

Summary of Financial Results for the First Quarter of the Fiscal Year Ending March 31, 2020

July 30, 2019

TSUGAMI CORPORATION

Stock code: 6101

Representative: Takao Nishijima, Chairman and C.E.O

Contact: Toshio Honma, Co-COO ADMINISTRATION

Listings: Tokyo Stock Exchange

URL: <http://www.tsugami.co.jp>

Tel: +81-3-3808-1711

Scheduled quarterly report submission date: August 9, 2019

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 quarter of the fiscal year ending March 31, 2020

(From April 1, 2019 to June 30, 2019)

(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.)

	Revenue		Operating profit		Profit before tax		Profit		Profit attributable to owners of the parent		Total comprehensive income for the quarter	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Million yen	%
Q1 of the fiscal year ending March 31, 2020	14,810	-17.9	1,971	-31.0	1,952	-33.4	1,364	-35.2	1,073	-32.1	161	-85.8
Q1 of the fiscal year ended March 31, 2019	18,033	--	2,856	--	2,933	--	2,106	--	1,580	--	1,130	--

	Basic earnings per share		Diluted earnings per share	
	Yen		Yen	
Q1 of the fiscal year ending March 31, 2020	20.70		20.28	
Q1 of the fiscal year ended March 31, 2019	29.85		29.18	

(2) Consolidated financial position

	Total assets	Total equity	Equity attributable to owners of the parent	Percentage of equity attributable to owners of the parent
	Million yen	Million yen	Million yen	%
Q1 of the fiscal year ending March 31, 2020	68,541	39,652	32,864	47.9 (57.9)
Fiscal year ended March 31, 2019	69,692	40,072	33,244	47.7 (57.5)

(Reference): The figures in parentheses are the ratios of total equity (sum of equity attributable to owners of the parent and non-controlling interests).

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, 2019	--	9.00	--	12.00	21.00
Fiscal year ending March 31, 2020	--				
Fiscal year ending March 31, 2020 (forecast)		12.00	--	12.00	24.00

(Note) Revision of dividend forecasts for the quarter under review: none

3. Consolidated business performance forecasts for the fiscal year ending March 31, 2020

(From April 1, 2019 to March 31, 2020)

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

	Revenue		Operating profit		Profit attributable to owners of the parent		Basic earnings per share
	Million yen	%	Million yen	%	Million yen	%	Yen
First half	31,000	--	4,350	--	2,550	--	49.19
Full-year	61,000	-10.9	8,500	-16.8	5,000	-19.3	96.44

(Note) Revision of consolidated business performance forecasts for the quarter under review: none

*Notes

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

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

(i) Changes in accounting policies required by IFRS: applied

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

(iii) Changes in accounting estimates: none

(3) 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):

Q1 of FY2019	55,000,000 shares	FY2018	55,000,000 shares
Q1 of FY2019	3,114,047 shares	FY2018	3,192,312 shares
Q1 of FY2019	51,846,887 shares	Q1 of FY2018	52,938,263 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 quarter.

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. Condensed Quarterly Consolidated Financial Statements and Significant Notes	3
(1) Condensed Quarterly Consolidated Statement of Financial Position	3
(2) Condensed Quarterly Consolidated Statement of Profit or Loss and Comprehensive Income	5
Condensed Quarterly Consolidated Statement of Profit or Loss	5
Condensed Quarterly Consolidated Statement of Comprehensive Income	6
(3) Condensed Quarterly Consolidated Statement of Changes in Equity	7
(4) Condensed Quarterly Consolidated Statement of Cash Flows	9
(5) Notes relating to Condensed Quarterly Consolidated Financial Statements	10
(Notes relating to the going concern assumption)	10
(Changes in accounting policy)	10
(Segment information)	11
3. Supplementary Information	12
(1) Overseas revenue	12
(2) Net sales by machinery category	12

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

(1) Information Relating to Consolidated Operating Results

In the first quarter of the fiscal year under review, both revenue and earnings decreased, including revenue falling 17.9% year on year, to ¥14,810 million, operating profit declining 31.0% year on year, to ¥1,971 million, and profit attributable to owners of the parent dropping 32.1% year on year, to ¥1,073 million due to the inventory adjustment phase that began in each market.

(2) Information Relating to the Consolidated Financial Position

(i) State of assets, liabilities and net assets

Assets totaled ¥68,541 million at the end of the first quarter under review, decreasing ¥1,150 million from the end of the previous fiscal year.

The decrease resulted primarily from a fall of ¥1,625 million in inventories, ¥900 million in trade and other receivables, and ¥792 million in other current assets, which more than offset an increase of ¥1,163 million in cash and cash equivalents and ¥554 million in property, plant and equipment.

Liabilities totaled ¥28,888 million at the end of the first quarter under review, decreasing ¥731 million from the end of the previous fiscal year.

The result was mainly attributable to a decrease of ¥970 million in trade and other payables and ¥598 million in contract liabilities, which more than offset an increase of ¥299 million in income taxes payable.

Equity totaled ¥39,652 million at the end of the first quarter under review, decreasing ¥419 million from the end of the previous fiscal year.

This was largely due to a fall of ¥873 million in other components of equity, which more than offset an increase of ¥429 million in retained earnings. The decrease in other components of equity includes ¥834 million in exchange differences on translation of foreign operations and ¥38 million in financial assets measured at fair value through other comprehensive income.

(ii) State of cash flows during the quarter under review

Cash and cash equivalents amounted to ¥12,276 million at the end of the first quarter under review, increasing ¥1,163 million from the end of the previous fiscal year. A description of each cash flow during the first quarter was as follows:

(Cash flows from operating activities)

Cash generated through operating activities was ¥3,558 million.

The result principally reflected an increase in cash, including profit before tax of ¥1,952 million, a decrease of ¥1,181 million in trade and other receivables, and a fall of ¥992 million in inventories, and a decrease in cash due to a decline of ¥544 million in contract liabilities.

(Cash flows from investing activities)

Cash used for investing activities was ¥1,315 million.

The cash outflow was primarily attributable to decrease in cash for the purchase of property, plant and equipment of ¥1,133 million.

(Cash flows from financing activities)

Cash used for financing activities was ¥708 million.

The cash outflow resulted mainly from decreases in cash, dividends paid of ¥621 million.

(3) Information Relating to Consolidated Business Performance Forecasts

Our consolidated business performance forecasts for the first half and full year of the fiscal year ending March 31, 2020, and our dividend forecast remain unchanged from the initial forecasts (announced on May 14, 2019).

2. Condensed Quarterly Consolidated Financial Statements and Significant Notes

(1) Condensed Quarterly Consolidated Statement of Financial Position

(Million yen)

	Figures at the end of the previous consolidated fiscal year (As of March 31, 2019)	Consolidated first quarter under review (From April 1, 2019 to June 30, 2019)
Assets		
Current assets		
Cash and cash equivalents	11,112	12,276
Trade and other receivables	17,150	16,250
Other financial assets	30	30
Inventories	22,462	20,836
Other current assets	1,737	944
Total current assets	52,493	50,338
Non-current assets		
Property, plant and equipment	8,871	9,426
Right-of-use assets	--	1,101
Intangible assets	557	739
Retirement benefit asset	104	99
Other financial assets	6,444	6,404
Deferred tax assets	233	269
Other non-current assets	988	163
Total non-current assets	17,199	18,203
Total assets	69,692	68,541

(Million yen)

	Figures at the end of the previous consolidated fiscal year (As of March 31, 2019)	Consolidated first quarter under review (From April 1, 2019 to June 30, 2019)
Liabilities and equity		
Liabilities		
Current liabilities		
Trade and other payables	13,476	12,505
Borrowings	11,121	11,042
Other financial liabilities	6	200
Income taxes payable	477	776
Provisions	576	532
Contract liabilities	1,630	1,032
Other current liabilities	645	848
Total current liabilities	27,933	26,939
Non-current liabilities		
Other financial liabilities	15	136
Retirement benefit liability	914	915
Deferred tax liabilities	511	663
Other non-current liabilities	244	234
Total non-current liabilities	1,686	1,949
Total liabilities	29,620	28,888
Equity		
Share capital	12,345	12,345
Capital surplus	3,214	3,204
Treasury shares	-2,943	-2,871
Other components of equity	2,576	1,703
Retained earnings	18,052	18,482
Equity attributable to owners of the parent	33,244	32,864
Non-controlling interests	6,827	6,788
Total equity	40,072	39,652
Total liabilities and net equity	69,692	68,541

(2) Condensed Quarterly Consolidated Statement of Profit or Loss and Comprehensive Income
(Condensed Quarterly Consolidated Statement of Profit or Loss)

(Million yen)

	Consolidated first quarter previous year (From April 1, 2018 to June 30, 2018)	Consolidated first quarter under review (From April 1, 2019 to June 30, 2019)
Revenue	18,033	14,810
Cost of sales	-13,050	-10,723
Gross profit	4,983	4,086
Selling, general and administrative expenses	-2,125	-2,266
Other income	14	159
Other expenses	-15	-8
Operating profit	2,856	1,971
Finance income	126	158
Finance costs	-49	-176
Profit before tax	2,933	1,952
Income tax expense	-826	-588
Profit	2,106	1,364
Profit for the year attributable to:		
Owners of the parent	1,580	1,073
Non-controlling interests	526	291
Profit	2,106	1,364
Earnings per share		
Basic earnings per share (yen)	29.85	20.70
Diluted earnings per share (yen)	29.18	20.28

(Condensed Quarterly Consolidated Statement of Comprehensive Income)

(Million yen)

	Consolidated first quarter previous year (From April 1, 2018 to June 30, 2018)	Consolidated first quarter under review (From April 1, 2019 to June 30, 2019)
Profit	2,106	1,364
Other comprehensive income		
Items that will not be reclassified to profit or loss		
Financial assets measured at fair value through other comprehensive income	-706	-38
Remeasurement of defined benefit pension plans	--	--
Total items that will not be reclassified to profit or loss	<u>-706</u>	<u>-38</u>
Items that may be reclassified to profit or loss		
Exchange differences on translation of foreign operations	-270	-1,164
Total items that may be reclassified to profit or loss	<u>-270</u>	<u>-1,164</u>
Total other comprehensive income	<u>-976</u>	<u>-1,203</u>
Comprehensive income	<u>1,130</u>	<u>161</u>
Total comprehensive income for the year attributable to:		
Owners of parent	675	199
Non-controlling interests	455	-38
Comprehensive income	<u>1,130</u>	<u>161</u>

(3) Condensed Quarterly Consolidated Statement of Changes in Equity

(Million yen)

	Equity attributable to owners of the parent				
	Share capital	Capital surplus	Treasury shares	Other components of equity	
				Exchange differences on translation of foreign operations	Financial assets measured at fair value through other comprehensive income
Balance as of April 1, 2018	12,345	3,378	-1,814	158	4,269
Profit					
Other comprehensive income				-198	-706
Total comprehensive income for the quarter	--	--	--	-198	-706
Purchase of treasury shares			-720		
Disposal of treasury shares		-235	595		
Dividends					
Changes in share-based payment transactions		33			
Share-based payment transactions	--	-201	-125	--	--
Balance as of June 30, 2018	12,345	3,177	-1,939	-39	3,562

	Equity attributable to owners of parent					Non-controlling interests	Total
	Other components of equity		Retained earnings	Total	Total		
	Remeasurements of defined benefit plans	Total					
Balance as of April 1, 2018	--	4,427	13,254	31,591	5,815	37,407	
Profit			1,580	1,580	526	2,106	
Other comprehensive income		-904		-904	-71	-976	
Total comprehensive income for the quarter	--	-904	1,580	675	455	1,130	
Purchase of treasury shares				-720		-720	
Disposal of treasury shares			-339	21		21	
Dividends			-477	-477		-477	
Changes in share-based payment transactions				33		33	
Share-based payment transactions	--	--	-817	-1,143	--	-1,143	
Balance as of June 30, 2018	--	3,522	14,017	31,122	6,271	37,393	

(Million yen)

	Equity attributable to owners of the parent				
	Share capital	Capital surplus	Treasury shares	Other components of equity	
				Exchange differences on translation of foreign operations	Financial assets measured at fair value through other comprehensive income
Balance as of April 1, 2019	12,345	3,214	-2,943	-169	2,745
Profit					
Other comprehensive income				-834	-38
Total comprehensive income for the quarter	--	--	--	-834	-38
Purchase of treasury shares			-0		
Disposal of treasury shares		-34	72		
Dividends					
Changes in share-based payment transactions		24			
Share-based payment transactions	--	-9	72	--	--
Balance as of June 30, 2019	12,345	3,204	-2,871	-1,003	2,706

	Equity attributable to owners of parent					Non-controlling interests	Total
	Other components of equity		Retained earnings	Total	Total		
	Remeasurements of defined benefit plans	Total					
Balance as of April 1, 2019	--	2,576	18,052	33,244	6,827	40,072	
Profit			1,073	1,073	291	1,364	
Other comprehensive income		-873		-873	-329	-1,203	
Total comprehensive income for the quarter	--	-873	1,073	199	-38	161	
Purchase of treasury shares				-0		-0	
Disposal of treasury shares			-21	16		16	
Dividends			-621	-621		-621	
Changes in share-based payment transactions				24		24	
Share-based payment transactions	--	--	-643	-580	--	-580	
Balance as of June 30, 2019	--	1,703	18,482	32,864	6,788	39,652	

(4) Condensed Quarterly Consolidated Statement of Cash Flows

(Million yen)

	Consolidated first quarter previous year (From April 1, 2018 to June 30, 2018)	Consolidated first quarter under review (From April 1, 2019 to June 30, 2019)
Cash flows from operating activities		
Profit before tax	2,933	1,952
Depreciation and amortization	250	275
Finance income	-126	-158
Finance costs	11	22
Decrease (increase) in inventories	-2,204	992
Decrease (increase) in trade and other receivables	524	1,181
Increase (decrease) in trade and other payables	2,402	-227
Increase (decrease) in contract liabilities	-669	-544
Increase or decrease in retirement benefit asset or liability	6	4
Increase (decrease) in provisions	47	-25
Other	54	-22
Subtotal	3,232	3,454
Interest and dividends received	126	138
Interest paid	-11	-22
Proceeds from subsidy income	—	121
Income taxes paid	-661	-133
Net cash provided by (used in) operating activities	2,685	3,558
Cash flows from investing activities		
Payments into time deposits	-1	—
Purchase of property, plant and equipment	-586	-1,133
Purchase of intangible assets	-12	-181
Purchase of long-term prepaid expenses	-181	—
Other	1	0
Cash flows from investing activities	-781	-1,315
Cash flows from financing activities		
Net increase (decrease) in short-term borrowings	-195	-78
Proceeds from sale of treasury shares	21	16
Purchase of treasury shares	-721	-0
Dividends paid	-477	-621
Repayments of lease obligations	-2	-24
Net cash provided by (used in) financing activities	-1,376	-708
Effect of exchange rate changes on cash and cash equivalents	-5	-371
Net increase (decrease) in cash and cash equivalents	523	1,163
Cash and cash equivalents at the beginning of the term	10,466	11,112
Cash and cash equivalents at the end of the term	10,989	12,276

(5) Notes relating to Condensed Quarterly Consolidated Financial Statements

(Notes relating to the going concern assumption)

No corresponding item exists.

(Changes in accounting policy)

Significant accounting policies that apply to the Condensed Quarterly Consolidated Financial Statements are the same as those applied to the consolidated financial statements for the previous fiscal year, excluding the following.

The Group has adopted the following standard beginning the first quarter under review.

IFRS		Overview of establishment / revision
IFRS 16	Lease	Revision of accounting treatment of leases

Beginning the first quarter of the fiscal year under review, the Group has adopted IFRS 16 Leases (announced in January 2016) ("IFRS 16").

The Group applies IFRS 16 according to transitional measures and employs the method of recognizing the cumulative effect of the start of the application on the first day of the application.

In the shift to IFRS 16, the Company has selected the practical expedient in Paragraph C3 of IFRS 16 and determines whether a contract is or includes a lease agreement based on IAS 17 Leases and IFRIC 4 Determining Whether an Arrangement Contains a Lease. The Group has opted not to recognize right-of-use assets and lease liabilities for short-term leases whose term is 12 months or less and leases of low-value assets.

Due to the application of IFRS 16, the Company recognized ¥256 million in right-of-use assets and lease liabilities (included in other financial liabilities) in addition to the previous accounting standard on the first day of the application. The right-of-use assets in the consolidated statement of financial position for the first quarter of the fiscal year under review include ¥27 million in property, plant and equipment and ¥766 million in balance transferred from other non-current assets.

When adopting IFRS 16, the Group applied the following practical expedient to leases categorized as operating leases under the conventional IAS 17:

- Rely on the assessment of whether the application of IAS 37 Provisions, Contingent Liabilities and Contingent Assets to leases as an alternative to performing impairment reviews immediately before the start date of application is disadvantageous
- Exclude initial direct costs from the measurement of right-of-use assets on the first day of application.

The following is the adjustment table of operating lease agreements disclosed by applying IAS 17 as of the end of the previous fiscal year and lease liabilities as of the first day of application recognized in the consolidated statement of financial position.

(Million yen)

	Amount
Operating lease agreements disclosed as of March 31, 2019	60
Financial lease liabilities (as of March 31, 2019)	22
Rules for exemption of recognition (short-term leases and low-value asset leases)	-18
Revision of lease terms, etc.	214
Lease liabilities as of April 1, 2019	278

(Segment information)

1. Summary of reportable segments

The Group's reportable segments are its constituent units that disclose financial information separately. They fall under the scope of periodic reviews the Company's Board of Directors performs to determine the distribution of its management resources and to assess its operating results.

The Group manufactures and sells machine tools in Japan and abroad. The Group consists of geographic segments based on its manufacturing and sales organizations. The Company's reportable segments are Japan, China, India, South Korea and Other which are the areas where Group companies are located.

2. Segment revenues and operating results

Inter-segment revenues are based on market prices.

Revenues and operating results of the Group's reportable segments are as follows.

Consolidated first quarter previous year (From April 1, 2018 to June 30, 2018)

(Million yen)

	Reportable segment						Adjustment	Consolidated
	Japan	China	India	South Korea	Other	Total		
Revenue								
Revenue from external customers	6,580	10,463	606	279	103	18,033	--	18,033
Intersegment revenue	2,907	3,750	--	23	28	6,710	-6,710	--
Total	9,488	14,214	606	302	131	24,743	-6,710	18,033
Segment profit (loss)	337	2,542	53	15	0	2,949	-92	2,857
Other income and expenses, net								-1
Operating profit								2,856
Finance income and expenses, net								76
Profit before tax								2,933

(Note) 1. Segment profit is calculated by deducting cost of sales and selling, general and administrative expenses from sales revenue.

2. "Adjustment" of segment income of ¥-92 million is the adjustment of unrealized income.

3. While the accounting treatment of the reportable segments disclosed in the first quarter of the previous fiscal year was based on the Japanese standard, the accounting treatment of the reportable segments disclosed in the first quarter of the fiscal year under review is based on IFRS. Accordingly, IFRS is applied retroactively to the accounting treatment of the reportable segments in the first quarter of the previous fiscal year.

Consolidated first quarter under review (from April 1, 2019 to June 30, 2019)

(Million yen)

	Reportable segment						Adjustment	Consolidated
	Japan	China	India	South Korea	Other	Total		
Revenue								
Revenue from external customers	5,495	7,213	619	1,273	207	14,810	--	14,810
Intersegment revenue	1,530	2,169	18	7	53	3,779	-3,779	--
Total	7,026	9,382	637	1,281	261	18,589	-3,779	14,180
Segment profit (loss)	265	1,229	-3	234	39	1,764	55	1,820
Other income and expenses, net								150
Operating profit								1,971
Finance income and expenses, net								-18
Profit before tax								1,952

(Note) 1. Segment profit is calculated by deducting cost of sales and selling, general and administrative expenses from sales revenue.

2. "Adjustment" of segment income of ¥55 million is the adjustment of unrealized income.

3. Supplementary Information

(1) Overseas revenue

(Million yen)

	Consolidated first quarter previous year (From April 1, 2018 to June 30, 2018)	Consolidated first quarter under review (From April 1, 2019 to June 30, 2019)
China	10,680	7,314
Asia	2,345	3,307
America	908	1,335
Europe	1,438	665
Overseas revenue	15,372	12,623
Consolidated revenue	18,033	14,810
Ratio of overseas revenue to consolidated net sales (%)	85.2	85.2

(Note) Revenue is categorized by country or region based on the locations of the customers.

(2) Revenue by machinery category

(Million yen)

	Consolidated first quarter previous year (From April 1, 2018 to June 30, 2018)		Consolidated first quarter under review (From April 1, 2019 to June 30, 2019)		Year-on-year change	
		%		%		%
Automatic lathes	14,968	83.0	11,997	81.0	-2,971	-19.9
Grinding machines	1,182	6.6	687	4.6	-495	-41.9
Machining centers, rolling machines and specialized machines	1,067	5.9	1,251	8.5	184	17.2
Other	815	4.5	874	5.9	59	7.2
Total	18,033	100.0	14,810	100.0	-3,223	-17.9