

Financial Results for the Third Quarter of the Fiscal Year Ending March 31, 2015 (FY2014)

Terumo Corporation
Senior Executive Officer,
Investor Relations, Corporate Communication Dept.
Kazuaki Kitabatake

February 3, 2015

Hello, my name is Kazuaki Kitabatake.

I will explain the 3rd quarter results of the financial period ending March 2015.

Please open to the second slide.

Highlights

Corporate

- Secured increase both in sales and profit while absorbing reimbursement price cut in Japan
- In Q3, sales in Japan increased

Cardiac & Vascular

- Achieved continuous double-digit sales growth in overseas IS and Neurovascular businesses
- In Japan, mainly IS business sales recovered in Q3 compared to 1H
- Expanded sales of Ultimaster (new DES) steadily

General Hospital

- Increased sales of DM & Consumer Healthcare and D&D (Drug & Device) businesses in Q3
- Increased business profit ratio by improving product mix

Blood Management

- Strengthened cost control, foreseeing more challenges in market environment
- Achieved continuous sales growth in overseas automated blood component processing system and therapeutic apheresis



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2/23

First, highlights of the results.

Similarly to the first and second quarters, we were able to absorb the effects of the Japan reimbursement price revision to achieve increases in both sales and profit. In the 3rd quarter, Japan sales in particular saw an increase.

In results by company, double-digit sales growth of interventional systems and neurovascular intervention outside Japan drove Cardiac & Vascular company growth. Ultimaster sales also continue to expand. Sales in Japan also grew for Cardiac & Vascular, driven by interventional systems products. Growth is still negative, but the company is closing the gap.

Next, the General Hospital Company; its 3rd Quarter results included increases in DM healthcare and Drug and Device (D&D) product sales. Beyond just sales, the General Hospital company has achieved better business profitability by restructuring its entire portfolio mix through the growth of these highly profitable two businesses.

The Blood Management Company dealt with a continually difficult market environment by strengthening its cost controls. Its automated blood component processing system and therapeutic apheresis system continued to achieve sales growth. I will explain more about the Blood Management Company market conditions later on.

Increase in Sales and Profit

	(Billion yen)			
	Q3 YTD FY2013	Q3 YTD FY2014	YoY%	YoY% (Excl. FX)
Net Sales	345.3	363.2	+5%	+1%
Gross Profit	178.7 (51.7%)	190.7 (52.5%)	+7%	+2%
SG&A Expenses	108.0 (31.2%)	116.9 (32.1%)	+8%	
R&D Expenses	22.4 (6.5%)	20.9 (5.8%)	-7%	
Operating Income	48.3 (14.0%)	52.9 (14.6%)	+10%	+5%
(Excl. Amortization)	60.4 (17.5%)	65.8 (18.1%)	+9%	+4%
Ordinary Income	49.9 (14.5%)	58.7 (16.2%)	+18%	
Net Income	36.9 (10.7%)	33.4 (9.2%)	-9%	
Average exchange rates	US\$ 99 yen	107 yen		
	EUR 132 yen	140 yen		



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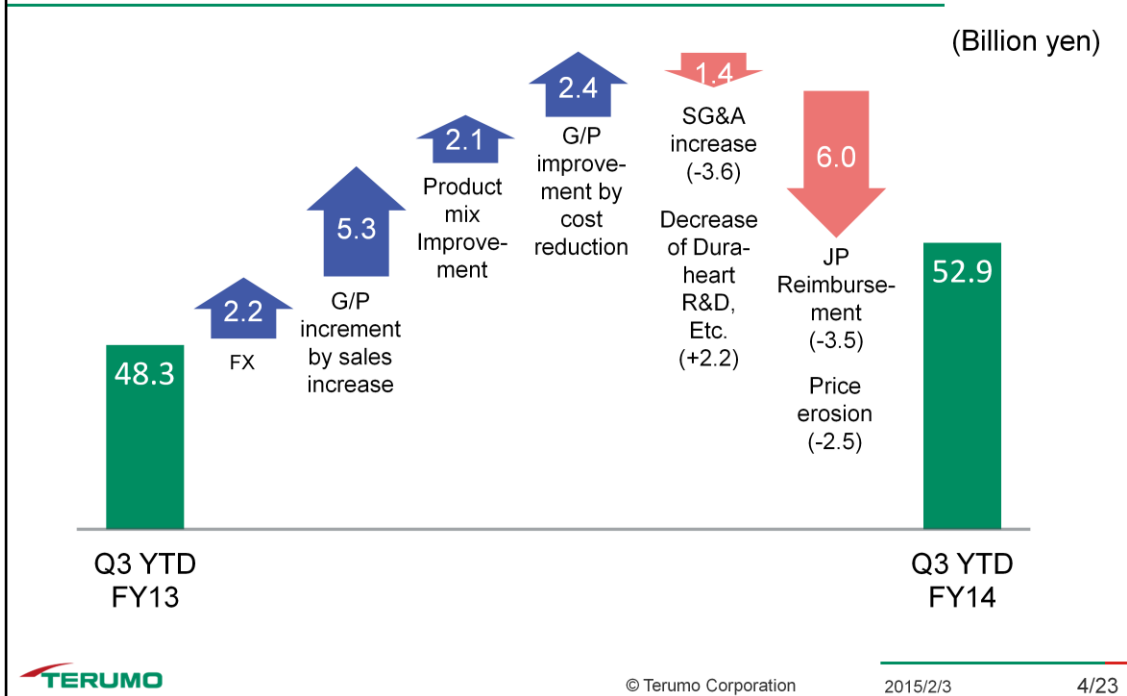
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Again, sales and profit both increased in the 3rd Quarter YTD. Sales were 363.2 billion yen, for a 5% year-over-year increase. Operating income was 52.9 billion yen, for a 10% year-over-year increase. This was led by a significant increase in sales. Ordinary income increased 18% to 58.7 billion yen, with the increase primarily due to the weak yen in the 3rd Quarter, which led to an 8.1 billion yen positive foreign exchange gain.

Net income was 33.4 billion yen, for a 9% decrease from the previous year. This was the result of a 6.4 billion yen extraordinary loss taken during the 3rd Quarter for the transforming of the General Hospital product portfolio in Europe, which we have announced previously.

Conversely, the FY2013 3rd Quarter YTD net income was 36.9 billion yen, positively impacted by 6 billion yen from a settlement. The difference between these extraordinary gains and losses led to a 9% year-over-year decrease in net income.

Operating Income Variance Analysis



This slide shows the factors contributing to the 3rd Quarter YTD operating income amount.

The largest positive impact came from the increased gross profit resulting from sales expansion. The improvement of product mix, and gross profit improvement by cost reduction, continued from the 2nd Quarter.

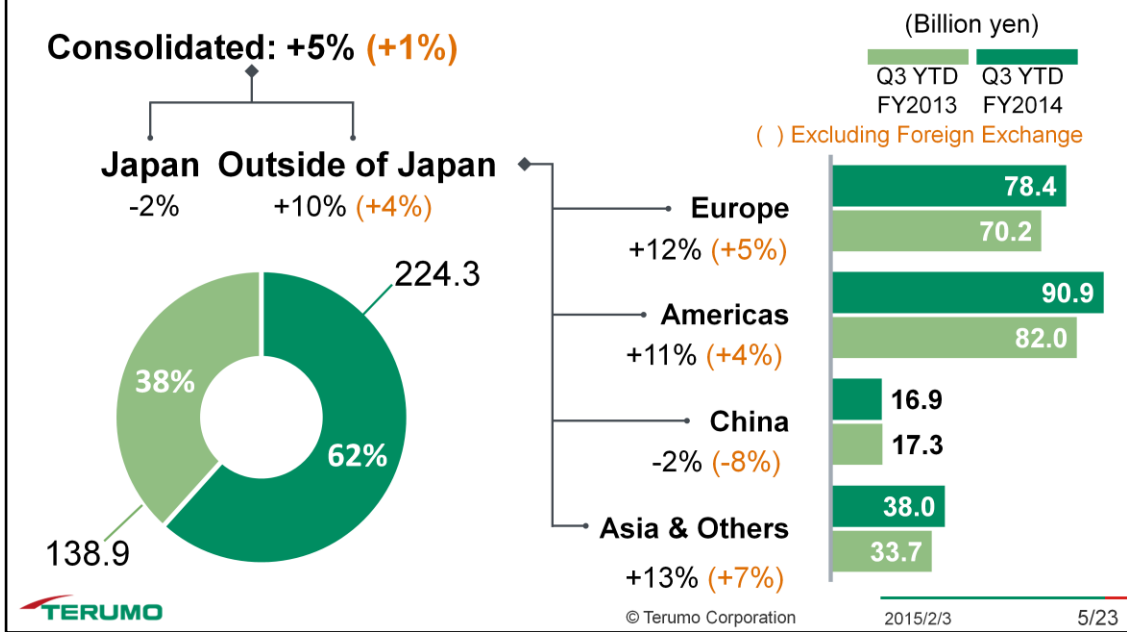
With increased sales, though, we also experienced increased impact from the price reimbursement revision, and overall falling prices were another negative factor leading to the operating income amount of 52.9 billion yen.

I will now explain in further detail the increase in SG&A. SG&A increased in the 3rd Quarter YTD by 3.6 billion yen. We had foreseen the need for new hires in US and Europe to expand the interventional systems and neurovascular intervention sales, and hiring was actually largely completed earlier, so personnel expenses have already reached approximately their expected level in the 3rd quarter.

In Blood Management, as I mentioned before, the market continued to be difficult, so the company was able to hold down personnel costs to a level lower than planned.

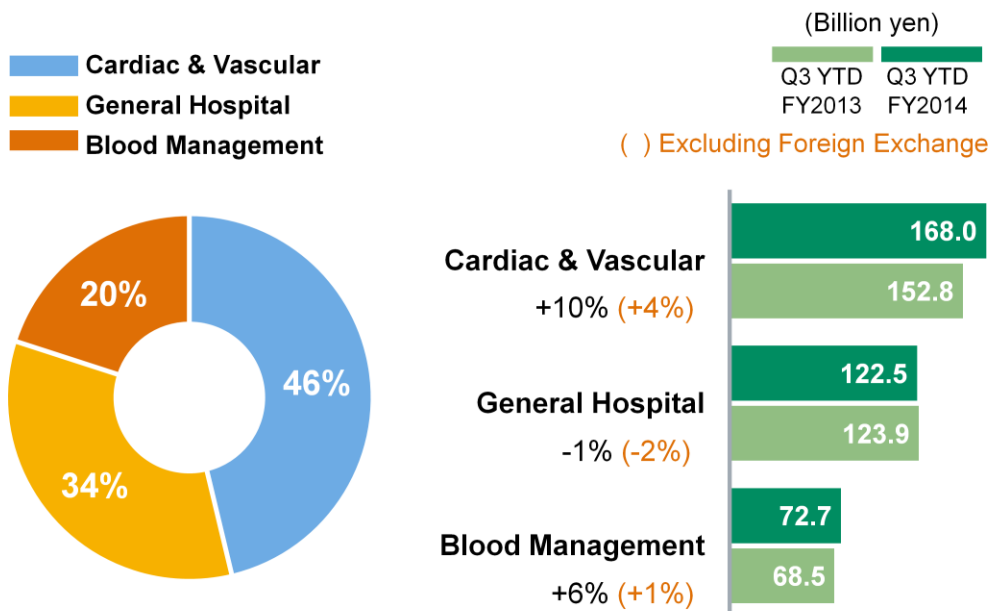
Marketing and promotional expenses started out weak in the 1st and 2nd quarters, but in the 3rd quarter they increased more, despite still being weak. The 3rd quarter also included December, meaning that some of its results flowed into the 4th quarter. We are already seeing some of that effect in the 4th quarter, and these expenses look to gain more ground during that time.

Net Sales by Region



This shows sales by region. The decrease in Japan sales was less severe, and sales outside Japan grew, leading to positive growth overall in sales. Outside Japan, Europe, the United States, and Asia, excluding China, achieved double-digit growth. China experienced negative growth of 2%. This was the result of the distributor rearrangement in that country, which we have previously discussed, taking somewhat longer than expected and causing a lull in sales. We expect these effects to continue into the 4th quarter, meaning that growth in China will remain weak through this fiscal year.

Net Sales by Business Segment



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Cardiac & Vascular and Blood Management saw sales growth, and General Hospital growth was negative, as was the case prior to the 3rd quarter. However, General Hospital sales did increase enough to stem the negative growth some.

Looking at only the 3rd quarter, General Hospital Company sales increased 3% over the same quarter in the previous year.

Profit by Business Segment

(Billion yen)

		Q3 YTD FY2013	Q3 YTD FY2014	YoY%	YoY% (Excl. FX)
Business Profit	Cardiac & Vascular	32.0 (21%)	34.1 (20%)	+6%	-3%
	General Hospital	16.2 (13%)	16.5 (13%)	+2%	+1%
	Blood Management	13.8 (20%)	14.2 (20%)	+3%	+1%
Others*		-1.6	1.0	-	-
Operating Income (Excl. amortization)		60.4 (17%)	65.8 (18%)	+9%	+4%

* Others: profit unrelated to any business segments

Q3 YTD FY13: R&D for Duraheart and others

Q3 YTD FY14: profit increase by reduction of corporate related expense and others



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This slide shows business profit by company.

Cardiac & Vascular and Blood Management both saw year-over-year improvement in business profit, but without significant increases.

Up to the 2nd quarter of this fiscal year, the General Hospital company had seen less business profit compared to the previous year, but in this 3rd quarter achieved a turnaround to increase 2% over the last year's Q3, or 1% when excluding foreign exchange. This was due to the aforementioned 3rd quarter increase in sales, as well as the improved profitability owing to DM healthcare and D&D sales expansion.

Cardiac & Vascular: Increase in Sales and Profit

(Billion yen)

	Q3 YTD FY2013	Q3 YTD FY2014	YoY%	YoY% (Excl. FX)
Sales	152.8	168.0	+10%	+4%
Business Profit (%)	32.0 (21%)	34.1 (20%)	+6%	-3%

<Sales>

- Increase in overseas IS business and neurovascular intervention products (stent, etc.) + 12.5 BJPY
- Sales of CV products grew mainly in U.S. and Asia + 2.5 BJPY
- Reimbursement price cut in Japan - 2.8 BJPY
- Sales of Ultimaster (new DES) continued to expand steadily

<Business Profit>

- Reduced manufacturing cost mainly for IS business + 0.9 BJPY



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I will now explain the results of each company.

In the Cardiac & Vascular Company, there were no significant changes. Overseas sales of interventional systems and neurovascular intervention products continue to be the main driver. Japan price reimbursement revisions impacted Cardiac & Vascular more than any other company, but interventional systems and neurovascular intervention were strong enough to absorb that impact.

Since being launched in Europe, the Ultimaster product has expanded sales well in that market and Asia. The time it takes to register Ultimaster varies between Asian countries, but sales began immediately in Malaysia and Vietnam where registration was not required. In Singapore, Thailand, Indonesia, and the Philippines, registration took more time, but the product is now in these markets and sales outside Japan are expanding well. That is all regarding Cardiac & Vascular.

General Hospital: Increase in Profit due to Growth of High Margin Products

(Billion yen)

	Q3 YTD FY2013	Q3 YTD FY2014	YoY%	YoY% (Excl. FX)
Sales	123.9	122.5	-1%	-2%
Business Profit (%)	16.2 (13%)	16.5 (13%)	+2%	+1%

<Sales>

- Japan: effects of changes in the healthcare market environment in 1H - 1.2 BJPY
- Reimbursement price cut in Japan - 0.7 BJPY
- Increased sales of DM & Consumer Healthcare and D&D (Drug & Device) businesses in Q3 + 1.5 BJPY

<Business Profit>

- Improved product mix



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In the General Hospital Company, sales increased greatly in the 3rd quarter. In the 1st quarter, the rise in consumption tax hurt sales, and in the 2nd quarter they were also weak due to the adjustment in hospital operations that had a temporary negative impact, as explained previously by Mr. Matsumura of that company. General Hospital sales rebounded in the 3rd quarter, recording an increase year-over-year.

While sales did increase in the 3rd quarter, we cannot say for certain that the results will continue to improve the same way going forward. We are trying to determine whether the 3rd quarter increase was only a rebound from the 1st and 2nd quarters and will be followed by another decrease, or whether it will continue. We will have to await the 4th quarter results to be sure, but for the 3rd quarter, we did see an increase.

The effect of DM healthcare and D&D was positive for both sales and profit, and for business profit we have seen a year-over-year increase.

Blood Management: Increase in Sales and Profit

(Billion yen)

	Q3 YTD FY2013	Q3 YTD FY2014	YoY%	YoY% (Excl. FX)
Sales	68.5	72.7	+6%	+1%
Business Profit (%)	13.8 (20%)	14.2 (20%)	+3%	+1%

<Sales>

- Increased sales both in whole blood collection and blood component collection in Latin America and Asia + 2.0 BJPY
- Achieved double digit growth in overseas therapeutic apheresis + 1.7 BJPY
- Automated blood component processing system globally grew at double digit + 1.1 BJPY
- EU and U.S.: on the back of constraints of healthcare expenditure, price pressure is increased - 0.6 BJPY

<Business Profit>

- Controlled SG&A within the range of sales growth



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In the Blood Management Company, we saw a continued increase in both sales and profit, driven by emerging markets such as Central and South America and Africa. The main-driver products have been therapeutic apheresis and the automated blood processing system, unchanged from previously. One item of concern with the company is that since entering the new calendar year, we have seen demand for the same volume of platelets, unlike with red blood cells, but at lower prices. This signifies a continuation of the price decline and difficult market conditions. The company has been and will continue responding to this revenue difficulty by maintaining focus on controlling personnel costs, as I have mentioned.

Quarterly Results

	(Billion yen)				
	Q3 (Oct-Dec)	Q4 (Jan-Mar)	Q1 FY14 (Apr-Jun)	Q2 (Jul-Sep)	Q3 (Oct-Dec)
Net Sales	119.2	122.1	114.9	118.4	129.9
Gross Profit	61.5 (51.6%)	63.3 (51.9%)	60.7 (52.8%)	62.3 (52.6%)	67.8 (52.2%)
SG&A Expenses	43.7 (36.7%)	46.3 (37.9%)	44.6 (38.8%)	45.4 (38.3%)	47.9 (36.9%)
Operating Income	17.8 (14.9%)	17.0 (14.0%)	16.1 (14.0%)	16.9 (14.3%)	19.9 (15.3%)

Average Quarterly Exchange Rates	US\$	100 yen	103 yen	102 yen	104 yen	115 yen
	EUR	137 yen	141 yen	140 yen	138 yen	143 yen



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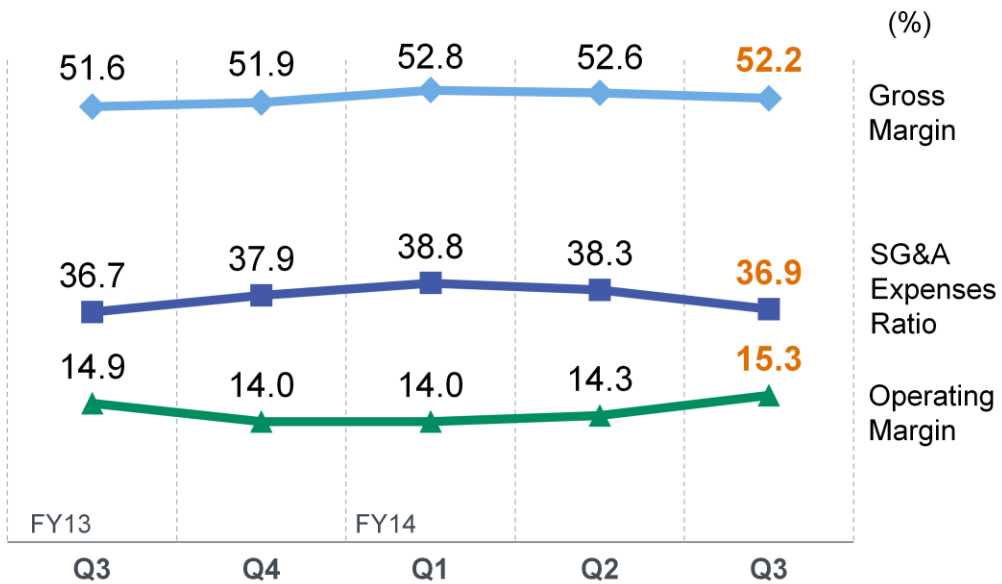
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This shows movement by quarter.

The FY2014 3rd quarter saw 129.9 billion yen in sales, for a 9% increase over the FY2013 3rd quarter, when sales were 119.2 billion yen. It was also a robust 10% increase from the previous quarter. SG&A expenses also increased compared to the previous quarter, but not to the same degree as sales. Therefore the SG&A-to-sales ratio also improved, as did operating profitability.

Profit Ratio, SG&A Expenses Ratio



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12/23

This shows quarter-to-quarter movement, this time by gross margin, SG&A ratio, and operating profitability.

In the 2nd quarter, SG&A ratio was 38.3%, and then decreased to 36.9% in the 3rd quarter, resulting in a rise in operating profitability, to 15.3%.

New Product Pipeline for 2H

Business	Product		Region	Launch
Coronary	New PTCA balloon	◎	EU, L. America, Asia	
Peripheral	PTA balloon (above the knee)		JP, US	
	PTA balloon (below the knee)		EU	Done
	Stent for small vessel (Misago)		EU	
Neuro	Coil assist stent	◎	US	Done
	Stroke device (clot retriever)	◎★	EU	Done
	Liquid embolic glue	★	EU	
Infusion System	Needleless system		Asia	
DM	Blood glucose monitor (color LCD)	◎	JP	Done
Blood Management	Automated blood component collection system (plasma)		JP	
	Automated blood component processing system	★	JP	
	Therapeutic apheresis system (Bone marrow stem cell and polymorphonuclear leukocyte application)		US	

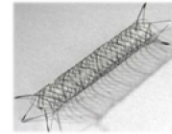
◎ Item with large contribution to sales and profit

★ Item with highly innovative technology



PTA balloon, below the knee (Tercross)

Non-compliant and semi-compliant balloon, catheter shaft with good maneuverability



Coil assist stent (LVIS)

Superior deliverability and easy stent deployment



Stroke device (ERIC)

Interlinked cage system for efficient clot retrieval



Blood glucose monitor (MEDISAFE Fit Smile)

Voice guided navigation and easily viewable color LCD



This slide shows the products scheduled for launch in the second half of FY2014. The peripheral PTA balloon for below the knee, neurovascular coil assist stent and clot retriever stroke device, and DM blood glucose monitor have all now been launched.

This concludes my explanation. Thank you for your attention.

Reference

Q3 YTD Net Sales and Growth by Region

(Billion yen)

Business Segment	Japan	Outside of Japan					G. Total
		Subtotal	Europe	Americas	China	Asia	
Cardiac & Vascular	36.0 (-2%)	132.0 (6%)	48.8 (6%)	54.8 (9%)	12.9 (-12%)	15.5 (15%)	168.0 (4%)
Out of C&V Interventional Systems*	27.6 (-3%)	99.8 (7%)	38.8 (8%)	36.9 (13%)	12.1 (-12%)	11.9 (14%)	127.4 (5%)
General Hospital	93.7 (-2%)	28.7 (-4%)	9.3 (2%)	6.0 (-16%)	1.1 (19%)	12.3 (-3%)	122.5 (-2%)
Blood Management	9.2 (-5%)	63.5 (2%)	20.2 (3%)	30.2 (-1%)	2.9 (1%)	10.2 (10%)	72.7 (1%)
G. Total	138.9 (-2%)	224.3 (4%)	78.4 (5%)	90.9 (4%)	16.9 (-8%)	38.0 (7%)	363.2 (1%)

*Including Neurovascular business

(YoY%): Excluding foreign exchange



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SG&A Expenses

(Billion yen)

	Q3 YTD FY2013	Q3 YTD FY2014	YoY	YoY%
Salaries & Wages	47.2	52.1	+4.9	+10%
Sales Promotion	10.6	11.6	+1.0	+9%
Logistical Costs	8.1	8.2	+0.1	+1%
Depreciation & Amortization	16.7	18.4	+1.7	+10%
Others	25.4	26.6	+1.2	+5%
General Administrative Total	108.0 (31.2%)	116.9 (32.1%)	+8.9	+8%
R&D Expenses	22.4 (6.5%)	20.9 (5.8%)	-1.5	-7%
SG&A Expenses Total	130.4 (37.7%)	137.8 (37.9%)	+7.4	+6%

(%) Against net sales



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16/23

SG&A Expenses

(Billion yen)

	Q3 YTD FY2013*	Q3 YTD FY2014	YoY	YoY%
General Administrative Total	113.3	116.9	+3.6	+3%
R&D Expenses	23.1	20.9	-2.2	-10%
SG&A Expenses Total	136.4	137.8	+1.4	+1%

* Value adjusted by excluding FX impact

Non-operating Income & Expenses, Extraordinary Gains & Losses, Income Taxes

(Billion yen)

	Q3 YTD FY2013	Q3 YTD FY2014	
Operating Income	48.3	52.9	
Non-operating Income & Expenses	+1.7	+5.8	FX gains +8.1
	Exchange rates	End of Mar. 2014	End of Dec. 2014
	US\$	102.9 yen	120.6 yen
	EUR	141.7 yen	146.5 yen
			Difference (+17.7) (+4.8)
Extraordinary Gains & Losses	+4.6	-6.4	Transformation of product portfolio in EU -6.4 Impairment loss -1.5 Others +1.5
Income Taxes Total	-17.6	-18.9	Elimination of effect resulted from reorganization of TBCT in FY12
Tax Rate (%)	32%	36%	
Net Income	36.9	33.4	

CAPEX, R&D Expenses

(Billion yen)

	FY2014 Guidance	Q3 YTD FY2014	Progress to guidance
CAPEX	42.0	30.8	73%
Depreciation & Amortization	41.0	30.1	73%
R&D Expenses	31.0	20.9	67%

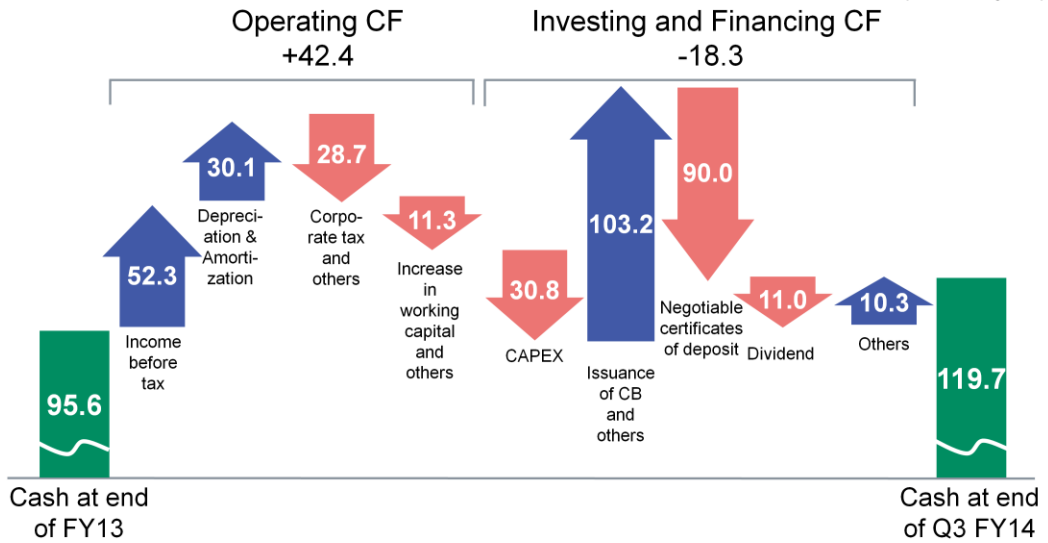
Depreciation & Amortization: Including intangibles

CAPEX: Acquisition basis

Cash Flow

- Financed 100 BJPY by CB, invested 90 BJPY in short-term financial asset
- Despite corporate tax burden in Q1 and Q3, operating CF recovered well.
- SB of 40 BJPY will be redeemed in March, 2015.

(Billion yen)



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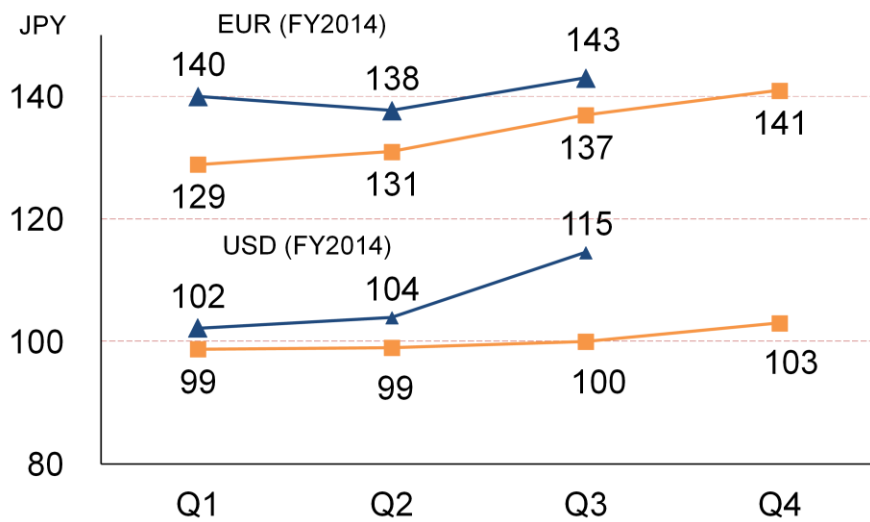
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Foreign Exchange Sensitivity

(Billion yen/year)

	US\$	EUR
Net Sales	1.8	0.7
Operating Income	0.3	0.4

Quarterly Average Exchange Rates Trend



IR Contact

Terumo Corporation

Corporate Communication (IR) Dept.

E-mail: kouhou_terumo01@terumo.co.jp

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The market share information in this presentation is partly derived from our own independent research.