

Consolidated Financial Highlights for the First Quarter of FY2020 (From April 1, 2020 to June 30, 2020)

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| 1) Financial Results | 6) Topics |
| 2) Highlights | 7) Depreciation and R&D costs |
| 3) Domestic Sales | 8) COVID-19 Impact on Business |
| 4) Overseas Sales | 9) Forecast for FY2020 |
| 5) Sales by Product Category
[Ref] Breakdown | [Ref] Sales Forecast by Product Category/
Effect of Exchange Rate |

NIHON KOHDEN CORPORATION

(Ticker Code: 6849)
August 4, 2020



1) Consolidated Financial Results for the 1st Quarter of FY2020

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

	FY2019 1Q	FY2020 1Q	YoY (%)
Net Sales	38,551	38,461	-0.2
Domestic Sales	28,392	24,809	-12.6
Overseas Sales	10,159	13,652	34.4
Gross Profit (Gross Profit Margin)	18,524 48.1%	19,428 50.5%	4.9
Operating Income (Operating Income Margin)	542 1.4%	1,831 4.8%	237.8
Ordinary Income	-26	1,581	—
Income Attributable to Owners of Parent	-499	1,060	—

Average Exchange Rate	(2019/6)	(2020/6)
1 US Dollar	¥110.7	¥107.9
1 EURO	¥123.5	¥118.1

+40% on a local currency basis
In-house sales ratio: FY2019 1Q 62.5% → FY2020 1Q 68.7%
SG&A Ratio: 46.7% → 45.7%
Foreign exchange losses: FY2019 1Q ¥0.64 bil → FY2020 1Q ¥0.43 bil

- Overall sales decreased 0.2% to ¥38.4 billion.
- Domestic sales decreased 12.6% to ¥24.8 billion as the Company refrained from nonessential visits to customers, and medical institutions postponed testing and surgical procedures. There was also a reactionary decline compared to the 1st quarter of FY2019 when sales were strong due to large orders related to construction of new hospitals.
- Overseas sales increased 34.4% to ¥13.6 billion, a 40% growth on a local currency basis. Sales in all regions achieved double-digit growth. Demand for patient monitors and ventilators increased due to the growing number of COVID-19 patients.
- Operating income increased significantly to ¥1.8 billion due to an increase in gross profit and a decrease in SG&A expenses. Gross profit margin improved to 50.5% due to the increase in the in-house sales ratio. It is the first time since the 1st quarter of FY2014 that the rate has been above 50%. SG&A expenses decreased due to lower traveling expenses as a result of voluntary restraint of sales activities and lockdowns.
- As operating income increased significantly, ordinary income and income attributable to owners of parent were recorded respectively compared to loss in the 1st quarter of FY2019.
- Domestic sales were in line with the Company's internal plan. Overseas sales exceeded our expectations as sales of patient monitors and ventilators showed strong growth. Operating income also exceeded our expectation due to strong overseas sales and gross profitability improvement.

2) Highlights of FY2020 1Q

Net Sales : -0.2%

- **Japan:** Sales decreased as the Company's sales and service staff limited visits to medical institutions and hospitals postponed testing and surgical procedures. Sales in the university and public hospital markets decreased significantly compared to the strong performance in FY2019 1Q when large orders related to construction of new hospitals were received.
- **International:** Sales in all regions achieved double-digit growth because demand for patient monitors and ventilators increased.

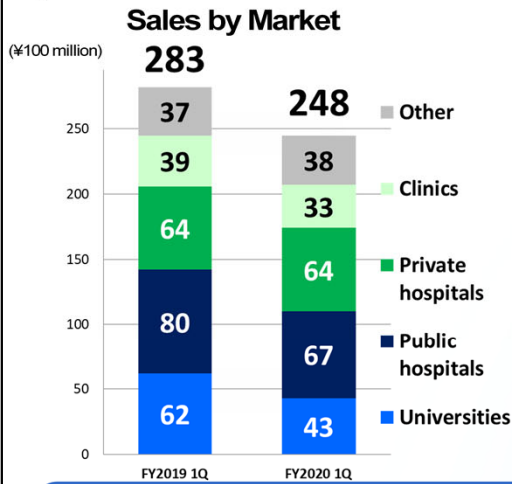
Operating Income : +237.8%

- Gross profit margin improved thanks to a favorable product mix. It is the first time since FY2014 1Q that the rate has been above 50%.
- Operating income increased significantly due to an increase in gross profit and a decrease in SG&A expenses such as traveling expenses.

Ordinary Income : ¥1,581 mil (¥26 mil of ordinary loss in FY2019 1Q)

Net Income : ¥1,060 mil (¥499 mil of net loss in FY2019 1Q)

3) Domestic Sales



Sales by Product Category

(Sales, millions of yen)

	FY2019 1Q	FY2020 1Q	YoY (%)
Physiological Measuring Equipment	7,291	5,643	-22.6
Patient Monitors	8,183	7,732	-5.5
Treatment Equipment	5,493	5,551	1.0
Other Medical Equipment	7,424	5,881	-20.8
Total Sales	28,392	24,809	-12.6

【Markets】 Sales in the university and public hospital markets decreased significantly compared to the strong performance in FY2019 1Q when large orders related to construction of new hospitals were received. Sales in the clinic market also decreased. Sales in the private hospital market remained flat.

【Products】 **Physiological Measuring Equipment:** Sales of all products recorded double-digit declines. Sales of polygraphs for cath lab decreased because hospitals postponed testing and surgical procedures.

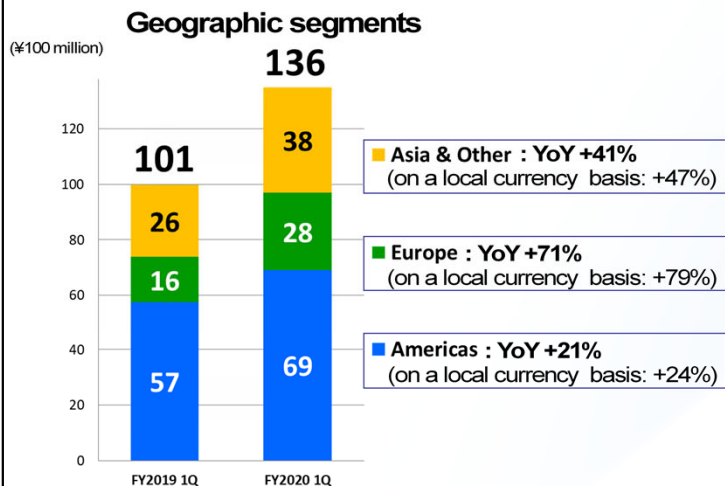
Patient Monitors: Sales of bedside monitors and clinical information systems decreased significantly in reaction to the strong performance in FY2019 1Q. Sales of telemetry systems and transmitters increased favorably.

Treatment Equipment: Sales of ventilators manufactured by both Hamilton and Nihon Kohden showed strong growth. Sales of AEDs increased favorably thanks to orders received for replacement of existing installations. 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 1Q when large orders were received. It was also due to our sales and service staff limiting visits to medical institutions to a minimum.

- Domestic sales decreased by ¥3.5 billion to ¥24.8 billion.
- In the 1st quarter of the previous fiscal year, there were large orders related to construction of new hospitals and budget execution before the consumption tax increase. We estimate that the negative impact of the reactionary fall was around ¥2 billion.
- We also estimate that the negative impact of COVID-19 was around ¥1.5 billion. The Company's sales and service staff limited visits to customers to a necessary minimum and hospitals postponed testing and surgical procedures, while demand for patient monitors and ventilators increased due to the growing number of COVID-19 patients.
- Sales in the university and public hospital markets recorded double-digit declines compared to the strong performance in the 1st quarter of FY2019. The decline was also due to the fact that sales of consumables such as catheters decreased as hospitals postponed testing and surgical procedures, and maintenance and inspections were postponed due to the Company's service staff refraining from visiting to customers. Sales in the clinic market decreased as the Company's sales staff limited visits to customers and clinics refrained from making new purchases. Sales in the private hospital market remained flat as there was some movement towards enhancing healthcare systems to deal with COVID-19 patients.
- Sales of Physiological Measuring Equipment and Other Medical Equipment recorded double-digit declines compared to the strong performance in the 1st quarter of FY2019. This was also because the Company's sales and service staff limited visits to customers to a necessary minimum and medical institutions postponed testing and surgical procedures as well as refraining from making new purchases.
- Sales of Patient Monitors decreased due to the reactionary fall after large orders in the 1st quarter of FY2019. Sales of telemetry systems and transmitters increased favorably due to the growing number of COVID-19 patients.
- In Treatment Equipment, sales of ventilators showed strong growth, while sales of defibrillators, pacemakers and ICDs decreased. Sales of AEDs also increased due to an increase in unit sales. Sales of AEDs are expected to be affected by the Company refraining from development of new deals with private companies after the 2nd quarter onward.

4) Overseas Sales



Percentage of overseas sales to consolidated sales

FY2019 1Q	FY2020 1Q
26.4%	35.5%

Sales by Product Category

(Sales, millions of yen)

	FY2019 1Q	FY2020 1Q	YoY (%)
Physiological Measuring Equipment	1,899	1,698	-10.6
Patient Monitors	5,215	7,650	46.7
Treatment Equipment	1,739	3,163	81.8
Other Medical Equipment	1,304	1,139	-12.6
Total Sales	10,159	13,652	34.4

+40% on a local currency basis

- 【Region】 Americas:** Sales in both the U.S. and Latin America showed double-digit growth. In Latin America, sales in Brazil and Mexico increased favorably.
- Europe:** Sales in Western Europe showed strong growth, primarily in Italy and the U.K.
- Asia & Other:** Sales in China increased favorably. Large orders in Vietnam and Qatar also contributed to increased sales.
- 【Products】 Physiological Measuring Equipment:** Sales of EEGs decreased in the U.S and China. Sales of ECGs increased favorably in Asia & Other and Europe.
- Patient Monitors:** Sales in all regions achieved double-digit growth. Especially, sales in Europe and Asia & Other doubled from FY2019 1Q.
- Treatment Equipment:** Sales of ventilators increased significantly in all regions. Sales of defibrillators showed strong growth in Asia & Other and Europe. Sales of AEDs decreased due to weak demand in all regions.
- Other Medical Equipment:** Sales of hematology analyzers decreased in all regions.

- Overseas sales increased by ¥3.5 billion to ¥13.6 billion, a 40% growth on a local currency basis. The overseas sales ratio was 35.5%.
- Americas: Sales in both the U.S. and Latin America showed double-digit growth. In Latin America, sales in Brazil and Mexico increased favorably due to the COVID-19.
- Europe: Sales in Western Europe showed strong growth, primarily in Italy and the U.K.
- Asia & Other: Sales in China showed strong growth and the Company received large orders of patient monitors in Vietnam and Qatar. Sales in China were double-digit growth both on a local currency and a yen basis. The fiscal year-end of our subsidiary in China is December 31. Sales in China in the 1st half of FY2020 are expected to result in high-single-digit growth on a local currency basis and low-single-digit growth on a yen basis, and the growth is expected to be moderate. Sales of patient monitors are expected to be reactionary decline in the 2nd half of FY2020 as the COVID-19 outbreak is under control in China. The Company aims to achieve its full-year targets by strengthening sales activities of EEGs and hematology analyzers, for which demand is expected to recover.
- Sales of patient monitors and ventilators increased significantly in all regions. The Company launched the two models of its first ventilators in FY2019. Especially, demand for the ventilator for acutely ill patients developed at Nihon Kohden OrangeMed increased due to the growing number of COVID-19 patients. This ventilator has a very good reputation in hospitals as it is easy to use because of its intuitive operation. We look forward confidently to the expansion of our ventilator business in the future.
- 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

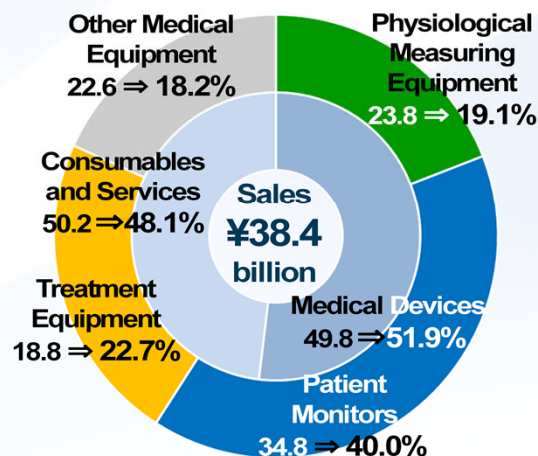
(Sales, millions of yen)

	FY2019 1Q	FY2020 1Q	YoY (%)
Physiological Measuring Equipment	9,191	7,342	-20.1
Patient Monitors	13,398	15,382	14.8
Treatment Equipment	7,233	8,714	20.5
Other Medical Equipment	8,728	7,021	-19.6
Total Sales	38,551	38,461	-0.2

(Reference)

Consumables and Services	19,342	18,502	-4.3
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**Sales composition
by product category**
(FY2019 1Q ⇒ FY2020 1Q)



- Sales of Physiological Measuring Equipment decreased 20.1% to ¥7.3 billion.
- Sales of Patient Monitors increased 14.8% to ¥15.3 billion.
- Sales of Treatment Equipment increased 20.5% to ¥8.7 billion.
- Sales of Other Medical Equipment decreased 19.6% to ¥7.0 billion.
- Sales of Consumables and Services decreased 4.3%. Sales of consumables such as catheters decreased in Japan due to the postponement of testing and surgical procedures. There was also a negative impact from the Company's voluntary restraint of service activities.

(Ref.) Breakdown of Sales by Product Category

(Billions of yen)

Physiological Measuring Equipment	FY2019 1Q	FY2020 1Q
Electroencephalographs	1.4	1.1
Electrocardiographs	1.4	1.3
Polygraphs for Cath Lab	3.9	3.0
Other Physiological Measuring Equipment *	2.3	1.7

*Includes diagnostic information systems and products of other companies.

Treatment Equipment	FY2019 1Q	FY2020 1Q
Defibrillators (for Hospital and Ambulance)	1.1	1.2
AEDs (Automated External Defibrillator)	3.1	3.0
Pacemakers / ICDs	0.8	0.6
Ventilators	0.7	2.4
Other Treatment Equipment	1.4	1.2





Other Medical Equipment	FY2019 1Q	FY2020 1Q
Hematology Analyzers	2.0	2.1
Imaging Systems, Medical equipment for research and others *	6.7	4.8

*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 increased by ¥1.7 billion. In Physiological Measuring Equipment, sales of polygraphs for cath lab decreased by ¥0.9 billion. In Other Medical Equipment, sales of imaging systems decreased by ¥1.9 billion. In Japan, the Company has been working on its initiative to expand in-house products sales and continues to restrain sales of locally purchased products such as imaging systems.

6) Topics: Strengthening synergies in the U.S.

Pre/In-hospital: Enhancing our line-up of products & services that respond to the COVID-19 crisis

<p>In-hospital</p> <p>NEW! Launched in the U.S. in Jan 2020</p>  <p>Protective Control™</p> <p>Nihon Kohden OrangeMed</p>	<ul style="list-style-type: none"> Reduces infection risk of medical staff by enabling operation from out of ward with a second display 	<ul style="list-style-type: none"> Provides interactive online training programs 	<p>Pre/In-hospital</p>  <p>NIHON KOHDEN™ UNIVERSITY</p> <p>AN EDUCATIONAL SERVICE OFFERING OF NIHON KOHDEN</p>
<p>Ventilator NKV-550</p>		<p>Online Training Program NK University</p>	
<p>Pre-hospital</p>  <p>defibtech</p>	<p>Automated Chest Compression Device Lifeline ARM</p> <ul style="list-style-type: none"> Reduces infection risk of medical staff by performing mechanical chest compressions 	<p>Video Laryngoscope NK AWS-S200</p> <ul style="list-style-type: none"> Reduces infection risk of medical staff by performing smooth tracheal intubation with visibility on the built-in monitor 	<p>NEW! Pre/In-hospital</p> <p>Business acquisition in Sep 2017 Launched in the U.S. in Jul 2020</p> 

<p>Introduction of mid-range bedside monitors</p>	<p>Enhance product cybersecurity</p>	<p>FY2020 3Q Aim at FDA resubmission</p>	<p>* The Company revised the schedule as development is slightly delayed due to teleworking.</p>
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- In April 2020, the Company established the U.S. Operations Department to strengthen synergies among the local subsidiaries such as Nihon Kohden America, Defibtech and Nihon Kohden OrangeMed.
- Nihon Kohden America started selling ventilators developed at Nihon Kohden Orange Med through its direct sales channels in January 2020. The ventilator has a good reputation on the functions which contribute to reducing the infection risk of medical staff. NK University, the online training program, is also well received as users can learn about how to operate the ventilator.
- Reducing the infection risk of medical staff remains as an issue to be solved in medical practice in the midst of the growing number of COVID-19 patients. To resolve this issue, we enhance proposals of an automated chest compression device and a video laryngoscope as well as patient monitors and ventilators.
- As for the introduction of mid-range bedside monitors in the U.S, we are aiming at resubmission to the FDA in the 3rd quarter of FY2020. We revised the schedule as development of product cybersecurity has been slightly delayed due to teleworking. The impact of this matter on business performance is expected to be minor as there is demand for our monitoring solutions and existing models of bedside monitors are maintaining their competitiveness.

7) Depreciation and R&D Costs

(Millions of yen)

	FY2019 1Q	FY2020 1Q	Change	FY2019 Actual	FY2020 Plan
Depreciation	785	722	-63	3,597	3,600
R&D Costs	1,497	1,464	-33	6,731	7,000
Capital Investments				3,549	3,900

●FY2020 capital investments plan

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

<Supports for production increase of ventilators and patient monitors by partners>

- Delivery of 1,000 units of carts for ventilators by Honda Motor Co., Ltd.
- Advice for improving the production process for ventilators and patient monitors by Toyota Production System (TPS) Support Team



NKV-330

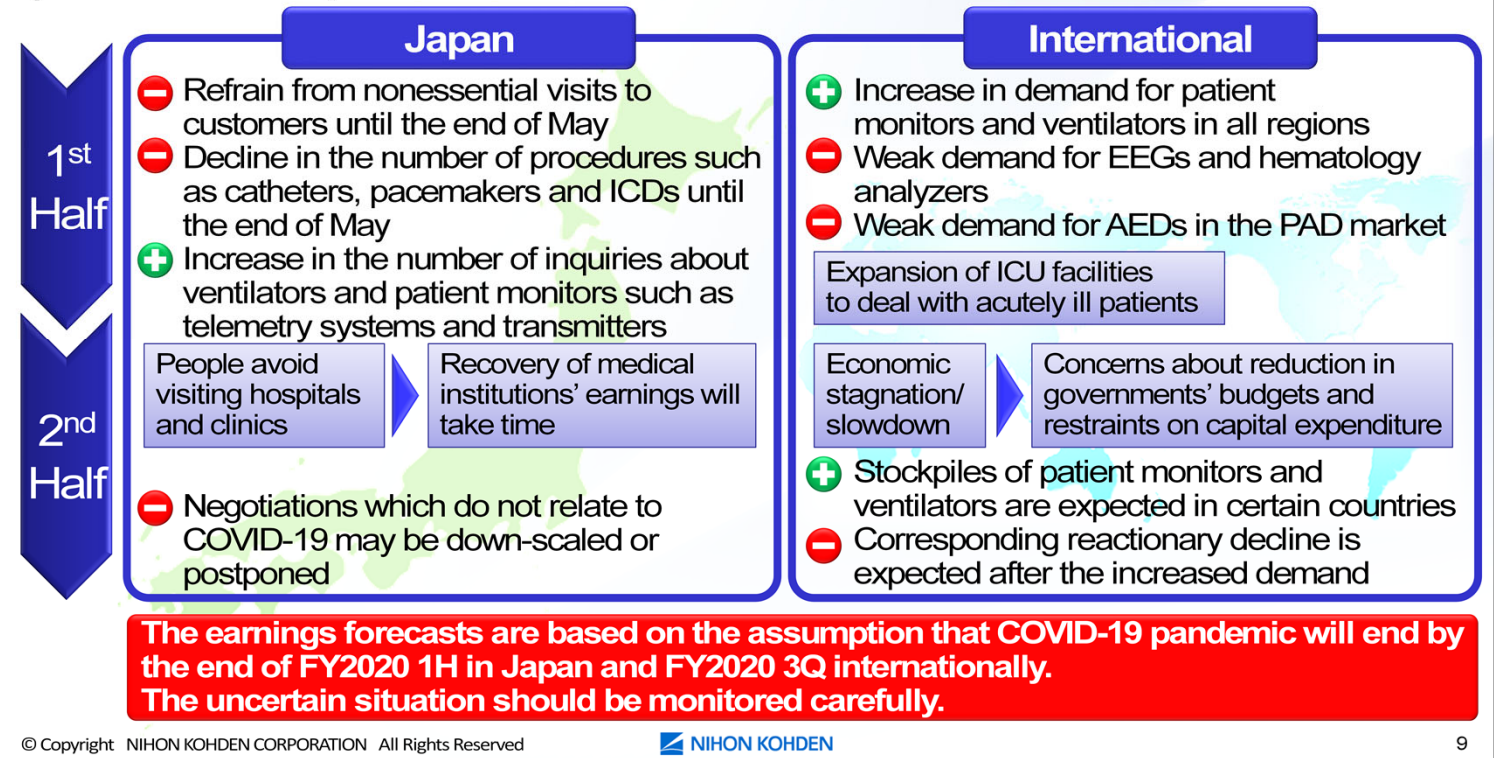


NKV-550



- Depreciation was ¥0.7 billion and in line with the schedule. There is no change to our forecasts for full-year depreciation of ¥3.6 billion and capital investments of ¥3.9 billion.
- R&D costs were ¥1.4 billion, the same level as the 1st quarter of FY2019. This was in line with the schedule. There is also no change to our forecast for full-year R&D costs of ¥7.0 billion.
- At the Tomioka Production Center, the Company is establishing a framework for increasing production of ventilators and patient monitors to meet increased demand. Honda Motor Co., Ltd. has provided support for production of carts for use with ventilators. The Toyota Production System (TPS) Support Team has supported the improvement of productivity. We remain committed to providing our products to healthcare professionals fighting the COVID-19 pandemic as soon as possible.

8) COVID-19 Impact on Business



- In Japan, the Company's sales and service staff limited visits to medical institutions to a necessary minimum under the state of emergency. As hospitals postponed testing and surgical procedures, the number of procedures such as catheters, pacemakers and ICDs decreased. Hospitals have gradually resumed testing and procedures since June 2020.
- The number of inquiries about ventilators, and patient monitors such as telemetry systems and transmitters is increasing, supported by the FY2020 supplementary budget, but this positive impact is expected to be limited.
- Medical institutions have been facing financial challenges because COVID-19 caused people to avoid visiting hospitals and clinics, and forced hospitals to postpone testing, inpatients and surgical procedures. Although we have seen a recovery since June, the number of outpatients in clinics has not returned to its original level. The clinics will continue facing financial challenges and refraining from making new purchases. As for hospitals, negotiations which do not relate to COVID-19 may be down-scaled or postponed if recovery of the hospitals' earnings takes more time.
- Internationally, demand for patient monitors and ventilators has been increasing in each country. It is expected to continue in the 2nd half of FY2020 in certain countries which need to expand ICU facilities to deal with acutely ill patients.
- On the other hand, demand for EEGs, hematology analyzers and AEDs has been weak.
- The Company also has concerns about reduction in governments' budgets and restraints on capital expenditure associated with economic stagnation and slowdown. The increased demand is expected to bring a corresponding reactionary decline.
- The earnings forecast is based on the assumption that COVID-19 will end after a certain period. But the impact may last longer than expected in the light of the current outbreaks. The situation remains unpredictable.

9) Forecast for FY2020

	FY2019 Actual	FY2020 Forecast	YoY (%)	(Amounts of less than ¥1 million are rounded down)
Net Sales	185,007	180,000	△ 2.7	
Domestic Sales	134,355	126,200	△ 6.1	
Overseas Sales	50,651	53,800	6.2	← +9% on a local currency basis
Gross Profit (Gross Profit Margin)	89,325 48.3%	87,200 48.4%	△ 2.4	
Operating Income (Operating Income Margin)	15,503 8.4%	14,000 7.8%	△ 9.7	
Ordinary Income	14,846	14,000	△ 5.7	
Income Attributable to Owners of Parent	9,854	10,000	1.5	
Percentage of Overseas Sales	27.4%	29.9%		

	FY2019 Actual	FY2020 Forecast	YoY (%)
Americas	24,731	26,600	7.6
Europe	9,044	8,800	-2.7
Asia & Other	16,876	18,400	9.0
Total	50,651	53,800	6.2

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

- The 1st quarter performance both in terms of sales and profit was better than the Company anticipated. As results in the 1st quarter account for only a small percentage of the full year totals and it is difficult to foresee when COVID-19 will end, the Company reaffirms its forecast for FY2020.
- The Company has suspended the announcement of its forecasts for the 1st half of FY2020 as there are a number of uncertain factors, such as the execution of the FY2020 supplementary budget and resumption of testing and surgical procedures in Japan, and the progress of installations under the restrictions on economic activity created by infection containment measures internationally.
- The current sales forecast for the 1st half of FY2020 is double-digit decline in Japan and double-digit growth internationally which is expected to be the same as for the 1st quarter.
- In domestic sales, the year-on-year decline for the 2nd quarter of FY2020 will be larger than the 1st quarter as there was a last-minute surge in demand before consumption tax rise in the 2nd quarter of FY2019.
- In overseas sales, sales in the Americas and Europe will continue to increase favorably due to the COVID-19. The sales growth in Asia & Others will be moderate because the COVID-19 outbreak in China is under control and the positive effect of COVID-19 is expected to be smaller compared to other regions.

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

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

	FY2019 Actual	FY2020 Forecast	Composition	YoY (%)
			ratio (%)	
Physiological Measuring Equipment	42,273	37,200	20.7	-12.0
Patient Monitors	64,966	68,500	38.1	5.4
Treatment Equipment	34,512	35,800	19.9	3.7
Other Medical Equipment	43,254	38,500	21.3	-11.0
Total	185,007	180,000	100.0	-2.7

(Reference)

Consumables and Services	84,160	82,200	45.7	-2.3
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Average Exchange Rate

	FY2019 Actual	FY2020 Forecast
1 US Dollar	109.1 yen	107 yen
1 EURO	121.1 yen	117 yen

Estimated Exchange Rate Fluctuations for Full Fiscal Year

	Sales	Operating Income
1 US Dollar	0.33 bil yen	0.10 bil yen
1 EURO	0.06 bil yen	0.02 bil yen

- The Company also leaves the sales forecast for FY2020 by product category unchanged.

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.

