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MEMBERSHIP

August 2, 2023

Consolidated Financial Results for the Three Months of the Fiscal Year Ending March 31, 2024 (Under Japanese GAAP)

Company name: Shin Nippon Biomedical Laboratories, Ltd.
 Listing: Prime Market, Tokyo Stock Exchange
 Securities code: 2395
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 Scheduled date to file quarterly securities report: August 2, 2023
 Scheduled date to commence dividend payments: —
 Preparation of supplementary material on quarterly financial results: Yes
 Holding of quarterly financial results briefing: Yes (for analysts and investors)

(Yen amounts are rounded down to millions, unless otherwise noted.)

1. Consolidated financial results for the three months ended June 30, 2023 (from April 1, 2023 to June 30, 2023)

(1) Consolidated operating results (cumulative)

(Percentages indicate year-on-year changes.)

	Revenue		Operating profit		Ordinary profit		Profit attributable to owners of parent	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
Three months ended								
June 30, 2023	5,804	43.5	1,227	71.9	1,877	(32.3)	1,373	(29.4)
June 30, 2022	4,046	33.1	714	45.2	2,772	312.1	1,944	6.5

Note: Comprehensive income For the three months ended June 30, 2023: ¥1,627 million [(48.6)%]
 For the three months ended June 30, 2022: ¥3,167 million [14.2%]

	Basic earnings per share	Diluted earnings per share
Three months ended	Yen	Yen
June 30, 2023	32.98	—
June 30, 2022	46.70	—

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio	Net assets per share
As of	Millions of yen	Millions of yen	%	Yen
June 30, 2023	62,615	26,737	42.5	638.50
June 30, 2022	57,252	26,359	45.8	629.60

Reference: Equity

As of June 30, 2023: ¥26,582 million
 As of March 31, 2023: ¥26,211 million

2. Cash dividends

	Annual dividends				
	First quarter-end	Second quarter-end	Third quarter-end	Fiscal year-end	Total
	Yen	Yen	Yen	Yen	Yen
Fiscal year ended March 31, 2023	–	20.00	–	30.00	50.00
Fiscal year ending March 31, 2024	–				
Fiscal year ending March 31, 2024 (Forecast)		20.00	–	30.00	50.00

Note: Revisions to the forecast of cash dividends most recently announced: No

3. Consolidated earnings forecasts for the year ending March 31, 2024 (from April 1, 2023 to March 31, 2024)

(Percentages indicate year-on-year changes.)

	Revenue		Operating profit		Ordinary profit		Profit attributable to owners of parent		Basic earnings per share
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Yen
Six months ending September 30, 2023	11,668	12.7	2,260	(2.3)	3,400	(42.7)	2,280	(48.4)	54.77
Fiscal year ending March 31, 2024	30,368	21.0	5,020	(4.3)	7,180	(21.9)	4,780	(21.1)	114.81

Note: Revisions to the forecast of consolidated financial results most recently announced: Yes

For details, please see “Notice Regarding Revisions of Consolidated Earnings Forecasts for the Six Months and Full-Year of the Fiscal Year Ending March 31, 2024” announced today.

*** Notes**

- (1) Changes in significant subsidiaries during the period (changes in specified subsidiaries resulting in the change in scope of consolidation): None

Note: For details of changes in consolidated subsidiaries which do not fall into the case of specified subsidiaries, please refer to “(3) Notes to quarterly consolidated financial statements (Changes in significant subsidiaries during the period)” of “2. Quarterly Consolidated Financial Statements and Significant Notes thereto” in the attachment.

- (2) Adoption of accounting treatment specific to the preparation of quarterly consolidated financial statements: None
- (3) Changes in accounting policies, changes in accounting estimates, and restatement
- (i) Changes in accounting policies due to revisions to accounting standards and other regulations: None
 - (ii) Changes in accounting policies due to other reasons: None
 - (iii) Changes in accounting estimates: None
 - (iv) Restatement: None
- (4) Number of issued shares (common shares)

- (i) Total number of issued shares at the end of the period (including treasury shares)

As of June 30, 2023	41,632,400 shares
As of March 31, 2023	41,632,400 shares

- (ii) Number of treasury shares at the end of the period

As of June 30, 2023	469 shares
As of March 31, 2023	469 shares

- (iii) Average number of shares outstanding during the period (cumulative from the beginning of the fiscal year)

Three months ended June 30, 2023	41,631,931 shares
Three months ended June 30, 2022	41,632,009 shares

- * Quarterly financial results reports are exempt from quarterly review conducted by certified public accountants or an audit corporation.

- * Proper use of earnings forecasts, and other special matters

The forward-looking statements, including earnings forecasts, contained in these materials are based on information currently available to the Company and on certain assumptions deemed to be reasonable. Consequently, any statements herein do not constitute assurances regarding actual results by the Company. Actual financial results may differ significantly from the forecasts for various reasons. For more information regarding our suppositions that form the assumptions for the earnings forecasts, please see page 6 of the attachment, “(3) Explanation of consolidated earnings forecasts and other forward-looking statements.”

Attached Material

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1. Qualitative information on quarterly consolidated financial results for the three months ended June 30, 2023

(1) Explanation of operating results

In the pharmaceutical industry, companies have been increasingly turning to contract research organizations (CROs) that specialize in outsourcing, with the aim of accelerating research and development in Japan and abroad while improving cost efficiency and simplifying their correspondence with regulatory authorities. In addition, research and development involving new modalities in drug discovery (therapeutic approaches) has been in full swing, particularly with respect to nucleic acid medicine, next-generation therapeutic antibodies, peptide drugs, gene therapy, cell therapy, and regenerative medicine. With the CRO business at the core of its operations, the Company has been addressing such trends by placing its focus on meeting customer needs which involves taking swift action, improving services, and persistently enhancing quality, aiming to become far and away the first name that comes to mind for clients when they consider CRO.

Under such circumstances, revenue for the three months ended June 30, 2023 (from April 1, 2023 to June 30, 2023) increased by ¥1,758 million (up 43.5%) year on year to ¥5,804 million, a record high for the first quarter, driven by mainstay CRO business. Operating profit increased by ¥513 million (up 71.9%) year on year to ¥1,227 million, absorbing an increase in personnel expenses due to the addition of 149 new employees in April 2023 (up 109 from the previous year) and higher costs due to higher test material costs, marking a record profit for the first quarter. Ordinary profit decreased by ¥895 million (down 32.3%) year on year to ¥1,877 million. This was mainly due to recording foreign exchange gains of ¥288 million for the three months ended June 30, 2023, a decrease of ¥1,398 million compared with foreign exchange gains of ¥1,686 million for the three months ended June 30, 2022. Profit attributable to owners of parent decreased by ¥571 million (down 29.4%) year on year to ¥1,373 million.

As of June 30, 2023, the SNBL Group had 1,360 employees on a consolidated basis excluding part-time and hourly employees (an increase of 152 employees from the end of March 2023), and the ratio of female employees was 52.5% (53.5% at the end of March 2023).

As of June 30, 2023, the SNBL Group is comprised of the Company, 24 consolidated subsidiaries and 4 equity method affiliates. Operating results by segment and initiatives for SDGs/ESG are as follows.

(i) CRO business

The CRO business comprises the nonclinical business, which undertakes nonclinical (or preclinical) studies mainly using cells and laboratory animals, and the clinical business, which undertakes clinical studies.

The nonclinical business achieved continuous favorable results for the three months ended June 30, 2023. The following initiatives implemented by the Company have shown positive results.

- The importance of the Company-established framework for breeding and supplying laboratory non-human primates (NHPs) within the SNBL Group, the only such framework built by a CRO in the world, has increased due to research and development involving new modalities in drug discovery coming into full swing. This has led to an increase in orders received due to a global depletion of laboratory NHPs. Having received high praise for this initiative and in response to requests from customers in Japan and overseas, we now have breeding NHP colonies exclusively for each customer in such a manner that organizes NHPs into groups tailored to respective customers. These exclusive NHP colonies will lead to future orders of NHP studies. We are also strengthening our domestic NHP production system to reduce import risks and improve quality.
- The Company has introduced the cutting-edge devices required to evaluate the efficacy and safety of new modalities in drug discovery, and built an evaluation system from an earlier stage. Synergies were demonstrated between this system and the above Company-established framework for breeding and supplying laboratory NHPs within the SNBL Group. This led to orders received related to new modalities in drug discovery. In the fiscal year ended March 31, 2023, these efforts were highly evaluated and led to the conclusion of new preferred contracts with domestic pharmaceutical companies, leading to an increase in orders. In addition, due diligence is currently in full swing with several major overseas pharmaceutical companies in preparation for the conclusion of preferred contracts.
- The Company has achieved steady progress in concluding contracts to undertake comprehensive research at the drug discovery stage with major pharmaceutical companies, and has already received orders from multiple companies for such studies.

- The Company focuses on intellectual improvement at the science level, particularly for younger researchers, and encourages and supporting them as a company to obtain industry-related certifications and academic degrees, and to present at conferences and publish papers, aiming to become a CRO that can propose more effective and efficient test studies to our clients.

As a result of the aforementioned initiatives, orders received in the nonclinical business for the three months ended June 30, 2023 increased by ¥1,191 million (up 16.5%) year on year to ¥8,411 million, renewing a record high for the first quarter, due to an increase in orders for large-scale projects, mainly NHP studies from domestic pharmaceutical companies and venture companies. The order backlog as of June 30, 2023 was ¥33,344 million, which was also a record high. In addition, orders received from overseas decreased ¥1,142 million (down 34.3%) year on year to ¥2,189 million, due in part to the postponement of contract signing dates to the second quarter or later, although inquiries from overseas were on par with those of the previous year. The ratio of overseas orders received out of total orders received was 26.0% (46.0% for the three months ended June 30, 2022). Ina Research Inc. (“Ina Research”), which became a consolidated subsidiary in July 2022, received orders of 1,360 million for the three months ended June 30, 2023, including orders related to agrochemicals, a strategic area of focus.

Meanwhile, the clinical business has been engaged mainly in contract operations of global studies (studies conducted simultaneously in multiple countries and regions) at PPD-SNBL K.K. (“PPD-SNBL”), a joint venture with PPD International Holdings, LLC (“PPD”), an international clinical CRO based in the United States. The mainstay business of PPD-SNBL is implementing the Japanese portion of global studies undertaken by PPD. Despite being a foreign-capital global company, PPD-SNBL has incorporated a Japanese management principle of emphasizing harmony, which has been cultivated by the Company over the years, into the working environment, thus achieving high employee retention rates and a progress in business. Furthermore, as PPD-SNBL is an equity method affiliate of the Company (present equity stake is 40%), its contribution to the consolidated statement of income is recorded as “share of profit of entities accounted for using equity method” under non-operating income. The share of profit of entities accounted for using equity method from PPD-SNBL’s contribution for the three months ended June 30, 2023 increased significantly to ¥548 million (¥348 million in the three months ended June 30, 2022), a record high for the first quarter. In the CRO business, in addition to the earnings engine of the non-clinical business, the earnings engine of the clinical business has been added and continues to grow. In December 2021, PPD’s shares were acquired by Thermo Fisher Scientific Inc., a major global player in medical devices. Synergy effects from the Group’s expansion in size have led to a stronger order-taking structure.

The CRO business posted revenue for the three months ended June 30, 2023 of ¥5,616 million, which was an increase of ¥1,937 million (up 52.6%) relative to the three months ended June 30, 2022. Operating profit of the CRO business increased by ¥591 million (up 68.5%) year on year to ¥1,456 million, and ratio of operating profit to revenue was 25.9%. Ina Research reported revenue of ¥1,074 million and operating profit of ¥5 million, due mainly to transient factors such as a large-scale project with relatively low margin which was posted in the three months ended June 2023.

(ii) Translational Research business (TR business)

Translational Research business (“TR business”) is a research and development business that discovers promising seeds and new technologies generated through in-house research and development as well as fundamental research performed at Japanese and overseas universities, bio-ventures, and research institutes, and develops them for commercialization, stock listing, or M&A, by increasing their added value.

The Company’s basic technology of the intranasal delivery system, which has been a focus of inquiry as the core of the TR business since 1997, is a platform technology that combines a powdered formulation technology using a proprietary carrier as the base with a proprietary designed delivery device (medical device), and characterized by rapid onset of action based on drug absorbability through the nasal mucosa. It has the advantage of being easier to administer than injection and allowing the formulation to be stored at room temperature.

Regarding the commercialization of intranasal administration, we have been focusing on a few projects. SNLD, Ltd., a consolidated subsidiary of the Company, conducted a Phase I clinical trial of a nasal on-demand therapy for the treatment of off symptoms of a neurodegenerative disease (development code: TR-012001) in Japan. The trial evaluated the safety, tolerability, and pharmacokinetics of TR-012001 administered intranasally to a total of 21 healthy individuals and ended in January 2023. We are currently strengthening our clinical development system and preparing for clinical trials to accurately determine the efficacy of the drug in the next phase.

In the US, significant progress was made toward commercialization. Satsuma Pharmaceuticals, Inc. (“Satsuma”) in the United States obtained a license from the Company for intranasal administration technologies and is developing an intranasal therapeutic agent for migraine (development code: STS101), and on April 16, 2023, the Company entered into an agreement to acquire Satsuma. and conducted a tender offer, and on June 8, 2023, Satsuma became a wholly owned subsidiary of the Company. Satsuma has confirmed the efficacy and safety of the drug in Phase III clinical trials, and in March 2023, submitted a New Drug Application (NDA) to the US Food and Drug Administration (FDA), which was accepted in May. The FDA designated January 17, 2024 as the target date to complete the review of STS101.

As another intranasal formulations development project, we have begun research on an intranasal vaccine that is expected to act as an intranasal mucosal immunizing agent. While the goal of most vaccines is to prevent the onset or increase in severity of disease, the intranasal vaccine we are developing aims to prevent infection itself from occurring (this is called “blocking immunity”). In January 2023, the Company entered into a joint research and development agreement with the Faculty of Biology-Oriented Science and Technology, Kindai University, for the purpose of developing a novel intranasal vaccine that could control the spread of respiratory tract infections, leading the world. In April, we established the Nasal Vaccine Research and Development Center within the Company and began research that effectively utilizes our non-clinical in-house infrastructure.

While conducting drug discovery research and development based on the nasal drug administration platform technology described above, we conduct researches on our proprietary delivery technology (Nose-to-Brain delivery technology: N2B-system) that enhances drug delivery to the brain through intranasal administration. The results of joint research with Hamamatsu University School of Medicine were published in June 2023 in the Journal of Controlled Release, 359 (2023), pp. 384-399 (impact factor: 11.4), a scientific journal with authority on drug delivery research. In this joint research, a special administration device that can selectively administer powder formulations to the area closest to the brain in the nasal cavity (olfactory region) was developed and the binding of intranasally administered drugs to receptors in the brain was successfully evaluated with images by PET imaging using a cynomolgus monkey with a nasal cavity structure similar to that of humans.

Subsidiary Gemseki Inc. operates a licensing brokerage business for drug discovery seeds and technologies on a global basis, and has formed a fund with Gemseki as an unlimited liability partner to conduct investment business in venture companies.

Amid these circumstances, the TR business posted revenue of ¥1 million for the three months ended June 30, 2023, relative to revenue of ¥11 million for the three months ended June 30, 2022, and posted operating loss of ¥245 million, due mainly to increase in R&D expenses, relative to operating loss of ¥123 million for the three months ended June 30, 2022.

(iii) Medipolis business (Social Benefits Generation business)

The Company owns a large tract of land of 340 hectares (840 acres) in the highlands of Ibusuki City, Kagoshima Prefecture called Medipolis Ibusuki. Making use of this natural asset (approximately 90% forest), the Company engages in environmentally-friendly social benefit generation businesses. Specifically, the Company is engaged in power generation business using renewable energy sources and a hospitality business, operating hotel accommodation facilities underpinned by the concept of well-being, operational support for the Medipolis Proton Therapy and Research Center, as well as conducting artificial production of glass eel on Okinoerabu Island.

In power generation business, the geothermal power plant has been generating power steadily since it started operation in February 2015. As a new power generation project, the construction of a hot spring power generation plant (annual amount of power produced of 4,000,000 kWh) that utilizes residual steam from the hot spring sources supplied to the hotel’s bathing facilities and floor heating was completed in June 2022. The grid connection was completed in October 2022, and the power generation facilities are currently in the adjustment phase. Upon completion, the Company will begin selling electricity under the feed-in tariff (FIT) system. The power plant availability factor remained high at 99.6% during the three months ended June 30, 2023.

In the hospitality business, hotel facilities (total number of rooms: 74) are divided into three by accommodation building and function to meet the needs of guests, and they each are operated as the Amafuru Oka as a healing resort hotel, the Ibusuki Bay Hills Hotel & Spa as a facility for stays for training, and the HOTEL Freesia as an accommodation facility for patients of the Medipolis Proton Therapy and Research Center. The Medipolis Proton Therapy and Research Center has treated more than 5,700 cancer patients with proton therapy since it began treatments in January 2011.

As a part of efforts to conserve biodiversity, the Company has been conducting research into the production of Japanese eels in their juvenile stage (glass eels), which are listed as endangered in IUCN Red List, in artificial habitats. In 2019, we moved our research facility to Wadomari-cho, Okinoerabujima, Kagoshima Prefecture, to produce farm-raised glass eels using natural seawater, and in May 2023, we held a tasting event of farm-raised eels on Okinoerabu Island with the mayor of Wadomari-cho and the head of the fishery cooperative. We aim to produce 10,000 farmed glass eels in the fiscal year ending March 31, 2024.

The Medipolis business posted revenue of ¥196 million for the three months ended June 30, 2023, which was an increase of ¥21 million (up 12.1%) relative to the three months ended June 30, 2022, due mainly to the trend of recovery in occupancy rates of its hotel accommodation facilities. Operating loss amounted to ¥6 million, a decrease of ¥26 million relative to the three months ended June 30, 2022 (operating profit of ¥19 million), due mainly to an increase in repair expenses for aging power generation facilities in the power generation business.

(iv) Initiatives for SDGs/ESG

In September 2015, the UN General Assembly adopted the “Sustainable Development Goals (SDGs)” as globally shared targets to be met by 2030 that were established so that the people of the world can live in happiness. The SDGs are actually the same as the Company’s all-time corporate philosophy of “We are a company that values the environment, life, and people” and the Company’s slogan “I’m happy, you are happy, and everyone is happy,” and the Company accordingly has an awareness of being an industry leader in initiatives for SDGs/ESG.

The SDGs Committee (chaired by independent External Director, Dr. Keiko Toya), which the Company established as an advisory body to the Board of Directors in August 2021, conducts lively discussion on a monthly basis. The Company discloses a sustainability report that is produced based on these achievements regarding initiatives for SDGs/ESG, each of the Company’s policies, information based on TCFD Recommendations, and such on a dedicated page of the Company’s website (<https://www.snbl.co.jp/esg/>) (in Japanese).

The Company published “Integrated Report 2022” on October 6, 2022. In the report, we provided our 2028 Vision “promoting people’s happiness in close involvement with stakeholders” as the future we aim to create. The management strategy specifies FY2028 financial targets of ¥50 billion in revenue, ¥20 billion in ordinary profit, and ordinary profit margin of 40%. As for the three months ended June 30, 2023, we updated our Corporate Governance Report in June 2023. The Company has implemented all the principles of the Corporate Governance Code following the revisions in June 2021, including those for the TSE Prime Market.

The Company has been highly evaluated by various rating agencies for its continuous efforts for SDGs/ESG. In June 2022, the Company was selected as a component of the FTSE Blossom Japan Sector Relative Index, constructed by global index provider FTSE Russell in the UK. The ESG score, which is the basis for adoption, was updated in June 2023, increasing to 3.1 from 2.5 last year.

In the MSCI ESG ratings, the company received an “A” rating in April 2023 as a company in the Health Care Equipment & Supplies sector. In addition, in March 2023, the Company was recognized by the Ministry of Economy, Trade and Industry as one of the “White 500” Certified Health & Productivity Management Outstanding Organizations for the seventh consecutive year.

As for the results of dialogue with shareholders and investors during the three months ended June 30, 2023, the Company held its General Meeting of Shareholders on June 27 and conducted 100 meetings with institutional investors (84 meetings in the same period of the previous fiscal year). In addition, a company briefing session for individual investors was held in Kagoshima City with the Representative Director, President as speaker.

(2) Explanation of financial position

Changes in financial position for the three months ended June 30, 2023 from the end of the previous fiscal year were as follows:

Total assets as of June 30, 2023 increased by ¥5,372 million compared to the balance as of the end of the previous fiscal year, to ¥62,615 million (up 29.4%). Current assets increased by ¥4,889 million compared to the balance as of the end of the previous fiscal year, to ¥28,788 million (up 20.5%) due mainly to increases in cash and deposits, securities, and inventories. Non-current assets increased by ¥483 million compared to the balance as of the end of the previous fiscal year, to ¥33,826 million (up 1.5%) due mainly to an increase in intangible assets (goodwill).

Liabilities increased by ¥4,994 million compared to the balance as of the end of the previous fiscal year, to ¥35,877 million (up 16.2%). Current liabilities decreased by ¥1,191 million compared to the balance as of the end of the previous fiscal year, to ¥19,819 million (down 5.7%) due mainly to increases in advances received and in advances received, and decreases in short-term borrowings and income taxes payable. Non-current liabilities increased by ¥6,186 million compared to the balance as of the end of the previous fiscal year, to ¥16,057 million (up 62.7%) due mainly to an increase in long-term borrowings.

Net assets increased by ¥378 million compared to the balance as of the end of the previous fiscal year, to ¥26,737 million (up 1.4%) due mainly to the posting of ¥1,373 million in profit attributable to owners of parent, a shrinkage in the negative balance of foreign currency translation adjustment, and a decrease in valuation difference on available-for-sale securities.

(3) Explanation of consolidated earnings forecasts and other forward-looking statements

Regarding the consolidated business results for the three months ended June 30, 2023, ordinary profit decreased, but ordinary profit excluding the effect of foreign exchange gains and losses was ¥1,588 million, an increase of ¥503 million (up 46.4%) from ordinary profit excluding the effect of foreign exchange gains and losses (¥1,085 million) for the three months ended June 30, 2022, which the Company believes was a solid performance. In consideration of the latest exchange rate trend and such, the Company revised the consolidated earnings forecasts for the six months and full-year of the fiscal year ending March 31, 2024, announced on May 8, 2023. For details, please refer to the “Notice Regarding Revisions of the Consolidated Earnings Forecasts for the Six Months and Full-Year of the Fiscal Year Ending March 31, 2024” announced today. The assumed exchange rate for the revised forecasts is the rate at the end of the first quarter (1 US dollar = 144.99 yen).

With regard to the impact of the situation in Russia and Ukraine, the Company does not expect any direct impact since we do not have any business locations in Russia or Ukraine; however, due to concerns about rising energy and other costs, on April 12, 2022, the Company established a committee to promote energy consumption savings, and we are studying fundamental measures and strengthening resource-conserving activities that we have been implementing in the past.

The impact of COVID-19 on the Company’s financial results is believed to be negligible at this time.

[Orders received in the nonclinical business]

(Millions of yen)

	Results for the three months ended June 30, 2020	Full-year results for the fiscal year ended March 31, 2021	Results for the three months ended June 30, 2021	Full-year results for the fiscal year ended March 31, 2022	Results for the three months ended June 30, 2022	Full-year results for the fiscal year ended March 31, 2023	Results for the three months ended June 30, 2023	Full-year plan for the fiscal year ending March 31, 2024
Orders received [of which, overseas orders received]	3,851 (679)	15,368 (3,160)	6,242 (1,649)	22,839 (6,521)	7,219 (3,332)	24,920 (8,581)	8,411 (2,189)	33,835 (14,371)
Order backlog	12,534	13,661	17,216	20,966	25,756	29,248	33,344	–

(Notes) 1. Results of Ina Research are included from July 1, 2022.

2. For calculation of orders received (overseas), an average USD/JPY exchange rate of each fiscal year is applied.

3. For calculation of order backlog (overseas), a year-end exchange rate of each fiscal year is applied.

[Trends in principal management benchmarks]

(Millions of yen, unless otherwise noted)

	Results for the three months ended June 30, 2020	Full-year results for the fiscal year ended March 31, 2021	Results for the three months ended June 30, 2021	Full-year results for the fiscal year ended March 31, 2022	Results for the three months ended June 30, 2022	Full-year results for the fiscal year ended March 31, 2023	Results for the three months ended June 30, 2023	Full-year forecasts for the fiscal year ending March 31, 2024
Capital expenditures		1,025		1,703		5,614	1,408	6,875
Depreciation	282	1,187	279	1,177	308	1,544	411	1,800
R&D expenses	83	392	76	425	116	683	294	928
Number of employees at period-end (people)	1,041	986	1,035	994	1,050	1,208	1,360	1,382

(Note) Results of Ina Research are included from July 1, 2022.

2. Quarterly consolidated financial statements and significant notes thereto

(1) Quarterly consolidated balance sheet

(Thousands of yen)

	As of March 31, 2023	As of June 30, 2023
Assets		
Current assets		
Cash and deposits	10,533,094	12,610,099
Notes and accounts receivable - trade, and contract assets	4,760,363	4,114,024
Securities	–	1,291,436
Inventories	7,329,408	8,324,339
Other	1,342,662	2,514,708
Allowance for doubtful accounts	(65,964)	(65,772)
Total current assets	23,899,564	28,788,834
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	9,424,835	9,711,970
Land	3,512,926	3,876,584
Other, net	5,941,527	6,781,032
Total property, plant and equipment	18,879,289	20,369,587
Intangible assets		
Goodwill	1,438,769	1,994,035
Other	260,660	289,446
Total intangible assets	1,699,429	2,283,482
Investments and other assets		
Investment securities	11,980,424	10,379,524
Other	796,571	808,585
Total investments and other assets	12,763,921	11,173,262
Allowance for doubtful accounts	(13,074)	(14,847)
Total non-current assets	33,342,640	33,826,332
Total assets	57,242,205	62,615,166

(Thousands of yen)

	As of March 31, 2023	As of June 30, 2023
Liabilities		
Current liabilities		
Accounts payable - trade	419,764	484,158
Short-term borrowings	8,923,211	6,693,665
Income taxes payable	603,708	153,968
Advances received	8,055,161	9,227,862
Other	3,009,844	3,260,166
Total current liabilities	21,011,689	19,819,820
Non-current liabilities		
Long-term borrowings	9,480,425	15,643,525
Lease liabilities	357,026	317,174
Other	34,043	97,049
Total non-current liabilities	9,871,494	16,057,748
Total liabilities	30,883,184	35,877,569
Net assets		
Shareholders' equity		
Share capital	9,679,070	9,679,070
Capital surplus	2,306,771	2,306,771
Retained earnings	13,766,184	13,890,537
Treasury shares	(420)	(420)
Total shareholders' equity	25,751,605	25,875,959
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	2,596,709	878,539
Foreign currency translation adjustment	(2,136,482)	(172,130)
Total accumulated other comprehensive income	460,226	706,408
Non-controlling interests	147,188	155,229
Total net assets	26,359,021	26,737,597
Total liabilities and net assets	57,242,205	62,615,166

(2) Quarterly consolidated statement of income and consolidated statement of comprehensive income

Quarterly consolidated statement of income (cumulative)

(Thousands of yen)

	Three months ended June 30, 2022	Three months ended June 30, 2023
Revenue	4,046,531	5,804,974
Cost of revenue	1,991,604	2,611,139
Gross profit	2,054,927	3,193,835
Selling, general and administrative expenses	1,340,912	1,966,752
Operating profit	714,014	1,227,082
Non-operating income		
Interest income	724	485
Dividend income	500	1,525
Foreign exchange gains	1,686,819	288,466
Share of profit of entities accounted for using equity method	366,986	531,883
Other	35,629	113,833
Total non-operating income	2,090,659	936,194
Non-operating expenses		
Interest expenses	28,573	36,945
Commission expenses	1,201	246,491
Other	2,458	2,453
Total non-operating expenses	32,233	285,891
Ordinary profit	2,772,439	1,877,385
Extraordinary income		
Gain on sale of non-current assets	176	3,553
Gain on step acquisitions	–	82,164
Total extraordinary income	176	85,717
Extraordinary losses		
Loss on retirement of non-current assets	0	19,686
Impairment losses	620	2,047
Total extraordinary losses	620	21,734
Profit before income taxes	2,771,995	1,941,369
Income taxes - current	272,620	258,847
Income taxes - deferred	562,675	301,031
Total income taxes	835,296	559,878
Profit	1,936,699	1,381,490
Profit (loss) attributable to non-controlling interests	(7,682)	8,179
Profit attributable to owners of parent	1,944,382	1,373,311

Quarterly consolidated statement of comprehensive income (cumulative)

(Thousands of yen)

	Three months ended June 30, 2022	Three months ended June 30, 2023
Profit	1,936,699	1,381,490
Other comprehensive income		
Valuation difference on available-for-sale securities	311,460	(1,718,169)
Foreign currency translation adjustment	869,542	1,937,074
Share of other comprehensive income of entities accounted for using equity method	49,926	27,139
Total other comprehensive income	1,230,929	246,044
Comprehensive income	3,167,628	1,627,534
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	3,176,369	1,619,493
Comprehensive income attributable to non- controlling interests	(8,741)	8,041

(3) Notes to quarterly consolidated financial statements

(Notes on going concern assumption)

Not applicable.

(Notes when there are significant changes in amounts of equity)

Not applicable.

(Changes in significant subsidiaries during the period)

Satsuma Pharmaceuticals, Inc. has been included in the scope of the consolidation due to an acquisition of additional shares in the first quarter ended June 30, 2023,

(Segment information)

I. Three months ended June 30, 2022 (from April 1, 2022 to June 30, 2022)

1. Disclosure of revenue and profit (loss) for each reportable segment

(Thousands of yen)

	Reportable segments				Other (Note 1)	Total	Adjustments (Note 2)	Amount recorded on the quarterly consolidated statement of income (Note 3)
	CRO business	Translational Research business	Medipolis business	Subtotal				
Revenue								
Revenues from external customers	3,672,742	11,250	149,131	3,833,124	213,407	4,046,531	–	4,046,531
Transactions with other segments	6,876	–	25,980	32,856	286,711	319,567	(319,567)	–
Total	3,679,618	11,250	175,112	3,865,980	500,118	4,366,099	(319,567)	4,046,531
Segment profit (loss)	864,341	(123,511)	19,731	760,562	4,867	765,429	(51,414)	714,014

(Notes) 1. The “Other” classification serves as a business segment not included in the reportable segments, and accordingly includes the real estate business and other such businesses.

2. Segment profit (loss) adjustments amounting to negative ¥51,414 thousand consist of negative ¥27,048 thousand in elimination of intersegment transactions and negative ¥24,366 thousand in corporate expenses not allocated to a reportable segment. Corporate expenses are mainly general and administrative expenses, which are not attributable to the reportable segments.

3. Segment profit (loss) has been calculated upon adjusting operating profit in the quarterly consolidated statement of income.

II. Three months ended June 30, 2023 (from April 1, 2023 to June 30, 2023)

1. Disclosure of revenue and profit (loss) for each reportable segment

(Thousands of yen)

	Reportable segments				Other (Note 1)	Total	Adjustments (Note 2)	Amount recorded on the quarterly consolidated statement of income (Note 3)
	CRO business	Translational Research business	Medipolis business	Subtotal				
Revenue								
Revenues from external customers	5,570,040	1,857	155,088	5,726,986	77,988	5,804,974	–	5,804,974
Transactions with other segments	46,776	–	41,152	87,928	160,444	248,373	(248,373)	–
Total	5,616,816	1,857	196,240	5,814,914	238,433	6,053,348	(248,373)	5,804,974
Segment profit (loss)	1,456,209	(245,757)	(6,470)	1,203,980	39,217	1,243,198	(16,115)	1,227,082

(Notes) 1. The “Other” classification serves as a business segment not included in the reportable segments, and accordingly includes the real estate business and other such businesses.

2. Segment profit (loss) adjustments amounting to negative ¥16,115 thousand consist of ¥16,011 thousand in elimination of intersegment transactions and negative ¥32,127 thousand in corporate expenses not allocated to a reportable segment. Corporate expenses are mainly general and administrative expenses, which are not attributable to the reportable segments.

3. Segment profit (loss) has been calculated upon adjusting operating profit in the quarterly consolidated statement of income.

2. Information about impairment loss of non-current assets, goodwill and other information in reported segments.
(Significant changes in amount of goodwill)

The Company acquired the shares of Satsuma, making the company its consolidated subsidiary in the three months ended June 30, 2023. As the result, an increase in goodwill of ¥573,951 thousand was recorded in the TR business in the same period. Please note that the said goodwill amount was tentatively calculated based on the information available as of the date of this announcement since the allocation of the related acquisition costs has not been completed.

In the event where additional payments for the acquisition costs arise, such amount shall be deemed paid at the time of the acquisition. Therefore, the acquisition costs, goodwill and goodwill amortization will be revised.

(Subsequent events)

Not applicable.