

Consolidated Financial Highlights for the Third Quarter of FY2016

(From April 1, 2016 to December 31, 2016)



NIHON KOHDEN CORPORATION
(Ticker Code: 6849)

February 1, 2017

1) Consolidated Financial Results for the 3rd Quarter of FY2016

	FY2015 3Q 9 months	FY2016 3Q 9 months	YoY (%)	(Amounts of less than ¥1 million are rounded down)									
Net Sales	111,654	110,619	-0.9										
Domestic Sales	81,094	83,011	2.4										
Overseas Sales	30,560	27,607	-9.7	+3% on a local currency basis									
Operating Income	7,247	5,302	-26.8	<table border="1"> <tr> <td></td> <td>FY2015 3Q</td> <td>FY2016 3Q</td> </tr> <tr> <td>Gross Margin Ratio:</td> <td>48.8%</td> <td>→ 48.5%</td> </tr> <tr> <td>SG&A Ratio:</td> <td>42.3%</td> <td>→ 43.7%</td> </tr> </table>		FY2015 3Q	FY2016 3Q	Gross Margin Ratio:	48.8%	→ 48.5%	SG&A Ratio:	42.3%	→ 43.7%
	FY2015 3Q	FY2016 3Q											
Gross Margin Ratio:	48.8%	→ 48.5%											
SG&A Ratio:	42.3%	→ 43.7%											
Ordinary Income	7,588	6,046	-20.3	<table border="1"> <tr> <td colspan="3">Foreign exchange gains or losses:</td> </tr> <tr> <td>FY2015 3Q</td> <td>FY2016 3Q</td> <td></td> </tr> <tr> <td>¥140 mil losses</td> <td>→ ¥250 mil gains</td> <td></td> </tr> </table>	Foreign exchange gains or losses:			FY2015 3Q	FY2016 3Q		¥140 mil losses	→ ¥250 mil gains	
Foreign exchange gains or losses:													
FY2015 3Q	FY2016 3Q												
¥140 mil losses	→ ¥250 mil gains												
Income Attributable to Owners of Parent	4,650	3,825	-17.8										
Average Exchange Rate	(2015/12)	(2016/12)											
1 US Dollar	121.6 yen	107.4 yen											
1 EURO	133.9 yen	118.6 yen											

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1

- Overall sales decreased 0.9% to ¥110.6 billion.
- Domestic sales increased 2.4% to ¥83.0 billion as we reorganized the sale operations to match each market. Sales of consumables and services also increased favorably.
- Overseas sales decreased 9.7% to ¥27.6 billion on a yen basis; this was a 3% positive growth on a local currency basis. Sales in all areas and all product categories decreased due to a negative currency translation impact.
- Gross margin ratio decreased due to yen appreciation. Productivity at the Tomioka Production Center continued to improve. SG&A expenses such as R&D expenses and enhancement of human resources increased. Operating income decreased to ¥5.3 billion. We posted ¥6.0 billion in Ordinary income as foreign exchange gains were recorded compared to foreign exchange losses in the same period of FY2015. Income attributable to owners of parent decreased to ¥3.8 billion.

2) Highlights of FY2016 3Q

Net Sales : -0.9%

- **Japan:** Sales increased as the Company reorganized its sales operations to match each market: the acute care hospital market, the small and mid-sized hospital market, and the clinic market. Consumables and services also contributed to sales increase.
- **International:** Sales in all areas and all product categories decreased due to yen appreciation. Sales in the Americas and Asia increased on a local currency basis.

Operating Income : -26.8%

- Operating income decreased due to sales decrease and due to increase in SG&A expenses such as R&D expenses and enhancement of human resources.

Ordinary Income : -20.3%

- Foreign exchange gains were recorded compared to foreign exchange losses in the same period of FY2015.

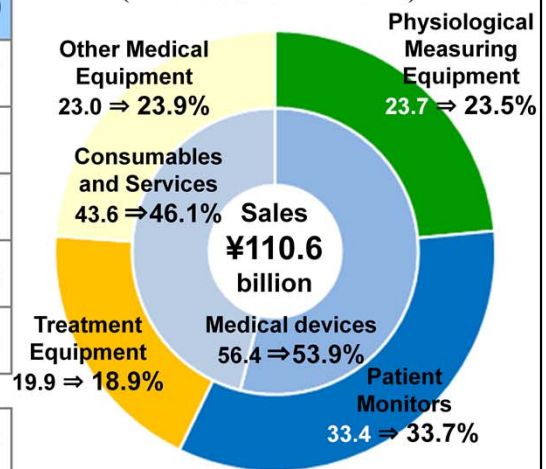
3) Sales by Product Category

(Sales, millions of yen)

	FY2015 3Q 9 months	FY2016 3Q 9 months	YoY (%)
Physiological Measuring Equipment	26,450	26,006	-1.7
Patient Monitors	37,271	37,232	-0.1
Treatment Equipment	22,164	20,948	-5.5
Other Medical Equipment	25,768	26,431	2.6
Total Sales	111,654	110,619	-0.9
<small>(Reference)</small>			
Consumables and Services	48,683	50,956	4.7

Sales Composition by Product Category

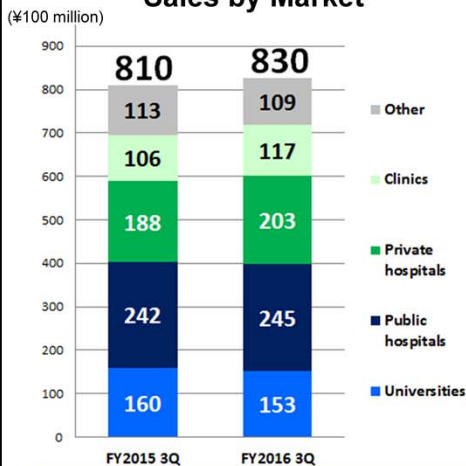
(FY2015 3Q ⇒ FY2016 3Q)



- Sales of Physiological Measuring Equipment decreased 1.7% to ¥26.0 billion.
- Sales of Patient Monitors were flat at ¥37.2 billion.
- Sales of Treatment Equipment decreased 5.5% to ¥20.9 billion.
- Sales of Other Medical Equipment increased 2.6% to ¥26.4 billion.
- Sales ratio of Consumables and Services was raised to 46.1% because we strengthened the consumables business both in Japan and overseas. This is a stable revenue base.

4) Domestic Sales

Sales by Market



Sales by Product Category

(Sales, millions of yen)

	FY2015 3Q 9 months	FY2016 3Q 9 months	YoY (%)
Physiological Measuring Equipment	20,002	20,335	1.7
Patient Monitors	23,437	24,448	4.3
Treatment Equipment	15,601	15,153	-2.9
Other Medical Equipment	22,052	23,074	4.6
Total Sales	81,094	83,011	2.4

【Markets】 Sales in the private hospital and clinic market showed strong growth. Sales in the public hospital market increased. Sales in the university market decreased.

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

Patient Monitors: Sales increased favorably, reflecting demand for differentiating and strengthening medical institution functions. Consumables such as sensors also contributed to sales increase.

Treatment Equipment: Sales of defibrillators and AEDs decreased. Sales of ventilators, pacemakers and ICDs increased.

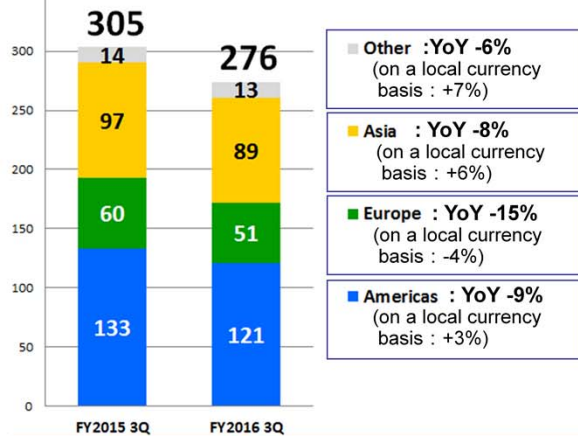
Other Medical Equipment: Sales of hematology instruments increased.

- Domestic sales increased by ¥2.0 billion to ¥83.0 billion.
- Domestic sales increased as we reorganized sales operations to match each market: the acute care hospital market, the small and mid-sized hospital market, and the clinic market. We also focused on expanding consumables and services business.
- Sales in the private hospital and clinic market showed strong growth. Sales in the public hospital market increased. Sales in the university market decreased as there were some postponements of and restraints on their spending from the 2nd half of FY2016.
- In Physiological Measuring Equipment, sales of polygraphs for cath labs increased favorably. Sales of EEGs, ECGs and diagnosis information system decreased.
- In Patient Monitors, sales of telemetry central monitors and transmitters increased favorably, especially in the private and public hospital market. Consumables such as sensors also contributed to sales increase.
- In Treatment Equipment, sales of AEDs decreased due to slow replacement demand. Sales of ventilators, pacemakers and ICDs increased. The full-year sales forecast of AED shipments is revised to 44,000 units due to the weak recovery of demand.
- In the domestic market environment, the private hospital and clinic market remains favorable. Although budget executions of universities and public hospitals had been relatively slow since October, their spending started gradually from January. We continue to focus on sales activities toward the end of the fiscal year.

5) Overseas Sales

Geographic Segments

(¥100 million)



Percentage of Overseas Sales to Consolidated Sales

FY2015 3Q 9 months	FY2016 3Q 9 months
27.4%	25.0%

Sales by Product Category

(Sales, millions of yen)

	FY2015 3Q 9 months	FY2016 3Q 9 months	YoY (%)
Physiological Measuring Equipment	6,447	5,671	-12.0
Patient Monitors	13,834	12,784	-7.6
Treatment Equipment	6,562	5,794	-11.7
Other Medical Equipment	3,715	3,357	-9.6
Total Sales	30,560	27,607	-9.7

+3% on a local currency basis

[Region] **Americas:** Sales in the U.S. increased on a local currency basis. Sales in Latin America decreased mainly due to change in distribution channels.
Europe: Sales decreased, especially in Germany, although orders improved from the 3rd quarter.
Asia: Sales in Southeast Asia and India increased favorably. Sales in oil producing countries in the Middle East decreased due to negative effects of lower oil prices.

[Products] **Physiological Measuring Equipment:** Sales of EEGs and ECGs decreased in all areas.
Patient Monitors: Sales decreased in the Americas, Europe and Asia. Sales in other area increased favorably.
Treatment Equipment: Sales of defibrillators decreased in all areas. Sales of AEDs increased in Europe and Asia and decreased in the Americas.
Other Medical Equipment: Sales of hematology analyzers decreased in Asia.

- Overseas sales decreased by ¥2.9 billion to ¥27.6 billion on a yen basis; this was a 3% positive growth on a local currency basis. Overseas sales ratio was 25%.
- In the Americas, sales in the U.S increased on a local currency basis, posting solid growth in Patient Monitors and Physiological Measuring Equipment. Sales growth rate was weaker than we expected due to a delay of AED shipments accompanying the start of in-house production in fall 2016. This issue has now been resolved. Sales in Latin America decreased due to change in distribution channels with reorganization of sales subsidiaries. Orders increased favorably and sales in the 3rd quarter showed positive growth in Latin America. The accounting term of sales subsidiaries in Mexico and Brazil is the end of December. Sales in both countries are expected to be in line with estimates, but sales in Brazil might be weaker due to delay of customs clearance.
- Sales in Europe decreased, especially in Germany, but orders showed a recovery from the 3rd quarter.
- In Asia, sales in Southeast Asia and India increased favorably. Sales in oil producing countries such as Saudi Arabia and UAE decreased due to negative effects of lower oil prices. Sales in China increased on a local currency basis. Full-year sales in China will be a double-digit decline on a yen basis and mid single-digit growth on a local currency basis. The fiscal year-end of a group company in China is December 31.

6) Depreciation & R&D Costs

(Millions of yen)

	FY2015 3Q 9 months	FY2016 3Q 9 months	Change	FY2015 Actual	FY2016	
					Original Forecast announced May 11	Revised Forecast announced Nov 4
Depreciation	2,503	2,461	-42	3,459	4,000	3,400
R&D costs	4,058	4,474	415	5,910	7,300	6,500

● FY2016 capital investments plan:

- Molds for new products, measuring equipment and jigs, products for demonstration, production equipment, and renovation of Tomioka 2nd Plant and head quarters (Nishiochiai Office)
- Establish Advanced Technology Center in Tokorozawa
Completion and relocation: Oct 2016
Capital investments: 7.2 billion yen < FY2015: 3.4 billion yen
FY2016: 3.8 billion yen
- Establish new facility in Asaka (Relocation of immunochemical products department)
Completion and relocation: Dec 2016
Capital investments: 1.1 billion yen < FY2015: 0.2 billion yen
FY2016: 0.9 billion yen



- Depreciation decreased by ¥42 million to ¥2.4 billion.
- R&D costs increased by ¥0.4 billion to ¥4.4 billion.
- Depreciation and R&D costs for FY2016 will be in line with estimates.

7) Forecast for FY2016

(¥billion, Amounts of less than ¥10 million are rounded down)

	FY2015 Actual	FY2016 Forecast			Difference (B-A)	YoY (%)
		Original announced May 11	Revision announced Nov 4 (A)	Revision announced Feb 1 (B) *		
Net Sales	165.5	175.0	170.5	168.0	-2.5	1.5
Domestic Sales	121.9	127.0	126.3	124.0	-2.3	1.6
Overseas Sales	43.5	48.0	44.2	44.0	-0.2	1.1
Operating Income	16.4	17.5	17.0	15.5	-1.5	-5.7
Ordinary Income	16.1	17.5	16.0	16.0	—	-0.7
Income Attributable to Owners of Parent	10.5	11.5	10.7	10.3	-0.4	-2.1
Percentage of Overseas Sales	26.3%	27.4%	25.9%	26.2%		
Average Exchange Rate						
1 US Dollar	120.1 yen	109 yen	104 yen	109 yen		
1 EURO	132.4 yen	123 yen	116 yen	119 yen		

	FY2015 Actual	FY2016 Forecast			YoY (%)
		Original announced May 11	Revision announced Nov 4	Revision announced Feb 1	
Americas	19.4	21.3	19.9	20.4	4.9
Europe	8.0	8.7	7.7	7.4	-8.5
Asia	13.8	15.7	14.2	13.6	-2.0
Other	2.1	2.3	2.4	2.6	22.9

← +12% on a local currency basis

Breakdown of overseas sales by region

*Notes: The assumed exchange rates are 112 yen to the dollar and 122 yen to the euro for the 4th quarter.

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7

- Based on recent performance trends and future outlook, we revised the forecast for FY2016. We revised the overall sales forecast to ¥168.0 billion, down ¥2.5 billion from the previous forecast.
- We revised the domestic sales forecast down to ¥124.0 billion because the number of large orders from universities and public hospitals will be less than FY2015. There were also some postponements of and restraints on their spending from the 2nd half of FY2016. We expect sales in the private hospital and clinic market to remain favorable. We also aim to expand consumables and services business.
- We revised the forecast of overseas sales to ¥44.0 billion, a 12% growth on a local currency basis.
- Sales in the America are expected to be in line with estimates. Sales in the U.S. will be double-digit growth on a local currency basis, which is in line with estimates, as orders increased favorably. In the U.S., contracts and business negotiations with prestigious hospitals are increasing because we strengthened our business structure and expanded our patient monitor line-up by introducing new products. Sales in Latin America will also be in line with estimates.
- Sales in Europe and Asia are expected to be lower than the previous forecast. In Europe, sales recovery in Germany is expected to be weak. Sales in Asia will be negatively impacted by the political unrest in South Korea and the abolition of high-value rupee notes in India which occurred late last year.
- In other area, we have received a large order for patient monitors and defibrillators in Egypt. Sales of this order will be recorded in January 2017.

8) Reason for the Revision

Net Sales (down ¥2.5bil from previous forecast)	Domestic Sales (down ¥2.3bil)	<ul style="list-style-type: none"> • The number of large orders from universities and public hospitals is expected to be less than FY2015. There were some postponements of and restraints on their spending from the 2nd half of FY2016. • Sales in the private hospital and clinic market will remain favorable. • Focus on sales activities of consumables and services.
	Overseas Sales (down ¥0.2bil)	<ul style="list-style-type: none"> • Sales in the Americas are expected in line with estimates. • In Europe, sales recovery in Germany is expected to be weak. Sales in Asia will be negatively impacted by the political unrest in South Korea and the abolition of high-value rupee notes in India. • In the other area, sales of a large order in Egypt will be recorded in the 4th quarter. • The assumed exchange rates were changed due to yen depreciation. (1 US Dollar: from ¥104 to ¥109, 1 EURO: from ¥116 to ¥119)
Operating Income (down ¥1.5 bil)	<ul style="list-style-type: none"> • Revised downward as sales are expected to be lower than the previous forecast. • Improve profitability by promoting cost reductions and strengthening expense management. • Continue necessary investments such as enhancement of human resources, considering the business performance. 	
Ordinary Income (same as previous forecast)	<ul style="list-style-type: none"> • After the 3rd quarter, foreign exchange gains are recorded. 	
Income Attributable to Owners of Parent (down ¥0.4bil)	<ul style="list-style-type: none"> • Extraordinary losses such as office transfer cost will be recorded in the 4th quarter. 	

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8

- We revised the forecast of operating income to ¥15.5 billion, because sales are expected to be lower than the previous forecast.
- We will reduce costs at the product planning stage, R&D and production. We will also strengthen cost control across all Nihon Kohden groups and restrain the growth of expenditures. We will continue necessary investments for future business expansion such as enhancement of human resources, considering the business performance. Gross margin ratio for FY2016 will be flat or slightly lower than the previous fiscal year.
- Ordinary income forecast is ¥16.0 billion, the same as the previous forecast, reflecting foreign exchange gains.
- Income attributable to owners of parent is revised to ¥10.3 billion, reflecting extraordinary losses in the fourth quarter.
- We will make efforts to achieve and exceed the revised forecast of sales and profit.

(Ref.) Consolidated Forecast for FY2016 by Product Category

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

	FY2015 Actual	FY2016 Forecast			YoY (%)
		Original announced May 11	Revision announced Nov 4	Revision announced Feb 1	
Physiological Measuring Equipment	39,218	40,800	39,600	39,500	0.7
Patient Monitors	54,823	59,250	57,900	56,850	3.7
Treatment Equipment	30,611	32,600	30,700	29,900	-2.3
Other Medical Equipment	40,868	42,350	42,300	41,750	2.2
Total	165,522	175,000	170,500	168,000	1.5
(Reference)					
Consumables and Services	67,684	72,400	71,900	71,700	5.9

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9

- Sales forecast by product category was revised as described above.
- In Japan, we revised downward the sales forecast of Patient Monitors and Treatment Equipment, primarily AEDs.
- Internationally, we revised downward the sales forecast of Treatment Equipment including AEDs and Other Medical Equipment including hematology analyzers.

Disclaimer:

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