

**Third Quarter FY2019 Financial Results Conference Call
Main Question and Answers
(February 4 2020, Tokyo)**

Q1: In domestic sales, there was a certain last-minute surge in demand before the consumption tax increase in the 1st half of FY2019. I would like to know the size of the reactionary decline that occurred in the 3rd quarter. Regarding the rush in demand, which was bigger, in-house products or other companies' products? Will the impact of the reactionary decline mitigate in the 4th quarter?

A1: We estimate the impact of the last-minute surge in demand in the 1st half of FY2019 was in the range of 4 billion yen to 5 billion yen, and the impact on sales of in-house products would have been bigger. Although it is hard to calculate the impact of the reactionary decline in the 3rd quarter (three months), we thought it was around 2.8 billion yen. We expect the impact to ease in the 4th quarter. In the public and private hospital markets which saw a strong rush in demand in the 1st half of FY2019, the reactionary decline was large in October and has gradually mitigated since then. In the clinic market, the reactionary decline of demand for the diagnostic imaging equipment, which is a third party product, was large and it is not clear at this time whether the demand will recover in the 4th quarter.

Q2: In the 3rd quarter (three months), what was the impact of large orders associated with construction of new hospitals in the university and public hospital markets?

A2: The impact of large orders associated with construction of new hospitals in the university and public hospital markets was large in the 1st half of FY2019. In the 3rd quarter (three months), it has decreased compared to the same period of FY2018.

Q3: Did sales in the U.S. increase favorably because your efforts to level out orders and deliveries throughout the year? Although the full-year forecast for sales in the U.S. was revised downward in November, is it possible to achieve not only the revised plan but also the initial plan? What is your view on the current order status for FY2020?

A3: In the U.S. market, our solutions that enable comprehensive management of all patients' data are highly evaluated. We feel that our current product line is meeting customer needs. In November last year, we estimated that the impact of the delays in launching new mid-range bedside monitors in the U.S. was around 1 billion yen, but we see less impact at this time. We don't expect that the initial plan can be achieved. Orders are currently solid for the 4th quarter and the early part of next fiscal year. We will focus on expanding our patient monitoring business.

Q4: Is there any impact on your earnings from the coronavirus outbreak? You began to manufacture AEDs in China, how big is the AED market size and what are the future prospects?

A4: The resumption of production at Shanghai Kohden has been postponed to February 10. As a result of the outbreak, demand for medical devices such as patient monitors, defibrillators and ECGs are increasing throughout China. We have responded to these orders by stock. We will review the impact on earnings after February 10 or later. Public Access Defibrillation was started in China in 2017. The AED market is expected to grow in the future.

Q5: The gross profit margin in the 3rd quarter (three months) improved by 100 basis points year-on-year. Is this due to an increase in the percentage of in-house products? Did the lower selling prices have only a minor impact? What is your outlook for the full year?

A5: Gross margin was improved due to the favorable product mix achieved by focusing on sales of in-house products. As the number of large orders was less than usual, the impact of the lower selling prices was small. In the 4th quarter, we will strengthen our marketing capabilities creating customer value, in order to sell more in-house products and maintain the current selling prices, which will result in a better gross profit margin. There is no change in the full-year forecast for gross margin.

Q6: Were SG&A expenses in the 3rd quarter (three months) in line with your plan? What is the outlook for the 4th quarter in which usually SG&A expenses tend to be concentrated?

A6: Overall SG&A expenses were in line although personnel expenses were higher than our plan, reflecting increased sales commissions due to strong performance in the U.S. SG&A expenses in the 4th quarter will be bigger than in other quarters as usual, in accordance with the larger sales volume.

Q7: In the revision of medical treatment fees in April 2020, the required ratio of critically ill inpatients in acute care will rise from 30% to 31%. How do you see the impact on hospital capital investment and your business?

A7: Although a 1 % rise is small, the criteria for evaluating critically ill inpatients has been tightened as patients with dementia are excluded from the criteria. Greater support for emergency medical care would be positive for hospitals. It is necessary to review the impact on our business.

(End)

(Cautionary Statement)

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