

FY 2022 (Year ended March 2023) Full Year Financial Results Briefing Q & A

Date: May 11, 2023 13:00-14:00

Participants:

Yasunori Yamamoto      President and CEO

Akira Watanabe      Director, Senior Managing Executive Officer, CFO

Koumei Arakane      Corporate Officer, General Manager, Finance and Accounting Dept.

### **Financial Forecasts for FY 2023**

**Q1:** Regarding operating income of 71 billion yen (+ 2.8 billion yen from the previous year), please tell us the factors that increased or decreased from the previous year.

(Tokumoto Analyst, SMBC Nikko Securities)

**A1:** Operating income to increase by 4 billion yen through price revision. R&D investment to rise by 3 billion yen, while human investment to increase by around 10 billion yen. Adverse impact from foreign exchange rates on earnings.

### **Analytical & Measuring Instruments Segment (FY 2022 Results)**

**Q2:** Can you tell us why sales of key models were almost flat YoY, excluding foreign exchange?

(Nakanomyo Analyst, Jefferies Securities)

**A2:** Sales were significantly affected by production delays resulting from parts and components shortages. Despite this setback, market trends are expected to remain stable due to strong order volumes.

### **Analytical & Measuring Instruments Segment (FY 2023 Earnings Forecast)**

**Q3:** Operating margin rose 0.2 pt from the previous year to 18.5%, indicating a somewhat weaker growth. What are the negative/positive factors, such as mitigating the effects of parts and components shortages, price revisions, and growth in key models?

(Komiya Analyst, Mitsubishi UFJ Morgan Stanley Securities)

**A3:** We aim to increase profits through sales growth while prioritizing growth investments in human capital and R&D. Enhancing treatment, such as raising wage levels overseas, will be crucial for human investment. Specifically, we plan to expand R&D centers in North America and application development centers on the East and West coasts, leading to increased capital and human investments. Our focus on strengthening the Analytical & Measuring Instruments segment will involve collaboration with external parties. We have set an operating margin of 18.5% considering growth investments and other factors, despite improvements in gross profit from price revisions and production efficiency enhancements.

**Q4:** Analytical & Measuring Instruments sales to increase 3% YoY to 325 billion yen. Considering the transfer of a large backlog of orders to sales, the alleviation of the impact of parts and components shortages, the recovery from the impact of the COVID-19 in China, and price revisions, the target setting seems to be somewhat conservative, but please tell us why.

(Kohtani Analyst, Nomura Securities)

**A4:** In FY 2023, we aim to increase output by 8% YoY, maintaining the Q4 2022 level throughout the year. Investment in manufacturing capacity will support sales growth. Sales in the Analytical & Measuring Instruments (excluding foreign exchange impact) are expected to rise by about 6% YoY, with key models anticipating a 10% YoY increase. Efficient product installation and service delivery, aided by digital transformation (DX), will contribute to sales growth. Efforts to enhance service work efficiency and shorten lead times are underway to exceed performance targets.

## **Analytical & Measuring Instruments Segment (Key Models and North American Strategy)**

**Q5:** Tell us about the market trends of key models.  
(Nakanomyo Analyst, Jefferies Securities)

**A5:** The pharmaceutical market drives demand for our focused Liquid Chromatographs. Disrupted supply chains during the pandemic led to a shift towards domestic drug production, boosting demand for key models. This trend extends to generic drugs as well. Future expansion in the pharmaceutical market is anticipated, driven by investments in drug discovery startups, support from major pharmaceutical companies, and the rise of contract manufacturing companies. Despite uncertainties in the U.S. financial system, the long-term growth trend in the pharmaceutical market remains unchanged. Mass Spectrometers are increasingly utilized in the European clinical field, expanding opportunities for drug administration control and health management. Strategic investments are planned to capture this growing market demand.

**Q6:** We believe that efforts to enhance application and product development capabilities in North America will drive sales of consumables and method packages as well as products by capturing customer needs. We believe that Shimadzu's challenge is to reflect customer needs in its products, but we would like you to tell us how to improve the problem.  
(Kohtani Analyst, Nomura Securities)

**A6:** In the case of the pharmaceutical market, it is necessary to have direct dialogue with customers in North America, an advanced region, to understand their needs and develop them. To this end, we will establish a development base in North America and deploy engineers who can talk with customers on an equal basis, among other things, to strengthen North American development functions and develop products that can be used globally. After North America, we are capturing the European region in clinical and environmental fields. These long-term initiatives are one of the steps in the current medium-term management plan.

**Q7:** Shimadzu's strengths include the development of method packages and user-friendly software. In the future, Shimadzu believes that establishing a development base in North America will promote cooperation with other companies, demonstrating Shimadzu's strengths. I want KPIs to be set for the number of collaborative projects with other companies and the amount of sales of method packages so that I can see the progress of medium- and long-term initiatives.  
(Kohtani Analyst, Nomura Securities)

**A7:** We would like to consider.

## **Industrial Equipment Segment (TMP)**

**Q8:** TMP's Q4 sales (excluding foreign exchange effects) is down after peaking in Q3. I want you to tell me your prospects.  
(Komiya Analyst, Mitsubishi UFJ Morgan Stanley Securities)

**A8:** Growth in the 1<sup>st</sup> Half of FY 2023 is expected to be about the same as Q4 of FY 2022. In January-March 2024 (Q4 of FY 2023), we had hoped that semiconductor demand would return and that TMP sales would increase, but we expect to take some time to recover. Therefore, we hope to capture demand other than those for semiconductor manufacturing equipment, such as coatings for manufacturing construction glass with high environmental performance and thin-film solar cell.