

Financial Results for the Fiscal Year Ended March 31, 2016: Reference

Analysis of Business Performance and Financial Position

Analysis of Business Performance

1. Overview of Financial Results for the Fiscal Year Ended March 31, 2016

(1) Overview of Consolidated Business Results

In the fiscal year ended March 31, 2016, the global healthcare market was highlighted by the following trends. In the United States, healthcare demand continued to gradually expand, owing in part to an increase in people with health insurance coverage. In China, although the pace of economic growth slowed, healthcare demand continued to trend solidly given the promotion of reforms to the country's healthcare system. Meanwhile, in Japan, the government is aiming to moderate national healthcare expenditures to improve the country's fiscal health. Amid this, there is growing demand for pharmaceuticals and medical devices that improve healthy life expectancy and medical economics. Owing to the Pharmaceutical and Medical Device Act (PMD Act) enacted in 2014, companies and other institutions are briskly carrying out initiatives to commercialize regenerative medicine. In September 2015, Terumo was the first to receive rapid approval with certain conditions and time restrictions under this act for its "HeartSheet", an autologous skeletal myoblast sheet to treat severe heart failure caused by ischemic heart disease.

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, profitable, and high-quality growth.

The following are highlights of performance at each company during the fiscal year under review.

- In the Cardiac and Vascular Company, sales continued to trend steadily in the Interventional Systems (TIS) and Neurovascular intervention businesses.
- In the General Hospital Company, sales in Japan grew for needleless infusion systems and products for peritoneal dialysis. Overseas, the company focused on enhancing profitability by transforming its business portfolio via the downsizing of low-margin businesses, mainly in Europe and Central and South America.
- In the Blood Management Company, sales increased for therapeutic apheresis systems and cell processing systems. Also, sales of products to blood centers, mainly in emerging countries, were also solid.

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 and 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.

Owing to the above initiatives in the fiscal year under review, Terumo's consolidated financial results are as follows.

Net sales

Net sales totaled 525.0 billion yen, an increase of 7.3% compared to the previous fiscal year.

(million yen)

	Fiscal year ended March 31, 2015	Fiscal year ended March 31, 2016	Growth (%)	Growth excluding impact of forex translations (%)
Net sales	489,506	525,026	7.3	5.0
Gross profit	256,025	284,900	11.3	10.1
Operating income	67,456	81,703	21.1	25.4
Ordinary income	70,730	73,090	3.3	—
Profit attributable to owners of parent	38,470	50,676	31.7	—

(million yen)

Regional sales	Fiscal year ended March 31, 2015	Fiscal year ended March 31, 2016	Growth (%)	Growth excluding impact of forex translations (%)
Japan	183,146	187,210	2.2	2.2
Europe	104,600	101,802	(2.7)	1.6
Americas	125,310	143,462	14.5	5.7
Asia, outside Japan	76,448	92,550	21.1	15.6
Overseas total	306,359	337,815	10.3	6.7
Total	489,506	525,026	7.3	5.0

In the TIS business, sales in Japan totaled 187.2 billion yen, a rise of 2.2% compared with the previous year. Meanwhile, in the overseas TIS business in the United States and Asia, primarily China, and in the overseas Neurovascular intervention business, sales reached 337.8 billion yen, a growth of 10.3%.

Gross profit

Gross profit rose 11.3% to 284.9 billion yen compared to the previous fiscal year. This reflects contribution from an expansion in sales of high-value-added products both in Japan and abroad and an ongoing reduction to manufacturing costs.

Operating income

Operating income came to 81.7 billion yen, up 21.1% year on year. The increase in gross profit outpaced the rise in selling, general and administrative expenses.

Ordinary income

Ordinary income increased 3.3% to 73.1 billion yen year on year, primarily owing to an increase in operating income despite foreign exchange losses.

Profit attributable to owners of parent

Profit attributable to owners of parent rose 31.7% year on year to 50.7 billion yen.

Net sales results by company are as follows:

		(million yen)			
Segment		Fiscal year ended March 31, 2015	Fiscal year ended March 31, 2016	Growth (%)	Growth excluding impact of forex translations (%)
Cardiac and Vascular Company	Net sales	226,944	258,600	13.9	10.3
	(Japan)	48,296	51,554	6.7	6.7
	(Overseas)	178,647	207,046	15.9	11.2
General Hospital Company	Net sales	161,462	161,382	(0.0)	(0.6)
	(Japan)	122,290	124,178	1.5	1.5
	(Overseas)	39,172	37,203	(5.0)	(7.3)
Blood Management Company	Net sales	101,099	105,042	3.9	2.3
	(Japan)	12,559	11,477	(8.6)	(8.6)
	(Overseas)	88,539	93,565	5.7	3.9

Cardiac and Vascular Company

In the TIS business, Terumo launched the “Ultimaster”, a drug-eluting stent, in Japan in October 2015. “Ultimaster” sales were brisk in all regions, including Europe, Central and South America, and Asia, where the product was released during the previous fiscal year. In addition, in the United States, sales were brisk for products related to the transradial coronary intervention (TRI: a technique using a catheter to approach the coronary artery from an artery in the wrist). Sales also grew in Asia, mainly in China. In the Neurovascular intervention business, sales increased substantially in the United States and Asia, mainly China.

Consequently, sales in the Cardiac and Vascular Company totaled 258.6 billion yen, an increase of 13.9% year on year.

General Hospital Company

In Japan, sales increased underpinned by sales growth for needleless infusion systems, and products for peritoneal dialysis and diabetes management. Meanwhile, outside Japan, the company pursued an improvement of its profitability. Sales were steady in Asia for products such as infusion pumps. Meanwhile, the company revised its business portfolio, mainly by downsizing low-profit businesses in Europe and Central and South America.

In light of this, net sales in the General Hospital Company came to 161.4 billion yen, a decline of 0.0% year on year.

Blood Management Company

Sales in Japan decreased year on year as an ongoing decline in the number of blood donations impacted demand for related products used during blood collection. Outside Japan, the transition to new prices was completed in the United States, although behind initial plans. Accordingly, sales were sluggish for products delivered to blood centers slowed. However, sales expanded in the therapeutic apheresis systems and cell processing systems. Sales of products delivered to blood centers also grew, mainly in emerging countries.

Accordingly, net sales in the Blood Management Company were 105.0 billion yen, up 3.9% year on year.

(2) Research and Development

In the Cardiac and Vascular Company, Terumo received approval for the manufacturing and sales of its “Ultimaster”, a drug-eluting stent and launched the product in October 2015 in Japan. In the United States, the company’s “Misago”, a stent used in the treatment of peripheral artery disease was the first product of its type that was manufactured by a Japanese company to be approved as an implanted medical device by the United States Food and Drug Administration in June 2015. Sales of the stent we launched the same month. In the field of cancer treatment using catheters, the company launched drug-loadable beads therapy in Europe for use in the treatment of liver cancer. The anti-cancer drug is loaded into the beads.

In the General Hospital Company, the company developed “Immucise”. This is an intradermal injection device. The product concept is to administer vaccines easily and accurately. This drug delivery method is expected to boost the effectiveness of a vaccine.

In the field of regenerative medicine, Terumo was the first to receive rapid approval with certain conditions and time restrictions under the Pharmaceutical and Medical Device Act (PMD Act), which was enacted in September 2015, for its HeartSheet, an autologous skeletal myoblast sheet to treat severe heart failure caused by ischemic heart disease.

(3) Capital Expenditure

In Japan, capital was invested into the Ashitaka factory to boost production capacity. The company aims to increase production of its TIS products as sales continue to grow globally.

Outside Japan, the company moved forward with the construction of a new company building for MicroVention, Inc. in Southern California to strengthen product R&D in the Neurovascular intervention business and the TIS business. In addition, an investment was made to strengthen production of TIS products at the Vietnam factory.

In addition, at factories in Japan and abroad, capital expenditures were made to enhance quality, production efficiency, and the competitiveness of our products.

Accordingly, in the fiscal year under review, capital expenditure totaled 31.5 billion yen.

2. Outlook for the Fiscal Year Ended March 31, 2017

In the fiscal year ended March 31, 2017, negative impact to sales and profits is expected from a strong yen and revisions to reimbursement prices. However, Terumo aims to achieve its guidance by grasping growth opportunities at each company and through the following measures, and attain sustainable, profitable, and high quality growth.

In the Cardiac and Vascular Company, the company plans to expand its product pipeline to boost its competitive edge globally, and also aims to invest in promising technologies and product by unearthing growth opportunities, mainly in areas related to existing businesses. In the TIS business, Terumo plans to pour energies into the expansion of sales of the “Ultimaster”, a drug-eluting stent, to achieve sales growth. In the peripheral intervention market, the company plans to expand sales of therapeutic devices, including stents for treating peripheral artery disease and balloon catheters. In the Neurovascular intervention business, the company plans to sustain its high growth by expanding its product lineup outside the realm of coils, such as those for neurovascular stroke devices. In the CV business, Terumo plans to pour energies into completing a FDA-standard quality management system to gear up for production and supply operations at the Ann Arbor factory of Terumo Cardiovascular Systems Corporation, a subsidiary in the United States.

In the General Hospital Company, Terumo plans to further improve profitability by supplying high value-added products that meet the needs of users in the medical frontlines, and via full-fledged profit management.

In the general hospital products business, the company plans to increase the number of customer accounts by proposing high value-added products as systems that contribute to safety and operational efficiency in the medical frontline. This includes products such as smart pumps with IT functions. In the Drug and Device business, Terumo looks to pour energies into expanding supply of prefilled syringes by promoting strategic alliance with pharmaceutical manufacturers. In Japan, preparations are set to get underway for the sale of “Immucise”, intradermal injection device. The product concept is to administer vaccines easily and accurately. This drug delivery method is expected to boost the effectiveness of a vaccine. In the DM and consumer healthcare business, the company plans to promote the use of “HR Joint”, a vital sign monitoring device series that is equipped with a

communication function to transmit data, such as blood glucose level, body temperature, and blood pressure, to an electronic patient's file (hospital record) and thereby expand sales of monitoring devices.

In the Blood Management Company, the company aims for sustainable growth by steadily capturing the increase in healthcare demand in emerging countries and by growing sales in the therapeutic apheresis systems and cell processing systems. In the therapeutic apheresis systems business, the company looks to promote the expansion of applications for the systems and to further expand use in emerging countries. In the cell processing systems business, the company plans to pour energies into sales expansion of products that contribute to effectively expanding cells, which is essential for regenerative medicine. Terumo is making steady progress on integrating its production system globally. At its factory in the outskirts of Ho Chi Minh City, Vietnam, the company aims to move forward with preparations to launch commercial production.

Forecast of Consolidated Financial Results

(million yen)

	Results for the fiscal year ended March 31, 2016	Guidance for the fiscal year ended March 31, 2017	Change	Change (%)
Net sales	525,026	517,000	(8,026)	(1.5)
Operating income	81,703	75,000	(6,703)	(8.2)
Operating margin	15.6%	14.5%		
Ordinary income	73,090	71,000	(2,090)	(2.9)
Profit attributable to owners of parent	50,676	52,500	1,823	3.6

Actual exchange rate for the fiscal year ended March 31, 2016: ¥120/USD, ¥133/EUR

Exchange rate assumption for the fiscal year ended March 31, 2017: ¥110/USD, ¥125/EUR

Analysis of Financial Position

1. Total assets, liabilities and net assets

Total assets stood at 901.7 billion yen, a decrease of 90.4 billion yen versus the same time a year earlier. This was primarily attributable to a decrease in the repayment of marketable securities (negotiable deposits), a decrease in intangible assets, and forex impact.

Liabilities totaled 390.1 billion yen, a decrease of 28.4 billion yen versus the same time a year earlier. This was primarily attributable to a decrease in income taxes payable and trade payable.

Net assets were 511.5 billion yen, a decrease of 62.0 billion yen versus the same time a year earlier. This was primarily attributable to the acquisition of treasury stock.

2. Cash flows

(million yen)

	Fiscal year ended March 31, 2015	Fiscal year ended March 31, 2016	Change
Cash flows from operating activities	73,110	80,303	7,192
Cash flows from investing activities	(40,421)	(23,495)	16,925
Cash flows from financing activities	44,121	(79,936)	(124,057)
Cash and cash equivalents as of the end of the fiscal year under review	176,662	146,927	(29,735)

Net cash provided by operating activities was 80.3 billion yen. During the fiscal year under review, income before income taxes was 76.9 billion yen, depreciation was 33.7 billion yen, and goodwill amortization was 11.0 billion yen. In addition, corporate and other taxes paid were 36.5 billion yen.

Net cash used in investment activities was 23.5 billion yen. This primarily reflects the 28.2 billion yen used to acquire property, plant and equipment.

Net cash used in financing activities was 79.9 billion yen. This mainly reflects 61.0 billion yen to acquire treasury stock and 13.2 billion yen for dividend payouts.

(Reference) Cash flow indicators

	Fiscal year ended March 31, 2014	Fiscal year ended March 31, 2015	Fiscal year ended March 31, 2016
Equity ratio (%)	59.6	57.8	56.7
Market cap-based equity ratio (%)	102.7	121.0	162.4
Interest-bearing debt to cash flow ratio (annual)	1.7	1.7	1.5
Interest coverage ratio (x)	63.2	57.0	55.5

Note: Equity ratio = Shareholders' equity/Total assets

Market cap-based equity ratio = Total market capitalization/Total assets

Interest-bearing debt to cash flow ratio = interest-bearing debt/cash flow

Interest coverage ratio = cash flow/total interest payments

*All of the above is calculated on a consolidated basis

*Market capitalization = fiscal year-end share price X the total number of shares outstanding excluding treasury stock

*The cash flow above is the cash flow provided by operating activities as stated in the consolidated statements of cash flows. The interest-bearing debt includes all debt posted in the consolidated balance sheet on which the company pays interest. Also the figure for interest expense in the consolidated statements of cash flows was employed as the amount for interest payments.

Basic policy for profit distribution, dividend payouts in fiscal year ended March 31, 2016, and payout plan for the fiscal year ending March 31, 2017

As a measure to secure high profit margins and sustainable growth, the Terumo Group adequately and actively reinvests profits to constantly enhance its corporate value. This is consistent with the group's pledge to distribute profits to shareholders and maximize the value of its investments.

Terumo aims to steadily increase its dividend payouts to shareholders and has set a medium/long-term dividend payout ratio target of 30%.

In the fiscal year ended March 31, 2016, the company plans to pay cash dividends per share of 39 yen. Consequently, the fiscal year-end dividend is 20 yen per share, and the interim dividend, which has already been paid, was 19 yen per share.

In the fiscal year ending March 31, 2017, Terumo plans annual cash dividends per share of 41 yen (interim dividend of 20 yen).

Business and other risks

The following are potential risks to the business performance and financial position of the Terumo Group.

- Revisions to healthcare administration policies

In the industry in which Terumo operates, healthcare system reform aimed at reducing medical fees and improving the quality of healthcare services is an ongoing trend. A sudden change in the business environment due to an unexpected major turnaround in healthcare administration policies could potentially impact the business performance and financial position of the Terumo Group.

- Fluctuation in selling prices

As a part of its policy to reduce medical costs, the Japanese government enacts reimbursement price revisions once every two years for medical services, drug prices, and special treatment materials. In addition, there is a possibility of a substantial decline in selling prices in Japan and abroad due to intensified competition with industry peers and advances in technologies. A change in selling prices is likely to have an impact on the business performance and financial position of the Terumo Group.

- Change in raw material prices

Many of Terumo's products are made from plastic and other materials that use crude oil as a raw material. Consequently, a sharp rise in resource prices globally would push up the company's purchasing cost for raw materials. This could potentially impact the business performance and financial position of the Terumo Group.

- Shift in foreign exchange rates

Given that Terumo's headquarters are in Japan and the company therefore conducts operations from Japan, financial statements that are prepared by overseas units and stated in local currencies are translated into yen to create consolidated financial statements. The foreign exchange rates the company applies change in tandem with fluctuations in foreign exchange rates, and impact profit after translation from local currencies.

The company aims to cope with this structurally, such as by transferring production to overseas plants and procuring raw materials from overseas. At the same time, Terumo uses forward contracts to flexibly hedge against the risk to the company's credit.

However, an unexpected fluctuation in exchange rates could possibly impact the business performance and financial position of the Terumo Group.

- Risks related to overseas activities

Terumo supplies products in more than 160 countries and regions. Consequently, in the markets where Terumo is conducting its business activities, potential risks to business performance and financial position include an economic downturn, the accompanying decline in demand, unexpected changes in the political situation, and changes in laws and regulations.

- Quality issues

Terumo employs strict quality management in accordance with GMP and ISO standards for the manufacturing of pharmaceuticals and medical devices.

However, the quality of Terumo's products could come into question should an accident occur, including medical errors. Even if it is clear that the company's product is not directly responsible for the medical error or accident, there is a risk this will have an impact on the future of the company's products. Consequently, in certain cases the company takes preventive measures. These measures could trigger a decline in sales or an increase in costs which could possibly impact the business performance and financial position of the Terumo Group.

- Significant lawsuits

There are risks that could possibly trigger a lawsuit, disputes, or other legal action related to the company's businesses in Japan and abroad. The legal and compliance department, the intellectual property department, and other overseeing departments conduct surveys of these legal risks. There is also an internal check system. The management system facilitates reporting to the Board of Directors and Audit/Supervisory Committee when necessary. However, a significant lawsuit including damage claims and injunctions to prevent use of a product or material, could possibly impact the business performance and financial position of the Terumo Group.

- Other

Other potential risks to the business performance and financial position of the Terumo Group include changes in business practices, disasters such as terrorist attacks and war, and the global spread of communicable diseases and new strains of influenza.

Cautionary note:

Forward-looking statements, including earnings forecasts, contained in Terumo's disclosure materials are based on currently available information and assumptions believed to be reasonable by management. This is not a promise or guarantee by Terumo that it will achieve these goals. Please note that the actual results or outcomes could differ due to a number of factors. Key elements that are likely to have an impact on actual earnings performance include economic conditions surrounding the company's business environment, volatility in foreign exchange rates, and competition.

Management policies

1. Basic stance on corporate management

Corporate policy : Contributing to Society through Healthcare

In accordance with this corporate policy, it is the goal of Terumo to make medical advancements and improve healthcare safety. Since its founding in 1921, the company has consistently embarked on the development and expansion of medical devices and pharmaceuticals that satisfy the needs of the medical industry.

Five statements : Open management; enhanced value; safety and reliability; respect for our associates; and corporate citizenship

These statements serve as basic tenets—standards for actions and decisions—for the corporate activities of the Terumo Group.

Global vision : “Innovating at the Speed of Life”

Terumo established this vision in January 2015. It is a roadmap that indicates what initiatives Terumo should engage in and what direction it should take moving forward. This outlines the policy of the Terumo Group, which is to place top priority on the lives of patients, continue to be a partner to medical practitioners, and to create innovations that will improve the life and healthcare of patients.

In accordance with these management policies, Terumo aims to optimize corporate value by fortifying its position as Japan’s leader in the medical industry, as well as boosting its share of the global market and improving its brand value.

2. Management indicators

At present Terumo is pursuing its goal of becoming a company with a global presence. The company is implementing a four-year mid-term plan, which will be completed in the fiscal year ending March 31, 2017. The goal of this mid-term plan is to achieve sustainable, profitable, and high quality growth. The company is aiming to achieve an operating margin of 20%, before the amortization of goodwill and other items. In the fiscal year under review, the company attained an operating margin of 19.4% before the amortization of goodwill and other items. In other words, the company has nearly achieved its goal one year earlier than planned.

3. Management strategies in the medium/long term

In line with its goal of becoming a company with a global presence, to achieve sustainable, profitable, and high quality growth, Terumo is globally supplying high value-added products and services that alleviate burden on the patient, ensure safety in the healthcare industry, and improve operational efficiency. In addition to growth in existing businesses, the company aims to improve its global competitive strength by using alliances and M&A that will give rise to synergies with technologies and products in the Terumo Group’s areas of expertise, as a part of its ongoing pursuit for new growth opportunities.

4. Issues the company should address

The global medical device market is undergoing a period of transformation. In Japan, amid a rapidly aging population, the government is moving to curb national healthcare expenditures while promoting the entry of companies from other industries into this market, which is positioned as a pillar in the healthcare industry's growth strategy. In the United States and Europe, the reduction of spending on healthcare is an issue. There is demand for more economic medical products and services. Meanwhile, healthcare demand is expected to expand in emerging countries going forward owing to the establishment of a healthcare infrastructure in tandem with economic growth. Within a market environment that is becoming more diversified, Terumo aims to achieve sustainable, profitable, and high quality growth by developing and launching products in a timely manner that meet local needs, and also by enhancing its cost competitiveness by using a global production system to carry out optimum local production.

Basic stance on the selection of accounting standards

In preparation for the future adoption of International Financial Reporting Standards (IFRS), Terumo is currently considering the establishment of procedures, including the creation of an internal manual and guidelines, and the appropriate timing for adoption.