

Second Quarter FY2024 Financial Results Analyst Meeting
Main Questions and Answers
(November 11, 2024, Tokyo)

Q1: After work style reforms for medical staff took effect in April 2024 and medical treatment fees were revised in June 2024, were there any changes in capital expenditure by medical institutions in Japan compared to the 1st quarter of FY2024? Do you expect any downside risks to your domestic sales growth forecast for the 2nd half of FY2024? What is your outlook for FY2025 and beyond?

A1: In the 2nd quarter (three months) of FY2024, domestic sales increased as medical institutions' capital expenditure increased compared to the 1st quarter. Capital expenditure in medical institutions varies from hospital to hospital, as their financial conditions are polarized. In the 1st half, some hospitals worked on measures to respond to work style reforms for medical staff and the revision of medical treatment fees. Demand for transmitters and telemetry systems increased due to the revision of evaluation items in long-term care wards. We aim at achieving our full-year target by focusing on selling AEDs and ventilators, for which demand is strong, while there are continuing concerns about the impact of deterioration in medical institutions' business sentiment in the 2nd half. In FY2025 and beyond, the outlook for our domestic business is not as uncertain as for overseas business, as each prefecture's efforts to realize a regional vision of the healthcare system will continue to progress.

Q2: I would like to know the reason that the full-year sales forecast for AEDs in Japan was revised upward. Do you expect that sales of AEDs in Japan in the 2nd half will exceed your original forecast?

A2: Sales of AEDs in Japan are expected to increase favorably, exceeding our original forecasts in 2nd half of FY2024 as well as the 1st half. In Japan, demand for AEDs has increased as we lifted the limitation on sales destinations for fully automatic AEDs in July 2024. The increased demand was also because the 20th anniversary of AEDs in Japan has led to renewed awareness of the importance of AEDs.

Q3: I would like to know the reason that the full-year overseas sales forecast was revised downward. Regarding the downward revision to sales in Asia & Other, which is larger, the downward revision in China or in the Middle East & Africa? How do you see business sentiment in China in the 2nd half of FY2024 and beyond?

A3: On a comparable basis excluding currency effects, we revised downward our sales forecasts in China and the Middle East & Africa, as well as our sales forecasts for Defibtech's AEDs. China accounts for around 70% of the downward revision to sales in Asia & Other. As we have reorganized our sales and service structure in Shanghai Kohden due to weak demand for medical equipment in China, we posted extraordinary losses such as business restructuring costs in the 1st half of FY2024. In the 2nd half, we expect the market environment to remain difficult due to the impacts of the prolonged anti-corruption campaign, economic slowdown, and moves to prefer domestically produced products. In the Middle East & Africa, we aim at a recovery in sales in the 2nd half of FY2024, when we expect to receive inquiries, compared to weak sales in the 1st half.

Q4: I would like to know the reason that the full-year forecast for sales in North America was revised. What is the outlook for capital expenditure by medical institutions in North America? I would also like to know the impact of the change of government on our business.

A4: On a comparable basis excluding currency effects, we reaffirmed our original forecast for sales in North America. Sales of Defibtech's AEDs will be lower than our expectations due to inventory adjustments at distributors in each country. On the other hand, sales of patient monitors and ventilators will increase favorably, exceeding our expectations. In North America, medical institutions' financial conditions showed a trend of improvement, leading to signs of recovery in their capital expenditure on medical equipment. The impact of the change of government on our business should be monitored carefully. If products and consumables exported from Japan as well as imported parts were to be subject to additional tariffs, we expect that there will be an impact on our business. As we have production facilities for AEDs and ventilators in the U.S., we will continue to strengthen our local production capabilities.

Q5: I would like to know the reasons that gross profit margin improved in the 2nd quarter (three months) and that the full-year forecast was revised downward, respectively.

A5: Gross profit margin in the 2nd quarter (three months) improved mainly due to decrease in inventory write-down and favorable product mix. Gross profit margin is expected to continue to improve as a result of our efforts to focus on selling in-house products in Japan, as well as sales growth of patient monitors in North America and inventory reductions. We revised downward our full-year forecast for gross profit margin, reflecting the increase in cost of parts at the Tomioka Production Center, while a positive currency effect is expected.

Q6: The Company revised its forecasts several times in FY2024. Are there any issues with your forecasting and performance management?

A6: Profit volatility is higher in the 1st quarter, because the volume of sales is usually not high. To improve the accuracy of forecasts, we are enhancing our business negotiation management utilizing a CRM (Customer Relationship Management) system as well as enhancing our PSI (Production, Sales, Inventory) management. In FY2025, we will also review the planning process. The key issue for improving the accuracy of our sales forecasts is how to incorporate uncertainties in our overseas business, rather than uncertainties in our domestic business.

Q7: How will you raise funds for the 16-billion-yen acquisition cost of Ad-Tech Medical Instrument Corporation? I would also like to know about the policy for distribution of profits in the future.

A7: In the Three-year Business Plan, growth investment and M&A is expected to be 30 billion yen or more. As part of this plan, we will consolidate Ad-Tech as a subsidiary of Nihon Kohden using loans from financial institutions. We expect to create synergies between Ad-Tech's intracranial electrodes and Nihon Kohden's existing businesses. We will continue growth investment in the future, considering borrowing as an effective means of raising funds in addition to using our own funds.

Q8: I would like to know the progress of measures taken in the 1st half of FY2024 to implement the reform of the profit structure in each of the three areas of product mix, productivity and supply chains.

A8: In the area of product mix, in Japan, we revised our service fees in June 2024. We will also revise the selling prices of our products and consumables in the 2nd half of FY2024. In Japan, price negotiations are becoming increasingly difficult as business sentiment in medical institutions deteriorates and price competition intensifies. The effect of raising selling prices is expected to occur in the 4th quarter of FY2024 and beyond. In terms of productivity, we have introduced 2,000 licenses for generative AI and launched a product QA chatbot. The effects of improving operational efficiency by introducing generative AI are expected to occur as scheduled. In terms of the effect on supply chains, we now expect that these effects will occur slightly later than planned, while we continue to negotiate the purchase prices of parts with our suppliers in the face of rising inflation.

(End)

(Cautionary Statement)

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