

Consolidated Financial Results for the Nine Months Ended September 30, 2020 under IFRS

Company Name	THK CO., LTD.
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URL	http://www.thk.com/
Stock exchange listing	Tokyo Stock Exchange-First Section
Code number	6481
Representative	Akihiro Teramachi, President and CEO
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Scheduled date of filing quarterly report (Japanese version only)	November 12, 2020
Scheduled starting date of dividend payment	n/a

1. Consolidated operating results and financial position as of and for the nine months ended September 30, 2020 (January 1, 2020 to September 30, 2020)

(1) Consolidated Operating Results

Nine Months Ended September 30	Revenue		Operating Income (Loss)		Profit (Loss) Before Tax		Profit (Loss) for the Period		Profit (Loss) Attributable to Owners of the Parent		Total Comprehensive Income (Loss)	
	(Millions of Yen)	(%)	(Millions of Yen)	(%)	(Millions of Yen)	(%)	(Millions of Yen)	(%)	(Millions of Yen)	(%)	(Millions of Yen)	(%)
2020	¥156,536	(26.1)%	¥(971)	—%	¥(2,753)	—%	¥(4,055)	—%	¥(3,492)	—%	¥(8,812)	—%
2019	211,922	—	17,115	—	16,384	—	10,817	—	10,615	—	3,137	—

Nine Months Ended September 30	Basic Earnings (Loss) per Share (Yen)	Diluted Earnings per Share (Yen)
	2020	¥(27.59)
2019	83.88	—

(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
September 30, 2020	¥477,527	¥280,116	¥270,275	56.6%
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)	—	7.50	—	n/a	n/a
Year ending December 31, 2020 (Projected)	n/a	n/a	n/a	7.50	15.00

(Note) Change in dividend projection: None

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 (Loss) Before Tax (Millions of Yen)		Profit (Loss) Attributable to Owners of the Parent (Millions of Yen)		Profit (Loss) per Share (Yen)
Year ending December 31, 2020	216,000	(21.3)	200	(98.9)	(1,400)	—	(3,100)	—	(24.49)

(Note 1) Change in forecasts: None

(Note 2) The above forecasts are based upon the information currently available at the time of the announcement of this report. Actual performance may differ from the estimates due to various unforeseen factors.

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:	September 30, 2020	133,856,903
	December 31, 2019	133,856,903
b. Treasury stock as of:	September 30, 2020	7,290,002
	December 31, 2019	7,289,461
c. Average number of common stock for the Nine Months ended:	September 30, 2020	126,567,201
	September 30, 2019	126,567,937

Management's Discussion and Analysis

1. Outline of operating results

(1) Operating results (from January 1, 2020 to September 30, 2020)

In this nine 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 mainly developed countries due to the US-China trade friction and the COVID-19 epidemic. 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, especially in the second quarter period from April to June 2020. As a result, consolidated revenue amounted to ¥156,536 million, down ¥55,386 million, or 26.1%, compared to the figure a year earlier.

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 4.3% from a year earlier to 78.5% due to the sharp decrease in sales.

Selling, general and administrative expenses amounted to ¥33,750 million, down ¥3,911 million, or 10.4%, 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 3.8% from a year earlier to 21.6%.

In addition, the temporary operation shutdowns caused by the COVID-19 epidemic had an adverse impact. As a result, THK Group recorded ¥971 million of operating loss (¥17,115 million of operating income a year earlier).

Finance income and finance costs were ¥499 million and 2,281 million, respectively.

As a result, loss before tax and loss attributable to owners of the parent were ¥2,753 million (¥16,384 million of profit before tax a year earlier) and ¥3,492 million (¥10,615 million of profit attributable to owners of the parent a year earlier), respectively.

(2) 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. In the transportation equipment business, the COVID-19 epidemic had an adverse impact on the Group's production and shipping operations, especially in the second quarter period from April to June 2020. As a result, revenue decreased by ¥25,896 million, or 28.4%, to ¥65,284 million, as compared to the figure a year earlier. Operating income (segment income) dropped by ¥9,348 million, and consequently turned to ¥306 million of operating loss (segment loss) due to the decreased revenue and the temporary operation shutdowns.

(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 COVID-19 epidemic had an adverse impact on the Group's production and shipping operations, especially in the second quarter period from April to June 2020. As a result, revenue decreased by ¥11,993 million, or 26.7%, to ¥32,882 million. Operating loss (segment loss) worsened by ¥396 million to ¥1,340 million due to the decreased revenue and the temporary operation shutdowns.

(Europe)

In the industrial machinery business in Europe, the COVID-19 epidemic caused temporary operation shutdowns in certain branch offices from the middle of March to the middle of April 2020. In the transportation equipment business, the COVID-19 epidemic had an adverse impact on the Group's production and shipping operations, especially in the second quarter period from April to June 2020. As a result, revenue decreased by ¥14,950 million, or 34.8%, to ¥28,038 million. Operating income (segment income) dropped by ¥3,042 million, and consequently turned to ¥2,672 million of operating loss (segment loss) due to the decreased revenue and the temporary operation shutdowns.

(China)

In China, 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. However, demand showed a sign of recovery as economic activities in China subsequently resumed earlier than the other countries. As a result, as compared to the figure a year earlier, revenue increased by ¥609 million, or 2.7%, to ¥23,442 million. Operating income (segment income), however, decreased by ¥107 million, or 4.5%, to ¥2,287 million due to 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 ¥3,155 million, or 31.4%, to ¥6,888 million, because of the weakness in the overall demand situation due to the COVID-19 epidemic. Operating income (segment income) decreased by ¥695 million, or 72.5%, to ¥263 million due to the decreased sales.

2. Financial position (as of September 30, 2020)

Total assets stood at ¥477,527 million, ¥8,581 million more than the previous fiscal year-end, due mainly to a combined effect of increase in (1) cash and cash equivalents by ¥24,534 million and (2) inventories by ¥696 million and decrease in (1) trade and other receivables by ¥8,799 million, (2) property, plant and equipment by ¥2,536 million, and (3) goodwill and intangible assets by ¥2,217 million.

Total liabilities stood at ¥197,410 million, ¥19,597 million more than the previous fiscal year-end, due mainly to a combined effect of increase in bonds and borrowings by ¥27,498 million and decrease in trade and other payables by ¥8,578 million.

Total equity stood at ¥280,116 million, ¥11,016 million less than the previous fiscal year-end, due mainly to decrease in retained earnings by ¥5,447 million and other components of equity by ¥4,619 million.

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

No change from the forecasts (for the year ending December 31, 2020) reported in the announcement dated August 6, 2020.

Consolidated Financial Statements

Consolidated Statements of Financial Position

(Millions of Yen)

	As of December 31, 2019	As of September 30, 2020
Assets:		
Current assets:		
Cash and cash equivalents	¥149,091	¥173,625
Trade and other receivables	63,734	54,935
Inventories	48,120	48,817
Other financial assets	2	1
Other current assets	10,815	8,140
Total current assets	<u>271,764</u>	<u>285,520</u>
Non-current assets:		
Property, plant and equipment	155,055	152,519
Goodwill and intangible assets	21,440	19,223
Investments accounted for using the equity method	5,280	5,230
Other financial assets	9,991	9,203
Deferred tax assets	3,407	3,899
Net defined benefit asset	1,869	1,822
Other non-current assets	135	107
Total non-current assets	<u>197,180</u>	<u>192,006</u>
Total assets	<u><u>468,945</u></u>	<u><u>477,527</u></u>

(Millions of Yen)

As of December 31, 2019

As of September 30, 2020

Liabilities and equity:**Liabilities:**

Current liabilities:

Trade and other payables	¥42,825	¥34,246
Bonds and borrowings	22,228	22,215
Other financial liabilities	2,417	2,923
Income taxes payable	709	925
Other current liabilities	10,483	10,334
Total current liabilities	78,663	70,645

Non-current liabilities:

Bonds and borrowings	73,041	100,553
Other financial liabilities	11,056	11,125
Net defined benefit liabilities	7,438	7,311
Provisions	176	179
Deferred tax liabilities	5,468	5,334
Other non-current liabilities	1,968	2,261
Total non-current liabilities	99,149	126,765

Total Liabilities

177,813 197,410

Equity

Common stock	34,606	34,606
Capital surplus	40,413	40,413
Retained earnings	230,927	225,479
Treasury stock	(14,004)	(14,005)
Other components of equity	(11,598)	(16,218)
Total equity attributable to owners of the parent	280,344	270,275
Non-controlling interests	10,787	9,840
Total Equity	291,132	280,116

Total liabilities and equity

468,945 477,527

Consolidated Statements of Profit or Loss

(Millions of Yen)

	Nine months ended September 30, 2019	Nine months ended September 30, 2020
Revenue	¥211,922	¥156,536
Cost of sales	157,297	122,837
Gross profit	54,624	33,699
Selling, general and administrative expenses	37,662	33,750
Other income	1,577	2,982
Other expenses	1,444	4,017
Share of profit in investments accounted for using the equity method	20	115
Operating income (loss)	17,115	(971)
Financial income	793	499
Financial costs	1,525	2,281
Profit (loss) before tax	16,384	(2,753)
Income tax expense	5,567	1,302
Profit (loss) for the period	<u>10,817</u>	<u>(4,055)</u>
Attributable to:		
Owners of the parent	10,615	(3,492)
Non-controlling interests	201	(563)
Total	<u>10,817</u>	<u>(4,055)</u>
Earnings (loss) per share:		
Basic (Yen)	83.88	(27.59)
Diluted (Yen)	—	—

Consolidated Statements of Comprehensive Income

(Millions of Yen)

	Nine months ended September 30, 2019	Nine months ended September 30, 2020
Profit (loss) for the period	¥10,817	¥(4,055)
Other comprehensive income		
Items that may not be reclassified subsequently to profit or loss:		
Financial assets measured at fair value through other comprehensive income	376	(376)
Remeasurements of defined benefit plans	99	23
Share of other comprehensive losses of associates accounted under the equity method	(10)	(9)
Subtotal	466	(362)
Items that may be reclassified subsequently to profit or loss:		
Exchange differences on translating foreign operations	(7,998)	(4,292)
Share of other comprehensive losses of associates	(146)	(102)
Subtotal	(8,145)	(4,394)
Other comprehensive loss, net of tax	(7,679)	(4,756)
Comprehensive income (loss)	3,137	(8,812)
Attributable to:		
Owners of the parent	3,216	(8,105)
Non-controlling interests	(78)	(706)
Total	3,137	(8,812)

Consolidated Statements of Changes in Equity

(Millions of Yen)

Nine Months Ended September 30, 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	—	—	10,615	—	—
Other comprehensive income	—	—	—	—	(7,854)
Total comprehensive income for the period	—	—	10,615	—	(7,854)
Purchase of treasury stock	—	—	—	(1)	—
Payment of dividends	—	—	(7,847)	—	—
Transfer from other components of equity to retained earnings	—	—	77	—	—
Other	—	(6)	(3)	—	—
Total transactions with owners	—	(6)	(7,773)	(1)	—
Ending balance	<u>34,606</u>	<u>40,413</u>	<u>229,200</u>	<u>(14,003)</u>	<u>(18,121)</u>

	Equity attributable to owners of the parent				Other components of equity	
	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	—	—	—	10,615	201	10,817
Other comprehensive income	377	77	(7,399)	(7,399)	(279)	(7,679)
Total comprehensive income for the period	377	77	(7,399)	3,216	(78)	3,137
Purchase of treasury stock	—	—	—	(1)	—	(1)
Payment of dividends	—	—	—	(7,847)	—	(7,847)
Transfer from other components of equity to retained earnings	—	(77)	(77)	—	—	—
Other	—	—	—	(9)	(393)	(402)
Total transactions with owners	—	(77)	(77)	(7,858)	(393)	(8,251)
Ending balance	<u>1,479</u>	<u>—</u>	<u>(16,641)</u>	<u>273,575</u>	<u>10,589</u>	<u>284,164</u>

(Millions of Yen)

Nine Months Ended September 30, 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	—	—	(3,492)	—	—
Other comprehensive income (loss)	—	—	—	—	(4,240)
Total comprehensive income for the period	—	—	(3,492)	—	(4,240)
Purchase of treasury stock	—	—	—	(1)	—
Payment of dividends	—	—	(1,961)	—	—
Transfer from other components of equity to retained earnings	—	—	6	—	—
Other	—	—	—	—	—
Total transactions with owners	—	—	(1,955)	(1)	—
Ending balance	34,606	40,413	225,479	(14,005)	(17,720)

	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	—	—	—	(3,492)	(563)	(4,055)	
Other comprehensive income (loss)	(379)	6	(4,613)	(4,613)	(143)	(4,756)	
Total comprehensive income (loss) for the period	(379)	6	(4,613)	(8,105)	(706)	(8,812)	
Purchase of treasury stock	—	—	—	(1)	—	(1)	
Payment of dividends	—	—	—	(1,961)	—	(1,961)	
Transfer from other components of equity to retained earnings	—	(6)	(6)	—	—	—	
Other	—	—	—	—	(240)	(240)	
Total transactions with owners	—	(6)	(6)	(1,963)	(240)	(2,203)	
Ending balance	1,502	—	(16,218)	270,275	9,840	280,116	

Consolidated Statements of Cash Flows

(Millions of Yen)

	Nine months ended September 30, 2019	Nine months ended September 30, 2020
Cash flows from operating activities:		
Profit (loss) before tax	¥16,384	¥(2,753)
Depreciation and amortization	13,447	13,790
Impairment loss	669	—
Change in net defined benefit assets and liabilities	(21)	(144)
Financial income	(763)	(499)
Financial costs	2,576	1,172
Share of profit in investments accounted for using the equity method	(20)	(115)
Decrease in trade and other receivables	22,970	7,657
Increase in inventories	(2,863)	(1,205)
Increase (decrease) in trade and other payables	(15,338)	(4,162)
Other	(2,274)	(43)
Subtotal	34,765	13,695
Interests and dividends received	768	511
Interests paid	(310)	(284)
Income taxes (paid) refunded	(19,892)	915
Net cash flows from operating activities	15,330	14,837
Cash flows from investing activities:		
Purchase of property, plant and equipment	(22,096)	(13,462)
Proceeds from sales of property, plant and equipment	50	71
Purchase of other financial assets	(329)	(33)
Other	(188)	(228)
Net cash flows from investing activities	(22,563)	(13,653)
Cash flows from financing activities:		
Net increase in commercial papers	—	10,000
Proceeds from long-term borrowings	20,000	—
Repayments of long-term borrowings	(12,185)	(2,185)
Proceeds from issuance of bonds	20,000	30,000
Redemption of bonds	—	(10,000)
Purchase of treasury stock	(1)	(1)
Dividends paid	(7,927)	(1,985)
Dividends paid to non-controlling shareholders	(106)	(232)
Repayments of lease obligations	(1,265)	(1,160)
Net cash flows from financing activities	18,514	24,436
Effects of exchange rate changes on cash and cash equivalents	(3,978)	(1,086)
Net increase in cash and cash equivalents	7,302	24,534
Cash and cash equivalents at the beginning of the period	134,513	149,091
Cash and cash equivalents at the end of the period	141,816	173,625

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 nine months ended September 30, 2019 (January 1, 2019 to September 30, 2019)

	Japan	The Americas	Europe	China	Other	Total	Adjustments	Consolidated
(Millions of Yen)								
Revenue:								
Sales to customers	¥91,180	¥44,876	¥42,989	¥22,832	¥10,044	¥211,922	¥-	¥211,922
Inter-segment	37,190	104	150	3,943	1,318	42,707	(42,707)	-
Total	128,370	44,981	43,139	26,775	11,363	254,630	(42,707)	211,922
Segment income (loss)	9,042	(944)	369	2,395	958	11,821	5,294	17,115
Financial income	347	250	641	286	86	1,611	(817)	793
Financial costs	1,546	247	260	24	5	2,084	(559)	1,525
Profit (loss) before tax	7,842	(941)	750	2,657	1,039	11,348	5,035	16,384

(Note) All adjustments are intercompany elimination.

For the nine months ended September 30, 2020 (January 1, 2020 to September 30, 2020)

	Japan	The Americas	Europe	China	Other	Total	Adjustments	Consolidated
(Millions of Yen)								
Revenue:								
Sales to customers	¥65,284	¥32,882	¥28,038	¥23,442	¥6,888	¥156,536	¥-	¥156,536
Inter-segment	26,222	92	78	1,083	1,289	28,765	(28,765)	-
Total	91,506	32,975	28,116	24,525	8,178	185,302	(28,765)	156,536
Segment income (loss)	(306)	(1,340)	(2,672)	2,287	263	(1,768)	796	(971)
Financial income	815	49	234	241	30	1,371	(872)	499
Financial costs	1,509	310	573	41	8	2,442	(161)	2,281
Profit (loss) before tax	(999)	(1,601)	(3,011)	2,487	285	(2,839)	85	(2,753)

(Note) All adjustments are intercompany elimination.

Per Share Information

Basis of computation of basic earnings (loss) per share is as follows. THK did not have any shares with potentially-dilutive effects for the reporting periods in the following table.

For the nine months ended September 30 (January 1 to September 30)

	(Millions of Yen)	
	Nine months ended September 30, 2019	Nine months ended September 30, 2020
Profit (loss) attributable to owners of the parent	¥10,615	¥(3,492)
Weighted-average number of issued shares	126,567	126,567
Basic earnings (loss) per share	83.88	(27.59)

For the three months ended September 30 (July 1 to September 30)

	(Millions of Yen)	
	Three months ended September 30, 2019	Three months ended September 30, 2020
Profit (loss) attributable to owners of the parent	¥1,094	¥(134)
Weighted-average number of issued shares	126,567	126,567
Basic earnings (loss) per share	8.65	(1.06)

Subsequent event

Not applicable.

Additional Information

(Accounting estimates associated with the COVID-19 epidemic)

The COVID-19 epidemic has an adverse impact on the THK Group's business activities and has caused the decline in revenue for the year ending December 31, 2020; however, the THK Group has assumed that the THK Group's operations will gradually recover. The estimates regarding impairment of fixed assets, recoverability of deferred tax assets, and other items have been made based on such assumption.

However, if the impact of the COVID-19 epidemic becomes more significant than expected or if the operating environment drastically changes, the THK Group's financial position and operating results will be affected resulting in recognizing impairment loss on fixed assets and reducing the carrying amount of deferred tax assets.

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.