

Feb. 6, 2020

Operating Results and Financial Position

(For the Nine Months Ended December 31, 2019)

1. Operating Results

(1) Consolidated Overview

In the nine months ended December 31, 2019, the Japanese economy continued a moderate recovery due to improvements in employment, despite continued weakness in exports and significantly increased weaknesses, mainly in manufacturing. 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 continued to gradually slow due to trade frictions with the United States and other factors. In Europe, the economy showed weakness caused by Brexit and other issues. The economy improved modestly in Southeast Asia, but continued to show weakness in India. In the overall global economy, there was a growing sense 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 nine 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 279,103 million yen (a year-on-year increase of 0.3 %), operating income of 27,958 million yen (a year-on-year increase of 1.4 %), ordinary income of 28,793 million yen (a year-on-year increase of 1.2 %), and profit attributable to owners of parent of 21,383 million yen (a year-on-year increase of 9.8 %).

The results for reportable business segments were as follows.

I. Analytical & Measuring Instruments

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

In Japan, sales of liquid chromatographs grew in government, chemical, and food fields and sales of mass spectrometer systems grew in government and pharmaceuticals fields, and sales of testing machines grew in steel, automotive, and other transport-related fields. In North America, the number of mass spectrometer systems used by hospitals decreased, but testing machine sales were strong, resulting in increased sales overall. In Europe, sales of mass spectrometer systems were strong for food applications in Russia, which resulted in slightly increased sales overall. In India, liquid chromatograph sales were strong for pharmaceuticals and mass spectrometer system sales were strong for contract analysis.

In China, however, though mass spectrometer system sales increased in academia, government, and contract analysis markets, sales of environmental measuring instruments decreased significantly due to a reactionary sales decline following the special demand in the previous year, and sales of gas chromatograph and spectrophotometer systems decreased due to a reactionary decline following large projects in the previous year, reluctance to invest in capital equipment, and other factors. In Southeast Asia, liquid chromatograph sales were strong for pharmaceuticals and mass spectrometer system sales decreased for government markets.

As a result, the Analytical & Measuring Instruments segment posted sales of 172,480 million yen (a year-on-year increase of 1.9 %) for the first nine months of this fiscal year, with operating income of 25,110 million yen (a year-on-year increase of 2.4 %), 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 Japan, sales of fluoroscopy, angiography, and general radiography systems for clinics were strong.

In North America, however, sales of general radiography systems decreased after demand stimulated by measures to promote shifting to digital technology 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 general-purpose fluoroscopy systems and angiography systems grew in India, but sales of general radiography systems decreased in Southeast Asia due to a reactionary decline following the large projects in the previous year and other factors.

As a result, the Medical Systems segment posted sales of 50,317 million yen (a year-on-year increase of 2.5 %) for the first nine months of this fiscal year, with operating income of 1,292 million yen (a year-on-year increase of 39.1 %), due to increased sales and other factors.

III. Aircraft Equipment

Net sales for the Aircraft Equipment segment were increased both in Japan and North America.

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 21,265 million yen (a year-on-year increase of 9.9 %) for the first nine months of this fiscal year, with operating income of 420 million yen (compared to operating losses of 267 million yen in the same period of the previous year), due to increased sales and other factors.

IV. Industrial Machinery

Overall sales for the Industrial Machinery segment were weak due to significantly lower turbomolecular pump and glass winder sales.

In Europe, turbomolecular pump sales increased for the service business, but struggled due to decreased demand for semiconductor and flat panel display manufacturing equipment applications. However, demand is recovering in the near term, mainly for semiconductor applications. For hydraulic equipment, demand has stalled in Japan due to the effects of natural disasters, and sales have decreased in North America and China due to U.S.-China trade frictions. 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 30,220 million yen (a year-on-year decrease of 11.4 %) for the first nine months of this fiscal year, with operating income of 2,137 million yen (a year-on-year decrease of 35.5 %), due to decreased sales and other factors.

V. Other

Other business segments posted sales of 4,819 million yen (a year-on-year decrease of 24.4 %) and operating income of 832 million yen (a year-on-year increase of 14.4 %) for the first nine months of this fiscal year.

(2) Consolidated Outlook

Taking into account the progress in current third quarter results and the increased uncertainty about the global economy, we have revised the forecast for consolidated results announced on May 10, 2019.

Consolidated Earnings Forecast for Year Ending March 2020 (In million yen)

	FY2019 Forecast		(Reference) Previous Forecast
		Percent Increase/Decrease Year-on-Year	
Net Sales	395,000	1.0 %	410,000
Operating Income	45,000	1.2 %	47,000
Ordinary Income	45,500	0.1 %	47,000
Profit Attributable to Owners of Parent	33,000	1.5 %	34,000

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. Some of the more significant factors include the economic circumstances in major markets (Japan, Europe, the United States, and Asia), fluctuations in product demand, and fluctuations in the foreign exchange rates.

2. Consolidated Financial Statements

(1) Consolidated Balance Sheets

(In million yen)

	As of December 31, 2019	As of March 31, 2019
Assets		
Current assets:		
Cash and time deposits	¥61,040	¥73,641
Trade notes and accounts receivable	112,874	126,358
Merchandise and products	46,935	42,825
Work in process	23,404	20,347
Raw materials and supplies	20,804	20,296
Other	9,819	9,107
Allowance for doubtful receivables	(1,820)	(1,671)
Total current assets	¥273,058	¥290,906
Noncurrent assets:		
Property, plant and equipment:		
Buildings and structures, net	¥46,467	¥46,798
Machinery, equipment and vehicles, net	7,416	7,826
Land	18,837	19,010
Leased assets, net	3,007	3,183
Construction in progress	4,133	2,338
Other, net	16,187	13,724
Total property, plant and equipment	¥96,049	¥92,880
Intangible fixed assets	¥11,510	¥10,830
Investments and other assets:		
Investment securities	¥14,838	¥13,562
Long-term receivables	151	174
Assets related to retirement benefits	12,893	10,480
Deferred tax assets	9,210	12,400
Other	5,634	6,296
Allowance for doubtful receivables	(361)	(341)
Total investments and other assets	¥42,367	¥42,573
Total noncurrent assets	¥149,927	¥146,284
Total assets	¥422,986	¥437,190

(In million yen)

	As of December 31, 2019	As of March 31, 2019
Liabilities		
Current liabilities:		
Trade notes and accounts payable	¥59,960	¥66,610
Short-term loans	2,462	2,290
Current portion of bonds	—	15,000
Lease obligations	2,081	1,160
Accounts payable	11,341	15,487
Income taxes payable	1,966	3,740
Allowance for employees' bonuses	4,142	9,095
Allowance for director's bonuses	188	281
Liability for stock benefits	198	—
Provision for loss on defense equipment	35	44
Other	24,117	19,566
Total current liabilities	¥106,495	¥133,278
Long-term liabilities:		
Long-term debt	¥57	¥247
Lease obligations	3,447	2,328
Liability for directors' retirement benefits	148	137
Liability for retirement benefits	12,709	11,938
Liability for stock benefits	—	155
Other	1,317	1,163
Total long-term liabilities	¥17,680	¥15,971
Total liabilities	¥124,176	¥149,249
Net assets		
Shareholders' capital:		
Common stock	¥26,648	¥26,648
Additional paid-in capital	34,926	34,927
Retained earnings	234,883	222,801
Treasury stock	(1,417)	(1,415)
Total shareholders' capital	¥295,041	¥282,962
Accumulated other comprehensive income:		
Net unrealized gain on available-for-sale securities	¥6,769	¥5,508
Foreign currency translation adjustments	(3,903)	(1,660)
Cumulative adjustments to retirement benefits	862	1,083
Total accumulated other comprehensive income	¥3,727	¥4,932
Non-controlling interests	¥40	¥47
Total net assets	¥298,810	¥287,941
Total liabilities and net assets	¥422,986	¥437,190

(2) Consolidated Statements of Operations & of Comprehensive Income

Consolidated Statements of Operations

	(In million yen)	
	Nine Months Ended December 31, 2019	Nine Months Ended December 31, 2018
Net sales	¥279,103	¥278,218
Cost of sales	168,225	166,948
Gross profit	¥110,877	¥111,269
Selling, general and administrative expenses	¥82,919	¥83,701
Operating income	¥27,958	¥27,568
Other income:		
Interest income	¥212	¥194
Dividend income	709	270
Insurance payments received	240	403
Foreign exchange profit	—	294
Subsidy received	613	247
Other	375	525
Total other income	¥2,151	¥1,936
Other expenses:		
Interest expenses	¥64	¥73
Foreign exchange loss	580	—
Other	670	972
Total other expenses	¥1,315	¥1,046
Ordinary income	¥28,793	¥28,457
Extraordinary income:		
Gain on sale of property, plant and equipment	¥530	¥22
Gain on sale of investment securities	74	146
Total extraordinary income	¥604	¥169
Extraordinary losses:		
Loss on disposal of property, plant and equipment	¥101	¥278
Loss on write-down of investment securities	62	198
Loss on sale of investment securities	—	225
Impairment loss	—	195
Total extraordinary losses	¥164	¥898
Income before income taxes	¥29,234	¥27,728
Income taxes	4,918	5,758
Income taxes adjustments	2,935	2,427
Total income taxes and income taxes adjustments	¥7,854	¥8,185
Profit	¥21,379	¥19,542
Profit attributable to non-controlling interests	(3)	63
Profit attributable to owners of parent	¥21,383	¥19,479

Consolidated Statements of Comprehensive Income

	(In million yen)	
	Nine Months Ended December 31, 2019	Nine Months Ended December 31, 2018
Profit	¥21,379	¥19,542
Other comprehensive income:		
Unrealized gain/loss on available-for-sale securities	¥1,260	¥(2,562)
Foreign currency translation adjustments	(2,172)	(41)
Retirement benefit adjustments	(221)	(540)
Total other comprehensive income	¥(1,133)	¥(3,144)
Comprehensive income	¥20,245	¥16,398
(Break down)		
Comprehensive income attributable to owners of parent	¥20,250	¥16,368
Comprehensive income attributable to non-controlling interests	¥(4)	¥29

(3) 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 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, 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 (loss)	¥25,110	¥1,292	¥420	¥2,137	¥28,961	¥832	¥29,794	¥(1,835)	¥27,958

From April 1st to December 31st 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	¥169,291	¥49,105	¥19,342	¥34,100	¥271,839	¥6,378	¥278,218	—	¥278,218
(2) Inter-segment sales	14	14	82	66	178	1,352	1,530	(1,530)	—
Total sales	¥169,306	¥49,120	¥19,424	¥34,166	¥272,018	¥7,731	¥279,749	¥(1,530)	¥278,218
Operating income (loss)	¥24,532	¥929	¥(267)	¥3,313	¥28,507	¥727	¥29,234	¥(1,666)	¥27,568

2) Income by Geographic Segment

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

From April 1st to December 31st of fiscal year ended March 31, 2019

(In million yen)

Japan	The Americas	Europe	China	Other Asian countries	Other	Total
¥130,929	36,429	23,201	54,700	26,024	6,932	¥278,218

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