

Consolidated Financial Highlights for the Third Quarter of FY2020 (From April 1, 2020 to December 31, 2020)

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NIHON KOHDEN CORPORATION

(Ticker Code: 6849)
February 3, 2021



Prologue) Response to Compliance Matter

January 2021

Arrest and prosecution of three employees of sales office in Japan

→ **Establishment of Investigation Committee**

Chairperson: Outside director,
Ms. Kanako Muraoka
Total 6 members: 2 outside directors,
2 outside lawyers, and 2 internal directors

- Investigate and confirm the facts related to the bribery case
- Investigate whether there are similar cases at other domestic sales branch offices
- Formulate measures to prevent recurrence and consider disciplinary actions to persons concerned

● Compliance Framework

In 2016: Nihon Kohden Europe and the World Bank signed a Negotiated Resolution Agreement in relation to inappropriate payments in a project in Romania

In 2017: Established **Anti-Corruption Policies**
Introduced **Global Compliance Program**



● Compliance Training

5 times a year in domestic sales branch offices

- Once a year:
 - Compliance workshops at the workplace level (All 5,300 executives & employees participated in FY2019)
 - E-learning on risk management (All executives & employees in Japan)
 - Compliance study sessions in each office (*)
- Twice a year: Compliance check (*) * Domestic sales branch offices

● Internal Reporting Hotline



The Company forbids all forms of retaliation against individuals who make reports in good faith. Anonymous reports are also acceptable.

Plan to revise compliance framework based on the results of the investigation by the Investigation Committee

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NIHON KOHDEN

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- Three employees of Nihon Kohden Chubu Branch Office, a sales branch office in Japan, have been arrested and indicted for prosecution on suspicion of bribery involving the procurement of medical equipment at Mie University Hospital.
- As a foundation of our corporate social credibility, the Company established the Anti-Corruption Policies and introduced the Global Compliance Program in 2017, and has been working to ensure compliance throughout the Group as a top priority. However, we deeply regret that we were not able to prevent this matter and sincerely apologize to our customers, shareholders, and all related parties for all of the inconvenience and concerns this may have caused.
- Nihon Kohden has taken this matter very seriously and set up an Investigation Committee on January 7, including two independent outside directors and two outside lawyers. We will continue to monitor the trial and do our best to clarify the facts as soon as possible. We also pledge to make a Company-wide effort to prevent the recurrence of such an event and quickly rebuild trust with all stakeholders by verifying and reviewing our compliance program and further strengthening our internal controls.
- We apologize profusely for causing this matter, even though we are in a position of responsibility for supporting the medical fields which are overwhelmed due to the COVID-19 pandemic. We would like to express our sincere respect to the medical workers who are struggling on the front lines of the COVID-19 response, and we will continue to do our best to fulfill our social responsibility as a medical device manufacturer.

1) Consolidated Financial Results for the 3rd Quarter of FY2020

	FY2019 3Q 9 months	FY2020 3Q 9 months	YoY (%)	(Amounts of less than ¥1 million are rounded down)
Net Sales	129,525	137,046	5.8	
Domestic Sales	94,387	88,004	-6.8	
Overseas Sales	35,137	49,042	39.6	← +44% on a local currency basis
Gross Profit (Gross Profit Margin)	63,039 48.7%	69,113 50.4%	9.6	← In-house sales ratio: 65.0% → 69.1%
Operating Income (Operating Income Margin)	8,396 6.5%	15,586 11.4%	85.6	← SG&A Ratio: 42.2% → 39.0%
Ordinary Income	8,108	14,697	81.2	← Foreign exchange losses: FY2019 3Q FY2020 3Q ¥511 mil → ¥1,271 mil
Income Attributable to Owners of Parent	4,832	8,882	83.8	← [Extraordinary losses] FY2020 3Q Impairment losses: ¥320 mil Amortization of goodwill: ¥1,193 mil

Average Exchange Rate	(2019/12)	(2020/12)
1 US Dollar	109.0 yen	106.3 yen
1 EURO	121.3 yen	122.2 yen

- Overall sales increased 5.8% to ¥137 billion. Domestic sales recovered over the 3rd quarter of FY2020 (3 months), and overseas sales remained strong, resulting in an upturn in overall sales.
- Domestic sales decreased 6.8% to ¥88.0 billion. This was due to the postponement of testing, surgical procedures, and hospitalization, as well as the deferral or freezing of budget execution for certain products which are not related to the COVID-19 response. There was also a reactionary decline from large-scale orders related to construction of new hospitals in the 3rd quarter of FY2019.
- Overseas sales increased 39.6% to 49.0 billion, a 44% growth on a local currency basis. Sales in all regions achieved double-digit growth. Amid the continuing spread of COVID-19, demand for patient monitors, ventilators and defibrillators remained solid.
- Operating income increased 85.6% to ¥15.5 billion due to the increase in sales, increase in gross profit margin and decrease in SG&A expenses. Gross profit margin was 50.4% thanks to an increase in the in-house sales ratio. SG&A expenses decreased due to lower traveling expenses as a result of restrictions on sales activities.
- Ordinary income increased 81.2% to ¥14.6 billion and income attributable to owners of parent increased 83.8% to ¥8.8 billion. The Company posted extraordinary losses such as amortization of goodwill and impairment losses for Defibtech, LLC, which it acquired in 2012, because demand for AEDs in overseas markets decreased in the midst of the COVID-19 crisis.
- Both domestic and overseas sales exceeded our expectations.

2) Highlights of FY2020 3Q

Net Sales : +5.8%

- **Japan:** Sales decreased because medical institutions reduced the number of testing and surgical procedures, and postponed or froze the purchase budget for certain products such as Physiological Measuring Equipment. There was also a reactionary decline from large-scale orders in FY2019 3Q.
- **International:** Sales achieved double-digit growth because solid demand for patient monitors, ventilators and defibrillators continued.

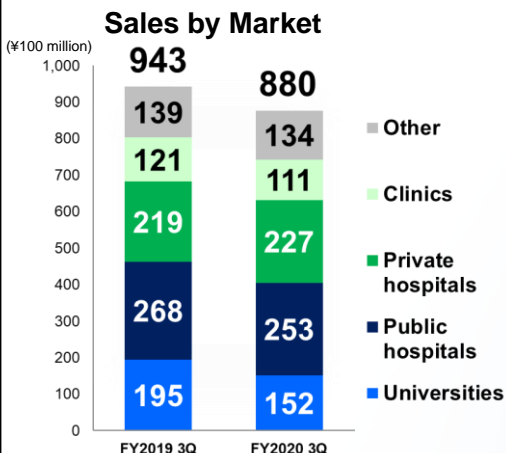
Operating Income : +85.6%

- Operating income increased significantly due to the increase in sales, increase in gross profit margin and decrease in SG&A expenses such as traveling expenses.
- Gross profit margin remained above 50% thanks to a favorable product mix.

Net Income : +83.8%

- The Company reviewed the future plans of Defibtech, LLC, which it acquired in 2012, and posted extraordinary losses such as amortization of goodwill and impairment losses because demand for AEDs in overseas markets decreased in the midst of the COVID-19 crisis.

3) Domestic Sales



Sales by Product Category

(Sales, millions of yen)

	FY2019 3Q 9 months	FY2020 3Q 9 months	YoY (%)
Physiological Measuring Equipment	23,607	20,025	-15.2
Patient Monitors	28,521	27,615	-3.2
Treatment Equipment	16,900	18,828	11.4
Other Medical Equipment	25,357	21,536	-15.1
Total Sales	94,387	88,004	-6.8

【Markets】 Sales in the university, public hospital and clinic markets decreased, while sales in the private hospital market increased. In the university and public hospital markets, there was also a reactionary decline compared to FY2019 3Q when sales were strong due to large orders related to construction of new hospitals.

【Products】 **Physiological Measuring Equipment:** Sales of all products recorded double-digit declines.

Patient Monitors: From FY2020 3Q (3 months), demand for patient monitors showed recovery, but sales of bedside monitors and clinical information systems decreased. Sales of telemetry systems increased favorably.

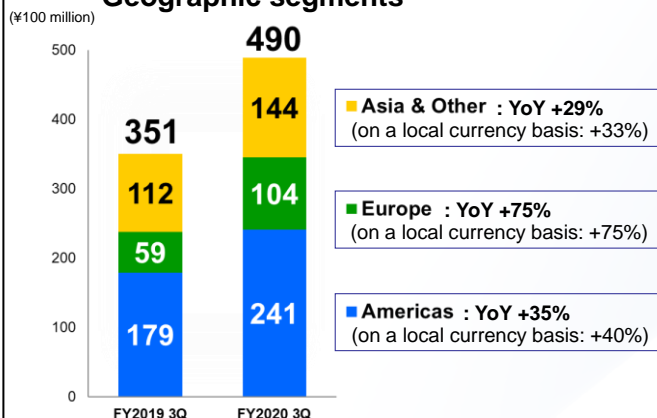
Treatment Equipment: Sales of ventilators and AEDs showed strong growth. Sales of defibrillators, pacemakers and ICDs decreased.

Other Medical Equipment: Sales of locally purchased products and installation services for medical devices decreased significantly, compared to FY2019 3Q when large orders were received.

- Domestic sales decreased significantly by ¥6.3 billion to ¥88.0 billion. In the 9 months of FY2019, there were large orders related to construction of new hospitals in the university and public hospital markets and a last-minute surge in demand before the consumption tax increase in October 2019. We estimate that the negative impact of the reactionary fall was around ¥4 billion.
- With regard to the impact of COVID-19, sales were affected by the postponement of testing, surgical procedures, and hospitalization, as well as the postponement or freezing of budget execution for certain products such as Physiological Measuring Equipment, while there was demand for patient monitors and ventilators to treat COVID-19 patients.
- Sales of Physiological Measuring Equipment and Other Medical Equipment recorded double-digit declines compared to the 9 months of FY2019, due to the restrictions on sales and service activities, postponement of testing and surgical procedures, and restrained purchasing by medical institutions.
- Sales of Patient Monitors decreased due to the reactionary fall after large orders in the 9 months of FY2019, although sales of telemetry systems and transmitters increased favorably due to the growing number of COVID-19 patients.
- In Treatment Equipment, sales of defibrillators, pacemakers and ICDs decreased, but sales of ventilators, manufactured by both Hamilton and the Company, increased significantly. Sales of AEDs also showed strong growth.
- In the 3rd quarter (3 months), sales increased compared to the same period of the previous fiscal year, in which sales were weak due to the reactionary fall following a previous surge in demand. Sales in the public and private hospital markets showed strong growth as demand for patient monitors and ventilators increased due to a recovery in the number of testing and surgical procedures, normalization of our sales and service activities, and the contribution of the Government supplementary budget for accepting COVID-19 patients. Sales in the clinic market also recovered due to the normalization of sales activities.
- As medical institutions are overwhelmed by the spread of COVID-19, we are providing LAVITA, a medical and nursing care network system, to accommodation facilities for mildly ill patients, which allows medical workers to monitor the condition of patients from another room. In addition, demand for pulse oximeters from COVID-19 patients recovering at home is increasing, and we are responding by increasing production.

4) Overseas Sales

Geographic segments



Percentage of overseas sales to consolidated sales

FY2019 3Q 9 months	FY2020 3Q 9 months
27.1%	35.8%

Sales by Product Category

(Sales, millions of yen)

	FY2019 3Q 9 months	FY2020 3Q 9 months	YoY (%)
Physiological Measuring Equipment	6,394	5,948	-7.0
Patient Monitors	17,487	27,753	58.7
Treatment Equipment	7,119	11,700	64.3
Other Medical Equipment	4,136	3,639	-12.0
Total Sales	35,137	49,042	39.6

+44% on a local currency basis

- [Region]** **Americas:** Sales in the U.S. showed double-digit growth. Sales in Latin America achieved double growth, mainly in Mexico and Colombia. Sales in Brazil also showed strong growth.
Europe: Sales both in Western Europe and Eastern Europe showed strong growth, supported by double growth in Italy, the U.K. and Poland.
Asia & Other: Sales showed double-digit growth, thanks to large orders in Israel and Indonesia. Sales in China also increased steadily.
- [Products]** **Physiological Measuring Equipment:** Sales of EEGs decreased in the Americas and Asia & Other. Sales of ECGs increased favorably in all regions.
Patient Monitors: Sales in all regions achieved double-digit growth. Especially, sales in Europe and Latin America doubled.
Treatment Equipment: The ventilator business has grown to a certain scale in all regions. Sales of defibrillators also increased favorably in all regions. Sales of AEDs decreased due to weak demand.
Other Medical Equipment: Sales of hematology analyzers and reagents decreased in all regions due to weak demand and a decline in the amount of testing.

- Overseas sales increased by ¥13.9 billion to ¥49.0 billion, a 44% growth on a local currency basis. The overseas sales ratio was 35.8%.
- Americas: Sales in the U.S. showed double-digit growth and sales in Latin America achieved double growth, amid the continuing spread of COVID-19. In Latin America, sales in Mexico and Colombia doubled, and sales in Brazil also increased significantly.
- In the U.S., we have been providing NK-HealthProtect, a program for combating COVID-19, since September 2020. Although the contribution to sales from this program is still small, we expect it to be a door opener to attract new customers.
- Europe: Sales in both Western and Eastern Europe showed strong growth due to not only the 1st wave of COVID-19 in March and April 2020 but also the 2nd wave from late October 2020. In particular, sales doubled in Italy, the U.K., and Poland. Sales in Europe totaled ¥10.4 billion, achieving the full-year forecast of ¥10.3 billion ahead of schedule, in 9 months.
- Asia & Other: Sales showed double-digit growth, thanks to large orders in Israel and Indonesia. Sales in China were in the high-single-digit growth on a local currency basis and in the mid-single-digit growth on a yen basis as the impact of COVID-19 had ended. The fiscal year-end of our subsidiary in China is December 31. Sales in China in the 4th quarter of FY2020 are expected to remain strong. Annual sales in China are expected to result in high-single-digit growth on a local currency basis and mid-single-digit growth on a yen basis.
- Sales of patient monitors, ventilators, and defibrillators increased significantly in all regions. The Company launched the two models of its first ventilators in FY2019, and the ventilator business has grown steadily as demand for the ventilator for critically ill patients, developed at Nihon Kohden OrangeMed, remained especially solid. Demand for defibrillators also increased from institutions preparing to care for increased numbers of critically ill patients.
- Sales of Physiological Measuring Equipment, AEDs, and hematology analyzers recorded double-digit declines due to weak demand and a decrease in the amount of testing.

5) Sales by Product Category

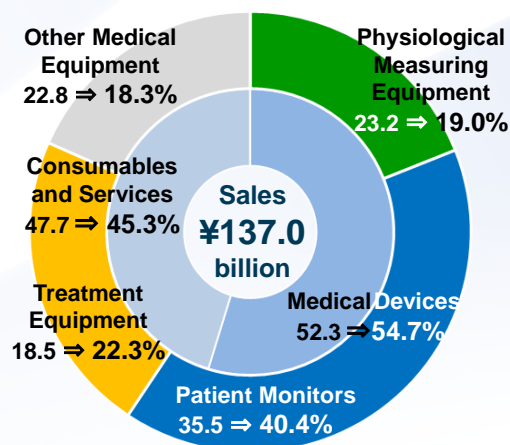
(Sales, millions of yen)

	FY2019 3Q 9 months	FY2020 3Q 9 months	YoY (%)
Physiological Measuring Equipment	30,002	25,973	-13.4
Patient Monitors	46,008	55,369	20.3
Treatment Equipment	24,019	30,528	27.1
Other Medical Equipment	29,494	25,175	-14.6
Total Sales	129,525	137,046	5.8

(Reference)

Consumables and Services	61,804	62,036	0.4
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**Sales composition
by product category**
(FY2019 3Q ⇒ FY2020 3Q)



- Sales of Physiological Measuring Equipment decreased 13.4% to ¥25.9 billion.
- Sales of Patient Monitors increased 20.3% to ¥55.3 billion.
- Sales of Treatment Equipment increased 27.1% to ¥30.5 billion.
- Sales of Other Medical Equipment decreased 14.6% to ¥25.1 billion.
- Sales of Consumables and Services increased 0.4% to ¥62.0 billion. In addition to the strong overseas performance, domestic sales recovered in the 3rd quarter of FY2020 (3months) as the number of testing and surgical procedures recovered and our service activities normalized.

(Ref.) Breakdown of Sales by Product Category

(Billions of yen)

Physiological Measuring Equipment	FY2019 3Q 9 months	FY2020 3Q 9 months
Electroencephalographs	5.1	4.3
Electrocardiographs	4.8	4.6
Polygraphs for Cath Lab	12.2	10.7
Other Physiological Measuring Equipment *	7.7	6.2

*Includes diagnostic information systems and products of other companies.

Treatment Equipment	FY2019 3Q 9 months	FY2020 3Q 9 months
Defibrillators (for Hospital and Ambulance)	4.1	5.2
AEDs (Automated External Defibrillator)	10.8	10.6
Pacemakers / ICDs	2.3	2.0
Ventilators	2.2	8.0
Other Treatment Equipment	4.3	4.5

Other Medical Equipment	FY2019 3Q 9 months	FY2020 3Q 9 months
Hematology Analyzers	7.3	6.6
Imaging Systems, Medical equipment for research and others *	22.1	18.5

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

- The products that were greatly affected by COVID-19 are as follows:
In Treatment Equipment, sales of ventilators grew to ¥8.0 billion and became the 2nd largest business scale following AEDs. Demand for defibrillators also increased in the overseas market. On the other hand, sales of EEGs and polygraphs for cath lab in Physiological Measuring Equipment, sales of pacemakers and ICDs in Treatment Equipment, and sales of imaging systems in Other Medical Equipment decreased because medical institutions postponed testing, surgical procedures, and hospitalization, as well as refraining from making new purchases other than COVID-19-related products.
In Japan, the Company has taken initiative in expanding in-house products sales and will continue to restrain sales of locally purchased products such as imaging systems.

6) Depreciation and R&D Costs

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

	FY2019 3Q 9 months	FY2020 3Q 9 months	Change	FY2019 Actual	FY2020	
					Original Forecast announced May 13	Revised Forecast announced Nov 6
Depreciation	2,611	2,334	-276	3,597	3,600	3,600
R&D costs	4,758	4,430	-328	6,731	7,000	7,200
Capital Investments				3,549	3,900	3,900

● FY2020 capital investments plan:

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

Mid-range bedside monitors

Resubmitted to FDA in U.S. at end of Nov. 2020



CSM-1500/1700 series

Reagent factory in Dubai

Production planned to start in FY2020 4Q



- Depreciation decreased by ¥0.2 billion to ¥2.3 billion. R&D costs decreased by ¥0.3 billion to ¥4.4 billion. There is no change to our full-year forecasts for depreciation of ¥3.6 billion and capital investments of ¥3.9 billion.
- There is also no change to our full-year forecast for R&D costs of ¥7.2 billion, while some clinical trials have been delayed due to COVID-19.
- As for the introduction of mid-range bedside monitors in the U.S, we resubmitted the application to FDA at the end of November 2020 since we have completed the development of cyber security measures. Normally, it takes about six months for approval, so we expect this to contribute to sales in the 2nd half of FY2021.
- The reagent factory in Dubai will start production in the 4th quarter of FY2020 as scheduled.

7) Forecast for FY2020

	FY2019 Actual	FY2020			YoY (%)
		Original forecast announced May 13	Revised forecast announced Nov 6	Revised forecast announced Feb 2	
Sales	185,007	180,000	184,000	190,500	3.0
Domestic Sales	134,355	126,200	127,200	129,000	-4.0
Overseas Sales	50,651	53,800	56,800	61,500	21.4
Gross Profit	89,325	87,200	91,300	94,700	6.0
(Gross Profit Margin)	48.3%	48.4%	49.6%	49.7%	
Operating Income	15,503	14,000	16,500	20,000	29.0
(Operating Income Margin)	8.4%	7.8%	9.0%	10.5%	
Ordinary Income	14,846	14,000	16,500	19,100	28.7
Income Attributable to Owners of Parent	9,854	10,000	11,000	11,800	19.7
Percentage of Overseas Sales	27.4%	29.9%	30.9%	32.3%	

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

← **+25% on a local currency basis**

Breakdown of overseas sales by region

	FY2019 Actual	FY2020			YoY (%)
		Original forecast announced May 13	Revised forecast announced Nov 6	Revised forecast announced Feb 2	
Americas	24,731	26,600	28,100	29,600	19.7
Europe	9,044	8,800	10,300	12,700	40.4
Asia & Other	16,876	18,400	18,400	19,200	13.8
Total	50,651	53,800	56,800	61,500	21.4

*Effective FY2020, Asia and Other are reclassified as Asia & Other.

*The assumed exchange rates for FY2020 4Q are 104 yen to the U.S. dollar and 126 yen to the euro.

Average exchange rate

1 US Dollar	109.1 yen	107 yen	106 yen	106 yen
1 EURO	121.1 yen	117 yen	122 yen	123 yen

- We have revised upward our full-year earnings forecast as the financial results in the 3rd quarter (three months) of FY2020 exceeded our internal plans.
- Domestic sales are expected at ¥129.0 billion, an increase of ¥1.8 billion from the previous forecast. The 2nd state of emergency is expected to have some adverse effects such as restrictions on sales and service activities of the Company and the postponement of testing and surgical procedures in medical institutions. On the other hand, domestic sales, mainly in patient monitors and ventilators, will continue to recover, because the Government's supplementary budget will support demand from medical institutions in the midst of the COVID-19 emergency. As shown in the table on page 10, some public university hospitals and public hospitals have suspended transactions or designation with the Company due to the arrest and prosecution of three employees, but the impacts from this matter on the consolidated results for FY2020 are expected to be limited.
- Overseas sales are expected at ¥61.5 billion, an increase of ¥4.7 billion from the previous forecast, representing a 25% growth on a local currency basis. Sales in the 3rd quarter (3 months) of FY2020 exceeded the internal projections in all regions due to the continued spread of infections since Europe was hit by the 2nd wave of COVID-19. A corresponding reactionary decline is expected to occur in the 4th quarter of FY2020 as COVID-19-related demand is already starting to settle down.
- Operating income is expected to be ¥20.0 billion because sales are expected to be higher than the previous forecast. Ordinary income and net income are as shown above. The gross profit margin is expected to be 49.7%.

8) Reason for the Revision

Net Sales (up ¥6.5 bil from previous forecast)	Domestic Sales (up ¥1.8 bil)	<ul style="list-style-type: none"> Sales in FY2020 4Q will continue to recover The Government's supplementary budget will support demand from medical institutions in the midst of the COVID-19 emergency Under the 2nd state of emergency, restrictions on sales/service activities, and postponement of testing and surgical procedures are expected
	Overseas Sales (up ¥4.7 bil)	<ul style="list-style-type: none"> The special demand related to COVID-19 in FY2020 3Q exceeded the Company's expectations A corresponding reactionary decline is expected to occur in FY2020 4Q
Operating Income (up ¥3.5 bil)	<ul style="list-style-type: none"> Revised upward because sales are expected to be higher than the previous forecast 	
Ordinary Income (up ¥2.6 bil)	<ul style="list-style-type: none"> Foreign exchange losses due to yen appreciation 	
Income Attributable to Owners of Parent (up ¥0.8 bil)	<ul style="list-style-type: none"> Extraordinary losses such as amortization of goodwill and impairment losses were posted in FY2020 3Q 	

- **Impact on business from the compliance matter**

- Some public university hospitals and public medical institutions have imposed dispositions such as suspending transactions and participation in tenders
- No change to the revised forecast for FY2020 announced on Feb. 2

The number of notifications (as of Jan. 29)

The period of suspension	42 national university hospitals	47 prefectures
1-3 months	7	8
4-6 months	2	9
7-9 months	0	2
10 months or more	1	3

(Ref.) Consolidated Forecast for FY2020 by Product Category/ Effect of Exchange Rates

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

	FY2019 Actual	FY2020				YoY (%)
		Original Forecast announced May 13	Revised Forecast announced Nov 6	Revised Forecast announced Feb 2	Composition ratio (%)	
Physiological Measuring Equipment	42,273	37,200	36,800	37,800	19.8	-10.6
Patient Monitors	64,966	68,500	70,000	74,700	39.2	15.0
Treatment Equipment	34,512	35,800	39,800	41,100	21.6	19.1
Other Medical Equipment	43,254	38,500	37,400	36,900	19.4	-14.7
Total	185,007	180,000	184,000	190,500	100.0	3.0

(Reference)

Consumables and Services	84,160	82,200	81,500	84,500	44.4	0.4
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Estimated Exchange Rate Fluctuations for Full Fiscal Year

	Sales	Operating Income
1 US Dollar	0.35 bil yen	0.07 bil yen
1 EURO	0.10 bil yen	0.05 bil yen

- The Company has revised the sales forecast for FY2020 by product category as shown above, as solid demand for patient monitors and ventilators continued both in Japan and internationally, and sales of AEDs in Japan and defibrillators in international markets increased favorably.

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.

