

Nov. 8, 2019

Operating Results and Financial Position

(For the Six Months Ended September 30, 2019)

1. Operating Results

(1) Consolidated Overview

During the first six months of this fiscal year, the Japanese economy continued a moderate recovery due to improvements in employment resulting from higher corporate earnings, despite continued weakness, especially in exports. In North America, the recovery trend continued due to an improvement in employment and personal income conditions and strong consumer spending. In contrast, the Chinese economy slowed somewhat due to concerns about trade frictions with the United States and other factors. In Europe, the economy showed weakness in some areas caused by Brexit and other issues. The economies in Southeast Asia and India showed modest recovery, but there were also areas of weakness. In the overall global economy, there is a strengthening trend of economic slowing.

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.

Consolidated results during the first six months of this fiscal year were affected by the moderate economic slowdown in China and the downturn in the semiconductor market, but solid demand in Japan resulted in posting consolidated net sales of 186,479 million yen (a year-on-year increase of 2.0 %), operating income of 17,869 million yen (a year-on-year increase of 2.5 %), ordinary income of 18,082 million yen (a year-on-year decrease of 3.2 %), and profit attributable to owners of parent of 13,246 million yen (a year-on-year increase of 2.6 %).

The results for reportable business segments were as follows.

I. Analytical & Measuring Instruments

Net sales for the Analytical & Measuring Instruments segment decreased in North America and China, but increased in Japan, Europe, Southeast Asia, and India, which resulted in strong sales overall.

In North America, sales were strong for pharmaceuticals and food applications, but sales for mass spectrometer systems used by hospitals decreased. In China, mass spectrometer sales were strong in the academia, government, and contract analysis markets, but sales of environmental measuring instruments decreased due to a major reactionary sales decline following the special demand in the previous year. Also, sales of gas chromatographs and spectrophotometers decreased due to a reactionary decline following large projects in the previous year, reluctance to invest in capital equipment, and other factors.

In Japan, however, sales of liquid chromatographs grew in government, chemical, and food fields and sales of mass spectrometer systems grew in pharmaceuticals fields, and strong sales of testing machines grew in steel, automotive, and other transport-related fields. In Europe, mass spectrometer system sales were strong, especially to Russia, due to expansion in the food field, for example. Liquid chromatograph sales were strong for pharmaceuticals in Southeast Asia and mass spectrometer system sales were strong for contract analysis in India.

As a result, the Analytical & Measuring Instruments segment posted sales of 113,418 million yen (a year-on-year increase of 2.1 %) for the first six months of this fiscal year, with operating income of 15,612 million yen (a year-on-year increase of 0.1 %), due to increased sales and other factors.

II. Medical Systems

Net sales for the Medical Systems segment decreased outside Japan, but increased significantly in Japan, which resulted in increased sales overall.

In North America, sales of general radiography systems decreased after demand stimulated by measures to promote shifting to digital technology last year continued to subside. In Europe, sales of multipurpose fluoroscopy and angiography systems decreased. In China, sales decreased due to project delays and more intense competition from domestic general radiography systems. In other Asian countries, sales of angiography systems grew in India, but sales of fluoroscopy systems decreased significantly in Southeast Asia due to a reactionary decline following the large projects in the previous year and other factors.

In Japan, however, sales of fluoroscopy, angiography, and general radiography systems for clinics were strong, due to increased demand prior to the scheduled consumption tax rate increase.

As a result, the Medical Systems segment posted sales of 34,876 million yen (a year-on-year increase of 6.8 %) for the first six months of this fiscal year, with operating income of 1,409 million yen (a year-on-year increase of 105.6 %), due to increased sales and other factors.

III. Aircraft Equipment

Net sales for the Aircraft Equipment segment were increased both within and outside Japan.

In North America, sales of commercial aircraft equipment and service parts to airline companies increased, due to strong demand for small-medium aircraft. In Japan, sales of components increased for the Japanese Ministry of Defense aircraft.

As a result, the Aircraft Equipment segment posted sales of 15,182 million yen (a year-on-year increase of 22.2 %) for the first six months of this fiscal year, with operating income of 300 million yen (compared to operating losses of 230 million yen in the same period of the previous year), due to increased sales and other factors.

IV. Industrial Machinery

Net sales for the Industrial Machinery segment were solid for hydraulic equipment, but overall Industrial Machinery sales decreased due to significantly lower turbomolecular pump and glass winder sales.

Hydraulic equipment sales decreased in North America and China due to U.S.-China trade frictions, but sales increased slightly due to solid demand in Japan and other factors.

Turbomolecular pump sales increased in Europe for the service business, but overall sales struggled due to decreased demand for semiconductor and flat panel display manufacturing equipment applications. Glass winder sales decreased in China, the largest market, due to reluctance to invest in glass fiber equipment for electronic parts and circuit boards.

As a result, the Industrial Machinery segment posted sales of 19,472 million yen (a year-on-year decrease of 14.5 %) for the first six months of this fiscal year, with operating income of 1,123 million yen (a year-on-year decrease of 49.2 %), due to decreased sales and other factors.

V. Other

Other business segments posted sales of 3,529 million yen (a year-on-year decrease of 9.7 %) and operating income of 601 million yen (a year-on-year increase of 183.8 %) for the first six months of this fiscal year.

(2) Consolidated Outlook

Though the outlook is for U.S.-China trade frictions to persist into the long term and global economic growth to slow, markets for Shimadzu businesses are not all slowing. Therefore, we will continue to invest efforts in growth fields.

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 September 30, 2019	As of March 31, 2019
Assets		
Current assets:		
Cash and time deposits	¥60,519	¥73,641
Trade notes and accounts receivable	111,341	126,358
Merchandise and products	45,175	42,825
Work in process	20,824	20,347
Raw materials and supplies	19,677	20,296
Other	7,637	9,107
Allowance for doubtful receivables	(1,610)	(1,671)
Total current assets	¥263,564	¥290,906
Noncurrent assets:		
Property, plant and equipment:		
Buildings and structures, net	¥46,445	¥46,798
Machinery, equipment and vehicles, net	7,546	7,826
Land	19,147	19,010
Leased assets, net	3,064	3,183
Construction in progress	4,995	2,338
Other, net	16,254	13,724
Total property, plant and equipment	¥97,454	¥92,880
Intangible fixed assets	¥11,202	¥10,830
Investments and other assets:		
Investment securities	¥13,217	¥13,562
Long-term receivables	152	174
Assets related to retirement benefits	12,073	10,480
Deferred tax assets	11,518	12,400
Other	5,679	6,296
Allowance for doubtful receivables	(347)	(341)
Total investments and other assets	¥42,293	¥42,573
Total noncurrent assets	¥150,950	¥146,284
Total assets	¥414,514	¥437,190

(In million yen)

	As of September 30, 2019	As of March 31, 2019
Liabilities		
Current liabilities:		
Trade notes and accounts payable	¥55,739	¥66,610
Short-term loans	2,402	2,290
Current portion of bonds	—	15,000
Lease obligations	2,052	1,160
Accounts payable	12,992	15,487
Income taxes payable	3,363	3,740
Allowance for employees' bonuses	8,624	9,095
Allowance for director's bonuses	180	281
Liability for stock benefits	184	—
Provision for loss on defense equipment	36	44
Other	20,108	19,566
Total current liabilities	¥105,685	¥133,278
Long-term liabilities:		
Long-term debt	¥114	¥247
Lease obligations	3,581	2,328
Liability for directors' retirement benefits	139	137
Liability for retirement benefits	11,844	11,938
Liability for stock benefits	—	155
Other	1,221	1,163
Total long-term liabilities	¥16,902	¥15,971
Total liabilities	¥122,587	¥149,249
Net assets		
Shareholders' capital:		
Common stock	¥26,648	¥26,648
Additional paid-in capital	34,926	34,927
Retained earnings	231,169	222,801
Treasury stock	(1,416)	(1,415)
Total shareholders' capital	¥291,328	¥282,962
Accumulated other comprehensive income:		
Net unrealized gain on available-for-sale securities	¥5,665	¥5,508
Foreign currency translation adjustments	(6,250)	(1,660)
Cumulative adjustments to retirement benefits	1,145	1,083
Total accumulated other comprehensive income	¥560	¥4,932
Non-controlling interests	¥38	¥47
Total net assets	¥291,927	¥287,941
Total liabilities and net assets	¥414,514	¥437,190

(2) Consolidated Statements of Operations & of Comprehensive Income

Consolidated Statements of Operations

(In million yen)		
	Six Months Ended September 30, 2019	Six Months Ended September 30, 2018
Net sales	¥186,479	¥182,854
Cost of sales	113,498	110,676
Gross profit	¥72,980	¥72,178
Selling, general and administrative expenses	¥55,111	¥54,740
Operating income	¥17,869	¥17,438
Other income:		
Interest income	¥145	¥129
Dividend income	539	177
Insurance payments received	214	365
Foreign exchange profit	—	682
Subsidy received	349	250
Other	284	289
Total other income	¥1,533	¥1,895
Other expenses:		
Interest expenses	¥51	¥47
Foreign exchange loss	829	—
Other	439	614
Total other expenses	¥1,320	¥661
Ordinary income	¥18,082	¥18,671
Extraordinary income:		
Gain on sale of investment securities	¥74	—
Gain on sale of property, plant and equipment	28	14
Total extraordinary income	¥102	¥14
Extraordinary losses:		
Loss on write-down of investment securities	¥62	¥198
Loss on disposal of property, plant and equipment	41	142
Impairment loss	—	195
Total extraordinary losses	¥104	¥536
Income before income taxes	¥18,080	¥18,149
Income taxes	3,912	4,690
Income taxes adjustments	926	484
Total income taxes and income taxes adjustments	¥4,839	¥5,175
Profit	¥13,241	¥12,974
Profit (loss) attributable to non-controlling interests	(5)	58
Profit attributable to owners of parent	¥13,246	¥12,916

Consolidated Statements of Comprehensive Income

(In million yen)		
	Six Months Ended September 30, 2019	Six Months Ended September 30, 2018
Profit	¥13,241	¥12,974
Other comprehensive income:		
Unrealized gain/loss on available-for-sale securities	¥156	¥(404)
Foreign currency translation adjustments	(4,519)	2,119
Retirement benefit adjustments	61	(343)
Total other comprehensive income	¥(4,301)	¥1,371
Comprehensive income	¥8,940	¥14,346
(Break down)		
Comprehensive income attributable to owners of parent	¥8,946	¥14,320
Comprehensive income attributable to non-controlling interests	¥(6)	¥25

(3) Consolidated Statements of Cash Flows

(In million yen)

	Six Months Ended September 30, 2019	Six Months Ended September 30, 2018
Cash flows from operating activities		
Income before income taxes	¥18,080	¥18,149
Depreciation and amortization	6,530	5,614
Impairment loss	—	195
Increase (decrease) in allowance for doubtful receivables	(8)	7
Increase (decrease) in allowance for employees' bonuses	(446)	(599)
Increase (decrease) in allowance for director's bonuses	(98)	(71)
Increase (decrease) in liability for retirement benefits	76	(334)
Interest and dividends income	(684)	(306)
Interest expense	51	47
Foreign exchange (gain) loss, net	19	(41)
Net (gain) loss on sale and valuation of investment securities	(11)	198
Net (gain) loss on sale and disposal of property, plant and equipment	13	127
(Increase) decrease in trade receivables	12,660	15,021
(Increase) decrease in inventories	(3,292)	(4,850)
Increase (decrease) in trade payables	(10,011)	(9,109)
Other, net	(1,216)	(308)
Subtotal	¥21,660	¥23,740
Interest and dividends received	685	306
Interest paid	(63)	(50)
Income taxes paid	(4,341)	(8,840)
Net cash provided by operating activities	¥17,941	¥15,156
Cash flows from investing activities		
Purchase of property, plant and equipment	¥(9,179)	¥(9,175)
Proceeds from sale of property, plant and equipment	174	334
Purchase of investment securities	(26)	(985)
Proceeds from sale of investment securities	270	0
Increase in long term receivables	(31)	(37)
Decrease in long term receivables	46	22
Purchase of subsidiary	(54)	(598)
Other, net	(2,169)	(1,998)
Net cash provided by (used in) investing activities	¥(10,969)	¥(12,439)
Cash flows from financing activities		
Borrowing of short-term loans	¥317	¥238
Repayment of short-term loans	(183)	(466)
Borrowing of long-term debt	18	—
Repayment of long-term debt	(166)	(606)
Redemption of bonds	(15,000)	—
Cash dividends paid	(4,419)	(3,830)
Dividends payments to non-controlling interests	(0)	(20)
Payments from changes in ownership interests in subsidiaries that do not result in change in scope of consolidation	(2)	—
Purchase of subsidiary resulting in no change in scope of consolidation	—	(617)
Repayment of guarantee deposits received	(10)	(10)
Payment of lease obligations	(921)	(622)
(Increase) decrease in treasury stock	(1)	(2)
Net cash provided by (used in) financing activities	¥(20,369)	¥(5,938)
Foreign currency translation adjustments on cash and cash equivalents	¥(2,168)	¥498
Net increase (decrease) in cash and cash equivalents	¥(15,567)	¥(2,723)
Cash and cash equivalents, beginning of period	¥70,842	¥75,090
Increase in cash and cash equivalents due to inclusion of subsidiaries in consolidation	425	251
Cash and cash equivalents, end of period	¥55,700	¥72,618

(4) 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 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, 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 (loss)	¥15,612	¥1,409	¥300	¥1,123	¥18,446	¥601	¥19,047	¥(1,178)	¥17,869

From April 1st to September 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	¥111,088	¥32,648	¥12,423	¥22,785	¥178,945	¥3,909	¥182,854	—	¥182,854
(2) Inter-segment sales	9	7	53	44	116	861	977	¥(977)	—
Total sales	¥111,097	¥32,656	¥12,476	¥22,830	¥179,061	¥4,770	¥183,832	¥(977)	¥182,854
Operating income (loss)	¥15,592	¥685	¥(230)	¥2,210	¥18,258	¥211	¥18,470	¥(1,031)	¥17,438

2) Income by Geographic Segment

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

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

(In million yen)

Japan	The Americas	Europe	China	Other Asian countries	Other	Total
¥86,742	24,933	14,618	35,724	16,250	4,586	¥182,854

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