

Q&A Highlights: 1Q FY2021 Business Results Conference Call

Date and Time: Tuesday, August 10, 2021 16:00 - 16:45

Q-1

- Given that COVID-19-related net sales increased by around 700 million yen quarter on quarter, what is the reason for the huge improvement in gross profit on a consolidated basis?

A-1

- The main reason for the improvement is sales mix of Lumipulse. COVID-19-related net sales of Lumipulse during the first quarter was mainly from reagents and that the sales mix was different from the fourth quarter.
- Temporary expenses of 900 million were also incurred during the fourth quarter. (Temporary write-down and disposal expenses of 600 million yen in the IVD business and provision of allowance for doubtful accounts in the ENB business of 300 million yen)

Q-2

- The number of esoteric testing IDs continued to trend below 2019 levels. Is the market as a whole contracting or have you lost market share?

A-2

- The number of customers is increasing, and we do not believe we have lost market share.
- Meanwhile, the number of general testing IDs has grown compared with 2019 levels.

Q-3

- Why did share of loss of entities accounted for using equity method increase quarter on quarter?

A-3

- Although BMGL saw growth in genetic testing, the number of PCR tests trended down in the United States.
- As for the joint venture with Ping An Insurance Group, the five new laboratories established during FY2020 are in the start-up phase.

Q-4

- In your revision of FY2021 forecast, why did you raise the forecast for the first half only and leave the second half forecast unchanged?

A-4

- During the first quarter, the number of COVID-19 PCR tests exceeded the initial forecast and the price decline we had anticipated did not materialize.
- The number of tests at airport quarantines has been increased since July and the number of entrants is expected to continue increasing in future.
- We revised our first half forecast mainly because of these two reasons.

- However, we left our forecast for the second half unchanged based on the judgment that, although there is the risk of new variants emerging and suchlike, we are currently not in a position to be able to draw up a plan which factors in the impact of such scenarios.

Q-5

- What is the reason for lower profits during the second quarter compared with the first quarter in your revised forecast?

A-5

- Although the number of PCR tests is roughly in line with initial expectations, we assume that prices to decline as vaccinations are rolled out.
- In the IVD business segment, sales of reagents made a big contribution to profit during the first quarter. However, during the second quarter, sales of instruments are expected to increase and profit margins are expected to be lower.
- Given also that we will now record some expenses related to the new central laboratory in the second quarter instead of the first, we decided on a forecast of higher sales and lower profit in the second quarter.

Q-6

- Gross profit improved during the first quarter compared to the fourth. Will this trend continue moving forward?

A-6

- We think that test demand and prices will change due to the rollout of vaccinations and other factors and it is difficult to predict the future trend.

Q-7

- Why do you think you have succeeded in winning contracts for PCR testing for higher prices than other companies? Also, are prices now trending downward?

A-7

- We are doing businesses with mainly hospitals and public agencies, and believe that we are, therefore, less susceptible to price reduction pressure than other companies.
- Although prices have not fallen as much as initially anticipated, we assume that prices will continue falling.

Q-8

- The delivery of vaccinations to healthcare workers is almost complete. What impact will this have on testing demand?

A-8

- It is difficult to predict the trend in testing demand after vaccination rollout.
- At any rate, we assume that changes in the environment such as state of emergency declarations will cause the number of tests to fluctuate.

Q-9

- What are the advantages of your high-sensitivity quantitative antigen tests? Is there a risk that the launch of rival products will push down the price of your high-sensitivity quantitative antigen tests as was the case with the rapid antigen test kits?

A-9

- We have the enormous advantage of an extensive market infrastructure thanks to growth in installations of Lumipulse instruments the last fiscal year.
- Whilst the market principle will presumably come into play, unlike rapid antigen test kits, there are not many competing products currently available and we, therefore, believe that the approach to pricing is different.

Q-10

- How will the approval of Lumipulse β -amyloid assays contribute to business results? Do you have any comments on tests using blood specimens?

A-10

- Given that these are assays for assessing β -amyloid in the brain and that therapeutic agents for Alzheimer's disease have yet to be approved in Japan, even though we will promote our sales aggressively, we do not expect these products to make a significant contribution to business results in the second half. It will take a little longer for these products to fully contribute to business results.
- Regarding tests using blood specimens, we believe it is necessary to accelerate development.