

Consolidated Financial Results for the Three Months Ended March 31, 2020 under IFRS

Company Name	THK CO., LTD.
Head Office	Tokyo, Japan (Tel: +81-3-5730-3911)
URL	http://www.thk.com/
Stock exchange listing	Tokyo Stock Exchange-First Section
Code number	6481
Representative	Akihiro Teramachi, President and CEO
Contact	Kenji Nakane, Executive Officer, General Manager of Finance and Accounting Department
Scheduled date of filing quarterly report (Japanese version only)	May 26, 2020
Scheduled starting date of dividend payment	n/a

1. Consolidated operating results and financial position as of and for the three months ended March 31, 2020 (January 1, 2020 to March 31, 2020)

(1) Consolidated Operating Results

Three Months Ended March 31	Revenue (Millions of Yen)		Operating Income (Loss) (Millions of Yen)		Profit (Loss) Before Tax (Millions of Yen)		Profit (Loss) for the Period (Millions of Yen)		Profit (Loss) Attributable to Owners of the Parent (Millions of Yen)		Total Comprehensive Income (Loss) (Millions of Yen)	
2020	¥55,435	(26.6)%	¥(573)	—%	¥(2,794)	—%	¥(2,810)	—%	¥(2,655)	—%	¥(9,897)	—%
2019	75,531	—	8,366	—	7,694	—	5,313	—	5,020	—	7,978	—

Three Months Ended March 31	Basic Earnings (Loss) per Share (Yen)	Diluted Earnings per Share (Yen)
2020	¥(20.98)	—
2019	39.67	—

(2) Consolidated Financial Position

	Total Assets (Millions of Yen)	Total Equity (Millions of Yen)	Equity Attributable to Owners of the Parent (Millions of Yen)	Ratio of Equity Attributable to Owners of the Parent
March 31, 2020	¥464,369	¥279,975	¥269,822	58.1%
December 31, 2019	468,945	291,132	280,344	59.8

2. Dividends

	Dividend Per Share (Yen)				
	First Quarter end	Second Quarter end	Third Quarter end	Year/Period end	Total
Year ended December 31, 2019 (Actual)	¥—	¥24.00	¥—	¥8.00	¥32.00
Year ending December 31, 2020 (Actual)	—	n/a	n/a	n/a	n/a
Year ending December 31, 2020 (Projected)	n/a	—	—	—	—

THK's basic dividend policy is to set its payout ratio on a consolidated basis at 30% and a minimum dividend for a fiscal year at ¥15.00 per share (¥7.5 per share for both interim dividend and year-end dividend). The amounts of dividends for the year ending December 31, 2020 are planned to be determined in accordance with this policy and will be announced as soon as they are determined.

3. Forecasts for the year ending December 31, 2020 (January 1, 2020 to December 31, 2020)

	Revenue (Millions of Yen)		Operating Income (Millions of Yen)		Profit Before Tax (Millions of Yen)		Profit Attributable to Owners of the Parent (Millions of Yen)		Profit per Share (Yen)
Six-month period ending June 30, 2020	¥124,000	—%	¥1,700	—%	¥1,900	—%	¥200	—%	¥1.58
Year ending December 31, 2020	264,000	(3.9)	11,400	(37.6)	11,600	(36.2)	7,000	(40.1)	55.31

For the six-month period ending June 30, 2020 and the year ending December 31, 2020, THK has not revised the consolidated forecasts announced on February 13, 2020. If the impact of the COVID-19 becomes reasonably determinable and any revision is found necessary, THK will make an announcement immediately.

Other Financial Information

(1) Significant change in scope of consolidation: None

(2) Changes in accounting policy and estimates, and restatement due to:

- | | |
|------------------------------------|------|
| a. Changes in accounting standards | None |
| b. Other changes | None |
| c. Changes in accounting estimates | None |

(3) Number of shares

		(shares)
a. Common stock issued, including treasury stock, as of:	March 31, 2020	133,856,903
	December 31, 2019	133,856,903
b. Treasury stock as of:	March 31, 2020	7,289,641
	December 31, 2019	7,289,461
c. Average number of common stock for the three months ended:	March 31, 2020	126,567,371
	March 31, 2019	126,568,036

Management's Discussion and Analysis

1. Outline of operating results

(1) Operating results (from January 1, 2020 to March 31, 2020)

In this three months period, while demands remained at a low level because of the US-China trade friction, there were growing concerns of the global economic slowdown due to the worldwide COVID-19 epidemic.

The THK Group has identified "Full-Scale Globalization," the "Development of New Business Areas," and "Change in Business Style" as cornerstones of its growth strategy to expand the markets of its products such as LM Guide (Linear Motion Guide). As to Full-Scale Globalization, while the markets in emerging countries such as China are growing by dint of the factory automation progress, which is also spreading to developed-country users, the THK Group endeavors to expand its global sales network to meet such demand. Regarding Development of New Business Areas, while the THK Group's products are getting widely adopted in various business fields, the THK Group is working on expanding sales of not only existing products but also new developed products. Such business fields include automobile parts, medical equipment, aircraft, and robot, which are close to consumer goods, as well as seismic isolation and damping systems and renewable energy, which offer products that reduce risks arising from natural disasters and climate change. In addition to promoting these strategies above, the THK Group is also committed to further expand its business fields by changing its business style enabled by making full use of AI and robot technologies in many ways.

In the industrial machinery business, demand remained at a low level due to the US-China trade friction and the COVID-19 epidemic caused temporary operation shutdowns in certain branch offices; however, the demand for electronic products, which showed a sign of recovery in the latter half of the previous year, continued its recovery trend. In the transportation equipment business, the sluggish car sales and the COVID-19 epidemic had an adverse impact on the Group's production and shipping operations. As a result, consolidated revenue amounted to ¥55,435 million, down ¥20,096 million, or 26.6%, compared to the figure a year earlier, which had a large amount of backlog of orders in the industrial machinery business.

On the cost front, the THK Group continued to implement various activities to improve its productivity and to mitigate the decline in profitability. The cost to revenue ratio, however, rose 6.2% from a year earlier to 78.1% due to the sharp decrease in sales.

Selling, general and administrative expenses amounted to ¥12,470 million, down ¥578 million, or 4.4%, compared to the figure a year earlier. This was mainly attributable to the THK Group's endeavors to contain costs and improve operating efficiency as well as the decreased sales. The ratio to revenue, however, worsened by 5.2% from a year earlier to 22.5%.

In addition, the temporary operation shutdowns caused by the COVID-19 epidemic had an adverse impact. As a result, THK Group recorded ¥573 million of operating loss. (¥8,366 million of operating income a year earlier)

Finance income and finance costs were ¥211 million and 2,432 million, respectively.

As a result, loss before tax and loss attributable to owners of the parent were ¥2,794 million (¥7,694 million of profit before tax a year earlier) and ¥2,655 million (¥5,020 million of profit attributable to owners of the parent a year earlier), respectively.

Operating results by segment

(Japan)

In the industrial machinery business in Japan, while demand for machine tool products remained at a low level, demand for electronic products, which showed a sign of recovery in the latter half of the previous year, continued its recovery trend. However, as compared to the figure a year earlier, which had a large amount of backlog of orders in the industrial machinery business, revenue decreased by ¥10,479 million, or 31.5%, to ¥22,747 million. As a result, the THK Group recorded ¥460 million of operating loss (segment loss), a turnaround of ¥6,271 million due to the decreased revenue.

(The Americas)

In the industrial machinery business in the Americas, demand for electronic products showed a sign of recovery. In the transportation equipment business; however, the sluggish car sales and the COVID-19 epidemic had an adverse impact on the Group's production and shipping operations. As a result, revenue decreased by ¥2,795 million, or 17.8%, to ¥12,887 million. The THK Group recorded ¥389 million of operating loss (segment loss), a turnaround of ¥444 million due to the decreased revenue and the temporary operation shutdowns.

(Europe)

In the industrial machinery business in Europe, while demand remained at a low level due to the US-China trade friction, the COVID-19 epidemic caused temporary operation shutdowns in certain branch offices. In the transportation equipment business, the sluggish car sales and the COVID-19 epidemic had an adverse impact on the Group's production and shipping operations. As a result, revenue decreased by ¥4,111 million, or 26.0%, to ¥11,677 million. The THK Group recorded ¥408 million of operating loss (segment loss), a turnaround of ¥1,054 million due to the decreased revenue and the temporary operation shutdowns.

(China)

In China, while demand remained at a low level due to the US-China trade friction, the COVID-19 epidemic caused temporary operation shutdowns in the branch offices of the industrial machinery business and the transportation equipment business for a period starting from the end of the Chinese New Year to the middle of February 2020. As a result, as compared to the figure a year earlier, which had a large amount of backlog of orders in the industrial machinery business, revenue decreased by ¥1,985 million, or 26.9%, to ¥5,395 million. The THK Group recorded ¥10 million of operating loss (segment loss), a turnaround of ¥914 million due to the decreased revenue and the temporary operation shutdowns.

(Other)

In other countries and regions, the THK Group continued to expand and deepen transactions with existing customers and to cultivate new customers while demand for THK Group's products was widely expanded in India and the ASEAN countries. Revenue, however, decreased by ¥724 million, or 21.0%, to ¥2,728 million, mainly owing to the decreased demand in China that unfavorably affected the revenue in some countries. Operating income (segment income) decreased by ¥181 million, or 42.8%, to ¥242 million due to the decreased sales.

2. Financial position (As of March 31, 2020)

Total assets stood at ¥464,369 million, ¥4,576 million less than the previous fiscal year-end, due mainly to a combined effect of increase in (1) cash and cash equivalents by ¥5,369 million and (2) inventories by ¥2,239 million and decrease in (1) trade and other receivables by ¥5,401 million, (2) property, plant and equipment by ¥2,831 million, and (3) goodwill and intangible assets by ¥1,894 million.

Total liabilities stood at ¥184,393 million, ¥6,580 million more than the previous fiscal year-end, due mainly to a combined effect of increase in bonds and borrowings by ¥7,740 million and decrease in trade and other payables by ¥1,934 million.

Total equity stood at ¥279,975 million, ¥11,156 million less than the previous fiscal year-end, due mainly to decrease in retained earnings by ¥3,568 million and other components of equity by ¥6,953 million.

3. Forecast for the fiscal year ending December 31, 2020

For the six-month period ending June 30, 2020 and the year ending December 31, 2020, THK has not revised the consolidated forecasts announced on February 13, 2020. If the impact of the COVID-19 becomes reasonably determinable and any revision is found necessary, THK will make an announcement immediately.

Consolidated Financial Statements

Consolidated Statements of Financial Position

(Millions of Yen)

	As of December 31, 2019	As of March 31, 2020
Assets:		
Current assets:		
Cash and cash equivalents	¥149,091	¥154,461
Trade and other receivables	63,734	58,333
Inventories	48,120	50,359
Other financial assets	2	2
Other current assets	10,815	9,673
Total current assets	<u>271,764</u>	<u>272,829</u>
Non-current assets:		
Property, plant and equipment	155,055	152,224
Goodwill and intangible assets	21,440	19,546
Investments accounted for using the equity method	5,280	5,234
Other financial assets	9,991	8,539
Deferred tax assets	3,407	4,184
Net defined benefit asset	1,869	1,681
Other non-current assets	135	128
Total non-current assets	<u>197,180</u>	<u>191,539</u>
Total assets	<u><u>468,945</u></u>	<u><u>464,369</u></u>

(Millions of Yen)

As of December 31, 2019

As of March 31, 2020

Liabilities and equity:**Liabilities:**

Current liabilities:

Trade and other payables	¥42,825	¥40,890
Bonds and borrowings	22,228	22,214
Other financial liabilities	2,417	3,658
Income taxes payable	709	687
Other current liabilities	10,483	10,035
Total current liabilities	78,663	77,485

Non-current liabilities:

Bonds and borrowings	73,041	80,796
Other financial liabilities	11,056	11,133
Net defined benefit liabilities	7,438	7,260
Provisions	176	181
Deferred tax liabilities	5,468	5,286
Other non-current liabilities	1,968	2,249
Total non-current liabilities	99,149	106,907

Total Liabilities

177,813 184,393

Equity

Common stock	34,606	34,606
Capital surplus	40,413	40,413
Retained earnings	230,927	227,358
Treasury stock	(14,004)	(14,005)
Other components of equity	(11,598)	(18,551)
Total equity attributable to owners of the parent	280,344	269,822
Non-controlling interests	10,787	10,153
Total Equity	291,132	279,975

Total liabilities and equity

468,945 464,369

Consolidated Statements of Profit or Loss

(Millions of Yen)

	Three months Ended March 31, 2019	Three months Ended March 31, 2020
Revenue	¥75,531	¥55,435
Cost of sales	54,324	43,301
Gross profit	21,207	12,134
Selling, general and administrative expenses	13,049	12,470
Other income	504	373
Other expenses	323	624
Share of profit in investments accounted for using the equity method	27	14
Operating income (loss)	8,366	(573)
Financial income	270	211
Financial costs	942	2,432
Profit (loss) before tax	7,694	(2,794)
Income tax expense	2,381	15
Profit (loss) for the period	<u>5,313</u>	<u>(2,810)</u>
Attributable to:		
Owners of the parent	5,020	(2,655)
Non-controlling interests	292	(155)
Total	<u>5,313</u>	<u>(2,810)</u>
Earnings (loss) per share:		
Basic(Yen)	39.67	(20.98)
Diluted(Yen)	—	—

Consolidated Statements of Comprehensive Income

(Millions of Yen)

	Three months Ended March 31, 2019	Three months Ended March 31, 2020
Profit (loss) for the period	¥5,313	¥(2,810)
Other comprehensive income		
Items that may not be reclassified subsequently to profit or loss:		
Financial assets measured at fair value through other comprehensive income	349	(883)
Remeasurements of defined benefit plans	34	8
Share of other comprehensive income (losses) of associates accounted under the equity method	(2)	88
Subtotal	381	(786)
Items that may be reclassified subsequently to profit or loss:		
Exchange differences on translating foreign operations	2,334	(6,190)
Share of other comprehensive losses of associates	(50)	(109)
Subtotal	2,283	(6,300)
Other comprehensive income (loss), net of tax	2,665	(7,087)
Comprehensive income (loss)	7,978	(9,897)
Attributable to:		
Owners of the parent	7,460	(9,509)
Non-controlling interests	518	(388)
Total	7,978	(9,897)

Consolidated Statements of Changes in Equity

(Millions of Yen)

Three Months Ended March 31, 2019	Equity attributable to owners of the parent				Other components of equity
	Common stock	Capital surplus	Retained earnings	Treasury stock	Exchange differences on translating foreign operations
Beginning balance	¥34,606	¥40,420	¥226,358	¥(14,002)	¥(10,267)
Profit for the period	—	—	5,020	—	—
Other comprehensive income	—	—	—	—	2,061
Total comprehensive income for the period	—	—	5,020	—	2,061
Purchase of treasury stock	—	—	—	(0)	—
Payment of dividends	—	—	(4,809)	—	—
Transfer from other components of equity to retained earnings	—	—	26	—	—
Other	—	—	(2)	—	—
Total transactions with owners	—	—	(4,785)	(0)	—
Ending balance	34,606	40,420	226,593	(14,003)	(8,205)

	Equity attributable to owners of the parent				Other components of equity	
	Financial assets measured at fair value through other comprehensive income				Remeasurements of defined benefit plans	
	comprehensive income	Remeasurements of defined benefit plans	Subtotal	Total	Non-controlling interests	Total equity
Beginning balance	¥1,102	¥—	¥(9,164)	¥278,217	¥11,060	¥289,278
Profit for the period	—	—	—	5,020	292	5,313
Other comprehensive income	351	26	2,439	2,439	226	2,665
Total comprehensive income for the period	351	26	2,439	7,460	518	7,978
Purchase of treasury stock	—	—	—	(0)	—	(0)
Payment of dividends	—	—	—	(4,809)	—	(4,809)
Transfer from other components of equity to retained earnings	—	(26)	(26)	—	—	—
Other	—	—	—	(2)	(350)	(352)
Total transactions with owners	—	(26)	(26)	(4,811)	(350)	(5,162)
Ending balance	1,453	—	(6,751)	280,865	11,228	292,093

(Millions of Yen)

Three Months Ended March 31, 2020	Equity attributable to owners of the parent				Other components of equity
	Common stock	Capital surplus	Retained earnings	Treasury stock	Exchange differences on translating foreign operations
Beginning balance	¥34,606	¥40,413	¥230,927	¥(14,004)	¥(13,479)
Loss for the period	—	—	(2,655)	—	—
Other comprehensive income (loss)	—	—	—	—	(6,063)
Total comprehensive income for the period	—	—	(2,655)	—	(6,063)
Purchase of treasury stock	—	—	—	(0)	—
Payment of dividends	—	—	(1,012)	—	—
Transfer from other components of equity to retained earnings	—	—	99	—	—
Other	—	—	—	—	—
Total transactions with owners	—	—	(913)	(0)	—
Ending balance	34,606	40,413	227,358	(14,005)	(19,543)

	Equity attributable to owners of the parent				Other components of equity		
	Financial assets measured at fair value through other comprehensive income		Remeasurements of defined benefit plans	Subtotal	Total	Non-controlling interests	Total equity
Beginning balance	¥1,881	¥—	¥(11,598)	¥280,344	¥10,787	¥291,132	
Loss for the period	—	—	—	(2,655)	(155)	(2,810)	
Other comprehensive income (loss)	(889)	99	(6,854)	(6,854)	(233)	(7,087)	
Total comprehensive income (loss) for the period	(889)	99	(6,854)	(9,509)	(388)	(9,897)	
Purchase of treasury stock	—	—	—	(0)	—	(0)	
Payment of dividends	—	—	—	(1,012)	—	(1,012)	
Transfer from other components of equity to retained earnings	—	(99)	(99)	—	—	—	
Other	—	—	—	—	(245)	(245)	
Total transactions with owners	—	(99)	(99)	(1,013)	(245)	(1,258)	
Ending balance	992	—	(18,551)	269,822	10,153	279,975	

Consolidated Statements of Cash Flows

(Millions of Yen)

	Three months Ended March 31, 2019	Three months Ended March 31, 2020
Cash flows from operating activities:		
Profit (loss) before tax	¥7,694	¥(2,794)
Depreciation and amortization	4,445	4,647
Change in net defined benefit assets and liabilities	(97)	(44)
Financial income	(270)	(211)
Financial costs	476	1,526
Share of profit in investments accounted for using the equity method	(27)	(14)
Decrease in trade and other receivables	4,617	4,227
Increase in inventories	(3,959)	(3,249)
Increase (decrease) in trade and other payables	(937)	1,298
Other	(995)	(58)
Subtotal	10,945	5,327
Interests and dividends received	282	221
Interests paid	(84)	(95)
Income taxes paid	(11,631)	(380)
Net cash flows from operating activities	(488)	5,072
Cash flows from investing activities:		
Purchase of property, plant and equipment	(7,350)	(5,187)
Proceeds from sales of property, plant and equipment	25	6
Purchase of other financial assets	(55)	(6)
Other	30	12
Net cash flows from investing activities	(7,350)	(5,174)
Cash flows from financing activities:		
Proceeds from long-term borrowings	20,000	—
Repayments of long-term borrowings	(2,185)	(2,185)
Proceeds from issuance of bonds	20,000	10,000
Purchase of treasury stock	(0)	(0)
Dividends paid	(4,811)	(1,014)
Dividends paid to non-controlling shareholders	(110)	(225)
Repayments of lease obligations	(386)	(435)
Net cash flows from financing activities	32,505	6,139
Effects of exchange rate changes on cash and cash equivalents	777	(667)
Net increase in cash and cash equivalents	25,444	5,369
Cash and cash equivalents at the beginning of the period	134,513	149,091
Cash and cash equivalents at the end of the period	159,958	154,461

Segment Information

1. Outline of reportable segments

THK's reportable segments are components of THK Group for which respective financial information is separately available. Operating results of each segment is reviewed periodically by the Board of Directors to determine allocation of operating resources and evaluate its performance.

THK Group's main products are machinery parts such as LM (linear motion) guides and ball screws, and transportation equipment-related parts such as link balls and suspension ball joints. In each country, local subsidiaries establish their comprehensive business strategies and conduct their business activities in a similar way that THK and domestic subsidiaries do in Japan.

Therefore, the reportable segments consist of the five geographical segments, namely; (1) Japan, (2) The Americas (the United States and others), (3) Europe (Germany, France and others), (4) China, and (5) Other (Taiwan, Singapore and others) based on the THK Group's production/sales structure.

Segment income is computed based on operating income. The reportable segment information is prepared under the same accounting policies as those used in consolidation. Inter-segment sales and transfer are stated at amounts based on their fair market values. All adjustments in the following tables are intersegment elimination on consolidation.

2. Reportable segments

For the three months ended March 31, 2019 (January 1, 2019 to March 31, 2019)

	Japan	The Americas	Europe	China	Other	Total	Adjustments	Consolidated
(Millions of Yen)								
Revenue:								
Sales to customers	¥33,226	¥15,682	¥15,788	¥7,381	¥3,453	¥75,531	¥-	¥75,531
Inter-segment	13,554	79	24	1,799	498	15,955	(15,955)	-
Total	46,781	15,761	15,812	9,180	3,952	91,487	(15,955)	75,531
Segment income	5,811	54	645	904	423	7,839	527	8,366
Financial income	237	89	254	153	31	765	(495)	270
Financial costs	940	132	90	13	2	1,178	(236)	942
Profit before tax	5,108	11	810	1,044	452	7,426	267	7,694

(Note) All adjustments are intercompany elimination.

For the three months ended March 31, 2020 (January 1, 2020 to March 31, 2020)

	Japan	The Americas	Europe	China	Other	Total	Adjustments	Consolidated
(Millions of Yen)								
Revenue:								
Sales to customers	¥22,747	¥12,887	¥11,677	¥5,395	¥2,728	¥55,435	¥-	¥55,435
Inter-segment	9,713	64	51	331	457	10,618	(10,618)	-
Total	32,460	12,951	11,728	5,726	3,186	66,054	(10,618)	55,435
Segment income (loss)	(460)	(389)	(408)	(10)	242	(1,026)	452	(573)
Financial income	296	46	130	80	20	574	(363)	211
Financial costs	1,088	384	954	46	0	2,474	(42)	2,432
Profit (loss) before tax	(1,251)	(728)	(1,232)	23	262	(2,926)	131	(2,794)

(Note) All adjustments are intercompany elimination.

Per Share Information

(Millions of Yen)

	Three Months Ended March 31, 2019	Three Months Ended March 31, 2020
Profit (loss) attributable to owners of the parent	¥5,020	¥(2,655)
Weighted-average number of issued shares	126,568	126,567
Basic earnings (loss) per share	39.67	(20.98)

(Note)THK did not have any shares with potentially-dilutive effects for the three months ended March 31, 2019 and 2020.

Subsequent event

Not applicable.

Additional notes:

All the figures in this report except per share information are rounded down to the nearest million.

This information is summarized and translated from the original Japanese version submitted to the Tokyo Securities Exchange in accordance with its disclosure rules and presentation manners, which are different from those applied in the annual reports of THK due to reclassification and rearrangement made therein. This English translation is intended solely for the convenience of readers, and not intended in any way to substitute or replace the original Japanese version. If there is any discrepancy between the original Japanese version and this translation, the original Japanese version shall supersede all information in this translation. All the figures in this report are unaudited.