



1H FY3/2022 Results

CRO business driving dramatic growth in sales and profit

Summary

Shin Nippon Biomedical Laboratories, Ltd. (SNBL), revised upward its earnings forecasts on October 21, two weeks before its expected November 2 earnings announcement. 1H earnings were about as forecast—net sales of ¥7.96 bn, operating profit of ¥1.97 bn, ordinary profit of ¥2.53 bn, and net profit of ¥3.40 bn. The Company dramatically revised upward its forecasts by net sales ¥505 mn (6.8%), operating profit ¥726 mn (59%), ordinary profit almost ¥1.0 bn (63%), and net profit ¥900 mn (35%).

As for full-FY earnings, SNBL rose its forecast by net sales ¥1.42 bn (8.9%), operating profit ¥1.25 bn (49%), ordinary profit ¥1.40 bn (43%), and net profit ¥1.0 bn (25%). These seem conservative revisions considering 1H results. In 2H, the Company expects to see an increase in corporate expenses, such as ones to recruit personnel to strengthen order and operation systems for the preclinical business, and to launch clinical studies in the translational research business, which could temporarily weigh down the operating profit margin compared to 1H. Even so, earnings for the full fiscal year, including operating profit, ordinary profit, and net profit, are expected to hit historic highs.

FY	Net sales ¥ mn	YoY (%)	OP ¥ mn	YoY (%)	RP ¥ mn	YoY (%)	NP ¥ mn	YoY (%)	EPS (¥)	DPS (¥)
3/2022 CE	17,400	15.2	3,800	50.2	4,600	26.2	4,900	33.8	117.69	
3/2021 A	15,110	3.8	2,529	13.5	3,645	16.8	3,661	43.6	87.95	
1H										
3/2022 A	7,961	13.7	1,969	69.6	2,529	93.8	3,503	207.5	84.15	
3/2021 A	7,003	9.6	1,161	7.7	1,305	3.7	1,139	29.9	27.36	
2H										
3/2022 CE	9,439	16.4	1,831	33.8	2,071	(11.5)	1,397	(44.6)	33.54	
3/2021 A	8,107	(0.8)	1,368	18.9	2,340	25.6	2,522	50.7	60.59	

Source : compiled by SIR from company materials

1H FY3/22

During the period through 1H, net sales rose 13.7% YoY on account of firm orders in the CRO Business (preclinical studies), which accounts for 95% of sales. The cost of sales ratio fell below 46%, improving more than 5 percentage points from 51% for the previous FY, on account of a higher facility utilization rate.

In addition, SG&A expenses grew a mere 3.7% because of completed improvements to operations, and the operating profit margin increased 8% to 24.7%. Operating profit, therefore, rose ¥808 mn, 69% YoY, to ¥1.96 bn.

Ordinary profit increased ¥1.22 bn, 93% YoY, to ¥2.53 bn. The growth in non-operating revenue of ¥450 mn was primarily the result of a foreign exchange gain of ¥150 mn for the current FY and a foreign exchange loss of ¥260 mn for the previous FY.

Net profit rose almost 3-fold YoY to ¥3.50 bn for various reasons, including ¥1.1 bn in extraordinary profit from the sale of shares in subsidiaries

Q2 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 (12/2)	1,537
YH (11/29)	1,825
YL (3/4)	606
10YH (13/4/25)	2,540
10YL (12/10/3)	186
Shrs out. (mn shrs)	41.632
Mkt cap (¥ bn)	63.989
EV (¥ bn)	34.782
Equity ratio	42.56%
FY3/22 P/E (CE)	17.28x
FY6/21 P/B (act)	4.06x
FY3/21 ROE (act)	22.9%
FY3/21 DY (CE)	1.30%

Share price chart 52 weeks



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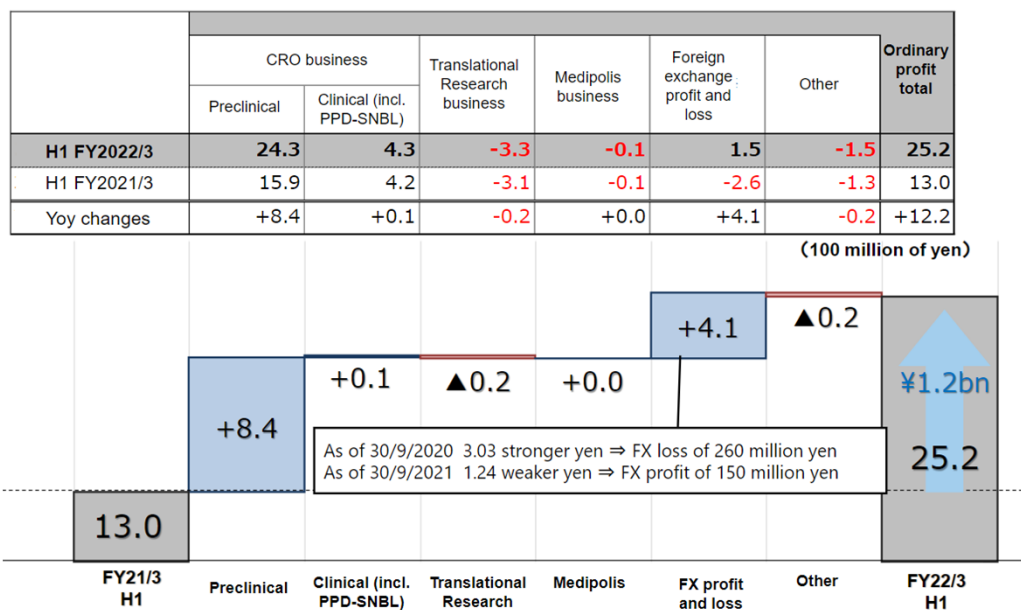
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J-GAAP ¥ mn	FY3/20	FY3/21	YoY (%)	As % of sales	
				FY3/20	FY3/21
Net sales	7,004	7,961	13.7	100%	100%
Cost of sales	3,575	3,641	1.8	51.0%	45.7%
Total SG&A expenses	2,267	2,351	3.7	32.4%	29.5%
Operating profit	1,161	1,969	69.6	16.6%	24.7%
Ordinary profit	1,305	2,529	93.8	18.6%	31.8%
Extraordinary profit	1	1,419			
Extraordinary loss	6	42			
Income taxes	157	402			
Net income	1,139	3,503	207.5	16.3%	44.0%

Source: compiled by SIR from company materials

Consolidated Ordinary Profit by Segment

The increase in ordinary profit of ¥1.2 bn can be almost completely explained by the preclinical business (¥800 mn) and foreign exchange gain/loss (¥400 mn).



Source: company materials

1. Preclinical Business

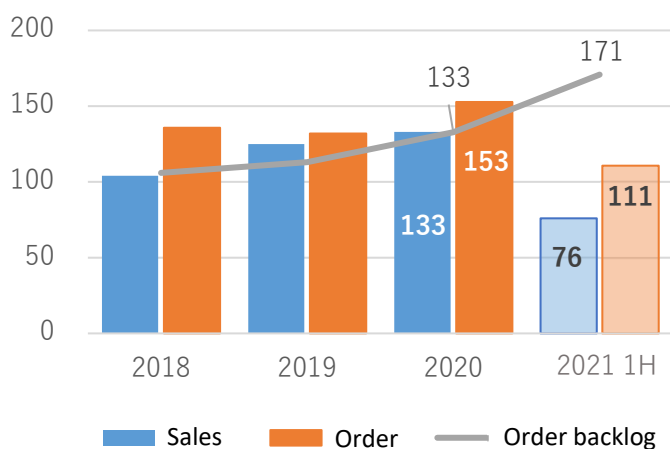
Accelerating growth in outstanding orders

Demand for NHPs studies, which account for more than half of orders, have grown dramatically both in Japan and overseas. This is because of competition in the development of biopharmaceuticals, including therapeutic antibodies, nucleic acid medicines, and gene therapy drugs. Development companies continue to increase outsourcing to CROs so as to accelerate and improve efficiency. Because it conducts studies that meet the scheduling demands of customers by shortening lead time and has created a system that makes it possible to quickly compile quality reports, SNBL offers substantial time value for customers. This is particularly true for the development of COVID-19 related vaccines and treatments which are urgent matters, and the Company has been commissioned to undertake about ten preclinical studies in this field.

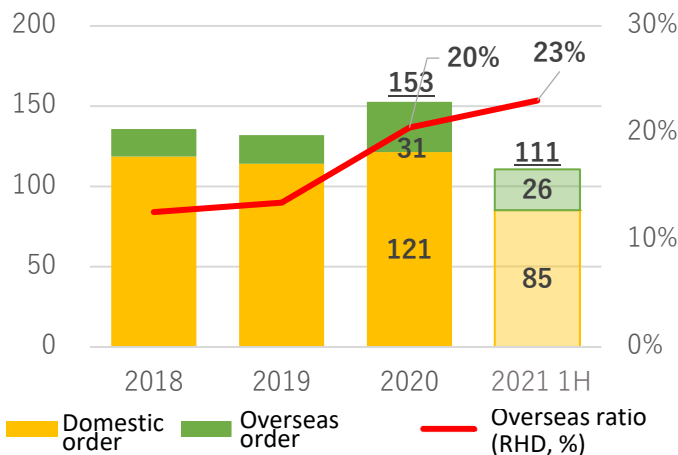
Growing overseas orders

During 1H, overseas orders doubled, increasing ¥1.3 bn YoY to ¥2.55 bn, and this contributed to a massive increase in overall orders, which rose 1.5-fold YoY to ¥11.1 bn. Overseas orders as a percentage of total orders increased 3% to 23%, compared to 20% at the end of the previous FY, FY3/21. Drug R&D costs are rising overseas, and increasing overseas orders look to become a growth driver. SNBL plans to make about ¥1.0 bn in capital expenditures to increase capacity 20%–30% in response to growth in demand.

Preclinical Business Trend (Y100mn)



Order Backlog from Overseas (Y100mn)



Source: compiled by SIR from company materials

2. TR Business

As for translational research, in which basic research by academic institutions (universities, etc.) and start-up companies is linked to the development of new drugs, medical devices, etc., SNBL has been conducting joint research through both preclinical and clinical studies since 1998 with an eye toward commercialization.

Seeking approval for migraine treatment in the US next year

Using its proprietary nasal delivery system, SNBL is developing substances that can be absorbed through the nose but provide a systemic effect. Having conducted more than a hundred clinical studies, the Company is providing guidance to Satsuma Pharmaceuticals regarding a migraine treatment. A phase III study of the migraine treatment STS101 has been launched, and Satsuma Pharmaceuticals expects to submit a new drug application for the treatment in the U.S. at the end of 2022.



Medipolis geothermal power generation plant in Ibusuki



Source: company material

Plan to launch clinical study of rescue drugs for neurodegenerative diseases

Established by SNBL in San Francisco, Satsuma Pharmaceuticals raised ¥27.0 bn through its subsequent IPO. However, SNBL lowered its holdings in the company to less than 10% in line with a strategy to reduce fund risk. As for future projects, SNBL plans to take part in early-stage studies up to POC or phase II trials, assuring itself of more than 20% stake, then consider IPO opportunities. For the present SNBL plans to initiate a phase I trial of a rescue medicine for neurodegenerative diseases during FY3/22, through its 100% subsidiary SNLD.

Continuing search for and research on new drugs

As for its development of nose-to-brain delivery system for drugs, SNBL continues to search for candidate drugs. The Company is also working to develop a vaccine that can be administered through the nose to offer mucosal immunity as there is growing demand for ways to combat new contagious diseases, such as COVID-19.

3. Medipolis Business

Segment net sales from the Medipolis business fell 3% YoY to ¥260 mn, but the operating loss improved slightly to ¥10 mn. The main reason for the loss was a decline in the occupancy rate for hotels because of COVID-19 and research expenses related to the fisheries business. However, for the geothermal power generation business, the sale of all power generated from its 1,500 kW-class binary geothermal power plant contributed to sales.

Increasing corporate value and social contributions

During 1H, SNBL established a SDGs Committee as an advisory body to the Board of Directors, and the Company's sustainability report and various ESG policies can be found on the corporate website. SNBL has indicated that environment (E), social (S), and governance (G), are three important issues within its sustainability efforts. Regarding the environment—that is, environment friendliness—SNBL possesses an abundance of individuality and spirit of innovation as a leading company in the CRO industry and boasts extremely interesting efforts.

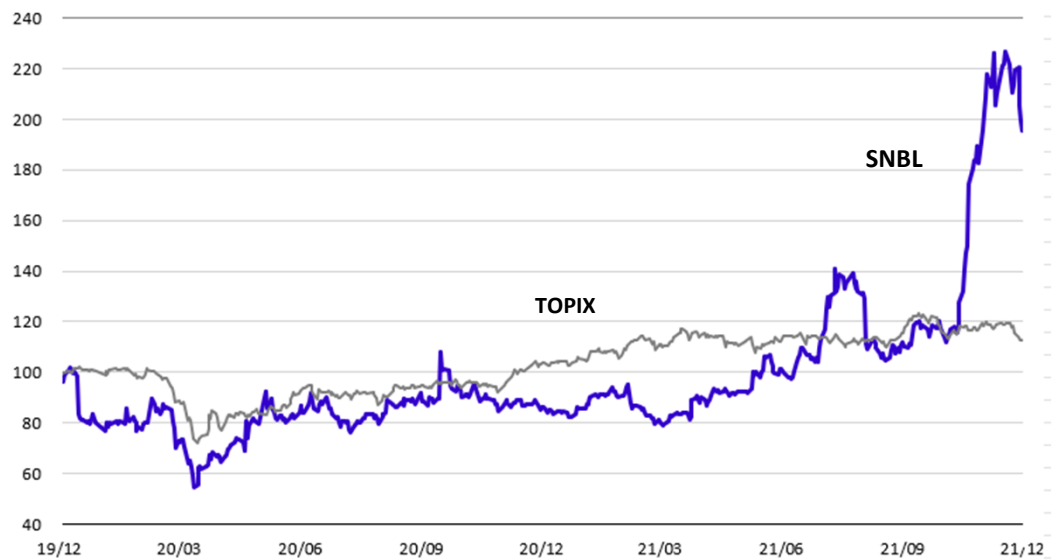
SNBL will use the foundation of its Medipolis business to reduce its CO2 emissions. Its geothermal power generation facilities generate an amount of electricity equivalent to almost 50% of the total power used throughout the Company. In the future, SNBL plans to have renewable energy account for all its energy by launching operation of a hot-spring power plant, plans for which are being developed now. It is estimated that the Medipolis Ibusuki forest, a forest located in Ibusuki Kagoshima Prefecture that covers an area 1.03 mn tsubo (300 hectares), helps reduce CO2 emissions 1,800 tons each year. SNBL is also conducting joint research on CCS technology with Kyushu University on the same grounds.

As for the preservation of biodiversity, another aspect of environmental friendliness, SNBL is moving forward with artificial Japanese eel seed production, which involves completely farming young Japanese eels in Ibusuki and on the island of Okinoerabujima. This is being done not only to protect natural resources included on the Red List that are in danger of extinction but also to support local industries.

SNBL share price chart(2 years)



Relative chart (SNBL - TOPIX)



Source: compiled by SIR from SPEEDA data

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