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Q&A Session at the Financial Results Briefing
for the Third Quarter of FY22

Outlined below are the Q&As from the financial results briefing on February 13, 2023.

Moderator: We will now take your questions. First, Mr. Yamaguchi from Citigroup Global Markets, please ask your question.

Hidemaru Yamaguchi: My name is Hidemaru Yamaguchi from Citi. Thank you. In the revised forecast, it says C&V, -19, TMCS, -52, and TBCT, -31, by company. The overall picture is an addition to revenue by JPY40 billion and a decrease in operating profit by JPY10 billion. I believe that there was a fairly large revision to operating profit. Can you tell us the main reasons for this?

I think you just made various numbers and comments sequentially, but can you tell me if TMCS is particularly significant, or if Plasma Innovation in TBCT is a big factor. What factors will cause profit to drop by this amount in the future?

Kenichi Hata, IR Terumo: Thank you for your question. I will answer it. First of all, as for the JPY40 billion in revenue, most of it or more than JPY40 billion, is due to foreign exchange rates, the yen's depreciation. In terms of the actual value excluding the exchange rates, we will lose about JPY5 billion. This is due to the portfolio rationalization that has continued in the previous quarter and the current quarter, which has somewhat reduced revenue. Another factor is that the start-up of CSL Plasma fell short of the expected figure, although we have not disclosed the target number.

In terms of revenue, the foreign exchange rates are the main factor, but the actual value will also be a bit lower. In terms of profit, CSL's less-than-originally-expected revenue, as I mentioned earlier, has a direct effect on profit. More significantly, the impact of inflation exceeded the assumption at the beginning of the year. This boosted costs by roughly JPY6 billion to JPY8 billion. The yen has weakened somewhat, the dollar has mostly been neutral, but the Euro and Chinese Yuan have had some positive effects. I hope I answered your question.

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Yamaguchi: I understand. In terms of profit, inflation is responsible for JPY8 billion, so the remaining JPY2 billion is attributable to something like CSL, is that correct?

Hata: That's right, and the exchange rates pushed back the figure a bit. That led to the net decrease of JPY10 billion.

Yamaguchi: So, the big negative factor is CSL.

Hata: Yes, we originally took the start-up costs into account, and the actual amount was a bit higher than that, but it was not so substantially larger.

Yamaguchi: I understand. Thank you. That's all.

Moderator: Next, Mr. Kohtani from Nomura Securities.

Motoya Kohtani: This is Motoya Kohtani from Nomura Securities. I would like to organize the situation for the next fiscal year, but in short, the price increases will take effect next year. But on the other hand, as inflation continues, I think electricity and such things will go up, especially in Japan. In addition, I wonder if the inflation we have now will ease gradually, or about the same. Furthermore, CSL, which seems to be a bit behind schedule, will contribute to earnings in the next fiscal year.

On top of that, there will actually be a price increase for infusions, won't be there? I don't know how much this will be from the outside, but it comes out as quite a body blow. I believe these are some of the factors, but would you cite any other factors that may be involved?

Hata: Thank you. I think the factors you just mentioned account for a large part of the structure.

Amid the current inflationary trend, especially freight is showing signs of falling. Unfortunately, our income statement did not reflect this relaxation, but we expect that it will do so shortly. However, what makes us remarkable compared to our competitors is that we use domestic automated production plants, so we are subject to the rising costs of electricity in Japan. However, this is another remarkable point, as you mentioned, we will receive a large amount of money from, not a price increase but a price correction related to infusions. We believe that the rising electricity costs will adequately be offset.

The other thing is that CSL, which is a bit stalled at the moment, will finally be up and running, and we will take care of it so that there will be no cost increase as there was in the quarter under review. I would like to tell you a little more. In VBP, or volume-based

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procurement, in China, our bid for the national tender for the second round of coronary artery stents was successful with a price increase. And this will also have some effect.

As to the other major factor, in Interventional Systems, or TIS, in North America, the supply shortage of contrast agents has finally recovered recently. Their revenue will turn to an uptrend from Q4 to the next fiscal year, so we have various bright factors. That's all.

Kohtani: That's very helpful, but was the effect of the delay in the start-up of CSL only on Q3, or on H2 alone, and will it not have an effect on the next fiscal year? I wasn't sure what it really is like.

Hata: The current situation is called a Limited Market Release (LMR). Our initial assumption was that this would be much shorter. However, since this was the launch of a large-scale product amid the COVID-19 pandemic in the first place, it was affected by various supply chain disruptions more than anticipated. Also, there was a shortage of personnel.

To be a little more specific, Rika is a combination of hardware, disposables, and software. As there were some disruptions on the part of the suppliers in hardware and disposables, the initial specifications were slightly modified for some of them. In this situation, the quality of the product was a little lower than we had initially hoped for, so we decided to take a little longer for this LMR to ensure that the product would perform well.

Also, with regard to the software, both CSL and we had to conduct training and carefully connect the software and start it up, which was somewhat affected by the shortage of labor in North America.

There were a number of problems, but these have finally been resolved, and it is now expected that the rollout will resume between today and the next announcement of our financial results in May. There was some delay, but I think we can catch up from the next fiscal year onward. That's all.

Kohtani: In short, is my understanding right that the delay was due to supply chain problems caused by COVID-19, rather than demand incompatibility on the CSL side or something like that?

Hata: That's right.

Kohtani: I understand. Thank you.

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Moderator: The next question is from Mr. Mori of Mizuho Securities.

Takahiro Mori: This is Takahiro Mori from Mizuho Securities. Thank you. On slide 13, about New Measures to Raise Corporate Value, you cited the M&A promotion as the growth strategy and in Capital policy reinforcement, you aim at a 50% return ratio to customers.

If you are to aggressively pursue M&A, I wonder if you could have made the decision to reduce total returns as well. Why did you decide to pursue both targets?

Naoki Muto, CAFO Terumo: It's not that we are chasing both. In our cash allocation policy, for example, we have stated that our first priority in GS26 is to invest in growth. The growth investment strategy is in the form of M&A and new investments. This is basically unchanged here. Naturally, as the Company grows and considers its cash allocation, it is important to consider shareholder returns as an area where it can achieve the greatest effect. We believe that the overall policy has not changed from where we initially revealed our thinking.

Mori: Regarding the enforcement of capital efficiency and financial leverage, first of all, in terms of capital efficiency, are you going to actively sell businesses as you have announced this time? And in terms of financial leverage, are you going to focus not on equity, but on debt?

Muto: Well, I think that is right as a basic idea.

Mori: Thank you. That's all.

Moderator: Now, Mr. Hayashi from Morgan Stanley MUFG Securities.

Ryotaro Hayashi: This is Ryotaro Hayashi from Morgan Stanley Securities. Thank you. At the bottom of page 11, you showed changes in your forecast for revenue by company.

I cannot understand the significance of the percentages of (C)÷(A), which are written in parentheses and exclude the effects of exchange rates. Since this is C divided by A, is this a new figure for the percentage increase in revenue excluding the effects of foreign exchange rates compared to FY2021, or is it an upwardly revised percentage of the previous revenue plan?

Hata: This is just a figure that shows the YoY growth rate after the revision, excluding the foreign exchange effects. Overall, we previously expected a 6% increase, but now we have lowered the rate to 5%. Because of the foreign exchange effects I mentioned

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earlier, we have raised our estimate on revenue, which means that on an actual basis, we have lowered the expected growth rate to 5%. This is the growth excluding the foreign exchange effects.

Hayashi: In that case, I am not comfortable with the TBCT numbers. The revised annual guidance for revenue is a 4% increase excluding the impact of foreign exchange rates, but since 10% revenue growth was achieved in the first nine months through Q3, this annual figure would not be seen without a substantial decline in revenue in Q4. Will this big decrease be possible in Q4?

Hata: In January of this year, not only TBCT, but also others saw declines in China, but I think it's fair to say that we look at Q4 very conservatively.

Hayashi: Is there no such thing as revenue cancellations in relation to CSL?

Hata: Unfortunately, revenue has not been generated that much so cancellations didn't take place.

Hayashi: I understand. That part seems a bit conservative, but I understand the implications of the numbers. Thank you. That is all from me.

Moderator: Next, Mr. Tokumoto from SMBC Nikko Securities.

Shinnosuke Tokumoto: I would like to ask about cardiovascular access devices. You mentioned that there was some impact from contrast agents, but I would like to ask how much of a recovery you expect in Q4 and into the next fiscal year. As a result, I would like to know how much you think the effect of contrast agents has lowered your Company's gross net to date.

At the same time, in terms of access devices, I think there is a positive side to the shortage of nurses, such as the increased use of closure devices, so can you tell us how we should look at the growth of access devices compared to what we have seen so far?

Hata: Thank you for your question. Regarding contrast agents, in the previous quarter, if you look at TIS alone, the top line growth of about 2% was impaired. They pulled down the overall growth of the cardiovascular business by at least 1%, which means that the total growth rate would normally have been 1 percentage point higher without contrast agents. Thus we can expect that the performance will be better in the next fiscal year and beyond, starting in this Q4.

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On the other hand, the shortage of nurses is expected to continue for a longer period of time, so, as you mentioned, we have VCDs, or vascular closure devices, which is an opportunity for us. Looking at closure devices, there was a YoY increase of about 60% in the three months. Looking at QoQ, we saw an increase of about 10%, so we believe that we were certainly capturing this opportunity.

This will continue into the next fiscal year, so the fact that we have the closure devices will work, as well as the fact that the absence of the contrast agent shortage will be in full effect. Naturally, the number of cases will increase, so we expect the overall growth of access products to rise by about 1 percentage point.

Tokumoto: I understand. Thank you. Then can I think it is fair to have very strong expectations for TIS or Cardiovascular in the next year?

Hata: That's right.

Tokumoto: Thank you.

Moderator: We will continue questions. Now, Ms. Yamazaki from Mitsubishi UFJ Morgan Stanley Securities, please go ahead.

Mie Yamazaki: This is Mie Yamazaki from Mitsubishi UFJ Morgan Stanley Securities. Thank you. I have a question about CSL. Please tell us whether or not the downward revision will affect the vertical start-up schedule for H1 of the next fiscal year, and whether or not you intend to eliminate the start-up costs incurred this fiscal year in the next fiscal year.

Hata: Yes, I interpreted this as the future rollout of CSL, but this is actually still a moving target, as we are now discussing the criteria for reopening almost daily with CSL. However, as I mentioned earlier, the supply chain disruptions are now being resolved, and we will be ready for rollout as soon as we have the hardware and disposables in place and ready to go.

However, it is still difficult to say how soon this will be completed. The fact is that we don't foresee the timing. I would like to tell you what we will have with some more clarity when we announce our full-year financial results and earnings forecast for the next fiscal year in May.

From a numerical standpoint, costs are almost fixed, since all necessary personnel are already in place, so these costs will not increase so substantially in the next fiscal year.

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Once the top line revenue is generated in the next fiscal year, we expect to gradually absorb fixed and variable costs. We are still examining how much CSL will contribute to profits and incur costs in the next fiscal year, and will be able to report on these points in May. Thank you.

Yamazaki: Thank you very much. How should we think about the profitability of products and disposables? Perhaps the cost of procurement for semiconductors and other products is rising, so is it correct to assume that the increase in revenue will result in profit from the effect of increased revenue? Please tell us about that as well.

Hata: Yes, it is true that the sales volume will naturally cover fixed costs. One key point is that, as we stated in the slide, a new algorithm called nomogram has been approved by the FDA for IDE or clinical trial.

This is another approach to increase efficiency, as I am sure you know. Rika has the original function of collecting plasma quickly in the first place, but by combining this algorithm, it will collect more plasma safely. This nomogram makes it possible to take more plasma more quickly. We hope that once this is in use, we will be able to be a little more resilient in our pricing, so we are working to improve profitability, and to offset costs that have been higher than originally expected due to inflation.

Yamazaki: I understand. Thank you.

Moderator: Next, Mr. Akahane from Tokai Tokyo Research Institute, please go ahead.

Takashi Akahane: Thank you. I would like to ask about inflation, or your Company's price increases and vendors' price increases. Looking at just Q3, the revenue effect was JPY1 billion. The cumulative total was JPY1.7 billion, and with the price increase from November that we were informed of earlier, I believe that the effect of the price increases will be even greater in Q4.

On the other hand, you mentioned raw materials, or rather electricity rates earlier. Electricity rates, materials, and of course labor costs have all gone up, so I think these are some of the things that have been included, and is that the reason why you said that the total inflation effects exceeded your initial estimate by JPY6 billion or JPY8 billion? Did this JPY6 billion or JPY8 billion come after deducting your Company's price increases? Though there is more than JPY6 billion, but with the various price increases in Q4, will this be mitigated? Please explain this point.

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Hata: The figures I mentioned earlier were separate from the price increases. The JPY6 billion to JPY8 billion means that we were affected by inflation more than we had initially estimated by that range. So, the price increases are intended to exclude the impact. This tells a different story.

We have raised prices by only less than JPY2 billion on a cumulative basis, so it is true that we are not able to cover the total impact of inflation. As you mentioned, however, we finally raised prices in Japan from November. Since the hike started in November, it will be in effect for the full three months in Q4, so the amount of the revenue will continue to increase as you see it in the future on a quarterly basis. We are still expanding the price rises into the regional businesses with the intention to overcome inflation. I hope I answered your question.

Akahane: How effective will the price increases be in Q4? There was an effect of JPY1 billion in Q3.

Hata: Yes, as for the forecast for Q4, I can say with certainty that it will increase. Also, revenue from coronary artery stents in China, which I mentioned a little earlier, will not be that substantial, but it will take effect in January, so revenue will start to come in from Q4.

Akahane: So this will be the full contribution in the next fiscal year, which means that this field will improve. As for the JPY6 billion to JPY8 billion, you mean that suppliers' delivery prices increased more than you had expected, is that right?

Hata: That's right.

Akahane: I understand very well. Thank you.

Moderator: We would like to take additional questions during the scheduled time. Mr. Yamaguchi from Citigroup Global Markets, please.

Hidemaru Yamaguchi: Thank you very much. On page 10, and it's the part about nomogram version 2's IDE approval, which you commented on earlier. I understand that this approval will allow you to collect new raw materials using nomogram, but how much revenue will be generated by this nomogram?

Hata: I can't give you a quantitative estimate of the amount of sampling or anything like that, since we are still in the clinical trial phase. Nowadays, the FDA regulations have set a maximum volume according to body weight, but in fact, the volume of plasma varies

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from donor to donor, even if they are the same weight. By adding various parameters, we are able to measure the amount of plasma that can be taken from each individual donor safely. The monogram is an algorithm that determines such amount of plasma.

On average, this means that we can get tens of percent more plasma from one donor than we do now. For the center, the ability to quickly obtain a larger amount of plasma is effective, and although competitors have this technology, we believe that the ability to obtain plasma quickly is where the true value of this technology is demonstrated. I hope you will understand that the nomogram is intended to further enhance our competitiveness.

Yamaguchi: I understand. If this is something like a clinical trial approval, would it be the way that you will submit the data?

Hata: Yes. However, this is not new functionality, but rather a proof of safety that plasma product can be safely taken in large quantities, so this will also be done as a 510K submission. We will report the time frame as soon as possible.

Yamaguchi: I understand. Thank you. That's all.

Moderator: Now, Ms. Saito from JPMorgan Securities, please go ahead.

Naoko Saito: Thank you. This is Naoko Saito from JPMorgan Securities. Can you please provide a breakdown of the negative JPY2 billion effect from the gross margin on page five of the materials, breaking it down into raw material costs, electricity, gas costs, etc.? Thank you.

Hata: Thank you for your question. This negative effect of JPY2 billion marked a decline from Q1 and Q2. It remained negative, but the negative amount was smaller. This showed a YoY comparison, which means that the effects of inflation have run their course since Q3 of the previous fiscal year.

As for the breakdown of the JPY2 billion, there was not much difference in materials, gas, electricity, utilities, freight, and labor costs, as I mentioned earlier. The ratio has not changed much, because the transportation costs did not decrease conspicuously. The ratio of materials and components was still overwhelmingly high, followed by utilities, then freight, and finally labor costs. Not much has changed in the trend there.

Saito: I understand. Thank you. That is all.

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Moderator: Now, if anyone in the audience would like to ask a question, please raise your hand. Mr. Yamada from the Nihon Keizai Shimbun, please.

Kohei Yamada: I am Yamada from the Nikkei Shimbun. My question is similar to the previous one. You explained that the downward revision of operating profit for the full year was JPY10 billion, of which approximately JPY6 billion to JPY8 billion was due to the impact of inflation. Do you mean that this biggest factor of JPY8 billion in the downward revision is due to an upswing of materials prices beyond your assumptions?

I think you explained in the previous quarter that the soaring materials included, for example, resin, but can you tell me if that is correct?

Hata: You are right on both. Rather than metal processing, as you may tend to think, we use resin overwhelmingly. This accounts for the biggest part of the materials and this trend has not changed. Of the various components that make up inflation, the heaviest component is resin, derived from petroleum, and is by far the largest component used.

Yamada: I see. Thank you. I think the next factor is logistics costs. I am aware that ocean freight rates are trending downward. Even so, the transportation costs will continue to have an impact. Is this because of airfreight and other factors?

Hata: We are trying to reduce unnecessary airfreight as much as possible, but the freight rate is also decreasing as a leading indicator. Even so, there seems to be a time lag before we really recognize the effect in our books, and I think this will take effect soon, but unfortunately, the impact is still flat at the moment.

Yamada: I understand. Thank you. Finally, I would like to ask about the outlook for manufacturing costs, distribution costs, electricity costs, and labor costs, each of which I believe will be affected by inflation, but some of which will be brought under control quickly, and some of which will be prolonged. Please show us your outlook for each. Are their effects all likely to be prolonged?

Hata: Overall, they won't be worse than they are now. However, we are still under scrutiny as to how much quantification we can really put for the next fiscal year. We will be able to tell you more about the issue at the time of the earnings forecast in May, so I hope you will wait a little longer.

Yamada: I understand. Thank you. That's all.

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