

Financial Results for the First Quarter of Fiscal Year Ending March 31, 2013: Reference

Analysis of Business Performance

<1> Overview of financial results for the quarter

[1] Overview of consolidated financial results

Looking at an overview of the global medical market in the current quarter consolidated cumulative period (between April 1 and June 30, 2012), in the U.S., while the healthcare reform law introduced by the current administration was judged “constitutional” by the Federal Supreme Court, the Republican Party has said that through the presidential election, it will demand the withdrawal of the judgment. In Europe, R&D bases where universities, national research institutes, corporations, hospitals, etc. cooperate together have been established one after another toward the early realization of regenerative medicine. Under tough financial conditions, individual governments in Europe are focusing on subsidizing researches and supporting business startups. In Japan, there was also the reduction of drug & reimbursement prices.

Looking at emerging countries, we can anticipate the continuous growth of medical device markets, as illustrated by the fact that at the Fifth Session of the 11th National People’s Congress at the end of 2011, Wen Jiabao, Prime Minister of China, set “fully extending the medical insurance to cover eight diseases such as uremia (end-stage renal disease)” as one of its major missions. In Mexico, a bilateral agreement to mutually recognize regulatory approval systems as equivalent was extended to Japan, and they promulgated a ministerial ordinance to make medical device approved and certified in Japan subject to quick reviewing.

As shown above, the environment surrounding the medical market is changing globally, and new opportunities for growth to take advantage of our strengths have been expanding.

In our group, the interventional systems business has steadily improved performance on a local currency basis not only in emerging countries, where the number of cases are increasing thanks to improved medical standards, but also in the U.S. and Europe, where the economic slowdown persists. In this business, sales of guidewires and other basic interventional products were favorable, furthermore high value added products such as neurovascular embolization coils and self-expanding stents for peripheral blood vessels have shown high growth rates.

Our group is currently heralding a target of “becoming a company with global presence by 2020” and has been promoting the three-year mid-term management plan since last year, and our major initiatives in the current quarter consolidated cumulative

period are as follows:

- Based on future growth strategy and to respond to increases in demand anticipated in the medium and long-term, we have decided to newly build and expand production bases in Vietnam and the Philippines respectively.
- To expand business in Europe, we have established a sales branch in Austria. In this market, we previously conducted all sales activities through distributors, but going forward, we will directly sell our products, in particular, ones of interventional systems.
- We launched OFDI intravascular imaging systems in Europe. It was used in live demonstration cases performed at the world's leading cardiovascular intervention course, drawing a considerable amount of interest among numerous physicians.
- We launched new neurovascular embolization coils in Japan. By adding two products, we can now cover a wide range of coiling procedures and can offer coils optimal for each treatment strategy.

As a result, our performance in the consolidated period of the first quarter of this fiscal year is as follows:

(Unit: millions of yen)

	Q1 FYE Mar. 2012 Results	Q1 FYE Mar. 2013 Results	Changes %	Changes % (Constant currency basis)
Net Sales	95,630	95,867	0.2	3.1
Gross Profit	50,842	51,692	1.7	6.1
Operating Income	17,378	15,481	(10.9)	(2.5)
Ordinary Income	16,868	12,981	(23.0)	—
Net Income	9,772	8,159	(16.5)	—

< Net Sales >

Net sales were 95.9 billion yen or a 0.2% increase compared with the same period of the previous fiscal year.

Geographic segments

(Unit: millions of yen)

Area	Q1 FYE Mar. 2012 Results	Q1 FYE Mar. 2013 Results	Changes %	Changes % (Constant currency basis)
Japan	44,675	45,516	1.9	1.9
Europe	19,483	17,729	(9.0)	0.4
Americas	19,917	20,492	2.9	4.9
Asia and others	11,553	12,129	5.0	9.2
Total of Outside of Japan	50,954	50,351	(1.2)	4.1
Total	95,630	95,867	0.2	3.1

Though affected by the reduction in drug & reimbursement prices, net sales in Japan increased to 45.5 billion yen, representing a 1.9% increase from the same period of the previous year. At the same time, the interventional systems business was steady outside of Japan, maintaining good business on a local currency basis. Affected by the appreciation of the yen, however, outside of Japan, net sales dropped to 50.4 billion yen, or a 1.2% decrease from the same period of the previous year.

<Gross Profit>

In spite of adverse factors such as the effect of the appreciation of the yen and price reduction, gross profit increased to 51.7 billion yen or 1.7% increase compared with the same period of the previous year, due to the shift to highly profitable products and increased production.

<Operating Income>

With SG&A expenses and R&D costs increased, including planned growth investments, operating income decreased by 10.9% to 15.5 billion yen.

<Ordinary Income>

Affected by foreign exchange loss due to the appreciation of the yen, ordinary income decreased to 13 billion yen or a 23% decrease from the same period of the previous year.

<Net Income>

Quarterly net income decreased by 16.5% from the same period of the previous year, to 8.2 billion yen.

Net sales by business segments are as follows:

Please note that from this first quarter of the consolidated financial period, we have changed the conventional four segments, namely, “General Hospital Business,” “Cardiac & Vascular Business,” “Blood Management Business” and “Consumer Healthcare Business” to three segments of “General Hospital Business” integrating the “Consumer Healthcare Business,” “Cardiac & Vascular Business,” and “Blood Management Business.”

Business Segments

(Unit: millions of yen)

Business Segments		Q1 FYE Mar. 2012 Results	Q1 FYE Mar. 2013 Results	Changes %	Changes % (Constant currency basis)
General Hospital Business	Net Sales	37,632	38,182	1.5	2.8
	(Japan)	29,992	31,233	4.1	4.1
	(Overseas)	7,640	6,948	(9.1)	(2.7)
Cardiac & Vascular Business	Net Sales	39,955	41,056	2.8	7.2
	(Japan)	11,923	11,707	(1.8)	(1.8)
	(Overseas)	28,031	29,349	4.7	11.0
Blood Management Business	Net Sales	18,042	16,628	(7.8)	(5.2)
	(Japan)	2,758	2,574	(6.7)	(6.7)
	(Overseas)	15,283	14,053	(8.0)	(4.9)

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