

07 Sustainability Governance



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Governance and Investment for Long-Term Growth

Amid the rapidly changing global business environment, there is a need for speedy decision-making accompanied by the on-site realities and the perspective of capital markets. Outside Director Taguchi, who has been involved in the management of the medical equipment industry for many years, and Outside Director Kusakari, who has seen many companies as an investor, talked about how Asahi Intecc should manage its business with these considerations in mind.

〈 Interviewer: Mizuho Ito, Director, CFO, Asahi Intecc Co., Ltd. 〉



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Outside Director
Asahi Intecc Co., Ltd.

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Outside Director
Asahi Intecc Co., Ltd.

Background to Appointment as Directors and Thoughts on Role

Ito: Could you each tell us about the background to your appointment as outside director and what roles you are aware of now?

Taguchi: I joined as an outside director of the company in September 2023. I worked for Olympus Corporation, which was in the same medical device industry. Through this connection, I received the offer to be an outside director. During my time at Olympus, I had extensive experience in the medical device business, from development to sales and M&A. In particular, I was involved in business reconstruction and governance reforms following the 2011 loss cover-up scandal. At that time, I was the general manager of the Development Division, but when the previous management resigned, I suddenly moved to the management side. While the company's survival was in danger, we faced various challenges, such as recovering internal and external trust, dealing with shareholders, and making the organization transparent.

In this situation, I received from frontline doctors an encouraging message saying, "The endoscope you make is

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saving patients' lives, so do your best," which I will never forget. Based on this experience, I now would like to support the sustainable growth of Asahi Intecc by being conscious of connecting sites with management.

Ito: Voices from the medical forefront become the driving force of management. This is an episode that is typical for Mr. Taguchi. How about you, Mr. Kusakari?

Kusakari: In my previous job, I invested in Asahi Intecc as an institutional investor, and from an investor's perspective, I have held frank discussions with the company about the business aspects of competitive advantage and future growth strategies, as well as the concept of capital policy and governance.

In particular, at the time of the issuance of stock acquisition rights (Sustainable FITs) in 2021, there was a lively exchange of views regarding the intention to raise capital and changes in corporate value assessment amid a high equity ratio. I strongly felt the importance of IR, such as how investors view a company and how it affects a corporate valuation. Later, when I was temporarily out of my role as an institutional investor, Asahi Intecc approached me directly. I have since returned to work as an institutional investor, but of course I have not invested in Asahi Intecc, and I firmly maintain ethical walls.

I am now conscious of bringing the perspective of capital markets to the Board of Directors as a bridge between management's thoughts and market views.

Ito: Regarding the issuance of stock acquisition rights (Sustainable FITs), we summarized the content of our in-depth discussions with institutional investors in the previous Integrated Report. We also had various discussions within the company about the issuance of the stock

acquisition rights (Sustainable FITs). After the issuance, we received some harsh opinions from institutional investors, and making use of dialogues with them, we have promoted measures such as including market participants as outside directors and making changes to capital allocation. As CFO, I am extremely grateful that outside directors understand the background and basis behind our statements, and support us.

Management and Investment Decisions with Capital Costs in Mind

Ito: Management is expected to be mindful of capital costs, but do you think that this is being discussed sufficiently at the Board of Directors?

Kusakari: In fact, the Board of Directors is actively debating whether the investment is worth the cost of capital, and whether there is any expected value gap. The basis of discussions is that we, the outside directors, ask essential questions and the management gives us an explanation with supporting evidence. I feel that not only numerical data but also the thinking and attitude of explanation behind them are important. For example, when explaining an investment project, we thoroughly discuss not only the profit forecast but also why the investment is necessary, what the risks are, and how to collect a return on the investment.

Taguchi: Medical devices take a really long time from development to being adapted in the market. In addition to product development, approvals and regulatory compliance are also necessary, and even after commercialization, it will take even more time for it to become a de facto standard at medical sites. This is why investment decisions need to be



made with not only short-term results but also long-term capital efficiency in mind.

In terms of the capital costs, I feel that there has been a significant change in the thoughts of people at the site, especially over the past few years. In the past, even when they were told about inventory management and plant utilization rates, I think it was difficult for them to understand. However, thanks to the multifaceted points raised by the outside directors and the continued discussions, the concept of capital costs has become more prevalent, and we are now able to have fundamental discussions about why we need this inventory and how much we can reduce it.

It is a significant change that we can now discuss management of inventory and utilization rates from the perspective of how to optimize them for capital efficiency and long-term growth, rather than simply reducing costs.

Story about Improvement in Inventory and Gross Profit Margin

Ito: I think this was a major change in that management and corporate executives can discuss issues from the same perspectives. I also feel that this kind of real interaction enhances the quality of management and that the deepening of

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the debate has led to the current investment for growth and risk-taking.

Kusakari: Yes, exactly. As a matter of fact, since I joined as an outside director, I have pointed out how to hold inventory and gross profit margin several times.

The medical device business deals with a wide variety of products in small quantities, and having stock is not a bad thing, as a supply interruption would have an impact on medical sites and patients. However, we should always discuss how far the company can optimize the inventory from the perspective of capital efficiency and gross margin.

In fact, by asking questions such as, “Does the company really need this inventory?” and “How can the company improve the gross profit margin?” at the Board of Directors, I think this has encouraged people at the sites to rethink their operation.

Taguchi: I feel the same way. Repeated comments from the outside directors enabled us to engage in substantive discussions. As a result, I feel that a culture has taken root in which the business forefront and management work together to optimize inventories and improve gross profit margins.



Kusakari: As an outside director, I have realized that the quality of decision-making across the company has improved by bringing in both the on-site realities and the perspective of capital markets.

Sound Risk-Taking and the Challenge of Growth

Ito: What are your views on risk-taking for growth?

Kusakari: I think that healthy risk-taking means never neglecting to prepare for the future. The company should take on new technologies and markets while honing the strengths of existing businesses. In doing so, the company should actively utilize M&As and external alliances in areas where its own efforts are insufficient.

In fact, the Board of Directors has been discussing such issues as which part of the Medium-Term Management Plan this M&A will contribute to and to what extent the company can tolerate the risk of development investment. We have come to evaluate past impairment losses as a positive move and have adopted an attitude of learning from failures to move forward.

Ito: Mr. Taguchi, what is important about taking risks unique to the medical device business?

Taguchi: The medical device business is a business that should be steadily developed. Consistency with the Medium-Term Management Plan and long-term vision is the most important factor in making investment decisions. Asahi Intecc has drawn up a vision ten years in the future and laid out a concrete path for the next five years. While implementing the plan, check progress at milestones and make course corrections if necessary. This cycle is the basis of healthy risk-taking.

I think that, in addition to investment in development,



investment in human resources and global expansion will become increasingly important.

Ito: Think while running is necessary, but progress on a long-term path is exactly the attitude of current Asahi Intecc, isn't it?

I think these discussions on investment and risk taking have affected the atmosphere and relationships of the Board of Directors. Could you tell us about the actual discussions?

Discussions, Diverse Viewpoints and Atmosphere of the Board of Directors

Kusakari: The operation of the Board of Directors is based on a frank exchange of opinions and a relationship of trust. Mr. Taguchi and I have different backgrounds and different angles of discussion, but I think our goals and issues are close. For example, in the discussion of inventory, I give opinions from the viewpoint of capital efficiency and gross profit, and Mr. Taguchi gives opinions from the viewpoint of the flow line of the site and quality control. Internal directors also face questions from

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different angles with sincerity and explain why they made such decision, which will deepen discussions. After meetings of the Board of Directors, I continue discussions with Mr. Taguchi sometimes on the way home, and I feel that frankness and trust improve the quality of discussions.

Taguchi: We keep open communication not only among the outside directors but also with internal directors. By bringing together different perspectives, such as those from the site and the market, I think that our discussions become richer and our decisions are more convincing.

Ito: You say that the conversation continues even after the meeting is over. It is because you have a relationship where you can talk honestly, isn't it?

I think what you just said will lead to an evaluation of the effectiveness of the Board of Directors. What do you think about the effectiveness in the first place? We believe that the effectiveness of the Board of Directors has been improved by actually discussing the nature of the Board of Directors, both inside and outside the Board of Directors, rather than through a questionnaire. What do you think? Also, in terms of effectiveness, are there any issues that need to be discussed additionally?

Evaluation of Effectiveness of the Board of Directors and Future Challenges

Taguchi: I believe the effectiveness of the Board of Directors is high. I do not think that a simple survey alone is very meaningful in terms of evaluation. It is important that a culture that values actual results and changes has taken root, such as the current discussion among the directors. I think the strength of Asahi Intecc today is that different viewpoints deepen discussions and improve the quality of decision-making.

Kusakari: I think so, too. I feel that the board is just in transition right now. We are in the process of transitioning from an advisory board to a monitoring board, and while either one is not necessarily better, I think we should move to a monitoring board if possible.

Currently, the company has the Nomination and Compensation Advisory Committee alone, but I think there are some topics that need to be discussed further in the future, such as risk management and management succession plans. As long as the company has set ambitious goals in its Medium-Term Management Plan, changes in the execution system will be required, and I feel that the company needs to begin preparations for this.

Taguchi: What I feel the most is the so-called succession plan. Whether the Board of Directors or the Nomination and Compensation Advisory Committee should discuss it, I think a succession plan is an important topic for the Board of Directors. I also think there should be more discussion on human resources strategies related to that.

Ito: It seems that discussions on the transparency of the organization and the development of human resources for the future will become more and more important.

Future Challenges and Prospects (Human Resource Development, Globalization, and Successor Development)

Taguchi: One of the major themes going forward is human resource development. With the expansion of overseas bases, the company needs to increase the number of people who can manage locally. It is important to develop global human resources in a systematic manner by establishing career development plans for the younger employees. Human resources strategy is a long-running theme, but it is essential for sustainable growth. I think this has already been developed within the company, but I feel there is room for more active discussion.



Ito: In fact, the executive side recognizes that this is a major issue, and each organization is already working on it through trial and error. However, from an outside perspective, it is difficult to see what is being done and how. I think it is important to have transparency that allows us to discuss things openly.

Taguchi: Succession plan should be thoroughly discussed by the Nomination and Compensation Advisory Committee, but the so-called human resources strategy — what kind of company Asahi Intecc wants to be and what kind of human

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resources it wants to develop — is as important as the business strategy.

The current Medium-Term Management Plan focuses on business strategy, but I feel that discussions on the company's future vision and human resources should also be more open. Human resource education is a very long-running topic. For example, in order to grow to a size of 300 billion yen in the future, it is essential to expand overseas bases. The company must cultivate human resources who can be entrusted with local operations. It is important to develop global human resources systematically from a young age by establishing career development plans.

This human resources strategy is a very important theme for the management of the company, but I feel that there is little discussion on it by the Board of Directors.

Kusakari: In connection with the development of successors, I believe it is important to deepen discussions not only within the Nomination and Compensation Advisory Committee but also within the entire Board of Directors to prepare for the future management structure. In addition, with regard to human

resources, the other day at a dinner meeting with members of the Board of Directors, I heard an episode about how the Medium-Term Management Plan was incorporated into the business sites, and I felt that the things that had been dictated in the head up until now were gradually permeating the sites. However, it is difficult to see these efforts from outside, so I think it would be better if more explanations and information were given. Also, when it comes to building relationships with overseas doctors and opinion leaders, institutional investors have pointed out that the company excessively relies on the chairman. In fact, I have been told that there should be more diverse efforts by establishing doctor relations in an organized manner, but what is the actual situation?

Ito: Such misunderstandings often occur not only in doctor relations but also in IR activities themselves. Management is an operation of organizations. Supported by underpinning organizations, the company can make IR effective. With the company now having grown to such a large scale and content, it is not possible for an individual to bear all the responsibility. I think the public perceives the person giving

the explanation as being responsible for everything, which leads to a superficial view of image first. On the other hand, the president is aware of such misunderstandings, and he works to convey the true state of the company by expressing more opinions from the sites and organizational efforts in IR. At any rate, we would like to further deepen discussions on human resource strategies, succession plans, and global human resource development.

Kusakari: You are right. In order to improve the quality of management, I think it is essential for future growth to deepen discussions on the three issues of strategy, organization, and human resources together.

Ito: Lastly, do you have any message for those who read this report?

Kusakari: I would like to show shareholders how Asahi Intecc is increasing corporate value through the steady implementation of the Medium-Term Management Plan. I want all employees to take pride in the fact that Asahi Intecc supports medical care around the world and take on the challenge of expanding their roles in the face of globalization.

Taguchi: Asahi Intecc has grown significantly over the past 20 years as a manufacturer of medical devices. The company is one of the few medical device manufacturers in Japan that can compete globally, and I believe it has the potential to achieve sustainable growth in the future. As an outside director, I would like to contribute to the successful implementation of the new Medium-Term Management Plan with an eye to the long-term vision 10 years ahead.

