

Consolidated Financial Results (Japanese Accounting Standards) for the First Six Months of the Fiscal Year Ending December 31, 2020

July 30, 2020

Company name: Okabe Co., Ltd. Stock exchange listing: First Section of the Tokyo Stock Exchange
 Stock code: 5959 URL: <https://www.okabe.co.jp/>
 Representative: Makoto Hirowatari, Representative Director, President and Chief Executive Officer
 Contact: Yasushi Hosomichi, Director and Managing Executive Officer in charge of Administrative Division
 Tel. +81-3-3624-5119

Scheduled date for filing of quarterly report: August 7, 2020
 Scheduled date of commencement of dividend payment: September 7, 2020
 Supplementary documents for quarterly results: None
 Quarterly results briefing: None

(Figures are rounded down to the nearest one million yen.)

1. Consolidated Financial Results for the First Six Months Ended June 30, 2020 (January 1, 2020 – June 30, 2020)

(1) Consolidated Results of Operations (Accumulated Total)

(Percentages represent year-on-year changes.)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent	
Six months ended	Million yen	%	Million yen	%	Million yen	%	Million yen	%
June 30, 2020	31,145	(2.1)	1,935	(22.8)	2,038	(25.4)	936	(44.5)
June 30, 2019	31,821	3.3	2,506	4.9	2,733	5.2	1,685	(15.6)

(Note) Comprehensive income: 591 million yen (-44.5%) for the six months ended June 30, 2020
 1,066 million yen (140.0%) for the six months ended June 30, 2019

	Profit per share (basic)	Profit per share (diluted)
Six months ended	Yen	Yen
June 30, 2020	19.01	—
June 30, 2019	33.83	—

(2) Consolidated Financial Position

	Total assets	Net assets	Equity ratio
	Million yen	Million yen	%
As of June 30, 2020	88,641	56,909	64.2
As of December 31, 2019	88,652	57,869	65.3

(Reference) Shareholders' equity: As of June 30, 2020: 56,909 million yen
 As of December 31, 2019: 57,869 million yen

2. Dividends

	Dividend per share				
	End of first quarter	End of second quarter	End of third quarter	Year-end	Annual
	Yen	Yen	Yen	Yen	Yen
Year ended December 31, 2019	—	14.00	—	14.00	28.00
Year ending December 31, 2020	—	7.00			
Year ending December 31, 2020 (forecasts)			—	7.00	14.00

(Note) Revisions to dividend forecasts published most recently: Yes

3. Consolidated Forecasts for the Fiscal Year Ending December 31, 2020 (January 1, 2020 – December 31, 2020)

(Percentage figures for the fiscal year represent the changes from the previous year.)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent		Profit per share
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen
Full year	63,100	(3.5)	4,050	(23.5)	4,250	(24.4)	1,850	(44.6)	37.55

(Note) Revisions to financial forecasts published most recently: Yes

* Notes

(1) Changes in important subsidiaries during the period

(changes of specific subsidiaries in accordance with changes in the scope of consolidation): None

(2) Application of particular accounts procedures to the preparation of quarterly consolidated financial statements: Yes

(Note) Please refer to "Application of particular accounts procedures to the preparation of quarterly consolidated financial statements" on page 8 for details.

(3) Changes in Accounting Policies, Accounting Estimates and Restatement

(i) Changes in accounting policies caused by revision of accounting standards: None

(ii) Changes in accounting policies other than (i): None

(iii) Changes in accounting estimates: None

(iv) Restatement: None

(4) Number of shares outstanding (common shares):

(i) Number of shares outstanding at end of period (including treasury shares)

As of June 30, 2020: 53,790,632 shares

As of December 31, 2019: 53,790,632 shares

(ii) Number of treasury shares at end of period

As of June 30, 2020: 5,153,467 shares

As of December 31, 2019: 3,958,938 shares

(iii) Average number of shares outstanding during the period

Six months ended June 30, 2020: 49,257,588 shares

Six months ended June 30, 2019: 49,829,936 shares

(Note) The number of treasury shares at the end of each period includes the shares of the Company held by the stock-granting ESOP trust (197,237 shares as of June 30, 2020, and 93,908 shares as of December 31, 2019). The shares of the Company held by the stock-granting ESOP trust are included in the treasury shares deducted in the calculation of the average number of shares outstanding during each period (six months) (153,243 shares for the six months ended June 30, 2020, and 95,666 shares for the six months ended June 30, 2019).

* This financial summary is not subject to the statutory quarterly review by a certified public accountant or an audit corporation.

* Explanations and other special notes concerning the appropriate use of business performance forecasts

(Notes regarding forward-looking statements)

The forward-looking statements in these materials, including financial prospects included in this report, are based on information available to the Company when this report was prepared and assumptions that the management considers reasonable, which do not guarantee the achievement of such projected results. Actual results may differ significantly from these statements for a number of reasons.

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1. Qualitative Information Regarding Results of Operations for the First Six Months Ended June 30, 2020

(1) Explanation Regarding Results of Operations

In the first six months of the fiscal year under review (January 1, 2020 to June 30, 2020), the Japanese economy was pushed down significantly by the spread of COVID-19 infection, which created a severe situation.

The Japanese construction industry, which includes the core customers of the Okabe Group, experienced a difficult environment, such as delays in some construction work caused by the impact of COVID-19 infection, which resulted in a year-on-year fall in the floor area of construction, although public investment remained solid. In this business environment, based on its management policy of ensuring the health and safety of its employees and their families, the Okabe Group has established a “new normal business operation system” that is capable of flexibly responding to infections or emergency situations after a disaster. The Group strove to maintain its supply chain and continued to supply products to fulfill its responsibility to customers.

Results of operations by business segment are as follows:

(a) Construction-related products

In the domestic business, sales of building structural products such as reinforcing bar joints that contribute to labor savings and civil engineering products such as lock bolts used for disaster recovery and reconstruction remained strong. However, sales of the Base Pack showed continued weakness mainly due to delays in certain construction work caused by the impact of COVID-19 infection. The Group’s business in the United States saw solid sales of building materials, reflecting limited impact of COVID-19 infection on construction demand. As a result, net sales in the construction-related products segment fell 1.0% year on year, to 25,909 million yen, and operating profit decreased 5.3% year on year, to 2,276 million yen.

(b) Automotive products

Sales of battery terminal products for automobiles remained weak, chiefly due to a fall in utilization rates associated with the spread of COVID-19 infection and measures taken for environmental issues at a plant in the U.S. As a result, net sales decreased 14.3% year on year, to 3,892 million yen, and the operating loss was 237 million yen (compared to the operating profit of 81 million yen in the same period of the previous fiscal year).

(c) Other businesses

As a result of posting financial results of KAWAHARA MFG. CO., LTD., which became the Company’s subsidiary after its acquisition of all shares of KAWAHARA on January 31, 2019, from April 1, 2019, net sales increased 22.4% year on year, to 1,263 million yen. The operating loss was 103 million yen (compared to the operating profit of 20 million yen in the same period of the previous fiscal year), reflecting stagnant sales of fishing sinkers.

Consequently, consolidated net sales for the first six months of the fiscal year under review fell 2.1% year on year, to 31,145 million yen, and consolidated operating profit declined 22.8% year on year, to 1,935 million yen. Consolidated ordinary profit decreased 25.4% year on year, to 2,038 million yen, and profit attributable to owners of parent dropped 44.5% year on year, to 936 million yen.

(For reference)

Net sales by business segments and product category (consolidated)

(Yen in millions, rounded down)

		Previous consolidated first six months (Jan. 1, 2019 – Jun. 30, 2019)		Consolidated first six months under review (Jan. 1, 2020 – Jun. 30, 2020)		Change (%)
		Amount	Proportion (%)	Amount	Proportion (%)	
Construction-related products	Temporary building and formwork products	3,580	11.3	3,274	10.5	(8.5)
	Civil engineering products	3,030	9.5	3,606	11.6	19.0
	Building structural products	10,196	32.0	10,067	32.3	(1.3)
	Building materials (Japan)	6,420	20.2	5,884	18.9	(8.3)
	Subtotal – Japan	23,227	73.0	22,832	73.3	(1.7)
	Building materials (Overseas)	3,017	9.5	3,157	10.1	4.6
	Subtotal – overseas	3,017	9.5	3,157	10.1	4.6
Subtotal – segment		26,245	82.5	25,990	83.4	(1.0)
Automotive products		4,544	14.3	3,892	12.5	(14.3)
Other businesses (Note 2)		1,031	3.2	1,263	4.1	22.4
Total		31,821	100.0	31,145	100.0	(2.1)

- (Note) 1. For information about the main operations of each business segment, please refer to “Segment information” on page 9.
2. Other businesses include those for diversification that do not form part of the Company’s core businesses, i.e. construction related products and automotive products. This segment includes, among others, the manufacture and sale of marine materials and the manufacture and sale of fishing sinkers in the U.S.
In addition, the results of KAWAHARA MFG. CO., LTD., which manufactures and sells industrial machine products, have been posted since April 1, 2019.

(2) Explanation Regarding Forecast for Fiscal Year Ending December 31, 2020

The Company prepared its consolidated financial results forecast for the fiscal year ending December 31, 2020, which it had previously withdrawn and left undecided, because the spread of COVID-19 made it difficult to produce reasonable earnings projections. The forecast has been made by taking into consideration the consolidated results for the first six months of the fiscal year under review and information currently available based on certain assumptions, including the one that COVID-19 will not be contained by the end of the fiscal year. For more details, please refer to the disclosure materials released today entitled “Notice of Revisions to Consolidated Financial Results Forecast, Dividends of Surplus (Interim Dividend) and Dividend Forecast for the Fiscal Year Ending December 31, 2020”^[A1].

With regard to medium-term performance targets under NEXT100 — PHASE 2, the medium-term management plan announced in February 2020, the Company has elected not to publish the targets, given the uncertainties about the impact of COVID-19. The Company will cautiously make projections on the external environment surrounding the Company’s business and examine medium-term performance targets while closely monitoring consolidated business performance trends for the fiscal year ending December 31, 2020. It will announce medium-term performance targets promptly after they are determined. For more details, please refer to the announcement released today entitled “Notice Concerning Status of Response to COVID-19 Coronavirus and Its Impact, etc.”

2. Quarterly Consolidated Financial Statements and Key Notes

(1) Quarterly Consolidated Balance Sheet

(Million yen)

	Fiscal year ended December 31, 2019 (As of December 31, 2019)	Second quarter ended June 30, 2020 (As of June 30, 2020)
ASSETS		
Current assets		
Cash and deposits	20,664	21,254
Notes and accounts receivable - trade	21,686	20,338
Merchandise and finished goods	7,427	7,773
Work in process	1,500	1,481
Raw materials and supplies	1,697	2,130
Other	452	1,271
Allowance for doubtful accounts	(23)	(24)
Total current assets	53,406	54,225
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	10,711	11,342
Machinery, equipment and vehicles, net	3,940	4,296
Land	4,239	4,288
Other, net	2,876	2,045
Total property, plant and equipment	21,768	21,972
Intangible assets		
Goodwill	2,560	2,656
Other	259	284
Total intangible assets	2,820	2,940
Investments and other assets		
Investment securities	7,262	7,070
Other	3,482	2,520
Allowance for doubtful accounts	(98)	(98)
Total investments and other assets	10,645	9,492
Total non-current assets	35,234	34,405
Deferred assets		
Bond issuance costs	11	10
Total deferred assets	11	10
Total assets	88,652	88,641

(Million yen)

	Fiscal year ended December 31, 2019 (As of December 31, 2019)	Second quarter ended June 30, 2020 (As of June 30, 2020)
LIABILITIES		
Current liabilities		
Notes and accounts payable - trade	4,691	5,169
Electronically recorded obligations - operating	8,591	8,723
Short-term borrowings	7,419	2,647
Income taxes payable	651	841
Provision for bonuses	–	4
Other	2,364	2,310
Total current liabilities	23,718	19,696
Non-current liabilities		
Bonds payable	1,000	1,000
Long-term borrowings	2,400	7,481
Provision for share-based remuneration	77	88
Retirement benefit liability	1,874	1,936
Asset retirement obligations	41	41
Other	1,670	1,488
Total non-current liabilities	7,063	12,035
Total liabilities	30,782	31,731
NET ASSETS		
Shareholders' equity		
Share capital	6,911	6,911
Capital surplus	6,062	6,083
Retained earnings	45,502	45,767
Treasury shares	(2,712)	(3,614)
Total shareholders' equity	55,763	55,148
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	2,024	1,554
Foreign currency translation adjustment	97	219
Remeasurements of defined benefit plans	(15)	(12)
Total accumulated other comprehensive income	2,106	1,761
Total net assets	57,869	56,909
Total liabilities and net assets	88,652	88,641

(2) Quarterly Consolidated Statement of Income and Quarterly Consolidated Statement of Comprehensive Income
(Quarterly Consolidated Statement of Income)
(First six-month period)

(Million yen)

	First six months ended June 30, 2019 (Jan. 1, 2019 – Jun. 30, 2019)	First six months ended June 30, 2020 (Jan. 1, 2020 – Jun. 30, 2020)
Net sales	31,821	31,145
Cost of sales	22,914	22,667
Gross profit	8,907	8,478
Selling, general and administrative expenses	6,400	6,542
Operating profit	2,506	1,935
Non-operating income		
Interest income	15	8
Dividend income	74	71
Surrender value of insurance policies	–	61
Reversal of provision for loss on litigation	135	–
Other	74	50
Total non-operating income	299	193
Non-operating expenses		
Interest expenses	31	61
Other	41	29
Total non-operating expenses	72	90
Ordinary profit	2,733	2,038
Extraordinary income		
Gain on sales of non-current assets	2	0
Other	0	–
Total extraordinary income	2	0
Extraordinary losses		
Loss on factory closure	64	–
Environmental expenses	51	434
Other	32	64
Total extraordinary losses	148	499
Profit before income taxes	2,587	1,539
Income taxes - current	904	791
Income taxes - deferred	(2)	(187)
Total income taxes	902	603
Profit	1,685	936
Profit attributable to owners of parent	1,685	936

(Quarterly Consolidated Statements of Comprehensive Income)
(First six-month period)

(Million yen)

	First six months ended June 30, 2019 (Jan. 1, 2019 – Jun. 30, 2019)	First six months ended June 30, 2020 (Jan. 1, 2020 – Jun. 30, 2020)
Profit	1,685	936
Other comprehensive income		
Valuation difference on available-for-sale securities	(262)	(469)
Foreign currency translation adjustment	(356)	121
Remeasurements of defined benefit plans, net of tax	(0)	2
Total other comprehensive income	(619)	(344)
Comprehensive income	1,066	591
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	1,066	591

(3) Notes to Quarterly Consolidated Financial Statements

(Note to ongoing concern assumptions)

None

(Note to significant changes in shareholders' equity)

None

(Application of particular accounts procedures to the preparation of quarterly consolidated financial statements)

(Calculation of Tax Expenses)

Taxes are calculated by multiplying profit before income taxes by a reasonable estimate of the effective tax rate after adjustments for tax-effect accounting for profit before income taxes in the current fiscal year.

(Additional information)

(Accounting estimates)

The impact of the spread of COVID-19 is unclear but may be significant for the Okabe Group's consolidated financial statements of the quarters following the first six months of the fiscal year under review. However, the Group recognized no material influence of the spread of COVID-19 in its accounting estimates.

(Transactions of Delivering the Company's Own Stock to Employees, etc. through Trusts)

The Company has introduced the stock-granting ESOP trust system, a trust-type employee incentive plan under which the Company's own shares are issued to its employees for the purpose of encouraging the motivation of the employees of the Company and the Okabe Group and enhancing the welfare program.

(1) Transaction overview

This program adopts the system called the stock-granting employee stock ownership plan ("ESOP Trust"). The ESOP Trust is an employee incentive plan inspired by the U.S. ESOP system, under which shares bought back by the ESOP Trust are issued to employees who have met the requirements prescribed in the Shares Issuance Regulations established in advance.

The "Practical Solution on Transactions of Delivering the Company's Own Stock to Employees etc. through Trusts (ASBJ Practical Issue Task Force (PITF) No. 30, March 26, 2015)" applies to the accounting treatment of this program.

(2) Treasury shares remaining in the trust

The Company's shares remaining in the trust are recorded at the book value (excluding all incidental expenses) in the section of net assets as treasury shares in the trust. The book value of the treasury shares is 86 million yen for the previous consolidated fiscal year and 177 million yen for the first six months of the fiscal year under review. The number of treasury shares at the end of the term is 93,908 shares for the previous consolidated fiscal year and 197,237 shares for the first six months of the fiscal year under review.

(Segment information)

[Segment information]

I. First six months ended June 30, 2019 (January 1, 2019 – June 30, 2019)

1. Net sales and profit (loss) for each reportable business segment

(Million yen)

	Reportable segments				Adjustment	Amounts in quarterly consolidated statements of income (Note)
	Construction-related products	Automotive products	Other businesses	Total		
Net sales						
Sales to external customers	26,245	4,544	1,031	31,821	–	31,821
Intersegment internal sales and transfers	–	–	–	–	–	–
Total	26,245	4,544	1,031	31,821	–	31,821
Segment profit	2,404	81	20	2,506	–	2,506

(Note) Segment profit matches the operating profit in the quarterly consolidated statements of income.

2. Non-current assets impairment losses, goodwill and other information for each reportable segment

(Significant changes in the amount of goodwill)

Due to the buyback of all the shares of KAWAHARA MFG. CO., LTD. and the consequent inclusion thereof in the scope of consolidation, goodwill of 2,590 million yen was added to the “other businesses” segment in the first three months of the consolidated fiscal year under review.

II. First six months ended June 30, 2020 (January 1, 2020 – June 30, 2020)

1. Net sales and profit (loss) for each reportable business segment

(Million yen)

	Reportable segments				Adjustment	Amounts in quarterly consolidated statements of income (Note)
	Construction-related products	Automotive products	Other businesses	Total		
Net sales						
Sales to external customers	25,990	3,892	1,263	31,145	–	31,145
Intersegment internal sales and transfers	–	–	–	–	–	–
Total	25,990	3,892	1,263	31,145	–	31,145
Segment profit (loss)	2,276	(237)	(103)	1,935	–	1,935

(Note) Segment profit (loss) matches the operating profit in the quarterly consolidated statements of income.

2. Non-current assets impairment losses, goodwill and other information for each reportable segment

None