

# **Explanatory Materials for Financial Results**

**Second Quarter of the fiscal year  
Ending March 31, 2023**

**IWATSU ELECTRIC CO., LTD. | November 21, 2022**

**IWATSU**

# Table of Contents

- 1 Results for Second Quarter of Fiscal Year Ending March 31, 2023**
- 2 Forecast for the Fiscal Year Ending March 31, 2023**
- 3 Progress of Medium-term Management Plan**
- 4 Supplementary Materials**

**1**

**Results for Second  
Quarter of Fiscal Year  
Ending March 31, 2023**

The external environment surrounding the Group and the major impacts on the Company’s business are as follows

External Environment

- The global economy is experiencing high inflation mainly due to soaring resource and energy prices stemming from Russia's invasion of Ukraine.
- Raw material procurement costs soared (but are currently on a high level) due to a supply shortage of semiconductor parts, rising logistics costs, and a sharp depreciation of the yen against a backdrop of widening interest rate differentials between Japan and the U.S.
- While there remains a risk of re-spread of COVID-19, both prevention of infection and economic activities have been progressing, and consumer spending and corporate capital investment are recovering.

Major Impacts on Business

Business communication systems

While sales of some merchandise and finished goods that had been stagnant since the previous fiscal year due to parts procurement difficulties have been completed, the supply-demand balance remains tight, and risks such as sales delays and increased procurement costs remain.

Printing systems

The Company has struggled due to the stagnation of the printing market as a whole, impacted by work style reforms and other factors accelerated by the pandemic.

Test and measurement equipment

Sales of power electronics-related products and electronic components increased due to supply shortages of semiconductors and other components.

Property leasing

Due to improved occupancy rates, income-producing properties have generally been operating at a steady pace.

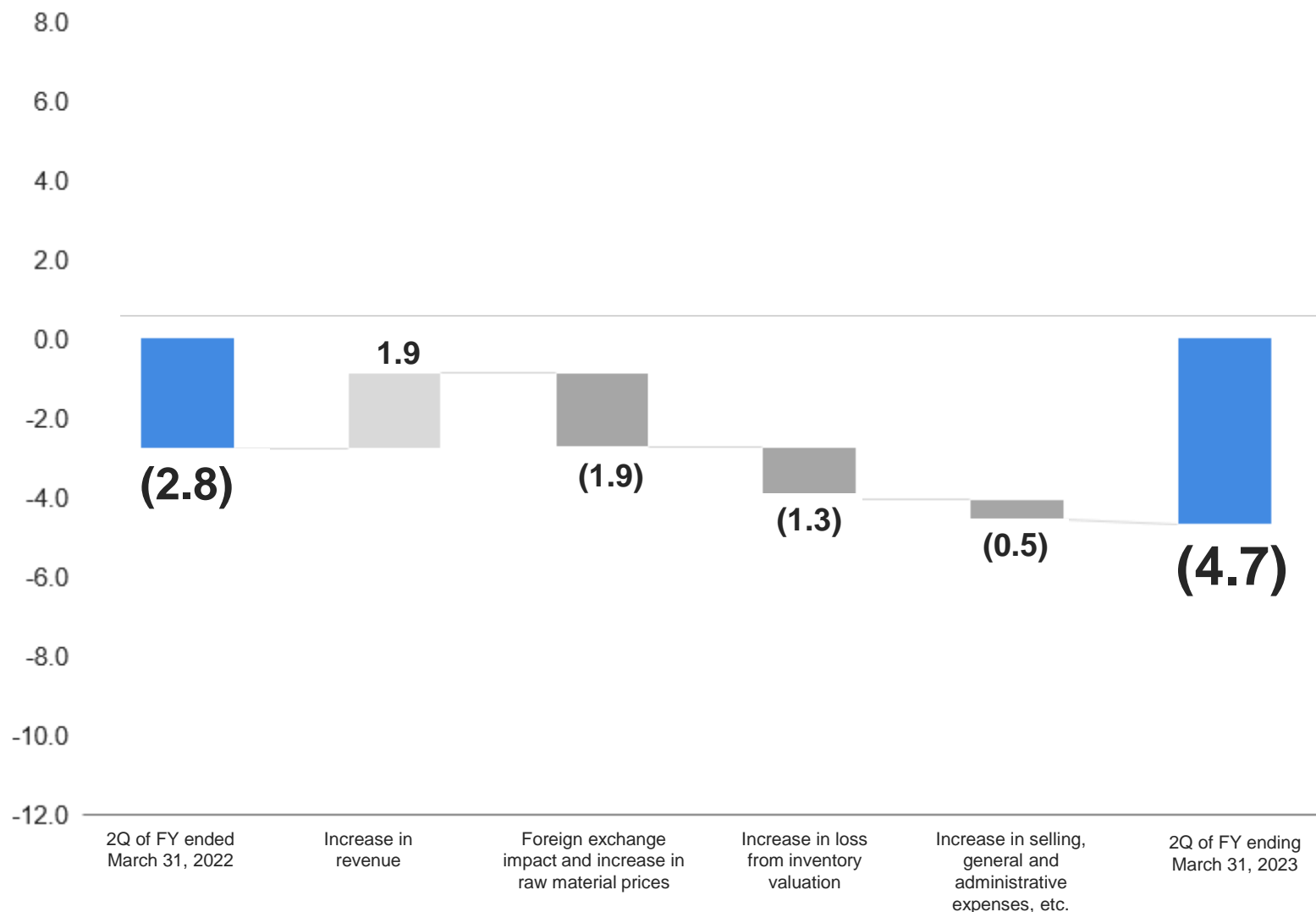
While there were signs of economic recovery, the sharp rise in raw material prices due to supply shortages of manufacturing components, especially semiconductors, and the rapid depreciation of the yen resulted in a year-on-year increase in revenue, but a deterioration in the cost rate led to a decrease in profit.

(¥100 million)	Results for 2Q of the fiscal year ended March 31, 2022	Results for 2Q of the fiscal year ending March 31, 2023	Year-on-year	Company plan for 2Q of the fiscal year ending March 31, 2023*	Contrast with plan
Revenue	108.2	110.2	+2.0 [+1.8%]	109.2	+0.9 [+0.9%]
Operating profit	(2.8)	(4.7)	(1.8) [-]	(6.9)	+2.3 [-]
Ordinary profit	(2.2)	(4.3)	(2.1) [-]	(6.6)	+2.3 [-]
Profit attributable to owners of parent	(1.4)	(4.2)	(2.8) [-]	(6.2)	+1.9 [-]
ROE	(0.6%)	(1.7%)	(1.1%)	(2.5%)	+0.8%

※ Planned figures for the second quarter of the fiscal year ending March 31, 2023 (cumulative) have not been disclosed at the beginning of the fiscal year.

# Analysis of Changes in Consolidated Operating Profit for the Second Quarter of the Fiscal Year Ending March 31, 2023

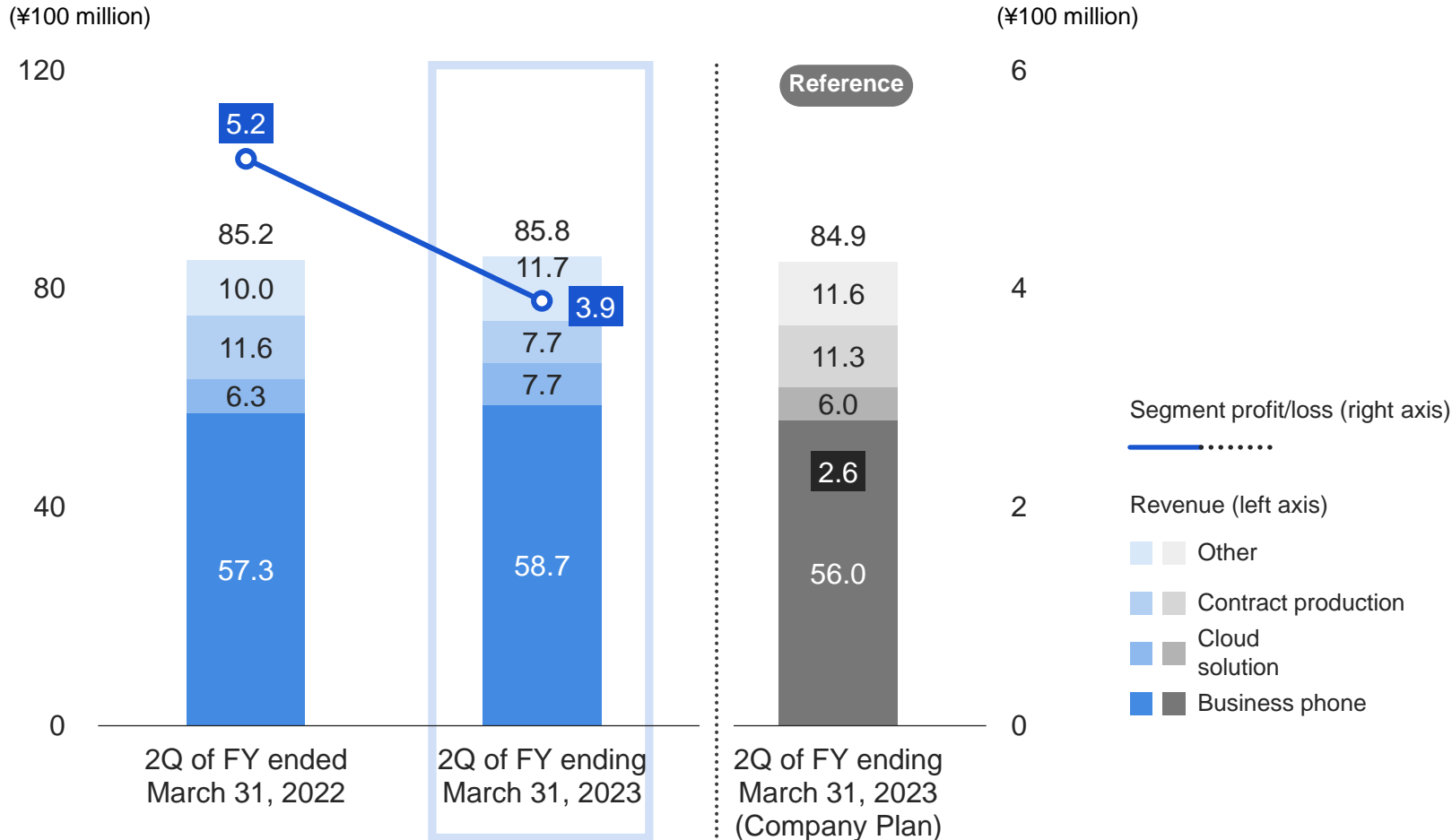
(¥100 million)



## Main causes of change

- Increase in revenue: +¥190 million**  
 Operating profit increased in line with the increase in revenue
- Foreign exchange impact and increase in raw material prices: -¥190 million**  
 Cost of sales deteriorated due to the sharp depreciation of the yen and price hikes caused by shortages in the supply of manufacturing components
- Increase in loss from inventory valuation: -¥130 million**  
 Loss from inventory valuation increased and cost of sales deteriorated as a result of advance arrangements made in preparation for difficulties in obtaining raw materials
- Increase in selling, general and administrative expenses, etc.: -¥50 million**  
 Decreased by ¥80 million due to lower personnel costs and expenses containment, but increased by ¥130 million due to expenses related to the medium-term management plan measures

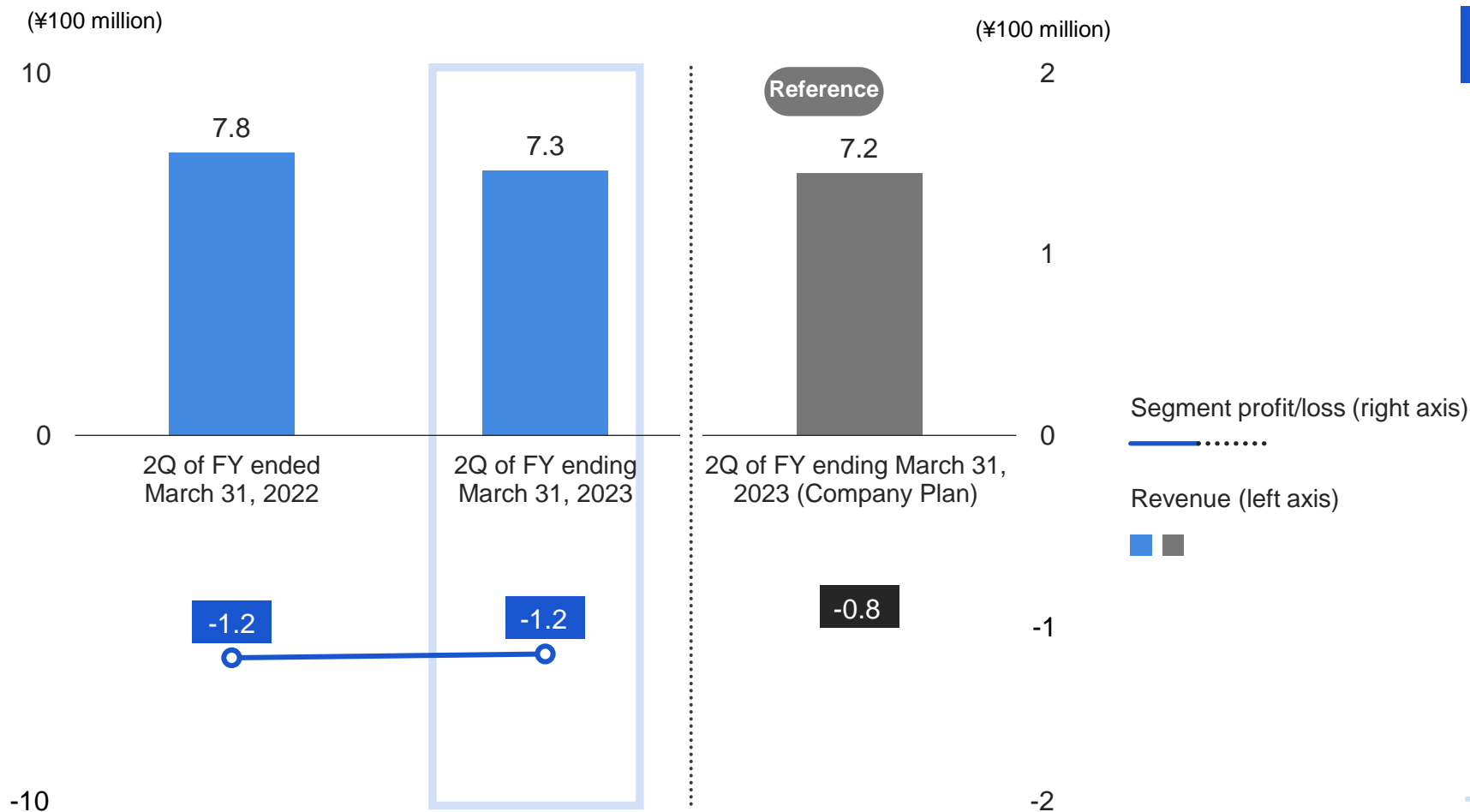
## ● Revenue, Segment Profit/Loss



### Main causes of change

- Revenue**  
 Revenue was ¥8.58 billion, an increase of 0.7% year on year, due to increase in business phone and contact center solution sales, despite decrease in contract production at a manufacturing subsidiary due to parts procurement difficulties
- Segment profit/loss**  
 Although revenue increased, segment profit was ¥390 million, decrease of ¥130 million year on year, due to a worsening cost rate caused by higher raw material costs, etc.

## ● Revenue, Segment Profit/Loss

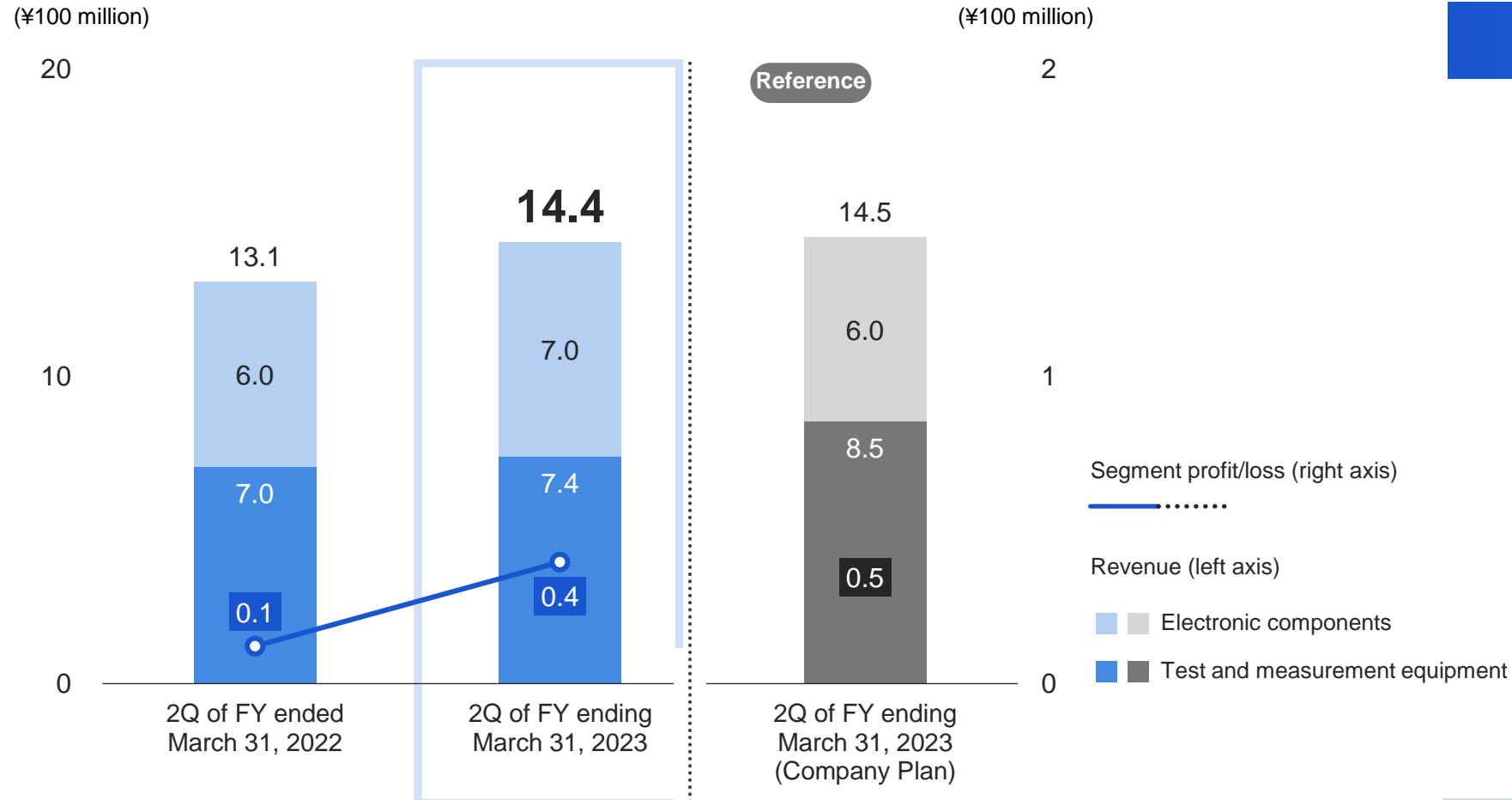


### Main causes of change

- **Revenue**  
Revenue was ¥730 million, a decrease of 6.4% year on year, mainly due to a decrease in consumables sales due to a last-minute rush of demand before the price revision at the end of the previous fiscal year
- **Segment profit/loss**  
Although revenue decreased, segment profit remained unchanged year on year at a loss of ¥120 million due to a decrease in selling, general and administrative expenses



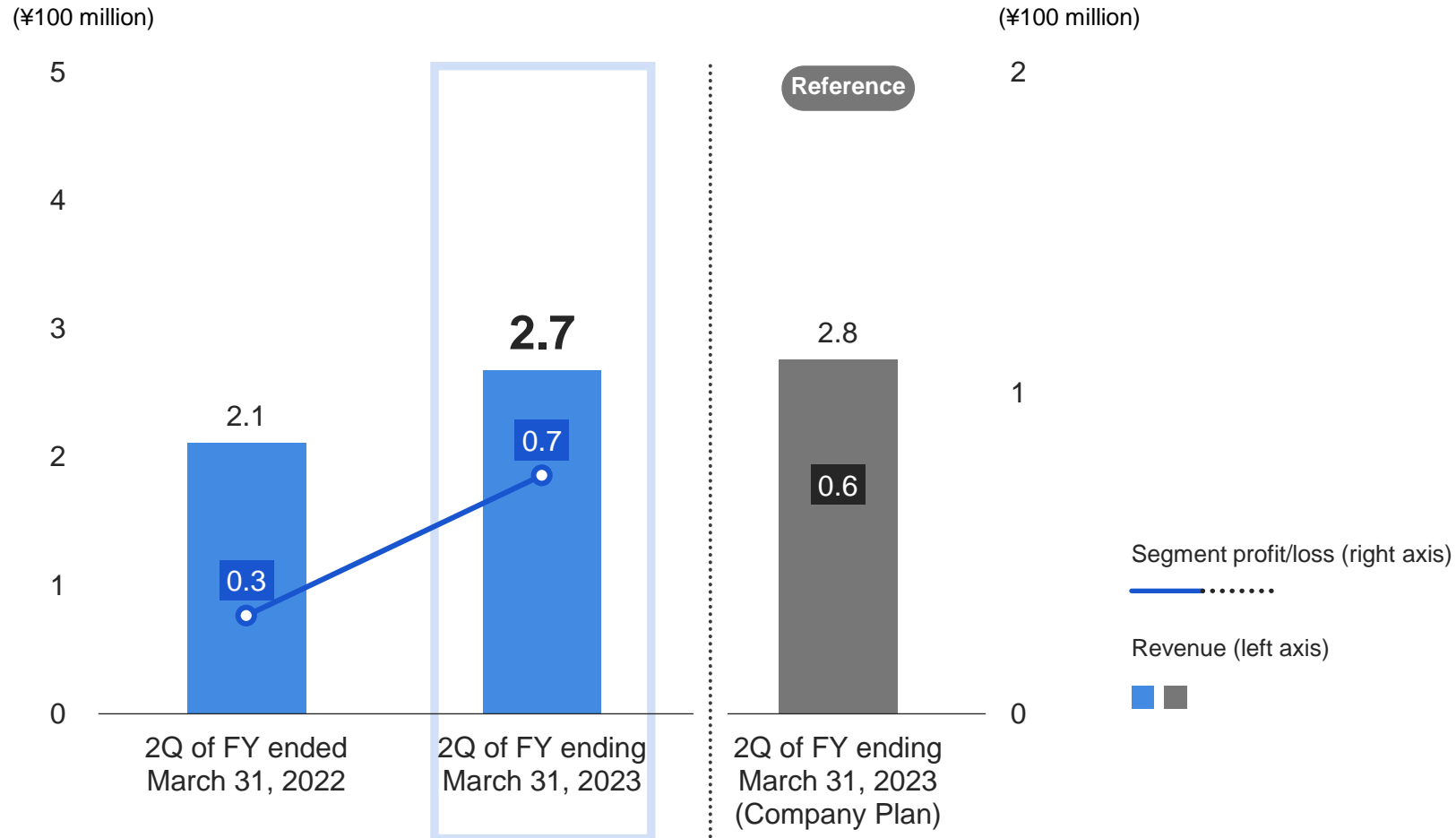
## ● Revenue, Segment Profit/Loss



### Main causes of change

- **Revenue**  
Revenue was ¥1.44 billion, an increase of 10.0% year on year, mainly due to an increase in electronic components
- **Segment profit/loss**  
With the increase in revenue, segment profit was ¥40 million, an increase of ¥30 million year on year

## ● Revenue, Segment Profit/Loss



### Main causes of change

- **Revenue**  
Mainly due to improved occupancy rates in properties for lease, revenue was ¥270 million, an increase of 26.8% year on year
- **Segment profit/loss**  
Mainly due to the increase in revenue, segment profit was ¥70 million, an increase of 143.2% year on year

# Consolidated Balance Sheet for the Second Quarter of the Fiscal Year Ending March 31, 2023

(¥100 million)	As of March 31, 2022	As of September 30, 2022	Change from previous year
Current assets	172.3	167.2	(5.1)
Non-current assets	192.1	187.2	(4.8)
<b>Total assets</b>	<b>364.4</b>	<b>354.5</b>	<b>(9.9)</b>
Current liabilities	42.7	37.0	(5.7)
Non-current liabilities	68.0	68.5	+0.5
<b>Total liabilities</b>	<b>110.8</b>	<b>105.6</b>	<b>(5.3)</b>
<b>Net assets</b>	<b>253.5</b>	<b>248.9</b>	<b>(4.7)</b>
<b>Total liabilities and net assets</b>	<b>364.4</b>	<b>354.5</b>	<b>(9.9)</b>

## Main causes of change

- **Current assets: -¥510 million**  
Cash and deposits: -430  
Accounts receivable-trade: -890  
Raw materials and supplies: +490  
Work in process: +290  
Other +30 etc.
- **Non-current assets: -¥480 million**  
Property, plant and equipment: -110  
Intangible assets: -190  
Investments and other assets: -180
- **Current liabilities: -¥570 million**  
Notes and accounts payable-trade: -260  
Other: -310, etc.
- **Non-current liabilities: +¥50 million**  
Retirement benefit liability: +80  
Other: -30, etc.
- **Net assets: -¥470 million**  
Retained earnings: -670  
Foreign currency translation adjustment: +260, etc

## March 31, 2023

Cash and cash equivalents as of September 30, 2022 were ¥5.32 billion, down ¥430 million from the end of the previous fiscal year

(¥100 million)	Six months ended September 30, 2021	Six months ended September 30, 2022	Year-on-year
Cash flows from operating activities	10.1	(0.5)	(10.7)
Cash flows from investing activities	(3.9)	(1.8)	+2.1
Free cash flows	6.3	(2.3)	(8.6)
Cash flows from financing activities	(4.0)	(2.5)	+1.5
Cash and cash equivalents	55.9	53.2	(2.7)

### Major breakdown items

- Cash flows from operating activities: -¥50 million**  
 Loss before income taxes: -410  
 Depreciation: +530  
 Decrease in trade receivables: +940  
 Increase in inventories: -700  
 Decrease in trade payables: -300 etc.
- Cash flows from investment activities: -¥180 million**  
 Purchase of property, plant and equipment: -120 etc.
- Cash flows from financing activities: -¥250 million**  
 Dividends paid: -250 etc.

**2**

**Forecast for the  
Fiscal Year Ending  
March 31, 2023**

No change in earnings and dividend forecast at this time. With respect to the impact of soaring raw material prices and the yen's depreciation, the Company intends to strengthen our response, including reviewing our procurement methods and passing on the cost of raw materials to our customers. The progress of this may affect our business performance.

(¥100 million)	Results for the fiscal year ended March 31, 2022	Forecast for the fiscal year ending March 31, 2023	Changes from previous year (%)
Revenue	231.8	237.0	+5.2 [+2.2%]
Operating profit	5.0	(4.0)	(9.0) [-]
Ordinary profit	5.9	(3.5)	(9.4) [-]
Profit attributable to owners of parent	6.0	(3.5)	(9.5) [-]
ROE	2.4%	(1.5%)	(3.9%)

## Revenue

- The plan will remain unchanged in consideration of the impact of parts availability difficulties, etc., despite expectations that the pandemic will be resolved and economic activities will return to normal

## Operating profit Ordinary profit Profit





- Deteriorating cost rate is a concern due to increasing raw material prices caused by the prolonging of the situation in Ukraine
- An operating loss, ordinary loss and loss are expected due to one-time expenses aimed towards the future as we promote structural reforms based on the new medium-term management plan "REBORN"

※ As initially announced, no year-end dividend will be paid for the fiscal year ending March 31, 2023, due to the forecast of planned loss based on the new medium-term management plan. The Company will continue to make concerted group-wide efforts to further enhance corporate value and strengthen shareholder returns.



3

## **Progress of Medium-term Management Plan**

Although we do not expect the amount of profit improvement in tier 1 and tier 2 (next page) to materialize significantly in FY2022, we are generally on track to ensure its realization within the REBORN period.

Theme (Tier 1)	Contents	State of progress	The amount of operating profit improvement for the fiscal year ending March 31, 2023 (Plan)	
Cost reduction of Kugayama Headquarters	<ul style="list-style-type: none"> <li>Reduction of property maintenance costs for Kugayama Headquarters, etc.</li> <li>Improved efficiency of indirect operations (Review of operations through the introduction of ERP, etc.)</li> </ul>	 <ul style="list-style-type: none"> <li>The Company is promoting various measures to reduce property maintenance costs.</li> <li>The introduction of a new ERP (contracted) scheduled for the next fiscal year is progressing as planned.</li> </ul>		¥0 million
Improved efficiency of production	<ul style="list-style-type: none"> <li>Improved efficiency of production system with multiple locations</li> <li>Improvement of product organization and purchasing methods</li> <li>Improved production efficiency through factory DX, etc.</li> </ul>	 <ul style="list-style-type: none"> <li>The Company initiated practical measures to improve the efficiency and to review the production system.</li> <li>Although there are some delays in the liquidation of products, other items are progressing as planned.</li> </ul>		¥40 million
Improved efficiency of development	<ul style="list-style-type: none"> <li>Reduction of obsolete parts support</li> <li>Commonization of multiple business phone architectures, etc.</li> <li>Reduction of outsourcing costs by increasing in-house production</li> </ul>	 <p>Each measure to improve development efficiency has generally progressed as planned.</p>		¥0 million
Review of business profitability	<ul style="list-style-type: none"> <li>Review of printing business operations</li> </ul>	 <p>As a foothold for reviewing business profitability, Iwatsu Chemical Cross Co., Ltd. was established in October of this year.</p>		¥0 million



Theme (Tier 2)	Contents	State of progress
<p><b>Growth of test and measurement equipment</b></p>	<ul style="list-style-type: none"> <li>Accelerate overseas expansion (China, Europe, America) with a focus on instrumentation in the power electronics-related field</li> <li>Expand lineup of power electronics-related products</li> </ul>	 <p>The Company are preparing for overseas expansion (started to consider strengthening Europe and entering North America with our partners) and expanding our product lineup online in line with our plan.</p>
<p><b>Growth of business communication systems</b></p>	<ul style="list-style-type: none"> <li>Strengthen subscription business                             <ul style="list-style-type: none"> <li>Strengthen the business of promoting DX in the office</li> <li>Shift to cloud-based services for contact center systems</li> </ul> </li> <li>Strengthen contract production business</li> </ul>	 <p>The shift to cloud-based services for contact centers remained steady. To strengthen the contract production business, a joint project between the development and production divisions was launched to acquire specific projects.</p>
<p><b>New area development</b></p>	<ul style="list-style-type: none"> <li>Initiatives in advanced technologies such as 5G-related technologies, energy, healthcare, materials, etc.</li> <li>Expansion of IoT business through integration of information and communication technology and electronic measurement technology</li> <li>Create new markets by applying chemical technology cultivated in the printing business</li> </ul>	<p>As for local 5G, we have started verification tests mainly for plants, and have also started development of prototypes based on transparent electrode technology.</p>

The amount of operating profit improvement for the fiscal year ending March 31, 2023 (Plan)

¥30 million

¥0 million

See business and sustainability as an integral part of the Company, and pursue increased corporate value and sustainable growth through the promotion of ESG management.

## Examples of Initiatives

December 2021

**Submitted a letter of commitment to “SBTi\*” to obtain SBT certification within two years**

To promote GHG emission reductions toward FY2030 in order to specifically address climate change.

August 2022

**Endorsement of TCFD (Task Force on Climate-related Financial Disclosures)**

Work on disclosure of information on climate change-related risks and opportunities identification, scenario analysis, governance, etc., based on the TCFD recommendations.



October 2022

**Published “Sustainability Report FY2022”**

Taking advantage of the formulation of the medium-term management plan and the acceleration of ESG management, we will advance the disclosure of sustainability policies and initiatives from an ESG perspective and report on ESG in a unified manner.



\*An international initiative jointly established by four organizations: WWF (World Wildlife Fund), CDP, WRI (World Resources Institute), and the United Nations Global Compact. It is encouraging companies to set science-based reduction targets toward the goal of limiting the increase in average global temperature to 1.5°C above pre-industrial levels.

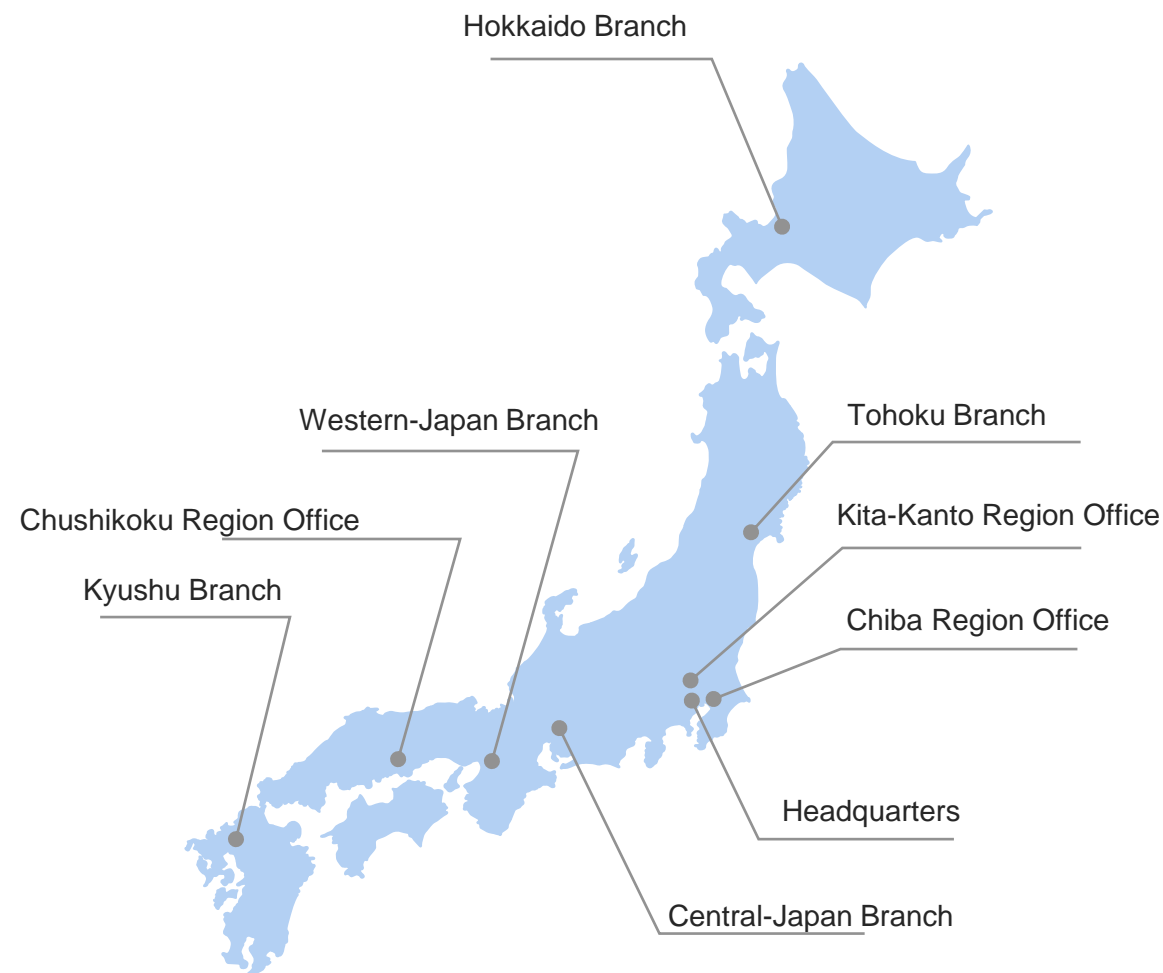
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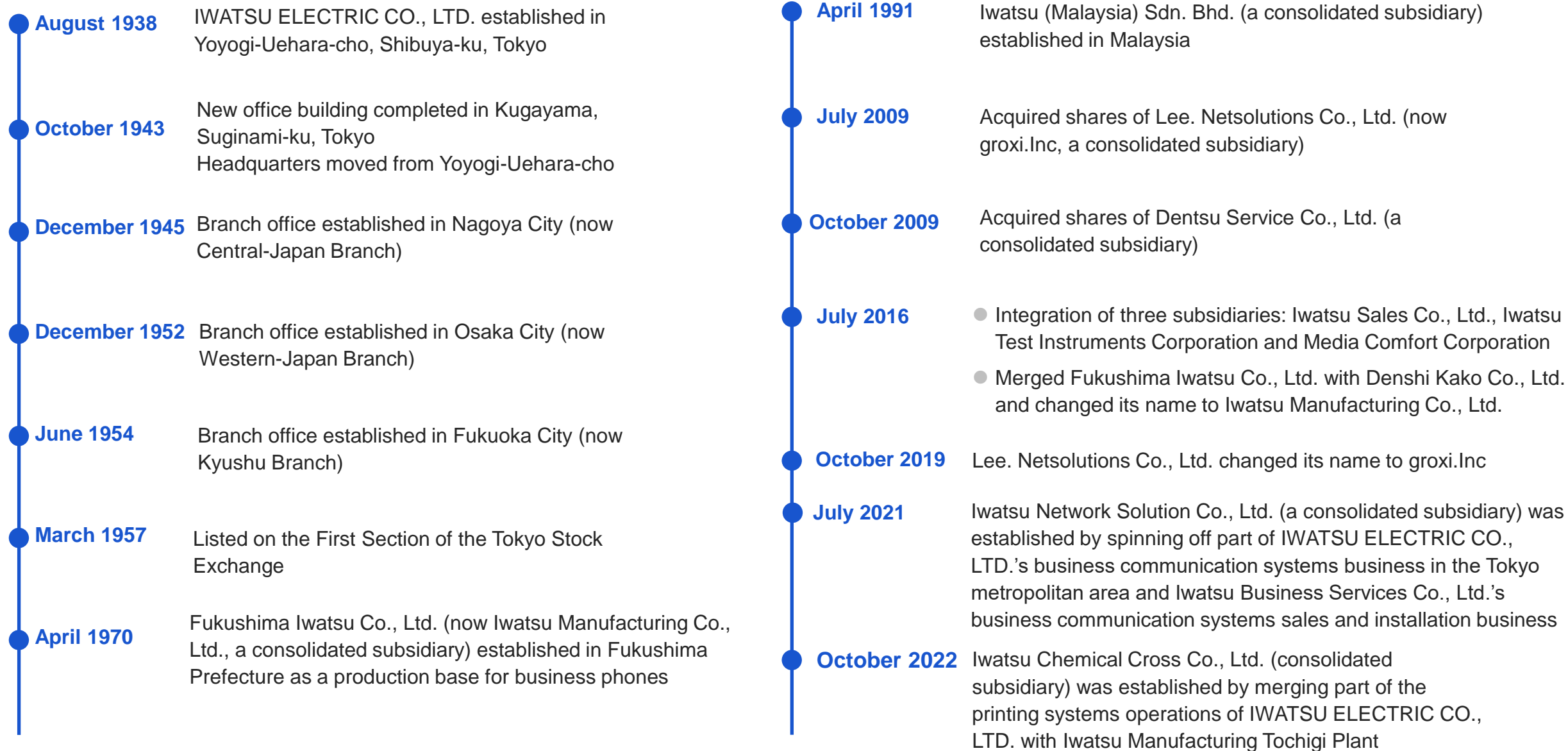
# Supplementary Materials

## ● Company Outline

Company Name	IWATSU ELECTRIC CO., LTD.
Established	August 14, 1938
Headquarters Address	1-7-41 Kugayama, Suginami-ku, Tokyo 168-8501, Japan
Tel./Fax	Tel: 03-5370-5111 Fax: 03-5370-5115 (main)
Details of Business	<ul style="list-style-type: none"> <li>● Development, manufacture and sale of equipment and service provision in the business communication systems, printing systems and test and measurement equipment fields</li> <li>Property leasing, etc.</li> <li>● <a href="#">Company Brochure</a> (PDF)</li> </ul>
Representative	Shogo Kimura, President
Capital	¥6.0 billion (as of March 31, 2022)
Revenue	Consolidated ¥23.1 billion (FY 2021)
Number of Employees	Non-consolidated 433; Consolidated 1,258 (as of March 31, 2022)
Major Financial Institutions	MUFG Bank, Ltd. Mitsubishi UFJ Trust and Banking Corporation Mizuho Bank, Ltd. Sumitomo Mitsui Banking Corporation
Construction License	Licensed by Minister of Land, Infrastructure, Transport and Tourism (Han-3) No. 26305 Telecommunications work and electrical work

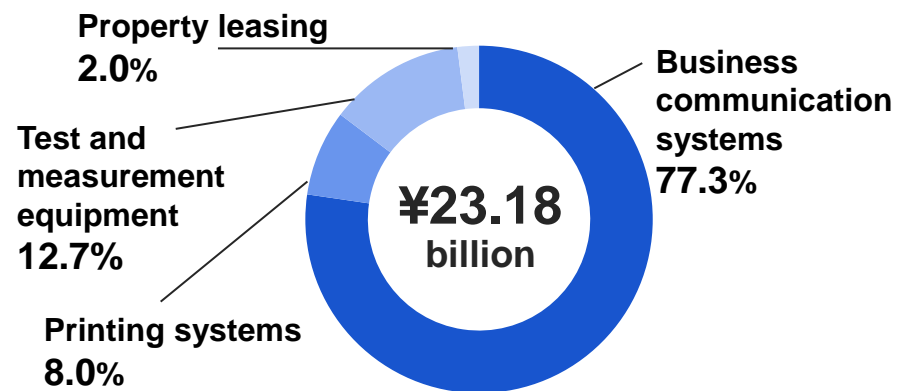
## ● Domestic Locations





The Company, founded in 1938, and the Group are mainly engaged as a manufacturer of business communication systems, printing systems and test and measurement equipment, as well as property leasing.

Revenue composition ratio (FY ended March 31, 2022)



## ● Business communication systems

The Company was founded as a telephone manufacturer. The Company has built up a history of manufacturing and selling business phones and providing contact center systems, and has begun offering cloud services as well as IoT products and web communication services in recent years.



Example of an office with the “Frespec” business phone system

## ● Printing systems

Starting with the manufacture and sale of plate makers, which are machines used to create printing plates, the Company has captured the wave of digitalization in the printing market in recent years and has responded to new needs by introducing digital label printing machines to the market.



産業用デジタルラベル印刷機  
**LabelMeister**  
EM-250W / EM-250A

## ● Test and measurement equipment

For more than 60 years, since oscilloscopes were first introduced in Japan, we have pursued higher performance and multifunctionality in test and measurement equipment used not only in industry but many other research and development and educational fields.



Semiconductor Curve Tracer  
CS-8000 Series

## ● Property leasing

The Company leases and manages property holdings, strategically and efficiently linking its property leasing to business performance and improving the Group’s profitability.

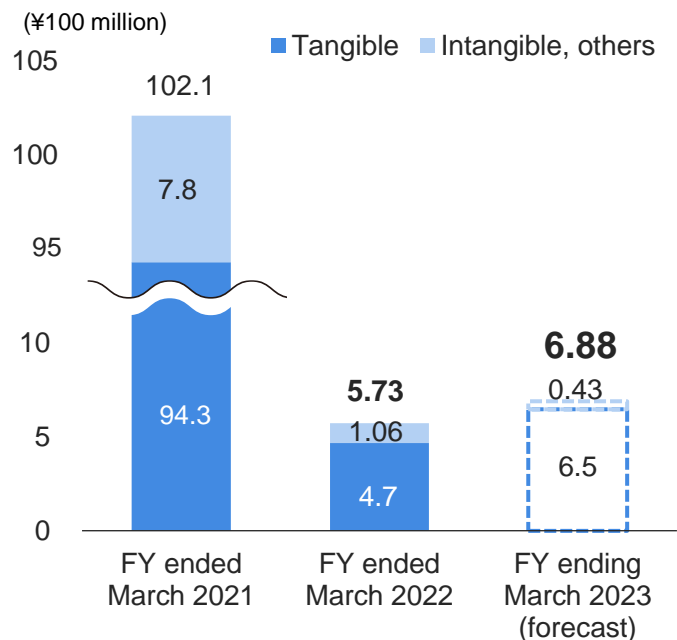


Prime Terrace  
KAMIYACHO (Exterior)

## ● Group companies

- Iwatsu Manufacturing Co., Ltd.
- Iwatsu Network Solution Co., Ltd.
- Dentsu Service Co., Ltd.
- Iwatsu System & Software Co., Ltd.
- Iwatsu Business Services Co., Ltd.
- Tohtsu Industry Co., Ltd.
- groxi.Inc
- Iwatsu (Malaysia) Sdn. Bhd.
- Iwatsu Chemical Cross Co., Ltd.

## Capital Investment



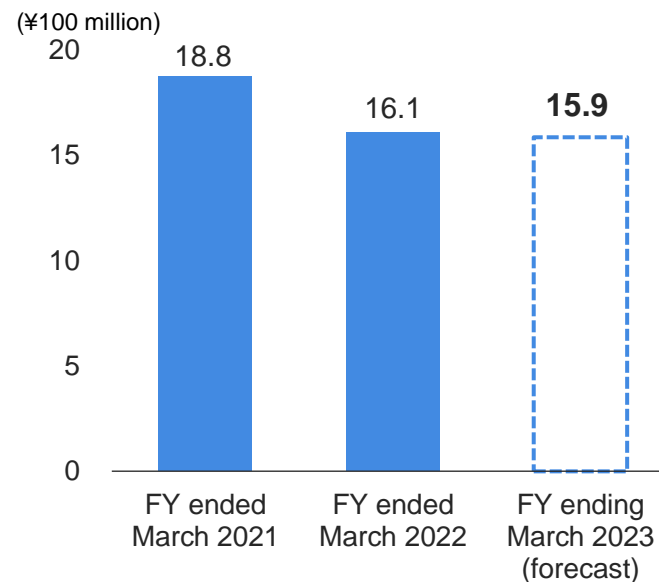
### Fiscal year ended March 31, 2022

- Tangible decreased mainly due to acquisition of new income-producing properties in the previous fiscal year of ¥8.80 billion
- Intangible and others decreased mainly due to the recording of software for the successor to the mainstay products of the previous fiscal year

### Fiscal year ending March 31, 2023

- Tangible, intangible and others forecast to increase ¥110 million compared to the previous fiscal year

## R&D Expenses



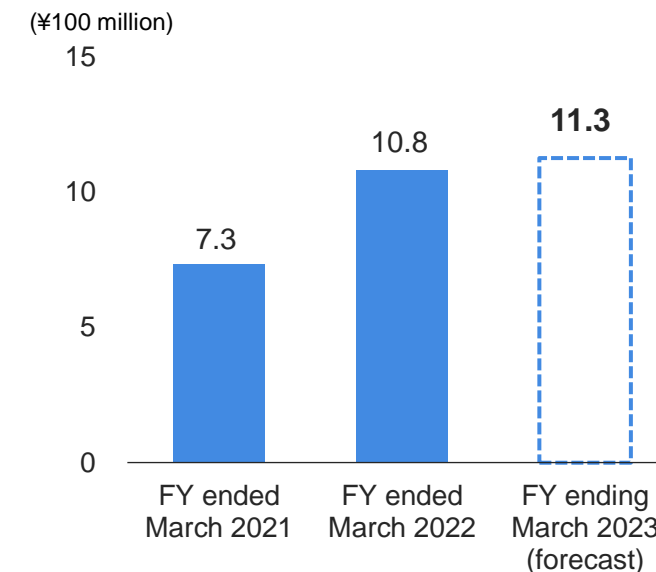
### Fiscal year ended March 31, 2022

- Decreased ¥270 million due to development costs of the successors to the mainstay products in the previous fiscal year

### Fiscal year ending March 31, 2023

- Forecast to decrease ¥20 million compared to the previous fiscal year

## Depreciation



### Fiscal year ended March 31, 2022

- Increased ¥350 million due to investment in development of the successor models to the mainstay products and depreciation of new income-producing properties

### Fiscal year ending March 31, 2023

- Forecast to increase ¥50 million compared to the previous fiscal year

## Caution Regarding Forward-Looking Information

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Statements in this document regarding future plans, forecasts, strategies and other future information of the Company and the Group are based on certain assumptions that the Company determines to be reasonable based on information available at the time this document was prepared, and actual results may differ significantly from these assumptions. These statements regarding forward-looking information involve a variety of risks and uncertainties, the principal ones are listed below, but this list is not exhaustive.

- Trends at major customers
- Bias towards second-half performance
- Intensifying market competition with competitors
- Deterioration in business performance of business
- partners, etc.
- Litigation and other legal proceedings
- Natural disasters, etc.
- Information leaks
- Spread of infectious disease
- Procurement risks (e.g., supply shortages due to rapid changes in international conditions and increasing procurement prices)
- Economic trends

The statements contained herein do not constitute a public offering of securities.