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### **Q&A Session at the Financial Results Briefing for the First Quarter of FY23**

Outlined below are the Q&As from the financial results briefing on August 9, 2023.

**Hidemaru Yamaguchi:** This is Hidemaru Yamaguchi from Citigroup Global Markets. Thank you. In the blood system section, there was no mention of plasma collection for CSL Plasma. Could you tell us what is going on, including the number, and what is the progress against the full-year forecast?

**Kenichi Hata, IR Terumo:** Thank you for your question. In terms of the progress from what I mentioned at the previous presentation for the full-year results in May, the big thing was that we have finished enrolling the findings of this algorithm, called nomogram, for taking as much plasma as possible.

That was the big progress, but we are still in the stage of limited market release, or LMR, as we call it. There has been no remarkable change, including the planned transition to full deployment, or the full-scale market launch, during H2.

Incidentally, we mentioned eight centers until the previous briefing, but I will tell you now the number is increasing, and it will be a bit larger number. That's all.

**Yamaguchi:** I see. The business will begin to move in H2, won't it?

**Hata:** That's right. Yes.

**Yamaguchi:** I think the by when date had changed from the medium-term management plan to the previous presentation, but that hasn't changed either, has that?

**Hata:** That hasn't changed so far either. No.

**Yamaguchi:** I see. Also, there was the Q1 progress of the JPY12 billion in the price policy, and I think it is correct to say that it is gradually accumulating, but looking at just Q1, the progress against the full-year plan was not necessarily high, so I think that is one point.

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Regarding this price policy, please follow up by saying that if you continue this progress in Q1, you should be able to achieve this JPY12 billion for the full year, and also which business areas will contribute significantly.

**Hata:** It's about slide eight. It is represented in this left-hand pie chart. The profit improvement measures on the right have a similar shape. Looking at H1 and H2, the original assumption was that more than 60% of the total effects will emerge in H2.

Of the overall price increase of JPY12 billion, more than half, less than 60%, will come from MCS, or Medical Care Solutions, and since we will be raising prices significantly for the second round starting in Q3, H2 will have a greater contribution to the overall increase.

So, looking at Q1 alone, unexpectedly, Cardiac and Vascular and MCS were producing about the same effect of the price increase. We did not expect a large effect from BCT since it had a lot of long-term contracts, but in the current year, we are going to raise prices in large numbers, and now the three companies were showing rather even effects.

However, in H2, the price increases in MCS will be much higher, so we believe that we are making good progress toward the full-year goal of PY12 billion.

**Yamaguchi:** Thank you. That is all from me.

**Moderator:** Next, Ms. Yoshihara from UBS Securities, please ask your question.

**Tomoko Yoshihara:** I am Tomoko Yoshihara from UBS Securities. Thank you. My first question is about operating profit in Q1. You said it generally came in line with your expectation, but I think there was a slight tailwind from the exchange rates, so let me first ask how it was when viewed on a local currency basis.

**Hata:** In terms of operating profit, the exchange rates were actually effective in increasing revenue and profit in terms of flows, but when you look at it in terms of margins, it worked negatively to decrease the margins a little bit. It was because sales had greater exposure.

However, since the Japanese yen weakened in late June this year, the elimination of foreign exchange stocks, so-called inventories, that of internal profits from inventories had a significant negative effect, totaling JPY3.5 billion. Simply looking at the progress of operating profit against the full-year forecast, it was 22% to 23%. If we add back the negative impact of the JPY3.5 billion in foreign exchange stocks, the progress will become about 25%. Looking at the H1 and H2 trends, H2 always shows greater

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contributions in terms of both the top line and profits. If you take this into account, we are pleased to say that our progress in the top line and profits were on track for Q1.

**Yoshihara:** I understand. So, do you have any qualitative upswing by segment, such as C&V?

**Hata:** C&V was doing well. Looking at the progress against the full-year plan for this fiscal year, we were roughly a quarter of the way through. On the other hand, the blood business has made progress to almost half of the full year's profit, but there were some good one-time factors, so the 14% margin in Q1 for the blood business will unfortunately not continue at this level. I think it will settle down at around 10% from Q2 onward.

On the other hand, this MCS seems a bit weak in terms of progress for the year and in terms of profit as well as the top line. As I mentioned earlier, we are planning to raise prices significantly in H2, and among the product mix, the CDMO business, which is the growth driver, will show far larger shipments in H2 than in H1. As we enter H2, the mix will improve and price increases will also proceed, so we intend to manage to catch up with the forecast by the end of the fiscal year.

But now, looking at just Q1, MCS looked a little slow on progress.

**Yoshihara:** I see. Thank you. Second, I would like to ask about SG&A expenses. It would be helpful if you could tell us how SG&A expenses in Q1 were like against the internal plan, on a basis excluding the foreign exchange effects. Then, looking at the detailed data, it seems that personnel costs and other areas have increased, so please give us a breakdown of that.

Also, when I also consider the financial results of other companies, I think that in many cases, SG&A expenses were relatively high due to the influence of the foreign exchange rates. For example, I have the impression that competition with European and US companies is intensifying to a certain extent, due to the endemic. As a result, I would like to confirm if there was a situation where you needed to invest a considerable amount of SG&A expenses in order to increase sales.

**Hata:** Thank you for your question. As for SG&A expenses, looking at the waterfall chart on page six, which removed the exchange rate effects to the right side, so you can see the expenses on a local currency basis.

Certainly, the increase in SG&A expenses had a negative impact of JPY5.9 billion. Compared with the full-year amount of JPY17 billion, it looks high since the progress was

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about 35%. However, if you look at it on a YoY basis, the expenses were lower in Q1 of the previous fiscal year. Compared to the average of Q2, Q3, and Q4, the level of the expenses was about JPY4 billion lower in Q1 of the previous year, so when viewed in that comparison, the progress appeared to be high. However, on a fiscal year basis, we were in line with the expectations, so I do not think we will make a breakthrough for the full year.

However, as you pointed out, we have been spending a lot of money on labor costs, and we are now expanding applications in the TA, or Vascular Graft segment which is the driver of growth. We are now putting our resources into sales there. I hope I answered your question.

**Yoshihara:** Thank you very much. Wasn't there any particular competition, and didn't you have to spend more on sales promotion than before, for example, you couldn't expand sales from the era before COVID-19 without any special promotion?

**Hata:** No. Basically, both the neuro and TA have an element of differentiation in the products themselves, so I don't think there is a contest of selling power.

**Yoshihara:** I see. Thank you.

**Naoki Muto, CAFO Terumo:** Ms. Yoshihara, you asked about internal control. In Q1, we made control within the scope of the internal plan.

**Yoshihara:** I see. If this is the case, and if I compare the Q1 results alone, is it correct to understand that it seemed to be slightly more than in Q1.

**Muto:** That's right. Yes.

**Yoshihara:** I understand. Thank you.

**Moderator:** Next, Mr. Hayashi from Morgan Stanley MUFJ Securities, please go ahead.

**Ryotaro Hayashi:** I'm Ryotaro Hayashi from Morgan Stanley MUFG Securities. Thank you. The first question is about the breakdown of the various items included in the plan for this fiscal year on page seven of the document. I believe you are projecting a negative effect of JPY2.5 billion due to inflation.

As I recall, it is quite complicated. In the case of Cardiac and Vascular, there is a positive impact on profits due to the convergence of inflation, and in the case of TMCS, the negative impact may be greater than JPY2.5 billion due to the rising electricity costs in

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Japan. I would like to know what the impact of inflation in Q1 was against your original plan for the full year, if there is any amount. What was the progress in Q1 when you break it down between the impact of the cost increase in the Cardiac and Vascular Company's profit and the impact of the power cost increase in the Terumo Medical Care Solutions Company?

**Hata:** This is also the case. It is complicated, but if we look at Q1 alone, we can see that the overall performance was flat compared to the previous most recent quarter of Q4 at the end of the previous year. However, we are now seeing signs that freight fares and electricity prices are easing, so I expect things to improve in Q2 and H2.

So, we are assuming a negative effect of JPY2.5 billion from the surge in electricity prices, but we do not believe that it will become worse than this assumption. However, I guess we will have to wait and see a little longer.

The gross amounts of each company remain flat, so we have not yet reached the point where we can say whether it is advantageous or disadvantageous to each company.

**Hayashi:** Okay, thank you very much. The second question is about TBCT, blood. Excluding the foreign exchange effects, sales increased 14% YoY. However, since you often mentioned temporary revenue related to winning tenders, is it correct to interpret the Q2 result as not being a 14% increase, or not being particularly above the full-year guidance?

**Hata:** That's right. Compared to the year-before result, yes. It went up 4 percentage points, and in the most recent quarter, it improved by almost 20 percentage points. However, as I mentioned earlier, there were successful tenders on the top line, which will not continue at the same pace in the future, and there was also a positive effect on the cost of sales due to the revaluation of inventory, which was unique to the beginning of the year. As I mentioned earlier, I expect profits to remain around up 10% in the future.

The progress of the top line was about 27% against the full-year plan. To some extent, this level may continue, and the progress in Q1 was still strong in terms of both, at about 25%. I hope you can see that both the top line and profit were strong.

**Hayashi:** I'm sorry, my question may have been a bit complicated, but the top-line sales growth rate was 14% YoY excluding the foreign exchange effects. Should we consider that the growth rate of this level will not continue in Q2 or H2? Or is there any clear reason why we should see it won't continue?

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**Hata:** Yes. This double-digit growth will not last. I think 14% is quite strong. This was because it included the tender effects.

**Hayashi:** Were those tenders limited to Q1 alone?

**Hata:** We can't read too far ahead, so we're looking at it conservatively now, although we think it will stay at this level if we can get the same successful results. I still think it will settle at around 10%.

**Hayashi:** I understand. That is all from me. Thank you.

**Moderator:** Next, Mr. Tokumoto from SMBC Nikko Securities.

**Shinnosuke Tokumoto:** This is Shinnosuke Tokumoto from Nikko Securities. Thank you. The first of my questions is to ask about the outlook for Q2 and beyond for C&V, Cardiac and Vascular. I understand that the progress was in line with the plan, but while overseas companies are slightly raising their forecasts, especially for therapeutic devices, I have a feeling that your North American figures are quite good for Cardiac and Vascular products.

I would first like to confirm whether your Company itself feels that the market has been growing and recovering, and that growth of Cardiac and Vascular was able to surpass that.

**Hata:** If you look at Cardiac and Vascular overall, revenue grew 7% YoY excluding the foreign exchange rate effects. About 8% QoQ on a constant currency basis in the case of TIS. However, Neurovascular was a little weak. This was particularly weak in China. The result was negative. In expectation that there will be VBP, volume-based procurement, and declines in prices in this area, distributors were reluctant to buy the products in the market.

However, this may be just as was the case with TIS in China. If you look at TIS in China in the previous year, Q1 showed the highest sales, and then there were steady declines in Q2, Q3, and Q4. After the wait-and-see stance in anticipation in VBP, people seemed to believe that the reluctance to buy was over, and they started to buy again, and as you can see in this Q1, revenue in TIS in China grew significantly in response.

So I think that if something similar happens, this wait-and-see stance, restrained purchases, in Neurovascular in China will be over and buying will come back. Thus one

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of the factors that will make the performance stronger than it is now is VBP in Neurovascular in China.

Also Neuro, we have very well-performing products for treatment of brain aneurysm called WEB, or Woven EndoBridge, and FRED, which have shown double-digit growth in North America. We also have a very strong product to treat cerebral thrombosis and strokes called SOFIA, but some components of it fell short and we had a small backlog of orders as we couldn't ship them even though we would have normally been able to fulfill them.

Once this is resolved, the product will grow more as we enter H2. Overall, there were a few elements of Q1 that prevented a full swing in the quarter. Despite that, the YoY growth rate was 7%, and we expect it to increase by at least 1 percentage point in H2. So I believe that we will be able to produce performance that is not so inferior to our competitors in the future.

**Tokumoto:** Thank you. My second question is also about C&V, this time about the concept of profits. I think your tone was that after Q2, there are some factors about sales that you can look at quite positively, such as therapeutic devices in North America, neuro and vascular products, or whatever they are. Is it safe to assume that the investments in these areas will be visible as sales growth in Q2 or H2 to a certain extent?

I was just wondering if there is room for C&V to swing upward depending on the return of benefits from these investments, so my question is from this perspective. That is all from me.

**Hata:** We are spending some more resources on sales investments right now. We are spending more on important products, but it is not as if this will add up to the same amount each quarter, so I believe we will be able to achieve the full-year guidance.

Especially in Q1, as I mentioned earlier, the majority of the foreign exchange rates' stock impact was actually on Cardiac and Vascular, so the margin of Cardiac and Vascular should have been 21% in Q1. In fact, it would have been a little higher, about 2 percentage points higher, if it had not been for the stock effect of the exchange rates. We are not sure what will happen with the exchange rates, but at least even with those effects, I believe we will be able to make it to the full-year forecast.

**Tokumoto:** That's all from me.

**Moderator** Yes. Next, Ms. Haruta from Credit Suisse Securities, please go ahead.

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**Kasumi Haruta:** My name is Kasumi Haruta from Credit Suisse Securities. Regarding the profit improvement measures, you explained some of the measures that will be implemented from H2, and you mentioned that you will raise prices strongly in H2. In light of this, please tell us whether there are worries about restrained purchases or anything like that and specifically about your operations, how you are raising prices and the progress you are making.

**Muto:** I'll go first then. As for the price policy, we will be working on it from H2, especially in Japan. We are already in the process of asking distributors and users for prices in Japan. We expect this to have a great impact, which will begin in October. The main focus will still be on TMCS. This is where we will begin to reap the benefits in October.

As for other products, as I mentioned in my comments, the transfer of production to Costa Rica is progressing smoothly, and in addition to this, improvements, domestic production at Ashitaka Plant will also be improving. More than half of the full-year impact of JPY3.6 billion will emerge in H2.

**Haruta:** Thank you very much. As for TMCS, could you please review what items will be subject to the price revisions?

**Muto:** Basically, the main items are basic medical equipment for hospitals.

**Haruta:** I see, thank you very much. My second question is about TMCS's Pharmaceutical Solutions. As you explained, the timing of deliveries has changed, and the Q1 result may have been a little lower, but there is no change in the outlook for this year's orders, or in the development of orders, so you are doing well, is that correct?

I understand that your automatic injectors are used for lecanemab, Eisai's treatment of Alzheimer's disease. I would like to know if this is a relatively large project for your company.

**Hata:** Thank you for your question. At the first, as for H1 and H2, it comes within our expectations that the H2 result will be far greater than that in H1 in the current year as there has been no such case in the past years. There is no need to worry about since we will catch up in H2.

As for the treatment of Alzheimer's disease, while we are not allowed to clearly state the name of the drug under the Pharmaceutical Affairs Law, we can say it's not coming in the current year. However, it's a big bullet in our GS26 growth strategy, a pipeline that



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we originally envisioned as a big project. I can't tell you how big it will be, but it won't be small.

**Haruta:** By the way, are sales from the product likely to be seen in Japan?

**Hata:** I'm sorry, it's not easy to say how far including Japan, because of the restraint of the contract, so I can't say for sure, although I think you can expect roughly what you see in the news. I'm sorry.

**Haruta:** I understand. Thank you.

**Moderator:** Next, Ms. Yamazaki from Mitsubishi UFJ Morgan Stanley Securities, please go ahead.

**Mie Yamazaki:** Hello. I am Mie Yamazaki from Mitsubishi UFJ Morgan Stanley Securities. Thank you. I just have one question regarding VBP, volume-based purchasing, of Cardiac and Vascular neuro products in China, and I was wondering if you could share any information that you have regarding the timing of VBP and the outlook for wholesale prices. In addition to that, it would be helpful to know your thoughts on profitability. Thank you.

**Hata:** TIS is by far the larger of the two in terms of the scale of our business, so I have heard that the situation is similar. I have heard that VBP is finally coming (or already partially affected) to the TIS Access and Neuro coils. However, what is important is that the number of procedures would indeed increase, as seen in the past case of drug-eluting stents.

The number will increase, but by how much will prices fall for manufacturers? It is said that if retail prices have declined more than 50%, distributors will not be able to absorb the effects and manufacturers will also be affected. At the moment, we are assuming that we will be able to stop the impact before it gets to that point.

However, there are risks involved here, and we have factored some of them into our forecast. Our current view is that this is not a risk that will result in major deterioration in earnings at this time.

**Yamazaki:** I understand. Thank you.

**Moderator:** Next, Mr. Yamaguchi from Citigroup Global Markets.

**Yamaguchi:** I'm sorry, are you okay? I would like to ask you to check one point.

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**Hata:** Yes.

**Yamaguchi:** Thank you very much. Other companies said that in China, there were some impacts of the anti-corruption law on tenders. Do you see that your company's business is not affected because there are not many tenders, or if your company is aware of any impact, please let me know.

**Hata:** That has not come to me yet now. We are asking for a hearing, but that has never been a topic of discussion, so I'll just go over it again. I don't think at the moment there has been such impact so far.

**Yamaguchi:** Thank you.

**Moderator:** Next, Mr. Barker from Jefferies, please go ahead.

**Stephen Barker:** This is Stephen Barker, Jefferies. Thank you. I would like to ask two questions. First, I would like to ask about the number of surgeries in China and what kind of points you have made.

And do you have any updates on blood plasma transactions with CSL Plasma? In particular, please let me know if the improved profitability of the Blood and Cell business had anything to do with the transactions with CSL or not.

**Hata:** Regarding the first one, China, I think it is best to look at TIS. More than 80% of sales in China are from Cardiac and Vascular, and more than 80% of the Cardiac and Vascular sales are from TIS. In terms of the number of surgery cases, the number normally shrinks a little from Q4 to Q1 due to seasonal factors, but we have heard from the local sources that the number of cases was actually increasing in the current year.

In addition, the restrained purchases in anticipation of VBP, which I mentioned earlier, have now dissipated and revenue is rebounding.

The combination of these two positive factors, the increase in the number of cases and the dissipation of the restrained purchases ahead of VBP, resulted in a QoQ increase of about 37% in China's TIS sales. So to answer your question about the number of cases only, the number of cases has not decreased at all. In fact, we have heard that the number is increasing.

As for the second question about CSL's update was, as we mentioned at the beginning, that the nomogram trial, enrolling, has been completed, not much has changed in terms

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of profitability. Since sales have not emerged in the first place, the same costs have been going on for a long time, all the way from the previous quarter.

What is looking good for BCT's overall earnings right now is the improvement in an existing business, which we call the completely core business. The good earnings were due to the increase in the top line, improvement in costs, and price hikes. The figures for CSL have not changed at all from the previous quarter.

**Barker:** Thank you very much. That's all.

**Moderator:** As there are no further questions, this concludes the Q&A session. Now we conclude the financial results briefing for Terumo's Q1 results of the fiscal year ending March 2024. Thank you for your participation.

**Muto:** Thank you.

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