Terumo Corporation
May 16, 2022

Q&A Session at the Financial Results Briefing for the Fiscal Year Ended March 31, 2022

Outlined below are the Q&As from the financial results briefing on May 12, 2022.

Questioner 1: First, as you mentioned in your explanation, you made various comments regarding the recovery of the number of procedures performed. In looking at the current fiscal year, there is Omicron and other factors, but basically a recovery trend can be seen throughout the year, so is it correct to assume that there is not much to worry about?

Terumo: Thank you. Only in China, there is some concern, but globally, the number of procedures has fully recovered. That is for the top line. As for the bottom line, the production adjustments we made throughout the fiscal year to lower inventories to an appropriate level have been completed, and we are now in the stage of switching to increased production. We are also looking forward to future development in terms of creating margins.

Questioner 1: I understand. The second question is about what the president just explained, source plasma at the Blood and Cell Technologies company.
I know it is difficult to discuss the details, but I understand that the Rika system has been approved and will be rolled out to 300 centers for CSL from this period.
I understand that the equipment will not be part of your company's sales, but as to when the revenue actually will be accrued, and the amount, and so on. Sales in the blood business are strong for this fiscal year, but profits are actually declining. Including costs, etc., in this area, should we expect that the rollout of this business will not clearly show in the forecast until next fiscal year or later, rather than during the current fiscal year? Could you please explain your image of the timing and the amounts related to this?

Terumo: Thank you. We have been telling you about this timeline for a year now, and now that we have finally received FDA certification, it appears that we will be able to make our first revenue in the first half of this fiscal year, as was our original goal.
However, the speed of the rollout will depend on how vividly can the rollout be launched at the beginning. There are quite a few aspects of the rollout that will determine its speed and depend on our ability to achieve the desired effect. Although we have made some assumptions, we would like to discuss them in the actual results from the first half of the year and onward.

Regarding margins, we are starting this project in GS26 with the effect of raising the current margins in the Blood and Cell Technologies company. Rather than looking at expectations for this first fiscal year, the greater theme for this year is to finish the rollout first. I know that the expected effect of margin improvement will probably not be realized until next year or later. We have incorporated some assumptions, but there are still some flexible areas there.

Questioner 1: TBCT margin which will decrease has a slight increase in cost of that plasma business this fiscal year?

Terumo: Here, too, it is difficult to say. Our current assessment is that since fixed costs are rather high in this business, it is difficult to improve margins until the next fiscal year or later.

Questioner 1: I understand. Thank you.

Questioner 2: I would like to ask about the fourth quarter, page six of the slides, and the analysis of changes in profit.
I would like you to explain this gross margin effect. I remember that, when you had minus 36 in Q3, you explained that the 36 included distribution costs and material costs, and you explained them separately at that time. It was down to 15 in this fourth quarter. Why? What happened between the third and fourth quarters?
I also want to ask about the FY2022 forecast. The gross margin effect on slide 12 is positive 41. We thought it would be a slight positive, but it is a fair-sized positive. It would be helpful if you could break down and explain this area as well. This is my first question.

Terumo: Thank you. Let's start with the first point. The slide shows a YoY comparison, so if you look at Q3, for example, the drop was drastic. There was a 54.9 rate of gross profit margin in Q3 of 2020 and 51.8 in Q3 this period, so that Q3 diagram was intended to explain the 3.1 drop. Sorry, this is how the slides are, but I think it would be easier to understand if I spoke in terms of QoQ.
If we go by OP, the Q3 result is 16%, down four percentage points to 12%. Let me give you a brief idea of what this entails. There are three factors. The first is the stock of foreign exchange, which we call "elimination of unrealized profit in inventories" which is 100 basis points.
The remaining 300 basis points occur in SG&A expenses below gross profit, which can be divided into two major categories. The consumption rate of expenses always increases in Q4. The rate of expenses to sales is exactly the same as that of last year's Q4. Why did this suddenly rise in Q4. One is the aspect of seasonality and that's 150 basis points.
The remaining 150 basis points are one-time costs, and as I mentioned a little during Q3, we are transferring production to Costa Rica in order to bring our production to a three-pole system. Its one-time cost is included.

Therefore, the four percentage-point drop from Q3 to Q4 is mostly due to one-time sales and the sharp depreciation of the yen.
Four quarters from now, in Q1 FY2023, we expect to return to the Q3 level of at least 16%. This is the same, as is the "unrealized" stock, as the one-off related to production adjustments mentioned earlier, and together they amount to 250 basis points, which is about 14.5. And since there is no increase in costs in Q4, it will go up to around 16.
From that point forward, we are roughly looking at raising it above 16%, through the effect of the reversal of the production adjustment, and improvements as we go to product, as growth drivers emerge, mainly in Cardiac and Vascular.

Questioner 2: Can you talk about logistics costs and raw material costs separately?

Terumo: If we look at the movement of inflation from Q3 to Q4, we said that it was less than JPY3 billion in Q3. The biggest part then is the combination of raw materials and utilities, when said according to each factor. Then there is freight, and finally labor costs. That is about their order of magnitude, too.
However, inflation isn't particularly up or down until Q4, it's basically flat. So, I didn't mention this in the current Q3 to Q4 change, but this is roughly JPY2.5 billion to JPY3 billion per quarter. If this does not slow down at all in the current fiscal year, there will be an impact of JPY10 billion to JPY12 billion, which is an impact of 150 basis points in terms of margin. I think it is probably an approximation of the numbers that our overseas competitors have been quantifying recently. However, rather than fully factoring this in, we expect this to decrease somewhat in the second half of the year. We are working on the premise that if it does not decrease, we will work to improve profitability through our own efforts.

Questioner 2: In essence, then, this JPY10 billion or JPY12 billion is included in this slide, but since the gross margin effect is positive, we can expect an improvement in operation capacity to compensate for that, and we can expect an improvement in mix, is that right?

Terumo: Yes.

Questioner 2: So that's what it means. I understand. Secondly, regarding prices, your company has usually had price revisions that led to the appearance of JPY4 to JPY5 billion, or even JPY6 billion at times, every year.
I have to admit that I was a bit surprised by the JPY2 billion this time. Drug-eluting stents and balloon catheters are coming down in price. Is some kind of price increase included in there?
Or are there other factors at play? For example, I believe it is your company where it rose quite a bit for NHI price of infusion products, so that may have offset a lot of that. Could you please

explain the minus 20 in this price?

Terumo: Normally, as you just pointed out, the impact of the official government reimbursements for drugs is JPY4 to JPY5 billion each year. The figure this time is JPY2 billion, but the decrease is passed on here. That's correct. We have obtained the prospect of passing on prices, especially overseas, on a scale of about JPY2 billion.

Questioner 2: So that's what it means. I understand. Thank you.

Questioner 3: The first one is about the overall performance of the company. I would like to know the factors that led to the failure to meet your plan for the Q4 of the just-ended term.
Your guidance for this fiscal year is based on the assumption that the exchange rate will be USD125 and EUR135, while other companies are assuming USD120 and EUR130, and you are one of the few companies that have set the yen relatively weak. Looking at these numbers, it seems to me that there is not much leeway in this guidance. Are there any items in the guidance for this fiscal year where we can expect to see an upside?

Terumo: First of all, compared with the guidance for the just-ended fiscal year, sales topped about JPY6 billion. As you pointed out, we did not achieve JPY4 billion in profit.
We believe that the main factor here was inflation. Regarding the impact of COVID-19, conditions have remained virtually unaffected.
Regarding the exchange rate, I believe that many of the figures for JPY120 and JPY130 are from earnings disclosures released much earlier in the year. Looking at the recent monthly average for April, we see that the exchange rate was JPY126 and JPY137, so we believe that the exchange rate is reasonable, although we will have to see what the future holds.
For potential, focus on the base cardiovascular operations. There is still growth opportunity, in the form of reaping the benefits of this section, which is still a driver of growth. We believe that this will take the form of pursuing upside potential, including new products. That is all.

Questioner 3: I'm sorry to repeat this, but in your guidance for this fiscal year, you have already factored in the effects of increased production and the resulting improvement in cardiovascular operations and product mix. In addition, the impact of inflation is assumed to converge to some extent in the second half of the year, so what upside should we expect from the relatively favorable factors you have already factored in?

Terumo: Regarding the upside, as I said, I think the main focus will be cardiovascular operations. I think the upside potential lies in whether we can accelerate the launch of new products with a certain degree of speed and timing.

Questioner 3: I understand. My second question concerns Rika, the plasma collection device. First of all, I was wondering if you could disclose anything about collection efficiency and yield. At this point, since most of the detailed specifications have not been disclosed, it is quite difficult to verify the competitive advantage of the product compared to other companies' products or to predicted sales. Could you please disclose your specs in this area, especially regarding yield?

Terumo: I guess it would be a nomogram. I cannot speak about it here at this stage. We have a product that is currently under development, and we are waiting until we can talk to you about it.

Questioner 3: In the earnings call by Haemonetics Corporation the day before yesterday, they had USD100 million in 2021 in CSL-related sales. In 2022, CSL has pledged USD88 million of that amount as a minimum guaranteed purchase. If we calculate this simply, it would mean that your company's CSL sales for the current fiscal year will be only about JPY2 billion to JPY3 billion. It that correct?

Terumo: Probably the denominator will also go up by 10% or so since it is last year. We are not able to know the numerator, but it’s unclear whether it was a global figure or not. I don't think our figures can be simply subtracted from that number. As I answered in a question earlier, I believe that the ratio, or rather the speed of replacement, will change depending on the speed of start up, so we want to do all that we can.

Questioner 3: I understand. Thank you.

Questioner 4: I'm sorry to be so detailed, but we were told that TIS’s sales in the Americas in the fourth quarter were very strong, and that the Omicron variant effect was not so great, and that access products were good. We heard from some US companies that January and February were a bit affected. Should we assume that there is a temporary factor in this? Could you please explain the outlook for the next fiscal year, ending March 2023, and beyond, including sustainability?

Terumo: That’s TIS North America. January was much lower than December due to Omicron. The market recovered significantly in February and March, especially in March. This is because the vascular closure device, which I mentioned briefly in Q3, is finally getting back on track, and the part of the device that we had pulled back due to our own errors is making a comeback, so QoQ is looking strong.
But the TIS QoQ performance is growing 3%. We estimate that it will be a little above our overseas rivals, and we evaluate that we are basically experiencing a recovery in the number of procedures, plus a small amount of recovery in VCD.

Questioner 4: I understand. Secondly, please tell us about China.
You mentioned that you were a little concerned, but I would like to know the situation up to the end of March and, if you know, the situation in April and May, in terms of the number of procedures.
Also, if you have any updates on centralized purchasing, etc., please tell us about that as well.

Terumo: OK. There is no update on centralized purchasing. The biggest impact on us is the drug-eluting stent, which has already run its course, so I think we are past the stage where profits will decline YoY.
We are also concerned about the number of procedures, and have frequently asked those in the various locations about that, but so far there has been no major decline. Even if there were to be, I would be relatively optimistic that recovery would be quick since we have already experienced that several times.

Questioner 4: Thank you. Some US companies have started bidding for Neurovascular, I think it was Stryker Corporation. I heard that they are starting to do so, but there has so far been no impact. What do you think about that?

Terumo: Compared to drug-eluting stents, the impact of this also seems to be negligible, both in terms of quantity and cost.

Questioner 4: I understand. Thank you.

Questioner 5: I have just one question.
CSL is a hot topic, and there are indications that they will open about 30 new so-called collection centers in the US this year, which are additional to 300 centers in the previous year.
As mentioned earlier in relation to the rollout, the future competitiveness of CSL and plasma derived therapy manufacturers will be directly affected by how much blood they are able to collect. For them, there is a natural desire to use something that is fast and efficient. I understand that some plans have already been finalized in the contract with your company in this area.
Regarding the point you made about possible delays in the rollout, is it correct to say that you mentioned such risks in terms of the supply chain, procurement of parts, and various other aspects? Please tell us about this.

Terumo: Of course, I cannot speak for CSL's own plans. As you can imagine, we are proceeding with such a large project by implementing a customized system. Naturally, we are aligned with CSL's development plan in the US, and we have our own supply plan in place.

This is a partnership that is based on the evaluation of our supply capacity, so I think the understanding you have just expressed is fine.

Questioner 5: I understand. In a new installation, of course, everything is more efficient, and in a sense, you can evaluate that system. Of course, you have to consider the lead time when you say you are going to open a new facility. Is that understanding correct?

Terumo: As I mentioned earlier in my introduction of the system, this is a system that we provide to our customers in order to enhance the overall competitiveness of their centers.
I'd like to see an overall evaluation and, as you mentioned, an increase in the number of donors, or perhaps ease of use by other donors, or a shift in share again. As we aim to improve customers productivity and competitiveness, I believe that our system improvements will be realized in such a way.

Questioner 5: Thank you very much.

[END]