

04 Financial Strategy

4-1 Financial Strategy..... 45

- Capital Allocation
- Key Management Indicators
- International Taxation / Shareholder Return

4-2 Analysts × Management Discussion over the New Medium-Term Management Plan: Part 2 49



4-1 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 and secure stable earnings by optimally allocating funds to aggressive growth investments and stable and continued shareholder returns, thereby increasing corporate value. 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.

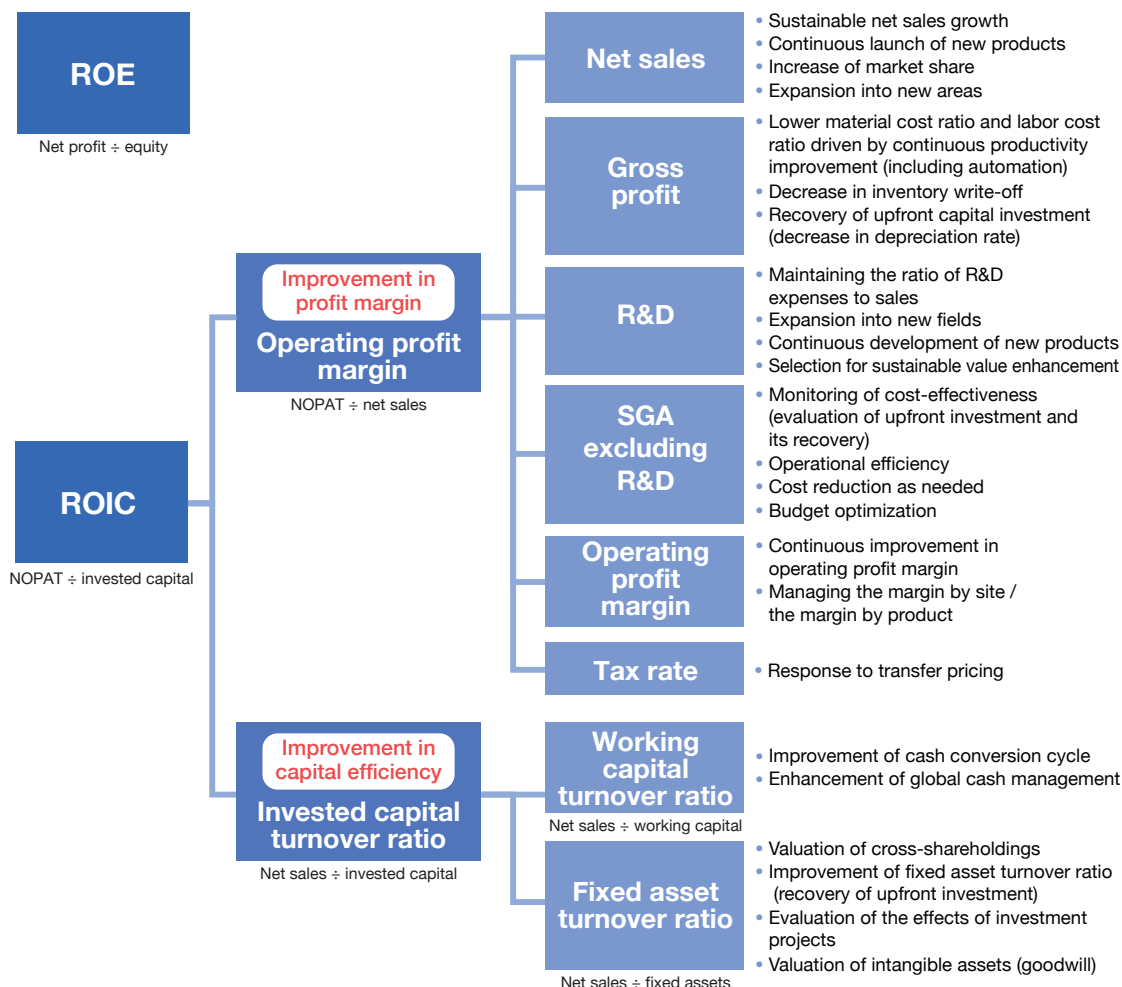
Key Management Indicators

Our group positions sustainable enhancement of corporate value as the most important management issue and has set a number of key management indicators as criteria for management decision-making and strategic planning.

We place importance on target KPIs for net sales, operating profit, and operating profit margin as indicators for evaluating business growth and profitability. As for financial indicators, we have set return on equity (ROE) and return on invested capital (ROIC) as key KPIs from the perspective of capital efficiency. As for ROE and ROIC, which are financial indicators, we not only achieve a level exceeding the capital cost but also anticipate a further increase under the current Medium-Term Management Plan and aim to achieve a level of 16%.

These financial indicators serve as important information when formulating business strategies and making investment decisions, and they are also directly linked to improving shareholder value. However, they are not for the purpose of achieving short-term numerical values but are instead used as management indicators to verify whether each investment leads to a medium- to long-term competitive advantage and business growth. In terms of development investment, capital investment, and equity investment, we focus on future earnings opportunities and strengthening our foundation, and we are conscious of improving capital efficiency from a medium- to long-term perspective.

ROE · ROIC



4-1 Financial Strategy

Approach to Capital Allocation and M&A

While keeping our long-term vision in mind, we work to materialize sustainable value creation centered on our business strategies in accordance with our Medium-Term Management Plan, Building the Future 2030 – Unlocking Sustainable Growth. At the same time, we aim to enhance corporate value and shareholder value by strengthening the management foundation that supports the realization of these goals.

Based on this policy, in addition to strengthening research and development, in the medical devices field, which is our strategic business area, we are actively investing in equity acquisitions, including M&As, and alliances to achieve medium- to long-term growth.

In pursuing this growth strategy, we emphasize the balance between the growth strategy and financial strategy, and have established capital allocation, which clarifies cash flow discipline and fund allocation policy for growth. This policy is reviewed flexibly in light of the current business environment and dialogue with institutional investors, and we strive to further improve our ability to generate funds and fund efficiency by using cash on hand and operating cash flow as the main sources of funds.

Our company's basic policy for capital allocation is to give top priority to development investment and capital investment, followed by stable dividends. As for surplus funds that arise after steadily implementing this capital allocation, we will give priority to strategic M&As and other growth investments in order to accelerate our growth strategy in line with the Medium-Term Management Plan. On the other hand, if appropriate investment opportunities are not found, we will flexibly consider shareholder return measures, including acquisition of treasury stock, to improve capital efficiency.

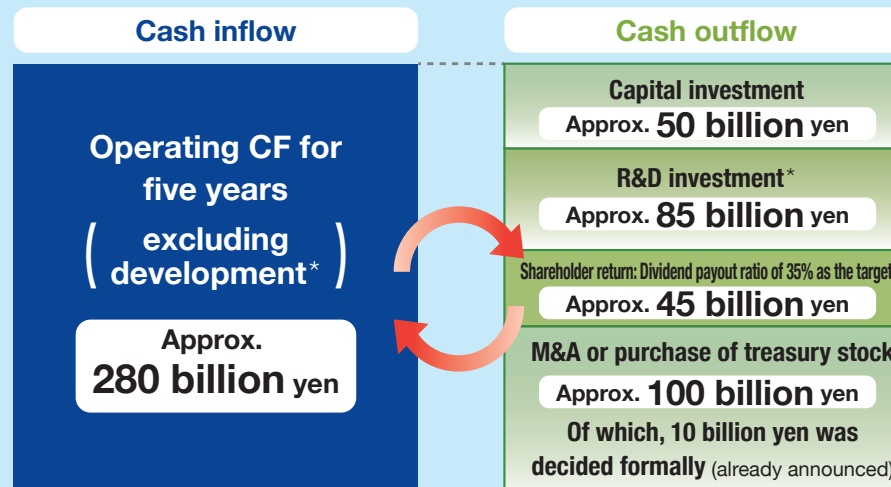
In fact, between May and October 2025, we bought back 6,301,300 shares of common stock for a total of approximately 14.99 billion yen in an effort to balance shareholder returns and capital efficiency improvement. Initiatives in the field of high-value-added treatment devices and development investment accompanied by clinical trials are positioned as important strategic investments for our company with an eye on medium- to long-term growth. Based on the assumption that these investments involve a certain level of uncertainty, we seek growth opportunities

while maintaining our financial soundness by controlling the size of our investments through a stepwise development process and by continuously verifying the technical rationality and marketability.

In addition, M&As are one of the means to realize the growth strategy based on the Medium-Term Management Plan, and targets areas that are highly compatible with our core technologies and existing businesses. At the present time, we do not anticipate any M&As for the purpose of entering into enclaved business areas.

Decision-making and operations that are conscious of capital costs and financial indicators

Period of Medium-Term Management Plan (FYE June 2026 to FYE June 2030)
Five-year cumulative capital allocation



*Development costs are stated inclusive of depreciation expenses.

4-1 Financial Strategy

Response to Realization of Management That Is Conscious of Capital Cost and Stock Price

We position sustainable improvement of corporate value as the most important management issue and promote management that is conscious of capital cost and stock price in daily decision-making and business operations. Specifically, when making decisions on strategic investments, research and development investments, and capital investments, we evaluate profitability and efficiency based on capital costs, such as the net present value (NPV) method and the internal rate of return (IRR) method. Also, in formulating management plans and monitoring the progress

of Medium-Term Management Plans, targets are set with ROE, ROIC, and other capital efficiency indicators in mind, and improvement measures are considered and implemented when discrepancies from actual results occur. We periodically revise the weighted average cost of capital (WACC) taking into account risk-free rates and stock market trends, and disclose these revisions in the Integrated Reports and financial results briefing for institutional investors. In addition, in order to provide shareholders and investors with an appropriate explanation of the process of creating

corporate value, we disclose highly transparent information about the background of our management decisions and our efforts to improve capital efficiency. Through these initiatives, we aim to achieve sustainable growth with an awareness of capital costs while simultaneously enhancing shareholder value.

WACC

Changes in management indicators

	FYE June 2023	FYE June 2024	FYE June 2025	Supplementary comment	Medium-Term Management Plan Numerical target for FYE June 2030
Operating profit margin	20.0%	20.6%	25.1%		28.0%
ROE	10.4%	11.2%	8.4%	Temporary decrease due to an impairment loss in FYE June 2025 The ratio excluding impairment loss was 14.1%	16.0%
ROIC	9.0%	10.1%	13.1%		16.0%
WACC	5.5%	6.3%	6.7%	See the figure on the right	—

Breakdown of capital costs

		FYE June 2023	FYE June 2024	FYE June 2025
Weighted average cost of capital	Sum of ① and ②	5.5%	6.3%	6.7%
① Weighted cost of equity	Share ratio (approx. 99%) x (a + b x c)	5.52%	6.28%	6.73%
Risk-free rate: a	Adjusted 10 year JGB interest rate average for five periods	0.14%	0.35%	0.63%
β value: b	Calculated based on the five-year average of five-year monthly beta and two-year weekly beta, and adjusted for future value calculation	0.913	1.000	1.033
Market risk premium: c	Matching the average cost of equity of Japanese companies with estimates from analyst reports of companies employing them	6%	6%	6%
② Weighted cost of debt	Debt ratio (approx. 1%) x cost of debt x (1 - corporate tax rate) Cost of debt: five-period average of SWAP five-year rate + spread (0.5%)	0.01%	0.01%	0.01%

4-1 Financial Strategy

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 advance pricing agreement (APA) system.

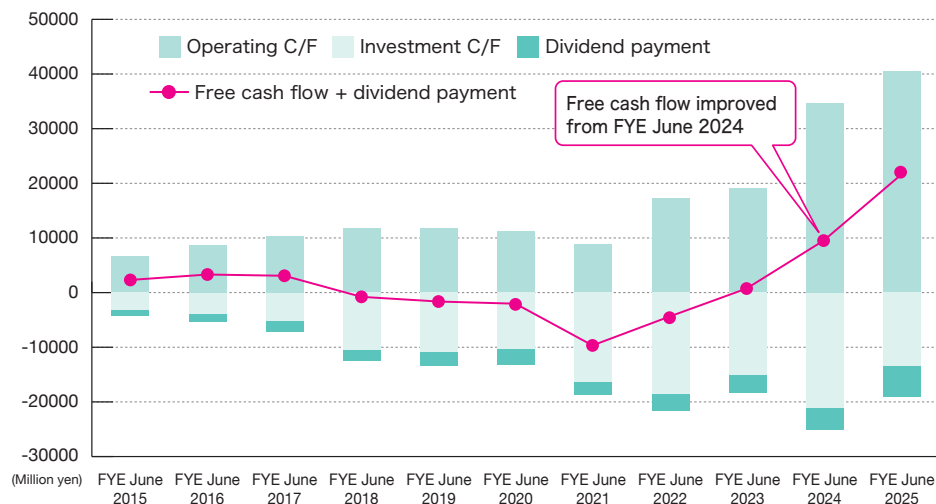
Shareholder Return

We position sustainable improvement of corporate value as the most important management issue in developing our business on a global scale. We recognize that returning part of the results of our business activities to our shareholders is a key issue, and our basic policy is to pay stable and continuous dividends. Consolidated dividend payout ratio is set at 35%.

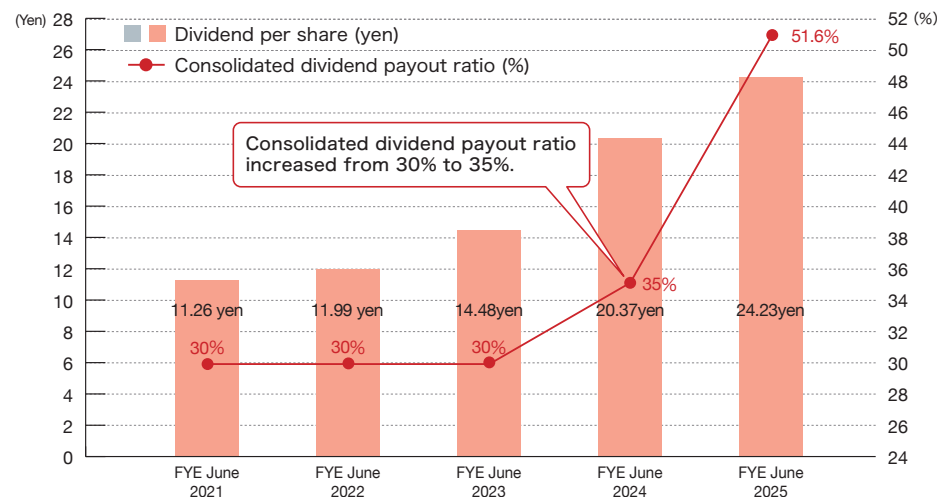
In FYE June 2025, net income decreased owing to the recording of extraordinary losses and other factors, but the payout ratio temporarily exceeded 50% because the dividend amount maintained the amount planned at the beginning

of the fiscal year. We will flexibly consider reviewing the shareholder returns based on the stability of cash flow and the outlook for business performance.

Change in free cash flow + dividends



Change in dividend per share and consolidated dividend payout ratio



*For FYE June 2025, net income attributable to parent company shareholders decreased as a result of the recording of extraordinary loss, but the surplus dividend remains unchanged at 24.23 yen, as initially projected.