[IFRS] Financial Results for the First Three Quarters of the Fiscal Year Ending March 31, 2019: Reference

Analysis of Business Performance

1. Overview of Financial Results for the First Three Quarters of the Fiscal Year Ending March 31, 2019

(1) Overview of Consolidated Business Results

In the first three quarters of the current fiscal year (from April 1 to December 31, 2018), the global healthcare market was underscored by measures to curb medical expenditures in each country. Amid this environment, NHI reimbursement prices in Japan underwent revisions in April. And as has been the case, there continues to be rising demand, chiefly in developed countries, for better healthcare economics to achieve a more focused and efficient allocation of fiscal resources.

Amid this backdrop, in line with the Mid- and Long-term Vision, the Terumo Group, as a “Global Corporation with Unique Excellence,” aims to become recognized by medical professionals worldwide as a top brand and a trusted manufacturer by winning a high level of trust globally for our total quality (which includes the total quality of its products, supply, and services).

Financial results for the first three quarters of the fiscal year ending March 31, 2019 are as follows. The Ashitaka factory experienced shipping delays for certain products beginning from May 2018 but shipments have stabilized since October 2018. Sales are trending towards recovery.

(million yen)

	Q1-Q3 FYE3/2018	Q1-Q3 FYE3/2019	Growth (%)	Growth excluding impact of forex translations (%)
Revenue	436,955	443,609	1.5	2.3
Gross profit	238,649	242,159	1.5	2.2
Adjusted operating profit	97,571	91,179	(6.6)	(6.2)
Operating profit	86,569	78,474	(9.4)	(8.4)
Profit before tax	85,638	75,008	(12.4)	—
Profit for the period	76,907	56,395	(26.7)	—
Profit for the period attributable to owners of the parent	76,974	56,495	(26.6)	—

(million yen)

Regional sales	Q1-Q3 FYE3/2018	Q1-Q3 FYE3/2019	Growth (%)	Growth excluding impact of forex translations (%)
Japan	142,872	142,245	(0.4)	(0.4)
Europe	86,119	88,169	2.4	2.7
Americas	126,290	129,677	2.7	4.1
Asia, outside Japan	81,671	83,517	2.3	4.1
Overseas total	294,082	301,364	2.5	3.7
Total	436,955	443,609	1.5	2.3

Revenue

Revenue totaled 443.6 billion yen, an increase of 1.5% year on year.
Revenue decreased in Japan. Revenue from General Hospital Company trended briskly with the demand in surgical product domains and the alliance business with other pharmaceutical companies. However, the Cardiac and Vascular Company suffered the impact of NHI reimbursement prices revision and shipping delays at the Ashitaka factory.

Revenue increased overseas. Although there was negative impact from shipping delays at the Ashitaka factory, performance was driven by brisk revenue of neurovascular business in the Cardiac and Vascular Company and alliance business in the General Hospital Company.

Gross profit

Gross profit came to 242.2 billion yen, an increase of 1.5% year on year, due to an increase in revenue.

Adjusted operating profit

In the period under review, adjusted operating profit came to 91.2 billion yen, a decline of 6.6% year on year, due to an increase in selling, general and administrative expenses, particularly research and development expenses.

That being said, adjusted operating profit factors out amortization 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.

Operating profit

Operating profit totaled 78.5 billion yen, a deterioration of 9.4% year on year due the decline in adjusted operating profit.

Profit before tax

Profit before tax was 75.0 billion yen, a decrease of 12.4% year on year. This reflects the posting of a forex translation loss, versus a forex translation gain in the same period a year earlier.

Profit for the period attributable to owners of the parent

Profit for the period attributable to owners of the parent was 56.5 billion yen, a decrease of 26.6% year on year. In addition to a decrease in profit before tax, there was a transitional decline in corporate tax owning to a reevaluation of deferred tax assets and liabilities reflecting the tax reform in the United States during the same period of the previous fiscal year.

Revenue results by reporting segment are as follows:

(million yen)

Segment		Q1-Q3 FYE3/2018	Q1-Q3 FYE3/2019	Growth (%)	Growth excluding impact of forex translations (%)
Cardiac and Vascular Company	Revenue	240,038	240,957	0.4	1.1
	(Japan)	40,548	35,373	(12.8)	(12.8)
	(Overseas)	199,490	205,584	3.1	3.9
General Hospital Company	Revenue	120,231	125,869	4.7	5.0
	(Japan)	93,793	97,753	4.2	4.2
	(Overseas)	26,438	28,116	6.3	7.7
Blood Management Company	Revenue	76,510	76,591	0.1	2.1
	(Japan)	8,368	8,950	7.0	7.0
	(Overseas)	68,141	67,640	(0.7)	1.5

Cardiac and Vascular Company

Revenue in Cardiac and Vascular Company totaled 241.0 billion yen, an increase of 0.4% year on year. Despite the impact of NHI reimbursement price revisions and shipping delays at the Ashitaka factory, performance by the neurovascular business was favorable.

General Hospital Company

General Hospital Company revenue was 125.9 billion yen, an increase of 4.7% year on year. In the hospital systems business, sales of I.V. solution, AdSpray the spray type adhesion barrier, and Acelio an acetaminophen antipyretic analgesic trended briskly. In addition, there has been an expansion in the alliance business with pharmaceutical companies.

Blood Management Company

In the Blood Management Company revenue totaled 76.6 billion yen, an increase of 0.1% year on year. Although revenue from the therapeutic apheresis declined due to particularly high demand in the United States during the same period of the previous year, sales of blood center products were firm in Japan and Latin Americas.

(2) Overview of Consolidated Balance Sheets

Total assets at the end of the first three quarters were 1,129.8 billion yen, an increase of 50.8 billion yen versus March 31, 2018. This was mainly because property, plant and equipment along with goodwill and intangible assets increased by 32.4 billion yen on capital expenditures for production capacity and investments in new IT systems. The increase of total asset also reflects transitions in forex owing to depreciation in the yen's value versus the US dollar since the end of the previous fiscal year.

Total liabilities were 457.5 billion yen, down 71.1 billion yen. This decrease was mainly attributable to a 60.5-billion-yen decline in bonds and borrowings due to the conversion of convertible bonds.

Total equity was 672.4 billion yen, an increase of 121.9 billion yen. This increase was owing to an increase of 65.1 billion yen due to the conversion of convertible bonds (decline in treasury stock due to its allocation for conversion), and an increase of 20.5 billion yen reflecting forex translation gains at overseas sales offices, owing to impact mainly from the forex market.

(3) Forecasts, including the Consolidated Financial Results for the Fiscal Year Ending March 31, 2019

We are reiterating the consolidated financial forecasts we released on August 8, 2018. We anticipate an ongoing murky business environment including changes in the environment surrounding the medical device and pharmaceuticals industries, and forex rate trends. However, to achieve our group goals, we plan to pour energies into the development of high added-value products that will boost the quality and efficiency of healthcare, sales expansion, continuous improvement to manufacturing costs, and effective use of selling, general and administrative cost.