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

Analysis of Business Performance

1. Overview of Financial Results for the First Quarter of the Fiscal Year Ending March 31, 2018

(1) Overview of Consolidated Business Results

In the first quarter of the current fiscal year (from April 1 to June 30, 2017), the global healthcare market was underscored by the following trends. Amid the ongoing movement in developed countries to curb medical expenditure, policymakers in the United States pushed forward with debate looking to make revisions to the affordable care act, which was introduced with the purpose of lowering the uninsured rate. In Japan, the government continued to examine the introduction of cost-benefit analysis for pharmaceuticals and medical devices as an approach to achieving a more focused and efficient allocation of fiscal resources.

Amid this backdrop, as a global corporation with Japanese origins, 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 quarter of the fiscal year ending March 31, 2018 are as follows:

Net sales

Net sales totaled 139.3 billion yen, an increase of 11.9% compared with the same period of the previous fiscal year.

(million yen)

	Q1 FYE3/2017	Q1 FYE3/2018	Growth (%)	Growth excluding impact of forex translations (%)
Net sales	124,519	139,312	11.9	10.7
Gross profit	69,181	78,255	13.1	14.6
Operating income	21,356	23,355	9.4	17.0
Ordinary income	15,123	22,733	50.3	-
Profit attributable to owners of parent	10,110	16,291	61.1	-

(million yen)

Regional sales	Q1 FYE3/2017	Q1 FYE3/2018	Growth (%)	Growth excluding impact of forex translations (%)
Japan	45,451	44,915	(1.2)	(1.2)
Europe	24,737	27,747	12.2	12.0
Americas	32,917	41,130	25.0	21.4
Asia and others	21,413	25,519	19.2	18.0
Overseas total	79,068	94,397	19.4	17.5
Total	124,519	139,312	11.9	10.7

In Japan, overall sales in the region were down year on year. On one hand, we posted sales growth in the Cardiac and Vascular Company. This reflected brisk sales of access devices and the VISICUBE, an intravascular ultrasound system, and AltaView, an intravascular ultrasound catheter (the latter two were released in February 2017). However, this positive benefit was offset by a decline in sales in the General Hospital Company. In addition to inventory adjustments at distributors for general hospital products, there was also negative impact from refrained purchasing of infusion and syringe pumps.

Meanwhile, sales overseas increased compared with a year earlier. In the Cardiac and Vascular Company, there was sales contribution from businesses and products acquired in the previous fiscal year, including the vascular closure device business. We also posted sales growth at businesses across the board in this company (Interventional Systems (TIS), Neurovascular, CV, and Vascular graft businesses). Furthermore, in the Blood Management Company, sales trends were strong to blood centers and in the field of therapeutic apheresis systems.

Gross profit

Gross profit totaled 78.3 billion yen, an increase of 13.1% compared to the same period of the previous fiscal year. This reflects contribution in part from lower production costs at the General Hospital Company and the Blood Management Company.

Operating income

Operating income came to 23.4 billion yen, a growth of 9.4% year on year. The increase in selling, general and administrative expenses was absorbed by a growth in gross profit.

Ordinary income

Ordinary income stood at 22.7 billion yen, an expansion of 50.3% versus the same period a year earlier. This reflects the increase in operating income as well as a gain on foreign exchange translations in the first quarter.

Profit attributable to owners of parent

Profit attributable to owners of parent totaled 16.3 billion yen, a rise of 61.1% year on year, owing to an increase in ordinary income and also in part attributable to a reduction in tax rate.

Net sales results by company are as follows:

(million yen)

Segment		Q1 FYE3/2017	Q1 FYE3/2018	Growth (%)	Growth excluding impact of forex translations (%)
Cardiac and Vascular Company	Net sales	63,699	79,057	24.1	22.4
	(Japan)	12,789	13,491	5.5	5.5
	(Overseas)	50,910	65,566	28.8	26.7
General Hospital Company	Net sales	38,383	36,867	(3.9)	(4.3)
	(Japan)	30,113	28,947	(3.9)	(3.9)
	(Overseas)	8,269	7,919	(4.2)	(5.6)
Blood Management Company	Net sales	22,387	23,333	4.2	3.0
	(Japan)	2,499	2,422	(3.1)	(3.1)
	(Overseas)	19,888	20,911	5.1	3.8

Cardiac and Vascular Company

In Japan, sales in the TIS business rose year on year underpinned by strong sales of access devices and the VISICUBE, an intravascular ultrasound system, and AltaView, an intravascular ultrasound catheter. Meanwhile in the TIS business overseas, sales trended briskly for access devices, including vascular closure devices. In addition, we posted sales growth at businesses across the board in the company(TIS, Neurovascular, CV, and Vascular graft businesses). Accordingly, overseas sales in this company rose substantially overall.

In light of this performance, net sales in the Cardiac and Vascular Company were 79.1 billion yen, a growth of 24.1% year on year.

General Hospital Company

In Japan, sales performance exacerbated by negative impact due to distributor inventory adjustments and refrained purchasing of infusion and syringe pumps. In addition to terminating the supply of some pharmaceutical and healthcare products and downsizing related accounts to improve profit margins, we expect the majority of orders in the Alliance business to arrive in the second half, which differs from trends in the previous fiscal year.

Reflecting these factors, net sales in the General Hospital Company were 36.9 billion yen, a decrease of 3.9% versus the same period a year earlier.

Blood Management Business

Sales were strong to blood centers in Latin America and Asia. Also therapeutic apheresis system sales grew, mainly in the Americas.

Consequently, net sales in the Blood Management Company totaled 23.3 billion yen, a rise of 4.2% year on year.

(2) Overview of Consolidated Balance Sheets

Assets

As of June 30, 2017, total assets stood at 1,041.1 billion yen, an increase of 19.7 billion yen compared to March 31, 2017.

Current assets amounted to 372.6 billion yen, an increase of 23.4 billion yen, primarily attributable to a rise in cash and deposits.

Non-current assets came to 664.6 billion yen, a decrease of 3.5 billion yen. Property, plant and equipment increased 2.8 billion yen, intangible assets were down 6.8 billion yen, and investments and other assets rose 600 million yen.

Total Liabilities

Liabilities came to 537.4 billion yen, a rise of 5.6 billion yen.

Current liabilities totaled 114.4 billion yen, a decline of 134.0 billion yen primarily attributable to the repayment of short-term loans payable.

Non-current liabilities were 423.0 billion yen, an increase of 139.5 billion yen, as Terumo incurred debt, boosting its long-term loans payable.

Total Net Assets

Total net assets totaled 503.6 billion yen, a growth of 14.1 billion yen.

Accordingly, Terumo’s equity ratio stood at 48.3%, a rise of 0.4 percentage points compared with March 31, 2017.

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

We are retaining our consolidated financial forecasts for the first half and full year, which we released on May 10, 2017. The business environment is expected to remain murky, including uncertainty over changes in the business environment for the medical device and pharmaceuticals industries, and foreign exchange rates. Nonetheless, the Terumo Group remains focused on achieving the goals it has set for itself. We plan to pour energies into several areas. We look to develop and expand sales of high value-added products that contribute to the improvement of healthcare quality and efficiency. We also aim to continue to improve production costs, and effectively manage SG&A spending.