

Financial Results for the First Three Quarters of the Fiscal Year Ending March 31, 2018: Reference

Analysis of Business Performance

1. Financial Results for the First Three Quarters of the Fiscal Year Ending March 31, 2018:

Reference

(1) Overview of Consolidated Business Results

In the first three quarters of the current fiscal year (from April 1 to December 31, 2017), the global healthcare industry exhibited the following characteristics. In December 2017, the Japanese government settled on the 2018 NHI revision to the reimbursement system for medical services. A negative revision rate is to be implemented for drug prices and special treatment materials (also referred to as designated insured medical materials). Meanwhile, in the United States, Congress approved a tax reform bill. In addition to cutting the federal corporate tax rate, the bill will repeal the mandatory insurance requirement for all people which was set forth under the Affordable Care Act.

Amid this backdrop, as a global corporation with unique excellence, the Terumo Group continued to work toward its Mid- to Long-term Vision of becoming recognized by medical professionals worldwide as a top brand and a trusted manufacturer. To this end, we are focused on earning 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 three quarters of the fiscal year ending March 31, 2018 are as follows:

Net sales

Net sales totaled 437.0 billion yen, an increase of 16.7% compared with the same period in the previous fiscal year.

	(million yen)			
	Q1-Q3 FYE3/2017	Q1-Q3 FYE3/2018	Growth (%)	Growth excluding impact of forex translations (%)
Net sales	374,394	436,955	16.7	12.2
Gross profit	203,712	244,705	20.1	14.6
Operating income	58,904	72,374	22.9	14.4
Ordinary income	52,204	70,663	35.4	-
Profit attributable to owners of parent	31,822	63,485	99.5	-

(million yen)

Regional sales	Q1-Q3 FYE3/2017	Q1-Q3 FYE3/2018	Growth (%)	Growth excluding impact of forex translations (%)
Japan	139,591	142,872	2.4	2.4
Europe	68,327	86,119	26.0	16.5
Americas	98,934	126,290	27.7	21.6
Asia etc.	67,541	81,671	20.9	14.6
Overseas total	234,803	294,082	25.2	18.1
Total	374,394	436,955	16.7	12.2

In Japan, overall sales increased year on year, reflecting brisk sales in the Interventional Systems (TIS) business in the Cardiac and Vascular Company for products including access devices, the VISICUBE, an intravascular ultrasound system, and AltaView, an intravascular ultrasound catheter.

Meanwhile, overseas sales expanded in contrast with a year earlier. In the TIS business in the Cardiac and Vascular Company, access device sales trended briskly. At our production subsidiary in Puerto Rico, which is a territory of the United States, production of the Angio-Seal, a vascular closure device, had been suspended since September 20, 2017 due to the impact of Hurricane Maria. Production was resumed in November 2017 and shipments were recommenced in January 2018. In the neurovascular business, sales increased owing to solid sales for products including coils for the embolization of cerebral aneurysms. Furthermore, in the Blood Management Company, sales grew to blood centers and in the field of therapeutic apheresis systems.

Gross profit

Gross profit amounted to 244.7 billion yen, a rise of 20.1% compared with the same period in the previous fiscal year. This mainly reflects contribution from an expansion in sales at the Cardiac and Vascular Company, which boasts a high profit margin, and a reduction in manufacturing costs at the General Hospital Company.

Operating income

Operating income came to 72.4 billion yen, a growth of 22.9% year on year. The growth in gross profit offset an increase in selling, general and administrative expenses.

Ordinary income

Ordinary income stood at 70.7 billion yen, a growth of 35.4% year on year. This reflects the increase in operating income as well as a decrease in non-operating expense given that the loss on foreign exchange translations posted in the same period a year earlier were not incurred in the first three quarters of the current fiscal year.

Profit attributable to owners of parent

Profit attributable to owners of parent totaled 63.5 billion yen, a rise of 99.5% year on year. This is attributable to an increase in ordinary income and also a one-off decline, mainly in the corporate tax, owing mainly to the

revaluation of deferred tax assets and liabilities due to the tax reform in the United States.

Net sales results by company are as follows:

(million yen)

Segment		Q1-Q3 FYE3/2017	Q1-Q3 FYE3/2018	Growth (%)	Growth excluding impact of forex translations (%)
Cardiac and Vascular Company	Net sales	186,570	240,038	28.7	22.6
	(Japan)	37,345	40,548	8.6	8.6
	(Overseas)	149,225	199,490	33.7	26.1
General Hospital Company	Net sales	118,979	120,231	1.1	(0.3)
	(Japan)	93,515	93,793	0.3	0.3
	(Overseas)	25,464	26,438	3.8	(2.3)
Blood Management Company	Net sales	68,692	76,510	11.4	5.7
	(Japan)	8,577	8,368	(2.4)	(2.4)
	(Overseas)	60,114	68,141	13.4	6.8

Cardiac and Vascular Company

In Japan, overall sales increased year on year, reflecting brisk sales in the TIS business for products such as access devices, the VISICUBE, an intravascular ultrasound system, and AltaView, an intravascular ultrasound catheter. Meanwhile, overseas in the TIS business, access device sales trended briskly. At our production subsidiary in Puerto Rico, which is a territory of the United States, production of the Angio-Seal, a vascular closure device, had been suspended since September 20, 2017 due to the impact of Hurricane Maria. Production was resumed in November 2017 and shipments were recommenced in January 2018. In the neurovascular business, sales were solid for coils for the embolization of cerebral aneurysms, which use hydrogel, and suction catheters.

Accordingly, net sales in the Cardiac and Vascular Company totaled 240.0 billion yen, a growth of 28.7% year on year, reflecting double-digit sales expansion in the overseas segment.

General Hospital Company

In Japan, we launched the TERUFUSION Infusion Pump Type 28 in August 2017. And sales of pain management and peritoneal dialysis products also grew. Reflecting this, net sales in the General Hospital Company were 120.2 billion yen, an increase of 1.1% versus the same period a year earlier.

Blood Management Company

Sales were strong to blood centers in Latin America and Asia. Also therapeutic apheresis system sales grew, mainly in North America, reflecting replacement demand.

Consequently, net sales in the Blood Management Company totaled 76.5 billion yen, a rise of 11.4% year on year.

(2) Overview of Consolidated Balance Sheets

Total Assets

As of December 31, 2017, total assets stood at 1,085.4 billion yen, an increase of 64.0 billion yen compared with March 31, 2017.

Current assets amounted to 421.2 billion yen, an increase of 72.0 billion yen, primarily attributable to an increase in cash and deposits.

Non-current assets came to 660.9 billion yen, a decrease of 7.2 billion yen. Property, plant and equipment increased 7.1 billion yen, intangible assets were down 15.5 billion yen, and investments and other assets rose 1.2 billion yen.

Total Liabilities

Liabilities came to 531.4 billion yen, a decrease of 500 million yen.

Current liabilities totaled 123.6 billion yen, a decline of 124.8 billion yen primarily attributable to the repayment of short-term loans payable.

Non-current liabilities were 407.8 billion yen, an increase of 124.3 billion yen, owing in part to a rise in long-term loans payable.

Total Net Assets

Total net assets totaled 554.0 billion yen, a growth of 64.5 billion yen.

Terumo's equity ratio stood at 51.0%, a rise of 3.1 percentage points compared with March 31, 2017.

(3) Forecasts, including the Consolidated Financial Results for the Fiscal Year Ending March 31, 2018

We upwardly revised our full-year consolidated financial forecasts for net sales, operating income, ordinary income and profit attributable to owners of parent. In addition to brisk earnings performance in each business segment, the yen is depreciating in value in contrast with our forex rate forecast at the start of the fiscal year. Moreover, this factors in a one-off decline, mainly in the corporate tax, owing mainly to the revaluation of deferred tax assets and liabilities due to the tax reform in the United States.

For details refer to the "Terumo Revises the Full-Year Results Forecast for FY 2017" which we released on February 8, 2018.