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

Analysis of Business Performance

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

(1) Overview of Consolidated Business Results

In the first half of the current fiscal year (from April 1 to September 30, 2018), the global healthcare market was underscored by measures to curb medical expenditures in each country. Amid this environment, NHI reimbursement prices in Japan underwent revisions in April. And as has been the case, there continues to be rising demand, chiefly 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 half of the fiscal year ending March 31, 2019 are as follows:

(million yen)

	1H FYE3/2018	1H FYE3/2019	Growth (%)	Growth excluding impact of forex translations (%)
Revenue	284,610	284,997	0.1	0.4
Gross profit	155,409	154,588	(0.5)	(0.4)
Adjusted operating profit	64,798	55,296	(14.7)	(14.7)
Operating profit	57,175	47,582	(16.8)	(16.2)
Profit before tax	56,765	44,527	(21.6)	—
Profit for the period	41,115	34,389	(16.4)	—
Profit for the period attributable to owners of the parent	41,171	34,454	(16.3)	—

(million yen)

Regional sales	1H FYE3/2018	1H FYE3/2019	Growth (%)	Growth excluding impact of forex translations (%)
Japan	92,502	91,076	(1.5)	(1.5)
Europe	55,336	56,237	1.6	0.3
Americas	83,629	84,300	0.8	2.3
Asia, outside Japan	53,141	53,382	0.5	0.7
Overseas total	192,107	193,921	0.9	1.3
Total	284,610	284,997	0.1	0.4

Revenue

Revenue totaled 285.0 billion yen, an increase of 0.1% versus the same period in the previous fiscal year.
In Japan, overall revenue declined year on year. Revenue trended briskly in the General Hospital Company owing in part to demand in the pain management and surgery product domains, and in the alliance business with other pharmaceutical companies. Nonetheless, in the Cardiac and Vascular Company, there was negative impact from NHI reimbursement price revisions and shipping delays of certain products from the Ashitaka factory.

Meanwhile, overseas revenue grew in comparison with a year earlier. Although there was negative impact from shipping delays at the Ashitaka factory, performance was driven by brisk revenue in the neurovascular business in the Cardiac and Vascular Company and the alliance business in the General Hospital Company, as well as by demand for blood center products in the Blood Management Company.

Gross profit

Gross profit amounted to 154.6 billion yen, a decline of 0.5% compared with the previous fiscal year. This mainly reflects negative impact from revisions to NHI reimbursement prices.

Adjusted operating profit

In the period under review, adjusted operating profit totaled 55.3 billion yen, a decline of 14.7% year on year, due to an increase in selling, general and administrative expenses and, in particular, research and development expense.

That being said, 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.

Operating profit

Operating profit totaled 47.6 billion yen, a deterioration of 16.8% year on year due to the decline in adjusted operating profit.

Profit before tax

Profit before tax was 44.5 billion yen, a decrease of 21.6% versus the same period a year earlier. This reflects the posting of a forex translation loss, versus a forex translation gain in the same period a year earlier.

Profit for the period attributable to owners of the parent

Profit for the period attributable to owners of the parent totaled 34.5 billion yen, a drop of 16.3% year on year. Although corporate income tax outlays declined due to a reduction in the federal corporate income tax rate subsequent to the tax reform in the United States, decline in profit before tax hit profit for the period attributable to owners of the parent

Revenue results by reporting segment are as follows:

(million yen)

Segment		1H FYE3/2018	1H FYE3/2019	Growth (%)	Growth excluding impact of forex translations (%)
Cardiac and Vascular Company	Revenue	157,572	153,464	(2.6)	(2.5)
	(Japan)	26,365	22,326	(15.3)	(15.3)
	(Overseas)	131,206	131,137	(0.1)	0.0
General Hospital Company	Revenue	77,705	81,228	4.5	4.6
	(Japan)	60,651	62,834	3.6	3.6
	(Overseas)	17,053	18,394	7.9	8.3
Blood Management	Revenue	49,214	50,173	1.9	2.8
	(Japan)	5,378	5,806	8.0	8.0

Company	(Overseas)	43,835	44,366	1.2	2.2

Cardiac and Vascular Company

Revenue in the Cardiac and Vascular Company totaled 153.5 billion yen, a reduction of 2.6% year on year. Although sales were brisk in the neurovascular business, there was negative impact from revisions to NHI reimbursement prices and from shipping delays at the Ashitaka factory.

General Hospital Company

In the General Hospital Company revenue amounted to 81.2 billion yen, an increase of 4.5% versus the same period a year earlier. This reflects brisk demand for products in the pain management domain, including Acelio—an acetaminophen antipyretic analgesic, and AdSpray, a spray type adhesion barrier. In addition, there was an expansion in the alliance business with pharmaceutical companies.

Blood Management Business

Revenue in the Blood Management Company totaled 50.2 billion yen, a rise of 1.9% year on year. This is attributable to strong sales to blood centers, mainly in Japan and the Americas. In addition, revenues grew in the field of therapeutic apheresis system in Europe.

(2) Overview of Consolidated Balance Sheets

Total assets at the end of the first half stood at 1,134.9 billion yen, an increase of 56.0 billion yen versus March 31, 2018. This is mainly attributable to an increase of 31.7 billion yen in property plant and equipment along with goodwill and intangible assets mainly due to yen's depreciation against the US dollar compared with March 31, 2018 as well as investment for production capacity and new IT system.

Total liabilities totaled 456.9 billion yen, a decrease of 71.7 billion yen. This was mainly attributable to a 58.3 billion yen decline in bonds and borrowings due to the conversion of convertible bonds.

Total equity stood at 678.1 billion yen, an increase of 127.6 billion yen. This was mainly attributable to an increase of 64.6 billion yen stemming from impact owing to (a decline in treasury stock allocated to) the conversion of convertible bonds, and an increase of 37.5 billion yen reflecting forex translation gains at overseas sales offices, owing to impact mainly from the forex market.

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

We are reiterating the consolidated financial forecasts we released on August 8, 2018. We anticipate an ongoing murky business environment including changes in the environment surrounding the medical device and pharmaceuticals industries, and forex rate trends. However, to achieve our group goals, we plan to pour energies into the development of high added-value products that will boost the quality and efficiency of healthcare, sales expansion, continuous improvement to manufacturing costs, and effective use of selling, general and administrative cost.