

FY 2023 (Year Ending March 2024) 1st Quarter Financial Results Briefing Q & A

Date: August 4, 2023 16:00-17:00

Participants:

Akira Watanabe Director, Member of the Board, Senior Managing Executive Officer, CFO

Ayumu Tajima Corporate Officer, General Manager, Corporate Strategy Planning Dept.

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1st Quarter Financial Results

Q1: How were the results compared to the Company plan?

(Nakanomyo Analyst, Jefferies Securities)

A1: Sales were higher than planned. Excluding foreign exchange, sales were negative in the mid-1 billion range. Higher sales of Analytical and Measuring (AMI) Business were the main factor, supported by key model sales. Operating profit was also much higher than planned, even excluding the impact of foreign exchange. Product mix improvement was the main factor.

Q2: Operating profit margin of AMI in Q1 is 15.2%. However, considering preceding growth investment in human resources and R&D, both of which I suppose mainly go to the AMI segment, would it be correct to understand that adjusting for these, the operating profit margin would be around 17% to 18%?

(Komiya Analyst, Mitsubishi UFJ Morgan Stanley Securities)

A2: The company is strategically investing for future growth, mostly in the AMI business. Excluding these growth investments, the operating margin is expected to be just below 20% or so.

Q3: Tell me the foreign exchange impact of unrealized inventory gains.

(Tokumoto Analyst, SMBC Nikko Securities)

A3: Just over 1 billion yen on operating profit.

Q4: Was the order in Q1 strong?

(Nakanomyo Analyst, Jefferies Securities)

A4: Order value greatly exceeded sales.

AMI Business (Business Environment in North America and China)

Q5: China's sales rose in Q1 due to a rebound in the impact of lockdowns last year. Meanwhile, China's macro environment is uncertain. Let me know the business conditions.

(Komiya Analyst, Mitsubishi UFJ Morgan Stanley Securities)

A5: The rebound from the impact of the lockdown was about 3.5 billion yen. Market conditions have been affected by weak pharmaceutical markets, particularly CROs, and poor business performance on our customer's side has led to delays in product installation. We will try to offset them by growing in other fields.

Q6: Competitors are also struggling in the North American and Chinese pharmaceutical markets. Are these changes in market conditions affecting business performance?

(Tokumoto Analyst, SMBC Nikko Securities)

A6: In North America, there have been delays in budget execution by pharmaceutical companies due to fears of a recession. Major pharmaceutical companies, on the other hand, have continued to invest a certain amount of capital on the back of their abundant financial resources. We received large orders for supercritical fluid chromatography and liquid chromatography, and our efforts to expand into the large pharmaceutical market have begun to show results. In April, we created a special team to hire people with expertise in the pharmaceutical market, including people who used to work at pharmaceutical companies and CROs, amid a tough competitive environment. We are working to create a presence in the North American pharmaceutical market by developing strategies and strengthening customer support systems.

To cover the decline in the pharmaceutical market with growth in other fields, we will also expand sales of LCMS in response to environmental regulations, including PFAS. China's market for generic drugs and drug discovery, led by CROs, has also been sluggish. CRO has been contracted to conduct contract analysis from Europe and the United States, but orders have been slow due to conflicts between the United States and China. In order to cover these declines, we will focus on growing markets such as biopharmaceuticals and Chinese herbal medicines, and take remedial measures such as food safety, equipment proposals for the Chinese Center for Disease Control and Prevention (China CDC), and capturing demand for universities, other educational institutions, research institutes, and laboratory tests.

AMI Business (Key Models)

Q7: Please let us know the full-year sales forecast of key models.
(Nakanomyo Analyst, Jefferies Securities)

A7: As expected at the beginning of the fiscal year, excluding foreign exchange, aiming for year-on-year growth in the low 10% range.

Industrial Machinery Business

Q8: Why is operating income growing more than the revenue growth?
(Komiya Analyst, Mitsubishi UFJ Morgan Stanley Securities)

A8: Increased sales of industrial furnaces with high profit margins due to cost reductions and price revisions for the mainstay TMP. In addition, in the case of hydraulic pumps used for petrochemicals, the increase in profit margins has been temporarily affected by the completion of projects that had been delayed in receiving payments.

Growth Investment

Q9: What is the annual impact of growth investment on operating income?
(Tokumoto Analyst, SMBC Nikko Securities)

A9: Expected to increase by about 12 billion yen.

Q10: What is the progress of human investment?
(Komiya Analyst, Mitsubishi UFJ Morgan Stanley Securities)

A10: The number of employees increased by 523 from the same period last year. Of the increase in the number of employees in Japan, Nissui Pharmaceutical Co., Ltd., which became a consolidated subsidiary in October last year and now named as Shimadzu Diagnostics Corporation, added 211 employees. Overseas increase was 225.