

## Financial Results for the Fiscal Year Ended March 31, 2020: Reference

### Analysis of Business Performance and Financial Position

#### Analysis of Business Performance

#### 1. Overview of Financial Results for the Fiscal Year Ended March 31, 2020

##### (1) Overview of Consolidated Business Results

In December 2016 the Terumo Group devised a Mid- to Long-term Growth Strategy with a five-year horizon. The Mid- to Long-term Vision is to become a “Global Corporation with Unique Excellence.” The Company aims to become recognized by medical professionals worldwide as a top brand and a trusted manufacturer. To this end, the Company’s management is focused on earning a high level of trust globally for our total quality (which includes the total quality of products, supply, and services). In the fiscal year under review, which is the third year of this growth strategy, Terumo’s consolidated business results were as follows.

(million yen)

	FYE3/2019	FYE3/2020	Growth (%)	Growth excluding impact of forex translations (%)
Revenue	599,481	628,897	4.9	7.9
Gross profit	326,497	343,932	5.3	9.4
Adjusted operating profit	122,128	124,998	2.3	8.8
Operating profit	106,637	110,611	3.7	10.8
Profit before tax	102,709	106,466	3.7	—
Profit for the year	79,287	85,037	7.3	—
Profit for the year attributable to owners of the parent	79,470	85,211	7.2	—

(million yen)

Regional revenue	FYE3/2019	FYE3/2020	Growth (%)	Growth excluding impact of forex translations (%)
Japan	188,468	196,339	4.2	4.2
Europe	120,368	121,128	0.6	6.6
Americas	175,646	191,388	9.0	12.2
Asia, etc.	114,998	120,040	4.4	8.7
Overseas total	411,013	432,557	5.2	9.6
Total	599,481	628,897	4.9	7.9

## **Revenue**

Revenue totaled 628.9 billion yen, a growth of 4.9% in comparison with the previous fiscal year.

In Japan, overall revenue increased year on year. Revenue trended briskly in the pain management business and the alliance business with other pharmaceutical companies, of the General Hospital Company, and in the TIS business (intervention devices) and the neurovascular business of the Cardiac and Vascular Company.

Revenue overseas climbed in comparison with a year earlier. Although operations mainly in China were impacted by the COVID-19 pandemic in the fourth quarter, the TIS business grew steadily and the neurovascular business posted strong revenue.

## **Gross profit**

Gross profit amounted to 343.9 billion yen, an increase of 5.3% compared with the previous fiscal year, reflecting an increase in revenue.

## **Adjusted operating profit**

Adjusted operating profit came to 125 billion yen, up 2.3% year on year, due to a rise in gross profit, which offset higher costs including selling, general and administrative expenses, and in particular R&D expenses.

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.

We are additionally disclosing adjusted operating profit as an indicator but it is not defined by IFRS, which is the accounting standard the group has adopted. Adjusted operating profit is also being used as an indicator for corporate management to grasp earnings performance in each business as a part of our goal to achieve sustainable growth in the mid- to long-term. We believe this is also effective data for individuals using our financial statements to assess the Terumo Group's earnings.

## **Operating profit**

Operating profit came to 110.6 billion yen, an increase of 3.7% year on year, owing to the rise in adjusted operating profit.

## **Profit before tax**

Profit before tax was 106.5 billion yen, an increase of 3.7% versus a year earlier owing to the increase in operating income.

## **Profit for the year attributable to owners of the parent**

Profit for the year attributable to owners of the parent totaled 85.2 billion yen, up 7.2% year on year due to the

positive impacts from changes in profit mix by region with differing tax rates.

Revenue results by company are as follows:

Furthermore, the segment which was previously stated as “Blood Management Company” has been changed to “Blood and Cell Technologies Company” from the fiscal year ended March 31, 2020. This change in name does not affect the segment information. The name of reportable segment for the fiscal year ended March 31, 2019 has also been stated as “Blood and Cell Technologies Company”.

(million yen)

Segment		FYE3/2019	FYE3/2020	Growth (%)	Growth excluding impact of forex translations (%)
Cardiac and Vascular Company	Revenue	328,500	350,550	6.7	10.4
	(Japan)	47,846	50,924	6.4	6.4
	(Overseas)	280,653	299,626	6.8	11.1
General Hospital Company	Revenue	165,766	170,963	3.1	3.9
	(Japan)	127,864	132,880	3.9	3.9
	(Overseas)	37,902	38,083	0.5	3.7
Blood and Cell Technologies Company	Revenue	104,984	107,156	2.1	6.2
	(Japan)	12,540	12,309	(1.8)	(1.8)
	(Overseas)	92,444	94,847	2.6	7.3

### Cardiac and Vascular Company

In Japan, revenue trended briskly in the imaging domain of the TIS business (intervention devices) and for products for the treatment of acute ischemic stroke in the neurovascular business. Overseas, despite a slowdown seen in the TIS business mainly in China attributed to the impacts of the COVID-19 pandemic in the fourth quarter, sales were propelled by WEB, a new type of cerebral aneurysm embolization device in the neurovascular business. Accordingly, revenue in the Cardiac and Vascular Company totaled 350.6 billion yen, a growth of 6.7% year on year.

### General Hospital Company

The hospital systems business saw brisk sales of AdSpray, a spray type adhesion barrier and Fentanyl injection, the narcotic analgesic. There was special demand for thermometers and hand sanitizer driven by the impacts of the COVID-19 pandemic in the fourth quarter. In addition, there was an expansion in B2B business with pharmaceutical companies in the alliance business. Reflecting these, revenue in the General Hospital Company was 171 billion yen, an increase of 3.1% versus the previous year.

### Blood and Cell Technologies Company

Forex rates in Europe and emerging markets had a negative impact on earnings, but revenue was strong, globally driven by the introduction of new software for blood component collection systems. Consequently, revenue in the Blood and Cell Technologies Company totaled 107.2 billion yen, a rise of 2.1% year on year.

## (2) Overview of Consolidated Financial Statements

Total assets stood at 1,241.4 billion yen, an increase of 120.6 billion yen. This was mainly owing to an increase in cash and cash equivalents of 43.9 billion yen caused by short-term borrowings in preparation for the impacts of the COVID-19 pandemic and to secure funds for investments in growth, as well as an increase in property, plant and equipment of 62.4 billion yen from the application of IFRS 16 Leases, capital expenditures to increase production, construction of a new building by Terumo Yamaguchi Corporation.

Total liabilities came to 486.5 billion yen, an increase of 63.8 billion yen. This was primarily attributable to an increase in bonds and borrowings of 21.1 billion yen and an increase in other financial liabilities of 30.6 billion yen from the application of IFRS 16 Leases.

Total equity was 754.9 billion yen, an increase of 56.8 billion yen. This mainly reflects an increase from posting profit for the fiscal year under review of 85 billion yen and an increase from allocating treasury stock for the conversion of convertible bond-type bonds with subscription rights to shares of 17.7 billion yen, compared to a decrease of 20.5 billion yen due to the payment of dividends from surplus.

## (3) Cash flow trends in the fiscal year ended March 31, 2020

(million yen)

	FYE3/2019	FYE3/2020	Change
Cash flows from operating activities	93,571	117,479	23,908
Cash flows from investing activities	(74,792)	(84,714)	(9,922)
Cash flows from financing activities	(67,540)	14,010	81,550
Cash and cash equivalents as of the end of the fiscal year under review	122,982	166,898	43,916

### Cash flows from operating activities

Net cash provided by operating activities was 117.5 billion yen. The main factors for this were profit before tax of 106.5 billion yen, depreciation and amortization of 52.4 billion yen, corporate and other taxes paid of 24.8 billion yen, and increase in inventories of 17.3 billion yen.

### Cash flows from investing activities

Net cash used in investment activities was 84.7 billion yen. This primarily reflects expenditures of 62.3 billion yen for the acquisition of property, plant and equipment associated with capital expenditures to increase production, including construction of a new building by Terumo Yamaguchi Corporation, and expenditures of 21.2 billion yen for the acquisition of intangible assets associated with investment for a new IT system and the acquisition of exclusive distribution rights.

### Cash flows from financing activities

Net cash provided by financing activities was 14.0 billion yen. The main factors for this were proceeds from short-term loans of 40.0 billion yen and dividend payments of 20.5 billion yen.

(Reference) Cash flow indicators

	FYE3/2018	FYE3/2019	FYE3/2020
Equity ratio (%)	50.9	62.3	60.8
Market cap-based equity ratio (%)	182.9	224.0	225.4
Interest-bearing debt to cash flow ratio (annual)	2.1	2.2	2.3
Interest coverage ratio (x)	101.4	83.8	122.8

Note: Equity ratio = Shareholders' equity/Total assets

Market cap-based equity ratio = Total market capitalization/Total assets

Interest-bearing debt to cash flow ratio = interest-bearing debt/cash flow

Interest coverage ratio = cash flow/total interest payments

\*All of the above is calculated on a consolidated basis.

\*Market capitalization = fiscal year-end share price multiplied by the total number of shares outstanding excluding treasury stock

\*The cash flow above is the cash flow provided by operating activities as stated in the consolidated statements of cash flows. The interest-bearing debt includes all liabilities posted in the consolidated statement of financial position on which the company pays interest. Also the figure for interest expenses in the consolidated statements of cash flows was employed as the amount for interest payments.

\*The provisional accounting treatment related to business combinations carried out for the fiscal year ended March 31, 2018 was finalized in the fiscal year ended March 31, 2019. Therefore, numerical figures for the fiscal year ended March 31, 2018 reflect the finalized provisional accounting treatment.

#### **(4) Mid- to Long-term Outlook**

The medical device market is expected to expand going forward mainly due to a rise in chronic illnesses in tandem with an increase in the number of seniors. Meanwhile, as a rise in medical spending squeezes government coffers, there will be a growing shift to healthcare that emphasizes value and efficiency. In addition, the industry overseas will continue to undergo reorganization, owing mainly to acquisitions, resulting in companies of enormous scale, more concentration, and a growing oligopoly.

Amid this business environment, we are implementing its Mid- to Long-term Growth Strategy. The fiscal year ended March 31, 2018 was the first year of this strategy. We were off to a smooth start in the first fiscal year towards our goal to achieve the Mid- to Long-term Growth Strategy, with the results contributed by the businesses acquired in the previous fiscal year. In the second year, the fiscal year ended March 31, 2019, in the first half there were shipping delays of certain products at Ashitaka factory, but in the second half the delays were fully resolved. In the fiscal year ended March 31, 2020, the third year of this strategy, in addition to revisions to drug prices and designated insured medical materials in conjunction with the consumption tax hike in Japan and costs for compliance with the European Union Medical Device Regulation which will be newly introduced, the Company's profits surpassed the initial forecast, despite the impacts of the COVID-19 pandemic in certain regions during the fourth quarter. In the fiscal year ending March 31, 2021, in order to achieve sustainable growth, the Company will work on acceleration of its global strategy, expansion of the product pipeline, reinforcement and optimization of operations supporting growth, including the production system, and evolution of business model, seeking to resolve issues faced by customers in their activities.

As it is difficult to reasonably calculate the impact of the spread of COVID-19, the consolidated forecast of financial results for the Year Ending March 2021 has yet to be determined at present. The Cardiac and Vascular Company is expected to see a relatively large decrease in demand temporarily due to postponement of non-urgent procedures and other factors. In addition, careful attention is needed because the level of decline and time needed for a recovery will differ depending on the business domain and region. However, the Company views impacts on the General Hospital Company and Blood and Cell Technologies Company as limited in nature because of the many products related to healthcare infrastructure and products for chronic illnesses. Looking ahead, the Company will disclose its earnings forecast immediately once it is possible.

**(5) Basic policy for profit distribution, dividend payouts in the fiscal year ended March 31, 2020 and payout plan for the fiscal year ending March 31, 2021**

As a measure to secure high profit margins and sustainable growth, Terumo Group adequately and actively reinvests profits to constantly enhance its corporate value. This is consistent with the group's pledge to distribute profits to shareholders and maximize the value of its investments.

As for the distribution of profits to shareholders, Terumo will continually aim to steadily increase its dividend payouts to shareholders and has set a mid- to long-term dividend payout ratio target of 30%.

In the fiscal year ended March 31, 2020, the company plans to pay cash dividends per share of 28 yen. Consequently, the fiscal year-end dividend is 14 yen per share, and the interim dividend, which has already been paid, was 14 yen per share.

In the fiscal year ending March 31, 2021, in light of the impacts of the COVID-19 pandemic, the Company intends to leave its annual cash dividend per share at 28 yen (interim dividend of 14 yen).

Cautionary note:

Forward-looking statements, including earnings forecasts, contained in Terumo's disclosure materials are based on currently available information and assumptions believed to be reasonable by management. This is not a promise or guarantee by Terumo that it will achieve these goals. Please note that the actual results or outcomes could differ due to a number of factors. Key elements that are likely to have an impact on actual earnings performance include economic conditions surrounding the company's business environment, volatility in foreign exchange rates, and competition.

## **2. Basic stance on the selection of accounting standards**

We have adopted International Financial Reporting Standards (IFRS) and applied them to the financial results from the fiscal year ended March 31, 2018. The goal is to strengthen our corporate governance and improve the precision of our management by enhancing the comparability of financial data internationally in capital markets and by standardizing our rules globally.