

## Questions and Answers

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### Executives

Teruhisa Ueda—CEO

Yasuo Miura—Senior Corporate Executive Officer

Yasunori Yamamoto—Managing Executive Officer

Teruyuki Oyagi—Senior Manager, Investor Relations Group

(The unattributed responses were given by CEO Ueda.)

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

Q1: My first question is about the Novel Coronavirus Detection Kit. How much were sales in the first half, and how much sales do you expect in the second half? Also, what is the growth rate? I understand it's difficult to tell us the profit margin, but please give us any qualitative explanation.

A1(Oyagi): Sales were JPY1.1 billion in the first half. We expect around the same level of sales in the second half. But, on top of that, we expect additional sales through overseas expansion. That's all, in terms of sales.

Q2: Do you have anything to comment on regarding the profit margin?

A2(Oyagi): We would like to refrain from sharing anything related to the profit margin.

Q3: Is it correct to understand that overseas sales are not included in the second-half forecast?

A3(Oyagi): We expect around the same sales level as the first half in Japan. On top of that, we also expect sales overseas.

Q4: I thought that the recovery was relatively fast. In the first quarter, I believe you mentioned food management in Russia and cannabis in the US. Is your business structure with a relatively wide-ranging exposure one of the reasons why you were able to capture demand in this recovery phase? Could you please comment on Shimadzu's performance compared to other companies and the market as a whole, as well as the reasons for that performance?

A4: In terms of the food safety business in Russia, although food safety is a less conspicuous part of our operations, there are, in fact, many countries around the world that carry out inspections, mainly for residual pesticides. If, for instance, this were to spread mainly in emerging countries, then it would expand even more. We have a certain degree of sales networks overseas, so we believe we can respond to this broad-ranging market need. You can understand the project in Russia to be one example of this business. As for cannabis, we had members in the US working hard on it from a relatively early stage. We are now seeing it expand in other regions, including some countries in Europe and some countries in Asia. Once it spreads in this way, our strength is that we can expand sales of our Cannabis Analyzer developed in the US to other overseas countries. In this regard, we consider this to be a positive factor. On the other hand, the cannabis business has been impacted significantly, especially in the US. Given that people are unable to go out or face travel restrictions under the current impact of COVID-19, even though we can respond to such needs, it is still unclear whether customers will continue to purchase the product.

Q5: I got the impression that this wide-ranging demand, or this ability to meet such demand, was a factor that helped the Company recover faster during the second quarter than the overall industry. Is this correct?

A5: It was attributable to the wide-ranging demand, rather than a large-scale project. This also applies to the disinfectants and alcohol that I mentioned earlier. In a sense, Shimadzu's strength is that we have all kinds of products to meet those various demands. We were able to respond to such demand.

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

Q1: When looking at the medium-term management plan, the foremost growth drivers are, in fact, priority models and MS. The plan was to expand these businesses by 26%, which equals 8% annually. I assume this is a conservative plan, and in reality, the growth would be higher, and you would capture more market share. That said, I would like to know in more detail the factors behind this growth in MS.

A1: We will soon be approaching the end of the first year of the medium-term plan, so we intend to review the plan to some extent. We do not expect the medium-term plan, which was formulated before the COVID-19 pandemic, would continue to apply in the future, so we intend to make some kind of revision. Regarding the growth in MS, we have the main designs, such as LCMS and GCMS, which are also offered by a relatively large number of rival manufacturers. Also, we have MALDI and, although this is a slightly technical term, PESI-MS. Furthermore, we haven't included this in the presentation, but we are also developing various types

of mass spectrometry at overseas research laboratories, including SRL in the UK and Shimadzu's laboratory in China called SRLS. We are also conducting some research at Technology Research Laboratory in Japan. By expanding our product lineup at these laboratories, we aim to grow the MS business. We will primarily be focusing on high-end products in terms of LCMS and GCMS. As I mentioned earlier, we have seen robust sales of our high-end triple GCMS, and we will make sure to strengthen this business. Therefore, the three MS strategies are to expand the product lineup, strengthen the competitiveness of LCMS and GCMS, and enhance system products. I haven't mentioned this elsewhere, but we saw unexpectedly solid growth in MS application systems connected to the so-called pretreatment systems, such as headspace GCMS and thermal desorption GCMS. However, I will not give a detailed explanation here. Hence, by selling these application systems, although it wouldn't be appropriate to call this an MS accessory, we hope to significantly expand MS sales bolstered by the growth in pretreatment equipment. Those are the three major points.

Q2: I would like to ask about the slide-in column compatible LC-2030C. I have never heard of a product of this type. You also mentioned a keyword, monolith column, which is a word that I recall from the past. I would first like to know if the columns are produced in-house at Shimadzu. In terms of why monolith columns haven't gained penetration, I would assume it's because of the difficulty manufacturing it and its low reproducibility. I imagine there is some reason why monolith columns haven't become widespread, even though it has a considerable advantage. Please tell me your thoughts on this product and its future.

A2: We are not producing the monolith columns. We adopted the columns manufactured by a specific venture company, based on the column developed by Professor Tanaka of Kyoto Institute of Technology. This is related to the second part of your question, but the biggest reason why the use of monolith column didn't become widespread was that there wasn't a liquid chromatography compatible with those columns. In fact, the development of the product itself was started jointly between one of our subsidiaries and a professor who was part of a venture company. When the product was developed, I was the Division Manager. At that time, we were developing the i-Series. When I handed the drawing of the i-Series, we decided to develop an LC dedicated to monolith columns. There were many twists and turns with some technical challenges, but we have now reached commercialization. Hence, the greatest reason why monoliths did not become widespread was that there wasn't a compatible LC.

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

Q1: My first question is about profitability and expenses. I understand the profit margin in Analytical and Measuring Instruments was very high in the first half. You explained various factors, but I'd like to know how much the emergency management measures contributed. Also, I believe part of these expenses was reduced naturally due to restrictions on activities, while another part of them was reduced intentionally. If possible, could you explain the contribution in the first half and second half, broken down into the natural and intentional portion of reduction? What I'd like to know the most is if COVID-19 was a catalyst in bringing about improvements in the business operation, such as greater efficiency or other changes that can be expected to continue in the future.

A1(Miura): As for the overall contribution of the emergency measures, including reduced SG&A expenses, such as curtailed hiring activities that lowered personnel expenses and prioritization of R&D expenses, coupled with the effects of raising the top line, the total contribution was probably in the upper range of several billion yen. The impact of reducing expenses was a decline of JPY4.9 billion in SG&A expenses. Part of this came from reduced expenses without intentional effort because planes are not flying, and travel is restricted. In terms of deliberate efforts, this was the first time in the Company's history to implement measures on a consolidated basis across the entire world to reduce expenses according to a shared methodology. This was epoch-making, and the cost savings were the result of those efforts.

Q2: Can I expect some of these cost savings to be carried on to the next fiscal year onward, even after business activities are normalized?

A2(Miura): Our aim isn't to achieve a one-off cost reduction. It involves guidance toward the appropriate profit and loss structure and break-even point. Thus, even if business conditions shift to a new stage, we hope to quickly transition to realizing a corresponding profit and loss structure and income statement.

Q3: My question is about LCMS. 8060NX has already been released in June, correct? This is the first flagship model in several years that appeals to the volume zone. Could you tell me a little more about the effects and evaluation of this model, as well as the applications and customer cultivation activities that will take place as a result of rolling out this model?

A3: The pursuit of high sensitivity is the fate of an analytical instrument, but we particularly pin hopes on clinical applications of NX. Earlier, I talked about the automatic blood pretreatment device CLAM. We are expanding NX sales in

combination with CLAM in the clinical field, and it is increasing rapidly, mainly in Europe. Similarly, it is also growing in China. Thus, we first expect sales expansion in the clinical field. When doing so, we have LCMS and MALDI in the clinical field, so we hope these two products complement each other effectively so that Shimadzu can capture the domains that require high sensitivity. Based on the results, sales are growing in Europe, China, and Japan. We, therefore, expect to expand sales in these regions.

Q4: Under the current environment, it would probably be challenging to evaluate and adopt this equipment. However, is it accurate to think that the market size is large enough and that your products are competitive enough to become an earnings driver from the latter half of this year into next year?

A4: The number of units has increased from last year for LCMS in total. Therefore, we believe the new product has had a significant effect. Even when looking only at triple, the number of units hasn't fallen even amidst the pandemic, and the pace has been around the same as last year. Thus, we expect to expand sales going forward driven by this product.