Q&A Session at the Financial Results Briefing
for the First Half of the Fiscal Year Ending March 31, 2017

Outlined below are the principal Q&As from the financial results briefing of November 10, 2016. Certain details have been expanded or modified to provide readers with a deeper understanding of Terumo Corporation’s performance and activities.

Q1: In the first half, excluding the impact of foreign exchange rate fluctuations, sales growth in the Cardiac and Vascular Company was 10% year-on-year versus 12% in the first quarter. What factors slowed down sales growth in the second quarter? What is your forecast for sales in the third quarter and beyond?

A1: Excluding the impact of foreign exchange rate fluctuations, total sales for the Interventional Systems (TIS) business and the neurovascular intervention business grew double digits in almost all regions. In contrast with the first quarter, sales growth slowed slightly in the neurovascular intervention business in China but we expect a recovery in the full fiscal year. In the TIS business, we forecast double-digit sales growth in the third quarter and beyond.

Q2: The operating margin in the Cardiac and Vascular Company was 27% in the first half, versus 31% in the first quarter. What catalysts in the second quarter sharply impaired your operating margin?

A2: In the second quarter, our operating margin dropped about 7 points compared with the first quarter. A major factor was negative impact from foreign exchange rate fluctuations, which dragged down the operating margin in this company by 3 points. In addition, loss resulting from the recall of Misago reduced the margin by 1 point and the higher SG&A ratio due to the sales decline took away 2 points from our margin.

Q3: In the first quarter, you saw a large profit contribution from access devices, which was on a par with Ultimaster. Was profit contribution the same in the second quarter?

A3: Yes, both the Ultimaster and access device sales continued to contribute largely to profit.

Q4: You explained the examples of profit improvement through marketing activities in France and Germany in the first quarter. Are you implementing the same activities in other regions?

A4: We are implementing marketing activities to improve profitability in all regions. We introduced activities in France and Germany as major examples of our efforts. We are focusing on profit margins and injecting resources into regions with high selling prices.
Q5: Can you describe sales trends for the Ultimaster in Japan and globally? In Japan, a 4mm diameter version was added to the product lineup. What impact has this had on sales? Also, now that the Ultimaster has been on the market for a full year in Japan, what evaluation has it received from physicians?

A5: In the first half, global sales for drug-eluting stents, including the Ultimaster, exceeded ¥10 billion, a rise of 44% year-on-year. Sales of the Ultimaster, which was launched in October 2015 in Japan, were very brisk, but entering 2016, sales slowed marginally due to the launch of competitor’s product. Nonetheless, we would like to increase sales moving forward as we widen our product lineup, including the recent addition of the 4mm diameter stent and the scheduled introduction of a 2.25mm diameter stent. Physicians have praised our Ultimaster for good stent apposition to the blood vessel wall after post ballooning due to the high level of its flexibility.

Q6: In Japan, one of your competitors has received regulatory approval for their bioresorbable scaffolds. So there is a possibility these products will be launched to the market in the near future. What impact do you project?

A6: In Japan, physicians tend to try out new products but given the impact on patients they are very cautious about switching to a new product. The bioresorbable scaffold differs from a metal drug-eluting stent. This is a completely novel product so we believe that physicians are likely to try out the product but also be extremely cautious at the same time.

Q7: What progress is Terumo making in research and development on the bioresorbable scaffold and hybrid type drug-eluting stent given that both are being concurrently carried out?

A7: We are moving forward with research and development for both products. We are considering prioritizing development for these two products some time during the current fiscal year.

Q8: I understand your one-off expenses for the factory of Terumo Yamaguchi Corporation are increasing due to the preparation of mass production system for guidewires. Will these expenses continue to increase going forward? Also, is my understanding correct that Terumo is promoting cost reductions by splitting production between the Ashitaka Factory and the factory of Terumo Vietnam Co., Ltd.? Or do you plan to place priority on Business Continuity Plan (BCP) rather than cost reductions?

A8: Terumo Yamaguchi Corporation was initially constructed as a part of our BCP. Currently, in addition to being a component of our BCP, the factory plays a role in supporting an increase in
production capacity for guidewires, reflecting the rising demand for the products. Costs rise immediately after investment but we expect this to also have a positive impact on profits owing to an increase in production and sales volume.

Q9: At the first quarter financial results briefing, you disclosed temporary figures for the impact from the acquisition of Sequent Medical, Inc. Have you revised the estimate since then? Also, in the second half you plan to record an extraordinary loss in tandem with this acquisition. What does this extraordinary loss comprise of?

A9: We are currently calculating the accurate impact to our sales and profits. We do not expect a considerable divergence from our initial estimate. We expect to post one-off expense to extraordinary loss, which will include costs for reorganizing our personnel system and sales distributor contracts during the integration period.

Q10: You revised your foreign exchange rate assumptions in tandem with the revision to your guidance for full fiscal year. However, your guidance for operating income remains the same. Can you explain this?

A10: Our previous guidance for operating income was ¥35.5 billion in the first half, and ¥39.5 billion in the second half. However, in the first half, we posted operating income of ¥39.4 billion, considerably outperforming our guidance. Meanwhile, we estimate our second half operating income to be affected by the yen’s appreciation against major currencies and negative impact from the acquisition of Sequent Medical, Inc. Consequently, we have not revised our guidance for full-year operating income.

Q11: One of Terumo’s strength is its Transradial Intervention (TRI) related products, which are used for procedures in which a catheter is inserted from an artery in the wrist. What is the significance of the purchase of vascular closure products for Transfemoral Intervention (TFI)?

A11: TRI is becoming more widely used as a procedure for inserting a catheter into the coronary artery. However, TFI remains the mainstream procedure for accessing to the location of lesions of peripheral and neurovascular arteries owing to easier access. We would like to further strengthen our position in the access devices for peripheral and neurovascular intervention by acquiring vascular closure products for TFI, coupled with our strength in TRI products.

Q12: In the United States, there is a possibility Obamacare will be eliminated once Trump takes

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office. What impact do you forecast from the new president’s policies?

A12: We will need to examine this on an annual basis. Trump won the election because of support from the middle class. We are looking at the possibility that Trump will prepare his own safety net that will replace Obamacare.