Outlined below are the principal Q&As from the financial results briefing of August 3, 2017. Certain details have been expanded or modified to provide readers with a deeper understanding of Terumo Corporation’s performance and activities.

Q1: In the Cardiac and Vascular Company, sales and profits have been so far smoothly in line with FY2017 guidance. Do you expect this trend to continue going forward?

A1: At this stage, we do not see any risks to be specifically concerned. We expect earnings momentum to remain strong. However, the amount of SG&A expense incurred thus far is slightly lower than we had estimated. We therefore believe SG&A expense is likely to increase in and after FY2017 Q2.

Q2: The gross profit margin (56.2%) in FY2017 Q1 outperformed the high level of one posted in FY2016 Q1 (55.6%). Do you estimate this trend will continue going forward?

A2: The improvement in gross profit margin is primarily underscored by a substantial increase in the ratio of net sales of highly profitable products in the Cardiac and Vascular Company to total consolidated net sales. With foreign exchange neutral, we look to maintain this level of gross profit margin.

Q3: The increment of gross profit by sales increase is ¥8.1 billion. What portion of this reflects contribution from the acquisitions made in FY2016?

A3: Given post merger integration, it is difficult to accurately measure the portion of gross profit solely stemming from the acquired assets. However, we estimate the contribution to gross profit from our acquisitions is around ¥5.0 billion.

Q4: You estimate FY2017 guidance of operating income, excluding goodwill for acquisitions made in FY2016, is ¥3.0 billion. However, in FY2017 Q1, you already posted ¥1.4 billion, which seemed ahead of the plan. What makes it proceed quickly?

A4: Sales of the Angio-Seal vascular closure device surpassed our guidance. We have sales forces dedicated to access devices. In addition, our sales representatives have been pouring energies into sales immediately following the acquisition, particularly for the Angio-Seal.
Q5: In contrast to the sales benefit of ¥9.5 billion from acquisitions made in FY2016, the ¥1.4 billion contribution to operating income excluding goodwill and profit margins do not appear to be very high. Do you expect to see improvement once operations have been fully integrated?

A5: For Angio-Seal and other vascular closure device, we are securing high profit margins. However, Sequent Medical, Inc. and Bolton Medical, Inc. are still in red for now. In light of this, we do not anticipate a contribution to earnings of both Sequent Medical, Inc. and Bolton Medical, Inc. soon after the completion of the post merger integration.

Q6: What was sales growth rate at the TIS (Terumo Interventional Systems) business and the Neurovascular business respectively, before factoring in the impact from the acquisitions made in FY2016?

A6: In the TIS business, sales growth rate was 24% year on year factoring in contribution from the acquisitions and 7% for organic growth without positive benefit from the FY2016 acquisitions taken into account. In the Neurovascular intervention business, sales growth was 35% factoring in contribution from the acquisitions and 27% without it.

Q7: I understand that sales of suction catheters are brisk in the Neurovascular business. Do you anticipate an expansion in sales in this field given the current growth of the market for the devices used for ischemic stroke?

A7: The market for the devices used for ischemic stroke is expanding. Our sales of suction catheters are also growing considerably. In addition to suction catheters, we are also developing a stent retriever that catches and retrieves blood clots. We aim to bolster sales in this field by expanding our product lineup.

Q8: Assuming the U.S. reinstates the Medical Device Excise Tax from January 2018, what degree of impact will it have on Terumo’s FY2017 results?

A8: Our guidance for FY2017 does not factor in an increase in expenses due to resumption of the Medical Device Excise Tax. Assuming that the U.S. begins to levy this tax once again from January 2018, we estimate a rise in expense of roughly ¥500 million in FY17 Q4.

Q9: What is the positive benefit from adjustment not attributable to reportable segments in the segment information of “Financial Results for the First Quarter of Fiscal Year Ending March 31, 2018”?

A9: We allocate corporate expenses to each company in line with the figures in our guidance to get an accurate grasp of earnings contribution from each company, and the positive benefit in
adjustment not attributable to reportable segments in FY2017 Q1 is mainly coming from the difference between actual allocated SG&A expense spent in each company and the guidance. In light of this method, should actual corporate expense undershoot the guidance, the gap between these two aforementioned items is recognized as a positive adjustment not attributable to reportable segments from each of three companies.