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Nihon Kohden draws up a new mid-term business plan

Nihon Kohden today announced a new mid-term business plan, **TRANSFORM 2020**, covering the fiscal years 2017 to 2019. The three-year business plan aims to sustain the growth of the Nihon Kohden Group and enhance the corporate value of the Company in line with its management philosophy, “we contribute to the world by fighting disease and improving health with advanced technology, and create a fulfilling life for our employees.”

I. Review of the previous mid-term business plan, Strong Growth 2017

In 2010, Nihon Kohden established a long-term vision, The CHANGE 2020 -The Global Leader of Medical Solutions-, for the next ten years to 2020. The envisioned corporate status for 2020 is to (1) lead the world in the development of revolutionary breakthrough technology, (2) achieve the highest level of quality in the world, and (3) attain the top share of applicable global markets. The targets for the fiscal year ending March 2020 were sales of ¥200 billion, operating income of ¥25 billion and overseas sales ratio of 35%.

Nihon Kohden implemented its mid-term business plan covering the fiscal years 2013 to 2016, Strong Growth 2017, which is the second stage in realizing its long-term vision. In Japan, Nihon Kohden reorganized its sales operations to match each market: the acute care hospital market, the small and mid-sized hospital market, and the clinic market, to achieve sustainable growth under the Japanese government’s future vision to reorganize the medical and nursing care systems by 2025.

Internationally, the Company focused on enhancing its business structure, especially in the U.S. and emerging markets, to achieve strong growth in overseas markets. On the technology side, Nihon Kohden focused on developing technologies and products with high clinical values such as iNIBP^{*1} and the EEG headset^{*2}. The Company also undertook to create new business opportunities through the development of ventilators and anesthesia machines. Nihon Kohden enhanced its business structure by establishing the Tomioka Production Center and constructing an Advanced Technology Center. The Company strengthened its corporate governance through appointing four independent outside directors and establishing a Nomination and Remuneration Committee. However, the financial results for fiscal year ended March 31, 2017, which was the last year of Strong Growth 2017, were below its targets for consolidated sales, operating income and ROE, which were revised upward in May 2015. This was due to a negative impact from the progress of healthcare reform in Japan and the deterioration of the market environment in some emerging countries. The Company’s upfront investment burden was also

affected. As a result, the improvement of profitability remains as an issue to be solved.

*1 iNIPB is an original algorithm which allows quick and painless NIBP measurement during cuff inflation.

*2 The EEG headset enables a quick EEG measurement in the Emergency Room by easy attachment to the head.

II. Mid-term business plan: TRANSFORM 2020

Based on the results and issues under its previous mid-term business plan, Nihon Kohden aims to transform its operations to achieve a highly profitable structure. In order to improve its profitability, the Company will further enhance its core Human Machine Interface* technologies and continue to create and provide three types of customer value: Innovation, Quality, and Clinical Value, that help to resolve the issues in medical practice.

*Humane Machine Interface is the user interface that connects human and machine. For Nihon Kohden, HMI indicates sensor technology, signal processing technology, and data analysis technology.

1. Basic policies

(1) Create high customer value

- Nihon Kohden will focus on developing and selling in-house products with high customer value by leveraging its core technologies.
- The Company will increase the competitive advantage of consumables such as sensors and enhance services that contribute to medical safety and efficiency in order to expand sales of consumables and services.
- Nihon Kohden will establish a global sales and services network that draws on high levels of expertise to improve customer satisfaction.

(2) Improve productivity within the organization

- Nihon Kohden will implement production reforms at its mother factory, Tomioka Production Center and establish a global supply chain appropriate for the Group in order to improve productivity and ensure the timely supply of products to countries around the world.
- The Company will improve development efficiency by utilizing the R&D and testing environment at its Advanced Technology Center as well as strengthening the support from process management, quality management, and production technology.
- The Company will reform its operating procedures and utilize information technology to improve the productivity of each employee.

2. Six key strategies

(1) Strengthen business expansion by region

Nihon Kohden will reinforce its business expansion in Japan, developed countries, and emerging markets to achieve sustainable growth in Japan and strong growth internationally.

1) Japan: Establish the business foundation for future growth to meet medical needs in an aging society

- Provide solutions that contribute to improving hospital management
- Expand its product portfolio as well as enhance and reorganize its sales and services operations to meet the needs of regional medical care networks

2) Strengthen its business structure in the U.S. which is the world's largest market and a center of leading-edge medical care

- Provide solutions that contribute to improving quality and efficiency of medical care
- Establish R&D, sales and services operations that enable rapid response to market needs and ensure high customer satisfaction
- Enter new markets through expansion of its product line-up and strategic M&A

3) Conduct strategic business expansion to meet medical needs in high growth emerging markets

- Expand its line-up of affordable models for emerging markets by enhancing its R&D and production operations in China
- Promote local production and strengthen local service operations in India, Southeast Asia, and Latin America

(2) Achieve further growth in core businesses

Nihon Kohden will aim to achieve further growth in its core businesses by continuous innovation and rapid response to changes in the market environment.

Patient Monitor Business

- Provide monitoring solutions that contribute to improving the quality and efficiency of medical care and patient safety
- Establish a global R&D structure for responding to the needs of each market
- Enhance network systems to support large-scale monitoring by utilizing wireless technology

Diagnostic Equipment Business

• **Neurology products**

- Expand its market share in the neuro monitoring market* by providing neurology products which combine information technology and patient monitoring technology

* The neuro monitoring market includes Intraoperative Monitoring, Epilepsy Monitoring Units and Neuro Care Units.

• **Cardiology products**

- Expand the integrated product line-up by utilizing its unique technologies such as synthesized 18-lead ECG*

* Synthesized 18-lead ECG is a measurement method to derive 6-lead ECG, right-side leads V3R-V5R and posterior leads V7-V9, from the standard 12-lead ECG.

- Strengthen the price competitiveness of affordable models

• **Hematology Instruments**

- Expand its product line-up for point of care testing such as hematology analyzers, clinical chemistry analyzers and reagents
- Accelerate global business expansion by strengthening its cost competitiveness through enhancing local manufacturing capability

Treatment Equipment Business

- Establish leadership position in the defibrillator and AED markets by developing unique technologies and solutions that contribute to improving the care cycle in the resuscitation field

- Develop cutting-edge ventilators and anesthesia machines with its unique technologies in order to launch the products as a new business and promote global expansion at the earliest opportunity

IT Solutions Business

- Expand its system product line-up to become the basis of regional medical care networks by utilizing cloud technologies

Consumables and Services Business

- Promote market penetration of its unique sensor technologies globally
- Strengthen production and supply capability with respect to consumables in order to achieve cost reductions and meet increasing demands
- Provide value-added services by utilizing Internet of Things technologies

(3) Develop new businesses

Nihon Kohden will develop new businesses to meet new market needs in accordance with changes in the market environment and the progress of technological innovation, with the aim of creating future core businesses.

- 1) Create new customer value and new businesses by utilizing its technological resources such as sensor technology, signal processing technology, and data analysis technology
- 2) Create new businesses that meet new medical needs in an aging society

(4) Strengthen technological development capabilities

Nihon Kohden will further reinforce its technological development capabilities which are the basis for developing revolutionary breakthrough technologies, achieving the highest level of quality, and delivering high clinical value.

- 1) Further reinforce its core technologies which are the source of its competitive advantage
- 2) Introduce revolutionary technologies more rapidly through collaboration with industry-government-academia partnerships

(5) Pursue the highest level of quality in the world

Nihon Kohden will ensure the top quality in every activity of every division across the entire Nihon Kohden Group to ensure the satisfaction of customers around the world.

- Establish a global quality management system to respond to regulations in each country and enhance postmarket surveillance

(6) Consolidate corporate fundamentals

To grow as a global company, Nihon Kohden will establish a global business management structure and promote CSR activities in three priority areas: Healthcare, Environment, and Corporate Activities.

3. Human resource development and corporate culture reform

To realize its management philosophy, Nihon Kohden will introduce a new personnel system and human resource development programs to foster human resources who act autonomously and will cultivate an open and energetic corporate culture.

4. TRANSFORM 2020 targets for FY2019 ending March 2020 (consolidated)

TRANSFORM 2020 is the last stage of Nihon Kohden's long-term vision and an important turning point for realizing sustainable growth after 2020. Due to the changing market environment, the Company changed its numerical targets for the fiscal year ending March 2020. Nihon Kohden will consistently implement six key strategies in line with the basic policies set out above to achieve the TRANSFORM 2020 targets. The Company will also strive to realize the envisioned corporate status for 2020 stated in its long-term vision.

	FY2016 actual	FY2019 target
Sales	¥166.2 billion	¥190.0 billion
- Domestic sales	¥124.7 billion	¥135.0 billion
- Overseas sales	¥41.5 billion	¥55.0 billion
Operating income	¥13.5 billion	¥20.0 billion
Income attributable to owners of parent	¥9.1 Billion	¥13.7 Billion
ROE	9.1 %	12.0 %

Breakdown of overseas sales by region

	FY2016 actual	FY2019 target
Americas	¥18.9 billion	¥27.3 billion
Europe	¥6.9 billion	¥8.2 billion
Asia	¥12.6 billion	¥16.5 billion
Other	¥2.9 billion	¥3.0 billion

Exchange rate assumptions: ¥110 to the U.S. dollar, ¥115 to the euro

[Reference] Investment plan for growth

The total amount of capital investments and R&D costs are planned to be about ¥16.0 billion and ¥23.0 billion respectively over three years.

5. Basic policy on distribution of profits and dividends

Nihon Kohden recognizes that returning profits to shareholders is one of management's most important tasks. The basic policy on distribution of profits and dividends is to maintain stable and continuous dividend payments while retaining necessary reserves for future business expansion. Retained earnings are used in R&D investments, capital investments, M&A and development of human resources. The Company regards cash dividends as the basis of shareholder return and sets a target consolidated dividend payout ratio of 30% or more. Share buybacks are considered in a flexible manner, taking into account comprehensively the Company's future business developments, investment plans, retained earnings, and stock price level.

Disclaimer: This document is based on Company evaluations and analyses at the time of writing and does not in any way constitute a guarantee or warranty that the Company will achieve the numerical targets or implement the measures stated herein.