

FY2017 Consolidated Financial Results Analyst Meeting

Main Question and Answers

(May 15, 2018, Tokyo)

Q1: I would like to know the reason why the improvement in gross profit margin is slower than expected. Is it simply delayed one or two years, or are you facing some challenges within the Company or market environment?

A1: The launch of new products was behind schedule. The efficiency of production and logistics for the overseas market had not improved as much as we expected. There was also price reduction in selected deals. As a result, the improvement in gross profit margin was delayed one year. In FY2018, gross profit margin will be improved as we will launch a lot of new products and work to improve profitability across the entire group.

Q2: My understanding is that gross profit margin will improve if the in-house products sales ratio increases and sales of consumables and services expand. Is that correct? You explained there was an impact of reduced pricing in selected deals. Will that happen again in the future?

A2: We expect gross profit margin for FY2018 to be 48.2%. Gross profit margin of in-house products is higher than this. Consumables and services have also higher gross margin. It is true that both the increase of in-house products sales ratio and sale expansion of consumables and services will lead to improvement of gross profit margin. In FY2017, we needed to reduce pricing mainly of old models of patient monitors, because it was a period of transition to new models. In FY2018, our competitiveness will improve as we launch a lot of new products. Such price reduction in selected deals was a temporary measure.

Q3: Would you explain the growth trend of domestic sales by market? The growth trend in FY2017 was slightly different between in sales in the university hospital market and in the public hospital market. Will this trend continue even after FY2018, or are you expecting sales in every market will increase in general?

A3: Since the renewal of equipment which was introduced with government funding under the regional medical care revival plan has been starting, we believe there is demand in university hospitals and public hospitals. However, we should stay cautious on the public hospital market as these hospitals are still in a severe financial condition. Sales in the clinic market decreased slightly due to sales decrease of third party products. This is because we focused on selling in-house products, so this is not a concern. As for private hospitals, we are strengthening our sales force in this market because small to medium size private hospitals are expected to shift to recovery care.

Q4: Hospitalization fees were revised in the revision of medical treatment fees this year. What do you think the impact on your business will be? Is there any change in hospital investment trends?

A4: We haven't seen a trend toward purchasing equipment in response to the revision of medical treatment fees. University hospitals and public hospitals seem to take a wait-and-see attitude. Because private hospitals make quick decisions on capital investment, noticeably more small to medium size private hospitals are considering investing in computerization such as EMR.

Q5: I would like to know the feasibility of the FY2018 forecast.

A5: The reorganization of sales operations continues to have a positive effect on our domestic sales, and we think we can achieve the domestic sales forecast. As for overseas sales, we are aiming at 11% growth on a local currency basis. Although there is a risk in global market conditions, sales in the U.S. have been growing favorably. We think our overseas sales forecast is also achievable. Improvement of gross profit margin is our top priority issue. We endeavored to improve gross profit margin in FY2017, but we couldn't. The Company conducted a careful analysis of our profit structure and discussed measures for improvement one by one. We would like to achieve the operating income target of 15 billion yen in FY2018.

Q6: You explained that R&D costs will increase considerably in FY2018. What is your outlook for FY2019 R&D costs?

A6: The burden of R&D investment will be reduced in FY2019 as the launch of new products is concentrated in FY2018. On the other hand, requirements for product safety are increasing, such as the 4th Edition of Medical Device EMC standard and cyber security measures in the U.S. We will keep our eyes on the increased cost burden related to these matters.

Q7: I would like to know the competitiveness of the new middle-end bedside monitor CSM-1500.

A7: We expect the new middle-end bedside monitor to be the most important product which will create the foundation of our monitoring system looking ahead to the next five to ten years. This monitor is equipped with the most advanced display technology in order to improve usability. This new product is also designed to prepare for new technological trends by incorporating features such as a decision support function which supports diagnosis by utilizing patient data. This monitor is a highly competitive product.

(End)

(Cautionary Statement)

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