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May 8, 2024

Consolidated Financial Results for the Fiscal Year Ended March 31, 2024 (Under Japanese GAAP)

Company name: Shin Nippon Biomedical Laboratories, Ltd.
Listing: Prime Market, Tokyo Stock Exchange
Securities code: 2395
URL: https://www.snbl.co.jp/
Representative: Ryoichi Nagata, Representative Chairman, President & CEO
Inquiries: Toshiyuki Iwata, Executive Officer, Head of Corporate Communications
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Scheduled date of annual general meeting of shareholders: June 24, 2024
Scheduled date to commence dividend payments: June 25, 2024
Scheduled date to file annual securities report: June 25, 2024
Preparation of supplementary material on financial results: Yes
Holding of financial results briefing: Yes (for analysts and investors)

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

1. Consolidated financial results for the fiscal year ended March 31, 2024 (from April 1, 2023 to March 31, 2024)

(1) Consolidated operating results

(Percentages indicate year-on-year changes.)

	Revenue		Operating profit		Ordinary profit		Profit attributable to owners of parent	
Fiscal year ended	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
March 31, 2024	26,450	5.4	4,162	(20.6)	7,015	(23.7)	5,531	(8.7)
March 31, 2023	25,090	41.4	5,245	25.0	9,194	29.9	6,060	(15.0)

Note: Comprehensive income For the fiscal year ended March 31, 2024: ¥9,917 million [8.6%]
For the fiscal year ended March 31, 2023: ¥9,129 million [96.3%]

	Basic earnings per share	Diluted earnings per share	Return on equity	Ratio of Ordinary profit to total assets	Ratio of Operating profit to net sales
Fiscal year ended	Yen	Yen	%	%	%
March 31, 2024	132.86	–	18.3	10.5	15.7
March 31, 2023	145.56	–	26.5	19.0	20.9

Reference: Share of profit (loss) of entities accounted for using equity method
For the fiscal year ended March 31, 2024: ¥2,751 million
For the fiscal year ended March 31, 2023: ¥2,489 million

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio	Net assets per share
As of	Millions of yen	Millions of yen	%	Yen
March 31, 2024	76,302	34,160	44.7	819.42
March 31, 2023	57,242	26,359	45.8	629.60

Reference: Equity
As of March 31, 2024: ¥34,114 million
As of March 31, 2023: ¥26,211 million

(3) Consolidated cash flows

	Cash flows from operating activities	Cash flows from investing activities	Cash flows from financing activities	Cash and cash equivalents at end of period
Fiscal year ended	Millions of yen	Millions of yen	Millions of yen	Millions of yen
March 31, 2024	2,106	(6,907)	5,318	10,274
March 31, 2023	4,004	(5,930)	6,266	9,197

2. Cash dividends

	Annual dividends					Total cash dividends (Total)	Payout ratio (Consolidated)	Ratio of dividends to net assets (Consolidated)
	First quarter-end	Second quarter-end	Third quarter-end	Fiscal year-end	Total			
	Yen	Yen	Yen	Yen	Yen	Millions of yen	%	%
Fiscal year ended March 31, 2023	–	20.00	–	30.00	50.00	2,081	34.3	9.1
Fiscal year ended March 31, 2024		20.00		30.00	50.00	2,081	37.6	6.9
Fiscal year ending March 31, 2025 (Forecast)		20.00		30.00	50.00		53.3	

3. Consolidated earnings forecasts for the year ending March 31, 2025 (from April 1, 2024 to March 31, 2025)

(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, 2024	12,002	1.0	(202)	-	1,332	(64.5)	858	(71.1)	20.60
Fiscal year ending March 31, 2025	29,835	12.8	2,350	(43.5)	5,345	(23.8)	3,920	(29.1)	94.15

*** 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 "(5) Notes to consolidated financial statements (Changes in the scope of consolidation)" of "3. Consolidated Financial Statements and Significant Notes thereto" in the attachment.

(2) 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

(3) Number of issued shares (common shares)

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

As of March 31, 2024	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 March 31, 2024	469 shares
As of March 31, 2023	469 shares

(iii) Average number of shares outstanding during the period

Fiscal year ended March 31, 2024	41,631,931 shares
Fiscal year ended March 31, 2032	41,631,968 shares

* Financial results reports are exempt from audit conducted by certified public accountants or an audit corporation.

* Proper use of earnings forecasts, and other special matters

(The forecast of financial results and forward-looking statements)

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 8 of the attachment, "(4) Future outlook" of "1. Overview of Operating Results and Others."

(Method of Obtaining Financial Results Supplementary Materials and Details of Financial Results Briefing)

Financial results supplementary materials are posted via TDnet on the date of disclosure. The Company plans to hold a financial results briefing call for analysts and institutional investors on Wednesday, May 8, 2024, from 15 pm Japan Time. Explanatory details (audio recording in Japanese and its transcript in both Japanese and English) will be posted on the Company's website in a timely manner after the briefing.

Attached Material

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1. Overview of Operating Results and Others

(1) Overview of operating results for the fiscal year ended March 31, 2024

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 fiscal year under review (April 1, 2023 to March 31, 2024, hereafter, "the fiscal year ended March 31, 2024") increased by ¥1,359 million (up 5.4%) compared to the previous fiscal year (hereafter, "year on year") to ¥26,450 million, renewing a record high for the second consecutive year, driven by mainstay CRO business. Operating profit exceeded the revised forecast of ¥3,470 million announced on February 2, 2024 at ¥4,162 million, but decreased by ¥1,082 million (down 20.6%) year on year. The main reason for the decrease in operating profit is the recording of ¥1,344 million in expenses for FDA approval of STS101, an intranasal therapeutic agent for migraine from Satsuma Pharmaceuticals, Inc. (hereinafter, "Satsuma") in the United States, which was acquired for the first approval of an intranasal drug using the Company's proprietary intranasal administration basic technology. In addition, the Company views the current business environment surrounding its mainstay CRO business as an opportunity for further growth. The increase in costs due to large strategic upfront investments, such as the substantial strengthening of human resources, expansion of laboratory facilities, and establishment of a domestic breeding framework for laboratory non-human primates (NHPs), also contributed to the decrease in operating profit. Ordinary profit decreased by ¥2,178 million (down 23.7%) year on year to ¥7,015 million. The main reason for the decrease in ordinary profit being larger than the decrease in operating profit is the foreign exchange gains of ¥60 million in the fiscal year ended March 31, 2024, a decrease of ¥1,450 million year on year. The share of profit of entities accounted for using equity method from PPD-SNBL, which promotes the clinical business within the Company's CRO business, increased by ¥664 million year on year to ¥2,631 million. Profit attributable to owners of parent decreased by ¥528 million (down 8.7%) year on year to ¥5,531 million.

As of March 31, 2024, the SNBL Group had 1,341 employees on a consolidated basis excluding part-time and hourly employees (an increase of 133 employees from the end of March 2023), as a result of the 149 new employees who joined the Company in April 2023 (an increase of 109 employees year on year). The ratio of female employees on a consolidated basis including temporary employees was 51.6%. The 100 new employees joined the Company in April 2024.

As of March 31, 2024, 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 Company's nonclinical business is one of the industry's largest in Japan, and one of the industry's second-top tier nonclinical CROs globally based on the results of numerous studies using laboratory NHPs. Contracts received, a leading indicator of nonclinical business performance, are steadily expanding at a 4-year compound annual growth rate (CAGR) of 20.1% (16.0% excluding Ina Research) from the fiscal year ended March 31, 2020 to the fiscal year ended March 31, 2024. The following initiatives implemented by the Company have shown positive results.

- The importance of the Company-established framework for breeding and supplying laboratory 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 increasing amount of contracts received while a global depletion of laboratory NHPs also accelerated such a trend. We are also strengthening our framework for breeding NHPs in Japan to reduce import risks and improve quality. We have completed new breeding facilities and started operations in the fiscal year ended March 31, 2024.
- The concentration analysis performed on drug development candidates (test substances) and biomarkers in biological samples is called bioanalysis. The Company has introduced the cutting-edge devices required to evaluate the efficacy and safety of new modalities in drug discovery, and built a system for evaluating test substances and biomarkers 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 contracts received related to new modalities in drug discovery. Revenue of bioanalysis for the fiscal year ended March 31, 2024, increased by ¥548 million (up 15.7%) year on year to ¥4,037 million.

- 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. Since the beginning of this fiscal year, several major overseas pharmaceutical companies have been engaged in full-fledged due diligence in preparation for concluding new contracts with the Company, and we were able to receive pilot orders from multiple companies during the third quarter.
- The Company has achieved steady progress in concluding contracts to undertake comprehensive research at the drug discovery stage with major pharmaceutical companies in Japan, and has already received orders from multiple companies for such studies.
- The Company focuses on improvement at the science level, particularly for younger researchers. The Company encourages and supports them to obtain industry-related certifications and academic degrees, and to present at conferences and publish papers. The Company is aiming to become a proposal-oriented CRO that can present more effective and efficient studies to our clients, in support of which in the fiscal year ended March 31, 2024 it made presentations of research results at multiple conferences in Japan and overseas and also published papers. The Company also held SNBL seminars in South Korea and Japan, engaging in scientific discussions with many clients, and successfully facilitating a broader understanding of our experiences and initiatives thus far.

As a result of the aforementioned initiatives, contracts received in the nonclinical business for the fiscal year ended March 31, 2024 increased by ¥2,490 million (up 10.0%) year on year to ¥27,411 million, the highest ever. The order backlog as of March 31, 2024 was ¥33,212 million (up ¥3,964 million from the end of March 2023). Contracts received from domestic pharmaceutical companies and venture companies increased steadily and contracts received in Japan was ¥20,359 million, an increase of ¥4,019 million (up 24.6%) year on year. Contracts received from overseas declined by ¥1,529 million (down 17.8%) year on year to ¥7,052 million, and the ratio of overseas contracts received out of total contracts received was 25.7% (34.4 % for the fiscal year ended March 31, 2023). That said, inquiries, which are a leading indicator of orders, have recently picked up, and the number of inquiries from overseas customers and visits to the Company have increased. Ina Research Inc. (“Ina Research”), which became a consolidated subsidiary in July 2022, had contracts received of ¥3,540 million for the fiscal year ended March 31, 2024.

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 Wilmington, United States. In December 2021, PPD became a member of the corporate group of Thermo Fisher Scientific Inc., a major global player in medical devices, with the objective of enhancing order synergies. PPD-SNBL’s mainstay business is that of the implementation in Japan of studies, outsourced to PPD, that are conducted simultaneously in multiple countries. While it is a global company, PPD-SNBL has established a working environment with high retention rates by incorporating the management and training know-how that the Company has developed over many years, and it has achieved high rates of growth ever since it was founded, against the background of high order backlogs. In 2019, PPD-SNBL was named a top-five growth business and desirable employer by Randstad.

When promoting clinical trials, it seeks to take advantage of the spread of online conferencing systems and compatible devices to improve efficiency through the use of remote monitoring, which it uses to gather data without visiting medical institutions. In terms of personnel recruitment, when PPD-SNBL was originally founded we introduced a system, running parallel to that for new graduates joining in April, that enables new graduates wishing to join the company in October to benefit from a six-month scholarship for language study overseas, thus facilitating their ability to deal with global situations and enhancing their experience of society. Accordingly, more than 200 new graduates have joined the company after the language study overseas, ever since it was founded. At the same time, in addition to actively recruiting from the group interested in a global career and that already have some experience and the group of bilingual graduates from overseas universities, this has enabled us to maintain a flexible hiring strategy that achieves a good balance with the system for new graduates joining PPD-SNBL in spring and fall. We have been striving to develop world-class global human resources for many years by providing opportunities for new graduates to study at the business English school located within the Company for two years after joining, and then to learn about clinical trial systems in Europe and the U.S. through short-term study abroad programs utilizing PPD’s international network. As a result, headcount has exceeded 1,000 employees as of the end of April 2024, roughly three times the number with which we started in April 2015.

PPD-SNBL posted revenue of ¥18,741 million for the fiscal year ended March 31, 2024, renewing a record high, an increase of ¥3,875 million (up 26.0%) year on year. Its operating profit also recorded ¥8,653 million, renewing a record high, an increase of ¥2,700 million (up 45.3%) year on year. PPD-SNBL continues to grow as a highly profitable company with operating profit margins in excess of 45%, and the share of profit of entities accounted for using equity method for the fiscal year ended March 31, 2024 for PPD-SNBL increased significantly to ¥2,631 million (¥1,967 million in the previous fiscal year) and reached a record high. In the CRO business, in addition to the earnings engine of the nonclinical business, the earnings engine of the clinical business has been added and continues to grow.

The CRO business as a whole posted revenue of ¥25,909 million for the fiscal year ended March 31, 2024, renewing a record high, an increase of ¥1,909 million (up 8.0%) year on year. Operating profit of the CRO business increased by ¥662 million (up 10.5%) year on year to ¥6,998 million, which was also a record high, and ratio of operating profit to revenue was 27.0% (26.4 % for the fiscal year ended March 31, 2023). Ina Research reported revenue of ¥4,193 million while operating profit decreased by ¥327 million year on year to ¥83 million, due mainly to transient factors such as the revenue posting of a large-scale project with relatively low margin.

(ii) Translational Research business (TR business)

Translational Research business (hereinafter, "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 intranasal drug delivery platform technology, 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 composition as the base with a proprietary designed delivery device (medical device). It is characterized by rapid onset of action based on sufficient retention and drug absorbability through the nasal mucosa. It has the advantage of being easier to administer than injections 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. (hereinafter, "SNLD"), a consolidated subsidiary of the Company, is developing a nasal on-demand therapy for the treatment of off symptoms of Parkinson's Disease (development code: TR-012001) in Japan. In January 2024, it completed the dosing of patients in the Phase II early phase clinical trial thereof. The Company is currently working diligently to confirm the safety, tolerability, and rapid absorbability and to fix and analyze the data leading to the acquisition of a Proof-of-Concept (POC). The Company also submitted a notification in relation to Phase 1 clinical trials in January 2024 for an improved development product of TR-012001 (TRN501) that aims to achieve even greater convenience, and has been currently in the preparation phase. It is scheduled to be administered to healthy Japanese adults starting in June 2024.

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. STS101 is an easy-to-use and portable intranasal formulation with dihydroergotamine as the active ingredient, which has a proven track record of efficacy against migraines. It has been confirmed in clinical trials to have rapid and sustained absorption and a high level of safety. By making Satsuma a wholly owned subsidiary, the Company will acquire know-how and manufacturing facilities ranging from development to the establishment of a commercial manufacturing system on a global level as well as bring experienced human resources into the Group. The Company plans to expand these resources to the development of new products based on this basic technology. On March 17, 2023, Satsuma submitted a New Drug Application (NDA) to the US Food and Drug Administration (FDA), and on January 17, 2024, it received a Complete Response Letter (CRL) from the FDA that the review had been completed. The CRL did not contain any expressions of concern in relation to the clinical trial results, including the safety of STS101, and additional clinical trials were not requested. However, additional information was noted primarily regarding stability related to chemistry, manufacturing, and controls (CMC). Satsuma discussed matters related to this noted information with the FDA in February 2024 and received a formal opinion from the FDA in March 2024. Satsuma is now preparing to resubmit an NDA for this drug by October 2024 based on the FDA's opinion, incorporating the stability information of the formulation manufactured in February 2024.

As another intranasal drug development project, we have conducted 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 "immune barricade"). In April 2023, we welcomed Masaaki Miyazawa, Professor Emeritus and Visiting Professor of the Faculty of Medicine of Kindai University to head TR Company's Nasal Vaccine Research and Development Center. For the "FY2023 Program on R&D of New Generation Vaccine Including New Modality Application" solicited by the Strategic Center of Biomedical Advanced Vaccine Research and Development for Preparedness and Response (SCARDA), which is an organization established within the Japan Agency for Medical Research and Development (AMED) to promote rapid vaccine development as a national policy by the Japanese government, Dr. Miyazawa proposed the "Development of a TR's nasal vaccine powder delivery system which generates IgA." Based on a rigorous written evaluation, interviews, and the opinions of outside experts at the evaluation meeting at SCARDA, Dr. Miyazawa's proposal was selected as one of R&D theme

SCARDA will give support to its development. We believe that this result was achieved because we were able to clarify development milestones and challenges. We have received a large budget for the national policy research and development of new vaccines, and are now in full-scale development of a powder-type intranasal vaccine that provides capability of immune barricade to multiple respiratory viruses in the upper respiratory tract.

TR Company's Platform Technology Development Office conducts drug discovery research and development based on the intranasal administration technology. It also conducts research on our proprietary delivery technology (Nose-to-Brain delivery technology: N2B-system) that enhances drug delivery to the brain through intranasal administration. We developed a special administration device that can selectively administer powder formulations to the area closest to the brain in the nasal cavity (olfactory region), and with the use of a cynomolgus monkey with a nasal cavity structure similar to that of humans, the efficient binding of intranasally administered drugs (which do not easily pass through the blood-brain barrier) to specific receptors in the brain with this technology was confirmed with PET imaging. 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 order to further accelerate formulation and clinical development by TR Company and SNLD from the fiscal year ending March 31, 2025 and onward, TR Company's Platform Technology Development Office has begun researching new base technologies that will enable rational development of drugs and vaccines, while building a new organizational structure to accelerate its activities in the U.S.

Subsidiary Gemseki Inc. ("Gemseki") operates a licensing brokerage business for drug discovery seeds and technologies on a global basis, and has formed a fund setting itself as an unlimited liability partner to conduct investment business in venture companies. In its licensing brokerage business, Gemseki mediated the conclusion of option agreements and joint research agreements in a number of projects. In May 2023, the option agreement concluded between Hokkaido University and TMS Co., Ltd. was disclosed. Based on this option agreement, a joint research agreement between Hokkaido University, TMS Co., Ltd., and Kanazawa University was concluded in October 2023. In addition, there have been other projects that have led to the conclusion of agreements, contributing to the derivation and adoption of drug discovery seeds and technologies as well as industry-academia collaborations.

In its investment business, Gemseki is actively considering investments in venture companies, including additional investments in existing investee companies. Through a process of ongoing communication with multiple existing investees in Japan and overseas, the Company is continuing to examine how best to generate synergies between Gemseki's licensing brokerage business and its own business operations. Within the SNBL Group, Gemseki aims to provide the comprehensive support needed for the creation and development of pharmaceuticals and medical devices, with the goal of generating synergies throughout the Group.

Amid these circumstances, the TR business posted revenue of ¥13 million for the fiscal year ended March 31, 2024, relative to revenue of ¥16 million in the previous fiscal year. An increase in research and development expenses, and higher costs of ¥1,344 million associated with the incorporation of Satsuma in consolidated results from the third quarter onward resulted in operating loss of ¥2,465 million, relative to operating loss of ¥879 million in the previous fiscal year.

(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. The Company leverages this natural asset (approximately 90% forest) to operate the Medipolis business and generate benefits for society. This business is the embodiment of the Company's corporate principle: "Committed to the environment, life and people." We are committed to creating not only economic gains but also benefits for society from the perspective of the issues in society and the environment in an integrated fashion. Specifically, we operate a power generation business using renewable energy sources, as well as a hospitality business centering on the operation of hotels based on the concept of well-being, or in other words, holistic health.

In the power generation business, we have operated a 1,500 kW binary geothermal power plant since February 2015. Geothermal power generation produces hardly any CO_2 emissions, is not affected by the weather during the day or night, and has the potential to be a baseload power source capable of stable power generation all year round. Our geothermal power plant maintains a high capacity utilization rate and generates approximately 10 million kWh of electricity, equivalent to roughly half of the Company's annual power consumption. We sell this electricity under the feed-in tariff (FIT) system, thus generating steady income. Nine years have passed since the start of operation, so we have been conducting open inspections and repairs of the generator since the fourth quarter of the fiscal year ended March 31, 2024 to ensure stable long-term operation. This has resulted in operation suspensions at the geothermal power plant. As a new power generation project, progress has been made on a hot spring power generation plant (annual output of 4 million kWh) that utilizes residual steam from the hot spring sources supplied to hotel bathing facilities and floor heating. This project had entered the final adjustment phase for the start of electricity sales in the fiscal year ended March 31, 2024 but some initial defects in the power generation equipment were discovered, so we are currently undertaking repair work, including the replacement of new mechanical parts. Once the repair work is completed, electricity sales will commence. As the hot spring power generation plant is already authorized under the FIT system (15 years; ¥40/kWh electricity sales price), the impact on expected earnings from the project's delay will be minimal.

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 6,300 cancer patients with proton therapy since it began treatments in January 2011. There are two main reasons why we operate our hospitality business. The first one is that, from the perspective of enhancing corporate value, we are a company which contributes to people's well-being. The second one is to contribute to fostering a stronger customer-oriented hospitality mindset at SNBL. We believe that further strengthening the hospitality mindset of the SNBL Group through the hospitality business and plowing the benefits back into the mainstay CRO business will play a key role in our efforts to compete on the world stage.

The Medipolis business posted revenue of ¥569 million for the fiscal year ended March 31, 2024, which was a decrease of 114 million (down 16.8%) relative to the previous fiscal year. Operating loss was ¥254 million, an increase of ¥50 million relative to the previous fiscal year (operating loss: ¥203 million), due to the suspension of power generation in the power generation business as a result of generator inspections and repairs.

(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 2023" on November 1, 2023. 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%. It also calls for ROE and ROIC of at least 10%, two indicators of capital returns that we are newly putting emphasis on. We updated our Corporate Governance Report in January 2024. 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 July 2023, the Company was again selected as a component of the FTSE Blossom Japan Sector Relative Index, constructed by global index provider FTSE Russell in the UK. In the MSCI ESG ratings, the Company received an "A" rating in March 2024 as a company in the Health Care Equipment & Supplies sector again this year. In August 2023, the Company was again selected as a component of the JPX-Nikkei Mid and Small Cap Index, jointly provided by JPX Market Innovation & Research, Inc. and Nikkei Inc. In addition, in March 2024, 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 eighth consecutive year. In October 2023, the Company received "Platinum Eruboshi" certification from the Ministry of Health, Labour and Welfare in accordance with the Act on the Promotion of Women's Active Engagement in Professional Life.

As for the results of dialogue with shareholders and investors in the fiscal year ended March 31, 2024, the Company conducted 298 meetings with institutional investors (315 meetings in the previous fiscal year). In addition, company briefing sessions for individual investors were held four times with the Representative Chairman, President & CEO as the presenter, with a total of 240 participants.

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 the 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. So far we have obtained remarkably positive results from small-scale production and in the fiscal year ending March 31, 2024, we have moved forward with investigations into expanding the scale of production, and have worked to resolve new issues related to volume production.

(2) Overview of financial position for the fiscal year ended March 31, 2024

Changes in financial position for the fiscal year ended March 31, 2024 from the end of the previous fiscal year were as follows:

Total assets as of March 31, 2024 increased by ¥19,060 million compared to the balance as of the end of the previous fiscal year, to ¥76,302 million (up 33.3%). Current assets increased by ¥6,938 million compared to the balance as of the end of the previous fiscal year, to ¥30,837 million (up 29.0%) due mainly to an increase of ¥1,018 million in notes, accounts receivable, and contract assets and an increase of ¥5,043 million in inventories.

Non-current assets increased by ¥12,121 million compared to the balance as of the end of the previous fiscal year, to ¥45,464 million (up 36.4%) due mainly to an increase of ¥ 7,478 million (up 39.6%) in property, plant, and equipment and an increase of ¥3,255 million (up 27.2%) in investment securities.

Liabilities increased by ¥11,258 million compared to the balance as of the end of the previous fiscal year, to ¥42,141 million (up 36.5%), which was due mainly to an increase in advances received and an increase in interest-bearing liabilities.

Net assets increased by ¥7,801 million compared to the balance as of the end of the previous fiscal year, to ¥34,160 million (up 29.6%), which was due mainly to an increase in retained earnings and an increase in foreign currency translation adjustment.

(3) Overview of cash flows for the fiscal year ended March 31, 2024

The outstanding balance of cash and cash equivalents (“cash”) as of March 31, 2024 was ¥10,274 million, up ¥1,077 million (11.7%) compared to the balance as of the end of the previous fiscal year.

Status of each cash flow during the fiscal year ended March 31, 2024 and main contributing factors thereof are as follows.

(Cash flows from operating activities)

Net cash provided by operating activities was ¥2,106 million, down ¥1,897 million (47.4%) relative to the fiscal year ended March 31, 2023.

The main contributing factors included profit before income taxes of ¥6,974 million, depreciation of ¥1,774 million, share of profit of entities accounted for using equity method of ¥2,751 million, an increase of ¥5,003 million in inventories, an increase of ¥1,487 million in advances received, interest income and dividend income received of ¥2,447 million, and income taxes paid of ¥1,223 million.

(Cash flows from investing activities)

Net cash used in investing activities was ¥6,907 million, up ¥977 million (16.5%) relative to the fiscal year ended March 31, 2023.

The main contributing factors included purchase of property, plant and equipment of ¥8,583 million and proceeds from withdrawal of time deposits of ¥1,507 million.

(Cash flows from financing activities)

Net cash provided by financing activities was ¥5,318 million, down ¥947 million (15.1%) relative to the fiscal year ended March 31, 2023.

The main contributing factors included proceeds from long-term borrowings of ¥17,700 million, repayments of long-term borrowings of ¥6,230 million, repayments of short-term borrowings of ¥3,903 million, and dividends paid of ¥2,072 million.

(4) Future outlook

The vision of our mainstay CRO business is "Creating a nonclinical R&D ecosystem to deliver new drugs to patients as quickly as possible." We are working to build a system that can reliably respond to the demands of domestic and overseas customers from a medium- to long-term perspective. Currently, we are actively promoting the following investments and research and development as part of our research support in the field of new drug discovery modalities, including nucleic acid drugs, next-generation antibodies, peptide drugs, gene therapy, and regenerative medicine. We have been able to receive many projects for new modalities in drug discovery by differentiating ourselves from competing facilities and gaining a competitive advantage.

- Establishment of administration techniques for delivering drugs into special regions such as within the eyes or brain
- Introduction of state-of-the-art equipment useful for evaluation of new modalities in drug discovery
- Building new evaluation systems useful for assessing the efficacy and safety of each modality in drug discovery

With acquisition of Ina Research, the Company is now able to provide pesticide-related safety studies as well as contract drug dependence studies. In addition, Ina Research has strengths in domestic academia, venture companies, and the Korean market, and the Company expects that it will be able to diversify its customer base and generate early synergies by managing the business as a single entity.

Inquiries from overseas customers continue to be active, and we have succeeded in receiving ongoing orders from global pharmaceutical companies due to our competitive advantage in the following four areas.

- Know-how and trust cultivated through 20 years of nonclinical business operations in the US
- Leveraging human resources with experience working in the US
- Establishment of an evaluation system and experimental techniques for new modalities in drug discovery
- Timely studies with a stable supply framework for laboratory NHPs.
- Attention to detail that is uniquely Japanese

In particular, as the only CRO in the world to have an established framework for breeding and supplying laboratory NHPs within the SNBL Group, the Company's stable supply of laboratory animals through efficient supply chain management leveraging such unique framework, has been highly evaluated by overseas customers, leading to orders for large-scale studies. In order to continue to strengthen our supply chain management, we will reinforce the breeding system at our facilities in Southeast Asia, as well as establish a sufficient breeding system in scale in Japan.

In addition, we are expanding our facilities and increasing our research staff, as well as building a system that can fully meet customer needs, including those of major global pharmaceutical companies. Namely, the construction of research facilities at the Kagoshima head office, which is scheduled for completion by the end of May 2024, is underway, and in April 2024 as in the previous fiscal year, the Company hired new graduate employees equivalent to 10% of its staff engaged in nonclinical business. In addition, reducing nonclinical studies lead time is an important factor for pharmaceutical companies in drug development because it creates time value. The Company is promoting automation, mechanization, and robotization of business processes, as well as digital transformation (DX), and it has formed an internal project to shorten lead times.

In TR business, the Company is conducting research on the application of its proprietary intranasal drug delivery platform technology to various drugs, while working diligently to improve the technology and research optional technologies that should be added to the base technologies. While maintaining our own base technologies, we make our own decisions on development candidates and advance the development stage to clinical trials. We then propose licensing activities and joint development with pharmaceutical companies. Satsuma, a licensee of our intranasal drug delivery platform technology, is currently preparing to resubmit an application for STS101 by the end of October, 2024, based on discussions with the FDA regarding the Complete Response Letter (CRL). In addition, we will continue to work toward bringing the product to market in order to contribute to improving the quality of life (QOL) of patients suffering from acute migraine headaches. The potential number of migraine patients in the U.S., the target market for STS101, is estimated to be 40 million (of which 8 million are prescribed migraine medications), and the market is growing. STS101 is expected to be prescribed at a high rate based on ongoing interviews with migraine specialists due to its efficacy (expectations for prescribing to patients who do not respond to existing drugs and for long-lasting efficacy), safety (can be used with peace of mind as active ingredients have been used safely in drugs that have been on the market for many years), and ease of use. High expectations were also expressed by the Key Opinion Leader (KOL) at the meeting of the American Headache Society held in the U.S. in November 2023. SNLD plans to develop on-demand drugs for Parkinson's Disease via the intranasal route globally, primarily in the U.S. Research on Nose-to-Brain delivery technology, a new application area, will focus on collecting basic data so that we can advance to the clinical research stage. In addition, for intranasal vaccines, we will first look into obtaining nonclinical POC based on formulation research and device improvement, and then aim to enter clinical trials as soon as possible for the purpose of commercialization.

For Medipolis business (Social Benefit Generation Business), in addition to the generator repairs at the geothermal power generation facility, we are preparing for selling electricity at a hot spring power generation facility utilizing the existing hotel spring source. The hospitality business supports the operation of the Medipolis Proton Therapy and Research Center while contributing to people's well-being by strengthening the hospitality mindset of SNBL through hotel operation. In addition, as part of our initiatives for SDGs/ESG, we are conducting research into the production of Japanese eels in their juvenile stage (glass eels) in artificial habitats on Okinoerabu Island.

Consolidated earnings forecasts

The consolidated earnings forecast for the fiscal year ending March 31, 2025 (April 1, 2024 to March 31, 2025, hereafter, the fiscal year ending March 31, 2025) is revenue ¥29,835 million, operating profit ¥2,350 million, ordinary profit ¥5,345 million, and profit attributable to owners parent ¥3,920 million. The assumed exchange rate is US$1 = ¥145.00.

The main reason for the forecasted decrease of ¥1,812 million (down 43.5%) in operating profit relative to the fiscal year ended March 31, 2024 is that Satsuma's expenses are expected to increase by ¥1,953 million from the fiscal year ended March 31, 2024 to ¥3,297 million. Satsuma is currently preparing to resubmit an FDA application for STS101, an intranasal therapeutic agent for migraine, and anticipates increased costs to maintain the manufacturing line at its contract manufacturer. Our CRO business combines the earnings engine of our nonclinical business with the earnings engine of our clinical business, creating a business model that cannot be imitated by competitors. The two earnings engines of the nonclinical business and clinical business are expected to expand steadily, and operating profit is forecasted to be ¥5,647 million excluding the impact of Satsuma, up 2.6% relative to the operating profit of ¥5,506 million in the fiscal year ended March 31, 2024 excluding the impact of Satsuma.

Ordinary profit is expected to decrease by ¥1,670 million (down 23.8%) from the fiscal year ended March 31, 2024 due to the expected decrease in operating profit. The share of profit of entities accounted for using equity method for the fiscal year ending March 31, 2025 for PPD-SNBL is expected to be ¥2,772 million (¥2,631 million in the fiscal year ended March 31, 2024), a consecutive record high. Excluding the impact of Satsuma and foreign exchange, the forecast for ordinary profit for the fiscal year ending March 31, 2025 increases by ¥343 million to ¥8,642 million, up 4.1% from the previous fiscal year.

Profit attributable to owners of parent is expected to decrease by ¥1,611 million (down 29.1%) from the fiscal year ended March 31, 2024. The Company foresees it to increase by ¥359 million (up 5.2%) to ¥7,233 million, excluding impacts of Satsuma, foreign exchange gains and extraordinary gains and losses.

The Company forecasts an annual dividend of ¥50 per share for the fiscal year ended March 31, 2024, based on the belief that its mainstay CRO business performed solidly, excluding the increased expenses associated with the acquisition of Satsuma. The Company expects to keep an annual dividend of ¥50 per share for the fiscal year ending March 31, 2025, as it foresees the steady growth of the two earnings engines (nonclinical business and clinical business) of its mainstay CRO business, despite the expected decline in profit due to increased expenses at Satsuma.

Please refer to the next page for principal management benchmarks (capital expenditures, depreciation, R&D expenses, and number of employees), assumptions on which the forecast is based.

[Contracts received in the nonclinical business]

(Millions of yen)

	Full-year results for the fiscal year ended March 31, 2021	Full-year results for the fiscal year ended March 31, 2022	Full-year results for the fiscal year ended March 31, 2023	Full-year results for the fiscal year ended March 31, 2024	Full-year plan for the fiscal year ending March 31, 2025
Total amount of contracts received	15,368	22,839	24,920	27,411	34,284
Of which, Japan	12,208	16,318	16,339	20,359	21,829
Of which, overseas	3,160	6,521	8,581	7,052	12,455
Order backlog	13,661	20,966	29,248	33,212	–

(Notes)

1. Results of Ina Research are included from July 1, 2022.
2. For calculation of contracts 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)

	Full-year results for the fiscal year ended March 31, 2021	Full-year results for the fiscal year ended March 31, 2022	Full-year results for the fiscal year ended March 31, 2023	Full-year results for the fiscal year ended March 31, 2024	Full-year forecasts for the fiscal year ending March 31, 2025
	From April 2020 to March 2021	From April 2021 to March 2022	From April 2022 to March 2023	From April 2023 to March 2024	From April 2024 to March 2025
Capital expenditures	1,025	1,703	5,614	8,525	10,559
Depreciation	1,187	1,177	1,544	1,774	2,751
R&D expenses	392	425	683	1,741	3,121
Number of employees at period-end (people)	986	994	1,208	1,341	1,465

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

2. Basic Policy on Selection of Accounting Standards

For the time being, the Group has decided to adopt Japanese GAAP in consideration of periodic comparability of consolidated financial statements. We intend to address adopting IFRS (International Financial Reporting Standards) as appropriate, taking into consideration various circumstances in Japan and overseas.

3. Consolidated Financial Statements and Significant Notes Thereto

(1) Consolidated balance sheet

(Thousands of yen)

	As of March 31, 2023	As of March 31, 2024
Assets		
Current assets		
Cash and deposits	10,533,094	10,274,773
Notes and accounts receivable – trade, and contract assets	4,760,363	5,778,872
Securities	–	336,724
Inventories	7,329,408	12,373,178
Other	1,342,662	2,130,226
Allowance for doubtful accounts	(65,964)	(56,062)
Total current assets	23,899,564	30,837,713
Non-current assets		
Property, plant and equipment		
Buildings and structures	24,446,367	26,568,142
Accumulated depreciation	(15,021,531)	(15,881,201)
Buildings and structures, net	9,424,835	10,686,940
Machinery, equipment and vehicles	1,953,012	1,363,822
Accumulated depreciation	(1,810,883)	(815,008)
Machinery, equipment and vehicles, net	142,129	548,813
Tools, furniture and fixtures	7,158,574	7,457,919
Accumulated depreciation	(5,719,634)	(5,450,145)
Tools, furniture and fixtures, net	1,438,939	2,007,773
Land	3,512,926	3,959,041
Leased assets	2,421,922	2,367,780
Accumulated depreciation	(889,293)	(1,110,948)
Leased assets, net	1,532,628	1,256,832
Construction in progress	2,827,829	7,898,265
Total property, plant and equipment	18,879,289	26,357,666
Intangible assets		
Goodwill	1,438,769	1,934,419
Other	260,660	224,879
Total intangible assets	1,699,429	2,159,298
Investments and other assets		
Investment securities	11,980,424	15,235,711
Long-term loans receivable	34,529	32,819
Deferred tax assets	325,757	989,998
Other	436,284	703,085
Allowance for doubtful accounts	(13,074)	(13,947)
Total investments and other assets	12,763,921	16,947,667
Total non-current assets	33,342,640	45,464,633
Total assets	57,242,205	76,302,347

(Thousands of yen)

	As of March 31, 2023	As of March 31, 2024
Liabilities		
Current liabilities		
Notes and accounts payable - trade	419,764	460,527
Short-term borrowings	8,923,211	7,826,167
Income taxes payable	603,708	1,701,128
Advances received	8,055,161	9,542,361
Other	3,009,844	4,037,708
Total current liabilities	21,011,689	23,567,894
Non-current liabilities		
Long-term borrowings	9,480,425	18,147,876
Lease liabilities	357,026	212,815
Deferred tax liabilities	–	84,939
Other	34,043	128,185
Total non-current liabilities	9,871,494	18,573,818
Total liabilities	30,883,184	42,141,712
Net assets		
Shareholders’ equity		
Share capital	9,679,070	9,679,070
Capital surplus	2,306,771	2,358,493
Retained earnings	13,766,184	17,215,849
Treasury shares	(420)	(420)
Total shareholders’ equity	25,751,605	29,252,993
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	2,596,709	3,644,434
Foreign currency translation adjustment	(2,136,482)	1,216,991
Total accumulated other comprehensive income	460,226	4,861,426
Non-controlling interests	147,188	46,215
Total net assets	26,359,021	34,160,635
Total liabilities and net assets	57,242,205	76,302,347

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

Consolidated statement of income

(Thousands of yen)

	Fiscal year ended March 31, 2023	Fiscal year ended March 31, 2024
Revenue	25,090,903	26,450,468
Cost of revenue	12,044,235	12,167,891
Gross profit	13,046,668	14,282,576
Selling, general and administrative expenses		
Remuneration for directors (and other officers)	427,558	387,968
Salaries and allowances	2,009,082	2,342,542
Retirement benefit expenses	24,737	34,114
Welfare expenses	434,478	494,598
Insurance expenses	27,297	30,416
Supplies expenses	128,343	113,359
Rent expenses	137,151	159,781
Depreciation	224,676	261,370
Travel, transportation and vehicle expenses	167,277	334,576
Commission expenses	1,025,303	1,452,970
Breeding animal maintenance expenses	871,907	1,333,403
R&D expenses	683,065	1,741,195
Provision of allowance for doubtful accounts	64,818	2,180
Other	1,575,734	1,431,739
Total selling, general and administrative expenses	7,801,434	10,120,217
Operating profit	5,245,233	4,162,359
Non-operating income		
Interest income	57,401	186,558
Dividend income	1,000	2,075
Foreign exchange gains	1,511,184	60,360
Share of profit of entities accounted for using equity method	2,489,165	2,751,809
Other	183,148	254,131
Total non-operating income	4,241,900	3,254,935
Non-operating expenses		
Interest expenses	125,060	138,783
Commission expenses	139,285	255,797
Other	28,654	6,790
Total non-operating expenses	292,999	401,371
Ordinary profit	9,194,133	7,015,923
Extraordinary income		
Gain on sale of non-current assets	11,683	4,762
Gain on sale of shares of subsidiaries and associates	34,293	–
Gain on step acquisitions	–	82,164
Total extraordinary income	45,977	86,927
Extraordinary losses		
Loss on sale and retirement of non-current assets	24,224	54,553
Impairment losses	44,358	34,629
Loss on valuation of investment securities	1,361,097	31,357
Other	50,818	7,865
Total extraordinary losses	1,480,499	128,405
Profit before income taxes	7,759,612	6,974,444
Income taxes - current	1,292,170	2,317,566
Income taxes - deferred	416,732	(860,830)
Total income taxes	1,708,903	1,456,736
Profit	6,050,708	5,517,708
Profit (loss) attributable to non-controlling interests	(9,348)	(13,553)
Profit attributable to owners of parent	6,060,057	5,531,261

Consolidated statement of comprehensive income

(Thousands of yen)

	Fiscal year ended March 31, 2023	Fiscal year ended March 31, 2024
Profit	6,050,708	5,517,708
Other comprehensive income		
Valuation difference on available-for-sale securities	2,425,940	1,047,725
Foreign currency translation adjustment	625,829	3,286,208
Share of other comprehensive income of entities accounted for using equity method	26,761	65,715
Total other comprehensive income	3,078,531	4,399,649
Comprehensive income	9,129,240	9,917,358
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	9,141,113	9,932,461
Comprehensive income attributable to non-controlling interests	(11,872)	(15,103)

(3) Consolidated statement of changes in equity

Fiscal year ended March 31, 2023 (from April 1, 2022 to March 31, 2023)

(Thousands of yen)

	Shareholders' equity				
	Share capital	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at beginning of period	9,679,070	2,306,771	10,196,329	(247)	22,181,923
Changes during period					
Profit attributable to owners of parent			6,060,057		6,060,057
Dividends of surplus			(2,497,919)		(2,497,919)
Purchase of treasury shares				(172)	(172)
Change in scope of consolidation			7,717		7,717
Change in ownership interest of parent due to transactions with non-controlling interests					
Net changes in items other than shareholders' equity					–
Total changes during period	–	–	3,569,855	(172)	3,569,682
Balance at end of period	9,679,070	2,306,771	13,766,184	(420)	25,751,605

	Accumulated other comprehensive income			Non-controlling interests	Total net assets
	Valuation difference on available-for-sale securities	Foreign currency translation adjustment	Total accumulated other comprehensive income		
Balance at beginning of period	170,768	(2,791,597)	(2,620,829)	162,011	19,723,105
Changes during period					
Profit attributable to owners of parent			–		6,060,057
Dividends of surplus					(2,497,919)
Purchase of treasury shares					(172)
Change in scope of consolidation					7,717
Change in ownership interest of parent due to transactions with non-controlling interests					
Net changes in items other than shareholders' equity	2,425,940	655,115	3,081,055	(14,822)	3,066,233
Total changes during period	2,425,940	655,115	3,081,055	(14,822)	6,635,915
Balance at end of period	2,596,709	(2,136,482)	460,226	147,188	26,359,021

Fiscal year ended March 31, 2023 (from April 1, 2023 to March 31, 2024)

(Thousands of yen)

	Shareholders' equity				
	Share capital	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at beginning of period	9,679,070	2,306,771	13,766,184	(420)	25,751,605
Changes during period					
Profit attributable to owners of parent			5,531,261		5,531,261
Dividends of surplus			(2,081,596)		(2,081,596)
Purchase of treasury shares					
Change in scope of consolidation			27,910		
Change in ownership interest of parent due to transactions with non-controlling interests		51,722			51,722
Net changes in items other than shareholders' equity					
Total changes during period		51,722	3,449,665		3,501,387
Balance at end of period	9,679,070	2,358,493	17,215,849	(420)	29,252,993

	Accumulated other comprehensive income			Non-controlling interests	Total net assets
	Valuation difference on available-for-sale securities	Foreign currency translation adjustment	Total accumulated other comprehensive income		
Balance at beginning of period	2,596,709	(2,136,482)	460,226	147,188	26,359,021
Changes during period					
Profit attributable to owners of parent					5,531,261
Dividends of surplus					(2,081,596)
Purchase of treasury shares					
Change in scope of consolidation					
Change in ownership interest of parent due to transactions with non-controlling interests					51,722
Net changes in items other than shareholders' equity	1,047,725	3,353,473	4,401,199	(100,973)	4,300,226
Total changes during period	1,047,725	3,353,473	4,401,199	(100,973)	7,801,613
Balance at end of period	3,468,824	1,216,991	4,861,426	46,215	34,160,635

(4) Consolidated statement of cash flows

(Thousands of yen)

	Fiscal year ended March 31, 2023	Fiscal year ended March 31, 2024
Cash flows from operating activities		
Profit before income taxes	7,759,612	6,974,444
Depreciation	1,544,419	1,774,323
Impairment losses	44,358	34,629
Amortization of goodwill	56,055	93,662
Increase (decrease) in allowance for doubtful accounts	75,913	(9,029)
Interest and dividend income	(58,401)	(188,634)
Interest expenses	125,060	138,783
Foreign exchange losses (gains)	(1,605,587)	(342,974)
Loss (gain) on sale of non-current assets	(11,381)	(2,180)
Loss on retirement of non-current assets	23,922	51,971
Loss (gain) on valuation of investment securities	1,361,097	31,357
Loss (gain) on sale of investment securities	(5,537)	–
Loss (gain) on sale of shares of subsidiaries and associates	(34,293)	–
Share of loss (profit) of entities accounted for using equity method	(2,489,165)	(2,751,809)
Loss (gain) on step acquisitions	–	(82,164)
Decrease (increase) in trade receivables	(937,884)	(956,875)
Decrease (increase) in inventories	(968,487)	(5,003,055)
Increase (decrease) in advances received	(714,202)	1,487,200
Increase (decrease) in trade payables	(268,242)	(177,157)
Other	(81,791)	(63,563)
Subtotal	3,815,463	1,008,928
Interest and dividends received	1,744,972	2,447,208
Interest paid	(118,420)	(125,838)
Income taxes paid	(1,437,995)	(1,223,564)
Net cash provided by (used in) operating activities	4,004,019	2,106,732
Cash flows from investing activities		
Proceeds from withdrawal of time deposits	2,448,200	1,507,400
Proceeds from sale of securities	–	1,079,491
Purchase of property, plant and equipment	(4,839,524)	(8,583,031)
Proceeds from sale of property, plant and equipment	11,757	5,288
Purchase of intangible assets	(116,191)	(22,215)
Purchase of investment securities	(1,514,290)	(240,367)
Proceeds from sale of investment securities	83,995	280,074
Purchase of shares of subsidiaries resulting in change in scope of consolidation	(1,937,239)	(850,364)
Payments from changes in ownership interests in subsidiaries that do not result in change in scope of consolidation	–	(33,622)
Other	(67,286)	(50,387)
Net cash provided by (used in) investing activities	(5,930,578)	(6,907,735)

(Thousands of yen)

	Fiscal year ended March 31, 2023	Fiscal year ended March 31, 2024
Cash flows from financing activities		
Net increase (decrease) in short-term borrowings	4,083,200	(3,903,878)
Proceeds from long-term borrowings	10,300,000	17,700,000
Repayments of long-term borrowings	(5,468,121)	(6,230,185)
Decrease (increase) in treasury shares	(172)	–
Repayments of finance lease liabilities	(198,146)	(171,916)
Dividends paid	(2,484,414)	(2,072,413)
Dividends paid to non-controlling interests	(2,950)	(2,950)
Other	36,848	–
Net cash provided by (used in) financing activities	6,266,243	5,318,656
Effect of exchange rate change on cash and cash equivalents	311,454	559,424
Net increase (decrease) in cash and cash equivalents	4,651,138	1,077,078
Cash and cash equivalents at beginning of period	4,548,792	9,197,694
Decrease in cash and cash equivalents resulting from exclusion of subsidiaries from consolidation	(2,236)	–
Cash and cash equivalents at end of period	9,197,694	10,274,773

(5) Notes to consolidated financial statements

(Notes on going concern assumption)

Not applicable.

(Changes in the scope of consolidation)

In the first quarter ended June 30, 2023, Satsuma Pharmaceuticals, Inc. was included in the scope of consolidation because of an acquisition of that company’s shares. In the second quarter ended September 30, 2023, a newly-established subsidiary company was included in the scope of consolidation. Moreover, in the third quarter ended December 31, 2023, a subsidiary was excluded from the scope of consolidation due to a merger between consolidated subsidiaries

(Changes in accounting policies)

Not applicable.

(Segment information)

(Segment information)

1. Overview of reportable segments

   The reportable segments of the Company are components of the Company for which discrete financial information is available and regularly reviewed by the CEO to make decisions about allocation of managerial resources and to assess their performance.

   We organize our business units based on the drug development process and have three reportable segments: CRO business, TR business, and Medipolis business (Social Benefits Generation Business).

   In CRO business, we use laboratory animals, cells and bacteria to confirm the efficacy and safety of study substances created mainly by pharmaceutical companies and other consignors. TR business is a business to increase added value and to commercialize by development of nasal delivery formulations and discovery of promising seed technologies and new substances derived from basic research of universities, bio-ventures and research institutes, etc., through demonstrating the basic theory in a clinical setting while conducting nonclinical and clinical studies necessary for evaluation and approval of drugs, etc. Medipolis business consists of the operation of accommodation facilities and geothermal power generation business.

2. Method of calculating revenue, profit or loss, assets, liabilities, and other items by reportable segment

   The accounting method for reported business segments is generally the same as that described in basis of presenting consolidated financial statements.

   Profits of reportable segments are based on operating profit.

   Transactions with other segments are based on prevailing market prices.

3. Information on the amounts of revenue, profit or loss, assets, liabilities, and other items by reportable segment

   Fiscal year ended March 31, 2023 (from April 1, 2022 to March 31, 2023)

(Thousands of yen)

	Reportable segments				Other (Note 1)	Total	Adjustments (Note 2)	Amount recorded on the consolidated statement of income (Note 3)
	CRO business	TR business	Medipolis business	Subtotal				
Revenue								
Revenues from external customers	23,924,368	16,480	600,834	24,541,682	549,221	25,090,903	–	25,090,903
Transactions with other segments	76,017	–	82,826	158,843	888,131	1,046,974	(1,046,974)	–
Total	24,000,385	16,480	683,660	24,700,525	1,437,353	26,137,878	(1,046,974)	25,090,903
Segment profit (loss)	6,336,629	(879,983)	(203,978)	5,252,667	110,905	5,363,572	(118,339)	5,245,233
Segment assets	28,277,141	102,622	1,980,786	30,360,550	3,605,300	33,965,851	23,276,354	57,242,205
Other items								
Depreciation	1,196,769	7,069	158,298	1,362,137	182,282	1,544,419	–	1,544,419
Share of profit (loss) of entities accounted for using equity method	2,489,360	–	–	2,489,360	(194)	2,489,165	–	2,489,165
Increase in property, plant and equipment and intangible assets	3,806,451	34,671	679,016	4,520,139	1,130,754	5,650,893	(36,292)	5,614,601

(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 ¥118,339 thousand consist of negative ¥2,097 thousand in elimination of intersegment transactions and negative ¥116,241 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. The adjustment amount of ¥23,276,354 thousand for segment assets is corporate assets that are not allocated to each reportable segment. Corporate assets consist mainly of surplus operating funds (cash and deposits, etc.) and long-term investment funds (investment securities, etc.).
3. Segment profit (loss) has been calculated upon adjusting operating profit in the consolidated statement of income.

Fiscal year ended March 31, 2024 (from April 1, 2023 to March 31, 2024)

(Thousands of yen)

	Reportable segments				Other (Note 1)	Total	Adjustments (Note 2)	Amount recorded on the consolidated statement of income (Note 3)
	CRO business	TR business	Medipolis business	Subtotal				
Revenue								
Revenues from external customers	25,660,795	11,670	477,550	26,150,016	300,452	26,450,468	–	26,450,468
Transactions with other segments	248,982	1,557	91,527	342,066	1,106,929	1,448,996	(1,448,996)	–
Total	25,909,777	13,227	569,078	26,492,082	1,407,382	27,899,465	(1,448,996)	26,450,468
Segment profit (loss)	6,998,954	(2,465,386)	(254, 432)	4,279,134	88,246	4,367,380	(205,021)	4,162,359
Segment assets	38,747,145	1,215,956	2,161,806	42,124,909	6,520,707	48,645,616	27,656,730	76,302,347
Other items								
Depreciation	1,374,924	14,845	177,057	1,566,827	207,496	1,774,323	-	1,774,323
Share of profit (loss) of entities accounted for using equity method	2,752,023	-	-	2,752,023	(214)	2,751,809	-	2,751,809
Increase in property, plant and equipment and intangible assets	4,476,802	272,276	137,584	4,886,662	3,638,958	8,525,620	-	8,525,620

(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 ¥205,021 thousand consist of negative ¥78,087 thousand in elimination of intersegment transactions and ¥126,934 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. The adjustment amount of ¥27,656,730 thousand for segment assets is corporate assets that are not allocated to each reportable segment. Corporate assets consist mainly of surplus operating funds (cash and deposits, etc.) and long-term investment funds (investment securities, etc.).
3. Segment profit (loss) has been calculated upon adjusting operating profit in the consolidated statement of income.

(Related information)

Fiscal year ended March 31, 2023 (from April 1, 2022 to March 31, 2023)

1. Information about products and services
   This information has been omitted, as identical information is disclosed in segment information.

2. Information about geographical areas
   (1) Revenue

(Thousands of yen)

Japan	U.S.A.	Korea	Other	Total
18,515,031	3,843,168	2,178,549	554,513	25,090,903

(Note) Revenue is classified by country or region based on customers' location.

   (2) Property, plant and equipment

(Thousands of yen)

Japan	U.S.A.	Other	Total
13,921,081	4,477,607	480,600	18,879,289

3. Information for each of main customers
   This information is omitted as there are no customers that account for 10% or more of revenue on the consolidated statement of income among revenues from external clients.

Fiscal year ended March 31, 2024 (from April 1, 2023 to March 31, 2024)

1. Information about products and services
   This information has been omitted, as identical information is disclosed in segment information.

2. Information about geographical areas
   (1) Revenue

(Thousands of yen)

Japan	U.S.A.	Korea	Other	Total
17,811,980	4,481,908	3,763,365	393,214	26,450,468

(Note) Revenue is classified by country or region based on customers' location.

   (2) Property, plant and equipment

(Thousands of yen)

Japan	U.S.A.	Other	Total
17,379,119	8,586,065	392,481	26,357,666

3. Information for each of main customers
   This information is omitted as there are no customers that account for 10% or more of revenue on the consolidated statement of income among revenues from external clients.

(Disclosure of impairment losses on non-current assets for each reportable segment)

Fiscal year ended March 31, 2023 (from April 1, 2022 to March 31, 2023)

(Thousands of yen)

	Group total or entity total						
	Reportable segments				Other	Unallocated amounts and elimination	Total
	CRO business	TR business	Medipolis business	Subtotal			
Impairment losses	–	2,351	33,047	35,398	–	8,959	44,358

Fiscal year ended March 31, 2024 (from April 1, 2023 to March 31, 2024)

(Thousands of yen)

	Group total or entity total						
	Reportable segments				Other	Unallocated amounts and elimination	Total
	CRO business	TR business	Medipolis business	Subtotal			
Impairment losses	-	32,220	-	32,220	2,409	-	34,629

(Note) Amounts in "Unallocated amounts and elimination" are impairment losses associated with corporate assets that do not attribute to a particular segment.

(Amortization and unamortized balance of goodwill for each reportable segment)

Fiscal year ended March 31, 2023 (from April 1, 2022 to March 31, 2023)

(Thousands of yen)

	Group total or entity total						
	Reportable segments				Other	Unallocated amounts and elimination	Total
	CRO business	TR business	Medipolis business	Subtotal			
Amortization during the period	56,055	–	–	56,055	–	–	56,055
Unamortized balance at end of the period	1,438,769	–	–	1,438,769	–	–	1,438,769

Fiscal year ended March 31, 2024 (from April 1, 2023 to March 31, 2024)

(Thousands of yen)

	Group total or entity total						
	Reportable segments				Other	Unallocated amounts and elimination	Total
	CRO business	TR business	Medipolis business	Subtotal			
Amortization during the period	74,741	18,921	-	93,662	-	-	93,662
Unamortized balance at end of the period	1,364,027	570,391	-	1,934,419	-	-	1,934,419

(Information about gain on bargain purchase for each reportable segment)

Not applicable.

(Business combinations)

Business combination through acquisition

(1) Overview of business combination

(i) Name and description of business of the acquired company

Name of the acquired company: Satsuma Pharmaceuticals, Inc. ("Satsuma")

Description of business: Development of nasal migraine treatments

(ii) Primary reasons for the business combination

Satsuma is a drug discovery venture founded in the US in 2016 and listed on the US NASDAQ market in September 2019. Satsuma is developing STS101, a migraine drug candidate based on application of licensing the Company's proprietary intranasal administration basic technology. It has completed Phase III clinical trials and been working to obtain approval of a New Drug Application (NDA) from the US FDA.

With the acquisition of Satsuma, the Company acquired the exclusive worldwide development, manufacturing and marketing rights for STS101 to strengthen the basic technology in the Company's TR business.

(iii) Date of business combination June 8, 2023

(iv) Legal form of the business combination Share acquisition in consideration of cash

(v) Company name after combination No change.

(vi) Ratio of voting rights acquired

Ratio of voting rights held immediately before acquisition	8.4% (including 0.7% indirectly)
Ratio of voting rights additionally acquired on the date of business combination	91.6%
Ratio of voting rights after acquisition	100.0%

(vii) Main grounds for determining the acquiring company

The Company acquired the shares for cash as consideration.

(2) Period of financial results of the acquired company included in the consolidated statement of income for the fiscal year ended March 31, 2024

From July 1, 2023 to December 31, 2023

(3) Acquisition cost of the acquired company and breakdown of consideration by type

Market value of shares held immediately before the business combination, at the date of the business combination	¥343,352 thousand
Cash and deposits	¥3,910,870 thousand
Total	¥4,254,223 thousand

(4) Content and amount of major acquisition-related costs

Advisory fees ¥207,934 thousand

(5) Difference between acquisition cost of the acquired company and total amount of acquisition costs as the result of a series of transactions to purchase shares of the acquired company

Gain on step acquisitions ¥82,164 thousand

(6) Amount of goodwill, reason for recognition, amortization method and amortization period

(i) Amount of goodwill incurred ¥601,861 thousand

(ii) Reasons for the goodwill incurred

Goodwill was incurred from expected excess earnings power in the future arising from further business development.

(iii) Amortization method and period

Goodwill will be amortized in equal amounts over 16 years.

The allocation of the acquisition cost of the acquired company was accounted for on a provisional basis, and finalized at the end of the financial year ended March 31, 2024.

(7) Amounts of assets acquired and liabilities assumed and the major components thereof

(i) Details of preconditioned acquisition price

Preconditioned consideration is to be paid based on the level of achievement of future performance of the acquired company.

(ii) Accounting policy applied to the financial statements of the financial year commencing on and after completion of business combination.

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.

(8) Amounts of assets acquired and liabilities assumed on the date of the business combination, and the major components thereof

Current assets	¥4,516,696 thousand
Non-current assets	¥383,816 thousand
Total assets	¥4,900,513 thousand
Current liabilities	¥1,016,757 thousand
Non-current liabilities	¥63,820 thousand
Total liabilities	¥1,080,577 thousand

(Per share information)

(Yen)

	Fiscal year ended March 31, 2023 (from April 1, 2022 to March 31, 2023)	Fiscal year ended March 31,2024 (from April 1, 2023 to March 31, 2024)
Net assets per share	629.60	819.42
Basic earnings per share	145.56	132.86

(Note) Diluted earnings per share for the previous fiscal year and the fiscal year under review are not shown in the above table, as there are no dilutive shares.

2. The basis for calculation of net assets per share is as follows.

	As of March 31, 2023	As of March 31, 2024
Total net assets (thousand yen)	26,359,021	34,160,635
Net assets related to common stock at the end of the period (thousand yen)	26,211,832	34,160,635
Breakdown of the difference (thousand yen)		
Non-controlling interests	147,188	46,215
Number of shares of common stock used for calculation of net assets per share at the end of the period (thousand shares)	41,631	41,631

3. The basis for calculation of basic earnings per share is as follows.

	Fiscal year ended March 31, 2023 (from April 1, 2022 to March 31, 2023)	Fiscal year ended March 31,2024 (from April 1, 2023 to March 31, 2024)
Profit attributable to owners of parent (thousand yen)	6,060,057	4,928,961
Amount not attributable to common shareholders (thousand yen)	–	–
Profit attributable to owners of parent pertaining to common shares (thousand yen)	6,060,057	4,928,961
Average number of shares of common stock during the period (thousand shares)	41,631	41,631

(Subsequent events)

Not applicable.