

Consolidated Financial Highlights for the First Quarter of FY2019 (From April 1, 2019 to June 30, 2019)

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NIHON KOHDEN CORPORATION

(Ticker Code: 6849)
August 1, 2019



1) Consolidated Financial Results for the 1st Quarter of FY2019

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

	FY2018 1Q	FY2019 1Q	YoY (%)	
Net Sales	34,583	38,551	11.5	
Domestic Sales	25,705	28,392	10.5	
Overseas Sales	8,878	10,159	14.4	← +15% on a local currency basis
Gross Profit (Gross Profit Margin)	17,095 49.4%	18,524 48.1%	8.4	← In-house sales ratio: 64.9% → 62.5%
Operating Income (Operating Income Margin)	53 0.2%	542 1.4%	919.0	← SG&A Ratio: 49.2% → 46.7%
Ordinary Income	580	-26	—	← Foreign exchange gains/losses: FY2018 1Q ¥0.30 bil gains → FY2019 1Q ¥0.64 bil losses
Income Attributable to Owners of Parent	538	-499	—	← ¥447 mil of settlement regarding labor issues of Nihon Kohden America in FY2019 1Q
Average Exchange Rate	(2018/6)	(2019/6)		
1 US Dollar	¥108.5	¥110.7		
1 EURO	¥129.5	¥123.5		

- Overall sales increased 11.5% to ¥38.5 billion.
- Domestic sales increased 10.5% to ¥28.3 billion due to sales increases in all product categories. Sales in the university and public hospital markets showed strong growth, thanks to large orders related to construction of new hospitals.
- Overseas sales increased 14.4% to ¥10.1 billion, a 15% growth on a local currency basis, as sales in the Americas and Europe increased favorably. Especially, sales in the U.S. showed strong growth, supported by shipment of orders for patient monitors which were carried forward from the previous fiscal year.
- Operating income increased favorably to ¥0.5 billion thanks to increased sales. Gross margin ratio decreased to 48.1% due to the lower selling price and unfavorable product mix accompanying large domestic orders.
- Ordinary loss was ¥26 million, as foreign exchange losses were recorded compared to gains in the 1st quarter of FY2018. Loss attributable to owners of parent was ¥499 million as the Company posted extraordinary losses such as a settlement payment and the cost of demolition of one of its head offices.
- Overseas sales were in line with the Company's internal plan. Domestic sales exceeded our expectation as there was impact of large orders and public hospitals executed their annual budget ahead of schedule. Operating income also exceeded our expectation due to favorable orders and strong sales in Japan.

2) Highlights of FY2019 1Q

Net Sales : +11.5%

- **Japan:** Sales in the university and public hospital market showed strong growth, thanks to large orders related to construction of new hospitals. Sales in the clinic market also increased favorably, while sales in the private hospital market decreased.
- **International:** Sales in the Americas and Europe increased. In particular, sales in the U.S. showed strong growth.

Operating Income : ¥542 mil (¥53 mil of operating income in FY2018 1Q)

- Operating income increased favorably thanks to increased sales, offsetting the increase of SG&A expenses such as personnel expenses.
- Gross margin ratio decreased due to lower selling prices and unfavorable product mix.

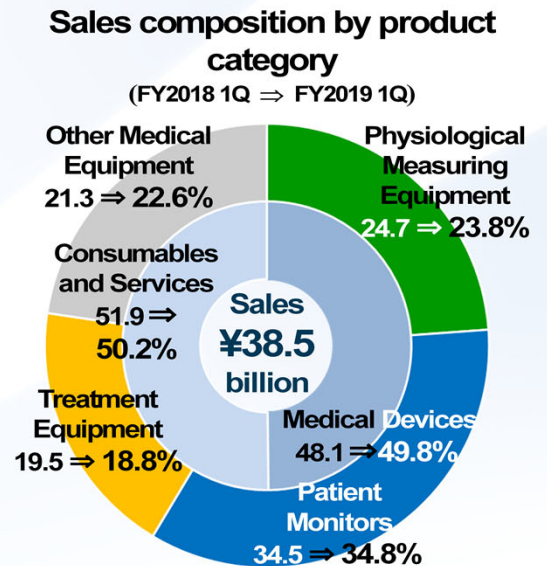
Net Loss : ¥499 mil (¥538 mil of net income in FY2018 1Q)

- Foreign exchange losses were recorded compared to gains in the 1st quarter of FY2018.
- Extraordinary losses such as settlement and demolition cost were recorded.

3) Sales by Product Category

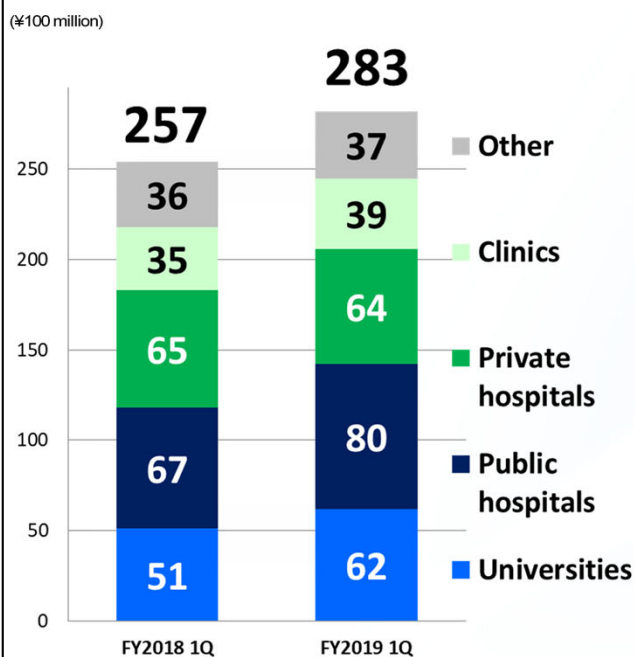
(Sales, millions of yen)

	FY2018 1Q	FY2019 1Q	YoY (%)
Physiological Measuring Equipment	8,535	9,191	7.7
Patient Monitors	11,920	13,398	12.4
Treatment Equipment	6,741	7,233	7.3
Other Medical Equipment	7,386	8,728	18.2
Total Sales	34,583	38,551	11.5
(Reference)			
Consumables and Services	17,935	19,342	7.8



- Sales of Physiological Measuring Equipment increased 7.7% to ¥9.1 billion.
- Sales of Patient Monitors increased 12.4% to ¥13.3 billion.
- Sales of Treatment Equipment increased 7.3% to ¥7.2 billion.
- Sales of Other Medical Equipment increased 18.2% to ¥8.7 billion.
- Sales of Consumables and Services increased 7.8%, and the sales ratio was 50.2%.

4) Domestic Sales – Sales by Market



University / Public hospital market:

Sales achieved double-digit growth thanks to large orders related to construction of new hospitals.

Replacement demand for clinical information systems and diagnostic information systems increased as hospitals executed their annual budget before the consumption tax increase, ahead of schedule.

Private hospital market:

Sales decreased slightly due to weak sales in the small and mid-sized hospital market. The Company aims to recover sales by promoting new products for these markets and enhancing sales activities.

Clinic market:

Sales increased favorably, supported by new models of hematology analyzers and sales of solution proposals as part of the Company's consulting business for private practice startups.

Forecast for FY2019 2Q and after

The Company reaffirms its full-year forecast as last-minute demand in 2Q will be offset by a reactionary drop in 3Q.

- Domestic sales increased by ¥2.6 billion to ¥28.3 billion.
- Sales in the university and public hospital markets achieved double-digit growth thanks to large orders related to construction of new hospitals. In the public hospital market, replacement demand for IT systems increased as hospitals executed their annual budget ahead of schedule. Sales in the private hospital market decreased slightly due to weak sales in the small and mid-sized hospital market. The Company aims at sales recovery by enhancing sales activities, as several new products for these markets such as bedside monitors were launched. Sales in the clinic market increased favorably, supported by new models of hematology analyzers. Solution proposals composed of in-house and third-party products also contributed to increased sales, as the Company enhanced its consulting business for private practice startups.
- As for the impact of the consumption tax rise, some public hospitals executed their annual budget in the 1st quarter, ahead of schedule. In the 2nd quarter, we expect a certain level of last-minute demand in the university and public hospital markets. In the private hospital and clinic markets, we haven't seen any signs of last-minute demand in the 1st quarter. It will be in August and September if it happens. Our outlook for domestic sales in the 1st half of FY2019 remains unchanged, as the impact of the consumption tax rise is uncertain. As the increase in the consumption tax rate is smaller than the previous tax rise and the upward revision of medical treatment fees covers the cost increase from the tax rise, last-minute demand will be smaller than the previous tax rise. As there will be a reactionary drop in the 2nd half of FY2019, there is also no change to our forecast for full-year domestic sales.

4) Domestic Sales – Sales by Product Category

(Sales, millions of yen)

	FY2018 1Q	FY2019 1Q	YoY (%)
Physiological Measuring Equipment	6,850	7,291	6.4
Patient Monitors	7,337	8,183	11.5
Treatment Equipment	4,944	5,493	11.1
Other Medical Equipment	6,573	7,424	12.9
Total Sales	25,705	28,392	10.5

Sales in all product categories increased, as the Company introduced new products which match each market, and strengthened its marketing and service capabilities creating customer value which contributes to improving medical safety, patient outcomes, and operating efficiency.

Physiological Measuring Equipment: Sales of polygraphs for cath lab and diagnostic information systems increased favorably. Sales of EEGs and ECGs decreased.

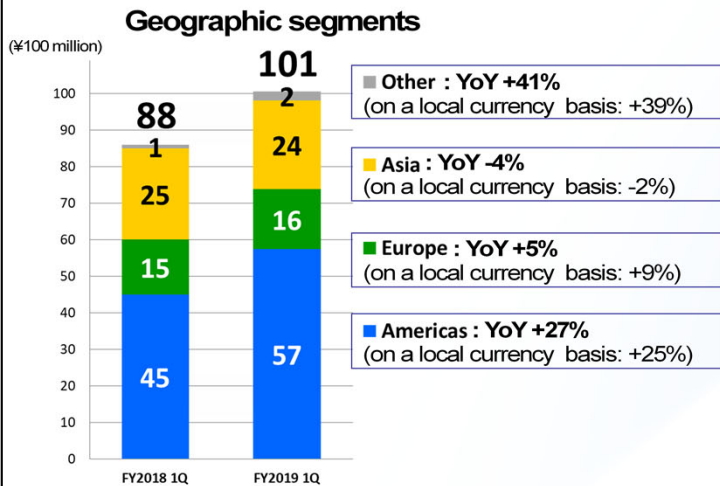
Patient Monitors: New models of bedside monitors contributed to increased sales. Sales of clinical information systems also increased favorably.

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

Other Medical Equipment: New models of hematology analyzers contributed to increased sales. Sales of installation services for medical devices and locally purchased products increased, as a result of large orders.

- Sales in all product categories increased, as the Company introduced new products which match each market, and strengthened its marketing and service capabilities.
- In Physiological Measuring Equipment, sales of polygraphs for cath lab and diagnostic information systems increased favorably. Sales of EEGs and ECGs decreased.
- In Patient Monitors, sales showed strong growth, driven by new products such as CSM-1700 bedside monitors. Sales of clinical information systems also increased favorably.
- In Treatment Equipment, sales of defibrillators and ventilators showed strong growth, supported by large orders. Sales of AEDs decreased as replacement demand of consumables such as AED pads was carried over to the 2nd half of FY2019, while unit sales of AEDs increased.
- In Other Medical Equipment, sales of new models of hematology analyzers increased favorably. Sales of installation services for medical devices and locally purchased products increased, as a result of large orders.

5) Overseas Sales



Percentage of overseas sales to consolidated sales

	FY2018 1Q	FY2019 1Q
Percentage	25.7%	26.4%

Sales by Product Category

(Sales, millions of yen)

	FY2018 1Q	FY2019 1Q	YoY (%)
Physiological Measuring Equipment	1,685	1,899	12.8
Patient Monitors	4,582	5,215	13.8
Treatment Equipment	1,796	1,739	-3.2
Other Medical Equipment	813	1,304	60.3
Total Sales	8,878	10,159	14.4

+15% on a local currency basis

- 【Region】 Americas:** In the U.S., sales of Patient Monitors and EEGs showed strong growth, as shipment of orders of monitors was carried forward from FY2018. Sales in Latin America also increased favorably, primarily in Mexico.
- Europe:** Sales increased in Italy and France. Sales in Russia and Turkey also recovered.
- Asia:** Sales decreased due to weak sales in Southeast Asia, while sales in China, India, and the Middle East increased.
- 【Products】 Physiological Measuring Equipment:** Sales of EEGs showed strong growth in the U.S. Sales of ECGs increased favorably in Asia.
- Patient Monitors:** Sales increased favorably in all areas. Especially, sales in the U.S. and the Middle East showed strong growth.
- Treatment Equipment:** Sales of defibrillators decreased in Asia. Sales of AEDs increased in all areas.
- Other Medical Equipment:** Sales of hematology analyzers showed strong growth in Latin America, the Middle East and Africa. There was a positive impact from the changes in the deferred revenue process for installation services of medical devices in the U.S.

- Overseas sales increased by ¥1.3 billion to ¥10.1 billion, a 15% growth on a local currency basis. The overseas sales ratio was 26.4%.
- Americas: In the U.S., sales of patient monitors showed strong growth, supported by shipment of orders for patient monitors which were carried forward from FY2018. Sale of EEGs also increased favorably. Sales in Latin America also increased favorably, primarily in Mexico.
- Europe: Sales increased in Italy and France. Sales in Russia and Turkey also recovered.
- Asia: Sales in Southeast Asia decreased, while sales in China, India and the Middle East increased. Sales in China showed high-single-digit growth on a local currency basis and low-single-digit growth on a yen basis. The fiscal year-end of our subsidiary in China is December 31. Sales in China in the 1st half of FY2019 are expected to result in low-single-digit growth on a local currency basis and the same level as the 1st half of FY2018 on a yen basis. The growth will be moderate as the positive effect of a new hematology analyzer has mostly faded. The Company aims at achieving its full-year target by expanding its line-up of products made in Shanghai. Accordingly, the Company started local manufacturing of defibrillators and AEDs.

6) Topics

New products launched in FY2019

Patient Monitoring Business



Bedside monitors PVM-4000

Japan, Europe, emerging countries:
Launched in FY2019 1Q



Spot check monitors SVM-7200

Japan, Europe, emerging countries:
Launched in FY2019 1Q
* Only as a continuous monitor in Japan



Telemetry systems WEP-1400

Japan: Launched in FY2019 2Q

Diagnostic Equipment Business



Electrocardiograph ECG-3150

Japan, Europe, emerging countries:
Launched in FY2019 1Q

Treatment Equipment Business



Ventilator NKV-330

Japan, Europe, emerging countries:
Launched in FY2019 1Q



Defibrillator EMS-1052

Japan: Launched in FY2019 2Q

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

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- In Patient Monitoring Business, PVM-4000 bedside monitors and SVM-7200 spot check monitors were introduced in Japan, Europe and emerging countries in the 1st quarter. Telemetry systems WEP-1400 were also introduced in Japan in the 2nd quarter. Main markets for these products are not only general wards in the acute care hospitals but also the small and mid-sized hospitals. The Company expects these products will contribute to sales from the 2nd quarter onward. Spot check monitors received FDA approval in the U.S. in the 1st quarter, and the Company is currently working on developing the connectivity with hospital network systems in order to launch in the 2nd half of FY2019.
- ECG-3150, developed and manufactured at Shanghai Kohden, was also launched, mainly for sales in emerging countries.
- In Treatment Equipment Business, the Company's first ventilator NKV-330 was launched in Japan in the 1st quarter. The functions that were highly evaluated by customers are as follows: the method of non-tracheal intubation, high-flow oxygen therapy via the nasal cannula and the original mask with minimal air leakage. Several unit sales were recorded in the 1st quarter, but it will take time to penetrate the market and contribute to sales. In Europe and emerging countries, the Company started sales and marketing activities by appointing dedicated sales staff. A defibrillator EMS-1052 was introduced in Japan in the 2nd quarter and will also be launched in Europe and emerging countries. EMS-1052 is designed for the use at the scene of an emergency and to be deployed in ambulances.

7) Depreciation and R&D Costs

(Millions of yen)

	FY2018 1Q	FY2019 1Q	Change	FY2018 Actual	FY2019 Plan
Depreciation	779	785	6	3,542	3,900
R&D Costs	1,856	1,497	-358	7,243	7,600
Capital Investments				3,049	4,700

●FY2018 capital investments:

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

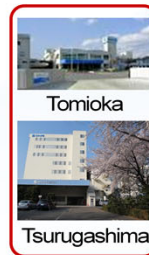
●FY2019 capital investments plan:

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, investment is only for distribution equipment)

Eastern Japan Logistics Center

Construction: Completion at the end of May 2019
Transfer: Start in Aug and completion in 2019



Store medical devices and consumables in one place



Reduce logistics costs by shipping medical devices and consumables as a package

- Depreciation was ¥0.78 billion, the same level as the 1st quarter of FY2018. This was in line with the schedule. There is no change to our forecasts for full-year depreciation of ¥3.9 billion and capital investments of ¥4.7 billion.
- R&D costs decreased by ¥0.35 billion to ¥1.49 billion. There were some delays in development of new products, as the Company needs to address the launch of several new products, which release dates were concentrated in the 1st quarter. There is also no change to our forecast for full-year R&D costs of ¥7.6 billion.

8) Forecast for FY2019

(Billions of yen)

	FY2018 Actual		FY2019 Forecast			
	First Half	Full Year	First Half	YoY (%)	Full Year	YoY (%)
Net Sales	79.0	178.7	84.5	6.9	186.0	4.0
Domestic Sales	57.8	130.2	—	—	133.0	2.1
Overseas Sales	21.1	48.5	—	—	53.0	9.1
Gross Profit (Gross Profit Margin)	38.6 48.9%	85.9 48.1%	—	—	90.2 48.5%	4.9
Operating Income (Operating Income Margin)	4.2 5.4%	15.0 8.4%	4.5 5.3%	5.6	16.0 8.6%	6.4
Ordinary Income	5.2	15.8	4.5	-14.6	16.0	0.8
Income Attributable to Owners of Parent	3.9	11.1	2.7*	-31.1	10.7*	-4.3
Percentage of Overseas Sales	26.8%	27.2%			28.5%	

← +12% on a local currency basis

Breakdown of overseas sales by region

(Millions of yen)

	FY2018 Actual	FY2019 Forecast	YoY (%)
Americas	23,508	25,500	8.5
Europe	8,167	8,900	9.0
Asia	15,096	16,000	6.0
Other	1,802	2,600	44.2
Total	48,575	53,000	9.1

* Forecast of income attributable to owners of parent in FY2019 1H and FY2019 were revised on June 17, 2019.

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- The 1st quarter performance both in sales and profit was better than the Company anticipated. As the 1st quarter accounts for only a small percentage of the full year and the impact of the consumption tax rise is uncertain, the Company reaffirms its forecast for the 1st half of FY2019 and FY2019. Overall sales will be ¥84.5 billion in the 1st half of FY2019.
- In domestic sales, the growth for the 1st half of FY2019 will be in the mid- to high-single-digits. There will be last-minute demand in the 2nd quarter before the consumption tax rise, but the impact on operating results is unpredictable. Growth in the 2nd quarter will be slower compared to the 1st quarter, as the Company doesn't expect another large ¥1 billion level order on the scale of that recorded in the 1st quarter.
- In overseas sales, high-single-digit growth is forecast for the 1st half of FY2019. Sales growth will be in the mid- to high-single-digits in all three sales regions: the Americas, Europe and Asia. In the U.S, sales of both patient monitors and EEGs have grown as planned. In Asia, sales in the Middle East and India will continue to increase favorably.
- Gross margin in the 1st half of FY2019 is expected to be mid-48%, slightly lower than the 1st half of FY2018. We aim to ensure operating income of ¥4.5 billion in the 1st half of FY2019 by increasing sales and restraining the increase of SG&A expenses.

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

(Millions of yen)

	FY2018	FY2019	Composition ratio (%)	YoY (%)
	Actual	Forecast		
Physiological Measuring Equipment	40,773	41,700	22.4	2.3
Patient Monitors	61,978	66,150	35.6	6.7
Treatment Equipment	33,149	34,250	18.4	3.3
Other Medical Equipment	42,898	43,900	23.6	2.3
Total	178,799	186,000	100.0	4.0

(Reference)

Consumables and Services	79,226	83,000	44.6	4.8
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Average Exchange Rate

	FY2018 Actual	FY2019 Forecast
1 US Dollar	110.8 yen	108 yen
1 EURO	128.5 yen	125 yen

Annual Estimates of Exchange Rate Fluctuations

	Sales	Operating Income
1 US Dollar	0.32 bil yen	0.11 bil yen
1 EURO	0.05 bil yen	0.02 bil yen

- The Company also leaves the sales forecast for FY2019 by product category unchanged.

Disclaimer:

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