Terumo Corporation
November 6, 2013

Q&A at Financial Announcement for Q2 of FYE Mar. 2014

The principal Q&A given during financial announcement for Q2 of FYE Mar. 2014 held on November 6, 2013 are presented as follows. Certain details have been expanded or modified to provide readers with a deeper understanding of Terumo Corporation's performance and activities.

Q1: Would it possible to overcome the current challenges in plant productivity for General Hospital new products and achieve the sales growth of mid-term plan? What would be countermeasures for?

A1: General Hospital is one of important business pillars for the company. We will improve its profitability while expanding sales. There are challenges such as one mentioned as well as downward pressure on market price. However, we expect new products recently launched to drive the business going forward. The production of these will be promptly transferred to overseas plants to generate profit. Additionally, our new injectable acetaminophen, which is subject to national early regulatory approval initiative, has received manufacturing approval and reimbursement price. It will take a little more time to generate revenue, however it is sure that they steadily contribute to the company's growth.

Q2: Regarding the neuro intervention product inventory adjustment in China, which occurred in Q1, was it already resolved? And, do you see any impact of China business climate "cleanup", which some US and European companies are currently affected, onto your Chinese business?

A2: The Q1 year-on-year sales growth of our Chinese business was only 4% due to neuro intervention product inventory adjustment at distributor. The growth in Q2 was improved to 19%. We have seen that "cleanup" practice, which was triggered by bribery scandal of a multinational pharmaceutical company, has been affecting on promotional activities of pharmaceutical companies, however we have seen very little impact on medical device companies. High expectation for future growth in our Chinese business remains the same.

Q3: The company originally expected to invest 2.2 billion yen in the improvement of quality management system in TCVS for 1H but ended up with 2.7 billion yen. Did I understand correctly? Do you still expect the investment in 2H to be 1.2 billion yen as originally forecasted?

A3: You are right about the investment in 1H. We expect the investment in 2H to be about 1.3 billion yen and completed at the end of this fiscal year.

Q4: To achieve FY13 operating income forecast, in 2H, the company needs to achieve a little less than 60% increase year on year. What will drive such operating income increase in 2H?

A4: From 1H to 2H, we expect to have the increment of 9.0 billion yen in operating income. Looking at the breakdown, 2 billion yen will come from decrease in cost for quality system improvement in TCVS and decrease in R&D expense for Duraeart II. The remaining 7.0 billion yen will come from sales increase and improvement of plant productivity. The sales increase is mainly contributed by Interventional Systems products such as access devices and neuro endovascular products. Smart Pump from General Hospital business, and therapeutic apheresis system and automated processing system from Blood Management business will also contribute to the sales increment.

Q5: In 1H, tailwind of weak yen was offset by some unexpected temporary factor such as neuro intervention product inventory adjustment at China distributor. The company doesn't change its FX projection for 2H. Does it mean that the company expects new temporary factor to increase the cost in 2H? Or, does the company expect any factors to exceed FY13 projection?

A5: Those unexpected temporary factors affected mainly Q1. Most of them have been resolved in Q2. Yes, weak yen helped spur the sales growth in 1H. However, at this point in time, we don't see any new unexpected factors which potentially increase cost in 2H. At all events, we will focus entirely on steadily achieving the plan.

Q6: What level of peak sales would you expect for peripheral stent (below the knee, for EU market) and needleless system? What competitive advantages does your needleless system have?

A6: We don't expect much sales contribution from both products in 2H. Our needleless system features less solution residue at the plug. It will be replaced with our existing one for the future.

Q7: There is a perspective that the reason why sales of FFR technology doesn't grow in Japan is because the number of PCI cases is dropping. How would you see?

A7: In Japan, we have seen some trend in which stent usage is controlled. However, we expect the patient population who needs stent will continuously grow in Japan due to aging. Additionally, technology such as Doppler blood flow measurement, once it is advanced, will detect more patients. Therefore, we don't expect the number of PCI cases to rapidly drop like US and European markets.

Q8: The weak yen helped 1H results. Do you expect the same circumstance or scenario in 2H?

A8: Yes, the weak yen helped spur the performance in 1H. We maintain FY13 forecast since it is still difficult to foresee FX. We will focus entirely on steadily achieving the plan.

Q9: As for the changes in Blood Management business environment (decrease in demand), did you take that in consideration at the time of CaridianBCT acquisition?

A9: Since we have already seen such changes even in Japanese market for five years, this is expected circumstances. Based on this assumption, we acquired the company centering on platelet technologies and not on red blood cell ones.

Q10: Taking the investment into venture capital fund in Silicon Valley as an example, it seems that the company is making greater efforts to introduce external technologies. In terms of technology development, what kind of goal is the company pursuing?

A10: We have done some business and technology acquisitions thus far and will continue to do it when needed. It is important to continuously improve the value of ones we acquired, further leading sustainable business growth. Even for the technologies acquired, we will promote a practical approach in which our own engineers improve the value of them.

Q11: Do you also expect some effect of improvement in plant productivity in Q3 and Q4?

A11: We expect continuous improvement during and after the second half.

Q12: The positive impact of weak yen onto gross profit seems small. Could I understand that was because overseas production ratio was higher than before? What is the target of overseas production ratio?

A12: You are absolutely right. The increase in overseas production ratio contributed to that. It was 43.2% in 1H and will continuously be grown in 2H.