NIHON KOHDEN

First Quarter FY2016 Financial Results Conference Call
Main Questions and Answers
(August 2, 2016)

Q1: My question is on the weak performance of the 1st quarter. Was there any specific reason for that or just due to the market environment? Could you tell us the situation in Japan and overseas?

A1: The revision of medical treatment fees in April 2016 had less impact on the capital expenditure of hospitals compared to the 2014 revision. We think the domestic market is recovering. The 1st quarter results were weak in reaction to the large sales volume in March 2016, the fiscal year end month, so it was the Company's business result. Also, internationally, impact from weak local currencies and lower oil price in emerging countries was more negative than we expected.

Q2: I know that domestic sales in the 2nd half are always larger than the 1st half because orders related to IT system solutions are more concentrated in the 2nd half. This trend became stronger after FY 2014. Are there any specific reasons?

A2: In FY 2015, we already had inquiries from customers in the 1st half but budget execution of public hospitals was concentrated at the end of the fiscal year. As a result, domestic sales volume was larger in the 2nd half. We expect this trend to continue in FY 2016 as well. However, hospitals will implement capital expenditures by September as a response to the medical service fees revision and this will lead to sales increase in the 1st half.

Q3: The U.S. sales in the 1st quarter posted low-single digit growth on a local currency basis which was weaker than my expectation. What is your outlook for the second quarter?

A3: As sales volume was relatively large in March 2016, it took time for installation and training through April. After May, orders are recovering and we expect double digit sales growth on a local currency basis in the 1st half.

Q4: As in the last fiscal year, the Company revised its 1st half forecast at the end of the 1st quarter again. What is the reason for the inaccurate forecast? Is the forecast realistic or a challenging target? Is it possible to achieve the full year overseas sales forecast of 20% growth on a comparable basis?

A4: We apologize for revising the 1st half forecast at the end of 1st quarter. Our forecast is based on information from the sales team and the volume of inquiries from customers. The revision resulted from negative impact of currency exchange rate fluctuation and weaker domestic orders in April and May. We leave the full year forecast unchanged since orders are recovering. Our full year overseas sales forecast of 20% growth is achievable because we expect U.S. sales, the main growth driver, to achieve the 1st half forecast, and because we see recovery in other areas.

Q5: You mentioned the profit improvement initiative. Could you explain more details on that?

A5: We are aiming to improve our operational efficiency. Our priority is to improve the development efficiency and we are reviewing the urgency and necessity of product improvement projects. As we expect that the 2nd quarter sales will recover, we don’t think that urgent cost reduction is necessary. We will spend R&D costs in line with our plan as it is critical for our future growth. Depreciation costs might be lower than our plan due to the timing of our capital expenditure.

Q6: Gross profit margin for the 1st quarter improved 110 bps year-on-year. Is this due to volume decrease of low margin local purchase products in the domestic market? How do you see the gross margins in the 2nd quarter and the 1st half?

A6: Gross profit margin improved in the 1st quarter due to improvement in production at Tomioka factory and Shanghai factory. It was also due to volume decrease of low margin local purchase products in domestic market in accordance with our initiative to expand in-house products sales. Gross profit margin in the 2nd quarter will be the same or lower year-on-year due to the sharp appreciation of the yen. Gross profit margin in the 1st half will be the same or higher year-on-year.

Q7: Why did SG&A expenses increase 300 million yen year-on-year? I thought the expenses would decrease due to the strong yen.

A7: As for SG&A expenses of the 1st quarter, expenditures such as advertisement decreased. On the other hand, personnel costs increased due to increase in number of employees and due to the increasing retirement benefit costs affected by negative interest rate.

Q8: My question is related to overseas consumables sales. What was the sales growth on a local currency basis? I want to know the ratio of overseas consumables sales, too.

A8: Consumables sales overseas in the 1st quarter slightly increased on a yen basis. The ratio of consumables sales was over 30% due to low volume of equipment sales. This ratio will become lower in the 2nd quarter due to recovery of equipment sales.

(End)