

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

April 26, 2019

Company name: Okabe Co., Ltd. Stock exchange listing: First Section of the Tokyo Stock Exchange
 Stock code: 5959 URL: <https://www.okabe.co.jp/>
 Representative: Makoto Hirowatari, President
 Contact: Yasushi Hosomichi, Managing Director in Charge of Administrative Division
 Tel. +81-3-3624-5119

Scheduled date for filing of quarterly report: May 15, 2019
 Scheduled date of commencement of dividend payment: –
 Supplementary documents for quarterly results: None
 Quarterly results briefing: None

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

1. Consolidated Financial Results for the First Three Months Ended March 31, 2019 (January 1, 2019 – March 31, 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	%
Three months ended March 31, 2019	15,439	6.7	1,141	32.1	1,176	25.6	723	1.4
March 31, 2018	14,474	7.8	864	(1.5)	936	9.7	713	46.6

(Note) Comprehensive income: 661 million yen (74.9%) for the three months ended March 31, 2019
 378 million yen (-22.4%) for the three months ended March 31, 2018

	Profit per share (basic)	Profit per share (diluted)
	Yen	Yen
Three months ended March 31, 2019	14.52	–
March 31, 2018	14.33	–

(2) Consolidated Financial Position

	Total assets	Net assets	Equity ratio
	Million yen	Million yen	%
As of March 31, 2019	90,877	56,346	62.0
December 31, 2018	87,701	56,333	64.2

(Reference) Shareholders' equity: As of March 31, 2019: 56,346 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	–				
Year ending December 31, 2019 (forecasts)		14.00	–	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)

(Percentages represent year-on-year changes.)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent	Profit per share
	Million yen	%	Million yen	%	Million yen	%	Million yen	Yen
First half	32,150	4.4	2,570	7.5	2,610	0.4	1,760 (11.9)	35.32
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 March 31, 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 March 31, 2019: 3,961,144 shares

As of December 31, 2018: 3,961,539 shares

(iii) Average number of shares outstanding during the period

Three months ended March 31, 2019: 49,829,352 shares

Three months ended March 31, 2018: 49,827,778 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 (96,114 shares in the first quarter of the fiscal year ending December 31, 2019, and 96,509 shares in the fiscal year ended 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 (three months) (96,250 shares for the first quarter of the fiscal year ending December 31, 2019, and 97,917 shares in the fiscal year ended December 31, 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.

○ Index for Supplementary Information

1. Qualitative Information Regarding Results of Operations for the First Three Months Ended March 31, 2019	2
(1) Explanation Regarding Results of Operations	2
(2) Explanation Regarding Forecast for Fiscal Year Ending December 31, 2019.....	3
2. Quarterly Consolidated Financial Statements and Key Notes.....	4
(1) Quarterly Consolidated Balance Sheet.....	4
(2) Quarterly Consolidated Statement of Income and Quarterly Consolidated Statement of Comprehensive Income	6
Quarterly Consolidated Statement of Income	
First three-month period	6
Quarterly Consolidated Statement of Comprehensive Income	
First three-month period	7
(3) Quarterly Consolidated Statement of Cash Flows.....	8
(4) Notes to Quarterly Consolidated Financial Statements.....	9
Note to ongoing concern assumptions	9
Note to significant changes in shareholders' equity	9
Application of particular accounts procedures to the preparation of quarterly consolidated financial statements	9
Additional information.....	9
Segment information.....	10

1. Qualitative Information Regarding Results of Operations for the First Three Months Ended March 31, 2019

(1) Explanation Regarding Results of Operations

In the first three months of the fiscal year under review (January 1, 2019 to March 31, 2019), the Japanese economy maintained a gradual recovery trend despite some weaknesses observed in export and production.

The Japanese construction industry, which includes the core customers for the Okabe Group, enjoyed a good business environment thanks primarily to the steady progress of construction work, particularly in metropolitan areas, and the gradual start of civil engineering work for disaster recovery and reconstruction.

In this business environment, the Okabe Group worked to increase its market share by developing new products and enhancing existing product lines using the new center for comprehensive experiments established and 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 such business environments and actions, the consolidated net sales for the first three months of the fiscal year under review increased 6.7% year on year, to 15,439 million yen, operating profit increased 32.1% year on year, to 1,141 million yen, ordinary profit increased 25.6% year on year, to 1,176 million yen, and profit attributable to owners of parent increased 1.4% year on year, to 723 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 savings and civil engineering products such as lock bolts used for disaster recovery and reconstruction remained strong. In the U.S., OCM, Inc., a consolidated subsidiary, increased its share in sales of building materials, largely by enhancing product lines, which caused net sales to increase 8.5% year on year, to 12,837 million yen. As for profits, actions were taken to address the cost increase, including the rise in the price of steel materials, which caused operating profit to increase 40.6% year on year, to 1,091 million yen.

(b) Automotive products

Net sales decreased 5.9% year on year, to 2,362 million yen, chiefly as a result of sluggish sales of battery terminal products in Europe despite the steady sales of bolts and nuts for trucks and trailers in the U.S. In addition, factors such as a rise in the cost ratio of raw materials for battery terminal products and an increase in the costs of obsolete machinery and equipment caused a year-on-year decrease of 64.6% in operating profit, to 51 million yen.

(c) Other businesses

Net sales grew 87.8% year on year, to 240 million yen, largely due to strong sales of fish reefs, with an operating loss of 0 million yen (the operating loss in the same period of the previous year was 56 million yen).

Kawahara, which became the Company’s subsidiary after its buyback of all the shares of Kawahara on January 31, 2019, engages in manufacturing, sale, and other operations for industrial machinery products, and its financial results are included in “Other businesses.” Because the deemed buyback date is March 31, 2019, however, the balance sheet of Kawahara is consolidated in the first three months of the fiscal year under review, and its business results are not included in the quarterly consolidated statement of income or the statement of comprehensive income for the first three months of the fiscal year under review.

(For reference)

Net sales by business segments and product category (consolidated)

(Yen in millions, rounded down)

		Previous consolidated first three months (Jan. 1, 2018 – Mar. 31, 2018)		Consolidated first three months under review (Jan. 1, 2019 – Mar. 31, 2019)		Change
		Amount	Proportion	Amount	Proportion	
Construction- related products	Temporary building and formwork products	1,667	11.5	1,748	11.3	4.9
	Civil engineering products	1,387	9.6	1,580	10.2	13.9
	Building structural products	4,403	30.4	4,700	30.5	6.8
	Building materials (Japan)	3,119	21.6	3,291	21.3	5.5
	Subtotal – Japan	10,578	73.1	11,321	73.3	7.0
	Building materials (Overseas)	1,256	8.7	1,515	9.8	20.7
	Subtotal – overseas	1,256	8.7	1,515	9.8	20.7
	Subtotal – segment	11,834	81.8	12,837	83.1	8.5
Automotive products		2,511	17.3	2,362	15.3	(5.9)
Other businesses (Note)		128	0.9	240	1.6	87.8
Total		14,474	100.0	15,439	100.0	6.7

(Notes) 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.

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

There are no changes to the consolidated results forecasts for the first half and the full year of the fiscal year ending December 31, 2019 that were announced on February 14, 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)	First three months ended March 31, 2019 (As of March 31, 2019)
ASSETS		
Current assets		
Cash and deposits	23,762	22,448
Notes and accounts receivable - trade	22,633	21,796
Merchandise and finished goods	6,766	8,094
Work in process	1,103	1,360
Raw materials and supplies	1,761	2,082
Other	1,724	1,620
Allowance for doubtful accounts	(24)	(25)
Total current assets	57,727	57,378
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	11,231	11,058
Machinery, equipment and vehicles, net	4,201	4,056
Land	3,854	4,263
Other, net	1,981	2,036
Total property, plant and equipment	21,268	21,416
Intangible assets		
Goodwill	189	2,754
Other	230	205
Total intangible assets	420	2,959
Investments and other assets		
Investment securities	6,487	7,286
Other	1,883	1,921
Allowance for doubtful accounts	(100)	(99)
Total investments and other assets	8,269	9,108
Total non-current assets	29,958	33,484
Deferred assets		
Bond issuance cost	15	14
Total deferred assets	15	14
Total assets	87,701	90,877

(Million yen)

	Fiscal year ended December 31, 2018 (As of December 31, 2018)	First three months ended March 31, 2019 (As of March 31, 2019)
LIABILITIES		
Current liabilities		
Notes and accounts payable - trade	4,781	5,668
Electronically recorded obligations - operating	9,505	9,064
Short-term borrowings	1,683	7,929
Income taxes payable	1,076	557
Provision for bonuses	–	260
Other	2,991	3,662
Total current liabilities	20,038	27,141
Non-current liabilities		
Bonds payable	1,000	1,000
Long-term borrowings	7,060	3,032
Provision for share-based remuneration	49	56
Retirement benefit liability	1,828	1,808
Asset retirement obligations	40	40
Other	1,350	1,451
Total non-current liabilities	11,329	7,389
Total liabilities	31,367	34,531
NET ASSETS		
Shareholders' equity		
Share capital	6,911	6,911
Capital surplus	6,062	6,062
Retained earnings	43,563	43,638
Treasury shares	(2,715)	(2,714)
Total shareholders' equity	53,822	53,897
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	1,716	1,993
Foreign currency translation adjustment	816	478
Remeasurements of defined benefit plans	(22)	(23)
Total accumulated other comprehensive income	2,510	2,448
Total net assets	56,333	56,346
Total liabilities and net assets	87,701	90,877

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

(Million yen)

	First three months ended March 31, 2018 (Jan. 1, 2018 – Mar. 31, 2018)	First three months ended March 31, 2019 (Jan. 1, 2019 – Mar. 31, 2019)
Net sales	14,474	15,439
Cost of sales	10,599	11,217
Gross profit	3,874	4,222
Selling, general and administrative expenses	3,010	3,080
Operating profit	864	1,141
Non-operating income		
Interest income	7	6
Dividend income	17	19
Proceeds from sale of scrap	22	17
Other	57	21
Total non-operating income	105	65
Non-operating expenses		
Interest expenses	11	11
Commission for syndicated loans	8	8
Other	12	9
Total non-operating expenses	33	30
Ordinary profit	936	1,176
Extraordinary income		
Gain on sales of non-current assets	0	0
Total extraordinary income	0	0
Extraordinary losses		
Loss on disposal of non-current assets	1	1
Loss on factory closure	–	32
Environmental expenses	–	25
Other	6	8
Total extraordinary losses	7	68
Profit before income taxes	929	1,108
Income taxes - current	312	384
Income taxes - deferred	(96)	0
Total income taxes	215	385
Profit	713	723
Profit attributable to owners of parent	713	723

(Quarterly Consolidated Statement of Comprehensive Income)
(First three-month period)

(Million yen)

	First three months ended March 31, 2018 (Jan. 1, 2018 – Mar. 31, 2018)	First three months ended March 31, 2019 (Jan. 1, 2019– Mar. 31, 2019)
Profit	713	723
Other comprehensive income		
Valuation difference on available-for-sale securities	(413)	276
Foreign currency translation adjustment	73	(338)
Remeasurements of defined benefit plans, net of tax	4	(0)
Total other comprehensive income	(335)	(62)
Comprehensive income	378	661
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	378	661

(3) Quarterly Consolidated Statement of Cash Flows

(Million yen)

	First three months ended March 31, 2018 (Jan. 1, 2018 – Mar. 31, 2018)	First three months ended March 31, 2019 (Jan. 1, 2019 – Mar. 31, 2019)
Cash flows from operating activities		
Profit before income taxes	929	1,108
Depreciation	393	408
Increase (decrease) in provision for bonuses	212	217
Increase (decrease) in retirement benefit liability	(11)	(18)
Interest and dividend income	(24)	(26)
Interest expenses	11	11
Decrease (increase) in trade receivables	1,514	1,474
Decrease (increase) in other current assets	370	79
Decrease (increase) in inventories	(1,422)	(1,660)
Increase (decrease) in trade payables	263	618
Increase (decrease) in other current liabilities	(532)	(313)
Increase (decrease) in other non-current liabilities	4	(12)
Increase (decrease) in accrued consumption taxes	114	58
Other	15	44
Subtotal	1,838	1,992
Income taxes paid	(1,925)	(1,005)
Net cash provided by (used in) operating activities	(86)	986
Cash flows from investing activities		
Purchase of property, plant and equipment	(407)	(457)
Proceeds from sales of property, plant and equipment	–	255
Purchase of investment securities	–	(299)
Purchase of shares of subsidiaries resulting in change in scope of consolidation	–	(2,539)
Purchase of insurance funds	(24)	(25)
Interest and dividends received	30	27
Other	(14)	18
Net cash provided by (used in) investing activities	(415)	(3,020)
Cash flows from financing activities		
Proceeds from short-term borrowings	1,379	1,873
Repayments of short-term borrowings	(1,029)	(1,036)
Proceeds from long-term borrowings	–	750
Repayments of long-term borrowings	(16)	(766)
Dividends paid	(78)	(62)
Interest paid	(11)	(12)
Other, net	(41)	(43)
Net cash provided by (used in) financing activities	201	702
Effect of exchange rate change on cash and cash equivalents	(11)	(42)
Net increase (decrease) in cash and cash equivalents	(311)	(1,373)
Cash and cash equivalents at beginning of period	21,082	23,762
Cash and cash equivalents at end of period	20,770	22,388

(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 said treasury shares is 88 million yen for the previous consolidated fiscal year and 88 million yen for the first three months of the fiscal year under review. The number of the said treasury shares at the end of the term is 96,509 shares for the previous consolidated fiscal year and 96,114 shares for the first three 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 three months 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 three months ended March 31, 2018 (January 1, 2018 – March 31, 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	11,834	2,511	128	14,474	–	14,474
Intersegment internal sales and transfers	–	–	–	–	–	–
Total	11,834	2,511	128	14,474	–	14,474
Segment income (loss)	775	144	(56)	864	–	864

(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

None

II. First three months ended March 31, 2019 (January 1, 2019 – March 31, 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	12,837	2,362	240	15,439	–	15,439
Intersegment internal sales and transfers	–	–	–	–	–	–
Total	12,837	2,362	240	15,439	–	15,439
Segment income (loss)	1,091	51	(0)	1,141	–	1,141

(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

(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 three months of the fiscal year under review.