

(Translation)

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Consolidated Financial Results for the Three Months Ended June 30, 2023 [Japanese GAAP]



August 9, 2023

Company name: JAPAN MATERIAL Co., Ltd.
Stock exchange listing: Tokyo and Nagoya Stock Exchanges in Japan
Stock code: 6055
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Scheduled filing date of Quarterly Report: August 10, 2023
Scheduled payment date of cash dividends: —
Supplemental materials prepared for quarterly financial results: None
Quarterly IR briefing: None

(All amounts are rounded down to the nearest million yen)

1. Consolidated Financial Results for the Three Months Ended June 30, 2023 (Apr. 1, 2023 – Jun. 30, 2023)

1.1 Consolidated operating results (% indicates year-on-year changes)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent	
	¥ million	%	¥ million	%	¥ million	%	¥ million	%
Three months ended Jun. 30, 2023	10,332	(5.5)	1,349	(44.7)	1,594	(39.7)	1,115	(39.7)
Jun. 30, 2022	10,933	26.1	2,439	14.2	2,642	22.8	1,851	31.5

(Note) Comprehensive income: Three months ended Jun. 30, 2023: ¥1,161 million, (41.7%)
Three months ended Jun. 30, 2022: ¥1,990 million, 28.2%

	Basic earnings per share	Diluted earnings per share
Three months ended Jun. 30, 2023	¥ 10.87	¥ —
Jun. 30, 2022	¥ 18.04	¥ —

1.2 Consolidated financial position

	Total assets	Net assets	Equity ratio
As of Jun. 30, 2023	¥ million 50,638	¥ million 42,649	% 84.2
As of Mar. 31, 2023	52,433	43,541	83.0

(Reference) Equity: As of Jun. 30, 2023: ¥42,649 million
As of Mar. 31, 2023: ¥43,541 million

2. Dividends

	Annual dividends per share				
	Q1-end	Q2-end	Q3-end	Year-end	Total
FY2022	¥ —	¥ 0.00	¥ —	¥ 20.00	¥ 20.00
FY2023	—				
FY2023 (forecast)		—	—	20.00	20.00

(Note) Changes from the most recently released dividend forecast: None

3. Forecast of Consolidated Financial Results for the FY2023 (Apr. 1, 2023 – Mar. 31, 2024)

(% indicates year-on-year changes)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent		Basic earnings per share
	¥ million	%	¥ million	%	¥ million	%	¥ million	%	¥
1st half	21,000	(11.6)	2,600	(57.6)	2,600	(60.0)	1,650	(63.4)	16.07
Full-year	44,000	(5.4)	7,200	(35.1)	7,200	(36.3)	4,800	(39.3)	46.76

(Note) Changes from the most recently released financial results forecast: None

* Notes

- Changes in significant subsidiaries during the period under review: None
(Changes in specified subsidiaries that caused a change in the scope of consolidation)
Newly added: -
Excluded: -
- Adoption of special accounting methods for preparing quarterly consolidated financial statements: None
- Changes in accounting policies and accounting estimates, and restatements
 - Changes in accounting policies due to revisions in accounting standards, etc.: None
 - Changes in accounting policies other than a. above: None
 - Changes in accounting estimates: None
 - Restatements: None.
- Number of shares issued (ordinary shares)
 - Number of shares issued at the end of the period (including treasury shares)

As of Jun. 30, 2023	105,149,520 shares
As of Mar. 31, 2023	105,149,520 shares
 - Number of treasury shares at the end of the period

As of Jun. 30, 2023	2,497,740 shares
As of Mar. 31, 2023	2,497,740 shares
 - Average number of shares issued and outstanding during the period (cumulative quarterly period)

Three months ended Jun. 30, 2023	102,651,780 shares
Three months ended Jun. 30, 2022	102,636,254 shares

* This summary of quarterly financial results is not subject to quarterly review by certified public accountants or an audit firm.

* Notes for proper use of forecasts and other remarks

Forecasts contain forward-looking statements based on estimates made as of the day of release of these materials. Actual results may differ materially depending on a number of factors including but not limited to potential risks and uncertainties. Please refer to page 3 “1.3 Future Outlook” for forecast assumptions and notes on usage.

(Change of units for stating the amounts)

The amounts of items and other matters stated in the Company's quarterly consolidated financial statements were previously stated in units of thousand yen; however, during and after the first quarter of the fiscal year under review, units of million yen are used in stating such amounts. For easier comparison, units of million yen are also used for the previous consolidated fiscal year and the previous consolidated first three months.

Table of Contents

1. Qualitative Information Regarding the Quarterly Financial Results	2
1.1 Operating Results	2
1.2 Financial Position	2
1.3 Future Outlook	3
2. Quarterly Consolidated Financial Statements and Major Notes	4
2.1 Quarterly Consolidated Balance Sheets.....	4
2.2 Quarterly Consolidated Statements of Income and Consolidated Statements of Comprehensive Income.....	6
Quarterly Consolidated Statements of Income	
Three Months Ended June 30	6
Quarterly Consolidated Statements of Comprehensive Income	
Three Months Ended June 30	7
2.3 Notes to Quarterly Consolidated Financial Statements	8
(Going Concern Assumption).....	8
(Notes in the Case of Significant Changes in Amount of Shareholders' Equity)	8
(Segment Information, etc.).....	9
(Subsequent Events).....	11

1. Qualitative Information Regarding the Quarterly Financial Results

1.1 Operating Results

During the three months ended June 30, 2023, as the legal status of COVID-19 was downgraded to Class 5 in May, 2023 and preventive measures for the infection were substantially relaxed, the Japanese economy made gradual progress in returning to normalcy in the economic activity. However, the outlook remains uncertain due to the prolongation of Russia and Ukraine situation, surging prices of resources and materials, and fluctuation of exchange rates.

In the industry to which the JAPAN MATERIAL Group (hereinafter the “Group”) belongs, the semiconductor supply-demand balance loosened as demand for data centers slowed down, as well as due to a decline in demand for some consumer electronics products such as smartphones, computers, and televisions.

Under such circumstances, in the Group’s Electronics business, the divisions engaged in the manufacture of specialty gas supply equipment and the design and construction of supply piping (hereinafter the “initial divisions”), which are driven by capital investment of customers, saw a year-on-year increase in net sales thanks to continuous capital investment at logic plants while the capital investments were continuously slowed down at NAND flash memory plants from the late third quarter of the fiscal year ending March 31, 2023. However, the initial divisions saw a year-on-year decrease in segment profit due to an impact of surging prices of materials. The divisions engaged in the sales and management of specialty gases and the provision of technical services (hereinafter the “operations divisions”), which are driven by production activity, saw year-on-year decreases in both net sales and segment profit due to an impact of a decline in production at NAND flash memory plants, the main customers.

Sales of digital signage-related products remained strong for the Graphics Solution business. However, net sales and segment profit declined year-on-year due to the later delivery of graphics products, such as video processors, than the expected schedule.

In the Solar Power business, we currently operate three solar power plants in Mie Prefecture.

In addition, an increase in labor costs including base pay is a factor of a temporary decrease in profit.

As a result, net sales for the current fiscal year were ¥10,332 million (down 5.5% year-on-year), with operating profit of ¥1,349 million (down 44.7% year-on-year), ordinary profit of ¥1,594 million (down 39.7% year-on-year), and profit attributable to owners of parent of ¥1,115 million (down 39.7% year-on-year).

1.1.1 Electronics business

Segment net sales were ¥9,993 million (down 5.2% year-on-year) with segment profit of ¥1,633 million (down 40.2% year-on-year).

1.1.2 Graphics Solution business

Segment net sales were ¥280 million (down 14.4% year-on-year) with segment profit of ¥37 million (down 12.0% year-on-year)

1.1.3 Solar Power business

Segment net sales were ¥59 million (down 4.9% year-on-year) with segment profit of ¥33 million (down 10.9% year-on-year).

1.2 Financial Position

(Assets)

Total assets at the end of the first quarter under review amounted to ¥50,638 million, down ¥1,794 million from the end of the previous fiscal year.

This was mainly due to increases in work in process of ¥343 million, raw materials and supplies of ¥263 million, which were more than offset by a decrease in cash and deposits of ¥1,312 million, notes and accounts receivable - trade, and contract assets of ¥1,352 million.

(Liabilities)

Total liabilities at the end of the first quarter under review amounted to ¥7,988 million, down ¥902 million from the end of the previous fiscal year.

This was mainly due to increases in accrued expenses of ¥686 million, which were more than offset by a decrease in income taxes payable of ¥1,502 million.

(Net assets)

Total net assets at the end of the first quarter under review amounted to ¥42,649 million, down ¥892 million from the end of the previous fiscal year.

This was attributed mainly to an increase in retained earnings due to the recording of profit attributable to owners of parent of ¥1,115 million, which were more than offset by a decrease caused by the dividend payment of ¥2,053 million.

1.3 Future Outlook

No change has been made to the forecast of consolidated financial results released in the “Consolidated Financial Results FY2022” dated May 12, 2023. The forecast of results is based on the information available currently, but there is possibility that our future business activity and operating results may be affected by such factors as potential delays in the capital investment by major customers and a potential significant drop in operating rates of customer plants.

2. Quarterly Consolidated Financial Statements and Major Notes

2.1 Quarterly Consolidated Balance Sheets

(Yen in millions)

	As of March 31, 2023	As of June 30, 2023
Assets		
Current assets		
Cash and deposits	9,839	8,526
Notes and accounts receivable - trade, and contract assets	17,343	15,990
Merchandise and finished goods	2,674	2,711
Work in process	1,037	1,381
Raw materials and supplies	4,059	4,323
Other	3,542	3,217
Allowance for doubtful accounts	(62)	(62)
Total current assets	38,433	36,088
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	6,272	6,170
Other, net	4,942	5,851
Total property, plant and equipment	11,214	12,022
Intangible assets	43	43
Investments and other assets		
Lease receivables and investment assets	1,020	815
Other	2,103	2,040
Allowance for doubtful accounts	(383)	(372)
Total investments and other assets	2,741	2,484
Total non-current assets	13,999	14,550
Total assets	52,433	50,638
Liabilities		
Current liabilities		
Notes and accounts payable - trade	2,588	2,862
Accounts payable - other	1,016	840
Accrued expenses	408	1,095
Income taxes payable	2,046	543
Provision for bonuses	639	323
Other	432	806
Total current liabilities	7,132	6,472
Non-current liabilities		
Lease liabilities	412	370
Retirement benefit liability	708	743
Asset retirement obligations	30	31
Other	608	371
Total non-current liabilities	1,759	1,516
Total liabilities	8,891	7,988

(Yen in millions)

	As of March 31, 2023	As of June 30, 2023
Net assets		
Shareholders' equity		
Share capital	1,317	1,317
Capital surplus	1,643	1,643
Retained earnings	41,147	40,210
Treasury shares	(1,053)	(1,053)
Total shareholders' equity	43,054	42,117
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	7	15
Foreign currency translation adjustment	505	541
Remeasurements of defined benefit plans	(26)	(24)
Total accumulated other comprehensive income	487	532
Total net assets	43,541	42,649
Total liabilities and net assets	52,433	50,638

2.2 Quarterly Consolidated Statements of Income and Consolidated Statements of Comprehensive Income

Quarterly Consolidated Statements of Income

Three Months Ended June 30

(Yen in millions)

	From Apr. 1, 2022 to Jun. 30, 2022	From Apr. 1, 2023 to Jun. 30, 2023
Net sales	10,933	10,332
Cost of sales	7,570	8,020
Gross profit	3,363	2,312
Selling, general and administrative expenses	923	963
Operating profit	2,439	1,349
Non-operating income		
Interest income	1	9
Dividend income	7	2
Foreign exchange gains	182	225
Rental income	5	3
Subsidy income	1	1
Other	5	3
Total non-operating income	204	246
Non-operating expenses		
Interest expenses	1	0
Rental expenses on real estate	0	0
Other	0	0
Total non-operating expenses	2	1
Ordinary profit	2,642	1,594
Extraordinary losses		
Loss on sale and retirement of non-current assets	1	0
Total extraordinary losses	1	0
Profit before income taxes	2,641	1,594
Income taxes - current	893	506
Income taxes - deferred	(103)	(27)
Total income taxes	789	478
Profit	1,851	1,115
Profit attributable to owners of parent	1,851	1,115

Quarterly Consolidated Statements of Comprehensive Income

Three Months Ended June 30

(Yen in millions)

	From Apr. 1, 2022 to Jun. 30, 2022	From Apr. 1, 2023 to Jun. 30, 2023
Profit	1,851	1,115
Other comprehensive income		
Valuation difference on available-for-sale securities	(1)	8
Foreign currency translation adjustment	140	35
Remeasurements of defined benefit plans, net of tax	0	1
Total other comprehensive income	138	45
Comprehensive income	1,990	1,161
Comprehensive income attributable to:		
Owners of parent	1,990	1,161
Non-controlling interests	—	—

2.3 Notes to Quarterly Consolidated Financial Statements

(Going Concern Assumption)

Not applicable.

(Notes in the Case of Significant Changes in Amount of Shareholders' Equity)

Not applicable.

(Segment Information, etc.)

[Segment Information]

I. Three months ended June 30, 2022 (From Apr. 1, 2022 to Jun. 30, 2022)

1. Information on the amounts of net sales and profit or loss by reportable segment

(Yen in millions)

	Reportable segments			Total
	Electronics	Graphics Solution	Solar Power	
Net sales				
To external customers	10,543	327	62	10,933
Inter-segment sales or transfers	–	–	–	–
Total	10,543	327	62	10,933
Segment profit	2,730	43	37	2,811

2. Differences between total profit/loss amounts of reportable segments and amounts presented on the quarterly consolidated statements of income, and details of the differences (reconciliations)

(Yen in millions)

Profit	Amount
Reportable segment total	2,811
Corporate expenses (Note)	(373)
Other	2
Operating profit on quarterly consolidated statements of income	2,439

(Note) Corporate expenses mainly consist of general and administrative expenses not allocated to any reportable segments.

II. Three months ended June 30, 2023 (From Apr. 1, 2023 to Jun. 30, 2023)

1. Information on the amounts of net sales and profit or loss by reportable segment and revenue analysis

(Yen in millions)

	Reportable segments			Total
	Electronics	Graphics Solution	Solar Power	
Net sales				
To external customers	9,993	280	59	10,332
Inter-segment sales or transfers	–	–	–	–
Total	9,993	280	59	10,332
Segment profit	1,633	37	33	1,704

2. Differences between total profit/loss amounts of reportable segments and amounts presented on the quarterly consolidated statements of income, and details of the differences (reconciliations)

(Yen in millions)

Profit	Amount
Reportable segment total	1,704
Corporate expenses (Note)	(358)
Other	3
Operating profit on quarterly consolidated statements of income	1,349

(Note) Corporate expenses mainly consist of general and administrative expenses not allocated to any reportable segments.

(Subsequent Events)

(Business combination through acquisition)

At the Board of Directors meeting held on July 21, 2023, the Company resolved to acquire 70% of the outstanding shares of GBS (SINGAPORE) PTE. LTD. (hereinafter “GBS”) and turn it into a subsidiary. The Company concluded the Stock Purchase Agreement on the same date and acquired the shares on August 4, 2023. 21% of the 70% was acquired by ALDON TECHNOLOGIES SERVICES PTE LTD (hereinafter “ATS”), a consolidated subsidiary.

1. Overview of business combination

(1) Name and description of business of the acquired company

Acquired company name: GBS (SINGAPORE) PTE. LTD.

Description of business: Sale of semiconductor manufacturing equipment parts and sale of vision systems for automobiles, etc.

(2) Main reasons for the business combination

The Company positioned Southeast Asia with growth potential for the future as an important region in order to expand the Electronics related business centering around the Total Facility Management service, and searched for a partner company which would be able to create synergy with ATS, a consolidated subsidiary. Under such circumstances, the Company held repeated discussions with GBS’ shareholders and management, and determined that once GBS became the Company’s subsidiary, there would be synergistic effect with the Group that would enhance corporate value of both parties. The Company therefore agreed to purchase GBS’ shares and turn it into a subsidiary.

GBS is a Singaporean company developing semiconductor-related business as a second source of parts and process kits in the semiconductor manufacturing process with continuing business relationship with large foundry companies, and other business in the field of vision systems for automobiles and ADAS (Advanced Driving Assistant System). We believe that we will be able to develop more effective business in the Asia region by integrating the knowhow and business foundation which GBS possesses as a second source with those of our subsidiary, ATS.

After the share acquisition, GBS and the Group will work together to provide GBS’ products and services to the Group’s customers and expand to provide the Group’s services to customers in the Asia regions utilizing the GBS’ sales route.

(3) Business combination date

August 4, 2023

(4) Legal form of business combination

Acquisition of shares

(5) Company name after combination

No change

(6) Percentage of voting rights acquired

70%

(7) Main grounds for determining the acquired company

The Group and ATS, a consolidated subsidiary, acquired 70% of GBS’ shares.

2. Breakdown of acquisition cost of the acquired company and consideration by type

Acquisition cost: US\$17,150,000 (approx. ¥2,396 million)

3. Details and amount of main costs related to acquisition

Not determined at this time.

4. Amount of goodwill generated, reason for generation, amortization method, and amortization period

Not determined at this time.

5. Amount of assets accepted and liabilities assumed on the business combination date and major breakdown thereof

Not determined at this time.