

Translation

Notice: This document has been translated from the Japanese original for reference purposes. In the event of any discrepancy between this translated document and the Japanese original, the latter shall prevail.



Securities code: 6524

A large graphic background for the slide, consisting of a dark blue field filled with a grid of small, glowing cyan dots. The dots are arranged in a pattern that suggests a globe or a complex network, with some dots appearing brighter and more prominent than others. The overall effect is one of high-tech precision and global connectivity.

World-Class Manufacturing

Financial Results Materials First Quarter of FY12/2023

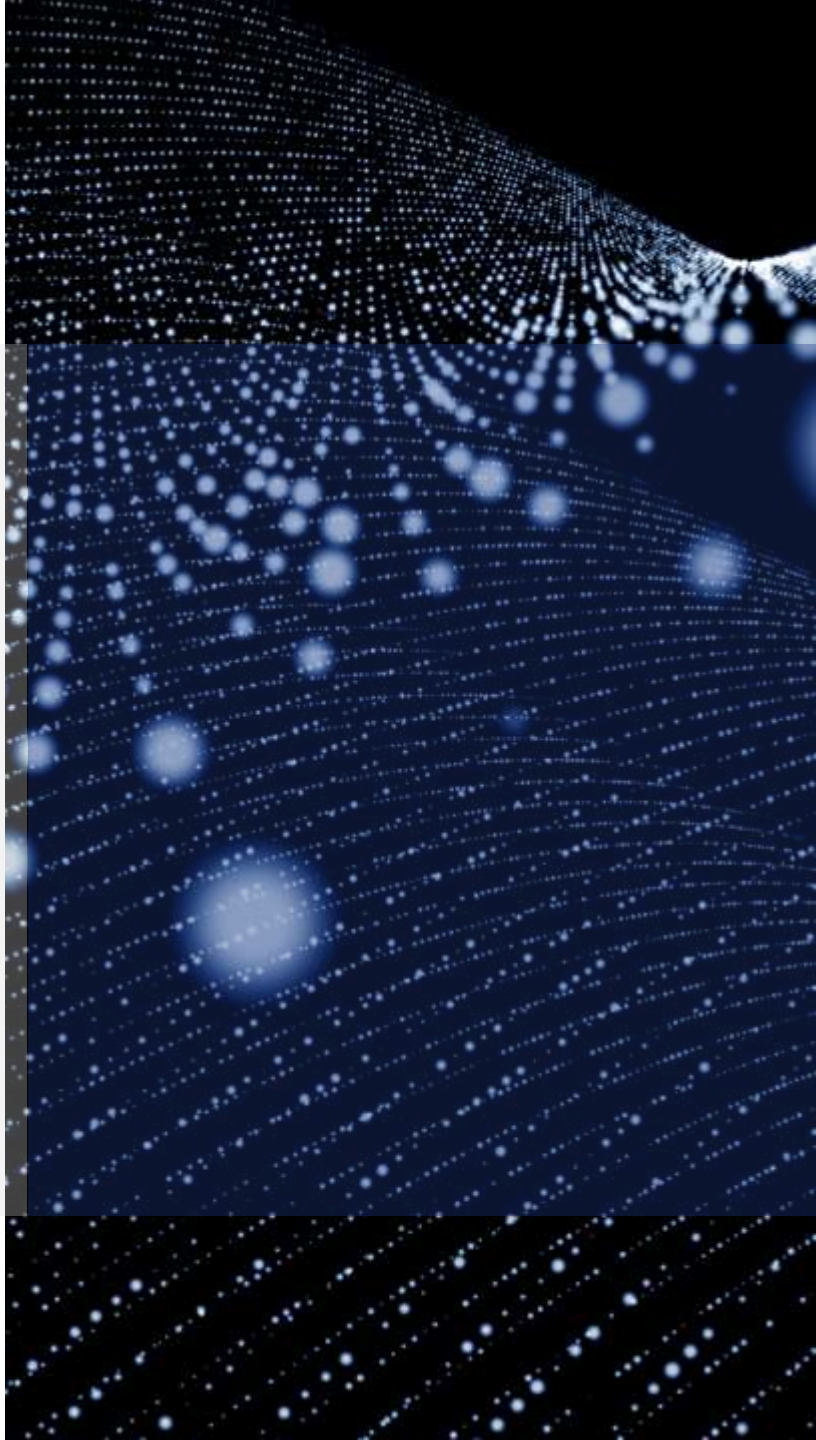
Kohoku Kogyo is a leading manufacturer of lead terminals for aluminum electrolytic capacitors and parts for submarine optical communication.


Kohoku Kogyo Co., Ltd.
May 11, 2023

Index

- I. Financial summary for the 1st quarter of P. 2
FY12/2023

- II. Forecast for FY12/2023 P.28





I. Financial Summary for First Quarter of FY 12/2023

Highlights of First Quarter of FY12/2023

- **Sales in the Lead Terminals Business deteriorated more than expected.**
Serious inventory adjustment of components and materials due to sluggish information and telecommunications equipment market
Impacted by the unexpected adjustments in the automotive electronics market
- **Optical Components and Devices business remained almost in line with the plan, while inventory adjustments due to the supply chain disruptions are factored into the plan.**

● Macro Environment

- With COVID-19 gradually subsiding, some adjustment has been made to excess inventory as stay-at-home demand declines and supply chain normalizes.
- Economic recovery is slow in China and other countries.
- Rising global inflation and financial instability in the U.S. and Europe have raised concerns about the economic outlook.
- Geopolitical risks remain such as in the Russia/Ukraine situation and the U.S.-China conflicts.

● Business Environment

- Information and telecommunications equipment market shows no signs of recovery and continues to face difficult conditions.
- In the automotive market, European manufacturers in particular have adjusted excess inventories of some parts and materials, as the supply chain gradually normalizes.
- Prices of key materials declined year-on-year, but demand remained sluggish.
- In the submarine cable market, inventory adjustment has continued, despite stabilizing supply chain disruptions.
- Sri Lankan situation settled, and normal operations continue.

Income Statement (Q1) Summary

No recovery from the previous quarter in the continuing difficult conditions

(Millions of yen)

	FY12/2022	FY12/2023			4Q (Oct.-Dec.)	FY12/2022	
	1Q (Jan-Mar)	1Q (Jan-Mar)	YoY change	YoY change (%)		QoQ change	QoQ change (%)
Net sales	3,954	3,521	-433	-11.0%	3,771	-250	-6.6%
Lead Terminals Business	2,052	1,864	-188	-9.2%	2,071	-207	-10.0%
Optical Components and Devices	1,901	1,656	-244	-12.9%	1,699	-43	-2.5%
Operating profit	1,062	846	-216	-20.4%	769	+77	+10.0%
<i>Operating margin ratio</i>	26.9%	24.0%	-2.9pt	—	20.4%	+3.6pt	—
Ordinary profit	1,299	882	-416	-32.0%	354	+527	+148.7%
Profit attributable to owners of parent	886	564	-321	-36.3%	373	+191	+51.2%
Exchange rate (average for the period)	116.34yen/\$	132.40yen/\$			141.43yen/\$		

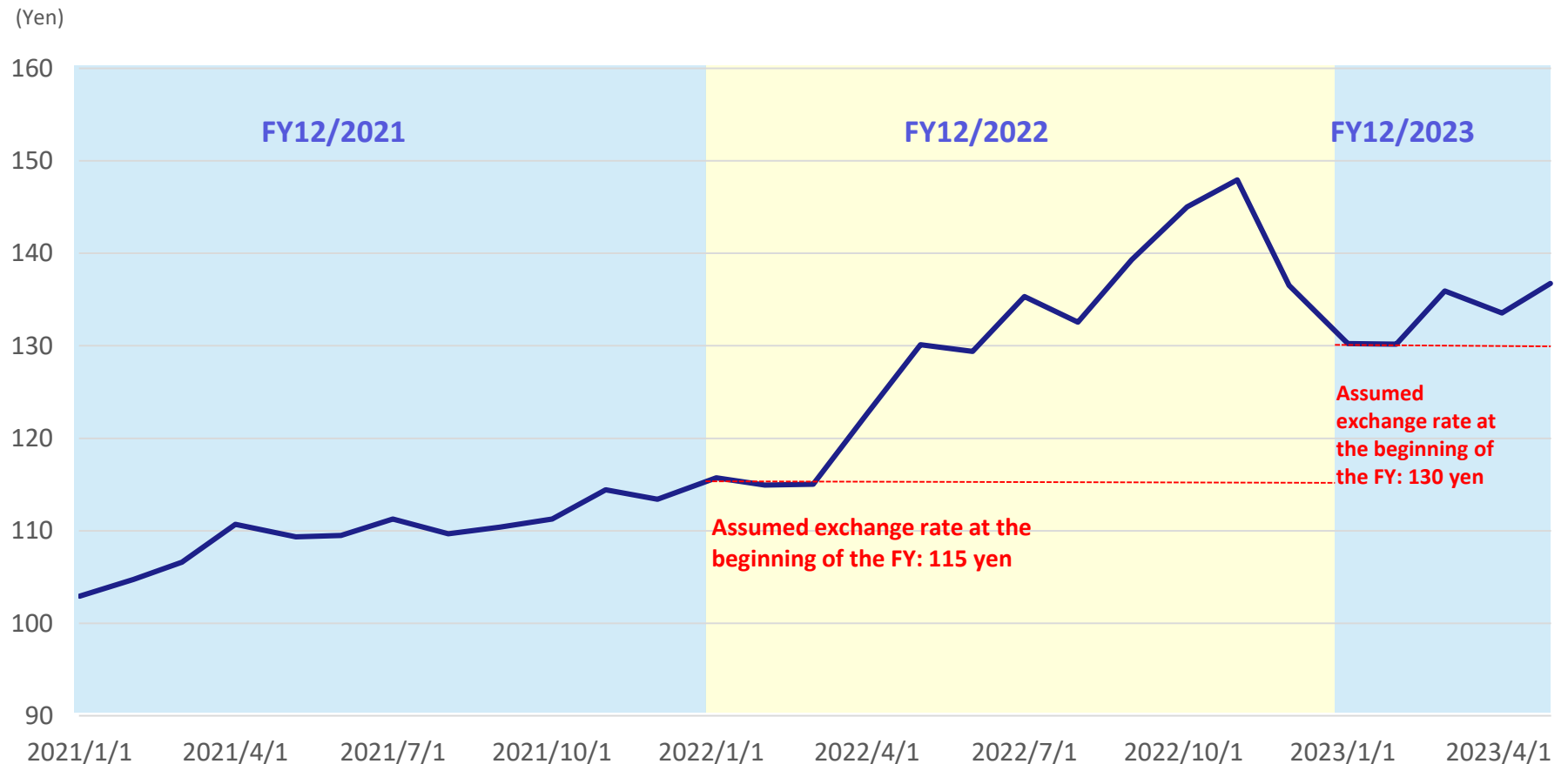
*Figures are rounded down to the nearest million yen.

- Fixed cost ratio increased due to a decline in sales, and operating profit margin declined by 2.9 pts.
- Ordinary profit decreased by 32.0% YoY due to a 170 million yen decline in foreign exchange gains in non-Operating profit.

Business Environment for FY12/2023 (1Q)

After the weakening yen in the FY12/2022, FY12/2023 (1Q) saw the yen trading at around the rate assumed at the beginning of the fiscal year.

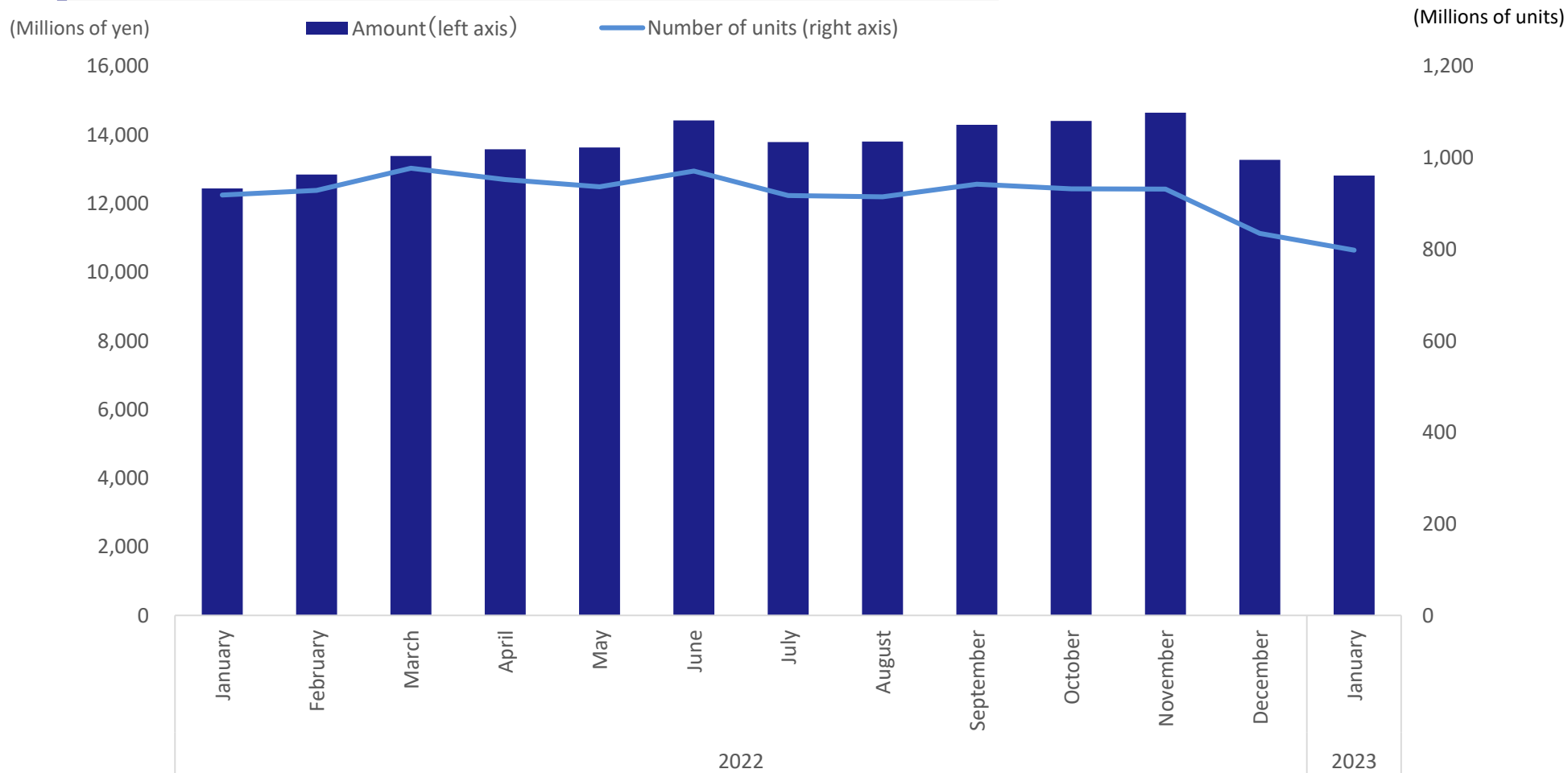
USD/JPY trend graph



Business Environment for FY12/2023 (1Q)

Aluminum electrolytic capacitor market slows sharply from end of 2022 due to inventory adjustment

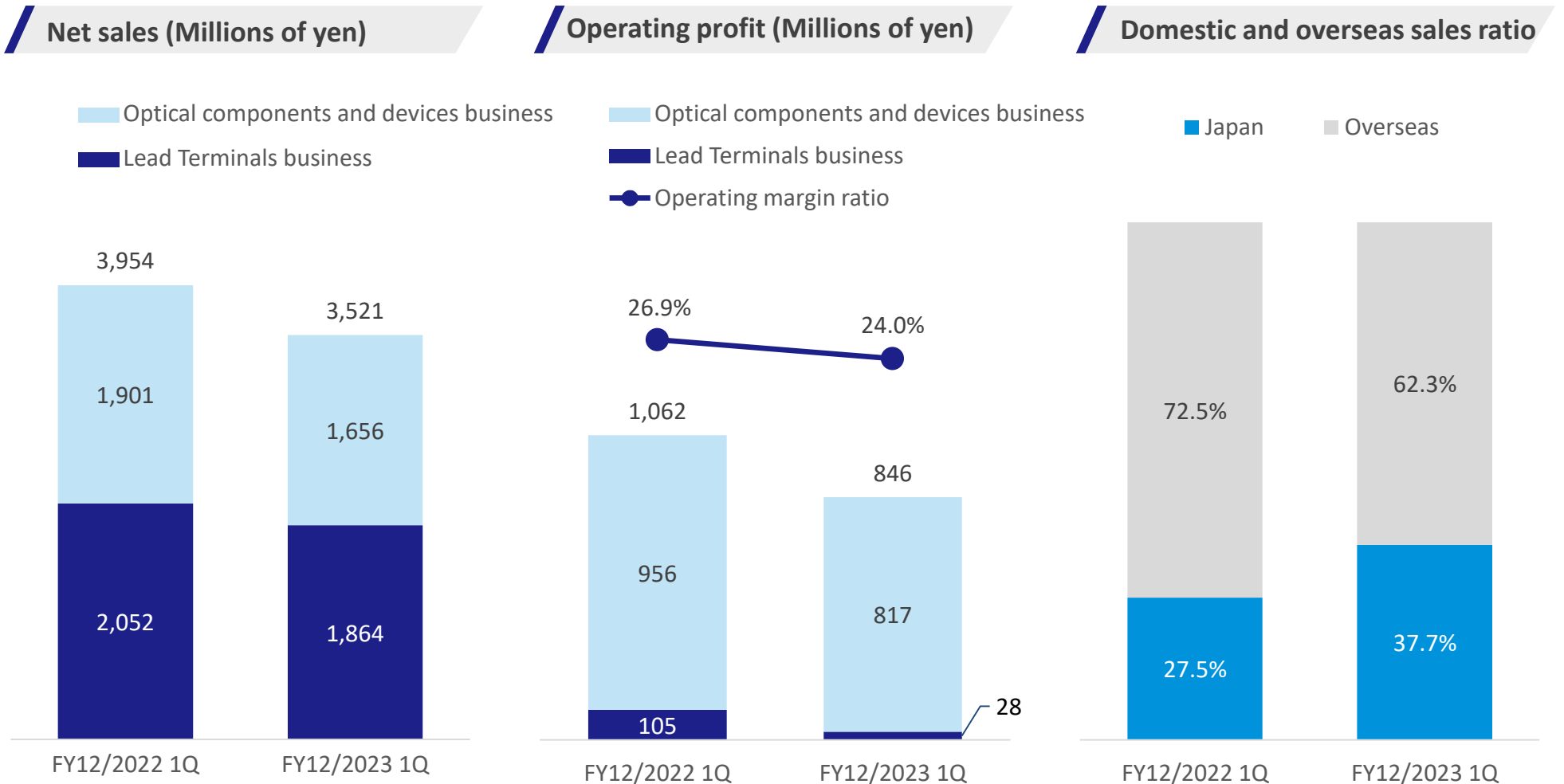
Aluminum Electrolytic Capacitor Production (Global Shipments by Japanese Manufacturers)



(Source: JEITA Global Shipment Statistics of Electronic Components)

Results by Segment and Ratio of Domestic and Overseas Sales (Q1)

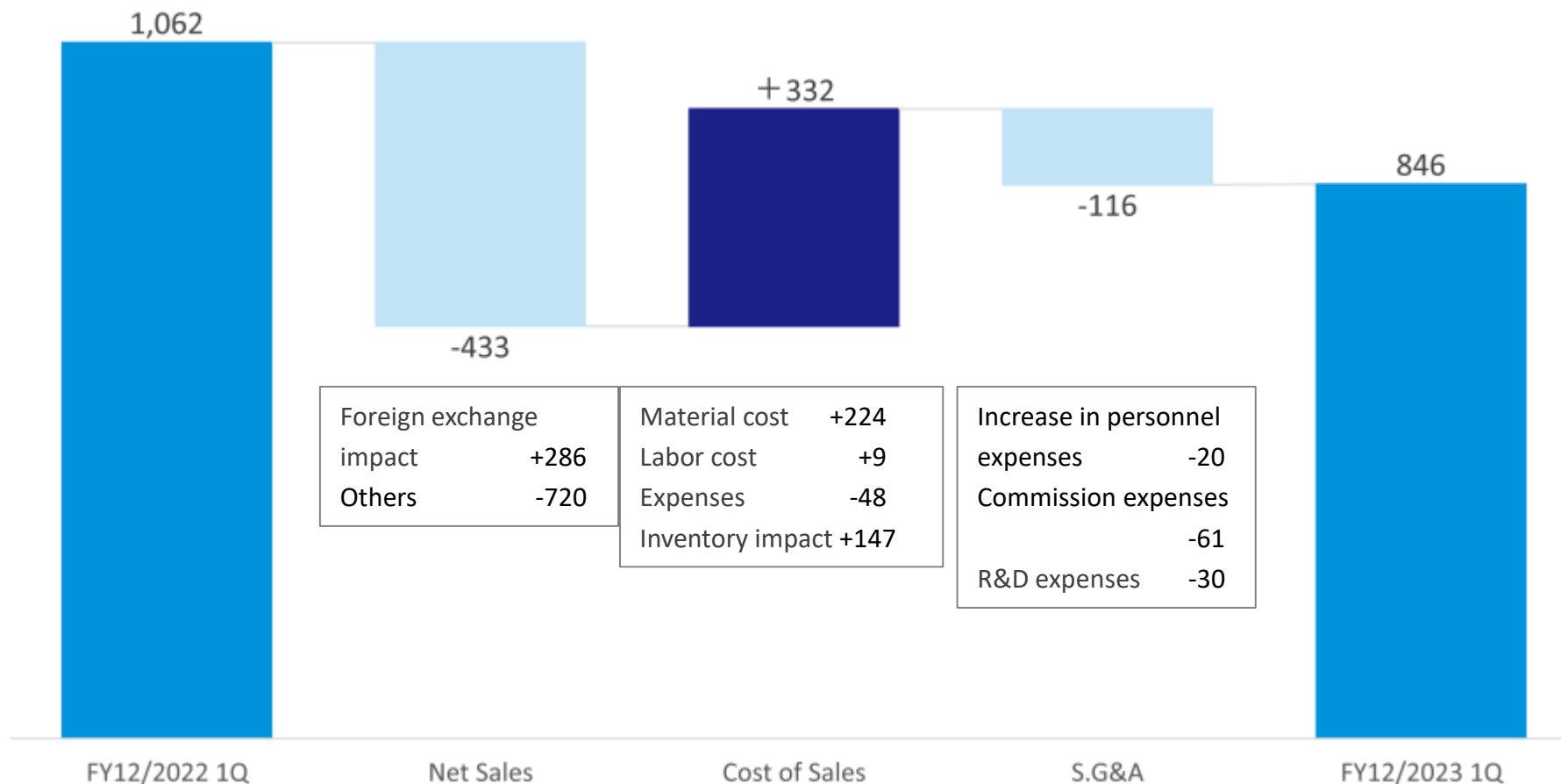
- Sales of lead terminals and optical components and devices both declined around 10%.
- Domestic sales ratio increased due to change in customer mix of optical components and devices.



Operating profit (Q1) Increase/Decrease Factors (YoY basis)

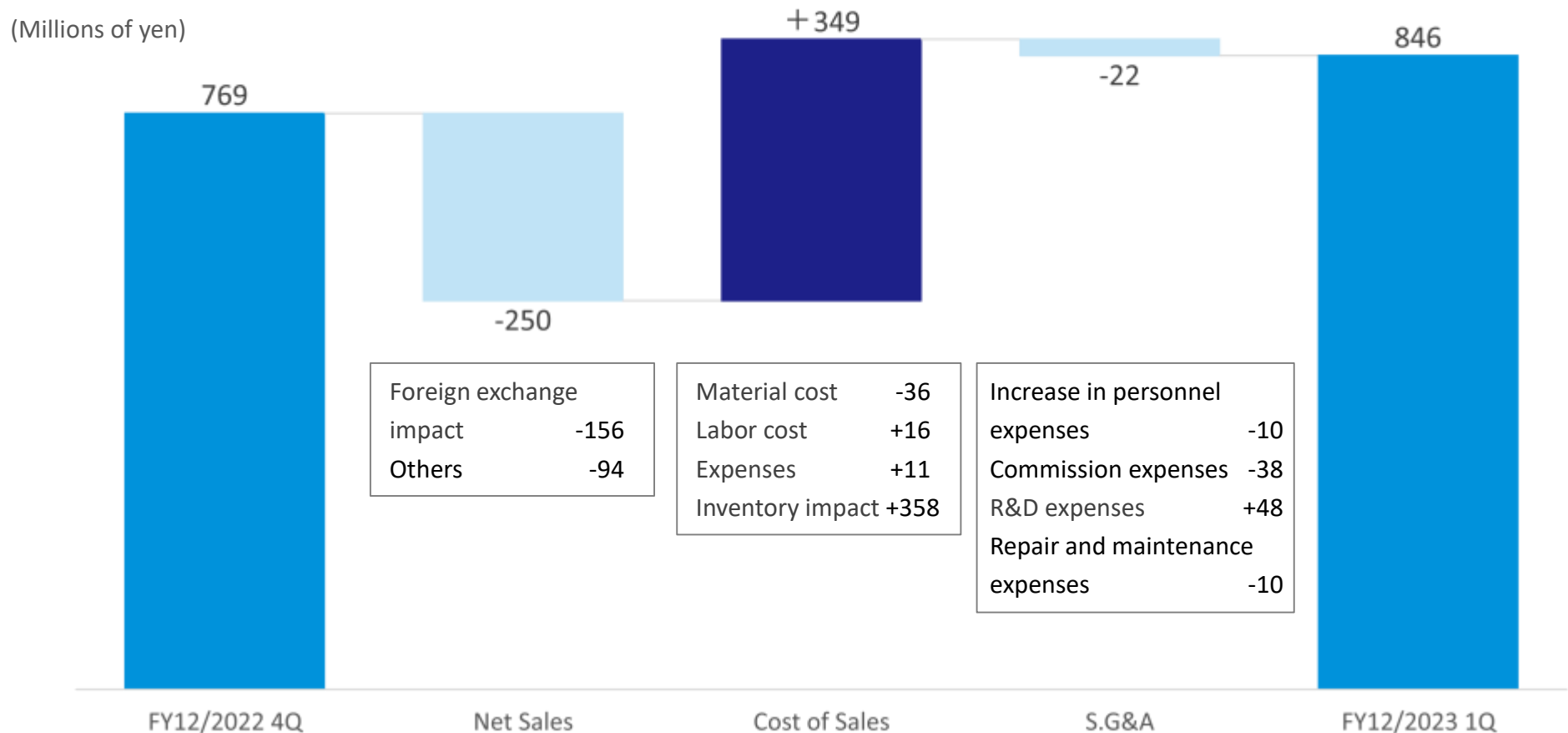
While significantly impacted by the sales volume declines in both businesses, the Operating profit decrease was limited to 216 million yen due to lower material costs and a temporary increase in inventories following the relocation of the Suzhou plant.

(Millions of yen)



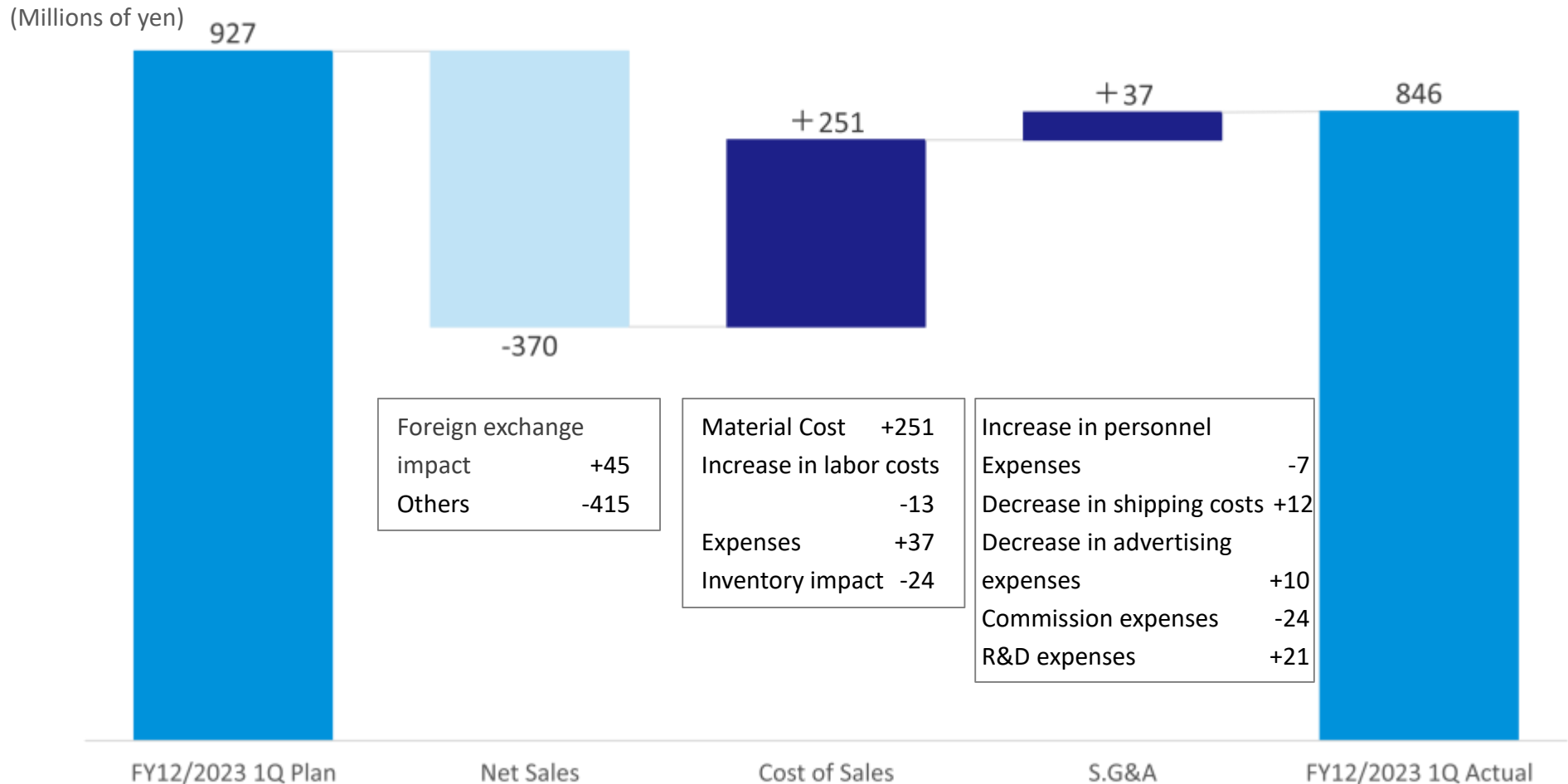
Operating profit (Q1) Increase/Decrease Factors (QoQ basis)

Operating profit grew ¥77 million q-o-q, with inventory increase in the Lead Terminals business being a big contributor.



Operating profit (Q1) Increase/Decrease Factors (vs. Plan)

Operating profit was 8.7% behind the plan due to a significant sales volume decline in the Lead Terminals business.



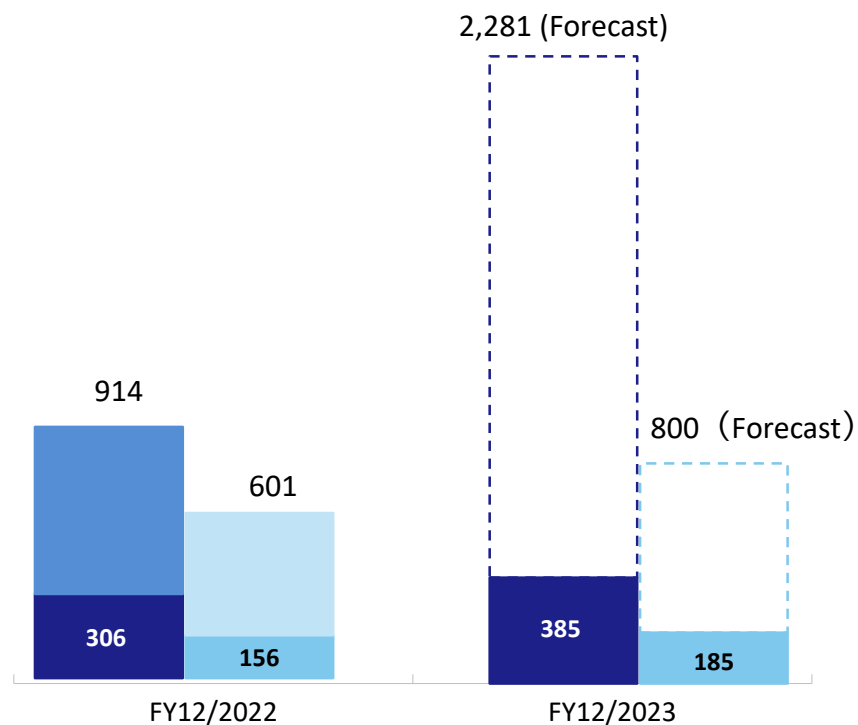
Capital Expenditures and R&D Expenses (Q1)

Capital Expenditures and R&D investment were made generally as planned

(Millions of Yen)

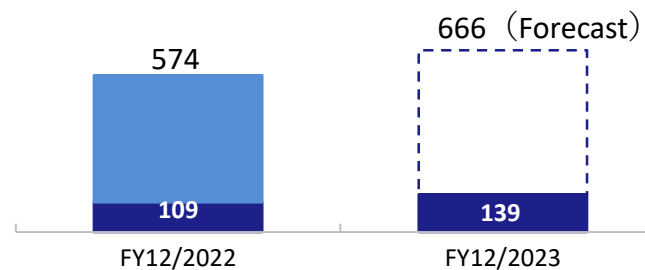
Capital expenditures and depreciation

Capital Expenditures ■ Full year ■ 1Q
 Depreciation and amortization ■ Full year ■ 1Q



R&D expenses

■ 1Q ■ Full year



Summary of Balance Sheet (Q1)

(Millions of yen)

Balance Sheet	End of FY12/2022	End of Q1 FY12/2023	Increase/decrease	Remarks
Current assets	17,227	16,697	-530	Cash and deposits -705 Inventories +270
Non-current assets	7,057	7,339	+281	Construction in progress +258
Total assets	24,285	24,036	-248	
Current liabilities	3,375	3,127	-248	Income taxes payable -281
Non-current liabilities	2,613	2,435	-177	Long-term borrowings -193
Total liabilities	5,988	5,562	-426	
Total net assets	18,296	18,473	+177	
Total liabilities and net assets	24,285	24,036	-248	

*Figures are rounded down to the nearest million yen.



<Situation by segment in 1Q of FY12/2023>

Results by Segment (Q1) - Lead Terminals

Decrease in sales and income due to worsening market conditions

(Millions of yen)

	FY12/2022	FY12/2023			FY12/2022	FY12/2023		
	1Q (Jan-Mar)	1Q (Jan-Mar)	YoY change	YoY change (%)	4Q (Oct-Dec)	1Q (Jan-Mar)	QoQ change	QoQ change (%)
Net Sales	2,052	1,864	-188	-9.2%	2,071	1,864	-207	-10.0%
Operating profit	105	28	-77	-72.8%	-34	28	+63	—
<i>Operating margin ratio</i>	5.2%	1.5%	-3.7pt	—	-1.7%	1.5%	+3.2pt	—

*Figures are rounded down to the nearest million yen.

Overview of FY12/2023 (1Q)

- **Current business environment has worsened more than expected at the beginning of the FY.**
 - Amid supply chain disruptions, excess inventories, piled up through June 2022, have been adjusted to the appropriate size.
 - Inventory adjustments in the information and telecommunications equipment market have continued since last year, and sales of PCs and other IT-related equipment have been weak.
- **Efforts to recover business performance**
 - Sales promotion activities for the new product "Burr-free" are on track, but some hiring is behind the schedule. Sales are expected to increase sequentially from April onward.
 - Price review has continued for unprofitable products, and agreement in principle for price change was received from major customers.
 - Efforts have been made to develop new welding technology to achieve high efficiency and precision.

Market and business environment: Comparison between assumption at beginning of the FY and now (Lead Terminals)

1. Our perception based on information from customers, market research firms, and other sources.

	Initial Comments	Current Situation
(1) Overall aluminum electrolytic capacitor market (mainly Japanese customers)	<ul style="list-style-type: none"> ● In 2023, automotive application sales are expected to increase slightly during the first half of the year and recover in the second half compared with 2022 as the shortage of semiconductors is likely to continue while on-automotive sales are expected to decrease slightly. 	<ul style="list-style-type: none"> ➤ In the automotive business, semiconductor shortages have remained, and unexpected inventory adjustment has continued, mainly for European customers. It is expected to continue until the middle of the year.
	<ul style="list-style-type: none"> ● The telecommunications equipment sector is expected to remain in a severe situation in the first half of 2023 due to the delayed recovery of the Chinese market but should gradually recover in the second half. 	<ul style="list-style-type: none"> ➤ While there are some signs of recovery in the Chinese market, the overall conditions are expected to remain difficult.
(2) Trends by application	<ul style="list-style-type: none"> ● Sales of hybrid capacitors for the automotive market increased by approximately 30% (replacing some existing markets). 	<ul style="list-style-type: none"> ➤ Overall outlook is favorable, but some inventory adjustments are seen due to excessive distribution inventory.
	<ul style="list-style-type: none"> ● The overall automobile market grows only slightly, but the EV market is expected to grow significantly. 	<ul style="list-style-type: none"> ➤ While the production for EV market keeps its up trend, the overall automobile market, especially in Europe and the U.S., will continue to adjust its piled up inventories until the middle of the year.
	<ul style="list-style-type: none"> ● Regarding the ICT market, the PC/server/smartphone market will continue to be sluggish during the first half of this year. 	<ul style="list-style-type: none"> ➤ Some products for various manufacturers of PC, server, and smartphone chargers are recovering. As expected, however, difficult conditions overall will remain through the second half of this year.

Market and business environment: Comparison between assumption at beginning of the FY and now (Lead Terminals)

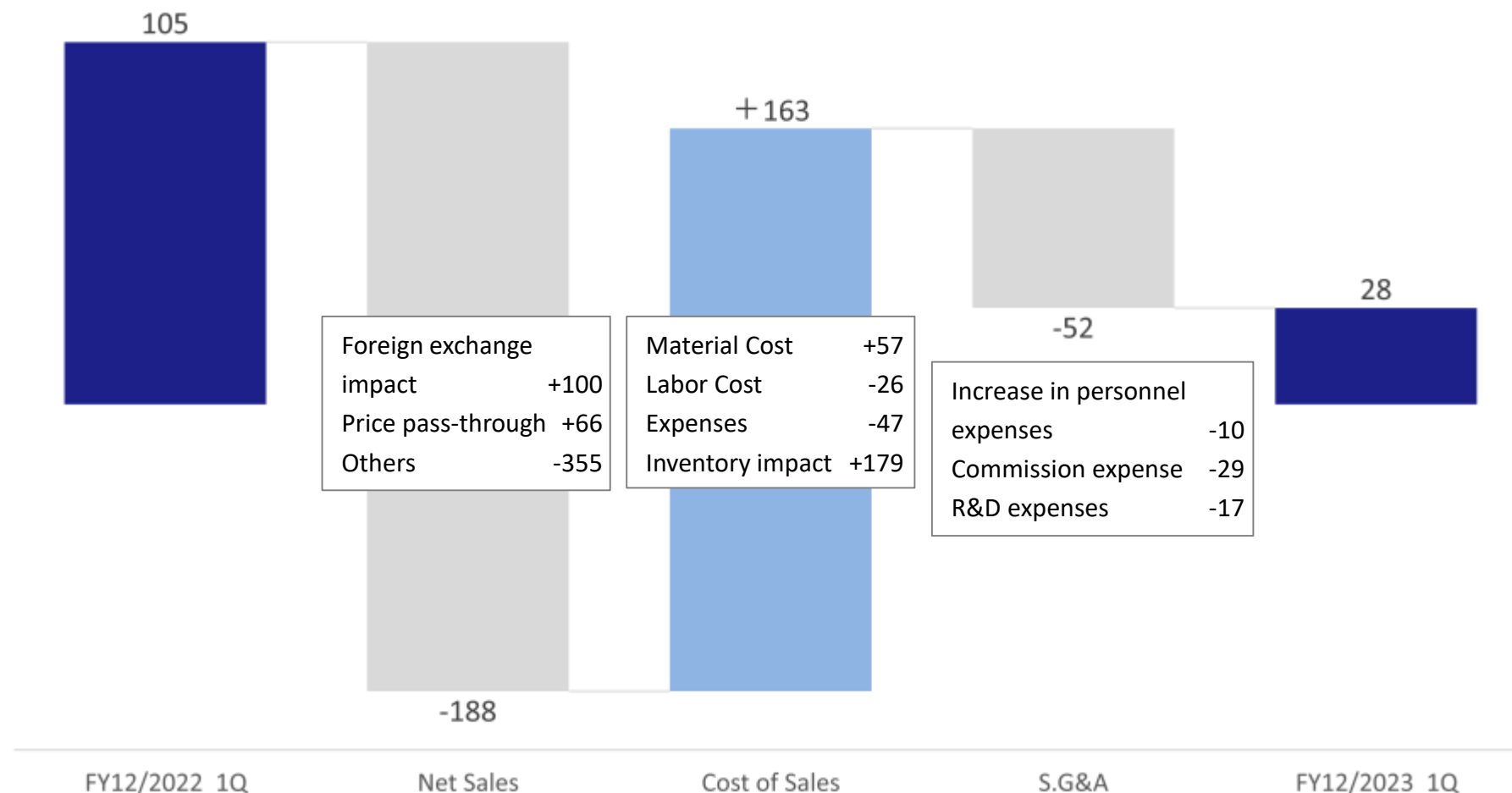
2. Our Business Environment

	Initial Comments	Current Situation
(1) Production	● Production will be suspended at the Suzhou factory from July to September 2023. It is expected to resume in October.	➤ The relocation is one month ahead of schedule. Production at the old plant will be halted in June, and the new plant will begin operations in August in sequence.
	● Inventory accumulation and inventory sales at the Suzhou factory until June, equipment transfer to the Dongguan/Malaysia factories, and production increase.	➤ Inventory buildup to be completed by May.
	● Due to the relocation of the Suzhou factory, the overseas production ratio will change from 5:2:2 to 3:3:3 (Suzhou: Dongguan: Malaysia).	➤ As planned, no change
	● The cost burden associated with the relocation is about 500 million yen.	➤ As planned, no change
(2) Sales	● In line with the growth of hybrid capacitors, we will significantly increase the production of a new burr-free type (at all bases) and raise sales of high-performance products to 20% at once.	➤ Some delay in hiring. Ratio of new products (high-spec products) is expected to be about 15% in October-December.
	● Sales of new products other than burr-free type are expected to increase in the second half of the year in line with the growth of the automotive application market.	➤ No change in the up trend in the second half of the year
	● Gradual expansion of automotive EDLC (Electric Double Layer Capacitor)	➤ Gradual expansion as planned
(3) Technology	● Started development of new welding technology that will be the cornerstone of lead terminals technology (targeting for practical application in 2024)	➤ Progress has been steady.
	● Higher speed rotation (300 rpm → 350 rpm), operational availability (85% → 90%), OEE (overall equipment effectiveness) (83% → 90%).	➤ Progress has been steady.

Factors of Increase/Decrease in Operating profit by Segment (YoY) - Lead Terminals

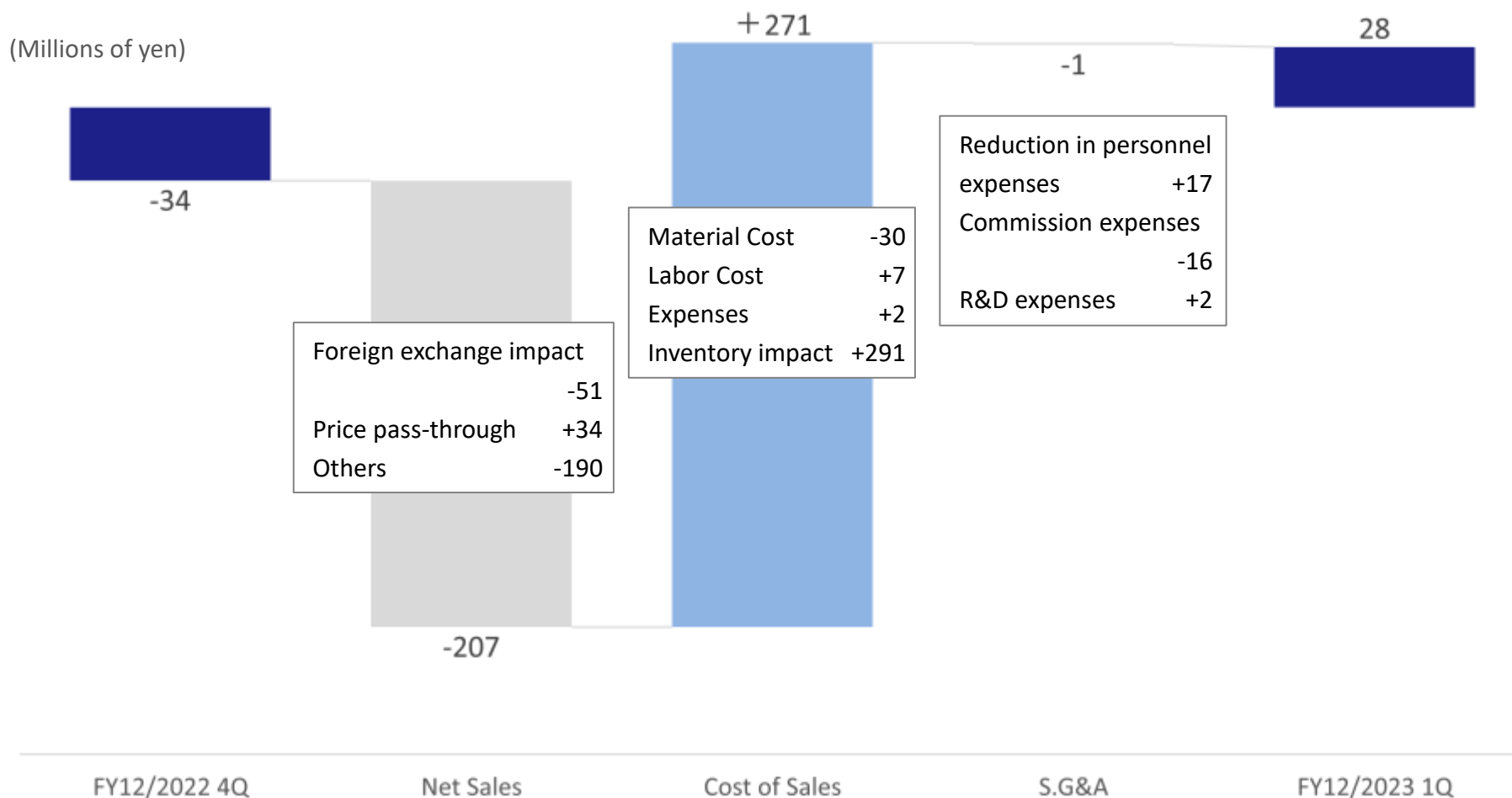
Profit decreased significantly due to the impact of lower sales volume, but the inventory impact reduced the profit decline.

(Millions of yen)



Factors of Increase/Decrease in Operating profit by Segment (QoQ) - Lead Terminals

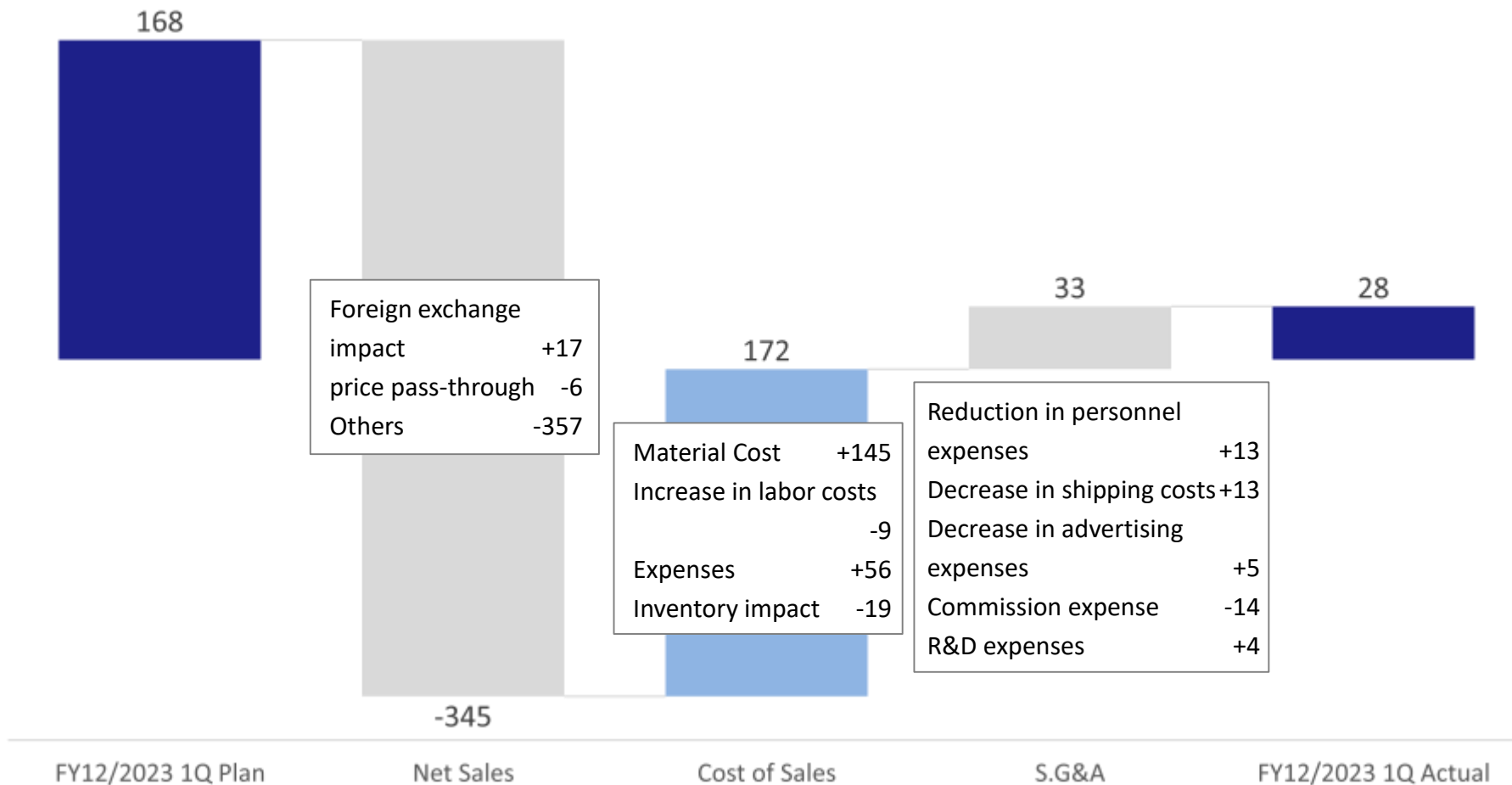
The segment returned to profitability due to temporary inventory buildup associated with the Suzhou plant relocation, despite significant deterioration in sales.



Factors of Increase/Decrease in Operating profit by Segment (vs. Plan) - Lead Terminals

Despite the impact of significant sales volume declines, relevant reduction in material costs and cost controls contributed in part to the profitability.

(Millions of yen)



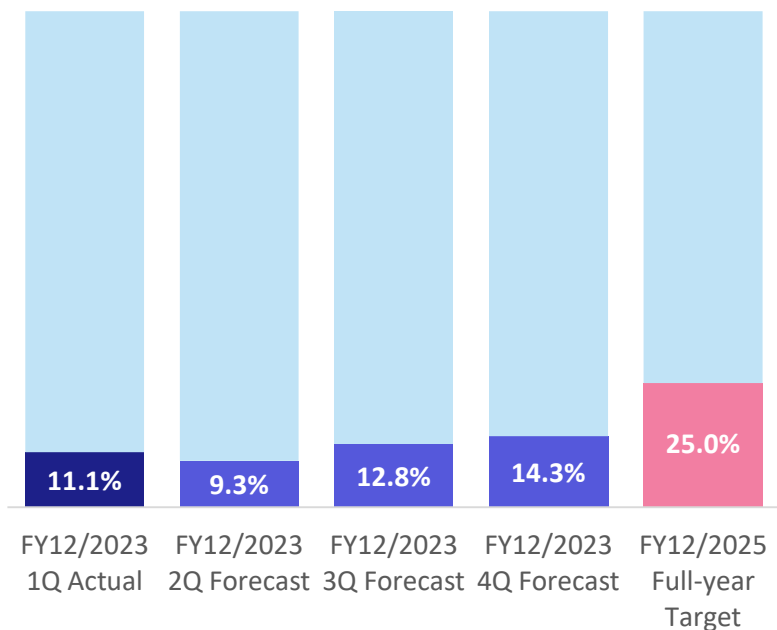
Strengthen Profitability of Core Business (Lead Terminals)

1. Improve sales ratio of new products.

Sales Ratio of New Products



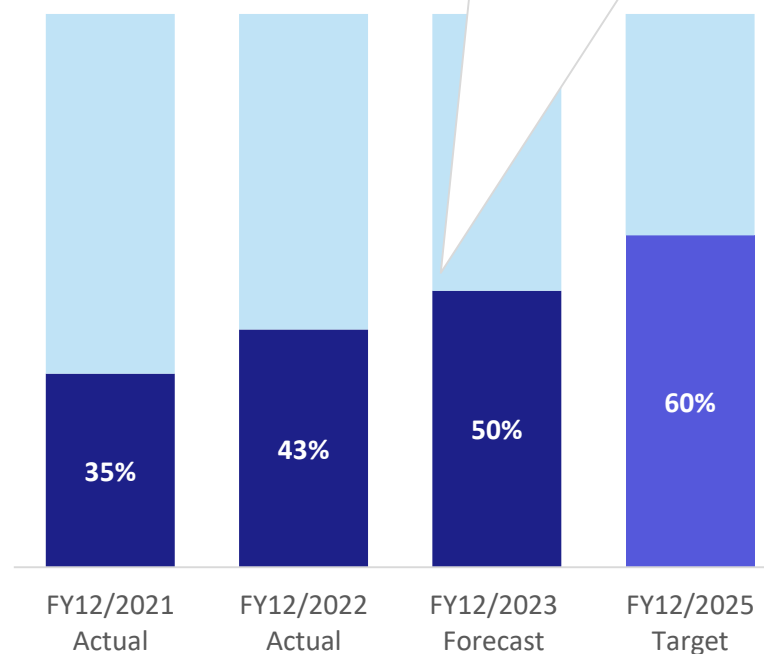
Strengthen the production system for burr-free type, which is the main item among new products, and respond to the expansion of the hybrid capacitors used in vehicles, drive units, brakes, etc.



New product sales promotion activities are on track, with some delays in hiring and mass production schedules.

Ratio of Sales to the Automotive Market

Assumed that sales ratio for automobiles in the first quarter remained unchanged from the previous quarter (43%).



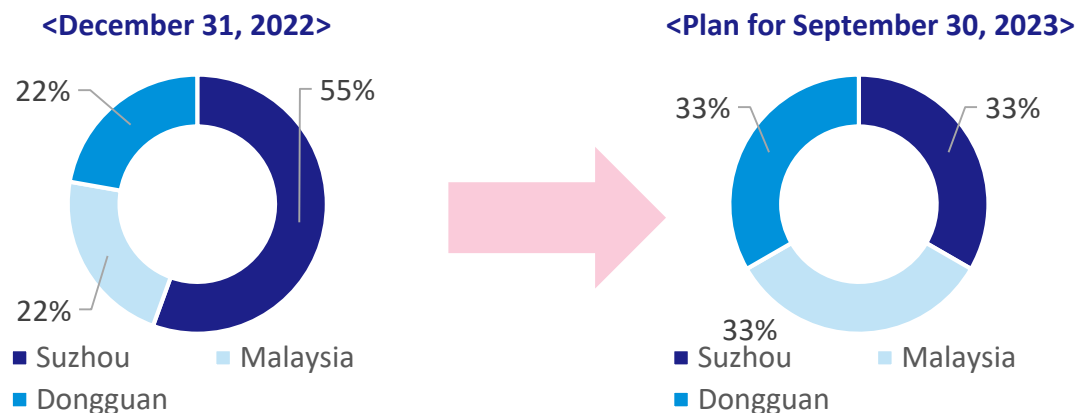
Strengthen Profitability of Core Business (Lead Terminals)

2. Progress in negotiations with each customer for price correction

- ✓ Completed price review negotiations with major customers by March. The new prices applied in April will improve profitability.
- ✓ Introduced a sliding scale system of material prices for all major customers. Looking to shorten sliding scale calculation period (maximum 6 months ⇒ maximum 3 months)

3. Progress in relocating production system

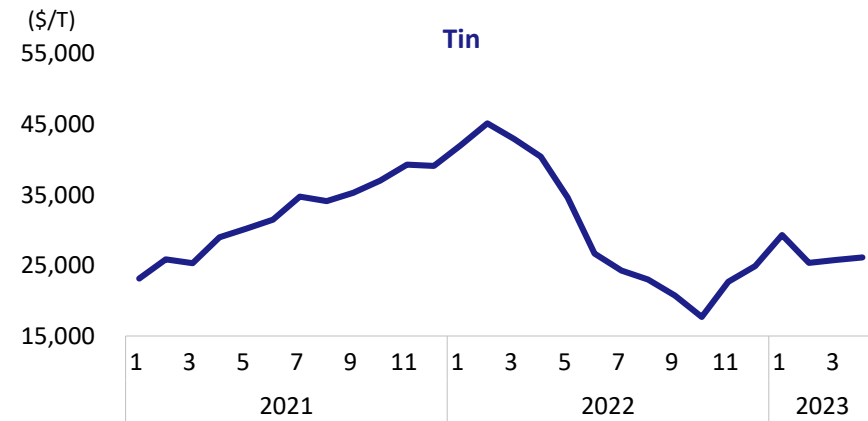
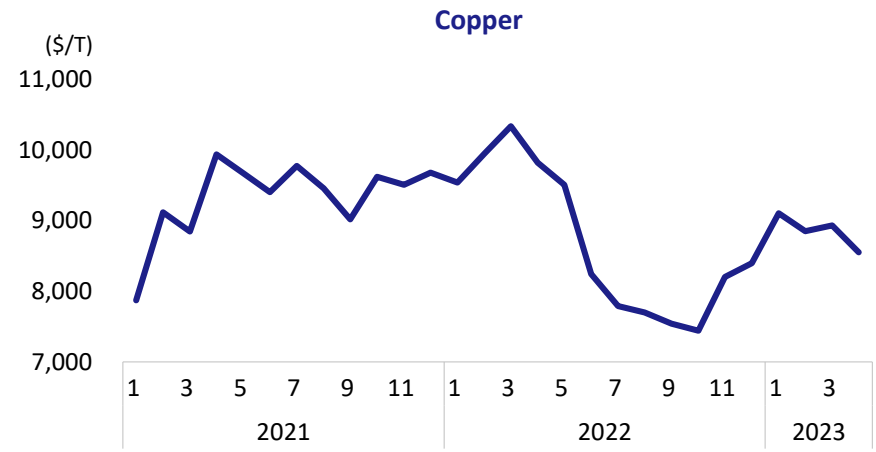
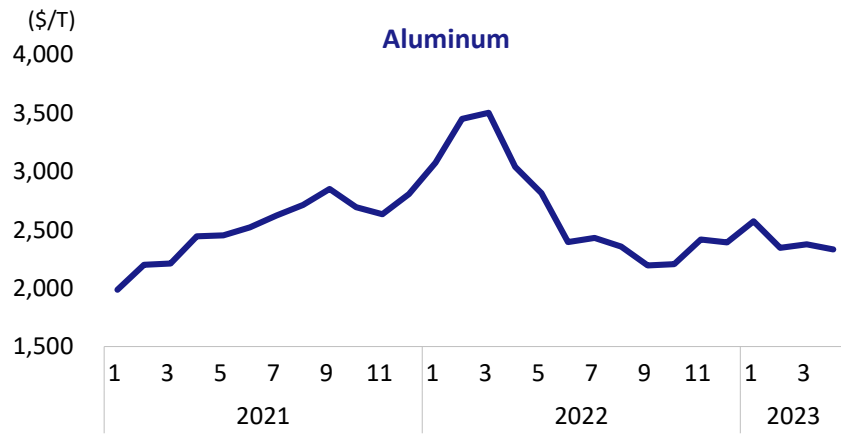
- ✓ Relocation moved up one month at the request of the local government
- ✓ Production at the old plant to be halted in early June, relocating facilities sequentially, beginning sample shipments in July, starting mass production sequentially in August after customer approval, and completing the transition in October.
- ✓ Inventory buildup is expected to be completed by May with about 4 months of inventory to be shipped from the Suzhou plant.



External Environment –Non-Ferrous Metals Market Trends

Market prices of aluminum, copper, tin, etc. reversed from the downward trend in the second half of last year. Current prices are near 2021 levels.

Non-Ferrous Metals Market (LME)



Results by Segment – Optical Components and Devices

Inventory adjustments triggered by supply chain disruptions have not been resolved, resulting in lower sales.

Sales of submarine cables slightly surpassed our initial forecast, while onshore cable sales continue to face difficult conditions.

(Millions of yen)

	FY12/2022	FY12/2023			FY12/2022	FY12/2023		
	1Q (Jan-Mar)	1Q (Jan-Mar)	YoY change	YoY change (%)	4Q (Oct-Dec)	1Q (Jan-Mar)	QoQ change	QoQ change (%)
Net Sales	1,901	1,656	-244	-12.9%	1,699	1,656	-43	-2.5%
Operating profit	956	817	-139	-14.6%	804	817	+13	+1.7%
<i>Operating margin ratio</i>	50.3%	49.3%	-1.0pt	—	47.3%	49.3%	+2.0pt	—

Overview of FY12/2023 (1Q)

*Figures are rounded down to the nearest million yen.

● Inventory adjustments continue to weigh on sales

- Inventory adjustments for submarine cables, triggered by supply chain disruptions, continue at some customers.
- In the land-based optical communications market, the business is facing difficulties due to adjustments in the data center-related segment, in addition to restrictions on deliveries caused by the U.S.-China frictions.

● Investments in R&D and productivity improvements

- Steady progress in development and prototyping of composite products for multi-core
- Activities to strengthen BCP are making steady progress, such as in automation of assembly processes and flood countermeasures in the pre-head office process.

The recent market environment surrounding the Company: Changes from the assumptions made at the beginning of the fiscal year(Optical Components and Devices Business)

<Market and business environment>

Sluggish demand for optical components of land-based applications. Conditions remain severe.

- Optical components for submarine cables are more or less in line with our projections, with some variations for each customer.
- Positive impact on profitability by changing product mix
- Optical components for land-based applications (optical fiber array products) are in a very difficult situation.

<Q2 forecast>

Inventory adjustment continues, but there are signs of a turnaround, including unexpected orders for submarine cables.

- Customers will continue to adjust their orders from April onward.
- The Company received long-term orders, not expected at the beginning of the fiscal year, from some customers, leading to possible increase in sales plan toward the second half of the year.
- Conditions for land-based optical components will remain extremely severe.

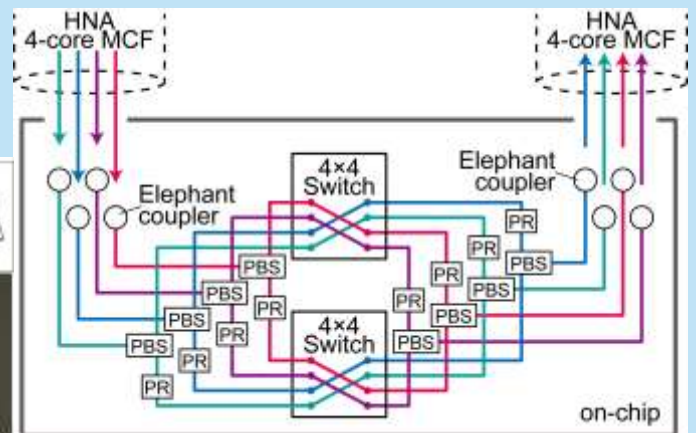
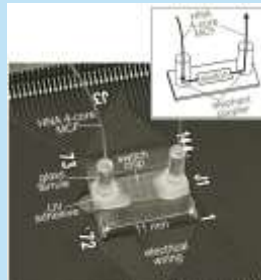
Topics

OFC2023 Research Results Presentation

Optical Devices for Next Generation Space Division Multiplexing (SDM) Transmission

Jointly developed with the National Institute of Advanced Industrial Science and Technology (AIST)

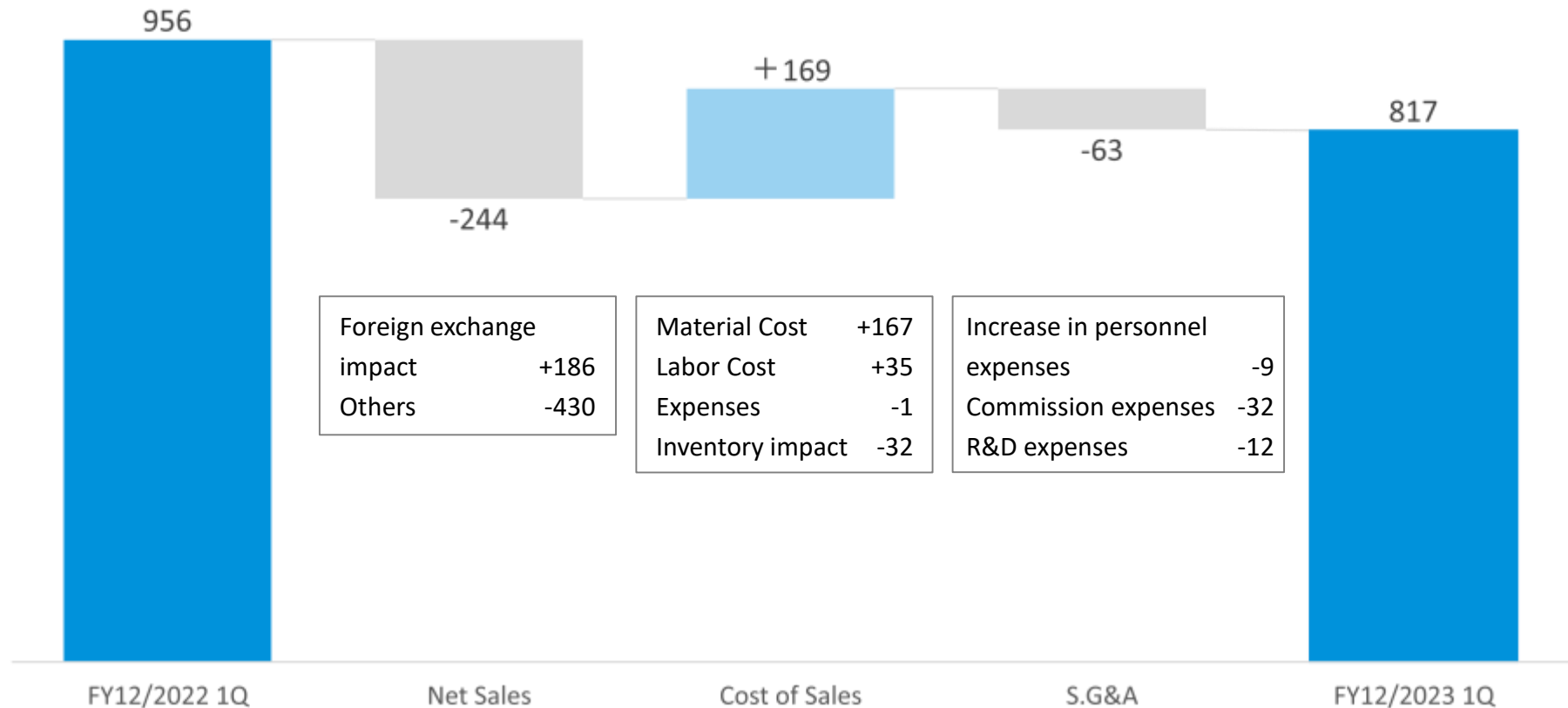
Switching module for developed multi-core fiber (4 cores)



Operating profit by Segment (1Q) Change Factors (YoY basis) - Optical Components and Devices

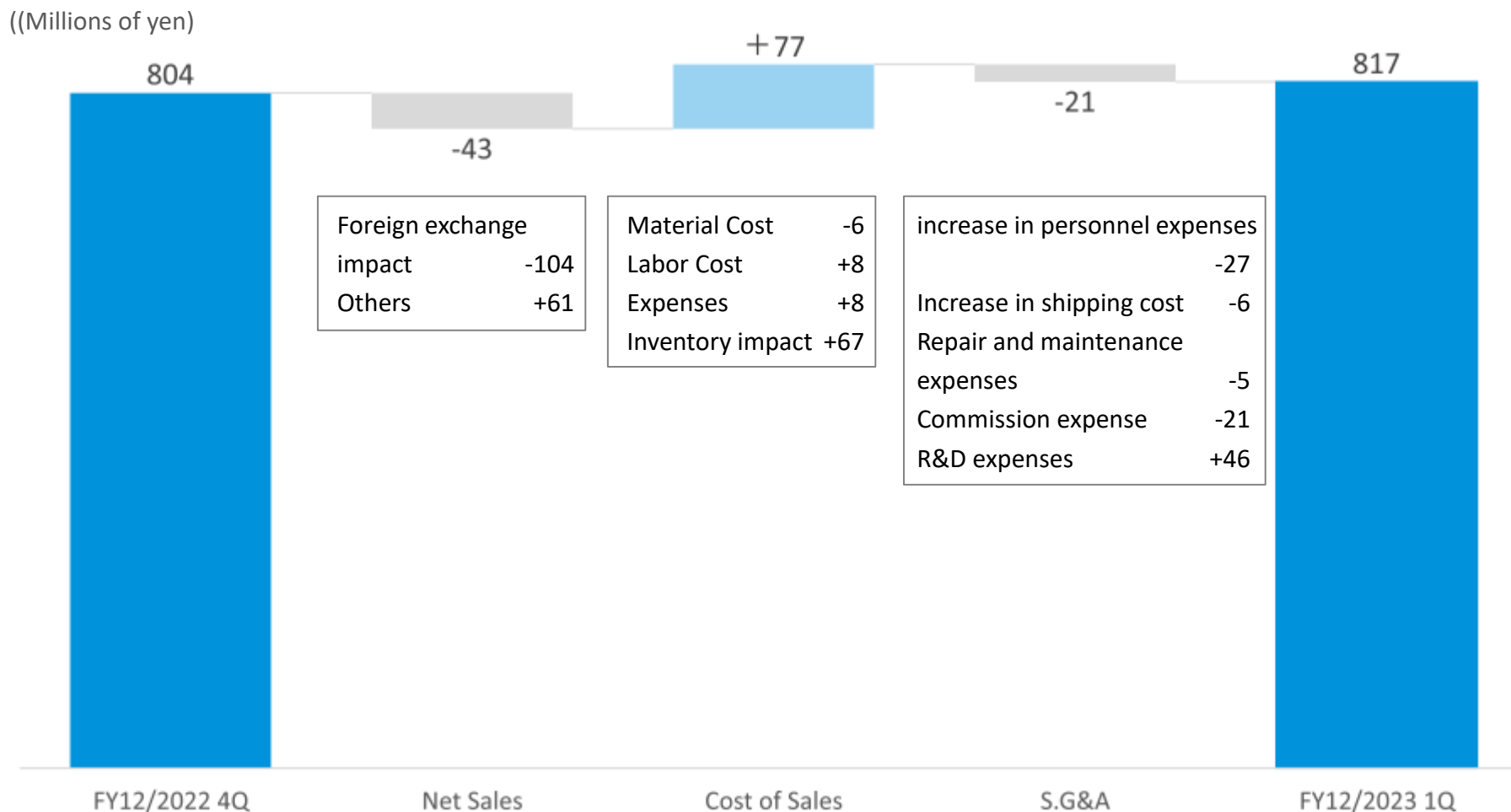
While overall sales declined, squeeze of Operating profit is limited due to a change in the product mix.

(Millions of yen)



Operating profit by Segment (1Q) Change Factors (QoQ basis) - Optical Components and Devices

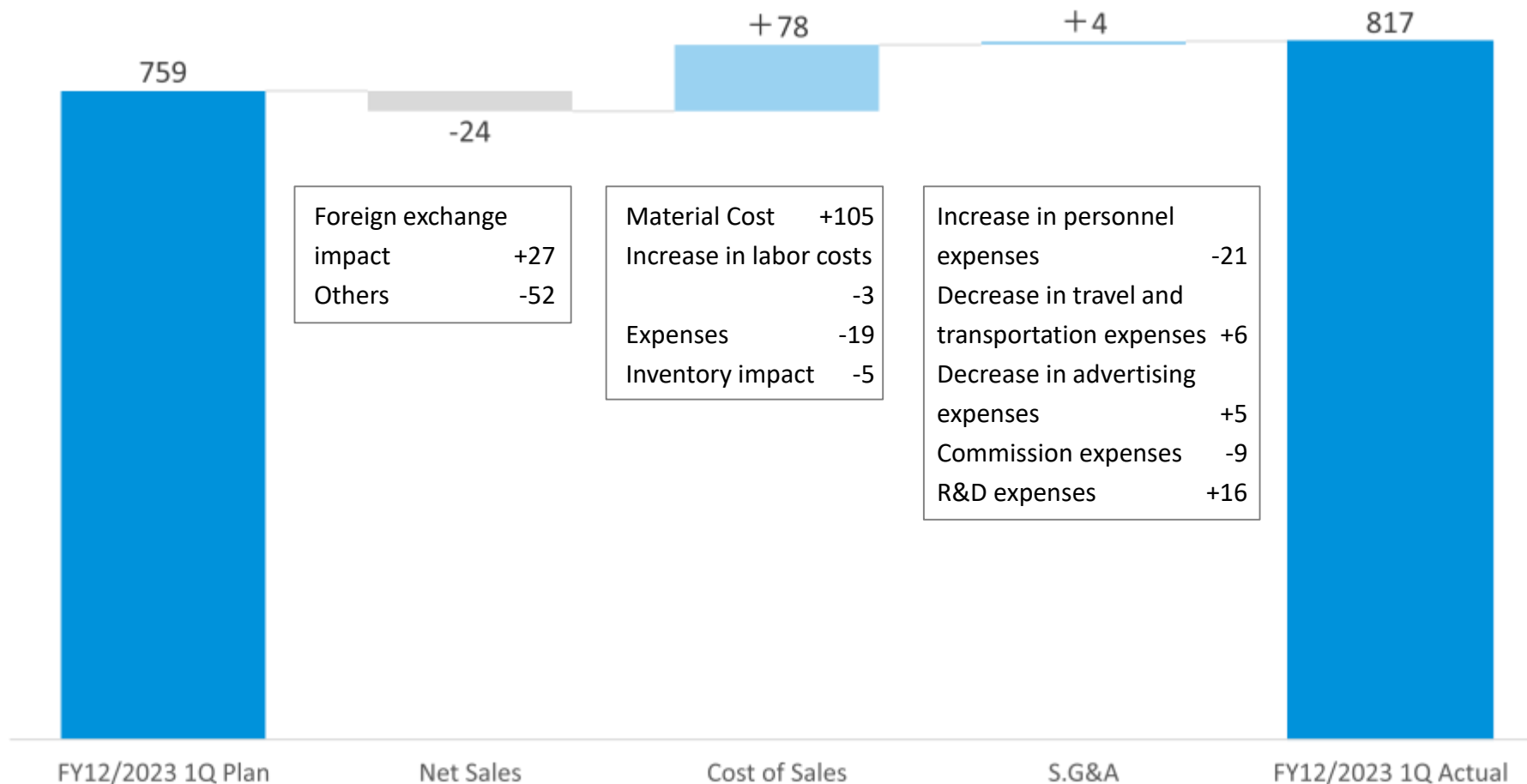
With supply chain disruptions gradually subsiding, sales volume has recovered quarter-on-quarter.



Operating profit by Segment (1Q) Change Factors (vs.Plan) - Optical Components and Devices

Operating profit surpassed our plan due to change in product mix.

(Millions of yen)





II . Earnings Forecast for the Fiscal Year Ending December 2023

Financial Forecast for FY12/2023

The situation in the first quarter was more difficult than expected for lead terminals. For the second quarter, the business environment will continue to be difficult, but a positive effect of price review and new product sales growth is expected. (Millions of yen)

	FY12/2022	FY12/2023 (Initial plan)				
	Actual	First-half forecast	Second-half forecast	Full-year forecast	YoY change	YoY change (%)
Net Sales	15,673	8,086	8,408	16,494	+821	+5.2%
Lead Terminals business	8,384	4,510	4,652	9,162	+778	+9.3%
Optical components and devices business	7,289	3,575	3,755	7,331	+42	+0.6%
Operating profit	3,884	2,047	2,074	4,121	+237	+6.1%
<i>Operating margin ratio</i>	24.8%	25.3%	24.7%	25.0%	+0.2pt	—
Ordinary profit	4,443	2,027	2,057	4,084	-359	-8.1%
Profit attributable to owners of parent	3,066	1,398	1,420	2,819	-247	-8.1%
Net income per share (yen)	346.14	155.49	157.92	313.41		
Exchange rate (average for the period)	131.64yen/\$	130yen/\$			<Exchange Rate Sensitivity> Net Sales 80 million yen/yen Operating profit 40 million yen/yen	

Estimate based on actual results (Changed this time)

*Figures are rounded down to the nearest million yen.

Current status against the initial plan

<Net Sales>

- The Lead Terminals business has remained in the conditions more difficult than anticipated at the beginning of the FY. The information and telecommunications equipment market is undergoing serious corrections, and the automotive market is also unexpectedly deteriorating, especially in Europe. At this point, there are signs of improvement in some areas, but overall conditions remain difficult.
- The Q1 business in the optical components and devices business was almost in line with our expectations. Sales of submarine cables slightly surpassed our initial forecast. Inventory adjustments will continue to affect the second quarter, but we are expecting long-term bulk orders from some customers. The performance of onshore applications has gone below our initial forecast, with no prospect of recovery going forward.

<Profitability>

- Higher sales ratio of new products and price review contributed to the performance of lead terminals, which is expected to mitigate the negative impact of lower sales.
- Optical components and devices have benefitted from higher profit margins due to changes in the product mix, which is expected to mitigate the negative impact of lower sales.

This document contains our current plans and performance forecasts.

These future plans and forecast figures are plans and projections made by us based on available information. Actual results may differ from these plans and forecast figures due to various conditions and factors.

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