

Consolidated Financial Results for the 3rd Quarter of the Fiscal Year Ending March 31, 2025 (Japan GAAP)

NIHON KOHDEN CORPORATION (6849)

Stock Exchange Listing: Prime Market, Tokyo Stock Exchange
Head Office: Tokyo
Representative: Hirokazu Ogino, Representative Director, President and Chief Executive Officer
Contact: Fumio Izumida, Operating Officer, General Manager of Corporate Strategy Division
Phone: +81 / 3 - 5996 - 8003 (URL <https://www.nihonkohden.co.jp>)

(Amounts are rounded down to the nearest million yen)

1. Consolidated Financial Highlights for the 3rd Quarter of FY2024 (From April 1, 2024 to December 31, 2024)

(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	%
FY2024 3Q (9 months)	158,476	1.5	10,935	4.0	13,506	1.9	8,137	2.7
FY2023 3Q (9 months)	156,169	8.0	10,515	-7.6	13,258	-4.9	7,926	-10.5

Note: Comprehensive income: FY2024 3Q: 8,003 million yen (-18.1%) FY2023 3Q: 9,769 million yen (-15.1%)

	Net income per share - Basic	Net income per share - Diluted
	Yen	Yen
FY2024 3Q (9 months)	48.77	—
FY2023 3Q (9 months)	47.10	—

Note: Effective July 1, 2024, each share of common stock was split into two shares. Net income per share is calculated on the assumption that the stock split was implemented at the beginning of the fiscal year ended March 31, 2024.

(2) Consolidated Financial Conditions

	Total assets	Net assets	Equity ratio	Net assets per share
	Millions of yen	Millions of yen	%	Yen
As of December 31, 2024	246,286	177,694	72.1	1,078.59
As of March 31, 2024	233,233	181,082	77.6	1,079.20

Reference: Equity Capital: FY2024 3Q: 177,694 million yen FY2023 : 181,082 million yen

Note: Effective July 1, 2024, each share of common stock was split into two shares. Net assets per share is calculated on the assumption that the stock split was implemented at the beginning of the fiscal year ended March 31, 2024.

2. Dividends

	Dividends per share				
	First quarter	Interim (Second quarter)	Third quarter	Year-end	Full-year
	yen	yen	yen	yen	yen
FY2023	—	30.00	—	31.00	61.00
FY2024	—	15.00	—		
FY2024 (Forecast)				16.00	31.00

Note: Revise of dividends forecast: None

Note: Effective July 1, 2024, each share of common stock was split into two shares. For the fiscal year ended March 31, 2024, the actual dividend amount before the stock split is shown. For the fiscal year ending March 31, 2025 (forecast), the amount after the stock split is shown. Annual dividends per share for the fiscal year ending March 31, 2025 (forecast) without taking the stock split into account would be 62.00 yen.

3. Consolidated forecast for FY2024 (From April 1, 2024 to March 31, 2025)

	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	227,000	2.3	20,500	4.6	18,000	-29.7	12,000	-29.5	72.02

Note: Revise of consolidated forecast: None

Note: Effective July 1, 2024, each share of common stock was split into two shares. Basic earnings per share for the fiscal year ending March 31, 2025 are based on the amount taking into consideration the stock split. Basic earnings per share for the fiscal year ending March 31, 2025 without taking the stock split into account would be 144.04 yen for full year.

* Notes

(1) Significant changes in scope of consolidation during the period: Yes

Newly included: 3 companies (Nihon Kohden Vietnam Company Limited) (NeuroAdvanced Corp.)
(Ad-Tech Medical Instrument Corporation)

Excluded: — companies (—)

(2) Adoption of accounting treatment specific to the preparation of quarterly consolidated financial statements: Yes

Note: For details, please refer to "2. Consolidated Financial Statements and Primary Notes (4) Notes to Consolidated Financial Statements (Applying of Specific Accounting of the Consolidated Quarterly Financial Statements)" on page 10 of the attachment.

(3) Changes in accounting policies, changes in accounting estimates, and restatement

(i) Changes in accounting policies due to revisions to accounting standards and other regulations: None

(ii) Changes in accounting policies due to other reasons: None

(iii) Changes in accounting estimates: None

(iv) Restatement: None

(4) Number of issued shares (common shares)

(i) Total number of issued shares at the end of the period
(including treasury shares)

FY2024 3Q	170,961,960	shares
FY2023	176,461,960	shares

(ii) Number of treasury shares at the end of the period

FY2024 3Q	6,214,656	shares
FY2023	8,668,532	shares

(iii) Average number of shares outstanding during the period

FY2024 3Q	166,867,130	shares
FY2023 3Q	168,277,328	shares

Note: Effective July 1, 2024, each share of common stock was split into two shares. "Total number of issued shares at the end of the period", "Number of treasury shares at the end of the period", and "Average number of shares outstanding during the period" are calculated on the assumption that the stock split was implemented at the beginning of the fiscal year ended March 31, 2024.

* 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.

Content of Supplementary Materials

1. Qualitative Information on Financial Results for the Period	4
(1) Operating Results Analysis	4
(2) Financial Conditions Analysis	5
(3) Consolidated Financial Forecast for FY2024	5
2. Consolidated Financial Statements and Primary Notes	6
(1) Consolidated Balance Sheets	6
(2) Consolidated Statements of Income and Comprehensive Income	7
(3) Consolidated Statements of Cash Flows	9
(4) Notes to the Consolidated Financial Statements	10
(Assumption of Going Concern)	10
(Significant Changes in Shareholders' Equity)	10
(Applying of Specific Accounting of the Consolidated Quarterly Financial Statements)	10
(Segment Information)	11
(Business Combinations)	12
(Subsequent Event)	13

1. Qualitative Information on Financial Results for the Period

(1) Operating Results Analysis

During the term under review (April 1, 2024 to December 31, 2024), the global economic outlook remained uncertain due to higher geopolitical risks, while tight monetary policy eased in the U.S. and Europe. In Japan, each medical institution strove to implement task shifting and improve its operational efficiency, as work style reforms for medical staff took effect in April 2024 and medical treatment fees were revised in June 2024. However, business sentiment in medical institutions declined due to challenges in securing medical professionals. Internationally, hospital capital expenditure in China was still cautious due to the impact of the anti-corruption campaign and economic slowdown. In the U.S., hospital finance showed a trend of improvement as the number of testing and surgical procedures increased. Medical institutions both in Japan and internationally have promoted medical digital transformation, which includes data health, telemedicine, and utilization of AI and ICT, because they need to urgently improve the quality and efficiency of medical care.

Under these circumstances, Nihon Kohden implemented its Three-year Business Plan, BEACON 2030 Phase II, which started from FY2024. The Company aims to achieve targets for three indicators: growth, profitability, and capital efficiency, by conducting six key measures including “Enhance product competitiveness”, “Focus on growth of North America Business”, and “Implement the reform of the profit structure”.

Japan: Nihon Kohden concentrated on enhancing sales activities which match each market; the acute care hospital market, the small and mid-sized hospital market, and the clinic market. The Company also focused on its consumables and services business as well as strengthening its marketing and service capabilities, creating customer value which contributed to improving medical safety, patient outcomes, and operating efficiency. As a result of these initiatives, domestic sales increased. Sales of AEDs increased favorably in the PAD (public access defibrillation) market. Sales in the public hospital and clinic markets increased, while sales in the university market remained flat. Sales in the private hospital market decreased compared to the strong growth due to large orders in the same period of the previous fiscal year. Sales of Treatment Equipment increased favorably, especially for AEDs. Sales of Physiological Measuring Equipment increased, while sales of Patient Monitors remained flat. In Other Medical Equipment, sales of locally purchased products decreased as the Company focused on selling in-house products. As a result, domestic sales increased 2.6% over the nine months of FY2023 to ¥101,153 million.

International: Overseas sales decreased, due to lower sales in Asia & Other and Latin America, as well as the impact of a change in the fiscal term of Defibtech, LLC according to the reorganization of subsidiaries in the U.S. in the same period of the previous fiscal year. In North America, sales of patient monitors and ventilators achieved double-digit growth, while sales of AEDs decreased. Sales in Latin America decreased mainly in Costa Rica and Columbia compared to the strong performance in the same period of the previous fiscal year, while sales in Mexico increased favorably. Sales in Europe decreased, as sales of AEDs decreased mainly in the U.K. and Netherlands, while sales in Germany and Turkey increased. In Asia & Other, sales in China decreased. Sales in the Middle East & Africa also decreased compared to the strong growth due to large orders in Morocco in the same period of the previous fiscal year. Sales of Treatment Equipment and Physiological Measuring Equipment decreased, while sales of Patient Monitors and Other Medical Equipment increased. As a result, international sales decreased 0.4% over the nine months of FY2023 to ¥57,323 million.

As a result of the above, overall sales during the term under review increased 1.5% over the nine months of FY2023 to ¥158,476 million. Operating income increased 4.0% to ¥10,935 million, as gross profit margin increased due to favorable product mix in overseas sales of in-house products as well as favorable product mix in Japan. There was also a positive impact from the decrease in inventory devaluation and higher selling prices. Ordinary income increased 1.9% to ¥13,506 million and income attributable to owners of parent increased 2.7% to ¥8,137 million over the nine months of FY2023.

* In the previous fiscal year, Defibtech, LLC changed its fiscal term from end on December 31 to end on March 31, according to the reorganization of U.S. subsidiaries. In the nine months of FY2023 ended December 31, 2023, Nihon Kohden consolidated the twelve months of Defibtech’s operating results from January 1, 2023 to December 31, 2023.

Consolidated Sales Results by Product Category

(Millions of yen)

	Nine months ended December 31, 2024	
	Amount	Growth rate (%)
Physiological Measuring Equipment	32,953	- 0.2
Patient Monitors	60,579	+ 4.6
Treatment Equipment	37,538	- 1.9
Other Medical Equipment	27,405	+ 1.6
Total	158,476	+ 1.5
Products	77,046	- 1.6
Consumables and Services	81,430	+ 4.6

(Reference) Sales by Region

Domestic Sales	101,153	+ 2.6
Overseas Sales	57,323	- 0.4
North America	30,323	+ 14.2
Latin America	3,580	- 10.5
Europe	9,018	- 8.3
Asia & Other	14,400	- 16.2

(Operating Results by Reporting Segments)

Japan: Sales increased 2.1% to ¥101,898 million and segment income increased 9.8% to ¥13,739 million in the nine months of FY2024.

North America: Sales increased 5.3% to ¥32,218 million and segment loss was ¥875 million in the nine months of FY2024 (Segment loss of ¥1,689 million in the nine months of FY2023).

Rest of World: Sales decreased 5.5% to ¥24,359 million and segment income decreased 56.8% to ¥456 million in the nine months of FY2024.

(2) Financial Conditions Analysis

(i) Financial Position

Total assets at the end of the current fiscal period increased ¥13,052 million compared to the end of the previous fiscal year to ¥246,286 million.

Current assets decreased by ¥7,798 million to ¥176,535 million compared with the end of the previous fiscal year. This was mainly due to a decrease in notes and accounts receivable as a result of progress in the collection of receivables from the end of the previous fiscal year, while a increase in inventory for the consolidation of NeuroAdvanced Corp.

Fixed assets increased by ¥20,850 million to ¥69,750 million compared with the end of the previous fiscal year. This was mainly due to an increase in goodwill from the acquisition of NeuroAdvanced Corp., an increase in deferred tax assets, and an increase in construction in progress for a new plant at Tsurugashima.

Total liabilities at the end of the current fiscal period increased by ¥16,440 million compared to the end of the previous fiscal year to ¥68,591 million. This was mainly due to an increase in short-term loans payable for the acquisition of NeuroAdvanced Corp. shares, while a decrease in notes and account payable and accrued income taxes.

Total net assets at the end of the current fiscal period decreased by ¥3,388 million compared to the end of the previous fiscal year to ¥177,694 million. This was mainly due to a decrease in retained earnings.

As a result, net assets per share decreased by ¥0.61 to ¥1,078.59 and the equity ratio decreased by 5.5 percentage points from 77.6% at the end of the previous fiscal year to 72.1%.

Note: Effective July 1, 2024, each share of common stock was split into two shares. Net assets per share is calculated on the assumption that the stock split was implemented at the beginning of the fiscal year ended March 31, 2024.

(ii) Cash Flows

Cash and cash equivalents (hereinafter referred to as “funds”) on a consolidated basis at the end of the current fiscal year decreased by ¥11,818 million compared with the end of the previous fiscal year to ¥38,058 million.

The status of each cash flow and their factors in the current fiscal year are as follows.

(Cash flows from operating activities)

Funds obtained by operating activities decreased ¥1,476 million year-on-year to ¥6,291 million. This is mainly due to income before income taxes of ¥13,274 million, a decrease in trade receivables of ¥10,014 million, a decrease in trade payables of ¥3,025 million, a decrease in provision of ¥1,948 million, income taxes paid of ¥9,654 million.

(Cash flows from investing activities)

Funds used as a result of investment activities increased by ¥20,015 million year-on-year to ¥23,233 million. This is mainly due to the acquisition of property, plant and equipment of ¥3,518 million, the acquisition of intangible assets of ¥1,032 million, purchase of shares of subsidiaries resulting in change in scope of consolidation of ¥18,869 million (Payment for acquisition consideration: ¥15,995 million, repayment of borrowings of newly consolidated subsidiaries due to the acquisition: ¥3,236 million, increase in cash and cash equivalents of newly consolidated subsidiaries: ¥362 million).

(Cash flows from financing activities)

Funds obtained in financing activities by ¥4,585 million (paid of ¥5,965 million in the same period of the previous fiscal year). This is mainly due to an increase of short-term loans payable ¥25,290 million, purchase of treasury shares ¥6,359 million, cash dividends paid of ¥5,093 million, an increase of deposit paid ¥7,687 million.

(3) Consolidated Forecast for FY2024

The Company reaffirms its forecast for FY2024, previously announced on November 7, 2024.

The assumed exchange rates for the fourth quarter of FY2024 are 152 yen to the U.S. dollar and 164 yen to the euro.

(Consolidated Forecast for FY2024 by Product Category)

(Millions of yen)

	FY2024 (forecast)	
	Amount	Growth rate (%)
Physiological Measuring Equipment	46,900	+ 0.8
Patient Monitors	86,900	+ 3.3
Treatment Equipment	53,200	+ 3.0
Other Medical Equipment	40,000	+ 0.8
Total	227,000	+ 2.3
Products	114,700	- 0.8
Consumables and Services	112,300	+ 5.6
(Reference) Sales by Region		
Domestic Sales	147,000	+ 3.3
Overseas Sales	80,000	+ 0.5
North America	40,400	+ 9.0
Latin America	5,200	- 13.9
Europe	12,000	- 8.4
Asia & Other	22,400	- 4.3

2. Consolidated Financial Statements and Notes
(1) Consolidated Balance Sheets

(Millions of yen)

	March 31, 2024	December 31, 2024
ASSETS		
Current assets:		
Cash and deposits	36,132	29,018
Notes and accounts receivable - trade	71,759	62,509
Securities	14,300	9,500
Merchandise and finished goods	33,223	34,618
Work in process	3,258	5,581
Raw materials and supplies	21,305	20,793
Other current assets	4,865	14,986
Allowance for doubtful accounts	-511	-473
Total current assets	184,333	176,535
Non-current assets:		
Property, plant and equipment	25,418	26,648
Intangible assets		
Goodwill	893	18,294
Other intangible assets	3,958	4,724
Total intangible assets	4,852	23,019
Investments and other assets		
Investment securities	7,283	6,685
Assets related to retirement benefits	5,970	5,997
Other investments and other assets	5,510	7,532
Allowance for doubtful accounts	-134	-132
Total investments and other assets	18,628	20,083
Total non-current assets	48,899	69,750
Total assets	233,233	246,286
LIABILITIES		
Current liabilities:		
Notes and accounts payable - trade	20,143	17,968
Short-term loans payable	579	25,957
Accrued income taxes	5,597	2,119
Provision for bonuses	4,242	2,269
Provision for product warranties	1,648	1,806
Other current liabilities	17,690	16,206
Total current liabilities	49,901	66,327
Non-current liabilities:		
(¹ Other non-current liabilities)	2,249	2,263
Total non-current liabilities	2,249	2,263
Total liabilities	52,151	68,591
NET ASSETS		
Shareholders' equity:		
Capital stock	7,544	7,544
Capital surplus	9,718	9,663
Retained earnings	163,578	160,210
Treasury shares	-10,233	-10,065
Total shareholders' equity	170,608	167,353
Accumulated other comprehensive income:		
Valuation difference on available-for-sale securities	2,796	2,391
Foreign currency translation adjustments	5,772	6,571
Remeasurements of defined benefit plans	1,905	1,378
Total accumulated other comprehensive income	10,474	10,340
Total net assets	181,082	177,694
Total liabilities and net assets	233,233	246,286

(2) Consolidated Statements of Income

(Millions of yen)

	Nine months ended December 31, 2023	Nine months ended December 31, 2024
Net sales	156,169	158,476
Cost of sales	77,886	76,044
Gross profit	78,282	82,431
Selling, general and administrative expenses	67,767	71,496
Operating income	10,515	10,935
Non-operating income		
Interest income	169	247
Dividend income	116	129
Foreign exchange gains	2,354	2,052
Subsidy income	147	126
Other, net	167	234
Total non-operating income	2,954	2,792
Non-operating expenses		
Interest expenses	8	51
Loss on valuation of investment securities	85	40
Other, net	117	128
Total non-operating expenses	211	220
Ordinary income	13,258	13,506
Extraordinary income		
Gain on sales of non-current assets	3	1
Gain on sales of investment securities	1	—
Total extraordinary income	5	1
Extraordinary losses		
Loss on sales of non-current assets	0	5
Loss on retirement of non-current assets	8	46
Business restructuring costs	—	182
Total extraordinary losses	8	233
Income before income taxes	13,255	13,274
Income taxes	5,329	5,136
Net income	7,926	8,137
Income attributable to owners of parent	7,926	8,137

(Consolidated Statements of Comprehensive Income)

(Millions of yen)

	Nine months ended December 31, 2023	Nine months ended December 31, 2024
Net income	7,926	8,137
Other comprehensive income		
Valuation difference on available-for-sale securities	240	-404
Foreign currency translation adjustment	1,775	798
Remeasurements of defined benefit plans, net of tax	-172	-527
Total other comprehensive income	1,843	-133
Comprehensive income	9,769	8,003
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	9,769	8,003
Comprehensive income attributable to non-controlling interests	—	—

(3) Consolidated Statements of Cash Flows

(Millions of yen)

	Nine months ended December 31, 2023	Nine months ended December 31, 2024
Cash flows from operating activities		
Income before income taxes	13,255	13,274
Depreciation and amortization	2,649	2,959
Increase (decrease) in provision	-1,804	-1,948
Increase (decrease) in net defined benefit asset or liability	-566	-787
Interest and dividend income	-285	-377
Interest expenses	8	51
Foreign exchange losses (gains)	-1,746	-751
Loss (gain) on sales and retirement of property, plant and equipment	4	49
Decrease (increase) in notes and accounts receivable - trade	9,389	10,014
Decrease (increase) in inventories	-2,498	-1,184
Increase (decrease) in notes and accounts payable - trade	-5,702	-3,025
Other, net	1,301	-2,458
Subtotal	14,003	15,817
Interest and dividend income received	280	252
Interest expenses paid	-12	-122
Income taxes paid	-6,503	-9,654
Net cash flows from operating activities	7,768	6,291
Cash flows from investing activities		
Proceeds from sales of investment securities	2	9
Expenditures from the acquisition of investment securities	-65	-35
Proceeds from sales of property, plant and equipment	5	-0
Purchase of property, plant and equipment	-2,658	-3,518
Purchase of intangible assets	-622	-1,032
Purchase of shares of subsidiaries resulting in change in scope of consolidation	—	-18,869
Other, net	120	213
Net cash flows from investing activities	-3,217	-23,233
Cash flows from financing activities		
Net increase (decrease) in short-term loans payable	25	25,290
Purchase of treasury shares	-0	-6,359
Decrease (increase) in deposit paid for purchase of treasury shares	—	-1,536
Cash dividends paid	-5,964	-5,093
Repayments of lease obligations	-25	-28
Decrease (increase) in deposit paid	—	-7,687
Net cash flows from financing activities	-5,965	4,585
Effect of exchange rate change on cash and cash equivalents	1,562	536
Net increase (decrease) in cash and cash equivalents	148	-11,818
Cash and cash equivalents at beginning of period	43,988	49,877
Cash and cash equivalents at end of period	44,136	38,058

(4) Notes to the Consolidated Financial Statements

(Assumption of Going Concern)

Not applicable.

(Significant Changes in Shareholders' Equity)

(Acquisition of Own Shares)

Board of Directors of the Company held on May 13, 2024 has resolved to acquire its own shares pursuant the provisions of Article 156 of the Companies Act, as applied by replacing the relevant terms pursuant to the provisions of Article 165, paragraph (3) of the same Act, and acquisition of own shares of 3,074,800 shares. As a result, treasury shares at the end of the current fiscal period increased by ¥6,357 million.

(Cancellation of Treasury Shares)

Board of Directors of the Company held on May 13, 2024 has resolved to cancel treasury shares pursuant to Article 178 of the Companies Act, and conduct to cancel treasury shares of 5,500,000 shares, ¥6,493 million on July 19, 2024. As a result, capital surplus decreased by ¥55 million, retained earnings decreased by ¥6,438 million, and treasury shares decreased by ¥6,493 million at the end of the current fiscal period.

As a result, capital surplus amounted to ¥9,663 million, retained earnings amounted to ¥160,210 million, and treasury shares amounted to ¥10,065 million at the end of the current fiscal period.

(Applying of Specific Accounting of the Consolidated Quarterly Financial Statements)

(Method of Calculating Income Tax)

Income tax amount is calculated principally by multiplying reasonably estimated annual effective tax rate through the third quarter ended December 31, 2024, with the effects of deferred taxes reflected, by the amount of year-to-date income before income taxes.

Nine months ended December 31, 2023

	Reporting Segment			Total	Adjustment (Note 2)	Amount on quarterly consolidated financial statement (Note 3)
	Japan	North America	Rest of World			
Sales						
Revenue arising from contract with customers	99,782	30,598	25,788	156,169	—	156,169
Other revenue	—	—	—	—	—	—
Net sales to external customers	99,782	30,598	25,788	156,169	—	156,169
Intersegment sales	19,771	1,279	896	21,947	- 21,947	—
Total sales	119,553	31,878	26,684	178,116	- 21,947	156,169
Segment income (loss)	12,517	- 1,689	1,055	11,883	- 1,368	10,515

(Notes)

1. The amounts are aggregated by region, based on the location of the Company or its consolidated subsidiaries.
2. Segment income (loss) adjustments of negative ¥1,368 million include negative ¥1,099 million for the unrealized gains on inventories and negative ¥274 million for amortization of goodwill and intangible asset.
3. Segment income (loss) is adjusted to coincide with operating income in the Consolidated Statement of Income.

Nine months ended December 31, 2024

	Reporting Segment			Total	Adjustment (Note 2)	Amount on quarterly consolidated financial statement (Note 3)
	Japan	North America	Rest of World			
Sales						
Revenue arising from contract with customers	101,898	32,218	24,359	158,476	—	158,476
Other revenue	—	—	—	—	—	—
Net sales to external customers	101,898	32,218	24,359	158,476	—	158,476
Intersegment sales	22,508	2,007	543	25,058	- 25,058	—
Total sales	124,406	34,225	24,903	183,535	- 25,058	158,476
Segment income (loss)	ent Corporation)	- 875	456	13,320	- 2,384	10,935

(Notes)

1. The amounts are aggregated by region, based on the location of the Company or its consolidated subsidiaries.
2. Segment income (loss) adjustments of negative ¥2,384 million include negative ¥2,160 million for the unrealized gains on inventories and negative ¥242 million for amortization of goodwill and intangible asset.
3. Segment income (loss) is adjusted to coincide with operating income in the Consolidated Statement of Income.

(Business Combinations)

(Business combination through Acquisition)

Board of Directors of the Company held on September 12, 2024 the Company resolved to acquire 71.4% shares of NeuroAdvanced Corp. (“NAC”), which is the parent company of Ad-Tech Medical Instrument Corporation (“Ad-Tech”) in the U.S. The Company concluded a stock purchase agreement with NeuroNewCo, LP (“NNC-LP”), a fund that owns 100% shares of NAC, on the same day. As a result of the completion of the acquisition of 71.4% of the shares on November 9, 2024, NAC and Ad-Tech, as well as the two special purpose companies (SPCs) between the two companies, became consolidated subsidiaries of the Company.

(1) Outline of business combination

1) Name of acquired company and its business description

Name of acquired company: NeuroAdvanced Corp.

Business description: Holding company of companies that are engaged in R&D, production, and sales of medical equipment

2) Main reasons for the business combination

Nihon Kohden aims to create a better future for people and healthcare by solving global medical issues in its Long-term Vision, BEACON 2030. In its Three-year Business Plan, BEACON 2030 Phase II, starting from April 2024, the Company focuses on enhancing product competitiveness and expanding consumables and services business. In North America, the Company also aims to grow its business by prioritizing allocation of resources.

Since its founding in 1951, Nihon Kohden has continued R&D, production, and sales of EEGs used for the examination and diagnosis of brain diseases such as epilepsy, resulting in gaining a high reputation and market share globally. Ad-Tech has also continued R&D, production, and sales of intracranial electrodes such as depth electrodes and subdural electrodes, which are used for surgical treatment of drug-resistant epilepsy, since its founding in 1983. They have gained an excellent reputation among neurosurgeons in 60 or more countries around the world. For more than 30 years, Nihon Kohden has provided Ad-Tech products with exclusive distribution rights to medical institutions in Japan.

Both Nihon Kohden and NNC-LP reached an agreement on this transaction because there is a high affinity between the Company’s neurology products and Ad-Tech’s intracranial electrodes, and because the Company expects to further strengthen its core human machine interface (HMI) technology by acquiring Ad-Tech’s know-how for technology and production of consumables used in invasive testing and treatment. The Company also expects that the expansion of its consumable portfolio will lead to a stable and consistent revenue base and growth.

Globally, it is estimated that there are 50 million patients with epilepsy, of which patients with drug-resistant are 15 million and surgical treatment is required for 5 million patients. In the U.S., as cutting-edge research on diagnosis and treatment of epilepsy is conducted, Nihon Kohden will strengthen collaboration with not only Ad-Tech but also medical institutions and research institutions. Nihon Kohden aims to provide the optimal care cycle solution for each patient, from examination, diagnosis, and treatment to prognosis in neurology area.

3) Date of the business combination

November 9, 2024

4) Legal form of the business combination

Acquisition of shares for cash

5) Name of the company after combination

No change

6) Ratio of voting rights acquired

71.4%

7) Main reason for determining the acquiring company

The Company acquired the shares for cash.

(2) Period of the acquired company's results included in the consolidated financial statements

Since the deemed acquisition date is December 31, 2024, only the balance sheet is consolidated and the consolidated statement of income for the current fiscal year does not include the results of the acquired company.

(3) Acquisition cost of the acquired company and breakdown by type of consideration

Consideration for acquisition: Cash ¥16,000 million (estimated amount)

Acquisition cost: ¥16,000 million (estimated amount)

(4) Description and amount of major acquisition-related expenses

Fees and commissions for advisory services ¥150 million (estimated amount)

(5) Details of the contingent consideration stipulated in the business combination agreement and future accounting policy

1) Details of contingent consideration

The Company has adopted a clause to pay an additional amount depending on certain conditions, such as the level of performance of the acquired company after the acquisition, which has not been finalized at this time.

2) Future accounting treatment

In the event of additional payment of contingent consideration, the acquisition cost is adjusted as if it had occurred at the time of acquisition, and the amount of goodwill and amortization of goodwill are adjusted as if they had occurred at the time of acquisition.

(6) Amount, causes, amortization method and amortization period of goodwill incurred

1) Amount of goodwill incurred

¥17,469 million

The amount of goodwill is tentatively calculated since the allocation of the acquisition cost has not been completed as of the end of the third quarter of the current fiscal year.

2) Causes of goodwill incurred

Since the cost of acquisition exceeded the net amount of assets acquired and liabilities assumed, the excess amount was recorded as goodwill.

3) Amortization method and amortization period of goodwill incurred

Nothing is confirmed at this time

(7) Amounts of assets acquired and liabilities assumed on the date of combination and major breakdown

Nothing is confirmed at this time

(Subsequent Event)

Not applicable.