

Questions and Answers

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Executives

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1. Tomoki Komiya—Mitsubishi UFJ Morgan Stanley Securities

Q1-1: The report indicated that Japan and China were major regional factors for the downward adjustment to Analytical segment results. How long are those factors expected to continue? Also, which was a larger factor, key models or non-key models?

<Furusawa>

First, I want to point out that the reported outlook does not factor in the impact of the new coronavirus outbreak.

China is basically in a recovery trend, but our impression is that the recovery speed is slower than expected. One reason for the downward adjustment in China is that VOC-related markets were slower to start improving and more intensely competitive than expected. The intense competitive conditions are expected to continue until strict regulations are established. Another reason is the delay in the growth of markets related to Chinese Pharmacopoeia revisions, which we estimated would start from the fourth quarter. Though projects have started appearing, such as for Chinese herbal medicine, they will not result in actual signed contracts until next year or thereafter. In Japan, corporate capital investment in equipment has been slow, particularly in automotive and chemical industries and recovery will take a while.

In terms of specific models, results vary by region. In Japan, key models are doing well, but other models are doing poorly for electrical and automotive applications. In China, the factors are environmental monitoring instruments and key models. For key models, performance targets were a little high and changes in the business environment had a bigger impact than the boost from new product releases.

Q1-2: Considering that the operating margin for the Analytical segment improved significantly in the third quarter, does that mean the effects of cost management measures were already appearing in the third quarter?

<Furusawa>

Based on first-quarter results, we started implementing global cost management measures from the second quarter. We think we are now steadily reaping the benefits of those measures.

2. Masahiro Nakanomyo—Jefferies (Japan)

Q2-1: How were the third-quarter sales and profit results, compared to the plan?

<Furusawa>

For the Analytical segment, they were lower than planned. For other segments, they were

somewhat lower than planned, but fell short only minimally.

Q2-2: How much growth is expected in the fourth quarter for the Analytical segment, on a local-currency basis? Also, please provide a general idea of growth rates for respective regions.

<Oyagi>

Growth is expected to increase by 1 % in the fourth quarter, on a yen basis. The initial plan estimated almost a double-digit growth rate.

In terms of growth rates by region, I can tell you the estimated annual growth rates reported in the revised disclosure. Low single-digit growth is estimated in Japan, mid-single-digit growth in North America, mid-single-digit growth in Europe, flat growth in China, and mid-single-digit growth in Asia.

Q2-3: Have you noticed any recovery in public sector demand in China? Should we interpret the fact that results in China turned positive in the third quarter as indicating improved momentum?

<Furusawa>

During only the third quarter in China, public sector demand accounted for 41 % of sales, which was relatively unchanged from the 40 % for the same quarter the previous year. The ratio was 35 % for the first half of this fiscal year, so the ratio of public sector demand is increasing, but that reflects lower than expected growth in the private sector, such as for VOC products, rather than particularly strong public sector demand.

Q2-4: What is the estimated growth rate for key models in the fourth quarter?

<Furusawa>

Roughly low single-digit growth.

Q2-5: Shimadzu's competitors, such as Waters and Thermo Fisher, also are saying the pharmaceuticals market is not too bad, but do you feel market conditions are improving?

<Furusawa>

It depends on the region, but sales in the pharmaceuticals market are increasing in regions like Japan, Europe, China, India, and other Asian countries. In China, we have even won large CRO projects. We think the sales recovery trend for the pharmaceuticals market is due to the effects from releasing new products.

3. Motoya Kohtani—NOMURA SECURITIES

Q3-1: In China, broken down by public and private sector pharmaceutical demand and private sector demand in other industries, what is the status of those three market segments? Shimadzu's competitors have been reporting delays in achieving public sector estimates, stagnation in small-molecule drug markets, and stagnation in other industries,

particularly in chemical markets. Does Shimadzu share the same view?

<Furusawa>

Our view is about the same. However, we think public sector demand is active for academia and research institutions, but food safety is slow. Though pharmaceutical sales have not fully recovered, we were able to win some large projects, so we think sales have bottomed out. Looking ahead, we are also expecting demand related to pharmacopoeia revisions. Results in industries other than pharmaceuticals were not too bad, but these industries still seem to have not fully started moving.

Q3-2: What impact did the SARS epidemic have on manufacturing, sales, and demand for analytical instruments? Are there any products for which the current coronavirus will increase demand?

<Furusawa>

SARS had its biggest impact in Beijing, where government-related activities came to a standstill. Given that the public sector accounted for a larger portion of the economy at the time, the actual slowdown in various economic activities due to SARS lasted about half a year. The significant limitations on movement of people, made it difficult to travel for sales activities or to install products once they were sold. The current epidemic has resulted in even more severe movement restrictions than for SARS. Consequently, if the restrictions drag on for a long time, presumably the epidemic could have a major impact on results. In the case of medical devices, however, such circumstances can generate additional demand. When SARS occurred, we sold about 200 mobile X-ray systems to satisfy the demand for X-ray systems that could be moved. In the current case, we have already received similar requests, but with very short delivery requirements. Though it is still difficult to predict how much such demand will result in actual sales, but the demand seems to have definitely appeared.

Q3-3: How are initial sales of the new liquid chromatograph product? It seems that sales are taking longer to get off the ground than for the previous release of the i-Series integrated liquid chromatograph systems. What are the factors causing the slow start?

<Furusawa>

Sales levels have been lower than predicted, but given that the new product is positioned as a high-end flagship model, it has helped expand sales by stimulating overall sales of all liquid chromatograph models. Though sales of the new product itself have been limited, it is nevertheless starting to achieve the sales boost expected from a new product release. We think price may also be a factor that is limiting sales of the new product itself.

4. Yukihiro Koike—UBS Securities

Q4-1: What is the third-quarter growth rate in purchase orders for all Analytical & Measuring Instruments products and for key models, broken down by region? Also, what are the

growth rates of the respective key models?

<Oyagi>

On a local-currency basis, overall Analytical segment orders increased by 1 %, including a 2 % increase in Japan, 2 % increase in North America, 3 % increase in Europe, 1 % decrease in China, and no change in other Asian countries, which includes a 9 % increase in India. Orders for key models decreased 1 % globally, including a 1 % decrease in Japan, 2 % decrease in North America, and no change in Europe, China, or Asia, which includes a 16 % increase in India. By model, the growth rate was highest for liquid chromatographs, next highest for gas chromatographs, and the lowest for mass spectrometers.

Q4-2: I understand MS growth was high until the second quarter, so why did growth become negative in the third quarter?

<Furusawa>

In Japan, there was a second-quarter surge in demand due to a rush to make purchases before the consumption tax rate increased. Consequently, the third-quarter decrease was a reactionary decline after the previous large government projects for GCMS systems. In China, stalled public sector demand for food safety products and delays in projects related to pharmacopoeia revisions slowed growth in the third quarter.

Q4-3: Though you indicated that overall consolidated gross profit worsened by 0.1 points (year-on-year), I assume it varied considerably by segment. What is the breakdown by segment?

<Oyagi>

For the Analytical segment, the gross profit margin increased due to an improved product mix resulting from a higher proportion of key models. For the Medical segment, gross profit decreased due to a worse product mix resulting from a lower proportion of X-ray systems. For the Industrial segment, gross profit decreased slightly due to a lower proportion of TMP service sales. For the Aircraft segment, the gross profit margin improved due to progress with cost management.

Q4-4: Based on the fact that the purchase order growth rate was lower for key models than for the Analytical segment overall, is it safe to assume the segment's product mix will worsen in the fourth quarter?

<Oyagi>

Orders received in the third quarter do not necessarily reflect order levels in the fourth quarter, so it is difficult to categorically say what will happen to the product mix in the fourth quarter.

Q4-5: Is Shimadzu planning to make any announcements in March at Pittcon?

<Oyagi>

At this point, we are not disclosing whether or not we are planning any announcements.

5. Hiroharu Watanabe—SMBC NIKKO SECURITIES

Q5-1: You said that the downward adjustment was mainly due to two factors—a slowdown in capital investment in Japan due to worsening economic conditions and delays in pharmacopoeia-related projects in China. Do you think recovery within Japan depends on macroeconomic factors? If so, is there a possibility that the product mix will improve from selective spending of budgets for new products?

<Furusawa>

The major factors are Japan and China, for the reasons you just mentioned, but another significant factor is delays in starting up VOC projects in China. In Japan, product mix improvements will depend on how much corporate investment motivation levels recover, so it is still difficult to determine whether or not the product mix will improve. However, one positive factor in terms of corporate capital equipment investment is the potential growth that might occur if Japanese government supplementary budget appropriations are implemented.