NIHON KOHDEN

First Quarter FY2019 Financial Results Conference Call
Main Question and Answers
(August 2, 2019)

Q1: Domestic sales in the 2 quarter were strong. How much were sales in each market affected by last-minute demand before the consumption tax hike? Is there any other reason, such as launch of new products?

A1: As for orders related to IT system solutions in the public hospital market, some public hospitals executed their annual budget ahead of schedule, since investment timing is usually concentrated in the 4th quarter. In the private hospital and clinic markets, we haven't seen any signs of last-minute demand in the 1st quarter. If it happens, it will be in August or September, just before the consumption tax hike. The overall impact of last-minute demand in the 1st quarter is assumed to be several hundred million yen. There are other reasons for strong domestic sales: large orders associated with construction of new hospitals in the university and public hospital markets, sales of solution proposals as part of our new start-up support business in the clinic market. New products such as the CSM-1500/1700 middle-range bedside monitors and the MEK-1303 automated hematology analyzer and clinical chemistry analyzer also contributed to sales.

Q2: Please explain the reason for weak sales in the small to medium sized private hospital market in Japan and the counter-measures you intend to employ from the 2nd quarter.

A2: In the university and public hospital markets, the time of renewal of equipment has come, which was introduced in association with the upward revision of medical treatment fees and the government funds under the regional medical care revival plan from FY 2010 to FY 2013. In contrast, the renewal demand in the private hospital market is not so high. Private hospitals tend to implement capital investments in response to the revision of medical treatment fees, but we haven't seen signs of hospitals purchasing equipment since there was no revision in April 2019. We are focusing on the private hospital market and aim to achieving sales recovery by strengthening sales promotion of new products for the small to medium sized hospital market such as the PVM-4000 and SVM-7200 bedside monitors, and WEP-1000 telemetry system.

Q3: Sales in the domestic clinic market increased favorably. I would like to know the reason for the significant year-on-year increase.

A3: The MEK-1303 automated hematology analyzer and clinical chemistry analyzer contributed to sales. Solution proposals combining in-house and third-party products also contributed to increased sales, as the Company enhanced its consulting business for private practice startups. Sales of maintenance services are also growing. Prime Partner and LAVITA, which are both IT solutions which use cloud servers and charge users a monthly-fee, have achieved steady results since their launch in FY2017.

Q4: Sales in the U.S. increased favorably. Did high evaluations of patient monitors and orders received from well-known large hospitals lead to the stronger brand power and sales expansion in the U.S.?

A4: We have expanded the product line up of patient monitors that meet the needs of U.S. customers. As a result, they have been chosen by large hospitals and sales in the U.S. market have grown steadily. As Nihon Kohden's EEGs enjoy high recognition in the U.S, we utilize our EEG sales channels to obtain orders of patient monitors. We would like to expand our market share of patient monitors little by little.

Q5: I would like to know the status of FDA application for new products, the SVM-7200 spot check monitor and CSM-1500/1700 middle-range bedside monitors, which are planned to launch in the 2nd half of FY2019 in the U.S.

A5: The SVM-7200 spot check monitor has already received FDA approval. We are currently working on developing the connectivity with hospital network systems and it will be launched in the 2nd half of FY2019 as planned. As for the CSM-1500/1700 middle-range bedside monitors, we are continuing to respond to the FDA's inquiries about cyber security measures, but there is no change to the plan to launch in the 2nd half of FY2019.

Q6: How much impact did the lower selling price and the change in product mix have on the lower gross profit margin? Will the gross margin improve in the 2nd quarter?

A6: The degree of impact from the lower selling price, the change in product mix of in-house and third-party products, and the write-off of inventories is estimated to be 2:1:1, respectively. As the volume of sales in the 1st quarter is usually not high, the impact of the lower selling price and the change in product mix due to large orders in Japan was relatively significant. However, there is no change in the Company’s policy of improving the gross profit margin by increasing the ratio of in-house products, and we would like to improve the gross profitability from the 2nd quarter onward. As for write-off of inventories, we are organizing our inventory in preparation for the relocation to the East Japan Logistics Center. We make an effort to maintain inventory at an appropriate level and reduce write-off of inventories.

Q7: I would like to know the market reaction to the new ventilator. Is its profitability higher than other in-house products from the consumables and services point of view? Is there a change in the business model?

A7: The new ventilator has been highly evaluated on its exhibition at academic conferences. We received orders and made deliveries to some medical facilities just after the release. The profitability of this equipment and related consumables is not much different from that of patient monitors, but the maintenance contract rate is expected to be relatively higher because it is treatment equipment. The business model is the same as before, and we don’t plan to shift to a rental service business model. We are working on promoting comprehensive proposals that include patient monitors in order to achieve a gradual increase of market recognition and contribution to sales.

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