

Aug. 6, 2019

# Operating Results and Financial Position

## (For the Three Months Ended June 30, 2019)

### 1. Operating Results

#### (1) Consolidated Overview

In the three months ended June 30, 2019, 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 due to generally strong internal demand, despite weakness in some areas caused by Brexit and other issues. The Chinese economy slowed somewhat due to concerns about trade frictions with the United States. The Southeast Asian economy improved modestly despite weak activity in some areas and India's economy also improved modestly. The Japanese economy continued a moderate recovery due to improvements in employment resulting from higher corporate earnings, despite continued weakness in exports and manufacturing. The overall global economy is exhibiting a stronger slowing trend as the effects of trade frictions begin to surface.

In the midst of such circumstances, the Shimadzu Group is steadily implementing 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.

However, due to the moderately slowing economy and downturn in the semiconductor market in China, a reactionary decline from having fewer large projects than the previous year, and other factors, for the first three months of this fiscal year, the Shimadzu Group posted consolidated net sales of 80,776 million yen (a year-on-year decrease of 5.7 %), operating income of 4,463 million yen (a year-on-year decrease of 22.2 %), ordinary income of 4,481 million yen (a year-on-year decrease of 31.9 %), and profit attributable to owners of parent of 3,411 million yen (a year-on-year decrease of 21.6 %).

**The results for reportable business segments were as follows.**

#### **I. Analytical & Measuring Instruments**

In North America, sales of gas chromatographs were strong in the petrochemicals market. In Southeast Asia, liquid chromatographs and mass spectrometer system sales were strong in pharmaceuticals, government, and academia markets. Also in India, liquid chromatographs and mass spectrometer system sales were strong in the contract analysis market.

In Europe, however, net sales decreased due to market stagnation and also exchange rate effects. In Japan, sales grew and were strong for mass spectrometers in the pharmaceuticals market and testing machines in the transportation equipment market, but due to the large projects in academia and other markets included in the previous year, overall sales decreased. In China, liquid chromatograph sales were strong in the pharmaceuticals and contract analysis markets and mass spectrometer sales were also strong, but overall sales decreased, due to a major reactionary sales decline from the special demand for environmental measurement instruments in the previous year.

As a result, the Analytical & Measuring Instruments segment posted sales of 49,661 million yen (a year-on-year decrease of 3.8 %) for the first three months of this fiscal year, with operating income of 4,895 million yen (a year-on-year decrease of 13.8 %), due to decreased sales other factors.

#### **II. Medical Systems**

In Japan, sales increased, with strong sales of angiography and general radiography systems.

In North America and Europe, however, sales struggled due to decreased demand for mobile X-

ray systems and multipurpose fluoroscopy systems. In China, overall sales decreased due to project delays and more intense competition for general radiography systems resulting from preferential policies for domestic products. In Southeast Asia, fluoroscopy system sales decreased significantly due to a reactionary decline from the large projects included in the previous year.

As a result, the Medical Systems segment posted sales of 13,385 million yen (a year-on-year decrease of 5.9 %) and operating losses of 512 million yen (compared to 124 million yen in the same period of the previous year) for the first three months of this fiscal year.

### **III. Aircraft Equipment**

Commercial aircraft equipment sales increased in North America and Japanese Ministry of Defense aircraft equipment sales increased in Japan.

As a result, the Aircraft Equipment segment posted sales of 6,558 million yen (a year-on-year increase of 19.2 %) and operating losses of 144 million yen (compared to 561 million yen in the same period of the previous year) for the first three months of this fiscal year.

### **IV. Industrial Machinery**

Turbomolecular pump sales struggled due to decreased demand for semiconductor and flat panel display manufacturing equipment. Glass winder sales also decreased, due to efforts to limit investment in capital equipment in the electrical/electronic market in China. Hydraulic equipment sales decreased in China due to economic stagnation, but due to solid demand in Japan and other factors, overall sales increased slightly.

As a result, the Industrial Machinery segment posted sales of 9,320 million yen (a year-on-year decrease of 21.5 %) for the first three months of this fiscal year, with operating income of 397 million yen (a year-on-year decrease of 64.3 %), due to decreased sales other factors.

### **V. Other**

Other business segments posted sales of 1,850 million yen (a year-on-year decrease of 23.2 %) and operating income of 344 million yen (a year-on-year increase of 105.9 %) for the first three months of this fiscal year.

### **(2) Consolidated Outlook**

In terms of the future outlook, economic growth is predicted to slow due to increasing uncertainty about trade and politics. In the United States, domestic demand is expected to continue growing, but government financial stimulus policies are having less of an effect. In Europe, Brexit and other issues are fueling concerns about economic growth. In Japan, growth is stalling due to a slowdown in exports and capital investment. In China, uncertainty about economic growth is increasing due to trade frictions with the United States and other factors.

Given the business conditions described above, the Shimadzu Group intends to achieve the targets initially specified for the final year of the medium-term management plan by actively expanding sales of new products, implementing thorough expense and cost reduction measures, and increasing income.

The forecast for consolidated results reported on May 10, 2019 remains unchanged.

## 2. Consolidated Financial Statements

### (1) Consolidated Balance Sheets

(In million yen)

	As of June 30, 2019	As of March 31, 2019
<b>Assets</b>		
Current assets:		
Cash and time deposits	¥57,307	¥73,641
Trade notes and accounts receivable	103,626	126,358
Merchandise and products	46,785	42,825
Work in process	21,779	20,347
Raw materials and supplies	20,672	20,296
Other	9,046	9,107
Allowance for doubtful receivables	(1,584)	(1,671)
Total current assets	¥257,633	¥290,906
Noncurrent assets:		
Property, plant and equipment:		
Buildings and structures, net	¥46,494	¥46,798
Machinery, equipment and vehicles, net	7,784	7,826
Land	18,967	19,010
Leased assets, net	3,105	3,183
Construction in progress	1,999	2,338
Other, net	16,301	13,724
Total property, plant and equipment	¥94,653	¥92,880
Intangible fixed assets	¥11,109	¥10,830
Investments and other assets:		
Investment securities	¥12,965	¥13,562
Long-term receivables	180	174
Assets related to retirement benefits	11,306	10,480
Deferred tax assets	11,922	12,400
Other	5,741	6,296
Allowance for doubtful receivables	(341)	(341)
Total investments and other assets	¥41,775	¥42,573
Total noncurrent assets	¥147,538	¥146,284
Total assets	¥405,171	¥437,190

(In million yen)

	As of June 30, 2019	As of March 31, 2019
<b>Liabilities</b>		
Current liabilities:		
Trade notes and accounts payable	¥60,192	¥66,610
Short-term loans	2,119	2,290
Current portion of bonds	—	15,000
Lease obligations	2,097	1,160
Accounts payable	13,560	15,487
Income taxes payable	1,351	3,740
Allowance for employees' bonuses	3,492	9,095
Allowance for director's bonuses	94	281
Liability for stock benefits	171	—
Provision for loss on defense equipment	40	44
Other	22,012	19,566
Total current liabilities	¥105,132	¥133,278
Long-term liabilities:		
Long-term debt	¥171	¥247
Lease obligations	3,469	2,328
Liability for directors' retirement benefits	131	137
Liability for retirement benefits	11,990	11,938
Liability for stock benefits	—	155
Other	1,075	1,163
Total long-term liabilities	¥16,837	¥15,971
Total liabilities	¥121,969	¥149,249
<b>Net assets</b>		
Shareholders' capital:		
Common stock	¥26,648	¥26,648
Additional paid-in capital	34,926	34,927
Retained earnings	221,334	222,801
Treasury stock	(1,416)	(1,415)
Total shareholders' capital	¥281,493	¥282,962
Accumulated other comprehensive income:		
Net unrealized gain on available-for-sale securities	¥5,326	¥5,508
Foreign currency translation adjustments	(4,791)	(1,660)
Cumulative adjustments to retirement benefits	1,134	1,083
Total accumulated other comprehensive income	¥1,668	¥4,932
Non-controlling interests	¥39	¥47
Total net assets	¥283,201	¥287,941
Total liabilities and net assets	¥405,171	¥437,190

## (2) Consolidated Statements of Operations & of Comprehensive Income

### Consolidated Statements of Operations

	(In million yen)	
	Three Months Ended June 30, 2019	Three Months Ended June 30, 2018
Net sales	¥80,776	¥85,655
Cost of sales	48,449	52,797
Gross profit	¥32,326	¥32,857
Selling, general and administrative expenses	¥27,863	¥27,118
Operating income	¥4,463	¥5,739
Other income:		
Interest income	¥78	¥74
Dividend income	537	165
Insurance payments received	67	264
Foreign exchange profit	—	357
Other	168	391
Total other income	¥852	¥1,253
Other expenses:		
Interest expenses	¥31	¥29
Foreign exchange loss	541	—
Other	261	386
Total other expenses	¥834	¥416
Ordinary income	¥4,481	¥6,576
Extraordinary income:		
Gain on sale of property, plant and equipment	¥13	¥11
Total extraordinary income	¥13	¥11
Extraordinary losses:		
Loss on disposal of property, plant and equipment	¥12	¥8
Total extraordinary losses	¥12	¥8
Income before income taxes	¥4,482	¥6,579
Income taxes	465	1,382
Income taxes adjustments	609	816
Total income taxes and income taxes adjustments	¥1,075	¥2,198
Profit	¥3,407	¥4,380
Profit (loss) attributable to non-controlling interests	(4)	28
Profit attributable to owners of parent	¥3,411	¥4,352

### Consolidated Statements of Comprehensive Income

	(In million yen)	
	Three Months Ended June 30, 2019	Three Months Ended June 30, 2018
Profit	¥3,407	¥4,380
Other comprehensive income:		
Unrealized gain/loss on available-for-sale securities	¥(182)	¥(882)
Foreign currency translation adjustments	(3,061)	715
Retirement benefit adjustments	50	(194)
Total other comprehensive income	¥(3,193)	¥(360)
Comprehensive income	¥213	¥4,019
(Break down)		
Comprehensive income attributable to owners of parent	¥219	¥3,986
Comprehensive income attributable to non-controlling interests	¥(6)	¥33

### **(3) Notes on Consolidated Financial Statements**

(Note on the Going-Concern Assumption)

Not applicable.

(Change in Accounting Policy)

Starting in the first quarter of this fiscal year, some consolidated subsidiaries outside Japan are subject to IFRS 16 lease requirements. In terms of implementing the accounting standard, we are using the method of recognizing cumulative effects from applying the accounting standard on the first date the standard applies, which has been approved in interim measures.

As a result of applying the accounting standard, the “other” value reported under “property, plant and equipment” in the consolidated balance sheet reported at the beginning of the first quarter was increased by 2,262 million yen, the “lease obligations” value under “current liabilities” was increased by 839 million yen, and the “lease obligations” value under “long-term liabilities” was increased by 1,422 million yen. Assets were measured by adjusting the amount measured for lease obligations by the prepaid and unpaid lease amounts, which had no effect on the retained earnings value reported at the beginning of the period. As a result, the change will have minimal effect on operating income, ordinary income, and net sales before taxes for the first quarter of this fiscal year.

#### (4) Segment Information

##### 1) Income by Business Segment

From April 1st to June 30th of fiscal year ended March 31, 2020

(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	¥49,661	¥13,385	¥6,558	¥9,320	¥78,926	¥1,850	¥80,776	—	¥80,776
(2) Inter-segment sales	4	5	31	8	49	417	467	¥(467)	—
Total Sales	¥49,666	¥13,391	¥6,589	¥9,328	¥78,975	¥2,267	¥81,243	¥(467)	¥80,776
Operating income (loss)	¥4,895	¥(512)	¥(144)	¥397	¥4,636	¥344	¥4,980	¥(516)	¥4,463

From April 1st to June 30th 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	¥51,645	¥14,217	¥5,503	¥11,880	¥83,247	¥2,407	¥85,655	—	¥85,655
(2) Inter-segment sales	6	4	31	20	62	397	459	¥(459)	—
Total Sales	¥51,652	¥14,222	¥5,535	¥11,900	¥83,309	¥2,804	¥86,114	¥(459)	¥85,655
Operating income (loss)	¥5,679	¥(124)	¥(561)	¥1,113	¥6,107	¥167	¥6,274	¥(534)	¥5,739

##### 2) Income by Geographic Segment

From April 1st to June 30th of fiscal year ended March 31, 2020

(In million yen)

Japan	The Americas	Europe	China	Other Asian countries	Other	Total
¥37,075	11,398	6,914	14,875	8,339	2,174	¥80,776

From April 1st to June 30th of fiscal year ended March 31, 2019

(In million yen)

Japan	The Americas	Europe	China	Other Asian countries	Other	Total
¥39,676	11,881	7,011	17,436	7,595	2,053	¥85,655

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