Q&A Highlights: FY2021 Business Results

Date: May 21, 2022

Q-1

- Have you made any assumption in the FY2022 business plan, that the COVID-19 will be changed from a Category II Infectious Disease to a Category V Infectious Disease?

A-1

- The situation with the COVID-19 is very difficult to predict, but we do not assume that it will be changed to a Category V Infectious Disease.

Q-2

- Looking at the situation overseas, I believe that there is a high possibility of a shift from PCR tests to antigen test kits. Since your company also has an antigen test kit "ESPLINE SARS-CoV-2," I don't think it is absolutely a negative factor, but what do you think about the risk of replacement?

A-2

- It is true that in the U.S. and other countries, the trend is to use simple kits for testing at home, and in Japan, we are increasing production in anticipation of the expansion of the use of these kits beyond the home use.

Q-3

- Regarding the airport quarantine station, Prime Minister Kishida has said that it will be aligned with the G7, and I think there is a risk that the number of inspections upon entry will be greatly reduced, but what is the outlook for your company?

A-3

- Since it is difficult to predict at what point they will stop inspections at airport quarantine stations, we believe that for the time being, the response will vary from country to country.

Q-4

- Can you explain the reason why you decided that the automated conveyer line in H.U. Bioness Complex did not meet your quality standards? Also, to what extent has the investment increased compared to the past?

A-4

- In H.U. Bioness Complex, we are aiming to automate everything from the entrance of specimens to putting them away in storage, and we are aware that this is the first time in the world that such a high level of full automation has been achieved.
- Even in current condition, with partial support from the workers, it is at the 90% level of completion.

- However, our laboratory must be able to operate fully automatically without manpower, in other words, if there are 1,000 specimens, all the 1,000 specimens must be tested without trouble. In a situation where it involves a certain amount of manpower, it would mean that it does not meet our quality standards.
- We are on track to correct these problems, but it will take time, and we expect the equipment, including the automatic conveyer line, to be operational in July 2022.
- Investment became 38.0 billion yen, up 2.0 billion yen from the 36.0 billion yen forecast as of February 2021.

Q-5

- Regarding the full operation date of H.U. Bioness Complex by May 2023, is there any possibility of further postponement of the full operation including the system? Also, what is the risk of incurring additional consulting fees, etc. in the future?

A-5

- Everything that can be expected at this stage has been incorporated in the materials released today. Therefore, we do not expect any significant deviation from these figures.

Q-6

- Can we consider that the same thing will not happen as in the previous "Navi-Lab"?

A-6

- The idea of the H.U. Bioness Complex this time was basically to change the main source of the company's testing system. On the other hand, "Navi-Lab" aimed to systematize the entire process, including logistics, so the concept itself was completely different.
- I can tell you with confidence that some factor in the future will not significantly change the current plan, much less cause this to shut down.

Q-7

- In terms of the status of esoteric tests compared to the period before the COVID-19 pandemic, you have not yet returned to pre-pandemic levels, but what is your perception of your market share in the industry?

A-7

- While there is no clear indication of market share, in terms of general testing, we believe that the situation is clearly improving, and market share is increasing compared to the situation in 2019
- In the other hand, around esoteric tests, there are no factors that would cause our market share to fluctuate significantly within the industry, so our market share has not changed significantly either. However, we have seen a robust growth in the number of advanced testing, including genomic tests, and we believe that our market share has grown significantly if these tests are included.

Q-8

- You are assuming 8% growth in base business in your sales plan for FY2022, with particularly high growth in LTS. Besides gene-related factor, what other factors do you anticipate?

A-8

- While we anticipate an increase in revenues from genetic testing, we also expect to achieve high growth this fiscal year around general and esoteric testing, which has been a focus of our efforts to date, particularly for general practitioners, so that we set the figure at 8%.

Q-9

- Regarding IVD business, the number of "LUMIPULSE" units installed is an important factor which affects the volume of reagent sales in the future, what is the reason for the large growth in both domestic and overseas markets in the fourth quarter?

A-9

- In Japan, the fourth quarter tends to be relatively large in terms of volume due to the impact of subsidies and the fact that many hospitals have budgets through the end of March.
- Overseas, on the other hand, there is a net increase of 11 units compared to the end of March 2021, and the number of units installed is 88, but we do not consider this to be a very large net increase.

Q-10

- What scale of sales do you expect for Alzheimer's related tests in the future? Also, Can I consider that sales will grow proportionally to the number of testing items?

A-10

- In Alzheimer's-related tests, the type of specimen varies depending on whether the sample is cerebrospinal fluid or blood, RUO-approved or IVD-approved, etc., but the contribution to business performance has yet to be seen, and at this point, we do not think the Alzheimer's-related should be factored into the FY2022 plan.
- However, we believe that the number of testing items must continue to grow.
- In this testing area, since multiple tests are combined to increase the certainty of diagnosis, we don’t think that sales will increase in line with an increase in the number of testing items.

Q-11

- Regarding foreign exchange, what is your company's sensitivity to foreign exchange?

A-11

- Concerning the yen depreciation, with a 1-yen depreciated, the IVD-related sales would raise 180 million yen.
- However, the positive side of profit is mostly offset by the increase in material costs

associated with the yen depreciation in cancer genome testing.

- Therefore, the exchange rate sensitivity for operating income is close to zero.
- On the other hand, for U.S. equity method affiliates, the spread of losses in dollars results in a slightly larger negative impact on ordinary profit.
- There is an approximately 0.6-billion-yen sensitivity of sales to the Euro, and the impact on operating profit is not significant.

Q-12

- Under the situation in Russia/Ukraine and the lockdown in Shanghai, China, what is the impact on the JV with Ping An Insurance and on the procurement of materials and raw materials?

A-12

- Except for materials and other items, we are essentially not directly affected by Russia's invasion of Ukraine.
- On the other hand, in China, the cities in each region have also been locked down, shut down the urban functions. In the testing laboratories operated by the JV, employees are on standby at home and unable to come to work, and the laboratories are not functioning.