

## Questions and Answers

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### **Executives**

**Teruhisa Ueda**-Representative Director, President and CEO

**Hiroshi Fujino**- Director, Senior Management Executive Officer

**Yasuo Miura**- Director, Management Executive Officer

### **① Hideki Wakabayashi -Circle Cross Corporation**

#### 1. How to evaluate new businesses

Q1-1: How do you evaluate the success of a new business?

**Teruhisa Ueda**

We evaluate it using the achievement rate v/s sales target and the type of products sold. In other words whether they are goods purchased or products we developed.

Q1-2: Wouldn't you use profits as an evaluation axis?

**Teruhisa Ueda**

First of all, we set sales as a benchmark to confirm whether or not a product would be accepted by the market. Next, we ensure profits through cost reduction as sales grow. That is the order.

When sales reaches the level of several hundreds of millions of yen, the company will be confident to a certain extent that its product was accepted by the market, so it would work earnestly also on cost reduction.

#### 2. Research and development spending

Q2-1: You mentioned about increasing research and development spending to 5% of net sales. In which field do you plan to increase the spending? Also, you have various research institutions, and at which institutions do you plan to increase the spending?

**Teruhisa Ueda**

Instead of the projects we work on our own, we would like to increase the number of research themes through outsourcing and doing research jointly. Rather than simply increasing the number of projects, we would like to increase the number of medium- to long-term projects which are promising to a certain extent to develop into a business. For example, research and development on quantum, as it is attracting attention as a noteworthy R&D theme following nanotechnology and AI.

We would like to work on medium- to long-term research projects and work on the development of next-generation products as soon as possible.

Q2-2: Do you have a percentage breakdown of the 53 billion yen in research and development investment plan by company-wide divisions and business divisions? Also, is the expense for collaborative research and collaborative development with organizations outside included in the 53 billion yen plan?

**Teruhisa Ueda**

By division, our plan is about 20 billion yen for company-wide divisions and about 30 billion yen for business divisions. It includes the spending for collaborative research and collaborative development, but investment through M&As is separate.

3. Benchmarks for carrying out an M&A

Q3-1: What are the evaluation benchmarks for external resources including venture business, when you utilize them through M&A and other means? Also, does each segment evaluate it individually or does a company-wide division do it?

**Teruhisa Ueda**

Originally, we let business divisions handle M&As but it did not make the desired progress, so we established an organization to manage it in a head office division. If it is a venture company, the organization assesses whether it has the technology which we are interested in. If it is a company that is reasonably big in size, it will assess and consider the company's products, businesses and sales routes from the perspective of supplementing our business.

4. Marketing Innovation Center

Q4-1: What kind of innovation schemes are you trying to introduce in marketing?

**Teruhisa Ueda**

We have been able to acquire customers in a great number of fields as a result of responding to various requirements of customers in the past. However, the issue is that our moves were not coordinated or united in the respective fields either in Japan or abroad. We would like to resolve this so as to enable us to work in a coordinated manner.

We set up the Marketing Innovation Center in Singapore, as it is a region which will register significant development and where a marketing-related environment is in place. We will have three Japanese employees posted there who will work on global

marketing activities primarily in Asia with the local members.

## ② Masahiro Nakanomyo- Jeffries Limited

### 1. The healthcare business strategy unit in p.9

Q1-1: In what kind of businesses do you plan to have this organization take initiative?

#### **Teruhisa Ueda**

We put the technical manager of Medical Systems in charge of the organization for integration of analysis and medical systems. Concrete initiatives include ultra-early diagnosis using mass spectrometer, pathological examination system and microbial identification, which we have been working on. In the next three years, we will also build a structure for technological development that would integrate products of Analytical & Measuring Instruments and Medical Systems. For example, it is something like combining and using angiography system and mass spectrometry together in catheter intervention or combining and using mass spectrometry, PET and near-infrared imaging system as an examination technology to supplement dementia diagnosis.

### 2. After-sales market

Q2-1: What was the after-sales market ratio three years ago like? The rate at Waters and Agilent is about 50%. Isn't it possible to grow it at a faster rate?

#### **Teruhisa Ueda**

It was 24% three years ago. We also think that we have to grow it way more in a normal situation, but there is some gap with the competition in terms of the ratio of consumables. In order to grow the sales ratio of consumables, we plan to change the structure to create an independent team in the new medium-term plan. As a first step in growing sales by changing the structure, the ratio in three years is expected to be only at 30%.

Q2-2: If M&A goes well, the after-sales market ratio would grow more, wouldn't it?

#### **Teruhisa Ueda**

It of course would be positive if M&A goes well.

### 3. Operating margin target in slide p.13

Q3-1: Roughly how long does "in the medium- to long-term" denote?

## **Teruhisa Ueda**

The Analytical & Measuring Instruments segment has four sub-segments whose margin exceeds 15% following LC and MS. Though it may be difficult to achieve in the next three years, we would like to boost the margin of these sub-segments to 20% in the three years after that. Among the remaining three segments, the Industrial Machinery segment is the closest to the target and if it properly reviews the only sub-segment that is in red, it will be able to achieve 10% in margin in the next three years. The Medical Systems segment, to begin with, will aim to achieve 5% in the next three years. If the segment can introduce new products as planned in the three years after that, it may be able to achieve 10%. It takes time for a product in the Aircraft Equipment segment to be adopted and then actually installed in aircraft, and the segment may achieve the target only after about 10 years.

### 4. Enhancement of MS product lineup in slide p.13

Q4-1: What is the new type MS which the company is planning to develop like?

## **Teruhisa Ueda**

Currently our product lineup has LCMS, GCMS and MALDI–TOFMS. As the fourth product in the lineup, we are working on research and development of MS that does not involve separation unlike LCMS and GCMS. Apart from that, we are also developing a small-sized MS that can be used in the medical field.

## **③Tomoki Komiya – Mitsubishi UFJ Morgan Stanley Securities Co., Ltd.**

### 1. M&A of consumables

Q1-1: What is the bottleneck that is hindering the smooth progress?

## **Teruhisa Ueda**

We believe that it is important for both sides to agree when it comes to M&A. In case of Japanese companies – we have checked with other companies also - there have been cases which took 10 years. The majority of the companies in the Japanese measuring instruments field tend to be self-reliant. In overseas projects, we often find various flaws as we build our association and it is difficult to purchase once they become large to a certain extent. We feel that it is difficult to make an acquisition at the right time unless we gain experience across various cases.

### 2. Goals in Japan

Q2-1: It seems that the growth rate in Japan is high. Are you counting on any

special factor?

**Teruhisa Ueda**

In terms of external environment, one of the factors is that the number of small-to medium-sized customers is increasing in addition to the existing large-sized customers. The demand is increasing and broadening such as food quality control in accordance with HACCP regulations, and some small- to medium-sized customers are growing significantly. On our side, we are seeing the impact of the change in sales structure and the fact that we can respond to detailed demands because we have a development team in Japan.

3. Low profitability businesses

Q3-1: Have there been any changes in the concept until now regarding “considering options including withdrawal” of low profitability businesses? Could we consider it as a message that the company may take drastic steps?

**Teruhisa Ueda**

What is different from before is that we have developed an internal accounting management system which enables us to accurately grasp the figures regarding earnings. We were able to clearly make out which part is performing poorly in each business and we can discuss it by looking at the figures, so I think that the business divisions are more convinced now about the things that require change.

**④Akihiro Ban – SMBC Nikko Securities Inc.**

1. MS strategy

Q1-1: In the past, the company increased market share by introducing high-sensitivity products one after another. Do you plan to take a similar measure for the new-type MS?

**Teruhisa Ueda**

The reason why we were able to grow MS is that the MS market itself grew significantly, attributable to the demands arising from stricter regulations, in addition to the fact that we were able to promote its high speed feature. In the future, we expect the needs for taking MS into fields such as medical and environment to expand, so we would like to grow earnings by creating products that have a different format from existing products and address such needs.

2. Strengthening of AI and IoT

Q2-1: Are you strengthening AI and IoT for after-sales market, increasing sales of service in particular, or for metabolomics and proteomics analysis?

**Teruhisa Ueda**

It is for both. In addition, the third aim is to leverage them in works done in the company, especially at company-wide divisions.

Q2-2: Do you plan to nurture human resources for utilizing AI and IoT from now on?

**Teruhisa Ueda**

We already have 10-plus employees well versed in AI and IoT. Going forward, we need people who would come up with how to use them and in which fields, and we want to do this by retaining the services of other companies.

⑤ **Kazuo Yoshikawa – Morgan Stanley MUFG Securities Co., Ltd.**

1. Advanced health care

Q1-1: In the previous medium-term plan, you showed the breakdown of the sales target figure such as 5.7 billion yen in molecular diagnosis, 2.0 billion yen in cellular analysis, 3.3 billion yen in image diagnosis and treatment support business. Do you have a similar breakdown this time?

**Teruhisa Ueda**

We do not have a breakdown from the same angle this time. We were able to expand sales to about 10 billion yen for them in the current medium-term plan, and would like to grow it to 20 billion yen.

Q1-2: Do you have a personnel plan for the next three years?

**Teruhisa Ueda**

In total, we plan to add about 1,600 people. The breakdown is about 1,000 people overseas and about 600 people in Japan, and we will increase personnel overseas.