

# Message from Management



**We start a new  
Three-year Business Plan,  
BEACON 2030 Phase II.  
We will implement the reform  
of the profit structure and make  
investments in growth areas.**

Representative Director,  
President and Chief Executive Officer

## Introduction

We would like to express our sincere gratitude for your continued understanding and support of the corporate activities of the Nihon Kohden Group. Reflecting on the past three years, we have overcome numerous challenges as a unified company, including soaring component prices due to semiconductor supply shortage, and the tightening of regulations on medical equipment, all within an ever-changing and harsh business environment. I strongly feel that our global organizational capabilities and business promotion power have significantly improved. Going forward, while we anticipate dramatic changes in the environment surrounding the Company, we will continue to expand our unique clinical value globally centered around our core technology, Human Machine Interface (HMI)\*. Simultaneously, we will promote critical initiatives within the new Three-year Business Plan, BEACON 2030 Phase II, persistently striving towards our transformation into a global MedTech company.

\* HMI: Human Machine Interface is the user interface that connects humans and machines.  
For Nihon Kohden, this refers to sensor technology, signal processing technology, and data analysis technology.

## Review of the Previous Three-year Business Plan, BEACON 2030 Phase I

Over the past three years, with the theme of “Strengthen foundation,” we have promoted key strategies from the perspectives of management, business, and organization, and worked to transform our operations into a highly profitable structure that can regularly secure a gross profit margin of 50% or more and an operating income margin of 10% or more.

In the promotion of sustainability, we held Sustainability Discussions (31 sessions with over 4,000 participants in Japan and internationally) to foster a sense of contribution to society through our business. Additionally, we have promoted measures for water resource protection and started the “Green Product Label” certification structure, which strengthens efforts towards environmentally friendly products.

From a management perspective, we have focused on strict compliance as our top priority. With a firm commitment to never repeat incidents like those in 2021, we have implemented and executed all recurrence prevention measures and continue to monitor their effectiveness.

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From a business perspective, we launched a series of the Company's first new high-value-added products such as a fully automatic AED, syringe pump control software for assisting with total intravenous anesthesia and a mid-range ventilator. Additionally, we acquired AMP3D, LLC in the U.S. and Software Team Srl in Italy, further accelerating our Digital Health Solutions (DHS) initiatives. From an organizational perspective, we started to introduce PLM/MES\*1 systems and promoted the establishment of a global Supply Chain Management (SCM) framework. Additionally, we introduced a new role-based (job-based) personnel system for both management positions and general employees. As an action on cost of capital-conscious management, we adopted NPV and IRR\* as investment decision criteria to achieve ROE target of 10%, and started evaluating new investment projects. Regarding our management targets, in addition to actual sales in North America and China falling short of its target, the gross profit margin declined due to an increase in devaluation of inventories, as well as increased SG&A expenses due to the strengthening of human resources, wage increase, and inflation. Thus, unfortunately, operating income and operating income margin for the final year did not achieve the targets, and improvement of profitability remains an issue. Furthermore, the increase in inventories to respond to the tight supply of semiconductors has led to a longer cash conversion cycle (CCC). Under the new Three-year Business Plan, BEACON 2030 Phase II, we will steadily implement the reform of the profit structure and work on improving capital efficiency.

\*1 PLM: Product Life-cycle Management, MES: Manufacturing Execution System  
\*2 NPV: Net Present Value, IRR: Internal Rate of Return



AED-3250,  
Fully automatic AED



NKV-440,  
Ventilator

AsisTIVA



ROP-1680, Syringe pump control software for assisting with  
total intravenous anesthesia

## Targets and Results of the Previous Three-year Business Plan

	FY2023 Targets	FY2023 Results
	¥102 to the U.S. dollar, ¥124 to the euro	¥143.9 to the U.S. dollar, ¥156.8 to the euro
Net Sales	¥197.0 bil	¥221.9 bil
Domestic Sales	¥134.0 bil	¥142.3 bil
Overseas Sales (Overseas Sales Ratio)	¥63.0 bil (32.0%)	¥79.6 bil (35.9%)
Consumables and Services Sales Ratio	48% or more	47.9%
Gross Profit Margin	50% or more	50.2%
Operating Income (Operating Income Margin)	¥20.0 bil (10.2%)	¥19.5 bil (8.8%)
Income Attributable to Owners of Parent	¥13.8 bil	¥17.0 bil
ROE	10%	9.8%

## Results and Issues for the Previous Three-year Business Plan

Results	1. Launched a series of Nihon Kohden's first products	Fully automatic AED, resuscitation monitor for neonate, mid-range ventilator, and syringe pump control software for assisting with total intravenous anesthesia.
	2. Promoted digital health solutions	Acquired AMP3D, LLC in the U.S. and Software Team Srl in Italy.
	3. Strengthened overseas business structure	Reorganized the U.S. subsidiaries into a holding company structure, established a sales branch in the Philippines, and established a new reagent factory in India.
	4. Embraced sustainability	Established an Advisory Board and strengthened our efforts to achieve material issues and KPIs.
Issues	1. Lower sales growth of overseas business	In North America and China, sales fell short of expectations and profitability deteriorated.
	2. Enhancement of product competitiveness	Development of new products was delayed as man-hours were allocated for responding to the tight supply of components as well as to complying with laws and regulations related to medical devices.
	3. Improvement of profitability in the entire Group	SG&A ratio increased due to the strengthening of human resources, wage increases, and inflation. This was also because actual overseas sales fell short of the target.
	4. Reduction of cash conversion cycle	To respond to the tight supply of electronic components such as semiconductors, the Company has increased inventories of finished goods and parts. This has resulted in a longer cash conversion cycle.

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### New Three-year Business Plan, BEACON 2030 Phase II

Based on its Management Philosophy that we contribute to the world by fighting disease and improving health with advanced technology, and create a fulfilling life for our employees, Nihon Kohden set out its Long-term Vision, BEACON 2030, for the next 10 years to 2030, and aims to create a better future for people and healthcare by solving global medical issues. The new Three-year Business Plan, BEACON 2030 Phase II, which started from FY2024, is the second phase of its Long-term Vision. Based on the results and issues of the previous Three-year Business Plan, we will implement the reform of the profit structure and make investments in growth areas, while strengthening the establishment of new business models and collaboration with existing businesses.

#### Three Phases of BEACON 2030



The business environment surrounding the Company is in the midst of a rapidly changing global situation. There are moves toward protectionism and higher geopolitical risks, as well as moves to prefer domestically produced products and tightening of laws and regulations related to medical equipment. Medical institutions' financial situation has worsened due to inflation and tight monetary policy. Other issues include higher cybersecurity risks and the spread of AI. Furthermore, there are some changes in the business environment which were not expected when the Company formulated its Long-term Vision in 2020: tight supply of components and increased inventories resulting from supply chain disruptions after the COVID-19 pandemic and increase in the cost of goods sold and SG&A expenses due to inflation.

On the other hand, global demand for developing healthcare infrastructure remains steady. Especially, digital transformation (DX) in medical fields is accelerating. New business opportunities are emerging as medical institutions look for solutions that contribute to improving their operational efficiency and profitability. Nihon Kohden will work to solve global medical issues by providing digital health solutions (DHS) that utilize data obtained from medical equipment as well as creating new clinical value based on the Company's core Human Machine Interface technology.

Based on the recognition of this business environment, in BEACON 2030 Phase II, we will implement the reform of the profit structure, make investments in growth areas, and accelerate our transformation into a global MedTech company. We have set three indicators, which consist of Growth, Profitability, and Capital efficiency, and aim to achieve each target: sales CAGR of 5%, operating income margin of 15%, and ROE of 12% by implementing six key measures such as "Enhance product competitiveness," "Focus on growth of North America Business," and "Implement the reform of the profit structure." We will also practice sustainability management and foster an organizational culture that works on solving medical, environmental, and social issues as the essence of our business activities.



## Message from Management

### Implementing Sustainability Management

Nihon Kohden firstly worked on embracing sustainability as one of the basic policies in Phase I, our Three-year Business Plan. We worked to raise awareness of sustainability throughout the entire Group. In Phase II, we will move into the phase of the practice of sustainability management. Based on the results and issues in Phase I, we have partially reviewed our material issues and KPIs. We will also work on solving medical, environmental, and social issues through embracing sustainability as the essence of our business activities.

resources and DX human resources. We continue to foster a corporate culture of pride in contributing to healthcare.

In terms of governance, to further strengthen group governance, we will improve the diversity of the Board of Directors. The ratio of outside directors and the ratio of female directors became 50% and 16%, respectively, with the approval at the General Meeting of Shareholders in June 2024. By introducing a CxO framework, we will clarify Management Operating Officers' roles and responsibilities for functional, business, and regional axes to speed up decision-making and strengthen global governance. We have also reviewed the remuneration for executives with the aim of encouraging shared value with shareholders. The evaluation items for Performance-linked Post-delivery Restricted stock Remuneration Plan include consolidated operating income margin, ROE, and relative TSR.

### Continue to Pay Stable Dividends over the Long Term

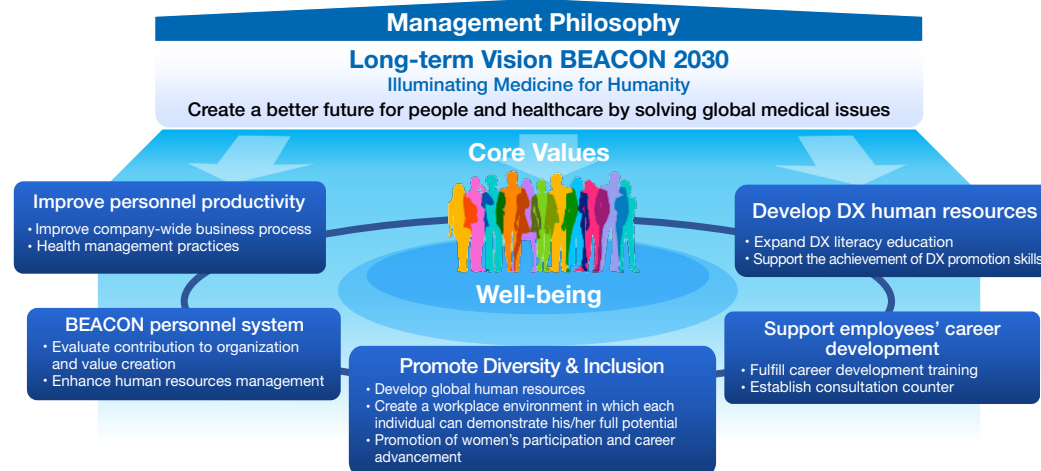
Nihon Kohden recognizes that returning profits to shareholders is one of management's most important tasks. The basic policy on distribution of profits and dividends is to make investments for future business expansion and enhance shareholder returns as well as securing a sound financial foundation. The priority for distribution of profits is i) investment necessary for future business expansion used in R&D investments, capital investments, M&A or alliances, and development of human resources, and ii) shareholder returns. In terms of shareholder returns, the Company will increase dividends in a stable manner in line with growth in business performance. Share buybacks are conducted in a flexible manner, taking into account comprehensively the Company's future business deployment, investment plans, retained earnings, and stock price level. We have also revised the indicator and target for shareholder returns from a consolidated dividend payout ratio of 30% or more to a consolidated total return ratio of 35% or more.

The Company decided to pay a year-end dividend of 31 yen per share. As a result, the full-year dividend was 61 yen per share, including the interim dividend of 30 yen per share. Including the ¥1.1 billion share buyback conducted in February of this year, the consolidated total return ratio was 36.7%.

Additionally, effective July 1, 2024, we implemented a split of each share of common stock into two shares pursuant. Furthermore, from August 5, 2024 to the end of March, 2025, we plan to acquire own shares with an upper limit of ¥10 billion. I appreciate your continued support.

### Human Resource Development and Corporate Culture Reform

Foster a corporate culture of pride in contributing to healthcare



In terms of human resources, we will work to develop human resources that support all of our corporate activities and to reform our organizational culture. We will thoroughly implement a new role-based personnel system based on our Core Values and improve personnel productivity by business process reforms and improvements to health management practices. In addition to promoting diversity & inclusion, we will enhance career support for developing global human