

Consolidated Financial Results for the Six Months Ended June 30, 2018 [Japanese GAAP]



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 Schedule of quarterly consolidated financial results briefing session: Scheduled

(Figures are rounded down to the nearest million yen)

1. Consolidated Financial Results for the Six Months Ended June 30, 2018 (From January 1, 2018 to June 30, 2018)

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

	Net sales		Operating profit		Ordinary profit		Profit (loss) attributable to owners of parent	
	Millions of Yen	%	Millions of Yen	%	Millions of Yen	%	Millions of Yen	%
Six months ended June 30, 2018	20,973	(2.0)	1,781	30.1	1,627	19.5	1,042	—
Six months ended June 30, 2017	21,411	(6.0)	1,369	(48.7)	1,361	(42.9)	(32)	—

(Note) Comprehensive income: Six months ended June 30, 2018: 629 million yen [–%]
 Six months ended June 30, 2017: (3) million yen [–%]

	Basic earnings per share	Diluted earnings per share
	Yen	Yen
Six months ended June 30, 2018	83.15	—
Six months ended June 30, 2017	(2.57)	—

(2) Consolidated Financial Position

	Total assets	Net assets	Equity ratio	Net assets per share
	Millions of Yen	Millions of Yen	%	Yen
As of June 30, 2018	35,393	22,839	64.5	1,819.31
As of December 31, 2017	36,570	22,521	61.6	1,798.32

(Reference) Equity: As of June 30, 2018: 22,839 million yen
 As of December 31, 2017: 22,521 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, 2017	—	25.00	—	35.00	60.00
Fiscal year ending December 31, 2018	—	25.00			
Fiscal year ending December 31, 2018 (Forecast)			—	30.00	55.00

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

3. Consolidated Financial Results Forecast for the Fiscal Year Ending December 31, 2018 (From January 1, 2018 to December 31, 2018) (% indicates changes from the previous corresponding period)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent		Basic earnings per share
	Millions of Yen	%	Millions of Yen	%	Millions of Yen	%	Millions of Yen	%	Yen
Full year	43,600	0.1	3,400	(11.8)	3,200	(15.9)	2,200	14.7	175.67

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

* Notes

- (1) Significant changes of subsidiaries during the six months ended June 30, 2018 (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):

Six months ended June 30, 2018	12,656,311 shares
Fiscal year ended December 31, 2017	12,656,311 shares

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

Six months ended June 30, 2018	102,595 shares
Fiscal year ended December 31, 2017	132,595 shares

- 3) Average number of shares during the period:

Six months ended June 30, 2018	12,540,399 shares
Six months ended June 30, 2017	12,518,116 shares

(Note) The total number of treasury shares at the end of the six months ended June 30, 2018 and at the end of the fiscal year ended December 31, 2017 includes 102,400 shares and 132,400 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 six months ended June 30, 2018 and ended June 30, 2017 includes 115,717 shares and 138,000 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 by Certified Public Accountants or an audit corporation.

* 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 six months ended June 30, 2018 (from January 1, 2018 to June 30, 2018), the world economy continued to recover moderately on the whole, including solid capital investment and personal consumption in the United States and improvement in the employment situation in Europe, although it is necessary to pay close attention to trade friction due to protectionist policy trends in the United States and the effects of fluctuations in financial and capital markets.

The group formulated a five-year medium-term business plan beginning in FY 2016. The 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. We also plan to shift our portfolio by transforming the business structure depending on the sign (advertising and sign production) market, the mainstay market of printers, into the business structure centering on multiple markets. We aim further growth of DGSHAPE business, which engages in the dental and 3D digital fabrication fields, and retail business, which meets the expanding needs of creating original products and personalizing in retail industry, and intend to develop them into new business pillars in addition to our traditional digital printing business.

During the six months ended June 30, 2018, the group accelerated new business development in the growth areas of the dental market and the retail market. DGSHAPE Corporation expanded the 3D business with an emphasis on the dental market, under its mission of offering solutions responding to the latest trends in digitalization. In the retail market, we also introduced UV printers to retailers providing in-store decorative services for smartphone cases and home appliances, etc., in addition to small-scale plants engaging in creating original products. As a result of our activities thus far, possibilities have become visible for business expansion aimed at a wide range of industries providing in-store services, and we will position these industries as our new target customers as we provide new businesses utilizing printer, 3D products, software, etc. Meanwhile, in our conventional mainstay sign market, the market has matured and competition has become increasingly fierce as major companies have entered the market, and we made efforts to recover sales of printers with ongoing promotional campaigns in each region.

As a result of these initiatives, sales for the six months ended June 30, 2018 were slightly below the same period of the previous term, decreasing by 2.0% to 20,973 million yen, due to sluggish sales of printers mainly for the sign market despite factors including increased sales of 3D products owing to the expansion of the dental market and benefits from the weaker yen. Cost of sales improved 1.0% compared with the same period of the previous term. Selling, general and administrative expenses were lower than the same period of the previous term, due to lower personnel expenses and advertising and promotion expenses. As a result, operating profit increased by 30.1% compared with the same period of the previous term to 1,781 million yen, and ordinary profit increased by 19.5% compared with the same period of the previous term to 1,627 million yen. In addition, profit attributable to owners of parent was 1,042 million yen (loss attributable to owners of parent was 32 million yen in the same period of the previous term) due to loss on sales and retirement of non-current assets, including the disposal of software assets, being recorded as extraordinary losses.

The exchange rates for major currencies during the six months ended June 30, 2018 (average rate during the period from January 2018 to June 2018) were 108.69 yen to the U.S. dollar (112.38 yen for the same period of the previous term) and 131.67 yen to the euro (121.67 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	Six months ended June 30, 2017		Six months ended June 30, 2018		Changes	Changes in composition ratio (%)	Year-on year change (%)
	Amount	Composition ratio (%)	Amount	Composition ratio (%)			
Printers	7,861	36.7	7,061	33.7	(799)	(3.0)	89.8
Plotters	679	3.2	684	3.2	4	0.1	100.7
3D products	2,372	11.1	2,657	12.7	284	1.6	112.0
Supplies	6,849	32.0	6,802	32.4	(47)	0.4	99.3
Others	3,648	17.0	3,768	18.0	119	0.9	103.3
Total	21,411	100.0	20,973	100.0	(437)	–	98.0

[Printers]

In the sign market, the market has matured and competition has become fierce as major companies have entered the market, and customer needs are shifting from high-price products to low-price products. In order to maintain our customer base in this market, we continued promotional campaigns in each region, and made efforts to recover sales of printers. In addition, in retail markets, we proposed desktop UV printers to small-scale plants and retail stores engaging in the creation and sale of original products by printing onto various articles, such as smartphone cases, home appliances and novelty items, as we focused on expanding our businesses.

In the sign market during the six months ended June 30, 2018, sales of low-price print-only models increased mainly in emerging countries, and sales of UV printers suitable for print on large boards such as acrylic and foam board signs, and cardboard display fixtures increased mainly in Europe and the United States. However, sales of the TrueVIS VG-640/540 and SG-540/300 mainstay models decreased. In the retail market, sales of the LEF-12i small UV printers were favorable, but sales of the LEF-300, notable for its high productivity, were sluggish.

As a result of these factors, printer sales were 7,061 million yen, or 89.8% of the same period of the previous fiscal year mainly due to a decrease of printers in the sign market.

[Plotters]

Sales of large format cutting machines, the GR-640/540/420, for the sign market were increased. Consequently, plotter sales were 684 million yen, or 100.7% of the same period of the previous fiscal year.

[3D products]

While securing a solid footing in the 3D digital fabrication market such as the manufacturing and engraving industries as well as educational institutions, DGSHAPE Corporation, which engages in the 3D business including 3D digital fabrication and dental businesses, is expanding our 3D business by creating new value propositions in a wider range of fields, in addition to accelerating expansion in the growing dental market. In the dental market, we introduced two new dental milling machine models in February 2018, the DWX-52DCi, which incorporates an automatic disc changer function and comes with the DWINDEX dedicated management support software for dental technician offices, and the DWX-52D, which is compatible with fiber reinforced resin and other new materials. By visualizing product operation times, material use history, and other information, DWINDEX enables the formulation of efficient processing plans, operation management, and calculation of return on investment, etc. We implemented sales and marketing activities, including displays at dental industry exhibitions held in each region and seminars for sales dealers, and the product has been well received.

In the 3D digital fabrication market, sales decreased during the six months ended June 30, 2018, mainly because of the high level of sales in the same period of the previous fiscal year of the MDX-50 3D milling machine since it was a new product that went on sale in October 2016. In addition, the LD-80 that we announced in March

2018, the world's first laser foil decorator, enables previously difficult decorations using foil on plastic products by using a semiconductor laser. It is possible to transfer foil to cosmetics and stationery to create gifts and novelty items with a premium look. In May 2018, this product won a golden award, highly regarded as an innovative product, at the "Laser Focus World 2018 Innovators Awards" in the United States, organized by a laser technology journal for researchers and engineers. The LD-80 is compact in size, perfect for use in stores, and is both safe and easy to use. We are actively presenting it to retail stores in the retail market, where we are expanding printer sales.

As a result of these factors, sales of 3D products reached 2,657 million yen, or 112.0% of the same period of the previous fiscal year since sales of dental milling machines increased.

[Supplies]

Although sales of ink for UV printers and textile printers increased, sales of ink for the sign market were lower than the same period of the previous fiscal year, and as a result, sales of supplies were on par with the same period of the previous fiscal year at 6,802 million yen, or 99.3% of the same period of the previous fiscal year.

[Others]

Maintenance services, service parts, and other sales were 3,768 million yen, or 103.3% of the same period of the previous fiscal year.

Sales by region are as follows.

Net sales by region

(Millions of Yen)

Region	Six months ended June 30, 2017		Six months ended June 30, 2018		Changes	Changes in composition ratio (%)	Year-on year change (%)
	Amount	Composition ratio (%)	Amount	Composition ratio (%)			
Japan	2,499	11.7	2,165	10.3	(334)	(1.4)	86.6
North America	6,161	28.8	5,839	27.8	(321)	(0.9)	94.8
Europe	7,495	35.0	8,284	39.5	788	4.5	110.5
Asia	1,752	8.2	1,610	7.7	(142)	(0.5)	91.9
Others	3,502	16.3	3,074	14.7	(428)	(1.7)	87.8
Total	21,411	100.0	20,973	100.0	(437)	—	98.0

[Japan]

In 3D products, sales of the new dental milling machine DWX-52D were strong, and sales of the DWX-4 also significantly exceeded the same period of the previous fiscal year, owing to the expansion to the scope of insurance coverage for CAD/CAM crowns (dental fillings/crowns created by using digital data) in December 2017. In printers, sales of printers for the sign market and sales of UV printers for the retail market and for prototyping packages decreased compared with the same period of the previous fiscal year, as competition became fiercer.

As a result, net sales in Japan were 2,165 million yen, or 86.6% of the same period of the previous fiscal year.

[North America]

In 3D products, sales of the dental milling machine which incorporates an automatic disc changer function were favorable, particularly for mid-scale dental labs that seek more productivity. In retail market, we focused on enhancing distributors by establishing a dedicated team. As we actively presented the LEF-12i, the most compact UV printer in our series, to customers with restrictions on installation space, and the LEF-300, notable for its high productivity, to customers with large printing volume, such proposal activities that meet customers' needs are gradually producing results. On the other hand, sales of printers for our mainstay sign market decreased.

As a result, and also due to the effect of the stronger yen, net sales in North America were 5,839 million yen, or 94.8% of the same period of the previous fiscal year.

[Europe]

In printers, due to the focus on a promotion campaign and sales to the retail market, sales of printers for the sign market and desktop UV printers were on par with the same period of the previous fiscal year. In addition, sales of UV printers for the sign market suitable for print on large boards such as acrylic and foam board signs, and cardboard display fixtures increased. In 3D products, sales were favorable mainly for dental milling machines which incorporate an automatic disc changer function and other models in the DWX series.

As a result, and also due to benefits from the weaker yen, net sales in Europe were 8,284 million yen, or 110.5% of the same period of the previous fiscal year.

[Asia]

In China and Korea, sales of printers, particularly printers for the sign market, were sluggish despite the increased sales of dental milling machines. In the ASEAN region, sales of printers for the sign market decreased.

As a result, net sales in Asia were 1,610 million yen, or 91.9% of the same period of the previous fiscal year.

[Other Regions]

In South America, sales of low-price print-only models for the sign market increased. In Australia, sales of dental milling machines increased, but sales of printers for the sign market were slow. In the Middle East, sales were sluggish, particularly printers for the sign market.

As a result, net sales in these regions were 3,074 million yen, or 87.8% of the same period of the previous fiscal year.

(2) Explanation of Financial Position

Total assets as of the end of the second quarter decreased by 1,177 million yen compared with end-of-term consolidated totals last year to a total of 35,393 million yen (96.8% of year-end consolidated totals last term). With regard to current assets, while cash and deposits increased by 1,093 million yen, merchandise and finished goods decreased by 733 million yen. In non-current assets, there were no significant changes.

Liabilities as of the end of the second quarter decreased by 1,494 million yen to a total of 12,554 million yen (89.4% of year-end consolidated totals last term). Notes and accounts payable – trade decreased by 205 million yen and long-term loans payable decreased by 720 million yen due to repayments.

Net assets as of the end of the second quarter increased by 317 million yen to a total of 22,839 million yen (101.4% of year-end consolidated totals last term). Compared with the end of the previous fiscal year, retained earnings increased by 599 million yen due mainly to the performance of this period.

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

No revisions have been made to the consolidated financial results forecasts for the full year of the fiscal year ending December 31, 2018, which were announced on February 9, 2018. 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, 2017	As of June 30, 2018
Assets		
Current assets		
Cash and deposits	9,766,525	10,859,980
Notes and accounts receivable - trade	4,621,555	4,680,860
Merchandise and finished goods	6,009,230	5,276,092
Work in process	28,229	69,558
Raw materials and supplies	2,392,219	1,928,579
Deferred tax assets	1,099,656	945,431
Other	2,520,292	2,074,305
Allowance for doubtful accounts	(66,155)	(66,835)
Total current assets	26,371,553	25,767,972
Non-current assets		
Property, plant and equipment		
Buildings and structures	7,054,128	6,997,938
Accumulated depreciation	(4,333,086)	(4,392,242)
Buildings and structures, net	2,721,041	2,605,696
Machinery, equipment and vehicles	1,039,846	950,878
Accumulated depreciation	(717,813)	(696,688)
Machinery, equipment and vehicles, net	322,033	254,190
Tools, furniture and fixtures	3,624,684	3,640,999
Accumulated depreciation	(2,905,322)	(2,923,150)
Tools, furniture and fixtures, net	719,362	717,849
Land	3,130,077	3,116,029
Construction in progress	48,019	15,800
Total property, plant and equipment	6,940,534	6,709,566
Intangible assets		
Goodwill	372,297	314,903
Software	1,237,933	1,054,256
Telephone subscription right	8,598	8,417
Total intangible assets	1,618,829	1,377,577
Investments and other assets		
Investment securities	31,403	27,619
Deferred tax assets	672,679	608,274
Other	953,524	902,127
Allowance for doubtful accounts	(18,018)	-
Total investments and other assets	1,639,589	1,538,021
Total non-current assets	10,198,953	9,625,165
Total assets	36,570,506	35,393,138

(Thousands of Yen)

	As of December 31, 2017	As of June 30, 2018
Liabilities		
Current liabilities		
Notes and accounts payable - trade	1,908,452	1,702,667
Short-term loans payable	138,400	–
Current portion of long-term loans payable	1,440,000	1,080,000
Income taxes payable	130,486	135,405
Provision for bonuses	664,512	590,932
Provision for directors' bonuses	–	30,000
Provision for product warranties	538,417	480,291
Other	3,524,561	3,348,299
Total current liabilities	8,344,831	7,367,596
Non-current liabilities		
Long-term loans payable	3,240,000	2,880,000
Provision for employee stock ownership plan trust	102,876	105,544
Provision for management board incentive plan trust	253,692	157,857
Provision for loss on dissolution of employees' pension fund	51,732	51,100
Net defined benefit liability	642,269	633,890
Long-term accounts payable - other	42,213	40,194
Other	1,371,196	1,317,829
Total non-current liabilities	5,703,980	5,186,417
Total liabilities	14,048,811	12,554,013
Net assets		
Shareholders' equity		
Capital stock	3,668,700	3,668,700
Capital surplus	3,700,608	3,700,608
Retained earnings	16,030,080	16,629,910
Treasury shares	(579,561)	(448,341)
Total shareholders' equity	22,819,827	23,550,877
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	7,786	4,952
Foreign currency translation adjustment	(154,073)	(580,075)
Remeasurements of defined benefit plans	(151,913)	(136,696)
Total accumulated other comprehensive income	(298,200)	(711,819)
Non-controlling interests	68	66
Total net assets	22,521,695	22,839,124
Total liabilities and net assets	36,570,506	35,393,138

(2) Consolidated Statements of Operations and Comprehensive Income
 Consolidated Statements of Operations
 (For the six months ended June 30, 2017 and June 30, 2018)

(Thousands of Yen)

	For the six months ended June 30, 2017 (From January 1, 2017 to June 30, 2017)	For the six months ended June 30, 2018 (From January 1, 2018 to June 30, 2018)
Net sales	21,411,361	20,973,642
Cost of sales	12,066,248	11,618,644
Gross profit	9,345,113	9,354,998
Selling, general and administrative expenses		
Transportation and warehousing expenses	465,901	488,032
Advertising and promotion expenses	601,823	516,263
Provision of allowance for doubtful accounts	11,013	14,125
Provision for product warranties	56,825	–
Salaries and bonuses	3,825,981	3,636,465
Provision for bonuses	341,134	371,805
Provision for directors' bonuses	20,000	30,000
Provision for employee stock ownership plan trust	7,946	4,723
Provision for management board incentive plan trust	47,480	27,358
Retirement benefit expenses	193,683	151,845
Traveling and transportation expenses	334,762	330,448
Depreciation	378,096	346,834
Commission fee	585,968	594,035
Other	1,105,085	1,061,518
Total selling, general and administrative expenses	7,975,704	7,573,455
Operating profit	1,369,409	1,781,542
Non-operating income		
Interest income	9,057	5,518
Gain on valuation of investments in money held in trust	31,804	12,921
Foreign exchange gains	16,332	–
Other	30,192	45,133
Total non-operating income	87,387	63,572
Non-operating expenses		
Interest expenses	11,038	9,471
Sales discounts	80,797	80,742
Foreign exchange losses	–	117,678
Other	3,203	9,536
Total non-operating expenses	95,039	217,429
Ordinary profit	1,361,757	1,627,686

(Thousands of Yen)

	For the six months ended June 30, 2017 (From January 1, 2017 to June 30, 2017)	For the six months ended June 30, 2018 (From January 1, 2018 to June 30, 2018)
Extraordinary income		
Gain on sales of non-current assets	6,312	7,350
Total extraordinary income	6,312	7,350
Extraordinary losses		
Loss on sales and retirement of non-current assets	5,764	104,805
Settlement package	1,381,457	–
Total extraordinary losses	1,387,222	104,805
Profit (loss) before income taxes	(19,152)	1,530,230
Income taxes - current	343,111	298,829
Income taxes - deferred	(330,054)	188,604
Total income taxes	13,056	487,433
Profit (loss)	(32,209)	1,042,796
Profit attributable to non-controlling interests	4	2
Profit (loss) attributable to owners of parent	(32,213)	1,042,794

(Consolidated Statements of Comprehensive Income)

(Thousands of Yen)

	For the six months ended June 30, 2017 (From January 1, 2017 to June 30, 2017)	For the six months ended June 30, 2018 (From January 1, 2018 to June 30, 2018)
Profit (loss)	(32,209)	1,042,796
Other comprehensive income		
Valuation difference on available-for-sale securities	87	(2,833)
Foreign currency translation adjustment	(20,083)	(426,007)
Remeasurements of defined benefit plans, net of tax	48,764	15,217
Total other comprehensive income	28,768	(413,623)
Comprehensive income	(3,440)	629,173
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	(3,446)	629,175
Comprehensive income attributable to non-controlling interests	5	(2)

(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.