



Consolidated Financial Results for the Three Months Ended March 31, 2019 Unaudited [IFRS]

May 14, 2019

Company name: Tsubaki Nakashima Co., Ltd.

Stock exchange listing: Tokyo Stock Exchange

Code number: 6464

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Availability of supplementary briefing material on quarterly financial results: Available

Schedule of quarterly 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, 2019 (January 1, 2019 to March 31, 2019)

(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, 2019	18,183	(6.7)	2,393	(13.6)	2,224	(6.6)	1,646	(5.3)
March 31, 2018	19,490	93.6	2,772	62.5	2,381	75.3	1,737	69.5

	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, 2019	1,645	(5.3)	1,665	—	41.19	40.59
March 31, 2018	1,737	69.5	(1,423)	—	43.64	42.49

In the second quarter consolidated accounting period, provisional accounting for business combinations has been finalized. By the settlement of provisional accounting, the review of the initial allocation of acquisition costs are reflected on previous fiscal year amounts.

(Reference) EBITDA: Three months ended March 31, 2019: ¥3,234 million (down 11.9%)

Three months ended March 31, 2018: ¥3,670 million

EBITDA = Operating profit + depreciation and amortization. EBITDA is outside the scope of quarterly review pursuant to the Financial Instrument and Exchange Act.

(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, 2019	141,754	45,195	45,168	31.9
As of December 31, 2018	138,681	45,080	45,053	32.5

2. Dividends

	Annual dividends				
	1st quarter-end	2nd quarter-end	3rd quarter-end	Year-end	Total
Fiscal year ended December 31, 2018	Yen —	Yen 39.00	Yen —	Yen 40.00	Yen 79.00
Fiscal year ending December 31, 2019	—				
Fiscal year ending December 31, 2019 (Forecast)		40.00	—	41.00	81.00

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

3. Consolidated Financial Results Forecast for the Fiscal Year Ending December 31, 2019 (January 1, 2019 to December 31, 2019)

(% indicates changes from the previous corresponding period.)

	Sales		Operating profit		Profit before taxes	
	Million yen	%	Million yen	%	Million yen	%
1H 2019	36,600	(5.9)	5,500	1.9	5,100	5.4
Full year	77,000	2.9	11,700	17.7	10,900	23.5

	Net profit for the period attributable to owners of the parent		Basic earnings per share
	Million yen	%	Yen
1H 2019	3,750	6.7	93.94
Full year	8,000	17.3	200.40

(Note) Revision to the financial results forecast 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, 2019: 40,676,100 shares
 - December 31, 2018: 40,653,500 shares
 - 2) Total number of treasury shares at the end of the period:
 - March 31, 2019: 733,638 shares
 - December 31, 2018: 733,610 shares
 - 3) Average number of shares during the period:
 - Three months ended March 31, 2019: 39,931,088 shares
 - Three months ended March 31, 2018: 39,812,646 shares
- * These quarterly financial results are outside the scope of quarterly review 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 Quarterly Financial Results for the Period under Review

(1) Explanation of Business Results

The world economy during the three months ended March 31, 2019 generally remained firm despite uncertainties including trade friction between the US and China, tension related to the U.K. exit from the EU, and financial insecurity in Italy, etc. In Japan, business confidence around the manufacturing industry has deteriorated despite the market remaining stable.

Under this business environment, although Linear business saw steady growth in the blower orders, the Precision Components Business did not improve despite the recovery trend as the unstable global environment continued.

As a result, sales decreased 6.7% year on year to ¥18,183 million. As for profits, operating profit decreased 13.6% year on year to ¥2,393 million. Net profit for the period attributable to owners of the parent decreased 5.3% year on year to ¥1,645 million.

In addition, compared with the fourth quarter of FY2018, sales increased 3.1% and operating profit increased 12.6%.

(The revenue and operating profit for the previous 4th quarter consolidated accounting period, and the rate of change compared to the current 1st quarter consolidated cumulative period are not subject to the quarterly review.)

Although the severe business environment continues, under the management principle of “We will become a stellar corporation that realizes sustainable profitable growth and continues to create improvements in corporate value,” the Group will strive to become a company that can further contribute to society and customers as “New TSUBAKI NAKASHIMA.”

Performance by segment is as follows.

Precision Components Business

Sales of the Precision Components Business decreased 8.5% year on year to ¥16,530 million. Segment profit (operating profit) decreased 19.9% year on year to ¥2,027 million.

Linear Business

Sales of the Linear Business increased 16.6% year on year to ¥1,559 million. Segment profit (operating profit) increased 54.1% year on year to ¥242 million.

Other Business

Sales of other businesses increased 1.6% year on year to ¥94 million. Segment profit (operating profit) increased 47.0% year on year to ¥124 million.

(2) Explanation of Financial Position

In assets, current assets as of the end of the first quarter of the fiscal year under review increased ¥2,819 million from the end of the previous fiscal year to ¥57,288 million. This is attributable to increases in trade and other receivables, net by ¥1,505 million, cash and cash equivalents by ¥830 million and inventories by ¥380 million.

Non-current assets increased ¥254 million from the end of the previous fiscal year to ¥84,466 million. This is attributable to increase in property, plant and equipment, net by ¥395 million.

Current liabilities increased ¥2,499 million from the end of the previous fiscal year to ¥21,894 million. This is attributable to increases in current portion of loans and borrowings by ¥2,019 million and other current liabilities by ¥540 million, and a decrease in income taxes payable by ¥149 million.

Non-current liabilities increased ¥459 million from the end of the previous fiscal year to ¥74,665 million. This is attributable to an increase in other non-current liabilities by ¥628 million and a decrease in deferred tax liabilities by ¥115 million.

Equity increased ¥115 million from the end of the previous fiscal year to ¥45,195 million. This is attributable to an increase in Capital surplus by ¥36 million and retained earnings by ¥48 million.

(Analysis of Status of Cash Flows)

Cash and cash equivalents as of the end of the three months ended March 31, 2019 increased ¥830 million year on year to ¥14,134 million. The status of cash flows of each activity during the first quarter of the fiscal year under review and its cause are as follows.

(Cash Flows from Operating Activities)

Net cash provided by operating activities amounted to ¥981 million. This is attributable to cash increase factors including profit before taxes of ¥2,224 million, depreciation and amortization of ¥840 million and increase in trade and other payables of ¥115 million, despite cash decrease factors including increase in trade and other receivables of ¥1,579 million and income taxes paid of ¥766 million. The increase in trade receivables will decrease from the second quarter onward and is expected to become a cash increase factor.

(Cash Flows from Investing Activities)

Net cash used in investing activities amounted to ¥463 million. This is attributable to payments for acquisition of property, plant and equipment of ¥338 million and payments for acquisition of intangible assets of ¥124 million.

(Cash Flows from Financing Activities)

Net cash provided by financing activities amounted to ¥326 million. This is attributable to proceeds from short-term loans and borrowings of ¥2,019 million, cash dividends paid of ¥1,597 million, repayments of long-term loans and borrowings of ¥58 million, and repayments of lease liabilities of ¥61 million.

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

Regarding the consolidated financial results forecast for the six months ending June 30, 2019 and the fiscal year ending December 31, 2019, there are no changes from the forecast released on February 14, 2019.

2.Changes in Accounting Policies and Changes in Accounting Estimates

Changes in accounting policies

The Group has adopted the following standards from the first quarter ended March 31, 2019:

Standard	Title of standard	Description of new standards and amendments
IFRS 16	Leases	Revised accounting process for lease transactions

IFRS 16 “Leases”

The Group has adopted IFRS 16 “Leases” effective January 1, 2019.

A modified retrospective approach has been applied in the application of IFRS 16, and the cumulative effect of the initial application will be recognized on the date of the initial application (January 1, 2019) in place of issuing a restatement of comparative information.

IFRS 16 introduces a single lessee accounting model for all leases which requires the recognition of a right-of-use asset representing the lessee’s right to use the underlying leased asset and a lease liability representing its obligation to make lease payments. However, there are exemptions available for the recognition of short-term or low-value leases. The accounting process for the lessor remains fundamentally unchanged from the previous standard.

(1) Leases in which the Group is the lessee

The Group recognizes new right-of-use assets and lease liabilities for leases which were previously classified as operating leases under IAS 17. In addition, with the recognition of depreciation and amortization for new right-of-use assets and interest expenses for lease liabilities, the nature of the expenses involved in these leases will change. Furthermore, in determining which transactions are leases as of the date of initial application, the Group will apply a practical expedient to maintain their previous assessment or apply the practical expedient of IFRS 16 C10 (a) to (e).

The effect on the condensed interim consolidated statements of financial position as of the date of initial application and the end of the first quarter of the fiscal year under review are as follows. Lease liability is included in other current liabilities or other non-current liabilities in the condensed interim consolidated statements of financial position.

	Date of initial application (January 1, 2019)	End of the first quarter of the fiscal year under review (March 31, 2019)
Buildings and structures (Property, plant and equipment, net)	679	637
Machinery and vehicles (Property, plant and equipment, net)	97	85
Land (Property, plant and equipment, net)	59	57
Other (Property, plant and equipment, net)	96	89
Lease liabilities	929	864

Furthermore, in the condensed interim consolidated statements of profit or loss and other comprehensive income (loss) for the first quarter ended March 31, 2019, operating profit increased by ¥3 million and profit before taxes decreased by ¥1 million, whereas in the condensed interim consolidated statements of cash flows, cash flows from operating activities increased by ¥56 million and cash flows from financing activities decreased by the same amount. There is no material effect on leases previously classified as finance leases under IAS 17.

(2) Leases in which the Group is the lessor

The Group holds land for lease for the purpose of earning rental revenue. These investment properties are classified as operating leases, and this change will not have a material effect on these transactions.

3. Unaudited Condensed Interim Consolidated Financial Statements

(1) Unaudited Condensed Interim Consolidated Statements of Financial Position

(Millions of yen)

	As of December 31, 2018	As of March 31, 2019
Assets		
Current assets		
Cash and cash equivalents	13,304	14,134
Trade and other receivables, net	15,024	16,529
Inventories	25,072	25,452
Other current assets	1,069	1,173
Total current assets	54,469	57,288
Non-current assets		
Property, plant and equipment, net	32,759	33,154
Intangible assets, net and goodwill	47,087	46,933
Investment property	3,755	3,755
Other investments	311	323
Deferred tax assets	177	178
Other non-current assets	123	123
Total non-current assets	84,212	84,466
Total assets	138,681	141,754
Liabilities and equity		
Liabilities		
Current liabilities		
Trade and other payables	6,492	6,581
Current portion of loans and borrowings	8,655	10,674
Income taxes payable	812	663
Other current liabilities	3,436	3,976
Total current liabilities	19,395	21,894
Non-current liabilities		
Loans and borrowings, excluding current portion	63,416	63,357
Net defined benefit liability	2,799	2,804
Deferred tax liabilities	3,946	3,831
Other non-current liabilities	4,045	4,673
Total non-current liabilities	74,206	74,665
Total liabilities	93,601	96,559
Equity		
Share capital	16,621	16,632
Capital surplus	10,823	10,859
Treasury stock	(1,439)	(1,439)
Accumulated other comprehensive loss	(5,414)	(5,394)
Retained earnings	24,462	24,510
Equity attributable to owners of the parent	45,053	45,168
Non-controlling interests	27	27
Total equity	45,080	45,195
Total liabilities and equity	138,681	141,754

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

	(Millions of yen)	
	For the three months ended March 31, 2018	For the three months ended March 31, 2019
Sales	19,490	18,183
Cost of sales	14,965	14,006
Gross profit	4,525	4,177
Selling, general and administrative expenses	1,757	1,850
Other income	33	77
Other expenses	29	11
Operating profit	2,772	2,393
Financial income	7	48
Financial expenses	398	217
Profit before taxes	2,381	2,224
Income tax expense	644	578
Net profit for the period	1,737	1,646
Net profit for the period attributable to:		
Owners of the parent	1,737	1,645
Non-controlling interests	(0)	1
Net profit for the period	1,737	1,646
Other comprehensive income (loss)		
Items that will not be reclassified to profit or loss		
Financial assets measured at FVOCI	(17)	9
Total items that will not be reclassified to profit or loss	(17)	9
Items that may subsequently be reclassified to profit or loss		
Foreign currency translation differences	(3,209)	(30)
Cash flow hedges	(73)	(39)
Hedges costs	139	79
Total items that may subsequently be reclassified to profit or loss	(3,143)	10
Other comprehensive income (loss), net of tax	(3,160)	19
Total comprehensive income (loss)	(1,423)	1,665
Total comprehensive income attributable to:		
Owners of the parent	(1,422)	1,665
Non-controlling interests	(1)	0
Total comprehensive income (loss)	(1,423)	1,665
Earnings per share attributable to owners of the parent		
Basic earnings per share (yen)	43.64	41.19
Diluted earnings per share (yen)	42.49	40.59

(3) Unaudited Condensed Interim Consolidated Statements of Changes in Equity

For the three months ended March 31, 2018

(Millions of yen)

	Equity attributable to owners of the parent					
	Accumulated Other Comprehensive Income (Loss)					
	Share capital	Capital surplus	Treasury stock	Changes	Foreign currency translation differences	Cash flow hedges
				in fair value of available-for-sale financial assets		
Balance as of January 1, 2018	16,459	10,630	(971)	135	(1,110)	(1,240)
Net profit for the period	—	—	—	—	—	—
Other comprehensive income (loss), net of tax	—	—	—	(17)	(3,208)	(73)
Total comprehensive income (loss)	—	—	—	(17)	(3,208)	(73)
Issuance of new shares	42	42	—	—	—	—
Dividends	—	—	—	—	—	—
Total transactions with owners and other	42	42	(0)	—	—	—
Balance as of March 31, 2018	16,501	10,672	(971)	118	(4,318)	(1,313)
	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, 2018	130	(2,085)	20,549	44,582	24	44,606
Net profit for the period	—	—	1,737	1,737	(0)	1,737
Other comprehensive income (loss), net of tax	139	(3,159)	—	(3,159)	(1)	(3,160)
Total comprehensive income (loss)	139	(3,159)	1,737	(1,422)	(1)	(1,423)
Issuance of new shares	—	(0)	—	84	—	84
Dividends	—	—	(1,312)	(1,312)	—	(1,312)
Total transactions with owners and other	—	(0)	(1,312)	(1,228)	—	(1,228)
Balance as of March 31, 2018	269	(5,244)	20,974	41,932	23	41,955

For the three months ended March 31, 2019

	(Millions of yen)					
	Equity attributable to owners of the parent					
	Accumulated Other Comprehensive Income (Loss)					
	Share capital	Capital surplus	Treasury stock	Changes in fair value of available-for-sale financial assets	Foreign currency translation differences	Cash flow hedges
Balance as of January 1, 2019	16,621	10,823	(1,439)	85	(4,414)	(1,259)
Net profit for the period	—	—	—	—	—	—
Other comprehensive income (loss), net of tax	—	—	—	9	(29)	(39)
Total comprehensive income (loss)	—	—	—	9	(29)	(39)
Issuance of new shares	11	11	—	—	—	—
Dividends	—	—	—	—	—	—
Stock-based rewards	—	25	—	—	—	—
Total transactions with owners and other	11	36	(0)	—	—	—
Balance as of March 31, 2019	16,632	10,859	(1,439)	94	(4,443)	(1,298)

	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, 2019	174	(5,414)	24,462	45,053	27	45,080
Net profit for the period	—	—	1,645	1,645	1	1,646
Other comprehensive income (loss), net of tax	79	20	—	20	(1)	19
Total comprehensive income (loss)	79	20	1,645	1,665	0	1,665
Issuance of new shares	—	(0)	—	22	—	22
Dividends	—	—	(1,597)	(1,597)	—	(1,597)
Stock-based rewards	—	0	—	25	—	25
Total transactions with owners and other	—	(0)	(1,597)	(1,550)	—	(1,550)
Balance as of March 31, 2019	253	(5,394)	24,510	45,168	27	45,195

(4) Unaudited Condensed Interim Consolidated Statements of Cash Flows

(Millions of yen)

	For the three months ended March 31, 2018	For the three months ended March 31, 2019
Cash flows from operating activities		
Profit before taxes	2,381	2,224
Depreciation and amortization	899	840
Increase in net defined benefit liability	7	16
Interest and dividend income	(5)	(3)
Interest expense	200	201
Foreign exchange losses	133	151
Gain on sale of fixed assets	(0)	(0)
Increase in trade and other receivables	(1,875)	(1,579)
Increase in inventories	(501)	(360)
Increase in trade and other payables	604	115
Other, net	290	267
Sub total	2,133	1,872
Interest received	0	3
Dividends received	0	0
Interest paid	(123)	(128)
Income taxes paid	(883)	(766)
Net cash provided by operating activities	1,127	981
Cash flows from investing activities		
Payments for acquisition of property, plant and equipment	(437)	(338)
Proceeds from sales of property, plant and equipment	1	0
Payments for acquisition of intangible assets	(5)	(124)
Payments for acquisition of subsidiary stock	(90)	—
Other, net	2	(1)
Net cash used in investing activities	(529)	(463)
Cash flows from financing activities		
Proceeds from short-term loans and borrowings	—	2,019
Repayments of long-term loans and borrowings	(58)	(58)
Repayments of Lease liabilities (※)	(5)	(61)
Proceeds from exercise of subscription rights	86	23
Cash dividends paid	(1,312)	(1,597)
Net cash provided by (used in) financing activities	(1,289)	326
Effect of exchange rate changes on cash and cash equivalents	(280)	(14)
Net (decrease) increase in cash and cash equivalents	(971)	830
Cash and cash equivalents at the beginning of the period	12,001	13,304
Cash and cash equivalents at the end of the period	11,030	14,134

(※) For the three months ended March 31, 2018 refers to Repayments of Finance Lease Liabilities.

Operating Segments

1. General information

(1) Basis of segmentation

The Group is composed of segments by product and service and there are "Precision Components Business," "Linear Business" and "Other" 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 "Precision Components business", "Linear business" and "Other business". These businesses offer different products and are managed separately because they require different technologies and marketing strategies.

The "Precision Components business" segment engages in manufacturing and sales of various 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. The "Other business" segment engages primarily in the leasing of real estate.

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 are determined on an arm's length basis.

(2) Segment Information

Segment information for the three months ended March 31, 2018 and 2019 is as follows.

For the three months ended March 31, 2018

(Millions of yen)						
	Precision components business	Linear business	Other business	Total	Reconciling items	Consolidated financial statements
Sales						
External sales	18,061	1,336	93	19,490	—	19,490
Inter-segment sales	2	—	11	13	(13)	—
Total consolidated sales	18,063	1,336	104	19,503	(13)	19,490
Segment profit	2,530	157	85	2,772	0	2,772
				Financial income		7
				Financial expense		(398)
				Profit before taxes		2,381

Reconciling items to segment profit include elimination of inter-segment transactions.

For the three months ended March 31, 2019

(Millions of yen)						
	Precision components business	Linear business	Other business	Total	Reconciling items	Consolidated financial statements
Sales						
External sales	16,530	1,559	94	18,183	—	18,183
Inter-segment sales	2	—	8	10	(10)	—
Total consolidated sales	16,532	1,559	102	18,193	(10)	18,183
Segment profit	2,027	242	124	2,393	0	2,393
				Financial income		48
				Financial expense		(217)
				Profit before taxes		2,224

Reconciling items to segment profit include elimination of inter-segment transactions.