NIHON KOHDEN

FY2016 Consolidated Financial Results Analyst Meeting

Main Questions and Answers

(May 16, 2017)

Q1: What was the reason for the decrease in gross profit margin in 4th quarter (three month period)? Is this due to an increase in the volume of low margin locally purchased products for the domestic market? I think the Company has been promoting an initiative to expand sales of in-house products for the past year or so. Didn't this initiative work?

A1: The main reason for the decrease in gross profit margin was the devaluation of inventory. In the U.S., inventory increased temporarily due to the deferred delivery of products totaling $10 million. We expect the devaluation of inventory to be reduced as these products are sold from April onward. Devaluation of inventory also increased in Europe due to poor performance. The change in product mix in the domestic market was another reason. The sales volume of third party products which we strategically introduce has increased. However, we have continued the initiative to expand sales of in-house products.

Q2: How does the Company see the domestic sales growth rate for the next fiscal year and beyond in its new mid-term business plan? Is it a similar level to the FY2017 forecast at 2.6% growth, or do you expect more moderate growth due to the healthcare system reforms? The Company recently absorbed its domestic sales subsidiaries and decided to appoint Mr. Tamura, who is in charge of domestic sales, as an executive director. Is it the intention to strengthen the Company's domestic business?

A2: We aim at sustainable sales growth of around 2% in the domestic market. Universities and public hospitals will continue to restrain their capital expenditure due to the effects of reductions in the number of acute beds and the medical service fee revision in April 2018. However, even in these circumstances, advanced acute care hospitals need more advanced products and services to improve the quality and efficiency of their medical care. We focus on responding to those demands to maintain our high market share in the acute care market, which is our main market. In the private hospital and clinic market, sales increased favorably due to the reorganization of our sales operations in FY2016. We expect this solid performance will continue.

There were two objectives of absorbing domestic sales subsidiaries in April 2017. The first was to implement a nationwide sales strategy for responding flexibly to changes in the market environment, such as by expanding hospital groups and hospital alliances for group purchasing. The second is to improve our operational efficiency by streamlining our operation process from the group management point of view.

Mr. Tamura will be appointed as an executive director with effect from June because he is in charge of reorganizing our domestic business and strengthening our domestic business foundation. This is crucial for our mid-to long-term growth since domestic sales account for 70% of our consolidated sales.

Q3: My question is about the FY2017 overseas sales forecast. 14% growth on a local currency basis seems to be a challenging target compared to the results in the past few years. In the U.S., you expect more than 10% growth excluding the effect of orders which were postponed from FY2016. I would like to know about the situation in Asia as well. Political unrest is a risk in some regions there.

A3: Our overseas sales were far lower than our expectation in the past two years. That was one of the reasons for revising the forecasts several times. We anticipated high overseas sales growth because we had strengthened our overseas sales network in the past few years. Our product competitiveness and sales capability were also improved. However, from around two years ago, overseas market conditions worsened due to weak local currencies and low oil prices in some emerging countries. In addition, political risk emerged as a risk last year.

FY2016 overseas sales were lower than our expectation because of political unrest in Thailand and Korea in Asia. In Europe, we strengthened our sales operations in Germany, but a longer time is needed for these measures to take effect. On the other hand, business performance in the U.S. has been favorable as we strengthened our business foundation which resulted in increased contracts with IDNs. However, some orders from several customers totaling $10 million were postponed to FY2017 due to the effects of the change of government in the U.S..

We think the overseas sales forecast is achievable because our FY2017 forecast was created based on careful consideration of these circumstances. In the U.S., we expect our solid performance will continue supported by strengthened product competiveness and sales capability. In Latin America, we have seen business negotiations related to the local governments start from the beginning of this year. In Europe, we expect the reorganization of our sales distributor network in Germany will contribute to sales recovery. In Asia, Thailand and Korea are beginning to stabilize politically and we expect sales recovery in those markets too.

* IDN: Integrated Delivery Network

Q4: The Company revised its forecasts downward several times in the past two years. I would like to confirm the meaning of the forecast for the Company. Isn’t it a commitment by the management to achieve those targets?

A4: We take it so seriously that we revised our forecasts several times. Looking back two years ago, when we revised our mid-term target upward, our expectations regarding the market environment and the speed with which we could respond to it were optimistic. Based on this experience, we drew up our mid-term business plan and FY2017 forecast with a strong consciousness of the need to publish targets that management could commit to. I’d like you to understand that as a matter of course our forecast contains uncertainties and includes challenges that we have to address in order to achieve sustainable growth and enhance corporate value.

Q5: The Company aims at transforming its operations "to achieve a highly profitable structure" in its mid-term business plan, TRANSFORM 2020. How does this differ from the measures you conducted in the past few years? Will the Company continue to invest in human resources or will the phase of getting a return on the investment start?

A5: In TRANSFORM 2020, our basic policies are to (1) create high customer value and (2) improve productivity within the organization. Under the policy of creating high customer value, we will promote market penetration of our unique technologies globally, strengthen our production and sales capability in the area of consumables, and establish a sales and service network that can respond to specialized and advanced requirements from customers. Under the policy of improving productivity within the organization, we will improve our operational efficiency by streamlining of and avoiding duplication in our internal operations, and establishing a supply chain that is aligned with our expanding overseas business. As our profitability is declining at the moment, we will implement these measures more thoroughly than ever in order to achieve maximum results.

As for investing in human resources overseas, we have invested considerably in the past few years. We will continue to hire employees in accordance with our sales growth together with improving employee productivity and increasing efficiency as much as possible.

(End)

(Cautionary Statement)