

2nd Quarter FY2016 Financial Results

The logo for Ushio, consisting of the word "USHIO" in a bold, white, sans-serif font, set against a solid green rectangular background.

USHIO INC.

October 31, 2016

This report contains forward-looking statements, including earnings forecasts, which are based on information currently available to the Company and on certain assumptions deemed to be reasonable. Please be advised that actual results may differ substantially from those forward-looking statements due to various factors.

*** All figures in the material have been rounded down to the nearest billion yen.**

Main Points of Today's Presentation

- **Net sales and earnings decreased year on year (YoY)** for the first half of the fiscal year ending March 31, 2017 (FY2016).
- **Outperformed** 1H forecasts announced on July 29
- **Maintained** full-year forecasts
- **Revise** the current Medium-term Management Plan
(The new Medium-term Management Plan is scheduled to be announced at the FY2016 fourth-quarter financial results presentation)

- I. Financial Results for 1H FY2016**
- II. Future Prospects
- III. Imaging Business
- IV. Medium-term Management Plan
- V. Supplementary Information

Highlights of Financial Results for 1H FY2016

Consolidated Net Sales down 6.9% year on year to ¥82.5 billion
Consolidated Operating Income down 52.0% year on year to ¥3.1 billion

- Outperformed 1H forecasts announced on July 29 -

Sales: 82.5 billion yen (▲6.0 billion yen YoY, down 6.9%)

- ✓ A negative impact of about ¥7.0 billion on net sales due to the yen's appreciation

Operating Income: 3.1 billion yen (▲3.4 billion yen YoY, down 52.0%)

- ✓ Deteriorating profitability of imaging equipment, in addition to a negative impact of ¥1.1 billion on earnings from the yen's appreciation

Profit Attributable to Owners of Parent: 1.8 billion yen
(▲3.6 billion yen YoY, down 66.1%)

- ✓ Foreign exchange losses and business structural reform expenses, and the recording of gain on sales of non-current assets and gain on bargain purchase as extraordinary income

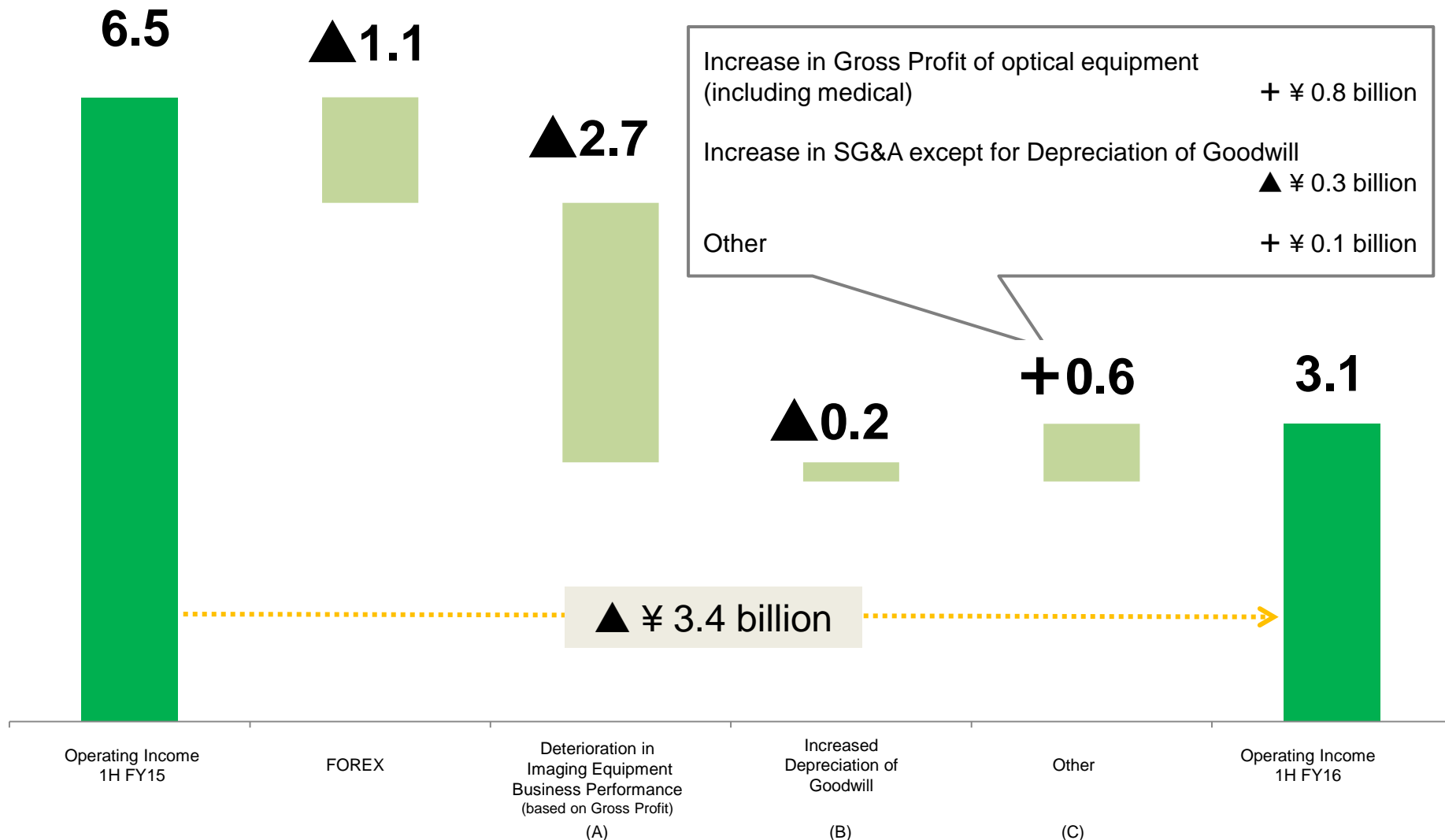
*FOREX 1H FY2016 : 1 dollar = 107 yen

Financial Results 1H FY2016

(billion yen)	FY2015 1H	FY2016 1H	YoY		1H Forecast (announced on July 29)	% of achievement	
			Changes	%			
Sales	88.6	82.5	▲6.0	▲6.9	80.0	103.2	
Operating Income	6.5	3.1	▲3.4	▲52.0	2.5	125.6	
Operating Income (%)	7.4	3.8	▲3.6P	-	3.1	-	
Ordinary Income	7.5	3.0	▲4.4	▲59.3	2.5	123.3	
Profit Attributable to Owners of Parent	5.4	1.8	▲3.6	▲66.1	1.5	123.5	
EPS (yen)	42.14	14.46	▲27.68	▲65.7	11.72	-	
FOREX(yen)	USD	122	107	▲14	-	105	-
	EUR	135	120	▲14	-	115	-

Variation Analysis of Operating Income of 1H

(billion yen)



Note: Values of (A), (B), and (C) exclude FOREX impact.

Financial Results by Business Segments

(billion yen)		FY 2015 1H	FY 2016 1H	YoY		FY2016 Forecast (announced on July 29)	% of achievement
				Changes	%		
Equipment	Sales	47.9	45.2	▲2.6	▲5.5	95.0	47.7
	Operating Income	0.5	▲1.1	▲1.6	-	-	-
	Operating Income(%)	1.1	▲2.5	▲3.5P	-	-	-
Light Sources	Sales	39.1	35.9	▲3.2	▲8.3	73.0	49.2
	Operating Income	5.9	4.0	▲1.9	▲32.2	-	-
	Operating Income(%)	15.3	11.3	▲4.0P	-	-	-
Others	Sales	1.5	1.3	▲0.2	▲14.6	2.0	65.2
	Operating Income	0.0	▲0.0	▲0.0	-	-	-
	Operating Income(%)	1.8	▲0.2	▲2.0P	-	-	-

Note : Net sales indicates sales to unaffiliated customers.

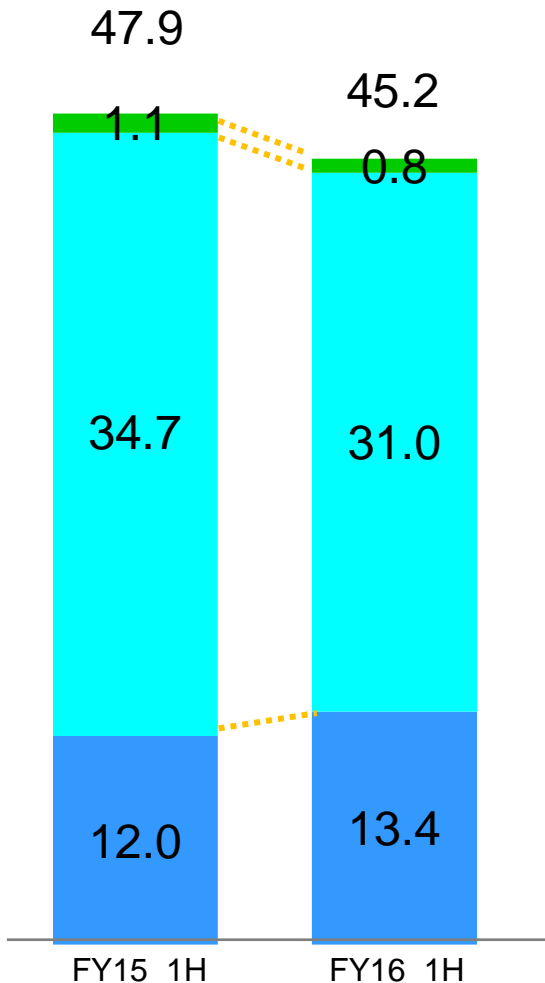
Operating income ratio indicates the ratio of operating income against sales to unaffiliated customers.

Equipment Business Segment 《Net Sales》

《1H YoY》

Net Sales

(billion yen)



Equipment Business Total

Sales
¥ 45.2billion
 YoY ▲ ¥ 2.6 billion
 ▲5.5%

1H Overview

Certain optical equipment performed well, supported by the positive impact of LCD investment in China. Sales of imaging equipment continued to decline YoY due to the forex impact and changes in the business environment.

Illumination and related facilities

¥ 0.8billion
 YoY ▲ ¥ 0.3 billion
 ▲28.5%

- ✓ Sales decreased by 29% YoY due to a decrease in large projects

Imaging Equipment

¥ 31.0 billion
 YoY ▲ ¥ 3.6 billion
 ▲10.6%

- ✓ Cinema:+6%. Digital cinema projector (DCP) sales volume increased YoY
- ✓ General Imaging:▲22%.Sales declined YoY, primarily for small and medium-sized projectors

Optical Equipment

¥ 13.4 billion
 YoY + ¥ 1.3 billion
 +11.5%

- ✓ UV equipment:▲3%.Sales edged down YoY due to the impact of the product mix
- ✓ Curing equipment:+65%.Sales rose YoY following inspections of the prior-sales portion of LCD-related equipment for China

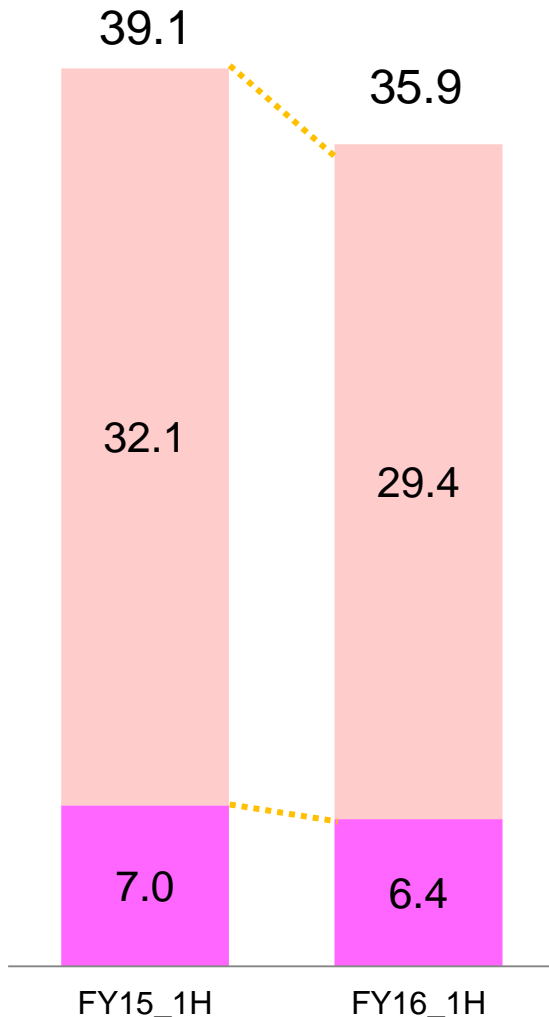
Note : Net sales indicates sales to unaffiliated customers

Light Sources Business Segment 《Net Sales》

《1H YoY》

Net Sales

(billion yen)



Light Sources Total

Sales

¥ 35.9 billion

YoY ▲¥3.2billion
▲8.3%

1H Overview

Maintained market share despite declining sales YoY across almost all products due to the impact of the yen's appreciation

Discharge Lamp

¥ 29.4 billion

YoY ▲¥2.6 billion
▲8.4%

✓ UV Lamps:▲6%.Sales declined YoY due to the forex impact, despite benefitting to a certain extent from LCD investment in China

✓ Lamps for cinema:▲13%. Sales decreased YoY due to the forex impact

✓ Lamps for data projector:▲12%. Sales decreased YoY due to the forex impact

Halogen Lamp

¥ 6.4 billion

YoY ▲¥0.5 billion
▲7.9%

✓ ▲8%. Sales decreased YoY mainly due to a drop in demand in emerging countries for office automation (OA) equipment, in addition to the forex impact

Note : Net sales indicates sales to unaffiliated customers

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2H/Full-year FY2016 Forecast

Maintained full-year forecasts

(billion yen)	(A) Full-year plan <small>(announced on July 29)</small>	(B) 1H	(C) 2H Forecast <small>(A)-(B)</small>	(C)-(B)											
Sales	170.0	82.5	87.5	+5.0											
Operating Income	9.0	3.1	5.9	+2.8	<table border="1"> <tr><td colspan="2">(billion yen)</td></tr> <tr><td>Imaging equipment <small>(incl. effects of enhancement measures)</small></td><td>+2.5</td></tr> <tr><td>Other</td><td>+0.3</td></tr> <tr><td>Total</td><td>+2.8</td></tr> </table>	(billion yen)		Imaging equipment <small>(incl. effects of enhancement measures)</small>	+2.5	Other	+0.3	Total	+2.8		
(billion yen)															
Imaging equipment <small>(incl. effects of enhancement measures)</small>	+2.5														
Other	+0.3														
Total	+2.8														
Operating Income (%)	5.3	3.8	6.7	+2.9P											
Ordinary Income	10.0	3.0	7.0	+4.0	<table border="1"> <tr><td colspan="2">(billion yen)</td></tr> <tr><td>Increase in Operating Income</td><td>+2.8</td></tr> <tr><td>Decrease in FOREX losses</td><td>+1.0</td></tr> <tr><td>Other</td><td>+0.2</td></tr> <tr><td>Total</td><td>+4.0</td></tr> </table>	(billion yen)		Increase in Operating Income	+2.8	Decrease in FOREX losses	+1.0	Other	+0.2	Total	+4.0
(billion yen)															
Increase in Operating Income	+2.8														
Decrease in FOREX losses	+1.0														
Other	+0.2														
Total	+4.0														
Profit Attributable to Owners of Parent	7.0	1.8	5.2	+3.4											

FOREX(Full-year)

USD	105 yen
EUR	115 yen

FOREX sensitivity: Amount of impact from 1 yen fluctuations (full-year)

	Net Sales	Operating Income
against USD	Approx. 1.0 billion yen	Approx. 150 million yen

Forecasts for 2H/Full-year FY2016 Net Sales by Sub-segment

(billion yen)		(A) Full-year plan (announced on July 29)	(B) 1H	(C) 2H Forecast (A)-(B)	(C)-(B)	2H Forecast	
Net Sales	Equipment Business	Imaging	65.0	31.0	34.0	+3.0	✓ Sales volume of imaging equipment are projected to surpass plans, despite continuing sales declines tracking falling DCP unit sales prices. ✓ Optical equipment is likely to perform solidly, underpinned by continuing investment in LCD in China and OLED demand.
		Optical	28.0	13.4	14.6	+1.2	
		Illumination and related facilities	2.0	0.8	1.2	+0.4	
		Sub-total	95.0	45.2	49.8	+4.6	
	Light Sources Business	Discharge lamp	61.0	29.4	31.6	+2.2	✓ In discharge lamps, cinema lamps should largely track an expansionary path in the run-up to the year-end selling season. ✓ Halogen lamps are on track to slightly outperform the second-half forecast.
		Halogen lamp	12.0	6.4	5.6	▲0.8	
		Sub-total	73.0	35.9	37.1	+1.2	
	Other	Machinery for industrial use and other	2.0	1.3	0.7	▲0.6	
	Total		170.0	82.5	87.5	+5.0	

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Performance Enhancement Measures in Christie's Imaging Equipment Business

(Excerpts from 1Q earnings presentation materials)

◆ Performance enhancement measures

Reduce fixed costs by implementing restructuring

- Reduce personnel costs (freeze new recruitment, reduce headcount, reduce bonuses, etc.)
- Reduce other operating expenses (reduce IT, advertising and other expenses)

Full-year savings in SG&A expenses (YoY)

Forecast at **¥2.3 billion**
※Excluding FOREX effect

Completed headcount reduction largely as planned
(As of the end of 1H)

◆ Address changes in the market environment

(1) Accelerate reduction in production costs by reshaping the production system (reduce by more than 10% YoY)

- Revise the production ratio between Canada and China from 6:4 to 5:5.

(2) Strengthen earnings power by revising the business model by product, region and field

- Reduce administrative costs and make other improvements by introducing a distributor model in regions with low profitability

(3) Bolster high-end projectors, an area of strength for USHIO

- Bolster high-end projectors, an area of strength for USHIO, to maintain competitiveness in the cinema field

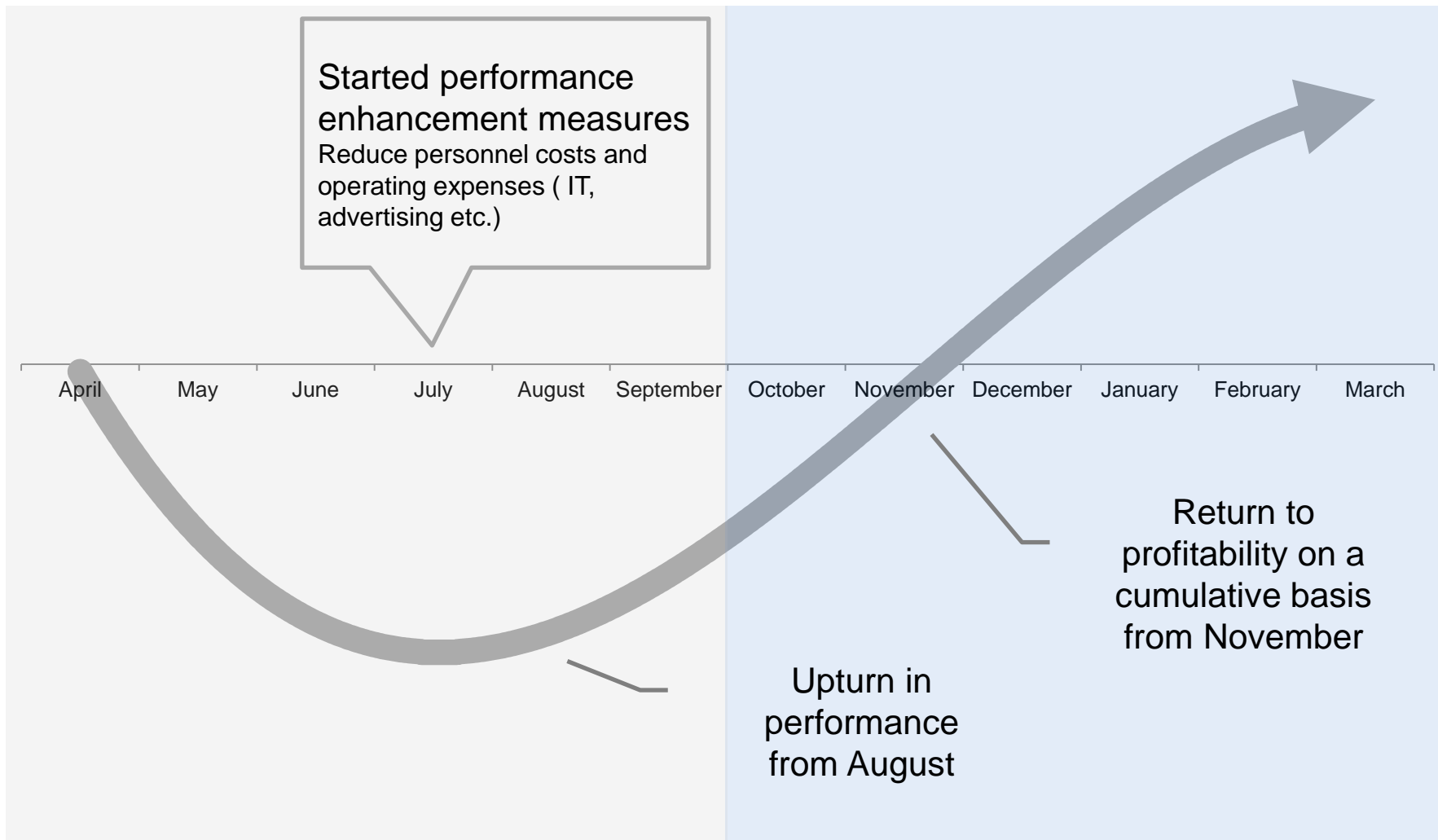
- Strengthen the lineup, after reviewing the inventory levels of low-end and middle-range projectors

(4) Steadily push ahead with the expansion of the total solution business

The benefits of these measures will emerge from next fiscal year onward

Reference: Operating Income Trend at Christie for FY2016 (Forecast)

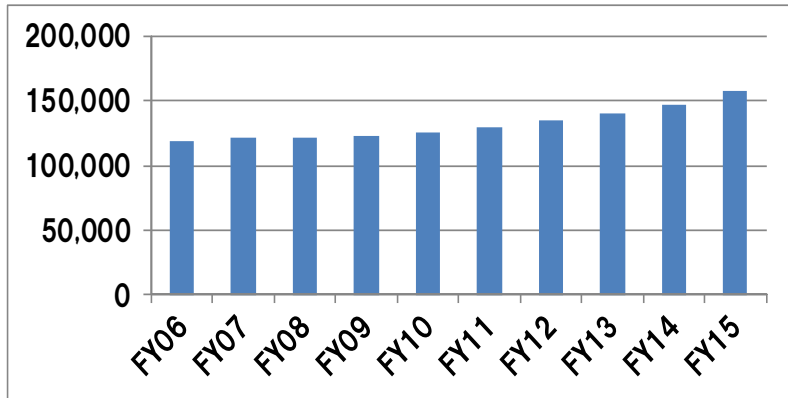
Through the execution of performance enhancement measures, performance is projected to improve as follows:



Business Environment for Cinema

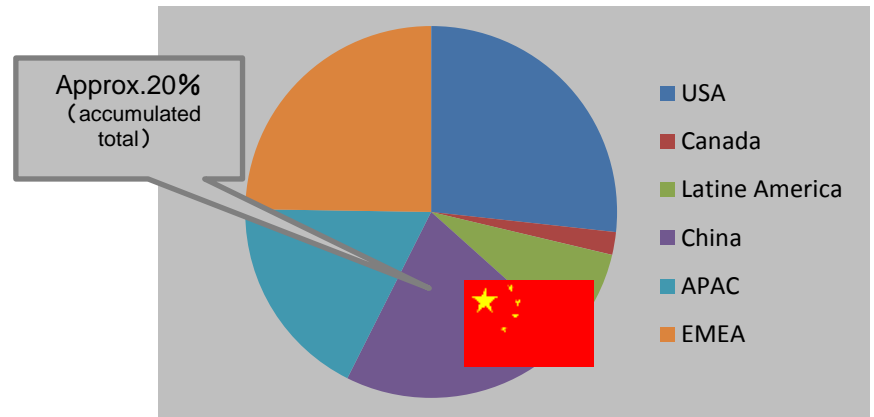
• Number of Cinema Screens Worldwide 157,000

Digitalization rate: 99%



※As of December 2015

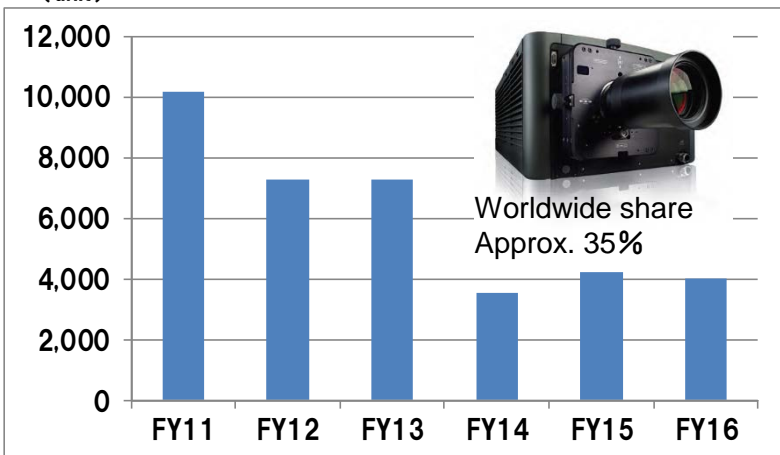
• Cinema Screen Ratio by Region (accumulated total)



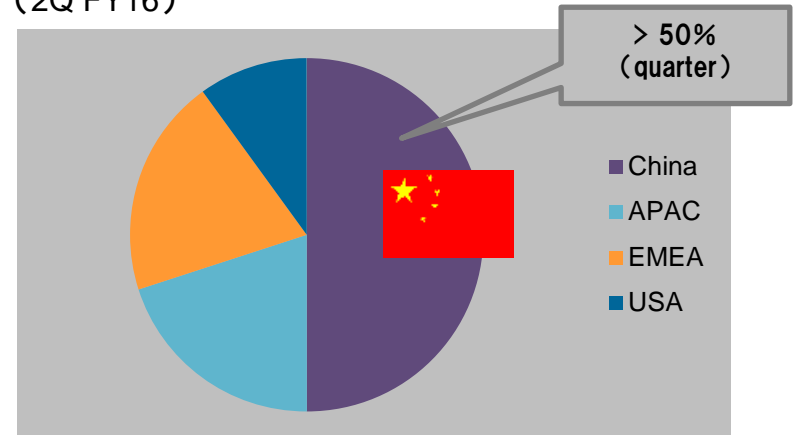
※As of December 2015

• Sales Volume Trend of Christie's DCP (since FY11)

(unit)



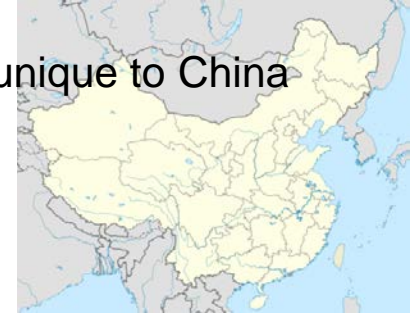
• Sale Distribution of Christie's DCP by Region (2Q FY16)



Changes in the Business Environment Covered at the 1Q Financial Results Presentation - Cinema Business

Reasons for intensified sales competition:

- Rapid growth in sales of laser phosphor projectors due to reasons unique to China
- Fiercer calls for price discounts for lamp projectors
- Declining margin due to the need to maintain market share



Measures :

- Sales expansion of laser phosphor projectors
- Sales expansion of RGB laser projectors in China, etc. (Cooperation with Dolby Cinema)



※Number of RGB laser projectors worldwide
Approx. 230 units (of which, Christie's market share: approx. 65%)
※Number of screens for RGB laser projectors worldwide
Approx. 110 screens (As of June 2016)



Number of installation sites of Dolby Cinema (Worldwide)

26

(As of June 23, 2016)

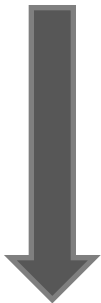


200~300

(In 3 years)

Changes in the Business Environment Covered at the 1Q Financial Results Presentation - General Imaging

Reasons for intensified sales competition:

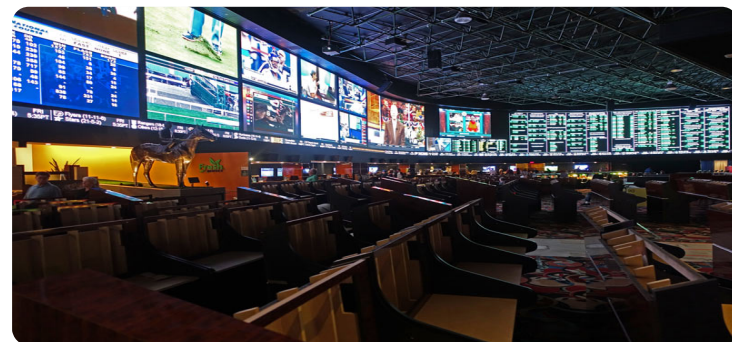
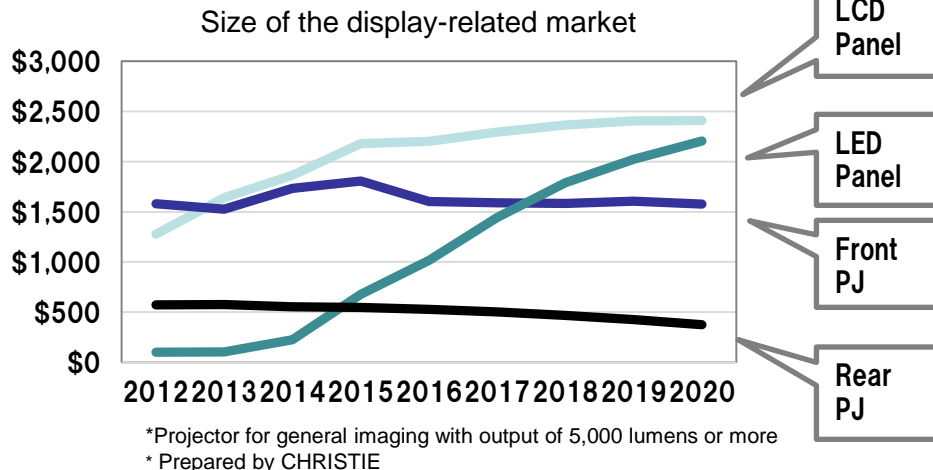


- Penetration of LED and LCD panels (Shift to finer pitch for panels)
- Various projector manufacturers have announced numerous laser phosphor-type models

- Declining margin due to intensified sales competition

Measures :

- Sales expansion of laser phosphor projectors (Increase product lineups)
- Sales expansion of RGB lasers (Industrial VR, theme park attractions, etc.)
- Sales expansion of LED, LCD panels



Christie's Solution Business

Christie Group provides one-stop solution to customers' problems



Creation of imaging contents for projection mapping

Maintenance service



Projectors and peripheral devices

Hardware



Software

Software



CHRISTIE

Lobby advertisement

Service

Advertising



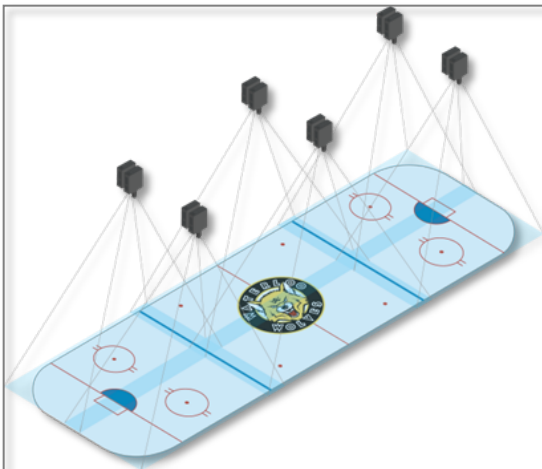
Christie's Solution Business (Examples of Ice Projection Mapping)



Madison Square Garden, NY



Pepsi Center, Denver



Air Canada Center, Toronto

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Medium-term Management Plan (Announced on May 11, 2016)

Significant changes in the business environment surrounding the Company

The yen's continuing appreciation

(Assumption : 1US\$=115 yen → Current level : 1US\$=105 yen)

Imaging equipment business: Intensified sales competition



Current Medium-term Management Plan with the fiscal year ending March 31, 2019 as its final fiscal year

Difficult to achieve business targets

(Net Sales: ¥230.0 billion, Operating Income: ¥20.0 billion)

Revise the current Medium-term Management Plan

⇒ Quantitative targets: Withdraw

Qualitative targets (measures): Maintain

Medium-term Management Plan (Announced on May 11, 2016)

Priority measures for the second half

- Steady execution of performance enhancement measures
- Achieve full-year business targets

(Net Sales 170.0 billion yen, Operation Income 9.0 billion yen)



Continue current measures

- Pursue new growth opportunities
- Target ROE of 8% or more

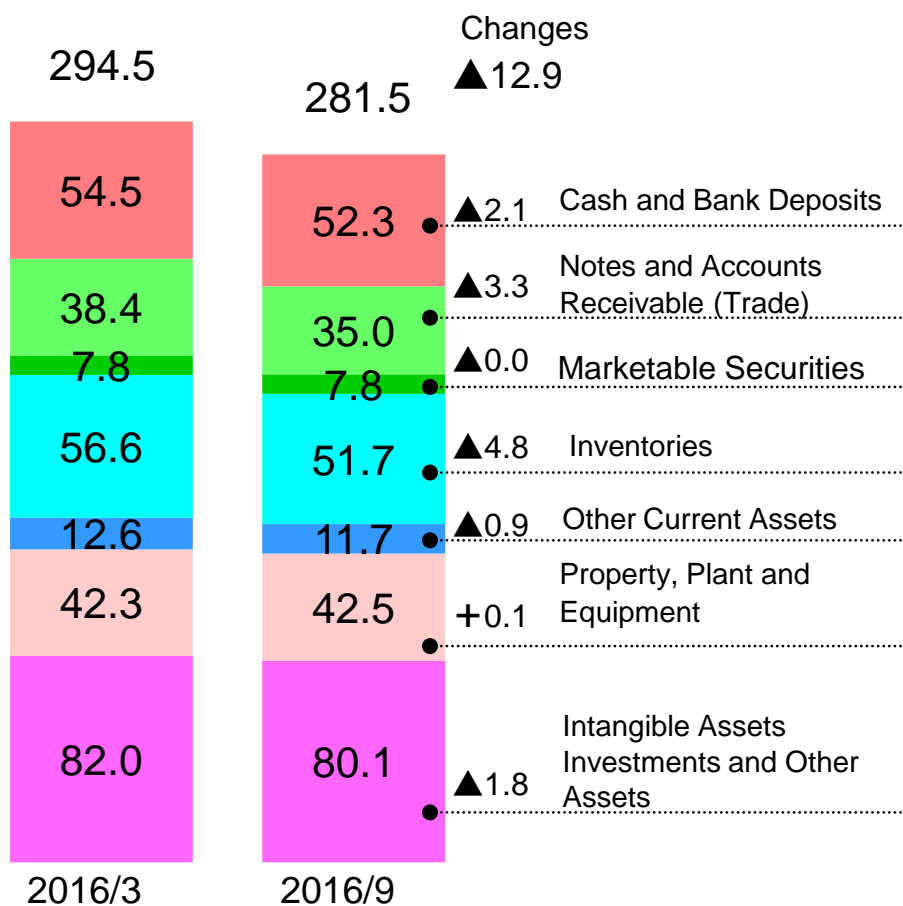
Drive sustained growth
from next fiscal year onward

* The new Medium-term Management Plan, including the benefits of the aforementioned measures, is scheduled to be announced at this year's 4Q financial results presentation, after business results for the fiscal year ending March 31, 2017 have been finalized.

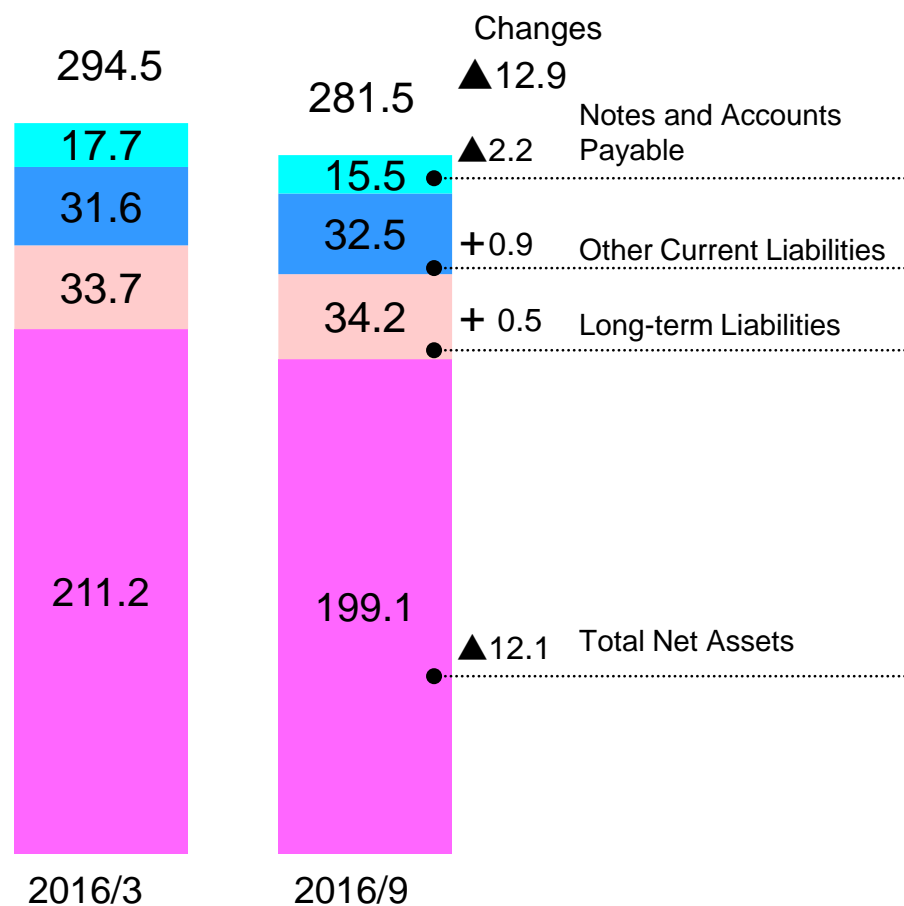
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Reference: Balance Sheet

<Assets> (billion yen)



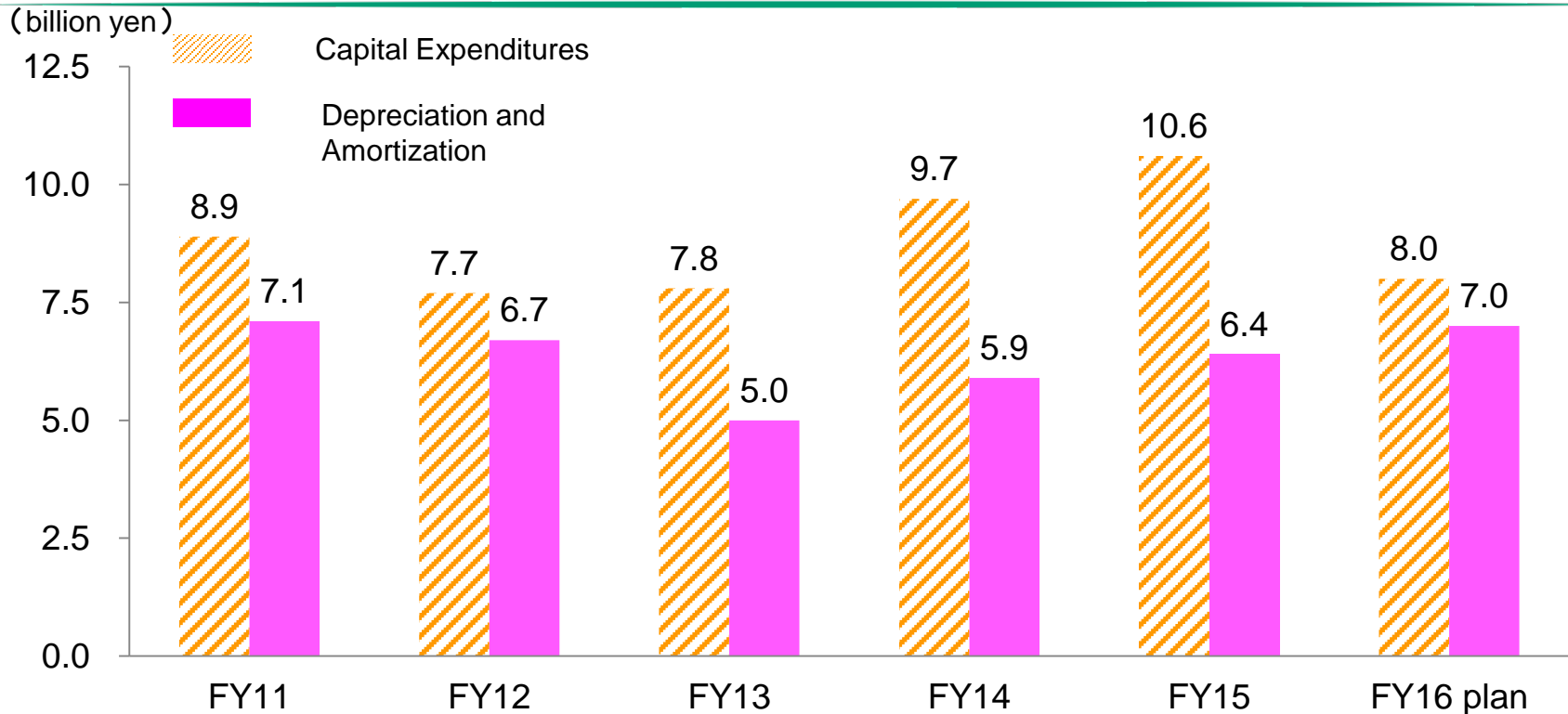
<Liabilities/Total Net Assets> (billion yen)



● Turnover (month)	2016/3	2016/9
Receivable-trade	2.6	2.7
Inventories	3.8	3.9

● Equity Ratio (%)	2016/3	2016/9
	70.9	69.9

Reference: Capital Expenditures, Depreciation and Amortization



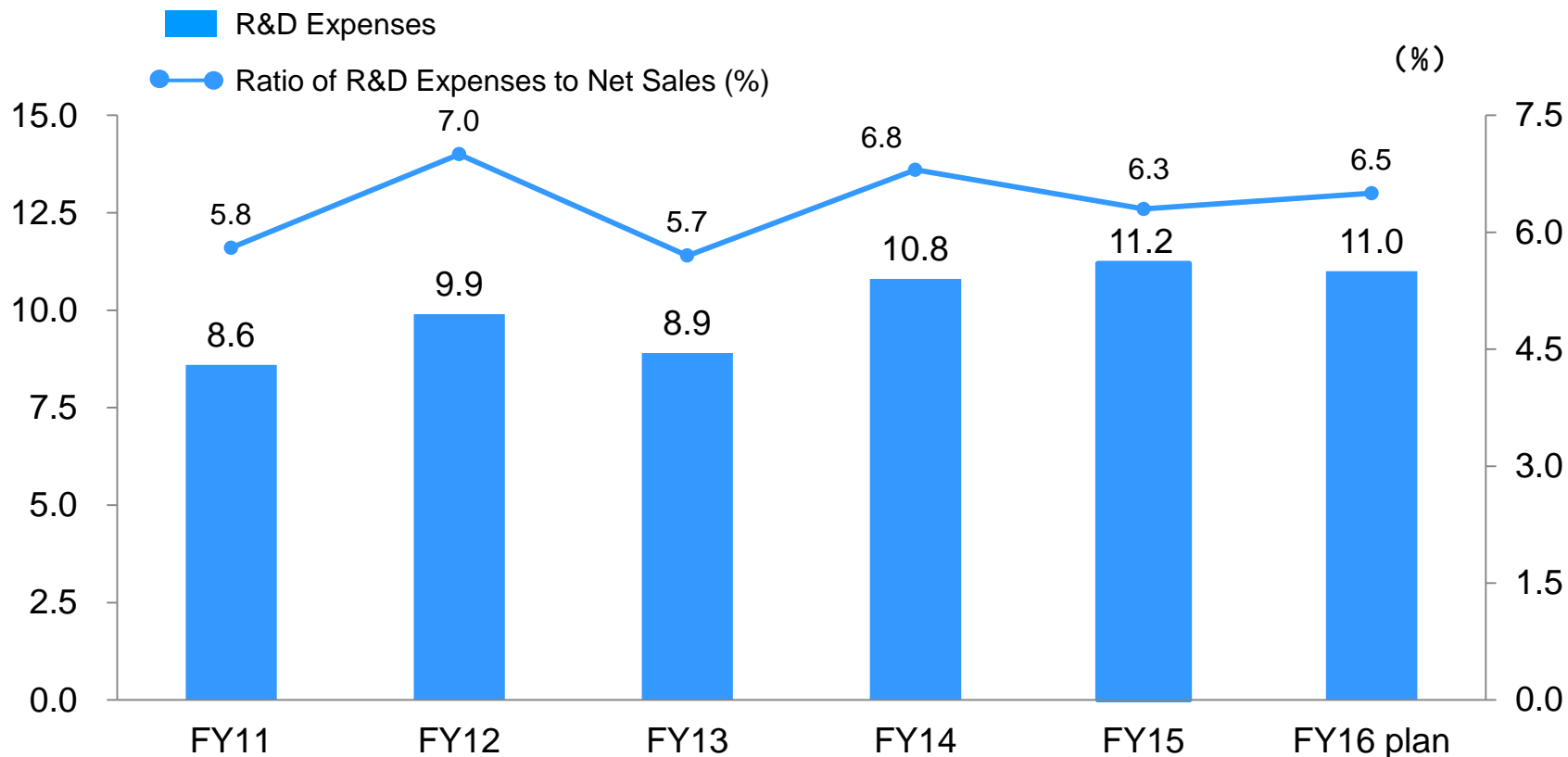
(billion yen)	FY2015 1H	FY2016 1H	YoY	
			Changes	%
Capital Expenditures	3.0	4.4	+1.3	+46.1
Depreciation and Amortization	3.1	3.2	+0.1	+3.8

Note 1. Capital Expenditures = Property, plant and equipment + Intangible assets (excluding goodwill)

Note 2. Increase of goodwill not included in Capital Expenditures: FY15_1H None, FY16_1H 0.4 billion yen

Reference : R&D Expenses

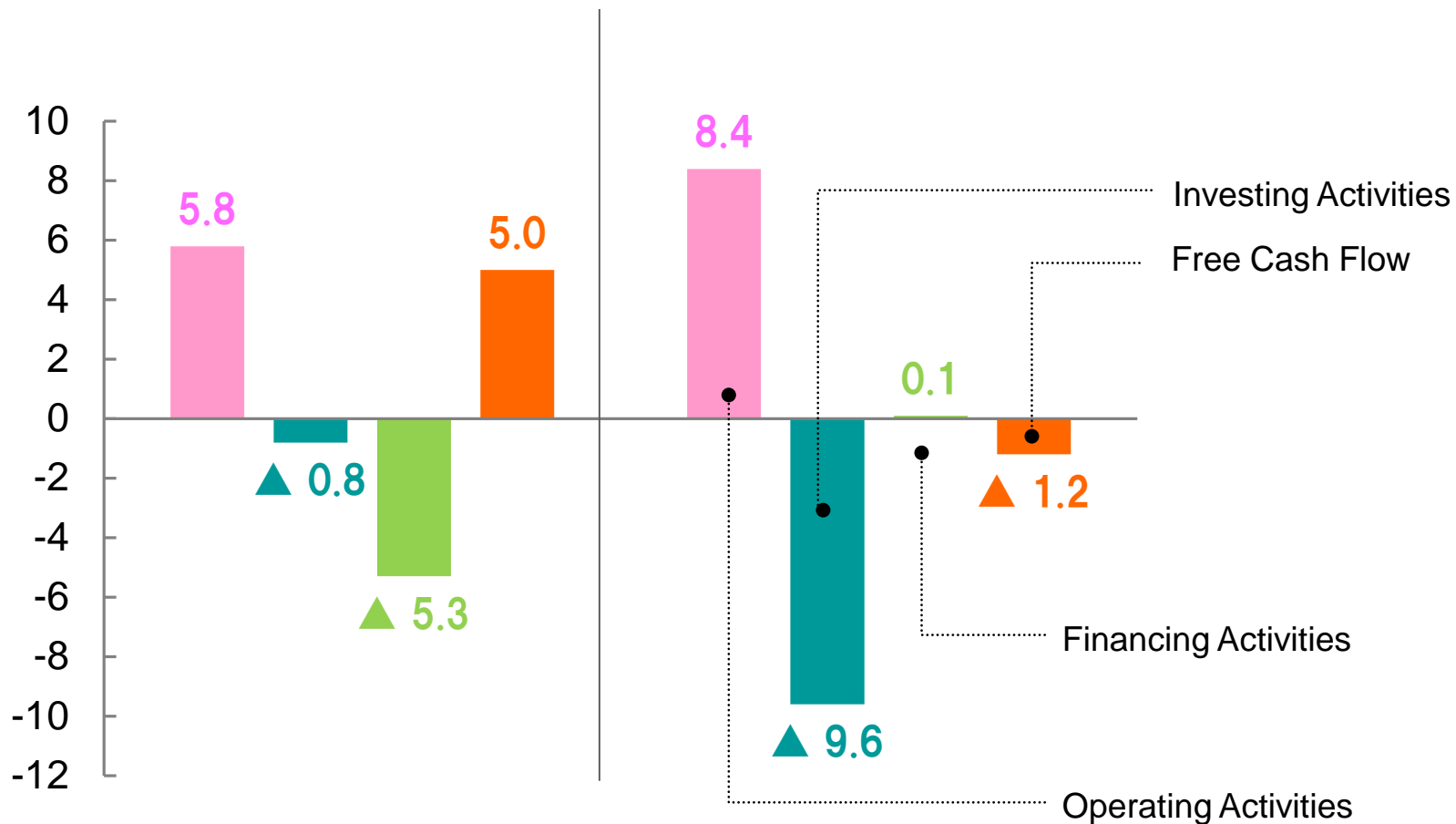
(billion yen)



(billion yen)	FY2015 1H	FY2016 1H	YoY	
			Changes	%
R&D Expenses	5.3	5.0	▲0.2	▲4.4
Ratio of R&D Expenses to Net Sales(%)	6.0	6.1	▲0.2P	-

Reference : Cash Flow

(billion yen)



FY15

Cash and Cash Equivalents at the Beginning of the FY	56.9
Cash and Cash Equivalents in the End of the FY	56.0

FY16

Cash and Cash Equivalents at the Beginning of the FY	47.8
Cash and Cash Equivalents in the End of the FY	43.0

Reference: Other Income and Expenses, Extraordinary Income and Losses 《1H》

(billion yen)	FY15	FY16	YoY
Other Income	1.2	1.2	+0.0
Interest income	0.3	0.3	▲0.0
Dividend income	0.5	0.6	+0.0
Exchange Gain	0.3	-	▲0.3
Other	0.0	0.3	+0.3
Other Expenses	0.2	1.3	+1.0
Interest expenses	0.1	0.1	+0.0
Exchange Loss	-	1.0	+1.0
Other	0.1	0.1	+0.0
Other Income and Expenses	1.0	▲0.0	▲1.0

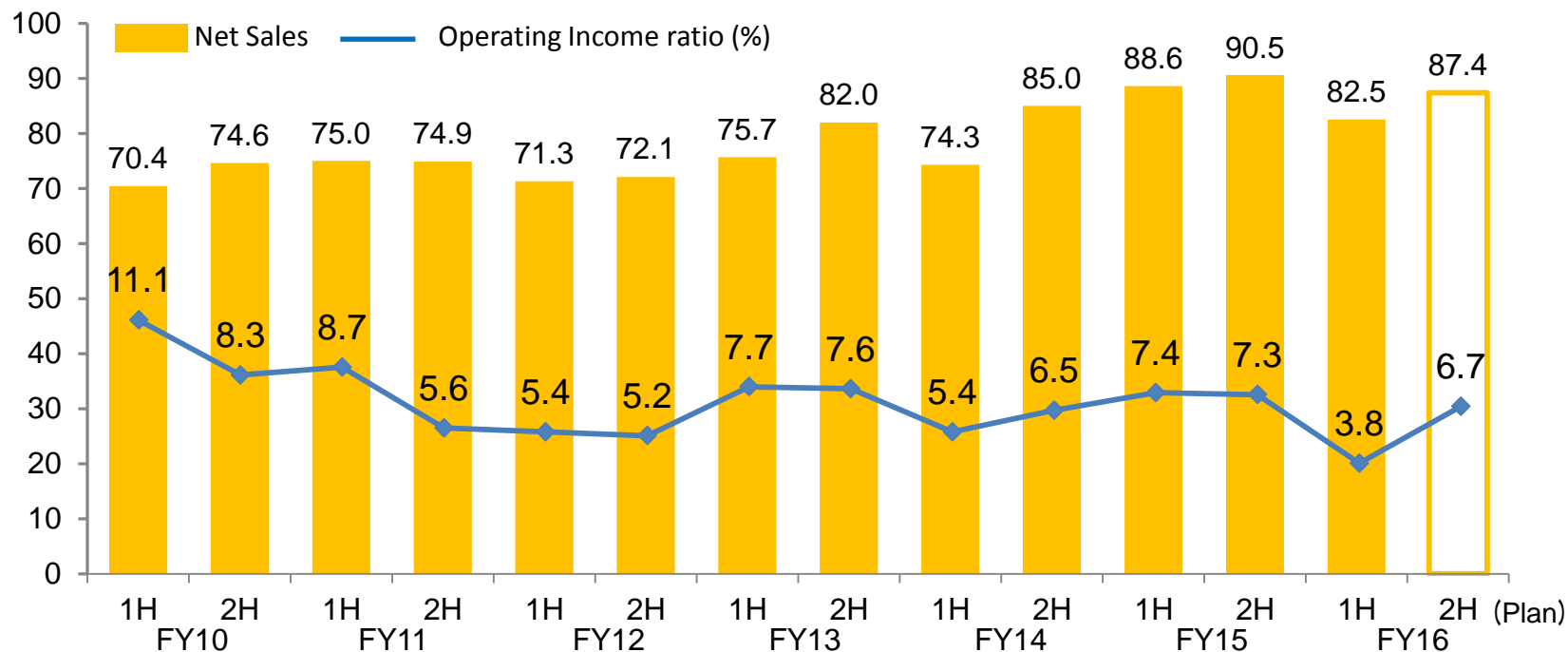
(billion yen)	FY15	FY16	YoY
Extraordinary Income	1.6	0.8	▲0.8
Gain on sales of non-current assets	1.0	0.0	▲1.0
Gain on sales of investment securities	-	0.7	+0.7
Gain on bargain purchase	0.5	-	▲0.5
Other	0.0	-	▲0.0
Extraordinary Losses	▲0.0	▲0.7	▲0.6
Business structural reform expenses	-	▲0.5	▲0.5
Other	▲0.0	▲0.1	▲0.0

Reference: Comparison to Previous Quarter 《QoQ》

《QoQ》 (billion yen)	FY16		QoQ		《QoQ by business segment》 (billion yen)				
	1Q	2Q	Changes	%	Segment	1Q	2Q	Changes	%
Net Sales	39.9	42.5	+2.5	+6.4	Equipment Business				
Operating Income	0.9	2.1	+1.1	+120.6	Net Sales	21.2	24.0	+2.8	+13.6
Operating Income (%)	2.4	5.1	+2.6P	-	Operating Income	▲0.7	▲0.3	+0.4	▲53.1
Ordinary Income	0.4	2.6	+2.2	+513.8	Operating Income(%)	▲3.6	▲1.5	+2.1P	-
Profit Attributable to Owners of Parent	0.1	1.6	+1.5	+960.5	Light Sources Business				
EPS (yen)	1.24	13.24	+13.2	+1064.5	Net Sales	18.1	17.7	▲0.4	▲2.6
FOREX (yen)	USD	104	▲7		Operating Income	1.7	2.3	+0.5	+31.8
					Operating Income(%)	9.6	13.0	+3.4P	-
					Others				
EUR	115	▲10			Net Sales	0.5	0.7	+0.1	+22.5
					Operating Income	▲0.0	0.0	+0.0	▲185.4
					Operating Income(%)	▲3.3	2.3	+5.7P	-

Reference: Transition of Net Sales and Operating Income

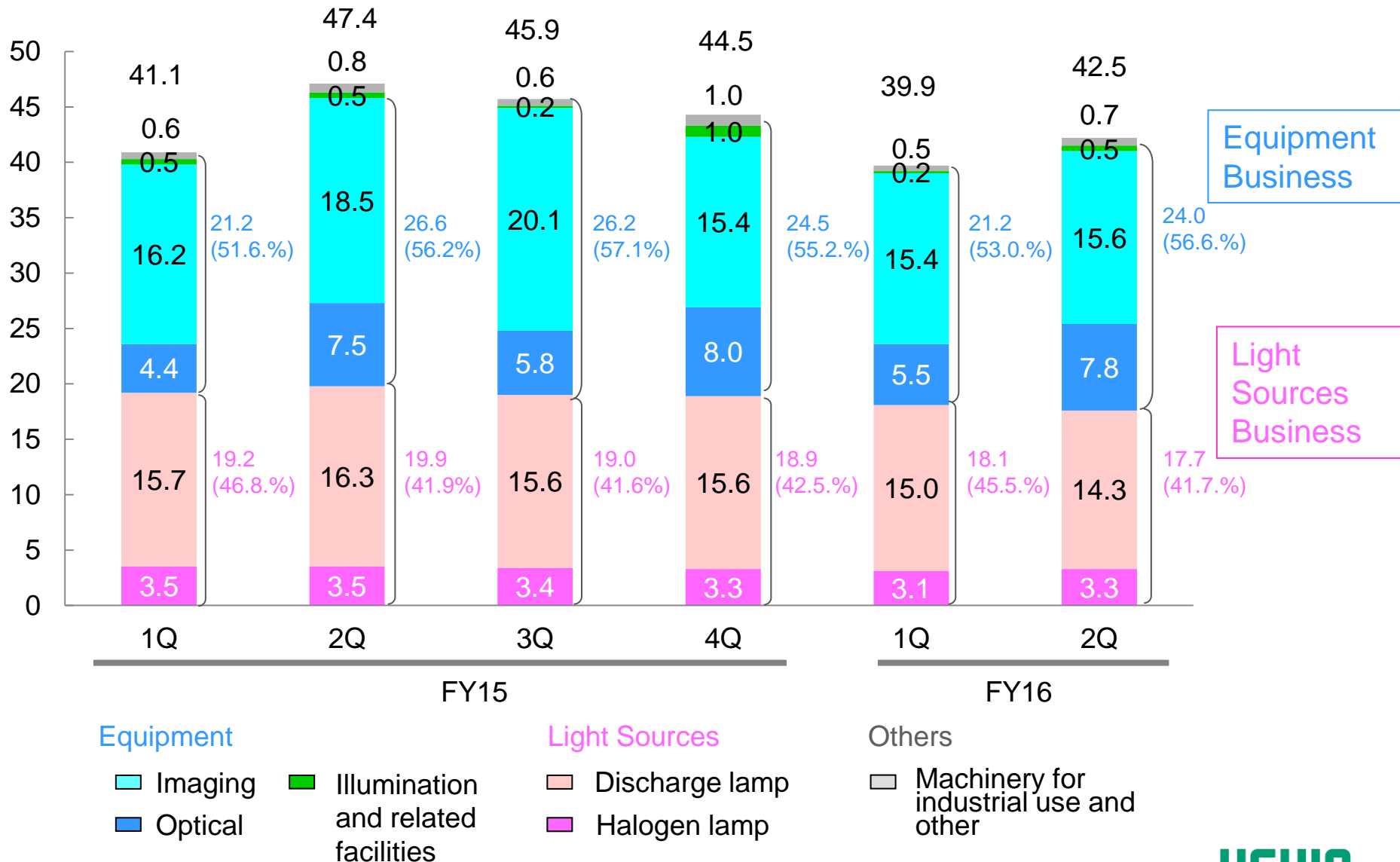
(Billions of yen)



	FY10		FY11		FY12		FY13		FY14		FY15		FY16	
	1H	2H	1H	2H	1H	2H	1H	2H	1H	2H	1H	2H	1H	2H (Plan)
Net Sales	70.4	74.6	75.0	74.9	71.3	72.1	75.7	82.0	74.3	85.0	88.6	90.5	82.5	87.5
Operating Income	7.8	6.1	6.5	4.1	3.8	3.7	5.8	6.2	4.0	6.3	6.5	6.5	3.1	5.9
Operating Income Ratio (%)	11.1	8.3	8.7	5.6	5.4	5.2	7.7	7.6	5.4	7.5	7.4	7.3	3.8	6.7

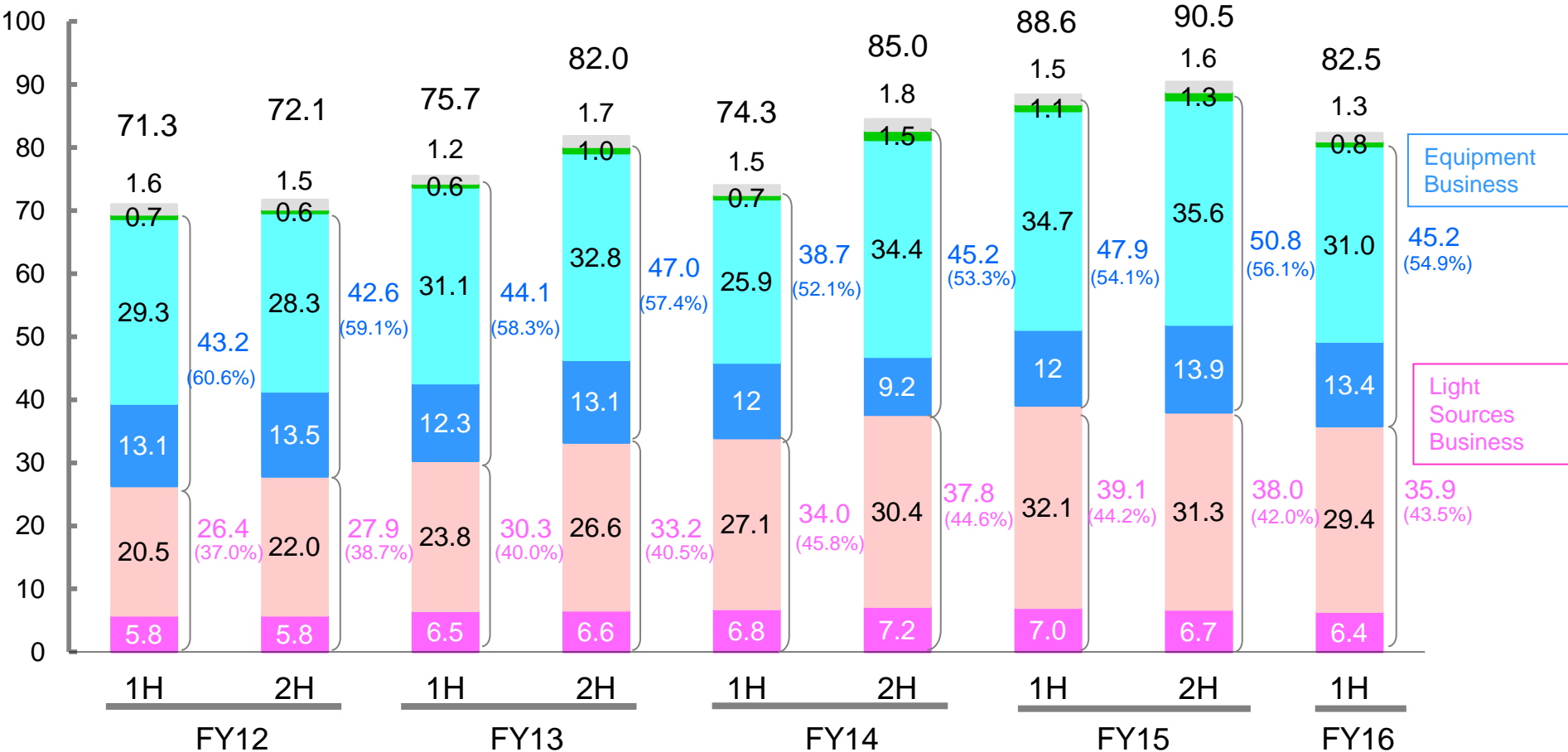
Reference: Sales by Sub-segment 《Quarter》

(billion yen)



Reference: Sales by Sub-segment 《Half-year》

(billion yen)



Equipment

- Imaging
- Optical

Light Sources

- Discharge lamp
- Halogen lamp

Others

- Illumination and related facilities
- Machinery for industrial use and other

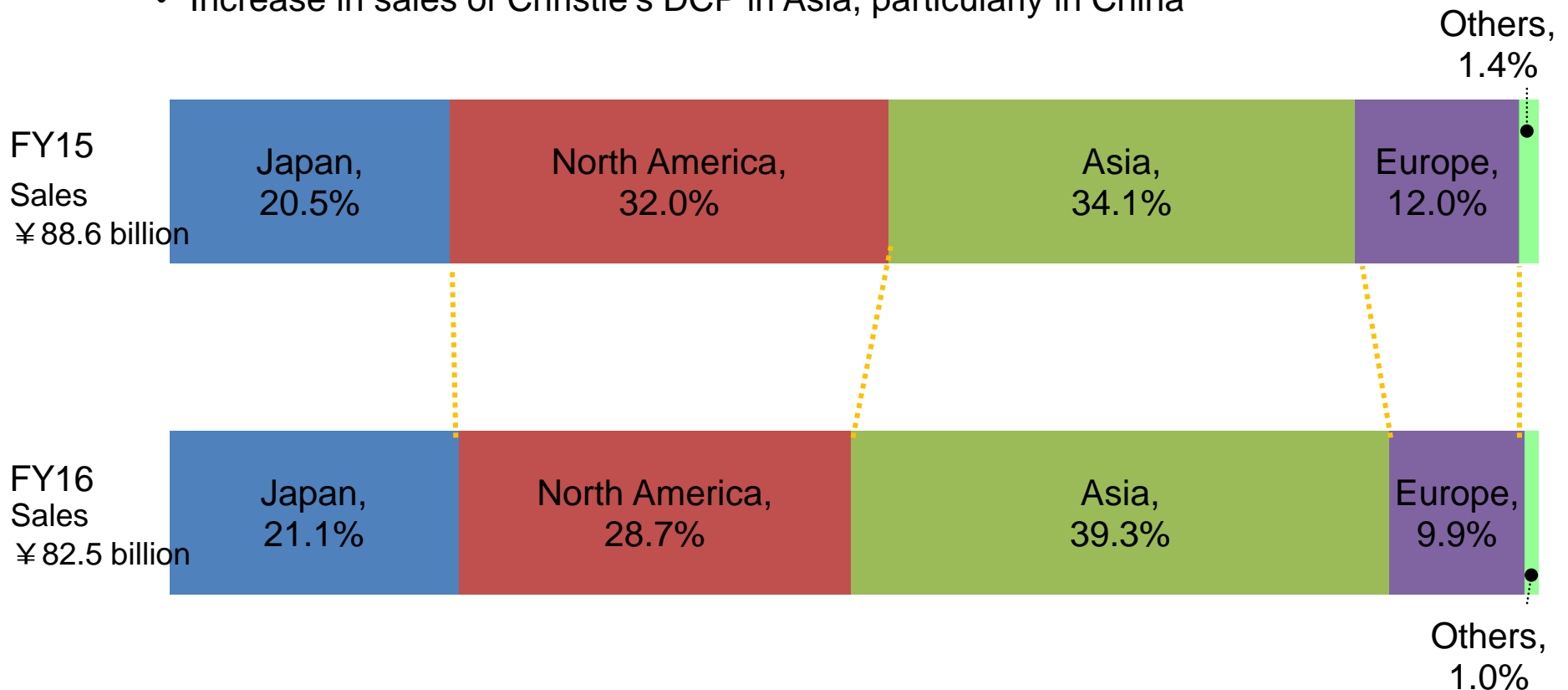
Reference: Sales Ratio 《1H》

[North America, Europe]

- Yen's appreciation
- Decline in sales, particularly Christie's general imaging equipment

[Asia]

- Increase in LCD manufacturing equipment in China
- Increase in sales of Christie's DCP in Asia, particularly in China







Reference: Purchase of Treasury Stock

		Amount	Number of Shares	Period
FY 2015	Results	2.0 billion yen	1,138K shares	May 12, 2015 ~ June 10, 2015
	Results	0.96 billion yen	640K shares	Feb. 1, 2016 ~ April 8, 2016
FY 2016	Results	0.86 billion yen	670K shares	May 12, 2016 ~ June 13, 2016
	Announced	2.0 billion yen	1,500K shares	August 1, 2016 ~ February 28, 2017

Acquired 40K shares as of September 30, 2016

Reference: Features of USHIO Group's Light Sources

	Lamp projectors		Laser projectors	
Light Sources	Super-high pressure mercury lamp	Xenon lamp	Laser phosphor	RGB laser
				
Lumen	2,000~5,000 (Multi-bulb models~30,000)	8,000~35,000	5,000~15,000	20,000~60,000
Application	<ul style="list-style-type: none"> • General imaging (Data projectors for use in office, home, and for education) • Cinema (Multi-bulb) 	<ul style="list-style-type: none"> • Cinema • General imaging 	<ul style="list-style-type: none"> • Cinema(China, etc.) • General imaging (halls, events, etc.) 	<ul style="list-style-type: none"> • Laser cinema (Dolby Cinema, etc.) • General imaging (industrial VR, theme park attractions, etc.)
Price	Low range	Mid to high range	Mid to high range	High range
Life of light sources	Mid range*	Mid to long range*	Mid to long range	Long range
Color	△○	○	△	◎

* In lamp projectors, high-pressure mercury lamps and xenon lamps can sometimes have longer lifetimes for general imaging and cinema use, respectively.

Reference: Glossary

DCP	Digital Cinema Projector
OA	Office Automation
OLED	Organic Light Emitting Diode
RGB	Red Green Blue
UV	Ultraviolet
VR	Virtual Reality

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