

# Consolidated Financial Highlights for the First Quarter of FY2016

(From April 1, 2016 to June 30, 2016)



NIHON KOHDEN CORPORATION

(Ticker Code: 6849)

August 1, 2016

# 1) Consolidated Financial Results for the 1<sup>st</sup> Quarter of FY2016

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

|                                         | FY2015<br>1Q | FY2016<br>1Q | YoY (%) |
|-----------------------------------------|--------------|--------------|---------|
| Net Sales                               | 32,687       | 31,402       | -3.9    |
| Domestic Sales                          | 23,971       | 23,878       | -0.4    |
| Overseas Sales                          | 8,715        | 7,524        | -13.7   |
| Operating Income                        | 132          | -416         | —       |
| Ordinary Income                         | 610          | -1,472       | —       |
| Income Attributable to Owners of Parent | 239          | -1,086       | —       |

| Average Exchange Rate | (2015/6) | (2016/6) |
|-----------------------|----------|----------|
| 1 US Dollar           | ¥120.9   | ¥112.8   |
| 1 EURO                | ¥132.9   | ¥125.8   |

|                                   | FY2015 1Q       | FY2016 1Q        |
|-----------------------------------|-----------------|------------------|
| Gross Margin Ratio:               | 47.6%           | 48.7%            |
| SG&A Ratio:                       | 47.2%           | 50.0%            |
| Foreign exchange gains or losses: | ¥0.35 bil gains | ¥1.29 bil losses |

© Copyright NIHON KOHDEN CORPORATION All Rights Reserved

1

- Overall sales decreased 3.9% to ¥31.4 billion.
- Domestic sales were the same level as the 1<sup>st</sup> quarter of FY2015. Sales of AEDs in the PAD market decreased due to lower replacement demand, while sales in the hospital market and clinic market increased.
- Overseas sales decreased due to the negative effects of weak local currencies and lower oil prices in some emerging countries. A negative currency translation impact also affected sales. Overseas sales decreased 7% on a local currency basis.
- Gross margin ratio was higher than the 1<sup>st</sup> quarter of FY2015 mainly due to improvement in productivity at Tomioka and Shanghai factory. SG&A expenses increased due to enhancement of human resources, while there were effects of cost controls. As a result, operating loss was ¥0.4 billion. Ordinary loss was ¥1.4 billion and loss attributable to owners of parent was ¥1.0 billion, reflecting foreign exchange losses.

## 2) Highlights of FY2016 1Q

### Net Sales : -3.9%

- **Japan:** Sales in the hospital market and clinic market increased. Sales of AEDs in the PAD market decreased.
- **International:** Sales decreased due to the negative effects of weak local currencies and lower oil prices in some emerging countries. A negative currency translation impact also affected sales.

### Operating Loss : ¥416 mil (¥132 mil of operating income in FY2015 1Q)

- Gross margin ratio was higher than the 1<sup>st</sup> quarter of FY2015 mainly due to improvement of productivity.
- SG&A expenses increased mainly due to enhancement of human resources. There were also effects of cost controls.

### Ordinary Loss : ¥1,472 mil (¥610 mil of ordinary income in FY2015 1Q)

- Foreign exchange losses were recorded compared to foreign exchange gains in the 1<sup>st</sup> quarter of FY2015.

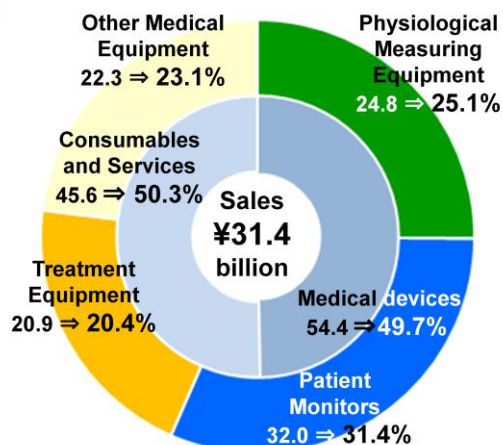
### 3) Sales by Product Category

(Sales, millions of yen)

|                                   | FY2015<br>1Q | FY2016<br>1Q | YoY (%) |
|-----------------------------------|--------------|--------------|---------|
| Physiological Measuring Equipment | 8,110        | 7,896        | -2.6    |
| Patient Monitors                  | 10,472       | 9,862        | -5.8    |
| Treatment Equipment               | 6,824        | 6,409        | -6.1    |
| Other Medical Equipment           | 7,279        | 7,235        | -0.6    |
| <b>Total Sales</b>                | 32,687       | 31,402       | -3.9    |
| <small>(Reference)</small>        |              |              |         |
| Consumables and Services          | 14,889       | 15,791       | 6.1     |

#### Sales composition by product category

(FY2015 1Q ⇒ FY2016 1Q)



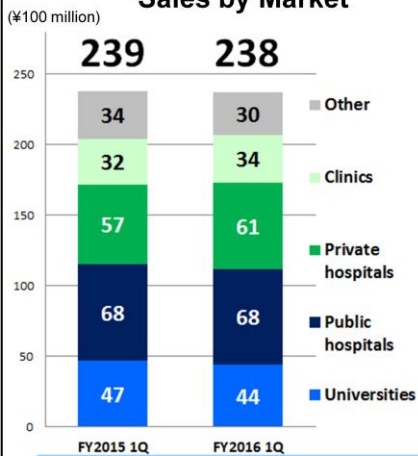
© Copyright NIHON KOHDEN CORPORATION All Rights Reserved

3

- Sales of Physiological Measuring Equipment decreased 2.6% to ¥7.8 billion.
- Sales of Patient Monitors decreased 5.8% to ¥9.8 billion.
- Sales of Treatment Equipment decreased 6.1% to ¥6.4 billion.
- Sales of Other Medical Equipment decreased 0.6% to ¥7.2 billion.
- Sales of Consumables and Services increased 6.1%. Consumables and Services sales ratio increased to 50.3%.

## 4) Domestic Sales

Sales by Market



Sales by Product Category

(Sales, millions of yen)

|                                   | FY2015<br>1Q  | FY2016<br>1Q  | YoY (%)     |
|-----------------------------------|---------------|---------------|-------------|
| Physiological Measuring Equipment | 6,179         | 6,271         | 1.5         |
| Patient Monitors                  | 6,655         | 6,693         | 0.6         |
| Treatment Equipment               | 4,984         | 4,646         | -6.8        |
| Other Medical Equipment           | 6,151         | 6,266         | 1.9         |
| <b>Total Sales</b>                | <b>23,971</b> | <b>23,878</b> | <b>-0.4</b> |

**【Markets】** Sales in the private hospital market and the clinic market increased. Sales in the public hospital market were flat. Sales in the university market decreased. Sales of AEDs in the PAD market decreased due to slow replacement demand.

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

**Patient Monitors:** Sales of bedside monitors, transmitters, and consumables and services increased, while sales of clinical information system decreased.

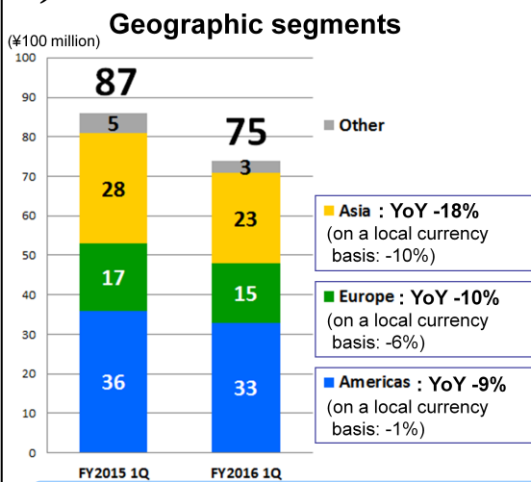
**Treatment Equipment:** Sales of defibrillators and AEDs decreased. Sales of ventilators, pacemakers and ICDs increased.

**Other Medical Equipment:** Sales of hematology instruments increased. Sales of locally purchased products were controlled in accordance with the Company's selling policy to focus on its own products and consumables.

- Domestic sales decreased 0.4% to ¥23.8 billion.
- Sales in the private hospital market and the clinic market increased, as the Company reorganized its sales operations in April 2016 and has focused on these markets.
- Sales in the public hospital market were flat and sales in the university market decreased. Sales in these markets will recover in the 2<sup>nd</sup> quarter as business negotiations in these markets are generally concentrated at the end of the 1<sup>st</sup> half.
- In Physiological Measuring Equipment, sales of EEGs and polygraphs for cath labs increased. Sales of ECGs and diagnostic information system decreased.
- In Patient Monitors, sales of clinical information system decreased, while sales of bedside monitors, transmitters and consumables such as sensors increased.
- In Treatment Equipment, sales of AEDs in the PAD market decreased due to slow replacement demand. The Company will focus on catching new and replacement demand after the 2<sup>nd</sup> quarter.
- In Other Medical Equipment, sales of hematology instruments increased. The Company continued to restrain sales of locally purchased products in accordance with the Company's selling policy to focus on its own products and consumables.



# 5) Overseas Sales



Percentage of overseas sales to consolidated sales

| FY2015 1Q | FY2016 1Q |
|-----------|-----------|
| 26.7%     | 24.0%     |

## Sales by Product Category

(Sales, millions of yen)

|                                   | FY2015 1Q    | FY2016 1Q    | YoY (%)      |
|-----------------------------------|--------------|--------------|--------------|
| Physiological Measuring Equipment | 1,930        | 1,624        | -15.8        |
| Patient Monitors                  | 3,817        | 3,168        | -17.0        |
| Treatment Equipment               | 1,840        | 1,763        | -4.2         |
| Other Medical Equipment           | 1,127        | 968          | -14.1        |
| <b>Total Sales</b>                | <b>8,715</b> | <b>7,524</b> | <b>-13.7</b> |

-7% 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, while sales in France and the UK increased.  
 Asia: Sales in the Middle East decreased due to lower oil prices. Sales in China increased on a local currency basis.

**【Products】** Physiological Measuring Equipment: Sales of EEGs decreased in all areas. Sales of ECGs decreased in the Americas and Europe.  
 Patient Monitors: Sales decreased in all areas.  
 Treatment Equipment: Sales of defibrillators decreased, while sales of AEDs increased.  
 Other Medical Equipment: Sales of hematology analyzers decreased in Asia.

- Overseas sales decreased 13.7% to ¥7.5 billion, a 7% decline on a local currency basis. Overseas sales ratio was 24%.
- In the Americas, sales in the U.S. increased on a local currency basis and decreased on a yen basis due to yen appreciation. Sales growth in the 1<sup>st</sup> quarter was weaker than we expected, but we will be able to catch up with our expectation in the 2<sup>nd</sup> quarter as recent orders are increasing favorably. Sales in Latin America decreased as the Company has changed distribution channels with reorganization of its sales subsidiaries in Latin America. Recent orders in Latin America show a recovery, although there are negative effects of weak local currencies. The Company will continue to strengthen its sales and service network.
- Sales in Europe decreased, especially in Germany due to the reaction to strong sales in the 1<sup>st</sup> quarter of FY2015. Sales in France and the UK increased. Brexit will not have an impact on our business due to limited sales exposure to the UK and because management of our European operations is located in Germany.
- In Asia, sales in the Middle East decreased, especially in oil producing countries such as Saudi Arabia and UAE due to negative effects of lower oil prices. Sales in China increased on a local currency basis and decreased on a yen basis due to yen appreciation. The 1<sup>st</sup> half sales in China will increase slightly on a local currency basis and decrease on a yen basis. The fiscal year-end of our subsidiary in China is December 31.

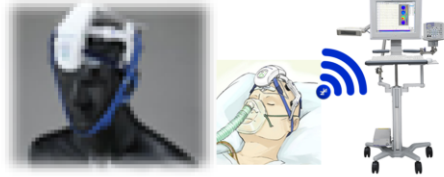
## 6) Topics

### New product in FY2016 1Q

#### EEG in Physiological Measuring Equipment

##### EEG Headset, AE-120A Launch July 2016 (Japan)

- Easy attachment enables fast EEG measurement.
- Address needs of measuring EEG in unconscious patients of unknown cause in emergency care, especially useful for diagnosing NCSE\*.



\*NCSE (Nonconvulsive Status Epilepticus) is a consciousness disturbance of unknown cause and difficult to diagnose due to nonconvulsion. Early diagnosis and treatment is important.

### Develop a vital sign parameter business

NIBP\* module

⇒ OEM supply agreement with NIKKISO

SpO<sub>2</sub> sensor

CO<sub>2</sub> sensor

⇒ Under negotiation with an overseas medical device maker towards an agreement

© Copyright NIHON KOHDEN CORPORATION All Rights Reserved \*NIBP: Non-invasive Blood Pressure

6

- One new product for Japan is an EEG Headset. In emergency care, it is becoming more necessary to measure EEG especially for unconscious patients of unknown cause such as Nonconvulsive Status Epilepticus. In response to requests from emergency care, we developed an EEG headset that can be easily attached and provides fast EEG measurement. It is user friendly even for medical staff who are unfamiliar with measuring EEG. This is a product that only Nihon Kohden, a leading company of EEG, can provide. Sales of EEGs increased in the 1<sup>st</sup> quarter and this new product will contribute to sales growth.
- The Company is promoting the development of vital sign parameter business such as SpO<sub>2</sub> sensors, CO<sub>2</sub> sensors and iNIBP. We have reached an agreement with NIKKISO CO., LTD. to integrate iNIBP technology into their hemodialysis monitors. Blood pressure is measured several times during dialysis. Nihon Kohden's iNIBP has been well received as it is gentle on patients with quick and painless NIBP measurement during cuff inflation. We also supply SpO<sub>2</sub> sensors and CO<sub>2</sub> sensors to overseas medical device makers under OEM agreements, and we are negotiating a new OEM agreement with another maker. We will work to raise our brand recognition by spreading our unique sensor technologies across the world.

## 7) Depreciation & R&D Costs

(Millions of yen)

|              | FY2015<br>1Q | FY2016<br>1Q | Change | FY2015<br>Actual | FY2016<br>Plan |
|--------------|--------------|--------------|--------|------------------|----------------|
| Depreciation | 747          | 733          | -13    | 3,459            | 4,000          |
| R&D Costs    | 1,254        | 1,242        | -12    | 5,910            | 7,300          |

### ● FY2016 capital investments plan:

- Molds for new products, measuring equipment and jigs, products for demonstration, production equipment and renovation of Tomioka 2<sup>nd</sup> Plant
- Establish Tokorozawa R&D center
  - Completion and relocation: Fall 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: Winter 2016
  - Capital investments: 1.1 billion yen < FY2015: 0.2 billion yen  
FY2016: 0.9 billion yen

© Copyright NIHON KOHDEN CORPORATION All Rights Reserved

7

- Depreciation was ¥0.7 billion, the same level as the 1<sup>st</sup> quarter of FY2015. It was slightly behind schedule.
- R&D costs were ¥1.2 billion, the same level as the 1<sup>st</sup> quarter of FY2015. Development of new in-house ventilators is on schedule. Development of new products in existing products such as Patient Monitors was slightly behind schedule, but expected to catch up hereafter.
- Full-year depreciation will be ¥4.0 billion, in line with our initial plan.
- The main capital investments are ¥3.8 billion for the Tokorozawa R&D center and ¥0.9 billion of immunochemical products department facility. The relocation to Tokorozawa R&D center is scheduled to be in September and October 2016.



## 8) Revision of Forecast for 1<sup>st</sup> Half of FY2016

(100 Millions of yen)

|                                                    | FY2015 1H<br>Actual | FY2016 1H                                 |                                         | Difference<br>(B-A) | YoY(%) |
|----------------------------------------------------|---------------------|-------------------------------------------|-----------------------------------------|---------------------|--------|
|                                                    |                     | Original Forecast<br>announced May 10 (A) | Revised Forecast<br>announced Aug 1 (B) |                     |        |
| <b>Net Sales</b>                                   | 734                 | 780                                       | <b>750</b>                              | -30                 | 2.0    |
| <b>Domestic Sales</b>                              | 532                 | —                                         | —                                       | —                   | —      |
| <b>Overseas Sales</b>                              | 202                 | —                                         | —                                       | —                   | —      |
| <b>Operating Income</b>                            | 42                  | 45                                        | <b>37</b>                               | -8                  | -12.3  |
| <b>Ordinary Income</b>                             | 44                  | 45                                        | <b>28</b>                               | -17                 | -36.4  |
| <b>Income Attributable<br/>to Owners of Parent</b> | 25                  | 29                                        | <b>18</b>                               | -11                 | -28.5  |

Notes: As of August 1, assumed exchange rates are 105 yen to the dollar and 116 yen to the euro from the 2<sup>nd</sup> quarter of FY2016.

- Based on recent performance trends and future outlook, the Company revised its forecast for the 1<sup>st</sup> half of FY2016.
- Overall sales will be ¥75.0 billion. Both domestic sales and international sales are expected to recover in the 2<sup>nd</sup> quarter, but not enough to cover the weak 1<sup>st</sup> quarter. Greater-than expected appreciation of the yen in currency translation will also have an effect.
- In Japan, the Company will promote sales and marketing that is a much closer fit to customers in the acute care hospital market and the small and mid-sized hospital market, corresponding to the demands for medical devices in accordance with revised evaluation of hospital treatments. The 1<sup>st</sup> half sales in Japan will be mid-single digit growth.
- Internationally, the 1<sup>st</sup> half sales will be high-single-digit growth on a local currency basis and mid-single-digit decline on a yen basis, behind our expectation. Sales in the U.S., the Middle East and Africa will grow as expected on a local currency basis. Sales growth in Europe and Asia including China will be weaker than expected.
- The 1<sup>st</sup> half sales in the U.S. will be double-digit growth on a local currency basis as expected, because recent orders are increasing. Contracts and business negotiations with IDNs are expected to increase, as the Company will expand its local sales and service network and enhance relationships with GPOs/IDNs.
- In emerging countries, the Company anticipates a recovery in orders, driven by a large order from Egypt, in Latin America, Southeast Asia and the Middle East. Government budget executions start gradually, while government tenders in some emerging countries are postponed or downscaled due to weak currencies and lower oil prices. The Company will aim to receive orders from government tenders as well as focus on sales activities in the private hospital market.

## 9) Reason for the Revision

### Net Sales: ¥75.0 bil (down ¥3.0 bil from its previous forecast)

- Both domestic and international sales are expected to recover in the second quarter, but not enough to cover the weak first quarter. Greater-than expected appreciation of the yen in currency translation will also have an effect.
- **Japan:** The Company will promote sales and marketing that is a much closer fit to customers in the acute care hospital market and the small and mid-sized hospital market, corresponding to the demands for medical devices in accordance with revised evaluation of hospital treatment.
- **International:** In Patient Monitoring business in the U.S., contracts and business negotiations with IDNs\* are expected to increase. In emerging countries, the Company anticipates a recovery in orders driven by a large order from Egypt.

### Operating Income: ¥3.7 bil (down ¥0.8 bil from its previous forecast)

- The Company will reduce costs at the product planning stage, R&D and production, while continuing necessary investments for future business expansion.
- SG&A expenses will increase compared to 1<sup>st</sup> half of FY2015, while the Company will restrain growth of expenditures.

- Operating income will be ¥3.7 billion, as overall sales will be behind the initial forecast.
- The Company will reduce costs at the product planning stage, R&D and production. We will strengthen cost control across all Nihon Kohden groups, while continuing necessary investments for future business expansion such as R&D and human resources. Gross margin ratio will be flat or slightly higher compared to the 1<sup>st</sup> half of FY2015. SG&A expenses will increase compared to the 1<sup>st</sup> half of FY2015, while we will restrain growth of expenditures.
- We will make efforts to achieve and exceed the revised plan as well as enhance measures in the 2<sup>nd</sup> half.

# 10) Forecast for FY2016

## Sales by Product Category (Millions of yen)

|                                                | FY2015<br>Actual | FY2016<br>Forecast | YoY<br>(%) |                                          | FY2015<br>Actual | FY2016<br>Forecast | YoY<br>(%) |
|------------------------------------------------|------------------|--------------------|------------|------------------------------------------|------------------|--------------------|------------|
| <b>Net Sales</b>                               | 165,522          | <b>175,000</b>     | 5.7        | <b>Physiological Measuring Equipment</b> | 39,218           | <b>40,800</b>      | 4.0        |
| <b>Domestic Sales</b>                          | 121,989          | <b>127,000</b>     | 4.1        | <b>Patient Monitors</b>                  | 54,823           | <b>59,250</b>      | 8.1        |
| <b>Overseas Sales</b>                          | 43,533           | <b>48,000</b>      | 10.3       | <b>Treatment Equipment</b>               | 30,611           | <b>32,600</b>      | 6.5        |
| <b>Operating Income</b>                        | 16,438           | <b>17,500</b>      | 6.5        | <b>Other Medical Equipment</b>           | 40,868           | <b>42,350</b>      | 3.6        |
| <b>Ordinary Income</b>                         | 16,116           | <b>17,500</b>      | 8.6        | <b>Total</b>                             | 165,522          | <b>175,000</b>     | 5.7        |
| <b>Income Attributable to Owners of Parent</b> | 10,516           | <b>11,500</b>      | 9.4        | (Reference)                              |                  |                    |            |
|                                                |                  |                    |            | <b>Consumables and Services</b>          | 67,684           | <b>72,400</b>      | 7.0        |

The Company leaves its forecasts for FY2016 unchanged as business deals both domestically and internationally will be more concentrated in the 2<sup>nd</sup> half. The Company will also take measures to further improve profitability.

- The Company leaves its forecasts for FY2016 unchanged as business deals both domestically and internationally will be more concentrated in the second half. The Company will also take measures to further improve profitability.
- Operating income will be affected by greater-than expected appreciation of the yen in currency translation. The Company will take measures to further improve profitability by improving gross margin ratio and restraining growth of expenditures to get closer to full-year target of ¥17.5 billion.
- Regarding ordinary income and income attributable to owners of parent, foreign exchange losses of ¥1.29 billion were recorded in the 1<sup>st</sup> quarter. This was due to the stronger yen at the end of June. These losses will change, depending on exchange rate fluctuations. Dividend income and subsidy income in non-operating income will mitigate the impact.
- Although we had a tough start to the fiscal year, we will aim to achieve our full-year target with Company-wide efforts.



**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.