

## **Questions and Answers**

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### **Executives**

**Koji Furusawa**—Director, in Charge of Investor Relations

**Teruyuki Oyagi**—Senior Manager, Investor Relations Group

### **1. Motoya Kohtani—NOMURA SECURITIES**

Q: Even considering that Analytical sales would have increased in China if there had been no reactionary decline after the special demand for environmental measuring products ended, that increase seems rather weak. What are the background circumstances?

A: Analytical sales in China decreased because of the large reactionary decline after the special demand for environmental measuring products and because the electrical/electronics and materials markets were impacted by trade frictions. Nevertheless, sales of key models grew about 5 % year-on-year. Specifically, orders for LC products recovered in the fourth quarter of last year and sales are also recovering in the first quarter of this year. MS results are showing high growth in the double-digits. GC sales increased significantly last year in the contract analysis field, but sales are somewhat weak this year. In terms of key models overall, we are off to a strong start, in comparison to the decrease in year-on-year sales in the first and second quarters last year.

The current concern is that though sales for government projects, and especially food safety-related projects, have started increasing, the increase is somewhat late and lower than initially expected. In contrast, sales are strong for academia projects.

Q: Industrial Machinery had a rather tough start, right?

A: Industrial Machinery sales were much lower than the previous year, due to the lack of large glass winder projects in China. Also, the turbomolecular pump sales recovery is expected to be delayed from initial estimates. Originally, we expected the recovery to start from about the third quarter, but it now appears that the recovery will be delayed to about the fourth quarter.

Q: Is MS sales growth high in China because purchases of American products decreased due to U.S.-China trade frictions? Do you expect sales of key models to remain strong and compensate for the negative impact of U.S.-China trade frictions?

A: Statistical data from customs indicate that the number of MS units imported from the United States has in fact decreased, which has probably affected Shimadzu sales to some extent, but we need to watch the situation a little more before we can determine an accurate understanding.

Currently, sales of key models are growing, but if a fourth round of sanctions begins on September 1, it would have a major impact that could even affect Shimadzu. To be honest, it is still difficult to read how it will affect results.

Q: A one-percent decrease in the operating margin for the Analytical segment seems a

little underwhelming, considering the 5 % year-on-year sales increase for key Analytical models. Is that because of increased investment?

A: Another factor is the temporary increase in R&D expenses, when viewed on a quarterly basis, because R&D expenses are accrued at the point when product development is finished.

Q: What is the status of orders and inquiries for new LCMS-9030 and Nexera products?

A: The new Nexera line has not been fully launched yet and will contribute to results from the second quarter.

A (Oyagi): LCMS-9030 sales have progressed on track for achieving our target of selling 30 units within the first year after release. Sales are also on track for achieving the target 70 units for the current fiscal year.

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

Q: On slide 11, a 4 % decrease in healthcare sales was indicated in Analytical sales by market, but some competitors are reporting strong healthcare sales. What is your interpretation of that difference?

A: The first-quarter decrease is due to a reactionary decline after strong gas chromatograph sales for contract analysis in China last year. The overall healthcare market is expected to remain strong in the future, but we are feeling concern in certain regions, such as weak motivation to invest in capital equipment at pharmaceutical companies in Japan and the appearance of effects from the 4 + 7 system for pharmaceuticals in China.

Q: Was there no special demand for environmental measuring instruments in the first quarter in China? Are any new sources of demand anticipated?

A: The special demand for water quality monitoring products in the first quarter of last year has ended. The VOC market is gradually starting to increase, but not enough to compensate for the reactionary decrease after the special demand for water quality monitoring ended.

Q: Given that you have not changed the target value for the full year, do you have a plan for regaining sales from the second quarter onward? Considering the deteriorating macro business conditions, are you likely to achieve your targets for the full year?

A: About five percent growth is estimated for the Analytical segment in Japan, and we think we can continue achieving growth there. In China, the second quarter will continue to be affected by the loss of the special demand for water quality monitoring after the second quarter last year, but that concern will disappear starting in the third quarter. Moreover, sales for academia projects in China are strong. Business in India is recovering more than expected as well. The new Nexera series is expected to fully contribute to results from the second quarter. Outside Japan, in particular, it is just now getting fully started, so we expect it to be a growth factor.

Our concerns include the delay in government demand related to food safety in China,

but we will make up for that in other areas.

However, the outlook for future results does not properly account for other factors, such as a fourth round of tariff actions associated with the U.S.-China trade frictions, problems between Japan and South Korea, or exchange rates.

Q: What is your plan for getting back on track toward achieving annual targets for the Medical segment?

A: First-quarter results were extremely weak in North America and China, so recovery will be an issue in those two regions. We intend to recover based on two factors. In North America, sales of angiography systems are starting to increase, plus new fluoroscopy products are scheduled for release in the third quarter.

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

Q: Overall, are results progressing as planned? Are there specific segments that are stronger or weaker than planned?

A: Overall, results are slightly below our plan. Results are a little weak for the Analytical segment in China and the Medical segment in North America and China, results are consistent with the plan for the Industrial Machinery segment, and results are somewhat better than estimated for the Aircraft segment.

Q: What are the purchase order growth rates for the Analytical segment, broken down by region? Also, do those values include orders for the new Nexera series?

A (Oyagi): Purchase order growth rates were +1.1 % overall, +3.8 % in Japan, +6.3 % in the North America, +0.2 % in Europe, -6.6 % in China, and +5.0 % in Other Asian Countries, which includes -6.1 % in India. In China, the new Nexera models have no contribution to first-quarter purchase orders, because model approval is still pending. Even in other regions, the contribution to results is just getting started.

Q: A competitor mentioned that the size of government food safety projects in China is getting smaller. Have you received the same impression?

A: Yes, that is our view as well. Perhaps the size of government food safety projects is getting smaller as processes are transferred from the public sector to the private sector. We think changes are occurring in budget allocation in order to utilize current equipment more effectively by transferring processes to private sector contract analysis laboratories and networking those processes.

### **4. Yukihiro Koike—UBS Securities**

Q: For the Analytical segment, it looks like the current sales growth rate is not linked to the fourth quarter purchase order growth rate of last year. Why is that?

A (Oyagi): Fourth quarter purchase orders include a variety of products with different lead times. Not all of them result in first-quarter sales.

Q: What are the purchase order growth rates for key models, broken down by region? For

the key models, are the growth rates different for LC, MS, and GC models?

A (Oyagi): Purchase order growth rates were +7 % overall, +8 % in Japan, +10 % in the North America, flat in Europe, +5 % in China, and +15 % in Other Asian Countries, which includes +8 % in India. All of the growth rates are positive, but the highest growth rates, in descending order, are for MS, LC, and GC models.

Q: Can we assume that new-product benefits have not been realized yet from releasing the new Nexera product? Specifically, when was the series released in each region?

A (Oyagi): It has already been released in March in Japan, with corresponding purchase orders and sales already included in results. In other regions, the series will fully contribute results from the second quarter.

Q: Were the factors for increased/decreased operating income indicated on slide 6 affected by unrealized gains from inventory? Also, did the Analytical segment contribute significantly to the +1.2 billion yen improvement in profitability? How much did strategic investments increase in the first quarter?

A: Contribution from unrealized inventory gains was a positive 0.27 billion yen. In terms of profitability improvement, the total profit from the Analytical segment improved by 1.7 points. Strategic investments increased about 0.5 billion yen year-on-year.

## **5. Toru Sugiura—Daiwa Securities**

Q: Given that Analytical segment results in China fell short of the plan, in which markets or for which products did results fall short of estimates? Can those shortfalls be recouped within this fiscal year?

A: LC sales were lower due to new product release delays. A reactionary decline after strong GC sales for contract analysis the previous year was also a factor. The U.S.-China trade frictions affected sales of X-ray fluorescence spectrometers and other products for electrical/electronic applications. We intend to recoup shortfalls due to new product release delays by getting sales started as soon as possible, but trade frictions are difficult to forecast.

Q: Why were sales of key models flat in Europe? Is business confidence low for analytical and measuring instruments in Europe?

A: A major factor is the reactionary decline after large projects for food applications ended last year. We do not think business confidence is particularly low.

Q: It seems that the Industrial Machinery segment has made poor progress toward achieving full-year targets. What is your plan for regaining ground toward achieving those targets?

A: We predicted that turbomolecular pump sales for semiconductor manufacturing equipment would start improving in the third quarter, but that has shifted to the fourth quarter, which is one factor that decreased sales. However, given that organic light emitting diode projects are starting to move, we think they will result in second-half

sales that, in combination with sales in the coating market, will allow us to get back on track. The first half is slow, but sales should pick up in the second half.

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

Q: How much has the new Nexera series contributed to results in Japan?

A: In Japan, it increased overall LC results by about 10 %.

Q: Will there be any reactionary declines in the second quarter due to relocation projects?

A: We didn't have any relocation projects in the second quarter of last year.

Q: What percent of Analytical segment sales are from government demand in China?

A (Oyagi): 33 % were from government demand and 67 % from private sector demand.