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FY2018 Consolidated Financial Results Analyst Meeting
Main Questions and Answers
(May 15, 2019, Tokyo)

Q1: Considering that the Company is focusing on improving gross profit margin, the forecast for gross profit margin in FY2019 is only 48.5%. That is a slight improvement over the figure of 48.1% in FY2018. I expected that the gross profit margin would be able to improve a little more thanks to the release of new products.

A1: We are focusing on improving the gross profit margin, and this produced results in FY2018. We expect this improvement to continue, and we will further strengthen our efforts. We expect gross profit margin in FY2019 to be 48.5% for the following reasons: negative impact of the strong yen, full contribution of new patient monitors will start from the 2nd half of FY 2019 due to the delay of the launch, and development of the production and distribution system will take more time than expected.

Q2: The revision of medical treatment fees accompanying the consumption tax increase in October 2019 seems to be taking account of acute care hospitals. I would like to know the reaction of hospitals and the impact on your business.

A2: It was the problem that adequate consideration for acute care hospitals was not provided when medical treatment fees were revised at the time of the previous consumption tax rise. Since greater consideration for acute care hospitals will be given in this October revision, the consumption tax burden imposed on medical institutions is expected to be mitigated somewhat. As for the impact on our business, we expect some last-minute demand before the consumption tax hike, but we also expect a reactionary drop. The impacts will offset each other and will have no effect on full-year sales. According to a report from our sales team, about 40% of the public hospitals are considering procurement ahead of schedule, making purchases in the 1st half the fiscal year which were originally planned for the 2nd half. In the private hospital market and the clinic market, we haven't seen a trend toward purchasing equipment like that in the public hospital market. We think that it will be this summer when institutions in those markets show a clear intention of making purchases before the consumption tax hike. In any case, the purchase of large-sized medical equipment will be considered and implemented first.

Q3: Domestic sales in the public hospital market showed strong growth in 4th quarter (three months). Is there any change in trends in demand for medical equipment in the public hospital market?

A3: There are several reasons for the full-year sales increase in the public hospital market. First, the increase is in comparison with the weak performance in the previous fiscal year. Second, hospitals have started to renew equipment which was introduced with government funding under regional medical care revival plan. Among the various sectors of the public hospital market in Japan, sales in the charity hospital market grew steadily. Although the size of each order is not as large as it used to be, we expect the renewal demand to continue in the future.

Q4: The consumables and services sales ratio increased favorably. I would like to know how the in-house consumables and services business performed.

A4: Sales of in-house consumables utilizing our unique technologies such as SpO_2 and CO_2 sensors are steadily increasing as we strengthen our global expansion. Our service business performed well and we have started providing “MD Linkage,” a remote monitoring system for medical devices, as a new value-added service in Japan utilizing the Internet of Things. Medical safety is the most important factor affecting purchases among domestic customers, and the number of medical facilities that want to conclude a maintenance contract has greatly increased compared to 10 years ago. In order to contribute to medical safety, we have prepared various service programs and strengthened our maintenance service business.

Q5: You explained that personnel costs and expenses are expected to increase by 3.3 billion yen in FY2019. What is the breakdown of these costs?

A5: The breakdown of the cost increase between personnel costs and expenses would be equal. The largest investment in FY2019 is the East Japan Logistics Center. Costs for relocations of domestic branch offices and headquarters as well as start-up costs for the international ventilator business are also expected. We estimate the total expenses for these three factors will be about 1 billion yen.

Q6: The launch of new middle-end bedside monitors in the U.S. is planned in the 2nd half of FY2019, with a delay of about a year after the initial plan. I heard that the approval process was delayed by about a month as a result of the partial U.S. federal government shutdown. Were there additional inquiries from FDA? Is there a risk of delayed launch or higher-cost?

A6: The approval process, which had been delayed due to the closure of the U.S. federal government over the year-end and New Year season, has now resumed. We have been required to strengthen cybersecurity with enhanced security features since the 2nd half of FY2018, and it takes time to reply as we have never received such an inquiry before. Based on the current inquiries, there will not be any unpredictable risks and we expect to be able to launch in the 2nd half of FY2019.

(End)

(Cautionary Statement)

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