

Business Results: Review of Operations for Fiscal 2017

Business results for Fiscal 2017

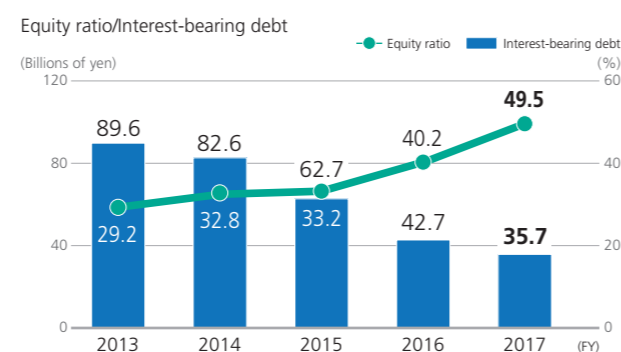
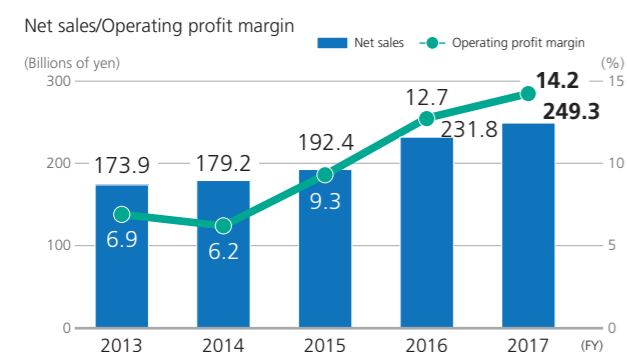
In the electronics market in which the ULVAC Group operates, semiconductor memory manufacturers increased capital investment in response to expanding memory demand fueled mainly by greater demand for servers for data center applications. In the flat panel display (FPD) sector, continued capital investment for manufacturing OLED panels for smartphones and large LCD panels for TVs remained brisk.

In these circumstances, for the fiscal year ended June 30, 2018 (fiscal 2017), orders received increased 3.2% year on year to ¥243.0 billion, net sales rose 7.5% to ¥249.3 billion, operating profit rose 20.0% to ¥35.4 billion, and ordinary profit increased 24.2% to ¥36.9 billion. Net income surged 46.7% to ¥35.9 billion mainly because of additional recording of deferred tax assets.

Greater Profitability

Because of an increase in the proportion of semiconductor and electronic devices production equipment, which have high profit margins, both the gross profit margin and the operating profit margin rose. While total assets increased in line with increases in orders received and net sales, net assets also increased by ¥49.2 billion as a result of increases in net income and market valuation of investment securities. Thus, the equity ratio improved to 49.5%. Interest-bearing debt decreased by ¥7.0 billion to ¥35.7 billion.

Products making big contributions to sales



and Outlook

Review of Operations by Business Segment

Vacuum Equipment Business

For the vacuum equipment business, orders received amounted to ¥209,707 million, orders back-log was ¥94,171 million, net sales were ¥216,652 million, and operating profit amounted to ¥32,411 million.

FPD and PV production equipment

Orders received for FPD production equipment were below the level of the previous fiscal year because order-taking in the second half was temporarily lack-luster despite recording of orders received, mainly from customers in China, for large LCD production equipment for TVs and small to medium-sized OLED production equipment for smartphones. On the other hand, net sales were robust and virtually the same level as the previous fiscal year.

Semiconductor and electronic device production equipment

Regarding semiconductor production equipment, in line with the expansion of investment for memory, demand for sputtering equipment and the natural oxidized film removing system for NAND flash memory, DRAM, and next-generation non-volatile memory increased. Regarding electronic device production equipment, demand for high-performance device production equipment for mobile devices was firm, and as a result, orders received and net sales greatly exceeded those for the previous fiscal year.

Components

Both orders received and net sales exceeded those for the previous fiscal year because of robust demand

for cryopumps for mounting on OLED production equipment, as well as for vacuum pumps and measuring equipment for the FPD, semiconductor, and electronic device industries and for the automotive-related industry.

Industrial equipment

Both orders received and net sales exceeded those for the previous fiscal year, led by vacuum heat treatment furnaces for production of automotive components and leak testers.

Vacuum Application Business

For the vacuum application business, orders received amounted to ¥33,273 million, orders back-log was ¥5,812 million, net sales were ¥32,619 million, and operating profit amounted to ¥2,957 million.

Materials

Both orders received and net sales exceeded the previous year's level, centering on sputtering target materials for LCDs.

Others

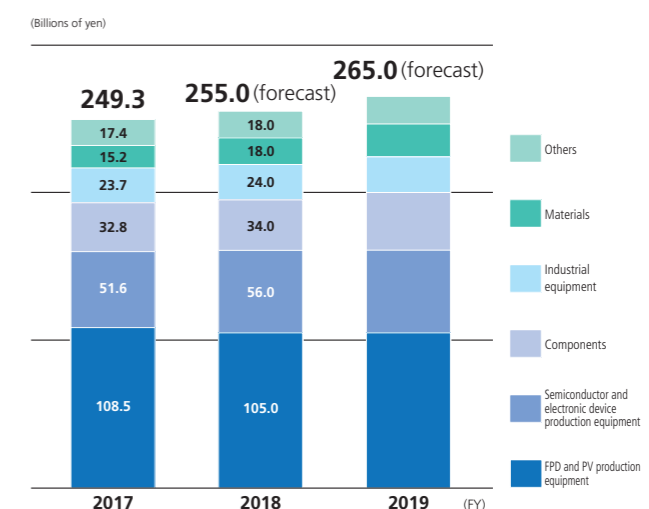
Demand for mask blanks was generally firm, reflecting an increase in demand for high-definition, high-performance display panels and semiconductors for in-vehicle and industrial applications. On the other hand, analysis equipment-related net sales were lower than the previous fiscal year's level.

Outlook

The ULVAC Group is implementing the mid-term management plan that covers the period up to June 30, 2020. For fiscal 2017, the first year of the plan, net sales, operating profit, ordinary profit, and net income exceeded the initial forecast. Moreover, operating profit for fiscal 2017 exceeded the target set for the final year (fiscal 2019) of the mid-term management plan.

The framework of the current mid-term management plan, including "strengthening of management base" and "key strategies," will remain unchanged from fiscal 2018 onward, but we revised the targets for net sales and operating profit for the final year of the plan to ¥265 billion (+¥15 billion) and ¥38 billion (+¥3 billion), respectively. We are tackling "management reform" to achieve the next round of growth following the current mid-term management plan and aim for net sales of ¥300 billion and an operating profit margin of 16% in fiscal 2021. Seizing the business opportunities created by technological innovation, ULVAC will strive to further improve the profit structure and financial strength to accelerate initiatives toward sustainable growth and improved corporate value.

Forecast of net sales by business segment



Consolidated Financial Statements

Consolidated Balance Sheets

(Millions of yen)

	FY2016 As of June 30, 2017	FY2017 As of June 30, 2018
Assets		
Current assets		
Cash on hand and in banks	56,434	57,074
Notes and accounts receivable, trade	70,519	87,276
Merchandise and finished goods	5,097	4,615
Work in process	15,880	23,618
Raw materials and supplies	9,240	10,847
Deferred tax assets	6,027	5,032
Other	7,299	9,509
Allowance for doubtful accounts	(811)	(914)
Total current assets	169,685	197,058
Non-current assets		
Property, plant and equipment		
Buildings and structures	79,246	80,982
Accumulated depreciation	(47,018)	(49,168)
Buildings and structures, net	32,229	31,814
Machinery, equipment and vehicles	65,343	69,543
Accumulated depreciation	(50,892)	(53,161)
Machinery, equipment and vehicles, net	14,451	16,382
Tools, furniture and fixtures	14,153	14,738
Accumulated depreciation	(12,506)	(12,899)
Tools, furniture and fixtures, net	1,647	1,839
Land	8,096	8,624
Leased assets	1,836	1,872
Accumulated depreciation	(1,002)	(1,142)
Leased assets, net	834	731
Construction in progress	3,049	4,907
Total property, plant and equipment	60,306	64,297
Intangible assets		
Leased assets	67	81
Software	690	844
Other	2,815	2,529
Total intangible assets	3,573	3,454
Investments and other assets		
Investment securities	4,389	25,562
Deferred tax assets	2,298	2,620
Other	7,107	6,812
Allowance for doubtful accounts	(2,051)	(2,048)
Total investments and other assets	11,743	32,946
Total non-current assets	75,622	100,697
Total assets	245,306	297,754

(Millions of yen)

	FY2016 As of June 30, 2017	FY2017 As of June 30, 2018
Liabilities		
Current liabilities		
Notes and accounts payable, trade	48,829	55,566
Short-term loans payable	30,199	21,539
Lease obligations	315	300
Income taxes payable	2,525	4,534
Advances received	16,908	16,739
Deferred tax liabilities	10	16
Accrued employees' bonuses	2,738	3,185
Accrued directors' bonuses	401	512
Accrued warranty costs	2,069	1,742
Provision for loss on order received	785	1,074
Other	11,175	13,637
Total current liabilities	115,954	118,845
Long-term liabilities		
Long-term loans payable	12,528	14,150
Lease obligations	692	607
Deferred tax liabilities	1,408	343
Net defined benefit liability	8,311	8,370
Accrued directors' retirement benefits	335	272
Provision for board benefit trust	74	134
Asset retirement obligations	392	395
Other	694	568
Total long-term liabilities	24,436	24,840
Total liabilities	140,389	143,685
Net Assets		
Shareholders' equity		
Capital stock	20,873	20,873
Capital surplus	3,912	3,912
Retained earnings	73,801	107,238
Treasury shares	(271)	(266)
Total shareholders' equity	98,315	131,756
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	491	14,950
Foreign currency translation adjustment	2,480	2,579
Remeasurements of defined benefit plans	(2,599)	(1,753)
Total accumulated other comprehensive income	372	15,775
Non-controlling interests	6,229	6,538
Total net assets	104,917	154,069
Total liabilities and net assets	245,306	297,754

Consolidated Statements of Income

(Millions of yen)

	FY2016 (July 1, 2016–June 30, 2017)	FY2017 (July 1, 2017–June 30, 2018)
Net sales	231,831	249,271
Cost of sales	168,001	176,163
Gross profit	63,829	73,108
Selling, general and administrative expenses		
Selling expenses	14,818	15,703
General and administrative expenses	19,543	22,054
Total selling, general and administrative expenses	34,361	37,757
Operating profit	29,468	35,351
Non-operating income		
Interest income	117	157
Dividend income	302	470
Rent income	297	300
Insurance and dividends income	259	463
Foreign exchange gains	—	352
Share of profit of entities accounted for using equity method	203	426
Other	572	464
Total non-operating income	1,750	2,631
Non-operating expenses		
Interest expenses	511	349
Other	992	727
Total non-operating expenses	1,503	1,076
Ordinary profit	29,716	36,907
Extraordinary income		
Gain on sales of non-current assets	35	—
Gain on sales of investment securities	81	2,002
Total extraordinary income	117	2,002
Extraordinary losses		
Loss on retirement of non-current assets	643	382
Loss on sales of non-current assets	423	—
Total extraordinary losses	1,065	382
Income before income taxes	28,768	38,527
Current income taxes	4,556	7,309
Deferred income taxes	(1,599)	(5,937)
Total income taxes	2,957	1,372
Net income	25,811	37,155
Net income attributable to non-controlling interests	1,342	1,250
Net income attributable to owners of parent	24,469	35,904

Consolidated Statements of Comprehensive Income

(Millions of yen)

	FY2016 (July 1, 2016–June 30, 2017)	FY2017 (July 1, 2017–June 30, 2018)
Net income	25,811	37,155
Other comprehensive income		
Valuation difference on available-for-sale securities	364	14,456
Foreign currency translation adjustment	3,390	113
Remeasurements of defined benefit plans, net of tax	224	845
Share of other comprehensive income of entities accounted for using equity method	10	2
Total other comprehensive income	3,989	15,416
Comprehensive income	29,799	52,570
Comprehensive income attributable to:		
Owners of parent	28,200	51,307
Non-controlling interests	1,599	1,263

Consolidated Statements of Cash Flows

(Millions of yen)

	FY2016 (July 1, 2016–June 30, 2017)	FY2017 (July 1, 2017–June 30, 2018)
Cash flows from operating activities		
Income before income taxes	28,768	38,527
Depreciation	6,418	6,541
Increase (decrease) in allowance for doubtful accounts	(171)	97
Increase (decrease) in accrued employees' bonuses	401	473
Increase (decrease) in net defined benefit liability	(247)	182
Increase (decrease) in accrued directors' retirement benefits	16	(63)
Increase (decrease) in provision for board benefit trust	74	60
Increase (decrease) in accrued warranty costs	32	(321)
Increase (decrease) in provision for loss on order received	227	289
Interest and dividend income	(419)	(628)
Interest expenses	511	349
Subsidy income	(98)	(96)
Share of (profit) loss of entities accounted for using equity method	(203)	(426)
Loss (gain) on sales of investment securities	(81)	(2,002)
Loss (gain) on sales of non-current assets	387	—
Decrease (increase) in notes and accounts receivable - trade	(10,732)	(16,748)
Decrease (increase) in inventories	(161)	(9,878)
Increase (decrease) in notes and accounts payable - trade	12,680	6,789
Increase (decrease) in advances received	2,634	(123)
Increase (decrease) in accrued consumption taxes	76	(241)
Other	1,948	1,230
Subtotal	42,060	24,011
Interest and dividend income received	488	720
Interest expenses paid	(510)	(350)
Income taxes paid	(4,219)	(5,295)
Net cash provided by (used in) operating activities	37,818	19,086
Cash flows from investing activities		
Payments into time deposits	(12,317)	(12,755)
Proceeds from withdrawal of time deposits	4,347	18,873
Purchase of property, plant and equipment and intangible assets	(6,515)	(9,869)
Proceeds from sales of property, plant and equipment and intangible assets	234	19
Proceeds from sales of investment securities	323	2,171
Payments for investments in capital of subsidiaries and associates	—	(290)
Proceeds from subsidy income	240	237
Other	(25)	48
Net cash provided by (used in) investing activities	(13,713)	(1,564)
Cash flows from financing activities		
Net increase (decrease) in short-term loans payable	(11,668)	(5,157)
Proceeds from long-term loans payable	—	9,400
Repayments of long-term loans payable	(8,313)	(11,282)
Repayments of lease obligations	(368)	(344)
Cash dividends paid	(1,477)	(2,464)
Purchase of treasury shares	(260)	(0)
Dividends paid to non-controlling interests	(494)	(886)
Net cash provided by (used in) financing activities	(22,580)	(10,734)
Effect of exchange rate change on cash and cash equivalents	1,168	4
Net increase (decrease) in cash and cash equivalents	2,693	6,793
Cash and cash equivalents at beginning of period	44,862	47,555
Cash and cash equivalents at end of period	47,555	54,348