Q&A Highlights: FY2024 Q3 Financial Results

Date: February 7,2025

Q-1

- The downward revision of the LTS business operating profit forecast is primarily due to 'delays in fixed cost reduction measures.' Could you clarify what this refers to, including the key factors behind the delay and the extent of its impact?

A- 1

- The delay in fixed cost reduction includes personnel expenses, maintenance, and outsourcing costs. In addition to challenges related to the AkirunoCube, recent industry fluctuations have further impacted the overall profitability of the LTS business.
- Reductions in outsourcing and personnel costs remain significantly below target. Given the current situation, achieving our targets will be challenging unless we promptly implement fundamental reforms, alongside streamlining our business operations.
- For measures that fall short this term, we will continue to focus on improving performance in the next term.

Q- 2

- The transfer schedule for AkirunoCube was adjusted in November last year, and related costs have remained unchanged over the past three months. Given this, why is the revision being made at this point?

A-2

- In the third quarter, fixed cost reductions did not progress as planned, leading a downward revision of our forecast due to the ongoing delays. This revision is not because something new happens suddenly, but reflects the continued impact of these delays, which have been factored into our outlook through March 2025.

- While the AkirunoCube is on track to begin full-scale operations in April 2025, as previously mentioned, the delays have affected our overall fixed cost reduction efforts.

Q-3

- The downward revision in the IVD business is attributed to 'increased overseas R&D costs,' while overall R&D expenses have declined compared to last year. What factors, aside from foreign exchange impacts, have contributed to the rise in overseas R&D costs? Additionally, do you expect R&D costs related to Fluxus and Neuro to increase in the fourth quarter?

A-3

- The increase in overseas R&D costs is driven by investments in ultra-high sensitive technology and Neuro-related projects. Additionally, the initial plan assumed an exchange rate of 140 yen to the dollar, which has also influenced the rise in the costs.
- For the fourth quarter, we expect R&D costs related to Fluxus and Neuro to be higher than initially anticipated, which is reflected in the downward revision.

Q-4

- The full-year earnings forecast has been revised downward, but the expected profit for the fourth quarter shows a quarter-on-quarter increase. Considering the typical seasonal decline in profits during the fourth quarter, could you explain the reasons behind this positive forecast? Are you anticipating an improvement in profitability from the third to the fourth quarter?

A-4

- Our initial budget was more heavily weighted toward the second half of the year, based on expectations of market recovery and other factors. However, due to weaker-than-expected performance through the third quarter, we now anticipate the fourth quarter to be more challenging than originally forecasted. While the LTS business is recovering, the growth has been slower than projected, which led to the revision.

- We expect this fourth quarter to perform better than in previous years, but it still presents challenges in relation to the initial budget.

Q-5

- How will the delays this term impact medium- to long-term performance? Do you believe it is possible to recover and achieve "an operating profit margin of 10% or higher", previously company was aiming at? If profitability improvements do not proceed as planned, would you consider lowering the target?

A-5

- This term's performance has been impacted by the delay in the AkirunoCube, which is now set to begin full-scale operations in April 2025. Our current medium-term plan includes key initiatives for the next phase, such as the AkirunoCube and CDMO projects, which we expect to start generating results in the upcoming phase of the new medium-term plan.
- As a result, we do not intend to significantly lower our targets. Instead, we continue to pursue profit growth over the next five years.

Q-6

- On February 5th, SRL announced its efforts toward appropriate pricing. Is there alignment across the industry regarding the approach to price increases?

A-6

- While we are unable to comment on specific companies, it is becoming increasingly common for reagent manufacturers to implement price increases across the industry. Our business is based on medical reimbursement rates, which do not directly adjust for inflation. However, the significant rise in reagent and raw material costs has impacted our cost structure. As announced two days ago, a price increase has become necessary, and we will engage in individual negotiations with our customers.

Q-7

■ Is the LTS business expected to return to profitability in the fourth quarter?

A-7

・ While we do not disclose segment-specific profit figures, our goal is to achieve profitability in the fourth quarter.

Q-8

■ In January, an increase in influenza cases and a potential decline in patient visits are anticipated. Has this risk been factored into the revision?

A-8

・ We have factored in all foreseeable risks into our projections. While it is difficult to predict outbreaks like influenza or COVID-19, our plans are based on the best available forecasts.