

Consolidated Financial Highlights for the Third Quarter of FY2019 (From April 1, 2019 to December 31, 2019)

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NIHON KOHDEN CORPORATION

(Ticker Code: 6849)
February 3, 2020



1) Consolidated Financial Results for the 3rd Quarter of FY2019

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

	FY2018 3Q 9 months	FY2019 3Q 9 months	YoY (%)	
Net Sales	120,227	129,525	7.7	
Domestic Sales	87,568	94,387	7.8	
Overseas Sales	32,659	35,137	7.6	← +11% on a local currency basis
Gross Profit (Gross Profit Margin)	58,627 48.8%	63,039 48.7%	7.5	← In-house sales ratio: FY2018 3Q 64.0% → FY2019 3Q 65.0%
Operating Income (Operating Income Margin)	6,365 5.3%	8,396 6.5%	31.9	← SG&A Ratio: 43.5% → 42.2%
Ordinary Income	7,143	8,108	13.5	← Foreign exchange gains/losses: FY2018 3Q ¥190 mil gains → FY2019 3Q ¥511 mil losses
Income Attributable to Owners of Parent	4,986	4,832	-3.1	← Extraordinary losses in FY2019 3Q: Settlement package: ¥520 mil, Office transfer cost: ¥178 mil
Average Exchange Rate	(2018/12)	(2019/12)		
1 US Dollar	110.7 yen	109.0 yen		
1 EURO	129.4 yen	121.3 yen		

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- Overall sales increased 7.7% to ¥129.5 billion.
- Domestic sales increased 7.8% to ¥94.3 billion. Sales in all markets and all product categories increased as the Company introduced new products as well as strengthened its marketing and service capabilities creating customer value.
- Overseas sales increased 7.6% to ¥35.1 billion, an 11% growth on a local currency basis. Sales in all areas and all product categories increased. In particular, sales in the U.S. showed strong growth as a result of the Company's efforts to minimize seasonal fluctuations of orders and installations.
- Operating income increased 31.9% to ¥8.3 billion due to the positive effect of increased sales. Gross margin ratio was 48.7% due to lower selling prices, offsetting the favorable product mix as the Company focused on selling in-house products.
- Ordinary income increased 13.5% to ¥8.1 billion as foreign exchange losses were recorded. Income attributable to owners of parent decreased 3.1% to ¥4.8 billion as the Company posted extraordinary losses.

2) Highlights of FY2019 3Q

Net Sales : +7.7%

- **Japan:** Sales in all markets and all product categories increased as the Company introduced a series of new products. The Company also strengthened its marketing and service capabilities creating customer value, and these measures also contributed to increased sales.
- **International:** Sales in all markets and all product categories increased.

Operating Income : +31.9%

- Operating income achieved double-digit growth thanks to increased sales, offsetting the increase of SG&A expenses such as personnel expenses.
- Gross margin ratio decreased by 10 basis points due to lower selling prices, while the in-house sales ratio improved.

Net Income : -3.1%

- Foreign exchange losses were recorded compared to gains in FY2018 3Q.
- Extraordinary losses such as settlement package and office transfer cost were recorded.

3) Sales by Product Category

(Sales, millions of yen)

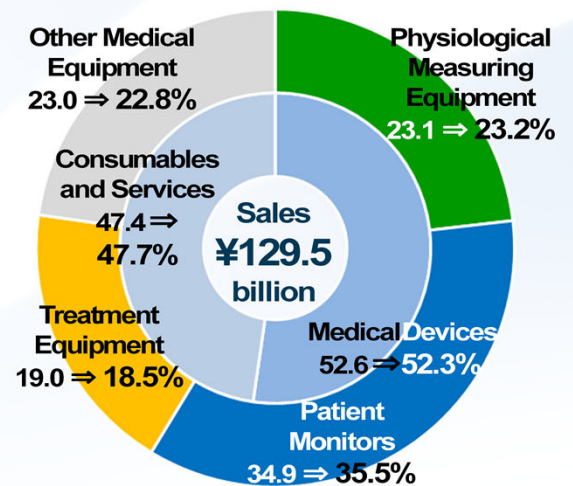
	FY2018 3Q 9 months	FY2019 3Q 9 months	YoY (%)
Physiological Measuring Equipment	27,776	30,002	8.0
Patient Monitors	41,933	46,008	9.7
Treatment Equipment	22,894	24,019	4.9
Other Medical Equipment	27,624	29,494	6.8
Total Sales	120,227	129,525	7.7

(Reference)

Consumables and Services	56,956	61,804	8.5
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Sales composition by product category

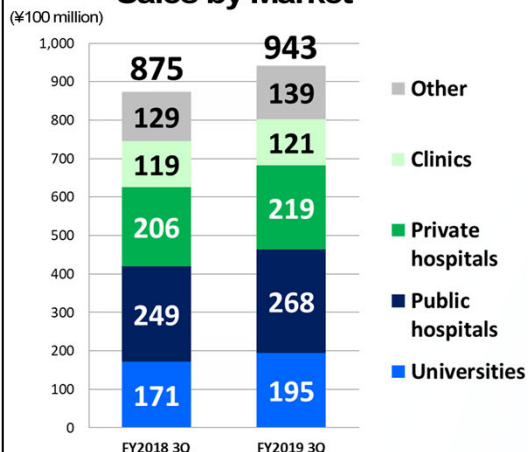
(FY2018 3Q ⇒ FY2019 3Q)



- Sales of Physiological Measuring Equipment increased 8.0% to ¥30.0 billion.
- Sales of Patient Monitors increased 9.7% to ¥46.0 billion.
- Sales of Treatment Equipment increased 4.9% to ¥24.0 billion.
- Sales of Other Medical Equipment increased 6.8% to ¥29.4 billion.
- Sales of Consumables and Services also increased and the composition ratio was 47.7%.

4) Domestic Sales

Sales by Market



Sales by Product Category

(Sales, millions of yen)

	FY2018 3Q 9 months	FY2019 3Q 9 months	YoY (%)
Physiological Measuring Equipment	21,789	23,607	8.3
Patient Monitors	25,567	28,521	11.6
Treatment Equipment	15,916	16,900	6.2
Other Medical Equipment	24,294	25,357	4.4
Total Sales	87,568	94,387	7.8

【Markets】 Sales in all markets increased. Large orders related to construction of new hospitals in the university and public hospital markets contributed to sales increases and the consumption tax increase in October brought a certain level of demand forward.

【Products】 **Physiological Measuring Equipment:** Sales of polygraphs for cath labs and diagnostic information systems increased favorably. Sales of ECGs also increased. Sales of EEGs remained flat compared to FY2018 3Q.

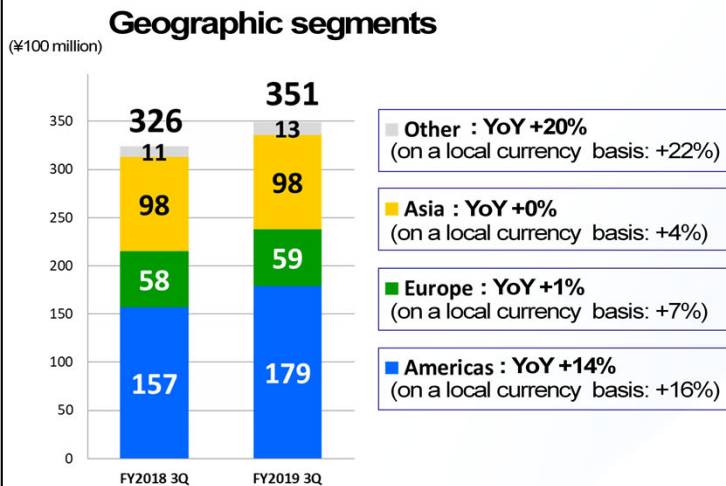
Patient Monitors: Sales showed strong growth, supported by new models of bedside monitors and the increase in replacement demand for clinical information systems.

Treatment Equipment: Sales of defibrillators and ventilators showed strong growth, supported by large orders. Sales of AEDs decreased due to weak sales of consumables, although unit sales of AEDs increased.

Other Medical Equipment: New models of hematology instruments contributed to the sales increase. Sales of installation services and maintenance services for medical devices also increased favorably.

- Domestic sales increased by ¥6.8 billion to ¥94.3 billion.
- Sales in all markets increased as the consumption tax increase brought a certain level of demand forward. In particular, sales in the university and public hospital markets showed strong growth thanks to orders related to construction of new hospitals and the replacement demand for clinical information systems.
- In the 3rd quarter (three months), sales in all markets decreased due to reactionary decline after a rush of demand in the 1st half of FY2019. In particular, sales in the clinic market decreased due to sales decline of third-party products, which led to favorable product mix. Sales of consumables and services increased in the 3rd quarter, following the installation of medical devices in the 1st half.
- In Physiological Measuring Equipment, sales of polygraphs for cath labs and diagnostic information systems increased favorably. Sales of ECGs also increased. Sales of EEGs remained flat compared to the 3rd quarter of FY2018.
- Sales of Patient Monitors showed strong growth, supported by new models of bedside monitors including telemetry systems as well as the increase in replacement demand for clinical information systems.
- In Treatment Equipment, sales of defibrillators and ventilators showed strong growth, supported by large orders. Sales of AEDs decreased due to weak sales of consumables such as batteries, while unit sales of AEDs increased.
- In Other Medical Equipment, new models of hematology instruments for the clinic market contributed to the sales increase. Sales of installation services and maintenance services for medical devices also increased favorably.

5) Overseas Sales



Ratio of overseas sales to consolidated sales

FY2018 3Q 9 months	FY2019 3Q 9 months
27.2%	27.1%

Sales by Product Category

(Sales, millions of yen)

	FY2018 3Q 9 months	FY2019 3Q 9 months	YoY (%)
Physiological Measuring Equipment	5,986	6,394	6.8
Patient Monitors	16,365	17,487	6.9
Treatment Equipment	6,978	7,119	2.0
Other Medical Equipment	3,329	4,136	24.3
Total Sales	32,659	35,137	7.6

+11% on a local currency basis

- 【Region】** Americas: Sales in the U.S. showed strong growth as a result of the Company's efforts to minimize seasonal fluctuations of orders and installations. Sales in Latin America also increased.
Europe: Sales increased in Germany and Italy. Sales in Turkey also recovered.
Asia: Sales in India increased favorably. A large order of patient monitors in Saudi Arabia contributed to the sales increase. Sales in China decreased.
- 【Products】** Physiological Measuring Equipment: Sales of EEGs showed strong growth in the Americas. Sales of ECGs decreased in Asia.
Patient Monitors: Sales in all areas increased. Sales in the U.S. achieved double-digit growth.
Treatment Equipment: Sales of AEDs increased favorably in the U.S. and Asia. Sales of defibrillators decreased in Asia.
Other Medical Equipment: Sales of hematology analyzers showed strong growth in emerging markets as the Company enhanced sales and services activities and awarded government tenders.

- Overseas sales increased by ¥2.4 billion to ¥35.1 billion, an 11% growth on a local currency basis. The overseas sales ratio was 27.1%.
- Americas: In the U.S., sales of patient monitors and EEGs showed strong growth as a result of the Company's efforts to minimize seasonal fluctuations of orders and installations, which tend to concentrate at the end of the fiscal year. In Latin America, sales also increased primarily in Chile, where the Company reorganized its distributor network.
- Europe: Sales in Germany and Italy increased, supported by new models of patient monitors. Sales in Turkey also recovered.
- Asia: Sales in India increased favorably. A large order of patient monitors in Saudi Arabia also contributed to the sales increase. Sales in China decreased both on a local currency basis and a yen basis. FY2019 full-year sales in China are expected to be a mid-single-digit growth on a local currency basis and remain flat compared to FY2018 on a yen basis. The fiscal year-end of our subsidiary in China is December 31.
- In terms of a novel coronavirus, Shanghai Kohden has postponed the resumption of the production after the Chinese New Year until February 10. As a result of the outbreak, demand for medical devices such as patient monitors, defibrillators and ECGs are increasing throughout China. Shanghai Kohden has responded to these orders by stock. The Company will review the impact of coronavirus on earnings after February 10.

6) Topics

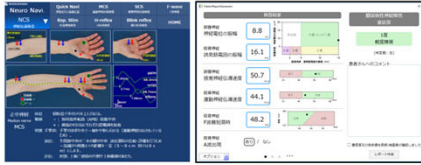
New products launched in FY2019

Diagnostic Equipment Business

EMG/EP measuring systems MEB-9600

3Q: Japan

- Supports efficiency of tests by adding a guide function
- Provides a diagnostic report for the explanation of diabetic neuropathy test results to patients



Electrocardiograph ECG-3150

1Q: Japan, Europe, emerging countries



Treatment Equipment Business

Ventilator NKV-550

2Q: Emerging countries
3Q: Europe

- 4Q: U.S.
- Expected synergies with patient monitors



Ventilator NKV-330

1Q: Japan, Europe, emerging countries



Defibrillator EMS-1052

2Q: Japan
3Q: Europe, emerging countries



Patient Monitoring Business

Spot check monitors SVM-7200

1Q: Japan, Europe, emerging countries, 3Q: U.S.

* Only as a continuous monitor in Japan



Bedside monitors PVM-4000

1Q: Japan, Europe, emerging countries



Telemetry systems WEP-1400

2Q: Japan



* The actual launch dates varied in accordance with the examination period for regulatory approval in each country.

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- In the 3rd quarter, the Company introduced EMG/EP measuring systems MEB-9600. The easy-to-understand examination guide is designed for medical staff who are not familiar with using this device, to enable them to perform an examination smoothly. A diagnostic report function is also provided for explaining the severity level of diabetic neuropathy to patients.
- In emerging countries and Europe, the Company has already launched the NKV-550 ventilator developed and manufactured at Nihon Kohden OrangeMed. In January 2020, the Company also launched this ventilator in the U.S. The Company exhibited this new ventilator privately at the American Association for Respiratory Care and attracted many customers. The Company aims at expanding the U.S. business through synergies with patient monitors
- In the 3rd quarter, the Company also introduced the EMS-1052 defibrillator in Europe and emerging countries, and the SVM-7200 spot check monitors in the U.S.

7) Depreciation and R&D Costs

(Millions of yen)

	FY2018 3Q 9 months	FY2019 3Q 9 months	Change	FY2018 Actual	FY2019	
					Original Forecast announced May 13	Revised Forecast announced Nov 5
Depreciation	2,550	2,611	61	3,542	3,900	3,800
R&D costs	5,459	4,758	-700	7,243	7,600	7,200
		Capital Investments		3,049	4,700	4,600

● FY2019 capital investments plan:

Molds for new products, measuring equipment and jigs, products for demonstration, production equipment, reagent factory in Dubai (¥0.2 bil) and Eastern Japan Logistics Center (¥0.4 bil)

→ As the Center is a leasing logistics facility, investments are only for materials handling equipment

- Depreciation increased by ¥60 million to ¥2.6 billion. R&D costs decreased by ¥0.7 billion to ¥4.7 billion. FY2019 full-year forecasts for depreciation and capital investments remain at ¥3.8 billion and ¥4.6 billion, respectively.
- R&D costs in FY2019 are expected to be slightly lower than the forecast of ¥7.2 billion, while development costs for upgrade are expected to be higher than the forecast. As a result, overall SG&A expenses in FY2019 are expected to be in line with estimates.
- Development costs for upgrades will increase because of the cost of upgrading clinical information systems, for which replacement demand is increasing, and of developing additional functionality for new products.

8) Forecast for FY2019

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

	FY2018 Actual	FY2019			YoY (%)
		Original forecast announced May 13	Revised forecast announced Jun 17	Revised forecast announced Nov 5	
Sales	178,799	186,000	186,000	186,000	4.0
Domestic Sales	130,223	133,000	133,000	134,500	3.3
Overseas Sales	48,575	53,000	53,000	51,500	6.0
Gross Profit (Gross Profit Margin)	85,987 48.1%	90,200 48.5%	90,200 48.5%	89,800 48.3%	4.4
Operating Income (Operating Income Margin)	15,044 8.4%	16,000 8.6%	16,000 8.6%	16,000 8.6%	6.4
Ordinary Income	15,867	16,000	16,000	16,000	0.8
Income Attributable to Owners of Parent	11,191	11,000	10,700	10,700	-4.4
Percentage of Overseas Sales	27.2%	28.5%	28.5%	27.7%	

← +9% on a local currency basis

Breakdown of overseas sales by region

	FY2018 Actual	FY2019		YoY (%)
		Original forecast announced May 13	Revised forecast announced Nov 5	
Americas	23,508	25,500	24,600	4.6
Europe	8,167	8,900	8,600	5.3
Asia	15,096	16,000	15,600	3.3
Other	1,802	2,600	2,700	49.8
Total	48,575	53,000	51,500	6.0

Average exchange rate

1 US Dollar	110.8 yen	108 yen
1 EURO	128.5 yen	125 yen

*The assumed exchange rates for the 4th quarter of FY2019 are 109 yen to the U.S. dollar and 120 yen to the euro.

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- The Company reaffirms its forecasts for FY2019.
- The domestic sales forecast remains at ¥134.5 billion. The impact of the reactionary decline in sales that occurred in the 3rd quarter in response to the strong sales growth in the 1st half of FY2019 is expected to continue into the 4th quarter. The impact will be mitigated gradually. The Company aims to achieve its FY2019 full-year targets by replacement demand in the university and public hospital markets as well as expanding sales of new products such as bedside monitors, ventilators and a defibrillator for ambulance.
- The overseas sales forecast also remains at ¥51.5 billion. Sales in the Americas are expected to be slightly higher than the forecast. Supported by solid orders of patient monitors and EEGs, the Company made efforts to accelerate schedule and minimize seasonal fluctuations of installations in order to avoid the concentration of installations at the end of the fiscal year. As a result, sales in the U.S. will decrease in the 4th quarter. The Company had estimated that the delay in introducing new mid-range bedside monitors would have a negative impact of around ¥1 billion on full-year sales as of November 2019. However, at this moment, the negative impact will be smaller than the estimate, as existing models of bedside monitors maintain their competitiveness. Sales in Europe are expected to be slightly below expectations. Although sales of patient monitors increased favorably, supported by new models of bedside monitors, they will not be able to offset the overall shortfall in sales for 9 months. Sales in Asia also expected to be slightly below the expectation. Although sales in India and the Middle East are expected to increase favorably and sales in China are also expected to recover in the 4th quarter, they will not be able to offset the overall shortfall in sales for 9 months.
- There is no change to our forecast for full-year operating income, ordinary income, net income of ¥16.0 billion, ¥16.0 billion and ¥10.7 billion, respectively.
- The FY2018 full-year forecast for gross margin ratio remains at 48.3%. In the 3rd quarter (three months), gross margin ratio improved by 100 basis points compared to the same period of FY2018 thanks to favorable product mix. This is because the ratio of overseas sales (which consists almost entirely of in-house products) increased, and the majority of the domestic sales decline was third-party products with lower margins. We will continue working to improve our gross margin ratio by focusing on production cost reduction and enhancing sales activities of in-house products.
- Both domestic sales and overseas sales are expected to be concentrated in March. We will take all possible measures relevant to production and installation, and aim at achieving our sales and profit targets.

(Ref.) Consolidated Sales Forecast for FY2019 by Product Category/ Effect of Exchange Rate

(Millions of yen)

	FY2018 Actual	FY2019			YoY (%)
		Original Forecast announced May 13	Revised Forecast announced Nov 5	Composition ratio (%)	
Physiological Measuring Equipment	40,773	41,700	41,850	22.5	2.6
Patient Monitors	61,978	66,150	64,500	34.7	4.1
Treatment Equipment	33,149	34,250	34,750	18.7	4.8
Other Medical Equipment	42,898	43,900	44,900	24.0	4.7
Total	178,799	186,000	186,000	100.0	4.0

(Reference)

Consumables and Services	79,226	83,000	83,100	44.7	4.9
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Annual Estimates of Exchange Rate Fluctuations

	Sales	Operating Income
1 US Dollar	0.31 bil yen	0.09 bil yen
1 EURO	0.05 bil yen	0.02 bil yen

- The sales forecast for FY2019 by product category are shown above.
- Reflecting the progress made during the 3rd quarter, sales of Patient Monitors are expected to be higher and sales of Other Medical Equipment to be lower than the revised forecast announced on November 5.

Disclaimer:

Contents described in 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 stated.

