February 12, 2020

Summary of Consolidated Financial Results for the Third Quarter of Fiscal Year Ending March 31, 2020 (Nine Months Ended December 31, 2019)

[Japanese GAAP]

Company name: ALCONIX CORPORATION
Listing: Tokyo Stock Exchange, First Section
Stock code: 3036
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Scheduled date of filing of Quarterly Report: February 14, 2020
Scheduled date of payment of dividend: -
Preparation of supplementary materials for quarterly financial results: Yes
Holding of quarterly financial results meeting: None

Note: The original disclosure in Japanese was released on February 12, 2020 at 12:30 (GMT +9).

(All amounts are rounded down to the nearest million yen)

1. Consolidated Financial Results for the Third Quarter Ended December 31, 2019 (April 1, 2019 – December 31, 2019)

(1) Consolidated results of operations (Percentages represent year-on-year changes)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
Nine months ended Dec. 31, 2019	175,574	(10.3)	4,048	(18.1)	4,335	(14.0)	3,253	(9.9)
Nine months ended Dec. 31, 2018	195,781	6.6	4,946	(9.8)	5,039	(14.8)	3,612	(15.0)

Note: Comprehensive income (million yen) Nine months ended Dec. 31, 2019: 3,266 (up 42.9%)
Nine months ended Dec. 31, 2018: 2,285 (down 50.9%)

	Net income per share	Diluted net income per share
	Yen	Yen
Nine months ended Dec. 31, 2019	128.81	-
Nine months ended Dec. 31, 2018	139.61	-

Note: Diluted net income per share is not stated because dilutive shares do not exist.

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio
	Million yen	Million yen	%
As of Dec. 31, 2019	140,772	41,594	28.3
As of Mar. 31, 2019	143,851	39,673	26.3

Reference: Shareholders' equity (million yen) As of Dec. 31, 2019: 39,776 As of Mar. 31, 2019: 37,901

2. Dividends

	Dividend per share				
	1Q-end	2Q-end	3Q-end	Year-end	Total
	Yen	Yen	Yen	Yen	Yen
Fiscal year ended Mar. 31, 2019	-	19.00	-	20.00	39.00
Fiscal year ending Mar. 31, 2020	-	21.00	-		
Fiscal year ending Mar. 31, 2020 (forecast)				21.00	42.00

Note: Revisions to the most recently announced dividend forecast: None

3. Consolidated Earnings Forecasts for the Fiscal Year Ending March 31, 2020 (April 1, 2019 – March 31, 2020)

(Percentages represent year-on-year changes)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent		Net income per share
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen
Full year	232,000	(9.9)	5,300	(15.3)	6,000	(4.1)	4,400	9.7	174.23

Note: Revisions to the most recently announced consolidated earnings forecasts: None

*** Notes**

(1) Changes in significant subsidiaries during the period (changes in scope of consolidation):

Newly added: FUJI ALCONIX Mexico S.A. de C.V. Excluded: -

(2) Application of special accounting methods for presenting quarterly consolidated financial statements: Yes

Note: Please refer to "2. Quarterly Consolidated Financial Statements and Notes, (3) Notes to Quarterly Consolidated Financial Statements (Application of Special Accounting Methods for Presenting Quarterly Consolidated Financial Statements)" on page 10 of the attachments for further information.

(3) Changes in accounting policies and accounting-based estimates, and restatements

1) Changes in accounting policies due to revisions in accounting standards, others: None

2) Changes in accounting policies other than 1) above: None

3) Changes in accounting-based estimates: None

4) Restatements: None

(4) Number of outstanding shares (common stock)

1) Number of shares outstanding at the end of period (including treasury shares)

As of Dec. 31, 2019:	25,915,700 shares	As of Mar. 31, 2019:	25,882,200 shares

2) Number of treasury shares at the end of period

As of Dec. 31, 2019:	661,769 shares	As of Mar. 31, 2019:	437,635 shares

3) Average number of shares outstanding during the period

Nine months ended Dec. 31, 2019:	25,256,909 shares	Nine months ended Dec. 31, 2018:	25,874,870 shares

* The current quarterly financial report is not subject to quarterly review by certified public accountants or auditing firms.

* Explanation of appropriate use of earnings forecasts, and other special items

Forecasts of future performance in these materials are based on assumptions judged to be valid and information available to ALCONIX's management at the time the materials were prepared. Actual results may differ significantly from these forecasts for a number of reasons. Please refer to "1. Qualitative Information on Quarterly Consolidated Financial Performance, (3) Explanation of Consolidated Earnings Forecasts and Other Forward-looking Statements" on page 5 of the attachments for assumptions for forecasts and notes of caution for usage.

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1. Qualitative Information on Quarterly Consolidated Financial Performance

(1) Explanation of Results of Operations

In the first nine months of the current fiscal year, the outlook for the global economy has become increasingly unclear due to the protracted U.S.-China trade friction, slowing economic growth in China, no resolution in sight regarding Brexit negotiations and other factors.

In Japan, the economy remained generally on a moderate recovery track. Improvements in the job market and personal income continued. However, in the second half, the consumption tax hike impacted consumer sentiment, and there were signs of weakness in corporate earnings and exports.

In the business sectors where the ALCONIX Group operates, demand declined overall due to a slowdown in overseas economies caused by prolonged trade friction between the United States and China. One positive trend in the automobile industry is diversification as automakers expand into electric vehicles, increase the use of electronic components, and reduce the weight of vehicles. In the semiconductor and electronic components industries, broad-based growth is continuing as the IoT, AI and other technologies raise the volume of data that must be processed and automakers use more electronic parts. However, demand was weak for smartphones and semiconductor manufacturing equipment.

The performance of ALCONIX Group's manufacturing subsidiaries in the metal processing sector made contributions to consolidated results of operations. However, sales were lower than one year earlier in the Trading segment due mainly to declines in transaction volumes of electronic materials, and automotive parts. In addition, shipments were sluggish in the Equipment and Materials segment. ALCONIX recorded share of profit of entities accounted for using the equity method, and a gain on sales of shares of subsidiaries and associates under extraordinary income resulting from the dissolution of a local joint venture as part of the reorganization of the Mexico operations of our group companies. Earnings were negatively affected by the decrease in sales as well as a valuation loss on some inventories of minor metals and other reasons. As a result, operating profit, ordinary profit and profit attributable to owners of parent were all lower than one year earlier.

ALCONIX reported consolidated net sales of 175,574 million yen (down 10.3% year on year), operating profit of 4,048 million yen (down 18.1%), ordinary profit of 4,335 million yen (down 14.0%) and profit attributable to owners of parent of 3,253 million yen (down 9.9%).

Results by business segment were as follows, with sales in each segment including inter-segment sales.

・Trading—Electronic and Advanced Materials

The transaction volume of materials used in smartphones and tablets was slightly higher than one year earlier as demand remained weak. Demand for secondary battery and environmental applications remained firm and the transaction volume of titanium and nickel products was higher, mainly export to Europe. The transaction volume of minor metals and rare earths fell because of a decline in the prices of these metals and stagnant demand.

Due to the posting of a valuation loss on some minor metal inventories, segment profit declined sharply in the first nine months.

As a result, the segment recorded sales of 54,957 million yen (down 17.6% year on year) and segment profit of 136 million yen (down 78.5%).

・Trading—Aluminum and Copper Products

Although the trend toward increasing demand for non-ferrous metals remains unchanged due to the expanding adoption of AI and IoT as automakers expand the use of electronic components and reduce the weight of vehicles, shipments of semiconductor-related and automobile-related components remained weak as the Chinese economy slowed due to the impact of the seemingly protracted U.S.-China trade friction. In addition, the transaction volume of materials used in air conditioning equipment was lower than one year earlier because of unfavorable weather.

In the non-ferrous resources category, the transaction volume of recycled aluminum ingots and brass copper rods,

major components of this category, decreased because of lower prices of aluminum, copper and other non-ferrous metals and a weaker business sentiment.

As a result, the segment recorded sales of 90,537 million yen (down 11.4% year on year) and segment profit of 607 million yen (down 31.2%).

・Manufacturing—Equipment and Materials

Shipments of plating materials were lower than one year earlier at operations in both North America and China because of a decrease in demand linked to slower economic growth in China and to declining prices of these materials. Sales and earnings of cashew resin products for brake friction materials were as planned despite a somewhat weaker demand. However, sales and earnings at Fuji Carbon, which was included in the consolidated financial statements beginning with the first nine months of the current fiscal year, were lower than planned. Sales of this company's carbon brushes for small motors declined in Japan and overseas because of a downturn in demand in the automobile industry in Japan and other countries. Demands for non-destructive testing equipment and marking devices were firm in Japan but shipments of detection materials and other replacement supplies to major clients at overseas subsidiaries were down from one year earlier.

As a result, the segment recorded sales of 18,859 million yen (up 19.4% year on year) and segment profit of 233 million yen (down 54.7%).

・Manufacturing—Metal Processing

Shipments of grinding processing parts for semiconductor chip mounting equipment were higher than one year earlier because of firm demand for this equipment. But lower demand for semiconductor manufacturing equipment caused shipments of precision machining processing parts to be less than in the previous fiscal year's first nine months. Shipments of metal precision stamped parts for automotive applications were higher than one year earlier mainly because of new orders and orders for prototypes. Segment profit increased because of share of profit of affiliates accounted for using the equity method.

As a result, the segment recorded sales of 16,733 million yen (up 4.9% year on year) and segment profit of 3,342 million yen (up 9.9%).

(2) Explanation of Financial Position

1) Financial position

a. Current assets

At the end of the third quarter of the current fiscal year, current assets totaled 100,618 million yen, a decrease of 3,611 million yen from the end of the previous fiscal year. The main factors were a 2,475 million yen decrease in notes and accounts receivable-trade, a 2,322 million yen decrease in inventories and a 2,449 million yen increase in cash and deposits.

b. Non-current assets

Non-current assets totaled 40,153 million yen, an increase of 532 million yen. The main factors include a 1,596 million yen increase in property, plant and equipment, an 858 million yen decrease in intangible assets including goodwill due to amortization, and a 206 million yen decrease in investments and other assets.

c. Current liabilities

Current liabilities totaled 70,186 million yen, a decrease of 4,736 million yen. The main factors include a 4,027 million yen decrease in notes and accounts payable-trade, a 534 million yen increase in short-term borrowings, and a 919 million yen decrease in current portion of long-term borrowings.

d. Non-current liabilities

Non-current liabilities totaled 28,992 million yen, a decrease of 262 million yen. The main factors include a 149 million of yen decrease in bonds payable and a 92 million yen decrease in long-term borrowings.

e. Net assets

Net assets totaled 41,594 million yen, an increase of 1,920 million yen. The main factors include a 2,168 million yen increase in retained earnings, an 860 million yen increase in valuation difference on available-for-sale securities, and a 933 million yen decrease in foreign currency translation adjustment.

2) Results of operations

a. Net sales

Sales increased in the Manufacturing segment but were lower in the Trading segment. The result was a decrease in consolidated sales. In the Trading segment, there were increases in the transaction volume of copper scrap, lead ingots for batteries, battery and electronic materials for automotive applications, smartphones and tablets, and exports of titanium products. However, the transaction volume of aluminum rolled products, copper products, recycled aluminum ingots and other non-ferrous materials was lower than one year earlier.

In the Manufacturing segment, sales of precision grinding processing parts for semiconductor chip mounting equipment and metal precision stamped parts increased. In addition, there were contributions to sales from Fuji Carbon, a manufacturer of carbon brushes for small motors that was consolidated in the first nine months of the current fiscal year, and from Tohoku Chemical Industries, a manufacturer of cashew resin products for brake friction materials and radiowave absorber that has been included in the consolidated financial statements since January 2019. On the other hand, shipments of plating materials, precision machining processing parts for semiconductor manufacturing equipment, non-destructive testing equipment and marking device decreased.

As a result, net sales decreased 10.3% year on year to 175,574 million yen in the first nine months of the current fiscal year.

b. Gross profit

Gross profit decreased 5.4% to 13,956 million yen. The main reasons were a decrease in profit resulting from lower sales of the Trading segment, and the posting of a valuation loss on some minor metal inventories.

c. Selling, general and administrative expenses

Selling, general and administrative expenses increased 1.1% to 9,907 million yen because of the consolidation of two manufacturing subsidiaries.

d. Operating profit

Due to these changes, operating profit decreased 18.1% to 4,048 million yen.

e. Non-operating income, non-operating expenses

Major changes were an increase in dividend income, an increase in the share of profit of entities accounted for using the equity method, and a decrease in foreign exchange losses. As a result, there was a net non-operating income (non-operating income – non-operating expenses) of 286 million yen compared with net non-operating income of 92 million yen one year earlier.

f. Ordinary profit

Ordinary profit decreased 14.0% to 4,335 million yen.

g. Extraordinary income, extraordinary losses

There was an extraordinary income of 476 million yen, including a gain on sales of shares of subsidiaries and associates resulting from the dissolution of a local joint venture as part of the reorganization of the Mexico operations of our group companies and other reasons, and an extraordinary loss of 35 million yen mainly for a loss on the retirement of non-current assets.

h. Profit attributable to owners of parent

ALCONIX recorded profit before income taxes of 4,776 million yen. From this amount, 1,509 million yen and 13 million yen were deducted for income taxes and profit attributable to non-controlling interests of 10 consolidated subsidiaries, respectively. As a result, profit attributable to owners of parent decreased 9.9% to 3,253 million yen.

(3) Explanation of Consolidated Earnings Forecasts and Other Forward-looking Statements

ALCONIX currently maintains the full-year consolidated earnings forecasts that we disclosed in the “Notice of Revisions to Consolidated Earnings Forecast” on October 29, 2019.

2. Quarterly Consolidated Financial Statements and Notes

(1) Quarterly Consolidated Balance Sheet

(Millions of yen)

	FY3/19 (As of Mar. 31, 2019)	Third quarter of FY3/20 (As of Dec. 31, 2019)
Assets		
Current assets		
Cash and deposits	23,600	26,050
Notes and accounts receivable-trade	47,055	44,579
Merchandise and finished goods	25,212	22,007
Work in process	2,866	3,332
Raw materials and supplies	1,595	2,012
Other	4,599	3,327
Allowance for doubtful accounts	(700)	(691)
Total current assets	104,230	100,618
Non-current assets		
Property, plant and equipment	18,804	20,401
Intangible assets		
Goodwill	3,714	3,262
Other	4,036	3,630
Total intangible assets	7,750	6,892
Investments and other assets	13,066	12,860
Total non-current assets	39,621	40,153
Total assets	143,851	140,772
Liabilities		
Current liabilities		
Notes and accounts payable-trade	34,727	30,699
Short-term borrowings	28,921	29,455
Current portion of long-term borrowings	5,240	4,321
Current portion of bonds	149	149
Income taxes payable	931	756
Provision for bonuses	1,058	683
Other	3,894	4,119
Total current liabilities	74,922	70,186
Non-current liabilities		
Bonds payable	525	375
Long-term borrowings	23,571	23,478
Provision for retirement benefits for directors (and other officers)	932	768
Retirement benefit liability	851	796
Long-term accounts payable-other	30	338
Other	3,343	3,235
Total non-current liabilities	29,255	28,992
Total liabilities	104,177	99,178

(Millions of yen)

	FY3/19 (As of Mar. 31, 2019)	Third quarter of FY3/20 (As of Dec. 31, 2019)
Net assets		
Shareholders' equity		
Share capital	2,968	2,989
Capital surplus	1,990	2,011
Retained earnings	30,725	32,893
Treasury shares	(516)	(800)
Total shareholders' equity	35,166	37,094
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	513	1,374
Deferred gains or losses on hedges	(23)	(3)
Foreign currency translation adjustment	2,244	1,311
Total accumulated other comprehensive income	2,734	2,682
Share acquisition rights	10	27
Non-controlling interests	1,761	1,789
Total net assets	39,673	41,594
Total liabilities and net assets	143,851	140,772

(2) Quarterly Consolidated Statements of Income and Comprehensive Income

Quarterly Consolidated Statement of Income
(For the Nine-month Period)

(Millions of yen)

	First nine months of FY3/19 (Apr. 1, 2018 – Dec. 31, 2018)	First nine months of FY3/20 (Apr. 1, 2019 – Dec. 31, 2019)
Net sales	195,781	175,574
Cost of sales	181,030	161,617
Gross profit	14,750	13,956
Selling, general and administrative expenses	9,804	9,907
Operating profit	4,946	4,048
Non-operating income		
Interest income	107	86
Purchase discounts	13	14
Dividend income	288	373
Real estate rental income	60	60
Share of profit of entities accounted for using equity method	152	235
Gain on sales of scraps	193	154
Other	138	180
Total non-operating income	953	1,104
Non-operating expenses		
Interest expenses	497	531
Sales discounts	7	4
Foreign exchange losses	226	172
Loss on sales of notes receivable-trade	21	18
Rental cost on real estate	12	12
Other	95	77
Total non-operating expenses	861	817
Ordinary profit	5,039	4,335
Extraordinary income		
Gain on sales of non-current assets	12	6
Gain on reversal of share acquisition rights	1	0
Gain on sales of investment securities	36	0
Gain on sales of shares of subsidiaries and associates	-	422
Gain on liquidation of subsidiaries and associates	-	36
Subsidy income	3	3
Subsidy income	154	9
Other	1	0
Total extraordinary income	209	476
Extraordinary losses		
Loss on sales of non-current assets	0	3
Loss on retirement of non-current assets	2	14
Loss on sales of investment securities	5	-
Loss on valuation of shares of subsidiaries and associates	-	17
Total extraordinary losses	8	35
Profit before income taxes	5,240	4,776
Income taxes	1,551	1,509
Profit	3,689	3,267
Profit attributable to non-controlling interests	76	13
Profit attributable to owners of parent	3,612	3,253

Quarterly Consolidated Statement of Comprehensive Income
(For the Nine-month Period)

(Millions of yen)

	First nine months of FY3/19 (Apr. 1, 2018 – Dec. 31, 2018)	First nine months of FY3/20 (Apr. 1, 2019 – Dec. 31, 2019)
Profit	3,689	3,267
Other comprehensive income		
Valuation difference on available-for-sale securities	(1,146)	910
Deferred gains or losses on hedges	13	21
Foreign currency translation adjustment	(212)	(872)
Share of other comprehensive income of entities accounted for using equity method	(58)	(61)
Total other comprehensive income	(1,403)	(0)
Comprehensive income	2,285	3,266
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	2,302	3,200
Comprehensive income attributable to non-controlling interests	(16)	66

(3) Notes to Quarterly Consolidated Financial Statements

Going Concern Assumption

Not applicable.

Significant Changes in Shareholders' Equity

Not applicable.

Application of Special Accounting Methods for Presenting Quarterly Consolidated Financial Statements

Calculation of tax expense

The tax expenses were calculated by first estimating the effective tax rate after the application of tax effect accounting with respect to profit before income taxes during the fiscal year, and multiplying that rate by the quarterly profit before income taxes.

Income taxes-deferred were included in and displayed with income taxes.

Segment and Other Information

Segment information

I. First nine months of FY3/19 (Apr. 1, 2018 – Dec. 31, 2018)

1. Information related to net sales and profit or loss for each reportable segment

(Millions of yen)

	Reportable segment				Total
	Trading		Manufacturing		
	Electronic and advanced materials	Aluminum and copper products	Equipment and materials	Metal processing	
Net sales					
External sales	63,660	100,669	15,699	15,751	195,781
Inter-segment sales and transfers	3,031	1,484	103	205	4,824
Total	66,692	102,154	15,802	15,956	200,605
Segment profit	634	883	515	3,040	5,074

2. Information related to assets for each reportable segment

In the third quarter of FY3/19, newly established ALCONIX TOHOKU CHEMICAL INDUSTRIES CORPORATION acquired the stock of TOHOKU CHEMICAL INDUSTRIES, LTD. TOHOKU CHEMICAL INDUSTRIES and its subsidiary TOHOKU CHEMICAL INDUSTRIES (VIETNAM), LTD. were included in the scope of consolidation. Accordingly, segment assets in the “Equipment and materials” business increased by 3,168 million yen at the end of the third quarter of FY3/19, compared with the end of FY3/18.

3. Reconciliation of quarterly consolidated statement of income with total profit or loss for reportable segments

(Millions of yen)

Profit	Amount
Total for reportable segments	5,074
Eliminations for inter-segment transactions	(35)
Ordinary profit on the quarterly consolidated statement of income	5,039

4. Information related to impairment of non-current assets or goodwill for each reportable segment

Significant change in goodwill

In the third quarter of FY3/19, newly established ALCONIX TOHOKU CHEMICAL INDUSTRIES CORPORATION acquired the stock of TOHOKU CHEMICAL INDUSTRIES, LTD. TOHOKU CHEMICAL INDUSTRIES and its subsidiary TOHOKU CHEMICAL INDUSTRIES (VIETNAM), LTD. were included in the scope of consolidation. Accordingly, goodwill in the “Equipment and materials” business increased by 542 million yen.

II. First nine months of FY3/20 (Apr. 1, 2019 – Dec. 31, 2019)

1. Information related to net sales and profit or loss for each reportable segment

(Millions of yen)

	Reportable segment				Total
	Trading		Manufacturing		
	Electronic and advanced materials	Aluminum and copper products	Equipment and materials	Metal processing	
Net sales					
External sales	52,730	87,480	18,774	16,589	175,574
Inter-segment sales and transfers	2,226	3,057	85	144	5,514
Total	54,957	90,537	18,859	16,733	181,088
Segment profit	136	607	233	3,342	4,320

2. Information related to assets for each reportable segment

In the third quarter of FY3/20, FUJI ALCONIX Mexico S.A.de C.V. was included in the scope of consolidation. Accordingly, segment assets in the “Metal processing” business increased by 2,464 million yen at the end of the third quarter of FY3/20, compared with the end of FY3/19.

3. Reconciliation of quarterly consolidated statement of income with total profit or loss for reportable segments

(Millions of yen)

Profit	Amount
Total for reportable segments	4,320
Eliminations for inter-segment transactions	15
Ordinary profit on the quarterly consolidated statement of income	4,335

4. Information related to impairment of non-current assets or goodwill for each reportable segment

Significant gain on bargain purchase

In the “Metal processing” business, S.K.P.P. (SHANGHAI) CO., LTD was included in the scope of application of the equity method. The gain on bargain purchase of 49 million yen was included in share of profit of entities accounted for using equity method.

This financial report is solely a translation of the Company’s Kessan Tanshin (including attachments) in Japanese, which has been prepared in accordance with accounting principles and practices generally accepted in Japan, for the convenience of readers who prefer an English translation.