Consolidated Financial Results (Japanese Accounting Standards) for the First Three Quarters of the Fiscal Year Ending March 31, 2020

February 10, 2020

Company Name: Ahresty Corporation — Stock Exchange Listing: Tokyo
Code Number: 5852 URL: https://www.ahresty.co.jp
Representative: President & CEO Arata Takahashi
Contact for inquiries: Executive Officer, Chief of General Administrative Command Tsuruo Tsuji TEL: 03-6369-8660

Planned date for filing of quarterly securities report: February 12, 2020
Planned date for start of dividend payment: —
Supplementary documents for quarterly results: Yes
Quarterly results briefing: No

(Amounts of less than 1 million yen are rounded off.)

1. Business performance (from April 1, 2019 to December 31, 2019)

(1) Consolidated operating results (for the nine months ended December 31, 2019) (% shows change from previous year's first three quarters.)

	Net sales		Operating income		Recurring income		Net income attributable to owners of parent	
	million yen	%	million yen	%	million yen	%	million yen	%
Nine months ended December 31, 2019	92,019	(16.8)	512	(73.5)	209	(89.4)	106	—
Nine months ended December 31, 2018	110,601	3.4	1,932	(32.6)	1,981	(26.4)	(1,285)	—

(Note) Comprehensive income
Nine months ended December 31, 2019 -2,018 million yen (_%)
Nine months ended December 31, 2018 -3,187 million yen (_%)

(Reference) EBITDA
Nine months ended December 31, 2019 11,258 million yen (-21.2%)
Nine months ended December 31, 2018 14,284 million yen (2.1%)

* EBITDA = operating income + depreciation and amortization

	Net income per share	Fully diluted net income per share
	yen	yen
Nine months ended December 31, 2019	4.17	4.12
Nine months ended December 31, 2018	(49.63)	—

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio
	million yen	million yen	%
As of December 31, 2019	123,741	58,522	47.1
As of March 31, 2019	128,222	61,293	47.7

(Reference) Shareholders' equity
As of December 31, 2019 58,334 million yen
As of March 31, 2019 61,105 million yen

2. Dividend payments

	Dividend per share				
	End of first quarter	End of second quarter	End of third quarter	End of year	For the year
	yen	yen	yen	yen	yen
Year ended March 31, 2019	—	10.00	—	12.00	22.00
Year ending March 31, 2020	—	8.00	—		
Year ending March 31, 2020 (projection)				10.00	18.00

(Note) Revisions to dividend projection published most recently: No

3. Forecast of consolidated results for year ending March 2020 (from April 1, 2019 to March 31, 2020)

(% shows the year-on-year change.)

	Net sales		Operating income		Recurring income		Net income attributable to owners of parent		Net income per share
	million yen	%	million yen	%	million yen	%	million yen	%	yen
Full year	123,400	(15.1)	900	(72.1)	700	(75.9)	200	(52.5)	7.81

(Note) Revisions to consolidated results forecast published most recently: No

* Notes:

(1) Significant changes to subsidiaries during the current term (changes for a specified subsidiary accompanying a change in the scope of consolidation): None

(2) Application of specific accounting treatment to the preparation of quarterly consolidated financial statements: None

(3) Changes in accounting principles and changes or restatement of accounting estimates

(i) Changes in accounting principles associated with revision of accounting standards, etc.:	None
(ii) Changes in accounting principles other than (i):	None
(iii) Changes in accounting estimates:	None
(iv) Restatement:	None

(4) Number of shares outstanding (Common stock)

(i) Number of shares outstanding at end of period (including treasury shares)	As of December 31, 2019	26,076,717 shares	As of March 31, 2019	26,076,717 shares
(ii) Number of treasury shares at end of period	As of December 31, 2019	602,216 shares	As of March 31, 2019	162,347 shares
(iii) Average number of shares (for the first nine-month period)	As of December 31, 2019	25,661,728 shares	As of December 31, 2018	25,896,322 shares

* Quarterly consolidated financial statements are placed outside the scope of quarterly reviews performed by a certified public accountant or an audit corporation.

* Explanation for appropriate use of financial forecasts and other special remarks

This material contains forward-looking statements based on information obtained by the Company as of the day of publication, as well as certain assumptions that the Company believes to be reasonable. A number of factors could cause actual results to differ materially from expectations. For notes on the use of the results forecasts and assumptions as the basis for the results forecasts, please see “1. Qualitative Information on Consolidated Operating Results, etc. for the First Three Quarters (3) Qualitative Information Concerning Consolidated Earnings Forecasts” on page 3 of the accompanying materials.

Accompanying Materials - Contents

1. Qualitative Information on Consolidated Operating Results, etc. for the First Three Quarters

(1) Qualitative Information Concerning Consolidated Operating Results

During the first three quarters of the consolidated fiscal year under review, the Japanese economy maintained a mild recovery without a significant decrease in consumer spending after the consumption tax hike, which had caused last-minute demand, along with the employment situation which hovered at a high level. In contrast, however, business confidence has become weaker recently, reflecting the deceleration of exports. Overseas, while the U.S. economy maintains its strength, in Asia, the Chinese economy continues to decelerate and the Indian economy has also slowed down. On the other hand, the business environment surrounding the automobile industry, which is our main customer, faces a continued deceleration in car sales due to the impact of prolonged U.S.-China trade friction on the world economy and the economic uncertainties for the future of the Chinese and Indian economies, together with the impact of changes in policies on car sales in the relevant countries. The sales volume in the Company's die casting business has also been affected by the deceleration of car sales, and has been lower than in the previous year both in Japan and abroad.

To address these situations, the Group will steadily implement measures based on its 1921 Medium-term Management Plan, which started this year, to improve profitability by raising productivity through cost cutting and reduction of expenses.

As a result, for the first three quarters of the consolidated fiscal year under review, the Company recorded consolidated net sales of ¥92,019 million (down 16.8% year on year), operating income of ¥512 million (down 73.5% year on year), recurring income of ¥209 million (down 89.4% year on year) and net income attributable to owners of parent of ¥106 million (as opposed to net loss attributable to owners of parent of ¥1,285 million in the same three quarters of the previous year).

Operating results by segment are as follows:

(i) Die Casting Business: Japan

In the Japanese automobile market, the production volume of car manufacturers, our main customers, fell short of that of the previous year due to sluggish sales in North America and Asia, leading to a continued decrease in our orders received on a year-on-year basis. Net sales came to ¥44,921 million (down 13.1% year on year), partly due to a decline in the condition of the aluminum market. On the profitability side, despite our efforts to reduce manufacturing costs, etc., the segment recorded a loss of ¥342 million (a segment profit of ¥574 million was recorded a year earlier) due to the significant impact of the decrease in net sales.

(ii) Die Casting Business: North America

In the North American automobile market, the production volume of car manufacturers, including our main customers, fell slightly short of that of the previous year, leading to a decrease in our orders received. At the Company's plant in the United States, sales volume significantly decreased due to the impact of strikes associated with the suspension of operation at some of our customers as well as the impact of sluggish sales. Meanwhile, the plant in Mexico also faced a decrease in orders received due to the impact of weak sales recorded by car manufacturers, the Company's main customers, which offset an increase in orders after the mass production of new components commenced on a full-scale basis. Consequently, net sales in the North American segment stood at ¥23,998 million (down 20.5% year on year), partly due to a decline in the conditions of the aluminum market in both countries in North America. On the profitability front, despite the impact of the decrease in sales volume, the segment recorded profit of ¥536 million (a segment loss of ¥283 million was recorded a year earlier), mainly reflecting a decrease in the burden of depreciation and amortization.

(iii) Die Casting Business: Asia

In China, with car sales indicating a downturn since the second half of the previous year, a decline in sales to car manufacturers (local manufacturers in particular) had a significant impact on orders received by the Company. Also, in India, car sales, which had remained strong, turned downward and continue to fall short of the level of the previous year, mainly due to changes in a range of systems applied to the ownership and purchase of vehicles and a backlash against restrained purchases before the introduction of environmental control initiatives. In addition to the impact of these decreases in car sales in China and India, due to the impacts of a fall in the aluminum prices and foreign exchange, Asian sales fell 21.2% year on year, to ¥18,051 million. In terms of profitability, the segment recorded a loss of ¥98 million (a segment profit of ¥1,382 million was recorded a year earlier) due to the significant impact of the decrease in net sales in China.

(iv) Aluminum Business

In the Aluminum business, net sales decreased 10.9% year on year to ¥3,081 million, chiefly due to a lower unit sales price continuing from the July-September period affected by the aluminum market, although sales volume increased slightly on a year-on-year basis. On the profitability side, segment profit increased 87.2% year on year to ¥135 million, reflecting lower material prices attributable to a fall in the market price of aluminum.

(v) Proprietary Products Business

In the Proprietary Products business, net sales decreased 17.5% year on year to ¥1,966 million, mainly reflecting a decrease in orders for projects of the main customers, namely a clean room at a semiconductor-related company and a data center at a telecommunications company. On the profitability front, the segment profit also decreased 25.8% year on year to ¥172 million, chiefly due to the impact of decreased orders.

(2) Qualitative Information Concerning Consolidated Financial Position

(i) Assets, liabilities and net assets

(Assets)

Total assets at the end of the consolidated first three quarters under review decreased ¥4,480 million from the end of the previous consolidated fiscal year, to ¥123,741 million. Current assets stood at ¥36,024 million, a decrease of ¥6,243 million from the end of the previous consolidated fiscal year. Major factors behind this include a decline in trade notes and accounts receivable of ¥4,674 million and a decrease of ¥1,973 million in inventories. Non-current assets were ¥87,717 million, up ¥1,763 million from the end of the preceding fiscal year. This was due chiefly to the increase of ¥1,738 million in tangible fixed assets.

(Liabilities)

Total liabilities at the end of the consolidated first three quarters under review fell ¥1,709 million from the end of the previous consolidated fiscal year, to ¥65,219 million. Current liabilities stood at ¥43,713 million, reflecting a decrease of ¥2,776 million from the end of the previous consolidated fiscal year. The principal factors contributing to this result included an increase of ¥3,752 million in short-term loans payable, in contrast to decreases of ¥2,950 million in notes and accounts payable and ¥2,347 million in the current portion of long-term loans. Long-term liabilities stood at ¥21,505 million, up ¥1,067 million from the end of the preceding consolidated fiscal year. The main factors included an increase of ¥795 million in long-term loans payable.

(Net assets)

Net assets at the end of the consolidated first three quarters under review decreased ¥2,770 million from the end of the previous consolidated fiscal year, to ¥58,522 million. This was attributable primarily to decreases of ¥472 million in retained earnings and ¥2,059 million in foreign currency translation adjustments.

As a result, the equity ratio was down from 47.7% at the end of the previous consolidated fiscal year to 47.1%.

(3) Qualitative Information Concerning Consolidated Earnings Forecasts

No changes have been made to the consolidated financial forecasts announced on October 17, 2019 for the consolidated full-year forecasts for the fiscal year ending March 31, 2020.

2. Consolidated Quarterly Financial Statements and Key Notes

(1) Quarterly Consolidated Balance Sheet

(Million yen)

	As of March 31, 2019	As of December 31, 2019
(Assets)		
Current assets		
Cash and time deposits	4,028	4,374
Trade notes and accounts receivable	22,382	18,421
Electronically recorded monetary claims – operating	3,249	2,536
Merchandise and products	3,463	2,878
Partly finished goods	4,760	3,715
Raw materials and inventories	3,070	2,726
Others	1,363	1,488
Allowance for doubtful accounts	(50)	(116)
Total current assets	42,267	36,024
Fixed assets		
Tangible fixed assets		
Buildings and structures, net	14,816	14,822
Machinery and delivery equipment, net	39,430	37,996
Land	5,461	5,630
Construction in progress	8,982	12,189
Others, net	8,709	8,500
Total tangible fixed assets	77,399	79,138
Intangible fixed assets	2,067	2,003
Investments and other assets		
Investments in securities	4,232	4,003
Others	2,278	2,595
Allowance for doubtful accounts	(24)	(22)
Total investments and other assets	6,486	6,575
Total fixed assets	85,954	87,717
Total assets	128,222	123,741
(Liabilities)		
Current liabilities		
Notes and accounts payable	11,162	9,479
Electronically recorded obligations – operating	7,522	6,254
Short-term loans	5,740	9,493
Current portion of long-term loans	10,199	7,851
Accrued income taxes	872	33
Bonus allowances	2,143	1,064
Provision for product warranties	70	55
Others	8,779	9,481
Total current liabilities	46,490	43,713
Long-term liabilities		
Long-term loans	14,798	15,594
Long-term accounts payable	154	398
Net defined benefit liability	2,949	2,797
Others	2,535	2,714
Total long-term liabilities	20,438	21,505
Total liabilities	66,928	65,219

(Million yen)

	As of March 31, 2019	As of December 31, 2019
(Net assets)		
Shareholders' equity		
Common stock	6,964	6,964
Additional paid-in capital	10,206	10,206
Retained earnings	40,071	39,599
Treasury stock	(239)	(411)
Total shareholders' equity	57,002	56,357
Other accumulated comprehensive income		
Difference on revaluation of other marketable securities	2,015	1,925
Foreign currency translation adjustments	2,484	425
Remeasurements of defined benefit plans	(397)	(373)
Total other accumulated comprehensive income	4,102	1,977
Share warrants	187	187
Total net assets	61,293	58,522
Total liabilities and net assets	128,222	123,741

(2) Quarterly Consolidated Income Statements and Quarterly Consolidated Statements of Comprehensive Income

Quarterly Consolidated Income Statements

(First Three Quarters)

(Million yen)

	Nine months ended December 31, 2018 (April 1, 2018 to December 31, 2018)	Nine months ended December 31, 2019 (April 1, 2019 to December 31, 2019)
Net sales	110,601	92,019
Cost of goods sold	99,986	83,101
Gross profit	10,615	8,918
Selling, general and administrative expenses	8,682	8,406
Operating income	1,932	512
Non-operating income		
Interest income	73	86
Dividends received	183	101
Foreign currency exchange gains	22	—
Gain on sales of scraps	109	77
Others	111	61
Total non-operating income	499	327
Non-operating expenses		
Interest expenses	413	359
Foreign currency exchange loss	—	189
Others	38	81
Total non-operating expenses	451	630
Recurring income	1,981	209
Extraordinary gains		
Gain on sales of fixed assets	59	22
Gain on sales of investment securities	301	54
Subsidy income	65	159
Gain on revision of retirement benefit plans	—	155
Gain on insurance adjustment	160	—
Total extraordinary gains	586	391
Extraordinary losses		
Loss on sales of fixed assets	260	126
Impairment loss	3,015	—
Expenses for advance loan repayments	153	—
Loss on revision of retirement benefit plans	—	75
Total extraordinary losses	3,430	201
Income (loss) before income taxes and others	(862)	399
Income taxes and enterprise taxes	874	424
Deferred income taxes	(452)	(132)
Total income taxes	422	292
Net income (loss)	(1,285)	106
Net income (loss) attributable to owners of parent	(1,285)	106

Quarterly Consolidated Statements of Comprehensive Income

(First Three Quarters)

(Million yen)

	Nine months ended December 31, 2018 (April 1, 2018 to December 31, 2018)	Nine months ended December 31, 2019 (April 1, 2019 to December 31, 2019)
Net income (loss)	(1,285)	106
Other comprehensive income		
Difference on revaluation of other marketable securities	(953)	(89)
Foreign currency translation adjustments	(983)	(2,059)
Remeasurements of defined benefit plans, net of tax	35	23
Total other comprehensive income	(1,901)	(2,125)
Comprehensive income	(3,187)	(2,018)
Comprehensive income attributable to:		
Comprehensive income attributable to owners of parent	(3,187)	(2,018)
Comprehensive income attributable to non-controlling interests	–	–

(3) Notes on Going Concern Assumptions

Not applicable.

(4) Notes for Significant Change in the Amount of Shareholders' Equity

(Purchase of own shares)

The Company resolved at its Board of Directors' meeting held on May 27, 2019 to purchase its own shares, and purchased its own shares during the nine-month period of the consolidated fiscal year under review. As a result, treasury stock increased by ¥299 million (551,700 shares).

(Disposition of treasury stock)

The Company resolved at its Board of Directors' meeting held on June 19, 2019 to dispose of treasury shares for the delivery as stock compensation, and disposed of them during the nine-month period of the fiscal year under review. As a result, treasury stock decreased by ¥127 million (120,734 shares).

(5) Changes in the Accounting Policy

(Application of ASU No. 2014-09 (Revenue from contracts with customers))

From the beginning of the first quarter of the consolidated fiscal year under review, the U.S. subsidiary, to which the U.S. standards are applied, started to adopt ASU No. 2014-09 (Revenue from contracts with customers). According to this, upon the transfer of the promised goods or services to customers, revenue is recognized in an amount that reflects the consideration to which the subsidiary expects to be entitled in exchange for such goods or services.

The impact of application of the standards on the Group's financial conditions and operating performance is insignificant.

(Application of IFRS 16 (Leases))

From the beginning of the first quarter of the consolidated fiscal year under review, the Group started to apply IFRS 16 (Leases) to the Group companies, excluding the Company and its domestic subsidiaries that adopt the Japanese standard and the U.S. subsidiary to which the U.S. standards are applied. As a result, all leases will be recognized as assets or liabilities by borrowers, in principle.

The impact of application of the standards on the Group's financial conditions and operating performance is insignificant.

(6) Additional Information

(Partial revision of retirement benefit plans)

For some of our consolidated subsidiaries, during the nine-month period of the consolidated fiscal year under review, accounting treatment was employed in line with the transfer of the retirement lump-sum payment plan to the defined contribution pension plan as well as the introduction of a point system for the defined benefit pension plan.

For the accounting treatment in line with the transfer of plans, etc., "Guidance on Accounting for Transfer between Retirement Benefit Plans" (ASBJ Guidance No. 1, December 16, 2016) and "Practical Solution on Accounting for Transfer between Retirement Benefit Plans" (Practical Solutions No. 2, February 7, 2007) are applied.

As a result, the Quarterly Consolidated Balance Sheet as of December 31, 2019 records increases of ¥66 million in accounts payable and ¥265 million in long-term accounts payable, which are included in "Others" of current liabilities, and ¥234 million in net defined benefit assets included in "Others" of investments and other assets, and a decrease of ¥177 million in net defined benefit liability. Also, the Quarterly Consolidated Income Statements for nine months ended December 31, 2019 records ¥155 million of "gain on revision of retirement benefit plans" as an extraordinary gain and ¥75 million of "loss on revision of retirement benefit plans" as an extraordinary loss.

(7) Segment Information, etc.

Segment information

I. Nine months ended December 31, 2018 (April 1, 2018 to December 31, 2018)

1. Information on sales and income or losses by reported segment

(Million yen)

	Reported segments					Total
	Die Casting Business			Aluminum Business	Proprietary Products Business	
	Japan	North America	Asia			
Net sales						
Customers	51,689	30,170	22,899	3,458	2,383	110,601
Intersegment	2,895	8	1,675	3,804	5	8,389
Total	54,585	30,179	24,575	7,263	2,388	118,991
Segment profit (or loss)	574	(283)	1,382	72	232	1,978

2. Total amount in reported segments, difference from the amount posted in the quarterly consolidated statement of income and important details of the difference (Difference adjustment)

(Million yen)

Profit	Amount
Total profit in reported segments	1,978
Elimination of intersegment transactions	(45)
Operating income in the quarterly consolidated statement of income	1,932

3. Impairment losses in fixed assets or goodwill by reported segment

For Ahresty Wilmington Corporation in the Die Casting Business North America segment, an impairment test was conducted in accordance with the U.S. accounting standards because of its delay in earnings recovery. As a result, the book value of the business assets it owns was written down to the recoverable amount and recorded as an impairment loss. For the nine-month period ended December 31, 2019, ¥3,015 million was recorded as this impairment loss.

II. Nine months ended December 31, 2019 (April 1, 2019 to December 31, 2019)

1. Information on sales and income or losses by reported segment

(Million yen)

	Reported segments					Total
	Die Casting Business			Aluminum Business	Proprietary Products Business	
	Japan	North America	Asia			
Net sales						
Customers	44,921	23,998	18,051	3,081	1,966	92,019
Intersegment	2,409	11	1,101	2,443	1	5,967
Total	47,330	24,010	19,153	5,524	1,967	97,987
Segment profit (or loss)	(342)	536	(98)	135	172	403

2. Total amount in reported segments, difference from the amount posted in the quarterly consolidated statement of income and important details of the difference (Difference adjustment)

(Million yen)

Profit	Amount
Total profit in reported segments	403
Elimination of intersegment transactions	109
Operating income in the quarterly consolidated statement of income	512

3. Impairment losses in fixed assets or goodwill by reported segment

Not applicable.