

[Summary] Consolidated Financial Results for the 3rd Quarter of the Fiscal Year Ending March 31, 2021 (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 FY2020 (From April 1, 2020 to December 31, 2020)

(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	%
FY2020 3Q (9 months)	137,046	5.8	15,586	85.6	14,697	81.2	8,882	83.8
FY2019 3Q (9 months)	129,525	7.7	8,396	31.9	8,108	13.5	4,832	-3.1

Note: Comprehensive income: FY2020 3Q: 8,889 million yen (75.8%) FY2019 3Q: 5,056 million yen (6.5%)

	Net income per share - Basic	Net income per share - Diluted
	Yen	Yen
FY2020 3Q (9 months)	104.30	—
FY2019 3Q (9 months)	56.75	—

(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, 2020	170,521	127,733	74.9	1,499.75
As of March 31, 2020	167,786	121,774	72.6	1,430.02

Reference: Equity Capital: FY2020 3Q: 127,733 million yen FY2019: 121,774 million yen

2. Dividends

	Dividends per share				
	First quarter	Interim (Second quarter)	Third quarter	Year-end	Full-year
	yen	yen	yen	yen	yen
FY2019	—	17.00	—	18.00	35.00
FY2020	—	17.00	—	—	—
FY2020 (Forecast)	—	—	—	18.00	35.00

Note: Revise of dividends forecast: None

3. Consolidated Forecast for FY2020 (From April 1, 2020 to March 31, 2021)

	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	190,500	3.0	20,000	29.0	19,100	28.7	11,800	19.7	138.55

Note: Revise of consolidated forecast: Yes

* 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, 2020 to December 31, 2020), the COVID-19 pandemic adversely affected national healthcare systems in every country and the global economic outlook remained uncertain. In Japan, the government implemented measures to support the healthcare system in the midst of the COVID-19 crisis by enacting a FY2020 supplementary budget and special measures in relation to medical treatment fees. There were concerns that medical institutions were facing financial challenges because COVID-19 caused people to avoid visiting hospitals and clinics, leading to a reduction in the number of surgical procedures and inpatient admissions. Medical equipment companies were strongly required to provide solutions which contribute to infection control measures as well as improving quality and efficiency of medical care. Internationally, medical equipment to treat COVID-19 patients was installed by medical facilities in areas where the spread of infection has continued.

Under these circumstances, Nihon Kohden announced a long-term vision, BEACON 2030, for the next ten years to 2030, in September 2020. The Company aims to create a better future for people and healthcare by solving global medical issues. In FY2020, Nihon Kohden conducted its business activities in accordance with the basic policies of: (1) Ensuring the health and safety of its employees as the top priority. (2) Fulfilling its responsibilities as a medical device maker. The Company addressed challenges such as improving profitability of existing businesses and consolidating corporate fundamentals to grow as a global company. The Company also ramped up production of patient monitors and ventilators to meet increased demand due to the growing number of COVID-19 patients. In addition, the Company launched the world's first automated hematology and ESR* analyzer internationally.

* ESR: Erythrocyte Sedimentation Rate

Japan: Nihon Kohden 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. The Company also focused on selling in-house products as well as strengthening its marketing and service capabilities, creating customer value which contributed to improving medical safety, patient outcomes, and operating efficiency. However, sales decreased because medical institutions reduced the number of testing and surgical procedures, and postponed or froze the purchase budget for certain products such as Physiological Measuring Equipment. Sales in the university, public hospital and clinic markets decreased, while sales in the private hospital market increased. In the university and public hospital markets, there was also a reactionary decline compared to the same period of FY2019 when sales were strong due to large orders related to construction of new hospitals. Sales of Treatment Equipment increased, supported by favorable sales of ventilators and AEDs. Sales of Physiological Measuring Equipment and Other Medical Equipment decreased. Sales of Patient Monitors also decreased, while demand for patient monitors showed recovery from the third quarter, reflecting the supplementary budget to support the healthcare system in the midst of the COVID-19 crisis. As a result, domestic sales decreased 6.8% over the nine months of FY2019 to ¥88,004 million.

International: Sales in all regions achieved double-digit growth because demand for patient monitors, ventilators and defibrillators increased under the continuing spread of COVID-19. In the Americas, sales in the U.S. achieved double-digit growth. Sales in Latin America achieved double growth, mainly in Mexico and Colombia. In Europe, sales both in Western Europe and Eastern Europe showed strong growth, supported by double growth in Italy, the U.K. and Poland. Sales in Asia & Other regions also showed strong growth, thanks to large orders in Israel and Indonesia. Sales in China increased steadily as the impact of COVID-19 had ended. Sales of Patient Monitors and Treatment Equipment achieved double-digit growth, while sales of Physiological Measuring Equipment and Other Medical Equipment decreased. As a result, international sales increased 39.6% over the nine months of FY2019 to ¥49,042 million.

As a result, overall sales during the term under review increased 5.8% over the nine months of FY2019 to ¥137,046 million. Operating income increased 85.6% over the nine months of FY2019 to ¥15,586 million due to the increase in sales. It was also due to higher gross profit margin thanks to a favorable product mix and a decrease in SG&A expenses such as traveling expenses. Ordinary income increased 81.2% to ¥14,697 million. Income attributable to owners of parent increased 83.8% to ¥8,882 million. The Company reviewed the future plans of Defibtech, LLC, which it acquired in 2012, and posted extraordinary losses such as amortization of goodwill and impairment losses because demand for AEDs in overseas markets decreased in the midst of the COVID-19 crisis.

5. Consolidated Sales Results by Product Category

	(Millions of yen)	
	Nine months ended December 31, 2020	
	Amount	Growth rate (%)
Physiological Measuring Equipment	25,973	- 13.4
Patient Monitors	55,369	+ 20.3
Treatment Equipment	30,528	+ 27.1
Other Medical Equipment	25,175	- 14.6
Total	137,046	+ 5.8
Products	75,010	+ 10.8
Consumables and Services	62,036	+ 0.4
(Reference) Sales by Region		
Domestic Sales	88,004	- 6.8
Overseas Sales	49,042	+ 39.6
Americas	24,131	+ 34.6
Europe	10,451	+ 74.8
Asia & Other	14,458	+ 28.7

* Effective FY2020, Asia and Other are reclassified into Asia & Other.

6. Consolidated Forecast for FY2020

Based on the results for the third quarter (three months) of FY2020, the Company revised its forecast for FY2020, previously announced on November 6, 2020, while the Company continues to see uncertainty related to the impacts from the resurgence of COVID-19.

The Company has revised its domestic sales forecast to ¥129,000 million (up ¥1,800 million from its previous forecast) and its overseas sales forecast to ¥61,500 million (up ¥4,700 million from its previous forecast). The overall sales forecast is expected to be ¥190,500 million (up ¥6,500 million from its previous forecast). In Japan, the second state of emergency in January 2021 is expected to have some adverse effects such as restrictions on sales and service activities of the Company and the postponement of testing and surgical procedures in medical institutions. On the other hand, domestic sales in the fourth quarter will continue to recover, because the Government's supplementary budget will support demand in healthcare systems in the midst of the COVID-19. Internationally, the special demand related to COVID-19 in the third quarter (three months) exceeded the Company's expectations. A corresponding reactionary decline is expected to occur in the fourth quarter of FY2020.

In its long-term vision, BEACON 2030, the Nihon Kohden Group aims to apply its core strength in Human Machine Interface technology and its clinical expertise with advanced digital technology driven by data so that the Company can create a better future for people and healthcare by solving global medical issues. In view of its robust earnings in the first nine months of the fiscal year, Nihon Kohden will undertake the strategic investments which are essential to realizing BEACON 2030; accelerating development of digital technology and enhancing the corporate IT infrastructure.

Because sales are expected to be higher than the previous forecast, operating income, ordinary income and income attributable to owners of parent for FY2020 are expected to be ¥20,000 million (up ¥3,500 million from its previous forecast), ¥19,100 million (up ¥2,600 million from its previous forecast) and ¥11,800 million (up ¥800 million from its previous forecast) respectively.

The Company's forecast for the fourth quarter of FY2020 is based on an exchange rate of 104 yen to the U.S. dollar and 126 yen to the euro.

(Consolidated Forecast for FY2020 by Product Category)

	(Millions of yen)	
	FY2020 (Forecast)	
	Amount	Growth rate (%)
Physiological Measuring Equipment	37,800	- 10.6
Patient Monitors	74,700	+ 15.0
Treatment Equipment	41,100	+ 19.1
Other Medical Equipment	36,900	- 14.7
Total	190,500	+ 3.0
Products	106,000	+ 5.1
Consumables and Services	84,500	+ 0.4
(Reference) Sales by Region		
Domestic Sales	129,000	- 4.0
Overseas Sales	61,500	+ 21.4

Nihon Kohden sincerely apologizes to our customers, shareholders, and all related parties for any concern caused by the arrest and the prosecution of three employees of Nihon Kohden Corporation in Japan on suspicion of bribery. Nihon Kohden takes this matter very seriously. After taking strict and appropriate action to clarify the facts of this matter through investigation by an Investigation Committee, the Company will revise its internal systems and structures and will make every effort to prevent recurrence and to rebuild trust with all stakeholders as quickly as possible.

In accordance with this matter, some public university hospitals and public medical institutions have imposed dispositions such as suspending transactions or designation with the Company. The impacts of this matter on the consolidated results for FY2020 are expected to be limited.

7. Consolidated Financial Statements
(1) Consolidated Balance Sheets



(Millions of yen)

March 31, 2020 December 31, 2020

ASSETS		
Current assets:		
Cash and deposits	20,967	29,187
Notes and accounts receivable - trade	60,871	53,311
Securities	15,000	9,000
Merchandise and finished goods	21,939	28,096
Work in process	1,908	2,931
Raw materials and supplies	5,401	8,152
Other current assets	3,160	3,458
Allowance for doubtful accounts	-228	-185
Total current assets	129,020	133,952
Non-current assets:		
Property, plant and equipment	20,003	20,057
Intangible assets		
Goodwill	1,773	443
Other intangible assets	2,376	1,816
Total intangible assets	4,149	2,260
Investments and other assets		
Investment securities	6,377	6,115
Other investments and other assets	8,391	8,296
Allowance for doubtful accounts	-156	-160
Total investments and other assets	14,612	14,250
Total non-current assets	38,766	36,568
Total assets	167,786	170,521
LIABILITIES		
Current liabilities:		
Notes and accounts payable - trade	23,755	22,723
Short-term loans payable	350	350
Accrued income taxes	2,339	2,382
Provision for bonuses	3,263	1,650
Provision for product warranties	364	1,295
Other current liabilities	10,245	8,821
Total current liabilities	40,319	37,223
Non-current liabilities:		
Net defined benefit liability	4,225	4,049
Other non-current liabilities	1,466	1,514
Total non-current liabilities	5,692	5,564
Total liabilities	46,011	42,788
NET ASSETS		
Shareholders' equity:		
Capital stock	7,544	7,544
Capital surplus	10,414	10,437
Retained earnings	108,533	114,435
Treasury shares	-6,992	-6,966
Total shareholders' equity	119,500	125,451
Accumulated other comprehensive income:		
Valuation difference on available-for-sale securities	1,972	1,959
Foreign currency translation adjustments	983	814
Remeasurements of defined benefit plans	-681	-493
Total accumulated other comprehensive income	2,274	2,280
Total net assets	121,774	127,733
Total liabilities and net assets	167,786	170,521

(2) Consolidated Statements of Income

(Millions of yen)

	Nine months ended December 31, 2019	Nine months ended December 31, 2020
Net sales	129,525	137,046
Cost of sales	66,485	67,933
Gross profit	63,039	69,113
Selling, general and administrative expenses	54,643	53,526
Operating income	8,396	15,586
Non-operating income		
Interest income	45	20
Dividend income	103	103
Subsidy income	85	232
Other, net	179	133
Total non-operating income	414	489
Non-operating expenses		
Interest expenses	6	5
Loss on valuation of investment securities	80	12
Foreign exchange losses	511	1,271
Other, net	104	89
Total non-operating expenses	701	1,378
Ordinary income	8,108	14,697
Extraordinary income		
Gain on sales of non-current assets	0	0
Gain on sales of investment securities	—	464
Total extraordinary income	0	464
Extraordinary losses		
Loss on sales of non-current assets	0	0
Loss on retirement of non-current assets	16	28
Impairment losses	—	320
Amortization of goodwill	—	1,193
Demolition cost	135	—
Settlement package	520	—
Office transfer cost	178	118
Total extraordinary losses	850	1,661
Income before income taxes	7,259	13,499
Income taxes	2,427	4,617
Net income	4,832	8,882
Income attributable to owners of parent	4,832	8,882

(Consolidated Statements of Comprehensive Income)

(Millions of yen)

	Nine months ended December 31, 2019	Nine months ended December 31, 2020
Net income	4,832	8,882
Other comprehensive income		
Valuation difference on available-for-sale securities	662	-12
Foreign currency translation adjustment	-570	-168
Remeasurements of defined benefit plans, net of tax	132	188
Total other comprehensive income	224	7
Comprehensive income	5,056	8,889
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	5,056	8,889
Comprehensive income attributable to non-controlling interests	—	—

(3) Notes regarding Consolidated Financial Statements
(Notes regarding Consolidated Statements of Income)
***1 Impairment losses**

The Nihon Kohden Group recorded impairment losses for the following asset group in the third quarter of FY2020.

Location	Purpose	Type	Impairment loss (millions of yen)
United States	Idle assets	R&D intangible assets	320

The Company Group classifies business assets into groups based on management accounting classification and individually classifies each idle asset as a group.

The marketability of some technologies which were capitalized as intangible assets ever since the Company had acquired its subsidiary, Defibtech, LLC, had clearly declined, and thus, the Company wrote down all the unamortized remaining book value of ¥320 million and recorded it as impairment losses.

The recoverable amounts for these assets were measured based on value in use.

***2 Amortization of goodwill**

Based on impairment of investment in a consolidated subsidiary, Defibtech, LLC, the Company recorded a one-time amortization of goodwill, in accordance with the provisions of Section 32 of the Practical Guidelines on Accounting Standards for Capital Consolidation Procedures in Preparing Consolidated Financial Statements (Accounting Practice Committee Statement No.7 of the Japanese Institute of Certified Public Accountants, last revised on February 16, 2018).

(Significant Subsequent Events)

On January 2021, three employees of Nihon Kohden Corporation in Japan were arrested and indicted for prosecution on suspicion of bribery. In accordance with this matter, some public university hospitals and public medical institutions have imposed dispositions such as suspending transactions or designation with the Company. The impacts of this matter on the consolidated results for FY2020 are expected to be limited.