

Q&A Session at the Financial Results Briefing
for the First Half of the Fiscal Year Ending March 31, 2018

Outlined below are the principal Q&As from the financial results briefing of November 9, 2017. Certain details have been expanded or modified to provide readers with a deeper understanding of Terumo Corporation's performance and activities.

Q1: You kept your full year guidance in FY2017 unchanged but do you anticipate any factors that could impact financial performance in the second half?

A1: One uncertainty is the timing when the factory in Puerto Rico will resume shipments of the Angio-Seal, a vascular closure device. We partially commenced production from November 2017 by using on-site power generators, aiming to restart shipments by the end of calendar year 2017. However, we surmise it will still take some time before we can resume full-fledged operations given the unstable electric power supply. Even if we are unable to resume shipments by the end of FY2017, we believe we can still achieve our full year guidance.

Q2: How much Angio-Seal inventory do you have in stock? I hear that the number of Puerto Rican residents evacuating to the U.S. mainland is increasing. Will this trend have an impact on the resumption of production? Also, what potential impact do you see to the results in the second half?

A2: We had roughly 1.5 months' worth of inventory at the moment when production got suspended. We are continuing to provide customers with product while adjusting sales volume. We have already informed customers that there is a possibility of Terumo being unable to supply products for a certain period even if we resume shipments within calendar year 2017. We have received a certain degree of understanding from our customers given that this was caused by a natural disaster. Fortunately, all of our local employees are safe. We have been making a full effort to resume shipments as soon as possible. Regarding the damages to building facilities and other assets, we estimate it to be around ¥300 million. We plan to file an insurance claim for the cost required for refurbishments and for the lost sales opportunity due to the suspension of shipments. However, we do not expect to receive a payout until sometime in or after FY2018 given the time it will take for the insurer to do an appraisal and to negotiate the settlement.

Q3: In your FY2017 annual guidance announced on May 10, you stated “G/P increment by sales increase” of ¥17.5 billion in operating income. However, you already posted G/P increment by sales increase of ¥17.3 billion in the first half. Can you explain what portion of this was contribution from acquisitions?

A3: In our FY2017 annual guidance announced on May 10, we specifically separated out the amount of impact from acquisitions. Therefore, we did not include any acquisition-related impact in catalyst “G/P increment by sales increase” in operating income of FY2017 annual guidance. As we have made progress integrating the assets we acquired, it is now difficult to accurately demarcate acquisition-related expenses from others. In light of this, in our Q1 and first half financial results presentation materials, we did not separate the impact from acquisitions but simply presented catalysts with the aforementioned impact included in them. In the first half, G/P increment by sales increase was ¥17.3 billion. Out of ¥17.3 billion, ¥9.6 billion reflects contributions from acquisitions. Among gross margin improvement of ¥5.4 billion, ¥2.0 billion was attributable to impact from acquisitions.

Q4: The gross profit margin in the neurovascular business seems high. Is the business profit margin for this aforementioned business is higher than that for overall Cardiac and Vascular Company? I believe Terumo has currently been implementing aggressive R&D investment for new product development. When do you expect to see a return on investment and contribution to an improvement in profitability?

A4: The gross profit margin is high in the neurovascular business. However, the business profit margin at the neurovascular business is lower than that of overall Cardiac and Vascular Company for now owing to high R&D expenses as well as expenses for sales promotion and training. Going forward, since we anticipate a high level of market growth, we plan to continue implementing growth investments, carrying out further profit management for each product, and steadily improving the business profit margin for the overall business.

Q5: What has the reaction to the new aneurysm embolization system, WEB™ been since its launch?

A5: We launched it in Europe to limited extent with smaller size added into a line-up after the acquisition. There has been an increase in the number of cases applicable to WEB as the device has smaller sizes. We also have received good evaluation from customers. We plan to expand sales in and after Q3 by expanding sales territory. In the United States, clinical development is progressing smoothly, and we aim to receive sales approval in FY2019.

Q6: Business profit margins at the General Hospital Company and Blood Management Company are improving year-on-year. In the General Hospital Company, several initiatives for improvement in profitability, such as downsizing low-profit accounts, stand out. Do you plan to continue implementing business operations oriented by profit improvement?

A6: Roughly 80% of sales in the General Hospital Company are coming from markets in Japan with a low growth rate. We therefore do not expect to post a high sales growth rate. We aim to continue implementing further profit management while steering the company towards growth, mainly with alliance business and others where we anticipate sales growth. Meanwhile, in the Blood Management Company, we also plan to improve profitability while aiming for sales growth.

Q7: It appears that recent acquisition deals have contributed to earnings quickly after integration. Is it correct to understand that you have accumulated knowhow on integration following an acquisition? Going forward, do you plan to increase the number of acquisition deals that will immediately contribute to earnings?

A7: The objective of an acquisition depends on the each deal. Accordingly, we don't necessarily target acquisitions only contributing to earnings as soon as they get completed. Since we have continuously executed acquisitions in various fields and on different scales, I believe Terumo successfully achieved accumulating knowhow both on post merger integration and the subtle selection of deals suited for the Terumo Group.