Consolidated Financial Results for the Six Months of the Fiscal Year Ending March 31, 2019

November 9, 2018

SHINKAWA LTD.

(URL https://www.shinkawa.com/)

Listing	**First Section of Tokyo Stock Exchange**
Security code	**6274**
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Phone Number	**+81-3-5937-6404**
Scheduled date to file Quarterly Report	**November 14, 2018**
Scheduled date to commence dividend payments	—
Quarterly Results Supplemental Materials	**Yes**
Quarterly Results Presentation Meeting	**Yes (for securities analysts)**

1. Consolidated Financial Results for the Six Months ended September 30, 2018 (from April 1, 2018 to September 30, 2018)

(Amounts are rounded off to nearest million yen.)

(1) Consolidated Operating Results

(% changes as compared with the corresponding period of the previous fiscal year)

	Net sales		Operating loss		Ordinary loss		Loss attributable to owners of parent	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
Six months ended September 30, 2018	**6,045**	**(15.9)**	**(1,150)**	**-**	**(1,054)**	**-**	**(1,113)**	**-**
Six months ended September 30, 2017	7,187	18.9	(322)	-	(192)	-	(256)	-

(Note) Comprehensive income : Six months ended September 30, 2018: (1,119) million yen
Six months ended September 30, 2017: (11) million yen

	Loss per share	Diluted profit per share
	Yen	Yen
Six months ended September 30, 2018	**(61.25)**	**-**
Six months ended September 30, 2017	(14.07)	-

(2) Consolidated Financial Position

	Total assets	Net assets	Equity ratio
	Millions of yen	Millions of yen	%
As of September 30, 2018	**25,157**	**20,438**	**81.2**
As of March 31, 2018	24,959	21,545	86.3

(Reference) Equity: As of September 30, 2018: 20,438 million yen As of March 31, 2018: 21,545 million yen

2. Dividends

	Cash dividends per share				
	End of 1Q	End of 2Q	End of 3Q	Year-end	Full year
	Yen	Yen	Yen	Yen	Yen
Fiscal year ended March 31, 2018	-	0.00	-	0.00	0.00
Fiscal year ending March 31, 2019	-	0.00			
Fiscal year ending March 31, 2019 (Forecast)			-	-	-

(Note) Revisions to the dividend forecasts announced recently: None
The dividend forecast for the fiscal year ending March 31, 2019 is undecided.

3. Forecast of Consolidated Financial Results for the Nine Months of the Fiscal Year Ending March 31, 2019

(from April 1, 2018 to December 31, 2018)

(% changes as compared with the corresponding period of the previous fiscal year)

	Net sales		Operating loss		Ordinary loss		Loss attributable to owners of parent		Loss per share
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Yen
Nine months ending December 31, 2018	**9,300**	**(11.5)**	**(2,130)**	**-**	**(2,130)**	**-**	**(2,220)**	**-**	**(122.11)**

(Note) Revisions to the Forecast of Consolidated Financial Results announced recently : Yes

*** Notes**

(1) Changes in significant subsidiaries during the six months of the fiscal year ending March 31, 2019
(Changes in specified subsidiaries that caused change in scope of consolidation) : None

(2) Application of an accounting procedure especially for the preparation of quarterly consolidated financial statements : Yes

(3) Changes in accounting policies, accounting estimates and restatement of the consolidated financial statements
1) Changes in accounting policies due to revision of accounting standards : None
2) Changes in matters other than 1) above : None
3) Changes in accounting estimates : None
4) Restatement : None

(4) Number of common shares issued
1) Number of shares issued at the end of periods (including treasury stock) :

As of September 30, 2018	20,047,500 shares
As of March 31, 2018	20,047,500 shares

2) Number of treasury stock at the end of periods:

As of September 30, 2018	1,858,789 shares
As of March 31, 2018	1,874,404 shares

3) Average number of shares during periods:

Six months ended September 30, 2018	18,177,490 shares
Six months ended September 30, 2017	18,173,495 shares

*** This report is not subject to the quarterly review by certified public accountants or audit corporation.**

*** Explanation regarding the appropriate use of projections and other special notes**

(Notes for the forward-looking statements)
The forward looking statements, including business results forecast, contained in this document are based on information available to the SHINKAWA Group and certain assumptions deemed reasonable as of the date of this document and the Company does not guarantee that such forecast will be achieved. Actual business results may differ substantially due to a number of factors.
(Method to obtain supplemental materials for quarterly financial documents)
Supplemental materials for the quarterly financial documents is scheduled to be released on the Company’s web site.

1. Qualitative Information on the Quarterly Financial Statements for the Period under Review

(1) Explanation of Operating Results

During the first six months of the fiscal year ending March 31, 2019, the world economy progressed steadily overall even though there are variations in the degrees of economic recovery among countries. These include the United States with its economy continuously expanding, the European Union and Japan, where their economies are gradually recovering, and China whose economy is slowing down. Meanwhile, uncertain situations that may lead to some downturn risks for the global economy still continue, such as the influence of rising trade tensions due to protectionism in the United States, and geopolitical risk in the Middle East.

In the medium to long term outlook of the semiconductor industry after 2020, demand for automotive devices and data centers is expected to increase. In the short term, however, growth in the semiconductor market has slowed due to the sluggish smartphone market and a decline in memory prices. Furthermore, in memory manufacturers and the Chinese market, postponement and freezing of investment have been apparent.

Regarding the equipment models of the SHINKAWA Group, sales of wire bonders and factory automation equipment are expected to slow. This is due to a slump in mobile-related demand and a transition from wire bonders to flip chip bonders in manufacturing advanced packages, creating a trend of re-allocating surplus equipment to different production usages. Furthermore, trade friction between the United States and China as well as uncertainty about the future economic outlook is having an impact. The memory and logic related markets have fallen sharply since the second quarter of the current fiscal year. Capital investment has been focused mainly on LED devices and low-pin-count analog devices produced by medium-size manufacturers in China.

On the other hand, sales of die bonders remained steady thanks to stable demand for discrete devices as well as continued capital investment in NAND Flash. Capital investment in flip chip bonders increased along with the expansion of the analog market. In addition, qualification evaluation of TCB processes for advanced packages has progressed, but it has not yet contributed to sales.

Under these circumstances, the Group has listed "Enhancing existing businesses," "Creating new business values," and "Revitalizing the organization and fostering human resources" as three basic strategies of the medium-term management plan: "Challenge Shinkawa 2020." This is done as an effort to return to the top of the industry. In the current term, the Group hired Chinese agencies to promote market development to small and medium-sized customers in China, and strived to create synergies with newly-acquired PFA Corporation in several fields. The Group will promote technological innovation to meet demand for electronic component mounting as a new application for wire bonders. In addition, to respond flexibly to changes in the market, the Group will accelerate product development focusing on growing markets while acquiring new customers.

Since these efforts require a certain amount of time to produce results, sales of die bonders and flip chip bonders increased compared with the sales in the same period the previous year, but sales of wire bonders decreased year-on-year.As for the consolidated performance of the Group for the second quarter of the fiscal year ending March 31, 2019, net sales decreased 15.9% from the corresponding period of the previous fiscal year to 6,045 million yen. An operating loss of 1,150 million yen was recorded compared with an operating loss of 322 million yen for the previous fiscal year and an ordinary loss of 1,054 million yen was posted compared with an ordinary loss of 192 million yen a year earlier. As a result, loss attributable to owners of parent of 1,113 million yen was recorded for the second quarter of the fiscal year ending March 31, 2019 compared with loss attributable to owners of parent of 256 million yen a year earlier.

(2) Explanation of Financial Position

Total assets at the first six months of the fiscal year ending March 31, 2019, increased by 198 million yen from the end of the previous fiscal year to 25,157 million yen. Major increases were 1,492 million yen in work in process, and 614 million yen in land. Major decreases were 1,877 million yen in notes and accounts receivable - trade.

Total liabilities at the end of the first six months of the fiscal year increased 1,304 million yen from the end of the previous fiscal year to 4,719 million yen. Major increases were 1,000 million yen in long-term loans payable and 339 million yen in other current liabilities.

Total net assets at the end of the first six months of the fiscal year decreased 1,106 million yen from the end of the previous fiscal year to 20,438 million yen. Major decreases were 1,127 million yen in retained earnings.

As a result, the equity ratio increased from 86.3% at the end of the previous fiscal year to 81.2%.

(Cash Flows)

Cash and cash equivalents at September 30, 2018 decreased 1,165 million yen from the end of the previous fiscal year to 5,045 million yen.

The cash flow situation for the six months ended September 30, 2018, was as follows.

Net cash used in operating activities totaled 369 million yen for the period under review compared with net cash used in operating activities of 942 million yen for the corresponding period of the previous fiscal year. Major components included increase in inventories of 1,330 million yen and loss before income taxes of 1,058 million yen, despite posting a decrease in notes and accounts receivable-trade of 2,125 million yen.

Net cash used by investing activities totaled 1,795 million yen for the period under review compared with net cash provided in investing activities of 26 million yen for the corresponding period of the previous fiscal year. Major components included purchase of shares of subsidiaries resulting in change in scope of consolidation of 1,565 million yen and purchase of property, plant and equipment of 213 million yen.

Net cash provided in financing activities totaled 1,000 million yen compared with net cash used in financing activities of 0 million yen for the previous fiscal year. Major components included proceeds from long-term loans payable of 1,000 million yen.

(3) Explanation of Consolidated Forecast and Other Forward-looking Statements

In light of the market environment and the status of orders received recently in the semiconductor industry, in which the Company operates, the Company conducted a detailed review of the earnings forecasts of the Group. Consequently, the Company has revised its earnings projections for the fiscal year ending March 31, 2019.

For details, please refer to the "Notice of Revisions to Full Year Consolidated Financial Forecasts for the Fiscal Year ending March 31, 2019" announced today (November 9, 2018).

2. Quarterly Consolidated Financial Statements

(1) Quarterly Consolidated Balance Sheets

	Millions of yen	
	As of March 31, 2018	**As of September 30, 2018**
Assets		
Current assets		
Cash and deposits	6,452	**5,238**
Notes and accounts receivable - trade	4,971	**3,095**
Electronically recorded monetary claims	283	**113**
Merchandise and finished goods	2,589	**3,153**
Work in process	1,223	**2,715**
Raw materials and supplies	762	**895**
Other	783	**500**
Allowance for doubtful accounts	(1)	**(3)**
Total current assets	17,064	**15,705**
Non-current assets		
Property, plant and equipment		
Land	3,217	**3,831**
Other, net	1,796	**2,161**
Total property, plant and equipment	5,013	**5,992**
Intangible assets		
Goodwill	—	**542**
Other	43	**81**
Total intangible assets	43	**623**
Investments and other assets		
Other	2,840	**2,879**
Allowance for doubtful accounts	—	**(42)**
Total investments and other assets	2,840	**2,837**
Total non-current assets	7,896	**9,452**
Total assets	24,959	**25,157**
Liabilities		
Current liabilities		
Accounts payable - trade	1,238	**1,208**
Current portion of long-term loans payable	—	**200**
Income taxes payable	72	**78**
Provision for bonuses	222	**304**
Provision for product warranties	273	**214**
Other	379	**719**
Total current liabilities	2,185	**2,723**
Non-current liabilities		
Long-term loans payable	—	**800**
Net defined benefit liability	852	**836**
Other	378	**359**
Total non-current liabilities	1,230	**1,996**
Total liabilities	3,415	**4,719**
Net assets		
Shareholders' equity		
Capital stock	8,360	**8,360**
Capital surplus	8,907	**8,907**
Retained earnings	6,289	**5,163**
Treasury shares	(3,150)	**(3,124)**
Total shareholders' equity	20,406	**19,306**
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	944	**895**
Foreign currency translation adjustment	203	**242**
Remeasurements of defined benefit plans	(9)	**(4)**
Total accumulated other comprehensive income	1,139	**1,133**
Total net assets	21,545	**20,438**
Total liabilities and net assets	24,959	**25,157**

(2) Quarterly Consolidated Statements of Income and Comprehensive Income

Quarterly Consolidated Statements of Income

Six months ended September 30, 2017 and 2018

	Millions of yen	
	Six months ended September 30, 2017	**Six months ended September 30, 2018**
Net sales	7,187	**6,045**
Cost of sales	4,781	**4,347**
Gross profit	2,406	**1,698**
Selling, general and administrative expenses	2,728	**2,848**
Operating loss	(322)	**(1,150)**
Non-operating income		
Interest income	4	**4**
Dividend income	30	**22**
Foreign exchange gains	94	**57**
Other	5	**20**
Total non-operating income	132	**102**
Non-operating expenses		
Interest expenses	2	**6**
Other	1	**0**
Total non-operating expenses	2	**6**
Ordinary loss	(192)	**(1,054)**
Extraordinary losses		
Loss on sales of non-current assets	—	**2**
Loss on retirement of non-current assets	—	**2**
Total extraordinary losses	—	**4**
Loss before income taxes	(192)	**(1,058)**
Income taxes - current	45	**32**
Income taxes - deferred	19	**24**
Total income taxes	64	**56**
Loss	(256)	**(1,113)**
Loss attributable to owners of parent	(256)	**(1,113)**

Quarterly Consolidated Statements of Comprehensive Income
Six months ended September 30, 2017 and 2018

	Millions of yen	
	Six months ended September 30, 2017	**Six months ended September 30, 2018**
Loss	(256)	**(1,113)**
Other comprehensive income		
Valuation difference on available-for-sale securities	220	**(49)**
Foreign currency translation adjustment	31	**39**
Remeasurements of defined benefit plans, net of tax	(6)	**4**
Total other comprehensive income	245	**(6)**
Comprehensive income	(11)	**(1,119)**
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	(11)	**(1,119)**
Comprehensive income attributable to non-controlling interests	−	−

(3) Quarterly Consolidated Statements of Cash Flows
Six months ended September 30, 2017 and 2018

	Millions of yen	
	Six months ended September 30, 2017	**Six months ended September 30, 2018**
Cash flows from operating activities		
Loss before income taxes	(192)	**(1,058)**
Depreciation	242	**272**
Amortization of goodwill	—	**29**
Increase (decrease) in allowance for doubtful accounts	(0)	**(7)**
Increase (decrease) in provision for bonuses	4	**41**
Increase (decrease) in net defined benefit liability	(16)	**(14)**
Increase (decrease) in other provision	40	**(81)**
Interest and dividend income	(34)	**(25)**
Interest expenses	2	**6**
Foreign exchange losses (gains)	(46)	**(23)**
Loss (gain) on sales of non-current assets	—	**2**
Decrease (increase) in notes and accounts receivable - trade	(204)	**2,125**
Decrease (increase) in inventories	(640)	**(1,330)**
Increase (decrease) in notes and accounts payable - trade	(266)	**(432)**
Loss on retirement of non-current assets	—	**2**
Other, net	248	**89**
Subtotal	(863)	**(403)**
Interest and dividend income received	34	**25**
Interest expenses paid	(2)	**(3)**
Income taxes (paid) refund	(112)	**12**
Net cash provided by (used in) operating activities	(942)	**(369)**
Cash flows from investing activities		
Payments into time deposits	(140)	**(120)**
Proceeds from withdrawal of time deposits	271	**171**
Purchase of property, plant and equipment	(120)	**(213)**
Proceeds from sales of property, plant and equipment	4	**0**
Purchase of intangible assets	(14)	**(9)**
Purchase of shares of subsidiaries resulting in change in scope of	—	**(1,565)**
Payments of loans receivable	(5)	**(8)**
Collection of loans receivable	8	**13**
Other payments	(122)	**(68)**
Other proceeds	145	**4**
Net cash provided by (used in) investing activities	26	**(1,795)**
Cash flows from financing activities		
Proceeds from long-term loans payable	—	**1,000**
Purchase of treasury shares	(0)	**(0)**
Net cash provided by (used in) financing activities	(0)	**1,000**
Effect of exchange rate change on cash and cash equivalents	10	**(1)**
Net increase (decrease) in cash and cash equivalents	(907)	**(1,165)**
Cash and cash equivalents at beginning of period	4,572	**6,210**
Cash and cash equivalents at end of period	3,665	**5,045**

(4) Notes to Quarterly Consolidated Financial Statements

(Notes on Going Concern Assumption)

Not applicable

(Notes to Significant Changes in the Amounts of Shareholders' Equity)

Not applicable

(Changes to the Scope of Consolidation and Application of the Equity Method)

Important Changes to the Scope of Consolidation

The Company successfully acquired all shares of Pioneer FA Corporation (now known as PFA Corporation) on June 1, 2018. From the end of the first quarter of consolidated accounting period, it is included in the scope of consolidation.

(Specific Accounting Procedure Applied for Preparation of Quarterly Consolidated Financial Statements)

Computation of Tax Expenses

In regards to tax expenses of consolidated overseas subsidiaries, the effective tax rate after application of tax effect accounting for the income before income taxes and minority interests of the current fiscal year including the period under review is estimated through fair value, and the income before income taxes and minority interests is then multiplied by this amount.

Income taxes-deferred of consolidated overseas subsidiaries are included in income taxes-current.

(Additional Information)

The Company has applied the “Partial Amendments to Accounting Standards for Tax Effect Accounting” (ASBJ Statement No. 28, February 16th, 2018) from the beginning of the first quarter of fiscal year ending March 31, 2019. As a result, deferred tax assets are classified as “Investments and other assets” and deferred tax liabilities are classified as “Long term liabilities” respectively.

3. Other

(Notes on Important Events Related to the Going Concern Assumption)

The Group reported an operating loss, ordinary loss and loss attributable to owners of parent in the past consecutive fiscal years, mostly due to prolonged periods of product development and evaluation and a relatively high ratio of fixed cost to net sales. Despite the fact that a profit attributable to owners of parent was recorded for the group's consolidated performance the previous year, net loss is recorded in individual performance. Under such circumstances, the Company experienced important events relating to the going concern assumption.

In an attempt to resolve this situation, the Group established medium-term management plan namely "Challenge Shinkawa 2020" and will be involved in the following initiatives.

1) Growth in existing business

With the arrival of the IoT age, there are various changes in demand for semiconductor packages. The Group promotes the functional enhancement of wire bonders and die bonders to handle the use of SSD data storages and high-speed memories. The Group also promotes the development and sales expansion of flip chip bonders to handle advanced bonding processes such as thermal compression bonding for 3 and 2.5-dimensional bonding applications that are used for memory cubes and the latest CPUs. Furthermore, along with higher functionality of communication devices such as smartphones, the Group enhances the function of flip chip bonders for high-performance packages such as PoP (Package-on-package) and FO-WLP (Fan-out Wafer Level Package).

2) Creating new business value

The Group, under the concept of "Shinkawa Smart Bonding Solution," continues the development of solution technologies that incorporate the IoT function into the semiconductor assembly process. The Group will increase customer satisfaction and its associated value by promoting intelligent machines (with enhanced sensing function), intelligent networks (with enhanced data collection and analysis functions), and intelligent processes (with know-how embedded in software), as well as proposing solutions ahead of challenges triggered by progress of the IoT society.

3) Activating organization and fostering human resources

In order to transform the Group into an organization that demonstrates creativity, it is necessary to secure various talents. In addition to providing a stage where excellent talents from all over the world play an active role, the Group focuses on human resource development including raising employees' awareness.

The Group has an equity ratio of 81.2% and secures sufficient funds by signing an overdraft agreement with our bank to promote business operations in the current consolidated fiscal year. Accordingly, we judge any material uncertainty is not recognized related to the going concern assumption.

4. Supplementary Information

Quarterly Consolidated Performance

Fiscal year ended March 31, 2018 (consolidated)

(Millions of Yen, except "Profit (loss) per Share")

	1Q ended June 30, 2017	2Q ended September 30, 2017	3Q ended December 31, 2017	4Q ended March 31, 2018	FY ended March 31, 2018
Net sales	2,915	4,272	3,321	4,706	15,214
Gross profit	956	1,450	1,095	1,220	4,722
Operating profit (loss)	(412)	90	(209)	(89)	(620)
Ordinary profit (loss)	(363)	171	(157)	(140)	(488)
Profit (loss) before income taxes	(363)	171	(157)	968	619
Profit (loss) attributable to owners of parent	(428)	172	(169)	988	563
Profit (loss) per share (Yen)	(23.55)	9.48	(9.28)	54.34	31.00
Total assets	24,893	25,114	25,750	24,959	24,959
Net assets	21,094	21,567	21,806	21,545	21,545
Orders received	3,136	3,107	3,342	5,005	14,589

Fiscal year ending March 31, 2019 (consolidated)

(Millions of Yen, except "Loss per Share")

	1Q ended June 30, 2018	2Q ended September 30, 2018
Net sales	**1,865**	**4,180**
Gross profit	**550**	**1,147**
Operating loss	**(849)**	**(301)**
Ordinary loss	**(890)**	**(164)**
Loss before income taxes	**(892)**	**(165)**
Loss attributable to owners of parent	**(939)**	**(174)**
Loss per share (Yen)	**(51.67)**	**(9.60)**
Total assets	**25,853**	**25,157**
Net assets	**20,513**	**20,438**
Orders received	**2,552**	**2,676**