

First Quarter FY2017 Financial Results Conference Call
Main Question and Answers
(August 3, 2017)

Q1: As sales of Physiological Measuring Equipment and Patient Monitors increased, the product mix seemed to improve. Nevertheless, the gross profit margin in the 1st quarter did not increase. What was the reason for this? Also, the Company expects the 2nd quarter gross profit margin to improve. Could you explain the reason?

A1: The impact of lower selling prices was offset by cost reduction and the product mix improved due to the increased percentage of in-house products. These factors contributed positively to margin. Because of the increased devaluation of inventories and the negative impact of unrealized profits on inventories due to currency fluctuation, the gross profit margin decreased slightly. In order to improve margin, we are continuing to work to reduce inventories and the devaluation of inventories. We expect the gross profit margin for the 1st half of this fiscal year to improve as the sales ratio of in-house products rises in accordance with the increase in the percentage of overseas sales. Yen depreciation in year-on-year comparison will also have a positive impact.

Q2: Domestic sales in the 1st quarter increased. Please explain the domestic business outlook from the 2nd quarter onward.

A2: As the direction of the 2018 revision of medical treatment fees is still uncertain, we do not expect drastic changes in the domestic market. The market outlook from the 2nd quarter onward is expected to be the same as for the 1st quarter, and we are focusing on the private hospital and clinic market in order to achieve our domestic sales targets. In the 2nd quarter, our business is expected to remain difficult in the public hospital market and solid in the clinic market. Sales in the university and private hospital markets are not expected to grow as much as in the 1st quarter because of the reaction to the strong demand for patient monitors in the same period of FY2016 in response to the 2016 revision of medical treatment fees. We expect domestic sales in the 2nd quarter to be flat or decrease slightly, and low-single digit growth for the 1st half of FY2017.

Q3: In Japan, sales in the clinic market continue to grow and sales in the public hospital market remain weak. Is it correct to believe that this will have a slight negative impact on product mix? Could you tell us the impact if the same condition continues?

A3: Clinics are customers of our main products such as electrocardiographs and hematology analyzers. We use our GP sales force and local dealers as distributor channels in the clinic market. We also provide consulting services for doctors when they open their own clinics and sometimes we offer other companies' products as a one-stop solution. However, we don't expect so much negative impact on product mix and gross profit margin. Our operating margin will also not change so much by utilizing local dealers.

Q4: Could you tell us the impact of the deferred delivery of products in the U.S. from the last fiscal year? I would like to know about the market environment and order trends in the U.S. Do you think that the concern about a health care bill has been resolved?

A4: Deferred delivery of products totaled \$10 million and we suppose that shipments in the 1st quarter were about \$6 million. As for order trends in the U.S, orders of patient monitors are strong. On the other hand, sales of EEGs decreased in the 1st quarter as we focused on patient monitors. We've been promoting cross selling between patient monitors and EEGs, and EEG inquiries from customers are increasing. We would like these inquiries to lead to orders in the future. We are not sure if it is the impact of a health care bill, but we've seen that some hospitals have slowed in placing orders. However, our orders are increasing favorably and the impact of the bill would be minor for our business.

Q5: Sales in Europe in the 1st quarter seemed to miss the forecast slightly. Will they recover in the 2nd quarter?

A5: In Europe, sales in the 1st quarter were lower than we expected due to a delay in the shipment of AEDs. This issue will be resolved in the 2nd quarter. We also expect a contribution from our distributor network in Germany and that sales in Europe will grow steadily.

Q6: The Company's outlook for sales growth in China in the 1st half of this fiscal year is for mid-single digit growth on a local currency basis. Is this lower than your initial forecast?

A6: Sales in China are expected to fall short of our internal forecast for the 1st half of this fiscal year. We have launched several products which got approval from the CFDA. Sales of TEC-5600 defibrillators, and SVM-7500 bedside monitors are growing favorably. Sales of BSM-1700 transport monitors are taking time to expand because this is a product designed for a high-end market, but we anticipate it to make a contribution to sales in future.

Q7: You explained that R&D is ahead of schedule. Was there any positive impact from the transfer to Tokorozawa?

A7: The Advanced Technology Center raised the motivation of engineers because this facility provides an environment where they can focus on research and development. The R&D schedule for the 2nd half of FY2017 has been advanced to the 1st half of FY2017. The forecast of R&D costs for FY2017 has not been changed from ¥7.3 billion.

(End)

(Cautionary Statement)

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