

Third Quarter FY2018 Financial Results Conference Call
Main Question and Answers
(February 5, 2019)

Q1: Would you explain the growth trend of domestic sales by market ? When will sales in the private hospital market recover? You previously explained that you would not pursue sales volume in the clinic market. Could you explain the current situation?

A1: As budget execution in the university and public hospital markets is usually concentrated in the 4th quarter, we will work to capture orders. As for the private hospital market, the increase in demand in response to the medical service fee revision was lower than it was at the 2016 revision. Even so, sales in the small to medium sized hospital market in the Tokyo metropolitan area showed a good performance as we put more sales resources into this area. Although capital investment in the small to medium sized hospital market in rural areas remains weak, we expect capital investment will be stepped up in the 1st half of FY2019 in anticipation of the consumption tax hike in October. Sales in the clinic market started to recover and gross profit margin has been improved by focusing on selling in-house products.

Q2: When do you expect that hospitals will make active capital investments in anticipation of the consumption tax hike in October? You previously explained that the consumption tax burden imposed on medical institutions has a negative impact on hospital capital spending. I think that the revision of medical treatment fees in October will provide a certain level of solution to this issue. Could you tell me your opinion?

A2: The outline for revision of medical treatment fees was recently disclosed in January and we don't expect last-minute increases in demand before the tax hike in this fiscal year. In the case of tenders, hospitals will make preparations such as creating procurement plans and submitting budget requests from March to May. Then they will conduct the bidding process, for delivery and installation by the end of September. In response to that, we will enhance our proposal capability. Regarding the issue of consumption tax burden, medical treatment fees will rise to reflect the consumption tax hike from Oct 1. We interviewed several hospitals and they have reported favorable impressions because the details of the revision are better than expected.

Q3: I would like to know the reason why production and shipment of the new middle-end bedside monitor CSM-1700 was delayed. What was the impact on sales?

A3: In the case of the CSM - 1700, it was found after its release and shipment that an error occurs while communicating between devices under certain conditions. We temporarily stopped production and shipment because a software update was needed. However, production and shipment resumed in December. We estimate the impact on sales was between 100 million yen and 200 million yen, which is not so big.

Q4: Is it true that the approval process was delayed by about a month as a result of the partial U.S. federal government shutdown? I think that the new middle-end bedside monitor was scheduled to be released in the United States during FY2018. Will you be able to release it in time?

A4: The period of the partial U.S. federal government shutdown was one month from December 2018 to January 2019 and the approval process was delayed for the same period. Although sales contributions from new products cannot be expected in FY2018, we are proposing existing models as alternatives to potential customers that we are currently negotiating with. Therefore sales in the U.S. will remain on track to meet our full-year forecast.

Q5: You need to increase sales of Patient Monitors significantly in the 4th quarter of FY2018. Please explain your confidence that you can meet the full-year target and what measures you have taken regarding production and supply to ensure that the target is met.

A5: As budget execution of domestic hospitals was concentrated at the end of the fiscal year, we expect that the volume of orders for the Patient Monitor will increase and we will be able to recover in the 4th quarter. We are also working on measures to equalize seasonal variation and achieve stable production so that a supply shortage will not occur in the end of FY2018. Production is proceeding according to plan and there are no problems at this time.

Q6: Sales in China increased favorably, but what is your outlook for FY2019? Does improvement of productivity at the Shanghai factory also contribute to the improvement of gross profit margin?

A6: In China, sales of new products which we received CFDA approval are growing favorably and contributed to the sales increase and higher gross margin. We expect this trend to continue in FY2019 as well. Production cost reduction at Tomioka Factory is larger in scale, but we will continuously make efforts to reduce the cost of sales through productivity improvements at the Shanghai factory.

Q7: Is it correct to believe that new products, especially middle-end bedside monitors will be a growth driver not only in Japan but also overseas and this will lead to a higher gross profit margin in FY2019?

A7: Middle-end bedside monitors have not yet contributed to sales as much as we expected at this time due to delays in production and shipment. We expect that these products will fully contribute to sales in FY2019, improving the gross profit margin.

(End)

(Cautionary Statement)

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