# Financial Results for the Fiscal Year Ended March 31, 2018: Reference

## Analysis of Business Performance and Financial Position

### Analysis of Business Performance

### 1. Overview of Financial Results for the Fiscal Year Ended March 31, 2018

The Terumo Group is adopting International Financial Reporting Standards (IFRS), in place of Japanese Generally Accepted Accounting Principles (JGAAP), starting from the consolidated business results for the fiscal year ended March 31, 2018. In addition, consolidated business results for the previous fiscal year have been rearranged based on IFRS for the purpose of conducting a comparative analysis.

#### (1) Overview of Consolidated Business Results

In December 2016 the Terumo Group devised a Mid- to Long-term Growth Strategy with a five-year horizon. The Mid- to Long-term Vision is to become a “Global Corporation with Unique Excellence.” The Company aims to becoming recognized by medical professionals worldwide as a top brand and a trusted manufacturer. To this end, we are focused on earning a high level of trust globally for our total quality (which includes the total quality of its products, supply, and services). In the fiscal year under review, which is the first year of this growth strategy, Terumo attained its highest-ever results in revenue and all profit categories.

(million yen)

| | FYE3/2017 | FYE3/2018 | Growth (%) | Growth excluding impact of forex translations (%) |
|---|---|---|---|---|
| Revenue | 514,164 | 587,775 | 14.3 | 10.7 |
| Gross profit | 273,835 | 319,333 | 16.6 | 12.1 |
| Adjusted operating profit | 104,643 | 124,929 | 19.4 | 12.1 |
| Operating profit | 87,777 | 108,552 | 23.7 | - |
| Profit before tax | 74,881 | 106,630 | 42.4 | - |
| Profit for the year | 54,891 | 91,201 | 66.1 | - |
| Profit for the year attributable to owners of the parent | 55,003 | 91,295 | 66.0 | - |

(million yen)

| Regional revenue | FYE3/2017 | FYE3/2018 | Growth (%) | Growth excluding impact of forex translations (%) |
|---|---|---|---|---|
| Japan | 187,000 | 188,856 | 1.0 | 1.0 |
| Europe | 95,013 | 118,216 | 24.4 | 14.6 |
| Americas | 139,698 | 171,636 | 22.9 | 19.5 |
| Asia etc. | 92,451 | 109,065 | 18.0 | 13.2 |
| Overseas total | 327,163 | 398,919 | 21.9 | 16.3 |
| Total | 514,164 | 587,775 | 14.3 | 10.7 |

Ref. JGAAP basis

(million yen)

| | FYE3/2017 | FYE3/2018 | Growth (%) | Growth excluding impact of forex translations (%) |
|---|---|---|---|---|
| Net sales | 514,164 | 587,775 | 14.3 | 10.7 |
| Gross profit | 278,000 | 327,226 | 17.7 | 13.2 |
| Operating income | 76,578 | 92,232 | 20.4 | 11.7 |
| Ordinary income | 68,552 | 88,467 | 29.1 | - |
| Profit attributable to owners of the parent | 54,225 | 75,590 | 39.4 | - |

**Revenue**

Revenue totaled 587.8 billion yen, a growth of 14.3% in comparison with the previous fiscal year.

In Japan, overall revenue increased year on year, reflecting brisk sales in the Interventional Systems (TIS) business in the Cardiac and Vascular Company for products including access devices, the VISICUBE, an intravascular ultrasound system, and AltaView, an intravascular ultrasound catheter.

Meanwhile, revenue overseas expanded in contrast with a year earlier. In the TIS business in the Cardiac and Vascular Company, access device sales trended briskly. At our production subsidiary in Puerto Rico, which is a territory of the United States, production of the Angio-Seal, a vascular closure device, had been suspended since September 20, 2017 due to the impact of Hurricane Maria. Production was resumed in November 2017 and shipments were recommenced in January 2018. In the neurovascular business, revenue increased owing to solid sales for products including coils for the embolization of cerebral aneurysms. Furthermore, in the Blood Management Company, revenue grew to blood centers and in the field of therapeutic apheresis systems.

**Gross profit**

Gross profit amounted to 319.3 billion yen, a rise of 16.6% compared with the previous fiscal year. This mainly reflects contribution from an expansion in sales at the Cardiac and Vascular Company, which boasts a high profit margin, and a reduction in manufacturing costs at the General Hospital Company.

**Adjusted operating profit**

Adjusted operating profit factors out depreciation expense for intangible assets obtained during acquisitions and one-off income and expenses from operating profit. In addition, adjusted operating profit is consistent with segment profit. We are disclosing adjusted operating profit as we are using it as an earnings management indicator.
In the fiscal year under review, adjusted operating profit came to 124.9 billion yen, a climb of 19.4% year on year, as the growth in gross profit offset the rise in selling, general and administrative expenses, excluding acquisition costs and amortization expense for intangible assets.
We are additionally disclosing adjusted operating profit as an indicator but it is not defined by IFRS, which is the accounting standard we have adopted. Adjusted operating profit is also being used as an indicator for corporate management to grasp earnings performance in each business as a part of our goal to achieve sustainable growth in the mid to long term. We believe this is also effective data for individuals using our financial statements to assess the Terumo Group's earnings.

**Operating profit**

Operating profit came to 108.6 billion yen, a growth of 23.7% year on year. The growth in gross profit offset an increase in selling, general and administrative expenses.

**Profit before tax**

Profit before income tax was 106.6 billion yen, an increase of 42.4% versus a year earlier. This reflects contribution from an increase in operating profit as well as a decrease in financial cost owing in part to a decline in forex translation loss.

**Profit for the year attributable to owners of the parent**

Profit for the year attributable to owners of the parent totaled 91.3 billion yen, a rise of 66.0% year on year. This is attributable to an increase in profit before tax and also a one-off decline, mainly in the corporate tax, owing mainly to the revaluation of deferred tax assets and liabilities due to the tax reform in the United States.

Revenue results by company are as follows:

(million yen)

| Segment | | FYE3/2017 | FYE3/2018 | Growth (%) | Growth excluding impact of forex translations (%) |
|---|---|---|---|---|---|
| Cardiac & Vascular Company | Revenue | 261,529 | 324,001 | 23.9 | 19.1 |
| | (Japan) | 50,975 | 53,985 | 5.9 | 5.9 |
| | (Overseas) | 210,554 | 270,015 | 28.2 | 22.3 |
| General Hospital Company | Revenue | 157,946 | 158,848 | 0.6 | (0.5) |
| | (Japan) | 123,797 | 122,720 | (0.9) | (0.9) |
| | (Overseas) | 34,149 | 36,127 | 5.8 | 0.8 |
| Blood Management Company | Revenue | 94,483 | 104,697 | 10.8 | 6.3 |
| | (Japan) | 12,023 | 11,933 | (0.7) | (0.7) |
| | (Overseas) | 82,460 | 92,763 | 12.5 | 7.3 |

**Cardiac and Vascular Company**

In Japan, overall revenue increased year on year, reflecting brisk sales in the TIS business for products such as access devices, the VISICUBE, an intravascular ultrasound system, and AltaView, an intravascular ultrasound catheter.

Meanwhile, overseas in the TIS business, access device sales trended briskly. At our production subsidiary in Puerto Rico, which is a territory of the United States, production of the Angio-Seal, a vascular closure device, had been suspended since September 20, 2017 due to the impact of Hurricane Maria. Production was resumed in November 2017 and shipments were recommenced in January 2018. In the neurovascular business, sales were solid for coils for the embolization of cerebral aneurysms, which use hydrogel, and suction catheters.

Accordingly, revenue in the Cardiac and Vascular Company totaled 324.0 billion yen, a growth of 23.9% year on year, reflecting double-digit revenue expansion in the overseas segment.

**General Hospital Company**

In Japan, sales trended firmly for infusion systems, which are expected to contribute to an improvement in treatment safety, analgesics to alleviate pain, and spray type adhesion barriers to reduce post-surgery adhesion. Meanwhile, revenue declined due to a sharp increase in competition for commodity products, including syringes, and infusion solutions.

Overseas, we continued to review low-margin businesses in Europe and Latin America. Overseas revenue increased on brisk sales of high-margin business-to-business for pharmaceutical companies and infusion systems in Asia.

Reflecting this, revenue in the General Hospital Company was 158.8 billion yen, an increase of 0.6% versus the same period a year earlier.

**Blood Management Company**

Sales were strong for automated blood component collection systems for blood centers in developed markets, including the United States and Europe, and for blood bags in emerging markets, including Latin America and Asia. Also therapeutic apheresis system sales grew, mainly in North America and Japan, reflecting replacement demand.

Consequently, revenue in the Blood Management Company totaled 104.7 billion yen, a rise of 10.8% year on year.

**(2) Overview of Consolidated Balance Sheets**

Goodwill and intangible assets decreased 29.0 billion yen owing to amortization of intangible assets, excluding goodwill. Meanwhile, given brisk revenue, cash and cash equivalents rose 62.8 billion yen, trade and other receivables increased 10.3 billion yen, and property, plant and equipment climbed 6.6 billion yen. Consequently, as of March 31, 2018, total assets stood at 1,079.0 billion yen, an increase of 56.7 billion yen compared with March 31, 2017.

Liabilities came to 528.5 billion yen, a decrease of 2.2 billion yen. This was primarily attributable to an increase in trade and other payables of 6.4 billion yen, a rise of 4.9 billion yen in current tax liabilities. Meanwhile, deferred tax liabilities were down 16.0 billion yen due in part to impact from tax reforms in the United States.

Equity was 550.4 billion yen, an increase of 58.9 billion yen versus a year earlier.

**(3) Cash flow trends in the fiscal year ended March 31, 2018**

(million yen)

| | FYE3/2017 | FYE3/2018 | Change |
|---|---|---|---|
| Cash flows from operating activities | 82,888 | 114,562 | 31,674 |
| Cash flows from investing activities | (183,517) | (44,105) | 139,411 |
| Cash flows from financing activities | 60,993 | (4,132) | (65,126) |
| Cash and cash equivalents as of the end of the fiscal year under review | 105,046 | 167,832 | 62,786 |

**Cash flows from operating activities**

Net cash provided by operating activities was 114.6 billion yen. During the fiscal year under review, profit before tax was 106.6 billion yen and depreciation and amortization was 42.0 billion yen. In addition, corporate and other taxes paid came to 24.1 billion yen.

**Cash flows from investing activities**

Net cash used in investment activities was 44.1 billion yen. This primarily reflects the 31.9 billion yen used to acquire property, plant and equipment and 9.5 billion yen to acquire intangible assets.

**Cash flows from financing activities**

Net cash used in financing activities was 4.1 billion yen. Although there was 19.9 billion yen in proceeds from a bond issuance and 119.6 billion yen in proceeds from long-term loans, outflow included 15.8 billion yen for dividends payment, 120.0 billion yen for repayment of short-term loans and 7.8 billion yen for the repayment of long-term loans.

(Reference) Cash flow indicators

| | FYE3/2017 | FYE3/2018 |
|---|---|---|
| Equity ratio (%) | 48.1 | 51.0 |
| Market cap-based equity ratio (%) | 133.1 | 183.2 |
| Interest-bearing debt to cash flow ratio (annual) | 2.9 | 2.1 |
| Interest coverage ratio (x) | 62.9 | 101.4 |

Note: Equity ratio = Shareholders' equity/Total assets

Market cap-based equity ratio = Total market capitalization/Total assets

Interest-bearing debt to cash flow ratio = interest-bearing debt/cash flow

Interest coverage ratio = cash flow/total interest payments

*All of the above is calculated on a consolidated basis

*Market capitalization = fiscal year-end share price X the total number of shares outstanding excluding treasury

stock
*The cash flow above is the cash flow provided by operating activities as stated in the consolidated statements of cash flows. The interest-bearing debt includes all debt posted in the consolidated balance sheet on which the company pays interest. Also the figure for interest expense in the consolidated statements of cash flows was employed as the amount for interest payments.
*The transition date for IFRS was set as April 1, 2016. IFRS was adopted starting from the fiscal year ended March 31, 2018. Consequently, data prior to the fiscal year ended March 31, 2016 is not included herein.

**(4) Mid- to Long-term Outlook**

The medical device market is expected to expand going forward mainly due to a rise in chronic illnesses in tandem with an increase in the number of seniors. Meanwhile, as a rise in medical spending squeezes government coffers, there will likely be a shift to healthcare that emphasizes value and efficiency. In addition, the industry overseas will continue to undergo reorganization, owing mainly to acquisitions, resulting in companies of enormous scale, more concentration, and a growing oligopoly.
Amid this business environment, we are implementing our Mid- to Long-term Growth Strategy. The fiscal year ended March 31, 2018 was the first year of this strategy. We were off to a smooth start working towards our goal to achieve revenue growth that surpassed market growth (compound annual growth rate in the upper single digit range) and profit growth that outperformed our revenue growth (compound annual growth rate in the double digits). In the fiscal year ending March 31, 2019, the second year of this strategy, we expect negative impact will likely accompany revisions to NHI reimbursement prices and prices for special treatment materials, and an increase in depreciation expense due to a rise in capital expenditure and IT investments for growth. To absorb this impact and achieve sustainable growth, we plan to “strengthen our global operations” including the production system, “accelerate strategic development” to fortify creative innovation capabilities, and “leverage comprehensive group strengths” by promoting the use of personnel that exceeds the framework of our businesses and regions.
The following are our forecasts for the fiscal year ending March 31, 2019.

Forecast of Consolidated Financial Results

(million yen)

| | FYE3/2018 Actual | FYE3/2019 Forecast | Change | Change (%) |
|---|---|---|---|---|
| Revenue | 587,775 | 608,000 | 20,224 | 3.4 |
| Adjusted operating profit | 124,929 | 128,500 | 3,570 | 2.9 |
| Adjusted operating margin | 21.3% | 21.1% | - | - |
| Operating profit | 108,552 | 114,500 | 5,947 | 5.5 |
| Operating margin | 18.5% | 18.8% | - | - |
| Profit attributable to owners of the parent | 91,295 | 83,500 | (7,795) | (8.5) |

Actual exchange rate for the fiscal year ended March 31, 2018: ¥111/USD, ¥130/EUR

Exchange rate assumption for the fiscal year ending March 31, 2019: ¥105/USD, ¥130/EUR

**(5) Basic policy for profit distribution, dividend payouts in the fiscal year ended March 31, 2018 and payout plan for the fiscal year ending March 31, 2019**

As a measure to secure high profit margins and sustainable growth, the Terumo Group adequately and actively reinvests profits to constantly enhance its corporate value. This is consistent with the group's pledge to distribute profits to shareholders and maximize the value of its investments.

Following the transition to IFRS, Terumo will continually aim to steadily increase its dividend payouts to shareholders and has set a mid- to long-term dividend payout ratio target of 30%.

In the fiscal year ended March 31, 2018, the company plans to pay cash dividends per share of 50 yen. Consequently, the fiscal year-end dividend is 27 yen per share, and the interim dividend, which has already been paid, was 23 yen per share.

In the fiscal year ending March 31, 2019, Terumo plans annual cash dividends per share of 54 yen (interim dividend of 27 yen).

Cautionary note:

Forward-looking statements, including earnings forecasts, contained in Terumo's disclosure materials are based on currently available information and assumptions believed to be reasonable by management. This is not a promise or guarantee by Terumo that it will achieve these goals. Please note that the actual results or outcomes could differ due to a number of factors. Key elements that are likely to have an impact on actual earnings performance include economic conditions surrounding the company’s business environment, volatility in foreign exchange rates, and competition.

## 2. Basic stance on the selection of accounting standards

We are adopting the International Financial Reporting Standards (IFRS) and applying them to the financial results for the fiscal year ended March 31, 2018. The goal is to strengthen our corporate governance and improve the precision of our management by standardizing our rules globally and to enhance the comparability of financial data internationally in capital markets.