

Consolidated Financial Highlights for the Third Quarter of FY2017

(From April 1, 2017 to December 31, 2017)



- 1) Financial Results
 - 2) Highlights
 - 3) Sales by Product Category
 - 4) Domestic Sales
 - 5) Overseas Sales
 - 6) Topics
 - 7) Depreciation and R&D Costs
 - 8) Forecast for FY2017
- [Ref] Sales Forecast by Product Category

NIHON KOHDEN CORPORATION

(Ticker Code: 6849)

February 2, 2018

1) Consolidated Financial Results for the 3rd Quarter of FY2017

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

	FY2016 3Q 9 months	FY2017 3Q 9 months	YoY (%)	
Net Sales	110,619	117,456	6.2	
Domestic Sales	83,011	86,766	4.5	
Overseas Sales	27,607	30,689	11.2	+7% on a local currency basis
Operating Income	5,302	6,041	13.9	Gross Margin Ratio: FY2016 3Q 48.5% → FY2017 3Q 48.1% SG&A Ratio: 43.7% → 43.0%
Ordinary Income	6,046	6,981	15.5	Foreign exchange gains: ¥0.25 bil → ¥0.46 bil
Income Attributable to Owners of Parent	3,825	4,262	11.4	Increase of income taxes due to US tax reform: approx. ¥0.5 bil

Average Exchange Rate	(2016/12)	(2017/12)
1 US Dollar	107.4 yen	111.6 yen
1 EURO	118.6 yen	128.8 yen

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1

- Overall sales increased 6.2% to ¥117.4 billion.
- Domestic sales increased 4.5% to ¥86.7 billion. Sales increased both in the hospital and the clinic markets, as the Company absorbed and merged domestic sales subsidiaries in April 2017, and enhanced sales activities tailored to match each market. Sales increased in all product categories.
- Overseas sales increased 11.2% to ¥30.6 billion, 7% growth on a local currency basis, thanks to strong sales in the Americas and Europe.
- Operating income increased 13.9% to ¥6.0 billion due to sales increase, despite the increase of SG&A expenses caused by R&D investments. Gross margin ratio decreased by 40 basis points from the nine months of FY2016 mainly due to large orders in Japan and increased outsourcing fees in line with overseas sales growth. Negative impact of outsourcing fees was minor for the three months as it was possible to handle the installation work with internal resources.
- Ordinary income increased 15.5% to ¥6.9 billion and income attributable to owners of parent increased 11.4% to ¥4.2 billion. Income taxes increased by approx. ¥0.5 billion due to a reversal of deferred tax assets following US tax reform.

2) Highlights of FY2017 3Q

Net Sales : +6.2%

- **Japan:** Sales increased both in the hospital and the clinic markets as the Company concentrated on enhancing sales activities which match each market. Sales increased in all product categories.
- **International:** Sales achieved double-digit growth, thanks to strong performance in the Americas and Europe.

Operating Income : +13.9%

- Operating income increased due to sales increase, despite the increase of SG&A expenses such as R&D investments.
- Gross margin ratio was lower due to large orders in Japan and increased outsourcing fees in line with overseas sales growth.

Net Income : +11.4%

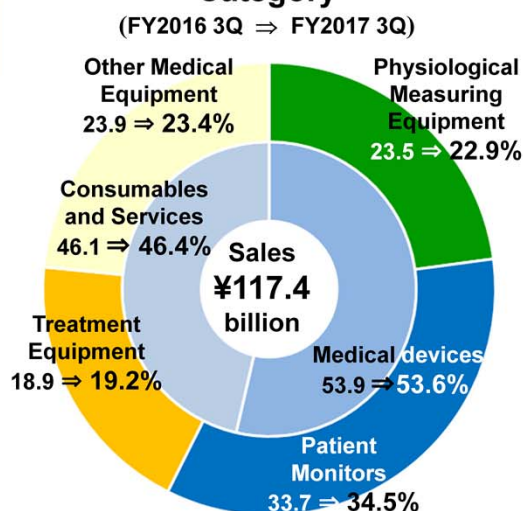
- Income taxes increased by approx. ¥0.5 bil due to a reversal of deferred tax assets following US tax reform.

3) Sales by Product Category

(Sales, millions of yen)

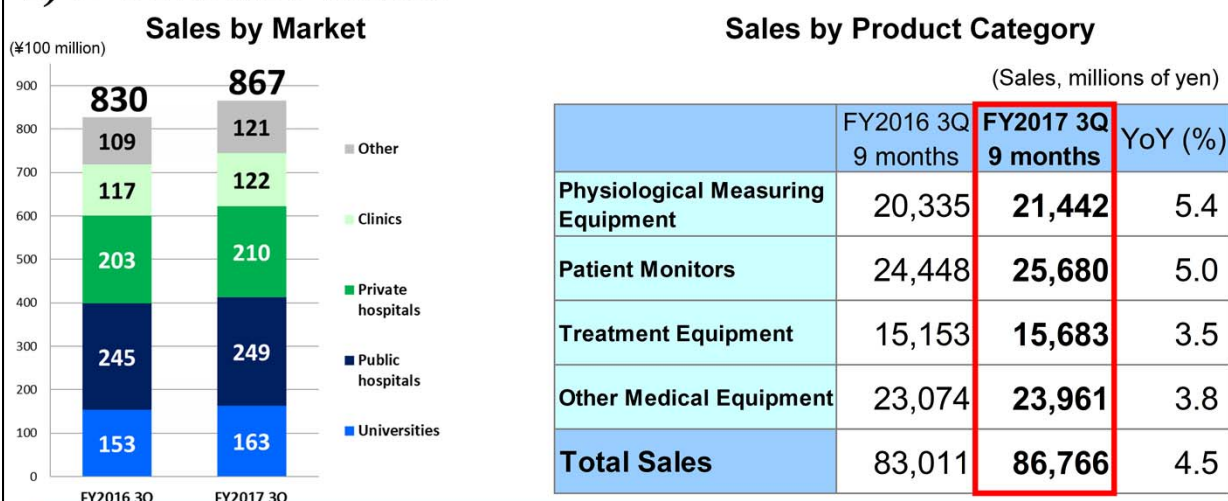
	FY2016 3Q 9 months	FY2017 3Q 9 months	YoY (%)
Physiological Measuring Equipment	26,006	26,859	3.3
Patient Monitors	37,232	40,559	8.9
Treatment Equipment	20,948	22,497	7.4
Other Medical Equipment	26,431	27,539	4.2
Total Sales	110,619	117,456	6.2
<small>(Reference)</small>			
Consumables and Services	50,956	54,485	6.9

Sales Composition by Product Category



- Sales of Physiological Measuring Equipment increased 3.3% to ¥26.8 billion.
- Sales of Patient Monitors increased 8.9% to ¥40.5 billion.
- Sales of Treatment Equipment increased 7.4% to ¥22.4 billion.
- Sales of Other Medical Equipment increased 4.2% to ¥27.5 billion.
- Sales of Consumables and Services increased 6.9%. Consumables and Services sales ratio increased to 46.4%.

4) Domestic Sales



【Markets】 Sales increased both in the hospital and the clinic markets. Sales of Patient Monitors showed strong growth especially in the university market.

【Products】 Physiological Measuring Equipment: Sales of polygraphs for cath labs increased favorably. Sales of ECGs and diagnostic information systems also increased. Sales of EEGs decreased.

Patient Monitors: Sales showed strong growth, thanks to orders related to replacement of bedside monitors and clinical information systems.

Treatment Equipment: Sales of defibrillators and AEDs increased favorably.

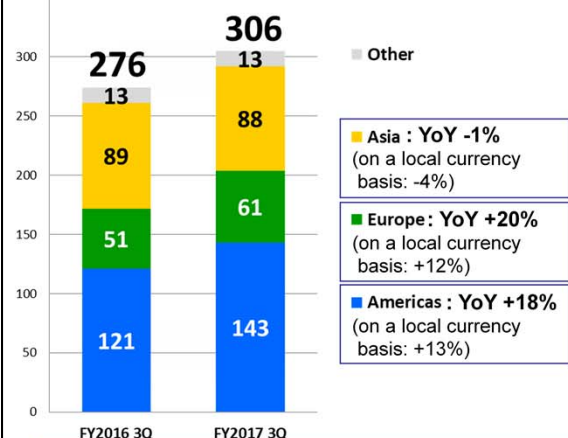
Other Medical Equipment: Sales of imaging systems increased.

- Domestic sales increased by ¥3.7 billion to ¥86.7 billion.
- Sales increased both in the hospital and the clinic markets. Especially, sales of Patient Monitors showed strong growth in the university market due to the increase in replacement demand in the 3rd quarter. Sales also increased in the public and the private hospital markets, thanks to orders related to new hospitals and replacements of existing equipment.
- In Physiological Measuring Equipment, sales of polygraphs for cath labs increased favorably. Sales of ECGs and diagnostic information systems also increased. Sales of EEGs decreased.
- In Patient Monitors, sales of bedside monitors and clinical information systems showed strong growth.
- In Treatment Equipment, sales of defibrillators and AEDs increased favorably. Sales of AEDs increased and sales of consumables such as pads and batteries also showed strong growth.
- In the domestic market environment, it is difficult to foresee the trend of hospital capital spending, because some large orders were advanced into the 3rd quarter which are usually concentrated in the 4th quarter. There is also the revision of medical treatment fees in April. We continue to strengthen our sales activities in the private hospital and the clinic markets, where we have devoted resources since we reorganized sales operations in FY2016. We will also strengthen our sales activities in the university and public hospital market to capture replacement demand toward the end of the fiscal year.

5) Overseas Sales

Geographic segments

(¥100 million)



Percentage of Overseas Sales to Consolidated Sales

FY2016 3Q 9 months	FY2017 3Q 9 months
25.0%	26.1%

Sales by Product Category

(Sales, millions of yen)

	FY2016 3Q 9 months	FY2017 3Q 9 months	YoY (%)
Physiological Measuring Equipment	5,671	5,417	-4.5
Patient Monitors	12,784	14,879	16.4
Treatment Equipment	5,794	6,814	17.6
Other Medical Equipment	3,357	3,578	6.6
Total Sales	27,607	30,689	11.2

+7% on a local currency basis

[Region] Americas: Sales in the U.S. increased favorably, supported by strong sales of Patient Monitors and AEDs. Sales in Latin America also increased, primarily in Brazil, while sales in Mexico decreased.
 Europe: Sales increased in France and Russia. Sales in Turkey showed recovery.
 Asia: Sales decreased in South Korea and Vietnam. Sales in China increased, reflecting the contribution of new products.

[Products] Physiological Measuring Equipment: Sales of EEGs decreased in the Americas. Sales of ECGs decreased in Asia.
 Patient Monitors: Sales showed strong growth in the Americas and Europe.
 Treatment Equipment: Sales of defibrillators increased favorably in Europe and Asia. Sales of AEDs showed strong growth in the Americas.
 Other Medical Equipment: Sales of hematology analyzers increased favorably in the Americas and Europe. Sales of locally purchased products also increased.

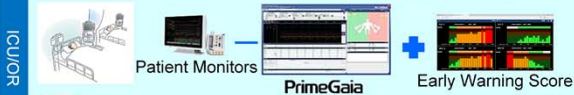
- Overseas sales increased by ¥3.0 billion to ¥30.6 billion, 7% growth on a local currency basis. The overseas sales ratio was 26.1%.
- In the Americas, sales in the U.S. increased favorably, supported by strong sales of Patient Monitors and AEDs. Sales increase of Defibtech's AEDs was contributed by the cross-selling with Nihon Kohden America's direct sales channel for the hospital market. Sales in Latin America also increased, primarily in Brazil, while sales in Mexico decreased. The fiscal year-end of our subsidiaries in Mexico and Brazil is December 31. The Company expects to achieve its full-year sales target in Latin America, as orders recovered in Mexico and sales continued to increase in Brazil.
- Sales in Europe increased, supported by solid sales in France and Russia, and sales recovery in Turkey where there was the impact of political uncertainty in FY2016.
- Sales decreased in Asia, especially in South Korea and Vietnam. Sales in India also decreased due to the confusion caused by GST implementation in July 2017. Sales in China increased by mid-single-digit growth on a yen basis and high-single-digit growth on a local currency basis, reflecting the contribution of new products such as defibrillators. Full-year sales in China are expected to result in high-single-digit growth both on a yen and local currency basis. The fiscal year-end of our subsidiary in China is December 31.

6) Topics

Japan

Competitive IT systems with new functions

Clinical Information System PrimeGaia



NEW! Added **Early Warning Score** function*¹ for patient safety

Diagnostic Information System PrimeVitaPlus



NEW! Consolidated management of all physiological tests by incorporating **Clinical Neurology Data Network System***²

*1 Our Early Warning Score function adopts the National Early Warning Score (NEWS), which is widely used as standard in the UK. It scores patient's vital signs for identifying acutely ill patients.

*2 Clinical Neurology Data Network System manages large volume data such as long-term EEG monitoring and intraoperative neurophysiological monitoring.

*3 esCCO is a non-invasive method of continuous cardiac output measurement using ECG and pulse oximetry.

International

Order for Patient Monitors from top hospital in Brazil

Enhance direct sales to key hospitals and promote our original technology, esCCO*³



Received order from Instituto do Coração do Hospital das Clínicas (Incor) for OR/ICU patient monitoring system



- In Japan, we aim to enhance the competitiveness of our IT system products by adding new functions. Both PrimeGaia, clinical information system for OR/ICU, and PrimeVitaPlus, diagnostic information system for laboratory are used in many universities and public hospitals. As for PrimeGaia, we added early warning score function for patient safety. As for PrimeVitaPlus, we consolidated management of all physiological tests by incorporating clinical neurology data network system. We aim to capture replacement demand as the time approaches for renewal of IT systems which were installed with the government fund for regional medical care revival plan from FY2009 to FY2013.
- Internationally, we received an order for Patient Monitors from a top hospital in Brazil. We established Nihon Kohden do Brasil in 2012, and enhanced direct sales to key hospitals in this fiscal year. By promoting our original technology, esCCO, we received an order from Instituto do Coração do Hospital das Clínicas (Incor) for an OR/ICU patient monitoring system. This deal will provide a ripple effect. There is another piece of good news. In Japan, we received a regulatory approval for esCCO in November 2017. We are now preparing for the launch of esCCO in Japan, which will be in FY2018 or after.

7) Depreciation & R&D Costs

(Millions of yen)

	FY2016 3Q	FY2017 3Q	Change	FY2016	FY2017	
	9 months	9 months		Actual	Original Forecast announced May 11	Revised Forecast announced Nov 6
Depreciation	2,461	2,417	-43	3,422	3,900	3,600
R&D costs	4,474	5,598	1,124	6,466	7,300	7,300
		Capital Investments		7,710	5,700	5,200

● **FY2017 capital investments plan:**

Molds for new products, measuring equipment and jigs, products for demonstration, production equipment, and renovation of headquarters (Nishiochiai Office)(¥0.8 bil)

- Depreciation decreased by ¥40 million to ¥2.4 billion. R&D costs increased by ¥1.1 billion to ¥5.5 billion.
- Full-year depreciation is expected to be in line with the revised forecast. Full-year R&D costs are expected to increase over the forecast of ¥7.3 billion, because development man-hours for middle-end bedside monitors were higher than expected. Total full-year SG&A expenses will be within the forecast, as costs for improving existing products are expected to be lower than the estimate.

8) Forecast for FY2017

(Millions of yen)

	FY2016 Actual	FY2017 Forecast	YoY (%)
Net Sales	166,285	175,000	5.2
Domestic Sales	124,764	128,000	2.6
Overseas Sales	41,520	47,000	13.2
Operating Income	13,585	15,000	10.4
Ordinary Income	14,053	15,000	6.7
Income Attributable to Owners of Parent	9,149	10,200	11.5

Percentage of Overseas Sales 25.0% 26.9%

Average Exchange Rate Initial assumptions

1 US Dollar	109.2 yen	110 yen
1 EURO	119.3 yen	115 yen

Breakdown of Overseas Sales by Region

	FY2016 Actual	FY2017 Forecast	YoY (%)
Americas	18,953	22,500	18.7
Europe	6,988	7,500	7.3
Asia	12,639	14,400	13.9
Other	2,938	2,600	-11.5
Total	41,520	47,000	13.2

*The assumed exchange rates for the 4th quarter of FY2017 are 110 yen to the U.S. dollar and 115 yen to the euro.

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8

- The Company reaffirms the forecasts for FY2017.
- The domestic sales forecast remains at ¥128.0 billion. It's difficult to foresee the trend of hospital capital spending, because some large orders were advanced in the 3rd quarter which are usually concentrated in the 4th quarter. There is also the revision of medical treatment fees in April. Currently we expect domestic sales in the 4th quarter to be slightly lower than the 4th quarter of FY2016. The Company aims to achieve full-year domestic sales target by capturing replacement demand in the university and public hospital market, and a rise in capital spending in the private hospital market in response to the 2018 revision of medical treatment fees.
- The overseas sales forecast remains at ¥47.0 billion.
- Sales in the Americas are expected to be in line with the forecast. Sales in the U.S. will be double-digit-growth, as orders of Patient Monitors have increased favorably. We plan to send service staffs from headquarters in March to respond to the concentration of deliveries. Sales target in Latin America are expected to be achieved.
- In Europe, sales will continue to grow favorably mainly in France and Russia. Full-year sales in Europe are expected to exceed the forecast due to the weaker-than-expected yen against the euro.
- In Asia, full-year sales will be lower than the forecast. Although we expect sales recovery in the 4th quarter especially in the Middle East, it will not be able to offset the shortfall in sales for 9 months.
- There is no change to our forecast for full-year operating income, ordinary income and net income of ¥15.0 billion, ¥15.0 billion and ¥10.2 billion respectively. Gross margin ratio in FY2017 is expected to be higher than 47.6% in FY2016 and lower than 48.0%. We aim to achieve the income targets by restraining SG&A expenses increase.
- Both domestic and overseas sales will be concentrated in March. We will make effort to achieve both sales and income targets by full preparation for production and deliveries.

(Ref.) Consolidated Sales Forecast for FY2017 by Product Category

(Millions of yen)

	FY2016 Actual	FY2017		YoY (%)
		Original Forecast announced May 11	Revised Forecast announced Nov 6	
Physiological Measuring Equipment	37,658	39,800	39,500	4.9
Patient Monitors	56,117	59,100	61,400	9.4
Treatment Equipment	29,728	31,200	31,200	5.0
Other Medical Equipment	42,781	44,900	42,900	0.3
Total	166,285	175,000	175,000	5.2
(Reference)				
Consumables and Services	71,180	75,100	75,700	6.4

- Sales forecasts by product category were as shown above.
- Currently we expect sales of Physiological Measuring Equipment will be lower, sales of Patient Monitors will be in line with, and sales of Treatment Equipment will be higher than the revised forecasts announced on November 6.

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.