

Consolidated Financial Results for the Six Months Ended September 30, 2023 [Japanese GAAP]



November 2, 2023

Company name: DAIHEN Corporation

Stock exchange listing: Tokyo Stock Exchange, Fukuoka Stock Exchange

Stock exchange code: 6622

URL: <https://www.daihen.co.jp/>

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Scheduled date of filing quarterly securities report: November 6, 2023

Scheduled date of commencing dividend payments: December 5, 2023

Availability of supplementary explanatory materials on quarterly financial results: Available

Schedule of quarterly 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 September 30, 2023 (April 1, 2023 - September 30, 2023)

(1) Consolidated Operating Results (cumulative) (% indicates changes from the previous corresponding period.)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
Six months ended								
September 30, 2023	78,935	(5.1)	5,071	(31.0)	5,785	(29.6)	4,087	(33.1)
September 30, 2022	83,186	15.7	7,354	15.3	8,213	15.1	6,107	18.1

(Note) Comprehensive income: Six months ended September 30, 2023: 7,256 million yen [(24.6)%]

Six months ended September 30, 2022: 9,626 million yen [41.5%]

	Basic earnings per share	Diluted earnings per share
Six months ended	Yen	Yen
September 30, 2023	166.57	—
September 30, 2022	248.91	—

(2) Consolidated Financial Position

	Total assets	Net assets	Equity ratio
	Million yen	Million yen	%
As of September 30, 2023	219,913	124,973	54.1
As of March 31, 2023	212,690	119,905	53.5

(Reference) Equity: As of September 30, 2023: 118,887 million yen

As of March 31, 2023: 113,800 million yen

2. Dividends

	Annual dividends				
	1st quarter-end	2nd quarter-end	3rd quarter-end	Year-end	Total
	Yen	Yen	Yen	Yen	Yen
Fiscal year ended March 31, 2023	–	75.00	–	87.00	162.00
Fiscal year ending March 31, 2024	–	82.50			
Fiscal year ending March 31, 2024 (Forecast)			–	82.50	165.00

(Note) Revision to the forecast for dividends announced most recently: None

3. Consolidated Financial Results Forecast for the Fiscal Year Ending March 31, 2024 (April 1, 2023 - March 31, 2024)

(% indicates changes from the previous corresponding period.)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent		Basic earnings per share
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen
Full year	187,000	0.9	17,000	2.6	17,700	0.2	13,500	2.3	550.14

(Note) Revision to the financial results forecast announced most recently: None

*** Notes:**

(1) Changes in significant subsidiaries during the period under review: Yes

(Changes in specified subsidiaries resulting in changes in scope of consolidation):

Newly included: – (), Excluded: 1 (DAIHEN Techno Support Corporation)

(Note) DAIHEN Techno Support Corporation, which used to be a consolidated subsidiary, was excluded from the scope of consolidation from the three months ended June 30, 2023 because it was dissolved as of April 1, 2023, due to an absorption-type merger, in which the Company was the surviving company.

(2) Accounting methods adopted particularly for the preparation of quarterly consolidated financial statements: Yes

(Note) For details, please see “2. Quarterly Consolidated Financial Statements and Principal Notes (4) Notes to Quarterly Consolidated Financial Statements (Accounting methods adopted particularly for the preparation of quarterly consolidated financial statements) on page 9 of the attachments.

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

1) Changes in accounting policies due to the revision of accounting standards: None

2) Changes in accounting policies other than 1) above: None

3) Changes in accounting estimates: None

4) Retrospective restatement: None

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

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

September 30, 2023: 27,103,291 shares

March 31, 2023: 27,103,291 shares

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

September 30, 2023: 2,561,582 shares

March 31, 2023: 2,564,265 shares

3) Average number of shares during the period:

Six months ended September 30, 2023: 24,540,319 shares

Six months ended September 30, 2022: 24,537,994 shares

* These quarterly consolidated financial results are outside the scope of quarterly review by certified public accountants or an audit firm.

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

The earnings forecasts and other forward-looking statements contained in this report are based on information available to the Company on the date of this report’s release and certain premises that the Company deems to be reasonable. Actual financial results, etc. may differ significantly due to a wide range of factors. For details on the earnings forecasts of the Company, please see “1. Qualitative Information on Quarterly Financial Results (3) Explanation of Consolidated Financial Results Forecast and Other Forward-looking Information” on page 4 of the attachments.

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1. Qualitative Information on Quarterly Financial Results

(1) Explanation of Operating Results

The performance of DAIHEN Corporation (the “Company”) and its subsidiaries (collectively, the “DAIHEN Group”) for the six months ended September 30, 2023 was orders received of 87,369 million yen (down 13.4% year-on-year) and net sales of 78,935 million yen (down 5.1% year-on-year) due to the postponement of semiconductor-related investment. In income results, the impact of a decrease in net sales resulted in operating profit of 5,071 million yen (down 2,282 million yen year-on-year), ordinary profit of 5,785 million yen (down 2,427 million yen year-on-year), and profit attributable to owners of parent of 4,087 million yen (down 2,020 million yen year-on-year).

The performance of each segment is as follows.

Effective from the three months ended June 30, 2023, business segments to be stated as reportable segments have been changed, and comparison and analysis of performance of each segment for the six months ended September 30, 2023 are based on the new categories.

1) Energy Management

Owing to strong investment in the replacement of power distribution products and power-receiving facilities for plants in Japan, net sales were 35,234 million yen (up 12.0% year-on-year). Meanwhile, operating profit was 1,993 million yen (up 582 million yen year-on-year) due to initiatives for cost reduction and the progress in reflecting the impact of the price hikes in selling prices while prices of materials continued to soar.

2) Factory Automation

Although domestic demand-related investment in China was sluggish in the three months ended June 30, 2023, EV-related investment increased in Japan and abroad in the six months ended September 30, 2023. As a result, net sales were 17,315 million yen (up 6.5% year-on-year) and operating profit was 2,178 million yen (up 393 million yen year-on-year).

3) Material Processing

Although sales of welding and joining machines remained strong mainly for construction industry in Japan, the impact of a decrease in demand for RF generators for semiconductor manufacturing due to the postponement of investment by semiconductor manufacturers was significant against a backdrop of declining demand for smartphones and PCs. As a result, net sales were 26,301 million yen (down 25.6% year-on-year) and operating profit was 2,849 million yen (down 3,224 million yen year-on-year).

4) Other

Net sales were 92 million yen and operating profit was 26 million yen. There were no significant changes from the corresponding period of the previous year.

(Reference) Performance by Segment

(Million yen)

Segment	Orders Received		Net Sales		Operating Profit	
	Amount	YoY change	Amount	YoY change	Amount	YoY change
Energy Management	46,349	+15.5%	35,234	+12.0%	1,993	+41.3%
Factory Automation	15,913	-11.7%	17,315	+6.5%	2,178	+22.1%
Material Processing	25,013	-41.4%	26,301	-25.6%	2,849	-53.1%
Other	92	+0.6%	92	+0.6%	26	-18.8%
Company Total	87,369	-13.4%	78,935	-5.1%	5,071	-31.0%

(2) Explanation of Financial Position

Total assets at the end of the six months ended September 30, 2023 increased by 7,222 million yen from the end of the previous fiscal year to 219,913 million yen. This is primarily attributable to increases in inventories and investment securities, despite a decrease in notes and accounts receivable - trade.

Total liabilities at the end of the six months ended September 30, 2023 increased by 2,154 million yen from the end of the previous fiscal year to 94,939 million yen. This is primarily attributable to an increase in borrowings, despite a decrease in notes and accounts payable-trade.

Total net assets at the end of the six months ended September 30, 2023 increased by 5,068 million yen from the end of the previous fiscal year to 124,973 million yen. This is primarily attributable to increases in retained earnings and foreign currency translation adjustment. The equity ratio increased by 0.6 percentage points from 53.5% to 54.1%.

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

The performance for the six months ended September 30, 2023 was higher than the consolidated financial results forecast announced on May 10, 2023. In addition, the Company's financial results are expected to remain generally strong in the nine months ending December 31, 2023 and beyond. This is due to increases in investment in power distribution products, capital investment by the private sector in Japan, and EV-related investment in Japan and abroad, although the business environment raises concerns over a delay in the recovery of semiconductor-related investment and a slowdown of the Chinese economy. However, due to uncertainties in the market environment, the consolidated financial results forecast for the fiscal year ending March 31, 2024 announced on May 10, 2023 remains unchanged at this point.

Should a revision of the consolidated financial results forecast become necessary, the Company will promptly disclose it.

(Note) For the period from October 1, 2023 to March 31, 2024, the Company has revised the average exchange rate assumption from 130 yen per US dollar to 142 yen per US dollar.

(Reference) Comparison of consolidated financial results for the six months ended September 30, 2023 with consolidated financial results forecast announced on May 10, 2023.

(Million yen)

	Consolidated financial results forecast (announced on May 10, 2023)	Consolidated financial results	Achievement rate
Net sales	77,000	78,935	102.5%
Operating profit	4,500	5,071	112.7%
Ordinary profit	4,700	5,785	123.1%
Profit attributable to owners of parent	3,500	4,087	116.8%

2. Quarterly Consolidated Financial Statements and Principal Notes

(1) Quarterly Consolidated Balance Sheets

(Million yen)

	As of March 31, 2023	As of September 30, 2023
Assets		
Current assets		
Cash and deposits	15,265	14,056
Notes and accounts receivable - trade	44,801	36,551
Merchandise and finished goods	24,430	29,779
Work in process	14,840	16,040
Raw materials and supplies	39,364	46,548
Other	5,702	6,226
Allowance for doubtful accounts	(481)	(696)
Total current assets	143,924	148,506
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	19,134	18,915
Machinery, equipment and vehicles, net	6,435	6,499
Tools, furniture and fixtures, net	1,897	1,845
Land	8,921	8,967
Leased assets, net	402	377
Construction in progress	1,264	2,803
Total property, plant and equipment	38,055	39,408
Intangible assets		
Software	1,898	1,848
Leased assets	6	2
Other	213	242
Total intangible assets	2,118	2,093
Investments and other assets		
Investment securities	15,086	16,762
Investments in capital	419	419
Long-term prepaid expenses	82	73
Retirement benefit asset	11,155	10,970
Deferred tax assets	1,286	1,115
Other	612	614
Allowance for doubtful accounts	(50)	(50)
Total investments and other assets	28,592	29,905
Total non-current assets	68,766	71,407
Total assets	212,690	219,913

(Million yen)

	As of March 31, 2023	As of September 30, 2023
Liabilities		
Current liabilities		
Notes and accounts payable - trade	19,786	14,604
Electronically recorded obligations - operating	19,470	14,787
Short-term borrowings	8,103	9,679
Current portion of long-term borrowings	4,784	6,884
Lease liabilities	117	86
Income taxes payable	2,935	1,784
Provision for bonuses	3,928	2,753
Provision for bonuses for directors (and other officers)	124	37
Provision for loss on construction contracts	112	110
Other	7,739	7,846
Total current liabilities	67,102	58,573
Non-current liabilities		
Long-term borrowings	20,002	30,460
Lease liabilities	200	216
Deferred tax liabilities	941	1,110
Provision for retirement benefits for directors (and other officers)	60	65
Provision for loss on guarantees	652	584
Provision for construction expenses related to earthquake resistance renovation	622	586
Provision for product safety measures	5	4
Retirement benefit liability	1,875	1,782
Asset retirement obligations	72	72
Other	1,251	1,481
Total non-current liabilities	25,683	36,365
Total liabilities	92,785	94,939
Net assets		
Shareholders' equity		
Share capital	10,596	10,596
Capital surplus	10,042	10,054
Retained earnings	85,393	87,339
Treasury shares	(4,822)	(4,820)
Total shareholders' equity	101,208	103,169
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	3,820	4,849
Foreign currency translation adjustment	6,321	8,539
Remeasurements of defined benefit plans	2,448	2,329
Total accumulated other comprehensive income	12,591	15,718
Non-controlling interests	6,104	6,085
Total net assets	119,905	124,973
Total liabilities and net assets	212,690	219,913

(2) Quarterly Consolidated Statements of Income and Comprehensive Income

Quarterly Consolidated Statements of Income

Six Months Ended September 30

(Million yen)

	For the six months ended September 30, 2022	For the six months ended September 30, 2023
Net sales	83,186	78,935
Cost of sales	58,247	55,958
Gross profit	24,938	22,976
Selling, general and administrative expenses	17,584	17,905
Operating profit	7,354	5,071
Non-operating income		
Interest and dividend income	221	236
Share of profit of entities accounted for using equity method	145	211
Foreign exchange gains	348	382
Other	468	380
Total non-operating income	1,183	1,210
Non-operating expenses		
Interest expenses	137	207
Other	187	289
Total non-operating expenses	324	496
Ordinary profit	8,213	5,785
Extraordinary income		
Gain on sale of investment securities	–	95
Reversal of provision for loss on guarantees	–	67
Total extraordinary income	–	162
Extraordinary losses		
Provision of allowance for doubtful accounts	–	217
Provision for loss on guarantees	72	–
Total extraordinary losses	72	217
Profit before income taxes	8,141	5,731
Income taxes	2,050	1,619
Profit	6,090	4,111
Profit (loss) attributable to non-controlling interests	(17)	24
Profit attributable to owners of parent	6,107	4,087

Quarterly Consolidated Statements of Comprehensive Income

Six Months Ended September 30

(Million yen)

	For the six months ended September 30, 2022	For the six months ended September 30, 2023
Profit	6,090	4,111
Other comprehensive income		
Valuation difference on available-for-sale securities	(411)	987
Deferred gains or losses on hedges	(1)	–
Foreign currency translation adjustment	3,983	2,223
Remeasurements of defined benefit plans, net of tax	(27)	(124)
Share of other comprehensive income of entities accounted for using equity method	(7)	57
Total other comprehensive income	3,536	3,144
Comprehensive income	9,626	7,256
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	9,627	7,214
Comprehensive income attributable to non-controlling interests	(0)	42

(3) Quarterly Consolidated Statements of Cash Flows

(Million yen)

	For the six months ended September 30, 2022	For the six months ended September 30, 2023
Cash flows from operating activities		
Profit before income taxes	8,141	5,731
Depreciation	2,490	2,421
Increase (decrease) in allowance for doubtful accounts	(8)	213
Increase (decrease) in provision for bonuses	(858)	(1,182)
Increase (decrease) in provision for loss on construction contracts	(17)	(2)
Increase (decrease) in provision for loss on guarantees	72	(67)
Increase (decrease) in provision for construction expenses related to earthquake resistance renovation	(2)	(35)
Increase (decrease) in retirement benefit liability	16	(111)
Decrease (increase) in retirement benefit asset	(99)	185
Interest and dividend income	(221)	(236)
Interest expenses	137	207
Share of loss (profit) of entities accounted for using equity method	(145)	(211)
Loss (gain) on sale of investment securities	–	(95)
Decrease (increase) in trade receivables	(462)	8,618
Decrease (increase) in inventories	(10,492)	(13,290)
Increase (decrease) in trade payables	(3,767)	(10,182)
Other, net	360	(867)
Subtotal	(4,858)	(8,904)
Interest and dividends received	238	245
Interest paid	(150)	(206)
Income taxes paid	(2,743)	(2,672)
Net cash provided by (used in) operating activities	(7,513)	(11,537)
Cash flows from investing activities		
Purchase of property, plant and equipment	(2,362)	(2,569)
Proceeds from sale of property, plant and equipment	25	29
Purchase of intangible assets	(341)	(266)
Proceeds from sale of investment securities	–	111
Purchase of investments in capital of subsidiaries	(213)	–
Other, net	(4)	(164)
Net cash provided by (used in) investing activities	(2,896)	(2,860)
Cash flows from financing activities		
Net increase (decrease) in short-term borrowings	991	1,434
Proceeds from long-term borrowings	4,000	15,000
Repayments of long-term borrowings	(2,942)	(2,442)
Purchase of treasury shares	(3)	(4)
Dividends paid	(1,475)	(2,138)
Other, net	(54)	(61)
Net cash provided by (used in) financing activities	517	11,788
Effect of exchange rate change on cash and cash equivalents	715	1,367
Net increase (decrease) in cash and cash equivalents	(9,176)	(1,241)
Cash and cash equivalents at beginning of period	24,409	14,853
Increase (decrease) in cash resulting from fiscal year change of subsidiaries	201	–
Cash and cash equivalents at end of period	15,434	13,611

(4) Notes to Quarterly Consolidated Financial Statements

(Notes on going concern assumption)

Not applicable.

(Notes in case of significant changes in shareholders' equity)

Not applicable.

(Accounting methods adopted particularly for the preparation of quarterly consolidated financial statements)

- Calculation of tax expenses

The Company employs a method of making a reasonable estimation of the effective tax rate after application of tax effect accounting to net profit before tax for the current consolidated fiscal year before multiplying quarterly profit before tax by said effective tax rate.

However, if the use of said effective tax rate to calculate tax expenses leads to a markedly unreasonable result, material variations that do not fall under temporary variation are added to or deducted from the quarterly profit before tax, and tax expenses are calculated by multiplying the resulting amount by the statutory effective tax rate.

(Segment information, etc.)

I. For the six months ended September 30, 2022

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

(Million yen)

	Reportable segment				Other (Note)	Total
	Energy Management	Factory Automation	Material Processing	Total		
Net sales						
Net sales to outside customers	31,469	16,255	35,369	83,094	91	83,186
Inter-segment net sales or transfers	-	2	0	3	-	3
Total	31,469	16,258	35,370	83,098	91	83,190
Segment profit	1,410	1,784	6,073	9,268	32	9,301

(Note) “Other” refers to business segments not included in the reportable segments and includes the real estate leasing business, etc.

2. Information on the difference between total of the profit or loss amounts of reportable segments and the amounts recorded in the Quarterly Consolidated Statements of Income and the main contents of the difference (matters concerning variation adjustment)

(Million yen)

Profit	Amount
Reportable Segment Total	9,268
Profit in “Other” category	32
Elimination of inter-segment transactions	(0)
Company-wide expenses (Note)	(1,947)
Operating profit in Quarterly Consolidated Statements of Income	7,354

(Note) “Company-wide expenses” are mainly general and administrative expenses that do not belong to the reportable segments.

II. For the six months ended September 30, 2023

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

(Million yen)

	Reportable segment				Other (Note)	Total
	Energy Management	Factory Automation	Material Processing	Total		
Net sales						
Net sales to outside customers	35,234	17,307	26,300	78,842	92	78,935
Inter-segment net sales or transfers	-	7	0	8	-	8
Total	35,234	17,315	26,301	78,851	92	78,944
Segment profit	1,993	2,178	2,849	7,021	26	7,048

(Note) “Other” refers to business segments not included in the reportable segments and includes the real estate leasing business, etc.

2. Information on the difference between total of the profit or loss amounts of reportable segments and the amounts recorded in the Quarterly Consolidated Statements of Income and the main contents of the difference (matters concerning variation adjustment)

(Million yen)

Profit	Amount
Reportable Segment Total	7,021
Profit in “Other” category	26
Elimination of inter-segment transactions	(0)
Company-wide expenses (Note)	(1,976)
Operating profit in Quarterly Consolidated Statements of Income	5,071

(Note) “Company-wide expenses” are mainly general and administrative expenses that do not belong to the reportable segments.

3. Matters regarding change in reportable segments, etc.

The Company set “Energy Management,” “Factory Automation,” and “Material Processing” as new technology domains in its medium-term plan drafted in FY2015 and has focused on development in each of these, with the aim of becoming a development-focused company that helps solve social issues.

As a result, the Company has expanded its business to domains such as EMS products that contribute to the achievement of a decarbonized society, production automation systems that are useful in solving labor shortages, line of products that help in the high precision processing of various metallic materials, which will be needed in the future. The Company has realized a certain level of success, which has been recognized by stakeholders.

Therefore, we have decided to realign the reportable segments from the previous “Power Products Business,” “Welding & Mechatronics Business,” and “Semiconductor & FPD Related Business” to technology domains.

The main products comprising each reportable segment are as follows.

Old segments	Main products		New segments	Main products
Power Products Business	Transformers	⇒	Energy Management	Transformers
	Power receiving and distribution systems			Power receiving and distribution systems
	Control and telecommunications equipment			Control and telecommunications equipment
	Charging systems			Charging systems
	Dispersed power equipment, etc.			Dispersed power equipment, etc.
Welding & Mechatronics Business	Welding machines	Factory Automation	Industrial robots	
	Plasma cutting machines		Clean transfer robots	
	Industrial robots	Material Processing	Welding machines	
RF generators for plasma applications	Plasma cutting machines			
Clean transfer robots	RF generators for plasma applications			

The Company has shifted to the new reportable segments from the first quarter ended June 30, 2023.

Segment information for the six months ended September 30, 2022 is based on the new categories.

(Business combination)

Transaction under common control

Absorption-type merger of consolidated subsidiary

(1) Outline of the transaction

1) Name of the parties to the combination and description of their business

Name of surviving company DAIHEN Corporation

Description of business Manufacture and sale of a variety of transformer, power distribution equipment, control and telecommunications equipment, dispersed power equipment, welding machines, cutting machines, industrial robots, RF generator for plasma applications, etc.

Name of merged company DAIHEN Techno Support Corporation

Description of business Sale, maintenance, and inspection of welding machines, cutting machines, industrial robots, etc.

2) Date of the business combination

April 1, 2023

3) Legal format of the business combination

An absorption-type merger with the Company as the surviving company, and DAIHEN Techno Support Corporation has been dissolved

4) Name of the combined enterprise

DAIHEN Corporation

5) Other matters related to the outline of the transaction

The Company determined to merge with DAIHEN Techno Support Corporation, a domestic sales subsidiary for the Welding & Mechatronics Business, and integrate its sales function into the Company for the purpose of strengthening the business.

(2) Outline of the implemented accounting methods

The Company has treated the transaction as a transaction under common control in accordance with the Accounting Standards for Business Combinations and Implementation Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures.

(Significant subsequent events)

1. Acquisition of company, etc. by share acquisition

The Company resolved at the Board of Directors meeting held on May 10, 2023, to enter into a share transfer agreement to acquire a 70% stake in Tohoku Electric Manufacturing Co., Ltd., which is a joint venture of Tohoku Electric Power Co., Inc. and Hitachi, Ltd., and entered into the share transfer agreement with Tohoku Electric Power Co., Inc. and Hitachi, Ltd. on May 19, 2023.

(1) Purpose of the share acquisition

The Company will acquire the shares for the purpose of expanding sales in the Tohoku region and strengthening the production system through synergies with Tohoku Electric Manufacturing Co., Ltd. by making Tohoku Electric Manufacturing Co., Ltd. a subsidiary.

(2) Counterparty of share acquisition

Tohoku Electric Power Co., Inc., Hitachi, Ltd.

(3) Name, line of business, and size of the company to be acquired

(Fiscal year ended March 31, 2023)

Name	Tohoku Electric Manufacturing Co., Ltd.
Location	2-1 Miyauchi 2-chome, Tagajo, Miyagi Prefecture
Line of business	Manufacture, repair, sales, and installation of transformers for power distribution, distribution panels, etc.
Net assets	9,500 million yen
Total assets	11,548 million yen
Net sales	8,327 million yen
Operating profit	142 million yen
Ordinary profit	196 million yen
Net profit	126 million yen

(4) Date of share acquisition

October 2, 2023

(5) Number of shares to be acquired, acquisition cost, and ownership ratio after acquisition

- 1) Number of shares to be acquired : 249,480 shares
- 2) Acquisition cost and type of consideration : 3,470 million yen (cash)
- 3) Ownership ratio after acquisition : 70%

2. Acquisition of company, etc. by equity acquisition

The Company resolved at the Board of Directors meeting held on August 29, 2023, to make Lorch Schweißtechnik GmbH (“LORCH”) a wholly owned subsidiary, and entered into an equity transfer agreement with Lorch Holding GmbH on the same date.

(1) Purpose of the equity acquisition

The Company has developed many proprietary bonding machines including our innovative joining systems that help reduce vehicle body weight of EVs, and new bonding machines to dramatically enhance the productivity of thick plate welding used for steel beams, construction machines, wind power, etc. Although adoption of such machines has grown steadily mainly among Japanese leading manufacturers, there are still few cases among European manufacturers.

Through the acquisition of LORCH, we will accelerate sales expansion of our proprietary bonding machines in Western Europe by utilizing its Western European sales network, and direct selling systems to major users that belong to the company. Also in the FA robot business, we will meet LORCH customers’ diverse needs for automation by utilizing German system integrators (LASOtech in fiscal 2019, Femitec in fiscal 2022) acquired by the Company up to this point as measures to strengthen our business in Europe.

Additionally, a sales expansion of LORCH products in Eastern Europe is also expected by utilizing the sales network of VARSTROJ, the No. 1 welding machine manufacturer in Eastern Europe, which was acquired by the Company in fiscal 2014.

Through these achievements, we will aim to be the No. 1 manufacturer in European markets in the areas of the welding machine and arc welding robot industries and increase net sales in Europe to more than 20,000 million yen (more than three times the 6,000 million yen in fiscal 2022 and nearly twelve times the 1,700 million yen in fiscal 2013, which was before starting to strengthen our business in Europe). Furthermore, we will aim for worldwide sales expansion in new areas including EV, wind power, and other industries by taking the heightened recognition of our business in European markets as an opportunity.

(2) Counterparty of equity acquisition

Lorch Holding GmbH

(3) Name, line of business, and size of the company to be acquired

Fiscal year ended December 31, 2022

Name	Lorch Schweißtechnik GmbH
Location	Auenwald, Baden-Württemberg, Germany (Im Anwänder 24-26, 71549 Auenwald, Germany)
Line of business	Development, manufacture, repair, and sales of welding machines
Net assets	3,987 thousand euro
Total assets	25,904 thousand euro
Net sales	54,246 thousand euro
Operating loss	(507) thousand euro
Ordinary profit	220 thousand euro
Net profit	313 thousand euro

(4) Date of equity acquisition

January 15, 2024 (planned)

(5) Acquisition cost and ownership ratio after acquisition

- 1) Acquisition cost and type of consideration : 21,000 thousand euro (cash)
- 2) Ownership ratio after acquisition : 100%

(6) Principal acquisition related expenses

Advisory fees, etc.: 150million yen (estimated amount)

(7) Information on the conditional consideration for acquisition stipulated in the business combination agreements and the accounting policy for and after the fiscal year under review

In accordance with the equity transfer agreement, the final acquisition cost may change because of certain accompanying events occurring in the future. If a change in acquisition cost is incurred, we will revise the acquisition cost, deeming the revised cost as incurred at the time of acquisition, and revise the amount and amortization of goodwill.