



**CellSource**

# Earnings Presentation

## Q2 FY10/2024

CellSource Co., Ltd (TSE Prime: 4880)

June 13, 2024

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- 3 Business Strategy for Contract Processing Service in Orthopedics
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# Message from CEO

## Understand our operating field and current conditions Redefine the true strengths of CellSource

### Commitment to on-site engagement

- Visited 22 clinics nationwide and engaged in dialogue with about 40 physicians and nurses
- Attended patient consultations to understand their needs
- Learned about clinics' back office operations
- Held individual discussions with all employees to identify on-site challenges

### Necessary actions

- Provide services tailored to the needs of partner medical institutions
- Enhance the allocation of sales resources and operations
- Step up sales activities targeting hybrid medical institutions and expand collaboration with medical institutions specializing in self-funded treatment

### New understanding

- Our business exists in the ecosystem where patients, physicians, nurses, and professional staff are connected through trust
- Our goal is to improve QOL of everyone in the healthcare field, including patients
- Respect and appreciation for the healthcare frontliners is the driving force behind our business

CellSource's greatest strength is our network with **the healthcare frontliners**  
**based on strong, trusting relationships**

Recognition of the current situation and path to transformation observed in five months  
 Will announce strategies for discontinuous growth as part of the medium-term management plan

|                              |  | Current situation   | Direction for transformation   | Analysis of current situation and update for the current term  |
|------------------------------|--|---|--|--|
| Contract processing business | Orthopedic clinics specializing in self-funded treatment | <ul style="list-style-type: none"> <li>Dependent on the success or failure of marketing by medical institutions</li> <li>High volatility</li> </ul> | <ul style="list-style-type: none"> <li>Strengthen collaboration with orthopedic clinics specializing in self-funded treatment</li> <li>Bolster sales activities targeting hybrid orthopedic clinics</li> <li>Enhance product competitiveness, including by offering PFC-FD™ (2.0)</li> </ul> | <ul style="list-style-type: none"> <li>Business strategy for the contract processing service in orthopedics <a href="#">p.16-27</a></li> <li>Launch of PFC-FD™ (2.0) <a href="#">p.28</a></li> <li>Improvement in daily average number of contract processing orders <a href="#">p.34, 35</a></li> </ul> |
|                              | Hybrid orthopedics clinics                               | <ul style="list-style-type: none"> <li>Substantial room for growth</li> <li>Low volatility</li> </ul>   |  |  |
| New business                 | New business   | <ul style="list-style-type: none"> <li>No earnings contributions</li> </ul>   | <ul style="list-style-type: none"> <li>Continue making strategic investments in new businesses with focus and discipline</li> </ul>  | <ul style="list-style-type: none"> <li>Progress in other businesses <a href="#">p.37-39</a></li> </ul>   |
| Cost structure               | Operating costs  | <ul style="list-style-type: none"> <li>Increased, due to CPC and head office relocation</li> </ul>  | <ul style="list-style-type: none"> <li>Ensure stable operations following the relocation and consolidation of CPC in FY10/2024</li> </ul>  | <ul style="list-style-type: none"> <li>SG&amp;A expenses <a href="#">p.12</a></li> </ul>   |
|                              | Strategic investments                                    | <ul style="list-style-type: none"> <li>Insufficient assessment of cost effectiveness for each cost item</li> </ul>                                  | <ul style="list-style-type: none"> <li>Continue making strategic investments in new businesses with focus and discipline</li> </ul>  | <ul style="list-style-type: none"> <li>Status of strategic investments <a href="#">p.13</a></li> </ul>   |

# Financial Results for Q2 FY10/2024

## Net Sales

JPY **2.22** billion  
(+2.6% YoY)

## Operating Profit

JPY **281** million  
(-57.3% YoY)

## Profit

JPY **299** million  
(-26.8% YoY)

## Operating Profit Margin

**12.6%**  
(-17.8pt YoY)

## Blood-derived product contract processing orders

**10,516**  
(-14.9% YoY)

## ASC contract processing orders

**739**  
(-28.6% YoY)

| [Millions of yen]       | Q1<br>FY10/2024 | Q2<br>FY10/2024 | QoQ     | 1H<br>FY10/2023 | 1H<br>FY10/2024 | YoY     | Full-year<br>forecast | Progress |
|-------------------------|-----------------|-----------------|---------|-----------------|-----------------|---------|-----------------------|----------|
| Net sales               | 1,173           | 1,054           | -10.3%  | 2,170           | 2,227           | +2.6%   | 5,368                 | 41.5%    |
| Gross profit            | 763             | 661             | -13.4%  | 1,542           | 1,424           | -7.6%   | -                     | -        |
| Gross profit margin     | 65.1%           | 62.7%           | -2.4pt  | 71.1%           | 64.0%           | -7.1pt  | -                     | -        |
| Operating profit        | 205             | 75              | -63.3%  | 659             | 281             | -57.3%  | 1,003                 | 28.0%    |
| Operating profit margin | 17.5%           | 7.2%            | -10.3pt | 30.4%           | 12.6%           | -17.8pt | -                     | -        |
| Ordinary profit         | 208             | 179             | -13.7%  | 650             | 388             | -40.3%  | 1,037                 | 37.4%    |
| Profit                  | 143             | 156             | +8.5%   | 410             | 299             | -26.8%  | 719                   | 41.7%    |

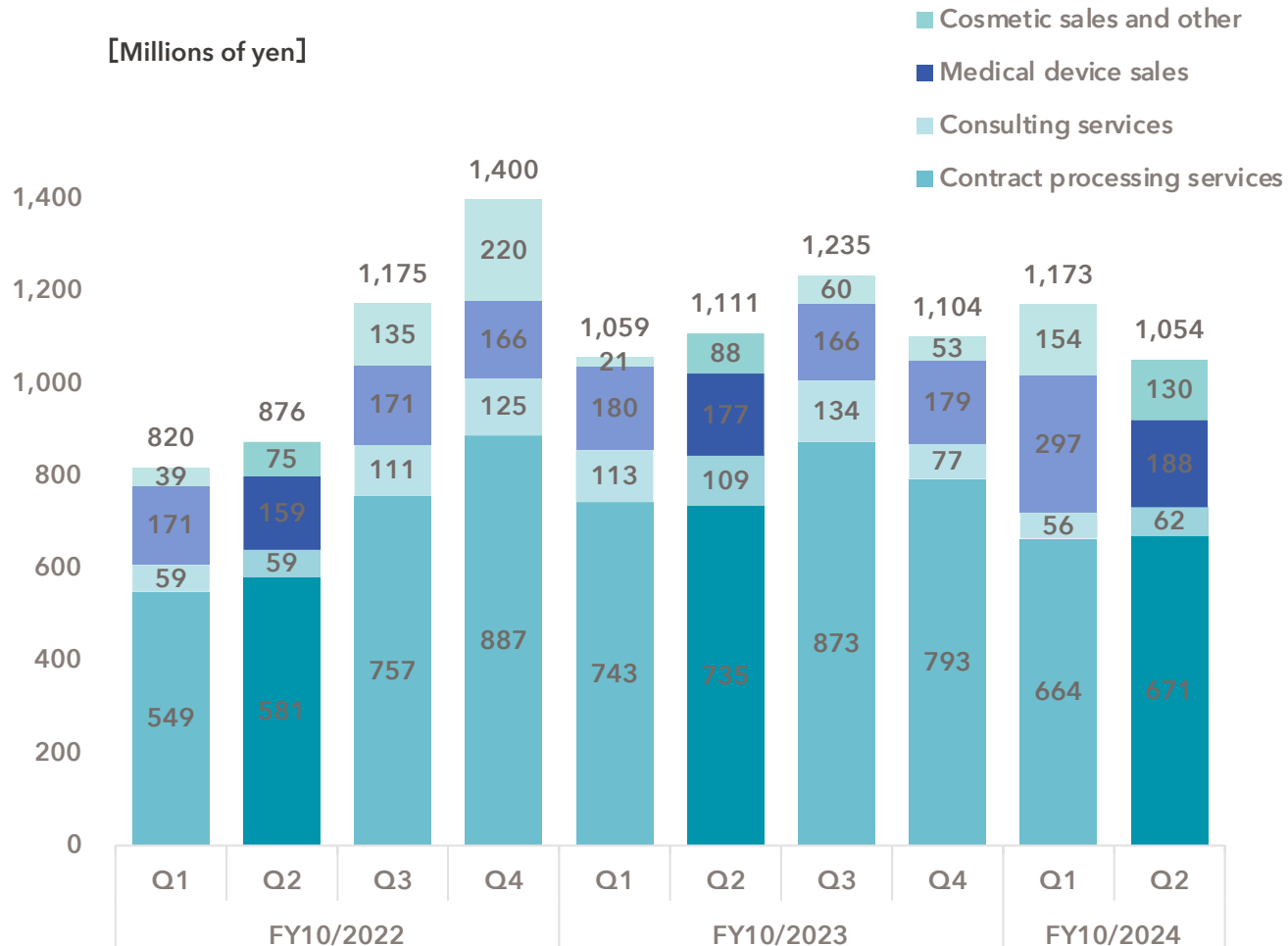
|  |       |       |       |        |        |        |
|--|-------|-------|-------|--------|--------|--------|
| Blood-derived product contract processing orders | 5,314 | 5,202 | -2.1% | 12,363 | 10,516 | -14.9% |
| ASC contract processing orders                   | 371   | 368   | -0.8% | 1,035  | 739    | -28.6% |

- **Net sales:** Net sales fell 10.3% QoQ, as sharp sales declines in medical device and cosmetics sales more than offset a slight increase in contract processing sales.
- **GPM:** GPM declined 2.4pt QoQ, due to lower GPM for cosmetics sales.
- **OPM:** SG&A expenses, mainly personnel expenses, increased QoQ. OPM fell 10.3pt, due to lower gross profit and higher SG&A expenses.
- **Profit:** Profit increased 8.5% QoQ, owing to gain on sales of investment securities and subsidy income.
- **No. of contract processing orders:** Orders have rebounded since April due to the launch of PFC-FM™ (2.0), but Q2 orders fell QoQ because of sluggish performance in February, when medical institutions had fewer business days than in other months.



Contract processing sales, which had declined for two consecutive quarters, hit bottom, with contract processing orders on a recovery track.

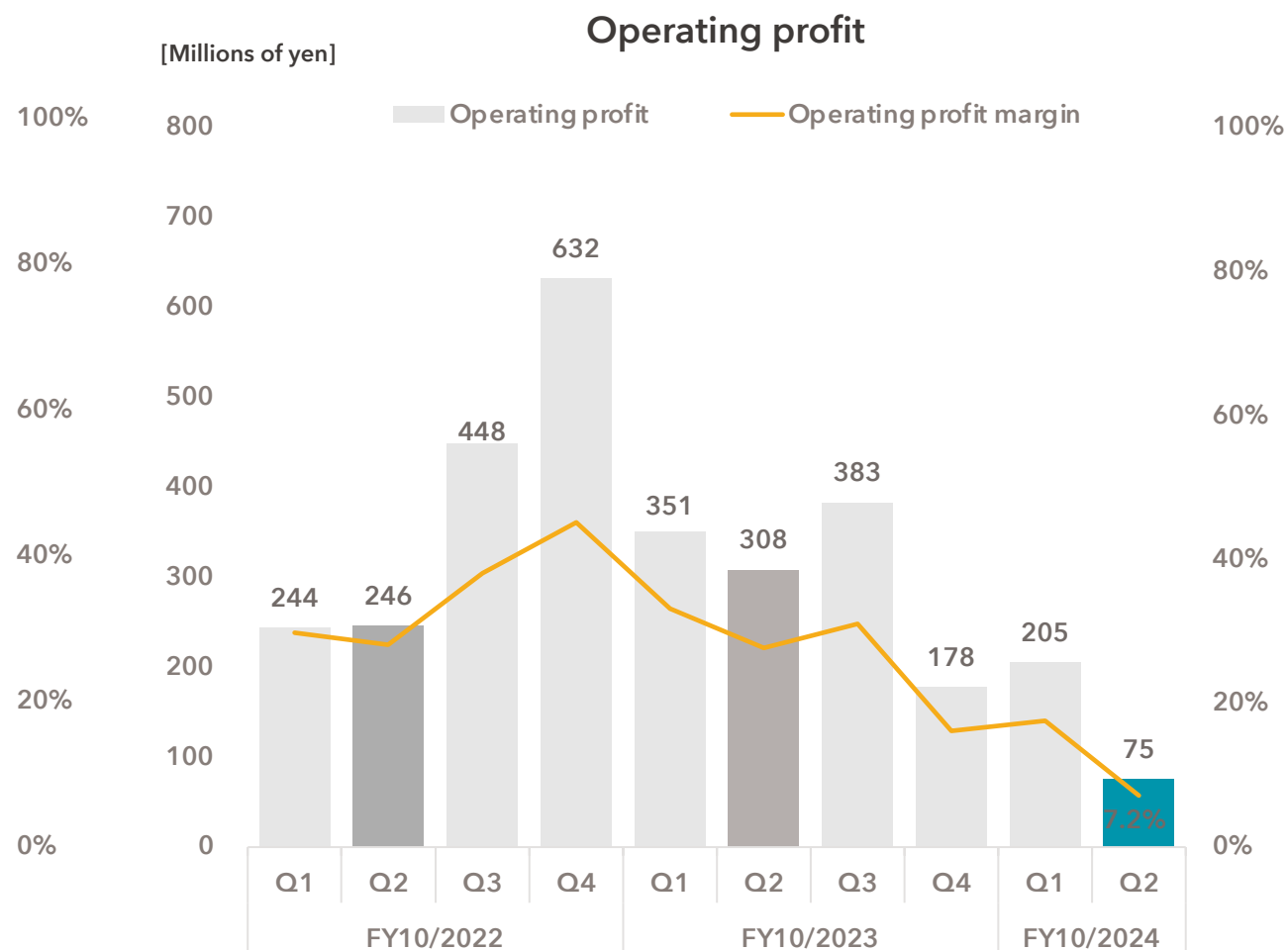
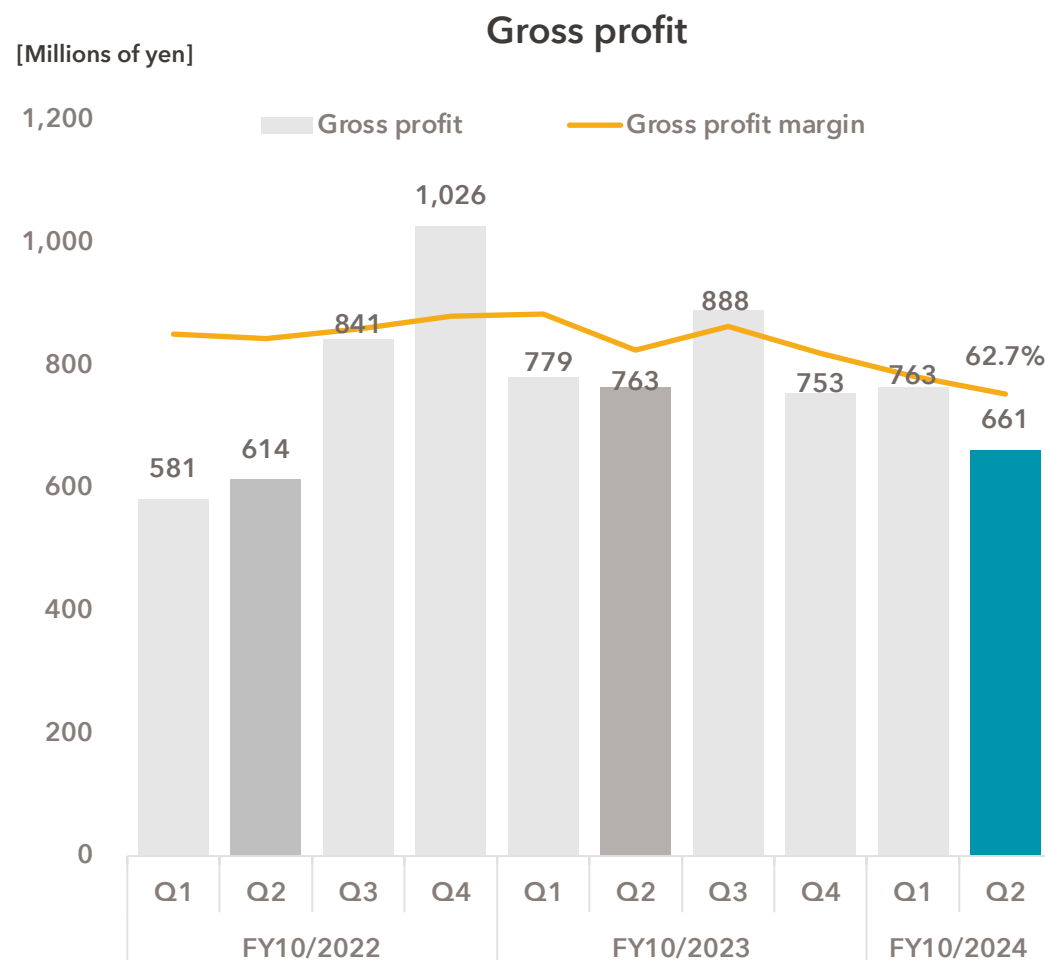
Net sales were down QoQ, due to a contraction in medical device sales from a sharp expansion in Q1.



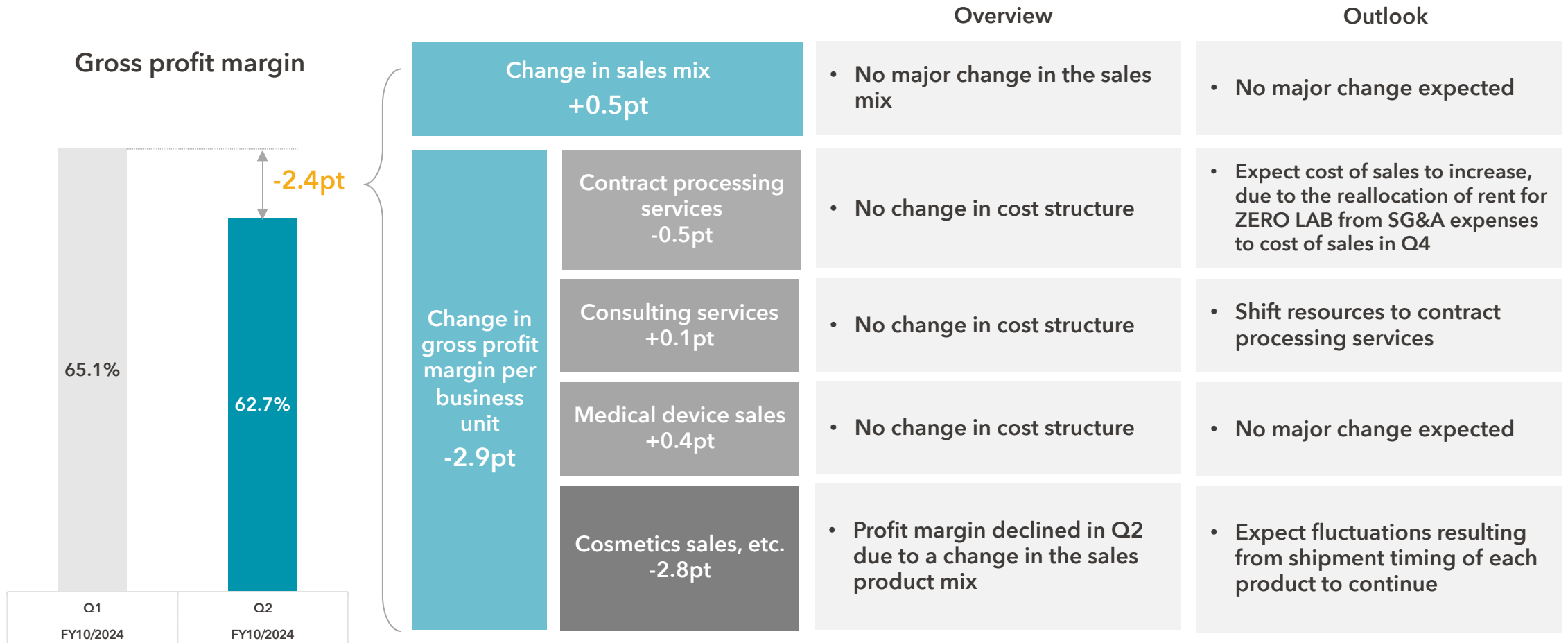
|                                     | 1H FY10/2023 | 1H FY10/2024 | YoY            |
|-------------------------------------|--------------|--------------|----------------|
| <b>Total</b>                        | <b>2,170</b> | <b>2,227</b> | <b>+2.6%</b>   |
| <b>Contract processing services</b> |              |              |                |
|                                     | <b>1,478</b> | <b>1,336</b> | <b>-9.6%</b>   |
| <b>Consulting services</b>          |              |              |                |
|                                     | <b>222</b>   | <b>119</b>   | <b>-46.3%</b>  |
| <b>Medical device sales</b>         |              |              |                |
|                                     | <b>358</b>   | <b>486</b>   | <b>+35.6%</b>  |
| <b>Cosmetic sales and other</b>     |              |              |                |
|                                     | <b>110</b>   | <b>285</b>   | <b>+157.9%</b> |

Millions of yen

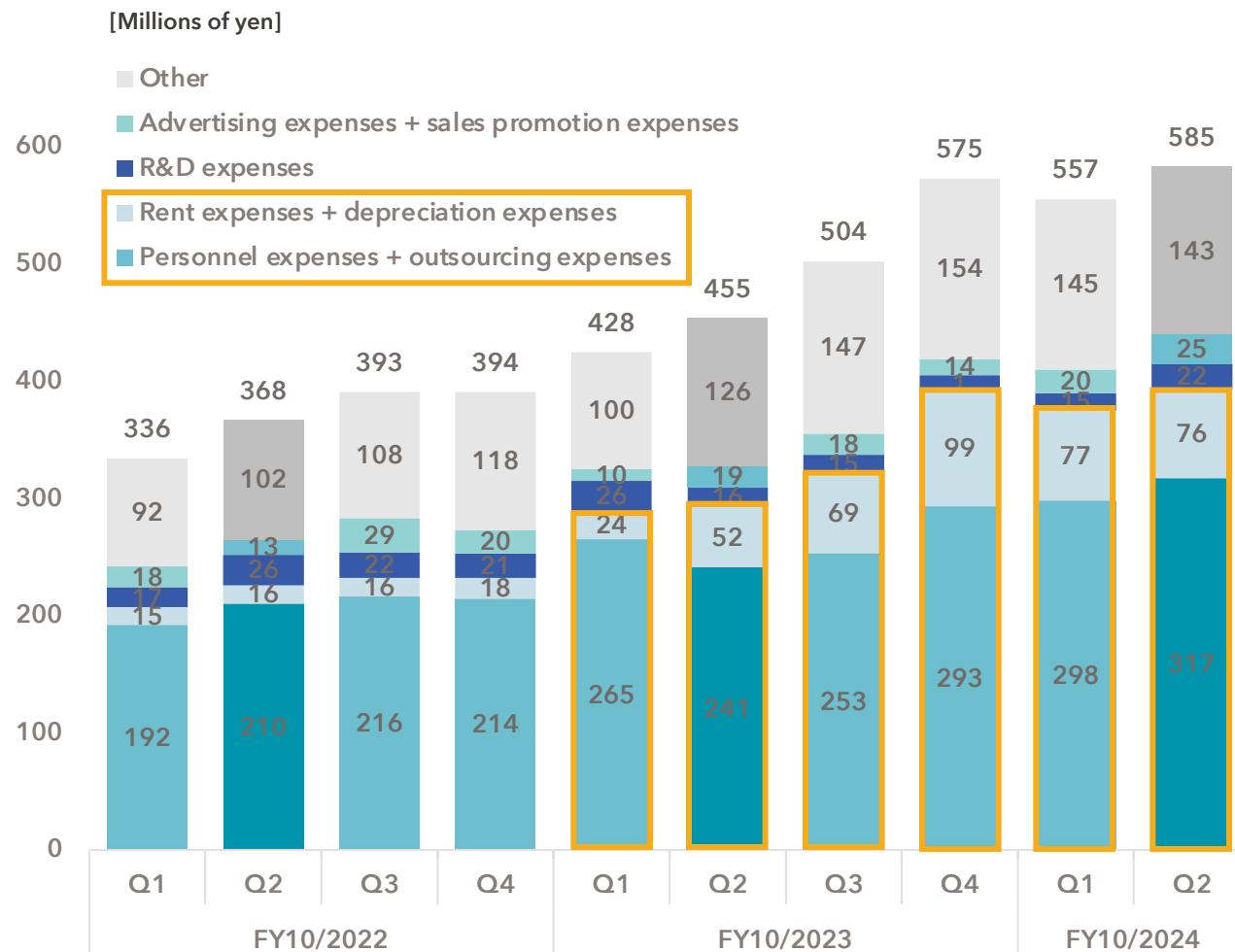
The QoQ decline in GPM was due to a drop in profitability of cosmetics sales (pg.11).  
 The downturn in OPM was mainly due to expenses for the new office and strategic investments (pg. 12, 13).



The QoQ decline in GPM was mainly due to a change in the sales mix in the cosmetics sales business. We do not project any major factor that would push up fixed costs, other than real estate-related expenses for ZERO LAB expected from Q4 onward.

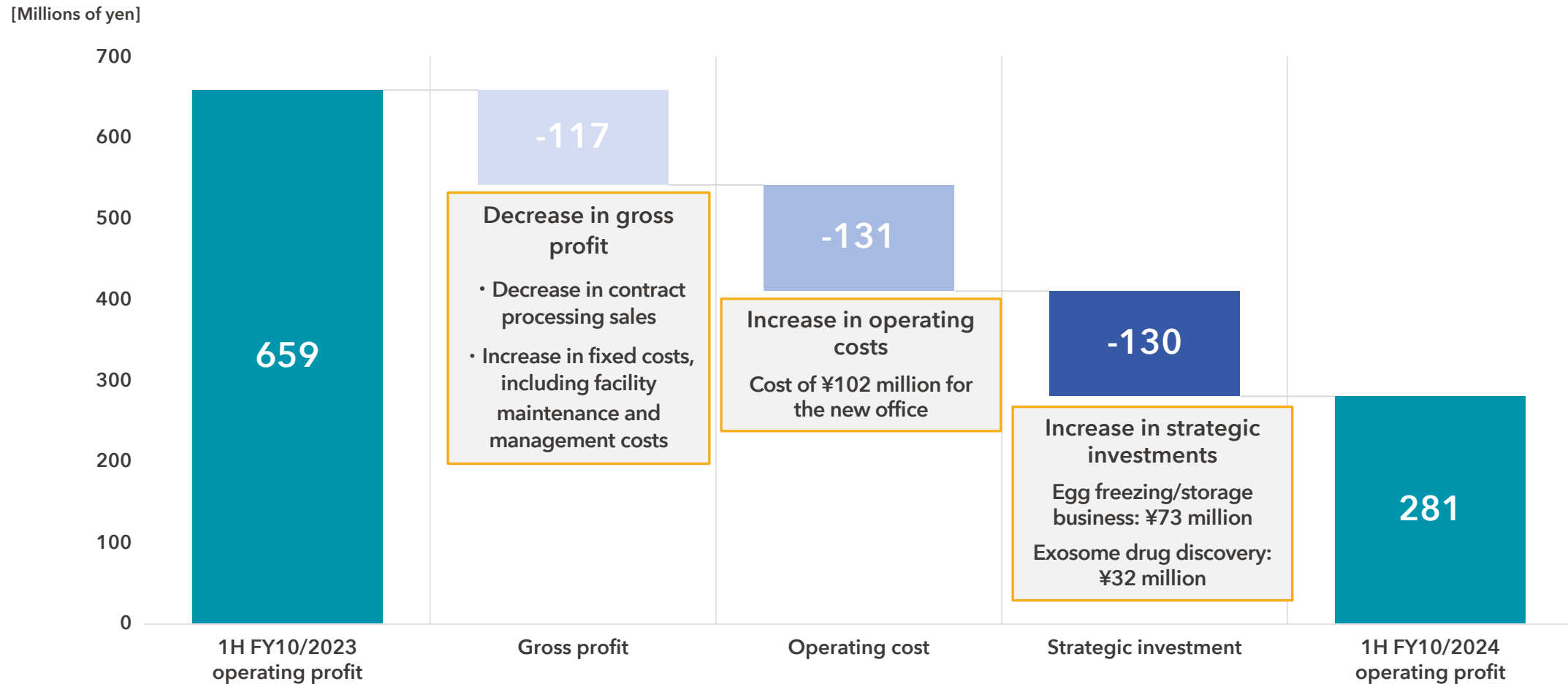


## Infrastructure for growth now in place following staff additions, office relocation, and acquisition of new production facility



|  | 1H FY10/2023 | 1H FY10/2024 | YoY            |
|--|--------------|--------------|----------------|
| <b>Total</b>   | <b>883</b>   | <b>1,143</b> | <b>+29.4%</b>  |
| Millions of yen  |              |              |                |
| <b>Personnel expenses + outsourcing expenses</b>       | <b>506</b>   | <b>616</b>   | <b>+21.7%</b>  |
| <b>Rent expenses + depreciation expenses</b>           | <b>76</b>    | <b>154</b>   | <b>+101.0%</b> |
| <b>R&amp;D expenses</b>                                | <b>43</b>    | <b>37</b>    | <b>-11.8%</b>  |
| <b>Advertising expenses + sales promotion expenses</b> | <b>30</b>    | <b>45</b>    | <b>+50.8%</b>  |
| <b>Other</b>   | <b>226</b>   | <b>288</b>   | <b>+27.6%</b>  |

Of operating costs\*<sup>1</sup>, we expect the increase in fixed costs, including rent for the new office, to be limited.  
 We plan to make strategic investments\*<sup>2</sup>, including R&D expenses earmarked for 2H, with discipline.

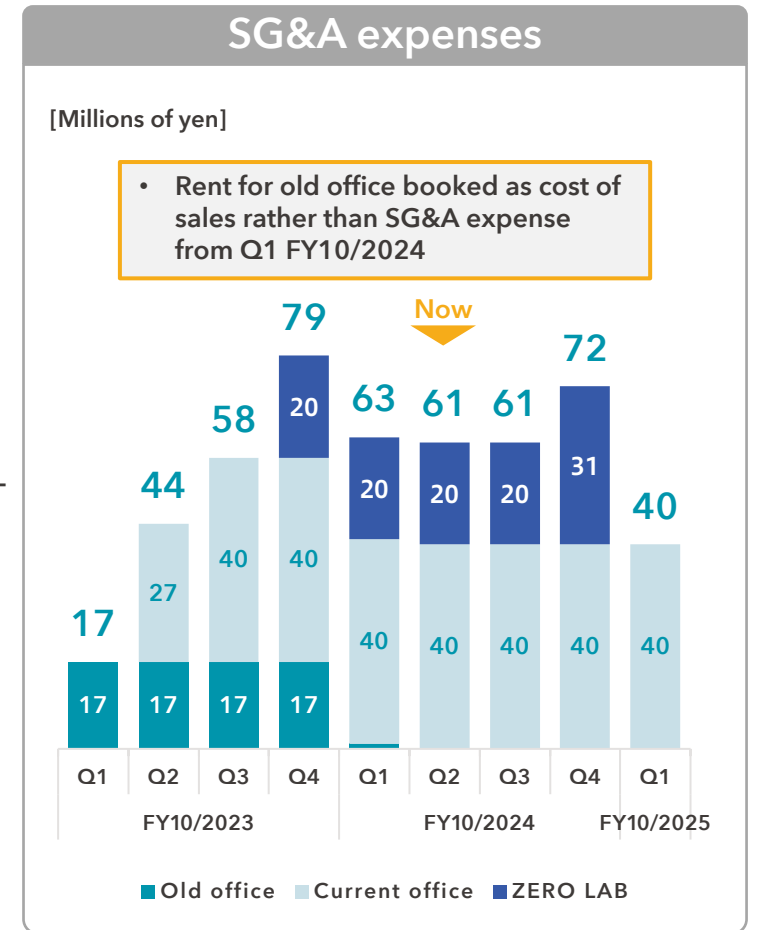
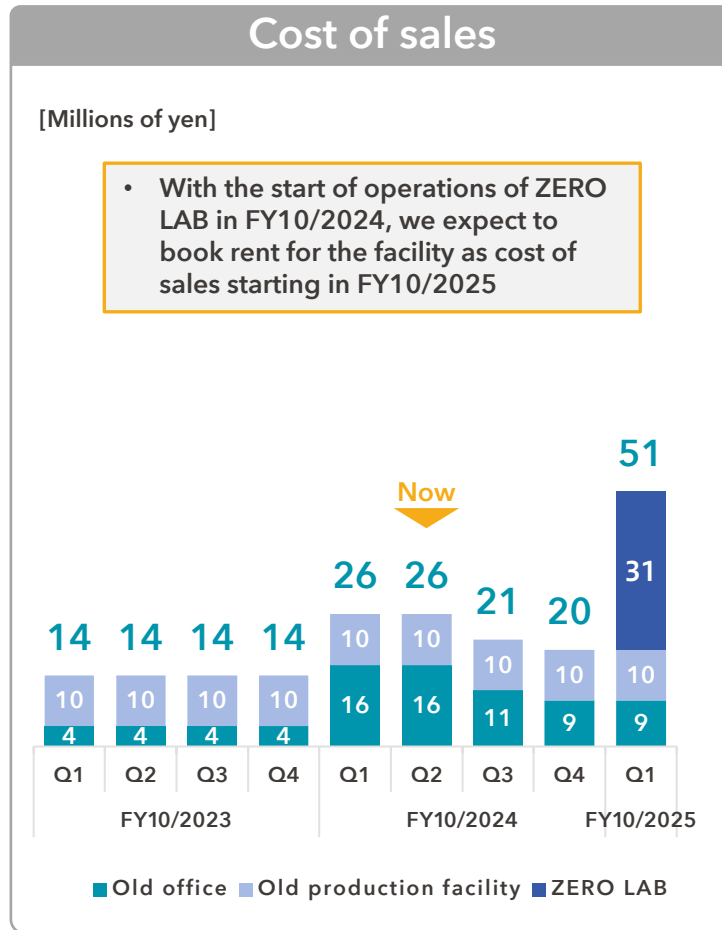
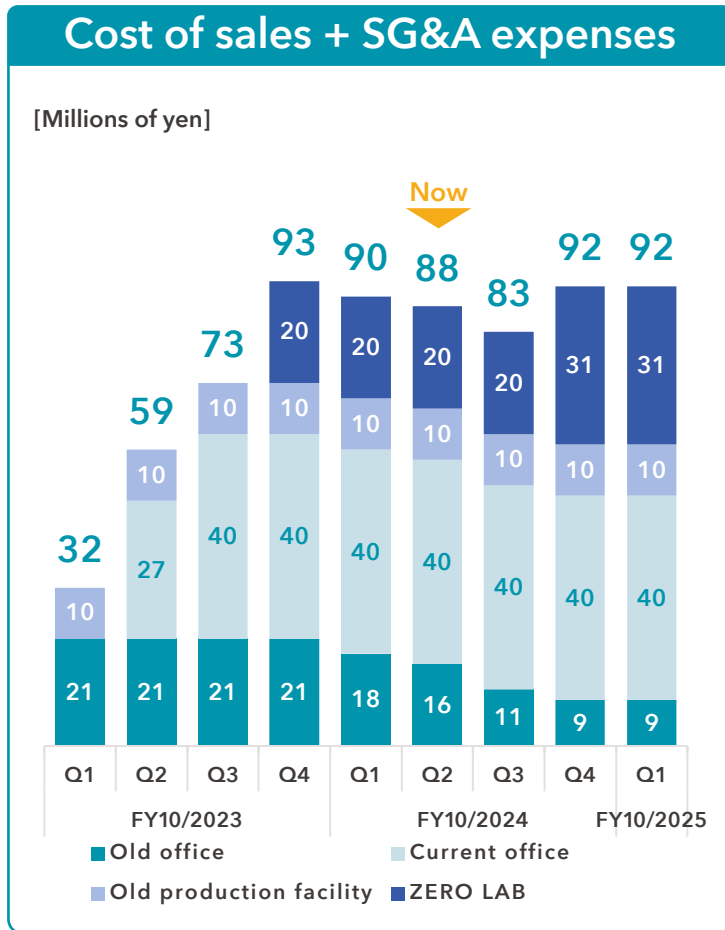


\*1: SG&A expenses excluding strategic investments

\*2: Of SG&A expenses, costs for the egg freezing and storage service, exosome drug discovery, overseas business, and management/HR strategies

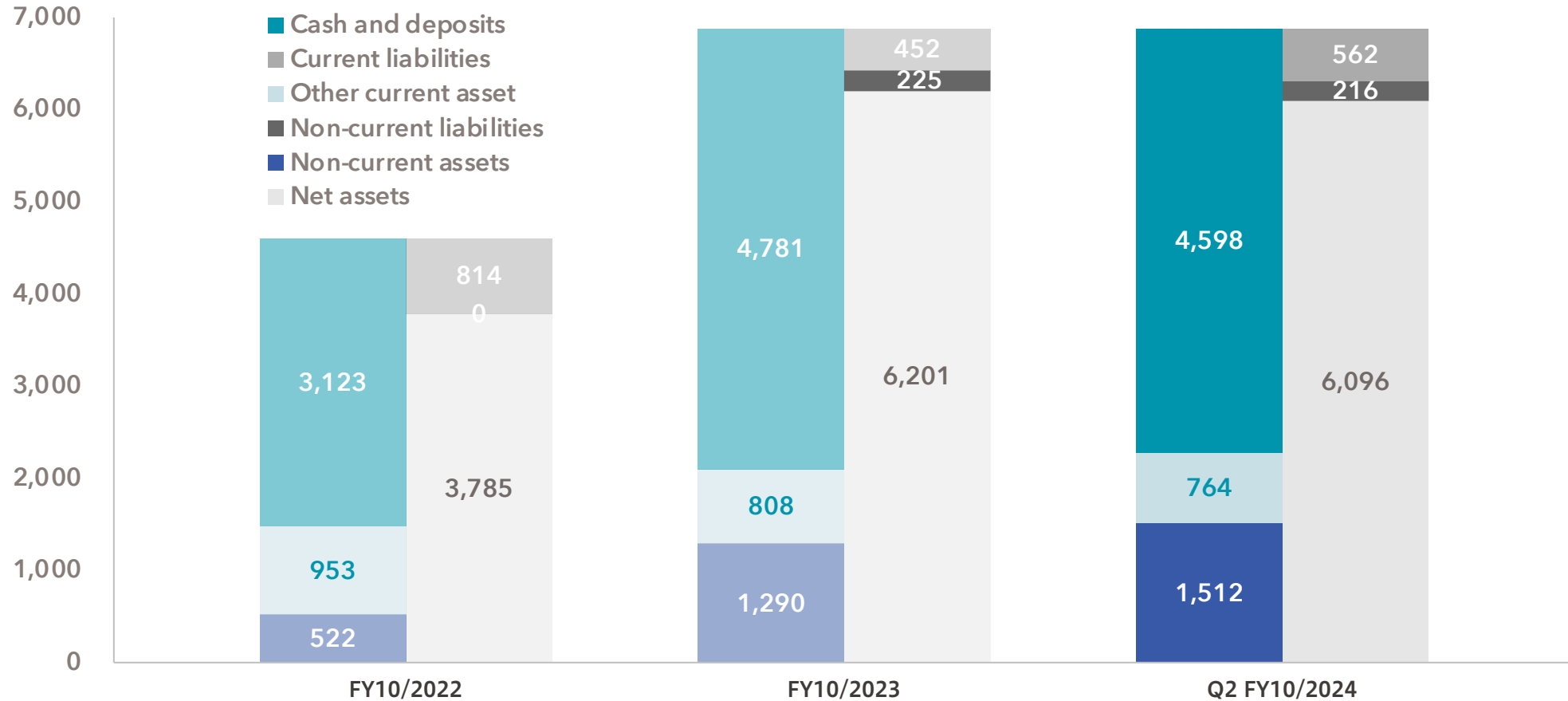
Expect to start booking rent for ZERO LAB, previously booked as SG&A expenses, as cost of sales in FY10/2024, with the start of the facility's operations

Expect rents under SG&A expenses to decline due to our moving out from the old office and production facility



Non-current assets increased due to assets related to the new office. Maintained a robust financial base.  
 Plan to announce future cash allocation policy along with the medium-term management plan.

[Millions of yen]



# Business Strategy for Contract Processing Service in Orthopedics



## Target markets

Given the large number of knee osteoarthritis patients, we understand the market potential is enormous. We believe regenerative medicine therapies can fill the gap in patient needs as an approach that differs from conventional therapies.

## Framework of business strategies

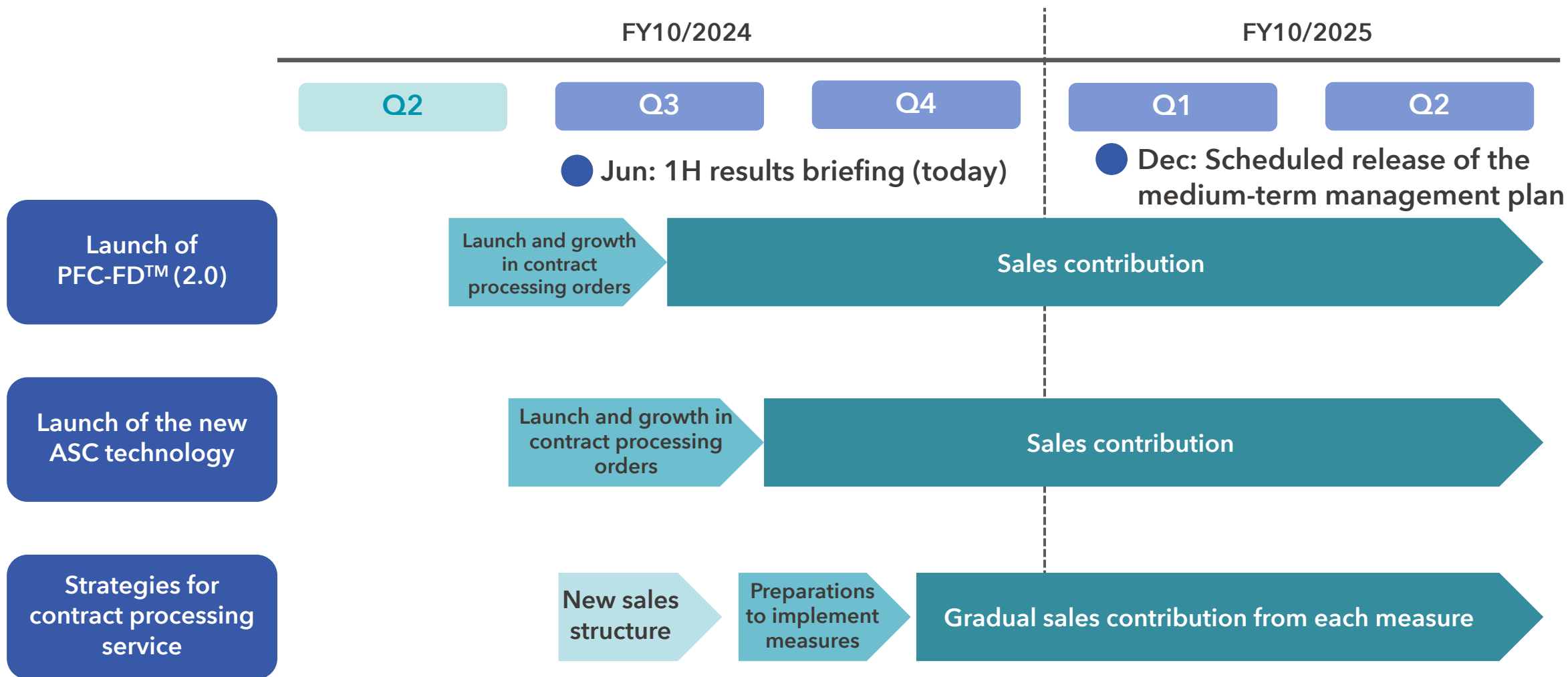
Partner medical institutions in the orthopedics field are steadily increasing, but there is still room for growth in “the number of orders per clinic” for hybrid medical institutions.

We intend to lower the priority of acquiring new partner medical institutions for now, and focus instead on increasing “the number of orders per active medical institution” by bolstering support for existing partner medical institutions.

## Growth of PFC-FD™ (2.0)

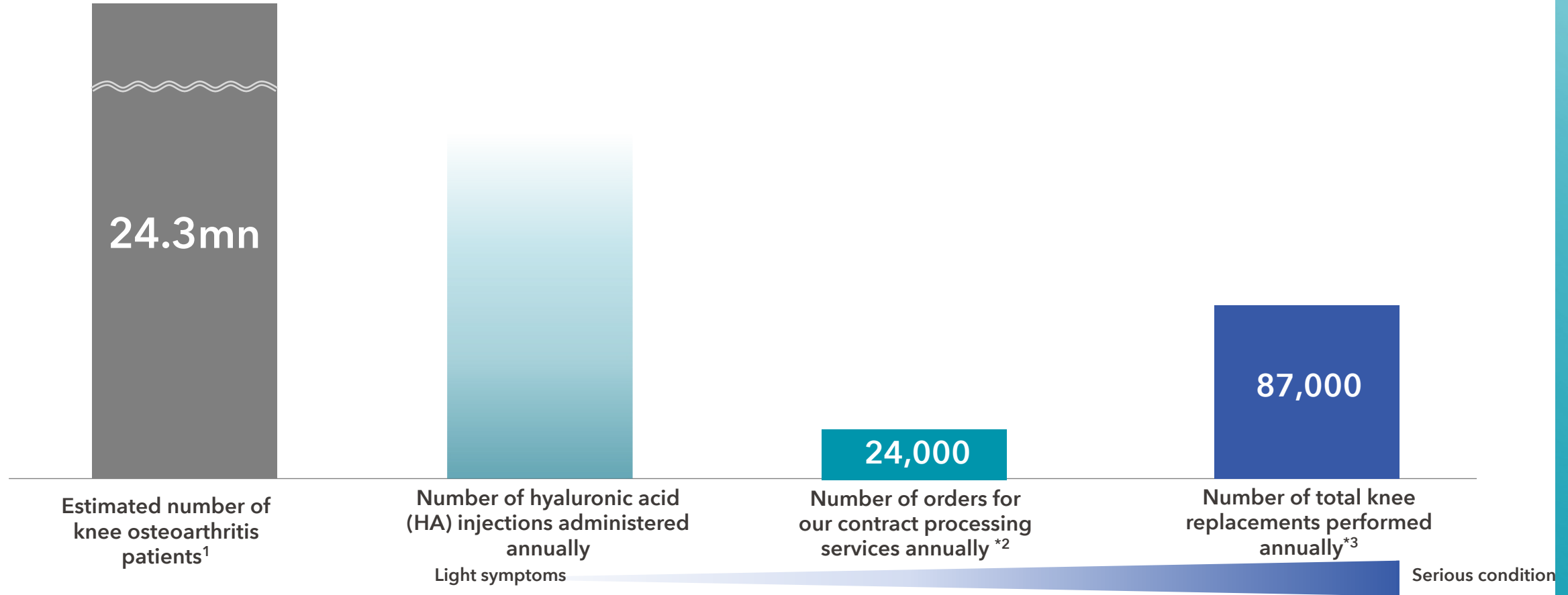
PFC-FD™ (2.0) is contributing to order growth at medical institutions specializing in self-funded treatment and hybrid medical institutions, and orders from hybrid medical institutions reached the highest level for the fiscal year for two consecutive months in April and May.

Plan to implement strategies for the contract processing business in 2H  
 Aim to be able to disclose some results along with the medium-term management plan



Considering the estimated number of knee osteoarthritis patients and the number of total knee replacements performed, there exists a massive potential market.

Regenerative medicine including our ASC, and PFC-FD™ will replace or supplement existing therapies to fill the gap in meeting patient needs.



\*1: Yoshimura N et al. Prevalence of knee osteoarthritis, lumbar spondylosis and osteoporosis in Japanese men and women : the Research on Osteoarthritis/osteoporosis Against Disability (ROAD) . J Bone Miner Metab. 2009 ; 27 : 620-8.

\*2: Based on order data for the Company's contract processing services in orthopedics in May 2023-April 2024

\*3: Total number of joint (knee) replacements performed based on the Japanese Orthopaedic Association's JOANR Annual Report 2022 ([https://www.joa.or.jp/joa/files/JOANR\\_annual\\_report\\_2022.pdf](https://www.joa.or.jp/joa/files/JOANR_annual_report_2022.pdf))

Partner medical institutions in the orthopedics field steadily increased, but there is still room for growth for the active ratio among hybrid medical institutions and orders per active medical institutions.

|  | Self-funded treatment*2 | Hybrid*3       | Overall        |
|--|-------------------------|----------------|----------------|
| No. of partner medical institutions          | 16 clinics              | 1,304 clinics  | 1,320 clinics  |
| ×  |                         |                |                |
| Active ratio*4 (annual)                      | 100%                    | 58%            | 58%            |
| ×  |                         |                |                |
| No. of orders per active medical institution | 792 orders/year         | 11 orders/year | 27 orders/year |
|  |                         |                |                |
| Total orders                                 | 12,674                  | 7,985          | 20,659         |

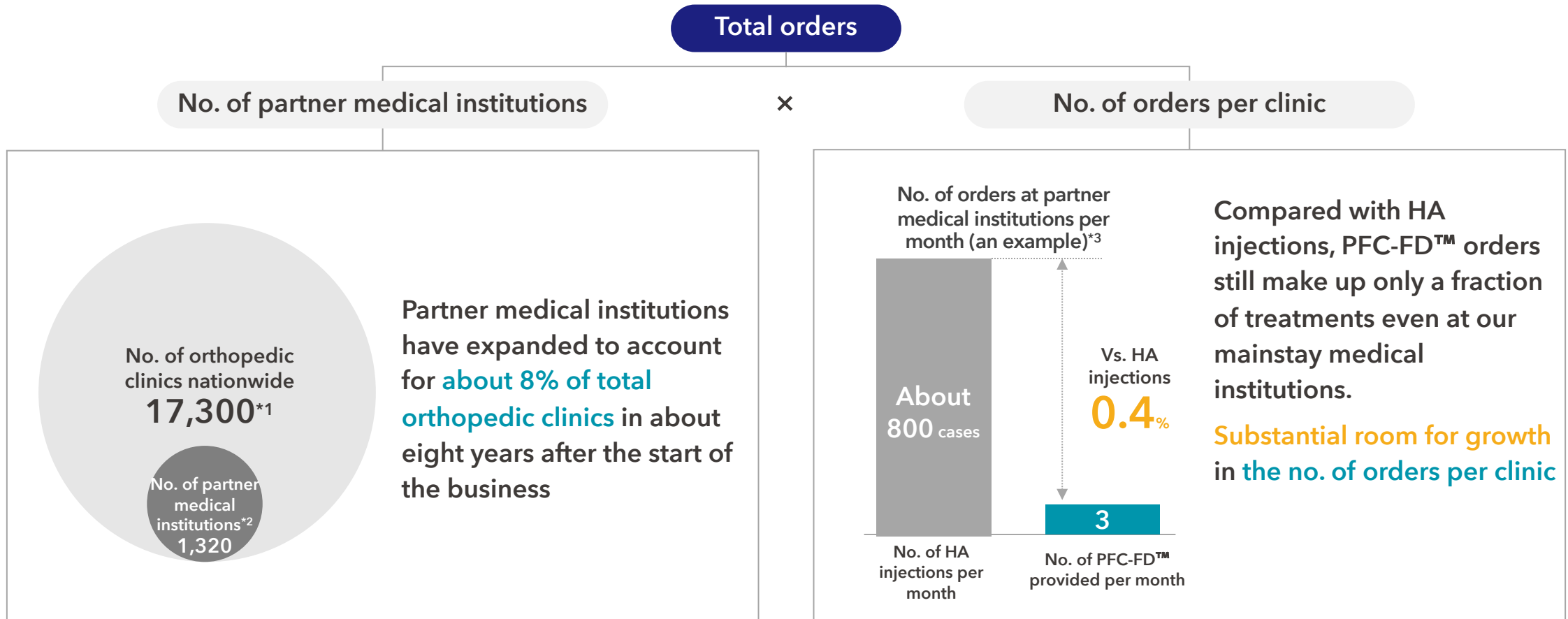
\*1: Based on order data for May 2023–April 2024

\*2: Of orthopedic clinics specializing in self-funded treatment, refer to the mainstay clinic group

\*3: Of orthopedic clinics, medical institutions excluding those specified in \*2 (clinic groups specializing in self-funded treatment)

\*4: Ratio of medical institutions that had received at least one order in May 2023–April 2024

The number of total orders is a function of **the number of partner medical institutions** and **the number of orders per clinic**, both of which have much room for growth.

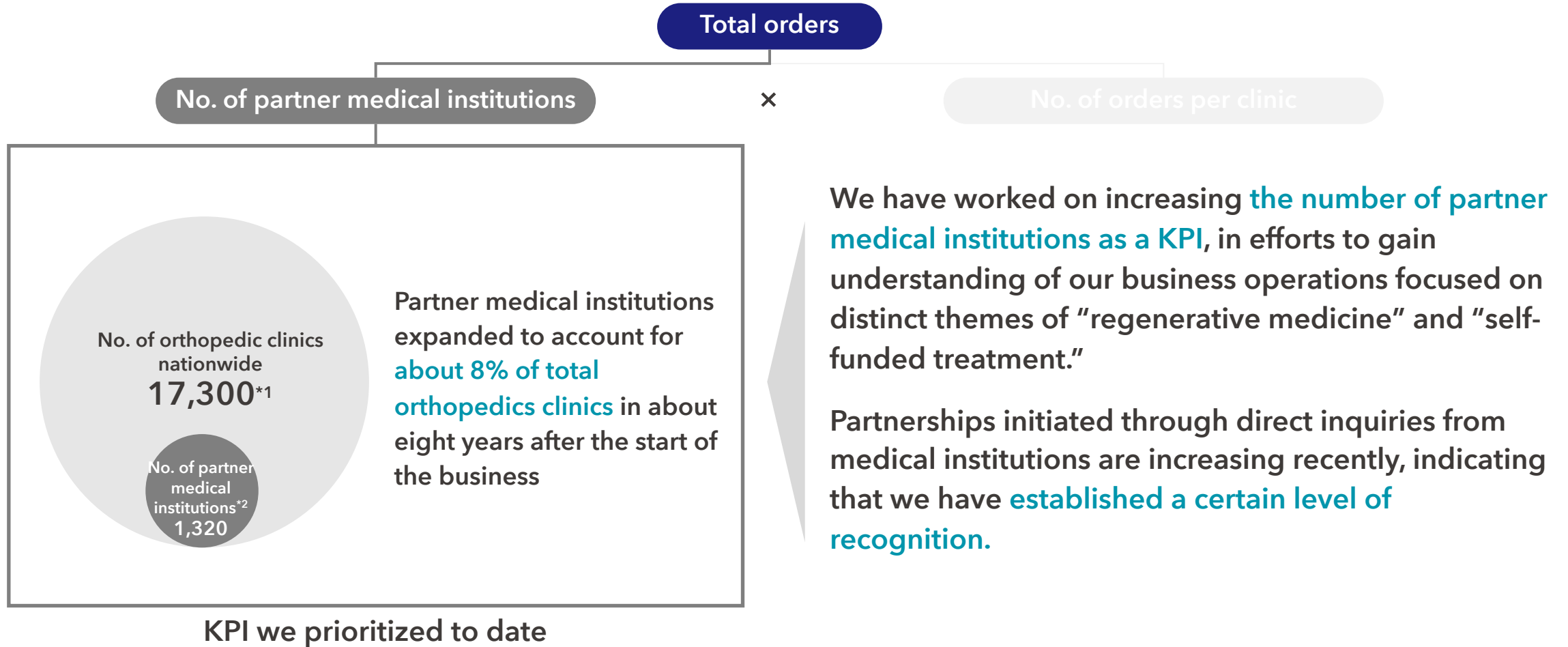


\*1: Estimates based on 2020 Summary of Static/Dynamic Surveys of Medical Institutions and Hospital Report by the Ministry of Health, Labor and Welfare

\*2: Of the Company's partner medical institutions as of April 30, 2024, those the Company classified as belonging to the orthopedics field.

\*3: Actual example based on interviews with partner medical institutions

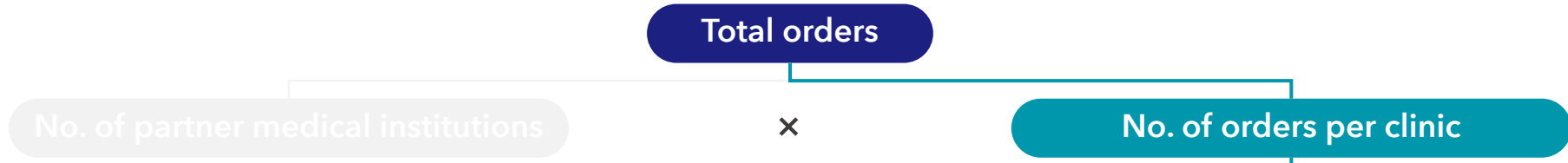
We intend to focus less on expanding partner medical institutions through sales activities for the time being.



\*1: Estimates based on 2020 Summary of Static/Dynamic Surveys of Medical Institutions and Hospital Report by the Ministry of Health, Labor and Welfare

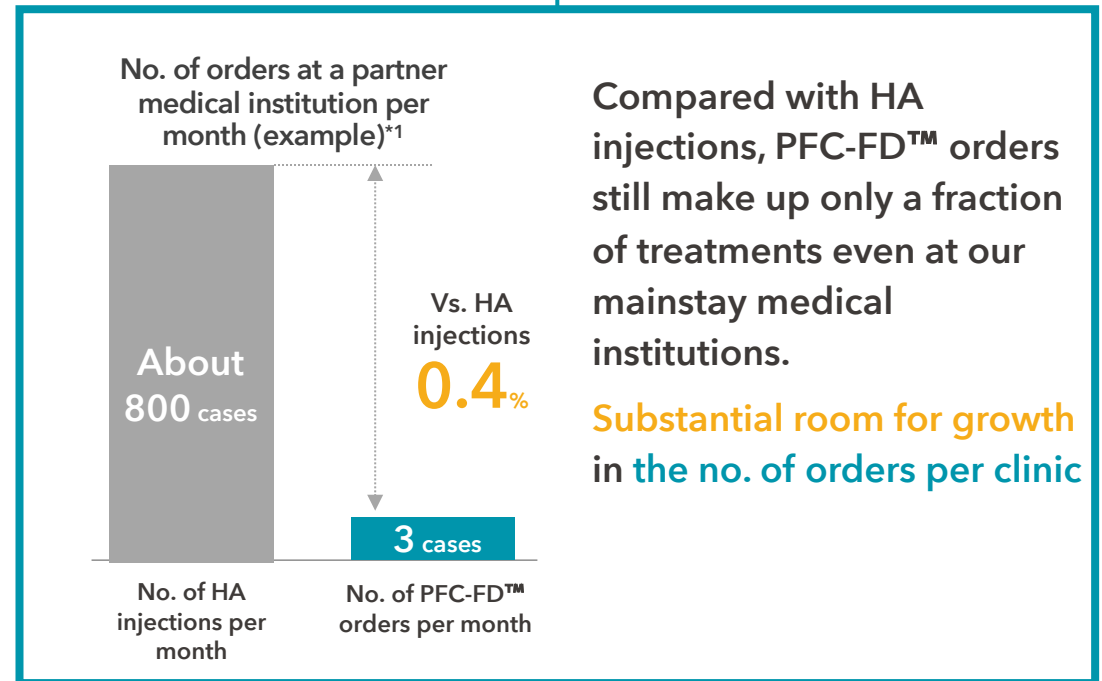
\*2: Of the Company's partner medical institutions as of April 30, 2024, those the Company classified as belonging to the orthopedics field.

By strengthening support for medical institutions, we will focus on growing orders per clinic.



Despite the challenge of increasing orders per clinic, the number of HA injections are extremely high, indicating that **knee arthritis patients are almost certainly seeking medical care (visiting clinics).**

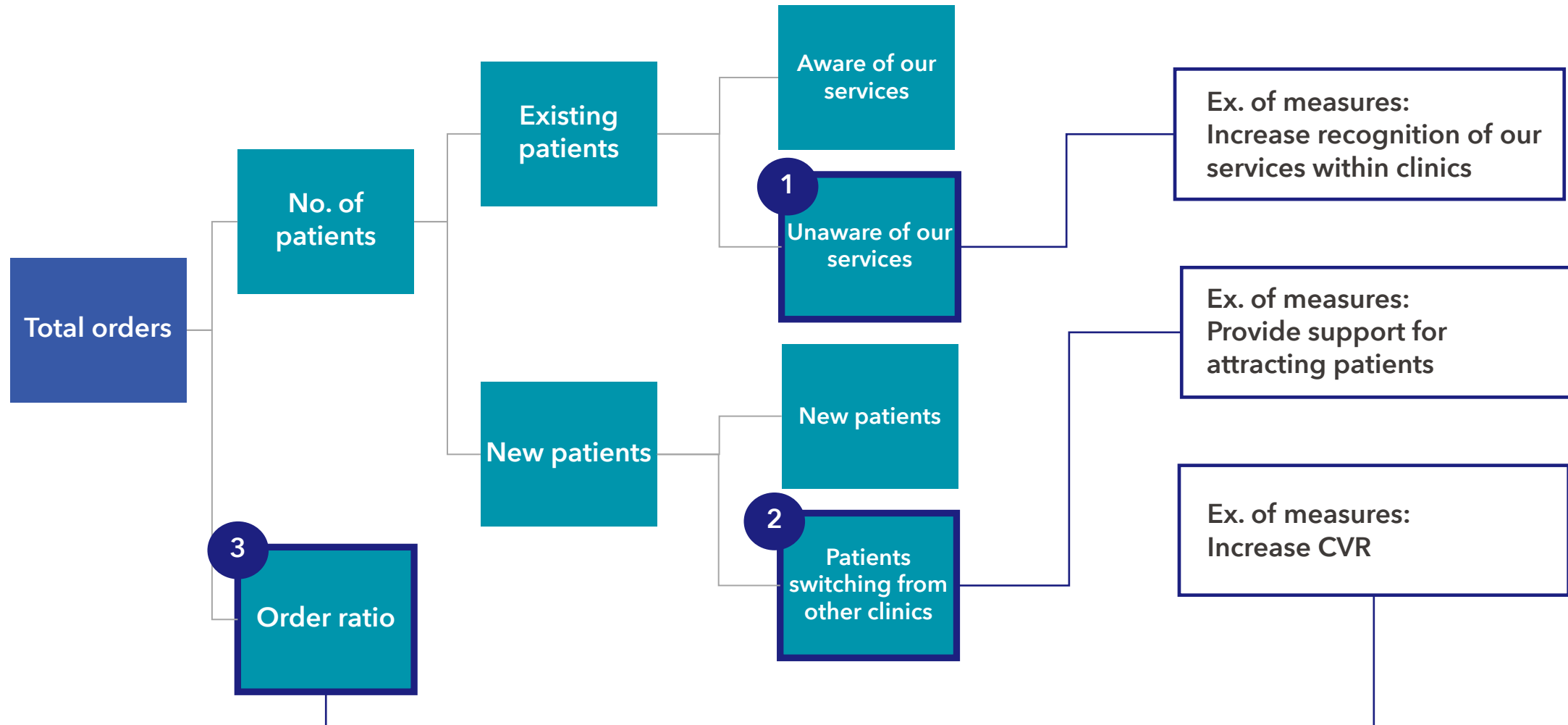
By strengthening support for partner medical institutions, we plan to prioritize **growing PFC-FD™ orders per clinic.**



**KPI to focus on going forward**

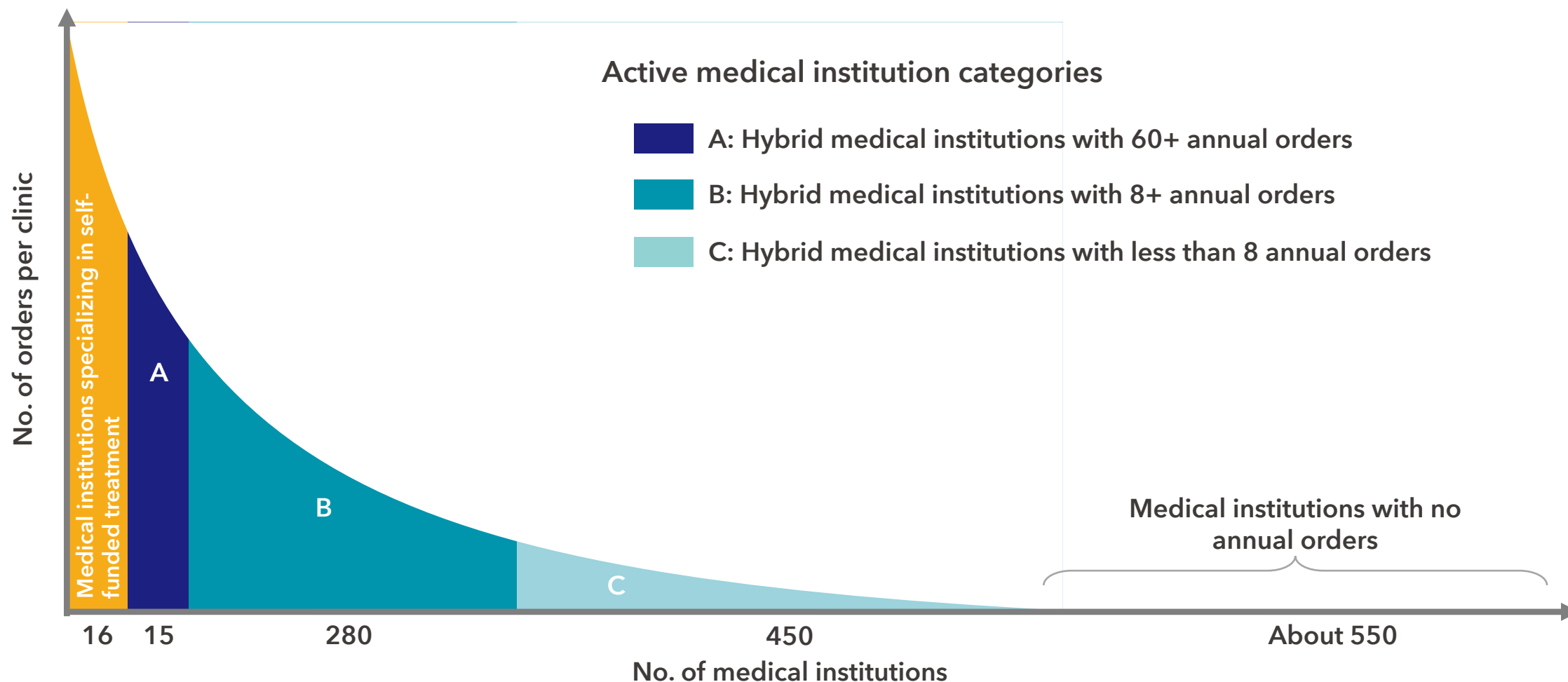
\*1: Actual example based on interviews with partner medical institutions

Broke down orders per clinic into several KPIs, and identified support areas to focus on

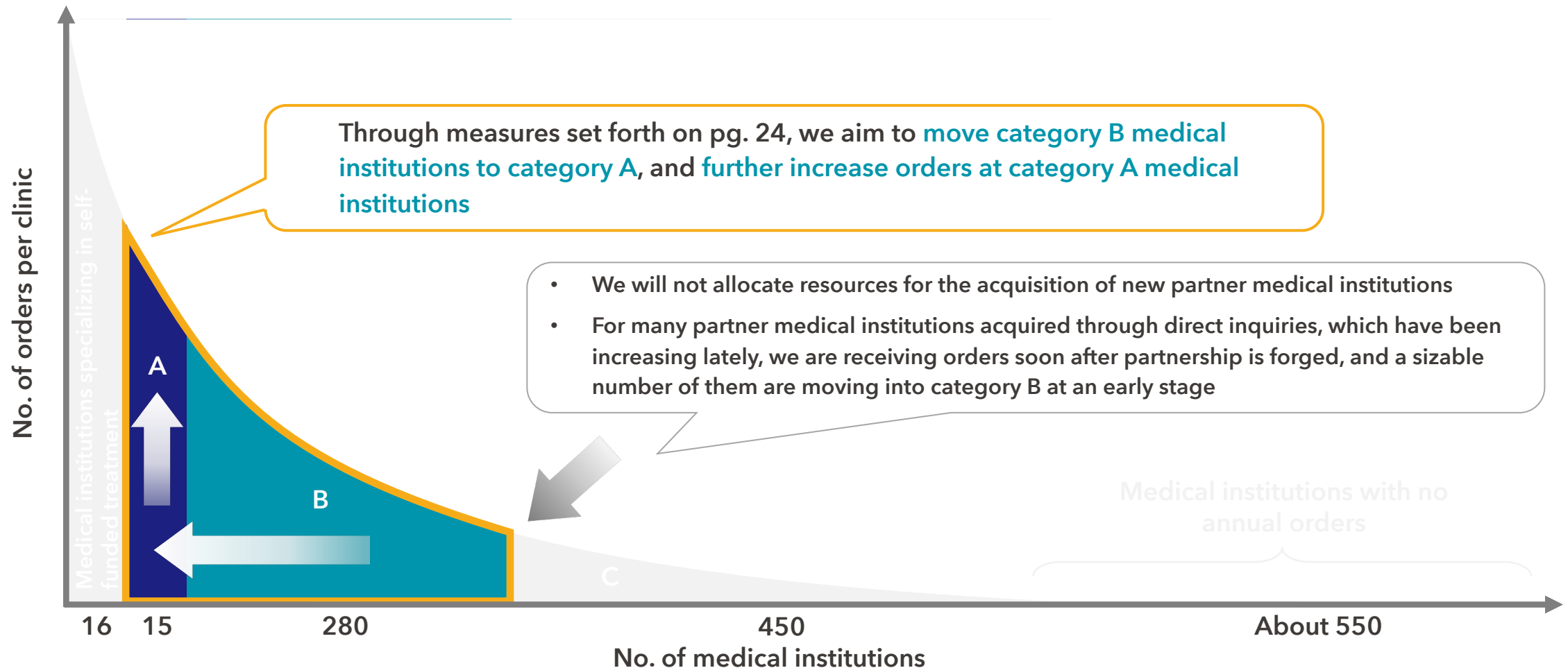




Classified active partner medical institutions into three categories based on the annual order count.  
 About 80% of orders from hybrid medical institutions are from those in categories A and B.



Classified active partner medical institutions into three categories based on the annual order count. About 80% of orders from hybrid medical institutions are from those in categories A and B.



By increasing the “number of orders per active medical institution” for hybrid medical institutions, we aim to firmly grow orders

|   | Self-funded treatment* <sup>2</sup> | Hybrid* <sup>3</sup> | Total          |                                 |
|---|-------------------------------------|----------------------|----------------|---------------------------------|
| <b>No. of partner medical institutions</b>          | 16 clinics                          | 1,304 clinics        | 1,320 clinics  | KPIs expected to grow naturally |
| <b>Active ratio*<sup>4</sup></b>                    | 100%                                | 58%                  | 58%            |                                 |
| <b>No. of orders per active medical institution</b> | 792 orders/year                     | 11 orders/year       | 27 orders/year | Target KPI                      |
| <b>Total orders</b>                                 | 12,674                              | 7,985                | 20,659         |                                 |

\*1: Based on order data for May 2023–April 2024

\*2: Of orthopedic clinics specializing in self-funded treatment, refer to the mainstay clinic group

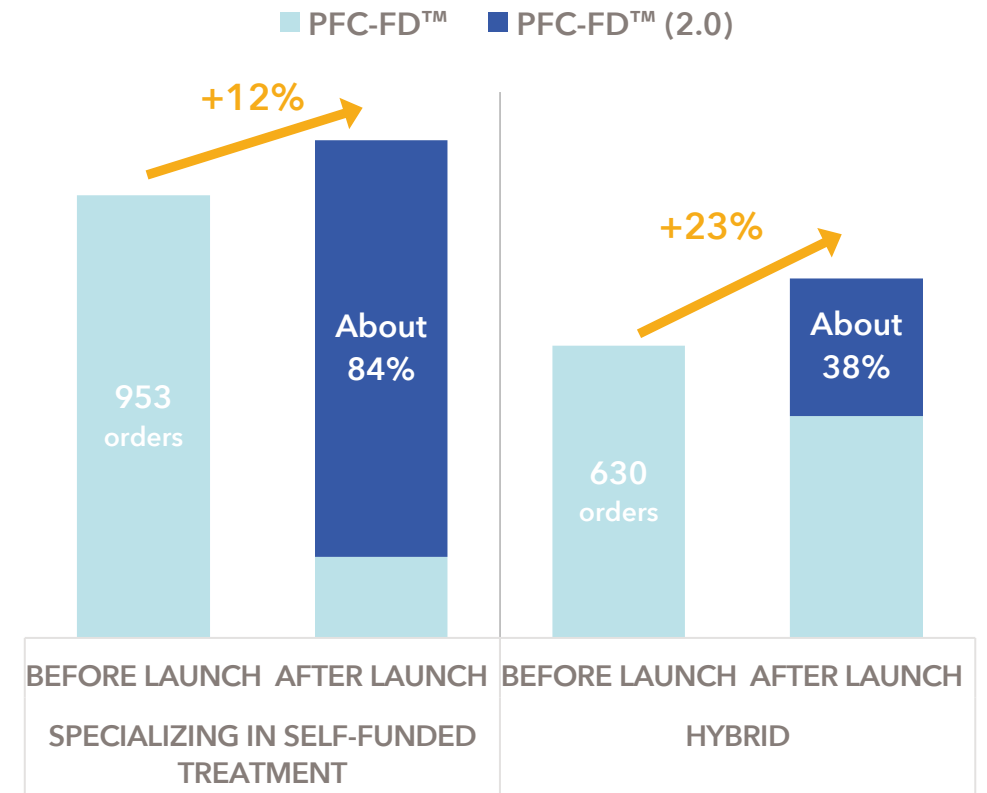
\*3: Of orthopedic clinics, medical institutions excluding those specified in \*2 (clinic groups specializing in self-funded treatment)

\*4: Ratio of medical institutions that had more than one order between May 2023 and April 2024

Contributed to order growth at medical institutions specializing in self-funded treatment\*<sup>1</sup> and hybrid medical institutions\*<sup>2</sup>, as we had intended, with orders from hybrid medical institutions reaching the highest level for FY10/2024 for two consecutive months in April and May

|                       |   |
|-----------------------|---|
| <b>Background</b>     | <ul style="list-style-type: none"> <li>In April 2024, we launched PFC-FD™ (2.0), which contains more growth factors expected to demonstrate anti-inflammatory and tissue repair functions than the previous model</li> <li>We are providing the former service as PCF-FD™ Basic</li> </ul>  |
| <b>Goals</b>          | <ul style="list-style-type: none"> <li>Through below measures, we can provide solutions to patients from whom medical institutions received no orders                             <ul style="list-style-type: none"> <li>Expand service options to allow patients in various conditions to choose the most appropriate treatment for themselves</li> <li>Provide PFC-FD™ Basic for patients for whom the service price was a barrier</li> </ul> </li> </ul> |
| <b>Current status</b> | <ul style="list-style-type: none"> <li>Orders grew at both medical institutions specializing in self-funded treatment and hybrid medical institutions</li> <li>The switch to PFC-FD™ (2.0) is proceeding steadily</li> </ul>  |

Monthly orders before and after launch\*<sup>3</sup>



\*1: Of orthopedic clinics specializing in self-funded treatment, refer to the mainstay medical corporation groups

\*2: Orthopedic clinics excluding those specified in \*1 (medical corporation groups specialized in self-funded treatment)

\*3: Before launch: Average number of orders per month for Nov. 2023-Mar. 2024, after launch: average number of orders per month for Apr.-May 2024

# KPIs

Number of partner  
medical institutions

**1,865**

(+308 YoY)

Blood-derived product  
contract processing orders  
(cumulative)

**10,516**

(-14.9% YoY)

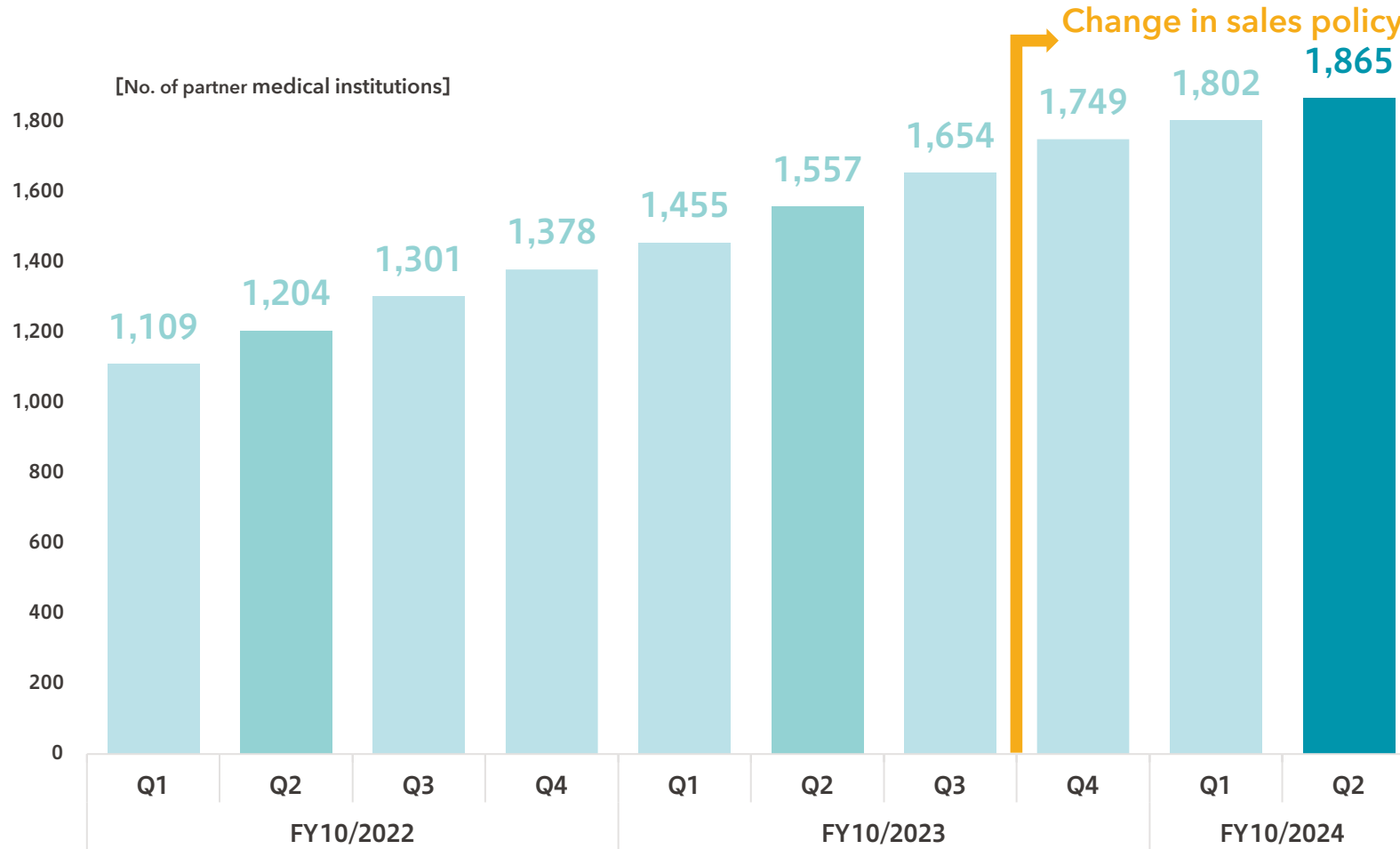
Adipose-derived stem cell  
contract processing  
orders\*<sup>1</sup>(cumulative)

**739**

(-28.6% YoY)

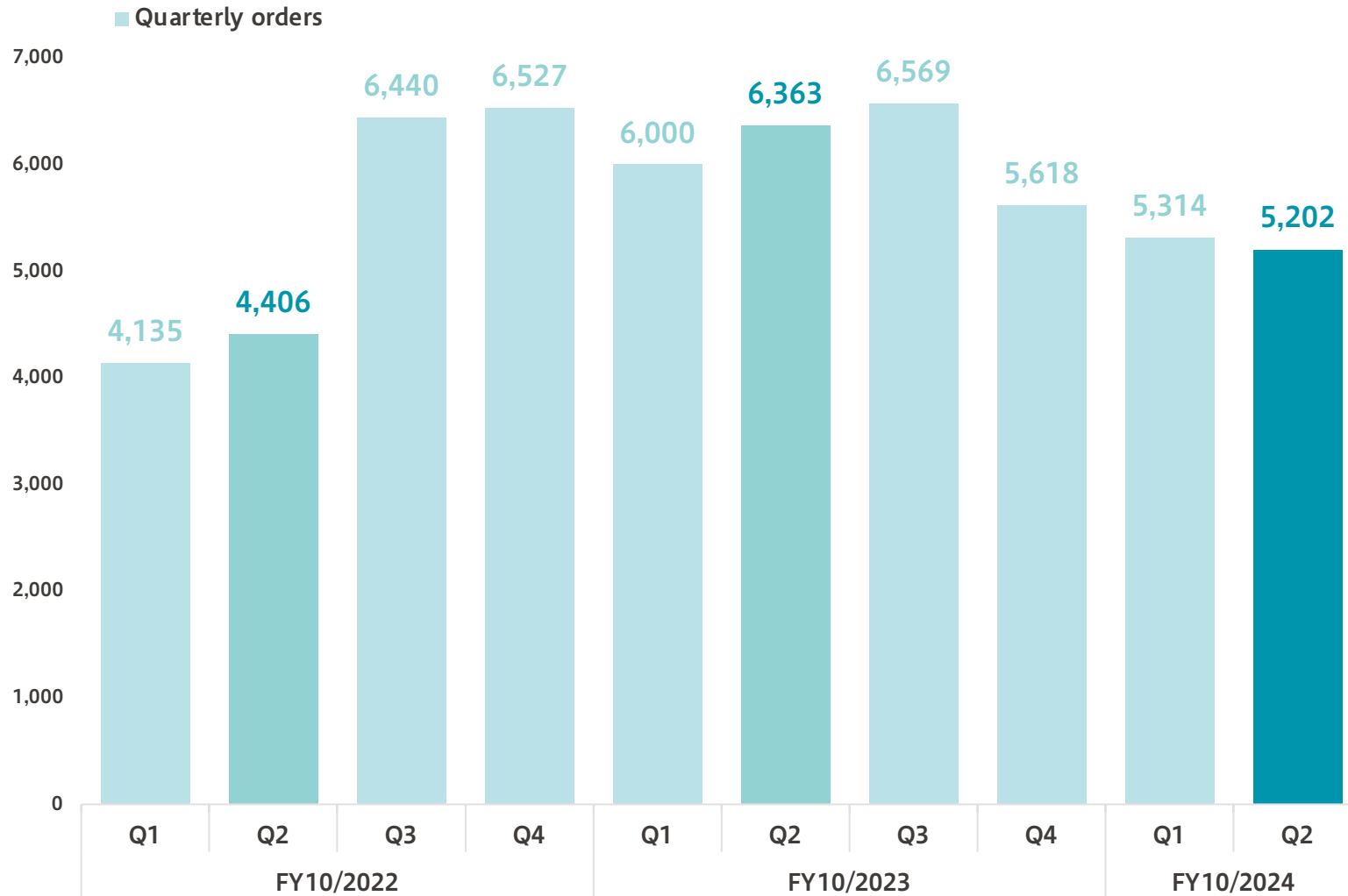
\*1: Includes contract processing orders for synovial stem cells

Shifting sales resources previously allocated to the acquisition of new partner medical institutions to growing orders from existing partner medical institutions



End-Q2 FY10/2024  
**1,865**  
 (+308 YoY)

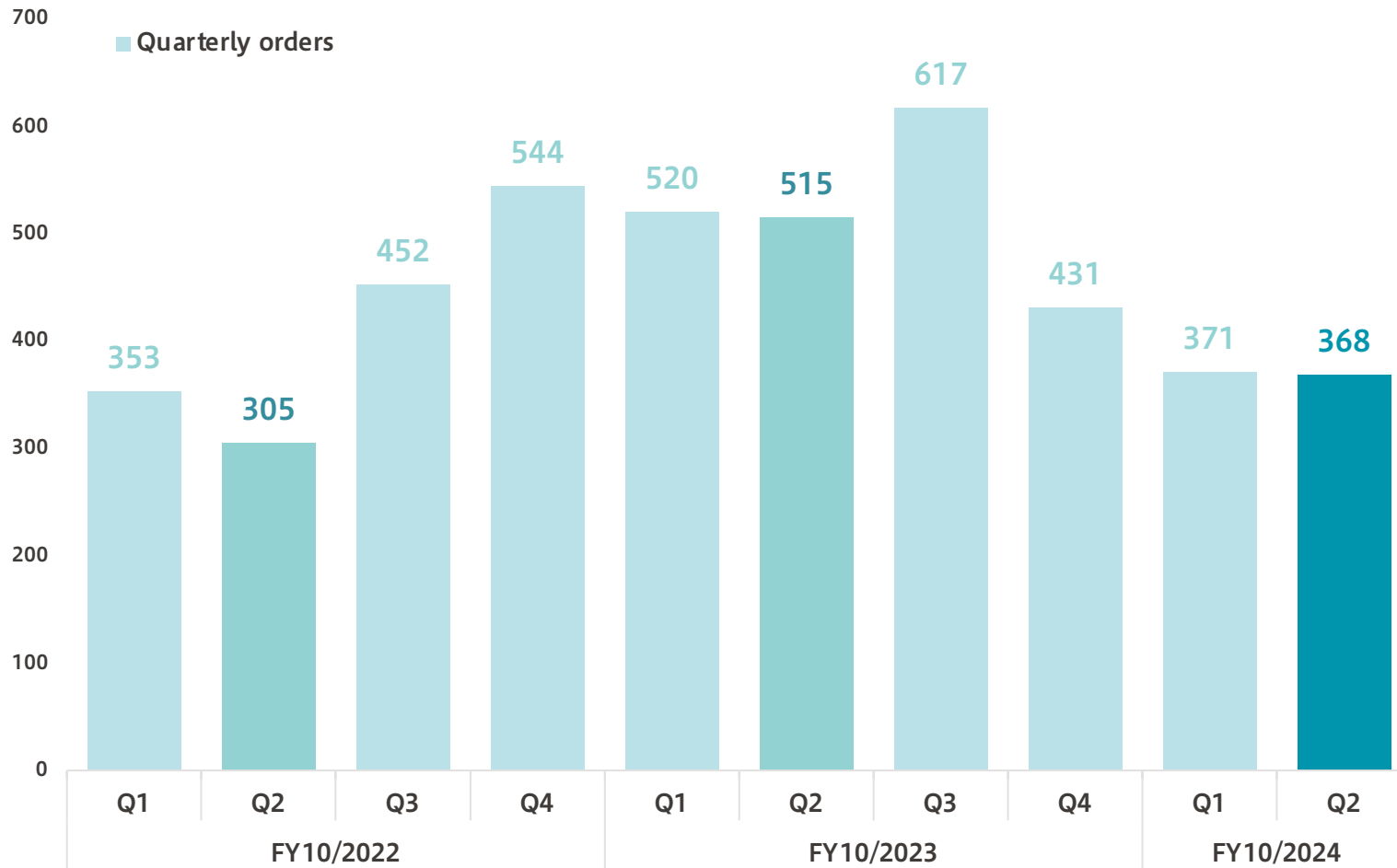
# Number of Contract Processing Orders for Blood-derived Products



Q2 FY10/2024  
**5,202** orders  
(-18.2% YoY)

Cumulative: **84,186** orders



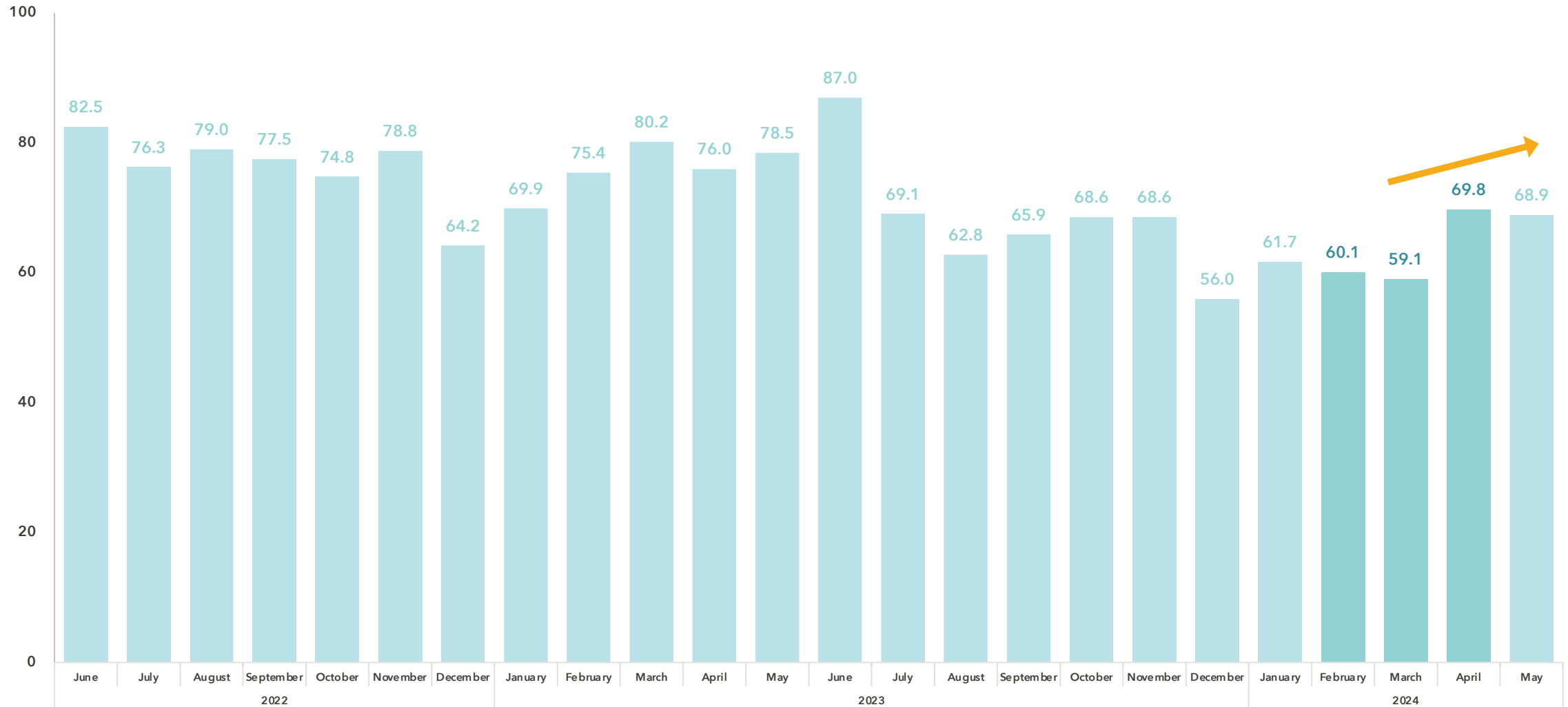


Q2 FY10/2024  
**368** orders  
 (-28.5% YoY)

Cumulative: **8,359** orders

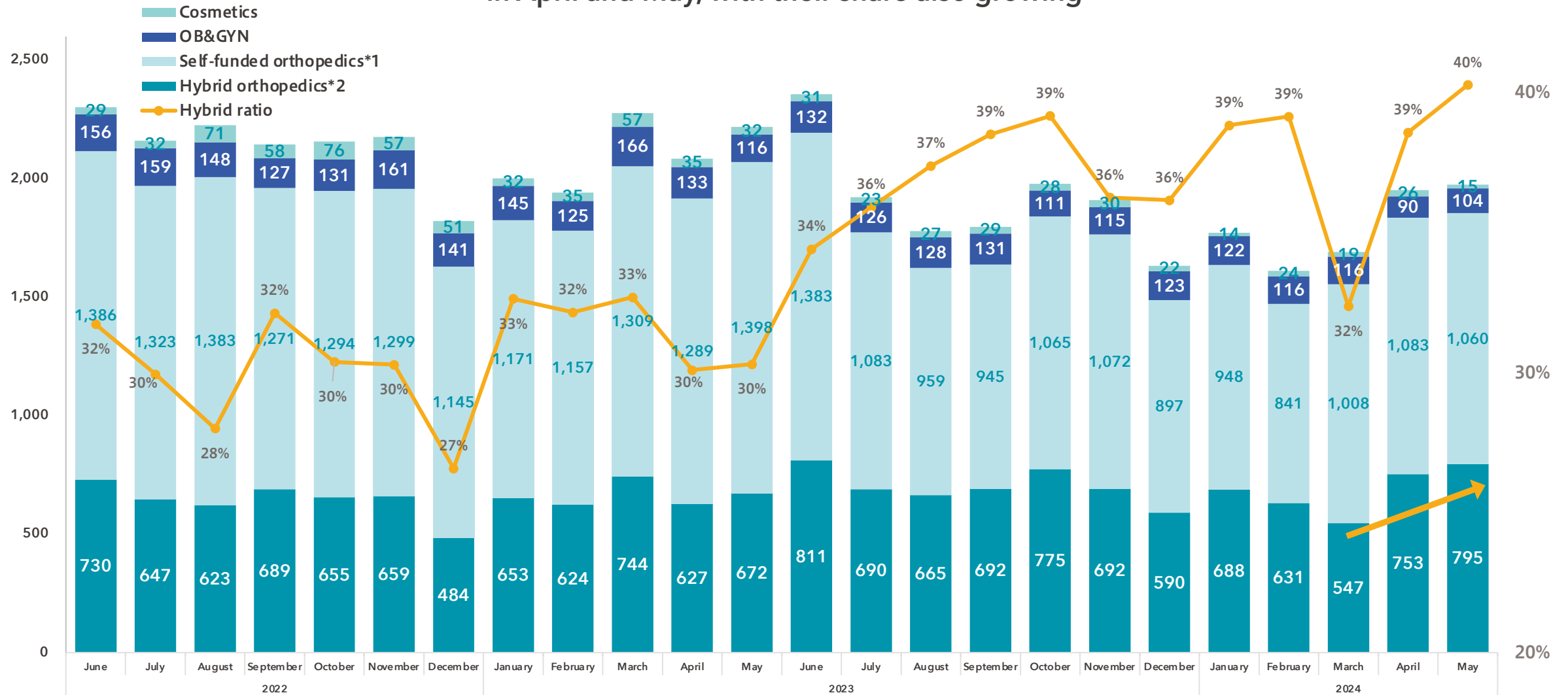
**33** As of FY10/2024, the number of contract processing orders is calculated as of when the order is fulfilled (previously as of when the order is received). As the impact of this change is minimal, figures for FY10/2023 and earlier have not been retroactively revised.

## Contract processing orders have been recovering since April



Orders at hybrid orthopedic clinics reached the highest level for FY10/2024 for two months in a row in April and May, with their share also growing

(No. of orders)



\*1: Of orthopedic clinics specializing in self-funded treatment, refer to the mainstay medical corporation groups  
 \*2: Of orthopedic clinics, those excluding \*1 (medical corporation groups specializing in self-funded treatment)

| [Millions of yen]                                    | FY10/2022 |       |       |       | FY10/2023 |       |       |       | FY10/2024 |       |
|--|-----------|-------|-------|-------|-----------|-------|-------|-------|-----------|-------|
|  | Q1        | Q2    | Q3    | Q4    | Q1        | Q2    | Q3    | Q4    | Q1        | Q2    |
| Net Sales  | 820       | 876   | 1,175 | 1,400 | 1,059     | 1,111 | 1,235 | 1,104 | 1,173     | 1,054 |
| Contract processing services                         | 549       | 581   | 757   | 887   | 743       | 735   | 873   | 793   | 664       | 671   |
| Consulting services                                  | 59        | 59    | 111   | 125   | 113       | 109   | 134   | 77    | 56        | 62    |
| Medical device sales                                 | 171       | 159   | 171   | 166   | 180       | 177   | 166   | 179   | 297       | 188   |
| Cosmetic sales and other                             | 39        | 75    | 135   | 220   | 21        | 88    | 60    | 53    | 154       | 130   |
| SG&A expenses  | 336       | 368   | 393   | 394   | 428       | 455   | 504   | 575   | 557       | 585   |
| Operating profit                                     | 244       | 246   | 448   | 632   | 351       | 308   | 383   | 178   | 205       | 75    |
| Profit for the quarter                               | 155       | 152   | 280   | 428   | 216       | 194   | 265   | 248   | 143       | 156   |
|  |           |       |       |       |           |       |       |       |           |       |
| Total assets   | 3,202     | 3,545 | 3,825 | 4,599 | 4,416     | 4,812 | 5,017 | 6,879 | 6,807     | 6,876 |
| Net assets   | 2,884     | 3,048 | 3,348 | 3,785 | 4,005     | 4,201 | 4,487 | 6,201 | 5,960     | 6,096 |
|  |           |       |       |       |           |       |       |       |           |       |
| EBITDA   | 257       | 261   | 464   | 649   | 366       | 323   | 403   | 208   | 234       | 110   |
| FTE*1  | 130       | 142   | 145   | 153   | 160       | 176   | 191   | 198   | 208       | 211   |
| EBITDA per employee (unit:1,000yen)*2                | 1,974     | 1,844 | 3,193 | 4,250 | 2,297     | 1,836 | 2,112 | 1,050 | 1,129     | 522   |
|  |           |       |       |       |           |       |       |       |           |       |
| Number of Contract Processing Orders*3               | 4,488     | 4,711 | 6,892 | 7,071 | 6,520     | 6,878 | 7,186 | 6,049 | 5,685     | 5,570 |
| Blood-derived product contract processing orders     | 353       | 305   | 452   | 544   | 520       | 515   | 617   | 431   | 371       | 368   |
| ASC contract processing orders                       | 4,135     | 4,406 | 6,440 | 6,527 | 6,000     | 6,363 | 6,569 | 5,618 | 5,314     | 5,202 |
| Number of partner medical institutions (quarter-end) | 1,109     | 1,204 | 1,301 | 1,378 | 1,455     | 1,557 | 1,654 | 1,749 | 1,802     | 1,865 |

\*1: FTE (full-time equivalent) = Total working hours of employees / (Number of working days x 8 hours)

\*2: FTE used for number of personnel in denominator

\*3: Does not include contract processing orders for synovial stem cells

# Progress in Other Businesses

## Progress in expanding orders Aim for No. 1 share in Japan in egg freezing and storage service

|   |   |  |  |  |
|---|---|--|--|--|
| 1 | Partner medical institutions              | <ul style="list-style-type: none"> <li>Acquiring partner medical institutions, centered on fertility clinics</li> <li>Support seamless service launch for clinics newly introducing the egg freezing service</li> </ul>            | Partner medical institutions*1   | 36   |
| 2 | Utilization of corporate benefit programs | <ul style="list-style-type: none"> <li>Signed a contract with Creek &amp; River Co., Ltd.</li> <li>As of June, we are negotiating with several companies considering to offer the service as part of corporate benefits</li> </ul> | <br>CREEK & RIVER   | No. of companies offering the service as corporate benefits*1<br><br>3 |
| 3 | Educational activities, marketing         |    | <ul style="list-style-type: none"> <li>Opened an educational site to promote understanding of egg freezing</li> <li>Support education to promote and spread the use of the service in collaboration with medical institutions</li> <li>Held the second webinar for general applicants</li> </ul> |  |

\*1: As of June 7, 2024

## Veterinary medicine

- Apr: Began providing canine platelet-derived growth factor therapy at Anicom Specialty Medical Institute. Expanding the service to treat disorders other than those eligible for PARM (OA, corneal ulcer, dry keratoconjunctivitis)
- Jun: Presented a case report on the successful case of corneal ulceration treated under PARM at the meeting of the Japanese Society for Veterinary Regenerative Medicine

## Contract processing services for synovial stem cells

- Currently we have nine partner medical institutions. We are promoting the benefits of minimally invasive treatments to medical institutions with track records in artificial joint replacements, and building up case numbers
- Seven injections were completed since the launch of the service in 2023\*1

## Overseas business

- In India, procedures are underway to renew the license with the Ministry of Health and Family Welfare. Expect to begin providing contract processing services within the year

## R&D

- Feasibility study of exosome drug discovery is underway

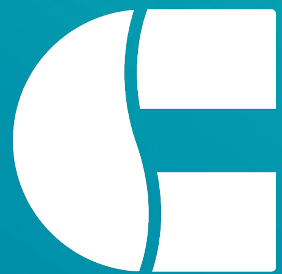
The materials and information provided in this presentation contain so-called "forward-looking statements."

These statements are based on current expectations, forecasts, and assumptions accompanying risks, and they may involve uncertainties that could cause actual results to differ materially from the expectations expressed in the forward-looking statements.

Such risks and uncertainties include, but are not limited to, market conditions, legal regulations, quality and safety assurance and production systems, specific business partners, reputational risk, research and development, advertising strategies, and system failures.

*Note: This translated material is for reference purposes only and is not guaranteed to be accurate or complete. In the event of any translation error or misunderstanding, the original Japanese version shall prevail.*





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