



Chapter 4

Financial Strategy

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Through dialogue with investors, we aim to achieve sustainable growth while keeping balance sheet management in mind.

Ito: Since the public listing, we, Asahi Intecc, have put importance on investor relations (IR) by, for example, emphasizing investor opinions in the Check process of the PDCA (Plan-Do-Check-Action) cycle in our business. I believe that our company's growth to this point is the result of responding to valuable advice, including the critical opinions of investors.

Hyogo: As an analyst and fund manager for healthcare, I have been in charge of your company since its listing, and I evaluate Asahi Intecc as one of the companies that have been able to achieve sustainable profit growth despite changes in the external environment. In general, high-growing companies often neglect IR activities because they tend to place their priority on management resources. Asahi Intecc, however, has emphasized communication with investors from the stage when the market capitalization was small immediately after listing, and I think this has led to your current large market capitalization. I would appreciate it if you could tell me how Asahi Intecc is going to grow from the CFO's point of view.

Equity Financing in April 2021

At this equity financing, we again keenly felt the need for discussions and communication with investors, including financial strategies.

Ito: Our strategy to achieve growth based on our technological capabilities has not changed. We began by acquiring a share of the Japanese market in the cardiovascular field, and then expanded the therapeutic area to include the peripheral, abdominal, and neurovascular fields. At the same time, we expanded the market area from Japan to overseas in two dimensions. The 5 year Medium-term Management Plan aims to achieve revenue of over 100 billion yen, but we need to further expand our business fields in order to become a company with revenue of 200 billion to 300 billion yen. In addition to existing businesses in the cardiovascular and non-cardiovascular fields, we aim to achieve sustainable growth by expanding into next-generation smart treatments such as those in the gastrointestinal field and the robotics field.

Hyogo: For achieving the sustainable growth you just mentioned, your company did equity financing in April 2021. We were very disappointed with your issuance of stock acquisition rights by way of third-party allotment although you have a high capital adequacy ratio and ample cash.



Institutional Investor

Mitsubishi UFJ Trust and Banking Corporation
Chief Analyst, Asset Management Department
& Chief Fund Manager (Domestic Stock)
Mr. Shinichiro Hyogo

CFO

Asahi Intecc Co., Ltd.
Director, General Manager of Administration Division
General Manager of Corporate Strategic Office
Mizuho Ito



Investors seemed to perceive as a negative surprise your choice of equity financing while you were able to raise funds through internal reserves and borrowings. I personally think that you should not have taken this approach or that there might have been a different option. Please explain the background of this financing.

Ito: It is important to make concentrated investments in growth businesses under a clear business strategy and management vision. I think you all know that there are many cases where, after 10 years, the corporate value of a company that has been aggressively investing for growth while raising funds is several times that of a company that has not done so.

In our new Medium-term Management Plan, we have established our priority strategies "Strengthen profitability of existing Businesses" and "Create new businesses," and we are now in the phase where strategic growth investments are necessary to achieve these goals. As part of this, we

bought four domestic and overseas companies through M&A on July 1, 2021. In light of the cash flow situation at that time and in the midst of M&A projects with fixed deadlines, we had determined that the flexible method of the third-party allocation of stock acquisition rights financing (sustainable FITs) was suitable for equity financing. There were heated internal discussions about the financing, including borrowing and general public offerings, as well as how the financing would be viewed by investors and whether it was really necessary at that time in the first place. We place great importance on our M&A strategy for future growth. This time, in addition to the M&A funds, we raised approximately 24 billion yen, including funds that can be used for long-term capital investment such as the construction of a research and development building. This amount of approximately 24 billion yen represents a little more than 30% of our Group's consolidated revenue and has a significant impact on us. This decision was made by the Board of Directors based on comprehensive consideration of these circumstances, the then-current cash flow situation where there were a large number of upfront investment projects in terms of growth strategy, and the importance of having cash on hand raised during M&A. Project members, including both inside and outside members, conducted case studies of how stock prices moved when other companies adopted similar methods, quantitative evaluations of cash management, prediction of how investors would respond to it, and then studied and discussed it, including from objective viewpoints. The financing was completed in July 2021, ahead of the originally anticipated deadline, thanks to greater demand from investors than expected.

As you pointed out, we are aware that there are various opinions, including those for and against, and we truly recognize that it is important to steadily realize corporate growth in order to repay the debt of gratitude to our stakeholders and those who support our investment.

Hyogo: There seems to be a slight discrepancy from the perspective of focusing on IR as you mentioned at the beginning of this interview. In view of your company's technological capabilities and overseas expansion capabilities, we believe that investors have recognized that organic growth is capable of achieving medium- to long-term growth and that equity financing is not necessary for the foreseeable future. I think you have spent a lot of time discussing the P/L and C/F statements. In fact, we believe that the lack of dialogue with investors regarding the balance sheet (B/S) led to a negative surprise. What do you think about that?

Ito: We have more than 200 interviews with institutional investors annually, but they mainly discuss our growth strategy and profit growth, and I think only a few investors discuss B/S. I think the discussion is about a structural matter that if earnings improved every term and P/L increased, B/S would improve as a result.

Of course, we place importance on the balance between our financial health and growth strategy, but on the other hand, as a company we want to have the opportunity to enjoy the benefits of being listed on the market. It may be perceived negatively by investors who have conflicting interests, but that is an eternal theme.

However, if you think "No way! Asahi Intecc", we can

certainly say that we should deepen our discussions with investors. I believe that this has further raised awareness of the importance of dialogue with investors, particularly the need to enhance dialogue from a perspective we have not discussed in the past.

As for the balance sheet strategy, there are factors that change flexibly from time to time because we choose equity or debt in light of the stock price situation, the external environment such as market conditions, foreign exchange rates and interest rates, our financial health, and the nature of investment projects. However, we need to properly communicate our basic idea to investors, and I would like to actively promote dialogue with them going forward.

As a result, we received a lot of valuable opinions from investors and other stakeholders, which gave us a lot of new awareness and helped us reorganize our financial strategy. This interview is one of them.

Hyogo: In some time you may need to raise funds again in order to aim for further growth in the future. As an investor, I hope that the companies acquired by you through the M&A will generate synergy effects and contribute to the business performance, and that you will surely have dialogue with investors about your balance sheet strategy. By the way, this time you chose equity financing instead of corporate bonds or borrowing, but I think the scheme was very difficult to understand. The number of shares has been fixed, but I think it affected the supply-demand balance. There may be timing and hurdles, but I personally think that a public offering was an option. What other risks had you recognized in this financing besides the risk of falling stock prices?

Ito: Immediately after this financing, we held a number of meetings with institutional investors in Japan and overseas, and received many valuable opinions. I would like to express my deep gratitude for your frank opinions in the IR meetings held thereafter. Hearing these opinions, I thought that I had fully understood the necessary points to be noted in this financing, but I realized that investors' lack of familiarity with the method of sustainable FITs was greater than I had imagined, and that we should have given a careful explanation about it. There were rumors that stock acquisition rights-type financing is the method that companies with difficulty in raising funds tend to choose. However, our method is different from the so-called MSCB, which you are concerned about, and is a method that can satisfy our company's needs for financing and recapitalization while gradually reducing the impact on stock prices. Logically, it is also a scheme that is less likely to upset the supply-demand balance than a public offering. The recent financing was recognized in our company as a special project that involved M&A of four companies and large-scale capital investment. I am glad that we were able to advance this growth strategy project as a result. On the other hand, through discussions with investors thereafter, we have come to realize something new, which made us look back from a comprehensive perspective. Given that there are various financing options available, I have become more keenly aware of the importance of taking into account the external environment, such as the macroeconomy, and making decisions that are appropriate to each situation.

At the time of listing on the JASDAQ in 2004 and the Second Section of the Tokyo Stock Exchange in 2005, we sold new shares through a public offering. After that, we disposed of a small number of our own shares, but since listing on the JASDAQ, we have hardly conducted any large-scale financing. That's why I think investors were surprised. Going forward, too, we will not make an easy decision to finance all of our fund needs through equity financing, and we will make a firm decision based on the views of our stakeholders.

Hyogo: Again, I think the lack of sufficient dialogue on capital allocation led to negative surprises in addition to the issues with financing methods. As CFO, what do you think about your capital allocation scheme in the future?





Ito: As a result of the equity financing of this time, we have maintained our financial health at an overly sound level. Therefore, if the amount of long-term capital investment or growth investment is extremely large, the possibility of adopting the equity financing method is not zero at all, but I don't think we should give priority to equity financing. This time, the magnitude was large, but I think there will be an opportunity to promote growth strategies by flexibly changing the mindset of the company, which emphasizes not only growth strategies but also financial strategies. We have received high praise from investors in IR just because our Group is in a growth stage. As in the past, I believe it is of paramount importance to show the results of our sustainable growth.

Hyogo: I would like to ask you to take flexible measures, not to make easy equity financing because you need funds, but to consider the optimal capital structure, including the

use of debt financing.

Ito: I see. This time too, including the internal discussion process, it was not an easy decision, but I think we should respond flexibly, including debt financing.

M&A Strategy

Focus on synergies while assessing business potential towards management more aware of growth potential and financial balance

Hyogo: In the recent financing, I felt that the growth time frame assumed by Asahi Intecc and that assumed by investors did not always coincide. Then, I would like to ask you again, in your M&A case consideration, how long is the recovery period and how much is the capital cost? And if there are any cases that you, as CFO, have rejected for financial reasons, could you tell me about them?

Ito: The recovery time in M&A will vary depending on the type of project: longer term for technical projects, shorter term for sales projects. Of course, it doesn't mean that no matter how long a technical project takes. We have high profit margins and a fair market capitalization, but our finances are smaller than those of competitors, so we have to be financially disciplined. When considering M&A, we focus on how the business will grow, not on expanding B/S or P/L. However, it is not always the case that M&A is the best solution if business growth is expected. Basically, we consider various points of view and apply triggers. There are relatively many projects to be considered, but we are always considering whether the scale and business feasibility are appropriate and whether it is profitable. So, of course there are some projects that were rejected. This time, four cases occurred at the same timing, but it was just a coincidence. The weighted average cost of capital (WACC) of our Group is approximately 5%. There is often a perception gap between investors and companies regarding how to think about the WACC, but I think it is important to continue discussions on this concept.

Hyogo: In general, Japanese companies often refer to creating business synergies to justify the acquisition price. As a CFO, how did you verify the synergies of the four companies before you decided on the M&A?

Ito: In principle, we considered the DCF method

(discounted cash flow method) taking future business potential into account. We conduct thorough verification and confirmation, including patterning, to determine whether we should aggressively, neutrally, or minimally view the marketability that underpins our business. Based on these basic principles, we conduct M&A while assessing the appropriateness of future business synergies. In addition, of course, we must go through the process of due diligence from accounting, tax, and legal perspectives.

Hyogo: This time, you acquired 4 companies at the same time, and I think the resources will be more widely distributed than when you do it one by one. Do you have an in-house system that can perform PMI (post-merger integration)? Please let me know if you have any problems.



Ito: By performing fair due diligence, we identify issues and prioritize how to resolve them. PMI includes organizational integration and business process integration, but our most important focus is on business synergies. Of course, governance is also important, but we must not lose the good qualities of our company, so we are thinking flexibly as necessary. However, we maintain basic governance by ensuring that, in principle, our company members are included in the management of companies merged, and that a system has been established to submit important issues to the BOD of Asahi Intecc, the parent company, in the approval authority rules.

Hyogo: Many companies use return on equity (ROE) and return on invested capital (ROIC) as indicators of efficiency. What financial indicators do you value when managing your company?

Ito: We have traditionally emphasized net sales and operating income from the perspective of growth and profitability, and announced ROE from the perspective of efficiency. As the company indicators, no more items are disclosed other than these. The reason is the structure that a high profit margin is shown in P/L, which will be reflected in B/S in the future.

While ROE is an important indicator, ROE has the disadvantage of being able to improve in the short term by adjusting financial leverage. In particular, considering that we need to raise funds for future growth through various means including borrowing depending on the amount of money, we understand the importance of being aware of ROIC. As we are required to conduct a capital-cost

conscious management, we need to be conscious of ROIC from this viewpoint, too. Given that our current WACC (weighted average cost of capital) stands at around 5%, we believe that the basic level of ROIC is around 10%. Our company is still in a growth phase, and for that purpose, we are in a phase in which we need to make up-front investments in stocks and facilities. Therefore, I think it is important to have a basic level of ROIC rather than improving it every fiscal year. We have also strategically increased foreign currency borrowings to hedge the currency risk of our foreign currency-denominated assets. As the interest rate of foreign currency borrowings is much lower than that of the currency hedging products, we believe that we have realized a profit. Given these circumstances, since "interest-bearing liabilities + shareholders' equity" does not indicate the appropriate amount of invested capital, our company is considering calculating ROIC using "working capital + fixed assets" as invested capital.

Hyogo: I think that you can further deepen your dialog with investors on finance by establishing target financial indicators. Regardless of which indicators you choose, I would like you to have sufficient dialog with investors while explaining why.

Ito: As our company regards the need to be more conscious of growth potential and financial balance as our challenge, we were able to recognize that the stage has changed from the traditional P/L management base to B/S management in the process of achieving growth. We intend to promote dialogue with investors more openly than ever, including internal discussions.

Promote Sustainability Management

Raise awareness of sustainability from both top-down and bottom-up perspectives

Hyogo: Sustainability management is becoming increasingly important these days, but I don't think there are many Japanese medical device companies that are advancing sustainability management. As they focus on growth, they may not be able to devote sufficient management resources to the development of ESG systems. Since Asahi Intecc has chosen the Prime Market, I think there are issues that need to be addressed, such as the Task Force on Climate-related Financial Disclosures (TCFD). What is your self-assessment of current sustainability efforts?

Ito: Although it is difficult to make a self-assessment, we recognize the importance of ESG through the world trend and dialogue with investors. We have incorporated sustainability and ESG concepts into our management policies as we recognize that companies promoting sustainable management will grow continuously over the long term. A few years ago, you served as a lecturer in the relevant training for our directors, didn't you? Thank you very much for your lecture. Not to mention the need to raise sustainable awareness of directors; in recent years, ESG items have always been included in management policies, and the CEO conveys a message to all employees about the importance of sustainability and ESG. As a result, awareness of the importance of ESG has increased

throughout the company.

Hyogo: In my opinion, what is important for the penetration of sustainability in a company is that employees change their awareness and become able to act on their own initiative. Although it may be difficult to penetrate the sustainability awareness within the company only by top-down, as CFO, how will you promote sustainability within Asahi Intecc?

Ito: As stated in the Management Policy, we include sustainability and ESG issues in the business plans and divisional plans, which result in a system that leads to individual actions and evaluations. ESG can be promoted in two ways: top-down approach which is accompanied by top management's decision-making, such as investment in ESG-related businesses, and bottom-up approach such as promotion of environmental activities. For the top-down approach, we would like to promote it by directly involving the Board of Directors, rather than by forming a committee. On the other hand, with regard to the bottom-up approach, we have appointed a full-time director and other staff to review priorities while identifying issues that need to be addressed.

Hyogo: Companies are required to advance governance, too, and we would like you to enhance the effectivity of governance in light of the skills matrix. In addition, we would like you to establish the promoting system in the entire company so that you can make sufficient disclosure of information on sustainability.

Ito: Presently, our organization is still small, so top-down penetration is fast, and I think it works well in terms of cross-cutting. We will also respond to the sustainability and ESG issues by developing a system that makes the most of the characteristics of the organization. This time, we prepared the Integrated Report for the first time, and we would like to brush it up gradually.

Hyogo: Your company is still growing, and there may be many issues on governance and sustainability. However, I feel that the social demands and the hurdles to be addressed regarding sustainability are getting higher every year. Whatever you can do at first, but I would like you to promote it steadily and with a sense of speed.





As for governance, it is difficult for outsiders to see how the board of directors works. If outside directors are expected to play a monitoring role, you should consider selecting diverse members.

Ito: With regard to the evaluation of effectiveness, we regularly hold direct talks with outside directors, rather than conducting written questionnaires, to gather opinions and make improvements. Our discussions are always open and frank, and we are gradually changing the structure to one that works better with frank opinions. We have disclosed the Skill Matrix since 2021, and we have had an increasing number of discussions with investors about what is missing from the current directors based on the Skill Matrix.

In order to further deepen our diversity, we feel the need to appoint a person with expertise in finance as an Outside Director based on the opinions we have received from investors regarding the recent financing, and we are working on this.

Hyogo: Since the medical field has a high level of expertise, there may be some aspects that outside directors having business experience in only non-medical companies cannot fully understand. Do you have any system to follow up on these points?

Ito: The environment surrounding medical devices is constantly changing. Our outside directors fully understand these situations and thoroughly verify the appropriateness of the decision-making process at the Board of Directors. In order for them to deepen their understanding of our business, we regularly hold dialogue between outside directors and executive directors, so that we can follow up on areas of concern and ensure that they are functioning properly.

Hyogo: What is your understanding about the roles of CEO and CFO?

Ito: A CEO plays a role of accelerator while a CFO is a brake, as is commonly said. Personally, I believe that the balance between growth and financial strategies is important, and while the CFO serves as a brake, I should not be too much of a brake. I am paying attention to how I can follow the company's growth strategy without hindering it.

It is also important to bring the investors' opinions received through IR back to the Board of Directors for discussion. Although our opinions vary from position to position, directors share the same objective of enhancing the corporate value of the company, and it is necessary to move forward while building consensus through discussion.

Hyogo: From the perspective of the division of roles, I personally think that you should have played a brake role more in the equity financing this time. I would like you to complement it by improving financial literacy as a company. Investors expect a CFO to play a check and brake role, such as considering "This CFO will never raise funds or make overly expensive acquisitions that investors won't accept."

Ito: We have some mechanisms and functions that allow us to accumulate discussions after presenting opinions, but it may be difficult to see them from the outside. Also, as our company is still in a growth phase, it cannot be denied that the decision to prioritize business becomes stronger over financial literacy as a whole. We will strengthen our governance, with your valuable comments, in cooperation with outside directors. We will continue to strive to gain understanding of our growth strategy through active dialogue with markets, and aim for sustainable growth while keeping balance sheet management in mind.

4-2 | Financial Strategy

Basic Policy for Financial Strategy

Our Group has established the Medium-Term Management Plan for 5 years through June 2026, "ASAHI Going Beyond 1000." Based on the strategies incorporated in this plan, in addition to the sustainable growth of existing businesses (cardiovascular and non-cardiovascular fields), we are also promoting the launch of new businesses (next-generation smart treatment, etc.), and are laying the groundwork for further growth, exceeding the sales target of 110 billion yen for the final year of 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 strategic investments including M&A, capital investments, and R&D investments. In order to prepare for these investments and risks, we will further strengthen the financial base by improving capital efficiency, etc., and optimally allocate funds to growth investments and shareholder returns to achieve sustainable growth and secure stable earnings, with the aim of increasing corporate value.

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 make active investments for business growth <ul style="list-style-type: none"> • 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

Our Group's key management indicators are net sales, and operating income/operating income ratio. We have also focused on ROE as a financial indicator, but from the current fiscal year, we have decided to newly establish ROIC (return on invested capital) as an indicator to mention. Amid the expansion of our Group's scale, we have recognized that we have reached a phase where we need to think about the importance of our B/S strategies through dialogue with institutional investors and that it is important to clarify that the company's stance is to seek profits in line with capital costs while being conscious of B/S. For these reasons, we will use ROIC as one of the indicators to be focused on. In our Group, we calculate ROIC by using "working capital + fixed assets" as invested capital, and the basic level is 10%.



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 important 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 and capital investment, which are essential for future growth. This way, the company will endeavor to improve its business performance and strengthen its financial position.

