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Second Quarter FY2016 Financial Results Analyst Meeting
Main Questions and Answers
(November 9, 2016)

Q1: In FY2016, consolidated sales were weak in the 1st quarter (three months) and showed solid growth in the 2nd quarter (three months). Did the pace of sales growth return to the normal level in the 2nd quarter or were there any specific reasons?

A1: Sales were weak in the 1st quarter in reaction to the large sales volume in March 2016, the fiscal year end month, but showed recovery in the 2nd quarter both in Japan and overseas. In Japan, demand increased in the acute care hospitals as a response to the medical service fees revision in April 2016 which was the specific factor in the sales growth in the 2nd quarter.

Q2: My question is about the FY2016 full year sales forecast. The overseas sales growth forecast of 16.5% on a local currency basis seems to be challenging compared to the 1st half result. On the other hand, the domestic sales forecast seems conservative because the 2nd quarter sales increased favorably. Could you explain that?

A2: We think the overseas sales forecast is achievable because our oversea sales forecast is based on the current order volume and customer inquiries in each region. Weak performance in Europe and China in the 1st half has already been reflected in the forecast. In Japan, demand increased in the acute care hospitals as a response to the medical service fees revision in the 1st half. We expect the effect of the medical service fees revision will remain and result in sales growth in the 2nd half, but the growth rate will not be as high as it was in the 2nd quarter (three month).

Q3: My question is about the overseas sales forecast. In Europe, are you able to achieve positive sales growth in the 2nd half compared to the weak 1st half performance due to rebound from strong performance in the 1st half of FY2015? In the U.S., new products have been launched and relationships with IDN have been strengthened. Please explain your confidence about reaching the sale forecast in the U.S. I would like to know the situation in China as well.

A3: In Germany, we provide our products through a combination of direct sales and distributors. We are strengthening and reorganizing sales operations to optimize those channels and expecting positive impact in the 2nd half. In the U.S., expansion of product line-up and strengthening of ties with IDN will contribute to growth. Based on the current orders and customer inquiries, the U.S. business will be able to grow favorably. In China, the situation has been difficult in the past 2-3 years, but started showing recovery this year. Our sales in China show positive growth on a local currency basis year-on-year, although lower than our expectation. If the market environment improves, the pace of sales growth will return to strong growth.

Q4: My question is about the Japanese market. In the 1st half, demand in acute care increased mainly in the private hospital market. In the 2nd half, will demand in acute care increase in the university and public hospital market because they generally execute their budgets in the 2nd half? The 2nd half sales forecast seems to be higher compared to the good performance in the 2nd half results of the previous fiscal year. What is the visibility to meet the target?

A4: In Japan, the demand for patient monitors and other products increased due to change in the criteria for classification of severe patient condition by the medical service fees revision in April, 2016. In the 1st half, this demand increased mainly in the private hospitals. In the 2nd half, the demand is expected to expand in the public and university hospitals where the budget execution increases in that period. We think the 2nd half forecast is achievable because we expect the positive impact from the reorganization to divide domestic sales operations into hospital sales and GP* sales, as well as considering our current orders and inquiries.

* GP: General Practitioner

Q5: I would like to know the reason for the decrease in the forecast for capital expenditures, depreciation costs and R&D costs. Human resources have been strongly enhanced. In my understanding, you explained that you would not restrain investments for future growth, such as R&D.

A5: For capital expenditures, the plan of 10 billion yen was decreased by 1 billion yen to 9 billion yen according to the changes in the renovation schedule of the Nishiochiai office. Other investments such as the Advanced Technology Center are in line with the plan. For R&D costs, there were many R&D projects in the initial plan. We revised downward the forecast for R&D costs, reflecting the progress made during the 1st half. R&D costs increased 340 million yen in the 1st half, and will increase 600 million yen in the full year forecast on a year-on-year basis. We are not decreasing R&D investments for the future growth. The depreciation cost forecast has been revised according to changes in the schedule for some investments such as demo equipment and production equipment including molds.

(End)

(Cautionary Statement)

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