Financial Results for the Fiscal Year Ended March 31, 2019: Reference

Analysis of Business Performance and Financial Position

Analysis of Business Performance

1. Overview of Financial Results for the Fiscal Year Ended March 31, 2019

(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 become recognized by medical professionals worldwide as a top brand and a trusted manufacturer. To this end, the Company's management is focused on earning a high level of trust globally for our total quality (which includes the total quality of products, supply, and services). In the fiscal year under review, which is the second year of this growth strategy, Terumo's consolidated business results were as follows.

(million yen)

	FYE3/2018	FYE3/2019	Growth (%)	Growth excluding impact of forex translations (%)
Revenue	587,775	599,481	2.0	3.0
Gross profit	319,333	326,497	2.2	3.9
Adjusted operating profit	124,929	122,128	(2.2)	0.7
Operating profit	108,552	106,637	(1.8)	1.7
Profit before tax	106,630	102,709	(3.7)	-
Profit for the year	91,201	79,287	(13.1)	-
Profit for the year attributable to owners of the parent	91,295	79,470	(13.0)	-

(million yen)

Regional revenue	FYE3/2018	FYE3/2019	Growth (%)	Growth excluding impact of forex translations (%)
Japan	188,856	188,468	(0.2)	(0.2)
Europe	118,216	120,368	1.8	3.6
Americas	171,636	175,646	2.3	3.3
Asia etc.	109,065	114,998	5.4	7.5
Overseas total	398,919	411,013	3.0	4.5

Total	587,775	599,481	2.0	3.0

Revenue

Revenue totaled 599.5 billion yen, a growth of 2.0% in comparison with the previous fiscal year.

In Japan, overall revenue declined year on year. Revenue trended briskly in General Hospital Company owing in part to demand in the surgical product domain, and in the alliance business with other pharmaceutical companies. Nonetheless, in Cardiac and Vascular Company, there was negative impact from NHI reimbursement price revisions and shipping delays of certain products at Ashitaka factory, which occurred in the first half but were resolved in the second half.

Meanwhile, overseas revenue grew in comparison with the year earlier. Shipping delays at Ashitaka factory were resolved and performance was driven by brisk revenue in the neurovascular business in Cardiac and Vascular Company and the alliance business in General Hospital Company.

Gross profit

Gross profit amounted to 326.5 billion yen, a rise of 2.2% compared with the previous fiscal year, driven by increase in revenue.

Adjusted operating profit

Adjusted operating profit came to 122.1 billion yen, down 2.2% year on year, due to a rise in selling, general and administrative expenses, and in particular R&D expenses.

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 the group's earnings management indicator.

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 106.6 billion yen, a decline of 1.8% year on year. This was due to decline in adjusted operating profit.

Profit before tax

Profit before income tax was 102.7 billion yen, decrease 3.7% over the previous year owing to increase of 3.3 billion yen in forex translation losses.

Profit for the year attributable to owners of the parent

Profit for the year attributable to owners of the parent totaled 79.5 billion yen, down 13.0% year on year. This is due to decline in profit before tax and also the one-off decline 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		FYE3/2018	FYE3/2019	Growth (%)	Growth excluding impact of forex translations (%)
Cardiac & Vascular Company	Revenue	324,001	328,500	1.4	2.4
	(Japan)	53,985	47,846	(11.4)	(11.4)
	(Overseas)	270,015	280,653	3.9	5.1
General Hospital Company	Revenue	158,848	165,766	4.4	4.7
	(Japan)	122,720	127,864	4.2	4.2
	(Overseas)	36,127	37,902	4.9	6.3
Blood Management Company	Revenue	104,697	104,984	0.3	2.4
	(Japan)	11,933	12,540	5.1	5.1
	(Overseas)	92,763	92,444	(0.3)	2.1

Cardiac and Vascular Company

In the Cardiac and Vascular Company, there was negative impact from NHI reimbursement price revisions in Japan and shipping delays of certain products at Ashitaka factory, but revenue was brisk in the neurovascular business. Accordingly, revenue in Cardiac and Vascular Company totaled 328.5 billion yen, growth of 1.4% year on year.

General Hospital Company

In Japan, in the hospital systems business, revenue was brisk for infusion solutions and for AdSpray, a spray type adhesion barrier, along with Acelio in the pain management domain and needleless infusion systems. In addition, there was an expansion in the alliance business globally with pharmaceutical companies. Reflecting these, revenue in General Hospital Company was 165.8 billion yen, increase of 4.4% versus the previous year.

Blood Management Company

Revenue declined from therapeutic apheresis systems owing to the special demand in the United States in the previous year, but revenue for blood centers was strong in Europe. Consequently, revenue in the Blood Management Company totaled 105.0 billion yen, rise of 0.3% year on year.

(2) Overview of Consolidated Balance Sheets

Total assets stood at 1,120.8 billion yen, increase of 39.7 billion yen. This was mainly owing to increase in property, plant and equipment of 22.8 billion yen and increase in goodwill and intangible assets of 24.5 billion yen, from corporate acquisitions (Essen Technology [Beijing] Co., Ltd.) and investment for production capacity and new IT system.

Liabilities came to 422.7 billion yen, decrease of 107.9 billion yen. This was primarily attributable to decline in bonds and borrowings of 111.1 billion yen due to the conversion of convertible bonds.

Equity was 698.1 billion yen, increase of 147.7 billion yen versus the year earlier.

(3) Cash flow trends in the fiscal year ended March 31, 2019

(million yen)

	FYE3/2018	FYE3/2019	Change
Cash flows from operating activities	114,562	93,571	(20,991)
Cash flows from investing activities	(44,105)	(74,792)	(30,687)
Cash flows from financing activities	(4,132)	(67,540)	(63,408)
Cash and cash equivalents as of the end of the fiscal year under review	167,832	122,982	(44,850)

Cash flows from operating activities

Net cash provided by operating activities was 93.6 billion yen. During the fiscal year under review, profit before tax was 102.7 billion yen and depreciation and amortization was 44.0 billion yen. In addition, income taxes paid came to 30.2 billion yen.

Cash flows from investing activities

Net cash used in investment activities was 74.8 billion yen. This primarily reflects the 39.3 billion yen used to acquire property, plant and equipment, 15.0 billion yen to acquire intangible assets, and 20.3 billion yen to acquire subsidiaries such as Essen Technology (Beijing) Co., Ltd.

Cash flows from financing activities

Net cash used in financing activities was 67.5 billion yen. The main factors were 19.6 billion yen for dividend payment, and 47.8 billion yen for the repayment of long-term borrowings.

(Reference) Cash flow indicators

	FYE3/2017	FYE3/2018	FYE3/2019
Equity ratio (%)	48.1	50.9	62.3
Market cap-based equity ratio (%)	133.1	182.9	224.0
Interest-bearing debt to cash flow ratio (annual)	2.9	2.1	2.2
Interest coverage ratio (x)	62.9	101.4	83.8

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 multiplied by 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 liabilities posted in the consolidated statement of financial position on which the company pays interest. Also the figure for interest expenses in the consolidated statements of cash flows was employed as the amount for interest payments.
*The provisional accounting treatment related to business combinations carried out for the fiscal year ended March 31, 2018 was finalized in the fiscal year ending March 31, 2019. Therefore, numerical figures for the fiscal year ended March 31, 2018 reflect the provisional accounting treatment.

(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 be growing 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 its 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 in the first fiscal year towards our goal to achieve the Mid- to Long-term Growth Strategy, with the results contributed by the businesses acquired in the previous fiscal year. In the second year, the fiscal year ended March 31, 2019, in the first half there were shipping delays of certain products at Ashitaka factory, but in the second half the delays were fully resolved, and revenue rose across all companies.

In the fiscal year ending March 31, 2020, the third year of this strategy, in Japan, we expect to see revisions to drug prices and designated insured medial materials following the planned hike in the consumption tax set for October, and incur costs for compliance with the European Union Medical Device Regulation which will be newly introduced. We also expect increase in depreciation expenses owing to the increase in capital investments and IT investments for business growth. To absorb this impact and return to the growth trajectory outlined in the Mid- to Long-term Growth Strategy, and to achieve sustainable growth, we plan to "strengthen global operations" including the production system, "accelerate strategic development" to fortify creative innovation capabilities, and "leverage comprehensive group strengths" by enhanced utilization of human resources across our businesses and regions.

The following are our forecast for the fiscal year ending March 31, 2020.

Forecast of Consolidated Financial Results

(million yen)

	FYE3/2019 Actual	FYE3/2020 Forecast	Change	Change (%)
Revenue	599,481	635,000	35,518	5.9
Adjusted operating profit	122,128	124,000	1,871	1.5
Adjusted operating margin	20.4%	19.5%	—	—
Operating profit	106,637	109,000	2,362	2.2
Operating margin	17.8%	17.2%	—	—
Profit for the year attributable to owners of the parent	79,470	81,000	1,529	1.9

Actual exchange rate for the fiscal year ended March 31, 2019: ¥111/USD, ¥128/EUR

Exchange rate assumption for the fiscal year ending March 31, 2020: ¥108/USD, ¥123/EUR

(5) Basic policy for profit distribution, dividend payout plan for the fiscal year ended March 31, 2019 and the fiscal year ending March 31, 2020

As a measure to secure high profit margins and sustainable growth, 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.

As for the distribution of profits to shareholders, 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, 2019, the company plans to pay cash dividends per share of 54 yen. Consequently, the fiscal year-end dividend is 27 yen per share, and the interim dividend, which has already been paid, was 27 yen per share.

In the fiscal year ending March 31, 2020, Terumo plans annual cash dividends per share of 28 yen (interim dividend of 14 yen).

Terumo Corporation executed the two-for-one stock split on its common shares effective April 1, 2019. The forecast of cash dividends per share has reflected this stock split. The annual cash dividend prior to this share split is 56 yen per share, comprising an interim dividend of 28 yen per share and year-end dividend of 28 yen per share.

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 from the fiscal year ended March 31, 2018. The goal is to strengthen our corporate governance and improve the precision of our management by enhancing the comparability of financial data internationally in capital markets and by standardizing our rules globally.