

医療の現場に、未来に、安全を

**HOGY®**

# New Medium-Term Business Plan (FY2024 to FY2026)

Tuesday, July 16, 2024

**HOGY MEDICAL CO., LTD.**

Hideki Kawakubo, President and CEO

Taisuke Fujita, Director and CFO



## Notes regarding future predictions

This document contains statements about the Company's current plans, forecasts, and strategies, which are forward-looking statements about future performance. These statements are based on management's assumptions and beliefs in light of the information currently available. Therefore, readers are asked to refrain from relying solely on such statements. Actual results may differ from the statements due to various important factors.

Financial results included in this document have not been audited by an auditing firm.

<b>1</b>	-----	<b>Position of the Medium-Term Business Plan</b>	<b>P. 03</b>
		<ul style="list-style-type: none"> <li>● Our vision in 2035</li> <li>● Position of the Medium-Term Business Plan</li> </ul>	
<b>2</b>	-----	<b>Review of Business Conditions and Management Issues</b>	<b>P. 06</b>
		<ul style="list-style-type: none"> <li>● Analysis of current situation</li> <li>● Recognition of management issues and policies for resolving them</li> </ul>	
<b>3</b>	-----	<b>New Medium-Term Business Plan</b>	<b>P. 10</b>
		<ul style="list-style-type: none"> <li>● Management targets                             <ul style="list-style-type: none"> <li>- Performance targets</li> <li>- Sales target by product group</li> </ul> </li> <li>● Business strategy                             <ul style="list-style-type: none"> <li>- Response to changes in the medical environment and customer issues</li> <li>- Business strategy: Basic policies                                     <ol style="list-style-type: none"> <li>1. Review product portfolio</li> <li>2. Reform sales organization and strengthen sales force</li> <li>3. Strengthen competitiveness of core businesses</li> <li>4. Promote overseas business</li> <li>5. Create future core businesses</li> </ol> </li> </ul> </li> <li>● Financial and capital strategy                             <ul style="list-style-type: none"> <li>- Shareholder return policy</li> <li>- Cash allocation</li> </ul> </li> </ul>	
<b>4</b>	-----	<b>New Governance Structure and Sustainability</b>	<b>P. 33</b>
		<ul style="list-style-type: none"> <li>● Our value creation process</li> <li>● Non-financial targets                             <ul style="list-style-type: none"> <li>- New governance structure</li> <li>- Sustainability</li> </ul> </li> </ul>	

# Position of the Medium-Term Business Plan



## HOGY MEDICAL Corporate Philosophy

To promote good health and prosperity through contribution to medical progress

## Vision

Our vision in 2035

A company like none other, playing a part in the advancement of medical care in Japan and the ASEAN region; and

A solution provider, focusing on customers' perspectives and creating new value



Vision  
2035

### Changes in disease patterns

- Increase in complex diseases in the elderly
- Global improvement in living standards
- Management of prevention and prognosis

### Changes in medical technologies

- Acceleration of medical DX & AI
- Acceleration of telemedicine
- Acceleration toward less invasive techniques
- Acceleration of robotization

### Changes in workforce

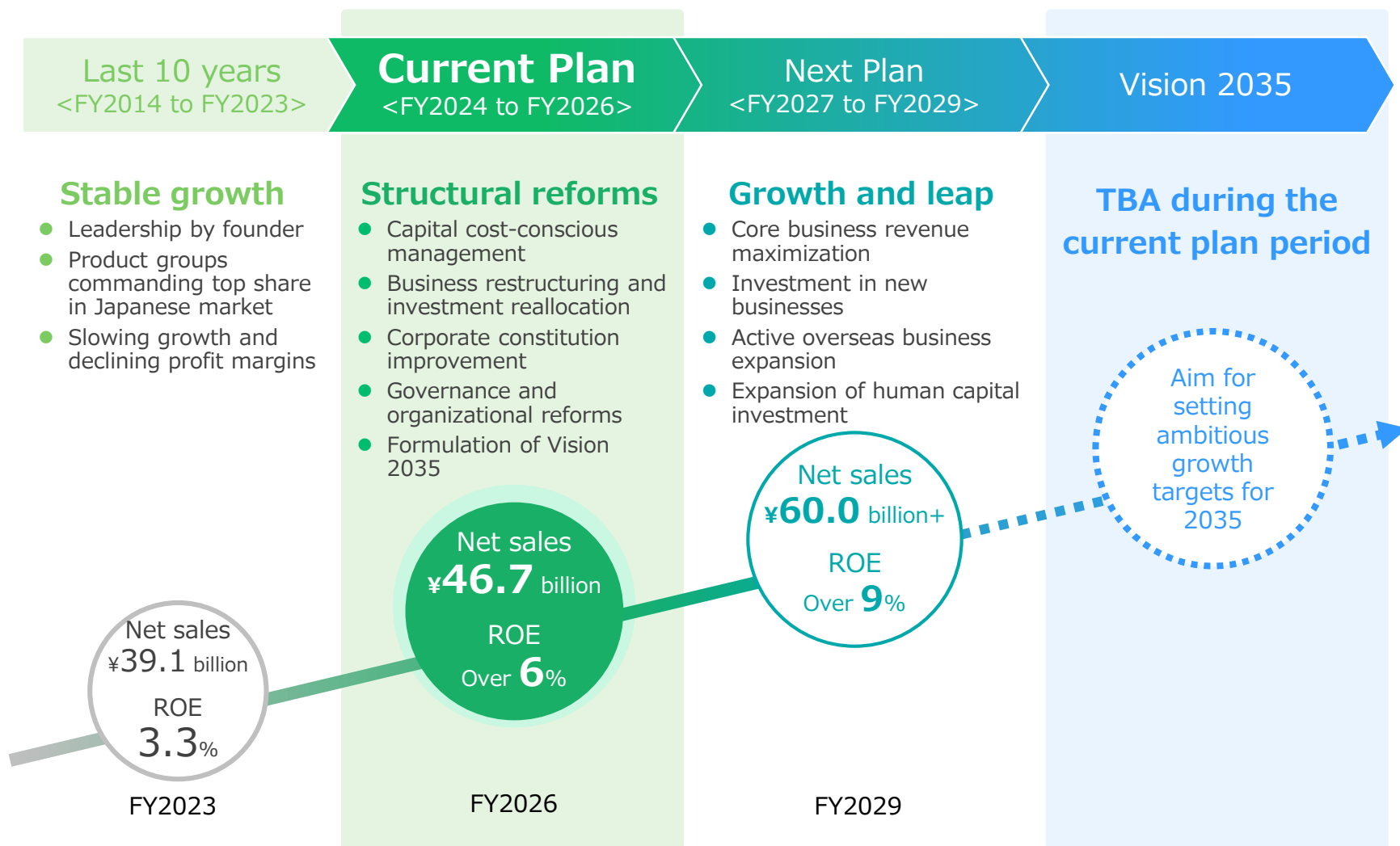
- Expansion of generation gap
- Increase in ratio of foreign workers
- Shift in emphasizing diversity

### Diversity and globalization

- Decline in Japan's competitiveness in the world
- Talent acquisition competition
- Shift in values toward emphasizing sustainability

Changes in social structure

This Medium-Term Business Plan period is positioned as a period of implementing sweeping structural reforms to create a solid business platform that will serve as the foundation for the formulation and achievement of Vision 2035.



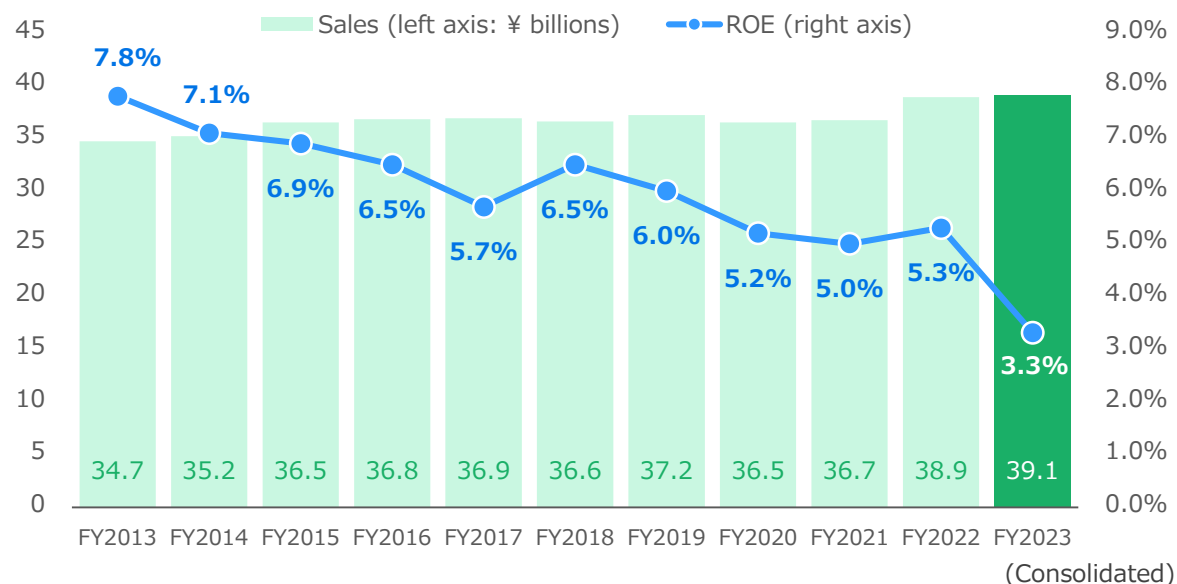
# **Review of Business Conditions and Management Issues**





# Analysis of current situation (1)

While net sales have increased slightly over the past decade, the continuous decline in return on capital has been a challenge



	¥ billions, rounded down	FY2013 (consolidated)	FY2023 (consolidated)
Net sales		34.7	39.1
Cost of sales ratio (%)		49.0%	66.6%
Operating income		8.7	4.1
Operating margin (%)		25.1%	10.7%
Sales of kit products		18.0	25.5
Shareholders' equity		72.5	79.9
ROE (%)		7.8%	3.3%

## Upside ↑

- 01 Premium Kit has grown to become a mainstay product
- 02 Sales remained steady despite decrease in surgeries due to COVID-19
- 03 Increase in production capacity with commissioning of new Tsukuba Plant
- 04 Stable operations with high capital adequacy ratio

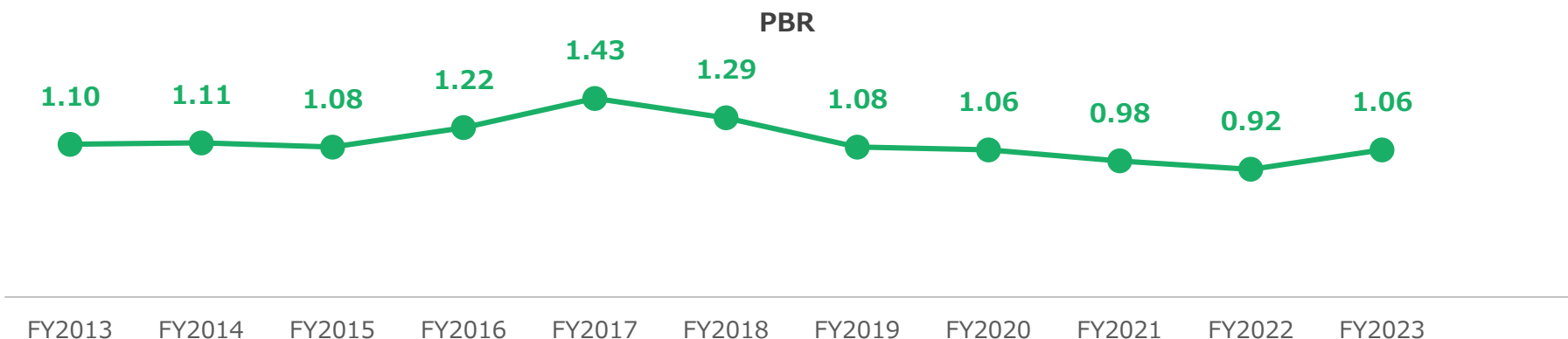
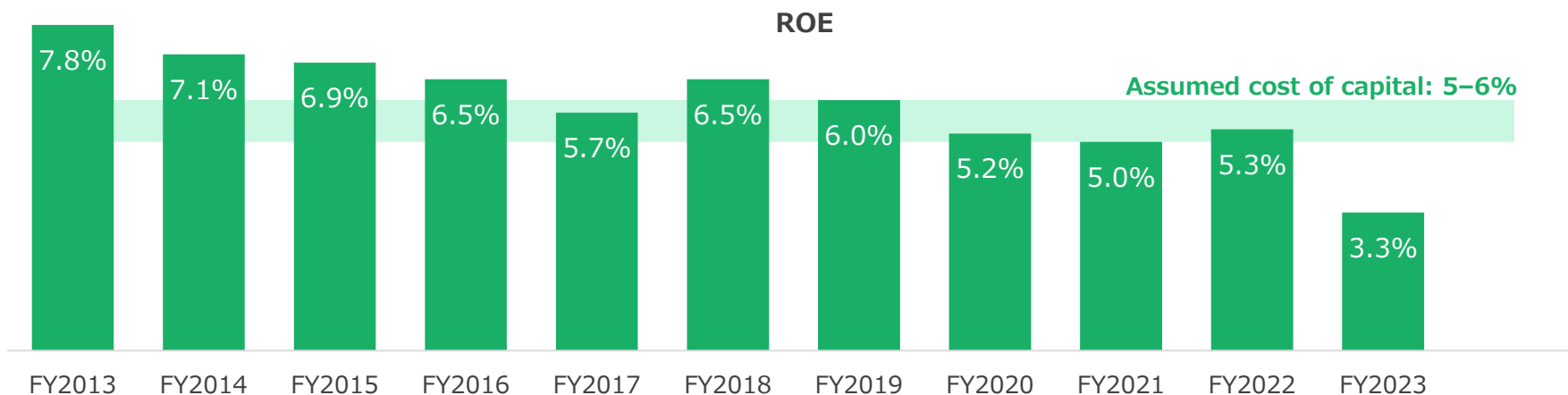
## Downside ↓

- 01 Sluggish overall sales growth and failure to achieve overseas business targets
- 02 Delayed growth in sales of next-generation products
- 03 Decline in operating margin due to weakening yen and increasing depreciation
- 04 Declining ROE



## Analysis of current situation (2)

Urgent need to restore market valuation by achieving return on capital in excess of cost of capital



In developing this medium-term business plan, we recognize the following issues to be addressed

## Medium- and long-term management issues to address

### Financial position and return on capital

- Declining ROE
- Conservative balance sheet structure
- Imbalance between capital investments and returns

### Business strategies

- Slowdown in net sales growth
- Declining operating margin
- Failure to achieve overseas business and new product sales targets

### Governance structure

- Dependence on leadership of founder
- Inadequate dialogue with stakeholders
- Need to increase incentives linked to corporate value enhancement and shareholder returns

## Basic policies for resolving management issues

Improve capital profitability/efficiency with cost of capital in mind

Ensure stable and continuous shareholder returns

Strengthen investment discipline

Reform business/product portfolio

Reform sales organization and strengthen sales force

Strengthen competitiveness of core businesses/products

Promote overseas business

Create future core businesses/products

Transition to company with Audit & Supervisory Committee to strengthen supervisory function

Increase number of independent outside directors with diverse knowledge and experience

Separate management and execution functions for quick decision-making and flexible business execution

Design transparent executive compensation system

Practice value-creating management from customer's perspective

# New Medium-Term Business Plan (FY2024 to FY2026)

---

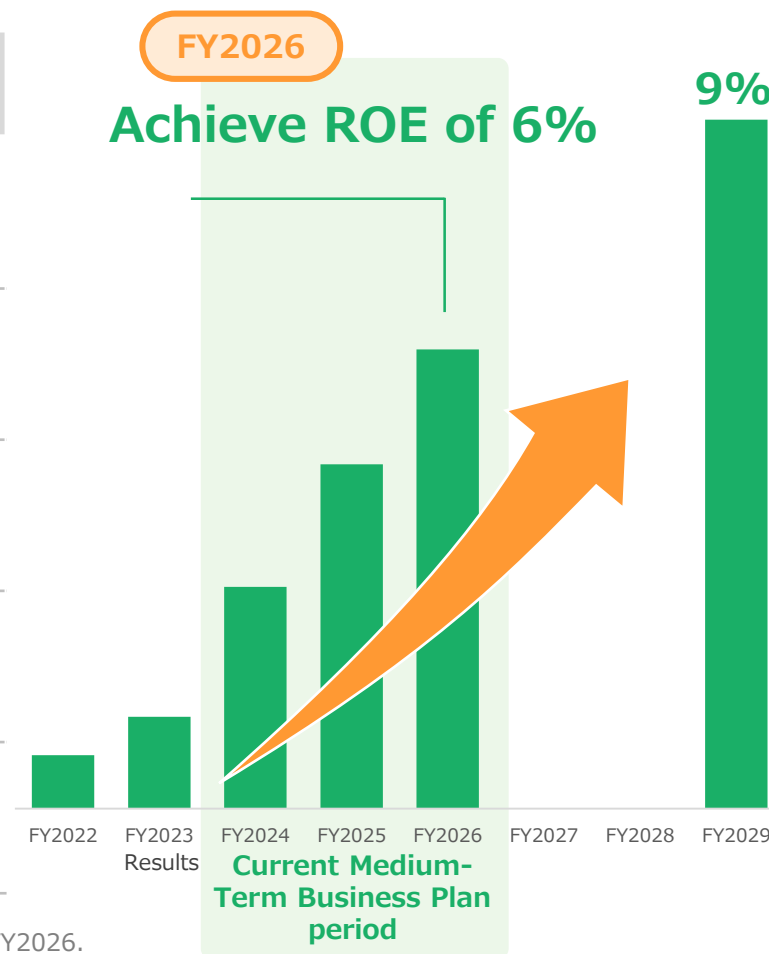


## Performance targets

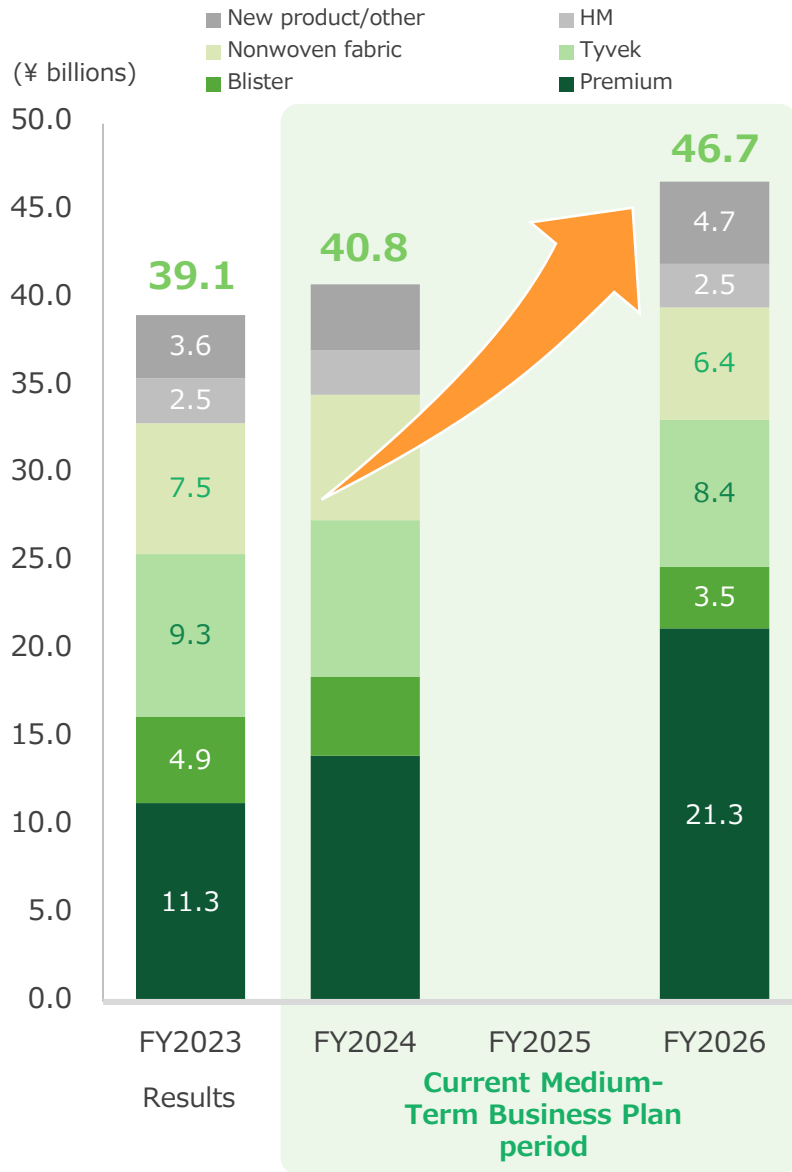
- The period of this medium-term business plan is positioned as a period of bold implementation of structural reforms, and we will carry out our business strategies by conducting various measures.
- We will implement capital measures aimed at achieving an ROE of 6% in FY2026.

¥ billion; fractions rounded down	FY2023 results	FY2024 plan	FY2026 targets	Reference
Net sales	39.1	40.8	46.7	CAGR: 6%
Cost of sales ratio	66.6%	65.6%	60.6%	− 6 ppt
Operating income	4.1	4.6	7.5	CAGR: 22%
Operating margin	10.7%	11.5%	16.1%	+ 5 ppt
Profit	2.8	3.3	5.6	—

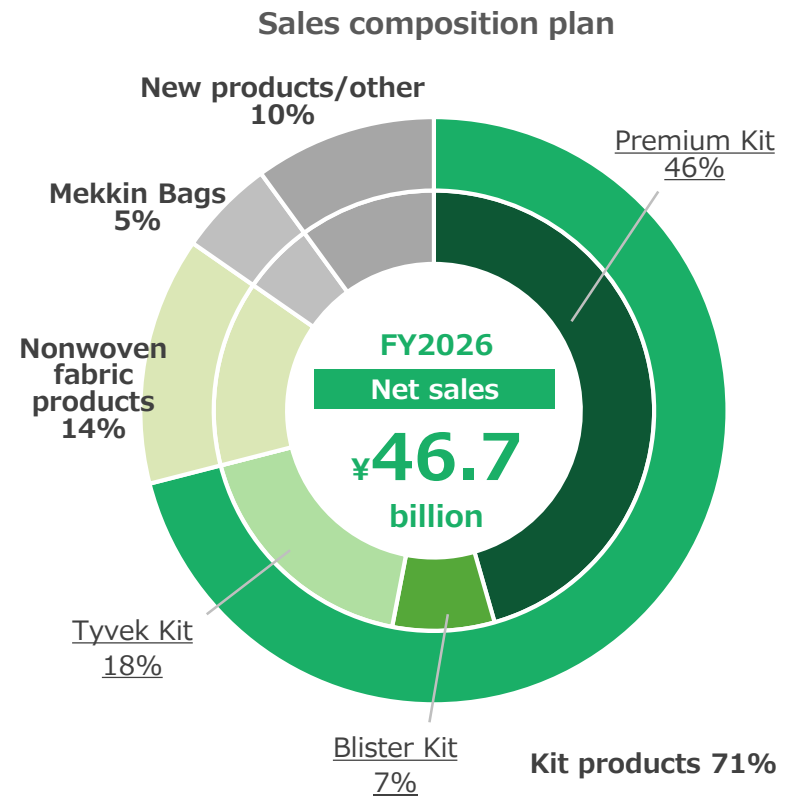
(Note) The CAGR figures represent average growth rates between FY2023 and FY2026.



## Management targets 2: Sales target by product group



- Lead growth through sale of kit products
- Aim for annual average growth over 20% for Premium Kit
- Boost sales activity for new product group aiming for sales growth contribution



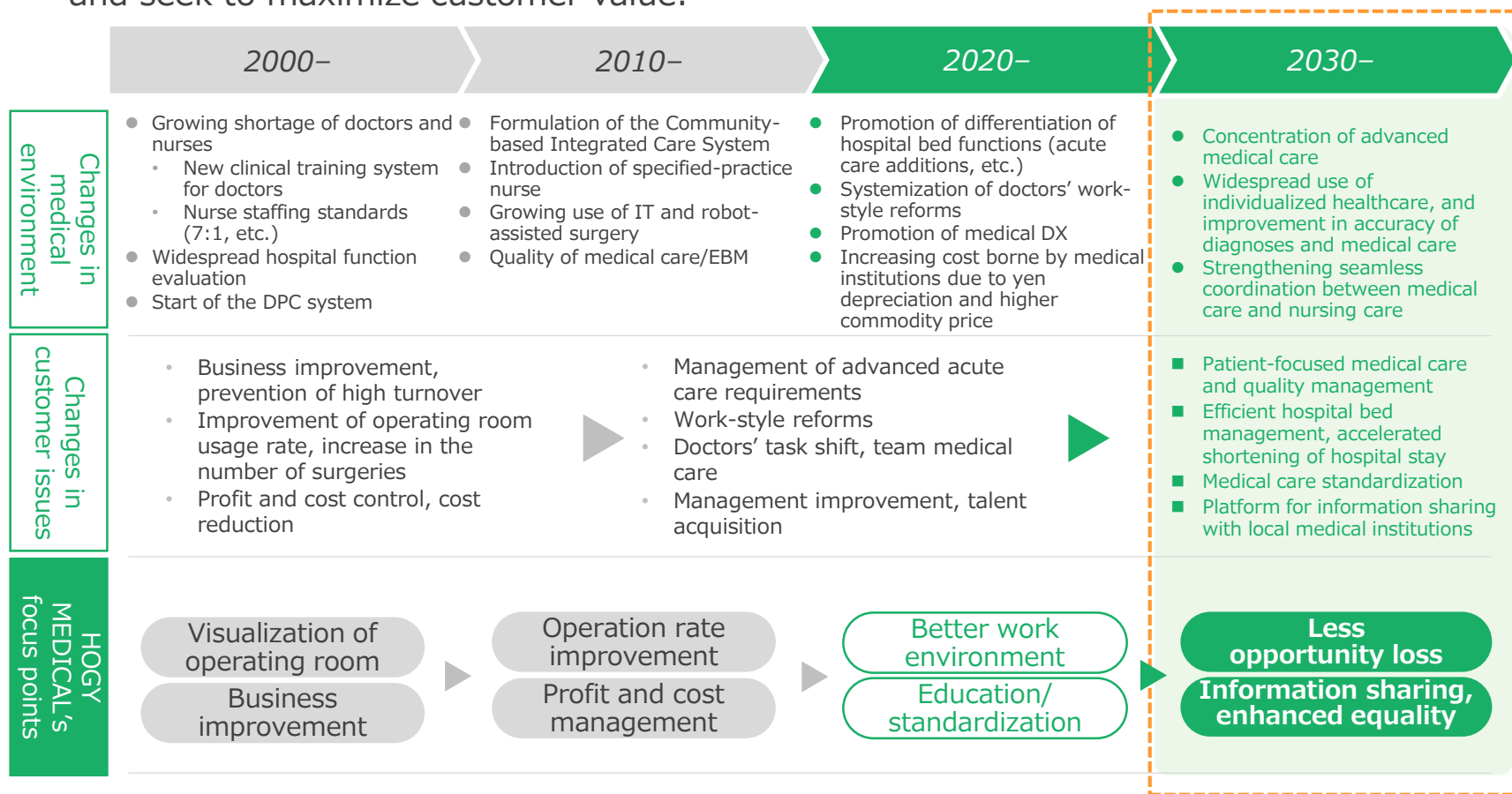
# Business Strategy

---



# Response to changes in the medical environment and customer issues

- We are always focused on the issues faced by customers and offer services that match the changing times.
- We will keep our eyes on the changing medical environment in the years leading to 2030 and seek to maximize customer value.



Items for 2030 and beyond represent HOGY MEDICAL's own conclusions based on the Ministry of Health, Labour and Welfare's Japan Vision: Health Care 2035  
<https://www.mhlw.go.jp/seisakunitsuite/bunya/hokabunya/shakaihoshou/hokeniryou2035/future/>



Implement the following basic strategic policies for business transformation and growth from the customers' perspective

### Basic policies

1

#### Review product portfolio

- Concentrate management resources on highly profitable products, such as Premium Kit
- Consider restructuring products with low profitability or have low synergies with core products

2

#### Reform sales organization and strengthen sales force

- Review sales organizational structure and redesign compensation system
- Strengthen training of sales staff
- Improve operational efficiency through digitization

3

#### Strengthen competitiveness of core businesses/products

- Strengthen emphasis on products that maximize value of Premium Kit
- Continuously reduce costs, improve productivity, and strengthen supply chain
- Improve Opera Master services
- Monetize REVICE (single-use medical device remanufacturing) business

4

#### Promote overseas business

- Focus on areas where we can develop a sales strategy that leverages our strengths (centered on SE Asia)
- Strengthen recruitment and training of local sales staff

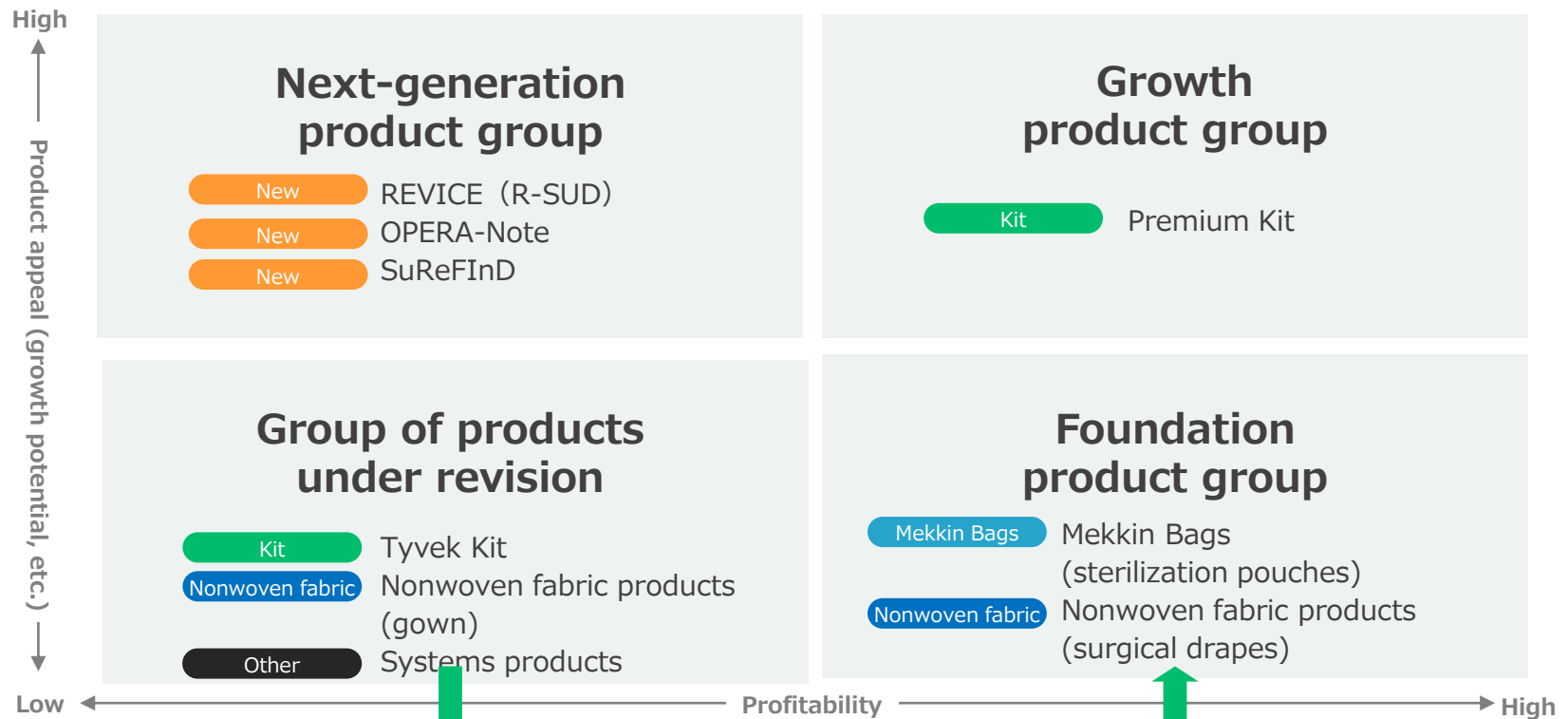
5

#### Create future core businesses/products

- Strengthen organizational structure, recruitment, and training of marketing and R&D personnel
- Create digital solution business
- Integrate existing products and digital solutions

# 1. Review product portfolio

- Allocate resources by reinforcing our product portfolio management
- Focus human resources on achieving further growth of our Premium Kit and next-generation products



## Shift from the group of products under revision to foundation product group

- Tyvek Kit: Consider reducing costs through standardization and review of production processes
- Nonwoven fabric product (gown): Consider reducing costs through unification of materials and product types
- Systems products: Rebuild approach to system and service to sort out unprofitable products

## 2. Reform sales organization and strengthen sales force —Fully leveraging sales resources

- Primarily assign sales personnel to major cities, increase sales activities at customer contact points through digital transformation, and use the time freed up to deepen contact with customers and improve the quality of proposals
- Improve our sales efficiency and increase net sales per salesperson 1.5-fold by FY2029

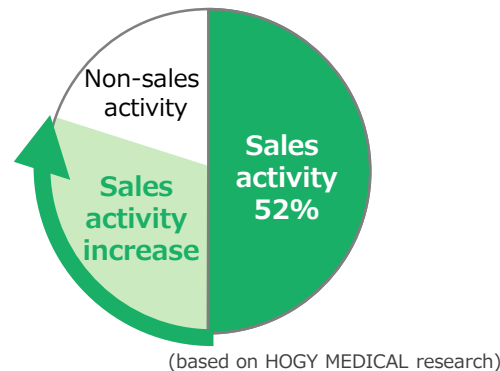
### Reallocate sales resources



- Continuous **market growth till 2040** is expected in some regions
- Focused personnel assignment** to growing major urban areas with large markets

### Increase **volume** of sales activity at customer contact points

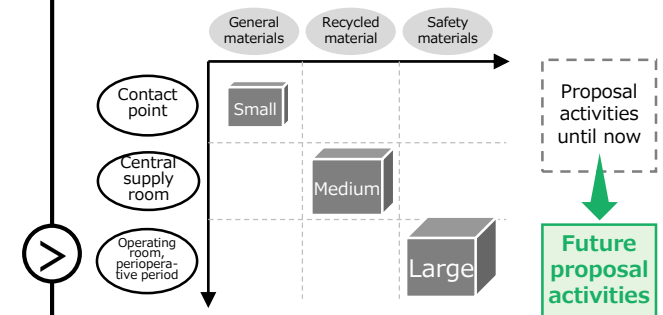
Breakdown of sales employee operations



- The increase in the amount of contracted business driven by the expansion of Opera Master resulted in a decrease of **proposal**-based sales activities
- The mobile working environment will be improved and digitized and sales support teams will be created, to increase sales activities to **75%** or more of total activities

### Deepen contact with customers and improve proposal **quality**

Breakdown of sales employee operations



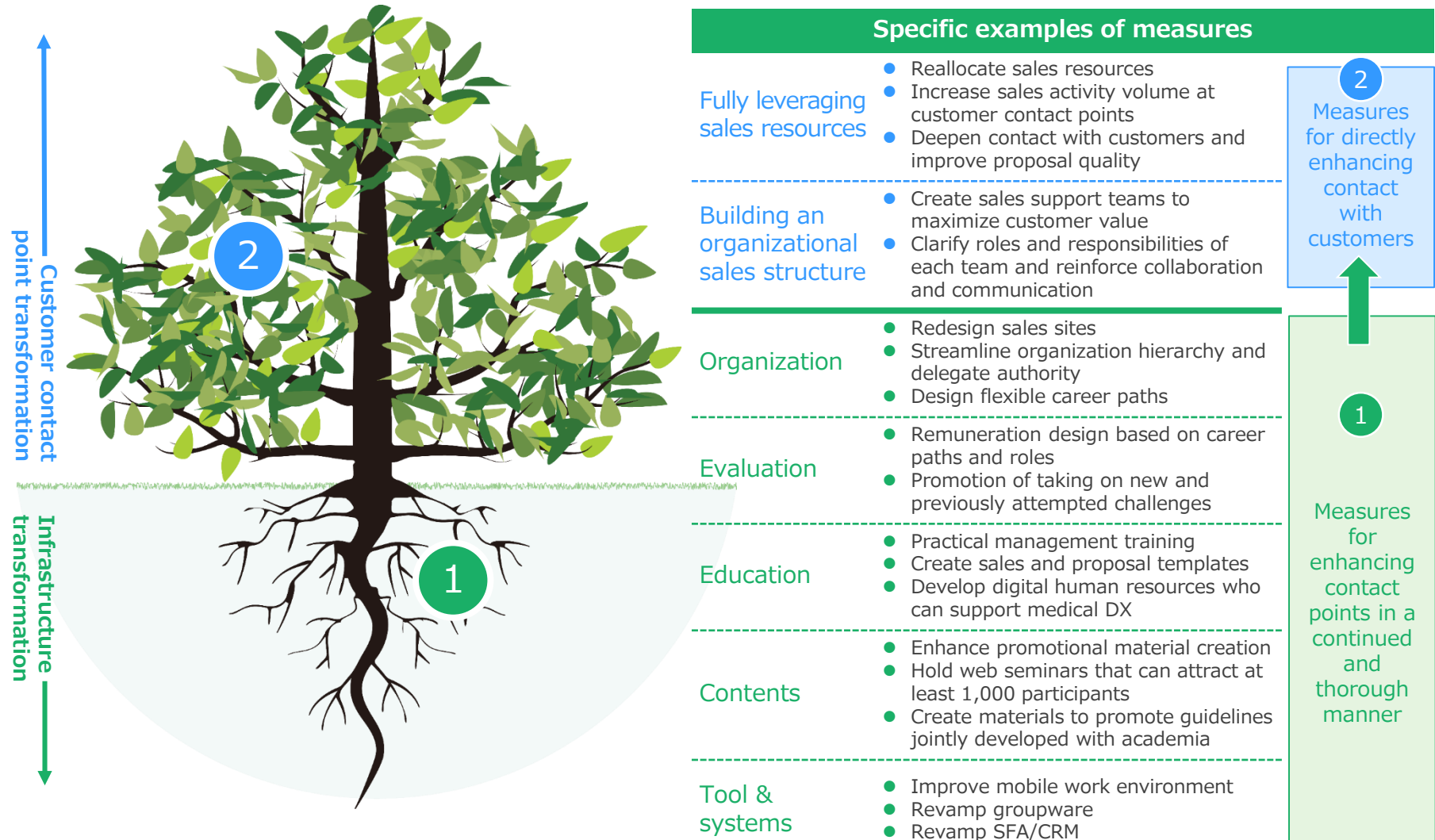
\* "Small," "medium," and "large" refer to kit size (= Amount of effort kits save customers)

- The time freed up will be used to **deepen contact** with customers and improve **proposal quality**
- Sales support teams will be strengthened to **assist with resolving customer issues** that cannot be addressed through kits alone

## 2. Reform sales organization and strengthen sales force

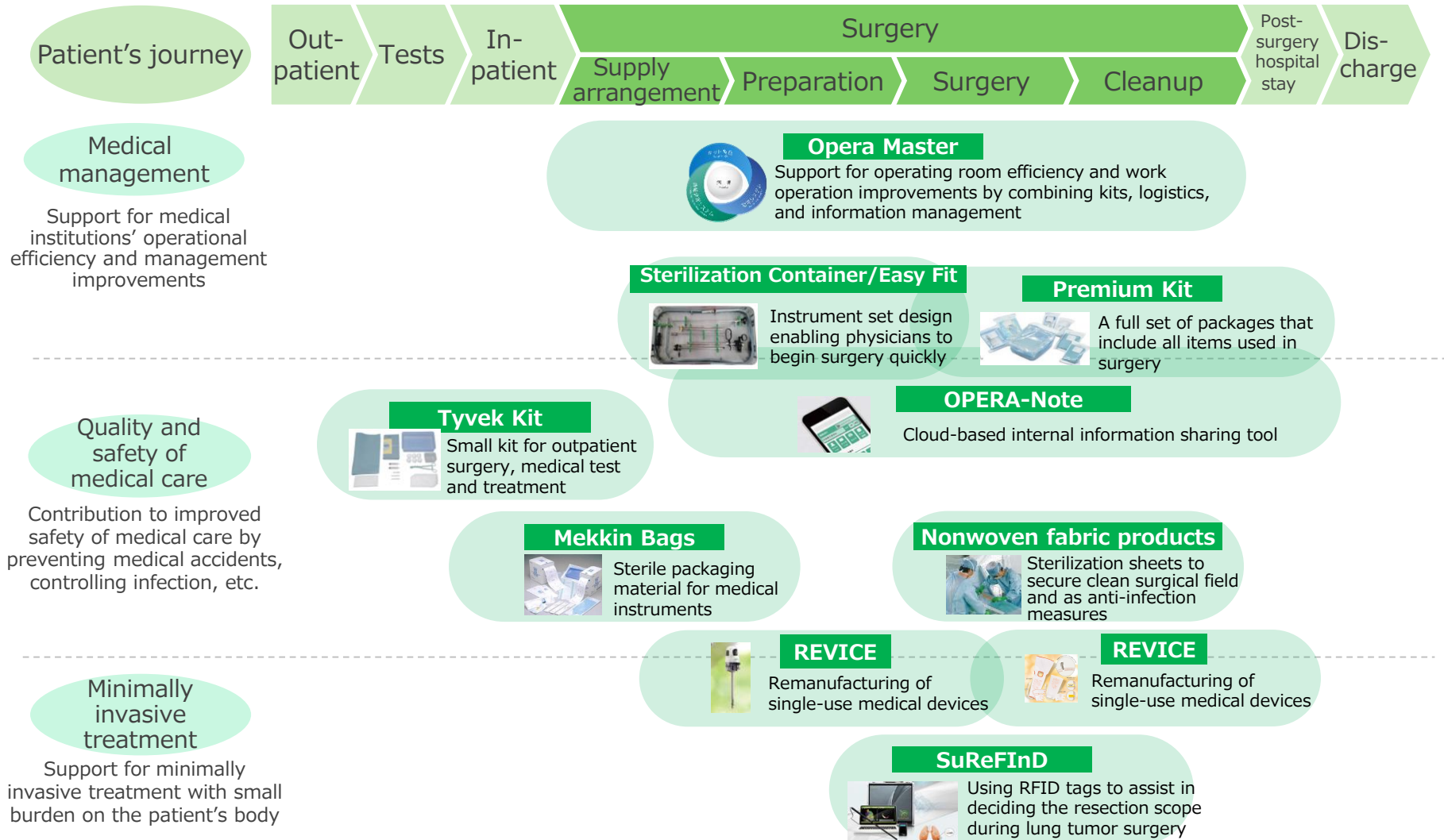
### —Sales infrastructure transformation

Transform our sales infrastructure simultaneously to continue and establish measures for directly enhancing customer contact points (fully leveraging sales resources, building an organizational sales structure)



### 3. Strengthen competitiveness of core businesses/products (solution map)

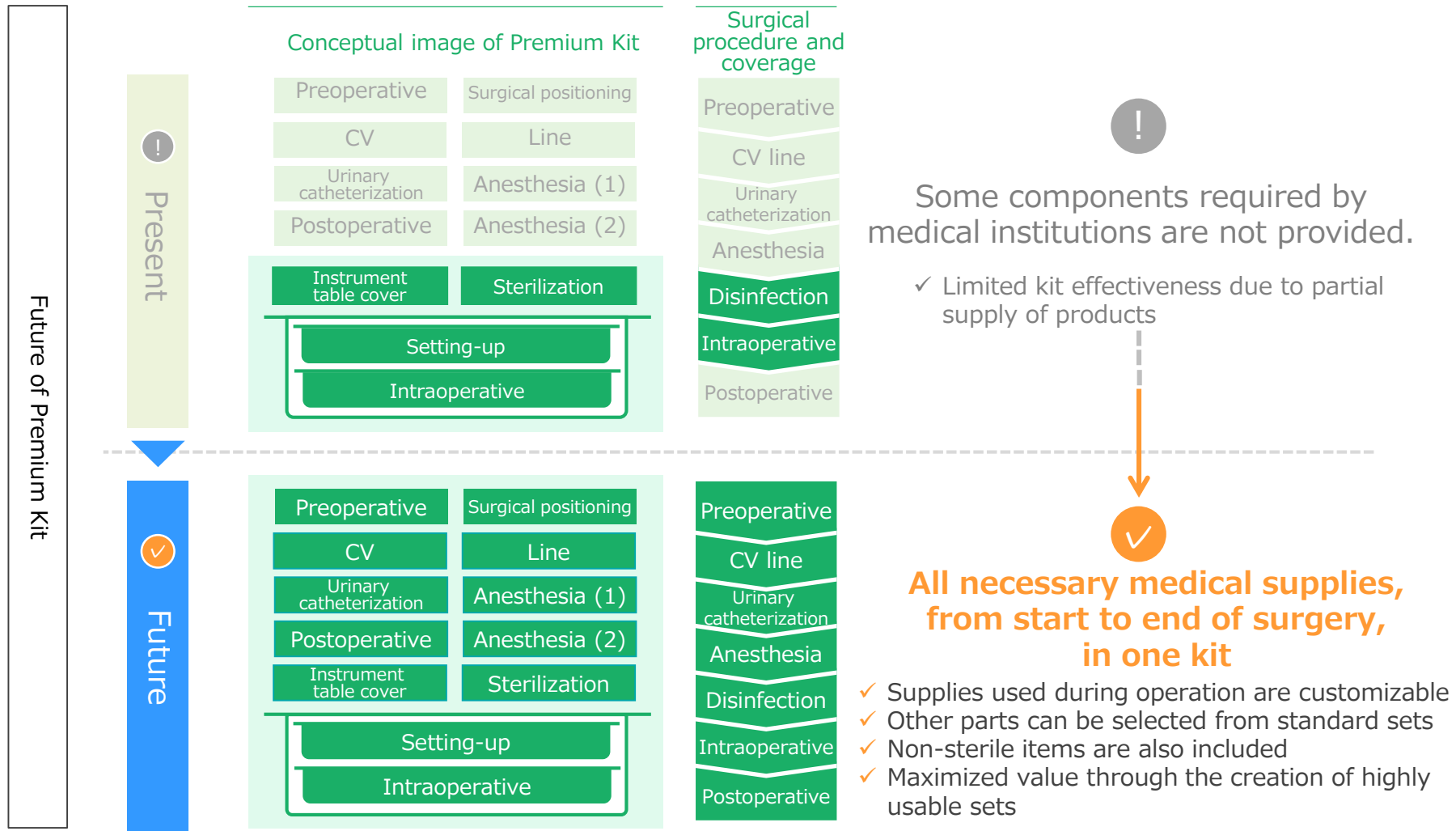
Look to future healthcare trends, and expand our range of new solutions based on the key concepts of **medical care quality improvement, information sharing,** and **sustainable medical management**



### 3. Strengthen competitiveness of core businesses/products

#### Future of Premium Kit

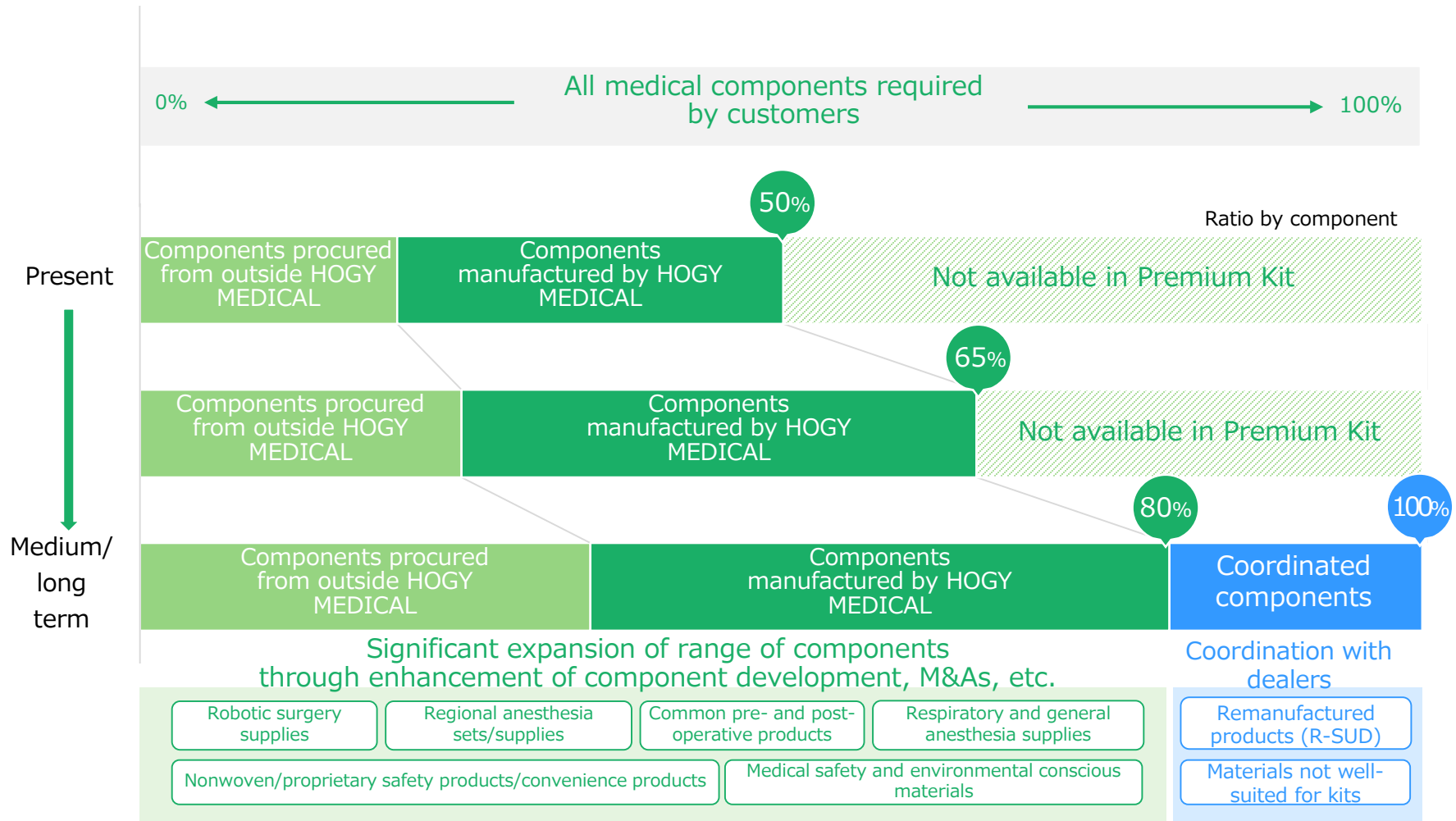
Aim for maximizing product value by helping our customers reduce significantly their time and effort through Premium Kit complete with all necessary components and parts for surgery, from operating room preparations to postoperative phases



### 3. Strengthen competitiveness of core businesses/products

#### Maximizing the value of Premium Kit

Expand greatly the range of components in kits and coordinate closely with dealers, to increase the Premium Kit's coverage of medical supplies required by our customers





## □ Goals of expansion of internally produced components (private brand components)

- Stabilize and improve quality, and select **safe materials**
- **Reinforce technology** in our manufacturing
- **Stabilize** procurement (eliminate supply shortage concerns)
- **Speedy** response catering for customer needs
- Develop **strength of our components** through the creation of original components with innovative ideas

Expand  
our range of  
components by  
leveraging the  
strength of  
in-house  
production

**For customized kits developed through extensive consultation with customers, we will recommend our original components that put priority on safety in our sales activities**

### Examples of HOGY MEDICAL original component



Toughtick®



SECUREA®



Double Checker®



HOGY PGA  
Suture



Knee Croissant®



Current Bag®



Drug solution  
labels



Surgical stapler



Scalpel Holder



Toughponge®



Mechanically  
folded gauze



GI cover



Shadowless lamp  
handle cover



Seftal®



Nonslip sheet

# Strengthen competitiveness of core businesses/products

## Cost reduction, productivity improvement, and supply chain enhancement

Increase Premium Kit's volume ratio and reduce costs, while also enhancing our supply chain, engaging in safer and more efficient product management, and ensure stable supply of products

### Initiatives (including those under consideration)

### Targets for FY2029

#### Reduce costs/ Increase productivity

- Reduce depreciation
- Improve operation rate of new Tsukuba Plant
- Automate manual processes
- Review manufacturing bases
- Streamline packaging materials
- Eliminate dead stock

7 ppt

3 ppt



Reduce  
production  
margin by  
**10 ppt**  
from FY2023

### Initiatives (including those under consideration)

### Target to be maintained

#### Enhance supply chains

- Optimize component procurement
- Manufacture components internally
- Strengthen relationships with business partners
- Improve delivery bases

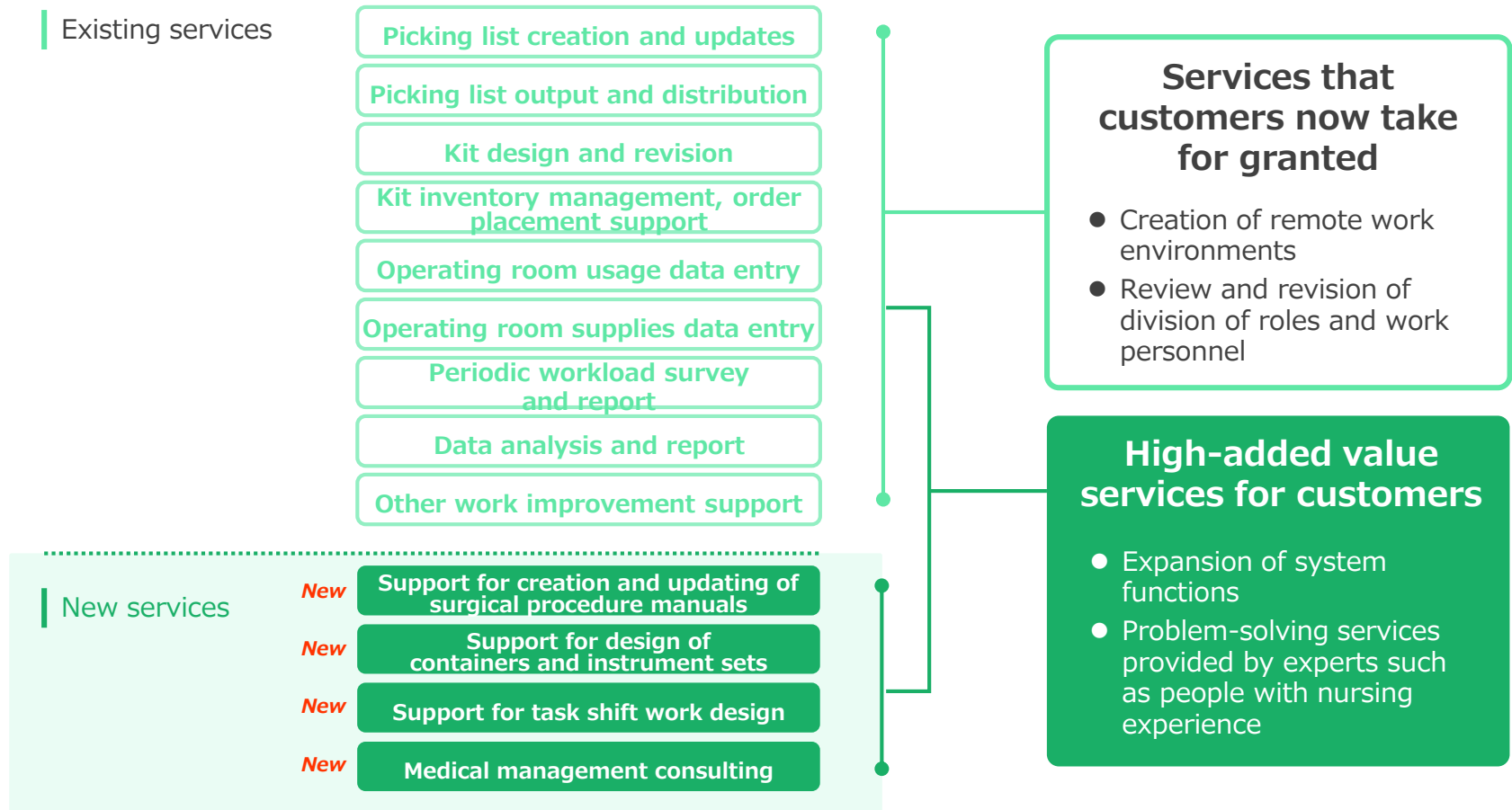


**Maintain  
stable  
supply**

Enhance our systems and services for helping solve the varied problems our customers face through diverse customer contact points, centering around Opera Master (OM). Scale back services that provide little value to customers.

## Services

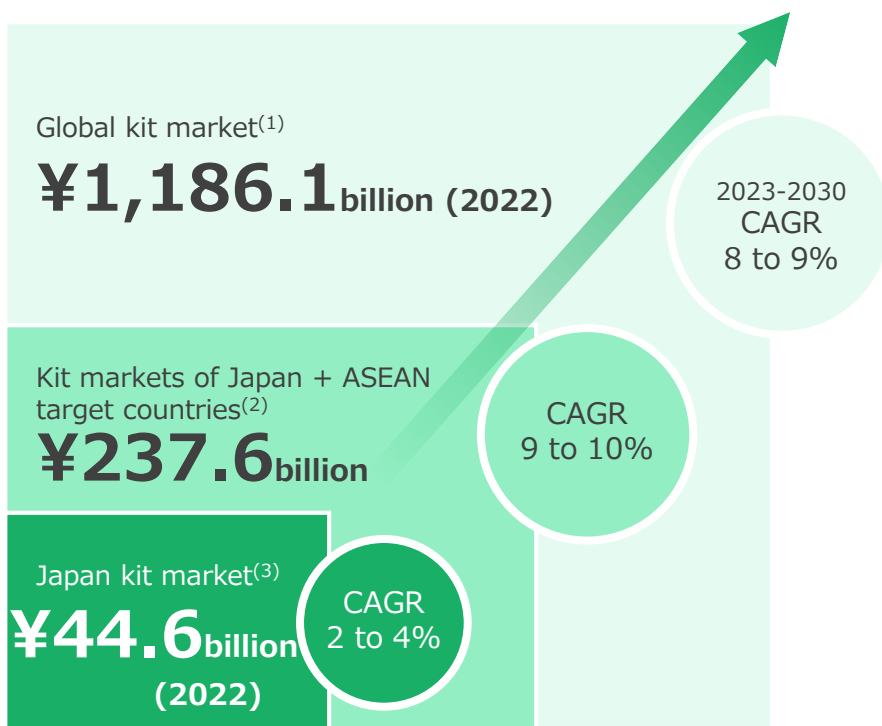
## Service enhancement policy



## 4. Promote overseas business

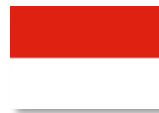
Leverage our strengths to create an integrated development, manufacturing, and sales system, mainly in the ASEAN region

### Growing overseas kit market



### Measures to be taken in overseas markets

#### Indonesia



- Take on challenges of creating kits locally for local use
- Raise awareness of benefits of switching from woven to nonwoven fabric
- Create a similar sales support system as in Japan
- Create a development system for products and components for overseas markets

#### Singapore



- Expand sale of kits for ophthalmological and catheterization use
- Increase the number of Japanese trainers involved in Premium Kit sales
- Leverage local dealers to create contact points
- Organize overseas pharmaceutical affairs departments

#### New markets



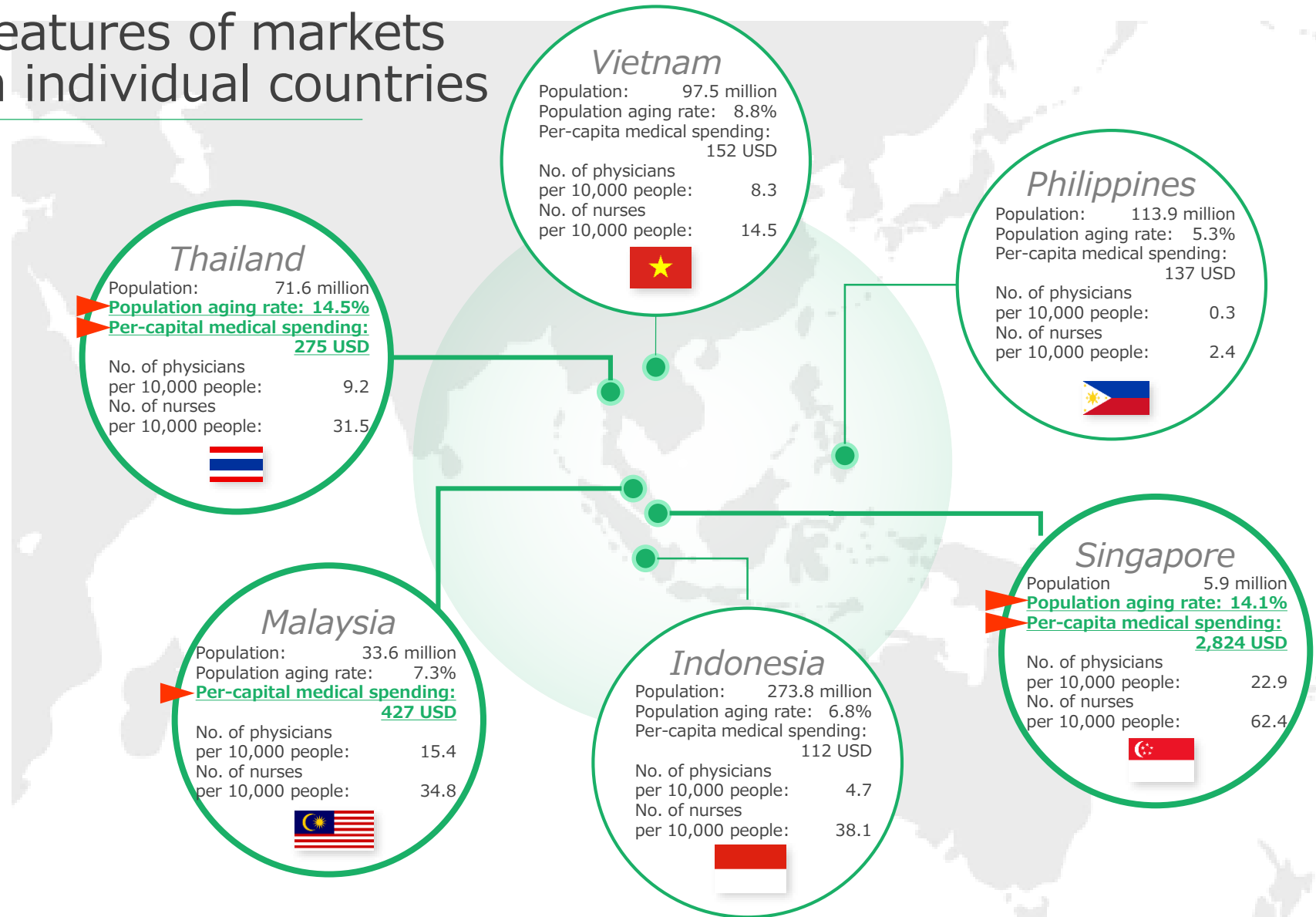
- Select markets with trade practices similar to Japan
- Leverage local dealers to create contact points
- Use overseas connections to conduct sales activities targeting top management in healthcare groups
- Plan expansion in collaboration with local affiliates

(1)(2) Global Sterile Surgical Procedure Pack Market 2024 by Manufacturers, Regions, Type and Application, Forecast to 2031

1 USD = 145 yen

(3) "Medical Hygiene Products Market 2022-2023" by Yano Research Institute

## Features of markets in individual countries



## 5. Create future core businesses (OPERA-Note)

### Value

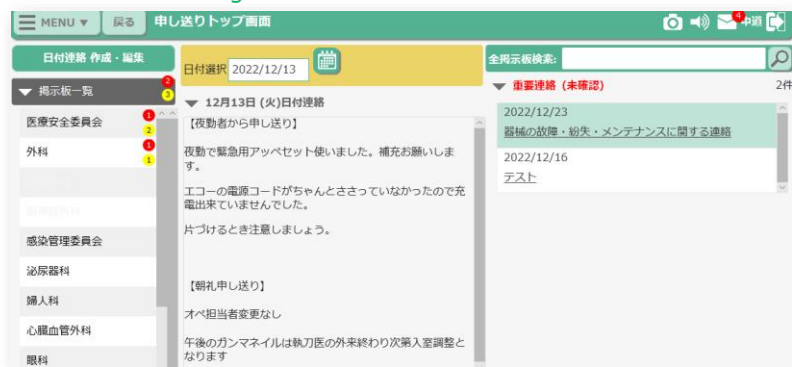
## OPERA-Note

OPERA-Note is a system for the centralized management and sharing of information such as surgical procedure manuals and surgery-related materials.

It can be used not only within medical facilities but also via personal devices, facilitating the smooth sharing of information between doctors and nurses, and improving the medical safety at medical facilities.



### ▼ User screen image



Challenges currently faced by medical institutions

- ✓ Overtime work such as early shifts and after-hours work
- ✓ Education standardization
- ✓ Insufficient information sharing for ensuring medical safety

Showcase value through the synergistic effects of using OPERA-Note with Premium Kit

No. of contracted facilities

22 facilities  
(As of March 2024)

170 facilities  
Target for March 2030

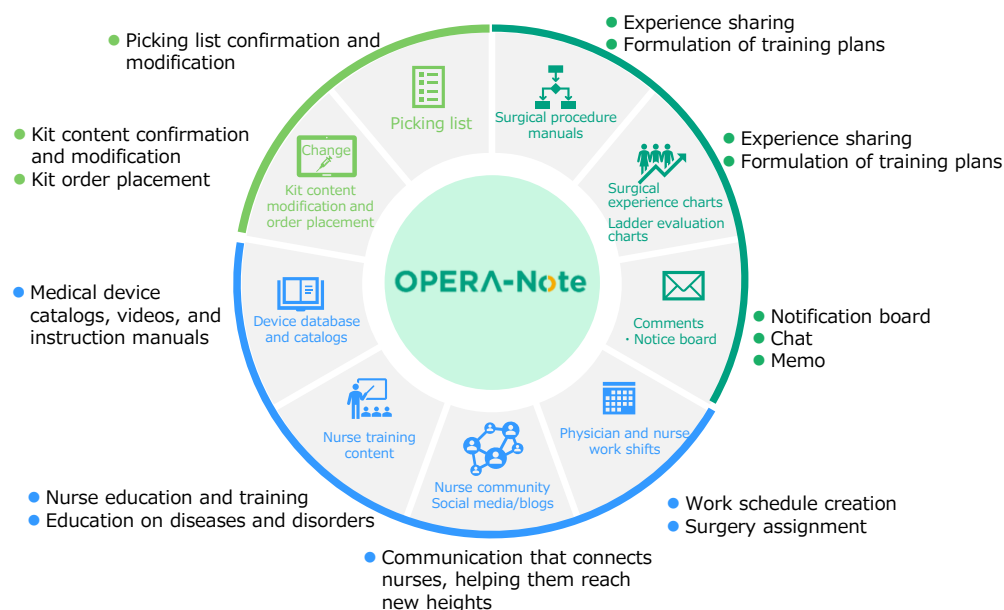
### Function expansion framework

By integrating OPERA-Note and Opera Master, and by developing and supplying new services with added value, we aim to **evolve the platform into a work operation and training platform for nursing as a whole**, not just for surgical nursing.

## Conceptual image of expansion of OPERA-Note functions

### Integration with Opera Master (future concept)

### Current functions



New value-added services enabled by coordination (future concept)

### What are R-SUDs?

Used single-use devices (SUDs) are collected from medical institutions by medical device manufacturers, and then checked, cleaned, sterilized, etc. (remanufactured) so that they can be reused as SUDs.

#### ■ Main lineup of products currently on the market



Remanufactured flowtrons

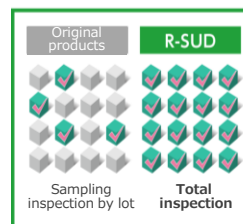


Remanufactured trocars

### What is expected from the spread of R-SUDs

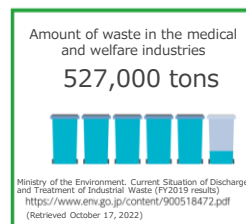
#### Ensuring medical safety

Total inspection is fully performed on R-SUDs, which reduces defect rates.



#### Effective utilization of medical resources

By remanufacturing SUDs that are discarded after a single use, we contribute to the reduction of medical and welfare waste.



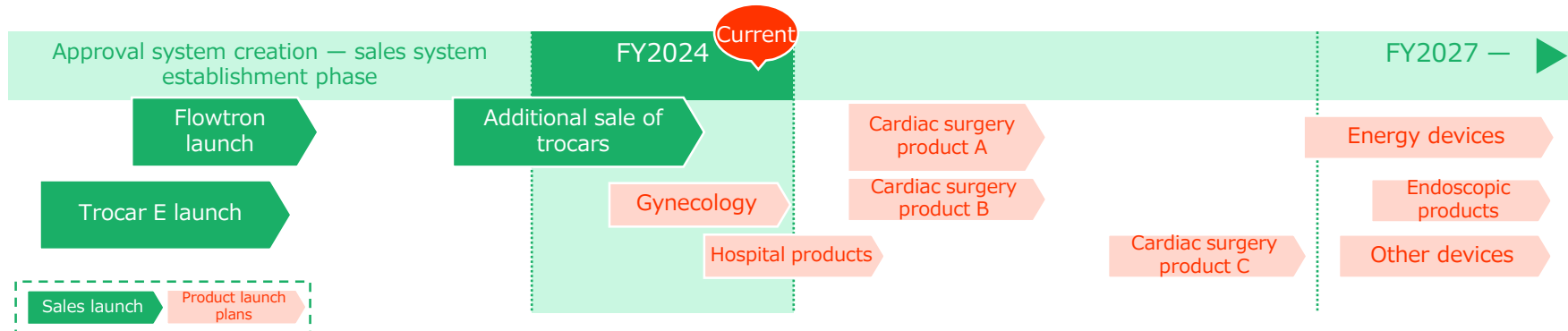
#### Provision of sustainable medical care

Manufacturing in Japan makes it possible to take measures against the risk of disruption in the global supply chain.



#### ■ Our mission

We aim to expand market adoption from SDGs perspective and monetize the business.





## 5. Create future core businesses (SuReFInD)

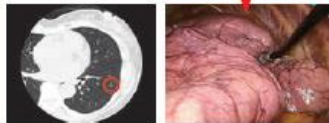
### Value

SuReFInD is a medical device used for marking, developed to assist with more precise removal of early stage lung cancer pneumonectomy operations. A microscopic IC tag (RFID) is embedded beforehand and then an antenna is used during the operation to accurately confirm the locations of cancerous areas and determine the extent of resection.

#### Development background

The difficulties involved in performing small lung cancer resections 1

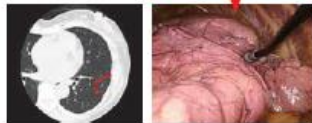
Where is the cancerous area?



The shape of the lung during surgery is different from that in the X-ray image, making it difficult to determine where the cancerous areas are

The difficulties involved in performing small lung cancer resections 2

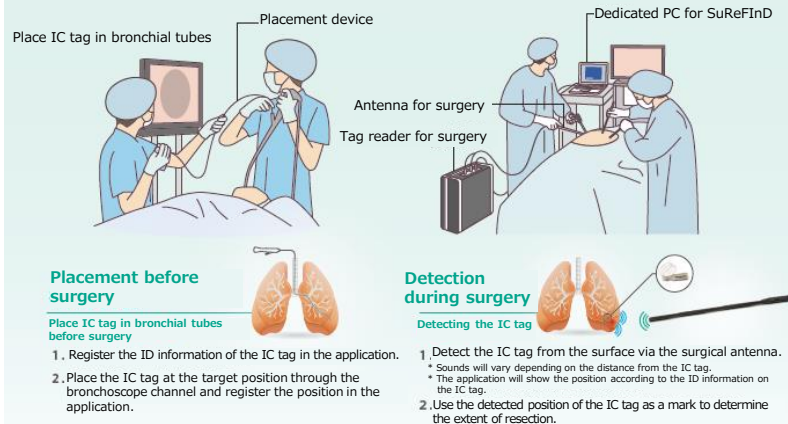
Which area should be removed?



It is hard to tell by look and feel whether resection areas have cancerous growths

Less invasive resection

### How to use SuReFInD



### Sales strategy in Japan

Entered a sales collaboration outsourcing agreement with Covidien Japan, Inc.

Medtronic  
Engineering the extraordinary

医療の現場に、未来に、安全を  
HOGY®

**HOGY Medical and Covidien Japan concluded a service agreement to commence cooperation on the sale of SuReFInD**

Offering comprehensive support for precise sub-lobar resection surgeries for patients with early-stage lung cancer, and providing treatment that leads to improvements in patients' prognosis

Potential expansion of sales with an eye toward global markets

# Financial and Capital Strategy

---



## Formulate a new shareholder return policy in order to improve capital profitability with the aim of increasing corporate value on an ongoing basis

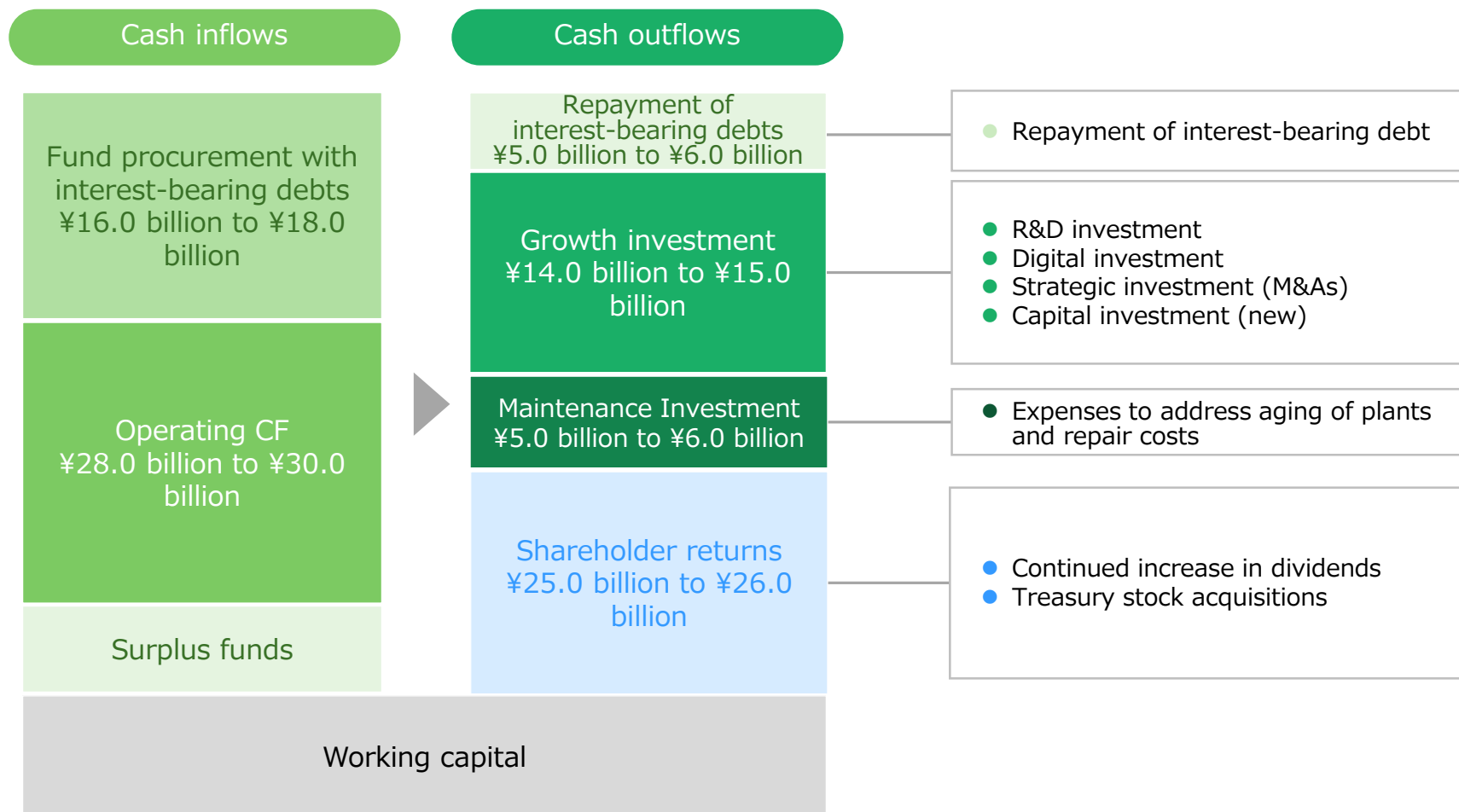
### Shareholder return policy

- To achieve the ROE target of 6.0% during the current Medium-Term Business Plan period, we plan to progressively increase dividends by roughly ¥15 per share each period and to purchase a large amount of treasury stock
- During the next Medium-Term Business Plan period, we plan to achieve an ROE of 9.0% by FY2029 through ongoing shareholder returns based on progressive dividends with a minimum DOE of 3%

		Current Medium-Term Business Plan period			Next Medium-Term Business Plan period			
		FY2023	FY2024	FY2025	FY2026	FY2027	FY2028	FY2029
<div></div> <div></div> <div></div> <div></div>	ROE	3.3%	6.0% in FY2026			9.0% in FY2029		
	Dividend per share	¥80	¥80 to ¥110			Progressive dividends with minimum DOE of 3%		
	Total payout (Dividends + treasury stock acquisition)	¥1.9 billion	¥25.0 billion to ¥26.0 billion (Forecast)					
	Total payout ratio	69.2%	Total payout ratio at around 200% (FY2024 to FY2026)					

# Cash allocation (Total of three years)

Looking to capital efficiency improvements and capital costs, generate operating cash inflows along with profit growth and utilize fund procurement with interest-bearing debts, in order to allocate cash to growth investments and shareholder returns



# New Governance Structure and Sustainability



## New governance structure

We have established new committees to address the Company's governance issues, in addition to the existing committees.

Name	Position	New	Nomination Committee	Compensation Committee	Internal Control Committee	New		Sustainability Committee
		Audit & Supervisory Committee				Investment Committee	IR Committee	
Hideki Kawakubo	Director and CEO				☆	●	●	☆
Taisuke Fujita	Director and CFO		●	●		☆	☆	
Kiyoshi Uesugi	Independent Outside Director		☆	●				●
Yuta Kinose	Independent Outside Director		●	☆		●		
Yuji Takada	Independent Outside Director	☆	●		●			
Mime Egami	Independent Outside Director	●		●	●			
Katsusuke Higuchi	Independent Outside Director	●			●	●		

☆ denotes Chair

In addition to the statutory Audit & Supervisory Committee, we have established voluntary committees (Investment and IR Committees have been newly established)

- Nomination/Compensation Committees: Strengthen the independence, objectivity, and accountability of Board members' functions related to director nomination/compensation, etc.
- Internal Control Committee: Enhance and strengthen systems/functions related to internal control, compliance, and risk management
- Investment Committee: Enhance supervision and review of investment decisions about business investments, M&A strategies, etc.
- IR Committee: Enhance quality of IR activities and strengthen relationships of trust with investors
- Sustainability Committee: Enhance and strengthen systems/functions necessary to achieve sustainable growth

We will enhance our supervision and review of investment decisions and use IR activities to strengthen our relationships of trust with investors. In this way we will increase the quality of Board discussions toward improving corporate value

## Investment Committee

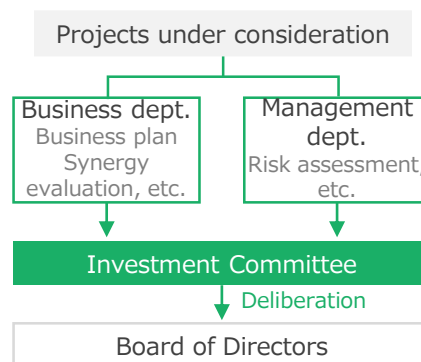
Purpose

Enhance supervision and review of investment decisions about business investments, M&A strategies, etc.

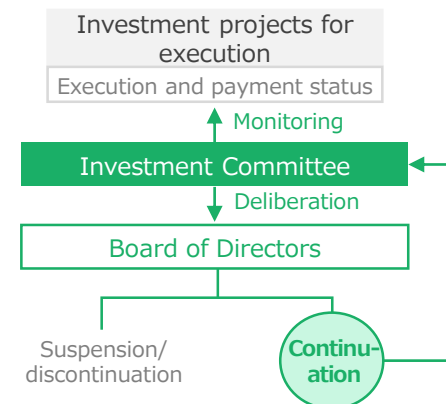
### Matters for deliberation

- (1) Policy on investments including business investments, M&A strategies, etc.
- (2) Selection and criteria for projects related to business investment and M&A (excluding those that are immaterial)
- (3) Monitoring of execution and payment status of investment projects
- (4) Consideration of suspension or discontinuation of approved investment projects

#### Investment consideration phase



#### Monitoring phase



## IR Committee

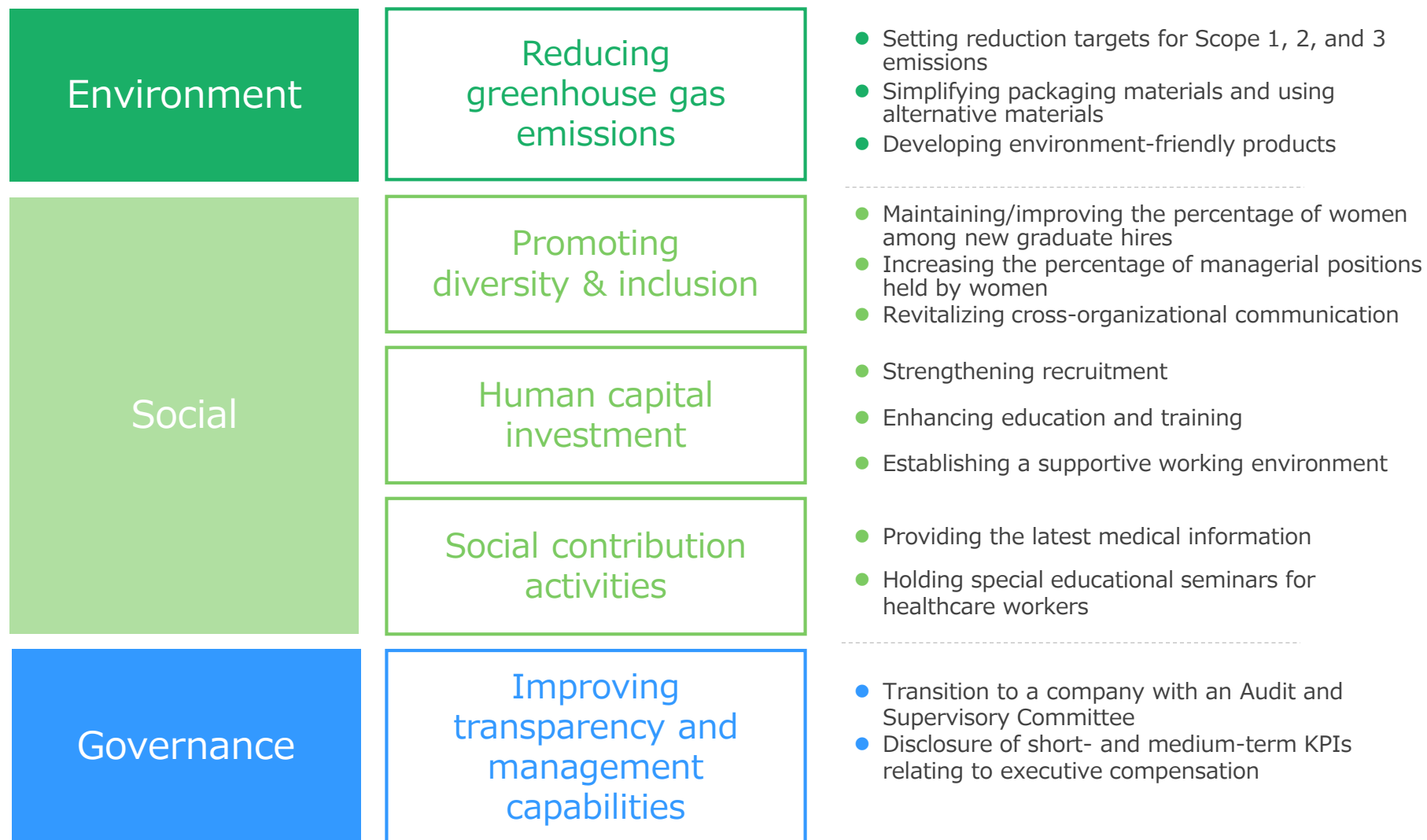
Purpose

Enhance quality of IR activities and strengthen relationships of trust with investors, etc.

### Matters for deliberation

- (1) Policy on statutory, timely and voluntary information disclosure to investors, analysts, etc.
- (2) Adequacy, content and timing of statutory, timely and voluntary information disclosure to investors, analysts, etc.
- (3) Communication with investors, analysts, etc. (financial results announcements, financial results briefings, meetings, etc.)
- (4) Content of corporate governance reports, group reports, integrated reports, etc.





## Issues and environmental perception

### Issues in the healthcare sector environment

Rising medical costs, emergence of new infectious diseases, integration of acute-phase hospitals

### Social issues

Aging society, climate change, declining working-age population

## Capital

### Financial capital

Proactive investment decisions based on a strong financial foundation

### Intellectual capital

Innovation and R&D that foresees customer issues

### Human capital

A culture of taking on challenges and an organizational structure focused on high levels of customer contact

### Social capital

Robust customer base and comprehensive network

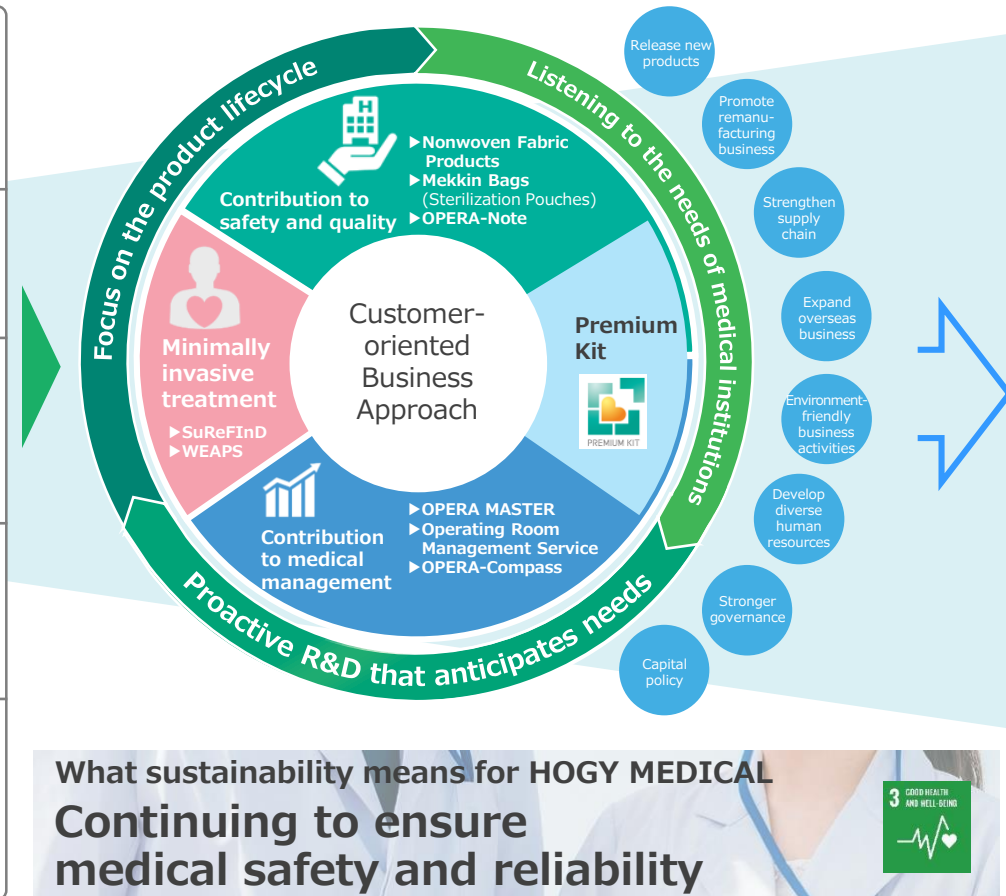
### Product quality

Achieving stable supply by promoting safe and high-quality automation

## HOGY's Strengths

## Priority Measures

## The Value We Create



### HOGY MEDICAL's Vision

A company like none other, playing a part in the advancement of medical care in Japan and the ASEAN region; and

A solution provider, focusing on customers' perspectives and creating new value

### Social Value/Outcome

Effectively solves problems in the medical field

- Contributing to a workplace environment where people can continue to work
- Streamlining the supply chain

Contributes to solutions to social issues

- Improving the quality of healthcare
- Contributing to waste reduction and the healthcare SDGs
- Developing businesses that support the advancement of women

Contributes to global healthcare

- Tackling the challenge of correcting healthcare disparities
- Expanding the provision of safe and secure products of Japanese quality

医療の現場に、未来に、安全を

**HOGY®**

