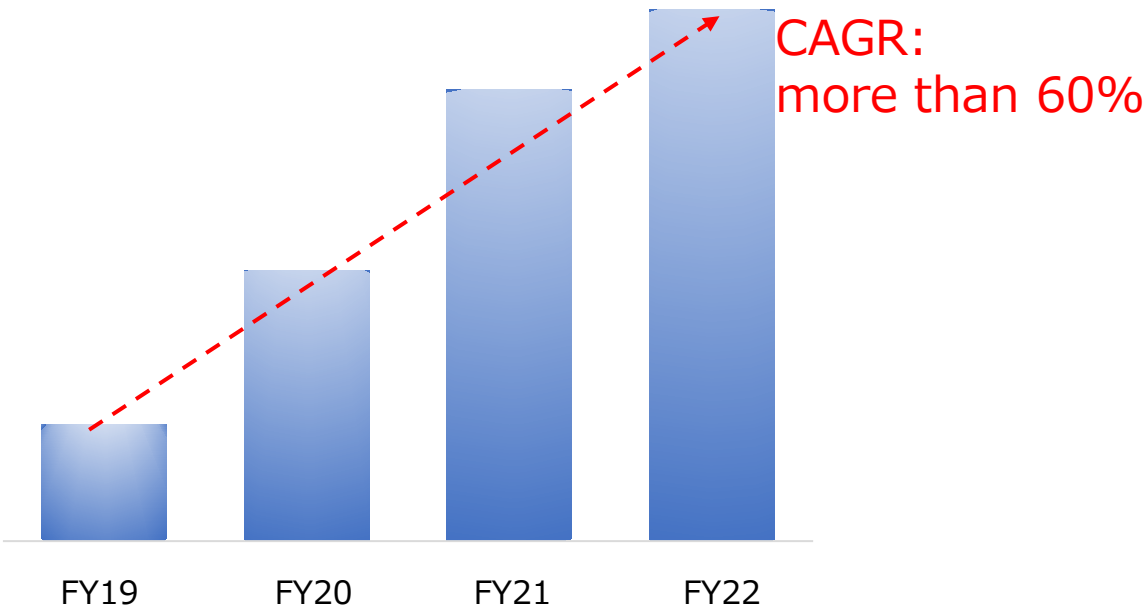
Progress of Key Initiatives in the Medium-term Plan: Strengthening of Advanced Fields

Strengthening of advanced fields

Progress
and results
to date

Increase revenues by signing an exclusive agreement for cancer genome items.
Entrusted with analysis projects related to the action plan for whole genome analysis, etc.

Net sales for genetic testing



Future issues

**Prompt response to
cutting-edge healthcare**

**Discovery of new diagnostic methods
for cancer and rare diseases**

Establishment of a specialized organization
"SRL Genomics Division"
Establishment of one-stop contracting
system by H.U. Group

**Step1: Introduction of cutting-edge
testing technologies**

**Step2: Acceptance of contracted
clinical studies**

**Step3: Establishment of system for
clinical testing**

**Significantly increase profits by promptly
responding to testing demand.**

Progress of Key Initiatives in the Medium-term Plan: Growth Strategies

Integrated Group sales functions



Progress
and results
to date

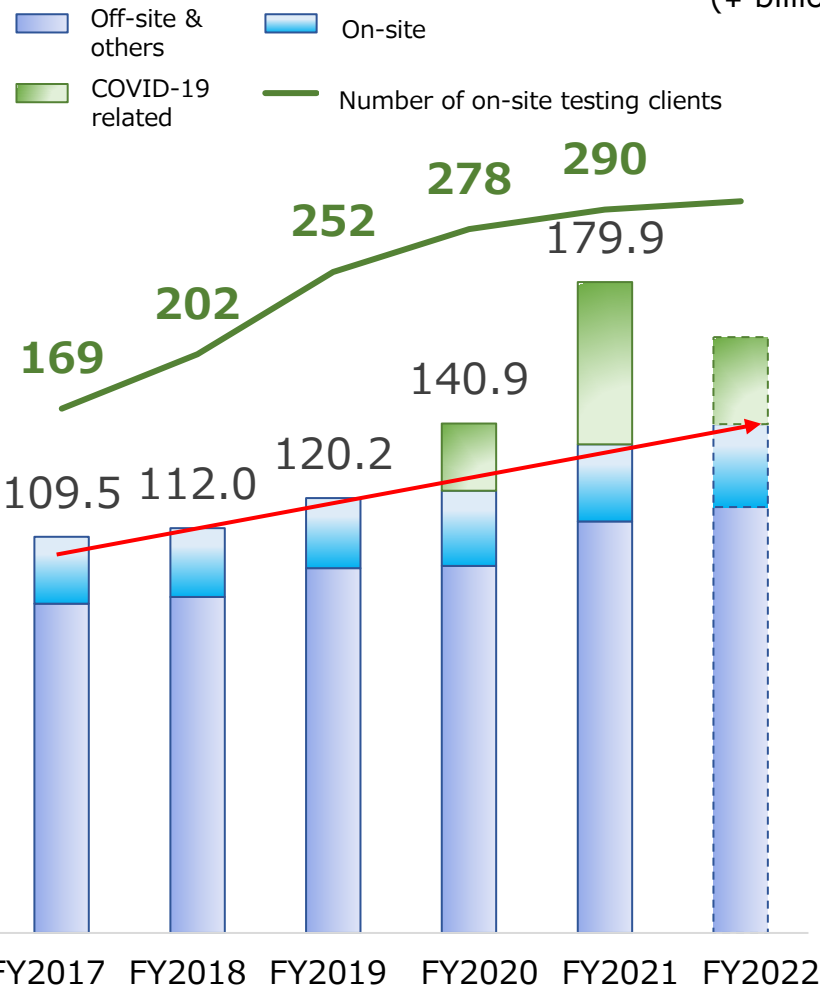
Infrastructure development for integrated
Group sales completed.
Results of project wins through integrated
Group proposals

Future
issues

Sharpening of Group solution sales
Strengthening of sales force and improved
efficiency through Dx
Further acceleration of top-line growth

Net sales of LTS

(¥ billion)



Progress of Key Initiatives in the Medium-term Plan: Growth Strategies

Promotion of ICT x Healthcare



Progress
and results
to date

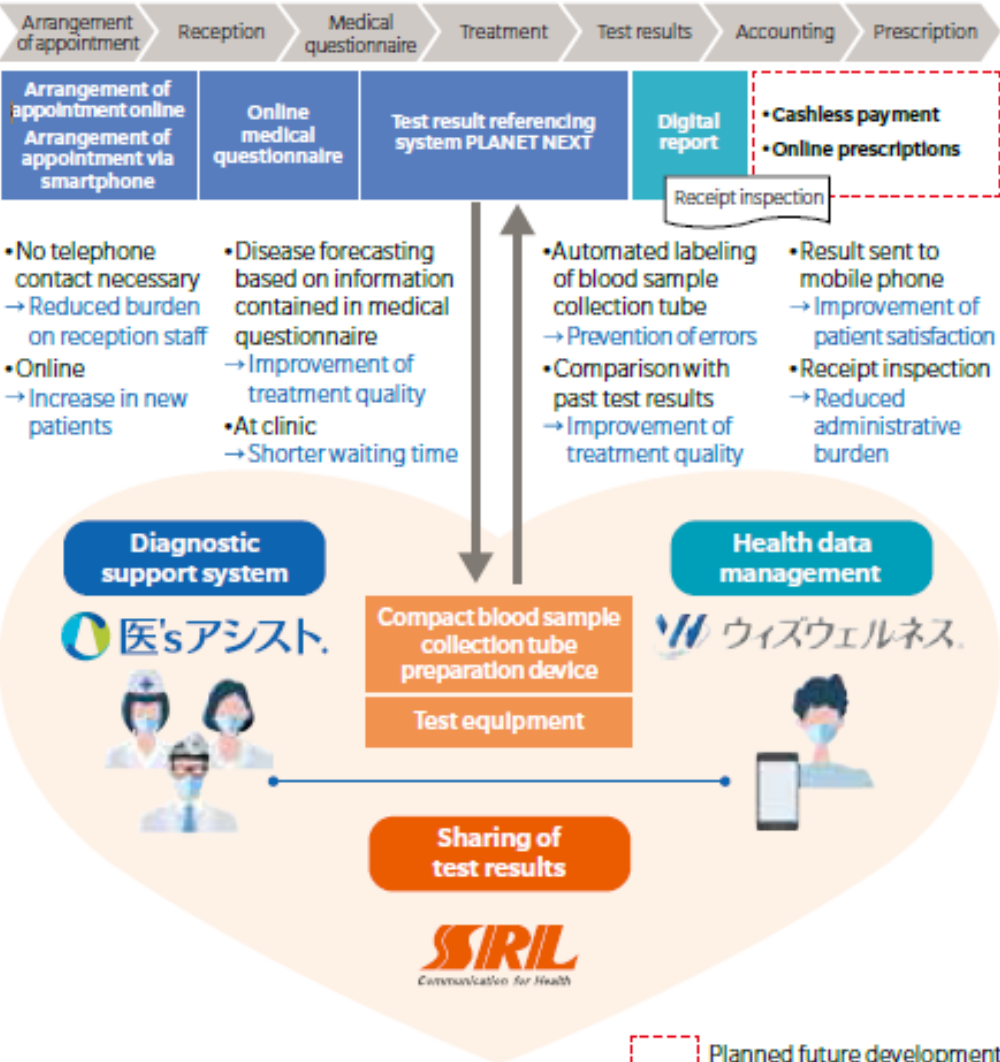
Installed by medical association centers
and local governments
Used for data management of COVID-19 testing



Future
issues

Renewal of sales structure through integration
with HUF
Differentiation by adding functions and services
**Creation of further synergies in testing
business**

Work efficiency improvement through collaboration of E's Assist and WithWellness app



Growth Strategy

Accelerating growth through integrated Group strategy which combine H.U. Frontier, H.U. Research Institute, Ishinban, etc., based on reliable assessment of changes in the environment and customers needs

Initiatives for sales growth

H.U. Group integrated proposals

- ✓ Upselling measures combining IVD×LTS×HS

Advanced medical domains

- ✓ Cancer genome sequencing, whole genome sequencing

Healthcare x ICT

- ✓ Differentiation through E's Assist and WithWellness app

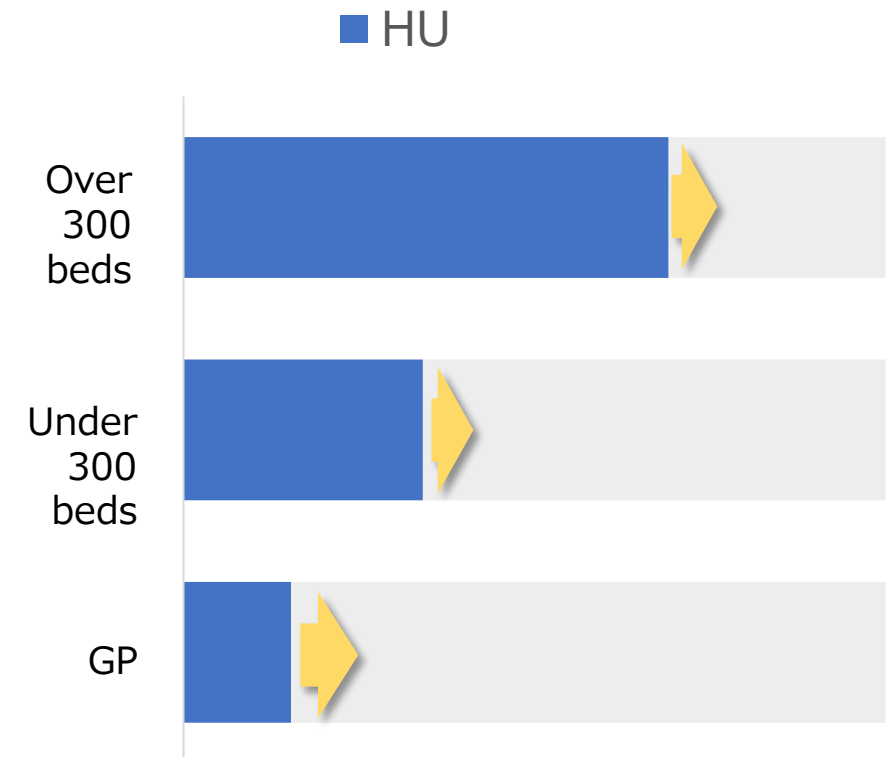
Upselling by goods sales business

- ✓ POCT, instruments, reagents

- Expansion of hospital market
- Cultivation of local core hospitals

- Expansion of GP market
- Capturing of community healthcare demand

Estimated market share of H.U Group*

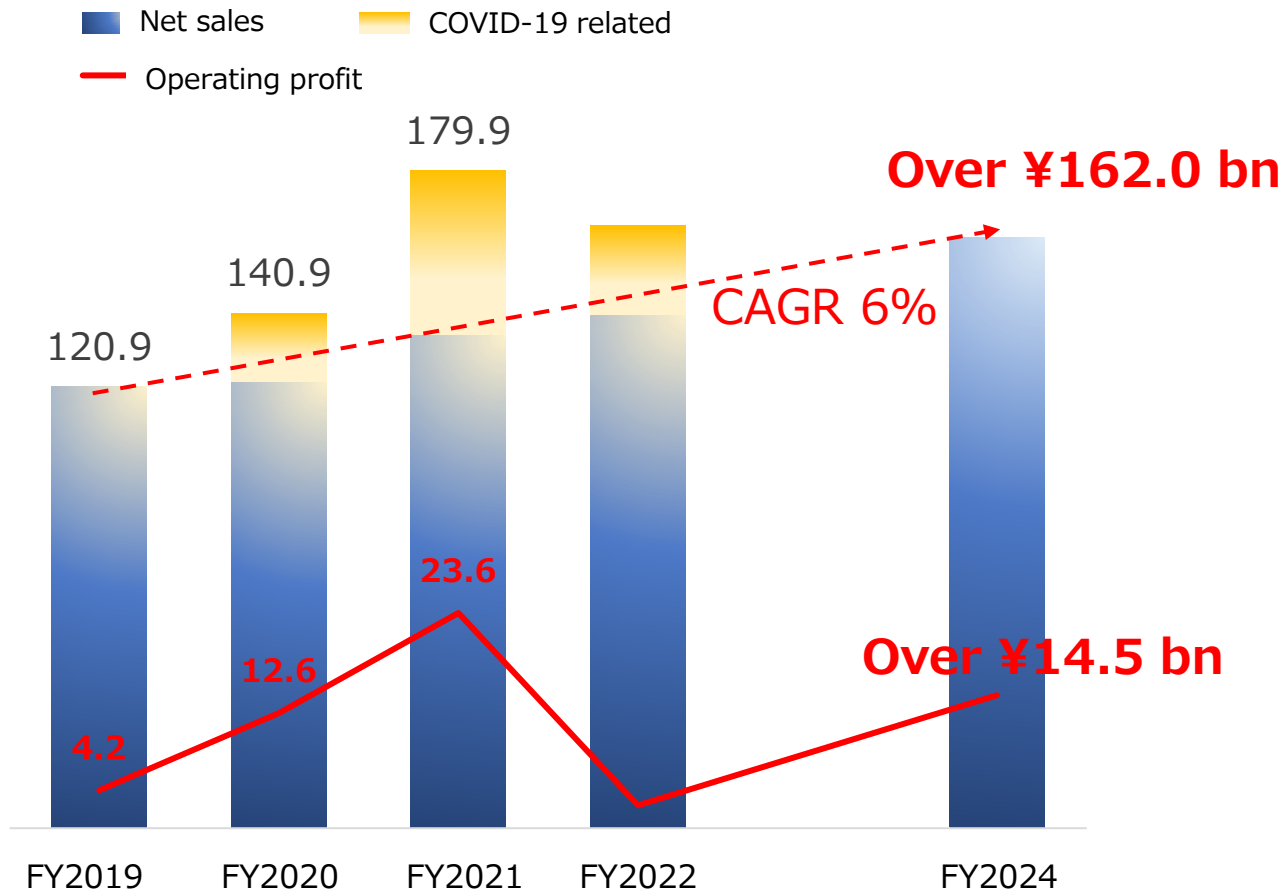


* Based on internal data

Medium-term Goal of LTS Business

Forecast by the end of medium-term plan

(¥ billion)



Medium-term Goal
Solving medical and healthcare issues through LTS business
~significant and sustainable growth~

FY2024 targets

- Net sales CAGR: over 6%
- EBITDA margin: over 17%
- OP margin: over 9%