

First Quarter FY2018 Financial Results Conference Call
Main Question and Answers
(August 2, 2018)

Q1: I would like to know the reason why gross profit margin improved significantly in the 1st quarter. Gross profit margin didn't improve in FY2017, even though sales ratio of Patient Monitors increased. Will gross profit margin improve in the future as the sales ratio of in-house products increases?

A1: Sales mix improved as we focused on selling in-house products both in Japan and overseas. Besides, productivity improved at Tomioka factory, Shanghai factory and Defibtech. Although devaluation of inventory was the main reason for lower gross profit margin in the same period of the previous fiscal year, devaluation of inventory decreased in this 1st quarter. These efforts contributed to the improvement of gross profit margin. Cost of sales increased in FY2017 because of increased outsourcing fees for delivery and installation of patient monitors in the U.S. However, the Company is making progress in optimizing installation fees and reducing its reliance on outsourcing in FY2018. These efforts are also contributing to the improvement of in-house products' gross profit margin, and it is expected to continue in the 2nd quarter and thereafter.

Q2: I would like to know about customer inquiries and the market evaluation of the middle-end bedside monitor CSM-1500. As CSM-1700 will be launched in August, finally you will have a full line up of bedside monitors; the high-end bedside monitor CSM-1900 and the middle-end bedside monitor CSM-1700 and CSM-1500. Are you expecting their full contribution to sales and improvement of gross profit margin in this fiscal year? I'm afraid their contribution might be much bigger in FY2019.

A2: We launched CSM-1500 in March in Japan and continue to improve this new product by listening to customers' requests while having them use the product. As the full-scale launch of CSM-1500 was in July, its sales are not yet big at the moment. We expect it to contribute to sales in September and thereafter. CSM-1500 has been well received by customers as it not only has an easy-to-read display, but it also has the same high functionality as our high-end bedside monitor and allows the creation of large-scale monitoring systems. We don't have to wait a full line up and it will make a contribution in FY2018.

Q3: In Japan, sales in the university hospital market were particularly strong. Is it correct to say that capital investment in the university hospital market is robust?

A3: The hospital's business environment has not so changed after the medical treatment fees revision in April 2018. The issue of consumption tax burden imposed on medical institutions still remains. Sales in the university hospital market were strong because renewal demand for medical equipment which was introduced with government funding under the regional medical care revival plan is starting to emergence. We don't think that the business environment of university hospitals is improving.

Q4: Sales in the private hospital market are not growing as strongly as I expected. How does the Company evaluate the results?

A4: The sale growth in the private hospital market was not as strong as we expected, since last-minute demand to respond to the revision of medical treatment fees was less significant than we experienced at the previous revision. The Company put more sales resources into the Tokyo metropolitan area in April 2018, and we expect positive results after the 2nd quarter. We are continuing to strengthen our business activities in the clinic and the private hospital market.

Q5: Could you explain the high inventory levels compared to the end of FY2017?

A5: First, we started production of new products. Secondly, the Company introduced measures to equalize seasonal variation and achieve stable production. Thirdly, we increased the production volume of products for shipment to overseas. These are the reasons for the increased inventories. In case of the government tenders in emerging countries, the scale of deal may reach hundreds of products, thus the Company is increasing inventories to prepare for the shipment.

Q6: I would like to know the business situation in the U.S. in the first quarter.

A6: Patient monitors which are our main products, continued to perform favorably in the U.S., and orders are increasing steadily. The delay in installation of patient monitors which had been our problem for several years has been solved, and we are now shipping and delivering smoothly. Sales of the Defibtech AEDs were weak due to sales concentration at the end of FY2017, but EEGs performed favorably as the Company reorganized the sales structure of EEGs.

Q7: Sales in Europe and Asia seem to be making slow progress toward the full-year guidance. Could you explain your confidence about meeting the guidance?

A7: Sales in Europe resulted in the slower 1st quarter since it is taking time to convert the interface and manuals for new middle-end bedside monitors into local languages, but our sales force is highly motivated and we think we can recover in the 2nd half of FY2018. As for Asia, sales in China continue to grow at a double digit rate thanks to new products which received CFDA approval. The Indian market had been thrown into confusion by the introduction of the GST last year, but has now recovered stability. Therefore, sales in Asia are expected to recover in the 2nd quarter of FY2018.

(End)

(Cautionary Statement)

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