

FY2022 Consolidated Financial Results Analyst Meeting
Main Questions and Answers
(May 17, 2023, Tokyo)

Q1: The Company estimates that the negative impact of product supply issues due to the shortage of semiconductors was around 4 billion yen in the 1st half of FY2022. Have you incorporated the business opportunities for that amount which were shifted from FY2022 into the forecast for FY2023?

A1: We estimate that the loss of business opportunities in Asia & Other, Europe, and Latin America amounted to around 1.5 billion yen and the negative impact of delays in supplying new models of mid-range bedside monitors in the U.S. was around 2.5 billion yen in the 1st half of FY2022. The impact of deferred delivery of products due to delays in supplying new models in the U.S. is incorporated in the forecast for FY2023. As product supply issues have been mostly resolved, we are now aiming at further increasing our sales.

Q2: The negative impact on your business of higher prices of components and utility costs was around 1.3 billion yen in FY2022 and is expected to be around 1.2 billion yen in FY2023. Is this a conservative estimate?

A2: This is not a conservative estimate, because the volume of long-delivery components, which take more than 8 months from placement of an order to delivery from the Tomioka Production Center, has increased, and prices of ordered components have increased as well. These impacts are factored into the forecast for FY2023.

Q3: I would like to know the reason why domestic sales in FY2022 exceeded the revised forecast announced in November.

A3: In the 4th quarter (three months) of FY2022, sales increased in each market except the clinic market. Demand for non-COVID-19-related medical devices continued to recover. Sales of Patient Monitors including clinical information systems increased favorably and sales of Consumables and Services also exceeded our expectations.

Q4: Would you explain the background to the forecast that domestic sales will increase by 2.8% in FY2023? How do you see the impact on medical institutions' business and capital expenditure of the reduction in the Government's budgets for COVID-19?

A4: Sales of consumables are expected to increase, because the number of testing and surgical procedures in medical institutions will continue to recover gradually. Sales of AEDs are also expected to increase compared to FY2022, when sales decreased due to a trough in replacement demand. In the university, public hospital and private hospital markets, there have been moves to expand ORs/ICUs and establish HCUs, because new evaluation items for acute care and intensive care have been added in the revision of medical service fees in April 2022. The number of registered medical institutions has also increased. In addition, demand for IT systems will remain steady, because task shifting and operational efficiency are increasingly required in medical institutions as work style reforms for medical staff are scheduled to take effect in 2024. Although the Government's budgets for COVID-19 are scheduled to end at the end of September 2023, each prefecture's efforts to realize a regional vision of the healthcare system are expected to be fully in progress. The Company will enhance its solution proposals that contribute to improving quality of medical care and addressing medical issues.

Q5: In terms of overseas sales, I would like to know the difference between the target and forecast for FY2023, which is the last year of the Three-year Business Plan. Do you have any room for further sales growth in Europe and Asia & Other compared to the forecast?

A5: We believe that we have further strengthened our business foundation and competitiveness beyond what was expected when the plan was formulated, because our Consumables and Services business is expanding as a result of the expansion of the installation base and new customer base of our patient monitor and ventilator businesses that occurred during the COVID-19 pandemic. We believe that the medium- to long-term growth momentum of our overseas business is increasing. On the other hand, the business environment is changing in some regions. In Europe, medical institutions have restrained their capital expenditure due to inflation and reductions in the Government's budgets in some countries, while demand for expanding healthcare infrastructure such as ICU facilities continues. In emerging countries, there are moves towards protectionism in China and Indonesia and tightening of regulatory requirements for medical devices in the Philippines.

Q6: The Company forecasts sales in the Americas for FY2023 to increase by double-digits on a local currency basis. I think that you can aim at a higher sales growth rate, considering the contribution of new products, change in fiscal term of Defibtech, LLC, and deferred delivery of products due to delays in supplying new models in the U.S. in the 1st half of FY2022.

A6: We launched mid-range bedside monitors and a mask-type ventilator in the U.S. in FY2022. Inquiries about these products are strong and are expected to make a contribution to increasing sales in FY2023. The impact of change in fiscal term of Defibtech, LLC according to reorganization of the U.S. subsidiaries will be around 1 billion yen. In the U.S., the cycle time from order to delivery and installation has become longer than before, as the number of patient admissions has decreased due to the shortage of nurses. We took all of these circumstances into account when we formulated the FY2023 forecasts. We are aiming to achieve further growth by strengthening our proposals for digital health solutions.

Q7: What is your outlook for sales in China in FY2023, with the incorporation of COVID-19-related demand?

A7: In China, sales decreased in FY2022 due to the Shanghai lockdown from the end of March to the end of May 2022, but sales in the 2nd half (from July) of FY2022 showed positive growth year-on-year. Because there have been moves to expand ICUs to accept patients with infectious diseases after changing the zero-COVID policy in December 2022, demand for patient monitors has increased. We expect some of this impact to remain in the 1st half of FY2023 (until June). We are also further strengthening our local R&D and production functions and plan to launch new products to respond to moves to prefer domestically produced medical equipment.

Q8: The forecast of operating income for FY2023 includes the impact of price optimization of 1.9 billion yen. I would like to know which products and regions are covered.

A8: This includes the impact of optimizing our selling prices of in-house medical devices and consumables manufactured at the Tomioka Production Center. By region, the ratio is roughly 50-50 between Japanese and international products.

Q9: I would like to know the impact of optimizing inventory levels on gross profit margin in FY2023. Is there a possibility that gross profit margin will decline due to increased price competition caused by inventory disposal by you and your competitors?

A9: To respond to increased demand due to the COVID-19 pandemic and the shortage of semiconductors, we have temporarily increased inventories of finished goods and parts since FY2020. We will maintain and increase gross profit margin by implementing sales measures aggressively, while write-downs and retirements of inventories may occur as a result of optimizing inventory levels. We will also strive to increase our selling prices by further strengthening our marketing and service capabilities, creating customer value which contributes to improving medical safety, patient outcomes, and operating efficiency.

Q10: As the in-house sales ratio by product category has been newly disclosed, I would like to know the changes in the in-house sales ratio of your Consumables and Services business over the past five years, if you have the numbers.

A10: The sales ratio of EP catheters and ablation catheters, which are purchased products, declined in FY2020 and FY2021, because the number of testing and surgical procedures decreased due to the COVID-19 pandemic. However, demand for catheters has recovered since FY2022. Sales of in-house consumables such as SpO₂/CO₂ sensors has increased continuously as they were used for COVID-19 patients during the pandemic. We will continue to strengthen our offerings of consumables and services, which lead to a stable and consistent revenue base both in Japan and internationally.

(End)

(Cautionary Statement)

*This material is posted for reference purposes for investors. This is a summary and not a verbatim record of all statements made at the meeting.

*Earnings forecasts and other forward-looking statements in this material are based on information currently available and certain assumptions that the Company believes are reasonable. Therefore, they do not constitute a guarantee that they will be realized. Actual results may differ from such estimates due to unforeseen circumstances.