Questions & Answers

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

1. **Masahiro Nakanomyo-Jeffries (Japan)**

**Q1**: First, the results were great, and you upwardly revised your forecast. Even under COVID-19, you plan for record-high profits. And the profit margin in Analytical and Measuring Instruments has risen significantly. Is it correct to think that this level in the Analytical and Measuring Instruments will serve as the basis for the next fiscal year onward? Whether for sales or profit, should we think there has been some kind of special factor, such as expenses coming in too low in this fiscal year, when setting sight on the next fiscal year?

**A1**: We are truly pleased to have realized record profit even under the various circumstances of COVID-19. Particularly, in Analytical and Measuring Instruments, the products that expanded sales are slightly different from the past. There was an increase in key models, and as stated many times, in COVID-19 test kits. As a result, the margin improved, and profit was lifted. In addition, we made various cost reduction efforts. On top of our efforts, travel and transportation costs fell. Hence, we were able to achieve record profit. Going forward, we expect to be able to continue to grow sales based on the current situation. As for profit, there has been an extra boost on top of our own efforts in terms of some cost reductions. There’s no doubt we’ll continue to
eliminate unnecessary costs led by the CFO. But it’ll be a little difficult to maintain the same level of costs as this year.

**Q2:** Second, regarding the COVID-19-related reagent test kit, do you think the third-quarter sales results and full-year outlook will last into the next year onward?

**A2:** The third-quarter results for the COVID-19 test kit. From October to December, sales were around JPY1.3 billion. In the first half, sales were JPY1.1 billion and, in just three months, sales grew to JPY1.3 billion, serving as a boost to earnings.

Our expectation for the January-March period is high. Going forward, we’ll be expanding sales not only in Japan but also overseas, so we think sales will continue to increase. It’s hard to forecast what will happen in the next fiscal year onward, but we retain modest expectations.

**Q3:** Finally, as a supplementary question, what are your thoughts on PCR devices for clinics?

**A3:** We announced the device at the end of November, so the contribution in the third quarter was insignificant. However, we have a very positive feeling about it, and we expect it to contribute to the current fiscal year.

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**2. Tomoki Komiya-Mitsubishi UFJ Morgan Stanley Securities**

**Q1:** The third-quarter results for Analytical and Measuring Instruments were solid. When listening to other companies’ comments about the Japan market, they say the situation is not good at all. Is it correct to understand that about half of the JPY2.4 billion sales growth is attributable to the expansion of reagents? The general view of the domestic market is that the appetite for capital investment is weak. How was the situation different at Shimadzu?

**A1:** Back when I explained the outlook for the second half in Japan, I said that our expectation is fairly good for key models. On the other hand, I gave an outlook that the other equipment, especially industrial equipment centered on automotive applications, will face tough conditions. However, after finishing the third quarter, we haven’t seen any dramatic changes. Key models and the COVID-19-related devices and reagents, as mentioned earlier, have performed even better than anticipated.
In particular, key models captured some degree of demand from universities and government offices that secured a budget supported by the government’s supplementary budget. As a result, key model sales posted solid growth.

**Q2:** Second, I’d like you to organize the factors behind the growth in the next fiscal year. As stated earlier, you expect growth in reagents and a net positive from PCR devices. You issued a press release about a Contract Analysis Business for the automobile industry with Hon Hai’s Foxconn. But I can’t get a clear image of how it would impact earnings. If this were to contribute to earnings in the next quarter onwards, please tell me in what form that would take shape. That’s all.

**A2:** We announced in the newspaper that we would jointly conduct inspections and contract analysis in China. The part we are in charge of is analysis. The other party will be in charge of the physical devices such as automotive equipment. We made the newspaper announcement to indicate our intention to especially capture automotive customers. We have a company in China that conducts contract analysis, but its sales amount is not large. It will definitely have a positive impact, but not to the extent of having you feature it as a huge topic.

**Q3:** Will this business be included in the Analytical and Measuring Instruments Segment?

**A3:** Yes, it will be included in Analytical and Measuring Instruments. The number will be included in the analysis company in China. That will be included in the Analytical and Measuring Instruments based on consolidated accounting.

**Q4:** There seems to be a significant contribution from PCR reagents and devices explained earlier. The other growth driver is key models, correct?

**Q5:** Yes. Another important point, especially in the Japan market, is how much the market conditions improve in the Industrial Machinery field.
3. Toru Sugiura-Daiwa Securities

**Q1:** Please tell me your outlook for Analytical and Measuring Instruments, particularly key models, in the next fiscal year. Especially in this fiscal year, the Healthcare Business has grown considerably, so I would like to confirm the background of its growth. First of all, has the growth been driven by the earlier-than-expected replacement demand of customers, supported by the various budgets and COVID-19-related measures? Conversely, was the growth driven by the expansion of customer demand itself, supported by the broadening of testing and measurement needs? Assuming that there was an acceleration in replacement demand this year, could there be a pullback of that next year, and in which fields would that occur? Conversely, if demand were to expand, will that expansion continue next year? I would like to ask once more for your outlook on the Analytical and Measuring Instruments Segment, especially the Healthcare Business, in the next fiscal year.

**A1:** It’s hard to give a blanket answer for all products, so let me first explain about liquid chromatograph. At present, we’re seeing growth related to liquid chromatograph as of the third quarter. One of the reasons for this has been the shift in countries to reduce sole dependence on China and instead producing pharmaceutical ingredients and raw materials in one’s own country. New demand has emerged in Japan, Thailand, Singapore, the US, and Europe. To fulfill their needs, we saw an expansion in new product orders. Further, what distinguishes our products is their ability for remote control and reinforced data visualization. Those are features that have been evaluated highly by customers, resulting in an increase in orders. Regarding the question of how this will fare in the next fiscal year onwards, there are some countries where sales expansion is not going well. We are currently reformulating our strategy to address this issue, and we are preparing for sales expansion. By bringing the areas where positive and negative factors were mixed, and areas where results were sluggish, onto a growth trajectory, we intend to bring the overall business on a further growth trajectory. As for mass spectrometers, we were able to increase the number of units significantly, supported by a strong tailwind from the Chinese drug code revision. And the governments of various countries rolled out considerable fiscal spending to shore up the economic recovery. The same was true in Japan. For that reason, there was a trend for public sector institutions and universities to secure a supplementary budget, which was then used to buy our mass spectrometers.
On top of that, we have received requests to use our mass spectrometers in relation to COVID-19 tests, thereby driving its growth. Although we don’t have clarity around what will happen after fiscal spending ends, we think that the need for mass spectrometer has expanded significantly. We think that the markets using mass spectrometer are steadily expanding, including in the food industry and pharmaceutical industry.

Q2: In that sense, is it correct to holistically consider this it wasn’t acceleration of replacement cycle at customers this year, but instead an expansion of the customer base, along with broader measurement needs at each customer, leading to a larger overall market, and therefore it is not at all a one-off factor?

A2: The markets for liquid chromatograph and mass spectrometer, especially mass spectrometer, have been expanding. Requests for measurement are expanding steadily, and the COVID-19 pandemic occurred against that backdrop. We were worried about what would happen. But, in that sense, the government budget served as support for the steady market expansion.

4. Yoshiharu Izumi-SBI Securities

Q1: My first question is about the Aircraft Equipment Segment. Given the tough business environment, it seems inevitable that this segment will post losses. At the beginning of the fiscal year, you mentioned that fundamental reforms would be executed in this business. Has there been any change to this intention? My second question is about your views on the medium-term plan. Results have already been issued up to this point in the fiscal year, so I’d like to know your thoughts on how you will revise the medium-term plan going forward.

A2: I understood your first question to be about whether our conventional approach to the Aircraft Equipment Segment will change. Essentially, there has been no change to our views. We are thinking in the direction explained at the beginning of the fiscal year. However, there have been dramatic changes in the business environment. So, in terms of what to do, we are steadily implementing what we can internally. We are also in discussion with external parties to advance various measures. In particular, the conditions are harsh externally. Some difficulties may arise in the course of various discussions. In that sense, we’re prepared for the situation to take some time until being solved. However, our hope is to advance the measures without changes.
Regarding your second question about the medium-term management plan, this has also been addressed by our president in May, stating our intention to revise the plan. Please understand that it is certain that this plan will be revised in consideration of this fiscal year’s results and expectations for the next fiscal year, although I cannot say the timing yet. We will definitely move in the direction of revising it.