

Japan Lifeline Co., Ltd.

7575

Tokyo Stock Exchange First Section

26-Jul.-2017

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<http://www.fisco.co.jp>

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■ Summary

A trading company and manufacturer that is a driver of the cardiovascular field and that has reached a stage where it can return profit growth to shareholders

Japan's medical devices market is gradually expanding against the backdrop of the aging population. Within it, the cardiovascular field has shown higher growth than other fields due to the expansion of indicated cases resulting from the advancements being made in medical devices, in addition to the aging of the population. In this sort of market environment, Japan Lifeline Co., Ltd. <7575> (hereafter, also "the Company") is expanding its business by increasing the products it handles as an import trading company specializing in the cardiovascular field, while also starting to develop products in-house and strengthening its manufacturing functions.

1. As a specialist in the cardiovascular field, it handles both purchased products and in-house manufactured products

In Japan's medical devices market, except for some diagnostic equipment such as MRI and endoscopes, the level of dependence on import goods, particularly from manufacturers in the United States and Europe, is high for advanced medical devices, including cardiac pacemakers used for direct treatment. Since its establishment, Japan Lifeline has built a network of domestic medical sites by concluding exclusive sales agreements with overseas manufacturers and introducing cutting-edge medical devices into these sites in Japan. It also reflects the needs of Japan's medical sites when it develops and manufactures products in-house, and there is growing awareness of the Company as a manufacturer. Currently, as a specialist in the cardiovascular field with a unique business form from handling both purchased products and in-house manufactured products, it can be counted among the companies that are driving the industry.

The Company handles medical devices used to treat a wide range of cardiovascular conditions, including arrhythmia, myocardial infarction and angina pectoris, heart valve disease, and aortic aneurysms. For the purchased products, it concludes exclusive sales agreements with overseas manufacturers, mainly in Europe and the United States, and it performs various activities in an integrated manner, including for the regulatory application and approval process, activities to introduce a device into Japan such as marketing and education, and sales promotion activities. While being a trading company, it also plays the role similar to that of a manufacturer, so it is characterized by having a high profit margin even for its purchased products.

2. Forecasting double-digit increases in sales and profits in FY3/18 also, the same as in FY3/17

As the most recent results, the FY3/17 results improved dramatically, with net sales of ¥37,181mn (up 21.7%) and operating income of ¥7,685mn (up 107.7%). The product segments are divided into Cardiac Rhythm Management, which handles cardiac pacemakers and related products; EP (Electrophysiology)/Ablation, which handles electrode catheters used for the diagnosis and treatment of arrhythmia and related products; Cardiovascular & Vascular Surgery, which handles products including prosthetic heart valves and vascular grafts; and Transvascular Intervention, which handles catheters used for the treatment of angina pectoris and myocardial infarction. Net sales in each of these segments have been growing by around 20%. Moreover, for FY3/18, the Company is forecasting that the double-digit increases in sales and profits will continue, with net sales of ¥41,828mn (up 12.5%) and operating income of ¥9,472mn (up 23.3%).

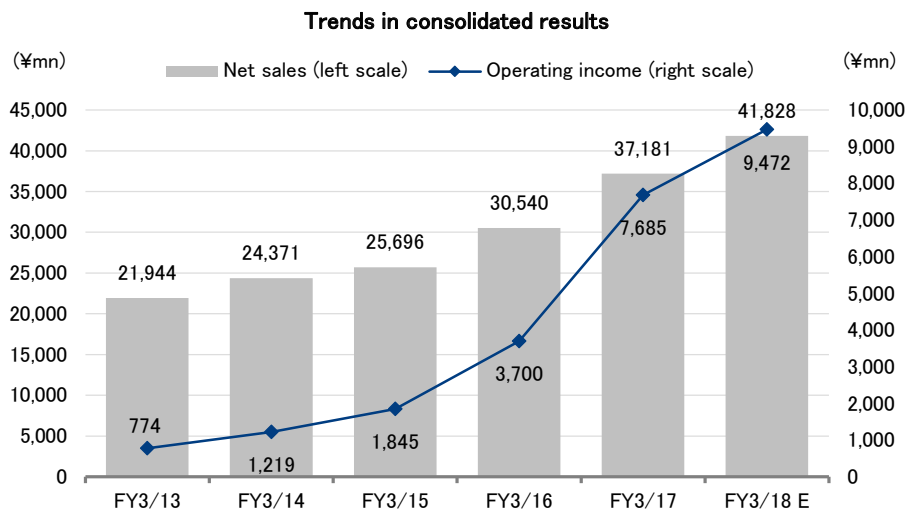
Summary

3. Has upwardly revised the five-year targets in the new medium-term management plan

Against the backdrop of the strong results up to the present time, each year the Company has upwardly revised its medium-term targets. In the medium-term management plan for the current fiscal year, it has upwardly revised the targets for FY3/22 to net sales of ¥66.2bn and an operating income margin of 25%. In conjunction with this, it is continuing to increase the dividend. The Company can be regarded as having reached a stage where can return profit growth to shareholders.

Key Points

- A specialist in medical devices in the cardiovascular field with both trading company functions and manufacturer functions
- In addition to the contribution of only-one products, its purchased products have a high profit margin and it is continuing to achieve high-level profit growth
- Against the backdrop of the expanding market, is forecasting an increase in sales volume toward double-digit growth in FY3/18 also



Source: Prepared by FISCO from the Company's financial results

■ Company overview

The Company's strengths were formed from the teamwork of Chairman Masumoto and President Suzuki

1. History

The Company's beginnings can be found in the sales business for cardiac pacemakers launched in 1973 by the current chairman, Mr. Takeshi Masumoto*. After that, Chairman Masumoto, who was confident that the medical devices market would expand, established the Company in 1981 together with the current president, Mr. Keisuke Suzuki. Subsequently, during the 1980s and 1990s it established a position as an import trading company and increased the number of products it handled, at the same time as expanding the portfolio of its business, such as by creating a domestic sales network. On entering the 2000s, it began to actively develop products in-house, and in the 2010s, it also established a position as a manufacturer through the growth of its only-one products (products with no competing products). It has currently established a unique business model in which it handles both purchased products and its in-house manufactured products as a specialist in the cardiovascular field.

* Mr. Takeshi Masumoto retired from the board of directors on June 28, 2017, and was appointed honorary chairman on the same date.

Company overview

History

February 1981	Japan Lifeline Co., Ltd. was established in Toshima Ward, Tokyo Began sales of cardiac pacemakers
March 1989	Began sales of PTCA balloon catheters
March 1990	Began sales of prosthetic heart valves
July 1991	Began sales of vascular grafts
January 1992	Opened the Logistic Center
January 1994	Began sales of PTCA wire guides
March 1994	Began sales of PTCA guiding catheters
October 1994	Began sales of pump oxygenators
November 1995	Began sales of oxygenators and EP (electrophysiology) catheters
December 1997	Registered over-the-counter stock with the Japan Securities Dealers Association (currently JASDAQ) and went public
February 1998	Began sales of PTCA stents
August 1999	Opened the Research Center
October 2000	Opened the Ukima factory
April 2001	Released PTCA wire guides as an in-house product
August 2001	Began sales of ICD (implantable cardioverter defibrillators)
April 2002	Released EP (electrophysiology) catheters as an in-house manufactured product
April 2003	Released ablation catheters as an in-house manufactured product
August 2005	Began sales of atrial septal defect closure devices
April 2006	Acquired ISO13485:2003 certification (for the Regulatory Affairs and Quality Assurance Division, the Ukima factory, and the Research Center)
December 2006	Began sales of CRT-D (cardiac resynchronization therapy defibrillators)
June 2007	Concluded exclusive sales agreements for the Sorin Group's (currently, LivaNova) CRM (cardiac rhythm management) products
July 2007	Opened the "TENNOZ ACCADEMIA" education center
September 2007	Merged with the Sorin Group Japan Co., Ltd. through an absorption-type merger
January 2008	Relocated the head office to Shinagawa Ward, Tokyo
February 2009	Made JUNKEN MEDICAL Co., Ltd. (formerly Ube Junken Co., Ltd.) a subsidiary*1
April 2009	Began sales of vascular grafts manufactured by JUNKEN MEDICAL
October 2010	Acquired SYNEXMED (HONG KONG) LTD. and Synexmed (Shenzen) Co., Ltd.
January 2012	Began operations at the Toda factory
October 2012	Began sales of internal atrial cardioversion systems
December 2012	Established HEART BRAINS INC.*2
May 2013	Began sales of thoracic stent grafts
April 2014	Released PTCA balloon catheters as an in-house manufactured product
July 2014	Began sales of open stent grafts manufactured by JUNKEN MEDICAL
October 2014	Opened the Oyama factory
January 2016	Began sales of abdominal stent grafts
May 2016	Listing changed from the JASDAQ (Standard) market to the Tokyo Stock Exchange First Section

*1 JUNKEN MEDICAL Co., Ltd. was merged with the Company through an absorption-type merger on April 1, 2017.

*2 HEART BRAINS INC. was merged with the Company through an absorption-type merger on April 1, 2016.

Source: The Company's website

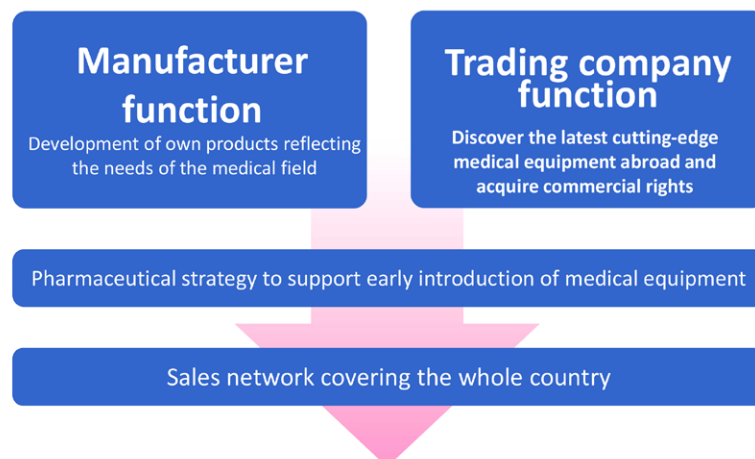
A unique business model that combines both manufacturer functions and trading company functions

2. Business description

Medical devices are used in various medical settings, such as for tests and surgeries, and they also extremely diverse and come in a wide range of sizes and prices, from large devices like MRI through to injection syringes. Japan's medical devices industry has become one of the leading markets in the world under the country's full health insurance system. But with regards to medical devices requiring sophisticated management, as typified by cardiac pacemakers, because the scale of Japanese manufacturers are smaller than the major manufacturers in Europe and the United States, and also from the height of the barrier to entry to handling medical devices that are products directly related to patients' lives, Japan relies on imports for the majority of medical devices. That said, in recent years Japanese manufacturers have improved their skills and have come to develop medical devices that are accepted globally, including the gastrointestinal endoscopes of Olympus <7733>, the catheters of Terumo <4543>, and the specimen testing devices of Sysmex <6869>.

Against this backdrop, over the many years since the Company began importing and selling cardiac pacemakers, it has introduced into Japan advanced medical devices from overseas while expanding its sales bases throughout Japan. Sales of medical devices require high-level specialist knowledge, and the Company can be said to have cultivated the power of discernment for products as a specialist trading company, while also communicating closely with doctors. Moreover, for the development of its in-house manufactured products also, it utilizes a network of doctors who are active on the medical frontline and develops products that meet their highly specific needs and that are not being met by overseas manufacturers. Also, introducing a medical device requires that regulatory approval be obtained, including through acquiring data showing the safety and efficacy of the device and negotiating with the administration, and based on its experience of introducing products over many years, the Company has strengthened its structure for regulatory affairs. For such reasons, it is extremely appealing as a sales partner in Japan for overseas manufacturers that do not have sales channels in this country.

The Company's growth foundation



We aim for expand growth by strengthening both functions

Source: The Company's results briefing materials

As a specialist trading company and manufacturer, it plays many roles in the cardiovascular medical devices industry

3. Distribution structure

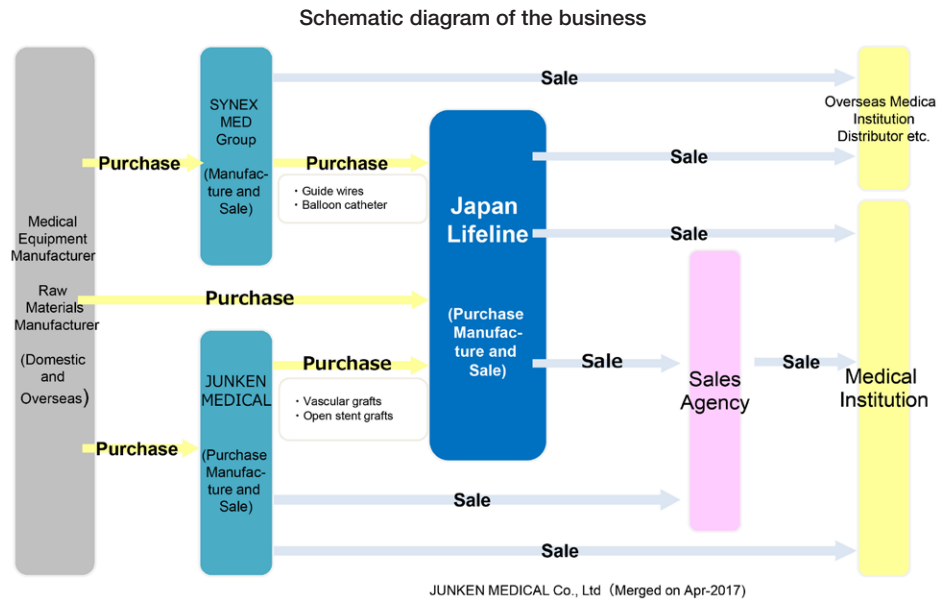
As its sales structure, the Company has 36 sales bases (as of the end of FY3/17) throughout Japan, from Hokkaido to Okinawa, with staff who possesses high-level specialist knowledge and who support medical practitioners. Its customers include medical institutions and sales agencies, although it sells few devices directly to medical institutions and most are sold via sales agencies. The sales person focus on specialist operations, including providing product information to the medical institutions, and the cooperation they obtain from the sales agencies, such as for supplementing the product inventory and for sales, enables them to conduct sales efficiently.

For purchased products, the Company concludes exclusive sales agreements with overseas manufacturers, mainly in Europe and the United States, and it handles the product of only one company for the same category of medical device. Also, it takes a position similar to that of manufacturers for aspects such as the acquisition of regulatory approval within Japan, marketing to smoothly spread the use of the medical devices through academic societies and related, and education. Further, as there is a commercial practice unique to the medical devices industry of deposit sales, which entails depositing a product at a medical facility and recording it as sales when it is used, manufacturers have to bear the inventory burden instead of sales agencies. However, in return for bearing this burden, the Company's gross profit margin on its purchased products averages from 40% to 45%, which exceeds the profit margin of a general trading company. Sales agencies conducting secondary distribution in Japan are able to handle the products of multiple companies, and although their stock burden is light, many of these companies have a gross profit margin of below 20%. Based on this, it is clear that their business form is different to that of the Company.

Also, the Company develops and manufactures in-house manufactured products as a manufacturer, and it currently has one R&D base (the Research Center) and three manufacturing bases (the Toda factory, the Oyama factory, and the Ichihara factory) in Japan.

The products that the Company develops and manufactures in-house are guide wires, EP catheters, and ablation catheters, while it has also expanded its portfolio through M&A. In 2009, it acquired Ube Junken Co., Ltd. (name subsequently changed to JUNKEN MEDICAL Co. Ltd.), which at that time was the only manufacturer of vascular grafts in Japan, and it incorporated these vascular grafts into its lineup of in-house manufactured products. Also, in 2010 it made subsidiaries of the SYNEXMED Group (companies in Hong Kong and Shenzhen), which manufactured guide wires and balloon catheters, and newly added balloon catheters to its products lineup. JUNKEN MEDICAL, which develops and manufactures vascular grafts, merged with the Company in April 2017 through an absorption-type merger toward realizing synergies and improved efficiency.

Company overview

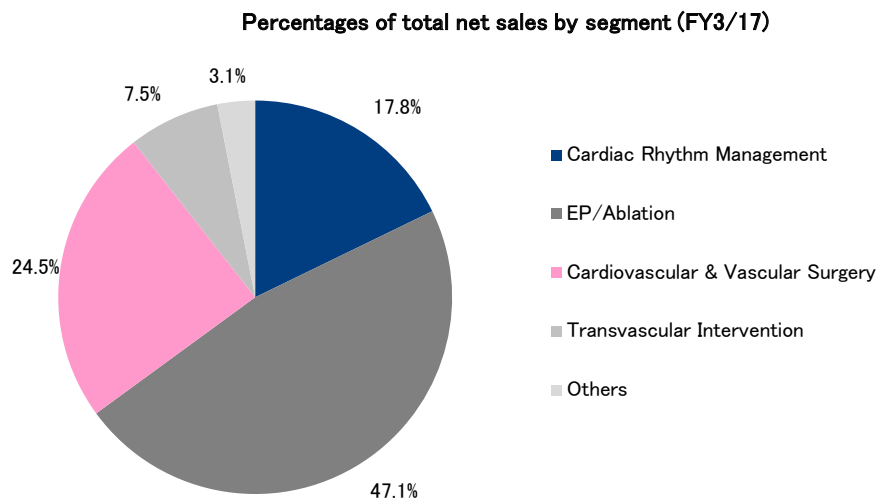


Source: The Company's results briefing materials

A product lineup specializing in cardiovascular diseases

4. Overview of net sales by segments

The Company has five business segments; Cardiac Rhythm Management, EP/Ablation, Cardiovascular & Vascular Surgery, Transvascular Intervention, and Others.



Source: Prepared by FISCO from the Company's financial results

Company overview

Cardiac Rhythm Management handles implantable devices used for treating cardiac arrhythmia. The main products are implantable devices that use electrical stimulation to ensure that the heart beats normally, including cardiac pacemakers, ICD (implantable cardioverter defibrillators), and CRT-D (cardiac resynchronization therapy defibrillators). It also handles AED (automated external defibrillators). All of the items in this segment are purchased products.

Cardiac Rhythm Management

Cardiac pacemakers
 (manufactured by LivaNova)



ICD (implantable cardioverter defibrillator)
 (manufactured by LivaNova)

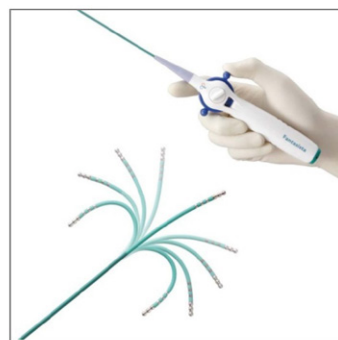


Source: The Company's results briefing materials

EP/Ablation handles disposable-type electrode catheters used for arrhythmia testing and treatment. The main in-house manufactured products include EP catheters that measure the electric potential in the heart, ablation catheters that burn out abnormal electrical stimulation pathways, the only-one product of intracardiac defibrillation catheters, and esophageal temperature monitoring catheters. Also, the purchased products include the only-one product of atrial septal puncture needles. Catheters broadly refer to medical devices made of hollow, soft, and thin tubes that are inserted into blood vessels from the skin surface to provide the medical treatment.

EP/Ablation

Ablation catheters
 (in-house manufactured product)



EP (Electrophysiology) catheters
 (in-house manufactured product)



Source: The Company's results briefing materials

Company overview

Cardiovascular & Vascular Surgery handles medical devices used for surgical treatments to replace with artificial organs those blood vessels or heart valves that have lost their functions. The main in-house manufactured products are vascular grafts and open stent grafts, both of which are manufactured by JUNKEN MEDICAL. The main purchased products include thoracic and abdominal stent grafts, prosthetic heart valves, and annuloplasty rings. Stent grafts are medical devices used to treat aortic aneurysms, the same as vascular grafts, but in contrast to a vascular graft requiring open-chest surgery, a stent graft is a medical device that treats the patient by inserting a vascular graft to which has been attached spring-like metal tubes called stents as far as the treatment site in a contracted state within the catheter, at which point the force of the spring presses against the blood vessel and fixes it in place.

Cardiovascular & Vascular Surgery

Prosthetic heart valves
(manufactured by LivaNova)



Vascular grafts
(in-house manufactured product)



Source: The Company's results briefing materials

Transvascular Intervention mainly handles medical devices to treat conditions such as myocardial infarction and angina pectoris. The main in-house manufactured products are guide wires and balloon catheters used to treat blood vessels (coronary arteries) in cases of myocardial infarction and related conditions. The main purchased products include penetration catheters that in the same way are used when treating myocardial infarction and related conditions, and atrial septal defect closure devices that are used when treating congenital structural heart disease.

Transvascular Intervention

Balloon catheters
(manufactured by SYNEXMED)



Guide wires
(in-house manufactured product)



Source: The Company's results briefing materials

Company overview

Turning point was the major reduction in sales in the past from a loss of sales rights

5. The turning point

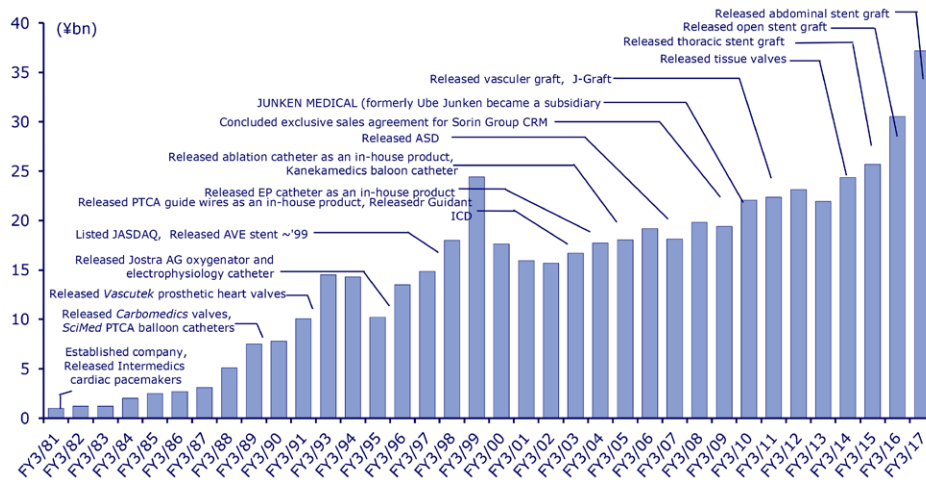
While specializing in the cardiovascular field, the Company has both the business functions of importing overseas products and manufacturing products in-house. Many of the major Japanese medical device companies are manufacturers, but why did the Company, which started as a trading company, subsequently also acquire the functions of a manufacturer?

The trigger for this was the major decline in sales following the loss of domestic sales rights when Arterial Vascular Engineering Inc. which supplied the Company with coronary bare metal stents from FY3/99 to F3/00, was acquired at that time by a competitor. The Company had already experienced similar cases to this several times before then, so in 1999 it launched the Research Center and began to develop products in-house as one way of mitigating this risk of the loss of sales rights. In 2001, it launched guide wires as its first in-house manufactured product, and subsequently expanded its lineup of in-house manufactured products, including to EP catheters and ablation catheters.

Further, in FY3/09 the Company acquired Ube Junken Co., Ltd., which was a subsidiary of Ube Industries and the only manufacturer of vascular grafts in Japan. It was also against the backdrop of that time that Vascutek Ltd. was acquired by a competitor, and this acquisition subsequently led to the Company market launching in-house manufactured products, of the J Graft series of vascular grafts, and open stent grafts, which are an only-one product.

The product that spurred the growth of in-house manufactured products, whose lineup has expanded in this way, was BeeAT, which is an only-one product of a catheter with an internal atrial cardioversion system that was marked launched in October 2012. This product is used in approximately 80% of ablation treatments of atrial fibrillation, and its sales volume has grown rapidly against the backdrop of the increase in the number of cases of this condition. It became a major factor not only in increasing the percentage of the Company's total net sales provided by in-house manufactured products, but also in improving its profit level.

The Company's history and net sales trend



Source: The Company's results briefing materials

Performance trends

The profit margin improved significantly and operating income doubled in FY3/17

1. Trends in the FY3/17 results

FY3/17 results

	FY3/16	% of sales	FY3/17	% of sales	% change
Net sales	30,540	100.0	37,181	100.0	21.7
Gross profit	17,250	56.5	21,998	59.2	27.5
SG&A expenses	13,550	44.4	14,313	38.5	5.6
Sales expenses	517	1.7	552	1.5	6.8
Personnel expenses	6,744	22.1	6,849	18.4	1.6
R&D expenses	933	3.1	1,051	2.8	12.6
Operating income	3,700	12.1	7,685	20.7	107.7
Ordinary income	3,574	11.7	8,010	21.5	124.1
Net income attributable to owners of the parent	2,804	9.2	5,350	14.4	90.8

Note: Sales expenses are sales-promotions expenses + advertising expenses
 Source: Prepared by FISCO from the Company's financial results

Net sales were strong in FY3/17, increasing 21.7% YoY to ¥37,181mn. By product segment, net sales in Cardiac Rhythm Management were ¥6,617mn (up 19.1%); in EP/Ablation, ¥17,528mn (up 22.0%); in Cardiovascular & Vascular Surgery, ¥9,099mn (up 27.1%); and in Transvascular Intervention, ¥2,783mn (up 23.6%). So sales trended favorably in each segment.

Operating income grew significantly, approximately doubling to ¥7,685mn. This was due to the major improvement in the profit margin, in addition to the higher sales. Specifically, although the insurance redemption prices* were revised, the gross profit margin still improved by 2.7 percentage points due to the cost improvements for in-house manufactured products and the rise in the composition ratio of highly profitable new products. Costs increased, including development-related expenses for in-house manufactured products and logistics-related expenses following the business expansion. But due to the effects of scale merits from the higher sales, the SG&A expenses ratio improved by 5.9 percentage points.

* Reimbursement prices are determined by the government as the prices of specified health care materials that are covered by health insurance. As part of the series of reforms to keep down medical expenses and correct price differences between domestic and overseas suppliers, they are reviewed every two years at the same time as the review of the medical fees. The majority of the manufactured products sold by the Company are included in the scope of this system, and most recently, the reduction in insurance redemption prices implemented in the spring of 2016 affected its FY3/17 results.

Net income attributable to the owners of the parent increased 90.8% to ¥5,350mn. The main factors were that on the one hand, non-operating income improved ¥451mn due to the occurrence of a currency gain and the fact that syndicated loan fees recorded in the previous fiscal year were not recorded in this fiscal year, but on the other hand, the extraordinary loss worsened ¥975mn, as a gain on the sale of investment securities recorded in the previous fiscal year was not recorded in this fiscal year.

Performance trends

Sales of all the main products grew significantly, by around 20%

2. Trends in net sales in FY3/17 by product

Net sales by product

	FY3/16	Sales ratio	FY3/17	Sales ratio	Change rate
Cardiac Rhythm Management	5,557	18.2	6,617	17.8	19.1
EP/Ablation	14,371	47.1	17,528	47.1	22.0
Cardiovascular & Vascular Surgery	7,158	23.4	9,099	24.5	27.1
Transvascular Intervention	2,252	7.4	2,783	7.5	23.6
Others	1,200	3.9	1,152	3.1	-4.0

Source: Prepared by FISCO from the Company's financial results

In the breakdown for Cardiac Rhythm Management, pacemaker-related net sales were ¥5,674mn (up 18.1%), ICD-related were ¥724mn (up 16.0%), and others were ¥218mn (up 71.4%). Sales volume recovered on the launch of sales in March 2016 of KORA250, a pacemaker compliant with whole body MRI (magnetic resonance imaging) testing. KORA250 makes possible MRI imaging of the chest, which had previously been possible only to a limited extent, and in addition it was favorably received thanks to having the world's smallest body size and a long battery life. The product lineup was also enhanced in December 2016 on the release of Petite, a tined-type pacemaker lead compliant with MRI testing, which also contributed to the higher sales volume. Elsewhere, the sales volume increased from the contribution of the Platinum series of long-life, small-sized ICD and CRT-D.

Cardiac Rhythm Management-related




Purchased products			
Manufactured by LivaNova			Manufactured by NANOOMTECH
Cardiac pacemakers KORA250	ICD (implantable cardioverter defibrillator) PLATINIUM	CRT-D (cardiac resynchronization therapy defibrillators) PLATINIUM	AED (automated external defibrillators) Cardiac Rescue
			

Source: The Company's website

Breaking down results in EP/Ablation, net sales of EP catheters were ¥13,160mn (up 25.9%), ABL catheters were ¥1,258mn (down 5.7%), and others were ¥3,109mn (up 20.3%). In EP catheters, sales continued to be strong for the only-one product of BeeAT, a specific catheter with an internal atrial cardioversion system, and for Esophastar, a specific catheter with an esophageal temperature monitoring system, due to the increase in the number of ablation treatments indicated for cases of atrial fibrillation. Within Japan, the sales volume increased of RF Needle, which is a high frequency transeptal needle sold by the Company alone. However, sales of ablation catheters declined due to the delay in the fully fledged market introduction of products with irrigation functions.

Performance trends

EP/Ablation-related

The Company Group's products		Purchased products
Manufactured by Japan Lifeline		Manufactured by BAYLIS MEDICAL
BeeAT, a specific catheter with an internal atrial cardioversion system	Esophastar, a specific catheter with an esophageal temperature monitoring system	RF Needle, a high frequency transeptal needle
		
Released Oct. 2012	Released Apr. 2015	Released May 2013
ONLY ONE		ONLY ONE

Source: The Company's website

Breaking down net sales in Cardiovascular & Vascular Surgery, in prosthetic valve-related, they were ¥1,755mn (up 30.3%); in oxygenators-related, ¥113mn (down 24.5%); and in vascular grafts-related, ¥7,229mn (up 27.7%). In the mainstay vascular grafts-related, in addition to thoracic stent grafts, in January 2016 the AFX Stent Graft System for the abdomen was newly launched, which pushed up the sales volume. Moreover, there was increased usage of J-Graft FROZENIX, which is an open stent graft and an only-one product for the Company, thanks to its contribution to minimally invasive treatment (reduced burden on the patient). In prosthetic valve-related, sales volume grew from the contribution of CROWN PRT, which is a biological valve with enhanced durability thanks to an anti-calcification treatment.

Cardiovascular & Vascular Surgery





The Company Group's products		Purchased products	
Manufactured by Japan Lifeline		Manufactured by Bolton Medical	Manufactured by Endologix
Vascular grafts J-Graft	Open stent grafts J-Graft open stent grafts	Thoracic stent grafts RELAY Plus	Abdominal stent grafts AFX
Open-chest surgery		Percutaneous treatment	
	 ONLY ONE		 NEW

Source: The Company's website

Performance trends

In the breakdown for Transvascular Intervention, balloon catheter net sales were ¥814mn (down 8.9%), guide wires were ¥373mn (down 14.5%), and others were ¥1,596mn (up 73.2%). The sales volume of balloon catheters was basically unchanged from the previous fiscal year, but net sales still declined due to the impact of the reduction in reimbursement prices. The sales volume of guide wires fell because of the intensified competition. In others, Figulla Flex II, an atrial septal defect closure device launched in February 2016, was positively received by medical institutions and in the short term it has expanded its market share, while sales of Guideliner, a penetration catheter used in the treatment of myocardial infarction and related conditions, remained steady.

Transvascular Intervention

The Company Group's products		Purchased products	
Manufactured by SYNEXMED	Manufactured by Japan Lifeline	Manufactured by Vascular Solutions	Manufactured by Occlutech Holding AG
Balloon catheters canPass	Guide wires ATHLETE	Penetration catheters GuideLiner	Atrial septal defect closure devices Figulla Flex II
			

Source: The Company's website

Both ROA and ROE dramatically improved and cash also rapidly increased

3. Financial condition

Balance sheet and management indicators

	(¥mn, %, times)				
	FY3/13	FY3/14	FY3/15	FY3/16	FY3/17
Total assets	27,110	28,932	33,163	36,165	40,427
Current assets	17,420	19,471	23,789	25,943	29,025
Inventory assets	7,348	9,106	9,784	10,584	10,272
Property, plant and equipment	5,024	6,384	5,942	7,283	7,726
Financial assets	14,738	13,442	17,437	18,298	22,429
Interest-bearing debt	5,556	7,411	5,257	11,430	10,103
Shareholders' equity	15,338	14,600	15,454	15,984	20,869
Net assets	15,412	14,626	15,385	15,890	20,750
Capital investment	1,336	1,901	331	1,752	905
Depreciation expenses	565	576	770	717	753
Cash flow	1,084	374	1,894	3,521	6,103
Return on assets	2.9	4.4	5.9	10.7	20.1
Return on equity	3.4	-1.4	7.5	17.9	29.2
Net income margin	2.4	-0.8	4.4	9.2	14.4
Total assets turnover ratio	0.8	0.9	0.8	0.9	1.0
Leverage	1.8	1.9	2.1	2.2	2.1
Equity ratio	56.6	50.5	46.6	44.2	51.6
Current ratio	219.5	214.1	182.7	192.2	216.3

Note: Property, plant and equipment: Tangible non-current assets + intangible non-current assets + deposits etc.; Financial assets: Total assets - inventory assets - property, plant and equipment; Interest-bearing debt: Long-term and short-term debt; Cash flow: Net income + depreciation expenses; Equity ratio: Shareholders' equity / total assets x 100

Source: Prepared by FISCO from the Company's financial results and results briefing materials

Performance trends

Return on equity (ROE) is growing. From FY3/13, the net income margin, the total asset turnover ratio, and leverage all improved and pushed up ROE, and particularly since FY3/14 when the Company recorded a net loss, the impression is that while the improvement in the total asset turnover ratio has been steady, the improvement in the net income margin has been especially noticeable. It would seem that the main reason for this is the growth in highly profitable only-one products, including in-house manufactured products. In the same way, the growth in return on assets (ROA) has also been high.

In assets, we can see that while on the one hand the increase in inventory assets is being kept down, on the other hand property, plant and equipment is steadily rising and that the growth in profits is resulting in the accumulation of financial assets through operating cash flow. We see that free cash flow is being accumulated through operational flow, indicating that the Company's investment and dividend capabilities are rapidly expanding. Depending on the Company's confidence in its medium-term results, a major issue going forward is likely to be how it utilizes the cash it has accumulated.

It would seem that the reason why the growth in inventory assets in FY3/17 was low despite the substantial increase in sales was from the fact that compared to the previous fiscal year, there were fewer launches of new products that have initial inventory. In this industry there is the commercial practice known as deposit sales, in which medical institutions hold the inventory and sales are recorded when the product is used, so for medical devices used for emergency surgery, inventory assets may temporarily expand when a product with many size variations is launched.

Forecasts

Even though expenses, including for the launch of new products, will rise, the forecast is for operating income to increase 20% in FY3/18

1. FY3/18 outlook

FY3/18 outlook

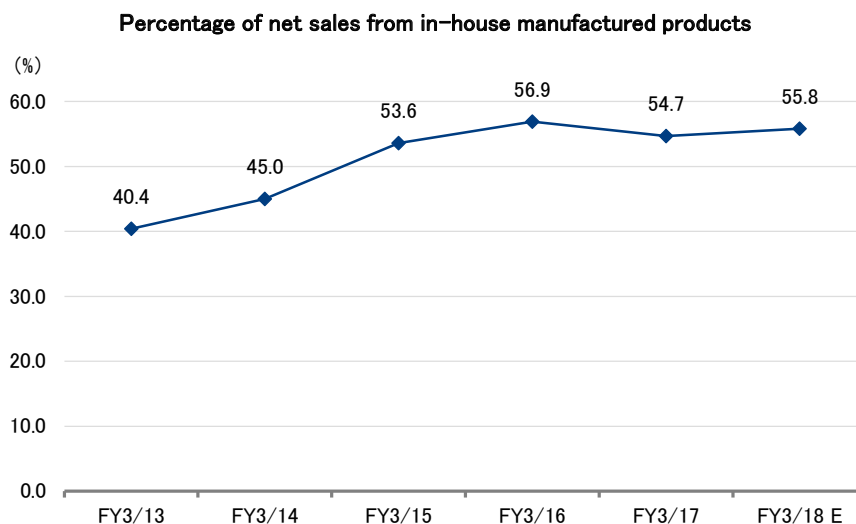
	FY3/17	Sales ratio	FY3/18 E	Sales ratio	Change rate
Net sales	37,181	100.0	41,828	100.0	12.5
Gross profit	21,998	59.2	25,835	61.8	17.4
SG&A expenses	14,313	38.5	16,362	39.1	14.3
Sales expenses	552	1.5	-	-	-
Personnel expenses	6,849	18.4	-	-	-
R&D expenses	1,051	2.8	-	-	-
Operating income	7,685	20.7	9,472	22.6	23.3
Ordinary income	8,010	21.5	9,604	23.0	19.9
Net income	5,350	14.4	6,684	16.0	24.9

Note: Sales expenses: Sales promotion expenses + advertising expenses
 Source: Prepared by FISCO from the Company's financial results

Forecasts

For FY3/18, the Company is forecasting net sales of ¥41,828mn (up 12.5%) and operating income of ¥9,472mn (up 23.3%). Reimbursement prices will not be revised in FY3/18 and the number of indicated cases is expected to continue to increase, so we can expect higher net sales from the rise in sales volume, including of only-one products. Besides, the new products that were introduced in the previous fiscal year contributed to the full-year results in FY3/17. But in contrast, in FY3/18 new products are scheduled to be launched in 4Q, so their contributions to full-year results will be limited. Due to this and other factors, the net sales increase rate is expected to slow down. By product segment, the Company's forecasts for net sales are ¥7,036mn in Cardiac Rhythm Management (up 6.3%), ¥20,090mn in EP/Ablation (up 14.6%), ¥11,284mn in Cardiovascular & Vascular Surgery (up 24.0%), and ¥3,416mn (up 22.7%) in Transvascular Intervention.

The gross profit margin is forecast to improve 2.6 percentage points, as there will be no downward pressure on it because there will be no revisions to the reimbursement prices while the ratio of highly profitable products will rise and there will be costs improvements for both in-house manufactured and purchased products. The SG&A expenses ratio is forecast to worsen slightly due to the rise in personnel expenses and in advertising and other expenses following the launches of new products. However, the increase in SG&A expenses will be absorbed and the forecast is for operating income to rise 23.3%.



Source: Prepared by FISCO from Company materials

Forecasts

Sales to again increase by double-digits in FY3/18, and a new product lineup scheduled up to FY3/19

2. Trend in net sales by product in FY3/18

Net sales by product

	(¥mn, %)				
	FY3/17	Sales ratio	FY3/18 E	Sales ratio	Change rate
Cardiac Rhythm Management	6,617	17.8	7,036	16.8	6.3
EP/Ablation	17,528	47.1	20,090	48.0	14.6
Cardiovascular & Vascular Surgery	9,099	24.5	11,284	27.0	24.0
Transvascular Intervention	2,783	7.5	3,416	8.2	22.7
Others	1,152	3.1	-	-	-

Source: Prepared by FISCO from the Company's financial results

In the breakdown for Cardiac Rhythm Management, the net sales forecasts are ¥6,017mn for pacemaker-related (up 6.1%), ¥742mn for ICD-related (up 2.5%), and ¥276mn for others (up 26.4%). The reason for the low growth rate compared to the previous fiscal year is that the introduction of a pacemaker compliant with MRI tests made progress in FY3/17 and it is expected to recover market share at a slower pace in the future.

In the breakdown for EP/Ablation, the net sales forecasts are ¥15,089mn for EP catheters (up 14.7%), ¥1,227mn for ablation catheters (down 2.5%), and ¥3,773mn for others (up 21.3%). We can expect EP catheter sales to continue to trend upward from the rise in the number of ablation treatments indicated for cases of atrial fibrillation. In ablation catheters, the Company plans to launch HeartLight, which is a new product of an endoscopic ablation system using balloon technologies. However, as it will be launched in 4Q, it is not expected to contribute fully to results until FY3/19.

In the breakdown for Cardiovascular & Vascular Surgery, net sales of ¥1,979mn are forecast for prosthetic valve-related (up 12.8%), ¥76mn for oxygenators-related (down 33.0%), ¥7,955mn for vascular grafts-related (up 10.1%), and ¥1,272mn for blood purification-related (included in the "others" product segment in FY3/17). In prosthetic valve-related, the Company plans to newly launch PERCEVAL, which is a biological valve that does not require sutures, in FY3/18 4Q, so it is expected to contribute from FY3/19. Also, Bolton Medical, which supplies the Company with thoracic stent grafts, has been acquired by a competitor, but sales will not be affected during the sales agreement period that lasts until the end of April 2018.

In the breakdown for Transvascular Intervention, net sales of ¥1,087mn are forecast for balloon catheters (up 33.6%), ¥415mn for guide wires (up 11.3%), and ¥1,913mn for others (up 19.9%). At the end of FY3/18 1Q, the Company plans fully fledged sales of Mastuly, which is a new product for peripheral usage, and the sales volume of balloon catheters is expected to further increase. Also, in February 2017, it concluded an exclusive sales agreement with Biotronik for Orsiro, a drug eluting stent, and it is scheduled to be launched in FY3/18 4Q.

Examples of new products to be launched in FY3/18



Catheter for ablation treatment HeartLight



Drug eluting stents Orsiro



Suture-less biological valve PERCEVAL

Source: The Company's website

We encourage readers to review our complete legal statement on "Disclaimer" page.

Medium-term targets

Reflecting the recent major increase in profits, has upwardly revised the targets in the medium-term management plan

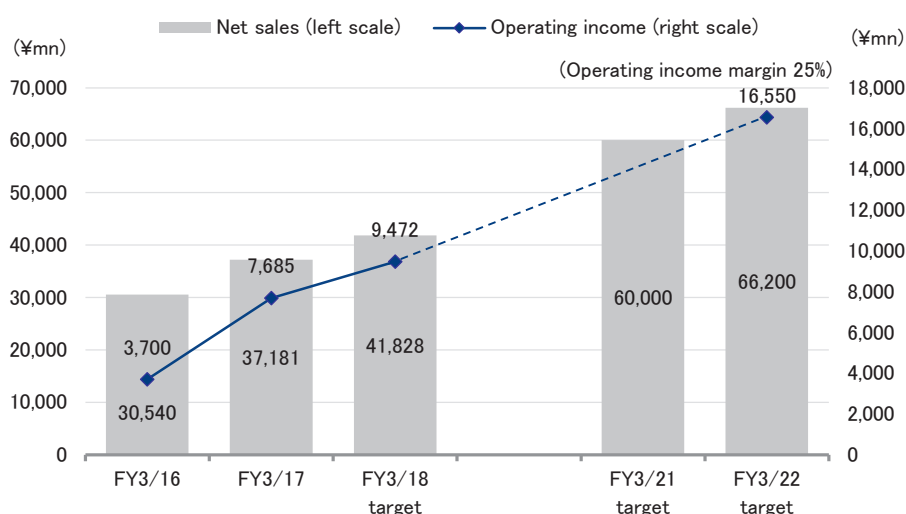
- The rolling medium-term targets

Each year, the Company updates its rolling, five-year medium-term targets. In May 2016, it announced medium-term targets for FY3/21 of net sales of ¥57.8bn and an operating income margin of 18%. But in the update of May 2017, it upwardly revised them to net sales of ¥66.2bn and an operating income margin of 25% for FY3/22.

The assumptions for the medium term are that the medical devices market for cardiovascular patients will continue to expand due to the aging of the population in Japan and progress in medical devices, and that domestically, there will be no company with a sales structure and a regulatory structure on the same scale as the Company. Against this backdrop, growth seems likely to continue when considering its abundance of pipeline products thanks to its strong procurement capabilities for overseas products. Moreover, going forward it will strengthen its focus on in-house manufactured products, including investigating expanding R&D bases and constructing factories overseas, and in such ways the Company is advancing preparations for further growth.

However, there are also risks. There is the risk of a recall if there is a product that malfunctions as a medical device, the risk that the superiority of a product compared to those of competitors will decline in the event that the time required for its regulatory approval is longer than expected and its market launch is delayed, the risk of falls in sales prices from revisions to the insurance redemption prices, and the risk of a loss of sales rights when a competitor acquires through an M&A a manufacturer that is a supplier for the Company. However, it is considered that management always keeps in mind the possibility that these risks will materialize and naturally formulates a certain level of measures to mitigate them. The risk of the loss of sales rights has materialized in the past, and the Company's policy is to mitigate this risk by expanding its portfolio in the future.

The medium-term management plan (current targets)



Source: Prepared by FISCO from Company materials

Shareholder return policy

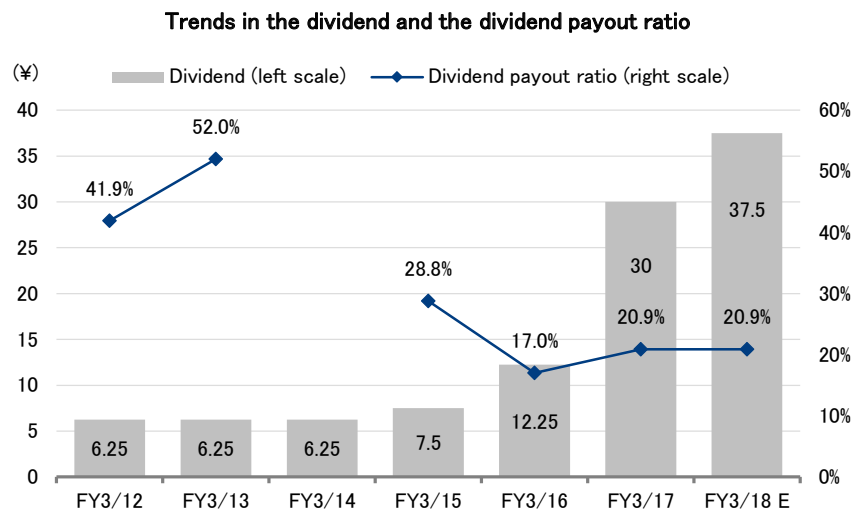
Continuously increasing the dividend in line with profit growth

- Returns to shareholders and long-term investment

The Company's basic policy for returning profits to shareholders is to "consider the various factors, such as the results and the demand for capital for business development in the future, and to implement appropriate measures to return profits to shareholders, mainly through continuously and stably paying a dividend, while retaining the necessary internal reserves." In addition, its policy for internal reserves is "to increase corporate value by aiming to raise results and invest in developing and manufacturing products in-house that utilize our strengths," and it raises the dividend in line with profit growth.

On considering the financial analysis by FISCO and the Company's medium-term targets up to the present time, we estimate that free cash flow will continue to grow in the future. Accordingly, while maintaining a balance between returning profits to shareholders and securing internal reserves, the Company's investment and dividend capabilities have been improving and it can be said to have reached a stage where it can return profit growth to shareholders. Moreover, it is considered that it intends to utilize free cash flow, which is currently rapidly expanding, as the source of funds to invest in overseas factories and to expand its business into non-cardiovascular fields.

The Company conducted share splits of 2 for 1 ordinary shares on October 1, 2015, and on December 1, 2016.



Source: Prepared by FISCO from the Company's website



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