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Q&A Session at the Financial Results Briefing for the Third Quarter of FY23

Outlined below are the Q&As from the financial results briefing on February 7, 2024.

Kenichi Hata, IR Terumo: Now we would like to welcome Mr. Yamaguchi from Citigroup.

Hidemaru Yamaguchi: Can you hear my voice okay?

Hata: Yes. Thank you, Mr. Yamaguchi, for joining us.

Yamaguchi: In your explanatory presentation, it was not referred to the point. For CSL RIKA business situation and also I believe that going toward the next year, the new contract, I believe that you have entered into a new contract with CSL. Will you give us the update on the situation?

Hata: Thank you very much for your question. Then, since Antoinette is here, please respond to the question, so CSL business update, please?

Antoinette Gawin, President, Blood and Cell Technologies Company: Thank you. we have made tremendous progress in rolling out the RIKA device. We are now live in 30 centers, which is roughly 10% of CSL's footprint, and we will continue deploying over the next 12 months to 15 months. We have seen over 700,000 collections to date.

Hata: So last time, it was 17, so it's not huge in accelerated manner, but we are steadily expanding and ramping. And the rollout going forward is with CSL. We have agreed that some 12 months to 15 months, as she responded. Next week, we believe that there will be an announcement from CSL, so that is the timeline, so meaning 2025. Until summer of 2025, the rollout will be concluded. That has been agreed.

And regarding the price, we will not be able to disclose the detail to that depth. Thank you.

Yamaguchi: What was it, about 700,000? Well, that was how much plasma collection? Is the cumulative plasma collection amount 700,000?

Gawin: 700,000 procedures, donor collections as of the end of January.

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Yamaguchi: Okay. Understood.

Gawin: Part of that rollout is we have focused on the large centers with CSL, some of which perform almost 1,000 procedures per day. An example would be the Brownsville, Texas procedure on the Mexico border. And we've seen devices handling, in some cases, up to 16 donors in 1 day, so very positive progress.

Yamaguchi: Thank you very much.

Hata: Up to the third center, it's at the border, relatively speaking, so-called border centers with Mexico. RIKA started to be deployed. It's going to be in a full-fledged deployment soon enough. Thank you.

Yamaguchi: For the second questions, in your explanation about TBCT, I'm sorry, it was difficult for me to hear. How much was it?

Hata: Well, for the product about the—you are talking about P&L? I'm sorry, the sound was not good. Your question was related to P&L?

Yamaguchi: Yes.

Hata: Please look at the slide 12 of the brief report. RIKA start-up, we are trying to do the fully automated line. However, we have several modules, different modules and part of them, we have several options that we are trying to see for the automation. We finally decided which one we are going to apply for the automation. We are not going to use the other options we did not decide. And we agree with CSL what we are going to use. We just applied for that and the write-off that we are not going to use. That is explained in the brief report, and this is about JPY1.8 billion. This is just a onetime expense.

Yamaguchi: Thank you very much. That's all my questions I had.

Hata: Thank you very much. Now Mr. Kohtani from Mizuho Securities?

Motoya Kohtani: I'm Kohtani from Mizuho Securities. The first one is on the bar graph on slide seven on the right side. From H1 of this fiscal year, inflation and profit improvement actions are really working. And I think this mix improvement, product mix improvement is the ones that are actually affecting the P&L?

Hata: Yes.

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Kohtani: At the very bottom, you see the red/pink area. That's what you just explained. Yes. Looking at that, be honest with you, yes, I think that you will have even higher profit at the end of this fiscal year and also achieved the profit. Are there any other expenses that happened just for one time?

And for looking at that inflation and action could work even better. What are the reasons you are controlling at this level? And improved mix improvement, I think it was even higher for Q3, but it seems like it is smaller now. What are the reasons for those changes?

Hata: Yes. Thank you very much for the question. On slide seven, actually, we had a similar graph for the last time. And the inflation and mix improvement are actually the main causes. The other parts or categories are not changing much. Mix improvements for the Q3 was blue, but now it's red. That is the loss for this time. And it is offset with the inflation improvement because that happened earlier than what we expected and 50% of them just are more passive. And the remaining 50% is a global tender. Actively, we try to get the lower rates, so that's started to work.

For that part, for Q4, well, actually it's a bit higher here, but I think inflation will bring us a positive impact as we see, as we expect. Then, if we do not have this mix improvement of the negative factors, it was higher. Looking at this for Q4, maybe JPY3 billion that happened the last time for one time, it won't be happening. It will be better for the next quarter and next year.

The inflation will have a negative impact. Now it is turning to positive and the VC2 is continued, so that will bring more positive on the factors, will contribute. Yes, VC2 and also inflation. And we struggled for H1. Maybe it will be the positive factors for H2 for throughout the year. I think it will look much better.

Kohtani: My second question, since Antoinette is here, for 12 months to 15 months is the rollout timing you explained. But probably and thinking about this, the operation rate or the working rate at the plant, it won't be improved significantly unless you catch up. When do you expect to see that profit? Maybe two years later, you will be profitable?

Gawin: Yes. I think I followed all of that. We expect to see that in FY2025, where we start hitting that break-even point.

Kohtani: Well, I don't know if you can disclose this, but I'm sure you've had discussions about how you will be able to roll out to other customers aside from CSL. Obviously, the slowdown is dependent on, I don't know, whether it's Terumo's fault or CSL's fault, and

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I'm sure you've had some discussions, but has that changed that date of—we don't know when that would be when the exclusivity runs out, but can you comment on when that—has that changed at all or?

Gawin: So we are fully able to serve the market. We designed a platform that can serve all customers, and we are actively working with other customers as we speak.

Kohtani: Thank you very much.

Hata: Thank you very much. From UBS Securities, let's welcome Ms. Yoshihara.

Tomoko Yoshihara: My name is Yoshihara from UBS. My question is pertaining to this year's business plan. Up until Q3, against the former original plan, you were very much aligned with the original plan. Is it safe to say so? This time, you have excluded FX and the margin. From Q3 to Q4, margin assumption is that it will be declining. Under normal circumstances, that is due to reason that Q4, it tends to have more expense? Or have you incorporated some risk? Can you explain that to us?

Hata: Thank you for your question. From last time, so unchanged from last time. This time, our guidance, I believe it was slide 13 that we have written here the FX. If FX was the same against the guidance, what would it be? So MCS revenue declined slightly, but for other ones are unchanged. Just the FX portion, which is in the light gray portion was upward. For Q4, with the same margin, we're still in the conservative outlook, but basically it is unchanged.

Having said that, Q4 YoY, since it dropped last time, it seems much higher. However, we have not really incorporated any of the major risks among others. Unchanged from the last time.

Yoshihara: The second one is for the access device for China and VBP, you have talked about that. Beyond 2024 March, the new pricing will be finalized. Leading up to that day, there will be reservation of the purchase activities and the new roles, VBP and also there are other confounding factors, such as the corruption prevention?

Hata: Well, for China, the neuro business is not so large to begin with, so it would not be impacting us. And as for anticorruption prevention, for this, we are not going to be impacted. That has been unchanged from last time when it comes to our assumptions. What makes it complex is that TIS for the access VBP on YoY. Last year, it was Q3, Q4 when we had a pandemic for COVID and Zero COVID policy lifted. YoY, it seems that it has improved. However, there has been a conservation situation for the purchase.

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Looking at October to December, October dropped, plummeted and improved from November, December. And then we thought it is going to be January 1, but it has been procrastinated to March 1. It is resorting back to the original state, so Q3 will be improved, then Q4. Q4 will be better than Q3. Then the price and the margin impact will be reflected. But if you ask us for the outlook, there are about 20, so it will be even later.

For looking at the next year, maybe the price won't be decreased at every single province. Maybe it's difficult for us to assume. In addition to that, that will be probably the 50% of the volume in China, but remaining province/states, we are not sure if VBP will be applied. That's unknown yet. Therefore, we have to think about the various options and assume it. For the next earning calls, maybe we can include that information. Did it answer your question?

Yoshihara: Thank you very much for your detailed explanation.

Hata: Thank you very much. Now for SMBC Nikko Securities, Tokumoto-san.

Shinnosuke Tokumoto: Yes. I'm Tokumoto from Nikko Securities. Thank you very much.

Hata: Yes. Thank you.

Tokumoto: Thank you. First question is related to C&V. Looking at the next year, it can be expected it will be continued strong. I would like to ask for the overall forecast. And for Q2, for the C&V, they had some issues with the supply. Is it already resolved for that supply issue? And so after that, should we expect that the volume is expected to increase significantly?

Hata: Thank you very much for the question. C&V, for Q3 YTD, about 88% is the growth we are achieving at this moment. And for neuro and TS, stent graft were expected to grow significantly, especially for the stent graft, both US and Japan. We haven't completely opened for every single account. And so next year, I expected to see this kind of similar growth for the next year. And for this year, the raw material is not available at this moment, so we struggled with operations. That's what's happening with SOFIA for the neurovascular product, and it is still continuing. The TIS North America access product also have 2 points lower because of the supply issue.

Taking orders into consideration, maybe for the next year, next term, we will continue to have this strength, and we will see some recoveries for the areas we are struggling at this moment. We can expect to further growth.

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Tokumoto: Thank you. It may be too early to ask you about the next fiscal year, but I would like to ask you for improving the profit and also global tenders, actually, you are placing weight on that. For the next years, negative factors for the next fiscal year and also the factors for the profit increase, could you clarify that for factors?

Hata: Look, considering the Q3, we expect you have the significant growth for the next term. It is similar to the question made by Kohtani-san. Inflation will be expected to improve. That is one positive factor. Another factor is VC2, which is working on reducing the cost, and that will be expanded. This will be another positive factor.

In addition to that, CSL and the rollout is another positive factor. We do not have any revenues for TBCT because that cost is incurring. It won't be profitable yet, but we have smaller deficit, negative factors. This will be a positive factor.

And for the negative factor will be the VBP in China. And in Neuro, may have the even bigger impact and if the stent graft is impacted with that VBP, and that we have to expect it to have quite a large negative impact. But when we add up, probably, we are rather in the positive direction at this moment.

At the earnings call in May, I think I can explain even in more details.

Tokumoto: Thank you very much. I'd like to confirm. For this access, the price revision will be provided. With the distributors, you will be able to absorb? That is the impression.

Hata: Yes. Well, the price pass-through, we know how the price revision may be. As I have indicated earlier, it will not be rolled out for the whole 20 provinces. We need to take into consideration, so we'll make a downward revision for the price.

Having said that, for this VBP, our assumption is that we would not expect a huge volume. I hope that answered your question. Thank you.

Hata: Thank you very much. And we would like to welcome Mr. Mori from Nomura Securities, please.

Takahiro Mori: Thank you very much. Mori from Nomura. FX impact in the slides, US dollar-neutral, euro, CNY such impact. This actual end [Q], is this going to be in a steady state? Do you expect a new FX sensitivity? As the new year comes, yen may be appreciated. When it comes to sensitivity, will you explain to us about the situation?

Naoki Muto, CAFO Terumo: Regarding the yen sensitivity, we do not expect a huge change structurally speaking from this. Having said that, regarding the FX, as I have

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explained for the stock and flow, it will impact a flow for sensitivity-wise. And for stock, it has to do with the finance and inventory and some of the revenue. Impact may be impacting our stock and vice versa for yen depreciation, so for flow as well and for stock, may be impacted reversely.

When it comes, then we are certainly aware that we would like to explain this in detail when it comes out.

Mori: Thank you very much. And also for the US preliminary election and the general election has been taking place in the US. What happens if Trump is reelected? Can you talk about the US policy, when it's going to be a Republican administration?

Gawin: That is a difficult question to answer. I think there is concern in the market in general about the policies that might be enacted and the effect on inflation, but I think there are many other wiser people who could address that specifically.

Mori: By the way, in the US, it needs to be manufactured. If it comes to that, you have to factor in the US and also Puerto Rico. That's considered to be US land?

Muto: Yes. Well, Puerto Rico, when it comes to the policy, that is spearheaded by the US. We consider Puerto Rico can be considered as part of US, but then the taxation-wise is separate.

Mori: I see. Thank you very much. That's all from me.

Hata: Thank you very much. Next person is from Morgan Stanley, MUFG Securities, Mr. Hayashi.

Ryotaro Hayashi: I'm from Morgan Stanley. My name is Hayashi. Thank you very much. The first question is rather the confirmation about the accounting. For the loss, it's about JPY1.8 billion. This is based on the cost of the sales, I think. That's what I wanted to confirm.

Hata: Yes, right. This is cost.

Hayashi: Then, if that is the case, so the GP will be even higher than in calculation, it will be 54%. Maybe first time in two or three years, this is a high level. But for Q3, this is the actual capability or ability you can achieve?

Hata: Yes. For the second point, yes.

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Hayashi: For TBCT orders, so that you are recognizing sales for the Asia and the US earlier than you planned. There was no explanation on the reasons why you were able to sell it earlier than your plan. Maybe the business is very strong, that could be one of the background. That's what I was guessing. Could you explain the reason why you were able to sell earlier than your plan?

Gawin: So two drivers for those tenders. One is our whole blood automation platform referred to as Reveos, has been very positively received around the world. And as customers experience the safety and the throughput, we are seeing earlier adoption, particularly in areas where there's uncertainty around the blood supply in different parts of the world.

The second piece is our therapeutic systems business is growing double digits. It is the primary platform for the collection of cells and that those cells are the starting material for many of the CAR-T therapies that are publicized today. We're seeing tremendous growth in both the use of the platform and new ideas coming in for other ways to apply that.

Hayashi: Thank you very much. I understand it. That's all my questions I have.

Hata: We would like to welcome Mr. Barker from Jefferies Securities.

Stephen Barker: This is Stephen Barker. I have two questions for RIKA. According to Antoinette's explanation earlier, so per device, 16 donors collection. The volume has increased. With the 16 donors, is it higher?

Hata: Barker-san, I'm sorry, your sound was very disruptive. Please ask in English.

Barker: Two questions. One is about RIKA. They're both about RIKA. I want to know, you mentioned that the machine can handle up to 16 cases per day. How does that compare with that you were using previously?

Gawin: That figure is representing the volume in that specific center. It is a combination of the throughput. RIKA is demonstrating a 30% improvement over previous collection times. And in this case, because it is a high-volume center, that specific location is showing 16 times per device, but the capability is driven by the inputs around the donor population.

Barker: Right. Okay. And then the second part of the question is nomogram. When would be the release date for the new nomogram?

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Gawin: We cannot comment on something that's active with the FDA. We did have a clinical trial completed with CSL and are awaiting FDA clearance.

Barker: Understood. Thanks very much. That's all. Thank you.

Hata: Thank you very much. Any other questions? Now from Mizuho Securities, Mr. Kohtani.

Kohtani: Since Antoinette is here, I have additional question about RIKA. Actually, RIKA's drawing attention. But how about Reveos? In the US, you received PMA. What is the current situation? I think you mentioned it may be impacting on the sales currently. Reveos already had JPY10 billion sales overseas. I think you already have the solid foundation. And in the US, once they use that for the whole blood production, workflow is much easier. I think it could be expanded significantly, but in the US, Red Cross, as doing a demo or trying that, and it may take some time to roll out. But could you share the timing and the situation of Reveos in the US? And when do you expect to have the sales of the Reveos in the US?

Gawin: As you referenced, Reveos has been in global use for some years, with very positive results. We are deploying Reveos first to the Blood Centers of America and that will be happening through FY2024 in the early stages. There is an adoption period as blood centers get used to the new technology.

Kohtani: What about the US Red Cross?

Gawin: We're in discussions with them. We would like for them to adopt our technology, and we believe there's interest, but nothing committed at this point.

Kohtani: Thank you.

Hata: Thank you very much. Then Tokai Tokyo Research Center, Mr. Akahane, please.

Takashi Akahane: I'll ask about the track record and the forecast for the sales activities. In the waterfall flow chart, I'm looking at slide five. According to this slide five, the global price and also the reimbursement rate for the NHI totals JPY4.1 billion. And the gross-margin 0.9 adds up to JPY5 billion gross profit-wise. In comparison to cumulative in the previous Q2, in comparison, there has been much impact of the price and also the gross profit margin. It was 0 for Q2. The cost-down initiatives, that have now become much more evident in Q3.

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Hata: This is on YoY basis. It will be difficult to compare. The SGA improved, but revenue also improved. And so as you say, regarding the price for MCS and the price increase started from October 1, in Q3, we can expect higher volume there.

Akahane: I see.

Hata: Then for Q4, that is going to be a full contribution, meaning Q3 improvement will be reflected on Q3. And for next year, it's going to be doubled throughout the year. The price increase is continuing for Q4. Until next Q3, then this will run its course. YoY basis, Q2 looks higher.

Akahane: I see. For H1 half then, understood.

Hata: So that's also incorporated into the next year's guidance.

Akahane: Thank you very much. I'm crystal clear. Thank you.

Hata: Thank you very much. Now it is time to close. Any comments from Muto-san?

Muto: Yes. This is the last one for me. Since I took CFO position, immediately, the COVID started. I struggled in the beginning with my new position. But CFO responsibility improved the corporate value. I think I was able to do what I could do.

And for GS26, we are in the middle of the GS26, but each company is now having the environment they're able to deliver. And for the corporate profit improvement, we already prepared the path to achieve it. We would like you to expect us to achieve it.

Thank you very much for your cheers to me up to today. Thank you very much. That's all for me.

Hata: So we will try to close Terumo's 2024 Q3's earnings call now. Thank you very much for your participation.

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