Explanatory Materials for Financial Results

Fiscal Year Ended March 31, 2023

IWATSU ELECTRIC CO., LTD. | May 15, 2023

IWATSU

1 Financial Highlights/Progress of Medium-term Management Plan

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1 Financial Highlights/Progress of Medium-term Management Plan

Financial Highlights

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

External Environment

- The transition to living with COVID-19 progresses, and there are signs of recovery in social and economic activities.
- The ongoing situation of the prolonged Russia-Ukraine conflict, the impact of the depreciation of the yen on the rise of fuel prices, and the persistent shortages of parts supply have led to an uncertain outlook that continues.

Major Impacts on Business

Business communication systems	The impact of rising fuel prices and persistent tightness in parts supply continue, and risks to the business remain.
Printing systems	The overall printing market is experiencing a stagnation trend and struggling. Meanwhile we are creating new businesses by focusing on products that apply chemical technology cultivated in the printing business.
Test and measurement equipment	Revenue has been steadily growing due to the increased backlog of orders for electronic components resulting from difficulties in procurement.
Property leasing	Occupancy rates in properties for lease have been improving, so it has been operating at a steady pace.

(¥100 million)	Results for the fiscal year ended March 31, 2022	Results for the fiscal year ended March 31, 2023	Change from previous term
Revenue	231.8	229.0	(2.8) [(1.2%)]
Operating profit	5.0	(9.8)	(14.8) [-]
Ordinary profit	5.9	(9.1)	(15.0) [-]
Profit attributable to owners of parent	5.9	(11.8)	(17.8) [-]
ROE	2.4%	(4.8%)	(7.2%)

Major Medium-term Measures Implemented in Fiscal Year 2022

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Medium-term Tier 1: Review of printing business operations

● Established Iwatsu Chemical Cross Co., Ltd.

In order to expand the business domain by transitioning to businesses applying chemical technology that has been cultivated in operational cost reduction in the printing business, Iwatsu Chemical Cross Co., Ltd. was established in October 2022.

Medium-term Tier 1: Improved efficiency of production system

● Transfer of shares of Iwatsu (Malaysia) Sdn. Bhd.

- The transfer of all shares of our manufacturing subsidiary (consolidated subsidiary) located in Malaysia will be completed by the end of July 2023. We will proceed with domestic consolidation of production bases and aim to improve production efficiency.
- We will expand electronic component procurement from the corporate group to which the shares are being transferred, aiming to stabilize the supply chain and explore synergistic business collaborations.

Medium-term Tier 2: Strengthen profitability of property leasing business

● Acquisition of property leasing through anonymous association investment

In March 2023, a special purpose company (SPC) was established and an anonymous association was consolidated as a subsidiary. Acquired three newly built rental apartment properties in the 23 special wards of Tokyo through anonymous association investment.

Medium-term Tier 2: Business communication systems Strengthen cloud-based services

To accelerate the strengthening of the subscription business in Tier 2 of the medium-term plan, REBORN, the following measures will be implemented.

● Capital and business alliance with Nextgen (hereinafter referred to as NG Company)

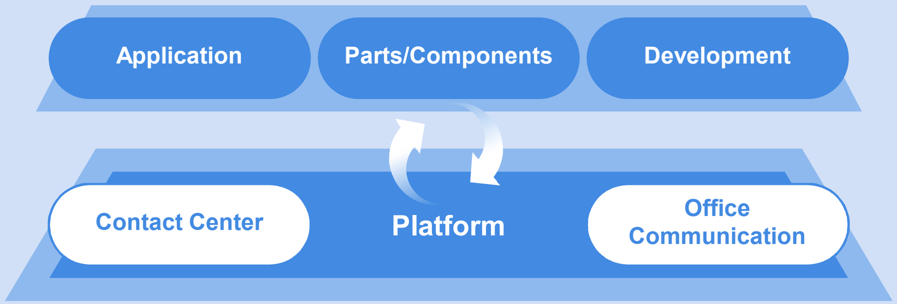
By integrating NG Company's cloud infrastructure with our technology, we have created the Iwatsu Cloud Communication Platform, which specializes in telecommunication for call centers and office environments.

● Release of Cloud Communication Platform Blue Commpaas

By providing a platform for operators of voice-based infrastructure, we contribute to improving customer experience and addressing labor shortages through automation.

Blue Commpaas

Structure of Iwatsu Cloud Communication Platform



As mentioned earlier, the measures implemented in the first year of the medium-term plan have been progressing smoothly.

Theme	Contents	Major measures	
		Details of implementation (fiscal year ended March 31, 2023)	Effect amount (total)
Cost reduction of Kugayama Headquarters	• Reduction of property maintenance costs for Kugayama Headquarters, etc. • Improved efficiency of indirect operations (Review of operations through the introduction of ERP, etc.)	The implementation of the new ERP will be promoted as planned, and it will start operation in May 2023.	¥0 million
Improved efficiency of production	• Improved efficiency of production system with multiple locations • Improvement of product organization and purchasing methods • Improved production efficiency through factory DX, etc.	Decided to transfer all shares of Iwatsu (Malaysia) (a manufacturing subsidiary). The production of business communication systems was consolidated into domestic factories.	¥0 million
Improved efficiency of development	• Reduction of obsolete parts support • Commonization of multiple business phone architectures, etc. • Reduction of outsourcing costs by increasing inhouse production	Each measure to improve development efficiency has generally progressed as planned.	¥10 million
Review of business profitability	• Review of printing business operations	As a foothold for reviewing business profitability, Iwatsu Chemical Cross Co., Ltd. was established in October 2022.	¥0 million

Theme	Fiscal year ended March 31, 2023			Fiscal year ending March 31, 2024	Fiscal year ending March 31, 2026 (Final year of the medium-term management plan)	Rate of progress (A/B)
	Initial plan	Result (A)	Rate of achievement	Forecast	Plan (B)	
Cost reduction of Kugayama Headquarters	¥0 million	¥0 million	- %	¥0 million	¥470 million	- %
Improved efficiency of production	¥40 million	¥0 million	- %	¥70 million	¥410 million	- %
Improved efficiency of development	¥0 million	¥10 million	- %	¥0 million	¥200 million	5.0%
Review of business profitability	¥0 million	¥0 million	- %	¥0 million	¥100 million	- %

As mentioned earlier, the measures implemented in the first year of the medium-term plan have been progressing smoothly.

Theme	Contents	Major measures		
			Details of implementation (fiscal year ended March 31, 2023)	Effect amount (total)
Growth of test and measurement equipment	• Accelerate overseas expansion (China, Europe, America) with a focus on instrumentation in the power electronics-related field • Expand lineup of power electronics-related products	☼	To facilitate overseas expansion preparations, efforts are being made to strengthen relationships with collaborative partners (such as expanding sales in Europe, entering the North American market, enhancing local support in China, and engaging in joint development).	¥0 million
Growth of business communication systems	• Strengthen subscription business ・ Strengthen the business of promoting DX in the office ・ Shift to cloud-based services for contact center systems • Strengthen contract production business	☼	• Capital and business alliance with NG Company to strengthen subscription business • Release of Iwatsu Cloud Communication Platform (April 2023) • Other measures are currently being explored for potential alliances.	¥0 million
New area development	• Initiatives in advanced technologies such as 5G-related technologies, energy, healthcare, materials, etc. • Expansion of IoT business through integration of information and communication technology and electronic measurement technology • Create new markets by applying chemical technology cultivated in the printing business	☼	• Local 5G-related technologies are being tested and demonstrated within the Group. • For the application of chemical technologies in areas such as electric printing, element evaluations are being conducted at Iwatsu Chemical Cross Co., Ltd.	-

Theme	Fiscal year ended March 31, 2023			Fiscal year ending March 31, 2024	Fiscal year ending March 31, 2026 (Final year of the medium-term management plan)	Rate of progress (A/B)
	Initial plan	Result (A)	Rate of achievement	Forecast	Plan (B)	
Growth of test and measurement equipment	¥30 million	¥0 million	- %	¥190 million	¥310 million	- %
Growth of business communication systems	¥0 million	¥0 million	- %	¥0 million	¥130 million	- %

Reclassification into the Standard Market Segment

In light of the changes in the business environment, it is determined that ensuring reliable compliance with the maintenance criteria of the Prime Market until the expiration of the Tokyo Stock Exchange's transitional measures is uncertain. Taking into consideration overall factors, including the interests of existing shareholders, an application has been made to select the Standard Market. Scheduled to transition on October 20, 2023.

● Non-compliant items in the Prime Market (as of December 31, 2022)

	Market Capitalization of Outstanding Shares	Daily Trading Volume
Listing Maintenance Criteria	¥10 billion	¥20 million
The Company's Status	¥4.49 billion*1	¥8 million*2

● Compliance status of the Standard Market (as of December 31, 2022)

	Market Capitalization of Outstanding Shares	Average Monthly Trading Volume
Listing Maintenance Criteria	¥1 billion	10 units
The Company's Status	¥4.49 billion*1	1,398 units*3

Future Direction

- **No change to the Plan for Compliance with Prime Market Listing Maintenance Criteria submitted in December 2021**
- **Continue to strive to be a company suitable for the Prime Market, focusing on maintaining high governance standards and actively disclosing information.**
- **No change to the medium-term management plan, REBORN. We aim to enhance corporate value through the achievement of our medium-term plan.**

*1 The stock price calculated by the Company is the average value of the closing prices from July 1st to the end of September 2022.
*2 The figure calculated by the Company for the period from January 1st to December 31st, 2021.
*3 The average monthly trading volume calculated by the Company is the average value for the period from January to the end of June 2022.

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Results for the Fiscal Year Ended March 31, 2023

Results for the Fiscal Year Ended March 31, 2023

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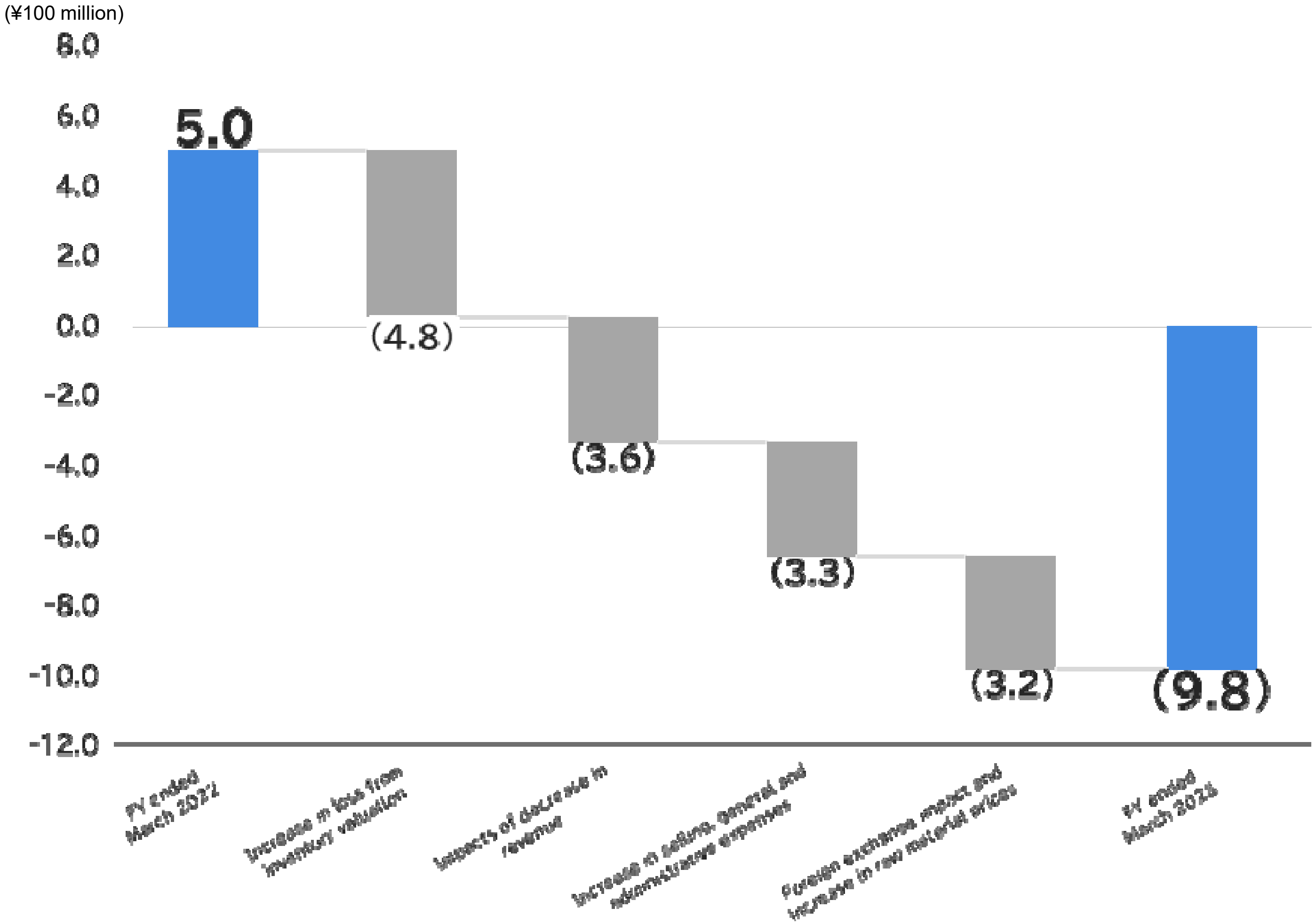
Despite signs of a recovery in social and economic activities, a decrease in revenue and profit compared to the same period last year was observed due to the increase in fuel prices, prolonged shortages of parts supply, and the increase in valuation losses on inventories for which advance arrangements were made.

(¥100 million)	Results for the fiscal year ended March 31, 2022	Results for the fiscal year ended March 31, 2023	Change from previous term	Forecast for the fiscal year ended March 31, 2023*	Compared to previous forecast
Revenue	231.8	229.0	(2.8) [(1.2%)]	230.0	(1.0) [(0.4%)]
Operating profit	5.0	(9.8)	(14.8) [-]	(9.9)	0.1 [-]
Ordinary profit	5.9	(9.1)	(15.0) [-]	(8.8)	(0.3) [-]
Profit attributable to owners of parent	5.9	(11.8)	(17.8) [-]	(8.8)	(3.0) [-]
ROE	2.4%	(4.8%)	(7.2%)	(3.6%)	(1.3%)

※ Announced on February 10, 2023

Analysis of Change in Operating Profit from Previous Term



Main causes of change

- **Increase in loss from inventory valuation: -¥480 million**
  Increased inventory valuation and losses by disposal due to advanced arrangements and convergence in preparation for difficulties in obtaining parts

- **Impacts of decrease in revenue: -¥360 million**
  Sales revenue decreased due to difficulty in procuring parts, postponement or cancellation of projects, and structural changes in revenue

- **Increase in selling, general and administrative expenses: -¥330 million**
  Personnel costs decreased by ¥120 million, but expenses increased by ¥450 million, mainly due to expenses related to the medium-term management plan measures

- **Foreign exchange impact and increase in raw material prices: -¥320 million**
  Cost of sales deteriorated due to the depreciation of the yen, difficulty in obtaining parts, and fuel price hikes

Analysis of Change in Operating Profit Compared to the Forecast at the Beginning of the Term

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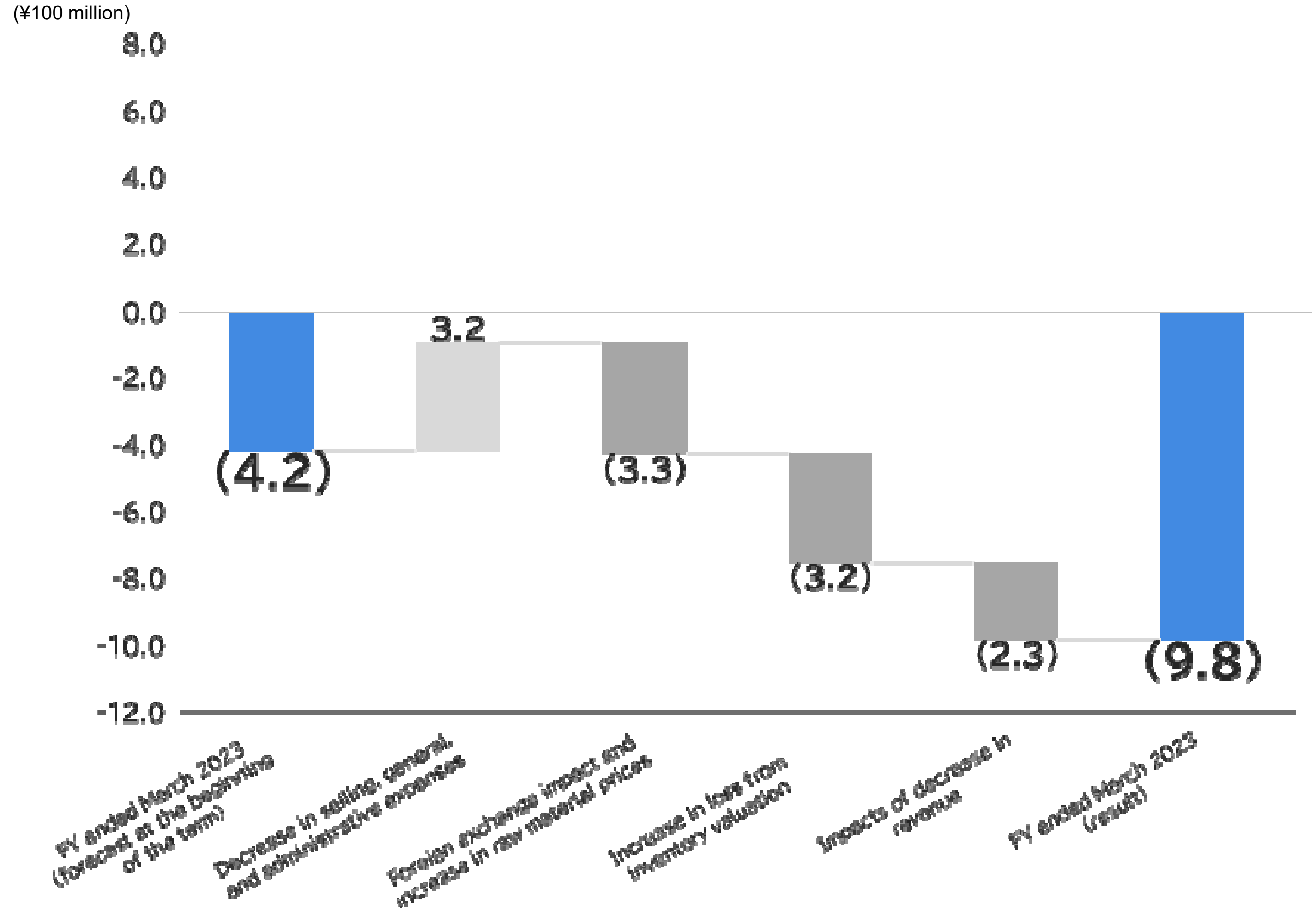

Main causes of change

- **Decrease in selling, general and administrative expenses: +¥320 million**
  Decreased due to lower personnel costs and expense containment
- **Foreign exchange impact and increase in raw material prices: -¥330 million**
  Cost of sales deteriorated due to the depreciation of the yen, difficulty in obtaining parts, and fuel price hikes
- **Increase in loss from inventory valuation: -¥320 million**
  Increased inventory valuation and losses by disposal due to advanced arrangements and convergence in preparation for difficulties in obtaining parts
- **Impacts of decrease in revenue: -¥230 million**
  Sales revenue decreased due to difficulty in procuring parts, postponement or cancellation of projects, and structural changes in revenue

Segment Overview: Business Communication Systems

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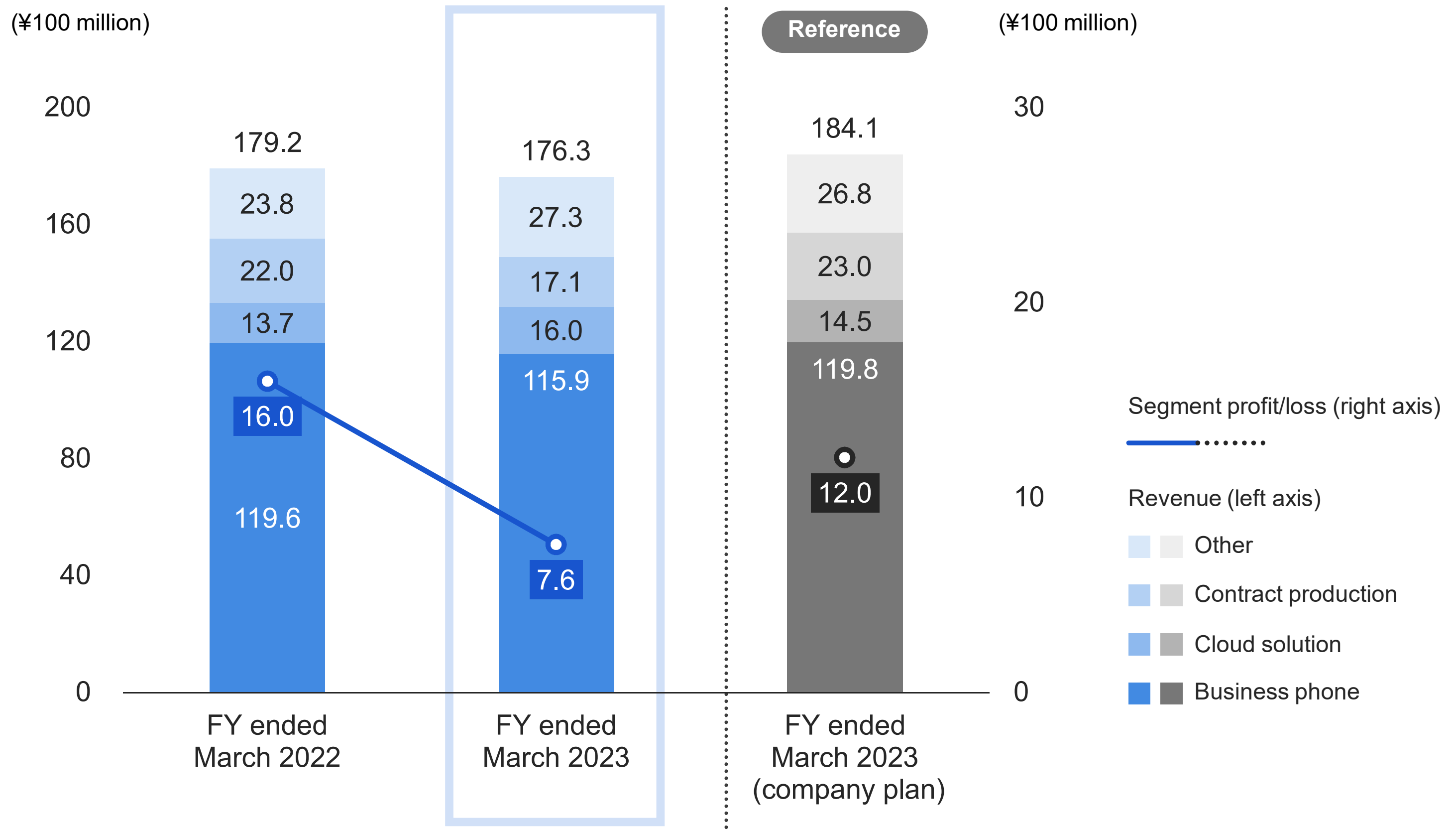
Revenue, Segment Profit/Loss



Main causes of change

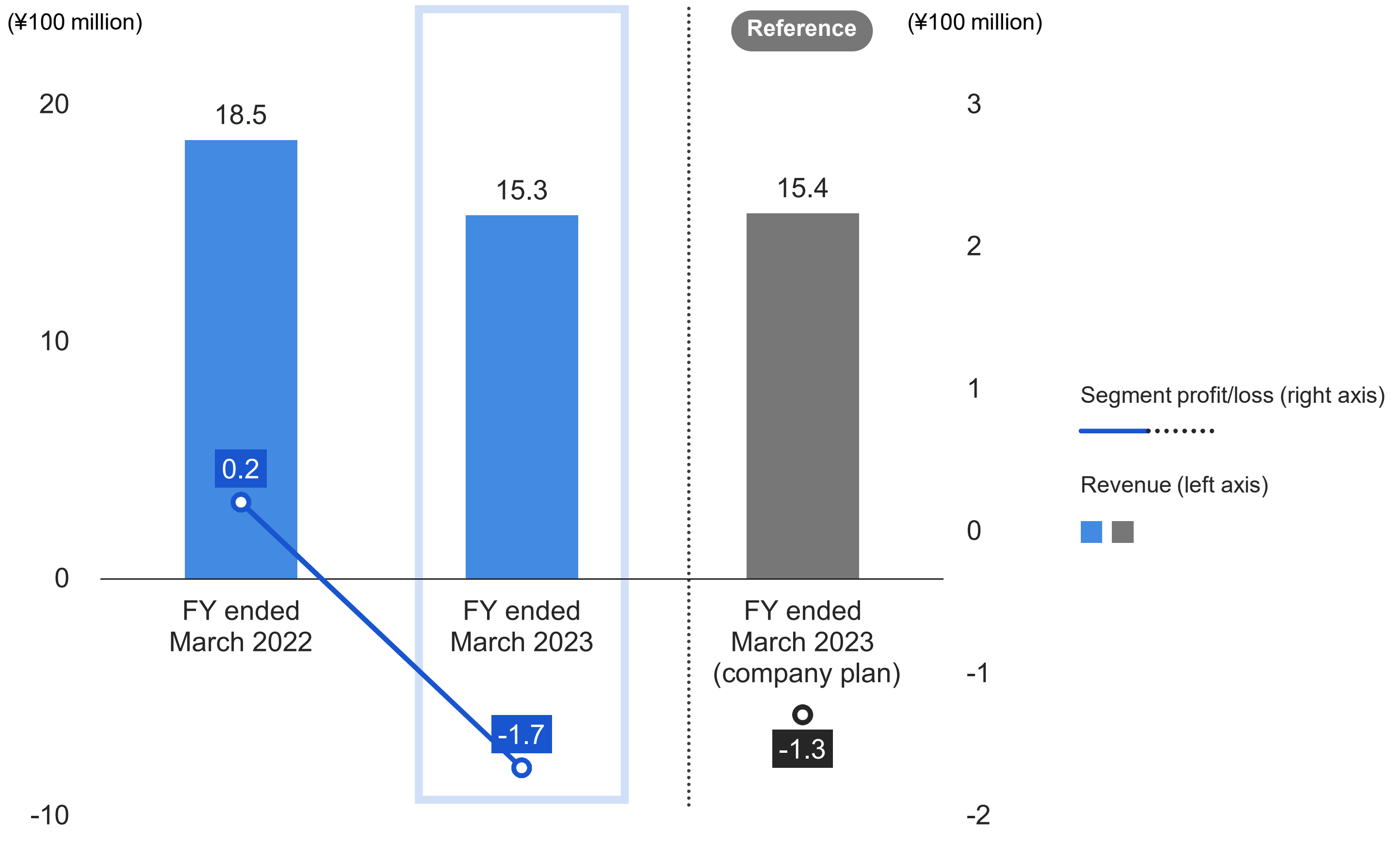
Revenue

Despite the increase in large-scale contract projects for cloud services and subsidiaries, revenue decreased to ¥17.63 billion due to a decrease in production from contract production by subsidiary companies and difficulties in parts supply for business phones caused by postponement or cancellation of projects. The change from previous term was a decrease by 1.6%.

Segment profit/loss

Segment profit was ¥760 million, a decrease by 52.5% year on year, due to the increased inventory valuation and losses by disposal due to advanced arrangements and convergence in preparation for increasing fuel price or difficulties in obtaining them.

Revenue, Segment Profit/Loss



Main causes of change

- **Revenue**
  Due to a decrease in domestic consumables sales in reaction to a last-minute rush of demand before the price revision at the end of the previous fiscal year amid a stagnant market trend in the overall market, revenue was ¥1.53 billion, a decrease of 17.1% year on year.
- **Segment profit/loss**
  With the increase in the disposal of inventories due to business restructuring, segment profit was at a loss of ¥170 million, a decrease of ¥190 million year on year.

Segment Overview: Test and Measurement Equipment

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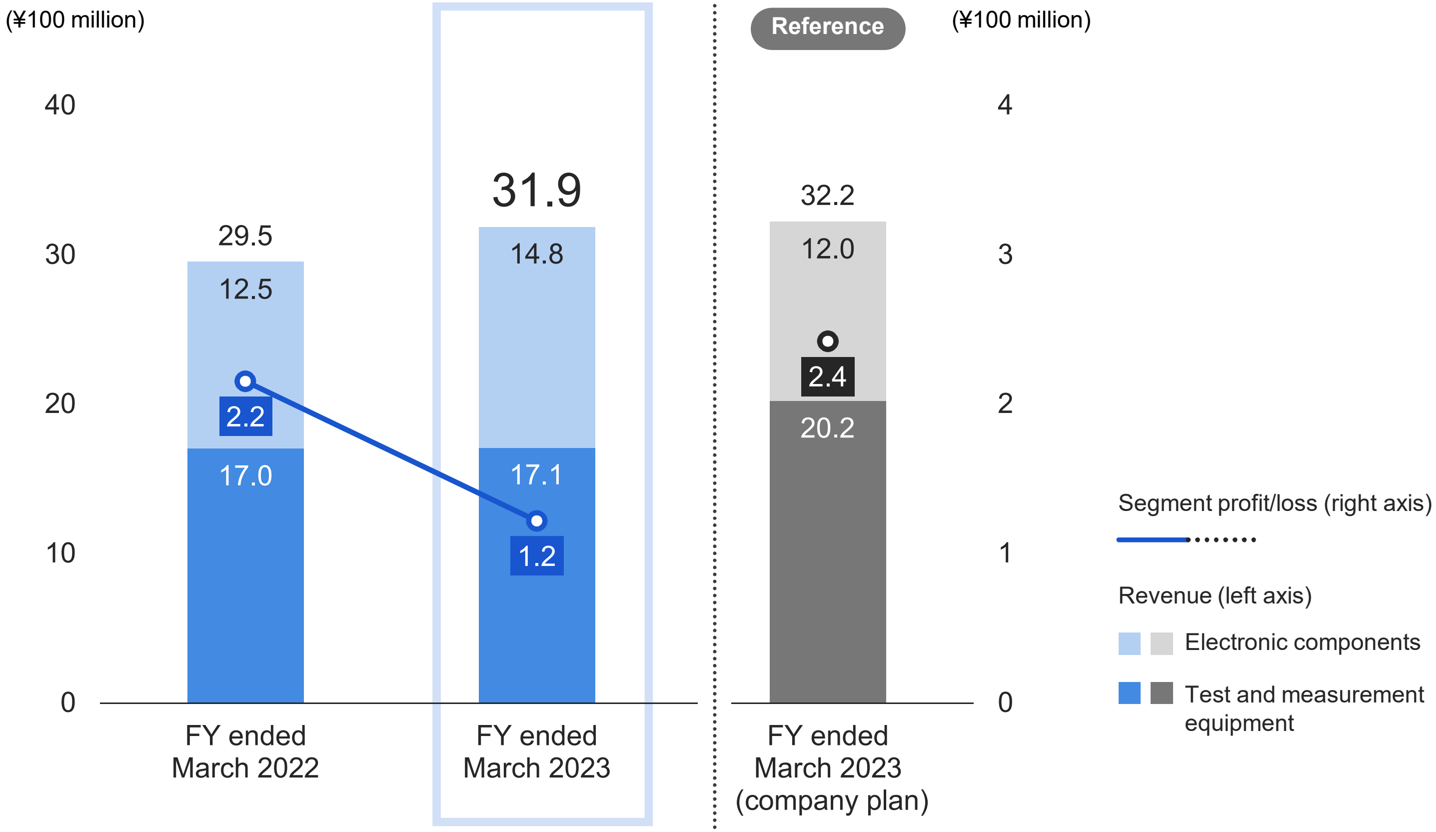
Revenue, Segment Profit/Loss



Main causes of change

- **Revenue**

  Revenue was ¥3.19 billion, an increase of 8.0% year on year, due to the increased backlog of orders of electronic components, caused by global procurement difficulties.

- **Segment profit/loss**

  Segment profit was ¥120 million, a decrease of 43.4% year on year, due to increased inventory valuation and losses by disposal due to advanced arrangements and convergence in preparation for difficulties in obtaining parts.

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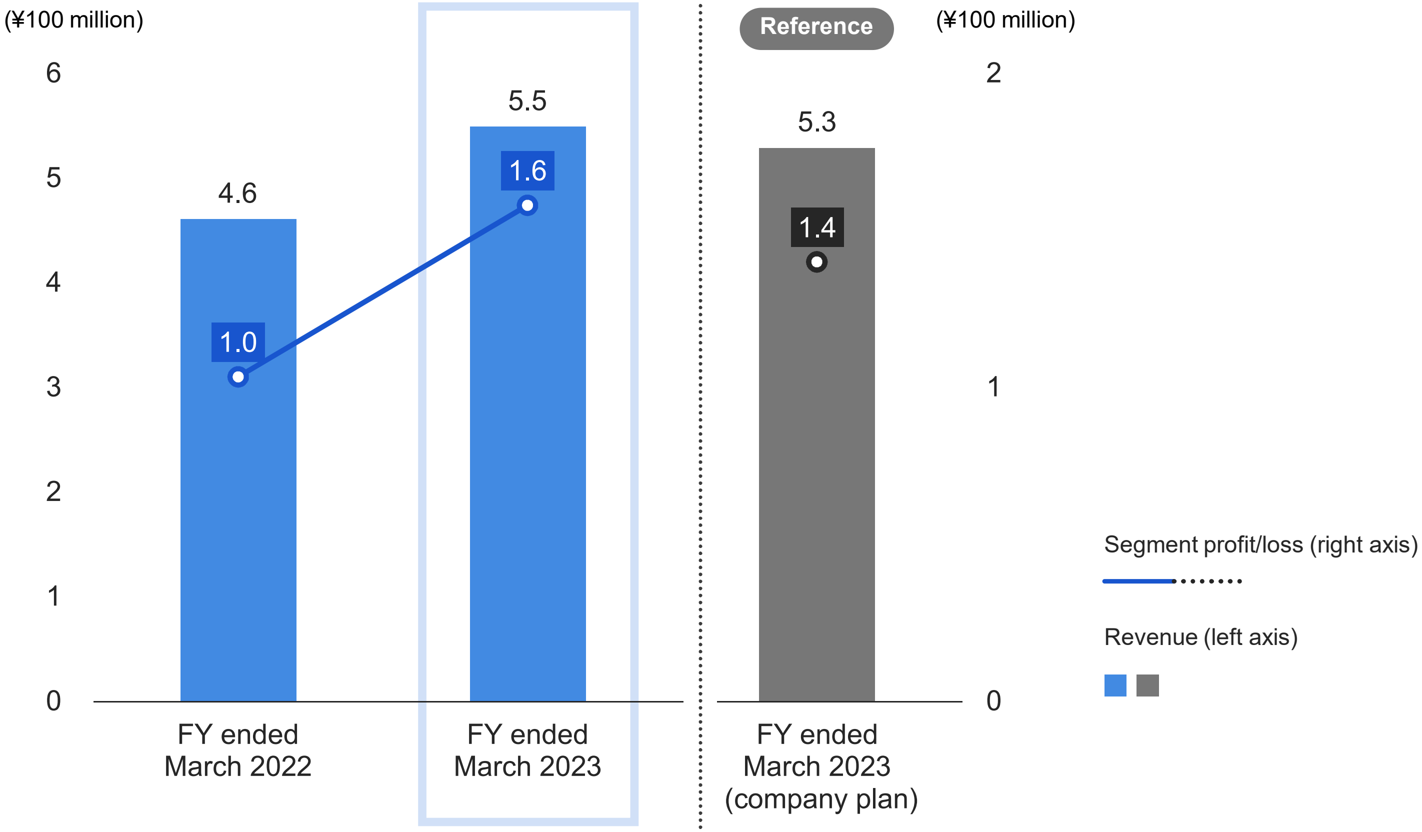
Revenue, Segment Profit/Loss



Main causes of change

- **Revenue**
  Due to improved occupancy rates in properties for lease, revenue was ¥550 million, an increase of 19.2% year on year.
- **Segment profit/loss**
  Due to the increase in revenue, segment profit was ¥160 million, an increase of 52.8% year on year.

Consolidated Balance Sheet

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(¥100 million)	Fiscal year ended March 31, 2022	Fiscal year ended March 31, 2023	Change from previous year
Current assets	172.3	168.8	(3.5)
Non-current assets	192.0	184.4	(7.7)
Total assets	**364.4**	**353.2**	**(11.2)**
Current liabilities	42.8	41.3	(1.5)
Non-current liabilities	68.0	70.1	+2.0
Total liabilities	**110.8**	**111.4**	**+0.6**
Net assets	**253.6**	**241.8**	**(11.8)**
Total liabilities and net assets	**364.4**	**353.2**	**(11.2)**

Main causes of change

- **Current assets: -¥350 million**
  Cash and deposits: -1040
  Accounts receivable-trade: -440
  Raw materials and supplies: +650
  Work in process: +370
  Other: +100 etc.
- **Non-current assets: -¥770 million**
  Property, plant and equipment: -550
  Intangible assets: -410
  Investments and other assets: +190
- **Current liabilities: -¥150 million**
  Accounts payable - other: -220
  Notes and accounts payable-trade: -180
  Contractual liabilities: +260
  Other: -0 etc.
- **Non-current liabilities: +¥200 million**
  Retirement benefit liability: +130
  Other: +70 etc.
- **Net assets: -¥1180 million**
  Retained earnings: -1430
  Unrealized securities valuation differences: +180, etc.

Consolidated Statement of Cash Flows

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Cash and cash equivalents were ¥4.67 billion, down ¥1.09 billion from the end of the previous fiscal year.

(¥100 million)	Fiscal year ended March 31, 2022	Fiscal year ended March 31, 2023	Change from previous term
Cash flows from operating activities	13.1	(4.4)	(17.6)
Cash flows from investing activities	(5.4)	(4.7)	+0.8
Free cash flows	7.6	(9.1)	(16.8)
Cash flows from financing activities	(4.0)	(2.1)	+2.0
Cash and cash equivalents	57.5	46.7	(10.9)

Major breakdown items

- **Cash flows from operating activities: -¥440 million**
  Loss before income taxes: -1160
  Depreciation: +1060
  Impairment loss: +270
  Decrease in trade receivables: +600
  Increase in inventories: -1040
  Decrease in trade payables: -200, etc.
- **Cash flows from investment activities: -¥470 million**
  Purchase of property, plant and equipment: -290
  Expenditure on time deposits: -190, etc.
- **Cash flows from financing activities: -¥210 million**
  Dividends paid: -250, etc.

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Forecast for the Fiscal Year Ending March 31, 2024

Forecast for the Fiscal Year Ending March 31, 2024

IWATSU

Anticipating recovery of social and economic activities and gradual recovery in the parts supply environment, increases in revenue and profits are expected considering production and sales of inventories, which incurred valuation losses in the current fiscal term.

(¥100 million)	Results for the fiscal year ended March 31, 2023	Forecast for the fiscal year ending March 31, 2024	Change from previous term (%)
Revenue	229.0	236.0	+7.0 [+3.1%]
Operating profit	(9.8)	5.0	+14.8 [-]
Ordinary profit	(9.1)	6.0	+15.1 [-]
Profit attributable to owners of parent	(11.8)	5.0	+16.8 [-]
ROE	(4.8%)	2.0%	+6.8%

Revenue

- Anticipating the recovery of social and economic activities, increase in revenue is expected.

Operating profit
Ordinary profit
Profit

- Anticipating a gradual recovery of parts supply, increases in revenue and profits are expected considering production and sales of inventories that incurred valuation losses in the current fiscal term.
- This includes the expected effects of the review of parts procurement methods implemented in the current fiscal term and improvement in profit and loss from price transfer.

Forecast for the Fiscal Year Ending March 31, 2024: By Segment

IWATSU

(¥100 million)		Results for the fiscal year ended March 31, 2023	Forecast for the fiscal year ending March 31, 2024	Change from previous term	Main causes of change
Business communication systems	**Revenue**	176.3	179.6	+3.3	Increased revenue and profit are expected, based on a decrease in loss from inventory valuation due to improvement in the parts supply environment and the effects of price transfer.
	Segment profit/loss	**7.6**	**16.4**	+8.8	
Printing systems	**Revenue**	15.3	15.4	+0.1	In the process of business transformation centered on chemical technology, revenue is expected to be nearly in line with the previous fiscal year, and profit is expected to improve due to the effects of restructuring.
	Segment profit/loss	**(1.7)**	**(0.5)**	+1.2	
Test and measurement equipment	**Revenue**	31.9	33.3	+1.5	Increased revenue and profit are expected due to an expected increase in demand mainly for power electronics related products.
	Segment profit/loss	**1.2**	**4.1**	+3.0	
Property leasing	**Revenue**	5.5	7.8	+2.3	An increase in revenues is expected due to leasing income from anonymous associations.
	Segment profit/loss	**1.6**	**1.9**	+0.3	
Adjustment amount		-	-	-	Expected effects from cost containment
	Selling, general and administrative expenses	(18.5)	**(17.0)**	+1.5	
Total	**Revenue**	229.0	236.0	+7.0	-
	Operating profit	**(9.8)**	**5.0**	+14.8	

Analysis of Change in Operating Profit

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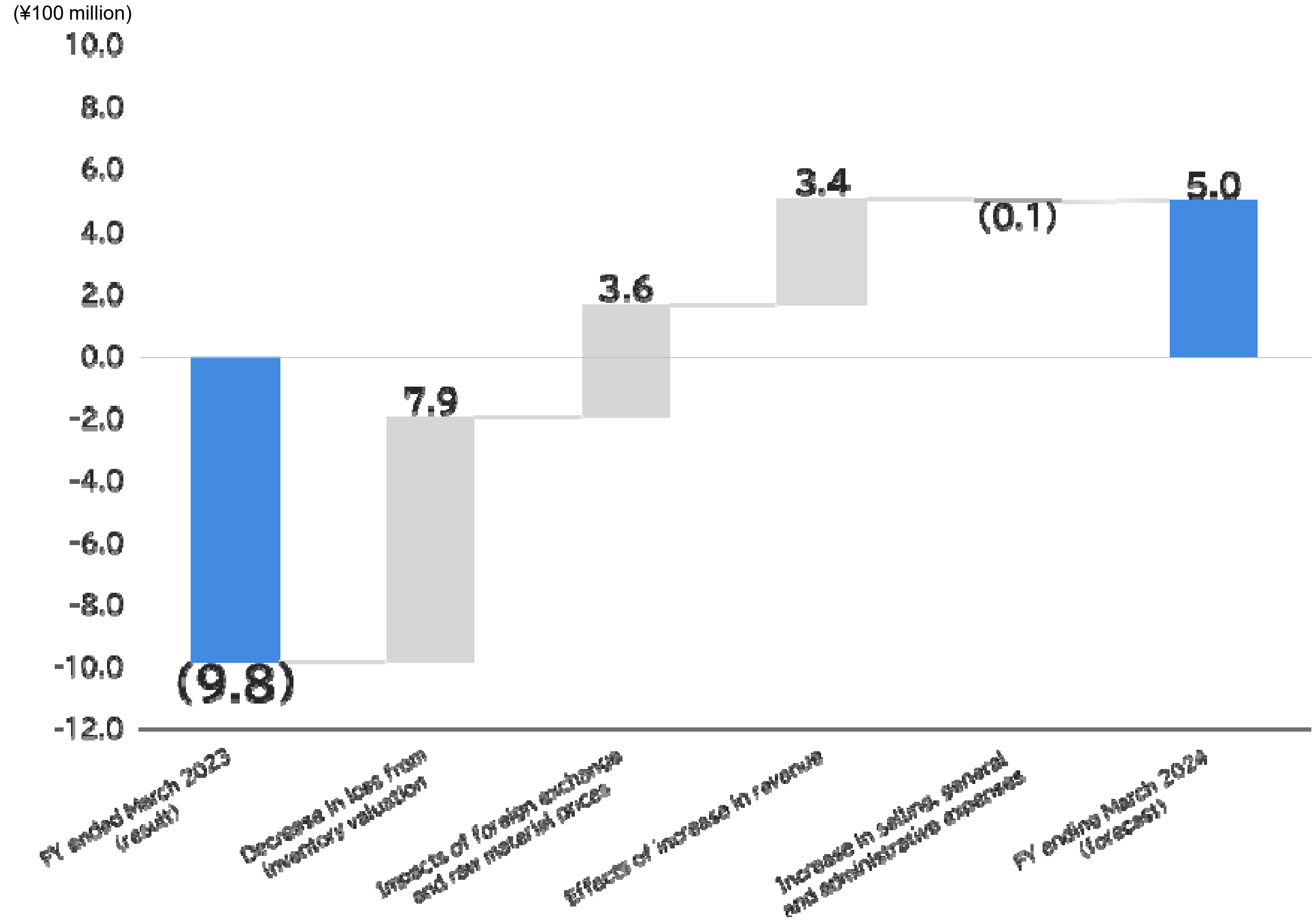

Main causes of change

- **Decrease in loss from inventory valuation: +¥790 million**
  Decreased due to the production and sales of inventories that incurred valuation losses in the current fiscal term.

- **Foreign exchange impact and effect of raw material prices: +¥360 million**
  Progress is expected in yen depreciation and the gradual resolution of the parts supply shortage.

- **Effects of increase in revenue: +¥340 million**
  Expected increase is due to revenue increases mainly in the Business communication systems segment and the impact of structural changes, as well as the effects of price transfer.

- **Increase in selling, general and administrative expenses: -¥10 million**
  The expected increase is nearly in line with the previous fiscal year due to an increase in selling, general and administrative expenses resulting from an increase in revenue, against a decrease in expenses associated with the restructuring of the printing business and a decrease in expenses related to the medium-term management plan.

Dividend Forecast

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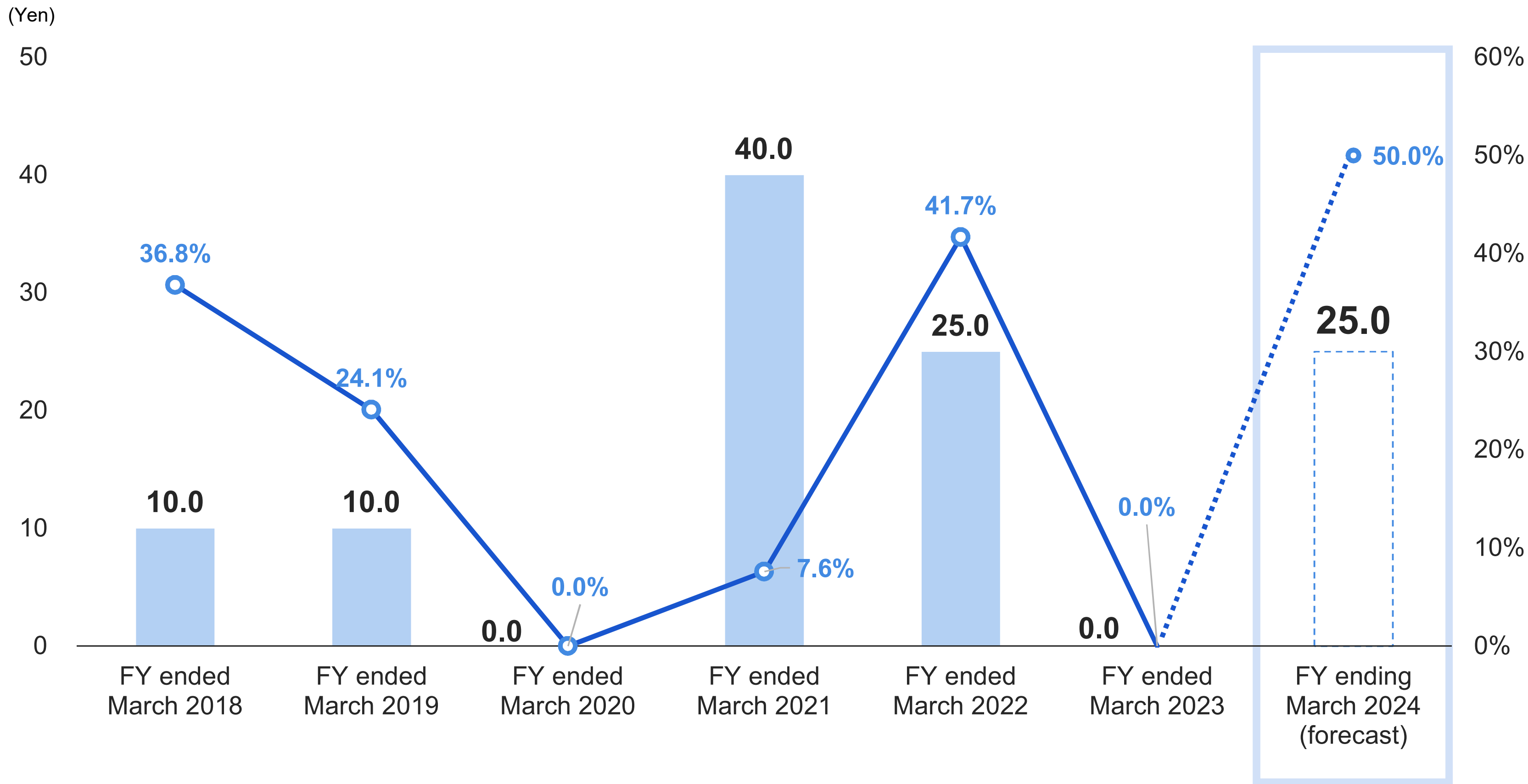
Through a scheduled 25 yen per share dividend for the fiscal year ending March 31, 2024 as part of our efforts to achieve the medium-term management plan, the Company will make concerted group-wide efforts to further enhance corporate value and strengthen shareholder returns.



Forecasts of Capital Investment/R&D Expenses/Depreciation

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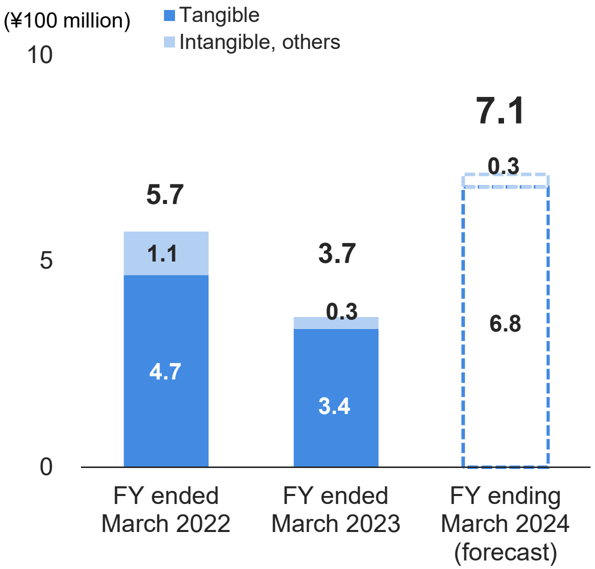
Capital Investment



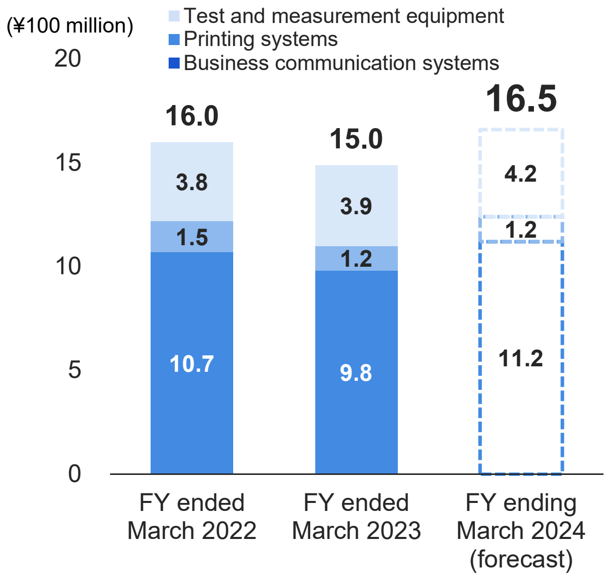
Fiscal year ended March 31, 2023

- Decrease in tangible mainly due to lower capital investment
- Decrease in intangible, others due to no development of main products

Fiscal year ending March 31, 2024

- Tangible, intangible and others forecast to increase ¥350 million compared to the previous fiscal year

R&D Expenses



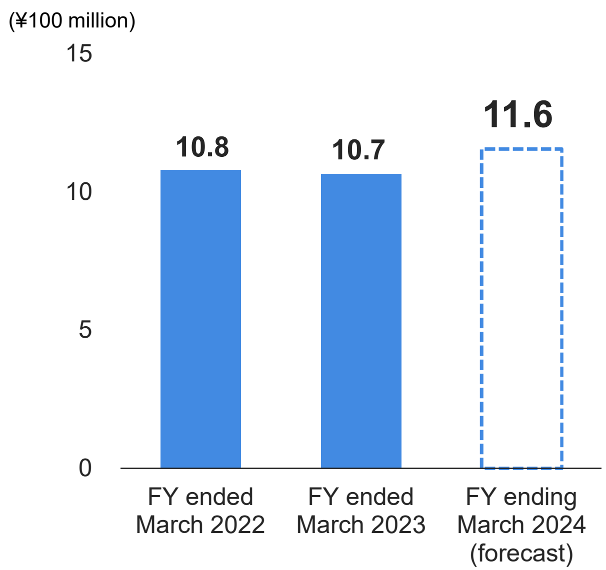
Fiscal year ended March 31, 2023

- Results to decrease ¥100 million compared to the previous fiscal year

Fiscal year ending March 31, 2024

- Forecast to increase ¥150 million compared to the previous fiscal year

Depreciation



Fiscal year ended March 31, 2023

- Generally in line with the previous fiscal term

Fiscal year ending March 31, 2024

- Forecast to increase ¥90 million compared to the previous fiscal year due to increased capital investment

Caution Regarding Forward-Looking Information

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.