

Consolidated Financial Results for the Nine Months Ended September 30, 2017 [Japanese GAAP]



November 10, 2017

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 Securities Code: 6789
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 Scheduled date of commencing dividend payments: –
 Availability of supplementary briefing material on quarterly consolidated financial results: Available
 Schedule of quarterly consolidated financial results briefing session: Not scheduled

(Figures are rounded down to the nearest million yen)

1. Consolidated Financial Results for the Nine Months Ended September 30, 2017 (From January 1, 2017 to September 30, 2017)

(1) Consolidated Operating Results (% indicates changes from the previous corresponding period)

	Net sales		Operating income		Ordinary income		Profit (loss) attributable to owners of parent	
	Millions of Yen	%	Millions of Yen	%	Millions of Yen	%	Millions of Yen	%
Nine months ended September 30, 2017	31,799	(3.4)	2,571	(28.3)	2,541	(22.1)	849	(61.8)
Nine months ended September 30, 2016	32,928	–	3,587	–	3,262	–	2,226	–

(Note) Comprehensive income: Nine months ended September 30, 2017: 1,109 million yen [29.5%]
 Nine months ended September 30, 2016: 857 million yen [–%]

	Net income per share		Diluted net income per share	
	Yen		Yen	
Nine months ended September 30, 2017	67.84		–	
Nine months ended September 30, 2016	167.63		–	

(2) Consolidated Financial Position

	Total assets	Net assets	Equity ratio	Net assets per share
	Millions of Yen	Millions of Yen	%	Yen
As of September 30, 2017	36,021	21,074	58.5	1,682.75
As of December 31, 2016	36,341	20,617	56.7	1,647.59

(Reference) Equity: As of September 30, 2017: 21,073 million yen
 As of December 31, 2016: 20,617 million yen

2. Dividends

	Annual dividends				
	1st quarter end	2nd quarter end	3rd quarter end	Year end	Total
	Yen	Yen	Yen	Yen	Yen
Fiscal year ended December 31, 2016	—	30.00	—	30.00	60.00
Fiscal year ending December 31, 2017	—	25.00	—		
Fiscal year ending December 31, 2017 (Forecast)				25.00	50.00

(Note) Revision of dividend forecasts from recently announced figures: No

3. Consolidated Financial Results Forecast for the Fiscal Year Ending December 31, 2017 (From January 1, 2017 to December 31, 2017)

(% indicates changes from the previous corresponding period)

	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	44,300	0.4	3,700	(15.1)	3,500	(14.7)	1,100	(59.3)	87.90

(Note) Revision of financial results forecasts from recently announced figures: No

* Notes

- (1) Significant changes of subsidiaries during the nine months ended September 30, 2017 (changes in specified subsidiaries resulting in changes in scope of consolidation): No
- (2) Adoption of special accounting methods for preparing Quarterly Consolidated Financial Statement: No
- (3) Changes in accounting policies, changes in accounting estimates and corrections of errors
 - 1) Changes in accounting policies due to the revision of accounting standards: No
 - 2) Any changes in accounting policies other than 1) above: No
 - 3) Changes in accounting estimates: No
 - 4) Corrections of errors: No
- (4) Total number of issued shares (common shares)

- 1) Total number of issued shares at the end of the period (including treasury shares):

Nine months ended September 30, 2017	12,656,311 shares
Fiscal year ended December 31, 2016	12,656,311 shares

- 2) Total number of treasury shares at the end of the period:

Nine months ended September 30, 2017	132,795 shares
Fiscal year ended December 31, 2016	142,595 shares

- 3) Average number of shares during the period:

Nine months ended September 30, 2017	12,519,805 shares
Nine months ended September 30, 2016	13,280,471 shares

(Note) The total number of treasury shares at the end of the nine months ended September 30, 2017 and at the end of the fiscal year ended December 31, 2016 includes 132,600 shares and 142,400 shares of the Company held by the Director Stock Benefit Trust and J-ESOP Trust, respectively. The number of treasury shares excluded from calculation of the average number of shares during the period for the nine months ended September 30, 2017 and ended September 30, 2016 includes 136,311 shares and 143,000 shares of the Company held by the Director Stock Benefit Trust and J-ESOP Trust, respectively.

* These consolidated financial results are outside the scope of audit.

* Explanation of the proper use of financial results forecast and other notes

Financial results forecast was prepared based on available information at the time of the release of this document, and the Company does not in any way guarantee the achievement of the projections. Actual results may be different from the projections due to various factors. For the notes concerning the use of financial results forecast, please refer to “Explanation of Future Forecast Information such as Consolidated Performance Forecast” on page 9.

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1. Results of Operations

(1) Analysis of Results of Operations

During the nine months ended September 30, 2017 (from January 1, 2017 to September 30, 2017), the world economy was on a moderate recovery trend overall in developed countries such as the United States, Europe, and Japan. An economic upturn was also seen in emerging markets mainly in China, Brazil, and Russia. However, the outlook remains uncertain due to various factors causing a risk of economic decline, such as heightened geopolitical risks in various areas, the United Kingdom's exit from the European Union (EU), and policies of a new administration in the United States.

Amid such conditions, the group formulated a five-year medium-term business plan beginning in FY 2016, and has been implementing the plan since the previous term. The medium-term business plan emphasizes "GrowthOne: Sustainable growth through innovation" as the basic policy, and by working toward the three major issues of (1) accelerating new business developments in growing markets, (2) transforming to a solutions provider, and (3) transforming into an innovation-focused group, we aim to create a high value-added market and achieve sustainable growth.

During the nine months ended September 30, 2017, DGSHAPE Corporation, which started business operations in April 2017 for the group's 3D business such as 3D milling machines for the 3D monozukuri market and dental milling machines in the dental (dental medical) market, has been promoting activities to expand the 3D business with an emphasis on the dental market. As for the printer business, we focused on expansion in the retail market where we create original products, etc., in addition to our conventional mainstay sign (advertising and sign production) market. The group is also making efforts to recover sales of printers such as improving price competitiveness and conducting aggressive promotion activities in various areas in order to respond to the increasingly competitive environment.

As stated above, we actively conducted business operations in order to promote "accelerating new business developments in growing markets," one of the major issues in the medium-term business plan. As a result, during the nine months ended September 30, 2017, sales of 3D products were higher than in the same period of the previous term. Furthermore, the group had benefits from a weaker yen. However, sales for the nine months ended September 30, 2017 decreased by 3.4% over the same period of the previous term to 31,799 million yen, due to significantly lower sales of printers. Cost of sales rose by 1.9% from the same period of the previous term due to the effects of factors such as the drop in unit sales price and lower sales of relatively high margin models. Selling, general and administrative expenses were slightly lower than in the same period of the previous term, though the ratio to sales increased by 0.9% compared to the same period of the previous term. As a result, operating income decreased by 28.3% compared with the same period of the previous term to 2,571 million yen, and ordinary income decreased by 22.1% compared with the same period of the previous term to 2,541 million yen. Profit attributable to owners of parent was 849 million yen due to the settlement package of a patent infringement case in the United States being recorded as extraordinary losses.

The exchange rates for major currencies during the nine months ended September 30, 2017 (average rate during the period from January 2017 to September 2017) were 111.93 yen to the U.S. dollar (108.72 yen for the same period of the previous term) and 124.59 yen to the euro (121.24 yen for the same period of the previous term).

As the business of the Company and its consolidated subsidiaries is the manufacture and sale of computer peripheral devices and there are no other segments, it is represented as a single segment. Sales by product are as follows.

Net sales by product

(Millions of Yen)

Product	Nine months ended September 30, 2016		Nine months ended September 30, 2017		Changes	Changes in composition ratio (%)	Year-on year change (%)
	Amount	Composition ratio (%)	Amount	Composition ratio (%)			
Printers	13,281	40.3	11,549	36.3	(1,732)	(4.0)	87.0
Plotters	993	3.0	1,059	3.3	66	0.3	106.7
3D products	3,091	9.4	3,518	11.1	426	1.7	113.8
Supplies	10,232	31.1	10,241	32.2	8	1.1	100.1
Others	5,328	16.2	5,430	17.1	102	0.9	101.9
Total	32,928	100.0	31,799	100.0	(1,128)	–	96.6

[Printers]

In the mainstay sign (advertising and sign production) market, as the market moves toward maturity, we are working on maintaining and expanding market share through improving customer satisfaction via providing high value-added products and superior service and support. In addition, as a future growth sector, we are actively working on expanding into new markets such as the retail market where we provide printing of original designs including pictures and illustrations on products such as smartphone cases, home appliances, and novelty items.

In the sign market, during the nine months ended September 30, 2017, sales have been stagnant particularly for high-price models as market demand continues to shift from high-price products to low-price products against a backdrop of a maturing market and intensifying competition due to entry of major competitors. However, sales of VG-640/540 and SG-540/300 in the TrueVIS series, new eco-solvent printer models introduced to the market in the previous term, have been steady. In particular, sales of the SG-540/300, which was launched in September in the previous term, have been increasing since this entry model printer & cutter offers quality printing with an affordable price, responding to needs of customers who want to hold down initial investment.

Meanwhile, in retail markets, although sales of LEF-200, a new model of small UV printers launched in February 2017 were steady, total sales of UV printers decreased, affected by lower sales of existing models. We will continue to further expand the business in the retail market by strengthening our total solution for providing added value to customers through software and services in addition to expanding from Europe to worldwide the retail market for original product creation in retail stores.

Thus, sales of printers for the sign market and small UV printers for the retail market decreased. As a result, printer sales were 11,549 million yen, or 87.0% of the same period of the previous fiscal year.

[Plotters]

Sales of cutters for the sign market were steady including the GR-640/540/420, new models launched from March to April 2017. Consequently, sales were 1,059 million yen, or 106.7% of the same period of the previous fiscal year.

[3D products]

In the 3D monozukuri market, sales of the new MDX-50 3D milling machine that went on sale in October 2016 remained strong due to adoption in the manufacturing industry for prototype production and at educational institutions. In the dental market, sales of the DWX-52DC launched in March 2017 have been strong as it has been widely adopted in dental technician offices in developed countries including Japan, Europe, and the U.S. that seek more productivity. The DWX-52DC incorporates an automatic disc changer function to automatically change processing materials.

Also in April 2017, our subsidiary DGSHAPE Corporation started its 3D business including 3D monozukuri and dental businesses under a new brand. It aims to offer solutions responding to the latest trends in digitalization by making use of our accumulated digital technologies and know-how of monozukuri. While securing a solid footing in the 3D monozukuri market such as the manufacturing and sculpture industries as well as educational institutions, we will expand our 3D business by creating new value propositions in a wider range of fields, in addition to accelerating growth in the dental market where further digitalization is expected.

Accordingly, during the nine months ended September 30, 2017, sales of 3D products reached 3,518 million yen, or 113.8% of the same period of the previous fiscal year since new models of 3D milling machines and dental milling machines contributed to sales.

[Supplies]

Although sales of printer ink for the sign market were sluggish, sales of printer ink for UV printers and textile printers grew. As a result, net sales of supplies were 10,241 million yen, or 100.1% of the same period of the previous fiscal year.

[Others]

Maintenance services, service parts, and other sales were 5,430 million yen, or 101.9% of the same period of the previous fiscal year, due to steady sales of service parts.

Sales by region are as follows.

Net sales by region

(Millions of Yen)

Region	Nine months ended September 30, 2016		Nine months ended September 30, 2017		Changes	Changes in composition ratio (%)	Year-on year change (%)
	Amount	Composition ratio (%)	Amount	Composition ratio (%)			
Japan	3,981	12.1	3,706	11.7	(275)	(0.4)	93.1
North America	9,384	28.5	9,089	28.6	(294)	0.1	96.9
Europe	11,292	34.3	11,293	35.5	0	1.2	100.0
Asia	2,943	8.9	2,519	7.9	(423)	(1.0)	85.6
Others	5,326	16.2	5,191	16.3	(134)	0.1	97.5
Total	32,928	100.0	31,799	100.0	(1,128)	–	96.6

[Japan]

In printers, although sales of UV printers with a print width of 30-54 inches increased significantly for use in packaging prototyping, sales of small UV printers for the retail market and printers for the sign market decreased, particularly for high-price models. In 3D products, sales of the MDX series were significantly higher than in the same period of the previous fiscal year, since sales of the MDX-50, a new model of 3D milling machine, were strong in the manufacturing industry for prototype production and at educational institutions. In dental milling machines, although sales of the new model DWX-52DC were strong, existing models were sluggish. Thus, sales of the DWX series were lower than in the same period of the previous fiscal year.

As a result, net sales in Japan were 3,706 million yen, or 93.1% of the same period of the previous fiscal year.

[North America]

In 3D products, sales of the DWX-52DC, a new model of dental milling machine, were strong particularly for mid-scale dental labs that seek more productivity. Sales of the MDX-50, a new model of 3D milling machine, were strong for uses such as for design prototypes. Meanwhile, in printers, although sales of the LEF-300 small UV printers and the SG-540/300 printers for the sign market increased, sales of high-price models were lower than in the same period of the previous fiscal year.

As a result, net sales in North America were 9,089 million yen, or 96.9% of the same period of the previous fiscal year.

[Europe]

In printers, sales of printers for the sign market, small UV printers, and other mainstay models decreased. However, in 3D products, sales of the DWX-52DC, a new model of dental milling machine, were strong, with increased sales of 3D milling machines and metal printers that can print pictures, illustrations, and letters on metal materials.

As a result, net sales in Europe were 11,293 million yen, or 100.0% of the same period of the previous fiscal year.

[Asia]

In China, despite steady sales of printers, 3D products, and other products, sales of service parts decreased significantly. In South Korea, sales of small UV printers and textile printers decreased, though sales of dental milling machines increased thanks to development of a new sales channel. In the ASEAN region, sales of printers for the sign market that account for a large portion of sales were lower compared to the same period of the previous fiscal year.

As a result, net sales in Asia were 2,519 million yen, or 85.6% of the same period of the previous fiscal year.

[Other Regions]

In Australia, sales of 3D milling machines were favorable. In the South America region including Brazil, sales of small UV printers and dental milling machines increased significantly. Meanwhile, in the Africa region, sales of printers decreased significantly.

As a result, net sales in these regions were 5,191 million yen, or 97.5% of the same period of the previous fiscal year.

(2) Explanation of Financial Position

Total assets as of the end of the third quarter decreased by 319 million yen compared with end-of-term consolidated totals last year to a total of 36,021 million yen (99.1% of year-end consolidated totals last term). With regard to current assets, while merchandise and finished goods increased by 788 million yen and other current assets including accounts receivable - other increased by 645 million yen, cash and deposits decreased by 1,677 million yen. In non-current assets, there were no significant changes.

Liabilities as of the end of the third quarter decreased by 775 million yen to a total of 14,947 million yen (95.1% of year-end consolidated totals last term). With regard to current liabilities, income taxes payable increased by 180 million yen. In non-current liabilities, long-term loans payable decreased by 1,080 million yen due to repayments.

Net assets as of the end of the third quarter increased by 456 million yen to a total of 21,074 million yen (102.2% of year-end consolidated totals last term). Compared with the end of the previous fiscal year, retained earnings increased by 153 million yen due to business results for the nine months ended September 30, 2017 and foreign currency translation adjustment increased by 187 million yen due mainly to a weaker yen.

(3) Explanation of Future Forecast Information such as Consolidated Performance Forecast

No revisions have been made to the consolidated financial results forecasts for the fiscal year ending December 31, 2017, which were announced on May 9, 2017. Any changes that may occur in the future will be appropriately disclosed.

2. Consolidated Financial Statements and Primary Notes

(1) Consolidated Balance Sheets

(Thousands of Yen)

	As of December 31, 2016	As of September 30, 2017
Assets		
Current assets		
Cash and deposits	10,003,132	8,325,480
Notes and accounts receivable - trade	4,919,547	4,782,263
Merchandise and finished goods	5,900,492	6,689,395
Work in process	76,976	64,804
Raw materials and supplies	2,391,214	2,263,690
Deferred tax assets	1,080,446	1,509,732
Other	1,334,151	1,979,816
Allowance for doubtful accounts	(53,872)	(70,878)
Total current assets	25,652,088	25,544,304
Non-current assets		
Property, plant and equipment		
Buildings and structures	6,928,375	7,008,901
Accumulated depreciation	(4,054,575)	(4,279,897)
Buildings and structures, net	2,873,800	2,729,004
Machinery, equipment and vehicles	1,053,186	1,069,793
Accumulated depreciation	(711,924)	(747,508)
Machinery, equipment and vehicles, net	341,262	322,285
Tools, furniture and fixtures	3,620,466	3,689,925
Accumulated depreciation	(2,906,050)	(2,946,718)
Tools, furniture and fixtures, net	714,416	743,207
Land	3,107,278	3,121,767
Construction in progress	21,061	33,143
Total property, plant and equipment	7,057,818	6,949,408
Intangible assets		
Goodwill	410,076	385,581
Software	1,376,535	1,290,730
Telephone subscription right	12,162	10,874
Total intangible assets	1,798,774	1,687,187
Investments and other assets		
Investment securities	33,784	24,426
Deferred tax assets	789,882	894,398
Other	1,032,222	941,083
Allowance for doubtful accounts	(23,224)	(18,990)
Total investments and other assets	1,832,664	1,840,917
Total non-current assets	10,689,258	10,477,513
Total assets	36,341,346	36,021,817

(Thousands of Yen)

	As of December 31, 2016	As of September 30, 2017
Liabilities		
Current liabilities		
Notes and accounts payable - trade	1,923,210	2,000,078
Short-term loans payable	–	111,540
Current portion of long-term loans payable	1,440,000	1,440,000
Income taxes payable	246,996	427,746
Provision for bonuses	716,485	877,492
Provision for directors' bonuses	80,000	–
Provision for product warranties	552,306	558,375
Other	3,301,061	3,170,319
Total current liabilities	8,260,061	8,585,552
Non-current liabilities		
Long-term loans payable	4,680,000	3,600,000
Provision for employee stock ownership plan trust	91,256	100,339
Provision for management board incentive plan trust	223,132	252,598
Net defined benefit liability	960,630	962,466
Long-term accounts payable - other	117,622	115,931
Other	1,391,075	1,330,896
Total non-current liabilities	7,463,716	6,362,232
Total liabilities	15,723,778	14,947,784
Net assets		
Shareholders' equity		
Capital stock	3,668,700	3,668,700
Capital surplus	3,700,608	3,700,608
Retained earnings	14,808,134	14,961,363
Treasury shares	(623,301)	(580,436)
Total shareholders' equity	21,554,142	21,750,235
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	3,056	3,107
Foreign currency translation adjustment	(466,234)	(279,074)
Remeasurements of defined benefit plans	(473,444)	(400,297)
Total accumulated other comprehensive income	(936,622)	(676,264)
Non-controlling interests	48	61
Total net assets	20,617,567	21,074,032
Total liabilities and net assets	36,341,346	36,021,817

(2) Consolidated Statements of Operations and Comprehensive Income
 Consolidated Statements of Operations
 (For the nine months ended September 30, 2016 and September 30, 2017)

(Thousands of Yen)

	For the nine months ended September 30, 2016 (From January 1, 2016 to September 30, 2016)	For the nine months ended September 30, 2017 (From January 1, 2017 to September 30, 2017)
Net sales	32,928,349	31,799,993
Cost of sales	17,657,120	17,655,919
Gross profit	15,271,228	14,144,073
Selling, general and administrative expenses		
Transportation and warehousing expenses	681,514	705,514
Advertising and promotion expenses	852,859	800,387
Provision of allowance for doubtful accounts	–	17,419
Provision for product warranties	124,947	58,049
Salaries and bonuses	5,471,270	5,575,342
Provision for bonuses	508,911	508,156
Provision for directors' bonuses	60,000	–
Provision for employee stock ownership plan trust	17,904	7,814
Provision for management board incentive plan trust	54,406	65,103
Retirement benefit expenses	243,540	284,050
Traveling and transportation expenses	570,010	480,088
Depreciation	615,950	566,960
Commission fee	905,813	894,318
Other	1,576,720	1,609,519
Total selling, general and administrative expenses	11,683,849	11,572,727
Operating income	3,587,379	2,571,346
Non-operating income		
Interest income	11,180	12,775
Gain on valuation of investments in money held in trust	27,185	45,120
Foreign exchange gains	–	7,873
Other	38,682	42,063
Total non-operating income	77,047	107,832
Non-operating expenses		
Interest expenses	28,805	14,998
Sales discounts	126,684	118,896
Foreign exchange losses	232,976	–
Other	13,052	3,913
Total non-operating expenses	401,518	137,807
Ordinary income	3,262,908	2,541,371

(Thousands of Yen)

	For the nine months ended September 30, 2016 (From January 1, 2016 to September 30, 2016)	For the nine months ended September 30, 2017 (From January 1, 2017 to September 30, 2017)
Extraordinary income		
Gain on sales of non-current assets	7,713	9,465
Total extraordinary income	7,713	9,465
Extraordinary losses		
Loss on sales and retirement of non-current assets	9,923	12,593
Settlement package	–	1,381,457
Total extraordinary losses	9,923	1,394,051
Profit before income taxes	3,260,698	1,156,785
Income taxes - current	861,446	854,380
Income taxes - deferred	173,018	(546,919)
Total income taxes	1,034,465	307,460
Profit	2,226,233	849,324
Profit attributable to non-controlling interests	17	9
Profit attributable to owners of parent	2,226,216	849,315

(Consolidated Statements of Comprehensive Income)

(Thousands of Yen)

	For the nine months ended September 30, 2016 (From January 1, 2016 to September 30, 2016)	For the nine months ended September 30, 2017 (From January 1, 2017 to September 30, 2017)
Profit	2,226,233	849,324
Other comprehensive income		
Valuation difference on available-for-sale securities	(2,560)	51
Foreign currency translation adjustment	(1,388,529)	187,163
Remeasurements of defined benefit plans, net of tax	21,943	73,147
Total other comprehensive income	(1,369,146)	260,361
Comprehensive income	857,087	1,109,686
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	857,082	1,109,672
Comprehensive income attributable to non-controlling interests	4	13

(3) Notes on Consolidated Financial Statements

(Notes on Going Concern Assumption)

Not applicable.

(Notes in Case of Significant Changes in Shareholders' Equity)

Not applicable.

(Significant Subsequent Events)

Not applicable.