

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



February 2, 2024

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: February 5, 2024

Scheduled date of commencing dividend payments: –

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 Nine Months Ended December 31, 2023 (April 1, 2023 - December 31, 2023)

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

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
Nine months ended								
December 31, 2023	127,235	(0.0)	7,818	(30.2)	8,514	(29.5)	11,269	27.0
December 31, 2022	127,246	14.7	11,201	12.9	12,079	9.5	8,874	12.5

(Note) Comprehensive income: Nine months ended December 31, 2023: 13,557 million yen [23.6%]

Nine months ended December 31, 2022: 10,970 million yen [21.0%]

	Basic earnings per share	Diluted earnings per share
Nine months ended	Yen	Yen
December 31, 2023	459.55	–
December 31, 2022	361.64	–

(2) Consolidated Financial Position

	Total assets	Net assets	Equity ratio
	Million yen	Million yen	%
As of December 31, 2023	246,342	136,830	49.9
As of March 31, 2023	212,690	119,905	53.5

(Reference) Equity: As of December 31, 2023: 122,989 million yen

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

2. Dividends

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

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

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

(% indicates changes from the previous corresponding period.)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent		Basic earnings per share
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen
Full year	190,000	2.5	15,500	(6.4)	16,000	(9.4)	16,500	25.1	673.41

(Note) Revision to the financial results forecast announced most recently: Yes

*** Notes:**

- (1) Changes in significant subsidiaries during the period under review: Yes
(Changes in specified subsidiaries resulting in changes in scope of consolidation):
Newly included: – (), Excluded: 1 (DAIHEN Techno Support Corporation)
(Note) DAIHEN Techno Support Corporation, which used to be a consolidated subsidiary, was excluded from the scope of consolidation from the three months ended June 30, 2023 because it was dissolved as of April 1, 2023, due to an absorption-type merger, in which the Company was the surviving company.
- (2) Accounting methods adopted particularly for the preparation of quarterly consolidated financial statements: Yes
(Note) For details, please see “2. Quarterly Consolidated Financial Statements and Principal Notes (3) Notes to Quarterly Consolidated Financial Statements (Accounting methods adopted particularly for the preparation of quarterly consolidated financial statements)” on page 9 of the attachments.
- (3) Changes in accounting policies, changes in accounting estimates and retrospective restatement
1) Changes in accounting policies due to the revision of accounting standards: None
2) Changes in accounting policies other than 1) above: None
3) Changes in accounting estimates: None
4) Retrospective restatement: None
- (4) Total number of issued shares (common shares)
1) Total number of issued shares at the end of the period (including treasury shares):
December 31, 2023: 27,103,291 shares
March 31, 2023: 27,103,291 shares
2) Total number of treasury shares at the end of the period:
December 31, 2023: 2,615,790 shares
March 31, 2023: 2,564,265 shares
3) Average number of shares during the period:
Nine months ended December 31, 2023: 24,522,730 shares
Nine months ended December 31, 2022: 24,538,474 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 business environment for the DAIHEN Corporation (the “Company”) and its subsidiaries (collectively, the “DAIHEN Group”) for the nine months ended December 31, 2023 was severe, with semiconductor-related investment continuing to undergo an adjustment phase. Meanwhile, Tohoku Electric Manufacturing Co., Ltd. and SHIHEN TECHNICAL Corporation became consolidated subsidiaries during the nine months ended December 31, 2023. As a result, the performance of the DAIHEN Group was net sales of 127,235 million yen, the same level as the corresponding period of the previous year. In income results, the significant impact of a decrease in net sales of semiconductor manufacturing equipment resulted in operating profit of 7,818 million yen (down 3,383 million yen year-on-year), ordinary profit of 8,514 million yen (down 3,564 million yen year-on-year), while profit attributable to owners of parent was 11,269 million yen (up 2,395 million yen year-on-year) due to recording of gain on bargain purchase associated with the above-mentioned acquisition of shares of subsidiaries.

The performance of each segment is as follows.

Effective from the three months ended June 30, 2023, business segments to be stated as reportable segments have been changed, and comparison and analysis of performance of each segment for the nine months ended December 31, 2023 are based on the new categories.

1) Energy Management

Investment in the replacement of power distribution products, large-class transformers, and power-receiving facilities for plants in Japan has been generally strong. In addition, as Tohoku Electric Manufacturing Co., Ltd. and SHIHEN TECHNICAL Corporation have been added to the scope of consolidation, net sales were 64,059 million yen (up 26.9% year-on-year) and operating profit was 4,222 million yen (up 1,881 million yen year-on-year).

2) Factory Automation

Although domestic demand-related investment in China remained sluggish, EV-related investment increased in Japan and abroad. As a result, net sales were 24,106 million yen (up 2.1% year-on-year). Meanwhile operating profit was 2,418 million yen (down 341 million yen year-on-year) partly due to the advanced expenses.

3) Material Processing

Sales of welding and joining machines remained strong mainly for construction industry in Japan. Although the semiconductor-related market expects an increase in demand for generative AI and other products over the mid- to long-term, currently the impact of a decrease in demand for RF generator systems for semiconductor manufacturing due to the postponement of investment by semiconductor manufacturers was significant against a backdrop of declining demand for smartphones and PCs. As a result, net sales were 38,946 million yen (down 26.6% year-on-year) and operating profit was 4,059 million yen (down 4,827 million yen year-on-year).

4) Other

Net sales were 136 million yen and operating profit was 14 million yen. There were no significant changes from the corresponding period of the previous year.

(Reference) Performance by Segment

(Million yen)

Segment	Orders Received		Net Sales		Operating Profit	
	Amount	YoY change	Amount	YoY change	Amount	YoY change
Energy Management	93,962	+54.7%	64,059	+26.9%	4,222	+80.4%
Factory Automation	22,759	-17.7%	24,106	+2.1%	2,418	-12.4%
Material Processing	37,943	-28.0%	38,946	-26.6%	4,059	-54.3%
Other	136	+0.4%	136	+0.4%	14	-69.8%
Company Total	154,801	+9.6%	127,235	-0.0%	7,818	-30.2%

(2) Explanation of Financial Position

Total assets at the end of the nine months ended December 31, 2023 increased by 33,651 million yen from the end of the previous fiscal year to 246,342 million yen. This is primarily attributable to an increase in inventories, in addition to the consolidation of Tohoku Electric Manufacturing Co., Ltd. and SHIHEN TECHNICAL Corporation as subsidiaries.

Total liabilities at the end of the nine months ended December 31, 2023 increased by 16,726 million yen from the end of the previous fiscal year to 109,511 million yen. This is primarily attributable to an increase in borrowings, in addition to the consolidation of Tohoku Electric Manufacturing Co., Ltd. and SHIHEN TECHNICAL Corporation as subsidiaries.

Total net assets at the end of the nine months ended December 31, 2023 increased by 16,925 million yen from the end of the previous fiscal year to 136,830 million yen. This is primarily attributable to increases in retained earnings and foreign currency translation adjustment. The equity ratio decreased by 3.6 percentage points from 53.5% to 49.9%.

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

Regarding the current business environment, although demand for the replacement of power distribution products is expected to remain strong, there are uncertainties in the market environment such as a delay in the recovery of semiconductor-related investment and a prolonged economic stagnation in China.

Taking into account such business environment and the gain on bargain purchase associated with the acquisition of shares of subsidiaries recorded in the nine months ended December 31, 2023, the Company has revised its full-year consolidated financial results forecast for the fiscal year ending March 31, 2024. For detail, please refer to the “Notice regarding Recording of Extraordinary Income and Losses and Revision of Full-Year Consolidated Financial Results Forecast” released today.

2. Quarterly Consolidated Financial Statements and Principal Notes

(1) Quarterly Consolidated Balance Sheets

(Million yen)

	As of March 31, 2023	As of December 31, 2023
Assets		
Current assets		
Cash and deposits	15,265	18,278
Notes and accounts receivable - trade	44,801	42,376
Merchandise and finished goods	24,430	31,557
Work in process	14,840	19,695
Raw materials and supplies	39,364	51,335
Other	5,702	8,139
Allowance for doubtful accounts	(481)	(749)
Total current assets	143,924	170,633
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	19,134	20,520
Machinery, equipment and vehicles, net	6,435	7,016
Tools, furniture and fixtures, net	1,897	2,016
Land	8,921	13,147
Leased assets, net	402	368
Construction in progress	1,264	3,479
Total property, plant and equipment	38,055	46,548
Intangible assets		
Software	1,898	1,910
Leased assets	6	1
Other	213	262
Total intangible assets	2,118	2,174
Investments and other assets		
Investment securities	15,086	12,451
Investments in capital	419	684
Long-term prepaid expenses	82	411
Retirement benefit asset	11,155	11,529
Deferred tax assets	1,286	1,342
Other	612	618
Allowance for doubtful accounts	(50)	(50)
Total investments and other assets	28,592	26,986
Total non-current assets	68,766	75,709
Total assets	212,690	246,342

(Million yen)

	As of March 31, 2023	As of December 31, 2023
Liabilities		
Current liabilities		
Notes and accounts payable - trade	19,786	18,934
Electronically recorded obligations - operating	19,470	14,587
Short-term borrowings	8,103	20,869
Current portion of long-term borrowings	4,784	4,884
Lease liabilities	117	79
Income taxes payable	2,935	1,206
Provision for bonuses	3,928	1,873
Provision for bonuses for directors (and other officers)	124	55
Provision for loss on construction contracts	112	113
Other	7,739	9,038
Total current liabilities	67,102	71,643
Non-current liabilities		
Long-term borrowings	20,002	30,260
Lease liabilities	200	210
Deferred tax liabilities	941	1,523
Provision for retirement benefits for directors (and other officers)	60	104
Provision for loss on guarantees	652	606
Provision for construction expenses related to earthquake resistance renovation	622	584
Provision for product safety measures	5	3
Retirement benefit liability	1,875	2,948
Asset retirement obligations	72	108
Other	1,251	1,518
Total non-current liabilities	25,683	37,868
Total liabilities	92,785	109,511
Net assets		
Shareholders' equity		
Share capital	10,596	10,596
Capital surplus	10,042	10,065
Retained earnings	85,393	92,489
Treasury shares	(4,822)	(4,881)
Total shareholders' equity	101,208	108,269
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	3,820	4,639
Deferred gains or losses on hedges	—	(4)
Foreign currency translation adjustment	6,321	7,807
Remeasurements of defined benefit plans	2,448	2,277
Total accumulated other comprehensive income	12,591	14,719
Non-controlling interests	6,104	13,841
Total net assets	119,905	136,830
Total liabilities and net assets	212,690	246,342

(2) Quarterly Consolidated Statements of Income and Comprehensive Income
Quarterly Consolidated Statements of Income
Nine Months Ended December 31

(Million yen)

	For the nine months ended December 31, 2022	For the nine months ended December 31, 2023
Net sales	127,246	127,235
Cost of sales	89,458	91,180
Gross profit	37,787	36,055
Selling, general and administrative expenses	26,586	28,236
Operating profit	11,201	7,818
Non-operating income		
Interest and dividend income	333	392
Share of profit of entities accounted for using equity method	183	228
Foreign exchange gains	162	192
Other	699	658
Total non-operating income	1,378	1,470
Non-operating expenses		
Interest expenses	215	363
Other	286	411
Total non-operating expenses	501	775
Ordinary profit	12,079	8,514
Extraordinary income		
Gain on bargain purchase	–	9,919
Gain on sale of investment securities	–	264
Reversal of provision for loss on guarantees	–	45
Total extraordinary income	–	10,229
Extraordinary losses		
Loss on step acquisitions	–	4,600
Provision for loss on guarantees	105	–
Provision of allowance for doubtful accounts	48	277
Total extraordinary losses	154	4,877
Profit before income taxes	11,924	13,866
Income taxes	3,027	2,386
Profit	8,896	11,480
Profit attributable to non-controlling interests	22	210
Profit attributable to owners of parent	8,874	11,269

Quarterly Consolidated Statements of Comprehensive Income

Nine Months Ended December 31

(Million yen)

	For the nine months ended December 31, 2022	For the nine months ended December 31, 2023
Profit	8,896	11,480
Other comprehensive income		
Valuation difference on available-for-sale securities	(73)	762
Deferred gains or losses on hedges	–	(4)
Foreign currency translation adjustment	2,185	1,486
Remeasurements of defined benefit plans, net of tax	(41)	(226)
Share of other comprehensive income of entities accounted for using equity method	2	58
Total other comprehensive income	2,073	2,076
Comprehensive income	10,970	13,557
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	10,944	13,329
Comprehensive income attributable to non-controlling interests	26	227

(3) Notes to Quarterly Consolidated Financial Statements

(Notes on going concern assumption)

Not applicable.

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

Not applicable.

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

- Calculation of tax expenses

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

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

(Segment information, etc.)

I. For the nine months ended December 31, 2022

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

(Million yen)

	Reportable segment				Other (Note)	Total
	Energy Management	Factory Automation	Material Processing	Total		
Net sales						
Net sales to outside customers	50,490	23,591	53,028	127,110	136	127,246
Inter-segment net sales or transfers	-	9	1	11	-	11
Total	50,490	23,600	53,029	127,121	136	127,257
Segment profit	2,340	2,760	8,887	13,988	47	14,036

(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	13,988
Profit in "Other" category	47
Elimination of inter-segment transactions	(2)
Company-wide expenses (Note)	(2,832)
Operating profit in Quarterly Consolidated Statements of Income	11,201

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

II. For the nine months ended December 31, 2023

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

(Million yen)

	Reportable segment				Other (Note)	Total
	Energy Management	Factory Automation	Material Processing	Total		
Net sales						
Net sales to outside customers	64,059	24,094	38,945	127,099	136	127,235
Inter-segment net sales or transfers	-	11	1	13	-	13
Total	64,059	24,106	38,946	127,112	136	127,249
Segment profit	4,222	2,418	4,059	10,700	14	10,715

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

2. Information on assets by reportable segment

(Significant increase in assets due to acquisition of subsidiaries)

Segment assets in “Energy Management” increased by 24,477 million yen from the end of the previous fiscal year due to the inclusion of Tohoku Electric Manufacturing Co., Ltd. and SHIHEN TECHNICAL Corporation in the scope of consolidation in the third quarter ended December 31, 2023.

3. 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	10,700
Profit in “Other” category	14
Elimination of inter-segment transactions	(0)
Company-wide expenses (Note)	(2,895)
Operating profit in Quarterly Consolidated Statements of Income	7,818

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

4. Matters regarding change in reportable segments, etc.

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

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

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

The main products comprising each reportable segment are as follows.

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

The Company has shifted to the new reportable segments from the first quarter ended June 30, 2023. Segment information for the nine months ended December 31, 2022 is based on the new categories.

5. Information on impairment loss on non-current assets or goodwill by reportable segment (Significant gain on bargain purchase)

The Company recorded a gain on bargain purchase of 9,919 million yen for the nine months ended December 31, 2023, due to the consolidation of Tohoku Electric Manufacturing Co., Ltd. and SHIHEN TECHNICAL Corporation as subsidiaries, respectively, in the “Energy Management” segment.

(Business combination)

Transaction under common control

Absorption-type merger of consolidated subsidiary

(1) Outline of the transaction

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

Name of surviving company	DAIHEN Corporation
Description of business	Manufacture and sale of a variety of transformer, power distribution equipment, control and telecommunications equipment, dispersed power equipment, welding machines, cutting machines, industrial robots, RF generator for plasma applications, etc.
Name of merged company	DAIHEN Techno Support Corporation
Description of business	Sale, maintenance, and inspection of welding machines, cutting machines, industrial robots, etc.

2) Date of the business combination

April 1, 2023

3) Legal format of the business combination

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

4) Name of the combined enterprise

DAIHEN Corporation

5) Other matters related to the outline of the transaction

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

(2) Outline of the implemented accounting methods

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

Business combination through acquisition

(1) Outline of the business combination

1) Name of acquired company and description of its business

Name of acquired company	Tohoku Electric Manufacturing Co., Ltd.
Description of business	Manufacture, repair, sales, and installation of transformers for power distribution, distribution panels, etc.

2) Main purpose of the business combination

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

3) Date of the business combination

October 1, 2023

4) Legal format of the business combination

Acquisition of shares for consideration in cash

5) Name of the combined enterprise

No change in the company name

6) Ratio of voting rights acquired

70%

7) Major grounds for deciding on the acquiring company

The Company acquired 70% of voting rights of Tohoku Electric Manufacturing Co., Ltd. through the acquisition of shares for consideration in cash.

(2) Period of performance of the acquired company included in the quarterly consolidated statements of income for the period

From October 1, 2023 to December 31, 2023

(3) Acquisition cost of the acquired company and breakdown by type of consideration

Consideration for acquisition	Cash	3,470 million yen
Acquisition cost		3,470 million yen

(4) Amount of gain on bargain purchase accrued and the cause of the accrual

1) Amount of gain on bargain purchase accrued

1,971 million yen

2) Cause of the accrual

Since the market value of net assets at the time of business combination exceeded the acquisition cost, the difference is recorded as a gain on bargain purchase.

Business combination through acquisition

(1) Outline of the business combination

1) Name of acquired company and description of its business

Name of acquired company	SHIHEN TECHNICAL Corporation
Description of business	Manufacture, sales, and repair of transformers, distribution panels, generators, etc.

2) Main purpose of the business combination

The Company acquired additional shares of SHIHEN TECHNICAL Corporation, an equity method affiliate, and made it a consolidated subsidiary for the purpose of implementing the division of labor for the production of electronic equipment products within the Group more flexibly than ever before.

3) Date of the business combination

October 1, 2023

4) Legal format of the business combination

Acquisition of shares for consideration in cash

5) Name of the combined enterprise

No change in the company name

6) Ratio of voting rights acquired

Ratio of voting rights held immediately prior to the business combination	38.6%
Ratio of voting rights additionally acquired on the date of the business combination	26.7%
Ratio of voting rights after acquisition	65.3%

7) Major grounds for deciding on the acquiring company

The Company acquired 65.3% of voting rights of SHIHEN TECHNICAL Corporation through the acquisition of shares for consideration in cash.

(2) Period of performance of the acquired company included in the quarterly consolidated statements of income for the period

From October 1, 2023 to December 31, 2023

(3) Acquisition cost of the acquired company and breakdown by type of consideration

Market value of shares held immediately prior to the business combination on the date of the business combination	982 million yen	
Consideration for additional acquisition	Cash	679 million yen
Acquisition cost		1,662 million yen

(4) Difference between the acquisition cost of the acquired company and the total acquisition cost for each transaction that led to the acquisition

Loss on step acquisitions 4,600 million yen

(5) Amount of gain on bargain purchase accrued and the cause of the accrual

1) Amount of gain on bargain purchase accrued

7,948 million yen

2) Cause of the accrual

Since the market value of net assets at the time of business combination exceeded the acquisition cost, the difference is recorded as a gain on bargain purchase.

(Significant subsequent events)

1. Acquisition of company, etc. by equity acquisition

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

(1) Purpose of the equity acquisition

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

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

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

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

(2) Counterparty of equity acquisition

Lorch Holding GmbH

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

Fiscal year ended December 31, 2022

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

(4) Date of equity acquisition

January 15, 2024

(5) Acquisition cost and ownership ratio after acquisition

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

(6) Principal acquisition related expenses

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

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

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

2. Cancellation of treasury shares

The Company resolved at the Board of Directors meeting held on February 2, 2024, to cancel treasury shares in accordance with the provisions of Article 178 of the Companies Act.

(1) Purpose of cancellation of treasury shares

To reduce concerns over future dilution of share value.

(2) Details of cancellation of treasury shares

1) Type of shares to be cancelled	Common shares of the Company
2) Total number of shares to be cancelled	1,500,000 shares (Ratio of the total number of shares to be cancelled to the total number of issued shares before cancellation: 5.5%)
3) Scheduled date of cancellation	February 15, 2024
4) Total number of issued shares after cancellation	25,603,291 shares