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October 11, 2019

Consolidated Financial Results for the First Quarter of the Fiscal Year Ending May 31, 2020 <Japanese GAAP>

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 Listed stock exchange: Tokyo
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 Submission of quarterly report: October 15, 2019
 Dividend payment commencement date: –
 Preparation of explanatory materials for quarterly financial results: Yes
 Holding of a briefing on quarterly financial results: None

(Amounts of less than one million yen are truncated)

1. Consolidated Financial Results for the Cumulative First Quarter of the Fiscal Year Ending May 31, 2020 (June 1, 2019 to August 31, 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	%
Three months ended August 31, 2019	1,818	15.7	466	112.3	460	119.9	291	114.5
Three months ended August 31, 2018	1,571	48.8	219	65.4	209	71.7	136	120.9

(Note) Comprehensive income: Three months ended August 31, 2019: ¥273 million / 123.9%
 Three months ended August 31, 2018: ¥122 million / 99.3%

	Profit per share	Profit per share–diluted
	Yen	Yen
Three months ended August 31, 2019	26.69	—
Three months ended August 31, 2018	14.41	—

(2) Consolidated financial position

	Total assets	Net assets	Shareholders' equity ratio
	Millions of yen	Millions of yen	%
As of August 31, 2019	9,224	6,963	75.5
As of May 31, 2019	10,388	7,306	70.3

(Reference) Shareholders' equity: As of August 31, 2019: ¥6,963 million

As of May 31, 2019: ¥7,306 million

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, 2019	—	0.00	—	18.00	18.00
Fiscal year ending May 31, 2020	—				
Fiscal year ending May 31, 2020 (Forecast)		0.00	—	18.00	18.00

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

3. Forecast of Consolidated Financial Results for the Fiscal Year Ending May 31, 2020 (June 1, 2019 to May 31, 2020)

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

	Net sales		Operating income		Ordinary income		Profit attributable to owners of parent		Profit per share
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Yen
Full year	8,889	11.3	2,122	7.2	2,109	8.5	1,395	0.7	128.75

(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, profit 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.

*** Notes**

(1) Change in significant subsidiaries during three months ended August 31, 2018 (changes in specified subsidiaries affecting the scope of consolidation): None

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

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

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

(i) Changes in accounting policies in accordance with revision of accounting standards: None

(ii) Changes in accounting policies other than item (i) above: None

(iii) Changes in accounting estimates: None

(iv) Retrospective restatements: None

(4) Number of shares issued (common stock)

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

As of August 31, 2019	11,510,200 shares
As of May 31, 2019	11,510,200 shares

(ii) Number of treasury shares at end of period

As of August 31, 2019	704,256 shares
As of August 31, 2018	463,156 shares

(iii) Average number of shares during period

For the three months ended August 31, 2019	10,940,472 shares
For the three months ended August 31, 2018	9,441,503 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. 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 consolidated 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 smartphone image sensors 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.

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. 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 essentially conformed to conditions of the machine tools market which has been susceptible to the business cycle, but the size of the market has continued to remain largely unchanged. Since 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 first quarter of the consolidated fiscal year under review were 1,818 million yen, an increase of 15.7% year on year, and gross profit increased by 39.7% year on year to 934 million yen largely due to the increase in net sales. Meanwhile, operating income was 466 million yen, an increase of 112.3% year on year, ordinary income was 460 million yen, an increase of 119.9% year on year, and profit attributable to owners of parent less income taxes was 291 million yen, an increase of 114.5% year on year.

The overall performance of each business segment was as follows.

(Internet of things related works)

As was also the case in the previous fiscal year, image sensor manufacturers, the Company's main customers, have been actively undertaking capital investment against a backdrop of growing demand for image sensors primarily brought about by a shift to multiple lenses in smartphone cameras. 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 first quarter of the consolidated fiscal year under review, net sales to this segment's external customers increased by 64.6% to 1,257 million yen (in comparison with 764 million yen in the previous fiscal year), and segment income increased by 106.2% to 643 million yen (in comparison with 311 million yen in the previous fiscal year).

(Environmental energy related works)

In the Japanese market, appetite for capital investment among our customers has remained sluggish since the previous fiscal year due to high costs stemming from increasing prices for printing paper. As such, we have been steadily tapping demand for printing machinery upgrades and maintenance, yet have generated sluggish sales with respect to this segment's mainstay product, drying deodorizers for web offset printing presses.

Meanwhile, we have launched new maintenance services and intend to extend sales in that regard going forward.

During the first quarter of the consolidated fiscal year under review, net sales to this segment's external customers decreased by 11.6% to 191 million yen (in comparison with 216 million yen in the previous fiscal year), and segment income decreased by 98.5% to 0 million yen (in comparison with 8 million yen in the previous fiscal year).

(Promotion business of Industry 4.0)

In overseas markets where precision vibration isolation systems constitute a high proportion of our sales, demand for such systems continued to wane, as was the case in the previous fiscal year. Meanwhile, precision vibration isolation systems are widely divided into one of two categories—either passive systems, which have a low unit price, or active systems, which offer a better performance at a higher unit price. Amid that scenario, overall net sales slowed during the first quarter of the consolidated fiscal year under review amid a situation where many of the units shipped were passive systems.

Sales of gear testing systems have continued to slow since the previous fiscal year, partially due to the effects of companies in the global manufacturing industry concerned about international affairs amid developments such as Sino-American trade friction and the Brexit issue, and increasingly shying away from non-essential capital investment. On the other hand, we have been promoting initiatives, such as those that involve building foundations for expanding sales to overseas markets.

During the first quarter of the consolidated fiscal year under review, net sales to this segment's external customers decreased by 37.5% to 369 million yen (in comparison with 590 million yen in the previous fiscal year), and segment income decreased by 48.2% to 26 million yen (in comparison with 51 million yen in the previous fiscal year).

(2) Explanation of financial position

As of the end of the first quarter of the consolidated fiscal year under review (August 31, 2019), total assets amounted to 9,224 million yen, which is a decrease of 1,164 million yen in comparison to the amount held at the end of the previous consolidated fiscal year on May 31, 2019.

Current assets amounted to 7,811 million yen, which is a decrease of 1,099 million yen in comparison to the end of the previous consolidated fiscal year. This is mainly attributable to respective decreases in notes and accounts receivable-trade, down by 317 million yen, and electronically recorded monetary claims-operating, down by 665 million yen.

Non-current assets amounted to 1,412 million yen, which is a decrease of 64 million yen in comparison to the end of the previous consolidated fiscal year.

As of the end of the first quarter of the consolidated fiscal year under review (August 31, 2019), liabilities amounted to 2,261 million yen, which is a decrease of 820 million yen in comparison to the end of the previous consolidated fiscal year. This is mainly attributable to respective decreases in bonds and loans payable including the current portions thereof, down by 125 million yen, income taxes payable, down by 395 million yen, accounts payable - other (Other in the Current liabilities), down by 125 million yen, and advances received (Other in the Current liabilities), down by 164 million yen.

As of the end of the first quarter of the consolidated fiscal year under review (August 31, 2019), net assets amounted to 6,963 million yen, which is a decrease of 343 million yen in comparison to the end of the previous consolidated fiscal year. This is mainly attributable to year-end dividends in the previous fiscal year of 199 million yen and an increase of treasury shares of 417 million yen, and despite having recorded profit attributable to owners of parent of 291 million yen.

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

There is no amendment to consolidated earnings forecasts for the fiscal year ending May 31, 2020 disclosed on July 12, 2019.

2. Quarterly Consolidated Financial Statements and Notes

(1) Quarterly consolidated balance sheets

(Unit: Thousands of yen)

	As of May 31, 2019	As of August 31, 2019
Assets		
Current assets		
Cash and deposits	4,799,286	4,725,215
Notes and accounts receivable-trade	1,172,506	855,312
Electronically recorded monetary claims-operating	1,400,050	734,449
Operational investment securities	53,441	48,968
Merchandise and finished goods	182,607	154,379
Work in process	873,819	778,005
Raw materials and supplies	429,174	505,338
Other	51,800	44,161
Allowance for doubtful accounts	(51,169)	(34,126)
Total current assets	8,911,516	7,811,705
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	324,178	318,975
Land	165,149	165,149
Other, net	214,838	217,449
Total property, plant and equipment	704,166	701,574
Intangible assets		
Goodwill	366,113	352,654
Other	47,373	45,501
Total intangible assets	413,487	398,156
Investments and other assets		
Investment securities	33,819	33,247
Other	330,973	284,486
Allowance for doubtful accounts	(4,993)	(4,989)
Total investments and other assets	359,798	312,744
Total non-current assets	1,477,452	1,412,474
Total assets	10,388,969	9,224,179
Liabilities		
Current liabilities		
Notes and accounts payable-trade	513,562	432,704
Short-term loans payable	70,000	70,000
Current portion of bonds	60,000	60,000
Current portion of long-term loans payable	335,043	302,377
Income taxes payable	522,759	127,737
Provision for bonuses	—	36,017
Provision for product warranties	32,532	23,074
Provision for director stock benefits	134,400	185,800
Other	691,716	396,479
Total current liabilities	2,360,014	1,634,190
Non-current liabilities		
Bonds payable	150,000	120,000
Long-term loans payable	438,606	375,503
Provision for stock benefits	2,644	3,107
Net defined benefit liability	91,462	87,318
Asset retirement obligations	10,144	10,145
Other	29,128	30,861
Total non-current liabilities	721,986	626,935
Total liabilities	3,082,000	2,261,125

(Unit: Thousands of yen)

	As of May 31, 2019	As of August 31, 2019
Net assets		
Shareholders' equity		
Capital stock	1,760,299	1,760,299
Capital surplus	2,719,603	2,719,603
Retained earnings	3,065,143	3,157,600
Treasury shares	(228,185)	(646,089)
Total shareholders' equity	7,316,861	6,991,413
Accumulated other comprehensive income		
Foreign currency translation adjustment	(9,893)	(28,359)
Total accumulated other comprehensive income	(9,893)	(28,359)
Total net assets	7,306,968	6,963,053
Total liabilities and net assets	10,388,969	9,224,179

(2) Quarterly consolidated statements of income and consolidated statements of comprehensive income
(Quarterly consolidated statements of income)
(June 1, 2019 – August 31, 2019)

(Unit: Thousands of yen)

	Three months ended August 31, 2018	Three months ended August 31, 2019
Net sales	1,571,513	1,818,691
Cost of sales	902,258	883,822
Gross profit	669,254	934,869
Selling, general and administrative expenses	449,495	468,286
Operating income	219,758	466,583
Non-operating income		
Interest income	282	1,119
Dividend income	180	180
Income from assets for rent	3,104	3,204
Foreign exchange gains	2,868	—
Share of profit of entities accounted for using equity method	1,012	—
Other	1,443	2,884
Total non-operating income	8,891	7,387
Non-operating expenses		
Interest expenses	3,159	2,398
Expenses of assets for rent	15,299	4,059
Foreign exchange losses	—	5,832
Share of loss of entities accounted for using equity method	—	518
Other	787	753
Total non-operating expenses	19,246	13,563
Ordinary income	209,403	460,408
Extraordinary losses		
Loss on retirement of non-current assets	558	127
Total extraordinary losses	558	127
Profit before income taxes	208,845	460,280
Income taxes - current	47,115	116,382
Income taxes - deferred	25,634	51,919
Total income taxes	72,749	168,302
Profit	136,095	291,978
Profit attributable to owners of parent	136,095	291,978

(Quarterly consolidated statements of comprehensive income)
(June 1, 2019 – August 31, 2019)

(Unit: Thousands of yen)

	Three months ended August 31, 2018	Three months ended August 31, 2019
Profit	136,095	291,978
Other comprehensive income		
Valuation difference on available-for-sale securities	(567)	—
Foreign currency translation adjustment	(12,813)	(18,433)
Share of other comprehensive income of entities accounted for using equity method	(561)	(33)
Total other comprehensive income	(13,941)	(18,466)
Comprehensive income	122,153	273,511
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	122,153	273,511
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 first quarter of the consolidated fiscal year under review, the Company acquired 124,300 treasury shares (219,841,000 yen), pursuant to the resolution of the meeting of the Board of Directors held on July 12, 2019. In addition, the Directors' compensation stock benefit trust acquired 117,800 shares of the Company's stock (198,564,000 yen).

As a result, treasury shares increased by 417,904,000 yen to 646,089,000 yen as of the end of the first quarter of the consolidated fiscal year under review.

(Segment information)

[Segment information]

I. For the first quarter of the fiscal year ended May 31, 2019 (June 1, 2018 to August 31, 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	764,479	216,697	590,335	1,571,513
Intra-segment internal sales and transfer amount	—	—	—	—
Total	764,479	216,697	590,335	1,571,513
Segment income (loss)	311,859	8,874	51,624	372,358

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	372,358
Company-wide expenses ^(Note)	(150,834)
Adjustment of inventories	(1,765)
Operating income in the quarterly consolidated statements of income	219,758

(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.

II. For first quarter of the fiscal year ending May 31, 2020 (June 1, 2019 to August 31, 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	1,257,951	191,565	369,175	1,818,691
Intra-segment internal sales and transfer amount	—	—	—	—
Total	1,257,951	191,565	369,175	1,818,691
Segment income	643,039	129	26,724	669,894

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	669,894
Company-wide expenses ^(Note)	(200,197)
Inter-segment eliminations	323
Adjustment of inventories	(3,437)
Operating income in the quarterly consolidated statements of income	466,583

(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 first quarter of the fiscal year ending May 31, 2020

(1) Status of orders

1) Orders received

Segment	1Q of the previous consolidated fiscal year (June 1, 2018 to August 31, 2018)		1Q of the current consolidated fiscal year (June 1, 2019 to August 31, 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	1,781,557	1,635,492	1,392,124	1,326,568	(389,433)	(308,924)
Environmental energy related works	364,093	492,580	153,900	304,431	(210,192)	(188,148)
Promotion business of Industry 4.0	473,057	170,508	377,537	267,797	(95,519)	(97,288)
Total	2,618,708	2,298,582	1,923,562	1,898,798	(695,146)	(399,784)

(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.