Analyst Meeting for FY2023 Consolidated Financial Results and Three-year Business Plan, BEACON 2030 Phase II
Main Questions and Answers
(May 15, 2024, Tokyo)

Q1: I would like to know the reason that the Company set an FY2026 operating income margin target of 15%, which is higher than its global competitors. How will you improve margin by 5% or more over the next three years?

A1: Over the past year, we have been working with a global consulting firm to thoroughly analyze the opportunities and practical measures required to improve our business growth and profitability, and to develop an action plan accordingly. We need to set a higher target to achieve the rapid transformation necessary to realize our Long-term Vision in a global competitive environment that has changed dramatically after COVID-19. We aim at achieving this challenging target by implementing a reform of the profit structure of the entire Company to improve competitiveness and profitability. We will also further promote growth strategies by product category and region, as well as focusing on new product development to enhance product competitiveness.

Q2: Do you plan to set new KPIs to monitor quarterly progress for each measure in your reform of the Company's profit structure? As you set some reform measures in relation to the product mix, such as reviewing the contents and optimizing the number of products in the product line-up, will you significantly reduce sales of third-party products? Which has more room for margin improvement, the Japanese market or the international market? How will you reduce infrastructure costs such as rent? Is improving personnel productivity the most important measure?

A2: We do not expect to set new KPIs. We would like you to monitor quarterly progress against targets in each fiscal year. We will implement the reform of the profit structure, especially in Japan. In Japan, we started to review product lines with lower profitability. As we need to inform customers in advance, the effects are expected to occur in the 2^{nd} or 3^{rd} year and beyond. Internationally, we will also focus on improving profitability in North America. In North America, we will expand our consumables and services business and launch DHS products. In terms of infrastructure costs, we will reduce rent expenses by consolidating and reorganizing offices. We will also reduce costs by shifting outsourced operations to in-house operations. Among the three areas of the reform of the profit structure: product mix, productivity, and supply chain, the most important measure is to improve personnel productivity. The Company will restrain the increase of employee numbers by improving operational efficiency significantly through utilizing generative AI as well as focusing on core jobs and reallocating resources.

Q3: I would like to know the progress of sales of licenses for AsisTIVA, the syringe pump control software for assisting with total intravenous anesthesia, which you forecast to reach 100 sets or more in the first 3 years. Do you expect it to be covered by insurance in the future, since evaluation criteria for SaMD will be established as part of the revision of medical treatment fees taking place in June 2024? When will you launch this software internationally?

A3: We are promoting the use of the software based on the application guidelines put out by the relevant medical society. It is taking us longer than expected to build a market for the product, due to the limited number of medical institutions that meet the criteria in those guidelines. We will consider the possibility of insurance coverage when the software becomes widely used. Internationally, we will also explore the possibility of introducing this software in North America in Phase III.

Q4: When will you launch CoMET, an algorithm and software for patient condition management, developed by AMP3D in the U.S.? How much sales contribution is expected? Do you expect the gross profit margin for DHS products will be higher than for medical devices over the long term?

A4: The official launch of CoMET will occur after receiving FDA approval, which is expected in Phase II. The Company expects its sales contribution will be smaller in Phase II but will be several million dollars per year once the subscription models take off. We believe that DHS products will contribute to improving gross profit margin over the long term as a result of the recurring revenue they generate and their lower selling cost.

Q5: I would like to know the specific numerical target for sales of ventilators, which are expected to record double-digit growth. As foreign companies withdrew from the ventilator market, do you expect to expand your market share?

A5: Inquiries about our ventilators are strong. Especially in North America, demand for a mask-type ventilator is increasing. The two models of tracheal intubation ventilators are also highly competitive as alternatives. Internationally, we aim at sales CAGR of close to 50% in Phase II.

Q6: In North America, you have set the number of major IDNs which install your patient monitors and which make comprehensive agreements with you as KPIs. I would like to know the sales composition of the top IDNs and the number of IDNs in the U.S.

A6: An IDN (Integrated Delivery Network) consists of several dozens of hospitals. The timing of replacement of medical devices varies from hospital to hospital. If we sign a new contract with a major IDN, we expect business opportunities worth ten million dollars to several dozen million dollars, because affiliated hospitals will install our patient monitors over several years. The number of IDNs was 500 or more a few years ago but is expected to decrease to less than 400 due to consolidations.

Q7: The Company sets consolidated operating margin as one of the evaluation items for executive remuneration. Will you evaluate this item according to the degree of achievement without excluding the impact of special factors such as changes in the macro environment?

A7: That is correct.

Q8: I would like to know your cash allocation policy. The total operating cash flow in Phase II is expected to be 80 billion yen or more, which is more than double the figure from Phase I, when there were special factors such as COVID-19-related demand. How will you generate cash flow while making capital investments such as the construction of a new plant? Are there any plans to use borrowing for shareholder returns?

A8: In Phase I, operating cash flow increased due to COVID-related demand in the 1st year but was negative in the 2nd year due to the increase of inventories. In Phase II, the Company expects to generate 80 billion yen or more by improving operating income margin to 15% and reducing the cash conversion cycle. Our basic policy is to return profits to shareholders and the target is a consolidated total return ratio of 35% or more. The Company will consider borrowing as an effective means of raising funds, when fundraising becomes necessary, such as for M&A and new businesses.

Q9: The past Medium-term Business Plan was formulated through a bottom-up approach. How will you work to deepen understanding of the new Three-year Business Plan within the Company?

A9: We formulated the new Three-year Business Plan through discussion and evaluation by the management team and the next-generation leaders. Although we have set high targets that are distinct from those of the past, I feel that the foundation to work toward achieving those targets has been laid within the Company. As president, I myself am a Chief Transformation Officer in the reform of the profit structure. All CxOs are responsible for achieving targets in each area of this reform under the new CxO framework introduced in April 2024 and we hope to link this to achieving a company-wide commitment.

(End)

(Cautionary Statement)
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