NIHON KOHDEN

Third Quarter FY2016 Financial Results Conference Call
Main Questions and Answers
(February 2, 2017)

Q1: Compared to the favorable 1st half, performance in the 3rd quarter (three months) suddenly slowed down in the university and public hospital market. What was the reason for the decrease?

A1: Budget execution of hospitals in the 3rd quarter was slower than our expectation. Acute care hospitals are facing difficult financial conditions due to the non-deductable consumption taxes issue and their budgets are executed in order of priority. Our products have relatively higher preference order. In fact, the hospitals' spending started gradually from January. In a year-on-year comparison, sales were weaker than the previous corresponding period because in the previous fiscal year, hospital spending was slow in the 1st half and started from the 3rd quarter.

Q2: The Company revised its forecast again after twice revising it at the 1st quarter and the 2nd quarter earnings releases. What is the reason for the inaccurate forecast? The 4% domestic sales growth target, which you set in the original forecast in last May, seemed to be too high considering tough business environment of hospitals.

A2: We apologize for revising the full year forecast at the end of the 3rd quarter. In the original forecast, we set a 4% sales growth target because we expected solid performance in the private hospital and clinic market. We also expected positive impact from the reorganization by dividing domestic sales operations into hospital sales and GP* sales. In terms of the university and public hospital market, our forecast was based on market information from the sales team and current inquiries and order volume from customers, taking into account their difficult business environment. In the 3rd quarter, the private hospital and clinic market continued to be favorable. We revised our forecast due to the slow budget execution in the university and public hospital market. When we set the forecast for the next fiscal year, we will improve the precision by reviewing carefully.

*GP: General Practitioner

Q3: My question is about feasibility of the revised forecast. In the Japanese market, do you have some visibility for business negotiations in February and March? In overseas markets, do you see some restraint of hospital spending after the presidential change in the U.S.? Considering weak performance in Europe and oil producing countries, I would like to know the feasibility of the revised overseas sales forecast.

A3: We revised our full year domestic sales forecast because the number of large orders is less than the previous fiscal year. The revision was also because of some postponements of hospital budgets in the 2nd half. As hospital spending started gradually from January, we will focus on sales activities and receiving orders in order to achieve the domestic sales forecast. We now have better visibility for business negotiations in February and March. In the U.S., we haven't seen any change after the election and our orders are increasing favorably. In Europe, sales in Germany are still weak but gradually recovering after adding a new distributor channel in the 2nd half. In the Middle East, sales in Saudi Arabia and UAE remain weak affected by low oil prices but this is offset by favorable sales in surrounding countries and Africa. For example, we received a large order in Egypt. We think the full year sales forecast is achievable.

Q4: Is there any change in the mid to long-term target of double digit growth in overseas sales and low single digit growth in domestic sales?

A4: We are aiming at double digit sales growth in the overseas market for this fiscal year too. Although it's difficult to factor in political and economic fluctuations, the scale of our overseas business is expanding and this enables us to offset the negative impact in one area by sales increase in other areas. We are also focusing on consumables business which leads to our stable revenue. Our target of double digit sales growth in the overseas market is unchanged. We will continue to aim at low single digit sales growth in Japan by developing new business segments such as ventilators.

Q5: SG&A expenses will increase compared to the previous fiscal year. What is the reason for the increase?

A5: One-off expenses for this fiscal year are the increase in retirement benefit cost affected by the negative interest rate and expenses related to office transfer. Personnel costs also increases due to increase in number of employees to expand and strengthen our overseas sales and service network. Although we anticipate a cost increase affected by yen depreciation in the 4th quarter, SG&A expenses will be the same level as the previous forecast announced on November 4th with our efforts to constrain the cost.

(End)

(Cautionary Statement)

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