Message from Director Responsible for Accounting (Chief Administrative Officer)

Review of the Previous Three-year Business Plan

In FY2023, the final year of the previous Three-year Business Plan, BEACON 2030 Phase I, we faced several issues, including actual overseas sales falling short of the target in North America and China, increases in the cost ratio due to an increase in devaluation of inventories, increases in SG&A expenses due to the strengthening of human resources, wage increases, and inflation. Consequently, our operating income was ¥19.5 billion, with an operating income margin of 8.8% and ROE of 9.8%. These figures fell short of our targets of ¥20 billion in operating income, a 10.2% operating income margin, and a 10% ROE. Additionally, due to increased finished goods and parts, the cash conversion cycle was extended to 232 days, falling short of our target to reduce it to 190 days. As a result, sales growth, especially in the North American market, and the improvement of company-wide profitability, remain the financial issues for the future.

Tadashi Hasegawa
Executive Operating Officer,
Chief Administrative Officer,
General Manager of Corporate Administration Operations,
Chief Compliance Officer

Initiatives in the New Three-year Business Plan

In the new Three-year Business Plan, BEACON 2030 Phase II, based on the issues remaining from the previous plan, we have set three indicators and six key measures. We aim to achieve each target: a sales CAGR of 5% for “Growth,” an operating income margin of 15% for “Profitability,” and ROE of 12% for “Capital efficiency.” To achieve these targets, we will implement six key measures, including “Implement the reform of the profit structure,” “Introduce Nihon Kohden's own ROIC formula,” and “Reduce cash conversion cycle.”

1. Implement the Reform of the Profit Structure

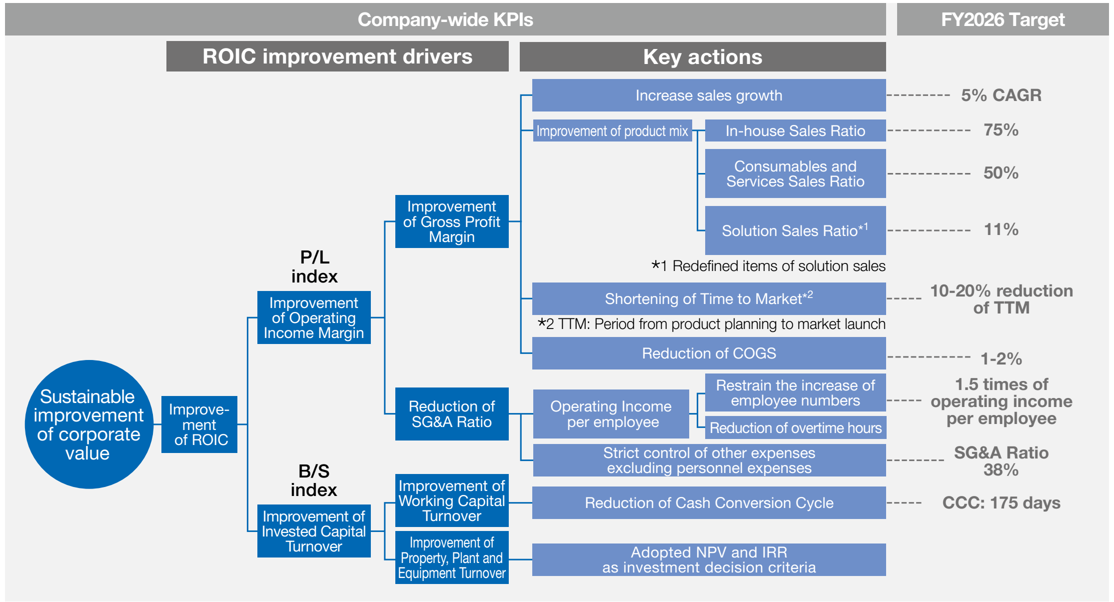
In implementing the reform of the profit structure, we aim to improve the operating income margin by approximately +2% through product mix, approximately +2% through productivity improvement, and approximately +1% through the supply chain. In the area of improving the product mix, we will improve gross profit margin by reviewing pricing policies and product line-up. In terms of productivity improvement, we will enhance operational efficiency by utilizing technologies such as AI, reflect the reduction in working hours in our personnel planning to restrain the increase in personnel. In the supply chain, we will also work to reduce the costs of goods sold by refining price negotiations with suppliers and strengthening value engineering.

Message from Director Responsible for Accounting (Chief Administrative Officer)

2. Introduce Nihon Kohden's Own ROIC Formula

To achieve the cost of capital-conscious management, we will start introducing Nihon Kohden's own Return on Invested Capital (ROIC) formula. Aiming to improve profitability in P/L as well as capital efficiency in B/S, we will introduce and promote ROIC for each subsidiary/division in the Group. Phase II is the stage of investing for growth, and we aim at achieving the targets of ROIC of 12% and ROE of 12% by focusing on improving working capital, selecting investments per investment decision criteria and managing their progress, and enhancing shareholder returns.

Planned to set KPIs in each subsidiary/division to penetrate Nihon Kohden's ROIC



3. Reduce Cash Conversion Cycle

To reduce the cash conversion cycle, we aim at reducing it from 232 days to 175 days within the term of the new Three-year Business Plan through further inventory control mainly at the Production Operations, which was newly established in April 2024. Furthermore, looking beyond that, our mid-term target is 150 days.

Capital Policy

In our capital policy, 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 specific 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. We have 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 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. In accordance with this policy, the Company announced in May 2024 its decision to acquire its own shares up to 10 billion yen (Acquisition period: From August 5, 2024, to March 31, 2025).

Message from Director Responsible for Accounting (Chief Administrative Officer)

Introduction of the Stock Remuneration Plan

To provide incentives to strengthen its remuneration governance and further improve the Company's corporate value to achieve the targets of the Three-year Business Plan, the Company started a new performance-linked stock remuneration plan in FY2024. Eligible persons of this plan are the Company's Directors (excluding Directors serving as Audit & Supervisory Committee Members and Outside Directors) and Management Operating Officers/Operating Officers. The allotment of the shares will be determined based on the achievement of the financial target of the Three-year Business Plan, BEACON 2030 Phase II: consolidated operating income margin, consolidated return on equity (ROE), and relative total shareholder return (TSR). By allotting the shares based on the degree of achievement of targets, we aim to share the Company's corporate value with our shareholders and motivate the Company's executives to contribute to stock price appreciation.

Cash Allocation Policy

We have publicly announced our cash allocation policy for the first time. The total operating cash flow is expected to be ¥80 billion or more over the next three years. Growth investment including M&A is planned to be ¥30 billion or more. This includes accelerated investment in areas such as DHS which have synergies with existing businesses. Capital investments are planned to be around ¥25 billion for establishing a new plant in Tsurugashima City, Saitama Prefecture, as well as promoting corporate digital transformation (corporate DX) through the introduction of PLM/MES systems. The Company plans shareholder returns of ¥28 billion or more over three years and will consider additional shareholder returns depending on the progress of its future investment plans.

Resilience & Sustainability

During the previous Three-year Business Plan, BEACON 2030 Phase I, we encountered numerous unforeseen events, including the resurgence of COVID-19, shortages in semiconductor and electronic component supplies, rising raw material costs, the Russia-Ukraine conflict, and changing market conditions in the United States and China. Faced with these unprecedented circumstances, we have reaffirmed the need for a solid financial foundation that can respond quickly and appropriately to changes in the environment and ensure a stable supply of medical devices - in other words, the importance of increasing our financial resilience.

In BEACON 2030 Phase II, while ensuring resilience, we will make proactive investments for future growth, and at the same time, position the return of profits to shareholders as our most important policy. We will strike an optimal balance between the two objectives. The Company aims to enhance corporate value through sustainable management. To meet the expectations of all stakeholders, our executives and employees will unite and commit fully to these efforts. We appreciate your continued support.