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## **Q&A Session at the Financial Results Briefing for the First Quarter of FY24**

Outlined below are the Q&As from the financial results briefing on August 8, 2024.

**Hidemaru Yamaguchi:** This is Yamaguchi speaking. Thank you. You did not revise year full-year guidance forecast but your progress has been very good so far. That's how it looks like at least. Your expectation for Q1, do you have any expectation? The result in Q1, was it better than expectation or not? Do you have such a situation segment by segment? Can you explain segment by segment? That's my first question.

**Takashi Miyoshi, IR Terumo:** For that question, Hagimoto is going to answer.

**Jin Hagimoto, CFO Terumo:** Confirming the entire company, of course, we have the impact from FX rate. Looking at the overall situation, our performance was good. On the other hand, thinking of a projection on a full-year basis we came up with, we had our initial assumption for the FX. Our FX rate is close to our current rate, so I think our performance has been in line with our expectations so far. Q2 onwards, we want to be prudent.

**Yamaguchi:** Thank you.

**Hagimoto:** We want to be conservative in Q2 onwards.

**Yamaguchi:** Next, about Rika, it was 60 centers in the US according to your disclosure last time. How much you have installed at how many centers? I want to know the progress.

**Miyoshi:** Yamaguchi-san, thank you for the question. I want to entertain that question. About Rika, our plan status as of today, we were able to open 98 centers until today. Just we have only a few more to reach 100. We have been making good progress so far. 2025 from spring to summer, we want to complete our installation. That means it's on track, right in line with our schedule.

**Yamaguchi:** Thank you. That's all.

**Shinnosuke Tokumoto:** Thank you very much. My name is Tokumoto, Nikko Securities. Thank you. I joined the meeting halfway through, so I'm sorry, if you mentioned it.

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Regarding the sales revenue, there are some onetime demands. What kind of a onetime demand has been there? How big is such a onetime demand?

**Hagimoto:** Thank you very much for your question. Let me respond. Onetime factors include some—well, China BDP refraining from purchasing and because of that, compared against the typical year, the sales revenue was a bit low. In addition, in North America, there was instability in supply, so TIS business in North America suffered from some decrease last year.

Against that, this particular year, things are generally recovering in terms of the trend. As against the last fiscal year, we see that there have been onetime factors and Miyoshi-san will talk about some numbers.

**Miyoshi:** Thank you. As Hagimoto-san mentioned it, last year had some onetime special factors as last year. Neuro products suffered from some supply issues and China VBP was there. Because of that, the distributors refrain from purchasing, say, in the size of JPY1 billion. Some access products suffered from some delay in the deliveries. These factors were there. Last year, about JPY2 billion in sales revenue was the shrinkage because of the onetime effect.

Compared against that, in terms of onetime factors, there have been some special factors, the TIS, China business, well, as I mentioned, VBP, the pricing has been a bit lower, but the distributors have been increasing their inventory. They used to suppress inventory, but they're now increasing their inventory, so more than our expectations, they have more inventory, say, JPY900 million.

Last year, there was some neuro product delay and this year, there has been some recovery, say, JPY700 million. All in all, we are seeing a recovering trend. Let's say, JPY3billion without the mention of the unit currency, we see better figures.

**Tokumoto:** Regarding TMCS and North America demand, what do you have to say about that?

**Myoshi:** Oh, I see. That question is about that. HCS in North America, the veterinary market is performing very nicely. The veterinary distributors are increasing their inventory, say, JPY700 million, so that is a onetime factor, say, for recovery.

**Tokumoto:** All in all, the total will be, say, JPY3 billion?

**Myoshi:** Yes, JPY3 billion.

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**Tokumoto:** In relation to the second question, the cardiac and vascular, the vascular business, I understand that things have been very good. Your performance has been very good. Since last year, the vascular business, you're performing nicely and because of what? Well, I understand that China numbers have been a bit small, but in terms of the vascular business, what is particularly noteworthy?

**Miyoshi:** Regarding vascular, the business has been progressing even smoothly globally, especially in North America and Europe, very good progress, I should say. Since last fiscal year, the sales force has been picked up. And Treo and Relay, and Thoraflex Hybrid has been deployed very smoothly. Things have been growing very steadily.

If you look at Europe, TA, stent graft type of products, say, for special, a particular fenestrated product, I call, say, customized to the individual patients. That business has been progressing very nicely. Compared against the standard of the product, they are higher ASP, they are more value added. That type of a product has been progressing very nicely.

**Tokumoto:** I see. Thank you very much.

**Motoya Kohtani:** Thank you. This is Kohtani speaking. Earlier, you said that like in a onetime sales increase, would you please give me a breakdown on that? TMCS and C&V out of JPY3 billion, how much is from C&V?

**Miyoshi:** As a special impact in the previous year, it was like JPY2 billion as I said. Out of that, neuro, JPY1 billion; TIS access, JPY500 million. Altogether, JPY1.5 billion. Remaining JPY500 million, that's from MCS. That's the PS-related portion.

Sales was declined slightly in the area. JPY3 billion as a special effect this year for C&V; TIS China, that's plus JPY900 million; in Europe, plus JPY700 million; and MCS, as I said, North America HCS, and then, distributors, plus JPY700 million. In April, BSN like stocking, we were marketing those too. Now, it was transferred to another vendor or company and we posted some sales in Q1, about JPY600 million. JPY1.3 billion, that's about MCS.

**Kohtani:** JPY2 billion last year, that was onetime, and there was a reduction. Now, it recovered this year. That's why JPY3 billion.

**Miyoshi:** That's right.

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**Kohtani:** I understood. The second point, other than Rika, we had other expectation CDMO. You used to push that business in Japan so far, but maybe there is a potential business outside of Japan. On top of the progress there and PLAJEX in North America, your business is going well. But Hulo, I think it was sold in Takasaki, but it's posted in Japan, but the ones sold in North America, maybe those are more minor products using PLAJEX. That's my assumption. But as far as I know, like generic products which were launched lately, if those are the ones being used. Or how can I interpret that the PLAJEX business is going well in North America? When can you announce the new CDMO business? What do you mean by PLAJEX business in North America? Can you give me more color on that?

**Miyoshi:** Thank you for the questions. To answer your first question, the first CDMO business overseas, to give you the update on that business. In July, concerning the agreement on the contract, the contract has been signed already in July. Since we have partnered, the name of the companies and other information, we want to refrain from disclosing that today.

The CDMO business, we have been talking about finding a partner outside of Japan for CDMO business and finally, we were able to sign an agreement with our partner. Please look forward to this business going forward.

Plus, one more. PLAJEX business in North American market, pharmaceutical company in the US and so they want to commercialize this. We are supplying our products to them. Not CDMO, but the syringes, for PLAJEX syringes. Those are the products we are selling.

**Kohtani:** Just to confirm with you, the CDMO business, you said you signed a contract with them. Is that like an antibody medicine or any other business? The PLAJEX in North America, you said your performance is strong. It has been commercialized already, right?

**Miyoshi:** Your first question, I'm sorry, but we cannot give you clear or direct information.

The second question, it will be commercialized on a full-fledged basis going forward. That's what I heard.

**Kohtani:** Thank you.

**Tomoko Yoshihara:** Thank you very much. This is Yoshihara, UBS Securities. Regarding SG&A, in your presentation, you mentioned that you will maintain tight control of SG&A. If I look at the SG&A rate in Q1, that remained pretty low, I think, and there are

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some transient or onetime factors. I just wonder what is the level you're going to maintain the SG&A at into the future. What do you have to say about the level of the SG&A?

**Hagimoto:** Thank you very much for your question. Regarding SG&A, the HR cost, the labor cost is trending to go up. In relation to sales, of course, we're going to enforce/emphasize the sales. The performance has been pretty good, so there has been some remuneration, the bonuses, and that explains it for the increased labor cost.

In terms of the onetime factor or the transient factor, R&D is one such factor. Once analyzed, of course, it is trending to slightly go up and in Q1, it is pretty well contained. I think we can call it transient. Wherever we can control tightly, we are willing to keep controlling it tightly. However, we want to continue managing what we can control, and thus will consider how to reduce the rate of variable costs associated with sales as much as possible. For the fixed cost part, since it is a fixed cost, we want to manage it to the extent that it does not exceed the inflation rate.

**Yoshihara:** Let me ask you a confirmatory question then. In terms of additional project, am I right to understand that you are running an additional project?

**Hagimoto:** Yes. In terms of the VC2, we've been implementing cost-cut initiatives. Of course, all of them will not take effect immediately, but the cost-cut initiatives are continuing.

**Yoshihara:** Thank you very much. Let me ask you a second question. US market environment, let's say, centering around TIS. No big change, I understand, but your specific factors can be excluded. The number of the patients, number of the subjects have been shifting very nicely. What you have to say about your outlook towards the end of year-end? The US presidential election is just around a corner, so what do you have to say about that kind of factor?

**Hagimoto:** In the near term, on the market environment, as I mentioned towards the end of the presentation, there is no particular concern in our understanding. In the TIS business, things should proceed smoothly in our opinion.

**Miyoshi:** Regarding the number of the subjects, the number of the patients, when it comes to the cardiovascular, say somewhere around low to mid-single digit growth is the current progress, I've been told. When it comes to peripheral, the neuro arenas, somewhere between 6% and 10%, a higher single digit. The patient count should not change dramatically.

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

**Kohtani:** This is Kohtani speaking. Just one additional point. Kofu plant, you invested about JPY52 billion, including PLAJEX. You want to strengthen the supply, the projects, and others. With the new contract you signed, you will need to spend more CapEx, I believe. What is going to be the size of CapEx you are going to spend? Also, the timing, around which point of time you are planning to announce the CapEx? I just want to know the size of your investment.

**Miyoshi:** Confirming the concrete details, my sincere apologies, but I cannot share that information with you today. You're right, as I mentioned already, finally, we were able to sign the contract.

Going forward, we need to work with the partner together, including our R&D initiatives. We need to move forward. If we have more concrete views or more specific information about the investment, we will be able to share with you. Basically, we are going to spend CapEx at our existing plants.

**Kohtani:** That means Kofu and also Yamaguchi, you will manufacture at those plants, but you need to add more facilities?

**Miyoshi:** Yes, i.e., what you said is correct as your understanding.

**Kohtani:** Thank you.

**Ritsuo Watanabe:** Thank you very much. This is Watanabe speaking. Thank you. Regarding the margin, TBCT OP margin, I want to ask a question. 14%, which is a great number, I see, correct me if I'm wrong, but annualized, what's the plan? If I remember correctly, you're shooting for 12% or 12.5%.

**Miyoshi:** Yes.

**Watanabe:** In this case, so in later quarters, the margin gets better, I understood that way. As of Q1, there's been so much, so what's going to happen to the margin in the subsequent quarters? There may be special factors, but what do you have to say? What's your outlook? Are you seeing a discrepancy between what's real and what you expected? Or is this just as you expected? What do you have to say about the percentages?

**Hagimoto:** Thank you very much for the question. Regarding the numbers, Improvements came partly from the progress in Rika introduction according to your

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understanding. However, Q1 was a little higher than expected as there was an increase in gross profit due to improvements in sales from good performance of existing businesses as well as other special factors.

**Watanabe:** Let me ask you a confirmatory question. 14%, this is not too good in your opinion? Or you expected this much figure in Q1?

**Hagimoto:** Yes, right. It's a few percent different from our expectations, but it is not hugely different from what we initially expected.

**Watanabe:** Thank you very much. That's all I have.

**Stephen Barker:** This is Stephen Barker from Jefferies. About Rika, I have a set of questions. Based on the promise with sales force, you can sell to others. That's your current situation. When even such restriction will be lifted?

About market share, next year, by summer next year or sales from centers, based on your calculation, by then, how much global market share do you think you can acquire? Would you please answer my questions?

**Hagimoto:** Thank you for your questions. As I said, about 100 centers, that means about 1/3 of the contract with the CSL. We have been able to roll out smooth as we planned. On April or before spring or summer 2025, I think we will finish implementing this. Even after that, CSL partnership will continue even after that.

Within the market, machines, the machines must be used by other users and both parties have been committed to trying to achieve that. That's what we are going to do.

For the others, about the other potential partners, first of all, we want to make sure we can complete the rollout with the CSL. After we install our machines in the market, then and after FY2026 or thereafter, that will be the next step.

With the CSL, after the rollout with the CSL is completed, we should be able to gain about 1/3 of the total market in the US so it will be about 20% to 25% market share. That's our assumption.

**Barker:** That means in the future, with the CSL newly installing machines in all centers in the US, and you will be able to sell to other customers too in order to expand your global market share. The question is, I understand there is anti-monopoly law that you need to consider, but how much market share can you achieve eventually?

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**Hagimoto:** The Rika platform and also partners which are relevant to that, I mean we can offer excellent value to those customers. With those partners, we want to keep discussing with them so that we can think about how to expand our business in the market.

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

**Takahiro Mori:** Thank you very much. This is Mori speaking. I'm with Nomura Securities. Let me just ask you one qualitative question about M&A. The BOD and the shareholders, after the Shareholders' General Meeting, the Board makeup has changed. M&A has been progressing in a more active way or any change in the pursuit of M&A? Just answer qualitatively. Thank you.

**Hagimoto:** Let me respond to the question. Thank you very much for the question. Regarding M&A, of course, the discussions may get more active or less, but say, in the executive management meetings and other meetings with executive members, we often talk about the potential M&A. At this time, there is nothing we're ready to make announcements about specifics. After the new executive makeup, more or less kind of discussions about M&A have been in progressing.

**Mori:** After April, no big announcements and after the Board member makeup change, no big development?

**Hagimoto:** Of course, in June, there was some change in the Board members, but there has been a new executive member recently launched. Among the members, there's been even more active discussions about the M&A.

**Mori:** Thank you very much.

**Naoko Saito:** My name is Saito with JPMorgan Securities. My apologies from my side. Thank you. About China VBP impact in the country, that's my question. In our plan for this year for access products, there is no big impact from VBP. That was what you planned. A situation differs by province. Every quarter, I think the impact is going to progress. Impact in Q1 and also your future outlook, would you please share that with us?

**Miyoshi:** Thank you for the question about the impact from VBP. In China, our TIS products have heavier weight and access products have a larger share among that, too. Access products, we have a relatively large impact from VBP on our access product business. That's the guidance. Our guidance includes that impact.



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From April, we started to apply new prices in 19 provinces. In July, for all access products, we have new prices. On each quarter, we have about JPY1 billion impact from lower price. That was our assumption. For this particular impact, in Q1, impact was negative JPY800 million.

On the other hand, as I said, customers are trying not to place orders; and distributors, they are trying to destock and there is an ease in the situation, but TIS revenue in China, the VBP-related sales, that's almost flat. That has been flattish so far. Going forward, our dealers or distributors, they bought more than they needed, and it will be normalized going forward.

Also, the pricing, we will still have some impact remaining on the price. For access products, we will have some negative effects.

**Saito:** Thank you. That means compared to initial plan for this year, there is no revision in your full-year guidance?

**Miyoshi:** Yes, your understanding is correct.

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

**Tokumoto:** Thank you very much. Let me ask you questions again. Regarding gross profit, let me ask you a question. In Q1, 53.3% was mentioned. It's been quite a number after quite a while. Rika advanced investment has been made, and that's a pretty big number, considering the demand. Towards H2 of the fiscal year, do you expect more improvements in the GP? The gross margin and Rika will be even stronger? And then, do you expect a greater margin?

Let me ask a question about the sales number. You mentioned the JPY3 billion. I just wanted to get a bit more details, please.

**Hagimoto:** Regarding GP, as of now, say Q1, there's no big problem in operation and the production has been pretty stable. It's been quite a good number after quite a while. What's going to happen in the future? Of course, in terms of our business structure, it's been pretty stable as of now so GP will not change dramatically due to internal factors. When it comes to higher prices for raw materials and the Middle Eastern situation, say, the ocean freight may suffer the changes in the situations, for which we need to keep watching. These could negatively impact the GP we understand.

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**Miyoshi:** Let me add. Regarding the possible margin improvement, there is so much impact that can be exerted from the forex. As Hagimoto-san mentioned, GP rate has been positive. Last year, there was a heavy inflation impacting the freight and utility, the electric equipment power, and it's selling it down frankly. We have been pursuing VC2 producing a positive impact also helping with GP.

You also mentioned a question about the JPY3 billion. Let me streamline. What TIS China is about, say, additional JPY900 million, and Europe, additional JPY700 million, and MCS, say, North America in the veterinary, that's plus JPY700 million. The unit, the stocking, plus JPY600 million. Is that okay?

**Tokumoto:** You mentioned the sales revenue?

**Miyoshi:** Yes, revenue.

**Tokumoto:** Thank you very much.

[END]