

PQA Business

Accelerating Innovation and Structural Reform to Become a First-to-Call Company for Quality Assurance

The mission of food and pharmaceutical companies is to provide a stable supply of safe and reliable products at all times, even during the prolonged COVID-19 pandemic. Due to the urgent need to realize a society in balance with the natural environment, that produces and consumes only what is necessary without waste, food and pharmaceutical companies are vigorously working to conserve energy and reduce waste loss through improvements in quality and productivity.

Anritsu's PQA business has enhanced its system to promptly provide products and services that match customer needs by directly listening to the voices of customers around the world. We will continue to accelerate innovation and structural reform to transform into a global company and contribute to the realization of a sustainable society where people around the world can enjoy safety and security.

Business Areas

The PQA Business provides development, production, sales, and maintenance services of quality inspection machines and quality control systems for the food and pharmaceuticals industries globally.

Under the Company vision, "Beyond testing, beyond limits for a sustainable future together," we aim to "become our customers' most trusted 'First-to-Call' company for quality assurance with a view to achieving a sustainable future." We will bring our quality inspection technologies that play an active part in production lines, an area of Anritsu's strength, combined with advanced technologies and innovative services that include AI and IoT in order to work to build solutions to comprehensively support our customers' quality assurance activities.

Furthermore, leveraging the technologies and know-how of "quality assurance" acquired in the food production field into the pharmaceutical field, we will make the pharmaceuticals market the second pillar for the PQA Business.

Market Environment

In fiscal year 2021, some customers in the food and pharmaceutical markets were cautious about capital investment due to increased uncertainty about the future caused by repeated stagnation in economic activity.

The Japanese market experienced brakes on consumption, which had been on the road to recovery, whenever there was another outbreak of COVID-19. With labor shortages and rising production costs becoming more severe in food manufacturing, stabilizing production and improving efficiency have become top priorities.

Masumi Niimi

Director
Senior Vice President
PQA Business Group President



In Europe and the U.S., where most countries have switched to a “living with COVID-19” strategy, economic activities have begun to normalize, and major food companies have begun to actively invest in plants and equipment. On the other hand, the rapid re-starting of the economy has caused some issues such as labor shortages and sharply rising labor costs, as well as a hike in prices for energy and raw materials for food products.

In the Chinese market, stable demand continued, especially in the frozen food and meat markets. The Shanghai lockdown at the end of March caused a short-term stagnation of business activities and had a significant impact on the lives of citizens, but we expect the situation to return to normal in the second half of this year and beyond. The food market is also recovering in other Asian markets such as ASEAN countries and India, especially in the areas of souvenir confectionery and food service, due to a recovery in tourism demand.

Thus, although the situation varies by region and market, on the whole, capital investment in quality inspection equipment is expected to recover to pre-pandemic levels in fiscal year 2022.

Opportunities for Business Growth

In the food market, in addition to the perennial issues of quality improvement, productivity enhancement, and stabilized supply, initiatives for realizing a sustainable society such as reduction of food loss and eliminating plastic waste are now required.

In fiscal year 2022, we expect the capital investment for the food companies will focus on resolving issues such as

promoting safety and security through further quality improvement, recovering profitability that has deteriorated due to a hike in production costs, and resolving labor shortages by introducing automation and reducing manpower in the production lines.

In the quality inspection process, which requires complex operation and advanced judgment, many inspections still rely on the human eye and senses. With technological innovation that enables these to be substituted and automated, we will generate demand for new inspection equipment.

Pharmaceuticals are just as large a market for production line quality assurance as the food market. For quality assurance of pharmaceutical products, specialized testing equipment that can inspect target products such as pills, capsules, and injectables with high precision is indispensable.

In recent years, data integrity, which requires the completeness, consistency, and accuracy of all data related to manufacturing, has been a growing concern, and efforts to comply with FDA* guidelines and GMP* ordinances, including full inspection, process control, and electronic recording of quality data, are accelerating.

For more than half a century, Anritsu has provided customers in pharmaceutical production with checkweighers and other testing equipment and we have extensive experience in Japan. We are working to expand our business into pharmaceutical markets around the world, such as the U.S., Europe, China, and India.

*1 FDA: U.S. Food and Drug Administration

*2 GMP: Good Manufacturing Practice

Facing New Challenges in Quality Assurance Together With Our Customers

Overall Quality Management and Control System QUICCA

X-ray Inspection System

Metal Detector

Checkweigher

Automatic Combination Weigher

PQA

First Year of GLP2023 Review and Initiatives in this fiscal year

FY2021 Initiatives and Results

In fiscal year 2021, when lockdowns and other restrictions on activities were enforced around the world, we worked on sales promotion responding to the situation at the time while placing the safety of our customers and our employees as our top priority. In regions where it was difficult to visit customers, we focused on remote sales promotion through activities such as online exhibitions, webinars, and e-mail newsletters.

On the other hand, in regions where we could meet with customers, such as China and North America, we conducted more aggressive promotions by participating in exhibitions and bringing actual equipment to customer sites for demonstrations.

As a result, orders achieved the initial target of ¥23 billion for the fiscal year, driven by overseas markets such as North America and the Asian region. On the other hand, sales did not reach the target set for the first year of GLP2023, partly due to the prolonged delivery times in the Japanese market.

Development Investments and New Products

In GLP2023, our policy is to create customer value by acquiring new sensing technologies and increase the ratio of investment in strategic products for the pharmaceutical market. We are continuously investing in development while considering our strategy and product portfolio.

In fiscal year 2021, we enhanced our solutions for strategic markets by developing and launching the "XR75HR Dual Energy X-ray Inspection System," which uses a new high-definition X-ray sensor to enable high-sensitivity inspection of thick products with irregular surfaces that have been difficult to inspect in the past, and the "IP69 X-ray Inspection System," made with a robust body that can withstand jet washing, with the European and U.S. meat markets in mind, and releasing the "KWS9002AP Capsule Checkweigher", which can weigh at an ultra-fast



speed of maximum 230,000 pills per hour, for the pharmaceutical market.

Initiatives to Achieve an Operating Margin of 10% in FY2023

We are working to improve the operating margin in two ways. One is to increase the added value through applying customer values on solutions, as well as business expansion in the pharmaceutical market. The other is by globally optimizing our business structure and streamlining business processes.

In fiscal year 2021, we expanded our product lineup to best meet customer needs, such as with the aforementioned new products. In addition, as part of the global optimization of our business structure and streamlining of business processes, we expanded the assembly and inspection systems of our local subsidiary in Chicago, U.S.A., to improve our ability to promptly provide our customers with the most suitable unit.

However, the effect on profit margin improvement was limited due to increasing prices of semiconductors, other components, and logistics costs, as well as the influence of the product mix.

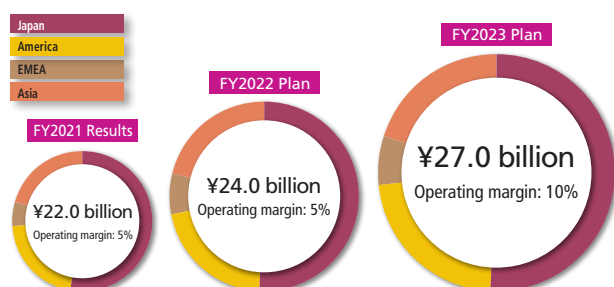
We will continue to leverage the Group's management resources to speed up innovation and value creation, and accelerate business restructuring to build a structure that consistently generates an operating margin of 10% or more.

|| PQA: GLP2023 Revenue and Operating Profit ratio Plan

FY2022 Initiatives

Capture new demand and improve profits through IT

- Respond to automation and labor-saving needs
- Expand market by strengthening sales capabilities in Europe and the U.S. and enhance local SE response capabilities
- Develop new products for the pharmaceutical market to improve profit margins



Talent Recruitment and Development

We are aggressively recruiting engineers for cutting-edge technologies focusing in such areas as image and signal processing, IoT, deep learning and other aspects of AI, as well as non-destructive sensing. We encourage the growth of people and technology by interacting extensively with research institutions outside of the Company, not insisting on in-house development. In addition, in order to listen to the needs of our customers around the world and provide optimal solutions, we are working to recruit and train human resources who can work globally.

Intellectual Capital

Relationships with Outside Organizations and Collaboration with Leading Companies

As PQA business, we are a member of more than 20 industry associations, including Japan Measuring Instruments Federation, Japan Inspection Instruments Manufacturers' Association, and Japan Packaging Machinery Manufacturers Association, as well as PMMI (Packaging Machinery Manufacturers Institute) in the U.S. We work with customers, leading companies in the food packaging industry, and many research institutions to overcome quality assurance challenges.

Competition and Market Share

More than 40 competitors operate in the Americas, Europe, and China in target markets for the PQA business.

Anritsu has gained a leading share of the Japanese domestic food market and is expanding its share in overseas markets and the pharmaceutical market. By leveraging our strengths in high-speed, high-sensitivity sensing tech-

nology and high-quality services, we aim to further expand our business and increase our market share to become a "First-to-Call Company" by delivering products sought by customers faster than anyone else.

Social Issues Solved Through Our Business

SDGs Initiatives

PQA Business contributes to SDG Goal 12 "Ensure sustainable consumption and production patterns" through quality assurance of food and pharmaceutical products by working together with our customers who install our quality inspection equipment.

In addition to the inherent social values of the PQA business, such as "stable supply of safe and reliable food and pharmaceutical products" and "reduction of food loss through quality improvement," we will contribute to the realization of a sustainable society with the initiatives such as reduction of the energy required for transportation and use of products as well as opting for environmentally friendly materials.

Solving social issues



Increasing the sophistication of quality assurance for food and pharmaceuticals to achieve:

- A safe and secure society
- A sustainable society with little food loss



Customers



Anritsu



Automatic electronic weighing machines



X-ray inspection systems



Metal detectors



Checkweighers



Quality management/control systems

Strengths

- High-speed, high-precision, quality inspection technology for production lines
- Engineering capability to adapt inspection equipment to various food manufacturing environments
- Extensive maintenance service system and experienced maintenance engineers in Japan
- Past record and top-class market position in the food inspection market in Japan