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Q&A Session at the Financial Results Briefing for the First Half of FY22

Outlined below are the Q&As from the financial results briefing on November 10, 2022.

Ken Hata, IR Terumo: Mr. Kohtani, please go ahead. One or even two is fine.

Motoya Kohtani: The first thing is, I'm looking at pages five and six right now, and to be honest, I'm a little dissatisfied because the gross margin effect is exactly the same in Q1 and Q2. To put it in a nasty way, it looks like you're not doing anything, so I would like you to break this down and explain it.

As I recall, there is no longer an inflation impact, new business investment, and also the production adjustment that was there last year, so please break this down in more detail and explain. For example, inflation probably worsened in Q2 as well, but the improvement in the mix actually contributed. It would be helpful if you could tell us something like that. This is the first point.

Hata: Thank you.

First of all, that is true. It looks exactly the same at JPY 3.5 billion in Q1 and Q2. Inflation actually worsened from Q1 to Q2, thereby worsening by just under JPY1 billion. Actually, offsetting that is the improvement in the company mix, and if you remember, in Q2 last year, there was a Delta variant of COVID-19, and the percentage of the Cardiac and Vascular Company as a whole was down. They are offset and just equal. First of all, that's the big structure.

Also, we are trying to control the start-up costs of source plasma collection business from Q1 to Q2 so that they do not increase. In other words, the increase in inflation was offset by the positive company mix, resulting in the same amount.

Kohtani: Does the cost of source plasma eventually become inventory or something else, or does this remain an expense all the time?

Hata: No. Since this has begun mass production, the items made are recorded in inventory. However, since this is set at standard cost for the full year, the production

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ramp-up has not yet started up at all, so there will be unfavorable variances in H1 of the year. We are at that stage now.

Kohtani: Do you envision this shrinking gradually?

Hata: Yes, that's right. We are currently working on a plan to open our first center in August, and to open 300 centers across the US in one year. I think the number of centers will increase quite a bit in H2 of the year. We are just getting started.

Kohtani: I understand.

Now, with your permission, this is the second and final point. I am concerned that on page three it says that medical demand, including the number of procedures, is recovering. I am thinking that maybe the growth rate in Q2 in local currency for C&V in the Americas is around 8% to 9%. This is a bit higher than I thought, compared to about 2% in Q1. Is my thinking correct?

Also, I think that in the end, the effect of the contrast agent shortage is gone, and the number of surgeries is back, but according to the reports from hospitals in the US, it seems that the number is not recovering very well, and also there seem to be no referrals from clinics due to the shortage of healthcare professionals and the low number of visits. As far as interventional procedures are concerned, is it correct to say that the effects of the shortage of healthcare professionals, clinic visits, et cetera, have already been resolved in the US?

Hata: As for Q2 in the US, we have not recovered at all yet. If we look at Americas total, it appears to be recovering, but in fact, Latin America is supporting, albeit on a smaller scale. North America is still weak. According to the information from there, there are still effects of the contrast agent. Toward the latter half of this Q3, that will finally recover, so North America, the largest market, will grow in H2.

Also, the hospital staff shortage is not expected to recover in the short term, according to the feedback from the local staff, and I think the competitors probably say the same thing. Rather than this starting due to COVID-19, it was originally there before and surfaced in the COVID-19 era. We have heard that the shortage is now about 500,000 people, so rather than waiting and hoping for an early resolution, we are going to provide solutions that will enable us to solve the issues on the frontlines, assuming that staff shortages will become the norm.

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As you know, in the Cardiac and Vascular Company, TRI and vascular closure devices can be solutions for staff shortages. In addition, the Neurovascular's WEB device can streamline skills of case procedures. We are going to provide solutions to the problems that currently plague the medical community, so please look forward to the growth of our business down the road.

Kohtani: I understand. Thank you very much.

Hata: Mr. Yamazaki, please go ahead.

Yuki Yamazaki: I am Yamazaki from Daiwa Securities. Thank you. I would like to ask one question about the Relay series.

You say that H1 of the year saw a strong performance in Japan, but is this due to the fact that you obtained approval for dissection indication, plus the fact that you expanded your promotional activities accordingly? Also, are you able to obtain more approval in the US in H2 of the year as you plan? Let me confirm that the reinforcement of the sales promotion system is making steady progress in order to achieve that.

Hata: Thank you.

In the Cardiac and Vascular Company, TA (Terumo Aortic) and stent grafts are growing along with Neurovascular. As you mentioned, we are obtaining more indication approval for RelayPro in the US and increasing the number of facilities in Japan now. The number of accounts we have been able to open has not yet met even 1/2 of our goals. This is also true in the US.

Additional dissection indication in the US has been applied for, but the approval will come later. In that context, there is still room for growth. Since we have hybrid now, and since that will grow from now in the US, if we open accounts and increase the number of doctors who can use them, that will bring us more growth.

First, I would like to call those who are present in the venue, so Mr. Akahane, please go ahead with your question.

Takashi Akahane: Let me ask one question about performance. May I ask one question about the President's part as well?

Shinjiro Sato, Terumo: Okay.

Akahane: Thank you.

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First, regarding business performance, I am comparing pages five and six with the previous Q1 documents. As you said, if you look at pages five and six, they are indeed the same as Q1, but you explained that a considerable increase in raw materials was offset, and the exchange rate differed in that flows exceeded stocks in Q1. In short, the elimination of unrealized profit was erased by the actual benefit of the exchange rate, but is it correct to say that Q2 really saw the benefit of the weaker yen?

Hata: The yen weakened from Q4 to Q1 and from Q1 to Q2. In Q2 alone, the impact from flow exceeded the impact from stock.

However, the page you are looking at now says JPY 3.1 billion, but as Muto explained, the margin will inevitably decline because sales will be inflated by the yen's depreciation to a much greater extent. Stock is affected by the rate at the end of each quarter. It is difficult to foresee what will happen in the future. I can say that in H1 of the year, we are finally seeing positive results.

Akahane: The exchange rate at the end of the period has quite an impact on the averages alone?

Hata: That's true of flow, with averages. For stock, the rate of the snapshot at the end of the period is affected.

Akahane: I understand very well.

Let me ask the President. Regarding manufacturing operations, in the past you naturally expanded into China to increase cost competitiveness, but now it is more of Buy China, or local production for local consumption. Then logistics costs have gone up and container prices have gone down a bit again. Is this what you are taking into account? Europe and the US account for 50% of your sales, right? Do your current operations take into account the total risk in that area?

Sato: Yes, that's right. In the past, the mainstream concept was to assume a truly borderless world, with production at the world's optimum location and transport to all parts of the world at the lowest cost. However, in today's world, there are also geopolitical risks and COVID-19 has created regional supply risks, so as far as major markets are concerned, we must ship from places which are close to the center of the target markets. In China, in particular, we should increase intra-regional production within China because of further geopolitical risks.

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Costa Rica guarantees supply capacity at a lower price to the US market. As you mentioned, Costa Rica can ship to Japan and China, and, of course, is very close to Europe. I believe that Costa Rica, Japan, and Asia will form a tri-polar system.

Akahane: With other equipment, they inevitably have to buy Chinese goods due to the Buy China policy. We don't know what will happen in the US if Mr. Trump becomes president. This is also the case in Italy. Are you responding to such risks?

Sato: Yes, that's right. We have quite many bases in the US now, and in the event that Mr. Trump really does become President and some policy comes out, we are able to respond with speed to the distribution between Costa Rica and the US. The US and Costa Rica are very close, and we can shift based on US policy. We can be flexible in this regard.

In China, of course, there is a clear move toward a Buy China policy. We are considering taking the lead by acquiring a company called ESSEN to build a very strong production base there and respond to the new era.

Akahane: I understand very well. Thank you very much.

Hata: Next, Mr. Yamaguchi from Citigroup Global Markets, who is joining us online. Please go ahead.

Hidemaru Yamaguchi: Question for Mr. Sato. You have discussed themes one through four in the GS26 production strategy, but please explain the most difficult and the most unique of these themes.

Sato: Yes. The one that will take the longest to realize is still China. ESSEN is all set, but the Hangzhou Factory is still practically producing for Japan. We have various ideas now, but one major critical theme is to switch to a new type of portfolio within a short period of time, and we would like to do so with acceleration. It is difficult, but we will tackle it as a serious issue.

Then what is unique is the third theme. Since that issue in FY2018, we have made it a large project, connecting all the factories in the world, all the factories in TIS, and we have included people from all companies in the project, not only procurement, HR, and production, but also the supply chain, and I'm doing it with commitment.

The project has been going on for three or four years now, generating not merely ideas from the frontlines, but managerial decisions to make it effective. This is an attempt to

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produce companywide output that has never been done before. This is unique and is starting to produce solid results. I think this is turning out to be a very interesting project.

Hata: Next questioner, Credit Suisse Securities, Mr. Sakai, please go ahead.

Fumiyoshi Sakai: Please tell us about specific, noticeable price increases measures in H2 of the year.

Naoki Muto, Terumo: Thank you.

Regarding the price increase, first of all, in Japan, we have revised prices as of November 1. I believe the effect of this will be immediate.

Overseas, in the US and Europe, we are continuing to raise prices, especially for Cardiac & Vascular products, so the effects of Q1 will continue to be felt in Q2 and beyond. In addition to this, we are expecting to see effects in Japan.

In Japan, TMCS products will be the main targets. In the US and overseas, the TIS products will be the main target.

Hata: Mizuho Securities, Mr. Mori.

Takahiro Mori: Briefly, I understand that you are selling off your autologous biologics business and nutrition business. Do you plan to continue to actively sell your businesses and continue to transform your portfolio in the future? That is all.

Sato: I, Sato, would like to answer this question.

We have been reviewing our entire portfolio in preparation for the launch of GS26. We are really trying to identify products that have stable and unshakable winning potential and products that have challenges. For those that have challenges and also have such external opportunities, I think we will continue to move forward with divesting them from our portfolio or switching to partnerships.

It may not be frequent, but we will continue to manage our portfolio quantitatively at all times, and we will keep you informed of any changes.

Hata: This concludes the financial results briefing of Terumo Corporation.

Thank you for your participation.

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