Terumo Corporation
February 10, 2020

Q&A Session at the Financial Results Briefing for the Third Quarter of the Fiscal Year Ending March 31, 2020

Outlined below are the principal Q&As from the financial results briefing of February 6, 2020. Certain details have been expanded or modified to provide readers with a deeper understanding of Terumo Corporation's performance and activities.

Q1: The gross margin for the third quarter alone was 53.5%, which is 2% points lower than 55.8% for the second quarter alone. Why is that? Also, in the first half, manufacturing cost reduction progressed more than expected, contributing to improve the gross margin. Are these effects continuing?

A1: The reduction in gross margin in the third quarter alone was due to foreign exchange rates (FX) impact and Japanese reimbursement price revision in the second half following the consumption tax increase. Manufacturing cost reduction is continuing to contribute gross profit, and we expect it to continue going forward as well.

Q2: In "Adjusted Operating Profit Variance Analysis" (page 3 of the presentation), you cited four special factors resulting in increase of SG&A expenses in FY19. Recovery costs from the shipping delays last year, preparation costs in Vascular Graft business for the full-scale rollout of stent grafts in US, launch costs for WEB intrasaccular aneurysm treatment device in US, and the startup costs for Essen Technology in China. What is the progress in each of these costs?

A2: We did not have to spend the recovery costs for shipping delays because of brisk revenue. The preparation costs for the full-scale rollout of stent grafts in US has been progressing in line with the plan since the beginning of the second half. The launch costs for WEB in US were not as high as expected in the first half because it was a good take off with stronger revenue than planned. Aiming at further growth, we will hire personnel and expect to spend costs as planned in the second half. Finally, the startup costs for Essen Technology in China was in line with the plan.

Q3: In "Adjusted Operating Profit Variance Analysis", expenses for Medical Device Regulation in EU have progressed slower than the full-year guidance of 3.2 billion JPY, totaled 1.0 billion JPY for the third quarter YTD. You spoke about how expenses will rise in the second half, but will they really emerge in the fourth quarter? Isn't there any delay in preparation for compliance?

A3: We expect to spend less than planned by several 100 million JPY. Important milestones such as system audits have begun in the third quarter, and these expenses are expected to ramp up from the fourth quarter to the next fiscal year. There are no delay in preparation and we are making steady progress.

Q4: The revenue growth rate of Cardiac and Vascular Company was +12% in the first half, but slowed down to +9% in the third quarter YTD. Why is this?

A4: Performance was brisk in the third quarter last year because of recovery from the shipping delays at Ashitaka factory. Therefore, the year-on- year growth rate appeared to slow down. Comparing this to our plan, we believe the pace of growth is totally in line.

Q5: How was the performance of Drug Eluting Stents (DES)?

A5: Global revenue of Ultimaster and Ultimaster Tansei totaled 13.1 billion JPY in the third quarter YTD, marking growth at 4% over the same period last year. To boost market share in Japanese market, which is particularly large for us, we will continue triple-pronged promotion with Percutaneous Transluminal Coronary Angioplasty (PTCA) balloon "Ryurei," and Intravascular Ultrasound System (IVUS). We recognize strong reputation in these products and synergies with DES as well.

Q6: How was the performance of WEB intrasaccular aneurysm treatment device? How was the progress compared to the plan?

A6: Global revenue totaled approximately 5 billion JPY in the third quarter YTD, marking growth at 159% over the same period last year. Sales remain brisk in US, as the revenue in the third quarter YTD was over 2.5 billion JPY, which surpassed the plan.

Q7: How was the performance of SOFIA, the aspiration catheter for acute ischemic stroke?

A7: The brisk momentum has been continuing with global revenue of 6 billion JPY in the third quarter YTD, marking growth at 42% over the same period last year. We estimate our global market share to be approximately 30%. We launched SOFIA in Japan from September and our customers are well interested. It was a solid take off.

Q8: Although revenue of WEB and SOFIA is very strong, revenue for entire Neurovascular business in the third quarter alone were up only 15% year on year. Why is that?

A8: This is due to FX impact. The business itself is performing well.

Q9: Once revenue of WEB grows, won't this begin to cannibalize revenue of other aneurysm treatment devices such as LVIS, the coil assist stent or FRED, the flow diverter?

A9: We have not seen such a phenomenon at this point in time, but we continue to keep close watch.

Q10: The growth rate of adjusted operating profit in Blood Management Company was +11% excluding FX impact, and -4% including FX impact. Why is the FX impact so large?

A10: Products of Blood Management Company are mainly produced in US and exported to Europe, so FX volatility between USD and EUR has significant impact on this company.

Q11: How much do you estimate the impact by the novel coronavirus outbreak in China?

A11: It is difficult to quantify the impact. Although there must be certain negative impact, we do not foresee that the impact would be so large that it could cancel out 5 billion JPY increase over the full-year guidance operating profit. We have recognized that the number of intervention cases is decreasing in China. Our annual revenue in China is approximately 50 billion JPY. Although it is difficult to imagine, if one-month revenue were to be lost, the impact on revenue would be larger than 4 billion JPY, and in the case of one-week, it would be 1 billion JPY.

Q12: On January 29th, the individual revisions announced by Japanese Central Social Insurance Medical Council included “review of requirements for Percutaneous Coronary Intervention (PCI) in patients with stable coronary artery disease.” In addition to conventional requirements, it appears that hospitals will be required to hold a conference involving physicians from multiple fields of medicine. Will the number of PCI cases in Japan significantly decrease due to this?

A12: Multiple clinical trials, which linked to reducing PCI mainly for stable ischemic heart disease, have been conducted including the recent ISCHEMIA trial. We believe this announcement was a part of this trend. Within the trend, we recognize that the number of PCI cases has already been declining slightly since 2018. However, it is hard to believe that the “review of requirements” announced by the Central Social Insurance Medical Council last month will cause this minor decline to turn into a sharp decline. We expect that the impact at maximum is the minor decline, which would continue for a while.