

[Summary] Consolidated Financial Results for the 3rd 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 3rd Quarter of FY2016 (From April 1, 2016 to December 31, 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 3Q (9 months)	110,619	-0.9	5,302	-26.8	6,046	-20.3	3,825	-17.8
FY2015 3Q (9 months)	111,654	3.1	7,247	-13.1	7,588	-24.4	4,650	-30.7

Note: Comprehensive income: FY2016 3Q: 2,466 million yen (-45.2%) FY2015 3Q: 4,498 million yen (-43.1%)

	Net income per share - Basic	Net income per share - Diluted
	Yen	Yen
FY2016 3Q (9 months)	44.66	—
FY2015 3Q (9 months)	53.15	—

(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, 2016	136,544	97,137	71.1	1,134.03
As of March 31, 2016	144,270	97,671	67.7	1,140.25

Reference: Equity Capital: FY2016 3Q: 97,137 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	168,000	1.5	15,500	-5.7	16,000	-0.7	10,300	-2.1	120.25

Note: Revision 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 December 31, 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 public hospital market also increased. Sales of Patient Monitors increased favorably, reflecting demand for differentiating and strengthening medical institution functions. Consumables such as sensors also contributed to sales increase. Sales of Physiological Measuring Equipment and Other Medical Equipment increased, while sales of Treatment Equipment decreased due to slow replacement demand of AEDs. As a result, domestic sales increased 2.4% over the nine months of FY2015 to ¥83,011 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 solid growth in Patient Monitors and Physiological Measuring Equipment, and decreased on a yen basis due to yen appreciation. Sales in Latin America decreased due to change in distribution channels with reorganization of the Company's sales subsidiaries in Latin America*. Sales in Europe decreased, especially in Germany, although orders improved from the third quarter. In Asia, sales increased on a comparable basis and decreased on a yen basis. Sales in Southeast Asia and India 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 9.7% over the nine months of FY2015 to ¥27,607 million.

Overall sales during the term under review decreased 0.9% over the nine months of FY2015 to ¥110,619 million. Operating income decreased 26.8% to ¥5,302 million due to sales decrease, and also due to increase in SG&A expenses such as R&D expenses and enhancement of human resources. Ordinary income decreased 20.3% to ¥6,046 million and income attributable to owners of parent decreased 17.8% to ¥3,825 million over the nine months of FY2015.

*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)	
	Nine months ended December 31, 2016	
	Amount	Growth rate (%)
Physiological Measuring Equipment	26,006	- 1.7
Patient Monitors	37,232	- 0.1
Treatment Equipment	20,948	- 5.5
Other Medical Equipment	26,431	+ 2.6
Total	110,619	- 0.9
Domestic Sales	83,011	+ 2.4
Overseas Sales	27,607	- 9.7
(Reference) Overseas Sales		
Americas	12,169	- 9.0
Europe	5,122	- 15.0
Asia	8,964	- 7.8
Other	1,351	- 6.2

6. Consolidated Forecast for FY2016

Based on recent performance trends and future outlook, the Company revised its forecasts for FY2016, previously announced on November 4, 2016.

In Japan, budget executions of universities and public hospitals are usually concentrated at the end of the fiscal year. The number of large orders from these hospitals is expected to be less than the previous fiscal year. There were some postponements of and restraints on their spending from the second half of FY2016. Considering these circumstances, the Company has revised its domestic sales forecast to ¥124,000 million (down ¥2,300 million from its previous forecast). The Company will continue to expand sales of consumables and services and increase its presence in acute care hospitals. The Company will also enhance business activities in small and mid-sized hospitals as well as clinics where stable demand is expected. The Company has revised its overseas sales forecast to ¥44,000 million (down ¥200 million from its previous forecast) based on newly assumed exchange rates and business trends in each region. Sales in the Americas are expected to be in line with estimates while sales in Europe are expected to be lower than the Company's expectation due to weak sales recovery in Germany. Sales in Asia will be negatively impacted by the political unrest in South Korea and the abolition of high-value rupee notes in India. Overall sales forecast for FY2016 is ¥168,000 million, down ¥2,500 million from its previous forecast.

The Company intends to improve profitability by restraining the growth of expenditures, but operating income forecast for FY2016 is ¥15,500 million, down ¥1,500 million from its previous forecast, because sales are expected to be lower than the previous forecast. Ordinary income is expected to be ¥16,000 million as same as its previous forecast, reflecting foreign exchange gains. Income attributable to owners of parent is expected to be ¥10,300 million (down ¥400 million from its previous forecast), reflecting extraordinary losses such as office transfer cost in the fourth quarter.

The Company's forecast for the fourth quarter of FY2016 is based on an exchange rate of 112 yen to the dollar and 122 yen to the euro. The forecast for FY2016 is based on an exchange rate of 109 yen to the dollar and 119 yen to the euro.

(Consolidated Forecast for FY2016 by Product Category)

	(Millions of yen)	
	FY2016 (Forecast)	
	Amount	Growth rate (%)
Physiological Measuring Equipment	39,500	+ 0.7
Patient Monitors	56,850	+ 3.7
Treatment Equipment	29,900	- 2.3
Other Medical Equipment	41,750	+ 2.2
Total	168,000	+ 1.5
Domestic Sales	124,000	+ 1.6
Overseas Sales	44,000	+ 1.1

7. Consolidated Financial Statements

(1) Consolidated Balance Sheets

(Millions of yen)

	March 31, 2016	December 31, 2016
ASSETS		
Current assets:		
Cash and deposits	16,422	16,489
Notes and accounts receivable - trade	59,338	48,251
Securities	11,000	7,000
Merchandise and finished goods	14,519	17,805
Work in process	1,399	1,995
Raw materials and supplies	3,758	3,831
Other current assets	6,706	7,320
Allowance for doubtful accounts	-213	-148
Total current assets	112,929	102,545
Non-current assets:		
Property, plant and equipment	15,695	19,433
Intangible assets		
Goodwill	2,392	2,019
Other intangible assets	3,799	3,223
Total intangible assets	6,192	5,243
Investments and other assets		
Investment securities	6,149	6,187
Other investments and other assets	3,483	3,310
Allowance for doubtful accounts	-179	-175
Total investments and other assets	9,453	9,322
Total non-current assets	31,340	33,999
Total assets	144,270	136,544
LIABILITIES		
Current liabilities:		
Notes and accounts payable - trade	29,726	25,317
Short-term loans payable	1,174	844
Accrued income taxes	2,030	255
Provision for bonuses	2,860	1,371
Provision for product warranties	299	514
Other current liabilities	6,810	6,329
Total current liabilities	42,901	34,632
Non-current liabilities:		
Net defined benefit liability	3,164	3,373
Long-term accounts payable - other	24	23
Other non-current liabilities	507	1,376
Total non-current liabilities	3,697	4,773
Total liabilities	46,599	39,406
NET ASSETS		
Shareholders' equity:		
Capital stock	7,544	7,544
Capital surplus	10,414	10,414
Retained earnings	83,833	84,661
Treasury shares	-7,472	-7,473
Total shareholders' equity	94,321	95,146
Accumulated other comprehensive income:		
Valuation difference on available-for-sale securities	2,036	1,985
Foreign currency translation adjustment	2,559	906
Remeasurements of defined benefit plans	-1,245	-900
Total accumulated other comprehensive income	3,350	1,991
Total net assets	97,671	97,137
Total liabilities and net assets	144,270	136,544

(2) Consolidated Statements of Income

(Millions of yen)

	Nine months ended December 31, 2015	Nine months ended December 31, 2016
Net sales	111,654	110,619
Cost of sales	57,150	56,960
Gross profit	54,504	53,658
Selling, general and administrative expenses	47,257	48,356
Operating income	7,247	5,302
Non-operating income		
Interest income	27	20
Dividend income	100	96
Foreign exchange gains	—	259
Subsidy income	222	207
Reversal of allowance for doubtful accounts	34	70
Gain on valuation of investment securities	—	51
Other, net	229	164
Total non-operating income	615	870
Non-operating expenses		
Interest expenses	42	47
Foreign exchange losses	146	—
Other, net	84	79
Total non-operating expenses	274	126
Ordinary income	7,588	6,046
Extraordinary income		
Gain on sales of non-current assets	2	0
Gain on sales of investment securities	—	0
Total extraordinary income	2	0
Extraordinary losses		
Loss on sales of non-current assets	5	—
Loss on retirement of non-current assets	18	10
Loss on valuation of investment securities	—	0
Factory transfer cost	128	—
Office transfer cost	—	151
Total extraordinary losses	152	162
Income before income taxes and non-controlling interests	7,437	5,884
Income taxes	2,758	2,059
Net income	4,679	3,825
Income attributable to non-controlling interests	28	—
Income attributable to owners of parent	4,650	3,825

(Consolidated Statements of Comprehensive Income)

(Millions of yen)

	Nine months ended December 31, 2015	Nine months ended December 31, 2016
Net income	4,679	3,825
Other comprehensive income		
Valuation difference on available-for-sale securities	102	-50
Foreign currency translation adjustment	-143	-1,652
Remeasurements of defined benefit plans	-140	344
Total other comprehensive income	-181	-1,359
Comprehensive income	4,498	2,466
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	4,472	2,466
Comprehensive income attributable to non-controlling interests	25	—