

[Summary] Consolidated Financial Results for the 3rd Quarter of the Fiscal Year Ending March 31, 2020 (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 FY2019 (From April 1, 2019 to December 31, 2019)

(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	%
FY2019 3Q (9 months)	129,525	7.7	8,396	31.9	8,108	13.5	4,832	-3.1
FY2018 3Q (9 months)	120,227	2.4	6,365	5.4	7,143	2.3	4,986	17.0

Note: Comprehensive income: FY2019 3Q: 5,056 million yen (6.5%) FY2018 3Q: 4,746 million yen (2.8%)

	Net income per share - Basic	Net income per share - Diluted
	Yen	Yen
FY2019 3Q (9 months)	56.75	—
FY2018 3Q (9 months)	58.56	—

(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, 2019	154,304	118,163	76.6	1,387.61
As of March 31, 2019	169,717	116,087	68.4	1,363.24

Reference: Equity Capital: FY2019 3Q: 118,163 million yen FY2018: 116,087 million yen

2. Dividends

	Dividends per share				
	First quarter	Interim (Second quarter)	Third quarter	Year-end	Full-year
	yen	yen	yen	yen	yen
FY2018	—	17.00	—	18.00	35.00
FY2019	—	17.00	—	—	—
FY2019 (Forecast)	—	—	—	18.00	35.00

Note: Revise of dividends forecast: None

3. Consolidated Forecast for FY2019 (From April 1, 2019 to March 31, 2020)

	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	186,000	4.0	16,000	6.4	16,000	0.8	10,700	-4.4	125.65

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, 2019 to December 31, 2019), differentiation of medical institution functions and enhancement of medical coordination were promoted in order to realize the regional visions of the health care system in 2025 created by each prefecture. In addition, discussions have been started regarding reforms to the work style of physicians and medical staff and the geographic distribution of physicians, in preparation for the future health care system in 2040. Medical equipment companies were strongly required to provide solutions which contribute to improving quality and efficiency of medical care and enhancing regional medical care coordination. Internationally, overall demand for medical equipment remained steady, although there was concern regarding protectionism in the U.S. and Brexit.

Under these circumstances, Nihon Kohden implemented its three-year mid-term business plan, TRANSFORM 2020 that sets FY2019 as its final year, 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. The Company launched a series of new value-added products: spot check monitors, bedside monitors for emerging markets, telemetry systems, defibrillators for ambulance, and the Company's first ventilators. There were two types of ventilators: an NPPV (Noninvasive positive pressure ventilation) ventilator developed at the Company's Advanced Technology Center and a ventilator developed at Nihon Kohden OrangeMed in the U.S. The former was launched in Japan and internationally, and the latter was launched internationally.

Japan: Nihon Kohden introduced new products which match each market; the acute care hospital market, the small and mid-sized hospital market, and the clinic market. The Company also strengthened its marketing and service capabilities creating customer value which contributes to improving medical safety, patient outcomes, and operating efficiency. As a result of these initiatives, sales in all markets and all product categories increased. This increase was also because the Company received large orders related to construction of new hospitals in the university and public hospital markets, and consumption tax increase in October brought a certain level of demand forward. Sales of Patient Monitors showed strong growth, supported by new models of bedside monitors and orders received for the replacement of clinical information systems. Overall, domestic sales increased 7.8% over the nine months of FY2018 to ¥94,387 million.

International: Sales in all markets and all product categories increased, as the Company expanded its product line-up of patient monitors and enhanced sales and service activities. In the Americas, sales of patient monitors and EEGs in the U.S. showed strong growth as a result of the Company's efforts to minimize seasonal fluctuations of orders and installations. Sales in Europe increased thanks to sales increase in Germany and Italy. Sales in Turkey also recovered. In Asia, sales increased favorably in India and a large order of patient monitors in Saudi Arabia contributed to the sales increase. Sales in China decreased both on a local currency and a yen basis. Sales in Other markets increased due to sales recovery in Africa such as South Africa and Egypt. Sales of Physiological Measuring Equipment and Patient Monitors increased favorably. Sales of hematology analyzers also showed strong growth in emerging markets as the Company enhanced sales and service activities and awarded government tenders. Overall, international sales increased 7.6% over the nine months of FY2018 to ¥35,137 million.

Overall sales during the term under review increased 7.7% over the nine months of FY2018 to ¥129,525 million. Operating income increased 31.9% to ¥8,396 million and ordinary income increased 13.5% to ¥8,108 million due to the positive effect of increased sales. Income attributable to owners of parent decreased 3.1% to ¥4,832 million as the Company posted extraordinary losses such as settlement package and office transfer cost.

5. Consolidated Sales Results by Product Category

	(Millions of yen)	
	Nine months ended December 31, 2019	
	Amount	Growth rate (%)
Physiological Measuring Equipment	30,002	+ 8.0
Patient Monitors	46,008	+ 9.7
Treatment Equipment	24,019	+ 4.9
Other Medical Equipment	29,494	+ 6.8
Total	129,525	+ 7.7
Products	67,720	+ 7.0
Consumables and Services	61,804	+ 8.5
(Reference) Sales by Region		
Domestic Sales	94,387	+ 7.8
Overseas Sales	35,137	+ 7.6
Americas	17,927	+ 13.5
Europe	5,980	+ 1.5
Asia	9,884	+ 0.3
Other	1,345	+ 19.9

6. Consolidated Forecast for FY2019

The Company reaffirms its forecasts for FY2019, previously announced on June 17, 2019.

The overall sales forecast for FY2019 is ¥186,000 million as originally planned. Domestic business was in line with the Company's expectation as there was a reactionary decline after the last-minute increase in demand preceding the consumption tax increase. The domestic sales forecast remains unchanged at ¥134,500 million. Internationally, sales in the Americas showed favorable growth while sales in Europe and Asia were slightly below expectations. The overseas sales forecast remains unchanged at ¥51,500 million.

Therefore, the FY2019 full-year forecasts for operating income, ordinary income and income attributable to owners of parent remain unchanged at ¥16,000 million, ¥16,000 million and ¥10,700 million, respectively.

The assumed exchange rates for the fourth quarter of FY2019 are 109 yen to the U.S. dollar and 120 yen to the euro.

(Consolidated Forecast for FY2019 by Product Category)

	(Millions of yen)	
	FY2019 (Forecast)	
	Amount	Growth rate (%)
Physiological Measuring Equipment	41,850	+ 2.6
Patient Monitors	64,500	+ 4.1
Treatment Equipment	34,750	+ 4.8
Other Medical Equipment	44,900	+ 4.7
Total	186,000	+ 4.0
Products	102,900	+ 3.3
Consumables and Services	83,100	+ 4.9
(Reference) Sales by Region		
Domestic Sales	134,500	+ 3.3
Overseas Sales	51,500	+ 6.0

7. Consolidated Financial Statements
(1) Consolidated Balance Sheets

(Millions of yen)

	March 31, 2019	December 31, 2019
ASSETS		
Current assets:		
Cash and deposits	18,811	21,115
Notes and accounts receivable - trade	66,889	52,801
Securities	16,000	10,000
Merchandise and finished goods	20,892	22,927
Work in process	1,523	2,360
Raw materials and supplies	6,182	5,363
Other current assets	2,083	1,932
Allowance for doubtful accounts	-171	-219
Total current assets	132,211	116,280
Non-current assets:		
Property, plant and equipment	19,945	19,848
Intangible assets		
Goodwill	1,938	1,792
Other intangible assets	2,624	2,369
Total intangible assets	4,563	4,161
Investments and other assets		
Investment securities	5,235	6,658
Other investments and other assets	7,942	7,661
Allowance for doubtful accounts	-180	-305
Total investments and other assets	12,997	14,013
Total non-current assets	37,505	38,023
Total assets	169,717	154,304
LIABILITIES		
Current liabilities:		
Notes and accounts payable - trade	32,645	20,455
Short-term loans payable	406	350
Accrued income taxes	3,649	221
Provision for bonuses	3,098	1,539
Provision for product warranties	379	338
Provision for loss on litigation	285	—
Other current liabilities	7,880	8,105
Total current liabilities	48,346	31,010
Non-current liabilities:		
Net defined benefit liability	3,827	3,718
Other non-current liabilities	1,455	1,411
Total non-current liabilities	5,282	5,130
Total liabilities	53,629	36,140
NET ASSETS		
Shareholders' equity:		
Capital stock	7,544	7,544
Capital surplus	10,414	10,414
Retained earnings	102,397	104,249
Treasury shares	-6,991	-6,992
Total shareholders' equity	113,365	115,216
Accumulated other comprehensive income:		
Valuation difference on available-for-sale securities	1,758	2,420
Foreign currency translation adjustments	1,443	873
Remeasurements of defined benefit plans	-479	-346
Total accumulated other comprehensive income	2,722	2,947
Total net assets	116,087	118,163
Total liabilities and net assets	169,717	154,304

(2) Consolidated Statements of Income

(Millions of yen)

	Nine months ended December 31, 2018	Nine months ended December 31, 2019
Net sales	120,227	129,525
Cost of sales	61,600	66,485
Gross profit	58,627	63,039
Selling, general and administrative expenses	52,262	54,643
Operating income	6,365	8,396
Non-operating income		
Interest income	39	45
Dividend income	96	103
Gain on valuation of investment securities	88	—
Foreign exchange gains	190	—
Subsidy income	241	85
Other, net	239	179
Total non-operating income	895	414
Non-operating expenses		
Interest expenses	8	6
Loss on valuation of investment securities	—	80
Foreign exchange losses	—	511
Other, net	109	104
Total non-operating expenses	117	701
Ordinary income	7,143	8,108
Extraordinary income		
Gain on sales of non-current assets	2	0
Gain on sales of investment securities	25	—
Total extraordinary income	27	0
Extraordinary losses		
Loss on sales of non-current assets	0	0
Loss on retirement of non-current assets	73	16
Demolition cost	—	135
Settlement package	—	520
Office transfer cost	—	178
Total extraordinary losses	74	850
Income before income taxes	7,095	7,259
Income taxes	2,109	2,427
Net income	4,986	4,832
Income attributable to owners of parent	4,986	4,832

(Consolidated Statements of Comprehensive Income)

(Millions of yen)

	Nine months ended December 31, 2018	Nine months ended December 31, 2019
Net income	4,986	4,832
Other comprehensive income		
Valuation difference on available-for-sale securities	58	662
Foreign currency translation adjustment	-232	-570
Remeasurements of defined benefit plans, net of tax	-66	132
Total other comprehensive income	-240	224
Comprehensive income	4,746	5,056
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	4,746	5,056
Comprehensive income attributable to non-controlling interests	—	—