

Nov. 6, 2018

# Operating Results and Financial Position

## (For the Six Months Ended September 30, 2018)

### 1. Operating Results

#### (1) Consolidated Overview

In the six months ended September 30, 2018, the North American economy continued its recovery trend due to an improvement in employment and personal income conditions and strong consumer spending. The European economy showed a moderate recovery despite Britain's exit from the European Union and other issues, due to generally strong internal demand. In China, government policies inhibited investment in infrastructure, but economic fundamentals remained solid, due to strong private sector investment and other factors. 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 six months of this fiscal year, the Shimadzu Group posted consolidated net sales of 182,854 million yen (a year-on-year increase of 6.3 %), operating income of 17,438 million yen (a year-on-year increase of 10.7 %), ordinary income of 18,671 million yen (a year-on-year increase of 19.6 %), and profit attributable to owners of parent of 12,916 million yen (a year-on-year increase of 14.1 %).

**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, sales of liquid chromatographs were strong in the pharmaceuticals market. In India, sales of new gas chromatograph products were steady, but sales of liquid chromatographs to the pharmaceutical industry were slow.

In Japan, mass spectrometer 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 and strong sales of new gas chromatograph products.

As a result, the Analytical & Measuring Instruments segment posted sales of 111,088 million yen (a year-on-year increase of 6.8 %) for the first six months of this fiscal year, with operating income of 15,592 million yen (a year-on-year increase of 8.6 %), due to increased sales and other factors.

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

In North America, sales of multipurpose fluoroscopy systems were strong. In Europe, sales were strong for new mobile systems with outstanding operability, resulting in steady growth of general radiography system sales. 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 fluoroscopy systems. In Southeast Asia, X-ray fluoroscopy 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 32,648 million yen (a year-on-year increase of 6.6 %) for the first six months of this fiscal year, with operating income of 685 million yen (a year-on-year increase of 3.1 %), 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. Consequently, overall sales decreased.

As a result, the Aircraft Equipment segment posted sales of 12,423 million yen (a year-on-year decrease of 5.8 %) for the first six months of this fiscal year, with operating losses remaining the same at 230 million yen, year-on-year.

### **IV. Industrial Machinery**

Sales of turbo molecular pump products continued to grow in Japan, North America, and China, mainly for use in semiconductor manufacturing equipment, and thin-film solar cell and other coating systems. Service sales also expanded, especially in North America and China. 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 22,785 million yen (a year-on-year increase of 11.4 %) for the first six months of this fiscal year, with operating income of 2,210 million yen (a year-on-year increase of 18.6 %), due to increased sales and other factors.

### **V. Other**

Other business segments posted sales of 3,909 million yen (a year-on-year increase of 4.1 %) and operating income of 211 million yen (a year-on-year increase of 68.6 %) for the first six months of this fiscal year.

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

In terms of the future outlook, the gradual economic expansion is predicted to continue, but the intensifying trade frictions between China and the United States and geopolitical risks centered in the Middle East, for example, are causing growing uncertainty about the future outlook.

Given the current business environment, business results are expected to progress roughly according to plan, with no significant changes from the consolidated earnings outlook reported on May 10, 2018.

## 2. Consolidated Financial Statements

### (1) Consolidated Balance Sheets

(In million yen)

	As of September 30, 2018	As of March 31, 2018
<b>Assets</b>		
Current assets:		
Cash and time deposits	¥76,555	¥76,926
Trade notes and accounts receivable	106,011	119,117
Marketable securities	—	20
Merchandise and products	44,483	40,067
Work in process	21,006	19,936
Raw materials and supplies	21,434	20,632
Other	8,124	8,931
Allowance for doubtful receivables	(1,493)	(1,409)
Total current assets	¥276,123	¥284,223
Noncurrent assets:		
Property, plant and equipment:		
Buildings and structures, net	¥39,746	¥39,985
Machinery, equipment and vehicles, net	7,349	6,713
Land	18,816	18,821
Leased assets, net	3,197	2,734
Construction in progress	6,052	3,225
Other, net	13,236	12,655
Total property, plant and equipment	¥88,397	¥84,136
Intangible fixed assets	¥11,050	¥9,234
Investments and other assets:		
Investment securities	¥16,564	¥16,464
Long-term receivables	179	159
Assets related to retirement benefits	9,547	8,010
Deferred tax assets	11,325	11,535
Other	4,128	5,129
Allowance for doubtful receivables	(340)	(344)
Total investments and other assets	¥41,405	¥40,954
Total noncurrent assets	¥140,853	¥134,325
Total assets	¥416,976	¥418,548

(In million yen)

	As of September 30, 2018	As of March 31, 2018
<b>Liabilities</b>		
Current liabilities:		
Trade notes and accounts payable	¥58,799	¥66,589
Short-term loans	2,551	3,135
Current portion of bonds	15,000	—
Lease obligations	1,134	1,060
Accounts payable	15,086	16,244
Income taxes payable	3,596	7,460
Allowance for employees' bonuses	8,157	8,735
Allowance for director's bonuses	187	259
Provision for loss on defense equipment	69	94
Other	20,234	18,386
Total current liabilities	¥124,817	¥121,965
Long-term liabilities:		
Unsecured bonds	—	¥15,000
Long-term debt	398	501
Lease obligations	2,375	1,986
Liability for directors' retirement benefits	120	169
Liability for retirement benefits	9,837	9,732
Liability for stock benefits	120	82
Other	1,422	1,049
Total long-term liabilities	¥14,275	¥28,522
Total liabilities	¥139,093	¥150,488
<b>Net assets</b>		
Shareholders' capital:		
Common stock	¥26,648	¥26,648
Additional paid-in capital	34,927	35,188
Retained earnings	207,026	198,038
Treasury stock	(1,413)	(1,410)
Total shareholders' capital	¥267,189	¥258,464
Accumulated other comprehensive income:		
Net unrealized gain on available-for-sale securities	¥7,036	¥7,440
Foreign currency translation adjustments	167	(1,998)
Cumulative adjustments to retirement benefits	3,443	3,787
Total accumulated other comprehensive income	¥10,647	¥9,229
Non-controlling interests	¥46	¥366
Total net assets	¥277,883	¥268,060
Total liabilities and net assets	¥416,976	¥418,548

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

### Consolidated Statements of Operations

(In million yen)

	Six Months Ended September 30, 2018	Six Months Ended September 30, 2017
Net sales	¥182,854	¥172,066
Cost of sales	110,676	104,961
Gross profit	¥72,178	¥67,104
Selling, general and administrative expenses	¥54,740	¥51,356
Operating income	¥17,438	¥15,748
Other income:		
Interest income	¥129	¥115
Dividend income	177	248
Insurance payments received	365	86
Foreign exchange profit	682	9
Subsidy received	250	—
Other	289	333
Total other income	¥1,895	¥792
Other expenses:		
Interest expenses	¥47	¥58
Compensation expenses	285	285
Other	328	579
Total other expenses	¥661	¥923
Ordinary income	¥18,671	¥15,617
Extraordinary income:		
Gain on sale of property, plant and equipment	¥14	¥49
Total extraordinary income	¥14	¥49
Extraordinary losses:		
Loss on write-down of investment securities	¥198	66
Impairment loss	195	—
Loss on disposal of property, plant and equipment	142	57
Total extraordinary losses	¥536	¥124
Income before income taxes	¥18,149	¥15,543
Income taxes	4,690	4,194
Income taxes adjustments	484	(5)
Total income taxes and income taxes adjustments	¥5,175	¥4,188
Profit	¥12,974	¥11,354
Profit attributable to non-controlling interests	58	33
Profit attributable to owners of parent	¥12,916	¥11,321

### Consolidated Statements of Comprehensive Income

(In million yen)

	Six Months Ended September 30, 2018	Six Months Ended September 30, 2017
Profit	¥12,974	¥11,354
Other comprehensive income:		
Unrealized gain/loss on available-for-sale securities	¥(404)	¥1,543
Foreign currency translation adjustments	2,119	2,503
Retirement benefit adjustments	(343)	(151)
Total other comprehensive income	¥1,371	¥3,896
Comprehensive income	¥14,346	¥15,251
(Break down)		
Comprehensive income attribute to owners of parent	¥14,320	¥15,212
Comprehensive income attribute to non-controlling interests	¥25	¥38

### (3) Consolidated Statements of Cash Flows

(In million yen)

	Six Months Ended September 30, 2018	Six Months Ended September 30, 2017
Cash flows from operating activities		
Income before income taxes	¥18,149	¥15,543
Depreciation and amortization	5,614	5,176
Impairment loss	195	—
Increase (decrease) in allowance for doubtful receivables	7	73
Increase (decrease) in allowance for employees' bonuses	(599)	(558)
Increase (decrease) in allowance for director's bonuses	(71)	(82)
Increase (decrease) in liability for retirement benefits	(334)	(317)
Interest and dividends income	(306)	(364)
Interest expense	47	58
Foreign exchange (gain) loss, net	(41)	1
Net (gain) loss on sale and valuation of investment securities	198	66
Net (gain) loss on sale and disposal of property, plant and equipment	127	8
(Increase) decrease in trade receivables	15,021	13,273
(Increase) decrease in inventories	(4,850)	(5,761)
Increase (decrease) in trade payables	(9,109)	1,060
Other, net	(308)	(815)
Subtotal	¥23,740	¥27,361
Interest and dividends received	306	364
Interest paid	(50)	(59)
Income taxes paid	(8,840)	(4,980)
Net cash provided by operating activities	¥15,156	¥22,686
Cash flows from investing activities		
Purchase of property, plant and equipment	¥(9,175)	¥(5,679)
Proceeds from sale of property, plant and equipment	334	177
Purchase of investment securities	(985)	(360)
Increase in long term receivables	(37)	(28)
Decrease in long term receivables	22	17
Investments in subsidiaries	(598)	(1,515)
Other, net	(1,998)	2,317
Net cash provided by (used in) investing activities	¥(12,439)	¥(5,071)
Cash flows from financing activities		
Borrowing of short-term loans	¥238	¥1,159
Repayment of short-term loans	(466)	—
Borrowing of long-term debt	—	50
Repayment of long-term debt	(606)	(284)
Cash dividends paid	(3,830)	(2,934)
Dividends payments to non-controlling interests	(20)	(11)
Purchase of subsidiary resulting in no change in scope of consolidation	(617)	—
Repayment of guarantee deposits received	(10)	(10)
Payment of finance lease obligations	(622)	(583)
(Increase) decrease in treasury stock	(2)	(521)
Net cash (used in) financing activities	¥(5,938)	¥(3,137)
Foreign currency translation adjustments on cash and cash equivalents	¥498	¥1,207
Net increase (decrease) in cash and cash equivalents	¥(2,723)	¥15,684
Cash and cash equivalents, beginning of period	¥75,090	¥52,762
Increase in cash and cash equivalents due to inclusion of subsidiaries in consolidation	251	—
Cash and cash equivalents, end of period	¥72,618	¥68,447

### (4) Note on the Going-Concern Assumption

Not applicable.

## (5) Segment Information

### 1) Income by Business Segment

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

From April 1st to September 30th 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	¥104,028	¥30,639	¥13,187	¥20,456	¥168,311	¥3,754	¥172,066	—	¥172,066
(2) Inter-segment sales	17	7	43	33	101	784	885	¥(885)	—
Total sales	¥104,045	¥30,646	¥13,230	¥20,490	¥168,412	¥4,538	¥172,951	¥(885)	¥172,066
Operating income (loss)	¥14,356	¥664	¥(230)	¥1,863	¥16,653	¥125	¥16,779	¥(1,031)	¥15,748

### 2) Income by Geographic Segment

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

From April 1st to September 30th of fiscal year ended March 31, 2018

(In million yen)

Japan	The Americas	Europe	China	Other Asian countries	Other	Total
¥82,725	22,502	12,491	32,853	16,400	5,093	¥172,066

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