

SANDEN HOLDINGS CORPORATION

Aug 6, 2020

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

Fiscal year ended June 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: August 6, 2020
Planned date of dividend payment: -
Supplementary briefing materials created for the quarterly report: None
Briefing sessions held on quarterly results: None

(Fractions less than ¥1 million omitted)

1. Consolidated Financial Results for the first quarter of current fiscal year (April 1, 2020- June 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 ¥, %)	
1Q of Fiscal year ending March 31, 2021	20,915	(67.7)	(4,710)	-	(6,803)	-	(7,474)	-
1Q of Fiscal year ended March 31, 2020	64,792	(8.6)	752	(36.7)	(1,781)	-	(1,959)	-

Notes: Equity in Comprehensive Income: 1Q of Fiscal year ending March 31, 2021 ¥ (7,784)million -%
1Q of Fiscal year ended March 31, 2020 ¥ (1,695)million -%

	Net income per share basic (¥)	Net income per share diluted (¥)
1Q of Fiscal year ending March 31, 2021	(269.35)	-
1Q of Fiscal year ended March 31, 2020	(70.78)	-

(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 (¥)
1Q of Fiscal year ending March 31, 2021	170,124	14,945	7.9	482.68
Fiscal year ended March 31, 2020	187,559	22,699	11.1	747.92

Notes: Equity capital 1Q of Fiscal year ending March 31, 2021 ¥ 13,398 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	-				
Fiscal year ending March 31, 2021 (Forecast)		0.00	-	0.00	0.00

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

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

On June 30, 2020, Sanden Holdings and some of its subsidiaries applied for the specified certified dispute resolution procedures (business revitalization ADR (alternate dispute resolution) procedure) in accordance with the Act on Strengthening Industrial Competitiveness. Work is currently under way on a business revitalization plan. Consequently, there is no forecast for consolidated results of operations because this plan may affect the Sanden Group's upcoming performance.

An announcement will be made promptly when it becomes possible to determine a reasonable forecast.

***Notes**

(1) Changes in significant subsidiaries during the first 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 June 30, 2020:	28,066,313	As of March 31, 2020:	28,066,313
(b) Treasury shares	As of June 30, 2020:	308,894	As of March 31, 2020:	322,538
(c) Average number of shares outstanding during the first quarter (cumulative)	As of June 30, 2020:	27,750,649	As of June 30, 2019:	27,677,106

*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 2 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 of customers and supplies products with value centered on compact dimensions, light weight and energy efficiency. The group is currently focusing on activities to accomplish the goals of SCOPE2023, a five-year medium-term management plan that will end in March 2024. This plan consists of five reform plans: (1) comprehensive reorganization of 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 quarter, COVID-19 caused a worldwide economic downturn and, due to the possibility of a second wave and other risk factors, the economic outlook is extremely unclear.

The COVID-19 pandemic impacted the operations of the Sanden Group in the first quarter by shutting down the operations of customers and the group's factories in Europe and Asia starting in March and continued in April. In May, Sanden Group companies slowly restarted production activities, but sales and production volumes were much lower than one year earlier. In Japan, the United States and other countries, there were temporary furloughs starting in April and some business operations were suspended. The result was big declines in sales and production volumes. In China, the number of COVID-19 infections declined relatively quickly and operations of Sanden Group companies returned to the prior-year level in April. However, first quarter sales and production in China were reduced by a suspension in manufacturing activities that started before the Lunar New Year holiday and ended in the middle of February. As a result, first quarter sales were far below sales in the first quarter of the previous fiscal year.

<Previous first quarter>		Sales to external customers	<Current first quarter>		(Million yen)
Reportable segments	Automotive systems	40,828	Reportable segment	Automotive systems	20,359
	Commercial store systems	21,782		Others	
	Others	2,181	Total		
Total		64,792			

First quarter performance was also affected by the sale in the previous fiscal year of Sanden Retail Systems Corp. (SDRS). 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 quarter sales by more than 30% compared with one year earlier.

The result was first quarter sales of 20,915 million yen, down 67.7% from one year earlier.

The benefits of structural reforms implemented in the previous fiscal year are appearing and there were 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 COVID-19. As a result, there was an operating loss of 4,710 million yen compared with operating income of 752 million yen one year earlier.

The ordinary loss increased from 1,781 million yen one year earlier to 6,803 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 increased from 1,959 million yen to 7,474 million yen mainly because of an extraordinary loss for fixed expenses involving the suspension of business operations caused by COVID-19.

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

Total assets were 170,124 million yen at the end of the first quarter, down 17,435 million yen from the end of the previous fiscal year. There were declines in deposits, trade receivables and other items as sales decreased because of COVID-19.

Liabilities decreased 9,680 million yen to 155,178 million yen mainly because of decreases in accounts payable - trade and long-term borrowings.

Net assets decreased 7,754 million yen to 14,945 million yen because of the first quarter loss attributable to owners of parent.

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

The COVID-19 pandemic is continuing to have a severe impact on the global economy.

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 of companies that use Sanden products is expected to be down about 30% from one year earlier in the first half of 2020 and down about 20% for the entire year. There was a big downturn in the demand for Sanden products in the first quarter of this fiscal year, but orders are expected to recover slowly beginning in the second quarter.

On June 30, 2020, Sanden Holdings and some of its subsidiaries officially submitted a business revitalization ADR procedure application to the Japanese Association of Turnaround Professionals. This association is certified by the Ministry of Justice as a certified dispute resolution business and is certified by the Ministry of Economy, Trade and Industry as a specified certified dispute resolution business. This application was accepted on the same day. Work is now under way on a proposal for a business revitalization plan, including discussions with financial institutions that have relationships with the Sanden Group. This business plan may affect the group's results of operations.

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 quarter ended June 2020 (As of June 30, 2020)
ASSETS		
Current assets		
Cash and deposits	26,440	22,629
Notes and accounts receivable - trade	45,344	37,424
Merchandise and finished goods	16,193	13,916
Work in process	8,699	9,394
Raw materials	7,514	8,107
Other inventories	2,932	2,946
Accounts receivable - other	4,570	3,703
Consumption taxes receivable	3,780	2,240
Other	8,153	7,268
Allowance for doubtful accounts	(17,842)	(18,200)
Total current assets	105,787	89,431
Noncurrent assets		
Property, plant and equipment		
Buildings and structures, net	16,144	15,837
Machinery, equipment and vehicles, net	16,671	16,269
Tools, furniture and fixtures, net	3,359	3,087
Land	10,610	10,625
Leased assets, net	6,764	7,049
Construction in progress	4,971	4,917
Total property, plant and equipment	58,522	57,785
Intangible assets		
Goodwill	13	9
Lease assets	141	129
Other	3,956	3,845
Total intangible assets	4,111	3,985
Investments and other assets		
Investment securities	15,903	15,570
Retirement benefit asset	99	99
Deferred tax assets	1,743	2,068
Other	3,165	2,478
Allowance for doubtful accounts	(1,774)	(1,295)
Total investments and other assets	19,138	18,922
Total noncurrent assets	81,772	80,693
Total assets	187,559	170,124

(Million yen)

	Fiscal year ended March 2020 (As of March 31, 2020)	First quarter ended June 2020 (As of June 30, 2020)
LIABILITIES		
Current liabilities		
Notes and accounts payable - trade	29,983	21,325
Short-term borrowings	47,497	47,343
Current portion of bonds payable	1,985	1,985
Current portion of long-term borrowings	20,984	20,980
Accounts payable - other	6,341	5,817
Lease obligations	2,627	2,706
Income taxes payable	238	233
Provision for bonuses	1,475	1,807
Provision for sales rebates	169	168
Provision for product warranties	1,736	1,745
Other	8,131	8,790
Total current liabilities	121,170	112,901
Noncurrent liabilities		
Bonds payable	3,847	3,847
Long-term borrowings	25,938	24,987
Lease obligations	7,610	7,582
Deferred tax liabilities	476	382
Retirement benefit liability	3,491	3,358
Provision for environmental measures	198	187
Provision for share-based compensation	153	137
Other	1,972	1,793
Total noncurrent liabilities	43,689	42,277
Total liabilities	164,859	155,178
NET ASSETS		
Shareholders' equity		
Share capital	11,037	11,037
Capital surplus	3,377	3,377
Retained earnings	12,772	5,297
Treasury shares	(704)	(674)
Total shareholders' equity	26,482	19,038
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	(46)	(28)
Deferred gains or losses on hedges	(50)	(34)
Foreign currency translation adjustment	(3,986)	(4,069)
Remeasurements of defined benefit plans	(1,648)	(1,507)
Total accumulated other comprehensive income	(5,732)	(5,639)
Non-controlling interests	1,949	1,547
Total net assets	22,699	14,945
Total liabilities and net assets	187,559	170,124

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

Statements quarterly consolidated of income

First quarter of the fiscal year

(Million yen)

	First quarter ended June 2019 (April 1, 2019 – June 30, 2019)	First quarter ended June 2020 (April 1, 2020 – June 30, 2020)
Net sales	64,792	20,915
Cost of sales	52,289	19,917
Gross profit	12,503	998
Selling, general and administrative expenses	11,751	5,709
Operating income (loss)	752	(4,710)
Non-operating income		
Interest income	56	149
Dividend income	9	5
Rental income	6	193
Other	139	73
Total non-operating income	212	422
Non-operating expenses		
Interest expenses	674	485
Foreign exchange losses	1,580	528
Share of loss of entities accounted for using equity method	116	932
Other	375	569
Total non-operating expenses	2,746	2,515
Ordinary loss	(1,781)	(6,803)
Extraordinary income		
Gain on sales of non-current assets	29	6
Other	3	12
Total extraordinary income	32	19
Extraordinary losses		
Loss on disposal of non-current assets	185	1
Shutdown expenses	-	957
Other	9	119
Total extraordinary losses	195	1,078
Loss before income taxes	(1,944)	(7,863)
Income taxes	240	(40)
Loss	(2,185)	(7,822)
Loss attributable to non-controlling interests	(226)	(347)
Loss attributable to owners of parent	(1,959)	(7,474)

Quarterly consolidated statements of comprehensive income
 First quarter of the fiscal year

(Million yen)

	First quarter ended June 2019 (April 1, 2019 – June 30, 2019)	First quarter ended June 2020 (April 1, 2020 – June 30, 2020)
Profit (loss)	(2,185)	(7,822)
Other comprehensive income		
Valuation difference on available-for-sale securities	(44)	16
Deferred gains or losses on hedges	(10)	16
Foreign currency translation adjustment	(161)	(11)
Remeasurements of defined benefit plans, net of tax	67	141
Share of other comprehensive income of entities accounted for using equity method	638	(125)
Total other comprehensive income	489	37
Comprehensive income	(1,695)	(7,784)
Comprehensive income attributable to owners of parent	(1,528)	(7,382)
Comprehensive income attributable to non-controlling interests	(167)	(402)

(3) 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 quarter of the current fiscal year, sales decreased 67% from one year earlier to 20,915 million yen and there was an operating loss of 4,710 million yen and an ordinary loss of 6,803 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 June 2020, borrowings and bonds payable totaled 99,144 million yen, which was high in relation to cash and cash equivalents of 20,339 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 capital and business alliances with several sponsors, 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.

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

Third creditor meeting (to approve the proposed business revitalization plan) December 11, 2020 (tentative)

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 first quarter 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 quarter of the fiscal year ending March 31, 2021 (April 1 to June 30, 2020)
Calculation of taxes	<p>Taxes are calculated by determining a reasonable estimate of the effective tax rate, after the application of tax effect accounting, for income before income taxes in the current fiscal year (including the first quarter). Quarterly income before income taxes is then multiplied by this estimated effective tax rate to calculate taxes.</p> <p>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.</p> <p>Income taxes - deferred are included in income taxes.</p>

(Segment information)

- I First quarter of the previous fiscal year (April 1, 2019 – June 30, 2019)
As stated in "(Item concerning change in reportable segments) of II First quarter of the current fiscal year."
- II First quarter of the current fiscal year (April 1, 2020 – June 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 quarters of the current and previous fiscal years.

(Significant subsequent events)

On June 30, 2020, the business revitalization ADR procedure application of Sanden Holdings and some of its subsidiaries was accepted and the first creditor meeting was held on July 14, 2020 to provide an overview of the proposed business revitalization plan. All financial institutions that are creditors with respect to this procedure attended this 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.

More information about the business revitalization ADR procedure is in "2. Quarterly Consolidated Financial Statements and Important Notes (3) Notes to the quarterly consolidated financial statements (Notes to going concern assumptions)."