

Consolidated Earnings Report for the Third Quarter of Fiscal 2019 [Japanese GAAP]

January 25, 2019

Company Name:	KOITO MANUFACTURING CO., LTD.
Stock Listing:	First Section, Tokyo Stock Exchange
Code Number:	7276
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Filing of Quarterly Securities Report:	February 1, 2019
Scheduled Payment of Dividends:	—
Supplementary explanatory materials prepared:	None
Explanatory meeting:	None

(¥ millions are rounded down)

1. Consolidated Results for the Third Quarter of Fiscal 2019 (April 1, 2018 to December 31, 2018)

(1) Consolidated Operating Results (¥ millions; percentage figures represent year-on-year changes)

Third Quarter	Net sales	Operating income	Recurring profit	Profit attributable to owners of parent
Fiscal 2019	607,820 \triangle 5.1%	72,588 \triangle 2.4%	75,751 \triangle 4.0%	51,006 7.3%
Fiscal 2018	640,701 6.2%	74,344 16.9%	78,879 19.5%	47,517 19.0%

Note: Comprehensive income or loss: December 31, 2018: ¥ 49,296 million (\triangle 24.7%),
December 31, 2017: ¥ 65,502 million (32.6%)

Third Quarter	Net income per share (¥)	Net income per share (diluted) (¥)
Fiscal 2019	317.34	317.24
Fiscal 2018	295.65	295.55

(2) Consolidated Financial Position (¥ millions)

	Total assets	Net assets	Equity ratio (%)	Net assets per share (¥)
December 31, 2018	707,613	477,427	62.0	2,727.50
March 31, 2018	672,055	444,808	61.0	2,551.48

Note: Equity: December 31, 2018: ¥ 438,394 million, March 31, 2018: ¥ 410,102 million

2. Dividends

	Dividend per share (¥)				
	First Quarter	Second Quarter	Third Quarter	Year End	Full Year
Fiscal 2018	—	36.00	—	60.00	96.00
Fiscal 2019	—	40.00	—		
Fiscal 2019 (forecast)				—	—

Notes: 1. Revisions to recent dividend forecasts: None

2. The dividend record date is March 31, as prescribed by KOITO's Articles of Incorporation; the dividend forecast for the March 31, 2019 is currently undecided.

3. Breakdown of fiscal 2018 year-end dividend: Ordinary dividend: ¥40.00; Extraordinary dividend: ¥20.00

3. Forecast of Consolidated Results for Fiscal 2019 (April 1, 2018 to March 31, 2019)

(¥ millions; percentage figures represent year-on-year changes)

	Net sales	Operating income	Recurring profit	Profit attributable to owners of parent	Net income per share (¥)
Full year	816,000 \triangle 3.9%	98,000 \triangle 5.6%	101,000 \triangle 6.4%	69,000 \triangle 17.3%	429.29

Note: Revisions to recent consolidated business forecasts: Yes

***Notes**

(1) Changes to important subsidiaries during the third quarter (changes in specified subsidiaries resulting in revised scope of consolidation): None

(2) Application of special accounting methods in the preparation of quarterly consolidated financial statements: None

(3) Changes in accounting principles, accounting estimates and restatements

① Changes in accounting policies in conjunction with revisions to accounting standards: None

② Other changes: None

③ Changes in accounting estimates: None

④ Restatements: None

(4) Number of shares issued (common stock)

① Number of shares issued (including treasury stock):

Fiscal 2019, 3Q	160,789,436	Fiscal 2018	160,789,436
Fiscal 2019, 3Q	58,220	Fiscal 2018	58,106
Fiscal 2019, 3Q	160,731,269	Fiscal 2018, 3Q	160,718,843

② Number of treasury stock:

③ Average number of stock during the third quarter:

*This quarterly financial report is not subject to the quarterly audit procedure to be conducted by certified public accountants or auditing firms.

*Explanations concerning proper use of business forecasts and other noteworthy matters

(Notes on future assumptions)

The above forecasts are based on information available, and certain assumptions that are judged to be reasonable, at the time of the release of this report. KOITO is not promising that the Company will achieve these forecasts. Actual results could differ from forecasts due to a variety of factors.

《 For Reference Only 》

Forecasts of Non-consolidated Results for Fiscal 2019 (April 1, 2018 to March 31, 2019)

(¥ millions; percentage figures represent year-on-year changes)

	Net sales		Operating income		Recurring profit		Net income		Net income per share (¥)
Full year	364,000	7.1%	38,500	2.4%	56,000	0.4%	43,000	△30.9%	267.53

Note: Revisions to recent non-consolidated business forecasts: Yes

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1. Qualitative Information Concerning Quarterly Financial Statements and Other Matters

(1) Explanation Regarding Consolidated Operating Results

During the third quarter of fiscal 2019, the period under review, despite temporary declines in exports and production caused by natural disasters, the Japanese economy showed a trend of moderate recovery due to an increase in capital investment supported by strong corporate performances, and robust personal consumption. In spite of intensifying trade tensions between U.S. and China, political turmoil in Europe and U.S., strong U.S. Dollars and currency depreciation in emerging-market countries, and geopolitical risks, the global economy continued to be robust as a whole. This was due primarily to firm economies in the U.S. and Asia.

In the Japanese auto industry, despite mini vehicles enjoyed brisk sale, the production volume remained flat year on year due to a decrease in export. Despite increased demand in ASEAN countries and India, the global automobile production volume decreased year on year. This was due mainly to the decreased production volume in China caused by the expired tax reduction on compact cars in the previous fiscal year, and production decrease in Europe.

In this climate, despite an increase in new orders in the mainstay automotive lighting equipment segment and a shift in automobile lamps to LED, the KOITO Group's net sales for the third quarter decreased 5.1% year on year to ¥607.8 billion. This is attributable to a decrease in the automobile production volume and the status change of Shanghai Koito Automotive Lamp Co., Ltd. ("Shanghai Koito") from a consolidated company to a company accounted for by the equity-method in the end of September 2017, and non-consolidation of Shanghai Koito in the end of March 2018.

Results by geographical segment are outlined as follows.

[Japan]

While domestic automobile production remained flat, sales in Japan increased 5.4% year on year to ¥276.7 billion due to an increase in new orders and a shift in automobile lamps to LED.

[North America]

Sales in North America increased 8.2% year on year to ¥148.7 billion due to the slight increase in automobile production volume, increase in new orders, and a shift in automobile lamps to LED.

[China]

Despite the decrease in production volume, new orders expanded in China. However, sales in China decreased 47.4% year on year to ¥73.3 billion due to the effect of non-consolidation of Shanghai Koito.

[Asia]

Sales in Asia increased 13.7% year on year to ¥79.0 billion. Sales growth was mainly driven by an increase in automobile production volume and an increase in new orders in Thailand and Indonesia.

[Europe]

Sales in Europe decreased 10.8% year on year to ¥28.5 billion. This was mainly attributable to the decrease in automobile production volume and completion of current round of new vehicle stage effects or the end of production of some of our ordered products portfolio in this region.

[Other regions]

KOITO's subsidiary, NAL Brasil commenced operations in May 2018. Sales in the region was ¥1.4 billion.

On the earnings front, although KOITO implemented rationalization in Japan and overseas, operating income decreased 2.4% year on year to ¥72.5 billion, and recurring profit decreased 4.0% year on year to ¥75.7 billion. This was attributable to the effect of non-consolidation of Shanghai Koito and increased R&D expenses. On the other hand, as KOITO recorded a loss related to the Act on Prohibition to Private Monopolization and Maintenance of Fair Trade in the previous fiscal year, profit attributable to owners of parent increased 7.3% year on year to ¥51.0 billion.

(2) Explanation Regarding Consolidated Financial Position

-1. Analysis of assets, liabilities and net assets

Although trade notes and accounts receivable and other assets decreased, total assets as of December 31, 2018 increased ¥35.5 billion to ¥707.6 billion. This was mainly due to an increase in cash and time deposits, and assets on property, plant and equipment led by an increase in capital investment.

Total liabilities as of December 31, 2018 increased ¥2.9 billion to ¥230.1 billion due mainly to an increase in account payable for capital investment.

Net assets as of December 31, 2018 increased ¥32.6 billion to ¥477.4 billion. This increase was due mainly to an increase in retained earnings.

-2. Analysis of cash flows

Operating activities provided net cash of ¥100.5 billion after payment of taxes, mainly reflecting income before income taxes of ¥74.8 billion and depreciation of ¥23.0 billion.

Investing activities used net cash of ¥32.9 billion, mainly reflecting acquisition of property and equipment of ¥38.8 billion.

Financing activities used net cash of ¥13.4 billion, the result mainly of reflecting dividends paid of ¥18.2 billion.

As a result, cash and cash equivalents as of December 31, 2018 were ¥63.8 billion, ¥22.8 billion higher than on March 31, 2018.

(3) Explanation Regarding Forecast of Consolidated Results for Fiscal 2019 and Other Future Projections

As regards KOITO's business forecasts for fiscal 2019, the fiscal year ending March 31, 2019, despite the expansion of new orders and the market transition to LED automobile lamps in Japan and overseas, net sales are expected to decrease due to the effect of non-consolidation of Shanghai Koito.

On the earnings front, operating income, recurring profit, and profit attributable to owners of parent are all expected to decrease due mainly to the effect of Shanghai Koito's non-consolidation, as well as an increase in R&D expenses.

The previously announced full-year business forecasts (both consolidated and non-consolidated) for fiscal 2019 announced in the Consolidated Earnings Report for the Second Quarter of Fiscal 2019 on October 26, 2018, has been revised in the following manner.

Forecast of Consolidated Results for Fiscal 2019 (April 1, 2018 to March 31, 2019)

(¥ millions)

	Net sales	Operating income	Recurring profit	Profit attributable to owners of parent	Net income per share (¥)
Previously Announced forecast (A)	809,000	98,000	101,000	69,000	429.29
Revised forecast (B)	816,000	98,000	101,000	69,000	429.29
Difference (B-A)	7,000	—	—	—	—
Change (%)	0.9	—	—	—	—
(Reference) Actual results for fiscal 2018	848,868	103,785	107,945	83,397	518.90

(Reference) Forecast of Non-Consolidated Results for Fiscal 2019 (April 1, 2018 to March 31, 2019)

(¥ millions)

	Net sales	Operating income	Recurring profit	Net income	Net income per share (¥)
Previously Announced forecast (A)	361,000	38,000	55,000	42,000	261.31
Revised forecast (B)	364,000	38,500	56,000	43,000	267.53
Difference (B-A)	3,000	500	1,000	1,000	—
Change (%)	0.8	1.3	1.8	2.4	—
(Reference) Actual results for fiscal 2018	339,976	37,599	55,791	62,228	387.18

2. Quarterly Consolidated Financial Statements and Notes
(1) Quarterly Consolidated Balance Sheets

(¥ millions)

	Fiscal 2018 As of March 31, 2018	Third Quarter of Fiscal 2019 As of December 31, 2018
Assets		
Current assets:		
Cash and time deposits	260,644	276,075
Trade notes and accounts receivable	116,329	106,227
Electronically recorded monetary claims-operating	13,154	12,503
Inventories	62,293	67,875
Other current assets	23,905	32,248
Less: Allowance for doubtful accounts	△503	△624
Total current assets	475,825	494,306
Non-current assets:		
Property, plant and equipment:		
Buildings and structures (net)	37,735	43,812
Machinery and transportation equipment (net)	51,000	59,263
Fixtures, equipment and tools (net)	13,592	16,346
Land	15,687	16,049
Construction in progress	15,918	16,903
Total property, plant and equipment	133,935	152,375
Intangible assets	2,419	2,824
Investments and other assets:		
Investment securities	49,707	42,730
Claims provable in bankruptcy, claims provable in rehabilitation and other	60	60
Deferred income tax assets	8,400	10,965
Other investments	1,944	4,644
Less: Allowance for doubtful accounts	△287	△291
Total investments and other assets	59,875	58,108
Total non-current assets	196,230	213,307
Total assets	672,055	707,613

(¥ millions)

	Fiscal 2018 As of March 31, 2018	Third Quarter of Fiscal 2019 As of December 31, 2018
Liabilities		
Current liabilities:		
Trade notes and accounts payable	92,217	90,626
Electronically recorded monetary obligations-operating	10,757	12,722
Short-term loans	15,845	23,069
Accrued expenses	20,959	25,284
Income taxes payable	18,286	3,417
Allowance for employees' bonuses	5,189	2,003
Reserve for product warranties	3,035	2,596
Provision for loss related to the Act on Prohibition to Private Monopolization and Maintenance of Fair Trade	80	83
Other current liabilities	10,721	19,623
Total current liabilities	177,092	179,427
Non-current liabilities:		
Long-term debt	13,083	9,017
Deferred income tax liabilities	4,499	6,284
Allowance for directors' and corporate auditors' retirement benefits	424	464
Reserve for product warranties	5,192	5,549
Allowance for environmental strategies	184	665
Net defined liability for retirement benefits	24,974	26,744
Other non-current liabilities	1,795	2,033
Total non-current liabilities	50,154	50,758
Total liabilities	227,247	230,185
Net assets		
Shareholders' equity:		
Common stock	14,270	14,270
Additional paid-in capital	16,716	16,760
Retained earnings	350,903	385,836
Treasury common stock, at cost	△54	△55
Total shareholders' equity	381,836	416,812
Accumulated other comprehensive income:		
Valuation adjustment on investment securities	23,969	19,215
Translation adjustments	3,902	1,987
Adjustments in defined benefit plans	394	379
Total accumulated other comprehensive income	28,266	21,582
Subscription rights to shares	245	245
Non-controlling interests	34,460	38,787
Total net assets	444,808	477,427
Total liabilities and net assets	672,055	707,613

(2) Quarterly Consolidated Statements of Income and Comprehensive Income
(Third quarter, for the nine months ended December 31)

(¥ millions)

	Third Quarter of Fiscal 2018 April 1, 2017 to December 31, 2017	Third Quarter of Fiscal 2019 April 1, 2018 to December 31, 2018
Net sales	640,701	607,820
Cost of sales	523,701	499,381
Gross profit	116,999	108,439
Selling, general and administrative expenses	42,655	35,850
Operating income	74,344	72,588
Non-operating income:		
Interest income	765	929
Dividends	1,206	1,184
Equity in earnings of affiliates	794	8
Foreign exchange gains	179	255
Other non-operating income	2,615	1,657
Total non-operating income	5,561	4,036
Non-operating expenses		
Interest expenses	722	674
Other non-operating expenses	304	198
Total non-operating expenses	1,026	873
Recurring profit	78,879	75,751
Extraordinary gains:		
Gain on sales of property and equipment	31	286
Gain on sales of investment securities	0	—
Total extraordinary gains	31	286
Extraordinary losses:		
Loss on sales and disposal of property and equipment	361	436
Loss on provision for environmental measures	—	484
Loss on valuation of inventories	—	268
Loss related to the Act on Prohibition to Private Monopolization and Maintenance of Fair Trade	1,575	—
Impairment loss	156	—
Total extraordinary losses	2,093	1,189
Income before income taxes	76,817	74,848
Income taxes	18,439	16,542
Income tax adjustment	4,365	2,068
Total income taxes	22,805	18,611
Profit	54,012	56,236
(Break down)		
Profit attributable to owners of the parent	47,517	51,006
Profit attributable to non-controlling interests	6,495	5,230

(¥ millions)

	Third Quarter of Fiscal 2018 April 1, 2017 to December 31, 2017	Third Quarter of Fiscal 2019 April 1, 2018 to December 31, 2018
Other comprehensive income		
Valuation difference on available-for-sale securities	5,433	△4,812
Translation adjustments	5,318	△2,347
Adjustments in defined benefit plans	△165	219
Share of other comprehensive income of entities accounted for using equity method	904	—
Total other comprehensive income	11,490	△6,940
Comprehensive income	65,502	49,296
(Break down)		
Comprehensive income attributable to owners of parent	58,131	44,322
Comprehensive income attributable to non-controlling interests	7,371	4,974

(3) Quarterly Consolidated Statements of Cash Flows

(¥ millions)

	Third Quarter of Fiscal 2018 April 1, 2017 to December 31, 2017	Third Quarter of Fiscal 2019 April 1, 2018 to December 31, 2018
Cash flows from operating activities		
Income before income taxes	76,817	74,848
Depreciation	23,761	23,066
Impairment loss	156	—
Stock-based compensation	96	44
Equity in earnings of affiliated companies	△794	△8
Provision for allowance for doubtful accounts	△356	131
Net defined liability for retirement benefits	△499	△712
Provision for reserve for bonuses	△2,958	△3,184
Reserve for product warranties	△740	△82
Interest and dividends received	△1,971	△2,114
Interest payments	722	674
Loss on valuation of inventories	—	268
Gain on sale of marketable and investment securities	△0	—
Loss on valuation of marketable and investment securities	—	△2
Loss on sale of property and equipment	330	150
Loss on provision for environmental measures	—	484
Loss related to the Act on Prohibition to Private Monopolization and Maintenance of Fair Trade	1,575	—
Decrease in trade notes and accounts receivable	6,095	10,339
Increase in inventories	△6,496	△6,831
Increase or decrease in other current assets	119	△8,483
Increase or decrease in trade notes and accounts payable	△3,753	1,177
Increase in accrued expenses and other current liabilities	4,881	4,222
Others	2,389	6,552
Sub total	99,374	100,540
Interest and dividend received	1,971	2,114
Interest paid	△722	△674
Loss related to the Act on Prohibition to Private Monopolization and Maintenance of Fair Trade paid	△4,999	—
Income taxes paid	△21,954	△31,391
Net cash provided by operating activities	73,670	70,588
Cash flows from investing activities		
Payments into time deposits	△129,506	△131,486
Proceeds from time deposits	115,779	138,874
Payments for purchase of marketable and investment securities	△54	△904
Proceeds from sale of marketable and investment securities	38	0
Acquisition of property and equipment	△30,994	△38,838
Proceeds from sale and disposal of property and equipment	141	882
Payments for new loans	△1	△3
Proceeds from loan repayments	9	6
Others	67	△1,493
Net cash used in investing activities	△44,521	△32,962

(¥ millions)

	Third Quarter of Fiscal 2018 April 1, 2017 to December 31, 2017	Third Quarter of Fiscal 2019 April 1, 2018 to December 31, 2018
Cash flows from financing activities		
Increase or decrease in short-term loans	△885	5,320
Increase in long-term debt	1,976	655
Repayment of long-term debt	△1,917	△2,342
Payments for repurchase of treasury stock	△1	△0
Proceeds from exercise of share options	0	—
Proceeds from share issuance to non-controlling shareholders	—	1,144
Dividends paid by parent company	△10,795	△15,574
Dividends paid to non-controlling interests	△4,445	△2,679
Net cash used in financing activities	△16,067	△13,477
Effect of exchange rate changes on cash and cash equivalents	1,468	△1,303
Increase in cash and cash equivalents	14,550	22,844
Cash and cash equivalents at beginning of quarter	39,500	41,050
Decrease in cash and cash equivalents resulting from exclusion of subsidiaries from consolidation	△9,624	—
Cash and cash equivalents at end of quarter	44,425	63,894

(4) Notes on Quarterly Consolidated Financial Statements

(Going Concern Assumption)

None

(Note Regarding Significant Changes in Shareholders' Equity)

None

(Additional Information)

(Application of "Partial Amendments to Accounting Standard for Tax Effect Accounting," etc.)

KOITO has adopted the "Implementation Guidance on Tax Effect Accounting" (Accounting Standards Board of Japan (ASBJ) No. 28, issued on February 16, 2018) in the first quarter of fiscal year ending March 31, 2019, and have indicated deferred income tax assets under investments and other assets, and deferred income tax liabilities under non-current liabilities.

(Segment Information)

【Segment Information】

I. Third Quarter of fiscal 2018 (April 1, 2017 to December 31, 2017)

1. Information Concerning Net Sales and Operating Income for Each Segment

(¥ millions)

	Japan	North America	China	Asia	Europe	Other regions	Total	Adjustment (Note 1)	Amount recorded on quarterly consolidated financial statements (Note 3)
Net sales									
Sales to outside customers	262,477	137,417	139,286	69,502	32,015	3	640,701	—	640,701
Inter-segment sales and transfers	15,207	8	1,989	5,236	87	—	22,529	(22,529)	—
Total	277,684	137,425	141,276	74,738	32,102	3	663,230	(22,529)	640,701
Segment operating income or loss	40,342	13,092	11,413	7,381	3,390	△300	75,320	(975)	74,344

Notes 1. The ¥△975 million adjustment in segment operating income includes ¥3,542 million in intersegment eliminations and ¥△4,518 million in unallocated expenses. Unallocated expenses comprise expenses related to management divisions such as administrative and accounting divisions of the head office of the parent company.

2. The breakdown of countries and regions other than Japan and China is as follows:

- (1) North America: United States and Mexico
- (2) Asia: Thailand, Indonesia, Taiwan, India and Malaysia
- (3) Europe: United Kingdom and Czech Republic
- (4) Other regions: Brazil

3. Segment operating income or loss is adjusted to operating income in the quarterly consolidated financial statements.

II. Third Quarter of fiscal 2019 (April 1, 2018 to December 31, 2018)

1. Information Concerning Net Sales and Operating Income for Each Segment

(¥ millions)

	Japan	North America	China	Asia	Europe	Other regions	Total	Adjustment (Note 1)	Amount recorded on quarterly consolidated financial statements (Note 3)
Net sales									
Sales to outside customers	276,745	148,702	73,327	79,043	28,551	1,448	607,820	—	607,820
Inter-segment sales and transfers	21,382	44	4,907	4,506	117	6	30,965	(30,965)	—
Total	298,128	148,746	78,235	83,549	28,669	1,455	638,785	(30,965)	607,820
Segment operating Income or loss	41,246	11,716	10,369	9,003	2,584	△1,506	73,414	(826)	72,588

Notes 1. The ¥△826 million adjustment in segment operating income includes ¥3,938 million in intersegment eliminations and ¥△4,764 million in unallocated expenses. Unallocated expenses comprise expenses related to management divisions such as administrative and accounting divisions of the head office of the parent company.

2. The breakdown of countries and regions other than Japan and China is as follows:

- (1) North America: United States and Mexico
- (2) Asia: Thailand, Indonesia, Taiwan, India and Malaysia
- (3) Europe: United Kingdom and Czech Republic
- (4) Other regions: Brazil

3. Segment operating income or loss is adjusted to operating income in the quarterly consolidated financial statements.