

Hisaka Newsletter

The 91st Fiscal Year (Interim)

From April 1, 2019 to September 30, 2019



Fully Automated Continuous
Sterilization Cooling System
"Lift Steamer Z"

BUSINESS REPORT

To our shareholders,

The first half of our 91st fiscal year has ended, and we would like to provide an overview report on those six months.

For the world economy during the first half of this fiscal year, factors including escalation in the trade friction between the U.S. and China caused a deceleration to the recovery trend that had been continuing. The Japanese domestic economy maintained its moderate recovery trend, but the future situation remains uncertain, with factors such as stagnating exports.

In this economic environment, orders received by our company group in the first half of this fiscal year reached 16,001 million yen (a 12.1% increase over the previous fiscal year), with increases in orders received across all segments. With increased revenue in the Process Engineering Segment, Valve Segment, and other Segments, net sales reached 16,222 million yen (an increase of 6.2% year-on-year). In terms of profit, the increase in labor costs due to strengthening our personnel organization, drop in profitability at the Heat Exchanger Segment, and other such factors led to an operating profit of 1,106 million yen (a decrease of 5.0% year-on-year), with an ordinary profit of 1,279 million yen (a decrease of 4.2% year-on-year). With regard to extraordinary profit and loss, while we recorded extraordinary losses for disaster-related expenses and the like in the same period last year, in the first half of this fiscal year, we recorded income occurring from negative goodwill from our acquiring Komatsugawa Chemical Engineering Co., Ltd. as a subsidiary and the like as extraordinary income. As a result of all these factors, the net profit for the quarter attributable to shareholders of the parent company was 1,137 million yen (an increase of 40.9% year-on-year).

We would like to ask all of our valued shareholders for their continued cooperation and support.



December 2019,
President and CEO,

Yoshikazu Takeshita

Results by Segment

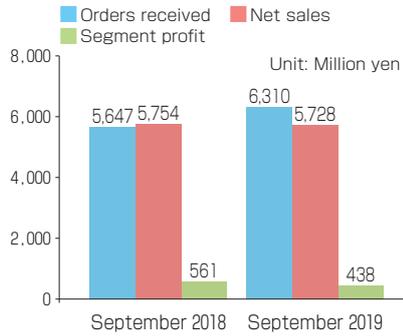
(*Monetary amounts listed herein are those before the elimination of internal transactions.)

Heat Exchanger Segment

The Heat Exchanger Segment manufactures and sells plate heat exchangers that perform the heating and cooling of fluids, which are essential in various industries.

Orders received reached 6,310 million yen (an 11.7% increase over the previous fiscal year). Renewal demand for the chemicals industry and maintenance related orders for marine industries progressed favorably, and orders received for plants, shipbuilding, and the like increased.

Net sales were 5,728 million yen (a decrease of 0.5% year-on-year). Likewise, orders received saw favorable progress for renewals and maintenance and there was a contribution of order backlog related to shipbuilding project. However, sales for medium and small general use products performed poorly and stagnated. Due to an increase in less profitable large projects and a decrease in sales of medium and small general use products which have relatively good profitability, the segment profit was 438 million yen (a decrease of 22.0% year-on-year).



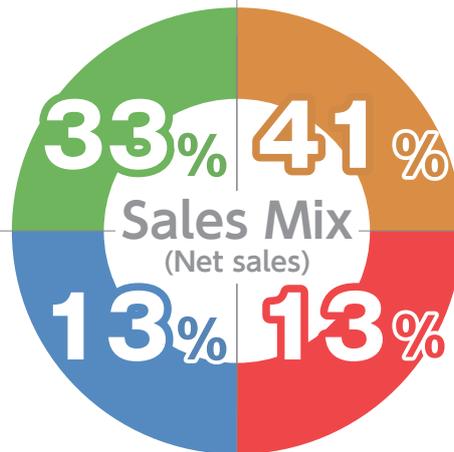
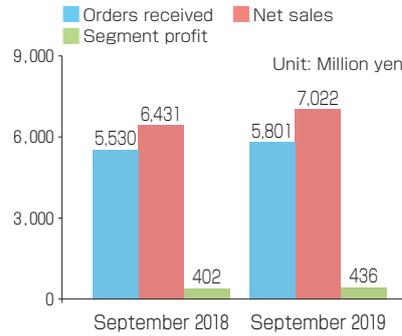
Process Engineering Segment

The Process Engineering Segment manufactures and sells cooking disinfecting devices used for retort pouch foods and the like, plus sterilizing devices for pharmaceuticals, and dyeing and finishing devices for fiber products.

Orders received reached 5,801 million yen (a 4.9% increase over the previous fiscal year). Orders of sterilizing devices for the retort-packed and chilled foods industries progressed favorably, and we also received orders for a joint project with our subsidiary.

Orders also increased due to increased orders received for concentrator systems for the raw Chinese herbal medicine industry, as well as renewal demand for dyeing and finishing devices.

Net sales reached 7,022 million yen (an increase of 9.2% year-on-year). In addition to large projects including equipment used in the manufacture of retort-packed cooked rice, renewal demand for dyeing and finishing devices progressed favorably for increased revenue. Due to an increase in net sales, the segment profit was 436 million yen (an increase of 8.5% year-on-year).



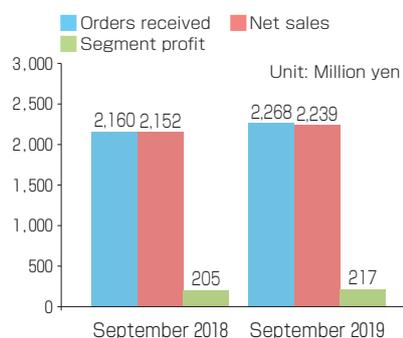
Valve Segment

The Valve Segment manufactures and sells ball valves and the like used in the control of various fluids.

Orders received reached 2,268 million yen (a 5.0% increase over the previous fiscal year). While orders received for limited application valves decreased, renewal demand for the Japanese domestic chemicals industry progressed favorably, resulting in an increase of orders.

The favorable trend in orders received led to net sales of 2,239 million yen (an increase of 4.1% year-on-year).

Due to an increase in net sales, the segment profit was 217 million yen (an increase of 6.2% year-on-year).



Other Segments

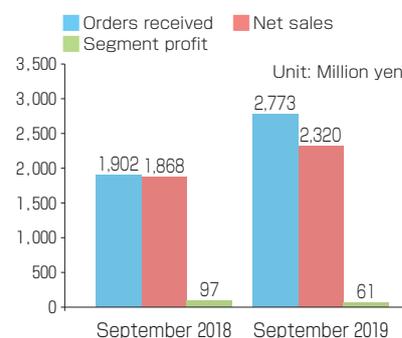
Other segments include operations carried out by both domestic and overseas subsidiaries, and our solar power generation operations which are carried out at the Konoike Plant.

Orders received reached 2,773 million yen (a 45.8% increase over the previous fiscal year). Our subsidiary in China received orders for large projects of food manufacturing equipment and dyeing and finishing devices, and our domestic subsidiaries also received orders for large projects of food manufacturing equipment. Also, acquiring Komatsugawa Chemical Engineering Co., Ltd. as a consolidated subsidiary led to increases.

Net sales reached 2,320 million yen (an increase of 24.2% year-on-year). Our subsidiary in Malaysia saw an increase in projects of heat exchangers for food products and marine uses,

and the sales of Komatsugawa Chemical Engineering Co., Ltd. contributed to revenue increase.

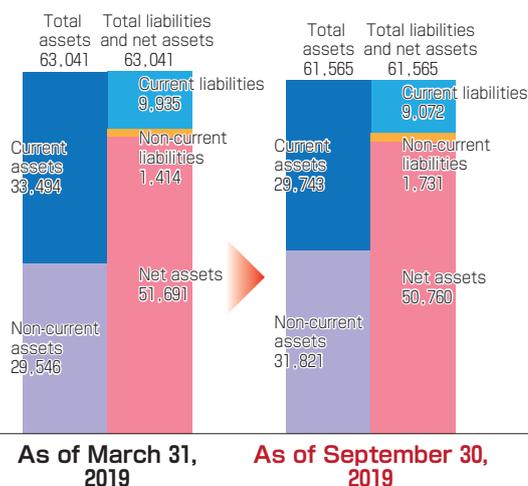
While profitability was improved by the increased revenue at our subsidiary in Malaysia, a decrease in revenue at our subsidiary in China led to a segment profit of 61 million yen (a decrease of 37.4% year-on-year).



Consolidated Financial Highlights

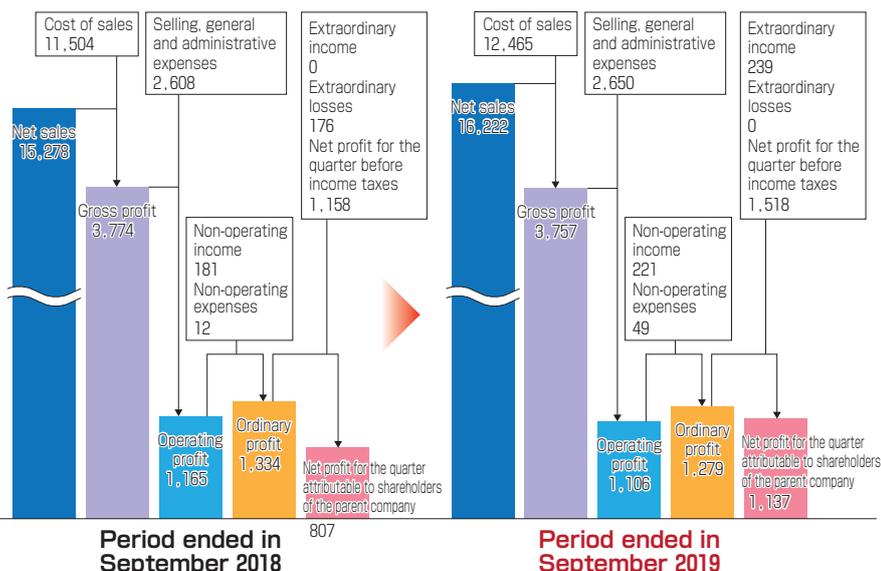
Summary of Consolidated Balance Sheets

Unit: Million yen



Summary of Consolidated Profit and Loss Statement

Unit: Million yen



Topics



Established New Plant in Kanto Area Strengthening the Food Manufacturing Equipment Business of the Hisaka Group

In November of this year, we opened the Ome Plant in Ome City, Tokyo. Our group companies Asahi Industry, Co., Ltd. and MICROZERO Co., Ltd. opened factories at the Ome Plant and have begun business.

Asahi Industry, Co., Ltd.'s flagship product is the fully automated continuous sterilization cooling system "Lift Steamer Z," which is used to sterilize chilled deli items and the like. In recent years, the food products industry has been shifting towards single-serving products due to more single-person households, dual income households, elderly households, and other lifestyle changes, and there has been an increase in the consumption of retort-packed foods and chilled deli items. In this kind of market environment, Asahi Industry, Co., Ltd. has seen a rapid increase in the business inquiries for their product, and faced issues in strengthening their production capacity and improving productivity.

The new factory (Ome Plant AK Bldg.) inside the recently completed Ome Plant has double the area of the factory previously used by Asahi Industry, Co., Ltd., and we will establish a production system that can meet customer needs.

MICROZERO Co., Ltd. is a company that manufactures and sells sanitary valves and designs and constructs plants for the food, milk, and beverage industries, and carries out the assembly of sanitary valves at the factory in the Ome Plant.

Moving forward, these companies will use the Ome Plant as a

foothold to improve the overall strength of our group, construct a customer-based production and sales structure, and aim to expand sales in the thriving processed food products market.

Plant name	Hisaka Works Ome Plant
Address	2-9-3 Suehiro-cho, Ome City, Tokyo
Premises area	8,605.88m ²
Operation date	November 1, 2019
Major production items	Fully automated continuous sterilization cooling systems, etc. (Asahi Industry) Sanitary valves (MICROZERO)



Ome Plant (AK Bldg.)



Acquired Land in Nara Prefecture for Establishing New Plant

In May of this year, we acquired commercial land in Ikoma City, Nara Prefecture.

In 2017, we formulated a long-term vision plan that lays out how the Hisaka Group should be as we move toward our 100 year anniversary in 2042. In order to achieve that goal, we had been proceeding with investigations until recently for acquiring new commercial land with an aim to improve our production capacity

and construct a highly-efficient production system. The land we recently acquired is easily accessed from the current Konoike Plant (Higashiosaka City, Osaka), and we will begin construction on a new factory with aims for a plant that can achieve integrated operation.

Plant name	Hisaka Works Ikoma Plant (tentative)
Address	7 to 10, 8916 Takayama-cho, Ikoma City, Nara
Premises area	52,164.55m ²
Acquired on	May 30, 2019

Consolidated Results

Category	Fiscal year				(Reference)	Unit: Million yen
		89th fiscal year interim (Period ending in September 2017)	90th fiscal year interim (Period ending in September 2018)	91th fiscal year interim (Period ending in September 2019)	89th fiscal year (Period ending in March 2018)	90th fiscal year (Period ending in March 2019)
Orders received		13,794	14,279	16,001	28,914	30,669
Net sales		13,128	15,278	16,222	26,891	30,939
Operating profit		782	1,165	1,106	1,607	2,040
Ordinary profit		980	1,334	1,279	1,963	2,337
Net profit for the quarter (this period) attributable to shareholders of the parent company		1,264	807	1,137	1,927	1,596
Net profits for the quarter (this period) per share (in yen)		42.34	27.04	39.78	64.56	53.48
Gross assets		58,893	63,707	61,565	60,275	63,041
Net assets		50,436	52,419	50,760	51,014	51,691
Net assets per share (in yen)		1,689.36	1,755.78	1,801.67	1,708.71	1,731.40

(Note) "Partial Amendments to Accounting Standard for Tax Effect Accounting" (Accounting Standards Board of Japan Statement No. 28, February 16, 2018) etc. have been applied since the start of the 90th fiscal year interim. Major management benchmarks for the 89th fiscal year interim have been set applying the corresponding accounting standards retroactively.

Company Profile (Current as of September 30, 2019)

Company name:	HISAKA WORKS, LTD.
Established:	May 1942
Capital:	4.15 billion yen
Number of employees:	Consolidated: 890, Non-consolidated: 613
Head office address:	2-12-7 Sonezaki, Kita-ku, Osaka City
Branch offices and plant:	Tokyo Branch Office (Chuo-ku, Tokyo) Nagoya Branch Office (Nagoya City, Aichi) Kyushu Branch Office (Fukuoka City, Fukuoka) Kitakyushu Branch Office (Kitakyushu City, Fukuoka) Konoike Plant (Higashiosaka City, Osaka)
Major subsidiaries:	MICROZERO CO., LTD. (Tachikawa City, Tokyo) ASAHI INDUSTRY CO., LTD. (Ome City, Tokyo) KOMATSUGAWA CHEMICAL ENGINEERING CO., LTD. (Chiyoda-ku, Tokyo) HISAKAWORKS S.E.A. SDN. BHD. (Malaysia) HISAKA WORKS (CHINA) CO.,LTD. (China)

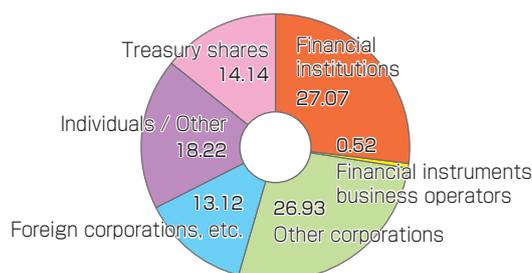
Directors and Audit & Supervisory Board Members

President and CEO	Yoshikazu Takeshita
Executive Director	Tetsuya Inoue
Executive Director	Koji Ohta
Executive Director	Tadashi Iizuka
Director	Toshiyuki Funakoshi
Director	Akihito Adachi
Director	Toshiya Usami
Director (Outside)	Koji Mizumoto
Director (Outside)	Yuko Tsuno
Corporate Auditor	Mitsugu Nakamichi
Auditor (Outside)	Hirofumi Miura
Auditor (Outside)	Akira Nakai

Share Status (as of September 30, 2019)

Total number of authorized shares: 129,020,000
Total number of shares issued: 32,732,800
Number of shareholders: 2,926

Shareholding ratio by owner (%)



Major shareholders (Top 10)

Shareholder name	Number of shares held	Shareholding ratio
The Master Trust Bank of Japan, Ltd. (Trust Account)	2,183,000	7.76%
Japan Trustee Services Bank, Ltd. (Trust Account)	1,450,400	5.16%
NIPPON STEEL Stainless Steel Corporation	1,400,000	4.98%
Nippon Life Insurance Company	960,770	3.41%
MUFG Bank, Ltd.	912,640	3.24%
Inaba Denki Sangyo Co., Ltd.	910,802	3.24%
TAKUMA Co., Ltd.	642,000	2.28%
STATE STREET BANK AND TRUST COMPANY 505103	630,624	2.24%
Mizuho Bank, Ltd.	612,640	2.17%
SSBTC CLIENT OMNIBUS ACCOUNT	597,523	2.12%

(Note) Treasury shares (4,628,159 shares) are excluded.

Shareholders' Memo

Business year	April 1 to March 31 of the following year
Record date for year-end dividends	March 31
Record date for interim dividends	September 30
Annual General Meeting of Shareholders	June every year
Keeper of shareholder register and account management institution for special account	Mitsubishi UFJ Trust and Banking Corporation
Contact information	Mitsubishi UFJ Trust and Banking Corporation, Osaka Securities Agency Division, 3-6-3 Fushimimachi, Chuo-ku, Osaka, 541-8502 TEL: 0120-094-777 (Toll-free)
Listed stock exchange	First section of the Tokyo Stock Exchange
Public notice method	Electronic notices Public notice URL: https://www.hisaka.co.jp However, in the event of an accident or other unavoidable event that precludes electronic public notice, notices will be published in the Nikkei newspaper.

(Notice)

- Changes to a shareholder's address, requests for purchases, specifications of a transfer account for dividends, and other such procedures are, in principle, handled at the account management institution (securities firm or the like) where you have opened your account. Please inquire with the securities firm or institution where your account is set up. Please be aware that the keeper of the shareholder register (Mitsubishi UFJ Trust and Banking Corporation) does not handle such inquiries.
- For procedures related to shares registered in a special account, Mitsubishi UFJ Trust and Banking Corporation is the account management institution. Please inquire with the account management institution for special accounts listed to the left (Mitsubishi UFJ Trust and Banking Corporation). The Mitsubishi UFJ Trust and Banking Corporation main and branch offices also accept messages.
- For unreceived dividends, payments can be made at Mitsubishi UFJ Trust and Banking Corporation main and branch offices.