

## Questions and Answers

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Executives

Koji Furusawa—Director, in Charge of Investor Relations

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### **Masahiro Nakanomyo—Jefferies (Japan)**

Q: It appears that the Analytical & Measuring Instruments segment is recovering in the third quarter, compared to the second quarter, but what type of changes occurred?

A (Furusawa): The biggest change was that sales of key models started recovering. The sales growth rate for key models was 0 % in the second quarter, but sales grew in the third quarter. Particularly in China, government projects, such as CDC and CFDA-related projects, gradually got off the ground, which was a major factor contributing to growth in mass spectrometer sales. Furthermore, LCMS sales were strong in Europe and even continued to grow in North America.

Q: What is your view about the overall market for analytical and measuring instruments?

A (Furusawa): In Japan, it is difficult to see a path to recovery from the slow sales in pharmaceutical and academia-related markets, and markets in China have factors causing medium and long-term uncertainty, but we think the overall market for analytical and measuring instruments is still strong.

Q: What are the market trends in China, broken down by industry? Have the trade frictions between China and the U.S. caused changes in any particular industry, either during the period through December or more recently?

A (Furusawa): Sales that were strong up to the second quarter in the electrical/electronic and steel industries, now seem to be slowing. Sales of environmental monitoring instruments for water quality testing were growing significantly until the second quarter, but have started slowing in the third quarter. We think sales will remain slow for a while, until markets for compliance with atmospheric VOC regulations are fully established. However, we were able to make up for that slowness with growth in key models for government projects being launched. In particular, we achieved double-digit growth in mass spectrometer sales. Consequently, we achieved year-on-year growth in China overall.

### **Hiroharu Watanabe—SMBC NIKKO SECURITIES**

Q: Sorry to repeat the same question again, but how has U.S.-China trade friction affected results? Should we assume that the trade friction will have absolutely no impact on Analytical & Measuring Instruments results? Does the friction give Shimadzu any competitive advantage versus American competitors?

A (Furusawa): At this point, we have not noticed any effects. Currently, competitors face a 5 to 10 % retaliatory tariff by China on products exported from the United States. That probably impacts those competitors.

Q: Do you think there is a possibility of comprehensive export controls on analytical and measuring instruments in the future? If not comprehensive, then do you think there is a non-zero probability of some type of restrictions being applied?

A (Furusawa): The Chinese market is extremely important for American companies, so we do not think comprehensive restrictions, based on the Made in China 2025 policy, for example, will be applied.

### **Tomoki Komiya—Mitsubishi UFJ Morgan Stanley Securities**

Q: Fourth quarter operating income, after subtracting third quarter results from the full-year plan, is about the same value as for the fourth quarter last year. What are the risk factors considered in the fourth quarter operating income value? Are there any products for which you are concerned about a potential downside if economic conditions worsen in the future?

A (Furusawa): We plan to improve our operating margin in the fourth quarter, though only slightly. Sales are projected to be somewhat lower than last year. In terms of specific segments, Aircraft Equipment sales and Industrial Machinery sales and operating income are projected to be lower than last year. That reflects a slowdown in turbomolecular pumps for the Industrial Machinery segment.

Q: What is the growth rate for analytical and measuring instrument orders, broken down by region?

A (Furusawa): The growth rates, excluding exchange rate effects, are as follows. Orders for analytical and measuring instruments decreased 2.5 % overall, increased 13.4 % in the Americas, including a 9.9 % increase in North America, increased 8.2 % in Europe, increased 1.6 % in China, decreased 3.5 % in other Asian countries, including a 11.2 % decrease in India, and decreased 10.9 % in Japan. Orders decreased only 4 % in Japan, if the effects of relocation projects included in 3Q results are excluded.

Q: Do you think the Chinese government might relax (or delay) environmental regulations if economic conditions worsen in China?

A (Furusawa): Personally, I don't think they would. Environmental issues have truly become a problem for overall society in China, which could even disrupt the stability of the current political system. Therefore, I doubt whether they would loosen the reins at this point.

If in the future, U.S.-China trade friction results in falling short of target economic growth rates, then I think government demand will expand, including from investments in infrastructure.

### **Motoya Kohtani—NOMURA SECURITIES**

Q: Given the significant 8 % growth in sales of key models in the third quarter, what is the breakdown in growth rates for LC, MS, and GC products separately? Also which of the MS models had the highest growth?

A (Furusawa): Sales increased for LC, MS, and GC products, but especially for MS products.

A (Oyagi): MS growth was in food safety, environmental testing, and clinical medicine fields.

Q: What products will be used for VOC regulations in China?

A (Furusawa): Our VOC analyzers can basically be thought of as a compact version of a GC system. China specified national standards before the year-end and announced that VOC regulations will be enforced from July 1, so we think that related markets are just now starting to fully develop.

### **Yukihiro Koike—UBS Securities**

Q: What are the growth rates in orders for key models in the Analytical & Measuring Instruments segment, broken down by region?

A (Furusawa): The overall growth rate is 5 %, excluding exchange rate effects. Orders decreased 1 % in Japan, increased 20 % in the Americas, including a 17 % increase in North America, increased 6 % in Europe, increased 5 % in China, and was roughly zero in other Asian countries, including a 7 % decrease in India. In North America, growth was high in healthcare, especially for cannabis testing.

Q: How do the total sales results for the nine months, or for three months, compare to the plan, broken down by region?

A (Furusawa): In terms of results for nine months, we did not expect significant growth in Japan, so results were approximately as expected. In North America as well, sales growth was pretty much as expected. In Europe,

sales growth was significantly higher than expected. In China, sales growth was somewhat lower than initially predicted. In India as well, though we did not expect significant improvement, results were somewhat lower than expected.

Q: What was the yen amount invested for strategic investments? How much is it expected to increase or decrease this year, compared to the 3.6 billion yen invested last year?

A (Furusawa): During the third quarter, strategic investments increased about 300 million yen. For the full year, we have been saying that the amount will be about the same or slightly more than last year. However, based on our actual investments thus far, we currently expect investments to be about the same or slightly less.

Q: What is the ratio of government demand in China?

A (Furusawa): It was 41 % during the period from October to December. It was 45 % during the period from October to December last year. In the first half, it was roughly in the upper 30 % range and has now almost exceeded 40 %, but it is normally about 45 %, which suggests that government demand has not fully recovered.

### **Hiroto Segawa—Morgan Stanley MUFG Securities**

Q: What are the most recent trends in demand for analytical and measuring instruments in Japan? Given that sales in the third quarter were somewhat weak, with orders down 4 % even after excluding relocation project effects, what is your view on the recovery status?

A (Miura): It feels like orders for key models are recovering in the chemicals and pharmaceuticals markets since about the end of December of last year. In contrast, ever since reports of U.S.-China trade friction appeared, there has been a sense of relative slowing in capital investment for products involved in materials fields in the ferrous, nonferrous, and machinery markets.