

Second Quarter FY2018 Financial Results Analyst Meeting

Main Question and Answers

(November 7 2018, Tokyo)

Q1: I would like to know the reason why gross profit margin improved again in the 2nd quarter following the 1st quarter. Can we expect gross profit margin to improve continuously in the future?

A1: We are working on improving gross profit margin as the most important issue in FY2018. One of the reasons for the improvement of gross profit margin is a favorable product mix due to the higher sales ratio of in-house products. It resulted from the absorption of domestic sales subsidiaries in April 2017. We have been able to implement consistent sales measures nationwide in Japan, and these measures are showing a positive effect. Besides, productivity improved at the Tomioka factory and Shanghai factory, and we optimized fees related to delivery and installation of patient monitors in the U.S. which was a problem in the previous fiscal year. These led to a reduction of cost of sales and contributed to the improvement of gross profit margin as well. As for the 2nd half of FY2018, we will continuously make efforts to improve gross profit margin by reducing cost of sales through productivity improvements and focusing on selling in-house products with high gross margin as well as expanding sales of in-house consumables and services.

Q2: Sales in the university hospital market increased considerably in Japan. Can we expect this strong performance to continue in the 2nd half of FY2018?

A2: Sales in the university hospital market increased favorably since we received large orders from private university hospitals. Hospitals have started to renew equipment which was introduced with the government funds provided under the regional medical care revival plan. Although the size of each order is not as large as it used to be, we expect the renewal demand to continue in the 2nd half.

Q3: I heard that budget execution by national hospitals in Japan has been considerably delayed. I would like to know the reason why you achieved solid sales growth in the public hospital market. Could you also tell me the reason for weak sales in the private hospital and clinic market on which you focus?

A3: Among the various sectors of the public hospital market in Japan, sales in the charity hospital market grew steadily and sales in the national hospital market recovered from a weak performance in the same period of the previous fiscal year. On the other hand, municipal hospitals are still tightening budgets. As for the private hospital market, the increase in demand in response to the 2018 medical service fee revision was lower than it was at the 2016 revision. Even so, sales in the small to medium size hospital market in the Tokyo metropolitan area showed a good performance as we put more sales resources into this area. In the clinic market, we are working on improving gross profit margin by controlling sales of other companies' products with low gross margin and focusing on selling in-house products. We are not so concerned about this market because sales of the new integrated hematology analyzer and clinical chemistry analyzer increased favorably.

Q4: Sales in Europe in the 1st half were a little weak. Would you please tell me the measures for recovery in the 2nd half?

A4: In Europe, sales in Germany and Italy increased favorably, but sales in Russia and Turkey were weak. Sales in Russia were weak in reaction to the strong performance in the same period of FY2017 thanks to the government medical budget. As for Turkey, stagnation in the market due to weak local currency had a negative impact on sales. Although the integration of EEG monitoring function with the new middle-end bedside monitors is slightly behind schedule, we have already completed converting their interfaces and manuals into local languages. We will aim to recover our performance in the 2nd half of FY2018.

Q5: SG&A expenses in the 1st half increased by ¥1 billion over the 1st half of FY2017. If I subtract the 1st half result from the full-year forecast, SG&A expenses in the 2nd half of FY2018 will increase more than ¥2 billion compared to the same period of FY2017. I would like to know the reason for this increase.

A5: SG&A expenses were delayed by ¥1 billion to the 2nd half of FY2018 from the 1st half. Expenditures such as advertisement were delayed by ¥0.5 billion and depreciation cost fell short of the projection by ¥0.2 billion due to the slow pace of capital investments. In addition, there was ¥0.3 billion of unused selling expenses because first-half sales missed the target. In the 2nd half of FY2018, we expect an increase in personnel costs due to strengthening delivery and installation structure of patient monitors in the U.S. in addition to some expenses delayed from the 1st half. We would like to keep SG&A expenses within the original forecast for the full year by completely controlling the expenditures of the whole group.

Q6: I would like to know the details of the spot check monitor which is to be launched in the 2nd half of FY2018.

A6: Spot check monitor is a monitor used by nurses to measure patients' body temperature and blood pressure while doing the rounds of wards, and it is widely used in the U.S. market. Introducing this spot check monitor allows us to provide a full patient monitoring solution across the hospital. We believe it will help to further strengthen our competitiveness in the U.S.

Q7: What do you think the impact of consumption tax hike in October 2019 on your business?

A7: As for FY2018, we don't expect any impact of the consumption tax hike on our business. As IT systems take time to deliver, inquiries from customers who want to introduce new systems before the consumption tax hike are increasing. Therefore, some last-minute demand before the tax hike is expected.

(End)

(Cautionary Statement)

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