

Q2 Earnings Call Q&A Transcript

Question 1

Thank you for your presentation. I assume that everyone would want to ask you the same question. Sales from COVID-19 testing has decreased compared to the first quarter. Also, as far as I know, the global diagnostics market is experiencing sluggish trend recently. Could you please share us your outlook for the second half?

Answer 1

As I mentioned during the presentation, we expect that the demand for overall tests will likely increase in the second half. Along with the spread of the Delta variant, other COVID-19 variant such as the lambda variant is continuously emerging. Indeed, demand for COVID-19 testing has been increasing in Asian and Latin American regions since July as the need to screen COVID-19 variants rises.

Therefore, we expect that our performance in the third quarter will be improved compared to that of Q2. As for the second half, we are expecting our sales to stay the same or outperform that of the first half. If some countries were to adopt to live with COVID-19' policies, demand for our syndromic assays that can simultaneously detect COVID-19 and flu virus will increase.

Question 2

The market has started noticing manual PCR testing being taken over by automated PCR testing. Please share your insight toward such shift.

Answer 2

PCR technology was initially developed for primary research purpose, but now it is widely being used for diagnostics. In terms of user convenience, manual PCR is preferred in the basic research sector whereas automatic PCR is preferred in commercial diagnostics sector to cover the mass testing volume. In fact, automated PCR testing platform is well recognized by several molecular diagnostics companies as witnessed from industry trend.

Question 3

It is known that sequencing technology is often used for monitoring COVID-19 variants. How do you compare sequencing to conventional PCR in diagnostics?

Answer 3

Currently, WHO is counteracting COVID-19 variants separately in accordance with their classification -- Variant of Interest and Variant of Concern. Sequencing is mainly employed to discover genetic information given by point mutation and determine its biological impact such as variation on transmission. Once we obtained genetic data of variant virus, we can target certain key mutations and detect them through PCR assay.

We are continuously developing and launching COVID-19 variant detection kits to help various health authorities to be more agile in monitoring variants outbreak and controlling the spread of virus than using sequencing alone.

Question 4

Could you tell us more about the sales contribution from COVID-19 detecting kits and COVID-19 variants detecting kits?

Answer 4

As newly emerged COVID-19 variants spread rapidly, health authorities and governments around the world focus on 'screening' the virus than accurate identification of variants. Therefore, sales of variants detecting kits did not contribute as much as we expected. However,

we responded to the market by introducing variants screening products as additional tool to control the outbreak. As our variants screening kits are also compatible with the SARS-CoV-2 Master Assay that can differentiate the wild-type and variant virus, such application, for instance, will be very attractable to customers since it provides more valuable diagnostic data. In addition, while various COVID-19 vaccine manufactures continue to research their efficacy on variant virus, the need for accurate identification of COVID-19 variants will be continuously growing.

Question 5

Cash and cash equivalents balance declined in Q2. Please tell us more about company's cash allocation.

Answer 5

Cash and cash equivalents fell by KRW 50 billion QoQ. This is because we paid KRW 39 billion in dividends in Q2 and executed about KRW 14.6 billion worth of share buyback.

Question 6

I would like to ask about sales growth in Latin America in terms of market expansion as the company has announced its focus on such region as one of the major target markets.

Answer 6

In Latin American region, Brazil and Mexico have been the region's largest market as there are our subsidiary offices. For now, we are planning to strengthen marketing in Colombia. As I've mentioned before, Latin America still has relatively poor PCR infrastructure, so we aim to increase the company's presence along with more instrument install-base in the public sector prior to the private sector.

Also, our technical competitiveness is being recognized and appreciated by a meaningful number of customers. This is part of reason I mentioned during the presentation, that our outlook in the Latin American region is quite optimistic.

Although the spread of Delta variant is active in most regions including Asia, the Lambda variant, a new variant originated from Latin America, still imposes danger for another outbreak in countries

including Chile, Peru, and Ecuador. We are on schedule to launch a new COVID-19 variants detection kit covering Lambda variant on following month.

Question 7

How is Seegene preparing for the post-Pandemic era? We noticed that the company has achieved many activities including the signing additional partnership with Bio-Rad for US market and substantial investments on R&D. Then, the next question is about M&A.

Do you have any updates on M&A to share with us?

Answer 7

Since I joined to Seegene in this April, I've been asked a lot about our M&A deals.

As I addressed earlier, the company has reinforced the strategic resource designated for M&A business. We understand the importance of maximizing our value chain through the vehicle of M&A, and, in addition, we currently consider all possible options to generate what we think as the best outcome. However, we ask for your kind understanding that we cannot share the details about M&A before they are confirmed.

Question 8

So, you've mentioned that the adjusted pricing policy was one of the reasons for the decline in sales. Please briefly tell us how much the price reduction was made in terms of change in ASP?

Answer 8

I mentioned that we modified our pricing policy as one of the employed strategies to solidify the company's market position in limited regional markets. In other words, the price drop was fully intentional to strengthen the market positioning in long run. And please understand that we cannot share much detail regarding pricing. However, our sales division currently communicate with various channels from our global network to respond with appropriate measures according to each market situations.

Question 9

It seems that SG&A expense has increased significantly QoQ and YoY. If company is to continue with strategic investments, will the SG&A expenses continuously increase?

Answer 9

I have previously commented about expenses in talent acquisition and R&D. Labor expense, for example, has increased from 8% of the total sales in 2020 to more than 10% of total sales in the second quarter. Out of total sales, R&D expense portion specifically has increased from 2% in 2020 to the range of 4 to 6%. If you could refer to the earnings report, you would probably notice that our expenses have substantially increased. However, please understand that it is difficult to accurately present the timing and how much we are going to increase investments in hiring and R&D.