President
Morifumi Wada

EIKEN CHEMICAL (4549)

EIKEN CHEMICAL CO.,LTD.

Company Information

Exchange	TSE 1st Section
Industry	Pharmaceuticals (manufacturing and sales)
President	Morifumi Wada
HQ Address	7 Yamaguchi building, 4-19-9 Taito, Taito-ku, Tokyo 110-8408, Japan
Year-end	End of March
Homepage	http://www.eiken.co.jp/en/

Stock Information

Share Price	Share Outstanding		Market Cap.	ROE (Act.)	Trading Unit
1,850 yen	36,881,788 Shares		68,231 Million yen	10.3%	100 Shares
DPS (Est.)	Dividend Yield (Est.)	EPS (Est.)	PER (Est.)	BPS (Act.)	PBR (Act.)
27.00 yen	1.5%	70.50 yen	26.2times	942.37 yen	2.0 times

*Share price is as of the end of June 12.

*The number of shares issued is from the latest financial settlement report (excluding treasury shares from the number of shares issued).
ROE and BPS are based on actual results at the end of the previous term.

Business Performance Trends

Fiscal Year	Net Sales	Operating Income	Ordinary Income	Net Income	EPS	DPS
March 2014	30,027	3,008	3,095	1,984	54.57	17.50
March 2015	31,014	2,826	3,013	2,100	57.57	17.50
March 2016	32,163	3,536	3,570	2,429	66.43	20.00
March 2017	33,274	3,976	4,112	2,918	79.69	25.00
March 2018	34,991	3,478	3,549	2,608	71.21	25.00
March 2019	35,761	4,611	4,681	3,447	93.63	30.00
March 2020 Est.	35,900	3,600	3,650	2,600	70.50	27.00

*Estimates are by the Company. The definition for net income means net income attributable to owners of parent.

*On April 1st, 2018, a two-for-one split of the stock was performed. EPS and DPS adjusted retroactively.

(Unit: Million yen, Yen)

This Bridge Report presents EIKEN CHEMICAL's earnings results for the fiscal year March 2019, overview of "EIKEN ROAD MAP 2019", new mid-term management plan and interview with President Wada.

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Key Points

- **Sales for the fiscal year (FY) 2019 were 35.7 billion yen, up 2.2% year on year. In Japan, sales of fecal immunochemical test reagents and urinalysis test strips grew, but sales of AIA dropped, so domestic sales were unchanged from the previous term. Outside Japan, the sales of fecal immunochemical test reagents in Australia, Europe, and the U.S. increased. Operating income grew 32.6% year on year to 4.6 billion yen. As the product mix changed, gross profit margin improved about 2%, gross profit rose 6.8% year on year, while SGA declined 1.2% to 11 billion yen. Sales did not reach the estimate, due to the delay in the adoption of new fecal immunochemical test reagents for overseas markets and the decrease in sales of AIA, which was adopted by Tosoh Corporation in Japan, but SGA was 3% lower than the estimate. Accordingly, operating income and other incomes exceeded the estimates. Considering the 80th anniversary of the establishment of the company and full-year business performance, the term-end dividend has been increased 3 yen/share from the latest dividend estimate to 17 yen/share. The annual dividend is 30 yen/share, and payout ratio is 32.0%.**

- **Sales for the FY 2020 are estimated to be 35.9 billion yen, up slightly from the previous term. It is projected that sales will decrease in Japan and fecal immunochemical test reagents will keep performing well in the U.S. and Europe. It is forecasted that, as depreciation will grow, SGA will augment 8.6% year on year and operating income will drop 21.9% year on year to 3.6 billion yen. The total annual dividend is to be 27 yen/share. The payout ratio is estimated to increase from the previous term to 38.3%.**

- **In order to continue sustainable growth and streamline and expand its business, the company has established "EIKEN ROAD MAP 2019," which starts this term. In the new 3-year mid-term management plan, which is the first stage, the company aims to achieve "sales of 38.7 billion yen, a ratio of overseas sales of 24.4%, an operating income rate of 13.7%, and an ROE of 10%" in the FY 3/2022, which is the final fiscal year of the plan.**

- **We interviewed President Wada about his review on the results of the previous term, the points of the new mid-term management plan, and messages to shareholders and investors. He mentioned, "We will progress steadily toward the ideal state in 2028, while earning profits surely and returning them to shareholders and investors. We would appreciate your continued support from the long-term viewpoint."**

- **The overseas sales in the previous term were 6 billion yen, achieving double-digit year-on-year growth. In Asia and Australia, sales declined, but the annual growth rate from the second preceding term is 20%. There is no doubt about the growth potential of the overseas market, which is a key to corporate growth. On the other hand, there is concern over the fact that sales in any region did not reach the estimate. The new mid-term management plan set the goal of achieving "overseas sales of 9,460 million yen and a ratio of overseas sales of 24.4% in the FY 2022," and the average annual growth rate from the FY 2019 would be 15.9%. This is lower than the annual growth rate in the 3 years of the previous mid-term plan: 20.2%. In order for the company, which has a certain market share in the major market, to grow overseas sales, it is indispensable to promote**

sales in the U.S. market, where demand is expected to rise through the revision to the guidelines, and cultivate new markets. We would like to pay attention to the progress of the cultivation of overseas markets.

1.Company Overview

EIKEN CHEMICAL is a general manufacturer of clinical diagnostics, including immunological and serological, microbiological, clinical chemistry, urine analysis and genetic screening test. It also develops and sells medical devices.
It offers many products that occupy high market share including fecal immunochemical test that occupy about 60% of the domestic share, Urinalysis test, Microbiological test and so on. Its unique gene amplification technology, "LAMP", is highly recognized in the world. With the fecal immunochemical test reagents, urinalysis test strips and LAMP, EIKEN is aiming to become a global corporation.

1-1 History

1939	Established Koa Kagakukogyo Co., Ltd. and began manufacturing and sales of nourishing food articles and pharmaceuticals using livestock internal organs as raw materials.
1949	First in Japan to successfully commercialize a powder medium (SS agar) for bacteriological examination.
1961	Established Clinical Laboratory Division and began R&D on clinical diagnostics.
1969	Company name changed to EIKEN CHEMICAL CO., LTD. in recognition of its 30th anniversary.
1972	Commencement of the sales of "Uropaper EIKEN," a urine analysis test strip.
1987	Commencement of the sales of "OC-hemodia" (visual determination method), the fecal immunochemical test reagent.
1989	Commencement of the sales of "OC Sensor," the automated fecal immunochemical test analyzer.
1990	Listed stock in the second section of the Tokyo Stock Exchange.
1992	Commencement of the sales of "US-2100," an automated urine analyzer.
1998	Developed LAMP, the new innovative gene amplification technology, and filed patent applications.
Apr. 2001	Began sales of in-house clinical reagents and devices.
Mar. 2002	Listed stock in the first section of the Tokyo Stock Exchange.
Mar. 2002	Obtained patent for LAMP method in the U.S.A.
Mar. 2002	Commencement of the sales of "Loopamp Bovine Embryo Sexing Kit," the first product to use the LAMP method, and of specialized equipment.
May 2002	Obtained patent for LAMP method in Japan.
Dec. 2003	Commencement of the sales of "Loopamp SARS Coronavirus Detection Test Kit" utilized with LAMP method.
Nov. 2004	Acquired FDA approval for fecal immunochemical test reagents and analyzer and began sales in U.S.
Jul. 2005	Entered into an agreement with the Foundation for Innovative New Diagnostics (FIND) for joint development of a LAMP-based rapid genetic diagnostic test for tuberculosis.
Feb. 2008	Developed successfully of simplified pretreatment method (PURE method) that was utilized for LAMP method,
Oct. 2008	Entered into a new agreement with FIND for joint development of drugs and therapies against malaria, African sleeping sickness, and HIV.
Mar. 2009	Established new management vision "EIKEN WAY" and "EIKEN ROAD MAP 2009."
Jun. 2011	Commencement of the Japan sales of the "Loopamp MTBC Detection Kit" and "Loopamp PURE DNA Extraction Kit".
Jun. 2011	Established a European office (now the European branch) in Amsterdam, the Netherlands.

Dec. 2011	Entered into an agreement with FIND for joint development to treat and prevent leishmaniasis.
Nov. 2012	Commencement of the sales of "Immuno Catch Noro" which uses the immunochromatographic analysis method.
Mar. – Jul. 2013	Commencement of the sales of screening kits for BLEIA-1200: "BLEIA 'EIKEN' HCV Antibody," "BLEIA 'EIKEN' HCV Antigen," and "BLEIA 'EIKEN' HBs Antigen."
Jan. 2014	Entered into an agreement with FIND for joint development to treat and prevent Chagas disease.
Nov. 2014	Commencement of the sales of "OC Sensor-PLEDIA," the automated fecal immunochemical test analyzer.
Jan. 2015	Developed next-generation compact fully automatic genetic testing device and multi-item testing chip, using the LAMP method.
Feb, 2015	Commencement of the sales of "US-3500", a full-automated urine analyzer.
Jan. 2016	Formed a tie-up with SYSMEX CORPORATION for the urine chemistry testing business in overseas markets.
Aug. 2016	Acquired WHO (World Health Organization) recommendation for TB-LAMP. Formed a global sales alliance with HUMAN mbH for TB-LAMP, and malaria testing.
Oct. 2016	Completion of a block of new urine analysis test strip producing plant.
April 2019	Established the New "EIKEN ROAD MAP 2019" Management Framework

*For further information about the LAMP method and FIND, please refer to "2. Characteristics and Strengths (4) Competitive Advantages of the LAMP Method."

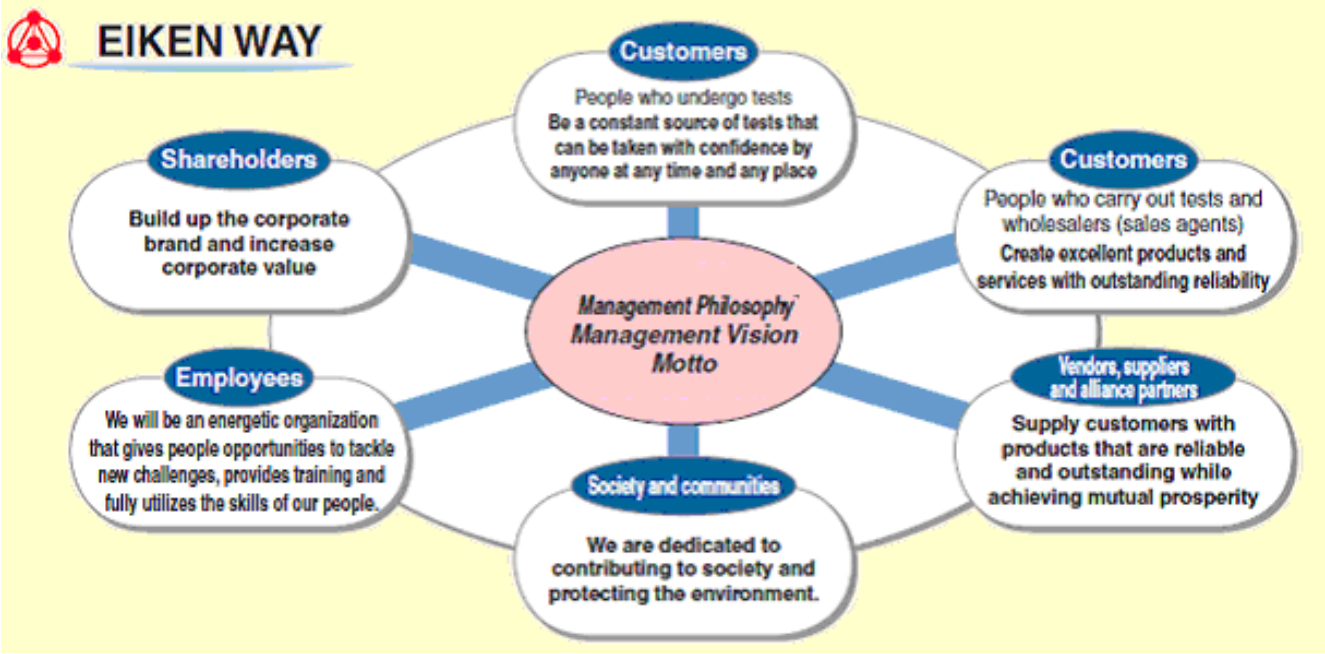
1-2 Management Philosophy

"Management Philosophy": Protect the health of the public through health care services.

"Management Vision": EIKEN group is dedicated to leveraging expertise as a medical testing pioneer in order to increase corporate value by protecting the health of the public with products and services that customers can trust.

"Motto": We EIKEN provide trustworthy quality, and develop with technology.

EIKEN group formulates "EIKEN WAY" as its attitude toward each stakeholder, centering these philosophy, vision and motto.



(Source: EIKEN CHEMICAL)

1-3 Market Environment

Domestic Market

The market scale of clinical reagents is about 360.0 billion yen and 592.9 billion yen (including research reagents and diagnostic devices) as of 2017 (survey by the Japan Association of Clinical Reagents Industries, or JACRI).
In order to control rising medical costs, the Japanese government is focusing on preventive medicine such as special health check-ups (metabolic check-ups) and cancer screenings. It is expected that this, along with the aging population, will lead to an increase in the number of samples (number of specimens).

Some negative factors include the impact of population decline as a result of decreasing birth rates and revision of medical treatment fees (reduction). However, the trends of laboratory test fees which had been subject to revision of insurance (medical laboratory test fees) show that, even though they were cut by some 40% from 1997 to 2006, the fees have been stable or only slightly reduced after 2007. (Laboratory test fee in fiscal 2018: -0.4%)
This is a result of the activities for emphasizing the importance of prevention and checkups in the industry, including the company. In the medium term, the domestic market is expected to grow with an annual rate of around 2%.

Out of 132 member companies (as of April 2019) of JACRI mentioned above, about 80 are manufacturers, and there are about 15 companies with over 10 billion yen in sales. Most of them are small to medium sized companies. Because the test items of diagnostic tests range widely, each company has its own field of strength, and business segregation is already established in the industry. As a result, collaboration, such as supplying raw materials and products from other companies and manufacturing and selling them, is often observed. Against such a backdrop, the market is modestly growing. Therefore, there is currently no apparent trend of weeding out uncompetitive corporations.

Overseas Market

The global clinical laboratory test reagent/device market is estimated to be US$ 62.3 billion and, by region, the market is occupied by the USA at 44%, followed by Europe at 29% and Asia at 17% (As of 2015).

The overseas market is over ten times larger than the domestic market. In developed countries, the number of tests is increasing as aging of population progresses. Furthermore, in emerging countries, the needs for medical services are expanding because of economic and income growth. As a result, the annual growth rate of overseas market is expected to be over 5%, which is much higher than that of the domestic market. Therefore, the Japanese companies in the industry are vigorously undertaking globalization of their businesses.
In the global market, the global large companies such as Roche, Abbott, SIEMENS, and Beckman, whose sales are 3 to 11 billion U.S. dollars, are leading the market, and in order for Japanese companies to survive the competition, they must strengthen their competitiveness by, for example, developing unique products or systems.

1-4 Business Description

1. What are Clinical Tests?

One type of clinical tests is the “Biological test” that directly examines the body using medical equipment such as X-ray, CT, MRI, electrocardiogram, and ultrasound. Another type of clinical tests is the “Laboratory test” that examines biological samples (specimens) obtained from people such as blood, urine/feces, and cells.
The clinical test reagents made by EIKEN CHEMICAL are the ones used for medical laboratory tests. For example, they are used to test infectious diseases or to measure small amounts of blood contained in stool. They are made to support diagnosis. Most of these reagents are called in vitro diagnostics (IVD) and are regulated by the Pharmaceutical and Medical Device Act so reagent manufacturers file applications with PMDA (Pharmaceuticals and Medical Devices Agency) and obtain its approval. Users include hospitals, clinics, medical offices, medical test centers that carry out tests commissioned by medical institutions, health screening centers, public health centers, and institutions for health research, and others.

2. Major Products

EIKEN CHEMICAL mainly manufactures and sells the following types of reagents and medical devices.
As they deal with a wide range of reagents, they not only sell their in-house products but also purchase and sell products

from other companies.
Major in-house products include fecal immunochemical test reagents, microbiological reagents, immunological and serological reagents, urinalysis test strips, genetic testing reagents, etc. The sales ratio of in-house products to other companies' products is approximately 60:40. The gross profit margin is approximately 55% for in-house products and approximately 35% for other companies' products.

Product Name	Sales	Sales Proportion
Fecal immunochemical test reagents (FIT)	10,016	28.0%
Immunological and serological reagents (excluding fecal immunochemical test reagents)	9,972	27.9%
Urinalysis test strips	3,097	8.7%
Microbiological test reagents	5,153	14.4%
Biochemical test reagents	595	1.7%
Equipment/Culture medium related to food and environmental	2,169	6.1%
Related molecular genetics (LAMP), (including its devices)	1,315	3.7%
Medical Devices (excluding molecular genetics related devices)	3,440	9.6%
Total sales	35,761	100.0%

*Results for the fiscal year ended March 2019. Unit: Million Yen

Fecal immunochemical test reagents
The major products for EIKEN CHEMICAL are reagents and sampling bottles for fecal immunochemical tests to specifically detect and measure human hemoglobin in feces as a colorectal cancer screening and diagnosis and are sold globally.

Immunological and serological reagents (excluding Fecal immunochemical test reagents)
EIKEN CHEMICAL develops, manufactures, and sells reagents for various tests, such as LZ Test EIKEN, a reagent for general-purpose automatic analyzers used for diagnosing rheumatism and inflammatory disorders and gauging the stomach health level (the ABC method). The company also procures reagents for fully automated enzyme immunoassay devices and reagents for automatic glycohemoglobin analyzers from Tosoh Corporation, and sells them.

Urinalysis test strips
EIKEN CHEMICAL develops, manufactures, and sells "UROPAPER III 'EIKEN'," a urinalysis test strip for testing various items such as occult blood, protein and glucose, as well as the "UROPAPER α III 'EIKEN'," a specialized test strip for fully automated urine analyzers.
Outside Japan, the company formed a business tie-up with Sysmex Corporation in 2017, and started sales.

Microbiological test reagents
Since its establishment, EIKEN CHEMICAL has been developing biological specimens as well as reagents for microbiological tests for food and environment in order to prevent infectious diseases and food poisoning. Currently, it develops, manufactures and sells various reagents that are effective for diagnosis and treatment of microorganism infection, such as mediums, powder mediums, antimicrobial susceptibility tests, and rapid test reagents.

Clinical chemistry test reagents
EIKEN CHEMICAL develops, manufactures and sells reagents for clinical chemistry tests including "EXDIA XL 'EIKEN'" series that assist to measure and analyze biological components in blood serum and urine, with a focus on the test items that are related to lifestyle related diseases.

Equipment/ Culture mediums related to food and environment
EIKEN CHEMICAL sells reagents for microbiological tests on food to detect food poisoning bacteria as well as reagents for environmental microbiological tests and equipment and devices to measure contamination of work environments.

Molecular genetics (LAMP)

In 1998, EIKEN CHEMICAL developed and patented an innovative gene amplification technology called "LAMP." The LAMP is "simple, rapid, accurate, and low price" and is a critical tool for Eiken's future global expansion of its business. (Details are described below)

Medical devices

EIKEN CHEMICAL sells various types of automated analyzers. They contract manufacturing specialized equipment that uses their in-house reagent. Since beginning sales of "OC Sensor" in 1989, they have worked continuously on technological innovation and quality improvement of this fecal immunochemical test analyzer. Also, they offer the "US," an automated urine analysis device that uses Eiken's proprietary image processing system, the "BLEIA-1200," a fully automated biochemistry photogenetic immunoassay device that was the world's first of its kind in the clinical testing field, and "Loopamp EXIA," a LAMP-based real time turbidity measuring device.

3. Sales structure

EIKEN CHEMICAL has 10 sales divisions in Japan. Its academic department supports sales promotion.
Out of 719 employees (consolidated) during FY 2019, about 300 belong to the sales department.
As for the sales channels for medical institutions such as hospitals, the Company's direct sales partners are medical wholesale companies, and it has businesses with almost all of the wholesale companies in the medical industry.
For overseas sales, EIKEN CHEMICAL has basically 1 agency per country, and the sales and maintenance are commissioned to the agencies.
EIKEN's products are exported to 44 countries (FY 2019). The high proportion of overseas sales is occupied by the sales in the USA, Italy, France, Spain, Germany, Australia, South Korea, and Taiwan.
In addition to the Europe Branch in Amsterdam (the Netherlands), the Company is strengthening its manufacturing and sales structure through its consolidated subsidiary, "EIKEN CHINA CO., LTD.," as well as aiming to expand its businesses by setting a business office in China. In the future, it will explore the possibility of making the office as a local corporation, as the size expands.
The overseas sales for FY 2019 are 6,070 million yen, out of which 3,940 million yen, 64.9%, is from the sales of fecal immunochemical test reagents.

1-5 ROE Analysis

	FY3/12	FY3/13	FY3/14	FY3/15	FY3/16	FY3/17	FY3/18	FY3/19
ROE (%)	**7.0**	**10.9**	**8.3**	**8.3**	**8.9**	**10.0**	**8.3**	**10.3**
Net Profit Margin	5.27	8.56	6.61	6.77	7.55	8.77	7.45	9.64
Asset Turnover Ratio	0.84	0.84	0.84	0.83	0.83	0.80	0.78	0.77
Leverage	1.58	1.52	1.50	1.47	1.42	1.43	1.43	1.38

*Unit:%, x

ROE in FY 3/19 exceeded the estimate which was projected to be 9.2%. The "new mid-term management plan" set the goal of achieving an ROE of 10% in the final fiscal year ending March. 2022.
The Company continues to fortify priority measures, including developing high value-added products, generating new businesses and new markets, improving further profitability and productivity through reducing COGs rate and SG&A rate.

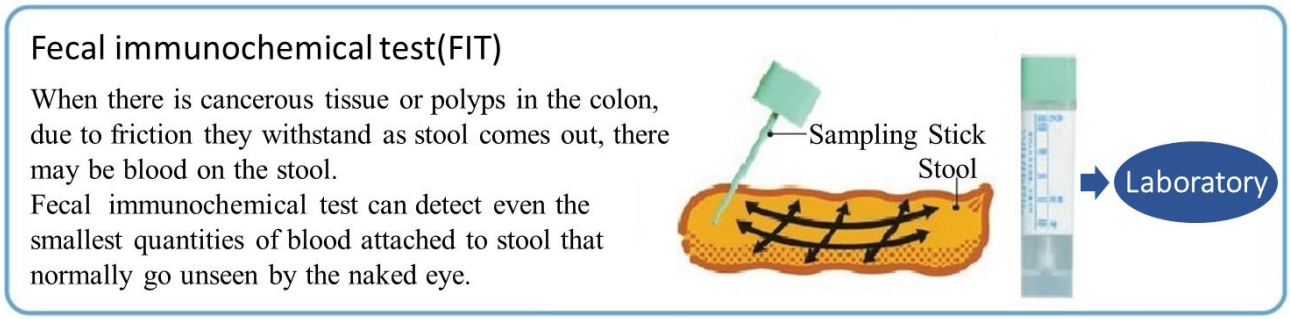
1-6 Characteristics and Strengths

(1) Products that Occupy High Share in the Market

The share of Eiken's fecal immunochemical test reagents is ranked top (more than 60%) in the domestic market. Furthermore, many of their in-house products occupy high market share in the market, for example, urinalysis test strips occupying approximately 26% (ranked second) of the market, and microbiological reagents occupying approximately 16% (ranked fourth) of the market.
The background to how Eiken's fecal immunochemical test reagents have come to hold such a high share of the market includes that in 1987, Eiken began sales of "OC-Hemodia," a visual determination method fecal immunochemical test

reagents, a product that more closely conformed to user needs when compared to competitor's products, and that in 1989 they adopted the latex photometric immunoassay method and began sales of "OC-Sensor," the world's first fully automated analyzer.

Also, the Health and Medical Service Act for the Aged was revised in 1992, making it possible to have fecal immunochemical test reagents as a method in colon cancer screening and diagnosis using public funds (no cost to the patient) which led to an accelerated spread and increased competition. But in 2001, Eiken began sales of the "OC-Sensor neo," with completely remodeled functions, which increased its market share.



(Source: EIKEN CHRMICAL)

As for fecal immunochemical tests, Eiken will expand its business globally based on the above characteristics.

The immunochemical method used in Japan applies reagents that react only to human hemoglobin, and can process a large volume simultaneously.

Meanwhile, in other countries, reagents for the chemical method (Guaiac method) based on old measuring principles are still used, which presents accuracy challenges. In 2011, the test guidelines in Europe have finally begun recommending automated analyzers that use the immunochemical method. As a result, the market is beginning to undergo a dramatic change.

Furthermore, although the chemical method is also still common in the United States, which has the largest potential market, trends show a gradual shift toward the immunochemical method. Additionally, new guidelines on colorectal cancer screening by USPSTF (US Preventive Medicine Special Committee) was published in June 2016. These guidelines pointed that the immunization method is superior to the conventional chemical method and pursuantly, and assessed Eiken's fecal immunochemical test product, "the OC FIT-CHEK family of FITs" has the utmost inspection performance with high sensitivity and specificity. Besides, the large markets which are underdeveloping exist on the leading and emerging countries in Asia and South America.

Because the fecal immunochemical test market is a niche market, Japanese companies, the forerunners of the immunochemical method, own the most advanced technique, and hence Eiken's reagents and equipment are the global standard.

(2) Focusing on research and development

EIKEN CHEMICAL is focusing on research and development of unique technologies as a research and development corporation, and the development of original products that respond to customers' needs, using the unique technologies. The number of staff assigned for research and development is about 100.

The demand from the customers is higher quality of medicine. Specifically, they demand for higher differential diagnosis accuracy with high sensitivity and high quality and improved detection rate. In addition, easier usage will lead to reduction in the work of medical staff. Responding to such needs is critical.

Since its establishment in 1939, EIKEN CHEMICAL has accumulated unique technologies for manufacturing reagents. Their unique technologies are applied to the measuring principles of their devices such as fecal occult blood test analyzer, automated urine analyzer, and biochemiluminescent immunoassay analyzer " BLEIA " that are designed to optimize the performance of the reagents.

(3) Development of various types of products in various fields through alliance strategy

Because clinical test reagents have wide range of subjects and items, it is not possible for one company to develop, manufacture and sell all types of reagents. The other companies in the industry are focusing on the technologies and products that they are specialized in. However, as an integrated manufacturer of clinical test reagents, EIKEN CHEMICAL aims at stabilizing profit structure, expanding their own strengths through alliance strategy, and pursuing synergy effects such as complementing functions and acquiring new technologies, while dealing with a wide range of products and responding to the needs of customers and users such as medical institutions.
Another reason why they cover various types of products in various fields is that they believe that covering wide range of clinical tests is their social responsibility to protect the health of the public, as is stated in their management philosophy: "protect the health of the public through health care services".

(4) Competitive Advantages of the "LAMP"

Thus far the mainstream technology for amplifying genes as a process of gene tests has been what is called "PCR" Under such circumstances, in 1998, EIKEN CHEMICAL developed a unique technology called the "LAMP."

Compared to the PCR, the "LAMP" offers the following superior characteristics and allows users to carry out simple, rapid and accurate gene tests.

Simple	Amplification response occurs at a constant temperature (with the PCR, the temperature needs to be changed for amplification).
Rapid	High amplification efficiency, with genes being detected within 30 to 60 minutes (with the PCR, it takes 2 to 3 hours).
Accurate	Extremely high specificity.

Currently in the medical field, the LAMP is used to diagnose infectious diseases such as tuberculosis, mycoplasma (a genus of bacteria, it can also cause pneumonia), legionella, pertussis, etc.
EIKEN CHEMICAL is making focused efforts on infectious disease diagnostic test in order to establish the status of the LAMP. At the same time, it is promoting the use of the LAMP in other fields such as food production and processing, environment, agriculture/veterinary in order to spread and enhance recognition of the LAMP. In fact, the LAMP-based products have been commercialized one after another since 2002.
Furthermore, for the same purposes, EIKEN CHEMICAL is actively giving licenses to external companies in order to build the LAMP camp.

One of the major actions to spread the LAMP in the world is an alliance with "FIND."
"FIND" stands for "Foundation for Innovative New Diagnostics" and is a non-profit organization recognized by the Swiss government, launched at a meeting of the United Nations World Health Assembly in May 2003. In its initial five years of existence, it received a grant from the Bill & Melinda Gates Foundation to start up their activities.
Their goal is to develop and introduce affordable, simple and advanced diagnostic tests in order to eradicate infectious diseases in developing countries.

FIND's scope of activities includes tuberculosis, malaria, and African sleeping disease. With tuberculosis, collaborative research between EIKEN CHEMICAL and FIND for a tuberculosis test using the LAMP began in July 2005. The purpose of this research is to improve the accuracy of tests by replacing the microscopy test (sputum smear test), which is the current practice in developing countries.
As a result of this collaboration, improvements which are not possible with the conventional PCR such as simplified pretreatment (PURE), improved reagents storage (store at room temperature) and simplified devices have been made to enable the developing countries to carry out the procedure (TB-LAMP).
This LAMP-based product was already launched in Japan in 2011.

After that, in order to obtain endorsement from the WHO (World Health Organization), FIND has completed its clinical

evaluation in 14 developing countries and submitted this information to the WHO.
In consequence, the company has acquired the recommendation by WHO as an evaluation replaces with microscopic examination or as an inspection reinforcing microscopic examination in August 2016.
According to a report on global tuberculosis announced by WHO in November, 2017, the number of patients suffering from tuberculosis in 202 countries all over the world in 2016 was 10.4 million, an increase of 0.8 million from 9.6 million in 2014. Additionally, the number of deceases was 1.7 million, an increase of 0.2 million from 1.5 million in 2014.
Most of them are inferred as matters of undiagnosed or untreated, and WHO indicates "the enforcement of countermeasures for the countries where access to diagnosis and treatment is not yet maintained is demanded".
Following these situations, the company expects that dissemination and penetration of TB - LAMP contribute greatly to solve these problems.

In addition to tuberculosis and other diseases listed above, EIKEN CHEMICAL and FIND also conduct collaborative research of reagents for leishmaniasis and Chagas disease.

Also, EIKEN CHEMICAL is developing a next-generation compact fully automated genetic testing device and multi-item testing chip using the LAMP “Simprova”. This equipment fully automates the process from specimen preprocessing (nucleic acid extraction and purification) to amplification and detection. By developing the unique protocol that exploits the LAMP’s characteristics, the operation time that used to take over 2 hours with a conventional high purity nucleic acid extraction and purification device and an amplification and detection device combined, is now shortened to less than an hour. First, a clinical performance test will be carried out with the goal of simultaneous detection of several respiratory infection causing germs but the usage application is extensive.
It is anticipated that through these products, EIKEN CHEMICAL will accelerate the spread of the LAMP and establish its position as the global standard in a newly created market.

＊Gene amplification technology
Since the amount of genes found in a genetic test sample is extremely small, in order to detect genes, the targeted gene must be amplified first of all. Gene amplification technology, therefore, is crucially important for genetic testing.

＊African trypanosomiasis
An endemic found in tropical Africa, African trypanosomiasis is a serious tropical disease transmitted to HUMAN mbH by a protozoa called Trypanosoma brucei. The disease is transmitted by a tsetse fly. Trypanosoma in HUMAN mbH blood sucked by a tsetse fly develops and propagates inside the HUMAN mbH body in 2 to 5 weeks, before turning itself into a terminal Trypanosoma-type, which becomes a source of next round of infection. The disease causes fever, headache, and vomiting, and the patient falls into constant sleep. Since the patient cannot take meals, he or she becomes thin and complain of generalized weakness and, in many cases, leads to a complication and dies.

＊Leishmaniasis
Leishmaniasis is a disease transmitted by a protozoa called leishmania, and has various types such as visceral leishmaniasis (also known as black fever), Brazilian leishmaniasis that affects skin and mucous membranes, and tropical leishmaniasis which affects skin. All of these types are transmitted by blood-sucking insects, especially sandflies. Visceral leishmaniasis, after about three months incubation period, causes fever, sweating, diarrhea, etc. and, in about one month, causes a swollen liver and spleen, the patient develops an anemia and becomes weak if untreated, and may die in half a year to two years.

＊Chagas disease
Found in southern U.S. as well as Central and South America, Chagas disease is an infectious disease transmitted by Reduviidae, a kind of blood-sucking Triatominae. The disease does not develop symptoms immediately after infection; it usually has a latency period of about 30 years. It causes symptoms such as inflammation of sinews, liver and spleen, myalgia, myocarditis, cardiomegalia, encephalomyelitis, cardiac disturbance.

2.Fiscal Year March 2019 Earnings Results

(1) Overview of consolidated results

	FY 3/18	Share	FY 3/19	Share	YOY	Initial Estimate
Sales	34,991	100.0%	35,761	100.0%	+2.2%	-2.7%
Domestic	29,586	84.6%	29,691	83.0%	+0.4%	-0.7%
Overseas	5,405	15.4%	6,070	17.0%	+12.3%	-11.6%
Gross margin	14,699	42.0%	15,692	43.9%	+6.8%	-
SG&A	11,220	32.1%	11,080	31.0%	-1.2%	-
Operating income	3,478	9.9%	4,611	12.9%	+32.6%	+9.8%
Ordinary income	3,549	65.7%	4,681	77.1%	+31.9%	+10.7%
Net income	2,608	48.3%	3,447	56.8%	+32.1%	+13.5%

(unit: million yen)

Sales and profit grew from the previous term.

Sales were 35.7 billion yen, up 2.2% year on year. In Japan, the sales of fecal immunochemical test reagents and urinalysis test strips grew, but the sales of AIA, which was adopted by Tosoh Corporation in Japan, dropped, so domestic sales were unchanged from the previous term. Outside Japan, the sales of fecal immunochemical test reagents in Australia, Europe, and the U.S. increased.

Operating income grew 32.6% year on year to 4.6 billion yen. As the product mix changed, gross profit rate improved about 2%, and gross profit rose 6.8% year on year, while SGA declined 1.2% to 11 billion yen.

Sales did not reach the estimate, due to the delay in bidding on new fecal immunochemical test reagents for overseas markets and the decrease in sales of AIA in Japan, but SGA was lower than the estimate. Accordingly, profits exceeded the estimates.

Considering the 80th anniversary of the establishment of the company and full-year business performance, the term-end dividend has been increased 3 yen/share from the latest dividend estimate to 17 yen/share. The annual dividend is 30 yen/share, and payout ratio is 32.0%.

(2) Sales by product

Products	FY 3/18	FY 3/19	YoY	Divergence from Estimates
Fecal immunochemical test reagents (FIT)	9,085	10,016	+10.2%	-5.9%
Immunological and serological reagents (excluding fecal immunochemical test reagents)	10,027	9,972	-0.5%	-3.8%
Urinalysis test strips	2,905	3,097	+6.6%	+1.0%
Microbiological test reagents	5,096	5,153	+1.1%	-1.5%
Biochemical test reagents	608	595	-2.1%	-
Equipment/Culture medium related to food and environmental	2,182	2,169	-0.6%	-
Related molecular genetics (LAMP), (including its devices)	1,192	1,315	+10.3%	-5.1%
Medical Devices (excluding molecular genetics related devices)	3,894	3,440	-11.7%	-
Total sales	34,991	35,761	+2.2%	-2.7%

(unit: million yen)

Fecal immunochemical test reagents (FIT)

Sales grew 3.7% year on year in Japan. The performance was healthy, because the reagents were adopted by large-scale facilities and the number of specimens increased around Japan.

Outside Japan, sales rose 22.1% year on year. As the guidelines of American Cancer Society (ACS) were revised, the age for undergoing diagnosis in the U.S. was lowered from 50 years to 45 years. Furthermore, U.S. Preventive Services Task

Force (USPSTF) announced a proposal for lowering the age to 40 years, and the company conducted educational activities and sales promotion targeted at new target customers.
As for Europe, the reagent for major test centers sold well and expanded its market share in Germany. In France, consultation rate improved, as measures for increasing it bore fruit. The company also took some measures for bidding in several countries.
In Middle Eastern countries, the company continued efforts to get orders for national screening for colorectal cancer, and the national screening in Australia is progressing steadily.

Immunological and serological reagents (excluding fecal immunochemical test reagents)

As for AIA-related reagents, the company promoted the new product autotaxin (hepatic fibrosis marker), but sales dropped due to the intensification of competition with other companies and the drop in market price. As for original products, the company strived to diffuse and promote the evaluation on the stomach health level (ABC classification).

Urinalysis test strips

In Japan, sales grew as the strips were adopted by leading checkup centers. The strips were adopted by more centers, thanks to the proposals for the combination of urine sediment apparatus and US-3500.
Outside Japan, the sales of urinary test strips for Sysmex contributed. The application to FDA in the U.S. is ongoing.

Microbiological test reagents

The sales of reagents for swift tests increased, as Immunocatch Series were adopted by checkup centers. The competition with other companies is getting fierce.
The sales of reagents for testing drug sensitivity increased, as new customers increased. The company is proposing the combination with MALDI Biotyper. The sales of vital media (Pore Media) dropped, in the wake of the change from fecal media tests to genetic tests. The company proceeded with the sale of culture media for clinical tests and modified products.

Related molecular genetics (LAMP)

Inside Japan, reagent kits for detecting the tuberculosis complex and pertussis bacteria performed well, because the remunerations for medical services were revised and pertussis was designated as a disease that shall be counted.
Outside Japan, TB-LAMP was adopted in Cameroon, and sales via the distributor HUMAN in Germany increased.
Furthermore, the company applied the case of adoption in Cameroon in other countries, including the Philippines.
The revenue from patents grew 9 million yen year on year to 512 million yen.

(3) Overseas trends

	FY 3/17	FY 3/18	FY 3/19	YoY	Ration to Estimates
Overseas sales	4,086	5,405	6,070	+12.3%	-11.6%
North America	1,008	1,229	1,447	+17.7%	-18.2%
Europe	1,396	1,550	2,134	+37.7%	-5.2%
Asia, others	1,682	2,626	2,489	-5.2%	-12.7%
For OC	2,414	3,228	3,940	+22.1%	-
Others	1,671	2,177	2,130	-2.2%	-

(unit: million yen)

The sales of fecal immunochemical test reagents were healthy in Australia, Europe, and the U.S.
On the other hand, other sales, including the sales of apparatus, decreased, due to the effects of inventory of urinalysis devices for Sysmex for initial marketing in each country. Sales fell below the estimates in each region.

(4) Capital investment, R&D, Depreciation

	FY 3/17	FY 3/18	FY 3/19 Act.	FY 3/19 Est.
R&D	2,336	3,238	2,904	3,200
Capital investment	3,959	1,102	1,685	2,500
Depreciation	1,563	1,660	1,594	1,750

(unit: million yen)

(5) Financial status and cash flow

Major BS

	End of March, 2018	End of March, 2019		End of March, 2018	End of March, 2019
Current assets	27,197	25,852	**Current liabilities**	11,550	10,981
Cash and deposits	9,734	7,554	**Notes and accounts payable-trade**	7,464	6,580
Notes and accounts receivable-trade	11,718	11,959	**Income tax payable**	701	770
Inventory	5,294	5,825	**Noncurrent liabilities**	1,136	1,284
Noncurrent assets	17,968	21,427	**Total liabilities**	12,687	12,265
Property, plant and equipment	11,391	11,095	**Net assets**	32,478	35,014
Intangible assets	435	744	**Shareholder equity**	31,876	34,537
Investment and other assets	6,140	9,587	**Total liabilities and net assets**	45,165	47,279
Total assets	45,165	47,279	**Equity ratio**	71.2%	73.5%

(unit: million yen)

* Accounts payable includes Electronically recorded monetary claims

Current assets declined 1,345 million yen from the end of the previous term, due to the drop in cash and deposits, etc.
Noncurrent assets grew 3,459 million yen from the end of the previous term, due to the increase in long-term deposits, etc.
Total assets increased 2,113 million yen from the end of the previous term to 47,279 million yen.
Total liabilities decreased 422 million yen from the end of the previous term to 12,265 million yen, due to the drop in accounts payable, etc.
Net assets grew 2,535 million yen from the end of the previous term to 35,014 million yen, due to the rise in retained earnings, etc.
As a result, equity ratio rose 2.3% from 71.2% at the end of the previous term to 73.5%.

◎Cash flow

	FY3/18	FY3/19	Changes
Operating CF	4,091	3,318	-773
Investing CF	-3,250	-4,435	-1,185
Free CF	841	-1,117	-1,958
Financing CF	-1,175	-1,083	+92
Cash and cash equivalents	6,651	4,448	-2,203

(unit: million yen)

The surplus of operating CF shrank, due to the decrease in accounts payable, etc. The deficit of investing CF augmented due to the rise in time deposits, etc., and free CF turned negative. Financing CF was nearly unchanged.
The cash position degraded.

3.Fiscal Year March 2020 Earnings Estimates

(1) Earnings Estimate

	FY3/19	Share	FY3/20(Est.)	Share	YoY
Sales	35,761	100.0%	35,900	100.0%	+0.4%
Domestic	29,691	83.0%	28,980	80.7%	-2.4%
Overseas	6,070	17.0%	6920	19.3%	+14.0%
Operating income	4,611	12.9%	3,600	10.0%	-21.9%
Ordinary income	4,681	13.1%	3,650	10.2%	-22.0%
Net income	3,447	9.6%	2,600	7.2%	-24.6%

(unit: million yen)

* Estimates announced by EIKEN CHEMICAL CO., LTD

It is estimated that sales will grow slightly and profit will decline.

Sales are projected to slightly rise year on year to 35.9 billion yen. It is forecasted that sales will decline in Japan, while fecal immunochemical test reagents will sell well in the U.S. and Europe. It is estimated that SGA, including depreciation, will grow 8.6% year on year, and operating income will drop 21.9% year on year to 3.6 billion yen.
The annual dividend is to be 27 yen/share. Payout ratio is projected to rise from the previous term to 38.3%.

(2) Equipment investment, R&D, and depreciation

	FY 3/17 Actual	FY 3/18 Actual	FY 3/19 Actual	FY 3/20 Estimates
R&D	2,336	3,238	2,904	3,440
Capital investment	3,959	1,102	1,685	3,330
Depreciation	1,563	1,660	1,594	1,880

(unit: million yen)

In the FY 3/19, R&D cost and equipment investment fell below the initial estimates, and R&D cost did not reach the amount in the FY 3/18, either. This term, the company will surely invest in the compact fully-automated genetic testing system "Simprova" and the mission-critical system.

4.EIKEN ROAD MAP 2019 and the New Medium-Term Management Plan

(1) EIKEN ROAD MAP 2019

The company is projecting a target in 10-year intervals, and constructing and promoting a basic strategy to achieve that target. For that, the company newly formulated "EIKEN ROAD MAP 2019" that will start this term in order to continue growing and speed up and expand business.
The grand vision of "EIKEN ROAD MAP 2019" is the "Saving Your Health: Continuing to protect your health as a global clinical test agent manufacturer" in FY 3/2029, which is the 90th anniversary of foundation.

Aiming to achieve the vision, the company formulated the following 3 basic strategies.

Basic Strategy	Outline
(1) Basic Strategy 1: To enhance growth and profits	① Promoting global operation ② Maintenance of domestic sales and increase of market shares ③ Increasing profits
(2) Basic strategy 2: Creation of a new Business	① Strategic partnership through open innovation ②Creation and advancement of new businesses and new markets

(3) Basic strategy 3: Development of a Foundation	① Increase in productivity through IoT and AI ② Nurturing and procurement of personnel and structural reform ③ Development of sales networks and strengthening of marketing

Under "EIKEN ROAD MAP 2019," the company will divide a 10-year period into 3 stages and set a theme in each stage.

Period	Theme
FY 3/2020 – FY 3/2022	Structural Reform Period: Firmly forging a foundation
FY 3/2023 – FY 3/2025	Brand Value Improvement Period: Nurturing brand value that can circulate globally through a strong system
FY 3/2026 – FY 3/2029	Sustainable Growth Period: Firm growth based on the newly created value

(2) The New "Medium-Term Management Plan" (FY 3/2020 – FY 3/2022)

The company formulated a medium-term management plan that would become the first stage of the "EIKEN ROAD MAP 2019."

Recognizing it as the Structural Reform Period, the company develops the corporate structure to become a global enterprise "EIKEN", contribute to the world through healthcare, and aims for continuous growth and an increase in profitability.

① Looking Back at the Previous Medium-Term Management Plan

The company couldn't reach its target in sales or operating income. The main factors in the non-accomplishment of targets were the difference between target and actual overseas sales, the change in the state of affairs in each country, and a delay in the releasing of new products. On the other hand, operating income rate exceeded 10%, and the ratio of sales of profitable products increased.

	Initial Target of the Medium-Term Management Plan	Results
Performance	Operating Income: 4,700 million yen Sales: 37,880 million yen Overseas Sales Ratio: 21.4% ROE: 10.4%	Operating Income: 4,611 million yen Sales: 35,761 million yen Overseas Sales Ratio: 17.0% ROE: 10.3%
Basic Policy	Increase in shares of the company's products in domestic markets - Growth due to expansion of the company's product lineups.	- Domestic Sales: 29,691 million yen Growth in sales of mainly fecal immunochemical test reagents
	Acceleration of global business development - Overseas sales: 8,120 million yen - Construction of a business portfolio that can grow stably	- Overseas Sales: 6,070 million yen (average annual growth rate: 20.2%) Sales grew by double digits due to growth in sales of fecal occult blood analysis and urine analysis, but did not reach the target due to the state of affairs in each country, etc.
	Strengthening of Research and Development - Development of new large-scale product lineups by creation and adoption of new technology - Improvement of products and expansion of product lineups	- Planning to release Simprova in FY 2019 after getting approval from the respiratory organ infections panel - Addition of POCT products (pneumococcus/legionella)
	Establishment of a foundation for increasing management efficiency - Increase in production capacity and reduction of manufacturing cost - Improvement in management efficiency through company-wide optimization	- Establishment of a production system in response to increase in production of urinalysis test strips, fecal immunochemical test reagents and LZ reagents - Working on the company-wide IT system

② Intensive Measures

The company set the following 4 intensive measures under "Structural Reform Period: Firmly Forging a Foundation"

Intensive Measure	Outline
(1) Establishment of a foundation for increasing management efficiency	* Offering high value-added services by integrating mission-critical systems, and applying IT to quality systems and the operation services department. Continuing IT application in the entire company. * A simple and flat reform of organizational function and structure in order to promote global business development * An increase in efficiency by strengthening and consolidation of production and distribution bases. Currently planning for an expansion of Nogi Office.
(2) Promoting global business development	* Promotion of colorectal cancer screening, the winning of government screening transactions, and cultivation of the markets of emerging nations * Spread of fecal immunochemical test reagents, especially ABC classification (evaluating the health of the stomach) * Expanding sales in the urine qualitative examination field by forming a marketing tie-up with Sysmex Corporation * Speeding up the business of tests for tuberculosis complex and malaria using the LAMP method. Promoting the application of the Cameroon-Philippines model in mainly Africa and Asia
(3) Maintenance of domestic sales and increase of market shares	* Steady growth due to expansion of the company's product lineup. Focusing on construction of a market for screening of early stage kidney diseases and medical checkups of school children. * Promotion of reagents for colorectal cancer tests and the ABC classification (evaluating the health of the stomach), and establishment of a screening for cancer in digestive organs. * Marketing for a compact, fully-automated genetic testing device (Simprova)
(4) Strengthening of research and development	* Development of a new panel for a small-sized automatic genetic test system (Simprova) * Development of a new biomarker through open innovation * Development of a new POCT platform for the primary care area, etc.

③ R&D･Capitala Investment

	FY 3/19	FY 3/20	FY 3/21	FY 3/22
R&D	2,904	3,440	3,380	3,400
Capital investment	1,685	3,330	3,860	5,040
Depreciation	1,594	1,880	2,320	2,500

(unit: million yen)

Value in 3/19 is actual and those after 3/20 are estimates.

Executing aggressive investment in order to firmly forge a foundation.

The main themes in research and development are "Brushing up of core technology and evolution to new technology," "Promoting development of new reagents and technology and antibody production technology," "Enrichment of the multiple item chip lineup under Simprova" and "Development of a later model of the fecal occult blood analysis measuring device."

As for capital investment, the company will be focusing on "Integration of mission-critical systems: application of IT in quality systems and the operation services department," "New manufacturing system," "Reconstruction of Nogi Office including adjoining areas" and "Manufacturing system of Simprova."

④ Performance Targets

	FY 3/19	FY 3/20	FY 3/21	FY 3/22
Sales	35,761	35,900	37,000	38,700
Overseas sales	6,070	6,920	7,930	9,460
Ratio of overseas sales	17.0%	19.3%	21.4%	24.4%
Operating income	4,611	3,600	3,950	5,320
Operating income margin	12.9%	10.0%	10.7%	13.7%
ROE	10.3%	7.4%	8%	10%

(unit: million yen)

Value in 3/19 is actual and those after 3/20 are estimates

While a steady increase in overseas sales ratio is expected, it is projected that the operating incomes for this term and the next term will fall below that of FY 3/2019 due to aggressive investment in order to achieve steady growth.

⑤ Shareholder Returns

The company will continue to aim for a stable dividend with a payout ratio of more than 30%.

5.Interview with President Wada

We asked the President Wada about his review on the results of the previous fiscal year, the key points of the new medium-term management plan, and his message for shareholders and investors.

Q: "Please tell us about the results of the previous fiscal year. First, could you describe the performance of fecal immunochemical test reagents overseas?"

A: "We have steadily expanded overseas sales of fecal immunochemical test reagents thanks to an increase of the market share in Germany. From now on, we will start to further expand sales in the U.S. and cultivate new markets."

Overseas sales of fecal immunochemical test reagents have successfully expanded.

As the immunization method was covered by insurance in Germany, we increased our market share, mainly among major testing centers we continuously approached.

In the U.S., ACS (American Cancer Society) guidelines have been revised to reduce the qualifying age of check-ups from 50 to 45 years, which expanded the qualifying population from 55 million to 77 million. In addition, as USPSTF is planning to lower the qualifying age to 40 years, there is a possibility that the qualifying population will be expanded to 140 million. It is of course just calculation, but it is certain that the market will expand further. While the shift from the chemical method to the immunization method is ongoing in the U.S., we will make sure to capture the needs as a top company in the field of the immunization method.

On the other hand, although sales in Asia and Oceania went down, sales have increased 20% per year from the fiscal year before the previous one. We believe that the market will continue to grow.

We are planning to expand our business in countries and areas where the chemical method still occupies a lion's market share, such as Eastern Europe, Russia, Central and South America, etc., in addition to England, which has remained to become a large market. We are currently conducting the market research.

Q: "Have you decided when to launch Simprova?"

A: "We have been preparing for its launch during this term. We expect that it will contribute to the cultivation of new markets."

We have been preparing for its launch during this term.

We believe that "Simprova," a compact, fully automated genetic testing device that can realize quicker and easier simultaneous testing of multiple items, can contribute not only to large hospitals and testing centers, but also to the cultivation of new markets.

Q: "Next, please tell us the key points of the new medium-term management plan."
A: "We will focus on establishing a company-wide IT system, occupying new markets in the field of colorectal cancer screening, establishing the EIKEN brand that will flash through customers' mind every time they think about digestive system cancer screening, developing new biomarkers by promoting open innovation, and so on."

As for infrastructure development to improve management efficiency, we will further focus on establishing a company-wide IT system, which has been consistently essential from the perspective of improving productivity and quality and strengthening our price competitiveness.
With regard to promoting global expansion, we aim to occupy new markets in the field of colorectal cancer screening as I mentioned earlier.
In addition, collaborative sales with Sysmex Corporation in the domain of qualitative urine testing have been in steady progress, so we will continue to actively work on it.

As for maintaining domestic sales and share expansion, we will work on screening for early kidney disease and building up a market of medical examinations for school students as well as further diffusing colorectal cancer screening.
In both cases, we believe that early detection will help improve the financial standing of health care in Japan.
As our company continues to grow with colorectal cancer examinations, we will focus on establishing the EIKEN brand that will flash through customers' mind every time they think about digestive system cancer screening, while acknowledging that it can contribute to steady business infrastructure development.

In order to strengthen our research and development capabilities, we will further focus on open innovation.
As we have continued establishing cooperative relationships with universities and research institutes both inside and outside Japan, we plan to further expand our network of open innovation mainly for the purpose of searching for new biomarkers and technology.
In addition, we will work on developing a platform for POCT (Point-of-Care Testing) in the domain of primary care in light of disease prevention.

Q: "Finally, please give your message to investors and shareholders."
A: "We will continue to pursue our management philosophy, 'Protect the health of people through health care services,' without forgetting our initial intentions. We plan to increase our profits and return them to our investors and shareholders, making steady progress toward the desired state we set in the EIKEN ROAD MAP 2019. We would appreciate your continued support from a long-term perspective."

As our company commemorated its 80th anniversary in February this year, we believe that we must continue to pursue our management philosophy, "Protect the health of people through health care services," without forgetting our initial intentions.
In order to achieve this, we plan to establish a system that achieves sustainable growth, aiming for this goal not just with our management, but also with all of our employees joining hands.

For achieving sustainable growth, it is necessary to utilize open innovation and work on creating new products and services while following the basics of manufacturing, "management of quality, cost, and efficiency," in order to identify what is truly required in society in the near future. Through this, we would like to focus on not only increasing sales, but also contributing to the bright future of Japan.

To work toward that goal, we formulated a new medium-term management plan and the EIKEN ROAD MAP 2019, which start this year.
Results will not be produced in a year or two, however, we plan to make steady progress toward our desired state for 2028.
As we also plan to increase our profits and return them to shareholders and investors, we would appreciate your continued support from a long-term perspective.

6.Conclusions

The overseas sales in the previous term were 6 billion yen, achieving double-digit year-on-year growth. In Asia and Australia, sales declined, but the annual growth rate from the second preceding term is 20%. There is no doubt about the growth potential of the overseas market, which is a key to corporate growth. On the other hand, there is concern over the fact that sales in any region did not reach the estimate. The new mid-term management plan set the goal of achieving "overseas sales of 9,460 million yen and a ratio of overseas sales of 24.4% in the FY 2022," and the average annual growth rate from the FY 2019 would be 15.9%. This is lower than the annual growth rate in the 3 years of the previous mid-term plan: 20.2%. In order for the company, which has a certain market share in the major market, to grow overseas sales, it is indispensable to promote sales in the U.S. market, where demand is expected to rise through the revision to the guidelines, and cultivate new markets. We would like to pay attention to the progress of the cultivation of overseas markets.

<Reference: Regarding Corporate Governance>

◎ Organization type, and the composition of directors and auditors

Organization Type	Company with a nominating committee and others
Directors	8, including 5 outside ones
Nominating Committee	3, including 2 outside ones
Compensation Committee	3, including 2 outside ones
Audit Committee	3, including 3 outside ones

◎ Corporate Governance Report

Last updated: submitted on November 15, 2018

<Basic Policy>

Our policy for corporate governance is based on our management philosophy, management vision, and motto.

*Management philosophy

We protect the health of people through healthcare services.

*Management vision

In order to protect the health of people, EIKEN Group offers reliable products and services as a pioneer in checkups, to improve its corporate value.

*Motto

"EIKEN" winning trust with quality and growing with technology

In order to improve our corporate value by enhancing the soundness, speed, and transparency of our business administration, we are enriching our corporate governance while emphasizing the viewpoint of shareholders and recognizing it as an important managerial mission.

Our company has adopted a corporate structure that has a nominating committee, separating the business execution function and the supervisory function of the management. Important items regarding the basic policy for business administration are determined through the deliberation of the board of directors, and business execution is conducted swiftly and smoothly under the appropriate chain of command, in accordance with our in-company regulations and rules.

<Reasons for Non-compliance with the Principles of the Corporate Governance Code (Excerpts)>

The company has implemented every principle detailed in the Corporate Governance Code.

<Disclosure Based on the Principles of the Corporate Governance Code (Excerpts)>

Principles	Disclosure content
[Principle 1-3 Objective of Capital Policy]	Our company has designated improving capital efficiency and continuous and stable returns to shareholders as the objective for our capital policy in order to maintain and boost shareholder value. As an index, based on the revised earnings forecast for FY March 2019, we will aim to achieve ROE of 9.2%. In addition, in terms of returns to shareholders, we have set a goal of continuing to have a consolidated payout ratio of 30% or more after taking into the account the extension of the necessary internal reserves for improving the financial structure and actively expanding business. When we implement a capital policy that brings about changes in authority and large-scale dilution (including increase in capital and MBO), we will adequately consider the necessity and rationality of it at the board of directors meeting and ensure that the proper procedures take place. Moreover, we will strive to thoroughly brief shareholders and investors.
[Principle 1-4 So-called Strategically Held Shares]	1. Objective Regarding Policy to Strategically Held Listing Shares Our company has set up the basic policy of holding shares of business partners so long as it is within the scope of rationality for ensuring smooth operations, maintaining relationships in transactions, and upholding business and capital alliances and of continuing to hold it so long as these strategically held shares are deemed to contribute towards the development of our company's business. Every year, the board of directors checks the purpose and economic rationality of strategic shareholding, and sells shares that are not worth holding, by considering share price trends, etc., to reduce the number of strategically held shares. 2. Standard on Exercising Voting Right of Strategically Held Shares Our company exercise voting rights of strategically held shares by comprehensively considering the circumstances of maintaining the Corporate Governance of the firm, whether a bill will contribute to improve the shareholders' value, and how it will affect our company.。
[Supplementary Principle 4-11-3 Evaluation of Effectiveness of the Board of Directors and Disclosure of Results]	Our company analyzed and evaluated the effectiveness of the board of directors in 2016, and will disclose an outline of the results. 1. Goal of the analyzation and evaluation To objectively check whether the board of directors is functioning adequately and operating effectively as well as to make improvements to issues presented as necessary. 2. Target and Method A free description questionnaire with their name applied to all directors was used. 3. Questionnaire Items (1) Formation of Board of Directors; (2) Administration of Board of Directors (3) State of Observation and Supervision of Board of Directors 4. Summary of Results of Analysis and Evaluation We have taken into consideration the following points and have ensured that the board of directors is functioning adequately and is sufficiently effective. (1) The current number of directors comprises a suitable ratio of internal and external members, and possesses a perfect balance of experience, knowledge and diversity. (2) Administration of the board of directors has improved after receiving the results of questionnaire conducted in previous fiscal year through devising

	improvements in the time to provide materials and to deliberate as well as in briefing materials and procedures. (3) In addition to the monthly reporting on business performance situations, we regularly sent updates on the progress of the important items after the last term's questionnaire results. This improved auditing and supervising of the board of directors. Meanwhile, we have resolved the following actions regarding issues that were brought up. (1) As for selecting candidates for the directors from a viewpoint of diversity, the nominating committee and the board of directors will continue to discuss the matter. (2) Strive to further improve the administration of the board of directors by creating materials and delivering briefings with more concise points in order to increase the effectiveness of debates.
[Principle 5-1 Objective Regarding Constructive Dialogue with Shareholders]	Our company has formulated an IR policy approved by the board of directors and has released details about fundamental objectives, disclosed information, disclosure methods, and a quiet period, and has conversed with shareholders within a reasonable range to contribute to sustainable growth and increasing the mid- to long-term value of the company. Our company has designated the public affairs division to be responsible for IR and set up an IR framework which has the executive manager of general management in charge of the public affairs division as the executive officer of IR, and has established a place to engage in dialogue with shareholders and investors to gain their understanding and trust. The executive manager of general management also has control over posts that are relevant to the IR such as general affairs department, accounting department, and Dept. of Human Resources and General Affairs and links the departments together by closely sharing information between them. Regarding dialogue with shareholders, financial results briefing is conducted twice a year, namely the summary of financial results briefing for full-term and second quarter, for analysts and institutional investors, and involves a conference held in which the representative director and president will brief and interact with. The public affairs division engage in dialogue with shareholders and investors individually. Within the scope of rationality, management executives or directors will meet up with shareholders and investors themselves depending on their requests or the number of shares they hold. If deemed necessary, the executive responsible for IR will report the idea, understood from conversations with the shareholder or investor, to the board of directors. Our company has been interacting with shareholders and investors based on the IR policy and adequately operating based on internal corporate regulations formulated while taking into consideration the prescribed laws as well as sufficiently ensuring that no insider information has been included.