Q&A Highlights: FY2023 Q3 Business Results

Date: February 9,2024

Q-1

- Could you please provide details on the additional measures aimed at improving profitability and the expected timeline for their effects?

A-1

- We are implementing cost reduction per test by conducting a company-wide review of re-test practices and standards, with a particular focus on Akiruno laboratories, and enhancing testing operations, including automatizing pre-processing for esoteric tests.
- These efficiency improvements require thorough validation to ensure testing quality in every case, leading to a gradual yet significant effect.

Q-2

- What is the current status of reception system and automation in the new laboratories?

A-2

- We are currently transitioning clients data from Hachioji laboratories to Akiruno laboratories and expect to begin receiving specimens at Akiruno by the end of March.
- At the same time, we will standardize the process of automated line.
- We anticipate having a comprehensive system being fully implemented at Akiruno by the end of December 2024. As a result, we expect to see the full effect after FY24 Q4.

Q-3

- What is the current status of standardizing specimen containers?

A-3

- Initially, progress was favorable. However, in some cases, further negotiations are necessary with customers who having existing procedures and operations in place.
- We will continue our efforts towards standardization, as it yields significant effects.

Q-4

- Regarding the operating profit of 400 million yen in Q3, especially the performance of the LTS business seems to be weak, how do you assess the result compared to the plan?

A-4

- Due to a slow recovery in the testing volume, the Q3 performance, LTS business in particular, fell below our expectations.
- With the return of testing volume trends in December, we anticipate an ongoing high level of testing volume in Q4. Therefore, we do not adjust our full-year forecast.

Q-5

- While the forecast suggests an increase in COVID-19-related tests, can we expect sales in Q4 to reach the peak level observed in FY2023 Q2? Furthermore, will there be a higher proportion of sales in the IVD business due to an increase in antigen tests?

A-5

- While predicting the exact sales volume is challenging, we anticipate a shift in the breakdown from previous trends. There will likely be a greater proportion on antigen tests and simplified tests at hospitals, leading to an expected increase in IVD business sales compared to LTS.
- Please note that until the last fiscal year, margins for COVID-19-related tests were generally high due to internal sales from IVD business to LTS business. However, margins are not as high as they were previously.

Q-6

- There is an increase in the testing volume at hospitals in December 2023, is it sustainable? Additionally, will the recent rise in the number of COVID-19 patients since January 2024 having any adverse impact on this trend?

A-6

- A certain number of COVID-19 beds, which had been secured until the first half of the fiscal year, are gradually transitioning back to general beds. In parallel, we anticipate an increase in the number of surgeries and tests will increase.
- Due to the ongoing spread of COVID-19, it's challenging to predict a steady recovery in the testing volume. However, the market is showing signs of recovery, at a yet slow pace.

・ We are considering these expected factors into forecasts.

Q-7

■ Could you please provide insights into the future outlook, specifically regarding potential cost increases related to materials and labor, as well as any negotiations aimed at raising testing unit prices?

A-7

・ Labor costs increased until this fiscal year due to man-hours spent on addressing reporting delays. However, we have resolved this issue, and we do not anticipate it continuing.
・ On the other hand, we are currently in negotiations to raise unit prices in anticipation of the upcoming revision of reimbursement in FY2024. Based on previous years' trends, we anticipate a 1-2% decrease in unit price due to the revision.