

## **Q&A on the Business Results for the 1st half of FY2018**

November 1st, 2018, 16:45-17:45

Q-1

- Why are the full-year forecasts not being revised?

A-1

- On the net sales front, prices declined more than expected in the CLT business which was the main factor for not reaching 1H targets. However there were increases in the number of GP/FMS branch lab clients and number of tests.
- For profits, one-off fees, namely other factors occurring in 1H (Approx. ¥1.32 bn, Slide 6 of presentation) reduced profits, but they are not expected to occur after the 1H. However, the results of efforts made to improve work efficiency and cost reductions from the decrease of employees can be seen in the 2H, meaning that profitability is expected to improve.
- I would like to determine if there is a necessity to revise the annual financial forecasts after reviewing the extent of the impact on the full-term results.

Q-2

- The 1Q conference call stated that results were set to improve from 2Q, but they have declined. What is the reason for this?

A-2

- As hospitals are facing increasing financial difficulties, they have intensified their demand for lower prices. The effect of this was greater than we had anticipated since the majority of our total customers are hospitals.
- As a result of these price reductions, as well as other complex elements such as investments made to attract new customers, the financial results were below those of 1Q.
- As of now, 90% of contracts with hospitals have been renewed. We are not expecting prices to continue to fall throughout the year, and predict the effect of the fall in prices throughout the year to be in the 3% range.

Q-3

- Although the number of tests is increasing, the effect of price reductions was significant, and so I believe it will be difficult to achieve the CLT targets set out in the full-year forecasts.

A-3

- As stated in A-2, we estimate that the effect of price cuts for the full year will be around the 3% mark.
- From 2H, the reduced prices will be set as standard, and sales from newly acquired clients will be recorded. I understand that realizing the full-year forecasts will be challenging, but we will endeavor to achieve our targets.

Q-4

- What is the outlook for price reductions from the next period, and what measures are in place?

A-4

- Consumption tax is set to rise next year and medical fees are to be revised the following year, so we expect this difficult situation will continue.
- In order to effectively counteract the effect of this situation, we reduce costs through improving work efficiency, proactively implement automaton in testing, and create a business structure that can absorb the impact of reduced prices, which can be introduced before moving operations to the New CLT Central Laboratory.

Q-5

- What are the current situation and future outlook for labor costs and the number of employees?

A-5

- I believe the number of employees is still rather high.
- On top of improving work efficiency to reduce avoidable man-hours, reviewing the necessity of roles after employees leave the company (e.g. after retirement), and we are also making other efforts to reduce employee numbers.

Q-6

- What is the reason for the difference in the amount of the ¥2.1 billion rent expenses, against the ¥1.7 billion depreciation that was announced in the 1H of FY17? Also, when is depreciation and rent expenses for the New CLT Central Lab going to take effect?

A-6

- This time the subject of rent expenses is not only the building but also the land. It also includes real estate taxes and fire insurance premiums.

- In principle, depreciation and rent expenses are expected to take effect when the New CLT Central Lab starts operations (at the beginning of FY21).

Q-7

- I understand that its necessary to increase the number of tests in order to realize cost reduction efforts to overcome the cost increase to ¥5.9 billion, but how do you plan to achieve this?

A-7

- The New CLT Central Lab will be processing tests for a much wider area (the entire Kanto region) than the area covered by the existing Hachioji Lab
- In addition to this, our calculations show that we can ensure an adequate volume of tests thanks to current efforts to increase share in the GP market and expansion of the medical check-up business.

Q-8

- A newspaper reported on your JV with the Chinese Ping An Insurance (Group) Company, can you give any more information on this?

A-8

- We announced in April 2017 (Japanese only) that we were in discussions with Ping An Healthcare Investment Management Co., Ltd. As a result, we reached the mutual decision to establish a joint venture company.
- We have now entered a joint venture contract. We are currently waiting for approval to establish a company from government agencies, but plan to have the company established within this year.