Financial Strategy

Basic Approach to Financial Strategy

Our Group will further strengthen the financial base by improving capital efficiency, etc., and aim to achieve sustainable growth, secure stable earnings, and increase corporate value by optimally allocating funds to aggressive growth investments and stable and continued shareholder returns.

We will also strive to contribute to all stakeholders by implementing management that is conscious of capital costs and maximizing corporate value. In order to realize returns that exceed the capital costs, we will improve return on capital (ROE and ROIC) using the ROIC tree and strengthen investment decision-making based on the capital costs.

Capital Allocation

Our Group has established the Medium-Term Management Plan "ASAHI Going Beyond 1000" for five years through June 2026. Based on the strategies incorporated in this plan, in addition to the growth of existing businesses (cardiovascular and non-cardiovascular fields), we are also promoting the launch of new businesses and are actively laying the groundwork for further growth, exceeding the final year target of 110 billion yen in net sales under the Medium-Term Management Plan.

In particular, in the medical device field, which is our strategic business area, we are actively promoting up-front investments such as acquisition of shares and alliances, including M&A, capital investments, and R&D investments. Amid this backdrop, while emphasizing the balance between growth and financial strategies, we consider capital allocation providing for discipline and distribution of funds for cash flow for the growth as follows. This capital allocation was reviewed flexibly through dialogue with institutional investors in FY2022.

As the source of funds is cash on hand and operating cash flows, we strive to improve our ability to generate funds and its efficiency. To improve ability to generate funds, we evaluate major investments and new product and business projects using the evaluation methods with capital cost and cash flow such as the Net Present Value (NPV) method and the Internal Rate of Return (IRR) method. To improve fund efficiency, we consolidate surplus funds of our Group companies in Japan, the United States and Europe into Asahi Intecc using a global cash management system. In addition, the use of the cash management system enables us to centrally manage assets and liabilities denominated in foreign currencies, thereby reducing exchange rate risks.

If we need external financing, we will procure funds through the method we consider most appropriate, such as borrowing from a financial institution, based on various conditions such as the amount, timing, and duration.

Cash on hand	**Shareholder return** Maintain a dividend payout ratio of 30%
Operating C/F Continue business growth and maintain high profit margins	**Investment C/F** Make a disciplined investment decision while we are in a phase to actively make capital and equity investments for business growth ▪ Increase production capacity ▪ Enhance R&D facilities ▪ Other strategic investments
Financing on an as-needed basis Raise funds through debt financing, in principle, viewing the market environments, except when fund needs are extremely large	

Our Group's Key Management Indicators and Capital Costs

Our Group's key management indicators are net sales, operating income, and operating income ratio. The operating income ratio is set at 20%, and the EBITDA (operating income + amortization of goodwill + depreciation) ratio, which is the key performance of management, is set at 30%.

As for financial indicators, we have used ROE (Return On Equity) and ROIC (Return on Invested Capital) as noteworthy indicators. ROE and ROIC (calculated using "working capital + fixed assets" as invested capital) are both set at a basic level of over 10%, and we aim to improve them. Our Group believes that the use of interest-bearing debt plus shareholders' equity as invested capital does not accurately reflect the actual situation of our company because our interest-bearing debt increases owing to foreign currency borrowing for the purpose of currency hedging. Therefore, ROIC is calculated using working capital plus fixed assets as invested capital.

The weighted average cost of capital (WACC) of our Group is considered to be 5.5% as of FYE June 2023. We have periodically revised the WACC taking into account risk-free rates and stock market trends.

For major investments and new products and business projects, the NPV (Net Present Value) method and IRR (Internal Rate of Return) method using the capital costs are applied.

Our ROIC = NOPAT ÷ (Working capital + Fixed assets)

NOPAT = Operating income x (1- Statutory tax rate (currently 30.6%))

Working Capital = Current assets - Current liabilities

= Trade and other receivables + Inventories + Accrued income - Trade and other payables - Account payables - Advances received

Fixed Assets = Fixed assets on the balance sheet

	Basic Level	Actual Results for FYE June 2022	Actual Results for FYE June 2023
EBITDA	30%	29.2%	29.7%
ROE	10%	10.2%	10.4%
ROIC	10%	10.9%	10.7%
WACC	–	5.0%	5.5%

International Taxation

As we expand globally, international taxation is becoming increasingly important.
As for the taxation issues, with the support of outside experts such as tax accountants, we work in good faith to address tax issues and ensure transparency and credibility with tax authorities in the countries where we operate. With respect to transfer prices, we strive to manage them appropriately so that they become arm's-length prices by complying with local tax laws and OECD guidelines. For transactions with high transfer price tax risk, we reduce tax risk by utilizing the APA (Advance Pricing Agreement) system.

Shareholder Return

Our Group is developing its business on a global scale and is constantly striving to increase its corporate value. We recognize that returning profits to shareholders is one of our key issues, and our basic policy is to pay dividends on a stable and continuous basis from a long-term perspective, taking into account consolidated performance and other factors. We determine the amount of dividends by comprehensively taking into account the consolidated performance for the relevant fiscal year, future business prospects, the level of retained earnings, and other factors from a long-term perspective, while aiming for a consolidated dividend payout ratio of 30%. We allocate retained earnings to R&D, capital investments, and business investments, which are essential for future growth. This way, the company will endeavor to improve its business performance and strengthen its financial position.

Change in Dividend per Share and Consolidated Dividend Payout Ratio