

[Summary] Consolidated Financial Results for the 3rd Quarter of the Fiscal Year Ending March 31, 2022 (Japan GAAP)

NIHON KOHDEN CORPORATION (6849)

Stock Exchange Listing: 1st Section Tokyo Stock Exchange
 Head Office: Tokyo
 Representative: Hirokazu Ogino, Representative Director, President
 Contact: Keichiro Yoshizawa, General Manager, Corporate Strategy Division
 Phone: +81 / 3 - 5996 - 8003 (URL <https://www.nihonkohden.co.jp>)

(Amounts are rounded down to the nearest million yen)

1. Consolidated Financial Highlights for the 3rd Quarter of FY2021 (From April 1, 2021 to December 31, 2021)

(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	%
FY2021 3Q (9 months)	148,078	8.0	23,316	49.6	24,677	67.9	16,911	90.4
FY2020 3Q (9 months)	137,046	5.8	15,586	85.6	14,697	81.2	8,882	83.8

Note: Comprehensive income: FY2021 3Q: 17,647 million yen (98.5%) FY2020 3Q: 8,889 million yen (75.8%)

	Net income per share - Basic	Net income per share - Diluted
	Yen	Yen
FY2021 3Q (9 months)	199.36	—
FY2020 3Q (9 months)	104.30	—

(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, 2021	191,981	150,175	78.2	1,772.79
As of March 31, 2021	193,030	138,986	72.0	1,631.88

Reference: Equity Capital: FY2021 3Q: 150,175 million yen FY2020 : 138,986 million yen

2. Dividends

	Dividends per share				
	First quarter	Interim (Second quarter)	Third quarter	Year-end	Full-year
	yen	yen	yen	yen	yen
FY2020	—	17.00	—	38.00	55.00
FY2021	—	19.00	—		
FY2021 (Forecast)				33.00	52.00

Note: Revise of dividends forecast: Yes

Note: Breakdown of year-end dividends for FY2020: Ordinary dividends: 18.00 yen Special dividends: 20.00 yen

Note: Breakdown of year-end dividends for FY2021(Forecast): Ordinary dividends: 20.00 yen Commemorative dividends: 13.00 yen

3. Consolidated forecast for FY2021 (From April 1, 2021 to March 31, 2022)

	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	203,000	1.6	28,500	5.2	29,500	4.0	20,000	9.6	236.10

Note: Revise of consolidated forecast: Yes

*** Notes**

(1) Changes in significant subsidiaries during the period (changes in specified subsidiaries resulting in the change in scope of consolidation): None

Newly included: — companies (—)

Excluded: — companies (—)

(2) Changes in accounting policies, changes in accounting estimates, and restatement

(i) Changes in accounting policies due to revisions to accounting standards and other regulations: Yes

(ii) Changes in accounting policies due to other reasons: None

(iii) Changes in accounting estimates: None

(iv) Restatement: None

(3) Number of issued shares (common shares)

(i) Total number of issued shares at the end of the period
(including treasury shares)

FY2021 3Q	88,730,980	shares
FY2020	88,730,980	shares

(ii) Number of treasury shares at the end of the period

FY2021 3Q	4,019,502	shares
FY2020	3,561,589	shares

(iii) Average number of shares outstanding during the period

FY2021 3Q	84,829,234	shares
FY2020 3Q	85,164,108	shares

* 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, 2021 to December 31, 2021), social and economic activity showed signs of recovery due to the benefits of economic measures taken by each country and the progress of COVID-19 vaccination. However, the global economic outlook remained uncertain due to the spread of the Omicron variant from the end of 2021 as well as higher resource prices and the semiconductor shortage. In Japan, the number of testing and surgical procedures in medical institutions showed a recovery trend and the healthcare system continued to respond to COVID-19 patients. 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 regions where the spread of infection has resurged, but demand has generally settled down in the third quarter (October to December 2021).

Under these circumstances, Nihon Kohden started its three-year business plan, BEACON 2030 Phase I, in April 2021. The Company formulated the basic policies as follows: i) Embracing sustainability across business and corporate activities, ii) Ensuring strict compliance and strengthening group governance, iii) Improving the profitability of existing businesses and making strategic upfront investments, and iv) Establishing global SCM and strengthening core functions of operations.

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 consumables and services business as well as strengthened its marketing and service capabilities, creating customer value which contributed to improving medical safety, patient outcomes, and operating efficiency. Accordingly, sales in all markets increased. Sales also increased because demand for certain products recovered from the decrease that occurred in the same period of the previous fiscal year. Furthermore, the resumption of business negotiations related to IT system solutions contributed to increased sales. In particular, sales in the public hospital and private hospital markets showed strong growth, due in part to the installation of patient monitors and ventilators supported by the Government's budget. Sales of Patient Monitors and Treatment Equipment achieved double-digit growth, and sales of Physiological Measuring Equipment also increased. In Other Medical Equipment, sales of locally purchased products decreased as the Company focused on selling in-house products. As a result, domestic sales increased 9.8% over the nine months of FY2020 to ¥96,597 million.

International: Sales increased, as demand for certain products recovered in all regions from the decrease that occurred in the same period of the previous fiscal year. The Company also succeeded in strengthening its consumables and services business. In the Americas, sales in the U.S. increased favorably. Sales in Latin America decreased due to the reactionary decline in Mexico and Colombia where sales doubled in the same period of the previous fiscal year. Sales decreased in Europe, where demand for certain products recovered, but not enough to cover the reactionary decline compared to the strong growth in the same period of the previous fiscal year. In Asia & Other, sales in India, Thailand, Malaysia, and Egypt doubled, and sales in China and Vietnam also increased favorably. Sales of Physiological Measuring Equipment and Other Medical Equipment achieved double-digit growth. In Treatment Equipment, sales of AEDs recovered and sales of defibrillators increased favorably. Sales of ventilators decreased due to the reactionary decline compared to the same period of the previous fiscal year when demand increased. Sales of Patient Monitors decreased due to the reactionary decline in Europe and Latin America where demand increased in the same period of the previous fiscal year, while sales in the U.S. and Asia & Other increased favorably. As a result, international sales increased 5.0% over the nine months of FY2020 to ¥51,481 million.

As a result, overall sales during the term under review increased 8.0% over the nine months of FY2020 to ¥148,078 million. Operating income increased 49.6% over the nine months of FY2020 to ¥23,316 million due to the increase in sales and higher gross profit margin thanks to a favorable product mix. Ordinary income increased 67.9% over the nine months of FY2020 to ¥24,677 million, reflecting foreign exchange gains compared to losses in the same period of the previous fiscal year. Income attributable to owners of parent increased 90.4% over the nine months of FY2020 to ¥16,911 million.

5. Consolidated Sales Results by Product Category

	(Millions of yen)	
	Nine months ended December 31, 2021	
	Amount	Growth rate (%)
Physiological Measuring Equipment	27,457	+ 5.7
Patient Monitors	62,425	+ 12.7
Treatment Equipment	33,149	+ 8.6
Other Medical Equipment	25,046	- 0.5
Total	148,078	+ 8.0
Products	81,646	+ 8.8
Consumables and Services	66,431	+ 7.1
(Reference) Sales by Region		
Domestic Sales	96,597	+ 9.8
Overseas Sales	51,481	+ 5.0
Americas	25,362	+ 5.1
Europe	8,681	- 16.9
Asia & Other	17,436	+ 20.6

6. Consolidated Forecast for FY2021

Based on the results for the nine months of FY2021 and recent performance trends, the Company revised its forecasts for FY2021, previously announced on November 8, 2021.

The FY2021 full-year overall sales forecast is expected to be ¥203,000 million, up ¥2,000 million from its previous forecast. Domestic sales forecast remained at ¥136,500 million as same as its previous forecast. In the fourth quarter, there will be a reactionary decline compared to the same period of the previous fiscal year when demand surged. Overseas sales forecast is expected to be ¥66,500 million, up ¥2,000 million from its previous forecast. Internationally, there is demand for patient monitors in some regions where the spread of infection has resurged. Demand for non-COVID-19-related medical devices has also shown signs of recovery.

Because sales are expected to be higher than the Company's previous forecast and the product mix will be favorable, operating income, ordinary income, and income attributable to owners of parent are expected to be ¥28,500 million (up ¥3,000 million from its previous forecast), ¥29,500 million (up ¥4,000 million from its previous forecast), and ¥20,000 million (up ¥2,500 million from its previous forecast), respectively.

The earnings forecasts described above include the impact of the spread of coronavirus variants and the semiconductor shortage, based on information currently available to the Company at this moment. Actual results may differ from the forecasts due to unforeseen circumstances.

The Company's forecast for the fourth quarter of FY2021 is based on an exchange rate of 114 yen to the U.S. dollar and 131 yen to the euro.

(Consolidated Forecast for FY2021 by Product Category)

	(Millions of yen)	
	FY2021 (forecast)	
	Amount	Growth rate (%)
Physiological Measuring Equipment	39,700	+ 5.6
Patient Monitors	81,900	+ 3.9
Treatment Equipment	43,200	- 4.3
Other Medical Equipment	38,200	+ 0.0
Total	203,000	+ 1.6
Products	110,900	- 2.6
Consumables and Services	92,100	+ 7.2
(Reference) Sales by Region		
Domestic Sales	136,500	- 0.6
Overseas Sales	66,500	+ 6.5
Americas	32,200	+ 6.3
Europe	10,600	- 19.3
Asia & Other	23,700	+ 24.6

7. Consolidated Financial Statements
(1) Consolidated Balance Sheets

(Millions of yen)

	March 31, 2021	December 31, 2021
ASSETS		
Current assets:		
Cash and deposits	30,609	28,479
Notes and accounts receivable - trade	68,612	52,324
Securities	14,000	23,000
Merchandise and finished goods	27,965	29,657
Work in process	2,326	3,358
Raw materials and supplies	8,594	12,222
Other current assets	4,256	4,805
Allowance for doubtful accounts	-225	-245
Total current assets	156,140	153,603
Non-current assets:		
Property, plant and equipment	20,193	19,548
Intangible assets		
Goodwill	431	805
Other intangible assets	1,898	2,804
Total intangible assets	2,329	3,610
Investments and other assets		
Investment securities	6,418	6,767
Other investments and other assets	8,112	8,616
Allowance for doubtful accounts	-165	-164
Total investments and other assets	14,366	15,218
Total non-current assets	36,889	38,377
Total assets	193,030	191,981
LIABILITIES		
Current liabilities:		
Notes and accounts payable - trade	24,412	21,185
Short-term loans payable	350	350
Accrued income taxes	7,915	2,849
Provision for bonuses	4,691	1,786
Provision for product warranties	1,116	748
Other current liabilities	12,121	11,418
Total current liabilities	50,608	38,339
Non-current liabilities:		
Net defined benefit liability	1,852	1,593
Other non-current liabilities	1,583	1,873
Total non-current liabilities	3,436	3,466
Total liabilities	54,044	41,805
NET ASSETS		
Shareholders' equity:		
Capital stock	7,544	7,544
Capital surplus	10,437	10,455
Retained earnings	123,796	135,699
Treasury shares	-6,966	-8,433
Total shareholders' equity	134,812	145,266
Accumulated other comprehensive income:		
Valuation difference on available-for-sale securities	2,158	2,323
Foreign currency translation adjustments	1,085	1,913
Remeasurements of defined benefit plans	929	672
Total accumulated other comprehensive income	4,173	4,909
Total net assets	138,986	150,175
Total liabilities and net assets	193,030	191,981

(2) Consolidated Statements of Income

(Millions of yen)

	Nine months ended December 31, 2020	Nine months ended December 31, 2021
Net sales	137,046	148,078
Cost of sales	67,933	68,889
Gross profit	69,113	79,188
Selling, general and administrative expenses	53,526	55,872
Operating income	15,586	23,316
Non-operating income		
Interest income	20	62
Dividend income	103	97
Gain on valuation of investment securities	—	3
Foreign exchange gains	—	979
Subsidy income	232	64
Other, net	133	262
Total non-operating income	489	1,470
Non-operating expenses		
Interest expenses	5	4
Loss on valuation of investment securities	12	—
Foreign exchange losses	1,271	—
Other, net	89	104
Total non-operating expenses	1,378	108
Ordinary income	14,697	24,677
Extraordinary income		
Gain on sales of non-current assets	0	0
Gain on sales of investment securities	464	—
Total extraordinary income	464	0
Extraordinary losses		
Loss on sales of non-current assets	0	0
Loss on retirement of non-current assets	28	49
Impairment losses	320	—
Amortization of goodwill	1,193	—
Office transfer cost	118	—
Total extraordinary losses	1,661	49
Income before income taxes	13,499	24,628
Income taxes	4,617	7,716
Net income	8,882	16,911
Income attributable to owners of parent	8,882	16,911

(Consolidated Statements of Comprehensive Income)

(Millions of yen)

	Nine months ended December 31, 2020	Nine months ended December 31, 2021
Net income	8,882	16,911
Other comprehensive income		
Valuation difference on available-for-sale securities	-12	165
Foreign currency translation adjustment	-168	827
Remeasurements of defined benefit plans, net of tax	188	-257
Total other comprehensive income	7	735
Comprehensive income	8,889	17,647
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	8,889	17,647
Comprehensive income attributable to non-controlling interests	—	—

(Notes on Business Combination)

Business combination through acquisition

1. Overview of business combination

(1) Name of acquired company and operations

Name of acquired company Advanced Medical Predictive Devices, Diagnostics and Displays, Inc. ("AMP3D")
 Business Research and development of algorithms and software for patient condition management

(2) Main reason for business combination

Reinforcement of technological development capabilities in the digital health solutions (DHS) field by combining the Company's core human machine interface (HMI) technology with AMP3D's algorithms and software technology for patient condition management

(3) Date of business combination

August 9, 2021

(4) Legal form of business combination

Acquisition of ownership for cash

(5) Name of company after business combination

Advanced Medical Predictive Devices, Diagnostics and Displays, Inc. ("AMP3D")

(6) Share of voting rights acquired

100%

(7) Basis of determination of acquiring company

Acquisition of ownership for cash by Nihon Kohden Digital Health Solutions, Inc., one of Nihon Kohden's subsidiaries

2. Business term of the acquired company included in the Consolidated Statement of Income for the third quarter of FY2021 (9 months)

From August 9, 2021 to September 30, 2021

3. Acquisition cost for the acquired company and breakdown thereof

	(Millions of yen)
Payment for acquisition of stocks	964
Acquisition related costs such as advisory fees	68
Acquisition cost	1,033

The amount is provisional based on available rational information since the acquisition price has not been finalized.

4. Contents of the condition clause for the acquisition cost under an acquisition agreement and its accounting method hereafter

There is the escalation clause that adjusts the acquisition cost based on the results of operations after the acquisition in the business combination agreement. If additional payment is required based on the clause, the acquisition cost will be revised assuming that the additional payment had been made at the time of acquisition and the Company adjusts the goodwill amount and its amortization.

5. Amount of goodwill incurred, reasons and amortization method

The Company recognized goodwill of ¥ 413 million and it is amortized by straight-line method over the term of 10 years. Goodwill is calculated based on the projected future excess earnings through future business development.