

SANDEN HOLDINGS CORPORATION

Nov 9, 2020

SUMMARY OF QUARTERLY CONSOLIDATED FINANCIAL STATEMENTS AS OF SEPTEMBER 30, 2020

Fiscal year ended September 30, 2020

SANDEN HOLDINGS CORPORATION

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(URL: <https://www.sanden.co.jp/english/index.html>)

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Shares listed: Tokyo Stock Exchange
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Scheduled filing date for quarterly report: November 10, 2020

Planned date of dividend payment: -

Supplementary briefing materials created for the quarterly report: Yes

Briefing sessions held on quarterly results: None

(Fractions less than ¥1 million omitted)

1. Consolidated Financial Results for the second quarter of current fiscal year (April 1, 2020- September 30, 2020)

(1) Results of operations

(%: percentage change from previous fiscal year)

	Net sales (Millions of ¥, %)		Operating income (Millions of ¥, %)		Income before extraordinary items (Millions of ¥, %)		Net income (Millions of ¥, %)	
2Q of Fiscal year ending March 31, 2021	55,423	(56.7)	(7,764)	-	(12,911)	-	(13,535)	-
2Q of Fiscal year ended March 31, 2020	127,988	(6.9)	148	88.7	(2,676)	-	1,778	-

Notes: Equity in Comprehensive Income: 2Q of Fiscal year ending March 31, 2021 ¥ (13,476)million -%
2Q of Fiscal year ended March 31, 2020 ¥ (231)million -%

	Net income per share basic (¥)	Net income per share diluted (¥)
2Q of Fiscal year ending March 31, 2021	(487.70)	-
2Q of Fiscal year ended March 31, 2020	64.22	-

(2) Financial positions

(Fractions less than ¥1 million omitted)

	Total assets (Millions of ¥)	Net assets (Millions of ¥)	Equity Ratio of equity over total assets(%)	Net assets per share (¥)
2Q of Fiscal year ending March 31, 2021	164,377	11,048	5.8	345.84
Fiscal year ended March 31, 2020	187,559	22,699	11.1	747.92

Notes: Equity capital 2Q of Fiscal year ending March 31, 2021 ¥ 9,599 million
Fiscal year ended March 31, 2020 ¥ 20,750 million

2. Dividends

	Dividend per share (¥)				
	1Q	2Q	3Q	4Q	Total
Fiscal year ended March 31, 2020	-	0.00	-	0.00	0.00
Fiscal year ending March 31, 2021	-	0.00	-	-	-
Fiscal year ending March 31, 2021 (Forecast)	-	-	-	0.00	0.00

Note: Revisions made since the most recently published dividends forecast: None

3. Forecast of business results for the next fiscal year (April 1, 2020-March 31, 2021)

No forecast made for the consolidated business results for the fiscal year ending March 2021.

These information will be disclosed promptly when it becomes possible to reasonably calculate the forecast of the consolidated business results.

***Notes**

(1) Changes in significant subsidiaries during the second quarter of the current fiscal year (Changes in specific subsidiaries accompanied by changes in the scope of consolidation):
None

(2) Specific accounting treatment used in the creation of the quarterly consolidated financial statements: Yes

(3) Changes in accounting principles and estimates, and retrospective restatement

(a) Changes due to revision of accounting standards: None

(b) Changes other than in (a): None

(c) Changes in accounting estimates: None

(d) Retrospective restatement: None

(4) Number of outstanding shares (common stock, shares)

(a) Outstanding shares (including treasury shares)	As of September 30, 2020:	28,066,313	As of March 31, 2020:	28,066,313
(b) Treasury shares	As of September 30, 2020:	309,130	As of March 31, 2020:	322,538
(c) Average number of shares outstanding during the second quarter (cumulative)	As of September 30, 2020:	27,753,495	As of September 30, 2019:	27,699,397

*Summary of quarterly financial results is exempt from quarterly review of audit procedures of Certified Public Accountant or Audit Firm.

*Cautionary statement regarding forecasts of operating results and special notes

(Note regarding the forward-looking statements)

The forward-looking statements contained in this report are based on information currently available to the Company and certain assumptions which are regarded as legitimate. These statements are not promises by the Company regarding future performance. Actual results may differ significantly from these forecasts due to various factors. For information about the forecasts, please see "1. Qualitative Information on Quarterly Financial Results-(3) An explanation of future, predictive data, such as consolidated earnings forecasts" on page 3 of Supplementary Information

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1. Qualitative Information on Quarterly Financial Results

(1) An explanation of Results of Operations

The Sanden Group develops products with advanced technologies in order to meet the environmental demands from customers and supplies products with value centered on compact dimensions / light weight and power saving. The group is currently focusing on activities to accomplish the goals of SCOPE2023, a medium-term management plan that will end in fiscal 2023. This plan consists of five reform plans: (1) comprehensive reorganization of the production system, (2) enhancement of basic earning power, (3) growth by actively promoting 'collaborative creation', (4) cash flow creation through capital reinforcement and reform of asset structure, and (5) systems innovation for implementation. Most significant are measures to optimize the workforce as part of a global reexamination of manufacturing operations that started in the previous fiscal year, faster joint development activities for electric vehicles, which is one of our collaborative creation strategic goals, and more activities involving vehicle integrated thermal management systems.

In the first half of the current fiscal year, although the global economy plunged into a recession due to the spread of the COVID-19 pandemic, economic activities gradually resumed in worldwide, and automobile demand began to recover gradually. However, the spread of the COVID-19 pandemic has not been contained, and a second wave is spreading in Europe. Consequently, outlook remains extremely uncertain.

The COVID-19 pandemic impacted the operations of the Sanden Group in the first half. The operations of customers as well as the group's factories in Europe and Asia were shut down in March and remained closed even after April. In Japan, the United States and other countries, there were temporary furloughs due to a decline in demand resulting in big declines in sales in the first quarter. In the second quarter, Sanden Group companies slowly restarted production activities. While demand showed gradual recovery, it fell short of the previous-year level. As a result, sales were lower than the same period a year earlier.

First half performance was also affected by the sale in the previous fiscal year of Sanden Retail Systems Corp. (SDRS), the core company in the Retail Systems Business. This company was removed from the consolidated financial statements beginning with the third quarter of the previous fiscal year. The sale of SDRS reduced first half sales by 43,196 million yen compared with the same period a year earlier.

For these reasons, sales in first half decreased 56.7% from one year earlier to 55,423 million yen.

The benefits of structural reforms implemented in the previous fiscal year are appearing and there were further measures for improving variable expenses, cutting fixed expenses and making other improvements. However, this progress was more than offset by the big decline in demand for the group's products caused by the COVID-19 pandemic. As a result, there was an operating loss of 7,764 million yen compared with operating income of 148 million yen one year earlier.

The ordinary loss increased from 2,676 million yen one year earlier to 12,911 million yen because of the operating loss as well as foreign exchange losses and smaller share of profit of entities accounted for using equity method. The loss attributable to owners of parent was 13,535 million yen mainly because of the ordinary loss as well as an extraordinary loss for fixed expenses caused by the COVID-19 pandemic in the first quarter compared with profit attributable to owners of parent of 1,778 million yen in the first half of the previous fiscal year.

There is no segment information because, beginning with the first quarter of the fiscal year ending in March 2021, Sanden Holdings has changed from the previous two reportable segments of Automotive Systems and Commercial Store Systems to the single reportable segment of Automotive Systems.

(2) An explanation of Financial Condition

A. Assets, liabilities and net assets

Total assets were 164,377 million yen at the end of the first half, down 23,182 million yen from the end of the previous fiscal year. There were declines in deposits, trade receivables, inventories and other items as sales decreased because of COVID-19.

Liabilities decreased 11,530 million yen to 153,329 million yen mainly because of decreases in accounts payable - trade. There are no significant changes in borrowings.

Net assets decreased 11,651 million yen to 11,048 million yen because of the loss attributable to owners of parent in the period under review.

B. Cash flows

Cash and cash equivalents decreased 7,655 million yen from the end of the previous fiscal year to 16,055 million yen at the end of the first half.

Net cash used in operating activities was 3,823 million yen compared with a positive cash flow of 8,875 million yen in the same period a year earlier. This difference is mainly because of decrease in working capital due to lower sales and a loss before income taxes.

Net cash used in investing activities decreased 4,910 million yen to 2,317 million yen. This was primarily the result of payment of 2,858 million for purchase of property, plant and equipment.

Net cash used in financing activities decreased 1,263 million yen to 1,520 million yen. There were payments of 4,851 million yen for repayments of long-term borrowings and redemption of bonds.

(3) An explanation of future, predictive data, such as consolidated earnings forecasts

The Sanden Group is conducting business activities in compliance with the policies of national and local governments. Our highest priorities are the health and safety of employees, customers and all other stakeholders and preventing the spread of COVID-19.

In the automobile industry, the production volume of companies that use Sanden products is expected to be down about 10% from one year earlier in the second half of fiscal 2020 and down about 20% for the entire year. Orders are expected to recover gradually from the steep decline in the first half but it is difficult to predict how the resurgence of the COVID-19 pandemic in Europe and other regions will affect the current forecast.

On June 30, 2020, Sanden Holdings and some of its subsidiaries officially submitted a business revitalization ADR procedure application. Sanden Holdings is working closely with relevant financial institutions to develop a business revitalization plan. This may have an impact on the Sanden Group's business performance.

For these reasons, there is no forecast for consolidated results of operations because it is not possible at this time to determine a reasonable forecast.

An announcement will be made promptly when the proposed business plan has been finalized and it becomes possible to determine a reasonable forecast.

2. Quarterly Consolidated Financial Statements and Important Notes

(1) Quarterly consolidated balance sheets

(Million yen)

	Fiscal year ended March 2020 (As of March 31, 2020)	First half ended September 2020 (As of September 30, 2020)
ASSETS		
Current assets		
Cash and deposits	26,440	17,625
Notes and accounts receivable-trade	45,344	40,218
Merchandise and finished goods	16,193	12,227
Work in process	8,699	8,249
Raw materials	7,514	6,016
Other inventories	2,932	2,923
Accounts receivable-other	4,570	4,096
Consumption taxes receivable	3,780	3,223
Other	8,153	7,309
Allowance for doubtful accounts	(17,842)	(17,820)
Total current assets	105,787	84,068
Noncurrent assets		
Property, plant and equipment		
Buildings and structures, net	16,144	15,546
Machinery, equipment and vehicles, net	16,671	16,414
Tools, furniture and fixtures, net	3,359	2,908
Land	10,610	10,575
Leased assets, net	6,764	6,306
Construction in progress	4,971	5,059
Total property, plant and equipment	58,522	56,810
Intangible assets		
Goodwill	13	6
Leased assets	141	118
Other	3,956	4,132
Total intangible assets	4,111	4,256
Investments and other assets		
Investment securities	15,903	15,948
Retirement benefit asset	99	100
Deferred tax assets	1,743	2,003
Other	3,165	2,629
Allowance for doubtful accounts	(1,774)	(1,441)
Total investments and other assets	19,138	19,241
Total noncurrent assets	81,772	80,309
Total assets	187,559	164,377

(Million yen)

	Fiscal year ended March 2020 (As of March 31, 2020)	First half ended September 2020 (As of September 30, 2020)
LIABILITIES		
Current liabilities		
Notes and accounts payable-trade	29,983	21,431
Short-term borrowings	47,497	52,171
Current portion of bonds payable	1,985	2,185
Current portion of long-term borrowings	20,984	23,355
Accounts payable - other	6,341	5,086
Lease obligations	2,627	2,531
Income taxes payable	238	269
Provision for bonuses	1,475	1,370
Provision for sales rebates	169	165
Provision for product warranties	1,736	1,787
Other	8,131	8,245
Total current liabilities	121,170	118,599
Noncurrent liabilities		
Bonds payable	3,847	2,755
Long-term borrowings	25,938	19,420
Lease obligations	7,610	6,776
Deferred tax liabilities	476	364
Retirement benefit liability	3,491	3,306
Provision for environmental measures	198	182
Provision for share-based remuneration	153	144
Other	1,972	1,779
Total noncurrent liabilities	43,689	34,729
Total liabilities	164,859	153,329
NET ASSETS		
Shareholders' equity		
Share capital	11,037	11,037
Capital surplus	3,377	3,377
Retained earnings	12,772	1,062
Treasury shares	(704)	(674)
Total shareholders' equity	26,482	14,802
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	(46)	(43)
Deferred gains or losses on hedges	(50)	(46)
Foreign currency translation adjustment	(3,986)	(3,754)
Remeasurements of defined benefit plans	(1,648)	(1,358)
Total accumulated other comprehensive income	(5,732)	(5,203)
Non-controlling interests	1,949	1,448
Total net assets	22,699	11,048
Total liabilities and net assets	187,559	164,377

(2) Statements of quarterly consolidated income and consolidated comprehensive income

Quarterly consolidated statement of income

First half of the fiscal year

(Million yen)

	First half ended September 2019 (April 1, 2019 – September 30, 2019)	First half ended September 2020 (April 1, 2020 – September 30, 2020)
Net sales	127,988	55,423
Cost of sales	105,332	52,296
Gross profit	22,656	3,127
Selling, general and administrative expenses	22,507	10,891
Operating income (loss)	148	(7,764)
Non-operating income		
Interest income	227	259
Dividend income	13	5
Share of profit of entities accounted for using equity method	619	-
Rental income	14	387
Other	353	103
Total non-operating income	1,228	756
Non-operating expenses		
Interest expenses	1,283	945
Foreign exchange losses	1,817	1,478
Share of loss of entities accounted for using equity method	-	2,353
Other	952	1,126
Total non-operating expenses	4,053	5,904
Ordinary income (loss)	(2,676)	(12,911)
Extraordinary income		
Gain on sales of non-current assets	33	92
Other	18	28
Total extraordinary income	51	120
Extraordinary losses		
Loss on disposal of non-current assets	264	27
Shutdown expenses	-	957
Restructuring expenses	377	-
Other	55	145
Total extraordinary losses	697	1,130
Profit (loss) before income taxes	(3,322)	(13,921)
Income taxes	(4,683)	14
Profit (loss)	1,360	(13,935)
Profit (loss) attributable to non-controlling interests	(418)	(400)
Profit (loss) attributable to owners of parent	1,778	(13,535)

Quarterly consolidated statement of comprehensive income
 First half of the fiscal year

(Million yen)

	First half ended September 2019 (April 1, 2019 – September 30, 2019)	First half ended September 2020 (April 1, 2020 – September 30, 2020)
Profit (loss)	1,360	(13,935)
Other comprehensive income		
Valuation difference on available-for-sale securities	(38)	1
Deferred gains or losses on hedges	10	4
Foreign currency translation adjustment	(954)	(0)
Remeasurements of defined benefit plans, net of tax	(426)	290
Share of other comprehensive income of entities accounted for using equity method	(183)	163
Total other comprehensive income	(1,591)	459
Comprehensive income	(231)	(13,476)
Comprehensive income attributable to owners of parent	289	(13,006)
Comprehensive income attributable to non-controlling interests	(520)	(469)

(3) Quarterly consolidated statement of cash flows

(Million yen)

	First half ended Sep. 2019 (Apr. 1, 2019 – Sep. 30, 2019)	First half ended Sep. 2020 (Apr. 1, 2020 – Sep. 30, 2020)
Cash flows from operating activities		
Profit (loss) before income taxes	(3,322)	(13,921)
Depreciation	5,404	4,209
Increase (decrease) in provision for bonuses	(414)	(100)
Increase (decrease) in allowance for doubtful accounts	(27)	(114)
Increase (decrease) in provision for product warranties	(477)	52
Increase (decrease) in provision for loss on compensation for damage	(405)	-
Interest and dividend income	(241)	(265)
Interest expenses	1,283	945
Share of loss (profit) of entities accounted for using equity method	(619)	2,353
Restructuring expenses	377	-
Decrease (increase) in trade receivables	11,862	5,014
Decrease (increase) in inventories	(2,036)	6,278
Decrease (increase) in accounts receivable - other	1,936	(545)
Decrease (increase) in consumption taxes refund receivable	268	797
Increase (decrease) in trade payables	(3,091)	(8,444)
Increase (decrease) in accounts payable - other	(343)	71
Increase (decrease) in accrued expenses	266	(204)
Other, net	(2,073)	(18)
Subtotal	8,342	(3,889)
Interest and dividends received	1,611	979
Interest paid	(1,340)	(875)
Extra retirement payments	(228)	-
Income taxes (paid) refund	489	(37)
Net cash provided by (used in) operating activities	8,875	(3,823)
Cash flows from investing activities		
Purchase of property, plant and equipment	(5,293)	(2,858)
Proceeds from sales of property, plant and equipment	2,257	153
Purchase of intangible assets	(630)	(588)
Purchase of investment securities	(100)	(7)
Proceeds from sales of investment securities	19	1
Payments into time deposits	(3,480)	-
Collection of proceeds from sales of shares of subsidiaries for prior periods	-	1,000
Other, net	(0)	(17)
Net cash provided by (used in) investing activities	(7,227)	(2,317)
Cash flows from financing activities		
Net increase (decrease) in short-term borrowings	9,721	4,625
Proceeds from long-term borrowings	177	77
Repayments of long-term borrowings	(10,736)	(3,959)
Redemption of bonds	(612)	(892)
Repayments of lease obligations	(1,446)	(1,371)
Purchase of treasury shares	(0)	(0)
Proceeds from sales of treasury shares	123	30
Dividends paid to non-controlling interests	(11)	(30)
Net cash provided by (used in) financing activities	(2,783)	(1,520)
Effect of exchange rate change on cash and cash equivalents	(302)	5
Net increase (decrease) in cash and cash equivalents	(1,438)	(7,655)
Cash and cash equivalents at beginning of period	13,030	23,711
Cash and cash equivalents at end of period	11,591	16,055

(4) Notes to the quarterly consolidated financial statements

(Notes to going concern assumptions)

In the fiscal year that ended in March 2020, sales were 204,880 million yen, down 25% from the previous fiscal year and there was an operating loss of 3,401 million yen and an ordinary loss of 9,735 million yen. The causes of this performance include the sale of all shares of SDRS, a major subsidiary that conducted the commercial store systems business, and the negative effect of lower vehicle sales primarily in Europe and China and the global COVID-19 pandemic on the automotive systems business. At the end of March 2020, borrowings and bonds payable totaled 100,252 million yen, which was high in relation to cash and cash equivalents of 23,711 million yen. In addition, current liabilities exceeded current assets.

In the first half of the current fiscal year, sales decreased 57% from one year earlier to 55,423 million yen and there was an operating loss of 7,764 million yen and an ordinary loss of 12,911 million yen. The main reasons are the sale of SDRS and the impact of COVID-19 on the automotive systems business. At the end of September 2020, borrowings and bonds payable totaled 99,887 million yen, which was high in relation to cash and cash equivalents of 16,055 million yen, and current liabilities exceeded current assets.

For these reasons, the current status of the Sanden Group continues to raise significant doubts about the going concern assumption.

In response to this difficult situation, Sanden Holdings and some of its subsidiaries officially submitted a business revitalization ADR procedure application to the Japanese Association of Turnaround Professionals on June 30, 2020 and the application was accepted on the same day. This application was submitted for the purposes of building a powerful profit structure for renewed growth and significantly improving financial soundness.

On July 14, 2020, the first creditor meeting was held in order to provide an overview of the proposed business revitalization plan based on the business revitalization ADR procedure. All financial institutions that are creditors with respect to this procedure attended the meeting. Every financial institution agreed to a temporary suspension notice and gave their consent for an extension of this temporary suspension until the end of the creditor meeting (the end of the postponed or continued meeting if either of these actions is taken) for approval of the proposed business revitalization plan.

In addition, all of the creditor financial institutions agreed that the primary creditor financial institutions will provide bridge loans and other financial support. This agreement includes the provision that this financial support will be senior to the other debt owed to the creditor financial institutions by Sanden Holdings and the subsidiaries participating in this procedure.

As the business revitalization ADR procedure progresses, Sanden Holdings and participating subsidiaries will establish a proposal for a business revitalization plan. To determine this plan, there will be examinations, guidance and advice from the Japanese Association of Turnaround Professionals, which uses a fair and neutral perspective, and discussions with creditor financial institutions. The business revitalization plan will include management improvement actions on their own as well as collaborative creation with several sponsors through capital and business alliances, which is under diligent consideration. Sanden and participating subsidiaries aim to receive the agreement of all creditor financial institutions.

The following events concerning the business revitalization ADR procedure have been scheduled.

First creditor meeting (to explain the outline of the proposed business revitalization plan) July 14, 2020

Second creditor meeting (to discuss the proposed business revitalization plan) November 6, 2020

Continuation of the second creditor meeting (to discuss the proposed business revitalization plan), and third creditor meeting (to resolve the proposed business revitalization plan) December 11, 2020 (tentative)

(The schedule of the following meetings will be determined on the same day)

However, measures concerning these actions have just started. Furthermore, even if these actions are taken, there may be a significant impact on liquidity depending on the performance of the Sanden Group's business operations and progress with the turnaround ADR procedures. Consequently, Sanden believes that there are currently significant uncertainties about the going concern assumption.

The going concern assumption was used as the basis for preparing the quarterly consolidated financial statements and these statements do not reflect the significant uncertainties regarding this assumption.

(Notes on any significant change in amount of shareholders' equity)

None

(Application of accounting methods specifically for consolidated quarterly financial statements)

	First half ended September 2020 (April 1, 2020 – September 30, 2020)
Calculation of taxes	Taxes are calculated by determining a reasonable estimate of the effective tax rate, after the application of tax effect accounting, for profit before income taxes in the current fiscal year (including the first half). Quarterly profit before income taxes is then multiplied by this estimated effective tax rate to calculate taxes. However, when the tax calculated by using the estimated effective tax rate is believed to be significantly erroneous, taxes are calculated by using Paragraph 12 (method for using the statutory effective tax rate) in Practical Guidelines for Tax Effects on Interim Financial Statements, Etc. Income taxes - deferred are included in income taxes.

(Supplementary information)

Effective from the beginning with the second quarter of the current fiscal year, the quarterly financial statements of our Iran affiliate have been accounted for by the equity method (the second quarter and the first half) after adjustment to comply with IAS 29 (Financial Reporting in Hyper-Inflationary Economies).

As a result, retained earnings at the beginning of the first quarter of the current fiscal year increased by 1,825 million yen after retroactive application of the accounting standard.

(Segment information)

I First half of the previous fiscal year (April 1, 2019 – September 30, 2019)

As stated in "(Item concerning change in reportable segments) of II First half of the current fiscal year."

II First half of the current fiscal year (April 1, 2020 – September 30, 2020)

Omitted because the Sanden Group has only the single reportable segment of Automotive Systems.

(Item concerning change in reportable segments)

In prior fiscal years, the Sanden Group had two reportable segments: Automotive Systems and Commercial Store Systems. Due to the sale in the previous fiscal year of all shares of SDRS, the primary subsidiary of the Commercial Store Systems segment, this segment has become immaterial.

As a result, beginning with the first quarter of the fiscal year ending in March 2021, the Sanden Group has only the single reportable segment of Automotive Systems and therefore is providing no segment information for the first half of the current and previous fiscal years.