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Financial Results for the Three Months Ended September 30, 2024 (Japanese Accounting Standards)

November 13, 2024

Company name: TAUNS Laboratories, Inc.
Listing: Tokyo Stock Exchange
Code no.: 197A
URL: https://www.tauns.co.jp/
Representative: Masaki Nonaka, President and CEO
Contact person: Yoshio Uchiyama, Director and CFO
Telephone: +81-55-957-3090

Scheduled date of payment of cash dividends: —
The additional material of the Financial Results: Yes
The briefing session of the Financial Results: No

(Amounts less than one million yen are rounded down.)

1. Financial Results for the Three Months Ended September 30, 2024（July 1, 2024 - September 30, 2024）

(1) Operating results

(Percent indications show percentage of changes from corresponding figures for the previous period)

	Net sales		Operating income		Ordinary income		Net income	
Three Months Ended	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
September 30, 2024	6,419	—	3,745	—	3,753	—	2,696	—
September 30, 2023	—	—	—	—	—	—	—	—

	Basic earnings per share	Diluted earnings per share
Three Months Ended	yen	yen
September 30, 2024	26.82	25.20
September 30, 2023	—	—

Note: No financial results for the three months ended September 30, 2023 being prepared, the figures of the corresponding period and increase/decrease ratio compared to the current three months period are not presented.

(2) Financial position

	Total assets	Net assets	Net assets as a percentage of total assets
	Millions of yen	Millions of yen	%
FY2025 1st quarter	29,178	14,251	48.8
FY2024	29,261	13,666	46.7

Reference: Net assets excluding share subscription rights: 14,244 million yen as of September 30, 2024,
13,658 million yen as of June 30, 2024

2. Dividends

	Annual cash dividends per share				
	At 1st quarter end	At 2nd quarter end	At 3rd quarter end	At fiscal year end	Total
	yen	yen	yen	yen	yen
FY2024	—	6.00	—	21.75	27.75
FY2025	—				
FY2025 (Forecast)		6.00	—	22.00	28.00

Note 1. Changes in dividends forecast for FY2025 from the latest disclosure: No
2. The year-end dividends for FY2024 include special dividend of 11.10 yen.
3. The year-end dividends for FY2025 include special dividend of 10.00 yen.

3. Forecast of operating results for FY2025（July 1, 2024 - June 30, 2025）

(Indications show percentage of changes from corresponding figures for the previous period)

	Net sales		Operating income		Ordinary income		Net income		Net income per share
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	yen
FY2025	19,273	4.5	8,308	3.5	8,316	6.1	6,019	4.2	59.79

Note 1. Changes in forecast of operating results for FY 2025 from the latest disclosure: No
2. Forecast for operating results for FY2025 1st half is not prepared.

※ Notes

(1) Adoption of specific accounting policies for quarterly financial statements: Yes

Note: See attached page 7 (3) Notes to quarterly financial statements – (Notes to adoption of specific accounting policies for quarterly financial statements)

(2) Changes in accounting policies, accounting estimation change and restatement

① Changes in accounting policies due to the revision of the accounting standards：None

② Changes in accounting policies except for those in ① ：None

③ Changes due to accounting estimation change：None

④ Restatement：None

(3) Number of shares issued（common stock）

① Number of shares issued at the fiscal year end (including treasury stocks)	FY2025 1st quarter	100,866,819shares	FY2024	100,000,000shares
② Number of treasury stocks at the fiscal year end	FY2025 1st quarter	－shares	FY2024	－shares
③ The average number of shares issued during the fiscal year	FY2025 1st quarter	100,533,960shares	FY2024 1st quarter	－shares

（Note）No Quarterly Financial Results being prepared for the 1st quarter of FY2024, the average number of shares issued during the 1st quarter of FY2024 is not presented.

※ Review by external auditor: Yes (Optional)

※ Explanation regarding the appropriate use of forecast of business results

The financial forecast is based on judgments and estimates that have been made on the basis of currently available information. By nature, such financial forecast is subject to uncertainty and risk. Therefore, you are advised that the final results might be significantly different from the aforementioned forecast due to changes in economic environments related to our business, market trends and exchange rate, etc.

Please refer to “1. Overview of the operating results, etc., (3) Explanation on financial forecast” on page 3 for the assumptions used in forecasting business results and precautions regarding the use of business results forecasts.

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Independent Auditor's Interim Review Repot on Quarterly Financial Statements

1. Overview of the operating results, etc.

(1) Overview of business performance for the current quarter

During the first three months period of the current fiscal year (July 1, 2024 to September 30, 2024), although high global inflation is beginning to ease, the prolonged situation in Ukraine and instability in the Middle East have led to uncertainty, and in Japan, the Japanese yen strengthened rapidly due to differences in the direction of monetary policy among countries, and the environment remained unstable due to factors such as the historic decline in stock prices caused by concerns about a downturn in the U.S. economy and subsequent recovery.

In the in vitro diagnostic (IVD) pharmaceutical industry, although the spread and contraction of the infection has continued since the designation of COVID-19 as a Class 5 infectious disease in May 2023, the 11th wave of COVID-19 occurred in July 2024. The spread of infection of this wave continued at almost the same pace and scale as the 9th wave of the previous year until mid-August. However, after the end of the Obon holiday period in Japan, while the 9th wave experienced a resurgence of the epidemic along with a recovery in the flow of people, the 11th wave began to decline without a resurgence. As a result, the scale of the COVID-19 epidemic and the market for test kits were smaller than in the same period of the previous year.

In addition, in the same period of the previous year, the influenza epidemic also began in September 2023. As it occurred at the same time as COVID-19, demand for influenza test kits and products that can test for both influenza and COVID-19 at the same time (combo kits) increased sharply at medical institutions. In the current quarter, however, the influenza epidemic has been limited to some areas such as Okinawa prefecture and has not spread nationwide.

During the first quarter of the current fiscal year, some distributors took steps to secure inventory, focusing on kits that test for a single infectious disease of COVID-19 at the time of the 11th wave. We believe this was a precautionary measure in response to the industry-wide inventory shortage that occurred in the same period last year, which was focused on combo kits. As a result of these actions, sales of kits testing for COVID-19 only advanced first, followed by sales of combo kits.

<Quarterly net sales trend> (Unit: millions of yen)

	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter	Total
FY2023	6,326	4,106	2,401	2,839	15,673
FY2024	6,943	4,673	4,754	2,063	18,434
FY2025	6,419	―	―	―	―

In terms of quarterly net sales performance, the first quarter of each fiscal year has always been the largest.

We ask you to note that the sales of COVID-19 test kits for local governments, a one-time event, was included in the first quarter of the fiscal year ended June 2023 and amounting approximately to 1.4 billion yen. Also note that we had to adjust the shipment of our main products from around September to around February in the fiscal year ended June 2024.

For the fiscal year ending June 2025, we anticipate that the impact of adjustments to shipments of our major products will not be the same as in the previous fiscal year. For this reason, we expect cumulative sales to exceed the previous year's results from the second quarter onward.

<1st Quarter P/L Comparison> (Unit: millions of yen)

	FY2023 1Q	FY2024 1Q	FY2025 1Q	Increase/(decrease)
Net sales	6,326	6,943	6,419	(7.5%)
(including sales to local governments)	1,477	―	―	―
Gross profit	3,909	4,802	4,810	0.2%
Gross profit ratio (%)	61.8%	69.2%	74.9%	5.8%
Operating income	2,812	3,746	3,745	(0.0%)
Operating income ratio (%)	44.5%	53.9%	58.3%	4.4%
Ordinary income	2,807	3,741	3,753	0.3%
Ordinary income ratio (%)	44.4%	53.9%	58.5%	4.6%
Quarterly net income	1,920	2,685	2,696	0.4%
Quarterly net income ratio (%)	30.4%	38.7%	42.0%	3.3%

In the first quarter of FY2023, the gross profit ratio was suppressed, and all profit and loss ratios were relatively small because low-margin bids for local governments (1.4 billion yen) were included. In the first quart of FY2024, there were almost no bids for local governments, which resulted in improvement of profit and loss ratios.

In the first quarter of FY2025, high-margin COVID-19-only test kits and combo kits that test for both influenza and COVID-19 accounted for a large proportion of sales. As a result, we achieved a slight increase in net income in spite of a decrease in net sales.

<Sales by main product in the first quarter> (Unit: millions of yen)

Sales by main product	FY2023 1st Quarter (a)	FY 2024 1st Quarter (b)	FY2025 1st Quarter (c)	(c) / (b)
COVID-19-only test kits	5,356	2,374	3,284	38.3%
COVID-19/Influenza combo kits	285	2,479	2,013	(18.8%)
Influenza test kits	118	1,286	400	(68.9%)
Others	565	803	720	(10.3%)
Total	6,326	6,943	6,419	(7.5%)

Comparing first quarter net sales by major product, sales of influenza test kits in the first quarter of the current fiscal year were significantly lower than in the year-ago period, when there was a nationwide outbreak of influenza beginning in September. In addition, the market for combo kits was smaller than in the previous year and our market share is still recovering, so sales of combo kits were lower than in the year-ago period. On the other hand, sales of COVID-19-only test kits were significantly higher than in the same period last year, as the Company's market share increased significantly, although the market size was significantly smaller than in the previous year.

In this environment, we did our utmost to fulfill our social responsibility to provide test kits based on our corporate slogan "Peace of mind through diagnostic technology."
As a result, in the first quarter of the current fiscal year, we achieved net sales of 6,419,625 thousand yen, operating income of 3,745,205 thousand yen, ordinary income of 3,753,838 thousand yen, and net income of 2,696,686 thousand yen, respectively.

(2) Overview of financial position for the current quarter

Total assets at the end of the first quarter of the current fiscal year decreased by 82,505 thousand yen from the previous fiscal year-end amounting to 29,178,820 thousand yen. This was mainly due to a decrease in cash on hand and in banks caused by dividend payments and the payment of income taxes, while accounts receivable increased as a result of a significant increase in net sales due to the impact of the 11th wave of the COVID-19.
Total liabilities decreased by 667,742 thousand yen from the end of the previous fiscal year and amounted to 14,926,823 thousand yen. This was mainly due to a decrease in income taxes payable, and a decrease in long-term loans payable as a result of the repayment of term loans.
Total net assets increased by 585,236 thousand yen from the end of the previous fiscal year and amounted to 14,251,996 thousand yen. This was mainly due to an increase in retained earnings.

(3) Explanation on financial forecast

There are no changes to the full-year earnings forecast for the fiscal year ending June 2025, which was announced on August 13, 2024.

2. Quarterly Financial Statements

(1) Quarterly Balance sheet

(Unit: thousands of yen)

	Prior fiscal year (As of June 30, 2024)	Current first quarter (As of September 30, 2024)
Assets		
Current assets		
Cash on hand and in banks	9,424,891	5,030,774
Accounts receivable – trade	2,706,864	6,597,589
Merchandize and finished goods	2,731,012	2,684,554
Work in process	846,011	920,004
Raw materials and supplies	1,140,425	1,200,239
Other	66,508	140,271
Total current assets	16,915,714	16,573,433
Fixed assets		
Property, plant and equipment		
Construction in progress	3,972,673	4,220,790
Other	3,932,553	3,906,090
Total property, plant and equipment	7,905,227	8,126,881
Intangible fixed assets		
Customer related assets	2,726,400	2,669,600
Technology related assets	696,266	671,400
Other	298,204	387,293
Total of intangible fixed assets	3,720,871	3,728,293
Investments and other assets	719,512	750,211
Total fixed assets	12,345,611	12,605,386
Total assets	29,261,325	29,178,820

(Unit: thousands of yen)

	Prior fiscal year (As of June 30, 2024)	Current first quarter (As of September 30, 2024)
Liabilities		
Current liabilities		
Accounts payable – trade	1,482,761	1,400,694
Short-term borrowings	4,500,000	4,500,000
Current portion of long-term borrowings	732,000	732,000
Accrued income taxes	1,706,274	1,113,274
Allowance for bonuses	427,577	337,933
Allowance for bonuses to directors	27,991	—
Other	1,597,837	1,910,663
Total current liabilities	10,474,442	9,994,567
Long-term liabilities		
Long-term borrowings	4,307,000	4,124,000
Deferred tax liabilities	619,491	619,567
Accrued retirement benefits	181,631	176,688
Asset retirement obligations	12,000	12,000
Total long-term liabilities	5,120,123	4,932,256
Total liabilities	15,594,565	14,926,823
Net assets		
Shareholders' equity		
Common stock	200,000	226,004
Deposits for subscriptions rights to common stocks	5,681	17,915
Capital surplus		
Legal capital surplus	50,000	76,004
Other capital surplus	2,633,300	2,633,300
Total capital surplus	2,683,300	2,709,304
Retained earnings		
Other retained earnings		
Unappropriated retained earnings	10,777,852	11,299,539
Total retained earnings	10,777,852	11,299,539
Total shareholders' equity	13,666,834	14,252,763
Valuation and translation adjustments		
Net unrealized gains (losses) on securities	(7,982)	(7,804)
Total valuation and translation adjustments	(7,982)	(7,804)
Share subscription rights	7,907	7,037
Total net assets	13,666,759	14,251,996
Total liabilities and net assets	29,261,325	29,178,820

(2) Quarterly Statement of income

(Unit: thousands of yen)

	Current first quarter (From July 1, 2024 To September 30, 2024)
Net sales	6,419,625
Cost of sales	1,608,798
Gross profit	4,810,827
Selling, general and administrative expenses	1,065,622
Operating income	3,745,205
Non-operating income	
Interest income	1,398
Dividends income	110
Subsidy income	22,468
Miscellaneous income	475
Total non-operating income	24,452
Non-operating expenses	
Interest expenses	15,779
Miscellaneous expenses	40
Total non-operating expenses	15,819
Ordinary income	3,753,838
Special gains	
Gain on sales of fixed assets	1,448
Gain on reversal of subscription rights to stocks	3
Total special gains	1,451
Income before income taxes	3,755,290
Income taxes	1,058,603
Net income	2,696,686

(3) Notes to quarterly financial statements

(Notes to adoption of specific accounting policies for quarterly financial statements)

(Calculation of tax expense)

Income taxes are determined based on the amount of income before income taxes for the current first quarter ended September 30, 2024 multiplied by the effective tax rate, after adoption of tax-effect accounting, estimated for the entire fiscal year ending June 30, 2025.

(Notes to business segments and related information)

No segment information is provided as the Company has only one segment, which is IVD (in vitro diagnostics) business.

(Notes to significant changes in shareholders' equity)

None

(Notes to events and conditions which indicate there could be substantial doubt about going concern assumption)

None

(Notes to quarterly cash flow statements)

Quarterly cash flow statements are not prepared for the current first quarter. The amount of depreciation including both tangible assets and intangible assets for the current first quarter is as follows:

	Current first quarter (From July 1, 2024 To September 30, 2024)
Depreciation	171,968 thousands of yen

(For translation purpose Only)

Independent Auditor's Interim Review Report on Quarterly Financial Statements

November 13, 2024

The Board of Directors
TAUNS Laboratories, Inc.

Ernst & Young ShinNihon LLC
Shizuoka, Japan

Designated and Engagement Partner Certified Public Account — Tomoaki Ito
Designated and Engagement Partner Certified Public Account — Shuji Okamoto

Auditor's Conclusion
We have reviewed the accompanying quarterly financial statements of TAUNS Laboratories, Inc. (the "Company"), which comprise the quarterly balance sheet as of September 30, 2024, the quarterly statements of income, for the three-month period then ended, and the related notes included in the "attachment" of Financial Results.
Based on our review, nothing has come to our attention that causes us to believe that the accompanying quarterly financial statements are not prepared, in all material respects, in accordance with Article 4 (1) of Standards for Preparation of Quarterly Financial Statements of the Tokyo Stock Exchange, Inc. and accounting principles generally accepted in Japan for quarterly financial statements, applying the provisions for reduced disclosures as set forth in Article 4, Paragraph 2 of the Standards.

Basis for Auditor's Conclusion
We conducted our review in accordance with review standards for interim financial statements generally accepted in Japan. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Review of the Quarterly Financial Statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our review of the financial statements in Japan, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that we have obtained evidence to provide a basis for our conclusion.

Management's and the Audit & Supervisory Board Member's Responsibilities for the Quarterly Financial Statements
Management is responsible for the preparation of these quarterly financial statements in accordance with Article 4 (1) of Standards for Preparation of Quarterly Financial Statements of the Tokyo Stock Exchange, Inc. and accounting principles generally accepted in Japan for quarterly financial statements, applying the provisions for reduced disclosures as set forth in Article 4, Paragraph 2 of the Standards, and for designing and operating such internal control as management determines is necessary to enable the preparation of quarterly financial statements that are free from material misstatement, whether due to fraud or error.
In preparing the quarterly financial statements, management is responsible for assessing the Company's ability to continue as a going concern and disclosing, as required by Article 4 (1) of Standards for Preparation of Quarterly Financial Statements of the Tokyo Stock Exchange, Inc. and accounting principles generally accepted in Japan for quarterly financial statements, applying the provisions for reduced disclosures as set forth in Article 4, Paragraph 2 of the Standards, matters related to going concern.
The Audit & Supervisory Board Member are responsible for overseeing the duties of executive officers and directors in designing and operating the Company's financial reporting process.

Auditor's Responsibilities for the Review of the Quarterly Financial Statements
Our objective is to issue an auditor's interim review report that includes our conclusion from an independent standpoint.
As part of a review in accordance with review standards for interim financial statements generally accepted in Japan, we exercise professional judgment and maintain professional skepticism throughout the interim review. We also:
・Make inquiries, primarily of management and persons responsible for financial and accounting matters, and apply analytical and other interim review procedures. A review is substantially less in scope than an audit conducted in accordance with auditing standards generally accepted in Japan.
・If we determine that a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern, then we conclude, based on the evidence obtained, on whether anything has come to our attention that causes us to believe that the quarterly financial statements are not prepared in accordance with Article 4 (1) of Standards for Preparation of Quarterly Financial Statements of the Tokyo Stock Exchange, Inc. and accounting principles generally accepted in

Japan for quarterly financial statements, applying the provisions for reduced disclosures as set forth in Article 4, Paragraph 2 of the Standards. Additionally, if we conclude that a material uncertainty exists, we are required to draw attention in our auditor's interim review report to the related disclosures in the quarterly financial statements or, if such disclosures are inadequate, to express a qualified conclusion or adverse conclusion. Our conclusions are based on the evidence obtained up to the date of our auditor's interim review report. However, future events or conditions may cause the Company to cease to continue as a going concern.

・Evaluate whether anything has come to our attention that causes us to believe that the quarterly financial statements are not prepared in accordance with Article 4 (1) of Standards for Preparation of Quarterly Financial Statements of the Tokyo Stock Exchange, Inc. and accounting principles generally accepted in Japan for quarterly financial statements, applying the provisions for reduced disclosures as set forth in Article 4, Paragraph 2 of the Standards.

We communicate with the Audit & Supervisory Board Member regarding, among other matters, the planned scope and timing of the interim review and significant review findings.

We also provide the Audit & Supervisory Board Member with a statement that we have complied with the ethical requirements regarding independence that are relevant to our review of the financial statements in Japan and communicate with them all relationships, other matters that may reasonably be thought to bear on our independence, and where applicable, measures taken to eliminate inhibiting factors or apply safeguards to reduce them to an acceptable level.

Interest required to be disclosed by the Certified Public Accountants Act of Japan

Our firm and its designated engagement partners do not have any interest in the Company which is required to be disclosed pursuant to the provisions of the Certified Public Accountants Act of Japan.

Notes:

1. The original copy of the above Independent Auditor's Interim Review Report is in the custody of the Company (a company that discloses quarterly financial results).
2. The XBRL data and HTML data are not included in the scope of Interim Review.