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May 12, 2014

Consolidated Financial Results of Fiscal Year 2013

Company name: DISCO Corporation
Stock code number: 6146 (Tokyo Stock Exchange 1st Section)
URL: http://www.disco.co.jp
Telephone number: 81-3-4590-1099

(Amounts are rounded down to the nearest million yen)

1. Consolidated Results of FY2013 (April 1, 2013 though March 31, 2014)

1) Operating results (Accumulated)

	Fiscal year ended		
	March 31, 2013	March 31, 2014	YoY(%)
Net sales	93,707	104,920	12.0
Operating income	11,601	17,353	49.6
Ordinary income	11,586	17,447	50.6
Net income	7,473	12,088	61.8
Net income per share (yen)	221.75	357.55	–
Fully diluted net income per share (yen)	210.85	340.22	–

2) Financial position

	As of March 31, 2013	As of March 31, 2014
Total assets	155,667	170,161
Net assets	110,556	123,456
Equity ratio (%)	69.8%	71.4%
Net assets per share (yen)	3,221.91	3,579.80

(Reference) Equity (defined as shareholders' equity plus valuation and translation adjustments) :

121,415 million yen (as of March 31, 2014)
108,600 million yen (as of March 31, 2013)

2. Dividends

(yen)

	Fiscal Year 2012	Fiscal Year 2013	Fiscal Year 2014 Forecast
1Q-end dividend per share (yen)	—	—	—
2Q-end dividend per share (yen)	40.00	50.00	67.00
3Q-end dividend per share (yen)	—	—	—
Year-end dividend per share (yen)	16.00	40.00	34.00
Annual dividend per share (yen)	56.00	90.00	101.00

3. Earnings Forecasts of FY2014

(Millions of yen)

	Six month ending September 30, 2014	YoY (%)	Year ending March 31, 2015	YoY (%)
Net sales	60,200	10.2	107,700	2.6
Operating income	12,800	30.5	18,800	8.3
Ordinary income	12,800	31.2	19,100	9.5
Net income	9,000	35.1	13,600	12.5
Net income per share (yen)	265.35	-	400.98	–

4. Others

1) Important changes in subsidiaries: None
2) Changes in principles, procedures and display of accounting method concerning consolidated statement policies.
   1. Changes in accounting policies: Yes
   2. Other changes: None
3) Number of shares outstanding (common stock)
   ① Number of shares issued (include treasury stocks)
      As of March 31, 2014: 34,004,418 shares
      As of March 31, 2013: 34,004,418 shares
   ② Number of shares of treasury stock
      As of March 31, 2014: 87,493 shares
      As of March 31, 2013: 297,543 shares
   ③ Average number of shares
      As of March 31, 2014: 33,810,495 shares
      As of March 31, 2013: 33,701,418 shares

Explanations on the appropriate use of earnings forecasts:

The performance forecasts and estimates stated in this Financial Review are based on certain assumptions judged to be reasonable at the present time in light of information currently available. Consequently, actual operating results may differ substantially from the projections in the Financial Review.

(Reference) Non-consolidated Earnings Forecasts of FY2014

(Millions of yen)

	Six month ending September 30, 2014	YoY (%)	Year ending March 31, 2015	YoY (%)
Net sales	51,400	12.8	90,700	5.8
Operating income	9,400	39.1	13,600	15.2
Ordinary income	12,400	34.7	16,700	14.1
Net income	9,200	34.7	12,500	16.7
Net income per share (yen)	271.25	–	368.55	–

5. Business Results

Overview

The fiscal year ending March 31, 2014 (hereafter fiscal 2013) saw a resurgence in interest for cutting edge research and development in addition to robust demand for smartphones, tablets, and other mobile devices resulting in proactive capital investment from some semiconductor and electronic component manufacturers.
As a result, shipments of our products remained robust, and sales set a new all-time record high.
Regarding profit, SG&A expenses increased especially for R&D expenses and labor costs, but due to an increase in the GP ratio caused by the impact of foreign exchange and product structure, operating income and ordinary income have increased significantly.
Net income, due to a decrease in the tax rate, achieved the highest level.
Results for fiscal 2013 included net sales of ¥104,920 million, an increase of 12.0% over the previous year's level.
Year-on-year operating income increased by 49.6% to ¥17,353 million, ordinary income by 50.6% to ¥17,447 million and net income by 61.8% to ¥12,088 million.

Segment information

A. Precision Processing System
In this segment, the DISCO Group manufactures and sells precision processing, equipment, consumables, parts and services to semiconductor device and electronic components manufacturers.
During the fiscal year ending March 31, 2014 (hereafter fiscal 2013), due to the growth in the demand for miniaturization and expansion in functionality for semiconductor and electronic parts used in mobile devices, demand for high added value products such as laser saws (precision cutting equipment) and grinders (precision grinding equipment) grew. Consumables sales, both in sales and quantity were at an all-time high level in tune with the high utilization rate of equipment for our customers.
Net sales in this segment amounted to ¥99,291million, a year-on-year increase of 11.3%, while segment income was ¥21,180 million, a year-on-year increase of 32.9%.

B. Industrial Grinding Products
In this segment, the DISCO Group manufactures and sells industrial diamond tools, for use in civil engineering, construction and manufacturing, as well as general-purpose grinding wheels used in the manufacture of motor vehicles and electronic parts.
Net sales in this segment amounted to ¥19,52 million, a year-on-year increase of 15.4% while segment income was ¥415 million, a year-on-year increase of 94.6%.

C. Precision Processing Parts
In this segment, the DISCO Group manufactures and sells precision processing parts made from metal, glass, silicon, or other materials for use in electronic, optical and medical fields. Due to demand for smartphone cover glass processing remaining robust in the first half, expansion in the Chinese market for heat sinks needed for optical communication equipment applications, and strong demand for glass products for imaging equipment, sales in this segment increased compared to fiscal 2012.
Net sales for this segment in fiscal 2013 amounted to ¥36,770 million, a year-on-year increase of 32.9%, while segment income was ¥335 million (¥205 million loss in FY2012).

Outlook for the Year Ending March 31, 2014

We are predicting a year-on-year increases in net sales by 3.0% to 107,700 million, operating income by 8.0% to 18,800 million, ordinary income by 9% to 19,100 million, and net income by 13% to 13,600 million.

Financial Analysis

(1) Assets, Liabilities and Net Assets

Total assets amounted to ¥170,161 million as of March 31, 2014, an increase of ¥14,494 million from the position a year earlier. This was primarily caused by an increase in account receivables and an increase in tangible fixed assets increased due to the construction of the new building at the Kuwabata plant.
Total liabilities increased by ¥1,593 million to ¥ 46,704 million as of March 31, 2014. Net assets increased by ¥12,900 million from the position a year earlier to ¥123,456 million.
As a result, the shareholders equity ratio increased by 1.6 points to 71.4%.

(2) Cash Flows

Cash and cash equivalents as of March 31, 2014 amounted to ¥21,552 million, an increase of ¥7 million compared with the position as of March 31, 2013.
Free cash flows, which are the sum of cash from operating income activities and investment activities, amounted to an inflow of ¥1,775 million. The cash flow situation for the year under review is as follows.

Cash Flows from Operating Activities

Net cash provided by operating activities amounted to ¥14,877 million. This total resulted from an increase in net income before income taxes and depreciation of ¥17,360 million. While there was a capital increase due to a decrease in inventory, increases in accounts receivable and payment of corporate tax led to a slight decrease in operating CF compared to the same period last year.

Cash Flows from Investing Activities

Net cash used for investment activities amounted to ¥13,110 million. This was 4.9% decrease year on year. This reflects expenditures on the acquisition of tangible fixed assets relating to construction of the new building at the Kuwabata Plant.

Cash Flows from Financing Activities

Net cash gained from financing activities amounted to ¥2,198 million. (¥7,407 million in the FY2013)
This mainly consisted payments of dividends.

Basic Policy on Dividends, Dividends for the Current and Coming Years

According to its Articles of Incorporation, the Company is authorized to set an interim dividend with a record date of September 30 by resolution of the Board of Directors. Our basic policy on dividends is to distribute surpluses twice annually in the form of interim and final dividends. Decisions concerning the distribution of surpluses are made by the general meeting of shareholders, in the case of the final dividend, and by the Board of Directors, in the case of the interim dividend.

Adopting a performance-linked dividend policy and aiming at giving clearer priority to shareholder returns, our target dividend payout ratio is 25% of the consolidated half-yearly net income.
There will be interim and final dividends, each of which will be equivalent to 25% of the half-yearly consolidated net income.

Irrespective of the level of income, we will maintain a reliable dividend of ¥10 per half-year. This means that the minimum yearly dividend will be ¥20.The ¥20 payout stipulated in our stable dividend policy may be reviewed if there are consolidated net losses in three consecutive years.

Except when there is a loss, if the year-end balance of cash and deposits after payment of dividends and income taxes is greater than projected funding requirements for the acquisition of technology resources (such as through patent purchases and investment in venture businesses, facility expansion, the retirement of interest-bearing debt and other purposes), one-third of that surplus will be added to dividends.

The interim dividend for the year ending March 2014 was set at ¥50 per share. In accordance with the above dividend policy, we plan to pay a final dividend of ¥40, bringing the annual dividend to ¥90.
Based on our financial performance forecasts and the aforementioned dividend policy, we anticipate an interim dividend of ¥67 and a final dividend of ¥34 in the fiscal year ending March 31, 2015, making the annual dividend ¥101.

Business Risks and Other Risk Factors

Described below are some of the risk factors that could affect the DISCO Group, including its business activities and financial situation, or influence decisions by investors.

(1) Fluctuations in the Semiconductor Market

The DISCO Group manufactures and sells products to manufacturers of semiconductors and electronic components throughout the world and is therefore affected by trends in the capital investment and production activities of its customers. The semiconductor market in particular is subject to changes in the supply-demand balance, and the business performance of semiconductor manufacturers is affected by the pattern known as the silicon cycle. The performance of the DISCO Group may be adversely affected if customers freeze capital investment, reduce production or take other actions during the downward phase of this cycle or when other unforeseen market fluctuations occur.

(2) Emergence of New Technologies

The DISCO Group concentrates primarily on the manufacture and sale of semiconductor cutting and grinding equipment and precision tooling such as precision diamond blades and grinding wheels for use in silicon wafer processing. If a processing technology emerges to challenge precision diamond tooling in the future, the DISCO Group’s business performance may be adversely affected. The DISCO Group also develops and sells laser saws, which can be used on materials that are difficult to cut with precision diamond tooling.

(3) Disasters

The corporate headquarters and R&D center of the DISCO Group are located in Ota Ward, Tokyo, and its production facilities in Hiroshima and Nagano Prefectures. We are continually enhancing our business continuity management (BCM) systems, but corporate systems and production operations could be affected by a major disaster, outbreak of a new strain of influenza or other contingencies.

(4) Exchange Rate Fluctuations

The DISCO Group manufactures products in Japan and exports them to manufacturers of semiconductor and electronic parts in various parts of the world. Transactions are normally denominated in yen, but transactions in some regions and with some customers need to be settled in U.S. dollars or other foreign currencies. This means that the business performance of the DISCO Group could be affected by exchange rate fluctuations.

(5)Environmental Regulations

The DISCO Group has formulated “DISCO Environmental Vision 2020” and “Biodiversity Action Guidelines” covering various environmental issues, to decrease environmental loads. In this vision, we commit to a “3.8% reduction in DISCO's CO2 emissions for business activities by FY2020 compared to FY2010 levels”. In FY2013, however it increased by 27.6% compared to FY2010 levels.
In addition, the DISCO Group could be affected by additional legal and/or social responsibilities with respect to environmental issues, regardless of negligence. In such a situation, additional expense could be incurred or our social credibility could be eroded.
(as of 23rd April 2014)

(6) Other Risks

In addition to the risk factors listed above, the business performance of the DISCO Group could also be adversely affected by global and local economic conditions, natural disasters, war or terrorism, trends in financial and capital markets, laws and government regulations, product defects, issues relating to suppliers and problems with intellectual property rights.

6. Corporate Priorities

(1) Development of advanced cutting (Kiru), grinding (Kezuru) and polishing (Migaku) technologies and improvement of customer satisfaction

To fulfill our social mission, we must continually develop advanced cutting, grinding and polishing technologies to support technological innovation in the area of semiconductor and electronic components. To achieve this, we will focus our efforts on the creation of the financial and management structures needed to support continuous investment in development.

To improve customer satisfaction, we will optimize our resources and create systems that allow us to provide total solutions, including application technology and services, in a timely manner to meet the needs of our customers.

(2) Reinforcement of Business Continuity Management Systems

We will develop and maintain business continuity management (BCM) systems to ensure that DISCO continues to be a company with which customers and suppliers can deal and for which employees can work with confidence. Our manufacturing, research and head office functions are all based in Japan, which is an earthquake-prone country, and we are therefore introducing seismic base isolation technology at our head office, R&D center and factories. We have also drawn up business continuity plans and developed group-wide response plans to ensure the continuity of our business operations in various contingencies, such as natural disasters, fires, epidemics and system failures. We will further strengthen our ability to cope with disasters by stockpiling parts and materials for key products, building redundancy into our information systems and continually implementing training programs for our employees. As a result of the Great East Japan Earthquake, we will take additional steps to strengthen our supply chains and build robust structures that will allow us to fulfill our supply responsibilities under any circumstances.

7. Consolidated balance sheets

(Millions of yen)

	As of March 31, 2013	As of March 31, 2014
Assets		
Current assets		
Cash and deposits	31,699	31,577
Notes and accounts receivable - trade	25,272	32,390
Merchandise and finished goods	7,641	7,072
Work in process	9,125	7,894
Raw materials and supplies	11,708	11,772
Deferred tax assets	1,927	2,803
Other	2,229	3,487
Allowance for doubtful accounts	(48)	(189)
Total current assets	89,556	96,809
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	29,468	28,759
Machinery, equipment and vehicles, net	9,692	11,360
Tools, furniture and fixtures, net	597	597
Land	13,021	13,088
Construction in progress	2,735	9,257
Total property, plant and equipment	55,515	63,063
Intangible assets	992	874
Investments and other assets		
Investment securities	2,141	2,305
Deferred tax assets	408	202
Long-term time deposits	5,200	5,200
Other	1,912	1,757
Allowance for doubtful accounts	(67)	(54)
Total investments and other assets	9,595	9,410
Total non-current assets	66,102	73,348
Deferred assets	8	3
Total assets	155,667	170,161

Liabilities		
Current liabilities		
Notes and accounts payable - trade	4,499	5,269
Electronically recorded obligations - operating	8,191	6,762
Short-term loans payable	250	-
Current portion of long-term loans payable	675	864
Current portion of convertible bonds with stock acquisition rights	-	9,085
Income taxes payable	2,125	3,052
Provision for bonuses	2,035	2,994
Provision for directors' bonuses	146	197
Provision for product warranties	260	415
Provision for demolition cost	98	-
Other	5,614	6,594
Total current liabilities	23,896	35,235
Non-current liabilities		
Convertible bond-type bonds with subscription rights to shares	9,085	-
Long-term loans payable	9,674	8,858
Provision for retirement benefits	1,800	-
Net defined benefit liability	-	1,970
Provision for directors' retirement benefits	41	49
Asset retirement obligations	90	101
Other	523	489
Total non-current liabilities	21,214	11,469
Total liabilities	45,110	46,704
Net assets		
Shareholders' equity		
Capital stock	14,517	14,517
Capital surplus	15,654	16,190
Retained earnings	79,343	89,203
Treasury shares	(798)	(235)
Total shareholders' equity	108,716	119,675
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	12	17
Foreign currency translation adjustment	(128)	1,864
Remeasurements of defined benefit plans	-	(142)
Total accumulated other comprehensive income	(116)	1,740
Subscription rights to shares	1,223	1,219
Minority interests	731	821
Total net assets	110,556	123,456
Total liabilities and net assets	155,667	170,161

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8. Consolidated statements of (comprehensive) income

(Millions of yen)

	FY2012	FY2013
Net sales	93,707	104,920
Cost of sales	49,014	50,818
Gross profit	44,692	54,102
Selling general and administrative expenses	33,090	36,749
Operating income	11,601	17,353
Non-operating income		
Interest income	43	73
Share of profit of entities accounted for using equity method	215	61
Royalty income	-	100
Subsidy income	169	353
Other	265	219
Total non-operating income	694	808
Non-operating expenses		
Interest expenses	48	53
Sales discounts	22	31
Depreciation	68	60
Foreign exchange losses	547	550
Other	23	18
Total non-operating expenses	709	714
Ordinary income	11,586	17,447
Extraordinary income		
Gain on sales of non-current assets	2	7
Gain on sales of investment securities	146	0
Gain on reversal of subscription rights to shares	12	3
Other	0	0
Total extraordinary income	160	11
Extraordinary losses		
Loss on sales and retirement of non-current assets	133	77
Impairment loss	598	-
Loss on valuation of investment securities	49	38
Special retirement expenses	40	36
Provision of reserve for demolition cost	98	-
Other	1	-
Total extraordinary losses	921	152
Income before income taxes and minority interests	10,825	17,306
Income taxes - current	3,892	5,852
Income taxes - deferred	(534)	(692)
Total income taxes	3,357	5,159
Income before minority interests	7,467	12,146
Minority interests in income (loss)	(5)	57
Net income	7,473	12,088
Minority interests in income (loss)	(5)	57
Income before minority interests	7,467	12,146
Other comprehensive income		
Valuation difference on available-for-sale securities	6	5
Foreign currency translation adjustment	1,680	1,701
Share of other comprehensive income of entities accounted for using equity method	219	332
Total other comprehensive income	1,906	2,039
Comprehensive income	9,373	14,186
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	9,331	14,087
Comprehensive income attributable to minority interests	42	99

9. Consolidated statements of cash flows

(Millions of yen)

	FY2012	FY2013
Cash flows from operating activities		
Income before income taxes and minority interests	10,825	17,306
Depreciation	5,939	5,995
Impairment loss	598	-
Loss (gain) on valuation of investment securities	49	38
Share of (profit) loss of entities accounted for using equity method	(215)	(61)
Increase (decrease) in allowance for doubtful accounts	(122)	113
Increase (decrease) in provision for bonuses	90	935
Increase (decrease) in provision for directors' bonuses	(4)	51
Increase (decrease) in provision for product warranties	12	135
Increase (decrease) in provision for retirement benefits	240	(1,800)
Increase (decrease) in net defined benefit liability	-	1,970
Loss (gain) on sales of investment securities	(146)	(0)
Loss (gain) on sales and retirement of property, plant and equipment	131	70
Subsidy income	(169)	(353)
Interest and dividend income	(49)	(76)
Interest expenses	48	53
Decrease (increase) in notes and accounts receivable - trade	3,154	(5,917)
Decrease (increase) in inventories	(2,810)	2,034
Increase (decrease) in notes and accounts payable - trade	1,856	(737)
Increase (decrease) in accounts payable - other	(1,393)	755
Other, net	(650)	(1,187)
Subtotal	17,384	19,325
Interest and dividend income received	42	76
Interest expenses paid	(54)	(37)
Income taxes (paid) refund	(2,236)	(4,840)
Proceeds from subsidy income	169	353
Net cash provided by (used in) operating activities	15,305	14,877
Cash flows from investing activities		
Purchase of property, plant and equipment	(5,432)	(12,725)
Proceeds from sales of property, plant and equipment	43	23
Purchase of investment securities	(445)	-
Proceeds from sales of investment securities	197	200
Net decrease (increase) in short-term loans receivable	0	(699)
Proceeds from sales of investments in capital	-	1
Payments of long-term loans receivable	(858)	(0)
Collection of long-term loans receivable	9	9
Purchase of intangible assets	(252)	(96)
Payments into time deposits	(10,000)	(10,023)
Proceeds from withdrawal of time deposits	3,000	10,165
Other, net	(40)	44
Net cash provided by (used in) investing activities	(13,779)	(13,101)

Cash flows from financing activities		
Net increase (decrease) in short-term loans payable	66	(250)
Proceeds from long-term loans payable	10,080	44
Repayments of long-term loans payable	(267)	(676)
Redemption of bonds	(915)	-
Purchase of treasury shares	(1)	(2)
Proceeds from sales of treasury shares	23	922
Cash dividends paid	(1,987)	(2,231)
Proceeds from share issuance to minority shareholders	409	-
Repayments to minority shareholders	(1)	(5)
Net cash provided by (used in) financing activities	7,407	(2,198)
Effect of exchange rate change on cash and cash equivalents	573	430
Net increase (decrease) in cash and cash equivalents	9,506	7
Cash and cash equivalents at beginning of period	12,038	21,544
Cash and cash equivalents at end of period	21,544	21,552