

November 8, 2019

# Consolidated Financial Results for the First 2 Quarters of Fiscal 2019 [Japanese GAAP]

Name: **Tokyo Rope Manufacturing Co., Ltd.**

Listing: **Tokyo Stock Exchange**

Stock code number: **5981**

URL: <http://www.tokyoropeco.jp>

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Preparation of Supplementary Explanations of Quarterly Financial Results: **November 13, 2019**

Start of cash dividend payments: **—**

Supplementary quarterly materials prepared: **Yes**

Quarterly results information meeting held: **Yes (for institutional investors)**

## 1. Fiscal 2019 -First 2 Quarters (April 1–September 30, 2019)

### (1) Results of Operations

(Millions of yen, except per share data, rounded down; percentage figures denote year-on-year change)

	Net sales		Operating income		Ordinary income		Profit attributable to owners of parent	
		(% change from previous year)		(% change)		(% change)		(% change)
Fiscal 2019–First 2 quarters	¥30,979	4.1%	¥-67	—%	¥11	—%	¥-491	—%
Fiscal 2018–First 2 quarters	29,763	1.1	-80	—	-14	—	-341	—

Note: Comprehensive income

Fiscal 2019–1st 2 quarters: ¥ -817million (—%)

Fiscal 2018–1st 2 quarters: ¥ -529million (—%)

	Earnings per share	Earnings per share (fully diluted)
	(Yen)	(Yen)
Fiscal 2019–First 2 quarters	¥-30.47	¥—
Fiscal 2018–First 2 quarters	-21.17	—

### (2) Financial Position

(Millions of yen, rounded down)

	Total assets	Net assets	Equity ratio
Fiscal 2019–First 2 quarters	¥86,206	¥23,765	26.6%
Fiscal 2018–Year-end	84,595	24,246	28.7

Note: Equity capital at term-end

Fiscal 2019–First 2 quarters: ¥22,969 million

Fiscal 2018: ¥24,246 million

## 2. Cash Dividends

	Cash dividend per share (yen)				
	1st quarter	2nd quarter	3rd quarter	Year-end	Full year
Fiscal 2018	—	¥0.00	—	¥40.00	¥40.00
Fiscal 2019	—	0.00	—	—	—
Fiscal 2019(est.)	—	—	—	40.00	40.00

Note: Revision of latest cash dividend forecast in review: No

### 3. Forecast for Fiscal 2019 (April 1, 2019–March 31, 2020)

(Millions of yen, rounded down; percentage figures denote year-on-year change)

	Net sales		Operating income		Ordinary income		Profit attributable to owners of parent		Earnings per share (Yen)
Full year	67,000	4.7%	2,000	134.1	2,000	120.1	1,500	877.8%	93.04
				%		%			

Note: Revision of latest consolidated forecasts in review: No

#### Notes

(1) Changes in important subsidiaries during the period (changes in specific subsidiaries due to change in scope of consolidation):

None

(2) Application of special accounting treatment: Yes

Note: This note refers to the adoption of special accounting treatment pertaining to the preparation of quarterly consolidated financial statements.

(3) Changes in accounting policies; changes in accounting estimates; restatements:

1. Changes in accounting policies resulting from the revision of the accounting standards and other regulations: None

2. Other changes in accounting policies: None

3. Changes in accounting estimates: None

4. Restatements: None

(4) Shares outstanding (common stock) at term-end

1. Number of shares outstanding (including treasury stock)

Fiscal 2019–1st 2 quarters: 16,268,242

Fiscal 2018: 16,268,242

2. Number of treasury shares outstanding

Fiscal 2019–1st 2 quarters: 161,940

Fiscal 2018: 145,806

3. Average number of shares over period (consolidated total for quarter)

Fiscal 2019–1st 2 quarters: 16,119,397

Fiscal 2018–1st 2 quarters: 16,122,280

Note: Treasury stocks that are deducted when calculating the number of treasury stocks outstanding at the end of Fiscal 2018 and the average number of shares over the year include shares of the Company owned by Board Benefit Trust (Fiscal 2019 2Q: 150,000 shares).

**This financial report is exempt from audit procedures.**

#### **Appropriate use of business forecasts; other special items**

In this document, performance forecasts and other forward-looking statements are based on information currently available and certain assumptions judged by the Company to be rational. Actual results may differ significantly from forecasts due to various factors. Please refer to “(3) Performance Forecasts” on page 3 for information on preconditions underlying the above forecasts and other related information.

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## 1. Performance and Financial Position

### (1) Business Results

In the second quarter of the consolidated fiscal year, the Japanese economy continued to expand buoyed by largely strong corporate earnings and a mostly good employment environment. However, with the Japanese economy being impacted by a series of natural disasters and the world economy being impacted by the trade friction between the United States and China growing into a long-term issue, the prospects going forward remain a concern.

Given these circumstances, the Tokyo Rope Group's mid-term management plan "TCT-Focus 2020" which has been promoted with the three key phrases "Strengthening of Domestic Business Base," "Challenge to New Materials and Technologies," and "Overseas Business Expansion," is now in its final year. Unfortunately, we do not expect to reach the initial targets due to environmental changes and delayed progress, but we are continuing to work on the issues remaining from the current mid-term management plan to contribute to a cause the new mid-term management plan currently being created.

The Tokyo Rope Group's total sales amounted to ¥30,979 million in the second quarter under review, up 4.1% year-on-year, due to large orders for industrial equipment and strong performance of elevator rope and slope-related products.

In terms of profits, the Group achieved greater profits accompanying the increase in sales, but due mainly to a decrease in sales of saw wire for silicon wafers in solar power generation, posted an operating loss of ¥67 million (compared to operating loss of ¥80 million for the year-earlier period) and the ordinary profit was just ¥11 million (compared to ordinary loss of ¥14 million for the year-earlier period). In addition, the Group also recorded extraordinary incomes and losses, such as an extraordinary loss of ¥289 million due to a loss on valuation of investment securities, resulting in a net quarterly loss attributable to owners of the parent company of ¥491 million (compared to net loss of ¥341 million for the year-earlier period).

Results by business segment of the Group were as follows:

#### *Wire Rope*

Demand for elevator rope stayed strong due to preparations for the Tokyo Olympics and high-rise building redevelopment in the Tokyo area, leading the segment sales to total ¥14,085 million, up 1.3% year-on-year, while operating income stood at ¥643 million, down 8.1% year-on-year, due to increased depreciation expenses accompanying IT system and other capital investments.

#### *Steel Cord*

Despite increased sales of tire cord, with a large effect from the drop in demand for saw wire for silicon wafers in solar power generation, total sales in the Steel Cord segment amounted to ¥5,131 million, down 7.1% year-on-year, and the operating loss of ¥715 million (compared to operating loss of ¥389 million for the year-earlier period).

#### *Product Development*

Total sales for the Product Development segment stood at ¥6,593 million, up 22.6% year-on-year, as a result of strong performance of slope-related products despite a decline in road- and bridge-related products. The operating loss was ¥478 million (compared to a loss of ¥846 million in the year-earlier period).

### ***Real Estate***

Total sales for the real estate segment came to ¥663 million, up 9.7% year-on-year, while operating income totaled ¥194 million, up 28.8% year-on-year due to the positive contribution from renewal of some of the Group's commercial facilities.

### ***Other***

The sales increase in the industrial machinery business brought total sales of the Other segment to ¥4,504 million, up 3.6% year-on-year. Meanwhile, increased expenses accompanying the growth in power metallurgy production resulted in an operating income of ¥288 million, down 5.1% year-on-year.

## **(2) Financial Position**

### ***Assets, Liabilities and Net Assets***

As of September 30, 2019, the Tokyo Rope Group had total assets of ¥86,206 million, up ¥1,610 million from the end of the previous consolidated fiscal year, due to an increase in cash and inventory assets despite a decline in investment securities due to reevaluation.

Total liabilities increased ¥2,091 million from the end of the previous consolidated fiscal year to ¥62,441 million as a result of an increase in long-term borrowing despite a decrease in short-term borrowing.

As for the Net assets, although there was an increase in minority interest through a partial transfer of subsidiary shares, recording of a net loss for the period and the payment of cash dividends led the total amount to stand at ¥23,765 million, a decrease of ¥480 million compared to the end of the previous consolidated fiscal year.

### ***Cash Flow***

As of September 30, 2019, cash and cash equivalents totaled ¥5,124 million, up ¥1,816 million compared to the end of the previous consolidated fiscal year.

Cash flow from business activities produced an outflow of ¥43 million due to the effects of depreciation expense and an increase in inventory assets.

Cash flow from investment activities produced an outflow of ¥1,073 million due mainly to the acquisition of tangible fixed assets.

Cash flow from financing activities produced an inflow of ¥2,866 million resulting mainly from increased long-term borrowing and the transfer of subsidiary shares.

## **(3) Performance Forecasts**

The Tokyo Rope Group has made no revision to its full-year projected results forecast released on May 13, 2019.

### 3. Consolidated Financial Statements

#### (1) Balance Sheets

(Millions of yen, rounded down)

	Fiscal 2018 (March 31, 2019)	Fiscal 2019–First 2 quarters (September 30, 2019)
<b>ASSETS</b>		
Current assets		
Cash and bank deposits	¥ 3,331	¥ 5,150
Notes and accounts receivable	13,898	13,972
Commodities and products	6,395	6,248
Goods in process	4,603	4,821
Materials and supplies	4,370	4,998
Other	1,398	1,477
Allowance for doubtful accounts	(16)	(18)
<b>Total current assets</b>	<b>33,980</b>	<b>36,649</b>
Fixed assets		
Property, plant and equipment		
Buildings and structures (net)	7,763	7,769
Machinery and vehicles (net)	7,695	8,098
Land	18,305	18,301
Construction in progress	978	764
Other (net)	1,466	1,368
<b>Total property, plant and equipment</b>	<b>36,209</b>	<b>36,302</b>
Intangibles	796	782
Investments and other assets		
Investment securities	7,555	6,516
Net defined benefit asset	158	205
Deferred tax assets	2,911	2,549
Other	3,294	3,492
Allowance for doubtful accounts	(312)	(293)
<b>Total investments and other assets</b>	<b>13,608</b>	<b>12,471</b>
<b>Total fixed assets</b>	<b>50,614</b>	<b>49,556</b>
<b>Total assets</b>	<b>84,595</b>	<b>86,206</b>

(Millions of yen, rounded down)

	Fiscal 2018 (March 31, 2019)	Fiscal 2019–First 2 quarters (September 30, 2019)
<b>LIABILITIES</b>		
Current liabilities		
Notes and accounts payable	¥12,301	¥12,656
Short-term borrowings	12,437	8,242
Accrued expenses	2,559	2,614
Reserve for employees' bonuses	833	902
Other	5,845	5,417
Total current liabilities	33,977	29,833
Long-term liabilities		
Long-term loans	14,971	21,855
Deferred tax liabilities for land revaluation	4,183	3,926
Net defined benefit liability	4,633	4,488
Other	2,583	2,338
Total long-term liabilities	26,371	32,607
Total liabilities	60,349	62,441
<b>NET ASSETS</b>		
Shareholders' equity		
Common stock	1,000	1,000
Capital surplus	684	888
Retained earnings	14,036	13,539
Treasury stock	(309)	(322)
Total shareholders' equity	15,411	15,105
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	155	(52)
Deferred gains or losses on hedges	0	(0)
Revaluation reserve for land	9,718	9,074
Foreign currency translation adjustment	(247)	(495)
Remeasurements of defined benefit plans	(792)	(663)
Total accumulated other comprehensive income	8,834	7,864
Minority interests	—	795
Total net assets	24,246	23,765
<b>Total liabilities and net assets</b>	<b>84,595</b>	<b>86,206</b>

## (2) Statements of Income and Statements of Comprehensive Income

### Statements of Income

	(Millions of yen, rounded down)	
	Fiscal 2018–First 2 quarters (April 1–September 30, 2018)	Fiscal 2019–First 2 quarters (April 1–September 30, 2019)
Net sales	¥29,763	¥30,979
Cost of sales	24,361	25,559
Gross profit	5,401	5,419
Selling, general and administrative expenses	5,481	5,487
Operating income (loss)	(80)	(67)
Other income		
Interest income	9	17
Dividend income	140	136
Share of profit of entities accounted for using equity method	—	120
Other	236	121
Total other income	386	396
Other expenses		
Interest expense	139	136
Other	180	180
Total other expenses	320	317
Ordinary income (loss)	(14)	11
Extraordinary income		
Gain on sales of investment securities	—	60
Total extraordinary income	—	60
Extraordinary expenses		
Loss on sales of investment securities	—	289
Loss from disasters	289	—
Other	54	25
Total extraordinary expenses	344	314
Income (loss) before income taxes	(358)	(242)
Income taxes	(17)	248
Profit (loss)	(341)	(491)
Profit (loss) attributable to owners of parent	(341)	(491)



## Statement of Comprehensive Income

(Millions of yen, rounded down)

	Fiscal 2018—First 2 quarters (April 1– September 30, 2018)	Fiscal 2019—First 2 quarters (April 1– September 30, 2019)
Profit (loss)	¥(341)	¥ (491)
Other comprehensive income		
Valuation difference on available-for-sale securities	(303)	(207)
Deferred gains or losses on hedges	—	(0)
Foreign currency translation adjustment	(201)	(192)
Remeasurements of defined benefit plans, net of tax	381	128
Share of other comprehensive income (loss) of entities accounted for using equity method	(65)	(55)
Total other comprehensive income (loss)	(188)	(326)
Comprehensive income (loss)	(529)	(817)
Comprehensive income (loss) attributable to owners of the parent	(529)	(817)

### (3) Statements of Cash Flows

(Millions of yen, rounded down)

	Fiscal 2018—First 2 quarters (April 1–September 30, 2018)	Fiscal 2019—First 2 quarters (April 1–September 30, 2019)
Operating activities		
Income (loss) before income taxes	¥ (358)	¥(242)
Depreciation	1,071	1,237
Equity in (earning) losses of affiliates	58	(120)
Increase (decrease) in reserve for employees' bonuses	14	69
Increase (decrease) in reserve for directors' shares	3	—
Increase (decrease) in net defined benefit liability	11	2
Interest expense	139	136
Interest and dividend income	(149)	(154)
(Gain) loss on sales investments securities	—	(50)
(Increase) decrease in notes and accounts receivable	1,076	(133)
(Increase) decrease in inventories	(831)	(767)
Increase (decrease) in notes and accounts payable	556	103
Loss (gain) on valuation of investment securities	0	289
Increase (decrease) in advances received	164	(20)
Net increase (decrease) in accrued consumption tax	(118)	(135)
Decrease (increase) in other assets	213	196
Net increase (decrease) in other liabilities	(739)	(185)
Loss from disasters	289	—
Other	58	13
Subtotal	1,462	237
Interest and dividends received	181	153
Interest paid	(149)	(138)
Disaster loss payment amount	(38)	(137)
Directors' retirement bonuses paid	(92)	(2)
Income tax paid	(238)	(156)
Net cash provided by operating activities	1,125	(43)
Investing activities		
Purchases of investment securities	(9)	(9)
Proceeds from sales of investment securities	14	491
Payments of loans receivable	(20)	(3)
Collection of loans receivable	39	9
Purchases of property, plant and equipment	(2,149)	(1,407)
Proceeds from sales of property, plant and equipment	23	41
Other	(342)	(195)
Net cash used in investing activities	(2,443)	(1,073)
Financing activities		
Outflow due to repayment of installment liability	—	(140)
Net increase (decrease) in short-term borrowings	(2,775)	(2,387)
Proceeds from long-term borrowings	5,300	8,400
Repayment of long-term borrowings	(1,423)	(3,323)
Cash dividends paid	(646)	(645)
Proceeds from disposal of treasury stock	4	2
Purchase of treasury stock	(1)	(15)
Inflow from payment from non-controlling shareholders	—	1,000
Repayments of lease obligations	(68)	(23)
Net cash provided by (used in) financing activities	391	2,866
Effect of exchange rate changes on cash and cash equivalents	2	66
Net increase (decrease) in cash and cash equivalents	(925)	1,816

Cash and cash equivalents at beginning of term	4,352	3,308
Increase in cash and cash equivalents from newly consolidated subsidiary	24	—
Cash and cash equivalents at end of term	3,451	5,124

#### (4) Notes on Consolidated Financial Statements

##### *Notes on Going-concern Assumptions*

None

##### *Notes in the Event of Major Changes in Shareholders' Equity*

None

##### *Application of Special Accounting Treatment*

###### Calculation of income taxes

We have adopted the method in which income taxes are calculated by multiplying quarterly profit before income taxes by reasonably estimating the effective tax rate subsequent to the application of tax effect accounting to the profit before income taxes for the consolidated fiscal year, including the first quarter under review.

##### *Segment Information*

Fiscal 2018—First 2 quarters (April 1– September 30, 2018)

Sales, Income (Loss) by Reporting Segment

	Reporting Segment					Other (Note)	Total	Adjustment	(Millions of yen)
	Wire Rope	Steel Cord	Product Development	Real Estate	Total				Consolidated statements of Income
Net sales									
Sales to outside customers	¥13,908	¥5,525	¥ 5,376	¥ 605	¥ 25,415	¥4,348	¥29,763	¥ —	¥29,763
Intersegment sales or transfers	99	77	4	—	181	455	637	(637)	—
<b>Total</b>	<b>14,007</b>	<b>5,603</b>	<b>5,380</b>	<b>605</b>	<b>25,596</b>	<b>4,803</b>	<b>30,400</b>	<b>(637)</b>	<b>29,763</b>
<b>Segment income (loss)</b>	<b>700</b>	<b>(389)</b>	<b>(846)</b>	<b>150</b>	<b>(383)</b>	<b>303</b>	<b>(80)</b>	<b>—</b>	<b>(80)</b>

Note: "Other" refers to a business segment that is not included in the reporting segments. It includes the Company's industrial machinery, powder metallurgy products, and oil businesses.

Fiscal 2019—First 2 quarters (April 1– September 30, 2019)

Sales, Income (Loss) by Reporting Segment

	Reporting Segment					Other (Note)	Total	Adjustment	(Millions of yen)
	Wire Rope	Steel Cord	Product Development	Real Estate	Total				Consolidated statements of Income
Net sales									
Sales to outside customers	¥14,085	¥5,131	¥6,593	¥663	¥26,474	¥4,504	¥30,979	¥ —	¥30,979
Intersegment sales or transfers	140	89	4	—	234	426	661	(661)	—
<b>Total</b>	<b>14,226</b>	<b>5,221</b>	<b>6,597</b>	<b>663</b>	<b>26,709</b>	<b>4,931</b>	<b>31,640</b>	<b>(661)</b>	<b>30,979</b>
<b>Segment income (loss)</b>	<b>643</b>	<b>(715)</b>	<b>(478)</b>	<b>194</b>	<b>(355)</b>	<b>288</b>	<b>(67)</b>	<b>—</b>	<b>(67)</b>

Note: "Other" refers to a business segment that is not included in the reporting segments. It includes the Company's industrial machinery, powder metallurgy products, and oil businesses.

### ***Business combination related***

Transactions under common control, etc.

Toko Steel Cord Co., Ltd., a wholly-owned consolidated subsidiary of the Company, conducted a third-party allotment on the payment date of September 30, 2019.

#### **1. Transaction Summary**

- 1) Combined company name and description of business

Name: Toko Steel Cord Co., Ltd.

Description of business: Manufacture and sale of steel cord

- 2) Business combination date

September 30, 2019

- 3) Business combination legal form

Acquisition of shares through underwriting a third-party allotment

- 4) Name of company after combination

The name of the company did not change.

- 5) Other matters relating to the transaction summary

The Company has agreed to cooperate in the steel cord business with Hongduk Industrial Co., Ltd. of the KISWIRE Group and to make the Company's domestic production subsidiary, Toko Steel Cord Co., Ltd., a joint-venture company between the two companies and for both companies to work to drastically improve the profitability of the steel cord business in Japan. At the same time, both companies conducted increased investment by third-party allotment to make innovative investments in factory equipment to thoroughly rationalize the operations of the joint-venture company.

The increase in third-party allotment changed the Company's share from 100% to 69.28%.

#### **2. Summary of the Accounting Processing Performed**

This was processed as a transaction under common control pursuant to the "Accounting Standard for Business Combination" (Corporate Accounting Standards No.21, September 13, 2013) and the "Implementation Guidance for Accounting Standard for Business Combination and the Accounting Standard for Business Divestitures" (Implementation Guidance No.10, September 13, 2013).

#### **3. Acquisition of Additional Subsidiary Shares**

The breakdown by acquisition cost and price classification are as follows.

(Millions of yen, rounded down)

Acquisition price	Cash	¥257
	Fixed assets	337
	Long-term liabilities	(361)
Acquisition cost		233

The Company's change in equity due to the transaction with minority shareholders increased the capital surplus by ¥204 million.