

FY 2022 (Year Ending March 2023) 3rd Quarter Financial Results Briefing Q & A

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Participant:

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3rd Quarter Operating Income Increase/Decrease

Q1: Q1 was weak due to the lockdown in China and other factors, but Q2 recovered. This Q3 was also affected by re-outbreak of COVID-19 in China. Can we predict Q4 will recover from Q3, similar to Q2? Tell us your viewpoint. (Komiya Analyst, Mitsubishi UFJ Morgan Stanley Securities)

A1: Although there are some differences between Q1 and Q3, such as the impact of the COVID-19 outbreak in China was greater in Q1 and less in Q3, Q4 will recover because production will be normalized and installation will progress, China has already recovered, and the price revision effect will be greater in Q4 than in Q3.

Q2: Tell us the factors behind the increase in SG&A expenses and the increase in human resource expenses related to the consolidation of NISSUI Pharmaceutical. (Tokumoto Analyst, SMBC Nikko Securities)

A2: In addition to human resource expenses increase, which are investments for the future growth, logistics and other costs increased. The promotion of DX also led to an increase in commission fees. The increase in human resource expenses associated with the consolidation of NISSUI Pharmaceutical was slightly less than JPY500 million in Q3.

Prospect for FY 2023

Q3: We estimate that the backlog of orders is dominated by highly profitable products such as key models. Can we assume that these items will be carried over to the next fiscal year and that the next fiscal year will be very promising considering the positive factors such as recovery from the impact of the COVID-19 outbreak in China and mitigation of the impact of soaring materials prices? (Kohtani Analyst, Nomura Securities)

A3: As of now, orders have accumulated to the extent of about 4 billion yen affected by the China COVID-19 outbreak and about 10 billion yen affected by the shortage of parts and materials. Also, as you pointed out, key models have been more impacted by parts and materials shortages and soaring prices, as well as the impact of COVID-19. Next fiscal year, these backlogs will be passed on to sales. Operating profit has been most affected by the sharp rise in parts and materials, which will have a downward impact of more than 5 billion yen by the end of FY2022. Efforts are being made to make it possible to use general-purpose products that are relatively easy to obtain through design changes, etc. In addition to promoting the use of general-purpose products, we believe that by eliminating the shortage of components and eliminating the need to purchase components at high prices, we can mitigate the effects of soaring prices of components and components. We believe that we will be able to improve our performance in the next fiscal year as long as some unusual factors do not occur.

Analytical and Measuring Instruments Segment (Market Environment)

Q4: Tell us how you see the recent demand trend. (Iwai Analyst, Bank of America Securities)

A4: Considering the fact that orders in Q3 increased, etc., the demand trend has not been changed from the 1st half and remains strong.

Q5: Will growth continue next year despite concerns of a slowdown in the macro environment? (Iwai Analyst, Bank of America Securities)

A5: The healthcare market (pharmaceutical, clinical, food safety, etc.) which is our focus area, is less impacted by the macro-economic change. In addition, we believe that growth is possible because we can pass on a large backlog of orders to sales.

Q6: Tell us why the key models showed negative growth (excluding foreign exchange) in Q3. (Nakanomyo Analyst, Jefferies Securities)

A6: The main factor was the impact of the re-spread of COVID-19 in China. In addition, the shortage of components was resolved, but some production delays remained. In addition, for LC, the decline in sales to a certain major customer in North America is also a factor in the decline.

Q7: Tell us about the situation in China. (Tokumoto Analyst, SMBC Nikko Securities)

A7: In Q3, the re-outbreak of COVID-19 in China had a negative impact of more than JPY1.0 billion on consolidated sales. Clinical and pharmaceutical markets are less susceptible to the economic situation, demand remains strong. In addition, financial support measures have also increased capital investment by Chinese universities, thus we capture these demands.

Q8: About LC sales decline to the major customer in North America, tell us your prospect for FY2023. (Kohtani Analyst, Nomura Securities)

A8: The decline in North America sales is due to a business to the major customer. Orders and sales used to be recognized only in North America, but it has been divided into three bases, Europe, Asia, and North America this year. Also, custom-tailored products for the major customer declined. In Q1 and Q2, total sales in North America, Europe and Asia were negative compared to the previous year, but turned positive in Q3. We hope the business to increase in the next fiscal year by promoting the superiority of Shimadzu products.

Analytical and Measuring Instruments Segment (NISSUI Pharmaceutical, PCR Testing Reagents, New Products)

Q9: Tell us how much the consolidation of NISSUI Pharmaceutical contributed to sales in Q3. (Nakanomyo Analyst, Jefferies Securities)

A9: First of all, sales of NISSUI Pharmaceutical were around the middle of JPY3 billion and JPY4 billion, and its operating income was around the middle single digit in the 100 million yens. We expect that Q4 sales will be slightly smaller than Q3.

Q10: Also, how much PCR test reagents contributed to sales? (Nakanomyo Analyst, Jefferies Securities)

A10: Regarding PCR test reagents, sales in Q3 were about JPY1.6 billion. We also have PCR testing equipment, which contributed by JPY200 million.

Q11: I think the new product of LCMS-9050 is probably unprecedented for a Q-TOF type to be able to see both negative and positive ions during scanning. Expanding applications is a challenge, but will this product be the driver that will drive mass spectrometers in the future? Tell us your future resolutions. (Kohtani Analyst, Nomura Securities)

A11: Thank you very much for your high evaluation. We expand the 9050 as a core product of MS. In addition to promoting its product capabilities, we will enhance its applications and expand sales globally, including in North America.

Industrial Machinery Segment

Q12: How much do you expect for Turbo Molecular Pumps sales for Q4? (Nakanomyo Analyst, Jefferies Securities)

A12: We expect a year-on-year increase mainly due to an increase in the pass-through of backlogs to sales and growth of TMPs for coatings.

Misconduct in Medical Segment

Q13: About the misconduct in the medical equipment, I believe that many stock market players are waiting for the results of the investigation of the external investigation committee. When will they be available? Are there any tips on that? (Iwai Analyst, Bank of America Securities)

A13: We are truly sorry for the inconvenience this matter has caused everyone. We are currently awaiting the final investigation report by the external investigation committee. We are planning to disclose the final investigation report as soon as it is obtained and submitted, so please give us some time.

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