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January 11, 2019

Consolidated Financial Results for the First Half of the Fiscal Year Ending May 31, 2019 <Japanese GAAP>

Listed company: INTER ACTION Corporation
Listed stock exchange: Tokyo
Securities code: 7725
URL: http://www.inter-action.co.jp
Representative: Hideo Kiji, CEO & President
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Submission of quarterly report: January 15, 2019
Dividend payment commencement date: –
Preparation of explanatory materials for quarterly financial results: Yes
Holding of a briefing on quarterly financial results: Yes (For Institutional Investors, Analysts)

(Amounts of less than one million yen are truncated)

1. Consolidated Financial Results for the Cumulative First Half of the Fiscal Year Ending May 31, 2019 (June 1, 2018 to November 30, 2018)

(1) Consolidated operating results (Cumulative)

(% figures show year-on-year change)

	Net sales		Operating income		Ordinary income		Profit attributable to owners of parent	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
Six months ended November 30, 2018	3,834	47.9	863	165.8	843	164.2	560	233.2
Six months ended November 30, 2017	2,592	5.6	325	23.5	319	35.0	168	(15.3)

(Note) Comprehensive income: Six months ended November 30, 2018: ¥546 million / 201.2%
Six months ended November 30, 2017: ¥181 million / (2.3%)

	Net income per share	Net income per share–diluted
	Yen	Yen
Six months ended November 30, 2018	58.97	—
Six months ended November 30, 2017	17.75	—

(2) Consolidated financial position

	Total assets	Net assets	Shareholders' equity ratio
	Millions of yen	Millions of yen	%
As of November 30, 2018	7,123	4,192	58.8
As of May 31, 2018	6,573	3,682	56.0

(Reference) Shareholders' equity: As of November 30, 2018: ¥4,192 million
As of May 31, 2018: ¥3,682 million

(Note) "Partial Amendments to Accounting Standard for Tax Effect Accounting" (ASBJ Statement No. 28, February 16, 2018) has been adopted from the beginning of the first quarter of the fiscal year ending May 31, 2019. The figures presented for the fiscal year ended May 31, 2018 reflect amounts subsequent to retrospective application of the aforementioned standard.

2. Dividends

	Annual dividends				
	First quarter-end	Second quarter-end	Third quarter-end	Fiscal year-end	Total
	Yen	Yen	Yen	Yen	Yen
Fiscal year ended May 31, 2018	–	0.00	–	13.00	13.00
Fiscal year ending May 31, 2019	–	0.00			
Fiscal year ending May 31, 2019 (Forecast)			–	15.00	15.00

(Note) Amendment to forecasts of dividends recently announced: Yes

3. Forecast of Consolidated Financial Results for the Fiscal Year Ending May 31, 2019 (June 1, 2018 to May 31, 2019)

(% figures show year-on-year change for the full year and quarter)

	Net sales		Operating income		Ordinary income		Profit attributable to owners of parent		Net income per share
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Yen
Full year	7,158	19.1	1,421	41.2	1,401	41.8	895	30.4	93.83

(Note) Amendment to forecasts of dividends recently announced: Yes

(Note) The Company has implemented an ESOP and Directors' stock compensation plan both in the form of stock benefit trusts. Accordingly, calculations in that regard are based on the average number of shares during the fiscal year, excluding the number of treasury shares which includes Inter Action stock held by the stock benefit ESOP trust accounts and Directors' compensation stock benefit trust accounts.

*** Notes**

(1) Change in significant subsidiaries during six months ended November 30, 2018 (changes in specified subsidiaries affecting the scope of consolidation): None

New: - (Company name:) Excluded: - (Company name:)

(2) Application of special accounting for preparing quarterly consolidated financial statements: None

(3) Changes in accounting policies and estimates, and retrospective restatements

(i) Changes in accounting policies in accordance with revision of accounting standards: None
(ii) Changes in accounting policies other than item (i) above: None
(iii) Changes in accounting estimates: None
(iv) Retrospective restatements: None

(4) Number of shares issued (common stock)

(i) Number of shares outstanding at end of period (including treasury shares)

As of November 30, 2018	10,052,100 shares
As of May 31, 2018	10,052,100 shares

(ii) Number of treasury shares at end of period

As of November 30, 2018	464,156 shares
As of November 30, 2017	600,754 shares

(iii) Average number of shares during period

For the six months ended November 30, 2018	9,496,995 shares
For the six months ended November 30, 2017	9,469,780 shares

(Note) The Company has implemented an ESOP and Directors' stock compensation plan both in the form of stock benefit trusts. Accordingly, treasury shares, as stated, include Inter Action stock held by the stock benefit ESOP trust accounts and Directors' compensation stock benefit trust accounts.

* Quarterly financial results are not subject to auditing by a certified public accountant or an audit firm.

* Proper use of earnings forecasts, and other special matters

The above forecasts of consolidated financial results are based on certain assumptions on economic situation, market trends, etc. deemed to be reasonable when the forecasts were made. Consequently, actual results may differ from the forecasts due to a variety of future factors.

[Attached Materials]

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1. Qualitative Information on Quarterly Result

(1) Explanation of operating results

With respect to the Internet of things related works segment during the consolidated cumulative second quarter of the fiscal year under review, whereas unit shipments of smartphones have held steady in the image sensor market, appetite for capital investment has remained upbeat among manufacturers who produce image sensors for smartphone cameras as they began rolling out models equipped with multiple cameras.

With respect to the environmental energy related works segment, in the printing machinery industry demand for periodic replacement and maintenance of printing equipment has continued to persist, despite diminishing new capital investment due to the growing prevalence of information technologies.

In the flat-panel and organic EL display industry served by the promotion business of Industry 4.0 segment, we anticipate mounting investment appetite among LCD panel manufacturers over the medium to long term going forward, despite an ongoing situation where capital investment continues to slacken. Moreover the gear testing systems market has been susceptible to the business cycle, but the size of the market has continued to remain largely unchanged. Because gear testing machines are most often used mainly in products for the automotive industry, we have been strengthening our marketing efforts in that regard overseas where we anticipate increasing automotive production volume going forward.

As a result, net sales for the consolidated cumulative second quarter of the fiscal year under review were 3,834 million yen, an increase of 47.9% year on year, and gross profit increased by 58.1% to 1,822 million yen largely due to the increase in net sales. Moreover, under selling, general and administrative expenses, mainly personnel-related expenses and sales commission increased by 67 million yen and 45 million yen, respectively. Meanwhile, operating income was 863 million yen for an increase of 165.8% year on year, ordinary income was 843 million yen for an increase of 164.2%, and profit attributable to owners of parent less income taxes was 560 million yen for an increase of 233.2%.

The overall performance of each business segment was as follows.

(Internet of things related works)
Semiconductor manufacturers, the Company’s main customers, have been continuing to actively undertake capital investment looking toward demand for image sensors going forward. As a result, we generated strong sales with respect to our inspection illuminators and pupil lens modules for CCD and CMOS image sensors, the Inter Action Group’s mainstay products.

During the during the consolidated cumulative second quarter of the fiscal year under review, net sales to this segment’s external customers increased by 75.0% to 2,195 million yen (in comparison with 1,254 million yen in the previous fiscal year), and segment income increased by 64.2% to 1,089 million yen (in comparison with 663 million yen in the previous fiscal year).

(Environmental energy related works)
During the second quarter of the consolidated fiscal year under review, we focused on providing maintenance services amid an ongoing scenario of a slow phase with respect to demand for replacement printing machinery.

During the during the consolidated cumulative second quarter of the fiscal year under review, net sales to this segment’s external customers increased by 26.3% to 604 million yen (in comparison with 478 million yen in the previous fiscal year), and segment income increased by 30.9% to 56 million yen (in comparison with 43 million yen in the previous fiscal year).

(Promotion business of Industry 4.0)
Appetite for capital investment among overseas LCD panel manufacturers who purchase precision vibration isolation systems has continuously waned upon having entered into a slow phase over the consolidated cumulative second quarter of the fiscal year under review.

Moreover, we have been actively taking part in exhibitions in Japan and overseas with respect to our gear testing systems, and have otherwise been striving to gain new customers and meet their needs.

During the during the consolidated cumulative second quarter of the fiscal year under review, net sales to this segment's external customers increased by 20.3% to 1,034 million yen (in comparison with 859 million yen in the previous fiscal year), and segment income was 76 million yen (in comparison with segment loss of 100 million yen in the same period of the previous fiscal year).

(2) Explanation of financial position

1) Assets, Liabilities and Net Assets

As of the end of the first half of the consolidated fiscal year under review (November 30, 2018), total assets amounted to 7,123 million yen, which is an increase of 550 million yen in comparison to the amount held at the end of the previous consolidated fiscal year on May 31, 2018.

Current assets amounted to 5,718 million yen, which is an increase of 479 million yen in comparison to the end of the previous consolidated fiscal year. This is mainly attributable to respective increases in electronically recorded monetary claims-operating, up by 676 million yen and inventories, up by 149 million yen, and despite a decrease in cash and deposits, down by 239 million yen and notes and accounts receivable-trade, down by 108 million yen.

Non-current assets amounted to 1,405 million yen, which is an increase of 70 million yen in comparison to the end of the previous consolidated fiscal year.

As of the end of the first half of the consolidated fiscal year under review (November 30, 2018), liabilities amounted to 2,931 million yen, which is an increase of 40 million yen in comparison to the end of the previous consolidated fiscal year. This is mainly attributable to respective increases in notes and accounts payable-trade, up by 177 million yen and income taxes payable, up by 63 million yen, and despite a net decrease in bonds and loans payable including the current portions thereof amounting to 263 million yen.

As of the end of the first half of the consolidated fiscal year under review (November 30, 2018), net assets amounted to 4,192 million yen, which is an increase of 509 million yen in comparison to the end of the previous consolidated fiscal year. This is mainly attributable to having recorded profit attributable to owners of parent of 560 million yen and a transfer of treasury shares by trust of 138 million yen, and despite year-end dividends in the previous fiscal year of 125 million yen and purchase of treasury shares of 49 million yen.

"Partial Amendments to Accounting Standard for Tax Effect Accounting" (ASBJ Statement No. 28, February 16, 2018) was adopted from the beginning of the first quarter. Financial data for comparison with the previous consolidated fiscal year reflect amounts subsequent to retrospective application of the aforementioned standard.

2) Cash flows

At the end of the consolidated cumulative second quarter of the fiscal year under review, cash and cash equivalents amounted to 1,980 million yen, which is a decrease of 239 million yen in comparison to the balance at the end of the previous consolidated fiscal year.

The status of each type of cash flow for the consolidated second quarter of the fiscal year under review is as follows.

(Cash flow from operating activities)

Net cash provided by operating activities during the consolidated second quarter of the fiscal year under review amounted to 174 million yen (in comparison with net cash provided by operating activities of 77 million yen in the previous fiscal year). This is mainly a result of having recorded 839 million yen in profit before income taxes, and despite having recorded an increase of 508 million yen in accounts receivable.

(Cash flow from investing activities)

Net cash used in investing activities during the consolidated second quarter of the fiscal year under review amounted to 107 million yen (in comparison with net cash used in operating activities of 313 million yen in the previous fiscal year). This is mainly a result of having recorded 95 million yen in purchase of property, plant and equipment.

(Cash flow from financing activities)

Net cash used in financing activities during the consolidated second quarter of the fiscal year under review amounted to 309 million yen (in comparison with net cash provided by financing activities of 365 million yen in the previous fiscal year). This is mainly a result of having recorded 213 million yen in net repayments of short-term and long-term loans payable and 125 million yen in cash dividends paid.

2. Quarterly Consolidated Financial Statements and Notes

(1) Quarterly consolidated balance sheets

(Unit: Thousands of yen)

	As of May 31, 2018	As of November 30, 2018
Assets		
Current assets		
Cash and deposits	2,253,833	2,013,834
Notes and accounts receivable-trade	1,235,614	1,127,203
Electronically recorded monetary claims-operating	403,011	1,079,980
Operational investment securities	60,884	57,249
Merchandise and finished goods	92,536	140,948
Work in process	686,350	811,636
Raw materials and supplies	440,443	416,260
Other	80,841	109,086
Allowance for doubtful accounts	(14,846)	(37,585)
Total current assets	5,238,670	5,718,615
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	298,804	315,321
Land	169,901	169,901
Other, net	166,972	205,647
Total property, plant and equipment	635,678	690,871
Intangible assets		
Goodwill	419,949	393,031
Other	55,244	52,193
Total intangible assets	475,193	445,224
Investments and other assets		
Investment securities	30,658	27,264
Other	198,339	246,913
Allowance for doubtful accounts	(4,737)	(4,899)
Total investments and other assets	224,260	269,279
Total non-current assets	1,335,132	1,405,375
Total assets	6,573,803	7,123,990
Liabilities		
Current liabilities		
Notes and accounts payable-trade	482,446	660,095
Short-term loans payable	160,000	50,000
Current portion of bonds	90,000	70,000
Current portion of long-term loans payable	395,524	400,912
Income taxes payable	257,548	320,983
Provision for product warranties	9,134	31,432
Provision for director stock benefits	141,244	93,177
Other	335,808	420,076
Total current liabilities	1,871,706	2,046,676
Non-current liabilities		
Bonds payable	210,000	180,000
Long-term loans payable	693,505	584,510
Provision for stock benefits	2,308	2,267
Net defined benefit liability	84,322	86,882
Asset retirement obligations	10,138	10,141
Other	19,356	21,395
Total non-current liabilities	1,019,631	885,197
Total liabilities	2,891,337	2,931,873

(Unit: Thousands of yen)

	As of May 31, 2018	As of November 30, 2018
Net assets		
Shareholders' equity		
Capital stock	610,982	610,982
Capital surplus	1,570,286	1,570,286
Retained earnings	1,804,372	2,238,922
Treasury shares	(317,263)	(228,687)
Total shareholders' equity	3,668,377	4,191,504
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	2,049	400
Foreign currency translation adjustment	12,038	211
Total accumulated other comprehensive income	14,088	611
Total net assets	3,682,465	4,192,116
Total liabilities and net assets	6,573,803	7,123,990

(2) Quarterly consolidated statements of income and consolidated statements of comprehensive income

(Quarterly consolidated statements of income)

(June 1, 2018 – November 30, 2018)

(Unit: Thousands of yen)

	Six months ended November 30, 2017	Six months ended November 30, 2018
Net sales	2,592,840	3,834,186
Cost of sales	1,439,996	2,011,372
Gross profit	1,152,844	1,822,813
Selling, general and administrative expenses	827,757	958,846
Operating income	325,087	863,966
Non-operating income		
Interest income	253	380
Dividend income	100	180
Income from assets for rent	5,108	6,308
Foreign exchange gains	4,484	748
Share of profit of entities accounted for using equity method	2,488	894
Other	2,750	2,447
Total non-operating income	15,184	10,959
Non-operating expenses		
Interest expenses	8,183	6,302
Expenses of assets for rent	6,124	23,755
Bond issuance cost	4,824	—
Other	1,953	1,580
Total non-operating expenses	21,086	31,638
Ordinary income	319,186	843,286
Extraordinary income		
Gain on sales of non-current assets	—	7
Total extraordinary income	—	7
Extraordinary losses		
Loss on retirement of non-current assets	864	3,589
Loss on sales of non-current assets	922	—
Total extraordinary losses	1,787	3,589
Profit before income taxes	317,398	839,704
Income taxes - current	154,309	309,247
Income taxes - deferred	(5,011)	(29,605)
Total income taxes	149,298	279,641
Profit	168,100	560,062
Profit attributable to owners of parent	168,100	560,062

(Quarterly consolidated statements of comprehensive income)
(June 1, 2018 – November 30, 2018)

(Unit: Thousands of yen)

	Six months ended November 30, 2017	Six months ended November 30, 2018
Profit	168,100	560,062
Other comprehensive income		
Valuation difference on available-for-sale securities	436	(1,649)
Foreign currency translation adjustment	12,496	(11,272)
Share of other comprehensive income of entities accounted for using equity method	442	(554)
Total other comprehensive income	13,375	(13,476)
Comprehensive income	181,475	546,585
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	181,475	546,585
Comprehensive income attributable to non-controlling interests	—	—

(3) Consolidated statement of cash flows

(Unit: Thousands of yen)

	2Q ended November 30, 2017 (June 1, 2017 to November 30, 2017)	2Q ended November 30, 2018 (June 1, 2018 to November 30, 2018)
Cash flows from operating activities		
Profit before income taxes	317,398	839,704
Depreciation	44,660	53, 989
Amortization of goodwill	21,290	26,917
Increase (decrease) in allowance for doubtful accounts	6,082	22,930
Increase (decrease) in provision for product warranties	21,734	22,297
Increase (decrease) in provision for stock benefits	(106)	(41)
Increase (decrease) in provision for director stock benefits	32,102	(48,067)
Increase (decrease) in net defined benefit liability	(2,740)	5,252
Interest and dividend income	(353)	(561)
Interest expenses and guarantees	8,865	6,938
Foreign exchange losses (gains)	(749)	(7,722)
Loss on retirement of property, plant and equipment	864	3,519
Loss on retirement of intangible assets	-	70
Loss (gain) on sales of property, plant and equipment	922	(7)
Loss on valuation of inventories	6,655	3,655
Decrease (increase) in notes and accounts receivable - trade	(93,840)	(508,657)
Decrease (increase) in inventories	(480,026)	(155,953)
Decrease (increase) in investment securities for sale	1,851	3,635
Increase (decrease) in notes and accounts payable - trade	217,952	178,686
Other, net	17,080	(9,878)
Subtotal	119,645	436,708
Interest and dividend income received	556	561
Interest and guarantees paid	(7,909)	(7,103)
Income taxes paid	(34,494)	(256,023)
Net cash provided by (used in) operating activities	77,797	174,142
Cash flows from investing activities		
Payments into time deposits	(11,696)	-
Purchase of property, plant and equipment	(50,232)	(95,692)
Proceeds from sales of property, plant and equipment	2,297	267
Purchase of other intangible assets	(2,023)	(5,149)
Payments for lease	(3,999)	(6,575)
Proceeds from collection of lease	17	-
Purchase of shares of subsidiaries resulting in change in scope of consolidation	(426,334)	-
Proceeds from cancellation of insurance reserve funds	178,836	-
Net cash provided by (used in) investing activities	(313,135)	(107,150)
Cash flows from financing activities		
Net increase (decrease) in short-term loans payable	(60,000)	(110,000)
Proceeds from long-term loans payable	520,000	100,000
Repayments of long-term loans payable	(218,153)	(203,607)
Proceeds from issuance of bonds	300,000	-
Redemption of bonds	(20,000)	(50,000)
Repayments of finance lease obligations	(2,351)	(1,416)
Purchase of treasury shares	(39,878)	(49,974)
Transfer of treasury shares by trust	-	130,374
Cash dividends paid	(113,926)	(125,229)
Net cash provided by (used in) financing activities	365,690	(309,852)
Effect of exchange rate change on cash and cash equivalents	(5,661)	2,860
Net increase (decrease) in cash and cash equivalents	124,691	(239,999)
Cash and cash equivalents at beginning of period	1,935,380	2,220,828
Cash and cash equivalents at end of period	2,060,072	1,980,829

(4) Note regarding the quarterly consolidated financial statements

(Notes on premise of going concern)
No items to report.

(Notes on significant changes in the amount of shareholders' equity)
During the consolidated cumulative second quarter of the fiscal year under review, the Company acquired 28,300 treasury shares (49,970,000 yen) and 2 fractional shares (3,000 yen), pursuant to resolution of the meeting of the Board of Directors held on July 13, 2018. In addition, 164,900 shares (138,550,000 yen) were furnished to eligible persons from the Directors' compensation stock benefit trust accounts.
As a result, treasury shares decreased by 88,576,000 yen to 228,687,000 yen as of the end of the first half of the consolidated fiscal year under review.

(Additional information)
(Application of "Partial Amendments to Accounting Standard for Tax Effect Accounting")
"Partial Amendments to Accounting Standard for Tax Effect Accounting" (ASBJ Statement No. 28 February 16, 2018) was adopted from the beginning of the first quarter. Deferred tax assets are stated under "investments and other assets" and deferred tax liabilities are stated under non-current liabilities.

(Segment information)
[Segment information]
I. For the second quarter of the fiscal year ended May 31, 2018 (June 1, 2017 to November 30, 2017)
1. Information on net sales and the amount of profits (losses) by reportable segment

(Unit: Thousands of yen)

	Internet of things related works	Environmental energy related works	Promotion business of Industry 4.0	Total
Net sales				
Sales to external customers	1,254,690	478,530	859,620	2,592,840
Intra-segment internal sales and transfer amount	-	-	-	-
Total	1,254,690	478,530	859,620	2,592,840
Segment income (loss)	663,287	43,517	(100,501)	606,304

(Note) During the consolidated cumulative second quarter of the fiscal year under review, the Company acquired all shares of Tokyo Technical Instruments Inc., which engages in planning, design, manufacture and sales of gear testing systems, and accordingly made Tokyo Technical Instruments and its subsidiary Taiwan Tokyo Technical Instruments Corp. a consolidated subsidiary. Net sales of Tokyo Technical Instruments and its subsidiary, included in the promotion business of Industry 4.0 segment during the consolidated cumulative second quarter of the fiscal year under review, amounts to 159,389,000 yen, for a segment loss of 81,256,000 yen. In addition, segment assets increased by 1,388,369,000 yen.

2. Difference between total amount of income or loss of reportable segments and the corresponding amount reported in the quarterly consolidated statements of income, and the key components of such difference (reconciliation)

(Unit: Thousands of yen)

Income	Amount
Total of reportable segments	606,304
Company-wide expenses(Note)	(274,561)
Adjustment of inventories	(6,655)
Operating income in the quarterly consolidated statements of income	325,087

(Note) Company-wide expenses mainly consist of expenses incurred by the Company's head office administrative operations that are not attributable to the reportable segments.

3. Information on impairment loss for non-current assets or goodwill of each reportable segment
(Significant changes in amount of goodwill)
For the first quarter of the consolidated fiscal year, goodwill of 225,100,000 yen has been recorded with respect to the promotion business of Industry 4.0 segment upon having made Tokyo Technical Instruments Inc. and its subsidiary Taiwan Tokyo Technical Instruments Corp. into consolidated subsidiaries of the Company.

II. For the second quarter of the fiscal year ending May 31, 2019 (June 1, 2018 to November 30, 2018)

1. Information on net sales and the amount of profits (losses) by reportable segment

(Unit: Thousands of yen)

	Internet of things related works	Environmental energy related works	Promotion business of Industry 4.0	Total
Net sales				
Sales to external customers	2,195,370	604,278	1,034,537	3,834,186
Intra-segment internal sales and transfer amount	-	-	798	798
Total	2,195,370	604,278	1,035,335	3,834,984
Segment income	1,089,060	56,952	76,345	1,222,359

2. Difference between total amount of income or loss of reportable segments and the corresponding amount reported in the quarterly consolidated statements of income, and the key components of such difference (reconciliation)

(Unit: Thousands of yen)

Income	Amount
Total of reportable segments	1,222,359
Company-wide expenses(Note)	(355,319)
Inter-segment eliminations	582
Adjustment of inventories	(3,655)
Operating income in the quarterly consolidated statements of income	863,966

(Note) Company-wide expenses mainly consist of expenses incurred by the Company's head office administrative operations that are not attributable to the reportable segments.

3. Information on impairment loss for non-current assets or goodwill of each reportable segment

No items to report.

3. Supplementary explanation of consolidated financial results for the second quarter of the fiscal year ending May 31, 2019

(1) Status of orders

Orders received

Segment	2Q of the previous consolidated fiscal year (June 1, 2017 to November 30, 2017)		2Q of the current consolidated fiscal year (June 1, 2018 to November 30, 2018)		Change	
	Amount of orders received (Thousands of Yen)	Backlog of orders (Thousands of Yen)	Amount of orders received (Thousands of Yen)	Backlog of orders (Thousands of Yen)	Amount of orders received (Thousands of Yen)	Backlog of orders (Thousands of Yen)
Internet of things related works	1,548,812	731,745	3,535,394	1,963,178	1,986,581	1,231,433
Environmental energy related works	651,724	543,101	628,203	369,220	(23,520)	(173,881)
Promotion business of Industry 4.0	934,239	262,017	782,822	65,517	(151,416)	(196,500)
Total	3,134,776	1,536,864	4,946,421	2,397,915	1,811,644	861,051

(Notes) 1. Consumption taxes are not included in the above amounts.

2. The above amounts do not include results of the operations which engage in make-to-stock production.