

Questions and Answers

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Executives

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(The unattributed responses were given by Managing Executive Officer Yamamoto.)

1. Masahiro Nakanomyo—Jefferies (Japan)

Q1: What were net sales for novel coronavirus detection kits in the first quarter and estimated for the full year?

In the future, do you plan to sell the kits outside Japan as well?

A1 (Oyagi): We have not disclosed specific figures for sales results, but first-quarter net sales were in the hundreds of millions. We expect full-year sales to be in the billions.

In order to offer the kits outside Japan as well, we are being assessed in respective countries. If future sales can be increased outside Japan, then that would also increase the full-year estimated net sales.

Q2: What sort of solutions will you offer for supporting people working from home? About what is the potential market size?

A2: We supplied about 400 licenses for postrun analysis software in Japan. Currently, we provide it free of charge, but we are considering offering it as a subscription-based business in the future. The market size is not very large, but it is expected to provide a source of regular sales revenue. In the future, we hope to use the positive reputation of the software to also expand hardware sales.

Q3: How significant was the extraordinary demand in the first quarter for analytical and measuring instruments intended for infectious disease applications?

A3: I cannot tell you quantitatively, but we are predicting more government stimulus spending for infectious disease applications in Japan, North America, Europe, China, and other markets. We are quite confident that will increase demand for mass spectrometers and other products.

2. Toru Sugiura—Daiwa Securities

Q1: What were the growth rates of analytical and measuring instrument orders in respective regions?

A1 (Oyagi): Overall consolidated growth was -7 %, with -11 % in Japan, +2 % in North America, +3 % in Europe, 0 % in China, -21 % in other Asian countries, and -27 % in India.

Q2: What is the reason for strong analytical and measuring instrument orders in Europe and the United States? I assume the lockdowns resulted in severe conditions in both regions.

A2: Results were driven by strong sales for pharmaceutical applications in Europe and demand for food safety applications in Russia. In North America, sales were strong for cannabis applications and sales were good for OEM products from Britain.

Q3: Were first-quarter results higher than expected?

Also, what is the outlook for the second quarter? It seems like purchase orders exceeded the worst-case scenario.

A3: First-quarter results did exceed the worst-case scenario. However, the future still remains unclear. For example, we cannot rule out the possibility of a resurgence in the coronavirus pandemic that prevents service personnel from installing products.

3. Tomoki Komiya—Mitsubishi UFJ Morgan Stanley Securities

Q1: How has the outlook changed since the beginning of the year?

A1: Except in Asia, results for the Analytical & Measuring Instruments segment were better than the worst-case scenario. In Japan, being able to contact customers using IT tools and being able to actually visit them in-person starting from about late May were especially helpful. In North America, sales for cannabis applications were strong. In Europe, sales were higher in Russia. Even in China, export-related circumstances were severe, but domestic demand and pharmacopoeia-related demand are increasing as expected. Also, Medical Systems had extraordinary demand for mobile X-ray systems in Asia and Europe. On the other hand, some areas performed worse than predicted, such as Aircraft Equipment sales for commercial aircraft and Industrial Machinery sales of hydraulic equipment.

Q2: What was the scale of extraordinary demand for Medical Systems mobile X-ray systems?

A2: I cannot offer specific figures, but it was double normal levels.

Q3: What is the background explanation for the extreme increase in inventory?

A3 (Bandai): Due to accounting changes in the way we recognize revenues, until last year sales were recorded when systems were shipped, but now we record sales when installation work is finished. That has resulted in higher inventory levels for mainly Analytical & Measuring Instruments and Medical Systems segments.

4. Motoya Kohtani—NOMURA SECURITIES

Q1: What was the scale of extraordinary demand for analytical and measuring instruments related to COVID-19? It seems to be small.

A1 (Oyagi): It is difficult to answer that quantitatively.

Q2: For Waters, conditions were extremely severe for pharmaceutical applications in China, but Shimadzu analytical and measuring instrument sales in China appear good. What accounts for that difference? Was Shimadzu able to increase market share?

A2: Shimadzu was fine because of winning some large projects, satisfying demand associated with the pharmacopoeia revision, and so on. In terms of market share, we still have not determined numeric values, but we anticipate that it has increased.

Q3: Why did the profit margin of the Analytical & Measuring Instruments segment not decrease very much?

A3: Please understand that it is due to progress made reducing expenses.

5. Hiroto Segawa—Morgan Stanley MUFG Securities

Q1: Is the 12 % growth rate sustainable? Does it include a reactionary increase after the 40 % decrease in the fourth quarter of last year?

A1: The 12 % figure probably does include a reactionary increase. Though there are positive factors like

the pharmacopoeia revision for pharmaceuticals and COVID-19 related regulations, there are also some uncertainties, such as fewer funds being budgeted for education/training than we originally expected.

Given that there are both positive and negative factors, the honest answer is that we still do not have a clear picture of whether the rate is sustainable.

Q2: What is the background explanation for both purchase orders and net sales decreasing for the Analytical & Measuring Instruments segment in Japan? Do you expect the difficult conditions to continue?

A2: In Japan, there was a major downturn in results for all models except key models. In particular, market conditions are severe for non-key models in automotive markets. The automotive industry involves a broad scope of activities that affect a wide variety of businesses. We still cannot predict whether there will be a recovery in Japan's automotive industry, but we expect the severe conditions to continue. We expect the current results for key models will roughly continue, but we do not expect any change in the first-quarter trend for non-key models.

Q3: You said operating income reached 3.3 billion yen because of expense reductions, but what were some of the major expense reductions?

A3 (Oyagi): Reductions in travel and transportation expenses were in the billions of yen and reductions in advertising expenses were in the mid-hundreds of millions of yen.

6. Yukihiro Koike—UBS Securities

Q1: You previously mentioned that you are considering a variety of options for the Aircraft Equipment segment, but do have any updates in that regard?

A1: We are making progress reallocating personnel. In addition, we are also currently discussing various other options for exiting from the current situation.