

SANDEN HOLDINGS CORPORATION

Aug 7, 2019

SUMMARY OF CONSOLIDATED FINANCIAL STATEMENTS AS OF JUNE 30, 2019

Fiscal year ended June 30, 2019

SANDEN HOLDINGS CORPORATION

20 Kotobuki-cho, Isesaki-shi, Gunma, Japan 372-8502
(URL: <https://www.sanden.co.jp/english/index.html>)

Code No: 6444
Shares listed: Tokyo Stock Exchange
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Scheduled filing date for quarterly report: August 8, 2019

Planned date of dividend payment: -

Supplementary briefing materials created for the quarterly report: None

Briefing sessions held on quarterly results: None

(Fractions less than ¥1 million omitted)

1. Consolidated Financial Results for the first quarter of current fiscal year (April 1, 2019- June 30, 2019)

(1) Results of operations

(%: percentage change from previous fiscal year)

	Net sales (Millions of ¥, %)		Operating income (Millions of ¥, %)		Income before extraordinary items (Millions of ¥, %)		Net income (Millions of ¥, %)	
1Q of Fiscal year ending March 31, 2020	64,792	(8.6)	752	(36.7)	(1,781)	-	(1,959)	-
1Q of Fiscal year ended March 31, 2019	70,894	(1.0)	1,189	12.7	2,263	33.8	1,641	27.8

Notes: Equity in Comprehensive Income: 1Q of Fiscal year ending March 31, 2020 ¥ (1,695)million -%
1Q of Fiscal year ended March 31, 2019 ¥ 988million (42.7)%

	Net income per share basic (¥)	Net income per share diluted (¥)
1Q of Fiscal year ending March 31, 2020	(70.78)	-
1Q of Fiscal year ended March 31, 2019	59.37	-

(2) Financial positions

(Fractions less than ¥1 million omitted)

	Total assets (Millions of ¥)	Net assets (Millions of ¥)	Equity Ratio of equity over total assets(%)	Net assets per share (¥)
1Q of Fiscal year ending March 31, 2020	249,763	21,843	7.0	629.82
Fiscal year ended March 31, 2019	246,401	23,538	7.7	685.04

Notes: Equity capital 1Q of Fiscal year ending March 31, 2020 ¥ 17,431million
Fiscal year ended March 31, 2019 ¥ 18,959million

2. Dividends

	Dividend per share (¥)				
	1Q	2Q	3Q	4Q	Total
Fiscal year ended March 31, 2019	-	0.00	-	0.00	0.00
Fiscal year ending March 31, 2020	-				
Fiscal year ending March 31, 2020 (Forecast)		0.00	-	0.00	0.00

Note: Revisions made since the most recently published dividends forecast: None

3. Forecast of business results for the current fiscal year (April 1, 2019-March 31, 2020)

(%: percentage change from the same period of the previous fiscal year)

	Net sales (Millions of ¥, %)		Operating income (Millions of ¥, %)		Income before extraordinary items (Millions of ¥, %)		Net income (Millions of ¥, %)		Net income per share basic (¥)
Fiscal year ending March 31, 2020	275,000	0.4	3,000	237.4	2,500	342.6	500	-	18.07

Note: Revisions made since the most recently published earnings forecast: None

***Notes**

(1) Changes in significant subsidiaries during the first quarter of the current fiscal year (Changes in specific subsidiaries accompanied by changes in the scope of consolidation):
None

(2) Specific accounting treatment used in the creation of the quarterly consolidated financial statements: Yes

(3) Changes in accounting principles and estimates, and retrospective restatement

(a) Changes due to revision of accounting standards: Yes

(b) Changes other than in (a): None

(c) Changes in accounting estimates: None

(d) Retrospective restatement: None

(4) Number of outstanding shares (common stock, shares)

(a) Outstanding shares (including treasury shares)	As of June 30, 2019:	28,066,313	As of March 31, 2019:	28,066,313
(b) Treasury shares	As of June 30, 2019:	389,207	As of March 31, 2019:	389,207
(c) Average number of shares outstanding during the first quarter (cumulative)	As of June 30, 2019:	27,677,106	As of June 30, 2018:	27,653,883

*Summary of quarterly financial results is exempt from quarterly review of audit procedures of Certified Public Accountant or Audit Firm.

*Cautionary statement regarding forecasts of operating results and special notes

(Note regarding the forward-looking statements)

The forward-looking statements contained in this report are based on information currently available to the Company and certain assumptions which are regarded as legitimate. These statements are not promises by the Company regarding future performance. Actual results may differ significantly from these forecasts due to various factors. For information about the forecasts, please see "1. Qualitative Information on Quarterly Financial Results-(3) An explanation of future, predictive data, such as consolidated earnings forecasts" on page 2 of Supplementary Information

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1 Qualitative Information on Quarterly Financial Results

(1) An explanation of Results of Operations

In the first quarter of the current fiscal year, the trend towards a moderate recovery in the global and Japanese economies continued. However, while capital expenditure was firm, the outlook for consumer spending remained uncertain. Moreover, uncertainty about the future prospects for the economy increased due to the further intensification of the trade dispute between the US and China, the slowdown of the Chinese economy, and the prolongation of the process of the UK's withdrawal from the European Union (EU) and other factors.

In this environment, the Sanden Group has formulated a new Corporate Mid-Term Plan (SCOPE2023) with fiscal year 2023 as its final year. In order to achieve goals of the mid-term plan, we are working daily to create corporate value to implement and fulfil our five reform plans: "Comprehensive reorganization of production system," "Enhancement of basic earning power," "Growth by actively promoting 'collaborative creation'," "Cash flow creation through capital reinforcement and reform of assets structure" and "System innovation for implementation."

Net sales in the first quarter of the current consolidated fiscal year decreased 8.6% year on year to 64,792 million yen, as a result of the decline in the market due to the impact of the US-China trade friction and the slowdown, mainly overseas, in automobile sales despite an increase in sales in the Commercial Store Systems Business. In terms of earnings, we are working on comprehensive cost transformation to improve profitability, but operating income was 752 million yen (down 36.7% year on year) mainly due to the impact of lower sales, and a loss of 1,781 million yen was recorded at the ordinary income level. (Ordinary income was 2,263 million yen in the same period of the previous year). The net loss attributable to owners of the parent was 1,959 million yen (net income attributable to owners of the parent was 1,641 million yen in the same period of the previous fiscal year).

Results for business segments are as follows.

A. Automotive Systems Business

In our Automotive Equipment Business, we have developed state-of-the-art products that are able to accurately capture our customers' preferences and provide them with products with the focus on the compact, lightweight, and energy efficient products that they value.

However, despite an increase, mainly in Europe, in sales of environmentally friendly vehicles, sales declined compared with the same period of the previous fiscal year due to a decline in demand from major customers resulting from the impact of the slowdown in the global automobile market.

Segment earnings decreased compared with the same period of the previous fiscal year despite cost cutting and a further re-examination of expenses in response to the large downturn in sales. As a result, segment sales decreased 22.6% to 40,828 million yen and the operating loss was 942 million yen (operating income was 1,669 million yen in the same period of the previous fiscal year).

B. Commercial Store Systems Business

In the retail store systems sector, the Sanden Group continued to provide comprehensive solutions encompassing products, systems and services linked to customers' growth strategies and needs involving environmental issues.

Segment sales increased compared with the same period of the previous fiscal year due to new deliveries of coffee servers in the domestic retail store systems business, despite a slowdown in new convenience store openings.

In the cold-chain business, despite the sluggish growth in the vending machine market in Japan, a year-on-year increase in sales compared to the same period was achieved by actively developing new and environmentally responsible products, and expanding the scale of the business of new service proposals linking production areas with stores.

Segment earnings increased because of the larger scale of operations and other reasons. As a result, segment sales increased 36.8% year-on-year to 21,782 million yen and operating income was 1,771 million yen (compared with an operating loss of 294 million yen in the same period of the previous fiscal year).

(2) An explanation of Financial Condition

Total assets were 249,763 million yen, at the end of the first quarter, 3,362 million yen more than the end of the previous fiscal year. The main reasons are a decrease in notes and accounts receivable-trade and an increase in cash and deposits, and inventories, etc.

Liabilities increased by 5,058 million, to 227,920 million. Major change was an increase in interest-bearing liabilities.

Net assets decreased of 1,695 million yen to 21,843 million yen mainly because of the loss attributable to owners of parent.

(3) An explanation of future, predictive data, such as consolidated earnings forecasts

The full year forecast of consolidated financial results, including the "Notice Concerning Transfer of Shares of Sanden Retail Systems Corporation." announced today and other matters, are currently under review and an announcement will be made promptly if revisions are necessary.

2 Quarterly Consolidated Financial Statements and Important Notes

(1) Quarterly consolidated balance sheets

(Million yen)

	Fiscal year ended March 2019 (As of March 31, 2019)	First quarter ended June 2019 (As of June 30, 2019)
ASSETS		
Current assets		
Cash and deposits	13,030	17,825
Notes and accounts receivable-trade	73,591	68,160
Merchandise and finished goods	24,142	27,006
Work in process	11,685	11,492
Raw materials	9,249	9,139
Other inventories	3,194	3,372
Accounts receivable-other	5,975	5,624
Consumption taxes receivable	4,575	4,210
Other	9,531	9,795
Allowance for doubtful accounts	(16,562)	(16,601)
Total current assets	138,412	140,025
Noncurrent assets		
Property, plant and equipment		
Buildings and structures, net	20,767	20,415
Machinery, equipment and vehicles, net	20,873	20,538
Tools, furniture and fixtures, net	5,217	4,889
Land	16,776	16,549
Lease assets, net	7,615	9,613
Construction in progress	6,187	6,079
Total property, plant and equipment	77,436	78,085
Intangible assets		
Goodwill	27	23
Lease assets	351	433
Other	3,699	3,836
Total intangible assets	4,078	4,293
Investments and other assets		
Investment securities	21,873	22,921
Net defined benefit asset	110	110
Deferred tax assets	2,240	2,305
Other	5,856	4,846
Allowance for doubtful accounts	(3,606)	(2,824)
Total investments and other assets	26,473	27,359
Total noncurrent assets	107,988	109,738
Total assets	246,401	249,763

(Million yen)

	Fiscal year ended March 2019 (As of March 31, 2019)	First quarter ended June 2019 (As of June 30, 2019)
LIABILITIES		
Current liabilities		
Notes and accounts payable-trade	50,000	50,430
Short-term loans payable	51,513	54,062
Current portion of bonds	1,505	1,505
Current portion of long-term loans payable	23,704	23,479
Accounts payable-other	7,553	6,977
Lease obligations	2,175	2,583
Income taxes payable	478	317
Provision for bonuses	3,347	4,635
Provision for sales rebates	426	446
Provision for product warranties	2,782	2,616
Provision for loss on compensation for damage	432	420
Other	12,789	13,479
Total current liabilities	156,710	160,953
Noncurrent liabilities		
Bonds payable	5,832	5,832
Long-term loans payable	47,939	47,166
Lease obligations	5,974	7,593
Deferred tax liabilities	245	265
Net defined benefit liability	3,653	3,615
Provision for environmental measures	243	226
Provision for share-based compensation	255	277
Other	2,005	1,989
Total noncurrent liabilities	66,151	66,966
Total liabilities	222,862	227,920
NET ASSETS		
Shareholders' equity		
Capital stock	11,037	11,037
Capital surplus	3,579	3,579
Retained earnings	10,484	8,525
Treasury shares	(877)	(877)
Total shareholders' equity	24,225	22,266
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	257	213
Deferred gains or losses on hedges	(84)	(95)
Foreign currency translation adjustment	(4,297)	(3,880)
Remeasurements of defined benefit plans	(1,140)	(1,073)
Total accumulated other comprehensive income	(5,265)	(4,834)
Non-controlling interests	4,579	4,411
Total net assets	23,538	21,843
Total liabilities and net assets	246,401	249,763

(2) Statements of quarterly consolidated income and consolidated comprehensive income
 Statements quarterly consolidated of income
 First quarter of the fiscal year

(Million yen)

	First quarter ended June 2018 (April 1, 2018 – June 30, 2018)	First quarter ended June 2019 (April 1, 2019 – June 30, 2019)
Net sales	70,894	64,792
Cost of sales	58,125	52,289
Gross profit	12,768	12,503
Selling, general and administrative expenses	11,579	11,751
Operating income (loss)	1,189	752
Non-operating income		
Interest income	13	56
Dividend income	15	9
Foreign exchange gains	562	-
Share of profit of entities accounted for using equity method	1,223	-
Other	279	146
Total non-operating income	2,095	212
Non-operating expenses		
Interest expenses	653	674
Foreign exchange losses	-	1,580
Share of loss of entities accounted for using equity method	-	116
Other	368	375
Total non-operating expenses	1,021	2,746
Ordinary income (loss)	2,263	(1,781)
Extraordinary income		
Gain on sales of non-current assets	152	29
Gain on sales of investment securities	63	-
Other	7	3
Total extraordinary income	223	32
Extraordinary losses		
Loss on disposal of non-current assets	91	185
Loss on reversal of foreign currency translation adjustment from liquidation of foreign subsidiaries	109	-
Other	-	9
Total extraordinary losses	201	195
Profit (loss) before income taxes	2,285	(1,944)
Income taxes	625	240
Profit (loss)	1,659	(2,185)
Profit (loss) attributable to non-controlling interests	17	(226)
Profit (loss) attributable to owners of parent	1,641	(1,959)

Quarterly consolidated statements of comprehensive income
 First quarter of the fiscal year

(Million yen)

	First quarter ended June 2018 (April 1, 2018 – June 30, 2018)	First quarter ended June 2019 (April 1, 2019 – June 30, 2019)
Profit (loss)	1,659	(2,185)
Other comprehensive income		
Valuation difference on available-for-sale securities	15	(44)
Deferred gains or losses on hedges	(62)	(10)
Foreign currency translation adjustment	(280)	(161)
Remeasurements of defined benefit plans	(31)	67
Share of other comprehensive income of entities accounted for using equity method	(311)	638
Total other comprehensive income	(670)	489
Comprehensive income	988	(1,695)
Comprehensive income attributable to owners of parent	1,097	(1,528)
Comprehensive income attributable to non-controlling interests	(108)	(167)

(3) Notes to the quarterly consolidated financial statements

(Notes to going concern assumptions)

None

(Notes on any significant change in amount of shareholders' equity)

None

(Application of accounting methods specifically for consolidated quarterly financial statements)

	First quarter of the fiscal year ending March 31, 2020 (April 1 to June 30, 2019)
Calculation of taxes	<p>Taxes are calculated by determining a reasonable estimate of the effective tax rate, after the application of tax effect accounting, for income before income taxes in the current fiscal year (including the first quarter). Quarterly income before income taxes is then multiplied by this estimated effective tax rate to calculate taxes.</p> <p>However, when the tax calculated by using the estimated effective tax rate is believed to be significantly erroneous, taxes are calculated by using Paragraph 12 (method for using the statutory effective tax rate) in Practical Guidelines for Tax Effects on Interim Financial Statements, Etc.</p> <p>Income taxes - deferred are included in income taxes.</p>

(Change in accounting policy)

Our subsidiary applying the International Financial Reporting Standards has adopted the IFRS 16 – the new leases standard. This standard, in principle, requires a lessee to record all leases as assets or liabilities on its balance sheet. The Group retrospectively applied IFRS 16 according to transitional measures. The cumulative effect of the commencement of application is recognized as an adjustment to the opening balance of retained earnings in the first quarter.

As a result, property, plant and equipment increased by 1,744 million yen, lease obligations in current liabilities increased by 348 million yen and lease obligations in noncurrent liabilities increased by 1,401 million yen.

The impact of changes in accounting policy on first quarter profit/loss is insignificant.

(Segment information)

I First quarter of the previous fiscal year (April 1, 2018 – June 30, 2018)

Information concerning sales, profit & loss for reporting segments

(Million yen)

	Reportable segments			Others (Note 1)	Total	Adjustments	Amount on consolidated financial statements (Note 2)
	Automotive systems	Commercial store systems	Total				
Net sales							
Sales to external customers	52,760	15,924	68,684	2,209	70,894	-	70,894
Inter-segment sales or transfer balances	-	-	-	-	-	-	-
Total	52,760	15,924	68,684	2,209	70,894	-	70,894
Segment income (loss)	1,669	(294)	1,375	(186)	1,189	-	1,189

Notes: 1. Others includes vehicle sales, living & environment systems, electronics and other activities.

2. The total of segment income (loss) matches operating income (loss) in the quarterly consolidated income statement.

II First quarter of the current fiscal year (April 1, 2019 – June 30, 2019)

Information concerning sales, profit & loss for reporting segments

(Million yen)

	Reportable segments			Others (Note 1)	Total	Adjustments	Amount on consolidated financial statements (Note 2)
	Automotive systems	Commercial store systems	Total				
Net sales							
Sales to external customers	40,828	21,782	62,611	2,181	64,792	-	64,792
Inter-segment sales or transfer balances	-	-	-	-	-	-	-
Total	40,828	21,782	62,611	2,181	64,792	-	64,792
Segment income (loss)	(942)	1,771	829	(77)	752	-	752

Notes: 1. Others includes vehicle sales, living & environment systems, electronics and other activities.

2. The total of segment income (loss) matches operating income (loss) in the quarterly consolidated income statement.

(Significant Subsequent Events)

(Sale of shares of important subsidiaries, etc.)

At the meeting of the Board of Directors held on August 7, 2019, the Company resolved to transfer all of the issued shares of Sanden Retail Systems Corporation (hereinafter referred to as "SDRS"), the Company's consolidated subsidiary, and the loan receivables that the Company holds against SDRS to SDRS Holdings Co., Ltd. (hereinafter referred to as the "Transferee Company") formed through contributions from affiliated business entities operated by Integral Corporation and, accordingly, a Transfer Agreement (hereinafter referred to as the "Transfer Agreement") to enable this transfer was concluded on the same date.

For further details, please refer to the "Notice Concerning Transfer of Shares of Sanden Retail Systems Corporation" announced today.