Q&A Highlights: FY2023 Business Results

Date: May 10,2024

Q-1

■ The fourth-quarter performance fell short of our projections. Are there any temporary factors, aside from external condition changes, that could have affected this variance?

A-1

- Despite the rising trend of COVID-19 around the end of 2023, the anticipated increase in COVID-19 test, which are more profitable compared to other test menu, fell below our expectations.
- Additionally, we had anticipated a recovery in base tests due to the gradual decrease in COVID-19 hospital beds. However, the decrease in COVID-19 hospital beds did not materialize due to the continued pandemic situation, resulting in a lower-than-expected recovery trend in base tests.
- In conclusion, the lack of an increase in test volume and the shortage of available hospital beds were the primary unexpected factors affecting our performance.

Q-2

■ What are the anticipations for the first half and second half of the fiscal year in the FY2024 outlook?

A-2

- In FY2024, the primary challenge lies in the recovery of profitability in the LTS business. While various initiatives are underway, their effect will gradually become evident over time. Indeed, it is reasonable to expect performance improvements on a quarterly basis.

Q-3

■ The Company has considered the recovery of LTS base testing into the forecasts. What are the anticipated factors contributing to this recovery?

A-3

- The medical environment has changed since COVID-19 had become Category V Infectious Diseases. Despite a weak performance from May 2023, base testing has shown signs of steady improvement, with further gradual recovery anticipated this fiscal year.

- Furthermore, as part of our growth strategy, we are dedicated to enhancing base testing volume by expanding our customer base and introducing new test items to the market.
- Additionally, we are focusing on leveraging our strengths in the hospital market, where there is robust demand for esoteric testing and advanced medical technology.

Q-4

■ Fixed costs reduction will be the most significant driver of profit growth in FY2024, but when will its effects become apparent? Furthermore, what is the background behind the decision to incorporate initiatives that experienced delays in FY2023 into this fiscal year's plan to a greater extent?

A-4

- Last fiscal year, the lack of progress in fixed cost reduction was attributed to temporary delays in some general test reports during the summer, which required additional adjustments and resources.
- However, this fiscal year, as the transition to the new testing system in Akiruno advances, significant changes are underway in testing operations. The transition of testing operations, management, billing, and reporting to the new system is set to streamline existing processes, and in some instances, eliminate certain tasks.
- The effects of these changes are anticipated to become noticeable mainly in the second half of the fiscal year, with gradual implementation beginning from the latter part of the second quarter.

Q-5

■ The target of achieving a combined effect of ¥13 billion over two years for improving LTS profitability was set as of May last year, and this target remains unchanged for the current fiscal year. Despite potential challenges highlighted, such as last year's summer troubles and limited scope for automation, what is the rationale behind maintaining the ¥13 billion target?

A-5

- Significant reductions in fixed costs are anticipated due to operational changes in Akiruno. These changes involve replacing previously outsourced operations with in-house operations and optimizing complex processes. Additionally, we are addressing challenges such as increased energy and logistic costs through various improvements, including price negotiations with customers and vendors. These initiatives have been accelerated since the latter half of last fiscal year, and the strategy remains unchanged to maximize their effect this fiscal year.

Q-6

■ What will be the extent of the impact resulting from completing parallel operations in Hachioji?

A-6

・ During parallel operations, dedicated personnel were necessary for in-house transportation and reception operations. However, with the completion of the transition, this requirement is eliminated, thereby contributing to the optimization of outsourcing and reduction of personnel costs, as detailed on Slide 25.

Q-7

■ Is there a risk of further delay in completing the transfer in Akiruno beyond the end of FY2024? Additionally, what specific initiatives will be implemented by the end of FY2024?

A-7

・ The transfer to the new system is currently progressing according to plan.

・ We are actively identifying potential risks, implementing countermeasures, and closely managing the progress of individual initiatives to ensure timely completion by the end of FY2024.

Q-8

■ In FY2023, Neuro's sales amounted to 2 billion yen. Is RUO the main component? Additionally, when is Plasma expected to be fully operationalized in the future?

A-8

・ In the Neuro market, testing remains crucial for therapeutic drug administration, prompting our focus on securing early IVD approval. Currently, RUO serves as the primary component of our sales. Leveraging our wide range of RUO offerings, we hold a significant advantage and intend to strengthen our market presence accordingly.

- As for Plasma, our aim is full operationalization in the near future; however, specific timelines will depend on the progress of our IVD approval and market conditions.

Q-9

■ Could you explain the dividend policy once again? Despite the company's potential for future growth, it's acknowledged that the current performance presents challenges. The possibility of a dividend reduction has been recognized by the market, including analysts, over the past six months. However, this time, a clear message has been given about maintaining the dividend. What is the background and intention behind this?

A-9

- We base our dividend decisions on both profits and cash flow considerations. For this fiscal year, we have chosen to maintain dividends. Our company views Dividend on Equity (DOE) as one direction, and while performance is undoubtedly important, we anticipate stable growth in the future and are committed to maintaining dividends.

Q-10

■ Even though achieving an operating profit of 10 billion yen this term may seem challenging, can we still have confidence in dividends, given that the Company's policy is based on DOE?

A-10

- Our commitment to providing consistent shareholder returns remains unchanged.

Q-11

■ Once the current medium-term plan period concludes, will the return policy undergo any changes? Can we interpret that there is a commitment to maintaining a consistent dividend payout in the medium to long term?

A-11

- Our aim for a DOE of 6% remains unchanged.