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

Terumo Corporation

Managing Executive Officer,

Investor Relations, Corporate Communication Dept.

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November 9, 2017

I will now explain the Terumo first-half earnings results for the period ending March 31, 2018.

On October 19th, we revised our earnings outlook, and our first-half numbers do not differ greatly from the numbers we announced then. Some numbers improved slightly, but there were no big changes.

Due to strong first-half earnings, we issued a release today announcing an increased dividend. We had planned on issuing dividends of 22 yen each in the first and second halves of the year for an annual total of 44 yen per share. Now we have increased the first-half dividend by one yen, to 23 yen. We also expect to increase the second-half dividend by one yen, to 23 yen, for an annual total of 46 yen.

Achieved Highest-ever Sales and Profits

(billion yen)

	1H FY16	1H FY17	YoY%	YoY% (FXN)
Net Sales	245.1	284.6	+16%	+12%
Gross Profit	135.0 (55.1%)	159.7 (56.1%)	+18%	+15%
SG&A expenses	79.3 (32.4%)	93.8 (33.0%)	+18%	+14%
R&D Expenses	16.3 (6.6%)	18.0 (6.3%)	+11%	+8%
Operating Income	39.4 (16.1%)	47.9 (16.8%)	+22%	+20%
(Excl. Amortization)	48.6 (19.8%)	62.4 (21.9%)	+28%	+26%
Ordinary Income	30.6 (12.5%)	47.0 (16.5%)	+53%	
Net Income	20.4 (8.3%)	33.0 (11.6%)	+61%	

Average Exchange Rate	1H FY16	1H FY17
USD	105 yen	111 yen
EUR	118 yen	126 yen

- Sales: Achieved double digit growth even with FXN, driven mainly by Cardiac and Vascular Company
- Operating income: Three companies made a double digit growth and achieved highest profit for three consecutive periods
- Ordinary income: Posted FX gain of 0.4 BJPY in 1H FY17, while posted FX loss of 6.6 BJPY in 1H FY16

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I will now explain the earnings results for the first half.

Now, some main points from this announcement:

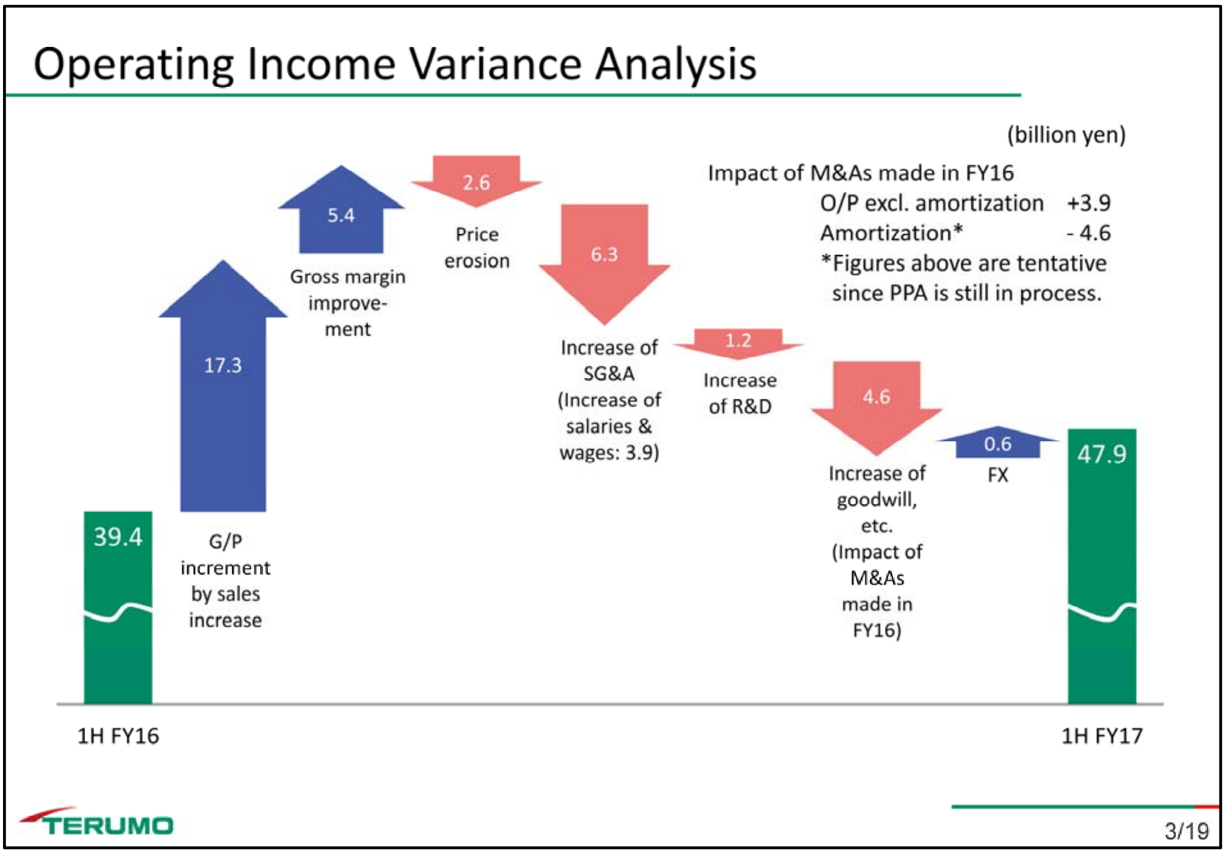
In all sales and income areas we achieved our highest-ever numbers.

In sales, the Cardiac & Vascular Company did well, with all four of its businesses achieving double-digit sales growth, leading to robust 30% growth of the company’s combined sales year-on-year. This drove group-wide sales growth of 16%. When excluding acquisitions, the growth rate was still a strong 9%.

In operating income, each of the three companies posted year-on-year growth of over 20%, with overall group operating income growing 22%.

In operating income, the amount was a highest-ever 39.1 billion yen in the first half of FY15, then 39.4 billion yen in the first half of FY16; this year the first half operating income was 47.9 billion yen; therefore, first-half operating income has now been the highest-ever for three straight fiscal years.

Strong operating income combined with no FX losses to grow net income 61%, for a result of 33 billion yen. All incomes increased another 1 billion yen respectively above the numbers we announced along with the recent forecast revision.

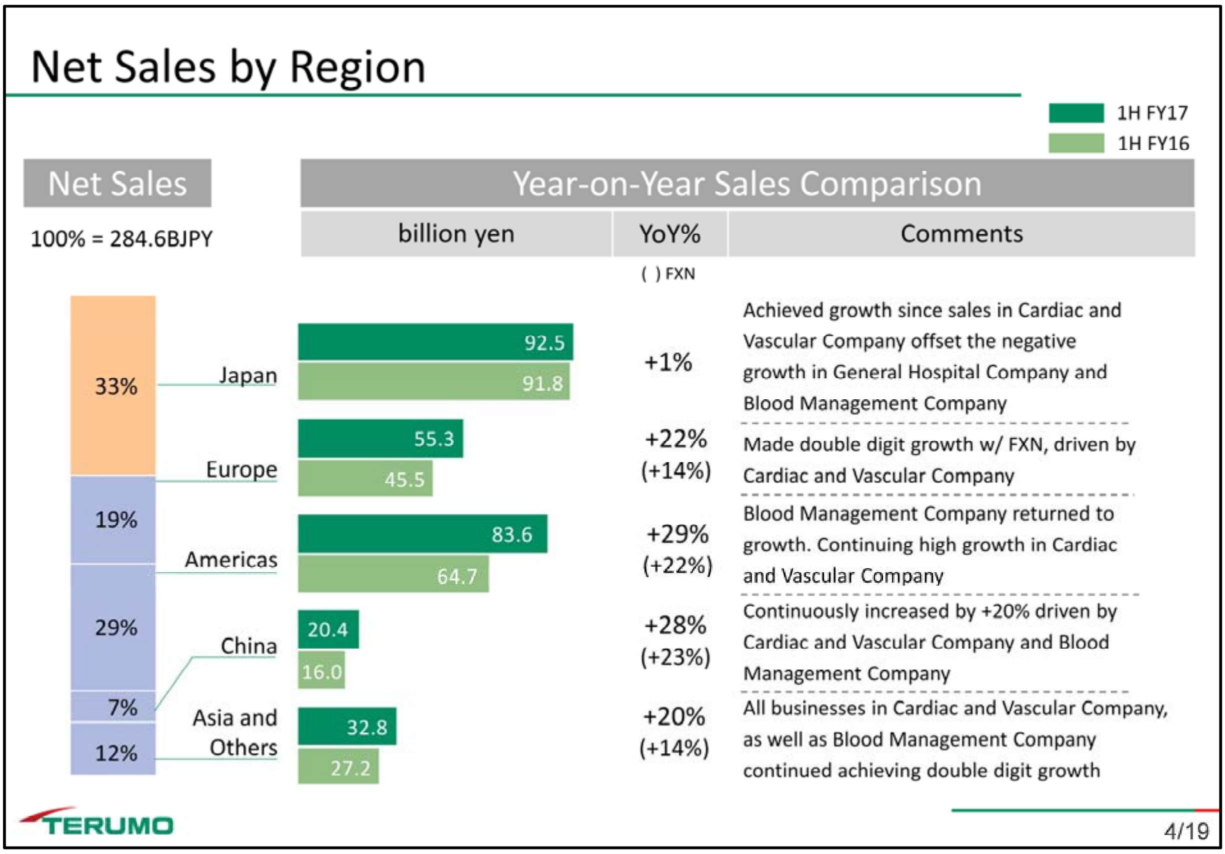


Here is the operating income variance analysis.

As you can see, sales growth was the biggest factor driving increased gross profit, which led to higher operating income. The contribution of gross margin improvement was 5.4 billion yen; when breaking this amount down, we see existing business portfolio improvement accounting for 1.4 billion yen, and businesses acquired last fiscal year accounting for a gross margin improvement of 2 billion yen. Those were the two main pieces of the total 5.4 billion yen.

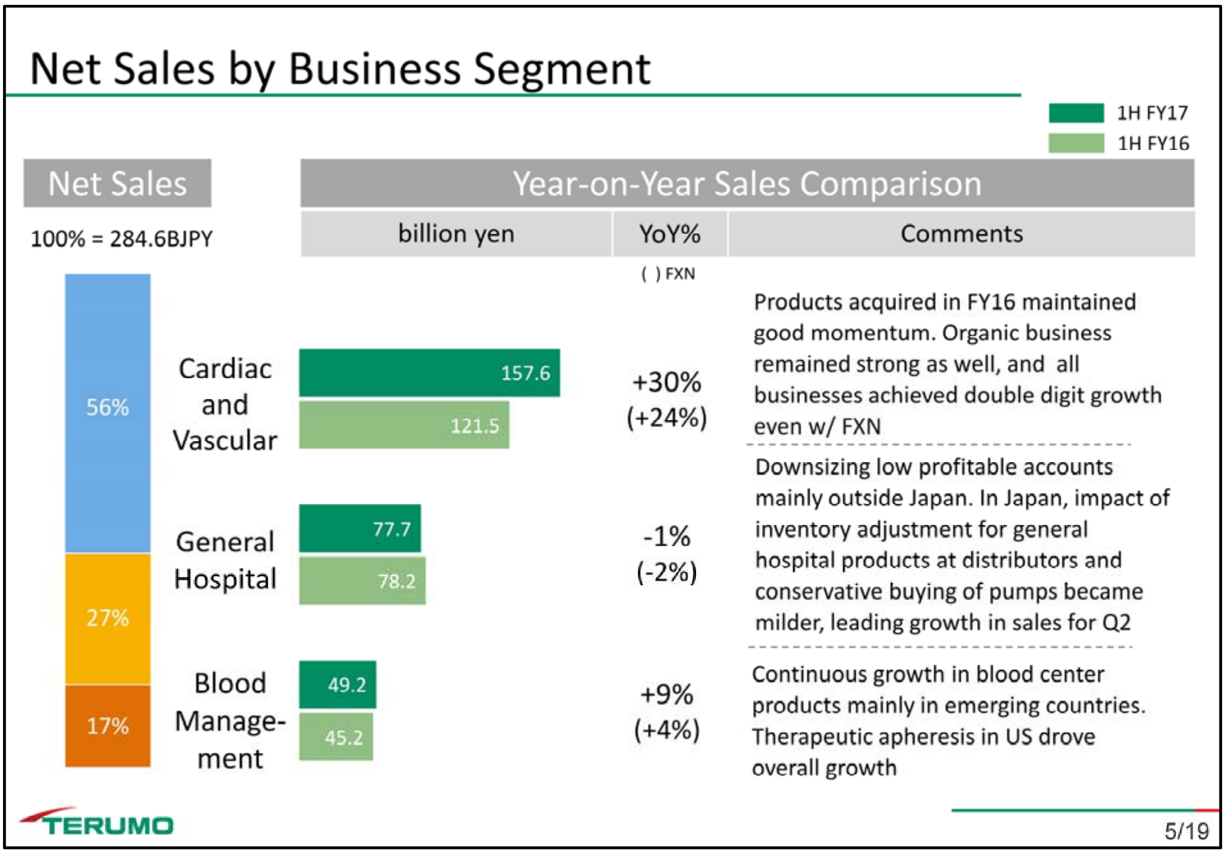
Price erosion, investment in SG&A, R&D, and goodwill followed the same trend we saw in the first quarter, with little variance.

In the first quarter, there was a negative FX impact of 1.5 billion yen; however, the first half has ended with a positive FX impact of 0.6 billion yen.



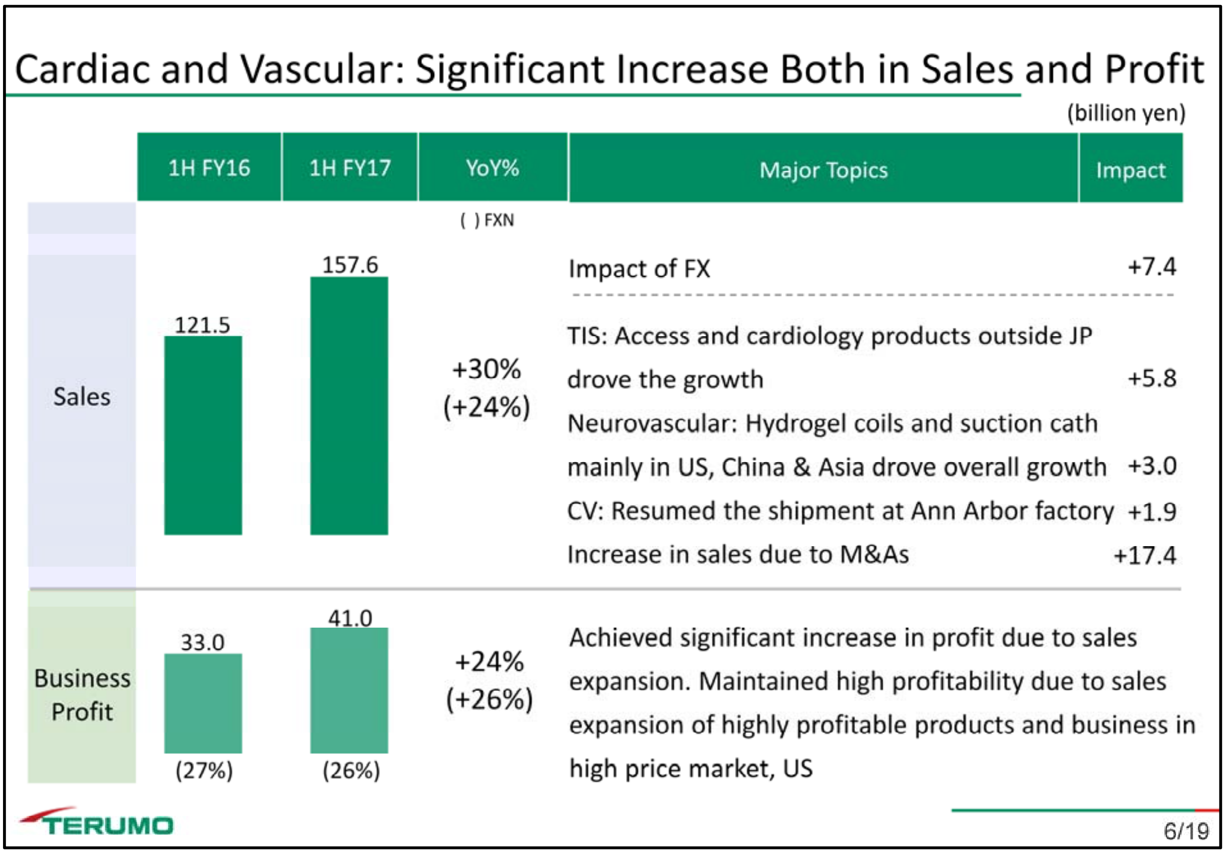
The next slide shows sales by region. In Japan, sales grew 1% year-on-year in the first half. The first quarter saw a decrease of 1%, but then grew in the second quarter to bring the first half positive at 1%.

Outside Japan, year-on-year sales growth exceeded 20% in all regions, continuing the first-quarter trend. Growth centered in Cardiac & Vascular, which grew 35% outside Japan. Blood Management also had double-digit growth outside Japan.



Next is sales by business segment.

Just as in the first quarter, the Cardiac & Vascular and Blood Management companies sales grew, while General Hospital Company saw decreased sales. However, the rate at which the Cardiac & Vascular and Blood Management companies grew at a higher percentage in the first half compared to the first quarter, while the General Hospital Company grew its sales in the second quarter after a 4% decrease in the first quarter, thereby reducing the amount of negative sales growth to 1% for the first half.



I will now give more explanation of business segment results.

As I mentioned, all four businesses of the Cardiac & Vascular Company grew sales in the double-digits. First, in the TIS business, our newly acquired Vascular Closure Device performed very well. The sales of the acquired business were far above plan, and existing businesses also maintained good results. Even alone, the existing business saw double-digit growth. Then when combined with the acquired business, growth was extremely strong.

As the slide indicates, existing business grew sales by 5.8 billion yen.

One other point is that the neurovascular business grew the most in the first half of any of the four businesses of Cardiac & Vascular company. Even when excluding acquired businesses, the neurovascular business grew 37% year-on-year. Among the two segments within neurovascular, the coil products of the aneurysm business had struggled to grow in the last fiscal year, but the favorable results of clinical study on hydrogel coils contributed to significant growth. In addition, the non-coil segment including stents and suction catheter also grew well, contributing to the overall 37% organic growth of neurovascular.

In CV, the consent decree was completely lifted to allow shipment of products from the Ann Arbor Plant. This has had a positive effect on the blood-monitoring business. Going into the second half, heart-lung machine shipments will also resume, resulting in further improvement.

Business profit grew strongly, continuing the trend of improved business profitability at 26%. As a result, the amount of business profit increased a robust 24%.

General Hospital: Significant Profitability Improvement

(billion yen)

	1H FY16	1H FY17	YoY% ( ) FXN	Major Topics	Impact
Sales	78.2	77.7	-1% (-2%)	Impact of FX	+1.0
				General hospital products: Downsizing low profit businesses outside Japan (Pumps in Japan showed signs of modest recovery)	-0.8
				Healthcare: Downsizing accounts both inside and outside Japan	-0.4
Business Profit	11.2 (14%)	13.5 (17%)	+20% (+19%)	Downsized low profit businesses outside Japan. In Japan, sales expansion and cost reduction of infusion line and pain management products, as well as R&D reimbursement from pharma partner (Alliance) earlier than planned, contributed to increase in profit	

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In General Hospital, I mentioned earlier that growth was negative in the first quarter; however, the second quarter saw positive growth, so while the first half ended up negative overall, the decrease was softened.

The major negative impacts were the ending of certain businesses, which we announced in the first quarter, and downsizing of accounts inside and outside Japan in Healthcare. In addition, there had been a small downturn in first-quarter sales due to distributor inventory buildup at the end of the previous fiscal year, but sales recovered in the second quarter.

These factors combined to result in negative sales growth of 1% in the General Hospital Company for the first half.

Business profit grew 20%; a significant improvement. Also, the first half saw business profitability of 17%; the number was 15% in the first quarter and 19% in the second quarter, improving greatly.

Of course a portion of this second-quarter improvement is due to the ongoing efforts to improve gross profitability, but in addition, there were expenses that did not occur in that quarter as expected. R&D expenses were also less than plan because sample products sales for consigned development activities in the Alliance Business occurred sooner than expected, reducing the amount for the second quarter. Therefore, the General Hospital company business profitability improvement in the second quarter resulted in a very good direction and numbers, but it is important to note that they will not continue at the same pace going forward. Gross profitability is steadily improving on an ongoing basis, though, with the downsizing of low-profit businesses overseas and increased sales of high-value-added pumps and related systems.

Blood Management: Continuous Trend in Sales Growth and Profitability Improvement

(billion yen)

	1H FY16	1H FY17	YoY% ( ) FXN	Major Topics	Impact
Sales	45.2	49.2	+9% (+4%)	Impact of FX (strong dollar and weak Euro)	+2.4
				Blood center business: Made double digit growth in emerging markets	+0.5
				Therapeutic apheresis and cell processing achieved growth mainly outside Japan	+1.1
Business Profit	6.5 (14%)	7.8 (16%)	+20% (+25%)	The increase in volume of blood center products mainly in emerging markets. Achieved growth in profit due to the sales expansion of highly profitable therapeutic apheresis products in US	

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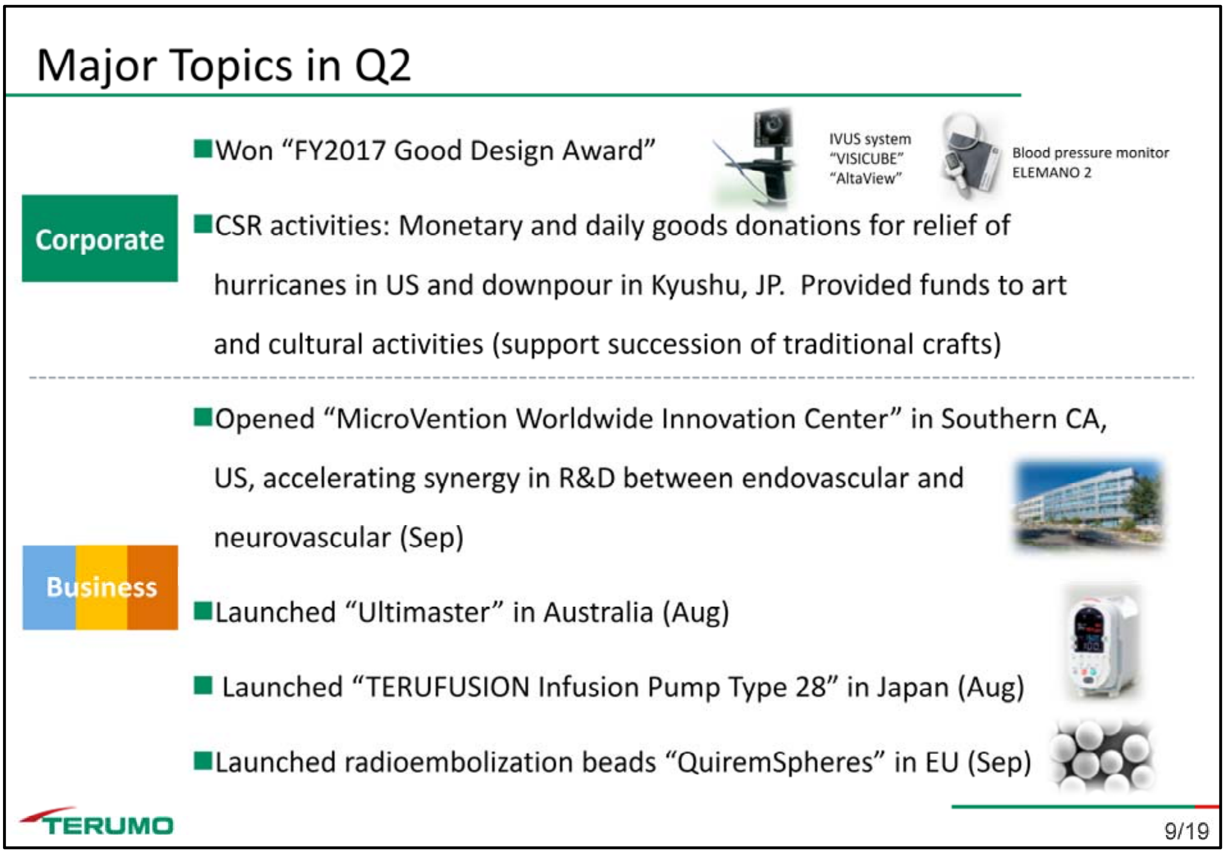
In Blood Management, sales and business profit continue to steadily recover.

As we have mentioned previously, fiscal year 2016 was a bottoming-out period for the Blood Management Company, when American blood center product prices dropped as planned. However, at the same time the profitable businesses of blood centers in emerging markets, therapeutic apheresis, and cell processing are driving strong sales growth, which is contributing to expansion of business profit.



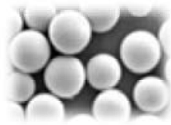
Since time is short, I will skip over the major topics slide.

New Products Pipeline in FY17

Category	Products		Region
Coronary	PTCA balloon		US: Q4
Peripheral	Stent (TRI)	★	JP, US & EU: Q4
	PTA balloon (TRI)	★	JP, US & EU:Q4
	PTA guiding sheath (TRI)	★	JP, US & EU: Q4
	Drug coated balloon	◎ ★	EU: Q4
	Embolization coil	◎	Launched
Neuro	Distal protection device		Launched
	Hydrogel coil 3D		Launched
Oncology	Radioembolization beads (Quirem)	★	Launched

Category	Products		Region
CV	Heart-lung machine (Re-launch)	◎	Launched
	Next generation of oxygenator	◎	JP&EU: FY18
General Hospital Products	Vertical infusion pump		JP: Launched
	Needleless infusion system for Anti-cancer drugs		Launched
DM	Insulin patch pump	★	JP
Blood Management	New software for automated blood collection system		JP: Launched


Vertical infusion pump "TERUFUSION Infusion Pump Type 28" JP


Redioembolization beads "QuiremSpheres" EU


New software for automated blood collection system "Trima Accel Version 7" JP

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

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Regarding the FY17 product pipeline, development is currently progressing as planned.

This concludes my explanation.

Thank you very much.

Reference

1H FY17 Net Sales and Growth by Region

(billion yen)

Business Segment	Japan	Outside of Japan					G. Total
		Subtotal	Europe	Americas	China	Asia	
Cardiac and Vascular	26.4 (+8%)	131.2 (+28%)	39.6 (+23%)	58.7 (+32%)	16.7 (+25%)	16.1 (+28%)	157.6 (+24%)
Out of C&V Interventional Systems*	20.2 (+7%)	106.4 (+29%)	31.8 (+21%)	45.6 (+38%)	15.6 (+24%)	13.5 (+29%)	126.5 (+25%)
General Hospital	60.7 (-1%)	17.1 (-4%)	3.9 (-5%)	3.6 (-7%)	1.0 (+6%)	8.4 (-3%)	77.7 (-2%)
Blood Manage-ment	5.4 (-6%)	43.8 (+5%)	11.7 (-1%)	21.2 (+6%)	2.6 (+17%)	8.2 (+9%)	49.2 (+4%)
G. Total	92.5 (+1%)	192.1 (+18%)	55.3 (+14%)	83.6 (+22%)	20.4 (+23%)	32.8 (+14%)	284.6 (+12%)

*Including Neurovascular business

(YoY%): FXN

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Operating Expenses

(billion yen)

	1H FY16	1H FY17	YoY	YoY%	YoY% (FXN)
Salaries & Wages	35.8	41.4	+5.6	+16%	+11%
Sales Promotion	7.5	8.0	+0.5	+7%	+3%
Logistical Costs	5.5	6.1	+0.6	+11%	+9%
Depreciation & Amortization	12.3	18.4	+6.1	+50%	+43%
Others	18.2	19.9	+1.7	+9%	+6%
SG&A Expenses Total	79.3 (32.4%)	93.8 (33.0%)	+14.5	+18%	+14%
R&D Expenses	16.3 (6.6%)	18.0 (6.3%)	+1.7	+11%	+8%
Operating Expenses Total	95.6 (39.0%)	111.8 (39.3%)	+16.2	+17%	+13%

Quarterly Results

(billion yen)

	FY16 Q2 (Jul-Sep)	Q3 (Oct-Dec)	Q4 (Jan-Mar)	FY17 Q1 (Apr-Jun)	Q2 (Jul-Sep)
Net Sales	120.6	129.3	139.8	139.3	145.3
Gross Profit	65.8 (54.6%)	68.7 (53.2%)	74.3 (53.2%)	78.3 (56.2%)	81.4 (56.1%)
SG&A Expenses	39.6 (32.9%)	41.0 (31.7%)	47.4 (34.0%)	46.4 (33.3%)	47.3 (32.6%)
R&D Expenses	8.2 (6.8%)	8.2 (6.4%)	9.2 (6.6%)	8.5 (6.1%)	9.6 (6.6%)
Operating Income	18.0 (14.9%)	19.5 (15.1%)	17.7 (12.6%)	23.4 (16.8%)	24.5 (16.9%)
(Excl. Amortization)	22.6 (18.8%)	24.5 (19.0%)	24.2 (17.4%)	30.6 (22.0%)	31.8 (21.9%)

Average Exchange Rate						
	USD	102 yen	109 yen	114 yen	111 yen	111 yen
	EUR	114 yen	118 yen	121 yen	122 yen	130 yen

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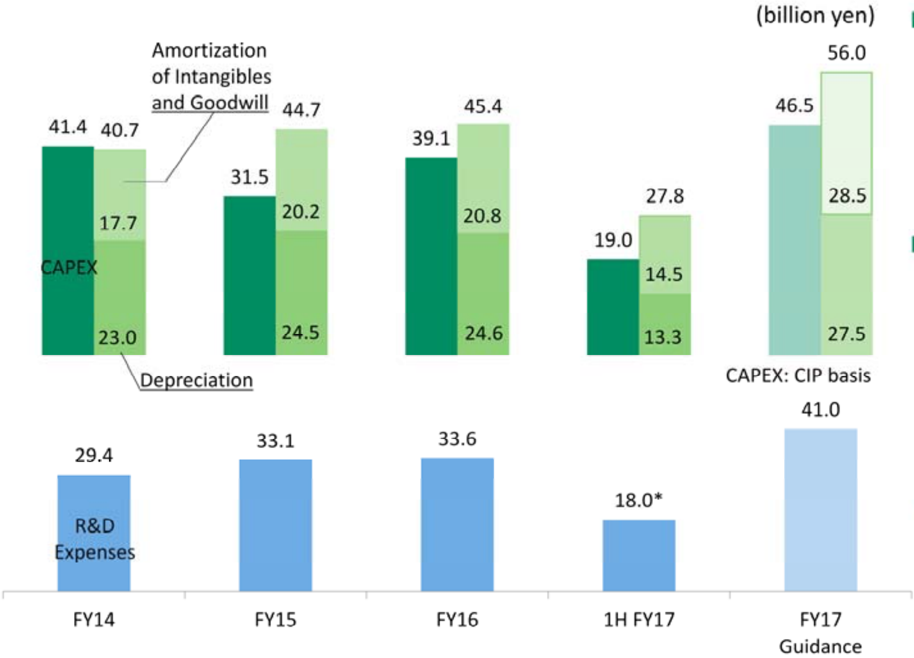
CAPEX and R&D Expenses



- 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. (1.5 BJPY)

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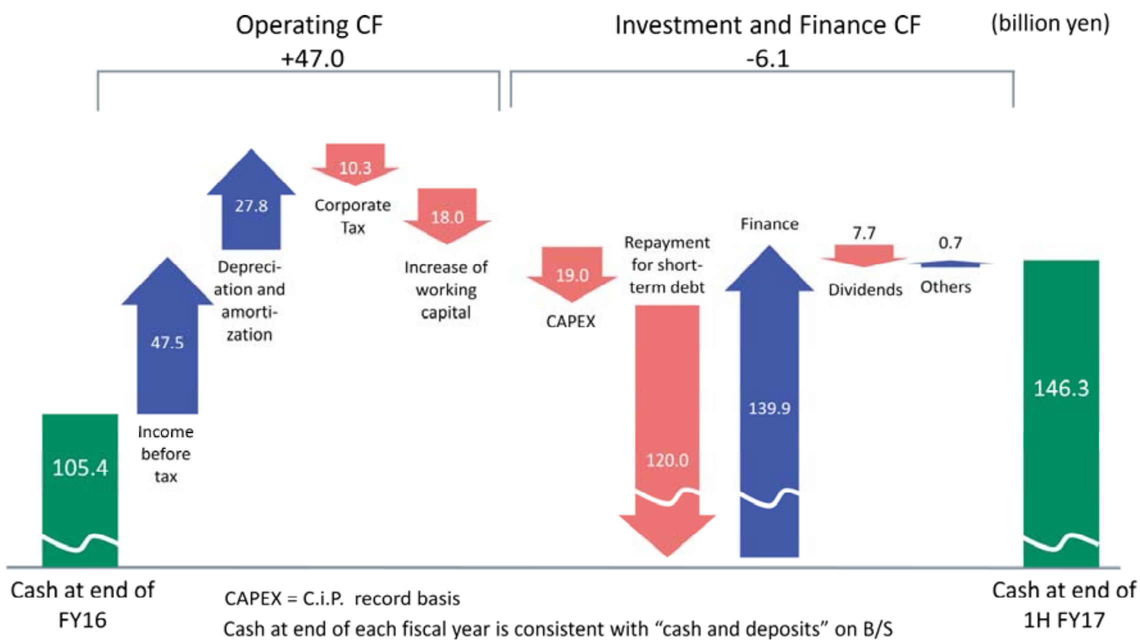
Cash Flow



CAPEX = C.i.P. record basis
Cash at end of each fiscal year is consistent with “cash and deposits” on B/S

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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 1H FY17	Reference IFRS 1H FY17	Impact
Net Sales	284.6	284.6	-
Operating Income (%)	47.9 (16.8%)	57.5 (20.2%)	+9.6
Adjusted Operating Income (%)	62.4 (21.9%)	64.7 (22.7%)	+2.3
Net Income	33.0	41.1	+8.1

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Among the information that Terumo discloses, the forward-looking statements including financial projections are based upon our assumptions using information available to us at the time and are not intended to be guarantees of future events or performance. Accordingly, it should be noted that actual results may differ from those forecasts on projections due to various factors. Factors affecting to actual results include, but are not limited to, changes in economic conditions surrounding Terumo, fluctuations of foreign exchange rates, and state of competition.

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