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### **Q&A Session at the Financial Results Briefing for the FY22**

Outlined below are the Q&As from the financial results briefing on May 15, 2023.

**Hidemaru Yamaguchi:** I am Yamaguchi from Citigroup. As for the last part, please include confirmation in Japanese.

As for the plasma innovation business, I think you are going to carry out the rollout from now on, but it was mentioned earlier that it will be done by FY2026. Do you have a specific timeframe for the rollout, such as around what time this fiscal year, or when? So, the timing of expansion of the rollout. Thank you very much.

**Kenichi Hata, IR Terumo:** Thank you. I will answer this question.

As Antoinette just mentioned, we are still in the limited launch, or limited market release, but this will move to a full-scale rollout in the current term, probably early in H2. I cannot say when it will end, but the transition will be completed at least within the GS26 (5-Year Growth Strategy from FY2022 to FY2026) period.

From now on, it will probably be difficult to report the number of centers at each fiscal quarter, but we would like to report when we have reached some milestone, such as 100 or 200, so we will discuss that with CSL.

Until the last earnings call, our productions have been affected by supply chain circumstances, but the issue has now cleared up. From here on, roll-out speed will depend on CSL's management.

**Yamaguchi:** Thank you very much. That is all.

**Motoya Kohtani:** My name is Kohtani, from Nomura Securities. I would like to ask one question about Cardiac and Vascular (C&V) business.

On page 11, there is a forecast for this fiscal year that shows a 7% increase in overall sales on a local currency basis, but I would like to ask what growth rate you expect for the C&V business in the US on a local currency basis this year. I think catheterization is

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almost back to where it was before the COVID-19 pandemic, or is it still affected by the shortage of healthcare professionals?

Also, now that the business environment in the US is changing, more and more insurance companies are adopting a prior authorization system for catheterization and endovascular, so I wonder if there will be more dedicated products for radial procedures, which your company specializes in, if outpatient procedures are encouraged and treatment shifts to outpatient.

Although only Blood and Cell Technologies Company has been the focus of considerable attention, I believe that growth of this access is probably an essential item for achieving the mid-term plan, so, including these radial procedures, how is endovascular doing in the US? Also, can you tell us about this current situation and whether you are seeing a transition to radial procedures? That is my question.

**Hata:** Thank you.

As you say, majority of the GS26 revenue increase, in the amount of JPY300 billion, is C&V, with access devices being the second largest within that.

We are looking at 7% growth this fiscal year, in local currency terms, but the US will boost that. I can't give you a number, but we are looking at a growth rate that is higher.

As for whether the caseload has returned to pre-COVID-19 levels, it is still several percent away from there. Or this may be the new normal now, and there is no reason to expect this to recover anytime soon.

Then there is the shortage of healthcare professionals, which I hear is also improving considerably, but is probably not yet 100%. Since the conditions are the same for us and our competitors, we are determined to achieve the high single-digit figure mentioned in GS26.

Also, in our case, our strongest product is access, so we will continue to expand into radials. As you already know, for coronary arteries, it is more than 70%. One of the major themes of GS26 is to expand this to the entire body, and we have set a target value here as well. This is also a CSV theme.

As for outpatient procedures, the current situation is that non-hospitalization is required, so there is no choice but to use radials. But in terms of our sales the ratio is still only about 9 to 1, which is very small. So, it is not as if we are now entirely allocating the

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marketing resources to radial and outpatients, but we are thinking about allocating resources at the optimal time so that we do not lag behind the competition.

In his presentation, Mr. Sato mentioned the deployment in Europe of "Nagomi." We have not received any questions, but President Osada is here today, and is actually in Paris on the eve of the EuroPCR, which starts tomorrow, so I would like to connect with him and ask him about his confidence in "Nagomi" in Europe.

Mr. Osada, are you there?

**Toshihiko Osada, President, Cardiac and Vascular Company Terumo:** Yes, can you hear me?

**Hata:** Yes, we can hear you.

**Osada:** As Hata just explained, I am in Paris this week, and tomorrow I will participate in the EuroPCR, the largest cardiovascular conference in the world, where the "Ultimaster Nagomi" will finally make its debut in Europe.

Last year, we presented the very strong clinical data of MASTER DAPT at the European PCR conference, and this year, with the debut of Ultimaster Nagomi, I think we are in a very good position.

It is also recommended by the Healthcare Insurance Organization in France. In addition, we have a very good relationship with the board members of EuroPCR in Europe, and we are planning to expand our training and other activities, so we hope that you can look forward to the rapid progress of "Nagomi."

**Kohtani:** Since you are here, Mr. Osada, I was quite shocked to hear that you are considering entering the US DES market in the future. Is it correct to understand that Phase 3 would have to be conducted in America, so it won't happen for quite some time?

Also, you have not thought much about the US until now, but now that you are entering the US, does that mean that the impact of the one-month DAPT will be that great? This is my final question.

**Osada:** You are right, it is still under consideration, so it is not a decision, but we are now considering it with the US industry in mind. Of course, as Mr. Kohtani mentioned, clinical trials are essential for this purpose, so it is undeniable that it will take some time.

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The reason why we are now considering the US market for drug-eluting stents is that, compared to the past, we have considerably expanded the scope of our business from the access-only US market to the therapeutic device market. We are now in the process of conducting a close examination to determine the extent to which we should consider including other products, including drug-eluting stents.

**Kohtani:** Thank you very much.

**Osada:** Thank you very much.

**Ritsuo Watanabe:** Thank you for the explanation. My name is Watanabe. I have a question about the profit improvement measures for GS26 that were explained by the President.

I am very grateful for this explanation as what will happen to margins has been a topic of discussion. My question is, I am looking at slide number 8, which says that you will raise 14.3% to 20%, and I understand that there are factors behind this increase, but the reality is, if you look at the single-year performance plan for this fiscal year, even if there is such a factor, the plan is that the improvement in margins will be quite offset this fiscal year by general and administrative expenses and investments in growth.

In that sense, I have a feeling that even if this is achieved, the margin may not improve to 20% if growth investment increases, and I would appreciate it if you could explain more about whether the risk there is limited or not.

**Sato, President and CEO Terumo:** Now, what is written here is the improvement rate as the minimum component that can be expected. We are aware that there are a number of other downside factors that could apply downward pressure over the next four years, and that we need to reduce costs by at least a greater extent, or to lower, than what is added here.

For example, we have set VC2 at 2%, but we are already thinking about this. We will accelerate the current range and speed and expand the measures we can take, so if we can add a little more to this figure, it will have the effect of offsetting the downward pressure. We hope to achieve an improvement of 5% to 6%.

**Watanabe:** Thank you.

**Tomoko Yoshihara:** My name is Yoshihara, from UBS Securities. Thank you for the explanation.

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I also saw the President's strong determination to improve profitability in his presentation, but I personally think that improving Terumo medical care solutions' margins is a bit of a challenge. I think you are limited in what you can do because of its domestic focus. You will do a review of unprofitable projects here, but is there a possibility of going further in that review than what has been done so far? Could you please explain your focus and specialization in this sector?

**Hikaru Samejima, President, Medical Care Solutions Company Terumo:** I will answer this question.

We are considering a three-pronged approach to improving margins, the first being portfolio reform. I think the primary point here is still how much we can accelerate and expand the pharmaceutical solutions business. Since we started global promotion last year, we will finally start global expansion with regard to CDMO.

The second approach is pricing policy. We would like to implement the pricing policy by the end of this fiscal year.

Third, in the area of structural reforms, we are working to improve the efficiency of our sales structure over the medium term, and we have also launched a project to optimize our global operations and are reducing costs and increasing cost resilience.

As for unprofitable businesses, due in part to our long history, we have inevitably had a large number of products in the medical equipment and pharmaceuticals fields. We have reorganized and consolidated products, but we would like to go further and make cuts.

That is all.

**Yoshihara:** Thank you very much.

**Mie Yamazaki:** Thank you for the explanation. I am Ms. Yamazaki from Mitsubishi UFJ Morgan Stanley Securities. I would like to know the concept of the gross margin in the analysis of changes in operating income for the period just ended and for the current fiscal year.

Could you please tell us how much of each factor, such as inflation, one-time costs in the last period, and the mix, is being incurred, and what contribution each is expected to make to the JPY5.8 billion increase in profit that you are planning for the current fiscal year?

**Hata:** Thank you.

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This is about the waterfall chart with a 58 breakdown for the current FY2023.

**Yamazaki:** Yes, that's right. If possible, please also tell us about the JPY12.4 billion decrease in the profit margin on page five, for the just-ended period.

**Hata:** 12.4 billion. This is only YoY, so most of it is inflation, or rather inflation is through this. This is improvement of the company mix and, to reduce the inventory from two years ago that grew due to COVID-19, we intentionally slowed production. This is a positive factor because the Company is now running at full capacity in FY2022.

So, we lowered the positive factors of the improvement in company mix and the increase in production mainly at Ashitaka to the fullest extent, so that the net negative figure exceeded JPY12 billion, which is inflation.

In response to that, of course, it is a waterfall chart, so we will raise it JPY12 billion, but what you are asking about now is the breakdown of the JPY5.8 billion. What we see here is that inflation is still a bit conservative, but we actually see it getting even worse. We are looking at about JPY2.5 billion for this.

Our competitors say that inflation is already relaxing, but in our case, we are conservatively expecting here that inflation will further deteriorate by about JPY2.5 billion, especially since we use utilities at Medical Care Solutions' Japanese plants and the cost of electricity in Japan is still rising. If this is not the case, if it proceeds sideways, I believe that will be a factor for an upswing to the margin of about 30 basis points. That is minus JPY2.5 billion.

Likewise, as I said, the improvement in the mix is about just under JPY2 billion. In addition, the one-time costs, especially in Q4, will run their course, so the amount that will naturally rise will be about JPY3 billion. The remaining JPY3.5 billion to JPY3.6 billion, which I believe will emerge, includes the VC2 transfer to the Costa Rican production plant, the effects of which will begin to be felt in FY2023.

To explain one more time, inflation will be a minus of about JPY2.5 billion, the mix and one-time costs will run their course, adding a little less than JPY5 billion to the total, and then VC2 and production will take effect at about JPY3.5 billion, which will bring the total to about JPY6 billion.

Is that okay?

**Yamazaki:** Yes. Thank you very much.

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**Takahiro Mori:** I am Mori from Mizuho Securities. Thank you for taking my question.

**Hata:** Please go ahead.

**Mori:** Slide 11 shows the TMCS Profit Improvement Plan, but, for example, is there a Plan B in the event that the plan does not happen as expected? For example, TMCS is domestically focused, and its customers are domestic medical institutions, so are you thinking of a Plan B that would involve a drastic review of the business itself? That is all.

**Hata:** The expansion of CDMO is the biggest and the most important factor here, and its pipeline is coming soon, and we have put out a press release today. The first thing here is that we are focused on growing the top line. The price policy, which is number two, has also already been realized with the increase in government reimbursements for drugs for infusions starting April 1, so I believe that numbers one and two are almost achieved.

Therefore, rather than discussing Plan B here, I believe that this plan will work for this fiscal year.

**Mori:** Thank you.

In the area of pharmaceutical solutions, rather than, for example, drugs or injection-type products that you make using another company's technology and obtain the entire added value of, I think the question is how much added value you can make from CDMOs. Can we expect to see an improvement in profitability in the future in CDMOs, either through in-house ratios or through in-house technology?

**Hata:** This will take a little longer, but we are in the midst of GS26, so we are looking at acquisitions from that perspective as well, and I am sure that eventually we will be able to realize what you have just mentioned.

**Mori:** Thank you. That is all.

**Kohtani:** This question is for Antoinette. I think you are starting a new clinical trial for Rika, version 2 nomogram. I don't know how much you can disclose, but your competitor Haemonetics has the Persona technology that allows increased plasma collection yields from 770ml to 840ml. We hope you will be able to exceed or equal Haemonetics' yield. Is this how we should understand it? I believe they use Hematocrit and BMI as parameters to see how much plasma you can collect. How do you increase the RIKA yield? Does it have to do with the machine or similar to Haemonetics like parameters?

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**Antoinette Gawin, President, Blood and Cell Technologies Company Terumo:** You are correct. Our clinical trial for version 2 is beginning tomorrow. We expect to see similar gains compared to Haemonetics. RIKA has generated 30% improvement fundamental technology, and this Nomogram software change will do the same thing as Persona device, in terms of locating individual variables, optimize the collection from those individuals. We have some predictions, but we cannot share specific numbers.

**Kohtani:** Any way you can detail how the yield actually increase? Is it like Persona that uses hematocrit and BMI?

**Gawin:** It's a very similar model. Basically, maps individual personal characteristics of their blood and physiology to optimize how much we are collecting.

**Kohtani:** Thank you very much.

**Watanabe:** I would like to confirm your plans for this fiscal year in terms of numbers. Regarding "Rika," and similar to the opening question, in the end, are you not going to disclose how much, or how many units, you are assuming for this fiscal year?

**Hata:** That's right.

**Watanabe:** If that is the case, and I am including that possibility, but I think the adjusted operating profit margin for the period that started is not very high. Is it correct to think that the profit margin will actually start to improve from the fiscal year ending March 2025? The speed of the rollout is a little different than I expected, so my question is intended to try to understand the speed of profit margin improvement as correctly as possible.

**Hata:** So, unfortunately, this is the case. As long as there is only one customer, the amount of sales cannot be disclosed. I hope you can understand that this is because we are thinking about the next development.

As I mentioned earlier, roll-out speed will depend on CSL's management, and as you know, they have secured a long-term supply contract with the current supplier, so they will decide the speed of the rollout while keeping a close eye on the balance.

So, sorry, but I can't give any new information here at all. Our plan now is to finish the rollout completely within 2026, the last year of GS26.

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Whether or not there will be an improvement in margins in the fiscal year ending March 31, 2025 will depend on the speed of full-scale development, which will begin now and in H2, and we will report on that when we see it. Sorry.

**Watanabe:** Thank you.

[END]