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Terumo Corporation
Nov 9, 2020

Q&A Session at the Financial Results Briefing
for the First Half of the Fiscal Year Ending March 31, 2021

Outlined below are the principal Q&As from the financial results briefing on November 5, 2020. Certain details have been expanded or modified to provide readers with deeper understanding of Terumo Corporation's performance and activities.

Q1: Has Cardiac and Vascular Company experienced another downturn in the number of PCI (percutaneous coronary intervention) procedures recently due to the COVID-19 pandemic? How much progress has been made in clearing the backlog of postponed elective procedures?

A1: Although the number of PCI procedures varies based on the source of information and it is difficult to grasp the actual number, we have heard from the medical front that the number of procedures in North America in the second quarter is down around 20% compared to precovid-19. We do not believe that the number of procedures has declined sharply as of late. Although there are differences among regions and treatment areas, overall we believe it will take some more time for the backlog of postponed elective procedures to be fully cleared.

Q2: You explained that PCI procedures in North America were down around 20% in the second quarter compared to precovid-19. The revenue of TIS business overseas in the second quarter alone was down 2%, which appears to be a strong recovery compared to the downturn in PCI procedures. What do you believe is the reason for this disparity?

A2: We hear that there are many cases in which time cannot be spent as before in selecting the devices to use for each procedure, because today the medical front is trying to minimize procedural time due to the COVID-19 pandemic. As a result, a phenomenon is occurring where the products which physicians are used to or products with high market shares are seeing increased frequency of usage. In such a situation, it is possible that the number of procedures using our access devices is increasing. In addition, in TIS business, compared to PCI, another contributing factor is that the decrease in procedures is more moderate in Endovascular and Oncology products lines. In either case, as it is difficult to explain the entire disparity only with this factor, we will continue to verify factors going forward.

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Q3: What was the year on year change in the first half revenue for Access and Cardiology of TIS business in Cardiac and Vascular Company?

A3: Access devices saw the first half revenue down 13% year on year, compared to a drop of 23% year on year in the first quarter, and recovered to 4% decline in the second quarter alone. Meanwhile, Cardiology devices saw a delayed recovery compared to Access devices. In the first quarter, revenue was down 28% year on year, and down 19% in the first half, while it was down 10% in the second quarter alone.

Q4: You explained that the revenue recovery in Access was faster than other sub-segments of TIS business in Cardiac and Vascular Company, while the revenue in Cardiology was slightly delayed. Was there any contribution from the use of Access devices in treatment areas other than Cardiology, or any increase in the penetration rate of Transradial Intervention (TRI: an intervention technique to approach from the artery on the wrist)?

A4: Access devices are used for Oncology and Endovascular as well, but within TIS business, Cardiology occupies the largest use, therefore it is believed that it has the highest correlation with the number of PCI procedures. In addition, in terms of TRI, too, we have not heard that the penetration rate in North America has increased significantly in the second quarter.

Q5: How much did the actual demand in Europe and China decline year on year in the second quarter?

A5: In China, excluding the impact of timing issue for order from distributors in Neurovascular business, the demand has returned to the same level as the second quarter last fiscal year. Looking at TIS business, which accounts for three-fourth of revenue in China, revenue was up slightly at 1% year on year in the second quarter alone. This was the strongest recovery among all regions.

With regard to Europe, too, second quarter revenue of TIS business returned to the same level as the previous second quarter, but currently lockdowns are being started again in some countries. For this reason, looking forward we cannot be as optimistic as China.

Q6: In Cardiac and Vascular Company, could the smaller decline in TIS business revenue compared to the level of decline in the number of procedures be explained by increasing inventory in the market?

A6: There is no increase in inventory at distributors because products are sold directly to markets such as North America and Europe. We cannot fully ascertain if inventory has been piled up on the customer side, but we have not heard anything like that from the medical front. We will continue to monitor the situation.

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Q7: In Blood center solutions of Blood and Cell Technologies Company, you explained there is increase in collection demand for the COVID-19 convalescent plasma therapy following the same trend in the first quarter. Specifically, which products are contributing to revenue in what way?

A7: Demand for disposable products for Trima Accel, the component collection system increased. This system is used at blood centers to collect convalescent plasma from patients who are recovered from COVID-19. Recovered patients donate blood at blood centers as per the request from hospitals. Currently, COVID-19 convalescent plasma therapy continues to rise in use after receiving Emergency Use Authorization (EUA) from the US FDA. As the actual efficacy is being reviewed at the same time, we will closely monitor the results.

Q8: Regarding the revised guidance, Operating profit was revised upward, but revenue guidance was left unchanged. Why is that? What are your thoughts on future costs?

A8: As for the revenue, in the second quarter there was a sharp recovery in the number of procedures more than expected mainly in Cardiac and Vascular Company. Meanwhile, we left revenue guidance unchanged considering the growing number of COVID-19 cases in Latin America and other emerging countries, and the second wave hitting Europe, etc. in the second half.

As for the operating profit, we made upward revision reflecting the fact that the operating profit in the second quarter exceeded the initial forecast. However, in the second half, we plan to undergo adjustment in production volume to optimize the inventory level, and we expect a decline in gross profit ratio caused by declined operation ratio in factories. In terms of costs, we will secure profit level for the second half as initially projected by further streamlining operations while carefully examining the situation of the COVID-19 pandemic.

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Q9: The presidents of Cardiac and Vascular Company and General Hospital Company were changed in April this year. What is the current situation and your thoughts after six months? Also, it appears that the diversified portfolio management with three companies worked well in the COVID-19 pandemic. What are your thoughts about the future direction of the company's management style?

A9: In addition to Cardiac and Vascular Company and General Hospital Company in this year April, the president of Blood and Cell Technologies Company was also changed last year. Over the last one to two years, all companies have shifted to new systems in an effort to revitalize and globalize the organizations at the same time.

In particular, in General Hospital Company, compared to the past when we sacrificed revenue growth for improving profitability, over the past several years we have seen both the revenue and the profit ratio became more stable. We believe that this indicates our success in sowing the seeds for future growth. Looking forward, we hope to find growth opportunities especially overseas, and in this sense, we expect that the current president Hikaru Samejima will capitalize on his previous career experience.

Regarding the future management style, we will look toward balanced development while pursuing the growth in each individual company and segment.

Q10: Regarding the development pipeline of the Alliance business in the CEO presentation, out of the next 10 development projects from FY2020 to FY2026, which are novel drugs that you will participate in development from the clinical trial stage?

A10: These 10 development projects are mainly of bio-pharmaceuticals. Some are novel drugs while others are biosimilars. Even for biosimilars, our business model will be the typical CDMO model being involved in product development from an early stage.

Q11: Regarding CDMO of Alliance business in the CEO presentation, will you look at it as a business in General Hospital Company, or will you look at synergies with other companies in the future?

A11: The details of this presentation were based on the actual results cultivated by General Hospital Company to date, but we believe there is a latent possibility to realize synergies with other companies in the future.