Q&A Highlights: FY2025 Q2 Financial Results

Date: November 11, 2025

[Question]

- On slide nine, the disclosure format differs from previous reports. What was the reason for changing the disclosure method?
- Fixed costs in the first half rose by about JPY200 million YoY, I assume D&A increased by around JPY1 billion, could you provide more details?
- You mentioned delays in reducing labor and outsourcing costs in today's presentation. Did these delays occur in Q2, and what caused them?

[Answer]

- Regarding slide nine, in our May 15 announcement we explained the factors behind operating profit improvement in the FY2025 plan—from JPY2.6 billion last year to JPY8 billion. At that time, for the LTS business, we broke down the factors into profit increase by net sales growth, marginal profit increase, and fixed costs reduction. Today's explanation serves as a follow-up to that disclosure.
- Comparing the first half with the same period last year, fixed costs including depreciation increased by JPY1.6 billion. However, various cost-control measures limited the net increase to about JPY220 million.
- As for the delays, some initiatives were slightly behind schedule, but we are taking corrective actions. The contribution derived from fixed costs reduction is much smaller than last year, and we aim to recover in the second half.

[Question]

- Equity in losses of affiliates came to JPY1.08 billion. In past discussions, the IR team mentioned that losses related to BMGL would be capped at around JPY1 billion. Have all BMGL-related losses been recognized by Q2, or should we expect additional losses in H2?

[Answer]

- For BMGL, the U.S. market—especially in pediatric testing and whole-genome analysis for rare diseases—has expanded significantly this year. To capture this growth, we increased sales investments, which are boosting revenue but have led to slightly higher equity in losses compared with last year. There is about USD 32 million in loans remains outstanding. Repayment, initially expected in H1, has been delayed, resulting in H1 losses slightly above our full-year estimate.

- That said, we plan to take various measures in H2, and the USD 32.5 million loan repayment is still expected within this fiscal year. As a result, we anticipate full-year equity in losses of affiliates to be lower than the H1 level.

[Question]

- Regarding the LTS business in Q1, excluding one-time costs of JPY1 billion, you reported a profit of about JPY200 million. However, in Q2 alone, it turned to a loss of around JPY100 million. What is the reason for this deterioration?

[Answer]

- In Q1, we posted a profit of roughly JPY100 million, and for Q2 we had expected to be around break-even. However, additional running costs, including IT troubleshooting expenses, led to a loss of about JPY100 million.
- This level of loss can be fully offset in Q3 and beyond, and we expect to return to profitability in Q3.

[Question]

- You have been implementing price increases. How did those progress from Q1 to Q2?

[Answer]

- The impact of price increases is reflected in the marginal profit improvement shown on slide nine. Most contract renewals have been completed, with additional effects starting in October and contributing from H2. Overall, the impact is now visible.
- Although the effect was slightly smaller than expected, we offset this through procurement cost controls and improved testing operations. As a result, H1 generated a positive impact of JPY1.45 billion, and we expect steady progress in H2.

[Question]

- Overseas Lumipulse sales rose JPY2.05 billion year on year, with NEURO contributing about JPY2.3 billion of that increase. It seems other areas declined, and I had expected stronger profit growth even after accounting for about JPY470 million in M&A-related costs. Could you elaborate on this?

[Answer]

- For IVD overall, as mentioned earlier, the CDMO business grew about 5% on a local-currency basis. However, market conditions in China have been very challenging, as many companies have reported. Since China is one of our markets for CDMO, there was a certain negative impact.
- In addition, Lumipulse sales, including domestic demand, were slightly below expectations. These factors weighed on overall results. That said, NEURO-related sales increased substantially year on year. When combining these positives and negatives and factoring in M&A-related costs, you get the overall outcome shown.

[Question]

- When comparing IVD business Q1 and Q2, the operating profit margin appears roughly the same. However, since Q1 included nearly JPY500 million in M&A-related costs, the margin effectively declined in Q2.
- Is my understanding correct that, results were weighed down by weaker CDMO performance and soft domestic Lumipulse sales, while NEURO contributed positively but not enough to offset the negatives?

[Answer]

- Your understanding is largely correct.
- The CDMO business grew, but the increase was smaller than expected. In addition, the Chinese market had a negative impact, and M&A-related costs also influenced. Taken together, your interpretation is accurate.

[Question]

- Within the CDMO business, does China account for a large volume and therefore carry higher margins?
- Based on comments from what I believe are your customers, the market situation in China still appears difficult. Should we view the CDMO as a potential profit risk for the IVD business in H2?

[Answer]

- We do not expect a quick recovery in the Chinese market during H2, but we anticipate improvement from next fiscal year.
- That said, China does not represent an outsized portion of our total sales.

As mentioned earlier, our CDMO operates globally, and we aim to drive growth in other regions.

- Additionally, NEURO-related sales are expected to grow further in H2. While challenges remain, we believe recovery is achievable in the second half.

[Question]

- Regarding the LTS business, I'd like to reconfirm the profit drivers from H2 into next fiscal year. Is it correct that the full impact of price revisions will begin in H2?
- Looking ahead, is there still room for further price revisions next year, considering potential government support for hospital management?
- Beyond organic growth, are there other profit drivers expected for the LTS business from H2 into next fiscal year?

[Answer]

- The full impact of price revisions will start in H2. Over 90% of contract renewals are complete, with some effects appearing gradually during H2. The fiscal-year impact of price increases is largely visible now.
- Another driver is the IT system migration. While the migration is complete, troubleshooting continues through Q3. These costs have been expensed, but stabilization is expected by Q3, with most issues resolved by Q4, supporting stable operations.
- Marginal profit is growing as planned, even though the price increase effect is slightly weaker than expected, offset by procurement cost controls and operational improvements.
- We are also steadily reducing fixed costs. Combined, these initiatives support continued profit growth into next fiscal year.

[Question]

- Is it fair to say that the downsizing of clinic customers has largely been completed?

[Answer]

- As shown in the supplementary materials, the number of clinic customers has continued to decline through Q2, and we believe the trend is largely stabilizing. For the clinic-focused business, including price revisions, the necessary measures have already been taken, so today's explanation reflects this situation.