

[Summary] Consolidated Financial Results for the 3rd 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 3rd Quarter of FY2017 (From April 1, 2017 to December 31, 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 3Q (9 months)	117,456	6.2	6,041	13.9	6,981	15.5	4,262	11.4
FY2016 3Q (9 months)	110,619	-0.9	5,302	-26.8	6,046	-20.3	3,825	-17.8

Note: Comprehensive income: FY2017 3Q: 4,616 million yen (87.2%) FY2016 3Q: 2,466 million yen (-45.2%)

	Net income per share	
	- Basic	- Diluted
	Yen	Yen
FY2017 3Q (9 months)	49.77	—
FY2016 3Q (9 months)	44.66	—

(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, 2017	146,332	105,504	72.1	1,231.71
As of March 31, 2017	152,806	103,887	68.0	1,212.82

Reference: Equity Capital: FY2017 3Q: 105,504 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: Revision 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 December 31, 2017), the Japanese government worked on healthcare system reform. Each prefecture drew up a regional health vision for the enhancement of medical treatment systems by 2025 and held discussions for differentiating medical institution functions and strengthening collaboration. 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.

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 both in the hospital and the clinic markets 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. Sales increased in all product categories, especially sales of Patient Monitors showed strong growth as the Company received orders related to replacement of bedside monitors and clinical information systems in the university market. Sales of Physiological Measuring Equipment increased favorably, supported by solid sales of polygraphs for cath lab. Sales of diagnostic information systems and ECGs also increased. In Treatment Equipment, sales of defibrillators and AEDs increased favorably. As a result, domestic sales increased 4.5% over the nine months of FY2016 to ¥86,766 million.

International: In the Americas, sales in the U.S. increased favorably, supported by strong sales of Patient Monitors and AEDs. Sales in Latin America also increased, primarily in Brazil, while sales in Mexico decreased. Sales in Europe increased, supported by solid sales in France and Russia and sales recovery in Turkey. In Asia, sales decreased, especially in South Korea and Vietnam. Sales in China increased, reflecting the contribution of new products such as defibrillators. Sales in Other decreased compared with the same period last year when a large order in Egypt was recorded. Sales of Patient Monitors 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 11.2% over the nine months of FY2016 to ¥30,689 million.

Overall sales during the term under review increased 6.2% over the nine months of FY2016 to ¥117,456 million. Operating income increased 13.9% to ¥6,041 million and ordinary income increased 15.5% to ¥6,981 million due to sales increase, despite the increase of SG&A expenses caused by R&D investments. Income attributable to owners of parent also increased 11.4% to ¥4,262 million over the nine months of FY2016, despite the increase of income taxes due to the impact from tax reform in the U.S.

5. Consolidated Sales Results by Product Category

	(Millions of yen)	
	Nine months ended December 31, 2017	
	Amount	Growth rate (%)
Physiological Measuring Equipment	26,859	+ 3.3
Patient Monitors	40,559	+ 8.9
Treatment Equipment	22,497	+ 7.4
Other Medical Equipment	27,539	+ 4.2
Total	117,456	+ 6.2
Domestic Sales	86,766	+ 4.5
Overseas Sales	30,689	+ 11.2
(Reference) Overseas Sales		
Americas	14,380	+ 18.2
Europe	6,126	+ 19.6
Asia	8,856	- 1.2
Other	1,325	- 1.9

6. Consolidated Forecast for FY2017

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

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

(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	December 31, 2017
ASSETS		
Current assets:		
Cash and deposits	18,753	19,628
Notes and accounts receivable - trade	60,993	49,595
Securities	10,000	12,000
Merchandise and finished goods	17,061	19,071
Work in process	1,288	1,977
Raw materials and supplies	4,288	5,005
Other current assets	7,015	6,161
Allowance for doubtful accounts	-165	-96
Total current assets	119,235	113,343
Non-current assets:		
Property, plant and equipment	20,148	20,227
Intangible assets		
Goodwill	2,187	2,156
Other intangible assets	3,410	2,961
Total intangible assets	5,597	5,117
Investments and other assets		
Investment securities	5,050	5,380
Other investments and other assets	2,949	2,450
Allowance for doubtful accounts	-174	-187
Total investments and other assets	7,825	7,644
Total non-current assets	33,571	32,989
Total assets	152,806	146,332
LIABILITIES		
Current liabilities:		
Notes and accounts payable - trade	32,539	26,855
Short-term loans payable	628	486
Accrued income taxes	2,194	632
Provision for bonuses	2,671	1,121
Provision for product warranties	476	481
Other current liabilities	6,495	7,076
Total current liabilities	45,006	36,653
Non-current liabilities:		
Net defined benefit liability	2,532	2,742
Long-term accounts payable - other	23	23
Other non-current liabilities	1,357	1,409
Total non-current liabilities	3,913	4,175
Total liabilities	48,919	40,828
NET ASSETS		
Shareholders' equity:		
Capital stock	7,544	7,544
Capital surplus	10,414	10,414
Retained earnings	89,984	91,249
Treasury shares	-7,473	-7,475
Total shareholders' equity	100,470	101,734
Accumulated other comprehensive income:		
Valuation difference on available-for-sale securities	1,604	1,817
Foreign currency translation adjustment	1,959	2,059
Remeasurements of defined benefit plans	-147	-106
Total accumulated other comprehensive income	3,416	3,770
Total net assets	103,887	105,504
Total liabilities and net assets	152,806	146,332

(2) Consolidated Statements of Income

(Millions of yen)

	Nine months ended December 31, 2016	Nine months ended December 31, 2017
Net sales	110,619	117,456
Cost of sales	56,960	60,925
Gross profit	53,658	56,530
Selling, general and administrative expenses	48,356	50,489
Operating income	5,302	6,041
Non-operating income		
Interest income	20	26
Dividend income	96	95
Gain on valuation of investment securities	51	70
Foreign exchange gains	259	466
Subsidy income	207	183
Other, net	234	187
Total non-operating income	870	1,029
Non-operating expenses		
Interest expenses	47	19
Other, net	79	70
Total non-operating expenses	126	89
Ordinary income	6,046	6,981
Extraordinary income		
Gain on sales of non-current assets	0	2
Gain on sales of investment securities	0	39
Total extraordinary income	0	42
Extraordinary losses		
Loss on sales of non-current assets	—	2
Loss on retirement of non-current assets	10	78
Loss on sales of investment securities	—	12
Loss on valuation of investment securities	0	—
Office transfer cost	151	31
Total extraordinary losses	162	124
Income before income taxes and non-controlling interests	5,884	6,898
Income taxes	2,059	2,635
Net income	3,825	4,262
Income attributable to owners of parent	3,825	4,262

(Consolidated Statements of Comprehensive Income)

(Millions of yen)

	Nine months ended December 31, 2016	Nine months ended December 31, 2017
Net income	3,825	4,262
Other comprehensive income		
Valuation difference on available-for-sale securities	-50	212
Foreign currency translation adjustment	-1,652	100
Remeasurements of defined benefit plans, net of tax	344	40
Total other comprehensive income	-1,359	353
Comprehensive income	2,466	4,616
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	2,466	4,616
Comprehensive income attributable to non-controlling interests	—	—