SHIMA SEIKI

October 21, 2019

SHIMA SEIKI MFG., LTD.
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Code number: 6222
Stock listings: Tokyo Stock Exchange (1st section)

Notice regarding revision of earnings forecast

SHIMA SEIKI MFG., LTD. (the “Company”) announces that it has revised its earnings forecast for the fiscal year ending March 31, 2020 announced on May 8, 2019 based on recent performance trends.

Notes

1. Revision to consolidated earnings forecast for the year ending March 31, 2020

(1) Revised consolidated earnings forecast for the 2nd quarter of the year ending March 31, 2020
(April 1, 2019－September 30, 2019)

(Millions of yen)

	Net sales	Operating income	Ordinary income	Net income attributable to owners of the parent	Net income per share
Previous forecast (A)	23,000	400	700	600	Yen 16.90
Revised forecast (B)	17,100	-2,700	-2,900	-2,000	-56.32
Increase or decrease (B-A)	-5,900	-3,100	-3,600	-2,600	—
Percentage change (%)	-25.7	—	—	—	—
<Reference> Previous results (2nd quarter of FY2018)	28,197	4,343	4,628	3,312	90.73

(2) Revised consolidated earnings forecast for the year ending March 31, 2020
(April 1, 2019－March 31, 2020)

(Millions of yen)

	Net sales	Operating income	Ordinary income	Net income attributable to owners of the parent	Net income per share
Previous forecast (A)	52,300	4,000	4,400	3,300	Yen 92.93
Revised forecast (B)	40,000	-3,600	-3,500	-2,400	-67.58
Increase or decrease (B-A)	-12,300	-7,600	-7,900	-5,700	—
Percentage change (%)	-23.5	—	—	—	—
<Reference> Previous results (FY2018)	51,352	4,638	4,991	3,835	105.62

20192. Revision to non-consolidated earnings forecast for the year ending March 31, 2020

(1) Revised non-consolidated earnings forecast for the 2nd quarter of the year ending March 31, 2020 (April 1, 2019－September 30, 2019)

(Millions of yen)

	Net sales	Ordinary income	Net income	Net income per share
Previous forecast (A)	18,100	100	100	Yen 2.82
Revised forecast (B)	12,700	-3,600	-2,500	-70.40
Increase or decrease (B-A)	-5,400	-3,700	-2,600	―
Percentage change (%)	-29.8	―	―	―
<Reference> Previous results (2nd quarter of FY2018)	20,878	2,971	2,302	63.07

(2) Revised non-consolidated earnings forecast for the year ending March 31, 2020 (April 1, 2019－March 31, 2020)

(Millions of yen)

	Net sales	Ordinary income	Net income	Net income per share
Previous forecast (A)	43,200	2,800	2,100	Yen 59.14
Revised forecast (B)	32,500	-4,800	-3,300	-92.93
Increase or decrease (B-A)	-10,700	-7,600	-5,400	―
Percentage change (%)	-24.8	―	―	―
<Reference> Previous results (FY2018)	39,352	2,233	3,272	90.12

(3) Reasons for the revision

For the cumulative second quarter of the current period, the production volume of apparel products was controlled because of the uncertain outlook of the global economy due to the prolonged trade conflict between the U.S. and China and because of higher environmental awareness. This resulted in weak capital investment in computerized flat knitting machines for mass production mainly at the OEM production plants in the Asian region, including China, Bangladesh, and Vietnam.

The sentiment for weak capital investment also affected investments in WHOLEGARMENT® flat knitting machines, which had grown steadily in the Chinese market in recent years. This prevented us from increasing sales. This tendency is also evident in the weak sales from the apparel design system and globe and sock knitting machines. The severe market conditions for the current period were reflected in the initial sales plan. However, we expect that net sales will be substantially below our estimates.

The weak market environment further strengthened price competition with competitors; for the average exchange rates for sales, the yen remained strong for the current period with the USD/JPY of 108.78 against the initial assumed rate of 110 and the EUR/JPY of 120.87 against the initial assumed rate of 125. Mainly because of this, the average unit selling price fell below the initial estimate for flat knitting machines. Additionally, the gross profit margin declined by 6.8% to 36.7% over the initial estimate of 43.5% on a consolidated basis and by 9.5% to 25.3% over the initial assumption of 34.8% on an unconsolidated basis because inventory adjustments lowered the capacity utilization of plants. As a result, gross profit is expected to total 6,280 million yen, which is 3,720 million yen below the initial estimate of 10,000 million yen, on a consolidated basis and 3,200 million yen, which is 3,100 million below the initial estimate of 6,300 million yen, on an unconsolidated basis.

Additionally, we increased the amount provided to the allowance for doubtful accounts and recorded the increase in selling, general and administrative expenses.

We also expect non-operating expenses to include an exchange loss of about 500 million yen because of the effect of the yen strength.

As a result of these factors, total net sales and income (on a consolidated and unconsolidated basis) are expected to be substantially below the initial estimates. In addition, the earnings forecasts have also been adjusted on a full year basis because earnings are expected to continue to be below the initial plan for the second half. For the second half, the exchange rates are assumed at 105 for the USD/JPY and 115 for the EUR/JPY.

* The above forecast of financial performance is based on information currently available to the Company, as well as certain assumptions deemed reasonable, and is not intended as a commitment by the Company to achieve such results. The actual results may differ significantly due to various factors.