



NOK CORPORATION and Consolidated Subsidiaries

Consolidated Financial Results for the Six Months Ended September 30, 2020 (Japanese GAAP)

Date: November 11, 2020

Company name: NOK Corporation
 Securities code: 7240
 Representative: Kiyoshi Doi
 President
 Inquiries: Takashi Kaku
 Department Manager
 Corporate Communication Department

Listed on the Tokyo Stock Exchange
 URL <http://www.nok.co.jp>
 Telephone: +81-3-6891-0191

Quarterly securities report filing date (as planned): November 13, 2020

Dividend payable date (as planned): December 4, 2020

Supplemental material of quarterly results: None

Convening briefing of quarterly results: Yes

(Fractions are rounded down to the nearest million yen.)

1. Consolidated Financial Results for the First Six Months of Fiscal 2020 (April 1, 2020 to September 30, 2020)

(1) Consolidated operating results

(Percentage figures represent year-on-year changes.)

	Net sales		Operating income		Ordinary income		Profit attributable to owners of parent	
	million yen	%	million yen	%	million yen	%	million yen	%
6 mos. ended Sep. 30, 2020	255,200	(17.2)	(8,612)	—	(8,664)	—	(10,464)	—
6 mos. ended Sep. 30, 2019	308,364	(9.8)	2,164	(84.6)	4,081	(77.4)	1,370	(85.8)

Note: Comprehensive income: 4,631 million yen, –% (as of September 30, 2020); (8,041) million yen, –% (as of September 30, 2019)

	Net income per share	Diluted net income per share
	yen	yen
6 mos. ended Sep. 30, 2020	(60.50)	—
6 mos. ended Sep. 30, 2019	7.92	—

(2) Consolidated financial position

	Total assets	Net assets	Capital adequacy ratio	Net assets per share
	million yen	million yen	%	yen
Sep. 30, 2020	783,582	449,998	52.2	2,363.00
March 31, 2020	728,695	447,238	55.9	2,353.56

Reference: Owner's equity: 408,725 million yen (as of September 30, 2020); 407,092 million yen (as of March 31, 2020)

2. Dividends

	Dividend per share				
	First quarter	Second quarter	Third quarter	Fiscal year end	Total
	yen	yen	yen	yen	yen
FY 2019	—	25.00	—	12.50	37.50
FY 2020	—	12.50	—	—	—
FY 2020 (Forecast)	—	—	—	12.50	25.00

Note: Correction of dividend forecast from the most recent dividend forecast: None

3. Consolidated Forecasts for Fiscal 2020 (April 1, 2020 to March 31, 2021)

(Percentage figures represent year-on-year changes.)

	Net sales		Operating income		Ordinary income		Profit attributable to owners of parent		Net income per share
	million yen	%	million yen	%	million yen	%	million yen	%	yen
Full year	530,200	(15.4)	(10,800)	—	(9,500)	—	(24,200)	—	(139.75)

Note: Correction of financial forecast from the most recent financial forecast: None

* Notes

- (1) Material changes in subsidiaries during this period (Changes in scope of consolidations resulting from change in subsidiaries): None
- (2) Applying of specific accounting of the consolidated quarterly financial statements: Yes
 Note: For details, please refer to “2. Consolidated Quarterly Financial Statements and Principal Notes (3) Notes Concerning Consolidated Quarterly Financial Statements (Accounting Treatments Specific to the Preparation of Consolidated Quarterly Financial Statements)” on page 8 of the attached document.
- (3) Changes in accounting policies and accounting estimates, retrospective restatement
- i) Changes in accounting policies based on revisions of accounting standard: None
 - ii) Changes in accounting policies other than ones based on revisions of accounting standard: Yes
 - iii) Changes in accounting estimates: None
 - iv) Retrospective restatement: None

(4) Number of issued and outstanding shares (common stock)

i) Number of issued and outstanding shares at the end of each period (including treasury stock)	Sep. 30, 2020	173,138,537 shares	Mar. 31, 2020	173,138,537 shares
ii) Number of treasury stock at the end of each period	Sep. 30, 2020	169,713 shares	Mar. 31, 2020	169,654 shares
iii) Average number of shares (year to date)	6 mos. ended Sep. 30, 2020	172,968,873 shares	6 mos. ended Sep. 30, 2019	172,971,600 shares

* This summary of quarterly financial results is not subject to quarterly review procedures of a certified public accountant or audit firm.

* Proper use of the projections for financial results, and other important matters:

Forward-looking statements such as projections of future financial results and other descriptions concerning our future business included in this document are based on currently available information and certain assumptions that we consider to be reasonable, and no representation or warranty is given with regard to the realization of such projections, etc. Actual financial results may differ significantly due to various factors.

For assumptions, etc., used as the basis for the projections for financial results, please see “Explanation of Consolidated Financial Projections and Other Prospects for the Future” on page 3 of the attached document.

Table of Contents of Attached Document

1. Qualitative Information on the Consolidated Operating Results for the Six Months Ended September 30, 2020	2
(1) Explanation of Financial Position and Operating Results	2
(2) Explanation of Consolidated Financial Projections and Other Prospects for the Future	3
2. Consolidated Quarterly Financial Statements and Principal Notes	4
(1) Consolidated Quarterly Balance Sheet	4
(2) Consolidated Quarterly Income Statement and Consolidated Quarterly Comprehensive Income Statement.....	6
Consolidated Quarterly Income Statement	
Six Months Ended September 30, 2020.....	6
Consolidated Quarterly Comprehensive Income Statement	
Six Months Ended September 30, 2020.....	7
(3) Notes Concerning Consolidated Quarterly Financial Statements.....	8
(Notes Concerning the Going Concern Assumption)	8
(Notes on Significant Changes in the Amount of Shareholders' Equity).....	8
(Change in Accounting Policy).....	8
(Accounting Treatments Specific to the Preparation of Consolidated Quarterly Financial Statements)	8
(Segment Information)	9
(Significant Subsequent Event)	10

1. Qualitative Information on the Consolidated Operating Results for the Six Months Ended September 30, 2020

(1) Explanation of Financial Position and Operating Results

During the first six months of the current consolidated fiscal year, the Japanese economy faced a rapid slowdown as economic activities were significantly restricted due to the outbreak of the novel coronavirus, but has been showing signs of gradual recovery since the state of emergency was lifted.

On the whole, however, the economic outlook remains uncertain, due to lingering concerns about further outbreaks and fear of a prolonged slowdown in economic activity.

In the automobile industry, demand in Japan is recovering from the considerable decline temporarily caused by the novel coronavirus. In overseas markets where demand decreased significantly largely due to temporary production shutdowns, there have been signs of recovery in China and North America.

In the electronic equipment industry, production and shipments of products were delayed due to the impact of the novel coronavirus, and demand for smartphones and HDDs dropped.

In the office machinery industry, demand for both multifunction peripherals and printers declined due to the impact of the novel coronavirus.

Under these circumstances, the operating results of the Group by business segment were as follows:

In the seal business, sales for automobile applications declined due to a drop in demand in Japan and abroad in the first six months of the current consolidated fiscal year, although demand started to pick up toward the end of the period. Sales to manufacturers of general industrial machinery also decreased on the back of a decline in demand from manufacturers of construction machinery, machine tools, and robots.

As a result, net sales stood at 122,994 million yen (down 24.0% year on year). Operating loss was 854 million yen (compared to an operating income of 11,572 million yen in the same period of the previous fiscal year) due to the significant impact of the decline in sales, despite efforts to cut personnel costs and expenses.

In the electronic product business, sales for certain high-function smartphone applications decreased due to a delay in going into mass production of new products. Sales to automotive manufacturers also dropped due to a decline in automobile production volume.

As a result, net sales decreased to 122,434 million yen (down 7.5% year on year). Operating loss stood at 7,176 million yen (compared to an operating loss of 9,779 million yen in the same period of the previous fiscal year) due to the impact of the drop in sales, despite efforts to cut personnel costs and expenses.

In the roll business, sales declined due to a drop in demand for multifunction peripherals and repair parts.

As a result, net sales declined to 6,644 million yen (down 30.3% year on year). Operating loss came to 964 million yen (compared to an operating loss of 134 million yen in the same period of the previous fiscal year) due to the significant impact of the drop in sales, despite efforts to reduce personnel costs and expenses.

In other businesses including special lubricants, net sales dropped to 3,127 million yen (down 32.1% year on year). Operating income ended at 355 million yen (down 24.9% year on year).

In summary, the Group posted the following results for the first six months of the current consolidated fiscal year: Net sales totaled 255,200 million yen (down 17.2% year on year); operating loss was 8,612 million yen (compared to an operating income of 2,164 million yen in the same period of the previous fiscal year); and ordinary loss ended at 8,664 million yen (compared to an ordinary income of 4,081 million yen in the same period of the previous fiscal year), resulting in 10,464 million yen in loss attributable to owners of parent (compared to a profit attributable to owners of parent of 1,370 million yen in the same period of the previous fiscal year).

Total assets as of September 30, 2020 stood at 783,582 million yen, an increase of 54,887 million yen compared with March 31, 2020. This was mainly attributable to an increase in investment securities due to increases in cash and deposits, as well as an increase in the market value of shares held by the Company, despite decreases in electronically recorded monetary claims and notes receivable-trade.

Total liabilities as of September 30, 2020 amounted to 333,584 million yen, an increase of 52,126 million yen compared with March 31, 2020, mostly reflecting increases in short-term loans payable and accounts payable-trade.

Net assets totaled 449,998 million yen, an increase of 2,760 million yen compared with March 31, 2020. This was mainly due to increases in valuation difference on available-for-sale securities and remeasurements of defined benefit plans, despite a decrease in retained earnings due to the recognition of a loss attributable to owners of parent and dividend payments. Consequently, the ratio of shareholders' equity to total assets stood at 52.2%

The "Accounting Standard for Revenue Recognition, etc." (ASBJ Statement No. 29, March 31, 2020) and the "Implementation Guidance on Accounting Standard for Revenue Recognition" (ASBJ Guidance No. 30, March 31, 2020) have been applied since the beginning of the first three months of the current consolidated fiscal year. For details, please refer to "2 Consolidated Quarterly Financial Statements and Principal Notes, (3) Notes Concerning Consolidated Quarterly Financial Statements, (Change in Accounting Policy).

(2) Explanation of Consolidated Financial Projections and Other Prospects for the Future

There have been no changes to the financial projections that were announced on October 21, 2020.

2. Consolidated Quarterly Financial Statements and Principal Notes**(1) Consolidated Quarterly Balance Sheet**

(million yen)

	FY 2019 (as of March 31, 2020)	2Q FY 2020 (as of September 30, 2020)
Assets		
Current assets		
Cash and deposits	82,400	134,100
Notes and accounts receivable-trade	122,157	120,104
Electronically recorded monetary claims	14,254	11,491
Inventories	80,814	81,680
Other	13,449	12,357
Allowance for doubtful accounts	(124)	(124)
Total current assets	312,952	359,610
Noncurrent assets		
Property, plant and equipment		
Buildings and structures, net	93,903	91,588
Machinery, equipment and vehicles, net	105,123	103,383
Other, net	52,049	50,360
Total property, plant and equipment	251,076	245,332
Intangible assets	4,181	4,042
Investments and other assets		
Investment securities	123,118	138,216
Other	37,537	36,575
Allowance for doubtful accounts	(170)	(196)
Total investments and other assets	160,484	174,596
Total noncurrent assets	415,742	423,971
Total assets	728,695	783,582

(million yen)

	FY 2019 (as of March 31, 2020)	2Q FY 2020 (as of September 30, 2020)
Liabilities		
Current liabilities		
Accounts payable-trade	44,915	51,278
Short-term loans payable	59,617	102,564
Income taxes payable	2,121	2,252
Provision for bonuses	10,483	13,335
Other	48,800	47,949
Total current liabilities	165,938	217,380
Noncurrent liabilities		
Long-term loans payable	17,441	15,769
Deferred tax liabilities	772	3,503
Net defined benefit liabilities	92,536	92,164
Other	4,768	4,766
Total noncurrent liabilities	115,518	116,203
Total liabilities	281,457	333,584
Net assets		
Shareholders' equity		
Capital stock	23,335	23,335
Capital surplus	23,288	23,288
Retained earnings	351,622	339,590
Treasury stock	(230)	(230)
Total shareholders' equity	398,016	385,984
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	34,230	45,246
Foreign currency translation adjustment	919	1,860
Remeasurements of defined benefit plans	(26,074)	(24,365)
Total accumulated other comprehensive income	9,075	22,741
Non-controlling interests	40,146	41,272
Total net assets	447,238	449,998
Total liabilities and net assets	728,695	783,582

(2) Consolidated Quarterly Income Statement and Consolidated Quarterly Comprehensive Income Statement
 (Consolidated Quarterly Income Statement)
 (Six Months Ended September 30, 2020)

(million yen)

	6 months ended September 30, 2019	6 months ended September 30, 2020
Net sales	308,364	255,200
Cost of sales	263,409	225,757
Gross profit	44,954	29,442
Selling, general and administrative expenses	42,790	38,055
Operating income (loss)	2,164	(8,612)
Non-operating income		
Dividend income	1,322	1,090
Share of profit of entities accounted for using equity method	2,290	–
Other	2,858	1,443
Total non-operating income	6,471	2,533
Non-operating expenses		
Interest expenses	1,485	1,146
Share of loss of entities accounted for using equity method	–	375
Foreign exchange losses	2,582	557
Other	486	505
Total non-operating expenses	4,554	2,585
Ordinary income (loss)	4,081	(8,664)
Extraordinary income		
Gain on sales of noncurrent assets	131	65
Gain on sales of investment securities	376	0
Total extraordinary income	508	66
Extraordinary loss		
Loss on retirement of noncurrent assets	468	225
Loss on valuation of investment securities	0	193
Business restructuring expenses	–	173
Other	17	113
Total extraordinary loss	486	706
Income (loss) before income taxes	4,104	(9,304)
Income taxes	2,512	81
Net income (loss)	1,591	(9,385)
Profit attributable to non-controlling interests	221	1,078
Profit (loss) attributable to owners of parent	1,370	(10,464)

(Consolidated Quarterly Comprehensive Income Statement)
 (Six Months Ended September 30, 2020)

(million yen)

	6 months ended September 30, 2019	6 months ended September 30, 2020
Net income (loss)	1,591	(9,385)
Other comprehensive income		
Valuation difference on available-for-sale securities	(2,385)	11,020
Foreign currency translation adjustment	(7,236)	793
Remeasurements of defined benefit plans, net of tax	1,809	1,643
Share of other comprehensive income of entities accounted for using equity method	(1,820)	559
Total other comprehensive income	(9,633)	14,017
Comprehensive income	(8,041)	4,631
(Detail)		
Comprehensive income attributable to owners of parent	(7,242)	3,201
Comprehensive income attributable to non-controlling interests	(798)	1,430

(3) Notes Concerning Consolidated Quarterly Financial Statements
(Notes Concerning the Going Concern Assumption)
None.

(Notes on Significant Changes in the Amount of Shareholders' Equity)
None.

(Change in Accounting Policy)

Application of the Accounting Standard for Revenue Recognition, etc.

The "Accounting Standard for Revenue Recognition, etc." (ASBJ Statement No. 29, March 31, 2020. Hereinafter, "Accounting Standard for Revenue Recognition.") has been applied since the beginning of the first three months of the current consolidated fiscal year. In accordance with this accounting standard, the Company recognizes revenue as the amount expected to be received in exchange for the promised goods or services when the control of the goods or services is transferred to the customer.

Due to the application, the revenue of some product sales, which had been recognized at customs clearance or over the course of collection of the sales proceeds (consideration), is now recognized at the specific point in time when control of the product is transferred to the customer.

Furthermore, the revenue of transactions in which the Company's role in the sale of a product to a customer falls under that of agent, which had been recognized for the entire amount of the consideration received from the customer, is now recognized at net value (total consideration minus payments to a third party).

For charged supply transactions, which fall under repurchase agreements, we continue to recognize inventory for the supplied goods that remain at the recipient of the charged supply as financial transactions and recognize "liabilities related to charged supply transactions" for the amount equivalent to the ending inventory of the supplied goods that remain at the recipient of the charged supply. For charged receipt transactions, where we had recognized net sales and cost of sales at the time of sell-back to the supplier, we now recognize only the net value of the amount equivalent to process cost as revenue.

The application of the Accounting Standard for Revenue Recognition is pursuant to the transitional treatment stipulated in the proviso of paragraph 84 of the Accounting Standard for Revenue Recognition. The cumulative effect when applying the new accounting policy retrospectively from before the beginning of the first three months of the current consolidated fiscal year is added to or subtracted from the retained earnings at the beginning of the first three months of the current consolidated fiscal year before applying the new accounting policy from the beginning-of-year balance. However, the new accounting policy has not been applied retrospectively to contracts in which almost all of the revenue has been recognized before the beginning of the first three months of the current consolidated fiscal year in accordance with the previous treatment by applying the method stipulated in paragraph 86 of the Accounting Standard for Revenue Recognition. Contract changes that were carried out before the beginning of the first three months of the current consolidated fiscal year by applying the method stipulated in (1) of paragraph 86 of the Accounting Standard for Revenue Recognition have been accounted for in accordance with the contract terms that have reflected all contract changes, and their cumulative effect has been adjusted in the retained earnings at the beginning of the first three months of the current consolidated fiscal year.

As a result, net sales and cost of sales for the first six months of the current consolidated fiscal year decreased by 1,357 million yen and 1,277 million yen, respectively, compared with the previous accounting method. Operating loss, ordinary loss and loss before income taxes increased by 80 million yen each. Inventories and current liabilities-other increased by 226 million yen, respectively. Furthermore, beginning-of-year retained earnings increased by 594 million yen.

(Accounting Treatments Specific to the Preparation of Consolidated Quarterly Financial Statements)

As for tax expenses, some consolidated subsidiaries calculate the amount by reasonably estimating an effective tax rate after applying tax effect accounting to income before income taxes for the consolidated fiscal year including the current second-quarter period, and multiplying income before income taxes for the current second-quarter period by the estimated effective tax rate.

(Segment Information)

I Six Months Ended September 30, 2019

1. Information regarding net sales and income (loss) by reportable segment

(million yen)

	Reportable segments				Total	Adjustments (Note 1)	Amount included in the consolidated quarterly income statement (Note 2)
	Seal	Electronic product	Roll	Other			
Net sales							
Net sales to external customers	161,885	132,332	9,538	4,608	308,364	–	308,364
Inter-segment sales/transfers	846	11	–	233	1,091	[1,091]	–
Total	162,731	132,344	9,538	4,841	309,455	[1,091]	308,364
Segment income (loss)	11,572	(9,779)	(134)	473	2,131	33	2,164

Notes: 1. The amount of 33 million yen in adjustments of segment income (loss) represents the result of the elimination of inter-segment transactions.

2. Segment income (loss) is adjusted for operating income stated in the consolidated quarterly income statement.

II Six Months Ended September 30, 2020

1. Information regarding net sales and income (loss) by reportable segment

(million yen)

	Reportable segments				Total	Adjustments (Note 1)	Amount included in the consolidated quarterly income statement (Note 2)
	Seal	Electronic product	Roll	Other			
Net sales							
Net sales to external customers	122,994	122,434	6,644	3,127	255,200	–	255,200
Inter-segment sales/transfers	702	6	0	202	911	[911]	–
Total	123,696	122,441	6,644	3,329	256,112	[911]	255,200
Segment income (loss)	(854)	(7,176)	(964)	355	(8,640)	27	(8,612)

Notes: 1. The amount of 27 million yen in adjustments of segment income (loss) represents the result of the elimination of inter-segment transactions.

2. Segment income (loss) is adjusted for operating loss stated in the consolidated quarterly income statement.

3. Since the accounting method for revenue recognition has changed due to the application of the Accounting Standard for Revenue Recognition, etc. from the beginning of the first quarter of the current consolidated fiscal year, as described in the "Change in Accounting Policy," the measurement method of income or loss by business segment has also been changed accordingly.

This change has led to the following changes compared with the previous measurement method: In the seal segment, net sales decreased by 1,007 million yen and segment loss increased by 80 million yen; in the electronic product segment, net sales decreased by 27 million yen and segment loss increased by 0 million yen; and in the "other" segment, net sales decreased by 322 million yen.

(Significant Subsequent Event)

Voluntary Retirement Scheme

NOK Corporation resolved at the board meeting held on October 21, 2020, that Nippon Mektron Ltd., a consolidated subsidiary, would offer voluntary retirement to employees as below.

1. Reasons for offering voluntary retirement

In the electronic product business, in which Nippon Mektron Ltd. is engaged, market conditions are expected to become even more severe in the future, mainly due to a decline in product demand as a result of slow growth in the mainstay smartphone market, seasonal fluctuations in demand, and changing trends in technology.

Given these market conditions, Nippon Mektron Ltd. has been implementing measures such as reducing capital expenditure and the burden of depreciation as well as costs. However, the Company has come to the decision to offer voluntary retirement as below, based on the judgement that further improvement in profitability is necessary to address the recent sharp decline in the market and to continue to enhance the Company's value.

2. Outline of voluntary retirement

- | | |
|---|--|
| 1) Subject company: | Nippon Mektron Ltd. |
| 2) Required number of voluntary retirees: | Around 300 |
| 3) Application period: | November 1, 2020 to December 31, 2020 |
| 4) Retirement date: | Retirement is required to be completed by March 31, 2021. |
| 5) Preferential treatment: | Voluntary retirees will be paid additional special pay in addition to the prescribed retirement allowance. Those who are interested will be provided with re-employment support through an outplacement company. |

3. Future outlook

Providing there are enough candidates to fill the required number of voluntary retirees, around 4.7 billion yen is expected to be recognized as an extraordinary loss in the fiscal year ending March 31, 2021.