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Consolidated Financial Results for the Nine Months Ended September 30, 2022 Unaudited [IFRS]

November 11, 2022

Company name: Tsubaki Nakashima Co., Ltd. Stock exchange listing: Tokyo Stock Exchange
Code number: 6464 URL: https://www.tsubaki-nakashima.com/en/
Representative: Koji Hirota, Director and Representative Executive Officer, CEO
Contact: Hisashi Tate, Executive Officer, Senior EVP, CFO Phone: +81-6-6224-0193
Scheduled date to file quarterly securities report: November 14, 2022
Scheduled date to commence dividend payments: Not Applicable
Availability of supplementary briefing material on financial results: Available
Schedule of financial results briefing session: Not Scheduled

(Amounts of less than one million yen are rounded.)

1. Consolidated Financial Results for the Nine months ended September 30, 2022 (January 1, 2022 to September 30, 2022)

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

	Sales		Operating profit		Profit before taxes		Net profit for the period	
Nine months ended	Million yen	%	Million yen	%	Million yen	%	Million yen	%
September 30, 2022	58,409	14.1	2,662	(50.5)	2,974	(38.5)	1,499	(55.3)
September 30, 2021	51,199	39.3	5,379	153.6	4,835	223.7	3,352	213.5

	Net profit for the period attributable to owners of the parent		Total comprehensive income		Basic earnings per share	Diluted earnings per share
Nine months ended	Million yen	%	Million yen	%	Yen	Yen
September 30, 2022	1,494	(55.4)	13,578	77.2	36.86	36.86
September 30, 2021	3,352	212.9	7,662	—	83.14	82.47

(Reference) EBITDA: The nine months ended September 30, 2022: 5,401 million yen (down 31.7%)
The nine months ended September 30, 2021: 7,912 million yen
EBITDA = Operating profit + depreciation and amortization.

(2) Consolidated Financial Position

	Total assets	Total equity	Equity attributable to owners of the parent	Ratio of equity attributable to owners of the parent
	Million yen	Million yen	Million yen	%
As of September 30, 2022	179,193	65,268	65,226	36.4
As of December 31, 2021	157,174	53,369	53,335	33.9

2. Dividends

	Annual dividends				
	1st quarter-end	2nd quarter-end	3rd quarter-end	Year-end	Total
	Yen	Yen	Yen	Yen	Yen
Fiscal year ended December 31, 2021	—	28.00	—	16.00	44.00
Fiscal year ending December 31, 2022	—	13.00			
Fiscal year ending December 31, 2022 (Forecast)				17.00	30.00

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

3. Consolidated Financial Results Forecast for the Fiscal Year Ending December 31, 2022 (January 1, 2022 to December 31, 2022)

(% indicates changes from the previous corresponding period.)

	Sales		Operating profit		Profit before taxes		Net profit for the period attributable to owners of the parent		Basic earnings per share
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen
Full year	78,000	1.3	4,100	(27.4)	4,100	(10.0)	2,300	(5.4)	56.77

(Note) Revision to the forecast for dividends announced most recently: Yes

*** Notes:**

(1) Changes in significant subsidiaries during the period under review (changes in specified subsidiaries resulting in changes in scope of consolidation): No

(2) Changes in accounting policies and changes in accounting estimates

1) Changes in accounting policies required by IFRS: No

2) Changes in accounting policies other than 1) above: No

3) Changes in accounting estimates: No

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

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

September 30, 2022: 41,589,600 shares

December 31, 2021: 41,571,500 shares

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

September 30, 2022: 1,542,615 shares

December 31, 2021: 1,019,286 shares

3) Average number of shares during the period:

Nine months ended September 30, 2022: 40,516,405 shares

Nine months ended September 30, 2021: 40,313,845 shares

*These financial results are outside the scope of audit by a certified public accountant or an audit corporation.

*Explanation of the proper use of financial results forecast and other notes:

The earnings forecasts and other forward-looking statements herein are based on information currently available to the Company and certain assumptions deemed to be reasonable and are not intended to be construed as assurance that they will be accomplished in the future. Actual results may differ significantly from these forecasts due to a wide range of factors.

1. Qualitative Information on Financial Results

(1) Explanation of Business Results

During the nine months of the fiscal year, while Asian economies, especially China, have been recovering steadily since the lifting of lockdown against the coronavirus, supply shortages and price hikes of food, resources, and other commodities in Europe and the United States due to prolonged war and economic sanctions have become significant downside factors for the global economy. Furthermore, the trend of yen depreciation, which has not been halted by the increase in the U.S. policy interest rate and the widening interest rate differential between Japan and the U.S., is restraining the recovery of consumption and slowing the pace of global economic recovery.

Under these circumstances, sales for the nine months of the fiscal year increased 14.1% year-on-year to 58,409 million yen, contribution with a steady increase in EV production, demand for machine tools, price pass-through of surging raw material and utility costs, and the continued effect of the yen's rapid depreciation. Operating profit decreased 50.5% year-on-year to 2,662 million yen, due to expenses of 2.3 billion yen incurred in the second quarter for business restructuring of the roller business in Europe, and price hikes in raw materials, utilities and other costs that were not passed on to customers, despite the increase in sales and cost improvements. Net profit attributable to owners of the parent decreased 55.4% year-on-year to 1,494 million yen.

We will continue to take effective measures to improve our business performance as soon as possible, focusing on cost improvement and promotion of growth strategies.

The segment performance is as follows.

Precision Components Business

Sales in the segment increased 14.7% year-on-year to 54,387 million yen, mainly due to continued growth in demand for ceramic balls for machine tools and EVs, as well as for steel balls in Asia.

Segment profit (operating profit) decreased 50.0% year-on-year to 2,421 million yen, reflecting expenses of 2.3 billion yen for business restructuring of the roller business in Europe.

Linear Business

Sales in the segment increased 6.6% year-on-year to 4,021 million yen due to stable demand for machine tools. Segment profit (operating profit) decreased 56.9% year-on-year to 225 million yen due to the impact of the product mix and soaring prices of raw materials and other items.

(2) Explanation of Financial Position

Total assets at the end of the third quarter increased by 22,019 million yen from the end of the previous fiscal year to 179,193 million yen. This was mainly due to an increase of 5,226 million yen in trade and other receivables and 8,198 million yen in inventories, while a decrease of 7,692 million yen in cash and cash equivalents caused current assets to increase by 6,982 million yen. Non-current assets increased by 15,037 million yen mainly due to increases in property, plant and equipment by 5,200 million yen, intangible assets and goodwill by 4,556 million yen, and other non-current assets by 5,374 million yen, attributable to the depreciation of the yen.

Liabilities increased by 10,120 million yen from the end of the previous fiscal year to 113,925 million yen. This was mainly due to an increase in trade and other payables, other current liabilities, and bonds and borrowings, excluding current portion due to the depreciation of the yen.

Equity increased by 11,899 million yen from the end of the previous fiscal year to 65,268 million yen. This was mainly due to an increase of 12,076 in accumulated other comprehensive income, reflecting the appreciation of the US dollar and the Euro since the end of the previous fiscal year.

(Analysis of Status of Cash Flows)

The cash flow status and factors for each activity during the nine months of the fiscal year are as follows.

Net cash used by operating activities was 3,791 million yen due to an increase in trade and other receivables and inventories.

Net cash used in investing activities was 3,963 million yen, mainly due to the payments for acquisition of property, plant and equipment.

Net cash used in financing activities was 1,295 million yen, mainly due to cash dividends paid and payments for acquisition of treasury stock. After adding the foreign currency translation adjustments of 1,357 million yen, mainly due to the appreciation of the U.S. dollar and Euro during the period, cash and cash equivalents at the end of the period totaled 24,832 million yen, a decrease of 7,692 million yen from the end of the previous fiscal year.

(3) Explanation of Consolidated Financial Results Forecast and Other Forward-looking Information

The consolidated earnings forecast for the fiscal year ending December 31, 2022 has been revised from that announced on February 15, 2022, in light of recent business performance trends and other factors. For details, please refer to the "Notice of Revisions to Earnings Forecasts" released today.

2. Summary Information (Notes)

(1) Changes in significant subsidiaries during the period

Not Applicable

(2) Changes in accounting policies and accounting estimates

Not Applicable

3. Consolidated Financial Statements

(1) Consolidated Statements of Financial Position

(Millions of yen)

	As of December 31, 2021	As of September 30, 2022
Assets		
Current assets		
Cash and cash equivalents	32,524	24,832
Trade and other receivables, net	15,096	20,322
Inventories	28,021	36,219
Other current assets	1,389	2,639
Total current assets	77,030	84,012
Non-current assets		
Property, plant and equipment, net	32,370	37,570
Intangible assets, net and goodwill	46,878	51,434
Other investments	293	200
Deferred tax assets	480	480
Other non-current assets	123	5,497
Total non-current assets	80,144	95,181
Total assets	157,174	179,193
Liabilities and equity		
Liabilities		
Current liabilities		
Trade and other payables	6,551	8,081
Current portion of borrowings	12,030	8,000
Income taxes payable	1,365	1,638
Other current liabilities	4,864	7,339
Total current liabilities	24,810	25,058
Non-current liabilities		
Bonds and borrowings, excluding current portion	71,958	82,206
Net defined benefit liability	2,507	2,447
Deferred tax liabilities	2,172	2,072
Other non-current liabilities	2,358	2,142
Total non-current liabilities	78,995	88,867
Total liabilities	103,805	113,925
Equity		
Share capital	17,102	17,112
Capital surplus	11,415	11,484
Treasury stock	(1,648)	(2,229)
Accumulated other comprehensive income (loss)	(1,378)	10,698
Retained earnings	27,844	28,161
Equity attributable to owners of the parent	53,335	65,226
Non-controlling interests	34	42
Total equity	53,369	65,268
Total liabilities and equity	157,174	179,193

(2) Consolidated Statements of Profit or Loss and Other Comprehensive Income (Loss)

(Millions of yen)

	For the nine months ended September 30, 2021	For the nine months ended September 30, 2022
Sales	51,199	58,409
Cost of sales	40,378	47,823
Gross profit	10,821	10,586
Selling, general and administrative expenses	5,486	6,063
Other income	125	270
Other expenses	81	2,131
Operating profit	5,379	2,662
Financial income	241	1,196
Financial expenses	785	884
Profit before taxes	4,835	2,974
Income tax expense	1,483	1,475
Net profit for the period	3,352	1,499
Net profit for the period attributable to.		
Owners of the parent	3,352	1,494
Non-controlling interests	0	5
Net profit for the period	3,352	1,499
Other comprehensive income (loss)		
Items that will not be reclassified to profit or loss		
Financial assets measured at FVOCI	10	(66)
Total items that will not be reclassified to profit or loss	10	(66)
Items that may subsequently be reclassified to profit or loss		
Foreign currency translation differences	4,098	12,072
Cash flow hedges	143	294
Hedges costs	59	(221)
Total items that may subsequently be reclassified to profit or loss	4,300	12,145
Other comprehensive income (loss), net of tax	4,310	12,079
Total comprehensive income (loss)	7,662	13,578
Total comprehensive income attributable to.		
Owners of the parent	7,660	13,570
Non-controlling interests	2	8
Total comprehensive income (loss)	7,662	13,578
Earnings per share attributable to owners of the parent		
Basic earnings per share (yen)	83.14	36.86
Diluted earnings per share (yen)	82.47	36.86

	For the third quarter ended September 30, 2021	For the third quarter ended September 30, 2022
Sales	16,461	20,151
Cost of sales	12,894	16,970
Gross profit	3,567	3,181
Selling, general and administrative expenses	1,839	2,081
Other income	39	238
Other expenses	13	28
Operating profit (loss)	1,754	1,310
Financial income	113	412
Financial expenses	290	290
Profit before taxes	1,577	1,432
Income tax expense	905	336
Net profit for the period (loss)	672	1,096
Net profit for the period attributable to.		
Owners of the parent	672	1,095
Non-controlling interests	0	1
Net profit for the period (loss)	672	1,096
Other comprehensive income (loss)		
Items that will not be reclassified to profit or loss		
Financial assets measured at FVOCI	17	(8)
Total items that will not be reclassified to profit or loss	17	(8)
Items that may subsequently be reclassified to profit or loss		
Foreign currency translation differences	(18)	1,669
Cash flow hedges	87	212
Hedges costs	15	(73)
Total items that may subsequently be reclassified to profit or loss	84	1,808
Other comprehensive income (loss), net of tax	101	1,800
Total comprehensive income (loss)	773	2,896
Total comprehensive income attributable to.		
Owners of the parent	773	2,895
Non-controlling interests	0	1
Total comprehensive income (loss)	773	2,896
Earnings per share attributable to owners of the parent		
Basic earnings per share (yen)	16.58	27.08
Diluted earnings per share (yen)	16.45	27.08

(3) Consolidated Statements of Changes in Equity

For the nine months ended September 30, 2021

(Millions of yen)

	Equity attributable to owners of the parent					
				Accumulated Other Comprehensive Income (Loss)		
	Share capital	Capital surplus	Treasury stock	Financial assets measured at FVOCI	Foreign currency translation differences	Cash flow hedges
Balance as of January 1, 2021	16,843	11,010	(1,651)	60	(6,872)	(949)
Net profit for the period	—	—	—	—	—	—
Other comprehensive income (loss), net of tax	—	—	—	10	4,096	143
Total comprehensive Income (loss)	—	—	—	10	4,096	143
Issuance of new shares	253	250	—	—	—	—
Dividends	—	—	—	—	—	—
Disposition of treasury stock	—	—	3	—	—	—
Stock-based rewards	—	107	—	—	—	—
Total transactions with owners and other	253	357	3	—	—	—
Balance as of September 30, 2021	17,096	11,367	(1,648)	70	(2,776)	(806)

	Equity attributable to owners of the parent				Non-controlling interests	Total equity
	Accumulated Other Comprehensive Income (Loss)		Retained earnings	Total		
	Hedge cost	Total				
Balance as of January 1, 2021	295	(7,466)	25,947	44,683	29	44,712
Net profit for the period	—	—	3,352	3,352	—	3,352
Other comprehensive income (loss), net of tax	59	4,308	—	4,308	2	4,310
Total comprehensive income (loss)	59	4,308	3,352	7,660	2	7,662
Issuance of new shares	—	—	—	503	—	503
Dividends	—	—	(1,699)	(1,699)	—	(1,699)
Disposition of treasury stock	—	—	—	3	—	3
Stock-based rewards	—	—	—	107	—	107
Total transactions with owners and other	—	—	(1,699)	(1,086)	—	(1,086)
Balance as of September 30, 2021	354	(3,158)	27,600	51,257	31	51,288

For the nine months ended September 30, 2022

(Millions of yen)

	Equity attributable to owners of the parent					
				Accumulated Other Comprehensive Income (Loss)		
	Share capital	Capital surplus	Treasury stock	Financial assets measured at FVOCI	Foreign currency translation differences	Cash flow hedge
Balance as of January 1, 2022	17,102	11,415	(1,648)	54	(1,021)	(724)
Net profit for the period	—	—	—	—	—	—
Other comprehensive income (loss), net of tax	—	—	—	(66)	12,069	294
Total comprehensive Income (loss)	—	—	—	(66)	12,069	294
Issuance of new shares	10	10	—	—	—	—
Dividends	—	—	—	—	—	—
Acquisition of treasury stock	—	—	(612)	—	—	—
Disposition of treasury stock	—	—	31	—	—	—
Stock-based rewards	—	59	—	—	—	—
Total transactions with owners and other	10	69	(581)	—	—	—
Balance as of September 30, 2022	17,112	11,484	(2,229)	(12)	11,048	(430)

	Equity attributable to owners of the parent				Non-controlling interests Total	Total equity
	Accumulated Other Comprehensive Income (Loss)		Retained earnings	Total		
	Hedge cost	Total				
Balance as of January 1, 2022	313	(1,378)	27,844	53,335	34	53,369
Net profit for the period	—	—	1,494	1,494	5	1,499
Other comprehensive income (loss), net of tax	(221)	12,076	—	12,076	3	12,079
Total comprehensive income (loss)	(221)	12,076	1,494	13,570	8	13,578
Issuance of new shares	—	—	—	20	—	20
Dividends	—	—	(1,177)	(1,177)	—	(1,177)
Acquisition of treasury stock	—	—	—	(612)	—	(612)
Disposition of treasury stock	—	—	—	31	—	31
Stock-based rewards	—	—	—	59	—	59
Total transactions with owners and other	—	—	(1,177)	(1,679)	—	(1,679)
Balance as of September 30, 2022	92	10,698	28,161	65,226	42	65,268

(4) Consolidated Statements of Cash Flows

(Millions of yen)

	For the nine months ended September 30, 2021	For the nine months ended September 30, 2022
Cash flows from operating activities		
Profit before taxes	4,835	2,974
Depreciation and amortization	2,533	2,740
Increase (decrease) in net defined benefit liability	(91)	(106)
Interest and dividend income	(16)	(48)
Interest expense	628	827
Foreign exchange losses (gains)	(185)	(1,031)
(Gains) losses on sale of fixed assets	(53)	(6)
Decrease (increase) in trade and other receivables	(1,079)	(3,299)
Decrease (increase) in inventories	(2,337)	(4,637)
(Decrease) increase in trade and other payables	1,715	592
Other, net	1,100	488
Sub Total	7,050	(1,506)
Interest received	17	44
Dividend received	2	4
Interest paid	(473)	(691)
Income taxes paid	(1,231)	(1,642)
Net cash provided (used) by operating activities	5,365	(3,791)
Cash flows from investing activities		
Payments for acquisition of property, plant and equipment	(1,134)	(3,868)
Proceeds from sale of property, plant and equipment	112	4
Payments for acquisition of intangible properties	(166)	(100)
Other, net	0	1
Net cash used by investing activities	(1,188)	(3,963)
Cash flows from financing activities		
Proceeds from short-term loans and borrowings	3,000	—
Repayments of short-term loans and borrowings	(5,567)	—
Proceeds from long-term loans and borrowings	15,700	9,700
Repayments of long-term loans and borrowings	(8,613)	(9,030)
Proceeds from issuance of bonds	9,891	—
Payments of lease liabilities	(236)	(234)
Proceeds from exercise of subscription rights	506	20
Cash dividends paid	(1,622)	(1,144)
Proceeds from sales of treasury stock	1	5
Payments for acquisition of treasury stock	—	(612)
Net cash provided (used) in financing activities	13,060	(1,295)
Effect of exchange rate changes on cash and cash equivalents	429	1,357
Net (decrease) increase in cash and cash equivalents	17,666	(7,692)
Cash and cash equivalents at the beginning of the period	14,987	32,524
Cash and cash equivalents at the end of the period	32,653	24,832

Operating Segments

1. General information

(1) Basis of segmentation

The Company consists of product and service segments based on business operations, with two reporting segments, "Precision component business" and "Linear business".

An operating segment is a component of the Company that engages in business activities from which it may earn revenues and incur expenses, for which discrete financial information is available and is subject to regular review by the Chief Executive Officer of the Group for assessing performance and making resource allocation decisions.

The “Precision component business” segment engages in manufacturing and sales of several types of steel balls, rollers, cages and sheet metal parts. The “Linear business” segment engages in manufacturing and sales of ball screws and air blowers.

Segment information is determined in conformity with the accounting policies used in preparing the condensed interim consolidated financial statements. Operating profit (loss) of each reporting segment is measured in a consistent manner with consolidated operating profit, which is profit before income taxes before finance income and finance costs.

Pricing for the inter-segment transactions is determined on an arm’s length basis.

The “Other business" is not included in the reporting segments.

(2) Segment Information

For the nine months ended September 30, 2021

(Millions of yen)

	Reporting Segments		Other business	Total	Reconciling items	Consolidated financial statements
	Precision component business	Linear business				
Sales						
External sales	47,426	3,772	1	51,199	—	51,199
Inter-segment sales	4	—	22	26	(26)	—
Total consolidated sales	47,430	3,772	23	51,225	(26)	51,199
Segment profit	4,838	524	17	5,379	0	5,379
				Financial income		241
				Financial expense		(785)
				Profit before taxes		4,835

(Note) Reconciling items to segment profit include elimination of inter-segment transactions.

For the nine months ended September 30, 2022

(Millions of yen)

	Reporting Segments		Other business	Total	Reconciling items	Consolidated financial statements
	Precision component business	Linear business				
Sales						
External sales	54,387	4,021	1	58,409	—	58,409
Inter-segment sales	4	—	22	26	(26)	—
Total consolidated sales	54,391	4,021	23	58,435	(26)	58,409
Segment profit	2,421	225	16	2,662	0	2,662
				Financial income		1,196
				Financial expense		(884)
				Profit before taxes		2,974

(Note) Reconciling items to segment profit include elimination of inter-segment transactions.

For the third quarter ended September 30, 2021

(Millions of yen)

	Reporting Segments		Other business	Total	Reconciling items	Consolidated financial statements
	Precision component business	Linear business				
Sales						
External sales	15,157	1,304	0	16,461	—	16,461
Inter-segment sales	2	—	7	9	(9)	—
Total consolidated sales	15,159	1,304	7	16,470	(9)	16,461
Segment profit	1,514	234	6	1,754	0	1,754
				Financial income		113
				Financial expense		(290)
				Profit before taxes		1,577

(Note) Reconciling items to segment profit include elimination of inter-segment transactions.

For the third quarter ended September 30, 2022

(Millions of yen)

	Reporting Segments		Other business	Total	Reconciling items	Consolidated financial statements
	Precision component business	Linear business				
Sales						
External sales	18,806	1,345	0	20,151	—	20,151
Inter-segment sales	0	—	8	8	(8)	—
Total consolidated sales	18,806	1,345	8	20,159	(8)	20,151
Segment profit	1,234	70	6	1,310	0	1,310
				Financial income		412
				Financial expense		(290)
				Profit before taxes		1,432

(Note) Reconciling items to segment profit include elimination of inter-segment transactions.

(Significant events after the reporting period)

On October 17, 2022, the Company's Board of Directors approved a resolution regarding the sale of land and buildings of TN EUROPE, B.V., which belongs to the "Precision Component Business" segment. As a result, the land and building will be classified as held for sale in the fourth quarter of the fiscal year ending December 31, 2022.

(1) Overview of the sale

In line with the business restructuring of the roller business, in which all functions of the European roller business will be consolidated in Bosnia and the roller business will be withdrawn from the Netherlands, we have decided to sell the fixed assets owned by the Company. The Company plans to conclude a leaseback agreement with the purchaser for the portion of the stamping business that will continue to operate within the Netherlands plant. The gain arising from the sale of such fixed assets is currently in the process of calculation, but is expected to be recorded in the fourth quarter of the fiscal year ending December 31, 2022. There is no capital, personal, business relationships between the transferee and the Company, and any matters to be noted as related parties.

(2) Description of assets to be sold

Name of assets	Precision component business Land and buildings for plant in the Netherlands
Location	Utrecht province, the Netherlands
Land area	54,495 ㎡
Gain on sale	Currently in the process of calculation
Current state	Netherlands plant