JSR Corporation

Summary of Q&A session of FY22 Life Sciences Business Briefing on March 10

Briefing material: https://ssl4.eir-parts.net/doc/4185/ir_material_for_fiscal_ym5/132539/00.pdf

Q) In terms of Mid-term management policy, could you elaborate again about how you are going to achieve more than 100 billion yen of revenue with more than ROS 20%? You already mentioned some of those on page 12 etc., but it seems to be challenging to achieve.

- As we mentioned on page 12, the most significant driver for increase in OP is KBI's new capacity in both North Carolina and Geneva. Our new facility in North Carolina is now up and running and we're going to generate more than $100 million in revenue per year at the end of FY24.
- The next most significant part is our Boulder facility, another KBI facility in Boulder, Colorado. This facility running not only full year after the maintenance is completed, but also at a higher utilization rate will contribute to the margin.
- The operational efficiency is where we are collaborating with outside experts to help us unlock capacity and reduce costs.
- If we benchmark KBI against the industry, we recognize that our costs are higher than the industry median. Improving our operational cost to the median will contribute to the margin. But this will not get us completely to 20% ROS. There also must be improvements from Crown, primarily through efficiency gains as well as the IndivuServe business coming online and then a number of other improvements in overall business.

Q) I see KBI's labor cost ratio is a lot higher than other competitors and KBI's headcount is increased almost double from 2019 to 2022. From my understanding, controlling headcount is a key to achieve the target. How are you going to achieve the target with increase in headcount and labor cost?

- You're absolutely correct. We must control our headcount so we are investing in activities such as digital ERP and inventory management systems, to use our headcount more appropriately and to reduce the need for headcount as our business expands in the future.
- For example, today each one of our facilities is operated in largely a standalone mode. We are looking to reorganize how we manage our facilities to ensure that we have the most efficient use of resources.

Q) Regarding CDMO's margin, where do you see as risks to improve margins?

- I feel confident that our business is strong based on our track record including the growth in backlog, new bookings, etc. while we have to be very careful about the new capacity.
- Most of competitors added significant capacity during COVID and now they are facing so-called "COVID Cliff". KBI did not produce any vaccines for COVID so we remain stable and upward growth. We have to be wary of the amount of capacity to add and ensure that we're focused on the right segments but I remain bullish on KBI with our technical capabilities.

Q） By controlling headcount, is there any risk of causing issues such as operation issue we previously saw?

- Increase in our headcount to both our Patriot Park facility in North Carolina and Geneva facility, has been added pre-revenue to ensure the startup of the facility and to be able to operate the facility.
- Now as the utilization increases drastically, the headcount will only increase a small amount. From a utilization perspective, the headcount will now be utilized as opposed to largely unutilized in FY22. We are making investments in digitalization to reduce the headcount that are needed as they grow.

Q) As KBI's new capacity ramps up, it might be a time to consider next investments for new capacity. What is your thought on this?

- We have made it a priority this year to understand our utilization rate which includes not only our human capital utilization rate, but also our installed capacity utilization rate. As example, we are planning to produce more batches from our current facilities in FY23 than we did in FY22.
- So our first strategy is to unlock that already installed capacity before we commit new capital. At the same time, we are already planning for the next phase of the new facility in North Carolina. We're considering the appropriate timing to bring the capacity online based on customer's late stage programs and such and we should be more specific with our investment timing by the latter half of FY23.

Q) With new capacity expansion, is it fair to think that you don't need large investments and headcount increase?

- We would not need large number of head count, like we added approximately 300 plus people to the new facility, because all of the overhead facilities, QA, etc., are already on site.
- One thing to add is that materials and tooling are significantly more expensive today compared to a couple years ago so that there's a significant cost increase to buying the equipment.

Q) on page 25, it shows production schedule of KBI's new facility. Why are the production batches of Q1 FY23 low? It seems to be possible to keep higher overall production by running Product1 same level as Q4 FY22 while adding Product 2 productions.

- Unfortunately, Product 2 and Product 1 cannot run at the same time. Because we manufacture a new product in a new facility, Product 2 will run at a much lower cadence rate compared to Product1. It means that Product 2 takes longer than Product 1 does in the facility even though the number of batches is the same for Product1 and Product2.

Q) Page 19 shows titer of 8-10g/L produced. Does this mean the efficiency is improving? Also it seems this 8-10g/L to be higher than industrial standard. Is it correct?

- This "8-10g/L " is a collection of programs over the past one year. It is quite common for biological titers to be to range from actually below one gram per liter up to ten grams per liter.
- High titer does not automatically equal to high efficiency. For example, there is a case where it takes a long time for purifications even though it has high titer. But we typically have very high expressing cell lines that lead to very robust processes.

- KBI and Selexis together have a significant advantage in capability for bispecific antibody, FC fusion, or other molecules compared to standard monoclonal antibodies.

Q) Based on track records, can we expect this growth of bookings to continue in FY23 and FY24 even with weakness in bio ventures? What kind of projects do contribute largely to bookings?

- As the percentage of molecules that are being started in the clinical stages continues to increase, I believe our opportunities will also continue to grow.
- We're also seeing a number of our customers' projects move into late stage. And one of the examples is the commercial manufacturing facility in North Carolina which was built in partnership with a customer that we grew up with.

Q) Could you touch on other businesses such as the cell therapy in Texas and protein A? Also, you announced Similis having a partnership with Blau. What is the potential and strategy for it?

- We've recently signed a contract that will keep our cell therapy capacity in Texas full throughout 2023. It is progressing well and we're now looking to fill slots for 2024 as well.
- Regarding Bioprocess materials, our business remains strong in the sense of the new clinical program with strong pipelines. But, with the post COVID slowdown, buying patterns at customers have shifted and there is capacity for many materials in the market.
- For Similis, we have signed contracts with Blau and some others. Although it is unlikely to outpace Crown or KBI, we think that the potential is high for this business, enabling companies to bring biosimilars to the market more quickly with attractive costs.

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