Message from Director Responsible for Accounting (Chief Administrative Officer)

Review of the First Year of the Three-year Business Plan, BEACON 2030 Phase II

In the first year of BEACON 2030 Phase II, sales in Japan and Asia & Other fell short of its original forecast. Gross profit margin improved due to a decrease in inventory devaluation, higher selling prices, and favorable product mix. SG&A expenses increased due to strengthening of human resources, wage increases, and foreign exchange impacts. Operating income was ¥20.7 billion, with an operating income margin of 9.2% and ROE of 7.8%. Operating income exceeded the forecast that had been revised downward in November 2024 from its original forecast. On the other hand, the cash conversion cycle was 225 days, which was shorter than FY2023, but did not reach the target of 190 days. As a result, sales growth and improvement of profitability remained as financial issues for the future.



Kazuhiro Kato
Corporate Director,
Senior Operating Officer,
Chief Administrative Officer,
General Manager of Corporate Administration Operations,
Chief Compliance Officer

Initiatives in the Three-year Business Plan, BEACON 2030 Phase II

Based on issues from the previous Three-year Business Plan, we have set three indicators and are implementing 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 numerical targets, we 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

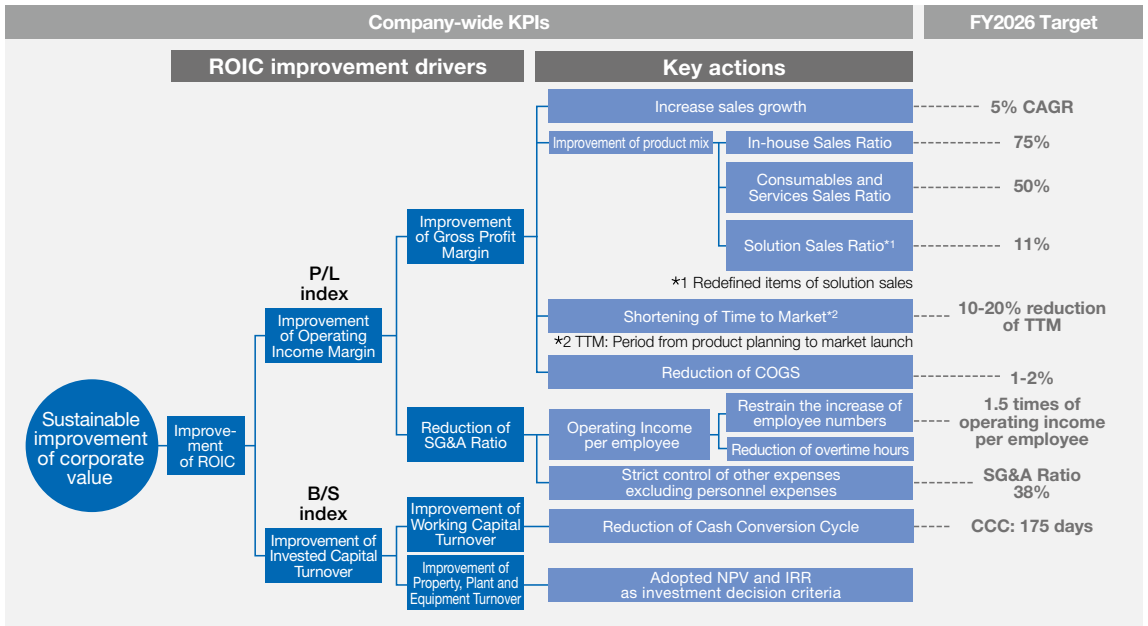
In implementing the reform of the profit structure, we aim to improve the operating income margin by a total of 5%pt: approximately 2%pt through product mix, 2%pt through productivity improvement, and 1%pt through the supply chain. In the first year, we completed development of measures and realized around 0.8%pt improvement. We currently estimate that around 70% of the targeted 5%pt improvement will be realized. In the area of the product mix, we improved gross profit margin by reviewing our pricing policies both in Japan and internationally and streamlining the product line-up. In terms of productivity, we achieved creating operational efficiencies equivalent to 380k hours per year, reducing the increase of headcount and overtime hours by installing 2,000 licenses of generative AI. In the supply chain, we work to reduce the costs of goods sold by refining price negotiations with suppliers and strengthening value engineering under inflation.

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2. Introduce Nihon Kohden's Own ROIC Formula

To achieve the cost of capital-conscious management, we have started introducing Nihon Kohden's own Return on Invested Capital (ROIC) formula. BEACON 2030 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. In FY2024, the cost of capital rose to approximately 8% from approximately 6% as debt increased due to higher risk-free rate and beta. Going forward, we start to calculate and manage Nihon Kohden's ROIC in each subsidiary and promote penetration of ROIC in the entire Group by creating ROIC indicator dashboard.

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 (CCC), we have enhanced inventory control mainly at the Production Operations, which was newly established in April 2024. In FY2024, CCC remained at 225 days compared to the target of 190 days, while inventories of finished goods and parts decreased.
We will promote to penetrate ROIC management, while advancing production, inventory, and sales management and enhancing inventory control by improving the accuracy of demand forecasts to optimize supply and demand balance, as well as faster debt collection.

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. The indicator and target for shareholder returns is 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 acquired ¥10 billion of own shares, and the consolidated total return ratio was 107% in FY2024.

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Introduction of Performance-linked Stock Remuneration Plan and Employee Stock Ownership Plan

To strengthen remuneration governance as well as providing incentives to further improve the Company's corporate value and achieve the targets of the Three-year Business Plan, the Company introduced 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 shares is determined based on the achievement of the financial targets 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 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. In FY2024, the payout ratio was 0% because the consolidated operating income margin was less than 10%. Nihon Kohden has also introduced an Employee Stock Ownership Plan in May 2025, to enhance employees' motivation and morale toward contributing to medium- to long-term business performance and corporate value of the Company.

Cash Allocation Policy

In BEACON 2030 Phase II, the total operating cash flow is expected to be ¥80 billion or more. Growth investment including M&A is planned to be ¥30 billion or more. The Company has adopted Net Present Value (NPV) and Internal Rate of Return (IRR) as investment decision criteria and started evaluating new investment projects in FY2022. In FY2024, we accelerated investments in areas such as DHS which have synergies with existing businesses, including the consolidation of Ad-Tech as a subsidiary, which has a high affinity with the Company's neurology products. Capital investments are planned to be around ¥25 billion. We started to establish 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

The global economic outlook is expected to be increasingly uncertain due to the U.S. tariff policies as well as geopolitical risks. In Japan, business sentiment in medical institutions has declined due to price and wage inflation, while the Japanese Government has implemented urgent support for medical institutions. In the U.S., while hospital finance showed a trend of improvement, the impact of tariffs and the health insurance system should be monitored carefully. There will be further moves towards protectionism and tightening regulatory requirements for medical devices in emerging countries. We expect a severe business environment will continue. To respond quickly and appropriately to changes in this environment, we recognize the need for a solid financial foundation that can ensure a stable supply of medical devices - in other words, the importance of increasing our financial resilience. 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 these objectives.
We aim 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.