TERUMO
Terumo Corporation
February 8, 2021

Q&A Session at the Financial Results Briefing for the Third Quarter of the Fiscal Year Ending March 31, 2021

Outlined below are the principal Q&As from the financial results briefing of February 4, 2021. Certain details have been expanded or modified to provide readers with deeper understanding of Terumo Corporation's performance and activities.

Q1: In the financial earnings for the first half, you cited an approximately 20% decline in Percutaneous Coronary Intervention (PCI) procedures in North America compared to before COVID-19 due to the impact of the pandemic. How are the current situation of procedures and the variance between the number of procedures and the actual revenue?

A1: Revenue of TIS division in Cardiac and Vascular Company recovered to only down 3% year on year in the second quarter alone and down only 2% in the third quarter alone, indicating the trend remains unchanged. Within TIS, revenue of Cardiology in the third quarter alone was down 10% year on year, which is on par with global competitors. As for Access, revenue was down 4% year on year in the second quarter alone and down 2% in the third quarter alone, indicating the recovery trend. Oncology and Endovascular in TIS showed a stronger recovery, with revenue up year on year.

The decline in the number of procedures predicted by medical front and the decline in revenue do not necessarily match. While it is difficult to verify the gap, at least the trend of recovery is similar.

Q2: There has been a resurgence of COVID-19 cases since the end of last year. How do you view the current situation regarding the clearing of the backlog of postponed elective procedures?

A2: The clearing of elective procedures postponed prior to the resurgence of infections appeared to be making steady progress, but from the end of last year when the resurgence began, it appears postponements of procedures are happening again. Now we believe that more time is needed to clear the backlog, though we had believed it to be cleared within this fiscal year. We will continue to closely monitor the situation going forward.

Q3 : You explained that January revenue was down 10%. What is this compared to? Which company's revenue was impacted?

A3: This is a comparison of the average monthly sales for the third quarter and for the entire company. Cardiac and Vascular Company in Europe experienced the biggest impact, with the revenue down 20%.

Q4: Regarding the gross profit ratio, you explained that the adjustment of the operating level of production was started in December in order to adjust the inventory level which had been increased. Will this impact next fiscal year, in addition to this fiscal year?

A4: This adjustment, which was started to optimize the inventory level, should start in earnest from the fourth quarter and it could be carried over to the next fiscal year. The current assumption is that we would see a recovery from the second half of next fiscal year, given the impact from COVID-19 lasting up to the first half of next fiscal year. We aim to control inventory level following this scenario.

Q5: Regarding the current online promotion activities, do you believe you will continue with this method next fiscal year as well? Will you control operating expenses at the current level next fiscal year, too?

A5: First, we expect that promotion activities and academic conferences will continue to take place online going forward. Regarding expenses, it depends on the situation of COVID-19 resurgence, but the current situation suggests the restrictions on business travels and limitations on access to hospitals should continue for some time. This will result in reduced activities and spending during the period. We plan to continue controlling expenses to some extent going forward.

Q6: Blood and Cell Technologies Company saw strong revenue and the adjusted operating profit ratio also rose by large amount. In the presentation materials it states, "due to expense control in addition to gross profit increase by better product mix." Will this margin level be sustained into next fiscal year and beyond?

A6: First, with regard to the expense control, we have been able to cut back on operating expenses by curbing new hiring, lower travel expenses, and reduced marketing expenses, each caused by the COVID-19 pandemic. We believe expenses should return to before Covid-19 level as the spread of infections eases.

The increase in gross profit due to product mix was driven by Trima Accel, the blood component collection system, a highly profitable product underpinned by increased sales from higher demand for COVID-19 convalescent plasma collection during the pandemic and the introduction of new software. Due to the decline in donors and reduced number of surgical procedures due to COVID-19, sales of lower profit products i.e. whole blood collection bags declined, and as a result, the product mix improved in the third quarter.

As vaccines would be distributed further in the future, we believe that the demand for convalescent plasma for treating COVID-19 should decline. At the same time, the demand for blood component collection systems, which are capable of more efficient collection, will continue and we expect some sales increase in the new normal due to the transition to component collection from whole blood collection and the turnover of disposable products related to component collection.

Q7: How much did COVID-19 convalescent plasma collection related products contribute to sales?

A7: In this fiscal year, they contributed several billion JPY in the third quarter year to date.

Q8: Regarding the revised guidance, the full-year operating profit was revised upward by 7.5 billion JPY from the first half financial earnings. What are the factors behind this?

A8: We made this revision because of the increased profit from the recovery in the third quarter, which was more than expected at the time of the first half financial earnings. The main factors behind this are the improved product mix in respective companies and the effects of reduced operating expenses, both on the similar scale.

Q9: Regarding the revised guidance, you left the revenue unchanged, but is there any difference in the forecast for revenue by company? If so, can you tell us about the current forecast for revenue by company?

A9: There are some differences among companies. The current revenue forecast is 319 billion JPY for Cardiac and Vascular Company, 173 billion JPY for General Hospital Company, and 108 billion JPY for Blood and Cell Technologies Company.

Q10: In China, you mentioned that there was a national tender for drug-eluting stent (DES). What do you view as the impact on revenue? In addition, is there any plan for similar tender to be held for other products?

A10: In terms of DES, the national tender was held in early November, greatly narrowing down the number of brands in the market. We were able to win the bid, so we expect the sales volume to be increased by considerable amount going forward, but the price would be reduced substantially, which will offset the volume increase, and thus, the expected sales would go down year on year. However, out of the around 30 billion JPY revenue from TIS division in China, half is Access, and annual sales of DES account for less than 10% of the total. Considering this, we anticipate the impacts to be limited.

As for other products, we heard that tenders for PTCA balloon catheters have already begun at the province level, and a tender for PTCA guidewires is planned by each province next fiscal year.

The impact from tenders for these three products is expected to cause a single digit decline in TIS division sales in China next fiscal year.

Q11: You issued a press release on newly established 'DX Promotion Department' start from the next fiscal year. Will this department promote digital transformation (DX) in healthcare settings or in the company operations? What impact will this department have on financials?

A11: This department will outline the DX strategy for the entire group and promote both DX for business creation to enhance value proposition to customers and DX for operations to level up the value chain in production and logistics. We expect the department to affect earnings over the medium to long term.

As for DX for business creation, we expect rising awareness toward improving healthcare economics at the medical front given the shortage of resources and increased healthcare expenditures caused by the COVID-19 pandemic. We have already been providing solutions that enable outpatient procedures using TRI (a technique using a catheter to approach the coronary artery from a vein in the wrist) . In addition, we will aim to support services that encourage streamlining of hospital operations; for example, optimization of treatment strategies to minimize risks of complications on individual patients. As for DX for operations, we will aim to slim down operations over the medium to long term.

For details, we will explain further in the med- to long-term growth strategy to be released next fiscal year.