

[Summary] Consolidated Financial Results for the 2nd 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 2nd Quarter of FY2016 (From April 1, 2016 to September 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 2Q (6 months)	74,463	1.3	3,834	-9.1	2,689	-38.9	1,683	-33.1
FY2015 2Q (6 months)	73,498	2.0	4,219	-23.3	4,401	-27.8	2,516	-39.0

Note: Comprehensive income: FY2016 2Q: -499 million yen (—%) FY2015 2Q: 2,102 million yen (-48.5%)

	Net income per share - Basic	Net income per share - Diluted
	Yen	Yen
FY2016 2Q (6 months)	19.65	—
FY2015 2Q (6 months)	28.79	—

(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, 2016	133,485	95,628	71.6	1,116.41
As of March 31, 2016	144,270	97,671	67.7	1,140.25

Reference: Equity Capital: FY2016 2Q: 95,628 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	—	17.00			
FY2016 (Forecast)			—	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	
Full year	170,500	3.0	17,000	3.4	16,000	-0.7	10,700	1.7	124.92	

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 September 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 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. Consumables and services also contributed to sales increase. Sales in the private hospital and clinic market showed strong growth. Sales in the university and public hospital market also increased. Sales of Patient Monitors increased favorably, reflecting demand for differentiating and strengthening medical institution functions. New product introductions also contributed to sales increase. Sales of Physiological Measuring Equipment and Other Medical Equipment increased, while sales of Treatment Equipment slightly decreased due to slow replacement demand of AEDs. As a result, domestic sales increased 4.9% over the first half of FY2015 to ¥55,876 million.

International: Sales in all areas and all product categories decreased due to a negative currency translation impact. As the Company strengthened its international business structure, sales in the Americas and Asia increased on a comparable basis. In the Americas, sales in the U.S. increased on a comparable basis, posting especially strong growth in Patient Monitors, and decreased on a yen basis due to yen appreciation. Sales in Latin America decreased partly due to 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 increased on a comparable basis and decreased on a yen basis. Sales in Southeast Asia and South Korea increased favorably. Sales in oil producing countries in the Middle East decreased due to negative effects of lower oil prices. As a result, international sales decreased 8.0% over the first half of FY2015 to ¥18,586 million.

Overall sales during the term under review increased 1.3% over the first half of FY2015 to ¥74,463 million. Operating income decreased 9.1% to ¥3,834 million as gross margin ratio was lower than the first half of FY2015 mainly due to provision for product voluntary field corrective action expenses. Increase in SG&A expenses such as R&D expenses and personnel expenses were also affected. Ordinary income decreased 38.9% to ¥2,689 million and income attributable to owners of parent decreased 33.1% to ¥1,683 million over the first half of FY2015, reflecting foreign exchange losses.

*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)	
	Six months ended September 30, 2016	
	Amount	Growth rate (%)
Physiological Measuring Equipment	17,302	-1.8
Patient Monitors	24,667	+3.6
Treatment Equipment	14,233	-2.8
Other Medical Equipment	18,258	+4.7
Total	74,463	+1.3
Domestic Sales	55,876	+4.9
Overseas Sales	18,586	-8.0
(Reference) Overseas Sales		
Americas	8,033	-8.0
Europe	3,092	-16.4
Asia	6,360	-5.3
Other	1,100	+3.6

6. Consolidated Forecast for FY2016

Based on recent performance trends and future outlook, the Company revised its forecasts for FY2016, previously announced on May 10, 2016. The Company has revised its domestic sales forecast to ¥126,300 million (down ¥700 million from its previous forecast) due to slow replacement demand of AEDs. The Company has revised its overseas sales forecast to ¥44,200 million (down ¥3,800 million from its previous forecast) as greater-than expected appreciation of the yen in currency translation. This is also because sales in Europe and China are expected to recover in the second half of FY2016, but not enough to meet the Company's expectation. Overall sales forecast for FY2016 is ¥170,500 million, down ¥4,500 million from its previous forecast. The Company intends to improve profitability by restraining the growth of expenditures, but operating income forecast for FY2016 is ¥17,000 million, down ¥500 million from its previous forecast, because sales are expected to be lower than the previous forecast. Ordinary income and income attributable to owners of parent for FY2016 are expected to be ¥16,000 million (down ¥1,500 million from its previous forecast) and ¥10,700 million (down ¥800 million from its previous forecast) respectively, reflecting foreign exchange losses.

The Company's forecast for the second half of FY2016 is based on an exchange rate of 101 yen to the dollar and 113 yen to the euro. The forecast for FY2016 is based on an exchange rate of 104 yen to the dollar and 116 yen to the euro.

(Consolidated Forecast for FY2016 by Product Category)

	(Millions of yen)	
	FY2016 (Forecast)	
	Amount	Growth rate (%)
Physiological Measuring Equipment	39,600	+1.0
Patient Monitors	57,900	+5.6
Treatment Equipment	30,700	+0.3
Other Medical Equipment	42,300	+3.5
Total	170,500	+3.0
Domestic Sales	126,300	+3.5
Overseas Sales	44,200	+1.5

7. Consolidated Financial Statements

(1) Consolidated Balance Sheets

(Millions of yen)

	March 31, 2016	September 30, 2016
ASSETS		
Current assets:		
Cash and deposits	16,422	15,527
Notes and accounts receivable - trade	59,338	46,976
Securities	11,000	11,000
Merchandise and finished goods	14,519	15,192
Work in process	1,399	1,577
Raw materials and supplies	3,758	3,676
Other current assets	6,706	6,270
Allowance for doubtful accounts	-213	-133
Total current assets	112,929	100,087
Non-current assets:		
Property, plant and equipment	15,695	18,974
Intangible assets		
Goodwill	2,392	2,078
Other intangible assets	3,799	3,312
Total intangible assets	6,192	5,390
Investments and other assets		
Investment securities	6,149	5,681
Other investments and other assets	3,483	3,517
Allowance for doubtful accounts	-179	-166
Total investments and other assets	9,453	9,032
Total non-current assets	31,340	33,397
Total assets	144,270	133,485
LIABILITIES		
Current liabilities:		
Notes and accounts payable - trade	29,726	23,310
Short-term loans payable	1,174	998
Accrued income taxes	2,030	382
Provision for bonuses	2,860	2,301
Provision for product warranties	299	564
Other current liabilities	6,810	5,682
Total current liabilities	42,901	33,240
Non-current liabilities:		
Net defined benefit liability	3,164	3,294
Long-term accounts payable - other	24	23
Other non-current liabilities	507	1,298
Total non-current liabilities	3,697	4,615
Total liabilities	46,599	37,856
NET ASSETS		
Shareholders' equity:		
Capital stock	7,544	7,544
Capital surplus	10,414	10,414
Retained earnings	83,833	83,975
Treasury shares	-7,472	-7,473
Total shareholders' equity	94,321	94,461
Accumulated other comprehensive income:		
Valuation difference on available-for-sale securities	2,036	1,628
Foreign currency translation adjustment	2,559	554
Remeasurements of defined benefit plans	-1,245	-1,015
Total accumulated other comprehensive income	3,350	1,167
Total net assets	97,671	95,628
Total liabilities and net assets	144,270	133,485

(2) Consolidated Statements of Income

(Millions of yen)

	Six months ended September 30, 2015	Six months ended September 30, 2016
Net sales	73,498	74,463
Cost of sales	38,016	38,660
Gross profit	35,482	35,802
Selling, general and administrative expenses	31,262	31,968
Operating income	4,219	3,834
Non-operating income		
Interest income	19	11
Dividend income	59	57
Subsidy income	113	133
Reversal of allowance for doubtful accounts	20	70
Other, net	125	177
Total non-operating income	339	450
Non-operating expenses		
Interest expenses	29	40
Foreign exchange losses	78	1,510
Other, net	49	44
Total non-operating expenses	158	1,595
Ordinary income	4,401	2,689
Extraordinary income		
Gain on sales of non-current assets	1	0
Total extraordinary income	1	0
Extraordinary loss		
Loss on sales of non-current assets	5	—
Loss on retirement of non-current assets	16	4
Factory transfer cost	128	—
Office transfer cost	—	68
Total extraordinary loss	150	73
Income before income taxes and non-controlling interests	4,251	2,616
Income taxes	1,720	932
Net income	2,531	1,683
Income attributable to non-controlling interests	14	—
Income attributable to owners of parent	2,516	1,683

(Consolidated Statements of Comprehensive Income)

(Millions of yen)

	Six months ended September 30, 2015	Six months ended September 30, 2016
Net income	2,531	1,683
Other comprehensive income		
Valuation difference on available-for-sale securities	-487	-407
Foreign currency translation adjustment	153	-2,004
Remeasurements of defined benefit plans	-93	229
Total other comprehensive income	-428	-2,182
Comprehensive income	2,102	-499
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	2,092	-499
Comprehensive income attributable to non-controlling interests	10	—