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Financial strategy

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As a balancer with a bird's-eye view of the entire company, I place great importance on providing objective opinions based on numerical values.

Role of CFO

Development of the management base as part of the growth strategy

Watanabe: I have watched your company as an analyst from its listing up to 2020. Your growth since the IPO has been remarkable, and I believe that the company has also undergone a major in-house transformation during this process.

Today, I would like to ask you about the background to the growth, what you have been thinking about as a CFO, and your future mindset.

Ito: Thank you for your time. Asahi Intecc has been growing gradually while experiencing various changes since it went public.

I am still very grateful to Mr. Watanabe for continuing to deliver relevant and important information to the stock market, even during times where we had twists and turns, we were in a transition period and we received severe market evaluations. I'm glad to have this opportunity with you.

Watanabe: Looking back on the history of Asahi Intecc, I

think it can be classified into several stages. The first stage is the initial growth through a partnership with Abbott Laboratories. The second stage is the expansion of your global market share by strengthening your product lineup while gradually changing the sales structure in each region, focusing on Abbott. The third stage is to further expand your business areas, including M&A, and strengthen new fields. Now, you are on the third stage. During this period, you have not only expanded your business areas, but also conducted M&As to strengthen your defenses from the perspective of BCP. You have also implemented deep business strategies that cannot be measured based on the stereotype of simply going from growth to the next step. Looking back over a long period of time, I can only say that you have successfully achieved the growth stage up to now. Actually, I think there were some efforts and difficulties as CFO during this period, and I would like to ask you what you think looking back.

Ito: Thank you for your great review. Looking back over the past 20 years, we can deduce that the stage has changed in such a way, but the strategy that we set out when we went public is still ongoing, and we have a sense that the

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main framework of our strategy has not changed and that there have been various unexpected events in the process of implementation, and we have responded to them each time.

We have experienced a lot of things that happened, but surprisingly, there were no such difficulties or internal confusion that people outside the company thought. The management, including the former and current presidents, have great confidence in our achievements in steadily responding to the needs of doctors and customers with the technical capabilities that form the basis of Asahi Intecc, so I think we have always held the belief that there is essentially nothing to worry about if we have that ability. I am keenly aware that this has been communicated to all employees and that's why we have overcome difficulties. I also think that we had decades of preparatory period before the company went public, and efforts during this period bore fruit.

The responsibility of the current management is how to continue and connect to the next stage.

Watanabe: I thought there was a lot going on from the outside, but the management team had strong technical skills, strong relationships with customers, and strong unwavering conviction, so you have been able to move forward without change for the past 20 years, haven't you?

I would like to ask you one more question. In the 20 years since its listing, Asahi Intecc has grown incomparably in size and market capitalization. How have you strengthened the internal structure? Many young companies may encounter a

growth barrier in the process of rapid growth due to structural factors that the organization and system cannot keep up with, such as the retirement of core personnel, the deterioration of products and services, or the exposure of problems arising from lack of attention of management. But this will not apply to Asahi Intecc. The role of the CFO will also change depending on the growth stage and the situation of the company. Could you tell me why, including your role and work so far?

Ito: During the period of the former CFO, we were in the early stage, including the period before the IPO, and we invested all of our management resources in R&D and sales, so we were not able to invest sufficiently in the administrative function. I joined the company about two years before it went public (in 2003), and I have been closely watching the internal affairs for many years while gaining practical experience under the former CFO. After the retirement of the former CFO, I was appointed to take over the position in 2016, and I think we have been working to build a system that suits the scale of the company. We have been gradually devoting management resources to overall management, including the complete replacement of core IT systems, which urgently needed to be modernized, and maintenance, the introduction of a common approval authority system on a global scale, the improvement of systems with a particular focus on overseas governance, and the enhancement of internal systems capable of global M&As. I know the administrative functions are generally referred to as a cost center that

does not generate profits, but strengthening and implementing these administrative foundations was essential for future growth strategies. We are still only halfway through the process, and I believe there are still many issues to be addressed in order to establish the foundation for the company's administration.

Watanabe: In your case, you mean that you were not only responsible for the duties of a CFO, but also assumed CIO or CHRO-like duties, such as IT systems and personnel management, don't you? I think it must have been difficult, but since you were able to manage the administrative departments integrally, you were able to support the growth of Asahi Intecc. If the authority had been finely distributed and your duties were only focused on finance, I think it might have caused a lot of problems.



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Ito: Currently, the organization has grown in size, and the HR Department and the PR Department have been changed to come under the direct control of the President. I am grateful that I was able to manage the core systems and accounting in a unified and consistent manner for the past several years. In the times of the former CFO, it was a rewarding experience that he accepted my opinions and entrusted me with such a big role. There are still many issues to be addressed, but the number of highly qualified and trustworthy subordinates who have a common understanding of essential issues and problems is steadily increasing, and organizational skills are increasing. I have a sense that it is becoming possible to solve problems systematically rather than individually as in the past.

Watanabe: Another important role of the CFO is to consolidate opinions within the company and communicate with outside stakeholders, and to coordinate opinions between the outside and inside of the company. Are there any points or challenges you pay attention to in performing that role?

Ito: Our company's internal directors are those specialized in technology, development, production, sales, etc., respectively and all have a high level of experience. Most of the members are on the side of executing and managing the business, and I am the only person in an administrative function. The business side naturally wants to invest a lot of management resources for business growth. Under this circumstance, as the CFO, who is required by institutional investors to make the company grow in line with stock prices, annual budgeting is always a challenge. While each division is responsible for making decisions about the detailed allocation of resources for business operations, it is also important for the company to consider the large allocation of resources and capital efficiency of the entire company. Therefore, there is no end to the discussion among directors on the executive side about whether the allocation is appropriate and how to improve profits. President Miyata listens directly to the demands of capital markets through IR activities, so he understands both positions and makes a final decision. I sometimes talk to CFOs of other companies. As a person who communicates the voice of the capital market within the

company, I think there are challenges not only in our company but also in every company in balancing the allocation of management resources and the capital efficiency of the entire company. Especially in the short term rather than the medium to long term, I think it is an eternal issue for business companies to decide how to find a compromise between the voices of the stock market and internal demands.

Watanabe: When I was an analyst for your company, I remember you being rather careful in your choice of words. I think you explained the difference between what analysts thought about earnings forecasts and what your company thought, and you were concerned about how to implement controls for over- or under-expectations of growth. In addition, I believe that your IR system was well balanced in that President Miyata sent out positive strategies and drives while Ms. Ito suppressed them. You said, "As the CFO, who is required by institutional investors to make the company grow in line with stock prices, annual budgeting is always a challenge." I think, this means that, differently from your formal attitude towards the outside stakeholders, you sometimes explain to the members within the company with the attitude, "If we don't improve our growth potential, we won't be able to gain confidence from the stock market." By the way, what is the calculated capital cost? What is the current ROE level?

Ito: We have set the capital cost at 5%. ROE for the FYE

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June 2022 was 10.2%. (Capital cost is 5.5% and ROE is 10.4% for the FYE June 2023)

Watanabe: I think 5% is a little low. What do you think? Also, the equity spread is about 5%. Is the concept of capital cost rooted in your Board of Directors, including in M&A cases?

Ito: Some institutional investors have suggested that the capital costs disclosed by our company could be higher. According to the calculation based on current financial and market trends, the figure is 5%. I believe that investors are requesting the disclosure of capital costs, including the stance that profit growth rate should be higher. Regarding whether the concept of capital cost is rooted, major new products and projects are discussed at each responsible level using the NPV (Net Present Value) method and the IRR (Internal Rate of Return) method, and of course, they apply capital costs to this process. We also consider and make decisions on large-scale investment projects, such as M&As, based on DCF, taking into account capital costs. In that sense, it's not perfect, but I think it's rooted.

At the time of the previous financing, institutional investors pointed out that there was little discussion on B/S. They were of the opinion that a company with this scale is no longer sufficient simply with the idea that if P/L is good, B/S will inevitably improve. As a result, we introduced ROIC as an important management indicator after discussion at the Board of Directors.

Watanabe: A proper B/S is one of the perennial unanswered questions, but I think the important thing is that you are able to talk to investors all the time and how open the doors are. In last year's Integrated Report, there was an in-depth discussion about the previous finances. Do you feel that the opinions and responses of investors and capital markets following the financing or following the Integrated Report last year are properly understood in the company?

Ito: In the previous Integrated Report, I had a frank discussion about it with Mr. Hyogo, Chief Fund Manager of Mitsubishi UFJ Trust and Banking Corporation, which is one of our Institutional Investors. After that, we received comments and responses from many people, including from investors and business companies, saying, "Well, you posted the conversation as it was." I hope they also understand our company's transparency. To bring it back to the original topic, there were various options, such as a regular public offering, a method that emphasizes cash on hand at the time of the M&A, or a bank loan. As a result, it was decided after an internal review that it was important to obtain cash on hand before the M&A. We received harsh opinions, but on the other hand, it was important for us to obtain funding at any timing. For this reason, we have received opinions from institutional investors with a high ownership ratio that we should make returns properly by growing in the future. Financing is based on the premise of future growth, and it is important for the Board of Directors to take responsibility for

future growth over the medium to long term.

Watanabe: For financing, there may be many things that you cannot talk about, differently from the side of the capital markets. Is there a side where the scenery we see is different?

Ito: I think there are various things such as which time frame we are thinking about and how we think about the advantages of being listed. Because we understand that the opinions of capital



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markets on financing are also important, I think it is important to bring investors' opinions back to the company and improve it. This is why we recently reviewed and clarified our policies regarding B/S and capital allocation. While it is a good thing that our company's market capitalization is valued higher than the size of its financial statements, it also comes with responsibilities, so we recognize that the voices of the market must be taken seriously.

Watanabe: It is important to give answers to the market



with the P/L results and to be accountable. If your earnings and stock prices decline after financing, it will affect reliability over a long period of time.

Ito: I believe that our investors have placed their trust in our growth potential, and I am grateful for that. It is important to fulfill the responsibility for that. We are looking at the medium to long term, not the short term. IR is not only for good times, so I would like to continue to be upfront and respond sincerely in any situation.

Watanabe: Since I was the analyst for your company, I have been impressed by your sincere attitude of dialogue. Not only did you make a good disclosure, but also you taught us what Asahi Intecc was thinking about from multiple perspectives and where its strong feelings and worries lay through dialogue. Also, you provide IR and information disclosure in exactly the same tone in good times and bad times.

In terms of growth potential, I think that one of the CFO's roles is to control various things, such as while the president is driving the strategy, the CFO should control the risk. How is it actually?

Ito: I fully agree with the president's strong desire to grow the business, including the M&A strategy. However, I believe that it is the role of the CFO to comment on the risks behind business growth, because I think it is important to make investment decisions based on the knowledge that there are risks. In addition, if the figures do not match those of the strategic

side, of course, the CFO must make that clear. It's quite difficult.

Watanabe: Hearing what you told me, I have the impression that the CFO's role is not just as a brake against the accelerator (the president) but also one of a balancer who determines how to balance and control capital markets and the president's ideas, business divisions and management divisions, short-term and long-term opportunities and risks.

Ito: There are some points that don't work well, but I think I assume such position and role. From the point of view of the internal business unit, the CFO may only be listening to the capital markets. Therefore, it is important to increase the background explanation of why the market wants to do so and the quantitative discussion of why the figure is what it is in addition to qualitative talks. I also think there are internal issues there.

Watanabe: In the stock market, I believe that not only long-term returns but also short-term returns have been required year by year. Some people see this as a negative effect of the short-term perspective, but in reality, the stock market has become more volatile, including macro-events, and it is not just that the long term performance will be okay, but also that the long-term perspective continuing from the short term has become important. In this sense, the level of demand from the stock market for issuers, especially the CFOs who act as a window for dialogue, has increased.

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Ito: The important thing is medium- to long-term growth, and that is our main focus. However, of course, we understand the voices of short-term perspectives such as quarterly earnings forecasts, and we try to explain them carefully.

Asahi Intecc is considered to be a conservative company in terms of its earnings forecasts, but I think that we are not too conservative because our earnings forecasts are based on the aforementioned discussion. However, we need to improve accuracy.

Watanabe: From what you've said so far, it seems that you balance expansion investment with growth while listening closely to market voices. In addition, considering the fact that the company aims to grow in such a way and uses funds to cover such expenses and to make investments, it seems that the buyback and cancellation of treasury shares that you made recently are in opposite direction to the current capital allocation and your financing from the market. What do you actually think about this?

Ito: As you can see from our current free cash flow (FCF), our company has not had much surplus funds in recent years. That's because we need strategic funds for growth. I don't think we are going to move to the next phase of growth if we're not putting money there.

The share buybacks you mentioned will cover a shortage of money to be allocated for strategic funds for future growth, so we consider them to be the next priority, including discussions on dividend increases. Of course, decisions will change when there is extra capital available or when we move from the

growth stage to the maturity stage, but I believe that the most important thing now is how to fund growth investments. The idea that all strategic funds can be procured from capital markets is, of course, too simplistic and contradictory. Through dialogue, I have the impression that institutional investors who expect medium- to long-term growth, rather than short-term growth, are more likely to believe that allocation to strategic funds is the most important. We want to follow a consistent policy, not only in the immediate future, but also to respond flexibly to changes in the environment, as otherwise, it contradicts the motivation behind the recent financing.

Watanabe: As the CFO, do you think the current state of capital efficiency is acceptable? Or do you need to further increase capital efficiency?

Ito: I think we should be more conscious of the capital efficiency indicators including ROIC. We do not operate with only capital efficiency in mind, but we believe that the pursuit of return on investment should be balanced appropriately. There are various points of view, such as the difference between a short-term perspective and a medium- to long-term perspective.

Watanabe: Are you conscious of capital efficiency for all investments?

Ito: For example, we carefully consider M&A deals because they involve risks. But it is difficult to ensure that all investments are

successful and profitable. Of course, we recognize that we should achieve returns overall. I think we have to make necessary investments, but we also need to clarify the return and payback period.

➡ M&A Strategy and Capital Policy

Management decisions to be made because of leadership and discernment

Watanabe: Looking back at your company's history, I think there have been many important M&As.

The main purpose of M&A is to attain future growth, but you conducted M&As for BCP rather than growth purposes, which other companies cannot think of. What do you think about the division of roles between the president and other executives, as well as the role of the CFO, in terms of these various management decisions, business operations, and strategic planning?



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Ito: Thanks in part to the strong leadership of the former president and current President Miyata, the strategy of each M&A has been clear. I am in a position to express my opinion from an objective point of view regarding the execution of due diligence and the appropriateness of the acquisition price, including future earnings, but I believe that the value depends on the leadership and appropriate discernment on the business side, which is essential.

Watanabe: As the CFO, what do you think of KPIs for directors?

Ito: The director in charge of each department has responsibility for that. In addition to that, all officers are together responsible for the consolidated figures of the entire company. There is a KPI tree developed from ROIC, but currently each item is not tied to a director. On the other hand,

the supervisory function of the Board of Directors does not work only by a KPI setting, so it is important how to raise common awareness and bring it to the discussion, including the background of KPIs and other invisible points. Our issue is whether the entire Board of Directors can look in the same direction and have fair discussions based on that. The other issue is how to change the role of outside directors and the position of the Board of Directors in the midst of an increase in the number of outside directors and a transition toward separation of supervision and execution.

Watanabe: It has often been said that the Board of Directors needs to be more effective, but in reality, it seems to largely vary depending on companies. In the case of your company, President Miyata has a large presence, but on the other hand, I think a major theme in the future is to reduce the dependence on him. How do you feel from the perspective of the CFO, including the atmosphere of the Board? In addition, the importance of outside directors has been mentioned in particular recently. Could you tell me what it seems to be in the case of your company?

Ito: As you mentioned at the beginning of this dialogue, our company is currently in the third stage in search of new markets. At such a turning point, it is important for the company that the president himself has a robust belief in strategy and takes strong leadership, and I see it as a real necessity. However, in the process, there must be a lot of things that need to be done by those around him, such as whether the necessary and sufficient input has been

provided to the management and whether they made enough discussion. As we have high growth potential, I feel that we are building a foundation as we progress, so I think there are still issues to be addressed. However, the issues themselves are shared by all directors, both internal and external. At present, all of our internal directors are also executive officers, but I think there is a common understanding that we should aim to separate management and execution in the future, and that we are in a transitional stage.

Watanabe: If a director in charge of the business segment stands on the viewpoint of such business division, the CFO has a role to have a conversation with him from the perspective of the whole company. Is there anything you should be careful about in such cases?

Ito: I place importance on making objective opinions based on the figures. If there is only qualitative discussion but no quantitative discussion, we may sometimes make factual errors or suffer from a lack of objectivity. However, we have still many issues to address.

In addition, it is important to take a company-wide and long-term perspective, while at the same time linking the voices of the capital markets to the Board of Directors for discussion. As the premises for that, there should be a common objective of improving corporate value over the medium to long term. We can't have a necessary discussion if directors are opposing each other in various situations. I believe that it is necessary to face up to the

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issues and problems, to see them as our own problems, and to have fair and open discussions.

Watanabe: You have to tell directors what they don't want to hear. The CFO is required to play a difficult role.

Ito: Of course, all of my opinions are not accepted right away, but the reason why I can openly express my opinion is that there is a culture in which the president, who is at the top of the company, listens to the opinions of his subordinates sincerely, and I may have some advantages because I am a woman. It is said that women are too detailed, but I try to take things from a big perspective. When it comes to numerical values, there is always the image of being detailed, but since numerical management is a critical element of management, it is important that both strategy and numerical values are intertwined, and when it comes to detailed discussion, it is a problem that essential discussions are switched and cannot be properly discussed.

Also, I don't work alone in such a role. The administrative organization is gradually solidifying, and I feel that it is connected to risk control every day.

Watanabe: One of the things that the CFO is required to do is act as a controller and balancer who oversees the entire company in a cross-sectional manner. I think that's your essential role as the CFO. Also, a head of an independent IR department tends to make superficial communication, but you, Ms. Ito, who knows practical

matters, is realistic and we can communicate well.

Ito: Thank you very much. As for the management strategy, President Miyata, who essentially leads the business, is more persuasive than anyone else in conducting IR, so I recognize that I am insufficient for that role. However, since I work close to the president, I am able to deepen my understanding of the actual state of the business. I also believe that the business explanation and the numerical explanation are one, and I have the responsibility to perform the numerical explanation.

Promotion of Sustainability Management

Balancing quantitative goals and practical efforts

Watanabe: In the case of medical device companies, because the very reason for their existence is social, I have the impression that they have a weaker focus on ESG than companies in other industries. On the other hand, sustainability is an important selection factor in business these days. How do you intend to address it from the standpoint of the CFO?

Ito: For the environment issue, we started implementing measures to comply with CDP from this fiscal year, and we are actively working to comply with the GHG emission scope 1, 2, and 3. With regard to diversity in human capital, more than 30% of our managers globally are female, and there is no climate or mechanism that prevents women from

becoming a manager. We are required to clarify the expected figures for non-financial information. We would like to respond to it step-by-step. How to present them is important, but I think it is typical of Asahi Intecc to focus on whether there are essential issues and, if so, to look at the actual situation of solving them.

Watanabe: The technology of the medical device segments results from a combination of various elemental technologies such as not only metal and resin processing, but also pharmaceutical science, chemistry, software, robotics, and ergonomics. It often comes from communication with doctors and nurses as well as basic development in the laboratory. Unlike pharmaceuticals, where pipelines and unmet needs are somewhat easy to imagine in advance, in the medical device sector, the



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combination of various technologies to develop new products is attractive. However, in recent years, there has been an impression that the development of new large-scale products has not progressed globally. I think one of the efforts to overcome this is the integration with robots, which Asahi Intecc is also strengthening.

Ito: For the medical device segment, doctors and patients have never-ending needs, and I believe that our company's essential raison d'être is to meet those needs. I think that

the growth we have achieved so far results from that.

Watanabe: From a patient's perspective, medical devices have the advantages of having undergone a dramatic evolution in both the diagnostic and therapeutic fields, and I think they have great benefits not only in terms of the results of treatment but also in terms of healthcare economics. However, it has been pointed out that the size of the medical device market in Japan is smaller than that in the United States. I believe that the medical device

industry is an extremely important and promising area from a corporate, patient, and healthcare economic perspective. Next is the last question, what do you want investors to understand about Asahi Intecc in particular? Or what is the appeal of Asahi Intecc?

Ito: I believe that Asahi Intecc is a company that is always willing to change. We have grown from an industrial equipment company to a medical device company, from Japan to the global market, from distributor business to direct sales business, from cardiovascular to non-cardiovascular fields, and even to robotics by always actively responding without fearing changes. I believe that we will continue to constantly transform while retaining the advantages of our corporate culture and the fact that we are an R&D-oriented company that serves as the foundation of Asahi Intecc. Behind this, we have the constant desire to contribute to social issues by solving the needs of doctors, patients and clients with our technological capabilities.

I believe that there will be many twists and turns in the growth process in the future, but our company values dialogue with the capital markets and wants to continue to engage in sincere dialogue at all times.

We appreciate your continued understanding and support. Thank you.