

# Medium-term Plan

(Fiscal year March 2021 – March 2025)

## **H.U. 2025**

~**H**iyaku (significant growth) & **U**nited~

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September 18th, 2020

**H.U. Group Holdings, Inc.**

# “Transform! 2020” Recap

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# “Transform! 2020” Recap ①

(¥ billion)

	FY2019 targets <sup>(1)</sup>	FY2019 results
Net sales	207.0	188.7
OP	25.0	9.9
EBITDA	38.0	21.3
ROE	10% or more	-0.5%
ROIC	8% or more	3.7%

## Significant underachievement of financial targets

### Major factors

#### 【CLT】

- Underachievement of customer acquisition
- Delay in fixed cost reduction measures
- Change in sales mix of test items
- Larger than expected price cut impact

#### 【IVD】

- Underachievement of customer acquisition

# “Transform! 2020” Recap ②

## Execution of key measures and plans

Established foundation for significant and sustainable growth beyond 2020

### Implementation of the Group integration

- Revision of our corporate philosophy
- Unification of personnel system
- Promotion of the Group procurement
- Efficiency through integration of IT function
- Unification of IT platform

### Sales growth

#### CLT Japan

- Net sales (¥ billion)  
FY2016: 104.1 → FY2019: 117.5
- Market share  
FY2016: 18.9% → FY2019: 20.4%<sup>(1)</sup>
- Enhancement of genetic related tests

#### SR

- Established total support service and launched deposit inventory business of medical items

### Investment for future growth

- New central lab
- Entry to new business fields (ENB)
- Strengthening of R&D  
(Establishment of H.U. Group Research Institute)
- Joint Venture with Ping An Insurance Group of China

Realizing Profitability Improvement from Established Foundation for Growth Is a Remaining Issue

# Our Business Environment

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# Our Business Environment (Japan)

## Japanese clinical testing market

- Increasing medical expenses under consecutive containment pressure
- Declining medical diagnostics testing fees
- Growing advanced yet costly medical treatment

## Hospitals

- Realignment of hospitals and hospital beds

## Home care

- Increasing needs for home medical care

## Self-medication

- Increasing needs for preventive medicine

## Covid-19

- Behavior change of the public
- Constraint outpatients for medical examinations

# Our Business Environment (Global)

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## Global clinical testing market

- Growth continues in emerging countries
- Low growth in developed countries under suppressing social security costs

## Reagent development

- Increase of registration costs triggered by regulation changes in each country

## Testing instruments

- Increasing needs for comprehensively systemized testing instrument platform from single supplier
- Modularization of testing instruments

# Key Theme of the Medium-term Plan

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1. Operation of New Central Lab
2. OEM business enhancement
3. Healthcare × ICT



# Our Value Creation Story

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# Change in Corporate Name and Mission/Vision

## Mission

Create new value in healthcare and thereby contribute to human health and the future of medical care

## Vision

With our deep involvement in human health, we aim to be a group that contributes to the development of healthcare through trust and innovation



### H.U. = Healthcare for You

- “Healthcare” : Expand business domain from “Medical” to “Healthcare”
- “for You” : Provide healthcare to individual (B2C)

Move one step forward from “Support medical mainly by providing clinical tests” to “Provide best healthcare to all people by facing each individual”

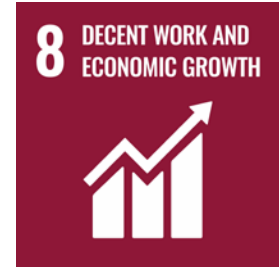
# Contribution to SDGs

- Ever since the establishment of Fujizoki Pharmaceutical in 1950, H.U. Group has contributed to solve social issues such as infectious diseases.
- H.U. Group is committed to CSR & SDGs through business activities as an essential social infrastructure supporting medical care

## Our Approach to CSR

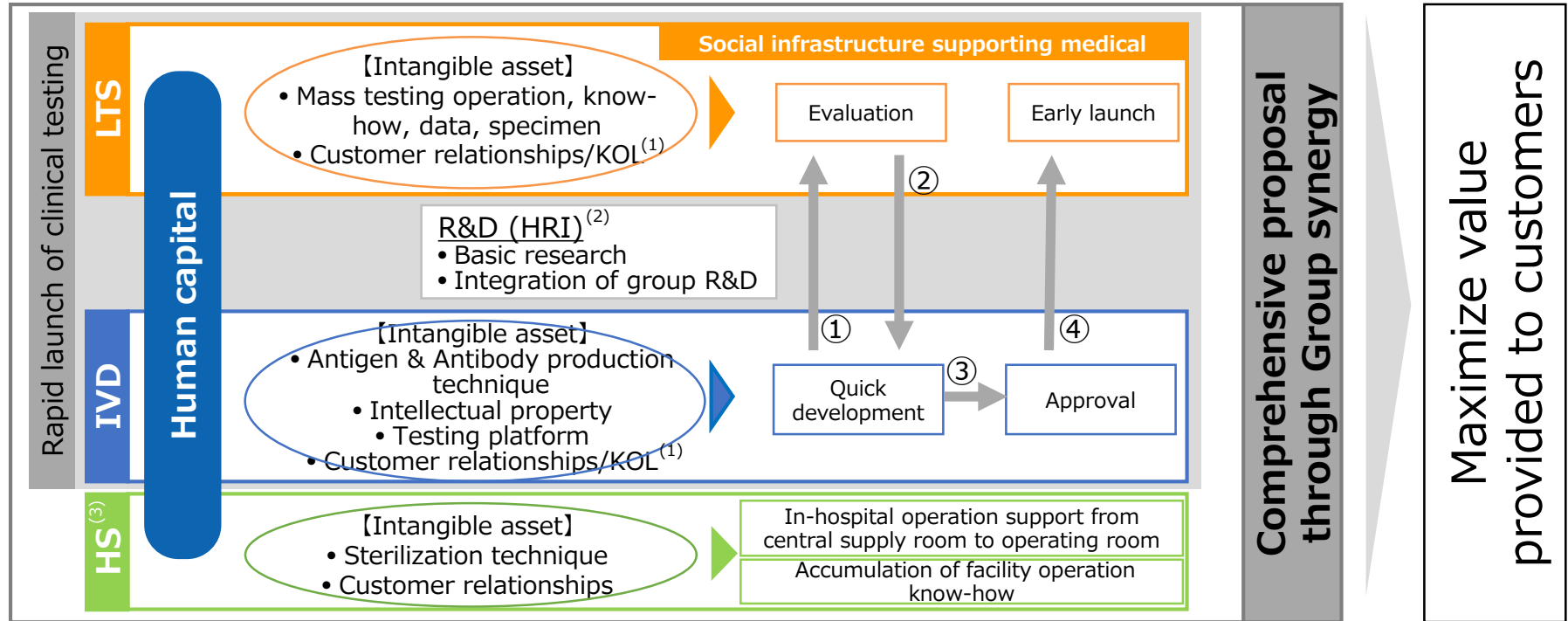
The H.U. Group Management Philosophy consists of three main declarations; Mission, Vision and Value. We believe we can fulfill our CSR through our business activities, which we base on our management philosophy. By means of this framework, we create strong relationships with a wide range of stakeholders, engaging in initiatives to solve social issues through our business activities.

## SDGs



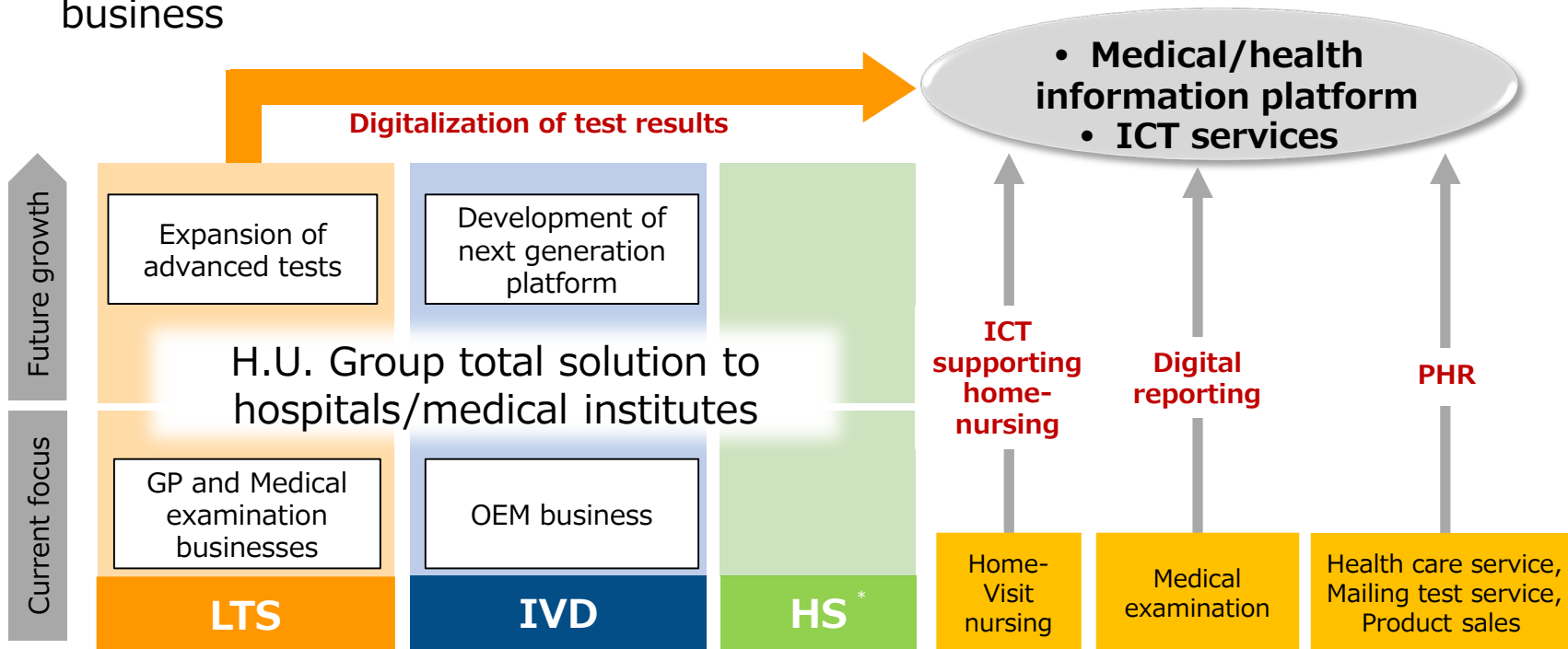
# Value Creation Story of Our Business

- Maximize value provided to customers through utilization of group synergy based on intangible asset and human resource
- Our value creation model of LTS/IVD synergy was successfully demonstrated through the rapid development and launch of SARS-CoV-2 antigen tests



# Business Expansion as a Group

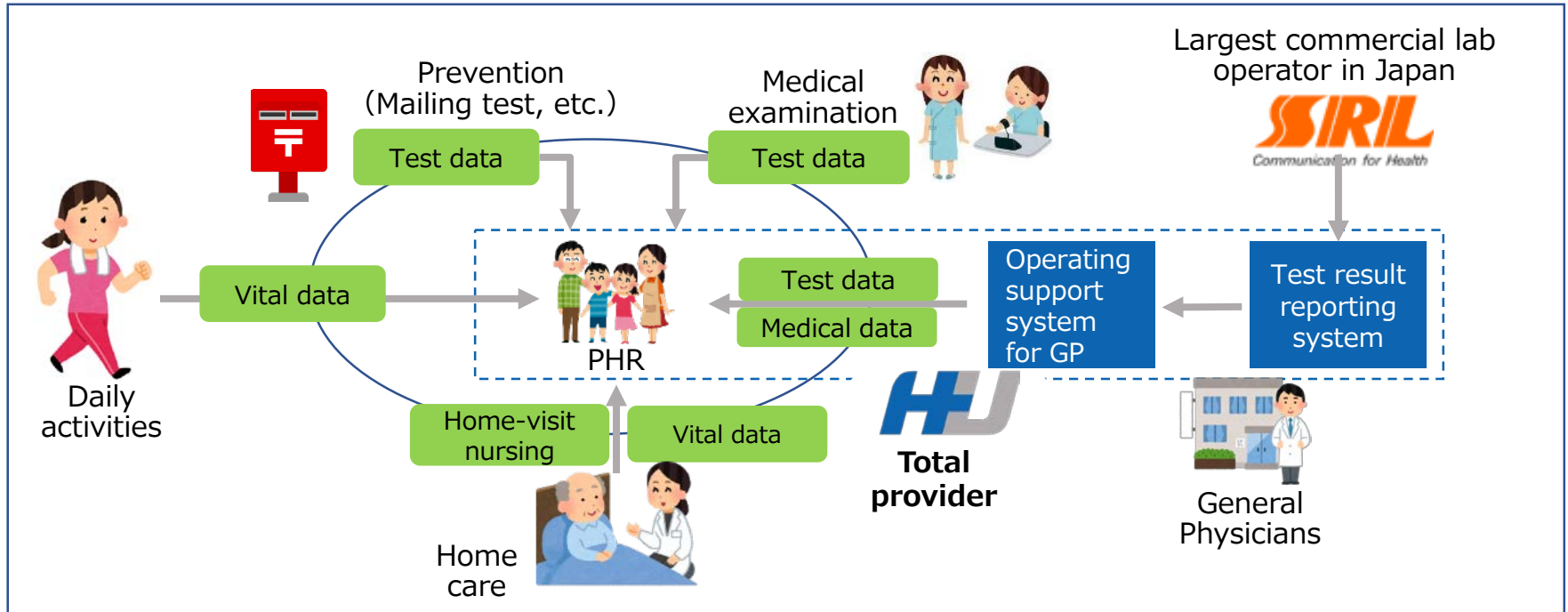
- Enhancement of core business through utilization of our group synergy
- Expansion to “Healthcare × ICT” domain by leveraging existing assets in core business



\* Sterilization related business in HS segment

# Healthcare × ICT Service

- Connect each individual's healthcare data
- Provide PHR/ICT services to support self-medication



# How We Would Like To Be By 2030

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With our deep involvement in human health,  
we aim to be a group that contributes  
to the development of healthcare through trust and innovation.

FY2030

Market cap of  
800 billion JPY or more

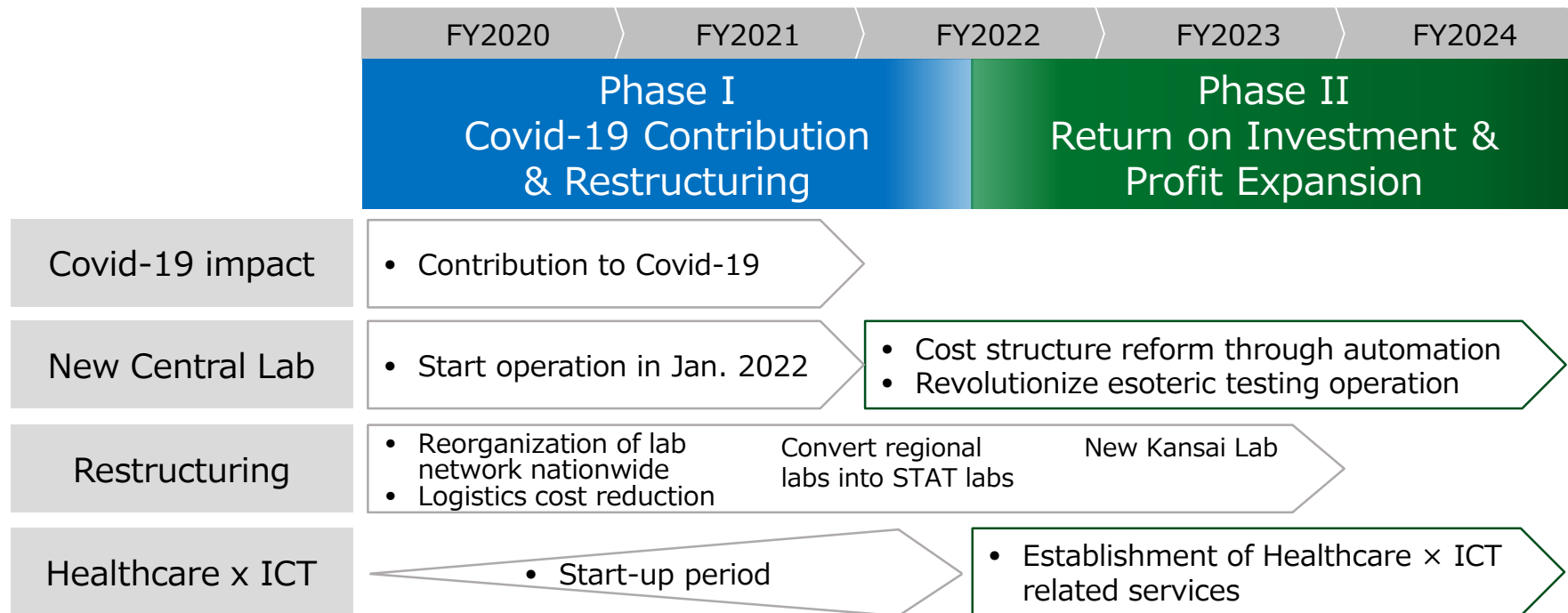
# Key Initiatives for “H.U. 2025”

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# Premise of “H.U. 2025”

- Assuming Covid-19 impact to remain until next two years time
- Entering second phase with starting New Central Lab operation



# Key Initiatives

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1. COS reduction through stable operation and automation of New Central Lab
2. Fixed cost reduction and profitability improvement
3. Group integration in core businesses
  - 3-1. Integration of sales forces
  - 3-2. Expansion of inter-segment sales of IVD products
  - 3-3. Enhancement of R&D
4. OEM business expansion

# 1. COS Reduction through Stable Operation and Automation of New Central Lab ①

Start the operation in Jan. 2022 and achieve average COS reduction per ID

- Completion of building construction scheduled in Nov. 2020
- IT system development proceeding on schedule



New testing lab building under construction (Photo: Sep. 10, 2020)

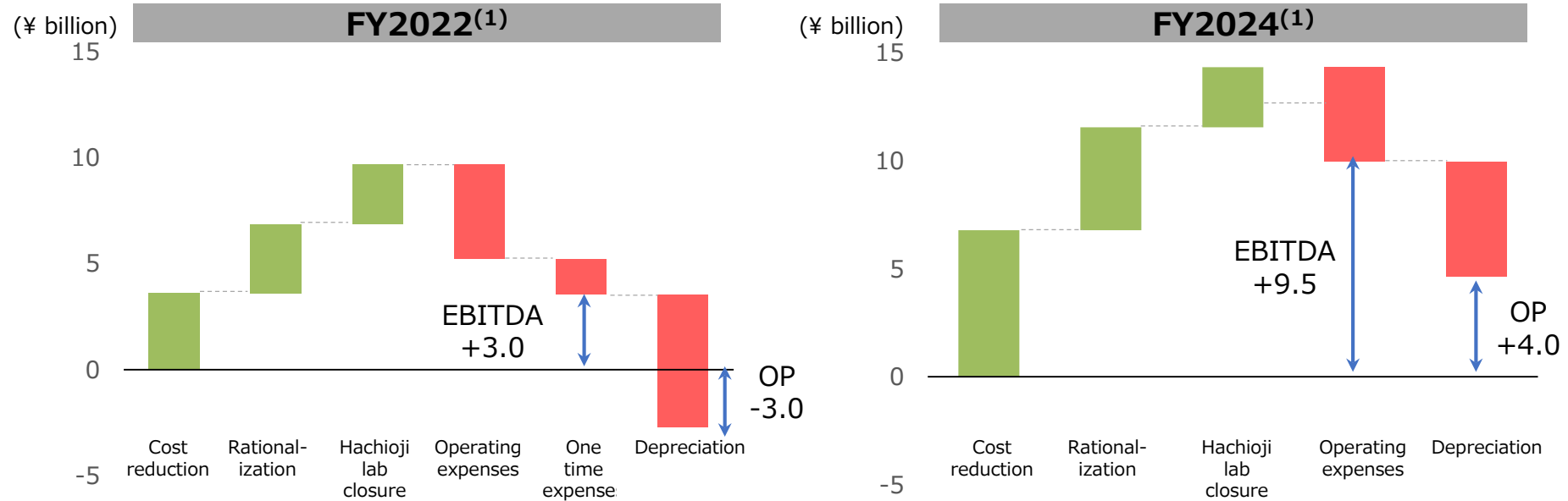
Averaged COS reduction per  
ID in FY2024  
(vs FY2019)

General testing: -15%  
(impact from New Central Lab only)

Esoteric testing: -7%  
(impact from New Central Lab only)

# 1. COS Reduction through Stable Operation and Automation of New Central Lab ②

- Profitability improvement
- Further profit expansion from FY2024



- Cost reduction impact through automation, etc. is limited
- Additional one time expenses

- Impact of cost reduction through automation of specimen reception/testing, IT system integration and rationalization exceeds increased operating expenses (incl. rent expenses) and depreciation

## 2. Fixed Cost Reduction and Profitability Improvement ①

### Reorganization of nationwide lab network

#### **New central Lab (Akiruno)**

- Consolidate general tests in Kanto area
- Consolidate esoteric tests nationwide
- Operation in Jan. 2022

#### **New Fukuoka Lab**

- Conduct general tests
- Reorganize labs in Fukuoka
- Operation in 4Q, FY2020

#### **New Kansai Lab**

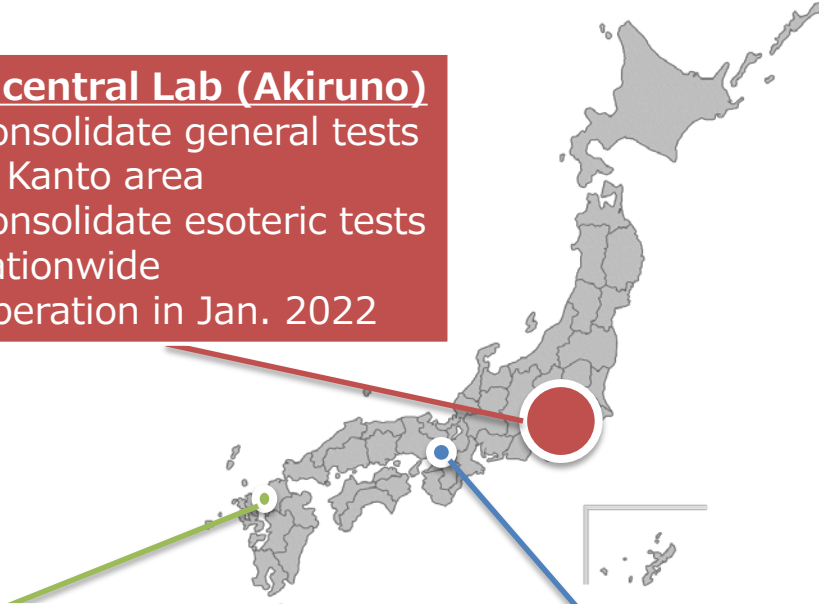
- Conduct general tests and some esoteric tests
- Operation in 4Q, FY2023

#### **Establish tri-axis lab network (New Central, New Kansai, New Fukuoka)**

- Secure mutual supplementation capability for common test items as a BCP measure
- Optimize logistics costs

#### **Convert satellite labs and regional labs into STAT labs<sup>(1)</sup>**

- Dedicated to regional urgent tests operated by smaller number of employees
- Winning clients while achieving both faster TAT (turn around time) and profitability



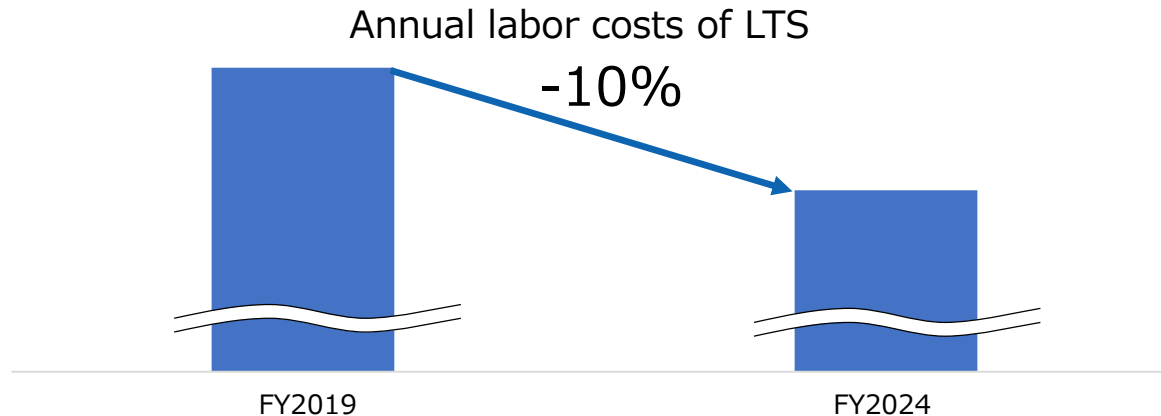
(1) Labs mainly offering urgent tests (STAT = Short Turn Around Time)

## 2. Fixed Cost Reduction and Profitability Improvement ②

Up to 10% labor cost reduction despite increased number of testing

### Major labor cost reduction plans in LTS

- Automation at the New Central Lab
- Reorganization of lab network nationwide
- Logistics optimization



## 2. Fixed Cost Reduction and Profitability Improvement ③

### Optimization of logistic costs centered on alliance with Medipal Holdings

- Sharing logistics
- Streamlining of work process
- Consolidation of logistics functions/sites within group companies

**Logistics cost per ID**  
(Comparison to FY2019)

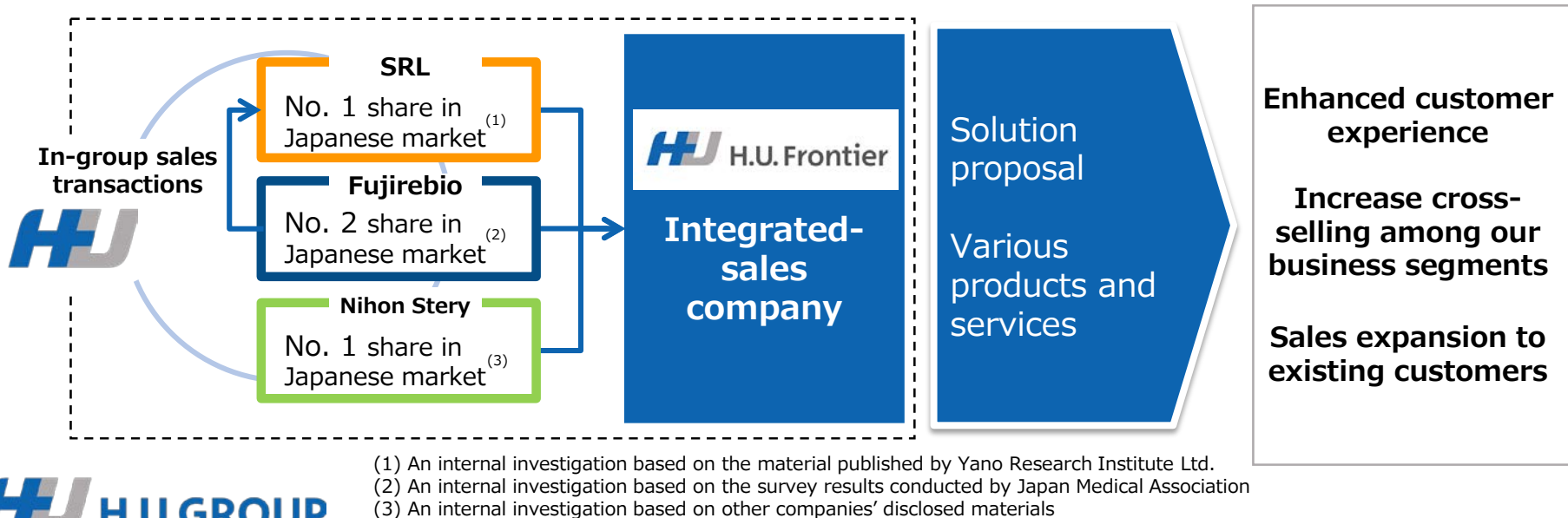
Improvement of 15~20% in FY2022

# 3-1. Integration of Sales Forces

Integrate sales function within the Group and generate both revenue and profit growth

(Name of the company: H.U. Frontier, scheduled to start on Oct. 1<sup>st</sup>, 2020)

- Providing various services & solutions to meet varying customer needs
- Seek new business opportunities
- Optimization of sales costs



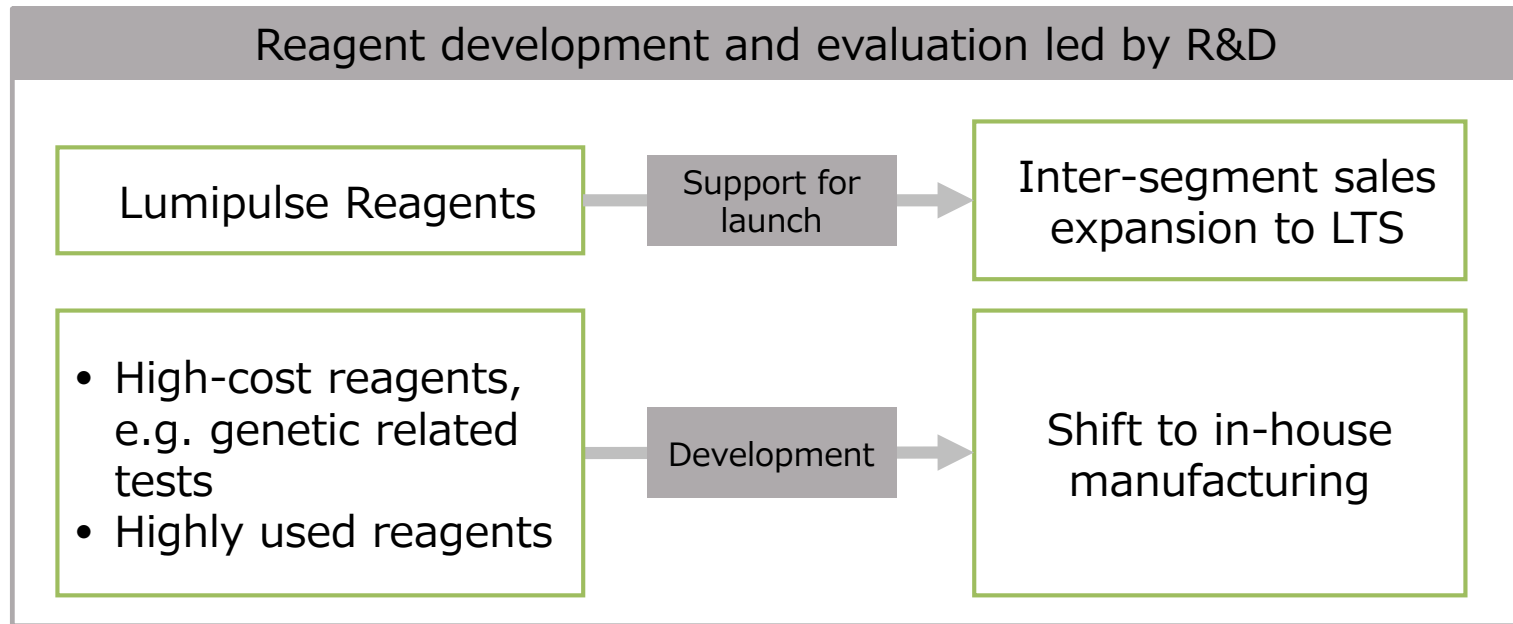


## 3-2. Expansion of Inter-segment Sales of IVD Products

- Expansion of inter-segment sales from IVD to LTS
- Promote in-house reagent development



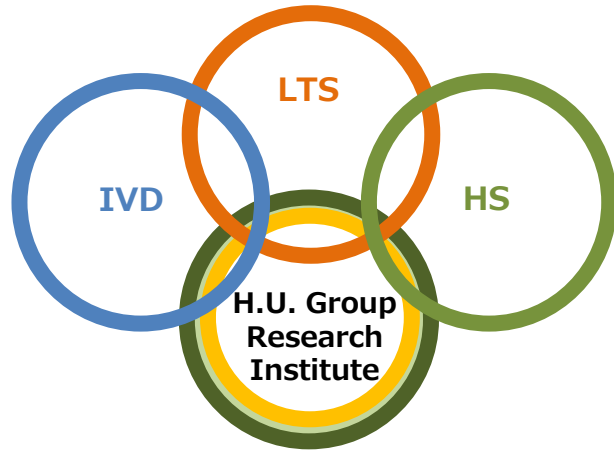
Cost reduction in LTS & improvement of consolidated cash flow



## 3-3. Enhancement of R&D

### Integration of R&D functions and knowledge sharing

- Pursuing optimal R&D strategy for the entire group
- Flexible and nimble technology introduction and development



Integration of R&D function

**Develop a base to become new  
“social/medical infrastructure”**

#### **Actions for SARS-CoV-2 and preparation for new infectious disease**

- SARS-CoV-2 related technology/infrastructure, e.g. tests, infection control, etc.

#### **Evolve LTS business**

- Automation and utilization of AI for esoteric testing, etc.

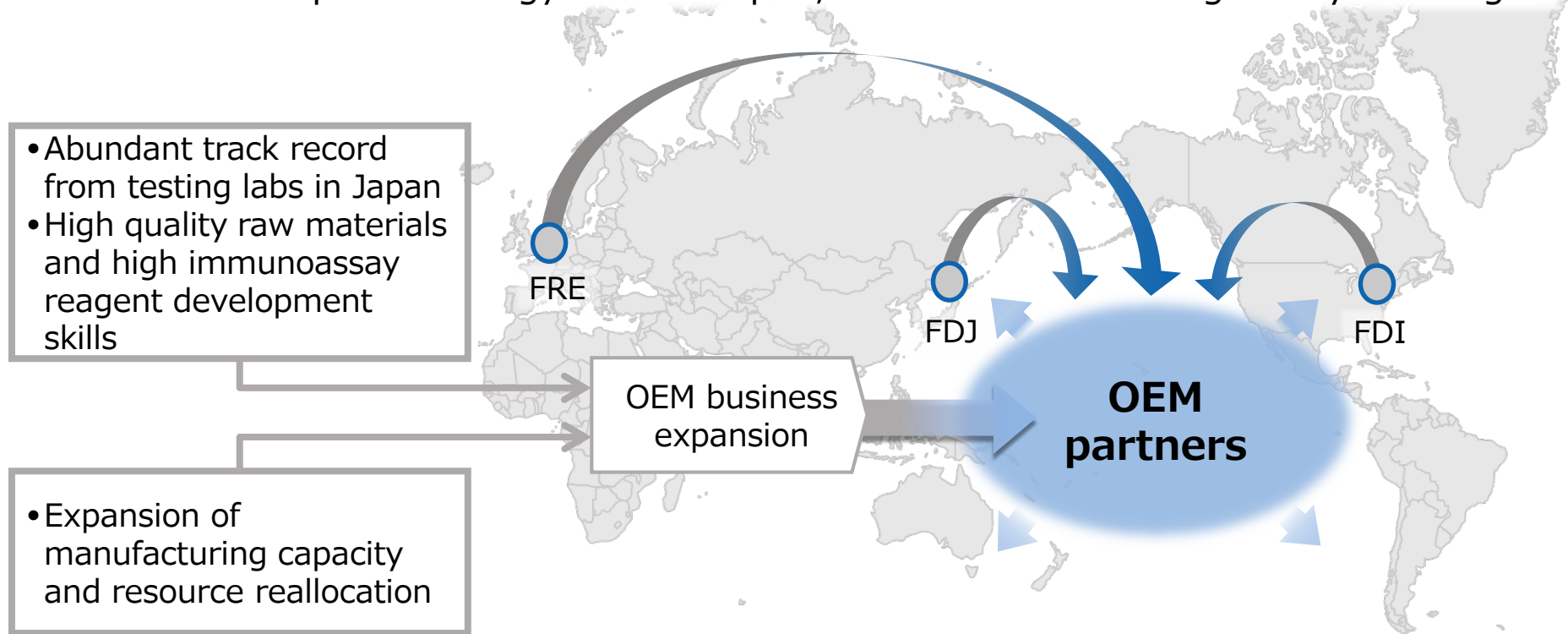
#### **Extensive usage of core technologies**

- Implementation of new technologies and exploration of bio-marker, etc.

#### **Nurturing next generation experts**

## 4. OEM Business Expansion

- Expand OEM business through leveraging multiple sites globally (FDJ, FDI, FRE)<sup>(1)</sup>
- Review Lumipulse strategy outside Japan, due to increase in regulatory challenges



# Business Plan by Segment

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# LTS: Challenges and Initiatives

<b>Challenges/ issues</b>	<ul style="list-style-type: none"><li>• Automation/streamlining of testing = profitability improvement</li><li>• Increase of outsourcing caused by a gap between demands and in-house capabilities (decline of marginal profit)</li><li>• Business scope expansion along with varying needs of medical institutions</li><li>• Community-based integrated care systems</li><li>• Increase of ICT importance in medical care</li></ul>
<b>Initiatives</b>	<ul style="list-style-type: none"><li>• Operation of New Central Lab and reorganization of nationwide lab network</li><li>• Total solution service through the sales force integration</li><li>• Product enhancement</li><li>• Rationalization of logistics</li><li>• Acceleration of customer acquisition and profitability improvement of GP segment</li><li>• Introduction of ICT tools for medical institutions, both GPs and Hospitals</li></ul>
<b>FY2024 targets</b>	<p>Net sales CAGR<sup>(1)</sup> : 6% or more</p> <p>EBITDA margin : 17% or more</p> <p>Operating margin : 9% or more</p>

# Product Enhancement

## Develop/launch original tests and increase in-house test items for profitability improvement

### Development of tests for the most advanced, high medical demand area

- Cancer genome, blood disease, infectious disease
- Rare disease

### Entry into the field where future demand is expected to increase

- Regenerative medicine
- Cell therapy, etc.

### Cost competitiveness

- Expansion of Lumipulse reagent items
- Shift from outsourcing to in-house testing
- Reviewing unprofitable items

### Group synergy

H.U. Group Research Institute

- Launch of in-house developed test items

### collaboration

JV companies

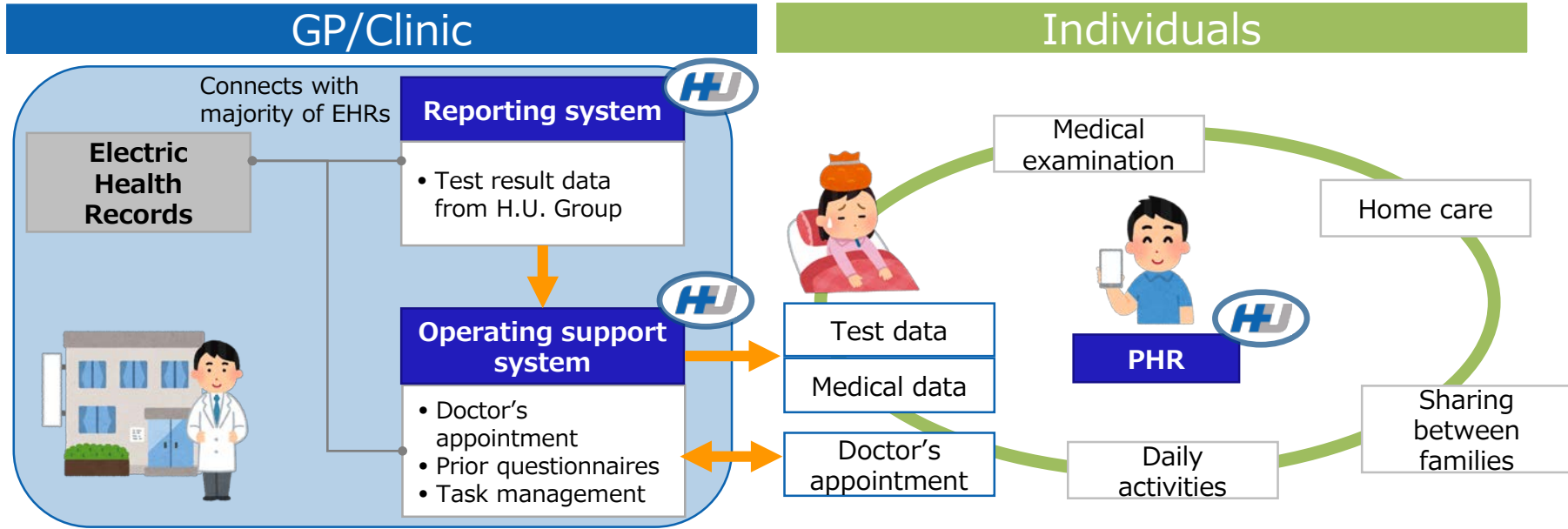
- SRL & Shizuoka Cancer Center
- St. Luke's SRL Advanced Clinical Research Center
- KBBM

### New Central Lab

- Development of new test items and new infrastructure
- Acceleration of open innovation

# ICT Tools for Medical Institutions and Individuals

- Provide ICT tools to meet the needs of both GP and individuals
- Create new value through connection of our unique ICT services



- ✓ ICT tools to help support operational efficiency
- ✓ Creating new touch point with patients

- ✓ Individual healthcare data management
- ✓ Receipt of test/medical data, doctor's appointment support, etc.

# IVD: Challenges and Initiatives

<b>Challenges/ issues</b>	<ul style="list-style-type: none"><li>• Growth of domestic business and profitability improvement</li><li>• Growth of OEM business</li><li>• POCT sales</li><li>• Lumipluse global strategy</li></ul>
<b>Initiatives</b>	<ul style="list-style-type: none"><li>• Total solution service and reinforcement of sales through the sales force integration</li><li>• Fixed cost optimization through selection and focus of manual product lines</li><li>• Sales promotion of Lumipulse and POCT (incl. inter-segment sales)</li><li>• In-house production/launch of reagent items for LTS business</li><li>• Investment in manufacturing capability to expand OEM business</li><li>• Review Lumipulse global strategy</li><li>• Investment in next generation platform development</li></ul>
<b>FY2024 targets</b>	<p>Net sales CAGR<sup>(1)</sup> : 4.5% or more</p> <p>EBITDA margin : 25% or more</p> <p>Operating margin : 20% or more</p>



# Reinforcement of POCT Business

Reinforcement of POCT business through leveraging ESPLINE platform

Value reconfirmed through COVID-19

- Expansion of specimen type (saliva, nasal, painless blood sampling, etc.)
- Expansion of line-up for infectious diseases tests
- Linkage with digital services

- Strengthen sales force in Japan through integrated-sales company
- ESPLINE SARS-CoV-2 + Influenza A&B-N
- Target global market

Product line-up  
and usability  
improvement

Production  
capacity  
expansion

ESPLINE SARS-CoV-2  
+ Influenza A&B-N



# HS: Challenges and Initiatives

<b>Challenges/ issues</b>	<ul style="list-style-type: none"><li>• Increasing outsourcing demands and domains</li><li>• Labor intensive business</li></ul>
<b>Initiatives</b>	<ul style="list-style-type: none"><li>• Total solution service through the sales force integration</li><li>• Improvement of total support service including operating room operation</li><li>• Continuous improvement of sterilization operations</li><li>• Labor cost optimization</li></ul>
<b>FY2024 targets</b>	Net sales CAGR <sup>(1)</sup> : 9% or more EBITDA margin : 12% or more Operating margin : 9% or more

# Equity Method Affiliates

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# Equity Method Affiliates ① – BMGL

## Current status

- Business performance improved in FY2020 by the contribution of PCR testing for Covid-19
- Pre-IPO private placement is planned in 2020

## Direction

- Aim to reduce our ownership ratio to less than 50%
- Carry out IPO preparation

# Equity Method Affiliates ② – Ping An SRL Medical Labs (JV)

- Penetrate a trinity model  
(medical examination clinics + imaging centers + clinical labs)
- Aim for gain on equity method in FY2022 (as originally planned)



- Nine Labs in operation
- Sales contribution from PCR testing for Covid-19 in FY2020

- ① **Shenzhen (JV lab)** ② **Guangzhou**  
③ **Hefei** ④ **Wuhan** ⑤ **Hangzhou**  
⑥ **Shenyang** ⑦ **Chengdu** ⑧ **Nanchang**  
⑨ **Xian (Opened in Aug. 2020)**

# Medium-term Financial Targets

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# Medium-term Consolidated Financial Targets

FY2024

Net sales CAGR <sup>(1)</sup>	6% or more
EBITDA margin	18 % or more
OP margin	10 % or more
ROE	12 % or more
ROIC	8 % or more

For 5 years cumulative

Operating cash flow	150 billion yen or more
Free cash flow <sup>(2)</sup>	50 billion yen or more

Annual free cash flow to turn positive in FY2022

(1) 5 years CAGR during FY2019-FY2024

(2) Lease is not included in investing cash flow

# Financial Strategy and Financial Discipline

1. Operating cash flow improvement
  - ✓ Improving Cash Conversion Cycle (CCC)
2. Finance lease and real estate financing
3. Sale of real estate, e.g. emptied old lab sites

Financial discipline	
Net interest-bearing debt to EBITDA (excl. lease obligations)	1.3x or less <sup>(1)</sup> (2.5x or less during the medium-term plan)
Equity ratio (%) (excl. real estate finance)	40% or more

(1) at the end of FY2024



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## **【Contact information】**

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Disclaimer regarding forward-looking statement:

The performance forecast provided in this document is prepared by the management based on currently available information and various hypotheses and ideas including significant risks or uncertainties. Please be aware that the actual performance may turn out to be different from the forecast as a result of various contributing factors.

Factors affecting the performance include, among others, aggravation of the economic situation, fluctuation of the exchange rate, change of regulatory, statutory, and administrative requirements, delayed launch of new products, pressures from the product strategies of competitive companies, and decline of the sales potential of existing products.