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May 12, 2015

Consolidated Financial Results of Fiscal Year 2014

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 FY2014 (April 1, 2014 though March 31, 2015)

1) Operating results (Accumulated)

	Fiscal year ended		
	March 31, 2014	March 31, 2015	YoY(%)
Net sales	104,920	125,920	20.0
Operating income	17,353	26,760	54.2
Ordinary income	17,447	26,489	51.8
Net income	12,088		66.0
Net income per share (yen)	357.55	580.71	–
Fully diluted net income per share (yen)	340.22	561.50	–

2) Financial position

	As of March 31, 2014	As of March 31, 2015
Total assets	170,161	201,975
Net assets	123,456	151,918
Equity ratio (%)	71.4%	74.8%
Net assets per share (yen)	3,579.80	4,231.31

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

151,059 million yen (as of March 31, 2015)
121,415 million yen (as of March 31, 2014)

2. Dividends

(yen)

	Fiscal Year 2013	Fiscal Year 2014	Fiscal Year 2015 Forecast
1Q-end dividend per share (yen)	—	—	—
2Q-end dividend per share (yen)	50.00	72.00	94.00
3Q-end dividend per share (yen)	—	—	—
Year-end dividend per share (yen)	40.00	88.00	—
Annual dividend per share (yen)	90.00	160.00	—

3. Earnings Forecasts of FY2015

(Millions of yen)

	Six month ending September 30, 2015	YoY (%)
Net sales	71,100	9.1
Operating income	18,400	34.1
Ordinary income	18,500	34.7
Net income per share (yen)	372.54	–

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, 2015:	35,704,271 shares
As of March 31, 2014:	34,004,418 shares

② Number of shares of treasury stock

As of March 31, 2015:	3,823 shares
As of March 31, 2014:	87,493 shares

③ Average number of shares

As of March 31, 2015:	34,557,449 shares
As of March 31, 2014:	33,810,495 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 FY2015

(Millions of yen)

	Six month ending September 30, 2015	YoY (%)
Net sales	61,200	8.8
Operating income	14,300	36.3
Ordinary income	16,500	26.8
Net income	12,000	30.6
Net income per share (yen)	336.13	−

5. Business Results

Overview of Year Ending March 31, 2015

In the consolidated accounting year ending March 31, 2015 (FY2014), expanding demand for smartphones and other mobile devices stimulated investment. This was reflected in a robust trend in capital investment by manufacturers of semiconductors and electronic components.

There was increased demand for precision processing equipment for a wide range of applications, including flash memory drives and other IC products, electronic parts, and LED packages. High operating rates in customers' facilities, together with the exchange rate movements, helped to drive a strong trend in both the value and volume of sales of consumables, such as precision blades and wheels. As a result, consolidated net sales set a new record for the second consecutive year.

Despite higher selling, general and administrative expenses due to dynamic research and development activities, operating income also set a new record thanks to substantial improvement in the gross profit ratio. Contributing factors included changes to the product mix and exchange rate trends.
*The previous record was set in the year ending March 2001 (FY2000).

These trends were reflected in our consolidated financial results, including a 20% year-on-year increase in consolidated net sales to ¥125,920 million. Operating income was 54.2% higher at ¥26,760 million, while ordinary income rose by 51.8% to ¥26,484 million. Net income was 66.0% higher at ¥20,067 million.

Segment results have been omitted due to DISCO adopting a single segment structure in the third quarter of FY2014.

Outlook for FY2015

Disco Corporation has previously released its financial forecasts for the whole of the next fiscal year (from April 1 to March 31 of the following year) together with its financial results. However, the volatility of trends in the business activities of our customers in the semiconductor and electronic manufacturing industries have made long-term financial forecasting impossible, and we have therefore decided to disclose consolidated financial forecasts for the period up to end of the second quarter of the next fiscal year (April 1 to September 30).

Our consolidated financial forecasts for the first two quarters (April 1 to September 30) of the year ending March 31, 2016 are net sales of ¥71,100 million, operating income of ¥18,400 million, ordinary income of 18,500 million, and net income of ¥ 13,300 million. These figures represent year-on-year increases of 9.1%, 34.1%, 34.7% and 36.3% respectively.

Financial Analysis

(1) Assets, Liabilities and Net Assets

Total assets amounted to ¥201,975 million as of March 31, 2015 – an increase of ¥31,813 million from the position at the end of the previous fiscal year. The main factors were increases in inventories and cash and deposits.

Liabilities increased by 3,351 million in the year-on-year to ¥50,056 million, while net assets were ¥28,462 million higher at ¥ 151,918 million. As a result of these changes, the shareholders' equity ratio rose by 3.4 points to 74.8%.

(2) Cash Flows

The balance of cash and cash equivalents ("cash") as of March 31, 2015 was ¥42,177 million – an increase of ¥21,161 million from the position at the end of the previous fiscal year. Free cash flows, which are the sum of net cash provided by operating activities and net cash from investing activities, amounted to an inflow of ¥21,254 million. Factors affecting the cash flow position in FY2014 are outlined below.

Cash Flows from Operating Activities

Net cash provided by operating activities increased by 69.3% in the year-on-year to ¥25,192 million. This total reflects cash items, including net income before income taxes and minority interests of ¥27,497 million and an increase in accounts payable, and cash outflows resulting from an increase in inventories and payment items, such as corporate income taxes.

Cash Flows from Investing Activities

Net cash used for investing activities was 69.9% lower in the year-on-year at ¥3,938 million. Cash outflows included the acquisition of tangible fixed assets, such as the construction of a new building at the Kuwabata Plant. Cash inflows included the withdrawal of time deposits and proceeds from the sale of affiliate shares.

Cash Flows from Financing Activities

Net cash used for financing activities was 33.2% below the previous year's level at ¥1,467 million. This amount consisted mainly of dividend payments.

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.

In accordance with the dividend policy stated above, the interim dividend for FY2014 was set at ¥72 per share. A decision was made to pay a final dividend of ¥88 per share, consisting of ¥73 representing 25% of consolidated net income for the second half of FY2014, and ¥15 representing one-third of the cash and deposits balance in excess of the required amount. This brought the total dividend for the year to ¥160. A decision was made to disclose only the interim dividend for the next fiscal year, since it is based on our financial forecasts. We plan to pay an interim dividend of ¥94, which is the equivalent of 25% of our consolidated net income for the first half of the fiscal year. The final dividend will be decided at a later date.

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 company group is influenced by environmental laws and regulations for CO2 emissions, water quality, chemicals, waste, and other various environmental issues. These environmental regulations are becoming increasingly strict every year. The company endeavors not just to uphold those laws, but also strives to reduce the risk that business activities have on the environment by meeting the mid-term environmental goals defined under our “Environmental Vision 2020”. In order to respond to these stricter environmental laws, as well as any additional responsibilities, there is a risk of increased costs, which may affect the company group financial situation.

(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, 2014	As of March 31, 2015
Assets		
Current assets		
Cash and deposits	31,577	52,208
Notes and accounts receivable - trade	32,390	35,114
Merchandise and finished goods	7,072	7,894
Work in process	7,894	12,299
Raw materials and supplies	11,772	13,300
Deferred tax assets	2,803	3,875
Other	3,487	5,148
Allowance for doubtful accounts	(189)	(220)
Total current assets	96,809	129,622
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	28,759	37,874
Machinery, equipment and vehicles, net	11,360	11,340
Tools, furniture and fixtures, net	597	591
Land	13,088	13,136
Construction in progress	9,257	3,252
Total property, plant and equipment	63,063	66,194
Intangible assets	874	547
Investments and other assets		
Investment securities	2,305	2,287
Deferred tax assets	202	110
Long-term time deposits	5,200	1,200
Net defined benefit asset	-	198
Other	1,757	1,855
Allowance for doubtful accounts	(54)	(42)
Total investments and other assets	9,410	5,610
Total non-current assets	73,348	72,352
Deferred assets	3	-
Total assets	170,161	201,975

(Millions of yen)

	As of March 31, 2014	As of March 31, 2015
Liabilities		
Current liabilities		
Notes and accounts payable - trade	5,269	7,083
Electronically recorded obligations - operating	6,762	13,020
Current portion of long-term loans payable	864	1,816
Current portion of convertible bonds with stock acquisition rights	9,085	-
Income taxes payable	3,052	4,789
Provision for bonuses	2,994	3,636
Provision for directors' bonuses	197	242
Provision for product warranties	415	518
Provision for environmental measures	-	50
Other	6,594	7,835
Non-current liabilities		
Long-term loans payable	8,858	9,416
Net defined benefit liability	1,970	-
Provision for directors' retirement benefits	49	11
Asset retirement obligations	101	119
Other	489	1,515
Total non-current liabilities	11,469	11,063
Total liabilities	46,704	50,056
Net assets		
Shareholders' equity		
Capital stock	14,517	19,785
Capital surplus	16,190	21,773
Retained earnings	89,203	106,329
Treasury shares	(235)	(10)
Total shareholders' equity	119,675	147,877
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	17	-
Foreign currency translation adjustment	1,864	3,240
Remeasurements of defined benefit plans	(142)	(57)
Total accumulated other comprehensive income	1,740	3,182
Subscription rights to shares	1,219	795
Minority interests	821	63
Total net assets	123,456	151,918
Total liabilities and net assets	170,161	201,975

8. Consolidated statements of (comprehensive) income (Millions of yen)

	FY2013	FY2014
Net sales	104,920	125,920
Cost of sales	50,818	57,839
Gross profit	54,102	68,081
Selling, general and administrative expenses	36,749	41,321
Operating income	17,353	26,760
Non-operating income		
Interest income	73	75
Share of profit of entities accounted for using equity method	61	-
Royalty income	100	-
Subsidy income	353	244
Other	219	263
Total non-operating income	808	583
Non-operating expenses		
Interest expenses	53	49
Sales discounts	31	42
Share of loss of entities accounted for using equity method	-	34
Foreign exchange losses	550	604
Depreciation	60	59
Provision for environmental measures	-	50
Other	18	13
Total non-operating expenses	714	854
Ordinary income	17,447	26,489
Extraordinary income		
Gain on sales of non-current assets	7	57
Gain on sales of investment securities	0	51
Gain on sales of shares of subsidiaries and associates	-	658
Gain on reversal of subscription rights to shares	3	153
Compensation income	-	415
Other	0	-
Total extraordinary income	11	1,336
Extraordinary losses		
Loss on sales and retirement of non-current assets	77	52
Impairment loss	-	125
Loss on valuation of investment securities	38	21
Special retirement expenses	36	42
Compensation expenses	-	86
Total extraordinary losses	152	328
Income before income taxes and minority interests	17,306	27,497
Income taxes - current	5,852	7,777
Income taxes - deferred	(692)	(368)
Total income taxes	5,159	7,409
Income before minority interests	12,146	20,087
Minority interests in income	57	19
Net income	12,088	20,067
Minority interests in income	57	19
Income before minority interests	12,146	20,087

(Millions of yen)

	FY2013	FY2014
Other comprehensive income		
Valuation difference on available-for-sale securities	5	(17)
Foreign currency translation adjustment	1,701	1,135
Remeasurements of defined benefit plans, net of tax	-	84
Share of other comprehensive income of entities accounted for using equity method	332	177
Total other comprehensive income	2,039	1,378
Comprehensive income	14,186	21,466
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	14,087	21,510
Comprehensive income attributable to minority interests	99	(43)

9. Consolidated statements of cash flows

(Millions of yen)

	FY2013	FY2014
Cash flows from operating activities		
Income before income taxes and minority interests	17,306	27,497
Depreciation	5,995	6,067
Impairment loss	-	125
Loss (gain) on valuation of investment securities	38	21
Share of (profit) loss of entities accounted for using equity method	(61)	34
Increase (decrease) in allowance for doubtful accounts	113	(5)
Increase (decrease) in provision for bonuses	935	727
Increase (decrease) in provision for directors' bonuses	51	44
Increase (decrease) in provision for product warranties	135	95
Increase (decrease) in provision for retirement benefits	(1,800)	-
Increase (decrease) in net defined benefit liability	1,970	(2,169)
Loss (gain) on sales of investment securities	(0)	(51)
Loss (gain) on sales of shares of subsidiaries and associates	-	(658)
Loss (gain) on sales and retirement of property, plant and equipment	70	(4)
Subsidy income	(353)	(244)
Compensation income	-	(415)
Interest and dividend income	(76)	(77)
Interest expenses	53	49
Decrease (increase) in notes and accounts receivable - trade	(5,917)	(1,227)
Decrease (increase) in inventories	2,034	(5,724)
Increase (decrease) in notes and accounts payable - trade	(737)	8,023
Increase (decrease) in accounts payable - other	755	(595)
Other, net	(1,187)	(850)
Subtotal	19,325	30,661
Interest and dividend income received	76	68
Interest expenses paid	(37)	(43)
Income taxes (paid) refund	(4,840)	(6,153)
Proceeds from subsidy income	353	244
Proceeds from compensation	-	415
Net cash provided by (used in) operating activities	14,877	25,192
Cash flows from investing activities		
Purchase of property, plant and equipment	(12,725)	(10,644)
Proceeds from sales of property, plant and equipment	23	308
Purchase of intangible assets	(96)	(94)
Purchase of investment securities	-	(15)
Proceeds from sales of investment securities	200	85
Payments for investments in capital of subsidiaries and associates	-	(26)
Proceeds from sales of shares of subsidiaries resulting in change in scope of consolidation	-	2,398
Net decrease (increase) in short-term loans receivable	(699)	(2)
Payments of long-term loans receivable	(0)	(0)
Collection of long-term loans receivable	9	9
Payments into time deposits	(10,023)	-
Proceeds from withdrawal of time deposits	10,165	4,000
Other, net	45	44
Net cash provided by (used in) investing activities	(13,101)	(3,938)

	FY2013	FY2014
		(Millions of yen)
Cash flows from financing activities		
Net increase (decrease) in short-term loans payable	(250)	-
Proceeds from long-term loans payable	44	2,190
Repayments of long-term loans payable	(676)	(660)
Purchase of treasury shares	(2)	(1)
Proceeds from sales of treasury shares	922	424
Cash dividends paid	(2,231)	(3,809)
Repayments to minority shareholders	(5)	-
Proceeds from issuance of common shares	-	388
Net cash provided by (used in) financing activities	(2,198)	(1,467)
Effect of exchange rate change on cash and cash equivalents	430	509
Net increase (decrease) in cash and cash equivalents	7	20,295
Cash and cash equivalents at beginning of period	21,544	21,552
Increase (decrease) in cash and cash equivalents resulting from change of scope of consolidation	-	329
Cash and cash equivalents at end of period	21,552	42,177