

## Q&A Highlights: Medium-Term Plan

Date: September 18, 2020

Q-1

- What are the main factors behind setting operating profit to ¥7 billion in the earnings forecast for the first half of FY2020?

A-1

- In the CLT business from April to May, the number of IDs decreased by nearly 30% year-on-year, an extremely severe drop. However, this is to begin rebounding after June, and in the area of COVID-19 sales, PCR tests and sales of rapid antigen testing kits are expected to contribute to sales.

Q-2

- What is the context and the aim behind setting a market capitalization target of ¥800 billion for FY2030?

A-2

- H.U. Group is an extremely rare corporate entity as it contains CLT and IVD under the same umbrella, with great synergies between the two. However, stock market valuation at present does not incorporate these synergies, and we believe we are being undervalued.
- During the period of this medium-term plan, we will strive to create new value by integrating Group resources, but we would also like to improve Group valuation by achieving great growth Group-wide in 2025 and beyond. We therefore chose to articulate this aim in the form of market capitalization.

Q-3

- On the subject of dividends, we can read that there is no need to reduce dividends if the medium-term plan's targets are achieved and profit growth is achieved; however, I would like you to clarify your thoughts.

A-3

- We will maintain the basic policy of a payout ratio of 50% or more. The amount of dividends may certainly fluctuate depending on the fiscal year. However, we would like to exceed current dividend amounts by achieving growth as planned in FY2024, the final year of this medium-term plan.

Q-4

- How have you made improvements with regard to issues faced in the previous medium-term plan? Are there risks that similar issues will arise in this medium-term plan?

A-4

- It is a fact that the company's situation and environment were more challenging than expected during the previous medium-term plan.
- It takes a considerable amount of time to improve the constitution of the organization. Therefore, while promoting various initiatives within this medium-term plan including the New Central Lab development, we will steadily change the constitution and structure of the company.

Q-5

- Patient behavior is changing due to COVID-19, with risk that this will take root. Will you still carry on with the development of general practitioners in the CLT business amid this underlying risk?

A-5

- We will continue to develop general practitioners, but we are aware that the COVID-19 pandemic is leading to an ongoing severe environment. We believe that it will be necessary to be selective in our overall strategy responding to major changes in Japan's healthcare system, and that scaling the business may not be the only option.
- We will promote collaboration between our current services and ICT, including with PHRs, and expand our business by providing value-adds unique to the H.U. Group.

Q-6

- How do you see the so-called *clogging* issue in COVID-19 PCR testing being improved going forward - that is, the issue that individuals have found it difficult to be tested?

A-6

- It's better now than it was, but we believe there is still room for improvement.
- In addition to PCR tests, demand for high-sensitive antigen tests using LUMIPULSE is also pervading. The situation is expected to evolve going forward.

Q-7

- Which is most emphasized in this medium-term plan: sales growth, or profitability? Or rather, are you keeping an eye on the previous record profit of about ¥28 billion?

A-7

- Our focus is not just on operating profit. We will monitor cash flow, ROE and ROIC in a comprehensive fashion, but above all we prioritize cash flow to solidify our financial foundations.
- We aren't taking any special note of our past record profits.

Q-8

- Of PCR tests and sale of antigen testing products, which of these two contributed more to the significant increase in operating profit from the first to the second quarter?

A-8

- Although we cannot answer with regard to individual performance, we believe that the increase in the number of PCR tests since June has contributed significantly.

Q-9

- What was the basis for your forecast for this fiscal year, and what drove you to set such an ambitious target of at least ¥800 billion in market capitalization in FY2030?

A-9

- Regarding the forecast for this fiscal year, while we have presented our forecast in a range given the many uncertainties present, it incorporates all factors that we can reliably interpret at this stage and does not include unforeseeable upsides.
- As for the grounds for aiming for a market capitalization of ¥800 billion in FY2030, we set this target because we want to be a company with at least a 10x EV/EBITDA ratio valuation. In addition to achieving quantitative targets for FY2024, centered on strengthening existing businesses, we will work to achieve an EBITDA of ¥80 billion ten years from now by launching a business fusing healthcare and ICT in the next five years.

Q-10

- Tell us about your OEM business pipeline going forward. Are there any projects of a certain scale in the coming one or two years?

A-10

- Through discussions with various partners over the past three years, we came to believe that it is possible to expand the OEM business in this medium-term plan, and have therefore incorporated this goal. Though I can't tell you who those specific partners are, I can say that we have made some progress already.

Q-11

- I believe medical service fees will be revised at some point for COVID-19 PCR testing; is this incorporated into your plan?

A-11

- We have established this plan not only with presumption of a certain price revision for PCR tests, but also including revision for COVID-19-related antigen testing products.

Q-12

- What is the current situation and future outlook for testing at airport quarantine stations?

A-12

- Most recently, the number of antigen tests conducted on foreign persons entering Japan is over 1,000 a day.
- Although it is unclear to what degree this will expand going forward, we believe that testing will continue at quarantine stations for the time being.

Q-13

- You explained that R&D will be integrated into Holdings; are R&D expenses allocated per segment to operating profit targets?

A-13

- We classify and manage R&D expenses appropriately based on those that should be borne as company-wide expenses and those that should be allocated to each segment. For example, expenses incurred in development and other processes related to COVID-19 testing are allocated to each segment in accordance with contribution.
- Our planning for each segment is based on this approach.