

Questions and Answers

May 12, 2017 13:00 JST

Executives

Teruhisa Ueda-President and CEO

Hiroshi Fujino- Director and Investor Relations

Yasuo Miura- Director and Financial Officer

①Motoya Kohtani -Nomura Securities

Q1: On the slide explaining the income increase, please explain the two factors "Improvement of profitability" and "Improvement of manufacturing balance of payment."

Yasuo Miura

The profitability improvement refers to the benefit of added value on the sales side, while manufacturing balance improvement refers to the change in added value on the manufacturing side. Of course, when selling products in the market, it's easier to secure profit on products with high competitiveness, so this reflects higher sales of highly competitive products.

Q2: Please explain your forecast for sales growth in America and Europe for the year ending March 2018 on a local currency basis. In America, the factors include OEM business and pain management demand, while in Europe, there are such risks at the British pound, the Russian ruble, and the Turkish lira. What are your thoughts on these factors?

Teruhisa Ueda

The OEM sales volume have been stable over the past three years. Foreign exchange rates will have a plus or minus effect on this business.

The depreciation of the British pound presents a very challenging situation. At this point, we cannot predict the pound fluctuations or what impact this will have on our sales.

Regarding pain management in the U.S. market, as a result of revisions to medical

service fees, small- and medium-sized clinics are being weeded out as patients gravitate towards larger clinics. Currently, however, we cannot predict the size of that market.

Hiroshi Fujino

In the Analytical & Measuring Instruments segment, we expect sales to rise by about 3% in Europe and about 6% in the U.S. on a yen basis. Regarding the foreign exchange impact, the average yen-dollar rate was about 108 for the year ended March 2017 and we forecast a rate of 105 for the year ending March 2018. Therefore, we do not expect foreign exchange rates to have a large impact on results. We are eager to expand our business in the U.S. market and have included a forecast growth rate of more than 6% in this year's business plan. To this end, we are making various investments and implementing various initiatives such as the innovation center.

Q3: All the major analytical & measuring equipment manufacturers are all saying that the market environment is very strong. It appears that the main drivers of market growth are investment in the pharmaceutical industry, China's 13th five-year plan, and investment in the food analysis industry in Europe. None of the manufacturers see any major negative factors. From your perspective as president, do you see any negative risks in the analytical & measuring equipment market?

Teruhisa Ueda

It's rather difficult to compare our products to other types of equipment because they were developed in specific industrial fields. In addition, the products have a high degree of completion. They have become widely used in many different industries. In the pharmaceutical industry, they are capable of measuring minute amounts of impurities in pharmaceuticals, while in the food industry, they can accurately measure hazardous materials. If you are referring, Mr. Kohtani, to potential factors that could cause a decline in demand for analytical equipment, then I believe there is the potential for the development of new manufacturing systems that would make it unnecessary to analyze product contents.

One easy example is factories for agricultural products. Companies may be able to build greenhouses in which they can control all the processes and produce only quality products which have a 100% inspection rate. If that era arrives, the demand paradigm for our analytical equipment would change.

②Tomoki Komiya -Mitsubishi UFJ Morgan Stanley Securities

Q1 : Please explain your growth forecasts for each region on a local currency basis. Your forecast growth appears to be declining slightly to 4.2% from the actual growth of 6.3% in the year under review. Please confirm that you expect an overall decline.

Hiroshi Fujino

For the Analytical & Measuring Instruments segment, we forecast overall growth of 4.2%, reflecting growth of about 3% in Japan and about 5% outside Japan. As we mentioned previously, we forecast North American growth of over 6% and China growth of over 5%. For other parts of Asia, we forecast growth of 5%, specifically 4.8%. India is a promising market, with forecast growth of 9-10%. These are yen-based forecasts. When converting into U.S. dollars or euros, the forex impact is not significant. With the foreign exchange impact, the forecasts may be a little higher than the rates I just mentioned.

Q2 : For liquid chromatographs and mass spectrometers, your year-on-year growth over the past few years has been around 10% excluding the foreign exchange impact. Has your market share changed significantly as a result? In particular, please explain how your market share and industry ranking has changed for mass spectrometers.

Teruhisa Ueda

First, regarding mass spectrometers, we sell the LC-MS and GC-MS models. The LC-MS was launched in 2010 and has shown higher growth rates because it started from zero. The LC-MS is sold in high-end and standard types. We are currently enjoying strong sales of the high-end product. Previously, the standard model was growing at a higher rate, but in recent years, the growth has shifted to the high-

end model. It's difficult to state accurate market shares. But it's our estimate that the LC-MS share is still growing because competitors have changed strategies and are offering very large price cuts. Customers have praised the high speed and performance of our products, and we're still growing as a result.

For the GC-MS, we offer standard models and high-end models. Agilent is the main competitor. We believe our market share for the high-end is rising. For the single standard model, our volume of sales has not changed much, so we believe our market share hasn't changed much as well.

Q3: You said that in North America, demand declined temporarily in the third quarter as customers took a wait-and-see approach before the U.S. presidential election. Is it fair to consider the downturn a temporary decline in the third quarter alone? Please explain the market situation, including pain management demand.

Hiroshi Fujino

Regarding the U.S. market, for the third and fourth quarters, North American sales on a yen basis increased about 3%. The first and second quarters were very challenging, but the market recovered well in the fourth quarter, and the second-half recovery covered the first-half downturn. As for the pain management industry, demand recovered strongly in the January-March period, and sales of more than USD\$5 million were achieved in that period alone.

Q4: What was the impact of foreign exchange on sales and income for the fourth quarter alone? If you have the figures, I'd like to know to what extent the exchange rate factor benefited profit in the fourth quarter.

Teruhisa Ueda

I'm afraid we do not have the figures for only the fourth quarter.

③ Masahiro Nakanomyo -Jefferies Securities

Q1 : For the year ending March 2018, please explain your sales plans for the aftermarket business and the new business created between the fusion of the

Analytical & Measuring Instruments and Medical Systems segments.

Teruhisa Ueda

Regarding the aftermarket business, we do not currently have the sales plan figures for the year ending March 2018. For new business created between the integration of the Analytical & Measuring Instruments and Medical Systems segments, unfortunately we do not expect this to be significant in the year ending March 2018. We are now at the product development stage, and we expect products to be launched within the next few years.

Q2: Regarding the aftermarket business, we've heard of various initiatives you've taken, but just from the financial results, it doesn't appear the growth has been significant considering the efforts you've made. Exactly what changes do you plan making this year.

Teruhisa Ueda

Until now, we've made progress expanding our lineup of aftermarket products and services. Still, we have a limited number of original products and unfortunately, the market is full of competing products.

In regard to changes to our approach, as one example, we are focusing more on consumables for mass spectrometers, and specifically on original products unavailable from competitors. For example, we've developed a reagent kit that can measure blood concentration with antibody drugs using our own nSMOL method. We plan on accelerating the release of original products and strengthening initiatives to have our products adopted by the market. In summary, we plan to use original products to address areas where there are very high latent needs.

Q3: Regarding mass spectrometers, Shimadzu's presence in the market rises, it's conceivable that the price range for the high-end products will decline. Is it possible that the 10% annual growth you have experienced in recent years will start to gradually decline? Please comment on your strategy and your view of the market development.

Teruhisa Ueda

Looking at this from a market perspective, one of the salient features of mass spectrometers is that they are used in a broad range of industries. This breadth spans from such large fields as pharmaceuticals, chemicals, and food to the electric, medical, and clinical industries. From a regional perspective, the growth up to now has been mostly in the developed countries. Recently, however, we've seen growth spurts in India, China, and Southeast Asia. From both market and regional perspectives, mass spectrometer demand is expanding.

Regarding products facing competition, these include the mass spectrometers LC-MS and GC-MS, as well as the MALDI-TOFMS, which our employee Mr. Tanaka won the Nobel Prize for developing. Demand for MALDI-TOFMS has surged since being used in applications for microbial identification. In this way, the mass spectrometer has tremendous potential as various new kinds of products are developed. We'll continue to expand the lineup as the mass spectrometer market grows. Shimadzu's strength is its diverse lineup of products. We'll continue to combine our product into competitive new offerings to raise differentiation. One example is the PESI-MS. This MS product enables relatively simple analysis without the use of chromatography. We are now developing this product for pathological diagnosis. The product can be used in various other fields as well, and we are now planning its launch.

Other key points will be maintaining consistent software. We plan to make LabSolutions our core platform, capable of collecting and analyzing data from all our equipment.

Q4 : Regarding the Aircraft Equipment segment, your sales declined further this year, and although the business remains profitable, the sales volume has gradually declined. The commercial aircraft business isn't growing. What's your strategy for this business?

Hiroshi Fujino

The aircraft business has a long cycle. The sales we recognized in the year under review were decided two or three years ago, possibly longer. We have been taking

measures for many years to expand the commercial aircraft business, and under the current medium-term management plan, we have included steady initiatives to expand the business over the long term. We are reducing costs to expand business and making structural reforms that include new systems for reducing costs and organizational reforms which will be carried out steadily. Looking at a single year, it may appear that the business results are inconsistent with the strategy, but we are making strides to ensure that the business performs well over a longer cycle.

Teruhisa Ueda

To comment further, the Aircraft Equipment segment is much different from the Analytical & Measuring Instruments, Medical Systems, and the Industrial Machinery businesses in that it has a long business cycle, as Mr. Fujino explained. The main customers are the Japanese Defense Ministry, Boeing, and Airbus. Their priority is safety, and the cycle from parts development to adoption takes many years. When then considering the manufacturing and recognition of sales and earnings, these processes take significantly more time compared with the Analytical & Measuring Instruments and Medical Systems businesses. In other words, the sales we are booking this year are the fruits of labors begun three or four years ago.

Another important point is that while the commercial aircraft market has been expected to expand, Boeing has reduced production and is laying off employees, and MRJ has failed to meet its development schedule and continues to push back manufacturing. This market situation drags on, and our results have been impacted by it.

As a result of these factors, we plan to reform the development process to fix cycles at specific timeframes, such as three years, while also investigating ways to apply aircraft technologies to other business lines. These are the main ways we will be improving the aircraft business going forward.

④Akihiro Ban -SMBC Nikko Securities

Q1 : Please explain your development structure. You developed the LC-MSMS in a very short timeframe, which enabled you to increase market share. What kind of

changes did you make to your development structure to make that possible? How will you use this structure to launch a successive new range of products?

Teruhisa Ueda

Regarding the development structure, in the past, the MS business unit within the analytical business department was the main product development organization for a variety of products. The development of new products, however, requires the development of fundamental technologies. For the past several years, therefore, we have been establishing fundamental technology development sites, including sites outside Japan. In the U.K., we have established SRL, and a similar company in China, SRLS. These sites have been developing fundamental technologies for MS products. Once these technologies are developed, we bring them to Japan to incorporate into new products.

Moving forward, we plan to expand these activities in the future. We have established the MS center in China and the innovation center in the U.S., which are now focused on application development, but will also shift more of its efforts toward hardware development of new types of mass spectrometers. These tasks cannot all be done in Japan, as we are too far from the markets and there is little sense of urgency. At our sites in the U.S., China, Europe, and Singapore, we will encourage new ideas and rapidly incorporate these regional ideas into new products.

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