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Consolidated Financial Results for the Nine Months Ended December 31, 2019 [Japanese GAAP]

February 7, 2020

Company name: Daido Metal Co., Ltd.

Stock exchange listing: Tokyo, Nagoya

Code number: 7245

URL: <http://www.daidometal.com>

Representative: Seigo Hanji Chairman and Chief Executive Officer

Contact: Motoyuki Miyo Director and Managing Executive Officer, Head of Corporate and Financial Planning Division

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Scheduled date of filing quarterly securities report: February 7, 2020

Scheduled date of commencing dividend payments: -

Availability of supplementary briefing material on quarterly financial results: Yes

Schedule of quarterly financial results briefing session: No

(Fractional amounts of less than one million yen are rounded down)

1. Consolidated Financial Results for the Nine Months Ended December 31, 2019 (April 1, 2019 to December 31, 2019)

(1) Consolidated Operating Results (% indicates changes from the previous corresponding period.)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
Nine months ended December 31, 2019	74,770	(9.0)	3,730	(35.9)	3,482	(33.4)	1,552	(43.4)
December 31, 2018	82,173	4.9	5,817	22.4	5,228	6.0	2,742	9.4

(Note) Comprehensive income: Nine months ended December 31, 2019: ¥ 1,906 million [(23.9)%]
 Nine months ended December 31, 2018: ¥ 2,506 million [(52.4)%]

	Basic earnings per share	Diluted earnings per share
Nine months ended	Yen	Yen
December 31, 2019	32.76	-
December 31, 2018	63.74	-

(2) Consolidated Financial Position

	Total assets	Net assets	Capital adequacy ratio
As of	Million yen	Million yen	%
December 31, 2019	159,141	64,161	34.8
March 31, 2019	161,881	65,253	35.0

(Reference) Net assets less non-controlling interests: As of December 31, 2019: ¥ 55,369 million
 As of March 31, 2019: ¥ 56,636 million

2. Dividends

	Annual dividends				
	1st quarter-end	2nd quarter-end	3rd quarter-end	Year-end	Total
	Yen	Yen	Yen	Yen	Yen
Fiscal year ended March 31, 2019	-	15.00	-	15.00	30.00
Fiscal year ending March 31, 2020	-	20.00	-		
Fiscal year ending March 31, 2020 (Forecast)				15.00	35.00

(Note) Revision of the forecast for dividends announced most recently: No

(Note) Breakdown of the interim dividend for the fiscal year ending March 31, 2020 :

Regular dividend	15 yen
Commemorative dividend	5 yen

3. Consolidated Financial Results Forecast for the Fiscal Year Ending March 31, 2020 (April 1, 2019 to March 31, 2020)

(% indicates changes from the previous corresponding period.)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent		Basic earnings per share
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen
Full year	100,100	(7.1)	4,500	(38.0)	4,400	(33.6)	4,800	16.1	101.01

(Note) Revision of the financial results forecast announced most recently: No

* Notes:

(1) Changes in significant subsidiaries during the nine months ended December 31, 2019

(changes in specified subsidiaries resulting in change in scope of consolidation): No

New	-	(Company name:)
Exclusion:	-	(Company name:)

(2) Accounting policies adopted specially for the preparation of quarterly consolidated financial statements: No

(3) Changes in accounting policies, changes in accounting estimates and retrospective restatement

1) Changes in accounting policies due to the revision of accounting standards: Yes

2) Changes in accounting policies other than 1) above: Yes

3) Changes in accounting estimates: No

4) Retrospective restatement: No

For details, please refer to page 7, “(4) Notes to Quarterly Consolidated Financial Statements, Changes in accounting policy”.

(4) Total number of issued shares (common shares)

1) Total number of issued shares at the end of the period (including treasury shares):

December 31, 2019: 47,520,253 shares

March 31, 2019: 47,520,253 shares

2) Total number of treasury shares at the end of the period:

December 31, 2019: 1,490,283 shares

March 31, 2019: 324 shares

3) Average number of shares during the period:

Nine months ended December 31, 2019: 47,383,124 shares

Nine months ended December 31, 2018: 43,020,169 shares

Note: From the third quarter of the current period, the Company introduced an E-Ship® Trust-Type Employee Stock Purchase Incentive Plan and a performance-linked stock-based remuneration for Directors and Executive Officers. For the calculation of total number of treasury shares at the end of the period and average number of shares during the period, Company shares held in the trusts are included in treasury shares to be deducted.

* Numbers in parentheses denote negative numbers.

* This financial result is not required to be reviewed by certificated public accountants or audit firm.

* Explanation of appropriate use of earnings projections, other explanatory notes

Future prospects are prepared as information purpose only, based on the information available to us at this moment, and are under certain condition which we assumed reasonable. We will not guarantee the realization of such prospects and actual performance fluctuates due to various factors.

1. Quarterly Consolidated Financial Statements

(1) Quarterly Consolidated Balance Sheets

(Million yen)

	As of March 31, 2019	As of December 31, 2019
Assets		
Current assets		
Cash and deposits	19,605	19,143
Notes and accounts receivable - trade	27,109	24,871
Electronically recorded monetary claims - operating	2,809	2,550
Merchandise and finished goods	11,452	12,203
Work in process	9,508	9,319
Raw materials and supplies	6,578	6,728
Other	2,382	2,988
Allowance for doubtful accounts	(1,303)	(1,414)
Total current assets	78,142	76,390
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	16,690	16,604
Machinery, equipment and vehicles, net	26,116	24,694
Other, net	19,235	19,940
Total property, plant and equipment	62,043	61,240
Intangible assets		
Goodwill	7,147	6,721
Other	5,444	5,666
Total intangible assets	12,591	12,388
Investments and other assets		
Investments and other assets	9,154	9,176
Allowance for doubtful accounts	(50)	(54)
Total investments and other assets	9,103	9,122
Total non-current assets	83,739	82,751
Total assets	161,881	159,141

(Million yen)

	As of March 31, 2019	As of December 31, 2019
Liabilities		
Current liabilities		
Notes and accounts payable - trade	8,437	6,447
Electronically recorded obligations - operating	8,759	8,132
Short-term borrowings	22,703	28,856
Current portion of long-term borrowings	6,428	3,732
Income taxes payable	1,066	290
Provision for bonuses	1,976	1,158
Provision for bonuses for directors (and other officers)	181	74
Provision for product compensation	214	354
Provision for environmental measures	99	76
Electronically recorded obligations - non-operating	1,007	871
Other	7,011	7,999
Total current liabilities	57,885	57,993
Non-current liabilities		
Long-term borrowings	26,017	24,799
Retirement benefit liability	6,795	6,954
Provision for environmental measures	1	1
Provision for share-based remuneration	-	6
Provision for share-based remuneration for directors (and other officers)	-	12
Asset retirement obligations	17	17
Negative goodwill	1	0
Other	5,908	5,194
Total non-current liabilities	38,742	36,986
Total liabilities	96,628	94,980
Net assets		
Shareholders' equity		
Share capital	8,413	8,413
Capital surplus	13,114	13,114
Retained earnings	36,655	36,544
Treasury shares	(0)	(1,121)
Total shareholders' equity	58,182	56,950
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	906	955
Foreign currency translation adjustment	(352)	(684)
Remeasurements of defined benefit plans	(2,100)	(1,851)
Total accumulated other comprehensive income	(1,545)	(1,580)
Non-controlling interests	8,617	8,791
Total net assets	65,253	64,161
Total liabilities and net assets	161,881	159,141

(2) Quarterly Consolidated Statements of Income and Comprehensive Income
Quarterly Consolidated Statements of Income (For the nine months)

(Million yen)

	For the nine months ended December 31, 2018	For the nine months ended December 31, 2019
Net sales	82,173	74,770
Cost of sales	60,522	55,277
Gross profit	21,651	19,493
Selling, general and administrative expenses	15,833	15,762
Operating profit	5,817	3,730
Non-operating income		
Interest income	52	60
Dividend income	74	78
Amortization of negative goodwill	0	0
Share of profit of entities accounted for using equity method	128	89
Other	249	362
Total non-operating income	504	591
Non-operating expenses		
Interest expenses	666	637
Foreign exchange losses	195	2
Other	232	199
Total non-operating expenses	1,094	839
Ordinary profit	5,228	3,482
Profit before income taxes	5,228	3,482
Income taxes - current	1,648	1,136
Income taxes - deferred	287	400
Total income taxes	1,935	1,537
Profit	3,292	1,945
Profit attributable to non-controlling interests	549	392
Profit attributable to owners of parent	2,742	1,552

Quarterly Consolidated Statements of Comprehensive Income (For the nine months)

(Million yen)

	For the nine months ended December 31, 2018	For the nine months ended December 31, 2019
Profit	3,292	1,945
Other comprehensive income		
Valuation difference on available-for-sale securities	(508)	50
Foreign currency translation adjustment	(453)	(291)
Remeasurements of defined benefit plans, net of tax	210	259
Share of other comprehensive income of entities accounted for using equity method	(33)	(56)
Total other comprehensive income	(785)	(38)
Comprehensive income	2,506	1,906
Comprehensive income attributable to		
owners of parent	2,050	1,517
non-controlling interests	456	389

(3) Quarterly Consolidated Statements of Cash Flows

(Million yen)

	For the nine months ended December 31, 2018	For the nine months ended December 31, 2019
Cash flows from operating activities		
Profit before income taxes	5,228	3,482
Depreciation	6,396	6,541
Amortization of goodwill	485	609
Amortization of negative goodwill	(0)	(0)
Share of loss (profit) of entities accounted for using equity method	(128)	(89)
Increase (decrease) in allowance for doubtful accounts	306	186
Increase (decrease) in provision for bonuses	(666)	(813)
Increase (decrease) in provision for bonuses for directors (and other officers)	7	(107)
Increase or decrease in net defined benefit asset and liability	257	135
Increase (decrease) in provision for share-based remuneration	-	6
Increase (decrease) in provision for share-based remuneration for directors (and other officers)	-	12
Increase (decrease) in provision for environmental measures	(19)	(23)
Interest and dividend income	(127)	(138)
Interest expenses	666	637
Decrease (increase) in trade receivables	(608)	1,883
Decrease (increase) in inventories	(2,131)	(1,184)
Increase (decrease) in trade payables	(1,274)	(2,158)
Increase (decrease) in accrued consumption taxes	89	(136)
Increase (decrease) in other liabilities	116	785
Other, net	(154)	(876)
Subtotal	8,441	8,752
Interest and dividends received	126	129
Dividends received from entities accounted for using equity method	-	26
Interest paid	(656)	(631)
Income taxes paid	(2,540)	(1,766)
Net cash provided by (used in) operating activities	5,371	6,511

(Million yen)

	For the nine months ended December 31, 2018	For the nine months ended December 31, 2019
Cash flows from investing activities		
Payments into time deposits	(1,518)	(2,129)
Proceeds from withdrawal of time deposits	767	1,442
Purchase of investment securities	(877)	(18)
Purchase of property, plant and equipment	(3,837)	(5,542)
Proceeds from sales of property, plant and equipment	192	194
Purchase of intangible assets	(601)	(1,103)
Loan advances	(71)	(137)
Collection of loans receivable	20	2
Fair value adjustment of contingent consideration	1,850	-
Other, net	7	(2)
Net cash provided by (used in) investing activities	(4,069)	(7,296)
Cash flows from financing activities		
Net increase (decrease) in short-term borrowings	(3,155)	6,989
Proceeds from long-term borrowings	13,000	1,759
Repayments of long-term borrowings	(10,453)	(5,563)
Proceeds from sale and leaseback transactions	-	349
Repayments of finance lease obligations	(805)	(746)
Proceeds from issuance of shares	2,259	-
Purchase of treasury shares	(0)	(1,121)
Proceeds from disposal of treasury shares	4,574	-
Dividends paid	(1,272)	(1,608)
Dividends paid to non-controlling interests	(355)	(214)
Net cash provided by (used in) financing activities	3,790	(155)
Effect of exchange rate change on cash and cash equivalents	(79)	(257)
Net increase (decrease) in cash and cash equivalents	5,012	(1,198)
Cash and cash equivalents at beginning of period	11,866	17,127
Cash and cash equivalents at end of period	16,879	15,928

(4) Notes to Quarterly Consolidated Financial Statements

(Notes on going concern assumption)

Not applicable

(Notes on material changes in Shareholders' Equity)

Not applicable

(Changes in accounting policy)

(Changes in accounts regarding proceeds from disposal of scraps)

The Group previously recorded proceeds from disposal of scraps (scrap metal and waste liquid) as Gain on sales of scraps (Non-Operating Income). Effective from the beginning of the fiscal year ending March 31, 2020, the Group records such proceeds as deduction of manufacturing costs. This is in line with the Group's revision of cost management method following the increase in scrap disposal proceeds through the improvement in recycling process. The Group applied the changes in the accounting policy retrospectively, and reclassified the consolidated financial statement for the third quarter of the previous period.

As a result, Cost of sales for the third quarter of the previous period decreased by 518 million yen, and Gross profit and Operating profit increased by the same amount. There is no impact on Ordinary profit and Profit before income taxes.

Cost of manufacturing is not recalculated for the past periods, as impact is not material. Gain on sales of scraps for each period is deducted from the Cost of sales. There is no cumulative effect on the opening balance of Net assets of the previous period.

(Adoption of IFRS 16, "Leases")

Effective from the beginning of the fiscal year ending March 31, 2020, the Group companies reporting under IFRS for consolidation purpose adopted IFRS 16, "Leases". Those who don't adopt this standard include the Company itself and its domestic subsidiaries (Japanese GAAP), and its US subsidiary (US GAAP). IFRS 16, "Leases" requires lessees, in principle, to record all leases as assets and liabilities.

There is no material impact on the consolidated financial statements for the current period.

(Additional information)

(Granting Company Stock to Employees, etc. through a Trust)

In order to incentivise employees to achieve the Medium Term plan goals and raise corporate value in medium to long-term, and to enrich the employee welfare program, the Company introduced an E-Ship[®] Trust-Type Employee Stock Purchase Incentive Plan (hereinafter "the Incentive Plan").

(i) The Incentive Plan Overview

The Incentive Plan is available to Daido Metal group employees who participate in the Daido Metal Employee Stock Purchase Plan (hereinafter, ESPP). Under the Incentive Plan, the Company will set up a trust - Daido Metal ESPP Trust (hereinafter, "ESPP Trust") - with a trust bank. The ESPP Trust will purchase Company shares up front for the amount ESPP will likely to purchase over a certain period, financing its transaction with bank loans. Afterwards, the ESPP Trust will sell Company shares to the ESPP for its periodical purchases. At the end of the trust period, if the ESPP Trust asset balance resulted positive with the accumulated gains on Company shares, such residual assets will be distributed to members of the ESPP who meet beneficiary eligibility criteria. As the Company will guarantee ESPP Trust for its bank borrowing in financing its purchase of Company shares, any shortfalls in repayment at the end of Trust period, due to the accumulated loss at ESPP Trust caused by the drop in Company share price.

(ii) Residual Company shares held in the ESPP Trust

Any residual shares of the Company held in the ESPP Trust will be recorded at the ESPP Trust's book value (excluding incidental expenses) as treasury stock under net assets. As of the end of third quarter ended December 31, 2019, book value of the treasury stock was JPY 794 million and number of shares was 1,056,000 shares.

(iii) Book value of debt posted through the application of the total amount method

As of the end of third quarter ended December 31, 2019: JPY 796 million

(Introduction of Performance-linked Stock-based Remuneration Scheme for Directors and Executive Officers)

The Company introduced new performance-linked stock-based remuneration (“the Scheme”) for Directors (excluding Outside Directors, the same applying hereinafter) and Executive Officers (excluding a Director concurrently serving as an Executive Officer, the same applying hereinafter) in order to incentivize Directors and Executive Officers to improve the business performance of the Company and to enhance the corporate value over medium to long term.

(i) The Scheme Overview

A Board Benefit Trust (“the BBT”) is created with the contribution from the Company. The BBT purchases Company shares, and the Company gives eligible Directors and Executive Officers the shares based on accumulated number of points conferred in accordance with their individual rank and their achievement in meeting goals etc., as set forth in Share Grant Rule. Beneficiaries of the BBT shall be those who serve as Directors and Executive Officers during the period. The Company shares are granted to each Director and Executive Officer when they retire from their position.

(ii) Residual Company shares held in the BBT

Any residual shares of the Company held in the BBT will be recorded at the BBT’s book value (excluding incidental expenses) as treasury stock under net assets. As of the end of third quarter ended December 31, 2019, book value of the treasury stock was JPY 327 million and number of shares was 432,000 shares.

(Segment information)

I Third quarter of previous period (from April 1, 2018 to December 31, 2018)

1. Information on sales and profit (loss) by each reporting segment

(Unit JPY million)

	Reporting Segment					Others (*)	Total
	Automotive engine bearings	Automotive non-engine bearings	Non- automotive bearings	Other automotive parts	Sub total		
Net sales							
External sales	49,884	11,275	7,395	11,939	80,495	1,678	82,173
Internal sales or transfer between segments	270	1,471	21	62	1,825	410	2,236
Total	50,154	12,747	7,416	12,002	82,321	2,088	84,410
Segment profit	6,387	2,522	1,030	246	10,186	540	10,727

(*) "Others" includes business areas not included in above reporting segments. It includes electrode sheets for electric double layer capacitors, the metallic dry bearings business, pump-related products businesses, and real estate leasing business.

2. Reconciliation between total reporting segment profit (loss) and profit (loss) reported in Quarterly Consolidated Statements of Income

(Unit JPY million)

Profit	Amount
Reporting segments total	10,186
Profit from "Others" category	540
Elimination of intersegment transactions	81
Unattributable costs (*)	(4,990)
Operating profit as per Quarterly Consolidated Statements of Income	5,817

(*) Unattributable costs are principally general administrative expenses not attributable to reporting segments.

II Third quarter of current period (from April 1, 2019 to December 31, 2019)

1. Information on sales and profit by each reporting segment

(Unit JPY million)

	Reporting Segment					Others (*)	Total
	Automotive engine bearings	Automotive non-engine bearings	Non- automotive bearings	Other automotive parts	Sub total		
Net sales							
External sales	44,839	10,376	7,704	10,542	73,463	1,306	74,770
Internal sales or transfer between segments	363	1,294	29	224	1,911	512	2,424
Total	45,202	11,671	7,734	10,766	75,375	1,819	77,195
Segment profit (loss)	5,862	1,969	1,157	(360)	8,629	390	9,019

(*) "Others" includes business areas not included in above reporting segments. It includes real estate leasing, metal dry bearings, and pump-related products.

2. Reconciliation between total reporting segment profit (loss) and profit (loss) reported in Quarterly Consolidated Statements of Income

(Unit JPY million)

Profit	Amount
Reporting segments total	8,629
Profit from "Others" category	390
Elimination of intersegment transactions	11
Unattributable costs (*)	(5,300)
Operating profit as per Quarterly Consolidated Statements of Income	3,730

(*) Unattributable costs are principally general administrative expenses not attributable to reporting segments.