

# Summary of Consolidated Financial Results For the First Half Ended September 2020 [Japan GAAP]

October 26, 2020

Name of Company: SPK CORPORATION  
 Stock Code: 7466 URL: <http://www.spk.co.jp/>  
 Stock Exchange Listing: Tokyo Stock Exchange, First Section  
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 Date of filing of quarterly securities report: November 10, 2020 (tentative)  
 Date of commencement of dividend payment: December 1, 2020 (tentative)  
 Supplementary explanatory documents: None  
 Earnings presentation: None

(Yen in millions, rounded down)

## 1. Financial results for the first half ended September 2020 (April 1, 2020 September 30, 2020)

### (1) Results of Operations (Consolidated)

(Percentage figures represent year on year changes)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
First half ended September 2020	19,381	(11.4)	805	(18.9)	794	(19.6)	535	(42.1)
First half ended September 2019	21,881	4.2	993	12.7	988	13.8	924	58.3

Note: Comprehensive income: 1H FY3/21: 529 million yen [-41.4] 1H FY3/20: 902 million yen [41.5%]

	Earnings per share		Earnings per share fully diluted	
	Yen		Yen	
First half ended September 2020	53.31		-	
First half ended September 2019	92.10		-	

Note: There was a two-for-one stock split on April 1, 2020. Earnings per share for the first half ended September 2019 are adjusted for this split as if it has been done on the beginning of the fiscal year ended March 2020.

### (2) Financial Position (Consolidated)

	Total assets		Net assets		Equity ratio	
	Million yen		Million yen		%	
As of September 30, 2020	26,354		18,226		69.2	
As of March 31, 2020	25,832		17,888		69.2	

Reference: Shareholders' equity: As of Sep. 30, 2020: 18,226 million yen As of Mar. 31, 2020: 17,888 million yen

## 2. Dividends

	Dividend per share				
	End of 1Q	End of 2Q	End of 3Q	End of FY	Total
	Yen	Yen	Yen	Yen	Yen
FY3/20	-	34.00	-	38.00	72.00
FY3/21	-	16.00			
FY3/21 (estimated)			-	21.00	37.00

Note: Change in the estimation of dividend from the latest announcement: None

There was a two-for-one stock split on April 1, 2020. Dividends shown for the fiscal year that ended in March 2020 are the actual amounts paid that have not been adjusted for this split.

## 3. Forecast for the fiscal year ending March 2021 (Consolidated, April 1, 2020 - March 31, 2021)

(Percentage figures represent year on year changes)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent		Earnings per share
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen
Full year	39,267	(10.5)	1,621	(16.7)	1,569	(18.8)	1,061	(31.7)	105.66

Note: Change in the forecast from the latest announcement: None

\* **Notes**

- (1) Changes in significant subsidiaries (Changes in specific subsidiaries accompanied by changes in the scope of consolidation):  
None
- (2) Use of accounting methods specifically for the preparation of the quarterly consolidated financial statements: None
- (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 shares outstanding (common stock)

(a) Shares outstanding (including treasury shares)

End of 1H FY3/21:	10,453,800	End of FY3/20:	10,453,800
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(b) Treasury shares

End of 1H FY3/21:	411,712	End of FY3/20:	411,712
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(c) Average number of shares outstanding

1H FY3/21:	10,042,088	1H FY3/20:	10,042,120
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Note: There was a two-for-one stock split on April 1, 2020. Shares outstanding, treasury shares and average number of shares outstanding are calculated as if the split has been done on the beginning of the fiscal year ended March 2020.

\* This report is exempt from the audit procedure by certified public accountants or accounting firms.

\* Cautionary statement regarding forecasts of operating results and special notes

Forward-looking statements in these materials are based on information available to management at the time this report was prepared and assumptions that management believes are reasonable. Actual results may differ significantly from these statements for a number of reasons. For information about the forecasts, please see "1. Results of Operations (3) Outlook" on page 2 of Supplementary Information.

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## 1. Results of Operations

### (1) Overview on consolidated business performance

Although the COVID-19 pandemic continued to impact the Japanese economy during the first half of the current fiscal year, the economy started returning to normal from its steep downturn after the state of emergency ended. However, the pace of this recovery is strong in some business sectors and sluggish in others. In addition, there are concerns over severe declines in jobs and personal income due to the prolonged and deepened COVID-19 crisis. While new infections are starting to increase again in emerging as well as developed countries and there is still no end in sight for the COVID-19 crisis, concerns about a significant decline in the Japanese and global economies are increasing. Upcoming developments involving the crisis will have to be watched closely. There is also still a need to monitor political and economic events involving the automobile aftermarket and construction and industrial machinery sectors, which are our main areas of business.

First half sales of the SPK Group (SPK and its consolidated subsidiaries) were 19,381 million yen, down 11.4% from one year earlier. Operating profit decreased 18.9% to 805 million yen, ordinary profit decreased 19.6% to 794 million yen and profit attributable to owners of parent fell 42.1% to 535 million yen.

Business segment performance was as follows.

From the first quarter of the current fiscal year, the CUSPA department previously included under the Domestic Sales Division is reclassified as the CUSPA Division and presented as an independent business segment. The goal of this reclassification is to develop new business areas and speedup decision-making.

The following year-on-year comparisons are retroactively adjusted to reflect the changed segment classification.

#### (Domestic Sales Division)

The number of parts being replaced has decreased considerably because of the downturn in consumer sentiment caused by COVID-19. In response to this difficult business environment, we conducted extensive sales activities in order to maintain a stable supply of functional and replacement parts for automobiles. This division also continued to work on developing and selling new environmentally responsible products. The result was a 2.8% decrease in net sales to 11,545 million yen.

#### (International Trade Division)

Although the performance of this division is recovering overall, there was a negative impact on sales from the slow pace of the recovery in sales of client companies in Asia and Central and South America where the spread of COVID-19 are escalating. In addition, second quarter sales of consolidated subsidiaries in Singapore and the United States decreased due to COVID-19. The result was a 26.0% decrease in sales to 4,882 million yen.

#### (Machinery Equipment Division)

The economic impact of the COVID-19 crisis reduced demand associated with capital expenditures and caused the volume of cargo to fall sharply. As a result, the production of construction and agricultural machinery and of forklifts and other industrial vehicles decreased. Demand is expected to recover for some compact construction and agricultural machinery, but a recovery in all market sectors of this division is unlikely to happen soon. The result was a 20.5% decrease in sales to 1,985 million yen.

#### (CUSPA Division)

The COVID-19 crisis has reduced the level of interest in customized parts and forced the cancelation of many motor sports and other events. Although demand for the products of this division is declining, the acquisition of sales agency rights for new brands and other activities made a big contribution to sales. The result was a 6.8% increase in sales to 967 million yen.

### (2) Financial condition

Total assets were 26,354 million yen at the end of the first half, 522 million yen more than at the end of the previous fiscal year. Current assets increased 510 million yen to 21,974 million yen. This was mainly due to an increase of 1,862 million yen in cash and deposits, a 1,044 million yen decrease in notes and accounts receivable-trade, a 256 million yen decrease in electronically recorded monetary claims-operating, and a 219 million yen increase in inventories. Non-current assets increased 11 million yen to 4,379 million yen.

Current liabilities decreased 625 million yen to 6,369 million yen mainly because of a 445 million yen decrease in notes and accounts payable-trade. Non-current liabilities increased 809 million yen to 1,758 million yen mainly because of an 812 million yen increase in long-term borrowings.

Net assets increased 338 million yen to 18,226 million yen, resulting in an equity ratio of 69.2%.

(3) Outlook

There are no revisions to the forecast announced on June 23, 2020 for the fiscal year ending in March 2021.

## 2. Quarterly Consolidated Financial Statements and Important Notes

### (1) Quarterly consolidated balance sheet

(Thousand yen)

	As of March 31, 2020	As of September 30, 2020
<b>Assets</b>		
Current assets		
Cash and deposits	5,473,857	7,336,072
Notes and accounts receivable - trade	8,744,819	7,700,439
Electronically recorded monetary claims - operating	1,319,870	1,063,395
Inventories	5,136,195	5,355,924
Accounts receivable - other	457,629	308,782
Other	347,435	225,568
Allowance for doubtful accounts	(15,591)	(15,259)
Total current assets	21,464,216	21,974,923
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	961,177	947,439
Machinery, equipment and vehicles, net	146,791	135,196
Land	1,893,072	1,893,072
Leased assets, net	53,570	35,076
Other, net	88,608	79,630
Total property, plant and equipment	3,143,220	3,090,416
Intangible assets		
Software	30,627	72,140
Leased assets	103,152	83,766
Other	18,323	13,100
Total intangible assets	152,103	169,006
Investments and other assets		
Investment securities	256,433	305,215
Deferred tax assets	229,294	212,325
Retirement benefit asset	25,970	26,998
Other	571,435	586,210
Allowance for doubtful accounts	(10,511)	(10,347)
Total investments and other assets	1,072,622	1,120,402
Total non-current assets	4,367,946	4,379,825
Total asset	25,832,163	26,354,749

(Thousand yen)

	As of March 31, 2020	As of September 30, 2020
<b>Liabilities</b>		
Current liabilities		
Notes and accounts payable - trade	4,320,421	3,874,693
Short-term borrowings	845,532	968,010
Current portion of long-term borrowings	363,980	602,882
Income taxes payable	415,862	165,162
Provision for bonuses	205,000	198,115
Other	844,629	560,917
Total current liabilities	6,995,425	6,369,780
Non-current liabilities		
Long-term borrowings	285,312	1,097,987
Retirement benefit liability	462,337	477,051
Long-term guarantee deposits	87,099	86,119
Long-term accounts payable - other	19,236	6,487
Other	94,642	90,959
Total non-current liabilities	948,628	1,758,604
Total liabilities	7,944,053	8,128,385
<b>Net assets</b>		
Shareholders' equity		
Share capital	898,591	898,591
Capital surplus	961,044	961,044
Retained earnings	16,348,313	16,692,840
Treasury shares	(435,500)	(435,500)
Total shareholders' equity	17,772,447	18,116,975
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	95,356	129,498
Deferred gains or losses on hedges	4,175	1,146
Foreign currency translation adjustment	16,130	(21,255)
Total accumulated other comprehensive income	115,661	109,388
Total net assets	17,888,109	18,226,364
Total liabilities and net assets	25,832,163	26,354,749

## (2) Quarterly consolidated statements of income and comprehensive income

(Quarterly consolidated statement of income)

(For the first half)

(Thousand yen)

	First half ended Sep. 30, 2019 (Apr. 1, 2019 – Sep. 30, 2019)	First half ended Sep. 30, 2020 (Apr. 1, 2020 – Sep. 30, 2020)
Net sales	21,881,678	19,381,297
Cost of sales	18,284,751	16,075,767
Gross profit	3,596,927	3,305,530
Selling, general and administrative expenses	2,603,531	2,500,209
Operating profit	993,395	805,321
Non-operating income		
Interest income	271	653
Dividend income	28,877	3,777
Purchase discounts	62,520	61,036
Other	14,627	33,258
Total non-operating income	106,296	98,726
Non-operating expenses		
Interest expenses	3,054	3,772
Sales discounts	79,223	83,236
Foreign exchange losses	27,871	19,490
Other	1,458	2,837
Total non-operating expenses	111,608	109,337
Ordinary profit	988,083	794,710
Extraordinary income		
Gain on sales of investment securities	355,784	-
Total extraordinary income	355,784	-
Extraordinary losses		
Office relocation expenses	402	-
Loss on sales and retirement of non-current assets	0	-
Total extraordinary losses	402	-
Profit before income taxes	1,343,464	794,710
Income taxes - current	422,034	254,949
Income taxes - deferred	(3,469)	4,433
Total income taxes	418,565	259,382
Profit	924,899	535,327
Profit attributable to non-controlling interests	-	-
Profit attributable to owners of parent	924,899	535,327

(Quarterly consolidated statement of comprehensive income)

(For the first half)

(Thousand yen)

	First half ended Sep. 30, 2019 (Apr. 1, 2019 – Sep. 30, 2019)	First half ended Sep. 30, 2020 (Apr. 1, 2020 – Sep. 30, 2020)
Profit	924,899	535,327
Other comprehensive income		
Valuation difference on available-for-sale securities	(3,098)	34,141
Deferred gains or losses on hedges	599	(3,029)
Foreign currency translation adjustment	(20,291)	(37,385)
Total other comprehensive income	(22,790)	(6,273)
Comprehensive income	902,109	529,054
Comprehensive income attributable to owners of parent	902,109	529,054
Comprehensive income attributable to non-controlling interests	-	-

(3) Notes to quarterly consolidated financial statements

(Notes on going concern assumptions)

None

(Notes on significant change in shareholders' equity)

None

(Change in significant subsidiary during the period)

None

SPK USA Holdings Inc., which is not a specified subsidiary, was established in the first half of the current fiscal year and included in the scope of consolidation.

(Supplementary information)

(Effect of the COVID-19 pandemic on accounting estimates)

There are no significant changes to the assumptions used for accounting estimates that were explained in the supplementary information section titled "Effect of the COVID-19 pandemic on accounting estimates" in the Securities Report for the fiscal year that ended in March 2020. These assumptions include the easing or end of lockdowns due to the pandemic, the resumption of economic activities and other items. There are many uncertainties about the economic impact of the COVID-19 pandemic. Consequently, depending on upcoming events, this pandemic may affect accounting estimates in the third quarter of current fiscal year or afterward.

(Significant subsequent event)

Business combination due to an acquisition

On September 23, 2020, the SPK Board of Directors approved a resolution to acquire, through SPK USA Holdings Inc., all of the stock of Northeast Imported Parts & Accessories, Inc. A contract to purchase this stock was signed on October 15 and the stock was purchased on October 16, making this company a subsidiary of SPK.

(1) Summary of the business combination

a. Name and business activities of acquired company

Name: Northeast Imported Parts & Accessories, Inc.

Activities: Sale of automotive replacement parts

b. Reason for the acquisition

Northeast Imported Parts & Accessories sells automotive replacement parts in the United States. SPK believes that making this company a consolidated subsidiary will further enlarge SPK's coverage of the U.S. automotive replacement parts market and make a significant contribution to the growth of the SPK Group.

c. Date of acquisition

October 16, 2020

d. Method used for the acquisition

Purchase of stock

e. Name after acquisition

No change

f. Pct. of voting rights acquired

100%

g. Primary basis for selecting the company to be acquired

Cash purchase of Northeast Imported Parts & Accessories stock by SPK USA Holdings, consolidated subsidiary of SPK

(2) Cost of acquisition and payment method

Payment for acquisition	Cash	US\$4.5 million
Cost of acquisition		US\$4.5 million

(3) Major expenses for the acquisition

Expenses for due diligence 17,300 thousand yen

(4) The amount of goodwill, reason for the goodwill, and the method and period of amortization

Not determined yet.

(5) Amount of assets to be acquired and liabilities to be assumed on the business combination date and their main breakdown

Not determined yet.