

[Notes]

- (1) Changes in significant subsidiaries during the current period (Changes in specified subsidiaries resulting in the change in scope of consolidation): None
- (2) Application of accounting methods used specifically for preparing the quarterly consolidated financial statements: None
- (3) Changes in accounting policies, changes in accounting estimates and restatements of prior period financial statements
- (a) Changes in accounting policies due to the application of new or revised accounting standards: None
- (b) Changes in accounting policies due to reasons other than above (a): None
- (c) Changes in accounting estimates: None
- (d) Restatements of prior period financial statements: None
- (4) Number of shares of common stock issued
- (a) Number of shares issued (including treasury shares)
- | | | | |
|---------------------------|-------------------|-----------------------|-------------------|
| As of September 30, 2023: | 61,113,400 shares | As of March 31, 2023: | 64,575,000 shares |
|---------------------------|-------------------|-----------------------|-------------------|
- (b) Number of treasury shares
- | | | | |
|---------------------------|------------------|-----------------------|------------------|
| As of September 30, 2023: | 3,023,311 shares | As of March 31, 2023: | 6,589,029 shares |
|---------------------------|------------------|-----------------------|------------------|
- (c) Average number of shares of common stock during the period
- | | | | |
|--------------------------------------|-------------------|--------------------------------------|-------------------|
| Six months ended September 30, 2023: | 58,020,603 shares | Six months ended September 30, 2022: | 59,544,619 shares |
|--------------------------------------|-------------------|--------------------------------------|-------------------|

Notes: 1. The number of shares issued as of September 30, 2023 has decreased by 3,461,600 shares as the number of shares issued increased by 89,000 shares upon the exercise of stock options but decreased by 3,550,600 shares upon the retirement of treasury shares during the six months ended September 30, 2023.

2. As the Company has introduced a stock compensation plan which delivers shares with restrictions on transfer, the Company's treasury shares held mainly for the purpose of allotting them as restricted shares are included in the number of treasury shares at the end of the period (293,800 shares as of September 30, 2023 and 293,800 shares as of September 30, 2022).

3. As the Company has introduced an Employee Stock Ownership Plan ("J-ESOP") and a Board Benefit Trust (BBT), the number of shares of the Company held by the trust account is included in the number of treasury shares as of the end of the period. In addition, the number of shares of the Company held by the Trust (an average of 4,061,036 shares for the six months ended September 30, 2023 and an average of 4,973,493 shares for the six months ended September 30, 2022) was included in the number of treasury shares to be deducted in the calculation of the average number of shares of common stock during the period.

* This consolidated financial results report is not subject to a quarterly review by certified public accountants or an audit firm.

* [Proper use of earnings forecast, and other special notes]

(Disclaimer with respect to earnings and other forecasts)

The forward-looking statements including results forecasts contained in this document are based on information currently available to the Company and certain assumptions that the Company deems reasonable. Accordingly, the Company does not intend to promise their achievement. Actual results may differ from these forecasts and forward-looking statements due to various factors.

Contents for Attached Materials

1. Quarterly Consolidated Financial Statements and Notes	P. 2
(1) Quarterly consolidated balance sheets	P. 2
(2) Quarterly consolidated statements of income and quarterly consolidated statements of comprehensive income	P. 4
Quarterly consolidated statements of income	P. 4
Quarterly consolidated statements of comprehensive income	P. 5
(3) Quarterly consolidated statements of cash flows	P. 6
(4) Notes to quarterly consolidated financial statements	P. 7
(Going concern assumption)	P. 7
(Significant changes in shareholders' equity)	P. 7
(Supplemental information)	P. 7
(Segment information)	P. 8
(Significant subsequent events)	P. 9

1. Quarterly Consolidated Financial Statements and Notes

(1) Quarterly consolidated balance sheets

(Millions of yen)

	Previous fiscal year (As of March 31, 2023)	Current quarter (As of September 30, 2023)
Assets		
Current assets:		
Cash and deposits	29,286	25,046
Notes and accounts receivable - trade	13,126	21,783
Electronically recorded monetary claims - operating	342	417
Merchandise and finished goods	4,111	4,010
Work in process	2,883	3,659
Raw materials and supplies	4,358	4,462
Other	5,133	3,197
Allowance for doubtful accounts	(2)	(4)
Total current assets	59,238	62,573
Non-current assets:		
Property, plant and equipment		
Buildings and structures	27,709	27,938
Accumulated depreciation	(13,976)	(14,381)
Buildings and structures, net	13,732	13,557
Machinery, equipment and vehicles	40,475	41,094
Accumulated depreciation	(33,308)	(34,210)
Machinery, equipment and vehicles, net	7,167	6,884
Land	2,524	2,565
Construction in progress	6,646	7,491
Other	8,672	9,084
Accumulated depreciation	(6,458)	(6,779)
Other, net	2,214	2,304
Total property, plant and equipment	32,284	32,803
Intangible assets:		
Goodwill	21,444	20,302
Patent right	695	617
Customer-related intangible assets	2,884	2,794
Other	2,295	2,435
Total intangible assets	27,320	26,149
Investments and other assets:		
Shares of subsidiaries and associates	117	140
Retirement benefit asset	3,242	3,314
Deferred tax assets	2,389	2,604
Other	1,799	1,859
Allowance for doubtful accounts	(13)	(14)
Total investments and other assets	7,535	7,904
Total non-current assets	67,141	66,857
Total assets	126,379	129,430

(Millions of yen)

	Previous fiscal year (As of March 31, 2023)	Current quarter (As of September 30, 2023)
Liabilities		
Current liabilities:		
Notes and accounts payable - trade	5,972	9,011
Electronically recorded obligations - operating	2,569	2,059
Short-term borrowings	2,000	2,000
Current portion of long-term borrowings	6,560	3,409
Accounts payable - other	7,817	3,781
Accrued expenses	856	971
Income taxes payable	4,705	3,952
Provision for bonuses	2,558	1,775
Other	2,034	4,904
Total current liabilities	35,074	31,866
Non-current liabilities		
Long-term borrowings	11,152	9,387
Retirement benefit liability	4,273	4,187
Deferred tax liabilities	1,323	1,346
Other	780	964
Total non-current liabilities	17,530	15,885
Total liabilities	52,605	47,752
Net assets		
Shareholders' equity:		
Share capital	16,194	16,222
Capital surplus	16,147	16,174
Retained earnings	52,663	48,631
Treasury shares	(15,908)	(4,473)
Total shareholders' equity	69,097	76,555
Accumulated other comprehensive income:		
Valuation difference on available-for-sale securities	–	10
Deferred gains or losses on hedges	(26)	(953)
Foreign currency translation adjustment	3,278	4,693
Remeasurements of defined benefit plans	547	508
Total accumulated other comprehensive income	3,799	4,259
Non-controlling interests	878	863
Total net assets	73,774	81,678
Total liabilities and net assets	126,379	129,430

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

Quarterly consolidated statements of income

(Millions of yen)

	For the six months ended September 30, 2022 (From April 1, 2022 to September 30, 2022)	For the six months ended September 30, 2023 (From April 1, 2023 to September 30, 2023)
Net sales	58,197	49,595
Cost of sales	27,966	23,211
Gross profit	30,230	26,384
Selling, general and administrative expenses	10,640	11,338
Operating profit	19,590	15,045
Non-operating income:		
Interest income	13	107
Share of profit of entities accounted for using equity method	2	7
Compensation income	–	35
Rental income	9	9
Other	133	122
Total non-operating income	157	282
Non-operating expenses:		
Interest expenses	38	30
Foreign exchange losses	1,147	1,601
Depreciation	30	95
Loss on investments in investment partnerships	19	22
Other	50	8
Total non-operating expenses	1,286	1,758
Ordinary profit	18,461	13,569
Extraordinary income:		
Gain on sale of non-current assets	12	0
Total extraordinary income	12	0
Extraordinary losses:		
Loss on retirement of non-current assets	335	23
Total extraordinary losses	335	23
Profit before income taxes	18,138	13,547
Income taxes - current	4,796	3,848
Income taxes - deferred	872	241
Total income taxes	5,668	4,089
Profit	12,469	9,457
Profit (loss) attributable to non-controlling interests	9	(18)
Profit attributable to owners of parent	12,460	9,475

Quarterly consolidated statements of comprehensive income

(Millions of yen)

	For the six months ended September 30, 2022 (From April 1, 2022 to September 30, 2022)	For the six months ended September 30, 2023 (From April 1, 2023 to September 30, 2023)
Profit	12,469	9,457
Other comprehensive income:		
Deferred gains or losses on hedges	14	(926)
Foreign currency translation adjustment	1,313	1,418
Remeasurements of defined benefit plans, net of tax	(38)	(38)
Share of other comprehensive income of entities accounted for using equity method	–	10
Total other comprehensive income	1,289	463
Comprehensive income	13,759	9,921
Comprehensive income attributable to:		
Owners of parent	13,742	9,935
Non-controlling interests	16	(14)

(3) Quarterly consolidated statements of cash flows

(Millions of yen)

	For the six months ended September 30, 2022 (From April 1, 2022 to September 30, 2022)	For the six months ended September 30, 2023 (From April 1, 2023 to September 30, 2023)
Cash flows from operating activities		
Profit before income taxes	18,138	13,547
Depreciation	2,258	2,291
Amortization of goodwill	1,141	1,141
Interest and dividend income	(13)	(107)
Interest expenses	38	30
Foreign exchange losses (gains)	(521)	(148)
Loss (gain) on sale of non-current assets	(12)	(0)
Loss on retirement of non-current assets	335	23
Loss (gain) on investments in investment partnerships	19	22
Increase (decrease) in provision for bonuses	(1,305)	(800)
Increase/decrease in retirement benefit asset/liability	(221)	(214)
Share of loss (profit) of entities accounted for using equity method	(2)	(7)
Decrease (increase) in trade receivables	(3,305)	(7,882)
Decrease (increase) in inventories	(63)	(678)
Increase (decrease) in trade payables	(2,538)	1,608
Decrease (increase) in accounts receivable - other	105	292
Increase (decrease) in accounts payable - other	(15)	52
Increase (decrease) in income taxes payable - factor based tax	(38)	(46)
Other, net	358	2,786
Subtotal	14,357	11,908
Interest and dividends received	14	100
Interest paid	(39)	(31)
Income taxes paid	(6,678)	(4,625)
Net cash provided by (used in) operating activities	7,653	7,351
Cash flows from investing activities		
Purchase of investment securities	(53)	(37)
Purchase of property, plant and equipment	(6,075)	(5,537)
Purchase of intangible assets	(456)	(581)
Proceeds from sale of property, plant and equipment	2,569	11
Purchase of shares of subsidiaries	(60)	-
Other, net	1	10
Net cash provided by (used in) investing activities	(4,075)	(6,134)
Cash flows from financing activities		
Repayments of long-term borrowings	(2,468)	(4,915)
Dividends paid	(1,888)	(2,125)
Purchase of treasury shares	(3,999)	(0)
Repayments of lease obligations	(57)	(30)
Proceeds from exercise of employee share options	38	55
Net cash provided by (used in) financing activities	(8,374)	(7,016)
Effect of exchange rate change on cash and cash equivalents	1,768	1,560
Net increase (decrease) in cash and cash equivalents	(3,027)	(4,240)
Cash and cash equivalents at beginning of period	29,363	29,286
Cash and cash equivalents at end of period	26,336	25,046

(4) Notes to quarterly consolidated financial statements

(Going concern assumption)

Not applicable.

(Significant changes in shareholders' equity)

(Retirement of treasury shares)

At the Board of Directors' meeting held on May 10, 2023, the Company resolved matters pertaining to the retirement of its treasury shares pursuant to Article 178 of the Companies Act, and subsequently retired 3,550,600 treasury shares effective on May 24, 2023.

As a result, the balance of treasury shares decreased to ¥4,473 million as of September 30, 2023.

(Supplemental information)

(Forward-looking statements including consolidated earnings forecast)

The business environment surrounding the Dexerials Group is expected to become increasingly unstable due to risks including geopolitical risk and foreign exchange risk.

In this business environment, the Company has decided to leave unchanged the consolidated earnings forecast published on May 10, 2023. This is because we are taking a cautious stance on the recovery of some applications including tablets, laptop PCs, and power tools despite the continued growth in sales of differentiating technology products such as particle-arrayed anisotropic conductive films (ACF) and smart precision adhesives (SA). The annual dividend forecast also remains unchanged. Note that the Company has changed the assumed exchange rate for the third and fourth quarters of the current fiscal year from 125.0 yen/US\$ to 135.0 yen/US\$.

(Employee Stock Ownership Plan ("J-ESOP"))

The Company has introduced an Employee Stock Ownership Plan ("J-ESOP") as an incentive program to grant employees the Company's shares for the purpose of increasing their motivation and morale to improve the Company's stock price and business performance by more strongly linking their compensation to the Company's stock price and financial results and sharing economic benefits with shareholders.

Shares of the Company held by the J-ESOP trust are presented as treasury shares in the net assets section of the consolidated balance sheet. The book value and the number of treasury shares at the end of the previous fiscal year and at the end of the second quarter of the current fiscal year were ¥2,544 million and 2,428 thousand shares and ¥2,542 million and 2,425 thousand shares, respectively.

(Board Benefit Trust (BBT))

The Company has introduced a Board Benefit Trust (BBT) as a performance-based stock compensation plan for directors and executive officers (excluding directors who are Audit and Supervisory Committee members and outside directors; the same applies hereinafter) to more clearly link their compensation to the Company's financial results and stock value and increase their awareness of contributing to better business performance and enhancing corporate value continuously over the medium to long term by sharing the benefits of rising stock prices and the risks of falling stock prices.

Shares of the Company held by BBT are presented as treasury shares in the net assets section of the consolidated balance sheet. The book value and the number of treasury shares at the end of the previous fiscal year and at the end of the second quarter of the current fiscal year are ¥1,038 million and 316 thousand shares and ¥988 million and 303 thousand shares, respectively.

(Segment information)

I. For the six months ended September 30, 2022 (from April 1, 2022 to September 30, 2022)

Information on amounts of net sales and profit (loss) by reportable segment

(Millions of yen)

	Reportable Segment			Adjustment (Note 1)	Consolidated (Note 3)
	Optical Materials and Components	Electronic Materials and Components (Notes 2 & 3)	Total		
Net sales					
Sales to external customers	30,466	27,730	58,197	(0)	58,197
Intersegment sales or transfers	197	164	362	(362)	–
Total	30,664	27,895	58,559	(362)	58,197
Segment profit	10,924	9,559	20,484	(893)	19,590

Notes: 1. The amount of adjustment for segment profit of ¥893 million is the amount of amortization of goodwill that does not belong to any reportable segment.

2. The Group made Kyoto Semiconductor Co., Ltd. its consolidated subsidiary in March 2022. Accordingly, the company's opto semiconductor business was included in the Electronic Materials and Components segment.

3. Segment information for the six months ended September 30, 2022 includes amounts that reflect a significant revision to the initial allocations of the acquisition cost due to the determination of a provisional accounting process related to a business combination.

(Reference) Net sales by region: Japan ¥15,731 million China ¥14,467 million South Korea ¥9,037 million
Taiwan ¥13,503 million Other ¥5,457 million

II. For the six months ended September 30, 2023 (from April 1, 2023 to September 30, 2023)

Information on amounts of net sales and profit (loss) by reportable segment

(Millions of yen)

	Reportable Segment			Adjustment (Note)	Consolidated
	Optical Materials and Components	Electronic Materials and Components	Total		
Net sales					
Sales to external customers	23,472	26,123	49,595	–	49,595
Intersegment sales or transfers	218	95	313	(313)	–
Total	23,691	26,218	49,909	(313)	49,595
Segment profit	7,073	8,865	15,939	(893)	15,045

Note: The amount of adjustment for segment profit of ¥893 million is the amount of amortization of goodwill that does not belong to any reportable segment.

(Reference) Net sales by region: Japan ¥11,135 million China ¥15,754 million South Korea ¥7,924 million
Taiwan ¥8,780 million Other ¥6,000 million

(Significant subsequent events)

(Acquisition of shares of a subsidiary)

At the Board of Directors' meeting held on November 1, 2023, the Company resolved to acquire the shares of Kyoto Semiconductor Co., Ltd., its consolidated subsidiary, held by Development Bank of Japan, a non-controlling shareholder, effective on December 25, 2023. The shares will be acquired for the purpose of making the company a wholly owned subsidiary. The Company is scheduled to conclude the share transfer agreement on November 6, 2023.

1. Outline of the transaction

(1) Name of the company involved in the business combination and its line of business

Company name

Kyoto Semiconductor Co., Ltd.

Line of business

Research and development, manufacturing and sales of opto semiconductor devices including opto semiconductor elements and optical and opto sensors, optical communication-use devices, and other semiconductor-related products.

(2) Main reason for the business combination

The Company will make Kyoto Semiconductor Co., Ltd. a wholly owned subsidiary as a preliminary step for integrating the businesses of Daxerials Precision Components Corporation and Kyoto Semiconductor Co., Ltd., both of which are the Company's consolidated subsidiaries, by the target date of April 1, 2024.

(3) Date of the business combination (planned)

December 25, 2023 (deemed date of acquisition: December 31, 2023)

(4) Legal form of the business combination

Acquisition of shares from a non-controlling shareholder

(5) Name of the company after the business combination

No change

2. Summary of accounting procedures to be implemented

The Company will apply the Accounting Standard for Business Combinations (ASBJ Statement No. 21, January 16, 2019) and the Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures (ASBJ Guidance No. 10, January 16, 2019) to account for the transaction, which is treated as a transaction with a non-controlling shareholder among transactions under common control.

3. Matters on acquisition of additional shares of a subsidiary

Consideration for acquisition: Cash and deposits of 2,160 million yen

Acquisition cost 2,160 million yen

4. Matters related to a change in the Company's equity share resulting from the transaction with a non-controlling shareholder

(1) Main factor of a change in capital surplus

Additional acquisition of shares of a subsidiary

(2) Amount of capital surplus reduced by the transaction with a non-controlling shareholder

Not confirmed as of the date of filing this report