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## **Q&A Session at the Financial Results Briefing for the Second Quarter of FY24**

Outlined below are the Q&As from the financial results briefing on November 7, 2024.

**Motoya Kohtani:** I'm Kohtani from Mizuho Securities. Thank you for the presentation. The first question is about slide 13 for the adjusted operating income upward revision. Against the forecast, these are the incremental numbers, so that means the total gross margin. I think it was JPY7 billion in the beginning, so now you added JPY4 billion, so JPY11 billion at this moment. And the drug price changes are still remaining the same?

**Jin Hagimoto, CFO Terumo:** Yes, your understanding is correct.

**Kohtani:** If that is the case, and the price impact of the price increase is already finished for H1, in H2, you already increased the price, so you are not going to expect the additional other impact for H2. I feel that the raw material price increase and the transportation cost increase will be appearing for H2. Could you explain that? This is the first question.

**Hagimoto:** Yes. Thank you very much for the question. As was asked, for pricing for H2, actually, we increased the price in H2 in the last year. That impact, we do not have a significant impact for this fiscal year. However, the VBP impact will continue for H2. Therefore, overall, the optimum price is what we would try to get customers to understand. We are going to have the price increase globally as in the possible areas. But our assumption, we do not see that as a numbers. The second one, about the cost and the cost ratio, we will continue to work on improvement for the productivity, such as on Vietnam or Costa Rica, where we are going to transfer some of the manufacturing site. That's the area we can expect to have the improvement for the cost. Other than the price and the raw material cost, we try to deliver impact.

**Kohtani:** What you mentioned on VC2 impact is also reflected here. JPY3 billion was what we expected for this fiscal year, but is it even higher?

**Hagimoto:** Yes, as you pointed out, at this moment, around JPY3 billion is what we assumed from the beginning of this fiscal year. However, what is increasing, what is decreasing, is difficult for us to identify. But for what we are working on VC2,

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which includes transferring the production site, it is as planned. It's slightly higher, but it is almost as planned.

**Kohtani:** Thank you very much. I have a question to Samejima-san for the beyond GS26. Thank you very much for sharing this slide six because last time for the GS26, you did not have anything like what you shared for slide six. I was trying to think what you meant, but it really helped me to understand it. I have 10 questions actually, but I have to summarize in one question. For beyond GS26, which one is the most exciting product? What are you really excited about?

And for the venous devices, I do not have any objections, but it's slightly different from arterial. However, you can utilize the expertise in arteries, so I can understand you added the venous. But Penumbra, Inari, there are so many companies that are already playing in venous market. Your company, are you going to have the competitive advantage for all the products in this portfolio? Is my understanding correct? Or are you going to have the entire portfolio or lineup for that portfolio? That's why you are able to explore the market. These are the two points. Beyond GS26, which is the most exciting product for you? And also the strategy for the veins, or venous?

**Hikaru Samejima, CEO Terumo:** I will try to respond first. If there are any additional comments from Osada-san, he's also going to add the comments. Yes, for Beyond 2026, we thought about the scale then anti-Alzheimer, it's a fairly major area for the drugs and Rika is going to expand the customer base. In this area, as a platform, how much can we achieve? Yes. We have counterparts for this area, so I cannot say anything definite. But considering the growth driver, those are the ones we are really focusing on.

**Toshihiko Osada, in charge of innovation Terumo:** Osada speaking. In addition to that, the biggest impact is also in the GS26 area, so Terumo neuro and Terumo aortic. The new products, those two companies are going to launch, so that sales contribution is quite significant. For venous, as you mentioned, in addition to Inari, there are other companies who also are playing in this market. One product, two products, are not the only products we are going to play. As a part of our strategy, we are going to have an extensive pipeline so that DVT and PE, those are two markets we would try to enter.

In addition to that, since a few years ago, we've been developing that product. One of the factors we built up is the confidence that we have been very strong in access products for a long time. That is the need we still see in the market. The access product for veins is what we are going to add so that we can have the full lineup to enter that market. Access and therapeutic devices could be combined in an effective manner, so that is the solution we can provide. In that way, our capabilities and expertise that we have nurtured in arteries could be utilized. That's the confidence we have at this

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moment. Entering that market, we are slightly behind against the competitors, but we are still confident that we can win. We are making the final preparation.

**Kohtani:** Launch timing, will it be in GS26 maybe?

**Osada:** We cannot say in a specific date.

**Kohtani:** Thank you very much.

**Shinnosuke Tokumoto:** This is Tokumoto from Nikko Securities. My first question, on page 13 of the financial results, the C&V business-related details, you said that you will refrain from explaining that. Maybe if you could add some information as to what type of one this is. Is it one-off cost or when you have production operation improvement, it's more of a continuous change so that you will have this type of topic that would keep coming up for a better profit or revenue?

**Takashi Miyoshi, IR Terumo:** Hagimoto, I think, will answer the question.

**Hagimoto:** Of course, regarding the actual details, I would like to refrain from mentioning that. But regarding whether this is one-off, based on what we understand, we actually allocated. In terms of what kind of structural reforms we have from now on, these items, et cetera, may change slightly, but it's not that this will continue forever.

**Tokumoto:** Based on this provisional accrual, what level of pluses or minuses will we see? That's the type of viewpoint I would like to have. And this was not in the plan at the beginning of this fiscal year. Correct?

**Hagimoto:** Correct. We did not book this originally. Yes.

**Tokumoto:** My second question is regarding the venous discussion. I very much see it as a new challenge for you. There's the arterial access and you will be able to transfer some of the technology, and that's understandable. Now when you are moving on with the internal development, I wonder what kind of resources you lack so that you would like to acquire. You talked about that you will work on it internally and externally and may have necessary acquirement. If you look at the venous business and what you are lacking, what are the type of issues or challenges do you see?

**Miyoshi:** Thank you very much for your question. Osada-san, can you answer?

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**Osada:** Yes. The area that we are going into, what's missing or lacking, we really don't have that as an item, but I would say speed because it's mostly internally developed. Rather than just internally developing and waiting until it's done, even if it's a competing technology, we may take something in, including start-up. And by doing so, if you can get speed as a trade-off, then we even accept the idea of utilizing external resources. We are also looking at external resources. It's possible that an externally developed product replaces internally developed product, and we would like to speed up our entire process. I don't believe product-wise, we are lacking something, but this is a late-coming thing. I believe we still have room to improve our speed.

**Tokumoto:** Thank you very much.

**Tomoko Yoshihara:** I'm Yoshihara from UBS Securities. Thank you very much. First question is about GP changes, gross profit change. You already explained that compared with Q1 and Q2, it seems like you improved significantly GP for Q2. It's close to 55%, so you have a very good GP. Could you explain the factor for this? Maybe the unachieved on the inventory may be having a positive impact for Q2. But if there are any other factors, could you explain?

**Miyoshi:** Yoshihara-san, thank you very much. For GP improvement in Q2, could you?

**Hagimoto:** Yes. Thank you very much for the question. As for GP, overall and the product mix has been improved. That is one of the main factors. Compared with Q1, TIS business, which has a quite high GP ratio business, it's improving. That's why the entire overall ratio is improved.

**Yoshihara:** An additional question for that. For H2 and on, should we assume this situation continues? Or when we look at Q2, I think the GP for these three months may be too good.

**Hagimoto:** Well, yes. For Q3 and Q4, as a business and fundamentals, we will be able to maintain the strong fundamentals. However, as I mentioned in the beginning, inflation, it's slightly settled. However, we still have the impact of the inbound freight cost because of the world situation, which is slightly increasing. Therefore, I cannot definitely say that the Q2 situation will be continuous. We are not looking at this in an optimistic manner.

**Yoshihara:** Thank you very much. My second question is about innovation ideas, concepts. If my understanding is right, the US big players, medical device players, you are going to compete against them. If you are successful, you will have a high return. But

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up to today, we have an impression that you are trying to avoid the high-risk development such as US companies are doing. But at least in Samejima-san's comment, I think the idea, mindset, has been changing. Depending on the situation, you will launch something that's unprecedented and you will be the top player in the business. That is something maybe we can expect for the midterm. Therefore, I would like to hear your innovation definition.

**Miyoshi:** Thank you very much, Yoshihara-san. Samejima is going to answer.

**Samejima:** Yes, innovation is a big word. There are a lot of interpretations for that word. In general, disruptive technology is something everyone assumes. However, maybe user friendly or more accurate or more precise, some may say. Those incremental value is what we are going to offer, and we believe those are part of innovation. In the medical field, those are highly evaluated, actually. Through Terumo Ventures, new innovation is what we will seek. However, just like before, incremental innovation is what we will place importance on at the same manner, so we will focus on these two areas.

**Yoshihara:** That means including acquisition, you are also thinking about the innovation, so maybe continuous, that you will have completely new areas for your companies, may not be the case, so you will consider the acquisition?

**Samejima:** Basically, very closely related to the existing business or maybe enhancing the existing business, those are the areas we are going to think about the acquisition.

**Yoshihara:** Thank you very much.

**Miyoshi:** Thank you very much, Yoshihara-san.

**Ryotaro Hayashi:** Yes, this is Hayashi. My first question, this fiscal year's guidance correction and the second point is innovation and VC. Going back to the first point. Your net sales guidance has been revised upward and then you excluded currencies impact and then the C&V company number has been corrected. Also TBCT, you excluded currency impact. Based on H1's good progress, you then changed the full-year numbers, I'm assuming. But in terms of a qualitative viewpoint, what product segment numbers are going up so that you raise the full-year numbers up? Would you be able to provide a explanation?

**Miyoshi:** Let me add some information. You are correct, C&V and TBCT, increase ratio have been higher than others. Starting from H1, Vascular and neuro areas are progressing

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quite well. Based on that, we believe that trend will continue, hence, the upward revision. Also TBCT-wise, our core business has been very solid in H1. C&V and TBCT became the main ones to drive the top-line revision.

**Hayashi:** May I ask you about the background of that solid situation?

**Miyoshi:** For Neurovascular and Vascular, we have more patients or cases coming back in Europe and the States. Also, BCT, core business-wise, Europe and the Americas have very blood-related areas business going solid. Those are the drivers.

**Hayashi:** Thank you very much. My second point, I would like to ask about this related to innovation. You announced the start of CVC back in August. When it comes to this kind of venture investment or operation of the CVC, it may require different types of skills or capabilities of your existing employees' capabilities. I believe that's the type of team that you need to form. When it comes to CVC or venture investment, when you manage those things, do you mostly consider moving people from your current pool? Or do you hire from external pool and try to form the team? I was hoping to ask about that. And also when you form a team, is it mostly Americans? I mean, if you have a specific nationality profile, for example, of the team, please provide.

**Miyoshi:** Thank you for the question. Osada-san, please go ahead.

**Osada:** Thank you very much for your question. This is the as-of-now answer. We are actually forming the team with existing employees. Of course, these are not laypeople. Starting from eight years, nine years ago, we've been sending people to venture capital in the states, and they work there full time. Those people accumulated experience. We currently have two members that are working in the venture capitals in the States. People with knowledge and insights are now in the CVC team.

Unlike regular venture capitals, our ultimate goal is to make this into a business. Of course, it should not give financial deficit, but this is not a capital gain. Among these members, we have certain members who have judging eyes for technologies.

Of course, we've had successful and not so successful investments, but we have more discerning eyes overall as a team. We have people with financial background. We have people who have actual venture capital experiences, and we now have the technologically discerning people, plus people who used to work on business development in our business department. Although they are internal members, their specific subject matter type of capabilities are quite high.

**Hayashi:** Thank you very much. That is all.

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**Hidemaru Yamaguchi:** Thank you. I'm Yamaguchi from Citigroup. My first question, you already mentioned Rika rollout. The last time, 100 centers was explained. But at this moment, how many centers are you planning? And you are going to complete in 2025, so if you have any quantitative follow-up, that's what I'd like to hear.

**Miyoshi:** I will answer that then. At this moment, 150 centers are what we reached at rollout at this moment. As we mentioned from the beginning, in FY2025, from spring to summer, we are going to complete the full rollout. We are making a very good progress for that plan.

**Yamaguchi:** Thank you very much. My second question is about VT, or venous business. In the intervention market, you have the million, I cannot read the units of major, but what is the market size? I think you had a bar chart for that business, slide 10. What is the unit of major? I think it will be easier to understand if you can explain from the top-down perspective.

**Miyoshi:** Your question is about the market?

**Yamaguchi:** Market size and business size that you expect from your business.

**Miyoshi:** For the market size, roughly [JPY]800 million. That's what you can probably expect. And for the expected sales, we cannot disclose the numbers at this moment. Launching these new products enables us to enter this market with more products. That's what we try to show in this graph.

**Yamaguchi:** Yes, you are aiming to achieve the top player in this market as you are going to enter this market? Yes?

**Miyoshi:** Osada will give an additional comment.

**Osada:** Yes, of course. As I mentioned earlier, for the venous market, on the clinical use side, users are not satisfied with the currently available products. Therefore, we will try to make sure to respond to their needs. That's what we can do. As a top player, we are going to enter the venous market.

**Yamaguchi:** Thank you very much. That's all from me.

**Miyoshi:** Thank you.

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**Takahiro Mori:** This is Mori from Nomura Securities. First question, if you compare different quarters, you sometimes see C&V sales going down. July, August, September, the reason of that decline, of course, there's currency, I believe, but if there are any other reasons?

**Miyoshi:** You're talking about C&V, may I clarify?

**Mori:** Yes. For example, JPY156-point-some billion. Also I see this declined to JPY984 million. I'm comparing basically April, June, and July, September terms.

**Miyoshi:** I interpret that as you're asking the currency one. I mean, except for that currency impact, we are basically growing solidly.

**Mori:** Month-wise, four to six, something went up? Or from seven to nine, something came down?

**Miyoshi:** Well, in China, VBP impact was there. I mean, January to September, that was a primary impact. There was the agency impact, as we also said, but we didn't have that in the latest quarter. C&V-wise, there was that currency impact and primary impact, hence, the number. So if that's the case, rather than thinking about this quarter starting April, you should think about the quarter starting in July and then see the next two quarters. We will not have the primary driver in Q2.

**Mori:** My second question for life care in GS26, so diabetes and Alzheimer projects, I think, are somewhat struggling areas. For diabetes, in GS26, you are talking about growth, but NEXCOM alliance has ended and insulin pump is struggling. If that's the case, then are you going to somehow rework on this diabetes?

**Samejima:** As you rightly pointed out, DEXCOM CGM alliance has ended, so as for the diabetes business, we are actually reverifying the diabetes business. We are right in the middle of that. But this is a very important business area. And in Japan, especially, we have a very high presence. We would like to start to revive our business.

**Mori:** In Japan, the BGM, I think, is kept because of the medical reimbursement benefit. But going towards the future, how many remaining years do you think BGM has to survive?

**Samejima:** We don't expect a specific number of years. But as you pointed out, we are definitely slowly shifting to CGM. And in addition to domestic one in emerging countries, what type of growth strategy we can draw with BGM, that's also part of our verification.



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**Mori:** Your competitors working on BGM in emerging countries, they were not very successful, so I don't think it's a very easy way. But would you still like to do medical care solutions in emerging countries?

**Samejima:** That is also part of what we are verifying currently.

**Mori:** Thank you very much.

**Miyoshi:** Thank you.

**Ritsuo Watanabe:** I'm Watanabe speaking. Congratulations. The first one is related to numbers. I may have overheard, but H1 landing adjusted operating profit, when you compare that with the internal goal, how much higher, how much have you exceeded from the internal information? Is there anything you can share specifically?

**Miyoshi:** Yes. Hagimoto is going to answer.

**Hagimoto:** Thank you very much. For this one, initially, we assumed AOP as an annual disclosed number. That was the base we were assuming. The ratio are almost the same for H1. Compared with that number, maybe the improvement is that ratio we can bring it from that number.

**Watanabe:** That means the higher portion of H1 is actually nominal. And then, that is also reflected to H2, excluding the foreign exchange?

**Hagimoto:** Yes. For The result for H1 is the main factors for the upward revision for H2. For H2, we expect that this trend will continue. But as I mentioned earlier, we still have the freight cost issues and BP and certain VBP directions. Therefore, not exactly the numbers of H1 is reflected to H2.

**Watanabe:** Thank you very much. For the second question, it's related to Samejima-san's presentation. You had the innovation pipeline expansion drawings in slide six. I have a conceptual question on this. You explained the venous business today. But there are so many products, several hundreds of projects, to try to visualize and improve. Venous is a very exciting arena, but maybe just not it. That means venous is that last one for Terumo. I think you will come up with more areas you are going to enter. Based on that understanding, I have a question.

Maybe three months ago, for not only the innovative products, but maybe improving the hospital operations, that's what Terumo was also thinking. I think that's what you explained. Slide six, for creating the new areas, I'm not quite sure what this implies.

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In the future, visualized portfolio for the future, what are the things you're going to stop? What are the things you're going to keep? And venous, maybe that could be one of the five that you are going to launch in the future. But actually, venous is a main area as a part of your strategy. Considering the future potential is what I would try to understand better.

**Miyoshi:** Thank you. Samejima-san, then maybe Osada-san give additional comments?

**Samejima:** We have several hundreds of projects ongoing, and we are visualizing all those projects. That's what I explained. And we are in the process of lifting up everything. Maybe we have to think about the priority. And also, we have to think about the allocation of the resources, and we have to select and stop. That's what we are going to work on as a next step. In addition to venous, I cannot say what will be added to venous, but when we think about the beyond GS26, what are the areas we can find opportunity will be discussed with me and Osada and have an even deeper discussion.

**Osada:** If I'm going to add, venous is just one of many potentials. For R&D digitalization to enable us to—actually, that's been explained. Now we are reaching JPY1 trillion. Looking beyond JPY1 trillion and the R&D need to contribute. In order to do so, they should focus on something that has a major impact. Even though we are going to invest for R&D, we have the small scale to larger scale, so the expenses or the investment for the R&D will be allocated for the major areas, the bigger business.

In order to achieve it, we are trying to visualize all the R&D projects that are ongoing in the Company. And now, we are almost completing that review. Therefore, how we are going to invest, where we are going to invest for the R&D will be different. That's what I would like to understand.

**Watanabe:** Thank you very much. I'm looking forward to hearing the update in the future. But after your review, then maybe you will come up with a new arena that you are going to enter. That will probably be presented in the future. May I assume that? Is that right?

**Miyoshi:** Yes, you are right.

**Watanabe:** Thank you very much.

**Miyoshi:** We are going to update in the future.

**Watanabe:** Thank you very much.

**Miyoshi:** I guess we can get questions from one more person.

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**Naoko Saito:** Thank you very much. This is Saito from JPMorgan Securities. Regarding Rika's profitability, it's going up, I thought I saw in the presentation. If possible, can you talk about some quantitative as to actual or outlook? Maybe you can give me specific numbers or specific timing, whatever you could disclose.

**Miyoshi:** Saito-san, thank you very much. I apologize but I cannot give you specific numbers. But as we've been saying, as the rollout completes, we will see our shift to more positives. And what we are improving means that we are doing rollouts well so that the disposable is cycling greatly, and that's actually working quite well on our revenue. If you could see that, that would be good.

**Saito:** Thank you very much. That was my question.

**Miyoshi:** Thank you very much.

[END]