

FY 2021 1st-Half Results and Financial Position Presentation by Video Conference

Questions & Answers

Date/Time: November 8, 2021, 13:00 to 14:00 JST

Participants: 115 participants from 95 companies

Shimadzu attendees: President Ueda, Senior Managing Executive Officer Yamamoto,
Corporate Strategy Planning Department General Manager Tomita, and Finance and Accounting Department General Manager Arakane

Note: All responses were given by President Ueda.

Full-Year Forecast (Regarding the Second Half)

Q1: You said you are feeling cautious about the second half, but does that mean you are unsure about demand related to the COVID-19 pandemic or something else? (Tomoki Komiya—Mitsubishi UFJ Morgan Stanley Securities)

A1: There are three factors we are feeling cautious about. The first factor, as you point out, is sales of the novel coronavirus detection kits and automatic PCR testing systems. We are not very optimistic about those sales considering the current infection levels because those sales correlate with the number of infections. The second factor is a resurgence of infections. Given the reports of “breakthrough” infections among vaccinated people, we are concerned a resurgence in infections could trigger another economic downturn. The third factor is the semiconductor shortage. LC sales are especially impacted by that shortage. We are temporarily stopping new development work to prioritize modifying designs so that they do not require semiconductor parts that are difficult to obtain. However, the semiconductor shortage could have major consequences down the road.

Q2: Can you provide a quantitative or even qualitative explanation of your view on demand trends during the second half?

A2: That may be difficult quantitatively, but basically I see no negative circumstances in terms of demand. We expect sales to recover mainly for LC and MS, but also for automotive testing machines. On the other hand, there is significant uncertainty in terms of production (by Shimadzu for supplying products).

- Q3:** The presentation indicated the second-half operating margin for the Analytical & Measuring Instruments segment will be about 18 %. If PCR-related sales are expected to decrease in the second half, are you expecting profitability to improve as organic growth? Or rather, do you predict PCR demand levels to continue during the second half, with the profit structure remaining unchanged from the first half? (Jefferies (Japan))
- A3:** We think PCR-related sales will decrease significantly during the second half. However, to compensate for that decrease, we intend to maintain profitability by promoting sales of new products scheduled for our major product lines.

Increasing the Operating Margin

- Q4:** The first-half gross margin was over 40 %. What factors resulted in that level and can the value continue to be increased in the future? (Tomoki Komiya—Mitsubishi UFJ Morgan Stanley Securities)
- A4:** A major factor that increased the gross margin was the increased sales of new products. In terms of LC products, Nexera and i-Series models featuring Analytical Intelligence functionality particularly contributed to that increase. For mass spectrometers, sales have been shifting to more high-end products with higher gross margins, particularly LCMS systems. I believe there is still plenty of room to increase gross margins in the future as well, so it will be important to expand and improve our offering of new products.

Product Development and Pharmaceutical Strategies

- Q5:** In response to the lively demand for pharmaceutical applications, Shimadzu offers many products for small molecules, but seems to be having difficulty addressing demand for analyzing macromolecules. If so, it appears Shimadzu has lower growth potential than American competitors. What are the causes? Personally, I think Shimadzu products compare favorably with products of competitors in Europe and the United States, but the lower growth potential is due to sales and support. (NOMURA SECURITIES)
- A5:** The major European and American pharmaceutical companies dominate the biopharmaceuticals market. In contrast, we have struggled in that market with sales capabilities, marketing capabilities, and properly discussing with customers the applications they require. To resolve such challenges, we have been promoting joint research and development collaborations with companies and academic institutions, especially those involved in advanced pharmaceutical research, at our Innovation Centers in Europe and the United States. In the future, we intend to expand our line of products for biopharmaceuticals by strengthening three areas—sales capabilities, marketing capabilities, and applications. The ability to determine whether or not cells are normal has also become important. Therefore, we are currently developing products for observing the shape of cells.

- Q6:** In terms of human resources, American companies offer more attractive compensation systems and have better name recognition. Do you have any plans to form an elite task force in Japan that can be sent to the United States to coordinate development and sales activities? (NOMURA SECURITIES)
- A6:** We have already dispatched personnel with applicable skills to the United States. The General Manager of the Innovation Center in the United States is a mass spectrometer application engineer. Sales personnel was previously involved in pharmaceutical sales in Japan. We are also considering dispatching about five talented application engineers from Japan to the United States in order to strengthen our macromolecule capabilities, including for biopharmaceuticals.
- Q7:** A major factor for achieving corporate growth is releasing new products. Even the financial reports by American competitors emphasize the importance of releasing new products. Shimadzu achieved high growth after releasing new liquid chromatograph and mass spectrometer products in the 2010s. For mass spectrometers in particular, I think the fact that Shimadzu introduced a new updated triple-quadrupole model (LCMS-8030, 40, 50, 60, and then 45) almost every year between 2010 and 2016 contributed to overall results. However, the only major new mass spectrometer models released since the second half of the 2010s have been the LCMS-9030 and 8060NX TOF models released in 2018. There were no major new products at this year's JASIS exhibition either. What has caused the current interruption in the flow of new product releases? Do you plan to speed up that process again? (NOMURA SECURITIES)
- A7:** One factor is the increasing difficulty level of product development. Another factor is that though Shimadzu hardware receives excellent reviews, our software still has some issues. Therefore, we are trying to make a slight course adjustment to our hardware-leaning approach in order to achieve a better balance between hardware and software. In terms of mass spectrometers, we are also focusing a lot of effort on MALDI systems. We have never eased up on developing new mass spectrometer products. However, we are not completely satisfied with the current situation, so we intend to speed things up by slightly increasing our focus on hardware development.
- Q8:** Are there fields where sales are growing for high-end models of key product lines? Perhaps in biopharmaceuticals? (Jefferies (Japan))
- A8:** Sales of high-end products are definitely increasing in the pharmaceuticals field, but due to customer confidentiality, we do not know what proportion of that is used for biopharmaceuticals. Due to Shimadzu's market strength in metabolomics, presumably sales are mainly increasing for use in analyzing metabolites or cell culture solutions.

Consumable Products Strategy

Q9: Can we expect Shimadzu to implement measures for attracting more consumables business or increasing the sales ratio of consumables, and implement them as key measures comparable to carbon-neutrality and healthcare measures? (SMBC NIKKO SECURITIES)

A9: It is easier to attract consumables business in new fields. Asking existing customers to switch from using their current consumables to using Shimadzu consumables is difficult because it introduces data compatibility problems, whereas our proposals for using Shimadzu consumables are more easily accepted in new fields. Therefore, we intend to increase sales of consumables by actively collaborating with startup companies, including by M&A.