

Consolidated Financial Highlights for the Third Quarter of FY2020 (From April 1, 2020 to December 31, 2020)

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NIHON KOHDEN CORPORATION

(Ticker Code: 6849)

February 3, 2021

Fighting Disease with Electronics



Prologue) Response to Compliance Matter

January 2021

Arrest and prosecution of three employees of sales office in Japan

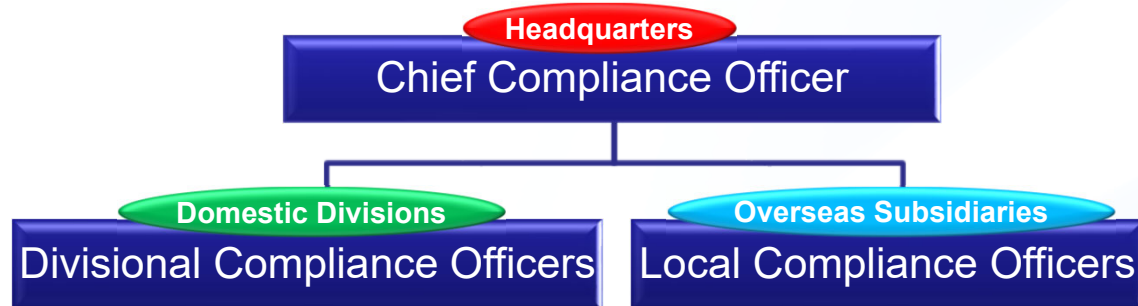
→ **Establishment of Investigation Committee**

Chairperson: Outside director,
Ms. Kanako Muraoka
Total 6 members: 2 outside directors,
2 outside lawyers, and 2 internal directors

- Investigate and confirm the facts related to the bribery case
- Investigate whether there are similar cases at other domestic sales branch offices
- Formulate measures to prevent recurrence and consider disciplinary actions to persons concerned

● Compliance Framework

In 2016: Nihon Kohden Europe and the World Bank signed a Negotiated Resolution Agreement in relation to inappropriate payments in a project in Romania
In 2017: Established **Anti-Corruption Policies**
Introduced **Global Compliance Program**

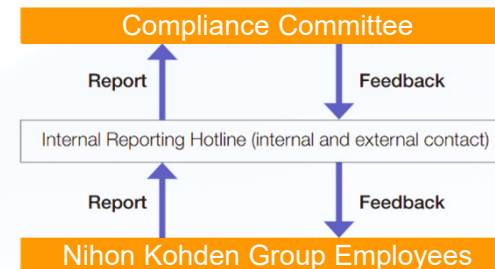


● Compliance Training

5 times a year in domestic sales branch offices

- Once a year:
 - Compliance workshops at the workplace level (All 5,300 executives & employees participated in FY2019)
 - E-learning on risk management (All executives & employees in Japan)
 - Compliance study sessions in each office (*)
 - Twice a year: Compliance check (*)
- * Domestic sales branch offices

● Internal Reporting Hotline



The Company forbids all forms of retaliation against individuals who make reports in good faith. Anonymous reports are also acceptable.

Plan to revise compliance framework based on the results of the investigation by the Investigation Committee

1) Consolidated Financial Results for the 3rd Quarter of FY2020

| | FY2019 3Q 9 months | FY2020 3Q 9 months | YoY (%) | (Amounts of less than ¥1 million are rounded down) |
|--|-----------------------|-------------------------------|---------|--|
| Net Sales | 129,525 | 137,046 | 5.8 | |
| Domestic Sales | 94,387 | 88,004 | -6.8 | |
| Overseas Sales | 35,137 | 49,042 | 39.6 | ← +44% on a local currency basis |
| Gross Profit (Gross Profit Margin) | 63,039 48.7% | 69,113 50.4% | 9.6 | ← In-house sales ratio: FY2019 3Q 65.0% → FY2020 3Q 69.1% |
| Operating Income (Operating Income Margin) | 8,396 6.5% | 15,586 11.4% | 85.6 | ← SG&A Ratio: 42.2% → 39.0% |
| Ordinary Income | 8,108 | 14,697 | 81.2 | ← Foreign exchange losses: FY2019 3Q ¥511 mil → FY2020 3Q ¥1,271 mil |
| Income Attributable to Owners of Parent | 4,832 | 8,882 | 83.8 | ← [Extraordinary losses] Impairment losses: FY2020 3Q ¥320 mil Amortization of goodwill: ¥1,193 mil |

| Average Exchange Rate | (2019/12) | (2020/12) |
|-----------------------|-----------|------------------|
| 1 US Dollar | 109.0 yen | 106.3 yen |
| 1 EURO | 121.3 yen | 122.2 yen |

2) Highlights of FY2020 3Q

Net Sales : +5.8%

- **Japan:** 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. There was also a reactionary decline from large-scale orders in FY2019 3Q.
- **International:** Sales achieved double-digit growth because solid demand for patient monitors, ventilators and defibrillators continued.

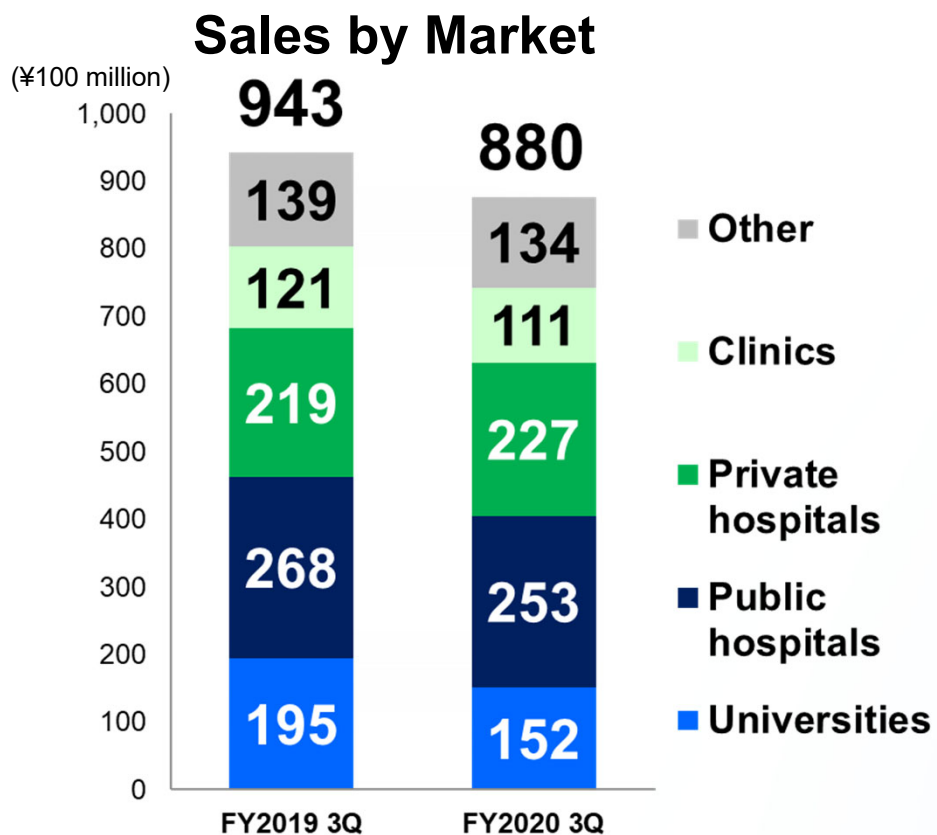
Operating Income : +85.6%

- Operating income increased significantly due to the increase in sales, increase in gross profit margin and decrease in SG&A expenses such as traveling expenses.
- Gross profit margin remained above 50% thanks to a favorable product mix.

Net Income : +83.8%

- 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.

3) Domestic Sales



Sales by Product Category

(Sales, millions of yen)

| | FY2019 3Q 9 months | FY2020 3Q 9 months | YoY (%) |
|-----------------------------------|-----------------------|-----------------------|-------------|
| Physiological Measuring Equipment | 23,607 | 20,025 | -15.2 |
| Patient Monitors | 28,521 | 27,615 | -3.2 |
| Treatment Equipment | 16,900 | 18,828 | 11.4 |
| Other Medical Equipment | 25,357 | 21,536 | -15.1 |
| Total Sales | 94,387 | 88,004 | -6.8 |

【Markets】 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 FY2019 3Q when sales were strong due to large orders related to construction of new hospitals.

【Products】 **Physiological Measuring Equipment:** Sales of all products recorded double-digit declines.

Patient Monitors: From FY2020 3Q (3 months), demand for patient monitors showed recovery, but sales of bedside monitors and clinical information systems decreased. Sales of telemetry systems increased favorably.

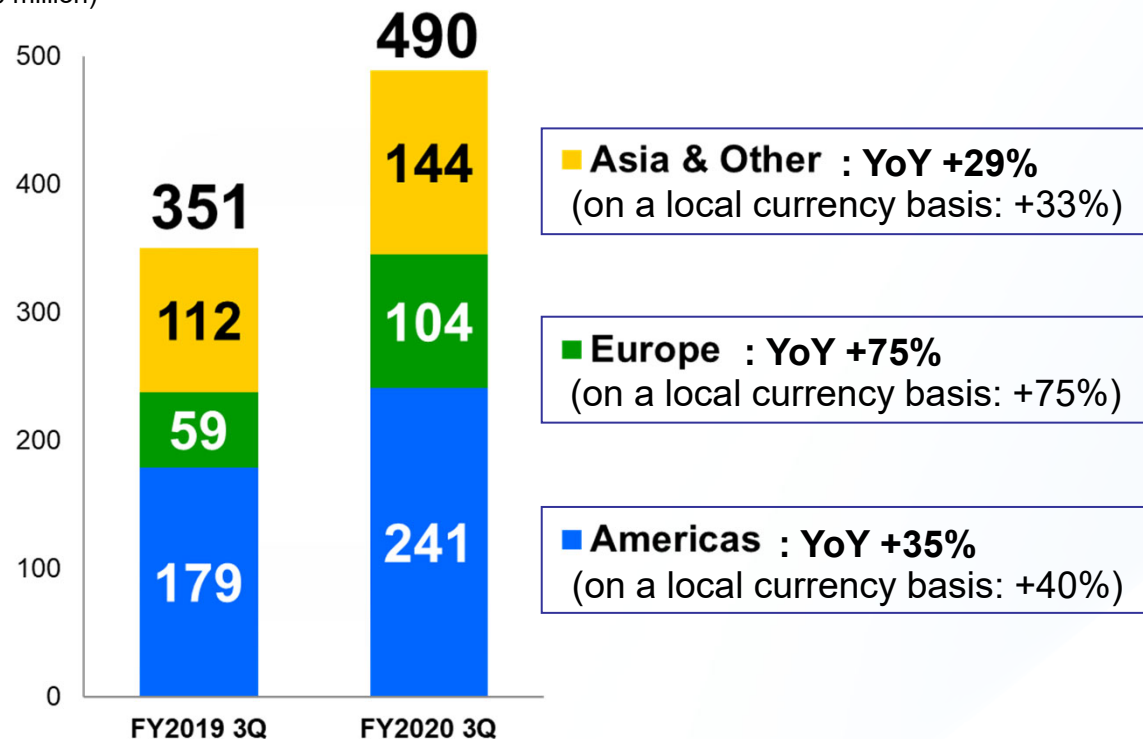
Treatment Equipment: Sales of ventilators and AEDs showed strong growth. Sales of defibrillators, pacemakers and ICDs decreased.

Other Medical Equipment: Sales of locally purchased products and installation services for medical devices decreased significantly, compared to FY2019 3Q when large orders were received.

4) Overseas Sales

Geographic segments

(¥100 million)



Percentage of overseas sales to consolidated sales

| FY2019 3Q 9 months | FY2020 3Q 9 months |
|-----------------------|-----------------------|
| 27.1% | 35.8% |

Sales by Product Category

(Sales, millions of yen)

| | FY2019 3Q 9 months | FY2020 3Q 9 months | YoY (%) |
|-----------------------------------|-----------------------|-----------------------|-------------|
| Physiological Measuring Equipment | 6,394 | 5,948 | -7.0 |
| Patient Monitors | 17,487 | 27,753 | 58.7 |
| Treatment Equipment | 7,119 | 11,700 | 64.3 |
| Other Medical Equipment | 4,136 | 3,639 | -12.0 |
| Total Sales | 35,137 | 49,042 | 39.6 |

+44% on a local currency basis

[Region] **Americas:** Sales in the U.S. showed double-digit growth. Sales in Latin America achieved double growth, mainly in Mexico and Colombia.

Sales in Brazil also showed strong growth.

Europe: Sales both in Western Europe and Eastern Europe showed strong growth, supported by double growth in Italy, the U.K. and Poland.

Asia & Other: Sales showed double-digit growth, thanks to large orders in Israel and Indonesia. Sales in China also increased steadily.

[Products] **Physiological Measuring Equipment:** Sales of EEGs decreased in the Americas and Asia & Other. Sales of ECGs increased favorably in all regions.

Patient Monitors: Sales in all regions achieved double-digit growth. Especially, sales in Europe and Latin America doubled.

Treatment Equipment: The ventilator business has grown to a certain scale in all regions. Sales of defibrillators also increased favorably in all regions. Sales of AEDs decreased due to weak demand.

Other Medical Equipment: Sales of hematology analyzers and reagents decreased in all regions due to weak demand and a decline in the amount of testing.

5) Sales by Product Category

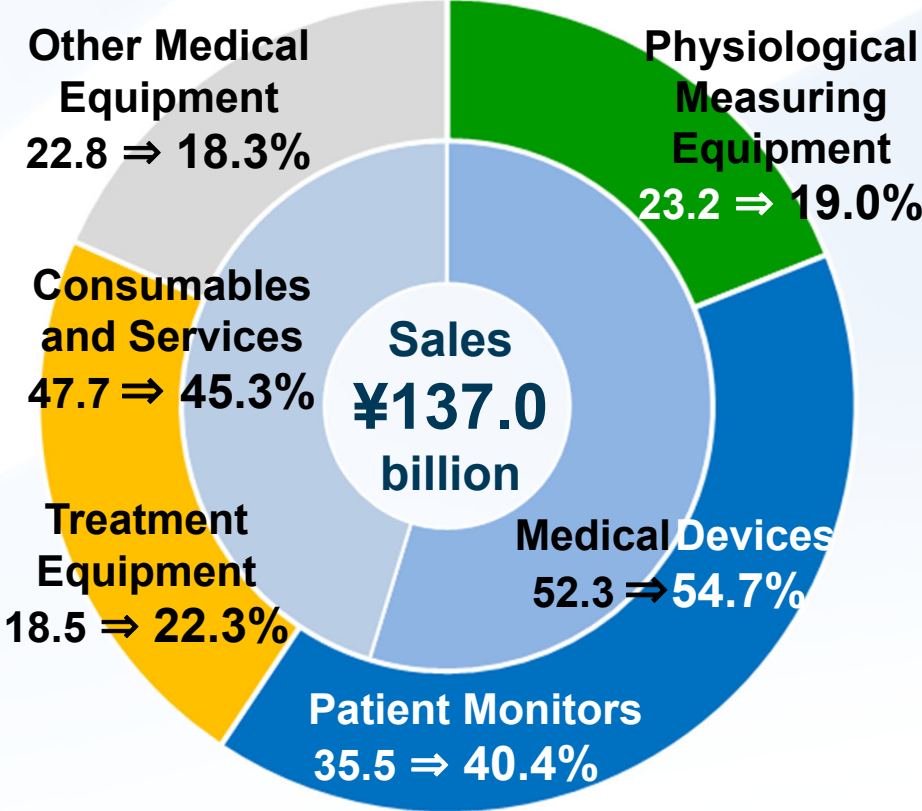
(Sales, millions of yen)

| | FY2019 3Q 9 months | FY2020 3Q 9 months | YoY (%) |
|-----------------------------------|-----------------------|-----------------------|------------|
| Physiological Measuring Equipment | 30,002 | 25,973 | -13.4 |
| Patient Monitors | 46,008 | 55,369 | 20.3 |
| Treatment Equipment | 24,019 | 30,528 | 27.1 |
| Other Medical Equipment | 29,494 | 25,175 | -14.6 |
| Total Sales | 129,525 | 137,046 | 5.8 |

(Reference)

| | | | |
|--------------------------|--------|---------------|-----|
| Consumables and Services | 61,804 | 62,036 | 0.4 |
|--------------------------|--------|---------------|-----|

Sales composition by product category
(FY2019 3Q ⇒ FY2020 3Q)



(Ref.) Breakdown of Sales by Product Category

(Billions of yen)

| Physiological Measuring Equipment | FY2019 3Q 9 months | FY2020 3Q 9 months |
|---|-----------------------|-----------------------|
| Electroencephalographs | 5.1 | 4.3 |
| Electrocardiographs | 4.8 | 4.6 |
| Polygraphs for Cath Lab | 12.2 | 10.7 |
| Other Physiological Measuring Equipment * | 7.7 | 6.2 |

*Includes diagnostic information systems and products of other companies.

| Treatment Equipment | FY2019 3Q 9 months | FY2020 3Q 9 months |
|---|-----------------------|-----------------------|
| Defibrillators (for Hospital and Ambulance) | 4.1 | 5.2 |
| AEDs (Automated External Defibrillator) | 10.8 | 10.6 |
| Pacemakers / ICDs | 2.3 | 2.0 |
| Ventilators | 2.2 | 8.0 |
| Other Treatment Equipment | 4.3 | 4.5 |

| Other Medical Equipment | FY2019 3Q 9 months | FY2020 3Q 9 months |
|--|-----------------------|-----------------------|
| Hematology Analyzers | 7.3 | 6.6 |
| Imaging Systems, Medical equipment for research and others * | 22.1 | 18.5 |

*Includes consumables, installation and maintenance services which are not part of other categories.

6) Depreciation and R&D Costs

(Amounts of less than ¥1 million are rounded down)

| | FY2019 3Q 9 months | FY2020 3Q 9 months | Change | FY2019 Actual | FY2020 | |
|----------------------------|-----------------------|-----------------------|--------|------------------|---------------------------------------|-------------------------------------|
| | | | | | Original Forecast announced May 13 | Revised Forecast announced Nov 6 |
| Depreciation | 2,611 | 2,334 | -276 | 3,597 | 3,600 | 3,600 |
| R&D costs | 4,758 | 4,430 | -328 | 6,731 | 7,000 | 7,200 |
| Capital Investments | | | | 3,549 | 3,900 | 3,900 |

● **FY2020 capital investments plan:**

Molds for new products, measuring equipment and jigs, products for demonstration, IT systems, production equipment (including equipment related to ramping-up production of two models of ventilators and patient monitors)

Mid-range bedside monitors

Resubmitted to FDA in U.S. at end of Nov. 2020



CSM-1500/1700 series

Reagent factory in Dubai

Production planned to start in FY2020 4Q



7) Forecast for FY2020

| | FY2019 Actual | FY2020 | | | YoY (%) |
|--|------------------|--|--|--|------------|
| | | Original forecast announced May 13 | Revised forecast announced Nov 6 | Revised forecast announced Feb 2 | |
| Sales | 185,007 | 180,000 | 184,000 | 190,500 | 3.0 |
| Domestic Sales | 134,355 | 126,200 | 127,200 | 129,000 | -4.0 |
| Overseas Sales | 50,651 | 53,800 | 56,800 | 61,500 | 21.4 |
| Gross Profit (Gross Profit Margin) | 89,325 48.3% | 87,200 48.4% | 91,300 49.6% | 94,700 49.7% | 6.0 |
| Operating Income (Operating Income Margin) | 15,503 8.4% | 14,000 7.8% | 16,500 9.0% | 20,000 10.5% | 29.0 |
| Ordinary Income | 14,846 | 14,000 | 16,500 | 19,100 | 28.7 |
| Income Attributable to Owners of Parent | 9,854 | 10,000 | 11,000 | 11,800 | 19.7 |
| Percentage of Overseas Sales | 27.4% | 29.9% | 30.9% | 32.3% | |

(Amounts of less than ¥1 million are rounded down)

+25% on a local currency basis

Breakdown of overseas sales by region

| | FY2019 Actual | FY2020 | | | YoY (%) |
|-----------------------------|------------------|---------------------------------------|-------------------------------------|-------------------------------------|------------|
| | | Original forecast announced May 13 | Revised forecast announced Nov 6 | Revised forecast announced Feb 2 | |
| Americas | 24,731 | 26,600 | 28,100 | 29,600 | 19.7 |
| Europe | 9,044 | 8,800 | 10,300 | 12,700 | 40.4 |
| Asia & Other | 16,876 | 18,400 | 18,400 | 19,200 | 13.8 |
| Total | 50,651 | 53,800 | 56,800 | 61,500 | 21.4 |

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

*The assumed exchange rates for FY2020 4Q are 104 yen to the U.S. dollar and 126 yen to the euro.

Average exchange rate

| | | | | |
|-------------|-----------|---------|---------|---------|
| 1 US Dollar | 109.1 yen | 107 yen | 106 yen | 106 yen |
| 1 EURO | 121.1 yen | 117 yen | 122 yen | 123 yen |

8) Reason for the Revision

Net Sales
(up ¥6.5 bil from previous forecast)

Domestic Sales
(up ¥1.8 bil)

- Sales in FY2020 4Q will continue to recover
- The Government's supplementary budget will support demand from medical institutions in the midst of the COVID-19 emergency
- Under the 2nd state of emergency, restrictions on sales/service activities, and postponement of testing and surgical procedures are expected

Overseas Sales
(up ¥4.7 bil)

- The special demand related to COVID-19 in FY2020 3Q exceeded the Company's expectations
- A corresponding reactionary decline is expected to occur in FY2020 4Q

Operating Income
(up ¥3.5 bil)

- Revised upward because sales are expected to be higher than the previous forecast

Ordinary Income
(up ¥2.6 bil)

- Foreign exchange losses due to yen appreciation

Income Attributable to Owners of Parent
(up ¥0.8 bil)

- Extraordinary losses such as amortization of goodwill and impairment losses were posted in FY2020 3Q

● Impact on business from the compliance matter

- Some public university hospitals and public medical institutions have imposed dispositions such as suspending transactions and participation in tenders
- No change to the revised forecast for FY2020 announced on Feb. 2

The number of notifications (as of Jan. 29)

| The period of suspension | 42 national university hospitals | 47 prefectures |
|--------------------------|----------------------------------|----------------|
| 1-3 months | 7 | 8 |
| 4-6 months | 2 | 9 |
| 7-9 months | 0 | 2 |
| 10 months or more | 1 | 3 |

(Ref.) Consolidated Forecast for FY2020 by Product Category/ Effect of Exchange Rates

(Amounts of less than ¥1 million are rounded down)

| | FY2019 Actual | FY2020 | | | | YoY (%) |
|-----------------------------------|------------------|---------------------------------------|-------------------------------------|-------------------------------------|--------------------------|------------|
| | | Original Forecast announced May 13 | Revised Forecast announced Nov 6 | Revised Forecast announced Feb 2 | Composition ratio (%) | |
| Physiological Measuring Equipment | 42,273 | 37,200 | 36,800 | 37,800 | 19.8 | -10.6 |
| Patient Monitors | 64,966 | 68,500 | 70,000 | 74,700 | 39.2 | 15.0 |
| Treatment Equipment | 34,512 | 35,800 | 39,800 | 41,100 | 21.6 | 19.1 |
| Other Medical Equipment | 43,254 | 38,500 | 37,400 | 36,900 | 19.4 | -14.7 |
| Total | 185,007 | 180,000 | 184,000 | 190,500 | 100.0 | 3.0 |

(Reference)

| | | | | | | |
|--------------------------|--------|--------|--------|--------|------|-----|
| Consumables and Services | 84,160 | 82,200 | 81,500 | 84,500 | 44.4 | 0.4 |
|--------------------------|--------|--------|--------|--------|------|-----|

Estimated Exchange Rate Fluctuations for Full Fiscal Year

| | Sales | Operating Income |
|-------------|--------------|---------------------|
| 1 US Dollar | 0.35 bil yen | 0.07 bil yen |
| 1 EURO | 0.10 bil yen | 0.05 bil yen |

Disclaimer:

The contents of this document are based on the Company's best judgments at the time it was prepared and do not constitute a guarantee or promise that the Company will achieve its numerical targets or implement the measures described therein.