

Q&A Highlights: FY2022 Business Results

Time and date: 16:00-17:00, Friday, May 12, 2023

Q-1

- Regarding AkirunoCube-related costs of 13 billion Yen, on the 25th slide of your presentation expresses that the costs will peak and be offset in FY2023, leading to positive effects in FY2024. Is my understanding correct?

A-1

- In FY2023, we aim to generate efficiency effects through the following actions:
 - Transferring all sample acceptance and testing operations from Hachioji to Akiruno by the end of May, 2023.
 - Commencing shared logistics through Medisket, a joint venture with Medipal Holdings.
 - Conducting a comprehensive review of IT costs, maintenance costs, and testing operations with a focus on achieving significant reductions.
- In FY2024, we plan to implement the following optimization measures:
 - Completing shutdown of the current testing system.
 - Reorganizing regional and local laboratories, primarily in Kanto area through integration.
 - Expanding shared logistics.
- We will offset the increased costs of 13 billion Yen through the abovementioned activities.

Q-2

- Could you explain the differences in efficiency effects between the medium-term business plan and the current one you referred on the 25th slide of your presentation?

A-2

- During this pandemic since 2020, we have continued to provide COVID-19 related testing service and products.
- However, due to the pandemic disruption, we had to prioritize our testing work in response to COVID-19, led to unexpected delays in implementing efficiency improvement measures.
- Consequently, the expected costs reductions including labor cost reduction, along with the full operation of AkirunoCube, and expected efficiency effects

have also been delayed.

Q-3

- Regarding operating profit assumption, we see a larger downward impact from the decrease in COVID-19 related sales in IVD (In Vitro Diagnostics) business compared to the LTS (Lab Testing and its related Services) business. Could you please provide the reason or background behind this difference?

A-3

- Recently, the number of PCR tests conducted by LTS business has been decreasing, and the reimbursement for these tests has been cut down since the beginning of FY2022. On the other hand, the number of antigen tests (ESPLINE/Lumipulse) is increasing as they replace the PCR tests. As a result, the profitability contribution to the LTS business is gradually decreasing.
- Regarding antigen testing, we manufacture products through the IVD business. Assuming a decrease in the number of COVID-19 related tests in FY2023, the profitability impact on the IVD business will be larger compared to the LTS business.

Q-4

- In FY2022, there was a loss. In the first half of FY2023, there appears to be a lower profit level due to AkirunoCube-related costs and the temporary double operation with Hachioji. When can we expect to become the bottom of the profit?

A-4

- The efficiency effects from AkirunoCube will appear gradually, but they will be limited in the first quarter of FY2023. The extremely challenging situation that occurred in the fourth quarter of FY2022 continues for the time being.
- In addition, the infectious disease rating for COVID-19 changed to "Category 5" on May 8th, 2023, and we expect a recovery in the number of medical institutions orders. However, it will take time for the market to fully recover, especially with larger hospitals, which are our main customers. As a result, we expect the base business will enter a growth path in the latter half of FY2023.
- It is difficult to precisely predict the short-term market recovery, including on a quarterly basis, the first quarter of FY2023 will likely continue to face a challenging situation, we expect higher profit levels in second half of the fiscal year compared to the first half.