

Consolidated Results for First Half of FY2020

SHIMA SEIKI MFG., LTD.
October, 2020

Summary of Operating Results for Second Quarter of the Fiscal Year Ending March 31, 2021

(Terms: Millions of yen)

	FY2020 2Q	FY2019 2Q	FY2019
Net Sales	10,126	17,118	33,206
Operating income	(4,183)	(2,710)	(5,602)
Ordinary Income	(3,135)	(2,899)	(5,583)
Net income Attributable to owners of the parent	(3,208)	(2,061)	(8,427)
	FY2020 2Q	FY2019 2Q	
Exchange rate (JPY)			
USD/JPY	105.80	107.92	Exchange rate at the end of the period (Upper level)
	106.96	108.78	Average exchange rate used for translation of sales (Lower level)
EUR/JPY	124.17	118.02	
	120.98	120.87	

Highlights

Operational Review

Impact of novel coronavirus disease forced us to globally suspend the operation of plants and operating activities. This led to weak sales.

[Flat knitting machines]

Slower growth around the world resulted in the failure of a recovery in net sales.

[Design systems]

- Net sales of the apparel design system SDS-ONE APEX4 declined along with weak sales of computerized flat knitting machines.
- Sales of the automatic fabric cutting machine P-CAM were also weak because of weaker demand in textiles filed in the domestic and overseas markets.

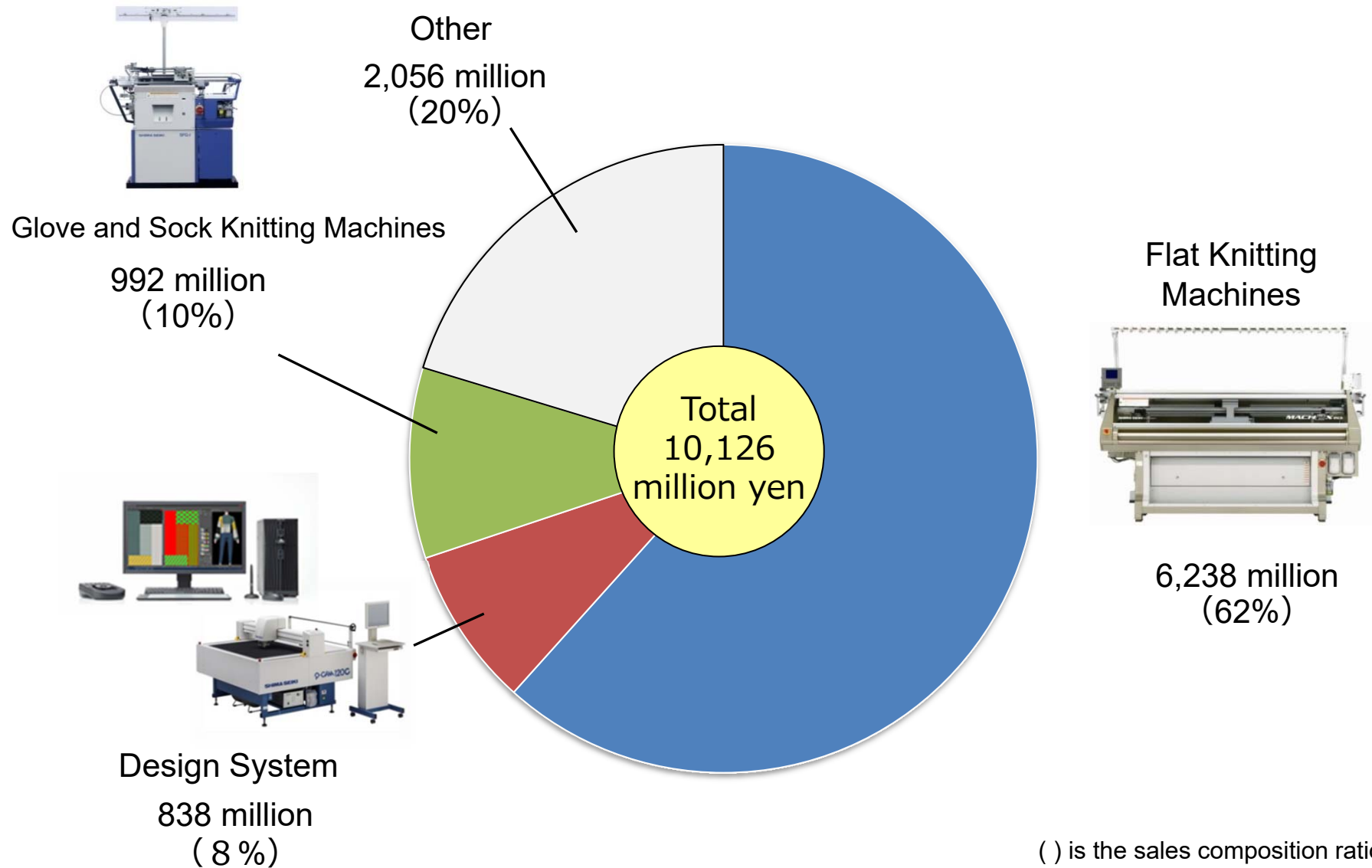
[Globe knitting machines]

Major users made capital investments even during the coronavirus crisis.

Income

- Gross profit rate declined as a result of a large decline in net sales as well as a decline in unit selling prices and production adjustment (25.2%, down 11.5% from the same period of the previous year).
- A decline in operating income was not covered by the efforts to control personnel expenses in selling, general, and administrative expenses (down about 2.2 billion yen from the same period of the previous year).

Sales Composition by Segment [Consolidated]



Flat Knitting Machines Segment

Category



WHOLEGARMENT® Flat Knitting Machine

- MACH2XS and SWG-N2 sterically knitting the whole wear
- Realizing environment-friendly manufacturing
- Additionally, covering small-type merchandise such as manufacturing of small fashion goods and masks



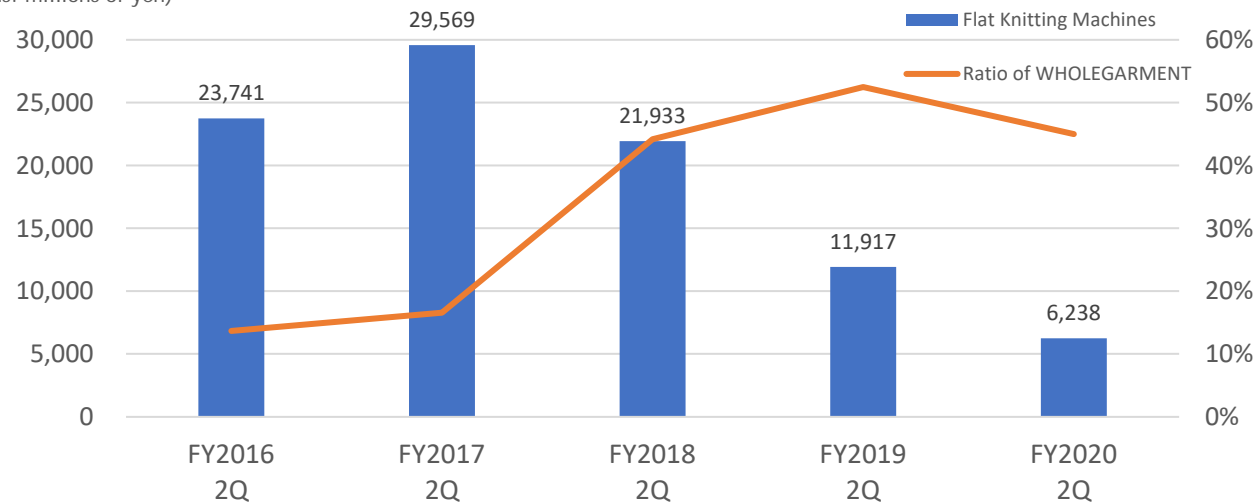
Computerized Flat knitting Machine

- Making wear by knitting the fabric for each part, sewing, and linking
- SRY, N.SIR, and N.SVR SP adding value to knitting fabric
- N.SVR and N.SSR used to manufacture the volume zone for Asia

Ratio of net sales of WHOLEGARMENT® of 40% or more

Developments in net sales of flat knitting machines and ratio of WHOLEGARMENT®

(Terms: millions of yen)



Design System Segment

Category



3D Design system SDS-ONE APEX4

Installing software specializing in the programming of knitting machines and pattern CAD, as well as textile design, including flat knitting, fabric, print, and circular knitting and simulation



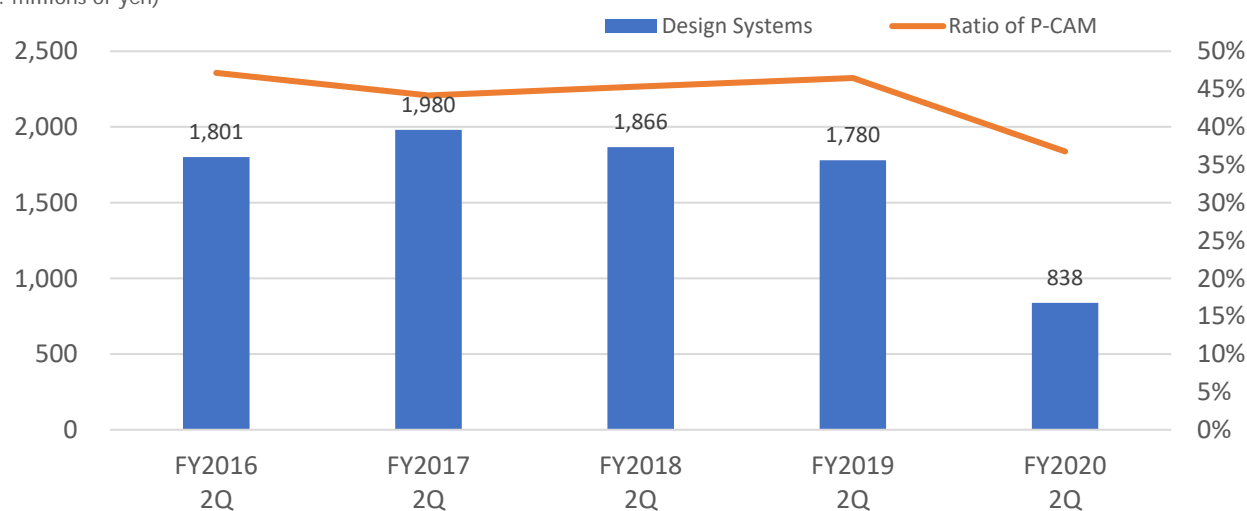
P-CAM Cutting Machines

Providing the automated cutting machine, as well as the spreading, labeling, and pick-up equipment, to save manpower in the processes before and after fabric cutting. Penetration is sought into a variety of industries that include apparel, automobiles, and industrial materials as Shima Cutting Solutions.

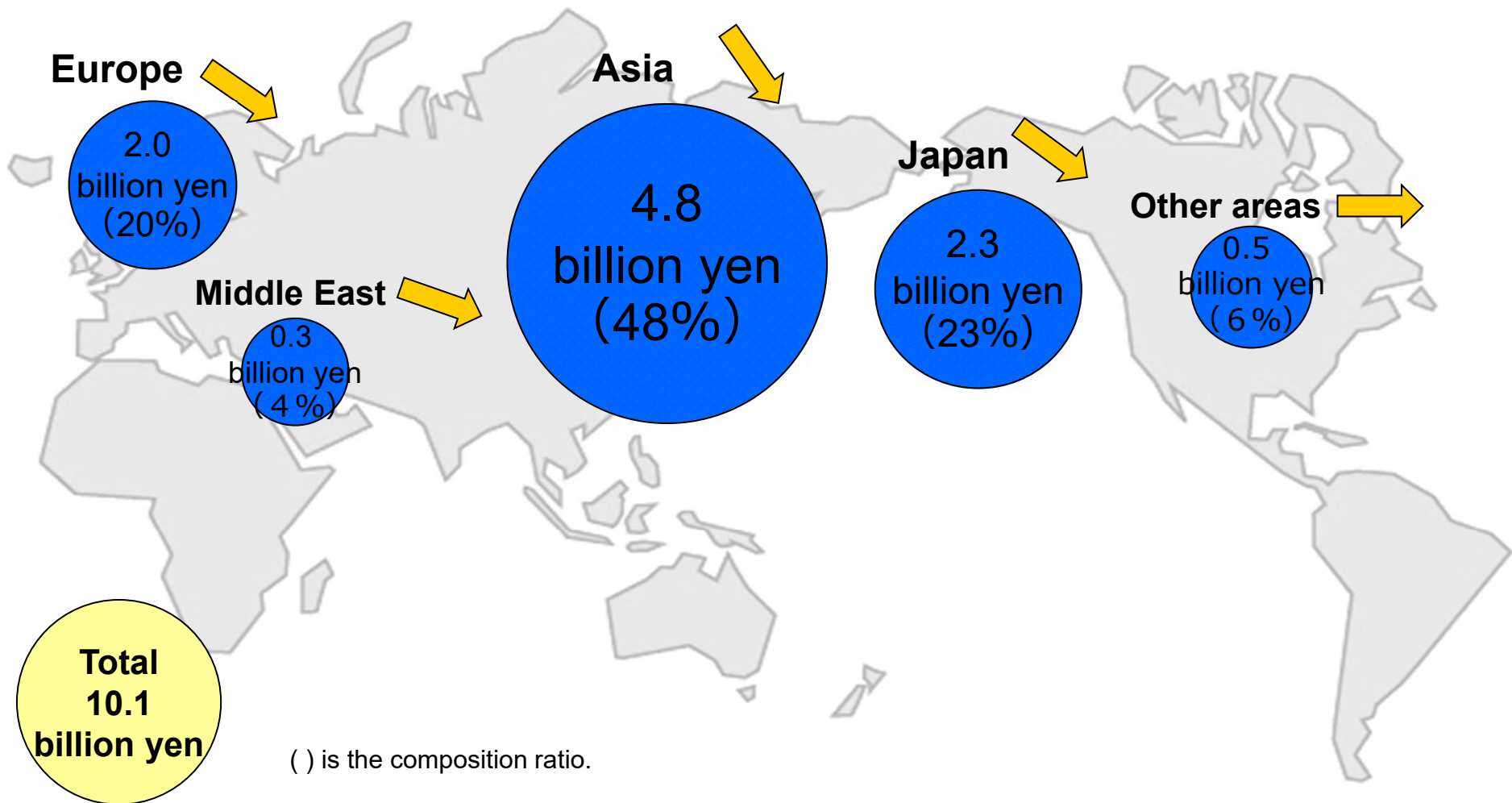
Lowered ratio of net sales of P-CAM for the current period

Developments in net sales of Design Systems and ratio of P-CAM

(Terms: millions of yen)



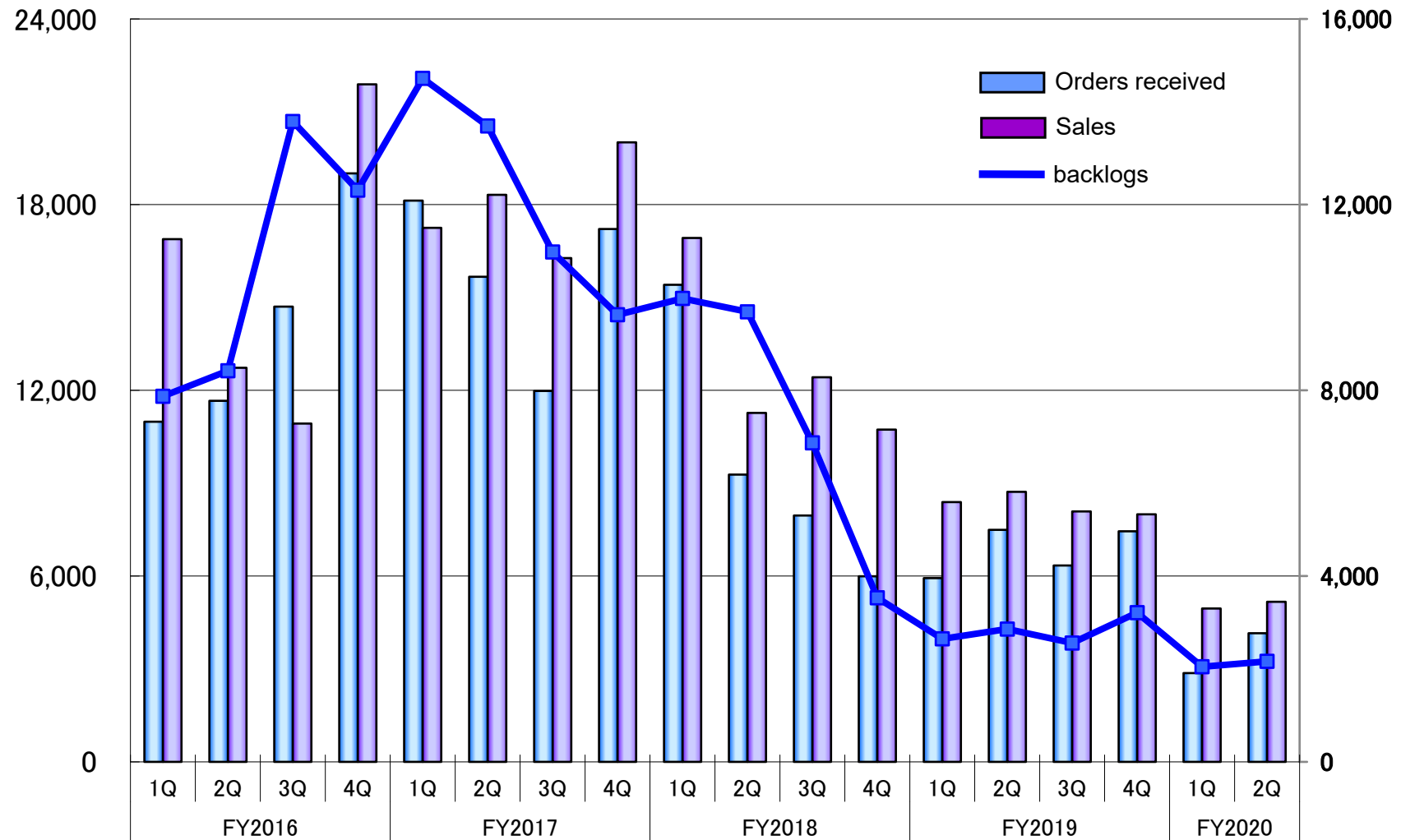
Sales by Region (Second Quarter)



Developments in Quarterly Orders Received, Sales and Backlogs

(Orders received/Sales) Millions of yen

(Backlogs) Millions of yen



Developments in Quarterly Results

(Terms: Millions of yen)

	FY2018				FY2019				FY2020	
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q
Net sales	16,923	11,273	12,423	10,732	8,393	8,724	8,089	7,998	4,954	5,171
Operating income	3,307	1,036	1,257	(962)	(872)	(1,838)	(1,145)	(1,746)	(1,970)	(2,213)
Ordinary income	3,670	957	1,215	(852)	(944)	(1,954)	(963)	(1,721)	(1,414)	(1,721)
Net income attributable to owners of the parent	2,571	740	849	(327)	(689)	(1,372)	(852)	(5,513)	(1,463)	(1,745)
Orders received	15,412	9,280	7,958	5,994	5,934	7,495	6,345	7,447	2,868	4,153
Backlogs	9,979	9,691	6,869	3,531	2,647	2,858	2,558	3,211	2,048	2,163

Balance Sheet [Consolidated]

Cash and deposits	21,084 million yen at the first half of the fiscal year ending March 31, 2021 (21,641 million yen at the end of the previous period), down 556 million yen from the end of the previous period
Trade accounts receivable	46,666 million yen at the first half of the fiscal year ending March 31, 2021 (51,248 million yen at the end of the previous period), down 4,582 million yen from the end of the previous period
Inventories	18,118 million yen at the first half of the fiscal year ending March 31, 2021 (18,410 million yen at the end of the previous period), down 291 million yen from the end of the previous period
Equity Ratio	84.9% (82.6% End of fiscal year ended March 31, 2020)

	FY2020 2Q	FY2019	Increase / decrease
Current assets	83,551	89,470	(5,918)
Fixed assets	37,682	41,224	(3,542)
(Property, plant and equipment)	26,273	26,964	(690)
(Intangible fixed assets)	2,629	2,931	(302)
(Investments and other assets)	8,779	11,328	(2,549)
Total assets	121,234	130,695	(9,461)
Current liabilities	12,362	17,292	(4,930)
Long-term liabilities	5,900	5,452	448
Total liabilities	18,263	22,744	(4,481)
Shareholders' equity	112,037	115,761	(3,723)
Accumulated other comprehensive income	9,104	(7,849)	(1,254)
Equity warrants	23	25	(1)
Non-controlling interest	13	14	(0)
Total net assets	102,970	107,950	(4,979)
Total liabilities and net assets	121,234	130,695	(9,461)

(Terms: Millions of yen)

Statements of Cash Flows [Consolidated]

Net cash increase of 546 million yen mainly due to a decrease in trade receivables
 Net cash increase of 2,029 million yen mainly due to proceeds from sales of investments in securities
 Net cash decrease of 3,130 million yen mainly due to payments of short-term loans and cash dividends
 Decrease of 4,444 million yen from the same period of the previous year

(Terms: Millions of yen)

Title of accounts	FY2020 2Q	FY2019 2Q
Cash flows from operating activities	546	1,743
Cash flows from investing activities	2,029	(1,491)
Cash flows from financing activities	(3,130)	(1,279)
Effect of exchange rate changes on cash and cash equivalents	(33)	(381)
Increase (decrease) in cash and cash equivalents	(587)	(1,408)
Cash and cash equivalents at beginning of year	21,582	26,849
Cash and cash equivalents at end of year	20,995	25,440

Reduce fixed costs including personnel expenses

Establish temporary closed days until the end of December

Continue the reduction in the remuneration of Directors and Executive officers (announced on July 31, 2019)

The Representative Director, Directors with special titles, and Directors voluntarily give up 30%, 20% and 15% of monthly officer's remuneration, respectively. Directors who are Audit and Supervisory Board members voluntarily give up 10% of monthly remuneration.

Reduce bonuses

Make capital investments in automatization with an eye toward the future but postpone non-essential capital investments to the following fiscal year or beyond.

Proactively provide employee training to develop human resources

Plan for Financial Results for Fiscal Year Ending March 2021

[Consolidated] Operating Activities

Operating/service activities

There is an expansion in the areas that include China where ordinary operations are executed, but the areas are uneven.

Canceled/postponed exhibitions

ITMA ASIA + CITME 2020 was postponed to June 2021.

Participation in online exhibitions

SAMPE Japan 2020

Holding of webinar

Strengthening of Information provision

E-mail newsletters

SNS (Facebook, Instagram)



Forecast [Consolidated]

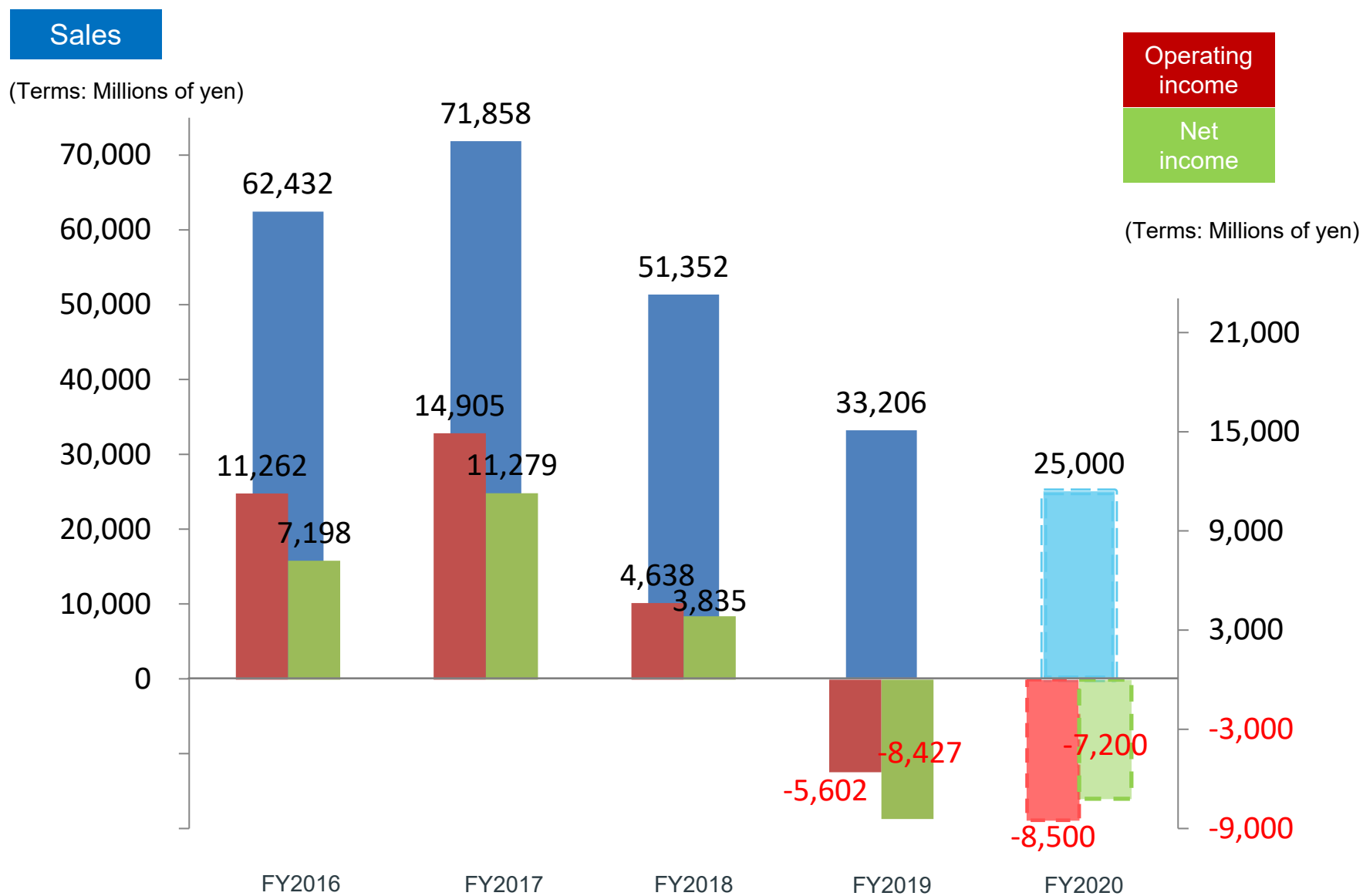
(Terms: Millions of yen)

	FY2020 (forecast)	Comparison with the previous year (%)	FY2019
Net Sales	25,000	(24.7)	33,206
Operating income	(8,500)	—	(5,602)
Ordinary Income	(7,000)	—	(5,583)
Net income Attributable to owners of the parent	(7,200)	—	(8,427)

Forecast of currency rates for March 2021: 105 JPY/USD, 120 JPY/EUR

Sensitivity of operating income where the exchange rates fluctuate by 1 yen: 12 million yen for the USD, 2 million yen for the EUR

Graph for sales, operating income and net income [Consolidated]



Developments in R&D Expenses and Capital Investment [Consolidated]

Maintain the pace of development

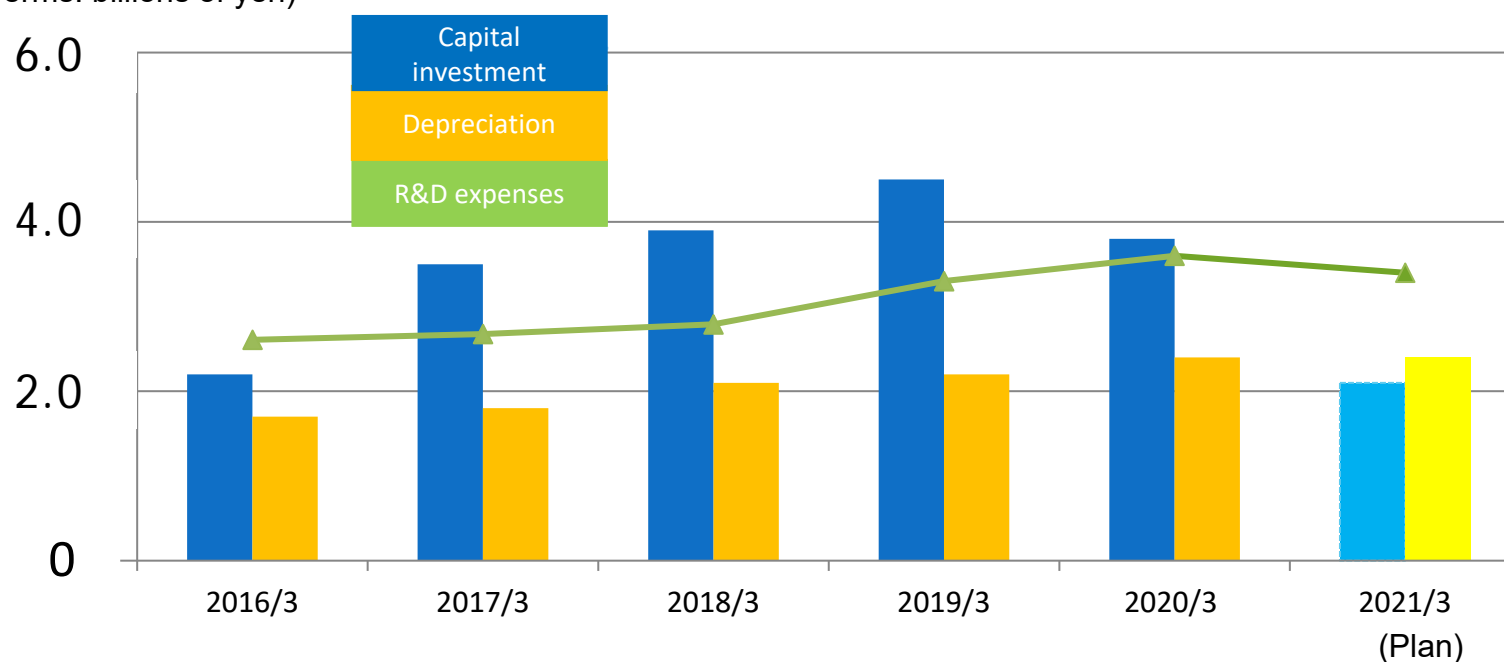
Second quarter of the fiscal year ending March 2021 (Actual results)

Capital investment of 0.3 billion yen (including leased assets of 0.1 billion yen), depreciation and amortization of 1.2 billion yen, R&D of 1.6 billion yen

Fiscal year ending March 2021 (Plan)

Capital investment of 2.1 billion yen (including leased assets of 0.9 billion yen), depreciation and amortization of 2.4 billion yen, R&D of 3.4 billion yen

(Terms: billions of yen)



Actual Results of Capital Investment for the Fiscal Year Ended March 31, 2021

The building for the new plant will be constructed at the head office plant.

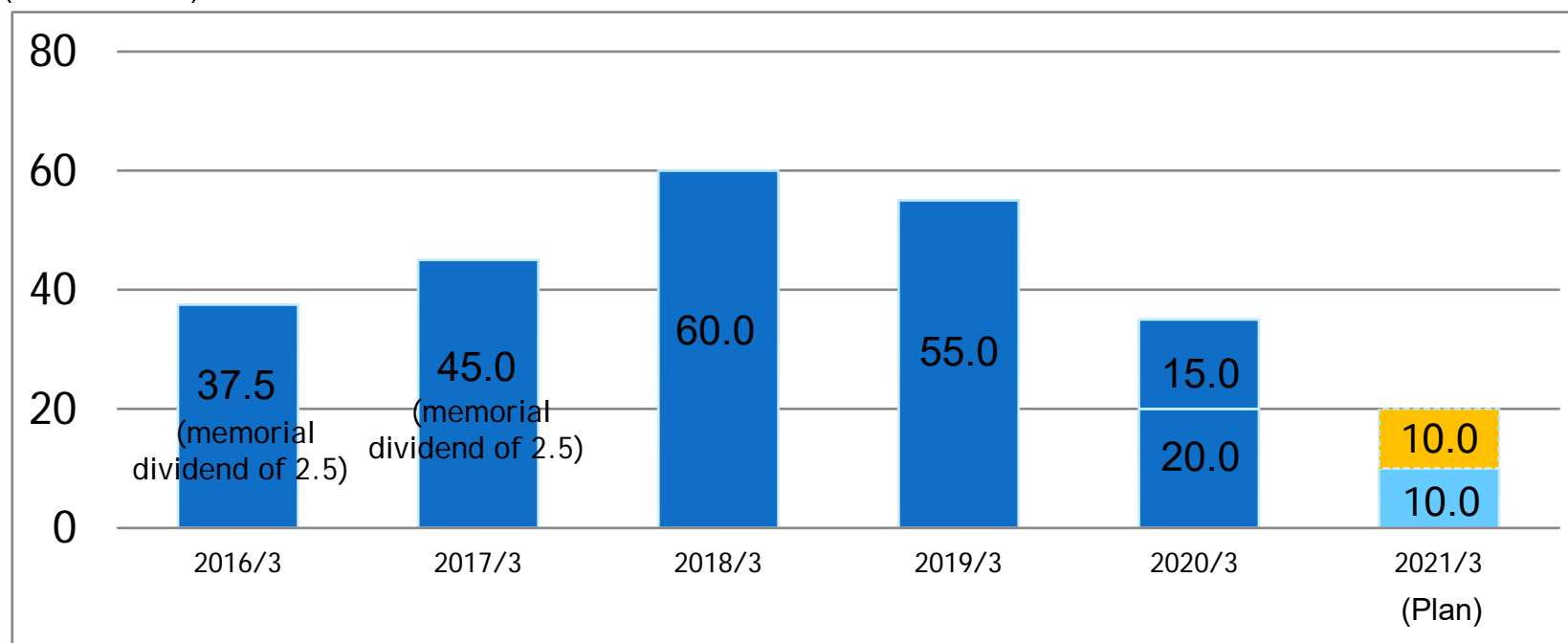
The second phase of the project (completed in October 2020)
It is designed to increase production capacity of
WHOLEGARMENT® flat knitting machines and promote automatization.



Shareholder Returns

Fiscal year ended March 31, 2021 (Plan) :
Interim dividend of 10.0 yen and year-end dividend of 10.0 yen

(Terms of Yen)



Circumstances of Apparel Industry

(Before COVID-19)

- Shift of production areas (to ASEAN and other countries) arising from trade conflicts between the U.S. and China
- Changes in views on the volume of production/inventories responding to sustainability

(Coronavirus crisis)

- Division of the supply chain
- A reduction in physical stores and brands by some apparel companies
- A sales increase by e-commerce

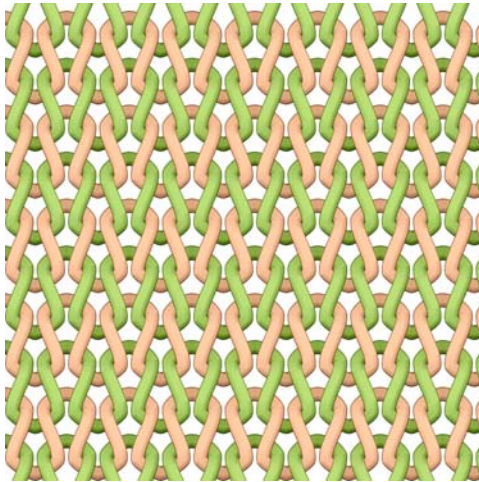
(From now)

- Start of the global revolution of production
Advancement in digitalization of the entire supply chain and DX (Digital Transformation)

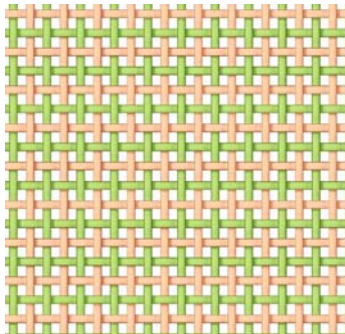
Characteristics of Flat Knitting Machines

Knit fabric

(Circular/flat knitting)



(Reference) Textile



<Advantages>

- Flat knitting machines can knit as a pattern and requires no cutting process.
- WHOLEGARMENT[®] flat knitting machines can knit a whole garment.
- Flat knitting machines can add a wide variety of designs to knit fabric.

<Disadvantage>

With regard to knit fabric, the productivity of flat knitting machines is lower than that of other circle and warp knitting machines.

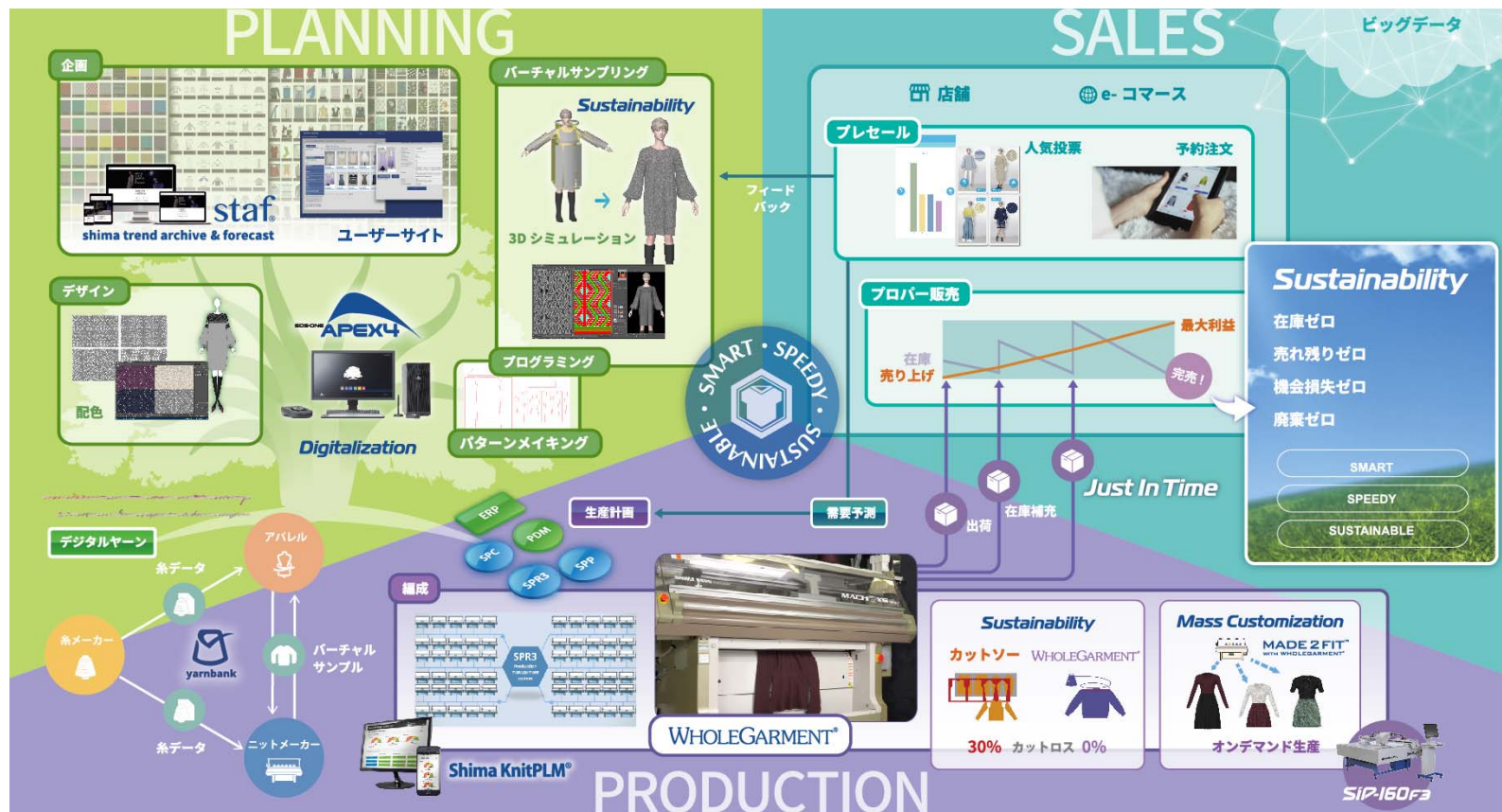


Textile products suitable to the individualization of consumption

Flat knitted products compatible with digitalization

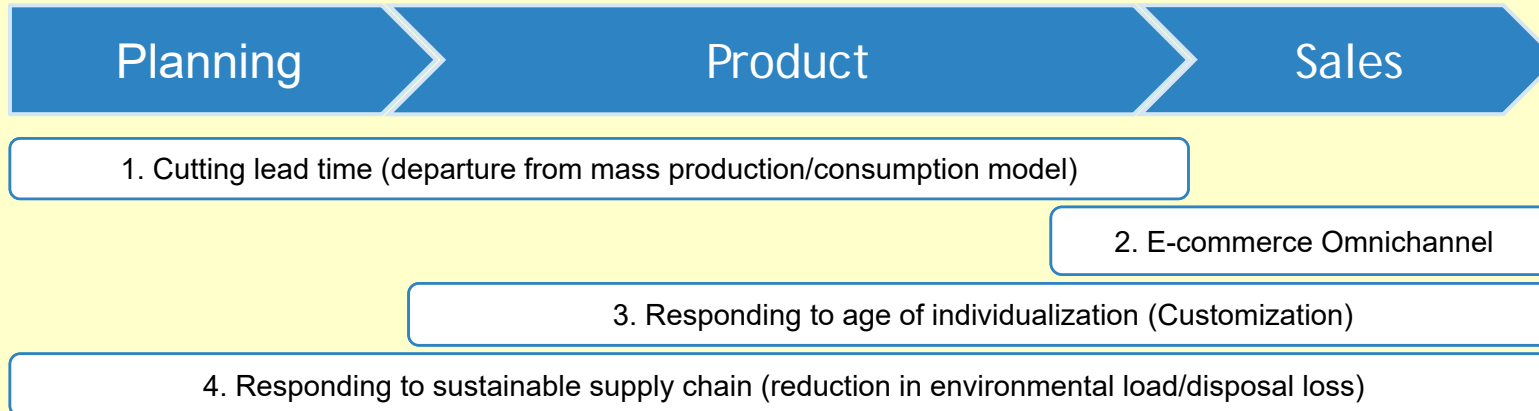
Total Fashion System

Our suggestion for a Total Fashion System realizes digitalization, mass customization, and sustainability. With the 3D design system as the core, the Total Fashion System makes quick, smart and environmentally friendly production possible through the mutual exchange of information among all processes of planning, production, and sales and a close relationship among the processes.



Digitalization and Sustainability

Flow of manufacturing in apparel industry and its issues



Proposal of solution from Shima Seiki: Digitalization and Sustainability

- Limit excess production and stock by using WHOLEGARMENT® and Design Systems
- Response to the age of individualization (customization/made-to-order) (WHOLEGARMENT®)
- Apply virtual samples to e-commerce and use them to estimate demand (SDS-ONE APEX4)
- Support the creation of design by introducing AI to Design Systems (SDS-ONE APEX4)
- Realize optimum production through PLM (product lifecycle management) (Shima KnitPLM)

MADE 2 FIT™
WITH WHOLEGARMENT®

Shima KnitPLM®



SDS-ONE
APEX4



WHOLEGARMENT®

New Design Software and Web Services



Digital yarn sourcing website



Apparel design software



SHIMANAVI™

E-learning system

INNOVATION FACTORY

Develop the joint venture with Fast Retailing Co., Ltd.,
to move to a new stage

Relocation of Innovation Factory Co., Ltd., to Tokyo and expansion of its scale.

- Ownership : Fast Retailing Co., Ltd. : 51% (now 49%)
Shima Seiki Mfg., Ltd. : 49% (now 51%)
- Time of change : December 2020 (scheduled)
- Start of operation : 2021 spring (scheduled)



The above is exhibited at UNIQLO TOKYO “LifeWear SQUARE” for a limited time only (September 21 - October 11).

(Source: Fast Retailing Co., Ltd.)

Advantages of WHOLEGARMENT®

Features of WHOLEGARMENT® products



Shoulder
Spatial knitting realizes the shoulder line fitting well to the body and natural wearability.



Body
No stitching connecting front body with rear body makes silhouette simple. Additionally, the pattern includes several grafts and spatial shaping by interweaving darts express beautifully fluid drapes.



Neckline
Knitted neckline and collar make products graceful and sophisticated.



Sides
No stitch in sides resolves coarse feeling of conventional knitted wear.

WHOLEGARMENT® tags

Please seek WHOLEGARMENT® products suitable to you at a store with tags attached to products.

*Tags may differ depending on brands or products.



Develop New Fields

~ **KNITify the World™** ~
Smart Solutions in Textiles

The characteristics of flat knitting—making the form from the materials—responds to the exit from mass production and the age of individualization. We will not limit the use of flat knitting technology to the scope of fashion but expand it to a wide variety of fields in order to increase demand.



3D shaping



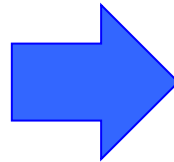
Inlay patterns limit typical stretch characteristics of knitwear



PET Monofilament



Carbon fiber preform



Sports, Interiors, Industrial Materials,
Medical, Wearable, Automotive, Aerospace

(Reference) Sales and Operating Income by Segment (Second Quarter)

(Terms: Millions of yen)	Net Sales		Operating income	
		Comparison with previous year (%)		Comparison with previous year (%)
Computerized Flat Knitting Machines	6,238	(47.7)	(1,004)	—
Design Systems	838	(52.9)	(19)	—
Glove & Sock Knitting Machines	992	145.2	(165)	—
Other	2,056	(31.8)	(17)	—
Corporate elimination			(2,976)	
Total	10,126	(40.8)	(4,183)	—

(Reference) Consolidated Sales by Region (Second Quarter)

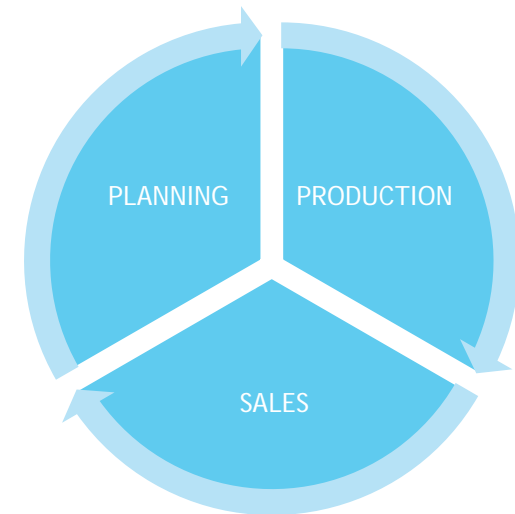
(Terms: Millions of yen)	FY2020 2Q	FY2019 2Q	Comparison with previous year (%)
Japan	2,339	3,715	(37.0)
Europe	2,035	3,232	(37.0)
Asia	4,817	9,121	(47.2)
Middle East	363	464	(21.7)
Other Areas (overseas)	570	584	(2.4)
Total	10,126	17,118	(40.8)

(Supplement) Total Fashion System

<Our advantages>

Holding both software (design system) and hardware (flat knitting machines, cutting machines, and globe knitting machines)

Available to the whole supply chain



3D design → Programing → Production (Knitting) → Sales → Additional production
Total Fashion System realizing a straight through production

Combination of virtual sampling and WHOLEGARMENT[®] flat knitting machines shortens the lead time and reduces inventory/disposal loss for cost reduction

Strengthen development of solutions and reform the supply chain

(Supplement) New Design Software and Web Services

1. 『yarnbank』 (Digital yarn-sourcing website) Release date: September 2020

Yarnbank is the world's first online web service for searching and viewing the latest yarns, developed with cooperation from yarn companies from around the world. Registered users have free access to the yarnbank archive of yarn information and digital yarn data. Users can also download yarn data for free, for use in fabric simulation and virtual sampling on APEXFiz and SDS-ONE APEX4, avoiding the need to scan yarn on their own. By using yarn that is used in actual production, knit manufacturers and apparel companies can furthermore rest assured that the simulations created using yarnbank are not merely realistic images but accurate representations using yarn that can actually be purchased and used in production.

2. 『APEXFiz』 (Subscription-based design software) Release date: Scheduled to be started during FY2020

APEXFiz is the latest addition to SHIMA SEIKI's proven SDS-ONE APEX series design system lineup.

SHIMA SEIKI has released its new APEXFiz as subscription-based design software that can be installed on customers' individual computers.

APEXFiz software supports the creative side of fashion from planning and design to colorway evaluation, realistic fabric simulation and 3D virtual sampling. Virtual sampling on APEXFiz and other APEX series is a communication tool that is not only an accurate representation of the product, but it also digitally bridges the gap between the studio and the factory. By sending data to the knit manufacturer it can be converted to machine programming data, shortening lead times and allowing the production of items faithful to their design as originally intended by the designer. That accuracy allows virtual samples by SHIMA SEIKI to be used effectively as prototypes, replacing sampling and consequently reducing time, cost and material that otherwise goes to waste. APEXFiz thereby fulfills its role as a spearhead for realizing sustainability in fashion.

3. 『SHIMANAVI』 (e-learning web service)

Release date: Scheduled to be started November 2020

The SHIMANAVI e-learning system allows APEX series users to experience online training when and where it is convenient, and at their own pace, supporting new work styles and environments such as teleworking and telecommuting. Several courses are available in different languages to suit the needs of individual customers as well.



SHIMA SEIKI

The plans, business result forecasts, and strategies of the Company as described herein are based on information available as of the day of the announcement with specific assumptions considered reasonable; consequently, they may largely differ due to a variety of different factors. Please understand this in advance.