

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

October 31, 2018

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Scheduled date for filing of quarterly report: November 14, 2018
 Scheduled date of commencement of dividend payment: –
 Supplementary documents for quarterly results: None
 Quarterly results briefing: None

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

1. Consolidated Financial Results for the First Nine Months Ended September 30, 2018 (January 1, 2018 – September 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	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
Nine months ended								
September 30, 2018	47,390	5.8	3,918	12.7	4,175	14.8	2,361	3.4
September 30, 2017	44,795	(7.3)	3,477	(14.8)	3,636	(13.4)	2,284	(65.4)

(Note) Comprehensive income: 1,559 million yen (-64.4%) for the nine months ended September 30, 2018
 4,382 million yen (-22.4%) for the nine months ended September 30, 2017

	Profit per share (basic)	Profit per share (diluted)
	Yen	Yen
Nine months ended		
September 30, 2018	47.39	–
September 30, 2017	45.85	–

(2) Consolidated Financial Position

	Total assets	Net assets	Equity ratio
	Million yen	Million yen	%
As of September 30, 2018	89,148	56,414	63.3
As of December 31, 2017	89,346	56,251	63.0

(Reference) Shareholders' equity: As of September 30, 2018: 56,414 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 September 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 September 30, 2018: 3,961,715 shares

As of December 31, 2017: 3,963,010 shares

(iii) Average number of shares outstanding during the period

Nine months ended September 30, 2018: 49,828,249 shares

Nine months ended September 30, 2017: 49,827,563 shares

(Note) The number of treasury shares at the end of each period includes the shares of the Company held by the stock-granting ESOP trust (96,685 shares as of September 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 (nine months) (97,390 shares for the nine months ended September 30, 2018, and 68,726 for the nine months ended September 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 nine months, 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 Nine Months Ended September 30, 2018

(1) Explanation Regarding Results of Operations

In the consolidated first nine months under review (January 1, 2018, to September 30, 2018), the Japanese economy saw a gradual recovery against a backdrop of improving corporate earnings and rising capital expenditure. Nonetheless, concerns remained over the impact of the development of trade issues on the world economy, the uncertainty of overseas economies and changes in 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 nine 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 environment and the Group’s initiatives, consolidated net sales for the first nine months of the fiscal year under review increased 5.8% year on year, to 47,390 million yen, operating profit rose 12.7% year on year, to 3,918 million yen, and ordinary profit increased 14.8% year on year, to 4,175 million yen. Primarily due to the extraordinary loss on the closure of the Chinese factory (see the news release, “Notice Regarding Liquidation of a Consolidated Subsidiary (Changxing Water Gremlin Non-Ferrous Co. Ltd.),” dated July 26, 2018, for details) of 974 million yen in the automotive product segment, profit attributable to owners of parent increased 3.4% year on year, to 2,361 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 and precast concrete method increased, which, together with other efforts, led to strong sales of building structural products such as the Base Pack and reinforced joints.

In the U.S., the use of a new distribution center and other factors led to an increase in the Company’s market share in the sale of building materials, which caused sales to grow substantially from the same period of the previous year.

As a result, net sales increased 5.0% year on year, to 39,032 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 18.4% year on year, to 3,501 million yen.

(b) Automotive products

Sales of battery terminal products remained strong thanks mainly to sales growth in Europe.

In addition, sales of bolts and nuts for trucks and trailers increased significantly year on year owing particularly to successfully meeting strong demand in the U.S.

As a result, net sales increased 10.7% year on year, to 7,609 million yen; however, operating profit declined 20.8% year on year, to 485 million yen, mainly reflecting a decrease in production efficiency caused by obsolescence of production facilities for battery terminal products and a rise in repair expenses.

(c) Other businesses

Mainly due to low sales growth of fishing sinkers and fish banks, net sales rose 1.3% year on year, to 747 million yen, with an operating loss of 68 million yen (operating loss for the same period of the previous year: 92 million yen).

(For reference)

Net sales by business segments and product category (consolidated)

(Yen in millions, rounded down)

		Previous consolidated first nine months (Jan. 1, 2017 – Sep. 30, 2017)		Consolidated first nine months under review (Jan. 1, 2018 – Sep. 30, 2018)		Change (%)
		Amount	Proportion (%)	Amount	Proportion (%)	
Construction- related products	Temporary building and formwork products	5,227	11.7	5,399	11.4	3.3
	Civil engineering products	4,461	10.0	4,280	9.0	(4.0)
	Building structural products	14,712	32.8	15,399	32.5	4.7
	Building materials (Japan)	9,128	20.4	9,581	20.2	5.0
	Subtotal – Japan	33,528	74.8	34,660	73.1	3.4
	Building materials (Overseas)	3,651	8.2	4,372	9.2	19.8
	Subtotal – overseas	3,651	8.2	4,372	9.2	19.8
	Subtotal – segment	37,180	83.0	39,032	82.3	5.0
Automotive products		6,876	15.4	7,609	16.1	10.7
Other businesses (Note)		738	1.6	747	1.6	1.3
Total		44,795	100.0	47,390	100.0	5.8

(Note) 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)	Third quarter ended September 30, 2017 (As of September 30, 2018)
ASSETS		
Current assets		
Cash and deposits	22,311	22,811
Notes and accounts receivable - trade	21,799	22,527
Merchandise and finished goods	5,632	6,345
Work in process	945	1,258
Raw materials and supplies	1,519	1,971
Other	1,357	1,782
Allowance for doubtful accounts	(25)	(24)
Total current assets	53,539	56,673
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	9,613	11,681
Machinery, equipment and vehicles, net	4,193	4,371
Land	3,645	3,834
Other, net	2,714	1,880
Total property, plant and equipment	20,167	21,767
Intangible assets		
Goodwill	270	204
Other	303	248
Total intangible assets	573	453
Investments and other assets		
Investment securities	9,611	7,769
Other	5,540	2,572
Allowance for doubtful accounts	(103)	(103)
Total investments and other assets	15,048	10,238
Total non-current assets	35,788	32,459
Deferred assets		
Bond issuance cost	18	15
Total deferred assets	18	15
Total assets	89,346	89,148

(Million yen)

	Fiscal year ended December 31, 2017 (As of December 31, 2017)	Third quarter ended September 30, 2018 (As of September 30, 2018)
LIABILITIES		
Current liabilities		
Notes and accounts payable - trade	4,069	4,965
Electronically recorded obligations - operating	9,301	8,851
Short-term loans payable	1,528	1,909
Income taxes payable	209	474
Provision for bonuses	72	399
Provision for loss on factory closure	—	809
Other	4,165	3,070
Total current liabilities	19,348	20,480
Non-current liabilities		
Bonds payable	1,000	1,000
Long-term loans payable	8,278	7,068
Provision for stock-granting	22	42
Net defined benefit liability	1,684	1,715
Asset retirement obligations	40	40
Other	2,721	2,387
Total non-current liabilities	13,746	12,253
Total liabilities	33,094	32,734
NET ASSETS		
Shareholders' equity		
Capital stock	6,911	6,911
Capital surplus	6,062	6,062
Retained earnings	41,832	42,796
Treasury shares	(2,716)	(2,715)
Total shareholders' equity	52,090	53,055
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	3,352	2,836
Foreign currency translation adjustment	787	489
Remeasurements of defined benefit plans	21	33
Total accumulated other comprehensive income	4,161	3,359
Total net assets	56,251	56,414
Total liabilities and net assets	89,346	89,148

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

(Million yen)

	First nine months ended September 30, 2017 (Jan. 1, 2017 – Sep. 30, 2017)	First nine months ended September 30, 2018 (Jan. 1, 2018 – Sep. 30, 2018)
Net sales	44,795	47,390
Cost of sales	32,234	34,095
Gross profit	12,560	13,294
Selling, general and administrative expenses	9,083	9,376
Operating profit	3,477	3,918
Non-operating income		
Interest income	16	32
Dividend income	137	111
Proceeds from sale of scrap	53	70
Other	117	137
Total non-operating income	325	351
Non-operating expenses		
Interest expenses	40	33
Commission for syndicate loan	26	26
Litigation expenses	60	21
Other	38	12
Total non-operating expenses	166	94
Ordinary profit	3,636	4,175
Extraordinary income		
Gain on sales of non-current assets	0	100
Gain on sales of investment securities	17	467
Other	–	1
Total extraordinary income	18	570
Extraordinary losses		
Loss on disposal of non-current assets	11	130
Factory transfer expenses	31	–
Loss on factory closure	–	974
Other	8	71
Total extraordinary losses	51	1,176
Profit before income taxes	3,603	3,569
Income taxes - current	1,335	1,289
Income taxes - deferred	(16)	(81)
Total income taxes	1,318	1,208
Profit	2,284	2,361
Profit attributable to owners of parent	2,284	2,361

(Quarterly Consolidated Statements of Comprehensive Income)
(First nine-month period)

(Million yen)

	First nine months ended September 30, 2017 (Jan. 1, 2017 – Sep. 30, 2017)	First nine months ended September 30, 2018 (Jan. 1, 2018 – Sep. 30, 2018)
Profit	2,284	2,361
Other comprehensive income		
Valuation difference on available-for-sale securities	947	(516)
Foreign currency translation adjustment	1,131	(297)
Remeasurements of defined benefit plans, net of tax	17	12
Total other comprehensive income	2,097	(802)
Comprehensive income	4,382	1,559
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	4,382	1,559

(3) Quarterly Consolidated Statements of Cash Flows

(Million yen)

	First nine months ended September 30, 2017 (Jan. 1, 2017 – Sep. 30, 2017)	First nine months ended September 30, 2018 (Jan. 1, 2018 – Sep. 30, 2018)
Cash flows from operating activities		
Profit before income taxes	3,603	3,569
Depreciation	1,071	1,239
Increase (decrease) in provision for bonuses	324	326
Increase (decrease) in net defined benefit liability	47	53
Interest and dividend income	(154)	(143)
Interest expenses	40	33
Loss (gain) on sales of non-current assets	6	(100)
Loss (gain) on sales of investment securities	(17)	(467)
Loss on factory closure	–	152
Increase (decrease) in provision for loss on factory closure	–	806
Decrease (increase) in notes and accounts receivable - trade	(1,007)	(754)
Decrease (increase) in inventories	(921)	(1,576)
Decrease (increase) in other current assets	(21)	373
Increase (decrease) in notes and accounts payable - trade	1,404	520
Increase (decrease) in other current liabilities	(101)	(487)
Increase (decrease) in accrued consumption taxes	(219)	80
Other	85	167
Subtotal	4,140	3,792
Income taxes paid	(3,244)	(2,682)
Loss on factory closure paid	–	(37)
Net cash provided by (used in) operating activities	895	1,071
Cash flows from investing activities		
Proceeds from withdrawal of time deposits	–	1,196
Proceeds from redemption of securities	500	–
Purchase of property, plant and equipment	(2,366)	(3,484)
Proceeds from sales of property, plant and equipment	4	211
Purchase of intangible assets	(35)	(40)
Purchase of investment securities	(700)	(199)
Proceeds from redemption of investment securities	200	–
Proceeds from sales of investment securities	1,516	1,765
Purchase of insurance funds	(103)	(89)
Proceeds from maturity of insurance funds	168	–
Proceeds from collection of long-term deposits	–	3,110
Interest and dividend income received	163	151
Other	84	(124)
Cash flows from investing activities	(568)	2,496
Cash flows from financing activities		
Increase in short-term loans payable	4,615	3,927
Decrease in short-term loans payable	(4,222)	(3,497)
Proceeds from long-term loans payable	1,000	100
Repayments of long-term loans payable	(76)	(1,352)
Payments from changes in ownership interests in subsidiaries that do not result in change in scope of consolidation	(75)	–
Cash dividends paid	(678)	(814)
Interest expenses paid	(40)	(34)
Other, net	(141)	(123)
Net cash provided by (used in) financing activities	380	(1,794)
Effect of exchange rate change on cash and cash equivalents	189	(44)
Net increase (decrease) in cash and cash equivalents	898	1,729
Cash and cash equivalents at beginning of period	22,694	21,082
Cash and cash equivalents at end of period	23,592	22,811

(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 third quarter ended September 30, 2018, and the number of shares at the end of the period was 98,128 in the previous consolidated fiscal year and 96,685 in the third quarter ended September 30, 2018.

(Segment information)

[Segment information]

I. First nine months ended September 30, 2017 (January 1, 2017 – September 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	37,180	6,876	738	44,795	–	44,795
Intersegment internal sales and transfers	–	–	–	–	–	–
Total	37,180	6,876	738	44,795	–	44,795
Segment income (loss)	2,956	613	(92)	3,477	–	3,477

(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 nine months ended September 30, 2018 (January 1, 2017 – September 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	39,032	7,609	747	47,390	–	47,390
Intersegment internal sales and transfers	–	–	–	–	–	–
Total	39,032	7,609	747	47,390	–	47,390
Segment income (loss)	3,501	485	(68)	3,918	–	3,918

(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	–	562	–	562	–	562

(Note) Impairment loss of 562 million relating to the automotive products business is included in “loss on factory closure” on the quarterly consolidated statements of income.