# Financial Results for the First Quarter of Fiscal Year Ending March 31, 2018 (FY2017)

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

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I will now explain our results for the 1st quarter of the fiscal year ending March 31, 2018.

## Overseas Double Digit Sales Growth Drove Overall Growth Both in Sales and Profit

(billion yen)

| | FY16 Q1 | FY17 Q1 | YoY% | YoY% (FXN) |
|---|---|---|---|---|
| Net Sales | 124.5 | 139.3 | +12% | +11% |
| Gross Profit | 69.2 (55.6%) | 78.3 (56.2%) | +13% | +15% |
| SG&A expenses | 39.7 (31.9%) | 46.4 (33.3%) | +17% | +15% |
| R&D Expenses | 8.1 ( 6.5%) | 8.5 ( 6.1%) | +5% | +4% |
| Operating Income | 21.4 (17.2%) | 23.4 (16.8%) | +9% | +17% |
| (Excl. Amortization) | 25.9 (20.8%) | 30.6 (22.0%) | +18% | +24% |
| Ordinary Income | 15.1 (12.1%) | 22.7 (16.3%) | +50% | |
| Net Income | 10.1 ( 8.1%) | 16.3 (11.7%) | +61% | |
| Average Exchange Rate | USD 108 yen<br>EUR 122 yen | 111 yen<br>122 yen | | |

- Sales: All businesses in Cardiac and Vascular Company made double digit growth, driving overall growth in sales
- Operating income: Sales expansion as well as gross margin improvement contributed to the growth
- Ordinary income: Posted FX gain of 0.2 BJPY in FY17 Q1, while posted loss of 5.5 BJPY in FY16 Q1
- Net income: Decrease in corporate tax rate due to expanded scope of tax effect for inside and outside subsidiaries

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First, an overview of the results.

Double-digit sales growth overseas drove our achievement of strong growth in both sales and profit.

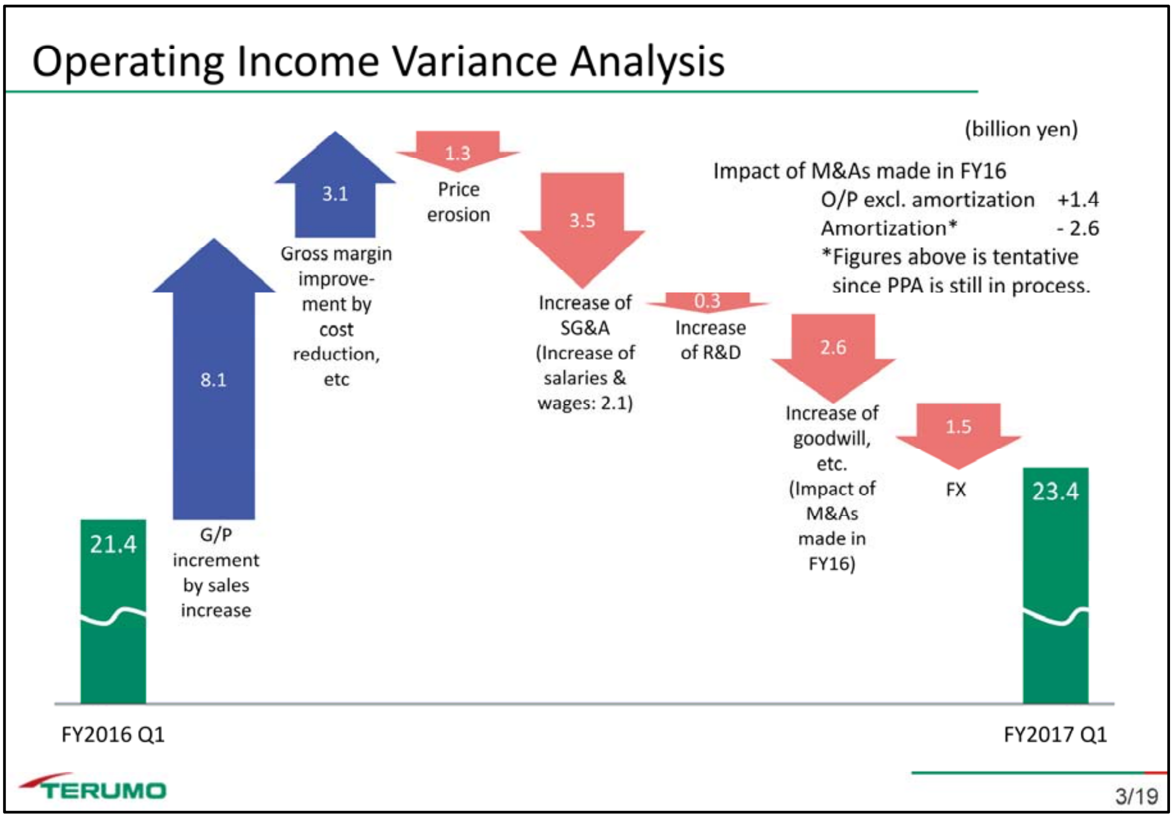
In all overseas markets, sales grew in double digits, with overseas growth of 19%; by company, all four businesses of the Cardiac and Vascular Company achieved double-digit growth, driving sales growth at 12% for the group as a whole.

In operating income, as you know, the result of the 1st quarter of the previous year, FY2016, was an unusually high figure. Nevertheless, operating income in this 1st quarter exceeded the previous year, growing 9%. That growth was 17% when excluding FX impacts.

There was an FX loss of 5.5 billion yen in the same quarter of 2016, but without that loss this year, we saw major growth in both ordinary and net income. Net income increased 61% year-on-year to 16.3 billion yen. Sales, gross profit, operating income, ordinary income, and net income figures all represented our highest-ever of any 1st quarter in company history.

In addition to the good overseas Cardiac and Vascular performance, recent acquisitions also made large contributions to sales.

When excluding these acquisition contributions, sales grew 4%, and operating income grew 15%.




Here is the Operating Income Variance Analysis.

The largest positive factor driving gross profit was the increase in sales, which accounted for 8.1 billion yen. Up to last fiscal year, we showed the factors of business mix and reduced costs separately in the variance analysis; we have combined these starting this year. Positive impact from volume increase is the 8.1 billion yen, and impact from margin improvement is next. In other words, the two gross profit factors are separated here.

Up to last year we had large cost reduction factors here; for example, the Ultimaster DES, or quality management system improvements related to the consent decree, or the US medical device tax. With those kinds of large factors, we had a separate bar, but without such factors this year, we have combined the two into a single gross margin improvement bar.

Price erosion was largely as expected.

Within SG&A, we have begun showing the portion representing salaries and wages; in this quarter, from the total of 3.5 billion yen, the salary and wage amount was 2.1 billion yen; other SG&A items accounted for 1.4 billion yen.

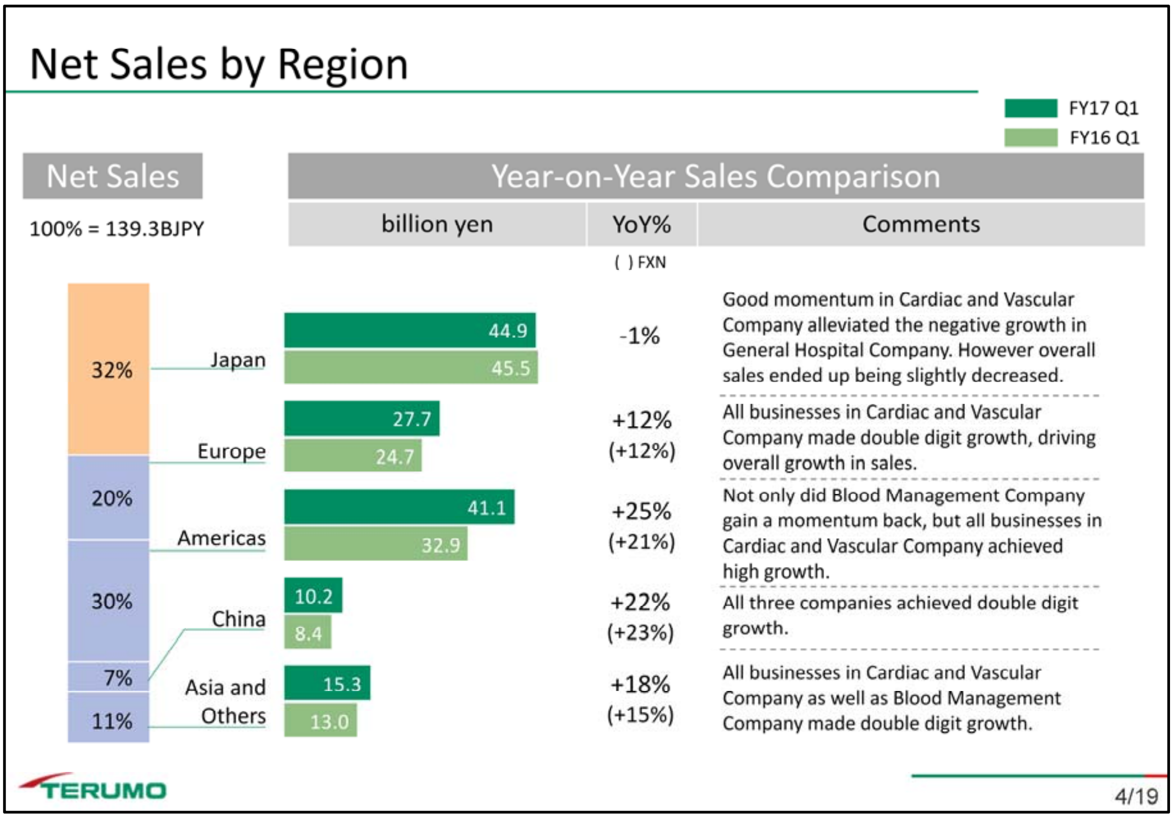
The R&D cost increase and increase of goodwill, etc. are also included here.

Negative FX impact here was 1.5 billion yen. There were no major fluctuations in yen rates against the dollar or euro between this and the previous 1st quarters, except small amount of 300 million yen. As you may remember, though, the yen appreciated strongly at the end of 1st quarter of last fiscal year with the announcement of Brexit; without that kind of appreciation this year a negative year-on-year impact of 1.2 billion yen of reduction by unrealized inventory profit occurred, bringing the overall impact to minus 1.5 billion.

All of these variances brought operating income from 21.4 billion yen in the 1st quarter of last fiscal year to 23.4 billion yen in this one.

There is a note on the upper right of the slide regarding operating income impact of acquisitions when excluding amortization and the amount of amortization, respectively.

In FY17 guidance, positive operating income impact of acquisition without amortization over the year was forecast at 3 billion yen, but reached 1.4 billion in the 1st quarter, largely owing to sales of Angio-Seal and other acquired products being very good.  The 1st quarter amortization number was 2.6 billion yen, or about one-fourth of the annual guidance of 10 billion yen. However, please be aware that the numbers here remain tentative, pending the completion of the PPA process.




Next is net sales by region.

As I mentioned, overseas markets grew very well; this brought the percentage of sales from Japan down four points year-on-year, from 36% to 32%.

In Japan, Cardiac and Vascular sales grew positively, but negative growth for the General Hospital Company resulted in slightly minus growth overall.

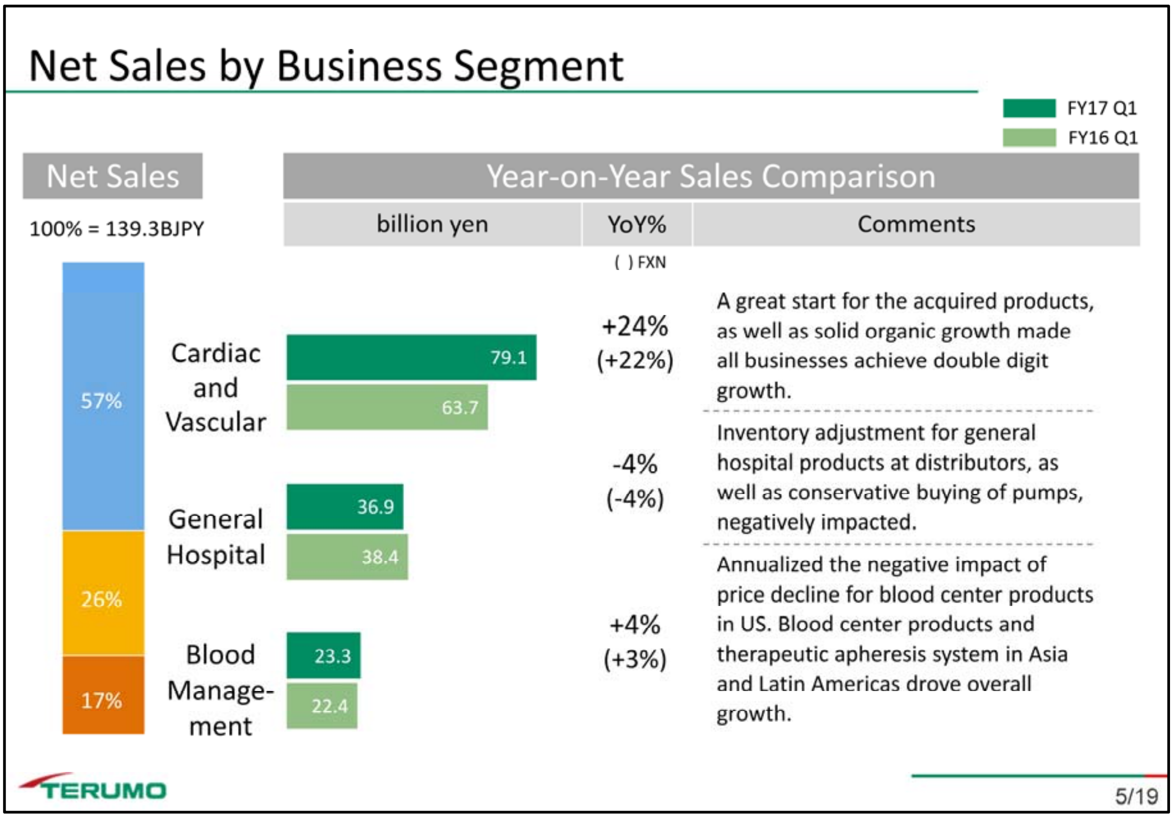
With the main factor of strong growth in Cardiac and Vascular, sales as a whole overseas grew in double digits.

There was little FX impact this quarter, so the numbers in parentheses are fairly close to the actual ones.

In addition, not only Cardiac and Vascular, but all companies in China grew in double digits.

In Asia an others, Blood Management also grew in the double digits.

In the Americas last fiscal year, FX rates and Blood Management were major negative factors, but this year there was little FX impact, and Blood Management was positive. This meant that the strong Cardiac and Vascular performance was reflected as-is in the overall results.




Next is sales by company.

The first thing I would like to point out here is the percentage of Terumo Group sales accounted for by the Cardiac and Vascular Company; a year previously it was 51%, but that share grew six points to 57% in this 1st quarter.

In our Mid- to Long-term growth strategy that began April this year, we planned for organic growth alone to increase over a span of five years with Cardiac and Vascular accounting for 55%.

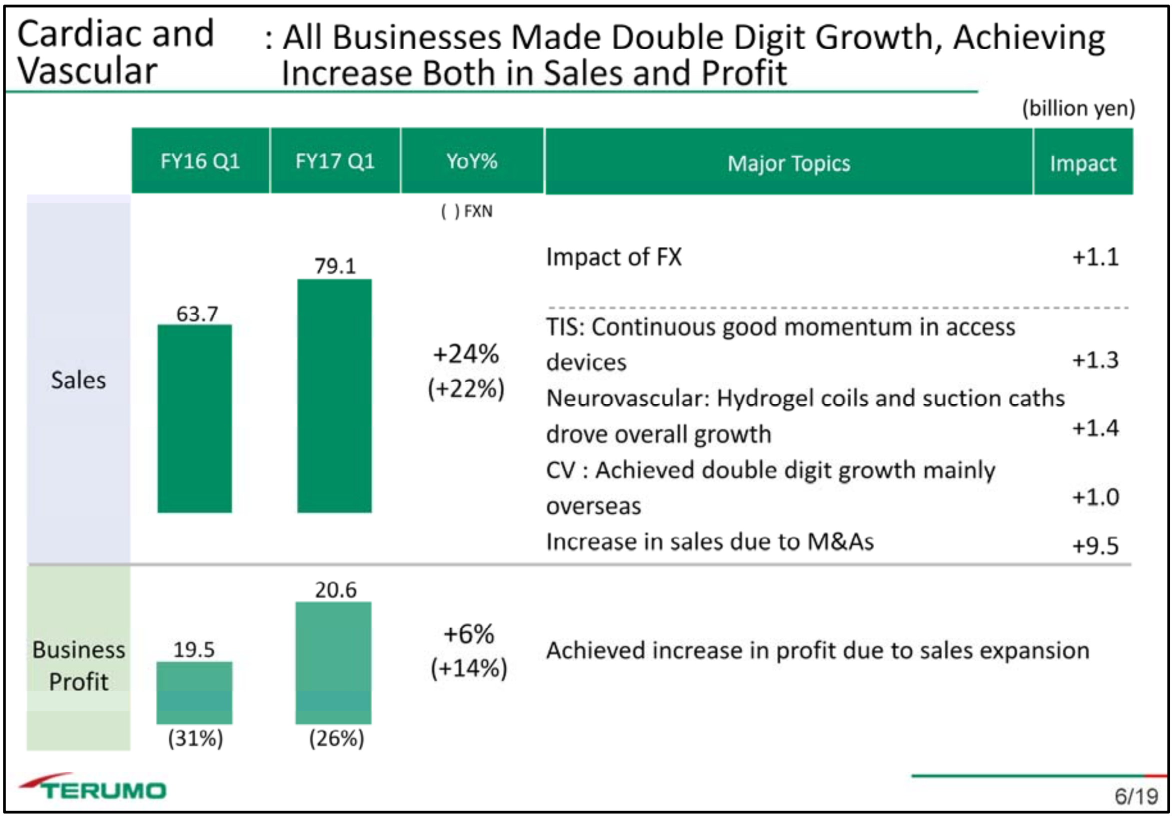
In the first year of the plan, though, we have already reached 57%, due to the impact of acquisitions; this has contributed to improved gross margin.

New acquisitions of the Cardiac and Vascular Company have started out very strongly. Its existing core businesses have maintained their good performance as well, leading to double-digit growth for all the businesses in that company.

Specifically, year on year, the TIS business grew 24%, the neurovascular business 35%, the CV business 12%, and vascular business 44%.

For the General Hospital Company, the main factors of a distributor inventory adjustment and conservative buying of pump in Japan led to minus 4% year-on-year growth; I will explain this in further detail later.

In the Blood Management Company, FY15 and FY16 saw price erosion in the US blood center business; those prices have now largely stabilized. In the emerging markets of Asia and Latin America, sales have increased, as have those of therapeutic apheresis; these contributed to 4% year-on-year sales growth.




In the Cardiac and Vascular Company, new acquisitions, to primarily the TIS and vascular businesses, contributed greatly to sales, to the tune of 9.5 billion yen. TIS access devices remain strong.

In the neurovascular business, sales of coils improved, after becoming somewhat flat in the previous year, to go along with the strong non-coil products. This was due to introducing new hydrogel coil products, and to good results of a clinical study showing superiority of hydrogel coils over bare coils. These factors led to large growth in the neurovascular business. I mentioned earlier that the neurovascular business grew 35%; even without the Sequent Medical acquisition that number was 27%.

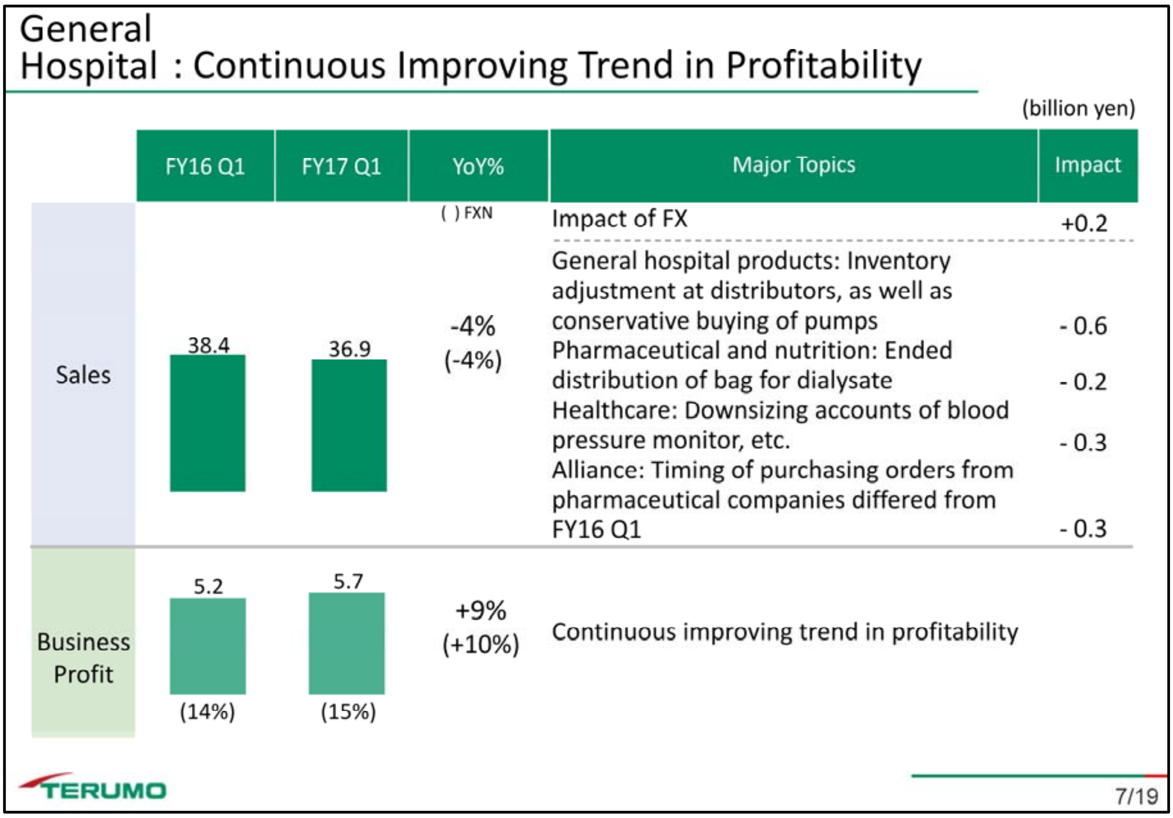
The CV business has emerged from the consent decree, resuming sales of the CDI sensor last fiscal year and the heart-lung machine in June. Disposables are also selling well, contributing to double-digit growth.

Those are the factors behind the strong sales growth.

The business profit amount increased due to higher sales volume.

Business profitability decreased year-on-year, owing to the very high 31% figure from the same period of previous year. Accounting for about half of this decline was FX impact, and other factors included price erosion and the currently lower gross margin of Bolton products.

That is why business profit margin was 26% for the 1st quarter. Over the previous year it was 25%, and our mid- to Long-term growth strategy sets it at what we consider to be a very healthy 25%.




In the General Hospital Company, sales grew negatively; however, the plan for the 1st quarter actually anticipated this. As you see here, the phasing out of low-profitability pharmaceuticals, nutrition, and healthcare products contributed to the decline.

In the Alliance business, the FY16 1st quarter sales results included samples provided to pharmaceutical companies; the same products will be instead sold in the 4th quarter of this fiscal year. This timing difference between fiscal years resulted in a year-on-year decrease, but was anticipated and included in our plan.

That said, the sales decrease was slightly larger than what was in the plan, due to general hospital products.

One factor behind this larger decrease than expected was distributor inventory build-up at the end of March, which led to less purchasing in April. The subsequent months May and June are looking normal, but the decline in April has yet to be absorbed.

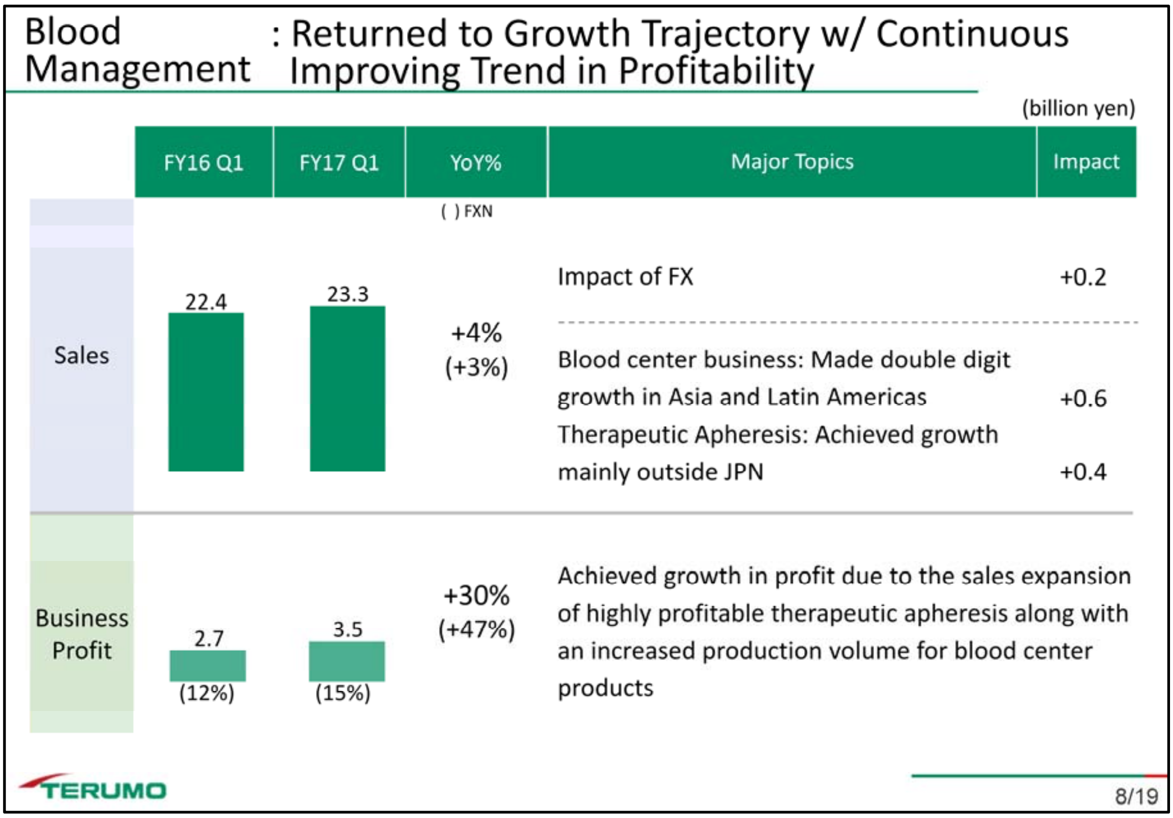
There were two factors related to pumps; one was that hospitals were struggling with their budgets, leading especially in the 1st quarter to less purchasing of capital goods.

Another reason for the decline was that, as we announced yesterday, we will release a new vertically-positioned pump in August; anticipation of this new pump influenced some customers to hold off on purchasing pumps in the 1st quarter.

However, the Alliance businesses and pumps, were originally expected to increase into the 2nd half of the year, and we expect to see results to return to planned levels.

In business profit, we saw continued improvement to the business profitability on which we have made efforts the last two or three years.

Business mix improvement and expense control combined for business profit improvement of 500 million yen.

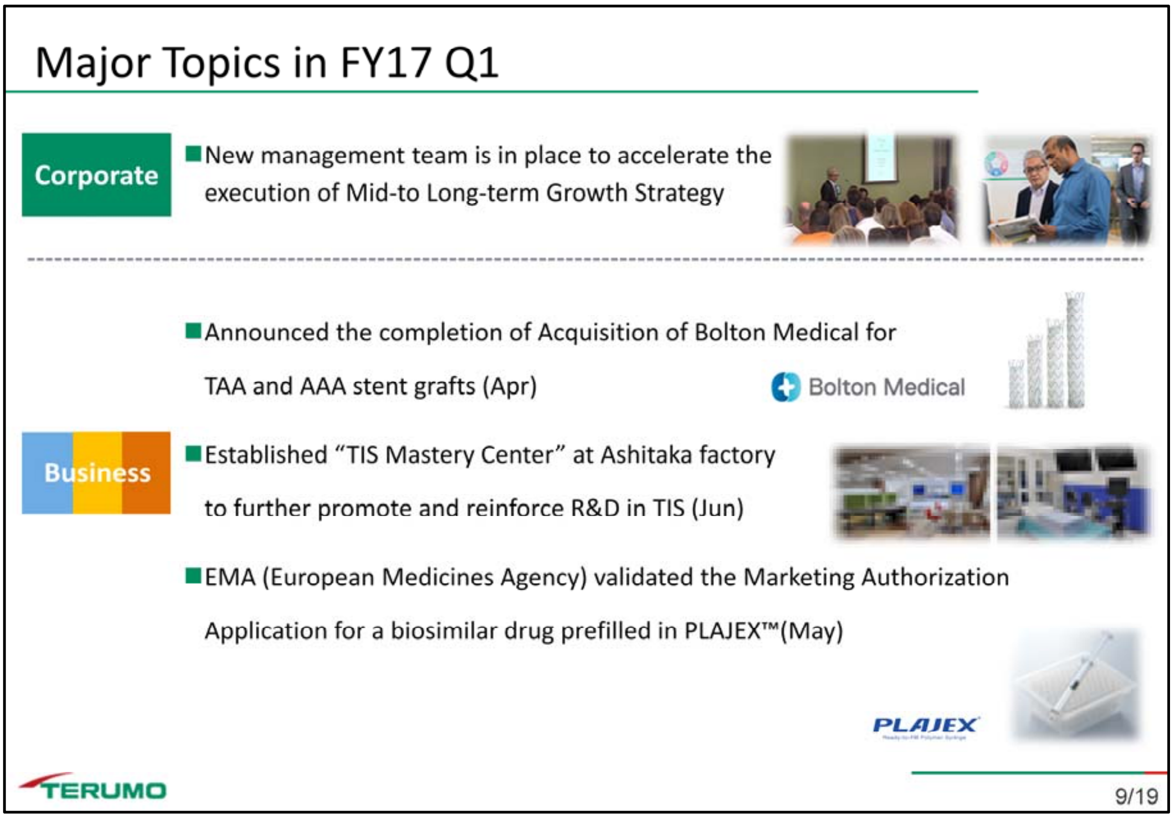



Next is Blood Management Company.

As you can see, Blood Management has returned to a growth pattern.

US prices have stopped eroding and nearly flattened out, and sales grew in double digits in emerging markets, Latin America, and Asia, and therapeutic apheresis grew as well; this resulted in 4% year-on-year growth.

In business profit, sales expansion led to better margin through higher production volume for blood center products, and highly profitable therapeutic apheresis showed strong growth to drive a large increase.




The next slide lists major topics for the quarter.

The main topic for the first quarter was the start of our new management team. In April, our Chairman, Mr. Mimura, and President, Mr. Sato, began their roles leading the new management team. They were also introduced at the last earnings announcement.

In individual company news, I want to touch on the establishment of the new TIS Mastery Center on our Ashitaka Factory site. Last year, we announced the new Innovation Center for TIS development in Southern California, and now we are adding the TIS Mastery Center in Ashitaka. Through these facilities, we plan to strengthen our internal development capabilities.

# New Products Pipeline in FY17

| Category | Products | | Region |
|---|---|---|---|
| Coronary | PTCA balloon | | US |
| Peripheral | Stent (TRI) | ★ | JP, US & EU |
| | PTA balloon (TRI) | ★ | JP, US & EU |
| | PTA guiding sheath (TRI) | ★ | JP, US & EU |
| | Drug coated balloon | ◎★ | EU |
| | Embolization coil | ◎ | EU |
| Neuro | Distal protection device | | EU: Launched |
| | Hydrogel coil 3D | | US&EU: Launched JP: Q2 |
| Oncology | Radioembolization beads (Quirem) | ★ | EU |

| Category | Products | | Region |
|---|---|---|---|
| CV | Heart lung machine (Re-launch) | ◎ | Launched |
| | Next generation of oxygenator | ◎ | Global |
| General Hospital Products | Vertical infusion pump | | JP |
| | Needleless infusion system for Anti-cancer drugs | | JP: Launched |
| DM | Insulin patch pump | ★ | JP |
| Blood Management | New software for automated blood collection system | | Global |

◎ Item with large contribution to sales and profit
★ Item with highly innovative technology


Drug Coated Balloon "Kanshas" EU

Heart Lung Machine Re-launch Global

Insulin Patch Pump JP

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This next slide shows our FY2017 new product pipeline. The products listed here are each progressing in development and we do not anticipate any major delays.

This concludes my explanation of the earnings announcement for the 1st quarter of the fiscal year ending March 2018.

Reference

# FY17 Q1 Net Sales and Growth by Region

(billion yen)

| Business Segment | Japan | Outside of Japan | | | | | G. Total |
|---|---|---|---|---|---|---|---|
| | | Subtotal | Europe | Americas | China | Asia | |
| Cardiac and Vascular | 13.5 (+5%) | 65.6 (+27%) | 20.1 (+20%) | 29.1 (+32%) | 8.5 (+26%) | 7.9 (+27%) | 79.1 (+22%) |
| Out of C&V Interventional Systems* | 10.3 (+4%) | 53.3 (+28%) | 16.1 (+17%) | 22.6 (+38%) | 7.9 (+24%) | 6.7 (+30%) | 63.5 (+23%) |
| General Hospital | 28.9 (-4%) | 7.9 (-6%) | 1.9 (-12%) | 1.7 (-6%) | 0.5 (+10%) | 3.9 (-4%) | 36.9 (-4%) |
| Blood Manage-ment | 2.4 (-3%) | 20.9 (+4%) | 5.8 (-3%) | 10.3 (+4%) | 1.2 (+11%) | 3.5 (+14%) | 23.3 (+3%) |
| G. Total | 44.9 (-1%) | 94.4 (+18%) | 27.7 (+12%) | 41.1 (+21%) | 10.2 (+23%) | 15.3 (+15%) | 139.3 (+11%) |

*Including Neurovascular business

(YoY%): FXN

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# Operating Expenses

(billion yen)

| | FY16 Q1 | FY17 Q1 | YoY | YoY% | YoY% (FXN) |
|---|---|---|---|---|---|
| Salaries & Wages | 17.9 | 20.3 | +2.4 | +13% | +12% |
| Sales Promotion | 3.8 | 4.1 | +0.3 | +7% | +7% |
| Logistical Costs | 2.8 | 3.0 | +0.2 | +7% | +7% |
| Depreciation & Amortization | 6.2 | 9.1 | +2.9 | +48% | +45% |
| Others | 9.0 | 9.9 | +0.9 | +9% | +8% |
| SG&A Expenses Total | 39.7 (31.9%) | 46.4 (33.3%) | +6.7 | +17% | +15% |
| R&D Expenses | 8.1 (6.5%) | 8.5 (6.1%) | +0.4 | +5% | +4% |
| Operating Expenses Total | 47.8 (38.4%) | 54.9 (39.4%) | +7.1 | +15% | +13% |

## Quarterly Results

(billion yen)

| | FY16 Q1 (Apr-Jun) | Q2 (Jul-Sep) | Q3 (Oct-Dec) | Q4 (Jan-Mar) | FY17 Q1 (Apr-Jun) |
|---|---|---|---|---|---|
| Net Sales | 124.5 | 120.6 | 129.3 | 139.8 | 139.3 |
| Gross Profit | 69.2 (55.6%) | 65.8 (54.6%) | 68.7 (53.2%) | 74.3 (53.2%) | 78.3 (56.2%) |
| SG&A Expenses | 39.7 (31.9%) | 39.6 (32.9%) | 41.0 (31.7%) | 47.4 (34.0%) | 46.4 (33.3%) |
| R&D Expenses | 8.1 (6.5%) | 8.2 (6.8%) | 8.2 (6.4%) | 9.2 (6.6%) | 8.5 (6.1%) |
| Operating Income | 21.4 (17.2%) | 18.0 (14.9%) | 19.5 (15.1%) | 17.7 (12.6%) | 23.4 (16.8%) |
| (Excl. Amortization) | 25.9 (20.8%) | 22.6 (18.8%) | 24.5 (19.0%) | 24.2 (17.4%) | 30.6 (22.0%) |

| Average Exchange Rate | | | | | | |
|---|---|---|---|---|---|---|
| | USD | 108 yen | 102 yen | 109 yen | 114 yen | 111 yen |
| | EUR | 122 yen | 114 yen | 118 yen | 121 yen | 122 yen |

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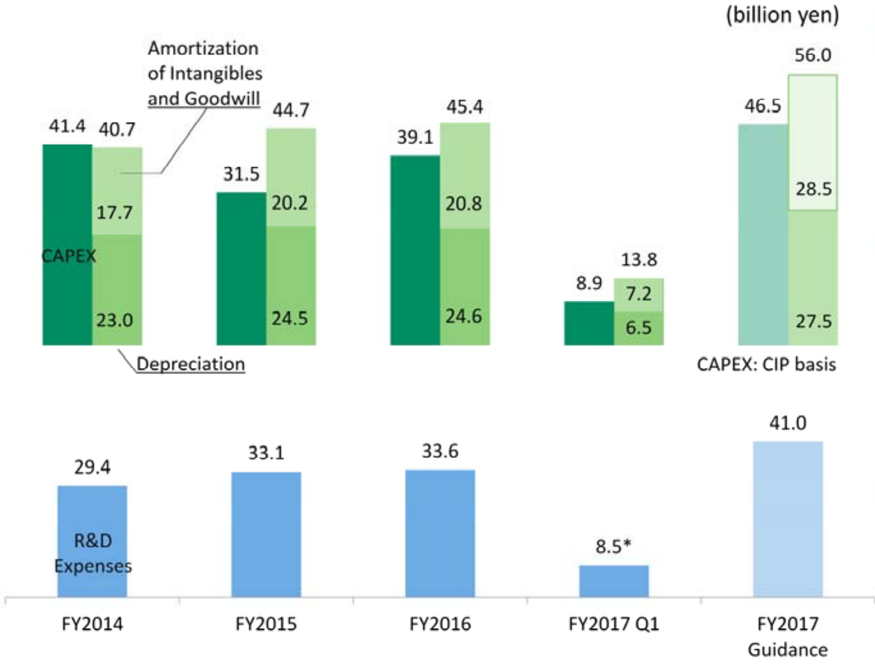
# CAPEX and R&D Expenses




- Expand investment in production capacity and space as well as IT infrastructure in FY17
- Amortization of intangibles and goodwill are projected to increase due to M&As made in FY16
- Further promote US-based R&D activities for TIS and neurovascular

*Investment into venture technologies was booked in other than R&D expenses. (0.7 BJPY)

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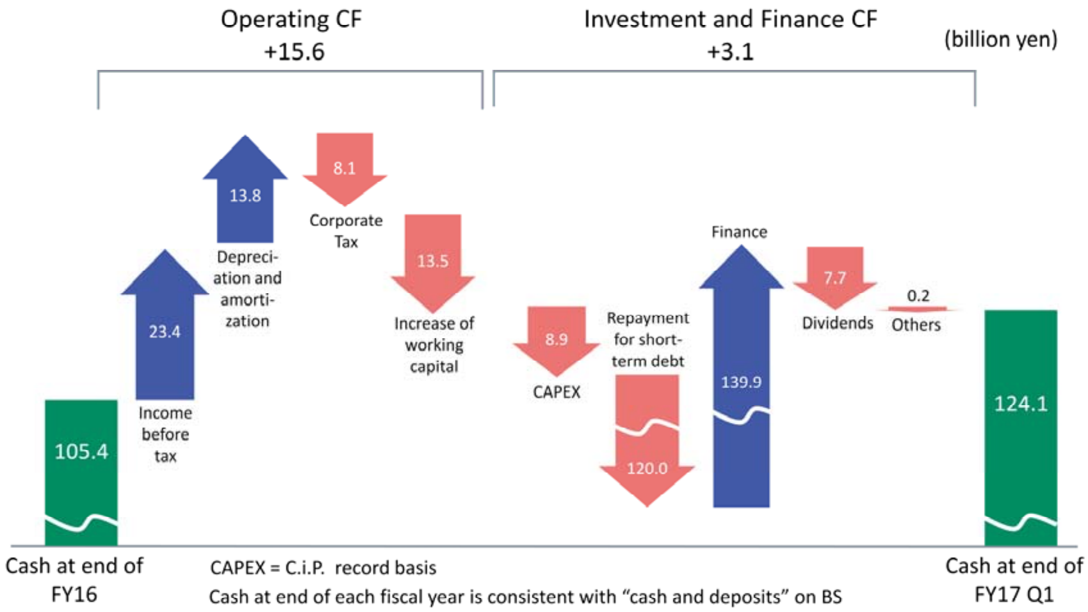
# Cash Flow




CAPEX = C.i.P. record basis

Cash at end of each fiscal year is consistent with “cash and deposits” on BS

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# FY17 Foreign Exchange Sensitivity

(billion yen)

| | USD | | EUR | CNY |
|---|---|---|---|---|
| | Excl. Amortization | Incl. Amortization | | |
| Net Sales | 1.6 | 1.6 | 0.8 | 1.8 |
| Operating Income | 0.0 | -0.2 | 0.5 | 0.9 |

<Reference> Impact of +/-10% fluctuation

| | North America | Latin America | EMEA | | Asia | |
|---|---|---|---|---|---|---|
| | | | EUR | Others | CNY | Others |
| Operating Income | -1.8 | 0.8 | 5.6 | 1.0 | 1.4 | 3.3 |

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## (Reference) IFRS Basis

- Adopting International Financial Reporting Standards (IFRS) from the year-end financial announcement for FY17
- Schedule for disclosure

  FY17 Q1-Q3 : Japanese GAAP

  FY17 year-end financial announcement : IFRS

| (billion yen) | Japanese GAAP FY17 Q1 | Reference IFRS FY17 Q1 | Impact |
|---|---|---|---|
| Net Sales | 139.3 | 139.3 | - |
| Operating Income (%) | 23.4 (16.8%) | 28.6 (20.5%) | +5.2 |
| Adjusted Operating Income (%) | 30.6 (22.0%) | 31.7 (22.8%) | +1.1 |
| Net Income | 16.3 | 20.6 | +4.3 |

## *IR Contact*

Terumo Corporation

Corporate Communication (IR) Dept.

E-mail: kouhou_terumo01@terumo.co.jp