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

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

Q1: The operating income guidance for the FY2016 was downwardly revised ¥4.0 billion to reflect the expenses related to the purchase of a vascular closure business and other assets owned by Abbott and St. Jude Medical, Inc., and the acquisition of Bolton Medical, Inc. Can you give a breakdown of this cost? Also, is my understanding correct that the ¥1.6 billion acquisition cost posted for the first-to-third quarter is associated to the acquisition of Sequent Medical, Inc.?

A1: The ¥1.6 billion in acquisition costs posted in the first to third quarters is primarily attributable to the acquisition of Sequent Medical, Inc. At this stage, we estimate roughly ¥4.0 billion in acquisition cost for the fourth quarter. The majority of this cost is for the purchase of the vascular closure business and other assets. We expect that around ¥2.0 billion of this is depreciation expense, including the amortization of goodwill.

Q2: Although the assumed foreign exchange rate of the yen for the second half was depreciated from the first half, can you explain why the net sales forecast for the full fiscal year was downwardly revised ¥7.0 billion?

A2: Net sales in the first half were slightly lower than expected due to negative impact from foreign exchange fluctuations. At the same time, we also expected sales growth owing in part to the purchase of the vascular closure business so we did not revise our full-fiscal year guidance. However, we downwardly revised our net sales guidance this time around as the acquisition was closed slightly later than we expected, and as there is still some negative impact lingering from foreign exchange fluctuations.

Q3: In your analysis of factors impacting operating income, the negative impact from foreign exchange fluctuations in the first half was ¥4.1 billion while the cumulative impact in the first-to-third quarter rose sharply to ¥8.0 billion. Does this reflect an increase in unrealized gains on inventory due to the yen’s sharp depreciation at the end of third quarter compared with the end of second quarter?

A3: There were two factors working against us. In addition to a rise in unrealized gains on inventory, the average exchange rate of the yen for the first-to-third quarter was appreciated from the same
period of the last fiscal year. The negative impact from each of these factors was nearly equivalent.

Q4: In contrast with operating income of ¥25.0 billion posted in the third quarter of the last fiscal year, operating income in the third quarter of the current fiscal year was ¥19.5 billion, which is a substantial decline. Was there negative impact other than foreign exchange fluctuations?

A4: This mainly reflects a considerably high level of sales in the third quarter of the previous fiscal year owing to the launch of the high-margin Ultimaster in Japan in October 2015. Another factor was the recall of the Misago peripheral stent in the current fiscal year.

Q5: In the first quarter of FY2016, you posted a high gross profit margin of 56%. Why has the margin gradually declined in and after the second quarter? Did profit decrease due to a change in business or product mix?

A5: Foreign exchange fluctuations were the major factor. As our analysis of factors impacting operating income indicates, operating income is improving owing to our business mix.

Q6: In the mid- to long-term, what positive benefits do you expect for sales in the United States after acquiring the vascular closure business and other assets? What plans do you have for the sales system in the United States?

A6: Terumo already has its own sales force dedicated to access devices in the United States so we plan to sell the products through our existing sales network. Moving forward, we plan to promote the use of vascular closure devices to facilities that currently do not use them. In addition, we plan to increase sales in the neurovascular and endovascular fields with growth potential where Transfemoral Intervention (TFI) is the mainstream procedure.

Q7: What are the sales and market trends for drug eluting stents (DES)?

A7: In the first-to-third quarter, global DES sales totaled ¥15.5 billion, an increase of 13% year-on-year. For the full FY2016, we estimated a growth of 10% so we are outperforming our target. In Japan, we launched sales of a 4mm diameter of our drug-eluting stent Ultimaster in August 2016 and a 2.25mm diameter version in February 2017. In tandem with the release of a new IVUS system, we aim to reap synergistic benefits to increase sales and expand market share. Overseas, we are planning to release the Ultimaster in Australia in FY2017. We expect to see contribution to our sales given that Australia is the largest market in the Asia-Pacific regions, aside from China and South Korea.
Q8: What is your share of the IVUS market in Japan and what is the contribution to sales from the rollover to a new product?

A8: We estimate the market in Japan is valued at around ¥15.0 billion to ¥20.0 billion. At present we hold the second largest share. We aim to secure the leading share with the launch of a new product. Sales are impacted in part by revisions to NHI reimbursement prices for medical devices. We believe that the scale of IVUS sales will likely remain the same. However, we look to boost overall sales by garnering synergies with the Ultimaster.