

Medium-term Plan
(Fiscal year March 2021 – March 2025)

H.U. 2025

~**H**iyaku (significant growth) & **U**nited~

September 18th, 2020

H.U. Group Holdings, Inc.

“Transform! 2020” Recap

“Transform! 2020” Recap ①

(¥ billion)

	FY2019 targets ⁽¹⁾	FY2019 results
Net sales	207.0	188.7
OP	25.0	9.9
EBITDA	38.0	21.3
ROE	10% or more	-0.5%
ROIC	8% or more	3.7%

Significant underachievement of financial targets

Major factors

【CLT】

- Underachievement of customer acquisition
- Delay in fixed cost reduction measures
- Change in sales mix of test items
- Larger than expected price cut impact

【IVD】

- Underachievement of customer acquisition

“Transform! 2020” Recap ②

Execution of key measures and plans

Established foundation for significant and sustainable growth beyond 2020

Implementation of the Group integration

- Revision of our corporate philosophy
- Unification of personnel system
- Promotion of the Group procurement
- Efficiency through integration of IT function
- Unification of IT platform

Sales growth

CLT Japan

- Net sales (¥ billion)
FY2016: 104.1 → FY2019: 117.5
- Market share
FY2016: 18.9% → FY2019: 20.4%⁽¹⁾
- Enhancement of genetic related tests

SR

- Established total support service and launched deposit inventory business of medical items

Investment for future growth

- New central lab
- Entry to new business fields (ENB)
- Strengthening of R&D (Establishment of H.U. Group Research Institute)
- Joint Venture with Ping An Insurance Group of China

Realizing Profitability Improvement from Established Foundation for Growth Is a Remaining Issue

Our Business Environment

Our Business Environment (Japan)

Japanese CLT market

- Increasing medical expenses under consecutive containment pressure
- Declining medical diagnostics testing fees
- Growing advanced yet costly medical treatment

Hospitals

- Realignment of hospitals and hospital beds

Home care

- Increasing needs for home medical care

Self-medication

- Increasing needs for preventive medicine

Covid-19

- Behavior change of the public
- Constraint outpatients for medical examinations

Our Business Environment (Global)

Global CLT market

- Growth continues in emerging countries
- Low growth in developed countries under suppressing social security costs

Reagent development

- Increase of registration costs triggered by regulation changes in each country

Testing Instruments

- Increasing needs for comprehensively systemized testing instrument platform from single supplier
- Modularization of testing instruments

Key Theme of the Medium-term Plan

1. Operation of New Central Lab
2. OEM business enhancement
3. Healthcare × ICT

Our Value Creation Story

Change in Corporate Name and Mission/Vision

Mission

Create new value in healthcare and thereby contribute to human health and the future of medical care

Vision

With our deep involvement in human health, we aim to be a group that contributes to the development of healthcare through trust and innovation



H.U. = Healthcare for You

- “Healthcare” : Expand business domain from “Medical” to “Healthcare”
- “for You” : Provide healthcare to individual (B2C)

Move one step forward from “Support medical mainly by providing clinical tests” to “Provide best healthcare to all people by facing each individual”

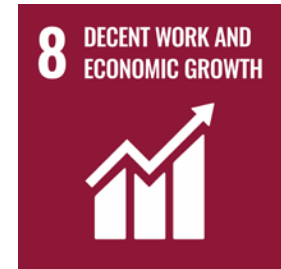
Contribution to SDGs

- Ever since the establishment of Fujizoki Pharmaceutical in 1950, H.U. Group has contributed to solve social issues such as infectious diseases.
- H.U. Group is committed to CSR & SDGs through business activities as an essential social infrastructure supporting medical care

Our Approach to CSR

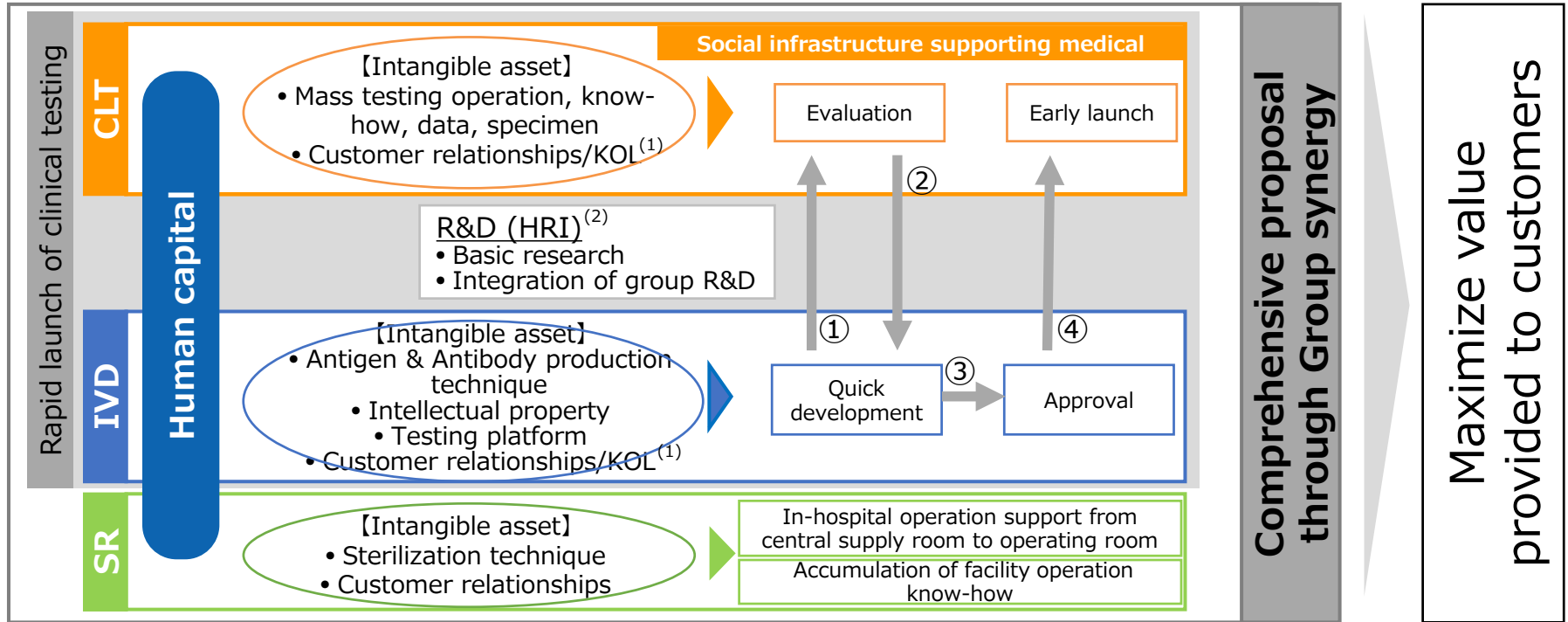
The H.U. Group Management Philosophy consists of three main declarations; Mission, Vision and Value. We believe we can fulfill our CSR through our business activities, which we base on our management philosophy. By means of this framework, we create strong relationships with a wide range of stakeholders, engaging in initiatives to solve social issues through our business activities.

SDGs



Value Creation Story of Our Core Business

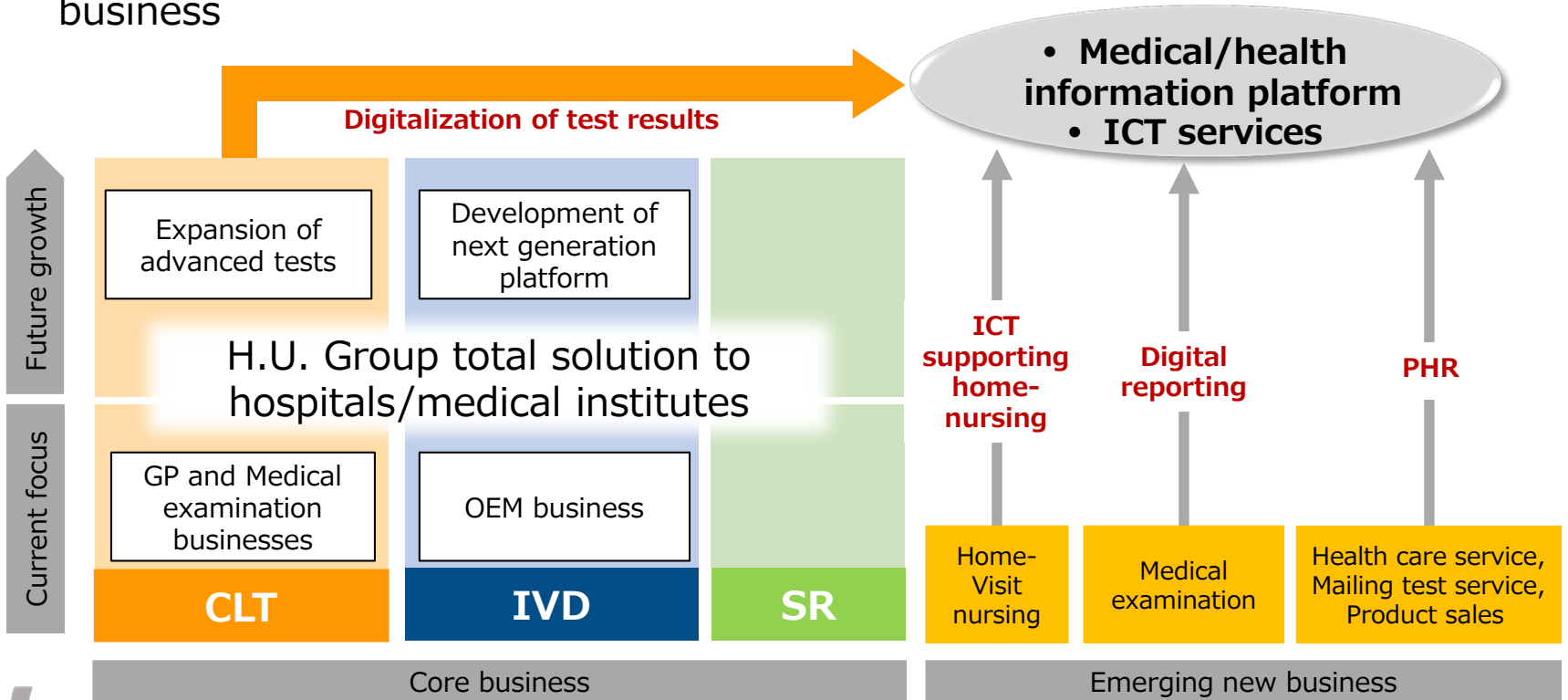
- Maximize value provided to customers through utilization of group synergy based on intangible asset and human resource
- Our value creation model of CLT/IVD synergy was successfully demonstrated through the rapid development and launch of SARS-CoV-2 antigen tests



(1) KOL: Key Opinion Leaders (2) H.U. Group Research Institute

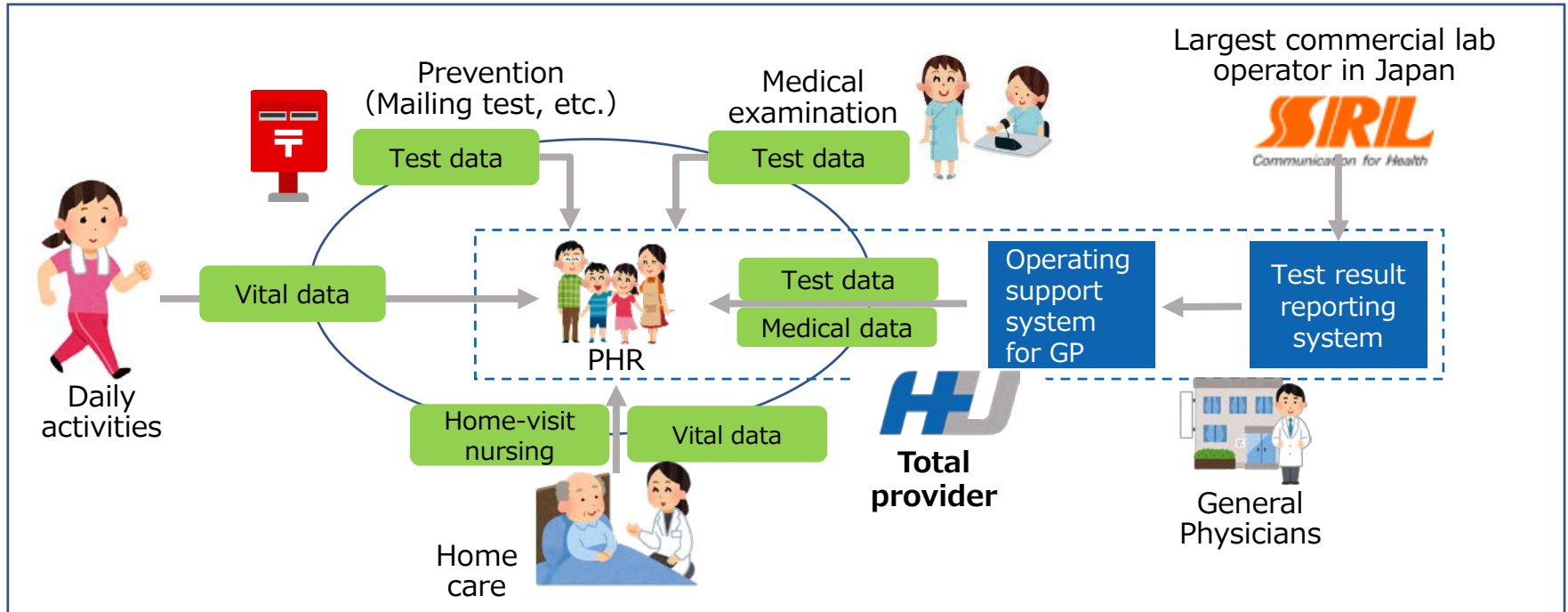
Business Expansion as a Group

- Enhancement of core business through utilization of our group synergy
- Expansion to “Healthcare × ICT” domain by leveraging existing assets in core business



Healthcare × ICT Service

- Connect each individual's healthcare data
- Provide PHR/ICT services to support self-medication



How We Would Like To Be By 2030

With our deep involvement in human health,
we aim to be a group that contributes
to the development of healthcare through trust and innovation.

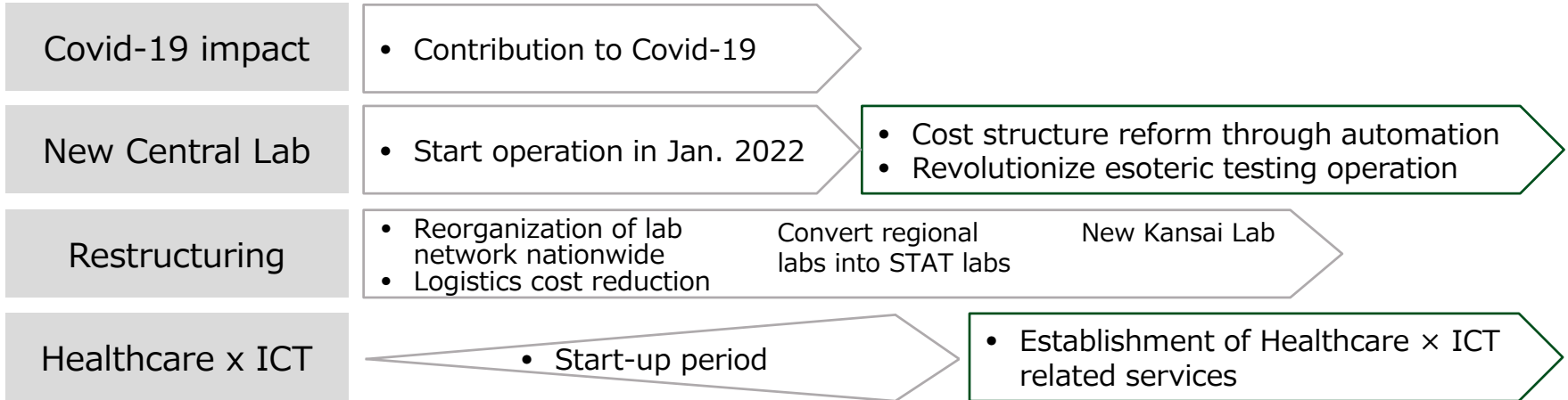
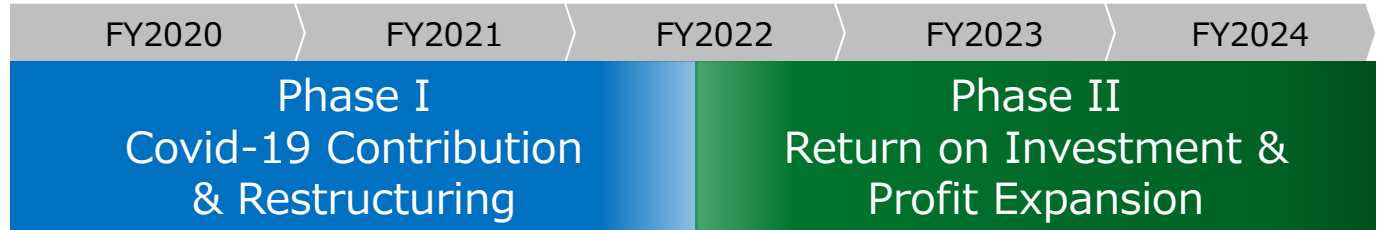
FY2030

Market cap of
800 billion JPY or more

Key Initiatives for “H.U. 2025”

Premise of “H.U. 2025”

- Assuming Covid-19 impact to remain until next two years time
- Entering second phase with starting New Central Lab operation



Key Initiatives

1. COS reduction through stable operation and automation of New Central Lab
2. Fixed cost reduction and profitability improvement
3. Group integration in core businesses
 - 3-1. Integration of sales forces
 - 3-2. Expansion of inter-segment sales of IVD products
 - 3-3. Enhancement of R&D
4. OEM business expansion
5. Monetization of ENB

1. COS Reduction through Stable Operation and Automation of New Central Lab ①

Start the operation in Jan. 2022 and achieve average COS reduction per ID

- Completion of building construction scheduled in Nov. 2020
- IT system development proceeding on schedule



New testing lab building under construction (Photo: Sep. 10, 2020)

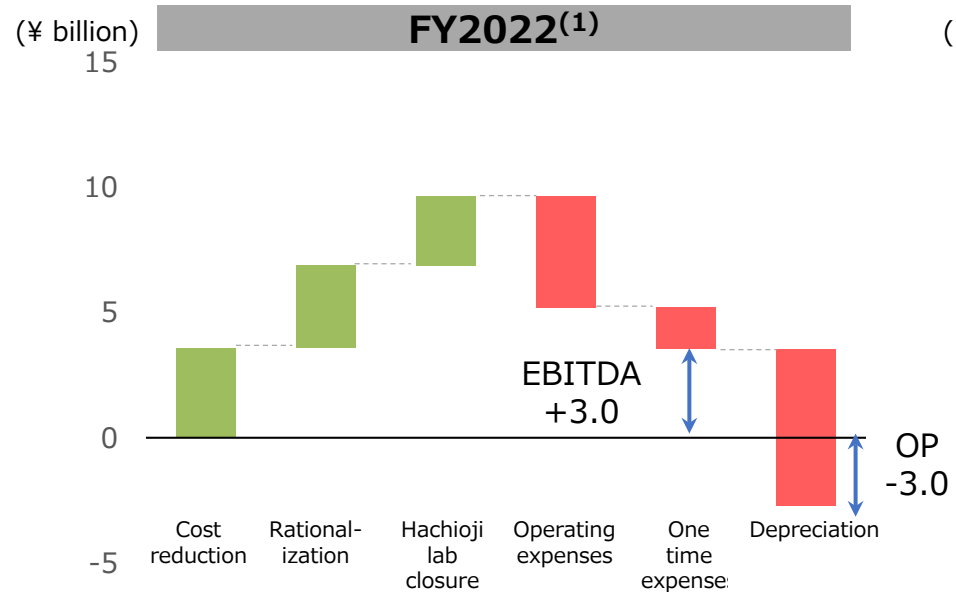
Averaged COS reduction per
ID in FY2024
(vs FY2019)

General testing: -15%
(impact from New Central Lab only)

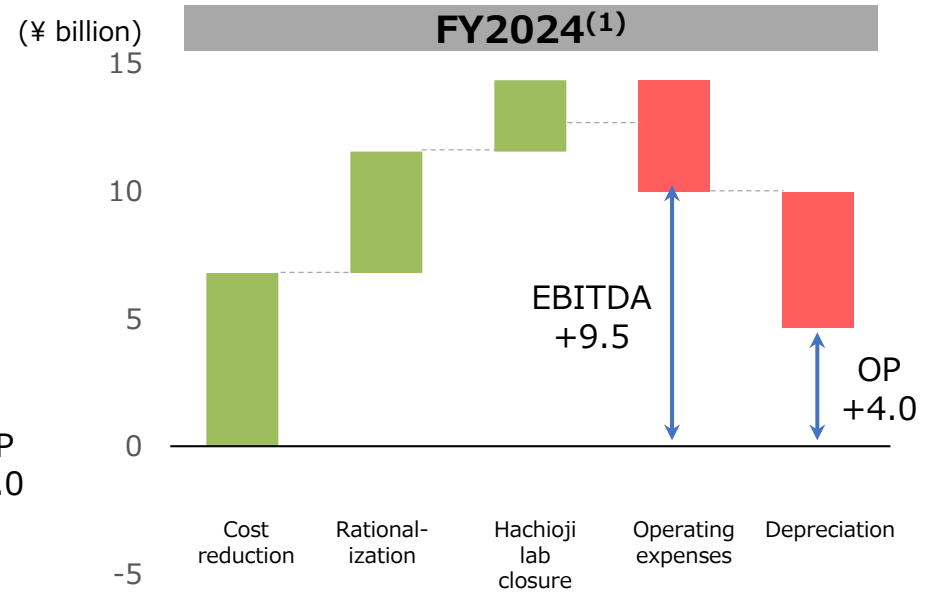
Esoteric testing: -7%
(impact from New Central Lab only)

1. COS Reduction through Stable Operation and Automation of New Central Lab ②

- Profitability improvement
- Further profit expansion from FY2024



- Cost reduction impact through automation, etc. is limited
- Additional one time expenses



- Impact of cost reduction through automation of specimen reception/testing, IT system integration and rationalization exceeds increased operating expenses (incl. rent expenses) and depreciation

2. Fixed Cost Reduction and Profitability Improvement ①

Reorganization of nationwide lab network

New central Lab (Akiruno)

- Consolidate general tests in Kanto area
- Consolidate esoteric tests nationwide
- Operation in Jan. 2022

New Fukuoka Lab

- Conduct general tests
- Reorganize labs in Fukuoka
- Operation in 4Q, FY2020

New Kansai Lab

- Conduct general tests and some esoteric tests
- Operation in 4Q, FY2023

Establish tri-axis lab network (New Central, New Kansai, New Fukuoka)

- Secure mutual supplementation capability for common test items as a BCP measure
- Optimize logistics costs

Convert satellite labs and regional labs into STAT labs⁽¹⁾

- Dedicated to regional urgent tests operated by smaller number of employees
- Winning clients while achieving both faster TAT (turn around time) and profitability

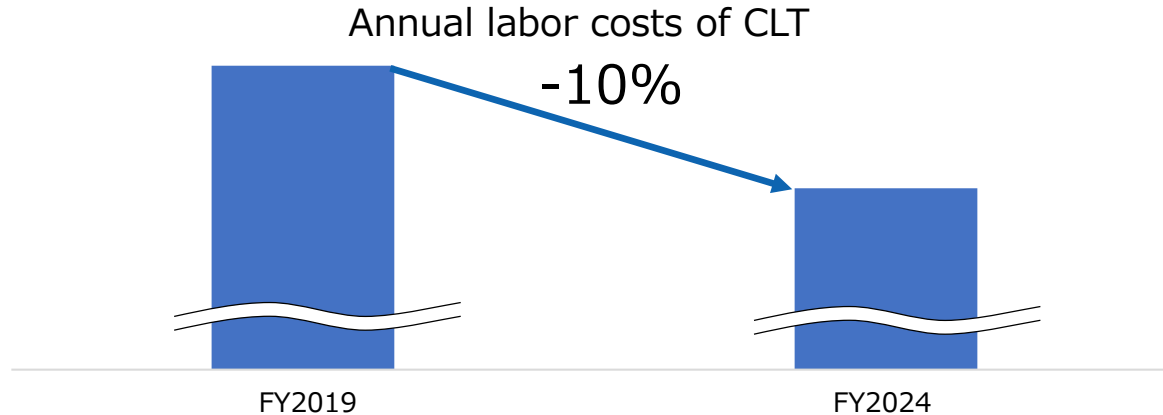
(1) Labs mainly offering urgent tests (STAT = Short Turn Around Time)

2. Fixed Cost Reduction and Profitability Improvement ②

Up to 10% labor cost reduction despite increased number of testing

Major labor cost reduction plans in CLT

- Automation at the New Central Lab
- Reorganization of lab network nationwide
- Logistics optimization



2. Fixed Cost Reduction and Profitability Improvement ③

Optimization of logistic costs centered on alliance with Medipal Holdings

- Sharing logistics
- Streamlining of work process
- Consolidation of logistics functions/sites within group companies

Logistics cost per ID
(Comparison to FY2019)

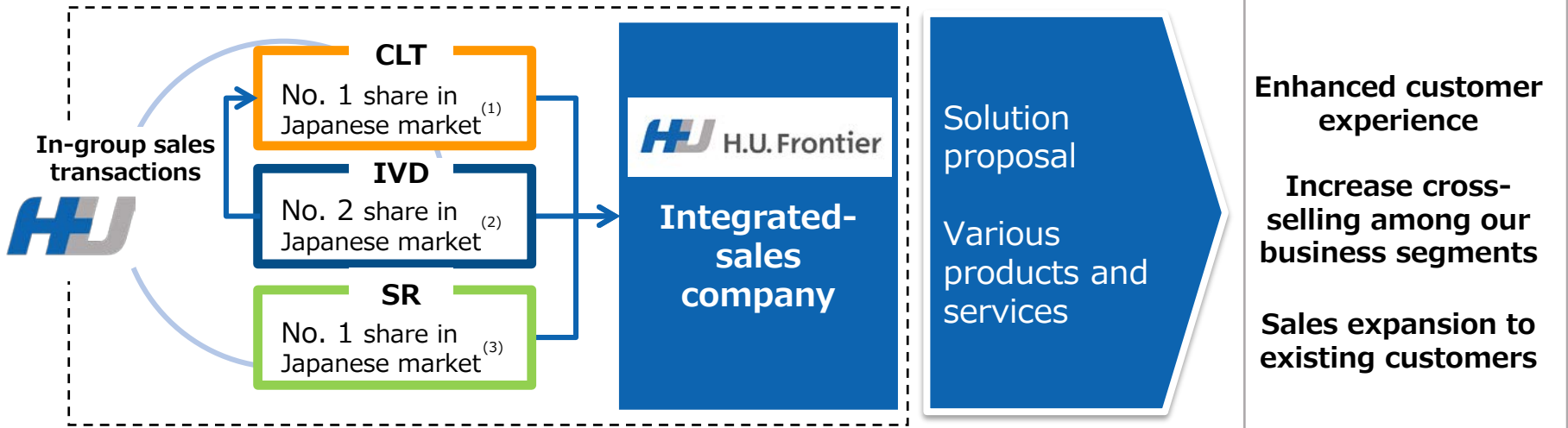
Improvement of 15~20% in FY2022

3-1. Integration of Sales Forces

Integrate sales function within the Group and generate both revenue and profit growth

(Name of the company: H.U. Frontier, scheduled to start on Oct. 1st, 2020)

- Providing various services & solutions to meet varying customer needs
- Seek new business opportunities
- Optimization of sales costs



(1) An internal investigation based on the material published by Yano Research Institute Ltd.

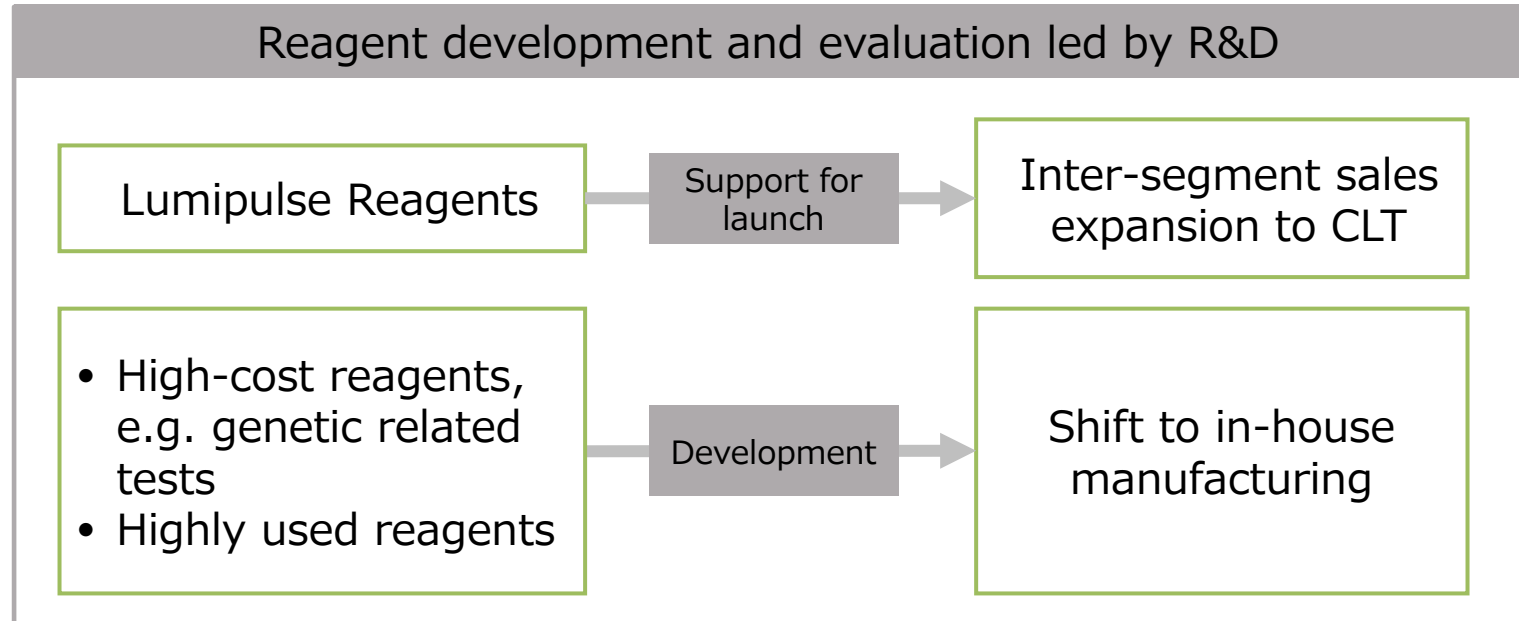
(2) An internal investigation based on the survey results conducted by Japan Medical Association

(3) An internal investigation based on other companies' disclosed materials

3-2. Expansion of Inter-segment Sales of IVD Products

- Expansion of inter-segment sales from IVD to CLT
- Promote in-house reagent development

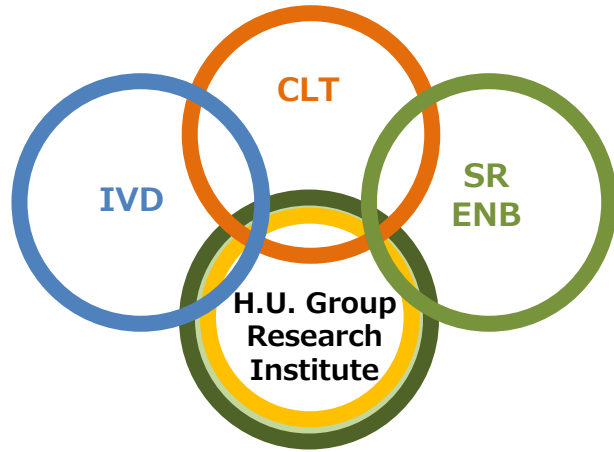
Cost reduction in CLT & improvement of consolidated cash flow



3-3. Enhancement of R&D

Integration of R&D functions and knowledge sharing

- Pursuing optimal R&D strategy for the entire group
- Flexible and nimble technology introduction and development



Integration of R&D function

Develop a base to become new
“social/medical infrastructure”

Actions for SARS-CoV-2 and preparation for new infectious disease

- SARS-CoV-2 related technology/infrastructure, e.g. tests, infection control, etc.

Evolve CLT business

- Automation and utilization of AI for esoteric testing, etc.

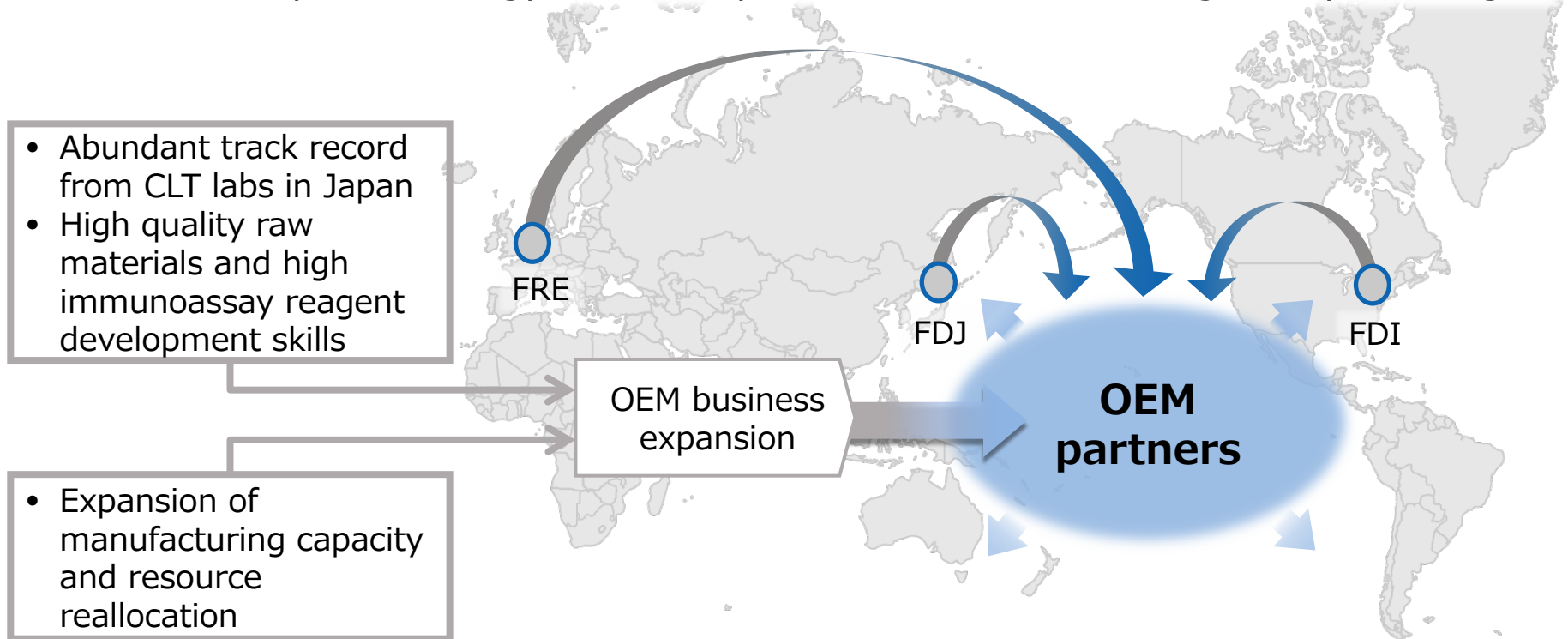
Extensive usage of core technologies

- Implementation of new technologies and exploration of bio-marker, etc.

Nurturing next generation experts

4. OEM Business Expansion

- Expand OEM business through leveraging multiple sites globally (FDJ, FDI, FRE)⁽¹⁾
- Review Lumipulse strategy outside Japan, due to increase in regulatory challenges



5. Monetization of ENB

Basic policy

- Investment in growth market is necessary for corporate value creation
- Management of CAPEX
- Appropriate decision making within 3 years from the launch and consider withdrawal from the business based on its growth potential, profitability and synergy effect potential with our core business

- Each of four businesses⁽¹⁾ in ENB, aim to realize profit (or nearly equivalent profitability improvement) by FY2021
- In the recent 3 years, we conducted several divestment based on profitability as follows:
 - ✓ Overseas CLT (Withdrawal: Nov. 2017, Net sales in the final year: 16.6 billion yen)
 - ✓ SMO (Withdrawal: Mar. 2018, Net sales in the final year: 0.2 billion yen)
 - ✓ Dispensing pharmacy (Withdrawal: Oct. 2018, Net sales in the final year: 0.6 billion yen)

(1) "Home-visiting & welfare equipment", "Self-medication & Corporate Health insurance association", "Food, environment, cosmetics testing" and "CRO"

Business Plan by Segment

CLT: Challenges and Initiatives

Challenges/ issues	<ul style="list-style-type: none">• Automation/streamlining of testing = profitability improvement• Increase of outsourcing caused by a gap between demands and in-house capabilities (decline of marginal profit)• Business scope expansion along with varying needs of medical institutions• Community-based integrated care systems• Increase of ICT importance in medical care
Initiatives	<ul style="list-style-type: none">• Operation of New Central Lab and reorganization of nationwide lab network• Total solution service through the sales force integration• Product enhancement• Rationalization of logistics• Acceleration of customer acquisition and profitability improvement of GP segment• Introduction of ICT tools for medical institutions, both GPs and Hospitals
FY2024 targets	<p>Net sales CAGR⁽¹⁾ : 5.5% or more EBITDA margin : 17% or more Operating margin : 9% or more</p>

Product Enhancement

Develop/launch original tests and increase in-house test items for profitability improvement

Development of tests for the most advanced, high medical demand area

- Cancer genome, blood disease, infectious disease
- Rare disease

Entry into the field where future demand is expected to increase

- Regenerative medicine
- Cell therapy, etc.

Cost competitiveness

- Expansion of Lumipulse reagent items
- Shift from outsourcing to in-house testing
- Reviewing unprofitable items

Group synergy

- H.U. Group Research Institute
- Launch of in-house developed test items

collaboration

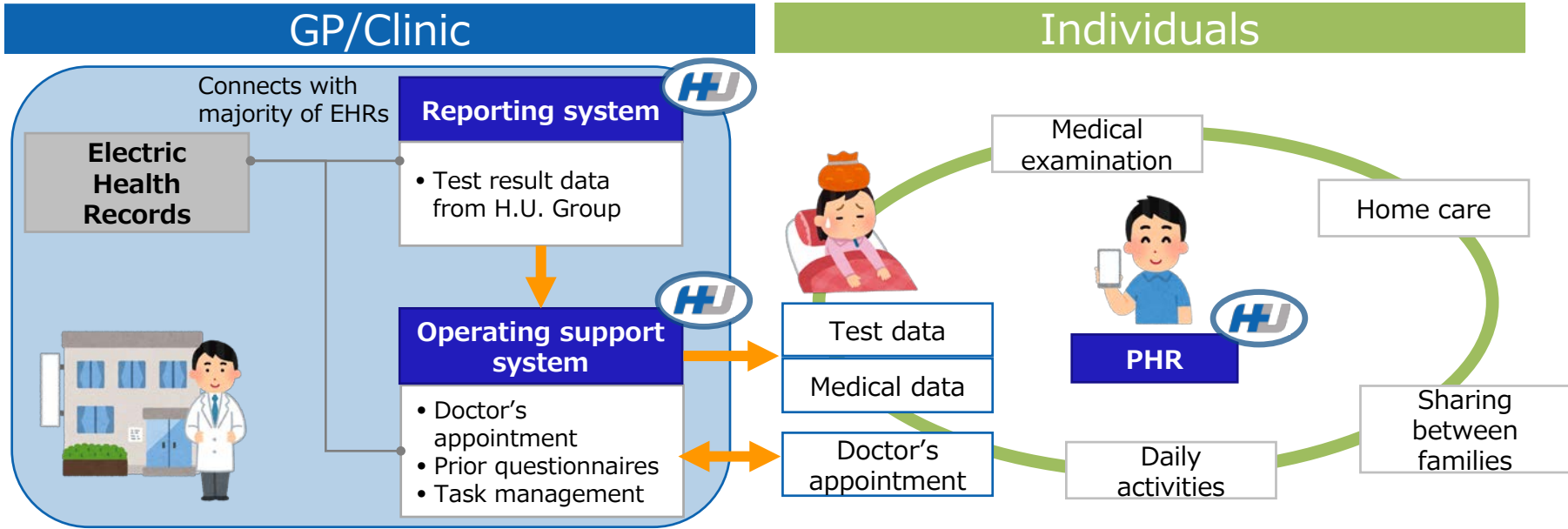
- JV companies
- SRL & Shizuoka Cancer Center
- St. Luke's SRL Advanced Clinical Research Center
- KBBM

New Central Lab

- Development of new test items and new infrastructure
- Acceleration of open innovation

ICT Tools for Medical Institutions and Individuals

- Provide ICT tools to meet the needs of both GP and individuals
- Create new value through connection of our unique ICT services



- ✓ ICT tools to help support operational efficiency
- ✓ Creating new touch point with patients

- ✓ Individual healthcare data management
- ✓ Receipt of test/medical data, doctor's appointment support, etc.

IVD: Challenges and Initiatives

Challenges/ issues	<ul style="list-style-type: none">• Growth of domestic business and profitability improvement• Growth of OEM business• POCT sales• Lumipluse global strategy
Initiatives	<ul style="list-style-type: none">• Total solution service and reinforcement of sales through the sales force integration• Fixed cost optimization through selection and focus of manual product lines• Sales promotion of Lumipulse and POCT (incl. inter-segment sales)• In-house production/launch of reagent items for CLT business• Investment in manufacturing capability to expand OEM business• Review Lumipulse global strategy• Investment in next generation platform development
FY2024 targets	Net sales CAGR ⁽¹⁾ : 4.5% or more EBITDA margin : 25% or more Operating margin : 20% or more

Reinforcement of POCT Business

Reinforcement of POCT business through leveraging ESPLINE platform

Value reconfirmed through COVID-19

- Expansion of specimen type (saliva, nasal, painless blood sampling, etc.)
- Expansion of line-up for infectious diseases tests
- Linkage with digital services

- Strengthen sales force in Japan through integrated-sales company
- ESPLINE SARS-CoV-2 + Influenza A&B-N
- Target global market

Product line-up
and usability
improvement

Production
capacity
expansion

ESPLINE SARS-CoV-2
+ Influenza A&B-N



SR: Challenges and Initiatives

Challenges / issues	<ul style="list-style-type: none">• Increasing outsourcing demands and domains• Labor intensive business
Initiatives	<ul style="list-style-type: none">• Total solution service through the sales force integration• Improvement of total support service including operating room operation• Continuous improvement of sterilization operations• Labor cost optimization
FY2024 targets	Net sales CAGR ⁽¹⁾ : 9% or more EBITDA margin : 12% or more Operating margin : 9% or more

Equity Method Affiliates

Equity Method Affiliates ① – BMGL

Current status

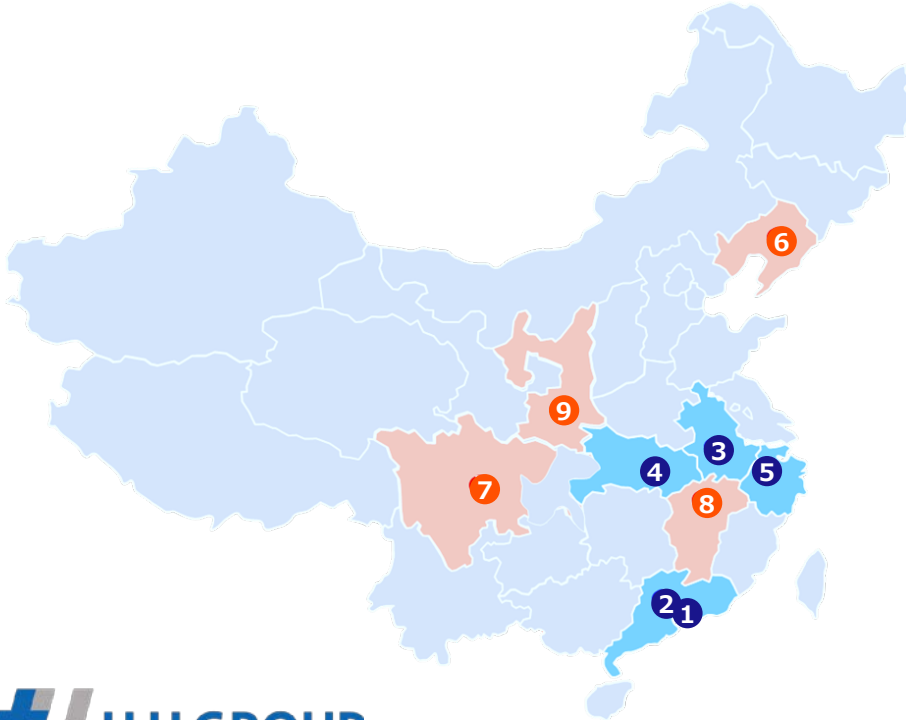
- Business performance improved in FY2020 by the contribution of PCR testing for Covid-19
- Pre-IPO private placement is planned in 2020

Direction

- Aim to reduce our ownership ratio to less than 50%
- Carry out IPO preparation

Equity Method Affiliates ② – Ping An SRL Medical Labs (JV)

- Penetrate a trinity model
(medical examination clinics + imaging centers + clinical labs)
- Aim for gain on equity method in FY2022 (as originally planned)



- Nine Labs in operation
- Sales contribution from PCR testing for Covid-19 in FY2020

- ① **Shenzhen (JV lab)** ② **Guangzhou**
- ③ **Hefei** ④ **Wuhan** ⑤ **Hangzhou**
- ⑥ **Shenyang** ⑦ **Chengdu** ⑧ **Nanchang**
- ⑨ **Xian (Opened in Aug. 2020)**

Financial Forecasts and Medium-term Financial Targets

FY2020 Consolidated Forecasts

(¥ billion)

	First half	Full-year
Net sales	97.5	200.0~220.0
OP	7.0	14.0~18.5

* Segment forecasts are not disclosed due to remaining uncertainties

Premise of full-year forecasts

- Though not as significant as we experienced in the months of April and May of 2020, we expect modest recovery of non-Covid-19 related number of tests.
- Although demand for Covid-19 related tests is still uncertain, we have reflected as much plausible factors as possible.
- Outlook of antigen test demands in Japan for both high sensitive reagent, Lumipulse SARS-CoV-2 Ag, and rapid test kit, ESPLINE SARS-CoV-2, remains unclear.

Medium-term Consolidated Financial Targets

	FY2024		For 5 years cumulative
Net sales CAGR⁽¹⁾	6% or more	Operating cash flow	150 billion yen or more
EBITDA margin	18 % or more	Free cash flow⁽²⁾	50 billion yen or more
OP margin	10 % or more		
ROE	12 % or more		
ROIC	8 % or more		

Annual free cash flow to turn positive in FY2022

(1) 5 years CAGR during FY2019-FY2024

(2) Lease is not included in investing cash flow

Financial Strategy and Financial Discipline

1. Operating cash flow improvement
 - ✓ Improving Cash Conversion Cycle (CCC)
2. Finance lease and real estate financing
3. Sale of real estate, e.g. emptied old lab sites

Financial discipline	
Net interest-bearing debt to EBITDA (excl. lease obligations)	1.3x or less ⁽¹⁾ (2.5x or less during the medium-term plan)
Equity ratio (%) (excl. real estate finance)	40% or more

(1) at the end of FY2024

Shareholder Return Policy

Dividend forecast for FY2020

Interim and year-end dividends are undetermined

Maintain basic shareholder return policy

Consolidated payout ratio: 50% or more
of net profit excluding exceptional factors

【Contact information】

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Disclaimer regarding forward-looking statement:

The performance forecast provided in this document is prepared by the management based on currently available information and various hypotheses and ideas including significant risks or uncertainties. Please be aware that the actual performance may turn out to be different from the forecast as a result of various contributing factors.

Factors affecting the performance include, among others, aggravation of the economic situation, fluctuation of the exchange rate, change of regulatory, statutory, and administrative requirements, delayed launch of new products, pressures from the product strategies of competitive companies, and decline of the sales potential of existing products.