

# Consolidated Financial Highlights for the First Half of FY2018

(From April 1, 2018 to September 30, 2018)

1. **Consolidated Financial Results  
for the First Half of FY2018**
2. **Forecast for FY2018**
3. **Business Strategy**

NIHON KOHDEN CORPORATION

(Ticker Code: 6849)

November 7, 2018

*Fighting Disease with Electronics*



NIHON KOHDEN

# Consolidated Financial Results 1 for the First Half of FY2018

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# 1) Consolidated Financial Results for the 1<sup>st</sup> Half of FY2018

	First half FY2017	First half FY2018		
		Original Forecast announced May 10, 2018	Actual	YoY (%)
<b>Sales</b>	76,648	80,000	<b>79,050</b>	3.1
<b>Domestic Sales</b>	56,241	-	<b>57,857</b>	2.9
<b>Overseas Sales</b>	20,407	-	<b>21,192</b>	3.8
<b>Gross Profit</b> (Gross Profit Margin)	36,500 47.6%	-	<b>38,649</b> <b>48.9%</b>	5.9
<b>Operating Income</b> (Operating Income Margin)	3,128 4.1%	3,100 3.9%	<b>4,260</b> <b>5.4%</b>	36.2
<b>Ordinary Income</b>	3,722	3,100	<b>5,270</b>	41.6
<b>Income Attributable to Owners of Parent</b>	2,541	2,100	<b>3,916</b>	54.1
Average exchange rate	First half FY2017		First half FY2018	
1 US Dollar	111.3 yen		109.7 yen	
1 EURO	126.1 yen		129.2 yen	

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

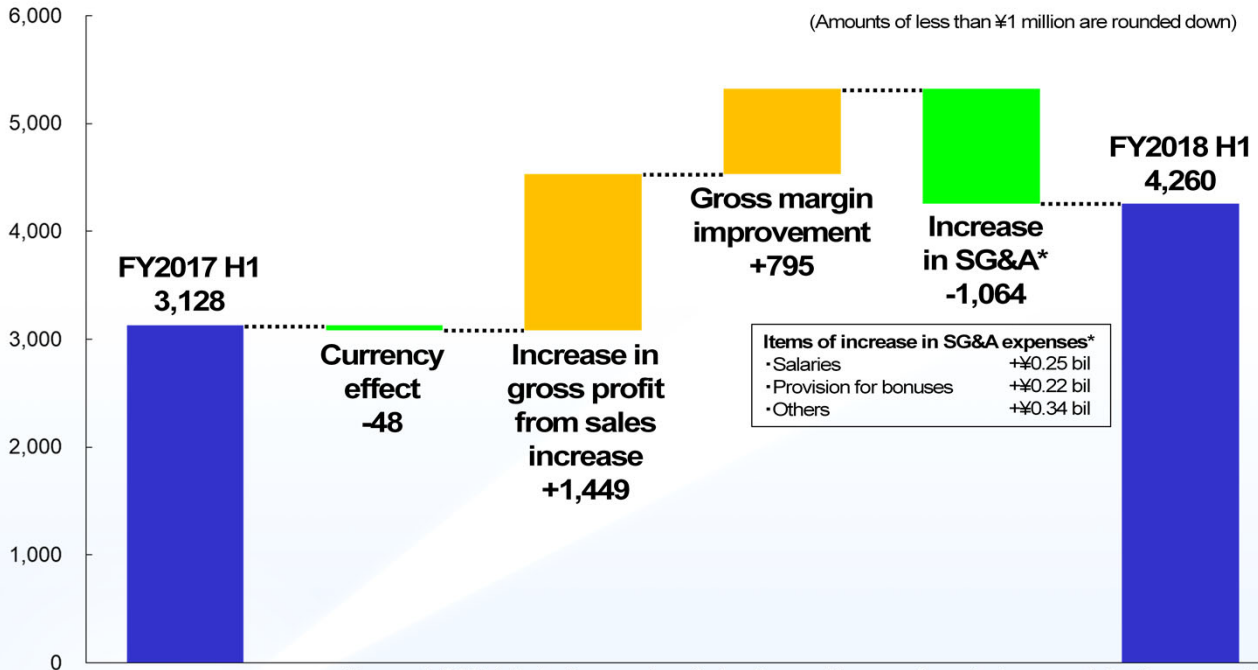
← +4% on a local currency basis

← In-house Sales ratio FY2017 H1 63.1% → FY2018 H1 64.1%

← Foreign exchange gains:  
FY2017 H1 ¥257 mil → FY2018 H1 ¥701 mil

- Overall sales increased 3.1% over the 1<sup>st</sup> half of FY2017 to ¥79 billion. Domestic sales increased 2.9% to ¥57.8 billion. Overseas sales increased 3.8% to ¥21.1 billion, a 4% growth on a local currency basis.
- Overall sales fell short of the forecast by ¥1 billion, as sales decreased in Europe and Africa. Domestic sales were in line with the forecast.
- Gross profit margin increased by 130 basis points to 48.9%, as the Company focused on improving its profitability.
- Operating income increased 36.2% to ¥4.2 billion not only because of sales increases, but also because some expenses were delayed until the 2<sup>nd</sup> half of FY2018.
- Ordinary income increased 41.6% to ¥5.2 billion, reflecting foreign exchange gains.

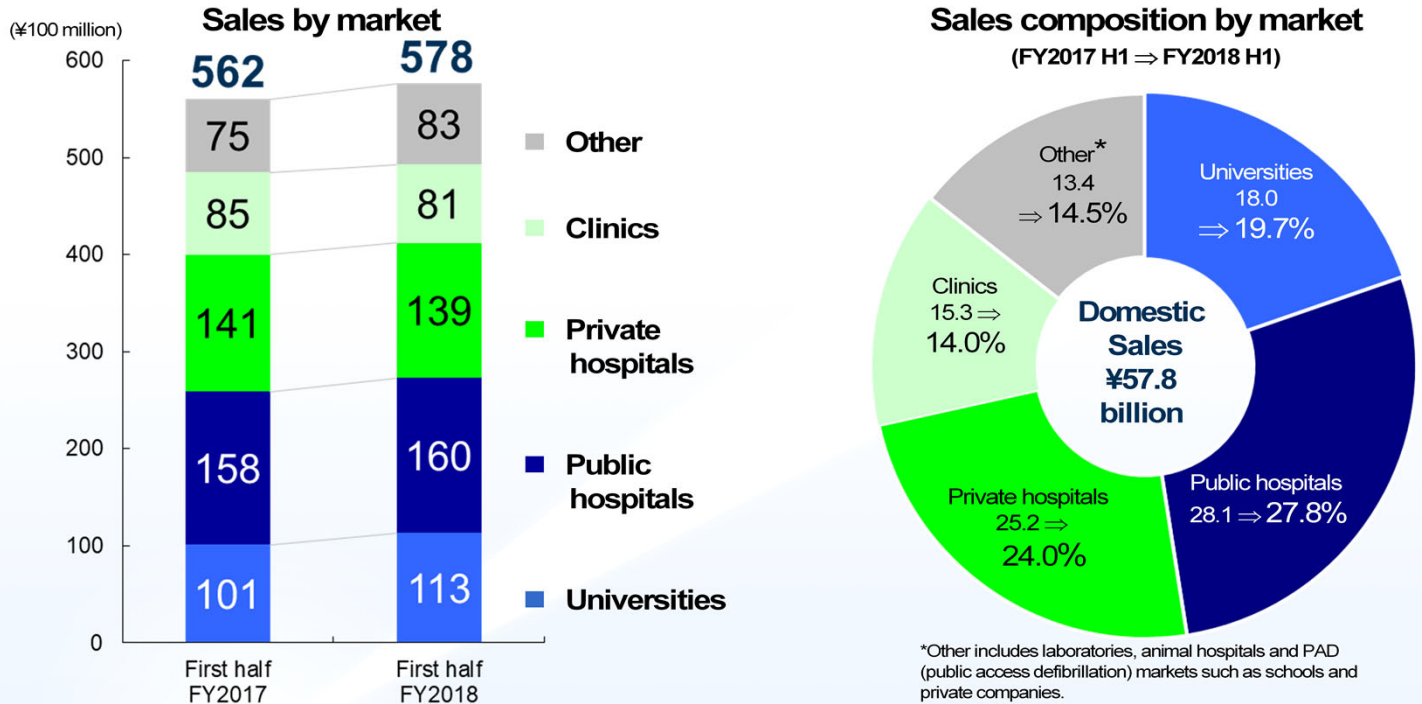
## 2) Breakdown of Operating Income



\*Increase in SG&A indicates the amount as a factor of increase/decrease of operating income excluding the currency effect. Items of increase in SG&A expenses indicate major components of increased SG&A expenses on a yen basis.

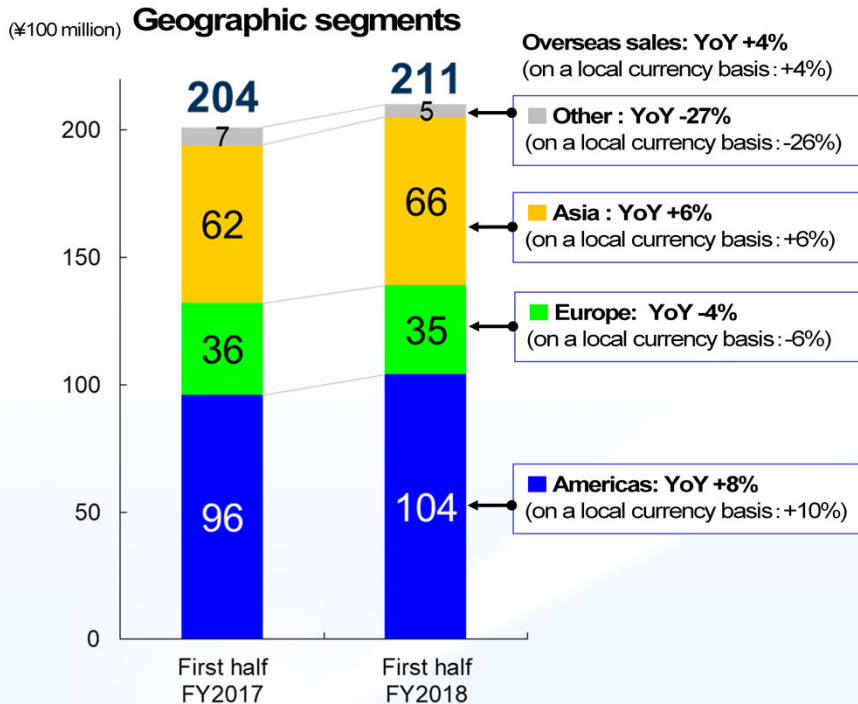
- In the 1<sup>st</sup> half of FY2018, operating income increased to ¥4.2 billion from ¥3.1 billion in the 1<sup>st</sup> half of FY2017.
- Currency effect had a negative impact of ¥48 million.
- Increase in gross profit from sales increase was ¥1.4 billion.
- Gross margin improvement had a positive impact of ¥0.7 billion, as the Company focused on selling in-house products both in Japan and internationally in addition to cost reduction in its Tomioka factory and Shanghai factory.
- Increases in SG&A had a negative impact of ¥1 billion mainly due to the increase of personnel expenses.

### 3) Domestic Sales



- Domestic sales increased by ¥1.6 billion to ¥57.8 billion.
- Sales in the university hospital market showed strong growth and sales of AEDs in other markets increased favorably.
- Sales in the public hospital market also increased, while sales in the private hospital market and clinic market decreased.
- In the private hospital market, there was little increase in demand in response to the medical service fee revision in April 2018. In the clinic market, sales of locally purchased products decreased as a result of focusing on sales activities of in-house products.

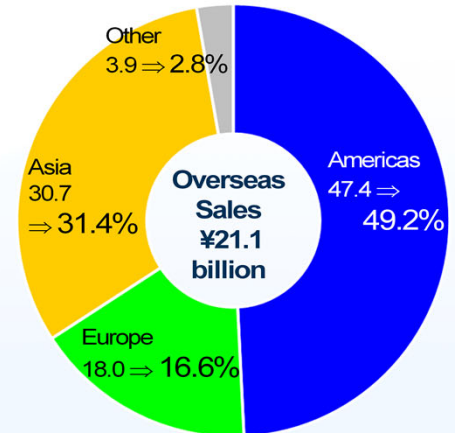
## 4) Overseas Sales



### Percentage of overseas sales to consolidated sales

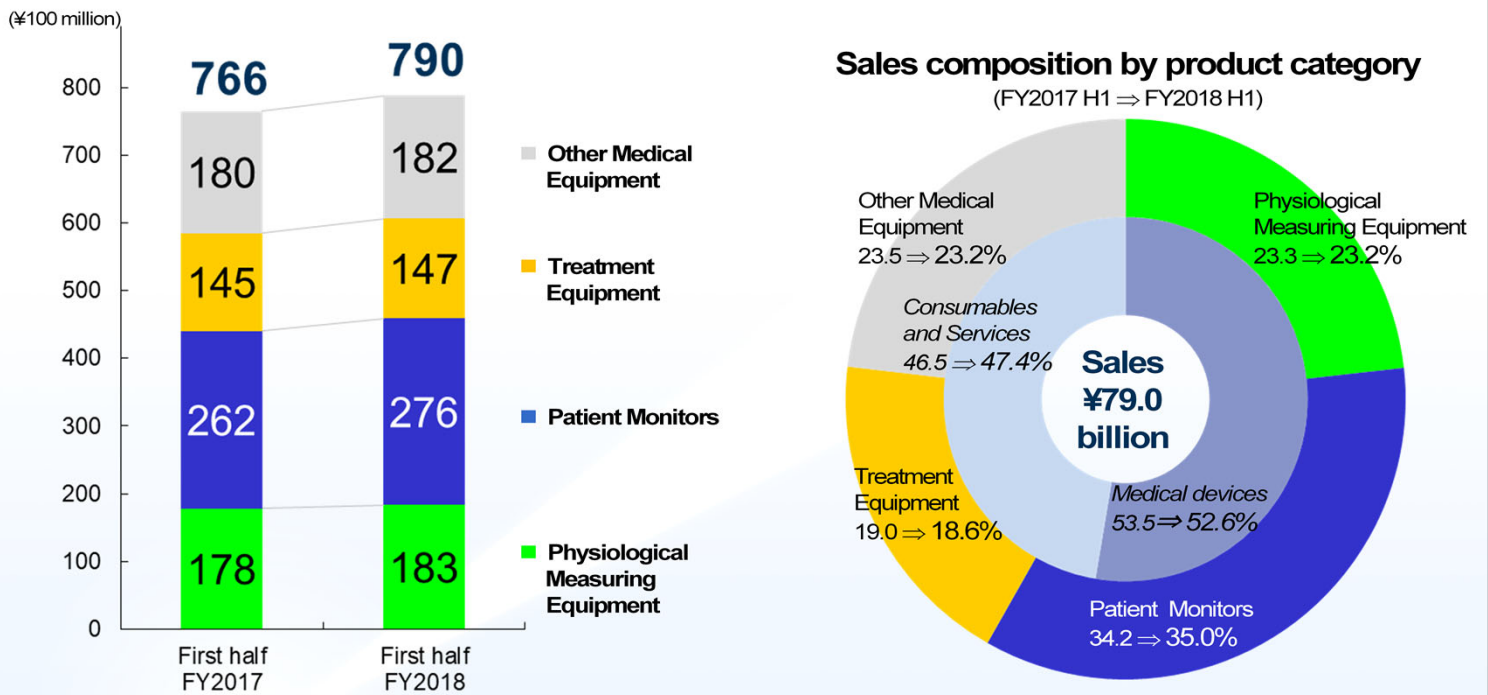
First half FY2017	First half FY2018
26.6%	26.8%

### Geographic Segments (FY2017 H1 ⇒ FY2018 H1)



- Overseas sales increased by ¥0.7 billion to ¥21.1 billion.
- Sales in the Americas increased by ¥0.8 billion to ¥10.4 billion, a 10% growth on a local currency basis. Sales in the U.S. increased favorably, driven by Patient Monitors and EEGs. Sales in Latin America slightly increased on a local currency basis and decreased on a yen basis. Sales in Colombia decreased, while sales in Brazil and Mexico increased.
- Sales in Europe decreased by ¥0.1 billion to ¥3.5 billion, a 6% decline on a local currency basis. Sales in Russia and Turkey decreased, although sales in Germany and Italy increased.
- Sales in Asia increased by ¥0.4 billion to ¥6.6 billion, a 6% growth on a local currency basis. Sales in China, South Korea and Thailand increased, while sales in the Middle East decreased due to political instability.
- Sales in Other decreased as an order in Egypt was carried over to the 2<sup>nd</sup> half of FY2018.

## 5) Sales by Product Category



- Sales by product category are shown above. Sales increased in all product categories.
- The sales ratio of Consumables and Services increased to 47.4% as a result of strengthening our consumables business both in Japan and internationally.



## 5.1) Physiological Measuring Equipment

	First half FY2017	First half FY2018	YoY (%)	(Sales, millions of yen)
Electroencephalographs	3,315	<b>3,448</b>	4.0	
Electrocardiographs	3,077	<b>3,281</b>	6.6	
Polygraphs for Cath Lab	6,552	<b>6,902</b>	5.3	
Other Physiological Measuring Equipment *	4,888	<b>4,719</b>	-3.5	
<b>Physiological Measuring Equipment</b>	<b>17,833</b>	<b>18,351</b>	<b>2.9</b>	
Domestic Sales	14,264	<b>14,387</b>	0.9	← Sales of EEGs, ECGs, Polygraphs for Cath Lab and diagnostic information systems increased.
Overseas Sales	3,568	<b>3,964</b>	11.1	← Sales of EEGs increased favorably in the Americas. Sales of ECGs also showed strong growth in Asia.

\*Other Physiological Measuring Equipment includes diagnostic information systems and products of other companies.



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- Sales of Physiological Measuring Equipment increased 2.9% to ¥18.3 billion.
- Domestic sales increased 0.9% to ¥14.3 billion. Sales of EEGs, ECGs, Polygraphs for Cath Lab, diagnostic information systems increased.
- Overseas sales increased 11.1% to ¥3.9 billion. Sales of EEGs increased favorably in the Americas. Sales of ECGs also showed strong growth in Asia.



## 5.2) Patient Monitors

	First half FY2017	First half FY2018	YoY (%)	(Sales, millions of yen)
<b>Patient Monitors</b>	26,248	<b>27,667</b>	5.4	
<b>Domestic Sales</b>	16,148	<b>16,718</b>	3.5	Replacement demand for clinical information systems increased. Sales of consumables such as sensors also increased favorably.
<b>Overseas Sales</b>	10,100	<b>10,948</b>	8.4	Sales in the Americas showed strong growth. Sales in Asia also increased.



**Bedside monitor**  
CSM-1901

**NEW!**



CSM-1501



CSM-1502



CSM-1701



CSM-1702

**Bedside monitor**  
CSM-1500/1700



**Transmitter**  
ZS-640P



SpO<sub>2</sub>  
probes



cap-ONE  
biteblock



ECG  
Electrodes

**Consumables**

\*iNIBP is our original algorithm which allows quick and painless NIBP measurement during cuff inflation.

- Sales of Patient Monitors increased 5.4% to ¥27.6 billion.
- Domestic sales increased 3.5% to ¥16.7 billion. Replacement demand for clinical information systems increased. Sales of consumables such as sensors also increased favorably.
- Overseas sales increased 8.4% to ¥10.9 billion. In the Americas, sales in the U.S. showed strong growth. Sales in Asia also increased.

## 5.3) Treatment Equipment

	First half FY2017	First half FY2018	YoY (%)
<b>Defibrillators (for Hospital and Ambulance)</b>	2,572	<b>2,453</b>	-4.6
<b>AEDs (Automated External Defibrillator)</b>	6,694	<b>7,031</b>	5.0
<b>Pacemakers / ICDs</b>	1,593	<b>1,558</b>	-2.2
<b>Ventilators</b>	934	<b>993</b>	6.4
<b>Other Treatment Equipment</b>	2,752	<b>2,704</b>	-1.7
<b>Treatment Equipment</b>	14,546	<b>14,741</b>	1.3
Domestic Sales	10,143	<b>10,528</b>	3.8
Overseas Sales	4,402	<b>4,213</b>	-4.3
<b>(Ref.) AED Unit Sales</b>	38,900	<b>44,200</b>	13.6
Domestic Unit Sales	20,000	<b>24,700</b>	23.5

(Sales, millions of yen)

**Domestic:** Sales were flat compared to FY2017 H1.  
**International:** Sales decreased in Europe and Africa.

**Domestic:** Sales of units increased as additional installations increased and replacement demand recovered.  
**International:** Sales decreased in the Americas and Europe.



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- Sales of Treatment Equipment increased 1.3% to ¥14.7 billion. Domestic sales increased 3.8% to ¥10.5 billion. Overseas sales decreased 4.3% to ¥4.2 billion.
- Sales of defibrillators decreased 4.6% to ¥2.4 billion in reaction to strong sales in the same period of FY2017.
- Sales of AEDs increased 5% to ¥7 billion. AED unit sales were 44,200 units. In Japan, sales of units increased as additional installations increased and replacement demand recovered. Internationally, sales of Defibtech AEDs decreased in the Americas and Europe.

## 5.4) Other Medical Equipment

	First half FY2017	First half FY2018	YoY (%)	Comparable YoY (%)	(Sales, millions of yen)
Hematology Analyzers	5,033	4,234	-15.9	3.4	
Imaging Systems, Medical equipment for study and others *	12,986	14,055	8.2	0.8	
<b>Other Medical Equipment</b>	18,019	<b>18,290</b>	1.5		
Domestic Sales	15,684	16,223	3.4		
Overseas Sales	2,335	2,066	-11.5		

**Domestic:** Sales increased on a comparable basis, supported by a new product launch.  
**International:** Sales increased in Latin America, Europe and Asia.

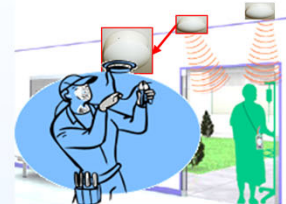
\*Includes consumables, installation and maintenance services which are not part of other categories.  
 Effective FY2018, bundled deals of third-party hematology analyzers and imaging systems are reclassified into Imaging Systems, Medical equipment for study and others; these were previously classified as Hematology Analyzers.



**Automated hematology analyzer**  
 MEK-9100



**Automated hematology analyzer and clinical chemistry analyzer**  
 MEK-1303



**Installation and maintenance services**

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- Sales of Other Medical Equipment increased 1.5% to ¥18.2 billion.
- Domestic sales increased 3.4% to ¥16.2 billion. The release of a new model of hematology analyzer contributed to increased sales.
- Overseas sales decreased 11.5% to ¥2 billion. Sales of locally purchased products decreased, while sales of hematology analyzers increased in Latin America, Europe and Asia.
- Effective FY2018, bundled deals of third-party hematology analyzers and imaging systems have been reclassified into Imaging Systems, Medical equipment for study and others; these were previously classified as Hematology Analyzers. Excluding this impact, sales of hematology analyzers increased.

## 6) Financial Condition

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

	FY2017	First half FY2018	Change		FY2017	First half FY2018	Change
Current Assets	120,687	<b>115,309</b>	-5,377	Current Liabilities	44,601	<b>36,688</b>	-7,912
Inventories	23,098	<b>26,623</b>	3,524	Interest-bearing Debt	488	<b>408</b>	-79
Property, Plant & Equipment	20,324	<b>20,203</b>	-121	Non-current Liabilities	3,953	<b>4,164</b>	211
Intangible Assets	5,079	<b>4,761</b>	-318	Net Assets	109,355	<b>112,671</b>	3,316
Investments & Other Assets	11,818	<b>13,250</b>	1,432				
<b>Total Assets</b>	157,910	<b>153,525</b>	-4,385	<b>Total Liabilities &amp; Net Assets</b>	157,910	<b>153,525</b>	-4,385
Inventory Turnover	3.0 months	<b>3.5 months</b>		Equity Ratio	69.3%	<b>73.4%</b>	

### [Reason for the increase of inventories]

- Merchandise and finished goods increased by ¥3,341 million because of
  - The concentration of sales at the end of the fiscal year as usual
  - Equalization of production in preparation for starting production of new products in the 2<sup>nd</sup> half
  - Increase of inventories awaiting shipment

- Total assets decreased by ¥4.3 billion to ¥153.5 billion.
- Inventories of merchandise and finished goods increased because of equalization of production in preparation for starting production of new products in the 2<sup>nd</sup> half of FY2018. Inventory turnover was 3.5 months.

## 7) Capital Investments and R&D Costs

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

	First half FY2017	First half FY2018	FY2017	FY2018	
				Original Forecast announced May 10	Revised Forecast announced Nov 2
Capital Investments	1,003	1,375	3,430	4,000	3,900
Depreciation	1,571	1,630	3,338	3,900	3,800
R&D costs	3,772	3,741	7,226	8,500	8,000

[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

### ●FY2018 H1 capital investments:

Molds for new products, measuring equipment and jigs, products for demonstration, and production equipment

### ●FY2018 capital investments plan:

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

- Capital investments, depreciation, and R&D costs were ¥1.3 billion, ¥1.6 billion, and ¥3.7 billion, respectively. In FY2018, we plan to launch various types of new products. As man-hours for upgrading the recently launched products increased, the development of new products is slightly behind schedule.
- As we reviewed the scheduled investments, the forecast for FY2018 of capital investments and depreciation was revised to ¥3.9 billion and ¥3.8 billion, respectively. The forecast of R&D costs was revised to ¥8 billion, as man-hours of ¥0.5 billion were allocated from R&D costs to Development costs for upgrade.



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## Forecast for FY2018

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# 1) Business Environment

## Japan

### Japanese Government 2025 future vision of medical /long-term care services

- Differentiate medical institution functions and strengthen collaboration
- Promote integrated community care systems

Medical service fee rose by 0.55% in Apr 2018  
[Hospitals] Review of hospitalization fees  
[Clinics] New reimbursement for telemedicine and for enhancing the role of family doctors

- Each prefecture discusses issues such as role sharing between hospitals and the number of hospital beds converted to long-term care by the end of FY2018
- Funds for securing comprehensive medical and long-term care in local communities: FY2018 ¥93.4 bil for medical care

- Hospitals start to reorganize medical facilities' functions in accordance with the medical service fee revision and the regional health vision.
- The clinic market will remain stable as providers of home care.

## International

### U.S. and Europe

- Improve the quality and efficiency of medical care
- Expand IDNs\*<sup>1</sup> in the U.S.
- Expand GPOs\*<sup>2</sup> in Europe

### Emerging Markets

- Economic conditions will remain steady, although political instability will remain in some regions
- Healthcare infrastructure is developing together with economic growth

Overall demand for medical equipment will remain steady

\*1 IDN: Integrated Delivery Network \*2 GPO: Group Purchasing Organization



- In Japan, the government is working on healthcare system reform under its 2025 future vision of medical/long-term care services. In the hospital market, the reorganization of medical facilities' functions will start in accordance with a review of hospitalization fees and a regional health vision. The clinic market will remain stable.
- Internationally, IDNs continue to expand in the U.S. In Europe, group purchasing is expanding, especially by GPOs. In emerging countries, healthcare infrastructure is developing together with economic growth. We expect that overall demand for medical equipment in overseas markets will remain steady, although there is concern regarding policy trends in the U.S. and political instability in some countries such as the Middle East.

## 2) Measures in the 2<sup>nd</sup> Half of FY2018

### TRANSFORM 2020: Transform operations to achieve a highly profitable structure

#### 1 Create high customer value

##### Early market penetration of new products

<b>Patient Monitoring Business</b> <b>NEW!</b> Mid-end bedside monitors*  CSM-1500/1700 Bedside monitors for emerging countries* Spot check monitor*	<b>Treatment Equipment Business</b> OR Anesthesia machine* (Japan) ICU Ventilator* Home AED for HOME* (Japan)	<b>Hematology Instruments</b> <b>NEW!</b> Automated hematology analyzer and clinical chemistry analyzer*  MEK-1303
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\*CSM-1500/1700 and MEK-1303 were already launched. Others will be launched in FY2018 H2.

##### Expand sales of consumables and services

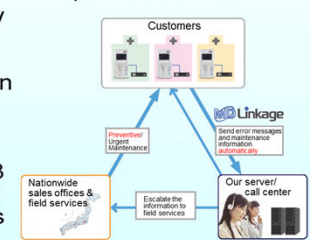
Sales ratio in FY2018: 43.4% (plan)

##### Medical devices remote monitoring system



- The system sends operation information to the server automatically so that our call center and field services can support customers when devices in fail or experience trouble
- This new service was initiated with MEK-1303 and it is planned to add other applicable models in future

Japan: Launched in June 2018



- In this environment, we are continuing to focus on transforming operations to achieve a highly profitable structure. Our top priority in the 2<sup>nd</sup> half of FY2018 is improving gross profit margin.
- To create high customer value, we will focus on early market penetration of new products. In Patient Monitors, we launched mid-end bedside monitors. Bedside monitors for emerging countries and a spot check monitor will be also launched. In Treatment Equipment, we plan to launch an anesthesia machine, ventilator, and AED for home. In Hematology Instruments, we launched our first integrated hematology analyzer and clinical chemistry analyzer. We aim at timely production and shipment of these products.
- To expand sales of consumables and services, we launched a medical device remote monitoring system, MD Linkage. This new service was initiated with hematology analyzers and it is planned to add other applicable models.

## 2) Measures in the 2<sup>nd</sup> Half of FY2018

**TRANSFORM 2020: Transform operations to achieve a highly profitable structure**

### 2 Improve productivity within the organization

#### R&D

Utilize the R&D and testing environment



Advanced Technology Center

#### Production & Logistics

Establish the Eastern Logistics Center



Reduce logistics costs by shipping medical devices and consumables as a package

#### The Entire Group

Establish a global ERP system

- Already introduced ERP into subsidiaries in the U.S., Europe, China and the Middle-East
- Introduce ERP into subsidiaries in emerging countries sequentially



- Simplify administrative work between headquarters and domestic sales branches

- The measures for improving productivity within the organization are shown above.
- In R&D, we will improve the R&D efficiency by utilizing the R&D and testing environment at the Advanced Technology Center.
- In production and logistics, the Eastern Logistics Center is under construction. We aim to reduce logistics costs by shipping medical devices and consumables as a package.
- As an entire group, we are advancing reform of our operating processes by utilizing ICT. In order to establish a global ERP system, we will introduce ERP into subsidiaries in emerging countries sequentially. In Japan, we are continuing to simplify the administrative work between headquarters and domestic sales branches.



### 3) Forecast for FY2018

	FY2017 Actual	FY2018 Forecast	YoY (%)	(Amounts of less than ¥1 million are rounded down)
<b>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	+9% on a local currency basis
<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>		

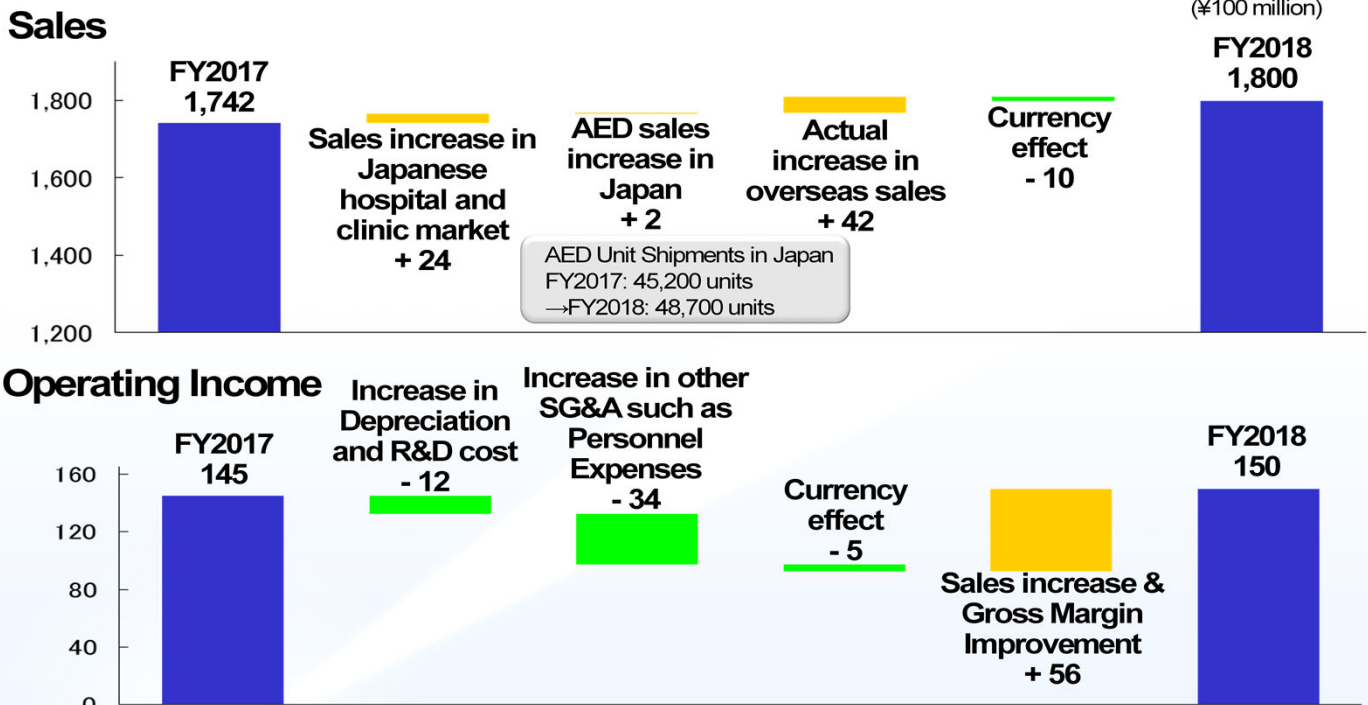
Average exchange rate	Initial assumptions		FY2018 2H
1 US Dollar	111.0 yen	105 yen	105 yen
1 EURO	130.0 yen	130 yen	130 yen

#### Breakdown of overseas sales by region

	FY2017 Actual	FY2018 Forecast		YoY (%)
		Original forecast announced May 10	Revised Forecast announced Nov 2	
<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>Others</b>	2,008	2,700	<b>2,500</b>	24.4
<b>Total</b>	46,105	49,300	<b>49,300</b>	6.9

- We reaffirmed our forecast for FY2018. The overall sales forecast is for 3.3% growth to ¥180 billion.
- Domestic sales are expected to be increase steadily at 2% growth to ¥130.7 billion.
- Overseas sales are expected to grow by 6.9% to ¥49.3 billion, a 9% growth on a local currency basis. Sales in the Americas and Asia are expected to continue to grow. Sales in Europe are expected to recover in the 2<sup>nd</sup> half of FY2018, but not enough to cover the weak sales in the 1<sup>st</sup> half year.
- Gross profit margin is expected to improve to 48.2%, mainly due to the launch of new products. Operating income is expected to grow by 3.3% to ¥15 billion, as some expenses were delayed until the 2<sup>nd</sup> half of FY2018.
- The forecasts for ordinary income and income attributable to owners of parent are shown above.
- The assumed exchange rates for the 2<sup>nd</sup> half of FY2018 remain at 105 yen to the U.S. dollar and 130 yen to the euro.

## 4) Analysis of FY2018 Forecast



- As for sale in Japan, sales in the hospital and clinic markets, and AED sales are expected to increase by ¥2.4 billion and ¥0.2 billion, respectively. The forecast for AED unit sales is 48,700 units.
- As for overseas sales, the actual increase in overseas sales will be ¥4.2 billion. Negative currency effect will be ¥1 billion.
- As for operating income, the negative impact of increase in depreciation and R&D costs, and other SG&A such as personnel expenses will be ¥1.2 billion and ¥3.4 billion, respectively. Currency effects will have a negative impact of ¥0.5 billion. The positive impact of the sales increase and gross margin improvement will be ¥5.6 billion.

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

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

	FY2017 Actual	FY2018 Forecast			YoY (%)
		Original Forecast announced May 10	Revised Forecast announced Nov 2	Composition ratio (%)	
Physiological Measuring Equipment	39,323	40,200	<b>40,500</b>	22.5	3.0
Patient Monitors	59,229	62,500	<b>62,800</b>	34.9	6.0
Treatment Equipment	32,892	33,600	<b>33,400</b>	18.6	1.5
Other Medical Equipment	42,804	43,700	<b>43,300</b>	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	<b>78,200</b>	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 revised its sales forecast by product category based on recent performance trends.
- We aim at gaining market share especially in the area of Patient Monitors. We will also enhance our Consumables and Services Business both in Japan and internationally.

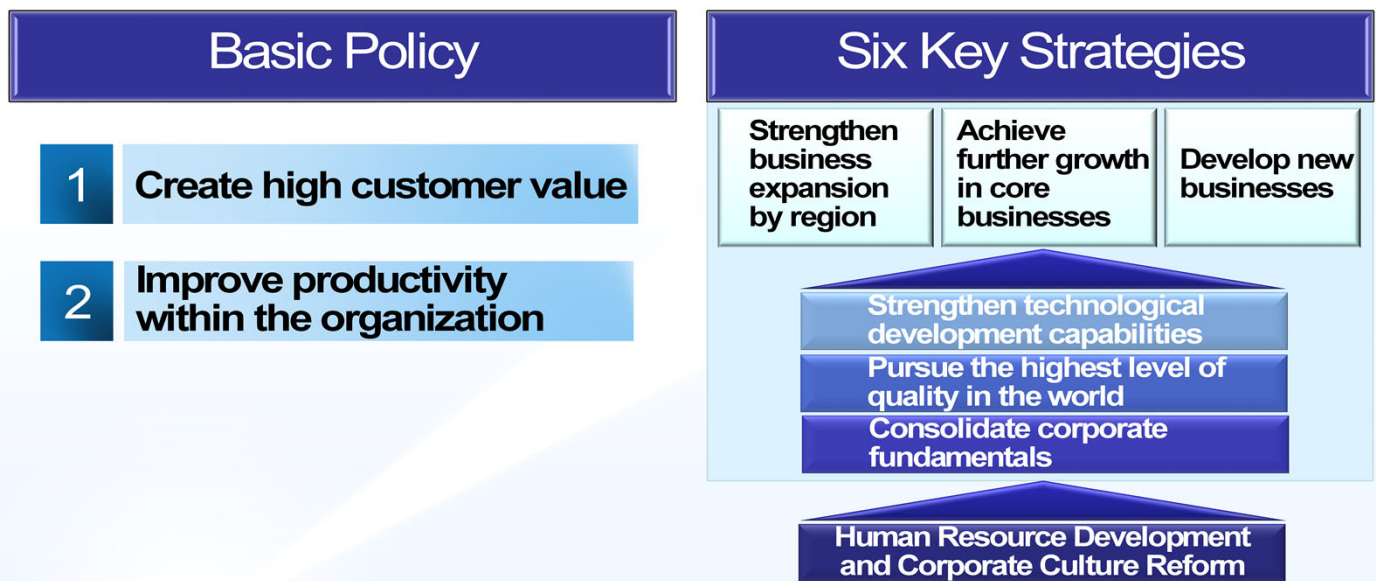


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# Business Strategy

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## Transform operations to achieve a highly profitable structure



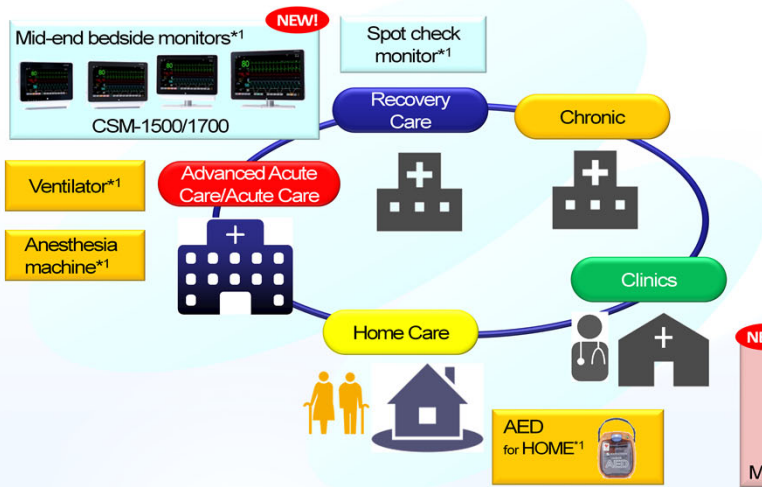
- The Company implemented its three-year mid-term business plan, TRANSFORM 2020, with the aim of achieving the transformation to a highly profitable structure through these two basic policies.
- The strategies “strengthen business expansion by region” and “achieve further growth in core businesses” will be implemented as follows:

# Strengthen Business Expansion by Region

## Japan

Establish the business foundation for future growth to meet medical needs in an aging society

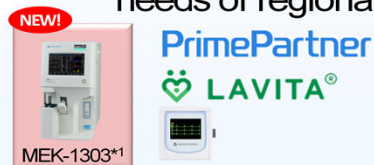
- ✓ Provide solutions that contribute to improving hospital management



- ✓ Enhance and reorganize sales and services operations



- ✓ Expand product portfolio to meet the needs of regional medical care networks



\*1 CSM-1500/1700 and MEK-1303 were already launched. Others will be launched in FY2018 H2.


\*2 GP: General Practitioner

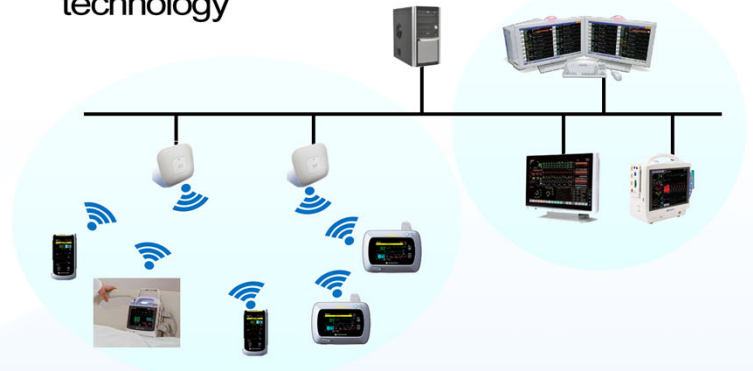
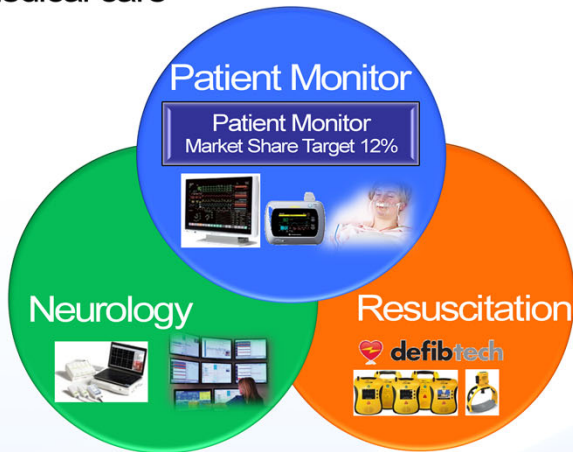
- In Japan, the government is working on reform of the healthcare system, including acute care, recovery care, chronic care and home care, to meet medical needs in an aging society.
- Based on these market changes, the Company absorbed and merged its domestic sales subsidiaries in FY2017 for the purpose of implementing sales strategies and improving its operational efficiency.
- In FY2018, the Company put more sales resources into the Tokyo metropolitan area, where we expect medical demand to increase. We can see it's taking effect gradually.
- In addition to the enhancement of our sales structure, we launched mid-end bedside monitors for the hospital market, where replacement demand is expected. We also plan to launch a spot check monitor, ventilator and anesthesia machine.
- Additionally, we are developing a new business model utilizing a cloud server for the clinic and home care markets, which are expected to grow in the future. We will also expand the product line up by introducing an integrated hematology analyzer and clinical chemistry analyzer, and an AED for installation in homes.

## U.S.

Strengthen our business structure in the U.S. which is the world's largest market and a center of leading-edge medical care

- ✓ Provide solutions that contribute to improving quality and efficiency of medical care

- ✓ Strengthen local development structure 
- ✓ Enhance network systems to support large-scale monitoring by using wireless technology



### Measures for improving profitability in FY2018

- Launch new patient monitors



Spot check monitor\*

- Enhance installation structure
- New installation pricing models for monitoring systems

\*Planned to launch in FY2018 H2

- In the U.S., sales of patient monitors increased favorably as a result of the enhancement of our local sales and R&D structure.
- Our brand awareness is increasing as our patient monitoring systems have been introduced in the U.S. at leading university hospitals. We are getting closer to achieving the market share target of 12% of FY2019.
- In the 2<sup>nd</sup> half of FY2018, we will further strengthen the product competitiveness by introducing mid-end bedside monitors and a spot check monitor.
- As the number of large-scale monitoring systems increase, demand for advanced network technology is increasing. Additionally, a high level of expertise is required for installation and launch of monitoring systems. In order to improve the profitability of these operations, we will enhance our installation structure by adding more network engineers and introducing new installation pricing models for monitoring systems.

## Emerging Markets

Conduct strategic business expansion to meet medical needs in high growth emerging markets

- ✓ Enhance solution proposal by introducing new products



\*CSM-1500/1700 were already launched. Others will be launched in FY2018 H2.

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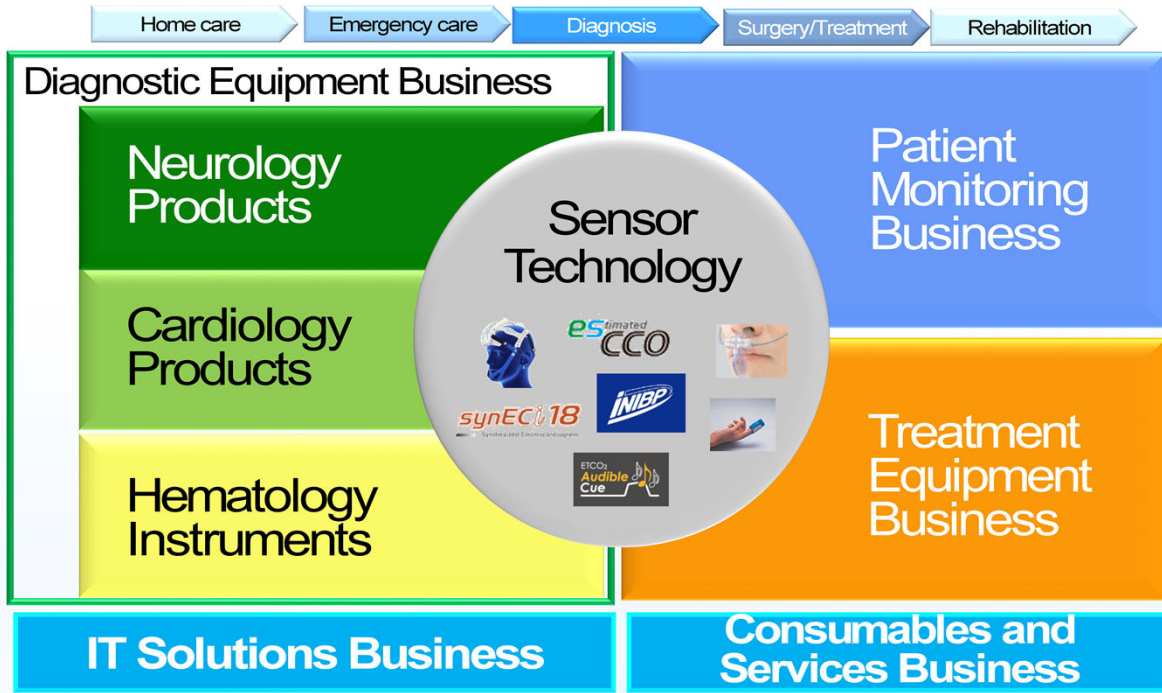
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- In emerging markets, we will conduct strategic business expansion to meet medical needs.
- We will enhance our solution proposals by expanding our product portfolio in each market.
- We offer high-value-added products developed and manufactured in Japan to the high end market, where the same medical level as in developed countries is required.
- To the middle to low-end market, we offer high-cost-competitive products developed and manufactured in Shanghai.
- In FY2018, we will launch the above new products in emerging markets.



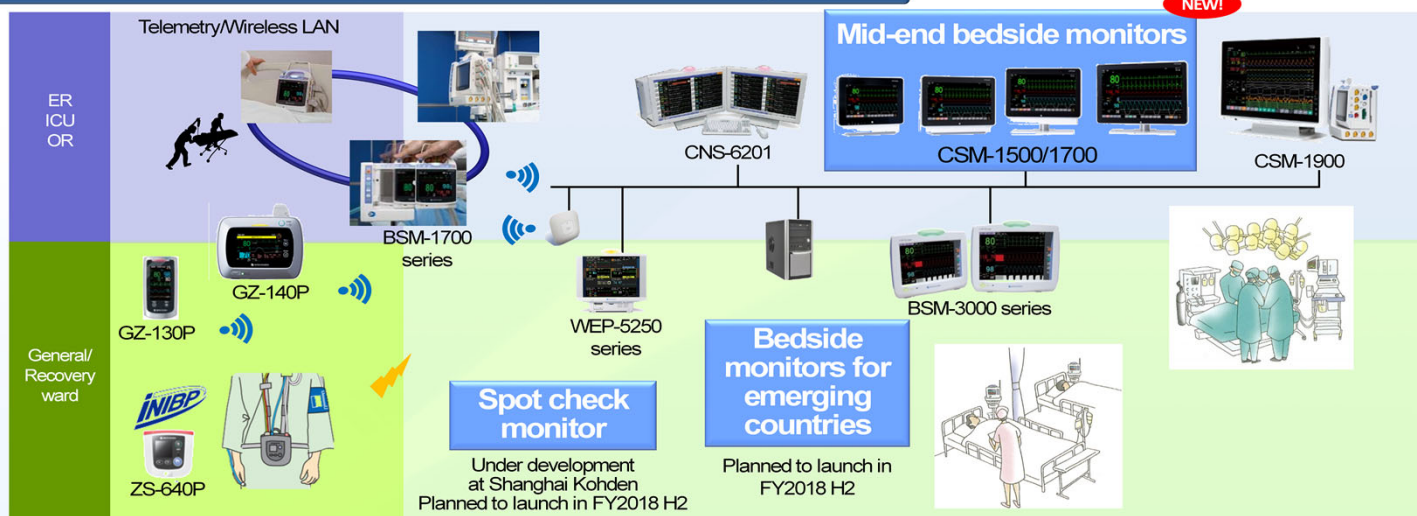
# Achieve Further Growth in Core Businesses





- ✓ Provide monitoring solutions that contribute to improving the quality and efficiency of medical care and patient safety

### Expand product line-up and enhance network systems



- In our Patient Monitoring Business, we will expand our product line-up to cover all areas from acute care to recovery care. We will also strengthen our competitiveness by enhancing network systems.
- We launched our core mid-end bedside monitors, CSM-1700 series in August 2018.
- In the 2<sup>nd</sup> half of FY2018, we plan to launch a spot check monitor developed at Shanghai Kohden and bedside monitors for emerging countries.

## Launch new models with high competitiveness

ER  
OR  
ICU  
CCU  
Ward

**NEW!** **Mid-end bedside monitors**

12.1 inch    15.6 inch    15.6 inch    19 inch

CSM-1501    CSM-1502    CSM-1701    CSM-1702

— integrated models —    — separable models —

• Separate input box from main unit enables monitors to be laid out freely

## High-end monitor



CSM-1901

## Inherit features from high-end monitor, CSM-1901

- Ease of operation

## G-Scope function



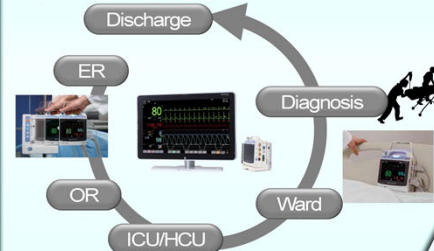
- Intuitive approach to diagnostic and therapeutic decision making

## Hemodynamics graph



## Realize seamless monitoring

- Vital sign data during patient transportation is sent to central monitor automatically when transport monitor is connected to host monitor



## Add value with our unique functions

- EEG monitoring using EEG headset in ER or ICU
- Rapid ultrasound examination using bedside monitor in ER

- Our new mid-end bedside monitors are the core products for mid to high-end markets. These are designed to prepare for new technological trends and create a platform for our monitoring systems for the next five to ten years.
- CSM-1500 series are versatile integrated models. CSM-1700 series enable monitors to be laid out freely by separating input box from main unit.
- CSM-1500/1700 series inherit functions including the functions which are useful for diagnosis, and operability from the high-end monitor, CSM-1901. CSM-1500/1700 series also realize seamless monitoring covered in all area in the hospital by enhancing network functions and combining with a transport monitor.
- We will create new clinical value that other companies cannot provide, by utilizing this new platform and integrating our various diagnostic technologies into bedside monitors.

- ✓ Add new functions to Patient Monitors by integrating our core technologies in order to realize easy and prompt diagnosis

## EEG monitoring

- Collaboration of bedside monitor, CSM-1700 and EEG headset to support early detection of NCSE\* in ER/ICU

- Easy attachment enables fast EEG measurement
- Send data using Bluetooth®



Measurement by EEG

Planned to add in FY2018 H2



EEG monitoring by bedside monitor

- Worldwide promotion



Demonstration at European Society of Intensive Care Medicine in Oct 2018

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

First monitor equipped with

## Point of Care Ultrasound

- Connect probe to bedside monitor, CSM-1700 to support prompt ultrasound tests such as FAST\* in ER

NEW!



Ultrasound probe TUP-C035J



USB connection



- Portable echography can be achieved by connecting the probe to a dedicated tablet computer



Outpatient



ICU



Round in general ward



Home-visit medical care

\*FAST (Focused Assessment with Sonography for Trauma) is a rapid ultrasound examination as a screening test for blood in pericardium, abdominal, thoracic cavity of trauma patients in ER.

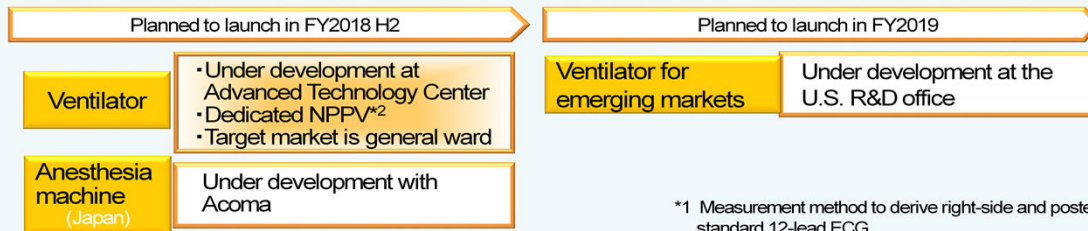
- In Diagnostic Equipment Business, we integrated our diagnostic technologies of EEG and ultrasound into our bedside monitors and realized new solutions.
- EEG headset realizes fast EEG measurement by allowing easy attachment. Collaboration of CSM-1700 series and EEG headset enables early screening of Nonconvulsive Status Epilepticus in ER/ICU. CSM-1700 series with EEG headset demonstrated and received a high evaluation from doctors at the European Society of Intensive Care Medicine in Oct 2018.
- CSM-1700 series are the first monitors equipped with an ultrasound function, which enables viewing the echo image by connecting the ultrasound probe. This function supports prompt ultrasound tests for trauma patients in ER. Because the ultrasound probe can connect with not only bedside monitors but also a dedicated tablet computer, it can be utilized as a portable echography unit.
- We aim at further creating new clinical value by integrating our core technologies across development divisions.



✓ Establish a leadership position in the defibrillator and AED markets



✓ Create a new ventilator and anesthesia machine



\*1 Measurement method to derive right-side and posterior waveforms from the standard 12-lead ECG

\*2 NPPV (noninvasive positive pressure ventilation) is artificial respiratory management which doesn't require intratracheal intubation or tracheotomy

- In our Treatment Equipment Business, we will expand our product line-up to establish a leadership position in the defibrillator and AED markets.
- In the 2<sup>nd</sup> half of FY2018, we plan to launch an AED for home. Currently, over 70% of sudden cardiac arrests occur at home. The improvement of the life-saving ratio for cardiac arrests at home has become an issue.
- We are also developing defibrillators for ambulances. We aim at creating high customer value by adding our unique technologies such as iNIBP or Audible Cue which are patient monitoring technologies and Synthesized 18-lead ECG which is ECG technology.
- In the 2<sup>nd</sup> half of FY2018, we plan to launch our first in-house ventilator. This is a noninvasive ventilator for the general ward which doesn't require intratracheal intubation. We also plan to launch an anesthesia machine, which is currently under joint-development with Acoma.
- In FY2019, we plan to launch a ventilator for emerging markets, which is currently under development at the U.S. R&D office. We aim at creating a new ventilator and anesthesia machine business.

## Targets for FY2019 ending March 2020 (consolidated)

Sales	¥190.0 billion		
Domestic sales	¥135.0 billion		
Overseas sales	¥55.0 billion	Breakdown of overseas sales by region	
Operating income (Operating income margin)	¥20.0 billion (10.5%)		
Income attributable to owners of parent	¥13.7 billion		
ROE	12.0%		
		Americas	¥27.3 billion
		Europe	¥8.2 billion
		Asia	¥16.5 billion
		Other	¥3.0 billion

Exchange rate assumptions: ¥110 to the U.S. dollar, ¥115 to the euro

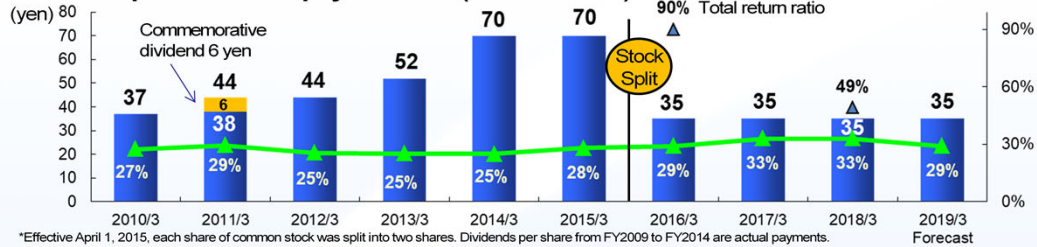
- Targets of the mid-term business plan are shown above.
- To achieve our targets for FY2019 ending March 2020, we will continue to focus on achieving the transformation to a highly profitable structure.



# Basic Policy on Distribution of Profits and Dividends

Investments for Growth	Continue investments necessary for future business expansion			
	R&D investments	Capital investments	M&A and alliance	Human resource development
Shareholder Return	✓ Maintain stable and continuous dividend payments ✓ <b>A target consolidated dividend payout ratio of 30% or more</b> ✓ Cash dividends are the basis of shareholder return, and share buybacks are considered in a flexible manner.			

Dividends per share and pay-out ratio (consolidated)



## Repurchase and cancellation of treasury stock

Mar 2, 2018  
Repurchase  
500k shares



May 21, 2018  
Cancel  
1,000k shares



**Number of treasury stock: 3,570k shares**  
(stockholding ratio: 4.0%)

- Our basic policy on distribution of profits and dividends is to maintain stable and continuous dividend payments while retaining necessary reserves for future business expansion such as R&D investments, capital investments, M&A and Alliance, and development of human resources. The target consolidated pay-out ratio is 30% or more.
- Cash dividends are the basis of shareholder return, and share buybacks are considered in a flexible manner.
- Full-year dividends for FY2018 will be 35 yen, and the payout ratio will be 29%.

**Disclaimer:**

The contents of 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 described therein.