

[Summary] Consolidated Financial Results for the 2nd Quarter of the Fiscal Year Ending March 31, 2018 (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 FY2017 (From April 1, 2017 to September 30, 2017)

(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	%
FY2017 2Q (6 months)	76,648	2.9	3,128	-18.4	3,722	38.4	2,541	51.0
FY2016 2Q (6 months)	74,463	1.3	3,834	-9.1	2,689	-38.9	1,683	-33.1

Note: Comprehensive income: FY2017 2Q: 2,417 million yen (—%) FY2016 2Q: -499 million yen (—%)

	Net income per share - Basic	Net income per share - Diluted
	Yen	Yen
FY2017 2Q (6 months)	29.67	—
FY2016 2Q (6 months)	19.65	—

(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, 2017	144,290	104,762	72.6	1,223.05
As of March 31, 2017	152,806	103,887	68.0	1,212.82

Reference: Equity Capital: FY2017 2Q: 104,762 million yen FY2016: 103,887 million yen

2. Dividends

	Dividends per share				
	First quarter	Interim (Second quarter)	Third quarter	Year-end	Full-year
	yen	yen	yen	yen	yen
FY2016	—	17.00	—	18.00	35.00
FY2017	—	17.00	—	—	—
FY2017 (Forecast)	—	—	—	18.00	35.00

Note: Revise of dividends forecast: None

3. Consolidated forecast for FY2017 (From April 1, 2017 to March 31, 2018)

	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	175,000	5.2	15,000	10.4	15,000	6.7	10,200	11.5	119.08

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, 2017 to September 30, 2017), the Japanese government worked on healthcare system reform and each prefecture drew up a regional health vision for the enhancement of medical treatment systems by 2025. Discussions for differentiating medical institution functions and strengthening collaboration started in April. Medical equipment companies were strongly required to provide solutions which contribute to improving the quality and efficiency of medical care and enhance regional medical care coordination. Internationally, overall demand for medical equipment remained steady although there was uncertainty regarding the health insurance system in the U.S. and unstable environments in some emerging countries.

Under these circumstances, Nihon Kohden started its three-year mid-term business plan, TRANSFORM 2020, 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.

Japan: In order to respond to market changes such as the government's healthcare reforms, the Company absorbed and merged 11 domestic sales subsidiaries in April 2017, following the reorganization of sales operations in April 2016. Sales increased as the Company 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. Consumables and services also contributed to increased sales. Sales in the clinic market showed strong growth, although sales in the university and public hospital market decreased. Sales in the private hospital market remained flat compared to the same period last year. Sales of Physiological Measuring Equipment increased favorably, supported by solid sales of diagnostic information systems and polygraphs for cath lab. Sales of Patient Monitors remained flat: sales of clinical information systems and consumables such as sensors increased, while sales of transmitters and bedside monitors decreased as a consequence of the higher demand for differentiating and strengthening medical institution functions in the same period last year. Sales of Treatment Equipment and Other Medical Equipment decreased. As a result, domestic sales increased 0.7% over the first half of FY2016 to ¥56,241 million.

International: In the Americas, sales in the U.S. increased favorably as there was partial shipment for orders of Patient Monitors which we received at the end of the previous fiscal year. Sales in Latin America also increased, primarily in Brazil and Colombia. Sales in Europe increased, supported by solid sales in France and sales recovery in Turkey and Russia. In Asia, sales decreased, especially in South Korea and Vietnam. Sales in the Middle East increased as a result of developing the distributor network. Sales in China increased on a comparable basis and decreased on a yen basis. Sales in Other decreased compared with the same period last year when a large order in Egypt had been recorded. Sales of Patient Monitor and Treatment Equipment showed strong growth. Sales of Other Medical Equipment also increased, while sales of Physiological Measuring Equipment decreased. As a result, international sales increased 9.8% over the first half of FY2016 to ¥20,407 million.

Overall sales during the term under review increased 2.9% over the first half of FY2016 to ¥76,648 million. The cost of sales ratio rose due to the higher sales cost of purchased products in domestic business, and also due to increased outsourcing fees in line with sales growth in international business. SG&A expenses increased mainly due to R&D investments. As a result, operating income decreased 18.4% to ¥3,128 million. Ordinary income increased 38.4% to ¥3,722 million and income attributable to owners of parent increased 51.0% to ¥2,541 million over the first half of FY2016, reflecting foreign exchange gains compared to losses in the same period of the previous fiscal year.

5. Consolidated Sales Results by Product Category

	(Millions of yen)	
	Six months ended September 30, 2017	
	Amount	Growth rate (%)
Physiological Measuring Equipment	17,833	+3.1
Patient Monitors	26,248	+6.4
Treatment Equipment	14,546	+2.2
Other Medical Equipment	18,019	-1.3
Total	76,648	+2.9
Domestic Sales	56,241	+0.7
Overseas Sales	20,407	+9.8
(Reference) Overseas Sales		
Americas	9,674	+20.4
Europe	3,671	+18.7
Asia	6,266	-1.5
Other	794	-27.8

6. Consolidated Forecast for FY2017

The Company reaffirms its forecasts for FY2017, previously announced on May 11, 2017.

Nihon Kohden will implement its new three-year mid-term business plan, TRANSFORM 2020, to achieve sustained group growth and enhance its corporate value. In Japan, Nihon Kohden aims to expand sales in acute care hospitals because replacement demand for information systems is expected. The Company will also enhance business activities in the clinic market by introducing new products and services which support regional healthcare networks. Internationally, the Company will expand its sales network and continue to introduce products that are tailored to the demands of local markets. In its Patient Monitoring business in the U.S., the Company will expand its product line-up with wireless LAN connectivity and enhance network systems to support large-scale monitoring in order to increase sales opportunity and orders. In Europe, the Company will maintain and expand its sales by promoting wireless input unit and EEG head set*¹ in neuro monitoring and strengthening ties with GPOs*² in Germany. In emerging countries, Nihon Kohden will expand its sales network by developing the distributor network in Southeast Asia and the Middle East and opening a new sales branch in Kenya as a sales base in East Africa. New products designed for the domestic clinic market were launched one after another: a medical and long-term care network system, and a clinical assistant service. Both products are Nihon Kohden's first IT solutions business which uses cloud servers and charges users a monthly fee. Nihon Kohden will also launch a new middle-end bedside monitor in the near future. Nihon Kohden aims to expand its sales with these new products and by expanding its global sales activities.

The assumed exchange rates for the second half of FY2017 remain 110 yen to the U.S. dollar and 115 yen to the euro.

*1) EEG head set: a telemetry EEG amplifier developed for quick and easy EEG measurement in ER

*2) GPO: Group Purchase Organization

(Consolidated Forecast for FY2017 by Product Category)

	(Millions of yen)	
	FY2017 (Forecast)	
	Amount	Growth rate (%)
Physiological Measuring Equipment	39,500	+4.9
Patient Monitors	61,400	+9.4
Treatment Equipment	31,200	+5.0
Other Medical Equipment	42,900	+0.3
Total	175,000	+5.2
Domestic Sales	128,000	+2.6
Overseas Sales	47,000	+13.2

7. Consolidated Financial Statements

(1) Consolidated Balance Sheets

(Millions of yen)

	March 31, 2017	September 30, 2017
ASSETS		
Current assets:		
Cash and deposits	18,753	16,094
Notes and accounts receivable - trade	60,993	48,725
Securities	10,000	17,000
Merchandise and finished goods	17,061	17,804
Work in process	1,288	1,391
Raw materials and supplies	4,288	4,555
Other current assets	7,015	6,404
Allowance for doubtful accounts	-165	-95
Total current assets	119,235	111,879
Non-current assets:		
Property, plant and equipment	20,148	19,592
Intangible assets		
Goodwill	2,187	2,062
Other intangible assets	3,410	3,092
Total intangible assets	5,597	5,154
Investments and other assets		
Investment securities	5,050	4,978
Other investments and other assets	2,949	2,866
Allowance for doubtful accounts	-174	-182
Total investments and other assets	7,825	7,663
Total non-current assets	33,571	32,410
Total assets	152,806	144,290
LIABILITIES		
Current liabilities:		
Notes and accounts payable - trade	32,539	24,020
Short-term loans payable	628	533
Accrued income taxes	2,194	1,385
Provision for bonuses	2,671	2,170
Provision for product warranties	476	581
Other current liabilities	6,495	6,777
Total current liabilities	45,006	35,468
Non-current liabilities:		
Net defined benefit liability	2,532	2,663
Long-term accounts payable - other	23	23
Other non-current liabilities	1,357	1,373
Total non-current liabilities	3,913	4,059
Total liabilities	48,919	39,527
NET ASSETS		
Shareholders' equity:		
Capital stock	7,544	7,544
Capital surplus	10,414	10,414
Retained earnings	89,984	90,984
Treasury shares	-7,473	-7,474
Total shareholders' equity	100,470	101,469
Accumulated other comprehensive income:		
Valuation difference on available-for-sale securities	1,604	1,562
Foreign currency translation adjustment	1,959	1,851
Remeasurements of defined benefit plans	-147	-120
Total accumulated other comprehensive income	3,416	3,292
Total net assets	103,887	104,762
Total liabilities and net assets	152,806	144,290

(2) Consolidated Statements of Income

(Millions of yen)

	Six months ended September 30, 2016	Six months ended September 30, 2017
Net sales	74,463	76,648
Cost of sales	38,660	40,148
Gross profit	35,802	36,500
Selling, general and administrative expenses	31,968	33,371
Operating income	3,834	3,128
Non-operating income		
Interest income	11	15
Dividend income	57	56
Gain on valuation of investment securities	55	35
Foreign exchange gains	—	257
Subsidy income	133	142
Other, net	191	141
Total non-operating income	450	649
Non-operating expenses		
Interest expenses	40	19
Foreign exchange losses	1,510	—
Other, net	44	36
Total non-operating expenses	1,595	55
Ordinary income	2,689	3,722
Extraordinary income		
Gain on sales of non-current assets	0	1
Gain on sales of investment securities	—	39
Total extraordinary income	0	40
Extraordinary losses		
Loss on sales of non-current assets	—	2
Loss on retirement of non-current assets	4	67
Loss on sales of investment securities	—	12
Office transfer cost	68	13
Total extraordinary losses	73	96
Income before income taxes and non-controlling interests	2,616	3,666
Income taxes	932	1,125
Net income	1,683	2,541
Income attributable to owners of parent	1,683	2,541

(Consolidated Statements of Comprehensive Income)

(Millions of yen)

	Six months ended September 30, 2016	Six months ended September 30, 2017
Net income	1,683	2,541
Other comprehensive income		
Valuation difference on available-for-sale securities	-407	-42
Foreign currency translation adjustment	-2,004	-108
Remeasurements of defined benefit plans, net of tax	229	27
Total other comprehensive income	-2,182	-123
Comprehensive income	-499	2,417
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	-499	2,417
Comprehensive income attributable to non-controlling interests	—	—