

Consolidated Financial Highlights for the First Quarter of FY2017

(From April 1, 2017 to June 30, 2017)



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NIHON KOHDEN CORPORATION

(Ticker Code: 6849)

August 2, 2017

1) Consolidated Financial Results for the 1st Quarter of FY2017

(Amounts of less than ¥1 million are rounded down)

	FY2016 1Q	FY2017 1Q	YoY (%)
Net Sales	31,402	33,353	6.2
Domestic Sales	23,878	24,887	4.2
Overseas Sales	7,524	8,465	12.5
Operating Income	-416	-219	—
Ordinary Income	-1,472	158	—
Income Attributable to Owners of Parent	-1,086	16	—

Average Exchange Rate	(2016/6)	(2017/6)
1 US Dollar	¥112.8	¥111.9
1 EURO	¥125.8	¥121.9

	FY2016 1Q	FY2017 1Q
Gross Margin Ratio:	48.7%	→ 48.5%
SG&A Ratio:	50.0%	→ 49.2%
Foreign exchange gains or losses:	FY2016 1Q	FY2017 1Q
	¥1.29 bil losses	→ ¥0.10 bil gains

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- Overall sales increased 6.2% to ¥33.3 billion.
- Domestic sales increased 4.2% to ¥24.8 billion. The Company absorbed and merged 11 domestic sales subsidiaries in April 2017. Sales increased in all product categories as the Company enhanced sales activities tailored to match each market.
- Overseas sales increased 12.5% to ¥8.4 billion, 14% growth on a local currency basis. Sales in the Americas and Asia increased as the Company strengthened its sales & services network and expanded its product line-up of Patient Monitors.
- Gross margin ratio decreased by 20 basis points from the 1st quarter of FY2016 mainly due to devaluation of inventory, while the impact of lower selling prices was offset by cost cutting. SG&A expenses increased by ¥0.7 billion which includes a ¥0.39 billion increase in R&D costs. As a result, operating loss was ¥0.2 billion and the amount of loss was smaller than in the 1st quarter of FY2016. Ordinary income was ¥0.1 billion and income attributable to owners of parent was ¥16 million, reflecting foreign exchange gains compared to losses in the 1st quarter of FY2016.

2) Highlights of FY2017 1Q

Net Sales : +6.2%

- **Japan:** The Company absorbed and merged 11 domestic sales subsidiaries. Sales increased in all product categories as the Company enhanced sales activities tailored to match each market.
- **International:** Sales in the Americas and Asia increased as the Company strengthened its sales & services network and expanded its product line-up of Patient Monitors.

Operating Loss : ¥219 mil (¥416 mil of operating loss in FY2016 1Q)

- SG&A expenses increased mainly due to R&D investments.

Ordinary Income : ¥158 mil (¥1,472 mil of ordinary loss in FY2016 1Q)

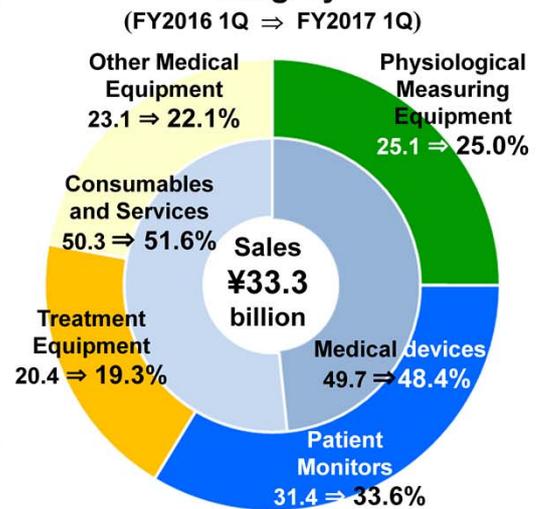
- Foreign exchange gains were recorded compared to losses in the 1st quarter of FY2016.

3) Sales by Product Category

(Sales, millions of yen)

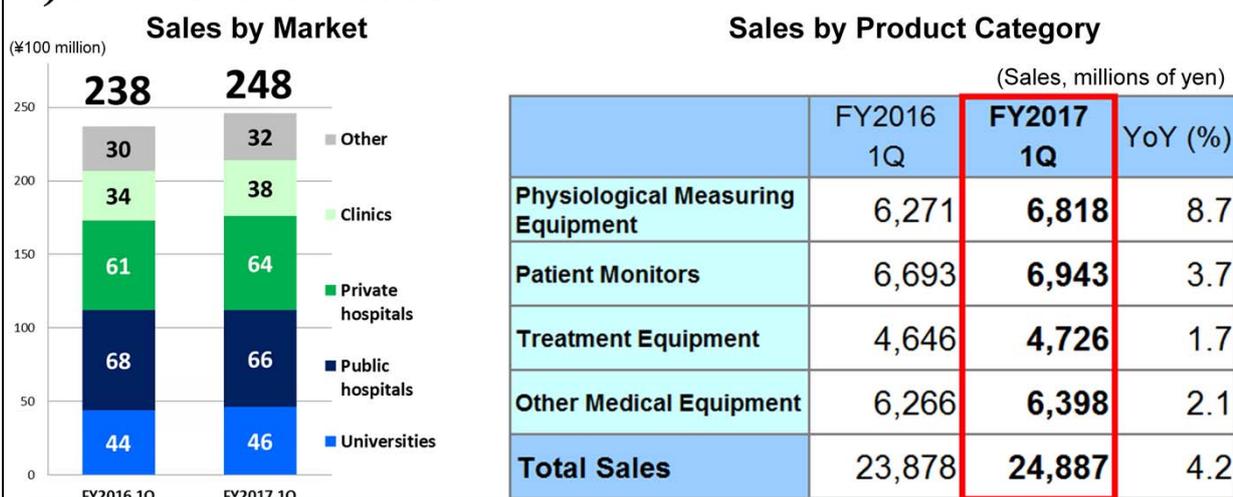
	FY2016 1Q	FY2017 1Q	YoY (%)
Physiological Measuring Equipment	7,896	8,342	5.7
Patient Monitors	9,862	11,217	13.7
Treatment Equipment	6,409	6,422	0.2
Other Medical Equipment	7,235	7,370	1.9
Total Sales	31,402	33,353	6.2
(Reference)			
Consumables and Services	15,791	17,215	9.0

Sales composition by product category



- Sales of Physiological Measuring Equipment increased 5.7% to ¥8.3 billion.
- Sales of Patient Monitors increased 13.7% to ¥11.2 billion.
- Sales of Treatment Equipment increased 0.2% to ¥6.4 billion.
- Sales of Other Medical Equipment increased 1.9% to ¥7.3 billion.
- Sales of Consumables and Services increased 9.0%. Consumables and Services sales ratio increased to 51.6%.

4) Domestic Sales



[Markets] Sales in the clinic market showed strong growth. Sales in the university and private hospital market also increased. Sales in the public hospital market decreased.

[Products] **Physiological Measuring Equipment:** Sales of diagnostic information system and polygraphs for cath labs increased favorably. Sales of ECGs also increased. Sales of EEGs decreased.

Patient Monitors: Sales of clinical information system and consumables such as sensors increased favorably.

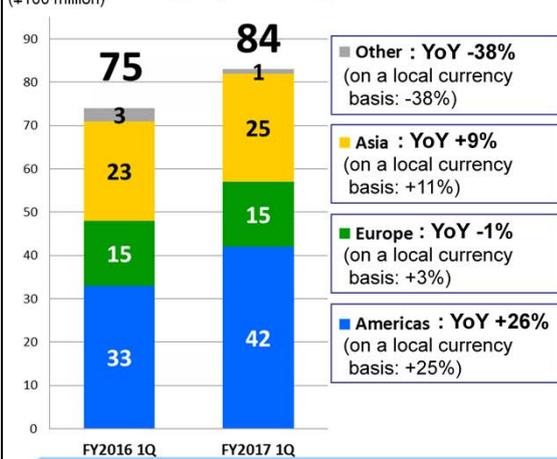
Treatment Equipment: Sales of defibrillators and ventilators increased favorably. Sales of AEDs also increased.

Other Medical Equipment: Sales of hematology instruments increased favorably.

- Domestic sales increased by ¥1.0 billion to ¥24.8 billion.
- Sales in the clinic market showed strong growth. Sales in the university and private hospital market also increased. Sales in the public hospital market decreased because these hospitals took a cautious stance on capital expenditure due to a difficult management environment.
- 1st quarter of FY2016 was sluggish because reorganization of the sales structure in April 2016 took time. Sales in the 1st quarter of FY2017 increased steadily because we could focus on sales activities from the beginning of FY2017.
- In Physiological Measuring Equipment, sales of diagnostic information systems increased favorably due to replacement demand. Sales of polygraphs for cath labs also increased, driven by strong growth of EP catheters. Sales of ECGs increased due to the introduction of new products. Sales of EEGs decreased.
- In Patient Monitors, sales of clinical information systems and consumables such as sensors increased favorably.
- In Treatment Equipment, sales of defibrillators and ventilators increased favorably. Sales of AEDs increased as sales of consumables such as pads and batteries increased favorably.
- In Other Medical Equipment, sales of hematology instruments increased, mainly to the clinic market.

5) Overseas Sales

Geographic segments



Percentage of overseas sales to consolidated sales

	FY2016 1Q	FY2017 1Q
Percentage of overseas sales to consolidated sales	24.0%	25.4%

Sales by Product Category

(Sales, millions of yen)

	FY2016 1Q	FY2017 1Q	YoY (%)
Physiological Measuring Equipment	1,624	1,524	-6.2
Patient Monitors	3,168	4,273	34.9
Treatment Equipment	1,763	1,695	-3.8
Other Medical Equipment	968	972	0.4
Total Sales	7,524	8,465	12.5

+14% on a local currency basis

[Region] **Americas:** Sales in the U.S. increased favorably as there was partial shipment for orders of Patient Monitors which we received at the end of FY2016. Sales in Latin America also increased, primarily in Brazil.
Europe: Sales slightly decreased, especially in Italy. Sales in Germany increased due to the enhancement of sales network.
Asia: Sales in South Korea increased favorably. Sales in India showed strong growth mainly due to a rush in demand prior to the GST implementation in July.

[Products] **Physiological Measuring Equipment:** Sales of ECGs decreased in the U.S. and Asia. Sales of EEGs increased in Europe and Asia.
Patient Monitors: Sales showed strong growth in the Americas, Europe and Asia.
Treatment Equipment: Sales of AEDs decreased in all areas. Sales of defibrillators increased favorably in Asia.
Other Medical Equipment: Sales of locally purchased products increased. Sales of hematology analyzers decreased in Asia.

- Overseas sales increased by ¥0.9 billion to ¥8.4 billion, 14% growth on a local currency basis. The overseas sales ratio was 25.4%.
- In the Americas, sales in the U.S. showed strong growth as there was a partial shipment for orders of Patient Monitors which we received at the end of FY2016. Sales in Latin America also increased, primarily in Brazil.
- In Europe, sales decreased in Italy, because sales of AEDs decreased due to the delay of shipments, while sales of Patient Monitors increased favorably. Sales in Germany increased due to the enhancement of sales network which started in the 2nd half of FY2016.
- In Asia, sales in South Korea increased favorably. Sales in India showed strong growth mainly due to a rush in demand prior to the GST implementation in July. A reaction is anticipated in the 2nd quarter due to changes in the tax system. Sales in China showed single-digit growth on a local currency basis. Sales in China in the 1st half of FY2017 are expected to result in mid-single-digit growth on a local currency basis and decrease on a yen basis. The fiscal year-end of our subsidiary in China is December 31.
- The delay of AED shipments will be resolved in the 2nd quarter of FY2017.

6) Topics

New products in FY2017 1Q

CO₂-related product for medical safety during endoscopy

cap-ONE biteblock

- Mouthpiece enables oxygen supply while keeping the mouth open during upper endoscopy.
- When used with CO₂ sensors, it enables CO₂ monitoring during endoscopy under sedation.
- As sedation may cause respiratory depression, cap-ONE helps ensure medical safety.

cap-ONE
ORAL NASAL EXPIRATION



Acquisition of video laryngoscope business

Expand product line-up in the field of resuscitation and anesthesia

- Agreement with HOYA Service to transfer the business in July 2017.
- The transaction is expected to close in September 2017.
- Expect synergies with our patient monitors and defibrillators.

Airway Scope AWS-S200

Enables smooth intubation
with visibility on monitor



- We recently launched cap-ONE biteblock. During endoscopy, sedatives are used for pain relief to patients but have adverse effects such as respiratory depression. Because CO₂ monitoring is becoming necessary to prevent these adverse events, we developed cap-ONE biteblock. This is a product that only Nihon Kohden, a manufacturer of CO₂ sensors, can provide. This new product will contribute to increased sales because sales of CO₂ sensors leads to expanding our Consumables business.
- As announced on July 28, the Company will acquire the video laryngoscope business from HOYA Service. Since 2014, Nihon Kohden has been an exclusive distributor of Airway Scope in Japan. The Company decided to undertake this transaction as Airway Scope has synergies with Nihon Kohden's in-house products in the field of resuscitation and anesthesia. Nihon Kohden aims to expand this business by developing new products and supplying them to the overseas market.

7) Depreciation & R&D Costs

(Millions of yen)

	FY2016 1Q	FY2017 1Q	Change	FY2016 Actual	FY2017 Plan
Depreciation	733	770	36	3,422	3,900
R&D Costs	1,242	1,633	391	6,466	7,300
			Capital Investments	7,710	5,700

● **FY2017 capital investments plan:**

Molds for new products, measuring equipment and jigs, products for demonstration, production equipment, and renovation of headquarters (Nishiochiai Office)(¥1.0 bil)

- Depreciation was ¥0.77 billion, the same level as the 1st quarter of FY2016. This was in line with the schedule.
- R&D costs increased by ¥0.39 billion to ¥1.63 billion. This was slightly ahead of schedule, as development of new products such as Patient Monitors progressed smoothly.
- There is no change to our forecasts for full-year depreciation, R&D costs and capital investments of ¥3.9 billion, ¥7.3 billion and ¥5.7 billion respectively.
- The main capital investment is ¥1.0 billion for the renovation of headquarters (Nishiochiai Office).

8) Forecast for FY2017

(Billions of yen)

	FY2016 Actual		FY2017 Forecast			
	First Half	Full Year	First Half	YoY (%)	Full Year	YoY (%)
Net Sales	74.4	166.2	78.0	4.7	175.0	5.2
Domestic Sales	55.8	124.7	—	—	128.0	2.6
Overseas Sales	18.5	41.5	—	—	47.0	13.2
Operating Income	3.8	13.5	3.9	1.7	15.0	10.4
Ordinary Income	2.6	14.0	3.9	45.0	15.0	6.7
Income attributable to owners of parent	1.6	9.1	2.5	48.5	10.2	11.5
Percentage of Overseas Sales	25.0%	25.0%			26.9%	
Average Exchange Rate						
1 US Dollar	¥107.6	¥109.2	—	—	¥110	
1 EURO	¥119.9	¥119.3	—	—	¥115	

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- As recent performance trends are in line with estimates, the Company reaffirms its forecasts for the 1st half of FY2017 and FY2017.
- Overall sales will be ¥75.0 billion in the 1st half of FY2017.
- In domestic sales, low-single-digit growth is forecast for the 1st half of FY2017. In the 2nd quarter, a reaction is expected to the increased demand for Patient Monitors in the same period of FY2016 in response to the 2016 revision of medical treatment fees.
- Overseas sales are expected to grow by more than 10% in the 1st half of FY2017. Double-digit growth is anticipated in the Americas and Europe, while sales growth in Asia is expected to be moderate.
- Gross margin in the 1st half of FY2017 is expected to be about 48.5%, improved from the 1st half of FY2016 and the same level as the 1st quarter of FY2017. There could be a greater-than expected increase in SG&A expenses due to steady progress of R&D investments. We aim to ensure ¥3.9 billion of operating income in the 1st half of FY2017 by improving gross margin while restraining SG&A expenses increase.

(Ref.) Consolidated Sales Forecast for FY2017 by Product Category

(Millions of yen)

	FY2016 Forecast	FY2017 Forecast	Composition ratio (%)	YoY (%)
Physiological Measuring Equipment	37,658	39,800	22.7	5.7
Patient Monitors	56,117	59,100	33.8	5.3
Treatment Equipment	29,728	31,200	17.8	5.0
Other Medical Equipment	42,781	44,900	25.7	5.0
Total	166,285	175,000	100.0	5.2
(Reference)				
Consumables and Services	71,180	75,100	42.9	5.5

- The Company also leaves the sales forecast for FY2017 by product category unchanged.
- In the 1st half of FY2017, sales growth of Patient Monitors will be higher than expected both in Japan and internationally.

Disclaimer:

Contents described in this document are based on the Company's best judgments at the time it was prepared and do not constitute a guarantee or promise that the Company will achieve its numerical targets or implement the measures stated.