

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

January 30, 2020

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 3, 2020
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 2020 (April 1, 2019 to December 31, 2019)

(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 2020	604,401 $\triangle 0.6\%$	61,887 $\triangle 14.7\%$	63,856 $\triangle 15.7\%$	43,593 $\triangle 14.5\%$
Fiscal 2019	607,820 $\triangle 5.1\%$	72,588 $\triangle 2.4\%$	75,751 $\triangle 4.0\%$	51,006 7.3%

Note: Comprehensive income or loss: December 31, 2019: ¥ 47,686 million ($\triangle 3.3\%$),
December 31, 2018: ¥ 49,296 million ($\triangle 24.7\%$)

Third Quarter	Net income per share (¥)	Net income per share (diluted) (¥)
Fiscal 2020	271.22	271.13
Fiscal 2019	317.34	317.24

(2) Consolidated Financial Position

(¥ millions)

	Total assets	Net assets	Equity ratio (%)	Net assets per share (¥)
December 31, 2019	744,847	520,381	65.2	3,022.90
March 31, 2019	738,175	503,564	62.5	2,870.24

Note: Equity: December 31, 2019: ¥ 485,883 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: None

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 $\triangle 2.2\%$	84,000 $\triangle 17.3\%$	87,000 $\triangle 17.5\%$	59,000 $\triangle 19.1\%$	367.07

Note: Revisions to recent consolidated business forecasts: None

***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 2020, 3Q	160,789,436	Fiscal 2019	160,789,436
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② Number of treasury stock:

Fiscal 2020, 3Q	55,361	Fiscal 2019	58,220
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③ Average number of stock during the third quarter:

Fiscal 2020, 3Q	160,732,966	Fiscal 2019, 3Q	160,731,269
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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.

《 For Reference Only 》

Forecasts of Non-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	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: None

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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 2020, the period under review, despite a decrease in consumer spending led by the consumption tax increase in October 2019, the Japanese economy showed a trend of moderate recovery as a result of increased public demand mainly driven by public investment. The global economic growth slowed down as a whole due to the economic slowdown in China caused by the trade dispute between the U.S. and China, the political turmoil in Europe, and geopolitical risks.

In the Japanese auto industry, despite the steady sales of newly registered vehicles, the production volume remained flat year on year due to a slight decrease in sales volume of mini vehicles and export. 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, 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 remained flat year on year to ¥604.4 billion.

Results by geographical segment are outlined as follows.

[Japan]

While domestic automobile production volume remained flat, sales in Japan increased 2.0% year on year to ¥282.2 billion due to an increase in new orders and a shift in automobile lamps to LED.

[North America]

Sales in North America decreased 6.7% year on year to ¥138.7 billion due to a decrease in automobile production volume and the effect of currency exchange.

[China]

Despite the significant decrease in production volume, sales in China increased 2.3% year on year to ¥75.0 billion due to an increase in new orders and a shift in automobile lamps to LED.

[Asia]

Sales in Asia decreased 1.9% year on year to ¥77.5 billion. This was mainly attributable to the significant decrease in automobile production volume and the completion of current round of new vehicle stage effects.

[Europe]

Sales in Europe decreased 6.0% year on year to ¥26.8 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 ¥3.9 billion.

On the earnings front, although KOITO implemented rationalization in Japan and overseas, operating income decreased 14.7% year on year to ¥61.8 billion, recurring profit decreased 15.7% year on year to ¥63.8 billion, and profit attributable to owners of parent decreased 14.5% year on year to ¥43.5 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, and account receivable decreased, total assets as of December 31, 2019 increased ¥6.6 billion to ¥744.8 billion, as property, plant and equipment increased due to the domestic and overseas capital investment.

Total liabilities as of December 31, 2019 decreased ¥10.1 billion to ¥224.4 billion due to a decrease in account payable, and debt.

Although KOITO has wholly-owned KI HOLDINGS CO., LTD. and resulted in a decrease in its non-controlling interests, net assets as of December 31, 2019 increased ¥16.8 billion to ¥520.3 billion due to an increase in retained earnings.

-2. Analysis of cash flows

Operating activities provided net cash of ¥65.8 billion after payment of taxes, mainly reflecting income before income taxes of ¥63.3 billion and depreciation of ¥25.5 billion.

Investing activities used net cash of ¥42.2 billion, mainly reflecting acquisition of property and equipment of ¥29.7 billion.

Financing activities used net cash of ¥32.1 billion, the result mainly of reflecting dividends paid of ¥18.4 billion.

As a result, cash and cash equivalents as of December 31, 2019 were ¥101.1 billion, ¥3.1 billion higher 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 year on year 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 year on year 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.

The previously announced full-year business forecasts (both consolidated and non-consolidated) for fiscal 2020 announced in the Consolidated Earnings Report for the Second Quarter of Fiscal 2020 on October 28, 2019, has not been revised.

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

(¥ millions)

	Fiscal 2019 As of March 31, 2019	Third Quarter of Fiscal 2020 As of December 31, 2019
Assets		
Current assets:		
Cash and time deposits	287,803	275,329
Trade notes and accounts receivable	118,116	106,997
Electronically recorded monetary claims-operating	13,355	12,993
Inventories	66,632	67,738
Other current assets	28,179	35,645
Allowance for doubtful accounts	△517	△354
Total current assets	513,569	498,349
Non-current assets:		
Property, plant and equipment:		
Buildings and structures (net)	45,599	51,230
Machinery and transportation equipment (net)	60,475	69,017
Fixtures, equipment and tools (net)	15,545	17,595
Land	16,430	16,402
Construction in progress	20,718	21,632
Total property, plant and equipment	158,769	175,878
Intangible assets	3,183	3,200
Investments and other assets:		
Investment securities	43,963	50,408
Claims provable in bankruptcy, claims provable in rehabilitation and other	60	60
Deferred income tax assets	13,621	12,540
Assets for retirement benefits	2,401	2,033
Other investments	2,897	2,665
Allowance for doubtful accounts	△291	△290
Total investments and other assets	62,652	67,418
Total non-current assets	224,605	246,497
Total assets	738,175	744,847

(¥ millions)

	Fiscal 2019 As of March 31, 2019	Third Quarter of Fiscal 2020 As of December 31, 2019
Liabilities		
Current liabilities:		
Trade notes and accounts payable	93,816	93,251
Electronically recorded monetary obligations-operating	12,079	8,881
Short-term loans	23,507	24,476
Accrued expenses	24,222	24,249
Income taxes payable	5,691	3,130
Allowance for employees' bonuses	5,455	2,071
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	18,511
Total current liabilities	183,265	176,742
Non-current liabilities:		
Long-term debt	8,975	5,289
Deferred income tax liabilities	6,529	7,331
Allowance for directors' and corporate auditors' retirement benefits	478	497
Reserve for product warranties	5,437	5,446
Allowance for environmental strategies	206	92
Net defined liability for retirement benefits	27,977	27,275
Other non-current liabilities	1,741	1,790
Total non-current liabilities	51,345	47,722
Total liabilities	234,611	224,465
Net assets		
Shareholders' equity:		
Common stock	14,270	14,270
Additional paid-in capital	16,759	13,639
Retained earnings	407,725	434,603
Treasury common stock, at cost	△55	△53
Total shareholders' equity	438,700	462,460
Accumulated other comprehensive income:		
Valuation adjustment on investment securities	19,857	22,216
Translation adjustments	3,473	2,145
Adjustments in defined benefit plans	△694	△939
Total accumulated other comprehensive income	22,636	23,422
Subscription rights to shares	245	231
Non-controlling interests	41,981	34,267
Total net assets	503,564	520,381
Total liabilities and net assets	738,175	744,847

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

(¥ millions)

	Third Quarter of Fiscal 2019 April 1, 2018 to December 31, 2018	Third Quarter of Fiscal 2020 April 1, 2019 to December 31, 2019
Net sales	607,820	604,401
Cost of sales	499,381	505,447
Gross profit	108,439	98,954
Selling, general and administrative expenses	35,850	37,066
Operating income	72,588	61,887
Non-operating income:		
Interest income	929	1,314
Dividends	1,184	1,140
Equity in earnings of affiliates	8	—
Foreign exchange gains	255	—
Other non-operating income	1,657	1,758
Total non-operating income	4,036	4,213
Non-operating expenses		
Interest expenses	674	752
Shares of loss of entities accounted for using equity method	—	212
Foreign exchange losses	—	845
Other non-operating expenses	198	433
Total non-operating expenses	873	2,243
Recurring profit	75,751	63,856
Extraordinary gains:		
Gain on sales of property and equipment	286	17
Gain on sales of investment securities	—	27
Total extraordinary gains	286	44
Extraordinary losses:		
Loss on sales and disposal of property and equipment	436	542
Loss on valuation of investment securities	—	14
Loss related to the Act on Prohibition to Private Monopolization and Maintenance of Fair Trade	—	5
Loss on provision for environmental measures	484	—
Loss on valuation of inventories	268	—
Total extraordinary losses	1,189	563
Income before income taxes	74,848	63,338
Income taxes	16,542	15,461
Income tax adjustment	2,068	1,186
Total income taxes	18,611	16,648
Profit	56,236	46,690
(Break down)		
Profit attributable to owners of the parent	51,006	43,593
Profit attributable to non-controlling interests	5,230	3,096

(¥ millions)

	Third Quarter of Fiscal 2019 April 1, 2018 to December 31, 2018	Third Quarter of Fiscal 2020 April 1, 2019 to December 31, 2019
Other comprehensive income		
Valuation difference on available-for-sale securities	△4,812	2,236
Translation adjustments	△2,347	△985
Adjustments in defined benefit plans	219	△238
Share of other comprehensive income of entities accounted for using equity method	—	△17
Total other comprehensive income	△6,940	995
Comprehensive income	49,296	47,686
(Break down)		
Comprehensive income attributable to owners of parent	44,322	44,379
Comprehensive income attributable to non-controlling interests	4,974	3,306

(3) Quarterly Consolidated Statements of Cash Flows

(¥ millions)

	Third Quarter of Fiscal 2019 April 1, 2018 to December 31, 2018	Third Quarter of Fiscal 2020 April 1, 2019 to December 31, 2019
Cash flows from operating activities		
Income before income taxes	74,848	63,338
Depreciation	23,066	25,589
Stock-based compensation	44	—
Equity in earnings of affiliated companies	△8	212
Provision for allowance for doubtful accounts	131	△157
Net defined liability for retirement benefits	△712	△500
Provision for reserve for bonuses	△3,184	△3,386
Reserve for product warranties	△82	△405
Interest and dividends received	△2,114	△2,455
Interest payments	674	752
Loss on valuation of inventories	268	—
Gain on sale of marketable and investment securities	—	△27
Gain or loss on valuation of marketable and investment securities	△2	14
Loss on sale of property and equipment	150	525
Loss on provision for environmental measures	484	—
Loss related to the Act on Prohibition to Private Monopolization and Maintenance of Fair Trade	—	5
Decrease in trade notes and accounts receivable	10,339	10,753
Increase in inventories	△6,831	△2,171
Increase in other current assets	△8,483	△7,609
Increase in trade notes and accounts payable	1,177	△2,876
Increase in accrued expenses and other current liabilities	4,222	110
Others	6,552	444
Sub total	100,540	82,157
Interest and dividend received	2,114	2,452
Interest paid	△674	△752
Loss related to the Act on Prohibition to Private Monopolization and Maintenance of Fair Trade paid	—	△5
Income taxes paid	△31,391	△18,040
Net cash provided by operating activities	70,588	65,811
Cash flows from investing activities		
Payments into time deposits	△131,486	△113,496
Proceeds from time deposits	138,874	129,501
Payments for purchase of marketable and investment securities	△904	△535
Proceeds from sale of marketable and investment securities	0	30
Purchase of shares of subsidiaries and associates	—	△2,668
Acquisition of property and equipment	△38,838	△42,293
Proceeds from sale and disposal of property and equipment	882	512
Payments for new loans	△3	△4
Proceeds from loan repayments	6	6
Others	△1,493	△796
Net cash used in investing activities	△32,962	△29,742

(¥ millions)

	Third Quarter of Fiscal 2019 April 1, 2018 to December 31, 2018	Third Quarter of Fiscal 2020 April 1, 2019 to December 31, 2019
Cash flows from financing activities		
Increase in short-term loans	5,320	27
Increase in long-term debt	655	1,092
Repayment of long-term debt	△2,342	△3,038
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	—	△11,762
Proceeds from share issuance to non-controlling shareholders	1,144	—
Dividends paid by parent company	△15,574	△16,073
Dividends paid to non-controlling interests	△2,679	△2,379
Net cash used in financing activities	△13,477	△32,135
Effect of exchange rate changes on cash and cash equivalents	△1,303	△753
Increase in cash and cash equivalents	22,844	3,179
Cash and cash equivalents at beginning of quarter	41,050	97,993
Cash and cash equivalents at end of quarter	63,894	101,172

(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.

Further, Based on the resolution of the Board of Directors held on December 23, 2019, KOITO had acquired shares in INDIA JAPAN LIGHTING PRIVATE LIMITED (IJL) and KOITO has wholly-owned IJL.

Accordingly, additional paid-in capital in the third quarter of Fiscal 2020 decreased by ¥3,119 million, and stood at ¥13,639 million as of December 31, 2019.

(Segment Information)

【Segment Information】

I. 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.

II. Third Quarter of fiscal 2020 (April 1, 2019 to December 31, 2019)

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	282,276	138,746	75,036	77,569	26,847	3,925	604,401	—	604,401
Inter-segment sales and transfers	19,251	38	7,327	2,841	47	4	29,511	(29,511)	—
Total	301,528	138,785	82,363	80,410	26,895	3,929	633,913	(29,511)	604,401
Segment operating Income or loss	33,972	9,351	11,479	7,035	1,431	△392	62,876	(989)	61,887

Notes 1. The ¥△989 million adjustment in segment operating income includes ¥3,706 million in intersegment eliminations and ¥△4,696 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.