Financial Results for the First Quarter of Fiscal Year Ending March 31, 2017 (FY2016)

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This is Kitabatake speaking. I will explain our earnings results for the first quarter of the period ending March 31, 2017.
This is the results overview. I think we can summarize the first quarter results simply by saying that there was some FX impact, but when excluding that impact, the business was expanding well.

Looking first at sales, we see that the FX impact resulted in minus 4.2 billion yen year-on-year, but operating income increased by 2.0 billion yen. So one main takeaway from this quarter is that although sales were impacted by FX, we were still able to increase operating income.

First, as I mentioned, sales was down 3%, or negative 4.2 billion yen year-on-year, but when excluding FX impact, sales grew a healthy 5%.

Now I will explain how we achieved a 2.0-billion-yen year-on-year increase in operating income despite the decrease in sales: Looking at SG&A, when FX impact is excluded, it grew 6%, which exceeded sales growth. R&D expenses increased even with FX impact, by 200 million yen, as we maintained solid investment in R&D. We therefore feel that we spent sufficiently.

The important item here is gross profit, which even with FX impact grew 800 million yen; from 69.0 billion yen to 69.8 billion yen. In addition, gross margin improved by 2.3 points. I consider this to be the biggest takeaway from the first-quarter results. I will explain in more detail later in the presentation.
This slide shows non-operating gains and losses, which is the area that received the most FX impact.

In non-operating losses and gains, we had an FX loss of 5.5 billion yen. Because we had an FX gain of 1.8 billion yen in the same quarter last fiscal year due to yen depreciation, we had a 27% year-on-year decrease in ordinary income. We also had a 30% year-on-year decrease in net income.

Therefore, we had a top-line sales decrease and net income decrease as a result of the large FX impact, but operating income overcame that impact to still increase year on year.
Here is the operating income variance analysis. Looking first on the far right, we see the FX impact; this was a 2.3-billion-yen negative impact. Compared to last year’s 400-million-yen positive impact, we see that this year’s yen appreciation is quite significant.

In expenses, R&D expenses increased 800 million yen, and SG&A expenses increased due to sales force investment in the US TIS and neurovascular businesses, having a 2.4-billion-yen negative impact. There is also a negative impact of 1.4 billion of reimbursement price revision in Japan. These are in line with the previous year, or with our guidance for this fiscal year.

Next, looking on the left-side positive impacts; we can see clearly that positive impacts can basically be divided into increased sales volume and gross profitability improvement. First, regarding increased sales volume, sales increase had a positive impact of 4.7 billion yen. Most of this is from Interventional Systems or TIS.

The increased volume came from factors that varied depending on the country. In Japan, for example, Ultimaster and access devices made a large contribution. In the U.S., access devices grew well with the expansion of TRI. In China, where we realigned our local distribution network in 2014, we saw an expansion of our customer base and growth in the overall market, which led to significant synergistic growth, and this is expressed in local currency. In Asia, we are gradually introducing Ultimaster, which is leading to growth, while access devices are also growing well. This year’s launch of Ultimaster in Korea was an especially large growth factor.

In Europe, Ultimaster and access devices drove growth. For example, we began selling Ultimaster in France, which contributed to increased volume. This all combined for a global increase in TIS product sales; when excluding FX impact, worldwide sales growth exceeded 10%. That is the sales contribution to gross profit.

Next is the gross profit contribution of cost improvement, and then business mix improvement. Looking at the price erosion impact; we see that the previous year saw a 2.1-billion-yen decline in prices, which occurred even without it being a year for Japan reimbursement price revision. This year we were able to resist and keep price erosion at 600 million yen. Rather than an actual end to price erosion in the market, this reflects various measures taken in the marketing activities to prevent prices from dropping.

So with the 3.9 billion yen of cost improvement, 800 million yen of business mix improvement, and 1.5-billion-yen year-on-year improvement of price erosion, we saw a total of 6.2 billion yen in positive impacts we achieved in improving gross profit.

The cost improvements that we made included those in the area of sales; lower production costs realized through materials price declines and the efficiency of higher volume production.
Profit Improvement through Marketing Activities

- Cardiac and Vascular: Increase profit by Ultimaster sales expansion +1.5 BJPY
  - Improve profitability by the sales shifting from Nobori to Ultimaster sold at a premium price
  - Europe: Focus on highly profitable market

- Cardiac and Vascular: Increase profit by sales expansion for access devices +0.9 BJPY
  - North America: Shift from conventional access devices to TRI specified ones
  - Europe: Focus on highly profitable access devices

- General Hospital: Promote profit-driven management +0.4 BJPY
  - Asia, Latin America: Raise selling price for low profitable products (syringes, etc)
  - Japan, Asia: Shift sales toward value added products (infusion pumps, etc)

The next slide includes some detail on these activities.

One activity is expansion of sales for Cardiac and Vascular product, Ultimaster. As you can see, that expansion increased profit by 1.5 billion yen. This is the result of receiving a higher price for the product as we shift from the previous Nobori to Ultimaster. Drug-eluting stents, or “DES,” of this kind are sold at varying prices depending on the country. Nobori has now been on the market for quite some time, having launched in 2008, while Ultimaster represents the third and latest generation of this type of product, and therefore commands a higher price. Also, as each new competitors’ product of Nobori was launched, we had to sell it at a lower price. However, with Ultimaster, we have succeeded in better avoiding price erosion, and can expect to do so going forward as well.

The slide also says “Europe: Focus on highly profitable market.” This refers to the greatly varying prices found in European countries; rather than selling Ultimaster the same way in every country, we focus our sales and marketing efforts more in the countries where it sells for a higher price while of course still selling in the lower-priced markets. This brings up the average Europe sale price.

The next item on the slide is “increased profit by sales expansion for access devices.” We are shifting from conventional access devices to TRI specified ones. This shift increases not only volume, but also enables us to realize a more profitable business as TRI unit prices are higher.

Regarding Europe, I mentioned earlier that DES and access device product sales are growing there. One factor behind this is our sales and marketing strategy. Although we do sell DES in countries where the price is low, we focus our marketing efforts in those countries on access devices, which leads to increased volume for access devices in Europe as a whole.

For the General Hospital Company as well, we have focused on profitability. We have explained previously that we have shrunk our low-profitability businesses in Latin America; however, we have not exited the businesses entirely. We have raised the prices, and though overall sales volume has dropped, the profitability of what remains has improved drastically.

In Asia, we have not reduced the scale of low-profitability business in the same way, but we have similarly raised prices on those products in countries such as Thailand and Indonesia. This has led to restored profitability.

In Japan and other Asian countries, we have shifted sales toward high-value-added products such as infusion pumps as a part of the overall General Hospital Company strategy of improving profitability.

All of these activities I have just explained are now bearing fruit in this fiscal year with the improvement we see to gross profitability. Next slide, please.
This slide shows the operating income variance analysis by company, and it is clear that the largest contribution is from the Cardiac and Vascular company, the General Hospital company is more or less neutral, and the Blood Management company is currently struggling, as you have been aware. Next slide, please.
This slide shows net sales by region. First, Japan showed a 3% year-on-year increase. The sales growth in TIS and neurovascular business drove the increase despite negative impacts from the reimbursement price cut and increased salaries and wages resulting from the Bank of Japan’s zero-interest policy.

Outside Japan, FX impacts resulted in decreases in sales across the board; however, without FX, each region clearly made a steady growth in business. This was especially true for TIS sales, which showed double-digit growth in each region of the world when calculated in the respective local currencies.

In General Hospital, we saw sales growth in Asia.

Blood Management sales grew in double digits in Southeast Asia and Latin America, and it decreased in the Americas and the Middle East, where declining oil prices have led to the shrinkage of markets.

Regions that saw decreased sales for General Hospital were Europe and Latin America, where we’ve been downsizing low profitable businesses.
By business segment, Cardiac and Vascular grew strongly when excluding FX impact, General Hospital was essentially flat, and Blood Management saw negative growth.

As a result, Cardiac and Vascular accounted for 51% of total sales. These numbers reflect better performance than we expected for Cardiac and Vascular. General Hospital and Blood Management results were approximately according to expectations.
Next, I will explain results by company.

First, the Cardiac & Vascular Company saw a large 6.9-billion-yen negative FX impact on sales. In Japan, however, sales grew 1.5 billion yen. Outside Japan, when excluding FX impact, we saw 5.9-billion-yen increase in sales; as I mentioned earlier, coronary therapeutic devices and access devices each grew in the double digits, resulting in 1% actual growth.

Business profit increased due to the global expansion of highly profitable products that I already touched on, along with lower costs. These include the positive impact of no longer incurring quality system improvement costs at TCVS.
When excluding FX impact, General Hospital was more or less flat. However, this does not mean that there is no growth, but rather reflects the downsizing of low-profitability business in Europe and Latin America, and growth in IV catheter needle sales in Asia.

In Japan, there was 600 million yen in negative impact from reimbursement price revision and others, but also a positive 500-million-yen impact from increased sales of high-profitability products such as infusion systems.

Therefore, although business profit was negatively impacted by increased pension costs resulting from negative interest rates and inventory evaluation, profitability still maintained a slightly upward trend.
Next is Blood Management. As we have been saying since last year, price decline on products sold to blood centers in the Americas began to take their full toll on that business starting in the fourth quarter of FY2015. The company was also heavily impacted by FX rates. This resulted in minus 14% year on year in sales.

In addition to the decrease in gross profit caused by the aforementioned factors, depreciation costs for start-up of the new Vietnam factory began to affect the Blood Management Company this fiscal year, adding one negative factor that was not present last year. Also, in the area of R&D expenses, the company is in a contract to develop systems specified for CAR-T cells therapy for a pharmaceutical company, resulting in an increase in R&D spend. This will eventually be reimbursed, but until that reimbursement is received, it is a downward impact on business profit.

That is why we see a significantly lower business profit than the previous year; however, it is also what we expected and planned for. Our expectation was that the first quarter and second quarter of FY2016 would mark rock bottom for the Blood Management Company, to be followed by improvements going into the second half.

Expected earnings improvement factors for the Blood Management Company include two major items that we have previously discussed: First, increased sales in emerging markets. This is occurring as expected this fiscal year in Asia and Latin America. Second, expansion of sales in the new fields of therapeutic apheresis and cell therapy that we anticipate for this fiscal year. One other factor to add to these is an increase in Japan sales. We expect this because sales of the whole blood processing system TACSI, which customers in Japan has contracted to purchase, will begin to occur in the second quarter. In blood component collection system, too, inventory currently on hand but not yet sold will begin to be sold in the second quarter having positive impact on the business in Japan.

As I mentioned earlier, the new Vietnam factory costs began to impact the Blood Management Company this year, but production has not yet fully ramped up. The first quarter represents the most negative impact, but thereafter higher production volume will gradually lessen that impact.
I will just cover one of the major topics listed here. We issued a 30 billion yen straight bond in April at the lowest-ever interest rates, and then use most of those funds directly thereafter to acquire Sequent Medical, a company with new aneurysm embolization device.
This slide lists our FY2016 new product pipeline launch status; these are mostly on track as expected. For example, the launch in France of Ultimaster has immediately contributed to sales.
First, regarding FX impacts. The two slides cover operating-income and ordinary income, respectively.

This slide shows our FY2016 guidance for FX rates: We planned for rates of 110 yen to the dollar, and 125 yen to the euro. At the end of last fiscal year and the beginning of this one, we explained the expected impact of these rates. In the first quarter of FY2016, we saw average rates of 108 yen to the dollar and 112 yen to the euro, which were fairly close to our expectations. However, toward the end of June, the Brexit vote brought the rates all the way below 100 yen to the dollar at one point, then back up to 107 yen, and then announcements by the Bank of Japan resulted in the current levels of 102 or 101 yen; in other words, rates are in a volatile period. Therefore, we are internally discussing what to do next about our FX rate guidance, but at this point the outlook is not clear enough to state a specific rate as guidance going forward. That is why we will keep our guidance at 110 yen to the dollar and 125 to the euro for the time being, while watching the situation.

This slide shows the estimated impact on operating income in the event that rates fall to 100 yen to the dollar and 110 yen to the euro. We have previously explained the 8.5-billion-yen impact on operating income at 110 yen and 125 yen to the dollar and euro, respectively; if rates drop to 100 yen and 110 yen, we expect to see an additional 7.5-billion-yen negative impact on operating income for the remaining nine months, on top of the already expected impact.

But again, it is difficult for us to say at this time what we expect the rates to be for the remaining nine months of the fiscal year. For example, the U.S. presidential election in November, and other factors, could cause further fluctuation. Once we have an idea of what the average rates will be for the fiscal year as a whole, we will be able to say at that point whether a revision is needed.
Next, FY2016 non-operating FX losses. There was 5.5 billion yen in negative impact in the first quarter, and the currency with the most impact, was the dollar, as you can see here. What is more, the yen appreciated suddenly at the end of the quarter; because the rate for the non-operating loss is set according to what the rate is on the last day, we booked this FX loss.

Going forward, our aim is to mitigate the negative impact of this as much as possible. Some of our countermeasures are listed here, although the first item had its effect more coincidentally. Our dollar payment for the acquisition of Sequent Medical resulted in less dollar-denominated cash on hand. In addition, we shortened the terms for account payable involving overseas subsidiaries to reduce the total amounts on hand, and shifted intercompany financing into capital injections to reduce those amounts.

These efforts and factors resulted in the amount of dollars on hand decreasing from 600 million at the end of FY2015 to 90 million at the end of the first quarter of FY2016.

In this state, even if rates drop to the 100 yen per dollar and 110 yen per euro level, our additional non-operating FX losses will be limited to approximately 900 million yen. So while we had a large FX loss in the first quarter, any such losses in the second quarter will be much smaller.
Finally, regarding the Sequent Medical acquisition,

as shown on the slide, the company has developed a new neurovascular aneurysm embolization device, and we completed the acquisition in July. When we initially announced the acquisition, we did not include the impact of the acquisition within FY16 guidance. This time, we listed those numbers related to the acquisition here on this slide. The 3.6-billion-yen negative impact on operating income all comes down to three factors. First, Sequent Medical is still in red even though it is in operation because costs of operations prior to full sales as the company is still in the venture stage. The second factor is amortization of goodwill. Regarding amortization of goodwill, the process of PPA is still ongoing, and that amortization cost is listed as large. The third one is acquisition fees including ones paid to attorneys and financial advisors. It is 0.5 billion yen and incorporated into the negative impact of 3.6 billion yen on operating income.

The negative impact onto net income is 4.3 billion yen, which include a fairly large extraordinary loss. However, as the integration moves forward, we will utilized the sales force of MicroVention and make an effort to mitigate the losses at sales and operating income. Therefore, we would like you to take these numbers listed here as tentative figures. Again, we will make our best efforts to reduce their negative impacts on our FY2016 guidance.

This concludes my presentation. Thank you for your attention.
Reference
# FY16Q1 Net Sales and Growth by Region

(All figures in billion yen)

<table>
<thead>
<tr>
<th>Business Segment</th>
<th>Japan (YoY)</th>
<th>Subtotal</th>
<th>Europe (YoY)</th>
<th>Americas (YoY)</th>
<th>China (YoY)</th>
<th>Asia (YoY)</th>
<th>G. Total (YoY)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cardiac and Vascular</td>
<td>12.8 (+13%)</td>
<td>50.9 (+11%)</td>
<td>16.7 (+10%)</td>
<td>21.4 (+11%)</td>
<td>6.8 (+13%)</td>
<td>6.0 (+16%)</td>
<td>63.7 (+12%)</td>
</tr>
<tr>
<td>Out of C&amp;V Interventional Systems*</td>
<td>9.9 (+17%)</td>
<td>40.9 (+13%)</td>
<td>13.6 (+11%)</td>
<td>15.9 (+14%)</td>
<td>6.4 (+12%)</td>
<td>5.0 (+17%)</td>
<td>50.8 (+14%)</td>
</tr>
<tr>
<td>General Hospital</td>
<td>30.1 (-0%)</td>
<td>8.3 (+2%)</td>
<td>2.1 (-10%)</td>
<td>1.8 (+3%)</td>
<td>0.5 (+5%)</td>
<td>4.0 (+8%)</td>
<td>38.4 (+0%)</td>
</tr>
<tr>
<td>Blood Management</td>
<td>2.5 (-0%)</td>
<td>19.9 (-3%)</td>
<td>6.0 (+5%)</td>
<td>9.7 (-6%)</td>
<td>1.1 (-3%)</td>
<td>3.1 (-9%)</td>
<td>22.4 (-3%)</td>
</tr>
<tr>
<td>G. Total</td>
<td>45.5 (+3%)</td>
<td>79.1 (+6%)</td>
<td>24.7 (+7%)</td>
<td>32.9 (+5%)</td>
<td>8.4 (+10%)</td>
<td>13.0 (+7%)</td>
<td>124.5 (+5%)</td>
</tr>
</tbody>
</table>

*Including Neurovascular business

(YoY): Excluding foreign exchange
## Operating Expenses

<table>
<thead>
<tr>
<th></th>
<th>FY2015 Q1</th>
<th>FY2016 Q1</th>
<th>YoY</th>
<th>YoY%</th>
<th>YoY% (Excl. FX)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Salaries &amp; Wages</td>
<td>19.1</td>
<td>18.1</td>
<td>-1.0</td>
<td>-5%</td>
<td>+5%</td>
</tr>
<tr>
<td>Sales Promotion</td>
<td>4.1</td>
<td>3.8</td>
<td>-0.3</td>
<td>-6%</td>
<td>+3%</td>
</tr>
<tr>
<td>Logistical Costs</td>
<td>2.8</td>
<td>2.8</td>
<td>+0.0</td>
<td>+0%</td>
<td>+5%</td>
</tr>
<tr>
<td>Depreciation &amp;</td>
<td>6.9</td>
<td>6.2</td>
<td>-0.7</td>
<td>-10%</td>
<td>+0%</td>
</tr>
<tr>
<td>Amortization</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Others</td>
<td>8.8</td>
<td>9.4</td>
<td>+0.6</td>
<td>+5%</td>
<td>+13%</td>
</tr>
<tr>
<td><strong>SG&amp;A Expenses Total</strong></td>
<td>41.7 (32.5%)</td>
<td>40.3 (32.3%)</td>
<td>-1.4</td>
<td>-3%</td>
<td>+6%</td>
</tr>
<tr>
<td><strong>R&amp;D Expenses</strong></td>
<td>7.9 (6.1%)</td>
<td>8.1 (6.5%)</td>
<td>+0.2</td>
<td>+3%</td>
<td>+10%</td>
</tr>
<tr>
<td><strong>Operating Expenses Total</strong></td>
<td>49.6 (38.6%)</td>
<td>48.4 (38.8%)</td>
<td>-1.2</td>
<td>-2%</td>
<td>+6%</td>
</tr>
</tbody>
</table>

(% Against net sales)
# Quarterly Results

*(billion yen)*

<table>
<thead>
<tr>
<th></th>
<th>FY15 Q1 (Apr-Jun)</th>
<th>Q2 (Jul-Sep)</th>
<th>Q3 (Oct-Dec)</th>
<th>Q4 (Jan-Mar)</th>
<th>FY16 Q1 (Apr-Jun)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Net Sales</strong></td>
<td>128.7</td>
<td>130.5</td>
<td>136.8</td>
<td>129.0</td>
<td>124.5</td>
</tr>
<tr>
<td><strong>Gross Profit</strong></td>
<td>69.0 (53.7%)</td>
<td>70.4 (53.9%)</td>
<td>75.3 (55.0%)</td>
<td>70.3 (54.4%)</td>
<td>69.8 (56.0%)</td>
</tr>
<tr>
<td><strong>SG&amp;A Expenses</strong></td>
<td>41.7 (32.5%)</td>
<td>42.7 (32.7%)</td>
<td>42.9 (31.3%)</td>
<td>42.8 (33.1%)</td>
<td>40.3 (32.3%)</td>
</tr>
<tr>
<td><strong>R&amp;D Expenses</strong></td>
<td>7.9 (6.1%)</td>
<td>8.0 (6.1%)</td>
<td>7.4 (5.4%)</td>
<td>9.9 (7.7%)</td>
<td>8.1 (6.5%)</td>
</tr>
<tr>
<td><strong>Operating Income</strong></td>
<td>19.4 (15.1%)</td>
<td>19.7 (15.1%)</td>
<td>25.0 (18.3%)</td>
<td>17.6 (13.6%)</td>
<td>21.4 (17.2%)</td>
</tr>
<tr>
<td>(Excl. Amortization)</td>
<td>24.5 (19.1%)</td>
<td>24.8 (19.0%)</td>
<td>30.1 (22.0%)</td>
<td>22.5 (17.4%)</td>
<td>25.9 (20.8%)</td>
</tr>
</tbody>
</table>

**Average Exchange Rate**

<table>
<thead>
<tr>
<th></th>
<th>USD 121 yen</th>
<th>122 yen</th>
<th>121 yen</th>
<th>115 yen</th>
<th>108 yen</th>
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</thead>
<tbody>
<tr>
<td>EUR</td>
<td>134 yen</td>
<td>136 yen</td>
<td>133 yen</td>
<td>127 yen</td>
<td>122 yen</td>
</tr>
</tbody>
</table>
CAPEX and R&D Expenses

- CAPEX was peaked out in FY2013
- CAPEX is projected to be at the same level as depreciation and amortization

- Further promote R&D activities for TIS and neurovascular business in US
Cash Flow

Operating CF
+10.4

10.7
Depreciation & Amortization

8.1
Corporate Tax

7.3
Increase in Working Capital

Investing and Financing CF
+ 6.0

7.3
Dividends

30.0
Issuance of Straight Bond

6.1
CAPEX

9.7
Others

167.0*
Cash at end of Jun. 2016

149.7*
Cash at end of Mar. 2016

* Cash at end of fiscal year is consistent with “Cash and deposits” on B/S.

Cash Flow Diagram
## Foreign Exchange Sensitivity

<table>
<thead>
<tr>
<th></th>
<th>USD</th>
<th>EUR</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Excl. Amortization</td>
<td>Incl. Amortization</td>
</tr>
<tr>
<td>Net Sales</td>
<td>1.4</td>
<td>1.4</td>
</tr>
<tr>
<td>Operating Income</td>
<td>0.0</td>
<td>-0.2</td>
</tr>
</tbody>
</table>
Among the information that Terumo discloses, the forward-looking statements including financial projections are based upon our assumptions using information available to us at the time and are not intended to be guarantees of future events or performance. Accordingly, it should be noted that actual results may differ from those forecasts on projections due to various factors. Factors affecting to actual results include, but are not limited to, changes in economic conditions surrounding Terumo, fluctuations of foreign exchange rates, and state of competition.

The market share information in this presentation is partly derived from our own independent research.