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February 9, 2024

Consolidated Financial Results for the Nine Months Ended December 31, 2023 [Under Japanese GAAP]

Company name: Nippon Denkai, Ltd.
Stock listing: Tokyo Stock Exchange
Securities code: 5759
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Scheduled date to commence dividend payments: None
Scheduled date to submit securities report: February 9, 2024
Preparation of supplementary material on financial results: Yes
Holding of financial results briefing: None

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

1. Consolidated financial results for the nine months ended December 31, 2023 (from April 1, 2023 to March 31, 2024)

(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	%
Nine months ended								
December 31, 2023	12,348	-2.9	-888	—	-757	—	-1,073	—
December 31, 2022	12,717	-17.8	-870	—	-1,055	—	-994	—

Note: Comprehensive income Nine months ended December 31, 2023: ¥ -1,070 million [— %]
Nine months ended December 31, 2022: ¥ -789 million [— %]

	Basic earnings per share	Diluted earnings per share
Nine months ended	Yen	Yen
December 31, 2023	-118.61	-
December 31, 2022	-134.70	-

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio
Nine months ended	Millions of Yen	Millions of Yen	%
December 31, 2023	21,052	6,376	30.3
March 31, 2023	22,678	7,447	32.8

(Reference) Net assets As of December 31, 2023 : ¥ 6,376 million

As of March 31, 2023 : ¥ 7,447 million

2. Status of Dividends

	Annual dividends per share				
	First quarter-end	Second quarter-end	Third quarter-end	Fiscal year-end	Total
Twelve months ended	Yen	Yen	Yen	Yen	Yen
March 31, 2023	—	0.00	—	0.00	0.00
March 31, 2024	—	0.00	—		
March 31, 2024 (Forecast)				0.00	0.00

3. Consolidated financial forecast for the 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		Earnings per share
	Millions of Yen	%	Millions of Yen	%	Millions of Yen	%	Millions of Yen	%	Yen
FY 2023	16,900	-0.9	-1,000	—	-800	—	-1,200	—	-132.60

Notes: Revision of most recently announced consolidated financial results forecasts: No

* Notes

(1) Changes in significant subsidiaries during the period (changes in specified subsidiaries resulting in the change in scope of consolidation): None

Newly included: - companies (-)

Excluded: - companies (-)

(2) Adoption of accounting treatment specific to the preparation of quarterly consolidated financial statements: None

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

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

(ii) Changes in accounting policies due to other reasons: None

(iii) Changes in accounting estimates: Yes

(iv) Restatement: None

(4) Number of issued shares (common shares)

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

As of December 31, 2023	9,050,000 shares
As of March 31, 2023	9,050,000 shares

(ii) Number of treasury shares at the end of the period

As of December 31, 2023	89 shares
As of March 31, 2023	69 shares

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

As of December 31, 2023	9,049,917 shares
As of December 31, 2022	7,384,220 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

Actual results may differ materially from forward-looking statements contained herein, including the forecasts of results of operations, as such statements are based on the information currently available to the Company and certain assumptions that are deemed reasonable for the Company. For cautions to be exercised when using the forecasts of financial results and assumptions that underlie the forecasts, please refer to “1. Qualitative Information on Financial Results - (3) Consolidated Financial Forecasts and Other Forward-Looking Statements”.

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1. Qualitative Information on Financial Results

(1) Explanation on Operating Business Results

Concerning the financial result for the consolidated cumulative third quarter under review, business sentiment gradually improved, despite global economy remained weakness at some area and the overall recovery base slowed.

In the U.S., economy remained on a recovery track due to solid personal consumption, supported by better employment environments, while growth in business investment slowed. In China, personal consumption failed to achieve a full-fledged recovery against the backdrop of a severe unemployment and negative income environment. In addition, the economic recovery was slowing down, due to sluggish corporate willingness to make capital investments and deteriorating real estate market conditions, despite the effects of the government's economic stimulus measures. In Japan, the domestic economy recovered moderately as employment and income conditions improved, and service consumption remained strong, while the economy has partially stalled as the growth of corporate capital investment slowed due to rising raw material prices and uncertainty about the global economic outlook.

In the market for automotive lithium-ion rechargeable batteries (LIBs), electric vehicle (xEV) sales continued to increase as the effects of recovery from the coronavirus and semiconductor shortage. On the other hand, signs of a slowdown in growth began to appear, mainly due to increased inventories of battery-powered models in the U.S.

In the electronic components industry, the main market for copper foil for circuit boards, demand slowed down, partly due to sluggish improvement of capital investment to telecommunications carriers. With regard to smartphones, the stagnant trend continued in Europe and the U.S. as the replacement cycle lengthened against the backdrop of maturing functions and the expansion of the second-hand market. In emerging markets such as China and India, there were signs of a break from the declining trend.

Under the business environment surrounding the Group, in the automotive battery field, sales of copper foil for domestically manufactured batteries to export, remained sluggish due to the impact of IRA in the U.S., and copper foil for the U.S. market fell slightly below plan due to inventory adjustments. In October, 2023 we started mass production of new products for high-capacity LIBs, which is thinner than existing products and contributes to reducing cell volume.

In the circuit board field, sales of high-end products for smartphone in China recovered as inventory adjustments in the supply chain were completed, although sales of middle products failed to expand to new manufacturers due to slowing demand. On the other hand, sales in total remained sluggish a decline in production capacity caused by the malfunction of electrical equipment in the US plant that occurred in June 2023. The equipment was restored and regular operation resumed since December 12, 2023.

In terms of earnings, operating income and each of the following profit categories were in the red due to the prolonged impact caused by malfunction of electrical equipment in the US plant.

As a result, in the cumulative third quarter of the current fiscal year, the company's total production volume (metric tons) was 6,352 metric tons (down 3.6% from the same period of the previous year), net sales was 12,348 million yen (down 2.9%), operating profit was -888 million yen (the same period of the previous year was -870 million yen), ordinary profit was -757 million yen (the same period of the previous year was -1,055 million yen), and profit attributable to owners of parent was -1,073 million yen (the same period of the previous year was 994 million yen).

(2) Explanation on Financial Position

(Assets)

Total assets as of December 31, 2023 was 21,052 million yen, down 7.2% (1,626 million yen) from the end of the previous consolidated fiscal year.

Current assets decreased by 31.5% (2,944 million yen) to 6,399 million yen, mainly due to a decrease of 2,091 million yen in cash and deposits, a decrease of 901 million yen in accounts receivable, an increase of 144 million yen in finished goods, an increase of 61 million yen in work in process, and a decrease of 52 million yen in raw materials and supplies. Non-current assets increased by 9.9% (1,318 million yen) to 14,652 million yen, mainly due to a decrease of 62 million yen in machinery, a decrease of 414 million yen in equipment and vehicles, and an increase of 1,796 million yen in construction in progress.

(Liabilities)

Total liabilities as of the end of December 31, 2023 was 14,675 million yen, down 3.6% (555 million yen) from the end of the previous consolidated fiscal year. Current liabilities decreased by 3.8% (346 million yen) to 8,879 million yen, mainly due to a decrease of 264 million yen in account payable, an increase of 200 million yen in short-term borrowings, and a decrease of 169 million in current portion of long-term borrowings. Non-current liabilities decreased by 3.5% (208 million yen) to 5,795 million yen, mainly due to a decrease of 194 million yen in long-term borrowings.

(Net assets)

Total equity as of the end of December 31, 2023 decreased by 14.4% (1,070 million yen) from the end of the previous consolidated fiscal year to 6,376 million yen, mainly due to profit attributable to owners of parent of -1,073 million yen, a decrease of 4 million yen in foreign exchange translation adjustment.

As a result of the above, the equity ratio decreased by 2.5% to 30.3% (at the end of the previous consolidated fiscal year was 32.8%).

(3) Consolidated Financial Forecasts and Other Forward-Looking Statements

There are no changes to the earnings forecast for the consolidated fiscal year ending March 31, 2024 announced on November 10th, 2023. We will promptly disclose revisions in the event that we deem it necessary to revise our earnings forecasts due to changes in the business environment or other factors.

2. Consolidated Financial Statements and Major Notes

(1) Consolidated Statement of Balance Sheet

(Unit: Thousands of Yen)

	As of March 31, 2023	As of December 31, 2023
Assets		
Current assets		
Cash and deposits	3,579,657	1,488,232
Accounts receivable	2,478,357	1,576,820
Finished goods	899,463	1,044,148
Work in process	1,212,083	1,273,712
Raw materials and supplies	628,242	575,481
Other current assets	546,914	441,358
Total current assets	9,344,718	6,399,754
Non-current assets		
Tangible non-current assets		
Buildings and structures, net	1,379,685	1,317,314
Machinery, equipment and vehicles, net	3,196,055	2,781,321
Construction in progress	7,499,402	9,295,482
Other non-current assets, net	1,024,976	988,059
Total tangible non-current	13,100,119	14,382,178
Intangible non-current assets	27,419	30,855
Investments and other assets		
Deferred tax assets	2,663	2,663
Net defined benefit assets	156,742	192,001
Others	47,310	44,830
Total investments and other assets	206,716	239,495
Total non-current assets	13,334,256	14,652,529
Total assets	22,678,974	21,052,283

(Unit: Thousands of Yen)

	As of March 31, 2023	As of December 31, 2023
Liabilities		
Current liabilities		
Account payable	1,771,739	1,507,238
Short-term borrowings	5,000,000	5,200,000
Current portion of long-term borrowings	1,358,760	1,189,217
Income taxes payable	27,502	16,270
Provision for bonuses	103,019	70,976
Provision for directors' bonuses	4,486	3,573
Other current liabilities	961,343	892,715
Total current liabilities	9,226,853	8,879,991
Non-current liabilities		
Long-term borrowings	5,762,200	5,567,902
Deferred tax liabilities	1,868	1,995
Other non-current liabilities	240,258	225,448
Total non-current liabilities	6,004,326	5,795,347
Total liabilities	15,231,180	15,231,180
Equity		
Shareholders' equity		
Common stock	1,858,509	1,858,509
Capital surplus	4,058,509	4,058,509
Retained earnings	1,157,645	84,277
Treasury stock	-196	-318
Total shareholders' equity	7,074,467	6,000,977
Accumulated other comprehensive income		
Foreign exchange translation adjustment	382,823	378,488
Remeasurements of defined benefit plans	-9,496	-2,521
Total accumulated other comprehensive income	373,327	375,967
Total equity	7,447,794	6,376,945
Total liabilities and equity	22,678,974	21,052,283

(2) Consolidated Statement of Income and Consolidated Statement of Comprehensive Income

Consolidated Statement of Income

The consolidated cumulative third quarter

(Unit: Thousands of Yen)

	From April 1, 2022 to December 31, 2022	From April 1, 2023 to December 31, 2023
Net Sales	12,717,708	12,348,277
Cost of sales	12,602,792	12,313,494
Gross profit	114,916	34,782
Selling, general and administrative expenses	985,611	923,066
Operating profit	-870,695	-888,283
Non-operating income		
Interest income	322	18
Income from sale of scraps	24,763	29,442
Foreign exchange gains	—	213,305
Public subsidies	—	120,540
Other non-operating incomes	20,052	4,115
Total non-operating income	45,138	367,422
Non-operating expenses		
Interest expense	134,655	148,102
Foreign exchange loss	38,416	—
Other non-operating expenses	56,693	89,012
Total non-operating expenses	229,765	237,115
Ordinary profit (loss)	-1,055,322	-757,976
Extraordinary incomes		
Gain on sale of fixed assets	—	8,376
Total extraordinary incomes	—	8,376
Extraordinary losses		
Loss on disposal of non-current assets	17,247	54,077
Nonrecurring loss	—	266,319
Total extraordinary losses	17,247	320,396
c	-1,072,569	-1,069,996
Current income taxes	2,020	3,360
Deferred income taxes	-79,947	11
Total income taxes	-77,926	3,371
Profit (loss) for the period	-994,642	-1,073,367
Profit attributable to owners of parent	-994,642	-1,073,367

Consolidated Statement of Comprehensive Income

The consolidated cumulative third quarter

(Unit: Thousands of Yen)

	From April 1, 2022 to December 31, 2022	From April 1, 2023 to December 31, 2023
Profit(loss) for the period	-994,642	-1,073,367
Other comprehensive income		
Foreign currency translation adjustment	222,650	-4,335
Remeasurements of defined benefit plans, net of tax	-17,568	6,975
Total other comprehensive income	205,082	2,640
Comprehensive income	-789,560	-1,070,727
(Breakdown of comprehensive income)		
Comprehensive income attributable to owners of parent	-789,560	-1,070,727

(3) Notes to Quarterly Consolidated Financial Statements

(Notes on going concern assumption)

Not applicable

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

Not applicable

(Changes in accounting estimates)

(Change in residual value and useful life of tangible fixed assets)

With the completion of construction of copper foil facilities for automotive batteries, Denkai America Inc., a consolidated subsidiary of the Company, reviewed the residual value and projected economic useful life of tangible fixed assets held by the company and changed them prospectively from the first quarter of the consolidated accounting period.

As a result, operating loss and ordinary loss increased by 36,685 thousand yen each, and net profit (loss) before income taxes increased by 40,158 thousand yen in the cumulative third quarter of the current consolidated fiscal year, compared with the previous method.

(Segment information, etc.)

The consolidated cumulative third quarter under review (from April 1, 2022 to December 31, 2022)

Segment information is omitted as the Company operates in a single segment of the manufacturing of electrodeposited copper foil.

The consolidated cumulative third quarter under review (from April 1, 2023 to December 31, 2023)

Segment information is omitted as the Company operates in a single segment of the manufacturing of electrodeposited copper foil.

(Significant subsequent events)

(Signing of Business and Capital Alliance Agreement, issuance of the second series of share acquisition rights by way of third-party allotment, borrowing of funds)

The “Company hereby announces that it has resolved at its Board of Directors’ meeting held on January 10, 2024 to enter into a BUSINESS AND CAPITAL ALLIANCE AGREEMENT (“Business and Capital Alliance Agreement”) with LCY TECHNOLOGY CORPORATION (“LCYT”) and Lee Chang Yung Group International Pte. Ltd. (“LCY International”) for a business and capital alliance (“Business and Capital Alliance”), to issue its second series of share acquisition rights (“Share Acquisition Rights”) by way of third-party allotment to LCY International, and to borrow funds.

On January 26, 2024, the payment procedures for the total issue price (209,947,456 yen) for the Share Acquisition Rights was completed and the borrowing of funds was executed.

1. Outline of the Business and Capital Alliance

(1) Outline of the Capital Alliance

The Company entered into the Capital and Business Alliance Agreement with LCYT and the allottee on January 10, 2024, and allotted 22,592 Share Acquisition Rights to the allottee on January 26, 2024. The allottee has subscribed to all of the Share Acquisition Rights under the Third-party Allotment.

(2) Outline of the Business Alliance

The Company, LCYT, and LCY International have entered into the Business and Capital Alliance Agreement on the following matters:

- Complementing and expanding our respective geographical customer portfolios;
- Technical cooperation in the field of board manufacturing (both rigid and flexible printed circuit boards) and specialty electronic applications (high frequency, high-density, etc.);
- Expansion of the product lineup of copper foils for lithium-ion batteries and printed electronics; and
- Supporting the Denkai Group's expansion of copper foils for lithium-ion batteries in North America.

The Company and LCYT will hold regular steering committee meetings to confirm and discuss the progress of the business alliance and other matters.

As part of the business alliance, the Company and LCYT entered into a TECHNOLOGY LICENSE AGREEMENT dated January 10, 2024, whereby (i) The Company grants to LCYT a non-exclusive license of certain patents, know-how, etc. (the "Licenses") owned by the Group for the purpose of research and development, sales, etc. while the Company has agreed to receive an initial fee from LCYT (the Company will receive US\$400,000 (¥57,592,000) upon completion of the Company's provision of technology to LCYT) and annual royalty payments from LCYT. (ii) The Group has agreed to discuss the granting to LCYT of new technologies, patents, know-how, etc. other than the subject licenses that have been developed by the Group. In addition, if the allottee exercises all of the share acquisition rights and holds 19.9% or more of the Company's shares, the Company has also agreed to further expand the range of products subject to the license grant.

Note: Amounts shown in JPY for amounts in USD are amounts converted at exchange rate of USD/JPY on January 9, 2024 (1 USD to 143.98 JPY).

(3) Dispatch of officers

(i) If the allottee's shareholding ratio of the Company's shares (the ratio of the Company's shares acquired and held by the allottee upon exercise of the Share Acquisition Rights to the total number of issued shares (excluding treasury share)) is 19.9% or more, the allottee shall have the right to nominate one director and one independent director of the Company. (ii) The Company and LCYT have agreed that if the allottee's shareholding ratio of the Company's shares is more than 15% but less than 19.9%, the allottee shall have the right to nominate one director of the Company. However, even if the allottee's shareholding ratio of the Company's shares becomes less than 15% due to dilution of the Company's shares, if the allottee continues to hold all of the Company's shares acquired through the exercise of these Share Acquisition Rights, the allottee will have the right to nominate one director of the Company.

2. Outline of the offering of the Share Acquisition Rights

(1) Outline of the Share Acquisition Rights

(1) Allocation date	January 26, 2024
(2) Number of share acquisition rights issued	22,592
(3) Issue price	Total issue price JPY 209,947,456
(4) Number of potential shares to be issued as a result of such issuance	2,259,200 shares (100 shares per Share Acquisition Right)
(5) Amount to be paid in upon exercise of the share acquisition rights	JPY 1,020
(6) Amount of funds to be raised	JPY 2,431,636,456 (Note 1)
(7) Method of offering or allotment	Third Party Allotment

(8) Scheduled allottee	LCY International
(9) Exercise period	From January 27, 2024 to March 25, 2024
(10) Others	The above is subject to the effectiveness of a securities registration statement filed under the Financial Instruments and Exchange Act. The Business and Capital Alliance Agreement stipulates that the approval of the Board of Directors of the Company is required for the transfer of the share acquisition rights.

(Note 1) The amount of funds to be raised is the sum (JPY 2,514,331,456) of the total issue price of the Share Acquisition Rights (JPY 209,947,456) and the total value of the assets to be contributed upon exercise of the Share Acquisition Rights (JPY 2,304,384,000), minus an estimated amount of various costs associated with the issuance of the Share Acquisition Rights. In connection with a Bridge Loan Agreement dated January 10, 2024 between LCY International and Denkai America Inc. (“Loan Agreement”), under which Denkai America Inc. will procure funds in the amount of USD 9,500,000 (approx. JPY 1,367,810,000) from LCY International. Then, upon the exercise of the Share Acquisition Rights by LCY International, cash and/or the loan receivable under the Loan Agreement will be contributed. The amount to be paid in cash upon exercise of the Share Acquisition Rights is expected to be JPY 2,304,384,000 minus the loan receivable under the Loan Agreement.

(Note 2) We have entered into a Financial Advisory Service Agreement with our financial advisor, BofA Securities Japan Co., Ltd. (“BofA”) with respect to our overall capital policy, and have received various advice and assistance with respect to not only the issuance of the SARs but also our overall capital policy. The financial advisory services are not included in the estimated cost of issuance, since they do not cover only the Loan Agreement and the issuance of the Share Acquisition Rights. In connection with the realization of the capital and business alliance, the Company will incur expenses for a basic contingency fee of US\$3,500,000 (¥503,930,000), based on the payment request from BofA.

(Note 3) Amounts shown in JPY for amounts in USD are amounts converted at the exchange rate of USD/JPY on January 9, 2024 (1 USD to 143.98 JPY)

(2) Outline of the Loan Agreement

(1) Borrower	Denkai America Inc.
(2) Lender	LCY International
(3) Loan principal amount	USD 9,500,000
(4) Contract date	January 10, 2024
(5) Scheduled loan execution date	January 26, 2024
(6) Scheduled maturity date	January 26, 2025 (one year from the loan execution date)

(7) Interest rate	<p>the Interest rate to March 25, 2024: the 1-year U.S. Treasury rate + 1.00% per annum the Interest rate from March 26, 2024 in the case where the Share Acquisition Right is exercised by March 25, 2024: the 1-year U.S. Treasury rate + 1.00% per annum the Interest rate from March 26, 2024 in the case where the Share Acquisition Right is not exercised by March 25, 2024: the 1-year U.S. Treasury rate + 3.50% per annum</p>
(8) Collateral	A portion of the movable property held by Den kai America Inc.
(9) Upfront fee	USD 250,000

(3) Use of proceeds to be raised and expected date of expenditure

Use of proceeds	Amount (JPY)	Expected date of expenditure
Funds for capital investment in Den kai America Inc.	2,431,636,456	From January 2024 to October 2025
Total	2,431,636,456	—