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**NIHON KOHDEN CORPORATION (6849)**

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**Nihon Kohden revises its mid-term business plan, Strong Growth 2017**

Nihon Kohden today announced that the Company revised its four-year mid-term business plan, **Strong Growth 2017**, through fiscal year 2016. As FY2015 is the halfway point in the plan, the Company reviewed the progress and incorporated updates into the plan. Nihon Kohden will continue to aim to sustain growth of the Nihon Kohden Group and enhance the corporate value of the Company in line with its corporate philosophy, “We contribute to the world by fighting disease and improving health with advanced technology, and create a fulfilling life for our employees.”

Nihon Kohden aims to realize its long-term vision, The CHANGE 2020 – The Global Leader of Medical Solutions –, which was set out in 2010 for the next ten years to 2020.

The Company’s four-year mid-term business plan, Strong Growth 2017, is the second stage in realizing its long-term vision. Nihon Kohden aims to achieve sustainable growth in Japan under the Japanese government’s future vision to reorganize the medical and nursing care systems by 2025 and achieve strong growth in international markets. The Company also enhances its operating base to ensure growth. Under review of the two-year progress of this plan, Nihon Kohden has launched competitive technologies and products such as iNIBP\* and BSM-1700 transport monitor. The FY2016 target for domestic sales was achieved 2 years ahead of schedule and FY2014 overseas sales exceeded the Company’s forecast. The Company also enhanced its operating base by establishing overseas offices and Tomioka production center and constructing R&D center. However, FY2014 operating income was below the Company’s forecast and decreased over the previous fiscal year due to lower gross margin ratio. Thus improvement of profitability remains as an issue. Based on these results and issues, Nihon Kohden revised Strong Growth 2017 and will take measures to improve profitability as the top priority for FY2015. The Company aims to achieve the original numerical targets set for the final year of the plan (ending March 31, 2017), sales of ¥170 billion and operating income of ¥18 billion, one year ahead of schedule. Thus the Company revised upward the numerical targets of Strong Growth 2017 and aims to sustain growth of the Nihon Kohden Group and enhance the corporate value of the Company.

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

**I. Long-term vision: The CHANGE 2020 – The Global Leader of Medical Solutions –**

Nihon Kohden’s envisioned corporate status for 2020 is as follows:

**(1) Lead the world in the development of revolutionary breakthrough technology**

The Company will utilize the 60 years of technical experience and expertise of the Nihon Kohden Group to:

- 1) Promote healthier and longer life through collaboration between the public, private and academic sectors both within and outside Japan in the development of world-first revolutionary technologies for the prevention, early diagnosis and treatment of lifestyle-related illnesses, dementia and other intractable disease; and
  - 2) Help hospitals assure medical safety and security by creating advanced new measurement parameters and sharpening the Company's competitive monitoring technologies that will lead to appropriate and efficient clinical care.
- (2) **Achieve the highest level of quality in the world**  
Nihon Kohden will achieve the highest level of quality in the world in order to sustain customer satisfaction well into the future, thereby earning a solid reputation as a reliable partner.
- (3) **Attain top share in applicable global markets**  
Nihon Kohden will ensure that business strategies are tailored to regional characteristics and develop optimized business structures that encompass all processes from product development to production, distribution and after-sales service in order to enable a prompt and effective response to the changing needs of the global healthcare market such as aging populations in developed markets and demand for basic healthcare networks in emerging economies which are experiencing rapid economic growth. To this end, the Company will strive to attain top market share in a wider range of its own products in both the domestic and international markets while aiming for a top share of all its own products in the domestic market.

The target for the period ending March 2020 is sales of ¥200 billion, operating income of ¥25 billion and overseas sales ratio of 35%.

## II. Mid-term business plan: Strong Growth 2017 (Revised parts are underlined.)

### 1. Basic Principles

Each and every employee will act autonomously and implement the following principles aimed at realizing the Company's long-term vision:

- (a) User oriented – Take all necessary actions for the customer
- (b) Relationships – Strengthen relationships with customers and partners both inside and outside the Company
- (c) Global – Enhance global communication skills as well as think and act with a global perspective
- (d) Speed – Strive to do everything with greater speed

### 2. Key strategies

#### (1) Pursue the highest level of quality in the world

Nihon Kohden will enhance its credibility as a leading medical equipment manufacturer by ensuring quality in every activity of every division across the entire Nihon Kohden Group, from development and design to production, logistics, sales and services, to keep its customers satisfied and ensure that customers around the world recognize Nihon Kohden for its superior quality products, sales and services.

- The Company aims at timely product supply by strengthening its response to FDA, CFDA and other regulations.

## **(2) Strengthen technological development capabilities**

- Nihon Kohden will further reinforce its technological strength and speed of development processes. To this end, the Company will strengthen its R&D organization to address the needs of clinical practice swiftly and flexibly. The Company will also promote industry-government-academia collaboration as well as collaboration with other companies both inside and outside Japan.
- The Company will combine its own core technologies to develop new technologies and products that help enhance medical safety and operating efficiencies, which will allow further differentiation.
- The Company will improve development efficiency by merging the R&D sections for technologies which are common to all product lines such as power source and utilizing its overseas R&D offices. The Company will also increase production efficiency and automate the manufacturing process through reinforcing cooperation between the production division and the R&D division.

## **(3) Strengthen business expansion by region**

Nihon Kohden will strive to achieve strong growth internationally and take steps to reinforce its business expansion in the Americas, Europe and Asia. Specifically, the Company will focus initiatives on strengthening business activities in Japan, the U.S. and emerging markets including BRICs.

### **1) Japan: Create solutions for a national future vision of medical and nursing care services in 2025**

Nihon Kohden will further cultivate its strength in the acute care hospital market and provide comprehensive solutions corresponding to the differentiation of medical providers, collaboration between medical and nursing care, and the establishment of an integrated community care system.

### **2) Establish a stronger presence in the U.S. which is a center of leading-edge medical treatment**

Nihon Kohden aims to build a stronger presence in the U.S. by reorganizing its direct-sales operations, strengthening ties with Group Purchasing Organizations (GPOs) and Integrated Delivery Networks (IDNs), introducing new competitive products, and expanding its product line-ups. The Company will reorganize its direct-sales operations from the current divisional structure, such as neurology business and patient monitoring business, to a functional structure such as sales functions and after-sales service functions. The Company will cultivate high-end markets through collaboration between different businesses. In the resuscitation field, the Company will expand its business by enriching the product line-up of Defibtech.

### **3) Increase market share in emerging markets as a key growth driver**

#### **China**

Nihon Kohden will accelerate business operations by unifying development, production, sales and services. In addition, the Company will expand export from China and raise its production efficiency by increasing production volume.

#### **Emerging markets**

Nihon Kohden will promote a high-end market strategy of offering products made in Japan

that are highly functional and IT-compliant and a low-end market strategy of offering price competitive products made in China and Malaysia. In addition, the Company will work to raise brand recognition with its unique technologies such as esCCO and to expand its sales and service networks.

#### **(4) Achieve further growth in core businesses**

Nihon Kohden will take steps to achieve further growth in its core businesses both inside and outside Japan in order to expand its global market share and establish a stable and consistent revenue base.

##### **Patient Monitors**

Nihon Kohden will increase its share in global markets by strengthening its sales force and expanding products that ensure medical safety and improve operating efficiencies in line with the needs of each region. The Company will launch new, highly competitive bedside monitors and telemetry products and raise brand recognition through its unique technologies such as esCCO, CO<sub>2</sub> sensors and iNIBP as well as enhance IT system solutions.

##### **Diagnostic Equipment**

- Neurology products: Nihon Kohden will expand market-leading business and strengthen its brand positioning globally by satisfying new needs\* in developed markets and targeting growing emerging markets.  
\* EEG monitoring or remote monitoring in emergency rooms and neuro ICUs.
- Cardiology products: Nihon Kohden will expand its share in global markets by broadening its product range and reinforcing IT system solutions, and raising brand recognition with its unique technologies such as derived 18-lead ECG.
- Diagnostic information systems: In Japan, Nihon Kohden will expand its line-up for small and medium-sized hospitals and for regional medical care networks. In Europe and China, the Company will differentiate itself from competitors with locally developed ECG data management systems.
- Hematology instruments: Nihon Kohden will strengthen its international business of hematology analyzers and reagents as well as expand clinical chemistry analyzers and reagents business by adding types of reagents.

##### **Treatment Equipment**

As the only Japanese manufacturer of defibrillators and AEDs, Nihon Kohden will expand its line-up of products that contribute to emergency care. In addition, the Company will continue to introduce the most advanced treatment equipment from all over the world into Japan that offers synergies with the Company's own products.

##### **Consumables and Services**

Nihon Kohden will improve its price competitiveness through automated production of sensors and streamlined logistics, and expand overseas sales of consumables. The Company will also widen its range of after-sales services and enrich its training programs.

### (5) Develop new businesses

Nihon Kohden aims to develop new core businesses by in-house development, alliances, M&A and other measures. The Company will pursue the development and introduction of medical equipment designed to improve medical safety, address lifestyle-related diseases, dementia, and intractable diseases. The Company will also pursue solutions for an integrated community care system.

#### Expand treatment equipment business

- 1) Nihon Kohden will expand its product line-up of ventilators and anesthesia machines through alliances, joint development and in-house development.
- 2) The Company will develop emergency care equipment and strengthen its presence in the emergency care market.

#### Create a new business of neurological diagnosis, treatment and rehabilitation equipment

Nihon Kohden will offer comprehensive solutions from diagnosis to treatment and rehabilitation of neurological diseases. The Company is developing technologies for the early detection of Alzheimer's and depression, and treatment of nerve diseases.

#### Create a physiological parameter business

Nihon Kohden will raise recognition and clinical assessment values of its advanced SpO<sub>2</sub> and CO<sub>2</sub> sensors, and iNIBP. The Company will create a physiological parameter business and build-up its brand as a sensor manufacturer.

### (6) Consolidate corporate fundamentals

In order to adapt to changes in the business environment and become the world's leader in medical equipment, Nihon Kohden will foster a more robust business structure that is globalized, efficient, profitable and fast-paced as well as implement CSR activities aimed at sustainable growth and strengthen its human resource development initiatives.

- The Company will improve its profitability and speed up product supply by establishing a global supply chain which promotes optimization and efficiency of the entire group. This will be based around its main factory, Tomioka production center.
- The Company will further globalize its head office functions and localize operations by appointing local management staff and developing local employees.

### 3. Strong Growth 2017 targets for FY2016 ending March 2017 (consolidated)

	FY2012 actual	FY2014 actual	FY2016 target
Sales	¥132.5 billion	¥160.8 billion	¥ <u>182.0</u> billion
- Domestic	¥110.2 billion	¥122.4 billion	¥ <u>130.0</u> billion
- Overseas	¥22.3 billion	¥38.3 billion	¥ <u>52.0</u> billion
Operating income	¥13.4 billion	¥15.9 billion	¥ <u>20.0</u> billion
ROE	12.7 %	11.9 %	<u>13.5</u> %

#### Breakdown of overseas sales by region

	FY2012 actual	FY2014 actual	FY2016 target
Americas	¥8.0 billion	¥16.4 billion	¥22.6 billion
Europe	¥5.6 billion	¥7.4 billion	¥8.7 billion
Asia	¥7.5 billion	¥12.5 billion	¥18.2 billion
Other	¥1.0 billion	¥1.8 billion	¥2.5 billion

Exchange rate assumptions: ¥118 to the dollar, ¥125 to the euro

#### 4. Main facility planning

Nihon Kohden has established Tomioka production center in Tomioka city in Gunma prefecture. The new production facility started in May 2015. The Company will also construct R&D center in Tokorozawa city in Saitama prefecture, and relocation will be in summer 2016. In addition, the Company will improve environment of clinical chemistry reagents division to expand production and increase efficiency.

	FY2014 actual	FY2015 plan	FY2016 plan
Capital Investments	¥5.1 billion	¥9.6 billion	¥9.0 billion

#### 5. Basic policy on distribution of profits and dividends

Nihon Kohden recognizes that returning profits to shareholders is one of management's most important tasks. The basic policy on distribution of profits and dividends is to maintain stable and continuous dividend payments while retaining necessary reserves for future business expansion. Retained earnings are used in R&D investments, capital investments, M&A and development of human resources. The Company regards cash dividends as the base of the shareholder return and sets a target consolidated dividend payout ratio of 30% or more. Share buyback is considered in a flexible manner, taking into account comprehensively its future business deployment, investment plan, retained earnings, and stock price level.

### III. Measures to improve profitability in FY2015

Nihon Kohden will take measures to improve gross margin ratio. The Company will reduce costs at the product planning stage, R&D and production by merging the R&D sections for technologies which are common to all product lines, reinforcing cooperation between the production division and the R&D division, and improving productivity at Tomioka production center. The Company will also expand sales of its own products and consumables. The Company will strengthen cost control across all Nihon Kohden groups by strengthening expense management process in each subsidiary and division, while continuing necessary investments for future business expansion such as R&D.

Disclaimer: This document is based on Company evaluations and analyses at the time of writing and does not in any way constitute a guarantee or warranty that the Company will achieve the numerical targets or implement the measures stated herein.