

Financial Results for the First Half of the Fiscal Year Ending March 31, 2016: Reference

Analysis of Business Performance

1. Overview of Financial Results for the First Half of the Fiscal Year Ending March 31, 2016

(1) Overview of Consolidated Business Results

During the first half of the current fiscal year (from April 1 to September 30, 2015), the following major trends prevailed in the global healthcare industry. In China, some investments in medical capital equipments, including devices, were negatively impacted by a slowdown in the country's macro economy. Meanwhile, in the United States, demand for medical care is growing, owing in part to an increase in the number of insured people thanks to Obamacare. In Japan, the government announced its Basic Policy on Economic and Fiscal Management and Reform 2015, which in part aims at trimming back healthcare costs, including goals for the share of generics, based on volume, in the total pharmaceuticals market. Moreover, in September, the HeartSheet, an autologous skeletal myoblast sheet developed by Terumo, received conditional approval. Terumo submitted the HeartSheet for regulatory approval as a regenerative medical product under the Act on Pharmaceuticals and Medical Devices, which was enacted in 2014.

Amid this environment, the Terumo Group is pursuing its goal of "becoming a company with a global presence," and in line with its business-led management structure, Terumo is promoting management that aims to achieve sustainable and profitable growth.

The following are highlights of performance at each company during the first half of the current fiscal year.

- In the Cardiac & Vascular Company, sales grew substantially in the overseas interventional systems and neurovascular intervention businesses. Sales of the "Ultimaster", a drug-eluting stent, also continued to grow in Europe, Asia, and Latin America.
- In the General Hospital Company, the company focused on enhancing profitability through the expansion of high-margin businesses, including the Drug and Device business, and by improving manufacturing costs.
- In the Blood Management Company, in addition to an increase in sales of therapeutic apheresis systems and cell processing systems, sales were also strong for automated blood component collection system mainly in emerging countries.

A partial revision was made to the management of earnings at Terumo's overseas subsidiaries. Accordingly, starting October 1, 2014, earnings at consolidated subsidiaries Harvest Technologies Corporation and Harvest Technologies GmbH are being posted under the Blood Management Company reporting segment, as opposed to the Cardiac & Vascular Company. Segment information for the first half of the fiscal year ended March 31, 2015 was revised to reflect reporting segments after the revisions.

Financial results for the first half of the fiscal year ending March 31, 2016 are as follows:

Net sales

Net sales totaled 259.2 billion yen, an increase of 11.1% compared with the same period in the previous fiscal year.

In Japan, net sales totaled 90.3 billion yen, a growth of 1.0% in contrast with the same period a year earlier, partially reflecting improved sales performance in the General Hospital Company owing in part to a wind down in negative impact from fluctuating demand triggered by a change in the market environment, including the consumption tax hike in FY2014. Meanwhile net sales overseas came to 168.8 billion yen, a rise of 17.3% owing to a substantial expansion in sales of interventional systems and neurovascular intervention businesses in the United States, Europe, and Asia, and an expansion in sales in the Blood Management Company mainly in emerging countries.

Gross profit

Gross profit totaled 139.4 billion yen, a growth of 13.4% in contrast with the same period a year earlier, owing to contribution from an expansion in sales of high-value-added products abroad.

Operating income

Operating income totaled 39.1 billion yen, an expansion of 18.5% versus the same period a year earlier, as the increase in gross profit outpaced the rise in selling, general and administrative expenses.

Ordinary income

Ordinary income was 35.8 billion yen, an increase of 5.1% in comparison with the same period a year earlier, owing to the growth in operating income despite foreign exchange losses reflecting a weaker yen.

Profit attributable to owners of parent

Profit attributable to owners of parent came to 27.0 billion yen, an increase of 23.5% in contrast with the same period in the previous year, partly attributable to extraordinary gain on the sale of noncurrent assets.

Net sales results by company are as follows:

Cardiac & Vascular Company

In the interventional systems business in Japan, sales declined 2.9% year-on-year. This reflected a decline in sales of coronary and peripheral stents due to a temporary change in the market such as competitive environment. Meanwhile, in overseas markets, sales of the "Ultimaster", a drug-eluting stent, continued to expand in Europe and other markets. In the United States, sales of products for transradial coronary intervention (TRI: a technique using a catheter to approach the coronary artery from an artery in the wrist) increased and in June, sales of peripheral stents were off to a smooth start. Sales in the neurovascular intervention business grew sharply in all regions, including the United States, Europe, and China.

Consequently, sales in the Cardiac & Vascular Company totaled 125.5 billion yen, a growth of 17.5% in comparison with the same period in the previous fiscal year.

General Hospital Company

In Japan, sales rose 3.5% year-on-year, owing in part to an expansion in sales of high-value-added products, including infusion systems and prefilled syringes. Overseas sales were up 1.9% reflecting measures that focused on an expansion in sales of high-value-added products and to scale back low-margin businesses.

Accordingly, sales in the General Hospital Company came to 80.8 billion yen, an increase of 3.1% in contrast with the same period a year earlier.

Blood Management Company

In Japan, blood donation numbers continued downward. In light of this, sales declined due to negative impact to demand for related products used when collecting blood. Meanwhile, overseas sales expanded for therapeutic apheresis systems and cell processing systems, which are high-value-added products. Sales were strong for automated blood component collection systems, mainly in emerging countries. Moreover, sales in the United States outpaced initial plans, in part due to a delay in a transition to new prices.

Consequently, sales in the Blood Management Company amounted to 52.8 billion yen, a growth of 9.8% in contrast with the same period in the previous fiscal year.

(2) Overview of Consolidated Balance Sheets

Total Assets

As of September 30, 2015, total assets came to 973.2 billion yen, a decrease of 18.8 billion yen compared with March 31, 2015.

Current assets were 417.6 billion yen, an increase of 5.2 billion yen owing in part to an increase in cash and deposits.

Non-current assets totaled 550.6 billion yen, a decrease of 25.2 billion yen. Property, plant and equipment increased 700 million yen, intangible assets decreased 13.8 billion yen due to factors such as goodwill amortization, and investments and other assets decreased 12.1 billion yen, owing in part to the sale of investment securities.

Total Liabilities

Liabilities totaled 395.9 billion yen, a decline of 22.7 billion yen, partly attributable to a decrease in income taxes payable and trade payable.

Total Net Assets

Net assets totaled 577.3 billion yen, an increase of 3.8 billion yen. This was primarily attributable to an 11.0 billion yen decrease owing to share buybacks and an increase of 27.0 billion yen in profit attributable to owners of the parent.

Accordingly, the company posted an equity ratio of 59.3%, an increase of 1.5 points versus March 31, 2015.

(3) Forecast of Consolidated Financial Results for the Fiscal Year Ending March 31, 2016

The business environment is likely to remain murky going forward, including changes in the business climate for medical devices. However, Terumo is reiterating its consolidated financial forecasts.

Amid this business environment, to achieve its goals, the Terumo Group aims to introduce and expand sales of high-value-added products that contribute to the improvement of healthcare economics. Furthermore, the Company plans to embark on the reduction of manufacturing costs and the full-fledged implementation of SG&A cost efficiency measures.