Financial Results for the First Quarter of Fiscal Year Ending March 31, 2020 (FY2019)

Terumo Corporation
Chief Accounting and Financial Officer
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Starting this quarter, I, Muto, will explain our results overview.

Profit Above the Guidance with Double Digit Growth

(billion JPY)

	FY18 Q1	FY19 Q1	YoY%	YoY% (FXN)
Revenue	143.0	152.5	+7%	+9%
Gross Profit	79.9 (55.8%)	85.2 (55.8%)	+7%	+9%
SG&A Expenses	43.5 (30.4%)	44.5 (29.2%)	+2%	+4%
R&D Expenses	11.3 (7.9%)	11.8 (7.8%)	+5%	+4%
Other Income and Expenses	0.8	0.4	-	-
Operating Profit	25.9 (18.1%)	29.2 (19.1%)	+13%	+17%
Adjusted Operating Profit	30.5 (21.4%)	33.9 (22.3%)	+11%	+18%
Profit before Tax	23.4 (16.4%)	28.8 (18.9%)	+23%	
Profit for the Year	18.1 (12.6%)	22.8 (14.9%)	+26%	

Average Exchange Rates		FY18 Q1	FY19 Q1
	USD	109 JPY	110 JPY
	EUR	130 JPY	123 JPY

- Revenue : Cardiac and Vascular Company returned to double digit growth driving overall growth
- Adjusted operating profit : Slightly behind the plan in expenses especially in SG&A
- Profit before tax : FX loss decreased from 2.3 B JPY in FY18 Q1 to 0.3 B JPY in FY19 Q1

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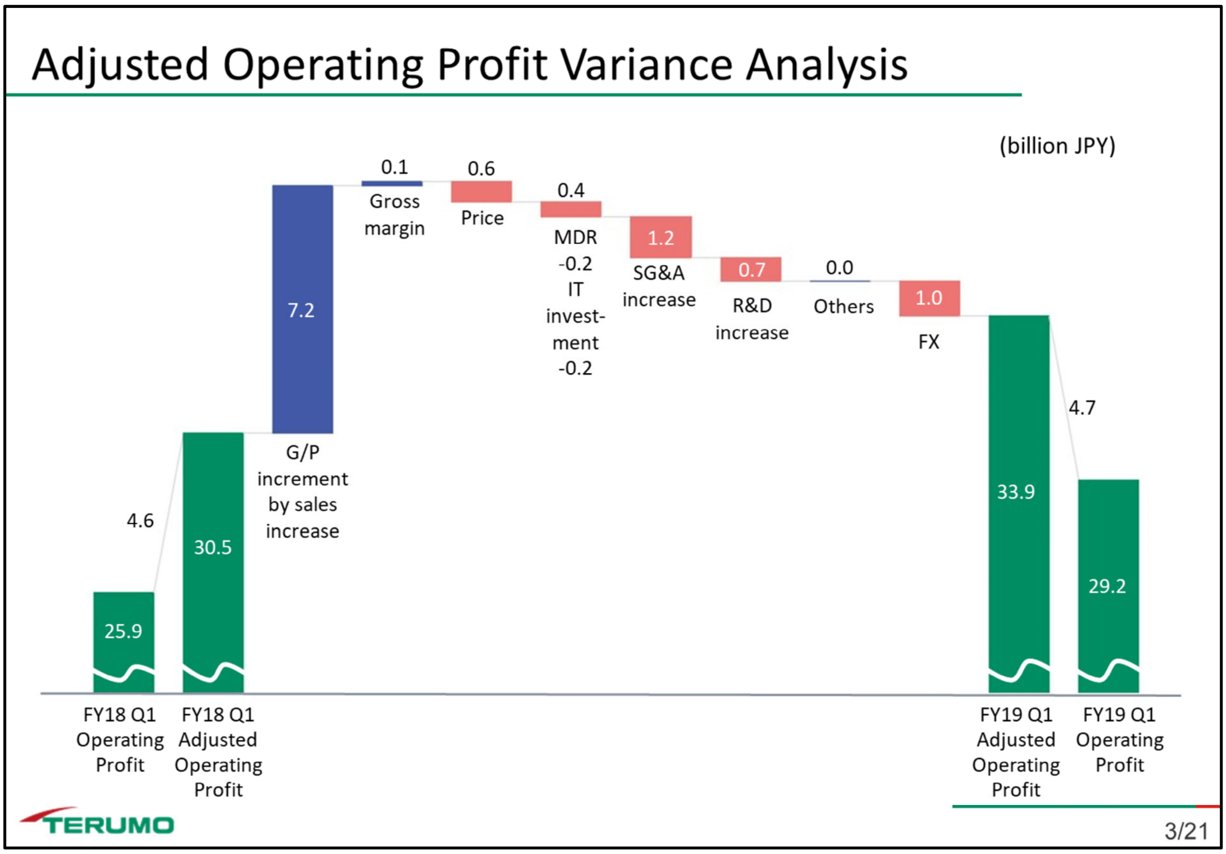
2/21

First, the overall results. In addition to the Cardiac and Vascular Company starting out strong, spending progress was slightly delayed, resulting in a start to the fiscal year in which profit grew in double digits to exceed guidance.

In revenue, even when excluding the recovery from last year's shipping delay, Cardiac and Vascular company showed double-digit growth before FX impact, driving overall group growth to 7%.

Due to slight delays in the progress of spending on SG&A, especially salaries & wages, adjusted operating profit grew 11%, despite some FX impact, for double-digit growth.

Profit before taxes grew 26% year-on-year, due to far less FX loss than the same period of the previous fiscal year.



This is the variance analysis of adjusted operating profit, compared to the previous fiscal year. The gross profit increment by sales increase may appear small compared to guidance of 33 billion yen for the entire year; however, that is the result of there being some impact in the previous fiscal year from the Ashitaka Factory shipping delay. In the 2nd quarter of this fiscal year, we expect the gross profit increment to greatly increase and progress according to plan.

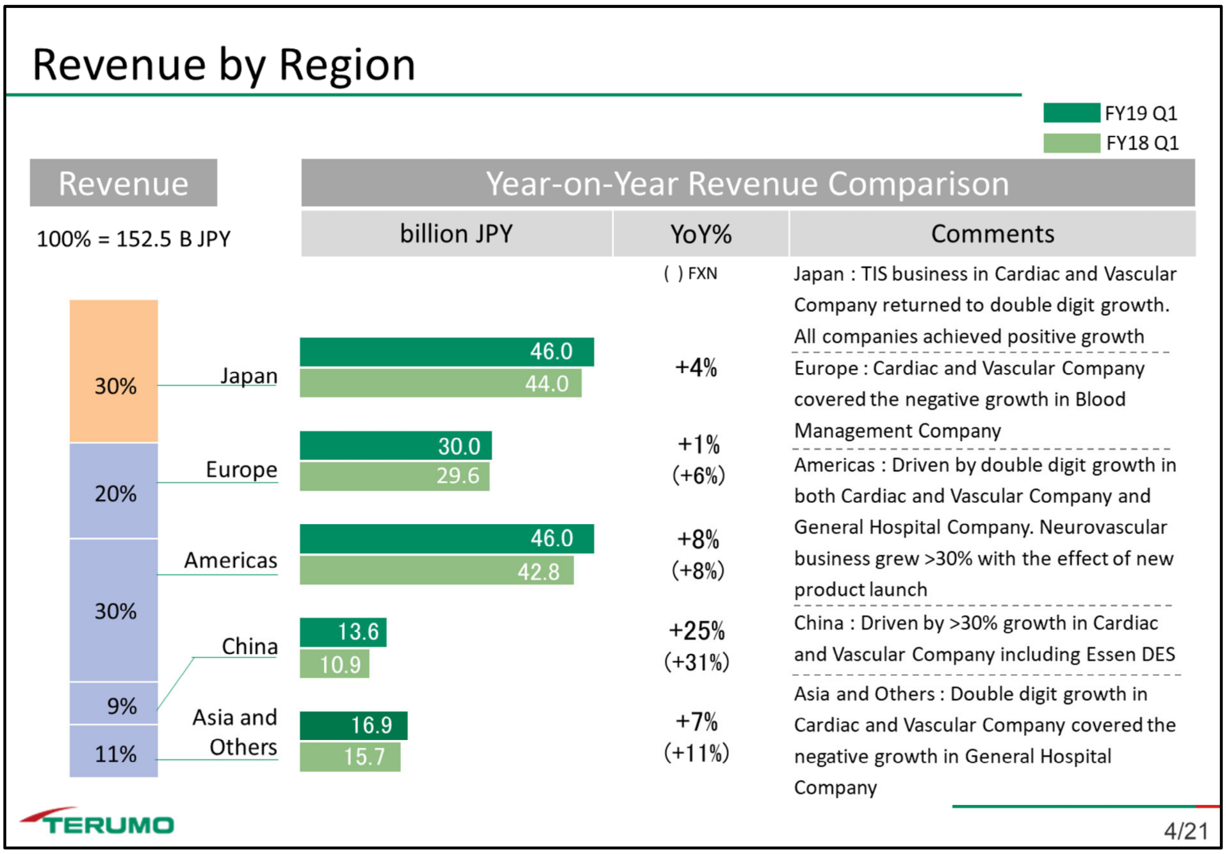
The 100 million yen amount of Gross Margin might appear similarly low in light of the 4.8 billion annual guidance, but this too is on schedule. It reflects the production cost increase that came with bringing new production online at the Yamaguchi Factory, which was offset by improved business mix, resulting in a similarly high gross profitability to the same quarter of the previous fiscal year.

Progress on "Price erosion" impact is delayed due to new price negotiations with some customers not being complete yet. However, price corrections compensating for this past portion will be reflected in the 2nd quarter and beyond, meaning the annual guidance remains on schedule.

"SG&A increase" includes some planned promotional expenses that did not occur in this fiscal year; from the 2nd quarter onward this will catch up to plan, getting closer to the annual guidance of 12.5 billion yen.

"R&D increase" appears small compared to the annual guidance of 5.7 billion yen; this is actually on schedule with our plan to gradually increase this throughout the year.

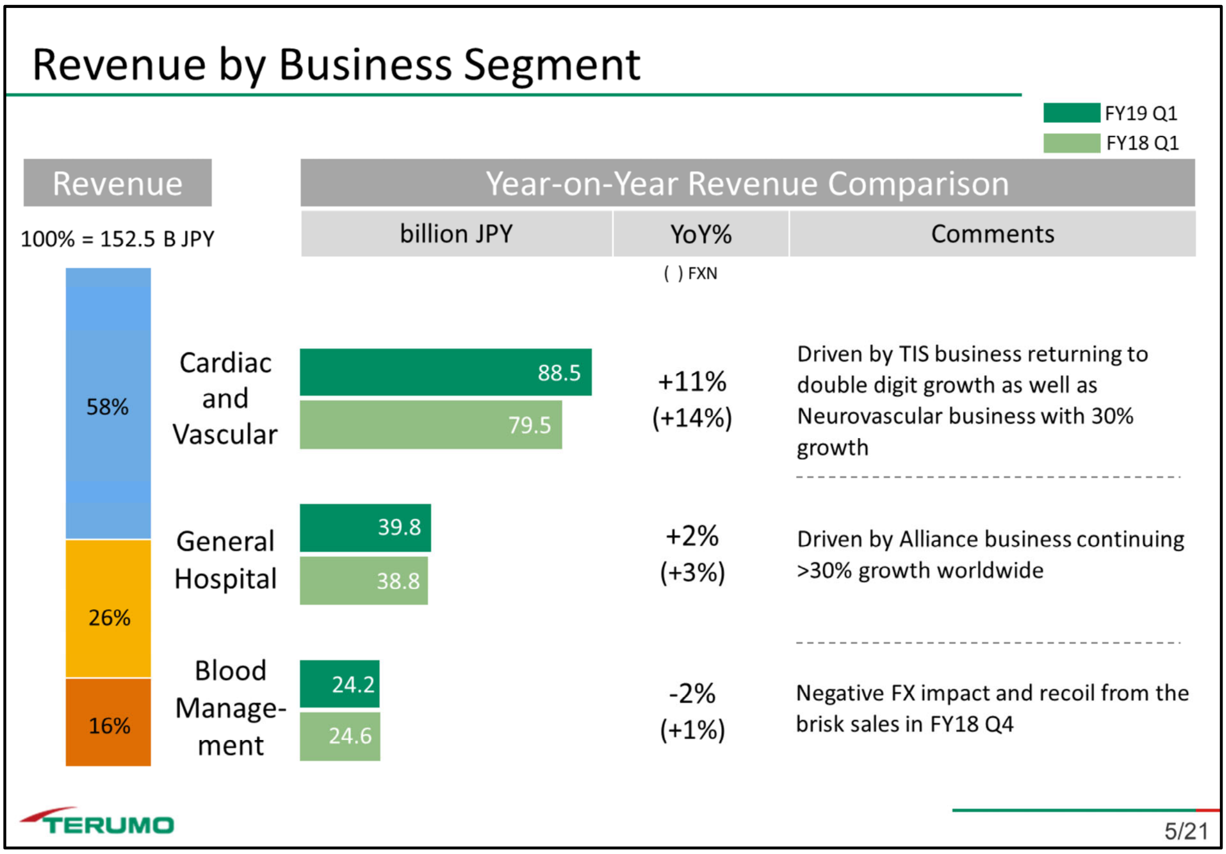
Regarding FX, the overall impact was more or less in line with the annual guidance.



Next is revenue by region.

In Japan, the TIS business returned to double-digit growth, and all companies showed positive growth.

Outside Japan, all regions were driven by the Cardiac & Vascular company. In China especially, the shipping delays had already begun to affect revenue during the 1st quarter last fiscal year; in addition to the recovery from that, the DES business of Essen Technology was added this fiscal year, for total positive year-on-year growth of 25%.



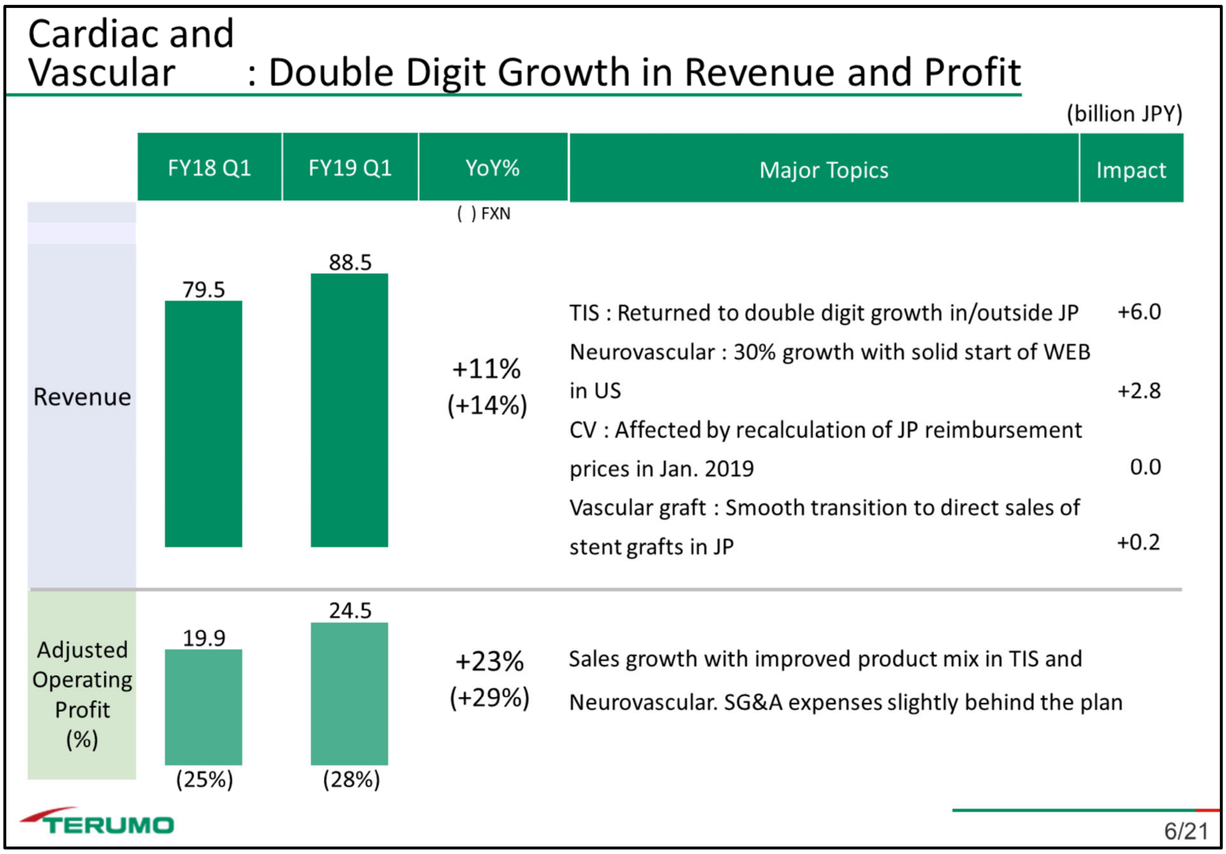
Next is revenue by company.

In Cardiac & Vascular, the primary drivers were recovery in the TIS business, and neurovascular growth that exceeded 30%.

In General Hospital, the Alliance Business continued to grow at over 30%, and overall the company performed well.

Blood Management started out negatively year-on-year due to strong FX impacts and some expected revenue happening at the end of the last fiscal year instead of this 1st quarter, primarily in the US and Europe.

I will give more detail by company in the next slides.



First, Cardiac & Vascular Company.

Revenue was affected negatively by FX, but still grew 11%.

TIS showed double-digit growth both inside and outside Japan, driven by strong growth of both access and therapeutic devices even without the recovery from last fiscal year's shipping delay.

Neurovascular, in addition to seeing a strong launch of the WEB product in the United States, grew its Sofia aspiration catheter well, leading to overall revenue growth of 30%.

In profit, the increase in sales of high-profitability TIS and neurovascular products and improved product mix both contributed to a strong result. With delays in the progress of spending promotion and salaries & wages also having an impact, profit grew 23% year-on-year. In the 2nd quarter and beyond, this spending will catch up. Also, an October reimbursement price revision will have impact, so we expect our annual results to trend back toward guidance.

General Hospital : A Start Largely in Line with the Guidance

(billion JPY)

	FY18 Q1	FY19 Q1	YoY% ( ) FXN	Major Topics	Impact
Revenue	38.8	39.8	+2% (+3%)	General hospital products : Impact of the financial challenge in Indonesian national health insurance	-0.3
				Pharmaceutical and nutrition : Solid growth in Pain management products & adhesion barrier covered negative growth in I.V. solutions	0.0
				DM Healthcare : Temporary sales drop before launching a new blood pressure monitor	-0.1
				Alliance : Good momentum in/outside JP. Continuing >30% growth	+1.3
Adjusted Operating Profit (%)	6.2 (16%)	5.2 (13%)	-16% (-15%)	YoY% affected by depreciation cost of Terumo Yamaguchi D&D due to production started in FY18. Increased expenses as planned in FY19 Q1	

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7/21

The General Hospital Company began this year approximately according to plan.

In revenue, there was a decrease in General Hospital products demand outside Japan. The Alliance business saw continued 30% growth both inside and outside Japan, and the company posted overall year-on-year growth of 2%.

In profit, as mentioned when we announced our guidance, depreciation of our Yamaguchi Factory in the Alliance Business began in the 1st quarter. Also, expenses were incurred that were expected in the 1st quarter, so profit is approximately on plan.

Blood Management : Revenue Slightly Behind the Plan, Profit as Planned

(billion JPY)

	FY18 Q1	FY19 Q1	YoY% ( ) FXN	Major Topics	Impact
Revenue	24.6	24.2	-2% (+1%)	Blood center products : Recoil from the brisk sales in FY18 Q4 mainly in overseas	-0.4
				Therapeutic apheresis : Recoil of replacement with the latest version of consoles in FY18 Q1	-0.1
				Cell processing : double digit growth in EU & Asia	+0.2
Adjusted Operating Profit (%)	3.4 (14%)	2.6 (11%)	-24% (-12%)	Huge negative impact of FX. Slightly ahead of the plan in R&D expenses, still a start as planned in general	

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Next is Blood Management.

Revenue saw a 1st quarter decrease due to some sales happening ahead of schedule at the end of last fiscal year, depressing April 2019 sales. In addition, there was negative FX impact; all told, revenue growth came out negative year-on-year.

Profit sustained heavy FX impact, and some R&D expenses happened earlier than expected, resulting in double-digit negative profit growth. However, this was approximately in line with our quarterly plan expectation.

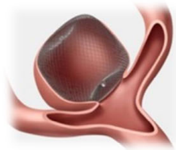
Major Topics in FY19 Q1

Corporate

- Pursued work style reform through introducing a staggered working hours and improving telework system (Apr)
- Established new group identity: newly instituted "Core Values" (Apr)
- Introduced restricted stock remuneration plan (Jun)

Business

- Launched a full-scale sales of intrasaccular aneurysm treatment device “WEB” in US (Apr)
- Launched stentriever “Tron FX” in Japan (Apr)
- Secured exclusive global rights to Orchestra BioMed's Virtue® Sirolimus-Eluting Balloon (Jun)



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Next, the major topics from the quarter.

Terumo instituted staggered working hours and improved teleworking system as part of its promotion of work style reform. We also strengthened our corporate identity and values system, while restructuring executive compensation, both measures toward stronger corporate governance.

In business, there was a lot of news related to accelerated deployment of therapeutic devices by the Cardiac and Vascular Company: The neurovascular product WEB launched in the United States, while stentriever Tron FX launched in Japan. The company also acquired exclusive sales rights for a drug-eluting balloon from the US company Orchestra Biomed.

New Products Pipeline in FY19

Category	Products	Region	Launch
Access	Closure device for distal radial approach	JP	
Coronary	PTCA balloon	EU, Asia	
Peripheral	Stent (TRI)	JP, US	
Neuro	Intrasaccular aneurysm treatment device (WEB)	US	Launched
	Distal access catheter (Sofia EX)	EU, US	
	Mini balloon	EU, US	
	Aspiration catheter	JP	
	Stentriever	JP	Launched
CV	Next generation of oxygenator	JP	
	Heart lung machine (re-launch)	JP	
Vascular graft	Large-bore vascular graft (Triplex Advanced)	JP	

Category	Products	Region	Launch
General hospital	Next generation of syringe pump	JP	
Pharma-ceutical	Narcotic analgesic for postoperative pain management (Fentanyl injection)	JP	
	Adhesion barrier (AdSpray mini)	JP	
DM and consumer healthcare	Continuous glucose monitoring system	JP	Launched
	Blood glucose monitoring system	JP	
	Insulin patch pump	JP	
	Next version of blood pressure monitor	JP	
	Next version of thermometer	JP	
Blood Manage-ment	Fill and finish system for cell therapy processing (FINIA)	Global	Launched

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This slide shows our new product pipeline for this fiscal year. Currently, product launches are on schedule.

Enhances Coronary Interventional Product Portfolio

Secured exclusive global rights to Orchestra BioMed's Virtue® Sirolimus-Eluting Balloon (released on June 13th)

- The first and only non-coated drug-eluting angioplasty balloon that delivers a proprietary bioabsorbable, sustained-release formulation of sirolimus, the gold standard drug for preventing restenosis following a percutaneous interventional procedure
- US FDA granted Virtue SEB Breakthrough Device Designation for treatment of coronary in-stent restenosis in Apr 2019
- A one-time, up-front payment of 30 million USD and an equity commitment of 5 million USD + milestone payments and royalties payment on sales
- Initiate a US registration trial within year 2020, and seek to make Virtue SEB the first drug-eluting balloon approved for coronary use in the US in the next few years. Globally expand the business later on

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As I mentioned, we acquired exclusive sales rights to the drug-eluting angioplasty balloon "Virtue" from a US company called Orchestra Biomed.

The product is the first and only non-coated drug-eluting angioplasty balloon that delivers a proprietary bioabsorbable, sustained-release formulation of sirolimus, the gold standard drug for drug-eluting stent.

The product has received "Breakthrough Device Designation" from the United States FDA. We plan to begin clinical trials in 2020 and initially launch in the US within a few years of that.

That concludes my explanation. Thank you.

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FY19 Q1 Revenue and Growth by Region

(billion JPY)

Business Segment	Japan	Overseas					Grand Total
		Subtotal	Europe	Americas	China	Asia	
Cardiac and Vascular	12.1 (+8%)	76.4 (+15%)	22.1 (+9%)	33.7 (+11%)	11.7 (+36%)	8.8 (+21%)	88.5 (+14%)
Out of C&V Interventional Systems*	9.2 (+9%)	63.2 (+17%)	18.0 (+10%)	26.7 (+14%)	11.1 (+37%)	7.4 (+21%)	72.4 (+16%)
General Hospital	31.2 (+3%)	8.5 (+1%)	2.2 (+8%)	1.9 (+12%)	0.6 (-1%)	3.9 (-6%)	39.8 (+3%)
Blood Manage-ment	2.5 (+2%)	21.7 (+1%)	5.8 (-2%)	10.4 (-1%)	1.3 (+9%)	4.2 (+9%)	24.2 (+1%)
Grand Total	46.0 (+4%)	106.6 (+10%)	30.0 (+6%)	46.0 (+8%)	13.6 (+31%)	16.9 (+11%)	152.5 (+9%)

*Including Neurovascular business

(YoY%): FXN

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Operating Expenses

(billion JPY)

	FY18 Q1	FY19 Q1	YoY	YoY%	YoY% (FXN)
Salaries & Wages	21.7	21.9	+0.2	+1%	+3%
Sales Promotion	4.5	4.9	+0.4	+9%	+11%
Logistical Costs	3.2	3.5	+0.2	+7%	+9%
Depreciation & Amortization	3.4	4.5*	+1.1	+32%	+33%
Others	10.7	9.7*	-1.0	-9%	-8%
SG&A Expenses Total	43.5 (30.4%)	44.5 (29.2%)	+1.0	+2%	+4%
R&D Expenses	11.3 (7.9%)	11.8 (7.8%)	+0.5	+5%	+4%
Operating Expenses Total	54.8 (38.3%)	56.4 (37.0%)	+1.6	+3%	+4%

*Reclassification between Depreciation & Amortization and Others due to IFRS 16 (Lease Accounting)

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Quarterly Results

(billion JPY)

	FY18 Q1 (Apr-Jun)	Q2 (Jul-Sep)	Q3 (Oct-Dec)	Q4 (Jan-Mar)	FY19 Q1 (Apr-Jun)
Revenue	143.0	142.0	158.6	155.9	152.5
Gross Profit	79.9 (55.8%)	74.7 (52.6%)	87.6 (55.2%)	84.3 (54.1%)	85.2 (55.8%)
SG&A Expenses	43.5 (30.4%)	43.5 (30.5%)	45.0 (28.4%)	46.7 (29.9%)	44.5 (29.2%)
R&D Expenses	11.3 (7.9%)	12.4 (8.8%)	12.3 (7.7%)	11.6 (7.5%)	11.8 (7.8%)
Other Income and Expenses	0.8	2.9	0.6	2.1	0.4
Operating Profit	25.9 (18.1%)	21.7 (15.3%)	30.9 (19.5%)	28.2 (18.1%)	29.2 (19.1%)
Adjusted Operating Profit	30.5 (21.4%)	24.8 (17.4%)	35.9 (22.6%)	30.9 (19.9%)	33.9 (22.3%)

Average Exchange Rates						
	USD	109 JPY	111 JPY	113 JPY	110 JPY	110 JPY
	EUR	130 JPY	130 JPY	129 JPY	125 JPY	123 JPY

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Adjusted Operating Profit : Adjustments

(billion JPY)

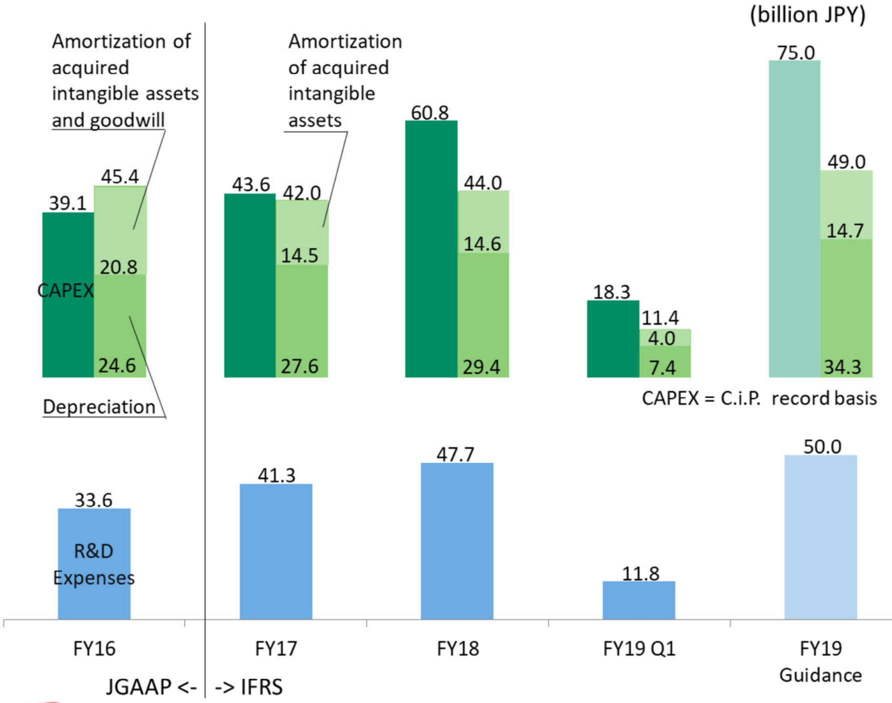
	FY18 Q1	FY19 Q1
Operating profit	25.9	29.2
Adjustment 1. Amortization of acquired intangible assets	+3.8	+4.0
Adjustment 2. Non-recurring profit or loss	+0.9	+0.8*
Adjusted operating profit	30.5	33.9

<General examples of adjustment items>

- Acquisition related cost
- Lawsuit settlement
- Impairment loss
- Restructuring loss
- Nonlife insurance income
- Loss on disaster
- Other one-time profits & losses

* FY19 Q1 main items in Adjustment 2. Non-recurring profit or loss	Amou-nt
Business reorganization cost	+0.3

CAPEX and R&D Expenses

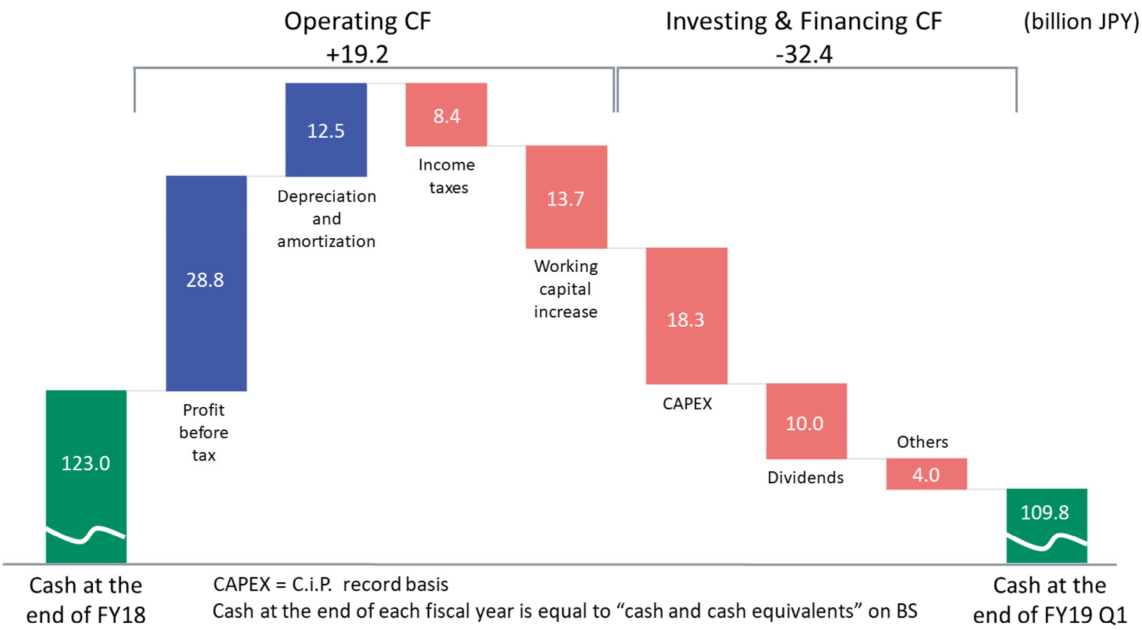


- Expand investment in production capacity and space as well as IT in FY19
- Under IFRS since FY17
  - Depreciation includes amortization of non-acquired intangible assets & depreciation of capitalized R&D expenses

- Further promote R&D activities mainly for TIS, Neurovascular & Blood Management Company
- Capitalized R&D expenses are included in CAPEX

FY18 : 2.4
FY19 Q1 : 1.2
FY19 guidance : 3.2

Cash Flows



CAPEX = C.i.P. record basis
Cash at the end of each fiscal year is equal to "cash and cash equivalents" on BS

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Foreign Exchange Sensitivity

Annual impact of 1 JPY depreciation (billion JPY)

	USD	EUR	CNY
Revenue	1.7	0.8	2.2
Adjusted Operating Profit	0.0	0.5	1.2

<Reference> Impact when JPY is depreciated by 10%

	North America	Latin America	EMEA		Asia	
			EUR	Others	CNY	Others
Adjusted Operating Profit	-0.1	1.0	6.5	1.3	1.9	3.6

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The Status of Convertible Bonds

■ Detail of the bonds (issued in Dec. 2014)

*After two-for-one stock split implemented in Apr. 2019

Maturity	Aggregate principal amount (billion JPY)	Coupon	Conversion price (JPY)	Contingent conversion trigger price (JPY)	Number of shares required to be issued for conversion
Dec. 2019	50.0	0.0%	1,919	2,495	approx. 26 M shares
Dec. 2021	50.0	0.0%	1,919	2,495	approx. 26 M shares
Total	100.0				approx. 52 M shares

■ Status of conversion (as of Jul. 31, 2019)

Bonds	Amount of shares issued for conversion (% against the total amount of bond)	Number of shares issued for conversion (% against total number of issued shares)
Convertible Bonds due Dec. 2019	50.00 B JPY (100.0%)	25.9 M shares (3.4%)
Convertible Bonds due Dec. 2021	25.24 B JPY (50.5%)	13.1 M shares (1.7%)
Total	75.24 B JPY (75.2%)	39.0 M shares (5.1%)

➢ Allocated treasury shares to the shares issued for conversion

- Status of treasury shares: 16.3 M shares
  (at the end of Jul. 2019, treasury stock cost per share : 1,949 JPY, % against total number of issued shares : 2.2%)

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