

Financial Results for the Third Quarter Ended July 31, 2020 [Japan GAAP] (Consolidated)

Date: September 11, 2020
 Company Name and Code: Tomoe Engineering Co., Ltd. and Subsidiaries - 6309
 (URL: http://www.tomo-e.co.jp/index_e.html)
 Stock exchange listing: 1st Section, Tokyo Stock Exchange
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 Date to report Quarterly Consolidated Financial Statement: September 18, 2020
 Date for Dividend Payment: Not applicable to this financial quarter
 Preparation of Supplementary Explanatory Materials for Quarterly Operating Results: Not prepared
 Briefing Session for Quarterly Operating Results: Not planned

* Any fractional sums less than one million (or one thousand) yen are disregarded

1. Consolidated Financial Data for the Third Quarter Ended July 31, 2020

(1) Results of Operation (Consolidated) (Percent: Change from the same quarter of the previous year)

	Net Sales		Operating Income		Ordinary Income	
	Millions of Yen	Percent	Millions of Yen	Percent	Millions of Yen	Percent
Quarter Ended July 31, 2020	28,424	-8.8	1,627	-12.0	1,649	-12.2
Quarter Ended July 31, 2019	31,158	2.4	1,850	18.0	1,878	18.9

	Net Income Attributable to Owners of the Parent		Net Income per Share	Fully Diluted Quarterly Net Income per Share
	Millions of Yen	Percent	Yen	Yen
Quarter Ended July 31, 2020	1,075	-15.2	107. ⁷⁴	—
Quarter Ended July 31, 2019	1,268	21.5	127. ⁰⁹	—

(Note) Comprehensive income

Third Quarter ended July 31, 2020: 861 million yen (-20.9%) Third Quarter ended July 31, 2019: 1,089 million yen (3.0%)

(2) Financial Condition (Consolidated)

	Total Assets (A) (Millions of Yen)	Net Assets (B) (Millions of Yen)	Net Assets Ratio (B) / (A) (Percent)
Quarter Ended July 31, 2020	38,190	29,254	76.6
Year Ended October 31, 2019	39,070	28,861	73.9

(Reference) Net assets

Third Quarter ended July 31, 2020: 29,254 million yen Year Ended October 31, 2019: 28,861 million yen

2. Dividend Status

(Record Date)	Annual Dividend (Yen)				
	First Quarter	Interim Term	Third Quarter	End of Fiscal Year	Annual
Year Ended October 31, 2019	—	23. ⁵⁰	—	23. ⁵⁰	47. ⁰⁰
Year Ending October 31, 2020	—	23. ⁵⁰	—		
Year Ending October 31, 2020(Prospect)				23. ⁵⁰	47. ⁰⁰

(Note) Revisions since the most recently released dividend projection: None

3. Forecast for Earnings for the Year Ending October 31, 2020 (Consolidated)

(Percent change from the previous Full Business Year)

	Net Sales		Operating Income		Ordinary Income	
	(Millions of Yen)	(Percent)	(Millions of Yen)	(Percent)	(Millions of Yen)	(Percent)
Full Business Year	40,900	-1.1	1,980	-16.7	1,980	-17.0

	Net Income Attributable to Owners of the Parent		Net Income per Share
	(Millions of Yen)	(Percent)	Yen
Full Business Year	1,280	-18.4	128. ²⁸

(Note) Revisions since the most recently released dividend projection: None

Notes

(1) Significant changes in subsidiaries during this period (changes in specific subsidiaries involving changes in the scope of consolidation): None

Number of new subsidiaries: __ (Company names):

Number of eliminated subsidiaries: __ (Company names):

(2) Adoption of the specific accounting method to create quarterly consolidated financial statements: None

(3) Changes in accounting policies, accounting estimates, and retrospective restatements.

1) Change in accounting policies due to revision of accounting standard: None

2) Other changes than the above 1): None

3) Change in accounting estimates: None

4) Retrospective restatements: None

(4) Number of outstanding shares (Common stock)

1) Number of outstanding shares as of quarter-end and year-end (including treasury stocks)

At July 31, 2020: 10,533,200 shares

At October 31, 2019: 10,533,200 shares

2) Number of treasury stocks as of quarter-end and year-end

At July 31, 2020: 554,861 shares

At October 31, 2019: 554,861 shares

3) Number of average shares (accumulated quarterly total)

At July 31, 2020: 9,978,339 shares

At July 31, 2019: 9,978,339 shares

*The quarterly earnings report is exempt from the quarterly review by certified public accountant or audit firm.

*Explanations for appropriate use of the earnings forecast and other special instructions

The forward-looking statements such as a forecast of our financial results described herein are based on the information currently available to us and certain assumptions that we believe are reasonable. Actual results could differ materially due to various factors.

Please refer to the Financial Results for the Quarter (Attachments) on page 3, (3) [Analysis of Future Forecast on Consolidated Earnings Forecast] of 1. [Qualitative Information on Quarterly Consolidated Operating Results] for the operating results forecast.

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1. Qualitative Information on Quarterly Consolidated Operating Results

(1) Analysis of Operating Results

Because of the severe impact of the coronavirus pandemic, for the third quarter year-to-date period Japan's economy continued to register negative growth, including sharp declines in personal consumption, capital investment, and exports because of widespread coronavirus infections. Furthermore, despite signs of a recovery seen in China's economy, overseas the economies in the United States and Europe have deteriorated significantly.

Given these circumstances, net sales for the Tomoe Engineering Group for the consolidated third quarter decreased 8.8% from the same period last year to 28,424 million yen because of decreasing sales in both the Machinery & Equipment Business and Chemical Products Business. From the earnings aspect, operating income was 1,627 million yen, 12.0% down from the same period last year because of lower profit in both the Machinery & Equipment Businesses and Chemical Products Business, while ordinary income came to 1,649 million yen, 12.2% down from the same period last year. Net income attributable to owners of the parent was 1,075 million yen, 15.2% down from the same period last year.

Operating results by segment were as follows.

(Machinery & Equipment Business)

In the Machinery & Equipment Business, consolidated net sales for the year-to-date period were 7,440 million yen, 9.7% down from the same period last year. Net sales of equipment and construction works increased, mainly from orders for large-scale projects to meet domestic public sector demand. Net sales of machinery, on the other hand, were lower despite expanded sales for domestic public sector demand, which were driven by orders for large-scale projects, as overseas net sales declined. This drop reflected the partial deferral of large-scale projects in China because of widespread coronavirus infections, weaker demand in Southeast Asia, and a reactionary decline in large-scale projects in Europe, which had increased in the prior year. Furthermore, net sales of components and repair services were off because of lackluster growth overseas, mainly in Asia, and because of slack domestic public sector demand.

(Millions of Yen)

	Product classification	Machinery	Equipment and construction works	Components and repair services	TOTAL
Public sector	July, 2020	465	1,018	2,005	3,489
	July, 2019	261	353	2,194	2,810
	Difference	203	664	-189	678
Private sector	July, 2020	450	120	1,347	1,918
	July, 2019	425	108	1,444	1,978
	Difference	25	12	-97	-59
Overseas markets	July, 2020	554	0	1,476	2,031
	July, 2019	1,544	58	1,851	3,454
	Difference	-990	-58	-374	-1,422
TOTAL	July, 2020	1,470	1,139	4,829	7,440
	July, 2019	2,231	521	5,490	8,243
	Difference	-760	618	-661	-803

With respect to earnings during the period, operating income was 582 million yen, 22.2% down from the same period one year earlier, reflecting lower profit.

(Chemical Products Business)

In the Chemical Products Business, net sales of materials for semiconductor manufacturing applications in the electronics materials sector, and materials for semiconductor manufacturing devices in the advanced materials sector increased, but on the other hand net sales of materials for motor vehicles, housing and construction applications in the industrial materials sector, and resin and products for domestic and overseas markets in the synthetic resin sector decreased reflecting widespread coronavirus infections. As a result, net sales for consolidated third quarter year-to-date period were 20,984 million yen, 8.4% down from the same period last year.

(Millions of Yen)

	July, 2019	July, 2020	Difference
Synthetic resin sector	5,637	4,858	-779
Industrial materials sector	7,249	6,075	-1,173
Chemical products sector	4,733	4,500	-232
Advanced materials sector	2,440	2,517	76
Electronic materials sector	2,625	2,829	204
Other products (foreign liquor)	228	201	-26
Total	22,914	20,984	-1,929

With respect to earnings during the period, operating income was 1,045 million yen, 5.2% down from the same period one year earlier, reflecting lower profit.

(2) Analysis of Financial Condition

Total assets as of the end of the consolidated third quarter under review were 38,190 million yen, decreased by 880 million yen from the end of the previous consolidated fiscal year. This mainly reflected an increase in work in process, and raw materials and supplies, and a decrease in notes and accounts receivable-trade, and cash and deposits.

Liabilities were 8,936 million yen, decreased by 1,272 million yen from the end of the previous consolidated fiscal year, mainly because of an increase in electronically recorded monetary debt, and advances received, and a decrease in notes and accounts payable-trade, and provision for bonuses.

Net assets stood at 29,254 million yen, increased by 392 million from the end of the previous consolidated fiscal year. This mainly reflected an increase in retained earnings recorded under quarterly net income attributable to owners of the parent.

As a result of the above changes, the equity ratio at the end of the consolidated third quarter under review increased by 2.7 points compared with the end of the previous consolidated fiscal year to 76.6%.

(3) Analysis of Future Forecast on Consolidated Earnings Forecast

There are no revisions to the consolidated earnings forecast figures for the fiscal year ending October 31, 2020 that were announced in the "Notice on changes in earnings forecast" released on June 12, 2020.

2. Quarterly Consolidated Financial Statements and Notes

(1) Quarterly Consolidated Balance Sheet (Third Quarter)

(Thousands of Yen)

Assets	End of Previous Year (October 31, 2019)	End of Third Quarter (July 31, 2020)
Current Assets		
Cash and Deposits	12,147,981	11,011,339
Notes and Accounts Receivable-Trade	10,432,830	8,760,916
Electronically Recorded Monetary Claims	1,904,539	2,376,028
Merchandise and Finished Goods	3,242,217	3,483,766
Work in Process	1,200,360	1,936,073
Raw Materials and Supplies	1,014,166	1,639,581
Others	381,860	498,556
Allowance for Doubtful Accounts	-63,652	-61,731
Total Current Assets	30,260,304	29,644,529
Noncurrent Assets		
Property, Plant and Equipment		
Buildings and Structures	4,608,252	4,721,313
Accumulated Depreciation	-1,954,347	-1,989,825
Buildings and Structures, Net	2,653,904	2,731,488
Machinery, Equipment and Vehicles	3,771,107	3,791,348
Accumulated Depreciation	-3,284,685	-3,332,705
Machinery, Equipment and Vehicles, Net	486,422	458,642
Land	1,930,720	1,930,706
Construction in progress	123,271	1,550
Others	1,036,746	1,050,044
Accumulated Depreciation	-955,308	-947,052
Others, Net	81,437	102,992
Total Property, Plant and Equipment	5,275,756	5,225,379
Intangible Assets	129,094	123,018
Investments and Other Assets		
Investment Securities	1,393,589	1,120,095
Guarantee Deposits	349,795	398,417
Net Defined Benefit Assets	1,588,079	1,620,690
Deferred Tax Assets	16,446	3,354
Others	80,562	78,178
Allowance for Doubtful Accounts	-22,681	-23,051
Total Investments and Other Assets	3,405,791	3,197,685
Total Noncurrent Assets	8,810,642	8,546,084
Total Assets	39,070,946	38,190,613

(Thousands of Yen)

Liabilities and Net Assets	End of Previous Year (October 31, 2019)	End of Third Quarter (July 31, 2020)
Liabilities		
Current Liabilities		
Notes and Accounts Payable-Trade	4,165,190	3,026,054
Electronically Recorded Monetary Debt	1,822,509	2,219,366
Accounts Payable-Others	821,503	604,350
Income Taxes Payable	430,816	22,488
Advances Received	577,512	937,609
Provision for Bonuses	1,160,657	699,015
Provision for Directors' Bonuses	72,627	42,437
Allowance for Product Warranty	313,350	265,176
Others	199,898	295,284
Total Current Liabilities	9,564,068	8,111,784
Noncurrent Liabilities		
Provision for Directors' Retirement Benefits	5,460	5,460
Net Defined Benefit Liabilities	63,208	67,318
Deferred Tax Liabilities	576,715	751,896
Total Noncurrent Liabilities	645,384	824,674
Total Liabilities	10,209,452	8,936,459
Net Assets		
Shareholders' Equity		
Capital Stock	1,061,210	1,061,210
Capital Surplus	1,483,410	1,483,410
Retained Earnings	26,043,930	26,650,057
Treasury Stock	-363,977	-363,977
Total Shareholders' Equity	28,224,573	28,830,699
Accumulated Other Comprehensive Income		
Valuation Difference on Available-for-Sale Securities	439,359	235,004
Deferred Gains or Losses on Hedges	1,954	594
Foreign Currency Translation Adjustment	83,282	89,284
Total Adjustment on Net Defined Benefit	112,324	98,572
Total Accumulated Other Comprehensive Income	636,920	423,454
Total Net Assets	28,861,494	29,254,154
Total Liabilities and Net Assets	39,070,946	38,190,613

(2) Quarterly Consolidated Statement of Income & Quarterly Consolidated Statement of Comprehensive Income
 Quarterly Consolidated Statement of Income (Third Quarter)

(Thousands of Yen)

	Third Quarter Ended July 31, 2019	Third Quarter Ended July 31, 2020
Net Sales	31,158,296	28,424,603
Cost of Sales	24,088,149	21,783,810
Gross Profit	7,070,147	6,640,792
Selling, General and Administrative Expenses	5,219,756	5,013,301
Operating Income	1,850,390	1,627,491
Non-Operating Income		
Interest Income	1,887	2,278
Dividends Income	29,899	31,540
Rent Income	5,378	5,378
Foreign Exchange Gain	2,426	—
Others	37,654	25,605
Total Non-Operating Income	77,246	64,802
Non-Operating Expenses		
Interest Expenses	29,623	6,005
Commission Paid	8,243	8,252
Sales Discount	5,924	4,701
Foreign Exchange Losses	—	18,887
Others	5,204	5,364
Total Non-Operating Expenses	48,996	43,211
Ordinary Income	1,878,640	1,649,082
Extraordinary Income		
Gain on Sales of Investment Securities	5,827	1,861
Total Extraordinary Income	5,827	1,861
Income before Income Taxes	1,872,813	1,647,221
Income Taxes-Current	542,389	292,903
Income Taxes-Deferred	62,287	279,209
Total Income Taxes	604,676	572,113
Net Income	1,268,136	1,075,108
Net Income	1,268,136	1,075,108
Attributable to Owners of the Parent	1,268,136	1,075,108

Quarterly Consolidated Statement of Comprehensive Income (Third Quarter)

(Thousands of Yen)

	Third Quarter Ended July 31, 2019	Third Quarter Ended July 31, 2020
Net Income	1,268,136	1,075,108
Other Comprehensive Income		
Valuation Difference on Available-for-sale Securities	-100,024	-204,354
Deferred Gains or Losses (-) on Hedges	634	-1,360
Foreign Currency Translation Adjustment	-63,494	6,001
Adjustment on Net Defined Benefit	-15,755	-13,752
Total Other Comprehensive Income	-178,639	-213,465
Comprehensive Income	1,089,496	861,642
(Breakdown)		
Comprehensive Income Attributable to Owners of the Parent	1,089,496	861,642

(3) Notes on Quarterly Consolidated Financial Statements

(Note for premise of going concern)

There are no pertinent matters to report.

(Notes for significant changes in shareholder's equity)

There are no pertinent matters to report.

(Additional information)

(Accounting estimates)

The widespread coronavirus pandemic has had a broad impact on the economy and corporate business activities, and has affected the Tomoe Engineering Group's business activities as well.

Based on the assumption this situation will continue throughout the current consolidated fiscal year, and that circumstances will return to normal gradually beginning from the next consolidated fiscal year, we have prepared accounting estimates of fixed asset impairment and the potential for recovery of deferred tax assets.

Because the impact of the coronavirus pandemic on economic activity is highly uncertain, changes in the above assumptions might affect the Tomoe Engineering Group's future financial position and business results.

(Segment Information, etc.)

[Segment Information]

I Third Quarter Ended July 31, 2019

Information Pertaining to the Amount of Net Sales or Net Loss of Each Reporting Segment

(Thousands of Yen)

	Reported Segment			Grand Total
	Machinery & Equipment Business	Chemical Products Business	Total	
Net Sales				
Net Sales to Unaffiliated Customers	8,243,944	22,914,351	31,158,296	31,158,296
Internal Net Sales among Segments or Amount Transferred	—	—	—	—
Total	8,243,944	22,914,351	31,158,296	31,158,296
Segment Profit	748,233	1,102,156	1,850,390	1,850,390

(Note) The total amount of segment profit is identical to the operating income reported on the Quarterly Consolidated Statements of Income.

II Third Quarter Ended July 31, 2020

Information Pertaining to the Amount of Net Sales or Net Loss of Each Reporting Segment

(Thousands of Yen)

	Reported Segment			Grand Total
	Machinery & Equipment Business	Chemical Products Business	Total	
Net Sales				
Net Sales to Unaffiliated Customers	7,440,245	20,984,358	28,424,603	28,424,603
Internal Net Sales among Segments or Amount Transferred	—	—	—	—
Total	7,440,245	20,984,358	28,424,603	28,424,603
Segment Profit	582,381	1,045,110	1,627,491	1,627,491

(Note) The total amount of segment profit is identical to the operating income reported on the Quarterly Consolidated Statements of Income.