

## FY2015 consolidated financial results analyst meeting

### Main Questions and Answers

(May 16, 2016)

**Q1: In FY2015, domestic sales declined in the second quarter (three months), then sales in universities and public hospitals recovered. As a result, annual sales in Japan were almost flat compared to the previous fiscal year. In the presentation, it was explained that the market environment is becoming stable. If this market environment continues, is it achievable to increase domestic sales by 4% in FY2016 or is it still a challenging target?**

A1: In the second half, domestic sales increased 2.9% due to the recovery of capital investment in universities and our sales strategy focused on universities and GP\* market. The current market environment is expected to continue after the medical service fee revision in April, 2016. In addition, we believe reorganization to divide our domestic sales operation into hospital sales and GP sales in accordance with the market environment will contribute to sales increase. 4% sales growth is still challenging but achievable.

\* GP: General Practitioner

**Q2: Consumables and services sales ratio was 40.9%, up 2.7% points from the previous fiscal year. However, consumables include third-party products such as ablation catheters. What is the break down of the sales growth by region? What are the growth factors for consumables and services sales in overseas?**

A2: In Japan, in-house consumables increased and sales of third-party products such as catheter also increased in accordance with the increase of patients due to the aging population. We expect this trend will continue in FY2016. Overseas, sales increased because the installed base of medical devices grew rapidly and we took initiatives to expand in-house consumables sales.

**Q3: I suppose FY2016 overseas sales growth forecast will be 20% on a local currency basis. How will you achieve that?**

A3: In the second half of FY2015, growth of overseas sales slowed down because of the influence of stopping of budget spending due to weak local currencies and low oil prices in some emerging countries. This influence is getting smaller and we expect the demand in emerging countries to be steady. In addition, our overseas sales organization has been strengthened and our product portfolio has been expanded in the past few years. We think double-digit growth, 20 percent growth, is attainable in this environment. Among them, our business in the United States has been robust due to the reorganization of sales operations and the strengthening of ties with GPO/IDN. We expect our U.S. business to continue to lead the growth of overseas business in FY2016.

**Q4: What will be the impact of goodwill amortization if IFRS is introduced?**

A4: The introduction of IFRS is still under consideration. If introduced, it will have a minor impact. Goodwill related to the acquisition of Defibtech LLC in the U.S. is amortized which is several hundred million yen annually.

**Q5: Does the consumables sales increase in proportion to the installed base of medical devices? I suppose that the proportion of sensors in consumables is large. Which medical devices lead to sales of sensors? In addition, what is the consumables sales amount per device?**

A5: Sales of SpO<sub>2</sub> sensors and CO<sub>2</sub> sensors increase in proportion to the installed base of patient monitors. Therefore we think expansion of the global market share of patient monitors is directly linked to the strengthening of the consumables business. The sales amount of consumables per patient monitor depends on the situation. Frequency of use is different between developed countries and emerging countries, also between acute care and chronic care in Japan. We are able to increase the usage of consumables per device by adding new parameters or providing disposable consumables.

**Q6: I think that the demand for medical equipment will vary greatly depending on the progress of the integrated community care system which the Japanese government is promoting. For example, we can imagine a linkage of ICT and medical devices, or care services for dementia in collaboration with the local government. What is the status of the research and development system for those issues?**

A6: Integrated community care system is not only an important issue for the country but also a new business opportunity for us. Networks between hospitals and hospitals, and between hospitals and clinics by ICT is becoming important. As we already have a solid share in the acute care market, we are now strengthening development of IT solutions for medium to small hospitals and clinics. In addition, as a new business, we launched SUKOYAK®, a remote care system for the elderly. This service is designed to create a safe place for elderly people to live alone in peace. In the future, we hope to contribute to integrated healthcare networks of homecare, clinics and hospitals.

**Q7: In FY2016, R&D expenses are planned to be increased and the company will take on the challenge of developing anesthesia devices and ventilators. What is the technical strength of the company and the expected synergy?**

A7: Our strength is sensor technology and parameters technology. We think we can provide clinical value such as effective medical care and patient monitoring that other companies cannot provide, by integrating our unique parameters with the anesthesia devices and ventilators.

**Q8: What is the most important thing for the expansion of overseas consumables business? Is it price? In addition, which consumable is planned to be increased, existing parameters' one or new parameters' one?**

A8: Cost reduction and the supply system are the most important things. We are promoting production automation in the Tomioka 2<sup>nd</sup> plant and local production of IVD reagents. In addition, we are striving to appeal to customers with the high clinical value of our consumables that come from our unique sensor technologies. We will reduce the cost of consumables to ensure a price that is acceptable to customers, although we don't think price is a key factor. The main driver of growth is existing parameters' one such as SpO<sub>2</sub>, CO<sub>2</sub> and NIBP.

(End)

(Cautionary Statement)

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