
 <p>President Tsugunori Notomi</p>	EIKEN CHEMICAL CO.,LTD.(4549)
	 EIKEN CHEMICAL CO.,LTD.

Company Information

Exchange	TSE Prime
Industry	Pharmaceuticals (manufacturing and sales)
President	Tsugunori Notomi
HQ Address	7 Yamaguchi building, 4-19-9 Taito, Taito-ku, Tokyo, 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	
2,146yen	40,041,438Shares	85,928 million yen	5.6%	100 Shares	
DPS (Est.)	Dividend Yield (Est.)	EPS (Est.)	PER (Est.)	BPS (Act.)	PBR (Act.)
53.00yen	2.5%	129.49yen	16.6 times	1,318.38 yen	1.6 times

* Share price is as of the end of May 20. All figures are from the FY March 2024 financial settlement report.

Business Performance Trends

Fiscal Year	Net Sales	Operating Income	Ordinary Income	Net Income	EPS	DPS
March 2021 Act.	38,667	6,612	6,808	5,044	136.65	41.00
March 2022 Act.	42,996	8,387	8,508	6,218	168.28	51.00
March 2023 Act.	43,271	7,457	7,568	5,736	155.17	51.00
March 2024 Act.	40,052	3,377	3,568	2,634	71.69	51.00
March 2025 Est.	43,100	5,660	5,620	4,480	129.49	53.00

* Unit: Million-yen, Yen. The definition for net income means net income attributable to owners of parent.

This Bridge Report presents EIKEN CHEMICAL's earnings results for the fiscal year March 2024 etc.

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Key Points

- In the fiscal year ended March 2024, sales declined 7.4% year on year to 40 billion yen. Outside Japan, sales grew thanks to the economic recovery from the COVID-19 pandemic, but inside Japan, the demand for genetic testing shrank in the wake of the reclassification of COVID-19 in the Infectious Disease Law, so the sales of reagents for genetic testing for COVID-19 using the LAMP method decreased significantly. Operating income dropped 54.7% year on year to 3.3 billion yen. Sales of reagents for COVID-19 testing, which are highly profitable, dropped and gross profit margin and gross profit declined due to the change in the product mix such as decrease in revenue from patent royalties of the LAMP method, while SG&A expenses, including expenses for marketing activities and depreciation and commissioned research costs arising out of the operation of new research buildings, augmented 2.3% year on year. The business performance fell below the revised forecast announced in January 2024, because the demand for reagents for genetic testing for COVID-19, which are profitable, shrank, the recovery of some testing businesses, which were first expected to be normalized after the end of the pandemic, was delayed, and costs for procuring raw materials, etc. augmented due to the yen depreciation and the rise in crude oil price.
- For the fiscal year ending March 2025, which is the final fiscal year of the Medium-Term Management Plan, sales are expected to grow 7.6% year on year to 43.1 billion yen and operating income is projected to rise 67.6% year on year to 5.6 billion yen. It is forecast that there will be no longer effects of decline in sales related to the novel coronavirus, and their business will regain a normal growth curve. Gross profit margin is expected to rise 3.8 points year on year, thanks to the improvement of manufacturing processes as well as the change in the product mix. It is projected that profit will grow considerably as the augmentation of SG&A expenses will be offset. Under the basic policy of paying dividends stably and continuously, the company plans to pay a dividend of 53.00 yen/share. The expected payout ratio is 40.9%.
- The company expects that the fluctuations due to COVID-19 pandemic will subside from the fiscal year ending March 2025 and the company will get back on a normal growth track. Before the COVID-19 pandemic, the CAGR of sales was around 4% during the 5-year period from fiscal year ended March 2015 to fiscal year ended March 2020, but the CAGR is projected to be 9.4% during the 7-year period from fiscal year ended March 2024 to fiscal year ending March 2031, showing a grow rate exceeding the pre-pandemic rate. While the cultivation of overseas market is progressing steadily, we would like to expect that the top line will expand in parallel with the improvement in return on capital, which is considered by the company as an issue to be addressed.

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 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

Founded as Koa Kagakukogyo Co., Ltd. in 1939, the company started manufacturing and selling nutritional foods and pharmaceuticals made from livestock organs. In 1949, it was the first company in Japan to successfully commercialize a powdered agar for the detection of bacteria (Salmonella-Shigella [SS] agar). In 1961, it established the Clinical Diagnostics Division and began R&D on in-vitro diagnostics.

In 1989, the company launched “OC-sensor,” the world's first fully automated fecal occult blood analyzer. This led to the establishment of its current overwhelming lead in this field.

After that, while expanding its business domains such as reagents for urinalysis testing and microbiological testing, in 1998, the company developed the LAMP method, a new gene amplification technology. It has launched various products using the LAMP method that are simpler, faster, and more accurate than conventional testing methods.

In 2005, the company concluded a joint development contract with FIND (Foundation for Innovative New Diagnostics) for a rapid genetic tuberculosis detection method, based on the LAMP method. It then proceeded with joint development related to testing for malaria, HIV, etc.

In March 2020, the company released COVID-19 detection reagent utilizing the LAMP method to be used against COVID-19, which has been spreading worldwide.

*For further information about the LAMP method and FIND, please refer to “1-6 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 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 scale of the market of clinical reagents was about 698.7 billion yen in fiscal year 2022, and if reagents for research and testing equipment are included, it's about 1,047.5 billion yen (surveyed by Japan Association of Clinical Reagents Industries. Data provided by Eiken Chemical), partially due to the growth of sales of reagents for COVID-19. 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 because 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 2022: -1.14%) This is the result of industry-wide efforts to emphasize the importance of prevention and testing, and the domestic market is expected to continue to grow modestly by about 2% per year over the medium term, if the impact of COVID-19 is not taken into account.

Out of 140 member companies (as of April 2022) 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\$ 98.2 billion and, by region, the market is occupied by the USA at 39.8%, followed by Europe at 28.0% and Asia at 22.9% (As of 2021) (Markets and Markets "In Vitro Diagnostics Market" Eiken Chemical Co., Ltd.).

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 3%, 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, however, large global companies such as Roche, Abbott, SIEMENS, and Danaher are the main players, and in order to survive the competition, Japanese companies must strengthen their competitiveness by, for example, developing unique products or systems.

Fecal occult blood test market

The global market for cancer diagnosis is expanding due to the global increase in the elderly population and the rise in the prevalence of cancer. The cancer diagnosis market is worth approximately 124.3 billion dollars, of which the colorectal cancer diagnosis market is worth approximately 16.3 billion dollars and the fecal occult blood testing market is worth approximately 170 million dollars.

The market is expected to grow at an annual rate of 8.6% and expand to 320 million dollars by 2030, due to factors such as "accelerated spread of contactless FIT due to COVID-19," "lack of testing capacity due to a shortage of endoscopists," "recognition of the high medical economic value of FIT," and "increased recognition of the importance of health checkups (medical examinations) in emerging countries."

The company provides colorectal screening tests in 46 countries around the world and already occupies 70% of the global market. It promotes expansion strategies such as "increasing the rate of undergoing screening," "improving test accuracy," and "receiving new orders for screening," while enhancing its social significance by creating value such as "reducing the risk

of death from colorectal cancer,” “reducing medical costs through early treatment,” “improving quality of life,” and “extending healthy life expectancy.”

The new stool buffer solution, which improves hemoglobin stability and also stabilizes calprotectin through its innovative composition, realized by applying the company's accumulated know-how and newly invented technology and FIT+ (development of a highly accurate testing technology for fecal genetic testing using samples from the same stool collection container) greatly contribute to “improvement of the rate of undergoing screening” and “improvement of testing accuracy.”

The company plans to leverage its track record and dominant share of the fecal occult blood test (FIT) market to add value through international standardization and new technologies to attract additional customers.

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)	12,315	30.8%
Immunological and serological reagents (excluding fecal immunochemical test reagents)	9,394	23.5%
Urinalysis test strips	4,401	11.0%
Microbiological test reagents	4,312	10.8%
Biochemical test reagents	575	1.4%
Equipment/Culture medium related to food and environmental	1,961	4.9%
Related molecular genetics (LAMP), (including its devices)	2,625	6.6%
Medical Devices (excluding molecular genetics related devices)	4,464	11.2%
Total sales	40,052	100.0%

*Results for the fiscal year ended March 2024. 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 gastric cancer risk stratification test (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 “URO PAPER III ‘EIKEN’,” a urinalysis test strip for testing various items such as occult blood, protein and glucose, as well as the “URO PAPER 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 has 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, and accurate” and is a critical tool for Eiken’s future domestic and 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 757 employees (consolidated) during fiscal year ended March 2024, about 350 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 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 and managed by the overseas business division of the head office. EIKEN’s products are exported to 40 countries. The high proportion of overseas sales is occupied by the sales in the USA, Germany, Italy, Spain, England, France, Australia, South Korea, and Taiwan. In addition to the Europe Branch in Amsterdam (the Netherlands), the Company is strengthening its

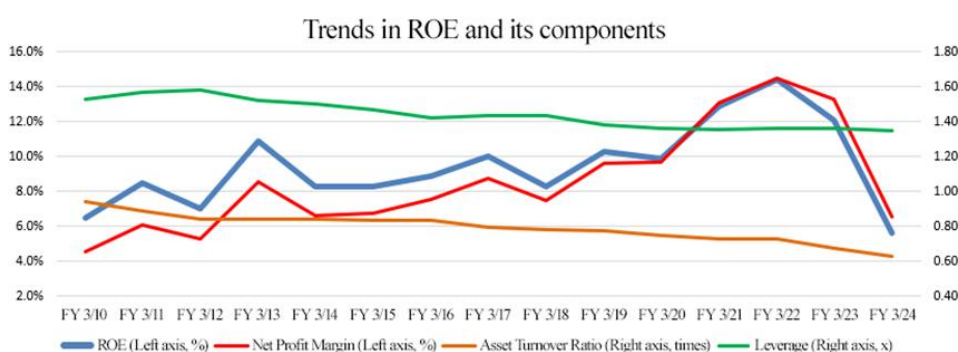
manufacturing and sales structure through its consolidated subsidiary, “EIKEN CHINA CO., LTD.,” as well as aiming to expand its businesses by setting a business office in China. In November 2023, the company established a U.S. corporation, and plans to establish a direct selling system.

In the fiscal year ended March 2024, overseas sales exceeded 10 billion yen for the first time, reaching 10,115 million yen, out of which 5,972 million yen is from the sales of fecal immunochemical test reagents.

1-5 ROE Analysis

	FY 3/14	FY 3/15	FY 3/16	FY 3/17	FY 3/18	FY 3/19	FY 3/20	FY 3/21	FY 3/22	FY 3/23	FY 3/24
ROE (%)	8.3	8.3	8.9	10.0	8.3	10.3	9.9	12.9	14.3	12.1	5.6
Net Profit Margin	6.61	6.77	7.55	8.77	7.45	9.64	9.67	13.04	14.46	13.26	6.58
Asset Turnover Ratio	0.84	0.83	0.83	0.80	0.78	0.77	0.75	0.73	0.73	0.67	0.63
Leverage	1.50	1.47	1.42	1.43	1.43	1.38	1.36	1.35	1.36	1.36	1.35

*Unit: %, times, x

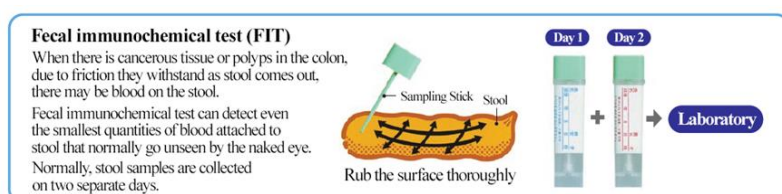


In the fiscal year ended March 2024, ROE fell below 8%, which is the value Japanese enterprises should aim to achieve, mainly due to the decline in the net profit margin. For this fiscal year, the net profit margin is projected to be 10.4%. If the other two factors are unchanged, ROE will recover to the order of 8% in the fiscal year ending March 2025. In order to maintain or increase ROE, it is indispensable to improve total asset turnover, which dropped 0.2 points in the past 10 years, while developing high value-added products, creating new businesses and markets, raising profit margin by reducing the ratios of cost of sales and SG&A expenses, and improving productivity.

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 (64%) 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 29% (ranked top) of the market, and microbiological reagents occupying approximately 14% (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 under developing 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 160.

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, biochemiluminescent immunoassay analyzer "BLEIA," and genetic testing 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 general 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 COVID-19, 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 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 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 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 the aforementioned diseases other than tuberculosis, the company is collaborating with FIND on a reagent for neglected tropical diseases (NTDs) such as Leishmaniasis and Chagas diseases.

EIKEN CHEMICAL completed the development of a testing system “Simprova” that uses a next-generation compact fully automated genetic testing device and multi-item testing chip using the LAMP. Since they relocated their manufacturing site from overseas to Japan, to cope with the issues with supply at overseas outsources for manufacturing the device, and partially revised the system, sale was still to be started, but the system has been completed, and they are preparing for production. They plan to release products in the first half of the fiscal year ending March 2025.

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. At first, the company plans to release the respiratory organ infections panel and then the acid-fast bacterium disease panel and respiratory viruses panel, and will

gradually increase the number of test items.

It is anticipated that “Simprova” 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 number of genes found in a genetic test sample is extremely small, to detect genes, the targeted gene must be amplified first. 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 protozoon 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 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.

1-7 Adopting a management approach that is conscious of the cost of capital and stock price

(1) Analysis of the current situation

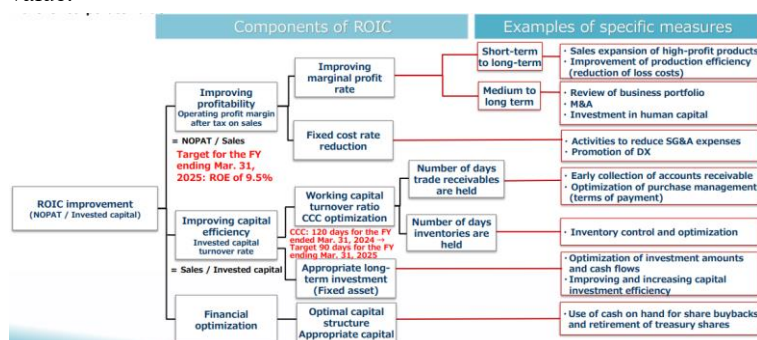
As shown in [1-5 ROE Analysis], the company's ROE had been above 8% until the previous fiscal year, but in the fiscal year ended March 2024, profit decreased due to a change in the sales mix, resulting in a lower return on sales and a significant drop in ROE to 5.6%.

In response to this situation, the Board of Directors is discussing policies and specific initiatives for improvement based on an assessment of the current situation, which has resulted in a decline in P/B ratio to the low 1x range.

(2) Efforts

① Improvement of capital profitability

After comprehensively assessing financial soundness and business growth potential, the company will implement capital policies aimed at improving capital profitability and the current balance sheet in order to realize “further creation of corporate value.”



(Source: EIKEN CHEMICAL)

②Return of earnings to shareholders

Positioning the return of earnings to shareholders as one of the most important management objectives, the company's basic stance is to implement a stable dividend policy in consideration of strengthening the financial position and enriching internal reserves necessary for active business development. It aims to achieve a consolidated dividend payout ratio of 30% or higher. Despite a significant decrease in profit in the fiscal year ended March 2024, the dividend was maintained at the previous year's level of 51 yen/share, resulting in a dividend payout ratio of 71.1%. For the fiscal year ending March 2025, the dividend is expected to increase 2 yen/share to 53 yen/share, for a dividend payout ratio of 40.9%.

The company repurchased its treasury shares worth 4.6 billion yen in the fiscal year ended March 2024. In the fiscal year ending March 2025, the final year of the Medium-Term Management Plan, the company will consider flexible share buybacks in light of trends in its share price and capital efficiency indicators.

③Cash Allocation

In the fiscal year ending March 2025, the company will use operating CF and surplus funds to return profits to shareholders as mentioned above and invest in R&D as an investment for growth.

Capital investments include the construction of a new manufacturing building at Nogi Plant (6.5 billion yen in total, with a planned payment of 4.3 billion yen in the fiscal year ending March 2025), environmental measures, and preparations for the establishment of overseas bases.

1-8 Sustainability

(1) Identification of material issues, goals and activities

The company has identified material issues in each area and set out "ideal image," "KPIs," and "measures and activities."

①Medical

Ideal image: Contributing to the healthy and prosperous lives of people around the world

◎Material issue: Improving access to healthcare

KPI for fiscal year 2030: Number of countries where products are available: 15

Measures and Activities

To supply products to developing countries

- Promote and establish TB-LAMP in countries with a high burden of tuberculosis.
- Make presentations at international conferences such as the Tokyo International Conference on African Development (TCAD) and the Nikkei FT Communicable Diseases Conference.
- Promote partnerships with industry, academia, government and the private sector.

◎Material issue: Solving medical issues

KPI for fiscal year 2030: Number of countries where colorectal cancer screening is available: 57

Measures and Activities

To solve global medical issues, develop cutting-edge technologies and promote innovation

- Expand adoption of the company's products for colorectal cancer screening
- Improve stability of stool collection container buffer solution
- Educational activities to increase the rate of undergoing screening

<Examples of initiatives>

TB-LAMP was adopted on a large scale in Nigeria in order to realize a TB testing system that leaves no one behind.

In previous programs, only patients who visited the hospital based on symptoms were tested, but this program discovered tuberculosis patients who had been overlooked through mobile health checks.

In addition to continuing to adopt the system in Nigeria, the company will also work to horizontally expand the system to obtain Global Fund budgets in other countries.

The company aims to further increase awareness and promote TB-LAMP through collaboration with global NGOs.

②Environment

Ideal image: Business activities in harmony with the global environment

◎Material issue: Addressing climate change

KPIs for fiscal year 2030

Scopes 1 + 2: Reduce CO₂ emissions by 56% (from 2021)

Scope 3: Reduce CO₂ emissions by 25% (from 2022)

For Scopes 1 + 2, the reduction target has been revised upwardly from a 30% reduction in CO₂ emissions (from 2018).

Measures and Activities

Reduction of CO₂ emissions

- Use of renewable energy (use of hydroelectric power generation in factories and laboratories. In-house solar power generation, adoption of EVs)
- Obtaining SBT certification

◎Material issue: Contributing to a recycling-oriented society

KPIs for fiscal year 2030

Waste reduction by 15% (from 2018)

Adoption rate of eco-friendly packaging materials to 30%

Adoption rate of biomass plastics to 8%

Measures and Activities

Waste reduction (reduction of packaging materials and use of recyclable materials)

- Recycling of waste plastics (promoting recycling of mono material plastics and the use of other waste plastics as solid fuel and thermal recycling)
- Improvement of product packaging (reduction of product case size and review and revision of packaging specifications to improve transportation efficiency)

③Society

“Human resource strategy”

The company believes that its employees will create the future of the group, and that expanding employees' potential will lead to the company's growth and contribution to society.

Based on this policy, the company aims to be “a dynamic company that makes the most of its people.” In addition to fostering an organizational culture that respects and embraces diversity, the company is taking full consideration of the safety and health of employees and creating an environment where employees can focus on work that adds value.

The company also aims to develop human resources that allow all employees to realize their full potential and induce innovation.

(2) Publication of the integrated report

Aiming to strengthen the ability to disseminate information on the company's approach to sustainability and its initiatives, the first integrated report, “Eiken Chemical Integrated Report 2023,” was published in August 2023.

<https://www.eiken.co.jp/ir/integrated>

(3) Inclusion in ESG indices

The company has been selected for various indices adopted by GPIF for Japanese equity investments.

- FTSE Blossom Japan Sector Relative Index
- S&P/JPX Carbon Efficient Index
- Morningstar Japan ex-REIT Gender Diversity Tilt Index

(4) Endorsing and signing initiatives and third-party evaluations and certifications

*Medical

Signed the Kigali Declaration on Neglected Tropical Diseases, and endorsed the GHIT Fund, an international public-private fund fighting for the control of infectious diseases.

*Environmental

Supported the TCFD.

The company received “Score B” in the climate change assessment by CDP, a non-governmental organization managed by a UK charity that runs a global disclosure system to help investors, companies, countries, regions and cities manage their environmental impact.

In February 2012, the company obtained SBT (Science Based Targets) certification, an international certification for reducing greenhouse gas emissions.

*Social

In 2024, the company was recognized as an “Excellent Corporation for Health Management” for the fifth consecutive year. The company has also been recognized as a “Platinum Kurumin” company that supports employees in balancing childcare and family life and has received the “Eruboshi” three-star certification as a company that promotes women's participation in the workforce.

*Governance

Recognized by the National Resilience Promotion Office, Cabinet Secretariat, as an organization contributing to national land resilience.

2. Fiscal Year Ended March 2024 Earnings Results

(1) Overview of consolidated results

	FY 3/23	Share	FY 3/24	Share	YoY	Compared with initial forecast	Compared with revised forecast
Sales	43,271	100.0%	40,052	100.0%	-7.4%	-4.6%	-1.1%
Domestic	34,474	79.7%	29,936	74.7%	-13.2%	-5.7%	-0.9%
Overseas	8,797	20.3%	10,115	25.3%	+15.0%	-1.5%	-1.8%
Gross margin	20,506	47.4%	16,723	41.8%	-18.4%	-10.8%	-4.2%
SG&A	13,049	30.2%	13,345	33.2%	+2.3%	-0.2%	-0.5%
Operating income	7,457	17.3%	3,377	8.4%	-54.7%	-37.2%	-16.4%
Ordinary income	7,568	17.5%	3,568	8.9%	-52.8%	-33.9%	-13.6%
Net income	5,736	13.3%	2,634	6.6%	-54.1%	-38.0%	-13.4%

*Unit: million yen.

Sales and profit fell below the forecasts.

Sales declined 7.4% year on year to 40 billion yen. Outside Japan, sales grew thanks to the economic recovery from the COVID-19 pandemic, but inside Japan, the demand for genetic testing shrank in the wake of the reclassification of COVID-19 in the Infectious Disease Law, so the sales of reagents for genetic testing for COVID-19 using the LAMP method decreased significantly.

Operating income dropped 54.7% year on year to 3.3 billion yen. Sales of reagents for COVID-19 testing, which are highly profitable, dropped and gross profit margin and gross profit declined due to the change in the product mix such as decrease in revenue from patent royalties of the LAMP method, while SG&A expenses, including expenses for marketing activities and depreciation and commissioned research costs arising out of the operation of new research buildings, augmented 2.3% year on year.

The business performance fell below the revised forecast announced in January 2024, because the demand for reagents for genetic testing for COVID-19, which are profitable, shrank, the recovery of some testing businesses, which were first expected

BRIDGE REPORT



to be normalized after the end of the pandemic, was delayed, and costs for procuring raw materials, etc. augmented due to the yen depreciation and the rise in crude oil price.

Quarterly trends Sales and Operating income (unit: million yen)

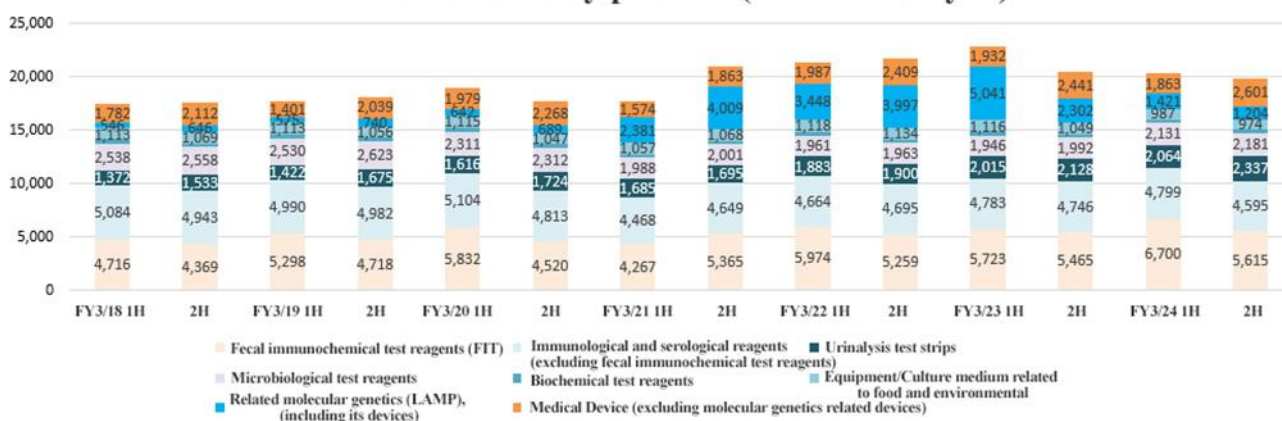


(2) Sales by product

	Products	FY 3/23	FY 3/24	YoY
(a)	Fecal immunochemical test reagents (FIT)	11,188	12,315	+10.0%
(b)	Immunological and serological reagents (excluding fecal immunochemical test reagents)	9,529	9,394	-1.4%
(c)	Urinalysis test strips	4,143	4,401	+6.2%
(d)	Microbiological test reagents	3,938	4,312	+9.5%
(e)	Biochemical test reagents	590	575	-2.5%
(f)	Equipment/Culture medium related to food and environmental	2,165	1,961	-9.4%
(g)	Related molecular genetics (LAMP), (including its devices)	7,343	2,625	-64.2%
(h)	Medical Devices (excluding molecular genetics related devices)	4,373	4,464	+2.1%
	Total sales	43,271	40,052	-7.4%

*Unit: million yen.

Trend of net sales by product (unit: million yen)



○Fecal immunochemical test reagents (FIT)

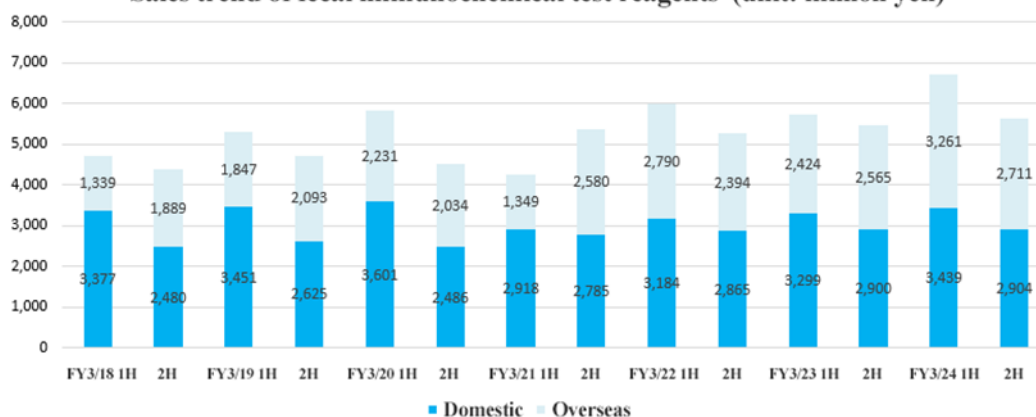
Sales grew 2.3% year on year in Japan and 19.7% year on year outside Japan. The performance in Japan exceeded the pre-pandemic level. Outside Japan, screening programs in major countries progressed steadily, increasing sales.

The company believes that the market will continue to grow due to market expansion from the spread of mail, web, pharmacy, and endoscopic triage examinations, promotion of the switch from chemical to immunological methods in the U.S., the lowering the minimum age for undergoing the screening in the U.S., UK, etc., and the popularization of health checkups in emerging countries.

	FY 3/23	FY 3/24	YoY
Domestic	6,199	6,343	+2.3%
Overseas	4,989	5,972	+19.7%
Total	11,188	12,315	+10.1%

*Unit: million yen.

Sales trend of fecal immunochemical test reagents (unit: million yen)



○Immunological and serological reagents (excluding fecal immunochemical test reagents)

Sales declined due to the decrease in the number of times of antigen and antibody testing for COVID-19.

○Urinalysis test strips

Sales increased as both the domestic health checkup market and the number of outpatients are healthy.

○Microbiological testing reagents

Sales increased, due to the growth of demand for related products excluding those for COVID-19.

○Biochemical test reagents

Sales dropped as the market environment was harsh.

○Equipment/Culture medium related to food and environmental

Sales declined due to the price hike, but profitability improved.

○Related molecular genetics (LAMP) (including devices)

The demand for reagents for COVID-19 testing dropped considerably. Sales decreased considerably, as the revenue from patent royalties decreased from 1,554 million yen in the previous fiscal year to 402 million yen, due to the expiration of the patent of the LAMP method in major countries.

○Medical Devices (excluding molecular genetics related devices)

Unchanged from the previous fiscal year.

(3) Overseas trends

	FY 3/23	FY 3/24	YoY
Overseas sales	8,796	10,115	+15.0%
North America	2,019	1,959	-3.0%
Europe	2,596	3,929	+51.3%
Asia, Oceania, others	4,181	4,227	+1.1%
For OC	4,989	5,972	+19.7%
Others	3,808	4,143	+8.8%

*Unit: million yen.

*Europe

The colorectal cancer screening program progressed steadily in major countries. Sales grew significantly, partially thanks to the large-scale adoption of TB-LAMP in Nigeria. The sales of LAMP products for developing countries are included in the section of Europe (agencies).

*U.S.

The reagents for fecal occult blood tests sold well in the mail/web-based screening business, etc., but the sales in the U.S. declined due to the temporary drop in sales of measurement devices.

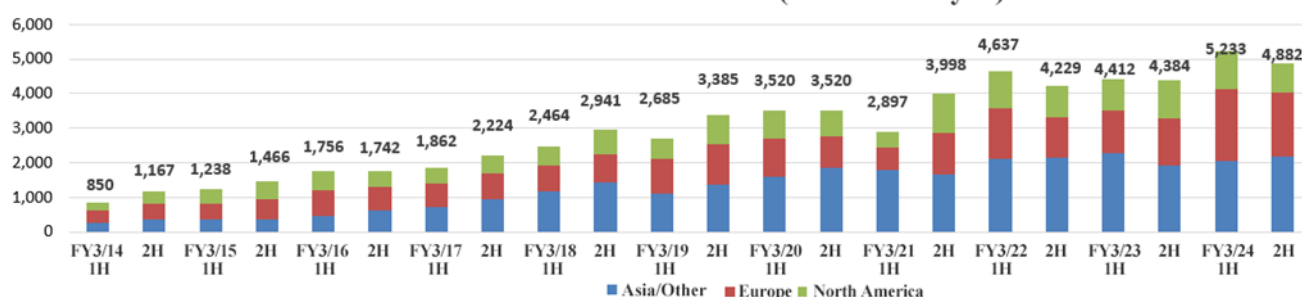
They make continuous efforts to switch to mail-based health checkups for facilities that adopted chemical methods, lower the minimum age for undergoing health checkups, and promote sale to insurance companies.

They also keep promoting the online examination to triage patients with symptoms for endoscopy.

*Asia, etc.

In major countries, the colorectal cancer screening program progressed steadily. The sales of urinalysis reagents for Sysmex increased. The sales of urinalysis reagents sold outside Japan in cooperation with Sysmex are included in the sales in Asia.

Semiannual trend of overseas sales (unit: million yen)



(4) Capital investment, R&D, Depreciation

	FY 3/22	FY 3/23	FY 3/24
Capital investment	43	38	18
R&D	34	40	39
Depreciation	20	21	23

* Unit: 100 million yen.

Depreciation grew gradually, since the full-scale operation of the new research building was started in October 2022.

(5) Financial position and cash flows

◎Major BS

	End of March, 2023	End of March, 2024	Increase/Decrease		End of March, 2023	End of March, 2024	Increase/Decrease
Current assets	39,217	37,851	-1,365	Current liabilities	12,443	11,351	-1,092
Cash and deposits	18,317	16,308	-2,009	Notes and accounts payable trade	7,618	7,407	-211
Notes and accounts receivable-trade	11,122	12,482	+1,359	Noncurrent liabilities	4,296	4,329	+33
Inventory	8,413	8,098	-314	Corporate bonds	3,000	3,000	0
Noncurrent assets	27,058	23,799	-3,258	Total liabilities	16,740	15,680	-1,060
Property, plant and equipment	17,202	17,005	-196	Net assets	49,535	45,971	-3,564
Intangible assets	1,054	792	-261	Retained	36,865	35,801	-1,064

				earnings			
Investment and other assets	8,802	6,001	-2,800	Treasury stock	-3,095	-5,686	-2,591
Total assets	66,275	61,651	-4,623	Total liabilities and net assets	66,275	61,651	-4,623

*Unit: million yen. Accounts payable includes electronically recorded monetary claims

Total assets decreased 4.6 billion yen from the end of the previous fiscal year to 61.6 billion yen due to a decrease in cash and deposit, investment and other assets, etc.

Total liabilities decreased 1.0 billion yen to 15.6 billion yen.

Net assets decreased 3.5 billion yen to 45.9 billion yen due to a decrease in retained earnings, an increase in treasury stock, etc.

As a result, equity ratio decreased 0.2 points from the end of the previous fiscal year to 74.0%

◎Cash flow

	FY 3/23	FY 3/24	Increase/ Decrease
Operating CF	7,575	3,806	-3,769
Investing CF	-316	-2,216	-1,900
Free CF	7,259	1,590	-5,669
Financing CF	-2,095	-6,694	-4,599
Cash and cash equivalents	16,064	10,966	-5,098

*Unit: million yen.

The surpluses of operating cash flow and free cash flow shrank from the previous fiscal year, due to the decrease in net income before taxes and other adjustments, the increase in accounts receivable, etc.

The cash position declined.

(6) Topics

(1) Establishment of a U.S. subsidiary

In November 2023, the company established a local U.S. subsidiary, EIKEN MEDICAL AMERICA INC. By exporting to distributors, the company will accelerate its existing business of fecal occult blood testing and calprotectin, which it has been working on through distributors, and will further focus on endoscopic triage and mobile medical checkups to improve consultation rates, as well as expand into the South American market.

The company will also engage in marketing activities to build a direct sales system and develop and sell new animal-related and digital health-related products, with the goal of achieving sales of 5.8 billion yen in fiscal year 2030 and 10 billion yen in fiscal year 2035.

(2) Construction of a new manufacturing building at Nogi Plant

In order to secure production space to accommodate the expected large increase in production volume due to the acceleration of FIT's global expansion, and to consolidate the production base for immuno-serological test reagents, the company has decided to construct a new manufacturing building at its Nogi Plant. The capital investment amount is 6.5 billion yen, and completion is scheduled for June 2025.

In addition to significantly increasing production capacity, the company will work to improve manufacturing cost ratio, improve logistics, and reduce manpower through integration and digital transformation.

(3) Launch of a new stool collection buffer solution

In February 2012, the company launched a new stool collection buffer solution (a liquid filled in stool collection containers to stabilize the storage of samples) in order to improve the accuracy of fecal occult blood tests and the rate of undergoing screening. By applying the accumulated know-how and newly invented technology, the stability of hemoglobin has been improved and calprotectin has been stabilized by further improving the composition of the solution.

In addition to further improving the accuracy of the test, the new product responds to the need for improved stability in line with the expansion of colorectal cancer screening by mail.

The Ministry of Health, Labor, and Welfare plans to increase the rate of undergoing colorectal cancer screening in Japan from the current 45% to 60% by 2028, and this buffer solution is expected to lower the hurdle for screening by mail, leading to a higher rate of undergoing screening.

(4) Companion diagnostic system

The companion diagnostic system is currently under development, and the Mutation Investigator using the Next-era Sequencer (MINtS) is currently under regulatory review.

The initial goal was to launch the system in the fiscal year ended March 2024, but approval has been delayed due to factors arising from the review system of the regulatory authorities. The company believes that there is no problem with the system and that it will be launched in the first half of the fiscal year ending March 2025.

The company has established the Eiken Chemical Clinical Laboratory with a view to commercializing laboratory testing using this testing system. In addition to promoting its own cancer gene tests, this business provides opportunities to constantly introduce new tests (products) to the market and review them.

The features of this testing system include: “detection of multiple gene abnormalities and drug selection in lung cancer,” “testing of cytology specimens as well as tissue (faster reporting of results),” and “high sensitivity (smaller specimen volume required). In the future, the company aims to add target genes compatible with new molecular-targeted drugs, expand the range of cancer types for which the system can be used, and expand the system to include liquid biopsy.

The system is already being implemented as an advanced medical treatment at 20 facilities centering on the North East Japan Study Group (NEJSG), a certified non-profit organization, and the company plans to expand sales to approximately 200 facilities participating in the NEJSG.

(5) Strengthening IR activities

The company is strengthening its investor relations activities in order to lower its cost of capital.

◎Strengthening financial results briefings for analysts and institutional investors

- Improving presentation material (quantitative information required by investors, visualization of management that is conscious of the cost of capital and stock price)
- Strong communication by management
- Strengthening fair disclosure to shareholders and individual investors by distributing archived videos

◎Continuing to hold investor meetings

- Explaining growth strategies to major shareholders in Japan and overseas and gain their understanding
- Conducted 102 individual meetings during the fiscal year ended March 2023

◎Reporting opinions obtained at IR meetings to the Board of Directors (twice a year) and conducting reviews

- Utilizing this for promoting dialogue with investors

◎Enhancing information disclosure by proactively disclosing non-financial information, and increasing English translations

- Reducing cost of shareholders' equity

3. Fiscal Year Ending March 2025 Earnings Estimates

(1) Estimate of consolidated results

	FY 3/24	Share	FY 3/25 (Est.)	Share	YoY
Sales	40,052	100.0%	43,100	100.0%	+7.6%
Domestic	29,936	74.7%	30,780	71.4%	+2.8%
Overseas	10,115	25.3%	12,320	28.6%	+21.8%
Gross profit	16,723	41.8%	19,640	45.6%	+17.4%
SG&A	13,345	33.3%	13,980	32.3%	+4.8%
Operating income	3,377	8.4%	5,660	13.1%	+67.6%
Ordinary income	3,568	8.9%	5,620	13.0%	+57.5%
Net income	2,634	6.6%	4,480	10.4%	+70.1%

* Unit: million yen

Sales and profit are expected to grow.

For the fiscal year ending March 2025, which is the final fiscal year of the Medium-Term Management Plan, sales are expected to grow 7.6% year on year to 43.1 billion yen and operating income is projected to rise 67.6% year on year to 5.6 billion yen. It is forecast that there will be no longer effects of decline in sales related to the novel coronavirus, and their business will regain a normal growth curve.

Gross profit margin is expected to rise 3.8 points year on year, thanks to the improvement of manufacturing processes as well as the change in the product mix. It is projected that profit will grow considerably as the augmentation of SG&A expenses will be offset.

Under the basic policy of paying dividends stably and continuously, the company plans to pay a dividend of 53.00 yen/share. The expected payout ratio is 40.9%.

(2) Outlook for sales of each product

Products	FY 3/24	FY 3/25 (Est.)	YoY
Fecal immunochemical test reagents (FIT)	12,315	14,800	+20.1%
Immunological and serological reagents (excluding fecal immunochemical test reagents)	9,394	10,245	+8.9%
Urinalysis test strips	4,401	4,515	+2.4%
Microbiological test reagents	4,312	4,800	+11.1%
Biochemical test reagents	575	690	+20.1%
Equipment/Culture medium related to food and environmental	1,961	1,715	-12.5%
Related molecular genetics (LAMP), (including its devices)	2,625	2,860	+9.0%
Medical Devices (excluding molecular genetics related devices)	4,464	3,475	-22.4%
Total sales	40,052	43,100	+7.6%

*Unit: million yen.

It is expected that the demand for fecal immunochemical test reagents will grow in each foreign country, the sales of new products* for immunochromatography for microbiological tests will increase, and the overseas sales of the reagent kit for detecting the tuberculosis complex in genetic testing will rise.

The sales of medical apparatus are projected to drop, due to the timing of upgrade of equipment.

*New products: “Immunocatch®-Strep A” and “Immunocatch®-Adeno”

In January 2024, they released the simplified kit for detecting group A group beta-hemolytic streptococcus (Strept A) antigens and adenoviruses in a short period of time.

The burden on patients was reduced, as they adopted Sponge Swab®, which can painlessly collect specimens for detecting “Strept A and adenoviruses” at once.

Even at examination scenes, the extraction procedure can be completed in a one-step manner.

In fiscal year 2023, the number of cases of pharyngitis caused by A group beta-hemolytic streptococcus was the largest in 10

years, so steady demand is expected to be met by the company.

(3) Progress of the Medium-Term Management Plan

In the final fiscal year of the plan, the company recognizes the following medium and long-term managerial issues.

Issues		
Financial and capital profitability	Business strategies	Governance structure
<ul style="list-style-type: none"> Improvement of operating profit margin Review of conservative balance sheet Effective use of internal reserves 	<ul style="list-style-type: none"> Sustainable top-line growth Increasing sales of overseas business and new products Development of an overseas direct sales system 	<ul style="list-style-type: none"> Review of performance-based remuneration system R&D and capital investment that need to address insufficient economies of scale Strengthening of IR activities

(Source: EIKEN CHEMICAL)

The measures for solving respective issues are as follows.

① Financial and capital profitability

- Restructure business portfolio and improve product mix
- Consider using surplus funds for M&A and to acquire technology
- Be conscious of cost of capital and implement measures to improve capital profitability
- Review balance sheet with a focus on cash allocation

② Business strategies

- Develop overseas business
- Consider direct sales system
- Review business portfolio strategy
- Pursue concentrated investment in and strengthen system for new product development

③ Governance structure

- Consider executive remuneration linked to share price and medium-term performance targets
- Strengthen investment discipline
- Appeal to investors by improving IR materials and sharing vision for medium- to long-term growth

4. Interview with President Notomi

Please comment on the overview of the financial results for the fiscal year ended March 31, 2024, and your outlook for the next fiscal year.

Although we saw a decrease in both revenue and profit in the fiscal year ended March 31, 2024, the COVID-19 pandemic caused a rapid increase in demand for reagents in 2022 and 2023, and the demand shrank rapidly in 2024. We therefore expect an increase in revenue and profit in the fiscal year ending March 31, 2025. For the fiscal year ending March 31, 2025, gross profit margin is expected to improve significantly from 41.8% in the fiscal year ended March 31, 2024 to 45.6%. This is mainly due to a product mix in which the sales of profitable products such as reagents for fecal occult blood tests are growing, as well as the completion of a new manufacturing building at the Nogi Plant, which will enable us to produce 1.5 to 2 times as many reagents for fecal occult blood test kits as before, and the factory automation to reduce manpower and greatly improve the efficiency of the manufacturing process.

From this fiscal year onward, we believe that the large fluctuations caused by the COVID-19 pandemic will diminish and that we will return to our previous growth trajectory.

Please tell us about the progress and challenges of your Medium-Term Management Plan, which will end this fiscal year.

At the time of the announcement of the current Medium-Term Management Plan, the targets for the fiscal year ending March 31, 2025 for respective indicators were “net sales of 43.5 billion yen, an operating income margin of 14.4%, an overseas sales

ratio of 25.8%, and an ROE of 9.2%.”

The forecast for the current fiscal year ending March 2025 is “net sales of 43.1 billion yen, an operating income margin of 13.1%, an overseas sales ratio of 28.6%, and an ROE of 9.5%.” Although sales and operating income margin are slightly lower, they are almost at the same level, and ROE is also almost as expected. As for the ratio of overseas sales to total sales, we were able to achieve 25.3% in the fiscal year ended March 31, 2024, ahead of schedule, and we believe this is satisfactory.

Of course, we recognize that we must continue to expand our top line, improve return on capital, and increase R&D efficiency, and we will work to restructure our business portfolio, develop overseas businesses, and consider executive compensation that is linked to stock price and medium-term performance targets.

At present, there is no change to the targets set forth in the “EIKEN ROAD MAP 2030” for the fiscal year ending March 31, 2031, which are “net sales of 75 billion yen, an operating income margin of at least 20%, an overseas sales ratio of at least 40%, and an ROE of at least 15%.”

Please tell us about your efforts to expand overseas business.

We are currently considering establishing a global business structure with three regions: “Europe, Africa, Turkey,” “Asia,” and “North and South Americas.” We are currently researching the appropriate location of our sales bases, as well as our production bases, taking into account manufacturing and transportation costs.

Under such circumstances, we established EIKEN MEDICAL AMERICA INC., a U.S. subsidiary, in November 2023.

Up until now, we have been expanding our business in the U.S. market by exporting to distributors, but we felt that we needed to collect local information in a more timely and accurate manner.

From now on, we will accelerate our existing business through distributors through expansion into South America, etc. and expand into new business domains such as livestock and animal-related business and digital health business, with a view to establishing a direct sales system.

Currently, sales in the U.S. market are around 2 billion yen, but by expanding existing businesses and developing new businesses, we aim to reach 5.8 billion yen in fiscal year 2030 and 10 billion yen in fiscal year 2035.

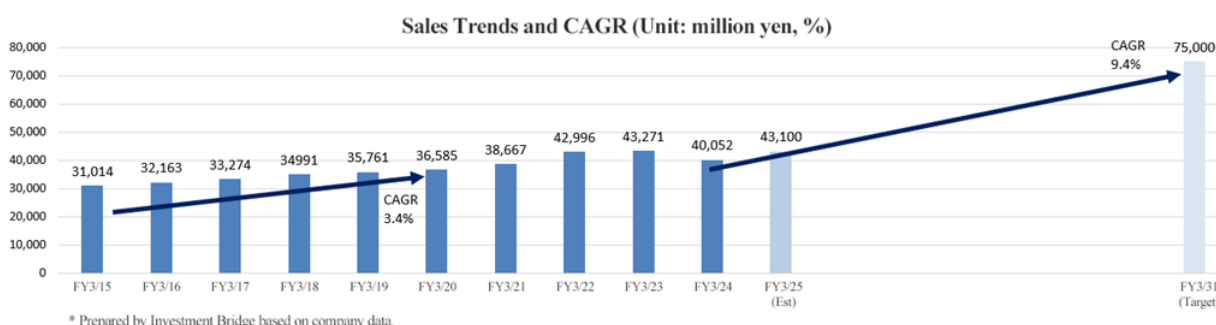
How is the progress in strengthening human capital?

We have been actively recruiting women for the past 10 years, and the ratio of female managers has steadily increased to 16%. We are particularly encouraged by the increase in the number of female technical employees in managerial positions, who are becoming more and more competitive in the workforce.

5. Conclusions

The company expects that the fluctuations due to COVID-19 pandemic will subside from the fiscal year ending March 2025 and the company will get back on a normal growth track.

Before the COVID-19 pandemic, the CAGR of sales was around 4% during the 5-year period from fiscal year ended March 2015 to fiscal year ended March 2020, but the CAGR is projected to be 9.4% during the 7-year period from fiscal year ended March 2024 to fiscal year ending March 2031, showing a grow rate exceeding the pre-pandemic rate. While the cultivation of overseas market is progressing steadily, we would like to expect that the top line will expand in parallel with the improvement in return on capital, which is considered by the company as an issue to be addressed.



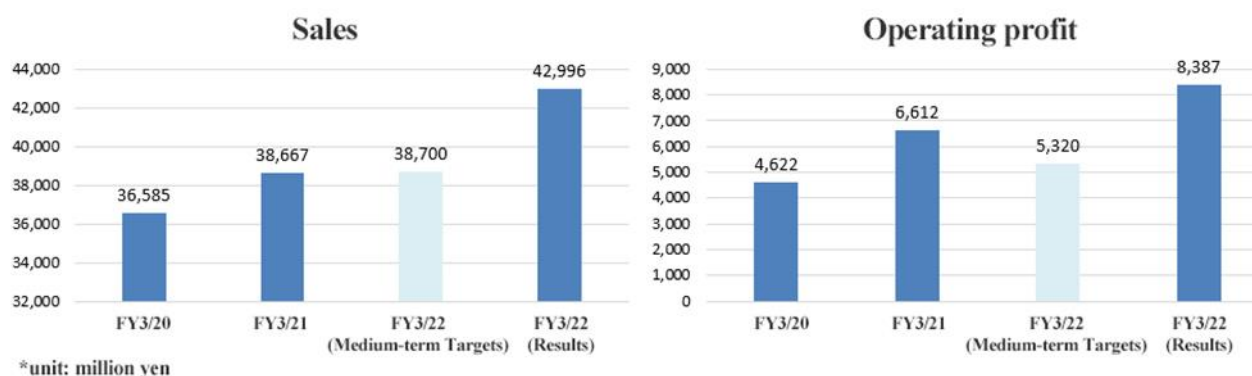
<Reference 1 : “EIKEN ROAD MAP 2030” and New Medium-Term Management Plan>

To respond to the unfolding changes in its business environment and operate from a perspective of sustainability management, the company revamped its existing management framework “EIKEN ROAD MAP 2019” and redefined it as “EIKEN ROAD MAP 2030” with 2030 as the target year for its fulfillment. In addition, the company formulated its first Medium-Term Management Plan to achieve its goals.

(1) Review of the Previous Medium-Term Management Plan (FY 2020 – FY 2022)

Both net sales and operating income significantly exceeded the targets for fiscal year 2022, the final fiscal year of the Medium-Term Management Plan. Sales increased for the 22nd consecutive year and operating income reached a record high. Operating income margin was 19.5% (target: 13.7%) and ROE was 14.3% (target: 10%), both exceeding the targets.

Externally, the drop in health screening and outpatients visits due to COVID-19 were negative factors, but positive factors such as increase in demand for products related to COVID-19 testing, temporary increase in royalty income from LAMP method, and expansion of online and postal health screening using fecal occult blood tests overseas contributed significantly. Internal factors include the unused budget for SG&A expenses due to COVID-19.



The company has steadily promoted business growth and strengthening of its base under the following basic strategies: (1) Developing foundations to increase management efficiency, (2) Promoting global expansion, (3) Maintaining domestic sales and increasing market share, and (4) Strengthening R&D ability. Within each of these targets, the company also identifies the following as its future issues and believes making these changes is essential for further growth: (1) Advancement of DX and human resource system reform; (2) Improvement of rates of uptake of colorectal cancer screening; search for demand for online screening, screening by post and endoscopic triage; and spread and establishment of testing for tuberculosis and malaria; (3) Improvement of rate of uptake of health checkups and screening ; and establishment and cultivation of the market for cognitive-function screening; (4) Improvement of the efficiency and speed of R&D; strengthening of core technologies and production technologies; and development of next-generation colorectal cancer screening tests.

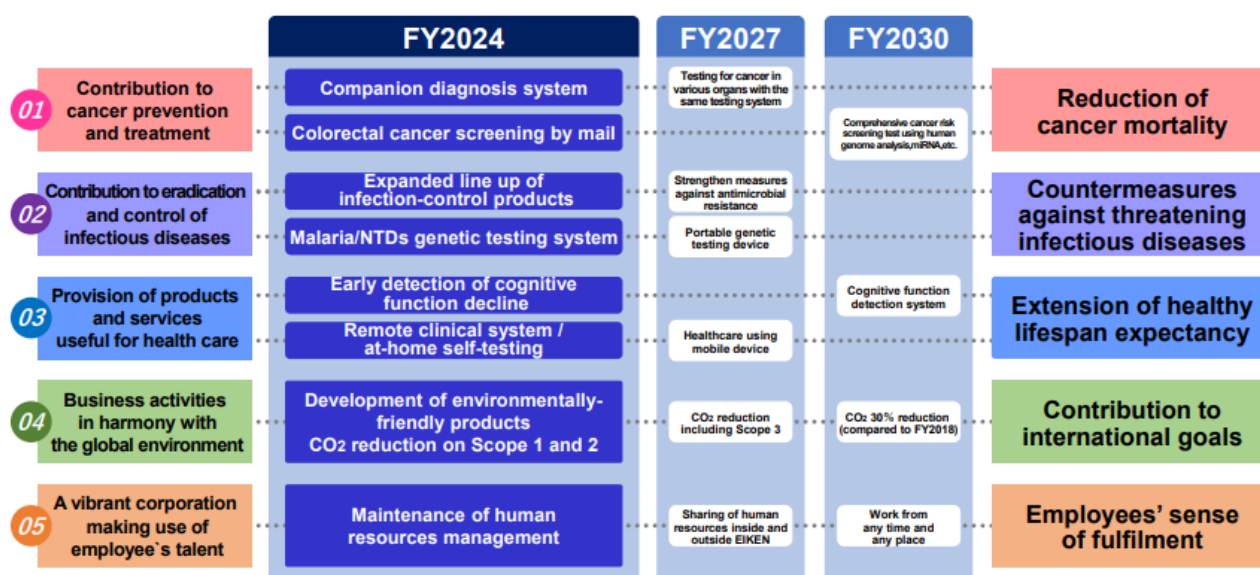
(2) EIKEN ROAD MAP 2030

Based on the above recognition, the management concept has been redefined as EIKEN ROAD MAP 2030.

The EIKEN Vision 2030 clarifies the group’s vision for 2030 and sets forth **Beyond the Field ~Team × Challenge~** as its slogan.

Each employee enhances their own abilities and expands the areas in which they can play an active role and creates new possibilities by bringing together the enhanced individual power beyond the boundaries and taking on challenges as a team. In addition, the company will take a step forward from its current business domain, innovate medical processes, and create the future of testing.

Roadmap to EIKEN Vision 2030



(Source: EIKEN CHEMICAL)

(1)-1 Business strategy: the priority business fields

While the current domain remains as its core business, the company has also set three focus business areas: ① Contribution to cancer prevention and treatment, ② Contribution to the eradication and control of infectious diseases, and ③ Provision of products and services useful for health care.

① Contribution to cancer prevention and treatment

The company has focused more on screening (prevention and early detection) so far, and especially for colorectal cancer it has built a global screening program, contributing to the reduction of mortality and the suppression of medical expenses through early detection.

On the other hand, selecting appropriate treatment is essential due to the significant medical expenses of cancer treatments. In addition to the prevention and early detection of cancer, to respond to these medical issues, the company aims to further reduce the mortality rate from cancer by developing and providing a testing system that covers the selection of therapeutic drugs and the determination of treatment effectivity.

② Contribution to the eradication and control of infectious diseases

As the countermeasures against threatening infectious diseases, the company will boost its product line-up and develop global genetic testing systems for tuberculosis, malaria, etc. In addition, by developing a simpler, faster, and more accurate infectious disease diagnosis system that can be used by anyone anywhere, the company wants to contribute to increasing access to medical care.

③ Provision of products and services useful for health care

To extend healthy lifespan expectancy, the company will expand remote clinical system and at-home self-testing areas and develop them into healthcare using mobile device. Ultimately, it aims to develop a monitoring system that can notify users of their health conditions around the clock even if they are not conscious of it.

(1)-2 Advancement of Sustainable Management

The company will promote sustainable management with setting their management strategies on business activities in harmony with the global environment and a vibrant corporation making use of employee's talent.

The company believes being a vibrant corporation making use of employee's talent will be the growth driver.

To realize a sustainable society, 11 materialities to be prioritized were identified, and specific action plans were put in place. Through resolving social issues, the company will aim to achieve the further enhancement of corporate value and the realization of a sustainable society.

	Materialities	Key Measures	2030 targets
Medical	<ul style="list-style-type: none"> Improving Access to Healthcare Solutions to Medical Issues Pursuing Quality and Establishing Sustainable Supply Chains 	<ul style="list-style-type: none"> Global solutions to healthcare issues Strengthening of supply-chain management 	<ul style="list-style-type: none"> Number of countries in which colorectal-cancer screening tests are deployed 57 countries CSR procurement survey implementation rate: 100%
Environment	<ul style="list-style-type: none"> Responding to Climate Change Contributing to a Recycling-Oriented Society 	<ul style="list-style-type: none"> Reduction of CO₂ emissions (Scope1+ Scope2) Reduction of waste volume Use of recyclable materials and reduction of packaging 	<ul style="list-style-type: none"> Reduction in CO₂ emissions: 30% *compared to FY2018 Reduction in waste-treatment volume: 15% *compared to FY2018 Setting targets for FY2022
Social	<ul style="list-style-type: none"> Respecting Human Rights and Diversity Employee Engagement and Personnel Training Boosting Health and Ensuring Safety and Hygiene 	<ul style="list-style-type: none"> Promotion of diversity and inclusion Creation of fulfilling and supportive workplaces and achievement of work-life balance 	<ul style="list-style-type: none"> Women as share of managers: 30% Rate of uptake of annual paid leave: 100% Rate of uptake of childcare leave: 100%
Governance	<ul style="list-style-type: none"> Achieving Sound and Transparent Governance Rigorous Compliance and Thorough Corruption Prevention Establishing Risk Management 	<ul style="list-style-type: none"> Training and monitoring based on compliance programs Thorough prevention of corruption 	<ul style="list-style-type: none"> Rate of participation in training: 100% Rate of implementation of due diligence with business partners on corruption prevention: 100%

(Source: EIKEN CHRMICAL)

Materialities and KPI in detail: <https://www.eiken.co.jp/en/sustainability/eiken/>

(1)-3 Objectives

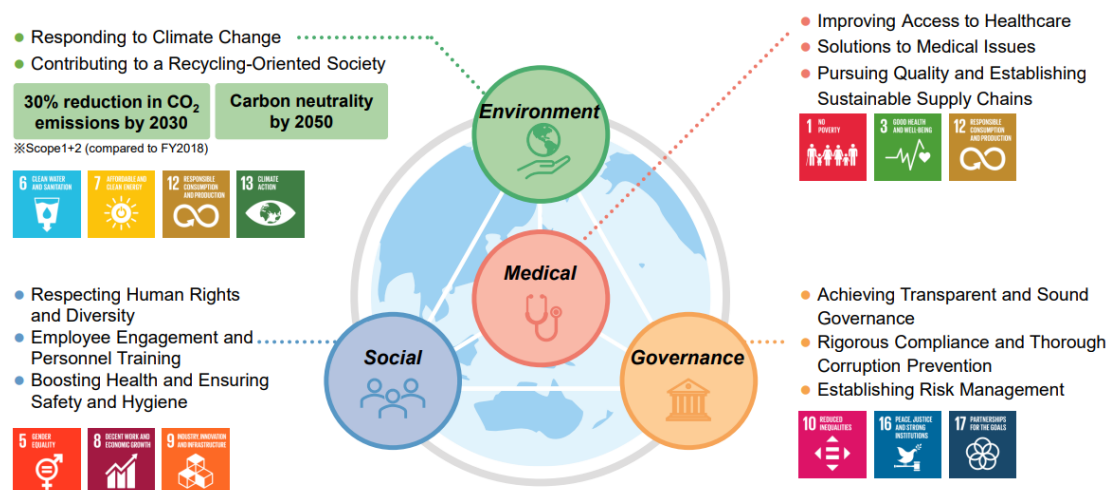
① Financial targets

For the fiscal year ending March 2031, the company aims to achieve “sales of 75 billion yen, an operating income margin of 20% or higher, a ratio of overseas sales of 40% or higher, and an ROE of 15% or higher.”

② Non-financial targets

As a company protecting the health of people worldwide, it is addressing issues not only of health care but also of the environment, society, and governance. For each materiality, it sets key performance indicators (KPIs) and monitors its progress toward achieving them. In addition to tracking its performance on the KPIs, the company reflects this performance in its evaluation of Executive Officers’ performance and in their remuneration.

Materialities and KPI in detail: <https://www.eiken.co.jp/en/sustainability/eiken/>



(Source: EIKEN CHRMICAL)

(3) Medium-term Management Plan (from FY 2023 to FY 2025)

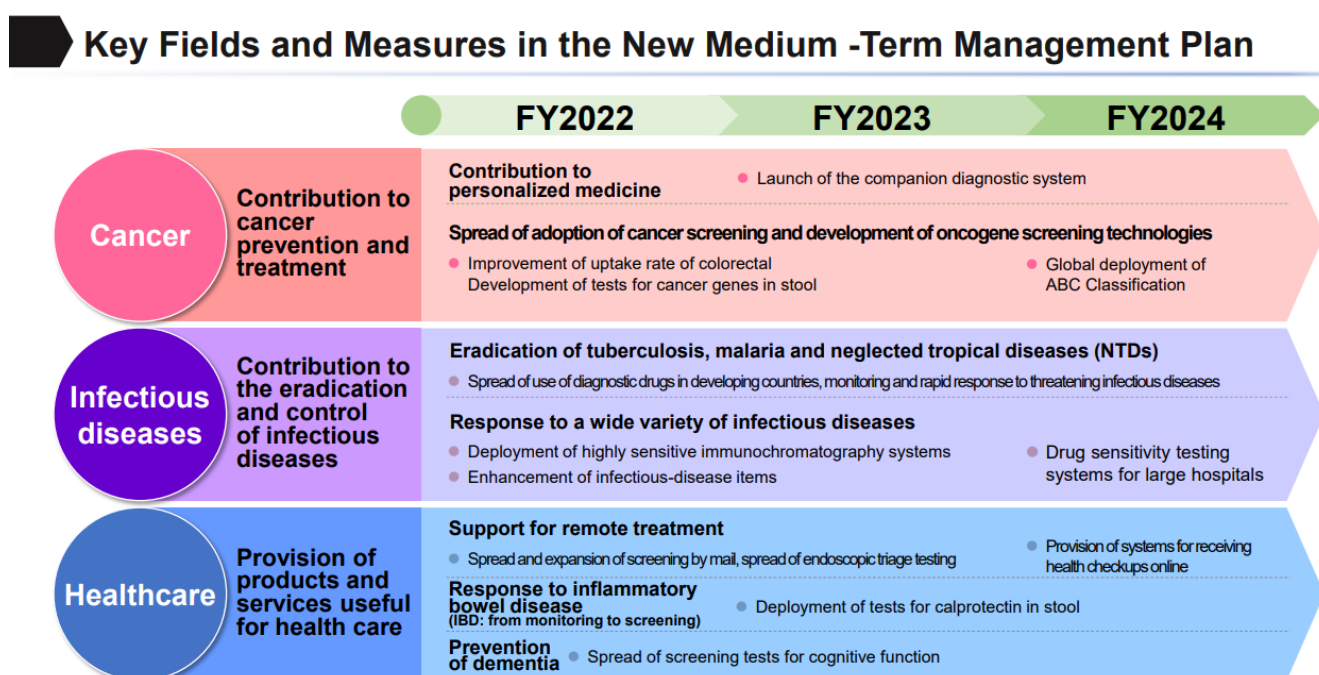
This is the first Medium-Term Management Plan for EIKEN ROAD MAP 2030 and a three-year growth strategy.

The Plan outlines key measures in accordance with the vision of EIKEN ROAD MAP 2030 and responds to the currently accelerating paradigm shift in healthcare.

The company aims to advance the establishment management platform, promote personnel-focused management, enhance employee satisfaction and motivation, furnish an environment that fosters innovation and boost sustainable growth with steady improvement in profitability.

(3)-1 Key fields and measures

The key measures taken in the priority business areas of (i) contribution to cancer prevention and treatment, (ii) contribution to the eradication and control of infectious diseases, and (iii) provision of products and services useful for health care are as follows.



(Source: EIKEN CHRMICAL)

In the field of colorectal cancer testing, to improve rates of uptake of colorectal cancer screening, the company will improve access to screening by expanding the number of screenings by mail and online screening. It will also develop a next generation fecal immunochemical test. The company aims to develop highly accurate medical laboratory technology to improve accuracy of colorectal cancer screening by increasing value-added of testing, for example, by cancer detection at earlier stages, and also, to narrow down the endoscopy target person and to develop tests to reduce patient’s physical burden. The company will also focus on the development of a comprehensive genetic mutation testing system that detect multiple cancer gene mutations at once with next-generation sequencer (NGS). This system requires a shorter time to report results, is highly sensitive, and does not require many specimens. This system is expected to add target genes supporting new molecular targeted drugs and expand applications for many other cancers, help decide direction of cancer treatment (selection of molecularly targeted drugs) by blood tests.

(3)-2 Establishing a management platform for sustainable growth

The company will further strengthen its management platform through the following five initiatives.

① Human resources strategy

The company is shifting to a wage system that focuses on job responsibilities and expertise and an evaluation system that brings out teamwork and challenges employees to pursue employee satisfaction and meaningful work.

② Structural reform

Based on the common understanding that our business field is the global market, the company is optimizing business processes and overhauling its systems with a view to speeding up decision-making.

③ IT strategy

The company is actively introduce and utilize AI and robots to promote DX in a wide range of business processes, including products and services, research and development, and manufacturing, to cultivate DX experts, and internal dissemination of DX.

④ Financial and capital strategies

By setting a target for cash conversion cycle, improving funding efficiency for business investment and diversifying its fundraising, the company will make agile and flexible investments to balance a sound financial base with operational expansion.

The company plans to spend a total of 28.4 billion yen in strategic investments over the next three years, including R&D, DX, work style reform, and facilities and equipment.

For M&A, rather than set a specific figure, this matter is considered separately.

Pursuit of stability and continuity in recognition of the importance of the return of earnings to shareholders as a management issue. The target dividend payout ratio is 30% or higher.

⑤ Governance

The company is strengthening its measures on ESG, with the aim of ensuring sound management that improves long-term corporate value. In addition, the company is advancing proactive IR and PR with high transparency, for example through the publication of integrated reports.

<Reference 2: 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 (Including 1 female)
Nominating Committee	3, including 2 outside ones
Compensation Committee	3, including 2 outside ones
Audit Committee	4, including 3 outside ones (Including 1 female)

◎ Corporate Governance Report

Last updated: submitted on December 19, 2023

<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

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 Each Principle of the Corporate Governance Code (Excerpts)

Principles	Disclosure content
[Principle 1-3 Objective of Capital Policy]	<p>Our company's basic capital policy is to improve capital efficiency and provide sustainable and stable shareholder returns to maintain and increase shareholder value. With respect to shareholder returns, we aim to maintain a consolidated dividend payout ratio of 30% or higher, taking into consideration the enrichment of internal reserves necessary for strengthening our financial position and aggressive business operation. When implementing capital policies (including capital increase, MBO, etc.) that would result in a change in control or significant dilution, the Board of Directors will fully discuss the necessity and rationality of the policy and ensure that appropriate procedures are followed. In addition, we will make efforts to provide sufficient explanations to shareholders and investors.</p>
[Principle 1-4 Strategically Held Shares]	<p>1. Policies on Strategic Holding of Listed Stocks Our basic policy is to hold shares of business partners only when we deem it reasonable to do so for the smooth promotion of business activities, maintenance of business relationships, business affairs, and capital alliances, and to continue to strategically hold these shares as long as we judge that they will contribute to the development of our business. To assess the value of holding these shares, the Board of Directors discusses annually whether the return (based on quantitative factors such as dividends and trading conditions, as well as a comprehensive assessment of importance in terms of management strategy and business relationships) is commensurate with the risk, in light of the cost of capital. We will sell off stocks that are deemed to have little benefit in holding, taking into consideration stock price trends and other factors. As for listed stocks, in the fiscal year ended 2022, as a result of discussions at the Board of Directors meeting held on April 28, 2022, we decided to sell the shares in three companies and continue to hold the shares in two companies.</p> <p>2. Standards for Exercising Voting Rights for Strategically Held Stocks Our company exercises the voting rights for strategically held shares based on a comprehensive judgment of factors such as the state of corporate governance of the company concerned, whether the proposal contributes to improving shareholder value, and the impact on our company.</p>
Supplementary Principle 3-1(iii) Sustainability Initiatives	<p>The company has been striving to solve various social issues through its business activities based on its management philosophy of “Protecting people's health through healthcare.” In order to more proactively promote sustainability throughout the Group, the company has formulated a Sustainability Policy and established a Sustainability Committee, chaired by the President and composed of executive officers in charge of each function and business group, to promote sustainability activities. The contents of the Sustainability Committee are reported to and supervised by the Board of Directors. Under the “EIKEN ROAD MAP 2030,” EIKEN identifies material issues and develops specific action plans to realize a sustainable society, and monitors the progress of these plans by setting indicators (KPIs). Information on the company's approach to sustainability, its policies, promotion system, and initiatives is disclosed on the company's website. (https://www.eiken.co.jp/sustainability/) Recognizing the risks posed by climate change to the financial market, the company endorsed the recommendations of the TCFD (Task Force on Climate-related Financial Disclosures) in February 2023 and has identified the risks and opportunities posed by climate change based on that framework. The company has also conducted scenario analyses of the financial impacts of the risks and opportunities identified and is furthering efforts to cope with climate change and disclosing information in line with</p>

	<p>the TCFD recommendations. (https://www.eiken.co.jp/sustainability/environment/weather/)</p> <p>Regarding investment in human capital, the company will promote personnel-focused management, create an environment that increases employees' motivation and fulfillment at work to let them bring forth their innovation, with the aim of achieving sustainable growth and steady profitability. Details are available on the company's website. (https://www.eiken.co.jp/sustainability/social/engagement/)</p> <p>Regarding investment in intellectual property, the company will steadily grow its existing businesses and allocate management resources to expanding the company's core technologies into peripheral businesses and developing new businesses through open innovation with external parties. Details are available on the company's website. (https://www.eiken.co.jp/rd/)</p>
[Principle 5-1 Objective Regarding Constructive Dialogue with Shareholders]	<p>Our company has established a Disclosure Policy approved by the Board of Directors, which discloses basic policies, information to be disclosed, information disclosure methods, the quiet period, etc. Our company has dialogues with shareholders to a reasonable extent to contribute to sustainable growth and medium/long-term improvement of corporate value.</p> <p>We have established a system in which the Sustainability Promotion Department manages IR, and the General Manager of the Corporate Administration Division who oversees the Sustainability Promotion Department, has been placed in the role of executive officer in charge of IR in an earnest effort to gain understanding and trust through dialogue with our shareholders and investors. The General Manager of the Corporate Administration Division concurrently oversees the Corporate Planning Department, the Accounting Department, the Human Resources Department, and other departments related to IR, and ensures close information sharing and collaboration among these departments.</p> <p>In terms of dialogue with shareholders, our company periodically holds a briefing session for analysts and institutional investors, at which the Representative Director and President provides explanations and has dialogues with shareholders, and the materials used in the briefing are available on the company's website. Individual meetings with shareholders and investors are handled by the Sustainability Promotion Department. Senior executives of the management team are also available for interviews as necessary to a reasonable extent.</p> <p>Key opinions of shareholders and investors obtained through dialogue are regularly reported to the Board of Directors by the executive officer in charge of IR.</p> <p>Our company conducts dialogues with shareholders and investors in accordance with its Disclosure Policy, and in addition to taking sufficient care not to include insider information, our company has established internal rules in accordance with applicable laws and regulations, and manages information appropriately based on these rules.</p>
[Actions to achieve management conscious of cost of capital and stock price] [English version available]	<p>In order to establish management conscious of cost of capital, the company has set sales, overseas sales ratio, operating profit margin, and ROE as important management indicators in its management vision "EIKEN ROAD MAP 2030." The company believes that achieving medium to long-term growth through the realization of this management vision will lead to improved market evaluation.</p> <p>Details of the management vision and the Medium-Term Management Plan, including efforts to maintain and improve capital efficiency to achieve the target ROE, are disclosed in the Integrated Report and financial results presentation materials.</p> <ul style="list-style-type: none"> • Financial results briefing materials https://www.eiken.co.jp/ir/presentation.html • Integrated report https://www.eiken.co.jp/ir/integrated/
[Status of Dialogue with Shareholders, etc.]	<p>In accordance with "Principle 5-1: The policy for constructive dialogue with shareholders," the company holds semi-annual financial results briefings attended by the President and Chief Executive Officer and the relevant executive officer in charge, and the IR staff conduct a total of approximately 100 individual meetings per year with analysts and institutional investors in Japan and overseas.</p> <p>The main topics of dialogue with the shareholders include medium to long-term growth</p>

BRIDGE REPORT



	strategies and management conditions with an awareness of capital efficiency, in addition to a summary of financial results and earnings forecasts, and these topics are regularly reported to the Board of Directors by the executive officer in charge of IR. The company will strive to further enhance its corporate value by appropriately and effectively reflecting the knowledge gained through the above efforts in its management policies.
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