

# Business Results FY2006

Financial Highlights and Mid-term Plan

**SYSMEX CORPORATION**

Hisashi Ietsugu

President and CEO



# Sysmex Way

## Mission

Shaping the advancement of healthcare.

## Value

We continue to create unique and innovative values, while building trust and confidence.

## Mind

With passion and flexibility,  
we demonstrate our individual competence and  
unsurpassed teamwork.

## Our Core Behaviors



# Our Core Behaviors



## To our Customers

- We deliver reassurance to our customers, through unmatched quality, advanced technologies, superior support, and actions that consistently reflect the viewpoint of our customers.
- We constantly look out for our customers' true needs, and seek to generate new solutions to satisfy those needs.



## To our Employees

- We honor diversity, respect the individuality of each employee, and provide them with a workplace where they can realize their full potential.
- We value the spirit of independence and challenge, provide employees with opportunities for self-fulfillment and growth, and reward them for their accomplishments.



## To our Business Partners

- We deliver commitment to our client companies through broad-ranging partnerships.
- We strive to be a company that can grow in step with our trade partners, through respect and mutual trust.



## To our Shareholders

- Our shareholders can rest assured that we will continue to improve the soundness and transparency of our management policies, while promoting information disclosure and close communications.
- We commit ourselves to a consistent yet innovative style of management, in order to achieve sustainable growth and increased shareholder value.



## To Society

- We carry out our business in strict compliance with laws and regulations, as well as in adherence to high ethical standards.
- As a responsible member of society, we play an active role in resolving environmental issues and other problems that impact our society today.

- Financial Highlights of FY2006
- Review of previous Mid-term Plan
- Mid-term Plan (From FY2007 To FY2009)
- FY2007 Consolidated Earnings Forecast

## Forward-looking Statements

This material contains forward-looking statements about Sysmex Corporation and its group companies (the Sysmex Group). These forward-looking statements are based on the current judgments and assumptions of the Sysmex Group in light of the information currently available to it, and involve both known and unknown risks, uncertainties and other factors, including but not limited to: global economic conditions, competitive situations, and changes in exchange rates. Such risks, uncertainties, and other factors may cause the actual results, performance, achievements, or financial position to be materially different from any future results, performance, achievements, or financial position expressed or implied within these forward-looking statements.

# Financial Highlights of FY2006

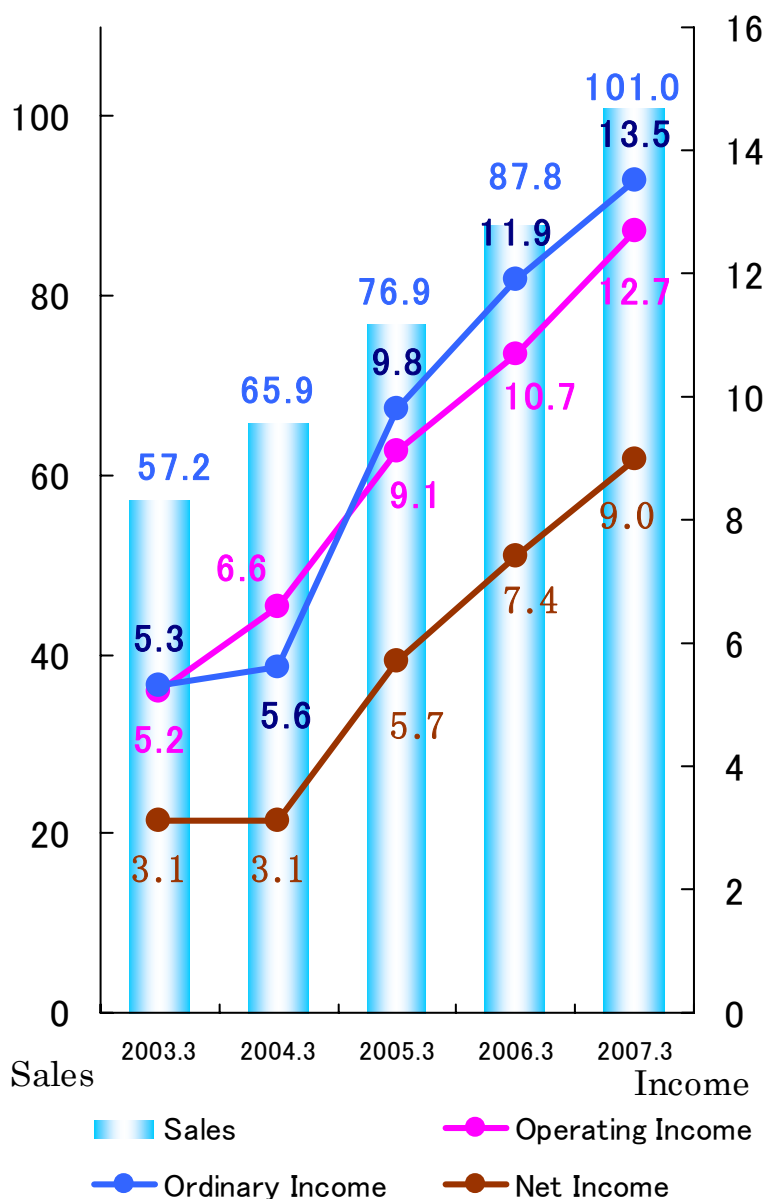
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- Financial Highlights
- Breakdown of Net Sales and Ordinary Income
- Breakdown of Balance Sheet
- Consolidated Cash Flow
- Geographic Segment Information
- Projected Dividend for FY2006
- Dividend Policy

# Financial Highlights

(in billions of JPY)

(in billions of JPY)



## Recorded excellent results (double-digit growth) with sales exceeding ¥100 billion

- ✓ Growth achieved in income and profits for the 7<sup>th</sup> and 5<sup>th</sup> consecutive year, respectively (Ordinary income grew for the 6<sup>th</sup> consecutive year)
- ✓ Europe and Americas offset negative impact from China's "Clean-up Campaign"
- ✓ Showed comprehensive strength under medical fee reimbursement decreased in Japan

## Became No.1 in the global hematology market

## Progressed R&D in Life Science for the creation of new diagnostic technologies

- ✓ Introduced the company's first life science-related Gene amplification detector into Europe
- ✓ Joint R&D projects launched on DNA chips, etc.
- ✓ New products released in the diagnostics field
- ✓ Construction of Sysmex Techno Park begun

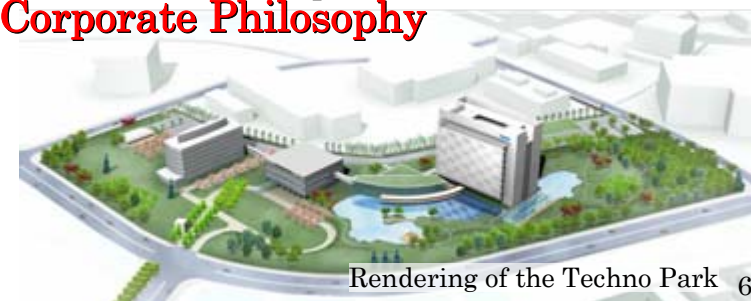


DNA Chip

## Strengthened the global business foundation

- ✓ Sales base established to accelerate business expansion in South Africa
- ✓ Sysmex Digitana AG established to enhance sales forces in Switzerland
- ✓ Global reagent production system established in anticipation of future business expansion

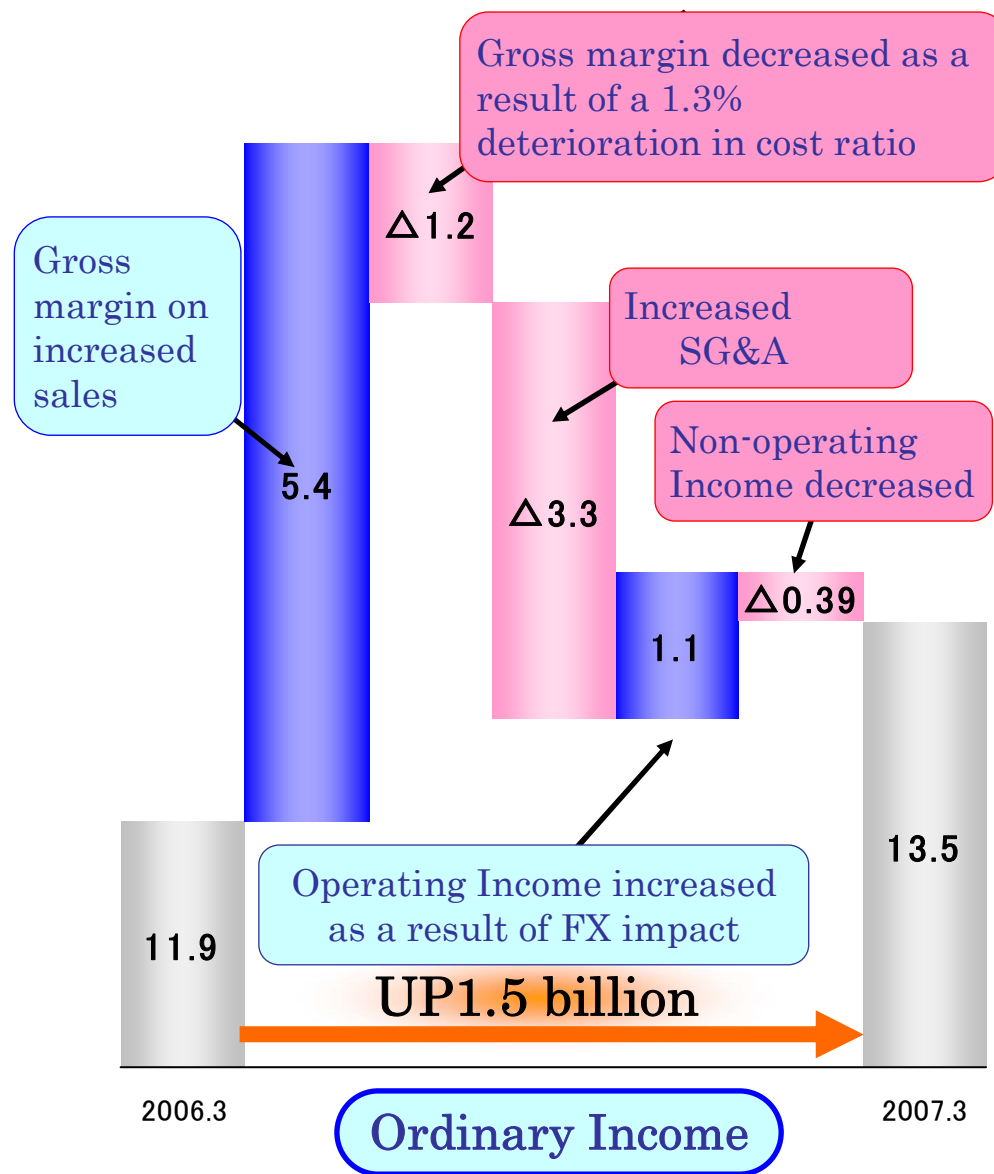
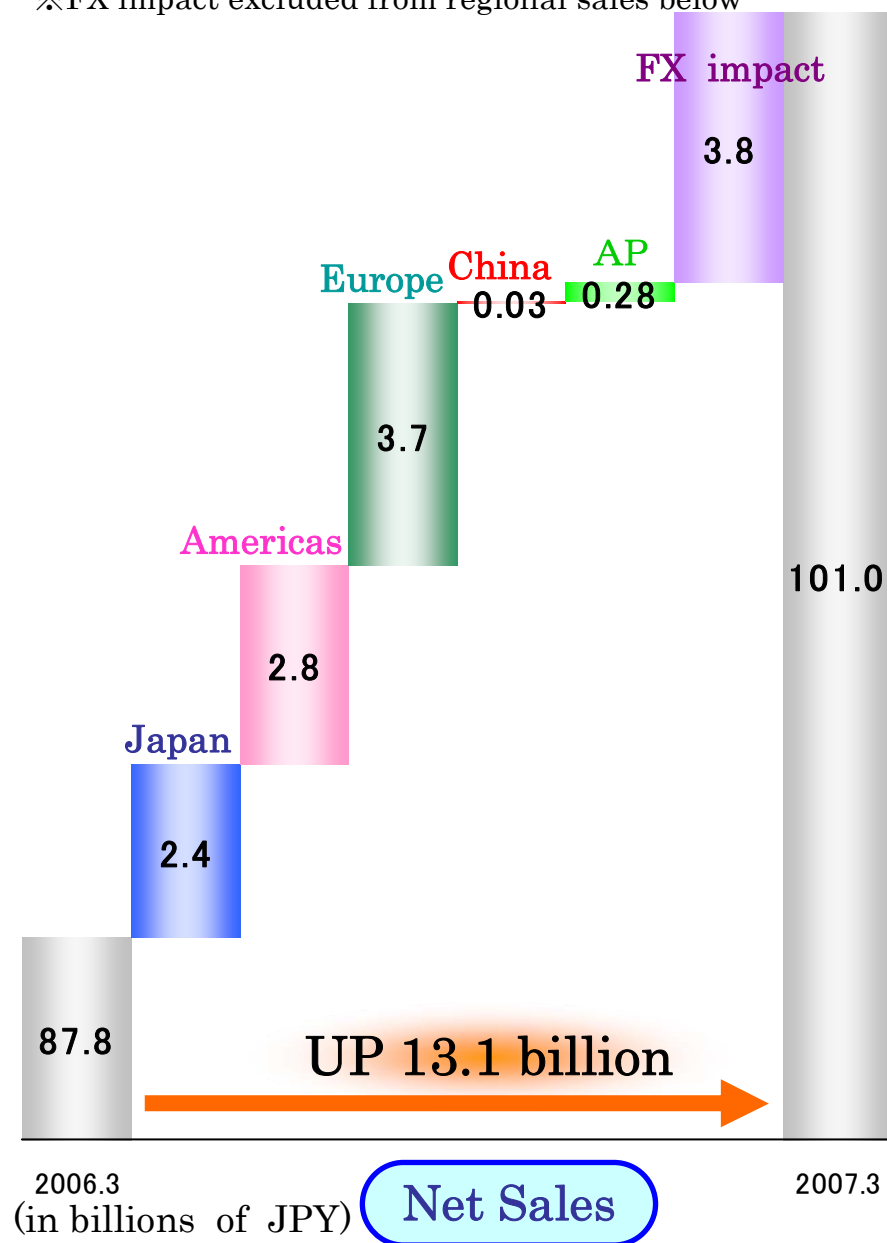
## Redefined the Corporate Philosophy



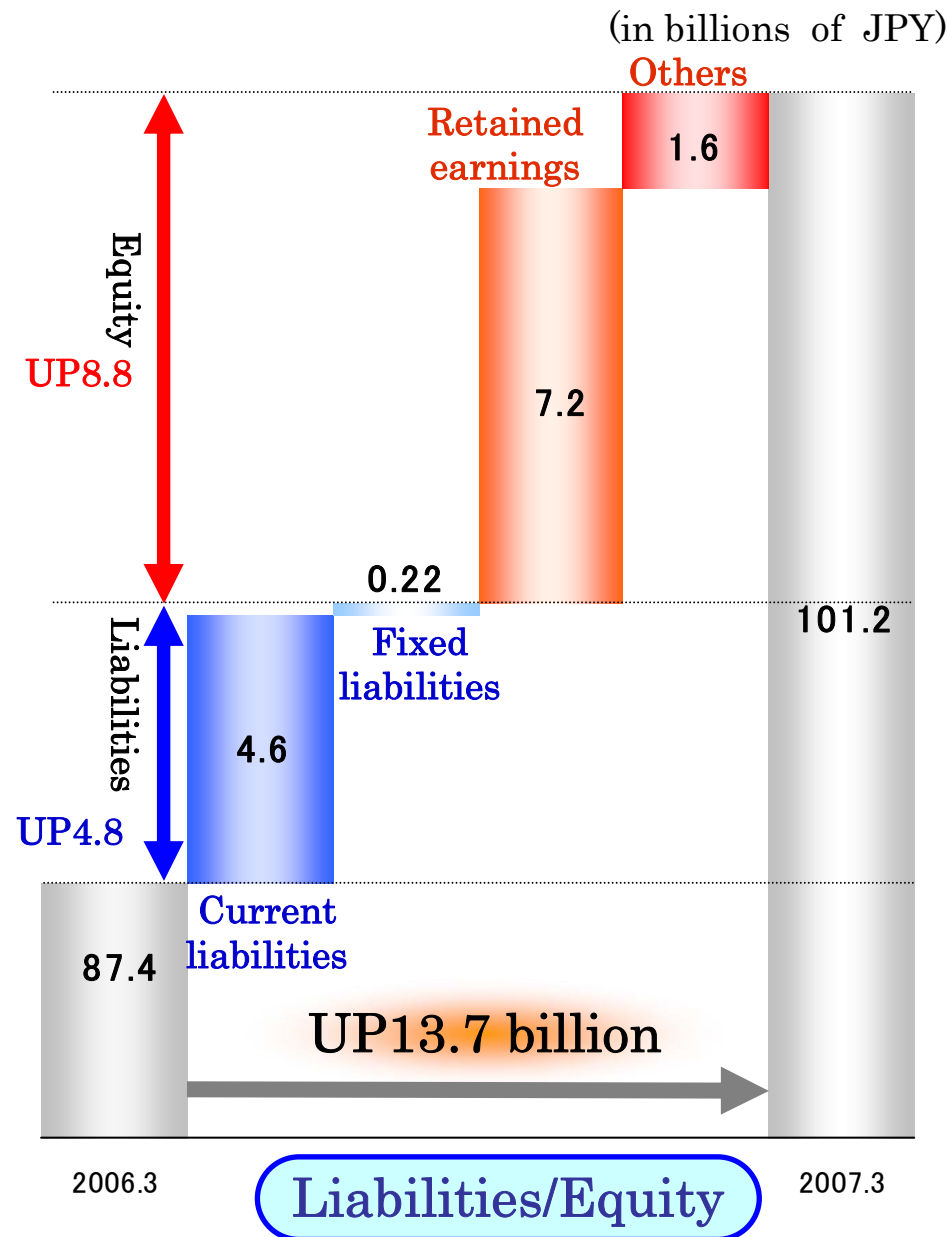
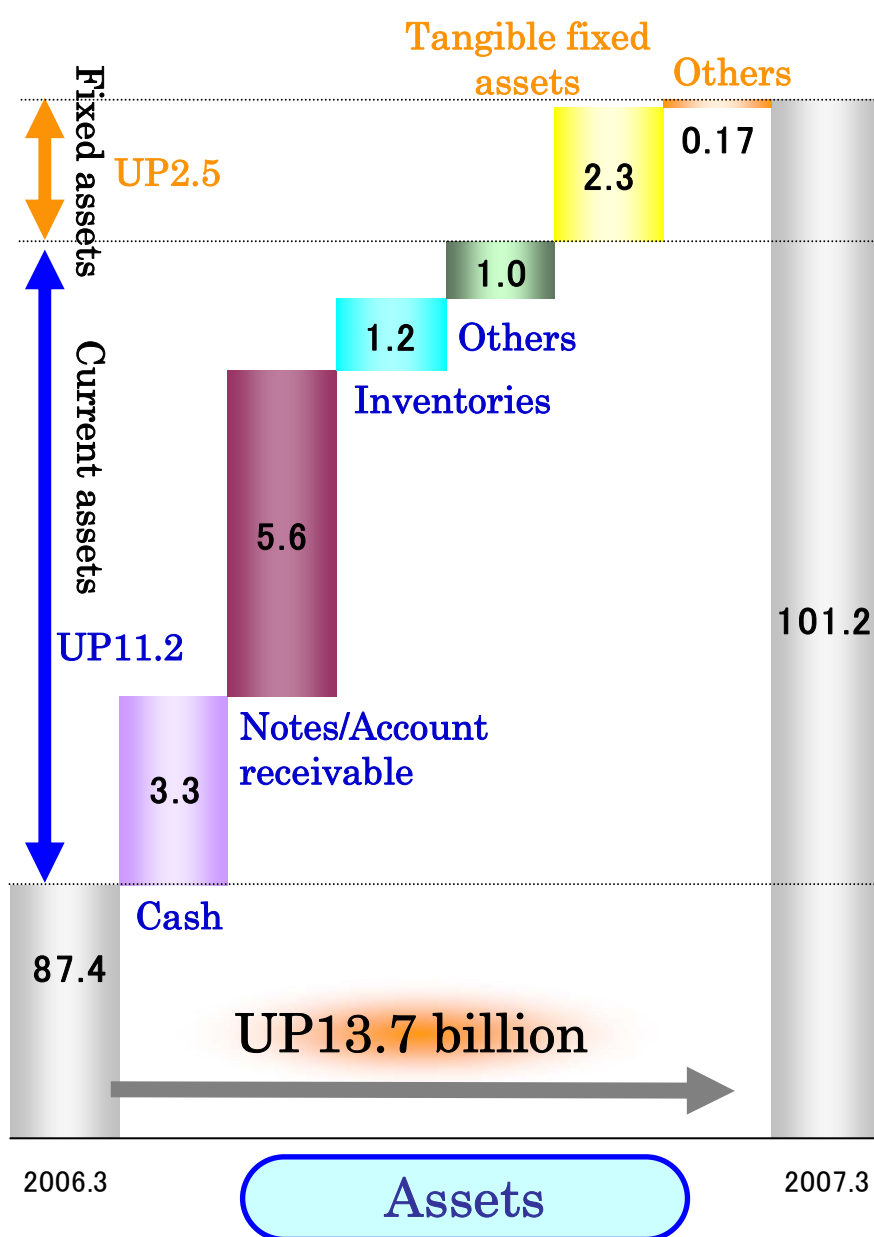
Rendering of the Techno Park 6

# Breakdown of Net Sales and Ordinary Income

※FX impact excluded from regional sales below



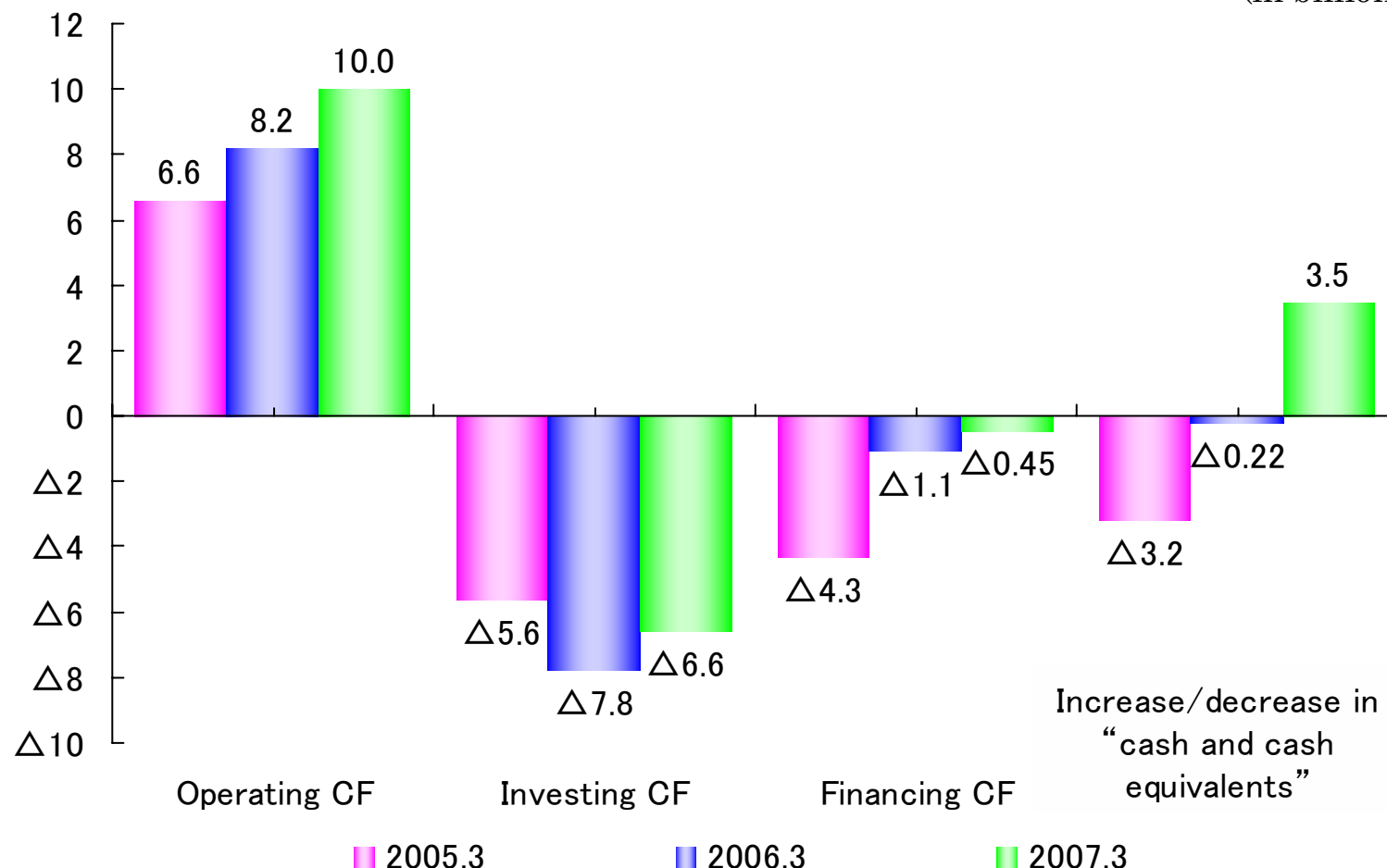
# Breakdown of Balance Sheet





# Consolidated Cash Flow

(in billions of JPY)



※Increase/decrease in "cash and cash equivalents" include translation differences of cash and cash equivalents.

Creating a cycle of reinvestment of cash flow as a growing company

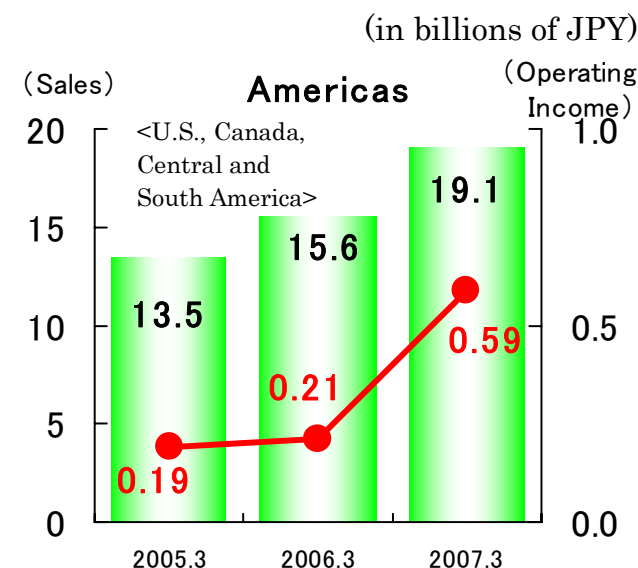
# Geographic Segment Information (Americas and Europe)

## 【Americas】

- Increased sales in Integrated Healthcare Networks (IHN)
- Realized strong sales of urinalysis and coagulation analyzers
- Improved support sales activity coverage to increase sales and after-sales support staff in the US
- Received bulk orders from the Costa Rican social security administration



Sysmex Express (demonstration bus)

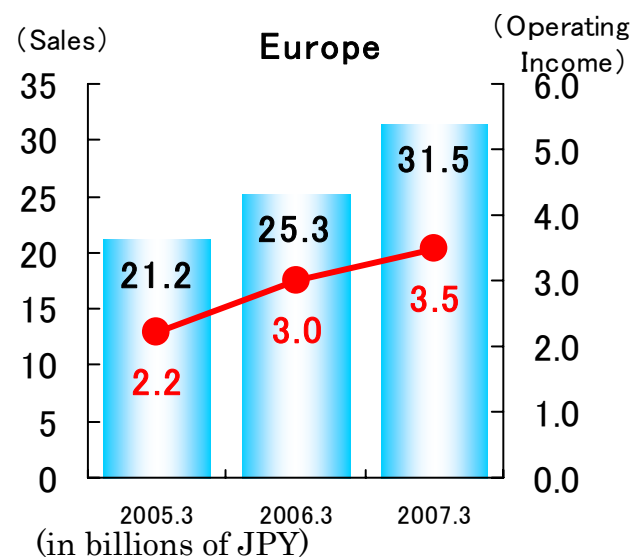


## 【Europe】

- Saw strong sales of hematology analyzers through ICS (Integrated Concept Solution) marketing
- Launched a system for rapid detection of breast cancer lymph node metastasis
- Established Sysmex Digitana AG in Switzerland through capital participation in a local distributor
- Established Sysmex South Africa



Sysmex Digitana



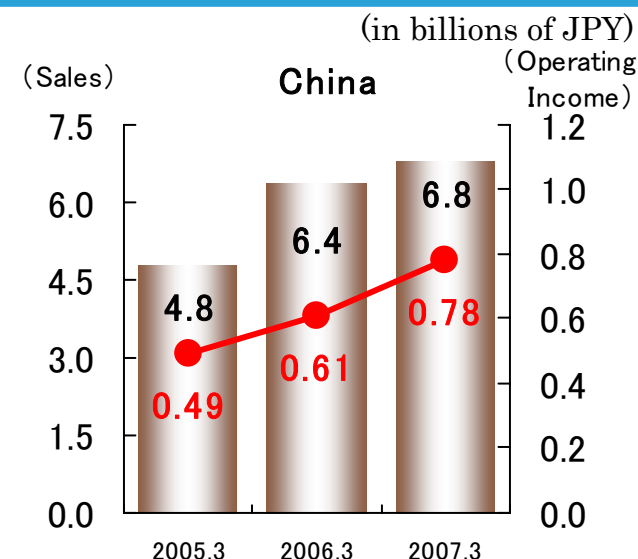
# Geographic Segment Information (China and AP)

## 【China】

- Underwent cost containment due to reduction of test expenses (insurance points)
- Experienced slow sales of instruments due to the medical industry's "clean-up campaign"
- Experienced strong sales of XS Series automated hematology analyzers
- Received increased orders for coagulation analyzer replacement and upgrading

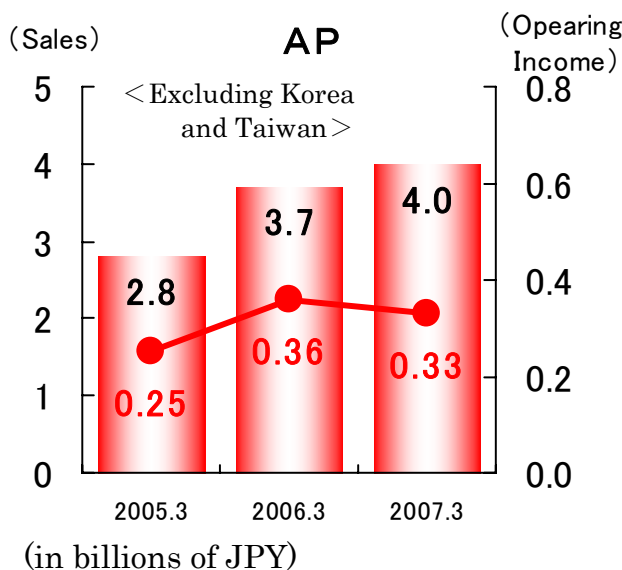


Automated hematology analyzers  
*XS-1000i*



## 【AP】

- Reorganized business structure in India
- Experienced strong sales of the XS series automated hematology analyzers
- Established a representative office in Australia



Sysmex India



Reagent factory (India)

# Geographic Segment Information (Japan)

## 【Japan】

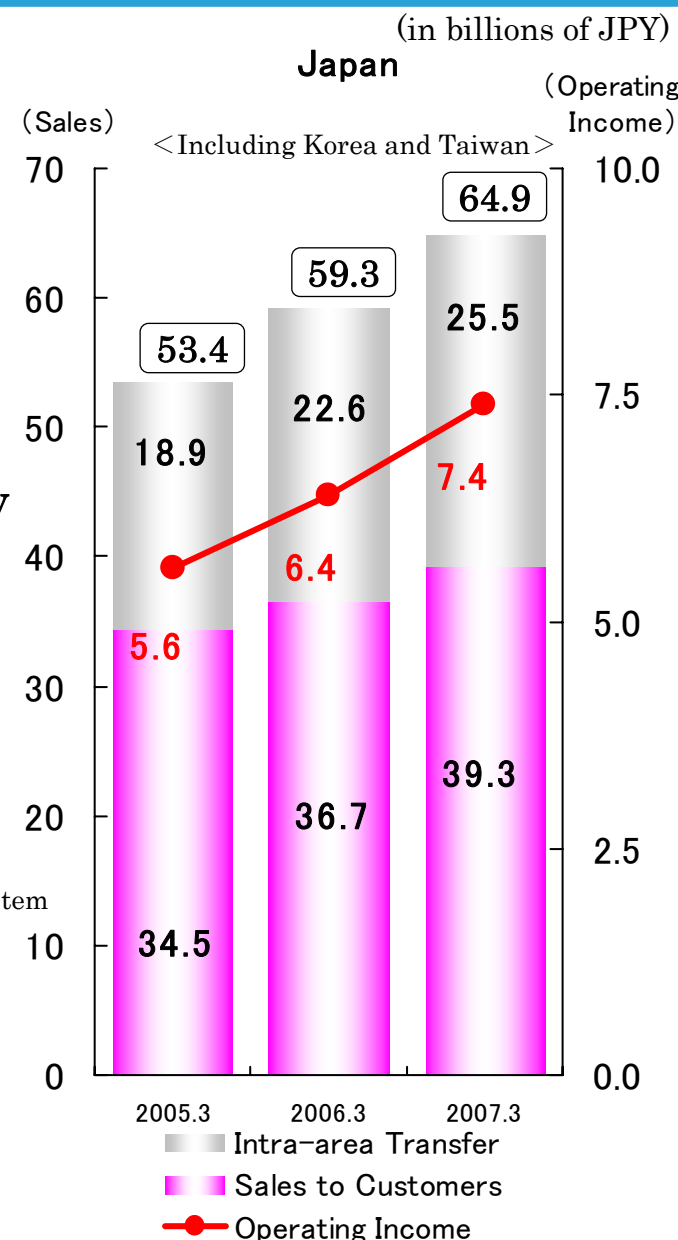
- Medical fee reimbursement decreased by 3.16%
- Received an increasing number of orders for large-scale combined solutions from large hospitals
- Received bulk orders for hematology analyzers from the blood center of Japan Red Cross Society
- Influenza test market became crowded
- Announcement of making CNA a wholly-owned subsidiary



Integrated hematology system  
*HST Series*



Tokyo Office Show Room



# Projected Dividend for FY2006

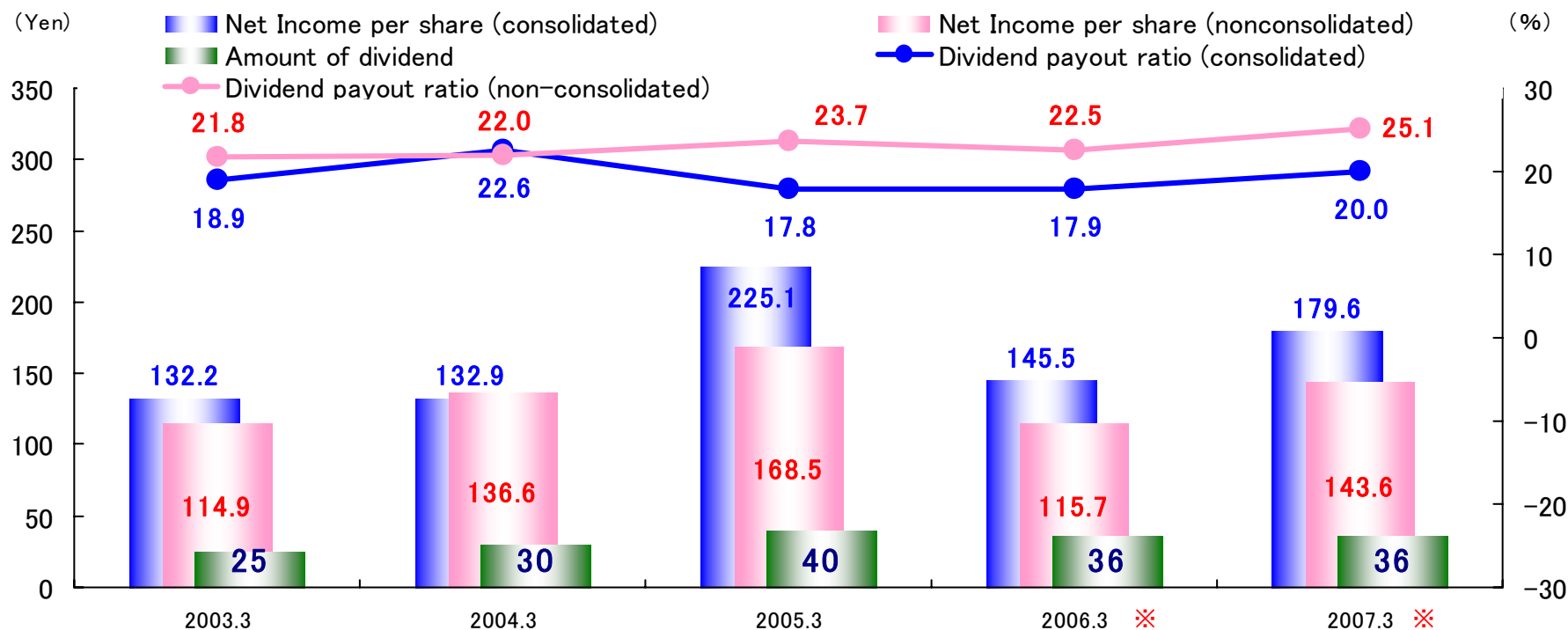
	Interim dividend	Year-end dividend	Total	Dividend ratio (Consolidated)
<b>FY2006</b>	<b>¥16</b>	<b>¥20</b>	<b>¥36</b>	<b>20.0%</b>
<b>FY2005</b>	<b>¥20</b>	<b>¥16</b> (including a 2 yen commemorative dividend)	<b>¥36</b>	<b>17.9%</b>
(Reference) Conversion to dividend before share split	<b>¥10</b>	<b>¥16</b>	<b>¥26</b>	

Note: Sysmex split its common shares 2 for 1 effective November 18, 2005, with the date of assignment on September 30, 2005.

# Dividend Policy

## <Dividend Policy>

We have been indicating a policy of stockholders' equity to balance both investment for sustainable growth and contribution toward shareholders. Upon this policy we raise strategy to keep dividend payout ratio as approximately 20% on consolidated financial performance.



\* Sysmex split its common shares 2 for 1 effective November 18, 2005, with the date of assignment on September 30, 2005.

# Review of previous Mid-term Plan

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(Announce on May, 2005)

- Overview of Key objectives



# Overview of Key objectives

## ■ Sustainable sales and profit growth in the diagnostics business.

- Recorded sales exceeding ¥100 billion.
- Became No. 1 in the global hematology market.
- Established a global reagent production system.

New reagent factory (Chicago)



## ■ Rebuild the manufacturing system and enhance technological capability to ensure the continuous development of value-added products.

The rendering of Sysmex Techno Park



- Reorganized the R&D operations and strengthened R&D management.
- Developed and carried out new technological strategies.
- Started the construction of Sysmex Techno Park.

## ■ Realize growth by leveraging the life science business.

- Introduced the company's first life science-related, clinical equipment and reagents into the market.
- Promoted the progress of clinical studies and trials, and expanded product pipeline.
- Commercialization was delayed due to uncertain factors such as clinical trials and applications for approval of products.

*Gene amplification detector  
RD-100i*





# Mid-term Plan (From FY2007 To FY2009)

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- Market Scenarios
- Long-term Vision/ Fundamental Strategies
- Mid- and Long-term Growth Scenario
- Core Messages of the Mid-term Plan
- Financial Targets and Key Objectives
- Strategic Approaches
- Segments by Geographic Financial Targets
- Fundamental Strategies
- Investment Plans

# Market Scenarios

## Market

- Treatment after illness
- Labs = hospitals' cash cow

- Aging in advanced nations; growth in emerging markets
- From treatment to prevention
- Labs incur costs

## Competitors

- Global specialist manufacturers
- M&A among specialist manufacturers

- Full-scale entry of GPS※
- Chinese players emerging

## Testing technology

- Technological development by-parameter
- Screening test technology

- Definitive diagnosis technology
- Disease management
- DNA and protein analysis

Based on the forecast of environmental change, “establish a presence in emerging markets,” “shift to the solution business,” and “invest in the life science field” ahead of competitors

Anticipate qualitative changes in the market and feed them back to management / business strategies

# Long-term Vision/Fundamental Strategies

## Long-term Vision: A Unique & Global Healthcare Testing Company

- Global No. 1 company in hematology
- Leading company in the diagnostics field in Asia
- Global niche company in the life science field

Global Niche  
No. 1

Consolidate the global  
No. 1 position  
in coagulation and urinalysis,  
as well as hematology

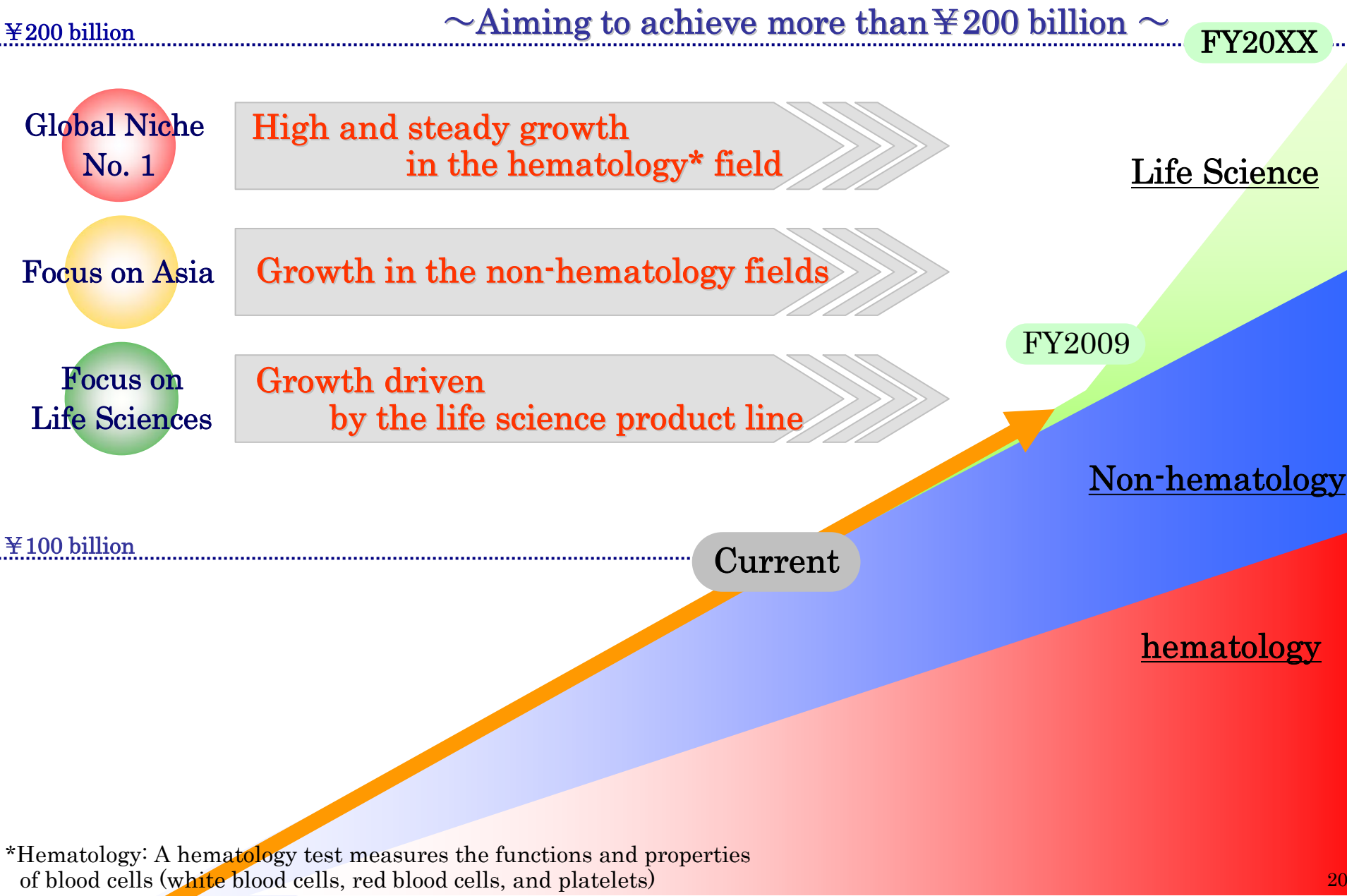
Focus on Asia

Leading company  
in the diagnostics field  
in Asia

Focus on  
Life Sciences

Leading company in  
the cancer diagnosis  
niche market

# Mid- and Long-Term Growth Scenario



# Core Messages of the Mid-term Plan

[Stay on the Growth Track] **Top-line annual growth rate of more than 10% (Outpacing the market)**

- Greater penetration in the US and European hematology markets
- Expand the diagnostics business in Japan and other Asian countries

[Increased profitability] **Improve Ordinary Income ratio by 1.2 percentage points (FY2009 target: 14.6%)**

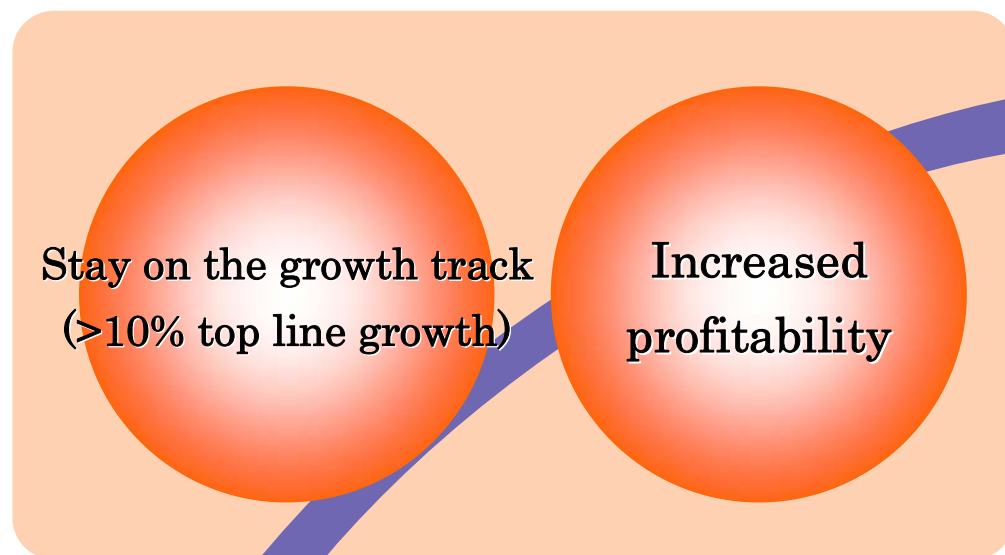
- Keep SG&A growth within the bounds of sales growth to reduce SG&A ratio
- Reduce costs by expanding direct-sales segments (geographical regions, fields)

[Strengthen our foundation] **Add resilience to global business infrastructures**

- Strengthen R&D
- Strengthen reagent supply
- Reorganize work processes
- Environmental conservation / risk management

# Financial Targets and Key Objectives

(Forex assumption: 1 US\$ = ¥115, 1 EUR = ¥150)



## Targets for FY2009 ( End March, 2010)

- Net Sales : ¥140 billion
- Ordinary Income: ¥20.5 billion
- Ordinary Income ratio : 14.6%
- ROE : 13.6%
- FCF : ¥10.4 billion

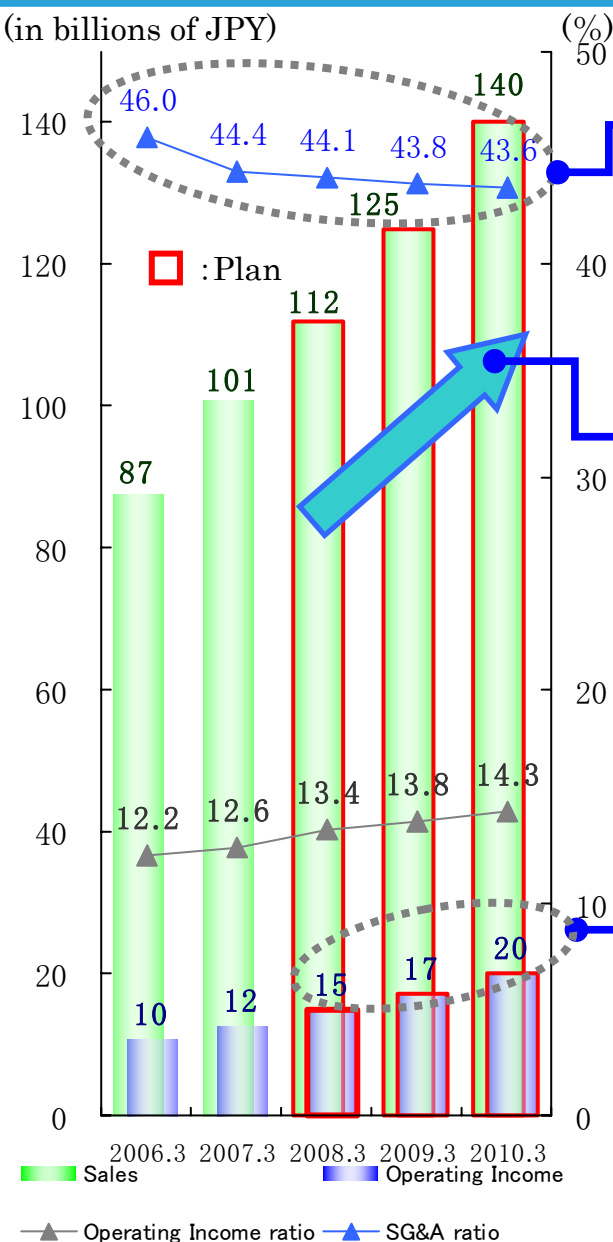
FY2006 Results	
■ Net Sales	: ¥101 billion
■ Ordinary Income	: ¥13.5 billion
■ Ordinary Income ratio	: 13.4%
■ ROE	: 13.4%
■ FCF	: ¥3.4 billion

(Closing rate : 1 US\$ = ¥117.0, 1 EUR = ¥150.1)



# Strategic Approaches

(in billions of JPY)

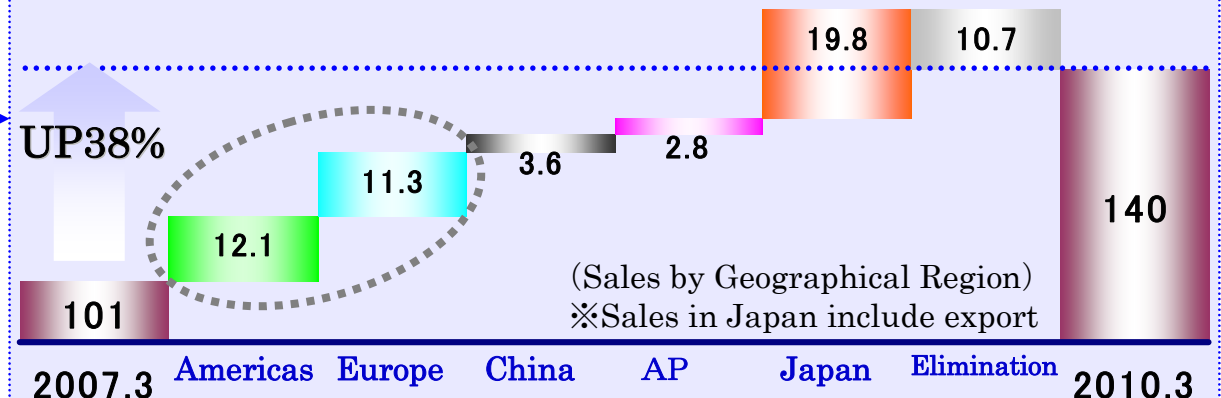


## Scale merits

- ✓ Sales outgrow SG&A, lowering SG&A ratio

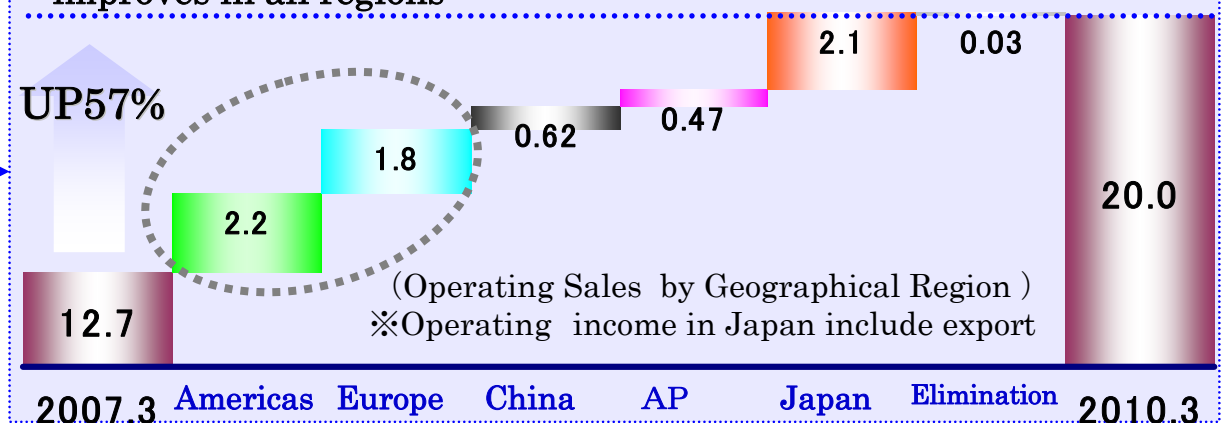
## Americas and Europe leading sales growth

(in billions of JPY)



## Operating income growing as profitability improves in all regions

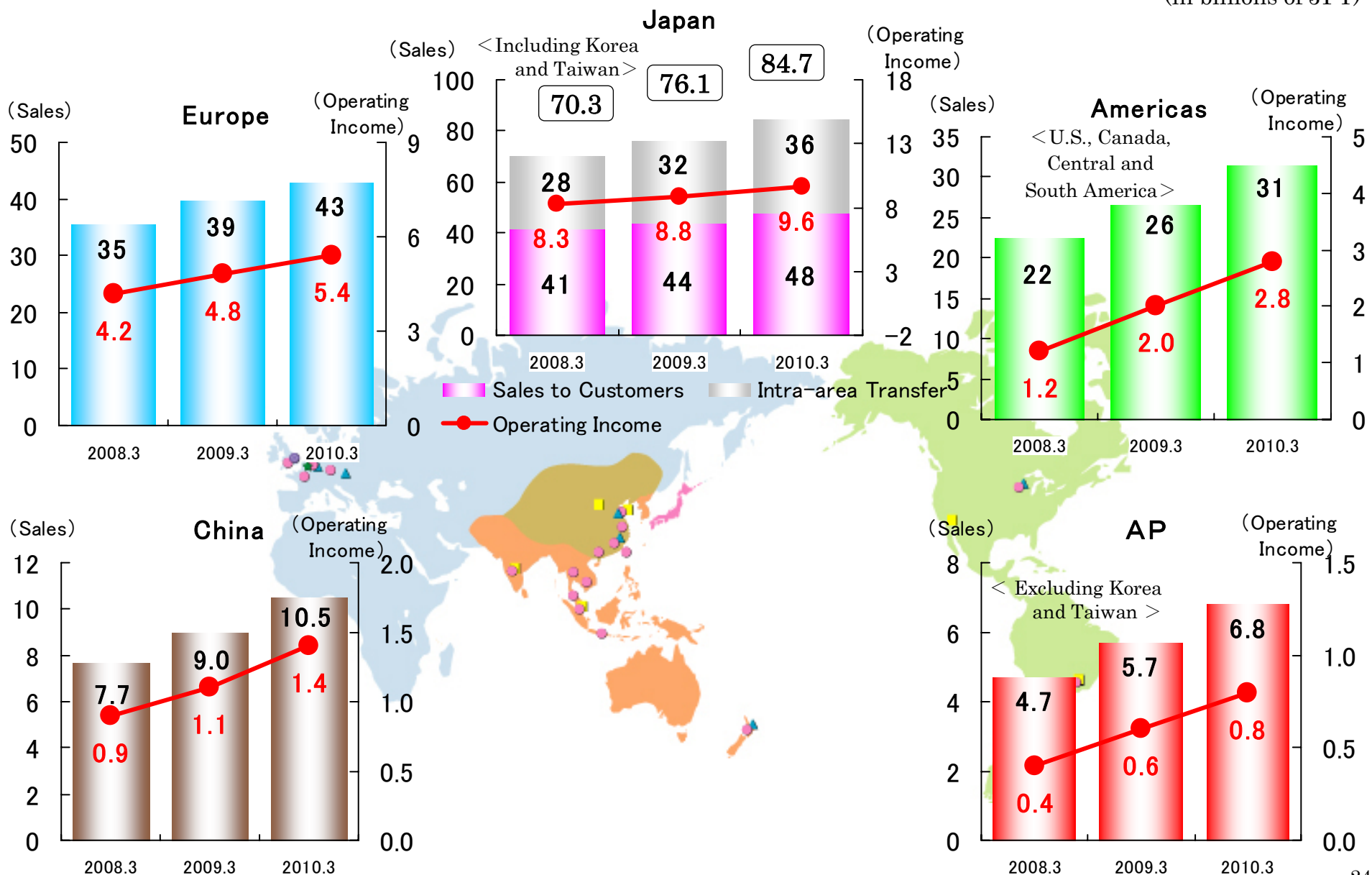
(in billions of JPY)





# Segments by Geographic Financial Targets

(in billions of JPY)

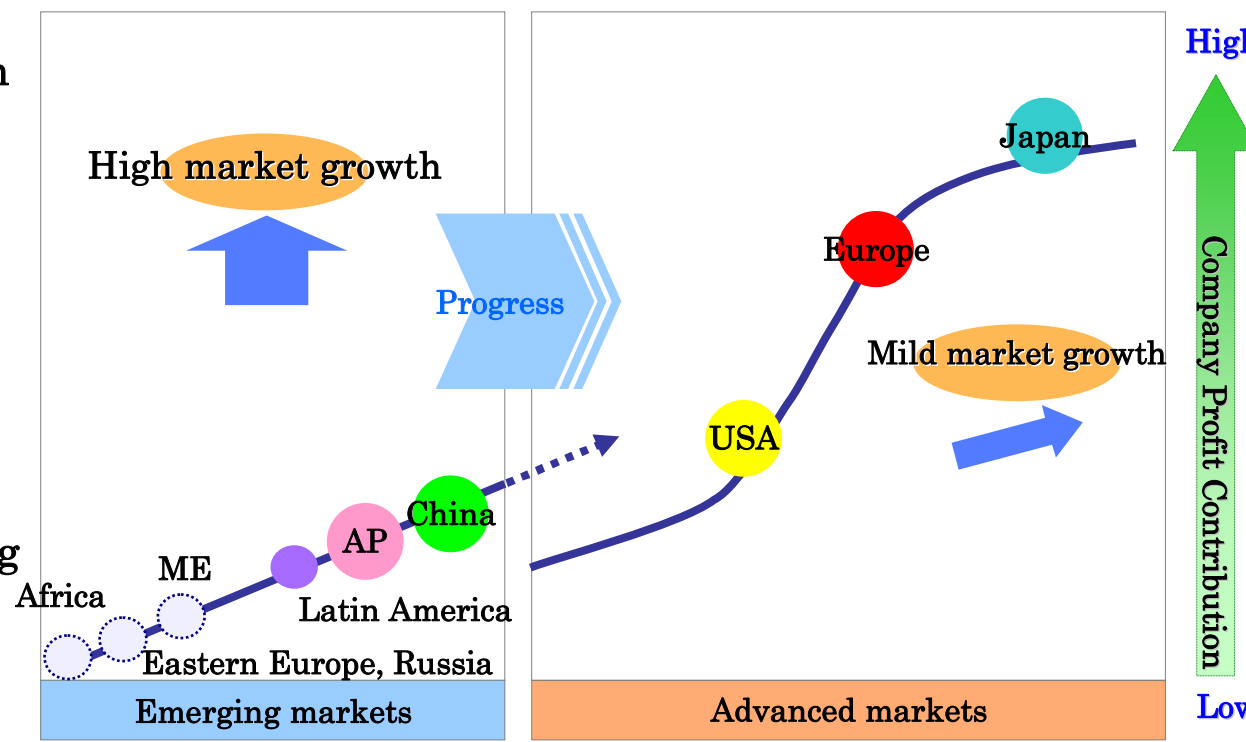




# Global Niche No.1 <Fundamental Strategies>

## Consolidated No. 1 Position in the Hematology Field

- ✓ Business strategies based on the disease management concept
- ✓ Promote strategies that use Sysmex's strengths in advanced countries (mature markets)
- ✓ Establish a leading position in growing fields in emerging markets



## Consolidated No. 1 Position in the Coagulation Field

- ✓ Increase sales in direct-sales areas like Japan and AP
- ✓ Create and launch high-value added products
- ✓ Strengthen the relationship with DadeBehring

## Establish No. 1 Position in the Urinalysis Field

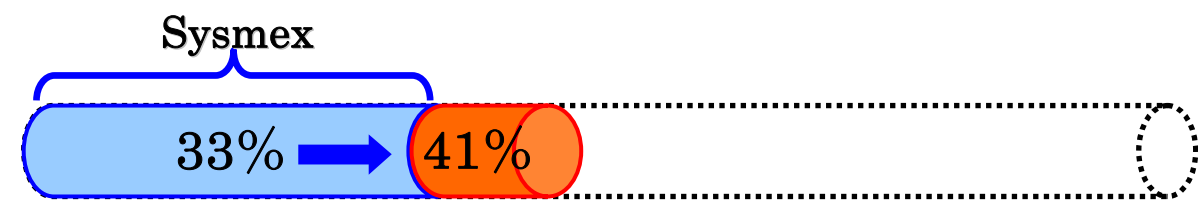
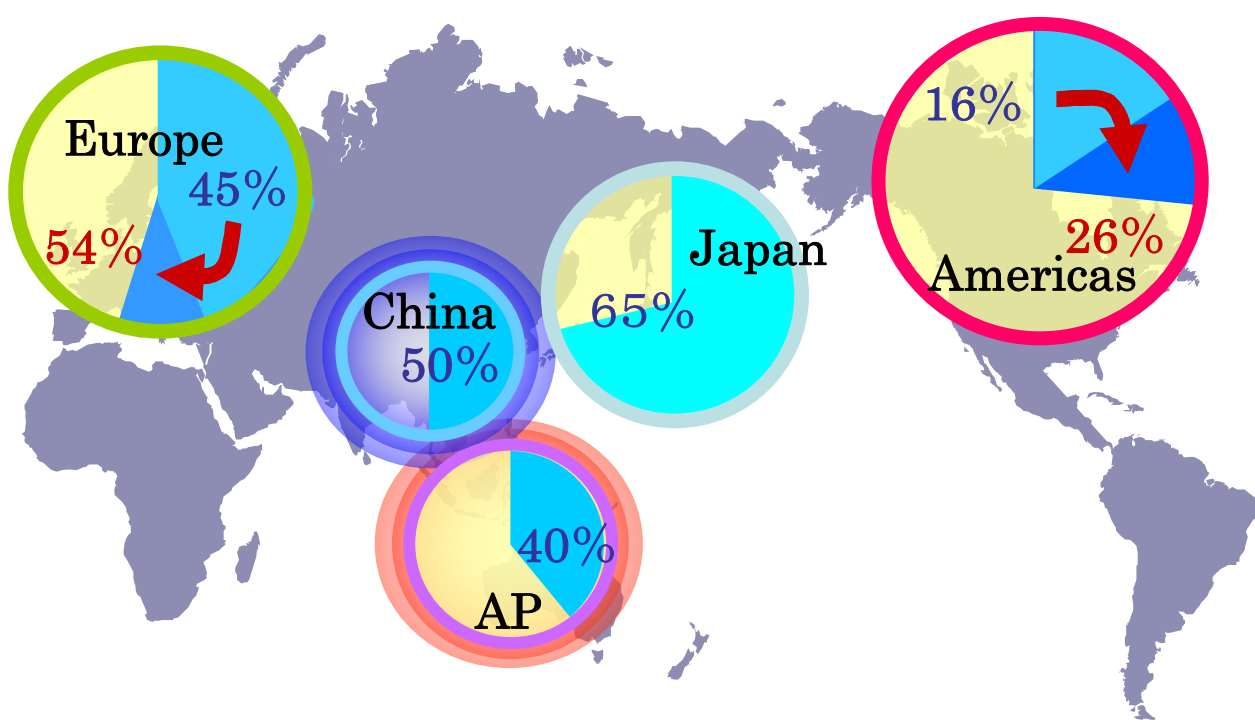
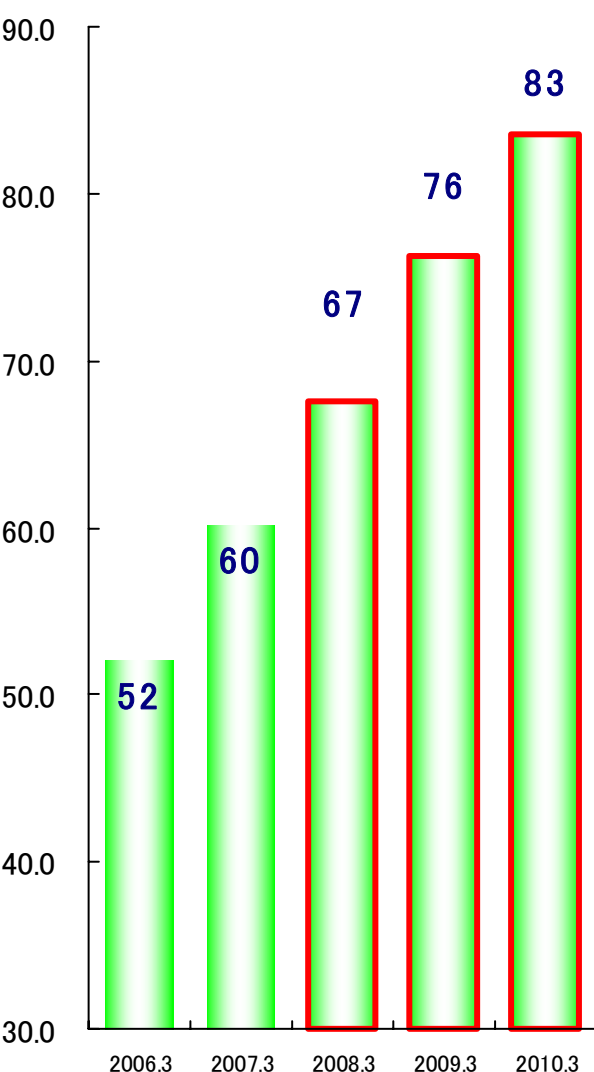
- ✓ Expand global urinalysis-related businesses
- ✓ Strengthen academic publication
- ✓ Expand target areas in the urinalysis field

# Consolidated No. 1 Position in the Hematology Field

Hematology sales (Global)  
(Midterm target)

Figures above were estimated by Sysmex

(in billions of JPY)



Hematology market in FY2006: ¥180 billion

Overall growth of the global hematology market: 4%

# High and Steady Growth in the Hematology Field

An overwhelming penetration  
in the hematology market



New reagent factory in Chicago



Integrated hematology system *HST Series*



Reagent factory (Sysmex India)

- **Americas: Increase market penetration**
  - ✓ Increase penetration in major commercial labs through improved brand recognition
  - ✓ Increase penetration into mid-sized hospitals through expanded coverage
  - ✓ Boost penetration into small-sized hospitals through improved support / supervision of distributors
  - ✓ Begin operation of new reagent factory
- **Europe: Expand direct-sales segment / areas**
  - ✓ Promote ICS (Integrated Concept Solution)
  - ✓ Begin operation of new reagent factory
- **China: Sales outgrowing the market**
  - ✓ Differentiate through after-sales support, and strengthen sales of total solutions
  - ✓ Develop sales programs adopting to regional characteristics in China
- **AP: Sales outgrowing the market**
  - ✓ Strengthen sales support in India
  - ✓ Promote replacement of hematology analyzers with higher grade models
  - ✓ Begin operation of new reagent factory
- **Japan: Improve total solution sales in the hematology and other fields**
  - ✓ Enhance service structure (24/7 service, etc.)

# Focus on Asia <Fundamental Strategies>

- ★ Local affiliates
- Local bases
- ▲ Representative offices

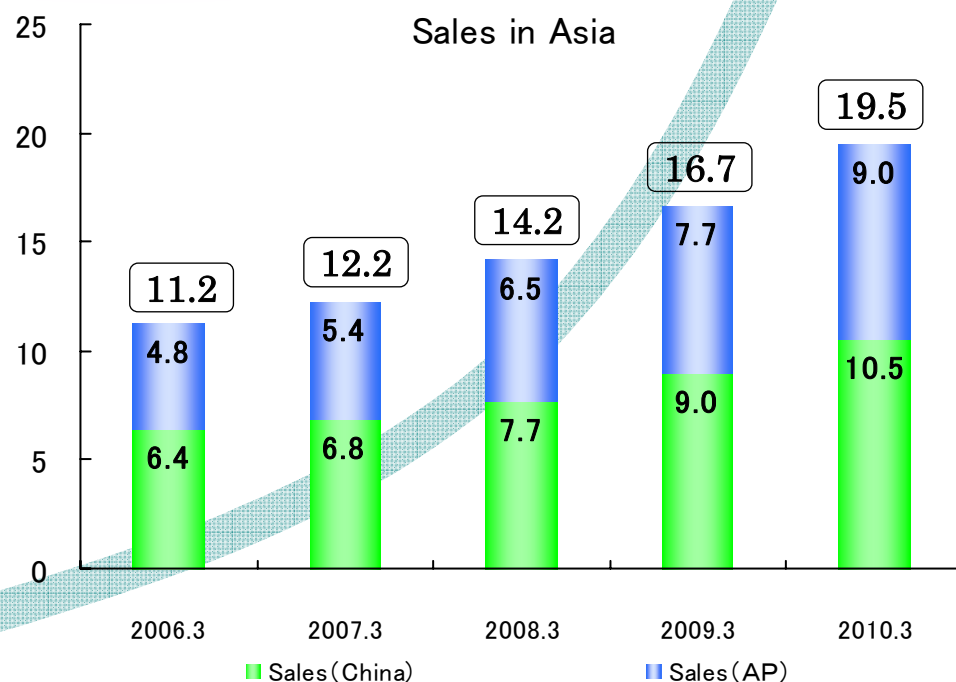
Systemex's operations in Asia, excluding Japan

Take advantage of being the sole Asia-based player in the global IVD market

Substantial sales and profit growth in the diagnostics business

(in billions of JPY)

Field	Japan	China	AP
Hematology	○	○	○
Coagulation	○	○	○
Clinical chemistry	○	○	○
Urinalysis	○	○	○
Fecal analysis	○	○	—
Immunochemistry	○	○	○
LIS	○	○	○
POC	○	—	—



# Growth in Non-Hematology Fields

Accelerate immunochemistry and clinical chemistry businesses in Japan and other Asian countries



Clinical chemistry analyzer  
*CHEMIX-800*



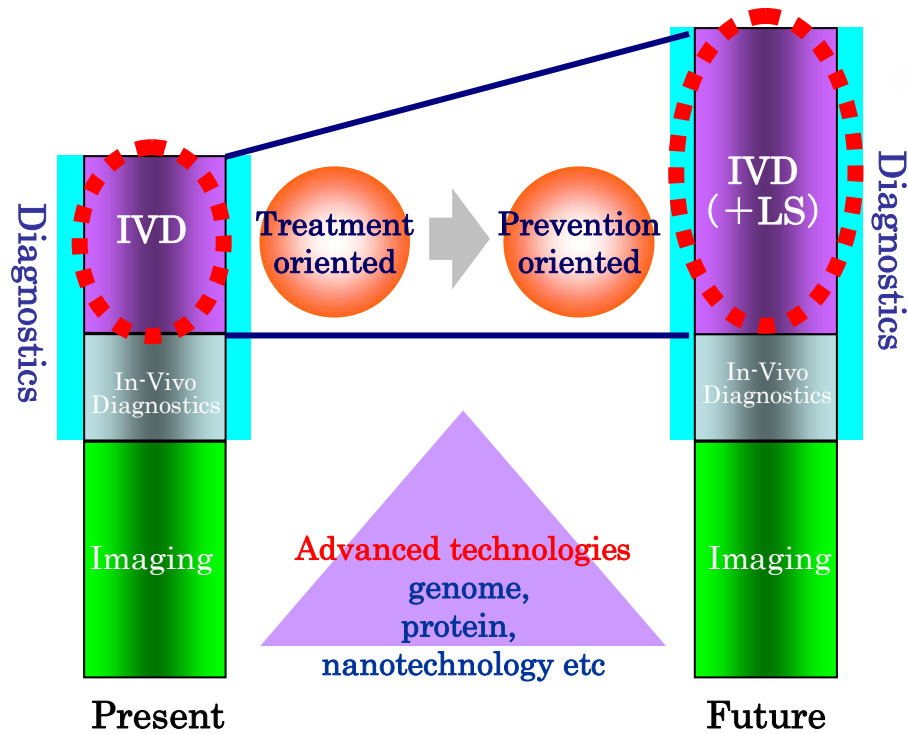
Wuxi reagent factory

- **Japan: Increase market penetration through new products**
  - ✓ Introduce immunochemistry products and strengthen the after-sales support system
- **China: Launch new products**
  - ✓ Clinical chemistry analyzer CHEMIX-800
  - ✓ Introduce immunochemistry products and develop the after-sales support system
  - ✓ Produce immuno-reagents and clinical chemistry reagents at the Wuxi factory
- **AP: Launch new products**
  - ✓ Clinical chemistry analyzer CHEMIX-800
  - ✓ Introduce immunochemistry products and develop the after-sales support system
- **Expand product portfolio**
  - ✓ Enhance product development
  - 
  - 
  -

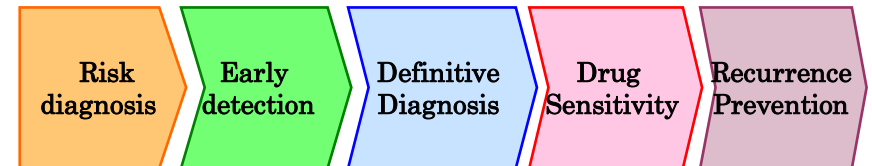
# Focus on Life Sciences <Fundamental Strategies>

**Individual** Need for healthy, longer lives

**Policies** Minimize growth of total medical expenditure



## < Disease Management >



High-value-added testing for each disease stage

Contribute to extending healthy life expectancy and enhancing QOL.

## Business model for Life Sciences

Creating New Growth Factors  
Focus on diseases/conditions affecting patient QOL in an aging society

- Patient-specific testing
- Growing demand for life science testing in Japan, US and Europe
- Testing contributing to standardized healthcare

Focus on Disease Management

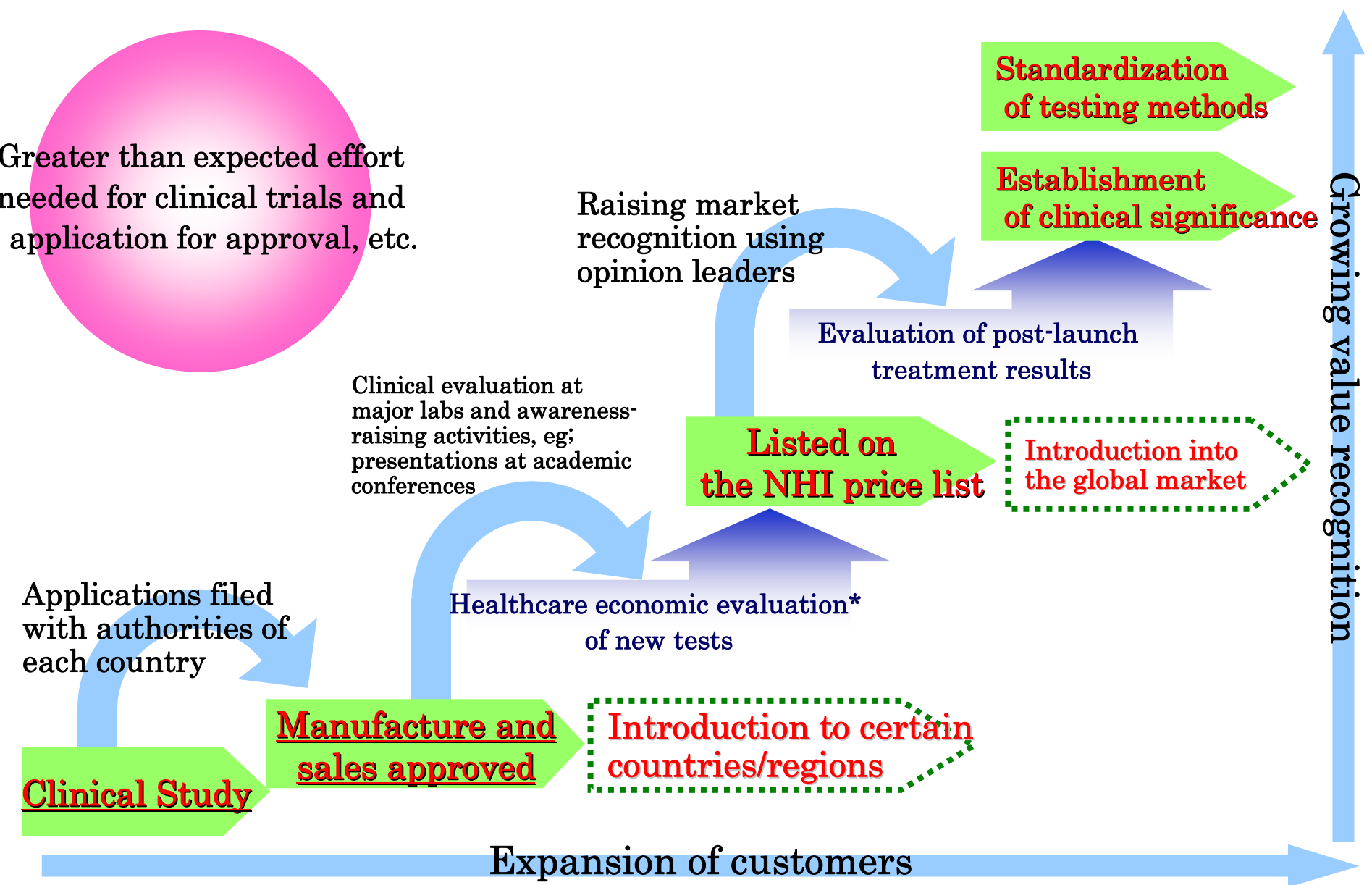
Cancer

Diabetes

\* IVD: In vitro diagnostics LS: Life science



# Business Process



\* Healthcare economic evaluation: Determination of quantitative value of new tests from an economic viewpoint

# Increase Life Science Business

Introduce the Life Science business with a focus on cancer-related areas

- System for rapid detection of breast cancer lymph node metastasis



Gene amplification detector *RD-100i*



Exclusive reagents and disposables

- Gene analysis system / DNA chip (Affymetrix)

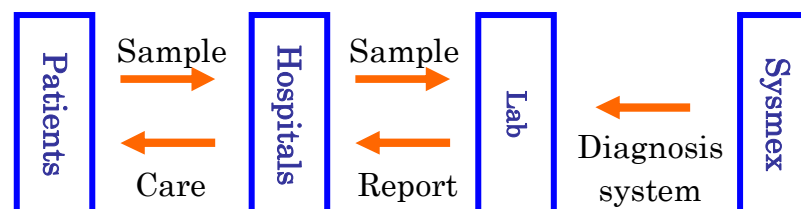


DNA Chip

Analysis system

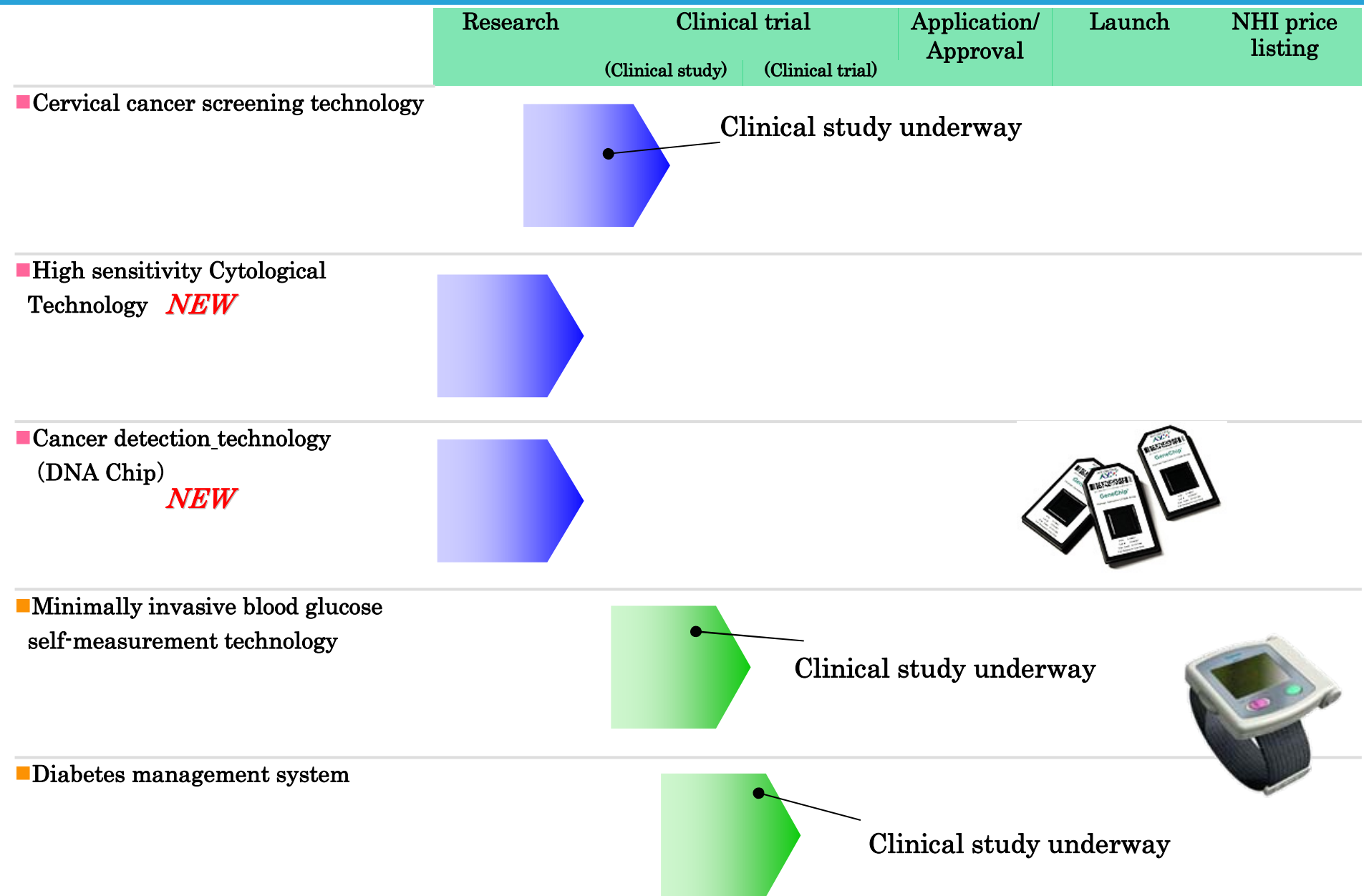


- Chemosensitivity prediction / Recurrence prediction



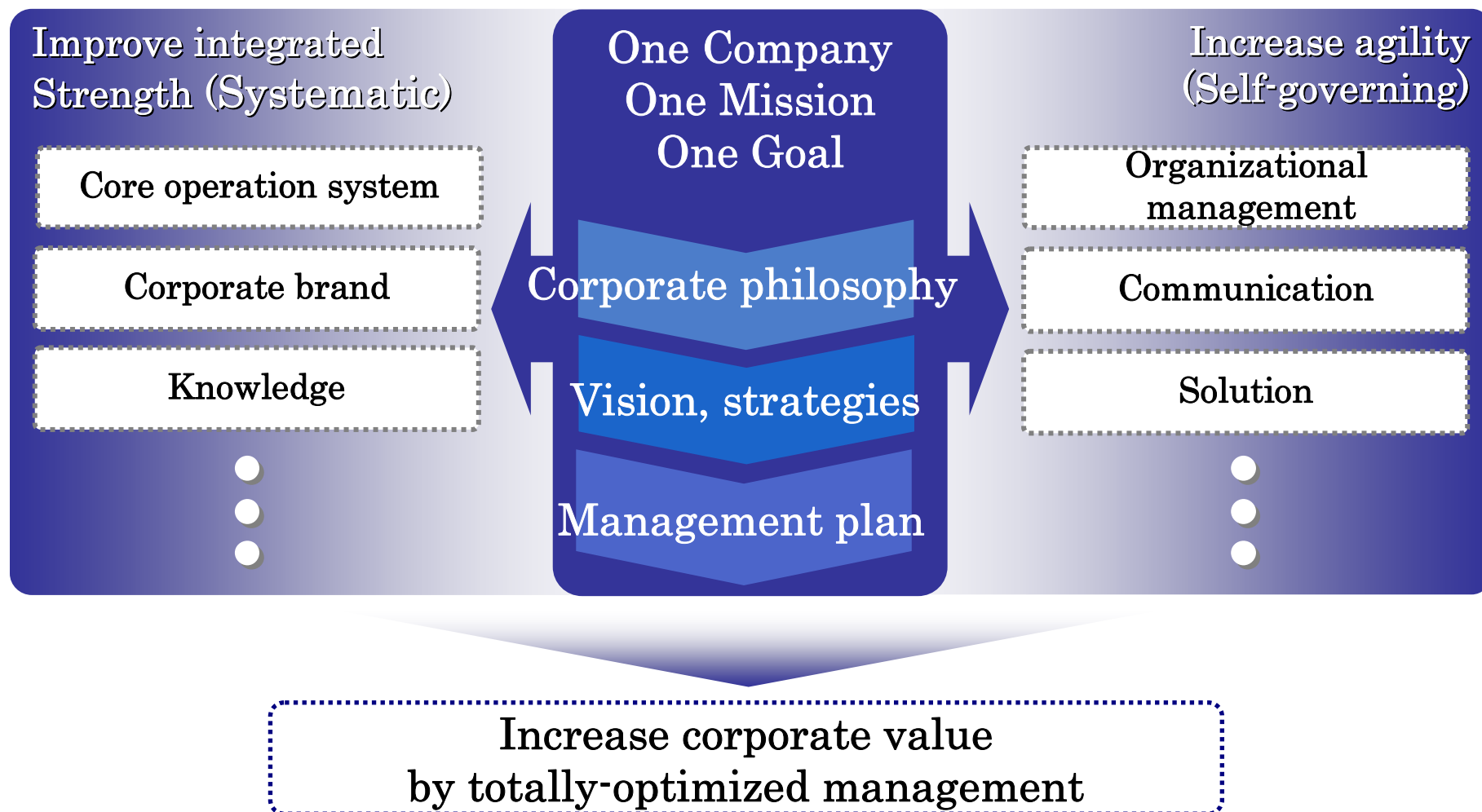


# Progress in R&D (Life Science)



# One Company Management

An integrated group sharing a common philosophy and strategies



# Attractive Company

Evolve into an attractive company by developing HR and a culture to generate high value

HR  
(Enhance individual skills)

Global

Management

Autonomy

Teamwork

System  
(Respect diversity, rules)

Understanding

Transparency

Equal  
opportunity

Training

Foster a positive corporate climate

Create “original” value and offer “trust and confidence” to stakeholders

Offer “job satisfaction” and  
“ideal working conditions”

Ensure support from diverse  
stakeholders

# Investment Plans

- Encourage standardization of operations and reconstruction of the ERP system on a global basis
  - Encourage standardization of operations globally through cooperation among the headquarters and regional companies
  - Reconstruct the ERP system to support the standardization of operations
  - Investment
    - ✓ Reconstruction of the ERP system: 2 billion yen over 3 years
- Strengthen R&D functions
  - Implement the Sysmex Techno Park plan, and strengthen R&D functions
    - ✓ Improve the R&D environment and enrichment of R&D facilities
    - ✓ Encourage commercialization of life science products
    - ✓ Introduce proprietary products on time, with high added value
  - Investment
    - ✓ Sysmex Techno Park:
      - 10 billion yen over 3 years
    - ✓ R&D: 35 billion yen over 3 years



# FY2007 Consolidated Earnings Forecast

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- FY2007 Consolidated Earnings Forecast
- Projected Dividend for FY2007

# FY2007 Consolidated Earnings Forecast

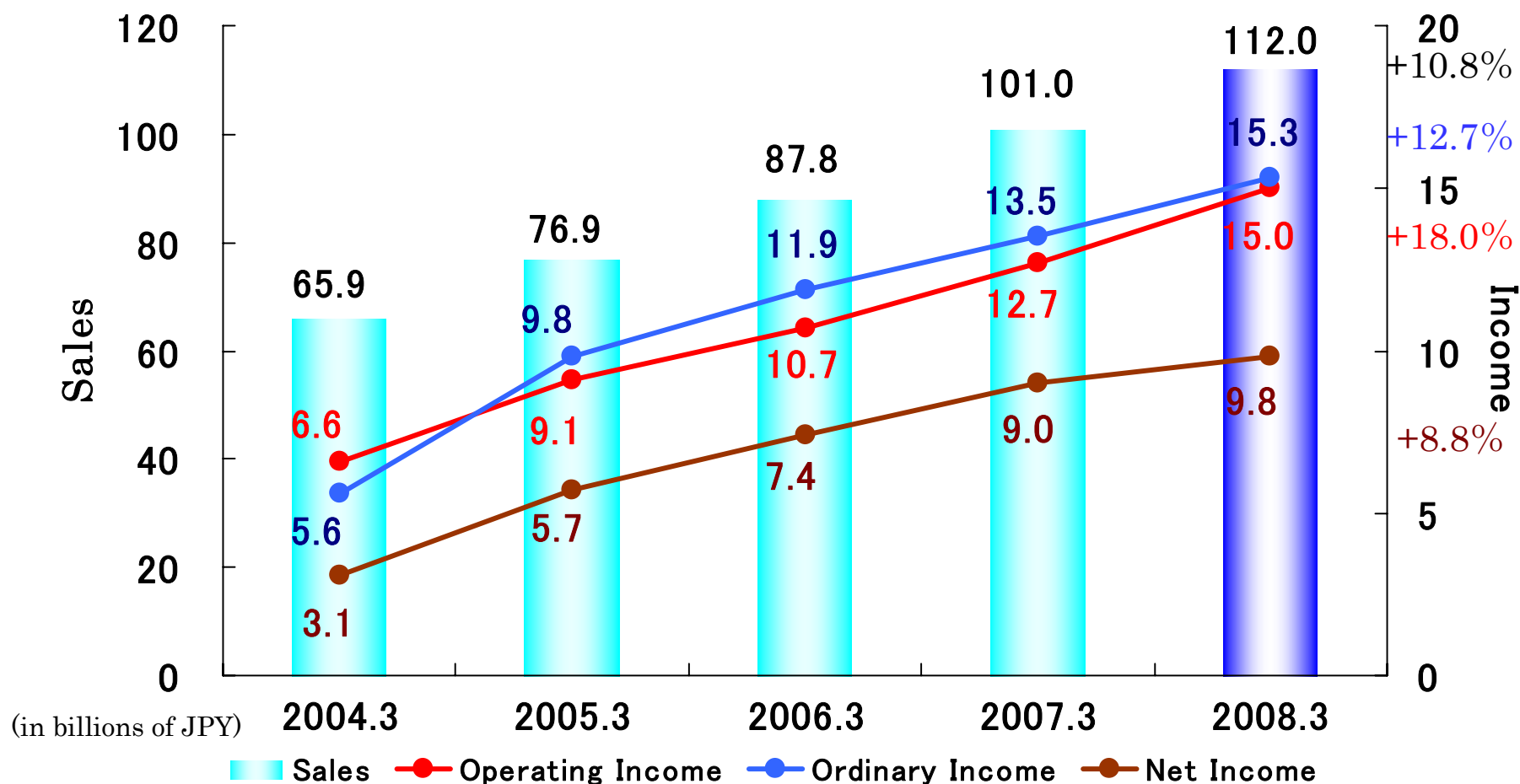
## FY2007 Consolidated Earnings Forecast

(Planned exchange rate : US\$1= ¥115, EUR1= ¥150)

- Sales: ¥112 billion
- Ordinary Income: ¥15.3 billion
- Net Income: ¥9.8 billion
- Ordinary Income ratio: ¥13.7%
- Net Income ratio: 8.8%

### Investment plan

- Equipment: ¥8.3 billion
- R&D: 9.8 billion



# Projected Dividend for FY2007

	Interim dividend	Year-end dividend	Total	Dividends ratio (Consolidate)
FY2007	¥20	¥20	¥40	20.8%
FY2006	¥16	¥20	¥36	20.0%

# Challenging the Frontiers of Healthcare Testing

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END



# Mid-term Plan targets

## ■ Consolidated PL

(in millions of JPY)

	FY2007		FY2008		FY2009	
	Amount	Change	Amount	Change	Amount	Change
Japan	39,800	105.1%	42,100	105.8%	46,000	109.3%
International	72,200	114.3%	82,900	114.8%	94,000	113.4%
Net Sales	112,000	110.8%	125,000	111.6%	140,000	112.0%
R&D Expenses	9,800	108.6%	11,300	115.3%	14,000	123.9%
Operating Income	15,000	118.0%	17,300	115.3%	20,000	115.6%
Ordinary Income	15,300	112.7%	17,600	115.0%	20,500	116.5%
Net Income	9,800	108.8%	11,000	112.2%	13,000	118.2%

## ■ Geographic segment

(in millions of JPY)

		FY2007		FY2008		FY2009	
		Amount	Change	Amount	Change	Amount	Change
Americas	Sales	22,500	117.4%	26,500	117.8%	31,500	118.9%
	Operating Income	1,200	202.4%	2,000	166.7%	2,800	140.0%
Europe	Sales	35,500	112.4%	39,700	111.8%	43,000	108.3%
	Operating Income	4,200	118.4%	4,800	114.3%	5,400	112.5%
China	Sales	7,700	112.4%	9,000	116.9%	10,500	116.7%
	Operating Income	900	115.2%	1,100	122.2%	1,400	127.3%
Asia-Pacific	Sales	4,700	116.0%	5,700	121.3%	6,800	119.3%
	Operating Income	400	120.5%	600	150.0%	800	133.3%
Japan	Sales to Customers	41,600	105.6%	44,100	106.0%	48,200	109.3%
	Intra-area Transfer	28,700	112.4%	32,000	111.5%	36,500	114.1%
	Sales	70,300	108.3%	76,100	108.3%	84,700	111.3%
	Operating Income	8,300	111.7%	8,800	106.0%	9,600	109.1%