

Highlights of Major Analytical Instruments Manufacturers' Financial Results for Fiscal Year Ended December 2020/ March 2021

The following is Japan Credit Rating Agency, Ltd. (JCR)'s perception of the current status and highlights for rating concerning the financial results for the fiscal year ended December 2020 / March 2021 (FY2020) and earnings forecasts for FY2021 of Japan's two major analytical instruments manufacturers (collectively, the "Companies"): HORIBA, Ltd. ("HORIBA") and Shimadzu Corporation ("Shimadzu").

1. Industry Trend and Impact

According to Japan Analytical Instruments Manufacturers' Association (JAIMA), the term "analytical instruments" refers to "appliances, tools, or devices that qualitatively and/or quantitatively measure the composition, properties, structure, status, etc. of substances." Instruments are classified into those for laboratories, environmental monitoring and many other categories according to the purpose of use, and used at a variety of places, such as research and testing institutions of universities, public offices, etc., manufacturers' development and production divisions and hospitals. Hence, various types of instruments have been developed for specific purposes, making the analytical instruments market an aggregation of niche markets. Because the instruments employ individually different elemental technologies and thus require product-specific know-how, manufacturers are mostly able to differentiate themselves from others in terms of business fields. Because of the nature of use for data acquisition, there is also a strong tendency that performance and reliability are prioritized. Moreover, instruments are often customized for particular users, and same kinds of such instruments tend to be used on a continuing basis. Customer bases therefore are fairly stable, despite a not-so large market size for individual instruments except for some general-purpose products. Thanks to these characteristics of the industry, markets are often oligopolistic, making barriers to entry relatively high. That said, given that a manufacturer's technical strength is directly linked to product competitiveness, maintaining and improving technological advantage is essential, which requires constant investment in research and development (R&D).

JAIMA's Statistical Data of Analytical Instruments Production/Export showed that, for FY2019 (ended March 2020) actual production and exports came to 592.0 billion yen and 414.5 billion yen, up 0.3% and 3.6% from the previous fiscal year, respectively. Despite the impact of the prolonged U.S.-China trade friction and COVID-19 pandemic, the production marked a record high for the seventh consecutive year and exports have been on a rise. For FY2020, the industry is seen to have faced a severe business environment because of a tentative delay in introduction of environmental regulations and customers' reductions in investments, among others, under the pandemic. Although it is unable to foresee when the pandemic will come to an end and attention should be kept on demand trends, the business environment is currently recovering. Moreover, JCR still considers at this point that demand for analytical instruments will grow over the medium and long term, on the grounds that environmental and safety regulations will be tightened around the globe. Amid the ongoing economic globalization, business operators are required to, for instance, comply with regulations on hazardous materials in their sales areas, necessitating processes to analyze and test various materials in every phase of operations from development and production to distribution. In addition, in emerging countries, where economic development is rising, countermeasures against environmental issues such as air pollution and water contamination, improvement of healthcare systems, and securing of safety of food and others are needed.

2. Financial Results

For FY2020 results, HORIBA recorded a decrease in both sales and income, but Shimadzu posted an increase in both. The difference of results is primarily based on the difference in their main product structures. Looking individually, HORIBA's operating income for FY2020 (ended December 2020) dropped 5.8% year on year to 19.6 billion yen, logging the second straight yearly decrease in income.

For segments, income increased in Semiconductor and Scientific, while income decreased in Automotive, Process & Environmental, and Medical segments. Factors contributed an income increase are as follows: growth in capital spending for chip production buoyed by expansion of communication data demand in Semiconductor; expansion of demand from semiconductor manufacturing equipment makers and for optical modules used in life science equipment in Scientific; effects from cost reductions, and others. On the other hand, income from Automobile significantly fell, hit by low capital expenditures of automakers. Medical reported a loss as sales dropped because of a decrease in the number of inspections using automated blood cell counters at hospital due to a fall in outpatients under the pandemic. Meanwhile, Shimadzu posted a record-high operating income of 49.7 billion yen in FY2020 (ended March 2021), up 18.9% year on year. It has seen solid sales of COVID-19 detection reagent kits and fully automatic PCR testing systems, as well as mobile X-ray photography systems for pneumonia diagnoses. In addition, sales rose for liquid chromatography and mass spectrometer systems for healthcare use and virus research. On top of that, thanks to the expansion of the semiconductor manufacturing market, sales of turbo-molecular pumps, industrial equipment, increased. A higher income was achieved through such sales increase effects, in addition to the impact of cost cuts, improved profitability and a change in the standard of revenue recognition.

On the financial front, equity capital has been increasing with periodic profits accumulated. The equity capital of HORIBA expanded over the year from 170.9 billion yen to 177.9 billion yen as of December 31, 2020, and that of Shimadzu from 302.7 billion yen to 335.5 billion yen as of March 31, 2021. Also, the Companies both remain net debt-free. Looking at capital investments in FY2020, HORIBA increased them by 2.3 billion yen from a year earlier to 15.1 billion yen, while Shimadzu decreased them by 3.2 billion yen to 14.4 billion yen. As a result, the DER at the end of FY2020 was 0.45x (0.43x a year earlier) for HORIBA and 0.03x (0.03x) for Shimadzu. Although HORIBA's DER slightly rose from a year before, net cash increased as both cash/deposits and interest-bearing debt expanded. Both of the Companies maintain a sound level of financial structure.

3. Highlights for Rating

For FY2021 earnings forecasts, both of the Companies project an increase in sales and income. HORIBA expects an operating income of 24.5 billion yen for FY2021, up 24.4% year on year. Although Automotive's income is expected to decline, an expanded income of Semiconductor would significantly drive the Company's earnings. Automotive's operating income is planned to decrease to 1.0 billion yen, down 59.4% year on year, with diminished sales due to a decline in backlog. On the other hand, Semiconductor is expected to report a record-high operating income of 20 billion yen, up 42.3% year on year, with sales to semiconductor manufacturing equipment makers kept growing. Shimadzu plans an operating income of 50.0 billion yen for FY2021, up 0.5% year on year, marking a record high for the second consecutive period. It intends to expand sales in healthcare and semiconductor areas, which are enjoying strong performance. Although the business environment is on a recovery trend for the Companies, the timing when the pandemic will come to an end is still very uncertain, and JCR is paying attention whether the Companies are able to continue improving their worsened business performance. As the Automotive sector of HORIBA needs a long lead time from order acceptance through sales booking, JCR will keep watching whether it can continue to increase orders received. The Aircraft Equipment of Shimadzu has been facing a severe business environment hit hard by the production cutbacks of commercial aircraft. It intends to proceed with further business restructuring and super cost cutting efforts. JCR will pay attention to its business moves going forward.

Both of the Companies project to expand capital expenditures for FY2021, since they carefully narrowed them down in the previous fiscal year given the pandemic. HORIBA plans to make investments of 16.5 billion yen, up 1.3 billion yen year on year, and Shimadzu expects 16.0 billion yen, up 1.5 billion yen. Despite such an increase in capex planned, JCR sees that the Companies will maintain a sound financial base by expanding equity capital and holding the substantial debt-free position.

Hiroaki Sekiguchi, Hiroshi Kawagoe

Consolidated Financial Results of Two Major Analytical Instruments Manufacturers

(JPY 100 mn, times, %)

		Net Sales	Operating Income	Ordinary Income	Net income	Interest-bearing Debt	Equity Capital	Total Assets	DER	Equity Ratio
HORIBA (6856)	FY2019	2,002	209	205	154	738	1,709	3,151	0.43	54.3
	FY2020	1,870	196	193	131	806	1,779	3,280	0.45	54.3
	FY2021F	2,100	245	240	160	—	—	—	—	—

		Net Sales	Operating Income	Ordinary Income	Net income	Interest-bearing Debt	Equity Capital	Total Assets	DER	Equity Ratio
Shimadzu (7701)	FY2019	3,854	418	426	317	76	3,027	4,376	0.03	69.2
	FY2020	3,934	497	483	360	102	3,355	4,974	0.03	67.4
	FY2021F	4,000	500	490	370	—	—	—	—	—

Source: Prepared by JCR based on financial materials of above companies

* Interest-bearing debt is the sum of borrowings, bonds and lease obligations.

<Reference>

Issuer: HORIBA, Ltd.

Long-term Issuer Rating: A+ Outlook: Stable

Issuer: Shimadzu Corporation

Long-term Issuer Rating: AA- Outlook: Stable

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