

Consolidated Financial Results for the Six Months Ended September 30, 2022 [Japanese GAAP]



November 2, 2022

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 4, 2022

Scheduled date of commencing dividend payments: December 5, 2022

Availability of supplementary explanatory materials on quarterly financial results: No

Schedule of quarterly financial results briefing session: No

(Amounts of less than one million yen are rounded down.)

1. Consolidated Financial Results for the Six Months Ended September 30, 2022 (April 1, 2022 - September 30, 2022)

(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, 2022	83,186	15.7	7,354	15.3	8,213	15.1	6,107	18.1
September 30, 2021	71,892	14.1	6,379	73.2	7,133	47.6	5,172	65.3

(Note) Comprehensive income: Six months ended September 30, 2022: 9,626 million yen [41.5%]

Six months ended September 30, 2021: 6,802 million yen [90.1%]

	Basic earnings per share	Diluted earnings per share
Six months ended	Yen	Yen
September 30, 2022	248.91	—
September 30, 2021	209.54	—

(2) Consolidated Financial Position

	Total assets	Net assets	Equity ratio
	Million yen	Million yen	%
As of September 30, 2022	201,474	114,288	53.8
As of March 31, 2022	194,801	105,636	51.2

(Reference) Equity: As of September 30, 2022: 108,399 million yen

As of March 31, 2022: 99,693 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, 2022	–	50.00	–	60.00	110.00
Fiscal year ending March 31, 2023	–	75.00			
Fiscal year ending March 31, 2023 (Forecast)			–	75.00	150.00

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

3. Consolidated Financial Results Forecast for the Fiscal Year Ending March 31, 2023 (April 1, 2022 - March 31, 2023)

(% 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	180,000	12.1	16,500	16.3	17,000	7.7	12,000	9.2	489.07

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

*** Notes:**

(1) Changes in significant subsidiaries during the period under review: None

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

Newly included: – (), Excluded: – ()

(Note) Even though there are no changes in specified subsidiaries resulting in changes in scope of consolidation, DAIHEN System Corporation, which used to be a consolidated subsidiary, was excluded from the scope of consolidation from the three months ended June 30, 2022 because it was dissolved as of April 1, 2022, 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 10 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, 2022: 27,103,291 shares

March 31, 2022: 27,103,291 shares

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

September 30, 2022: 2,563,601 shares

March 31, 2022: 2,567,039 shares

3) Average number of shares during the period:

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

Six months ended September 30, 2021: 24,685,131 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, 2022 was orders received of 100,944 million yen (up 19.4% year-on-year) and net sales of 83,186 million yen (up 15.7% year-on-year), due to the expansion of investment in production automation and EV-related investment in addition to a high level of demand for semiconductor manufacturing equipment. In income results, the increase in net sales and cost reduction efforts resulted in operating profit of 7,354 million yen (up 974 million yen year-on-year), ordinary profit of 8,213 million yen (up 1,080 million yen year-on-year), and profit attributable to owners of parent of 6,107 million yen (up 935 million yen year-on-year). Both net sales and income results reached an all-time high for the first half of a fiscal year.

The performance of each segment is as follows.

1) Power Products Business

Owing to an increase in the demand for renewable energy power generation facilities in addition to strong investment in the replacement of power distribution products, net sales were 31,367 million yen (up 10.7% year-on-year). Meanwhile, operating profit was 1,733 million yen (down 227 million yen year-on-year) due to a large impact of soaring prices of materials.

2) Welding & Mechatronics Business

Owing to the expansion of demand associated with full-fledged EV-related investment, in addition to recovery in investment in production automation in Japan and Europe, net sales were 24,708 million yen (up 11.2% year-on-year). Profitability declined temporarily in the first half of the period under review due to the impact of lockdowns in China but recovered in the second half, resulting in an operating profit of 2,121 million yen (up 4 million yen year-on-year). This is roughly the same level as the corresponding period of the previous year.

3) Semiconductor & FPD Related Business

Amid restricted production due to shortages of semiconductors and other parts, the Company met brisk demand by striving to secure parts through design changes and adoption of substitute products, as well as making company-wide efforts to increase production. As a result, net sales were 27,051 million yen (up 27.3% year-on-year), and operating profit was 5,413 million yen (up 1,333 million yen year-on-year).

4) Other

Net sales were 91 million yen and operating profit was 32 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		Order Backlog	
	Amount	YoY change	Amount	YoY change	Amount	YoY change	Amount	Change from March 31, 2022
Power Products Business	39,793	+19.0%	31,367	+10.7%	1,733	-11.6%	50,582	+20.0%
Welding & Mechatronics Business	26,159	+13.3%	24,708	+11.2%	2,121	+0.2%	9,763	+37.4%
Semiconductor & FPD Related Business	34,899	+25.1%	27,051	+27.3%	5,413	+32.7%	34,788	+30.5%
Other	91	-3.4%	91	-3.4%	32	-0.9%	-	-
Company Total	100,944	+19.4%	83,186	+15.7%	7,354	+15.3%	95,134	+25.4%

(2) Explanation of Financial Position

Total assets at the end of the six months ended September 30, 2022 increased by 6,672 million yen from the end of the previous fiscal year to 201,474 million yen. This is mainly attributable to an increase in inventories due to supply shortages of parts, despite a decrease in cash and deposits.

Total liabilities at the end of the six months ended September 30, 2022 decreased by 1,979 million yen from the end of the previous fiscal year to 87,185 million yen. This is mainly attributable to a decrease in notes and accounts payable - trade, despite an increase in borrowings.

Total net assets at the end of the six months ended September 30, 2022 increased by 8,652 million yen from the end of the previous fiscal year to 114,288 million yen. This is mainly attributable to increases in retained earnings and foreign currency translation adjustment. The equity ratio increased by 2.6 percentage points from 51.2% to 53.8%.

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

The Company's financial results are expected to remain generally strong in the nine months ending December 31, 2022 and beyond. This is due to increases in EV-related investment in the Welding & Mechatronics Business and decarbonization-related investment in the Power Products Business, in addition to a high level of order backlog in the Semiconductor & FPD Related Business, although the market environment raises concerns over a decrease in semiconductor-related investment and a slowdown of the Chinese economy.

While the impact of soaring prices of parts has been larger than the initial forecast, a weak yen has improved export profitability, the impact of the price hikes has been reflected in selling prices, and cost reduction efforts have increasingly been producing results.

In light of these circumstances, no revisions have been made to the consolidated financial results forecast for the full year ending March 31, 2023 announced on May 12, 2022. Should revision of the consolidated financial results forecast become necessary, the Company will promptly disclose it.

(Note) For the period from October 1, 2022 to March 31, 2023, the Company has revised the average exchange rate assumption from 120 yen a US dollar to 140 yen a US dollar.

2. Quarterly Consolidated Financial Statements and Principal Notes

(1) Quarterly Consolidated Balance Sheets

(Million yen)

	As of March 31, 2022	As of September 30, 2022
Assets		
Current assets		
Cash and deposits	24,822	15,838
Notes and accounts receivable - trade	36,970	36,840
Merchandise and finished goods	20,939	24,702
Work in process	12,390	17,323
Raw materials and supplies	27,119	33,129
Other	5,923	6,464
Allowance for doubtful accounts	(431)	(431)
Total current assets	127,735	133,868
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	19,489	19,374
Machinery, equipment and vehicles, net	6,243	6,509
Tools, furniture and fixtures, net	2,006	1,984
Land	8,791	8,906
Leased assets, net	343	354
Construction in progress	1,254	1,398
Total property, plant and equipment	38,128	38,528
Intangible assets		
Software	1,762	1,817
Leased assets	17	20
Other	224	227
Total intangible assets	2,005	2,065
Investments and other assets		
Investment securities	15,193	14,710
Investments in capital	215	420
Long-term prepaid expenses	98	92
Retirement benefit asset	9,665	9,724
Deferred tax assets	1,220	1,500
Other	611	629
Allowance for doubtful accounts	(72)	(65)
Total investments and other assets	26,932	27,011
Total non-current assets	67,066	67,605
Total assets	194,801	201,474

(Million yen)

	As of March 31, 2022	As of September 30, 2022
Liabilities		
Current liabilities		
Notes and accounts payable - trade	19,064	16,873
Electronically recorded obligations - operating	20,261	19,709
Short-term borrowings	5,657	6,748
Current portion of long-term borrowings	4,384	3,884
Lease liabilities	127	123
Income taxes payable	2,938	2,303
Provision for bonuses	3,628	2,710
Provision for bonuses for directors (and other officers)	106	17
Provision for loss on construction contracts	79	62
Other	10,016	10,234
Total current liabilities	66,264	62,668
Non-current liabilities		
Long-term borrowings	17,286	18,844
Lease liabilities	149	153
Deferred tax liabilities	1,112	1,051
Provision for retirement benefits for directors (and other officers)	58	55
Provision for loss on guarantees	517	589
Provision for construction expenses related to earthquake resistance renovation	624	622
Provision for product safety measures	14	13
Retirement benefit liability	1,904	1,931
Asset retirement obligations	74	72
Other	1,160	1,183
Total non-current liabilities	22,900	24,517
Total liabilities	89,165	87,185
Net assets		
Shareholders' equity		
Share capital	10,596	10,596
Capital surplus	10,034	10,043
Retained earnings	74,980	80,153
Treasury shares	(4,825)	(4,820)
Total shareholders' equity	90,786	95,973
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	3,876	3,450
Deferred gains or losses on hedges	—	(1)
Foreign currency translation adjustment	3,331	7,299
Remeasurements of defined benefit plans	1,698	1,677
Total accumulated other comprehensive income	8,906	12,426
Non-controlling interests	5,943	5,889
Total net assets	105,636	114,288
Total liabilities and net assets	194,801	201,474

(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, 2021	For the six months ended September 30, 2022
Net sales	71,892	83,186
Cost of sales	49,425	58,247
Gross profit	22,467	24,938
Selling, general and administrative expenses	16,087	17,584
Operating profit	6,379	7,354
Non-operating income		
Interest and dividend income	277	221
Share of profit of entities accounted for using equity method	121	145
Foreign exchange gains	171	348
Other	538	468
Total non-operating income	1,108	1,183
Non-operating expenses		
Interest expenses	147	137
Other	208	187
Total non-operating expenses	355	324
Ordinary profit	7,133	8,213
Extraordinary income		
Gain on extinguishment of tie-in shares	71	—
Total extraordinary income	71	—
Extraordinary losses		
Provision for loss on guarantees	—	72
Provision of allowance for doubtful accounts	97	—
Total extraordinary losses	97	72
Profit before income taxes	7,107	8,141
Income taxes	1,848	2,050
Profit	5,259	6,090
Profit (loss) attributable to non-controlling interests	86	(17)
Profit attributable to owners of parent	5,172	6,107

Quarterly Consolidated Statements of Comprehensive Income

Six Months Ended September 30

(Million yen)

	For the six months ended September 30, 2021	For the six months ended September 30, 2022
Profit	5,259	6,090
Other comprehensive income		
Valuation difference on available-for-sale securities	39	(411)
Deferred gains or losses on hedges	9	(1)
Foreign currency translation adjustment	1,428	3,983
Remeasurements of defined benefit plans, net of tax	76	(27)
Share of other comprehensive income of entities accounted for using equity method	(10)	(7)
Total other comprehensive income	1,543	3,536
Comprehensive income	6,802	9,626
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	6,714	9,627
Comprehensive income attributable to non-controlling interests	87	(0)

(3) Quarterly Consolidated Statements of Cash Flows

(Million yen)

	For the six months ended September 30, 2021	For the six months ended September 30, 2022
Cash flows from operating activities		
Profit before income taxes	7,107	8,141
Depreciation	2,368	2,490
Increase (decrease) in allowance for doubtful accounts	109	(8)
Increase (decrease) in provision for bonuses	(1,088)	(858)
Increase (decrease) in provision for loss on construction contracts	—	(17)
Increase (decrease) in provision for loss on guarantees	—	72
Increase (decrease) in provision for construction expenses related to earthquake resistance renovation	(27)	(2)
Increase (decrease) in retirement benefit liability	(12)	16
Decrease (increase) in retirement benefit asset	32	(99)
Interest and dividend income	(277)	(221)
Interest expenses	147	137
Share of loss (profit) of entities accounted for using equity method	(121)	(145)
Loss (gain) on extinguishment of tie-in shares	(71)	—
Decrease (increase) in trade receivables	11,835	(462)
Decrease (increase) in inventories	(8,797)	(10,492)
Increase (decrease) in trade payables	872	(3,767)
Other, net	(1,801)	360
Subtotal	10,275	(4,858)
Interest and dividends received	637	238
Interest paid	(148)	(150)
Income taxes paid	(2,779)	(2,743)
Net cash provided by (used in) operating activities	7,985	(7,513)
Cash flows from investing activities		
Purchase of property, plant and equipment	(1,407)	(2,362)
Proceeds from sale of property, plant and equipment	35	25
Purchase of intangible assets	(274)	(341)
Purchase of investments in capital of subsidiaries	—	(213)
Other, net	(9)	(4)
Net cash provided by (used in) investing activities	(1,655)	(2,896)
Cash flows from financing activities		
Net increase (decrease) in short-term borrowings	(95)	991
Proceeds from long-term borrowings	500	4,000
Repayments of long-term borrowings	(1,542)	(2,942)
Purchase of treasury shares	(3)	(3)
Dividends paid	(1,175)	(1,475)
Other, net	(47)	(54)
Net cash provided by (used in) financing activities	(2,363)	517
Effect of exchange rate change on cash and cash equivalents	576	715
Net increase (decrease) in cash and cash equivalents	4,542	(9,176)
Cash and cash equivalents at beginning of period	19,071	24,409
Increase in cash and cash equivalents resulting from merger with unconsolidated subsidiaries	65	—
Increase (decrease) in cash resulting from fiscal year change of subsidiaries	—	201
Cash and cash equivalents at end of period	23,679	15,434

(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.

(Additional information)

- Changes in matters related to fiscal year-ends, etc. of consolidated subsidiaries and affiliated companies accounted for by equity method

Of consolidated subsidiaries and affiliated companies accounted for by equity method, the fiscal closing date of 14 consolidated subsidiaries, namely, DAIHEN, Inc., OTC DAIHEN EUROPE GmbH, OTC DAIHEN Asia Co., Ltd., DAIHEN ELECTRIC Co., Ltd., DAIHEN Advanced Component, Inc., Mudanjiang OTC Welding Machines Co., Ltd., OTC (Taiwan) Co., Ltd., OTC Industrial (Shanghai) Co., Ltd., DAIHEN Korea Co., Ltd., OTC Industrial (Qingdao) Co., Ltd., DAIHEN OTC (Beijing) Co., Ltd., DAIHEN Advanced Machinery (Changshu) Co., Ltd., PT. OTC DAIHEN INDONESIA, and DAIHEN VARSTROJ welding cutting and robotics d.d., and an affiliated company accounted for by equity method, namely, OTC DAIHEN Bangkok Co., Ltd. is December 31. Accordingly, the Company previously used their financial statements as of that date, making any adjustments as necessary to account for significant transactions occurring between those companies' closing date and the consolidated closing date.

In order to ensure more appropriate disclosure of the consolidated financial statements, from the three months ended June 30, 2022, the closing date of OTC (Taiwan) Co., Ltd. has been changed from December 31 to March 31. For the other 13 consolidated subsidiaries and an affiliated company accounted for by equity method, the method of preparing consolidated financial statements has been changed to a method of consolidation by using their provisional financial results as of the consolidated closing date.

The profit and loss of such consolidated subsidiaries and affiliated company accounted for by equity method for the three months from January 1, 2022 to March 31, 2022 are adjusted as changes in retained earnings.

(Segment information, etc.)

I. For the six months ended September 30, 2021

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

(Million yen)

	Reportable segment				Other (Note)	Total
	Power Products Business	Welding & Mechatronics Business	Semiconductor & FPD Related Business	Total		
Net sales						
Net sales to outside customers	28,343	22,195	21,257	71,797	95	71,892
Inter-segment net sales or transfers	-	18	-	18	-	18
Total	28,343	22,214	21,257	71,815	95	71,911
Segment profit	1,961	2,117	4,080	8,160	33	8,193

(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	8,160
Profit in “Other” category	33
Elimination of inter-segment transactions	0
Company-wide expenses (Note)	(1,813)
Operating profit in Quarterly Consolidated Statements of Income	6,379

(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, 2022

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

(Million yen)

	Reportable segment				Other (Note)	Total
	Power Products Business	Welding & Mechanics Business	Semiconductor & FPD Related Business	Total		
Net sales						
Net sales to outside customers	31,367	24,674	27,051	83,094	91	83,186
Inter-segment net sales or transfers	-	33	-	33	-	33
Total	31,367	24,708	27,051	83,127	91	83,219
Segment profit	1,733	2,121	5,413	9,269	32	9,302

(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	9,269
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.

(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 System Corporation
Description of business	Sale of industrial transformer, power distribution equipment, dispersed power equipment, lightning protection equipment, etc.

2) Date of the business combination

April 1, 2022

3) Legal format of the business combination

An absorption-type merger with the Company as the surviving company, and DAIHEN System 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 System Corporation, a domestic sales subsidiary for electric equipment, and integrate its functions into the Company for the purpose of strengthening and improving the efficiency of the Company's sales structure, in response to market changes toward the achievement of a decarbonized society.

(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.