

Financial Results for the Second Quarter Ended April 30, 2019 [Japan GAAP] (Consolidated)

Date: June 5, 2019
 Company Name and Code: Tomoe Engineering Co., Ltd. and Subsidiaries - 6309
 (URL: http://www.tomo-e.co.jp/index_e.html)
 Stock exchange listing: 1st Section, Tokyo Stock Exchange
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 Date to report Quarterly Consolidated Financial Statement: June 12, 2019
 Date for Dividend Payment: July 4, 2019
 Preparation of Supplementary Explanatory Materials for Quarterly Operating Results: Yes
 Briefing Session for Quarterly Operating Results: Yes (for institutional investors)

* Any fractional sums less than one million (or one thousand) yen are disregarded

1. Consolidated Financial Data for the Second Quarter Ended April 30, 2019

(1) Results of Operation (Consolidated) (Percent: Change from the same quarter of the previous year)

	Net Sales		Operating Income		Ordinary Income	
	Millions of Yen	Percent	Millions of Yen	Percent	Millions of Yen	Percent
Quarter Ended April 30, 2019	22,136	5.8	1,700	28.9	1,713	27.3
Quarter Ended April 30, 2018	20,923	6.8	1,319	23.6	1,346	28.6

	Net Income Attributable to Owners of the Parent		Net Income per Share	Fully Diluted Quarterly Net Income per Share
	Millions of Yen	Percent	Yen	Yen
Quarter Ended April 30, 2019	1,151	29.5	115. ⁴¹	-
Quarter Ended April 30, 2018	889	33.1	89. ¹⁴	-

(Note) Comprehensive income

Second Quarter ended April 30, 2019: 1,111 million yen (19.5%) Second Quarter ended April 30, 2018: 930 million yen (0.7%)

(2) Financial Condition (Consolidated)

	Total Assets (A) (Millions of Yen)	Net Assets (B) (Millions of Yen)	Net Assets Ratio (B) / (A) (Percent)
Quarter Ended April 30, 2019	38,478	28,743	74.7
Year Ended October 31, 2018	37,331	27,876	74.7

(Reference) Net assets

Second Quarter ended April 30, 2019: 28,743 million yen Year Ended October 31, 2018: 27,876 million yen

2. Dividend Status

(Record Date)	Annual Dividend (Yen)				
	First Quarter	Interim Term	Third Quarter	End of Fiscal Year	Annual
Year Ended October 31, 2018	-	22. ⁵⁰	-	24. ⁵⁰	47. ⁰⁰
Year Ending October 31, 2019	-	23. ⁵⁰	-	23. ⁵⁰	47. ⁰⁰
Year Ending October 31, 2019 (Prospect)	-	23. ⁵⁰	-	23. ⁵⁰	47. ⁰⁰

(Note) Revisions since the most recently released dividend projection: None

3. Forecast for Earnings for the Year Ending October 31, 2019 (Consolidated)

(Percent change from the previous Full Business Year)

	Net Sales		Operating Income		Ordinary Income	
	(Millions of Yen)	(Percent)	(Millions of Yen)	(Percent)	(Millions of Yen)	(Percent)
Full Business Year	42,200	-0.4	2,300	-3.3	2,300	-1.5

	Net Income Attributable to Owners of the Parent		Net Income per Share
	(Millions of Yen)	(Percent)	Yen
Full Business Year	1,500	-0.9	150. ³³

(Note) Revisions since the most recently released dividend projection: None

Notes

(1) Significant changes in subsidiaries during this period (changes in specific subsidiaries involving changes in the scope of consolidation): None

Number of new subsidiaries: __ (Company names):

Number of eliminated subsidiaries: __ (Company names):

(2) Adoption of simplified accounting method and the specific accounting method: None

(3) Changes of the principles, procedures, and representation of the accounting policies

1) Change due to revision of accounting standard: None

2) Other changes than the above 1): None

3) Change in accounting estimates: None

4) Retrospective restatements: None

(4) Number of outstanding shares (Common stock)

1) Number of outstanding shares as of quarter-end and year-end (including treasury stocks)

At April 30, 2019: 10,533,200 shares At October 31, 2018: 10,533,200 shares

2) Number of treasury stocks as of quarter-end and year-end

At April 30, 2019: 554,861 shares At October 31, 2018: 554,861 shares

3) Number of average shares (accumulated quarterly total)

At April 30, 2019: 9,978,339 shares At April 30, 2018: 9,978,383 shares

*The quarterly earnings report is exempt from the quarterly review by certified public accountant or audit firm.

*Explanations for appropriate use of the earnings forecast and other special instructions

The forward-looking statements such as a forecast of our financial results described herein are based on the information currently available to us and certain assumptions that we believe are reasonable. Actual results could differ materially due to various factors.

Please refer to the Financial Results for the Quarter (Attachments) on page 3, (3) [Analysis of Future Forecast on Quarterly Consolidated Earnings Forecast] of 1. [Qualitative Information on Quarterly Consolidated Operating Results] for the operating results forecast.

Table of Contents (Supporting Data)

1. Qualitative Information on Quarterly Consolidated Operating Results.....	2
(1) Analysis of Operating Results.....	2
(2) Analysis of Financial Condition.....	3
(3) Analysis of Future Forecast on Quarterly Consolidated Earnings Forecast.....	3
2. Quarterly Consolidated Financial Statement and Notes.....	4
(1) Quarterly Consolidated Balance Sheet.	4
(2) Quarterly Consolidated Statements of Income & Quarterly Consolidated Statements of Comprehensive Income.....	6
Quarterly Consolidated Statements of Income.....	6
Quarterly Consolidated Statements of Comprehensive Income.....	7
(3) Quarterly Consolidated Statements of Cash Flows.....	8
(4) Notes on Quarterly Consolidated Financial Statements.....	10
(Note for premise of going concern).....	10
(Notes for significant changes in shareholder's equity).....	10
(Additional information).....	10
(Segment information)	10

1. Qualitative Information on Quarterly Consolidated Operating Results

(1) Analysis of Operating Results

During the consolidated second quarter under review, Japan's economy seemed to reach a pause, including a drop in exports against the backdrop of a slowdown in the overseas economy, particularly in China, and declines in personal consumption and capital investment, even though housing investment and investment in public works continued at a robust pace. Overseas, however, despite the ongoing recovery of the U.S. economy, Europe's economy continued to be sluggish and the growth rate of China's economy remained slack. In the months ahead, the rising sense of uncertainty surrounding the global economy resulting from circumstances such as further heightened trade friction between the U.S. and China and Great Britain's pending withdrawal from the EU will require careful attention.

Given these circumstances, net sales for the Tomoe Engineering Group for the consolidated second quarter increased 5.8% from the same period last year to 22,136 million yen, reflecting significant increase of net sales in the Machinery & Equipment Business despite lower net sales in the Chemical Product Business. From the earnings aspect, operating income was 1,700 million yen, 28.9% up from the same period last year because of higher profit in the Machinery & Equipment Businesses, while ordinary income came to 1,713 million yen, 27.3% up from the same period last year. Net income attributable to owners of the parent was 1,151 million yen, 29.5% up from the same period last year.

Operating results by segment were as follows.

(Machinery & Equipment Business)

In the Machinery & Equipment Business, net sales of works in all fields, machinery for domestic private sector demand, and machinery, components and repair services for domestic public sector demands decreased, but on the other hand net sales of components and repair services for domestic private sector demand, and machinery, components and repair services for overseas demand were robust. As a result, net sales for consolidated second quarter year-to-date period were 6,629 million yen, 26.9% up from the same period last year.

With respect to earnings, operating income was 945 million yen, 165.7% up from the same period of the prior year, mainly because of increased profits in the field of components and repair services with high margins for overseas.

(Chemical Products Business)

In the Chemical Products Business, net sales of materials for housing and construction applications in the industrial materials sector increased, but on the other hand net sales of transport materials for semiconductor manufacturing applications in the electronics materials sector, and other sectors decreased. As a result, net sales for consolidated second quarter year-to-date period were 15,507 million yen, 1.2% down from the same period last year.

With respect to earnings, operating income was 754 million yen, 21.6% down from the same period of the prior year, because of declined gross-profit margin and increased selling costs.

(2) Analysis of Financial Condition

[1] Assets, Liabilities, and Net Assets

Total assets as of the end of the consolidated second quarter under review were 38,478 million yen, increased by 1,146 million yen from the end of the previous consolidated fiscal year. This mainly reflected decreased notes and accounts receivable-trade, and merchandise and finished goods, and increased cash and deposits, and electronically recorded monetary claims.

Liabilities were 9,735 million yen, increased by 279 million yen from the end of the previous consolidated fiscal year, mainly because of decreased notes and accounts payable-trade and provision for bonuses, and increased electronically recorded monetary debt, advances received, and allowance for product warranty.

Net assets stood at 28,743 million yen, increased by 867 million from the end of the previous consolidated fiscal year. This mainly reflected an increase in retained earnings recorded under quarterly net income attributable to owners of the parent.

As a result of the above changes, the equity ratio at the end of the consolidated second quarter under review stood at 74.7%, the same ratio as at the end of the previous consolidated fiscal year.

[2] Cash Flow Status

Cash and cash equivalents (“cash”) as of the end of the consolidated second quarter under review decreased by 1,528 million yen from the end of the previous consolidated fiscal year to 7,825 million yen, despite positive cash flow provided by operating activities, reflecting expenditures for both investment and financing activities. The status of each consolidated cash flow and their factors during the second quarter are as follows:

(Net Cash Provided by (Used in) Operating Activities)

Net cash provided by operating activities during the consolidated second quarter under review totaled 1,965 million yen. Payment of income taxes was 502 million yen, and provision for bonuses decreased by 255 million yen, income before income taxes decreased by 1,707 million yen, and inventory decreased by 511 million yen. Net cash provided by operating activities increased by 1,670 million yen compared to 294 million yen provided for the same consolidated quarter year-to-date period of the previous year.

(Net Cash Provided by (Used in) Investing Activities)

Net cash used by investing activities during the consolidated second quarter under review reflected expenditures totaling 3,237 million yen. This reflected a difference of 3,000 million yen between deposits and disbursements to time deposits. Net cash used by investing activities increased by 1,111 million yen compared to 2,125 million yen used for the same consolidated quarter year-to-date period of the previous year.

(Net Cash Provided by (Used in) Financing Activities)

The decrease in cash as a result of financing activities during the consolidated second quarter under review came to 244 million yen. This reflected the payment of cash dividends of 244 million yen. Net cash used in investing activities increased by 19 million yen compare to 224 million yen used for the same consolidated quarter year-to-date period of the previous year.

(3) Analysis of Future Forecast on Quarterly Consolidated Earnings Forecast

There are no revisions to the consolidated earnings forecast figures for the fiscal year ending October 31, 2019 that were announced in the “Notice on changes in earnings forecast” released on May 31, 2019.

2. Quarterly Consolidated Financial Statement and Notes

(1) Quarterly Consolidated Balance Sheets (Second Quarter)

(Thousands of Yen)

Assets	End of Previous Year (October 31, 2018)	End of Second Quarter (April 30, 2019)
Current Assets		
Cash and Deposits	9,354,256	10,825,779
Notes and Accounts Receivable-Trade	11,834,551	11,098,994
Electronically Recorded Monetary Claims	2,183,842	3,032,821
Merchandise and Finished Goods	3,685,115	3,312,539
Work in Process	981,660	806,228
Raw Materials and Supplies	667,846	704,474
Others	183,711	237,687
Allowance for Doubtful Accounts	-67,114	-65,707
Total Current Assets	28,823,870	29,952,818
Noncurrent Assets		
Property, Plant and Equipment		
Buildings and Structures	4,459,308	4,481,736
Accumulated Depreciation	-1,831,356	-1,896,135
Buildings and Structures, Net	2,627,951	2,585,600
Machinery, Equipment and Vehicles	3,697,837	3,810,169
Accumulated Depreciation	-3,304,595	-3,320,174
Machinery, Equipment and Vehicles, Net	393,242	489,995
Land	1,931,089	1,930,921
Construction in progress	10,606	—
Others	980,958	1,007,649
Accumulated Depreciation	-901,758	-927,374
Others, Net	79,199	80,275
Total Property, Plant and Equipment	5,042,089	5,086,792
Intangible Assets	109,792	106,338
Investments and Other Assets		
Investment Securities	1,374,561	1,342,701
Guarantee Deposits	340,386	345,274
Net Defined Benefit Assets	1,554,938	1,561,529
Deferred Tax Assets	16,436	12,907
Others	92,654	93,254
Allowance for Doubtful Accounts	-22,871	-22,881
Total Investments and Other Assets	3,356,107	3,332,785
Total Noncurrent Assets	8,507,988	8,525,916
Total Assets	37,331,859	38,478,734

(Thousands of Yen)

Liabilities and Net Assets	End of Previous Year (October. 31, 2018)	End of Second Quarter (April 30, 2019)
Liabilities		
Current Liabilities		
Notes and Accounts Payable-Trade	4,193,451	3,898,678
Electronically Recorded Monetary Debt	1,857,112	2,142,481
Accounts Payable-Others	600,382	672,686
Income Taxes Payable	539,919	583,350
Advances Received	70,030	265,463
Provision for Bonuses	1,081,025	825,704
Provision for Directors' Bonuses	70,000	34,014
Allowance for Product Warranty	160,295	332,598
Others	217,988	319,213
Total Current Liabilities	8,790,206	9,074,190
Noncurrent Liabilities		
Provision for Directors' Retirement Benefits	5,460	5,460
Net Defined Benefit Liabilities	57,905	60,294
Deferred Tax Liabilities	601,913	595,270
Total Noncurrent Liabilities	665,279	661,024
Total Liabilities	9,455,485	9,735,214
Net Assets		
Shareholders' Equity		
Capital Stock	1,061,210	1,061,210
Capital Surplus	1,483,410	1,483,410
Retained Earnings	24,953,779	25,860,872
Treasury Stock	-363,977	-363,977
Total Shareholders' Equity	27,134,422	28,041,514
Accumulated Other Comprehensive Income		
Valuation Difference on Available-for-Sale Securities	433,098	408,618
Deferred Gains or Losses on Hedges	130	953
Foreign Currency Translation Adjustment	186,221	180,436
Total Adjustment on Net Defined Benefit	122,501	111,997
Total Accumulated Other Comprehensive Income	741,950	702,005
Total Net Assets	27,876,373	28,743,520
Total Liabilities and Net Assets	37,331,859	38,478,734

(2) Quarterly Consolidated Statements of Income & Quarterly Consolidated Statements of Comprehensive Income

Quarterly Consolidated Statements of Income (Second Quarter)

(Thousands of Yen)

	Second Quarter Ended April 30, 2018	Second Quarter Ended April 30, 2019
Net Sales	20,923,688	22,136,224
Cost of Sales	16,246,088	16,928,304
Gross Profit	4,677,600	5,207,919
Selling, General and Administrative Expenses	3,358,185	3,507,279
Operating Income	1,319,414	1,700,640
Non-Operating Income		
Interest Income	958	786
Dividends Income	11,307	13,297
Rent Income	3,440	3,585
Foreign Exchange Gain	18,794	12,183
Others	18,506	16,445
Total Non-Operating Income	53,009	46,297
Non-Operating Expenses		
Interest Expenses	13,497	20,908
Commission Paid	7,487	7,487
Sales Discount	2,854	3,591
Others	2,326	1,768
Total Non-Operating Expenses	26,166	33,756
Ordinary Income	1,346,257	1,713,181
Extraordinary Losses		
Loss on Evaluation of Investment Securities	—	5,550
Total Extraordinary Losses	—	5,550
Income before Income Taxes and Minority Interests	1,346,257	1,707,631
Income Taxes-Current	422,926	542,534
Income Taxes-Deferred	33,864	13,535
Total Income Taxes	456,790	556,069
Net Income or Net Loss (-)	889,467	1,151,561
Net Income or Net Loss (-)	889,467	1,151,561
Attributable to Owners of the Parent		

Quarterly Consolidated Statements of Comprehensive Income (Second Quarter)

(Thousands of Yen)

	Second Quarter Ended April 30, 2018	Second Quarter Ended April 30, 2019
Net Income	889,467	1,151,561
Other Comprehensive Income		
Valuation Difference on Available-for-sale Securities	20,642	-24,480
Deferred Gains or Losses (-) on Hedges	784	822
Foreign Currency Translation Adjustment	-14,591	-5,785
Net Defined Benefit	34,120	-10,503
Total Other Comprehensive Income	40,955	-39,945
Comprehensive Income	930,422	1,111,615
(Breakdown)		
Comprehensive Income Attributable to Owners of the Parent	930,422	1,111,615

(3) Quarterly Consolidated Statements of Cash Flows

(Thousands of Yen)

	Second Quarter Ended April 30, 2018	Second Quarter Ended April 30, 2019
Net Cash Provided by (Used in) Operating Activities		
Income before Income Taxes	1,346,257	1,707,631
Depreciation and Amortization	193,508	177,632
Increase (Decrease) in Provision for Bonuses	(237,479)	(255,091)
Increase (Decrease) in Provision for Directors' Bonuses	(34,258)	(35,986)
Increase (Decrease) in Allowance for Product Warranty	(21,106)	172,303
Increase (Decrease) in Net Defined Benefit Liability	1,907	2,388
Decrease (Increase) in Net Defined Benefit Asset	2,045	(14,159)
Increase (Decrease) in Allowance for Doubtful Accounts	(5,464)	57
Interests and Dividends Income	(12,266)	(14,083)
Interest Expenses	13,497	20,908
Foreign Exchange Losses (Gains)	57,787	19,716
Decrease (Increase) in Notes and Accounts Receivable-Trade	(417,848)	(107,744)
Decrease (Increase) in Inventories	(852,828)	511,229
Increase (Decrease) in Notes and Accounts Payable-Trade	339,322	(13,773)
Valuation Difference in Investment Securities (Gains)	—	5,550
Increase (Decrease) in Accounts Payable-Others	38,760	57,030
Increase (Decrease) in Advances Received	163,205	196,088
Others, Net	112,953	44,646
Sub Total	687,993	2,474,344
Interests and Dividends Income Received	12,080	14,030
Interest Expenses Paid	(13,504)	(20,915)
Income Taxes Returned (Paid)	(392,121)	(502,397)
Net Cash Provided by (Used in) Operating Activities	294,446	1,965,061

(Thousands of Yen)

	Second Quarter Ended April 30, 2018	Second Quarter Ended April 30, 2019
Net Cash Provided by (Used in) Investment Activities		
Disbursement to Time Deposits	(2,000,000)	(6,000,000)
Withdrawal from Time Deposits	—	3,000,000
Purchase of Property, Plant and Equipment	(95,417)	(199,281)
Proceeds from Sales of Property, Plant and Equipment	—	935
Purchase of Intangible Fixed Assets	(19,493)	(20,953)
Purchase of Investment Securities	(10,018)	(10,546)
Payments of Loans Receivable	(1,390)	(2,040)
Collection of Loans Receivable	2,110	1,895
Guarantee Deposits (Increase)	(2,149)	(5,622)
Others, Net	542	(1,757)
Net Cash Provided by (Used in) Investment Activities	(2,125,817)	(3,237,370)
Net Cash Provided by (Used in) Financing Activities		
Cash Dividends Paid	(224,513)	(244,469)
Net Cash Provided by (Used in) Financing Activities	(224,513)	(244,469)
Cash and Cash Equivalents		
Effect of Exchange Rate Change on Cash and Cash Equivalents	(48,900)	(11,699)
Net Increase (Decrease) in Cash and Cash Equivalents	(2,104,785)	(1,528,476)
Cash and Cash Equivalents at Beginning of Period	7,893,336	9,354,256
Cash and Cash Equivalents at End of This Quarter	5,788,551	7,825,779

(4) Notes on Quarterly Consolidated Financial Statements

(Note for premise of going concern)

There are no pertinent matters to report.

(Notes for significant changes in shareholder's equity)

There are no pertinent matters to report.

(Additional information)

Beginning from the first quarter consolidated accounting period, the Company has applied the Partial Revision of "Accounting Standard for Tax Effect Accounting" (Accounting Standards Board of Japan Statement No. 28), and has classified the deferred tax assets in Investments and Other Assets and the deferred tax liabilities in Noncurrent Liabilities.

(Segment Information, etc.)

Second Quarter Ended April 30, 2018

Information Pertaining to the Amount of Net Sales or Net Loss of Each Reporting Segment

(Thousands of Yen)

	Reported Segment			Grand Total
	Machinery & Equipment Business	Chemical Products Business	Total	
Net Sales				
Net Sales to Unaffiliated Customers	5,223,166	15,700,521	20,923,688	20,923,688
Internal Net Sales among Segments or Amount Transferred	-	-	-	-
Total	5,223,166	15,700,521	20,923,688	20,923,688
Segment Profit	355,924	963,489	1,319,414	1,319,414

(Note) The total amount of segment profit is identical to the operating income reported on the Quarterly Consolidated Statements of Income.

Second Quarter Ended April 30, 2019

Information Pertaining to the Amount of Net Sales or Net Loss of Each Reporting Segment

(Thousands of Yen)

	Reported Segment			Grand Total
	Machinery & Equipment Business	Chemical Products Business	Total	
Net Sales				
Net Sales to Unaffiliated Customers	6,629,012	15,507,212	22,136,224	22,136,224
Internal Net Sales among Segments or Amount Transferred	-	-	-	-
Total	6,629,012	15,507,212	22,136,224	22,136,224
Segment Profit	945,684	754,956	1,700,640	1,700,640

(Note) The total amount of segment profit is identical to the operating income reported on the Quarterly Consolidated Statements of Income.