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November 10, 2023

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

Company name: Nippon Denkai, Ltd.
 Stock listing: Tokyo Stock Exchange
 Securities code: 5759
 URL: <https://www.nippon-denkai.co.jp/>
 Representative: Hidemasa Nakajima, President and CEO
 Inquiries: Yasuaki Matsuzaki, Executive Officer of Finance
 Email: ir_team@nippon-denkai.co.jp
 Scheduled date to file the Quarterly Securities Report: November 10, 2023
 Scheduled date to commence dividend payments: None
 Preparation of supplementary material on financial results: Yes
 Holding of financial results briefing: Yes

(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	
Six months ended	Millions of Yen	%	Millions of Yen	%	Millions of Yen	%	Millions of Yen	%
September 30, 2023	8,578	-2.3	-545	—	-147	—	-402	—
September 30, 2022	8,775	-12.9	-565	—	-583	—	-609	—

Note: Comprehensive income Six months ended September 30, 2023: ¥ -408 million [— %]
 Six months ended September 30, 2022: ¥ -281 million [— %]

	Basic earnings per share	Diluted earnings per share
Six months ended	Yen	Yen
September 30, 2023	-44.53	-
September 30, 2022	-84.06	-

(2) Consolidated financial position

	Total assets	Net assets	Equity-to-asset ratio
	Millions of Yen	Millions of Yen	%
Six months ended September 30, 2023	22,489	7,039	31.3
Fiscal year ended March 31, 2023	22,678	7,447	32.8

(Reference) Equity

As of September 30, 2023 : ¥ 7,039 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
	Yen	Yen	Yen	Yen	Yen
Fiscal year ended March 31, 2023	—	0.00	—	0.00	0.00
Fiscal year ending March 31, 2024	—	0.00			
Fiscal year ending March 31, 2024 (Forecast)			—	0.00	0.00

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

3. Consolidated financial forecasts 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: Yes

* 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, changes in 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 than reason (i) : 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 September 30, 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 September 30, 2023	89 shares
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As of March 31, 2023	69 shares
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(iii) Average number of shares outstanding during the period (cumulative from the beginning of the fiscal year)

As of September 30, 2023	9,049,920 shares
As of September 30, 2022	7,253,190 shares

* Financial results reports are not subject to audit 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” on Page 3 of the Appendix.

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1. Qualitative Information on Financial Results

(1) Explanation on Operating Business Results

Concerning the financial result for the consolidated cumulative second quarter under review, the global economy showed a gradual deceleration due to Russia-Ukraine situation, the extreme meteorological disasters around the world, and stagnant economic activities owing to interest rate hikes exerted by the U.S. and European central banks in response to inflation, despite signs of improvement through the slowdown in global inflation.

In the U.S., the economy remained strong due to the favorable employment and income environment, and measures to stimulate investment through the reversal of excess savings and government subsidies stimulated domestic demand.

In China, recovery of domestic demand slowed after the zero-COVID policy affected by the prolonged recession due to weak real estate industry, which was worse than expected. Additionally, consumer spending declined, stemming from doubts for economic recovery.

In Japan, the *Gross Domestic Product* (GDP), announced by the Cabinet Office, its growth rate rebounded to the same level as before the novel coronavirus crisis, demonstrating the economic recovery. The revitalization of social and economic activities contributes to this recovery on the back of the easing infection control measures following the shift of the novel coronavirus to "category 5 infectious disease". (Infectious diseases classified in category 5 include seasonal influenza, rubella, measles and syphilis.)

In the *lithium-ion rechargeable battery* (LIB) field of the storage batteries industry, government subsidies and other support systems in various countries related to in-vehicle LIBs had been established from the aspect of economic security in addition to decarbonization. In addition, sales of *electrified vehicles* (xEVs) had steeply raised, mainly in China, Europe, and the United States, leading to the stronger market with the recovery of semiconductor supply. On the other hand, the stricter battery procurement requirements for EV tax credits announced by the U.S. Treasury Department in connection with the U.S. *Inflation Reduction Act* (IRA) had a decisive impact on LIB procurement for auto manufacturers, as required to establish new supply chains.

In the circuit board industry, demand for electronic components showed a recovery trend, with signs of slow significant drop in the rate of smartphone shipments although there were concerns over semiconductor supply aggravated by trade friction between the U.S. and China. However, the demand was unlikely to achieve a full-fledged recovery due to the rising procurement costs of imported materials caused by the weak yen and the lingering effects of inventory adjustments in the supply chain in some areas.

As for the business environment surrounding the Group, in the EV batteries field, domestic sales of copper foils for EV batteries for export remained sluggish due to IRA, which supports products with more than 50% of automotive battery components procured in the U.S. or in FTA countries. The demand of copper foils for the U.S. was generally boosted and Denka America, Ltd. is working preparation for prototypes and mass production of copper foils for EV batteries.

The sales of copper foils for circuit board partially recovered by a slight gain of shipments for smartphones from China. On the other hand, the sales growth for smartphone remained slow resulting from change of component configuration by our main customer.

In terms of earnings, the Group posted in a loss in operating income and each of the following profit categories. The malfunction of electrical equipment in the U.S. Plant posed a significant burden with drastic decrease in production.

As a result, in the current fiscal year, the company's total production volume (metric tons) was 4,382 metric tons (increased by 3.2% as of the same period of the previous year), net sales was 8,578 million yen (down 2.3% as of the same period of the previous year), operating profit was -545 million yen (-565 million yen as of the same period of the previous year), ordinary profit was -147 million yen (-583 million yen as of the same period of the previous year), and profit attributable to owners of parent was -402 million yen (-609 million yen as of the same period of the previous year).

(2) Explanation on Financial Position

① Status of Assets, Liabilities and Shareholders' Equity (Assets)

Total assets as of September 30, 2023 was 22,489 million yen, decrease of 189 million yen (0.8%) from the end of the previous fiscal year. current assets decreased by 22.9% (2,137 million yen) to 7,206 million yen, mainly due to a decrease of 1,646 million yen in cash and deposits, a decrease of 644 million yen in accounts

receivable, an increase of 20 million yen in finished goods, an increase of 76 million yen in work in process, a decrease of 136 million yen in raw materials and supplies. Fixed assets increased by 14.6% (1,948 million yen) to 15,282 million yen, mainly due to an increase of 2,204 million yen in construction in progress.

(Liabilities)

Total liabilities as of September 30, 2023 was 15,449 million yen, up 1.4% (218 million yen) from the end of the previous consolidated fiscal year. Current liabilities increased by 2.5% (233 million yen) to 9,460 million yen, mainly due to a decrease of 377 million yen in account payable, an increase of 243 million yen in current portion of long-term borrowings, and an increase of 50 million yen in income taxes payable. Non-current liabilities decreased by 0.2% (14 million yen) to 5,989 million yen, mainly due to a decrease of 5 million yen in long-term borrowings.

(Net assets)

Total equity as of September 30, 2023 decreased by 5.5% (408 million yen) from the end of the previous consolidated fiscal year to 7,039 million yen, mainly due to profit attributable to owners of parent of -402 million yen, a decrease of 9 million yen in foreign exchange translation adjustment, an increase of 4 million yen in remeasurements of defined benefit plans.

As a result of the above, the equity ratio is 31.3% (At the end of the previous consolidated fiscal year was 32.8%).

② Status of Cash Flows

Total cash and cash equivalent (hereinafter referred to as “funds”) as of September 30, 2023 was 1,933 million yen, a decrease 1,646 million yen from the end of the previous consolidated fiscal year. The major factors of increase / decrease in the first half of the current consolidated fiscal year period are as follows.

(Cash flow from operating activities)

The funds increased by operating activities of the current consolidated fiscal year was 10 million yen (1,145 million yen increase in the same period of the previous year). Mainly, due to net profit (loss) before income taxes of -350 million yen, depreciation of 613 million yen, a decrease of 726 million yen in accounts receivable – trade, a decrease of 366 million yen in notes and account payable - trade, and foreign exchange gains of 472 million yen.

(Cash flow from investment activities)

The funds decreased by investment activities of the first half of the current consolidated fiscal year was 1,503 million yen. (3,003 million yen decrease in the same period of the previous year). Mainly, due to purchase of property, plant and equipment of 1,507 million yen.

(Cash flow from financial activities)

The funds decreased by financial activities of the first half of the current consolidated fiscal year was 189 million yen. (1,142 million yen increase in the same period of the previous year). Mainly, due to an increase of 300 million yen in proceeds from long-term loans payable, repayments of long-term loans payable of 479 million yen.

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

Based on the consolidated business results for the first half of the current fiscal year and recent business trends, we have revised our full-year consolidated business forecasts for the fiscal year ending March 31, 2024, which was announced on May 10, 2023. For details of the forecasts, please refer to the "Notice Concerning Recording of Extraordinary Loss and Revisions of FY2023 Financial Forecasts" released on November 10, 2023.

2. Quarterly Consolidated Financial Statements and Major Notes

(1) Quarterly Consolidated Statement of Balance Sheet

(Thousands of Yen)

	As of March 31, 2023	As of September 30, 2023
Assets		
Current assets		
Cash and deposits	3,579,657	1,933,372
Account receivable	2,478,357	1,834,262
Finished goods	899,463	919,552
Work in process	1,212,083	1,288,260
Raw materials and supplies	628,242	764,332
Other current assets	546,914	467,007
Total current assets	9,344,718	7,206,786
Non-current assets		
Tangible fixed assets		
Buildings and structures, net	1,379,685	1,354,862
Machinery, equipment and vehicles, net	3,196,055	2,936,070
Construction in progress	7,499,402	9,703,710
Other non-current assets, net	1,024,976	1,008,251
Total tangible fixed assets	13,100,119	15,002,894
Intangible fixed assets	27,419	34,510
Investments and other assets		
Deferred tax assets	2,663	2,663
Net defined benefit assets	156,742	193,532
Others	47,310	48,745
Total investments and other assets	206,716	244,941
Total non-current assets	13,334,256	15,282,346
Total assets	22,678,974	22,489,133

(Thousands of Yen)

	As of March 31, 2023	As of September 30, 2023
Liabilities		
Current liabilities		
Account payable	1,771,739	1,434,092
Short-term borrowings	5,000,000	5,000,000
Current portion of long-term borrowings	1,358,760	1,601,827
Income taxes payable	27,502	77,866
Provision for bonuses	103,019	92,909
Provision for directors' bonuses	4,486	2,512
Other current liabilities	961,343	1,250,816
Total current liabilities	9,226,853	9,460,025
Non-current liabilities		
Long-term borrowings	5,762,200	5,757,052
Deferred tax liabilities	1,868	2,104
Other non-current liabilities	240,258	230,416
Total non-current liabilities	6,004,326	5,989,573
Total liabilities	15,231,180	15,449,599
Net assets		
Shareholders' equity		
Capital stock	1,858,509	1,858,509
Capital surplus	4,058,509	4,058,509
Retained earnings	1,157,645	754,658
Treasury Stock	-196	-235
Total shareholders' equity	7,074,467	6,671,441
Accumulated other comprehensive income		
Foreign exchange translation adjustment	382,823	373,412
Remeasurements of defined benefit plans	-9,496	-5,318
Total accumulated other comprehensive income	373,327	368,093
Total net assets	7,447,794	7,039,534
Total liabilities and net assets	22,678,974	22,489,133

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

Quarterly Consolidated Statement of Income

The consolidated cumulative second quarter

(Thousands of Yen)

	From April 1, 2022 to September 30, 2022	From April 1, 2023 to September 30, 2023
Net sales	8,775,863	8,578,284
Cost of sales	8,679,085	8,504,554
Gross profit (loss)	96,778	73,729
Selling, general and administrative expenses	662,654	618,912
Operating profit (loss)	-565,875	-545,183
Non-operating income		
Interest received	315	18
Income from sale of scraps	18,240	19,937
Foreign Exchange Gains	90,274	494,277
Other non-operating income	2,375	4,108
Total non-operating income	111,205	518,341
Non-operating expenses		
Interest expense	92,567	100,387
Other non-operating expenses	36,103	20,490
Total non-operating expenses	128,671	120,878
Ordinary profit (loss)	-583,340	-147,719
Extraordinary gain		
Gain on sales of fixed assets	—	8,243
Total extraordinary gain	—	8,243
Extraordinary losses		
Loss on disposal of non-current assets	13,249	44,070
Nonrecurring loss	—	166,751
Total extraordinary losses	13,249	210,821
Net profit (loss) before income taxes	-596,590	-350,296
Corporate, inhabitant and enterprise taxes	1,347	52,679
Adjustments to corporate tax	11,754	10
Total Income taxes	13,101	52,690
Profit (loss) for the period	-609,692	-402,986
Profit (loss) attributable to owners of parent	-609,692	-402,986

Quarterly Consolidated Statement of Comprehensive Income

The consolidated cumulative second quarter

(Thousands of Yen)

	From April 1, 2022 to September 30, 2022	From April 1, 2023 to September 30, 2023
Profit (loss) for the period	-609,692	-402,986
Other comprehensive income		
Foreign currency translation adjustment	337,807	-9,411
Premeasurements of defined benefit plans, net of tax	-9,843	4,177
Total other comprehensive income	327,964	-5,234
Comprehensive income	-281,727	-408,221
(Breakdown of comprehensive income)		
Comprehensive income attributable to owners of parent	-281,727	-408,221

(3) Quarterly Consolidated Statement of Cash Flow

(Thousands of Yen)

	From April 1, 2022 to September 30, 2022	From April 1, 2023 to September 30, 2023
Cash flows from operating activities		
Net profit (loss) before income taxes	-596,590	-350,296
Depreciation	625,249	613,499
Increase (decrease) in provision for bonuses	-27,232	-13,242
Increase (decrease) in provision for directors' bonuses benefits	-14,151	-2,369
Increase (decrease) in net defined benefit assets	-16,084	-16,927
Retirement benefit expenses	-13,197	5,016
Interest income	-315	-18
Interest expense	92,567	100,387
Foreign exchange loss (gain)	-89,377	-472,387
Gain or loss from sales of fixed assets	12,505	33,611
Decrease (increase) in accounts receivable – trade	1,081,528	726,559
Decrease (increase) in inventories	686,798	-142,827
Increase (decrease) in notes and account payable – trade	-442,007	-366,922
Increase (decrease) in other receivables other accounts	57,862	118,129
Increase (decrease) in contract liabilities	2,915	-56,651
Decrease (increase) in consumption taxes refund receivable or accounts payable - other	24,958	-51,731
Other cash flows from operating activities	-53,726	-12,361
Subtotal cash flows from operating activities	1,331,701	111,467
Received interest income	315	18
Paid interest expenses	-89,175	-97,893
Income taxes (paid) refund	-96,954	-3,133
Cash flows from operating activities	1,145,887	10,458
Cash flows from investment activities		
Purchase of property, plant and equipment	-3,000,242	-1,507,729
Purchase of intangible assets	-3,700	-5,596
Other cash flows from investment activities	—	9,492
Cash flows from investment activities	-3,003,942	-1,503,833
Cash flows from financial activities		
Net increase (decrease) in short-term loans payable	1,500,000	—
Proceeds from long-term loans payable	—	300,000
Repayment of long-term loans payable	-479,380	-479,380
Proceeds from issuance of common shares	111,531	—
Proceeds from issuance of new share warrants	20,754	—
Repayments of lease obligations	-10,303	-10,559
Other cash flows from financial activities	—	-38
Cash flow from financial activities	1,142,602	-189,978
Effect of exchange rate change on cash and cash equivalents	249,210	37,067
Net increase (decrease) in cash and cash equivalents	-466,242	-1,646,285
Cash and cash equivalents at beginning of period	2,500,768	3,579,657
Cash and cash equivalents at end of period	2,034,526	1,933,372

(4) 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, Den kai 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 24,587 thousand yen each, and loss before income taxes increased by 27,916 thousand yen in the cumulative second quarter of the current consolidated fiscal year, compared with the previous method.

(Segment information, etc.)

The consolidated cumulative second quarter under review (from April 1, 2022 to September 30, 2022)

Segment information is omitted as the Company operates in a single segment of the Manufacturing of Electrodeposited Copper foil.

The consolidated cumulative second quarter under review (from April 1, 2023 to September 30, 2023)

Segment information is omitted as the Company operates in a single segment of the Manufacturing of Electrodeposited Copper foil.