Member of Financial Accounting Standards Foundation

NOK CORPORATION and Consolidated Subsidiaries
Consolidated Financial Results for the Three Months Ended June 30, 2020 (Japanese GAAP)

Date: August 4, 2020

Company name: NOK Corporation
Securities code: 7240
Representative: Kiyoshi Doi, President
Inquiries: Takashi Kaku, Department Manager, Corporate Communication Department

Listed on the Tokyo Stock Exchange
URL http://www.nok.co.jp
Telephone: +81-3-6891-0191

Quarterly securities report filing date (as planned): August 7, 2020
Dividend payable date (as planned): –
Supplemental material of quarterly results: None
Convening briefing of quarterly results: None

(Fractions are rounded down to the nearest million yen.)

1. Consolidated Financial Results for the First Three Months of Fiscal 2020 (April 1, 2020 to June 30, 2020)

(1) Consolidated operating results

(Percentage figures represent year-on-year changes.)

	Net sales		Operating income		Ordinary income		Profit attributable to owners of parent	
	million yen	%	million yen	%	million yen	%	million yen	%
3 mos. ended June 30, 2020	113,129	(18.1)	(8,744)	–	(8,239)	–	(7,860)	–
3 mos. ended June 30, 2019	138,192	(15.6)	(3,945)	–	(3,149)	–	(3,643)	–

Note: Comprehensive income: 2,700 million yen, –% (as of June 30, 2020); (10,861) million yen, –% (as of June 30, 2019)

	Net income per share	Diluted net income per share
	yen	yen
3 mos. ended June 30, 2020	(45.44)	–
3 mos. ended June 30, 2019	(21.06)	–

(2) Consolidated financial position

	Total assets	Net assets	Capital adequacy ratio	Net assets per share
	million yen	million yen	%	yen
June 30, 2020	759,802	448,067	53.7	2,357.39
March 31, 2020	728,695	447,238	55.9	2,353.56

Reference: Owner's equity: 407,755 million yen (as of June 30, 2020); 407,092 million yen (as of March 31, 2020)

2. Dividends

	Dividend per share				
	First quarter	Second quarter	Third quarter	Fiscal year end	Total
	yen	yen	yen	yen	yen
FY 2019	–	25.00	–	12.50	37.50
FY 2020	–				
FY 2020 (Forecast)		12.50	–	12.50	25.00

Note: Correction of dividend forecast from the most recent dividend forecast: Yes

3. Consolidated Forecasts for Fiscal 2020 (April 1, 2020 to March 31, 2021)

(Percentage figures represent year-on-year changes.)

	Net sales		Operating income		Ordinary income		Profit attributable to owners of parent		Net income per share
	million yen	%	million yen	%	million yen	%	million yen	%	yen
Half year	237,000	(23.1)	(16,500)	–	(17,100)	–	(16,500)	–	(95.39)
Full year	488,000	(22.1)	(22,800)	–	(23,800)	–	(24,400)	–	(141.07)

Note: Correction of financial forecast from the most recent financial forecast: Yes

* Notes

(1) Material changes in subsidiaries during this period (Changes in scope of consolidations resulting from change in subsidiaries): None

(2) Applying of specific accounting of the consolidated quarterly financial statements: Yes

Note: For details, please refer to "(3) Notes Concerning Consolidated Quarterly Financial Statements" on page 8 of the attached document.

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

i) Changes in accounting policies based on revisions of accounting standard: None
ii) Changes in accounting policies other than ones based on revisions of accounting standard: Yes
iii) Changes in accounting estimates: None
iv) Retrospective restatement: None

(4) Number of issued and outstanding shares (common stock)

i) Number of issued and outstanding shares at the end of each period (including treasury stock)	June 30, 2020	173,138,537 shares	Mar. 31, 2020	173,138,537 shares
ii) Number of shares of treasury stock at the end of each period	June 30, 2020	169,658 shares	Mar. 31, 2020	169,654 shares
iii) Average number of shares (year to date)	3 mos. ended June 30, 2020	172,968,881 shares	3 mos. ended June 30, 2019	172,971,624 shares

* This summary of quarterly financial results is not subject to quarterly review procedures of a certified public accountant or audit firm.

* Proper use of the projections for financial results, and other important matters:

Forward-looking statements such as projections of future financial results and other descriptions concerning our future business included in this document are based on currently available information and certain assumptions that we consider to be reasonable, and no representation or warranty is given with regard to the realization of such projections, etc. Actual financial results may differ significantly due to various factors.

For assumptions, etc., used as the basis for the projections for financial results, please see "Explanation of Consolidated Financial Projections and Other Prospects for the Future" on page 3 of the attached document.

Table of Contents of Attached Document

1. Qualitative Information on the Consolidated Operating Results for the Three Months Ended June 30, 2020

(1) Explanation of Operating Results

During the first three months of the current consolidated fiscal year, the Japanese economy faced a rapid slowdown as economic activities were significantly restricted due to the outbreak of the novel coronavirus. Although economic activities have been resuming since the state of emergency was lifted in May, there is fear of a second wave of infections. Overseas, the overall outlook for the global economy is unclear as the outbreak of the novel coronavirus halted companies' production activities.

In the automobile industry, demand dropped significantly in Japan and declined in North America and Southeast Asia as well, where production was temporarily suspended. In China, meanwhile, although there was an impact from the outbreak of the novel coronavirus, demand has been recovering after economic activities quickly resumed.

In the electronic equipment industry, production and shipments of products were delayed due to the novel coronavirus outbreak, and demand for smartphones and HDDs dropped.

In the office machinery industry, demand for both multifunction peripherals and printers declined.

Under this environment of declining demand due to the outbreak of the novel coronavirus, the operating results of the Group by business segment were as follows:

In the seal business, sales for automobile applications decreased due to a drop in demand in Japan and abroad. Sales to manufacturers of general industrial machinery also decreased on the back of a decline in demand from manufacturers of construction machinery, machine tools, and robots.

As a result, net sales stood at 52,196 million yen (down 35.9% year on year). Operating loss was 3,569 million yen (compared to an operating income of 6,019 million yen in the same period of the previous fiscal year) due to the impact of the decline in sales, despite efforts to cut personnel costs and expenses.

In the electronic product business, sales to automotive manufacturers dropped due to a decline in automobile production volume, while sales for certain high-function smartphone applications increased.

As a result, net sales increased to 55,650 million yen (up 12% year on year). Operating loss narrowed to 4,960 million yen (compared to an operating loss of 10,109 million yen in the same period of the previous fiscal year) due to the increase in sales and reductions of personnel costs and expenses.

In the roll business, sales declined due to a drop in demand for multifunction peripherals and repair parts.

As a result, net sales stood at 3,539 million yen (down 26.1% year on year). Operating loss came to 432 million yen (compared to an operating loss of 80 million yen in the same period of the previous fiscal year) due to the significant impact of the drop in sales, despite efforts to reduce expenses, etc.

In other businesses including special lubricants, net sales dropped to 1,742 million yen (down 25.9% year on year). Operating income ended at 201 million yen (down 0.3% year on year).

In summary, the Group posted the following results for the first three months of the current consolidated fiscal year: Net sales totaled 113,129 million yen (down 18.1% year on year); operating loss was 8,744 million yen (compared to an operating loss of 3,945 million yen in the same period of the previous fiscal year); and ordinary loss ended at 8,239 million yen (compared to an ordinary loss of 3,149 million yen in the same period of the previous fiscal year), resulting in 7,860 million yen in loss attributable to owners of parent (compared to a loss attributable to owners of parent of 3,643 million yen in the same period of the previous fiscal year).

The "Accounting Standard for Revenue Recognition, etc." (ASBJ Statement No. 29, March 31, 2020) and the "Implementation Guidance on Accounting Standard for Revenue Recognition" (ASBJ Guidance No. 30, March 31, 2020) has been applied since the beginning of the first three months of the current consolidated fiscal year. For details, please refer to "2. Consolidated Quarterly Financial Statements and Principal Notes, (3) Notes Concerning Consolidated Quarterly Financial Statements, (Change in Accounting Policy)."

(2) Explanation of Financial Position

Total assets as of June 30, 2020 stood at 759,802 million yen, an increase of 31,107 million yen compared with March 31, 2020. This was mainly attributable to an increase in cash and deposits as well as an increase in investment securities due to a rise in the market value of shares held by the Company, despite a decrease in notes and accounts receivable-trade.

Total liabilities as of June 30, 2020 amounted to 311,734 million yen, an increase of 30,277 million yen compared with March 31, 2020, mainly due to an increase in short-term loans payable, despite decreases in accounts payable-trade and provision for bonuses.

Net assets totaled 448,067 million yen, an increase of 829 million yen compared with March 31, 2020. This mainly reflected increases in valuation difference on available-for-sale securities and foreign currency translation adjustment, despite a decrease in retained earnings due to the recognition of a loss attributable to owners of parent and dividend payments. Consequently, the ratio of shareholders' equity to total assets stood at 53.7%.

(3) Explanation of Consolidated Financial Projections and Other Prospects for the Future

The consolidated financial projections for the full year of the fiscal year ending March 31, 2021, were yet to be determined as it was not possible to reasonably calculate them due to the effects of the novel coronavirus outbreak. NOK Corporation has chosen to release the projections calculated on the basis of the information available at this time such as the latest trends of automobile production.

Due to the impact of the novel coronavirus outbreak, the number of vehicles and construction machinery produced in Japan and overseas is expected to decrease. It is also projected that there will be a decrease in the number of smartphones and office equipment produced as well as delays in production and shipments. Under such circumstances, net sales are likely to decline by 22.1%. In addition, operating income, ordinary income, and profit attributable to owners of parent are expected to record significant losses as a result of the drop in net sales.

2. Consolidated Quarterly Financial Statements and Principal Notes

(1) Consolidated Quarterly Balance Sheet

(million yen)

	FY 2019 (as of March 31, 2020)	1Q FY 2020 (as of June 30, 2020)
Assets		
Current assets		
Cash and deposits	82,400	126,582
Notes and accounts receivable-trade	122,157	104,499
Electronically recorded monetary claims	14,254	11,675
Inventories	80,814	81,267
Other	13,449	13,703
Allowance for doubtful accounts	(124)	(122)
Total current assets	312,952	337,605
Noncurrent assets		
Property, plant and equipment		
Buildings and structures, net	93,903	93,006
Machinery, equipment and vehicles, net	105,123	104,503
Other, net	52,049	50,750
Total property, plant and equipment	251,076	248,261
Intangible assets	4,181	4,067
Investments and other assets		
Investment securities	123,118	133,020
Other	37,537	37,018
Allowance for doubtful accounts	(170)	(170)
Total investments and other assets	160,484	169,868
Total noncurrent assets	415,742	422,197
Total assets	728,695	759,802

(million yen)

	FY 2019 (as of March 31, 2020)	1Q FY 2020 (as of June 30, 2020)
Liabilities		
Current liabilities		
Accounts payable-trade	44,915	36,098
Short-term loans payable	59,617	101,462
Income taxes payable	2,121	1,576
Provision for bonuses	10,483	8,295
Other	48,800	47,848
Total current liabilities	165,938	195,282
Noncurrent liabilities		
Long-term loans payable	17,441	16,657
Deferred tax liabilities	772	2,454
Net defined benefit liabilities	92,536	92,606
Other	4,768	4,734
Total noncurrent liabilities	115,518	116,452
Total liabilities	281,457	311,734
Net assets		
Shareholders’ equity		
Capital stock	23,335	23,335
Capital surplus	23,288	23,288
Retained earnings	351,622	342,194
Treasury stock	(230)	(230)
Total shareholders’ equity	398,016	388,588
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	34,230	41,497
Foreign currency translation adjustment	919	2,884
Remeasurements of defined benefit plans	(26,074)	(25,215)
Total accumulated other comprehensive income	9,075	19,166
Non-controlling interests	40,146	40,312
Total net assets	447,238	448,067
Total liabilities and net assets	728,695	759,802

(2) Consolidated Quarterly Income Statement and Consolidated Quarterly Comprehensive Income Statement
(Consolidated Quarterly Income Statement)
(Three Months Ended June 30, 2020)

(million yen)

	3 months ended June 30, 2019	3 months ended June 30, 2020
Net sales	138,192	113,129
Cost of sales	120,431	102,842
Gross profit	17,761	10,287
Selling, general and administrative expenses	21,706	19,031
Operating loss	(3,945)	(8,744)
Non-operating income		
Dividend income	1,197	1,019
Share of profit of entities accounted for using equity method	1,230	247
Other	1,037	631
Total non-operating income	3,466	1,898
Non-operating expenses		
Interest expenses	773	598
Foreign exchange losses	1,807	669
Other	88	125
Total non-operating expenses	2,669	1,393
Ordinary loss	(3,149)	(8,239)
Extraordinary income		
Gain on sales of noncurrent assets	27	24
Gain on sales of investment securities	376	–
Total extraordinary income	404	24
Extraordinary loss		
Loss on retirement of noncurrent assets	207	146
Other	24	13
Total extraordinary loss	231	160
Loss before income taxes	(2,976)	(8,375)
Income taxes	875	(666)
Net loss	(3,851)	(7,709)
Profit (loss) attributable to non-controlling interests	(208)	151
Loss attributable to owners of parent	(3,643)	(7,860)

(Consolidated Quarterly Comprehensive Income Statement)
(Three Months Ended June 30, 2020)

(million yen)

	3 months ended June 30, 2019	3 months ended June 30, 2020
Net loss	(3,851)	(7,709)
Other comprehensive income		
Valuation difference on available-for-sale securities	(1,554)	7,254
Foreign currency translation adjustment	(5,363)	1,994
Remeasurements of defined benefit plans, net of tax	921	820
Share of other comprehensive income of entities accounted for using equity method	(1,013)	339
Total other comprehensive income	(7,009)	10,409
Comprehensive income	(10,861)	2,700
(Detail)		
Comprehensive income attributable to owners of parent	(9,958)	2,230
Comprehensive income attributable to non-controlling interests	(902)	470

(3) Notes Concerning Consolidated Quarterly Financial Statements

(Notes Concerning the Going Concern Assumption)

None.

(Notes on Significant Changes in the Amount of Shareholders' Equity)

None.

(Change in Accounting Policy)

Application of the Accounting Standard for Revenue Recognition, etc.

The "Accounting Standard for Revenue Recognition, etc." (ASBJ Statement No. 29, March 31, 2020. Hereinafter, "Accounting Standard for Revenue Recognition") has been applied since the beginning of the first three months of the current consolidated fiscal year. In accordance with this accounting standard, the Company recognizes revenue as the amount expected to be received in exchange for the promised goods or services when the control of the goods or services is transferred to the customer.

Due to the application, the revenue of some product sales, which had been recognized at customs clearance or over the course of collection of the sales proceeds (consideration), is now recognized at the specific point in time when control of the product is transferred to the customer.

Furthermore, the revenue of transactions in which the Company's role in the sale of a product to a customer falls under that of agent, which had been recognized for the entire amount of the consideration received from the customer, is now recognized at net value (total consideration minus payments to a third party).

For charged supply transactions, which fall under repurchase agreements, we continue to recognize inventory for the supplied goods that remain at the recipient of the charged supply as financial transactions and recognize "liabilities related to charged supply transactions" for the amount equivalent to the ending inventory of the supplied goods that remain at the recipient of the charged supply. For charged receipt transactions, where we had recognized net sales and cost of sales at the time of sell-back to the supplier, we now recognize only the net value of the amount equivalent to process cost as revenue.

The application of the Accounting Standard for Revenue Recognition is pursuant to the transitional treatment stipulated in the proviso of paragraph 84 of the Accounting Standard for Revenue Recognition. The cumulative effect when applying the new accounting policy retrospectively from before the beginning of the first three months of the current consolidated fiscal year is added to or subtracted from the retained earnings at the beginning of the first three months of the current consolidated fiscal year before applying the new accounting policy from the beginning-of-year balance. However, the new accounting policy has not been applied retrospectively to contracts in which almost all of the revenue has been recognized before the beginning of the first three months of the current consolidated fiscal year in accordance with the previous treatment by applying the method stipulated in paragraph 86 of the Accounting Standard for Revenue Recognition. Contract changes that were carried out before the beginning of the first three months of the current consolidated fiscal year by applying the method stipulated in proviso (1) of paragraph 86 of the Accounting Standard for Revenue Recognition have been accounted for in accordance with the contract terms that have reflected all contract changes, and their cumulative effect has been adjusted in the retained earnings at the beginning of the first three months of the current consolidated fiscal year.

As a result, net sales and cost of sales for the first three months of the current consolidated fiscal year decreased by 773 million yen and 762 million yen, respectively, compared with the previous accounting method. Operating loss, ordinary loss and loss before income taxes increased by 11 million yen each. Inventories and current liabilities-other increased by 191 million yen, respectively. Furthermore, beginning-of-year retained earnings increased by 594 million yen.

(Accounting Treatments Specific to the Preparation of Consolidated Quarterly Financial Statements)

As for tax expenses, some consolidated subsidiaries calculate the amount by reasonably estimating an effective tax rate after applying tax effect accounting to income before income taxes for the consolidated fiscal year including the first-quarter period under review, and multiplying income before income taxes for the first-quarter period under review by the estimated effective tax rate.

(Segment Information)
[Segment Information]
I Three Months Ended June 30, 2019
1. Information regarding net sales and income (loss) by reportable segment

(million yen)

	Reportable segments				Total	Adjustments (Note 1)	Amount included in the consolidated quarterly income statement (Note 2)
	Seal	Electronic product	Roll	Other			
Net sales							
Net sales to external customers	81,370	49,684	4,788	2,349	138,192	–	138,192
Inter-segment sales/transfers	351	4	–	119	476	[476]	–
Total	81,722	49,689	4,788	2,468	138,668	[476]	138,192
Segment income (loss)	6,019	(10,109)	(80)	202	(3,968)	23	(3,945)

Notes: 1. The amount of 23 million yen in adjustments of segment income (loss) represents the result of the elimination of inter-segment transactions.
2. Segment income (loss) is adjusted for operating loss stated in the consolidated quarterly income statement.

II Three Months Ended June 30, 2020
1. Information regarding net sales and income (loss) by reportable segment

(million yen)

	Reportable segments				Total	Adjustments (Note 1)	Amount included in the consolidated quarterly income statement (Note 2)
	Seal	Electronic product	Roll	Other			
Net sales							
Net sales to external customers	52,196	55,650	3,539	1,742	113,129	–	113,129
Inter-segment sales/transfers	379	4	–	99	482	[482]	–
Total	52,576	55,654	3,539	1,841	113,612	[482]	113,129
Segment income (loss)	(3,569)	(4,960)	(432)	201	(8,761)	17	(8,744)

Notes: 1. The amount of 17 million yen in adjustments of segment income (loss) represents the result of the elimination of inter-segment transactions.
2. Segment income (loss) is adjusted for operating loss stated in the consolidated quarterly income statement.
3. Since the accounting method for revenue recognition has changed due to the application of the Accounting Standard for Revenue Recognition, etc. from the beginning of the first quarter of the current consolidated fiscal year, as described in the "Change in Accounting Policy," the measurement method of income or loss by business segment has also been changed accordingly.
This change has led to the following changes compared with the previous measurement method: In the seal segment, net sales decreased by 537 million yen and segment loss increased by 10 million yen; in the electronic product segment, net sales decreased by 77 million yen and segment loss increased by 0 million yen; and in the "other" segment, net sales decreased by 158 million yen.