

Translation

MARUBUN CORPORATION

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Securities Code : 7537 TSE, 1st section URL <https://www.marubun.co.jp>

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Preparation of supplementary material : Yes

Holding of investor meeting : Yes



October 31, 2019

**Summary of Consolidated Financial Results for the Six Months Ended September 30, 2019
<under Japanese GAAP>**

1. Consolidated Financial Results for the Six Months Ended September 30, 2019 (April 1, 2019 - September 30, 2019)

(1) Consolidated Operating Results

| | Net Sales | | Operating Income | | Ordinary Income | | Profit Attributable to Owners of Parent | |
|--------------------------|-----------------|--------|------------------|------|-----------------|--------|---|--------|
| For the Six months ended | Millions of Yen | % | Millions of Yen | % | Millions of Yen | % | Millions of Yen | % |
| September 30, 2019 | 138,703 | (16.7) | (71) | - | 323 | (47.6) | (110) | - |
| September 30, 2018 | 166,434 | (2.0) | 2,575 | 46.8 | 617 | (53.0) | 133 | (65.7) |

| | Earnings per Share -Basic- | Earnings Per Share -Diluted- |
|--------------------------|-------------------------------|---------------------------------|
| For the Six months ended | Yen | Yen |
| September 30, 2019 | (4.23) | - |
| September 30, 2018 | 5.12 | - |

(2) Financial Position

| | Total Assets | Total Net Assets | Equity Ratio |
|--------------------------|-----------------|------------------|--------------|
| | Millions of Yen | Millions of Yen | % |
| As of September 30, 2019 | 123,182 | 48,696 | 34.5 |
| As of March 31, 2019 | 128,163 | 49,726 | 33.9 |

2. Dividends

| | Dividend Per Share | | | | |
|--|--------------------|-------------|-------------|-------------|--------|
| | 1st Quarter | 2nd Quarter | 3rd Quarter | 4th Quarter | Annual |
| | Yen | Yen | Yen | Yen | Yen |
| Year ended March 31, 2019 | - | 10.00 | - | 20.00 | 30.00 |
| Year ending March 31, 2020 | - | 10.00 | | | |
| Year ending March 31, 2020 (Forecast) | | | - | 20.00 | 30.00 |

3. Consolidated Financial Forecasts for the Fiscal Year Ending March 31, 2020

| | Net Sales | | Operating Income | | Ordinary Income | | Profit Attributable to Owners of Parent | |
|----------------------------|-----------------|--------|------------------|--------|-----------------|-------|---|--------|
| Year ending March 31, 2020 | Millions of Yen | % | Millions of Yen | % | Millions of Yen | % | Millions of Yen | % |
| Year ending March 31, 2020 | 285,000 | (12.8) | 2,900 | (42.6) | 2,800 | (7.3) | 1,350 | (17.5) |

| | Earnings per Share -Basic- |
|----------------------------|-------------------------------|
| Year ending March 31, 2020 | Yen |
| Year ending March 31, 2020 | 51.65 |

Note: These Financial Forecasts are based on management's assumptions and beliefs in light of the information currently available to it and therefore you should not place undue reliance on them. Marubun Corporation cautions you that a number of important factors could cause actual results to differ materially from those discussed in the forward-looking statements.

1. Description of operating results

During the first half of the consolidated fiscal year under review (April 1 to September 30, 2019), the Japanese economy saw weakness in capital expenditure, production, and exports despite continued improvement in employment conditions and consumer spending. Future uncertainty also remained, stemming from concerns over the impact of the trade conflict between the United States and China and the slowdown in the growth of the Chinese economy.

In the electronics industry, in which the Marubun Group operates its business, demand for 5G communication equipment remained strong and that for data centers showed signs of recovery; however, areas such as smartphones and industrial equipment were sluggish, and the prices of DRAM and NAND flash memories continued to fall.

In this environment, the consolidated net sales of the Group during the first half of the fiscal year under review fell 16.7% year on year, to 138,703 million yen because of decrease in Electronic Devices business sales. On the profit front, the operating result was a loss of 71 million yen (as opposed to operating income of 2,575 million yen in the same period of the previous year) due to a decrease in yen-denominated gross profit caused by the appreciation of the yen that continued during the period under review, in addition to causes of a fall in net sales. Consolidated ordinary income decreased 47.6% year on year, to 323 million yen, and the consolidated result attributable to owners of parent was a loss of 110 million yen (as opposed to consolidated profit attributable to owners of parent of 133 million yen in the same period of the previous year), despite posting foreign exchange gains of 987 million yen as non-operating income that resulted from the payment of foreign currency-denominated debts and borrowings.

Operating results by business segment are as follows.

(Electronic Devices business)

In the Electronic Devices business, net sales fell 19.5% year on year, to 117,020 million yen, due to a decline in semiconductors for communication and industrial equipment and reduced revenue caused by the transfer of the sales business of Samsung Electronics on October 1, 2018. The segment result was a loss of 403 million yen as a result of a fall in gross profit caused by exchange rate variation between the times of posting purchases and sales due to the appreciation of the yen, in addition to a decrease in net sales.

(Electronic Systems business)

In the Electronics Systems business, while demand for computers and semiconductor lasers embedded in industrial equipment and components for artificial satellites decreased, sales of diagnostic imaging equipment for medical equipment were strong and sales of measuring instruments used for the communication infrastructure of information and communication equipment increased. As a result, net sales in this segment grew 3.1% year on year, to 21,682 million yen; segment income, however, decreased 14.4% year on year, to 335 million yen, due to a fall in the gross profit ratio.

2. Summary of consolidated financial conditions for the fiscal year under review

(Assets)

Current assets at the end of the second quarter of the fiscal year under review stood at 109,167 million yen, a decrease of 4,817 million yen from the end of the previous fiscal year. This was mainly attributable to growth of 9,783 million yen in merchandise and finished goods, 1,906 million yen in electronically recorded monetary claims – operating, and 1,640 million yen in notes and accounts receivable – trade, which more than offset an increase of 8,037 million yen in cash and deposits. Non-current assets amounted to 14,014 million yen, a decrease of 163 million yen from the end of the previous fiscal year. This was chiefly attributable to a decrease in goodwill of 224 million yen.

As a result, total assets decreased by 4,981 million yen from the end of the previous fiscal year, to 123,182 million yen.

(Liabilities)

Current liabilities at the end of the second quarter of the fiscal year under review came to 71,847 million yen, a decrease of 3,775 million yen from the end of the previous fiscal year. This was attributable largely to a decrease of 4,571 million yen in short-term loans payable, which more than offset an increase of 1,378 million yen in notes and accounts payable – trade. Non-current liabilities amounted to 2,637 million yen, a decrease of 176 million yen from the end of the previous fiscal year. This was primarily a result of a fall of 170 million yen in defined benefit liability.

As a result, total liabilities decreased by 3,951 million yen from the end of the previous fiscal year, to 74,485 million yen.

(Net assets)

Current assets at the end of the second quarter of the fiscal year under review totaled 48,696 million yen, a decrease of 1,029 million yen from the end of the previous fiscal year. This was a result, in large part, of decreases of 633 million yen in retained earnings and 246 million yen in foreign currency translation adjustment.

As a result, the equity ratio stood at 34.5% (compared to 33.9% at the end of the previous fiscal year).

3. Summary of consolidated financial forecasts and other forward-looking statements

The Company has revised its consolidated financial forecasts for the fiscal year ending March 31, 2020, which were announced on May 10, 2019.

The Company forecasts that its net sales for the fiscal year ending March 31, 2020 will be 285,000 million yen (down 12.8% year on year), anticipating a decline in the sales of communication and industrial equipment and semiconductors for PCs. In terms of profit, the Company forecasts that consolidated operating income will be 2,900 million yen (down 42.6% year on year), consolidated ordinary income will be 2,800 million yen (down 7.3% year on year), and consolidated profit attributable to owners of parent will be 1,350 million yen (down 17.5% year on year).

Please refer to "Notice of Differences Between Forecast and Actual Results for the First Half of the Fiscal Year Ending March 2020 and Revision of Full-Year Financial Results Forecast" released separately today (October 31, 2019) for details of the revisions.

Consolidated Financial Statements
(1) Consolidated Balance Sheet

(Millions of Yen)

| | As of March 31, 2019 | As of September 30, 2019 |
|---|----------------------|--------------------------|
| Assets | | |
| Current assets | | |
| Cash and deposits | 16,348 | 24,386 |
| Notes and accounts receivable - trade | 45,622 | 43,982 |
| Electronically recorded monetary claims - operating | 7,243 | 5,336 |
| Merchandise and finished goods | 43,020 | 33,236 |
| Work in process | 199 | 477 |
| Other | 1,567 | 1,761 |
| Allowance for doubtful accounts | (16) | (12) |
| Total current assets | 113,985 | 109,167 |
| Non-current assets | | |
| Property, plant and equipment | | |
| Buildings and structures | 3,646 | 3,687 |
| Accumulated depreciation | (2,333) | (2,337) |
| Buildings and structures, net | 1,312 | 1,350 |
| Machinery, equipment and vehicles | 10 | 10 |
| Accumulated depreciation | (10) | (10) |
| Machinery, equipment and vehicles, net | 0 | 0 |
| Tools, furniture and fixtures | 2,105 | 2,165 |
| Accumulated depreciation | (1,475) | (1,517) |
| Tools, furniture and fixtures, net | 629 | 647 |
| Land | 1,618 | 1,596 |
| Leased assets | 104 | 105 |
| Accumulated depreciation | (70) | (71) |
| Leased assets, net | 34 | 34 |
| Right of use assets | — | 118 |
| Accumulated depreciation | — | (38) |
| Right of use assets, net | — | 79 |
| Construction in progress | 38 | 147 |
| Total property, plant and equipment | 3,634 | 3,855 |
| Intangible assets | | |
| Goodwill | 224 | — |
| Other | 1,309 | 1,243 |
| Total intangible assets | 1,533 | 1,243 |
| Investments and other assets | | |
| Investment securities | 4,421 | 4,270 |
| Deferred tax assets | 884 | 1,042 |
| Other | 4,141 | 4,043 |
| Allowance for doubtful accounts | (438) | (440) |
| Total investments and other assets | 9,009 | 8,915 |
| Total non-current assets | 14,177 | 14,014 |
| Total assets | 128,163 | 123,182 |

(Millions of Yen)

| | As of March 31, 2019 | As of September 30, 2019 |
|--|----------------------|--------------------------|
| Liabilities | | |
| Current liabilities | | |
| Notes and accounts payable - trade | 25,443 | 26,821 |
| Short-term borrowings | 38,934 | 34,362 |
| Current portion of long-term borrowings | 7,550 | 7,550 |
| Lease obligations | 28 | 74 |
| Income taxes payable | 272 | 98 |
| Provision for bonuses | 1,038 | 985 |
| Asset retirement obligations | 23 | — |
| Other | 2,332 | 1,955 |
| Total current liabilities | 75,623 | 71,847 |
| Non-current liabilities | | |
| Long-term borrowings | 1,175 | 1,150 |
| Lease obligations | 38 | 63 |
| Retirement benefit liability | 1,201 | 1,031 |
| Provision for retirement benefits for directors (and other officers) | 97 | 89 |
| Asset retirement obligations | 163 | 165 |
| Other | 137 | 138 |
| Total non-current liabilities | 2,813 | 2,637 |
| Total liabilities | 78,436 | 74,485 |
| Net assets | | |
| Shareholders' equity | | |
| Share capital | 6,214 | 6,214 |
| Capital surplus | 6,353 | 6,353 |
| Retained earnings | 31,516 | 30,882 |
| Treasury shares | (1,631) | (1,631) |
| Total shareholders' equity | 42,453 | 41,820 |
| Accumulated other comprehensive income | | |
| Valuation difference on available-for-sale securities | 577 | 485 |
| Deferred gains or losses on hedges | 4 | (9) |
| Foreign currency translation adjustment | 487 | 240 |
| Remeasurements of defined benefit plans | (11) | (5) |
| Total accumulated other comprehensive income | 1,056 | 709 |
| Non-controlling interests | 6,216 | 6,167 |
| Total net assets | 49,726 | 48,696 |
| Total liabilities and net assets | 128,163 | 123,182 |

(2) Consolidated Statements of Income

(Millions of Yen)

| | Six months ended September 30, 2018 | Six months ended September 30, 2019 |
|--|--|--|
| Net sales | 166,434 | 138,703 |
| Cost of sales | 155,052 | 130,717 |
| Gross profit | 11,382 | 7,985 |
| Selling, general and administrative expenses | 8,807 | 8,057 |
| Operating profit (loss) | 2,575 | -71 |
| Non-operating income | | |
| Interest income | 29 | 17 |
| Dividend income | 26 | 28 |
| Share of profit of entities accounted for using equity method | 169 | 49 |
| Foreign exchange gains | — | 987 |
| Miscellaneous income | 71 | 64 |
| Total non-operating income | 296 | 1,146 |
| Non-operating expenses | | |
| Interest expenses | 480 | 578 |
| Sales discounts | 52 | 64 |
| Foreign exchange losses | 1,612 | — |
| Loss on sales of trade receivables | 95 | 87 |
| Miscellaneous loss | 13 | 19 |
| Total non-operating expenses | 2,254 | 751 |
| Ordinary profit | 617 | 323 |
| Extraordinary income | | |
| Gain on sales of non-current assets | 0 | 3 |
| Gain on sales of investment securities | 19 | — |
| Gain on reversal of reserve for loss on dissolution of employee's pension fund | 3 | — |
| Other | — | 0 |
| Total extraordinary income | 23 | 4 |
| Extraordinary losses | | |
| Loss on sales and retirement of non-current assets | 4 | 7 |
| Impairment loss | — | 215 |
| Loss on valuation of investment securities | — | 6 |
| Extra retirement payments | 11 | 7 |
| Other | 0 | 0 |
| Total extraordinary losses | 17 | 237 |
| Profit before income taxes | 623 | 90 |
| Income taxes | 344 | 111 |
| Profit (loss) | 279 | (21) |
| Profit attributable to non-controlling interests | 145 | 88 |
| Profit (loss) attributable to owners of parent | 133 | (110) |

Consolidated statements of comprehensive income

(Millions of Yen)

| | Six months ended September 30, 2018 | Six months ended September 30, 2019 |
|---|--|--|
| Profit (loss) | 279 | (21) |
| Other comprehensive income | | |
| Valuation difference on available-for-sale securities | 99 | (91) |
| Deferred gains or losses on hedges | 58 | (14) |
| Foreign currency translation adjustment | (375) | (314) |
| Remeasurements of defined benefit plans, net of tax | (31) | 5 |
| Share of other comprehensive income of entities accounted for using equity method | 0 | (39) |
| Total other comprehensive income | (249) | (454) |
| Comprehensive income | 29 | (476) |
| Comprehensive income attributable to | | |
| Comprehensive income attributable to owners of parent | 36 | (457) |
| Comprehensive income attributable to non-controlling interests | (7) | (18) |

(3) Consolidated Statements of Cash Flows

(Millions of Yen)

| | Six months ended September 30, 2018 | Six months ended September 30, 2019 |
|---|--|--|
| Cash flows from operating activities | | |
| Profit before income taxes | 623 | 90 |
| Depreciation | 228 | 332 |
| Impairment loss | — | 215 |
| Amortization of goodwill | 56 | 28 |
| Increase (decrease) in allowance for doubtful accounts | 4 | (2) |
| Increase (decrease) in provision for bonuses | (3) | (51) |
| Increase (decrease) in provision for retirement benefits for directors (and other officers) | 6 | (8) |
| Increase (decrease) in retirement benefit liability | (158) | (121) |
| Interest and dividend income | (55) | (45) |
| Interest expenses | 480 | 578 |
| Foreign exchange losses (gains) | 1,976 | (847) |
| Share of loss (profit) of entities accounted for using equity | (169) | (49) |
| Loss (gain) on sales and retirement of non-current assets | 4 | 3 |
| Loss (gain) on valuation of investment securities | — | 6 |
| Decrease (increase) in trade receivables | (5,135) | 3,315 |
| Decrease (increase) in inventories | 6,695 | 9,388 |
| Increase (decrease) in trade payables | 1,882 | 1,494 |
| Other, net | 174 | (841) |
| Subtotal | 6,609 | 13,487 |
| Interest and dividends received | 109 | 69 |
| Interest paid | (456) | (575) |
| Income taxes paid | (499) | (359) |
| Income taxes refund | 2 | 42 |
| Net cash provided by (used in) operating activities | 5,765 | 12,664 |
| Cash flows from investing activities | | |
| Payments into time deposits | (226) | (317) |
| Proceeds from withdrawal of time deposits | 229 | 211 |
| Purchase of securities | (22) | — |
| Purchase of property, plant and equipment | (158) | (289) |
| Purchase of intangible assets | (355) | (39) |
| Purchase of investment securities | (233) | (13) |
| Payments for asset retirement obligations | — | (12) |
| Short-term loan advances | (2,221) | — |
| Other, net | 38 | 92 |
| Net cash provided by (used in) investing activities | (2,950) | (369) |
| Cash flows from financing activities | | |
| Net increase (decrease) in short-term borrowings | (1,416) | (3,687) |
| Repayments of long-term borrowings | (238) | (25) |
| Dividends paid | (522) | (522) |
| Dividends paid to non-controlling interests | (37) | (30) |
| Other, net | (9) | (48) |
| Net cash provided by (used in) financing activities | (2,225) | (4,314) |
| Effect of exchange rate change on cash and cash equivalents | 17 | (37) |
| Net increase (decrease) in cash and cash equivalents | 607 | 7,942 |
| Cash and cash equivalents at beginning of period | 13,715 | 16,044 |
| Decrease in cash and cash equivalents resulting from exclusion of subsidiaries from consolidation | (384) | — |
| Cash and cash equivalents at end of period | 13,937 | 23,987 |

Consolidated Segment Information

Business Segments

Six Months Ended September 30, 2018

(Millions of Yen)

| | Business segments reported | | | Adjustment | Consolidated Statements of Income |
|-----------------------|----------------------------|--------------------|---------|------------|-----------------------------------|
| | Electronic Devices | Electronic Systems | Total | | |
| Net Sales | | | | | |
| (1) Outside Customers | 145,394 | 21,040 | 166,434 | - | 166,434 |
| (2) Inter-segment | - | 294 | 294 | (294) | - |
| Total Sales | 145,394 | 21,335 | 166,729 | (294) | 166,434 |
| Segment Income(loss) | 2,187 | 392 | 2,579 | (4) | 2,575 |

Six Months Ended September 30, 2019

(Millions of Yen)

| | Business segments reported | | | Adjustment | Consolidated Statements of Income |
|-----------------------|----------------------------|--------------------|---------|------------|-----------------------------------|
| | Electronic Devices | Electronic Systems | Total | | |
| Net Sales | | | | | |
| (1) Outside Customers | 117,020 | 21,682 | 138,703 | - | 138,703 |
| (2) Inter-segment | - | 132 | 133 | (133) | - |
| Total Sales | 117,020 | 21,815 | 138,836 | (133) | 138,703 |
| Segment Income(loss) | (403) | 335 | (67) | (4) | (71) |