

Q&A Summary of Mindray 3Q2024 Earnings Call

Q: Since the second half of 2023, the growth rate of the Company's revenue has dropped from 20% in the past few years to about 10%, and in the third quarter of this year, the revenue growth rate further decreased to 1.4%. I would like to ask Mr. Li what are the core reasons for this slowdown, and whether Mindray can return to a phase of rapid-growing development in the future?

A: Starting in the second half of 2023, multiple external factors have directly put the Chinese market under significant pressure, including the delay in hospital procurement due to the anti-corruption of the healthcare industry, the postponement in hospital construction due to insufficient local special-purpose bonds and fiscal funds, and a downturn in non-essential medical demand. These are the core reasons for the slowdown in growth.

Mindray has been established for 34 years. During these 34 years, the Company has experienced some downturns, mainly due to changes in the external environment, although there were also some internal factors. However, after each brief period of downturn, Mindray has typically returned to a phase of rapid growth for a considerable time. For example, in the two years from 2014 to 2015, our revenue growth rate fell to single digits due to multiple factors. However, in the following seven years from 2016 to 2022, our compound growth rate exceeded 22%. One of the core reasons for this recovery of growth rate is that since 2016, our main business has gradually started its high-end breakthrough.

I firmly believe that Mindray will once again overcome difficulties and return to a phase of rapid-growing development and bring sustainable long-term returns to shareholders. Confidence mainly comes from the following three aspects: First, in the long run, the nature of healthcare demand driven by technological progress and aging population has not been changed. China still pays a lot of attention to healthcare investment. The market will grow with high quality in the long term. Secondly, Mindray's product innovation capabilities have gradually entered the world-class level. Our unique Intelli-

Digital solutions can truly help hospitals improve diagnosis and treatment capabilities and efficiency, while achieving medical homogenization and cost control. The third is the maturity of Mindray's organizational structure and its people. Our ability to respond to changes is no longer what it used to be. We can keenly capture external market opportunities in any environment and achieve better performance than our competitors.

Q: After experiencing this series of changes, Mr. Li, do you think that China's medical device industry can still maintain a long-term growth trend in the future, and what is the direction of the industry's future development?

A: There is no denying that over the past few decades, China's medical device industry has grown from zero to become the second-largest market globally, undergoing a long cycle of rapid development during this time, and Mindray has greatly benefited from this growth. However, it is important to emphasize that the current external environment will not change the long-term growth trend of the industry. It is unreasonable to linearly extrapolate the future based on temporary industry conditions. Just as China's demand on the economy, the medical device industry must also transition to a stage of high-quality development.

I firmly believe that the industry will continue to grow rapidly in the future because the fundamental logic driving its growth remains unchanged, that is, the advancement of science and technology. For example, the discovery of a new drug inevitably creates a demand for diagnostics, and the emergence of a new surgical method will drive demand for new treatments. Behind this demand is the constant pursuit by people for faster, earlier, and more precise diagnoses and treatments. Everyone hopes to achieve a better quality of life and longer life expectancy at a reasonable cost, which aligns perfectly with Mindray's mission. Therefore, for Mindray, the core logic for future growth is to increase R&D innovation, developing higher-performance reagents and imaging equipment with clearer resolution for early disease detection, using more precise and easy-to-use minimally invasive surgical and interventional devices to cure diseases in the early stages, and helping hospitals improve quality and efficiency and control expenses and costs while improving the standardization of medical care through intelli-

digital solutions utilizing AI large model, thus ultimately extend high-quality life care to everyone. Manufacturers that have relied solely on price "rat race" and marketing channel expansions under homogenized competition will inevitably be phased out. Both the competition landscape and the concentration of procurement will inevitably improve in the future, guiding the industry towards true high-quality development.

Q: What measures can Mindray take to respond to the challenges posed by the current external environment? When does the Company expect to see a turning point in these challenges?

A: Based on the statistics from JOINCHAIN, the bidding amount for Chinese medical equipment from January to September this year has significantly decreased compared to last year. While our performance has also been less than satisfactory, we have significantly improved our market share and customer loyalty through a stronger promotion of our Intelli-Digital solutions including the "M-Connect" IT solution, Mindray InnoLab, and the "MiCo+" smart ecosystem, making our performance far better than the overall market and major competitors. From January to September this year, nearly 400 Chinese hospitals have been newly equipped with our "M-Connect" ecosystem, bringing the total number of hospitals installed exceeding 1,000, most of which are tertiary hospitals. The cumulative installations of "Mindray InnoLab" and "MiCo+" have surpassed 400 hospitals and 14,000 systems, respectively, indicating that our Intelli-Digital transformation has entered the fast lane. Given that our business is facing difficulties in the Chinese market, the Company is allocating more resources to international markets. In addition to increasing our staffing, the progress of building overseas localization platforms is also accelerating, with the number of countries involved in our overseas production facilities that have already been launched and are under planning rising to 13.

Although it is difficult to predict future changes in the external environment, based on the facts we have seen so far, we should all believe that the Chinese market will see some recovery next year. Take the new healthcare infrastructure buildup plans as an example, the core reason for the difficulties encountered by this segment of the business

this year is a lack of funding. Typically, funds for new, renovated, or expanded hospital constructions mainly come from three sources: the hospital's own funds, medical special-purpose bonds, and fiscal subsidies, of which fiscal subsidies are primarily sourced from local governments. Firstly, judging from the data on medical insurance expenditures and treatment volume, the daily operations of hospitals are normal. From January to July, the basic medical insurance fund's expenditure reached RMB 1,382.9 billion, an increase of nearly 15% year-on-year. According to IQVIA data, the China's surgical volume increased by over 2% in the first half of the year, and if obstetrics is excluded, the growth is 8%. Secondly, according to data from the Enterprise Early Warning System, the issuance scale of medical special-purpose bonds from January to September was RMB 198.7 billion, a decrease of 23% year-on-year. However, the issuance scale for September alone was RMB 44.9 billion, a year-on-year increase of 67% and 20% month-on-month. The issuance scale of local special-purpose bonds from January to September was RMB 5,006.9 billion, an increase of less than 4% year-on-year, but for September alone, the issuance scale was RMB 1,116.9 billion, an increase of 70% year-on-year and 18% month-on-month. This indicates that the pace of bond issuance accelerated significantly in September. At the same time, during a press conference held by the State Council on October 12, the Ministry of Finance clearly stated its intention to significantly increase the debt limit on a one-time basis, replace local governments' existing hidden debts, and intensify efforts to support local debt risk resolution. As of the end of the third quarter, there are still over RMB 23.0 billion in pending business opportunities for new healthcare infrastructure buildup plans in China. With the availability of special-purpose bonds and fiscal funds, we expect a recovery in revenue contributions from the new healthcare infrastructure buildup plans next year.

Q: In the third quarter, the international market continued its rapid growth trend in the first half of the year. Could you please tell us what are the notable performances during this period?

A: In the third quarter, the international market grew by nearly 19%, with developing countries experiencing growth of over 20% and Europe growing by nearly 30%. Key

countries such as France, Italy, Spain, Brazil, Mexico, and Indonesia all exceeded the average growth rate significantly. The sustained rapid growth in the international market is primarily driven by three highlights:

(1) Thanks to the Patient Monitoring & Life Support (PMLS) and Medical Imaging System (MIS), as well as the supporting Intelli-Digital system achieving world-class levels in technological innovation, the Company has made rapid progress in penetrating international high-end strategic customers. Except for the United States, high-end strategic customers have increased by more than 60% in the first three quarters of this year. Currently, the Company has already installed equipment in top hospitals in the United Kingdom, France, Italy, and Spain, with the proportion of high-end strategic customers in international revenue increased to 14%;

(2) The capacity building of our international IVD platform continues to accelerate. Currently, the number of countries overseas where we have initiated localized production has reached 9, of which 8 involve IVD products. In addition, investments in IT systems, warehousing networks, clinical service teams, and other capabilities are continuously increasing, driving the international IVD business to fully transition toward medium to large volume labs. In the first three quarters of this year, international IVD growth exceeded 30%, and the proportion of IVD in international revenue has increased to 28%;

(3) As the products gradually become more complete and mature, the Company is also investing corresponding resources. Our emerging businesses in animal healthcare, minimally invasive surgery, and AEDs have begun to scale in the international market. In the first three quarters of this year, the growth rates for international minimally invasive surgery and AEDs both exceeded 50%, while international animal healthcare grew by over 30%. Emerging businesses now account for over 10% of international revenue.

The above three types of businesses have no overlap in revenue contribution, and together they account for 52% of our international revenue. It is expected that they will become the main growth drivers in our international market, promoting a year-by-year increase in Mindray's overall revenue from international.

Q: Could you update us on the current progress of China's medical equipment renewal projects? Can these projects contribute to this year's performance?

A: According to our understanding, the National Development and Reform Commission has approved the first batch of medical equipment renewal projects, and the supporting ultra-long-term government bond funds have also been allocated to local governments. At the same time, some provinces have already announced their procurement intentions for medical equipment renewal projects, and a few provinces have recently completed procurement demand research and demonstration, determining procurement plans. However, no province has yet released a bidding announcement. The Company is closely monitoring the progress of these projects. We have already completed the mobilization preparations for the entire company, with all functional departments, including marketing, R&D, and manufacturing, ready for this. However, due to the current time-consuming and prolonged bidding and procurement processes, and based on the current project progress, it is expected that medical equipment renewal projects will not contribute to this year's performance.

It should be emphasized that the demand for equipment procurement will not decrease or disappear next year simply because it hasn't been fulfilled this year. From a macro perspective, the outpatient and surgical volumes in hospitals continue to grow, the fundamentals of special-purpose bonds and local finances are improving, and the impact on hospitals' bidding and procurement is fading after the anti-corruption of medical industry has been normalized. We believe the Chinese medical equipment market is likely to see a recovery next year. To further enrich our Intelli-Digital ecosystem and enhance the competitiveness of the equipment + IT solutions, the Company will also launch a critical care decision support system (i.e. the CIS) based on AI large models for critical care departments by the end of this year. This system will eventually extend to other departments, helping us to continually expand our leading advantage in the equipment sector.

Q: How do you forecast the Company's performance growth targets for next year?

Which regions or segments are expected to perform exceptionally well?

A: Firstly, this year's growth has fallen short of expectations mainly in the domestic market. While the international market has experienced underperformance in some regions due to external factors, the international market's overall growth this year has met expectations thanks to a balanced revenue distribution, with many regions exceeding their targets.

Looking ahead to next year, the adverse factors in the domestic market are beginning to fade and are even turning into favorable factors. Hospital bidding has also shown signs of recovery recently. We have sufficient reason to believe that the domestic market will experience a rebound. In addition to the improvement in the external environment, numerous key new products are expected to gain momentum next year. For example, the premium high-end ultrasound Neuwa A20 for obstetrics and gynecology is set to launch by the end of this year. The premium high-end ultrasound Resona A20 for whole-body applications, launched at the end of last year, has achieved success this year, and its revenues for the first year of its launch are expected to be over RMB 400 million. Other key new products include the 4K + 3D + fluorescence rigid endoscopic systems, endoscopic stapler, and 15 new CLIA reagents, all of which will bring incremental contributions to the recovery of the domestic market next year.

Although the international market is complicated, the Company has made preparations for this. With the launch of the international production facilities in the next two years, the Company will engage in localized production in 13 countries, and these production facilities will gradually incorporate more products. In addition to localization of marketing and production, the Company will also establish a complete functional system in major international markets, similar to our operations in China. R&D engineers will immerse themselves in frontline to understand customer needs and develop products that address the clinical pain points of international customers. The Company will also establish comprehensive and timely after-sales and clinical service teams to accelerate breakthroughs in international high-end strategic customers.

From a business perspective, IVD is expected to lead the growth rates across the three major segments next year, with CLIA continuing to gain momentum. Emerging

businesses such as minimally invasive surgery, animal healthcare, and cardiovascular will be expected to maintain the trend of high growth.

Q: The growth rate of China's IVD business slowed down in the third quarter. Logically, this part of the business should not be affected by equipment updates. What is the reason for this slowdown? How do you look forward to the long-term growth expectations of this part of the business?

A: Although China's outpatient visits, surgical volume, and other diagnostic and therapeutic activities have continued to grow this year, there is a structural differentiation in which the rigid medical demand has continued to grow. This part of the demand is primarily concentrated in leading large tertiary hospitals, while non-rigid medical demand is relatively sluggish. This is evident from the usage of certain non-essential consumable products, putting greater operational pressure on non-leading tertiary hospitals and the vast number of secondary hospitals. Since the technology of IVD products, besides hematology, has not yet reached world-class standards, our IVD revenue is mainly concentrated in non-leading tertiary hospitals and secondary hospitals. Additionally, the impact of DRG on these hospitals is also significantly greater than that of the leading tertiary hospitals, which poses certain challenges to the growth of our IVD business. We have developed several coping strategies to address these challenges:

(1) Thanks to the improvement of the competitiveness of products such as CLIA, biochemistry, and coagulation, as well as the improvement of the number of tests, and Mindray's advantages in R&D can also effectively assist clinical experts in overcoming research challenges, we have gradually begun to make breakthroughs in the leading large tertiary hospitals. The TLA is expected to achieve over 150 installations throughout the year, and the market share of CLIA will surpass another imported brand, reaching third place for the first time in China.

(2) To effectively respond to the impacts of the implementation of DRG, the Company has taken many measures to effectively help hospitals control costs. For example, the establishment of regional testing centers to achieve mutual recognition of test results,

the installation of "Mindray InnoLab" IT solutions to help hospitals improve the level of quality control of testing and reduce the waste of reagents, so that doctors can refocus on diagnosis and treatment.

Although there have been some short-term impacts, we believe the logic of long-term growth in Chinese testing volume growth due to aging population remains unchanged. Coupled with the ongoing optimization of industry competition, our average market share in the Chinese IVD market is still around 15%. Thus, the IVD business in the Chinese market is expected to maintain a rapid growth trend in the long run. In addition, with our emphasis on international market investment, IVD growth will lead the three major segments in the long run.

Q: The Company just mentioned the upcoming launch of a critical care decision support system based on AI large Model by the end of the year. What are the highlights of this product?

A: Mindray's new generation critical care decision support system aims to break away from the traditional role of Clinical Information Systems (CIS) as mere recording tools and create an integrated collaborative platform for medical care, nursing, management, and scientific research. We believe that for medical tool users, this system represents the first leap from a feature machine to a smart machine for the first time. Leveraging Mindray's strong hardware device interconnection and high-quality data interoperability and exchange, along with the empowerment of AI algorithms and GPT, the system will become an indispensable intelligent assistant for every ICU healthcare staffs. Through the interaction of text and language, the system can realize continuous dynamic monitoring of patient conditions, flexible and standardized bundled treatments, and automatically generate accurate medical records, using technological innovation to address clinical pain points and create value for hospitals.

For example, in terms of monitoring, the system can serve as a "medical sentinel," monitoring the patient's condition development in the background 24/7, alerting doctors to critical condition changes, and ensuring timely monitoring of patient condition status, effectively assisting doctors in adjusting interventions. To give a more specific example,

during CRRT dehydration therapy, doctors need to pay attention to the rate of sodium ion decline, as a rapid drop of sodium ions can lead to neurological issues for patients. However, sodium levels are not classified as critical values for testing. If doctors do not pay special attention, they may overlook the relationship between the decline rate of sodium ions in the early stage and the rate of CRRT dehydration, putting patients' lives at risk. Through the real-time monitoring of the AI algorithm background of the system, it can promptly and effectively identify the relationship between sodium ion changes and CRRT dehydration and make early warnings, alerting doctors to pay attention to the rapid decline in the patient's sodium level and make quick adjustments, greatly reducing the patient's mortality rate.

Another intelligent function of the system that excites healthcare workers is the automatic writing and preparation of medical records. In a traditional work scenario, each doctor spends at least 2-3 hours a day manually filling out shift handover records, traveling between different wards and beds to find and supplement data, and this burdensome manual record-keeping also increases the probability of errors. In contrast, the system, through hardware connectivity and its embedded GPT functionality, can not only automatically generate medical records, reducing data errors and omissions, and save at least 50% of writing time, but also assist doctors in extracting key data, describing changes in patient conditions, identifying critical issues, and providing treatment suggestions, greatly enhancing the quality of diagnosis and treatment. At present, the critical care decision support system has launched some functionalities in top hospitals in Shanghai, Zhejiang, and Guangxi, receiving positive feedback from customers. However, even so, there remains significant unmet clinical demand. Mindray will continue to leverage its unique advantages in integrating hardware and software, accelerate technology iterations, and develop more modules and features tailored to clinical scenarios, truly becoming an indispensable assistant for clinicians. We believe that soon, AI assistants that improve people's work and life quality, such as AI smart driving, AI smart homes, and AI smart documentation, will be born in the medical field, and Mindray will become a pioneer in driving this Intelli-Digital transformation in the medical field.

Q: There was a decline in profit in the third quarter. What are the core reasons for this?

A: The decline in profit in the third quarter was mainly due to increases in R&D and selling expenses of 24.3% and 17.8%, respectively, along with a nearly 50% drop in interest income. In addition to the rise in compensation costs, the growth in R&D and selling expenses was primarily due to the amortization of two intangible assets—customer relationships and non-patented technologies evaluated during the acquisition of APT Medical according to the requirements of accounting standards. The decline in interest income was mainly due to the decline in RMB deposit interest rates, as well as the reduction in cash due to mid-term dividends and the acquisition of APT Medical. Despite this, the profit margin in the third quarter still stood at 34.36%, which is higher than last year's overall level of 33.16%. The profit margin is still expected to be maintained at a relatively high level in the long term. In the long run, because the proportion of high-end customers in the revenue structure still has a lot of room for improvement, especially since the breakthroughs of international high-end strategic customers are just beginning, and the competitive landscape in the Chinese market has been optimized following a round of industry reshuffling, the overall price pressure is manageable.

Q: The gross profit margin in the third quarter was significantly lower than the average level. What caused the decline in gross profit margin?

A: The gross profit margin for the third quarter of 2024 was 61.69%, whereas the gross profit margin for the first two quarters was around 66%. The reason for the month-on-month decline in gross profit margin is the change in the Accounting Standards for Business Enterprises. According to the "Interpretation No. 18 of the Accounting Standards for Business Enterprises" issued by the Ministry of Finance at the end of August, the product warranty costs originally recorded under selling expenses were reclassified to operating costs, and the enterprises are required to make retrospective adjustments. As a result, the operating costs for the third quarter calculated in reverse included the product warranty costs from January to September of this year, which

affected the gross profit margin by approximately 5.48 percentage points. Excluding this impact, the gross profit margin level in the third quarter showed a slight increase.