

Q2 '21 Earnings Report

Hello, and welcome to the Seegene second-quarter 2021 earnings conference call. I'm Myungkun Kim, Managing Director of IR and PR Department.

Today we are joined by Seegene's product and technology experts including the head of the European clinical lab as well as the IR team members to provide you with in-depth answers to all kinds of questions. First, we will start the conference by providing you with a summary of our Q2 financials and then we will take questions.

Let us start with Q2 financials.

Seegene recorded Q2 revenue of KRW 303.7 billion, operating profit of KRW 144.2 billion, which led to 47.5% of OPM, and 38.4% of NPM.

Sales rose 11% YoY, while operating profit fell 15%. On QoQ, sales decreased by 14% and operating profit decreased by 26%.

In H1, Seegene recorded sales of KRW 655.5 billion, operating profit of KRW 338.1 billion, and net profit of KRW 280.9 billion. As for OPM and NPM, we posted 51.6% and 42.9%, respectively. Sales increased by approximately 84% over previous year, and operating profit by 62%, and net profit by 70%.

The slight decline in sales is attributable to diminished COVID-19 PCR testing volume due to active vaccination in European countries prior to the unexpected virus variants outbreak. Such continuous uncertainties may have resulted inventory burdens on customer end and affected to performance of the Q2.

We also employed various strategic plans including new pricing policy in effort to solidify its market share in global diagnostics sector and to focus on long-term growth.

The decline in operating profit and OPM is largely due to the decline in sales along with increased investments in boosting future growth engines such as R&D and human capital.

The number of our employees tallied at the end of June 2021 is 1,088 including overseas personnel, up by 42% compared to the end of 2020. Also, Q2 R&D expenses were KRW 18.5 billion, accounting for 6% of the total sales. A total amount of KRW 33.2 billion was invested in the first half, which exceeds the total R&D expenses spent last year, which was KRW 26.2 billion.

Next, I'll elaborate on the sales performance of Q2 in more detail by each segment and product.

Among the total sales of KRW303.7 billion, KRW 246.6 billion were generated from reagents, accounting for 81% of the total sales in Q2, and the rest was from instruments and others.

Meanwhile, the proportion of COVID testing reagents sales over the total sales has been dropped by 2%p over last year.

Sales for Non-COVID reagents in the second quarter recorded KRW 27.3 billion and extraction-reagents recorded KRW 20.5 billion, which account for 9% and 7% of the total sales in Q2, and 11% and 8% of reagent product sales, respectively.

Among the non-COVID diagnostic reagent product family, the sales volume of each product is changed from RV, STI, GI, and HPV to STI, GI, RV, and HPV. Sales for RV reagent which used to be our steady seller seems to be slowing due to the COVID-19 pandemic.

Despite a decrease in the total sales, sales for non-COVID diagnostic reagents increased by about 5.4% QoQ, as the molecular diagnostic market rapidly

expands. It also tells us that Seegene will likely achieve sustainable growth for the near future as we are fostering to install our instruments in global markets.

Next, I'll explain the status of instrument installations and sales that underlie our growth.

In the second quarter, we installed a total of 351 CFX96, an amplification instrument, 228 extraction instruments including STARlet and Nimbus.

In the first half, we installed 680 amplification instruments and 488 extraction instruments.

As of the end of 2Q, 4,120 amplifying instruments and 1,946 extraction instruments are installed globally, and by end of the year, we plan to install about 5,000 amplification instruments and 2,700 extraction instruments.

When we have a close look, the recent increase in instrument installation in Asian countries including Malaysia and Thailand, and Latin American region such as Brazil and Chile, has led to significant expansion of PCR infrastructure, which is expected to serve as a solid steppingstone for mid- to long-term growth of the company in the post-COVID era.

Now turning to the sales breakdown by regions

Discrepancies in geographical sales were predominantly attributed to vaccination rates and the rate at which the delta variant spread.

Topline from Europe scaled back 33% QoQ as we witnessed abating trends in both COVID-19 caseloads and testing volume due to an uptick in vaccination rate in countries like Italy, Spain, Israel, and the UK at the beginning of Q2.

In addition, implementation of modified pricing policy in reinforcing our market position and inventory issues, in part, contributed to diminished revenue.

Overall, European sales proportion dropped from 58% in FY2020 to 49% in Q2'21 accordingly.

Sales in Asia and Africa, however, registered a growth of 21% QoQ, largely due to consistently surging caseloads in countries like Vietnam, Thailand, Australia, and South Africa.

Topline from Asia/Africa ended up accounting for 14% of total sales compared to 12% in FY2020. Sales in Middle East Asia also soared as result of the Kuwaiti MOH tender.

Sales in Central- South America rose drastically by 71% QoQ constituting for 14% of total sales in Q2'21.

Mexican and Brazilian subsidiaries focusing on securing infrastructure invariably translated into a such jump and we expect to see a same trajectory in the second half of 2021.

Lastly, sales generated in domestic market rose by 5% QoQ and 4%p YoY, accounting for 9% of Q2 revenue.

While remaining our market position, we had a solid performance in Q2.

Fueled by swift spread of delta variants, we anticipate our Q3 revenue to be greater than Q2.

Now, I'll brief you on the company's business outlook.

As demand for screenings increases in Asian countries including South Korea, Latin America, and Europe, where COVID-19 cases are growing exponentially due to the Delta variant, sales in the third quarter are expected to surpass that of the second quarter.

European countries, where vaccination rates are high, are expected to implement the surveillance screening for respiratory infection. In such case, our multiplex assay that can simultaneously detect multiple diseases along with COVID-19,

namely Allplex™ SARS-CoV2/Flu A/Flu B/ RSV Assay, is expected to contribute for sales in the second half.

To sum up, it is still uncertain how much impact that the spread of COVID-19 variants such as the Delta will impose in the second half, however, we are on track to achieve sales performance to at least hover around that of the first half.

We are a little concerned that, for the time being, the OPM would be affected by the increased investment in R&D and recruiting which is crucial for the long-term growth. We ask for you to take this into consideration when evaluating our profitability.

Lastly, I'll talk about our strategy for the second half of 2021.

Overall, demand for diagnostics is expected to rise as the COVID-19 caseloads rise due to increasing breakthrough infections as well as the spread of the delta variant. There is now a growing number of expert opinions delivering that COVID-19 will become endemic, and it is hardly likely to end.

Against such backdrop, if more and more countries begin to focus on surveillance screening in an effort to going back to normal, continuous demand is expected for multiplex assays that can detect respiratory diseases and COVID-19 at the same time.

We aim to promote Allplex™ SARS-CoV2/Flu A/Flu B/RSV Assay and other respiratory syndromic assays to increase sales and bring PCR test to people's daily lives.

Also, as for Asian/African countries where the number of COVID-19 cases continues to rise, we will actively seek to explore new markets. And for countries that lack PCR infrastructure, such as Latin America, we will put our focus on signing tenders and government procurement agreements while expanding PCR testing capability by installing our instruments. Such business expansion in

emerging markets will help us to not only gain global COVID testing market share but also operate the core business in the post-pandemic era.

We are also planning to promote and sell our non-COVID diagnostic reagents globally as we have been continuously expanding instrument installation that can be used with our diagnostic assays since last year.

When these efforts come to fruition, we believe that concerns over our performance after the pandemic will be resolved. We will do our best to produce meaningful results. Thank you for listening.

Now I'd like to wrap up my presentation and move on to the Q&A session.

If you have any questions, we, including me and attendants here, will give you answers accordingly.

As I've mentioned earlier, the head of European clinical lab is joining us here today. He'll give you explicit answers about your technical questions.