

Nov. 9, 2020

Operating Results and Financial Position **(For the Six Months Ended September 30, 2020)**

1. Operating Results

The Accounting Standard for Revenue Recognition (Accounting Standards Board of Japan Statement No. 29, issued on March 30, 2018) and other accounting changes have been implemented on a transitional basis since the beginning of the first quarter of this fiscal year. That has affected our financial position and operating results. Details are provided in 2. Consolidated Financial Statements, (4) Notes on Consolidated Financial Statements (Accounting Policy Changes).

(1) Consolidated Overview

In the six months ended September 30, 2020, overall global economic conditions remained extraordinarily severe due to the COVID-19 pandemic, but there are signs of recovery in the second half. In Japan, corporate earnings continue to significantly decline due to the pandemic, with weak capital equipment investment activity as well, but the economy remains headed toward a recovery, mainly due to exports and personal consumption. In North America and Europe, overall conditions remain severe, but economic activity has been resuming in phases and there are indications of economic recovery. In China, the economy continues its modest recovery, due to an early resumption of economic activity and government measures to promote investment. In Southeast Asia and India, economic conditions continue to be especially severe, but the decline is slowing.

In the midst of such circumstances, Shimadzu began a new three-year medium-term management plan from April 2020, which is based on the slogan “Become a Company That Solves Challenges in Society in Collaboration with Partners All Around the World.” The entire Group will remain united in giving the highest priority to activities for preventing the spread of the novel coronavirus, while implementing measures for achieving business growth. Given the strength of Shimadzu’s liquid chromatograph and mass spectrometer businesses, which are fueling Shimadzu business growth, we will focus efforts on strengthening the foundation for achieving sustained business growth, by improving sales of such key products throughout the world and by expanding businesses with recurring revenues.

In the six months ended September 30, 2020, impacts from the COVID-19 pandemic resulted in consolidated net sales of 178,765 million yen (a year-on-year decrease of 4.1 %). However, due to thorough cost-reduction and investment-reduction measures and other efforts, operating income was 19,638 million yen (a year-on-year increase of 9.9 %), ordinary income was 19,459 million yen (a year-on-year increase of 7.6 %), and profit attributable to owners of parent was 13,916 million yen (a year-on-year increase of 5.1 %).

The results for reportable business segments were as follows.

I. Analytical & Measuring Instruments

Results were driven by strong sales in healthcare fields, such as pharmaceuticals and foods, and by the large numbers of the novel coronavirus detection kits used for infection testing in Japan. In contrast, sales have struggled in industrial fields, such as for transport equipment, and to academic institutions impacted by temporary campus closures.

As a result, the Analytical & Measuring Instruments segment posted sales of 109,757 million yen (a year-on-year decrease of 3.2 %), with increases in North America and China not sufficient to compensate for decreases in Japan, Europe, and other Asian countries, and posted operating income of 17,159 million yen (a year-on-year increase of 9.9 %), due to thorough cost-reduction measures and so on.

Net sales broken down by major regions are indicated below.

	Consolidated Results for Second Quarter of FY 2019 (million yen)	Consolidated Results for Second Quarter of FY 2020 (million yen)	Percent Increase/ Decrease (%)	Overview
Japan	45,672	42,089	-7.8	Though novel coronavirus detection kits contributed to results, sales decreased for testing machines, nondestructive inspection machines, and other products in transport equipment, chemical, and electrical goods fields. A reactionary sales decline after the rush to purchase products before the consumption tax increased last year in Japan also contributed to the decrease.
North America	12,058	12,343	2.4	Despite the impact of lockdowns during the first quarter, sales increased due to strong sales of mass spectrometer systems in clinical fields.
Europe	12,048	11,332	-5.9	Though sales of liquid chromatograph and mass spectrometer systems increased in the food safety field in Russia, overall sales in Europe decreased due to temporary academic campus closures that decreased sales to academia and other factors.
China	24,997	28,145	12.6	Sales increased due to strong sales of liquid chromatographs and mass spectrometer systems in pharmaceutical and food safety fields resulting from active government investments in fighting the pandemic, the announcement of the 2020 Chinese Pharmacopoeia scheduled in December that specifies pharmaceutical quality control, and other background factors.
Other Asian Countries	13,789	12,132	-12.0	Despite increased liquid chromatograph sales for pharmaceuticals in India, overall sales decreased due to lockdowns during the first quarter.

II. Medical Systems

Sales increased for mobile X-ray systems used to diagnose pneumonia associated with the COVID-19 pandemic, mainly outside Japan, but sales of other models struggled due to capital equipment investment plans being postponed or frozen as healthcare institutions focused on dealing with the pandemic and their profitability decreased.

As a result, the Medical Systems segment posted sales of 30,618 million yen (a year-on-year decrease of 12.2 %), with increased sales from outside Japan that were not sufficient to compensate for significantly lower sales in Japan, and posted operating income of 1,114 million yen (a year-on-year decrease of 20.9 %), due to decreased sales and other factors.

Net sales broken down by major regions are indicated below.

	Consolidated Results for Second Quarter of FY 2019 (million yen)	Consolidated Results for Second Quarter of FY 2020 (million yen)	Percent Increase/Decrease (%)	Overview
Japan	22,330	15,888	-28.8	Sales decreased due to capital equipment investment plans being postponed or frozen at hospitals, clinics, and other medical institutions, and additionally due to a reactionary sales decline after the rush to purchase products before the consumption tax increased in Japan last year.
North America	3,552	4,277	20.4	Sales increased due to increased sales of mobile X-ray systems, the consolidation of sales from sales subsidiaries acquired last year, and other factors.
Europe	1,660	2,072	24.8	Sales increased due to increased mobile X-ray system sales and were also driven by sales of general radiography systems in Eastern Europe and Russia regions.
China	2,489	2,670	7.2	Sales increased, driven by sales of mobile X-ray systems and other X-ray systems.
Other Asian Countries	2,231	2,880	29.1	Sales increased, driven by sales of mobile X-ray systems.

III. Aircraft Equipment

In Japan, sales increased due to large projects in the defense field. In North America, however, commercial aircraft equipment sales decreased significantly due to major impacts from the COVID-19 pandemic.

As a result, the Aircraft Equipment segment posted sales of 15,995 million yen (a year-on-year increase of 5.4 %) and operating income of 408 million yen (a year-on-year increase of 36.0 %), due to increased sales and other factors, with an increase in sales for the Ministry of Defense sufficient to compensate for the decrease in commercial aircraft equipment sales.

Net sales broken down by major regions are indicated below.

	Consolidated Results for Second Quarter of FY 2019 (million yen)	Consolidated Results for Second Quarter of FY 2020 (million yen)	Percent Increase/Decrease (%)	Overview
Japan	12,135	13,979	15.2	Sales increased due to large projects in the defense field.
North America	2,818	1,929	-31.6	Commercial aircraft equipment sales were impacted by a major decrease in demand.

IV. Industrial Machinery

Sales of turbomolecular pumps were strong for semiconductor manufacturing equipment, due to expanded semiconductor demand for 5G and data center applications. Sales of hydraulic equipment, industrial furnaces, glass winders, and other products struggled due to decreased capital equipment investment resulting from the COVID-19 pandemic.

As a result, the Industrial Machinery segment posted sales of 20,509 million yen (a year-on-year increase of 5.3 %), due to increased sales in regions other than Europe, and operating income of 1,709 million yen (a year-on-year increase of 52.1 %), due to increased sales and other factors.

Net sales broken down by major regions are indicated below.

	Consolidated Results for Second Quarter of FY 2019 (million yen)	Consolidated Results for Second Quarter of FY 2020 (million yen)	Percent Increase/ Decrease (%)	Overview
Japan	10,500	10,835	3.2	Sales of turbomolecular pumps increased due to strong market conditions for semiconductor manufacturing equipment. However, hydraulic equipment sales decreased, due to lower demand for forklifts and small construction machinery in response to lower capital equipment investment levels. Overall, sales increased due to a greater increase in turbomolecular pump sales than the decrease in hydraulic equipment sales.
North America	2,036	2,715	33.3	Sales increased, driven by turbomolecular pump sales based on strong market conditions for semiconductor manufacturing equipment.
Europe	1,321	1,054	-20.2	Sales decreased due to lower turbomolecular pump sales for glass coating applications.
China	3,626	3,900	7.6	Sales increased due to extended sales of turbomolecular pumps for flat panel display equipment and due to increased sales of industrial furnaces for ceramics.
Other Asian Countries	1,939	1,951	0.6	Turbomolecular pump sales increased in Korea and Taiwan, but overall sales were flat due to decreased industrial furnace sales in response to lower capital equipment investment levels.

V. Other

Due to decreased sales by a construction company subsidiary and other factors, other business segments posted sales of 1,885 million yen (a year-on-year decrease of 46.6 %) and operating income of 177 million yen (a year-on-year decrease of 70.5 %).

(2) Consolidated Outlook

Considering impacts from the COVID-19 pandemic, escalation of conflicts over technology, especially between China and the United States, and other factors, the future outlook is expected to continue being fraught with significant uncertainty. However, in terms of specific markets, demand is expected to continue expanding in pharmaceutical, public health, and semiconductor markets, and in terms of specific regions, the economy is recovering in China, so we will continue to focus efforts on expanding results in markets and regions where growth is expected.

Taking into account our progress in improving results during the first two quarters and the fact that business conditions are recovering more than previously expected, we have revised the forecast for consolidated results announced on May 20, 2020.

(In million yen)

	Consolidated Earnings Forecast for Year Ending March 2021	Percent Increase/Decrease Year-on-Year	(Reference) Previous Forecast
Net Sales	365,000	-5.3 %	340,000
Operating Income	38,000	-9.2 %	22,000
Ordinary Income	37,500	-12.1 %	22,000
Profit Attributable to Owners of Parent	27,000	-15.0 %	16,000

Note: The forecasted results above were calculated based on information available on the date this report was released. Actual results may vary from forecast values, due to various factors in the future.

2. Consolidated Financial Statements

(1) Consolidated Balance Sheets

(In million yen)

	As of September 30, 2020	As of March 31, 2020
Assets		
Current assets:		
Cash and time deposits	¥88,889	¥70,868
Trade notes and accounts receivable	95,276	119,903
Merchandise and products	58,763	46,928
Work in process	19,621	20,643
Raw materials and supplies	20,042	20,301
Other	8,627	8,806
Allowance for doubtful receivables	(1,819)	(1,811)
Total current assets	¥289,400	¥285,640
Noncurrent assets:		
Property, plant and equipment:		
Buildings and structures, net	¥46,244	¥46,485
Machinery, equipment and vehicles, net	6,772	7,103
Land	18,863	18,795
Leased assets, net	2,649	2,935
Construction in progress	7,085	6,313
Other, net	19,067	16,142
Total property, plant and equipment	¥100,682	¥97,775
Intangible fixed assets	¥12,069	¥11,441
Investments and other assets:		
Investment securities	¥15,258	¥12,008
Long-term receivables	134	149
Assets related to retirement benefits	12,437	12,147
Deferred tax assets	12,729	13,341
Other	3,811	5,466
Allowance for doubtful receivables	(352)	(352)
Total investments and other assets	¥44,019	¥42,761
Total noncurrent assets	¥156,771	¥151,977
Total assets	¥446,172	¥437,618

(In million yen)

	As of September 30, 2020	As of March 31, 2020
Liabilities		
Current liabilities:		
Trade notes and accounts payable	¥48,810	¥60,189
Short-term loans	1,717	2,081
Lease obligations	3,400	1,995
Accounts payable	11,175	13,945
Income taxes payable	2,083	4,844
Allowance for employees' bonuses	9,188	9,429
Allowance for director's bonuses	144	268
Liability for stock benefits	—	162
Provision for loss on defense equipment	—	20
Other	42,701	22,535
Total current liabilities	¥119,222	¥115,474
Long-term liabilities:		
Long-term debt	¥25	¥30
Lease obligations	5,406	3,522
Liability for directors' retirement benefits	121	144
Liability for retirement benefits	14,888	14,433
Liability for stock benefits	27	—
Other	1,097	1,237
Total long-term liabilities	¥21,566	¥19,368
Total liabilities	¥140,789	¥134,842
Net assets		
Shareholders' capital:		
Common stock	¥26,648	¥26,648
Additional paid-in capital	34,910	34,910
Retained earnings	245,207	245,254
Treasury stock	(1,256)	(1,419)
Total shareholders' capital	¥305,510	¥305,395
Accumulated other comprehensive income:		
Net unrealized gain on available-for-sale securities	¥7,027	¥4,758
Foreign currency translation adjustments	(5,554)	(5,831)
Cumulative adjustments to retirement benefits	(1,601)	(1,546)
Total accumulated other comprehensive income	¥(128)	¥(2,620)
Total net assets	¥305,382	¥302,775
Total liabilities and net assets	¥446,172	¥437,618

(2) Consolidated Statements of Operations & of Comprehensive Income

Consolidated Statements of Operations

	(In million yen)	
	Six Months Ended September 30, 2020	Six Months Ended September 30, 2019
Net sales	¥178,765	¥186,479
Cost of sales	108,830	113,498
Gross profit	¥69,935	¥72,980
Selling, general and administrative expenses	¥50,296	¥55,111
Operating income	¥19,638	¥17,869
Other income:		
Interest income	¥109	¥145
Dividend income	264	539
Insurance payments received	112	214
Subsidy received	298	349
Other	248	284
Total other income	¥1,033	¥1,533
Other expenses:		
Interest expenses	¥72	¥51
Foreign exchange loss	619	829
Other	520	439
Total other expenses	¥1,212	¥1,320
Ordinary income	¥19,459	¥18,082
Extraordinary income:		
Gain on sale of property, plant and equipment	¥37	¥28
Gain on sale of investment securities	—	74
Total extraordinary income	¥37	¥102
Extraordinary losses:		
Loss on disposal of property, plant and equipment	¥79	¥41
Loss on write-down of investment securities	61	62
Total extraordinary losses	¥141	¥104
Income before income taxes	¥19,354	¥18,080
Income taxes	3,094	3,912
Income taxes adjustments	2,343	926
Total income taxes and income taxes adjustments	¥5,438	¥4,839
Profit	¥13,916	¥13,241
Loss attributable to non-controlling interests	—	(5)
Profit attributable to owners of parent	¥13,916	¥13,246

Consolidated Statements of Comprehensive Income

	(In million yen)	
	Six Months Ended September 30, 2020	Six Months Ended September 30, 2019
Profit	¥13,916	¥13,241
Other comprehensive income:		
Unrealized gain/loss on available-for-sale securities	¥2,269	¥156
Foreign currency translation adjustments	304	(4,519)
Retirement benefit adjustments	(55)	61
Total other comprehensive income	¥2,518	¥(4,301)
Comprehensive income	¥16,435	¥8,940
(Break down)		
Comprehensive income attributable to owners of parent	¥16,435	¥8,946
Comprehensive income attributable to non-controlling interests	—	¥(6)

(3) Consolidated Statements of Cash Flows

(In million yen)

	Six Months Ended September 30, 2020	Six Months Ended September 30, 2019
Cash flows from operating activities		
Income before income taxes	¥19,354	¥18,080
Depreciation and amortization	7,577	6,530
Increase (decrease) in allowance for doubtful receivables	37	(8)
Increase (decrease) in allowance for employees' bonuses	(224)	(446)
Increase (decrease) in allowance for director's bonuses	(125)	(98)
Increase (decrease) in liability for retirement benefits	458	76
Interest and dividends income	(374)	(684)
Interest expense	72	51
Foreign exchange (gain) loss, net	17	19
Net (gain) loss on sale and valuation of investment securities	61	(11)
Net (gain) loss on sale and disposal of property, plant and equipment	42	13
(Increase) decrease in trade receivables	14,981	12,660
(Increase) decrease in inventories	222	(3,292)
Increase (decrease) in trade payables	(11,148)	(10,011)
Other, net	5,888	(1,216)
Subtotal	¥36,844	¥21,660
Interest and dividends received	375	685
Interest paid	(71)	(63)
Income taxes paid	(5,816)	(4,341)
Net cash provided by operating activities	¥31,331	¥17,941
Cash flows from investing activities		
Purchase of property, plant and equipment	¥(7,268)	¥(9,179)
Proceeds from sale of property, plant and equipment	104	174
Purchase of investment securities	(32)	(26)
Proceeds from sale of investment securities	—	270
Increase in long term receivables	(1)	(31)
Decrease in long term receivables	15	46
Purchase of subsidiary	—	(54)
Other, net	436	(2,169)
Net cash provided by (used in) investing activities	¥(6,746)	¥(10,969)
Cash flows from financing activities		
Borrowing of short-term loans	—	¥317
Repayment of short-term loans	(223)	(183)
Borrowing of long-term debt	—	18
Repayment of long-term debt	(147)	(166)
Proceeds from issuance of commercial papers	10,000	—
Redemption of commercial papers	(10,000)	—
Redemption of bonds	—	(15,000)
Cash dividends paid	(4,436)	(4,419)
Dividends payments to non-controlling interests	—	(0)
Payments from changes in ownership interests in subsidiaries that do not result in change in scope of consolidation	—	(2)
Repayment of guarantee deposits received	—	(10)
Payment of lease obligations	(1,788)	(921)
(Increase) decrease in treasury stock	162	(1)
Net cash provided by (used in) financing activities	¥(6,433)	¥(20,369)
Foreign currency translation adjustments on cash and cash equivalents	¥88	¥(2,168)
Net increase (decrease) in cash and cash equivalents	¥18,240	¥(15,567)
Cash and cash equivalents, beginning of period	¥66,683	¥70,842
Increase in cash and cash equivalents due to inclusion of subsidiaries in consolidation	—	425
Increase in cash and cash equivalents resulting from merger with unconsolidated subsidiaries	196	—
Cash and cash equivalents, end of period	¥85,119	¥55,700

(4) Notes on Consolidated Financial Statements

Notes on Going-Concern Assumptions

Not applicable.

Notes on the Event of Significant Fluctuations in Shareholders' Capital

The Accounting Standard for Revenue Recognition (Accounting Standards Board of Japan Statement No. 29, issued on March 30, 2018) and other accounting changes have been implemented on a transitional basis since the beginning of the first quarter of this fiscal year. More details are indicated in Accounting Policy Changes below.

Accounting Policy Changes

1) Accounting Standard for Revenue Recognition and Other Accounting Changes

We have been implementing the Accounting Standard for Revenue Recognition (Accounting Standards Board of Japan Statement No. 29, issued on March 30, 2018, hereinafter "Accounting Standard for Revenue Recognition") since the beginning of the first quarter of this fiscal year. The new standard recognizes revenues for goods or services based on the amount estimated to be received in exchange for such goods or services at the point when control of the promised goods or services is conveyed to the customer. The main changes involved are described below.

(1) Recognizing Revenue for Products that Require Installation

Previously, for products that contractually obligated the Shimadzu Group to provide product installation, revenue for the product itself was recognized when the product was shipped and revenue for services was recognized when installation was completed. However, after differentiating the service obligation and considering the point at which that obligation is fulfilled, based on the Accounting Standard for Revenue Recognition, it was decided that the customer obtains control of the product and the Shimadzu Group satisfies their service obligation at the point installation is complete. Consequently, we decided to recognize the revenue for both the product and service portions at that point.

(2) Recognizing Revenue for Agent Transactions

For certain transactions that only involve the Shimadzu Group as an agent in providing goods or services to a customer, the entire amount received as compensation from the customer was previously recognized as revenue, but now only the difference between the amount received from the customer and the amount paid to the supplier is recognized as revenue.

We have been implementing the Accounting Standard for Revenue Recognition transitionally, in accordance with the proviso in Article 84 of the standard, by calculating the cumulative effect of retroactively applying the new policy from before the beginning of the first quarter, adjusted for retained earnings at the beginning of the first quarter, and applying the new policy to the remaining balance at the beginning of the quarter. Furthermore, using the method specified in explanatory note (1) of Article 86 in the standard, retained earnings at the beginning of the first quarter are adjusted by the cumulative monetary effect of contract terms and conditions effective after applying all contractual changes made before the beginning of the first quarter.

As a result, consolidated net sales for the second quarter increased by 4,081 million yen, the cost of sales increased by 1,778 million yen, selling, general and administrative expenses increased by 356 million yen, and operating income, ordinary income, and income before income taxes all increased by 1,947 million yen, compared to using the previous method. Also, retained earnings at the beginning of the quarter decreased by 9,506 million yen.

2) Leases (U.S. FASB Topic 842)

Starting in the first quarter of this fiscal year, some consolidated subsidiaries outside Japan are subject to United States Financial Accounting Standards Board (FASB) lease requirements (Topic 842). In implementing the accounting standard, we are using the method of recognizing the cumulative effect of applying the accounting standard on the first date the standard applies, as accepted for interim measures.

As a result, the Other value under Property, plant and equipment in the consolidated balance sheet reported at the beginning of the first quarter increased by 1,956 million yen, the Lease obligations value under Current liabilities increased by 531 million yen, and the Lease obligations value under Long-term liabilities increased by 1,424 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 income before income taxes for the second quarter of this fiscal year.

(5) Segment Information

1) Income by Business Segment

From April 1st to September 30th of fiscal year ended March 31, 2021

(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	¥109,757	¥30,618	¥15,995	¥20,509	¥176,880	¥1,885	¥178,765	—	¥178,765
(2) Inter-segment sales	4	11	—	41	57	858	916	¥(916)	—
Total sales	¥109,761	¥30,630	¥15,995	¥20,550	¥176,938	¥2,743	¥179,682	¥(916)	¥178,765
Operating income	¥17,159	¥1,114	¥408	¥1,709	¥20,392	¥177	¥20,569	¥(931)	¥19,638

From April 1st to September 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	¥113,418	¥34,876	¥15,182	¥19,472	¥182,949	¥3,529	¥186,479	—	¥186,479
(2) Inter-segment sales	9	11	59	37	117	858	976	¥(976)	—
Total sales	¥113,428	¥34,887	¥15,241	¥19,509	¥183,067	¥4,388	¥187,455	¥(976)	¥186,479
Operating income	¥15,612	¥1,409	¥300	¥1,123	¥18,446	¥601	¥19,047	¥(1,178)	¥17,869

Changes to Reportable Segments

(Implementing the Accounting Standard for Revenue Recognition and Other Accounting Changes)

As indicated in Accounting Policy Changes, we have been implementing the Accounting Standard for Revenue Recognition and other accounting changes since the beginning of the first quarter. As a result, in the six months ended September 30, 2020, net sales for the Analytical & Measuring Instruments segment increased by 3,351 million yen and operating income increased by 1,633 million yen, compared to using the previous accounting method, net sales for the Medical Systems segment increased by 435 million yen and operating income increased by 219 million yen, and net sales for the Industrial Machinery segment increased by 295 million yen and operating income increased by 94 million yen.

2) Income by Geographic Segment

From April 1st to September 30th of fiscal year ended March 31, 2021

(In million yen)

Japan	The Americas	Europe	China	Other Asian countries	Other	Total
¥84,678	23,214	14,506	34,720	16,999	4,647	¥178,765

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

(In million yen)

Japan	The Americas	Europe	China	Other Asian countries	Other	Total
¥94,167	23,172	15,116	31,117	18,095	4,810	¥186,479

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