Terumo Corporation
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Q&A Session at the Financial Results Briefing for the Third Quarter of FY24

Outlined below are the Q&As from the financial results briefing on February 13, 2025.

Tokumoto: This is Tokumoto. Thank you. These are robust numbers. Some of the extraordinary factors, which I would like you to clarify. For the cost following the Q2, JPY1.3 billion for restructure, and new contract manufacturing project impairment loss. Can you explain more in detail about these two points?

Hagimoto: First and foremost, with the pharmaceutical company, this was the project. We have suspended the project. Due to that reason, the investment, which was ongoing, have been recognized as impairment loss. This with the pharmaceutical company in their relations, and I will not be able to explain in detail. However, those are projects, underperforming one, not contributing to our growth. We are going to have a good focus.

And for other areas, as I have said at the beginning of this year, under the auspices of Mr. Samejima, we have been reviewing the portfolio. Within our company, for those necessary structural reform and such improvement initiatives, we are going to continue with such initiatives.

Tokumoto: Thank you. So as such, due to the underperforming situation for this project?

Hagimoto: Yes. And we do have such relations with the pharmaceutical company, so I cannot really generalize that, but we have decided unanimously to suspend the project.

Tokumoto: The second point is that I know that this time, as the new CEO, Mr. Samejima, is going through the cost review and the restructuring, there are such intermittent initiatives that have been taken on. I'm ahead of the times. But looking ahead for the next term, so it's very favorable numbers are here to stay. Within this prime timing, you would like to exercise the expenses so that to have the restructuring. Going toward next year, such extraordinary factors and this type of the exercising of the expense, is it here to stay? Or is it going to run its course during this year? Can you give us your flavor on this stake?

Hagimoto: This isn't something to be continued internally. We hope that this will run its course by the end of this year to take measures. This is our way of thinking. This extraordinary expense is not going to be recognized for next year.

Yamaguchi: This is Yamaguchi from Citigroup Securities. You spoke at the beginning about the—I think you touched on the numbers. So I'd just like—I might have missed it, but you said JPY8 billion for a business restructuring, I think you were referring to. But in Q3 and Q4, could you tell us a bit more about those numbers, please?

Hagimoto: Well, it's JPY3 billion for Q3 was what I said for the impairment loss. And for the full-year outlook, I think we are still scrutinizing this, so I won't disclose that at this juncture. However, as much as we can, as I just said, we will be trying to take all necessary measures on that front.

Yamaguchi: Thank you very much. So Q2 guidance 8BJPY had already been accounted for?

Hagimoto: Yes, I'm not giving a full-year disclosure at the moment.

Yamaguchi: Sorry to ask again. But for Q3, for the JPY3 billion you were talking about, you did a large impairment. So in Q4, you're not sure when that might be doing any more restructuring?

Hagimoto: Well, for Q4, then I'm not saying that it won't occur at all. But as much as possible within the current fiscal year, we would like to make any necessary restructuring. And depending on the situation, in Q4, we may continue to do some similar restructuring.

Yamaguchi: Also, since you haven’t changed our full-year forecast, I think you’re going to proceed as planned. you’re at just under 80% for both sales and profits, which I think is a decent progress rate. If there are any bumps in the progress by segment -possibly for C&V- would you care to share?

Hagimoto: Yes. Well, for the full year, I think for the whole company, it's very much on a steady trajectory in terms of our numbers that we have announced. But for the three companies, the foreign exchange is having a major effect across the board. Depending on the foreign exchange fluctuations, that will be a major influencing factor, but I haven't changed the overall forecast for the full year.

Yamaguchi: By segment, there will be no particular differences?

Miyoshi: Well, C&V is very much on a good juncture. But there is some seasonality within the business, but I think we—and also for the blood and cell technologies as well, Rika is progressing extremely favorably. I think with Rika going steadily well, that will continue to contribute to steady progress in the blood and cell technologies business.

Kohtani: To be honest, it was not surprising. I was not surprised by this favorable performance. I'm not sure if you can respond to my question. So Haemonetics with Takeda and Grifols contract entered into extension of the contract, five to six or seven years. It's a long-term contract, and they are going to take the share. With this, can you talk about whether you are part of the bidding process and also Rika's strength? So 35 minutes for collection, and nomogram yield increase 10%; new nomogram called iNomi doesn't change collection time; and extracorporeal volume of less than 200ml lowers probability of collection problems caused by in-body low red blood cell levels. So NexSys PCS or Aurora XI, we have such a favorable situation. So that is one. Can you elaborate more in detail?

Hagimoto: For this, as you have understood, so as a device and the favorability, superiority, it is. In addition, for this Rika, connected to the network. And so you may wonder what are the differentiator points. The fact that the device is connected to the network, we would certainly like to leverage that.

With regard to the supply chain, anything to do with the manual operation is that we would certainly like to support and also the way to utilize the device and also the service and defect ratio. So what kind of maintenance work that may need to be provided by providing such data, we would like to leverage the network. Hardware and the network and connectivity and the functionality, we will be able to provide such value add.

And coming back to your question, the bidding process. Well, for us, CSL, other than CSL, we wanted to extend that rollout. But for additional detail, I would not be able to disclose at this table.

Kohtani: I see. So you were referring to Kinari and Myata, so any software so-called ecosystem, Rika?

Hagimoto: Yes.

Kohtani: I would like you to accentuate and highlight those explanation. On slide 10, you talk about this apheresis on the rise. I have not been looking at this for a long time. I believe this has been done in autoimmune deficiency, whatever happened to that side

of the disease. CAR-T apheresis and the white blood cells, collection apheresis has been in use. I believe it is the situation. For such purpose, CAR-T has more demand there?

Miyoshi: Yes, or process for the cells and apheresis CAR-T therapy currently, for other companies through the collaborative effort, we are proactively looking into the apheresis, and we wanted to explore more opportunities for apheresis in the cell processes. Currently, this is something that we would like to certainly extend this a little more.

Kohtani: So CAR-Ts, such clinical studies outcome has been published. If this all goes well, apheresis business size, how big do you expect it to be?

Miyoshi: In terms of the business size, the perspective, the detailed numbers, we will not be able to provide to you. But we assume that there are much opportunities in this space.

Hayashi: This is Hayashi from Morgan Stanley Securities. I just have a—sorry to revisit this question again, but looking about the costs for restructuring the business. In the current period in your guidance out of November, you mentioned that the operating income and post-adjustment profit, there is a gap in between those.

I mean, I think there's JPY8 billion for the full period after taking away depreciation costs. I think someone was just referring to that JPY8 billion just now, JPY8 billion for that. But from Q1 to Q3, the cumulative, if we look at the impairment loss, including the sales, it looks to me like it's JPY9.7 billion from Q1 to Q3.

I think that in the guidance, it's already beyond the numbers in the guidance. So it may occur again in Q4. I'd just like to ask about this amount. How much will it end up at for the whole fiscal year?

And if we look at the breakdown for that, JPY8 billion for the reorganization, realignment of the Company and then the actual impairment loss from that, how many billion will be that? Could you give us some more idea of how that will end up for the full year?

Hagimoto: Well, thank you for your question. At the current juncture, we are now revising this number, so how it will end up being at the end of the year is hard to give a very clear answer. But if we look in the entirety in our guidance, how much the overall cost will be for the entire period, I would look at—I don't think it will be very different from the original guidance. You can see that it's not being significantly different to that described in the full-year guidance.

Hayashi: If it's—let's say, it will be over JPY10 billion for the whole period—for the whole year, then next year, can we say that this will be increased incomes for the next year?

Hagimoto: Yes. As much there will be, we would like to finish this in a shorter period as possible. So in any loss in the current period due to restructuring will be—I don't think it will reoccur in the next fiscal year.

Hayashi: Thank you very much.

Miyoshi: Yes. As I've mentioned before I think it's a temporary—it's a one-off cost. We would like to reassure you that it's a one-off cost.

Hayashi: My second question involves your price increases. And I think on pages five and six of your presentation materials, when I compare those two pages, the actual prices, the plus effect of raising prices, your prices in Q3, there was this JPY900 million number. If I compare those numbers, it seems to be rather small to me. In the beginning of the period, I think there was a rather significant price increase. But then later on, it was difficult for you to raise prices in H2. Is that correct?

Hagimoto: Yes. Well, last year, in the end of last year, domestically, we did implement some cost increases and restructured our prices. I think it will not be such a big contributing factor to increased incomes in the H2 compared to H1.

Yoshihara: UBS Securities, my name is Yoshihara. Thank you very much for joining us. First is the US tariff question. What are the impact from the US tariffs? If you can quantify that against the US total sales, what are the ratio for production? And if possible, if you can quantify that qualitatively as well.

Hagimoto: Basically, when it comes to the US tariff situation, we have not incorporated into our forecast and the US total revenue, the local production within the Americas. So more than 50% in addition. So what kind of tariff that may be exercised, that may give us such implications, but the majority of that is close to local production, local procurement. Therefore, we do not expect a huge negative impact.

Yoshihara: I see. Understood. In addition, more than 50%, part of that from Japan and Vietnam, you export from Japan and Vietnam. Vietnam and Japan, if there are such tariffs exercised, then is it realistically possible to pass through the cost?

Hagimoto: Well, as you have put it, other than Americas, Asia, including Japan, we do have import. And of course, whether we can have the cost passed through, of course,

we will continue to pay close attention to the market situation. But our assumption is not a discussion where we were not going to have the cost pass-through at all.

Yoshihara: In terms of the OP margin, gross profit margin, so Q3, so 54.7%, I believe that this has implication to the ForEx exchange rate. Excluding that for Q3 alone, 55%. So say ForEx trends in the flat basis, the Rika minus will be offset. So 55% or is it going to exceed 55%? Is it possible within the two to three years' time? If you can give us a flavor about the management policy.

Hagimoto: At this point, I will not be able to disclose specific numbers, but GS26, 20% OP and also the cost and control, we would like to improve such pricing as well. This is not the cap that we currently have.

Mori: This is Mori from Nomura Securities. Thank you very much. First of all, for the MCS, you have had continuous minus, CGM for diabetes is not performing well. Is it getting worse or according to your expectation? I'd like you to give us a comparison to your outlook and upcoming changes.

Hagimoto: Well, compared to the beginning of the year, there are no particular changes to the guidance given at the beginning of the years. But, there are some other causes, some other factors to the main cause, but I think we are pretty much in line with the original plan.

Mori: So in line with the original plan. In other words, you're saying are you implementing measures to offset any minus in the diabetes treatment business? Or what exactly do you mean by that?

Hagimoto: Well, it's how we deal with that in the future, we have to focus on that strategically as we move forward. We are aware of this as an issue. But for FY2024, we know it's not particularly a favorable situation. It is a difficult situation continuing for the diabetes treatment business overall.

Mori: And my second question is on stopping projects with pharmaceutical companies and some impairment loss. Was it that you were in the process of making something and then stopped midway?

Hagimoto: Well, these pharmacies, we did sort of stop manufacturing something midway, yes.

Mori: Yes. So what you were trying to do didn't have any marketability or the cost didn't meet the cost? Could you tell me a little bit more about what you ceased midway for this pharmaceutical business? And are we looking at any similar developments ahead?

Hagimoto: Well, between us and pharmaceutical companies, this is all in line with our contracts with pharmaceutical companies. It's not just something that we stopped on our convenience. It was following significant debate between us and those pharmaceutical companies.

These projects that we stopped midway, rather than us stopping it on our side, it was the pharmaceutical companies that pulled out of the project, I would say, is more accurate than rather than it being something that we initiated from our side.

Saito: JPMorgan Securities. My name is Saito. The innovation business or plasma. So AOP, I know that is very high. As you said, Rika has already been introduced, installed over 70%. So at the blood center—and then per center sales becomes full capacity, becomes steady state. Per blood center, how long does it take to ramp up to the full capacity is my question.

Hagimoto: Yes, this one. Of course, it's depending on the size of the blood center, and there are such dependency there. In addition and the blood centers' operability as well. After a few months, this becomes a full operation. It is difficult to say so. Having said that, starting from this year and next summer, number of the blood center, we are going to be in line with the plan, which we find to be very important to do so.

Furthermore, this and the production site, it needs to become steady state. 2025 to 2026, Rika's production facilities and the steady state is what we would like to foresee.

Saito: Thank you very much. If that is the case, all of the blood centers full operation will run its course within 2026. Is it safe to say so?

Hagimoto: In terms of the installation, we'll conclude by the end of summer in 2025, at which given time. Between 2025 and 2026, that is our assumption.