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August 9, 2023

Consolidated Financial Results for the Three months Ended June 30, 2023 (Under Japanese GAAP)

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 Listing: Tokyo Stock Exchanges, Prime Market
 Securities code: 6859
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 Scheduled date to file quarterly securities report: August 10, 2023
 Preparation of supplementary material on quarterly financial results: Yes
 Holding of quarterly financial results briefing: None

(Yen amounts are rounded down to millions, unless otherwise noted.)

1. Consolidated financial results for the three months ended June 30, 2023 (from April 1, 2023 to June 30, 2023)

(1) Consolidated operating results (cumulative)

(Percentages indicate year-on-year changes.)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
Three months ended June 30, 2023	12,275	40.7	789	-	947	749.7	565	-
June 30, 2022	8,725	8.4	(131)	-	111	26.7	(62)	-

Note: Comprehensive income For the three months ended June 30, 2023 ¥ 1,789 million 103.5%
 For the three months ended June 30, 2022 ¥ 879 million 602.9%

	Basic earnings per share	Diluted earnings per share
	Yen	Yen
Three months ended June 30, 2023	25.89	-
June 30, 2022	(2.79)	-

(2) Consolidated financial position

	Total assets	Net assets	Equity-to-asset ratio	Net assets per share
	Millions of yen	Millions of yen	%	Yen
As of June 30, 2023	68,557	47,968	69.7	2,187.49
March 31, 2023	67,176	47,172	69.9	2,150.64

Reference: Equity

As of June 30, 2023 ¥ 47,758 million
 As of March 31, 2023 ¥ 46,953 million

2. Cash dividends

	Annual dividends per share				
	First quarter-end	Second quarter-end	Third quarter-end	Fiscal year-end	Total
	Yen	Yen	Yen	Yen	Yen
Fiscal year ended March 31, 2023	-	24.00	-	45.00	69.00
Fiscal year ending March 31, 2024	-				
Fiscal year ending March 31, 2024 (Forecast)		25.00	-	45.00	70.00

Note: Revisions to the forecast of cash dividends most recently announced: None

Components of the interim dividend for the fiscal year ended March 31, 2023

Ordinary dividend ¥22 Commemorative dividend ¥2

Components of the year-end dividend for the fiscal year ended March 31, 2023

Ordinary dividend ¥43 Commemorative dividend ¥2

3. Forecast of consolidated operating results for the fiscal year ending March 31, 2024 (From April 1, 2023 to March 31, 2024)

(Percentages indicate year-on-year changes.)

	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
Six months ending September 30, 2023	26,000	13.3	1,850	32.5	1,950	12.6	1,300	32.1	59.54
Fiscal year ending March 31, 2024	56,000	5.9	5,000	14.5	5,100	9.3	3,650	9.6	167.18

Note: Revisions to the forecast of consolidated operating results most recently announced: None

*Notes

(1) Changes in significant subsidiaries during the period

(changes in specified subsidiaries resulting in the change in scope of consolidation): None

Newly included: (Company name:)

Excluded: (Company name:)

(2) Adoption of accounting treatment specific to the preparation of quarterly consolidated financial statements: Yes

For details, see “Application of special accounting methods in the creation of quarterly consolidated financial statements” on p.8.

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

1) Changes in accounting policies due to revisions to accounting standards and other regulations: None

2) Changes in accounting policies due to other reasons: None

3) Changes in accounting estimates: None

4) Restatement: None

(4) Number of issued shares (common shares)

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

As of June 30, 2023	23,781,394 shares
As of March 31, 2023	23,781,394 shares

2) Number of treasury shares at the end of the period

As of June 30, 2023	1,948,980 shares
As of March 31, 2023	1,948,980 shares

3) Average number of shares outstanding during the period (cumulative from the beginning of the fiscal year)

Three months ended June 30, 2023	21,832,414 shares
Three months ended June 30, 2022	22,371,148 shares

* Quarterly financial results reports are exempt from quarterly review conducted by certified public accountants or an audit corporation.

* Proper use of earnings forecasts, and other special matters

Statements concerning the future such as the results forecasts, etc., included in this document are based on currently available information and certain assumptions judged reasonable and actual results, etc., may differ due to various factors. Please refer to “Description of consolidated operating forecasts and other forward-looking information” on p.3 for forecast assumptions and notes of caution for usage.

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1. Qualitative information concerning consolidated financial results

Forward-looking statements contained herein are based on the Group's judgment as of June 30, 2023.

(1) Description of operating results

During the first three months of fiscal 2023, the year ending March 31, 2024, the ESPEC Group's business environment saw firm electronics- and automotive-related investments against a backdrop of digitalization and decarbonization in society. Demand continued to be strong mainly in high-speed broadband communications and other aspects of the IoT field, as well as in the global shift toward electric vehicles (EV). From the production aspect, the situation around parts procurement continues to be unstable, but the Group has strengthened efforts to secure parts and production response toward the prompt elimination of the order backlog that has accumulated. Looking at the Company's operating results for the first quarter, orders received decreased 5.8% year on year to ¥15,539 million. This result was due partly to advance orders resulting from extended product delivery schedules in connection with parts procurement difficulties in the same quarter of the previous fiscal year, but maintained a high level. Net sales increased 40.7% year on year to ¥12,275 million, a record high, due to strengthening procurement activities that secured production volume. On the profit front, the Company recorded operating profit of ¥789 million, a year on year increase of ¥920 million and a record high. This increase was mainly due to higher sales, which offset the impact of an increase in selling, general and administrative expenses. Profit attributable to owners of parent increased by ¥627 million year on year to ¥565 million, which was a record high.

	Previous consolidated 1 st quarter (fiscal 2022) (Millions of yen)	This consolidated 1 st quarter (fiscal 2023) (Millions of yen)	Change (%)
Orders received	16,493	15,539	(5.8)
Net sales	8,725	12,275	40.7
Operating profit (loss)	(131)	789	-
Ordinary profit	111	947	749.7
Profit (loss) attributable to owners of parent	(62)	565	-

Performance by segment

This consolidated 1st quarter (Fiscal 2023)

	Orders received (Millions of yen)	Net sales (Millions of yen)	Operating profit (loss) (Millions of yen)
Equipment business	13,325	10,580	803
Service business	1,914	1,592	38
Other business	411	199	(48)
Elimination	(112)	(96)	(3)
Total	15,539	12,275	789

Equipment business

In the environmental test chambers field, in the Japanese market orders received decreased year on year in highly versatile standardized products but increased in customized products, mainly in automotive-related area, and net sales increased significantly. In overseas markets, orders received were down year on year, but net sales rose in all areas, particularly with year on year increases in China, North America and Europe.

In the energy devices equipment field, both orders received and net sales substantially increased year on year due to strong sales of chambers for charge-discharge testing mainly in the Japanese market due to the expansion of investment for electric vehicles (EV) and secondary batteries.

In the semiconductor equipment field, orders received and net sales both increased year on year against a backdrop of demand for inspections on semiconductors installed in automobiles, despite mainstay burn-in chambers being impacted by factors delays in customer plans.

As a result, the equipment business on the whole saw orders received decrease 7.5% to ¥13,325 million and net sales increase 46.5% year on year to ¥10,580 million. On the profit front, the Company recorded operating profit of ¥803 million, an increase of ¥848 million compared to the same period of the previous fiscal year, mainly due to an increase in net sales.

	Previous consolidated 1 st quarter (fiscal 2022) (Millions of yen)	This consolidated 1 st quarter (fiscal 2023) (Millions of yen)	Change (%)
Orders received	14,406	13,325	(7.5)
Net sales	7,221	10,580	46.5
Operating profit (loss)	(45)	803	-

Service business

In the after-sales service and engineering field, orders received was on a par year on year but net sales increased year on year as preventative maintenance services and repair services were solid.

In laboratory testing services and facility rentals, orders received and net sales were both increased year on year, due to a strong performance in laboratory testing services, centered on automotive rechargeable batteries.

As a result, the service business on the whole saw orders received increase 5.2% year on year to ¥1,914 million and net sales increase 12.0% to ¥1,592 million. On the profit front, the Company recorded operating profit of ¥38 million, an increase of ¥66 million compared to the same period of the previous fiscal year, mainly due to an increase in net sales.

	Previous consolidated 1 st quarter (fiscal 2022) (Millions of yen)	This consolidated 1 st quarter (fiscal 2023) (Millions of yen)	Change (%)
Orders received	1,820	1,914	5.2
Net sales	1,421	1,592	12.0
Operating profit (loss)	(27)	38	-

Other business

In the other business field, which is centered on the environmental preservation and plant production systems business, orders received for plant research devices increased year on year and orders received were captured for aquaponics, which combines hydroponics and land-based cultivation. As a result, orders received increased 22.9% year on year to ¥411 million and net sales increased 46.8% to ¥199 million, but on the profit front, there was an operating loss of ¥48 million.

	Previous consolidated 1 st quarter (fiscal 2022) (Millions of yen)	This consolidated 1 st quarter (fiscal 2023) (Millions of yen)	Change (%)
Orders received	334	411	22.9
Net sales	135	199	46.8
Operating loss	(56)	(48)	-

* There are marked seasonal fluctuations in the Group's performance based on quarterly sales because of a strong trend toward contractual deliveries occurring in the 2nd and 4th consolidated quarters as a result of customers' budget implementation.

(2) Description of financial position

Total assets at the end of the first quarter consolidated accounting period were ¥68,557 million, an increase of ¥1,380 million over the end of the previous consolidated fiscal year. Major factors included a decrease of ¥2,903 million resulting from collection since the end of the previous consolidated fiscal year of trade receivables (notes and accounts receivable-trade, contract assets, and electronically recorded monetary claims-operating), an increase of ¥2,417 million in inventories due to an increase in work in progress and other inventories caused by an increased order backlog, an increase of ¥782 million in cash and deposits due to collection of accounts receivable, etc., an increase of ¥542 million in investment securities due to market value appreciation, and an increase of ¥297 million in other current assets, including prepaid expenses. Liabilities were ¥20,588 million, an increase of ¥584 million from the end of the previous consolidated fiscal year. Major factors included an increase of ¥248 million in provision for bonuses and an increase of ¥239 million in other current liabilities such as contract liabilities due to an increase in order backlog. Net assets were ¥47,968 million, an increase of ¥796 million against the end of the previous fiscal year. Major factors included an increase of ¥813 million in foreign currency translation adjustment and recording ¥565 million in profit attributable to owners of parent in the first quarter of the consolidated fiscal year under review, while there was a decrease of ¥427 million in retained earnings due to appropriation of ¥993 million in profits as dividends, and an increase of ¥418 million in valuation difference on available-for-sale securities.

(3) Description of consolidated operating forecasts and other forward-looking information

With regard to the consolidated financial results for the first half and the full year of the fiscal 2023, the year ending March 31, 2024, the Company has not revised its initial forecasts because there are no circumstances that require us to revise our earnings plan.

2. Quarterly consolidated financial statements and significant notes

(1) Quarterly consolidated balance sheets

(Millions of yen)

	As of March 31, 2023	As of June 30, 2023
Assets		
Current assets		
Cash and deposits	13,998	14,780
Notes and accounts receivable - trade, and contract assets	16,097	12,484
Electronically recorded monetary claims - operating	3,540	4,249
Securities	302	302
Merchandise and finished goods	3,010	3,237
Work in process	3,562	4,869
Raw materials and supplies	4,885	5,769
Other	2,641	2,939
Allowance for doubtful accounts	(37)	(39)
Total current assets	48,000	48,592
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	5,013	5,114
Land	4,662	4,693
Other, net	2,825	2,889
Total property, plant and equipment	12,501	12,697
Intangible assets		
Goodwill	601	589
Other	625	629
Total intangible assets	1,227	1,218
Investments and other assets	5,447	6,048
Total non-current assets	19,176	19,964
Total assets	67,176	68,557
Liabilities		
Current liabilities		
Notes and accounts payable - trade	4,469	4,562
Electronically recorded obligations - operating	5,145	5,177
Short-term borrowings	90	98
Income taxes payable	603	392
Provision for bonuses	519	767
Provision for bonuses for directors (and other officers)	14	—
Provision for product warranties	189	187
Provision for loss on orders received	10	9
Other	6,234	6,474
Total current liabilities	17,277	17,670
Non-current liabilities		
Long-term borrowings	203	196
Retirement benefit liability	243	242
Provision for share awards for directors (and other officers)	128	150
Provision for retirement benefits for directors (and other officers)	4	2
Asset retirement obligations	23	23
Other	2,123	2,302
Total non-current liabilities	2,726	2,918
Total liabilities	20,003	20,588

(Millions of yen)

	As of March 31, 2023	As of June 30, 2023
Net assets		
Shareholders' equity		
Share capital	6,895	6,895
Capital surplus	7,158	7,158
Retained earnings	33,673	33,245
Treasury shares	(3,318)	(3,318)
Total shareholders' equity	44,408	43,981
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	1,359	1,778
Revaluation reserve for land	(663)	(663)
Foreign currency translation adjustment	1,854	2,668
Remeasurements of defined benefit plans	(6)	(5)
Total accumulated other comprehensive income	2,544	3,777
Non-controlling interests	218	210
Total net assets	47,172	47,968
Total liabilities and net assets	67,176	68,557

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

Quarterly consolidated statements of income

(Three months ended June 30, 2023)

(Millions of yen)

	Three months ended June 30, 2022	Three months ended June 30, 2023
Net sales	8,725	12,275
Cost of sales	5,820	8,042
Gross profit	2,905	4,232
Selling, general and administrative expenses		
Salaries and allowances	956	1,048
Provision for bonuses	84	85
Provision for share awards for directors (and other officers)	8	20
Provision for product warranties	28	34
Provision of allowance for doubtful accounts	2	1
Amortization of goodwill	30	31
Other	1,926	2,221
Total selling, general and administrative expenses	3,037	3,443
Operating profit (loss)	(131)	789
Non-operating income		
Interest income	6	6
Dividend income	38	49
Foreign exchange gains	173	87
Other	37	23
Total non-operating income	256	168
Non-operating expenses		
Interest expenses	8	6
Commission expenses	2	1
Other	2	1
Total non-operating expenses	13	10
Ordinary profit	111	947
Extraordinary income		
Gain on sale of non-current assets	0	—
Total extraordinary income	0	—
Extraordinary losses		
Loss on sale of non-current assets	—	0
Loss on retirement of non-current assets	0	4
Total extraordinary losses	0	4
Profit before income taxes	110	942
Income taxes - current	168	385
Profit (loss)	(57)	557
Profit (loss) attributable to non-controlling interests	4	(8)
Profit (loss) attributable to owners of parent	(62)	565

Quarterly consolidated statements of comprehensive income
(Three months ended June 30, 2023)

(Millions of yen)

	Three months ended June 30, 2022	Three months ended June 30, 2023
Profit (loss)	(57)	557
Other comprehensive income		
Valuation difference on available-for-sale securities	(55)	418
Foreign currency translation adjustment	993	813
Remeasurements of defined benefit plans, net of tax	(1)	0
Total other comprehensive income	937	1,232
Comprehensive income	879	1,789
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	874	1,797
Comprehensive income attributable to non-controlling interests	4	(8)

(3) Notes to the quarterly consolidated financial statements

Notes on the assumption of a going concern

No applicable

Notes on significant changes in shareholders' equity

Not applicable

Application of special accounting methods in the creation of quarterly consolidated financial statements

For tax expenses, the Company has adopted the method of reasonably estimating the effective tax rate after applying tax effect accounting to profit before income taxes for the current consolidated fiscal year, and then multiplying quarterly profit before income taxes by the relevant estimated effective tax rate. However, when the tax expenses calculated using the relevant estimated effective tax rate are notably irrational, tax expenses shall be calculated using the statutory effective tax rate.

Segment information

I Previous consolidated 1st quarter (from April 1, 2022 to June 30, 2022)

1. Information concerning the net sales and profit or loss of each reportable segment (Millions of yen)

	Reportable segment			Total	Adjustment ¹	Carried amount on quarterly consolidated statements of income ²
	Equipment business	Service business	Other business			
Net sales						
(1) Sales to external customers	7,221	1,369	134	8,725	-	8,725
(2) Internal sales or transfers between segments	-	51	0	52	(52)	-
Total	7,221	1,421	135	8,778	(52)	8,725
Segment loss	(45)	(27)	(56)	(130)	(0)	(131)

1. Adjustment for segment loss mainly represents eliminations of inter-segment transactions.

2. Segment loss was reconciled with the operating profit presented in the quarterly consolidated statement of income.

2. Information related to impairment loss on fixed assets, and goodwill, etc. for each reportable segment.

There were no significant changes in the amount of goodwill during the three months ended June 30, 2022.

II This consolidated 1st quarter (from April 1, 2023 to June 30, 2023)

1. Information concerning the net sales and profit or loss of each reportable segment (Millions of yen)

	Reportable segment			Total	Adjustment ¹	Carried amount on quarterly consolidated statements of income ²
	Equipment business	Service business	Other business			
Net sales						
(1) Sales to external customers	10,556	1,522	196	12,275	-	12,275
(2) Internal sales or transfers between segments	23	70	3	96	(96)	-
Total	10,580	1,592	199	12,372	(96)	12,275
Segment profit (loss)	803	38	(48)	792	(3)	789

1. Adjustment for segment profit (loss) mainly represents eliminations of inter-segment transactions.

2. Segment profit (loss) was reconciled with the operating loss presented in the quarterly consolidated statement of income.

2. Information related to impairment loss on fixed assets, and goodwill, etc. for each reportable segment.

There were no significant changes in the amount of goodwill during the three months ended June 30, 2023.

Material Subsequent Events

The Company resolved at the Board of Directors meeting held on August 9, 2023, to newly establish a wholly owned subsidiary (COSMOPIA HIGHTECH CORP.), and for COSMOPIA HIGHTECH CORP. to run the transferred environmental testing business of Johnson Controls-Hitachi Air Conditioning Inc. (“Johnson Controls-Hitachi Air Conditioning”). As the amount of capital of the subsidiary is equal to or more than 10/100 of the amount of capital of the Company, it falls under the category of a specified subsidiary.

1. Objective of Establishing Subsidiary and Business Transfer

The Company has stated that one of the Basic Policies of the medium-term management plan “Progressive Plan 2025” is the “aggressive investment in growth fields to provide products and services that contribute to the IoT and next-generation automobile markets.” Amid growing demand for environmental testing in advanced technology fields related to IoT and automobiles, the Company determined that through the transfer of Johnson Controls-Hitachi Air Conditioning’s environmental testing business it could expect to create synergies by integrating Johnson Controls-Hitachi Air Conditioning’s development technologies and expertise with the Company’s existing technologies, so the newly established consolidated subsidiary, COSMOPIA HIGHTECH CORP., accepted the transfer.

2. Overview of the Established Subsidiary

- (1) Name: COSMOPIA HIGHTECH CORP.
- (2) Location: 5-1, Sakae-cho, Aoi-ku, Shizuoka
- (3) Details of business: Manufacture and sales, etc. of environmental test chambers
- (4) Share capital: ¥1,192 million
- (5) Date of establishment (scheduled): August 18, 2023
- (6) Investment ratio: ESPEC CORP., 100%
- (7) Fiscal year-end: March

3. Overview of the Business Transfer

- (1) Company name of the transaction counterparty and details of business
Company name of the transaction counterparty: Johnson Controls-Hitachi Air Conditioning Inc.
Details of business: Manufacture and sales of environmental test chambers
- (2) Main reason for the business transfer
As stated in 1., above.
- (3) Date of business transfer (scheduled): September 30, 2023
- (4) Legal form of business transfer: Transfer of business for cash consideration
- (5) Company name after the business transfer: No change
- (6) Main grounds for determining the acquired company
COSMOPIA HIGHTECH CORP., the consolidated subsidiary the Company established, shall use cash as consideration to accept the transfer of business.

4. Breakdown of the acquisition costs and types of consideration (scheduled)

<u>Consideration for the acquisition</u>	Cash	¥1,800 million
Acquisition cost		¥1,800 million

5. Descriptions and amounts of the main acquisition-related costs

Not confirmed at this time.

6. Amount of goodwill occurred, causes of occurrence, and amortization method and period

Not confirmed at this time.

7. Amounts of assets and liabilities to be received and assumed on the day of business transfer and descriptions of the main items

Not confirmed at this time.