Fiscal 2019 Performance Overview

Fiscal 2019 Performance

Revenues

Revenues declined 13.9% year on year, to ¥881.4 billion, due to several factors. These included a decrease in demand, particularly for our core products, the impact of falling raw material prices (price slide system), and structural reforms in the Functional Components and Equipment segment.

Adjusted operating income

Adjusted operating income fell ¥37.0 billion year on year, to ¥14.4 billion. Despite efforts to reduce fixed costs and the like, our performance was affected by contraction in the electronics and semiconductor-related markets, less demand for various types of manufacturing equipment and machine tools, and declining sales of new vehicles. We also significantly adjusted production to address declining demand and optimize inventories as part of measures to improve management efficiency.

Operating loss

In fiscal 2019, we reported an operating loss of ¥39.1 billion, an ¥81.6 billion decline compared with operating income in fiscal 2018. This was due primarily to a ¥42.6 billion impairment loss in the Magnetic Materials business (reported under “Other expenses”) in the second quarter of the year, stemming mainly from changes in the business environment and our reassessment of the future profitability of the rare earth magnet business.

Performance by product category

Automobiles

Demand for many key products declined due to falling vehicle sales globally.

FA and robotics

Our performance was affected by ongoing weak demand for rare earth magnets and wire materials, as well as the absence of a recovery in demand.

Smartphones

We enjoyed an increase in sales of cladding materials.

Semiconductors

We completed customer-side inventory adjustments for both copper- and nickel-based materials, but no strong recovery occurred.

Measures implemented to improve management efficiency

Free cash flow

We reported free cash flow of ¥49.5 billion, up ¥79.2 billion from that of fiscal 2018. This was mainly due to a ¥34.9 billion year-on-year decline in inventories stemming from production adjustments, as well as investment restraint.

Reduction of fixed costs and others

We reduced fixed costs by ¥24.2 billion year on year.

Impact of COVID-19

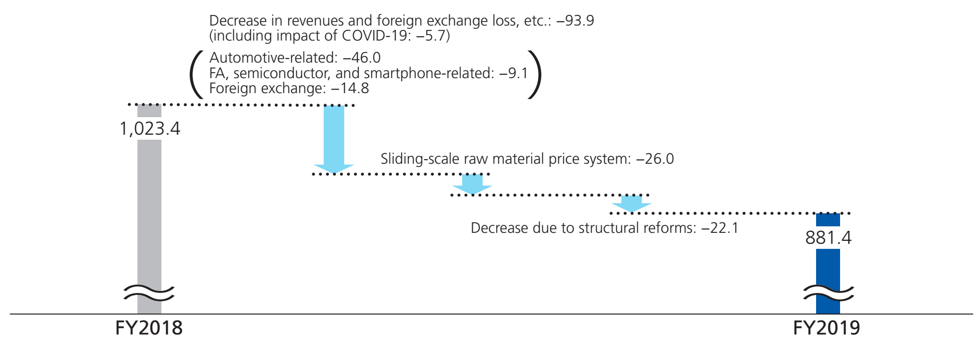
Despite a decrease in demand in our automotive businesses in China and North America, as well as a decline in capacity utilization at related manufacturing facilities, the overall impact of COVID-19 on fiscal 2019 results was limited.

Fiscal 2019 Results (Billions of yen, unless otherwise stated)

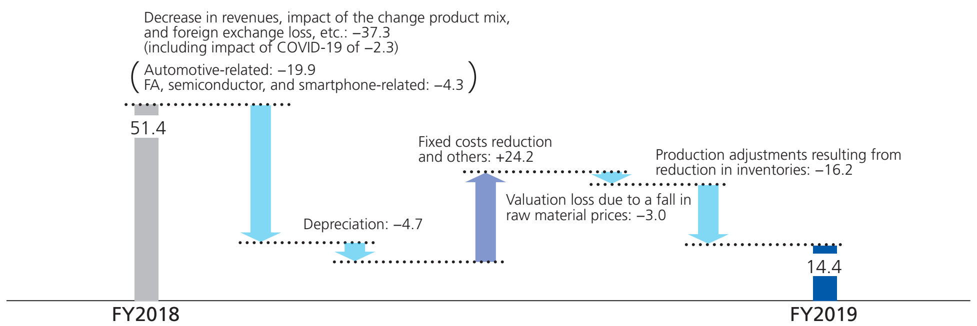
	FY2018 US$1 = ¥111	FY2019 US$1 = ¥109	YoY
Revenues	1,023.4	881.4	–13.9%
Adjusted operating income*1	51.4	14.4	–37.0
Adjusted operating margin (%)	5.0	1.6	–3.4
EBIT	45.3	(38.4)	–83.7
Net income (loss) attributable to shareholders of the parent company	31.4	(37.6)	–69.0
Total assets	1,099.3	977.8	–121.5
Equity attributable to shareholders of the parent company	588.0	520.3	–67.7
D/E ratio (times)	0.34	0.36	0.02
ROIC*2 (%)	5.3	1.7	–3.6
ROE (%)	5.5	–6.8	–12.3
CCC*3 (days)	90.7	87.1	–3.6
Overseas sales ratio (%)	56	54	–2
Operating cash flow	66.6	106.0	39.4
Investing cash flow	(96.3)	(56.5)	39.8
Capital expenditure	95.4	53.0	–42.4
Free cash flow	(29.7)	49.5	79.2
Depreciation and amortization	50.9	55.2	4.3
R&D expenses	18.6	15.9	–2.7

*1 Adjusted operating income = Revenues – Cost of sales – Selling, general and administrative expenses
*2 ROIC = Net income attributable to shareholders of the parent company ÷ (Average of beginning and end-year interest-bearing debt + Average of beginning and end-year equity attributable to shareholders of the parent company)
*3 CCC = Working capital (Trade receivables + Inventories – Trade payables) ÷ Average daily revenue

Factors Behind Increase/Decrease in Revenues (Year-on-Year) (Billions of yen)



Factors Behind Increase/Decrease in Adjusted Operating Income (Year-on-Year) (Billions of yen)



Fiscal 2020 forecasts

COVID-19 infections continue to spread, with enormous repercussions across the global economy. We expect the impact on our business to be more significant than it was in fiscal 2019, a reflection of severely stagnated demand in the automotive, electronics, and industrial infrastructure sectors, which are the Group’s main business domains. In related business areas, we believe that the impact of COVID-19 will remain to some extent throughout fiscal 2020, although we will gradually begin to return to normal operations in the third quarter. We project that COVID-19 will have a ¥100 billion negative impact on revenues and a ¥40 billion negative impact on adjusted operating income in fiscal 2020.

Fiscal 2020 Performance Forecasts

(Assumed exchange rate: US$1=¥105)

	Disclosed forecast	Excluding impact of COVID-19
Revenues (Billions of yen)	750.0	850.0
Adjusted operating income (loss) (Billions of yen)	(5.0)	35.0
Adjusted operating margin (%)	–0.7	4.1
Income (loss) before income taxes (Billions of yen)	(15.0)	
Net income (loss) attributable to shareholders of the parent company (Billions of yen)	(12.0)	
ROIC	—	