

[Summary] Consolidated Financial Results for the 2nd Quarter of the Fiscal Year Ending March 31, 2022 (Japan GAAP)

NIHON KOHDEN CORPORATION (6849)

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(Amounts are rounded down to the nearest million yen)

1. Consolidated Financial Highlights for the 2nd Quarter of FY2021 (From April 1, 2021 to September 30, 2021)

(1) Consolidated Operating Results

Note: Percentages indicate increase/decrease over the corresponding period in the previous fiscal year.

	Net sales		Operating income		Ordinary income		Income attributable to owners of parent	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
FY2021 2Q (6 months)	102,343	17.3	17,414	98.8	17,990	119.0	12,294	111.0
FY2020 2Q (6 months)	87,240	-2.8	8,758	24.9	8,215	29.7	5,826	47.8

Note: Comprehensive income: FY2021 2Q: 13,005 million yen (98.2%) FY2020 2Q: 6,561 million yen (101.0%)

	Net income per share - Basic	Net income per share - Diluted
	Yen	Yen
FY2021 2Q (6 months)	144.85	—
FY2020 2Q (6 months)	68.42	—

(2) Consolidated Financial Conditions

	Total assets	Net assets	Equity ratio	Net assets per share
	Millions of yen	Millions of yen	%	Yen
As of September 30, 2021	189,754	147,144	77.5	1,737.00
As of March 31, 2021	193,030	138,986	72.0	1,631.88

Reference: Equity Capital: FY2021 2Q: 147,144 million yen FY2020 : 138,986 million yen

2. Dividends

	Dividends per share				
	First quarter	Interim (Second quarter)	Third quarter	Year-end	Full-year
	yen	yen	yen	yen	yen
FY2020	—	17.00	—	38.00	55.00
FY2021	—	19.00	—	—	—
FY2021 (Forecast)	—	—	—	20.00	39.00

Note: Revise of dividends forecast: None

Note: Breakdown of year-end dividends for FY2020: Ordinary dividends: 18.00 yen Special dividends: 20.00 yen

3. Consolidated forecast for FY2021 (From April 1, 2021 to March 31, 2022)

	Net sales		Operating income		Ordinary income		Income attributable to owners of parent		Net income per share - Basic
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Yen
Full year	201,000	0.6	25,500	-5.9	25,500	-10.1	17,500	-4.1	206.58

Note: Revise of consolidated forecast: Yes

*** Notes**

(1) Changes in significant subsidiaries during the period (changes in specified subsidiaries resulting in the change in scope of consolidation): None

Newly included: — companies (—)

Excluded: — companies (—)

(2) Changes in accounting policies, changes in accounting estimates, and restatement

(i) Changes in accounting policies due to revisions to accounting standards and other regulations: Yes

(ii) Changes in accounting policies due to other reasons: None

(iii) Changes in accounting estimates: None

(iv) Restatement: None

(3) Number of issued shares (common shares)

(i) Total number of issued shares at the end of the period
(including treasury shares)

FY2021 2Q	88,730,980	shares
FY2020	88,730,980	shares

(ii) Number of treasury shares at the end of the period

FY2021 2Q	4,019,276	shares
FY2020	3,561,589	shares

(iii) Average number of shares outstanding during the period

FY2021 2Q	84,879,678	shares
FY2020 2Q	85,161,781	shares

* This summary of financial result is not subject to audit procedures.

* In domestic sales of the Nihon Kohden group, sales to public medical institutions (which include national hospitals, national universities, public agencies, and municipal hospitals) account for a relatively high percentage of total sales. Therefore, the bulk of orders tend to be concentrated in September and March due to these hospitals' budget executions. In particular, sales and income are highly concentrated in the fourth quarter of the fiscal year.

* Earnings forecasts and other forward-looking statements in this release are based on information currently available and certain assumptions that the Company believes are reasonable. Therefore, they do not constitute a guarantee that they will be realized. Actual results may differ from such estimates due to unforeseen circumstances.

4. Review of Operations

During the term under review (April 1, 2021 to September 30, 2021), social and economic activity showed signs of recovery due to the benefits of economic measures taken by each country and the progress of COVID-19 vaccination. However, the pace of economic recovery was slowed down in some regions due to the spread of more infectious coronavirus variants. In Japan, the number of COVID-19 patients increased significantly and the Government implemented measures to support the healthcare system by enacting budgets and special measures in relation to medical treatment fees. The number of testing and surgical procedures, which had been on a recovery trend in the first quarter (April to June), remained low in the second quarter (July to September). Medical equipment companies were strongly required to provide solutions which contribute to infection control measures as well as improving quality and efficiency of medical care. Internationally, medical equipment to treat COVID-19 patients was installed by medical facilities in regions where the spread of infection has resurged.

Under these circumstances, Nihon Kohden started its three-year business plan, BEACON 2030 Phase I, in April 2021. The Company formulated the basic policies as follows: i) Embracing sustainability across business and corporate activities, ii) Ensuring strict compliance and strengthening group governance, iii) Improving the profitability of existing businesses and making strategic upfront investments, and iv) Establishing global SCM and strengthening core functions of operations.

Japan: Nihon Kohden concentrated on enhancing sales activities which match each market; the acute care hospital market, the small and mid-sized hospital market, and the clinic market. The Company also focused on consumables and services business as well as strengthened its marketing and service capabilities, creating customer value which contributed to improving medical safety, patient outcomes, and operating efficiency. Accordingly, sales in all markets increased favorably. Sales also increased because demand for certain products recovered from the decrease that occurred in the same period of the previous fiscal year. Furthermore, business negotiations related to IT system solutions resumed, after the previous fiscal year when medical institutions postponed or froze their purchase budgets. In particular, sales in the public hospital and private hospital markets showed strong growth, due in part to the installation of patient monitors and ventilators supported by the Government's budget. Sales of Patient Monitors and Treatment Equipment achieved double-digit growth, and sales of Physiological Measuring Equipment also increased favorably. Sales of Other Medical Equipment decreased. As a result, domestic sales increased 15.9% over the first half of FY2020 to ¥65,164 million.

International: Sales increased favorably driven by large orders for patient monitors in the U.S. where the Company has focused on expanding its market share. In all regions, demand for certain products recovered from the decrease that occurred in the same period of the previous fiscal year. Another reason for the increased sales was that demand for patient monitors increased in some regions where the spread of COVID-19 has resurged. In the Americas, sales in both the U.S. and Latin America achieved double-digit growth. In Latin America, sales in Brazil, Peru, and Chile showed strong growth. Sales decreased in Europe, where demand for certain products recovered, but not enough to cover the reactionary decline compared to the strong growth in the same period of the previous fiscal year. In Asia & Other, sales in India, Thailand, and Malaysia doubled and sales in China and Vietnam also increased favorably. Sales in all product categories achieved double-digit growth. In Treatment Equipment, sales of AEDs recovered and sales of defibrillators increased favorably. Sales of ventilators decreased as there was a reactionary decline compared to the same period of the previous fiscal year when demand surged due to the spread of COVID-19. As a result, international sales increased 20.0% over the first half of FY2020 to ¥37,178 million.

As a result, overall sales during the term under review increased 17.3% over the first half of FY2020 to ¥102,343 million. Operating income increased 98.8% over the first half of FY2020 to ¥17,414 million due to the increase in sales and higher gross profit margin thanks to a favorable product mix. Ordinary income increased 119.0% over the first half of FY2020 to ¥17,990 million, reflecting foreign exchange gains compared to losses in the same period of the previous fiscal year. Income attributable to owners of parent increased 111.0% over the first half of FY2020 to ¥12,294 million.

5. Consolidated Sales Results by Product Category

	(Millions of yen)	
	Six months ended September 30, 2021	
	Amount	Growth rate (%)
Physiological Measuring Equipment	17,998	+ 10.1
Patient Monitors	44,546	+ 27.0
Treatment Equipment	22,965	+ 18.8
Other Medical Equipment	16,832	+ 2.0
Total	102,343	+ 17.3
Products	58,476	+ 23.5
Consumables and Services	43,866	+ 10.0
(Reference) Sales by Region		
Domestic Sales	65,164	+ 15.9
Overseas Sales	37,178	+ 20.0
Americas	18,999	+ 23.2
Europe	5,635	- 9.4
Asia & Other	12,542	+ 34.1

6. Consolidated Forecast for FY2021

Based on the results for the first half of FY2021 and recent performance trends, the Company revised its forecasts for FY2021, previously announced on August 4, 2021.

As both domestic and overseas sales in the first half of FY2021 were higher than expected, the FY2021 full-year forecasts for overall sales, domestic sales, and overseas sales were revised to ¥201,000 million (up ¥10,500 million from its previous forecast), ¥136,500 million (up ¥6,000 million from its previous forecast), and ¥64,500 million (up ¥4,500 million from its previous forecast), respectively. In Japan, demand for patient monitors and ventilators exceeded the Company's expectation due to the resurgence of COVID-19 in the first half of FY2021. Demand for certain products recovered and business negotiations related to IT system solutions resumed. Accordingly, both sales of medical devices, and consumables and services, increased favorably. However, a reactionary decline is expected in the second half of FY2021 compared to the same period of the previous fiscal year when demand surged. Internationally, sales increased favorably in the first half of FY2021, as demand for certain products recovered from the decrease that occurred in the same period of the previous fiscal year. Other reasons for favorable sales were that the delivery of patient monitors in the U.S. was ahead of schedule and that demand for patient monitors exceeded the Company's expectations in Latin America, India, and Southeast Asia due to the resurgence of COVID-19. In the second half of FY2021, a reactionary decline is expected in some regions such as Europe and Latin America where demand surged in the same period of the previous fiscal year.

Because sales are expected to be higher than the Company's previous forecast and the product mix will be favorable, even though there will be impacts from price increases for components and higher logistics costs, operating income, ordinary income, and income attributable to owners of parent are expected to be ¥25,500 million (up ¥7,500 million from its previous forecast), ¥25,500 million (up ¥7,500 million from its previous forecast), and ¥17,500 million (up ¥5,500 million from its previous forecast), respectively. In view of its robust earnings in the first half of FY2021, the Company will strive to strengthen the core functions of its operation.

The earnings forecasts described above includes the impact of the spread of coronavirus variants, shortages of semiconductors, and delay in supply of components from Southeast Asia, based on information currently available to the Company at this moment.

The Company's forecast for the second half of FY2021 is based on an exchange rate of 110 yen to the U.S. dollar and 130 yen to the euro.

(Consolidated Forecast for FY2021 by Product Category)

	(Millions of yen)	
	FY2021 (forecast)	
	Amount	Growth rate (%)
Physiological Measuring Equipment	40,600	+ 8.0
Patient Monitors	80,750	+ 2.5
Treatment Equipment	41,450	- 8.1
Other Medical Equipment	38,200	+ 0.0
Total	201,000	+ 0.6
Products	109,600	- 3.7
Consumables and Services	91,400	+ 6.4
(Reference) Sales by Region		
Domestic Sales	136,500	- 0.6
Overseas Sales	64,500	+ 3.3
Americas	31,500	+ 4.0
Europe	10,000	- 23.9
Asia & Other	23,000	+ 20.9

7. Consolidated Financial Statements
(1) Consolidated Balance Sheets

(Millions of yen)

	March 31, 2021	September 30, 2021
ASSETS		
Current assets:		
Cash and deposits	30,609	23,856
Notes and accounts receivable - trade	68,612	55,788
Securities	14,000	28,000
Merchandise and finished goods	27,965	26,990
Work in process	2,326	2,601
Raw materials and supplies	8,594	10,464
Other current assets	4,256	3,790
Allowance for doubtful accounts	-225	-251
Total current assets	156,140	151,240
Non-current assets:		
Property, plant and equipment	20,193	19,558
Intangible assets		
Goodwill	431	824
Other intangible assets	1,898	2,869
Total intangible assets	2,329	3,693
Investments and other assets		
Investment securities	6,418	6,728
Other investments and other assets	8,112	8,696
Allowance for doubtful accounts	-165	-163
Total investments and other assets	14,366	15,261
Total non-current assets	36,889	38,513
Total assets	193,030	189,754
LIABILITIES		
Current liabilities:		
Notes and accounts payable - trade	24,412	18,847
Short-term loans payable	350	350
Accrued income taxes	7,915	4,915
Provision for bonuses	4,691	2,711
Provision for product warranties	1,116	835
Other current liabilities	12,121	11,429
Total current liabilities	50,608	39,089
Non-current liabilities:		
Net defined benefit liability	1,852	1,665
Other non-current liabilities	1,583	1,855
Total non-current liabilities	3,436	3,520
Total liabilities	54,044	42,609
NET ASSETS		
Shareholders' equity:		
Capital stock	7,544	7,544
Capital surplus	10,437	10,455
Retained earnings	123,796	132,692
Treasury shares	-6,966	-8,432
Total shareholders' equity	134,812	142,259
Accumulated other comprehensive income:		
Valuation difference on available-for-sale securities	2,158	2,324
Foreign currency translation adjustments	1,085	1,801
Remeasurements of defined benefit plans	929	757
Total accumulated other comprehensive income	4,173	4,884
Total net assets	138,986	147,144
Total liabilities and net assets	193,030	189,754

(2) Consolidated Statements of Income

(Millions of yen)

	Six months ended September 30, 2020	Six months ended September 30, 2021
Net sales	87,240	102,343
Cost of sales	42,883	47,855
Gross profit	44,357	54,487
Selling, general and administrative expenses	35,599	37,073
Operating income	8,758	17,414
Non-operating income		
Interest income	12	32
Dividend income	60	57
Gain on valuation of investment securities	—	6
Foreign exchange gains	—	296
Subsidy income	204	47
Other, net	101	204
Total non-operating income	378	645
Non-operating expenses		
Interest expenses	3	3
Loss on valuation of investment securities	10	—
Foreign exchange losses	825	—
Other, net	82	66
Total non-operating expenses	921	69
Ordinary income	8,215	17,990
Extraordinary income		
Gain on sales of non-current assets	0	0
Total extraordinary income	0	0
Extraordinary losses		
Loss on sales of non-current assets	0	0
Loss on retirement of non-current assets	22	44
Office transfer cost	34	—
Total extraordinary losses	57	44
Income before income taxes	8,157	17,945
Income taxes	2,330	5,650
Net income	5,826	12,294
Income attributable to owners of parent	5,826	12,294

(Consolidated Statements of Comprehensive Income)

(Millions of yen)

	Six months ended September 30, 2020	Six months ended September 30, 2021
Net income	5,826	12,294
Other comprehensive income		
Valuation difference on available-for-sale securities	840	166
Foreign currency translation adjustment	-231	716
Remeasurements of defined benefit plans, net of tax	125	-171
Total other comprehensive income	734	711
Comprehensive income	6,561	13,005
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	6,561	13,005
Comprehensive income attributable to non-controlling interests	—	—

(Additional Information)

As the Company announced on November 4, 2021, the Company has discovered that a former employee of a sales office of Nihon Kohden was involved in acts of misconduct in business transactions in Japan.

Following the discovery of this case, Nihon Kohden established an internal investigation committee and has conducted a thorough investigation. According to the internal investigation, one former employee engaged in acts of misconduct in business transactions as follows: this former employee procured more network devices and other goods than necessary, delivered the proper quantity of those goods to the customers, and then illegally obtained money by reselling surplus goods for personal use, causing damage to the Company. The internal investigation confirmed that this former employee had illegally acquired goods worth a total of approximately ¥40 million.

As far as its internal investigation is concerned, the Company expects that the impact of this case on the consolidated forecast for FY2021 ending March 31, 2022 is to be minor.

(Notes on Business Combination)

Business combination through acquisition

1. Overview of business combination

(1) Name of acquired company and operations

Name of acquired company	Advanced Medical Predictive Devices, Diagnostics and Displays, Inc. ("AMP3D")
Business	Research and development of algorithms and software for patient condition management

(2) Main reason for business combination

Reinforcement of technological development capabilities in the digital health solutions (DHS) field by combining the Company's core human machine interface (HMI) technology with AMP3D's algorithms and software technology for patient condition management

(3) Date of business combination

August 9, 2021

(4) Legal form of business combination

Acquisition of ownership for cash

(5) Name of company after business combination

Advanced Medical Predictive Devices, Diagnostics and Displays, Inc. ("AMP3D")

(6) Share of voting rights acquired

100%

(7) Basis of determination of acquiring company

Acquisition of ownership for cash by Nihon Kohden Digital Health Solutions, Inc., one of Nihon Kohden's subsidiaries

2. Business term of the acquired company included in the Consolidated Statement of Income for the second quarter of FY2021 (6 months)

The acquisition date is August 9, 2021 which is in the third quarter of AMP3D's fiscal year ending on December 31. Since the difference between the acquisition date and the Company's second quarter closing date does not exceed three months, the operational result of AMP3D is not included in the Consolidated Statement of Income for the second quarter of FY2021.

3. Acquisition cost for the acquired company and breakdown thereof

	(Millions of yen)
Payment for acquisition of stocks	966
Acquisition related costs such as advisory fees	57
Acquisition cost	1,023

The amount is provisional based on available rational information since the acquisition price has not been finalized.

4. Contents of the condition clause for the acquisition cost under an acquisition agreement and its accounting method hereafter

There is the escalation clause that adjusts the acquisition cost based on the results of operations after the acquisition in the business combination agreement. If additional payment is required based on the clause, the acquisition cost will be revised assuming that the additional payment had been made at the time of acquisition and the Company adjusts the goodwill amount and its amortization.

5. Amount of goodwill incurred, reasons and amortization method

The Company recognized goodwill of ¥414 million and it is amortized over the term within 20 years. The amount is provisional based on available rational information since the acquisition price has not been finalized and the acquisition price allocation has not been finalized. Goodwill is calculated based on the projected future excess earnings through future business development.