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November 10, 2023

Consolidated Financial Results for the Six months Ended September 30, 2023 (Under Japanese GAAP)

Company name: ESPEC CORP.
 Listing: Tokyo Stock Exchanges, Prime Market
 Securities code: 6859
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 Scheduled date to file quarterly securities report: November 13, 2023
 Scheduled date to commence dividend payments: December 11, 2023
 Preparation of supplementary material on quarterly financial results: Yes
 Holding of quarterly financial results briefing: Yes (An on-demand video of the presentation meeting is scheduled to be posted on the Company's website.)

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

1. Consolidated Financial Results for the Six months Ended September 30, 2023 (from April 1, 2023 to September 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	%
Six months ended September 30, 2023	27,257	18.8	2,333	67.2	2,526	45.9	1,653	68.1
September 30, 2022	22,945	30.6	1,395	252.3	1,731	264.6	984	326.8

Note: Comprehensive income For the Six months ended September 30, 2023 ¥ 3,331 million 46.3%
 For the Six months ended September 30, 2022 ¥ 2,277 million 514.7%

	Basic earnings per share		Diluted earnings per share	
	Yen		Yen	
Six months ended September 30, 2023	75.76		-	
September 30, 2022	43.96		-	

(2) Consolidated financial position

As of	Total assets	Net assets	Equity-to-asset ratio	Net assets per share
	Millions of yen	Millions of yen	%	Yen
September 30, 2023	74,041	49,505	66.6	2,257.20
March 31, 2023	67,176	47,172	69.9	2,150.64

Reference: Equity

As of September 30, 2023 ¥ 49,280 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	-	25.00			
Fiscal year ending March 31, 2024 (Forecast)			-	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
Fiscal year ending March 31, 2024	58,500	10.6	5,500	26.0	5,750	23.3	4,000	20.1	183.21

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): Yes

Newly included: 1 company (Company name: COSMOPIA HIGHTECH CORP.)

Excluded: - (Company name: -)

For details, see “Changes in significant subsidiaries during the period” on p.8.

(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 September 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 September 30, 2023	1,708,580 shares
As of March 31, 2023	1,708,580 shares

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

Six months ended September 30, 2023	21,832,414 shares
Six months ended September 30, 2022	22,385,724 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.

1. Qualitative information concerning consolidated financial results -----	2
(1) Description of operating results -----	2
(2) Description of financial position -----	3
(3) Description of consolidated operating forecasts and other forward-looking information -----	3
2. Quarterly consolidated financial statements and significant notes -----	4
(1) Quarterly consolidated balance sheets -----	4
(2) Quarterly consolidated statements of income and quarterly consolidated statements of comprehensive income -----	6
Quarterly consolidated statements of income	
(Six months ended September 30, 2023) -----	6
Quarterly consolidated statements of comprehensive income	
(Six months ended September 30, 2023) -----	7
(3) Notes to the quarterly consolidated financial statements -----	8
Notes on the assumption of a going concern -----	8
Notes on significant changes in shareholders' equity -----	8
Changes in significant subsidiaries during the period -----	8
Application of special accounting methods in the creation of quarterly consolidated financial statements -----	8
Segment information -----	8
Business Combinations -----	9
Material Subsequent Events -----	10

1. Qualitative information concerning consolidated financial results

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

(1) Description of operating results

During the first six 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, parts procurement improved and the Group has strengthened efforts to eliminate accumulated order backlog and normalize lead times.

Looking at the Company's operating results for the first half of the fiscal year, orders received was ¥33,440 million, maintaining a high level that set a record, with the electric vehicle (EV) and battery fields being the driving force. Net sales increased 18.8% year on year to ¥27,257 million, a record high, due to strengthening production response. On the profit front, the Company recorded operating profit reached a record high of ¥2,333 million, a year on year increase of 67.2%. 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 68.1% year on year to ¥1,653 million, which was a record high.

	Previous consolidated 2 nd quarter (fiscal 2022) (Millions of yen)	This consolidated 2 nd quarter (fiscal 2023) (Millions of yen)	Change (%)
Orders received	33,266	33,440	0.5
Net sales	22,945	27,257	18.8
Operating profit	1,395	2,333	67.2
Ordinary profit	1,731	2,526	45.9
Profit attributable to owners of parent	984	1,653	68.1

Performance by segment

This consolidated 2nd quarter (Fiscal 2023)

	Orders received (Millions of yen)	Net sales (Millions of yen)	Operating profit (loss) (Millions of yen)
Equipment business	29,198	23,533	2,175
Service business	3,785	3,445	249
Other business	655	475	(88)
Elimination	(199)	(197)	(2)
Total	33,440	27,257	2,333

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. Net sales increased for both standardized products and customized products. In overseas markets, orders received were down year on year, but net sales rose year on year, mainly due to increases in 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 batteries

In the semiconductor equipment field, orders received decreased and net sales was on a par year on year, mainly due to the impact of memory-related investment restraint.

As a result, the equipment business on the whole saw orders received remain on a parallel year on year at ¥29,198 million and net sales increased 19.8% year on year to ¥23,533 million. On the profit front, the Company recorded operating profit of ¥2,175 million, an increase of 55.0% compared to the same period of the previous fiscal year, mainly due to an increase in net sales and despite an increase in selling, general and administrative expenses.

	Previous consolidated 2 nd quarter (fiscal 2022) (Millions of yen)	This consolidated 2 nd quarter (fiscal 2023) (Millions of yen)	Change (%)
Orders received	29,209	29,198	(0.0)
Net sales	19,650	23,533	19.8
Operating profit	1,403	2,175	55.0

Service business

In the after-sales service and engineering field, orders received was on a par year on year and 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 brisk performance in laboratory testing services, centered on automotive rechargeable batteries.

As a result, the service business on the whole saw orders received increase 9.1% year on year to ¥3,785 million and net sales increase 14.1% to ¥3,445 million. On the profit front, the Company recorded operating profit of ¥249 million, an increase of 244.7% compared to the same period of the previous fiscal year, mainly due to an increase in net sales and improved cost of sales ratio in the laboratory testing business.

	Previous consolidated 2 nd quarter (fiscal 2022) (Millions of yen)	This consolidated 2 nd quarter (fiscal 2023) (Millions of yen)	Change (%)
Orders received	3,470	3,785	9.1
Net sales	3,020	3,445	14.1
Operating profit	72	249	244.7

Other business

In the other business field, which is centered on the environmental preservation and plant production systems business, orders received decreased 12.3% year on year to ¥655 million as reforestation (tree planting) and plant research devices were sluggish. Net sales increased 17.5% year on year to ¥475 million due to factors including deliveries in aquaponics, which combines hydroponics and land-based cultivation. However, there was an operating loss of ¥88 million due to worsening of the cost of sales ratio.

	Previous consolidated 2 nd quarter (fiscal 2022) (Millions of yen)	This consolidated 2 nd quarter (fiscal 2023) (Millions of yen)	Change (%)
Orders received	747	655	(12.3)
Net sales	405	475	17.5
Operating loss	(80)	(88)	-

* 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 second quarter consolidated accounting period were ¥74,041 million, an increase of ¥6,864 million over the end of the previous consolidated fiscal year. Major factors included an increase of ¥3,251 million in cash and deposits accompanying an increase in short-term borrowings, etc., an increase of ¥2,362 in inventories such as raw materials and supplies in conjunction with an increase in order backlog, a decrease of ¥2,343 million resulting from collection of trade receivables (notes and accounts receivable-trade, contract assets, and electronically recorded monetary claims-operating), an increase of ¥1,143 million from recording goodwill accompanying the business transfer of a consolidated subsidiary, etc., an increase of ¥1,096 million in investments and other assets due to increases in investment securities due to a rise in market value of stock holdings and in deferred tax assets, etc., as well as an increase of ¥558 million due to an acquisition of land and other factors. Liabilities were ¥24,535 million, an increase of ¥4,531 million from the end of the previous consolidated fiscal year. Major factors included an increase of ¥3,510 million in short-term borrowings, an increase in other current liabilities of ¥1,990 million such as accounts payable, etc. due to recording acquisition consideration for business transfer as accounts payable – other, and a decrease of ¥977 million in trade payables (notes and accounts payable - trade and electronically recorded obligations - operating). Net assets were ¥49,505 million, an increase of ¥2,332 million against the end of the previous fiscal year. Major factors included an increase of ¥1,284 million in foreign currency translation adjustment accompanying the continued depreciation of the yen, and an increase of ¥655 million in retained earnings due to recording ¥1,653 million in profit attributable to owners of parent in the second quarter of the consolidated fiscal year under review while there was appropriation of ¥993 million in profits as dividends, and an increase of ¥386 million in valuation difference on available-for-sale securities.

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

The Company has revised the consolidated financial results forecasts for the full fiscal year ending March 31, 2024, taking into account the consolidated results for the six months ended September 30, 2023 and current conditions. For details, please refer to the "Notice of Revisions of Financial Forecasts" released on October 27, 2023. Furthermore, for the fiscal year ending March 31, 2024, the Company forecasts orders received of ¥61,000 million (an increase of 2.5% year on year).

2. Quarterly consolidated financial statements and significant notes

(1) Quarterly consolidated balance sheets

(Millions of yen)

	As of March 31, 2023	As of September 30, 2023
Assets		
Current assets		
Cash and deposits	13,998	17,250
Notes and accounts receivable - trade, and contract assets	16,097	14,210
Electronically recorded monetary claims - operating	3,540	3,083
Securities	302	302
Merchandise and finished goods	3,010	3,213
Work in process	3,562	4,390
Raw materials and supplies	4,885	6,217
Other	2,641	3,042
Allowance for doubtful accounts	(37)	(42)
Total current assets	48,000	51,667
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	5,013	5,123
Land	4,662	5,221
Other, net	2,825	3,092
Total property, plant and equipment	12,501	13,437
Intangible assets		
Goodwill	601	1,745
Other	625	647
Total intangible assets	1,227	2,392
Investments and other assets	5,447	6,543
Total non-current assets	19,176	22,373
Total assets	67,176	74,041
Liabilities		
Current liabilities		
Notes and accounts payable - trade	4,469	4,240
Electronically recorded obligations - operating	5,145	4,397
Short-term borrowings	90	3,601
Income taxes payable	603	542
Provision for bonuses	519	444
Provision for bonuses for directors (and other officers)	14	—
Provision for product warranties	189	222
Provision for loss on orders received	10	2
Other	6,234	8,225
Total current liabilities	17,277	21,676
Non-current liabilities		
Long-term borrowings	203	151
Retirement benefit liability	243	258
Provision for share awards for directors (and other officers)	128	164
Provision for retirement benefits for directors (and other officers)	4	2
Asset retirement obligations	23	24
Other	2,123	2,258
Total non-current liabilities	2,726	2,859
Total liabilities	20,003	24,535

(Millions of yen)

	As of March 31, 2023	As of September 30, 2023
Net assets		
Shareholders' equity		
Share capital	6,895	6,895
Capital surplus	7,158	7,158
Retained earnings	33,673	34,328
Treasury shares	(3,318)	(3,318)
Total shareholders' equity	44,408	45,064
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	1,359	1,746
Revaluation reserve for land	(663)	(663)
Foreign currency translation adjustment	1,854	3,138
Remeasurements of defined benefit plans	(6)	(5)
Total accumulated other comprehensive income	2,544	4,215
Non-controlling interests	218	225
Total net assets	47,172	49,505
Total liabilities and net assets	67,176	74,041

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

Quarterly consolidated statements of income

(Six months ended September 30, 2023)

(Millions of yen)

	Six months ended September 30, 2022	Six months ended September 30, 2023
Net sales	22,945	27,257
Cost of sales	15,150	17,771
Gross profit	7,794	9,485
Selling, general and administrative expenses		
Salaries and allowances	1,985	2,109
Provision for bonuses	133	142
Provision for share awards for directors (and other officers)	17	33
Provision for product warranties	55	90
Provision of allowance for doubtful accounts	5	3
Amortization of goodwill	61	73
Other	4,140	4,698
Total selling, general and administrative expenses	6,399	7,151
Operating profit	1,395	2,333
Non-operating income		
Interest income	11	20
Dividend income	83	102
Foreign exchange gains	202	61
Other	64	40
Total non-operating income	361	225
Non-operating expenses		
Interest expenses	18	15
Commission expenses	4	4
Other	3	13
Total non-operating expenses	25	32
Ordinary profit	1,731	2,526
Extraordinary income		
Gain on sale of non-current assets	0	0
Total extraordinary income	0	0
Extraordinary losses		
Loss on sale of non-current assets	0	0
Loss on retirement of non-current assets	2	5
Total extraordinary losses	3	5
Profit before income taxes	1,728	2,520
Income taxes - current	739	860
Profit	989	1,660
Profit attributable to non-controlling interests	5	6
Profit attributable to owners of parent	984	1,653

Quarterly consolidated statements of comprehensive income
(Six months ended September 30, 2023)

(Millions of yen)

	Six months ended September 30, 2022	Six months ended September 30, 2023
Profit	989	1,660
Other comprehensive income		
Valuation difference on available-for-sale securities	(33)	386
Foreign currency translation adjustment	1,323	1,284
Remeasurements of defined benefit plans, net of tax	(2)	0
Total other comprehensive income	1,287	1,671
Comprehensive income	2,277	3,331
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	2,271	3,325
Comprehensive income attributable to non-controlling interests	5	6

(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

Changes in significant subsidiaries during the period

The Company included COSMOPIA HIGHTECH CORP. in the scope of consolidation from the three months ended September 30, 2023, following its establishment on August 22, 2023. Furthermore, COSMOPIA HIGHTECH CORP. falls under the category of being the Company's specified subsidiary.

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 2nd quarter (from April 1, 2022 to September 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	19,645	2,895	404	22,945	-	22,945
(2) Internal sales or transfers between segments	5	124	1	130	(130)	-
Total	19,650	3,020	405	23,075	(130)	22,945
Segment profit (loss)	1,403	72	(80)	1,396	(0)	1,395

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

2. Segment profit (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 six months ended September 30, 2022.

II This consolidated 2nd quarter (from April 1, 2023 to September 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	23,506	3,279	470	27,257	-	27,257
(2) Internal sales or transfers between segments	26	165	5	197	(197)	-
Total	23,533	3,445	475	27,454	(197)	27,257
Segment profit (loss)	2,175	249	(88)	2,336	(2)	2,333

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.

Significant changes in the amount of goodwill

The equipment business segment increased the amount of goodwill by ¥1,191 million due to COSMOPIA HIGHTECH CORP.'s acceptance of the transfer of business from Johnson Controls-Hitachi Air Conditioning Inc.

This goodwill was calculated as a provisional amount for the end of the second quarter consolidated accounting period, as the distribution of acquisition cost has yet to be finalized.

Business Combinations

Business transfer to consolidated subsidiary

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”), and accepted the transfer of Johnson Controls-Hitachi Air Conditioning’s environmental testing business dated September 30, 2023. 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: August 22, 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: 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. Period of performance of the acquired company included in the consolidated financial statements: September 30, 2023

5. Breakdown of the acquisition costs and types of consideration

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

6. Descriptions and amounts of the main acquisition-related costs: Fees and commissions for advisory services, etc. ¥129 million

7. Amount of goodwill generated, causes of generation, and amortization method and period

- (1) Amount of goodwill that occurred: ¥1,191 million
This goodwill was calculated as a provisional amount for the end of the second quarter consolidated accounting period, as the distribution of acquisition cost has yet to be finalized.
- (2) Cause for the occurrence
As the net asset value of the transferred business was less than the acquisition cost, the difference was recognized as goodwill.
- (3) Amortization method and period: Straight-line amortization over 10 years

Material Subsequent Events

No applicable