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April 12, 2019

Consolidated Financial Results for the Third Quarter 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
 Contact: Nobuo Kiji, Executive Vice President
 Telephone number: +81-45-788-8373
 Submission of quarterly report: April 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 Third Quarter of the Fiscal Year Ending May 31, 2019 (June 1, 2018 to February 28, 2019)

(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	%
Nine months ended February 28, 2019	5,550	32.0	1,206	77.8	1,180	71.3	764	62.4
Nine months ended February 28, 2018	4,206	0.9	678	128.5	689	146.6	470	51.4

(Note) Comprehensive income: Nine months ended February 28, 2019: ¥744 million / 52.3%

Nine months ended February 28, 2018: ¥488 million / 61.8%

	Net income per share	Net income per share—diluted
	Yen	Yen
Nine months ended February 28, 2019	80.26	—
Nine months ended February 28, 2018	49.74	—

(2) Consolidated financial position

	Total assets	Net assets	Shareholders' equity ratio
	Millions of yen	Millions of yen	%
As of February 28, 2019	7,145	4,390	61.4
As of May 31, 2018	6,573	3,682	56.0

(Reference) Shareholders' equity: As of February 28, 2019: ¥4,390 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: None

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	92.13

(Note) Amendment to forecasts of dividends recently announced: None

(Note) The Company has implemented an ESOP and Directors' stock compensation plan both in the form of stock benefit trusts. Accordingly, net income per share is calculated 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.

(Note) Since the Company made its 10th issuance of subscription rights to shares on March 4, 2019, the number of shares issued (excluding the number of treasury shares) as of March 31, 2019 is used with respect to the average number of shares during the period, which is the basis for calculating net income per share.

*** Notes**

(1) Change in significant subsidiaries during nine months ended February 28, 2019 (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 February 28, 2019	10,052,100 shares
As of May 31, 2018	10,052,100 shares

(ii) Number of treasury shares at end of period

As of February 28, 2019	463,456 shares
As of May 31, 2018	600,754 shares

(iii) Average number of shares during period

For the nine months ended February 28, 2019	9,527,157 shares
For the nine months ended February 28, 2018	9,463,712 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. Consequently, actual results may differ from the forecasts due to a variety of future factors. For details of the above forecasts, refer to“(3) Explanation of forward-looking information including consolidated earnings forecasts” under “1. Qualitative Information on Quarterly Results” (page 3) of the Attached Materials.

[Attached Materials]

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1. Qualitative Information on Quarterly Result

(1) Explanation of operating results

The Inter Action Group conducts business in three segments: Internet of things related works; environmental energy related works; and promotion business of Industry 4.0. The business environment in each segment is as described below.

In the Internet of things related works segment, we manufacture inspection illuminators and pupil lens modules used for quality inspections in the image sensor production process and sell them to image sensor manufacturers.

In the current image sensor market, demand for image sensors for smartphones is anticipated to grow, as smartphones equipped with multiple cameras are becoming popular. It is also anticipated that, over the medium- to long-term, demand will increase for vehicle image sensors, which are vital for self-driving vehicles. That accounts for image sensor manufacturers' high appetite for capital investment to boost production capacity, which in turn underpinned strong sales of the Group's inspection illuminators and pupil lens modules.

In the environmental energy related works segment, we manufacture and sell drying deodorizers used together with printing presses (rotary presses) for large volume printing and exhaust gas treatment systems for factories.

In the printing machinery industry, although new capital investment is diminishing due to the growing prevalence of information technologies, a certain number of rotary presses are replaced every year due to age-related degradation and there is also demand for periodic maintenance. As there is hardly any competition, the Inter Action Group is able to stably capture this demand at present, consistently posting sales every year. Moreover, we plan to put effort into overseas expansion in the future.

In the promotion business of Industry 4.0 segment, we mainly manufacture precision vibration isolation systems for removing vibrations that are a hindrance in the production process for displays and sell them to display manufacturers. We also manufacture gear testing systems for investigating whether gears are the shape as designed and sell them to gear manufacturers.

In the flat-panel and organic EL display industry, we foresee latent capital investment appetite among manufacturers, despite an ongoing situation where capital investment continues to slacken at present.

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 third quarter of the fiscal year under review were 5,550 million yen, an increase of 32.0% year on year, and gross profit increased by 35.7% to 2,557 million yen largely due to the increase in net sales. Moreover, under selling, general and administrative expenses, personnel-related expenses and sales commission increased. Meanwhile, operating income was 1,206 million yen for an increase of 77.8% year on year, ordinary income was 1,180 million yen for an increase of 71.3%, and profit attributable to owners of parent less income taxes was 764 million yen for an increase of 62.4%.

The overall performance of each business segment was as follows.

(Internet of things related works)

As in the first six-month period of consolidated fiscal year under review, image sensor manufacturers, the Company's main customers, continued to actively undertake capital investment. As a result, we posted strong sales of our inspection illuminators and pupil lens modules for CCD and CMOS image sensors, the Inter Action Group's mainstay products.

During the consolidated cumulative third quarter of the fiscal year under review, net sales to this segment's external customers increased by 70.1% to 3,262 million yen (in comparison with 1,917 million yen in the previous fiscal year), and segment income increased by 51.9% to 1,591 million yen (in comparison with 1,047 million yen in the previous fiscal year).

(Environmental energy related works)

As large constructions for printing-related drying deodorizers and exhaust gas treatment systems were concentrated in the second quarter of the consolidated fiscal year under review, sales cooled during the third quarter.

On the other hand, we completed delivery of our first exhaust gas treatment system to China and we are now actively pursuing overseas expansion.

During the consolidated cumulative third quarter of the fiscal year under review, net sales to this segment's external customers decreased by 3.6% to 852 million yen (in comparison with 885 million yen in the previous fiscal year), and segment income decreased by 25.2% to 55 million yen (in comparison with 74 million yen in the previous fiscal year).

(Promotion business of Industry 4.0)

Although domestic demand for precision vibration isolation systems was relatively favorable, appetite for capital investment among overseas manufacturers has continuously waned over the first three quarters of consolidated fiscal year under review.

In the gears industry, despite customers having appetite for capital investment, they have been prudent with respect to capital investment decisions due to the impact of souring relations between the U.S. and China. Consequentially, sales of gear testing systems have slowed over the first three quarters of consolidated fiscal year under review.

During the consolidated cumulative third quarter of the fiscal year under review, net sales to this segment's external customers increased by 2.3% to 1,435 million yen (in comparison with 1,403 million yen in the previous fiscal year), and segment income was 65 million yen (in comparison with segment loss of 14 million yen in the same period of the previous fiscal year).

(2) Explanation of financial position

As of the end of the third quarter of the consolidated fiscal year under review (February 28, 2019), total assets amounted to 7,145 million yen, which is an increase of 572 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 5,736 million yen, which is an increase of 498 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 904 million yen and inventories, up by 235 million yen, and despite a decrease in cash and deposits, down by 451 million yen and notes and accounts receivable-trade, down by 218 million yen.

Non-current assets amounted to 1,409 million yen, which is an increase of 74 million yen in comparison to the end of the previous consolidated fiscal year.

As of the end of the third quarter of the consolidated fiscal year under review (February 28, 2019), liabilities amounted to 2,755 million yen, which is a decrease of 135 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 147 million yen and income taxes payable, up by 36 million yen, and despite a net decrease in bonds and loans payable including the current portions thereof amounting to 361 million yen.

As of the end of the third quarter of the consolidated fiscal year under review (February 28, 2019), net assets amounted to 4,390 million yen, which is an increase of 707 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 764 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.

(3) Explanation of forward-looking information including consolidated earnings forecasts

There is no amendment to the consolidated earnings forecasts disclosed in the "Notification of Revision to the Forecast of Consolidated Financial Results for the Fiscal Year Ending May 31, 2019 (Full Year)" disclosed on January 11, 2019.

2. Quarterly Consolidated Financial Statements and Notes

(1) Quarterly consolidated balance sheets

(Unit: Thousands of yen)

	As of May 31, 2018	As of February 28, 2019
Assets		
Current assets		
Cash and deposits	2,253,833	1,801,918
Notes and accounts receivable-trade	1,235,614	1,017,211
Electronically recorded monetary claims-operating	403,011	1,307,791
Operational investment securities	60,884	53,441
Merchandise and finished goods	92,536	178,259
Work in process	686,350	922,214
Raw materials and supplies	440,443	430,592
Other	80,841	66,629
Allowance for doubtful accounts	(14,846)	(41,310)
Total current assets	5,238,670	5,736,749
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	298,804	310,165
Land	169,901	169,901
Other, net	166,972	217,076
Total property, plant and equipment	635,678	697,143
Intangible assets		
Goodwill	419,949	379,572
Other	55,244	50,307
Total intangible assets	475,193	429,880
Investments and other assets		
Investment securities	30,658	43,465
Other	198,339	243,720
Allowance for doubtful accounts	(4,737)	(4,995)
Total investments and other assets	224,260	282,190
Total non-current assets	1,335,132	1,409,214
Total assets	6,573,803	7,145,963
Liabilities		
Current liabilities		
Notes and accounts payable-trade	482,446	630,256
Short-term loans payable	160,000	100,000
Current portion of bonds	90,000	60,000
Current portion of long-term loans payable	395,524	369,429
Income taxes payable	257,548	293,986
Provision for bonuses	-	35,887
Provision for product warranties	9,134	39,186
Provision for director stock benefits	141,244	127,092
Other	335,808	303,113
Total current liabilities	1,871,706	1,958,950
Non-current liabilities		
Bonds payable	210,000	150,000
Long-term loans payable	693,505	508,315
Provision for stock benefits	2,308	2,371
Net defined benefit liability	84,322	90,844
Asset retirement obligations	10,138	10,143
Other	19,356	35,264
Total non-current liabilities	1,019,631	796,939
Total liabilities	2,891,337	2,755,890

(Unit: Thousands of yen)

	As of May 31, 2018	As of February 28, 2019
Net assets		
Shareholders' equity		
Capital stock	610,982	610,982
Capital surplus	1,570,286	1,570,286
Retained earnings	1,804,372	2,443,462
Treasury shares	(317,263)	(228,336)
Total shareholders' equity	3,668,377	4,396,395
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	2,049	(1,453)
Foreign currency translation adjustment	12,038	(4,867)
Total accumulated other comprehensive income	14,088	(6,321)
Total net assets	3,682,465	4,390,073
Total liabilities and net assets	6,573,803	7,145,963

(2) Quarterly consolidated statements of income and consolidated statements of comprehensive income
(Quarterly consolidated statements of income)
(June 1, 2018 – February 28, 2019)

(Unit: Thousands of yen)

	Nine months ended February 28, 2018	Nine months ended February 28, 2019
Net sales	4,206,289	5,550,490
Cost of sales	2,322,511	2,993,387
Gross profit	1,883,778	2,557,103
Selling, general and administrative expenses	1,205,129	1,350,532
Operating income	678,648	1,206,570
Non-operating income		
Interest income	530	963
Dividend income	100	180
Income from assets for rent	8,555	9,512
Foreign exchange gains	1,068	—
Share of profit of entities accounted for using equity method	2,514	34
Compensation income	16,000	—
Subsidy income	7,824	—
Other	5,550	3,641
Total non-operating income	42,144	14,332
Non-operating expenses		
Interest expenses	14,514	9,149
Expenses of assets for rent	9,127	26,696
Bond issuance cost	—	2,479
Other	7,816	1,745
Total non-operating expenses	31,458	40,071
Ordinary income	689,334	1,180,831
Extraordinary income		
Gain on sales of non-current assets	—	289
Total extraordinary income	—	289
Extraordinary losses		
Loss on retirement of non-current assets	864	3,589
Loss on sales of non-current assets	810	—
Total extraordinary losses	1,675	3,589
Profit before income taxes	687,659	1,177,530
Income taxes - current	199,410	426,674
Income taxes - deferred	17,530	(13,745)
Total income taxes	216,941	412,928
Profit	470,718	764,602
Profit attributable to owners of parent	470,718	764,602

(Quarterly consolidated statements of comprehensive income)
(June 1, 2018 – February 28, 2019)

(Unit: Thousands of yen)

	Nine months ended February 28, 2018	Nine months ended February 28, 2018
Profit	470,718	764,602
Other comprehensive income		
Valuation difference on available-for-sale securities	2,652	(3,503)
Foreign currency translation adjustment	14,716	(16,374)
Share of other comprehensive income of entities accounted for using equity method	516	(531)
Total other comprehensive income	17,884	(20,410)
Comprehensive income	488,603	744,192
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	488,603	744,192
Comprehensive income attributable to non-controlling interests	—	—

(3) 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 third quarter of the fiscal year under review, the Company acquired 28,300 treasury shares (49,970,000 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 88,927,000 yen to 228,336,000 yen as of the end of the third quarter 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 third quarter of the fiscal year ended May 31, 2018 (June 1, 2017 to February 28, 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	1,917,825	885,117	1,403,346	4,206,289
Intra-segment internal sales and transfer amount	-	-	-	-
Total	1,917,825	885,117	1,403,346	4,206,289
Segment income (loss)	1,047,398	74,821	(14,328)	1,107,891

(Note) During the consolidated cumulative third 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 third quarter of the fiscal year under review, amounts to 357,330,000 yen, for a segment loss of 14,604,000 yen. In addition, segment assets increased by 1,053,727,000 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	1,107,891
Company-wide expenses ^(Note)	(417,639)
Adjustment of inventories	(11,604)
Operating income in the quarterly consolidated statements of income	678,648

(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 third quarter of the fiscal year ending May 31, 2019 (June 1, 2018 to February 28, 2019)

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	3,262,205	852,847	1,435,437	5,550,490
Intra-segment internal sales and transfer amount	-	-	798	798
Total	3,262,205	852,847	1,436,235	5,551,288
Segment income	1,591,496	55,958	65,856	1,713,312

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	1,713,312
Company-wide expenses ^(Note)	(501,965)
Inter-segment eliminations	882
Adjustment of inventories	(5,658)
Operating income in the quarterly consolidated statements of income	1,206,570

(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 third quarter of the fiscal year ending May 31, 2019

(1) Status of orders

Orders received

Segment	3Q of the previous consolidated fiscal year (June 1, 2017 to February 28, 2018)		3Q of the current consolidated fiscal year (June 1, 2018 to February 28, 2019)		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	2,204,170	723,967	4,621,238	1,981,986	2,417,067	1,258,019
Environmental energy related works	927,827	412,616	834,634	398,773	(93,192)	(13,843)
Promotion business of Industry 4.0	1,420,785	221,981	1,171,850	176,597	(248,935)	(45,383)
Total	4,552,783	1,358,565	6,627,723	2,557,356	2,074,940	1,198,791

(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.