

Third Quarter FY2024 Financial Results Analyst Meeting
Main Questions and Answers
(February 6, 2025, Tokyo)

Q1: I would like to know the amount of the last-minute surge in demand that occurred before the recent increase in selling prices of consumables in Japan. Are there any risks of reduced capital expenditure by medical institutions in the 4th quarter of FY2024 and in FY2025? How do you see the domestic sales growth rate in FY2025?

A1: We estimate that the amount of the last-minute surge in demand before the increase in selling prices of consumables in January 2025 was around several million dollars in December 2024. Each medical institution strove to implement task shifting and improve its operational efficiency, as work style reforms for medical staff took effect in April 2024 and medical treatment fees were revised in June 2024. While business sentiment in medical institutions declined due to challenges in securing medical professionals, we do not expect any significant changes in the market environment in the 4th quarter of FY2024 and in FY2025. We will continue to focus on strengthening our marketing and service capabilities, creating customer value propositions that contribute to improving medical safety, patient outcomes, and operating efficiency, aiming to achieve a domestic sales CAGR of 3% in accordance with the Three-year Business Plan. We also aim to improve our profitability by reviewing our pricing policies and improving the product mix. On the other hand, we are concerned about the risk of lower demand for purchased products such as EP catheters and ablation catheters due to the spread of pulsed field ablation.

Q2: Why did sales of patient monitors in North America achieve double-digit growth? I would also like to know the reason why the profitability in North America improved in the 3rd quarter (three months).

A2: In North America, medical institutions' finance showed a trend of improvement, leading to signs of a recovery in their capital expenditure on medical equipment. Our large-scale monitoring solutions for network systems as well as our DHS products such as a remote ICU solution have been highly evaluated. We also delivered patient monitors to a major IDN with which we signed a vendor-partnership contract. We estimate the amount of sales from the delivery of patient monitors ahead of schedule from the 4th quarter to the 3rd quarter was around several million dollars. Our profitability in North America improved due to favorable sales of patient monitors in North America, as well as the improvement in profitability of Nihon Kohden OrangeMed, LLC, which is responsible for R&D, production, and sales of ventilators in the U.S., caused by favorable overseas sales of ventilators.

Q3: I would like to know the outlook for the market environment and demand for patient monitors in Latin America, Europe, and Asia & Other, respectively.

A3: In Latin America, sales in the nine months of FY2024 decreased mainly in Costa Rica and Columbia compared to the strong performance in the same period of FY2023. Demand is expected to recover in FY2025 as those governments' bidding processes have now started. In Europe, medical institutions have restrained their capital expenditure due to reductions in the government's budget in some countries. We will enhance our proposals for DHS products, for which demand is increasing. In China, the market environment remains challenging due to the prolonged anti-corruption campaign, economic slowdown, and moves to prefer domestically produced products. As for the impact on our business, we expect the bottom to be reached in FY2024 and aim at sales growth in FY2025. Sales in Southeast Asia recovered from the 2nd half of FY2024, while business deals and budget executions are slower than expected in the Middle East & Africa.

Q4: I would like to know the outlook for AEDs both in Japan and internationally in FY2025. Will it lead to lower gross profit margin if overseas sales of AEDs recover?

A4: In Japan, we aim at increasing sales in FY2025, although the hurdle is higher due to the strong sales of AEDs in FY2024, when demand for AEDs 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. Internationally, we expect that demand will recover gradually in the 4th quarter of FY2024 and beyond, while overseas sales decreased in the nine months of FY2024 due to inventory adjustments at distributors in each region as well as the impact of a change in the fiscal term of Defibtech, LLC in FY2023. The product mix is not expected to change significantly, while gross profit margin of AEDs is lower than other in-house products.

Q5: I would like to know more details about factors for improved gross profit margin due to favorable product mix. How do you see the impact from the reform of the profit structure? What is your outlook for gross profit margin in the 4th quarter of FY2024?

A5: Internationally, product mix in sales of in-house products improved, as sales of Patient Monitors increased favorably and sales of AEDs decreased. In Japan, product mix also improved, as we focus on selling in-house products and restrain sales of locally purchased products. We believe that some measures such as sale pricing and review of product line-up in the reform of the profit structure also partially contributed to improving profitability. We expect gross profit margin in the 4th quarter of FY2024 to be around 52%, which is the same as for the nine months of FY2024.

Q6: I would like to know the reason that you expect effects from improving productivity in the reform of the profit structure. What type of generative AI licenses has the Company introduced?

A6: In terms of productivity, we have introduced 2,000 licenses for generative AI. We have also developed most of the measures for focusing on core jobs and reallocating resources, and these measures are already in the implementation phase. We expect to restrain the increase of headcount from FY2025 and beyond by implementing these measures. As some issues such as wage increases are expected in the future, we will further accelerate the implementation of the measures and work on improving productivity. In terms of generative AI, we have introduced licenses to support the efficiency of daily operations and programming for development as well as developing our own in-house applications.

Q7: How much do you expect to improve operating income margin in FY2025 through implementing the reform of the profit structure?

A7: FY2025 forecasts are currently under review and will be announced in May 2025. Slide 13 of the presentation material shows the current image of estimated margin improvement due to implementing the reform of the profit structure. As we explained in the presentation material for the Three-year Business Plan announced in May 2024, we expect an improvement in profitability from sales growth, in addition to margin improvement through implementing the reform of the profit structure, while cost increases such as wage increases are expected.

(End)

(Cautionary Statement)

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