

# Consolidated Financial Highlights for FY2020

(From April 1, 2020 to March 31, 2021)

1. Consolidated Financial Results for FY2020
2. Forecast for FY2021
3. Business Strategy

NIHON KOHDEN CORPORATION

(Ticker Code: 6849)

May 17, 2021

*Fighting Disease with Electronics*



# Prologue) Results of Investigation of the Compliance Matter

January 2021

## Establishment of Investigation Committee

Total 6 members:

- 2 outside directors,
- 2 outside lawyers,
- and 2 internal directors

## Contents of Investigation

- Hearings from the persons concerned, Digital forensic investigation
- Questionnaire answered by employees and dealers
- Investigation of transactions and donations

April 2021

## Disclosure of Investigation Report

- No fact of systematic misconduct by the Company as an organization
- No facts were found that are considered as similar cases

**The persons concerned were dealt with severely based on internal regulations**

## Analysis of the Causes

[Opportunities] An environment in which provision of benefits is induced, and a system in which it is easy to come up with the funds to do so

- (1) Distinctive characteristics of the medical device industry
- (2) Procurement of funds by discounts
- (3) Intervention by the dealer

[Motives] Desire to close immediate deals

- (1) Deals for replacement of other company's products in important facilities
- (2) Environment where the focus was on increasing sales

[Justifications] Defects in the compliance system, and lack of understanding of the true nature of issues

- (1) Absence of clear directions to stop the transaction
- (2) Justification of the persons' own actions

**The Company sincerely apologizes to all related parties for any concern caused by this matter**

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- We sincerely apologize once again to our customers, shareholders, and all related parties for the great inconvenience and concern caused by the compliance matter related to the procurement of medical equipment at Mie University Hospital in Japan.
- As a result of the investigation by the Investigation Committee, we received a report on April 15, 2021, stating that no fact of systematic misconduct by the Company as an organization was confirmed and that no facts were found of any matters that could be considered as similar cases. The persons concerned, including myself, were dealt with severely.
- The Investigation Committee's analysis of the causes pointed out that there were 3 factors that led to the occurrence of misconduct: an environment in which provision of benefits is induced combined with a system in which it is easy to come up with the funds to do so; the desire to close immediate deals; and defects in the compliance system together with a lack of understanding of the true nature of issues.
- The Company takes seriously the fact that checks during the discount approval process and our confirmation of domestic dealers' compliance were insufficient, as well as the fact that sales targets were emphasized in the sales process management and that compliance was not thoroughly enforced. We will strengthen the compliance framework as our top priority.

## Prologue) Recurrence Prevention Measures

- **A Committee for Implementation and Management of Recurrence Prevention Measures was established on April 28, 2021 in accordance with the recommendations of the Investigation Committee.**
- **The following measures will be implemented quickly and reliably.**

### 1. Strengthening of Governance (1) Review of the organization

- Established the Compliance & Legal Department in the Global Corporate Administration Operations (April 2021)
- Established the Compliance Department in the Sales Operations in Japan (April 2021)
- Domestic sales branch offices
  - Strengthen administrative functions
  - Strengthen reporting lines to the Chief Compliance Officer

### (2) Review of the procedures for considering donations

- Introduce a donation website. Establish a review organization that is independent of sales divisions

### (3) Strengthening of internal controls

- Application of IT controls to pre-order processes

### (4) Establish mutual check procedures with dealers

- Mutual pledge to comply with laws
- Periodic questionnaires
- Establish whistle-blowing channel for third parties

### 2. Review of the Employee Performance Evaluation System

- Include compliance in evaluation items for performance evaluation

### 3. Thorough Compliance Education

- Domestic sales branch offices
  - Improve education programs for managers
  - Increase the amount of specific and practical training contents

### 4. Monitoring

- Periodic internal compliance awareness surveys
- Ensure that all employees are aware of the internal reporting hotline

- In accordance with the investigation results and recommendations of the Investigation Committee, we have established a Committee for Implementation and Management of Recurrence Prevention Measures to implement recurrence prevention measures and prevent similar matters from occurring again.
- To strengthen our corporate governance, we are reviewing our organizational structure. The Compliance Department in the Sales Operation in Japan, which was established in April 2021, will provide a system for sales staff to immediately receive consultations and assistance when they have anxieties or concerns about compliance. Regarding donations, a donation website will be introduced and a review organization that is independent of the sales divisions will be established. To strengthen internal controls, we will apply IT controls to pre-order processes such as price discounting. For the purpose of strengthening mutual check procedures with dealers, a whistle-blowing channel for third parties will be established in addition to the internal compliance hotline. Furthermore, we will review the employee performance evaluation system and provide thorough compliance education, as well as establish a system to monitor the implementation of recurrence prevention measures.
- We will do our best to rebuild trust with all stakeholders by implementing these recurrence prevention measures quickly and reliably.

# Consolidated Financial Results 1 for FY2020

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# 1) Measures Implemented in FY2020

## COVID-19 infection control measures

- Maintained supply of products and services, while implementing thorough measures to prevent infection



- Provided and expanded online seminars and training programs



## Measures to ramp-up production

- Continued ramping up production until the end of FY2020 to meet domestic and overseas demand increase



- Unit sales of in-house ventilators (FY2020)  
NKV-330: approx. 1,000 units  
NKV-550: approx. 2,000 units



- Continued support of medical workers in clinical practice by fulfilling our responsibility as a medical device manufacturer to supply products
- Expanded installation base of patient monitors and ventilators

- In FY2020, during the COVID-19 pandemic, we continued to support medical workers in clinical practice around the world by maintaining supply of products and services, while implementing thorough measures to prevent infection. By starting to provide online seminars and training programs, we have established a new channel of communication with our customers, which are expected to expand future business opportunities.
- We continued ramping up production until the end of FY2020 to meet increased domestic and overseas demand. As for two models of our in-house ventilators launched in FY2019, we were able to supply approx. 1,000 units of NKV-330 and approx. 2,000 units of NKV-550. We consider it a great achievement that the expansion of the installed base of patient monitors and ventilators has led to an increase in our market presence.

## 2) Consolidated Financial Results for FY2020

	FY2019 Actual	FY2020			YoY (%)	(Amounts of less than ¥1 million are rounded down)
		Original forecast announced May 13	Revised forecast announced Feb 2	Actual		
<b>Sales</b>	185,007	180,000	190,500	<b>199,727</b>	8.0	
<b>Domestic Sales</b>	134,355	126,200	129,000	<b>137,274</b>	2.2	
<b>Overseas Sales</b>	50,651	53,800	61,500	<b>62,452</b>	23.3	← +27% on a local currency basis
<b>Gross Profit</b> (Gross Profit Margin)	89,325 48.3%	87,200 48.4%	94,700 49.7%	<b>102,233</b> 51.2%	14.5	← In-house sales ratio: FY2019 65.6% → FY2020 69.5%
<b>Operating Income</b> (Operating Income Margin)	15,503 8.4%	14,000 7.8%	20,000 10.5%	<b>27,094</b> 13.6%	74.8	
<b>Ordinary Income</b>	14,846	14,000	19,100	<b>28,374</b>	91.1	← Foreign exchange gains/losses: FY2019 ¥973 mil losses → FY2020 ¥472 mil gains
<b>Income Attributable to Owners of Parent</b>	9,854	10,000	11,800	<b>18,243</b>	85.1	← [Extraordinary losses] FY2020 Impairment losses: ¥388 mil Amortization of goodwill: ¥1,185 mil
<b>Average exchange rate</b>	<b>FY2019</b>	<b>FY2020</b>	<b>FY2020</b>	<b>FY2020</b>		
<b>1 US Dollar</b>	109.1 yen	107 yen	106 yen	<b>105.9 yen</b>		
<b>1 EURO</b>	121.1 yen	117 yen	123 yen	<b>123.1 yen</b>		

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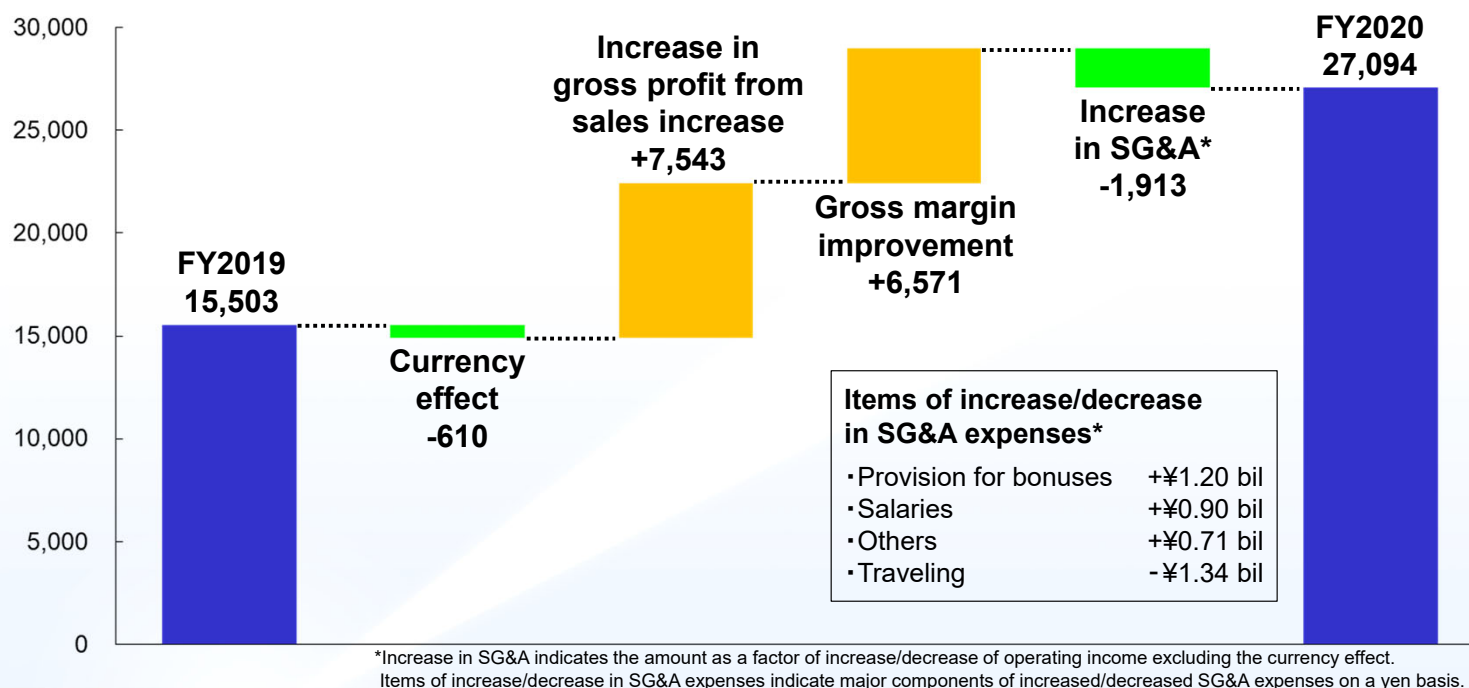
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- Overall sales increased 8% to ¥199.7 billion. Domestic sales increased 2.2% to ¥137.2 billion. Overseas sales increased 23.3% to ¥62.4 billion, a 27% increase on a local currency basis.
- Both domestic and overseas sales greatly exceed our forecast.
- Gross profit margin increased by 2.9 percentage points to 51.2% mainly due to an increase in the in-house sales ratio.
- Operating income increased 74.8% to ¥27.0 billion due to the increase in sales and higher gross profit margin.
- Ordinary income increased 91.1% to ¥28.3 billion, reflecting foreign exchange gains compared to losses in FY2019, and income attributable to owners of parent increased 85.1% to ¥18.2 billion, including extraordinary losses.
- The Company posted record highs in both sales and profits.

### 3) Breakdown of Operating Income

(Amounts of less than ¥1 million are rounded down)



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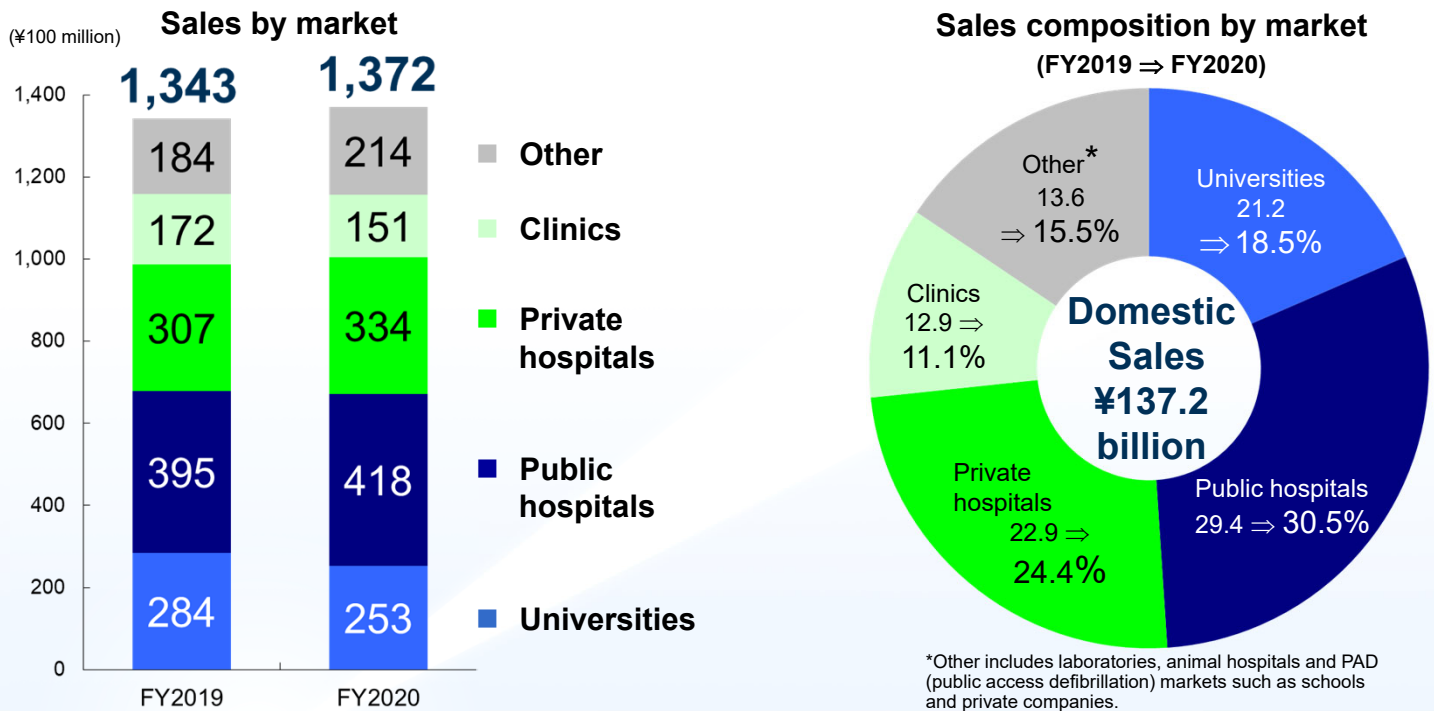
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- FY2020 operating income increased to ¥27.0 billion from ¥15.5 billion in FY2019.
- Currency effect had a negative impact of ¥0.6 billion.
- Increase in gross profit from sales increase was ¥7.5 billion.
- Gross margin improvement had a positive impact of ¥6.5 billion due to favorable overseas sales, in which the in-house sales ratio was higher, and a favorable product mix as the Company focused on selling in-house products in Japan. The improvement was also due to our efforts to improve productivity and maintain selling prices.
- SG&A expenses were a negative factor of ¥1.9 billion due to an increase in variable selling expenses and personnel expenses for bonuses linked to business performance, while travel expenses decreased.



## 4) Domestic Sales



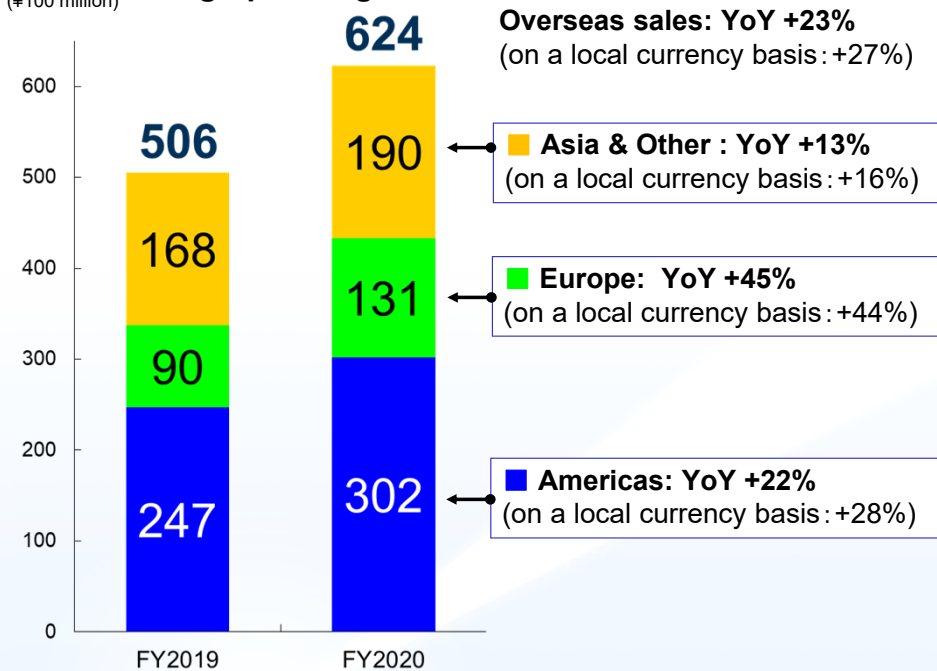
- Domestic sales increased by ¥2.9 billion to ¥137.2 billion.
- The Government's supplementary budget has supported demand in healthcare systems for accepting COVID-19 patients towards the end of the fiscal year due to the 3<sup>rd</sup> wave of COVID-19, while medical institutions reduced the number of testing and surgical procedures and postponed or froze the execution of their purchase budgets.
- Sales in the public hospital and private hospital markets increased favorably. Sales of AEDs in the PAD market also showed strong growth. In the university hospital market, there was a reactionary decline compared to FY2019 when sales were strong due to large orders related to construction of new hospitals. Sales in the clinic market also decreased.



## 5) Overseas Sales

(¥100 million)

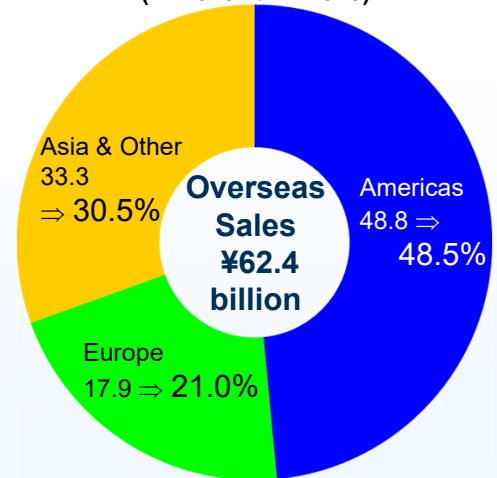
### Geographic segments



### Percentage of overseas sales to consolidated sales

FY2019	FY2020
27.4%	31.3%

### Geographic Segments (FY2019 ⇒ FY2020)



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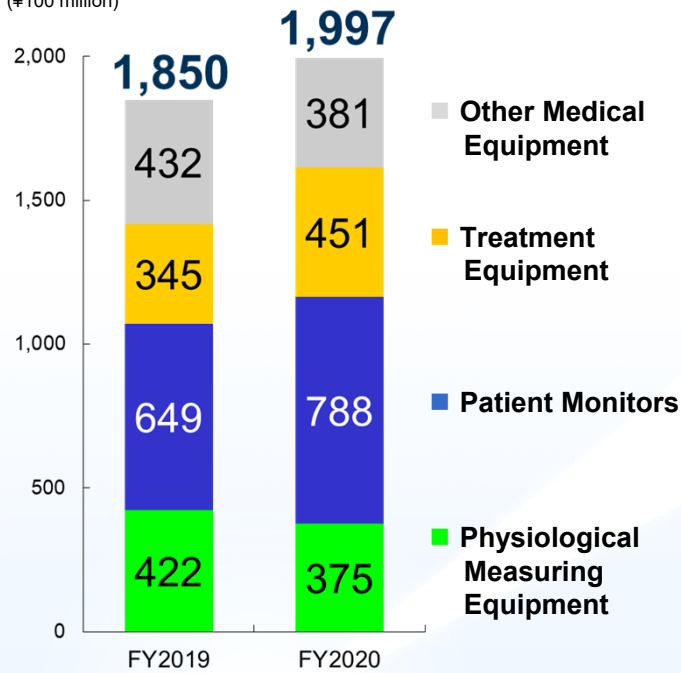
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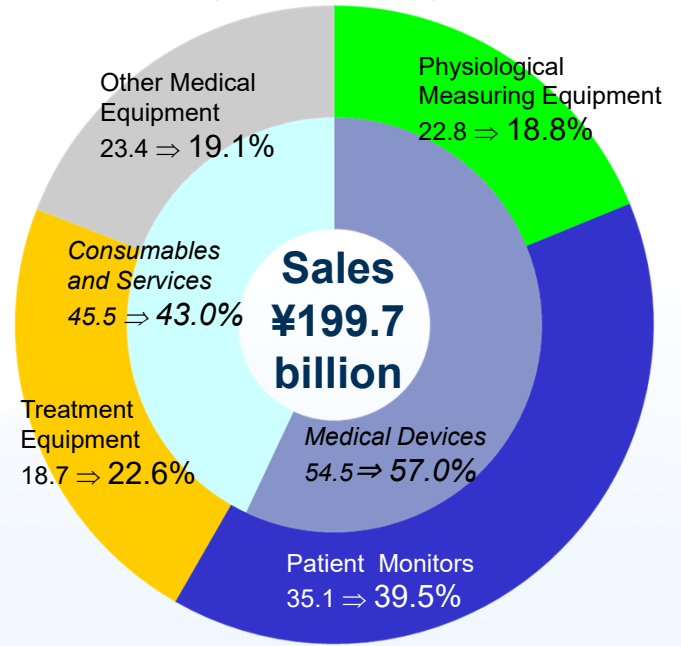
- Overseas sales increased by ¥11.8 billion to ¥62.4 billion.
- Sales in the Americas increased by ¥5.5 billion to ¥30.2 billion, a 28% increase on a local currency basis. Sales both in the U.S. and Latin America achieved double-digit growth. Especially, sales in Mexico and Colombia achieved 200% growth.
- Sales in Europe increased by ¥4.1 billion to ¥13.1 billion, a 44% increase on a local currency basis. Sales both in Western Europe and Eastern Europe showed strong growth, supported by 200% growth in Italy and Poland.
- Sales in Asia & Other regions increased by ¥2.2 billion to ¥19.0 billion, a 16% increase on a local currency basis, thanks to large orders in Israel and Indonesia. Sales in China increased steadily as the impacts of COVID-19 ended.

## 6) Sales by Product Category

(¥100 million)



Sales composition by product category (FY2019 ⇒ FY2020)



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- Sales by product category are shown above.
- Sales of Patient Monitors and Treatment Equipment including ventilators increased significantly. Sales of Physiological Measuring Equipment and Other Medical Equipment decreased due to weak demand.
- The sales ratio of Consumables and Services was 43%. Sales of catheters decreased, but sales of SpO<sub>2</sub> and CO<sub>2</sub> sensors increased favorably both in Japan and internationally.

## 6.1) Physiological Measuring Equipment

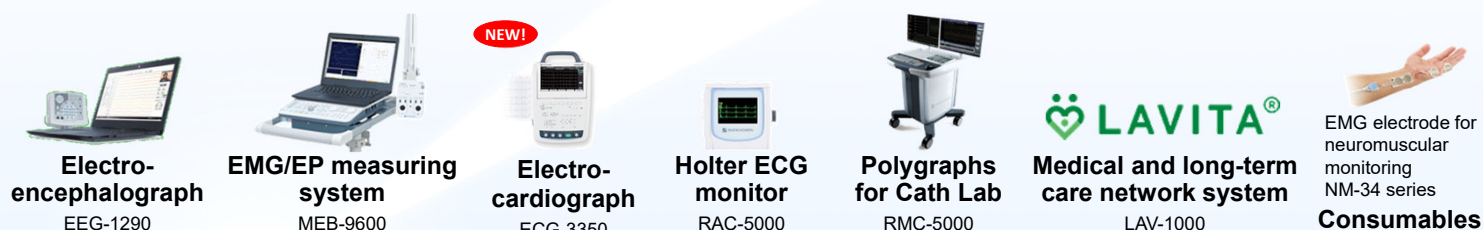
	FY2019	FY2020	YoY (%)
Electroencephalographs	7,564	<b>6,546</b>	-13.5
Electrocardiographs	6,661	<b>6,542</b>	-1.8
Polygraphs for Cath Lab	16,081	<b>14,676</b>	-8.7
Other Physiological Measuring Equipment*	11,966	<b>9,820</b>	-17.9
<b>Physiological Measuring Equipment</b>	<b>42,273</b>	<b>37,586</b>	<b>-11.1</b>
Domestic Sales	33,207	<b>29,555</b>	-11.0
Overseas Sales	9,065	<b>8,030</b>	-11.4

(Sales, millions of yen)

Sales of diagnostic information systems, ECGs, and polygraphs for cath lab decreased, as medical institutions reduced the number of testing and surgical procedures and postponed or froze their purchase budgets. Sales of EEGs remained flat, as sales of an EMG electrode increased favorably due to growing importance of neuromuscular monitoring. The demand for pulse oximeters and LAVITA increased because of use in checking mildly ill COVID-19 patients.

Sales of EEGs decreased in all regions. Sales of ECGs increased favorably in all regions.

\*Includes diagnostic information systems and products of other companies.



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- Sales of Physiological Measuring Equipment decreased 11.1% to ¥37.5 billion.
- Domestic sales decreased 11% to ¥29.5 billion. Sales of diagnostic information systems, ECGs, and polygraphs for cath lab decreased, as medical institutions reduced the number of testing and surgical procedures and postponed or froze their purchase budgets. Sales of EEGs remained flat, as sales of an EMG electrode increased favorably due to the growing importance of neuromuscular monitoring. The demand for pulse oximeters and LAVITA increased for mildly ill patients with COVID-19.
- Overseas sales decreased 11.4% to ¥8 billion. Sales of EEGs decreased in all regions due to weak demand, while sales of ECGs increased favorably in all regions.

## 6.2) Patient Monitors

	FY2019	FY2020	YoY (%)
<b>Patient Monitors</b>	64,966	<b>78,818</b>	21.3
<b>Domestic Sales</b>	39,735	<b>44,116</b>	11.0
<b>Overseas Sales</b>	25,230	<b>34,701</b>	37.5

(Sales, millions of yen)

Demand for bedside monitors, transmitters, and telemetry systems surged towards the end of the fiscal year. Sales of consumables such as sensors also increased favorably.

Sales achieved double-digit growth in all regions. Sales in Europe and Latin America especially showed strong growth.



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- Sales of Patient Monitors increased 21.3% to ¥78.8 billion.
- Domestic sales increased 11% to ¥44.1 billion. Demand for bedside monitors, transmitters, and telemetry systems surged towards the end of the fiscal year. Sales of consumables such as sensors also increased favorably.
- Overseas sales increased 37.5% to ¥34.7 billion. Sales achieved double-digit growth in all regions. Sales in Europe and Latin America especially showed strong growth.
- We estimate that the impact of special demand related to COVID-19 was around ¥4 billion in Japan and around ¥4.5 billion internationally.

## 6.3) Treatment Equipment

	FY2019	FY2020	YoY (%)	(Sales, millions of yen)
Defibrillators (for Hospital and Ambulance)	6,276	7,647	21.8	<b>Domestic:</b> Sales recovered from FY2020 2H. <b>International:</b> Sales showed strong growth in all regions.
AEDs (Automated External Defibrillator)	15,495	14,841	-4.2	
Pacemakers / ICDs	3,070	2,656	-13.5	
Ventilators	3,553	13,950	292.6	<b>Domestic:</b> Sales increased favorably thanks to orders received for replacement. <b>International:</b> Sales decreased in all regions.
Other Treatment Equipment	6,117	6,030	-1.4	
<b>Treatment Equipment</b>	<b>34,512</b>	<b>45,126</b>	<b>30.8</b>	<b>Domestic:</b> Demand for ventilators manufactured by both the Company and Hamilton grew towards the end of the fiscal year. <b>International:</b> The ventilator business has grown to a certain scale, driven by sales of the Company's two types of in-house ventilators.
Domestic Sales	23,695	30,294	27.8	
Overseas Sales	10,816	14,831	37.1	
(Ref.) AED Unit Sales	98,400	87,900	-10.7	
Domestic Unit Sales	48,800	56,900	16.6	



- Sales of Treatment Equipment increased 30.8% to ¥45.1 billion. Domestic sales increased 27.8% to ¥30.2 billion. Overseas sales increased 37.1% to ¥14.8 billion.
- Sales of defibrillators increased 21.8% to ¥7.6 billion. Domestic sales recovered from the 2<sup>nd</sup> half of FY2020. Overseas sales showed strong growth in all regions.
- The overall sales volume of AEDs was 87,900 units, and sales decreased 4.2% to ¥14.8 billion. Domestic sales increased favorably thanks to orders received for replacement, but overseas sales decreased in all regions.
- Sales of ventilators increased significantly to ¥13.9 billion from ¥3.5 billion in FY2019 due to strong sales both in Japan and internationally. In Japan, demand for ventilators manufactured by both the Company and Hamilton expanded towards the end of the fiscal year. Internationally, the Company's ventilator business has grown to a certain scale, driven by the Company's two types of in-house ventilators.
- We estimate that the impact of special demand for ventilators related to COVID-19 was around ¥5 billion in Japan and around ¥4 billion internationally.

## 6.4) Other Medical Equipment

	FY2019	FY2020	YoY (%)	(Sales, millions of yen)
Hematology Analyzers	10,172	9,331	-8.3	
Imaging Systems, Medical equipment for research and others *	33,082	28,865	-12.7	
<b>Other Medical Equipment</b>	43,254	<b>38,196</b>	<b>-11.7</b>	
<b>Domestic Sales</b>	37,716	<b>33,307</b>	<b>-11.7</b>	
<b>Overseas Sales</b>	5,538	<b>4,888</b>	<b>-11.7</b>	

\*Includes consumables, installation and maintenance services which are not part of other categories.

Sales of locally purchased products decreased significantly, as the Company focused on selling in-house products.

Sales of hematology analyzers and reagents decreased in all regions due to weak demand and a decline in the amount of testing.

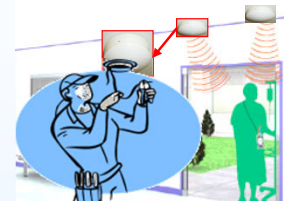


**Automated hematology analyzer**  
MEK-9100

NEW!



**Automated hematology and ESR analyzer**  
MEK-1305



**Installation and maintenance services**

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- Sales of Other Medical Equipment decreased 11.7% to ¥38.1 billion.
- Domestic sales decreased 11.7% to ¥33.3 billion. Sales of locally purchased products decreased significantly, as the Company focused on selling in-house products.
- Overseas sales decreased 11.7% to ¥4.8 billion. Sales of hematology analyzers and reagents decreased in all regions due to weak demand and a decline in the amount of testing.

## (Ref.) FY2020 Regional Sales by Product Category / YoY

(Amounts of less than ¥0.1 billion are rounded down)

	Overall Sales	Domestic Sales	Overseas Sales			
			Total	Americas	Europe	Asia & Other
Physiological Measuring Equipment	37.5 (-11%)	29.5 (-11%)	8.0 (-11%)	3.3 (-19%)	1.3 (+6%)	3.2 (-9%)
Patient Monitors	78.8 (+21%)	44.1 (+11%)	34.7 (+38%)	20.6 (+33%)	6.1 (+72%)	7.8 (+30%)
Treatment Equipment	45.1 (+31%)	30.2 (+28%)	14.8 (+37%)	5.3 (+30%)	4.6 (+46%)	4.8 (+37%)
Other Medical Equipment	38.1 (-12%)	33.3 (-12%)	4.8 (-12%)	0.9 (-1%)	0.9 (-0%)	3.0 (-17%)
<b>Total</b>	<b>199.7 (+8%)</b>	<b>137.2 (+2%)</b>	<b>62.4 (+23%)</b>	<b>30.2 (+22%)</b>	<b>13.1 (+45%)</b>	<b>19.0 (+13%)</b>

- In terms of the impact related to COVID-19, in Japan, we estimate that the positive impact for Patient Monitors and Treatment Equipment was around ¥9 billion, the negative impact for Physiological Measuring Equipment and Other Medical Equipment was around ¥4 billion, resulting in a net positive impact of around ¥5 billion.

Internationally, we also estimate that the positive impact for Patient Monitors and Treatment Equipment was around ¥9 billion, the negative impact for Physiological Measuring Equipment and Other Medical Equipment was around ¥4 billion, resulting in a net positive impact of around ¥5 billion. Overall, we estimate that there was a net positive impact of around ¥10 billion.



## 7) Financial Condition

(Amounts of less than ¥1 million are rounded down)

	FY2019	FY2020	Change		FY2019	FY2020	Change
Current Assets	129,020	<b>156,140</b>	27,120	Current Liabilities	40,319	<b>50,608</b>	10,288
Inventories	29,249	<b>38,887</b>	9,637	Interest-bearing Debt	350	<b>350</b>	—
Property, Plant & Equipment	20,003	<b>20,193</b>	190	Non-current Liabilities	5,692	<b>3,436</b>	-2,256
Intangible Assets	4,149	<b>2,329</b>	-1,820	Net Assets	121,774	<b>138,986</b>	17,211
Investments & Other Assets	14,612	<b>14,366</b>	-246				
<b>Total Assets</b>	167,786	<b>193,030</b>	25,243	<b>Total Liabilities &amp; Net Assets</b>	167,786	<b>193,030</b>	25,243
Inventory Turnover	3.7 months	<b>4.8 months</b>		Equity Ratio	72.6%	<b>72.0%</b>	

### [Reasons for the increase of current assets]

- Cash and deposits increased by ¥9.6 billion mainly due to income from operating activities
- Accounts receivable increased by ¥7.7 billion mainly due to higher sales in March compared to FY2019
- Inventories of finished goods and parts increased by ¥9.6 billion to respond to the special demand related to COVID-19

### [Reason for the increase of current liabilities]

- Accrued income taxes increased by ¥5.5 billion

- Total assets increased by ¥25.2 billion to ¥193 billion due to an increase in cash and accounts receivable.
- Inventory turnover was 4.8 months due to a temporary increase in inventories to respond to special demand related to COVID-19.

## 8) Cash Flows

	FY2019	FY2020	Change	(Amounts of less than ¥1 million are rounded down)												
<b>I . Cash flows from operating activities</b>	9,217	<b>13,945</b>	4,728	<table border="1"> <thead> <tr> <th></th> <th>FY2019</th> <th>FY2020</th> <th>Change</th> </tr> </thead> <tbody> <tr> <td>Income before income taxes</td> <td>13,980</td> <td>27,166</td> <td>+13,185</td> </tr> <tr> <td>Decrease (increase) in inventories</td> <td>-982</td> <td>-9,313</td> <td>-8,331</td> </tr> </tbody> </table>		FY2019	FY2020	Change	Income before income taxes	13,980	27,166	+13,185	Decrease (increase) in inventories	-982	-9,313	-8,331
	FY2019	FY2020	Change													
Income before income taxes	13,980	27,166	+13,185													
Decrease (increase) in inventories	-982	-9,313	-8,331													
<b>II . Cash flows from investing activities</b>	-4,607	<b>-2,946</b>	1,661													
<b>Free cash flows</b>	4,609	<b>10,999</b>	6,389													
<b>III . Cash flows from financing activities</b>	-3,054	<b>-3,007</b>	46													
<b>Effect of exchange rate change on cash and cash equivalents</b>	-339	<b>451</b>	791													
<b>Net increase (decrease) in cash and cash equivalents</b>	1,215	<b>8,442</b>	7,227													
<b>Cash and cash equivalents at end of period</b>	35,913	<b>44,356</b>	8,442													
<b>ROE</b>	8.3%	<b>14.0%</b>														

- Cash and cash equivalents at end of the period increased by ¥8.4 billion to ¥44.3 billion.
- ROE was 14% thanks to the improvement in profitability.

## 9) Capital Investments and R&D Costs

(Amounts of less than ¥1 million are rounded down)

	FY2019 Actual	FY2020			Change	FY2021 Plan
		Original Forecast announced May 13, 2020	Revised Forecast announced Nov 6, 2020	Actual		
Capital Investments	3,549	3,900	3,900	3,524	-26	4,100
Depreciation	3,597	3,600	3,600	3,236	-361	3,800
R&D costs	6,731	7,000	7,200	6,357	-373	6,600

### ● FY2020 capital investments

Molds for new products, measuring equipment and jigs, products for demonstration, IT systems, and production equipment (including equipment related to ramping-up production of two models of ventilators and patient monitors)

### ● FY2021 capital investments plan

Molds for new products, measuring equipment and jigs, products for demonstration, IT systems, and production equipment

- Capital investments and depreciation were ¥3.5 billion and ¥3.2 billion, respectively.
- R&D costs were ¥6.3 billion, which fell short of the forecast. This was because some clinical trials and responses to regulatory requirements have been delayed due to the COVID-19 pandemic. It was also because a part of R&D costs was allocated to development costs for maintenance and upgrades.
- In FY2021, capital investment will increase by ¥0.6 billion to ¥4.1 billion, depreciation will increase by ¥0.6 billion to ¥3.8 billion, and R&D costs will increase by ¥0.3 billion to ¥6.6 billion. We will accelerate development related to digital health solutions, as outlined in our long-term vision.

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## Forecast for FY2021

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# 1) Business Environment

The importance of healthcare system has been reaffirmed. The progress in COVID-19 vaccination and the status of the COVID-19 pandemic should be monitored carefully.

## Japan

- People continue to avoid visiting hospitals and clinics
- Recovery of medical institutions' earnings will take time

Testing and surgical procedures are performed under infection controls at medical institutions.

- Urgent comprehensive grants to cope with the COVID-19 (approx. until the end of September 2021)
- Special measures related to medical treatment fees

The Government's FY2021 budget aims to support medical institutions experiencing financial difficulty and enhance the ability of the healthcare system to accept COVID-19 patients.

- Funds for securing comprehensive medical and long-term care in the community: FY2021 budget ¥117.9 bil for medical care

## International

### U.S. and Europe

- DX in medical fields is accelerated
- The number of newly infected patients is decreasing thanks to COVID-19 vaccination. Economies are expected to recover gradually

### China

- Economic activity has recovered as the impact of COVID-19 had ended

### Emerging Markets

- Concerns that the spread of coronavirus variants may lead to a delay in economic recovery in some regions

- Due to the COVID-19 pandemic, the importance of healthcare systems has been reaffirmed around the world. Although progress has been made in vaccination, the status of the COVID-19 pandemic should be monitored carefully.
- In Japan, while it is expected to take time for medical institutions to recover profitability, the Government's FY2021 budget is being used to enhance the ability of the healthcare system to accept COVID-19 patients.
- Internationally, the digital transformation in medical fields is expected to accelerate, especially in the U.S. and Europe. In emerging markets, there are concerns that the spread of coronavirus variants may lead to a delay in economic recovery in some regions.

## 2) Forecast for FY2021

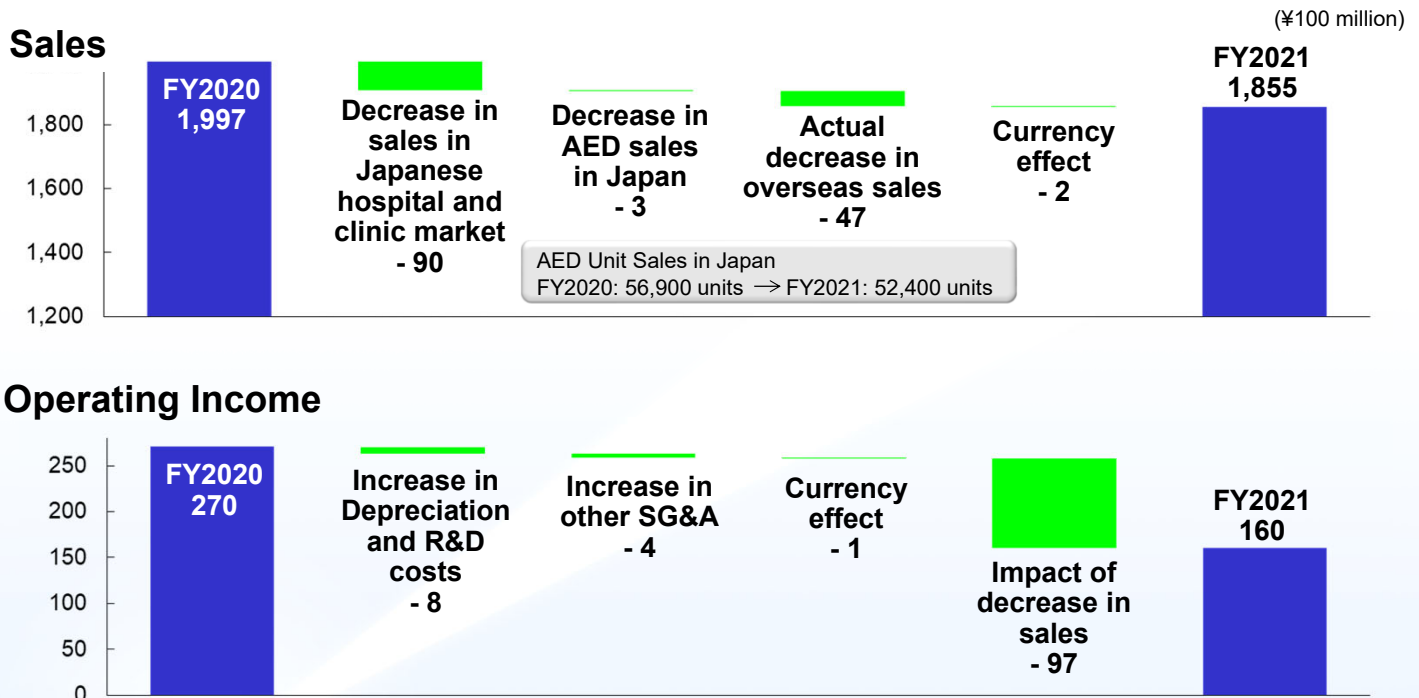
	FY2019 Actual	FY2020 Actual	FY2021 Forecast	YoY (%)	(Amounts of less than ¥1 million are rounded down)
<b>Sales</b>	185,007	199,727	185,500	-7.1	
<b>Domestic Sales</b>	134,355	137,274	128,000	-6.8	
<b>Overseas Sales</b>	50,651	62,452	57,500	-7.9	← Almost no currency effect
<b>Gross Profit</b> (Gross Profit Margin)	89,325 48.3%	102,233 51.2%	92,100 49.6%	-9.9	
<b>Operating Income</b> (Operating Income Margin)	15,503 8.4%	27,094 13.6%	16,000 8.6%	-40.9	
<b>Ordinary Income</b>	14,846	28,374	16,000	-43.6	
<b>Income Attributable to Owners of Parent</b>	9,854	18,243	11,000	-39.7	
<b>Percentage of Overseas Sales</b>	27.4%	31.3%	31.0%		

### Breakdown of overseas sales by region

	FY2020 Actual	FY2021 Forecast	YoY (%)
<b>Americas</b>	30,288	29,000	-4.3
<b>Europe</b>	13,139	9,500	-27.7
<b>Asia &amp;Other</b>	19,024	19,000	-0.1
<b>Total</b>	62,452	57,500	-7.9

- The Company forecasts its overall sales, domestic sales, and overseas sales for FY2021 to be: 7.1% decline to ¥185.5 billion, 6.8% decline to ¥128.0 billion, and 7.9% decline to ¥57.5 billion, respectively.
- In Japan, depending on the resolution of the COVID-19 pandemic, we expect positive factors, such as our sales and service activities will be normalized, and the number of testing and surgical procedures by medical institutions will recover. On the other hand, a reactionary decline in special demand for patient monitors and ventilators is expected to be a negative factor. Internationally, we will focus on the U.S. and China, but we expect a reactionary decline in special demand in Europe and Latin America.
- Gross profit margin is expected to be 49.6%. We will continue to make efforts to restrain sales of locally purchased products in Japan.
- Operating income is expected to decrease 40.9% to ¥16.0 billion due to the lower sales forecasts, both in Japan and internationally. The forecasts for ordinary income and income attributable to owners of parent are shown above.

### 3) Analysis of FY2021 Forecast



- As for sales in Japan, sales in the hospital and clinic markets, and sales of AEDs are expected to decrease by ¥9 billion and ¥0.3 billion, respectively. The forecast for AED unit sales is 52,400 units.
- As for overseas sales, the actual decrease in sales will be ¥4.7 billion. Negative currency effect will be ¥0.2 billion.
- As for operating income, depreciation and R&D costs will increase by ¥0.8 billion. Other SG&A will increase by ¥0.4 billion. Traveling expenses and advertising expenses are expected to increase compared to FY2020. Currency effect will have a negative impact of ¥0.1 billion. The negative impact of the decrease in sales will be ¥9.7 billion.



## (Ref.) Consolidated Forecast FY2021 by Product Category/ Exchange Rates

(Amounts of less than ¥1 million are rounded down)

	FY2020 Actual	FY2021 Forecast	Composition ratio (%)	YoY (%)
Physiological Measuring Equipment	37,586	40,700	21.9	8.3
Patient Monitors	78,818	70,900	38.2	-10.0
Treatment Equipment	45,126	36,100	19.5	-20.0
Other Medical Equipment	38,196	37,800	20.4	-1.0
<b>Total</b>	<b>199,727</b>	<b>185,500</b>	<b>100.0</b>	<b>-7.1</b>

(Reference)

<b>Consumables and Services</b>	85,890	87,200	47.0	1.5
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### Average Exchange Rate

	FY2020 Actual	FY2021 Forecast
1 US Dollar	105.9 yen	105 yen
1 EURO	123.1 yen	125 yen

### Estimated Exchange Rate Fluctuations for Full Fiscal Year

	Sales	Operating Income
1 US Dollar	0.36 bil yen	0.10 bil yen
1 EURO	0.06 bil yen	0.02 bil yen

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- In sales forecasts by product category, we expect a reactionary decline in special demand for patient monitors and ventilators both in Japan and internationally. On the other hand, we expect a recovery in sales of EEGs and hematology analyzers, as well as in overseas sales of AEDs, for which demand decreased in FY2020.
- We will also focus on increasing sales of consumables and services for patient monitors and ventilators, for which the installation base has expanded.
- The forecast for FY2021 is based on an exchange rate of 105 yen to the U.S. dollar and 125 yen to the euro.

# 4 Business Strategy

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# Long-term Vision and Three-year Business Plan

We contribute to the world by fighting disease and improving health with advanced technology, and create a fulfilling life for our employees.



## illuminating Medicine for Humanity

Create a better future for people and healthcare by solving global medical issues

Targets for  
FY2029

Operating  
Margin

15%

Overseas  
Sales Ratio

45%

Management  
Philosophy

Long-term  
Vision

Three-year  
Business Plan

Core Values

Apr. 2027 - Mar. 2030 **BEACON 2030 Phase III : Realize BEACON 2030**

Apr. 2024 - Mar. 2027 **BEACON 2030 Phase II : Invest for growth**

Apr. 2021 - Mar. 2024 **BEACON 2030 Phase I : Strengthen foundation**

Core values are shared by Nihon Kohden staff worldwide, helping to connect them and contributing to the promotion of our management philosophy, long-term vision, and three-year business plan.

Integrity / Humbleness / Diversity / Initiative / Customer Centric / Goal Oriented / Creativity

- The three-year business plan that started in April 2021 is the 1<sup>st</sup> phase in realizing our long-term vision, BEACON 2030. We will strengthen the business foundation to support sustainable growth, as well as cultivate new business areas and business models towards 2030.

## Embrace sustainability across business and corporate activities

**Management** Ensure strict compliance and strengthen group governance to reinforce the management structure

**Business** Improve the profitability of existing businesses and obtain the resources to invest strategically for sowing seeds of new growth

**Operations** Establish global SCM and strengthen core functions of operations to lay a foundation for global growth

- In the three-year business plan, in order to embrace sustainability across our business and corporate activities, we will work to ensure strict compliance and strengthen group governance, to improve the profitability of existing businesses and make upfront strategic investments, and to establish global SCM and strengthen core functions of operations.

## Targets for FY2023 ending March 2024

Net Sales	¥197.0 bil			
Domestic Sales	¥134.0 bil			
Overseas Sales (Overseas Sales Ratio)	¥63.0 bil (32.0%)	▶		
Consumables and Services Sales Ratio	48% or more			
Gross Profit Margin	50% or more			
Operating Income (Operating Income Margin)	¥20.0 bil (10.2%)			
Income Attributable to Owners of Parent	¥13.8 bil			
ROE	10%			
			<b>Breakdown of overseas sales by region</b>	
			Americas	¥32.0 bil
			Europe	¥10.0 bil
			Asia & Other	¥21.0 bil
				Three-year Plan
			R&D investments	Approx. ¥20.0 bil
			Capital investments	Approx. ¥14.0 bil

Exchange rate assumptions: ¥102 to the U.S. dollar, ¥124 to the euro

- The numerical targets for FY2023 ending March 2024 are as shown above.
- Consolidated financial results for FY2020 exceeded the targets of the three-year business plan. However, the Company reaffirmed the targets for FY2023, because there is no change in the assumptions regarding the market environment from the time the plan was formulated. There is also no impact on the basic policies and key strategies for the three-year business plan. We will strive to minimize the reactionary decline of special demand. We also aim to achieve a highly profitable structure that can regularly secure a gross profit margin of 50% or more and an operating income margin of 10% or more.

# Material Issues and KPIs



## Material Issues in Sustainability

## KPI

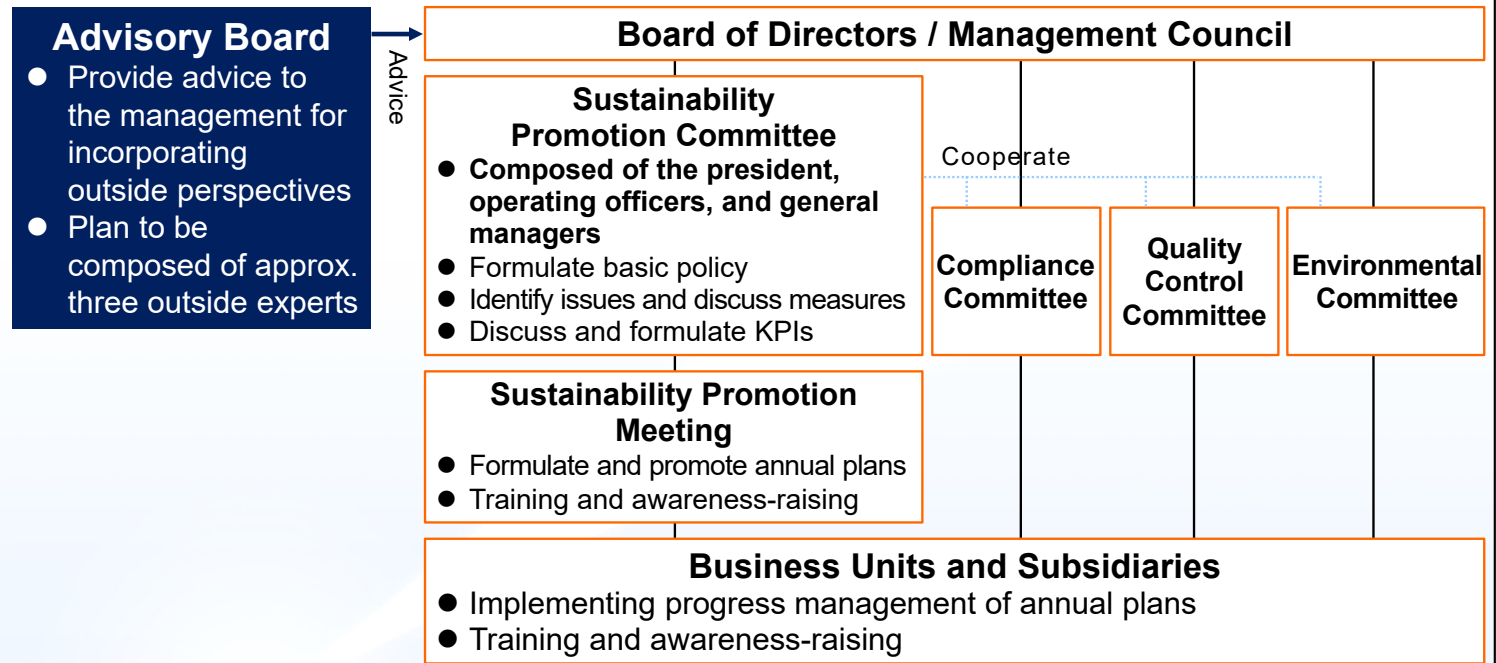
[Target]

Material issues to be addressed through business		KPI		[Target]
Material issues to be addressed through business	Accessible	Improve resuscitation rates by expanding access to AEDs	Number of AEDs sold in the world Utilization rate of AEDs in Japan and the US	<b>AED</b> Cumulative number of products sold: Over 350k units (worldwide, for 3 years)
		Provide educational opportunities for medical professionals in emerging nations	Promote training in epilepsy diagnosis in Indonesia Number of educational seminars held, hosting countries, participants (including online programs)	
	Intelligent	Automatic control of Medical equipment	R&D investment in a robotic anesthesia system R&D investment in closed loop control of ventilators	<b>MD Linkage</b> Cumulative number of - Connected models: Over 7 - Connected units: Over 5k (worldwide, for 3 years)
		Develop and provide sensors which are gentle on the patient	R&D investment in new sensors Number of products sold that have esCCO, synECI18, and iNIBP installed	
	Patient oriented	Create a peaceful patient environment with advanced alarm technology	R&D investment in improved alarm algorithms for patient monitors Number of hospitals that utilize alarm reports for improving workflow in Japan and the US	<b>CO<sub>2</sub></b> emissions per unit of sales FY2023: 15.2% reduction compared to FY2020 * ISO 14001 certified sites, Scope 1, 2
		Contribute to care for patients with heart failure, brain disorders and infection	R&D investment in new parameters and algorithms for heart failure care	
	Connected	Improve product utilization rate by remote monitoring	Number of MD Linkage sold and number of connected models Number of advance notifications before trouble with products occurs	<b>Cumulative sales ratio of environmental-friendly products: Over 20%</b> (worldwide, for 3 years)
		Eliminate health disparities through telemedicine	Number of network-oriented products sold like LAVITA R&D investment in realization of remote support for ICUs	
Material issues to be addressed through corporate activities	Human rights / Human resources	Foster a corporate culture of pride in contributing to healthcare	Employee satisfaction Develop human resources who can succeed globally	
	Quality	Pursue the highest level of quality in the world across the value chain	Net Promoter Scores Number of recalls	
	Governance	Ensure strict compliance and strengthen group governance	Establish and strengthen compliance programs of the Group Establish and promote global management policy in overseas subsidiaries Strengthen internal control over domestic sales	
	Environment	Contribute to realizing a carbon-free society	CO <sub>2</sub> emissions Number of models and sales ratio of environment-friendly products Amount of waste from disposal of products and parts	

- To embrace sustainability, the Company defined 12 material issues to be addressed through business and corporate activities. We also set specific KPIs for these material issues such as the number of AED unit sales, the number of units connected to the medical device remote monitoring system named MD Linkage, the volume of CO<sub>2</sub> emissions, and the sales ratio of environmental-friendly products.
- The targets for all the other KPIs are disclosed on our website for your reference.

# Enhance Sustainability Promotion Structure

Plan to establish in FY2021



- The Company revised its sustainability promotion structure in April 2021. The Sustainability Promotion Committee is composed of operating officers and divisions' general managers. An Advisory Board will be established to incorporate outside perspectives.
- We will work to embrace sustainability across our business and corporate activities.



# Enhance Corporate Governance and Promote Diversity

## Corporate Governance System

- June 2016 Transition to a **Company with an Audit & Supervisory Committee**  
Established a **Nomination and Remuneration Committee**
- June 2018 **One-third** of the board consists of **independent directors**
- June 2020 Elected **one female outside director**
- April 2021 Appointed **two female operating officers**

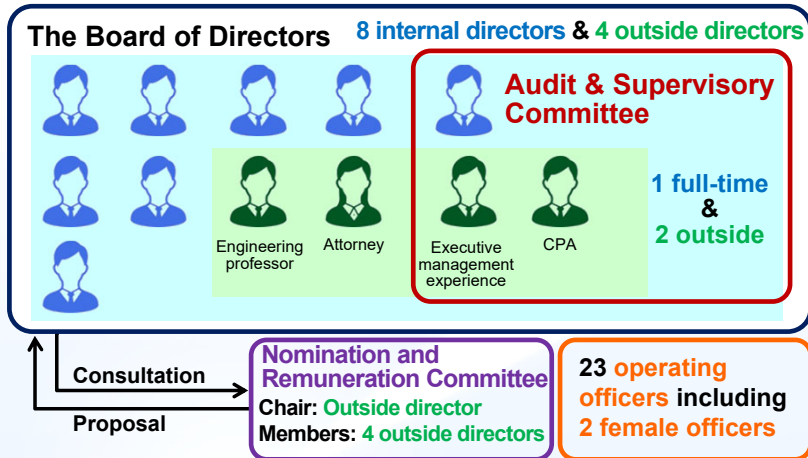
## Respect diversity of all employees

### < FY2020 Actual >

- Ratio of female managers: 7.6%
- Ratio of male employees taking childcare leave: 9.3%

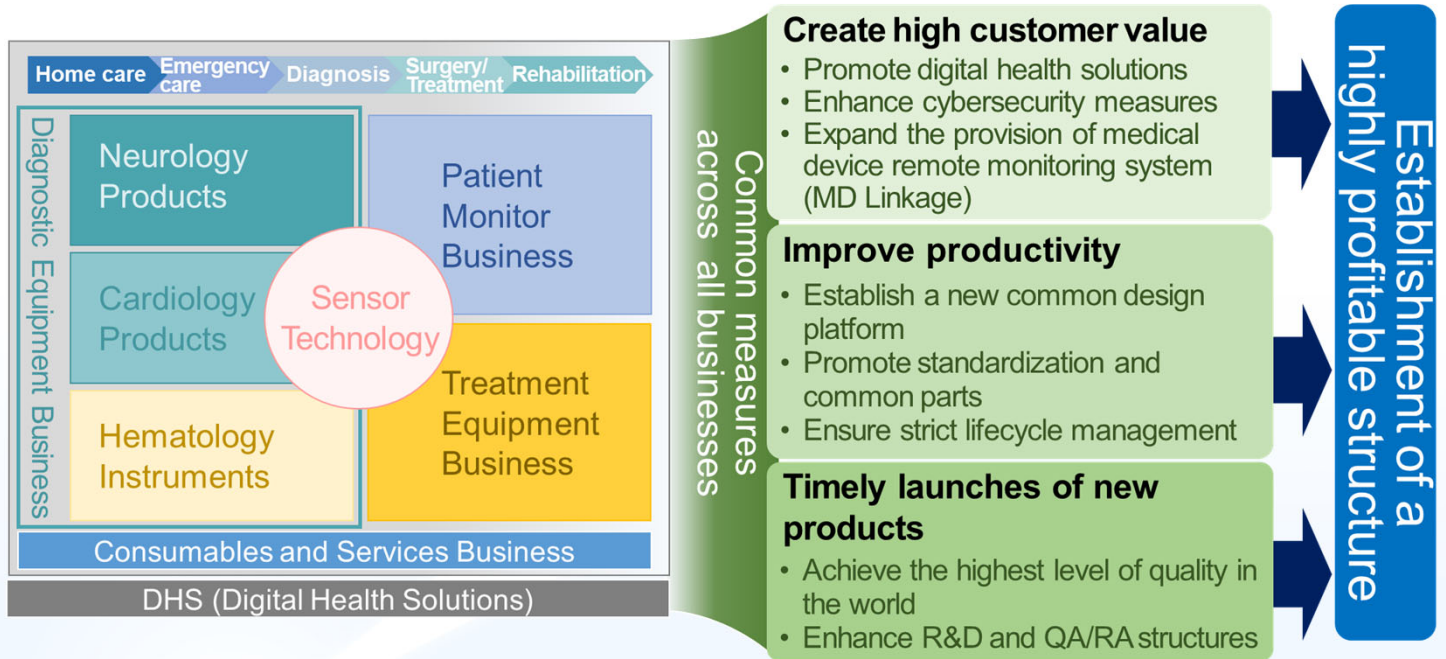
### < Targets >

- As of April 1, 2026  
**Ratio of female managers: Over 12%**
- By FY2025  
**Ratio of male employees taking childcare leave: Over 30%**



- We will enhance our corporate governance and diversity initiatives. Following the election of one female outside director in June 2020, two female operating officers were appointed in April 2021. We will continue to build a corporate governance system that emphasizes diversity.
- We will respect the diversity of all employees and promote work-style reforms, such as fostering female managers and supporting male employees in taking childcare leave, so that each employee can maximize his or her potential.

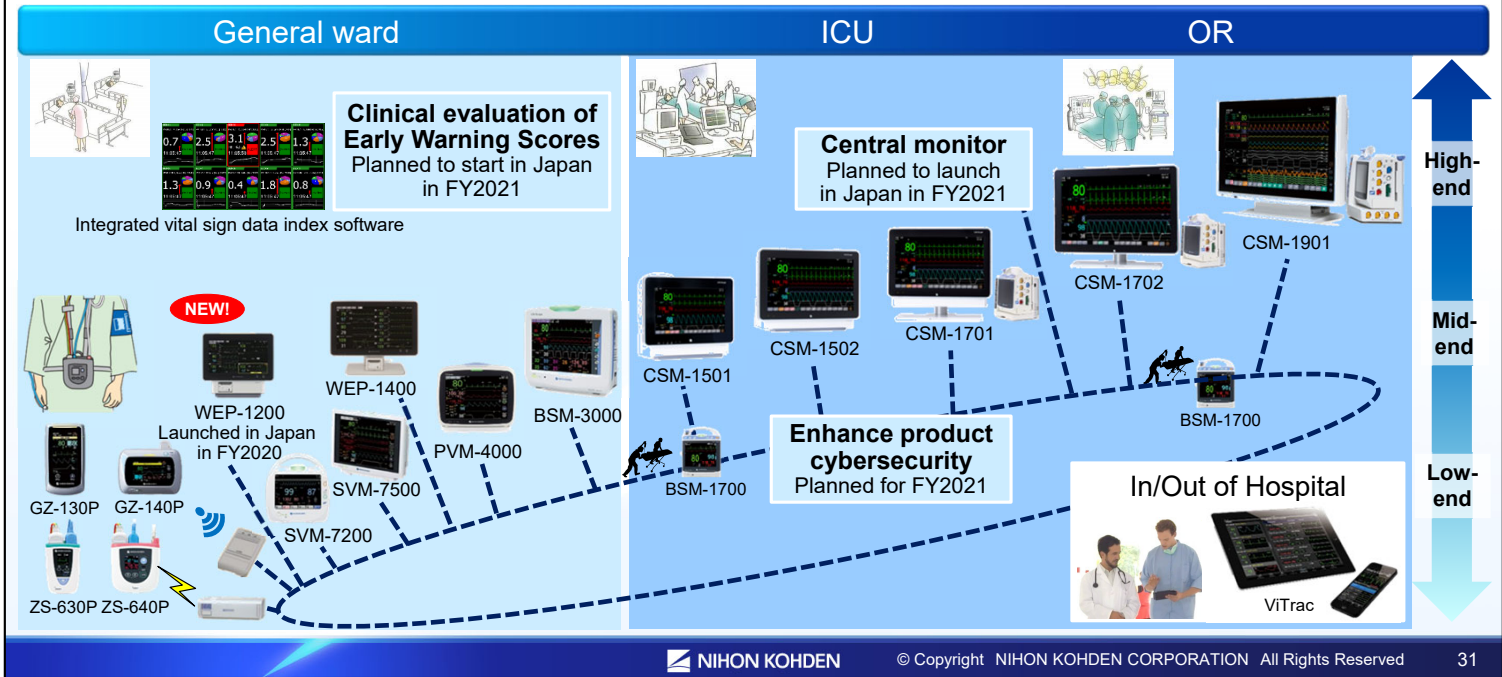
# Improve the Profitability of Existing Businesses



- To improve the profitability of existing businesses, we aim to establish a highly profitable structure by implementing the following common measures across all businesses: creation of high customer value, improvement of productivity, and timely launches of new products.
- The following are important measures which are common to all businesses: promotion of digital health solutions, enhancement of cybersecurity measures, establishment of a new common design platform, ensuring strict lifecycle management, strengthening of R&D and QA/RA structures.

# Patient Monitor Business

- ✓ Promote creating customer value by expanding product line-up and enhancing product capabilities



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- In our Patient Monitor Business, we will promote creating customer value by expanding our product line-up and enhancing the functions of our products.
- We will launch a central monitor in Japan and enhance our products' cybersecurity measures. In addition, we will start clinical evaluation of Early Warning Scores in Japan, which are used to detect the risk of sudden deterioration in patients at an early stage.

# Treatment Equipment Business

## Ventilators

- ✓ Strengthen sales of maintenance service contracts by packaging with regular replacement parts

Protective Control™



Tracheal intubation type Ventilator NKV-550

- ✓ Expand sales of disposable consumables



SpO<sub>2</sub> probes



NPPV\* cap-ONE mask



Mask-type Ventilator NKV-330

## Resuscitation Products

- ✓ Expand business in overseas pre-hospital markets



Defibrillator EMS-1052



Reduce infection risk of medical staff



Video Laryngoscope AWS-S200



Next-generation automated chest compression device  
Planned to launch in FY2021

\* NPPV(Noninvasive Positive Pressure Ventilation) is artificial respiratory management which doesn't require intratracheal intubation or tracheotomy.

- As the installation base of ventilators has expanded due to the COVID-19 pandemic, we will strengthen our proposals for maintenance service contracts both in Japan and internationally. We will also focus on expanding sales of disposable consumables such as SpO<sub>2</sub> probes and masks.
- In Resuscitation Products, we will expand our business in overseas pre-hospital markets. In addition to the defibrillator for ambulance and the video laryngoscope, we will launch a next-generation automated chest compression device developed at Defibtech. We will promote solution proposals that meet the needs of the pre-hospital market in each region.

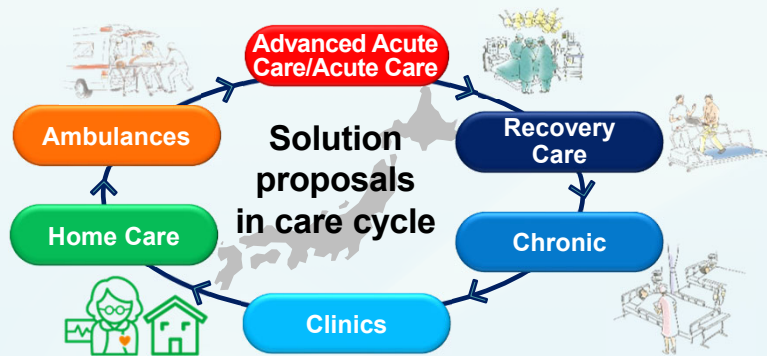
# Strengthen Strategies in Global Business

## Japan: Enhance solution proposals that contribute to improving quality of medical care and addressing medical issues

### ✓ Enhance customer value

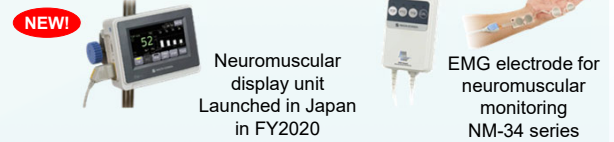
Strengthen marketing and service capabilities which contribute to improving

Medical safety   Patient outcomes   Operating efficiency



### • Enhance added value of patient monitors

Strengthen solution proposals as demand for neuromuscular monitoring in the perioperative period is increasing



### • Started test linkage of ventilators with medical device remote monitoring system

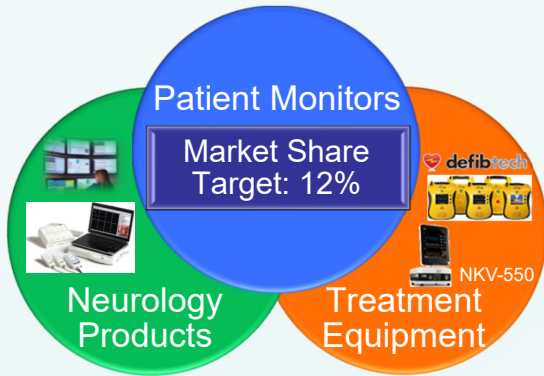


- In Japan, we will promote transformation centered on customer value propositions. Our sales and services team will work together to further enhance their ability to propose solutions which contribute to improving medical safety, patient outcomes, and operating efficiency.
- As part of our efforts to enhance the added value of patient monitors, we launched a neuromuscular display unit. We will strengthen our proposals in response to increasing demand for neuromuscular monitoring in the perioperative period. We have also started test linkage of ventilators with MD Linkage, a medical device remote monitoring system.



## U.S.: Expand business by integration and unification of six local subsidiaries

### ✓ Expand our product line-up

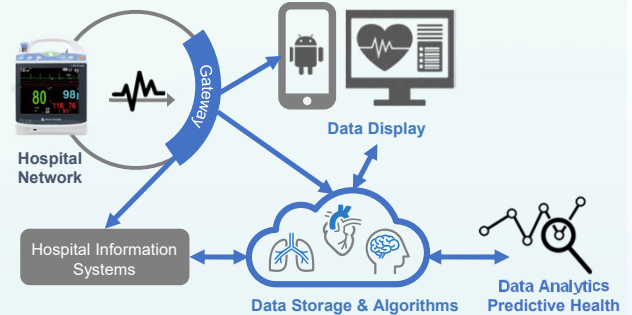


<b>Patient Monitors</b>  Mid-range bedside monitors CSM-1500/1700 series Planned to launch in FY2021 2H	<b>Resuscitation Products</b> <b>NEW!</b> Video Laryngoscope NK AWS-S200 Launched in FY2020 <b>Next-generation automated chest compression device</b> Planned to launch in FY2021
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**NEW!**

### ✓ Started pilot operation of new digital health solution project, **NK Data Platform**

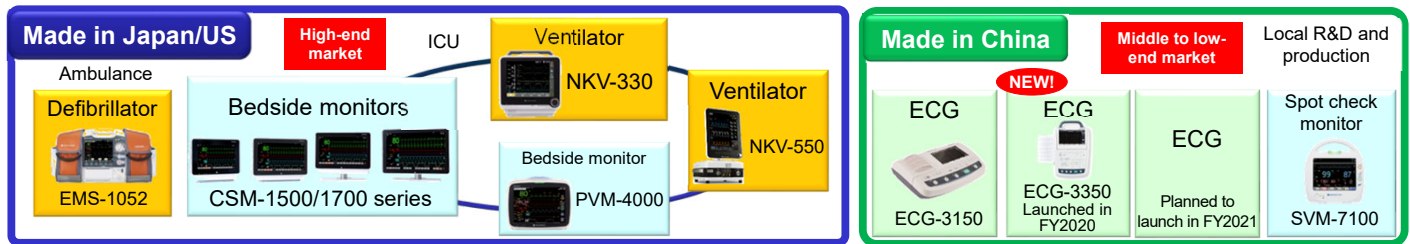
- Storage and display of numerical data, waveforms and alarm information from patient monitors and ventilators



April 1, 2021  
NKUS Lab was rebranded as Nihon Kohden Digital Health Solutions

- In the U.S., we aim to achieve further growth by strengthening our business structure by functional integration and unification of six local subsidiaries.
- As for mid-range bedside monitors, we submitted the application to FDA in November 2020 and plan to launch in the 2<sup>nd</sup> half of FY2021 as planned.
- In Resuscitation Products, we plan to launch a next-generation automated chest compression device.
- As the 1<sup>st</sup> step in our digital health solution project, which we defined as a new business in the three-year business plan, we started pilot operation of NK Data Platform. This is a platform for Big Data utilizing high-definition numerical data, waveforms and alarm information from medical devices such as patient monitors and ventilators. This system was developed at Nihon Kohden Digital Health Solutions, which was rebranded in April 2021.

## Emerging Markets: Enhance solution proposals with new products made in Japan, the U.S. and Shanghai



### Hematology Instruments

#### ✓ Launch of a series of new models

**NEW!** Launched internationally in FY2020



Automated hematology analyzer MEK-1301    Automated hematology and ESR\* analyzer MEK-1302    Automated hematology and ESR\* analyzer MEK-1305



**Hematology analyzer with reticulocyte measurement**

Planned to launch in FY2021 1H

#### ✓ Reagent factory in Dubai started production April 2021



#### ✓ Expand line-up of products made in China Planned for FY2021



Automated hematology analyzer MEK-9100

\* ESR (Erythrocyte Sedimentation Rate): High ESR means a possibility of infectious diseases such as tuberculosis. ESR is measured mainly in emerging countries.

- In emerging markets, we will strengthen our offerings of products developed and manufactured in Japan and the U.S. for the high-end market, and products developed and manufactured in Shanghai for the middle to low-end markets.
- We will launch a new model of ECGs developed and manufactured in Shanghai following the last year.
- We will also expand our line-up of hematology instruments. The MEK-1305, launched in FY2020, is the world's first automated hematology analyzer that can simultaneously measure ESR; the speed at which red blood cells sink. It is expected to be used for screening of infectious diseases such as tuberculosis in emerging countries. We also plan to launch the Company's first hematology analyzer with reticulocyte measurement.
- The reagent factory in Dubai started production in April 2021.
- We will also start production of a 5-part diff hematology analyzer in Shanghai.



# Basic Policy on Distribution of Profits and Dividends

Priorities: 1) Investment necessary for future business expansion  
2) Dividends 3) Share buybacks

Investment  
necessary for  
future business  
expansion

- R&D investments for developing digital health solutions which the Company has targeted as a new business
- Capital investments for promoting corporate digital transformation and establishing global SCM

R&D  
investments



Capital  
investments



M&A  
and alliance



Human  
resource  
development



Dividends

Maintain stable and continuous  
dividend payments

Target: Consolidated dividend  
payout ratio of 30% or more

Share buybacks

Consider in a flexible manner, taking into account comprehensively the Company's future business developments, investment plans, retained earnings and stock price level

FY2020

Full-year dividend: 55 yen including special dividend  
of 20 yen (pay-out ratio: 25.7%)

Share buybacks: Up to 1.5 billion yen May 14 - June 30  
(total return ratio: 33.9%) (forecast)

FY2021  
(Forecast)

Full-year dividend: 39 yen  
(pay-out ratio: 30.2%)

- The basic policy on distribution of profits and dividends is to maintain stable and continuous dividend payments while retaining necessary reserves for future business expansion. The priority for distribution of profits is i) investment necessary for future business expansion used in R&D investments, capital investments, M&A or alliances, and development of human resources, ii) dividends, and iii) share buybacks. The Company sets a target consolidated dividend payout ratio of 30% or more.
- As the business performance in FY2020 was favorable, the Company plans to pay the full-year dividend of 55 yen per share including a special dividend of 20 yen per share. The Company also plans to acquire its own shares up to 1.5 billion yen.
- Full-year dividend for FY2021 will be 39 yen per share, and the payout ratio will be 30.2%.

Disclaimer:

The contents of this document are based on the Company's best judgments at the time it was prepared and do not constitute a guarantee or promise that the Company will achieve its numerical targets or implement the measures described therein.

- Both in Japan and internationally, the COVID-19 pandemic is still not under control and the situation continues to be unpredictable. However, we will continue to do our best to support the medical workers by fulfilling our responsibilities as a medical device manufacturer.