

U-Shin Ltd. Consolidated Financial Results for the year ended December 31, 2017

Tokyo, February 14, 2017 - U-Shin Ltd. announced its consolidated financial results for the year ended December 31, 2017. The following summary of the business results is based on the latest short financial result U-Shin Ltd. submitted to the Tokyo Stock Exchange. (Code Number: 6985)

Consolidated Operating Results

	Fiscal year ended				
	November 30, 2016		December 31, 2017		
	JPY in millions	YoY %	JPY in millions	YoY %	US\$ in thousands
Net Sales	¥ 153,894	(6.3)	¥ 168,632	-	\$ 1,492,324
Operating Income	3,269	(30.7)	5,397	-	47,768
Ordinary Income	2,271	4.4	3,754	-	33,223
Profit (Loss) Attributable to Owners of Parent	(9,659)	-	4,086	-	36,161
Net Income (Loss) per share	JPY		JPY		US\$
Basic Net Income (Loss)	¥ (348.52)		¥ 137.31		\$ 1.21
Diluted Net Income			135.32		1.19

*Fiscal year ended December 31, 2017 was consisted of 13 months due to a change in the accounting period. Therefore, percentage changes from previous year are not shown.

Consolidated Financial Position

	November 30, 2016	December 31, 2017	
	JPY in millions	JPY in millions	US\$ in thousands
Total Assets	¥ 143,295	¥ 137,592	\$ 1,217,628
Net Assets	22,248	31,217	276,260
Equity Ratio	14.4%	21.7%	21.7%

Cash Dividends

	Cash dividends per share (JPY)				
	1Q	2Q	3Q	4Q	Annual
FY 2016	-	¥ 0.00	-	¥ 0.00	¥ 0.00
FY 2017	-	¥ 0.00	-	¥ 0.00	¥ 0.00
FY 2018 (forecast)	-	¥ 0.00	-	¥ 0.00	¥ 0.00

Segment Information

Net sales	Fiscal year ended		
	November 30, 2016	December 31, 2017	
	JPY in millions	JPY in millions	US\$ in thousands
Automotive	¥ 131,422	¥ 140,995	\$ 1,247,743
Industrial Equipment	20,070	24,951	220,807
Home Security Units	2,400	2,686	23,773
Consolidated	153,894	168,632	1,492,324

Operating Income	Fiscal Year ended		
	November 30, 2016	December 31, 2017	
	JPY in millions	JPY in millions	US\$ in thousands
Automotive	¥ 3,170	¥ 4,254	\$ 37,648
Industrial Equipment	2,423	3,131	27,711
Home Security Units	133	131	1,160
Reconciliations	(2,457)	(2,118)	(18,751)
Consolidated	3,269	5,397	47,768

Forecast of Consolidated Results for FY2018 (January 1, 2018 through December 31, 2018)

	Fiscal year ending December 31, 2018	
	JPY in millions	US\$ in thousands
Net Sales	¥152,000	\$ 1,345,132
Operating Income	4,300	38,053
Ordinary Income	3,100	27,433
Profit Attributable to Owners of Parent	3,400	30,088

Reference: Net income per share forecast

¥ 114.25

FY2018 is back to ordinary 12 months closing.

Notes:

1. U.S. dollar amounts are included solely for the convenience of readers outside Japan and have been made at the rate of JPY 113.00 to US\$ 1.00, the approximate exchange rate prevailing on December 31, 2017. Such translation should not be construed as representations that the Japanese yen amounts could be converted into U.S. dollars at that or any other rate.
2. Amounts are rounded down to the nearest million yen or thousand U.S. dollar.
3. "Reconciliations" of segment income for the 13 months ended December 31, 2017 of (2,118) million yen includes intersegment eliminations of 73 million yen and corporate expenses of (2,192) million yen.
"Reconciliations" of segment income for the 12 months ended November 30, 2016 of (2,457) million yen includes intersegment eliminations of 14 million yen and corporate expenses of (2,471) million yen.
4. Net income per share of Forecast of Consolidated Results for FY2018 is calculated based on the weighted-average number of common shares for the fiscal year ended December 31, 2017.

Financial Results and Financial Position for the Year Ended December 31, 2017

(1) Financial Results

(Along with change of accounting period from November to December closing, the migrating period of FY2017 spans 13 months.)

Regarding the world economy during the period for the year ended December 31, 2017, the economy is expanding in the United States, and stock price and dollar were up along with gradual hike of benchmark interest rate. The European economy has escaped from long-term depression and turned into recovery trend, and Chinese economy also revived due to resources price recovery. Economy in emerging countries such as South and Central America are also showing green shoots. Regarding also in Japanese economy, modest recovery continues due to briskness of stock and real estate market, recovery of capital investment, contribution by in-bound consumer, and so on.

Under such circumstances, our group started a new mid-term plan, and committed actions to improve performance and strengthen the financial conditions under the slogan, “Challenge for Turnaround” as one group.

In specific, we committed to turnaround the access mechanism business (hereinafter “UAM”), which we acquired in 2013 from Valeo S.A., a major automotive parts manufacturer in France. We particularly worked on a focus with productivity enhancement commencing with quality improvement. By seconding over 10 specialists from design, manufacture, and quality division of Hiroshima mother plant to each plant in Europe such as Slovakia, France, Italy, and we trained and educated to local plant head, managers, and workers to realize the manufacturing of Japan quality. Appropriate monitoring was conducted from Hiroshima plant and headquarters in Japan, and we tried to make them run PDCA. The awareness reform in each plant gradually resulted in improvement effects, and it especially linked to the performance improvement in the second half year.

In addition, we plan, prepare, and execute the series of improving strategy stated in mid-term plan such as reallocating manufacturing sites, enforcing the focused capital investment, strengthen the R&D organization and labor, enhance the customer relations, and so on.

Besides the above, we decided that the plant in United States will be liquidated and taken into Mexico plant to establish efficient productivity and supplying structure for entire North, Central, and South America.

Moreover, for the sake of strengthening the productivity and efficiency corresponding to sales expansion in China, construction of a new plant is in progress at Wuxi in Jiangsu, and we are preparing toward the completion and full operation in coming fiscal year.

As the results of above efforts, consolidated net sales increased 9.6% to 168,632 million yen (US\$ 1,492,324 thousand) and operating income increased 65.1% to 5,397 million yen (US\$ 47,768 thousand) compared to the last fiscal year. Both automotive and industrial equipment divisions were moving steady with a focus on domestic and Chinese market.

Ordinary income increased 65.3% to 3,754 million yen (US\$ 33,223 thousand) in comparison with the previous year. Although foreign exchange loss of 632 million yen was recorded and non-operating expenses increased, it was covered by increase of operating income.

Net income amounted to 4,086 million yen (US\$ 36,161 thousand), while net loss of 9,659 million yen was recorded in the last fiscal year.

In the previous fiscal year, we executed payment of settlement money to some western companies, and recorded loss of product warranties. In addition, we recorded impairment loss of 6,703 million yen regarding UAM, and reversal of deferred tax assets of 1,005 million yen. In total, 9,659 million yen was recorded as net loss.

During the FY2017, concerning Nevers plant in France which has underperformed our plan, recover possibility was estimated based on accounting standard, and we recorded impairment loss of 1,444 million yen as extraordinary loss. On the other hand, we sold partial investment securities and recorded extraordinary profit of 2,907 million yen. Tax expenses decreased due to recording deferred tax assets along with liquidation of subsidiary in U.S.A., and net income returned to black.

Operating Performance by Segment

(Automotive Division)

Net sales increased 7.3% to 140,995 million yen (US\$ 1,247,743 thousand), and operating income increased 34.2% to 4,254 million yen (US\$ 37,648 thousand) year-on-year.

Performances to main customers of Japanese sites were steadily on-going, and demands from Japanese OEMs' increased in China. Although the performance of UAM improved comparing to the last fiscal year, the whole UAM business is still continuing deficit.

(Industrial Equipment Division)

Net sales increased 24.3% to 24,951 million yen (US\$ 220,807 thousand) and operating income increased 29.2% to 3,131 million yen (US\$ 27,711 thousand) year-on-year.

It was contributed by the last-minute demands before tightening up the regulation of exhaust gas for agricultural equipment in Japan. Also as the overseas demand, Chinese and ASEAN market recovered, and in the North America our strong field of small and compact equipment market grew. Increase in demand of construction machinery and machine tools along with recovery of resource price also contributed the results.

(Home Security Units Division)

Net sales increased 11.9% to 2,686 million yen (US\$ 23,773 thousand) and operating income decreased 1.7% to 131 million yen (US\$ 1,160 thousand).

(Forecast for the Fiscal Year from January 1, 2018 through December 31, 2018)

It is prospect that the economy will expand in developed countries commencing with United States, and recovery in emerging countries will be continued. Orders and sales to the main customers are expected to move steadily, and improvement strategies of mid-term plan will also be implemented.

Based on the above things, we expect to consolidated net sales of 152,000 million yen (US\$ 1,345,132 thousand), operating income of 4,300 million yen (US\$ 38,053 thousand), ordinary income of 3,100 million yen (US\$ 27,433 thousand), and net income of 3,400 million yen (US\$ 30,088 thousand) for FY2018. (The next fiscal year 2018 will be back to ordinary 12 months accounting period.)

(2) Financial Position

At the fiscal year-end on December 31, 2017, total assets stood at 137,592 million yen (US\$ 1,217,628 thousand), decrease of 5,703 million yen compared to the end of the previous fiscal year-end. The main reason was a decrease of cash and deposits due to continuously proceed to decrease interest-bearing debt, while we obtained income from selling partial investment securities. Accounts receivable and inventories increased along with increase of sales, and tangible fixed assets (construction in progress) increased along with the new plant construction at Wuxi in China.

Total liabilities decreased by 14,672 million yen to 106,374 million yen (US\$ 941,368 thousand), primarily due to decrease of interest-bearing debts by way of scheduled repayments and conversion of convertible bonds (CB) to stocks.

Total net assets increased by 8,968 million yen to 31,217 million yen (US\$ 276,260 thousand). The main reasons were increase of capital stock and capital surplus due to stock conversion of CB and increase of unrealized gain on available-for-sale securities and foreign currency translation adjustments from fluctuation of stock and forex market.

Due to increase of net assets, the ratio of net assets against total assets at the end of this fiscal year improved to 22.7% from 15.5% of the previous fiscal year-end.

(Cash Flows)

The balance of cash and cash equivalents (hereinafter “Cash”) at the fiscal year-end, on December 31, 2017 were 24,557 million yen (US\$ 217,326 thousand), decrease of 7,287 million yen compared to the end of the previous fiscal year.

Net cash provided by operating activities was 3,677 million yen (US\$ 32,542 thousand) (For the previous fiscal year, 19,536 million yen was provided). Due to ordinary revenue along with operating activities, working capital increased by sales up, and interest and corporate tax were paid.

Net cash used in investing activities was 810 million yen (US\$ 7,168 thousand) (For the previous fiscal year, 10,735 million yen was used). Expenditures on fixed assets acquisition were swelling along with the new plant construction in Wuxi, China. Meanwhile, we obtained income from selling partial investment securities, and withdrawal at maturity of time deposits that we were depositing fund in hand temporarily.

Net cash used by financing activities was 10,777 million yen (US\$ 95,376 thousand) (For the previous fiscal year, 1,405 yen was provided). This was mainly due to continue decreasing interest-bearing debt.

By adding U-SHIN MANUFACTURING (Wuxi) CO., LTD. to the scope of consolidation from this fiscal year, funds in hand of the company, 1,039 million yen increased as consolidated cash.

Footnotes to the Consolidated Financial Statements

(1) Matters regarding to the scope of consolidation

From this fiscal year, U-SHIN MANUFACTURING (Wuxi) CO., LTD. was added to the scope of consolidation, as its importance has increased.

(2) Change of consolidated closing date

By the resolution at the 115th annual general stockholders' meeting held on February 24, 2017, we have changed consolidated closing date to December 31. The FY2017, thus, spans 13 months period from December 1, 2016 through December 31, 2017.

Accordingly, we have changed the closing date to December 31 for six consolidated subsidiaries that previously had a closing date at November 30.

Regarding U-SHIN EUROPE LTD. whose closing date was September 30, it is consolidated for 15 months from October 1, 2016 through December 31, 2017 with this change.

With above changes, closing date of U-Shin Ltd. and all consolidated subsidiaries was unified to December 31.

(3) Maturity of convertible bond (CB)

Regarding the convertible bond of maturity in 2017, 3,900 million yen out of total issued amount of 4,000 million yen was converted to the common stocks, and the remaining 100 million yen was redeemed at maturity on September 19, 2017.

Consolidated Balance Sheet

(Millions of yen)

	As of November 30, 2016	As of December 31, 2017
Assets		
Current assets		
Cash and deposits	36,322	27,699
Notes and accounts receivable - trade	24,502	26,882
Electronically recorded monetary claims - operating	1,997	2,798
Merchandise and finished goods	7,785	7,467
Work in process	2,419	2,802
Raw materials and supplies	7,300	7,916
Deferred tax assets	1,205	769
Other	4,746	4,916
Allowance for doubtful accounts	(624)	(761)
Total current assets	85,654	80,491
Non-current assets		
Property, plant and equipment		
Buildings and structures	22,353	23,635
Accumulated depreciation and impairment loss	(9,570)	(11,168)
Buildings and structures, net	12,782	12,467
Machinery, equipment and vehicles	41,518	46,609
Accumulated depreciation and impairment loss	(31,115)	(36,851)
Machinery, equipment and vehicles, net	10,402	9,757
Tools, furniture and fixtures	33,945	36,786
Accumulated depreciation and impairment loss	(29,319)	(32,661)
Tools, furniture and fixtures, net	4,625	4,125
Land	8,614	8,736
Construction in progress	2,495	5,623
Total property, plant and equipment	38,921	40,711
Intangible assets		
Software	423	425
Other	1,026	787
Total intangible assets	1,449	1,212
Investments and other assets		
Investment securities	12,862	12,255
Long-term loans receivable	169	170
Deferred tax assets	1,369	995
Other	2,926	1,827
Allowance for doubtful accounts	(83)	(83)
Total investments and other assets	17,243	15,165
Total non-current assets	57,615	57,089
Deferred assets		
Bond issuance cost	26	11
Total deferred assets	26	11
Total assets	143,295	137,592

(Millions of yen)

	As of November 30, 2016	As of December 31, 2017
Liabilities		
Current liabilities		
Notes and accounts payable - trade	21,962	23,158
Electronically recorded obligations - operating	7,120	6,823
Short-term loans payable	12,621	12,370
Current portion of bonds	3,524	6,632
Current portion of long-term loans payable	13,110	11,651
Lease obligations	377	2,094
Accounts payable - other	4,782	5,483
Income taxes payable	851	598
Provision for bonuses	793	767
Provision for directors' bonuses	1	2
Provision for product warranties	1,329	471
Provision for business structure improvement	642	194
Other provision	1,299	1,273
Other	12,596	11,045
Total current liabilities	81,013	82,568
Non-current liabilities		
Bonds payable	7,104	200
Long-term loans payable	24,566	18,543
Lease obligations	2,001	—
Deferred tax liabilities	2,066	863
Provision for business structure improvement	90	—
Other provision	460	448
Net defined benefit liability	3,199	3,373
Other	544	376
Total non-current liabilities	40,033	23,805
Total liabilities	121,046	106,374
Net assets		
Shareholders' equity		
Capital stock	13,062	14,546
Capital surplus	13,168	14,652
Retained earnings	(5,276)	(1,193)
Treasury Stock	(513)	(513)
Total shareholders' equity	20,440	27,490
Accumulated other comprehensive income		
Unrealized gain on available-for-sale securities	4,050	4,749
Deferred gains or losses on hedges	(157)	(150)
Foreign currency translation adjustments	(3,575)	(2,191)
Remeasurements of defined benefit plans	(115)	(39)
Total accumulated other comprehensive income	201	2,367
Subscription rights to shares	1,572	1,321
Non-controlling interests	33	37
Total net assets	22,248	31,217
Total liabilities and net assets	143,295	137,592

Consolidated Statement of Operations

(Millions of yen)

	Fiscal year ended November 30, 2016	Fiscal year ended December 31, 2017
Net sales	153,894	168,632
Cost of sales	138,110	150,432
Gross profit	15,783	18,200
Selling, general and administrative expenses	12,514	12,802
Operating profit	3,269	5,397
Non-operating income		
Interest income	211	259
Dividend income	260	253
Foreign exchange gains	206	—
Other	201	233
Total non-operating income	879	746
Non-operating expenses		
Interest expenses	710	589
Commitment line fee	327	213
Foreign exchange losses	—	632
Amortization of bond with warrants	333	324
Foreign exchange hedge cost	247	257
Other	257	371
Total non-operating expenses	1,877	2,389
Ordinary profit	2,271	3,754
Extraordinary income		
Gain on sales of non-current assets	47	57
Gain on sales of investment securities	62	2,907
Insurance income	121	52
Other	—	15
Total extraordinary income	231	3,032
Extraordinary losses		
Loss on sales and retirement of non-current assets	19	31
Impairment loss	6,703	1,444
Loss on product warranties	1,074	511
Provision for business structure improvement	144	91
Settlement payment	1,740	—
Other	23	33
Total extraordinary losses	9,706	2,112
Profit (loss) before income taxes	(7,203)	4,674
Income taxes - current	1,554	1,502
Income taxes - deferred	903	(914)
Total income taxes	2,457	588
Profit (loss)	(9,661)	4,086
Profit (loss) attributable to non-controlling interests	(1)	0
Profit (loss) attributable to owners of parent	(9,659)	4,086

Consolidated Statement of Comprehensive Income

(Millions of yen)

	Fiscal year ended November 30, 2016	Fiscal year ended December 31, 2017
Profit (loss)	(9,661)	4,086
Other comprehensive income		
Unrealized gain on available-for-sale securities	(520)	698
Deferred gains or losses on hedges	(34)	7
Foreign currency translation adjustments	(4,775)	1,387
Remeasurements of defined benefit plans, net of tax	(14)	76
Total other comprehensive income	(5,344)	2,169
Comprehensive income	(15,005)	6,255
Comprehensive income attributable to		
Owners of parent	(14,999)	6,252
Non-controlling interests	(5)	3

Consolidated Statement of Cash Flows

(Millions of yen)

	Fiscal year ended November 30, 2016	Fiscal year ended December 31, 2017
Cash flows from operating activities		
Profit (loss) before income taxes	(7,203)	4,674
Depreciation	7,694	7,354
Impairment loss	6,703	1,444
Amortization of goodwill	344	—
Amortization of bond with warrants	333	324
Increase (decrease) in provision	617	(1,686)
Interest and dividend income	(471)	(512)
Interest expenses	710	589
Foreign exchange losses (gains)	2,866	(1,627)
Loss (gain) on sales of investment securities	(38)	(2,907)
Loss (gain) on sales and retirement of non-current assets	(27)	(26)
Decrease (increase) in notes and accounts receivable – trade	4,785	(1,976)
Decrease (increase) in inventories	453	463
Increase (decrease) in notes and accounts payable - trade	1,875	(1,077)
Increase (decrease) in accounts payable - other	1,228	(596)
Increase (decrease) in deposits received	2,354	74
Other, net	(221)	919
Subtotal	22,004	5,433
Interest and dividend income received	474	512
Interest expenses paid	(711)	(595)
Income taxes (paid) refund	(2,230)	(1,673)
Net cash provided by (used in) operating activities	19,536	3,677
Cash flows from investing activities		
Purchase of property, plant and equipment	(4,273)	(6,542)
Purchase of intangible assets	(941)	(417)
Proceeds from sales of property, plant and equipment	179	158
Purchase of investment securities	(100)	(3)
Proceeds from sales of investment securities	235	4,329
Payments for investments in capital of subsidiaries and associates	(1,302)	—
Payments into time deposits	(4,543)	(3,021)
Proceeds from withdrawal of time deposits	—	4,573
Other, net	10	113
Net cash provided by (used in) investing activities	(10,735)	(810)
Cash flows from financing activities		
Net increase (decrease) in short-term loans payable	9,473	(1,351)
Proceeds from long-term loans payable	8,900	6,700
Repayments of long-term loans payable	(15,775)	(14,182)
Redemption of bonds	(400)	(1,400)
Repayments of lease obligations	(557)	(437)
Purchase of treasury stock	(0)	(0)
Cash dividends paid	(118)	—
Other, net	(117)	(105)
Net cash provided by (used in) financing activities	1,405	(10,777)
Effect of exchange rate change on cash and cash equivalents	(2,079)	(417)
Net increase (decrease) in cash and cash equivalents	8,126	(8,327)
Cash and cash equivalents at beginning of period	23,719	31,845
Increase in cash and cash equivalents from newly consolidated subsidiary	—	1,039
Cash and cash equivalents at end of period	31,845	24,557