

May 10, 2019

CONSOLIDATED FINANCIAL STATEMENTS
<under Japanese GAAP>

For the twelve-month period ended March 31, 2019

Name of the company: Tsubakimoto Chain Co.
Code number: 6371
Stock exchange listings: Tokyo
URL: <https://tsubakimoto.com>
Representative: Yasushi Ohara, President and Representative Director
Inquiries: Masafumi Okamoto, Executive Officer, Corporate Planning, Headquarters
 Operations
 Tel +81 (6) 6441-0054

*Amounts less than ¥1 million are omitted

1. Consolidated Operating Results the Twelve Months Ended March 31, 2019

(1) Consolidated Results of Operation

(% figures show change compared to the same period of the previous year)

	Net sales		Operating income		Ordinary income		Profit attributable to owners of parent	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
For 12 months ended March 31, 2019	238,515	10.6	21,789	5.3	21,621	(0.6)	13,779	(6.0)
For 12 months ended March 31, 2018	215,716	8.5	20,694	(4.4)	21,743	(1.2)	14,666	0.5

Note: Comprehensive income

Fiscal Year ended March 31, 2019: ¥ 10,520 million, (41.4%)

Fiscal Year ended March 31, 2018: ¥ 17,957 million, 24.1%

	Net income per share	Net income per share (diluted)	Return on Equity	Ordinary income / Total assets	Operating income / Net sales
	Yen	Yen	%	%	%
For 12 months ended March 31, 2019	364.03	—	8.1	7.3	9.1
For 12 months ended March 31, 2018	387.44	—	9.2	7.9	9.6

Note: Equity in income of affiliates

Fiscal Year ended March 31, 2019: ¥ 27 million

Fiscal Year ended March 31, 2018: ¥ 5 million

Note: We consolidated common shares at the ratio of five shares to one share on October 1, 2018. The figures for the net income per share are amounts on the assumption that we consolidate common shares at the beginning of the previous fiscal year.

(2) Consolidated Financial Position

	Total assets	Net assets	Equity ratio	Shareholders' equity per share
	Millions of yen	Millions of yen	%	Yen
As of March 31, 2019	305,916	175,454	56.8	4,590.06
As of March 31, 2018	283,574	169,765	59.2	4,435.96

Note: Shareholders' equity

As of March 31, 2019: ¥ 173,734 million

As of March 31, 2018: ¥ 167,916 million

Note: We consolidated common shares at the ratio of five shares to one share on October 1, 2018. The figures for the shareholders' equity per share are amounts on the assumption that we consolidate common shares at the beginning of the previous fiscal year.

(3) Consolidated Cash Flows

	Net cash provided by operating activities	Net cash used in investing activities	Net cash used in financial activities	Cash and cash equivalents at end of year
	Millions of yen	Millions of yen	Millions of yen	Millions of yen
For 12 months ended March 31, 2019	24,197	(32,088)	12,679	36,087
For 12 months ended March 31, 2018	27,657	(17,389)	(13,191)	31,712

2. Dividends

	Dividends per share					Total amount of dividends (Total)	Payout ratio (Consolidated)	Dividends on equity (Consolidated)
	1st quarter end	2nd quarter end	3rd quarter end	Fiscal year end	Total			
	Yen	Yen	Yen	Yen	Yen	Millions of Yen	%	%
FY E2018	–	11.00	–	13.00	24.00	4,542	31.0	2.8
FY E2019	–	12.00	–	60.00	–	4,542	33.0	2.7
FYE 2020 (Forecasted)	–	60.00	–	60.00	120.00		30.1	

We consolidated common shares at the ratio of five shares to one share on October 1, 2018.

3. Outlook for Consolidated Operating Results for the 12 Months Ending March 31, 2020

(% figures show change compared to the same period of the previous year)

	Net sales		Operating income		Ordinary income		Net income		Net income per share
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Yen
6-month period ending September 30, 2019	120,000	3.0	9,400	(19.3)	10,000	(17.4)	7,100	(18.1)	187.58
12-month period ending March 31, 2020	249,000	4.4	20,800	(4.5)	21,400	(1.0)	15,100	9.6	398.94

* Notes

- (1) Significant changes in scope of consolidation (indicates changes in specified subsidiaries involving changes in the scope of consolidation): Yes

Number of subsidiaries newly consolidated: 1

Name of subsidiaries newly consolidated: Central Conveyor Company, LLC

- (2) Changes in accounting policies, accounting estimates, and restatement of corrections:

1. Changes in accounting policies due to the revision of accounting standards and other regulations: None
2. Other changes in accounting policies: None
3. Changes in accounting estimates: None
4. Restatement of corrections: None

- (3) Number of shares issued (common shares)

- 1 Number of shares issued at end of period (including treasury shares)

As of March 31, 2019 : 38,281,393 shares

As of March 31, 2018 : 38,281,393 shares

- 2 Number of treasury shares at end of period

As of March 31, 2019 : 431,255 shares

As of March 31, 2018 : 427,847 shares

- 3 Average number of shares during the period

As of March 31, 2019 : 37,851,691 shares

As of March 31, 2018 : 37,854,505 shares

(Reference)

1. Non-Consolidated Financial Highlights for the Twelve Months Ended March 31, 2019

(1) Non-Consolidated Results of Operations

*Amounts less than ¥1 million are omitted

	Net sales		Operating income		Ordinary income		Net income	
	Millions of Yen	%	Millions of Yen	%	Millions of Yen	%	Millions of Yen	%
For 12 months ended March 31, 2019	108,655	12.2	8,540	11.9	13,971	11.8	10,959	(30.6)
For 12 months ended March 31, 2018	96,828	17.3	7,629	13.3	12,500	8.7	15,786	82.5

	Net income per share		Net income per share (diluted)	
	Yen		Yen	
For 12 months ended March 31, 2019	289.54		-	
For 12 months ended March 31, 2018	417.04		-	

Note: We consolidated common shares at the ratio of five shares to one share on October 1, 2018. The figures for the net income per share are amounts on the assumption that we consolidate common shares at the beginning of the previous fiscal year.

(2) Non-Consolidated Financial Position

*Amounts less than ¥1 million rounded down

	Total assets	Net assets	Equity ratio	Shareholder's equity per share
	Millions of Yen	Millions of Yen	%	Yen
As of March 31, 2019	219,445	119,784	54.6	3,164.70
As of March 31, 2018	204,169	115,911	56.8	3,062.09

Note: Shareholders' equity

As of March 31, 2019: ¥ 119,784 million

As of March 31, 2018: ¥ 115,911 million

Note: We consolidated common shares at the ratio of five shares to one share on October 1, 2018. The figures for the shareholders' equity per share are amounts on the assumption that we consolidate common shares at the beginning of the previous fiscal year.

1. Summary of Business Results, Etc.

(1) Summary of Business Results in the Fiscal Year under Review

In the fiscal year under review (from April 1, 2018, to March 31, 2019), the economies of the United States, Europe, and the Indian Ocean Rim and East Asia regions performed steadily overall. In China's economy, however, a deceleration trend emerged due to such factors as the effect of the United States–China trade problem and sluggish consumption. Although Japan's economy trended toward recovery due to such factors as growth in manufacturing and exports, uncertainty over the economy increased due to the effect of such factors as the trade problem between the United States and China.

In this environment, orders received by the Tsubaki Group for the fiscal year under review were up 4.7% year on year, to ¥234,196 million, and net sales increased 10.6%, to ¥238,515 million.

Operating income increased 5.3% year on year, to ¥21,789 million, and ordinary income decreased 0.6% year on year, to ¥21,621 million. Further, due to such factors as the recognition of impairment loss on goodwill and other items, net income attributable to parent company shareholders decreased 6.0% year on year, to ¥13,779 million.

Aiming to realize its target corporate profile (a global leader), the Tsubaki Group will continue conducting product development and manufacturing that caters rigorously to market needs and expanding businesses that leverage the collective strengths of the Group and strengthen the Group's ability to sustain growth.

With respect to “impairment loss on goodwill and other items,” please see “Notice regarding the Recording of Extraordinary Loss and the Difference between the Consolidated Business Results Outlook for the Fiscal Year Ended March 31, 2019, and Actual Results,” announced on May 10, 2019 (available in Japanese only).

Segment results are summarized as follows:

[Chains]

In the Chains segment, net sales were up year on year due to brisk sales of drive chains and conveyor chains in Japan; favorable sales of drive chains and conveyor chains in the Americas and Europe; and favorable sales of various types of chains in the Indian Ocean Rim and East Asia regions.

As a result of the above, in the segment orders received decreased 2.2% year on year, to ¥68,198 million; net sales increased 6.5% year on year, to ¥70,259 million; and operating income increased 21.0% year on year, to ¥10,292 million.

[Power Transmission Units and Components]

In the Power Transmission Units and Components segment, net sales were up year on year due to favorable sales of clutches and reducers in Japan and favorable sales of clutches in the Indian Ocean Rim region and reducers in China.

As a result of the above, the segment recorded year-on-year increases of 0.8% in orders received, to ¥25,251 million; 6.0% in net sales, to ¥25,077 million; and 9.2% in operating income, to ¥3,340 million.

[Automotive Parts]

In the Automotive Parts segment, net sales were down year on year as an increase in sales of timing drive systems for automobile engines at a base in Thailand was outweighed by a decrease in sales of these products at bases in the United States, Europe, China, South Korea, and other countries.

As a result of the above, orders received decreased 0.6%, to ¥78,940 million, and net sales decreased 0.7%, to ¥78,992 million. Due to an increase in depreciation and amortization that accompanied capital expenditures aimed at increasing production capacity, operating income decreased 14.9%, to ¥8,734 million.

[Materials Handling Systems]

In the Materials Handling Systems segment, there were year-on-year increases in sales of systems for the automotive industry, systems for the logistics industry, systems for newspaper printing plants, and bulk handling systems in Japan and in sales of metalworking chip handling and coolant processing systems in Europe. Further, the Company acquired all equity interest of Central Conveyor Company, LLC (the United States), and its five subsidiaries and included the company within the scope of consolidation from the first quarter. As a result of such factors, net sales were up year on year.

As a result of the above, the segment recorded year-on-year increases of 26.3% in orders received, to ¥59,054 million, and 40.3% in net sales, to ¥61,354 million.

However, due to such factors as higher expenses at the aforementioned U.S. subsidiary, operating income decreased 3.3% year on year, to ¥402 million.

[Other]

Other orders received decreased 2.7%, to ¥2,751 million, and net sales increased 0.5%, to ¥2,831 million. Operating loss of ¥43 million was recorded, compared with operating loss of ¥41 million in the same period of the previous fiscal year.

(2) Summary of Financial Position in the Fiscal Year under Review

[Assets]

Total assets at the end of the fiscal year, on March 31, 2019, stood at ¥305,916 million, up ¥22,341 million from the end of the previous fiscal year. This increase was due to a ¥4,135 million increase in trade notes and accounts receivable; a ¥4,057 million increase in cash and deposits; a ¥3,660 million increase in property, plant and equipment, which reflected investments in production equipment and other factors; and a ¥9,818 million increase in intangible assets, which was due to such factors as the acquisition of all equity interest of Central Conveyor Company, LLC, by the Company's consolidated subsidiary U.S. Tsubaki Holdings, Inc.

[Liabilities]

Liabilities on March 31, 2019, were ¥130,461 million, up ¥16,652 million from the end of the previous fiscal year, due to such factors as a ¥15,000 million increase in bonds.

[Net Assets]

Net assets on March 31, 2019, were ¥175,454 million, up ¥5,689 million from the end of the previous fiscal year. This increase was due to such factors as an increase of ¥9,047 million in retained earnings, which more than compensated for a decrease of ¥2,343 million in net unrealized holding gain on securities, resulting from a decline in the market value of securities held by the Company, and a decrease of ¥948 million in foreign currency translation adjustments. Further, the equity ratio decreased 2.4 percentage points to 56.8%.

(3) Summary of Cash Flow in the Fiscal Year under Review

Cash and cash equivalents (hereafter referred to as “cash”) at the end of the fiscal year amounted to ¥36,087 million, up ¥4,374 million from the end of the previous fiscal year.

Respective cash flows and their causes are as follows.

(Cash provided by operating activities)

Net cash provided by operating activities was ¥24,197 million. This was attributable to income before income taxes and minority interests of ¥19,432 million and depreciation and amortization of ¥12,366 million, which more than offset income taxes paid of ¥7,354 million.

(Cash used in investing activities)

Net cash used in investing activities amounted to ¥32,088 million. This resulted from ¥17,273 million used to pay for automotive parts production facilities and ¥15,457 million used to pay for the acquisition of the equity interest of Central Conveyor Company, LLC.

(Cash provided by financing activities)

Net cash provided by financing activities was ¥12,679 million. This was primarily the result of proceeds from issuance of bonds of ¥14,913 million, which outweighed cash dividends paid of ¥4,816 million.

(4) Outlook for the Current Fiscal Year

Regarding the outlook going forward, overseas, economic growth is expected to soften overall due to the effect of uncertainty surrounding the United States–China trade problem and the United Kingdom’s withdrawal from the European Union. Further, in Japan, the outlook is likely to remain uncertain as a result of concerns over economic recession overseas.

Amid these business conditions, with a view to realizing its target corporate profile (a global leader), the Group intends to strengthen its operational capabilities while aiming to enhance safety and quality and to build foundations that will lead to sustained growth.

The Group’s consolidated business results outlook for the fiscal year ending March 31, 2020, is as follows:

Net sales: ¥249,000 million (up 4.4%)

Operating income: ¥20,800 million (down 4.5%)

Ordinary income: ¥21,400 million (down 1.0%)

Net income attributable to parent company shareholders: ¥15,100 million (up 9.6%)

The base exchange rate used for forecasts for the fiscal year ending March 31, 2020, is US\$1=¥110 and 1 euro=¥125.

The consolidated business results outlook is based on information available at the present juncture and certain assumptions believed to be reasonable. However, it includes risks and uncertainties. Actual business results may differ materially from the figures of the consolidated business results outlook due to changes in business conditions, market trends, or currency exchange rates. Furthermore, factors that may affect operating results are not limited to those factors.

(5) Policy on Shareholder Returns in the Fiscal Year under Review and in the Current Fiscal Year

The Tsubaki Group views returning profits to its shareholders as one of the highest priorities of management.

Regarding shareholder returns, with a view to focusing our attention on meeting the interests of our shareholders and with paying dividends that reflect consolidated business results as a fundamental policy, we aim to provide shareholder returns based on comprehensive consideration of such factors as funding conditions and finances and with a consolidated dividend payout ratio of 30% as a criterion.

Due to such factors as the recording of extraordinary loss, net income attributable to parent company shareholders was lower than that of the consolidated business results outlook for the fiscal year ended March 31, 2019, that was announced on October 31, 2018. However, we have decided to issue a year-end dividend of ¥60.00 per share in accordance with the previous outlook.

Further, the Company consolidated common shares at a ratio of five shares to one share on October 1, 2018. An interim dividend of ¥12.00 per share was paid. However, this is based on shares before the consolidation of shares. If this is calculated based on shares after the consolidation of shares as equivalent to ¥60.00 per share, it gives a full-year dividend of ¥120.00 per share for the fiscal year ended March 31, 2019.

We plan to utilize retained cash for strengthening our underlying financial standing, promoting future business expansion, and other purposes.

Regarding dividends for the current fiscal year, in accordance with the policy above, we plan to pay an interim dividend of ¥60.00 per share and a year-end dividend of ¥60.00 per share to give a full-year dividend of ¥120.00 per share.

2. Basic Approach to the Selection of Accounting Standards

The Tsubaki Group applies Japanese standards and, for the time being, does not plan to adopt IFRS (International Financial Reporting Standards). However, we will consider responses in light of future trends in accounting standards and other factors.