

[Summary] Consolidated Financial Results for the 1st Quarter of the Fiscal Year Ending March 31, 2017 (Japan GAAP)

NIHON KOHDEN CORPORATION (6849)

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(Amounts are rounded down to the nearest million yen)

1. Consolidated Financial Highlights for the 1st Quarter of FY2016 (From April 1, 2016 to June 30, 2016)

(1) Consolidated Operating Results

Note: Percentages indicate increase/decrease over the corresponding period in the previous fiscal year.

	Net sales		Operating income		Ordinary income		Income attributable to owners of parent	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
FY2016 1Q (3 months)	31,402	-3.9	-416	—	-1,472	—	-1,086	—
FY2015 1Q (3 months)	32,687	5.5	132	-87.4	610	-37.1	239	-55.6

Note: Comprehensive income: FY2016 1Q: -2,352 million yen (—%) FY2015 1Q: 386 million yen (34.6%)

	Net income per share - Basic		Net income per share - Diluted	
	Yen		Yen	
FY2016 1Q (3 months)	-12.69		—	
FY2015 1Q (3 months)	2.75		—	

(2) Consolidated Financial Conditions

	Total assets	Net assets	Equity ratio	Net assets per share
	Millions of yen	Millions of yen	%	Yen
As of June 30, 2016	132,859	93,776	70.6	1,094.78
As of March 31, 2016	144,270	97,671	67.7	1,140.25

Reference: Equity Capital: FY2016 1Q: 93,776 million yen FY2015: 97,671 million yen

2. Dividends

	Dividends per share				
	First quarter	Interim (Second quarter)	Third quarter	Year-end	Full-year
	yen	yen	yen	yen	yen
FY2015	—	17.00	—	18.00	35.00
FY2016	—				
FY2016 (Forecast)		17.00	—	18.00	35.00

Note: Revise of dividends forecast: None

3. Consolidated forecast for FY2016 (From April 1, 2016 to March 31, 2017)

	Net sales		Operating income		Ordinary income		Income attributable to owners of parent		Net income per share - Basic
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Yen
First half	75,000	2.0	3,700	-12.3	2,800	-36.4	1,800	-28.5	21.01
Full year	175,000	5.7	17,500	6.5	17,500	8.6	11,500	9.3	134.25

Note: Revise of consolidated forecast: Yes

* Earnings forecasts and other forward-looking statements in this release are based on information currently available and certain assumptions that the Company believes are reasonable. Therefore, they do not constitute a guarantee that they will be realized. Actual results may differ from such estimates due to unforeseen circumstances.

4. Review of Operations

During the term under review (April 1, 2016 to June 30, 2016), the Japanese government worked on healthcare system reform under its 2025 future vision of medical/long-term care services. In April 2016, medical treatment fees were revised in order to promote integrated community care systems, differentiate medical institution functions, and strengthen collaboration. Prefectures were required to draw up a regional health vision toward the enhancement of medical treatment systems by 2025. The medical equipment industry was required to meet the changing needs of medical institutions. Internationally, overall demand for medical equipment remained steady. In developed countries, the efficiency of medical care for medical cost restriction has been enhanced and cutting-edge medical technologies have been introduced. In emerging countries, the healthcare infrastructure has developed together with economic growth although there was sluggish demand due to weak currencies and lower oil prices in some regions.

Under these circumstances, the Company implemented key strategies such as strengthening business expansion by region and further growth in core businesses under its four-year mid-term business plan, Strong Growth 2017, of which the final year is FY2016.

Japan: Sales in the hospital market and clinic market increased as the Company reorganized its sales operations in April 2016 to match each market: the acute care hospital market, the small and mid-sized hospital market, and the clinic market. In particular, sales in the private hospital market and the clinic market contributed to sales increase. Sales of AEDs in the PAD market decreased due to slow replacement demand. Sales of Physiological Measuring Equipment and Other Medical Equipment increased steadily, while sales of Treatment Equipment decreased. Sales of Patient Monitors were the same as the same period of the previous fiscal year. As a result, domestic sales decreased 0.4% over the first quarter of FY2015 to ¥23,878 million.

International: Sales in all areas and all product categories decreased due to negative effects of weak local currencies and lower oil prices in some emerging countries. A negative currency translation impact also affected sales. In the Americas, sales in the U.S. increased on a comparable basis and decreased on a yen basis due to yen appreciation. Sales in Latin America decreased due to negative effects of weak local currencies. Latin America sales were also affected by change in distribution channels with reorganization of the Company's sales subsidiaries in Latin America*. Sales in Europe decreased, especially in Germany, while sales in France and the UK increased. In Asia, sales in China increased on a comparable basis and decreased on a yen basis. Sales in the Middle East decreased, especially in oil producing countries due to negative effects of lower oil prices. As a result, international sales decreased 13.7% over the first quarter of FY2015 to ¥7,524 million.

As a result, overall sales during the term under review decreased 3.9% over the first quarter of FY2015 to ¥31,402 million. Gross margin ratio was higher than the first quarter of FY2015 mainly due to improvement in productivity. SG&A expenses increased due to enhancement of human resources, while there were effects of cost controls. Operating loss was ¥416 million, compared to operating income of ¥132 million in the first quarter of FY2015. Ordinary loss was ¥1,472 million (ordinary income of ¥610 million in the first quarter of FY2015) and loss attributable to owners of parent was ¥1,086 million (income attributable to owners of parent of ¥239 million in the first quarter of FY2015), reflecting foreign exchange losses compared to gains the same period of the previous fiscal year.

*The accounting term of Nihon Kohden Mexico, which was established in January and started operations in April 2016, is the end of December. Accordingly, its 9 months financial results from April 1, 2016 to December 31, 2016 will be included in the consolidation.

5. Consolidated Sales Results by Product Category

	(Millions of yen)	
	Three months ended June 30, 2016	
	Amount	Growth rate (%)
Physiological Measuring Equipment	7,896	- 2.6
Patient Monitors	9,862	- 5.8
Treatment Equipment	6,409	- 6.1
Other Medical Equipment	7,235	- 0.6
Total	31,402	- 3.9
Domestic Sales	23,878	- 0.4
Overseas Sales	7,524	- 13.7
(Reference) Overseas Sales		
Americas	3,369	- 8.6
Europe	1,527	- 10.2
Asia	2,322	- 17.6
Other	304	- 40.4

6. Consolidated Forecast for FY2016

Based on recent performance trends and future outlook, the Company revised its forecasts for the first half of FY2016, previously announced on May 10, 2016.

In Japan, the Company will promote sales and marketing that is a much closer fit to customers in the acute care hospital market and the small and mid-sized hospital market, corresponding to the demands for medical devices in accordance with revised evaluation of hospital treatments. Internationally, the Company will expand its sales network and continue to introduce products that are tailored to the demands of local markets. In Patient Monitoring business in the U.S., the Company will enhance relationships with GPOs* and IDNs** and strengthen its local business structure of R&D, sales and services. Thanks to the Company's efforts, contracts and business negotiations with IDNs are expected to increase. In emerging countries, the Company anticipates a recovery in orders driven by a large order from Egypt. Both domestic sales and international sales are expected to recover in the second quarter, but not enough to cover the weak first quarter. Greater-than expected appreciation of the yen in currency translation will also have an effect. As a result, the Company forecasts its overall sales for the first half of FY2016 to be ¥75,000 million (down ¥3,000 million from its previous forecast).

The Company will reduce costs at the product planning stage, R&D and production. The Company will strengthen cost control across all Nihon Kohden groups, while continuing necessary investments for future business expansion such as R&D and human resources. Even with these efforts to improve profitability, operating income forecast for the first half of FY2016 is revised to ¥3,700 million (down ¥800 million from its previous forecast) due to lower-than-expected overall sales. Due to foreign exchange losses, forecasts for ordinary income and income attributable to owners of parent for the first half of FY2016 are revised to ¥2,800 million (down ¥1,700 million from its previous forecast) and ¥1,800 million (down ¥1,100 million from its previous forecast), respectively.

The Company leaves its forecasts for FY2016 unchanged as business deals both domestically and internationally will be more concentrated in the second half. The Company will also take measures to further improve profitability.

Assumed exchange rates from the second quarter of FY2016 are 105 yen to the dollar and 116 yen to the euro.

7. Consolidated Financial Statements

(1) Consolidated Balance Sheets

(Millions of yen)

	March 31, 2016	June 30, 2016
ASSETS		
Current assets:		
Cash and deposits	16,422	17,854
Notes and accounts receivable - trade	59,338	43,184
Securities	11,000	12,000
Merchandise and finished goods	14,519	16,091
Work in process	1,399	1,439
Raw materials and supplies	3,758	3,759
Other current assets	6,706	7,654
Allowance for doubtful accounts	-213	-179
Total current assets	112,929	101,806
Non-current assets:		
Property, plant and equipment	15,695	16,107
Intangible assets		
Goodwill	2,392	2,246
Other intangible assets	3,799	3,522
Total intangible assets	6,192	5,769
Investments and other assets		
Investment securities	6,149	5,745
Other investments and other assets	3,483	3,597
Allowance for doubtful accounts	-179	-166
Total investments and other assets	9,453	9,175
Total non-current assets	31,340	31,052
Total assets	144,270	132,859
LIABILITIES		
Current liabilities:		
Notes and accounts payable - trade	29,726	25,623
Short-term loans payable	1,174	1,135
Accrued income taxes	2,030	214
Provision for bonuses	2,860	733
Provision for product warranties	299	277
Other current liabilities	6,810	7,254
Total current liabilities	42,901	35,239
Non-current liabilities:		
Net defined benefit liability	3,164	3,223
Long-term accounts payable - other	24	23
Other non-current liabilities	507	597
Total non-current liabilities	3,697	3,843
Total liabilities	46,599	39,083
NET ASSETS		
Shareholders' equity:		
Capital stock	7,544	7,544
Capital surplus	10,414	10,414
Retained earnings	83,833	81,205
Treasury shares	-7,472	-7,472
Total shareholders' equity	94,321	91,692
Accumulated other comprehensive income:		
Valuation difference on available-for-sale securities	2,036	1,703
Foreign currency translation adjustments	2,559	1,510
Remeasurements of defined benefit plans	-1,245	-1,130
Total accumulated other comprehensive income	3,350	2,083
Total net assets	97,671	93,776
Total liabilities and net assets	144,270	132,859

(2) Consolidated Statements of Income

(Millions of yen)

	Three months ended June 30, 2015	Three months ended June 30, 2016
Net sales	32,687	31,402
Cost of sales	17,141	16,110
Gross profit	15,546	15,292
Selling, general and administrative expenses	15,413	15,709
Operating income (loss)	132	-416
Non-operating income		
Interest income	8	5
Dividend income	54	50
Gain on valuation of investment securities	—	75
Foreign exchange gains	358	—
Subsidy income	45	61
Other, net	55	95
Total non-operating income	521	287
Non-operating expenses		
Interest expenses	16	21
Foreign exchange losses	—	1,290
Other, net	27	31
Total non-operating expenses	43	1,342
Ordinary income (loss)	610	-1,472
Extraordinary income		
Gain on sales of non-current assets	0	0
Total extraordinary income	0	0
Extraordinary loss		
Loss on sales of non-current assets	5	0
Loss on retirement of non-current assets	10	1
Factory transfer cost	128	—
Office transfer cost	—	32
Total extraordinary loss	144	33
Income (loss) before income taxes and non-controlling interests	466	-1,506
Income taxes	213	-419
Net income (loss)	252	-1,086
Income attributable to non-controlling interests	13	—
Income (loss) attributable to owners of parent	239	-1,086

(Consolidated Statements of Comprehensive Income)

(Millions of yen)

	Three months ended June 30, 2015	Three months ended June 30, 2016
Net income (loss)	252	-1,086
Other comprehensive income		
Valuation difference on available-for-sale securities	62	-332
Foreign currency translation adjustment	117	-1,048
Remeasurements of defined benefit plans	-46	114
Total other comprehensive income	133	-1,266
Comprehensive income	386	-2,352
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	372	-2,352
Comprehensive income attributable to non-controlling interests	13	—