

04 | Financial Strategy



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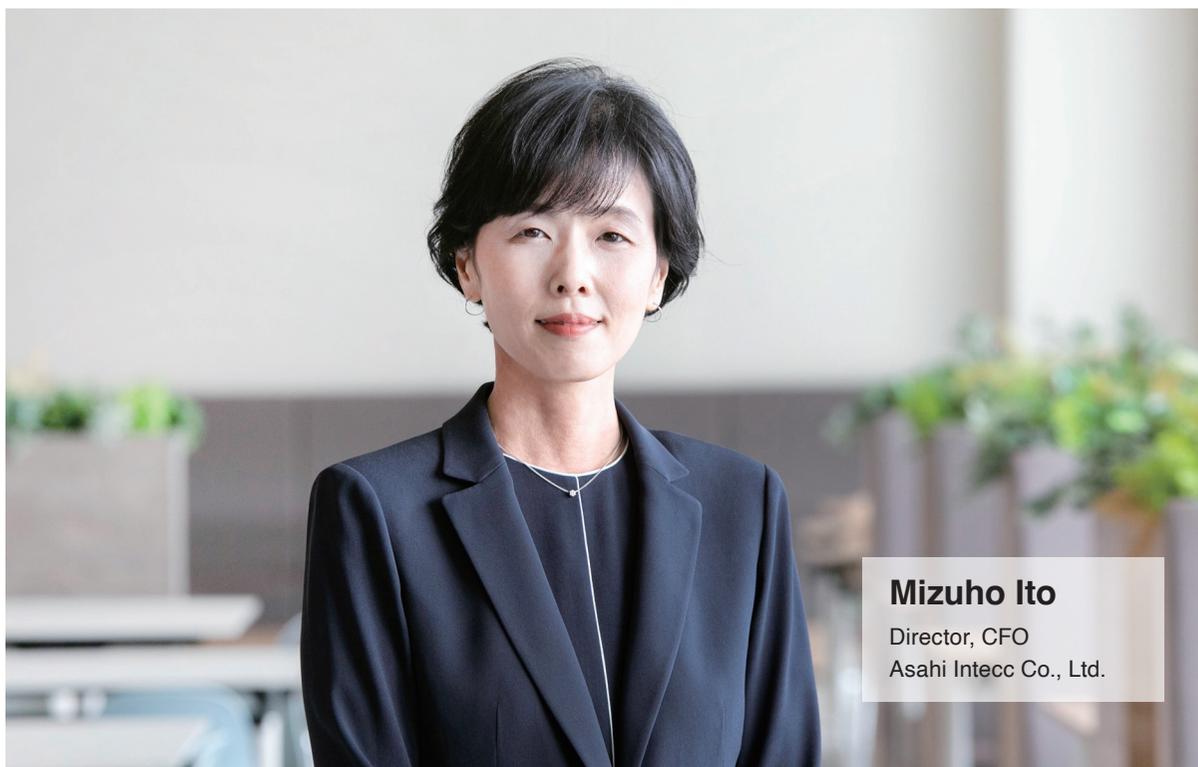
4-1 Dialogue between CFO and Outside Director

Free cash flow to grow to re-expansion phase

Progress of the management structure toward the new growth stage

Message from the CFO

To enhance corporate value, it is necessary to utilize financial and non-financial capital to achieve sustainable growth in cash flow and improve capital efficiency. In order to achieve this, it is important to improve cash flow and optimize strategic resource allocation, strengthen management mind-of capital cost, and improve management quality and transparency through active dialogue. I will explain these in the Interview Dialogue and the Financial Strategy page below.



Mizuho Ito

Director, CFO
Asahi Intecc Co., Ltd.



Interviewer:

Takahiro Kusakari

Outside Director
Asahi Intecc Co., Ltd.

Achievement of the Medium-Term Management Plan ahead of schedule and factors behind it

Kusakari: Our target was to achieve consolidated revenue of 110 billion yen in the fiscal year ending June 2026, and you expect to achieve that target ahead of schedule in the fiscal year ending June 2025. Let me confirm the factors driving this achievement.

Ito: The basis of the current Medium-Term Management Plan was to expand the global market share of the existing cardiovascular guidewire and catheter business as a basis for growth, to drive business performance by promoting globalization in non-cardiovascular areas such as peripheral vascular, neurovascular, abdominal vascular and gastrointestinal systems, and to lay the foundation for entering various business areas, including the field of robotics, as a seed for long-term growth. This basic strategy remains unchanged.

At the beginning of this Plan, we believed that the COVID-19 pandemic would soon end. In that sense, we faced a difficult period in the middle of the current Medi-

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um-Term Management Plan due to changes in external factors, including the prolonged COVID-19 pandemic. However, in the latter half of the Plan, the COVID-19 pandemic came to an end, and we were able to steadily increase our global market share, and with the support of foreign exchange rates, there was the possibility of achieving our goals ahead of schedule.

Currently, we have some challenges such as sales of non-cardiovascular products, which is one of our key strategies, having been slower than initially planned to penetrate hospitals and other customers, and still being in the middle of entering new business and requiring further evolution. However, I believe that we can continue to expand our business performance as a growing company by leveraging our company's technological capabilities. We will announce the next Medium-Term Management Plan when it is certain that we can achieve the target ahead of schedule.

Improvements in cash flow

Kusakari: I would like to ask about cash flow. Currently, cash flow is finally improving. I understand that the deterioration in cash flow to date has been due to a combination of various factors, in addition to stock-piling for the MDR. Would you please summarize and explain the reasons?

Ito: Certainly the figure of free cash flow plus dividends turned red (see page 57), and our cash flow has been worse over the past several years, owing to an increase in capital investment, including upfront investment, and an increase in irregular inventories.

For these past several years, owing to the COVID-19 pandemic, the number of cases of catheter treatment decreased, and our company had difficulties in selling products and increasing market share because we were limited in our access to medical sites and were not able to conduct sales activities. However, we thought that as the COVID-19 pandemic was temporary, and in the future, the number of cases would recover and increase, and that it would be possible to further increase market share by resuming sales activities, etc. Therefore, even during the COVID-19 pandemic, we intentionally made upfront capital investments and invested various upfront expenses for future growth without restrictions.

In addition, inventories temporarily increased significantly over the last several years owing to a variety of factors, including the securing of safety stocks to respond to distribution concerns caused by the COVID-19 pandemic, increased inventories at EU sales bases and factories that ship directly to the EU in order to prepare for the risk of the EU revised Medical Device Regulations (MDR), and other factors.

I think the combination of these irregular conditions made free cash flow worse.

Kusakari: In the fiscal year ended June 2024, cash flows finally started to improve, and a sense of security spread in the stock market. At the Board of Directors, too, we discussed the fact that even if P/L was good, cash flow was not good, the analysis of the cash conversion cycle,

and what was necessary to solve cash flow issues. I think the voices of institutional investors surely reached the board.

Ito: Yes, that's right. Even if our P/L was good, cash flow has been bad for the last few years. I believe that this deterioration was caused by both temporary factors and structural factors, so we needed to distinguish them, share a common understanding, and properly discuss them. We tend to think that as long as the P/L is good, it is all right, but I think that the Board of Directors has become more aware of the need for improvement of cash flow after discussions on the comparison with other companies, the comparisons with our past figures within the company, and the direction of improvement in light of our company's unique advantages, including the cash conversion cycle. I believe that this has been accelerated also thanks to the



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strong supporting opinions of outside directors such as you, Mr. Kusakari.

From the fiscal year ended June 2024, the figures in free cash flow plus dividend payments improved. This improvement of cash flow resulted from the completion of a series of equipment investments such as the expansion of R&D bases and the establishment of a production plant capable of responding to future revenue goals of up to 150 billion yen, as well as the reduction of excess inventories to an appropriate level at once due to signs of relaxation of the EU MDR.

We revised the content of equipment investments during the fiscal term, so that the amount of the initial plan, which was somewhat excessive, was reduced. Analysis and judgment based not only on P/L but also on B/S and C/F are gradually spreading.

Capital allocation

Our idea for appropriate capital allocation towards sustainable enhancement of corporate value

Kusakari: What do you think as CFO about the strategy and future trends for cash flow, especially free cash flow? We disclose the capital allocation. But I'm afraid that investors' view may change if they become concerned that the company may limit its strategic investments owing to the increase in the dividend payout ratio and the reduction in borrowings.

Ito: While the capital allocation is described on page 54, we think that our highest priority for the use of funds is strategic investment such as equipment investments and

M&A for business growth. Since our company is a growth company, I believe that strategic investment of funds to sustain this policy is of utmost importance. Therefore, there is no idea of narrowing down strategic investments. As for the reduction of borrowings, originally, our company had intentionally increased its foreign currency-denominated liabilities to hedge against foreign exchange. However, owing to the recent rise in interest rates on foreign currency borrowings, we have been working to reduce the foreign currency-denominated liabilities by reviewing and improving foreign exchange exposure. Therefore, it is not intended to reduce strategic investments.

We have a scheme in which if we need to make strategic investments that exceed our cash reserves at hand, we will be able to flexibly increase our yen-denominated interest-bearing debt, so please rest assured.

As for the dividend payout ratio, we decided to raise it in June 2024 because it became more certain that the cash flow for the fiscal years ending June 2024 and 2025 would improve stably. We plan to further raise the dividend payout ratio if we expect continued improvement in cash flow. We think that the financial strategies should not be considered in a uniform way for the present and future, but should always be adapted to the circumstances at the time, while also considering balance and responding flexibly. It is difficult to easily promise to buy back shares or raise the dividend payout ratio when cash flow is deteriorating, and I thought that our first priority would be to clearly demonstrate that we could improve cash flow.

As for the financial strategies, I have realized there are truly diverse opinions through dialogue with investors. This comes from the differences in visions between a short-term perspec-

tive and long-term perspective, differences in perception of whether a company is a growth company or a mature company, and differences in opinions, including comparisons with other companies under portfolio responsibility. I feel investor opinions are very varied.

We will listen carefully to the opinions of our investors, and we will consider what we can do to enhance our corporate value, with the management at the center, and respond accordingly.

About the new management structure

Kusakari: By the way, there was a sudden change in president in September 2024. What was the reaction within the company? What changes have you seen?

Ito: Certainly, it was a sudden change, so I think especially the employees were surprised.

Even from close up, I've seen that the president's job is extremely demanding, so if he's not in perfect health, he can't do it. Also, I believe that the chairman (the former president) himself was concerned about his poor health and made the heart-wrenching suggestion to change the president in order to avoid slowing down the company's growth.

Our employees understand well that both the chairman and the president have discussed various important issues as representative directors, and immediately after the replacement, the president and the chairman (the former president) gave a thorough explanation about the replacement directly at a meeting of management of the entire Group, which I believe employees feel easy about.

The new president comes from the founding family and he has not only led the company with strong leadership,

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but also values the organization, I think. As you know, while our group is growing rapidly, it is already too big for the top management to keep track of everything. As we further enhance our corporate value, I believe that such good balance will come into play.

Implementation of a management conscious of capital cost

Kusakari: The Tokyo Stock Exchange announced “Implementing management that is conscious of cost of capital and stock price,” and I believe that this issue has been increasingly discussed at the Board of Directors. Then, let me ask about how you discuss, advance and manage this matter at the Management Executive Committee, etc.?



Ito: First, after the announcement by the TSE, we began to disclose the capital costs on IR and use them in the dialogue with institutional investors. At the Board of Directors, we discuss the status of dialogue with institutional investors, the growth expectations exceeding the cost of capital, and the developments in equity spreads, etc.

At the Management Executive Committee, we mainly discuss the KPI management from the perspective of corporate execution and management. In January 2024, the Management Executive Committee was established with the future separation of management and execution in mind. Up until now, the Board of Directors has been the same as the Executive Committee, but outside directors have pointed out that discussions are too meticulous and that the structure of the Board should be changed so that

the management and execution functions are separated, which would lead to further changes in the organization. However, it is difficult to separate management and execution right away, so I think we are now in a transitional period.

Also about ROIC and ROE, which are KPIs of our company, I understand that they are the indicators that institutional investors place importance on when making investment decisions. I feel that discussions on these KPIs with institutional investors have increased considerably over the last few years. There are elements to improve ROIC and ROE, and we are developing them as ROIC

trees. (See page 54.) Their further breakdown has been discussed at the Management Executive Committee and is one of the matters for consideration. Now it is possible to monitor this on a monthly basis, so we will proceed with deeper analysis. In addition, not only at meetings of the Management Executive Committee, but also on a daily basis, we use the net present value (NPV) method and the internal rate of return (IRR) method and apply the capital cost of every fiscal year to examine profitability. Management that is conscious of capital costs is taking root.

Changes in profit margins and their improvement

Kusakari: As mentioned at the first part of the current Medium-Term Management Plan, the target revenue is already expected to be achieved ahead of schedule. What do you think of the profit margin target? I guess there were certain unexpected situations, including the external environment such as COVID-19 pandemic. Do you expect it will improve in the future?

Ito: Over the last five years, the gross profit margin has been on a downward trend due to an increase in capital investment resulting from upfront investment, the impact of the COVID-19 pandemic, and, most recently, production adjustments to reduce inventory. However, in the fiscal year ending June 2025, these factors finally came to a halt, and the gross profit margin will start to rise. In addition, the SGA ratio increased owing to upfront investment in sales and the enhancement of the quality assurance system. However, we believe that as these efforts

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are coming to completion, the SGA ratio will not continue to rise as before.

In our company, the marginal profit ratio is naturally high, and we have a structure in which an increase in revenue tends to have a mass-market effect and the profit margin increases. For the fiscal year ending June 2025, we are forecasting high growth rates of 10% in revenue and 20% in operating profit compared to the previous fiscal year, assuming the same exchange rate as the previous fiscal year. (See page 53.)

As a result, if there are no irregular elements, we believe we can steadily achieve the 23 to 25% operating profit margin of the Medium-Term Management Plan, and we intend to do that.

Kusakari: The new Medium-Term Management Plan was

discussed at the Board of Directors meeting just the other day. Is there anything you can say about it?

Ito: Right now, it is under consideration and various discussions are underway.

We will continue to make upfront investments mainly in development to launch new business, but I believe that earnings from existing business will also grow steadily. In addition, as I mentioned earlier, the upfront investment, including equipment investment, has run its course, and we are already entering the payback period. So, the income amount and rate in existing businesses should improve. We are also considering new business on an ongoing basis. As for the past M&As, too, it is necessary to respond flexibly to various changes in the environment occurring during the PMI process. As a baseline, our company is a growing company, and in order to sustain its growth, it is

important to constantly invest in development and upfront investments. Strategic options that can be implemented using cash on hand, including improving cash flow, are certainly expanding.

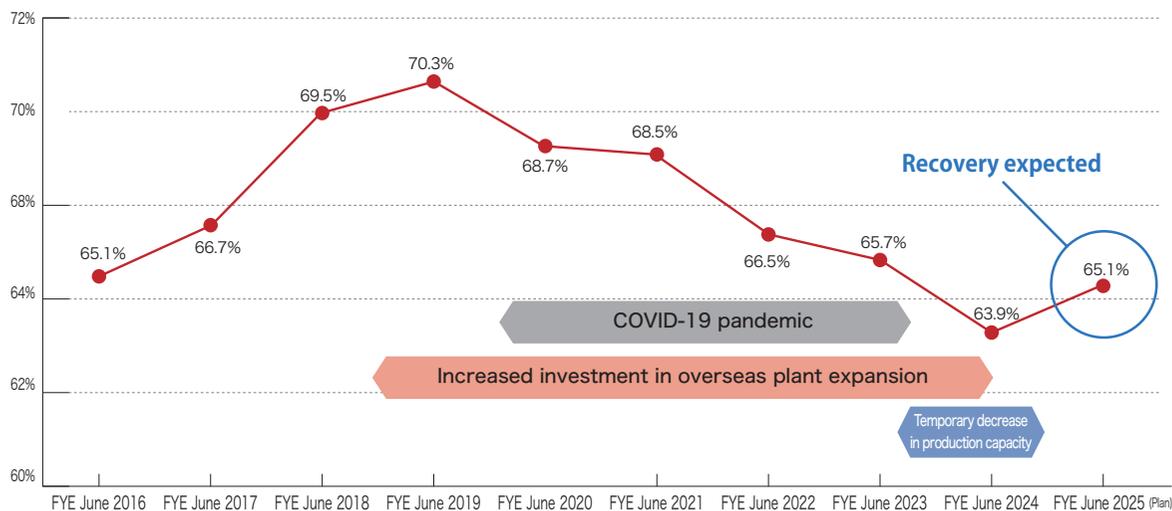
We are thoroughly reviewing various aspects such as sales strategy, production strategy, patent strategy and personnel strategy, led by the new president and executives, including outside directors, so please give us a little more time.

ESG initiatives and governance

Kusakari: What are the challenges of your ESG initiatives?

Ito: Regarding the environmental issues, we have already disclosed Scope 1-2-3 on a global basis, but we are entering the phase of implementing Scope 1-2 in particular in terms of reduction per unit of production. Environmental protection initiatives have become widespread on a daily basis, but strategic decisions will also be required in the future. The EU's CSRD (Corporate Sustainability Reporting Directive) is also a thorny issue. As for society, as the social environment is constantly changing, so I think it is important to keep up with it. The enhancement of diversity, including the participation of women, is an enduring issue, but we are implementing various programs (see page 81) with the aim of increasing the ratio of female managerial positions, mainly in Japan, and will continue to promote them. With regard to governance, although we have received comments from outside directors that the evaluation of the effectiveness of the Board of Directors is appropri-

Changes in gross profit margin over the past 10 years assuming same exchange rates (using the rate of the FYE June 2025 Plan for all the years)



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FYE June 2025 Plan and year-on-year change (using the unified rate same as FYE June 2025 Plan)

	Actual results for FYE June 2024	Plan for FYE June 2025	Year-on-Year		When using the unified rates
			Change	Change rate (%)	Year-on-Year
					Change rate (%)
Revenue	107,547	116,737	+9,190	+8.5	+10.2
Operating income	22,135	25,210	+3,074	+13.9	+19.1
Operating income margin	20.6	21.6	+1.0	-	-

ate, there are a number of issues that we are improving while flexibly considering, such as the extent to which the separation of management and execution should be advanced, the ideal form of the Nomination and Compensation Committee, and the ideal form of group governance in an expanding company. Since it is not beneficial to increase only the number of systems to hedge against risk, we will have to respond flexibly while identifying essential items and priorities to increase corporate value.

Kusakari: You talked about governance. What are your thoughts on cooperation with outside directors? This is my second year since I became an outside director, and the president and other directors respond sensitively to the opinions of outside directors. So, I feel that there are many opportunities to recognize the value we provide as outside directors.

Ito: I believe that the cooperation between inside

directors who are on the executive side of our company and outside directors is deepening every year. As for the decision-making structure, discussions with outside directors have led us to decide to promote the separation of management and execution, and I think the voices of outside directors at the board meetings have become increasingly active. To be honest, as the executive side, I sometimes find it difficult, but on the contrary, I think it is because outside directors are functioning. Outside directors have their own specialties and characteristics, so it is important for them to function in a balanced manner, and their balance seems to be well maintained.

In governance, the effectiveness of the Board of Directors is called into question, but I feel that our board is essentially meaningful in the sense that we always exchanging frank opinions rather than making a superficial response to a questionnaire.

However, both outside directors and internal directors on the executive side are keenly aware that there are still many issues to be resolved. Our mutual purpose is how we can provide value to increase corporate value, so we would like to work together without leaving out that common purpose.

Finally, about the Integrated Report

Kusakari: As the general manager who is in charge of compiling the Integrated Report, please tell me the highlights of the Integrated Report 2024.

Ito: Last year, as we were promoting new business development, the previous Integrated Report 2023 was prepared with the aim of providing a better understanding of the strong leadership of the former president and the ideas leading to these strategies. This year's Integrated Report 2024 has been structured in such a way that, in addition to the succession of leadership by the new president, we want to show that we have strong human resources who support the organization in various fields.

In our last two integrated reports, we included frank discussions with investors in the form of interviews, and we received positive responses. We hold more than 200 meetings a year with institutional investors, and we place importance on always having opportunities for dialogue.

Our Integrated Report may be more voluminous than other companies', but our basic policy is to strive to provide comprehensive content that covers all the information which we see investors want to know through the meetings.

We believe that there is still much room for improvement, so we would like you to continuously give us your frank opinions and comments.

We look forward to your continued support.

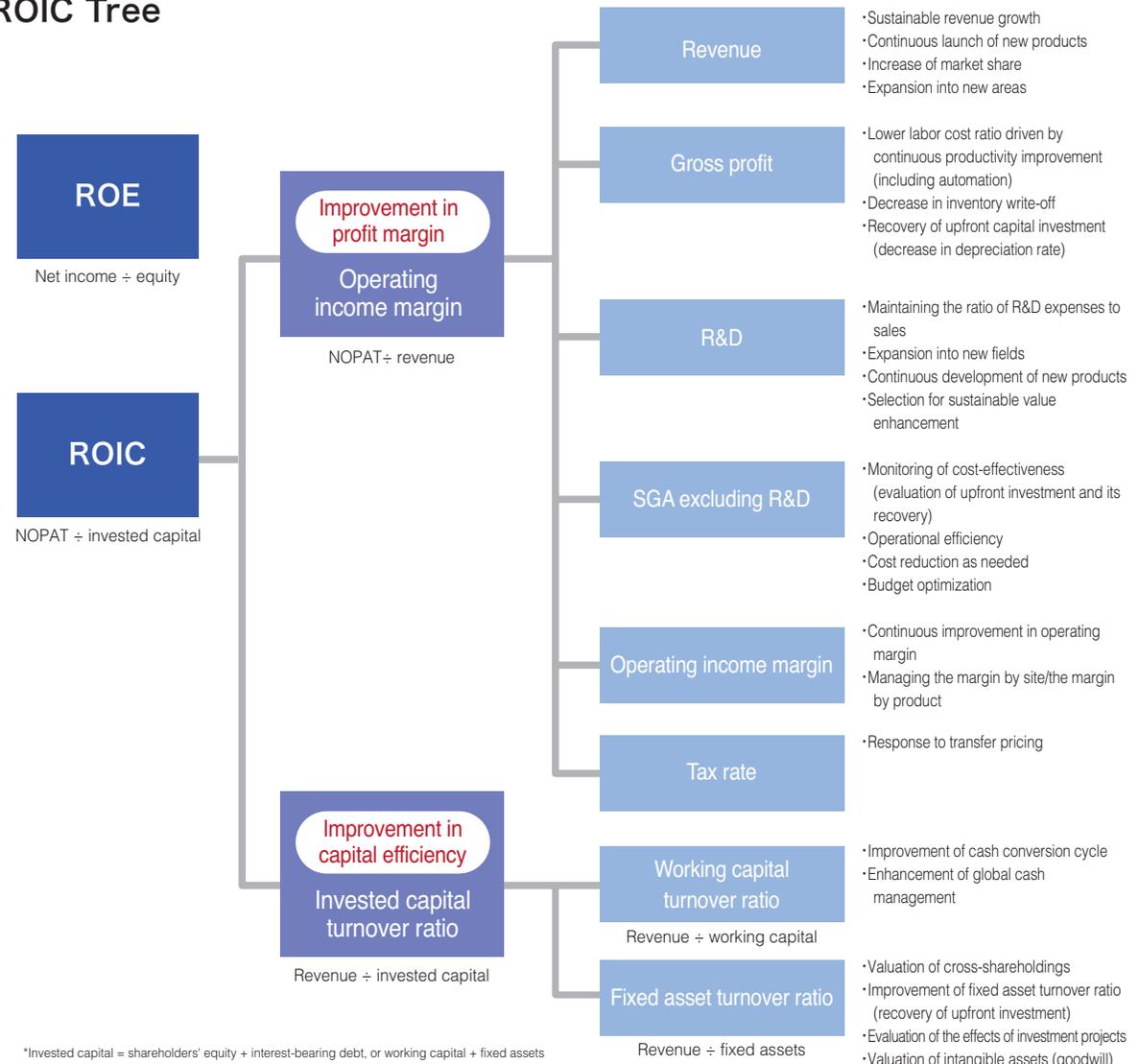
4-2 Financial Strategy

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.

ROIC Tree



*Invested capital = shareholders' equity + interest-bearing debt, or working capital + fixed assets
 *Working capital = trade and other receivables + inventories - trade and other payables

4 - 2 Financial Strategy

» Capital allocation

Based on the strategies incorporated in the Medium-Term Management Plan "ASAHI Going Beyond 1000", in addition to the growth of existing business (cardiovascular and non-cardiovascular fields), we are also promoting the launch of new business and are actively laying the groundwork for further growth, exceeding the final-year target of 110 billion yen in revenue 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

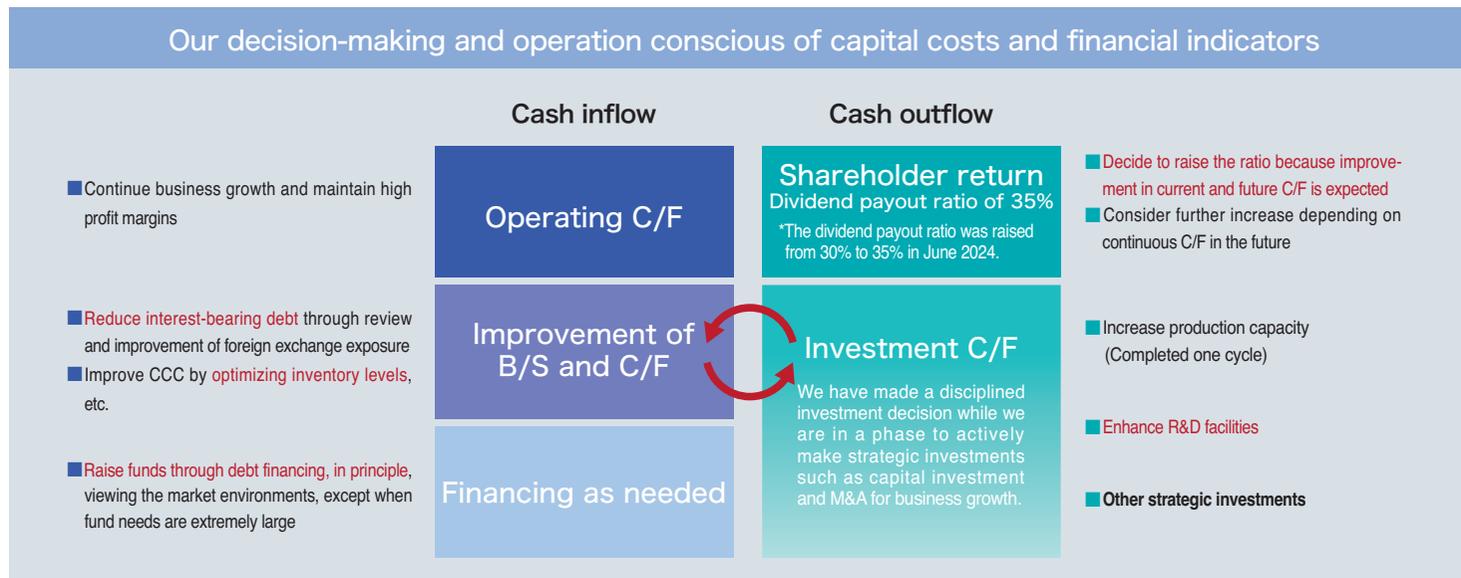
M&A, capital investments, and R&D investments. Amid this backdrop, while emphasizing the balance between growth and financial strategies, we consider capital allocation providing for discipline and distribution of funds for cash flow for growth as follows.

This capital allocation was reviewed flexibly through dialogue with institutional investors.

As the source of funds is cash on hand and operating cash flows, we strive to improve our ability to generate funds and efficiency.

To improve the 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.



4 - 2 Financial Strategy

» Our Group's Key Management Indicators and Capital Costs

Our Group's key management indicators are revenue, operating income, and operating income ratio. The operating income ratio is currently set at 20%, and the EBITDA (operating income + amortization of goodwill + depreciation) ratio, which is the key performance of management, is set at 30%. We intend to improve these ratios and set new targets and to present them at the disclosure stage of the new Medium-Term Management Plan.

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% in addition to exceeding the cost of capital, and we aim to improve them. We believed that the use of shareholders' equity plus interest-bearing debt as invested capital did not accurately reflect the actual situation of our Group because our interest-bearing debt increased owing to foreign currency borrowings for the purpose of currency hedging. Therefore, we calculated ROIC using working capital plus fixed assets as invested capital. However, owing to the recent rise in interest rates on foreign currency borrowings, we reviewed our foreign exchange exposure and significantly reduced our foreign currency borrowings. Therefore, for future ROIC, we will apply and disclose the approach using shareholders' equity + interest-bearing debt as invested capital, too, as a closely watched indicator, in addition to the current ap-

proach using working capital + fixed assets.

The weighted average cost of capital (WACC) of our Group is considered to be 6.3% as of FYE June 2024. 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 profit 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

Typical ROIC (liability-based ROIC) = NOPAT ÷ (interest-bearing debt + shareholders' equity)

NOPAT = Operating profit x (1 - statutory tax rate (currently 30.6%))

Interest-bearing debt = Total amount of borrowings

Shareholders' equity = Equity (Net assets - non-controlling interests)

Changes in management indicators

	Basic Level	FYE June 2022	FYE June 2023	FYE June 2024	Factors
Operating income margin	-	19.6%	20.0%	20.6%	
EBITDA margin	30% (standard)	29.2%	29.7%	29.6%	
ROE	10% or more	10.2%	10.4%	11.2%	Increased owing to improved profits regardless of increase in equity capital
Asset-based ROIC	10% or more	10.9%	10.7%	12.1%	Increased owing to decrease in inventories and increase in advances received
Liability-based ROIC	-	9.1%	9.0%	10.1%	Increased owing to improved profits
WACC	-	5.0%	5.5%	6.3%	See the below.

Breakdown of capital cost

		FYE June 2022	FYE June 2023	FYE June 2024
Disclosed capital cost		5.0%	5.5%	6.3%
(1) Weighted cost of equity	Share ratio (approx. 99%) x (a + b x c)	4.90%	5.52%	6.28%
Risk-free rate: a	Adjusted 10 year JGB interest rate average for five periods	0.07%	0.14%	0.35%
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	0.824	0.913	1.000
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%

4-2 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 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.

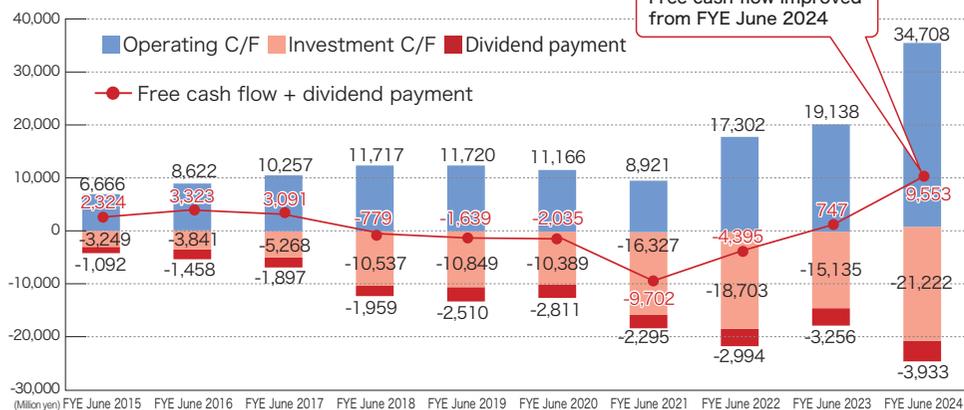
In the past few years, free cash flow temporarily declined owing to active investment in facilities and M&As, as well as an increase in inventories resulting from compliance with the relevant pharmaceutical regulations. However, in view of the fact that the upfront investment in capital investment and the increase in inventories have run their course and that further business expansion will enable cash flow from operating activities to cover the cash flow of investments and the payment of dividends in the future, we reviewed the consolidated dividend payout ratio

considering it is important to further improve the return of profits to shareholders and to expand our shareholder base. From the payment of dividends from retained earnings for the fiscal year ended June 2024, we have decided to raise the consolidated dividend payout ratio from a target of 30% to a target of 35%. If cash flow is expected to remain stable in the future, we will flexibly consider reviewing the dividend payout ratio.

We have determined the amount of the current dividends by comprehensively taking into account the consolidated performance for the current fiscal year, future business prospects, the level of internal reserves, and other factors from a long-term perspective, while aiming for a consolidated dividend payout ratio of 35%. 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.

See page 139 for the financial summary.

Change in free cash flow + dividends



Change in dividend per share and consolidated dividend payout ratio

