

FY 2022 (Year Ending March 2023) 1st Half Financial Results Briefing Q & A
Date: November 8, 2022 13:00-14:00

Participants:

Yasunori Yamamoto President and CEO

Akira Watanabe Director, Senior Managing Executive Officer, CFO

Changes in Operating Income in the 1st Half of the Fiscal Year

Q1: Tell us about the factors that improved gross margins in the 1st half.
(Komiya Analyst, Mitsubishi UFJ Morgan Stanley Securities)

A1: Both price revisions and cost reductions contributed to the improvement. Some of the higher prices of parts and materials are being passed on to product prices. The entire company has been working to reduce costs through design changes, such as changing circuits and reducing the number of parts, which is expected to be effective from the 2nd half of this fiscal year. In addition, we believe that production has advanced, leading to an improvement in gross margins. In the 2nd half of the fiscal year, the sharp rise in the cost of materials is expected to continue, and we will continue to promote cost reductions.

Q2: Tell us why human investment is down from Q1 to Q2.
(Nakanomyo Analyst, Jefferies Securities)

A2: Human investment involves hiring new people and paying current employees' salaries and lump-sum payments. Hiring of human resources is in a difficult situation, especially overseas, where hiring does not progress unless treatment is considered in response to rising prices, and the number of hires in Q2 was lower than expected. In addition, in making lump-sum payments to employees, the company sets aside funds for payment in advance, but looking at a certain period of time, the amount of the reserve and the actual payment increase or decrease. These factors led to a decline in human investment in Q2 compared to Q1.

Q3: What are the prospects for human investment?
(Nakanomyo Analyst, Jefferies Securities)

A3: We plan to increase human investment in the 2nd half, expecting a 5 billion yen increase for the full year compared to the last year.

Price Revisions

Q4: While price revisions are progressing in Europe and America, will there be price revisions in Asia?
(Tokumoto Analyst, SMBC Nikko Securities)

A4: Japan raised prices in October. China and Southeast Asia have not revised their prices but will consider revision depending on the situation. The effects of price revisions made in February in Europe and the United States, as well as for parts and services in Japan since October have already been factored into the publicly announced figures.

Impact of Soaring Prices and Production Delays due to Supply Constraints of Parts and Materials

Q5: Tell us Q2 results and full year outlook for the impact of soaring prices and production delays.
(Nakanomyo Analyst, Jefferies Securities)

A5: Q2 impact was about 1.7 billion yen. Higher prices for parts and materials are expected to continue for the full year. We will take various measures to mitigate the impact, such as price revisions and improving production efficiency.

About Full-Year Business Forecasts

Q6: Tell us about your concerns in the 2nd half.
(Nakanomyo Analyst, Jefferies Securities)

A6: Securing service people. Since the change in revenue recognition standards, the completion of installation has been recorded as sales. In Q1, the company's performance was affected by the difficulty in installations due to amid travel restrictions during the pandemic. Product shipments will increase once production delays are eliminated after January through the promotion of procurement of parts and materials. On the other hand, securing service personnel for installation in all regions is our concern.

About the Analytical and Measuring Instruments Segment (Performance-related)

Q7: Tell us about the trend of new products in Analytical and Measuring Instruments.
(Tokumoto Analyst, SMBC Nikko Securities)

A7: New products such as Nexera XS Inert, LCMS 2050 and LCMS 9050 performed largely as expected in the 1st half. Orders are also going along the plan. The 2nd half is also promising.

Q8: Is there a sense of slowing demand for Analytical and Measuring Instruments in China?
(Nakanomyo Analyst, Jefferies Securities)

A8: No sign of slowing down. On the other hand, concerns are political risks such as restrictions on business with China due to the deterioration of U.S.-China relations.

Q9: Can you tell us about orders in Q2 (July-September), and by region, the status of orders in China?
(Tokumoto Analyst, SMBC Nikko Securities)

A9: Orders are not disclosed in detail, but up slightly more than 10% year on year excluding foreign exchange impact. Including foreign exchange, the figure is up 20-30% from the previous year. China has more positive growth than measured overall.

Analytical and Measuring Instruments Segment (related to Pharmaceutical Market Strategy in North America)

Q10: Future developments in MS products and application development.
(Koutani Analyst, Nomura Securities)

A10: To strengthen the linkage between marketing and application development, the existing application development department and the CoE (Center of Excellence) were merged into one department in April this year. The change in structure enables us to actually create applications that meet customer needs at one department. For example, applications for nucleic acid medicines will be created based on customer needs, and these will be used as marketing tools in sales activities.

Q11: Measures taken in response to declining LC sales for a major customer in North America.
(Koutani Analyst, Nomura Securities)

A11: We visited a major client in August and are in the process of arranging this matter. Going forward, we will continue to take all possible measures while continuing to engage in dialogue, such as offering products with higher added value to the products we have traditionally offered.

About NISSUI PHARMACEUTICAL

Q12: Future development of iVD test kits for mass spectrometer platforms.
(Koutani Analyst, Nomura Securities)

A12: In Europe and the United States, mass spectrometers are increasingly being used to diagnose multiple diseases, and the market growth rate is growing at nearly 2 digits per year. In Europe, for example, by analyzing the levels of vitamin D in the blood, it is advanced that measures should be taken for all diseases at an early stage before the onset. Although similar methods have been adopted for newborn mass screening in Japan, the current situation is not as advanced as in Europe. By combining a mass spectrometer from our company with reagents from Nissui Pharmaceutical, the company is considering global expansion of its system, which includes measures to be taken before the onset of a disease through early diagnosis of the disease. We hope to make use of Nissui Pharmaceutical's ability to develop reagents and their know-how in acquiring pharmaceutical affairs.

Q13: The market for culture media for microbial testing is shrinking, and the price of raw materials for culture media is rising. Tell us about your future plans.
(Koutani Analyst, Nomura Securities)

A13: Among culture media that Nissui Pharmaceutical owns, there is one dried medium called compact dry. Because it's dry, it can be provided throughout the world to test for mold on food and various viruses. This has made it relatively easy to check for bacteria in tap water for example, even overseas, and the company is also working to develop a system in which data from cultured bacteria can be transmitted via a smartphone and analysis results can be returned. We hope to use such culture media in combination with our company's mass spectrometer for global expansion in the field of food safety. As one example, our company and Osaka University are collaborating on cultured meat, and in this effort, the culture media of Nissui Pharmaceutical is used. In addition to these examples, we consider culture media to be very important in regenerative medicine and cell culture-related fields, and we have high hopes for them.

About Shareholder Returns

Q14: Shimadzu once cited M&A considerations as one reason for not buying its own shares. Now the acquisition of Nissui Pharmaceutical on progress, I would like you to restate your approach to share repurchase.
(Komiya Analyst, Mitsubishi UFJ Morgan Stanley Securities)

A14: The basic idea is that unless it is constrained by M&A and other growth investment projects, we would like to return profits to shareholders through the acquisition of treasury stock. We want to implement it at the right time. Since there are no share repurchases this year, a payout ratio of 30.1% is the total payout ratio. The policy of total return ratio is currently under consideration, and our strategy will be stated in the next mid-term management plan (FY2023-2025).