

Consolidated Financial Results for the Three Months Ended March 31, 2017 [Japanese GAAP]



May 9, 2017

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 Securities Code: 6789
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 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 Three Months Ended March 31, 2017 (From January 1, 2017 to March 31, 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	%
Three months ended March 31, 2017	10,306	93.1	342	24.9	303	24.3	(761)	–
Three months ended March 31, 2016	11,070	–	1,374	–	1,248	–	799	–

(Note) Comprehensive income: Three months ended March 31, 2017: (940) million yen [–%]
 Three months ended March 31, 2016: 346 million yen [–%]

	Net income (loss) per share		Diluted net income per share	
	Yen		Yen	
Three months ended March 31, 2017	(60.86)		–	
Three months ended March 31, 2016	56.18		–	

(2) Consolidated Financial Position

	Total assets	Net assets	Equity ratio	Net assets per share
	Millions of Yen	Millions of Yen	%	Yen
As of March 31, 2017	36,699	19,297	52.6	1,542.13
As of December 31, 2016	36,341	20,617	56.7	1,647.59

(Reference) Equity: As of March 31, 2017: 19,297 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	–				
Fiscal year ending December 31, 2017 (Forecast)		25.00	–	25.00	50.00

(Note) Revision of dividend forecasts from recently announced figures: Yes

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
First half	21,400	94.0	1,300	48.7	1,200	50.3	(100)	–	(7.99)
Full year	44,300	100.4	3,700	84.9	3,500	85.3	1,100	40.7	87.90

(Note) Revision of financial results forecasts from recently announced figures: Yes

* Notes

(1) Significant changes of subsidiaries during the three months ended March 31, 2017 (changes in specified subsidiaries resulting in changes in scope of consolidation): No

(2) 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

(3) Total number of issued shares (common shares)

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

Three months ended March 31, 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:

Three months ended March 31, 2017	142,595 shares
Fiscal year ended December 31, 2016	142,595 shares

3) Average number of shares during the period:

Three months ended March 31, 2017	12,513,716 shares
Three months ended March 31, 2016	14,239,511 shares

(Note) The total number of treasury shares at the end of the three months ended March 31, 2017 and at the end of the fiscal year ended December 31, 2016 includes the number of shares of the Company held by the Director Stock Benefit Trust and J-ESOP Trust (142,400 shares). The number of treasury shares excluded from calculation of the average number of shares during the period for the three months ended March 31, 2017 and ended March 31, 2016 includes the number of shares of the Company held by the Director Stock Benefit Trust and J-ESOP Trust (142,400 shares).

* 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 three months ended March 31, 2017, the world economy was on a moderate recovery trend overall in developed countries such as the United States, Europe and Japan. However, the outlook remains uncertain due to various factors causing a risk of economic decline, such as a deceleration in growth in emerging markets mainly in China, Brazil, and Russia, a decrease in resource prices, and heightened geopolitical risks in various areas, in addition to the effects of events such as 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 started implementation from 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 three months ended March 31, 2017, we focused on the mainstay sign (advertising and sign production) market and original product creation in retail markets, in addition to new growth sectors such as dental milling machines in the dental (dental medical) market in order to promote "accelerating new business developments in growing markets," one of the major issues in the medium-term business plan.

However, sales for the three months ended March 31, 2017 decreased by 6.9% over the same period of the previous term to 10,306 million yen, due to such factors as lower sales of printers and the negative effects of foreign exchange. Cost of sales rose by 6.1% from the same period of the previous term due to the effects of factors such as increased costs associated with lower production volume compared to the same period of the previous term and a decrease in sales of relatively more profitable machines. Selling, general and administrative expenses were on par with the same period of the previous term, and the ratio to sales increased by 3.0% compared to the same period of the previous term. As a result, operating income decreased by 75.1% compared with the same period of the previous term to 342 million yen, and ordinary income decreased by 75.7% compared with the same period of the previous term to 303 million yen. Loss attributable to owners of parent was 761 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 three months ended March 31, 2017 (average rate during the period from January 2017 to March 2017) were 113.65 yen to the U.S. dollar (115.49 yen for the same period of the previous term) and 121.12 yen to the euro (127.25 yen for 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	Three months ended March 31, 2016 (After adjustment)		Three months ended March 31, 2017 (After adjustment)		Changes (After adjustment)	Changes in composition ratio (%) (After adjustment)	Year-on year change (%) (After adjustment)
	Amount	Composition ratio (%)	Amount	Composition ratio (%)			
Printers	4,387	39.6	3,770	36.6	(617)	(3.0)	85.9
Plotters	337	3.0	348	3.4	10	0.4	103.2
3D products	1,116	10.2	1,091	10.6	(24)	0.4	97.8
Supplies	3,500	31.6	3,297	32.0	(202)	0.4	94.2
Others	1,727	15.6	1,797	17.4	70	1.8	104.1
Total	11,070	100.0	10,306	100.0	(763)	—	93.1

[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 and novelty items.

In retail markets during the three months ended March 31, 2017, although sales were strong for the new LEF-300 model that was introduced in January 2016 as part of the small UV printer series, the LEF series, there was a significant decline in sales of other UV printers, including large models, and sales of UV printers overall were lower compared to the same period of the previous year. However, in addition to implementing active sales and marketing activities for worldwide expansion of original product creation uses in the retail market, we worked to enrich our product lineup and improve our ability to propose differing uses, including introducing the LEF-200 in February 2017, a new model in the LEF series with the capability to print on surfaces such as acrylic and glass by utilizing primer ink for added color fixation to surfaces. Moving forward, we will strengthen our total solutions that include product accessories such as software and services, and aim for further expansion in the retail market.

Meanwhile, in the sign market, during the previous year, we introduced to the market the four models of the TrueVIS SG series, a new eco-solvent printer model, VG-640/540 and SG-540/300, with the intent of revitalizing the market and encouraging replacement demand among existing users. However, sales were sluggish against a backdrop of factors such as continued fierce competition with competitors.

As a result, printer sales reached 3,770 million yen, or 85.9% of the same period of the previous fiscal year.

[Plotters]

Due to a significant increase in sales of some high-price models, sales were 348 million yen, or 103.2% of the same period of the previous fiscal year.

[3D products]

We are strengthening measures in health care fields, with its increasing need for digitalization. In particular, the dental (dental medical) market has grown to a mainstay market in the 3D products category.

During the three months ended March 31, 2017, in the 3D monozukuri, or manufacturing, market, which includes the manufacturing and education industries, sales of the new MDX-50 3D milling machine that went on sale in October 2016 increased significantly, exceeding the sales during the same period of the previous fiscal year. However, despite developing proactive sales and marketing activities in each region around the world by placing staff dedicated to dental product sales at most sales subsidiaries and increasing the number of sales agents in

emerging markets, sales of small dental milling machines decreased, and sales declined primarily in developed markets. Toward future growth, we introduced two new models in March 2017: the dental milling machine in the DWX series, DWX-52DC, and the dental 3D printer, DWP-80S. We were widely noticed at IDS 2017, the world's largest dental exhibition that was held in Germany in March 2017. DWX-52DC incorporates an automatic disc changer to automatically change dental processing materials, and is a high-performance model that also supports automatic running during night hours. DWP-80S is a 3D printer for creating molds to match the tooth and mouth shape of individual patients, which is essential for denture production. It replicates the advanced, delicate, and detailed craftsmanship of experienced technicians, contributing to the reduction of strain on dental technicians. Treatment and services tailored to each individual, including dental care, are required in the healthcare field, and it is a field in which we can exert our unique strengths in digital technologies and manufacturing know-how. Moving forward, we will position this field as a growth market and intensify our efforts.

Accordingly, while there was growth in 3D milling machines for the 3D monozukuri market, due to a decrease in the sales of small dental milling machines, sales of 3D products reached 1,091 million yen, or 97.8% of the same period of the previous fiscal year.

[Supplies]

Although sales of printer ink for UV printers and textile printers grew, sales of printer ink for the sign market were sluggish. As a result, net sales of supplies were 3,297 million yen, or 94.2% of the same period of the previous fiscal year.

[Others]

Maintenance services, service parts and other sales were 1,797 million yen, or 104.1% of the same period of the previous fiscal year, mainly due to factors such as an increase in the sales of service parts.

Sales by region are as follows.

Net sales by region

(Millions of Yen)

Region	Three months ended March 31, 2016 (After adjustment)		Three months ended March 31, 2017 (After adjustment)		Changes (After adjustment)	Changes in composition ratio (%) (After adjustment)	Year-on year change (%) (After adjustment)
	Amount	Composition ratio (%)	Amount	Composition ratio (%)			
Japan	1,377	12.4	1,267	12.3	(110)	(0.1)	92.0
North America	2,976	27.0	2,948	28.6	(27)	1.6	99.1
Europe	4,020	36.3	3,661	35.5	(358)	(0.8)	91.1
Asia	901	8.1	779	7.6	(121)	(0.5)	86.5
Others	1,794	16.2	1,649	16.0	(145)	(0.2)	91.9
Total	11,070	100.0	10,306	100.0	(763)	—	93.1

[Japan]

In printers, although sales of UV printers increased significantly for use in packaging testing, sales of small UV printers for the retail market and printers for the sign market decreased. In 3D products, sales of 3D milling machines that we propose for use in monozukuri for the manufacturing industry and educational institutions were strong, owing to contributions from sales of the new MDX-50, however sales of the DWX series dental milling machines decreased significantly.

As a result, net sales in Japan were 1,267 million yen, or 92.0% of the same period of the previous fiscal year.

[North America]

In printers, although sales of high-price professional models and large UV printers for the sign market decreased, sales of the new VG/SG series and small UV printers were strong. Meanwhile, in 3D products, despite a decrease in sales of dental milling machines, sales of 3D milling machines were favorable, owing to measures such as strengthening sales promotion activities toward educational institutions.

However, under the effect of the stronger yen against the U.S. dollar, net sales in North America were 2,948 million yen, or 99.1% of the same period of the previous fiscal year.

[Europe]

In printers, although sales of textile printers were favorable, sales of printers and UV printers for the sign market were sluggish. Meanwhile, sales grew in 3D products, primarily in dental milling machines and 3D milling machines.

In addition to the above, under the effect of the stronger yen against the euro, net sales in Europe were 3,661 million yen, or 91.1% of the same period of the previous fiscal year.

[Asia]

In South Korea, due to successful development of sales networks, sales of dental milling machines grew. In China, despite favorable sales of printers and small UV printers with attractive price ranges for the sign market, sales of dental milling machines decreased. Furthermore, in India and the ASEAN region, sales were lower compared to the same period of the previous fiscal year, primarily in printers for the sign market.

As a result, net sales in Asia were 779 million yen, or 86.5% of the same period of the previous fiscal year.

[Other Regions]

In Australia, sales were sluggish, primarily in printers for the sign market. Additionally, in the Central and South America region including Brazil, although sales of small UV printers and dental milling machines were favorable, sales of printers for the sign market were down significantly.

As a result, net sales in these regions were 1,649 million yen, or 91.9% of the same period of the previous fiscal year.

(2) Explanation of Financial Position

Total assets as of the end of the first quarter increased by 357 million yen compared with end-of-term consolidated totals last year to a total of 36,699 million yen (101.0% of year-end consolidated totals last term). With regard to current assets, deferred tax assets increased by 697 million yen, and cash and deposits decreased by 402 million yen. In non-current assets, there were no significant changes.

Liabilities as of the end of the first quarter increased by 1,677 million yen to a total of 17,401 million yen (110.7% of year-end consolidated totals last term). With regard to current liabilities, notes and accounts payable - trade increased by 312 million yen and other increased by 1,106 million yen due to the recording of settlement package, etc. In non-current liabilities, long-term loans payable decreased by 360 million yen due to repayments.

Net assets as of the end of the first quarter decreased by 1,319 million yen to a total of 19,297 million yen (93.6% of year-end consolidated totals last term). Compared with the end of the previous fiscal year, retained earnings decreased by 1,141 million yen due to business results for the period under review, and foreign currency translation adjustment decreased by 201 million yen owing mainly to an appreciation of the yen.

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

The Consolidated Performance Forecast was revised as announced on February 10, 2017. Details may be found in the "Notice Concerning Revisions of Financial Results Forecast" disclosed today.

2. Consolidated Financial Statements and Primary Notes

(1) Consolidated Balance Sheets

(Thousands of Yen)

	As of December 31, 2016	As of March 31, 2017
Assets		
Current assets		
Cash and deposits	10,003,132	9,600,343
Notes and accounts receivable - trade	4,919,547	4,868,925
Merchandise and finished goods	5,900,492	5,815,650
Work in process	76,976	70,778
Raw materials and supplies	2,391,214	2,359,725
Deferred tax assets	1,080,446	1,777,768
Other	1,334,151	1,757,004
Allowance for doubtful accounts	(53,872)	(59,705)
Total current assets	25,652,088	26,190,492
Non-current assets		
Property, plant and equipment		
Buildings and structures	6,928,375	6,906,906
Accumulated depreciation	(4,054,575)	(4,097,269)
Buildings and structures, net	2,873,800	2,809,637
Machinery, equipment and vehicles	1,053,186	1,041,318
Accumulated depreciation	(711,924)	(716,520)
Machinery, equipment and vehicles, net	341,262	324,798
Tools, furniture and fixtures	3,620,466	3,663,891
Accumulated depreciation	(2,906,050)	(2,959,923)
Tools, furniture and fixtures, net	714,416	703,967
Land	3,107,278	3,107,812
Construction in progress	21,061	40,978
Total property, plant and equipment	7,057,818	6,987,194
Intangible assets		
Goodwill	410,076	382,453
Software	1,376,535	1,334,567
Telephone subscription right	12,162	12,312
Total intangible assets	1,798,774	1,729,332
Investments and other assets		
Investment securities	33,784	22,287
Deferred tax assets	789,882	826,054
Other	1,032,222	961,149
Allowance for doubtful accounts	(23,224)	(17,315)
Total investments and other assets	1,832,664	1,792,175
Total non-current assets	10,689,258	10,508,702
Total assets	36,341,346	36,699,195

(Thousands of Yen)

	As of December 31, 2016	As of March 31, 2017
Liabilities		
Current liabilities		
Notes and accounts payable - trade	1,923,210	2,235,774
Short-term loans payable	—	215,160
Current portion of long-term loans payable	1,440,000	1,440,000
Income taxes payable	246,996	514,802
Provision for bonuses	716,485	920,862
Provision for directors' bonuses	80,000	20,000
Provision for product warranties	552,306	564,630
Other	3,301,061	4,407,655
Total current liabilities	8,260,061	10,318,886
Non-current liabilities		
Long-term loans payable	4,680,000	4,320,000
Provision for employee stock ownership plan trust	91,256	96,271
Provision for management board incentive plan trust	223,132	245,906
Net defined benefit liability	960,630	961,634
Long-term accounts payable - other	117,622	115,929
Other	1,391,075	1,342,798
Total non-current liabilities	7,463,716	7,082,540
Total liabilities	15,723,778	17,401,427
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	13,666,830
Treasury shares	(623,301)	(623,301)
Total shareholders' equity	21,554,142	20,412,837
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	3,056	1,906
Foreign currency translation adjustment	(466,234)	(667,964)
Remeasurements of defined benefit plans	(473,444)	(449,062)
Total accumulated other comprehensive income	(936,622)	(1,115,120)
Non-controlling interests	48	49
Total net assets	20,617,567	19,297,767
Total liabilities and net assets	36,341,346	36,699,195

(2) Consolidated Statements of Operations and Comprehensive Income
Consolidated Statements of Operations
(For the three months ended March 31, 2016 and March 31, 2017)

(Thousands of Yen)

	For the three months ended March 31, 2016 (From January 1, 2016 to March 31, 2016)	For the three months ended March 31, 2017 (From January 1, 2017 to March 31, 2017)
Net sales	11,070,387	10,306,610
Cost of sales	5,700,075	5,933,562
Gross profit	5,370,312	4,373,047
Selling, general and administrative expenses		
Transportation and warehousing expenses	278,149	217,588
Advertising and promotion expenses	248,898	288,010
Provision of allowance for doubtful accounts	8,494	7,592
Provision for product warranties	15,673	23,416
Salaries and bonuses	1,840,397	1,989,316
Provision for bonuses	154,399	116,743
Provision for directors' bonuses	25,000	20,000
Provision for employee stock ownership plan trust	4,155	3,528
Provision for management board incentive plan trust	17,448	22,035
Retirement benefit expenses	91,060	90,579
Traveling and transportation expenses	214,760	157,601
Depreciation	206,802	193,529
Commission fee	324,984	324,301
Other	565,473	576,061
Total selling, general and administrative expenses	3,995,698	4,030,307
Operating income	1,374,613	342,740
Non-operating income		
Interest income	3,427	3,882
Gain on valuation of investments in money held in trust	1,858	20,200
Other	11,179	16,054
Total non-operating income	16,465	40,138
Non-operating expenses		
Interest expenses	12,279	5,232
Sales discounts	44,111	39,349
Foreign exchange losses	85,613	33,264
Other	564	1,529
Total non-operating expenses	142,568	79,376
Ordinary income	1,248,510	303,502

(Thousands of Yen)

	For the three months ended March 31, 2016 (From January 1, 2016 to March 31, 2016)	For the three months ended March 31, 2017 (From January 1, 2017 to March 31, 2017)
Extraordinary income		
Gain on sales of non-current assets	1,889	4,179
Total extraordinary income	1,889	4,179
Extraordinary losses		
Loss on sales and retirement of non-current assets	3,497	1,198
Settlement package	—	1,381,457
Total extraordinary losses	3,497	1,382,656
Profit (loss) before income taxes	1,246,901	(1,074,974)
Income taxes - current	420,270	458,713
Income taxes - deferred	26,700	(772,068)
Total income taxes	446,971	(313,355)
Profit (loss)	799,930	(761,619)
Profit attributable to non-controlling interests	11	1
Profit (loss) attributable to owners of parent	799,919	(761,620)

(Consolidated Statements of Comprehensive Income)

(Thousands of Yen)

	For the three months ended March 31, 2016 (From January 1, 2016 to March 31, 2016)	For the three months ended March 31, 2017 (From January 1, 2017 to March 31, 2017)
Profit (loss)	799,930	(761,619)
Other comprehensive income		
Valuation difference on available-for-sale securities	(5,643)	(1,149)
Foreign currency translation adjustment	(452,442)	(201,729)
Remeasurements of defined benefit plans, net of tax	5,050	24,382
Total other comprehensive income	(453,036)	(178,497)
Comprehensive income	346,894	(940,116)
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	346,887	(940,118)
Comprehensive income attributable to non-controlling interests	7	1

(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.

2. Others
Significant Events regarding Going Concern Assumption, etc.