

3Q FY3/2022

Record high earnings bolstered by overseas demand

Further upward revision scenario still remains for the full year

Summary

In the preclinical business, SNBL's core business, the trend toward outsourcing drug development has accelerated because of the COVID-19 pandemic, and competition regarding the development of biopharmaceuticals, such as therapeutic antibodies and nucleic acid medicine, which require large laboratory animals, is growing fiercer. Despite having announced an upward revision in its full year net sales forecast to ¥17.4 bn, a YoY increase of 15% (¥2.3 bn) when releasing its 1H earnings, the company once again revised upwards its forecast to ¥17.9 bn, a YoY growth of 18% (¥2.8 bn) this time. SNBL also raised its forecasts for all levels of profit and expects operating profit to increase 8% (¥300 mn) YoY to ¥4.1 bn, ordinary profit to rise 22% (¥1.0 bn) YoY to ¥5.6 bn on account of strong earnings from PPD-SNBL, an equity-method subsidiary that undertakes commissioned clinical studies, and net profit to grow 18% (¥900 mn) to ¥5.8 bn. Because of its strong earnings, the company revised upward its DPS forecast for the FY3/22 to ¥40 from ¥20. However, the size of the upward revision for each level of profit in 4Q was limited because of plans to expand investments, such as launching phase 1 clinical trials for the domestic subsidiary SNLD.

Considering the upwardly revised forecast for the full fiscal year and difference from actual cumulative 3Q earnings, 4Q net profit is expected to fall 75% (¥1.6 bn) YoY. The forecast of a YoY increase of 6% (¥300 mn) in 4Q net sales is also extremely conservative, and full fiscal year earnings may ultimately exceed company forecasts by a substantial amount.

FY	Net sales ¥ mn	YoY (%)	OP ¥ mn	YoY (%)	RP ¥ mn	YoY (%)	NP ¥ mn	YoY (%)	EPS ¥
3/2022 CE(Feb. 2)	17,900	18.5	4,100	62.1	5,630	54.4	5,800	58.4	139.31
3/2022 CE(1H)	17,400	15.2	3,800	50.2	4,600	26.2	4,900	33.8	117.69
3/2022 CE(Initial)	15,982	5.8	2,550	0.8	3,200	-12.2	3,900	6.5	93.67
3/2021 A	15,110	3.8	2,529	13.5	3,645	16.8	3,661	43.6	87.95
1Q-3Q(Apr.-Dec.)									
2022/3 A	12,946	24.2	3,300	103.0	4,684	184.5	5,247	255.4	126.05
2021/3 A	10,420	3.5	1,626	3.1	1,646	-23.1	1,476	-8.0	35.47
4Q(Jan.-Mar.)									
2022/3(Implied)	4,954	5.6	800	-11.4	946	-52.7	553	-74.7	13.30
2021/3 A	4,690	4.5	903	38.7	1,999	104.2	2,185	131.2	52.50

Source: compiled by SIR from company materials

FY3/2022 cumulative 3Q results (Apr.- Dec.)

Cumulative net sales through 3Q rose 24.2% YoY. Facility utilization rate was high on account of strong orders in the preclinical business and the substantial order backlog. The cost of sales ratio fell 6 % YoY to 45.8% from 51.8%.

3Q FOLLOW-UP



Focus Points:

Japan's top CRO company benefiting from the globally expanding drug discovery business. Having moat with a unique supply chain of the animal for studies

Key Indicators

Share price (2/9)	1,620
YH (11/22)	1,870
YL (3/4)	606
10YH (13/4/25)	2,540
10YL (16/2/12)	300
Shrs out. (mn shrs)	41.632
Mkt cap (¥ bn)	66.112
EV (¥ bn)	71.793
Equity ratio (3/31)	42.56%
FY3/22 P/E (CE)	11.63
FY3/21 P/B (act)	4.20x
FY3/21 ROE (act)	22.9%
FY3/22 DY (CE)	2.47%

Share price chart

52 weeks

Trading View



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In addition, SG&A expenses rose only 9.4% on account of efforts to cut costs, such as innovations to in-house operations (promoting robotization and automation of work processes), which helped boosting the operating profit margin 10 % to 25.5%. Because of this, operating profit rose to ¥3.3 bn, a YoY increase of ¥1.7 bn (103% YoY). Furthermore, ordinary profit grew ¥3.0 bn, 185% YoY, to ¥4.7 bn. The increase in non-operating profit (¥1.4 bn) was primarily the result of FX profit (¥500 mn) compared to an FX loss (¥500 mn) for FY3/21. In addition, the contribution from the return on investment in the equity method subsidiary PPD-SNBL, a joint venture whose core business is conducting global trails in Japan, showed ¥800mn and contributed ¥300 mn increase at the bottom line. Net profit increased 3.5-fold YoY to ¥5.2 bn for various reasons, including growth in ordinary profit (¥3.0 bn) and extraordinary profit from the disposal of shares in subsidiaries (¥1.1 bn).

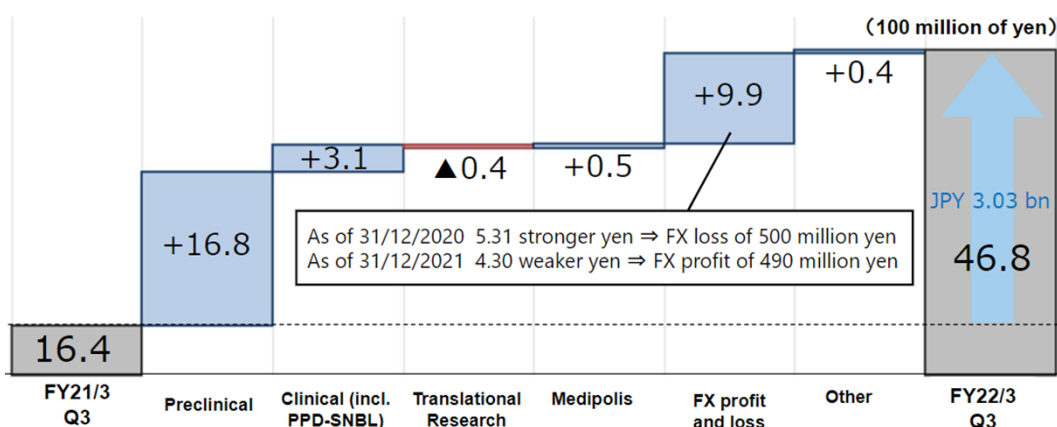
¥ mn	1Q-3Q	1Q-3Q	Amount change	YoY (%)	As % of sales	
	FY3/21	FY3/22			3/21, 3Q	3/22, 3Q
Net sales	10,420	12,946	2,526	24.2	100%	100%
Cost of sales	5,394	5,924	530	9.8	51.8%	45.8%
Total SG&A expenses	3,399	3,724	321	9.4	32.6%	28.7%
Operating profit	1,626	3,300	1,674	103.0	15.6%	25.5%
Ordinary profit	1,646	4,684	3,038	184.5	15.8%	36.2%
Extraordinary profit	50	1,419				
Extraordinary loss	10	59				
Income taxes	199	789				
Net profit	1,476	5,247	3,771	255.4	14.2%	40.5%

Source: compiled by SIR from company materials

Consolidated Ordinary Profit by Segment

	CRO business		Translational Research business	Medipolis business	Foreign exchange profit and loss	Other	Ordinary profit total
	Preclinical	Clinical (incl. PPD-SNBL)					
Q3 FY2022/3	39.2	9.3	-4.9	0.1	4.9	-1.8	46.8
Q3 FY2021/3	22.4	6.2	-4.5	-0.4	-5.0	-2.3	16.4
Yoy changes	+16.8	+3.1	-0.4	+0.5	+9.9	+0.4	+30.3

The increase in ordinary profit of ¥3.0 bn can be almost completely explained by growth in the preclinical business (¥1.7 bn), PPD-SNBL (¥300 mm), and FX profit (¥1.0 bn)



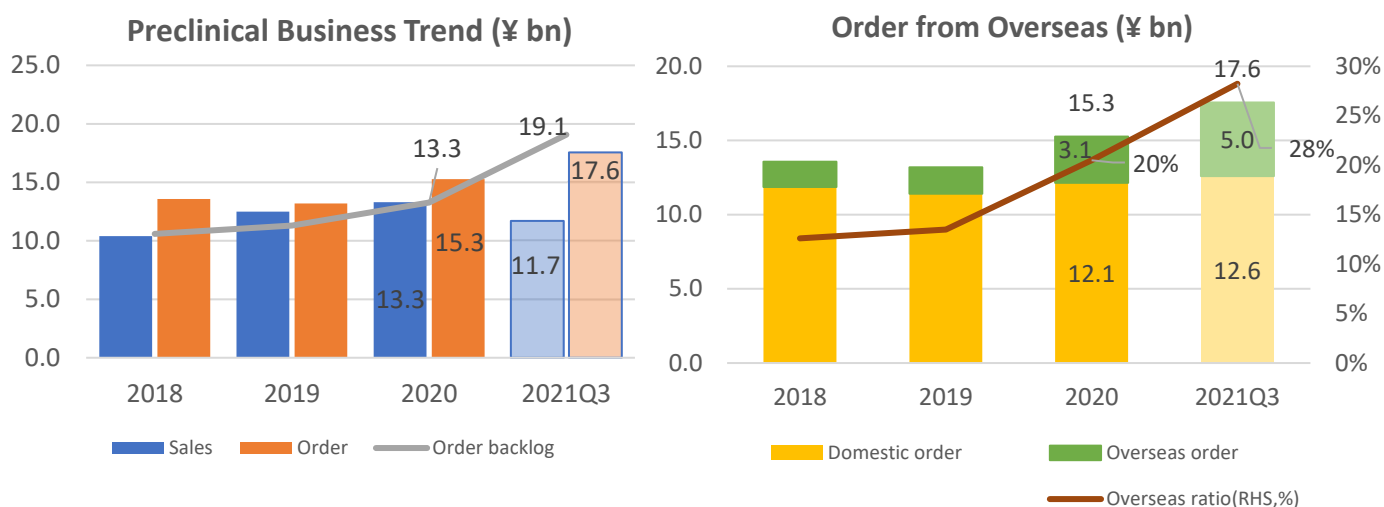
Source: company materials

Accelerating Growth in Order Backlog

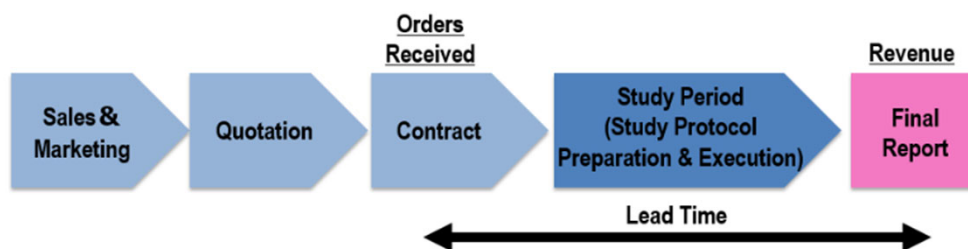
Preclinical Business

Demand for primate studies, a strength of the company, grew dramatically both in Japan and overseas. This is because of competition in the development of biopharmaceuticals that require primate clinical studies, including therapeutic antibodies, nucleic acid medicines, and gene therapy drugs. R&D companies continue to increase outsourcing to contract research organizations (CRO) in order to accelerate development and improve efficiency. The lead time for preclinical studies (length of time from when an order is received until when sales are booked) almost six months for SNBL. SNBL conducts studies that meet the scheduling demands of customers by shortening lead time and has created a system that makes it possible to quickly complete quality reports, SNBL offers substantial time value. This is particularly true for the development of COVID-19 related vaccines and treatments, which there is strong demand for, and SNBL has been commissioned to undertake about ten of these preclinical studies.

Cumulative orders through 3Q already surpass FY3/21 orders by ¥2.3 bn. As for a breakdown, overseas orders rose 2.2-fold YoY to ¥5.0 bn. Having risen 7 % YoY to 20% in FY3/21, the weight of overseas orders grew an addition 8% to 28%. The order backlog increased 44% YoY to ¥19.1 bn. It appears that global competitiveness has accelerated growth in sales.



Conceptual diagram of the preclinical CRO business



(¥ mn)	FY3/2020 3Q (A)	FY3/2020 Full year (A)	FY3/2021 3Q (A)	FY3/2021 Full year (A)	FY3/2022 3Q (A)
Order	9,516	13,194	11,673	15,271	17,569
Order backlog	11,656	11,299	13,686	13,275	19,070

Source: compiled by SIR from company materials

Translational research business (TR business)

Through its translational research business (TR business), SNBL uncovers promising seeds and new technologies from basic research undertaken in Japanese and overseas institutions, such as universities, biotech startups, and research organizations, and conducts research and development that leads to commercialization by raising value added through preclinical studies and clinical studies.

Although cumulative net sales through 3Q were only ¥10 mn, this was dramatic growth compared to FY3/21. On the other hand, the business recorded an operating loss of ¥50 mn, which is about the same as that for the previous fiscal year. The wholly-owned subsidiary SNLD, which was established in October 2020 to conduct clinical development of rescue drugs for neurodegenerative diseases administered through the nose, plans to launch phase 1 clinical studies in FY3/22.

The company is also aiming to create new intranasal portfolios, including nasal vaccines.

Medipolis business

As for the Medipolis business, cumulative net sales through 3Q shrank 2% YoY to ¥410 mn because of low occupancy rates at lodging facilities as a result of the COVID-19 pandemic. Even so, the business was profitable as the business posted an operating profit of ¥10 mn, compared to an operating loss of ¥40 mn for the same period in the previous fiscal year. This was primarily because in the geothermal power generation business, the 1,500 kW-class binary geothermal power plant was operating at high capacity and contributed to revenue.

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