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Consolidated Financial Results for the Six Months Ended June 30, 2023 Unaudited [IFRS]

August 9, 2023

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
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Phone: +81-6-6224-0193
Scheduled date to file quarterly securities report: August 9, 2023
Scheduled date to commence dividend payments: September 1, 2023
Availability of supplementary briefing material on financial results: Available
Schedule of financial results briefing session: Available (For institutional investors and securities analysts)

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

1. Consolidated Financial Results for the Six months ended June 30, 2023 (January 1, 2023 to June 30, 2023)

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

	Sales		Operating profit		Profit before taxes		Net profit for the period	
Six months ended	Million yen	%	Million yen	%	Million yen	%	Million yen	%
June 30, 2023	39,565	3.4	1,896	40.3	1,821	18.2	912	126.5
June 30, 2022	38,258	10.1	1,352	(62.7)	1,542	(52.7)	403	(85.0)

	Net profit for the period attributable to owners of the parent		Total comprehensive income		Basic earnings per share	Diluted earnings per share
Six months ended	Million yen	%	Million yen	%	Yen	Yen
June 30, 2023	911	128.2	7,750	(27.4)	22.93	22.88
June 30, 2022	399	(85.1)	10,682	55.1	9.84	9.84

(Reference) EBITDA: The six months ended June 30, 2023: 3,444 million yen (up 9.4%)
The six months ended June 30, 2022: 3,147 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 June 30, 2023	163,297	57,256	57,217	35.0
As of December 31, 2022	159,891	50,131	50,096	31.3

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, 2022	—	13.00	—	17.00	30.00
Fiscal year ending December 31, 2023	—	13.00			
Fiscal year ending December 31, 2023 (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, 2023 (January 1, 2023 to December 31, 2023)

(% 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	80,000	1.2	4,500	—	3,500	—	1,700	—	42.79

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

*** 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: Yes

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):

June 30, 2023: 41,599,600 shares

December 31, 2022: 41,599,600 shares

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

June 30, 2023: 1,871,615 shares

December 31, 2022: 1,871,615 shares

3) Average number of shares during the period:

Six months ended June 30, 2023: 39,727,985 shares

Six months ended June 30, 2022: 40,566,119 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

In Japan, the elimination of restrictions on economic activity in the coronavirus infection has progressed, and demand is heading toward a general recovery. In addition, the automotive industry is beginning to improve after a long period of stagnation due to the elimination of the semiconductor shortage, which is boosting the overall economy. On the other hand, machine tools, whose production has been braked by falling demand, continue to remain sluggish. Overseas, the U.S. and other countries are showing signs of economic recovery, but interest rate policies are expected to remain high, and the yen continues to weaken, and in China, the real estate recession has triggered a downturn in sales of automobiles and home appliances, and employment and incomes have not improved, with the rising unemployment rate, especially among young people, becoming a serious problem. We are closely monitoring trends, as this slow recovery in China and other factors could have an impact on the global market.

Under these circumstances, sales for the first half of the fiscal year increased 3.4% year on year to 39,565 million yen due to the passing on of higher energy and raw material prices to sales prices and the impact of yen depreciation, despite sales were sluggish due to a slow recovery in the number of automobiles produced in the main products of the precision components business, the global decline in orders for machine tools, and inventory adjustments by our customers.

On the profit front, operating profit increased 40.3% year on year to 1,896 million yen due to the absence of expenses (2.3 billion yen) for business restructuring of the roller business in Europe that were recorded in the same period of the previous year, despite a decrease in profit due to a decrease in sales excluding foreign exchange impact, and expenses of 1.2 billion yen associated with the closure of stamping parts plant in the Netherlands in the second quarter of the current fiscal year.

Net profit for the period attributable to owners of the parent for the quarter increased 128.2% year on year to 911 million yen.

In the remaining half of fiscal 2023, the final year of our Mid-Term Strategy, we will continue to focus on our growth strategy, while thoroughly implementing initiatives centered on improving profitability to provide better corporate value to our shareholders, customers, business partners, and group employees.

The segment performance is as follows.

Precision Components Business

Sales in the segment increased 5.0% year on year to 37,365 million yen due to the passing on of higher energy and raw material prices to sales prices and the impact of yen depreciation, despite sales were sluggish due to a slow recovery in the number of automobiles produced in the main products of the precision components business, the global decline in orders for machine tools, and inventory adjustments by our customers. Segment profit (operating profit) increased 53.0% year on year to 1,816 million yen due to the absence of expenses (2.3 billion yen) for business restructuring of the roller business in Europe that were recorded in the same period of the previous year, despite a decrease in profit due to a decrease in sales excluding foreign exchange impact, and expenses of 1.2 billion yen associated with the closure of stamping parts plant in the Netherlands in the second quarter of the current fiscal year.

Linear Business

Sales in the segment decreased 17.8% year on year to 2,199 million yen due to a drop in orders for machine tools and inventory adjustments by our customers. Segment profit (operating profit) decreased 55.3% year on year to 69 million yen, mainly due to a decrease in sales.

(2) Explanation of Financial Position

Total assets at the end of the second quarter increased by 3,406 million yen from the end of the previous fiscal year to 163,297 million yen. This was due to an increase of 6,819 million yen in non-current assets resulting from

an increase of 3,100 million yen in property, plant and equipment due to capital investment, an increase of 1,493 million yen in intangible assets and goodwill, and increase of 1,892 million yen in other non-current assets, while current assets decreased by 3,413 resulting from a decrease of 7,772 million yen in cash and cash equivalent despite an increase of 3,671 million yen in inventories.

Total liabilities decreased by 3,719 million yen from the end of the previous fiscal year to 106,041 million yen. This was due to a decrease of 2,694 million yen in borrowings. Certain borrowings of 44,488 million yen that was in breach of financial covenants at the end of the previous fiscal year were included in bonds and borrowings, excluding current portion at the end of the second quarter of the current fiscal year.

Total equity increased by 7,125 million yen from the end of the previous fiscal year to 57,256 million yen. This was mainly due to an increase of 6,835 million yen in other components of equity, including foreign currency translation adjustments.

(Analysis of Status of Cash Flows)

The cash flow status and factors for each activity during the first half of the current fiscal year are as follows.

Net cash used in operating activities totaled 914 million yen. Cash increase factors included profit before taxes of 1,821 million yen and depreciation and amortization of 1,547 million yen, while cash decrease factors included an increase of 1,255 million yen in trade and other receivables, an increase of 1,197 million yen in inventories and an increase in income taxes paid of 1,512 million yen.

Net cash used in investing activities was 2,005 million yen, mainly due to the purchase of fixed assets.

Net cash used in financing activities was 5,836 million yen, mainly due to repayment of long-term loans and borrowings of 5,000 million yen.

After adding 983 million yen in foreign currency translation adjustments, mainly due to the appreciation of the U.S. dollar and euro during the period, cash and cash equivalents at the end of the current fiscal year totaled 16,347 million yen, a decrease of 7,772 million yen from the end of the previous fiscal year.

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

There is no change to the full-year consolidated earnings forecast for the fiscal year ending December 31, 2023, which was announced on June 16, 2023.

(4) Significant Events Regarding Going Concern Assumption

As a result of recording an operating loss in the previous consolidated fiscal year, the Group was in breach of financial covenants in syndicated loan contracts with some financial institutions at the end of the second quarter of the current consolidated fiscal year, as it was at the end of the previous fiscal year. However, as of the end of the second quarter of the current fiscal year, the Group received formal consent from the relevant financial institutions to waive of the right to forfeit the benefit of the time with respect to the borrowings that are in breach of the financial covenants and has determined that significant uncertainties regarding the premise of a going concern is recognized.

2. Summary Information (Notes)

(1) Changes in Significant Subsidiaries during the Period

Not Applicable

(2) Changes in Accounting Policies and Accounting Estimates

The accounting policies of materiality applied in the Group's condensed quarterly consolidated financial statements are the same as those applied in the consolidated financial statements for the previous fiscal year, except for the following items.

(Changes in Accounting Policies)

The Group has applied the amendment to IAS 12, "Deferred Tax related to Assets and Liabilities arising from a Single Transaction," effective from the first quarter of the current fiscal year.

The adoption clarifies the accounting for transactions that give rise to the same amount of additional temporary differences and subtractive temporary differences at the time of initial recognition and results in the recognition of deferred tax liabilities and deferred tax assets for such additional temporary differences and subtractive temporary differences in the consolidated statement of financial position, respectively.

The effect of the change in accounting policy on the condensed consolidated quarterly consolidated financial statements is not material.

(Changes in Accounting Estimates)

Not Applicable

3. Condensed Quarterly Consolidated Financial Statements and Major Notes

(1) Condensed Quarterly Consolidated Statements of Financial Position

(Millions of yen)

	As of December 31, 2022	As of June 30, 2023
Assets		
Current assets		
Cash and cash equivalents	24,119	16,347
Trade and other receivables, net	20,930	21,770
Inventories	35,048	38,719
Other current assets	1,787	1,635
Total current assets	81,884	78,471
Non-current assets		
Property, plant and equipment, net	30,763	33,863
Intangible assets, net and goodwill	40,958	42,451
Other investments	212	279
Deferred tax assets	2,254	2,521
Other non-current assets	3,820	5,712
Total non-current assets	78,007	84,826
Total assets	159,891	163,297
Liabilities and equity		
Liabilities		
Current liabilities		
Trade and other payables	7,722	7,286
Current portion of borrowings	52,609	10,391
Income taxes payable	1,416	1,505
Other current liabilities	6,541	5,709
Total current liabilities	68,288	24,891
Non-current liabilities		
Bonds and borrowings, excluding current portion	35,378	74,902
Net defined benefit liability	2,320	2,304
Deferred tax liabilities	1,650	1,707
Other non-current liabilities	2,124	2,237
Total non-current liabilities	41,472	81,150
Total liabilities	109,760	106,041
Equity		
Share capital	17,117	17,117
Capital surplus	11,519	11,569
Treasury stock	(2,616)	(2,616)
Accumulated other comprehensive income (loss)	6,425	13,260
Retained earnings	17,651	17,887
Equity attributable to owners of the parent	50,096	57,217
Non-controlling interests	35	39
Total equity	50,131	57,256
Total liabilities and equity	159,891	163,297

(2) Condensed Quarterly Consolidated Statements of Comprehensive Income

(Millions of yen)

	For the six months ended June 30, 2022	For the six months ended June 30, 2023
Sales	38,258	39,565
Cost of sales	30,853	32,266
Gross profit	7,405	7,299
Selling, general and administrative expenses	3,982	4,088
Other income	32	63
Other expenses	2,103	1,378
Operating profit	1,352	1,896
Financial income	784	538
Financial expenses	594	613
Profit before taxes	1,542	1,821
Income tax expense	1,139	909
Net profit for the period	403	912
Net profit for the period attributable to.		
Owners of the parent	399	911
Non-controlling interests	4	1
Net profit for the period	403	912
Other comprehensive income (loss)		
Items that will not be reclassified to profit or loss		
Financial assets measured at FVOCI	(58)	42
Total items that will not be reclassified to profit or loss	(58)	42
Items that may subsequently be reclassified to profit or loss		
Foreign currency translation differences	10,403	7,014
Cash flow hedges	82	(175)
Hedges costs	(148)	(43)
Total items that may subsequently be reclassified to profit or loss	10,337	6,796
Other comprehensive income (loss), net of tax	10,279	6,838
Total comprehensive income (loss)	10,682	7,750
Total comprehensive income attributable to.		
Owners of the parent	10,675	7,746
Non-controlling interests	7	4
Total comprehensive income (loss)	10,682	7,750
Earnings per share attributable to owners of the parent		
Basic earnings per share (yen)	9.84	22.93
Diluted earnings per share (yen)	9.84	22.88

	For the second quarter ended June 30, 2022	For the second quarter ended June 30, 2023
Sales	19,631	19,863
Cost of sales	15,675	16,124
Gross profit	3,956	3,739
Selling, general and administrative expenses	2,040	2,032
Other income	13	26
Other expenses	2,102	1,346
Operating profit (loss)	(173)	387
Financial income	553	511
Financial expenses	276	306
Profit before taxes	104	592
Income tax expense	747	335
Net profit for the period (loss)	(643)	257
Net profit for the period attributable to.		
Owners of the parent	(646)	256
Non-controlling interests	3	1
Net profit for the period (loss)	(643)	257
Other comprehensive income (loss)		
Items that will not be reclassified to profit or loss		
Financial assets measured at FVOCI	(21)	6
Total items that will not be reclassified to profit or loss	(21)	6
Items that may subsequently be reclassified to profit or loss		
Foreign currency translation differences	5,990	5,554
Cash flow hedges	(2)	15
Hedges costs	(176)	(13)
Total items that may subsequently be reclassified to profit or loss	5,812	5,556
Other comprehensive income (loss), net of tax	5,791	5,562
Total comprehensive income (loss)	5,148	5,819
Total comprehensive income attributable to.		
Owners of the parent	5,143	5,816
Non-controlling interests	5	3
Total comprehensive income (loss)	5,148	5,819
Earnings per share attributable to owners of the parent		
Basic earnings per share (yen)	(15.92)	6.44
Diluted earnings per share (yen)	(15.92)	6.43

(3) Condensed Quarterly Consolidated Statement of Changes in Equity

For the six months ended June 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 hedges
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	—	—	—	(58)	10,400	82
Total comprehensive Income (loss)	—	—	—	(58)	10,400	82
Issuance of new shares	6	6	—	—	—	—
Dividends	—	—	—	—	—	—
Disposition of treasury stock	—	—	32	—	—	—
Stock-based rewards	—	30	—	—	—	—
Total transactions with owners and other	6	36	32	—	—	—
Balance as of June 30, 2022	17,108	11,451	(1,616)	(4)	9,379	(642)

	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, 2022	313	(1,378)	27,844	53,335	34	53,369
Net profit for the period	—	—	399	399	4	403
Other comprehensive income (loss), net of tax	(148)	10,276	—	10,276	3	10,279
Total comprehensive income (loss)	(148)	10,276	399	10,675	7	10,682
Issuance of new shares	—	—	—	12	—	12
Dividends	—	—	(651)	(651)	—	(651)
Disposition of treasury stock	—	—	—	32	—	32
Stock-based rewards	—	—	—	30	—	30
Total transactions with owners and other	—	—	(651)	(577)	—	(577)
Balance as of June 30, 2022	165	8,898	27,592	63,433	41	63,474

For the six months ended June 30, 2023

(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, 2023	17,117	11,519	(2,616)	(3)	6,381	(154)
Net profit for the period	—	—	—	—	—	—
Other comprehensive income (loss), net of tax	—	—	—	42	7,011	(175)
Total comprehensive Income (loss)	—	—	—	42	7,011	(175)
Issuance of new shares	—	—	—	—	—	—
Dividends	—	—	—	—	—	—
Disposition of treasury stock	—	—	—	—	—	—
Stock-based rewards	—	50	—	—	—	—
Total transactions with owners and other	—	50	—	—	—	—
Balance as of June 30, 2023	17,117	11,569	(2,616)	39	13,392	(329)

	Equity attributable to owners of the parent				Non-controlling interests	Total equity
	Accumulated Other Comprehensive Income (Loss)		Retained earnings	Total		
	Hedge cost	Total			Total	
Balance as of January 1, 2023	201	6,425	17,651	50,096	35	50,131
Net profit for the period	—	—	911	911	1	912
Other comprehensive income (loss), net of tax	(43)	6,835	—	6,835	3	6,838
Total comprehensive income (loss)	(43)	6,835	911	7,746	4	7,750
Issuance of new shares	—	—	—	—	—	—
Dividends	—	—	(675)	(675)	—	(675)
Disposition of treasury stock	—	—	—	—	—	—
Stock-based rewards	—	—	—	50	—	50
Total transactions with owners and other	—	—	(675)	(625)	—	(625)
Balance as of June 30, 2023	158	13,260	17,887	57,217	39	57,256

(4) Condensed Quarterly Consolidated Statements of Cash Flows

(Millions of yen)

	For the six months ended June 30, 2022	For the six months ended June 30, 2023
Cash flows from operating activities		
Profit before taxes	1,542	1,821
Depreciation and amortization	1,795	1,547
Increase (decrease) in net defined benefit liability	(79)	(75)
Interest and dividend income	(38)	(45)
Interest expense	562	562
Foreign exchange losses (gains)	(636)	(795)
(Gains) losses on sale of fixed assets	(1)	(15)
Decrease (increase) in trade and other receivables	(937)	459
Decrease (increase) in inventories	(3,002)	(1,197)
(Decrease) increase in trade and other payables	1,174	(1,255)
Other, net	1,610	110
Sub Total	1,990	1,117
Interest received	35	41
Dividend received	4	4
Interest paid	(553)	(564)
Income taxes paid	(890)	(1,512)
Net cash provided (used) by operating activities	586	(914)
Cash flows from investing activities		
Payments for acquisition of property, plant and equipment	(2,166)	(2,023)
Proceeds from sale of property, plant and equipment	2	35
Payments for acquisition of intangible properties	(46)	(18)
Other, net	0	1
Net cash used by investing activities	(2,210)	(2,005)
Cash flows from financing activities		
Repayments of long-term loans and borrowings	(9,030)	(5,000)
Payments of lease liabilities	(166)	(183)
Proceeds from exercise of subscription rights	12	—
Cash dividends paid	(634)	(653)
Proceeds from sales of treasury stock	5	—
Net cash provided (used) in financing activities	(9,813)	(5,836)
Effect of exchange rate changes on cash and cash equivalents	1,390	983
Net (decrease) increase in cash and cash equivalents	(10,047)	(7,772)
Cash and cash equivalents at the beginning of the period	32,524	24,119
Cash and cash equivalents at the end of the period	22,477	16,347

(5) Notes to Condensed Quarterly Consolidated Financial Statements

(Notes on Going Concern Assumption)

Not Applicable

Operating Segments

1. General information

(1) Basis of segmentation

The Group is composed of segments by product and service and there are "Precision component business" and "Linear business" as reporting segments.

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 Company's operating segments consist of the "Precision component business" and the "Linear business." These businesses offer various products and are managed separately because they require different technologies and marketing strategies.

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 reportable 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.

(2) Segment Information

For the six months ended June 30, 2022

(Millions of yen)

	Reporting Segments		Other business	Total	Reconciling items	Consolidated financial statements
	Precision component business	Linear business				
Sales						
External sales	35,581	2,676	1	38,258	—	38,258
Inter-segment sales	4	—	14	18	(18)	—
Total consolidated sales	35,585	2,676	15	38,276	(18)	38,258
Segment profit	1,187	155	10	1,352	0	1,352
				Financial income		784
				Financial expense		(594)
				Profit before taxes		1,542

(Note) The "Other business" category is a business segment that is not included in the reporting segments and includes real estate rentals. Reconciling items to segment profit include elimination of inter-segment transactions.

For the six months ended June 30, 2023

(Millions of yen)

	Reporting Segments		Other business	Total	Reconciling items	Consolidated financial statements
	Precision component business	Linear business				
Sales						
External sales	37,365	2,199	1	39,565	—	39,565
Inter-segment sales	1	—	15	16	(16)	—
Total consolidated sales	37,366	2,199	16	39,581	(16)	39,565
Segment profit	1,816	69	11	1,896	—	1,896
				Financial income		538
				Financial expense		(613)
				Profit before taxes		1,821

(Note) The "Other business" category is a business segment that is not included in the reporting segments and includes real estate rentals. Reconciling items to segment profit include elimination of inter-segment transactions.