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

Terumo Corporation

Chief Accounting and Financial Officer

Naoki Muto

February 6, 2020

I am the CAFO, Muto. I will now explain the third quarter results for the fiscal year ending March 2020.

Highest-ever Q3YTD Revenue and Adjusted Operating Profit

(billion JPY)

	FY18 Q3YTD	FY19 Q3YTD	YoY%	YoY% (FXN)
Revenue	443.6	470.1	+6%	+9%
Gross Profit	242.2 (54.6%)	258.6 (55.0%)	+7%	+11%
SG&A Expenses	132.0 (29.8%)	136.8 (29.1%)	+4%	+7%
R&D Expenses	36.0 (8.1%)	37.0 (7.9%)	+3%	+5%
Other Income and Expenses	4.4	1.5	-	-
Operating Profit	78.5 (17.7%)	86.3 (18.3%)	+10%	+18%
Adjusted Operating Profit	91.2 (20.6%)	98.4 (20.9%)	+8%	+17%
Profit before Tax	75.0 (16.9%)	85.5 (18.2%)	+14%	
Profit for the Year	56.5 (12.7%)	66.9 (14.2%)	+18%	

Average Exchange Rates		FY18 Q3YTD	FY19 Q3YTD
	USD	111 JPY	109 JPY
	EUR	129 JPY	121 JPY

- Revenue: Continued positive growth in all companies. Driven by continuous double digit growth in TIS and Neurovascular business.
- Adjusted Operating Profit: Continued double digit growth on the basis of FX neutral
- Profit before Tax: FX loss decreased from 3.2 B JPY in FY18 Q3YTD to 0.8 B JPY in FY19 Q3YTD

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First, the overall results. As you can see in the title, our year-to-date sales revenue and adjusted operating profit for the 3rd quarter were our best-ever results.

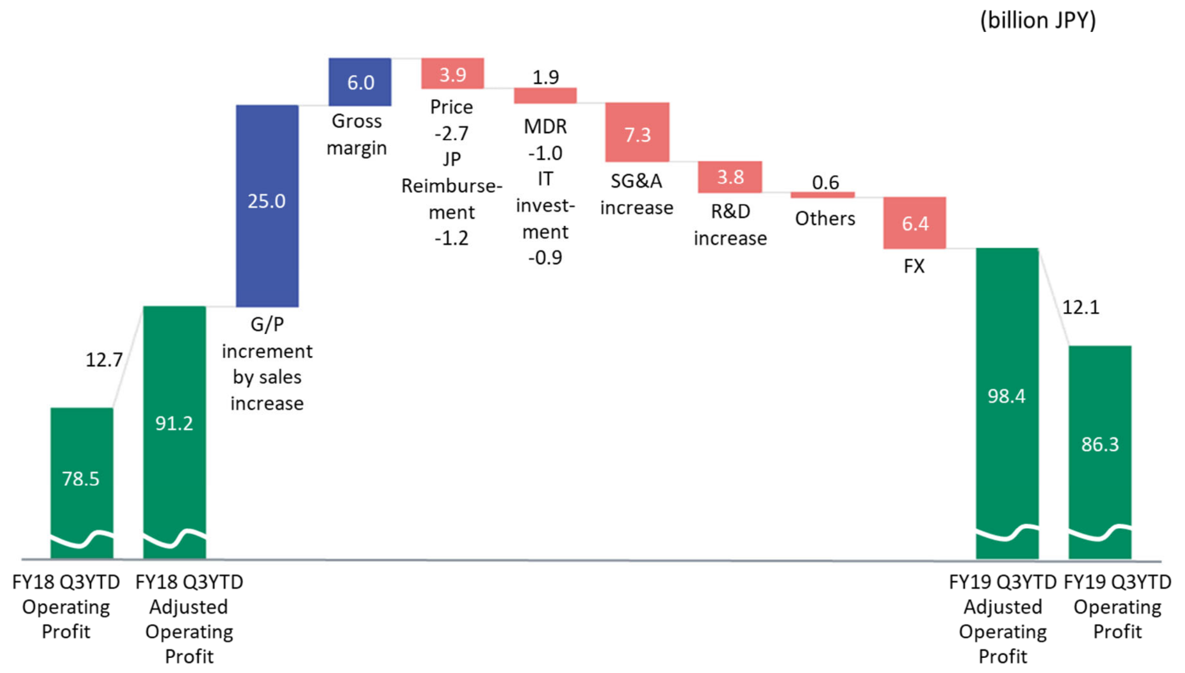
Continuing from the first half, sales revenue grew positively for all three companies. Among these, the TIS and Neurovascular businesses of the Cardiac and Vascular Company achieved double-digit growth, driving the Terumo Group as a whole to 6% growth.

Thanks to maintaining strong sales across the group, adjusted operating profit grew in double digits when excluding FX impact, and operating profit grew in double digits even when including FX impact. Our profit variance analysis is a comparison to the previous fiscal year, when we were seeing a strong recovery from the shipping delay. Therefore, although the profit growth was not as big as it was in the first half, we feel it is a strong result.

Profit before taxes grew 14% year-on-year, due to far less FX loss than the same period of the previous fiscal year.

Excluding FX impact, sales grew 9%, and operating profit grew 18%, to keep a positive trend going.

Adjusted Operating Profit Variance Analysis



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Next is the adjusted operating profit variance analysis, compared to the previous fiscal year.

Gross profit increment by sales increase is getting less affected by the shipping delay. Compared to our annual guidance of 33 billion yen, 25 billion yen actually represented progress as planned.

The 6 billion yen of gross margin came in above our annual guidance of 4.8 billion yen.

There was no variation from the amount of the first half, but because it is a comparison with the abnormally high gross margin we saw coming out of the shipping delay, we consider this to be expected progress. In addition to improvement to the Cardiac and Vascular company business mix, our efforts to find better production costs was another factor that contributed to our results coming in above guidance.

In price erosion, the reimbursement price revision had about the impact we expected. Other price erosion was better than we expected, which had a positive impact on profit.

Our guidance included expenses for preparing for the EU MDR transition at 3.2 billion yen, so the result of 1 billion yen may seem to indicate slow spending on that expense, but work is going as planned. A lot of system audits will be concentrated in the 4th quarter, so we expect the spending will increase as the result. And, we also expect the annual spending level will increase in the next fiscal year.

SG&A increase was 7.3 billion yen, down from our annual guidance of 12.5 billion yen. In the first half, recovery cost from previous TIS shipping delay and cost for US WEB introduction were not spent. In the second half, we will not spend recovery cost from the shipping delay as planned, but we will have expenses for US WEB introduction and other SG&A as planned.

"R&D expense" was 3.8 billion yen, progressing according to plan against the annual guidance of 5.7 billion yen.

The 600 million yen called "others" is primarily the amount of difference resulting from the Blood Management Business receiving grants last fiscal year, but not this one.

"FX" was a much higher 6.4 billion yen, up from 2.3 in the first half. I will explain why in the next slide.

FX Impact on Adjusted Operating Profit Variance Analysis

Q3YTD FX impact -6.4 B JPY : -2.3 B JPY (1H) plus -4.1 B JPY (Q3)

<Details of -4.1 B JPY>

- -2.3 B JPY from flow : Impact of JPY appreciated against EUR and currencies in emerging countries compared with FY18 Q3

Rate comparison (JPY)

	FY18 Q3 average	FY19 Q3 average	Variance
EUR	129	120	-9
CNY	16.6	15.6	-1

- -1.8 B JPY from stock : FX impact on unrealized profit in inventories
  - Negative impact due to rapid depreciation of JPY at the end of Dec, FY19
  - Huge negative year-on-year variance due to positive impact in FY18 Q3

Rate comparison (JPY)

	FY18 Q3 average	At the end of Dec, FY18	Variance
USD	113	111	+2
EUR	129	127	+2

(JPY)

	FY19 Q3 average	At the end of Dec, FY19	Variance
USD	109	110	-1
EUR	120	123	-3

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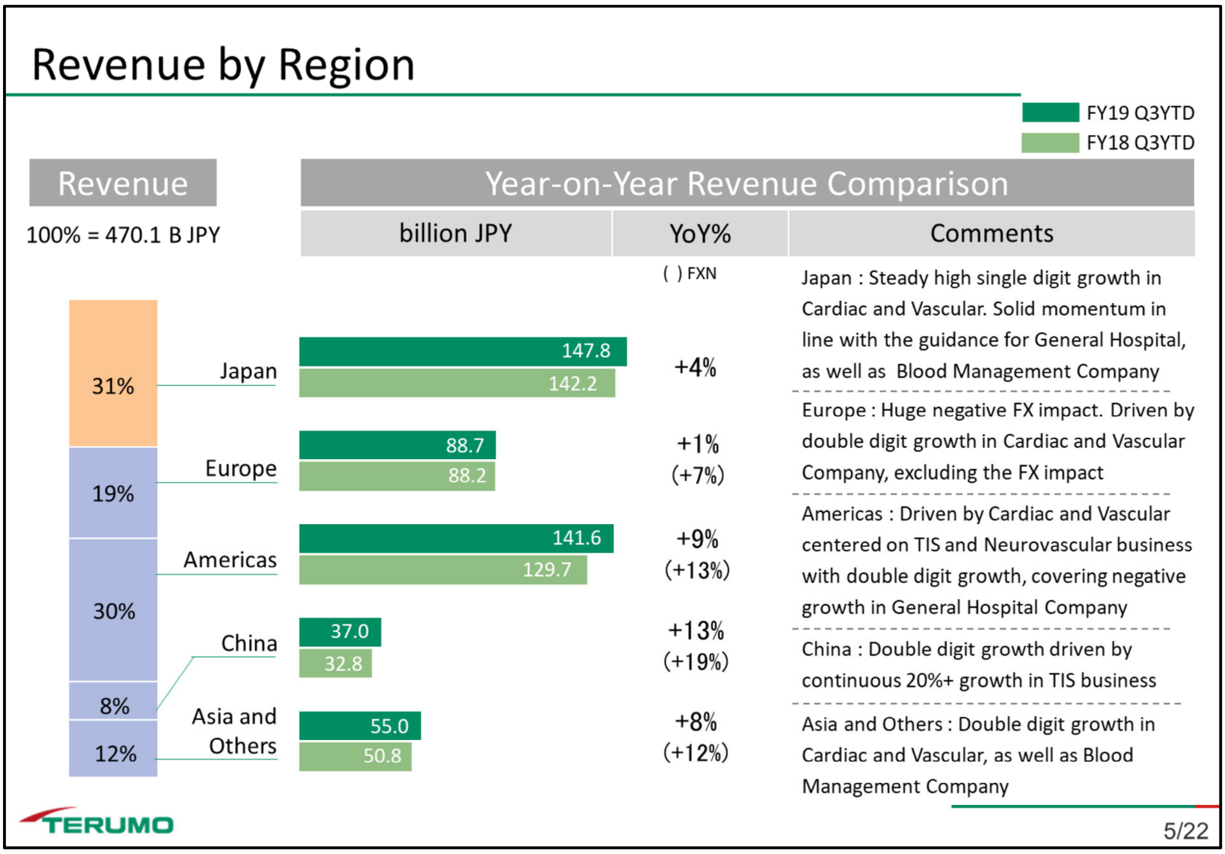
The 2.3 billion yen FX impact from the first half grew to 6.4 billion year-to-date in the 3rd quarter—an increase of 4.1 billion yen. I will explain what it includes.

First, a 2.3-billion-yen impact occurred in the 3rd quarter from flow — yen appreciation against the euro, yuan, and emerging-market currencies.

Next, from stock: Because the yen depreciated temporarily on the last day of December as FX rates moved, our inventory asset evaluation amount increased; this resulted in unrealized profit and negative impact on profit. Also, because fluctuation happened in the opposite, positive direction the same time the previous fiscal year, the year-on-year difference was even more pronounced, causing a 1.8-billion-yen impact in the 3rd quarter.

This flow and stock totaled to be a 4.1-billion-yen increase in FX impact.



Next is revenue by region.

In the Cardiac and Vascular business in Japan, the rebound following the shipping delay in the previous fiscal year has largely passed, and growth is stable. General Hospital and Blood Management both maintained steady growth according to plan.

Outside Japan, there was a very strong rebound and recovery following the shipping delay in the 3rd quarter of the previous fiscal year. That is why the year-to-date growth rate as of the 3rd quarter seems to show a milder increase, compared to the first half. However, we are still having high-single- or double-digit growth when excluding FX impact.

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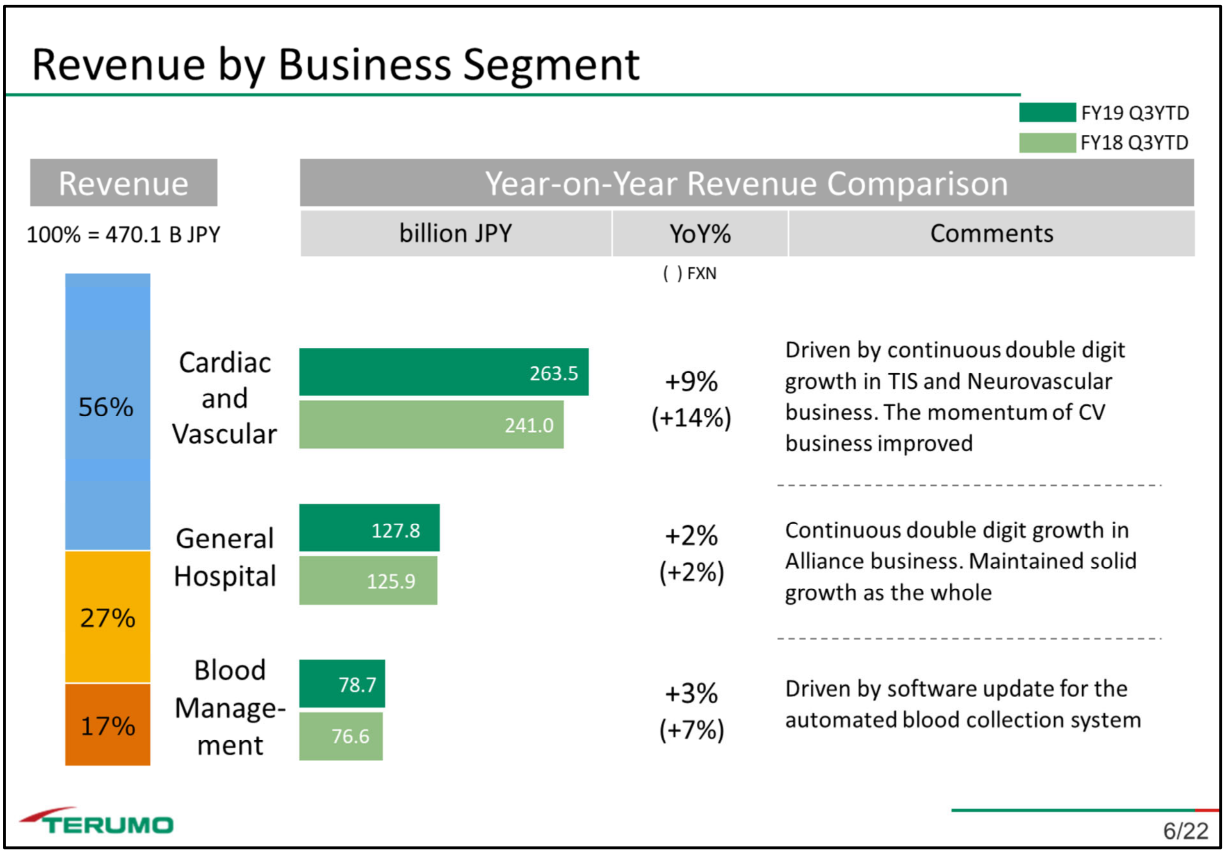


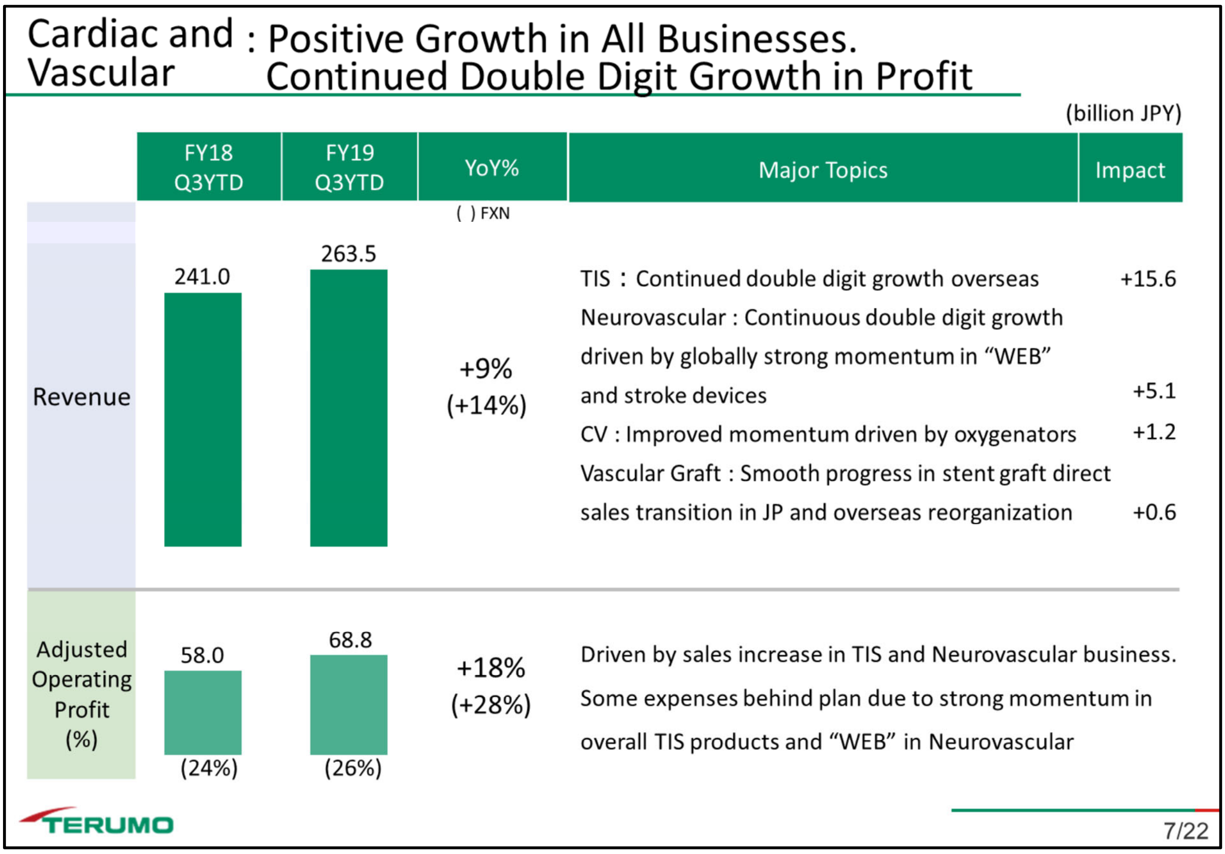
Next is revenue by company.

The TIS and Neurovascular businesses of Cardiac and Vascular maintained double-digit growth, driving that company as a whole. In addition, the CV business is building momentum going into the second half, with good sales of oxygenators.

General Hospital continued double-digit growth in the Alliance business, holding steady as a company, according to plan.

Blood Center component collection systems drove the Blood Management company as a whole.

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



Here is Cardiac and Vascular Company.

Sales revenue was high in the 3rd quarter of the previous fiscal year due to the rebound after the shipping delay recovery, and yet sales still grew in the double-digits when excluding FX impact.

TIS continued to drive double-digit growth outside Japan.

The new WEB and other stroke-related products drove the Neurovascular business globally, continuing that business's double-digit growth.

CV enjoyed easier business with the return of heart-lung machines, and oxygenator sales were strong, increasing momentum overall.

The Vascular business is seeing steady results as its transition to direct sales in Japan and realignment continue to progress.

Growth of highly profitable TIS and Neurovascular products contributed to profit overall. Also, with good sales results and less spending on shipping delay recovery in TIS, and less spending on the WEB launch in the United States, profit grew a double-digit 18% year-on-year.

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General Hospital : Revenue and Profit in Line with the Guidance

(billion JPY)

	FY18 Q3YTD	FY19 Q3YTD	YoY% ( ) FXN	Major Topics	Impact
Revenue	125.9	127.8	+2% (+2%)	General hospital products : Impact of the financial challenge in Indonesian national health insurance, etc.	-0.7
				Pharmaceutical and nutrition : Continued double digit growth in pain management products and adhesion barrier	+1.1
				Alliance : In line with the guidance	+1.5
Adjusted Operating Profit (%)	22.3 (18%)	19.8 (16%)	-11% (-9%)	In line with the guidance	

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The General Hospital Company saw progress according to plan in both sales and profit.

In sales revenue, after FX impact and a temporary drop in demand outside Japan, the medical device business is now seeing signs of recovery, for which we have strong expectations.

In Pharmaceuticals, pain management and adhesion barrier products drove the overall business. Alliance business grew at double-digit growth as planned, despite some fluctuation in orders along the way.

Coupled with profit, this result meant the company progressed as planned.

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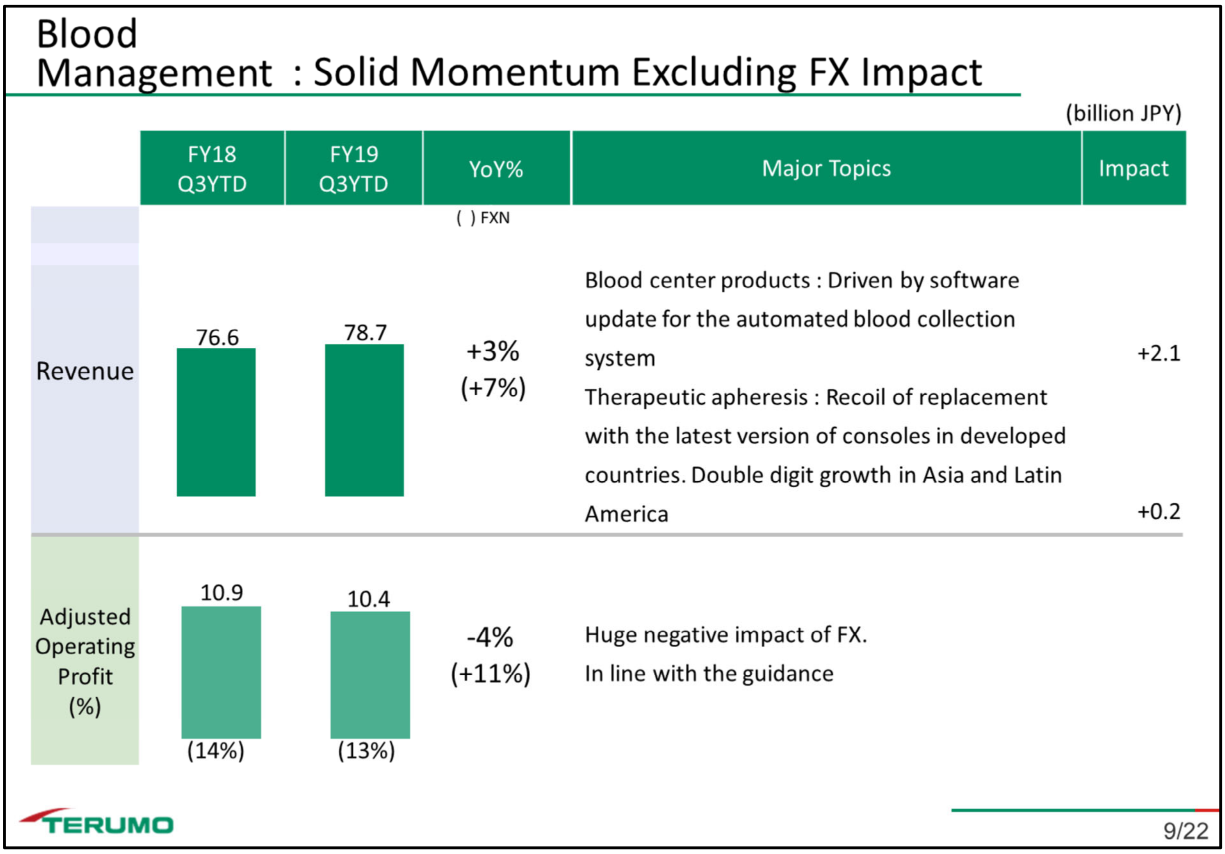

Next is Blood Management Company.

In sales revenue, the Blood Center business is seeing a sales increase through its introduction of new software for the component collection system Trima, as well as by improving component collection efficiency, leading to both machines and disposables increasing in sales.

There was a slowdown in developed nations for therapeutic apheresis after the transition to a new model, but emerging markets grew in the double digits.

Profit was driven down greatly by FX impact, but when excluding FX impact, growth is steady and approximately according to plan.

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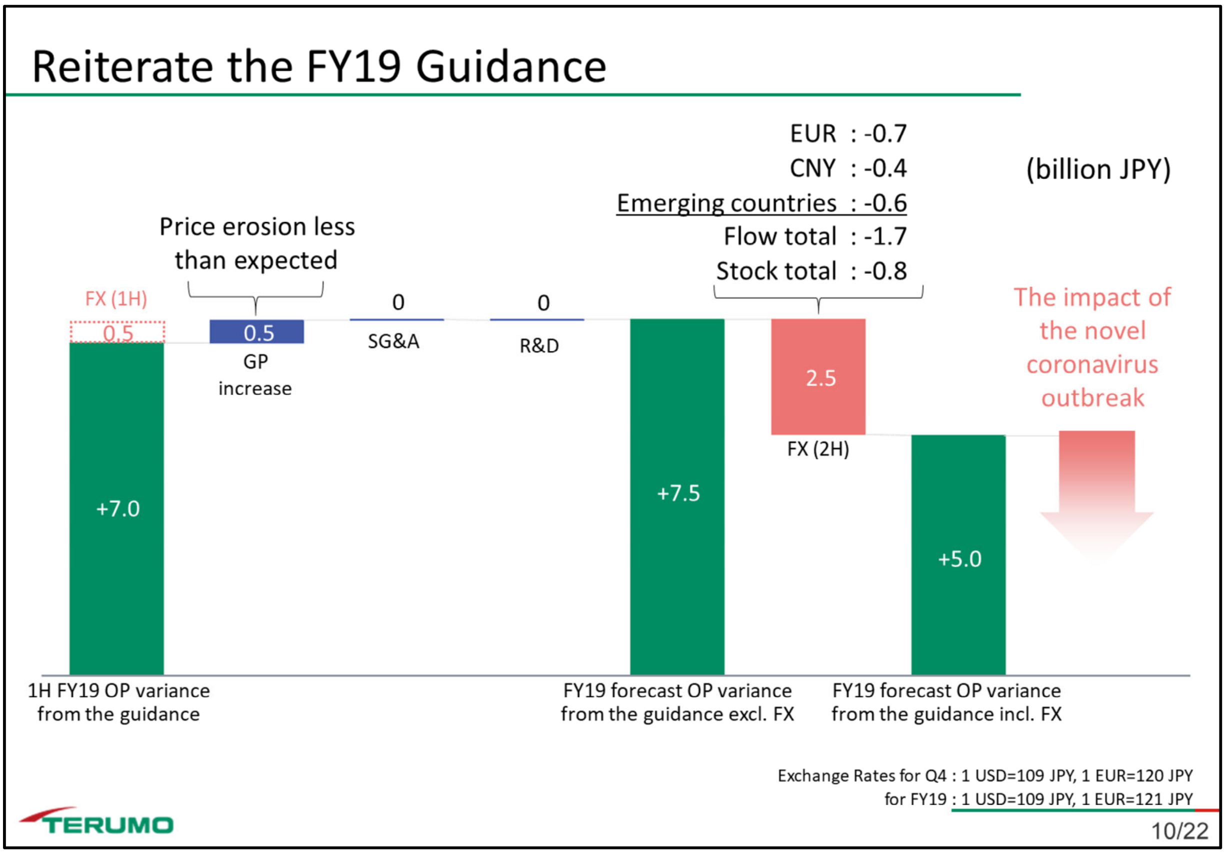


Now I will explain our second-half outlook.

To begin, first-half sales revenue progressed approximately according to plan. However, there was a further rise in operating profit due to shipping delay recovery costs and US WEB launching costs that we expected to spend but didn't, bringing the increase to 7 billion yen.

This first-half rise will trend out to 5 billion yen across the full year. I will now explain the gap between our initial plan and our outlook for the second half.

First, sales in the second half, despite the harsh situation of the reimbursement price revision, are expected to steadily progress. In addition, natural price erosion will be less than expected, which is having the effect of pushing up gross profit.

SG&A expenditure is expected to occur as planned in the second half.

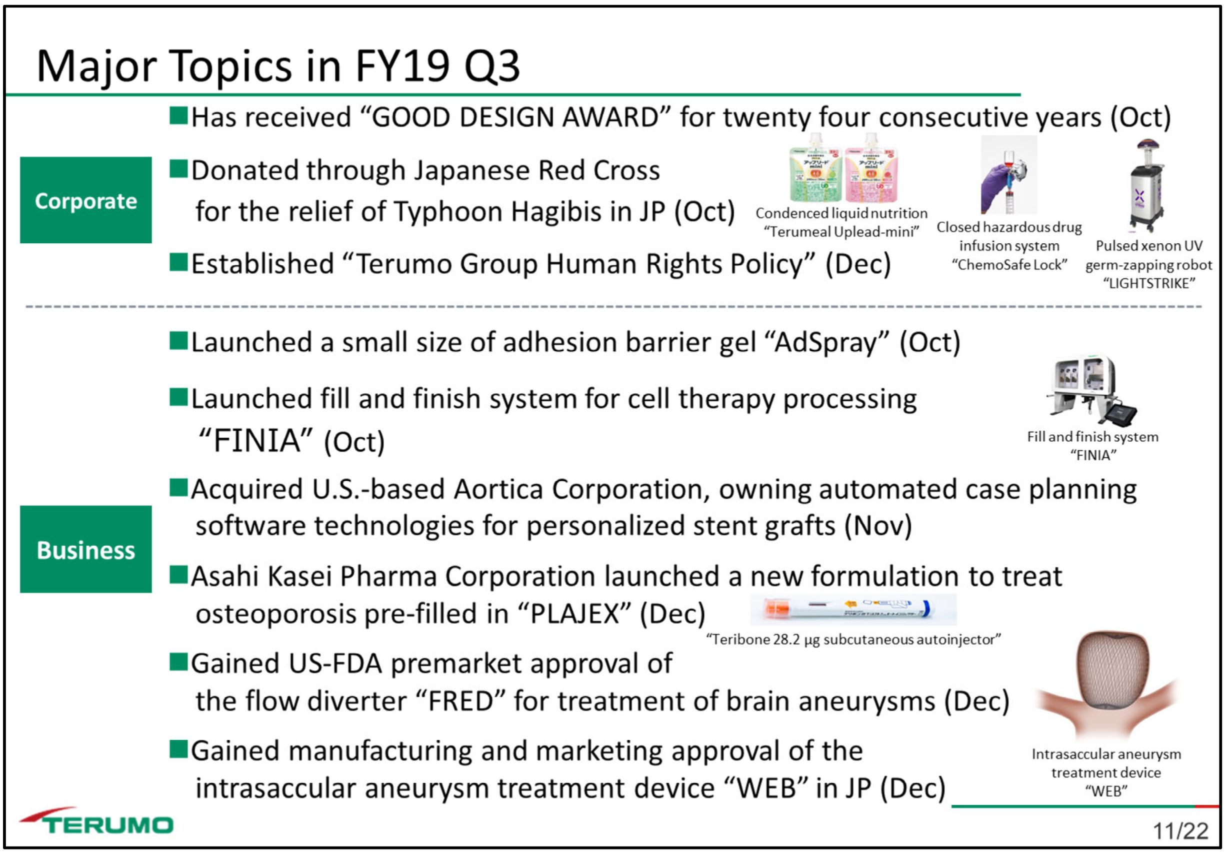
R&D shows the same trend it did in the first half, so the expectation is that it will be spent as planned.

As for FX impact, there was a 500-million-yen negative impact in the first half, but we anticipate that the euro, yuan, and emerging-market currencies will trend further toward depreciating against the yen, which will result in a greater negative impact than anticipated in the second half plan.

The result of these positive and negative impacts will be that the rise from the first-half 7 billion yen will end up at 5 billion yen for the year.

Now I will address the Terumo situation amid the novel coronavirus outbreak that is occurring. First, we began sales operations at the Hong Kong and Taiwan locations at the end of January. The start of sales operation in mainland China is scheduled for February 10, next Monday. In production, the Hangzhou Factory has already begun operations on February 3, and we will watch to see if its progress happens as planned. Regarding supply chain including transportation company and customs operation level, we expect that there will be some delays.

In other words, we expect some negative impacts, but they won't be impactful enough to prevent a 5 billion yen rise at the end of the fiscal year. In any case, we aren't yet able to quantify the impact, so we have decided not to revise our guidance.



Next, the major topics from the quarter.

As a company, we received a Good Design Award for the 24th year in a row.

On the business side, we want to improve our business expansion speed to seize the many opportunities we see to grow current business drivers and launch new products or acquire new technologies that will drive us further.

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New Products Pipeline in FY19

Category	Products	Region	Launch
Access	Closure device for distal radial approach	JP	FY20
Coronary	PTCA balloon	EU, Asia	Launched
Peripheral	Stent (TRI)	JP, US	Launched
Neuro	Intrasaccular aneurysm treatment device (WEB)	US	Launched
	Distal access catheter (Sofia EX)	EU, US	Launched
	Mini balloon	EU, US	Launched
	Aspiration catheter	JP	Launched
	Stentriever	JP	Launched
CV	Next generation of oxygenator	JP	FY20
	Heart lung machine (re-launch)	JP	FY20
Vascular graft	Large-bore vascular graft (Triplex Advanced)	JP	Q4

Category	Products	Region	Launch
General hospital	Next generation of syringe pump	JP	Q4
Pharma-ceutical	Narcotic analgesic for postoperative pain management (Fentanyl injection)	JP	Launched
	Adhesion barrier (AdSpray mini)	JP	Launched
DM and consumer healthcare	Continuous glucose monitoring system	JP	Launched
	Blood glucose monitoring system	JP	Q4
	Insulin patch pump	JP	Launched
	Next version of blood pressure monitor	JP	Launched
	Next version of thermometer	JP	Q4
Blood Manage-ment	Fill and finish system for cell therapy processing (FINIA)	Global	Launched

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Some products will be launched next fiscal year intead of this one, but overall we see product launches are happening according to plan.

This concludes my explanation. Thank you.

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FY19 Q3YTD Revenue and Growth by Region

(billion JPY)

Business Segment	Japan	Overseas					Grand Total
		Subtotal	Europe	Americas	China	Asia	
Cardiac and Vascular	38.2 (+8%)	225.3 (+15%)	64.1 (+10%)	103.1 (+15%)	30.9 (+22%)	27.2 (+15%)	263.5 (+14%)
Out of C&V Interventional Systems*	28.5 (+7%)	185.4 (+16%)	52.2 (+11%)	81.8 (+18%)	28.9 (+23%)	22.5 (+14%)	213.9 (+15%)
General Hospital	100.5 (+3%)	27.3 (+0%)	6.6 (-0%)	6.1 (+2%)	1.9 (+6%)	12.8 (-1%)	127.8 (+2%)
Blood Manage-ment	9.0 (+1%)	69.7 (+8%)	18.1 (+2%)	32.4 (+7%)	4.2 (+7%)	15.0 (+20%)	78.7 (+7%)
Grand Total	147.8 (+4%)	322.3 (+12%)	88.7 (+7%)	141.6 (+13%)	37.0 (+19%)	55.0 (+12%)	470.1 (+9%)

*Including Neurovascular business

(YoY%): FXN

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Operating Expenses

(billion JPY)

	FY18 Q3YTD	FY19 Q3YTD	YoY	YoY%	YoY% (FXN)
Salaries & Wages	65.5	66.6	+1.1	+2%	+5%
Sales Promotion	13.3	14.6	+1.3	+10%	+13%
Logistical Costs	10.1	10.3	+0.3	+3%	+5%
Depreciation & Amortization	10.4	13.9*	+3.5	+34%	+37%
Others	32.7	31.4*	-1.3	-4%	-2%
SG&A Expenses Total	132.0 (29.8%)	136.8 (29.1%)	+4.8	+4%	+7%
R&D Expenses	36.0 (8.1%)	37.0 (7.9%)	+1.0	+3%	+5%
Operating Expenses Total	168.0 (37.9%)	173.8 (37.0%)	+5.8	+3%	+6%

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

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Quarterly Results

(billion JPY)

	FY18 Q3 (Oct-Dec)	Q4 (Jan-Mar)	FY19 Q1 (Apr-Jun)	Q2 (Jul-Sep)	Q3 (Oct-Dec)
Revenue	158.6	155.9	152.5	154.8	162.9
Gross Profit	87.6 (55.2%)	84.3 (54.1%)	85.2 (55.8%)	86.3 (55.8%)	87.2 (53.5%)
SG&A Expenses	45.0 (28.4%)	46.7 (29.9%)	44.5 (29.2%)	45.1 (29.1%)	47.2 (29.0%)
R&D Expenses	12.3 (7.7%)	11.6 (7.5%)	11.8 (7.8%)	12.5 (8.1%)	12.7 (7.8%)
Other Income and Expenses	0.6	2.1	0.4	1.3	-0.2
Operating Profit	30.9 (19.5%)	28.2 (18.1%)	29.2 (19.1%)	30.0 (19.4%)	27.1 (16.6%)
Adjusted Operating Profit	35.9 (22.6%)	30.9 (19.9%)	33.9 (22.3%)	33.1 (21.4%)	31.4 (19.3%)

Average Exchange Rates						
	USD	113 JPY	110 JPY	110 JPY	107 JPY	109 JPY
	EUR	129 JPY	125 JPY	123 JPY	119 JPY	120 JPY

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Adjusted Operating Profit : Adjustments

(billion JPY)

	FY18 Q3YTD	FY19 Q3YTD
Operating profit	78.5	86.3
Adjustment 1. Amortization of acquired intangible assets	+11.0	+11.9
Adjustment 2. Non-recurring profit or loss	+1.7	+0.3*
Adjusted operating profit	91.2	98.4

<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 Q3YTD main items in Adjustment 2. Non-recurring profit or loss	Amount
Business reorganization cost	+1.1
Disaster insurance income for Puerto Rico factory	-1.2
Others	+0.4

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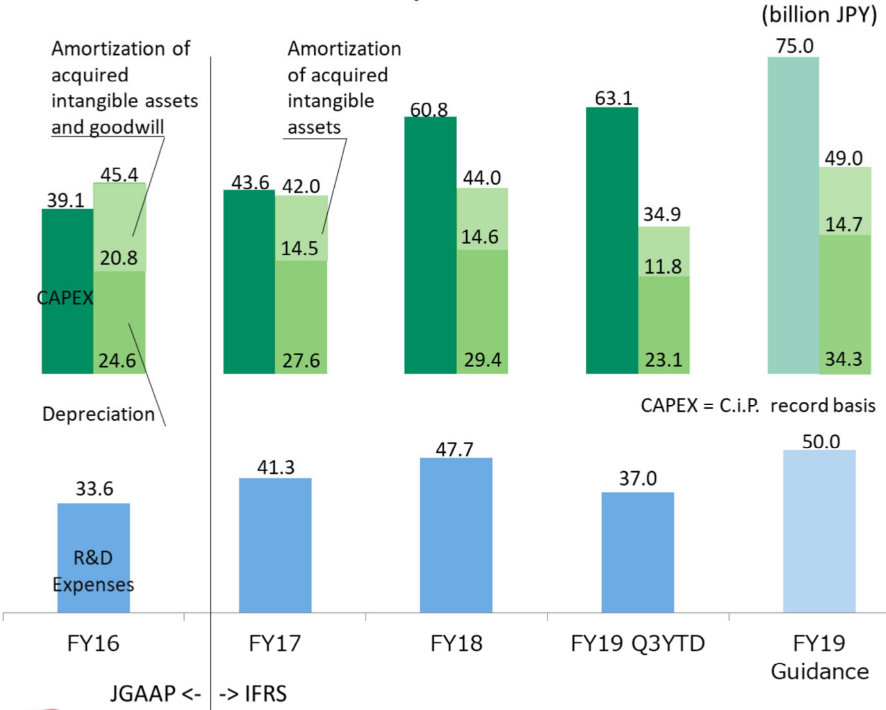
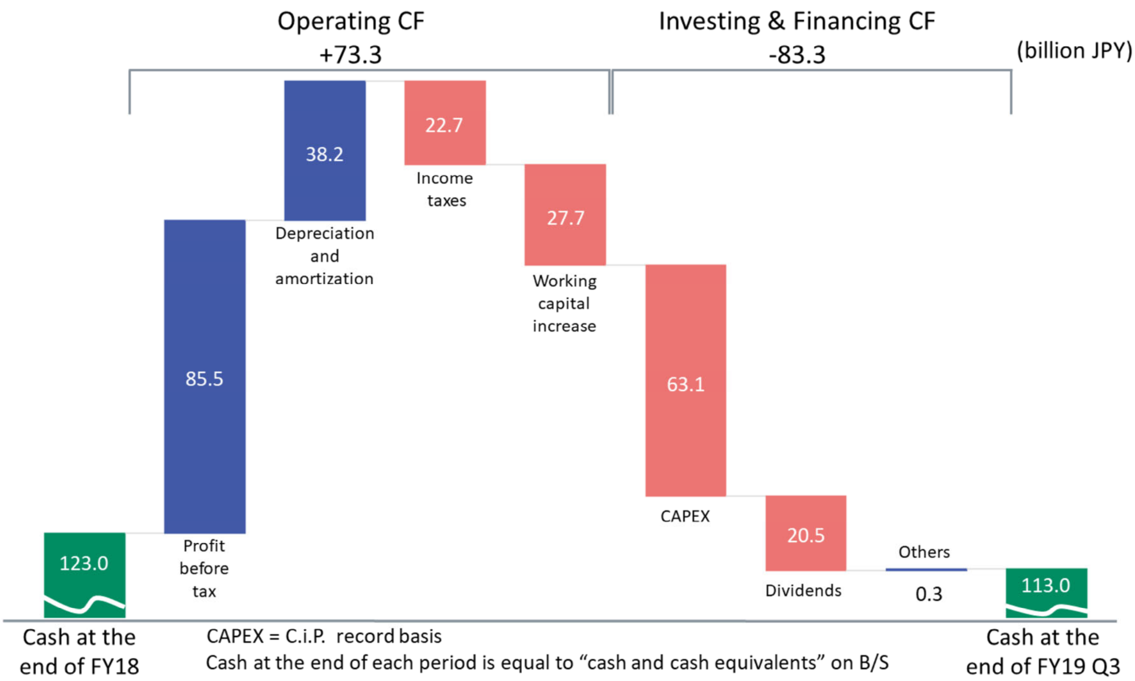
CAPEX and R&D Expenses



- 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
- Lease depreciation (IFRS16) is not included in FY19 result / guidance
- Further promote R&D activities mainly for TIS, Neurovascular and Blood Management Company
- Capitalized R&D expenses are included in CAPEX

FY18 : 2.4
FY19 Q3YTD : 3.4
FY19 guidance : 4.5

Cash Flows



CAPEX = C.i.P. record basis
Cash at the end of each period is equal to “cash and cash equivalents” on B/S

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Foreign Exchange Sensitivity

Annual impact of 1 JPY depreciation (billion JPY)

	USD	EUR	CNY
Revenue	1.7	0.8	2.4
Adjusted Operating Profit	0.0	0.5	1.3

<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	2.0	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 Jan. 31, 2020)

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	50.0 B JPY (100.0%)	26 M shares (3.4%)
Convertible Bonds due Dec. 2021	42.5 B JPY (85.0%)	22 M shares (2.9%)
Total	92.5 B JPY (92.5%)	48 M shares (6.3%)

➢Allocated treasury shares to the shares issued for conversion

- Status of treasury shares: 7 M shares
  (at the end of Jan. 2020, treasury stock cost per share : 1,949 JPY, % against total number of issued shares : 1.0%)

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