

## **Mindray Bio-Medical**

### **M&A of APT Medical Conference Call-Q&A Summary**

**Q: Please introduce the background and necessity of this acquisition. Does acquiring control of APT Medical align with Mindray's future development strategy?**

A: Looking back at Mindray's over thirty years development history, continuously expanding product lines and entering new business areas have been crucial paths for our rapid growth. Starting from patient monitoring, gradually expanding into hematology, ultrasound, and building three major segments focusing on Patient Monitoring and Life Support, In-vitro diagnostics, and Medical Imaging. Mindray has consistently diversified into more subcategories within these three major lines. In the past decade, investments in CLIA and minimally invasive surgery have become significant growth drivers. Through the strength of these three major segments, we have the capability and confidence to rank among the top 20 global medical device companies by 2025. However, achieving the current goal is just a milestone; pushing further towards the top 10 globally, or even higher, is crucial for the long-term goal. Continuing to expand product lines remains essential along our developing journey.

According to industry research reports and company estimation, the global cardiovascular market size reaches USD 56 billion, with the domestic cardiovascular market exceeding RMB 50 billion, ranking second globally and domestically in the medical device market, only after in-vitro diagnostics. Due to the impact of an aging population, coupled with low surgery penetration rates and continuous upgrades in surgical techniques, the cardiovascular market's growth significantly outpaces other sectors. The global cardiovascular industry is expected to maintain a long-term double-digit growth rate, with even higher growth projected in the domestic market.

Mindray is confident in the future development of the cardiovascular sector. Venturing into the cardiovascular field will substantially expand Mindray's addressable market, playing a vital role in achieving rapid long-term growth. APT Medical has deep-rooted

expertise in the cardiovascular field, particularly in cardiac electrophysiology, interventional cardiology, and peripheral vascular intervention, with leading technological innovation capabilities domestically. They also possess comprehensive capabilities from raw material to consumable research and development, production, and advanced manufacturing processes. APT Medical's products are well-regarded by customers, establishing them as a leading enterprise in China's cardiovascular field. Moreover, Mindray and APT Medical have synergies in various aspects, including research and development, marketing, and manufacturing, which can robustly support APT Medical's development. Therefore, acquiring control of APT Medical aligns with Mindray's long-term development strategy.

**Q: Why is APT Medical willing to bring in Mindray as a strategic controlling shareholder when the company is still in rapid development and has only been listed for three years? What are the primary considerations?**

A: APT Medical has been deeply rooted in the cardiovascular field for many years, possessing leading technological innovation capabilities in areas such as cardiac electrophysiology, access solution of interventional cardiology, and peripheral vascular intervention. APT Medical also have comprehensive capabilities covering the entire industry chain in terms of consumables research and development, production, and processes, earning recognition from domestic clients. However, it is undeniable that products such as electrophysiology of APT Medical, started much later than MNC brands, resulting in a certain technological gap compared to MNC products. As a result, the domestic electrophysiology market is still dominated by MNCs, holding a combined market share close to 90%. After the completion of this transaction, with the support of Mindray's research and development system, APT Medical's equipment, such as the three-dimensional mapping system and radiofrequency ablation instrument, which were relatively weak before, are expected to be significantly reinforced. Combining the technical expertise accumulated over the years in the consumable field, high-end products like the magnetic high-density mapping catheter and magnetic pressure-sensing ablation catheter are expected to be launched, which are likely to accelerate the

penetration in the field of atrial fibrillation. Additionally, Mindray's strengths in ultrasound, electrocardiogram monitoring, and other equipment areas can effectively empower APT Medical's electrophysiology and vascular intervention business, strengthening its competitiveness.

Furthermore, international expansion has always been a significant strategic direction for APT Medical's development. However, in 2022, APT Medical's overseas business revenue was only RMB 136 million, accounting for only 11% of the company's total revenue, while the overseas addressable market is several times larger than the domestic market. Mindray has over 50 subsidiaries and more than 3,000 employees overseas, with a presence in major global markets, enabling Mindray to provide comprehensive product promotion, delivery, and service capabilities to users. Through gradual integration, APT Medical aims to leverage Mindray's overseas marketing platform and align with local market demands to expedite the development of its international business.

**Q: Why does Mindray choose the cardiovascular field as the new area to enter, and how much addressable market can APT Medical's current layout bring to the company? How does Mindray plan to maintain the motivation of APT Medical's existing team?**

A: Mindray has primarily focused on medical devices and in-vitro diagnostics in our current portfolio, with limited presence in the high-value consumable sector. Looking at the top 10 global medical device companies, over half of them are primarily driven by high-value consumable business. The top 2 companies, Medtronic and Johnson & Johnson, both have high-value consumable as their main business, and these companies show outstanding profitability, cash flow, and growth certainty. Looking ahead, with the aging population and the medical infrastructure development trend in China and other developing countries, the clinical usage of consumable products is expected to see long-term rapid growth. Therefore, gradually stepping into the high-value consumable sector is crucial for Mindray's long-term development.

According to data released by the National Bureau of Statistics, the current population

aged 60 and above in China is nearly 300 million, accounting for 21% of the total population. The National Health Commission predicts that by 2035, the proportion of the population aged 60 and above will exceed 30%, stepping to a gradual aging stage. Population aging is a common trend in most countries globally, and the accelerated aging of the population will inevitably lead to a continuous increase of cardiovascular diseases. According to the "China Cardiovascular Health and Disease Report 2022" released by the National Cardiovascular Disease Center, the current number of cardiovascular disease patients in China is 330 million, with 2 out of every 5 deaths attributed to cardiovascular diseases. More importantly, the overall penetration rate of cardiovascular surgery is still low. For example, the electrophysiology surgery volume in China is approximately 130 per million people, while 1300 surgeries per million people in US. With the intensification of aging trend, improved medical conditions, increased patient awareness, and continuous upgrades in electrophysiology surgery techniques, the electrophysiology industry is expected to maintain a long-term high-growth trend. APT Medical has already positioned itself in areas such as cardiac electrophysiology, interventional cardiology, and peripheral vascular intervention. According to our estimation, the global addressable market for electrophysiology exceeds USD 10 billion, with over RMB 10 billion in China. The global addressable market for interventional cardiology and peripheral vascular intervention products exceed USD 20 billion, with over RMB 15 billion in China. Entering these fields can significantly broaden Mindray's addressable market space.

Mindray's historical acquisition experience has shown that talents and team are the most critical components among the acquisition value. In cardiovascular consumable sector, Mindray is still a beginner. Therefore, during the subsequent integration process, Mindray will make maximum efforts to maintain the stability of APT Medical's existing management and core teams, fully leveraging their experience and expertise accumulated in the cardiovascular field. Mindray will continuously empower APT Medical in equipment research and development and expanding international markets. Simultaneously, Mindray will uphold APT Medical's existing efficient decision-making system and rapid market response capabilities as competitive advantages. We firmly

believe that, APT Medical will step onto a broader stage with the synergy with Mindray in the long run, gradually evolving into a leading global cardiovascular company. The entire team of APT Medical will also share the benefits.

**Q: What are the core competitive advantages that APT Medical possesses in the cardiovascular field?**

A: (1) Electrophysiology:

APT Medical's electrophysiology mapping catheter and radiofrequency (RF) ablation catheter are the first domestically registered products in China. These products have been recognized by the Ministry of Science and Technology as national key new products and by the Shenzhen Science, Industry, Trade and Information Technology Commission as Shenzhen's independently innovated products. The RF ablation catheter has been designated as a high-tech product by the Guangdong Provincial Department of Science and Technology. APT Medical's floating temporary pacing electrode catheter is the first domestically registered product in its category.

APT Medical's three-dimensional cardiac electrophysiology mapping system utilizes an internationally advanced magnetic-electric fusion positioning method. It features a highly integrated three-in-one design, incorporating a three-dimensional mapping system, multi-channel recorder, and stimulator into a unified platform. This innovative integration significantly enhances surgical efficiency, pushing the development of cardiac electrophysiology mapping system to new heights.

(2) Interventional Cardiology:

APT Medical has established a comprehensive product line for interventional cardiology, primarily used for Percutaneous Coronary Intervention (PCI). PCI involves using catheter-based techniques to open narrowed or even occluded coronary arteries, improving myocardial blood perfusion, which includes 4 key steps: transradial/transfemoral puncturing, angiography, access establishment and stent implantation. APT Medical's coronary intervention product line meets the clinical demands of the first three crucial steps of PCI surgery.

The coronary intervention product line includes guidewire, guiding catheter,

microcatheter, balloon catheter, angiographic guide wire and catheter. The PCI thin-wall sheath (vascular sheath set) is a domestically exclusive product. The microcatheter (coronary application) and extension guiding catheter are the first domestically registered products of their kind. Additionally, the trapping balloon dilation catheter is the first innovative medical device in China using a balloon trapping for catheter exchange within a guiding catheter. It is utilized in interventional procedures for coronary artery atherosclerosis and other diseases causing coronary artery stenosis. The pre-shaped guide wire is the first domestically developed guide wire pre-shaped for convenience, reducing clinical operation time and enhancing procedural convenience.

### (3) Peripheral Vascular Intervention:

Leveraging its technical expertise and brand advantages, APT Medical prioritizes the development of interventional devices for tumor embolization and vascular treatment. Particularly in the field of tumor embolization, the company's microcatheters and angiographic kits have gained a significant competitive edge. The adjustable valve sheath is the first domestically registered product of its kind, receiving widespread recognition in the market. The Distail BonBon can be used to occlude blood vessels, preventing the reflux of embolic agents. It plays a crucial role in pressure measurement and bleeding occlusion, making it the first domestically produced product of its kind. It is expected to receive further promotion and widespread application in the future.

**Q: From the perspective of organizational capabilities in various aspects such as R&D and marketing, what synergy that Mindray and APT Medical can achieve?**

A: The synergies between Mindray and APT Medical can be primarily achieved in the following aspects:

In the short term, our main focus is on R&D collaboration. As of the end of last year, Mindray has over 4,400 R&D personnel, possessing strong capabilities in product engineering and system integration.

In the field of cardiac electrophysiology, devices and consumables are closely related, especially in three-dimensional electrophysiology. The development of products like three-dimensional mapping system, ablation device, and irrigation pump involves

expertise in mechanics, algorithms, image processing, and engineering. With over 30 years' development, Mindray has deep technological expertise in these areas, including algorithmic accumulations in electrocardiography, ultrasound image processing, and developing energy platforms and infusion pumps. These capabilities and experiences will effectively empower APT Medical, assisting in rapidly enhancing its product performance. Meanwhile, APT Medical excels in consumables, ensuring complete coverage from raw materials to production processes while effectively controlling costs and ensuring product quality.

In the medium to long term, apart from R&D collaboration, Mindray can offer synergies in marketing for APT Medical. Mindray has an extensive global market presence, with products sold in over 190 countries and regions worldwide. We have a well-established market, sales, and service team covering various customer segments in China. APT Medical, as a leading player in the domestic cardiovascular sector, can provide stable-performing products. Leveraging Mindray's robust marketing network, APT Medical's products will further reach to global customers.

In the future, Mindray and APT Medical will leverage our respective strengths, collaborate for mutual development, and jointly drive business growth.

**Q: After the completion of this transaction, is there an integration plan between Mindray and APT Medical in terms of business, management system, sales channels, etc.?**

A: Since 2008, Mindray has completed nearly 20 acquisitions globally, accumulating extensive integration experience. After the completion of this transaction and building upon the independent development of APT Medical, Mindray and APT Medical will collaboratively formulate integration plans across various aspects, including business development strategies, R&D, and marketing systems. The aim is to continue supporting APT Medical's core business in the cardiovascular field and consistently enhancing the competitiveness of its products in the global market.

**Q: Please introduce the competitive landscape that APT Medical operates?**

### A: (1) Electrophysiology Devices

In the domestic electrophysiology market, domestic brands launched their products later than foreign competitors. Coupled with the fact that domestic manufacturers in China have lagged in technology behind, high-end products in the domestic market are still predominantly offered by foreign brands. However, domestic manufacturers have rapidly improved in technology, gradually closing the gap with foreign competitors. Currently, the major foreign players in the electrophysiology market are Johnson & Johnson, Abbott, and Medtronic, with foreign manufacturers collectively holding nearly 90% of the market share in China.

### (2) Coronary intervention Devices

The domestic coronary intervention device market has seen a shift from foreign brand dominance to the ascendancy of domestic brands. While there still remains a gap in the overall market, in some product areas, certain domestic devices have carved out a leading position. Products such as microcatheters and angiographic kits from APT Medical have established a notable lead, while others like guiding catheters and guidewires are also rapidly catching up. Currently, although the adoption and promotion of domestic brands are still being influenced by doctors' operational practices and usage habits, as well as being influenced by the sophistication of technological processes, such influence is steadily diminishing as domestic technology advances. At present, the leading manufacturers in the coronary intervention market include Terumo, Medtronic, Abbott, Merit Medical, and Boston Scientific. In total, foreign brands account for over 60% of the market share in China.

Amidst the rollout of volume-based procurement at national, provincial, and municipal levels, domestic brands are facing with increasing opportunities. Volume-based procurement will speed up our hospital coverage. Especially for domestic medical device manufacturers with first-mover advantages and scalable production capabilities, their future opportunities and market competitiveness are expected to be gradually strengthened.

### (3) Peripheral Vascular Intervention Devices

Compared to coronary intervention, peripheral vascular interventional therapy is still in



an early stage in China. Currently, the peripheral vascular intervention market is dominated by foreign brands both in arterial and venous treatments. The development of domestic product lines in this area is still working in progress. At present, the leading foreign manufacturers in the peripheral vascular intervention market include Medtronic, Boston Scientific, and Abbott. In total, foreign brands account for over 60% of the market share in China.

**Q: What the major products that are going to be launched will significantly drive the future performance of APT Medical, and what technological features do these products offer?**

A: APT Medical offers diverse therapeutic products in the field of vascular intervention field, with some currently undergoing clinical trials—including scoring balloon catheters, carotid artery balloon dilatation catheters, and basket-shaped pulsed field ablation (PFA) solutions—while others are in the registration phase, such as thoracic aortic aneurysm (TAA) grafted stents and vena cava filters. Notably, two atrial fibrillation therapeutic products need to be highlighted:

The first product is the PFA solution that is integrated with APT three-dimensional navigation system. The consumable product line includes Contact Force Sensing Pulse Field Ablation Catheter and Circular Pulse Field Ablation Catheter, available in various configurations such as linear and circular designs. These are suitable for a wide range of clinical applications, including paroxysmal atrial fibrillation, persistent atrial fibrillation, atrial flutter, and ventricular tachycardia. The solution enables zero-radiation surgeries, thereby reducing X-ray exposure for both patients and surgeons. APT PFA system enables real-time tracking of electrode-tissue contact. The pulse parameters are based on long-term independent research, designed to guarantee precise ablation depth while the patient is under local anesthesia combined with sedation. These features align closely with the clinical practices in China's electrophysiology market, which can be rapidly adopted by doctors accustomed to traditional methods.

The second one is the "Radiofrequency Atrial Fibrillation Solution". This solution includes a suite of medical consumables such as magnetic contact force sensing ablation

catheters, magnetic star-shaped mapping catheters, and magnetic circular mapping catheters, all designed with magnetic positioning. The solution features an optical measurement system for contact force to ensure accurate and consistent results. The ablation index predictions, based on this technology, are precise. Furthermore, the mapping and ablation systems designed for the solution are compatible with existing systems in the market, offering a familiar operational interface and allowing for a seamless transition for clients from conventional surgeries to this atrial fibrillation treatment. The new system conducts a substrate mapping algorithm for persistent atrial fibrillation, which can enhance the success rate of converting atrial fibrillation to sinus rhythm during the procedure.

**Q: Under the current market conditions, the price offered by Mindray to acquire APT Medical has a premium compared with the market price of APT Medical. What are the considerations for this acquisition? Will the acquisition lead to significant fluctuations in the stock price?**

A: The merger valuation of this transaction is RMB 30.2 billion, with a premium rate of 25% over APT Medical's closing price on January 26th, and a reference premium rate of 23% based on APT Medical's average closing price over the past 60 days. There are mainly two following reasons for the acquisition at a premium level:

(1) The starting point and the time point of Mindray's acquisition of the control right of APT Medical are both based on Mindray's considerations for future strategic development directions and pace. Mindray aims to enter the cardiovascular sector as an industrial participant, rather than making financial investment based on the conditions of capital market. Although Mindray's current businesses have only a small market share, especially in overseas markets, they are still sufficient to support Mindray's rapid growth in the short to medium term. Cardiovascular products require long cycles of technology R&D, clinical registration and upgrading, so the merger and acquisition of an excellent domestic company can help Mindray quickly enter into this sector and also enable APT Medical to expand and strengthen its cardiovascular businesses, which will make positive contributions to Mindray's long-term rapid growth.

(2) Mindray acquires the control right of APT Medical at a premium, which is a common operation in the capital market. By referring to each control right transfer case with a transaction size of more than RMB 1 billion carried out on the Shanghai and Shenzhen Stock Exchanges since 2021, we can find that the average premium rate of these cases reaches 30% and the average premium rate of medical-related cases reaches 33%. In addition, the average premium rate is 34% for the control right transfer cases with the transaction size of greater than USD 500 million of each case in the overseas healthcare markets other than the drug sector in recent years.

Moreover, during this transaction, both Mindray and APT Medical, the investment bank, the law firm, the accounting firm and related professional intermediaries attach great importance to the confidentiality of information and the management of insiders with the knowledge of inside information, which prevents the impact of fluctuations of Mindray's and APT Medical's stock prices caused by disclosure of inside information on this transaction to the greatest extent.

**Q: Will the goodwill expected to be generated by this transaction face the impairment risk in the future? What measures will Mindray take to deal with it?**

A: After the completion of this transaction and the consolidation of financial statements, about RMB 6.5 billion to RMB 7 billion of goodwill is expected to be added on the consolidated statement of Mindray. The specific information shall be subject to the company's disclosure in the future.

In accordance with the Accounting Standards for Business Enterprises, impairment tests will be conducted for the goodwill generated by this transaction on an annual basis. If APT Medical fails to meet its expectations for operations in the future due to industry recession or its own factors, Mindray will face the goodwill impairment risk.

However, to determine whether impairment should be conducted for goodwill generated by acquiring companies, the core consideration factor is to determine whether the intrinsic value of the target company has changed by evaluating the business fundamentals of the company. After the completion of this transaction, Mindray and APT Medical will give full play to the R&D collaboration potential to enable APT

Medical to improve product innovation and system integration capabilities and enhance its product performance and competitiveness. Mindray will also gradually provide marketing resources collaboration to help APT Medical achieve global layout of medical products and promote the long-term sustainable growth of APT Medical in order to avoid the impairment risk of goodwill generated by this transaction to the greatest extent.

**Q: How to define the importance of M&A to Mindray's future development? What are Mindray's plans for M&A in the future?**

A: Different from other high-tech industries, the medical device sector is characterized by high industry concentration and the tendency of powerful companies remaining advantages, because of the fundamental reasons that the revolutionary iteration of underlying technologies is slow and the clinical application technologies continue to progress. In addition, it is closely related to the development of client habits and the accumulation of brand effects. Driven by the external environment factors such as volume-based procurement and medical insurance cost control, industry leader effect may continue to be prominent in the future. However, due to the large number of sub-sectors of medical devices and limited technology and channel collaboration between these different sub-sectors, leading device companies must attach importance to the development strategy of entering a new sector through M&A, and this is also true for Mindray. From the perspective of the current development stage, although it is important to improve internal organizational capabilities such as R&D, marketing, and supply chain, M&A integration is also an indispensable capability. It has been proven by the cases in the past ten years that Mindray has such capability, and Mindray will actively and vigorously make good use of this capability in the future.

In the future, we will continue to center on our strategic growth directions to accelerate M&A endeavors. The M&A directions involve strengthening our main businesses, exploring new businesses, and supporting the overseas development. Through M&A, Mindray plans to rapidly integrate globally cutting-edge technologies across the whole industry chain, enhance the overall competitiveness of our existing businesses in high-

end markets, and accelerate the growth of emerging businesses. Meanwhile, we remain committed to exploring new business areas and are in constant search of market spaces for long-term and greater continuous growth. Taking the demands and characteristics of overseas markets into account, Mindray will accelerate the construction of localized operational platforms on overseas market.

**Q: Whether there has been any marginal change of the ongoing healthcare anti-corruption campaign on Mindray in China market?**

A: (1) The growth of IVD business, primarily built around consumables, heavily relies on patient visit. Outpatient and ER visits persistently grow, while surgery and hospitalization rates have been steadily recovering since October last year. Additionally, the conduction of volume-based procurement for biochemistry and CLIA facilitates Mindray accelerated breakthrough in top tier hospitals, thereby maintaining a relatively strong performance for IVD.

(2) Medical equipment procurement for new healthcare infrastructure buildup projects are mainly steered by local governments, prioritizing essential devices for new hospital facilities. This necessity of the demand minimizes the influence of anti-corruption efforts on these purchases. Furthermore, we anticipate continued medical specialized bonds will still support new infrastructure buildup projects this year.

(3) Since August last year, hospitals medical equipment purchases through public tendering have significantly delayed but are now showing signs of recovery on a month-to-month basis. Notably, the launch of the premium high-end ultrasound A20 is expected to deliver substantial incremental gains to the domestic ultrasound business this year.

In summary, we anticipate a continuous quarter-by-quarter improvement in domestic business operation this year. Meanwhile, overseas market contributing around 40% of overall revenue is projected to sustain its robust performance. The ongoing acceleration of high-end breakthroughs across diverse overseas businesses will further propel the company towards regaining its normal growth level this year.

**Q: Considering that this transaction is all sourced from Mindray's internal funds, will it pose a heightened financial strain on the Company's operating activities?**

A: The transaction involves a capital amount of approximately RMB 6.65 billion, fully sourced from Mindray's internal funds. As of the end of September 2023, the balance of Mindray's monetary funds amounted to RMB 19.67 billion, so this transaction will not impose significant financial strain on Mindray. Moreover, Mindray has consistently placed great emphasis on operating cash flow as a key performance indicator. It serves as the foundation for increasing dividend payouts and accelerating M&A activities. In the future, we will continue to prioritize maintaining a robust operating cash flow to ensure sufficient funds for both internal and external development.

**Q: What important subsequent arrangements will happen on this transaction? When is the transaction expected to be completed?**

A: The subsequent arrangements for this transaction include:

- (1) Anti-monopoly Review: We should obtain approval, consent, or a decision of no further review from the Anti-monopoly Bureau under the State Administration for Market Regulation;
- (2) Compliance Confirmation: We should obtain the confirmation of application for transfer of shares issued by the Shanghai Stock Exchange;
- (3) Share Registration: We should handle the registration of the subject shares at China Securities Depository and Clearing Co., Ltd. Shanghai Branch after satisfying the closing conditions agreed in the documents of this transaction.

The parties involved in the transaction will subsequently intensify communication and collaboration to expedite the transaction process with utmost efficiency.