

SANDEN HOLDINGS CORPORATION

Feb 6, 2020

SUMMARY OF QUARTERLY CONSOLIDATED FINANCIAL STATEMENTS AS OF December 31, 2019

Fiscal year ending March 31, 2020

SANDEN HOLDINGS CORPORATION

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(URL: <https://www.sanden.co.jp/english/index.html>)

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Scheduled filing date for quarterly report: February 7, 2020

Planned date of dividend payment: -

Supplementary briefing materials created for the quarterly report: No

Briefing sessions held on quarterly results: No (for securities analysts and institutional investors)

(Fractions less than ¥1 million omitted)

1. Consolidated financial results for the third quarter of current fiscal year (April 1, 2019- December 31, 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 ¥, %)	
3Q of Fiscal year ending March 31, 2020	166,541	(17.3)	(1,888)	-	(5,046)	-	12,210	-
3Q of Fiscal year ended March 31, 2019	201,310	(4.1)	(848)	-	(1,306)	-	(1,887)	-

Notes: Equity in Comprehensive Income: 3Q of Fiscal year ending March 31, 2020 ¥ 10,201million (-)%
3Q of Fiscal year ended March 31, 2019 ¥ (5,494)million (-)%

	Net income per share basic (¥)	Net income per share diluted (¥)
3Q of Fiscal year ending March 31, 2020	440.60	-
3Q of Fiscal year ended March 31, 2019	(68.23)	-

(2) Financial positions

	Total assets (Millions of ¥)	Net assets (Millions of ¥)	Equity ratio of equity over total assets(%)	Net assets per share (¥)
3Q of Fiscal year ending March 31, 2020	209,642	32,566	14.3	1,082.63
Fiscal year ended March 31, 2019	246,401	23,538	7.7	685.04

Notes: Equity capital 3Q of Fiscal year ending March 31, 2020 ¥ 30,036million
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	-	0.00	-		
Fiscal year ending March 31, 2020 (Forecast)				0.00	0.00

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

3. Forecast of business results for the next 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	215,000	(21.5)	500	(43.8)	(4,000)	-	9,000	-	324.92

Note: Revisions made since the most recently published earnings forecast: No

***Notes**

(1) Changes in significant subsidiaries during the second quarter of the current fiscal year (Changes in specific subsidiaries accompanied by changes in the scope of consolidation):

Yes: SANDEN INTERNATIONAL (EUROPE) LTD. , SANDEN SHANGHAI REFRIGERATION CO., LTD.

(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 December 31, 2019:	28,066,313	As of March 31, 2019:	28,066,313
(b) Treasury shares	As of December 31, 2019:	322,507	As of March 31, 2019:	389,207
(c) Average number of shares outstanding during the second quarter (cumulative)	As of December 31, 2019:	27,712,756	As of December 31, 2018:	27,660,168

*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.

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1. Qualitative Information on Quarterly Financial Results

(1) An explanation of Results of Operations

In the current fiscal year, the Sanden Group has been taking many actions in order to accomplish the goals of SCOPE2023, a medium-term business plan that will end in March 2024. These activities are aimed at the “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”.

During the first three quarters of the fiscal year, the global economy and Japanese economy benefited from a short-term decline in U.S.-China trade friction due to a partial agreement, encouraging signs about the economy of India and other countries in this region, and other positive events. However, the economic outlook is still unclear because of automobile production in China remains sluggish, Britain's departure from the EU and other reasons.

As was announced on August 7, 2019, Sanden Holdings sold all of the stock of consolidated subsidiary Sanden Retail Systems Inc. (SDRS) and loans by Sanden Holdings to SDRS to SDRS Holdings Corporation, which is owned by Integral Corporation, on October 1, 2019. This sale makes it possible to focus all of the Sanden Group's resources on the automotive systems business.

On November 6, 2019, Sanden Holdings announced structural reform expenses in a press release “Notice of Forecast Revisions and Expected Extraordinary Income and Loss”. These expenses include an early retirement program with additional benefits, impairment losses for fixed assets due to a comprehensive reorganization of production system, and other items. Group companies are making steady progress with measures to improve variable expenses and cut fixed expenses in order to achieve a recovery in earnings.

In the first three quarters, sales were 166,541 million yen, down 17.3% from one year earlier mainly because of the sale of SDRS and slow automobile sales worldwide. There was an operating loss of 1,888 million yen compared with an 848 million yen loss one year earlier and the ordinary loss increased from 1,306 million yen to 5,046 million yen. After the structural reform expenses, the gain on the sale of SDRS and other items, profit attributable to owners of parent was 12,210 million yen compared with a loss of 1,887 million yen one year earlier.

Results for business segments are as follows.

A. Automotive Systems

In this business, the Sanden Group develops technologically advanced products that precisely match the needs of the customers concerning environmental sensitivity and supplies more compact, light and energy-efficient products that provide value for customers. To accomplish the five goals of SCOPE2023, this business is optimizing the use of human resources worldwide and performing joint development activities as part of the “collaborative creation” strategy.

Sales of components used by electric vehicles increased, but sales were lower than one year earlier because of a decline in demand at major customers due to the global slowdown in automobile sales. Although activities to cut the cost of sales and implement structural reforms are under way, there was an operating loss because of a decline in sales. As a result, segment sales decreased 19.7% to 115,988 million yen and there was an operating loss of 4,001 million yen compared with operating income of 445 million yen one year earlier.

B. Commercial Store Systems

Sales in the first three quarters decreased because of the sale of SDRS on October 1, 2019. Earnings increased because the first half operating income of this segment was higher than one year earlier. As a result, sales decreased 12.1% to 43,237 million yen and there was operating income of 2,331 million yen compared with an 849 million yen operating loss one year earlier.

(2) An explanation of Financial Condition

Assets, liabilities and net assets

Assets totaled 209,642 million yen at the end of the third quarter, 36,759 million yen less than at the end of the previous fiscal year. The sale of SDRS reduced assets by 43,589 million yen and there was an increase in cash and deposits due to the receipt of the payment for this company.

Liabilities decreased 45,786 million yen to 177,075 million yen. This was attributable mainly to a 31,043 million yen decrease in liabilities resulting from the sale of SDRS and to the repayment of short and long-term loans payable.

Net assets increased 9,027 million yen to 32,566 million yen. Net assets were reduced by a decrease in non-controlling interests and structural reform expenses and increased by the 12,210 million yen profit attributable to owners of parent, primarily the result of a gain of 24,355 million yen on the sale of stock of subsidiaries and associates.

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

There is no change in the consolidated earnings forecast announced on November 6, 2019.

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)	Third quarter ended Dec. 2019 (As of December 31, 2019)
ASSETS		
Current assets		
Cash and deposits	13,030	34,956
Notes and accounts receivable-trade	73,591	45,730
Merchandise and finished goods	24,142	17,567
Work in process	11,685	9,840
Raw materials	9,249	6,996
Other inventories	3,194	3,084
Accounts receivable-other	5,975	5,475
Consumption taxes receivable	4,575	4,542
Other	9,531	7,297
Allowance for doubtful accounts	(16,562)	(16,758)
Total current assets	138,412	118,733
Noncurrent assets		
Property, plant and equipment		
Buildings and structures, net	20,767	17,479
Machinery, equipment and vehicles, net	20,873	17,950
Tools, furniture and fixtures, net	5,217	3,866
Land	16,776	15,873
Lease assets, net	7,615	7,214
Construction in progress	6,187	5,011
Total property, plant and equipment	77,436	67,396
Intangible assets		
Goodwill	27	17
Lease assets	351	155
Other	3,699	3,434
Total intangible assets	4,078	3,606
Investments and other assets		
Investment securities	21,873	16,463
Net defined benefit asset	110	110
Deferred tax assets	2,240	1,651
Other	5,856	4,494
Allowance for doubtful accounts	(3,606)	(2,813)
Total investments and other assets	26,473	19,906
Total noncurrent assets	107,988	90,908
Total assets	246,401	209,642

(Million yen)

	Fiscal year ended March 2019 (As of March 31, 2019)	Third quarter ended Dec. 2019 (As of December 31, 2019)
LIABILITIES		
Current liabilities		
Notes and accounts payable-trade	50,000	30,120
Short-term loans payable	51,513	43,741
Current portion of bonds	1,505	1,785
Current portion of long-term loans payable	23,704	23,324
Accounts payable-other	7,553	6,288
Lease obligations	2,175	2,843
Income taxes payable	478	220
Provision for bonuses	3,347	1,262
Provision for sales rebates	426	136
Provision for product warranties	2,782	1,766
Provision for loss on compensation for damage	432	-
Other	12,789	10,240
Total current liabilities	156,710	121,729
Noncurrent liabilities		
Bonds payable	5,832	4,940
Long-term loans payable	47,939	36,201
Lease obligations	5,974	8,031
Deferred tax liabilities	245	447
Net defined benefit liability	3,653	3,450
Provision for environmental measures	243	209
Provision for share-based compensation	255	133
Other	2,005	1,933
Total noncurrent liabilities	66,151	55,346
Total liabilities	222,862	177,075
NET ASSETS		
Shareholders' equity		
Capital stock	11,037	11,037
Capital surplus	3,579	3,377
Retained earnings	10,484	22,694
Treasury shares	(877)	(704)
Total shareholders' equity	24,225	36,404
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	257	(8)
Deferred gains or losses on hedges	(84)	(68)
Foreign currency translation adjustment	(4,297)	(4,785)
Remeasurements of defined benefit plans	(1,140)	(1,505)
Total accumulated other comprehensive income	(5,265)	(6,368)
Non-controlling interests	4,579	2,529
Total net assets	23,538	32,566
Total liabilities and net assets	246,401	209,642

(2) Statements of quarterly consolidated income and consolidated comprehensive income

Quarterly consolidated statement of income
First three quarters of the fiscal year

(Million yen)

	First three quarters ended December 2018 (April 1, 2018 – Dec. 31, 2018)	First three quarters ended December 2019 (April 1, 2019 – Dec. 31, 2019)
Net sales	201,310	166,541
Cost of sales	167,479	139,078
Gross profit	33,830	27,463
Selling, general and administrative expenses	34,679	29,352
Operating income (loss)	(848)	(1,888)
Non-operating income		
Interest income	43	416
Dividend income	23	14
Foreign exchange gains	510	-
Share of profit of entities accounted for using equity method	1,131	1,018
Other	645	465
Total non-operating income	2,354	1,916
Non-operating expenses		
Interest expenses	1,923	1,837
Foreign exchange losses	-	1,568
Other	888	1,668
Total non-operating expenses	2,812	5,074
Ordinary income (loss)	(1,306)	(5,046)
Extraordinary income		
Gain on sales of non-current assets	185	1,128
Gain on sales of investment securities	63	9
Gain on sales of shares of subsidiaries and associates	-	24,355
Other	14	13
Total extraordinary income	263	25,507
Extraordinary losses		
Loss on disposal of non-current assets	118	277
Restructuring expenses	-	7,016
Provision for loss on compensation for damage	28	-
Loss on reversal of foreign currency translation adjustment incurred from liquidation of foreign subsidiaries	109	-
Other	265	65
Total extraordinary losses	522	7,359
Profit (loss) before income taxes	(1,564)	13,102
Income taxes	772	1,560
Profit (loss)	(2,337)	11,541
Profit (loss) attributable to non-controlling interests	(450)	(669)
Profit (loss) attributable to owners of parent	(1,887)	12,210

Quarterly consolidated statements of comprehensive income
 First three quarters of the fiscal year

(Million yen)

	First three quarters ended December 2018 (April 1, 2018 – Dec. 31, 2018)	First three quarters ended December 2019 (April 1, 2019 – Dec. 31, 2019)
Profit (loss)	(2,337)	11,541
Other comprehensive income		
Valuation difference on available-for-sale securities	32	(268)
Deferred gains or losses on hedges	(80)	16
Foreign currency translation adjustment	(494)	652
Remeasurements of defined benefit plans, net of tax	227	(364)
Share of other comprehensive income of entities accounted for using equity method	(2,841)	(1,375)
Total other comprehensive income	(3,157)	(1,339)
Comprehensive income	(5,494)	10,201
Comprehensive income attributable to owners of parent	(4,788)	11,107
Comprehensive income attributable to non-controlling interests	(706)	(905)

(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 three quarters ended December 2019 (April 1, 2019 – Dec. 31, 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 third 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>

(Changes in major subsidiaries in the first three quarters of the current fiscal year)

In the second quarter of the current fiscal year, SANDEN INTERNATIONAL (EUROPE) LTD. was dissolved following an absorption-type merger with our consolidated subsidiary SANDEN INTERNATIONAL (EUROPE) GMBH, with the latter as the surviving company. Accordingly, SANDEN INTERNATIONAL (EUROPE) LTD. was excluded from the scope of consolidation in the first half of the current fiscal year.

In the third quarter of the current fiscal year, consolidated subsidiary Sanden Shanghai Refrigeration Co., Ltd. was removed from the consolidated financial statements in association with the sale of all of the shares held by Sanden Holdings in Sanden Retail Systems Corporation, the parent company of Sanden Shanghai Refrigeration.

(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 and 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 of these changes, Property, plant and equipment increased 1,556 million yen, Lease obligations under current liabilities increased 423 million yen and Lease obligations under non-current liabilities increased 1,211 million yen at the end of the third quarter. The effect of these changes on the first three quarters earnings is insignificant.

(Segment information, etc.)

I First three quarters of the previous fiscal year (April 1, 2018 – December 31, 2018)

Information concerning sales and income (loss) for reporting segments

(Million yen)

	Reportable segments			Others (Note 1)	Total	Adjustments	Amount on quarterly consolidated statement of income (Note 2)
	Automotive systems	Commercial store systems	Total				
Net sales							
Sales to external customers	144,422	49,171	193,593	7,716	201,310	–	201,310
Inter-segment sales or transfer balances	–	–	–	–	–	–	–
Total	144,422	49,171	193,593	7,716	201,310	–	201,310
Segment income (loss)	445	(849)	(404)	(444)	(848)	–	(848)

Notes: 1. Others includes vehicle sales business, living and environmental systems business, electronics business and other activities.

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

II First three quarters of the current fiscal year (April 1, 2019 – December 31, 2019)

Information concerning sales and income (loss) for reporting segments

(Million yen)

	Reportable segments			Others (Note 1)	Total	Adjustments	Amount on quarterly consolidated statement of income (Note 2)
	Automotive systems	Commercial store systems	Total				
Net sales							
Sales to external customers	115,988	43,237	159,225	7,315	166,541	–	166,541
Inter-segment sales or transfer balances	–	–	–	–	–	–	–
Total	115,988	43,237	159,225	7,315	166,541	–	166,541
Segment income (loss)	(4,001)	2,331	(1,669)	(218)	(1,888)	–	(1,888)

Notes: 1. Others includes vehicle sales business, living and environmental systems business, electronics business and other activities.

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