



Consolidated Financial Results for the Six Months Ended December 31, 2022
[Japanese GAAP]

February 13, 2023

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 Stock exchange listing: Tokyo Stock Exchange
 Code number: 3446
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 Financial results briefing session: Scheduled (for institutional investors and analysts)

(Amounts of less than one million yen are rounded down.)

1. Consolidated Financial Results for the Six Months Ended December 31, 2022 (July 1, 2022 to December 31, 2022)

(1) Consolidated Operating Results (cumulative) (Percentages indicate rates of year-on-year change)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
Six months ended								
December 31, 2022	525	54.8	(124)	—	(122)	—	(97)	—
December 31, 2021	339	—	(231)	—	(234)	—	(169)	—

(Note) Comprehensive income: For the six months ended December 31, 2022: ¥(97) million [—%]
 For the six months ended December 31, 2021: ¥(169) million [—%]

	Basic earnings per share	Diluted earnings per share
Six months ended	Yen	Yen
December 31, 2022	(16.65)	—
December 31, 2021	(28.98)	—

(2) Consolidated Financial Position

	Total assets	Net assets	Equity ratio
	Millions of yen	Millions of yen	%
As of December 31, 2022	3,359	2,143	63.8
As of June 30, 2022	3,227	2,227	69.0

(Reference) Shareholders' equity: As of December 31, 2022: ¥2,143 million
 As of June 30, 2022: ¥2,227 million

2. Dividends

	Annual dividends				
	1st quarter-end	2nd quarter-end	3rd quarter-end	Year-end	Total
	Yen	Yen	Yen	Yen	Yen
Fiscal year ended June 30, 2022	—	0.00	—	0.00	0.00
Fiscal year ending June 30, 2023	—	0.00	—	—	—
Fiscal year ending June 30, 2023 (Forecast)	—	—	—	0.00	0.00

(Note) Changes in dividend forecast from the most recent announcement: None

3. Consolidated Financial Results Forecast for the Fiscal Year Ending June 30, 2023 (July 1, 2022 to June 30, 2023)
(Percentages indicate rates of year-on-year change)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent		Basic earnings per share
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Yen
Full year	2,133	85.4	300	—	355	—	228	—	39.03

(Note) Changes in financial results forecast from the most recent announcement: None

Notes:

(1) Changes in specific subsidiaries during the period (changes in specified subsidiaries resulting in a change in the scope of consolidation): None

Newly included: None

Excluded: None

(2) Application of special accounting treatment in preparing the quarterly financial statements: None

(3) Changes in accounting policies, changes in accounting estimates, and retrospective restatement

1) Changes in accounting policies due to the revision of accounting standards: Yes

2) Changes in accounting policies other than 1) above: Yes

3) Changes in accounting estimates: None

4) Retrospective restatement: None

(4) Total number of issued shares (common stock)

1) Total number of issued shares at the end of the period (including treasury shares):

December 31, 2022: 5,873,000 shares

June 30, 2022: 5,864,000 shares

2) Total number of treasury shares at the end of the period:

December 31, 2022: 181 shares

June 30, 2022: 148 shares

3) Average number of shares outstanding during the period:

Six months ended December 31, 2022: 5,866,969 shares

Six months ended December 31, 2021: 5,856,646 shares

* The quarterly financial statements are outside the scope of quarterly reviews by certified public accountants and auditing firms.

* Explanation of the proper use of financial results forecast and other notes

The earnings forecasts and other forward-looking statements herein are based on information currently available to the Company and certain assumptions deemed reasonable by the Company, and are not intended to be construed as assurance that they will be accomplished in the future. Actual results may differ significantly from the forecasts due to a wide range of factors. Please see page 4 of the attached materials, "1. Qualitative Information on Quarterly Financial Results (3) Explanation of Financial Results Forecast and Other Forward-Looking Information" for more information regarding assumptions made when formulating earnings projections and matters to note when using these projections.

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1. Qualitative Information on Quarterly Financial Results

All matters relating to the future in the sections below reflect the current views of the Company as of December 31, 2022.

(1) Explanation of Business Results

In the first half of the fiscal year ending June 30, 2023, the Japanese economy saw a gradual return to normal activity as COVID-19 prevention measures were eased. However, the global outlook remained uncertain due to soaring energy and raw material prices caused by conditions in Ukraine, and to rising concerns of an economic recession stemming from policy rate hikes in various countries to curb inflation.

Under these economic circumstances, the Group strove to strengthen and expand its management foundation through three businesses that use proprietary technology, namely the Optical segment, the LS & Equipment Development segment, and the Other segment (ESCO, Ltd.).

As a result, in the six months ended December 31, 2022, we recorded net sales of ¥525,486 thousand (+54.8% year-on-year), an operating loss of ¥124,207 thousand (versus a loss of ¥231,970 thousand in the same period of the previous fiscal year), an ordinary loss of ¥122,712 thousand (versus a loss of ¥234,717 thousand in the same period of the previous fiscal year), and a loss attributable to owners of parent of ¥97,681 thousand (versus a loss of ¥169,740 thousand in the same period of the previous fiscal year).

Results by segment were as follows.

(Optical segment)

In the first half of the fiscal year ending June 30, 2023, segment earnings were driven by sales to the Advanced Photon Source (APS) in the United States, the Institute of High Energy Physics (IHEP) and the Shanghai Synchrotron Radiation Facility (SSRF) in China, the Nano Terasu facility in Japan, and the Pohang Accelerator Laboratory (PAL) in South Korea. We plan to deliver all of the products whose sales could not be recorded in the previous fiscal year to customers in the United States and China in the third quarter.

The synchrotron radiation facilities and X-ray free electron laser facilities in Japan and overseas, which are the main customers for our X-ray nano focusing mirrors, have for the most part resumed normal operations. Furthermore, plans for synchrotron radiation facility upgrades and new facilities in China, Europe, and the United States, in addition to Nano Terasu, a next-generation synchrotron radiation facility in Japan, are progressing smoothly.

On the order front, we continue to receive orders for synchrotron radiation facility upgrades and newly planned facilities in China, Europe, and the United States, as well as from Nano Terasu, a next-generation synchrotron radiation facility in Japan. In particular, China is pushing ahead with the construction of new synchrotron radiation facilities and X-ray free electron laser facilities of an unparalleled scale, and continues to upgrade existing facilities. In addition to orders from IHEP, the world's largest next-generation synchrotron radiation facility under construction in Beijing, we have received orders from several other facilities, including Shanghai High Repetition Rate X-ray FEL and Extreme Light Facility (SHINE), an X-ray free electron laser facility under construction in Shanghai.

As for sales activities, we will continue to focus on China as a priority region despite the travel restrictions currently in effect in the country. Meanwhile, we have resumed face-to-face sales activities in Europe and the United States by taking advantage of normalized travel conditions, and we will cultivate demand by stepping up in-depth sales negotiations.

Turning to our proprietary technology, we are exploring applications in industrial fields other than X-ray mirrors, and plan to supply applications in the next-generation semiconductor and aerospace related fields heading into 2030.

As a result, during the period under review, the Optical segment recorded sales of ¥313,066 thousand (+65.4% year-on-year) and segment profit of ¥27,982 thousand (versus a loss of ¥54,333 thousand in the same period of the previous fiscal year).

(LS & Equipment Development segment)

We did not anticipate significant levels of sales in the segment in the six months ended December 31, 2022, but we recorded sales for water-based cooler and consumables for use in mononuclear cell separation equipment. Heading into the second half of the fiscal year, we are working to commercialize and secure orders for products in new priority fields in our equipment development business, including equipment related to catalyst-referred etching (CARE), plasma-assisted polishing (PAP), and quartz crystal unit wafer machining systems. We have already received orders

for next-generation polishing equipment and are promoting joint development with major companies.

As a result, the LS & Equipment Development segment recorded sales of ¥18,697 thousand (-84.0% year-on-year) and a segment loss of ¥66,563 thousand (versus a loss of ¥21,585 thousand in the same period of the previous fiscal year).

(Other segment)

The Other segment corresponds to subsidiary ESCO, Ltd. ESCO's sales are divided into three areas: equipment sales (thermal desorption spectrometry [TDS] equipment), equipment maintenance, and contract analysis services. Sales in the six months ended December 31, 2022 included the sale of one equipment unit each in South Korea, Taiwan, and Japan, for a total of three units.

As a result, the Other segment recorded sales of ¥193,722 thousand (+485.9% year-on-year) and segment profit of ¥53,883 thousand (versus a loss of ¥9,071 thousand in the same period of the previous fiscal year).

(2) Explanation of Financial Condition

1) Status of assets, liabilities, and net assets

(Assets)

As of December 31, 2022, current assets amounted to ¥1,404,151 thousand, up ¥102,755 thousand from their level on June 30, 2022. This was mainly because accounts receivable-trade declined by ¥105,802 thousand, while cash and deposits increased by ¥124,828 thousand and work in process grew by ¥51,822 thousand. Non-current assets came to ¥1,955,557 thousand, up ¥29,920 thousand compared to June 30, 2022. This was mainly because goodwill declined by ¥21,191 thousand due to ongoing depreciation, while deferred tax assets increased by ¥43,951 thousand.

As a result, total assets were ¥3,359,709 thousand, up ¥132,676 thousand from their level on June 30, 2022.

(Liabilities)

As of December 31, 2022, current liabilities came to ¥644,461 thousand, up ¥258,807 thousand from their level on June 30, 2022. This was mainly because short-term borrowings increased by ¥200,000 thousand and contract liabilities grew by ¥56,575 thousand. Non-current liabilities were ¥572,210 thousand, down ¥41,451 thousand compared to June 30, 2022. This was due to a ¥37,728 thousand decrease in long-term borrowings.

As a result, total liabilities were ¥1,216,671 thousand, up ¥217,356 thousand from their level on June 30, 2022.

(Net assets)

As of December 31, 2022, total net assets amounted to ¥2,143,037 thousand, down ¥84,679 thousand from their level on June 30, 2022. This was due primarily to the recording of a loss attributable to owners of parent of ¥97,681 thousand.

2) Cash flows

Cash and cash equivalents ("cash") amounted to ¥857,153 thousand as of December 31, 2022, up ¥124,828 thousand compared to June 30, 2022. The cash flows affecting this figure are outlined below.

(Cash flows from operating activities)

Net cash provided by operating activities was ¥25,053 thousand (versus ¥179,924 thousand provided in the same period of the previous fiscal year). This was mainly attributable to a ¥103,578 thousand decrease in trade receivables, a ¥56,575 thousand increase in contract liabilities, and ¥48,486 thousand in depreciation, which more than offset ¥124,962 thousand in loss before income taxes and a ¥79,117 thousand increase in inventories.

(Cash flows from investing activities)

Net cash used in investing activities totaled ¥69,007 thousand (versus ¥10,445 thousand used in the same period of the previous fiscal year). This was mainly attributable to ¥62,673 thousand used for the purchase of property, plant and equipment.

(Cash flows from financing activities)

Net cash provided by financing activities was ¥162,223 thousand (versus ¥235,855 thousand used in the same period of the previous fiscal year). This was mainly attributable to a ¥200,000 thousand net increase in short-term borrowings, which more than offset ¥37,728 thousand in repayments of long-term borrowings.

(3) Explanation of Financial Results Forecast and Other Forward-Looking Information

The Company has made no changes to its forecast for the fiscal year ending June 30, 2023 that it announced in the “Consolidated Financial Results for the Fiscal Year Ended June 30, 2022” released on August 12, 2022.

2. Quarterly Consolidated Financial Statements and Primary Notes

(1) Consolidated Balance Sheet

(Thousands of yen)

	As of June 30, 2022	As of December 31, 2022
Assets		
Current assets		
Cash and deposits	732,324	857,153
Accounts receivable–trade	248,641	142,838
Electronically recorded monetary claims–operating	1,881	4,104
Merchandise and finished goods	41,427	57,404
Work in process	172,143	223,966
Raw materials and supplies	42,360	53,678
Other	62,617	65,006
Total current assets	1,301,395	1,404,151
Non-current assets		
Property, plant and equipment		
Buildings and structures (net)	760,380	763,329
Machinery, equipment and vehicles (net)	220,294	214,093
Land	340,429	340,429
Construction in progress	32,285	39,684
Other (net)	9,628	8,333
Total property, plant and equipment	1,363,019	1,365,870
Intangible assets		
Goodwill	392,042	370,851
Other	11,279	9,450
Total intangible assets	403,322	380,301
Investments and other assets		
Investment securities	20,000	21,000
Deferred tax assets	126,761	170,713
Other	12,533	17,671
Total investments and other assets	159,295	209,385
Total non-current assets	1,925,636	1,955,557
Total assets	3,227,032	3,359,709

(Thousands of yen)

	As of June 30, 2022	As of December 31, 2022
Liabilities		
Current liabilities		
Accounts payable–trade	49,955	23,494
Short-term borrowings	–	200,000
Current portion of long-term borrowings	75,456	75,456
Income taxes payable	16,290	20,901
Contract liabilities	167,850	224,426
Provision for bonuses	21,689	23,645
Provision for loss on orders received	40	1,452
Other	54,371	75,084
Total current liabilities	385,654	644,461
Non-current liabilities		
Long-term borrowings	597,419	559,691
Provision for retirement benefits for directors (and other officers)	4,912	1,650
Retirement benefit liability	1,990	1,886
Other	9,339	8,983
Total non-current liabilities	613,661	572,210
Total liabilities	999,315	1,216,671
Net assets		
Shareholders' equity		
Share capital	822,246	828,771
Capital surplus	782,246	788,771
Retained earnings	623,727	526,046
Treasury shares	(502)	(550)
Total shareholders' equity	2,227,717	2,143,037
Total net assets	2,227,717	2,143,037
Total liabilities and net assets	3,227,032	3,359,709

(2) Consolidated Statement of Income and Consolidated Statement of Comprehensive Income

Consolidated Statement of Income

(Thousands of yen)

	For the six months ended December 31, 2021	For the six months ended December 31, 2022
Net sales	339,554	525,486
Cost of sales	189,074	209,076
Gross profit	150,480	316,410
Selling, general and administrative expenses	382,450	440,618
Operating profit (loss)	(231,970)	(124,207)
Non-operating income		
Interest income	2	2
Dividend income	—	2
Insurance claim income	—	5,191
Subsidy income	—	1,500
Other	92	155
Total non-operating income	95	6,851
Non-operating expenses		
Interest expenses	2,010	1,942
Foreign exchange losses	811	3,398
Other	19	14
Total non-operating expenses	2,841	5,355
Ordinary profit (loss)	(234,717)	(122,712)
Extraordinary income		
Gain on sale of non-current assets	—	299
Total extraordinary income	—	299
Extraordinary losses		
Loss on sale and retirement of non-current assets	442	—
Loss on sale of investment securities	20	—
Impairment losses	—	2,549
Total extraordinary losses	462	2,549
Profit (loss) before income taxes	(235,179)	(124,962)
Income taxes—current	2,200	16,671
Income taxes—deferred	(67,639)	(43,951)
Total income taxes	(65,439)	(27,280)
Profit (loss)	(169,740)	(97,681)
Profit attributable to non-controlling interests	—	—
Profit (loss) attributable to owners of parent	(169,740)	(97,681)

Consolidated Statement of Comprehensive Income

(Thousands of yen)

	For the six months ended December 31, 2021	For the six months ended December 31, 2022
Profit (loss)	(169,740)	(97,681)
Comprehensive income	(169,740)	(97,681)
(Breakdown)		
Comprehensive income attributable to owners of parent	(169,740)	(97,681)
Comprehensive income attributable to non-controlling interests	—	—

(3) Consolidated Statement of Cash Flows

(Thousands of yen)

	For the six months ended December 31, 2021	For the six months ended December 31, 2022
Cash flows from operating activities		
Profit (loss) before income taxes	(235,179)	(124,962)
Depreciation	47,818	48,486
Impairment losses	—	2,549
Amortization of goodwill	10,595	21,191
Increase (decrease) in provision for loss on orders received	1,565	1,412
Increase (decrease) in provision for bonuses	5,343	1,956
Increase (decrease) in provision for retirement benefits for directors (and other officers)	356	(3,262)
Increase (decrease) in retirement benefit liability	(67)	(104)
Interest and dividend income	(2)	(4)
Loss (gain) on sale of investment securities	20	—
Interest expenses	2,010	1,942
Decrease (increase) in trade receivables	248,282	103,578
Decrease (increase) in inventories	(71,783)	(79,117)
Decrease (increase) in prepaid expenses	2,567	(5,461)
Increase (decrease) in trade payables	56,902	(26,461)
Increase (decrease) in accrued expenses	(24,124)	9,207
Increase (decrease) in advances received	130,286	—
Increase (decrease) in contract liabilities	—	56,575
Other, net	5,567	17,908
Subtotal	180,158	25,434
Interest and dividends received	2	4
Interest paid	(2,005)	(2,018)
Income taxes paid	(2,469)	(11,149)
Income taxes refund	4,239	12,781
Net cash provided by (used in) operating activities	179,924	25,053
Cash flows from investing activities		
Purchase of property, plant and equipment	(11,205)	(62,673)
Purchase of intangible assets	(150)	(4,450)
Proceeds from sale of investment securities	1,104	—
Other, net	(195)	(1,884)
Net cash provided by (used in) investing activities	(10,445)	(69,007)
Cash flows from financing activities		
Net increase (decrease) in short-term borrowings	(200,000)	200,000
Repayments of long-term borrowings	(37,728)	(37,728)
Proceeds from issuance of shares resulting from exercise of share acquisition rights	2,010	—
Other, net	(137)	(48)
Net cash provided by (used in) financing activities	(235,855)	162,223
Effect of exchange rate change on cash and cash equivalents	5,023	6,558
Net increase (decrease) in cash and cash equivalents	(61,352)	124,828
Cash and cash equivalents at beginning of period	847,701	732,324
Cash and cash equivalents at end of period	786,349	857,153

(4) Notes to the Consolidated Financial Statements

(Notes on going concern assumption)

There is no relevant information.

(Notes in the event of significant changes in shareholders' equity)

The Company issued new shares as restricted stock compensation on October 28, 2022 based on a resolution approved at a meeting of the Board of Directors held on September 29, 2022. As a result, share capital and capital surplus increased by ¥6,525 thousand each in the six months ended December 31, 2022, leaving share capital at ¥828,771 thousand and capital surplus at ¥788,771 thousand as of December 31, 2022.

(Changes in accounting policies)

(Application of Implementation Guidance on Accounting Standard for Fair Value Measurement)

The Company began applying the Implementation Guidance on Accounting Standard for Fair Value Measurement (ASBJ Guidance No. 31; June 17, 2021; hereinafter the "Fair Value Measurement Implementation Guidance") at the beginning of the first quarter of the current fiscal year. In accordance with the transitional treatment set forth in Paragraph 27-2 of the Fair Value Measurement Implementation Guidance, the Company will apply the new accounting policy prescribed in the Fair Value Measurement Implementation Guidance prospectively. There is no impact on the quarterly consolidated financial statements.

(Change in the valuation method for inventories)

The Company previously used a cost method based on the specific identification method as the valuation method for its products. From the first quarter of the current fiscal year, it switched to a cost method based on the moving average method.

The aim of the change in valuation method is to refine profit management in the LS & Equipment Development segment by allowing the Company to rapidly ascertain inventory value and conduct adequate periodical accounting of profit and loss amid soaring raw material prices. This change only has a marginal impact, and has not been retroactively applied.

(Additional information)

There have been no significant changes to the assumptions underlying our accounting estimates in relation to the COVID-19 pandemic, which were described in the "Significant accounting estimates" in the Annual Securities Report for the fiscal year ended June 30, 2022.

(Segment information)

I Six months ended December 31, 2021 (July 1, 2021 to December 31, 2021)

1. Information on sales and profit (loss) by reportable segment

(Thousands of yen)

	Reportable segment				Adjustments (Note 1)	Amount stated in the quarterly consolidated statement of income (Note 2)
	Optical	LS & Equipment Development	Other	Total		
Net sales						
Sales to external customers	189,295	117,192	33,066	339,554	—	339,554
Total	189,295	117,192	33,066	339,554	—	339,554
Segment profit (loss)	(54,333)	(21,585)	(9,071)	(84,990)	(146,979)	(231,970)

Notes

1. "Adjustments" are company-wide expenses, mainly comprising general and administrative expenses, and research and development expenses not attributable to reportable segments.
2. Segment profit (loss) is adjusted to operating profit (loss) in the quarterly consolidated statement of income.

2. Information on impairment losses on non-current assets and goodwill, etc. by reportable segment

There is no relevant information.

II Six months ended December 31, 2022 (July 1, 2022 to December 31, 2022)

1. Information on sales and profit (loss) by reportable segment

(Thousands of yen)

	Reportable segment				Adjustments (Note 1)	Amount stated in the quarterly consolidated statement of income (Note 2)
	Optical	LS & Equipment Development	Other	Total		
Net sales						
Sales to external customers	313,066	18,697	193,722	525,486	—	525,486
Total	313,066	18,697	193,722	525,486	—	525,486
Segment profit (loss)	27,982	(66,563)	53,883	15,302	(139,510)	(124,207)

Notes

1. "Adjustments" are company-wide expenses, mainly comprising general and administrative expenses, and research and development expenses not attributable to reportable segments.
2. Segment profit (loss) is adjusted to operating profit (loss) in the quarterly consolidated statement of income.

2. Information on changes in reportable segments, etc.

"Other businesses," which was previously included in "Other," has become increased in significance, and is therefore listed as a reportable segment effective from the end of the fiscal year ended June 30, 2022.

The segment information for the six months ended December 31, 2021 is disclosed in accordance with the reportable segment classifications for the six months ended December 31, 2022.

3. Information on impairment losses on non-current assets and goodwill, etc., by reportable segment (Significant impairment losses on non-current assets)

The Company recorded an impairment loss of ¥2,549 thousand due to a decline in profitability in the LS & Equipment Development segment.

3. Other

(Significant events relating to going concern assumption, etc.)

The Group recorded an operating loss of ¥124,207 thousand in the first half of the current fiscal year, and therefore judges that there are events or conditions that cast significant doubt on its ability to continue as a going concern.

To resolve these conditions, the Group plans to engage in close communication with customers and build a flexible manufacturing system that factors in conditions in the countries or regions where our customers are situated. In this way, we will work toward a position that will allow us to adequately cope with unforeseen circumstances.

Our financial base is stable, and we have obtained a short-term loan of ¥200,000 thousand to launch our Tochigi Production Technology Center and cover research and development expenses. We also have overdraft agreements with financial institutions for a total of ¥900,000 thousand. The undrawn balance of the overdraft agreement for the first half of the current fiscal year was ¥700,000 thousand.

In light of the above, the Group judges that there is no significant uncertainty about its ability to continue as a going concern.