

# Consolidated Financial Highlights for the Third Quarter of FY2018 (From April 1, 2018 to December 31, 2018)

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NIHON KOHDEN CORPORATION

(Ticker Code: 6849)  
February 4, 2019



# 1) Consolidated Financial Results for the 3<sup>rd</sup> Quarter of FY2018

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

	FY2017 3Q 9 months	FY2018 3Q 9 months	YoY (%)	
<b>Net Sales</b>	117,456	<b>120,227</b>	2.4	
<b>Domestic Sales</b>	86,766	<b>87,568</b>	0.9	
<b>Overseas Sales</b>	30,689	<b>32,659</b>	6.4	← <b>+7% on a local currency basis</b>
<b>Gross Profit</b> (Gross Profit Margin)	56,530 48.1%	<b>58,627</b> 48.8%	3.7	← <b>In-house sales ratio</b> FY2017 3Q <b>63.2%</b> → FY2018 3Q <b>64.0%</b>
<b>Operating Income</b> (Operating Income Margin)	6,041 5.1%	<b>6,365</b> 5.3%	5.4	← <b>SG&amp;A Ratio:</b> 43.0% → 43.5%
<b>Ordinary Income</b>	6,981	<b>7,143</b>	2.3	← <b>Foreign exchange gains:</b> ¥0.46 bil → ¥0.19 bil
<b>Income Attributable to Owners of Parent</b>	4,262	<b>4,986</b>	17.0	

Average Exchange Rate	(2017/12)	(2018/12)
<b>1 US Dollar</b>	111.6 yen	<b>110.7 yen</b>
<b>1 EURO</b>	128.8 yen	<b>129.4 yen</b>

- Overall sales increased 2.4% to ¥120.2 billion.
- Domestic sales increased 0.9% to ¥87.5 billion as the Company enhanced sales activities tailored to match each market. Sales of consumables and services also contributed to the sales increase.
- Overseas sales increased 6.4% to ¥32.6 billion, a 7% growth on a local currency basis. Sales in the Americas and Asia increased favorably. Especially, sales in the U.S., Latin America and China showed strong growth.
- Gross margin ratio improved by 70 basis points compared to the first nine months of FY2017, as the Company reduced production costs at the Tomioka Production Center and Shanghai Kohden. It was also due to a positive product mix as the Company focused on sales of in-house products. As a result, operating income increased 5.4% to ¥6.3 billion.

## 2) Highlights of FY2018 3Q

### Net Sales : +2.4%

- **Japan**: Sales increased as the Company enhanced sales activities which match each market. Consumables and services also contributed to the sales increase.
- **International**: Sales increased favorably driven by strong sales in the Americas and Asia.

### Operating Income : +5.4%

- Operating income increased thanks to increased sales and improved gross margin, offsetting the increase of SG&A expenses.
- Gross margin ratio improved by 70 basis points thanks to production cost reduction and a favorable product mix.

### Net Income : +17.0%

- Net income achieved double-digit growth compared with FY2017 3Q when there was a reversal of deferred tax assets following US tax reform.

### 3) Sales by Product Category

(Sales, millions of yen)

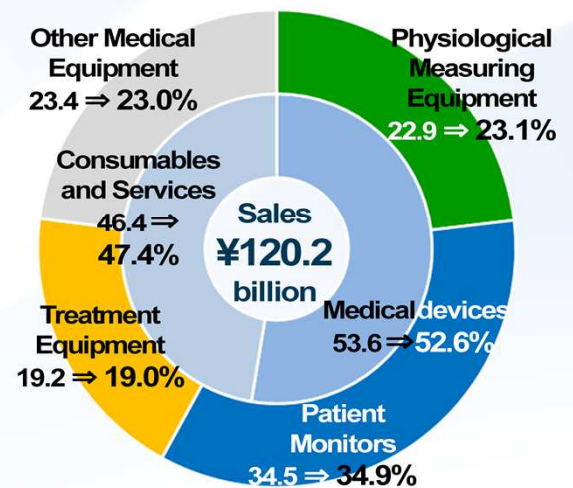
	FY2017 3Q 9 months	FY2018 3Q 9 months	YoY (%)
Physiological Measuring Equipment	26,859	27,776	3.4
Patient Monitors	40,559	41,933	3.4
Treatment Equipment	22,497	22,894	1.8
Other Medical Equipment	27,539	27,624	0.3
<b>Total Sales</b>	<b>117,456</b>	<b>120,227</b>	<b>2.4</b>

(Reference)

Consumables and Services	54,485	56,956	4.5
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### Sales composition by product category

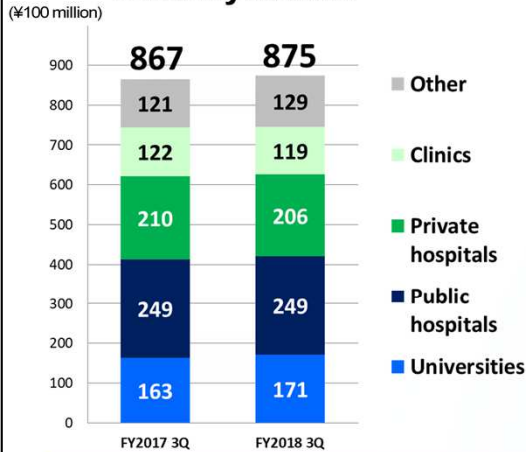
(FY2017 3Q ⇒ FY2018 3Q)



- Sales of Physiological Measuring Equipment increased 3.4% to ¥27.7 billion.
- Sales of Patient Monitors increased 3.4% to ¥41.9 billion.
- Sales of Treatment Equipment increased 1.8% to ¥22.8 billion.
- Sales of Other Medical Equipment increased 0.3% to ¥27.6 billion.
- Sales of Consumables and Services also increased and the composition ratio increased to 47.4%.

## 4) Domestic Sales

### Sales by Market



### Sales by Product Category

(Sales, millions of yen)

	FY2017 3Q 9 months	FY2018 3Q 9 months	YoY (%)
Physiological Measuring Equipment	21,442	21,789	1.6
Patient Monitors	25,680	25,567	-0.4
Treatment Equipment	15,683	15,916	1.5
Other Medical Equipment	23,961	24,294	1.4
<b>Total Sales</b>	<b>86,766</b>	<b>87,568</b>	<b>0.9</b>

- 【Markets】** Sales in PAD\* market in Other showed strong growth. Sales in the university hospital market also increased. Sales in the private hospital market and clinic market decreased.
- 【Products】** **Physiological Measuring Equipment:** Sales of diagnostic information systems and polygraphs for cath labs increased favorably. Sales of EEGs and ECGs decreased.
- Patient Monitors:** Sales of bedside monitors decreased due to temporary delay in production and shipment of new bedside monitors. Sales of consumables and clinical information systems increased.
- Treatment Equipment:** Sales of AEDs and ventilators showed strong growth. Sales of pacemakers and ICDs decreased.
- Other Medical Equipment:** Sales increased, supported by the product launch of an integrated hematology analyzer and clinical chemistry analyzer. Sales of installation services and maintenance services for medical devices also increased favorably.

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\* PAD (Public Access Defibrillation) market includes such as schools and private companies.

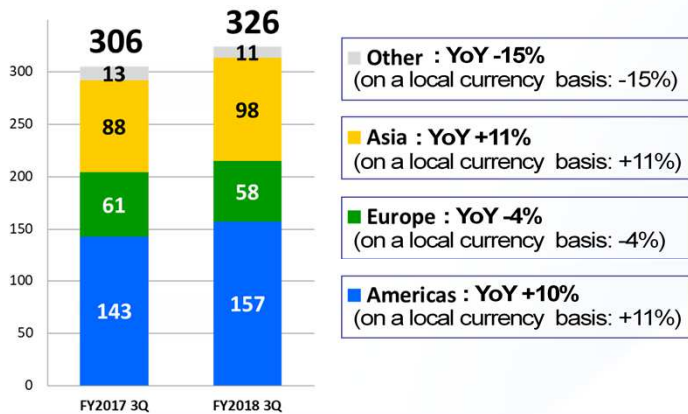
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- Domestic sales increased by ¥0.8 billion to ¥87.5 billion.
- Sales in PAD market in Other showed strong growth and sales in the university market also increased. Sales in the public hospital market remained flat, while sales in the private hospital market and clinic market decreased.
- In the 3<sup>rd</sup> quarter (three months), sales in the university market and public hospital market decreased compared to the same period of FY2017, when many hospitals requested installations of new equipment in order to start operations in the New Year's holiday. In FY2018, large-scale orders are expected to be concentrated in the 4<sup>th</sup> quarter, especially at the end of the fiscal year as usual. Sales in the clinic market recovered in the 3<sup>rd</sup> quarter as a new model of hematology analyzers was well received.
- In Physiological Measuring Equipment, sales of diagnostic information systems increased favorably as replacement demand increased. Sales of polygraphs for cath labs also showed strong growth. Sales of EEGs and ECGs decreased.
- Sales of Patient Monitors remained flat. Sales of bedside monitors decreased due to a temporary delay in production and shipment of new bedside monitors. Sales of consumables and clinical information systems increased.
- In Treatment Equipment, sales of AEDs and ventilators showed strong growth. Sales of pacemakers and ICDs decreased due to reimbursement price reduction, although the number of unit sales increased.
- In Other Medical Equipment, the launch of a hematology analyzer for the clinic market contributed to the sales increase. Sales of installation services and maintenance services for medical devices also increased favorably.

## 5) Overseas Sales

### Geographic segments

(¥100 million)



### Ratio of overseas sales to consolidated sales

FY2017 3Q	FY2018 3Q
9 months	9 months
26.1%	27.2%

### Sales by Product Category

(Sales, millions of yen)

	FY2017 3Q	FY2018 3Q	YoY (%)
	9 months	9 months	
Physiological Measuring Equipment	5,417	5,986	10.5
Patient Monitors	14,879	16,365	10.0
Treatment Equipment	6,814	6,978	2.4
Other Medical Equipment	3,578	3,329	-7.0
<b>Total Sales</b>	<b>30,689</b>	<b>32,659</b>	<b>6.4</b>

+7% on a local currency basis

- [Region]** **Americas:** In the U.S., sales of Patient Monitors and EEGs increased favorably. Sales in Latin America also showed strong growth, primarily in Brazil and Mexico.  
**Europe:** Sales in Russia and Turkey decreased, although sales in Germany and Italy increased.  
**Asia:** Sales in China and Thailand increased favorably. A large order in Qatar also contributed to the sales increase.
- [Products]** **Physiological Measuring Equipment:** Sales of EEGs showed strong growth in the U.S. Sales of ECGs increased favorably in Asia.  
**Patient Monitors:** Sales in the Americas and Asia showed double-digit growth.  
**Treatment Equipment:** Sales of defibrillators showed strong growth in the Americas and Asia. Sales of AEDs decreased in the Americas and increased favorably in Asia.  
**Other Medical Equipment:** Sales of locally purchased products decreased. Sales of hematology analyzers increased favorably in Latin America and Asia.

- Overseas sales increased by ¥2.0 billion to ¥32.6 billion, a 7% growth on a local currency basis. The overseas sales ratio was 27.2%.
- Americas: In the U.S., sales of patient monitors increased favorably. Sales of EEGs also showed strong growth as the Company reorganized the sales structure of its EEGs. Sales in Latin America also showed strong growth, primarily in Brazil and Mexico.
- Europe: Sales in Russia decreased due to limited government budget compared to the same period of FY2017. Sales in Turkey also decreased due to the local currency depreciation. Sales in Germany and Italy increased.
- Asia: Sales in China and Thailand increased favorably. A large order in Qatar also contributed to the sales increase. Sales in China showed double-digit growth both on a local currency basis and a yen basis. Sales of all product categories increased favorably in China thanks to new products which received CFDA approval. Sales in China are expected to achieve the full-year target with 10% growth. The fiscal year-end of our subsidiary in China is December 31. In Qatar, the Company received ¥0.2 billion orders of patient monitors from Hamad Medical Corporation.

## 6) Topics

### New products in FY2018 3Q

#### Treatment Equipment

Japan's first

#### Automated external defibrillator for home use, AED-3101

- Japan's first AED for home use
- Aim to improve survival rate through putting more AEDs in homes<sup>\*1</sup>
- Enables providing rescue data, which is downloaded via a wireless connection, to medical institutions
- Japanese/English bilingual voice prompts
- This product is only available with the SECOM MyAED service

Japan:  
Launched in Dec 2018



<sup>\*1</sup> About 70,000 people in Japan die from a sudden cardiac arrest every year and more than 70% cardiac arrests occur at home. (Reference: FDMA emergency and rescue activities in 2018, Resuscitation 2006; 69 221-228)

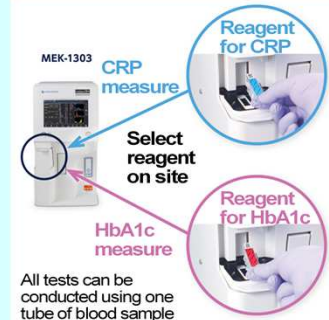
#### Hematology Instruments

Japan's first

#### +HbA1c license for automated hematology analyzer and clinical chemistry analyzer, MEK-1303

- Japan's first POCT analyzer which can measure CBC, CRP and HbA1c<sup>\*2</sup>
- Enables testing for infection and life-style diseases in clinics
- Infection prevention with cap piercing closed mode

Japan:  
Launched in Dec 2018



<sup>\*2</sup> CBC: Complete Blood Count  
CRP: C-Reactive Protein  
HbA1c: Hemoglobin A1c  
POCT: Point of Care Testing

All tests can be conducted using one tube of blood sample

- In December 2018, we launched the Japan's first AED for home use. We developed this product to increase the number of AEDs in homes, because most sudden cardiac arrests occur at home. Rescue data such as ECG and electrical shock delivery, which is downloaded via wireless connection, can be provided to medical institutions. SECOM, our alliance partner, rents this product to home users and supports customers by monitoring the AEDs online.
- We also launched an integrated automated hematology analyzer and clinical chemistry analyzer in June 2018 and added +HbA1c option license in December 2018. This product is the Japan's first POCT analyzer which can measure CBC, CRP and HbA1c. It has been well received and contributed to the sales increase in the clinic market, as blood infection risk is prevented by the cap piercing closed mode. This new option adds value to MEK-1303 and we aim to further promote this product to the clinic market.

## 7) Depreciation and R&D Costs

(Millions of yen)

	FY2017 3Q 9 months	FY2018 3Q 9 months	Change	FY2017 Actual	FY2018	
					Original Forecast announced May 10	Revised Forecast announced Nov 2
Depreciation	2,417	2,550	132	3,338	3,900	3,800
R&D costs	5,598	5,459	-139	7,226	8,500	8,000
<b>Capital Investments</b>				3,430	4,000	3,900

- **FY2018 capital investments plan:**

Molds for new products, measuring equipment and jigs, products for demonstration, production equipment, and renewal of backbone system server

- **New products in 2018 and 2019**

Patient Monitoring	Treatment Equipment	Diagnostic Equipment
<b>Mid-end bedside monitor</b>  CSM-1500/1700 <b>Bedside monitors for emerging countries</b> <b>Spot check monitor</b>	<b>Anesthesia machine (Japan)</b> OR <b>Ventilator</b> ICU <b>AED-3101 (Japan)</b> Home	<b>Automated hematology analyzer and clinical chemistry analyzer</b> <b>EEG</b> <b>MEK-1303 +HbA1c (Japan)</b> <b>EEG-1260/1290 (Japan)</b>

**[Difference b/w original forecast and revised forecast announced on Nov. 2]**

- R&D costs - ¥0.5 bil
- Development costs for upgrade + ¥0.5 bil

\* Development Costs for upgrading the recently launched products or adding new functions

\* CSM-1500/1700 were already launched in Japan, Europe and emerging countries. The approval process in the U.S. has been delayed due to the partial government shutdown. MEK-1303, AED-3101 and EEG-1260/1290 were already launched in Japan. Others will be launched in 2019.

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- Depreciation increased by ¥0.1 billion to ¥2.5 billion. R&D costs decreased by ¥0.1 billion to ¥5.4 billion. FY2018 full-year forecasts for depreciation and capital investments remain at ¥3.8 billion and ¥3.9 billion, respectively.
- R&D costs in FY2018 are expected to be slightly lower than the forecast of ¥8.0 billion, while development costs for upgrade are expected to be higher than the forecast. As a result, overall SG&A expenses in FY2018 are expected to be in line with estimates.
- Development costs for upgrades will increase due to the man-hours required for adding new functions to mid-end bedside monitors launched in 2018 and for upgrading clinical information systems, for which replacement demand is increasing.
- As for the launch dates of new products, bedside monitors for emerging countries, spot check monitors and ventilators will be launched in the 1<sup>st</sup> half of FY2019. An anesthesia machine will be launched in FY2019 due to a slight delay in development.
- In the U.S., the approval process for the mid-end bedside monitors CSM-1500/1700 has been delayed due to the partial government shutdown. As the regulatory agencies resumed their operations at the end of January, we have proceeded with the step of the application.



## 8) Forecast for FY2018

	FY2017 Actual	FY2018 Forecast	YoY (%)	(Millions of yen)
<b>Net Sales</b>	174,249	<b>180,000</b>	3.3	
<b>Domestic Sales</b>	128,144	<b>130,700</b>	2.0	
<b>Overseas Sales</b>	46,105	<b>49,300</b>	6.9	
<b>Gross Profit</b> (Gross Profit Margin)	82,759 47.5%	<b>86,800</b> 48.2%	4.9	
<b>Operating Income</b> (Operating Income Margin)	14,517 8.3%	<b>15,000</b> 8.3%	3.3	
<b>Ordinary Income</b>	14,501	<b>15,000</b>	3.4	
<b>Income Attributable to Owners of Parent</b>	9,154	<b>10,300</b>	12.5	
<b>Percentage of Overseas Sales</b>	26.5%	<b>27.4%</b>		
<b>Average Exchange Rate</b>	Initial assumptions			
1 US Dollar	111.0 yen	<b>105 yen</b>		
1 EURO	130.0 yen	<b>130 yen</b>		

← +9% on a local currency basis

### Breakdown of overseas sales by region

	FY2017 Actual	FY2018		YoY (%)
		Original forecast	Revised forecast	
<b>Americas</b>	22,000	23,400	<b>23,600</b>	7.3
<b>Europe</b>	8,462	9,100	<b>8,600</b>	1.6
<b>Asia</b>	13,634	14,100	<b>14,600</b>	7.1
<b>Other</b>	2,008	2,700	<b>2,500</b>	24.4
<b>Total</b>	46,105	49,300	<b>49,300</b>	6.9

\*The assumed exchange rates for the 4<sup>th</sup> quarter of FY2018 are 105 yen to the U.S. dollar and 130 yen to the euro.

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- The Company reaffirms its forecasts for FY2018
- The domestic sales forecast remains at ¥130.7 billion. In FY2017, large-scale orders were advanced into the 3<sup>rd</sup> quarter from the 4<sup>th</sup> quarter. In FY2018, large-scale orders are expected to be concentrated in the 4<sup>th</sup> quarter as usual. The Company aims to achieve its full-year forecast by capturing replacement demand in the university and public hospital markets, and focusing on increasing sales of new bedside monitors and a new hematology analyzer.
- The overseas sales forecast also remains at ¥49.3 billion. Sales in the Americas are expected to be in line with the forecast. Sales in the U.S. will be in line with the forecast as orders of Patient Monitors and EEGs have increased favorably. Sales in Latin America will be slightly lower than the forecast. Sales in Europe are expected to be below the estimate. Although we expect sales recovery in the 4<sup>th</sup> quarter from increased sales of new bedside monitors, it will not be able to offset the shortfall in sales for 9 months. Sales in Asia are expected to exceed the forecast, as sales in China and Southeast Asia increased favorably, and sales in India and the Middle East have recovered.
- There is no change to our forecast for full-year operating income, ordinary income, net income of ¥15.0 billion, ¥15.0 billion and ¥10.3 billion, respectively.
- The FY2018 full-year forecast for gross margin ratio remains at 48.2%. In the 3<sup>rd</sup> quarter (three months), gross margin ratio decreased as the negative impact of reimbursement price reduction of pacemakers could not be fully offset by the improvement of in-house products' gross margin. We continue to improve our gross margin ratio by focusing on production cost reduction and enhancing sales activities of in-house products.
- Both domestic sales and overseas sales are expected to be concentrated in March. We will take all possible measures relevant to production and installation, and aim at achieving sales and profit targets.

## (Ref.) Consolidated Sales Forecast for FY2018 by Product Category/ Effect of Exchange Rate

(Millions of yen)

	FY2017 Actual	FY2018			YoY (%)
		Original Forecast announced May 10	Revised Forecast announced Nov 2	Composition ratio (%)	
Physiological Measuring Equipment	39,323	40,200	40,500	22.5	3.0
Patient Monitors	59,229	62,500	62,800	34.9	6.0
Treatment Equipment	32,892	33,600	33,400	18.6	1.5
Other Medical Equipment	42,804	43,700	43,300	24.0	1.2
<b>Total</b>	<b>174,249</b>	<b>180,000</b>	<b>180,000</b>	<b>100.0</b>	<b>3.3</b>

(Reference)

Consumables and Services	75,505	78,100	78,200	43.4	3.6
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### Annual Estimates of Exchange Rate Fluctuations

	Sales	Operating Income
1 US Dollar	0.30 bil yen	0.11 bil yen
1 EURO	0.05 bil yen	0.02 bil yen

- The Company also leaves the sales forecast for FY2018 by product category unchanged.
- In Japan, we launched the mid-end bedside monitor CSM-1500 series in March 2018 and CSM-1700 series in August 2018. We temporarily stopped the production and shipment of the CSM-1700 series during October and November, and resumed in December 2018. The delay in supply has been already resolved in January 2019. We do not expect any impact on results in FY2018.
- In Japan, the universities and public hospitals' budget executions are concentrated in the 4<sup>th</sup> quarter. We will promote the proposal of new products and focus on capturing replacement demand for bedside monitors and clinical information systems. Overseas sales are expected to continue to increase. We will be able to achieve the Patient Monitors' sales target of ¥62.8 million.

**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 stated.

