



Consolidated Earnings Report for the Second Quarter of Fiscal 2020 [Japanese GAAP]

October 28, 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:	November 1, 2019
Scheduled Payment of Dividends:	December 5, 2019
Supplementary explanatory materials prepared:	Yes
Explanatory meeting:	Yes

(¥ millions are rounded down)

1. Consolidated Results for the Second Quarter of Fiscal 2020 (April 1, 2019 to September 30, 2019)

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

Second Quarter	Net sales		Operating income		Recurring profit		Profit attributable to owners of parent	
Fiscal 2020	399,061	1.6%	41,725	△10.3%	42,763	△12.5%	29,114	△12.2%
Fiscal 2019	392,601	△11.9%	46,503	△6.4%	48,858	△6.6%	33,155	13.7%

Note: Comprehensive income or loss:

September 30, 2019: ¥24,057 million (△39.9%), September 30, 2018: ¥40,012 million (△3.8%)

Second Quarter	Net income per share (¥)	Net income per share (diluted) (¥)
Fiscal 2020	181.14	181.08
Fiscal 2019	206.28	206.21

(2) Consolidated Financial Position

(¥ millions)

	Total assets	Net assets	Equity ratio (%)	Net assets per share (¥)
September 30, 2019	742,029	507,481	63.9	2,950.67
March 31, 2019	738,175	503,564	62.5	2,870.24

Note: Equity: September 30, 2019: ¥ 474,273 million, March 31, 2019: ¥ 461,336 million

2. Dividends

	Dividend per share (¥)				
	First Quarter	Second Quarter	Third Quarter	Year End	Full Year
Fiscal 2019	—	40.00	—	52.00	92.00
Fiscal 2020	—	52.00			
Fiscal 2020 (forecast)			—	—	—

Notes: 1. Revisions to recent dividend forecasts: Yes

2. The dividend record date is March 31, as prescribed by KOITO's Articles of Incorporation; the dividend forecast for the March 31, 2020 is currently undecided.

3. Forecast of Consolidated Results for Fiscal 2020 (April 1, 2019 to March 31, 2020)

(¥ 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	808,000 △2.2%	84,000 △17.3%	87,000 △17.5%	59,000 △19.1%	367.07

Note: Revisions to recent consolidated business forecasts: Yes

***Notes**

(1) Changes to important subsidiaries during the second 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 2020, 2Q	160,789,436	Fiscal 2019	160,789,436
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② Number of treasury stock:

Fiscal 2020, 2Q	55,323	Fiscal 2019	58,220
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③ Average number of stock during the second quarter:

Fiscal 2020, 2Q	160,732,486	Fiscal 2019, 2Q	160,731,292
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*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.

(Supplementary materials for financial results)

KOITO is scheduled to have an earnings release conference for securities analysts and institutional investors on November 7, 2019. Supplementary materials will be available on our website after the conference.

《 For Reference Only 》

Forecast of Non-consolidated Result for Fiscal 2020 (April 1, 2019 to March 31, 2020)

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

	Net sales	Operating income	Recurring profit	Net income	Net income per share (¥)
Full year	360,000 \triangle 1.1%	28,000 \triangle 27.0%	49,000 \triangle 13.5%	38,000 \triangle 13.9%	236.42

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 first half of fiscal 2020, the period under review, the Japanese economy showed a trend of moderate recovery due to the robust consumer spending and other factors. The global economic growth slowed down as a whole due to the economic slowdown in China caused by the intensifying trade tensions between the U.S. and China, the political turmoil in Europe, and geopolitical risks.

In the Japanese auto industry, the production volume increased year on year due to the robust sales of newly registered vehicles and mini vehicles. The global automobile production volume decreased year on year due mainly to the decreased production volume in North America, Europe, China, ASEAN countries and India.

In this climate, the KOITO Group's net sales for the first half increased 1.6% year on year to ¥399.0 billion, led by an increase in new orders in the mainstay automotive lighting equipment segment and a shift in automobile lamps to LED.

Results by geographical segment are outlined as follows.

[Japan]

Sales in Japan increased 6.6% year on year to ¥187.5 billion. Sales growth was mainly driven by an increase in automobile production volume, and an increase in new orders and a shift in automobile lamps to LED.

[North America]

Sales in North America decreased 3.3% year on year to ¥92.4 billion due to a decrease in automobile production volume and the effect of currency exchange.

[China]

Despite the increase in new orders and a shift in automobile lamps to LED, sales in China decreased 3.4% year on year to ¥46.7 billion due to a significant decrease in automobile production volume.

[Asia]

Sales in Asia decreased 2.8% year on year to ¥51.6 billion. This was mainly attributable to the decrease in automobile production volume and the completion of current round of new vehicle stage effects in Thailand and India.

[Europe]

Sales in Europe decreased 5.9% year on year to ¥17.8 billion. This was mainly attributable to the decrease in automobile production volume and the 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 ¥2.7 billion.

On the earnings front, although KOITO implemented rationalization in Japan and overseas, operating income decreased 10.3% year on year to ¥41.7 billion, recurring profit decreased 12.5% year on year to ¥42.7 billion, and profit attributable to owners of parent decreased 12.2% year on year to ¥29.1 billion. This was attributable to increased R&D expenses and depreciation cost for capital investment to meet new orders.

(2) Explanation Regarding Consolidated Financial Position

-1. Analysis of assets, liabilities and net assets

While cash and time deposits decreased due to the domestic and overseas capital investment, total assets as of September 30, 2019 increased ¥3.8 billion to ¥742.0 billion as property, plant and equipment increased.

Total liabilities as of September 30, 2019 remained flat and stood at ¥234.5 billion due to the decreased debt.

Although non-controlling interests decreased due a tender offer of shares in KI HOLDINGS CO., LTD., net assets as of September 30, 2019 increased ¥3.9 billion to ¥507.4 billion due to an increase in retained earnings.

-2. Analysis of cash flows

Operating activities provided net cash of ¥46.2 billion after payment of taxes, mainly reflecting income before income taxes of ¥42.4 billion and depreciation of ¥16.1 billion.

Investing activities used net cash of ¥28.5 billion, mainly reflecting acquisition of property and equipment of ¥24.3 billion.

Financing activities used net cash of ¥21.7 billion, the result mainly of reflecting dividends paid of ¥10.6 billion.

As a result, cash and cash equivalents as of September 30, 2019, including the effect of exchange rate changes on cash and cash equivalents, were ¥96.9 billion, ¥1.0 billion lower than on March 31, 2019.

(3) Explanation Regarding Forecast of Consolidated Results for Fiscal 2020 and Other Future Projections

As regards KOITO's business forecasts for fiscal 2020, the fiscal year ending March 31, 2020, although new orders and the market transition to LED automobile lamps are expected to expand, net sales are expected to decrease due to the decrease in automobile production volume and the effect of currency exchange.

On the earnings front, operating income, recurring profit, and profit attributable to owners of parent are all expected to decrease due mainly to the decrease in net sales, expansion of R&D expenses, and an increase in depreciation cost for capital investment to meet new orders.

KOITO's policy is to continuously pay stable dividends to shareholders based on the comprehensive evaluation of our present business results, business climate, etc. Based on this policy, KOITO has decided to pay ¥52 per share, which is ¥12 higher than the dividend amount for the same period of the previous fiscal year, and the same with the year-end ordinary dividend amount of the previous fiscal year. The full year dividend for fiscal 2020 is currently undecided because the future business climate remains unclear.

Looking ahead, KOITO will continue efforts to achieve even higher earnings to meet the expectations of all shareholders.

The previously announced full-year business forecasts (both consolidated and non-consolidated) for fiscal 2020 announced in the Consolidated Earnings Report for the First Quarter of Fiscal 2019 on July 25, 2019, has been revised in the following manner.

Forecast of Consolidated Results for Fiscal 2020 (April 1, 2019 to March 31, 2020)

(¥ millions)

	Net sales	Operating income	Recurring profit	Profit attributable to owners of parent	Net income per share (¥)
Previously Announced forecast (A)	825,000	92,000	94,000	63,000	391.96
Revised forecast (B)	808,000	84,000	87,000	59,000	367.07
Difference (B-A)	△17,000	△8,000	△7,000	△4,000	—
Change (%)	△2.1	△8.7	△7.4	△6.3	—
(Reference) Actual results for fiscal 2019	826,257	101,534	105,494	72,895	453.52

(Reference) Forecast of Non-consolidated Results for Fiscal 2020 (April 1, 2019 to March 31, 2020)

(¥ millions)

	Net sales	Operating income	Recurring profit	Net income	Net income per share (¥)
Previously Announced forecast (A)	362,000	31,000	51,000	39,000	242.64
Revised forecast (B)	360,000	28,000	49,000	38,000	236.42
Difference (B-A)	△2,000	△3,000	△2,000	△1,000	—
Change (%)	△0.6	△9.7	△3.9	△2.6	—
(Reference) Actual results for fiscal 2019	364,104	38,346	56,652	44,132	274.57

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

(¥ millions)

	Fiscal 2019 As of March 31, 2019	Second Quarter of Fiscal 2020 As of September 30, 2019
Assets		
Current assets:		
Cash and time deposits	287,803	277,703
Trade notes and accounts receivable	118,116	111,659
Electronically recorded monetary claims-operating	13,355	12,266
Inventories	66,632	67,363
Other current assets	28,179	35,046
Allowance for doubtful accounts	△517	△503
Total current assets	513,569	503,534
Non-current assets:		
Property, plant and equipment:		
Buildings and structures (net)	45,599	46,638
Machinery and transportation equipment (net)	60,475	64,235
Fixtures, equipment and tools (net)	15,545	17,863
Land	16,430	16,219
Construction in progress	20,718	24,197
Total property, plant and equipment	158,769	169,153
Intangible fixed assets	3,183	3,084
Investments and other assets:		
Investment securities	43,963	47,872
Claims provable in bankruptcy, claims provable in rehabilitation and other	60	60
Deferred income tax assets	13,621	13,220
Assets for retirement benefits	2,401	2,419
Other investments	2,897	2,972
Allowance for doubtful accounts	△291	△288
Total investments and other assets	62,652	66,256
Total non-current assets	224,605	238,495
Total assets	738,175	742,029

(¥ millions)

	Fiscal 2019 As of March 31, 2019	Second Quarter of Fiscal 2020 As of September 30, 2019
Liabilities		
Current liabilities:		
Trade notes and accounts payable	93,816	91,945
Electronically recorded monetary obligations-operating	12,079	12,784
Short-term loans	23,507	23,959
Accrued expenses	24,222	27,042
Income taxes payable	5,691	5,859
Allowance for employees' bonuses	5,455	6,162
Reserve for product warranties	2,584	2,170
Provision for loss related to the Act on Prohibition to Private Monopolization and Maintenance of Fair Trade	83	—
Other current liabilities	15,826	16,694
Total current liabilities	183,265	186,618
Non-current liabilities:		
Long-term debt	8,975	5,620
Deferred income tax liabilities	6,529	7,080
Allowance for directors' and corporate auditors' retirement benefits	478	478
Reserve for product warranties	5,437	5,446
Allowance for environmental strategies	206	92
Net defined liability for retirement benefits	27,977	27,447
Other non-current liabilities	1,741	1,763
Total non-current liabilities	51,345	47,929
Total liabilities	234,611	234,547
Net assets		
Shareholders' equity:		
Common stock	14,270	14,270
Additional paid-in capital	16,759	15,441
Retained earnings	407,725	428,482
Treasury common stock, at cost	△55	△53
Total shareholders' equity	438,700	458,140
Accumulated other comprehensive income:		
Valuation adjustment on investment securities	19,857	20,353
Translation adjustments	3,473	△3,377
Adjustments in defined benefit plans	△694	△844
Total accumulated other comprehensive income	22,636	16,132
Subscription rights to shares	245	231
Non-controlling interests	41,981	32,976
Total net assets	503,564	507,481
Total liabilities and net assets	738,175	742,029

(2) Quarterly Consolidated Statements of Income and Comprehensive Income
(Second quarter, for the six months ended September 30)

(¥ millions)

	Second Quarter of Fiscal 2019 April 1, 2018 to September 30, 2018	Second Quarter of Fiscal 2020 April 1, 2019 to September 30, 2019
Net sales	392,601	399,061
Cost of sales	323,391	333,841
Gross profit	69,209	65,220
Selling, general and administrative expenses	22,706	23,495
Operating income	46,503	41,725
Non-operating income:		
Interest income	632	730
Dividends	657	635
Equity in earnings of affiliates	6	—
Foreign exchange gains	478	—
Other non-operating income	1,115	1,220
Total non-operating income	2,890	2,586
Non-operating expenses		
Interest expenses	428	508
Shares of loss of entities accounted for using equity method	—	105
Foreign exchange losses	—	669
Other non-operating expenses	107	265
Total non-operating expenses	535	1,549
Recurring profit	48,858	42,763
Extraordinary gains:		
Gain on sales of property and equipment	273	13
Gain on sales of investment securities	—	27
Total extraordinary gains	273	40
Extraordinary losses:		
Loss on sales and disposal of property and equipment	256	308
Loss on valuation of investment securities	—	14
Loss on provision for environmental measures	332	—
Loss on valuation of inventories	268	—
Total extraordinary losses	857	323
Income before income taxes	48,274	42,480
Income taxes	11,746	10,448
Income tax adjustment	49	697
Total income taxes	11,795	11,145
Profit	36,478	31,334
(Break down)		
Profit attributable to owners of parent	33,155	29,114
Profit attributable to non-controlling interests	3,323	2,219

(¥ millions)

	Second Quarter of Fiscal 2019 April 1, 2018 to September 30, 2018	Second Quarter of Fiscal 2020 April 1, 2019 to September 30, 2019
Other comprehensive income		
Valuation difference on available-for-sale securities	959	350
Translation adjustments	2,678	△7,482
Adjustments in defined benefit plans	△104	△143
Share of other comprehensive income of entities accounted for using equity method	—	△1
Total other comprehensive income	3,533	△7,276
Comprehensive income	40,012	24,057
(Break down)		
Comprehensive income attributable to owners of parent	36,270	22,610
Comprehensive income attributable to non-controlling interests	3,741	1,447

(3) Quarterly Consolidated Statements of Cash Flows

(¥ millions)

	Second Quarter of Fiscal 2019 April 1, 2018 to September 30, 2018	Second Quarter of Fiscal 2020 April 1, 2019 to September 30, 2019
Cash flows from operating activities		
Income before income taxes	48,274	42,480
Depreciation	14,619	16,118
Stock-based compensation	44	—
Equity in earnings of affiliated companies	△6	105
Provision for allowance for doubtful accounts	124	△1
Net defined liability for retirement benefits	△535	△640
Provision for reserve for bonuses	693	702
Reserve for product warranties	△82	△405
Interest and dividends received	△1,289	△1,366
Interest payments	428	508
Loss on valuation of inventories	268	—
Gain on sale of marketable and investment securities	—	△27
Loss on valuation of marketable and investment securities	—	14
Gain or loss on sale of property and equipment	△16	295
Loss on provision for environmental measures	332	—
Increase in trade notes and accounts receivable	7,546	5,186
Increase in inventories	△3,789	△2,992
Increase or decrease in other current assets	△5,346	△7,919
Decrease in trade notes and accounts payable	△3,549	958
Increase in accrued expenses and other current liabilities	3,170	3,397
Others	7,948	△690
Sub total	<u>68,834</u>	<u>55,723</u>
Interest and dividends received	1,289	1,363
Interest paid	△428	△508
Income taxes paid	△20,380	△10,292
Net cash provided by operating activities	<u>49,315</u>	<u>46,287</u>
Cash flows from investing activities		
Payments into time deposits	△84,300	△71,546
Proceeds from time deposits	92,561	79,675
Payments for purchase of marketable and investment securities	△10	△505
Proceeds from sale of marketable and investment securities	0	29
Purchase of shares of subsidiaries and associates	—	△2,668
Acquisition of property and equipment	△30,627	△28,525
Proceeds from sale and disposal of property and equipment	708	102
Payments for new loans	△2	△2
Proceeds from loan repayments	4	3
Others	△821	△924
Net cash used in investing activities	<u>△22,487</u>	<u>△24,361</u>

(¥ millions)

	Second Quarter of Fiscal 2019 April 1, 2018 to September 30, 2018	Second Quarter of Fiscal 2020 April 1, 2019 to September 30, 2019
Cash flows from financing activities		
Increase or decrease in short-term loans	2,373	△40
Increase in long-term debt	655	910
Repayment of long-term debt	△1,973	△2,648
Payments for repurchase of treasury stock	△0	△0
Proceeds from exercise of share options	—	0
Purchase of shares in subsidiaries resulting in change in scope of consolidation	—	△9,388
Proceeds from share issuance to non-controlling Shareholders	1,144	—
Dividends paid by parent company	△9,638	△8,357
Dividends paid to non-controlling interests	△1,777	△2,270
Net cash used in financing activities	△9,217	△21,795
Effect of exchange rate changes on cash and cash equivalents	△309	△1,206
Increase or decrease in cash and cash equivalents	17,301	△1,076
Cash and cash equivalents at beginning of quarter	41,050	97,993
Cash and cash equivalents at end of quarter	58,352	96,916

(4) Notes on Quarterly Consolidated Financial Statements

(Going Concern Assumption)

None

(Note Regarding Significant Changes in Shareholders' Equity)

Based on the resolution of the Board of Directors held on April 23, 2019, KOITO had acquired common shares in KI HOLDINGS CO., LTD. (KI HOLDINGS) through a tender offer on June 19, 2019.

Further, at the Board of Directors held on June 27, 2019, KOITO resolved to make a demand for sale of the shares to all KI HOLDINGS' shareholders, except for KOITO and KI HOLDINGS. As a result, KOITO has wholly-owned KI HOLDINGS in August 1, 2019.

Accordingly, additional paid-in capital in the second quarter of Fiscal 2020 decreased by ¥1,318 million, and stood at ¥15,441 million as of September 30, 2019.

(Segment Information)

【Segment Information】

I. Second Quarter of fiscal 2019 (April 1, 2018 to September 30, 2018)

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	175,991	95,628	48,394	53,178	18,936	472	392,601	—	392,601
Inter-segment sales and transfers	14,421	22	2,365	3,130	82	4	20,026	(20,026)	—
Total	190,412	95,650	50,759	56,309	19,018	477	412,627	(20,026)	392,601
Segment operating income or loss (△)	26,247	6,314	6,930	6,076	1,476	△1,047	45,998	504	46,503

Notes 1. The ¥504 million adjustment in segment (operating income) includes ¥3,571 million in intersegment eliminations and ¥△3,067 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 is adjusted to operating income in the quarterly consolidated financial statements.

II. Second Quarter of fiscal 2020 (April 1, 2019 to September 30, 2019)
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	187,596	92,495	46,753	51,678	17,820	2,717	399,061	—	399,061
Inter-segment sales and transfers	12,521	32	5,367	2,099	39	4	20,066	(20,066)	—
Total	200,118	92,528	52,121	53,777	17,859	2,722	419,128	(20,066)	399,061
Segment operating income or loss (Δ)	23,355	5,665	6,971	5,127	690	Δ 296	41,512	212	41,725

Notes 1. The ¥212 million adjustment in segment (operating income) includes ¥3,367 million in intersegment eliminations and ¥ Δ 3,154 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 is adjusted to operating income in the quarterly consolidated financial statements.