

Precision System Science Co., Ltd.
SUMMARY OF CONSOLIDATED FINANCIAL STATEMENTS
Fiscal Year, Ending June 30, 2019
(From July 1, 2018 to June 30, 2019)

The English Edition is digested translation of Japanese financial statements,
which are prepared in accordance with generally accepted accounting principles in Japan.

Company Name: Precision System Science Co., Ltd.
Listed Market: Mothers
Code Number: 7707
URL: <http://www.pss.co.jp/>

1. Consolidated financial data for the Fiscal Year 2019, Ended June 30 2019

(From July 1, 2018 to June 30, 2019)

(1) Consolidated operating results

(Million yen, fractional amounts rounded down to the nearest million yen)

Fiscal Year, Ended	Net sales		Operating income		Ordinary income		Quarter net income attributable to parent company shareholders	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
June 30, 2019	4,381	20.3	163	----	139	----	130	----
June 30, 2018	3,641	(5.4)	(385)	----	(385)	----	(457)	----

(Reference) Comprehensive income: 108 million yen including benefits for FY2019 ended June 30, 2019

459 million yen loss for FY2018 ended June 30, 2018

Fiscal Year, Ended	Net income per share	Diluted net income per share	Equity ratio of net income	Return on Asset	Operating profit on sales
	Yen	Yen	%	%	%
June 30, 2019	5.35	5.31	3.6	2.6	3.7
June 30, 2018	(19.84)	----	(13.0)	(7.0)	(10.6)

(2) Consolidated financial condition

Fiscal Year, Ended	Total assets	Net Assets	Equity ratio	Net income per share
	Million yen	Million yen	%	yen
June 30, 2019	5,504	3,977	72.2	158.55
June 30, 2018	5,128	3,291	64.2	142.69

(Reference) Equity: 3,974 million yen as of June 30, 2019

3,291 million yen as of June 30, 2018

2. Dividend

	Dividend per share				
	1Q	2Q	3Q	FY end	Total
Fiscal Year, Ended	Yen	Yen	Yen	Yen	Yen
June 30, 2018	----	0.00	----	0.00	0.00
June 30, 2019	----	0.00	----	0.00	0.00
June 30,2020(Forecast)	----	0.00	----	0.00	0.00

(Note) Revisions from the most recently released Dividend Forecast: None

3. Business Forecasts for the fiscal year (From July 1, 2019 to June 30, 2020)

	Sales		Operating income		Ordinary income		Net income attributable to parent company shareholders		Net income per share
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	yen
First 6 months ending December 31, 2019	2,300	12.6	0	----	(25)	----	(50)	----	(1.90)
For fiscal year ending June 30, 2020	4,600	5.0	30	(81.6)	10	(92.8)	2	(98.5)	0.10

(Note) Revisions from the most recently released Business Forecast: None

4. Others

- (1) Change in scope of consolidated subsidiaries during FY 2019 ending June 30, 2019 : None
- (2) Adoption of simplified accounting method or accounting method specify to quarterly period : None
- (3) Changes in accounting principles, changes in accounting estimation, retrospective restatement
- a) Changes according to the changes in accounting standards : None
- b) Changes other than a) : None
- c) Changes in accounting estimate : None
- d) Retrospective restatement : None
- (4) Number of outstanding stocks (common stocks)

	June 30, 2019	June 30, 2018
a) Number of outstanding stocks (including treasury stock)	25,066,900 stocks	23,066,900 stocks
b) Number of treasury stocks at the end of period	None	None
c) Average number of outstanding stocks	24,343,886 stocks	23,066,900 stocks

* The above forecast contains forward-looking statements based on information currently available, Consequently the Company's actual results may differ materially from the projected values due to various future factors.

Operating results and financial conditions

1. Analysis of operating results

In the fiscal year 2019, the Japanese economy is restored by improvement of corporate earnings and the employment environment although being gentle. In addition, the world economy continued a gradual recovery equally as well.

Under these circumstances, PSS Group has been developed business of various automated instruments (DNA Automatic extraction instruments) to extract a gene from the specimens such as blood or cell for the spot that studied genetic information in the In vitro Diagnostic industry, PSS Group developed fully automated genetic diagnostic instruments which put an amplification, measurement technology together in a genetic extraction technology, and starts the sale for the field of the clinical diagnoses such as a hospital or the inspection center other than a field of a study and the development. Furthermore, PSS Group made efforts in production and the sales of the plastic consumables such as a reagent (reagent for DNA extraction) or the reaction container used with the instrument.

These products are developed worldwide, mainly through OEM sales (Original Equipment manufacturing) under contract with major companies in the bio-related industry with a global sales network, including in-house sales through domestic and Western subsidiaries. In the consolidated fiscal year, net sales were 4,381 million yen (20.3% increased year-on-year) and gross profit was 1,551 million yen (18.3% increased year-on-year). Sales of fully automated gene diagnostic equipment, which is an OEM product for ELITech, and sales of DNA automatic extraction equipment were strong, and overall sales increased year-on-year.

On the other hand, in terms of expenses, R&D expenses decreased to 377 million yen (33.6% decreased year-on-year). In addition, sales, expenses, and general and administrative expenses decreased by 1,387 million yen (18.3% decreased year-on-year). Operating income was 163 million yen (385 million yen loss in the same period last year).

In addition, ordinary income was 139 million yen (385 million yen loss in the same period last year), due to the posting of interest expenses of 9 million yen. As a special profit, compensation for the termination of the contract based on the contract with the business partner was recorded at 6 million yen.

As a result of the extraordinary loss, the company posted a loss of 7 million yen, and net income attributable to owners of the parent was 130 million yen (457 million yen loss in the same period last year) attributable to owners of the parent in the same period last year.

The sales structure is as follows:

(Sales by Composition)

(Unit: Million yen)

	Fiscal Year, Ended June 30, 2018		Fiscal Year, Ended June 30, 2019		Year-on-year increase
	Amount	Ratio	Amount	Ratio	%
Instruments	1,902	52.3	2,695	61.5	41.7
Reagent kits & Consumable	964	26.5	1,058	24.2	9.8
Maintenance	353	9.7	314	7.2	(10.9)
Customized product	420	11.5	312	7.1	(25.8)
Total	3,641	100.0	4,381	100.0	20.3

(1)Instruments

In the consolidated fiscal year, net sales increased to 2,695 million yen (41.7% increased year-on-year). On the other hand, operating expenses were 2,612 million yen (43.2% increased year-on-year), and operating income was 83 million yen (6.5% increased year-on-year). Details are as follows:

(a)Lab Automation

This field consists of DNA extractors and other instruments in the field of Laboratory (R&D) Automation.

In the consolidated fiscal year, net sales were 1,610 million yen (38.8% increased year-on-year). On the other hand, operating expenses were 1,435 million yen (42.6% increased year-on-year). and operating income was 174 million yen (13.9% increased year-on-year). As for sales, there is a quarterly variation depending on the operating conditions and inventory conditions of the OEM. For the consolidated fiscal year, sales increased year-on-year.

(b)Clinical Diagnostic

Our business field is in the molecular diagnostic field whose market trend is shifting from R&D and laboratory automation field to clinical diagnostic field. Considering this market trend, PSS focus on clinical field.

In the consolidated fiscal year, net sales were 1,085 million yen (46.2% increased year-on-year). On the other hand, operating expenses were 1,177 million yen (43.9% increased year-on-year) and operating losses were 91 million yen (75 million yen loss in the same period last year) in the same period of the previous year.

In terms of sales, sales of fully automated gene diagnostic equipment for ELITech have been strong.

(2)Reagents kits and Consumable

This category is a segment of dedicated plastic consumables, such as reagents for DNA extraction and reaction vessels, that are consumed with the use of our equipment. In addition to our own brand equipment, we supply our DNA extraction reagents to some OEMs. Other OEMs manufacture and sell reagents by oEMs, but plastic consumables are contracted to be purchased from us.

In the consolidated fiscal year, net sales were 1,058 million yen (9.8% increased year-on-year). Operating expenses were 1,091 million yen (12.5% increased year-on-year), and operating losses were 32 million yen (5 million yen loss in the same period last year).

We have a stable relationship with OEM suppliers for many years, so we do not believe that there is any particular concern.

(3)Maintenance

This category consists of revenue from system maintenance and sales of spare parts (replacement) exclusively. In the consolidated fiscal year, net sales were 314 million yen (10.9% decreased year-on-year). Operating expenses were 259 million yen (7.1% decreased year-on-year), and operating income was 55 million yen (25.4% decreased year-on-year).

(4)Customized product

This category consists of Customized product sales except for PSS by NPS which is the manufacturing subsidiary company. In the consolidated fiscal year, net sales were 312 million yen (25.8% decreased year-on-year). Operating expenses were 172 million yen (41.9% decreased year-on-year), and operating income was 139 million yen (13.2% increased year-on-year) This segment is a business to secure the profits of NPS.

(Current business activities related to sales and development of PSS)

Our core technology, the magnetic particle dna extraction automation device, is expanding into clinical applications in the field of molecular biology, and both OEM products and PSS brand products are on the rise, especially in Japan and Asia. We believe that the effect of the business alliance with Hitachi High-Technologies Corporation will drive future business results.

Furthermore, after the development of a new PreLEAD2 model (multi-sample simultaneous nucleic acid extraction device), the introduction of large volumes (large capacity) and high throughput demand fields has also begun, expanding the scope of Magtration® Technology.

The geneLEAD series, a fully automated gene diagnostic device that combines DNA extraction and real-time PCR, is in increasing demand in the organ transplantation field of ELITech, an OEM partner, and continues to deliver strongly.

In addition, PSS brand geneLEAD. started tuberculosis and influenza items in Europe in September last year, and this year we will launch new items such as norovirus, rotavirus, and adenovirus, geneLEAD technology concept is being proven to be versatile and user-friendly, and it will be developed with the aim of expanding adaptation fields and regions in the future, aiming not only for infectious diseases but also for use in oncology (cancer) and sequencer pretreatment.

The LuBEA system, a multiplex measurement technology, is evaluated for cerebrospinal fluid in amed sugar chain analysis-related projects by AIST and Fukushima Medical University.

Based on our achievements, we will challenge the automated clinical testing system using sugar chains, which are new diagnostic markers in the future.

We also working to apply the above-mentioned DNA, proteins, sugar chains, and other intracellular polymer analysis technologies in automated systems for the processing processes of separation, purification, differentiation, and culture of cells themselves.

The correlation between cancer, allergies, autoimmune diseases and immune cells is a very exciting field of research, and automation is becoming an important theme.

There is no contamination (cross contamination) required in this field, and the establishment of accurate reaction processes is connected with the DNA analysis technology cultivated by PSS.

PSS also wants to contribute to society in the field of treatment.

Business Forecast for the fiscal year (From July 1, 2019 to June 30, 2020)

Sales of fully automated gene diagnostic equipment were strong during the current fiscal year, which led to an improvement in business performance. This product is equipped with the development of DNA extraction, PCR measurement, control software, etc. that we have been working on for many years, and the expansion of mass production facilities for various reagents and special plastic cartridges (consumables) It is established by integrating the business of establishing equipment production lines and acquiring clinical standards. In addition, OEM, direct sales of the company and the construction of both routes are important and problems for business progress.

The results of the current fiscal year have produced certain results from overcoming the above-mentioned issues, and various applications can be considered based on this success. The main sales area of the existing system (geneLEADXII. Plus, geneLEAD . is the diagnosis of organ transplant-related infections, which is good at OEM partner ELITech), but it extends to more general infectious disease diagnosis. In addition, by improving this system, it can also be used for blood donation tests such as blood banks and the Red Cross. For early detection of cancer, we are committed to contributing to society by expanding into the field of blood circulation cancer cells, exosomes, mRNA endoplasmic reticulum, detection of expression trace proteins, and the field of immune cell extraction and treatment using magnetic materials.

We will develop a balanced plan for the expansion and application development of existing product sales, and set a business expansion policy for the future.

The Forecast for the next year is as shown in the table below.

	Fiscal year ending June 30, 2019		Fiscal year ending June 30, 2020		Year-on-year comparison	
	Million yen	%	Million yen	%	Million yen	%
Sales	4,381	100.0	4,600	100.0	219	5.0
Operating income	163	3.7	30	0.7	(133)	(81.6)
Ordinary income	139	3.2	10	0.2	(129)	(92.8)
Net income attributable to parent company shareholders	130	3.0	2	0.0	(128)	(98.5)

About net sales, we are anticipating an increase in sales, mainly for fully automated gene diagnostic equipment for ELITech, and we are also focusing on developing new business partners.

In addition, sales are expected to increase by 4,600 million yen (5.0% increase year-on-year) as sales are expected to continue to grow in the company, which has been focusing on in-house sales in recent years. On the other hand, in terms of expenses, sales, general and administrative expenses increased 13.2% to 1,570 million yen due to short-term product application development costs and reduction of reagent mass production costs, and operating income was 30 million yen (81.6% decrease year-on-year).

The outlook for the next fiscal year is expected to be a reduction in operating income as described above, but development activities are essential for the Group to expand its business as a bio-venture, and in order to further expand sales in the future, Capital investment in reducing reagent mass production costs and expansion of in-house sales are also important pillars.

We will continue to invest in these issues, but we will aim to achieve a operating surplus while taking into account the balance between earnings and profits.

The financial forecast is calculated at exchange rate: 1 US dollar = 110 yen and 1 Euro = 130 yen.

2. Analysis of Financial Conditions:

Assets, Liabilities and Net Assets

(1)Assets

Total assets at the end of the consolidated fiscal year were 5,504 million yen, increase 375 million yen compared to the end of the previous consolidated fiscal year.

Cash and deposits decreased by 210 million yen, while notes and accounts receivable increased by 268 million yen and goods and products increased by 219 million yen.

(2)Liabilities

Total liabilities totaled 1,527 million yen, decreased 310 million yen compared to the end of the previous consolidated fiscal year. As a major factor, long-term loans decreased by 152 million yen.

(3)Net Assets

Total net assets totaled 3,977 million yen, increased 685 million yen compared to the end of the previous consolidated fiscal year. Main reasons were an increase of 287 million yen in capital and an increase of 287 million yen in capital surplus.

3. Cash flows

In Fiscal Year, Ended June 30, 2019, cash and cash equivalents decreased 210 million yen to 1,825 million yen.

(1) Cash flows from operating activities

Due to a decrease in funds such as an increase of 268 million yen in receivables and an increase of 256 million yen in inventories, net cash provided by operating activities decreased by 403 million yen (32 million yen decreased in the same period of the previous year).

(2) Cash flows from investing activities

There was a decrease in funds such as 89 million yen for purchases of tangible fixed assets and 6 million yen for purchases of intangible fixed assets, resulting in a decrease of 94 million yen in cash flow from investment activities (115 million yen decreased in the same period of the previous year).

(3) Cash flows from financing activities

There was a decrease in funds such as 333 million yen in repayment of long-term loans, but income from long-term loans was 100 million yen. Proceeds from issuance of shares due to the exercise of stock acquisition rights increased 308 million yen (236 million yen decreased in the same period of the previous year) as a result of net cash flow from financial activities of 566 million yen.

(Reference) Cash Flow-Related Indicators

	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019
Equity ratio (%)	57.3	58.3	64.6	64.2	72.2
Market equity ratio based on market value (%)	259.9	120.9	385.1	219.9	194.4
Cash flow to interest-bearing debt ratio (year)	—	19.9	—	—	—
Interest Coverage Ratio (Ratio)	—	4.9	—	—	—

4.Others

PSS Group is actively engaged in research and development activities in order to expand original technology in a highly competitive bio-related market. We are also focusing on establishing our own sales network aiming to increase sales. As a result of prior investments, operating losses are continuously incurred.

However, the PSS Group recorded operating income, ordinary income, and net income attributable to owners of the parent company in the fiscal year ended June 2019. In addition, due to the most recent funding, on May 15, 2017, Hitachi High-technologies Corporation entered into a capital alliance agreement to strengthen capital and concluded a contract on August 27, 2018. Due to the financing of new shares issued in accordance with the exercise of the right to reserve shares allocated to third parties, the balance of cash and deposits at the end of the consolidated cumulative period is 1,845 million yen and the financial base is stable.

PSS Group established a medium business plan policy for eliminating such situations. We are aiming to increase sales and to secure profits.

- (1) Deep ploughing of existing OEM transactions and acquiring new OEM contracts.
- (2) Fullness and strengthen sales of the lineup of PSS brand products.
- (3) Cost down of products for reagent business.

Consolidated financial statements

(1) Consolidated Balance Sheets

	As of June 30, 2018	(Thousand yen) As of June 30, 2019
(Assets)		
Current assets		
Cash and deposits	2,056,170	1,845,417
Notes and accounts receivable-trade	932,046	1,200,341
Merchandise and finished goods	312,375	478,750
Work in process	370,517	365,993
Raw materials and supplies	509,249	566,766
Others	188,832	243,663
Allowance for doubtful accounts	(2,045)	(1,890)
Total current assets	4,367,146	4,699,042
Noncurrent assets		
Property, plant and equipment	700,751	740,069
Intangible assets	1,510	3,766
Investments and other assets	59,525	61,725
Total noncurrent assets	761,788	805,561
Total assets	5,128,934	5,504,603
(Liabilities)		
Current liabilities		
Accounts payable-trade	354,632	369,409
Short-term loans payable	500,000	480,000
Current portion of long-term loans payable	328,950	247,483
Income taxes payable	22,058	30,367
Provision for bonus	9,595	7,027
Provision for product warranties	1,884	-
Others	172,784	151,775
Total current liabilities	1,389,905	1,286,064
Noncurrent liabilities		
Long-term loans payable	385,515	233,032
Deferred tax liabilities	6,183	6,227
Provision for product warranties	39,798	108
Others	16,137	1944
Total fixed liabilities	447,634	241,311
Total liabilities	1,837,540	1,527,375

(Thousand yen)

	As of June 30, 2018	As of June 30, 2019
(Net assets)		
Shareholders' equity		
Capital stock	3,401,899	3,689,024
Capital surplus	1,309,494	1,596,619
Retained earnings	(1,379,307)	(1,248,989)
Total shareholders' equity	3,332,086	4,036,655
Other comprehensive income		
Foreign currency translation adjustment	(40,692)	(62,222)
Total of comprehensive income	(40,692)	(62,222)
Total net assets	3,291,393	3,977,227
Total liabilities and net assets	5,128,934	5,504,603

(2) Consolidated Income Statements

(Thousand yen)

	FY 2018 ended June 30, 2018	FY 2019 ended June 30, 2019
Net Sales	3,641,164	4,381,442
Cost of sales	2,329,390	2,830,151
Gross Profit	1,311,774	1,551,290
Selling, general and administrative expenses	1,697,332	1,387,292
Operating income and (loss)	(385,558)	163,998
Non-operating income		
Interest income	153	147
Fiduciary obligation fee	6,117	134
Gain on sales of goods	2,750	-
Subsidy income	3,680	-
Gain on forfeiture of unclaimed dividends	1,149	-
Insurance return	81	-
Others	867	787
Total non-operating income	14,800	1,069
Non-operating expenses		
Interest expenses	12,559	9,667
Foreign exchange loss	1,860	3,891
Stock grant expenses	-	4,345
Share issuance cost	-	7,889
Others	0	-
Total non-operating expenses	14,420	25,794
Ordinary income and (loss)	(385,178)	139,272
Extraordinary income		
Gain on sales of fixed assets	-	511
Compensation	42,218	-
Insurance claims	-	5,855
Compensation for termination of contract	-	6,871
Total extraordinary income	42,218	13,238
Extraordinary loss		
Loss on retirement of non-current assets	2,550	443
Loss of termination of contract	-	7,233
Loss from disaster	-	5,606
Loss on disposal of fixed asset	96,406	-
Total extraordinary loss	98,957	13,283
Income before income taxes and others and (loss)	(441,917)	139,227
Income taxes-current	13,265	10,447
Income taxes-deferred	2,433	(1,538)
Total income taxes	15,699	8,908
Net Income and (loss)	(457,616)	130,318
Quarter net income attributable to parent company shareholders and (loss)	(457,616)	130,318

(3) Consolidated Comprehensive Income Statements

(Thousand yen)

	FY 2018 ended June 30, 2018	FY 2019 ended June 30, 2019
Net Income	(457,616)	130,318
Other comprehensive income		
Foreign currency transaction adjustment	(2,326)	(21,529)
Total of other comprehensive income	(2,326)	(21,529)
Comprehensive income	(459,942)	108,788
(Breakdown)		
Comprehensive income attributable to owners of parent company	(459,942)	108,788

(4) Consolidated Statements of Cash Flows

(Thousand yen)

	FY 2018 ended June 30, 2018	FY 2019 ended June 30, 2019
Net cash provided by operating activities		
Net income before income taxes and minority interests, or net loss before income taxes	(441,917)	139,227
Depreciation	83,350	85,557
Increase (decrease) in provision	39,772	(44,190)
Interest and dividend income	(153)	(147)
Interest expense	12,559	9,667
Stock acquisition rights issue disbursement fee	—	7,889
Stock grant expenses	—	4,345
Gain on sales of fixed asset	—	(511)
Loss on retirement of fixed asset	2,550	443
Impairment loss	96,406	—
Increase (decrease) in trade receivables	(110,498)	(268,735)
Increase (decrease) in inventories	206,835	(256,818)
Increase (decrease) in trade payables	(32,128)	14,632
Others	112,002	(74,244)
Subtotal	(31,220)	(382,884)
Interest and dividends received	153	147
Interest paid	(11,580)	(9,426)
Income taxes paid	(12,800)	(11,548)
Income taxes refunded	22,635	0
Net cash provided by operating activities	(32,812)	(403,711)

(Thousand yen)

	FY 2018 ended June 30, 2018	FY 2019 ended June 30, 2019
Cash flows from investing activities		
Proceeds from withdrawal of time deposits	20,000	20,000
Expenses made by deposits of time deposits	(20,000)	(20,000)
Purchase of property, plant and equipment	(108,568)	(89,608)
Proceeds from sales of property, plant and equipment	—	2,705
Purchase of intangible assets	(6,281)	(6,743)
Expenses made by reserve of insurance reserves	(1,010)	(1,010)
Cash flows from investing activities	(115,860)	(94,656)
Net cash from financing activities		
Net increase (decrease) in short-term loans payable	—	(20,000)
Proceeds from long-term loans	100,000	100,000
Repayment of long-term loans payable	(334,631)	(333,950)
Repayment of lease obligations	(2,015)	(2,092)
Cash dividends paid	(69)	—
Proceeds from issuance of shares by exercise of stock acquisition rights	—	566,784
Proceeds from issuance of stock acquisition rights	—	5,915
Payments by issuance of stock acquisition rights	—	(7,889)
Net cash from financing activities	(236,715)	308,767
Effect of exchange rate difference on cash and cash equivalents	(2,038)	(21,152)
Increase (decrease) in cash and cash equivalents	(387,427)	(210,753)
Cash and cash equivalents at beginning of period	2,423,598	2,036,170
Cash and cash equivalents at end of period	2,036,170	1,825,417