



# Annual Results and Forecast

# Company Profile

<b>Company Name</b>	Shima Seiki Mfg., Ltd. (Stock code: 6222)
<b>President</b>	Masahiro Shima
<b>Main Business</b>	Manufacture and sale of computerized flat knitting machines, design systems, and glove and sock knitting machines
<b>Established</b>	February 4, 1962
<b>Capital</b>	JPY 14,859 million
<b>Headquarters</b>	Wakayama, Japan
<b>No. of Employees</b>	1,859
<b>URL</b>	<a href="http://www.shimaseiki.com">http://www.shimaseiki.com</a>



(As of March 31, 2017)

# Key Strengths

- **Responds to user needs with diverse product specifications**
  - We have a wide variety of computerized flat knitting machines, such as the **SSR** and **SVR**, that feature superior production efficiency and operability. For the advanced models with superb innovative features and creativity, the **WHOLEGARMENT flat knitting machines** can knit entire garments in three dimensions as one entire piece.
- **R&D ⇒ Production ⇒ Sales ⇒ End users, with streamered lined process, we are able to provide proposals to our users for hardware and software products.**
  - Not only the manufacturing and sale of the knitting machines, by utilizing the latest IT, we are able to provide proposals from other sections such as our design center division, offering technical support in the use of design software and machines.
  - With the lineup of the **SDS-ONE APEX3**, a 3D design system, and **P-CAM**, a computerized cutting machine, we can expand to other sectors, such as apparel and industrial materials industry.
- **Technological superiority**
  - A seventy percent in-house production rate makes our technology a competitive edge.

# Global Network

## Strengthened Asian markets

June 2016: <Shanghai> Launched the R&D center for Wholegarment flat knitting machines

September 2016: <Vietnam> The local subsidiary Shima Seiki Vietnam Co., Ltd., started operation.

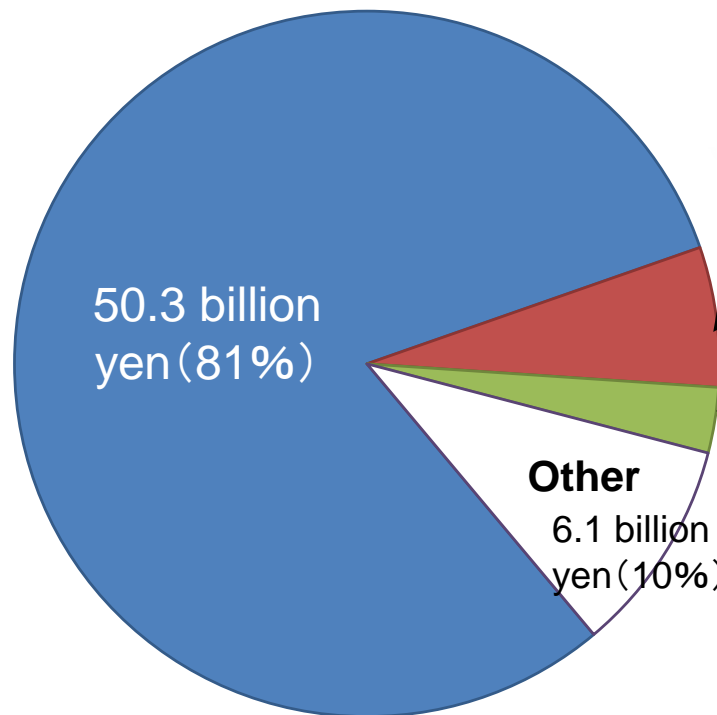
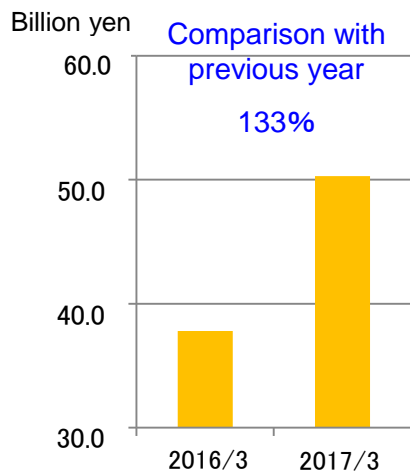


# Business Segments

## Sharp sales growth in the flat knitting machine segment

Terms: Japanese Yen

### Computerized Flat Knitting Machines



### Design Systems

4.0 billion yen (6%)



### Glove and Sock Knitting Machines

1.8 billion yen (3%)

Sales : JPY 62.4 billion yen

(As of March 31, 2017)

( ) is the composition ratio.

# Line up of Flat Knitting Machines



## MACH2XS WHOLEGARMENT flat knitting machine

- Features four needle beds with our original SlideNeedle capable of knitting an entire garment in three dimensions in one entire piece.
- Variety of mini-types for small fashion items are also available.



## SIR and SRY

- SIR: Equipped with intarsia carriers, variety of patterns can be created in knitting intarsia garments
- SRY: Two loop presser beds capable of suppress typical stretch characteristics of knitwear, creating unique fabrics with woven effects.
- SRY: This machine is not limited to the apparel industry but can expand into wider usage in other areas such as interior and industrial materials industries.



## SVR and SSR

- SVR: Global standard model with superior productivity
- SSR: Great cost performance

# Annual Results

(Terms: Millions of yen)

Net sales
Operating income
Ordinary income
Net income attributable to owners of the parent

Fiscal year ended March 31, 2017	Comparison with previous year
62,432	+25.9%
11,262	+94.8%
10,043	+121.6%
7,198	+120.0%

Fiscal year ended March 31, 2016
49,582
5,781
4,532
3,271

Currency exchange rates as of  
March 31, 2017

USD
EURO

Exchange rate at the  
end of the period

112.19	110.30
119.79	118.91

Average exchange  
rate for translation  
of sales

Exchange rate at  
the end of the  
period

Average exchange  
rate for translation  
of sales

112.68	118.14
127.70	130.82

# Overview

## Overview of segments

### Flat Knitting Machine Segment

- Active capital expenditures were made in ASEAN member states and Bangladesh.
- In China, **WHOLEGARMENT flat knitting machines** were introduced for production for Chinese domestic market, and a shoes-related investment was made.
- In Italy in Europe, high-end machines, including the **SRY** and **SIR**, in addition to **WHOLEGARMENT flat knitting machines**, were introduced.
- In Turkey in the Middle East, the segment performed well until the first half where the weakness in capital expenditures from the second half was evident because of political uncertainty.

### Design System Segment

- **SDS-ONE APEX3** achieved results slightly below the previous fiscal year because of the weakness of Japanese domestic apparel industry while **P-CAM** recorded results slightly above the previous fiscal year.

### Glove and Sock Knitting Machine Segment

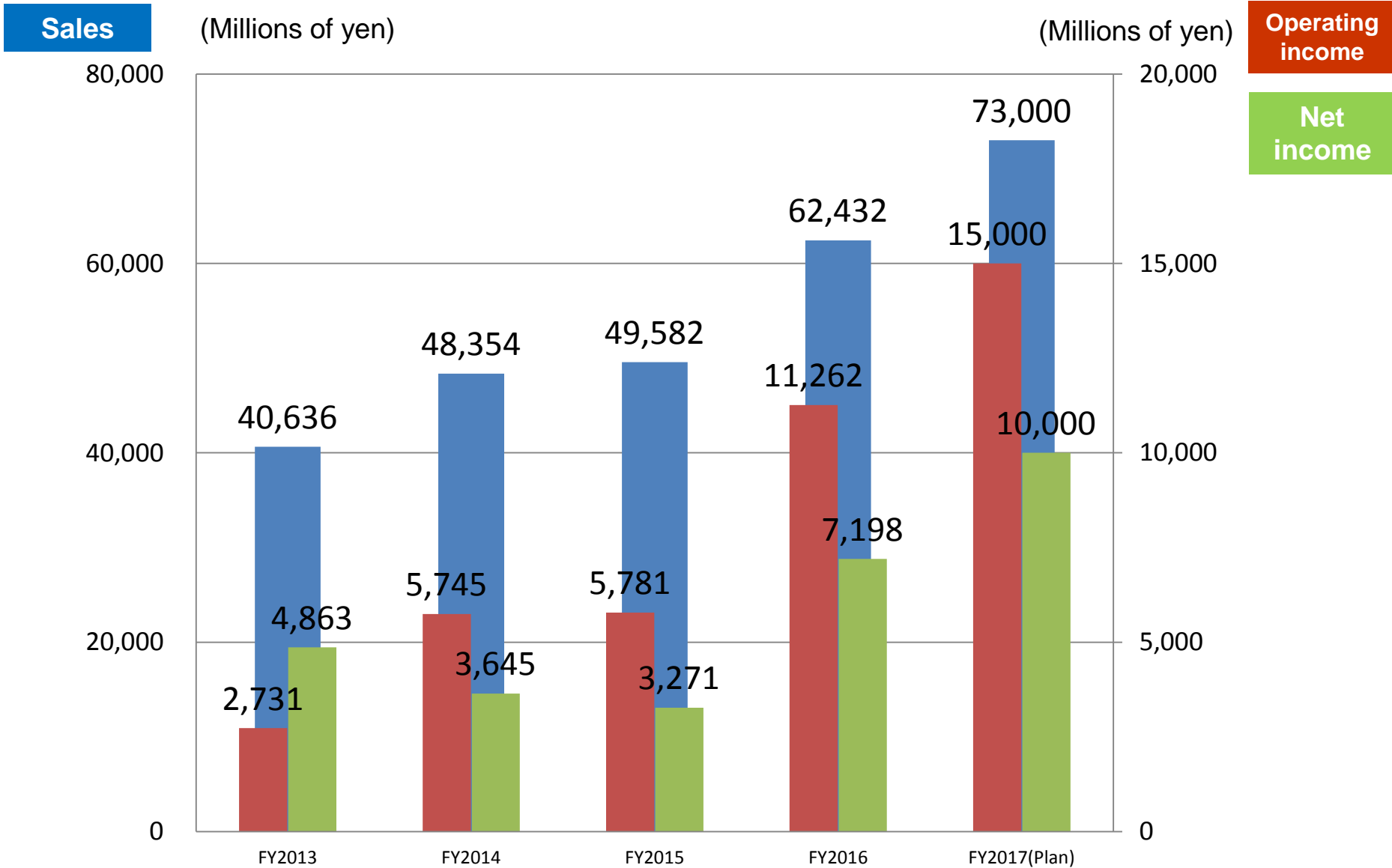
- The segment recorded higher performance over the actual results the previous fiscal year thanks to the recovery in capital expenditures by major manufacturers.

## Profits

- Sales recorded a sharp increase despite the effect of the yen appreciation, and operating income showed a sharp rise.
- An exchange loss of 1,929 million yen was incurred as a non-operating expense; however, ordinary income and net income attributable to owners of the parent totaled more than twice the figures for the previous fiscal year.



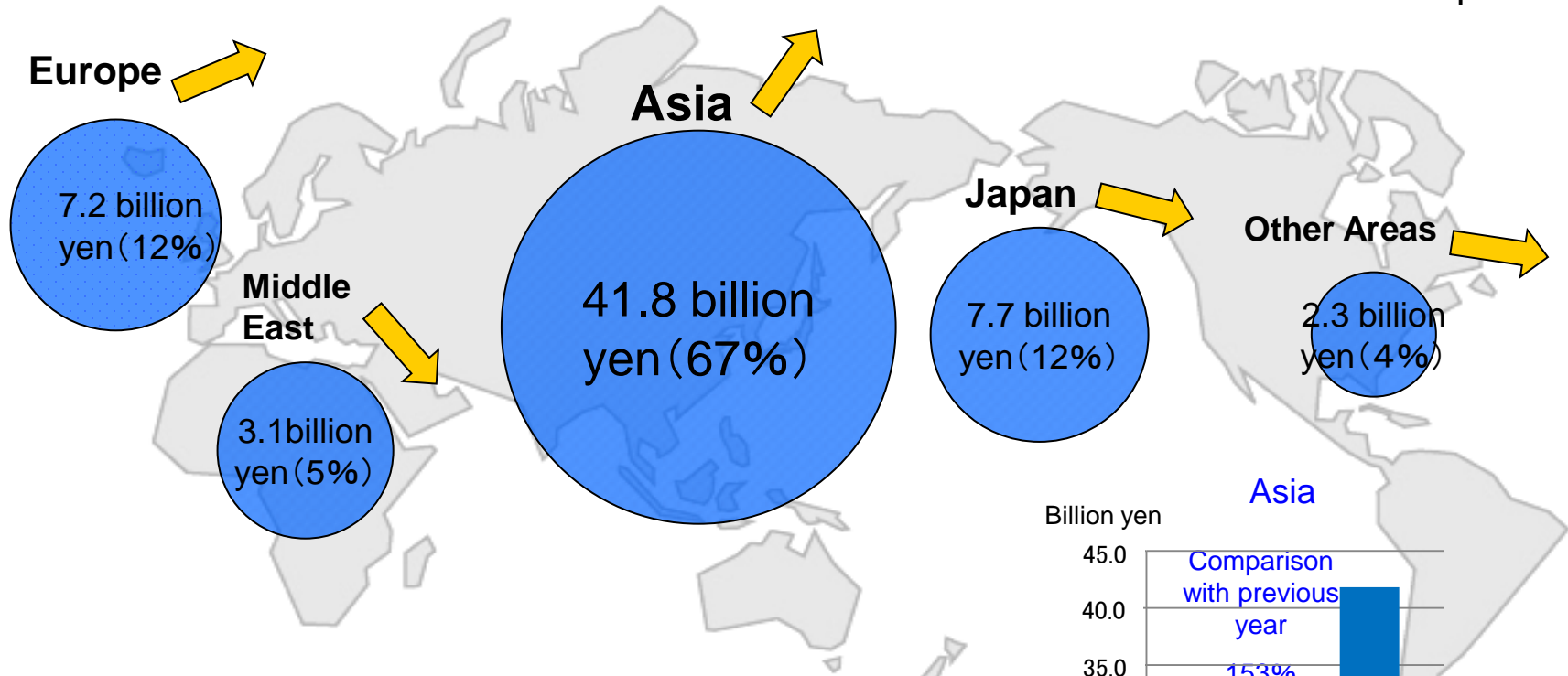
# Graph for sales, operating income, and net income



# Sales by Region

**Sharp sales growth because of favorable Asian markets**

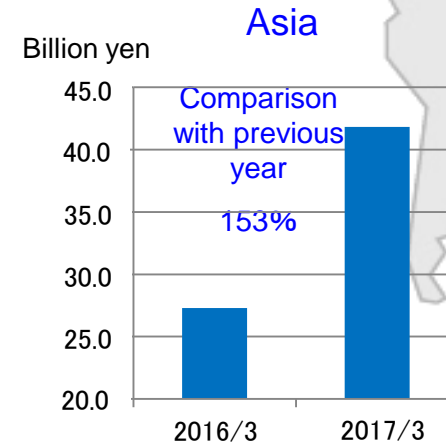
Terms: Japanese Yen



Total : 62.4 billion yen

( ) is the composition ratio.

(As of March 31, 2017)



# Sales by Region

(Terms: Millions of yen)	Fiscal year ended March 31, 2017	Fiscal year ended March 31, 2016	Comparison with previous year
Japan	7,743 (12%)	8,191 (17%)	(5.5%)
Europe	7,265 (12%)	6,392 (13%)	+13.7%
Asia	41,890 (67%)	27,382 (55%)	+53.0%
Middle East	3,136 (5%)	4,975 (10%)	(37.0%)
Other Areas	2,396 (4%)	2,640 (5%)	(9.3%)
<b>Total</b>	<b>62,432</b> <b>(100%)</b>	<b>49,582</b> <b>(100%)</b>	<b>+25.9%</b>

# Sales and Operating Income by Segment for the Fiscal Year Ending March 31, 2017

(Terms: Millions of yen)

	Net sales	Comparison with previous year	Operating income	Comparison with previous year
Computerized Flat Knitting Machines	50,378	+33.3%	15,073	+68.5%
Design Systems	4,021	(2.8%)	1,004	(13.4%)
Glove & Sock Knitting Machines	1,887	+24.8%	367	+54.8%
Other	6,144	+0.3%	582	(11.1%)
Corporate/elimination			(5,765)	—
<b>Total</b>	<b>62,432</b>	<b>+25.9%</b>	<b>11,262</b>	<b>+94.8%</b>

# Challenges for the Current Fiscal Year

## Notice of the decision to make a subsidiary into a joint venture company by accepting a capital investment (announced on October 27, 2016)

### **1. Purpose of the Joint Venture:**

Shima Seiki established and has been operating our production subsidiary company of Wholegarment products, **Innovation Factory**, as part of the penetration measures for Wholegarment flat knitting machines. Recently, we have decided to have Innovation Factory accept a capital investment from **Fast Retailing Co., Ltd.**, as part of a joint venture to produce high-quality, high-value-added knitted products for **the Uniqlo Group**, which primarily consists of **Uniqlo Co., Ltd.** By addressing this challenge on top of Shima Seiki's cutting-edge knitting technology and by making the best use of the marketing and selling power of **Fast Retailing Co., Ltd.**, we intend to establish a business model for the manufacture of knitted products primarily based on Wholegarment and serve as the mother factory to achieve the manufacturing of epoch-making knitted products.

### **2. Overview of the Joint Venture Company:**

Corporate name	: Innovation Factory Co., Ltd.
Location	: Wakayama City, Wakayama Prefecture
Representative	: Michitaka Nakamura
Description of business	: Manufacture of seamfree knitted products (Wholegarment products)
Total amount of capital	: 400 million yen (after the capital increase)
Investment ratio	: Shima Seiki Mfg., Ltd. : 51%    Fast Retailing Co., Ltd. : 49%
Effective date of the joint venture	: October 27, 2016 (Month/year of establishment: December 2015)

### **3. Future Outlook:**

Although the impact of the joint venture on the business performance of Shima Seiki is considered minor at this point, we believe that our efforts to address this challenge will help improve awareness of Wholegarment products, and we intend to continuously target the expansion of the Wholegarment flat knitting machine business.

# Medium-Term Management Plan「Ever Onward 2017」

## Priority measures

Four priority measures as our growth strategy are outlined below. We will promote the selection and concentration of our management resources in these areas as we work to enhance corporate value.

### i) Strengthening the flat knitting business

We will further strengthen the flat knitting business by increasing customer satisfaction through innovative marketing strategies by employing Wholegarment solutions.

### ii) Advancing unique business segments

We will advance our differentiation strategy by creating innovative business models that tap into our unique Wholegarment technology. We will also expand flat knitting technology into non-fashion fields and strengthen the automated cutting machine solution business.

### iii) Improving the profit structure

We will achieve sustainable revenue growth and strategic cost reductions by reviewing our fundamental business practices and diversifying revenue sources through enhanced after-sale services and improved operating cash flows.

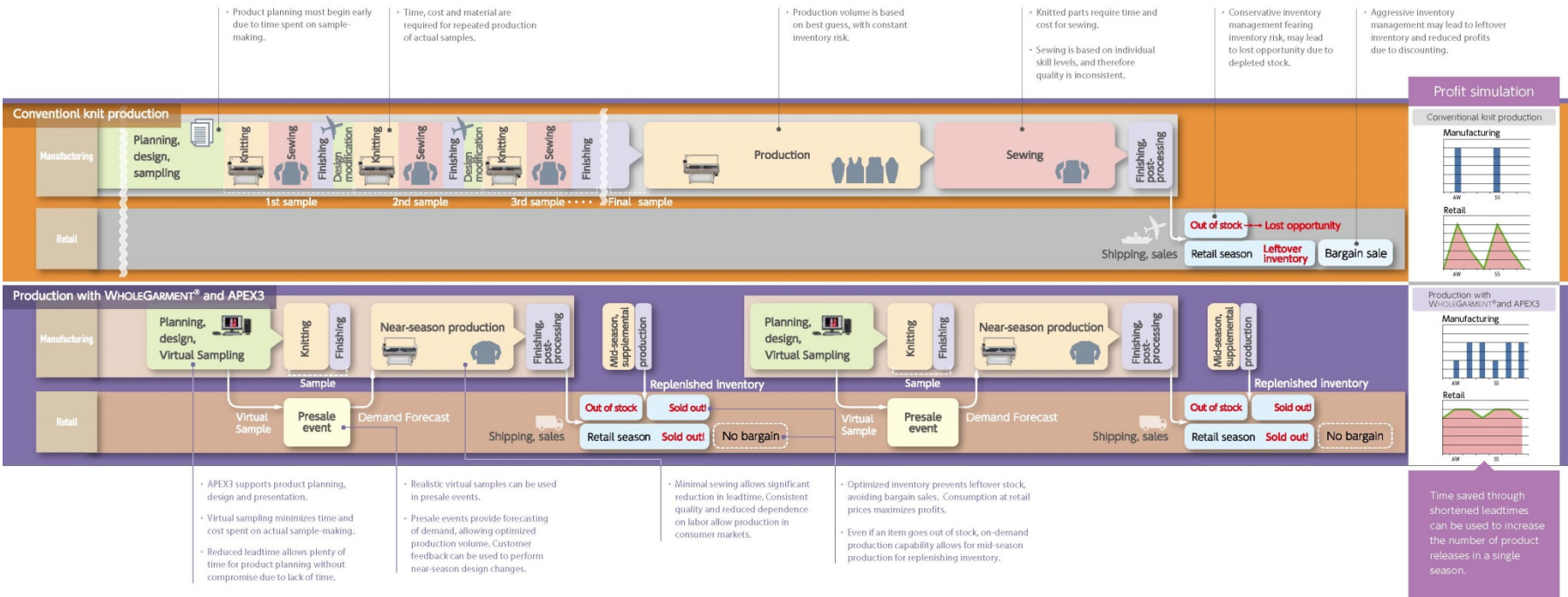
### iv) Reinforcing the management infrastructure

We will reinforce overall management resources, including the recruiting of creative and diverse personnel, and build a management structure with greater emphasis on CSR.

FY2017 Consolidated Targets (Terms: Billions of yen)	Net Sales	73.0
		(Original Plan 70.0)
	Operating Income	15.0
	Ordinary Income	15.0
	Net Income	10.0
	R O E	8.5%

# WHOLEGARMENT and APEX3 ~ Revolution in Knit Production and Distribution

WHOLEGARMENT is not just knitwear without seams. It is a completely new category of knitwear based on a rethink of all stages of the knit supply chain from planning and design, production, distribution, marketing and retail sales.



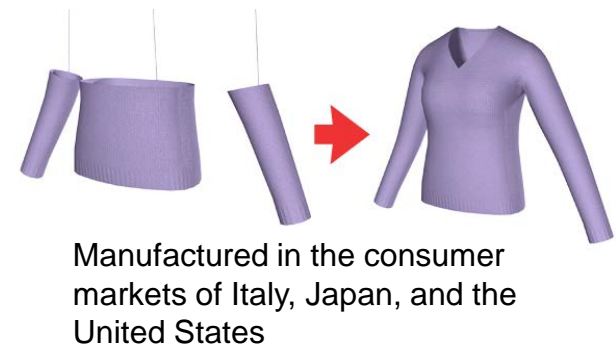
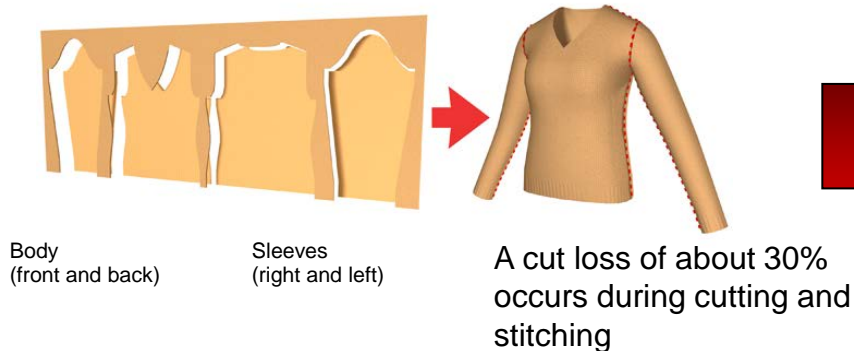
# WHOLEGARMENT®

A type of knit that is easy on the wearer and the environment  
(Energy saving, resource saving)

- 1. Easy on the wearer** Light, attractive silhouettes with no feeling of stiffness
  - 2. Easy on the environment** Reduces cut loss and limits contamination of the atmosphere
- Benefits of knit manufacturing** Responds quickly to reduce inventory losses and can be manufactured in consumer markets

**Cut and sewn (Labor-intensive approach)**

**WHOLEGARMENT® (Knowledge-intensive approach)**



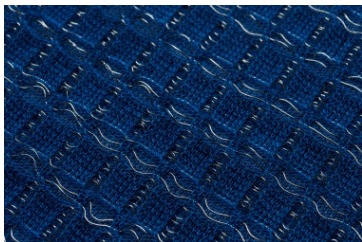


# Develop a new field

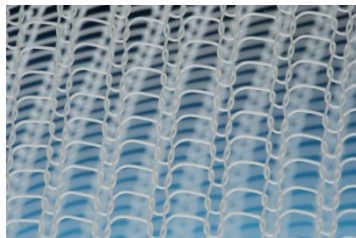
The technology for WHOLEGARMENT is applied to various fields, not just the fashion industry. In addition, Shima Seiki's original proposals include both flat knitting and cutting technologies.



3D Shaping



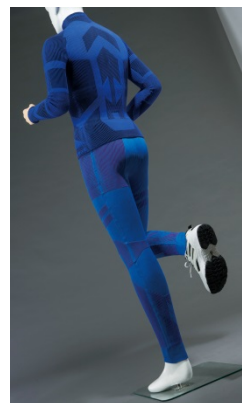
Inlay patterns limit typical stretch characteristics of knitwear



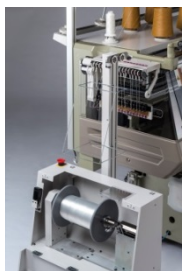
PET Monofilament



Carbon Fiber+Nylon



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



Yarn Unwinding Option



# Forecast

## 「Ever Onward 2017」

(Terms: Millions of yen)

	Fiscal year ended March 31, 2018	Comparison with previous year	Fiscal year ended March 31, 2017
Net sales	73,000	+16.9%	62,432
Operating income	15,000	+33.2%	11,262
Ordinary income	15,000	+49.4%	10,043
Net income attributable to owners of the parent	10,000	+38.9%	7,198

Forecast of currency rates for March 2018 110 JPY/USD 120 JPY/€  
Sensitivity of operating income where the exchange rates fluctuate by 1 yen: 430 million yen for the USD, 20 million yen for the EUR

# Sales and Operating Income Forecast by Segment for the Fiscal Year Ending March 31, 2018

## Driving force in the flat knitting machine segment

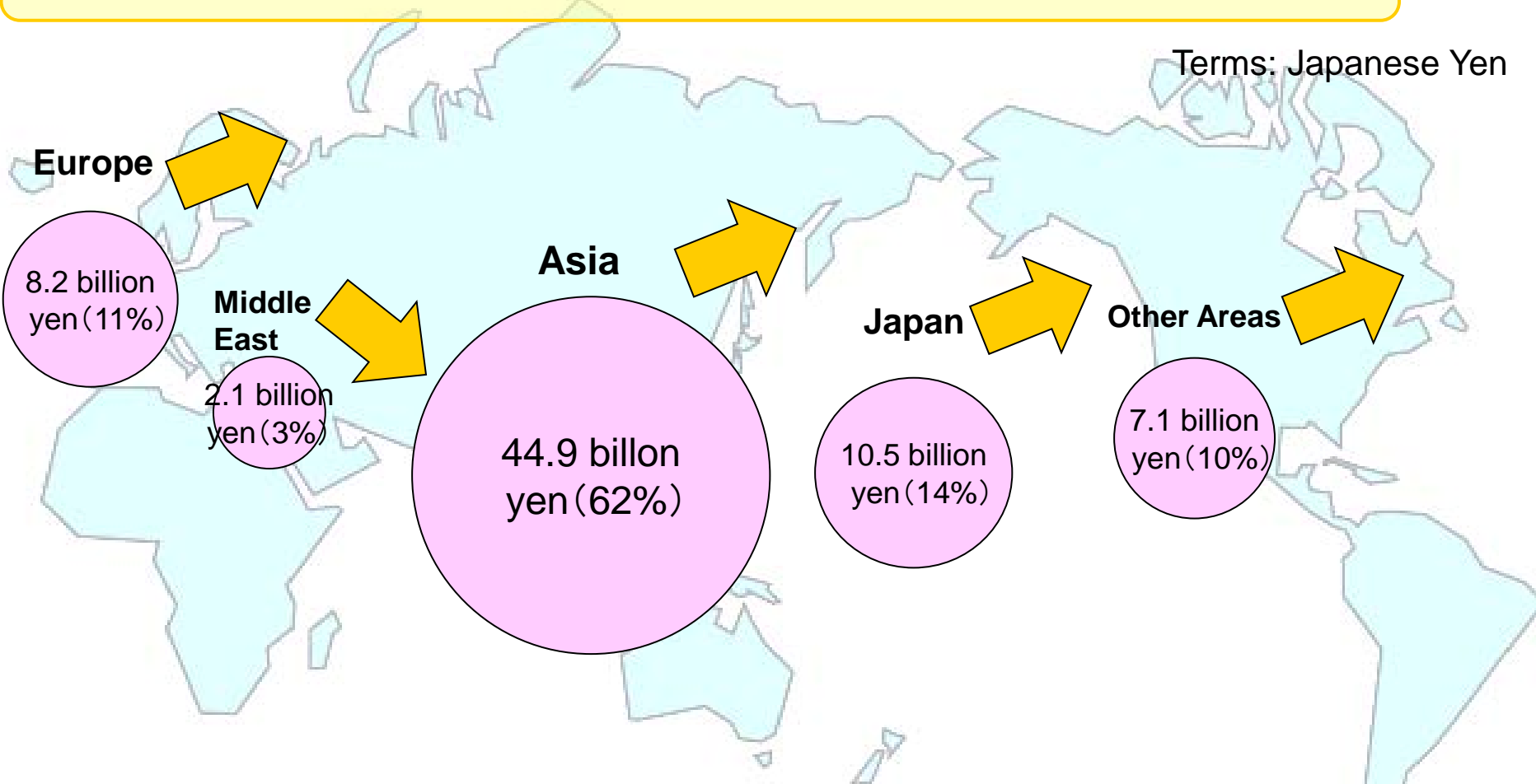
(Terms: Millions of yen)

	Net Sales	Comparison with previous year	Operating Income	Comparison with previous year
	Full-year forecast		Full-year forecast	
Computerized Flat Knitting Machines	59,260	+17.6%	18,590	+23.3%
Design Systems	5,140	+27.8%	1,240	+23.4%
Glove & Sock Knitting Machines	2,100	+11.3%	450	+22.6%
Other	6,500	+5.8%	720	+23.6%
Corporate/elimination			(6,000)	-
<b>Total</b>	<b>73,000</b>	<b>+16.9%</b>	<b>15,000</b>	<b>+33.2%</b>

# Forecast Sales by Region

**Active proposals in regions other than Asian markets**

Terms: Japanese Yen



Total: 73.0 billion yen

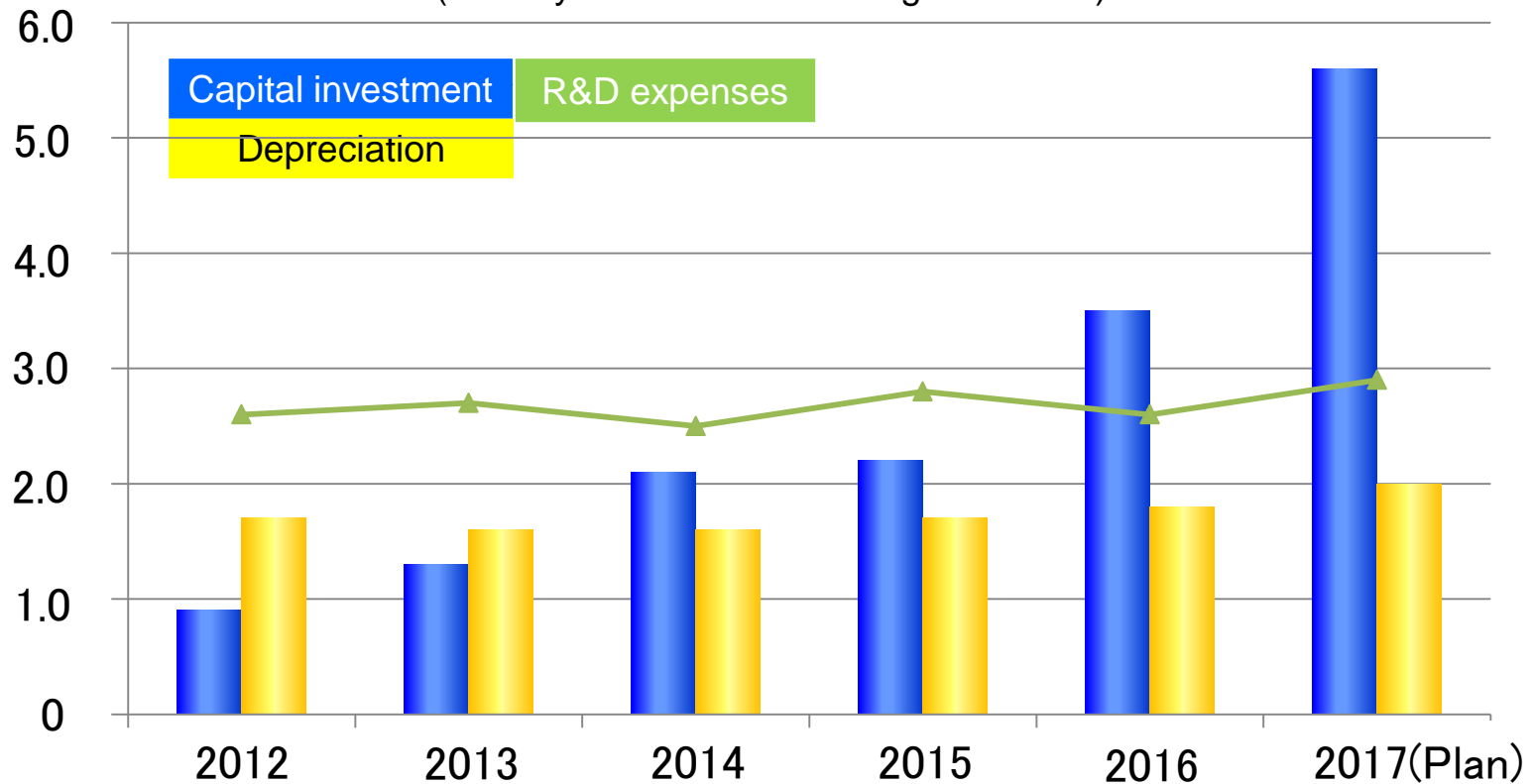
( ) is the sales composition ratio.

# Capital investment / R&D expenses

FY 2016	Capital investment:	JPY 3.5 billion	Depreciation: JPY 1.8 billion
	R&D expenses:	JPY 2.6 billion	
FY 2017 (Plan)	Capital investment:	JPY 5.6 billion	Depreciation: JPY 2.0 billion
	R&D expenses:	JPY 2.9 billion	
	Major capital expenditure plans Construction of new plants (machining plants)		

(Billions of yen)

(Fiscal years ended or ending March 31 )

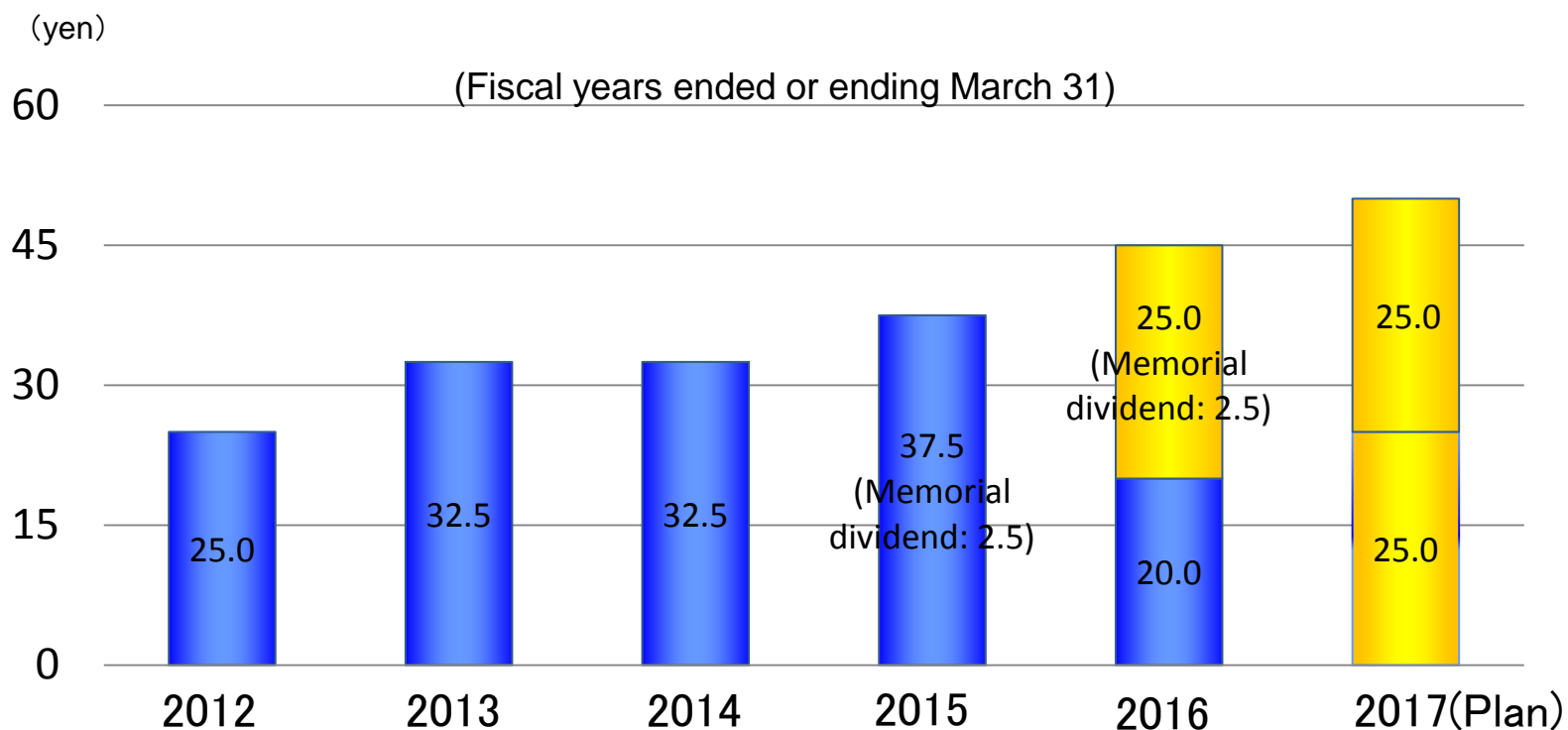


# Dividend

1. Treasury stock of 2,117,503 shares (5.8% of total common stock issued) as of March 31, 2017

2. Dividends for the fiscal year ended March 2017 [scheduled]: Year-end dividend of 25.0 yen (Memorial dividend of 55th anniversary of 2.5 yen)

3. Dividends for the fiscal year ending March 2018 [plan]: Interim dividend of 25.0 yen (up 5 yen from the previous fiscal year)  
Year-end dividend of 25.0 yen



# Notice of Change in Representative Director

## <Change in Representative Director>

Scheduled day of appointment June 28, 2017

New title	Name	Current title
Chairman, Representative Director	Masahiro Shima	President, Representative Director, Director of Sales Headquarters
President, Representative Director, Director of Sales Headquarters, in charge of Corporate Planning Division	Mitsuhiro Shima	Executive Vice President, Deputy Director of Sales Headquarters, in charge of Corporate Planning Division

### • Reason for the change

The change is designed to further strengthen and improve the business management system with the goal of a further increase in enterprise value.

### • Profile of the new President and Representative Director to be appointed

[Name] Mitsuhiro Shima

[Date of birth] June 23, 1961

March 1987 Joined the Company  
March 1998 General Manager of System Development Division  
June 2002 Director, General Manager of System Development Division  
June 2006 Director in charge of Control System Development Division and Intellectual Property Department, General Manager of Graphic System Development Division  
June 2007 Executive Director in charge of Control System Development Division, Intellectual Property Department and Total Design Center, General Manager of Graphic System Development Division  
June 2010 Executive Director in charge of Machinery Production Technology Division, Material Purchasing Division and Total Design Center, Director of Production Headquarters  
June 2011 Senior Executive Director in charge of Machinery Production Technology Division and Total Design Center, Director of Production Headquarters  
June 2012 Executive Vice President in charge of Corporate Planning Division and Total Design Center, Deputy Director of Sales Headquarters  
March 2013 Executive Vice President, Deputy Director of Sales Headquarters  
April 2015 Executive Vice President, Deputy Director of Sales Headquarters, in charge of Corporate Planning Division (incumbent)  
June 2017 President, Representative Director, Director of Sales Headquarters, in charge of Corporate Planning Division (plan)



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