Member of Financial Accounting Standards Foundation (FASF)

Consolidated Financial Results (Japanese Accounting Standards) for the First Six Months of the Fiscal Year Ending December 31, 2018

July 26, 2018

Company name: Okabe Co., Ltd. Stock exchange listing: First Section of the Tokyo Stock Exchange
Stock code: 5959 URL: http://www.okabe.co.jp/
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Scheduled date for filing of quarterly report: August 10, 2018
Scheduled date of commencement of dividend payment: September 10, 2018
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, 2018 (January 1, 2018 – June 30, 2018)

(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	
Six months ended	Million yen	%	Million yen	%	Million yen	%	Million yen	%
June 30, 2018	30,803	6.7	2,390	14.0	2,598	22.9	1,998	56.3
June 30, 2017	28,857	(4.9)	2,095	7.7	2,115	5.4	1,278	9.8

(Note) Comprehensive income: 444 million yen (-84.2%) for the six months ended June 30, 2018
2,815 million yen (–%) for the six months ended June 30, 2017

	Profit per share (basic)	Profit per share (diluted)
Six months ended	Yen	Yen
June 30, 2018	40.11	–
June 30, 2017	25.66	–

(2) Consolidated Financial Position

	Total assets	Net assets	Equity ratio
	Million yen	Million yen	%
As of June 30, 2018	87,658	55,948	63.8
As of December 31, 2017	89,346	56,251	63.0

(Reference) Shareholders' equity: As of June 30, 2018: 55,948 million yen
As of December 31, 2017: 56,251 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, 2017	–	15.00	–	15.00	30.00
Year ending December 31, 2018	–	13.00			
Year ending December 31, 2018 (forecasts)			–	13.00	26.00

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

(Note) Breakdown of dividends at the end of the second quarter of the fiscal year ended December 31, 2017: Ordinary dividend 12.00 yen and commemorative dividend 3.00 yen
Breakdown of dividends at the end of the fiscal year ended December 31, 2017: Ordinary dividend 12.00 yen and commemorative dividend 3.00 yen

3. Consolidated Forecasts for the Fiscal Year Ending December 31, 2018 (January 1, 2018 – December 31, 2018)

(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	63,000	3.4	5,300	9.4	5,400	6.6	3,700	6.2	74.26

(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, 2018:	53,790,632 shares
As of December 31, 2017:	53,790,632 shares
(ii) Number of treasury shares at end of period	
As of June 30, 2018:	3,962,153 shares
As of December 31, 2017:	3,963,010 shares
(iii) Average number of shares outstanding during the period	
Six months ended June 30, 2018:	49,827,974 shares
Six months ended June 30, 2017:	49,827,550 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 (97,125 shares as of June 30, 2018, and 98,128 as of December 31, 2017). 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) (97,681 shares for the six months ended June 30, 2018, and 56,114 for the six months ended June 30, 2017).

* 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.

(Change of units for stating amounts of money)
The amounts of items and other matters stated in the Company's quarterly consolidated financial statements were previously stated in units of thousand yen; however, during and after the first quarter of the fiscal year under review, units of million yen are used in stating such amounts.
For the previous consolidated fiscal year and the previous consolidated first half, units of million yen are used.

(Change of display of date)
From the consolidated first quarter under review, in displaying the date, the Christian Era is used instead of the Japanese imperial calendar.

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1. Qualitative Information Regarding Results of Operations for the First Six Months Ended June 30, 2018

(1) Explanation Regarding Results of Operations

In the consolidated first six months under review (January 1, 2018 to June 30, 2018), the Japanese economy saw a gradual recovery against a backdrop of improving corporate earnings and increasing capital expenditure. Nonetheless, concerns remained over the uncertainty of overseas economies and changes in the financial and capital markets, among other factors.

In the Japanese construction industry, which includes the core customers for the Okabe Group, although construction work in the Tokyo metropolitan area progressed steadily, the floor area of construction that commenced during the first six months under review remained lower than the level a year ago, which, together with other factors, resulted in a lack of growth in the volume of work nationwide under difficult circumstances.

In this business environment, under the medium-term three-year management plan "NEXT 100: Exciting Future," the Okabe Group steadily carried out actions to build the foundations for its success in the next 100 years, specifically the establishment of a new center for comprehensive experiments and the expansion of bases for distribution in the U.S.

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 6.7% year on year, to 30,803 million yen, operating profit increased 14.0% year on year, to 2,390 million yen, ordinary profit increased 22.9% year on year, to 2,598 million yen, and profit attributable to owners of parent increased 56.3% year on year, to 1,998 million yen.

Results of operations by business segment are as follows:

(a) Construction-related products

In the domestic business, building work for steel constructions such as large logistics warehouses made steady progress, which, together with other efforts, led to strong sales of the Base Pack and other building structural products. In the U.S., a consolidated subsidiary OCM, Inc. increased its share in sales of building materials, which caused net sales to increase 5.7% year on year, to 25,280 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 22.2% year on year, to 2,103 million yen.

(b) Automotive products

Sales of battery terminal products in Europe remained solid. In addition, sales of bolts and nuts for trucks and trailers increased significantly year on year in the U.S. As a result, net sales increased 12.0% year on year, to 5,121 million yen, but operating profit declined 21.4% year on year, to 353 million yen, mainly reflecting a rise in prices of raw materials for battery terminal products and an increase in the costs of obsolete machinery and equipment.

(c) Other businesses

Mainly thanks to firm sales of floating fish banks, net sales increased 11.4% year on year, to 402 million yen, with an operating loss of 67 million yen (operating loss for the same period of the previous year: 75 million yen).

(For reference)

Net sales by business segments and product category (consolidated)

(Yen in millions, rounded down)

		Previous consolidated first six months (Jan. 1, 2017 – Jun. 30, 2017)		Consolidated first six months under review (Jan. 1, 2018 – Jun. 30, 2018)		Change (%)
		Amount	Proportion (%)	Amount	Proportion (%)	
Construction-related products	Temporary building and formwork products	3,471	12.0	3,537	11.5	1.9
	Civil engineering products	2,813	9.8	2,684	8.7	(4.6)
	Building structural products	9,339	32.4	10,051	32.6	7.6
	Building materials (Japan)	6,012	20.8	6,408	20.8	6.6
	Subtotal – Japan	21,636	75.0	22,682	73.6	4.8
	Building materials (Overseas)	2,289	7.9	2,598	8.5	13.5
	Subtotal – overseas	2,289	7.9	2,598	8.5	13.5
	Subtotal – segment	23,925	82.9	25,280	82.1	5.7
Automotive products		4,570	15.8	5,121	16.6	12.0
Other businesses (Note)		360	1.3	402	1.3	11.4
Total		28,857	100.0	30,803	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, 2018

No changes have been made to the full-year forecasts of consolidated financial results for the fiscal year ending December 31, 2018 that were announced on February 14, 2018.

2. Quarterly Consolidated Financial Statements and Key Notes

(1) Quarterly Consolidated Balance Sheet

(Million yen)

	Fiscal year ended December 31, 2017 (As of December 31, 2017)	Second quarter ended June 30, 2018 (As of June 30, 2018)
ASSETS		
Current assets		
Cash and deposits	22,311	23,890
Notes and accounts receivable - trade	21,799	21,285
Merchandise and finished goods	5,632	6,262
Work in process	945	1,131
Raw materials and supplies	1,519	2,045
Other	1,357	1,776
Allowance for doubtful accounts	(25)	(23)
Total current assets	53,539	56,368
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	9,613	11,065
Machinery, equipment and vehicles, net	4,193	4,253
Land	3,645	3,810
Other, net	2,714	2,218
Total property, plant and equipment	20,167	21,348
Intangible assets		
Goodwill	270	221
Other	303	259
Total intangible assets	573	481
Investments and other assets		
Investment securities	9,611	7,089
Other	5,540	2,458
Allowance for doubtful accounts	(103)	(104)
Total investments and other assets	15,048	9,443
Total non-current assets	35,788	31,273
Deferred assets		
Bond issuance cost	18	16
Total deferred assets	18	16
Total assets	89,346	87,658

(Million yen)

	Fiscal year ended December 31, 2017 (As of December 31, 2017)	Second quarter ended June 30, 2018 (As of June 30, 2018)
LIABILITIES		
Current liabilities		
Notes and accounts payable - trade	4,069	4,953
Electronically recorded obligations - operating	9,301	9,295
Short-term loans payable	1,528	1,866
Income taxes payable	209	752
Provision for bonuses	72	99
Provision for loss on factory closure	–	343
Other	4,165	2,443
Total current liabilities	19,348	19,754
Non-current liabilities		
Bonds payable	1,000	1,000
Long-term loans payable	8,278	7,012
Provision for stock-granting	22	35
Net defined benefit liability	1,684	1,696
Asset retirement obligations	40	40
Other	2,721	2,171
Total non-current liabilities	13,746	11,955
Total liabilities	33,094	31,710
NET ASSETS		
Shareholders' equity		
Capital stock	6,911	6,911
Capital surplus	6,062	6,062
Retained earnings	41,832	43,082
Treasury shares	(2,716)	(2,715)
Total shareholders' equity	52,090	53,341
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	3,352	2,502
Foreign currency translation adjustment	787	74
Remeasurements of defined benefit plans	21	29
Total accumulated other comprehensive income	4,161	2,606
Total net assets	56,251	55,948
Total liabilities and net assets	89,346	87,658

(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, 2017 (Jan. 1, 2017 – Jun. 30, 2017)	First six months ended June 30, 2018 (Jan. 1, 2018 – Jun. 30, 2018)
Net sales	28,857	30,803
Cost of sales	20,756	22,234
Gross profit	8,101	8,569
Selling, general and administrative expenses	6,005	6,179
Operating profit	2,095	2,390
Non-operating income		
Interest income	11	26
Dividend income	65	61
Foreign exchange gains	–	97
Other	78	93
Total non-operating income	154	278
Non-operating expenses		
Interest expenses	26	23
Commission for syndicate loan	17	17
Foreign exchange losses	51	–
Litigation expenses	32	19
Other	7	9
Total non-operating expenses	135	70
Ordinary profit	2,115	2,598
Extraordinary income		
Gain on sales of non-current assets	0	100
Gain on sales of investment securities	2	467
Other	–	1
Total extraordinary income	2	570
Extraordinary losses		
Loss on disposal of non-current assets	10	23
Factory transfer expenses	31	–
Loss on factory closure	–	348
Other	4	20
Total extraordinary losses	46	393
Profit before income taxes	2,071	2,775
Income taxes - current	801	854
Income taxes - deferred	(8)	(76)
Total income taxes	793	777
Profit	1,278	1,998
Profit attributable to owners of parent	1,278	1,998

(Quarterly Consolidated Statements of Comprehensive Income)

(First six-month period)

(Million yen)

	First six months ended June 30, 2017 (Jan. 1, 2017 – Jun. 30, 2017)	First six months ended June 30, 2018 (Jan. 1, 2018 – Jun. 30, 2018)
Profit	1,278	1,998
Other comprehensive income		
Valuation difference on available-for-sale securities	483	(849)
Foreign currency translation adjustment	1,041	(712)
Remeasurements of defined benefit plans, net of tax	11	8
Total other comprehensive income	1,537	(1,554)
Comprehensive income	2,815	444
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	2,815	444

(3) Quarterly Consolidated Statements of Cash Flows

(Million yen)

	First six months ended June 30, 2017 (Jan. 1, 2017 – Jun. 30, 2017)	First six months ended June 30, 2018 (Jan. 1, 2018 – Jun. 30, 2018)
Cash flows from operating activities		
Profit before income taxes	2,071	2,775
Depreciation	710	811
Increase (decrease) in provision for bonuses	26	27
Increase (decrease) in net defined benefit liability	17	26
Increase (decrease) in provision for loss on factory closure	–	348
Interest and dividend income	(76)	(87)
Interest expenses	26	23
Loss (gain) on sales of non-current assets	6	(100)
Loss (gain) on sales of investment securities	(2)	(467)
Decrease (increase) in notes and accounts receivable - trade	499	452
Decrease (increase) in other current assets	26	331
Decrease (increase) in inventories	(744)	(1,563)
Increase (decrease) in notes and accounts payable - trade	1,138	602
Increase (decrease) in other current liabilities	315	(13)
Increase (decrease) in accrued consumption taxes	(247)	90
Other	147	(4)
Subtotal	3,915	3,253
Income taxes paid	(1,893)	(2,010)
Net cash provided by (used in) operating activities	2,021	1,243
Cash flows from investing activities		
Proceeds from withdrawal of time deposits	–	1,181
Proceeds from redemption of securities	500	–
Purchase of property, plant and equipment	(1,847)	(2,817)
Proceeds from sales of property, plant and equipment	3	151
Purchase of intangible assets	(30)	(22)
Purchase of investment securities	(200)	–
Proceeds from redemption of investment securities	200	–
Proceeds from sales of investment securities	1,001	1,765
Purchase of insurance funds	(52)	(57)
Proceeds from maturity of insurance funds	168	–
Proceeds from collection of long-term deposits	–	3,110
Interest and dividend income received	91	96
Other	74	13
Net cash provided by (used in) investing activities	(90)	3,422
Cash flows from financing activities		
Increase in short-term loans payable	3,557	2,587
Decrease in short-term loans payable	(3,170)	(2,158)
Proceeds from long-term loans payable	1,000	–
Repayments of long-term loans payable	(48)	(1,332)
Cash dividends paid	(597)	(748)
Interest expenses paid	(26)	(24)
Other	(103)	(82)
Net cash provided by (used in) financing activities	611	(1,759)
Effect of exchange rate change on cash and cash equivalents	194	(97)
Net increase (decrease) in cash and cash equivalents	2,737	2,808
Cash and cash equivalents at beginning of period	22,694	21,082
Cash and cash equivalents at end of period	25,431	23,890

(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)

At the meeting held on February 14, 2017, the Board of Directors of the Company passed a resolution to introduce 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 was 89 million yen in the previous consolidated fiscal year and 88 million yen in the second quarter ended June 30, 2018, and the number of shares at the end of the period was 98,128 in the previous consolidated fiscal year and 97,125 in the second quarter ended June 30, 2018.

(Segment information)

[Segment information]

I. First six months ended June 30, 2017 (January 1, 2017 – June 30, 2017)

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	23,925	4,570	360	28,857	–	28,857
Intersegment internal sales and transfers	–	–	–	–	–	–
Total	23,925	4,570	360	28,857	–	28,857
Segment income (loss)	1,721	450	(75)	2,095	–	2,095

(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 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 relating to the automotive products business is included in “loss on factory closure” on the quarterly consolidated statements of income.