Financial Results for the Fiscal Year Ended March 31, 2021: Reference

Analysis of Business Performance and Financial Position

Analysis of Business Performance

1. Overview of Financial Results for the Fiscal Year Ended March 31, 2021

(1) Overview of Consolidated Business Results

In December 2016 the Terumo Group devised a Mid- to Long-term Growth Strategy with a five-year horizon. The Mid- to Long-term Vision is to become a "Global Corporation with Unique Excellence." The Company aims to become recognized by medical professionals worldwide as a top brand and a trusted manufacturer. To this end, the Company's management is focused on earning a high level of trust globally for our total quality (which includes the total quality of products, supply, and services). In the fiscal year under review, which is the fourth year of this growth strategy, Terumo's consolidated business results were as follows.

(million JPY)

	FYE3/2020	FYE3/2021	Growth (%)	Growth excluding the impact of foreign exchange rates (%)
Revenue	628,897	613,842	(2.4)	(1.6)
Gross profit	343,932	326,623	(5.0)	(3.3)
Adjusted operating profit	124,998	115,927	(7.3)	(4.5)
Operating profit	110,611	98,386	(11.1)	(8.3)
Profit before tax	106,466	97,060	(8.8)	—
Profit for the year	85,037	77,200	(9.2)	—
Profit for the year attributable to owners of the parent	85,211	77,268	(9.3)	—

Revenue by region for the fiscal year under review is as follows:

(million JPY)

Region	FYE3/2020	FYE3/2021	Growth (%)	Growth excluding the impact of foreign exchange rates (%)
Japan	196,339	201,758	2.8	2.8
Europe	121,128	120,389	(0.6)	(2.5)
Americas	191,388	180,798	(5.5)	(2.0)
Asia and others	120,040	110,896	(7.6)	(6.9)
Overseas total	432,557	412,084	(4.7)	(3.5)
Total	628,897	613,842	(2.4)	(1.6)

Revenue

Revenue totaled 613.8 billion JPY, a decrease of 2.4% versus the previous fiscal year.
In Japan, overall revenue increased by 2.8% year on year, exceeding 200 billion JPY and marking the Company's highest revenue on record. The impacts of the COVID-19 pandemic on Cardiac and Vascular Company were smaller than other regions, and in General Hospital Company, there was rising demand for infection control products and revenues in Alliance division and of narcotic analgesic were robust.
Revenue overseas declined by 4.7% in comparison with a year earlier. The impacts of the COVID-19 pandemic on General Hospital Company and Blood and Cell Technologies Company were small, but these same impacts were larger for TIS division (interventional devices) in Cardiac and Vascular Company.

Gross profit

Gross profit came to 326.6 billion JPY, a decrease of 5.0% compared with the previous fiscal year, reflecting a decline in revenue mainly due to the impacts of the COVID-19 pandemic on Cardiac and Vascular Company.

Adjusted operating profit

In the fiscal year under review, adjusted operating profit came to 115.9 billion JPY, a decrease of 7.3% year on year, due to the decline in gross profit, despite efforts to curtail certain selling, general and administrative expenses.
Adjusted operating profit factors out amortization expense for intangible assets obtained during acquisitions and one-off income and expenses from operating profit. In addition, adjusted operating profit is consistent with segment profit. We are disclosing adjusted operating profit since we are using it as a performance indicator.
We are additionally disclosing adjusted operating profit as an indicator but it is not defined by IFRS, which is the accounting standard the group has adopted. Adjusted operating profit is also being used as an indicator for corporate management to grasp earnings performance in each business as a part of our goal to achieve sustainable growth in the mid- to long-term. We believe this is also effective data for individuals using our financial statements to assess the Terumo Group's earnings.

Operating profit

Operating profit came to 98.4 billion JPY, a decrease of 11.1% year on year, owing to the decrease in adjusted operating profit.

Profit before tax

Profit before tax was 97.1 billion JPY, a decrease of 8.8% versus a year earlier owing to the decrease in operating profit.

Profit for the year attributable to owners of the parent

Profit for the year attributable to owners of the parent totaled 77.3 billion JPY, a decrease of 9.3% year on year, driven by the decrease in profit before tax.

Revenue results by company are as follows:

(million JPY)

Segment		FYE3/2020	FYE3/2021	Growth (%)	Growth excluding the impact of foreign exchange rates (%)
Cardiac and Vascular Company	Revenue	350,550	328,549	(6.3)	(5.5)
	(Japan)	50,924	50,208	(1.4)	(1.4)
	(Overseas)	299,626	278,341	(7.1)	(6.2)
General Hospital Company	Revenue	170,963	175,545	2.7	3.0
	(Japan)	132,880	139,139	4.7	4.7
	(Overseas)	38,083	36,405	(4.4)	(3.0)
Blood and Cell Technologies Company	Revenue	107,156	109,491	2.2	4.2
	(Japan)	12,309	12,154	(1.3)	(1.3)
	(Overseas)	94,847	97,336	2.6	4.9

Cardiac and Vascular Company

In Japan, sales were driven by extracorporeal membrane oxygenation (ECMO) systems in Cardiovascular division along with flow diverter in Neurovascular division, but revenue declined slightly overall because the impacts of the COVID-19 pandemic remain to some extent. Overseas, the same impacts were significant on TIS division (interventional devices), and Cardiovascular division in the Americas particularly. Accordingly, revenue in Cardiac and Vascular Company totaled 328.5 billion JPY, a decrease of 6.3% year on year.

General Hospital Company

The COVID-19 pandemic impacted many products, mainly in Japan and Asia, but in Japan sales were driven by infection control products and narcotic analgesic in Hospital systems division. Globally, the B2B business with pharmaceutical companies in Alliance division grew. Reflecting these, revenue in General Hospital Company was 175.5 billion JPY, an increase of 2.7% versus the previous year.

Blood and Cell Technologies Company

In Japan, sales of blood center products declined slightly due to the slowdown in demand for blood preparations caused by the impacts of the COVID-19 pandemic. Overseas, therapeutic apheresis systems and cell processing products saw a slowdown in demand for the same reasons, but there was an increase in collection demand for COVID-19 convalescent plasma therapy and sales were driven by new software for blood component collection systems. Consequently, revenue in Blood and Cell Technologies Company totaled 109.5 billion JPY, a rise of 2.2% year on year.

(2) Overview of Consolidated Financial Statements

Total assets stood at 1,351.2 billion JPY, an increase of 109.8 billion JPY. This was mainly owing to an increase in cash and cash equivalents of 33.9 billion JPY through operating activities, etc., an increase in property, plant and equipment of 35.3 billion JPY from investment in manufacturing facility, and an increase in goodwill and intangible assets of 10.3 billion JPY owing to the acquisition of a subsidiary, etc. and investment, etc., in new IT system.

Total liabilities came to 494.5 billion JPY, an increase of 8.1 billion JPY. This was mainly attributed to an increase in bonds and borrowings of 22.6 billion JPY under noncurrent liabilities due to the proceeds from long-term borrowings and 11.8 billion JPY decrease in defined benefit liability due to an increase in pension assets.

Total equity was 856.7 billion JPY, an increase of 101.8 billion JPY. This mainly reflects an increase from posting profit for the year under review of 77.2 billion JPY, while the booking of other comprehensive income associated with the impacts of yen strength in FX resulted in a 38.5 billion JPY increase, which offset the decrease of 21.1 billion JPY from dividends from retained earnings.

(3) Cash flow trends in the fiscal year ended March 31, 2021

(million JPY)

	FYE3/2020	FYE3/2021	Change
Cash flows from operating activities	117,479	121,485	4,005
Cash flows from investing activities	(84,714)	(85,317)	(602)
Cash flows from financing activities	14,010	(7,436)	(21,447)
Cash and cash equivalents at the end of the year	166,898	200,770	33,871

Cash flows from operating activities

Net cash provided by operating activities was 121.5 billion JPY. The main factors for this were profit before tax of 97.1 billion JPY, depreciation and amortization of 53.9 billion JPY, income taxes paid of 23.1 billion JPY, and increase in inventories of 22.0 billion JPY.

Cash flows from investing activities

Net cash used in investment activities was 85.3 billion JPY. The main factors for this were expenditures of 62.3 billion JPY for purchase of property, plant and equipment following capital expenditures for a manufacturing facility, etc. and expenditures of 20.8 billion JPY for purchase of intangible assets following investment in a new IT system, etc.

Cash flows from financing activities

Net cash used in financing activities was 7.4 billion JPY. The main factors for this were expenditures of 40 billion JPY for the repayment of short-term borrowings, proceeds of 70 billion JPY from long-term borrowings expenditures of 10 billion JPY due to redemption of corporate bonds, and Payments of dividends of 21.2 billion JPY.

(Reference) Cash flow indicators

	FYE3/2019	FYE3/2020	FYE3/2021
Equity ratio (%)	62.3	60.8	63.4
Market cap-based equity ratio (%)	224.0	225.4	223.8
Interest-bearing debt to cash flow ratio (year)	2.2	2.3	2.4
Interest coverage ratio (x)	83.8	122.8	114.3

Note: Equity ratio = Shareholders' equity/Total assets

Market cap-based equity ratio = Total market capitalization/Total assets

Interest-bearing debt to cash flow ratio = interest-bearing debt/cash flow

Interest coverage ratio = cash flow/total interest payments

*All of the above is calculated on a consolidated basis.

*Market capitalization = fiscal year-end share price multiplied by the total number of shares outstanding excluding treasury stock

*The cash flow above is the cash flow provided by operating activities as stated in the consolidated statements of cash flows. The interest-bearing debt includes all liabilities posted in the consolidated statement of financial position on which the company pays interest. Also, the figure for interest expenses paid in the consolidated statements of cash flows was employed as the amount for interest payments.

(4) Mid- to Long-term Outlook

The medical device market is expected to expand going forward mainly due to a rise in chronic illnesses in tandem with an increase in the number of seniors. Meanwhile, as a rise in medical spending squeezes government coffers, there will be a growing shift to healthcare that emphasizes value and efficiency. In addition, the industry overseas will continue to undergo reorganization, owing mainly to acquisitions, resulting in companies of enormous scale, more concentration, and a growing oligopoly.

Amid this business environment, we are implementing its Mid- to Long-term Growth Strategy. The fiscal year ended March 31, 2018 was the first year of this strategy. We were off to a smooth start in the first fiscal year towards our goal to achieve the Mid- to Long-term Growth Strategy, with the results contributed by the businesses acquired in the fiscal year ended March 31, 2017. In the second year, the fiscal year ended March 31, 2019, in the first half there were shipping delays of certain products at Ashitaka factory, but in the second half the delays were fully resolved. The fiscal year ended March 31, 2020 and the fiscal year ended March 31, 2021, the third and fourth years of the Mid- to Long-term Growth Strategy, were impacted by the COVID-19 pandemic, but in each year the initial profit forecast was exceeded. In the fiscal year ending March 31, 2022, the fifth year, the Company will work on (1) harnessing its collective strengths and brand power to pursue synergies between business segments in each region, (2) optimization of global organization and operations, (3) digitalization and business model transformation, (4) evolved human resources management that seeks to visualize human capital globally and increase their expertise, and (5) deepening of core technologies that will become a strength, in order to achieve sustainable growth in 2022 and beyond.

The consolidated forecast of financial results for the year ending March 31, 2022 is as follows. Furthermore, the impact of the spread of COVID-19 is expected to continue in 2021 as well. Although it remains difficult to provide an accurate forecast of the regions affected, period and scale of the impacts, in formulating the numerical data for the earnings forecast, the Company has developed best-case and worst-case scenarios. The best-case scenario is where progress in the vaccine rollout and recovery in healthcare demand along with an expected return to a growth trend are seen from the first half of the fiscal year. The worst-case scenario is where infections follow a similar trend around the world as 2020 and the pandemic is finally brought under control in the second half, leading to a recovery. The earnings forecast falls in a range between these scenarios.

The impacts on each reporting segment in the worst-case scenario at the bottom of this range is a temporary decline in demand in Cardiac and Vascular Company due to the postponing of non-urgent procedures. In addition, careful attention is needed because the level of decline and time needed for a recovery will differ depending on the business domain and region. However, the Company views impacts on General Hospital Company and Blood and Cell Technologies Company as limited in nature because of the many products related to healthcare infrastructure and products for chronic illnesses.

Consolidated forecast for the fiscal year ending March 2022

(million JPY)

	FYE3/2021 Financial Results	FYE3/2022 Financial Results Forecast	Change	Rate of Change (%)
Revenue	613,842	670,000 ~680, 000	56, 157 ~66, 157	9. 1 ~10. 8
Adjusted operating profit	115, 927	124,000 ~130, 000	8,072 ~14, 072	7. 0 ~12. 1
Adjusted operating profit ratio	18. 9%	18. 5% ~19. 1%	—	—
Operating profit	98,386	107, 000 ~113, 000	8, 613 ~14, 613	8. 8 ~14. 9
Operating profit ratio	16. 0%	16. 0% ~16. 6%	—	—
Profit for the year attributable to owners of the parent	77, 268	82, 000 ~86, 500	4, 731 ~9,231	6. 1 ~11. 9

Actual exchange rate for the fiscal year ended March 31, 2021: 1 USD equals 106 JPY and 1 EUR equals 124 JPY
Exchange rate assumption for the fiscal year ended March 31, 2022: 1 USD equals 107 JPY and 1 EUR equals 128 JPY

(5) Basic policy for profit distribution, dividend payouts in the fiscal year ended March 31, 2021 and payout plan for the fiscal year ending March 31, 2022

As a measure to secure high profit margins and sustainable growth, Terumo Group adequately and actively reinvests profits to constantly enhance its corporate value. This is consistent with the group's pledge to distribute profits to shareholders and maximize the value of its investments.

As for the distribution of profits to shareholders, Terumo will continually aim to steadily increase its dividend payouts to shareholders and has set a mid- to long-term dividend payout ratio target of 30%.

In the fiscal year ended March 31, 2021, the Company plans to pay cash dividends per share of 29 JPY. Initially, the Company left the dividend forecast unchanged at 28 JPY per share in light of the impacts of the COVID-19 pandemic, but taking into account the results of the fiscal year under review, the fiscal year-end dividend is 15 JPY per share, and the interim dividend, which has already been paid, was 14 JPY per share.

In the fiscal year ending March 31, 2022, the Company plans to pay an annual cash dividend of 30 JPY per share (interim dividend of 15 JPY).

Cautionary note:

Forward-looking statements, including earnings forecasts, contained in Terumo's disclosure materials are based on currently available information and assumptions believed to be reasonable by management. This is not a promise or guarantee by Terumo that it will achieve these goals. Please note that the actual results or outcomes could differ due to a number of factors. Key elements that are likely to have an impact on actual earnings performance include economic conditions surrounding the Company's business environment, volatility in foreign exchange rates, and competition.

2. Basic stance on the selection of accounting standards

We have adopted International Financial Reporting Standards (IFRS) and applied them to the financial results from the fiscal year ended March 31, 2018. The goal is to strengthen our corporate governance and improve the precision of our management by enhancing the comparability of financial data internationally in capital markets and by standardizing our rules globally.