

Second Quarter FY2020 Financial Results Conference Call
Main Questions and Answers
(November 10, 2020, Tokyo)

Q1: I would like to know the Japanese medical institutions' capital expenditure in each market. Are there any changes compared to the 1st quarter of FY2020? What kinds of medical devices have the funds received under the government's supplementary budget for COVID-19 been allocated to?

A1: In Japan, testing, hospitalizations and surgical procedures that were postponed have been gradually resumed. Although the number of those medical procedures is recovering, it is not returning to the normal level before COVID-19. Hospitals are continuing to restrain their capital expenditure, but some hospitals in the university, public and private hospital markets renewed medical devices such as patient monitors and ventilators, supported by the government's supplementary budget for COVID-19. On the other hand, clinics are not spending their budget funds on medical equipment because they have prioritized investment in infection prevention measures such as measures to reduce congestion in waiting rooms.

Q2: I would like to understand overseas market trends by region. Will the current resurgence of COVID-19 change your original expectation that there will be a corresponding reactionary decline in the 4th quarter of FY2020? Would you explain the reason why some orders for ventilators were canceled and the impact on your business?

A2: The conditions differ from region to region. In the U.S. and Western Europe, there is no significant increase in demand due to the 2nd wave of COVID-19 because medical equipment was installed during the 1st wave. In Latin America, some countries are continuing to procure medical equipment to respond to COVID-19 because the 2nd wave is coming before the spread of the 1st wave is over. However, there is no large demand such as was seen during the 1st wave. In Eastern Europe, the Middle East, and Southeast Asia, there are some inquiries from countries where medical equipment wasn't installed during the 1st wave and the 2nd wave is coming. In China, demand for medical devices has settled down after the successful control of COVID-19. In the overall international market, there is currently no one-time urgent demand for stockpiling such as was the case in March or April when the number of patients rapidly increased. We expect that demand for expanding healthcare infrastructure such as patient monitoring in general wards and ICU facilities will continue. We would like to mitigate the impact of the reactionary decline from the 4th quarter. As for ventilators, for which orders were concentrated in March and April, there were partial cancellations from certain countries where the required number of ventilators had been secured. We do not expect a significant impact on our earnings because we could divert these excess ventilators to meet demand in other regions.

Q3: I would like to know what CiRHEX Technology™ stands for, which is the technology for measuring Erythrocyte Sedimentation Rate. What is ESR used for in emerging countries? Would you explain the aim of launching the SpO₂ probes for esCCO measurement in Japan?

A3: MEK-1305 is the world's first hematology analyzer which can measure ESR simultaneously. ESR is mainly used for diagnosing chronic infectious diseases such as rheumatism in emerging countries. The conventional method requires 30 minutes of inspection time, but our CiRHEX (Cell counter integrated rheometric excellence) Technology™ can measure ESR in 2 minutes without additional cost. We expect demand will increase in emerging countries. esCCO is one of our unique parameters which estimates continuous cardiac output non-invasively using ECG and the SpO₂ pulse wave, and is attracting attention in emerging countries. To introduce esCCO in Japan, we have developed a dedicated SpO₂ sensor for measuring esCCO to provide high quality and measurement accuracy in clinical practice. We believe that it will be a very valuable tool for promoting customer value in the future.

Q4: Operating income in the 1st half of FY2020 increased thanks to the gross profit margin improvement of 2.5 billion yen. I think the main reason for this improvement is the higher in-house sales ratio led by COVID-19 measures and strong overseas sales. Please explain the breakdown of the contributions to the gross profit margin improvement. Can we expect a better gross profit margin in the 2nd half as well?

A4: In-house sales ratio increased as demand for patient monitors and ventilators was strong due to COVID-19. However, it is difficult to show the impact separately because there was also negative impact of COVID-19. The favorable product mix in Japan contributed to the improvement as well because we focused on selling in-house products. We could achieve a higher gross profit margin of 50.8% in the 1st half, but the assumption in the 2nd half remains the same as the original plan, and the full-year GPM is expected to be 49.6%. The product mix in the 2nd half will not be better compared to the 1st half, because we expect the recovery of domestic sales and decline of overseas sales.

Q5: I would like to know the reason for revising the full-year forecast of R&D costs to 7.2 billion yen from the original forecast of 7 billion yen. How do you see the level of R&D costs in FY2021?

A5: We have differentiated ourselves by providing monitoring solutions designed for data utilization in the future. As the importance of digital health is increasing due to the COVID-19 pandemic, we would like to strengthen and accelerate the development of digital technologies set forth in our long-term vision. We will continue investing in FY2021 to strengthen common digital technologies for patient monitors and diagnostic equipment.

Q6: How do you foresee domestic sales in FY2021? Assuming there is no central government supplementary budget for COVID-19 in FY2021, medical institutions may impose further restraints on their capital expenditure. What is the largest possible risk at this moment? Have negotiations with hospitals for FY2021 started?

A6: We expect domestic demand will recover in FY2021 because the number of testing and surgical procedures is recovering and the government's supplementary budget for COVID-19 supports the healthcare system. We will focus on proposals for replacement of medical devices, for which procurement has been postponed or frozen in FY2020. We will also expand the areas of recurring business such as consumables and services. We think that the biggest risk is the spread of infection and we will especially watch the increase in the number of critically ill patients. FY2021 budget requirements in the university and public hospital markets look more uncertain than usual, but the number of large deals is expected to recover to the level of FY2018.

Q7: I would like to know the FY2021 outlook. Medical institutions both in Japan and internationally are facing financial challenges because the number of elective surgeries is decreasing due to COVID-19. I assume that hospitals will impose further restraints on capital expenditure. Although the installed base of patient monitors and ventilators is expanding overseas, it may take time before we see consumables and services contribute to sales.

A7: In Japan, as mentioned earlier, we expect that demand will recover in FY2021. Internationally, we would like to mitigate the impact of the reactionary decline as we expect that demand for expanding healthcare infrastructure such as patient monitoring in general wards and ICU facilities will continue to grow. Consumables and services business will be a stable revenue base because we are enhancing our proposals in the overseas market, looking to the future post COVID-19.

Q8: The long-term vision was announced on September 1, but the announcement of the new medium-term business plan has been suspended. Please explain the key points as much as possible.

A8: The new medium-term business plan starting from April 2021 will be announced by March 2021. In the long-term vision, BEACON 2030, the 10-year period to 2030 has been divided into three phases, and the new medium-term business plan is the 1st phase. In order to realize the three transformations set forth in the long-term vision, we plan to focus on the following issues: improving the profitability of existing businesses by increasing productivity through optimization of globally expanded resources, and cultivating new business areas and business models. We introduced in-house ventilators in FY2019, and the installed base has expanded all over the world in the midst of the COVID-19 pandemic. High-end hospitals such as the Massachusetts General Hospital have adopted our ventilators. In addition, we signed a new contract with a major IDN which will result in the further expansion of our business in the U.S. As digital health is rapidly growing in importance, we believe we will be able to show a strong growth momentum in the medium- to long-term in the new medium-term business plan, even if there are irregularities in demand in the short term.

(End)

(Cautionary Statement)

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