

NIPPON THOMPSON CO., LTD.

Corporate Headquarters: Tokyo

Listed Code: 6480

Listed Stock Exchange: Tokyo

(URL: <https://www.ikont.co.jp/eg/>)

November 12, 2020

Consolidated Financial Report
for the Second Quarter of the Fiscal Year Ending March 31, 2021
<Japanese GAAP>

Representative: Shigeki Miyachi, President and Representative Director

For further information contact: Kesaaki Ushikoshi, General Manager of Accounting Department

Telephone: +81-3-3448-5824

Scheduled Date to Submit Quarterly Annual Securities Report:	November 12, 2020
Scheduled Date to Begin Dividend Payments:	December 9, 2020
Preparation of Supplementary Explanation Material for Quarterly Financial Results:	Yes
Holding of Presentation Meeting for Quarterly Financial Results:	Yes (Targeted at institutional investors and analysts)

Figures have been rounded down to eliminate amounts less than one million yen.

1. Consolidated Operating Performance for the Six-month Period Ended September 30, 2020
(From April 1, 2020 to September 30, 2020)

(1) Results of Consolidated Operations

(Millions of yen)

	Net sales	Percentage change	Operating profit	Percentage change	Ordinary profit	Percentage change
September 30, 2020	20,258	(20.4)	(748)	—	(757)	—
September 30, 2019	25,443	(13.2)	1,210	(52.0)	942	(67.0)

Note: Comprehensive income

Six-month period ended September 30, 2020: 99 million yen — %

Six-month period ended September 30, 2019: △147 million yen — %

: Percentage change for net sales, operating profit, ordinary profit, and profit attributable to owners of parent indicate percentage increase/decrease compared to the same period in the previous year.

	Profit attributable to owners of parent	Percentage change	Earnings per share (Yen)	Diluted earnings per share (Yen)
September 30, 2020	(588)	—	(8.20)	—
September 30, 2019	297	(85.6)	4.14	4.13

(2) Consolidated Financial Position

	(Millions of yen)			
	Total assets	Net assets	Equity ratio (%)	Net assets per share (Yen)
September 30, 2020	98,960	56,788	57.2	800.65
March 31, 2020	98,118	57,439	58.4	796.63

Reference: Shareholders' equity

As of September 30, 2020:	56,640 million yen
As of March 31, 2019:	57,291 million yen

2. Dividends

(Yen)					
Dividends per share					
Base date	June 30	September 30	December 31	March 31	Full Fiscal Year
2021(Forecast)			—	4.00	8.00
2021	—	4.00			
2020	—	7.50	—	5.00	12.50

Note: Change in the current three-month period ended September 30, 2020, to dividend forecast: Yes

3. Forecast of Consolidated Operating Performance for the Fiscal Year Ending March 31, 2021

(Millions of yen)						
	Net sales	Percentage change	Operating profit	Percentage change	Ordinary profit	Percentage change
Year ending March 31, 2021	41,500	(12.6)	(1,000)	—	(800)	—

	Profit attributable to owners of parent	Percentage change	Earnings per share (Yen)
Year ending March 31, 2021	(640)	—	(8.98)

Notes: Percentage change for net sales, operating profit, ordinary profit, and profit attributable to owners of parent indicate percentage increase/decrease compared to the same period in the previous year.

Notes: Change in the current three-month period ended September 30, 2020, to consolidated operating performance forecast: Yes

4. Others

- (1) Changes in the state of significant subsidiaries during the period (Changes regarding specific companies accompanying changes in the scope of consolidation): None
- (2) Application of the special accounting methods for the presentation of the quarterly consolidated financial statements: Yes
Note: For further details, please refer on page 13.
- (3) Changes in accounting principles and accounting estimates, and restatements
- | | |
|---------------------------------------------------------------------------------|------|
| Changes in accounting principles arising from revision of accounting standards: | None |
| Changes other than those in above: | None |
| Changes in accounting estimates: | None |
| Restatements: | None |

- (4) Number of shares issued (Common stock)

Number of shares outstanding at period-end (Including treasury stock)

As of September 30, 2020:	73,501,425 shares
As of March 31, 2020:	73,501,425 shares

Number of treasury stock

As of September 30, 2020:	2,758,425 shares
As of March 31, 2020:	1,584,793 shares

Average number of shares outstanding at period-end

Six-month period ended September 30, 2020:	71,772,645 shares
Six-month period ended September 30, 2019:	71,737,936 shares

Note: The number of treasury stock as of the fiscal year-end includes Nippon Thompson shares held by the share-issuing trust account for executives and by the employee stock ownership plan (ESOP) trust account (1,762,900 shares as of 2Q FY2021 and 121,700 shares as of March 31, 2020). In the calculation of the average number of shares during the fiscal year (cumulative for the quarter), Nippon Thompson shares held by the share-issuing trust account for executives and the ESOP trust account are included in excluded treasury stock (421,366 shares as of 2Q FY2021 and 296,083 shares as of 2Q FY2020).

These consolidated financial report are not subject to quarterly review by auditors

Explanations or Other Items Pertaining to Appropriate use of Operating Performance Forecasts

Performance forecasts presented herein are based on information available to the Nippon Thompson Group (the “Group”) as of the date of this document, November 12, 2020. Accordingly, for a wide variety of reasons, there remains the possibility that actual performance results may differ from projections. For performance forecasts, please refer on pages 6.

5. Operating Results and Financial Position

(1) Analysis of Operating Results

In the six-month period ended September 30, 2020, economic conditions remained very harsh due to rapidly worsening economies worldwide as the COVID-19 pandemic gathered momentum. Although China and other countries gradually restarted economic activities and signs of recovery emerged, concerns grew about another wave of infections, and the outlook remained unclear.

Under these circumstances, placing the utmost priority on ensuring the safety of its customers, suppliers and employees, the Group has implemented robust measures aimed at preventing the spread of the novel coronavirus in the course of its efforts to maintain its product supply structure. Also, in line with “IKO Mid-term business plan 2020 (three-year-plan) CHANGE & CHALLENGE ~Next Stage –ACCOMPLISH–,” the Group has been focused on realizing sustainable growth and establishing a highly profitable organization. To this end, we are pushing ahead with measures to solve priority issues through inter-departmental efforts and to improve efficiency in all operations.

From a sales perspective, despite significant restrictions attributable to the fallout from the novel coronavirus pandemic, the Group carried out proactive sales activities employing a flexible approach via, for example, the use of web-conferencing systems. The Group also worked to cultivate business ties with existing customers and expanded sales of strategic products for which demand is expected to grow going forward.

In terms of product development, we worked to expand our lineup of high-value-added products that help further reduce the size and weight of machinery. This included the launch of our smallest ever Super Slim Type Crossed Roller Bearings (CRBT), the thinnest and lightest product in the IKO cross roller bearing series with the same high durability and rotational accuracy.

From a production standpoint, our production subsidiary UBC (Suzhou) Bearing Co., Ltd is upgrading its stable supply system for IKO brand products and constructing a more effective production system through, for example, measures focused on ongoing improvement in frontline operations, while striving to enhance price competitiveness across the entire supply chain.

The Group’s sales remained weak as private capital investment demand decelerated worldwide, reflecting worsening economic conditions due to the COVID-19 pandemic. In the domestic market, although sales of electronics-related devices remained steady, sales of machine tools in particular, and thus net sales, declined. In North America, net sales decreased as sales for precision machinery and commercial products stagnated despite strong sales of electronics-related devices. In Europe, net sales decreased due to a deceleration in sales for general industrial machinery and commercial products, although demand increased for precision machinery. In China, the economy showed signs of gradual recovery thanks to the early resumption of economic activities and net sales increased. In other regions, economic activities stalled due to restrictive measures, including a lockdown in India, and net sales declined.

As a result, consolidated net sales for the six-month period under review totaled ¥20,258 million, down 20.4% year on year. On the earnings front, even though we implemented cost reduction measures with restrictions of sales

activities, due mainly to decreased revenue and production, operating loss came to ¥748 million, compared with operating profit of ¥1,210 million for the corresponding period of the previous fiscal year, and ordinary loss was ¥757 million, compared with ordinary profit of ¥942 million for the corresponding period of the previous fiscal year. Loss attributable to owners of the parent amounted to ¥588 million, compared with profit attributable to owners of the parent of ¥297 million for the corresponding period of the previous fiscal year.

In addition, the value of needle roller bearings and linear motion rolling guides produced during the six-month period under review, totaled ¥18,270 million, down 26.0% year on year (based on average sales prices). The value of orders placed for these products and other machine components amounted to ¥18,608 million, down 9.7% year on year.

Because the Group manufactures and sells Needle Roller Bearings, Linear Motion Rolling Guides and Machine Components on an integrated basis, disclosure of segment information has been omitted. Sales of Needle Roller Bearings and Linear Motion Rolling Guides totaled ¥18,107 million, a 20.0% decrease compared with the corresponding period of the previous fiscal year. Sales of Machine Components decline 23.2% to ¥2,150 million.

Business Segment Information

	Six-month period ended September 30, 2020		Six-month period ended September 30, 2019		Change	
	Millions of yen	Component percentages	Millions of Yen	Component percentages	Millions of yen	Percentage change
Needle Roller Bearings, Linear Motion Rolling Guides	18,107	89.4	22,642	89.0	△4,535	△20.0
Machine Components	2,150	10.6	2,800	11.0	△649	△23.2
Total net sales	20,258	100.0	25,443	100.0	△5,185	△20.4

(2) Analysis of Financial Position

Total assets as of September 30, 2020, totaled ¥98,960 million, an increase of ¥841 million compared with the end of the previous fiscal year. This mainly comprised increases in cash and deposits of ¥2,477 million and investment securities of ¥1,210 million as well as decreases in notes and accounts receivable-trade of ¥1,020 million, inventories of ¥250 million, accounts receivable-other of ¥582 and income taxes receivable of ¥772 million.

Total liabilities amounted to ¥42,171 million, an increase of ¥1,492 million compared with the end of the previous fiscal year. This mainly comprised increases in long-term loans payable of ¥3,479 million and lease obligations of ¥420 million as well as decreases in notes and accounts payable-trade of ¥1,232 million and short-term loans payable of ¥1,200 million.

Total net assets stood at ¥56,788 million, a decrease of ¥650 million compared with the end of the previous fiscal year. This mainly comprised increases in treasury stock of ¥307 million and valuation difference on available-for-sale securities of ¥868 million as well as decreases in retained earnings of ¥1,030 million and foreign currency translation adjustments of ¥224 million.

Cash Flows

Cash and cash equivalents as of September 30, 2020 totaled ¥15,324 million, an increase of ¥2,476 million compared with the end of the previous fiscal year.

Cash Flows from Operating Activities

Net cash provided in operating activities amounted to ¥2,500 million. This was outflow of ¥525 million at the corresponding period of the previous fiscal year. The major inflows were depreciation and amortization of ¥1,945 million, a decrease in notes and accounts receivable-trade of ¥1,026 million and income taxes refund of ¥624 while the major outflows were loss before income taxes of ¥752 million and a decrease in trade payables of ¥1,270 million.

Cash Flows from Investing Activities

Net cash used in investing activities amounted to ¥1,355 million, a decrease of ¥2,076 million compared with the corresponding period of the previous fiscal year. This result was purchase of property, plant and equipment of ¥1,310 million.

Cash Flows from Financing Activities

Net cash provided by financing activities was ¥1,393 million, an increase of ¥593 million compared with the corresponding period of the previous fiscal year. The major inflow was proceeds from long-term loans payable of ¥5,501 million, while the major outflows were repayments of short-term loans payable of ¥1,200 million, repayments of long-term loans payable of ¥2,021 million, cash dividends paid of ¥361 million and purchase of treasury shares of ¥649 million.

(3) Outlook

Earlier, we did not release a full-year consolidated forecast for the fiscal year ending March 31, 2021 due to the difficulty in making a rational calculation of the impact of the COVID-19 pandemic on the Group's business activities. Now, based on the operating results calculated for the second cumulative consolidated quarter and data on demand trends based on currently available information, we intend to release a forecast.

Regarding forecasts going forward, we expect the downward trend in private capital investment to continue worldwide due to the still unclear outlook for the global economy amid a re-expansion in COVID-19 infections and U.S.-China trade tensions. In light of these conditions, the Group is forecasting consolidated net sales of ¥41,500 million, operating loss of ¥1,000 million, ordinary loss of ¥800 million and loss attributable to owners of the parent of ¥640 million for the year ending March 31, 2021.

6. Consolidated Financial Statements

(1) Consolidated Balance Sheets

As of September 30, 2020 and March 31, 2020

ASSETS	Millions of yen	
	<u>September 30, 2020</u>	<u>March 31, 2020</u>
Current Assets:		
Cash and deposits	15,402	12,924
Notes and accounts receivable-trade	10,650	11,671
Finished products	16,023	16,196
Material in process	10,808	11,122
Raw material	6,651	6,414
Others	1,200	2,624
Less: Allowance for doubtful accounts	(20)	(14)
Total current assets	<u>60,717</u>	<u>60,940</u>
Non-Current Assets:		
Tangible fixed assets:		
Machinery and vehicles	11,752	11,500
Others	13,291	13,242
Total tangible fixed assets	<u>25,044</u>	<u>24,742</u>
Intangible fixed assets	1,883	2,107
Investments and other assets:		
Investment securities	7,919	6,708
Others	3,450	3,675
Less: Allowance for doubtful accounts	(55)	(56)
Total investments and other assets	<u>11,313</u>	<u>10,328</u>
Total non-current assets	<u>38,242</u>	<u>37,178</u>
 TOTAL ASSETS	 <u><u>98,960</u></u>	 <u><u>98,118</u></u>

	Millions of yen	
LIABILITIES	September 30, 2020	March 31, 2020
Current Liabilities:		
Notes and accounts payable-trade	6,599	7,832
Short-term borrowings	—	1,200
Current portion of bonds	5,000	—
Current portion of long-term loans payable	4,846	4,130
Income taxes payable	196	225
Allowance for directors' and corporate auditors' bonuses	31	63
Provision for loss on guarantees	—	170
Others	4,491	4,132
Total current liabilities	21,167	17,754
Non-Current Liabilities:		
Corporate bond	10,000	15,000
Long-term loans payable	9,639	6,876
Net defined benefit liabilities	17	33
Others	1,346	1,014
Total non-current liabilities	21,004	22,924
TOTAL LIABILITIES	42,171	40,679
NET ASSETS		
Shareholders' Equity:		
Common stock	9,533	9,533
Capital surplus	12,886	12,886
Retained earnings	33,957	34,988
Treasury stock	(1,135)	(828)
Total shareholders' equity	55,241	56,579
Accumulated Other Comprehensive Income:		
Net unrealized holding gains on available-for-sale securities	2,233	1,365
Deferred gains or losses on hedges	—	0
Foreign currency translation adjustments	(719)	(494)
Remeasurements of defined benefit plans	(115)	(160)
Total accumulated other comprehensive income	1,399	711
Subscription rights to shares	148	148
TOTAL NET ASSETS	56,788	57,439
TOTAL LIABILITIES AND NET ASSETS	98,960	98,118

(2) Consolidated Statements of Income and Consolidated Statements of Comprehensive Income

Consolidated Statements of Income

For the six-month period ended September 30, 2020 and 2019

	Millions of yen	
	September 30, 2020	September 30, 2019
Net Sales	20,258	25,443
Cost of Sales	14,786	17,172
Gross Profit	5,471	8,270
Selling, General and Administrative Expenses	6,219	7,059
Operating Profit (Loss)	(748)	1,210
Non-Operating Income:		
Interest income	5	7
Dividend income	92	129
Subsidies for employment adjustment	97	—
Others	152	241
	348	377
Non-Operating Expenses:		
Interest expenses	59	44
Sales discounts	22	29
Foreign exchange loss	108	549
Furlough expenses	124	—
Others	42	22
	357	645
Ordinary Profit (Loss)	(757)	942
Extraordinary Income:		
Gain on sales of investment securities	4	—
	4	—
Profit (Loss) Before Income Taxes	(752)	942
Income Taxes	(164)	636
Profit (Loss)	(588)	305
Profit (Loss) attributable to non-controlling interests	—	8
Profit (Loss) attributable to owners of parent	(588)	297

Consolidated Statements of Comprehensive Income

For the six-month period ended September 30, 2020 and 2019

	Millions of yen	
	September 30, 2020	September 30, 2019
Profit (Loss)	(588)	305
Other Comprehensive Income:		
Net unrealized holding gains on available-for-sale securities	868	(36)
Deferred gains or losses on hedges	(0)	(1)
Foreign currency translation adjustments	(224)	(404)
Remeasurements of defined benefit plans	44	(10)
Total Other Comprehensive Income	687	(453)
Comprehensive Income	99	(147)
Breakdown:		
Comprehensive income attributable to owners of the parent	99	(157)
Comprehensive income attributable to non-controlling interests	—	9

(3) Consolidated Statements of Cash Flows

For the six-month period ended September 30, 2020 and 2019

	Millions of yen	
	September 30, 2020	September 30, 2019
Cash Flows from Operating Activities:		
Profit (Loss) before Income Taxes	(752)	942
Depreciation and amortization	1,945	1,895
Decrease in account reserve	(25)	(27)
Decrease in net defined benefit liabilities	(23)	(25)
Interest and dividend income	(98)	(136)
Interest expenses	59	44
Foreign exchange gains	92	247
Loss on retirement of fixed assets	19	14
Decrease(Increase) in notes and accounts receivable-trade	1,026	2,522
Decrease(Increase) in inventories	176	(3,477)
Increase(Decrease) in notes and accounts payable-trade	(1,270)	(865)
Increase(Decrease) in accrued expenses	46	(56)
Others-net	638	(200)
Subtotal	1,833	876
Interest and dividend income received	98	136
Interest expenses paid	(55)	(44)
Income taxes paid (refund)	624	(1,493)
Net cash provided by (used in) operating activities	2,500	(525)
Cash Flows from Investing Activities:		
Purchase of property, plant and equipment	(1310)	(3,226)
Purchase of intangible assets	(81)	(91)
Others-net	35	(114)
Net cash used in investing activities	(1,355)	(3,432)

	Millions of yen	
	September 30, 2020	September 30, 2019
Cash Flows from Financing Activities:		
Net decrease in short-term loans payable	(1,200)	—
Proceeds from long-term loans payable	5,501	3,000
Repayments of long-term loans payable	(2,021)	(1,678)
Cash dividends paid	(361)	(539)
Purchase of treasury shares	(649)	(0)
Others-net	124	18
Net cash provided by (used in) financing activities	1,393	800
Effect of exchange rate change on cash and cash equivalents	(61)	(114)
Net decrease in cash and cash equivalents	2,476	(3,272)
Cash and cash equivalents at beginning of year	12,847	17,023
Cash and cash equivalents at end of period	15,324	13,751

(4) Notes on the Premise of a Going Concern

There are no applicable articles.

(5) Notes on the Statement of Changes in Consolidated Shareholders' Equity

There are no applicable articles.

(6) Application of the special accounting methods for the presentation of the quarterly consolidated financial statements

Calculation of tax expenses

Tax expenses are calculated by reasonably estimating the effective tax rate after the application of deferred tax accounting on profit before income taxes in the current consolidated fiscal year, including the second quarter, and multiplying profit before income taxes by said estimated effective tax rate. However, in cases where tax expenses calculations using the estimated effective tax rate produce results that are notably unreasonable, tax expenses are calculated by multiplying profit (loss) before income taxes by the statutory tax rate, with consideration given to the recoverability of deferred tax assets.

(7) Additional Information

Accounting Estimates on the Impact of COVID-19

As COVID-19 infections spread, we experience a decline in net sales due to lower orders throughout the Group. Nevertheless, we have made various accounting estimates assuming that the effects of COVID-19 will be gradually eased in for the most part during the fiscal year ending March 31, 2021.