Financial Results for the First Quarter of Fiscal Year Ending March 31, 2014: Reference

Analysis of Business Performance

1. Overview of Financial Results for the First Quarter

(1) Overview of Consolidated Business Results

In the first quarter of the current fiscal year (from April 1 to June 30, 2013), there were a number of positive developments in the Japanese healthcare market. In June, the government approved growth strategies that promote regulatory reforms and private sector investment, with the goal of expanding the market scale of healthcare-related industries from the current level of 12 trillion yen to 16 trillion yen by 2020. Specific measures include a Japanese version of the U.S. National Institutes of Health, the strengthening of the Pharmaceuticals and Medical Devices Agency, and plans to internationalize the Japanese Medical Services.

Under these circumstances in the healthcare market, growth opportunities for the Terumo Group to capitalize its strength are increasing.

The Terumo Group has been benefiting from a depreciating yen and considerable sales growth outside Japan. In the Group's Cardiac & Vascular Business segment, sales of Misago, a stent for treating peripheral artery disease, grew steadily in Japan, and the interventional systems business posted strong results in and outside Japan. Likewise, sales in the Blood Management Business segment were robust both in and outside Japan. In the General Hospital Business segment, however, sales decreased year on year mainly because of a sell-off of home therapy businesses in the previous fiscal year.

The Terumo Group is presently carrying out its four year mid-term management plan, which started from this quarter, with the goal of becoming a company with a global presence. The Group's main achievements under the plan in the first quarter of the current fiscal year are as follows:

● In the Cardiac & Vascular Business segment, Terumo launched new products, including a flow diverting stent and an occlusion balloon, in the European and Japanese neurovascular and peripheral markets. In April, Terumo concluded an agreement with Kaneka Corporation to jointly develop percutaneous transluminal angioplasty (PTA) balloon catheters for treating peripheral artery disease. The agreement is not limited to the joint development of a single product, but also covers an array of PTA balloon catheters for various therapeutic applications and various lesions. From here on, products will be developed by both companies, then manufactured by Kaneka Corporation and marketed globally by Terumo. In June, Terumo established a strategic alliance with Thoratec Corporation, a U.S.-based firm, with the goal of quickly commercializing DuraHeart II, a next-generation left ventricular assist system. Through this alliance, Thoratec Corporation will continue product development and manufacturing as well as clinical trials and marketing in the Americas and Europe, while Terumo will conduct clinical trials and marketing in Japan.

- In the Blood Management Business segment, in May Terumo commenced sales of automated blood component processing systems in Europe, namely Reveos and TACSI WB system. These products are systems for automated whole blood processing, and are expected to increase throughput and product quality consistency.

- In the General Hospital Business segment, Terumo launched smart pumps equipped with IT functions in Japan as a means to improve the safety of drug administration.

As a result of the above initiatives in the first quarter of the current fiscal year, Terumo's consolidated business results are as follows:

Net sales

Net sales increased year on year 15.9% to 111.1 billion yen. Of this amount, net sales in Japan edged up year on year 0.4% to 45.7 billion yen, mainly on the back of strong results in the Cardiac & Vascular Business and Blood Management Business segments. Outside Japan, net sales rose 29.9% year on year to 65.4 billion yen, primarily due to favorable results in the Interventional Systems Business and the positive influence of the depreciating yen.

Gross profit

Gross profit amounted to 57.0 billion yen, up 10.3% year on year. Although results were affected by inventory re-evaluation and device tax in the U.S., favorable exchange rates and a successful shift to highly profitably products were positive factors.

Operating income

Operating income amounted to 13.3 billion yen, down 13.9% year on year. Although exchange rates were favorable owing to the depreciation of the yen, research and development expenses as well as selling, general and administrative expenses increased.

Ordinary income

Ordinary income also slightly decreased, by 0.3% year on year, to 12.9 billion yen. This was despite favorable exchange rates resulting from the depreciating yen.

Net income

Net income totaled 9.0 billion yen, an increase of 9.8% year on year.

Net sales results by business segment are as follows.

General Hospital Business

In Japan, Terumo's commissioned business services in the Drug and Device (D&D) business and diabetes treatment business performed strongly. Nevertheless, owing to the sell-off of home therapy businesses in the previous fiscal year, sales decreased year on year. Outside Japan, however, sales were up year on year in Asia and the Americas, despite a decrease in sales on a local currency basis in Europe and China.

As a result of these factors, net sales in the General Hospital Business segment totaled 39.4 billion yen, up 3.3% year on year.

Cardiac & Vascular Business

In Japan, sales of peripheral artery stent Misago, launched in the previous fiscal year, grew steadily. Meanwhile, the interventional systems business performed strongly outside Japan, especially in Europe and the U.S.

As a result of the above, net sales in the Cardiac & Vascular Business segment amounted to 50.1 billion yen, an increase of 22.1% year on year.

Blood Management Business

Sales in Japan increased year on year on the back of strong sales of automated blood component collection systems. Outside Japan, sales of therapeutic apheresis systems continued to grow steadily.

Owing to these factors, net sales in the Blood Management Business segment jumped 29.4% year on year to 21.5 billion yen.

(2) Overview of Consolidated Balance Sheets

Assets

As of June 30, 2013, total assets amounted to 795.2 billion yen, up 24.2 billion yen compared to March 31, 2013. Of this amount, current assets totaled 292.4 billion yen, an increase of 5.5 billion yen, primarily due to exchange rate changes increasing the value of inventories. Noncurrent assets increased 18.6 billion yen to 502.4 billion yen, mainly owing to the effect of exchange rates and increased investments intended to foster business growth. Property, plant and equipment was up 4.4 billion yen as a result of investment in the Yamaguchi Factory and other factors. Meanwhile, intangible assets increased 10.6 billion yen and investments and other assets were up 3.6 billion yen.

Total Liabilities

Total liabilities increased 0.5 billion yen to 333.7 billion yen. Of this amount, current liabilities totaled 112.6 billion yen, a decrease of 3.2 billion yen, mainly due to a reduction in the provision for bonuses due to summer bonus payments. Noncurrent liabilities amounted to 221.0 billion yen, up 3.7 billion yen, primarily due to an increase in long-term debt resulting from the impact of exchange rates.

Net Assets

Net assets amounted to 461.6 billion yen, an increase of 23.7 billion yen. Consequently, the shareholders’ equity ratio was 58.0%, up 1.3 percentage points compared to March 31, 2013.

(3) Forecast of Consolidated Results for the Fiscal Year Ending March 31, 2014

Terumo’s operating environment continues to be uncertain due to fluctuations in exchange rates, changing conditions surrounding the medical device market, and other factors. Although the Company made no revisions to its consolidated financial forecasts for the current fiscal year.

Amidst challenging business conditions, the Terumo Group is working to achieve its targets by launching high-value-added products that improve medical cost efficiency, as well as implementing measures to reduce manufacturing costs, and strictly and efficiently managing selling, general and administrative expenses.