

## [Summary]

May 8, 2014

# Consolidated Financial Results for the Fiscal Year Ended March 31, 2014 (Japan GAAP)

## NIHON KOHDEN CORPORATION (6849)

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(Percentages indicate increase/decrease over the corresponding period in the previous fiscal year.)

### 1. Consolidated Financial Highlights for FY2013 (From April 1, 2013 to March 31, 2014)

#### (1) Consolidated Operating Results (Amounts are rounded down to the nearest million yen)

	Net sales		Operating income		Ordinary income		Net income	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
<b>FY2013</b>	<b>153,194</b>	<b>15.6</b>	<b>17,547</b>	<b>30.1</b>	<b>18,998</b>	<b>29.6</b>	<b>12,346</b>	<b>34.9</b>
FY2012	132,538	9.8	13,484	12.1	14,658	20.2	9,151	20.1

Note: Comprehensive income: FY2013: 14,593 million yen (41.3%) FY2012: 10,329 million yen (35.2%)

	Net income per share- Basic	Net income per share- Diluted	Return on equity	Ordinary income to total assets	Operating income Margin
	yen	yen	%	%	%
<b>FY2013</b>	<b>281.03</b>	—	<b>15.0</b>	<b>15.3</b>	<b>11.5</b>
FY2012	208.31	—	12.7	13.6	10.2

Reference: Investment income for equity method: FY2013: — million yen FY2012: — million yen

#### (2) Consolidated Financial Conditions

	Total assets	Net assets	Equity ratio	Net assets per share
	Millions of yen	Millions of yen	%	Yen
<b>FY2013</b>	<b>130,917</b>	<b>88,512</b>	<b>67.6</b>	<b>2,013.45</b>
FY2012	116,800	76,256	65.2	1,734.73

Reference: Equity capital: FY2013: 88,451 million yen FY2012: 76,208 million yen

#### (3) Consolidated Cash Flows

	Cash flows from operating activities	Cash flows from investing activities	Cash flows from financing activities	Cash and cash equivalents, end of the period
	Millions of yen	Millions of yen	Millions of yen	Millions of yen
<b>FY2013</b>	<b>9,383</b>	<b>-4,421</b>	<b>-3,436</b>	<b>28,808</b>
FY2012	13,189	-6,959	-1,174	26,683

### 2. Dividends

	Dividends per share					Total dividends (Annual)	Dividend payout ratio (Consolidated)	Dividend on equity ratio (Consolidated)
	First quarter	Interim (Second quarter)	Third quarter	Year-end	Full-year			
	yen	yen	yen	yen	yen	Millions of yen	%	%
FY2012	—	22.00	—	30.00	52.00	2,284	25.0	3.2
FY2013	—	30.00	—	40.00	70.00	3,075	24.9	3.7
FY2014 (Forecast)	—	35.00	—	35.00	70.00		26.7	

### 3. Consolidated forecast for FY2014 (From April 1, 2014 to March 31, 2015)

	Net sales		Operating income		Ordinary income		Net income		Net income per share- Basic
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Yen
First half	72,000	7.2	5,400	1.9	5,400	-6.7	3,400	-1.8	77.40
Full year	160,000	4.4	18,000	2.6	18,000	-5.3	11,500	-6.9	261.78

## (Reference) Non-Consolidated Financial Highlights

### 1. Non-Consolidated Financial Highlights for FY2013 (From April 1, 2013 to March 31, 2014)

#### (1) Non-Consolidated Operating Results

(Percentages indicate increase/decrease over the corresponding period in the previous fiscal year.)

	Net sales		Operating income		Ordinary income		Net income	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
<b>FY2013</b>	<b>96,273</b>	<b>10.5</b>	<b>11,844</b>	<b>28.7</b>	<b>14,566</b>	<b>29.6</b>	<b>10,405</b>	<b>28.3</b>
FY2012	87,125	15.9	9,204	21.8	11,238	23.9	8,111	27.1

	Net income per share - Basic	Net income per share - Diluted
	Yen	Yen
<b>FY2013</b>	<b>236.85</b>	—
FY2012	184.64	—

#### (2) Non-Consolidated Financial Conditions

	Total assets	Net assets	Equity ratio	Net assets per share
	Millions of yen	Millions of yen	%	Yen
<b>FY2013</b>	<b>111,714</b>	<b>73,497</b>	<b>65.8</b>	<b>1,673.05</b>
FY2012	98,066	65,309	66.6	1,486.62

Reference: Equity capital:

FY2013: 73,497 million yen

FY2012: 65,309 million yen

\* 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, 2013 to March 31, 2014), the Japanese government discussed revision of medical treatment fees scheduled for April 2014 and revision of Medical Care Law in order to differentiate medical institution functions, promote collaboration, and improve home care. This was in line with the government's 2025 future vision of medical/long-term care services which was presented in the Comprehensive Reform of Social Security and Taxes. The Japanese government also made legislative preparations to promote its growth strategy for the healthcare sector. Internationally, demand for medical equipment remained steady in the United States and emerging countries, while fiscal austerity created difficult market conditions in Europe.

Under these circumstances, the Company started its 4-year business plan, Strong Growth 2017, in April 2013 and implemented key strategies such as further growth in core business and strengthening business expansion by region. The Company is continuing to introduce products that support medical safety and improve efficiency in Patient Monitors. New competitive products were launched since April 2013: a telemetry transmitter with a color display, a portable receiving terminal, a transport monitor, and the most advanced bedside monitor. Nihon Kohden also strengthened its business structure in emerging markets. The Company established new sales subsidiaries, NKS Bangkok Co., Ltd. in Thailand, Nihon Kohden Latin America S.A.S in Colombia, and Nihon Kohden Malaysia Sdn. Bhd. in Malaysia. As a result, overall sales during the term under review increased 15.6% over FY2012 to ¥153,194 million and operating income increased 30.1% to ¥17,547 million. As foreign exchange gains were recorded, ordinary income increased 29.6% to ¥18,998 million and net income increased 34.9% to ¥12,346 million.

[Sales by region]

**Japan:** Sales in the hospital and clinic market remained favorable and AED sales increased in the PAD market. This resulted in increased sales of all product categories. Robust demand in the university and public hospital market supported strong sales of Patient Monitors. New product introductions also contributed. As a result, domestic sales increased 9.3% over FY2012 to ¥120,464 million.

**International:** Sales in all areas and all product categories showed positive growth supported by favorable currency impact and the acquisition of Defibtech. In the Americas, sales in the U.S. and Latin America showed strong growth. Comparable sales in Europe increased as demands in South Europe recovered gradually, although sales in Russia and Turkey declined. In Asia, sales in India and Middle East showed strong growth as the Company strengthened its local business structure. Comparable sales in China increased as a reflection of cooler Japan-China relations was gradually mitigated. As a result, international sales increased 46.6% over FY2012 to ¥32,730 million.

[Sales by product category]

**Physiological Measuring Equipment:** In Japan, sales of EEGs and ECGs remained at the same level as the previous fiscal year. Sales of polygraphs for cath lab and diagnostic information systems increased. Internationally, sales of EEGs and ECGs increased in all areas. Overall, sales increased 8.2% over the previous fiscal year to ¥36,654 million.

**Patient Monitors:** In Japan, sales of bedside monitors and transmitters increased, driven by new product introductions. Consumable sales such as sensors also increased robustly. Outside Japan, sales in the Americas and Asia showed strong growth, while sales in Europe decreased. Overall, sales increased 16.5% over the previous fiscal year to ¥50,864 million.

**Treatment Equipment:** In Japan, AED sales showed strong growth as a wide range of models and the Company's AED Remote Monitoring System, which supports the customers' daily check, have been well received. Sales of pacemakers and ICDs also increased. Internationally, sales of defibrillators and AEDs increased in all areas. Sales of defibrillators increased strongly due to large orders from Iraq. The acquisition of Defibtech contributed to sales growth of AEDs. Overall, sales increased 31.5% over the previous fiscal year to ¥28,401 million.

**Other Medical Equipment:** In Japan, sales of hematology instruments increased as new models were introduced. Sales of locally purchased products also increased. Internationally, sales of hematology analyzers increased in all areas. Overall, sales increased 11.6% over the previous fiscal year to ¥37,273 million.

## 5. Consolidated Sales Results by Product Category

(Millions of yen)

	FY2013	
	Amount	Growth rate (%)
Physiological Measuring Equipment	36,654	+8.2
Patient Monitors	50,864	+16.5
Treatment Equipment	28,401	+31.5
Other Medical Equipment	37,273	+11.6
Total	153,194	+15.6
Domestic Sales	120,464	+9.3
Overseas Sales	32,730	+46.6
(Reference) Overseas Sales		
Americas	13,124	+62.2
Europe	7,019	+25.1
Asia	11,037	+46.0
Other	1,547	+46.1

## 6. Consolidated Forecast for FY2014

In Japan, hospitals face a changing health care environment. In April 2014, medical treatment fees were revised in order to differentiate medical institution functions, promote collaboration, and improve home care. The Japanese government will provide a new budget for financial support to medical institutions and introduce a reporting system for hospital classification. Under these circumstances, demand for medical equipment which contributes the improvement of quality, safety, and efficiency of medical care will remain stable. Internationally, demand for medical equipment will remain steady in emerging countries and the U.S., while there is a sign of recovery in Europe. In the medical equipment industry, competition among companies will intensify domestically and internationally due to increasing cross-border M&A deals and new entrants.

Under these circumstances, Nihon Kohden will implement its 4-year business plan, Strong Growth 2017, to achieve sustained group growth and enhance its corporate value. In Japan, the Company aims to expand sales in acute care hospitals by introducing new competitive products and providing IT system solutions. In the small and mid-sized hospital market and the clinic market, the newly established Wellcare Business Division will develop business for integrated community care systems including dementia care and lifestyle diseases care. Internationally, the Company will expand its sales network and continue to introduce products that are tailored to the demands of local markets. In Patient Monitoring business, the Company will enhance product differentiation by introducing new competitive products and original technologies such as esCCO\* and iNIBP\*\* to increase sales as well as market share.

Nihon Kohden purchased a new production facility in Tomioka City, Gunma prefecture in March 2014. The new facility will enhance efficiency by integrating the major production functions and allow increased production volume. It is scheduled to start operation in Spring 2015. The Company also plans to relocate and consolidate R&D operations and establish an R&D facility in Tokorozawa City, Saitama Prefecture. It is scheduled to relocate in Spring 2016.

The Company forecasts overall sales, operating income, ordinary income and net income for FY2014 to be ¥160,000 million, ¥18,000 million, ¥18,000 million and ¥11,500 million, respectively.

The Company's forecast for FY2014 is based on an exchange rate of 100 yen to the dollar and 138 yen to the euro.

\*esCCO (estimated Continuous Cardiac Output) is a new non-invasive method of CCO measurement using ECG and pulse oximetry. It has not been launched in Japan.

\*\*iNIBP is an original algorithm which measures NIBP during inflation. It realizes fast and painless NIBP measurement.

## (Consolidated Forecast for FY2014 by Product Category)

(Millions of yen)

	FY2014 (Forecast)	
	Amount	Growth rate (%)
Physiological Measuring Equipment	38,900	+6.1
Patient Monitors	54,250	+6.7
Treatment Equipment	30,500	+7.4
Other Medical Equipment	36,350	-2.5
Total	160,000	+4.4
Domestic Sales	123,300	+2.4
Overseas Sales	36,700	+12.1

## 7. Management philosophy

### (1) Basic policies for corporate management

Nihon Kohden's management philosophy as a medical electronic device maker is as follows. "We contribute to the world by fighting disease and improving health with advanced technology, and create a fulfilling life for our employees."

In fulfilling its management philosophy, its fundamental goal is to establish trust and grow as a company that is recognized by its customers, shareholders, business partners and society for its superior products, sales, services, technologies, financial standing and employees.

### (2) Target management indices

Nihon Kohden aims to increase ROE to enhance corporate and shareholder value. The Company sets its target consolidated ROE at above 13.0%.

In FY2013, Nihon Kohden exceeded its target and achieved 15.0% ROE. The Company continues to work toward achieving its target through increasing profitability by sales growth, cost savings and operational efficiency as well as improving efficiency of assets including reduction of inventories.

### (3) Challenges to be addressed and mid-term management strategy

The global healthcare market is expected to sustain growth due to aging population in developed markets and improvement of healthcare infrastructure in emerging markets. Given the attractive growth potential of the medical equipment industry, increasing cross-border M&A and new entrants will accelerate severe global competition.

In 2010, Nihon Kohden has set out its long-term vision "The CHANGE 2020 – The Global Leader of Medical Solutions –" for the next ten years through to 2020. The envisioned corporate status is to i) lead the world in the development of revolutionary breakthrough technology, ii) achieve the highest level of quality in the world, and iii) attain top share in applicable global markets. The target for the period ending March 2020 is sales of ¥200 billion, operating income of ¥25 billion and overseas sales ratio of 35%.

In FY2013, Nihon Kohden started four-year mid-term business plan, Strong Growth 2017, which is the second stage in realizing its long-term vision. This period is crucial for building a more solid foundation. The Company aims to achieve sustainable growth in Japan under the national future vision to reorganize the medical and nursing care systems by 2025 and achieve strong growth in international markets. The Company executes the below six key strategies aggressively as well as enhances its operating base to ensure its growth. The target for the period ending March 2017 is sales of ¥170 billion, operating income of ¥18 billion, overseas sales ratio 28.5% and ROE of 13.0%.

Nihon Kohden will conduct an interim review of progress in its mid-term business plan at the end of FY2014. The Company will incorporate the review to the update of the plan and numerical targets.

#### 1) Pursue the highest level of quality in the world

Nihon Kohden will enhance its credibility as a leading medical equipment manufacturer by ensuring quality in every activity of every division across the entire Nihon Kohden Group, from development and design to production, logistics, sales and services, to keep its customers satisfied and ensure that customers around the world recognize Nihon Kohden for its superior quality products, sales and services.

#### 2) Strengthen technological development capabilities

Nihon Kohden will further reinforce its technological strength and speed of development processes. To this end, the Company will strengthen its R&D organization to address the needs of clinical practice swiftly and flexibly. The Company will also promote industry-government-academia collaboration as well as collaboration with other companies both inside and outside Japan.

**3) Strengthen business expansion by region**

Nihon Kohden will strive to achieve strong growth internationally and take steps to reinforce its business expansion in the Americas, Europe and Asia. Specifically, the Company will focus initiatives on strengthening business activities in Japan, the U.S. and emerging markets including BRICs.

**4) Achieve further growth in core businesses**

Nihon Kohden will take steps to achieve further growth in its core businesses both inside and outside Japan in order to expand its global market share and establish a stable and consistent revenue base.

**5) Develop new businesses**

Nihon Kohden aims to develop new core businesses by self-development, alliances, M&A and other measures. The Company will pursue the development and introduction of medical equipment designed to improve medical safety, address lifestyle-related diseases, dementia, and intractable diseases. The Company will also pursue solutions for an integrated community care system.

**6) Consolidate corporate fundamentals**

In order to adapt to changes in the business environment and become the world's leader in medical equipment, Nihon Kohden will foster a more robust business structure that is globalized, efficient and fast-paced as well as implement CSR activities aimed at sustainable growth and strengthen its human resource development initiatives.

Nihon Kohden continues to sustain its growth and enhance the corporate value of the Company as well as contribute to the society through addressing the challenge of healthcare by technological development and providing customers with safety and security.

## 8. Consolidated Financial Statements

### (1) Consolidated Balance Sheets

(Millions of yen)

	March 31, 2013	March 31, 2014
<b>ASSETS</b>		
Current assets:		
Cash	11,743	13,882
Trade notes and accounts receivable	46,043	54,456
Marketable securities	15,000	15,010
Merchandise and finished goods	12,836	13,019
Work in process	1,171	1,140
Raw materials and supplies	3,093	3,105
Deferred tax assets	4,341	4,536
Other current assets	1,264	1,605
Allowance for doubtful receivables	-312	-241
Total current assets	95,181	106,515
Noncurrent assets:		
Property, plant and equipment		
Buildings and structures, net	2,996	3,520
Machinery, equipment and vehicles, net	628	569
Tools, furniture and fixtures, net	2,259	2,738
Land	2,572	3,222
Lease assets, net	55	53
Construction in progress	366	507
Total property, plant and equipment	8,879	10,613
Intangible assets		
Goodwill	2,251	2,353
Other intangible assets	4,225	4,301
Total intangible assets	6,476	6,654
Investments and other assets		
Investments in securities	3,466	4,525
Deferred tax assets	1,690	1,448
Other investments and other assets	1,157	1,213
Allowance for doubtful receivables	-51	-51
Total investments and other assets	6,262	7,135
Total noncurrent assets	21,619	24,402
Total assets	116,800	130,917

(Millions of yen)

	March 31, 2013	March 31, 2014
<b>LIABILITIES</b>		
Current liabilities:		
Trade notes and accounts payable	24,423	25,995
Short-term debt	1,589	992
Accounts payable-other	2,004	2,429
Lease obligations	23	17
Accrued income taxes	3,847	3,974
Accrued expenses	2,791	2,935
Reserve for bonuses	2,822	3,079
Provision for product warranties	438	360
Other current liabilities	1,086	1,462
Total current liabilities	39,028	41,248
Non-current liabilities:		
Long-term debt	0	0
Long-term accounts payable	170	170
Lease obligations	28	31
Deferred tax liabilities	24	61
Reserve for retirement benefits	1,121	—
Net defined benefit liability	—	700
Other non-current liabilities	169	192
Total non-current liabilities	1,515	1,156
Total liabilities	40,544	42,405
<b>NET ASSETS</b>		
Stockholders' equity:		
Common stock	7,544	7,544
Additional paid-in capital	10,487	10,487
Retained earnings	59,943	69,653
Treasury stock	-2,023	-2,027
Total stockholders' equity	75,952	85,658
Accumulated other comprehensive income:		
Valuation difference on available-for-sale securities	458	881
Foreign currency translation adjustments	-202	1,603
Remeasurements of defined benefit plans	—	307
Total accumulated other comprehensive income	256	2,792
Minority interests	47	60
Total net assets	76,256	88,512
Total liabilities and net assets	116,800	130,917



## (2) Consolidated Statements of Income

(Millions of yen)

	Year ended March 31, 2013	Year ended March 31, 2014
Net sales	132,538	153,194
Cost of sales	66,218	76,557
Gross profit	66,319	76,616
Selling, general and administrative expenses	52,835	59,069
Operating income	13,484	17,547
Non-operating income		
Interest income	46	45
Dividend income	88	96
Foreign exchange gains	634	782
Subsidy income	88	228
Other, net	484	459
Total non-operating income	1,341	1,611
Non-operating expenses		
Interest expenses	22	48
Other, net	145	112
Total non-operating expenses	167	161
Ordinary income	14,658	18,998
Extraordinary income		
Gain on sales of noncurrent assets	7	1
Gain on sales of investments in securities	0	36
Total extraordinary income	7	37
Extraordinary expenses		
Loss on sales of noncurrent assets	0	1
Loss on retirement of noncurrent assets	44	12
Impairment loss	60	—
Loss on devaluation of investment in securities	34	—
Total extraordinary expenses	140	13
Income before income taxes and minority interests	14,525	19,021
Income taxes	6,056	6,731
Income taxes-deferred	-687	-77
Total income taxes	5,368	6,653
Income before minority interests	9,156	12,368
Minority interests	5	22
Net income	9,151	12,346

**(Consolidated Statements of Comprehensive Income)**

(Millions of yen)

	Year ended March 31, 2013	Year ended March 31, 2014
Income before minority interests	9,156	12,368
Other comprehensive income		
Valuation difference on available-for-sale securities	413	422
Foreign currency translation adjustment	759	1,802
Total other comprehensive income	1,172	2,225
Comprehensive income	10,329	14,593
Comprehensive income attributable to		
Comprehensive income attributable to owners of the parent	10,317	14,574
Comprehensive income attributable to minority interests	11	18

### (3) Consolidated Statements of Cash Flows

(Millions of yen)

	Year ended March 31, 2013	Year ended March 31, 2014
<b>Net cash provided by (used in) operating activities</b>		
Income before income taxes	14,525	19,021
Depreciation and amortization	2,853	3,103
Amortization of goodwill	56	137
Impairment loss	60	—
Loss (gain) on sales and retirement of property, plant and equipment	38	12
Increase (decrease) in allowance for doubtful accounts	-63	-71
Increase (decrease) in reserve for bonuses	361	256
Increase (decrease) in provision for product warranties	-27	-78
Increase (decrease) in provision for retirement benefits	716	—
Increase (decrease) in net defined benefit liability	—	56
Interest and dividends income	-134	-141
Interest expenses	22	48
Foreign exchange losses (gains)	-339	-527
Loss (gain) on valuation of investment securities	51	-114
Loss (gain) on sales of investment securities	-0	-36
Decrease (increase) in notes and accounts receivable-trade	-3,269	-8,117
Decrease (increase) in inventories	-2,855	-162
Increase (decrease) in notes and accounts payable-trade	4,190	1,571
Increase (decrease) in accrued consumption taxes	78	-17
Other, net	1,173	1,006
Subtotal	17,438	15,950
Interest and dividends income received	133	142
Interest expenses paid	-15	-48
Income taxes paid	-4,367	-6,660
Net cash provided by (used in) operating activities	13,189	9,383
<b>Net cash provided by (used in) investing activities</b>		
Proceeds from sales of investment securities	132	117
Purchase of investment securities	-448	-107
Proceeds from sales of property, plant and equipment	15	42
Purchase of property, plant and equipment	-2,131	-3,777
Purchase of intangible assets	-538	-721
Purchase of investments in subsidiaries resulting in change in scope of consolidation	-3,981	—
Other, net	-7	26
Net cash provided by (used in) investing activities	-6,959	-4,421
<b>Net cash provided by (used in) financing activities</b>		
Net increase (decrease) in short-term loans payable	840	-765
Repayment of long-term loans payable	-5	-0
Net decrease (increase) in treasury stock	-2	-4
Cash dividends paid	-1,975	-2,628
Repayments of lease obligations	-26	-32
Cash dividends paid to minority shareholders	-5	-5
Net cash provided by (used in) financing activities	-1,174	-3,436
Effect of exchange rate change on cash and cash equivalents	324	598
Net increase (decrease) in cash and cash equivalents	5,378	2,124
Cash and cash equivalents at beginning of period	21,304	26,683
Cash and cash equivalents at end of period	26,683	28,808