

SANDEN HOLDINGS CORPORATION

Feb 9, 2021

SUMMARY OF QUARTERLY CONSOLIDATED FINANCIAL STATEMENTS AS OF December 31, 2020

Fiscal year ended March 31, 2021

SANDEN HOLDINGS CORPORATION

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

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Shares listed: Tokyo Stock Exchange
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Scheduled filing date for quarterly report: February 10, 2021

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 third quarter of current fiscal year (April 1, 2020- December 31, 2020)

(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, 2021	94,496	(43.3)	(9,697)	-	(15,995)	-	(16,840)	-
3Q of Fiscal year ended March 31, 2020	166,541	(17.3)	(1,888)	-	(5,046)	-	12,210	-

Notes: Equity in Comprehensive Income: 3Q of Fiscal year ending March 31, 2021 ¥ (15,663)million -%
3Q of Fiscal year ended March 31, 2020 ¥ 10,201million -%

	Net income per share basic (¥)	Net income per share diluted (¥)
3Q of Fiscal year ending March 31, 2021	(606.75)	-
3Q of Fiscal year ended March 31, 2020	440.60	-

(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 (¥)
3Q of Fiscal year ending March 31, 2021	172,401	8,653	4.2	260.09
Fiscal year ended March 31, 2020	187,559	22,699	11.1	747.92

Notes: Equity capital 3Q of Fiscal year ending March 31, 2021 ¥ 7,219 million
Fiscal year ended March 31, 2020 ¥ 20,750 million

2. Dividends

	Dividend per share (¥)				
	1Q	2Q	3Q	4Q	Total
Fiscal year ended March 31, 2020	-	0.00	-	0.00	0.00
Fiscal year ending March 31, 2021	-	0.00	-	-	-
Fiscal year ending March 31, 2021 (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, 2020-March 31, 2021)

No forecast made for the consolidated business results for the fiscal year ending March 2021.

These informations will be disclosed promptly when it becomes possible to reasonably calculate the forecast of the consolidated business results.

***Notes**

(1) Changes in significant subsidiaries during the third 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: None

(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, 2020:	28,066,313	As of March 31, 2020:	28,066,313
(b) Treasury shares	As of December 31, 2020:	309,701	As of March 31, 2020:	322,538
(c) Average number of shares outstanding during the second quarter (cumulative)	As of December 31, 2020:	27,754,485	As of December 31, 2019:	27,712,756

*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 promised 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 3 of Supplementary Information

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1. Qualitative Information on Quarterly Financial Results

(1) An explanation of Results of Operations

The Sanden Group develops products with advanced technologies in order to meet the environmental demands from customers and supplies products with value centered on compact dimensions, light weight and low power consumption. The group is currently focusing on activities to accomplish the goals of SCOPE2023, a medium-term management plan that will end in fiscal 2023. This plan consists of five reform plans: (1) comprehensive reorganization of the production system, (2) enhancement of basic earning power, (3) growth by actively promoting 'collaborative creation', (4) cash flow creation through capital reinforcement and reform of assets structure, and (5) system innovation for implementation. Most significant are measures to optimize the workforce as part of a global reexamination of manufacturing operations that started in the previous fiscal year, faster joint development activities for electric vehicles, which is one of our collaborative creation strategic goals, and more activities involving vehicle integrated thermal management systems.

In the first three quarters of the current fiscal year, although the global economy plunged into a recession due to the COVID-19 pandemic, economic activities have gradually resumed worldwide and automobile demand recovered rapidly in the second half of 2020. However, the outlook remains extremely uncertain because of a new wave of infections in Europe, Japan and Asia, global problems involving the supply of parts because of the rapid rebound in demand, and other reasons.

In the first quarter, there was a big decline in sales as the operations of customers as well as the group's factories remained closed even after April due to COVID-19 pandemic and there were temporary furloughs in Japan, the United States and other countries due to a downturn in demand. In the second and third quarters, operations resumed at all Sanden Group locations and demand has been recovering. Demand recovered even more than expected in the third quarter and is currently at the same level as one year earlier. However, sales in the first three quarters were lower than in the same period of the previous fiscal year.

Results of operations were also affected by the sale in the previous fiscal year of Sanden Retail Systems Corp. (SDRS), the core company in the Retail Systems Business. This company was removed from the consolidated financial statements beginning with the third quarter of the previous fiscal year. The sale of SDRS reduced sales in the first three quarters by 43,237 million yen compared with the same period of the previous fiscal year.

For these reasons, sales in first three quarters decreased 43.3% from one year earlier to 94,496 million yen.

Structural reforms implemented in the previous fiscal year are producing benefits and there were further measures for improving variable expenses, cutting fixed expenses and making other improvements. However, this progress was more than offset by the big decline in demand for the group's products in the first quarter due to COVID-19 outbreak, the big increase in logistics expenses due to the rapid rebound in demand in the third quarter, and other factors. As a result, there was an operating loss of 9,697 million yen compared with a loss of 1,888 million yen one year earlier. The ordinary loss increased from 5,046 million yen one year earlier to 15,995 million yen because of the operating loss as well as foreign exchange losses and a smaller share of profit of entities accounted for using equity method. The loss attributable to owners of parent was 16,840 million yen compared with a profit of 12,210 million yen one year earlier. The loss was attributable mainly to the ordinary loss and an extraordinary loss for fixed expenses caused by the COVID-19 pandemic in the first quarter.

There is no segment information because, beginning with the first quarter of the fiscal year ending in March 2021, Sanden Holdings has changed from the previous two reportable segments of Automotive Systems and Commercial Store Systems to the single reportable segment of Automotive Systems.

(2) An explanation of Financial Condition

Total assets were 172,401 million yen at the end of the third quarter, down 15,158 million yen from the end of the previous fiscal year. There were declines in deposits, notes and accounts receivable-trade, inventories and other items as sales decreased because of COVID-19.

Liabilities decreased 1,111 million yen to 163,748 million yen mainly because of decreases in notes and accounts payable-trade and other current liabilities. There are no significant changes in borrowings.

Net assets decreased 14,046 million yen to 8,653 million yen because of the loss attributable to owners of parent.

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

The Sanden Group is conducting business activities in compliance with the policies of national and local governments. Our highest priorities are the health and safety of employees, customers and all other stakeholders and preventing the spread of COVID-19.

In the automobile industry, although vehicle production at companies that use Sanden products fell sharply in the first half of fiscal year because of the COVID-19 crisis, there was a greater than expected recovery in the third quarter. The recovery in automobile demand is expected to continue in the fourth quarter. However, there are uncertainties about the upcoming effects of a new wave of infections in Europe and other regions, the global semiconductor shortage, and supply chain instability caused by disruptions involving logistics.

On June 30, 2020, Sanden Holdings and some of its subsidiaries officially submitted a business revitalization ADR procedure application. Sanden Holdings is working closely with relevant financial institutions to develop a business revitalization plan. This may have an impact on the Sanden Group's business performance.

For these reasons, there is no forecast for consolidated results of operations because it is not possible at this time to determine a reasonable forecast.

An announcement will be made promptly when the proposed business plan has been finalized and it becomes possible to determine a reasonable forecast.

2. Quarterly Consolidated Financial Statements and Important Notes

(1) Quarterly consolidated balance sheets

(Million yen)

	Fiscal year ended March 2020 (As of March 31, 2020)	Third quarter ended Dec. 2020 (As of December 31, 2020)
ASSETS		
Current assets		
Cash and deposits	26,440	22,793
Notes and accounts receivable-trade	45,344	39,462
Merchandise and finished goods	16,193	12,738
Work in process	8,699	7,646
Raw materials	7,514	6,442
Other inventories	2,932	2,993
Accounts receivable-other	4,570	3,643
Consumption taxes receivable	3,780	4,017
Other	8,153	9,439
Allowance for doubtful accounts	(17,842)	(15,245)
Total current assets	105,787	93,932
Noncurrent assets		
Property, plant and equipment		
Buildings and structures, net	16,144	15,570
Machinery, equipment and vehicles, net	16,671	16,764
Tools, furniture and fixtures, net	3,359	2,946
Land	10,610	10,559
Leased assets, net	6,764	7,200
Construction in progress	4,971	3,636
Total property, plant and equipment	58,522	56,678
Intangible assets		
Goodwill	13	3
Leased assets	141	106
Other	3,956	4,118
Total intangible assets	4,111	4,227
Investments and other assets		
Investment securities	15,903	14,116
Retirement benefit asset	99	100
Deferred tax assets	1,743	2,077
Other	3,165	2,283
Allowance for doubtful accounts	(1,774)	(1,014)
Total investments and other assets	19,138	17,562
Total noncurrent assets	81,772	78,469
Total assets	187,559	172,401

(Million yen)

	Fiscal year ended March 2020 (As of March 31, 2020)	Third quarter ended Dec. 2020 (As of December 31, 2020)
LIABILITIES		
Current liabilities		
Notes and accounts payable-trade	29,983	28,443
Short-term borrowings	47,497	52,746
Current portion of bonds payable	1,985	1,985
Current portion of long-term borrowings	20,984	21,775
Accounts payable - other	6,341	6,227
Lease obligations	2,627	2,730
Income taxes payable	238	343
Provision for bonuses	1,475	861
Provision for sales rebates	169	164
Provision for product warranties	1,736	1,887
Other	8,131	6,942
Total current liabilities	121,170	124,107
Noncurrent liabilities		
Bonds payable	3,847	2,955
Long-term borrowings	25,938	20,820
Lease obligations	7,610	7,199
Deferred tax liabilities	476	432
Retirement benefit liability	3,491	3,234
Provision for environmental measures	198	162
Provision for share-based remuneration	153	151
Other	1,972	4,685
Total noncurrent liabilities	43,689	39,641
Total liabilities	164,859	163,748
NET ASSETS		
Shareholders' equity		
Share capital	11,037	11,037
Capital surplus	3,377	3,377
Retained earnings	12,772	(2,450)
Treasury shares	(704)	(674)
Total shareholders' equity	26,482	11,289
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	(46)	(21)
Deferred gains or losses on hedges	(50)	(38)
Foreign currency translation adjustment	(3,986)	(2,813)
Remeasurements of defined benefit plans	(1,648)	(1,197)
Total accumulated other comprehensive income	(5,732)	(4,070)
Non-controlling interests	1,949	1,434
Total net assets	22,699	8,653
Total liabilities and net assets	187,559	172,401

(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 2019 (April 1, 2019 – Dec. 31, 2019)	First three quarters ended December 2020 (April 1, 2020 – Dec. 31, 2020)
Net sales	166,541	94,496
Cost of sales	139,078	87,057
Gross profit	27,463	7,439
Selling, general and administrative expenses	29,352	17,137
Operating income (loss)	(1,888)	(9,697)
Non-operating income		
Interest income	416	345
Dividend income	14	6
Share of profit of entities accounted for using equity method	1,018	-
Rental income	18	583
Other	447	116
Total non-operating income	1,916	1,051
Non-operating expenses		
Interest expenses	1,837	1,432
Foreign exchange losses	1,568	1,511
Share of loss of entities accounted for using equity method	-	2,046
Other	1,668	2,360
Total non-operating expenses	5,074	7,349
Ordinary income (loss)	(5,046)	(15,995)
Extraordinary income		
Gain on sales of non-current assets	1,128	121
Gain on sales of shares of subsidiaries and associates	24,355	-
Other	23	29
Total extraordinary income	25,507	150
Extraordinary losses		
Loss on disposal of non-current assets	277	28
Shutdown expenses	-	957
Restructuring expenses	7,016	-
Other	65	231
Total extraordinary losses	7,359	1,216
Profit (loss) before income taxes	13,102	(17,061)
Income taxes	1,560	190
Profit (loss)	11,541	(17,251)
Profit (loss) attributable to non-controlling interests	(669)	(411)
Profit (loss) attributable to owners of parent	12,210	(16,840)

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

(Million yen)

	First three quarters ended December 2019 (April 1, 2019 – Dec. 31, 2019)	First three quarters ended December 2020 (April 1, 2020 – Dec. 31, 2020)
Profit (loss)	11,541	(17,251)
Other comprehensive income		
Valuation difference on available-for-sale securities	(268)	22
Deferred gains or losses on hedges	16	12
Foreign currency translation adjustment	652	315
Remeasurements of defined benefit plans, net of tax	(364)	451
Share of other comprehensive income of entities accounted for using equity method	(1,375)	786
Total other comprehensive income	(1,339)	1,588
Comprehensive income	10,201	(15,663)
Comprehensive income attributable to owners of parent	11,107	(15,178)
Comprehensive income attributable to non-controlling interests	(905)	(484)

(3) Notes to the quarterly consolidated financial statements

(Notes to going concern assumptions)

In the fiscal year that ended in March 2020, sales were 204,880 million yen, down 25% from the previous fiscal year and there was an operating loss of 3,401 million yen and an ordinary loss of 9,735 million yen. The causes of these performances include the sale of all shares of SDRS, a major subsidiary that conducted the commercial store systems business, and the negative effect of lower vehicle sales primarily in Europe and China and the global COVID-19 pandemic on the automotive systems business. At the end of March 2020, borrowings and bonds payable totaled 100,252 million yen, which was high in relation to cash and cash equivalents of 23,711 million yen. In addition, current liabilities exceeded current assets.

In the first three quarters of the current fiscal year, sales decreased 43% from one year earlier to 94,496 million yen and there was an operating loss of 9,697 million yen and an ordinary loss of 15,995 million yen. The main reasons are the sale of SDRS and the impact of COVID-19 on the automotive systems business. At the end of December 2020, borrowings and bonds payable totaled 100,282 million yen, which was high in relation to cash and cash equivalents of 21,378 million yen, and current liabilities exceeded current assets.

For these reasons, the current status of the Sanden Group continues to raise significant doubts about the going concern assumption.

In response to this difficult situation, Sanden Holdings and some of its subsidiaries officially submitted a business revitalization ADR procedure application to the Japanese Association of Turnaround Professionals on June 30, 2020 and the application was accepted on the same day. This application was submitted for the purposes of building a powerful profit structure for renewed growth and significantly improving financial soundness.

On July 14, 2020, the first creditor meeting was held in order to provide an overview of the proposed business revitalization plan based on the business revitalization ADR procedure. All financial institutions that are creditors with respect to this procedure attended the meeting. The continuation of the second creditor meeting was held on December 11, 2020 to discuss the proposed business revitalization plan. On the same day, the third creditor meeting was held to reach a decision about the proposed business revitalization plan. Every financial institution involved with this procedure agreed to a temporary suspension notice and gave their consent for an extension of this temporary suspension until the end of the creditor meeting (the end of the postponed or continued meeting if either of these actions is taken) for approval of the proposed business revitalization plan.

In addition, all of the creditor financial institutions agreed that the primary creditor financial institutions will provide bridge loans and other financial support. This agreement includes the provision that this financial support will be senior to the other debt owed to the creditor financial institutions by Sanden Holdings and the subsidiaries participating in this procedure.

As the business revitalization ADR procedure progresses, Sanden Holdings and participating subsidiaries will establish a proposal for a business revitalization plan. To determine this plan, there will be examinations, guidance and advice from the Japanese Association of Turnaround Professionals, which uses a fair and neutral perspective, and discussions with creditor financial institutions. The business revitalization plan includes Sanden's own activities to improve business operations as well as discussions about equity and business alliances with a sponsor candidate, which has expressed a legally binding desire to provide support. Sanden and participating subsidiaries aim to receive the agreement of all creditor financial institutions.

The following events concerning the business revitalization ADR procedure have been scheduled.

Another continuation of the second creditor meeting to discuss the proposed business revitalization plan; March 12, 2021 (tentative)

Continuation of the third creditor meeting to reach a decision about the proposed business revitalization plan; April 27, 2021 (tentative)

This schedule may be changed in response to progress with the ADR procedure or for other reasons. Subsequent dates for these meetings may be scheduled if needed.

Measures concerning these actions have just started. Furthermore, even if these actions are taken, there may be a significant impact on liquidity depending on the performance of the Sanden Group's business operations and progress with the revitalization ADR procedure. Consequently, Sanden believes that there are currently significant uncertainties about the going concern assumption.

The going concern assumption was used as the basis for preparing the quarterly consolidated financial statements and these statements do not reflect the significant uncertainties regarding this assumption.

(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 2020 (April 1, 2020 – Dec. 31, 2020)
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>

(Supplementary information)

Effective from the beginning with the second quarter of the current fiscal year, the quarterly financial statements of our Iran affiliate have been accounted for by the equity method after adjustment to comply with IAS 29 (Financial Reporting in Hyper-Inflationary Economies).

As a result, retained earnings at the beginning of the first quarter of the current fiscal year increased by 1,825 million yen after retroactive application of the accounting standard.

(Segment information, etc.)

[Segment information]

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

As stated in “(Item concerning change in reportable segments) of II First three quarters of the current fiscal year.”

II First three quarters the current fiscal year (April 1, 2021 – December 31, 2020)

Omitted because the Sanden Group has only the single reportable segment of Automotive Systems.

(Item concerning change in reportable segments)

In prior fiscal years, the Sanden Group had two reportable segments: Automotive Systems and Commercial Store Systems. Due to the sale in the previous fiscal year of all shares of SDRS, the primary subsidiary of the Commercial Store Systems segment, this segment has become immaterial.

As a result, beginning with the first quarter of the fiscal year ending in March 2021, the Sanden Group has only the single reportable segment of Automotive Systems and therefore is providing no segment information for the first three quarters of the current and previous fiscal years.