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Consolidated Financial Results for the Three Months Ended March 31, 2023 Unaudited [IFRS]



May 12, 2023

Company name: Tsubaki Nakashima Co., Ltd.

Stock exchange listing: Tokyo Stock Exchange

Code number: 6464

URL: <https://www.tsubaki-nakashima.com/en/>

Representative: Koji Hirota, Director and Representative Executive Officer, CEO

Contact: Hisashi Tate, Director and Executive Officer, Senior EVP, CFO

Phone: +81-6-6224-0193

Scheduled date of filing quarterly securities report: May 12, 2023

Availability of supplementary briefing material on financial results: Available

Schedule of financial results briefing session: Not scheduled

(Amounts of less than one million yen are rounded.)

1. Consolidated Financial Results for the Three months ended March 31, 2023 (January 1, 2023 to March 31, 2023)

(1) Consolidated Operating Results (% indicates changes from the previous corresponding period.)

	Sales		Operating profit		Profit before taxes		Net profit for the period	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
Three months ended March 31, 2023	19,702	5.8	1,509	(1.1)	1,229	(14.5.)	655	(37.4)
March 31, 2022	18,627	10.3	1,525	(14.8)	1,438	(18.8)	1,046	(21.2)

	Net profit for the period attributable to owners of the parent		Total comprehensive income		Basic earnings per share	Diluted earnings per share
	Million yen	%	Million yen	%	Yen	Yen
Three months ended March 31, 2023	655	(37.3)	1,931	(65.1)	16.49	16.46
March 31, 2022	1,045	(21.3)	5,534	14.9	25.76	25.71

(Reference) EBITDA: The three months ended March 31, 2023: 2,268 million yen (down 5.7%)

The three months ended March 31, 2022: 2,406 million yen

EBITDA = Operating profit + depreciation and amortization.

(2) Consolidated Financial Position

	Total assets	Total equity	Equity attributable to owners of the parent	Ratio of equity attributable to owners of the parent
	Million yen	Million yen	Million yen	%
As of March 31, 2023	160,089	51,416	51,380	32.1
As of December 31, 2022	159,891	50,131	50,096	31.3

2. Dividends

	Annual dividends				
	1st quarter-end	2nd quarter-end	3rd quarter-end	Year-end	Total
Fiscal year ended December 31, 2022	Yen —	Yen 13.00	Yen —	Yen 17.00	Yen 30.00
Fiscal year ending December 31, 2023	—				
Fiscal year ending December 31, 2023 (Forecast)					48.00

(Note) Revision to the forecast for dividends announced most recently: No

3. Consolidated Financial Results Forecast for the Fiscal Year Ending December 31, 2023 (January 1, 2023 to December 31, 2023)

(% indicates changes from the previous corresponding period.)

	Sales		Operating profit		Profit before taxes		Net profit for the period attributable to owners of the parent	Basic earnings per share
	Million yen	%	Million yen	%	Million yen	%	Million yen	Yen
Full year	86,000	8.8	9,000	—	7,700	—	5,400	133.89

(Note) Revision to the forecast for dividends announced most recently: No

* Notes:

- (1) Changes in significant subsidiaries during the period under review (changes in specified subsidiaries resulting in changes in scope of consolidation): No
- (2) Changes in accounting policies and changes in accounting estimates
 - 1) Changes in accounting policies required by IFRS: Yes
 - 2) Changes in accounting policies other than 1) above: No
 - 3) Changes in accounting estimates: No
- (3) Total number of issued shares (common shares)
 - 1) Total number of issued shares at the end of the period (including treasury shares):
March 31, 2023: 41,599,600 shares
December 31, 2022: 41,599,600 shares
 - 2) Total number of treasury shares at the end of the period:
March 31, 2023: 1,871,615 shares
December 31, 2022: 1,871,615 shares
 - 3) Average number of shares during the period:
Three months ended March 31, 2023: 39,727,985 shares
Three months ended March 31, 2022: 40,561,255 shares

*These financial results are outside the scope of audit by a certified public accountant or an audit corporation.

*Explanation of the proper use of financial results forecast and other notes:

The earnings forecasts and other forward-looking statements herein are based on information currently available to the Company and certain assumptions deemed to be reasonable and are not intended to be construed as assurance that they will be accomplished in the future. Actual results may differ significantly from these forecasts due to a wide range of factors.

1. Qualitative Information on Financial Results

(1) Explanation of Business Results

In Japan, the increase in flow of people due to the decrease in the number of new cases of coronavirus infection is boosting the economy, but on the other hand, energy and raw material prices remain high, and prices of all kinds of commodities, including daily necessities, are also rising, which continues to put pressure on corporate earnings. In Europe and the U.S., there are concerns about the impact of reluctance to lend to companies related to the failure of some banks, and interest rate policies are not moving in the direction of easing. Uncertainties surrounding financial markets may pose a downside risk to the economy, and we are closely monitoring developments.

Under these circumstances, sales for the three months ended March 31, 2023, increased 5.8% year on year to 19,702 million yen, due to the impact of energy and raw material price hikes passed on to selling price and the effect of yen depreciation, despite sluggish sales of major products in the mainstay Precision components business, affected by the global automotive industry downturn.

On the profit front, operating profit decreased 1.1% year on year to 1,509 million yen due to the impact of higher energy and all other costs, as well as sluggish sales growth, despite the positive effects of cost improvements. Net profit for the period attributable to owners of the parent for the quarter decreased 37.3% year on year to 655 million yen.

In fiscal 2023, the final year of our Mid-Term Strategy, we will continue to focus on the growth of our growth strategy and thoroughly implement initiatives centered on improving profitability to provide better corporate value to our shareholders, customers, business partners, and group employees.

The segment performance is as follows.

Precision Components Business

Sales in the segment increased 7.6% year on year to 18,682 million yen, despite sluggish growth due to the impact of the global automotive industry downturn, due to higher energy and raw material passed in to selling prices and the impact of the yen's depreciation. Segment profit (operating profit) increased 3.4% year on year to 1,554 million yen due to the impact of higher costs of all kinds, especially energy prices, and sluggish sales growth.

Linear Business

Sales in the segment decreased 19.0% year on year to 1,020 million yen due to inventory adjustments by customers. Segment loss (operating loss) amounted to 50 million yen, decreased by 67 million yen from the same period of the previous period due to a decrease in gross profit resulting from lower sales. .

(2) Explanation of Financial Position

Total assets at the end of first quarter increased by 198 million yen from the end of the previous fiscal year to 160,089 million yen. This was mainly due to an increase in inventories by 1,547 million yen and a decrease in cash and cash equivalents by 2,680 million yen, resulting in 1,018 million yen decrease in current assets, with an increase of 1,216 million yen in non-current assets due to an increase in property, plant and equipment by 1,148 million yen resulting from capital investment.

Total liabilities decreased by 1,087 million yen from the end of the previous fiscal year to 108,673 million yen. This was mainly due to decreases of 455 million yen in trade and other payables, 290 million yen in income taxes payable and 505 million yen in other current liabilities. Current portion of borrowings of 42,474 million yen that was in breach of financial covenants at the end of the previous period were recorded as bonds and borrowings, excluding current portion at the end of first quarter of the current fiscal year.

Total equity increased 1,285 million yen from the end of the previous fiscal year to 51,416 million yen. This was mainly due to an increase in other components of equity by 1,275 million yen, including foreign currency translation adjustments.

(Analysis of Status of Cash Flows)

The cash flow status and factors for each activity during the first quarter are as follows.

Net cash used in operating activities amounted to 1,026 million yen. Cash increase factors included income before income taxes of 1,229 million yen and depreciation and amortization of 759 million yen, while cash decrease factors included an increase in inventories of 1,043 million yen and a decrease in trade and other payables of 656 million yen.

Net cash used in investing activities amounted to 1,083 million yen, due to payments for acquisition of property, plant and equipment and intangible assets.

Net cash used in financing activities amounted to 736 million yen, due to cash dividends paid of 626 million yen.

After adding a translation adjustment of 165 million yen due to the appreciation of the U.S. dollar and Euro during the first quarter, cash and cash equivalents at the end of the first quarter decreased by 2,680 million yen from the end of previous fiscal year to 21,439 million yen.

(3) Explanation of Consolidated Financial Results Forecast and Other Forward-looking Information

There is no revision to the full-year consolidated forecast for the fiscal year ending December 31, 2023, which was announced on February 20, 2023.

(4) Significant events regarding premise of a going concern

As a result of recording an operating loss in the previous consolidated fiscal year, the Group was in breach of financial covenants in syndicated loan contracts with some financial institutions at the end of the previous consolidated fiscal year. However, as of the end of the first quarter of the current consolidated fiscal year, the Group received formal consent from the relevant financial institutions to waive of the right to forfeit the benefit of time with respect to the borrowings that are in breach of the financial covenants and has determined that significant uncertainties regarding the premise of a going concern is not recognized.

2. Summary Information (Notes)

(1) Changes in significant subsidiaries during the period

Not Applicable

(2) Changes in accounting policies and accounting estimates

The accounting policies of materiality applied in the Group's condensed quarterly consolidated financial statements are the same as those applied in the consolidated financial statements for the previous fiscal year, except for the following items.

(Changes in accounting policies)

The Group has applied the amendment to IAS 12, "Deferred Tax related to Assets and Liabilities arising from a Single Transaction," effective from the first quarter of the current fiscal year.

The adoption clarifies the accounting for transactions that give rise to the same amount of additional temporary differences and subtractive temporary differences at the time of initial recognition and results in the recognition of deferred tax liabilities and deferred tax assets for such additional temporary differences and subtractive temporary differences in the consolidated statement of financial position, respectively.

The effect of the change in accounting policy on the condensed consolidated quarterly financial statements is not material.

(Changes in accounting estimates)

Not Applicable

3. Consolidated Financial Statements

(1) Consolidated Statements of Financial Position

(Millions of yen)

	As of December 31, 2022	As of March 31, 2023
Assets		
Current assets		
Cash and cash equivalents	24,119	21,439
Trade and other receivables, net	20,930	20,906
Inventories	35,048	36,595
Other current assets	1,787	1,926
Total current assets	81,884	80,866
Non-current assets		
Property, plant and equipment, net	30,763	31,911
Intangible assets, net and goodwill	40,958	41,147
Other investments	212	266
Deferred tax assets	2,254	2,260
Other non-current assets	3,820	3,639
Total non-current assets	78,007	79,223
Total assets	159,891	160,089
Liabilities and equity		
Liabilities		
Current liabilities		
Trade and other payables	7,722	7,267
Current portion of borrowings	52,609	10,288
Income taxes payable	1,416	1,126
Other current liabilities	6,541	6,036
Total current liabilities	68,288	24,717
Non-current liabilities		
Bonds and borrowings, excluding current portion	35,378	77,869
Net defined benefit liability	2,320	2,288
Deferred tax liabilities	1,650	1,762
Other non-current liabilities	2,124	2,037
Total non-current liabilities	41,472	83,956
Total liabilities	109,760	108,673
Equity		
Share capital	17,117	17,117
Capital surplus	11,519	11,548
Treasury stock	(2,616)	(2,616)
Accumulated other comprehensive income (loss)	6,425	7,700
Retained earnings	17,651	17,631
Equity attributable to owners of the parent	50,096	51,380
Non-controlling interests	35	36
Total equity	50,131	51,416
Total liabilities and equity	159,891	160,089

(2) Consolidated Statements of Profit or Loss and Other Comprehensive Income (Loss)

(Millions of yen)

	For the three months ended March 31, 2022	For the three months ended March 31, 2023
Sales	18,627	19,702
Cost of sales	15,178	16,142
Gross profit	3,449	3,560
Selling, general and administrative expenses	1,942	2,056
Other income	19	37
Other expenses	1	32
Operating profit	1,525	1,509
Financial income	231	27
Financial expenses	318	307
Profit before taxes	1,438	1,229
Income tax expense	392	574
Net profit for the period	1,046	655
Net profit for the period attributable to.		
Owners of the parent	1,045	655
Non-controlling interests	1	0
Net profit for the period	1,046	655
Other comprehensive income (loss)		
Items that will not be reclassified to profit or loss		
Financial assets measured at FVOCI	(37)	36
Total items that will not be reclassified to profit or loss	(37)	36
Items that may subsequently be reclassified to profit or loss		
Foreign currency translation differences	4,413	1,460
Cash flow hedges	84	(190)
Hedges costs	28	(30)
Total items that may subsequently be reclassified to profit or loss	4,525	1,240
Other comprehensive income (loss), net of tax	4,488	1,276
Total comprehensive income (loss)	5,534	1,931
Total comprehensive income attributable to.		
Owners of the parent	5,532	1,930
Non-controlling interests	2	1
Total comprehensive income (loss)	5,534	1,931
Earnings per share attributable to owners of the parent		
Basic earnings per share (yen)	25.76	16.49
Diluted earnings per share (yen)	25.71	16.46

(3) Consolidated Statements of Changes in Equity

For the three months ended March 31, 2022

(Millions of yen)

	Equity attributable to owners of the parent					
				Accumulated Other Comprehensive Income (Loss)		
	Share capital	Capital surplus	Treasury stock	Financial assets measured at FVOCI	Foreign currency translation differences	Cash flow hedges
Balance as of January 1, 2022	17,102	11,415	(1,648)	54	(1,021)	(724)
Net profit for the period	—	—	—	—	—	—
Other comprehensive income (loss), net of tax	—	—	—	(37)	4,412	84
Total comprehensive income (loss)	—	—	—	(37)	4,412	84
Issuance of new shares	6	6	—	—	—	—
Dividends	—	—	—	—	—	—
Disposition of treasury stock	—	—	16	—	—	—
Stock-based rewards	—	33	—	—	—	—
Total transactions with owners and other	6	39	16	—	—	—
Balance as of March 31, 2022	17,108	11,454	(1,632)	17	3,391	(640)

	Equity attributable to owners of the parent					
	Accumulated Other Comprehensive Income (Loss)		Retained earnings	Total	Non-controlling interests	Total equity
	Hedge cost	Total				
Balance as of January 1, 2022	313	(1,378)	27,844	53,335	34	53,369
Net profit for the period	—	—	1,045	1,045	1	1,046
Other comprehensive income (loss), net of tax	28	4,487	—	4,487	1	4,488
Total comprehensive income (loss)	28	4,487	1,045	5,532	2	5,534
Issuance of new shares	—	—	—	12	—	12
Dividends	—	—	(651)	(651)	—	(651)
Disposition of treasury stock	—	—	—	16	—	16
Stock-based rewards	—	—	—	33	—	33
Total transactions with owners and other	—	—	(651)	(590)	—	(590)
Balance as of March 31, 2022	341	3,109	28,238	58,277	36	58,313

For the three months ended March 31, 2023

(Millions of yen)

	Equity attributable to owners of the parent					
	Share capital	Capital surplus	Treasury stock	Accumulated Other Comprehensive Income (Loss)		
				Financial assets measured at FVOCI	Foreign currency translation differences	Cash flow hedge
Balance as of January 1, 2023	17,117	11,519	(2,616)	(3)	6,381	(154)
Net profit for the period	—	—	—	—	—	—
Other comprehensive income (loss), net of tax	—	—	—	36	1,459	(190)
Total comprehensive income (loss)	—	—	—	36	1,459	(190)
Issuance of new shares	—	—	—	—	—	—
Dividends	—	—	—	—	—	—
Disposition of treasury stock	—	—	—	—	—	—
Stock-based rewards	—	29	—	—	—	—
Total transactions with owners and other	—	29	—	—	—	—
Balance as of March 31, 2023	17,117	11,548	(2,616)	33	7,840	(344)

	Equity attributable to owners of the parent				Non-controlling interests Total	Total equity
	Accumulated Other Comprehensive Income (Loss)		Retained earnings	Total		
	Hedge cost	Total				
Balance as of January 1, 2023	201	6,425	17,651	50,096	35	50,131
Net profit for the period	—	—	655	655	0	655
Other comprehensive income (loss), net of tax	(30)	1,275	—	1,275	1	1,276
Total comprehensive income (loss)	(30)	1,275	655	1,930	1	1,931
Issuance of new shares	—	—	—	—	—	—
Dividends	—	—	(675)	(675)	—	(675)
Disposition of treasury stock	—	—	—	—	—	—
Stock-based rewards	—	—	—	29	—	29
Total transactions with owners and other	—	—	(675)	(646)	—	(646)
Balance as of March 31, 2023	171	7,700	17,631	51,380	36	51,416

(4) Consolidated Statements of Cash Flows

(Millions of yen)

	For the three months ended March 31, 2022	For the three months ended March 31, 2023
Cash flows from operating activities		
Profit before taxes	1,438	1,229
Depreciation and amortization	881	759
Increase (decrease) in net defined benefit liability	(38)	(48)
Interest and dividend income	(19)	(12)
Interest expense	303	282
Foreign exchange losses (gains)	(223)	35
(Gains) losses on sale of fixed assets	(2)	(8)
Decrease (increase) in trade and other receivables	(1,473)	186
Decrease (increase) in inventories	(1,345)	(1,043)
(Decrease) increase in trade and other payables	1,344	(656)
Other, net	(250)	(851)
Sub Total	616	(127)
Interest received	23	11
Dividend received	0	0
Interest paid	(166)	(170)
Income taxes paid	(679)	(740)
Net cash used by operating activities	(206)	(1,026)
Cash flows from investing activities		
Payments for acquisition of property, plant and equipment	(623)	(1,085)
Proceeds from sale of property, plant and equipment	2	8
Payments for acquisition of intangible properties	(25)	(6)
Other, net	(0)	0
Net cash used by investing activities	(646)	(1,083)
Cash flows from financing activities		
Repayments of long-term loans and borrowings	(9,030)	—
Payments of lease liabilities	(74)	(110)
Proceeds from exercise of subscription rights	12	—
Cash dividends paid	(607)	(626)
Proceeds from sales of treasury stock	5	—
Net cash used in financing activities	(9,694)	(736)
Effect of exchange rate changes on cash and cash equivalents	603	165
Net (decrease) increase in cash and cash equivalents	(9,943)	(2,680)
Cash and cash equivalents at the beginning of the period	32,524	24,119
Cash and cash equivalents at the end of the period	22,581	21,439

Operating Segments

1. General information

(1) Basis of segmentation

The Group is composed of segments by product and service and there are "Precision component business" and "Linear business" as reporting segments.

An operating segment is a component of the Company that engages in business activities from which it may earn revenues and incur expenses, for which discrete financial information is available and is subject to regular review by the Chief Executive Officer of the Group for assessing performance and making resource allocation decisions. The Company's operating segments consist of the "Precision component business" and the "Linear business". These businesses offer various products and are managed separately because they require different technologies and marketing strategies.

The "Precision component business" segment engages in manufacturing and sales of several types of steel balls, rollers, cages and sheet metal parts. The "Linear business" segment engages in manufacturing and sales of ball screws and air blowers.

Segment information is determined in conformity with the accounting policies used in preparing the condensed interim consolidated financial statements. Operating profit (loss) of each reportable segment is measured in a consistent manner with consolidated operating profit, which is profit before income taxes before finance income and finance costs. Pricing for the inter-segment transactions is determined on an arm's length basis.

(2) Segment Information

For the three months ended March 31, 2022

(Millions of yen)

	Reporting Segments		Other business	Total	Reconciling items	Consolidated financial statements
	Precision component business	Linear business				
Sales						
External sales	17,367	1,260	0	18,627	—	18,627
Inter-segment sales	2	—	7	9	(9)	—
Total consolidated sales	17,369	1,260	7	18,636	(9)	18,627
Segment profit	1,503	17	5	1,525	0	1,525
				Financial income		231
				Financial expense		(318)
				Profit before taxes		1,438

(Note) The "Other business" category is a business segment that is not included in the reporting segments and includes real estate rentals. Reconciling items to segment profit include elimination of inter-segment transactions.

For the three months ended March 31, 2023

(Millions of yen)

	Reporting Segments		Other business	Total	Reconciling items	Consolidated financial statements
	Precision component business	Linear business				
Sales						
External sales	18,682	1,020	0	19,702	—	19,702
Inter-segment sales	0	—	7	7	(7)	—
Total consolidated sales	18,682	1,020	7	19,709	(7)	19,702
Segment profit (loss)	1,554	(50)	5	1,509	—	1,509
				Financial income		27
				Financial expense		(307)
				Profit before taxes		1,229

(Note) The "Other business" category is a business segment that is not included in the reporting segments and includes real estate rentals. Reconciling items to segment profit include elimination of inter-segment transactions.