

DVx Inc.

3079 Tokyo Stock Exchange
 First Section

11-Jan.-17

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FISCO Ltd. Analyst
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■ 1H FY3/17 results exceeded Company's initial forecasts

DVx Inc. <3079> (hereafter, "DVx" or "the Company"), a sales company for medical devices mainly focused in the area of cardiovascular diseases, rests on two pillars: its arrhythmia business (sales agent) and its ischemia business (mainly sole import agent). With the top market share for its arrhythmia business accounting for 40% in the Kanto region and 20% nationally in Japan, it is expanding market share by taking full advantage of its technical sales support capabilities to attract new customers and increase its share of business at existing customers. The ischemia business sells products to medical facilities and distributors by finding non-competing highly advanced medical devices overseas and then becoming the sole importer with exclusive sales rights.

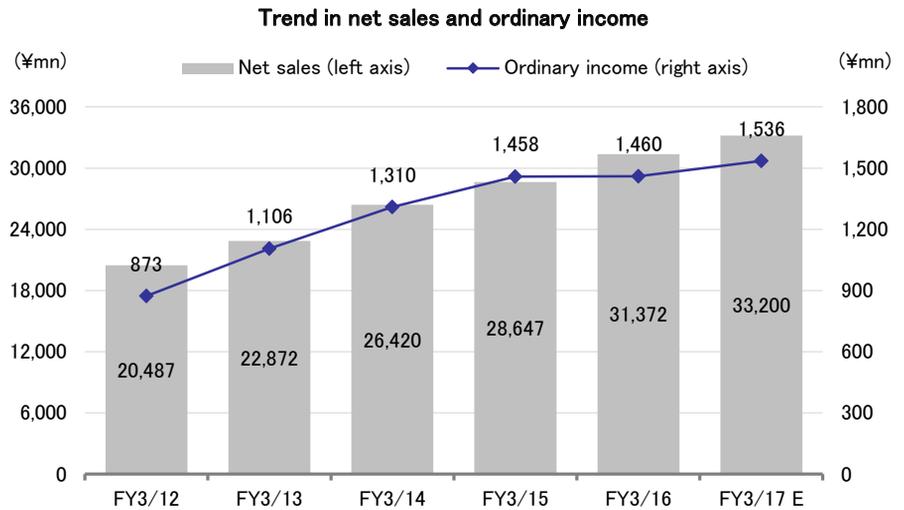
In the first half of the fiscal year through March 2017, i.e., in 1H FY3/17, the Company's net sales grew 16.1% year-on-year (y-o-y) to ¥17,132mn, and its operating income rose by 19.4% to ¥706mn. Both figures surpassed the Company's initial forecasts. In April 2016, Japan's National Health Insurance (NHI) medical fee was revised, reducing the Company's revenue by 2.5%. Nonetheless, the Company increased its sales and profits, for three main reasons. In the arrhythmia business, the Company attracted new customers in western Japan. In the ischemia business, sales of excimer laser angioplasty systems were brisk. Finally, yen appreciation reduced the Company's cost of goods purchased from overseas.

For FY3/17, the Company maintained its initial forecasts of a 5.8% y-o-y rise in net sales to ¥33,200mn and a 3.0% increase in operating income to ¥1,536mn. However, FISCO believes that the Company could exceed its forecasts because its sales of arrhythmia business and ischemia business have continued to grow strongly in Q3. The Company's exclusive contract for the sale of automatic contrast injection systems, a mainstay device for the ischemia business, in Japan expires at the end of 2016. However, under the terms of contracts to transfer this business to another company, the Company will continue to sell this device exclusively in Japan for the first five months of 2017 under the same conditions that pertained to earlier contracts. Thus, the Company's business results in FY3/17 will not be affected. In FY3/16, sales of the related product came to ¥1,831mn. The loss of this product will decrease FY3/18 revenue, but the Company plans to offset this decline with the expansion of the arrhythmia business and increasing sales of excimer laser angioplasty systems, as well as sales of new products to be released hereafter.

The Company's policy towards shareholder returns has been to maintain a dividend payout ratio of at least 20%, but from FY3/17, the Company has raised this target ratio to 25%. Currently, the Company plans to pay dividends of ¥23.0 per share for FY3/17, unchanged from the amount paid for FY3/17 and yielding a dividend payout ratio of 25.2%. However, the Company has increased its dividends per share every year since listing its shares, and FISCO expects the Company to raise its dividends per share for FY3/17 if its profits again exceed its forecasts. The Company also provides gifts to its shareholders consisting of QUO cards for ¥1,000 or ¥2,000, depending on the number of shares held.

■ Check Point

- Profits grew in 1H FY3/17 because of double-digit sales growth and yen appreciation, which lowered the cost of purchases from overseas
- In the arrhythmia business, the Company attracted new customers and in the ischemia business, sales of excimer laser angioplasty systems grew
- Company forecasts record-high net sales, operating income and ordinary income for FY3/17



■ Business Overview

Three businesses are the arrhythmia business, ischemia business, and others

Founded in 1986 as a company trading in medical devices, the Company has increased its sales, profits and dividends every year since listing its shares in 2007. Its three businesses are the arrhythmia business, ischemia business, and others

In 1H FY3/17, the arrhythmia business supplied 83.6% of total sales and ischemia business provided 13.8%. Together, these two businesses were responsible for more than 97% of total sales. These proportions have not changed much over the past few years. Ischemia business provided 28.6% of total segment profit, a higher proportion than its sales weighting because the Company obtains the exclusive right to import and sell devices made overseas and sells the devices to trading companies in Japan, it is in the position to control the prices for the devices it handles. However, the Company pays the cost of marketing these devices and the cost of applications for government approval of the devices, and bears the foreign exchange risk accompanying imports.

Meanwhile, the arrhythmia business's business model is for the Company to purchase devices from manufacturers or trading companies and sell it directly to medical facilities in Japan. Many other companies engage in the same business, subjecting the Company to price competition. However, the Company distinguishes itself from competitors by instilling in its sales people a deep knowledge of the technical aspects of the products they sell, enabling them to offer superior sales technology support. For example, to improve the quality of its sales people in charge of presenting information about pacemakers and other implanted devices, the Company encourages its sales people to qualify as cardiac device representatives (CDRs). A cardiac device representative is an official designation by the medical device industry equivalent to a medical representative (MR) for implantable medical devices. By attending training sessions and passing relevant exams, a sales person can obtain the CDR qualification. Currently, about 70% of the Company's approximately 100 sales people hold the CDR qualification, the highest number in the medical device industry.

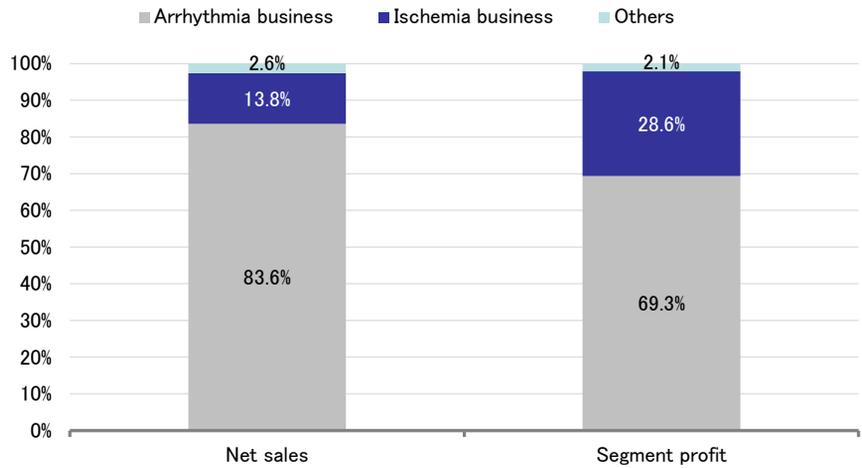


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Breakdown of Net Sales and Segment Profit by Business, 1H FY3/17



Note: Segment profit = Gross profit

(1) Arrhythmia business

Principal products in the arrhythmia business include pacemakers, implantable cardioverter defibrillators (ICDs), cardiac resynchronization therapy defibrillators (CRT-Ds), electrode catheters for examinations and ablation (myocardial ablation) catheters.

As products handled by the Company require not only specialist technical knowledge but also support capabilities, a trusting relationship between the doctors that use the devices and the sales representatives is of paramount importance in doing business. The key strengths of the Company are that there are few trading companies that specialize in handling arrhythmia-related products, it has a large number of veteran sales staff possessing ample experience, and it has a solid track record of supplying to medical facilities that treat large numbers of cases. The direction adopted by healthcare authorities in seeking to improve medical treatment efficiency by centralizing advanced medical care in core regional hospitals also positively influences the Company's results.

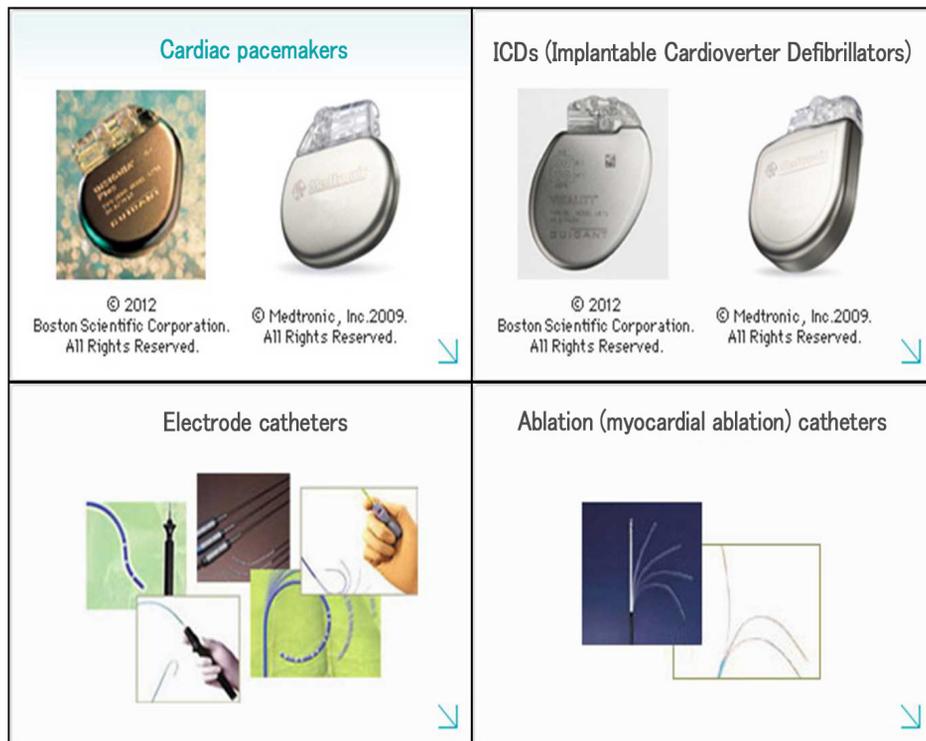
With the top market shares of 40% in the Kanto area and 21% nationally, DVx is expanding its market shares as it acquires new customers year after year (its domestic market share being only 13% in FY2008). In most cases, the opportunity to acquire new customers (medical facilities) occurs when existing client doctors are transferred. There are many doctors who wish to continue dealing with the Company at their new place of work, and thus the medical facility they are transferred to become a customer. For this reason, in cases where the new place of work is a regional medical facility and the Company does not have a sales office in the region, DVx may accommodate such customers by establishing a new local branch or sales office, after taking into consideration profitability. The Company opened a new sales office in Okinawa in September 2015 and another sales office in Tsuchiura City, Ibaraki Prefecture, in April 2016. Therefore, it now operates 23 offices nationwide, including those for the ischemia business (the head office, 16 sales offices, and 6 branch offices).

Scale of the domestic arrhythmia market

	2011	2012	2013	2014	2015E	Average growth rate (2011-2015)
	(¥mn)					
Electrode catheters (for examinations)	15,127	15,085	17,792	18,028	21,640	9.4%
Ablation catheters	9,654	11,267	12,455	13,190	17,330	15.8%
Cardiac pacemakers	40,881	37,080	37,951	37,528	38,455	-1.5%
ICDs/CRT-Ds	26,346	28,825	30,079	29,593	30,236	3.5%
Leads	13,918	13,190	13,644	13,181	12,987	-1.7%
Total	105,926	105,447	111,921	111,520	120,648	3.3%
Net sales of DVx's arrhythmia business (fiscal year)	16,580	18,830	21,607	23,268	25,667	11.5%
Market share	15.7%	17.9%	19.3%	20.9%	21.3%	-

Source: Prepared by FISCO from Company materials

Products handled in DVx's arrhythmia business



Source: Company Web page

Product overview

Product name	Product overview
Cardiac pacemaker	Devices that are mainly for treating bradycardia, an arrhythmia with a slow heart rate. Pacemakers are devices that take over the cardiac function and stimulate the heart rate when the heart rate is slow, constantly monitoring the heart. They are designed to not operate if the pre-set minimum heart rate is present. Since 2012, cardiac pacemakers that respond to MRIs have been marketed.
ICDs (Implantable Cardioverter Defibrillators)	Used mainly for treating severe cases of accelerated pulse rates, known as "ventricular tachycardia" or "ventricular fibrillation." Ventricular tachycardia is a faster-than-normal heart rate that may cause dizziness or syncope due to inability of the heart to send blood into body when the heart beats at a very fast rate of 180-220 beats per minute (bpm) (normal rate is 60 - 100 bpm). Ventricular fibrillation is a condition where ventricles contract in a rapid way and, if left untreated, may cause death due to unconsciousness caused by the almost complete inability of heart to send blood into body. ICDs are designed to stop arrhythmia using electrical shock pulses when fast pulses rates occur.
CRT-Ds (Cardiac Resynchronization Therapy Defibrillators)	ICD enabled devices with Cardiac Resynchronization Therapy (CRT), a type of treatment for heart failure. Cardiac Resynchronization Therapy is a treatment that uses a device, such as a pacemaker, to restore pump function to the heart by correcting interventricular contraction delays. Leads will be placed in coronary veins as well as in the right atrium and ventricle in order to perform pacing to correct interventricular contraction delays. Business has been steadily growing since these devices were approved for coverage under the NHI program in Japan in August 2006.
Electrode catheters (for examinations)	Electrode catheters are catheters with electrodes at the tips and are used for testing to determine the adaptation of cardiac pacemakers or ICDs (Implantable Cardioverter Defibrillators). They are inserted into the heart chamber to examine the cause and location of occurrence of an arrhythmia, as well as to evaluate its severity.
A kind of electrode catheter used for a procedure called ablation	A kind of electrode catheter used for a procedure called ablation that uses heat to destroy an area of cardiac muscle tissue that is causing rapid heartbeats. Market size is steadily expanding along with the range of applicable uses, including WPW syndrome, atrioventricular nodal reentrant tachycardia, atrial flutter, ventricular tachycardia, and atrial fibrillation. Demand is growing for cryoablation catheters that received NHI coverage of paroxysmal atrial fibrillation from July 2014. Cryoablation catheters shorten treatment time versus conventional ablation catheters and reduce burden on patients.

(2) Ischemia business

Principal products in the ischemia business include automatic contrast injection systems (product name: ACIST), excimer laser angioplasty systems, and PTA balloon catheters. DVx sells these products to medical facilities nationwide as a sole importer through its distributors and has established six sales offices in major cities.



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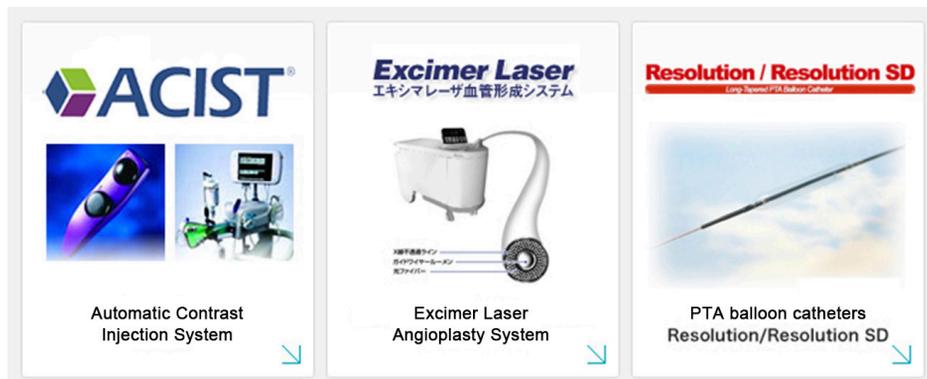
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DVx started importing automatic contrast injection systems in 2000, and it now holds a 50% share of the Japanese market for these systems. At the end of FY3/16, about 600 of the systems imported by the Company had been installed in more than 400 medical facilities. The Japanese market for these systems is saturated, so most of the Company's sales now come from consumables. The manufacturer of the systems imported by the Company, ACIST Medical Systems, Inc., of the United States, has recently established a subsidiary in Japan. Therefore, the Company will lose its exclusive right to sell these systems in Japan at the end of 2016, and conduct customers' transfer operation thereafter.

The excimer laser system started being used widely after the coronary catheter (for treatment of coronary artery) was approved for coverage under NHI in July 2012, and a total of 108 systems are being used at over 80 medical facilities as of end-September 2016. Discussions are underway to obtain NHI coverage for the use of excimer laser angioplastic systems to treat peripheral arteries in the legs. The Company outsources the production of excimer laser angioplasty systems to FILMECC CO., LTD., a wholly-owned subsidiary of ASAHI INTEC CO., LTD. <7747>.

Products handled in the ischemia business



Source: Company Web page

Product overview

Product name	Product overview	Manufacturer
Automatic Contrast Injection System "ACIST"	ACIST is an injector system that variably controls the flow rate and velocity of contrast injection for angiography of the heart's coronary artery. Its features include: (a) it may be used both in the left ventricle and coronary artery; (b) a special hand controller enables sensitive discharge control; and (c) the system automatically injects either contrast or saline fluids.	ACIST Medical Systems, US
Excimer Laser Angioplasty System "CVX-300"	A treatment device to remove plaque (cholesterol) that has become calcified or fibrous in the coronary artery with vaporization induced by laser irradiation. The device with a wavelength in the UV range will generate less heat. With a limited reach range of 0.005 mm, the device gives rise to less complications and superior results. Other than the coronary artery, "CVX-300" can also be used for treatment of peripheral blood vessel and cardiac lead removal for pacemakers and ICDs.	Spectranetics, US
PTA Balloon Catheters "CAST" and "TipTop"	Medical device used for PCI (Percutaneous Coronary Intervention), a procedure to percutaneously treat ischemic heart diseases, such as heart attack and angina. The catheter, equipped with a balloon at the tip, is inflated in a blood vessel that has been narrowed by the accumulation of agents such as cholesterol, to enlarge the blocked area.	FILMECC (subsidiary of ASAHI INTECC)

(3) Others

The others business segment sells products other than the core arrhythmia or ischemia businesses, including products for neurosurgery and general surgery, products to treat gastrointestinal disorders, products to prevent exposure to radiation, and books. The Company also develops and sells products to resolve problems at medical facilities. Products for neurosurgery are developed and sold mainly by the Company's sales office in Shizuoka, which acquired this business in 2010.

■ Business Trends

Profits grew in 1H FY3/17 because of double-digit sales growth and yen appreciation, which lowered the cost of purchases from overseas

(1) Overview of results in 1H FY3/17

On November 1, 2016, the Company announced its results for 1H FY3/17. Its net sales increased 16.1% y-o-y to ¥17,132mn, its operating income grew 19.4% to ¥706mn, and its ordinary income rose 13.2% to ¥664mn, but its net income fell 34.6% to ¥459mn. All these results surpassed the Company's initial forecasts.

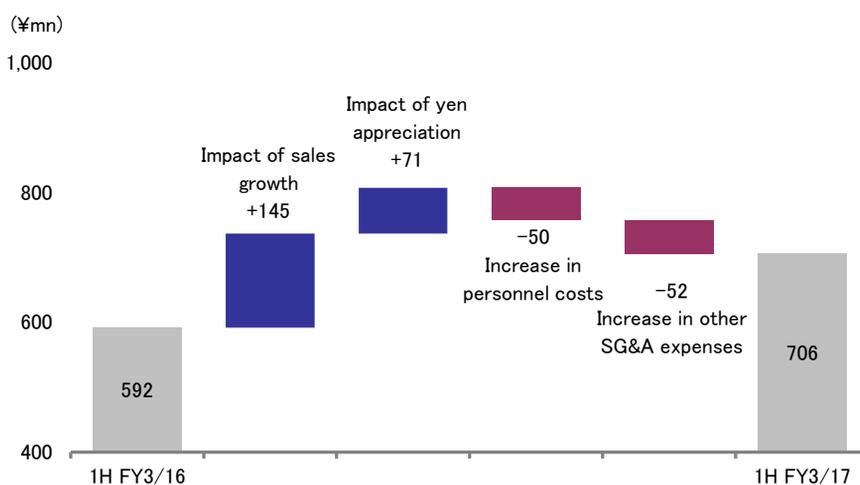
1H FY3/17 results

	1H FY3/16		Company plan	1H FY3/17			
	Results	% sales		Results	% sales	y-o-y	vs. plan
Net sales	14,753	-	15,904	17,132	-	16.1%	7.7%
Gross profit	2,374	16.1%	-	2,592	15.1%	9.2%	-
SG&A expenses	1,782	12.1%	-	1,885	11.0%	5.8%	-
Operating income	592	4.0%	602	706	4.1%	19.4%	17.4%
Ordinary income	586	4.0%	602	664	3.9%	13.2%	10.4%
Net extraordinary gains/losses	453	-	-	0	-	-	-
Net income	702	4.8%	403	459	2.7%	-34.6%	14.1%

The rates at which Japan's NHI plan reimburses doctors and medical facilities for treatments were lowered from April 2016, reducing the Company's revenue by 2.5%. Nonetheless, the Company increased its sales by double digits y-o-y, for two main reasons. In the arrhythmia business, the Company attracted new customers in western Japan. In the ischemia business, sales of excimer laser angioplasty systems were brisk.

In 1H FY3/17, sales growth lifted operating income by ¥145mn y-o-y, and yen appreciation from an average rate of ¥121.8 per US dollar in 1H FY3/16 to ¥107.1 in 1H F3/17 reduced the Company's cost of purchases from overseas by ¥71mn. On the other hand, personnel costs increased by ¥50mn y-o-y, and other SG&A expenses grew by ¥52mn. Net income dropped in 1H FY3/17 because the Company claimed no extraordinary gains this term, whereas in 1H FY3/16, it reported an extraordinary gain of ¥476mn on the sale of investment securities.

Factors Contributing to Changes in Operating Income in 1H FY3/17





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*1Cryoablation catheters (manufactured by Medtronic): Ablation catheters used to treat paroxysmal atrial fibrillation became covered by the NHI in July 2014. In comparison to previous radiofrequency catheter ablation operations, times are shortened, being completed in about two thirds the time, and they also enable reliable atrial fibrillation treatment.

*2Intracardiac echo catheters (manufactured by J&J): Intravascular catheters that is used as dedicated catheters for J&J's 3D mapping systems that received pharmaceutical approval as an examination system for arrhythmia in 2010. In Japan, the device obtained pharmaceutical approval in 2011 and started to move toward wider adoption from FY3/14.

In the arrhythmia business, the Company attracted new customers and in the ischemia business, sales of excimer laser angioplasty systems grew

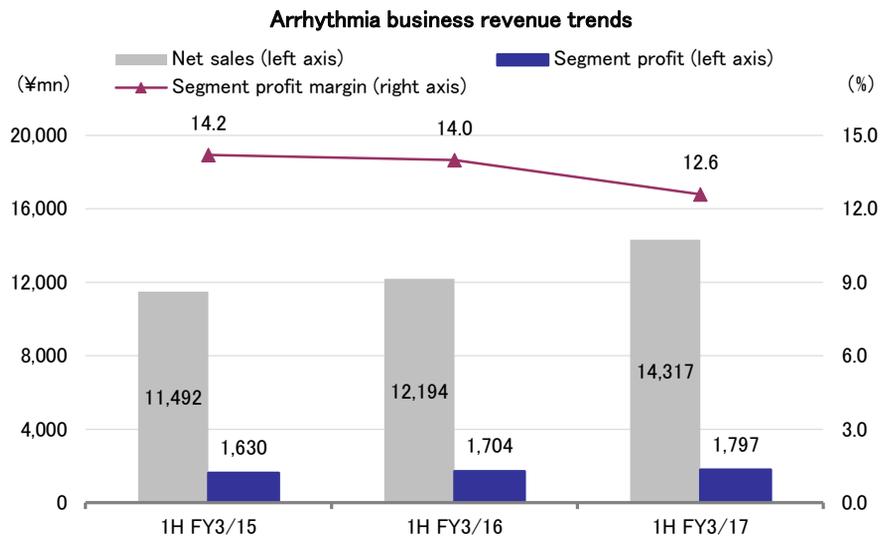
(2) Results by business

a) Arrhythmia business

In the arrhythmia business, sales advanced 17.4% y-o-y to ¥14,317mn and segment profit (gross profit) rose 5.5% to ¥1,797mn. As Japanese society continues to age, the number of patients with arrhythmia and the number of surgical operations are increasing. These developments contributed to a y-o-y increase in the business's sales volumes. Furthermore, the business acquired more new customers in western Japan, centered on Osaka. Thus, its sales in western Japan grew 1.5 times y-o-y in 1H FY3/17, while its sales in eastern Japan rose by somewhat more than 10%.

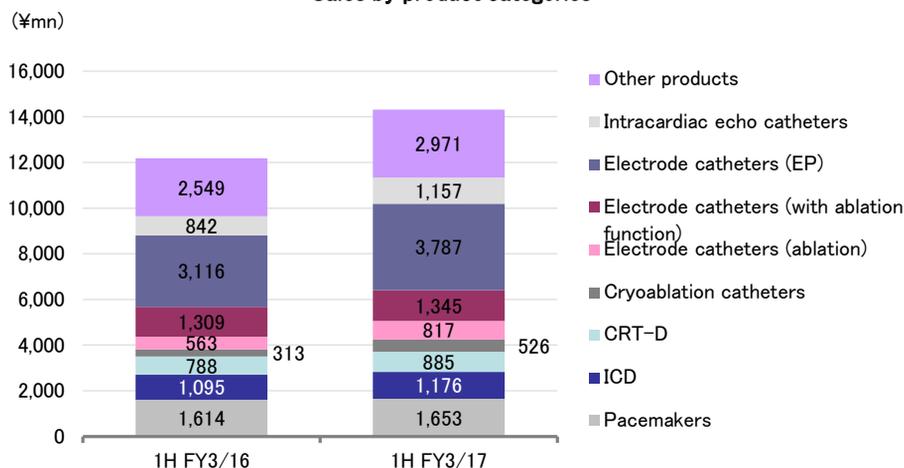
Sales of electrode catheters (for EP examinations) grew 21.5% y-o-y, sales of cryoablation catheters*1 jumped 68.1%, and sales of intracardiac echo catheters*2 increased 37.4%. Sales of implantable devices, such as cardiac pacemakers, ICDs and CRT-Ds, also grew.

The segment profit margin declined from 14.0% in 1H FY3/16 to 12.6% in 1H FY3/17 because of cuts in the prices of medical goods and services reimbursed by the NIH health insurance plan and because sales growth stemmed largely from an increase in the number of new customers. New customers often start by ordering a small number of items, so the profitability of these sales is lower than the Company's average profitability. As these customers order larger quantities of more items, the profitability of sales to them increases.



* Coronary angioplasty is a therapy to improve arterial circulation by breaking down blood clots or plaque at a molecular level through excimer laser irradiation into (affected) areas in cases where arteries that carry blood to the heart are narrowed or have an embolism due to hardening of the arteries or blood clots.

Sales by product categories



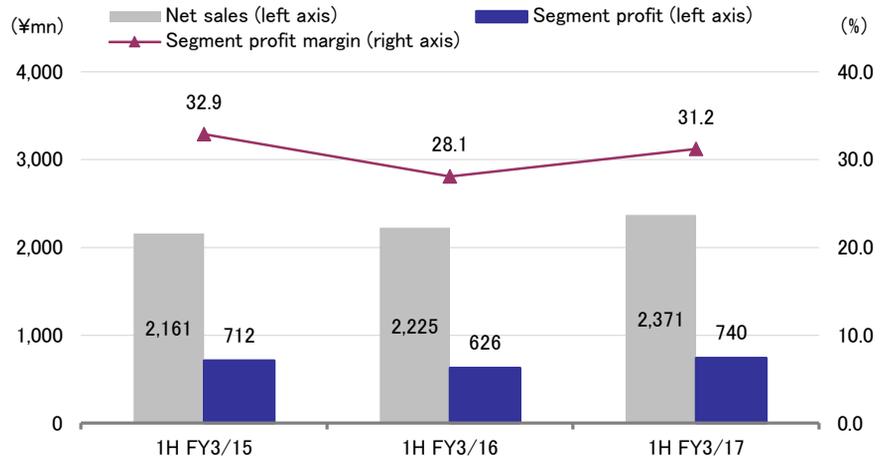
b) Ischemia business

In the ischemia business, sales grew 6.5% to ¥2,371mn and segment profit rose 18.2% to ¥740mn. Sales of automatic contrast injection systems (ACIST)-related were basically unchanged y-o-y in 1H FY3/17. Sales of coronary catheters (to treat coronary arteries*), which are supplies for excimer laser angioplasty systems, grew from ¥200mn in 1H FY3/16 to almost ¥300mn in 1H FY3/17. At the end of May 2016, the business started selling high-output X-80 coronary catheters 0.9mm in diameter, and the demand for these catheters was strong in 1H. Because of their high output, these catheters can remove calcifications attached to the inside surfaces of blood vessels cleanly, so they can also be used to reduce the reappearance of calcifications after surgery. Consequently, there have been many inquiries from customers about these products. The Company has completed clinical trials on these catheters for the treatment of peripheral arterial stratigraphy of the lower leg and is in discussions to apply for approval for this use with Japan's Medical Affairs Administration.

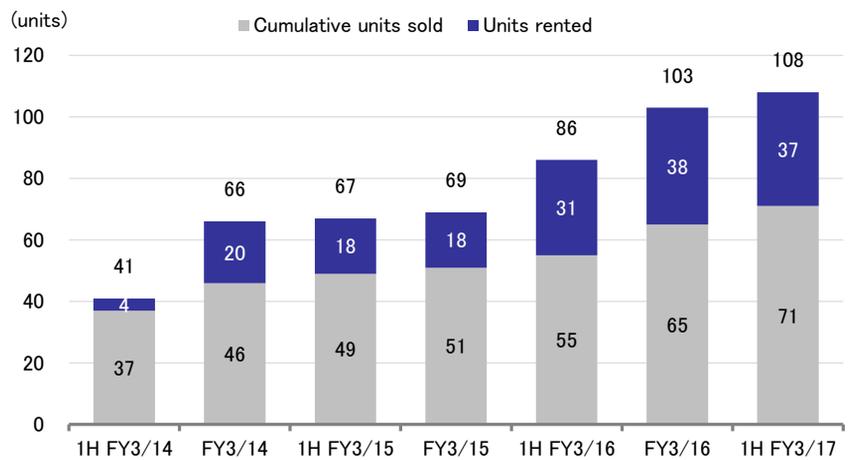
At the end of 1H FY3/17, 108 of the Company's excimer laser angioplasty systems had been installed in Japan, five more than had been installed at the end of FY3/16. Of these, 71 units had been sold and 37 had been rented. To promote the introduction of these systems, the Company has a sales strategy of first proposing to rent them and when the rental period expires, selling the products to the user. If these systems are approved for the treatment of peripheral arteries in the leg, the Company expects an increase in the number of operations using these systems, leading to an increase in the number of systems sold.

The segment profit margin in the ischemia business increased from 28.1% in 1H FY3/16 to 31.2% in 1H FY3/17, mainly because yen appreciation lowered the cost of purchases overseas.

Ischemia business revenue trends



Number of excimer laser angioplasty systems installed



c) Others

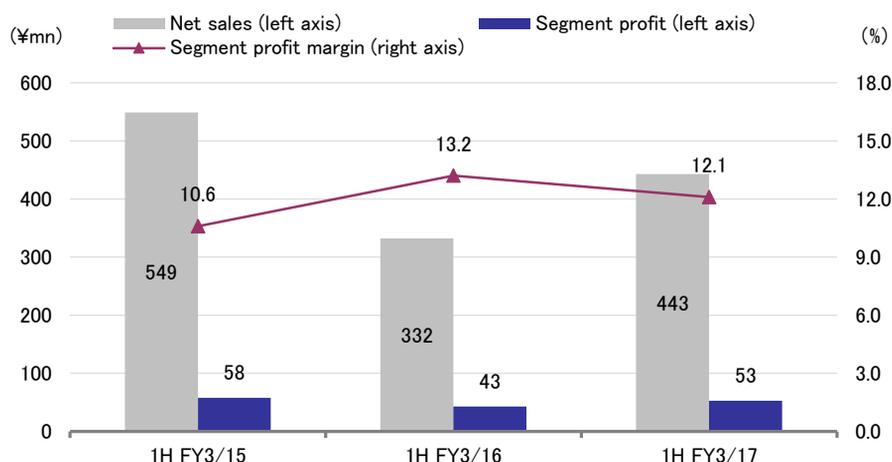
In the others business, net sales increased 33.3% y-o-y to ¥443mn and segment profit rose 22.6% to ¥53mn in 1H FY3/17. This sales and profit growth was due mainly to a 40–50% y-o-y rise in sales of products for neurosurgery.

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Others business revenue trends



(3) Financial condition and measures of business performance indicators

At the end of 1H FY3/17, the Company's assets totaled ¥15,695mn, which was ¥669mn more than the total at the end of FY3/16. Among its current assets, cash and deposits grew by ¥360mn, accounts receivable increased by ¥134mn, and inventories, by ¥103mn in the six months to the end of 1H FY3/17, accompanying sales and profit growth. Tangible fixed assets fell by ¥21mn as some were depreciated, but guarantee deposits grew by ¥38mn.

At the end of 1H FY3/17, the Company's liabilities totaled ¥9,199mn, which was ¥483mn more than the total at the end of FY3/16, mainly because accounts payable grew by ¥489mn accompanying an increase in purchases. Net assets increased by ¥192mn in the six months to the end of 1H FY3/17 to ¥6,194mn. This increase was due mainly to a ¥200mn rise in retained earnings after dividend payments were subtracted from net income earned in 1H.

Among the Company's business performance indicators, the equity ratio, a measure of financial safety, fell slightly from 39.9% at the end of FY3/16 to 39.5% at the end of 1H FY3/17. However, the Company's interest-bearing debt ratio stood at only 1.2% at the end of 1H FY3/17, indicating that the Company was essentially debt-free, and the Company held net cash (cash and deposits minus interest-bearing debt) of ¥4,966mn at the end of 1H FY3/17. Thus, it was healthy financially.

Balance Sheet

	(¥mn)			
	FY3/15	FY3/16	1H FY3/16	Change
Current assets	11,743	14,142	14,806	663
Cash and deposits	3,292	4,677	5,038	360
Inventories	945	842	946	103
Fixed assets	1,017	883	889	6
Total assets	12,760	15,026	15,695	669
Current liabilities	7,434	8,716	9,199	483
Fixed liabilities	347	308	301	-6
(interest-bearing debt)	143	105	71	-34
Total liabilities	7,781	9,024	9,501	476
Net assets	4,978	6,001	6,194	192
Management indices				
(Safety)				
Shareholders' equity ratio	39.0%	39.9%	39.5%	
D/E ratio	2.9%	1.8%	1.2%	
(Profitability)				
ROE	20.0%	23.5%		
ROA	12.1%	10.5%		
Operating income margin	5.0%	4.8%		

■ Future Outlook

Company forecasts record-high sales, operating income and ordinary income for FY3/17

(1) Company forecasts for FY3/17

For FY3/17, the Company maintained its original forecasts of a 5.8% y-o-y rise in non-consolidated net sales to ¥33,200mn, a 3.0% increase in operating income to ¥1,536mn, a 5.2% upturn in ordinary income to ¥1,536mn, and a 20.3% drop in net income to ¥1,028mn. It expects net income to fall because of a lack of extraordinary gains from the sale of investment securities, whereas it claimed such gains in FY3/16. However, it foresees record-high net sales, operating income and ordinary income again in FY3/17.

Company forecasts for FY3/17

	FY3/16		FY3/17E			
	Results	% sales	vs. Company plan	% sales	y-o-y	1H results/ plan for FY3/17
Net sales	31,372	-	33,200	-	5.8%	51.6%
Arrhythmia business	25,667	81.8%	27,137	81.7%	5.7%	52.8%
Ischemia business	4,872	15.5%	5,233	15.8%	7.4%	45.3%
Others	831	2.7%	829	2.5%	-0.3%	53.5%
Operating income	1,492	4.8%	1,536	4.6%	3.0%	46.0%
Ordinary income	1,460	4.7%	1,536	4.6%	5.2%	43.3%
Net extraordinary gain/ loss	458	-	-	-	-	-
Net income	1,289	4.1%	1,028	3.1%	-20.3%	44.7%
EPS (¥)	114.4	-	91.2	-	-	-

Net sales in 1H FY3/17 amounted to 51.6% of the net sales projected by the Company for the full fiscal year, whereas 1H operating income equaled 46.0% of the full-year forecast. Over the past three fiscal years, 1H sales have been equivalent to 48.2% of the Company's full-year forecast, on average, and 47.0% for operating income. The Company tends to realize slightly more of its sales and operating income in 2H than 1H. As sales and profits in 1H FY3/17 surpassed the Company's initial forecasts, FISCO believes that the Company is likely to achieve its full-year forecasts, barring any significant changes in its operating environment.

The Company's forecasts for FY3/17 assume an average exchange rate of ¥114 per US dollar for 2H. A stronger yen rate than this assumed rate would contribute to more profit than forecast. In the ischemia business, as mentioned earlier, the Company's exclusive contract to sell automatic contrast injection systems made by ACIST Medical Systems, Inc. expires at the end of 2016, but, under the terms of contracts to transfer this business to the Japanese subsidiary of ACIST Medical Systems, Inc., the Company will continue to sell this device exclusively in Japan for the first five months of 2017 under the same conditions that pertained to earlier contracts. Thus, the Company's business results in FY3/17 will not be affected by the loss of this product.

(2) Outlook for business segments

a) Arrhythmia business

In the business of selling arrhythmia business, the Company forecasts a 5.7% y-o-y increase in net sales to ¥27,137mn for FY3/17. The business achieved 52.8% of this target in 1H FY3/17, which was more than the Company had forecasted. To date in 2H, sales in this business have been brisk, led by sales to new customers in western Japan. Therefore, full-year sales by this business are likely to surpass the Company's forecast. The business opened its first account in Hokkaido this fiscal year, and it foresees the growth of its sales in the Nagoya area from FY3/18 as it has recently reassigned some sales people to this area.

The number of arrhythmia patients in Japan has been increasing, as has the number of operations performed to treat this disease. Therefore, the Company anticipates strong y-o-y increases in sales of its catheters for examinations, such as electrode catheters (for EP examinations) and intracardiac echo catheters. The Company also projects robust sales of its device used in surgery to treat arrhythmia, including cryoablation catheters and electrode catheters (for ablation).

The number of patients suffering from atrial fibrillation in Japan has been estimated at 1.0–1.7 million, but only about 40,000 are treated surgically, less than 5% of the total. This proportion is low, mainly because most patients choose to be treated with medications. Other factors contributing to this low rate are a scarcity of facilities and doctors capable of providing surgical care and the long period of time required for surgical treatment. However, the use of devices such as cryoablation catheters has reduced the time required for surgery. Thus, the Company anticipates increases in the sales volumes of its products for surgery as Japan's population of the elderly continues to grow and the number of surgical procedures to treat atrial fibrillation rises.

b) Ischemia business

For FY3/17, the Company forecasts a 7.4% y-o-y increase in its sales of ischemia business to ¥5,233mn. It achieved only 45.3% of this target in 1H, but it plans to expedite sales growth in 2H by expanding the diffusion of its excimer laser angioplasty systems.

The Company has completed clinical trials on its laser coronary catheters for the treatment of peripheral arterial stratigraphy of the lower leg and is in discussions to apply for approval for this use with Japan's Medical Affairs Administration. If these catheters are approved for this use, the Company anticipates an increase in the sales of the catheters because about 250,000 coronary angioplasties are performed each year in Japan and 160,000 surgical treatments of peripheral arterial stratigraphy of the lower leg. If the new application is approved, it will become easier for medical facilities to buy high-priced excimer laser angioplasty systems, and accompanying an increase in surgery using these systems, the Company's sales of coronary catheters should grow. In FY3/16, the Company sold about ¥400mn of coronary catheters. These sales could increase by several times over the next few years. The Company aims to obtain approval for the new application and to begin sales for this purpose in FY3/18.

As mentioned above, the Company's exclusive contract to sell automatic contrast injection systems made by ACIST Medical Systems, Inc. expires at the end of 2016. The loss of this contract could reduce the Company's sales notably in FY3/18 as its sales of these systems amounted to ¥1,831mn in FY3/16. However, as also noted previously, the Company will retain its right to sell these systems exclusively for at least the first two months of FY3/18, and the Company plans to offset the drop in sales of these systems and related device with increased sales of ischemia business, excimer laser angioplasty systems, and other new products, thereby boosting overall sales and profits in FY3/18.

c) Others

The Company projects a 0.3% y-o-y decline in its sales of others business in FY3/17 to ¥829mn. Most of these sales are expected to come from device for neurosurgery. However, the Company plans to supplement its sales of neurosurgery device by promoting purchasing and selling of products in demand, regardless of medical field.

DVx has developed a new large composite monitor jointly with a manufacturer and expects this monitor to contribute to its sales from FY3/18 or later. Composite monitors are placed in operating rooms and in rooms where patients are prepared for surgery, where they take video recordings of the operating site and display data needed for surgery. The monitors have LCD displays of 50–60 inches in diameter with 4K resolution. A system containing 2–4 monitors costs more than ¥10mn. Because of this high price, the Company does not anticipate significant sales of these systems until FY3/18 or later.

(3) Medium Term Strategy

DVx's medium term strategy aims to strengthen the respective portfolios of the "sales agent business" (arrhythmia and other businesses) and the "sole importer business" (ischemia business) and thereby expand earnings.



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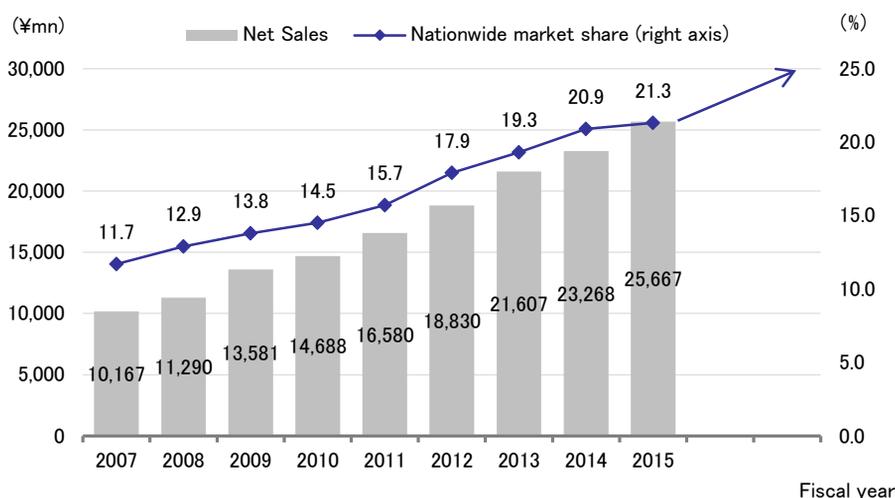
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a) Sales agency business

In its sales agency business, the Company is expanding its areas of operation in Japan and the range of products it offers. It is attracting new customers in western Japan and plans to do the same in Nagoya and Hokkaido from FY3/18. Since its share of the Japanese market for arrhythmia business is only 21%, while its share in Greater Tokyo is 40%, there appears to be ample opportunity for the Company to lift its market shares outside Greater Tokyo.

A main Company strength is its concentration of sales people with advanced technical support skills. The Company stresses internal trainings for its employees and has the largest number of sales people in the industry holding the CDR qualification to handle implantable devices, mainly pacemakers. In rural areas of Japan, in particular, there are no competitors in terms of superior sales support capability. Therefore, the Company, while keeping its customers (doctors, purchasing manufacturers) its main priority, is likely to expand its market shares. From FY3/19, sales people without a CDR qualification will not be allowed to enter and sell in the catheter rooms of medical facilities. FISCO believes that this new restriction will prove to be an opportunity for the Company to expand its sales.

Net sales and marketing share of arrhythmia business



Source: Prepared by FISCO from Company materials

b) Sole importer business

For sole importer business, DVx is working even more proactively than it has done to date to uncover new products in order to promote development of the product pipeline. It participates in academic and other events in Japan and abroad with aims of absorbing the latest medical technologies and finding attractive products and new technologies. Target candidates are those that are expected to be marketable domestically but that do not have competing products, or those that if commercialized are obtain a large market share, regardless of medical field. DVx also plans to invest in start-ups developing attractive new technologies.

Shareholder Return Policy

Continuous increases in dividends per share since listing in 2007

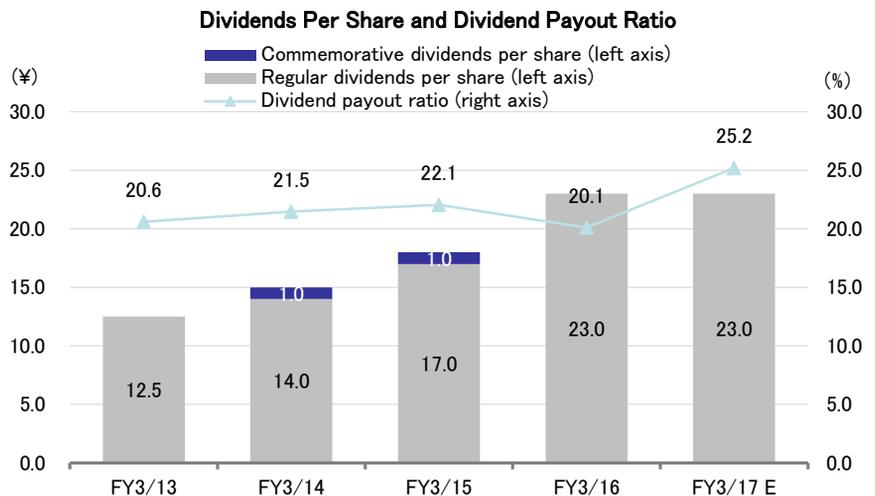
DVx pays dividends and has a shareholder benefits program as its shareholder returns policy. It raised the dividend payout ratio from 20% to 25% from FY3/17. While it targets a ¥23.0 dividend (25.2% payout ratio), which is flat y-o-y, we expect a dividend hike if earnings beat guidance and the dividend payout ratio would be less than 25%. DVx has consistently raised the dividend since listing its shares in 2007, and we will be focusing on whether it can sustain the trend of consecutive dividend hikes again in FY3/17.

As part of its shareholder benefits program, DVx gives shareholders at the end of March a QUO card based on the number of shares they own (¥1,000 for 100-199 shares and ¥2,000 for 200 shares or more). Total investment return, including the shareholder gift, works out to just over 2% at the current share price (¥1,381 closing price on November 18).

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Note: Two-for-one stock splits were implemented in FY3/13 and FY3/15; dividends are restated retroactively for these years

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