

Conference Call for Three-year Business Plan, BEACON 2030 Phase I

Main Question and Answers

(March 9, 2021, Tokyo)

Q1: A reactionary decline is expected in FY2021 from the COVID-19-generated demand in FY2020. How does the Company see sales and profits recovering in FY2022 and FY2023? Is it inevitable that the target for FY2023 will remain at the same level as the FY2020 forecast?

A1: We are working on our forecast for FY2021 and expect lower profit due to a reactionary decline in sales of patient monitors and ventilators internationally as well as lower sales growth of ventilators in Japan. We aim at recovering sales and profit in the 2nd year, FY2022, and returning to a growth track in the 3rd year, FY2023. We think that our targets of sales and profit for FY2023 are aggressive. We aim to achieve an operating profit margin of 10% or more by increasing the overseas sales ratio and in-house sales ratio.

Q2: How will you achieve a gross profit margin of over 50%? I think that the gross profit margin improved in the past due to the increase of the in-house sales ratio rather than an increase in the consumables and services sales ratio. The target for the consumables and services sales ratio is at least 48%. Does the Company also have targets for the in-house sales ratio, and the overseas and in-house consumables and services sales ratio?

A2: In the 3rd quarter (nine months), the gross profit margin exceeded 50% because the in-house sales ratio increased thanks to overseas sales expansion. In the next three years, we are aiming at increasing the in-house sales ratio and achieving a gross profit margin of at least 50% by increasing the overseas sales ratio. We expect that there is room for growth in overseas consumables and services sales because the current sales ratio is still around 30%. We will also improve the product mix in Japan. We did not set a target for the in-house sales ratio in the previous medium-term business plan. We have set the target for the consumables and services sales ratio on a consolidated basis because we intend to strengthen our Consumables and Services business both in Japan and internationally.

Q3: The Phase I targets are an operating profit margin of 10.2% and an overseas sales ratio of 32.0%. Considering the FY2029 targets for an operating profit margin of 15% and overseas sales ratio of 45%, I think that the growth will be accelerated in Phase II and beyond. How will you improve the operating profit margin and overseas sales ratio after Phase I?

A3: In Phase I covering from FY2021 to FY2023, we will work to improve the profitability of existing businesses and build a global business foundation to reinforce earnings structure that regularly generates an operating profit margin of 10% or more. In Phase II covering from FY2024 to FY2026, we will invest intensively in new businesses that will become the next pillars of growth. In Phase III covering from FY2027 to FY2029, we will accelerate the improvement of profitability by expanding our overseas business and monetizing new businesses.

Q4: Capital investment is planned to increase to about ¥14.0 billion cumulatively over three years. Would you provide some color on your capex plan? Will the depreciation increase in accordance with the increase in capex?

A4: The Company plans to undertake capital investments for promoting corporate DX and establishing global SCM. To promote corporate DX, we will establish a platform to integrate data from the product data management system, the enterprise resources planning system, and the customer relationship management system. To establish global SCM, it is also important to build a common digital infrastructure. We plan to integrate the product data management system and the production information system. The amount of investment in establishing global SCM is expected to be slightly higher compared to the amount of investment in corporate DX. Annual depreciation is currently ¥3.5 to 4.0 billion. Depreciation is expected to increase gradually, but not significantly.

Q5: Would you explain the reason why the market share target for patient monitors in the U.S. remains at 12%? Will you be able to expand market share by promoting digital health solutions which the Company defines as new business?

A5: We assume our current market share of patient monitors in the U.S. is less than 10%. While the patient monitors market in the U.S. has expanded at an annual growth rate of about 4%, our sales of patient monitors have sustained double-digit annual growth. We reviewed the current market size and reset the target to a 12% target. To strengthen our foundation for developing digital health solutions, NKUS Lab, a R&D subsidiary in the U.S., will be rebranded as Nihon Kohden Digital Health Solutions on April 1, 2021. We will also accelerate the development of digital health solutions in the U.S. by recruiting talented engineers.

Q6: To embrace sustainability, the Company defined 12 material issues and KPIs. Does the Company disclose numerical targets for KPIs?

A6: We will disclose numerical targets for KPIs on our website in April or May 2021. In terms of KPIs for which it is difficult to set numerical targets, we will explain the progress from a qualitative viewpoint.

Q7: What kind of issues are you as a president aware in the Company's human resource development and corporate culture and how are you trying to deal with them? I would also like to know your diversity policy. You plan to introduce a role-based (job-based) personnel system. If you don't have appropriate human resources, do you actively consider hiring personnel from outside of the Company?

A7: We believe that it is extremely crucial to foster a corporate culture in which employees take pride in their contribution to healthcare and our mission. As a part of the human resource development and corporate culture reform, all employees were involved in formulating the long-term vision, BEACON 2030. In the new personnel system, we plan to introduce a new evaluation system to instill our new seven core values throughout the group. We will promote diversity of career opportunities by establishing new management and specialist courses for employee career progression. We are also looking to actively recruit talented personnel from outside of the Company, not only developing in-house human resources. On April 1, 2021, the Company will appoint its first

two female operating officers. The Company will further enhance gender and international diversity in the future.

Q8: When will the Investigation Committee announce the results of the investigation into the compliance matter? Will the results of the investigation have any impact on the three-year business plan targets? The Company will establish the Compliance & Legal Department in the Global Corporate Administration Operations and the Compliance Department in the Sales Operations in Japan on April 1, 2021. I would like to know the roles of each department.

A8: We cannot give you a definitive date, as the Investigation Committee is currently investigating. We expect that the results will be announced in mid-April or later, but it will depend on the status of the trial. We also expect that the impact of this matter on our business performance will be limited because the suspensions of transactions imposed by some public hospitals in Japan expire by June. We will ensure strict compliance by newly appointing a full-time person responsible for compliance in the Compliance & Legal Department to consolidate information regarding compliance cases not only in Japan but also globally. The Compliance Department will undertake a role as a consultation desk for domestic sales representatives to reduce the compliance burden.

Q9: Do you plan to launch any major new medical devices in the next three years? When will you launch Japan's first robotic anesthesia system?

A9: We completed the launch of several new flagship models during the previous medium-term business plan. We will focus on sales activities of these products to generate revenue and profits over the next three years. We are currently developing a new model of central monitor, a mid-range model of ventilator, a robotic anesthesia system, a new model of automated chest compression device, and a hematology analyzer with reticulocyte measurement. We aim to launch these products in the next three years. We also plan to introduce a defibrillator for ambulances in the U.S. market. Additionally, we are preparing to receive approval for Japan's first robotic anesthesia system which is designed to administer a controlled dose of anesthetics using vital signs. We expect that this technology will improve the work efficiency of anesthesiologists and lead to greater medical safety.

(End)

(Cautionary Statement)

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