IFRS Financial Results for the First Quarter of the Fiscal Year Ending March 31, 2019: Reference

Analysis of Business Performance

1. Overview of Financial Results for the First Quarter of the Fiscal Year Ending March 31, 2019

(1) Overview of Consolidated Business Results

In the first quarter of the current fiscal year (from April 1 to June 30, 2018), the ongoing trend in various countries in the global healthcare market was to cut back medical expenditures. Amid this environment, in Japan NHI reimbursement prices underwent revisions in April. And, there continues to be growing demand, mainly in developed countries, for better healthcare economics to achieve a more focused and efficient allocation of fiscal resources.

Amid this backdrop, in line with the Mid- and Long-term Vision, the Terumo Group, as a “Global Corporation with Unique Excellence,” aims to become recognized by medical professionals worldwide as a top brand and a trusted manufacturer by winning a high level of trust globally for our total quality (which includes the total quality of its products, supply, and services).

Financial results for the first quarter of the fiscal year ending March 31, 2019 are as follows:

(million yen)

	Q1 FYE3/2018	Q1 FYE3/2019	Growth (%)	Growth excluding impact of forex translations (%)
Revenue	139,312	143,020	2.7	2.1
Gross profit	75,914	79,857	5.2	4.2
Adjusted operating profit	32,079	30,544	(4.8)	(6.4)
Operating profit	28,435	25,875	(9.0)	(11.2)
Profit before tax	28,163	23,406	(16.9)	-
Profit for the period	20,310	18,059	(11.1)	-
Profit for the period attributable to owners of the parent	20,336	18,091	(11.0)	-

(million yen)

Regional sales	Q1 FYE3/2018	Q1 FYE3/2019	Growth (%)	Growth excluding impact of forex translations (%)
Japan	44,915	44,010	(2.0)	(2.0)
Europe	27,747	29,605	6.7	2.2
Americas	41,130	42,763	4.0	6.3
Asia, outside Japan	25,519	26,640	4.4	2.7
Other overseas region	94,397	99,009	4.9	4.1
Total	139,312	143,020	2.7	2.1

Revenue

Revenue totaled 143.0 billion yen, a growth of 2.7% versus the same period in the previous fiscal year.

In Japan, overall revenue declined year on year. Although revenue trended briskly in the General Hospital Company owing to demand in the pain management domain and in the alliance business with other pharmaceutical companies, in the Cardiac and Vascular Company, there was negative impact from NHI reimbursement price revisions and shipping delay of certain products from the Ashitaka factory.

Meanwhile, revenue overseas climbed in comparison with a year earlier. Performance was driven by brisk revenue in the neurovascular and CV businesses in the Cardiac and Vascular Company and the alliance business in the General Hospital Company, as well as by demand for blood center products and therapeutic apheresis systems in the Blood Management Company.

Gross profit

Gross profit amounted to 79.9 billion yen, an increase of 5.2% compared with the previous fiscal year. This mainly reflects contribution from a reduction to manufacturing costs in each company.

Adjusted operating profit

Adjusted operating profit factors out amortization expense for intangible assets obtained during acquisitions and one-off income and expenses from operating profit. In addition, adjusted operating profit is consistent with segment profit. We are disclosing adjusted operating profit as we are using it as an earnings management indicator. In the quarter under review, adjusted operating profit came to 30.5 billion yen, a decrease of 4.8% year on year. Although gross profit improved, it was offset by a rise in selling, general and administrative expenses and research and development expense.

Operating profit

Operating profit totaled 25.9 billion yen, a drop of 9.0% year on year. In addition to factors impacting adjusted operating profit, there was an increase in one-off expenses, including acquisition-related expense, and other income and expenses.

Profit before tax

Profit before tax was 23.4 billion yen, a decrease of 16.9% versus the same quarter a year earlier. This reflects the posting of a forex translation loss, versus a forex translation gain in the same quarter a year earlier.

Profit for the period attributable to owners of the parent

Profit for the period attributable to owners of the parent totaled 18.1 billion yen, a drop of 11.0% year on year. Although corporate income tax declined owing to a reduction to the federal corporate income tax rate reflecting the tax reform in the United States, profit before tax for the first quarter was down.

Revenue results by company are as follows:

(million yen)

Segment		Q1 FYE3/2018	Q1 FYE3/2019	Growth (%)	Growth excluding impact of forex translations (%)
Cardiac and Vascular Company	Revenue	79,057	79,535	0.6	(0.1)
	(Japan)	13,491	11,296	(16.3)	(16.3)
	(Overseas)	65,566	68,239	4.1	3.2
General Hospital Company	Revenue	36,867	38,812	5.3	5.0
	(Japan)	28,947	30,165	4.2	4.2
	(Overseas)	7,919	8,646	9.2	7.9
Blood Management Company	Revenue	23,333	24,595	5.4	5.0
	(Japan)	2,422	2,494	3.0	3.0
	(Overseas)	20,911	22,100	5.7	5.3

Cardiac and Vascular Company

In Japan, revenue decreased year on year. Although revenue were brisk in the neurovascular business and for vascular closure devices in the TIS business, there was negative impact from revisions to NHI reimbursement prices and due to shipping delay of certain products from the Ashitaka factory.

Meanwhile, overseas revenue growth was driven by demand for access devices and oncology products in the TIS business, and coils for the embolization of cerebral aneurysms, which use hydrogel, and suction catheters, in the neurovascular business.

Accordingly, revenue in the Cardiac and Vascular Company totaled 79.5 billion yen, a growth of 0.6% year on year.

General Hospital Company

In Japan in the hospital systems business, demand was brisk in the pain management domain, including for Acelio Intravenous Injection 1000mg — an intravenous injectable acetaminophen antipyretic analgesic, and for AdSpray, a spray type adhesion barrier. In addition, there was an expansion in B2B business with pharmaceutical companies in the alliance business. Consequently, in the General Hospital Company revenue amounted to 38.8 billion yen, an increase of 5.3% versus the period a year earlier.

Blood Management Business

Revenue was strong to blood centers, mainly in North America and emerging markets. In addition, revenues grew in the field of therapeutic apheresis system in Europe. Consequently, revenue in the Blood Management Company totaled 24.6 billion yen, a rise of 5.4% year on year.

(2) Overview of Consolidated Balance Sheets

Total assets at the end of the first quarter stood at 1,093.2 billion yen, an increase of 14.2 billion yen versus March 31, 2018. Although trade and other receivables decreased 5.2 billion yen and cash and cash equivalents were down 4.9 billion yen, goodwill and intangible assets increased 13.5 billion yen, in part reflecting positive impact from a depreciation in the yen's value versus the US dollar compared with March 31, 2018. In addition, inventories increased 8.2 billion yen and property, plant and equipment rose 4.4 billion yen.
Liabilities totaled 494.6 billion yen, a decrease of 33.9 billion yen. This was mainly attributable to a 15.4 billion yen decline in bonds and borrowings (non-current liabilities) due to the conversion of convertible bonds, and a 10.4 billion yen drop in current tax liabilities.

Equity was 598.5 billion yen, an increase of 48.1 billion yen. This was mainly attributable to an overall increase in retained earnings of 8.4 billion yen reflecting the posting of profit for the period attributable to owners of the parent while dividend payments detracted from retained earnings. Another positive factor was an increase of 20.4 billion yen in elements that comprise other equity. This reflects a rise in forex translation gains at overseas sales offices, owing to a depreciation in the yen's value versus the US dollar compared with March 31, 2018. There was also a gain of 19.4 billion yen owing to a decrease in treasury stock deducted from equity.

(3) Forecasts, including the Consolidated Financial Results for the Fiscal Year Ending March 31, 2019

We downwardly revised our first half and full-year consolidated financial forecasts for revenue, operating profit, profit before tax and profit for the year attributable to the owners of the parent. This reflects shipping delay for certain products from the Ashitaka factory, which produces cardiovascular products. This was announced in our July 4 press release "Terumo Announces Shipping Delays for Products from Ashitaka Factory". For details refer to the "Terumo Revises the First-Half and Full-Year Results Forecast for FY 2018," which we released on August 8, 2018.