

Consolidated Financial Results for the Three Months Ended March 31, 2019 under Japanese GAAP

Company Name : THK CO., LTD.
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 URL : <http://www.thk.com>
 Stock exchange listing : Tokyo Stock Exchange-First Section
 Code number : 6481
 Representative : Akihiro Teramachi, President and CEO
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 Scheduled date of filing quarterly report (Japanese version only) : May 15, 2019
 Scheduled starting date of dividend payment : n/a

1. Consolidated operating results and financial position as of and for the three months ended March 31, 2019 (January 1, 2019 to March 31, 2019)

(1) Consolidated Operating Results

Three Months Ended (Millions of Yen)	Net Sales		Operating Income		Ordinary Income		Net Income attributable to owners of the parent	
March 31, 2019	¥76,334	(12.7)%	¥8,554	(29.7)%	¥8,709	(28.7)%	¥5,653	(38.5)%
March 31, 2018	87,395	—	12,163	—	12,207	—	9,187	—
<i>(Note) Comprehensive income</i>		<i>First quarter ended March 31, 2019:</i>		¥8,615 million		162.2 %		
		<i>First quarter ended March 31, 2018:</i>		3,285 million		—		

Three Months Ended (Yen)	Net Income Per Share-Basic	Net Income Per Share-Diluted
March 31, 2019	¥44.67	¥ —
March 31, 2018	72.59	—

(Note) THK changed its closing date of each fiscal year from March 31 to December 31 starting from the fiscal year ended December 31, 2017. The fiscal year ended December 31, 2017 was an irregular accounting period of transition that covered nine months from April 1, 2017 to December 31, 2017. Since the three months of the first quarter period of 2018 (January 1, 2018 to March 31, 2018) differs from that of 2017 (from April 1, 2017 to June 30, 2017), year-on-year percentage changes for the three months ended March 31, 2018 in the above table are not presented.

(2) Consolidated Financial Position

	Total Assets (Millions of Yen)	Net Assets (Millions of Yen)	Net Worth Ratio (%)	Net Assets Per Share (Yen)
March 31, 2019	¥492,286	¥298,157	58.3 %	¥2,266.51
December 31, 2018	462,931	294,719	61.3	2,240.74

(Note) Net worth ratio is defined as net worth divided by total assets. Net worth consists of shareholders' equity and accumulated other comprehensive income in net assets.

Net worth : As of March 31, 2019: ¥286,867 million
 As of December 31, 2018: 283,605 million

(Note) Effective January 1, 2019, THK applied "Partial Amendments to Accounting Standard for Tax Effect Accounting" (Statement No. 28 issued by Accounting Standards Board of Japan). The 2018 figures in the above table have been retrospectively adjusted in accordance with the revised standard.

2. Dividends

	Dividend Per Share (Yen)				
	First Quarter End	Second Quarter End	Third Quarter End	Year end	Total
Year ended December 31, 2018 (Actual)	¥ —	¥47.00	¥ —	¥38.00	¥85.00
Year ending December 31, 2019 (Actual)	—	n/a	n/a	n/a	n/a
Year ending December 31, 2019 (Projected)	n/a	—	—	—	—

(Note) Change in dividend projection: none

The amount of dividends for the year ending December 31, 2019 is planned to be determined in accordance with the targeted payout ratio of 30% on a consolidated basis and will be disclosed as soon as it is determined.

3. Forecasts for the year ending December 31, 2019 (January 1, 2019 to December 31, 2019)

	Net Sales (Millions of Yen)	Operating Income (Millions of Yen)	Ordinary Income (Millions of Yen)	Net Income attributable to owners of the parent (Millions of Yen)	Net Income per Share (Yen)
Six months ending June 30, 2019					
(amount)	¥154,000	¥13,800	¥14,700	¥10,700	¥84.54
(percentage)	(14.2)%	(47.3)%	(45.6)%	(45.4)%	n/a
Year ending December 31, 2019					
(amount)	¥310,000	¥28,000	¥30,000	¥22,000	¥173.82
(percentage)	(12.3)%	(43.8)%	(42.0)%	(37.9)%	n/a

(Note 1) Change in forecasts: none

(Note 2) The above forecasts are based upon the information currently available at the time of the announcement of this report. Actual performance may differ from the estimates due to various unforeseen factors.

4. Other financial information

(1) Significant change in scope of consolidation: None

(2) Simplified or particular accounting treatment for quarterly financial statements:

(Income taxes)

Certain consolidated subsidiaries determine their income tax expenses by multiplying net income for the quarter period by the estimated effective tax rate applicable to the fiscal year.

(3) Changes in accounting policy and estimates, and restatement due to:

a. Changes in accounting standard	None
b. Other changes	None

(4) Number of shares

		(shares)
a. Common stock issued, including treasury stock, as of:	March 31, 2019	133,856,903
	December 31, 2018	133,856,903
b. Treasury stock as of:	March 31, 2019	7,288,896
	December 31, 2018	7,288,846
c. Average number of common stock for the three months ended:	March 31, 2019	126,568,036
	March 31, 2018	126,569,019

(5) Additional information

Effective January 1, 2019, THK applied "Partial Amendments to Accounting Standard for Tax Effect Accounting" (Statement No. 28 issued by Accounting Standards Board of Japan). In accordance with the revised standard, deferred tax assets and deferred tax liabilities are presented as "investments and other" and "long-term liabilities," respectively, in the consolidated balance sheet.

Management's Discussion and Analysis

1. Operating results (from January 1, 2019 to March 31, 2019)

In this three months period, while signs of economic slowdown were spreading mainly in China because of the US-China trade friction, there were growing concerns of the global economic slowdown. In Japan, uncertainty was spreading in the economy; exports and production weakened due to the declining demand from China and other countries.

The THK Group has identified "Full-Scale Globalization," the "Development of New Business Areas," and "Change in Business Style" as cornerstones of its growth strategy to expand the markets of its products such as LM Guide (Linear Motion Guide). As to Full-Scale Globalization, while the markets in emerging countries such as China are growing by dint of the factory automation progress, which is also spreading to developed-country users, the THK Group endeavors to expand its global sales network to meet such demand. Regarding Development of New Business Areas, while the THK Group's products are getting widely adopted in new business fields such as automobile parts, seismic isolation and damping systems, medical equipment, aircraft, robot, and renewable energy, the THK Group is working on expanding sales of not only existing products but also new developed products. In addition to promoting these strategies above, the THK Group is also committed to further expand its business fields by changing its business style enabled by making full use of AI and robot technologies in many ways.

In such a situation where overall demand was in an adjustment phase due to the US-China trade friction, the THK Group captured the demand, which had been strong before entering the adjustment phase. The sales, however, amounted to ¥76,334 million, down ¥11,060 million, or 12.7%, compared to the figure a year earlier, which was robust.

On the cost front, the THK Group continued to implement various activities to improve its productivity and thereby mitigated the decline in profitability. The cost to sales ratio, however, rose 0.7% from a year earlier to 72.2% due to the sharp decrease in sales.

Selling, general and administrative expenses amounted to ¥12,661 million, down ¥108 million, or 0.8%, compared to the figure a year earlier. This was mainly attributable to the THK Group's endeavors to contain costs and improve operating efficiency as well as the decreased sales. The ratio to net sales, however, worsened by 2.0% from a year earlier to 16.6%

As a result, operating income decreased from a year earlier by ¥3,609 million, or 29.7%, to ¥8,554 million. Ratio to net sales dropped by 2.7% to 11.2%.

Total non-operating income was ¥778 million of which major component was ¥256 million of interest

income. Total non-operating expenses were ¥623 million of which major components were ¥152 million of arrangement fees for a syndicated loan contract and ¥143 million of foreign exchange loss—net.

As a result, ordinary income decreased from a year earlier by ¥3,497 million, or 28.7%, to ¥8,709 million. Net income attributable to owners of the parent also decreased from a year earlier by ¥3,534 million, or 38.5%, to ¥5,653 million.

Segment Information

(Japan)

In Japan, while exports and production weakened due to the declining demand from China and other countries, the THK Group successfully generated sales by capturing demand which was favorable overall. Sales, however, decreased by ¥4,567 million, or 11.9%, to ¥33,830 million. Operating income (segment income) decreased by ¥4,041 million, or 39.7%, to ¥6,131 million due to the decreased sales.

(The Americas)

In the Americas, while the economy continued its growth trend led by its domestic demand, the production and sales sections worked in unison to expand and deepen transactions with existing customers and to cultivate new business fields such as automobile, medical equipment, aircraft, and energy-related business. However, sales decreased by ¥2,476 million, or 13.6%, to ¥15,682 million due to the adjustment phase of demand mainly for electronics products. In addition to the decreased sales, the profitability of the transportation equipment business declined due mainly to the rising in material costs. As a result, the THK Group recorded ¥21 million of operating loss (segment loss), a turnaround of ¥361 million.

(Europe)

In Europe, the moderate economic growth continued because of the stable consumer spending while on the other hand there were weaknesses in exports and production. In such a situation, the production and sales sections proactively worked in unison to expand transactions with existing customers and to cultivate new business fields such as automobile, medical equipment, aircraft and robot. Sales, however, decreased by ¥316 million, or 2.0%, to ¥15,788 million. On the other hand, operating income (segment income) increased by ¥52 million, or 16.7%, to ¥366 million. This was mainly attributable to the Group's various activities to improve its profitability.

(China)

In China, while adjustment phases caused by the US-China trade friction concern were widely seen in capital investments, the THK Group captured the growing demand for electronics products and automation and robotization-related products. Sales, however, decreased by ¥3,305 million, or 30.4%, to ¥7,579

million. Operating income (segment income) decreased by ¥525 million, or 37.8%, to ¥864 million due to the decreased sales.

(Other)

In other countries and regions, the THK Group continued to expand and deepen transactions with existing customers and to cultivate new customers while demand for THK Group's products was widely expanded in India and the ASEAN countries. Sales, however, decreased by ¥393 million, or 10.2%, to ¥3,453 million, mainly owing to the decreased demand in China that unfavorably affected the sales in some countries. Operating income (segment income) decreased by ¥114 million, or 21.9%, to ¥409 million due to the decreased sales.

2. Financial position (As of March 31, 2019)

Total assets stood at ¥492,286 million, ¥29,354 million more than the previous fiscal year-end, due mainly to a combined effect of increase in (1) cash and bank deposits by ¥25,444 million, (2) merchandise and finished goods by ¥2,545 million, (3) raw materials and supplies by ¥1,140 million, (4) machinery and equipment—net by ¥3,120 million and decrease in (1) accounts and notes receivable by ¥2,000 million and (2) electronically recorded monetary claims by ¥2,195 million.

Total liabilities stood at ¥194,128 million, ¥25,916 million more than the previous fiscal year-end, due mainly to a combined effect of increase in (1) bonds by ¥20,000 million and (2) long-term bank loans by ¥17,814 million and decrease in (1) electronically recorded obligations by ¥2,379 million, (2) income taxes payable by ¥10,723 million, and (3) accrued bonuses by ¥1,526 million.

Net assets stood at ¥298,157 million, ¥3,438 million more than the previous fiscal year-end, due mainly to increase in (1) retained earnings by ¥843 million and (2) foreign currency translation adjustments by ¥2,057 million.

3. Forecast for the fiscal year ending December 31, 2019

No change from the forecasts (for the six months ending June 30, 2019 and the year ending December 31, 2019) reported in the announcement dated February 14, 2019.

Consolidated Financial Statements

Consolidated Balance Sheets

(Millions of Yen)

	Year End -Previous Year As of December 31, 2018	First Quarter End -Current Year As of March 31, 2019
Assets		
Current Assets:		
Cash and bank deposits	¥134,513	¥159,958
Accounts and notes receivable	69,722	67,722
Electronically recorded monetary claims	22,973	20,777
Merchandise and finished goods	18,625	21,171
Work in process	10,815	11,389
Raw materials and supplies	20,624	21,765
Other current assets	7,741	7,485
Less: Allowance for bad debts	(134)	(137)
Total current assets	284,881	310,132
Fixed Assets:		
Property, plant and equipment -net:		
Buildings and structures	29,525	29,792
Machinery and equipment	62,735	65,856
Other	37,434	39,770
Total property, plant and equipment –net	129,695	135,419
Intangibles		
Goodwill	10,003	9,712
Other	18,102	17,536
Total intangibles	28,106	27,248
Investments and Other		
Long-term investments in securities	9,665	10,050
Other	10,666	9,507
Less: Allowance for bad debts	(83)	(72)
Total investments and other	20,248	19,486
Total fixed assets	178,049	182,154
Total assets	462,931	492,286

(Millions of Yen)

	Year End -Previous Year As of December 31, 2018	First Quarter End -Current Year As of March 31, 2019
Liabilities		
Current Liabilities:		
Accounts and notes payable	¥22,084	¥21,931
Electronically recorded obligations	26,938	24,559
Current portion of long-term bank loans	12,185	12,185
Income taxes payable	12,271	1,547
Accrued bonuses	3,899	2,372
Other	20,850	23,368
Total current liabilities	98,230	85,965
Long-term Liabilities:		
Bonds	40,000	60,000
Long-term bank loans	15,295	33,110
Reserve for retirement benefits for directors and corporate auditors	131	98
Reserve for product warranty	112	104
Net defined benefit liability	7,908	7,860
Other	6,535	6,990
Total long-term liabilities	69,982	108,162
Total liabilities	168,212	194,128
Net Assets		
Shareholders' equity :		
Common stock	34,606	34,606
Additional paid-in capital	40,420	40,420
Retained earnings	220,787	221,631
Treasury stock	(14,002)	(14,003)
Total shareholders' equity	281,811	282,654
Accumulated other comprehensive income :		
Net unrealized gain on available-for-sale securities	1,102	1,453
Foreign currency translation adjustments	2,755	4,813
Remeasurements of defined benefit plans	(2,063)	(2,054)
Total accumulated other comprehensive income	1,794	4,212
Non-controlling interests	11,113	11,290
Total net assets	294,719	298,157
Total liabilities and net assets	462,931	492,286

Consolidated Statements of Income

(Millions of Yen)

	Three Months Ended March 31, 2018 (From January 1, 2018 to March 31, 2018)	Three Months Ended March 31, 2019 (From January 1, 2019 to March 31, 2019)
Net sales	¥87,395	¥76,334
Cost of sales	62,461	55,118
Gross profit	24,933	21,215
Selling, general and administrative expenses	12,770	12,661
Operating income	12,163	8,554
Non-operating income:		
Interest income	144	256
Equity earnings of affiliates	167	27
Other	455	494
Total non-operating income	767	778
Non-operating expense:		
Interest expenses	63	60
Arrangement fees	—	152
Foreign exchange loss, net	479	143
Other	181	267
Total non-operating expenses	723	623
Ordinary income	12,207	8,709
Extraordinary gains:		
Gain on sales of property, plant and equipment	19	23
Total extraordinary gains	19	23
Extraordinary losses:		
Loss on sales and disposal of property, plant and equipment	41	11
Total extraordinary losses	41	11
Income before income taxes	12,185	8,721
Income taxes-current	3,177	1,617
Income taxes-deferred	(342)	1,147
Total income taxes	2,834	2,764
Net income	9,350	5,956
Net income attributable to non-controlling interests	162	303
Net income attributable to owners of the parent	9,187	5,653

Consolidated Statements of Comprehensive Income

	(Millions of Yen)	
	Three Months Ended March 31, 2018 (From January 1, 2018 to March 31, 2018)	Three Months Ended March 31, 2019 (From January 1, 2019 to March 31, 2019)
Net income	¥9,350	¥5,956
Other comprehensive income:		
Unrealized gain (loss) on available-for-sale securities	(455)	349
Foreign currency translation adjustments	(6,137)	2,349
Remeasurements of defined benefit plans	47	12
Share of other comprehensive income (losses) of affiliates accounted under the equity method	481	(52)
Total other comprehensive income (loss)	<u>(6,064)</u>	<u>2,658</u>
Comprehensive income	<u>3,285</u>	<u>8,615</u>
Attributable to:		
Owners of the parent	3,353	8,071
Non-controlling interests	(67)	544

Segment Information

For the first quarter ended March 31, 2018 (January 1, 2018 to March 31, 2018)

							(Millions of Yen)	
	Japan	The Americas	Europe	China	Other	Adjustments	Consolidated	
Sales to customers	¥38,398	¥18,159	¥16,105	¥10,885	¥3,846	¥-	¥87,395	
Inter-segment	13,954	130	22	1,685	464	(16,258)	-	
Total	52,353	18,289	16,127	12,571	4,311	(16,258)	87,395	
Operating income	10,172	340	314	1,390	523	(578)	12,163	

(Note) All adjustments are intercompany elimination.

For the first quarter ended March 31, 2019 (January 1, 2019 to March 31, 2019)

							(Millions of Yen)	
	Japan	The Americas	Europe	China	Other	Adjustments	Consolidated	
Sales to customers	¥33,830	¥15,682	¥15,788	¥7,579	¥3,453	¥-	¥76,334	
Inter-segment	13,554	79	24	1,799	498	(15,955)	-	
Total	47,385	15,761	15,812	9,379	3,952	(15,955)	76,334	
Operating income (loss)	6,131	(21)	366	864	409	803	8,554	

(Note) All adjustments are intercompany elimination.

Additional notes:

- (1) Going concern issues: Not applicable.
- (2) Significant change in shareholders' equity: Not applicable.

Other Information

This report is not subject to the quarterly review procedures set forth in the Japanese Financial Instruments and Exchange Act. Therefore, the quarterly review procedures for accompanying consolidated financial statements are not finished at the time of the announcement of this report.

All the figures in this report except per share information are rounded down to the nearest million.

This information is summarized and translated from the original Japanese version submitted to the Tokyo Securities Exchange in accordance with its disclosure rules and presentation manners, which are different from those applied in the annual reports of THK due to reclassification and rearrangement made therein. This English translation is intended solely for the convenience of readers, and not intended in any way to substitute or replace the original Japanese version. If there is any discrepancy between the original Japanese version and this translation, the original Japanese version shall supersede all information in this translation. All the figures in this report are unaudited.