

Consolidated Financial Results (Japanese Accounting Standards) for the First Six Months of the Fiscal Year Ending December 31, 2019

July 25, 2019

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 Scheduled date for filing of quarterly report: August 9, 2019
 Scheduled date of commencement of dividend payment: September 9, 2019
 Supplementary documents for quarterly results: None
 Quarterly results briefing: Yes (for institutional investors and analysts)

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

1. Consolidated Financial Results for the First Six Months Ended June 30, 2019 (January 1, 2019 – June 30, 2019)

(1) Consolidated Results of Operations (Accumulated Total)

(Percentages represent year-on-year changes.)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
Six months ended								
June 30, 2019	31,821	3.3	2,506	4.9	2,733	5.2	1,685	(15.6)
June 30, 2018	30,803	6.7	2,390	14.0	2,598	22.9	1,998	56.3

(Note) Comprehensive income: 1,066 million yen (140.0%) for the six months ended June 30, 2019
 444 million yen (-84.2%) for the six months ended June 30, 2018

	Profit per share (basic)		Profit per share (diluted)	
	Yen	Yen	Yen	Yen
Six months ended				
June 30, 2019	33.83	–	–	–
June 30, 2018	40.11	–	–	–

(2) Consolidated Financial Position

	Total assets		Net assets		Equity ratio	
	Million yen	Million yen	Million yen	Million yen	%	%
As of June 30, 2019	89,096	56,752	56,752	63.7		
As of December 31, 2018	87,701	56,333	56,333	64.2		

(Reference) Shareholders' equity: As of June 30, 2019: 56,752 million yen
 As of December 31, 2018: 56,333 million yen

2. Dividends

	Dividend per share				
	End of first quarter	End of second quarter	End of third quarter	Year-end	Annual
	Yen	Yen	Yen	Yen	Yen
Year ended December 31, 2018	–	13.00	–	13.00	26.00
Year ending December 31, 2019	–	14.00	–	–	–
Year ending December 31, 2019 (forecasts)	–	–	–	14.00	28.00

(Note) Revisions to dividend forecasts published most recently: None

3. Consolidated Forecasts for the Fiscal Year Ending December 31, 2019 (January 1, 2019 – December 31, 2019)

(Percentage figures for the fiscal year represent the changes from the previous year.)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent		Profit per share
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen
Full year	68,500	5.7	6,100	14.0	6,200	10.7	4,300	37.4	86.29

(Note) Revisions to financial forecasts published most recently: None

* Notes

- (1) Changes in important subsidiaries during the period
(changes of specific subsidiaries in accordance with changes in the scope of consolidation): None
- (2) Application of particular accounts procedures to the preparation of quarterly consolidated financial statements: Yes
(Note) Please refer to "Application of particular accounts procedures to the preparation of quarterly consolidated financial statements" on page 9 for details.
- (3) Changes in Accounting Policies, Accounting Estimates and Restatement
- | | |
|--|------|
| (i) Changes in accounting policies caused by revision of accounting standards: | None |
| (ii) Changes in accounting policies other than (i): | None |
| (iii) Changes in accounting estimates: | None |
| (iv) Restatement: | None |
- (4) Number of shares outstanding (common shares):
- | | |
|---|-------------------|
| (i) Number of shares outstanding at end of period (including treasury shares) | |
| As of June 30, 2019: | 53,790,632 shares |
| As of December 31, 2018: | 53,790,632 shares |
| (ii) Number of treasury shares at end of period | |
| As of June 30, 2019: | 3,959,477 shares |
| As of December 31, 2018: | 3,961,539 shares |
| (iii) Average number of shares outstanding during the period | |
| Six months ended June 30, 2019: | 49,829,936 shares |
| Six months ended June 30, 2018: | 49,827,974 shares |
- (Note) The number of treasury shares at the end of each period includes the shares of the Company held by the stock-granting ESOP trust (94,447 shares as of June 30, 2019, and 96,509 shares as of December 31, 2018). The shares of the Company held by the stock-granting ESOP trust are included in the treasury shares deducted in the calculation of the average number of shares outstanding during each period (six months) (95,666 shares for the six months ended June 30, 2019, and 97,681 shares for the six months ended June 30, 2018).

* This financial summary is not subject to the statutory quarterly review by a certified public accountant or an audit corporation.

* Explanations and other special notes concerning the appropriate use of business performance forecasts
(Notes regarding forward-looking statements)

The forward-looking statements in these materials, including financial prospects included in this report, are based on information available to the Company when this report was prepared and assumptions that the management considers reasonable, which do not guarantee the achievement of such projected results. Actual results may differ significantly from these statements for a number of reasons.

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1. Qualitative Information Regarding Results of Operations for the First Six Months Ended June 30, 2019

(1) Explanation Regarding Results of Operations

In the first six months of the fiscal year under review (January 1, 2019 to June 30, 2019), the Japanese economy maintained a gradual recovery trend, with corporate earnings consistently robust, despite some weaknesses observed in export and production.

The Japanese construction industry, which includes the core customers for the Okabe Group, experienced a difficult environment, such as delays in construction due to the shortage of certain materials for steel constructions, in addition to a year-on-year fall in the floor area of construction that commenced during the first six months of the fiscal year under review.

In this business environment, the Okabe Group sought to increase its market share by developing new products and enhancing existing product lines using the new center for comprehensive experiments it had established as well as the distribution warehouses in the U.S. through the key measures in the medium-term three year management plan “NEXT 100: Exciting Future.”

As a result of this business environments and the Group’s initiatives, the consolidated net sales for the first six months of the fiscal year under review increased 3.3% year on year, to 31,821 million yen, operating profit increased 4.9% year on year, to 2,506 million yen, ordinary profit increased 5.2% year on year, to 2,733 million yen, and profit attributable to owners of parent decreased 15.6% year on year, to 1,685 million yen.

Results of operations by business segment are as follows:

(a) Construction-related products

In the domestic business, sales of building structural products such as reinforcing bar joints that contribute to labor saving and civil engineering products such as lock bolts used for disaster recovery and reconstruction remained strong, although sales of the Base Pack showed continued weakness mainly due to delays in construction give a shortage of some materials for steel construction. In the U.S., OCM, Inc., a consolidated subsidiary, increased its market share by improving its product supply capabilities through the utilization of logistics warehouses. As a result, net sales increased 3.8% year on year, to 26,245 million yen.

As for profits, actions were taken to address rising logistics and other costs, as a result of which operating profit increased 14.3% year on year, to 2,404 million yen.

(b) Automotive products

Sales of battery terminal products remained weak following a fall in utilization rates associated with countermeasures against environmental problems at a plant in the U.S. (for more details, please see the timely disclosure material “Resumption of Operations of Production Facilities at an Overseas Subsidiary (Disclosure of Progress)” on March 4, 2019). As a result, net sales decreased 11.3% year on year, to 4,544 million yen, and operating profit decreased 76.9% year on year, to 81 million yen.

(c) Other businesses

As a result of posting results of Kawahara, which became the Company’s subsidiary after its buyback of all shares of Kawahara on January 31, 2019, from April 1, 2019, net sales increased 156.6% year on year, to 1,031 million yen, and operating profit amounted to 20 million yen (compared with an operating loss of 67 million yen in the same period of the previous fiscal year).

(For reference)

Net sales by business segments and product category (consolidated)

(Yen in millions, rounded down)

		Previous consolidated first six months (Jan. 1, 2018 – Jun. 30, 2018)		Consolidated first six months under review (Jan. 1, 2019 – Jun. 30, 2019)		Change (%)
		Amount	Proportion (%)	Amount	Proportion (%)	
Construction-related products	Temporary building and formwork products	3,537	11.5	3,580	11.3	1.2
	Civil engineering products	2,684	8.7	3,030	9.5	12.9
	Building structural products	10,051	32.6	10,196	32.0	1.4
	Building materials (Japan)	6,408	20.8	6,420	20.2	0.2
	Subtotal – Japan	22,682	73.6	23,227	73.0	2.4
	Building materials (Overseas)	2,598	8.5	3,017	9.5	16.1
	Subtotal – overseas	2,598	8.5	3,017	9.5	16.1
	Subtotal – segment	25,280	82.1	26,245	82.5	3.8
Automotive products		5,121	16.6	4,544	14.3	(11.3)
Other businesses (Note)		402	1.3	1,031	3.2	156.6
Total		30,803	100.0	31,821	100.0	3.3

(Note) Other businesses include those for diversification that do not form part of the Company's core businesses, i.e. construction related products and automotive products. This segment includes, among others, the manufacture and sale of marine materials and the manufacture and sale of fishing sinkers in the U.S.
In addition, the results of Kawahara, which manufactures and sells industrial machine products, have been posted since April 1, 2019.

(2) Explanation Regarding Forecast for Fiscal Year Ending December 31, 2019

While the results of the automotive products segment were sluggish, mainly due to the effects of environmental problems, results of the construction-related products segment remained firm. As a result, the performance of the Company in the first six months of the fiscal year under review remains generally steady in comparison with the results forecast announced on February 14, 2019. Therefore, there are no changes to the existing consolidated results forecasts for the full year of the fiscal year ending December 31, 2019.

2. Quarterly Consolidated Financial Statements and Key Notes

(1) Quarterly Consolidated Balance Sheet

(Million yen)

	Fiscal year ended December 31, 2018 (As of December 31, 2018)	Second quarter ended June 30, 2019 (As of June 30, 2019)
ASSETS		
Current assets		
Cash and deposits	23,762	20,823
Notes and accounts receivable - trade	22,633	21,730
Merchandise and finished goods	6,766	7,827
Work in process	1,103	1,627
Raw materials and supplies	1,761	2,157
Other	1,724	1,574
Allowance for doubtful accounts	(24)	(24)
Total current assets	57,727	55,716
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	11,231	10,950
Machinery, equipment and vehicles, net	4,201	4,041
Land	3,854	4,262
Other, net	1,981	2,459
Total property, plant and equipment	21,268	21,713
Intangible assets		
Goodwill	189	2,690
Other	230	199
Total intangible assets	420	2,889
Investments and other assets		
Investment securities	6,487	6,701
Other	1,883	2,161
Allowance for doubtful accounts	(100)	(99)
Total investments and other assets	8,269	8,763
Total non-current assets	29,958	33,366
Deferred assets		
Bond issuance cost	15	13
Total deferred assets	15	13
Total assets	87,701	89,096

(Million yen)

	Fiscal year ended December 31, 2018 (As of December 31, 2018)	Second quarter ended June 30, 2019 (As of June 30, 2019)
LIABILITIES		
Current liabilities		
Notes and accounts payable - trade	4,781	5,261
Electronically recorded obligations - operating	9,505	8,856
Short-term borrowings	1,683	7,735
Income taxes payable	1,076	915
Provision for bonuses	—	48
Other	2,991	2,844
Total current liabilities	20,038	25,662
Non-current liabilities		
Bonds payable	1,000	1,000
Long-term borrowings	7,060	2,401
Provision for share-based remuneration	49	62
Retirement benefit liability	1,828	1,841
Asset retirement obligations	40	41
Other	1,350	1,335
Total non-current liabilities	11,329	6,681
Total liabilities	31,367	32,343
NET ASSETS		
Shareholders' equity		
Share capital	6,911	6,911
Capital surplus	6,062	6,062
Retained earnings	43,563	44,600
Treasury shares	(2,715)	(2,713)
Total shareholders' equity	53,822	54,861
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	1,716	1,454
Foreign currency translation adjustment	816	460
Remeasurements of defined benefit plans	(22)	(23)
Total accumulated other comprehensive income	2,510	1,890
Total net assets	56,333	56,752
Total liabilities and net assets	87,701	89,096

(2) Quarterly Consolidated Statement of Income and Quarterly Consolidated Statement of Comprehensive Income
(Quarterly Consolidated Statement of Income)
(First six-month period)

(Million yen)

	First six months ended June 30, 2018 (Jan. 1, 2018 – Jun. 30, 2018)	First six months ended June 30, 2019 (Jan. 1, 2019 – Jun. 30, 2019)
Net sales	30,803	31,821
Cost of sales	22,234	22,914
Gross profit	8,569	8,907
Selling, general and administrative expenses	6,179	6,400
Operating profit	2,390	2,506
Non-operating income		
Interest income	26	15
Dividend income	61	74
Foreign exchange gains	97	–
Other	93	209
Total non-operating income	278	299
Non-operating expenses		
Interest expenses	23	31
Commission for syndicated loans	17	17
Other	28	23
Total non-operating expenses	70	72
Ordinary profit	2,598	2,733
Extraordinary income		
Gain on sales of non-current assets	100	2
Other	469	0
Total extraordinary income	570	2
Extraordinary losses		
Loss on disposal of non-current assets	23	17
Loss on factory closure	348	64
Environmental expenses	–	51
Other	20	14
Total extraordinary losses	393	148
Profit before income taxes	2,775	2,587
Income taxes - current	854	904
Income taxes - deferred	(76)	(2)
Total income taxes	777	902
Profit	1,998	1,685
Profit attributable to owners of parent	1,998	1,685

(Quarterly Consolidated Statements of Comprehensive Income)
(First six-month period)

(Million yen)

	First six months ended June 30, 2018 (Jan. 1, 2018 – Jun. 30, 2018)	First six months ended June 30, 2019 (Jan. 1, 2019 – Jun. 30, 2019)
Profit	1,998	1,685
Other comprehensive income		
Valuation difference on available-for-sale securities	(849)	(262)
Foreign currency translation adjustment	(712)	(356)
Remeasurements of defined benefit plans, net of tax	8	(0)
Total other comprehensive income	(1,554)	(619)
Comprehensive income	444	1,066
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	444	1,066

(3) Quarterly Consolidated Statements of Cash Flows

(Million yen)

	First six months ended June 30, 2018 (Jan. 1, 2018 – Jun. 30, 2018)	First six months ended June 30, 2019 (Jan. 1, 2019 – Jun. 30, 2019)
Cash flows from operating activities		
Profit before income taxes	2,775	2,587
Depreciation	811	828
Increase (decrease) in provision for bonuses	27	6
Increase (decrease) in retirement benefit liability	26	14
Increase (decrease) in provision for loss on factory closure	348	–
Interest and dividend income	(87)	(89)
Interest expenses	23	31
Loss (gain) on sales of non-current assets	(100)	(2)
Decrease (increase) in trade receivables	452	1,512
Decrease (increase) in other current assets	331	(58)
Decrease (increase) in inventories	(1,563)	(1,722)
Increase (decrease) in trade payables	602	96
Increase (decrease) in other current liabilities	(13)	(602)
Increase (decrease) in accrued consumption taxes	90	45
Other	(471)	139
Subtotal	3,253	2,784
Income taxes paid	(2,010)	(1,019)
Net cash provided by (used in) operating activities	1,243	1,765
Cash flows from investing activities		
Proceeds from withdrawal of time deposits	1,181	–
Purchase of property, plant and equipment	(2,817)	(880)
Proceeds from sales of property, plant and equipment	151	272
Purchase of intangible assets	(22)	(36)
Purchase of investment securities	–	(490)
Purchase of shares of subsidiaries resulting in change in scope of consolidation	–	(2,821)
Purchase of insurance funds	(57)	(56)
Proceeds from collection of long-term deposits	3,110	–
Interest and dividends received	96	87
Other	1,779	(18)
Net cash provided by (used in) investing activities	3,422	(3,942)
Cash flows from financing activities		
Proceeds from short-term borrowings	2,587	3,127
Repayments of short-term borrowings	(2,158)	(2,183)
Proceeds from long-term borrowings	–	750
Repayments of long-term borrowings	(1,332)	(1,704)
Dividends paid	(748)	(648)
Interest paid	(24)	(31)
Other	(82)	(87)
Net cash provided by (used in) financing activities	(1,759)	(777)
Effect of exchange rate change on cash and cash equivalents	(97)	(44)
Net increase (decrease) in cash and cash equivalents	2,808	(2,999)
Cash and cash equivalents at beginning of period	21,082	23,762
Cash and cash equivalents at end of period	23,890	20,762

(4) Notes to Quarterly Consolidated Financial Statements

(Note to ongoing concern assumptions)

None

(Note to significant changes in shareholders' equity)

None

(Application of particular accounts procedures to the preparation of quarterly consolidated financial statements)

(Calculation of Tax Expenses)

Taxes are calculated by multiplying profit before income taxes by a reasonable estimate of the effective tax rate after adjustments for tax-effect accounting for profit before income taxes in the current fiscal year.

(Additional information)

(Transactions of Delivering the Company's Own Stock to Employees, etc. through Trusts)

The Company has introduced the stock-granting ESOP trust system, a trust-type employee incentive plan under which the Company's own shares are issued to its employees for the purpose of encouraging the motivation of the employees of the Company and the Okabe Group and enhancing the welfare program.

(1) Transaction overview

This program adopts the system called the stock-granting employee stock ownership plan ("ESOP Trust"). The ESOP Trust is an employee incentive plan inspired by the U.S. ESOP system, under which shares bought back by the ESOP Trust are issued to employees who have met the requirements prescribed in the Shares Issuance Regulations established in advance.

The "Practical Solution on Transactions of Delivering the Company's Own Stock to Employees etc. through Trusts (ASBJ Practical Issue Task Force (PITF) No. 30, March 26, 2015)" applies to the accounting treatment of this program.

(2) Treasury shares remaining in the trust

The Company's shares remaining in the trust are recorded at the book value (excluding all incidental expenses) in the section of net assets as treasury shares in the trust. The book value of the treasury shares is 88 million yen for the previous consolidated fiscal year and 86 million yen for the first six months of the fiscal year under review. The number of treasury shares at the end of the term is 96,509 shares for the previous consolidated fiscal year and 94,447 shares for the first six months of the fiscal year under review.

(Application of "Partial Amendments to Accounting Standard for Tax Effect Accounting," etc.)

The Company has applied the Partial Amendments to Accounting Standard for Tax Effect Accounting (ASBJ Statement No. 28, revised on February 16, 2018), etc. since the beginning of the first quarter of the fiscal year under review, under which deferred tax assets are presented in the category of "investments and other assets" and deferred tax liabilities are included in "non-current liabilities."

(Segment information)

[Segment information]

I. First six months ended June 30, 2018 (January 1, 2018 – June 30, 2018)

1. Net sales and income (loss) for each reportable business segment

(Million yen)

	Reportable segments				Adjustment	Amounts in quarterly consolidated statements of income (Note)
	Construction-related products	Automotive products	Other businesses	Total		
Net sales						
Sales to external customers	25,280	5,121	402	30,803	–	30,803
Intersegment internal sales and transfers	–	–	–	–	–	–
Total	25,280	5,121	402	30,803	–	30,803
Segment income (loss)	2,103	353	(67)	2,390	–	2,390

(Note) Segment income (loss) matches the operating profit in the quarterly consolidated statements of income.

2. Non-current assets impairment losses, goodwill and other information for each reportable segment

(Million yen)

	Reportable segments				Adjustment	Total
	Construction-related products	Automotive products	Other businesses	Total		
Impairment loss	–	259	–	259	–	259

(Note) Impairment loss of 259 million yen relating to the automotive products business is included in “loss on factory closure” on the quarterly consolidated statements of income.

II. First six months ended June 30, 2019 (January 1, 2019 – June 30, 2019)

1. Net sales and income (loss) for each reportable business segment

(Million yen)

	Reportable segments				Adjustment	Amounts in quarterly consolidated statements of income (Note)
	Construction-related products	Automotive products	Other businesses	Total		
Net sales						
Sales to external customers	26,245	4,544	1,031	31,821	–	31,821
Intersegment internal sales and transfers	–	–	–	–	–	–
Total	26,245	4,544	1,031	31,821	–	31,821
Segment income	2,404	81	20	2,506	–	2,506

(Note) Segment income matches the operating profit in the quarterly consolidated statements of income.

2. Non-current assets impairment losses, goodwill and other information for each reportable segment

(Significant changes in the amount of goodwill)

Due to the buyback of all the shares of Kawahara and the consequent inclusion thereof in the scope of consolidation, goodwill of 2,590 million yen was added to the “other businesses” segment in the first quarter of the current consolidated fiscal year.