

[Summary] Consolidated Financial Results for the 2nd Quarter of the Fiscal Year Ending March 31, 2020 (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 2nd Quarter of FY2019 (From April 1, 2019 to September 30, 2019)

(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	%
FY2019 2Q (6 months)	89,735	13.5	7,009	64.5	6,334	20.2	3,943	0.7
FY2018 2Q (6 months)	79,050	3.1	4,260	36.2	5,270	41.6	3,916	54.1

Note: Comprehensive income: FY2019 2Q: 3,264 million yen (-32.7%) FY2018 2Q: 4,849 million yen (100.6%)

	Net income per share - Basic	Net income per share - Diluted
	Yen	Yen
FY2019 2Q (6 months)	46.31	—
FY2018 2Q (6 months)	45.99	—

(2) Consolidated Financial Conditions

	Total assets	Net assets	Equity ratio	Net assets per share
	Millions of yen	Millions of yen	%	Yen
As of September 30, 2019	157,556	117,818	74.8	1,383.57
As of March 31, 2019	169,717	116,087	68.4	1,363.24

Reference: Equity Capital: FY2019 2Q: 117,818 million yen FY2018: 116,087 million yen

2. Dividends

	Dividends per share				
	First quarter	Interim (Second quarter)	Third quarter	Year-end	Full-year
	yen	yen	yen	yen	yen
FY2018	—	17.00	—	18.00	35.00
FY2019	—	17.00	—	—	—
FY2019 (Forecast)	—	—	—	18.00	35.00

Note: Revise of dividends forecast: None

3. Consolidated Forecast for FY2019 (From April 1, 2019 to March 31, 2020)

	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	
Full year	186,000	4.0	16,000	6.4	16,000	0.8	10,700	-4.4	125.65

Note: Revise of consolidated forecast: None

- * This summary of financial result is not subject to audit procedures.
- * In domestic sales of the Nihon Kohden group, sales to public medical institutions (which include national hospitals, national universities, public agencies, and municipal hospitals) account for a relatively high percentage of total sales. Therefore, the bulk of orders tend to be concentrated in September and March due to these hospitals' budget executions. In particular, sales and income are highly concentrated in the fourth quarter of the fiscal year.
- * 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, 2019 to September 30, 2019), differentiation of medical institution functions and enhancement of medical coordination were promoted in order to realize the regional visions of the health care system in 2025 created by each prefecture. In addition, discussions have been started regarding reforms to the work style of physicians and medical staff and the geographic distribution of physicians, in preparation for the future health care system in 2040. Medical equipment companies were strongly required to provide solutions which contribute to improving quality and efficiency of medical care and enhancing regional medical care coordination. Internationally, overall demand for medical equipment remained steady although there was concern regarding policy trends in the U.S. and economic slowdown.

Under these circumstances, Nihon Kohden implemented its three-year mid-term business plan, TRANSFORM 2020 that sets FY2019 as its final year, with the aim of achieving the transformation to a highly profitable structure through creating high customer value and improving productivity within the organization. In line with this plan, the Company implemented key strategies such as strengthening business expansion by region and achieving further growth in core businesses. The Company launched a series of new value-added products: spot check monitors, bedside monitors for emerging markets, telemetry systems, defibrillators for ambulance, and the Company's first ventilators. There were two types of ventilators: an NPPV (Noninvasive positive pressure ventilation) ventilator developed at the Company's Advanced Technology Center and a ventilator developed at Nihon Kohden OrangeMed in the U.S. The former was launched in Japan and internationally, and the latter was launched internationally.

Japan: Nihon Kohden introduced new products which match each market; the acute care hospital market, the small and mid-sized hospital market, and the clinic market. The Company also strengthened its marketing and service capabilities creating customer value which contributes to improving medical safety, patient outcomes, and operating efficiency. Thanks to last minute surge in demand before consumption tax increase, sales in all markets and all product categories showed double digit growth. Large orders related to construction of new hospitals also contributed to sales increases in the university and public hospital markets. Sales of Patient Monitors showed strong growth, supported by new models of bedside monitors and orders received for the replacement of clinical information systems. As a result, domestic sales increased 16.6% over the first half of FY2018 to ¥67,445 million.

International: In the Americas, sales in the U.S. increased favorably and sales in Latin America also increased favorably, primarily in Mexico and Colombia. Sales in Europe increased favorably thanks to sales increase in Germany and France. Sales in Turkey also recovered. Sales in Asia decreased due to weak sales in Southeast Asia and South Korea, while sales in the Middle East and India increased. Sales in China increased on a local currency basis and slightly decreased on a yen basis. Sales in Other markets increased due to sales recovery in Africa such as South Africa and Egypt. Sales of Physiological Measuring Equipment, Treatment Equipment, and Other Medical Equipment increased favorably. Sales of Patient Monitors increased on a local currency basis and decreased on a yen basis. As a result, international sales increased 5.2% over the first half of FY2018 to ¥22,289 million.

As a result, overall sales during the term under review increased 13.5% over the first half of FY2018 to ¥89,735 million. Operating income increased 64.5% over the first half of FY2018 to ¥7,009 million because SG&A expenses fell short of the projection as some expenses were delayed until the second half, in addition to the positive effect of increased sales. Ordinary income increased 20.2% to ¥6,334 million reflecting foreign exchange losses. Income attributable to owners of parent increased 0.7% to ¥3,943 million, as the Company posted extraordinary losses such as settlement package and demolition cost.

5. Consolidated Sales Results by Product Category

	(Millions of yen)	
	Six months ended September 30, 2019	
	Amount	Growth rate (%)
Physiological Measuring Equipment	20,782	+ 13.2
Patient Monitors	30,855	+ 11.5
Treatment Equipment	16,558	+ 12.3
Other Medical Equipment	21,539	+ 17.8
Total	89,735	+ 13.5
Products	47,923	+ 15.2
Consumables and Services	41,811	+ 11.7
(Reference) Sales by Region		
Domestic Sales	67,445	+ 16.6
Overseas Sales	22,289	+ 5.2
Americas	11,217	+ 7.5
Europe	3,778	+ 7.3
Asia	6,283	- 5.6
Other	1,009	+ 74.3

6. Consolidated Forecast for FY2019

The Company reaffirms its forecasts for FY2019 previously announced on June 17, 2019.

The overall sales forecast for FY2019 is ¥186,000 million as originally planned. In Japan, sales in the first half were strong thanks to large orders related to construction of new hospitals. It was also because consumption tax increase in October brought demand forward. Considering that corresponding reactions will be generated in the second half, the Company has revised its domestic sales forecast to ¥134,500 million (up ¥1,500 million from its previous forecast). The Company has revised its overseas sales forecast to ¥51,500 million (down ¥1,500 million from its previous forecast) as sales in the Americas, Europe, and Asia are expected to be lower than the Company's expectation. In the U.S., the withdrawal of the submission to the FDA for mid-range bedside monitors is expected to have some negative impact on the Company's U.S. patient monitoring business. The Company aims at resubmission in the first half of FY2020 after performing necessary actions such as additional testing to meet FDA's cybersecurity control requirements. In Europe, sales on a local currency basis are expected to grow steadily thanks to the introduction of new products, but sales on a yen basis will be negatively impacted by the yen appreciation against the euro. In Asia, sales are expected to recover in the second half, but not enough to compensate for the weak first half. Internationally, new products such as bedside monitors for emerging markets, spot check monitors, and the Company's first ventilators, have contributed to a gradual sales increase. The Company continues to proceed with the process of obtaining regulatory approval as medical devices in each country, and aims at expanding the sales of these new products.

While income for the first half year exceeded the previous forecast, the Company expects a reactionary decline after a rush of demand related to the consumption tax increase in the domestic market. Some expenses were carried forward to the second half year. Therefore, the FY2019 full-year forecasts for operating income, ordinary income and income attributable to owners of parent remain unchanged at ¥16,000 million, ¥16,000 million and ¥10,700 million, respectively.

The assumed exchange rates for the second half of FY2019 are 108 yen to the U.S. dollar and 120 yen to the euro.

(Consolidated Forecast for FY2019 by Product Segment)

	(Millions of yen)	
	FY2019 (forecast)	
	Amount	Growth rate (%)
Physiological Measuring Equipment	41,850	+ 2.6
Patient Monitors	64,500	+ 4.1
Treatment Equipment	34,750	+ 4.8
Other Medical Equipment	44,900	+ 4.7
Total	186,000	+ 4.0
Products	102,900	+ 3.3
Consumables and Services	83,100	+ 4.9
(Reference) Sales by Region		
Domestic Sales	134,500	+ 3.3
Overseas Sales	51,500	+ 6.0

7. Consolidated Financial Statements
(1) Consolidated Balance Sheets



(Millions of yen)

March 31, 2019 September 30, 2019

ASSETS		
Current assets:		
Cash and deposits	18,811	18,511
Notes and accounts receivable - trade	66,889	57,095
Securities	16,000	13,000
Merchandise and finished goods	20,892	21,893
Work in process	1,523	1,759
Raw materials and supplies	6,182	5,887
Other current assets	2,083	1,970
Allowance for doubtful accounts	-171	-338
Total current assets	132,211	119,780
Non-current assets:		
Property, plant and equipment	19,945	19,925
Intangible assets		
Goodwill	1,938	1,827
Other intangible assets	2,624	2,424
Total intangible assets	4,563	4,251
Investments and other assets		
Investment securities	5,235	5,422
Other investments and other assets	7,942	8,348
Allowance for doubtful accounts	-180	-171
Total investments and other assets	12,997	13,599
Total non-current assets	37,505	37,776
Total assets	169,717	157,556
LIABILITIES		
Current liabilities:		
Notes and accounts payable - trade	32,645	22,087
Short-term loans payable	406	373
Accrued income taxes	3,649	2,065
Provision for bonuses	3,098	2,535
Provision for product warranties	379	359
Provision for loss on litigation	285	—
Other current liabilities	7,880	7,198
Total current liabilities	48,346	34,618
Non-current liabilities:		
Net defined benefit liability	3,827	3,757
Other non-current liabilities	1,455	1,361
Total non-current liabilities	5,282	5,118
Total liabilities	53,629	39,737
NET ASSETS		
Shareholders' equity:		
Capital stock	7,544	7,544
Capital surplus	10,414	10,414
Retained earnings	102,397	104,808
Treasury shares	-6,991	-6,992
Total shareholders' equity	113,365	115,775
Accumulated other comprehensive income:		
Valuation difference on available-for-sale securities	1,758	1,485
Foreign currency translation adjustments	1,443	949
Remeasurements of defined benefit plans	-479	-390
Total accumulated other comprehensive income	2,722	2,043
Total net assets	116,087	117,818
Total liabilities and net assets	169,717	157,556

(2) Consolidated Statements of Income

	(Millions of yen)	
	Six months ended September 30, 2018	Six months ended September 30, 2019
Net sales	79,050	89,735
Cost of sales	40,400	46,381
Gross profit	38,649	43,354
Selling, general and administrative expenses	34,388	36,344
Operating income	4,260	7,009
Non-operating income		
Interest income	26	30
Dividend income	57	59
Foreign exchange gains	701	—
Subsidy income	205	55
Other, net	96	143
Total non-operating income	1,088	289
Non-operating expenses		
Interest expenses	5	5
Loss on valuation of investment securities	1	8
Foreign exchange losses	—	855
Other, net	70	94
Total non-operating expenses	78	964
Ordinary income	5,270	6,334
Extraordinary income		
Gain on sales of non-current assets	0	0
Gain on sales of investment securities	25	—
Total extraordinary income	25	0
Extraordinary losses		
Loss on sales of non-current assets	0	0
Loss on retirement of non-current assets	7	10
Demolition cost	—	133
Settlement package	—	440
Office transfer cost	—	85
Total extraordinary losses	8	669
Income before income taxes	5,288	5,665
Income taxes	1,372	1,722
Net income	3,916	3,943
Income attributable to owners of parent	3,916	3,943

(Consolidated Statements of Comprehensive Income)

	(Millions of yen)	
	Six months ended September 30, 2018	Six months ended September 30, 2019
Net income	3,916	3,943
Other comprehensive income		
Valuation difference on available-for-sale securities	1,191	-273
Foreign currency translation adjustment	-213	-494
Remeasurements of defined benefit plans, net of tax	-44	88
Total other comprehensive income	933	-679
Comprehensive income	4,849	3,264
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	4,849	3,264
Comprehensive income attributable to non-controlling interests	—	—