

Feb. 5, 2021

Operating Results and Financial Position

(For the Nine Months Ended December 31, 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, (3) Notes on Consolidated Financial Statements (Accounting Policy Changes).

(1) Consolidated Overview

In the nine months ended December 31, 2020, overall global economic conditions remained severe due to the prolonged impacts from the COVID-19 pandemic, but there have been signs of general recovery since midway through the period. In Japan, corporate earnings continue to decline due to the pandemic, with weak capital equipment investment activity as well, but the economy continues to recover, mainly due to exports and personal consumption. In North America and Europe, conditions remain severe due to new waves of infections that are inhibiting economic activity. In China, the economy continues to improve, due to an early resumption of economic activity and government measures to promote investment. In Southeast Asia and India, conditions remain severe, but the decline has stopped.

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 nine months ended December 31, 2020, impacts from the COVID-19 pandemic resulted in consolidated net sales of 276,053 million yen (a year-on-year decrease of 1.1 %). However, due to cost-reductions, investment reassessment measures, and other efforts, operating income was 32,718 million yen (a year-on-year increase of 17.0 %), ordinary income was 32,494 million yen (a year-on-year increase of 12.9 %), and profit attributable to owners of parent was 23,611 million yen (a year-on-year increase of 10.4 %).

The results for reportable business segments were as follows.

I. Analytical & Measuring Instruments

Sales were strong in pharmaceutical, clinical, and other healthcare fields, with the fully-automatic PCR testing system for clinics released in November 2020 and novel coronavirus detection kits contributing to infectious disease countermeasures. In contrast, sales struggled in transport equipment and other industrial fields, due to decreasing academic projects and other factors.

As a result, the Analytical & Measuring Instruments segment posted sales of 172,583 million yen (a year-on-year increase of 0.1 %) and operating income of 28,424 million yen (a year-on-year increase of 13.2 %) due to cost-reduction measures and other factors.

Net sales broken down by major regions are indicated below.

	Consolidated Results for Third Quarter of FY 2019 (million yen)	Consolidated Results for Third Quarter of FY 2020 (million yen)	Percent Increase/Decrease (%)	Overview
Japan	66,830	65,602	-1.8	Though novel coronavirus detection kits contributed to sales, overall sales decreased due to factors such as decreased investment in capital equipment that resulted in lower sales of testing machines and nondestructive inspection machines in transport equipment and electrical goods fields.
North America	19,373	18,918	-2.3	Though sales of mass spectrometer systems increased for microorganism identification applications within hospitals, overall sales decreased due to decreased demand in the food safety field, temporary academic campus closures that decreased sales to academia, and other factors.
Europe	18,645	18,451	-1.0	Liquid chromatograph sales increased due to measures to strengthen domestic pharmaceutical production and other factors, but overall sales decreased due to lockdowns that resulted in significantly lower academia sales and other factors.
China	39,534	44,213	11.8	Sales increased due to strong sales of liquid chromatographs and mass spectrometer systems in pharmaceutical and food fields resulting from the announcement of the 2020 Chinese Pharmacopoeia in December 2020, which specifies pharmaceutical quality control requirements, stronger food safety management measures, and other factors.
Other Asian Countries	20,902	19,647	-6.0	Liquid chromatograph sales increased due to increased production of drug substances in India, but overall sales decreased due to lower government demand resulting from bidding delays in Southeast Asia, and other factors.

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 lower sales of 46,357 million yen (a year-on-year decrease of 7.9 %), but posted higher operating income of 2,014 million yen (a year-on-year increase of 55.8 %) due to cost-reduction measures and other factors.

Net sales broken down by major regions are indicated below.

	Consolidated Results for Third Quarter of FY 2019 (million yen)	Consolidated Results for Third Quarter of FY 2020 (million yen)	Percent Increase/Decrease (%)	Overview
Japan	31,110	24,073	-22.6	Sales decreased due to postponement or freezing of capital equipment investment plans by hospitals, clinics, and other healthcare institutions.
North America	5,078	6,132	20.7	Sales increased due to increased sales of mobile X-ray systems, the consolidation of the acquired distributor to strengthen business capabilities, and other factors.
Europe	2,799	3,823	36.6	Sales increased due to increased mobile X-ray system sales and also being driven by sales of general radiography systems in Eastern Europe.
China	3,599	3,999	11.1	Sales increased, driven by sales of mobile X-ray systems and other X-ray systems.
Other Asian Countries	3,830	4,187	9.3	Sales increased, driven by sales of mobile X-ray systems.

III. Aircraft Equipment

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

As a result, the Aircraft Equipment segment posted higher sales of 21,965 million yen (a year-on-year increase of 3.3 %), but posted lower operating income of 365 million yen (a year-on-year decrease of 13.2 %) due to lower commercial aircraft equipment demand and other factors.

Net sales broken down by major regions are indicated below.

	Consolidated Results for Third Quarter of FY 2019 (million yen)	Consolidated Results for Third Quarter of FY 2020 (million yen)	Percent Increase/Decrease (%)	Overview
Japan	16,955	19,188	13.2	Sales increased due to large projects in the defense field.
North America	4,004	2,610	-34.8	Sales decreased due to significantly lower demand in the commercial aircraft equipment field.

IV. Industrial Machinery

Sales of turbomolecular pumps were strong for semiconductor manufacturing equipment, due to increased demand for semiconductors. In contrast, sales of hydraulic equipment, industrial furnaces, and other products struggled due to the COVID-19 pandemic resulting in decreased investment in capital equipment.

As a result, the Industrial Machinery segment posted sales of 32,258 million yen (a year-on-year increase of 6.7 %) and operating income of 2,850 million yen (a year-on-year increase of 33.4 %) due to increased sales and other factors.

Net sales broken down by major regions are indicated below.

	Consolidated Results for Third Quarter of FY 2019 (million yen)	Consolidated Results for Third Quarter of FY 2020 (million yen)	Percent Increase/Decrease (%)	Overview
Japan	16,193	16,534	2.1	Sales increased for turbomolecular pumps used in semiconductor manufacturing equipment, which are experiencing strong sales, but sales of hydraulic equipment for forklifts and construction machinery decreased due 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	3,329	3,845	15.5	Sales increased, driven by turbomolecular pump sales based on strong market conditions for semiconductor manufacturing equipment.
Europe	1,859	1,607	-13.5	Sales decreased due to lower sales of turbomolecular pumps for glass coating systems and hydraulic equipment.
China	5,994	7,179	19.8	Sales increased due to increased sales of turbomolecular pumps for flat panel display manufacturing equipment, increased sales of hydraulic equipment for forklifts, construction machinery, and agricultural equipment resulting from government measures to stimulate domestic demand and increase infrastructure investment, and other factors.
Other Asian Countries	2,715	2,990	10.1	Sales increased due to increased service for turbomolecular pumps.

V. Other

Due to decreased sales by a construction company subsidiary and other factors, other business segments posted sales of 2,887 million yen (a year-on-year decrease of 40.1 %) and operating income of 553 million yen (a year-on-year decrease of 33.5 %).

(2) Consolidated Outlook

Considering the prolonged 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 results during the first three quarters and the fact that business conditions are recovering more than expected, we have revised the forecast for consolidated results announced on November 9, 2020.

(In million yen)

	Consolidated Earnings Forecast for Year Ending March 2021	Percent Increase/Decrease Year-on-Year	(Reference) Previous Forecast
Net Sales	385,000	-0.1 %	365,000
Operating Income	46,000	9.9 %	38,000
Ordinary Income	45,000	5.5 %	37,500
Profit Attributable to Owners of Parent	33,000	3.9 %	27,000

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 December 31, 2020	As of March 31, 2020
Assets		
Current assets:		
Cash and time deposits	¥94,208	¥70,868
Trade notes and accounts receivable	100,100	119,903
Merchandise and products	57,502	46,928
Work in process	21,195	20,643
Raw materials and supplies	19,984	20,301
Other	11,098	8,806
Allowance for doubtful receivables	(2,036)	(1,811)
Total current assets	¥302,053	¥285,640
Noncurrent assets:		
Property, plant and equipment:		
Buildings and structures, net	¥52,580	¥46,485
Machinery, equipment and vehicles, net	6,622	7,103
Land	18,855	18,795
Leased assets, net	2,457	2,935
Construction in progress	1,970	6,313
Other, net	19,227	16,142
Total property, plant and equipment	¥101,713	¥97,775
Intangible fixed assets	¥11,665	¥11,441
Investments and other assets:		
Investment securities	¥16,244	¥12,008
Long-term receivables	131	149
Assets related to retirement benefits	12,576	12,147
Deferred tax assets	10,952	13,341
Other	3,773	5,466
Allowance for doubtful receivables	(353)	(352)
Total investments and other assets	¥43,325	¥42,761
Total noncurrent assets	¥156,705	¥151,977
Total assets	¥458,758	¥437,618

(In million yen)

	As of December 31, 2020	As of March 31, 2020
Liabilities		
Current liabilities:		
Trade notes and accounts payable	¥54,289	¥60,189
Short-term loans	1,564	2,081
Lease obligations	3,464	1,995
Accounts payable	14,566	13,945
Income taxes payable	1,670	4,844
Allowance for employees' bonuses	4,466	9,429
Allowance for director's bonuses	153	268
Liability for stock benefits	—	162
Provision for loss on defense equipment	—	20
Other	45,372	22,535
Total current liabilities	¥125,547	¥115,474
Long-term liabilities:		
Long-term debt	¥22	¥30
Lease obligations	4,801	3,522
Liability for directors' retirement benefits	126	144
Liability for retirement benefits	15,466	14,433
Liability for stock benefits	56	—
Other	1,125	1,237
Total long-term liabilities	¥21,598	¥19,368
Total liabilities	¥147,145	¥134,842
Net assets		
Shareholders' capital:		
Common stock	¥26,648	¥26,648
Additional paid-in capital	34,910	34,910
Retained earnings	250,480	245,254
Treasury stock	(1,256)	(1,419)
Total shareholders' capital	¥310,782	¥305,395
Accumulated other comprehensive income:		
Net unrealized gain on available-for-sale securities	¥7,691	¥4,758
Foreign currency translation adjustments	(5,209)	(5,831)
Cumulative adjustments to retirement benefits	(1,652)	(1,546)
Total accumulated other comprehensive income	¥830	¥(2,620)
Total net assets	¥311,613	¥302,775
Total liabilities and net assets	¥458,758	¥437,618

(2) Consolidated Statements of Operations & of Comprehensive Income

Consolidated Statements of Operations

	(In million yen)	
	Nine Months Ended December 31, 2020	Nine Months Ended December 31, 2019
Net sales	¥276,053	¥279,103
Cost of sales	166,253	168,225
Gross profit	¥109,799	¥110,877
Selling, general and administrative expenses	¥77,081	¥82,919
Operating income	¥32,718	¥27,958
Other income:		
Interest income	¥146	¥212
Dividend income	332	709
Insurance payments received	142	240
Subsidy received	646	613
Other	320	375
Total other income	¥1,588	¥2,151
Other expenses:		
Interest expenses	¥111	¥64
Foreign exchange loss	965	580
Other	735	670
Total other expenses	¥1,811	¥1,315
Ordinary income	¥32,494	¥28,793
Extraordinary income:		
Gain on sale of property, plant and equipment	¥43	¥530
Gain on sale of investment securities	—	74
Total extraordinary income	¥43	¥604
Extraordinary losses:		
Loss on disposal of property, plant and equipment	¥147	¥101
Loss on write-down of investment securities	61	62
Total extraordinary losses	¥208	¥164
Income before income taxes	¥32,329	¥29,234
Income taxes	5,177	4,918
Income taxes adjustments	3,540	2,935
Total income taxes and income taxes adjustments	¥8,717	¥7,854
Profit	¥23,611	¥21,379
Loss attributable to non-controlling interests	—	(3)
Profit attributable to owners of parent	¥23,611	¥21,383

Consolidated Statements of Comprehensive Income

	(In million yen)	
	Nine Months Ended December 31, 2020	Nine Months Ended December 31, 2019
Profit	¥23,611	¥21,379
Other comprehensive income:		
Unrealized gain/loss on available-for-sale securities	¥2,933	¥1,260
Foreign currency translation adjustments	648	(2,172)
Retirement benefit adjustments	(105)	(221)
Total other comprehensive income	¥3,477	¥(1,133)
Comprehensive income	¥27,088	¥20,245
(Break down)		
Comprehensive income attributable to owners of parent	¥27,088	¥20,250
Comprehensive income attributable to non-controlling interests	—	¥(4)

(3) 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 third quarter increased by 2,224 million yen, the cost of sales increased by 522 million yen, selling, general and administrative expenses increased by 396 million yen, and operating income, ordinary income, and income before income taxes all increased by 1,304 million yen, compared to using the previous method. 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 third quarter of this fiscal year.

(4) Segment Information

1) Income by Business Segment

From April 1st to December 31st 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	¥172,583	¥46,357	¥21,965	¥32,258	¥273,165	¥2,887	¥276,053	—	¥276,053
(2) Inter-segment sales	4	18	—	51	74	1,267	1,342	(1,342)	—
Total sales	¥172,587	¥46,376	¥21,965	¥32,310	¥273,240	¥4,155	¥277,395	¥(1,342)	¥276,053
Operating income	¥28,424	¥2,014	¥365	¥2,850	¥33,654	¥553	¥34,208	¥(1,489)	¥32,718

From April 1st to December 31st 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	¥172,480	¥50,317	¥21,265	¥30,220	¥274,284	¥4,819	¥279,103	—	¥279,103
(2) Inter-segment sales	24	27	88	56	197	1,387	1,584	(1,584)	—
Total sales	¥172,504	¥50,344	¥21,354	¥30,277	¥274,481	¥6,206	¥280,687	¥(1,584)	¥279,103
Operating income	¥25,110	¥1,292	¥420	¥2,137	¥28,961	¥832	¥29,794	¥(1,835)	¥27,958

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 nine months ended December 31, 2020, net sales for the Analytical & Measuring Instruments segment increased by 2,309 million yen and operating income increased by 1,382 million yen, compared to using the previous accounting method, net sales for the Medical Systems segment decreased by 479 million yen and operating income decreased by 225 million yen, and net sales for the Industrial Machinery segment increased by 394 million yen and operating income increased by 148 million yen.

2) Income by Geographic Segment

From April 1st to December 31st of fiscal year ended March 31, 2021

(In million yen)

Japan	The Americas	Europe	China	Other Asian countries	Other	Total
¥128,283	34,477	23,985	55,398	26,886	7,021	¥276,053

From April 1st to December 31st of fiscal year ended March 31, 2020

(In million yen)

Japan	The Americas	Europe	China	Other Asian countries	Other	Total
¥135,909	35,799	23,422	49,133	27,627	7,211	¥279,103

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