

Feb. 6, 2019

Operating Results and Financial Position

(For the Nine Months Ended December 31, 2018)

1. Operating Results

(1) Consolidated Overview

In the nine months ended December 31, 2018, the North American economy continued its recovery due to an improvement in the labor and income environment and firm consumer spending. The European economy showed a moderate recovery despite Brexit concerns and other issues, due to generally strong internal demand. The Chinese economy seemed to slow toward the end of last year, due to lower infrastructure investment and concerns about trade frictions with the United States. The economy improved modestly in Southeast Asia and continued its recovery trend in India. The Japanese economy continued its moderate recovery trend, due to improvements in employment and increased capital investment resulting from higher corporate earnings.

In the midst of such circumstances, the Shimadzu Group is implementing aggressive measures to achieve growth, as specified in the medium-term management plan and based on the slogan “Become a Company That Solves Challenges in Society in Collaboration with Partners All Around the World,” such as investing in advanced healthcare and other high-growth fields, improving profitability by applying AI and IoT technologies to expand the aftermarket business and improve the competitiveness of key models, for example, and implementing organizational foundation reforms.

For the first nine months of this fiscal year, the Shimadzu Group posted consolidated net sales of 278,218 million yen (a year-on-year increase of 5.7 %), operating income of 27,568 million yen (a year-on-year increase of 8.4 %), ordinary income of 28,457 million yen (a year-on-year increase of 10.9 %), and profit attributable to owners of parent of 19,479 million yen (a year-on-year increase of 8.0 %).

The results for reportable business segments were as follows.

I. Analytical & Measuring Instruments

Sales in North America were strong for liquid chromatographs and mass spectrometer systems in the healthcare field. In Europe, liquid chromatograph and mass spectrometer system sales were strong to academic and research institutions, for food testing and contract analysis, and in other fields. In China, sales of environmental measurement instruments increased significantly due to government policies for strengthening pollution countermeasures at the source and sales of gas chromatographs for contract analysis were strong. In Southeast Asia, liquid chromatograph sales were strong for pharmaceuticals and mass spectrometer system sales were strong for regulatory compliance. In India, overall sales decreased as liquid chromatograph sales for pharmaceuticals slowed, due to reluctance to invest in capital equipment for generic drugs and other factors.

In Japan, liquid chromatograph and mass spectrometer system sales decreased due to declining capital investment in the pharmaceutical and chemical fields, but overall sales increased due to strong sales of non-destructive inspection systems in transport-related fields.

As a result, the Analytical & Measuring Instruments segment posted sales of 169,291 million yen (a year-on-year increase of 5.2 %) for the first nine months of this fiscal year, with operating income of 24,532 million yen (a year-on-year increase of 6.9 %), due to increased sales and other factors.

II. Medical Systems

In North America, sales of general radiography systems decreased after demand stimulated by measures to promote shifting to digital technology last year settled down. In Europe, sales were strong for new mobile systems with outstanding operability, resulting in steady growth of general radiography system sales. Sales of fluoroscopy and angiography systems were also strong. In China, overall sales decreased, due to preferential policies for domestic products that decreased sales of general radiography systems and due to project delays for angiography systems. In

Southeast Asia, angiography system sales were strong, due partly to large projects.

In Japan, sales were strong for new angiography systems that offer lower X-ray dose levels, higher image quality, easier operability, and improved examination efficiency. Sales of general radiography systems to clinics were also strong.

As a result, the Medical Systems segment posted sales of 49,105 million yen (a year-on-year increase of 7.9 %) for the first nine months of this fiscal year, with operating income of 929 million yen (a year-on-year increase of 37.4 %), due to increased sales and other factors.

III. Aircraft Equipment

Sales increased in North America due to higher demand for small and mid-size commercial aircraft, but decreased in Japan due to decreasing aircraft component sales to the Japanese Ministry of Defense.

As a result, the Aircraft Equipment segment posted sales of 19,342 million yen (a year-on-year decrease of 0.1 %) for the first nine months of this fiscal year and operating losses of 267 million yen (compared to 153 million yen for the first nine months of the previous year).

IV. Industrial Machinery

Turbomolecular pump sales increased, mainly for use in thin-film solar cell and other coating systems in China, but overall sales decreased due to weakening market conditions for semiconductor manufacturing equipment in North America and flat panel display manufacturing equipment in South Korea. Industrial furnace sales increased, mostly in Japan, but also outside Japan, due to the strong demand for machine tools. Hydraulic equipment sales remained strong, due to the expanding forklift truck market in China and solid demand in Japan, North America, and Europe.

As a result, the Industrial Machinery segment posted sales of 34,100 million yen (a year-on-year increase of 5.1 %) for the first nine months of this fiscal year and operating income of 3,313 million yen (a year-on-year increase of 12.8 %), due to increased sales and other factors.

V. Other

Other business segments posted sales of 6,378 million yen (a year-on-year increase of 23.9 %) and operating income of 727 million yen (a year-on-year increase of 46.6 %) for the first nine months of this fiscal year.

(2) Consolidated Outlook

Business results are progressing roughly according to plan, with no significant changes from the consolidated future earnings outlook reported on May 10, 2018.

2. Consolidated Financial Statements

(1) Consolidated Balance Sheets

(In million yen)

	As of December 31, 2018	As of March 31, 2018
Assets		
Current assets:		
Cash and time deposits	¥66,363	¥76,926
Trade notes and accounts receivable	107,560	119,117
Marketable securities	—	20
Merchandise and products	44,336	40,067
Work in process	23,122	19,936
Raw materials and supplies	21,382	20,632
Other	10,771	8,931
Allowance for doubtful receivables	(1,541)	(1,409)
Total current assets	¥271,996	¥284,223
Noncurrent assets:		
Property, plant and equipment:		
Buildings and structures, net	¥39,385	¥39,985
Machinery, equipment and vehicles, net	7,288	6,713
Land	18,778	18,821
Leased assets, net	3,241	2,734
Construction in progress	6,813	3,225
Other, net	13,255	12,655
Total property, plant and equipment	¥88,764	¥84,136
Intangible fixed assets	¥10,936	¥9,234
Investments and other assets:		
Investment securities	¥12,858	¥16,464
Long-term receivables	180	159
Assets related to retirement benefits	10,338	8,010
Deferred tax assets	10,631	11,535
Other	4,359	5,129
Allowance for doubtful receivables	(341)	(344)
Total investments and other assets	¥38,028	¥40,954
Total noncurrent assets	¥137,729	¥134,325
Total assets	¥409,726	¥418,548

(In million yen)

	As of December 31, 2018	As of March 31, 2018
Liabilities		
Current liabilities:		
Trade notes and accounts payable	¥59,110	¥66,589
Short-term loans	2,458	3,135
Current portion of bonds	15,000	—
Lease obligations	1,139	1,060
Accounts payable	15,044	16,244
Income taxes payable	1,313	7,460
Allowance for employees' bonuses	3,823	8,735
Allowance for director's bonuses	189	259
Provision for loss on defense equipment	47	94
Other	20,917	18,386
Total current liabilities	¥119,045	¥121,965
Long-term liabilities:		
Unsecured bonds	—	¥15,000
Long-term debt	336	501
Lease obligations	2,419	1,986
Liability for directors' retirement benefits	128	169
Liability for retirement benefits	10,245	9,732
Liability for stock benefits	139	82
Other	1,310	1,049
Total long-term liabilities	¥14,580	¥28,522
Total liabilities	¥133,625	¥150,488
Net assets		
Shareholders' capital:		
Common stock	¥26,648	¥26,648
Additional paid-in capital	34,927	35,188
Retained earnings	209,757	198,038
Treasury stock	(1,414)	(1,410)
Total shareholders' capital	¥269,918	¥258,464
Accumulated other comprehensive income:		
Net unrealized gain on available-for-sale securities	¥4,878	¥7,440
Foreign currency translation adjustments	(1,992)	(1,998)
Cumulative adjustments to retirement benefits	3,246	3,787
Total accumulated other comprehensive income	¥6,132	¥9,229
Non-controlling interests	¥49	¥366
Total net assets	¥276,100	¥268,060
Total liabilities and net assets	¥409,726	¥418,548

(2) Consolidated Statements of Operations & of Comprehensive Income

Consolidated Statements of Operations

(In million yen)

	Nine Months Ended December 31, 2018	Nine Months Ended December 31, 2017
Net sales	¥278,218	¥263,327
Cost of sales	166,948	159,269
Gross profit	¥111,269	¥104,057
Selling, general and administrative expenses	¥83,701	¥78,620
Operating income	¥27,568	¥25,437
Other income:		
Interest income	¥194	¥175
Dividend income	270	338
Insurance payments received	403	102
Foreign exchange profit	294	—
Subsidy received	247	318
Other	525	443
Total other income	¥1,936	¥1,379
Other expenses:		
Interest expenses	¥73	¥94
Foreign exchange loss	—	2
Compensation expenses	473	296
Other	499	761
Total other expenses	¥1,046	¥1,155
Ordinary income	¥28,457	¥25,660
Extraordinary income:		
Gain on sale of investment securities	¥146	¥0
Gain on sale of property, plant and equipment	22	57
Total extraordinary income	¥169	¥57
Extraordinary losses:		
Loss on disposal of property, plant and equipment	¥278	¥109
Loss on sale of investment securities	225	—
Loss on write-down of investment securities	198	66
Impairment loss	195	—
Total extraordinary losses	¥898	¥175
Income before income taxes	¥27,728	¥25,542
Income taxes	5,758	5,935
Income taxes adjustments	2,427	1,513
Total income taxes and income taxes adjustments	¥8,185	¥7,448
Profit	¥19,542	¥18,094
Profit attributable to non-controlling interests	63	62
Profit attributable to owners of parent	¥19,479	¥18,031

Consolidated Statements of Comprehensive Income

(In million yen)

	Nine Months Ended December 31, 2018	Nine Months Ended December 31, 2017
Profit	¥19,542	¥18,094
Other comprehensive income:		
Unrealized gain/loss on available-for-sale securities	¥(2,562)	¥2,346
Foreign currency translation adjustments	(41)	3,413
Retirement benefit adjustments	(540)	(198)
Total other comprehensive income	¥(3,144)	¥5,560
Comprehensive income	¥16,398	¥23,655
(Break down)		
Comprehensive income attribute to owners of parent	¥16,368	¥23,586
Comprehensive income attribute to non-controlling interests	¥29	¥68

(3) Note on the Going-Concern Assumption

Not applicable.

(4) Segment Information

1) Income by Business Segment

From April 1st to December 31st of fiscal year ended March 31, 2019

(In million yen)

	Reportable segment					Other	Total	Adjustments	Amounts reported on the quarterly statements of income
	Analytical & Measuring Instruments	Medical Systems	Aircraft Equipment	Industrial Machinery	Total				
Net sales									
(1) Sales to customers	¥169,291	¥49,105	¥19,342	¥34,100	¥271,839	¥6,378	¥278,218	—	¥278,218
(2) Inter-segment sales	14	14	82	66	178	1,352	1,530	¥(1,530)	—
Total sales	¥169,306	¥49,120	¥19,424	¥34,166	¥272,018	¥7,731	¥279,749	¥(1,530)	¥278,218
Operating income (loss)	¥24,532	¥929	¥(267)	¥3,313	¥28,507	¥727	¥29,234	¥(1,666)	¥27,568

From April 1st to December 31st of fiscal year ended March 31, 2018

(In million yen)

	Reportable segment					Other	Total	Adjustments	Amounts reported on the quarterly statements of income
	Analytical & Measuring Instruments	Medical Systems	Aircraft Equipment	Industrial Machinery	Total				
Net sales									
(1) Sales to customers	¥160,852	¥45,517	¥19,358	¥32,452	¥258,180	¥5,146	¥263,327	—	¥263,327
(2) Inter-segment sales	29	13	63	87	194	1,219	1,413	¥(1,413)	—
Total sales	¥160,881	¥45,530	¥19,422	¥32,540	¥258,374	¥6,365	¥264,740	¥(1,413)	¥263,327
Operating income (loss)	¥22,940	¥676	¥(153)	¥2,937	¥26,401	¥496	¥26,897	¥(1,460)	¥25,437

2) Income by Geographic Segment

From April 1st to December 31st of fiscal year ended March 31, 2019

(In million yen)

Japan	The Americas	Europe	China	Other Asian countries	Other	Total
¥130,929	36,429	23,201	54,700	26,024	6,932	¥278,218

From April 1st to December 31st of fiscal year ended March 31, 2018

(In million yen)

Japan	The Americas	Europe	China	Other Asian countries	Other	Total
¥124,446	34,446	19,842	52,071	24,812	7,706	¥263,327

Note: Major countries or regions belonging to segments other than Japan are as follows.

Americas: United States of America

Europe: Great Britain, Germany

China: China

Other Asian countries: India, Southeast Asia, Republic of Korea, Taiwan

Other: Australia, Middle East, Africa