

Questions and Answers

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Executives

Teruhisa Ueda—President and CEO

Koji Furusawa—Director, in Charge of Investor Relations

Yasuo Miura—Director and Financial Officer

Masahiro Nakanomyo—Jefferies (Japan)

Q: Given the continuous double-digit growth for key models (LC, GC, and MS) over the last three or four years, what caused growth to slow in the first half?

A: GC sales grew slightly in all regions. However, LC growth struggled in Japan and China. One factor was the large projects in China included in last year's results. Mass spectrometer results decreased significantly in Japan. Because Shimadzu is stronger in Japan than competitors, a downturn in Japan, unfortunately, has a large impact on our overall numbers.

Q: In previous years, I think large projects in the previous year were absorbed by continued growth. In the first half of this year, however, were there any structural changes that prevented Shimadzu from overcoming a reactionary decline due to large projects in Japan and China the previous year?

A: The possibility of structural changes in the LC market has also been discussed in the past. As a result, we released new products and developed new markets to expand the overall market, which also increased Shimadzu's results. Consequently, we do not expect the current status to continue indefinitely. We think the current status reflects only certain regions and certain projects. Nevertheless, because there have been no major model changes in the general purpose Prominence LC line since it was originally released in 2004, the results were presumably affected by product competitiveness, which we are currently addressing.

Motoya Kohtani—NOMURA SECURITIES

Q: Results for key models (LC, GC, and MS) did not grow during the second quarter. Assuming that it is new products that accelerate growth, can we expect new Prominence products, upgraded TQ-LCMS products, and so on, to be announced at PITTCON in March or at ASMS in June next year?

A: All I can say at this point is that we are confident that, at a minimum, we will have extremely happy expressions when we talk about new products in May next year.

Q: Can you confirm the sales progress of the two new products released this year, the LCMS-9030 and GC-2030?

A: The GC-2030 is showing strong sales growth. Results are extremely good because the new product is a major model change from the previous GC-2010 model and significantly exceeds GC-2010 performance, which makes it easier to sell and establish sales strategies.

In contrast, though inquiries for the LCMS-9030 have been increasing, it has been taking a long time to close the sales. That is because, unlike previous TQ-LCMS models, the higher accuracy of the Q-TOF type mass spectrometer has, from a global perspective, made sales stronger in some regions than in others. In particular, we have had issues with inadequate training in regions that use distributors, which has resulted

in inconsistent growth. We are currently in the process of making various changes. Q-TOF systems not only offer extremely reliable accuracy, but also higher sensitivity because they are less affected by contaminants when analyzing samples that contain a variety of components, such as blood. Therefore, we have high expectations for their utility in the clinical field. TQ-LCMS will continue to be the main type of system used for blood analysis, but we think we can use Q-TOF to develop new market areas. We think we can recommend CLAM model pretreatment systems, which allow blood collection tubes to be loaded directly, in combination with either TQ-LCMS or LCMS-9030 systems.

Tomoki Komiya—Mitsubishi UFJ Morgan Stanley Securities

Q: On slide four, the analysis of year-on-year increase/decrease in operating income indicated that investment expenses increased by 2.1 billion yen between April and September. That is quite a bit higher than in the first quarter. Given that the increase in investment expenses during the entire year last year was 3.6 billion yen, first half investment expenses seem relatively high. Could you explain the background for that? Does it mean that investments were intentionally concentrated in the first half of the medium-term management plan and will decrease in the future? Please explain what you expect for the future.

A: Investment-oriented expenses include expenses related to acquisitions, research, production, and other activities. Acquisition-related expenses include the Alsachim acquisition, for example, and also other future projects currently under consideration. Research-related expenses include not only a 1.0 billion yen increase in R&D expenses from the previous year, but also additional expenses for establishing innovation centers. Production-related expenses increased due to increases/improvements in production equipment, including to accommodate higher turbomolecular pump production levels. In addition, the number of subsidiaries have been increasing, such as Alsachim, which has required corresponding expense increases, including for preparing the enterprise resource planning system and for expanding offices at respective locations. Given that it has been 143 years since Shimadzu was founded, we also have an increasing number of aging facilities. Assuming that it will be difficult to achieve additional growth without improving facilities at the current timing, we intend to continue actively investing in facilities. Therefore, we do not expect investment expenses to decrease just because it is the second half of the medium-term management plan.

Q: You indicated that the ratio of government demand in China was low in the first quarter, but how was it in the second quarter? Could you explain the current status in China separately for public and private sector demand?

A (Furusawa): The ratio of public sector demand in China was 31 % in the first quarter, but increased to about 40 % in the second quarter. Government projects have not been fully launched, but they definitely seem to have started showing some movement and are expected to steadily increase in the future. However, we think it will be next year before they fully start.

One factor that is having a major impact on private sector demand is the increase in demand associated with the RoHS 2.0 Directive in Europe. Though the Chinese version of RoHS has no enforceability, the content is the same as the European RoHS 2.0 Directive. The market has now started responding to such movement, which has increased demand for Shimadzu EDX and GCMS systems. Materials-related markets have been stagnant for a long time, especially for steel materials, but demand has

finally started increasing, due partly to the long period without capital investment and a slight rise in steel prices. The petrochemical and coal-chemical markets are also starting to show some movement.

Q: Aren't there changes expected, particularly in Shimadzu's business areas?

A (Furusawa): Not at this point. The impact of the trade frictions between the U.S. and China are not expected to be felt until next year, when duties are applied to about 250 billion dollars worth of goods, so currently we are waiting to see what happens.