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Enhance corporate value through cash allocation towards improving capital efficiency and achieving sustainable growth

Since starting my CFO & CIO position in April 2024, I believe my role as CFO is to contribute to the growth of the entire group, with an increased focus on resource management and improving capital efficiency. At the same time, as CIO, I will work to improve efficiency and increase value-added activities in IT. As a brief background of myself, I began my professional career with a Japanese global manufacturing and service company in the corporate planning and control department, and gained experience as a member of the CFO staff, transformation management, and management information strategy formulations. I was later involved in the gaming business, and also took on the formulation of digital transformation strategies and IT management. By acting as the bridge between IT technology and business finance, I hope to maximize the functions' contribution to sustainable business growth.

Progress of the five-year growth strategy

Fiscal 2023 was the second year of the "GS26" five-year growth strategy announced in December 2021, which saw sales revenue of 921.9 billion yen, operating profit of 140.1 billion yen, and profit for the year of 106.4 billion yen, all achieving record levels. Net sales grew 7% year on year on a constant currency basis, driven by growth overseas, particularly in the Americas and Europe. Strong demand for coronary intervention procedures continued globally, and blood center business demand is expanding, resulting in a steady increase in sales.

In terms of profitability, we implemented price revisions globally to recover from the negative impact of the deteriorating macroeconomic environment, which included soaring raw material and energy costs in fiscal 2022. At the same time, by strengthening and accelerating group-wide measures to improve profitability, we managed to improve efficiency and control expenses without relying on sales growth. Operating profit increased by 14%,

excluding foreign exchange impacts as a result. The operating margin improved by 0.9 percentage points from the previous year to 15.2%. Additionally, ROIC and ROE also improved to 7.1% and 8.7%, respectively. We will continue to strengthen our efforts in FY2024 to successfully achieve the three KPIs of our GS26 five-year financial targets.

GS26 five-year financial targets

Growth	Profitability	Capital efficiency
Revenue growth	Operating margin	ROIC
High single-digit	20%+*	10%+
(5-year CAGR)	(As of FY26)	(As of FY26)
Aiming for revenue of 1 trillion yen through continued growth	* Calculated based on operating profit before adjustments	ROE of 10% or higher

In order to achieve our operating profit margin of 20% or higher, as outlined in GS26, we began a group-wide profitability improvement project, VC2 (Value Creation through Collaboration), in conjunction with the GS26 announcement. This initiative promotes the optimization and efficiency of the Terumo Group by increasing collaboration and driving scale merits while leveraging the positive aspects of the activities of each individual business. In fiscal 2024, we will further strengthen this project. Looking back at our history, in addition to sustained organic growth, we have achieved significant growth since 1999 through cross-border M&A activities. We have achieved sales growth by securing the autonomy of each business, maintaining organizations and operations to avoid reducing the development capacity and speed of business expansion of the companies we have acquired. While this approach has had its merits, in order to further accelerate our activities at the company-wide level, promoting initiatives that take advantage of scalability in procurement, production, logistics, and supporting functions, we

CFO message

will also drive further collaboration among the different businesses. As part of this effort, we established an internal organization, Global Business Services (GBS), in November 2022 to consolidate ordering and payment functions in Europe and the Americas. We will continue to drive efforts to improve profitability by standardizing and streamlining business operations shared throughout the Terumo Group, and we will work to improve the efficiencies of our core business operations and information management across the group. By moving forward with these initiatives, we aim to use the lessons learned to promote globalization in the fields of finance, IT, and business administration. In addition, each business and functional division will make concerted efforts to achieve the goal of 20% or higher operating profit margin while continuously pursuing further scope for improvement.

Our performance in fiscal 2024 is an important turning point, one that will determine not only the achievement of GS26 but also the growth potential of Beyond GS26. In the first quarter of fiscal 2024, record highs were achieved in revenue, operating profit, and net profit, thanks to continued strong demand in all companies and appropriate cost control. Terumo will continue to grow from the second quarter onwards, based on increasing global demand for vascular treatment in the Cardiac and Vascular Company, double-digit growth in Pharmaceutical Solutions — a business that partners with pharmaceutical companies — and business expansion in Terumo Blood and Cell Technologies with expansion of the source plasma business. In addition to our sales expansion, we will continue to work toward improving profitability and capital efficiency by focusing on company-wide profit improvement activities.

FY2024 guidance (As of October 31, 2024)

Revenue ¥980.0 billion +6% year-on-year	Operating profit ¥165.0 billion +18% year-on-year
Operating margin (Before adjustment) 16.8% +1.6% points year-on-year	Profit for the year ¥122.0 billion +15% year-on-year

Cash allocation for increased capital efficiency and sustainable growth

One of our financial goals will be to increase corporate value by achieving profit margins above the cost of capital. To achieve this, we are improving capital efficiency through business operations to improve working capital, taking more control of the investment decisions to consider appropriate ROI while maintaining the speed of these decisions. GS26 sets a financial KPI of ROIC of 10% or higher (ROE of 10% or higher), and we are aiming to improve capital efficiency from a medium- to long-term perspective. While improving the company's profitability, we will also focus on inventory management and ROI reviews to improve our asset turnover, ultimately aiming to maximize free cash flow. Furthermore, to increase our ability to generate profits, we will continue our ongoing investments in our internal capabilities and consider M&A investments that are expected to create further future value and synergies with our existing businesses. In judging investments, we will set a hurdle rate based on the weighted average cost of capital (WACC), with uncertainty risk added, and determine whether the targeted investment returns can be achieved. Cash generated will be allocated for use for growth investment and stable dividend increases, as well as for shareholder returns through share buybacks. If further capital is needed, such as for M&A activities, our policy is to consider optimal and flexible funding options, combining borrowings from financial institutions and issuing corporate bonds, while taking into account the balance between capital efficiency and financial soundness. We aim to make optimal choices and actively invest in projects that contribute to the enhancement of corporate value in accordance with our business strategy. We aim to achieve a total shareholder return ratio, which is the sum of dividends and share buybacks, of 50%.

Fiscal 2024, the midpoint year for GS26, began with a record-high quarter. To achieve the goals outlined in this year's performance forecast and to ensure that we can make growth investments, we will continue to strengthen our financial position, thoroughly manage costs, and examine our business direction from a company-wide perspective.

I believe that the Finance and IT domains are strong complements. In the IT field, it is important to be able to understand and digest the needs of users and provide optimal solutions, and here we can make use of the understanding of business characteristics and direction cultivated through business management. In the field of finance, leveraging IT enables us to better grasp business situations that were previously difficult to capture in a more timely and quantitative manner. Furthermore, by analyzing the captured information from multiple perspectives and in greater detail, we can expand the range of options for future strategies. By acting as a bridge between these two fields, I hope to build an efficient mode of operation and contribute to the sustainable increase in corporate value.

I aim to meet the expectations of our shareholders, investors, and other stakeholders, and contribute to our Terumo Purpose of advancing healthcare and enhancing patients' quality of life, while ensuring future growth and passing on a better Terumo to the next generation.