

Summary of Financial Results for the First nine months of the Fiscal Year Ending March 31, 2019

January 30, 2019

TSUGAMI CORPORATION

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Scheduled date of commencement of dividend payments: --

Quarterly results supplementary briefing materials to be created: Yes

Quarterly results investors meeting to be held: None

1. Consolidated business performance for the first nine months of the fiscal year ending March 31, 2019

(From April 1, 2018 to December 31, 2018)

(Figures are rounded down to the nearest one million yen.)

(1) Consolidated operating results (cumulative totals)

(Figures in percentages denote the year-on-year change.)

	Net sales		Operating income		Ordinary income		Net income attributable to owners of the parent	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
First nine months of the fiscal year ending March 31, 2019	50,303	19.0	7,705	54.8	7,655	62.4	※ 4,437	41.3
First nine months of the fiscal year ended March 31, 2018	42,269	38.6	4,976	139.5	4,713	124.0	3,140	48.7

(Note): Comprehensive income: First nine months of the fiscal year ending March 31, 2019: ¥3,257 million (-37.5%)

First nine months of the fiscal year ended March 31, 2018: ¥5,215 million (73.0%)

※ Net income attributable to non-controlling interests: First nine months of the fiscal year ending March 31, 2019: ¥1,262 million

First nine months of the fiscal year ended March 31, 2018: ¥160 million

	Net income per share	Net income per share after residual equity adjustment
	Yen	Yen
First nine months of the fiscal year ending March 31, 2019	84.21	82.19
First nine months of the fiscal year ended March 31, 2018	55.44	53.86

(2) Consolidated financial position

	Total assets	Net assets	Capital adequacy ratio	Net assets per share
	Million yen	Million yen	%	Yen
First nine months of the fiscal year ending March 31, 2019	64,370	37,762	48.2 (57.9)	594.15
Fiscal year ended March 31, 2018	62,362	37,516	49.8 (59.1)	585.58

(Reference): Shareholders' equity: First nine months of the fiscal year ending March 31, 2019: ¥31,016 million

Fiscal year ended March 31, 2018: ¥31,083 million

The figure in the parenthesis is the capital adequacy ratio before non-controlling interest.

2. State of dividends

(Base date)	Dividends per share				
	End of Q1	End of Q2	End of Q3	End of FY	Annual
	Yen	Yen	Yen	Yen	Yen
Fiscal year ended March 31, 2018	--	9.00	--	9.00	18.00
Fiscal year ending March 31, 2019	--	9.00	--		
Fiscal year ending March 31, 2019 (forecast)				9.00	18.00

(Note) Revision of dividend forecasts from the latest announcement: none

3. Consolidated business performance forecasts for the fiscal year ending March 31, 2019

(From April 1, 2018 to March 31, 2019)

(Percentage figures denote increases or decreases compared with the same period of the previous fiscal year.)

	Net sales		Operating income		Ordinary income		Net income attributable to owners of the parent		Net income per share
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen
Full-year	63,100	9.6	8,900	28.2	8,800	35.2	4,900	17.5	92.89

(Note) Revision of consolidated business performance forecasts from the latest announcement: none

*Notes

(1) Important changes in subsidiaries during the first nine months under review (changes in specified subsidiaries that caused the scope of consolidation to change): none

(2) Application of peculiar accounting treatment for quarterly consolidated financial statements: none

(3) Changes in accounting policy and in accounting estimates, and restatements

(i) Changes in accounting policy due to the revision of accounting standards and the like: applied

(ii) Changes in accounting policy other than those stated in item (i) above: none

(iii) Changes in accounting estimates: none

(iv) Restatements: none

(4) Numbers of outstanding shares (common shares)

(i) Numbers of outstanding shares at the end of the terms

(including treasury stock):

(ii) Numbers of treasury shares at the end of the terms:

(iii) Average numbers of shares outstanding during the periods

(quarterly consolidated accumulation periods):

First nine months of FY2018	55,000,000 shares	FY2017	55,000,000 shares
First nine months of FY2018	2,797,906 shares	FY2017	1,918,101 shares
First nine months of FY2018	52,695,488 shares	First nine months of FY2017	56,637,936 shares

* This quarterly financial summary falls outside the scope of quarterly reviews.

* Explanations for the appropriate use of business forecasts and other items warranting special mention

The forward-looking statements, including business forecasts, included in this document are based on information available on the date of announcement and certain assumptions we consider reasonable. Actual performance may differ materially from the statements due to a range of factors. For assumptions for business forecasts and notes on the use of business forecasts, please refer to [1. Qualitative Information Relating to Consolidated Quarterly Results, Etc., (3) Information Relating to Consolidated Business Performance Forecasts] on page 2 of the accompanying documents of this summary of financial results for the first nine months.

Accompanying Documents

Contents

1. Qualitative Information Relating to Consolidated Quarterly Results, Etc	2
(1) Information Relating to Consolidated Operating Results	2
(2) Information Relating to the Consolidated Financial Position	2
(3) Information Relating to Consolidated Business Performance Forecasts	2
2. Quarterly Consolidated Financial Statements and Significant Notes	3
(1) Quarterly Consolidated Balance Sheets	3
(2) Quarterly Consolidated Statements of Income and Comprehensive Income	5
Quarterly Consolidated Statements of Income	5
Quarterly Consolidated Statements of Comprehensive Income	6
(3) Consolidated Statements of Cash Flows	7
(4) Notes relating to the Quarterly Consolidated Financial Statements	9
(Notes relating to the going concern assumption)	9
(Notes for cases where shareholders' equity underwent a major change in value)	9
(Changes in accounting policy)	9
(Others)	9
(Segment information)	10
3. Supplementary Information	11
(1) Overseas net sales	11
(2) Net sales by machinery category	11

1. Qualitative Information Relating to Consolidated Quarterly Results, Etc.

(1) Information Relating to Consolidated Operating Results

For the first nine months under review, the Group's operating results increased in both revenue and earnings. Net sales increased 19.0% year on year, to ¥50,303 million, operating income increased 54.8% year on year, to ¥7,705 million, ordinary income rose 62.4% year on year, to ¥7,655 million and net income attributable to owners of parent increased 41.3% year on year, to ¥4,437 million.

(2) Information Relating to the Consolidated Financial Position

(i) State of assets, liabilities and net assets

Assets totaled ¥64,370 million at the end of the first nine months under review, increasing ¥2,007 million from the end of the previous fiscal year. The increase resulted primarily from increases of ¥6,182 million in inventories, ¥626 million in construction in progress and ¥454 million in intangible assets, which offset decreases of ¥2,510 million in investment securities, ¥1,402 million in cash and deposits and ¥1,113 million in trade notes and accounts receivable.

Liabilities came to ¥26,607 million, up ¥1,762 million from the end of the previous fiscal year. The result was mainly attributable to increases of ¥1,800 million in short-term loans payable and ¥1,153 million in trade notes and accounts payable, which offset decreases of ¥714 million in deferred tax liabilities and ¥639 million in advances received.

Net assets stood at ¥37,762 million at the end of the first nine months under review, increasing ¥245 million from the end of the previous fiscal year. The increase mainly reflected an increase of ¥3,082 million in retained earnings offsetting decreases of ¥892 million in treasury stock and ¥1,791 million in valuation difference on available-for-sale securities.

As a result of the changes stated above, the capital adequacy ratio came to 48.2%, declining 1.6 percentage points from the end of the previous fiscal year.

(ii) State of cash flows

Cash and cash equivalents amounted to ¥8,852 million at the end of the first nine months under review, decreasing ¥1,328 million from the end of the previous fiscal year.

(Cash flows from operating activities)

Cash generated through operating activities was ¥1,207 million.

The result principally reflected increases in cash, including a net income before taxes and other adjustments of ¥7,665 million, depreciation and amortization of 746 million and ¥1,546 million increase in trade notes and accounts payable, which offset decreases in cash, such as a ¥6,572 million increase in inventories and ¥2,025 million in corporate and other taxes paid.

(Cash flows from investing activities)

Cash used for investing activities was ¥1,233 million.

The cash outflow was primarily attributable to decreases in cash for the purchase of property, plant and equipment of ¥1,042 million and for the purchase of intangible assets of ¥481 million.

(Cash flows from financing activities)

Cash used for financing activities was ¥1,301 million.

The cash outflow resulted mainly from decreases in cash, including a ¥1,597 million spent on the purchase of treasury stock, dividends paid of ¥951 million and dividends paid to non-controlling interests of ¥574 million, which offset increase in cash, a ¥1,800 million increase in short-term loans payable.

(3) Information Relating to Consolidated Business Performance Forecasts

The consolidated business performance forecasts for the fiscal year ending March 31, 2019 remain unchanged from the Notice of Revisions to Business Performance Forecasts published on November 12, 2018.

We plan to pay annual dividends of 18 yen per share according to our initial plan, including interim dividends of 9 yen per share and year-end dividends of 9 yen per share, for the fiscal year ending March 31, 2019.

2. Quarterly Consolidated Financial Statements and Significant Notes

(1) Quarterly Consolidated Balance Sheets

(Million yen)

	Figures at the end of the previous consolidated fiscal year (As of March 31, 2018)	Figures at the end of the consolidated first nine months under review (As of December 31, 2018)
Assets		
Current assets		
Cash and deposits	10,286	8,883
Trade notes and accounts receivable	14,482	13,369
Merchandise and finished goods	7,063	10,453
Work in process	4,953	6,311
Raw materials and supplies	5,347	6,781
Consumption taxes receivable	1,046	1,339
Other	516	551
Allowance for doubtful accounts	-56	-52
Total current assets	43,639	47,639
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	4,985	4,772
Machinery, equipment and vehicles, net	3,029	2,660
Land	409	406
Leased assets, net	9	22
Construction in progress	416	1,043
Other, net	294	265
Total property, plant and equipment	9,145	9,170
Intangible assets	696	1,150
Investments and other assets		
Investment securities	8,278	5,768
Shares of subsidiaries and associates	11	11
Investments in capital of subsidiaries and associates	67	66
Long-term loans receivable	3	--
Deferred tax assets	235	275
Other	282	287
Total investments and other assets	8,879	6,409
Total non-current assets	18,722	16,730
Total assets	62,362	64,370

(Million yen)

	Figures at the end of the previous consolidated fiscal year (As of March 31, 2018)	Figures at the end of the consolidated first nine months under review (As of December 31, 2018)
Liabilities		
Current liabilities		
Trade notes and accounts payable	14,035	15,189
Short-term loans payable	3,200	5,000
Advances received	2,166	1,526
Income taxes payable	1,068	986
Provision for bonuses	275	309
Provision for product warranties	457	530
Other	1,618	1,528
Total current liabilities	22,821	25,070
Non-current liabilities		
Deferred tax liabilities	1,256	541
Provision for directors' retirement benefits	21	24
Net defined benefit liability	716	718
Other	29	252
Total non-current liabilities	2,024	1,536
Total liabilities	24,845	26,607
Net assets		
Shareholders' equity		
Capital stock	12,345	12,345
Capital surplus	2,806	2,806
Retained earnings	13,257	16,340
Treasury stock	-1,814	-2,707
Total shareholders' equity	26,594	28,784
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	4,149	2,357
Foreign currency translation adjustment	409	-67
Remeasurements of defined benefit plans	-69	-58
Total accumulated other comprehensive income	4,489	2,232
Subscription rights to shares	656	468
Non-controlling interests	5,776	6,277
Total net assets	37,516	37,762
Total liabilities and net assets	62,362	64,370

(2) Quarterly Consolidated Statements of Income and Comprehensive Income
(Quarterly Consolidated Statements of Income)

	(Million yen)	
	Consolidated first nine months previous year (From April 1, 2017 to December 31, 2017)	Consolidated first nine months under review (From April 1, 2018 to December 31, 2018)
Net sales	42,269	50,303
Cost of sales	31,583	35,002
Gross profit	10,685	15,301
Selling, general and administrative expenses		
Salaries and allowances	1,321	1,555
Provision of allowance for doubtful accounts	15	--
Provision for bonuses	90	130
Retirement benefit expenses	44	37
Provision for directors' retirement benefits	1	2
Research and development expenses	1,053	2,217
Insurance expenses	128	144
Provision for product warranties	399	472
Other	2,654	3,035
Total selling, general and administrative expenses	5,709	7,596
Operating income	4,976	7,705
Non-operating income		
Interest income	27	92
Dividend income	156	213
Foreign exchange gains	86	--
Reversal of allowance for doubtful accounts	--	4
Insurance income	57	57
Other	38	37
Total non-operating income	366	406
Non-operating expenses		
Interest expenses	115	47
Loss on sales of notes receivable	136	61
Commission fee	300	--
Foreign exchange losses	--	270
Share of loss of entities accounted for using equity method	0	--
Other	76	76
Total non-operating expenses	628	456
Ordinary income	4,713	7,655
Extraordinary income		
Gain on sales of non-current assets	35	--
Gain on sales of investment securities	97	--
Gain on sales of investments in capital of affiliate	81	--
Gain on reversal of subscription rights to shares	2	--
Subsidy income	18	61
Total extraordinary income	235	61
Extraordinary losses		
Loss on retirement of non-current assets	269	6
Loss on sales of non-current assets	5	3
Impairment loss	--	40
Loss from performance of warranty against defects	30	--
Total extraordinary losses	305	50
Income before taxes and other adjustments	4,644	7,665
Corporate, inhabitant and enterprise taxes	1,269	2,008
Deferred taxes	73	-42
Total corporate and other taxes	1,343	1,965
Net income	3,300	5,700
Net income attributable to non-controlling interests	160	1,262
Net income attributable to owners of parent	3,140	4,437

(Quarterly Consolidated Statements of Comprehensive Income)

(Million yen)

	Consolidated first nine months previous year (From April 1, 2017 to December 31, 2017)	Consolidated first nine months under review (From April 1, 2018 to December 31, 2018)
Net income	3,300	5,700
Other comprehensive income		
Valuation difference on available-for-sale securities	1,185	-1,791
Foreign currency translation adjustment	688	-662
Remeasurements of defined benefit plans, net of tax	21	11
Share of other comprehensive income of entities accounted for using equity method	19	--
Total other comprehensive income	1,914	-2,443
Comprehensive income	5,215	3,257
(Breakdown)		
Comprehensive income attributable to owners of parent	4,994	2,180
Comprehensive income attributable to non-controlling interests	220	1,077

(3) Consolidated Statements of Cash Flows

	(Million yen)	
	Consolidated first nine months previous year (From April 1, 2017 to December 31, 2017)	Consolidated first nine months under review (From April 1, 2018 to December 31, 2018)
Cash flows from operating activities		
Net income before taxes and other adjustments	4,644	7,665
Depreciation and amortization	730	746
Impairment loss	--	40
Gain on reversal of subscription rights to shares	-2	--
Share-based compensation expenses	94	89
Subsidy income	-18	-61
Increase (decrease) in allowance for doubtful accounts	15	-4
Increase (decrease) in provision for bonuses	-13	34
Increase (decrease) in provision for product warranties	58	82
Increase (decrease) in net defined benefit liability	12	2
Interest and dividend income	-184	-306
Commission fee	300	--
Interest expenses	115	47
Loss on retirement of non-current assets	269	6
Share of (profit) loss of entities accounted for using equity method	0	--
Loss (gain) on sales of non-current assets	-30	3
Loss (gain) on sales of investment securities	-97	--
Gain on sales of investments in capital of affiliate	-81	--
Loss from performance of warranty against defects	30	--
Foreign exchange losses (gains)	-20	20
Decrease (increase) in trade notes and accounts receivable	-1,695	621
Decrease (increase) in inventories	-63	-6,572
Decrease (increase) in advance payments	88	74
Increase (decrease) in trade notes and accounts payable	2,661	1,546
Increase (decrease) in advances received	910	-549
Decrease (increase) in consumption taxes refund receivable	75	-302
Other	222	-240
Subtotal	8,022	2,946
Interest and dividend income received	160	273
Interest expenses paid	-130	-47
Proceeds from subsidy income	18	61
Payments for performance of warranty against defects	-4	--
Corporate and other taxes paid	-941	-2,025
Cash flows from operating activities	7,123	1,207
Cash flows from investing activities		
Payments into time deposits	-104	-21
Proceeds from withdrawal of time deposits	104	94
Proceeds from withdraw of deposit	200	--
Purchase of property, plant and equipment	-563	-1,042
Proceeds from sales of property, plant and equipment	83	5
Payments for retirement of property, plant and equipment	-2	-0
Purchase of intangible assets	-20	-481
Purchase of investment securities	-1	-1
Proceeds from sales of investment securities	183	--
Collection of investments in capital	152	--
Proceeds from subsidy income	--	210
Other	-2	3
Cash flows from investing activities	28	-1,233

(Million yen)

	Consolidated first nine months previous year (From April 1, 2017 to December 31, 2017)	Consolidated first nine months under review (From April 1, 2018 to December 31, 2018)
Cash flows from financing activities		
Net increase (decrease) in short-term loans payable	-1,848	1,800
Proceeds from sales of Treasury stock	204	26
Purchase of Treasury stock	-6,124	-1,597
Cash dividends paid	-978	-951
Dividends paid to non-controlling interests	--	-574
Repayments of lease obligations	-6	-6
Payment for Commission fee	-331	--
Proceeds from changes in ownership interests in subsidiaries that do not result in change in scope of consolidation	2,288	--
Proceeds from share issuance to non-controlling shareholders	5,667	--
Cash flows from financing activities	-1,129	-1,301
Effect of exchange rate change on cash and cash equivalents	112	-0
Net increase (decrease) in cash and cash equivalents	6,134	-1,328
Cash and cash equivalents at the beginning of the term	4,561	10,181
Cash and cash equivalents at the end of the term	10,695	8,852

(4) Notes relating to the Quarterly Consolidated Financial Statements

(Notes relating to the going concern assumption)

No corresponding item exists.

(Notes for cases where shareholders' equity underwent a major change in value)

No corresponding item exists.

(Changes in accounting policy)

(Adoption of IFRS 15 [Revenue from Contracts with Customers])

Overseas Subsidiaries that Prepare Financial Statements in accordance with International Financial Reporting Standards apply IFRS 15 [Revenue from Contracts with Customers] from the first quarter of the fiscal year under review.

Due to this application, recognition standards for revenue have been revised, revenue is now recognized at the time the agreed upon goods or services are transferred to the customer, as amounts that reflect the consideration for which rights are expected to be acquired in exchange for said goods or services.

Regarding the application of IFRS 15, in line with the treatments in progress of the IFRS 15, the amount of the cumulative effect has been added or subtracted from retained earnings at the beginning of the fiscal year under review.

As the result, retained earnings at the beginning of the fiscal year under review decreased by ¥4 million. Net sales for the first nine months under review increased by ¥7 million and operating income, ordinary income and income before income taxes and other adjustments increased by ¥1 million respectively.

(Others)

(Application of the partial amendments to Accounting Standard on Tax Effect Accounting, etc.)

The partial amendments to Accounting Standard on Tax Effect Accounting (ASBJ No.28 on February 16, 2018) has been applied from the first nine months under review. Deferred tax assets are presented in the Investments and other assets of the balance sheets and deferred tax liabilities in the Non-current liabilities.

(Segment information)

I. Consolidated first nine months previous year (From April 1, 2017 to December 31, 2017)

1. Information relating to net sales, income or loss by reportable segment (Million yen)

	Reportable segment			
	Japan	China	South Korea	Total
Net sales				
Net sales to external customers	19,539	21,657	1,071	42,269
Intersegment net sales or transfer to other accounts	5,513	8,330	15	13,859
Total	25,053	29,987	1,087	56,128
Segment income	1,295	3,681	71	5,048

2. Total income or loss for reportable segments, its difference from the amount stated in quarterly consolidated statements of income, and major factors for the difference (Items relating to difference adjustment)

(Million yen)

Income	Amount
Total income for reportable segments	5,048
Elimination of unrealized income and others	-72
Operating income in quarterly consolidated statements of income	4,976

II. Consolidated first nine months under review (from April 1, 2018 to December 31, 2018)

1. Information relating to net sales, income or loss by reportable segment (Million yen)

	Reportable segment				
	Japan	China	India	South Korea	Total
Net sales					
Net sales to external customers	21,718	25,522	2,345	716	50,303
Intersegment net sales or transfer to other accounts	7,726	11,844	5	39	19,616
Total	29,445	37,367	2,351	756	69,920
Segment income (loss)	1,610	6,212	157	-9	7,970

2. Total income or loss for reportable segments, its difference from the amount stated in quarterly consolidated statements of income, and major factors for the difference (Items relating to difference adjustment)

(Million yen)

Income	Amount
Total income for reportable segments	7,970
Elimination of unrealized income and others	-265
Operating income in quarterly consolidated statements of income	7,705

3. Information relating to changes in reportable segment, etc.

(Adoption of IFRS 15 [Revenue from Contracts with Customers])

As stated in [Changes to accounting policy], Overseas Subsidiaries that Prepare Financial Statements in accordance with International Financial Reporting Standards adopt IFRS 15 [Revenue from Contracts with Customers].

As the result, segment sales in China, one of the Company's reportable segments, increased by ¥7 million and segment income increased by ¥1 million in this first nine months compared with each figure based on the former method.

(Change in reportable segment classifications)

In the previous consolidated fiscal year, the Group has newly added its reportable segments India because TSUGAMI PRECISION ENGINEERING INDIA PRIVATE LIMITED is included in consolidated subsidiaries.

3. Supplementary Information

(1) Overseas net sales

Consolidated first nine months under review (From April 1, 2018 to December 31, 2018) (Million yen)

	Asia	America	Europe	Total
I Overseas net sales	33,664	3,013	4,511	41,188
II Consolidated net sales				50,303
III Ratio of overseas net sales to consolidated net sales (%)	66.9	6.0	9.0	81.9

(Note) 1. National or regional classifications are based on geographic proximity.

2. Major countries or regions in each classification

(1) Asia..... China, Thailand, South Korea, Singapore, the Philippines and India

(2) America.... the United States and Mexico

(3) Europe..... Switzerland, Germany, France and Italy

3. Overseas net sales refer to net sales achieved by the Company and its consolidated subsidiaries in countries or regions other than Japan.

(2) Net sales by machinery category

(Million yen)

	Consolidated first nine months previous year (From April 1, 2017 to December 31, 2017)		Consolidated first nine months under review (From April 1, 2018 to December 31, 2018)		Year-on-year change	
		%		%		%
Automatic lathes	34,697	82.1	43,167	85.8	8,469	24.4
Grinding machines	3,012	7.1	3,782	7.5	769	25.5
Machining centers	239	0.6	388	0.8	148	61.8
Rolling machines and specialized machines.	4,066	9.6	2,714	5.4	-1,351	-33.2
Other	253	0.6	251	0.5	-1	-0.7
Total	42,269	100.0	50,303	100.0	8,034	19.0
(Overseas net sales)	(33,176)	(78.5)	(41,188)	(81.9)	(8,011)	(24.2)