

Second Quarter FY2023 Financial Results Analyst Meeting
Main Questions and Answers
(November 10, 2023, Tokyo)

Q1: Domestic sales increased favorably in the 1st half of FY2023. Do you expect that this will continue in the 2nd half of FY2023? Is there a possibility that capital expenditure by medical institutions will slow down in accordance with the revision of medical treatment fees scheduled in June 2024?

A1: Demand for IT system solutions is favorable, because task shifting and operational efficiency are further required in medical institutions as work style reforms for medical staff are scheduled to take effect in 2024. Demand for high-end bedside monitors remains steady because advanced acute care hospitals are expanding their ICU facilities. We expect demand for IT system solutions will remain steady because the acceleration of DX in medical fields is being discussed in the revision of medical treatment fees scheduled in June 2024. Reorganization of medical institution functions will proceed in accordance with regional health visions, including the consolidation of hospitals. Under these circumstances, we will work to capture orders by strengthening our solution proposals of medical devices and services in line with the care cycle.

Q2: Is a large order of patient monitors in the U.S. expected to be postponed to FY2024 due to the deterioration of medical institutions' business? I would like to know about capital expenditure by medical institutions in the Americas, Europe, Asia & Other.

A2: In the U.S., inflation and the shortage of nurses have caused deterioration of medical institutions' business. The cycle time from order to delivery and installation has become longer and the decision-making process for business negotiations has also temporarily become longer. The postponement of a large order of patient monitors is because of factors specific to the Company (it takes time to customize the software to meet customer requirements). On the other hand, our large-scale monitoring solutions for network systems are highly evaluated by major hospital groups, as our solutions contribute to improving operational efficiency of medical staff. In Europe, medical institutions have restrained their capital expenditure due to reductions in the Government budgets in some countries. In Latin America and Southeast Asia, demand for medical devices remains steady. The aggravation of the situation in the Middle East doesn't have a big impact on our business at this moment.

Q3: I would like to know the outlook for patient monitors in Japan and the U.S. While sales of consumables such as sensors increased favorably, how do you see demand for medical devices such as bedside monitors?

A3: In Japan, sales of high-end bedside monitors for ORs/ICUs increased, while sales of transmitters and mid-range to low-end bedside monitors decreased. The impact of the reactionary decline in COVID-19-related demand was smaller than our expectation, and replacement demand is expected to continue in the 2nd half of FY2023. In the U.S., the decision-making process for business negotiations has temporarily become longer, but we expect that orders will recover in FY2024. Our Consumables and Services business is expected to remain steady as the installation base of patient monitors has expanded during the COVID-19 pandemic both in Japan and internationally.

Q4: In China, demand for patient monitors increased due to expansion of ICUs in the 1st half of FY2023. I would like to know the impact of the anti-corruption campaign on sales in China from the 2nd half of FY2023.

A4: In China, the market has been sluggish since this summer due to the anti-corruption campaign. We expect this situation to continue for about a year. The Company revised its actual sales forecast in Asia & Other by 1.6 billion yen downward from its original forecast. Sales in China are expected to result in a double-digit decline in the 2nd half of FY2023.

Q5: I would like to know which product categories have improved their gross profit margin compared to pre-COVID-19.

A5: In Japan, we focus on selling in-house products and restrain sales of locally purchased products. Other Medical Equipment including locally purchased products has improved its gross profit margin compared to pre-COVID-19. There is no change in the sales policy of maintaining a gross profit margin of roughly 60% or more for in-house products.

Q6: I would like to know the reason that the Company raised its forecast for the impact of increases in the cost of goods sold due to higher prices of components. Will this impact continue in FY2024?

A6: The Company raised its forecast for the impact of increases in the cost of goods sold due to higher prices of components by 1.1 billion yen from its original forecast of 1.2 billion yen to 2.3 billion. The factors behind this increase were split roughly 50-50 between higher activity unit costs within processing costs, due to production adjustments, and component price rises by suppliers. The higher prices of components include the impact of components procured in the market at temporarily high prices in the 1st half of FY2023. In FY2024, we do not expect that the cost of goods sold will increase due to higher prices of components as much as in FY2023, because the tight supply of components has eased.

Q7: I would like to know details about your products and services that contribute to improving operational efficiency and easing workloads in response to the global shortage of medical staff.

A7: As there are concerns about deterioration of medical institutions' business, the Company is considering to establish business models of DHS and subscription to support hospitals' earnings. In the U.S., the Company has provided solutions such as alarm reports for patient monitors, which contribute to improving operational efficiency. In the future, we aim to provide advanced alarm management applications by utilizing the software of Software Team Srl in Italy, which company we acquired in 2022. We will also expand our business by strengthening our marketing and service capabilities, creating customer value, as well as providing services that support cyber security measures in medical institutions. We expect that demand for a new model of home sleep recorders as well as for intraoperative monitoring systems will increase.

Q8: Sales of a mask-type ventilator increased favorably. I would like to know the outlook for the ventilator business.

A8: Demand for a mask-type ventilator, which were launched in the U.S. in 2022, has been increasing. The Company also plans to launch a mid-range ventilator in the U.S. in the 2nd half of FY2023. We expect it to contribute to medium- to long-term growth in the ventilator business and to cross-selling through expansion of the new customer base.

Q9: Regarding Material Issues and KPIs for Sustainability, the Company has set targets for the number of products sold that have esCCO, synECi18, and iNIBP* installed, and the rate of progress in two years has been good. I would like to know about actual cases where you received orders.

A9: Unit sales of bedside monitors equipped with our unique technologies such as esCCO have been increasing, especially in Latin America, because they contribute to improving operational efficiency of medical staff and patient outcomes.

* esCCO: estimated Continuous Cardiac Output, synECi18: Synthesized 18-lead ECG, iNIBP: algorithm for non-invasive blood pressure measurement using a linear inflation technology.

(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.

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