# Explanatory Materials for Financial Results

## Six Months Ended September 30, 2023

IWATSU ELECTRIC CO., LTD. | November 10, 2023

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1. Financial Highlights/Progress of Medium-term Management Plan
2. Results for the Six Months Ended September 30, 2023
3. Forecast for the Fiscal Year Ending March 31, 2024

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# Financial Highlights/Progress of Medium-term Management Plan

# Financial Highlights for the Six Months Ended September 30, 2023

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| Revenue | Operating profit | Profit attributable to owners of parent | ROE |
|---|---|---|---|
| ¥10.02 billion | ¥(0.63) billion | ¥0.30 billion | 1.2% |
| YoY -8.5% [¥(0.93) billion] | YoY –% [¥(0.13) billion] | YoY –% [+¥0.77 billion] | YoY +3.1% |

**External Environment**

- The outlook is uncertain because high prices due to fuel prices remaining high and the depreciation of the yen are affecting consumption.
- On the other hand, the normalization of economic activities has been advanced as the COVID-19 pandemic transitioned to the fifth category.

**Major Impacts on Business**

**Business communication systems**

Despite improvement in the components supply environment, difficulty in procuring certain parts continued.

The domestic communication equipment market remained sagging, affecting inventory adjustment of distributors, deferred capital investment, etc.

**Printing systems**

The overall printing market experienced a shrinking trend due to advancement of paperless working practices because of environment conservation and an increased awareness of cost reduction.

Shift to businesses focusing on products that apply chemical technology cultivated in the printing business.

**Test and measurement equipment**

Orders for power electronics-related products increased due to rising environmental awareness.

Demand for electronic components, which temporarily increased in the previous fiscal year, was normalized due to improvement in the supply chain.

**Property leasing**

Although the office vacancy rate was on the rise, rental property held was operated steadily.

Rental residential apartments obtained by an anonymous association that is a consolidated subsidiary were also operated smoothly.

# Progress of Medium-term Management Plan

Tier 1 Thorough reduction of fixed costs

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**There is no major problem in both tier 1 and tier 2 at the moment. However, since a delay has arisen in some measures, each will take countermeasures and work toward the achievement of the plan for the final fiscal year.**

| Theme | Contents | State of progress | The amount of operating profit improvement for the fiscal year ending March 31, 2024 (Plan) |
|---|---|---|---|
| **Cost reduction of Kugayama Headquarters** | • Reduction of property maintenance costs for Kugayama Headquarters, etc.<br>• Improved efficiency of indirect operations (Review of operations through the introduction of ERP, etc.) | The new ERP started operation in May 2023 to promote improvement in efficiency of operations. It is on track compared to the plan. | ¥0 million |
| **Improved efficiency of production** | • Improved efficiency of production system with multiple locations<br>• Improvement of product organization and purchasing methods<br>• Improved production efficiency through factory DX, etc. | Completed transfer of all shares of Iwatsu (Malaysia) (a manufacturing subsidiary) in September 2023. Although the production of business communication systems was consolidated into domestic factories and the improvement in production efficiency is being promoted, it is somewhat behind the plan. | ¥70 million |
| **Improved efficiency of development** | • Reduction of obsolete parts support<br>• Commonization of multiple business phone architectures, etc.<br>• Reduction of outsourcing costs by increasing inhouse production | Measures are mostly progressing to plan, and the examination of a common architecture of business phones was finished. It will be adopted for development in next fiscal year. We are also promoting a common development environment for business phones. | ¥0 million |
| **Review of business profitability** | • Review of printing business operations | Iwatsu Chemical Cross is expanding businesses utilizing chemical technology in addition to the existing printing business. Commercialization takes time, but operational changes are progressing steadily. | ¥0 million |

# Progress of Medium-term Management Plan

**Tier 2** Promote growth strategies through business selection and concentration and alliances

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| Theme | Contents | State of progress | The amount of operating profit improvement for the fiscal year ending March 31, 2024 (Plan) |
|---|---|---|---|
| **Growth of test and measurement equipment** | • Accelerate overseas expansion (China, Europe, America) with a focus on instrumentation in the power electronics-related field<br>• Expand lineup of power electronics-related products | ● Decided to take a stake in a German probe maker, a collaborator with which the Company already established a joint venture. While we are accelerating expansion of sales in Europe, entry into the North American market, and promotion of joint development, among others, based on this strengthened relationship, there is a slight delay in the progress compared to the plan. | ¥190 million |
| **Growth of business communication systems** | • Strengthen subscription business<br>・Strengthen the business of promoting DX in the office<br>・Shift to cloud-based services for contact center systems<br>• Strengthen contract production business | ● The shift to cloud-based services remains steady through the release of in-house Cloud Communication Platform Blue Commpaas in April 2023, etc.<br>● As part of strengthening of the contract production business, we are pushing forward with ODM production entrusted with by new outsourcing contractors. | ¥0 million |
| **New area development** | • Initiatives in advanced technologies such as 5G-related technologies, energy, healthcare, materials, etc.<br>• Expansion of IoT business through integration of information and communication technology and electronic measurement technology<br>• Create new markets by applying chemical technology cultivated in the printing business | ● Local 5G-related technologies are being tested and demonstrated within the Group.<br>● Jointly researching with The University of Electro-Communications cutting-edge material technology (radio wave reflector using transparent conductive materials).<br>● For the application of chemical technologies in areas such as electric printing, we are considering collaboration and commercialization. Commercialization requires time, but it is progressing steadily. | |

# Topics ①

## Capital participation in a German probe maker
## Accelerate overseas expansion with a focus on the power electronics-related field in the test and measurement equipment, which is expected to grow

**The Company decided to take a stake in Heimann Industries AG (hereinafter referred to as Heimann), a German probe maker.**

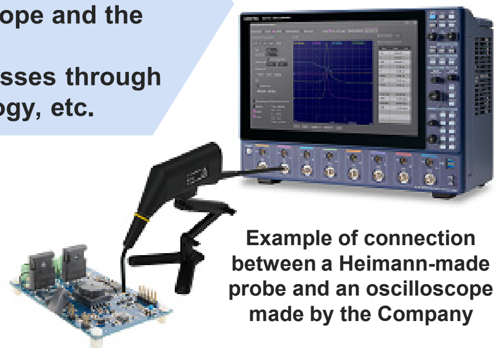
**Heimann is a probe maker headquartered in Germany and also has a business location in the US. The Company and the Heimann Group have transactions in import and sale of the said company's products and export and sale of the Company's products for Europe for 15 years or more, and have built a collaborative relationship through the joint establishment of the sales company "IWATSU TEST INSTRUMENTS EUROPE GmbH" in 2020 and other means.**

**We will strengthen this relationship through the capital participation, and strive to accelerate sales expansion of our measurement products in Europe and the US with Heimann's bases as a stepping stone, and furthermore improve competitiveness of our products by stably securing high-performance probes of Heimann.**

### ■Major collaborative measures

1. Strengthening of product appeal of electronic measurement equipment for the power electronics market
2. Strengthen of sales capabilities and development capabilities in Europe and the US
3. Market cultivation in new areas other than Europe and the US
4. Strengthening of the ability to promote businesses through mutual marketing support, sharing of technology, etc.

Heimann-made probe



Example of connection between a Heimann-made probe and an oscilloscope made by the Company

### ■Overview of Heimann

| | |
|---|---|
| Headquarters Address | Bad Soden am Taunus, Hessen, Germany |
| Representative | Mark Heimann |
| Established | Established in 2008 as the holding company of PMK (PMK, which is an operating company, was established in 1991) |
| Details of Business | Development, manufacturing and sale of probes for oscilloscopes<br>(its own products are sold under PMK brand) |
| Capital | EUR 100,000 |

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## Continue to focus on “pursuing increased corporate value and sustainable growth through the promotion of ESG management,” one of basic policies of the medium-term management plan

### Status of measures to promote ESG management

**September 2023**

### Participated in the TNFD (Taskforce on Nature-related Financial Disclosures) Forum

Going forward, the Company will assess risks and opportunities that its business activities give nature capital and biodiversity, and work on proper information disclosure of them

TNFD Forum Member

**September 2023**

### Published “Sustainability Report FY2023”

Continuing from FY2022, we will advance the disclosure of sustainability policies and initiatives from an ESG perspective and report on ESG in a unified manner.


**October 2023**

### Obtained SBT certification by SBTi (Science Based Targets initiative)

Certified since the Group’s greenhouse gas emission reduction targets are regarded as “science-based reduction targets to limit the increase in average global temperature to 1.5°C above pre-industrial levels, as set in the Paris Agreement.”

SCIENCE BASED TARGETS
DRIVING AMBITIOUS CORPORATE CLIMATE ACTION

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# Results for the Six Months Ended September 30, 2023

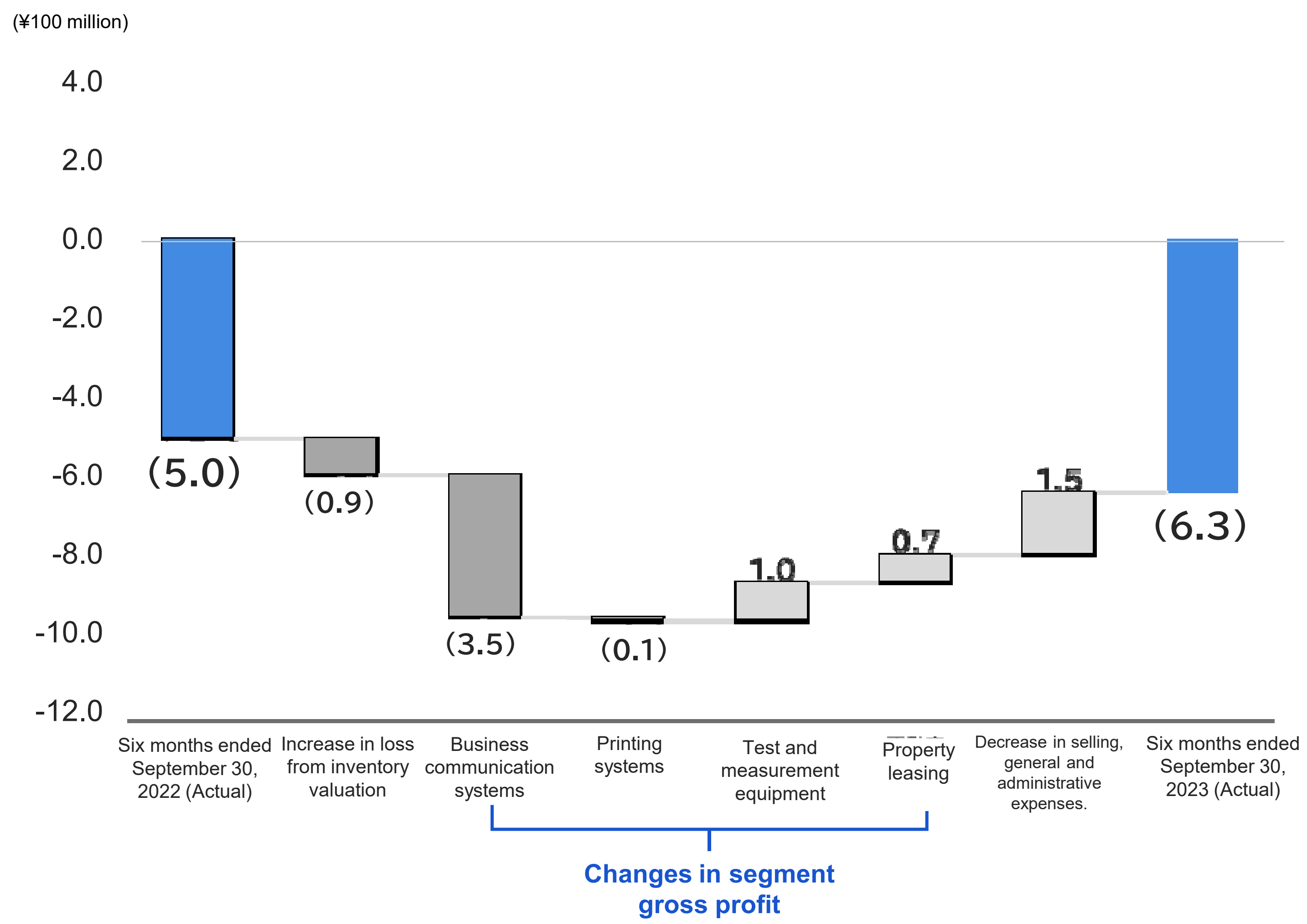
# Results for the Six Months Ended September 30, 2023

- Given effects of exclusion of two consolidated subsidiaries from consolidation, revenue was almost at the level of the company plan, despite a year-on-year decrease in revenue
- Operating and ordinary profits decreased year on year and compared to company plan due to a rise in valuation loss on raw materials, etc. of which delivery increased as a result of improvement in the components supply environment
- Profit attributable to owners of parent increased year on year and compared to company plan due to the recording of gain on sale of shares of subsidiaries and associates

| (¥100 million) | Results for the six months ended September 30, 2022 | Results for the six months ended September 30, 2023 | Year-on-year | Company plan for the six months ended September 30, 2023* | Contrast with plan |
|---|---|---|---|---|---|
| Revenue | 109.5 | 100.2 | (9.3) [(8.5%)] | 105.4 | (5.3) [(5.0%)] |
| Operating profit | (5.0) | (6.3) | (1.3) [ – ] | (4.3) | (2.0) [ – ] |
| Ordinary profit | (4.6) | (6.2) | (1.6) [ – ] | (3.6) | (2.7) [ – ] |
| Profit attributable to owners of parent | (4.6) | 3.0 | +7.7 [ – ] | (3.3) | +6.3 [ – ] |
| ROE | (1.9%) | 1.2% | +3.1% | (1.4%) | +2.6% |

* Planned figures for the six months ended September 30, 2023 have not been disclosed at the beginning of the fiscal year.
* Announced on May 15, 2023

# Analysis of Change in Operating Profit from Previous Term




## Main causes of change

- **Increase in loss from inventory valuation: -¥90 million**
  Increase in valuation loss on raw materials, etc. delivered as a result of overall improvement in the components supply environment
- **Decrease in selling, general and administrative expenses: +¥150 million**
  Personnel costs and expenses decreased by ¥140 million and ¥10 million, respectively, due to promotion of improved efficiency
- **Changes in segment gross profit (total): -¥190 million**
  **Reference: "Segment Overview" section**

# Analysis of Change in Operating Profit Compared to Company Plan

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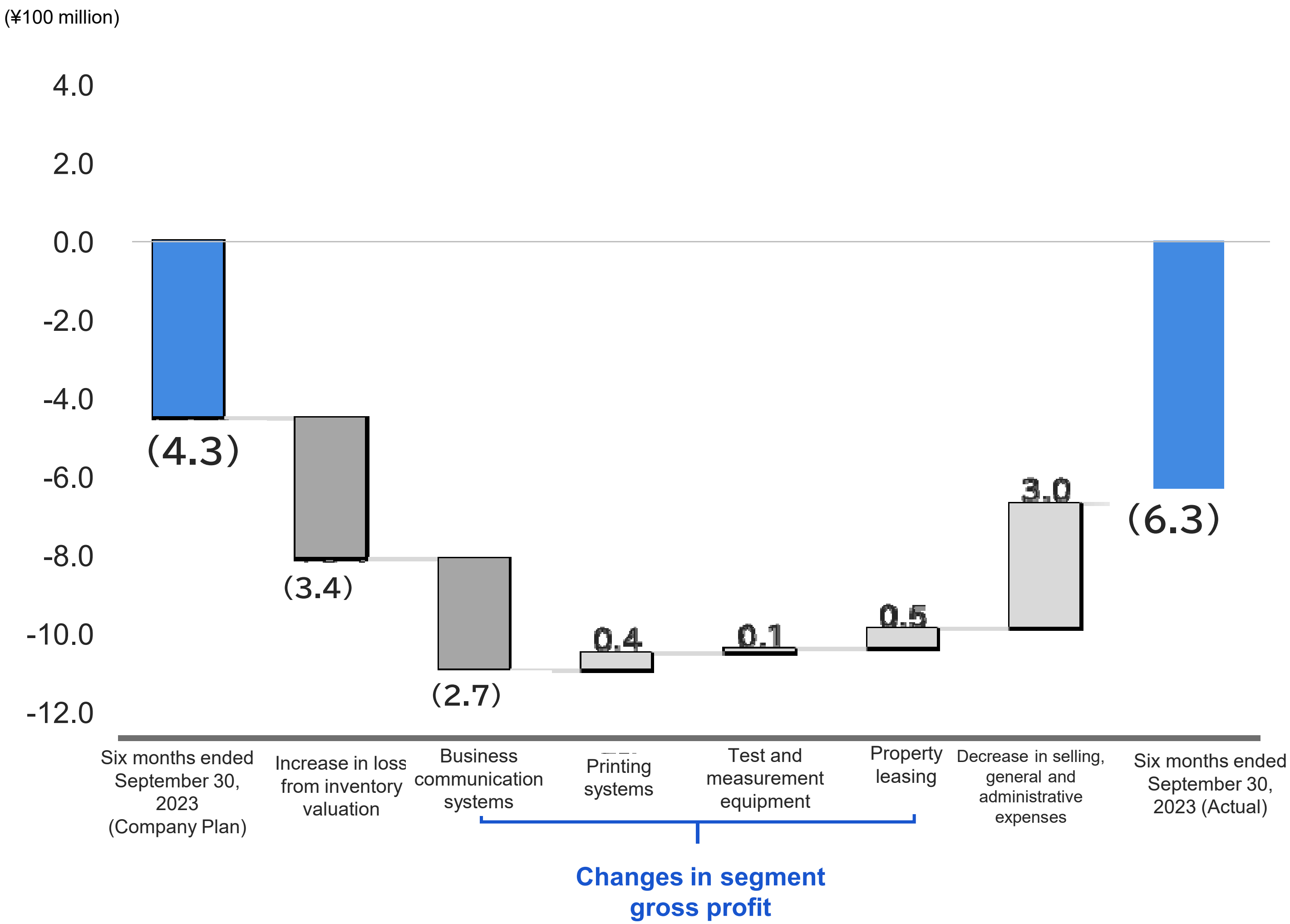


## Main causes of change

- **Increase in loss from inventory valuation:**
  **-¥340 million**
  Valuation loss on raw materials, etc. delivered as a result of overall improvement in the components supply environment increased significantly
- **Decrease in selling, general and administrative expenses:**
  **+¥300 million**
  Expenses and personnel costs decreased by ¥150 million and ¥150 million, respectively, due to promotion of improved efficiency
- **Changes in segment gross profit (total):**
  **-¥170 million**
  **Reference: "Segment Overview" section**

# Segment Overview: Business Communication Systems

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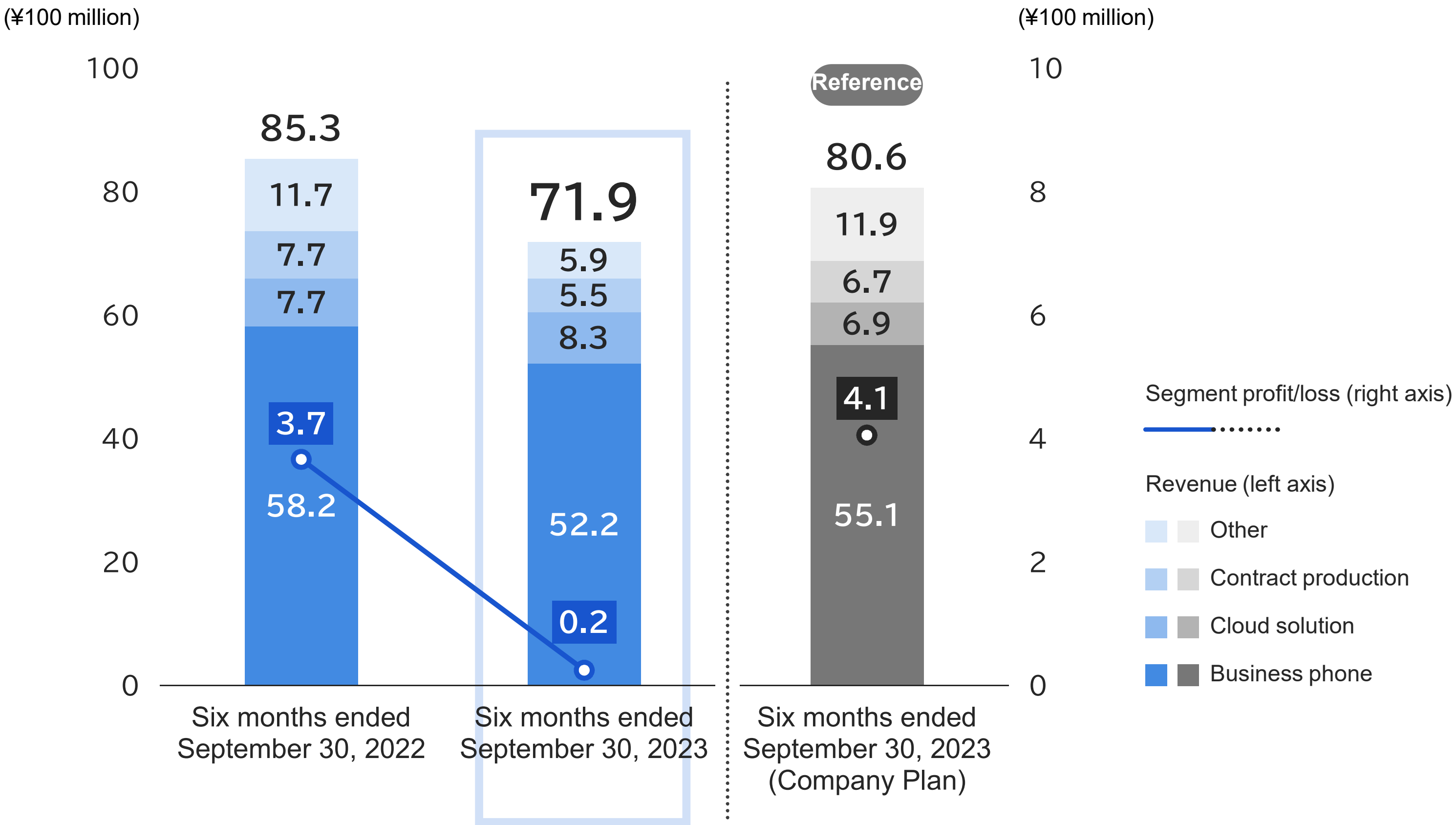
## Revenue, Segment Profit/Loss




## Main causes of change

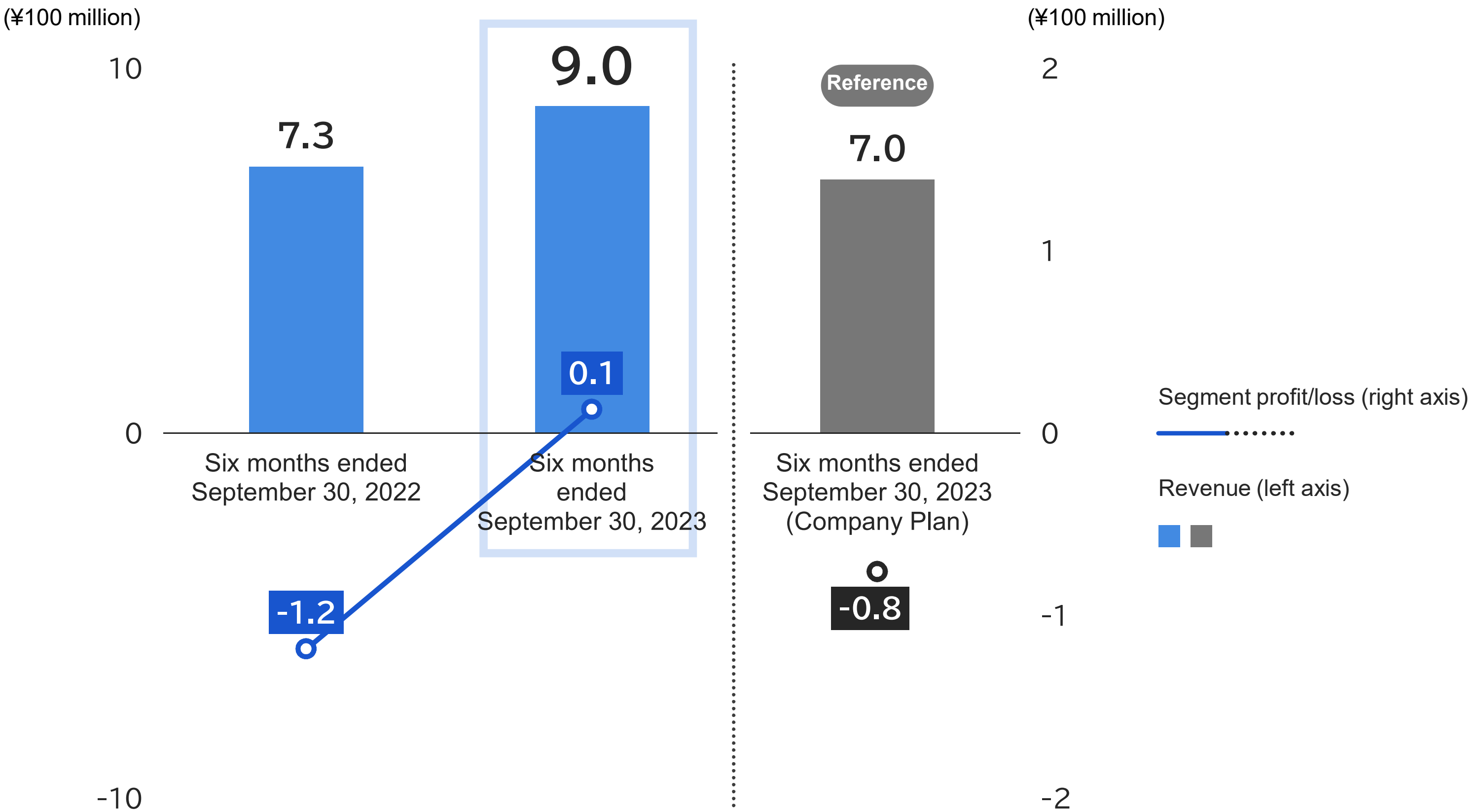
### Revenue

Revenue was ¥7,190 million, a decrease of 15.7% year on year due to a decrease in sales of business phones and in production from contract production by manufacturing subsidiaries as a result of extension of work period of projects and difficulty in procuring specific parts, etc., in addition to exclusion of two consolidated subsidiaries from consolidation through share transfer while demand for cloud services increased

### Segment profit/loss

Segment profit was ¥20 million, a decrease of 93.3% year on year, due to a decline in revenue and an increase in valuation loss on raw materials, etc. of which delivery grew as a result of improvement in the components supply environment

## Revenue, Segment Profit/Loss




### Main causes of change

- **Revenue**
  Revenue was ¥900 million, an increase of 22.1% year on year, mainly due to a rise in domestic consumables demand before the price revision from September of this year
- **Segment profit/loss**
  Segment profit was ¥10 million, an increase of ¥130 million year on year, due to a rise in revenue and a decline in valuation loss in the current fiscal term as a result of implementing the liquidation of products in the previous fiscal term in association with business restructuring

# Segment Overview: Test and Measurement Equipment

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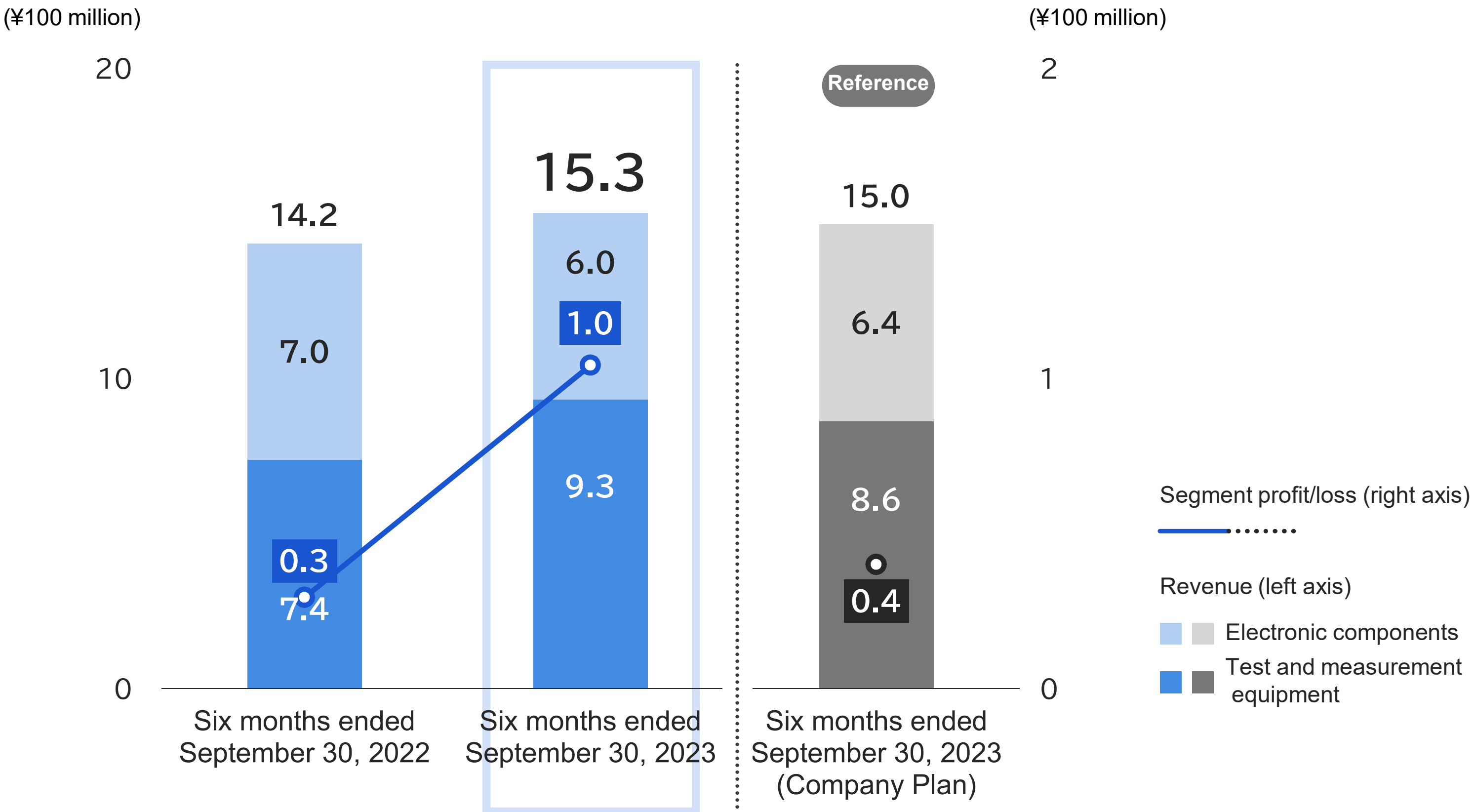
## Revenue, Segment Profit/Loss




### Main causes of change

- **Revenue**
  Revenue was ¥1,530 million, an increase of 8.1% year on year, mainly due to a growth in demand for power electronics-related products against a backdrop of rising environmental awareness
- **Segment profit/loss**
  Segment profit was ¥100 million, an increase of 254.3% year on year, due to a rise in revenue from sales of power electronics-related products whose profit ratio is high

# Segment Overview: Property Leasing

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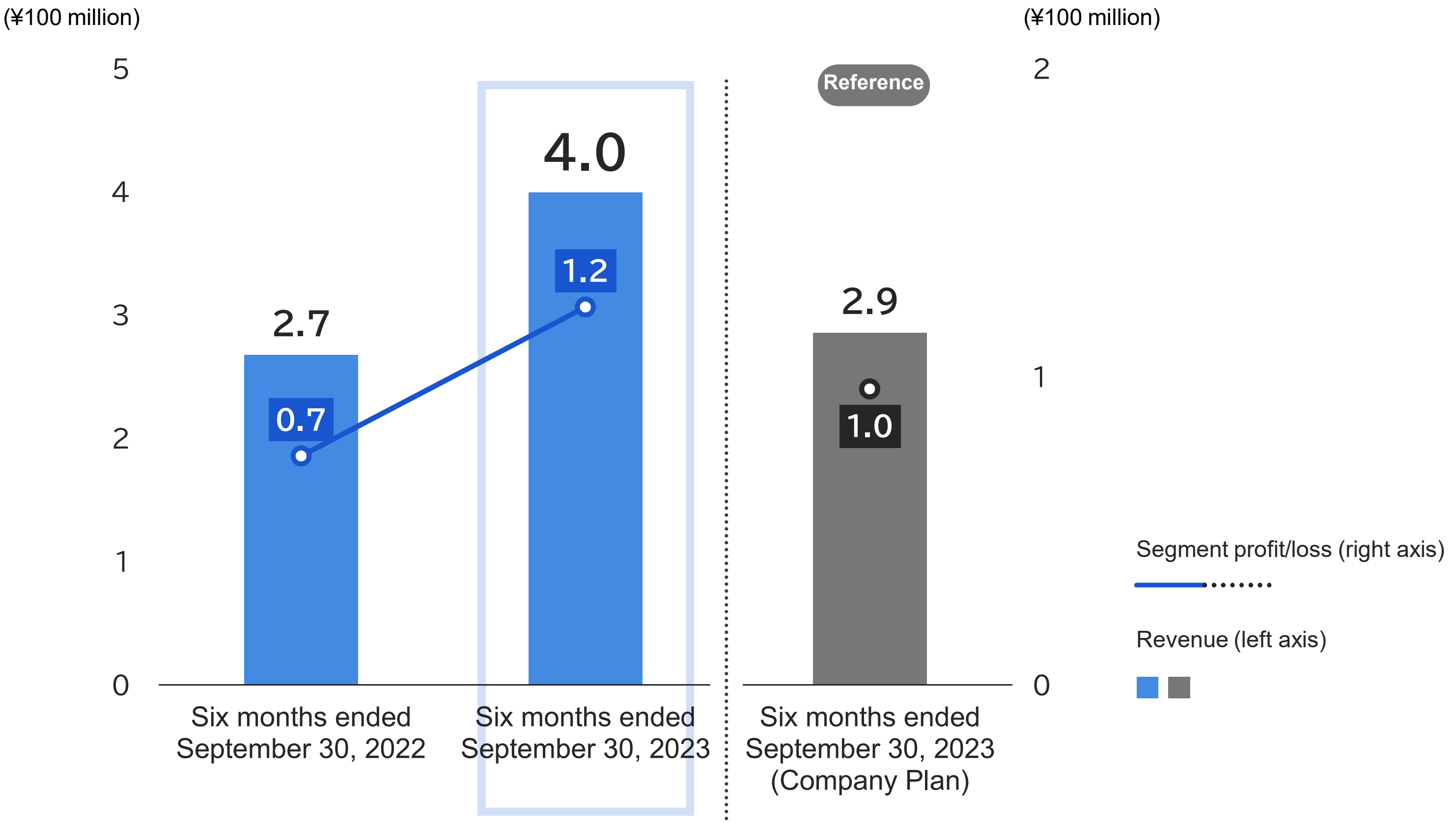
## Revenue, Segment Profit/Loss




## Main causes of change

- **Revenue**

  Revenue was ¥400 million, an increase of 49.1% year on year, due to start of operation of rental apartments at an anonymous association that is a consolidated subsidiary, and the improved occupancy ratio of rental offices

- **Segment profit/loss**

  Segment profit was ¥120 million, an increase of 65.0% year on year, due to the improved occupancy ratio of rental offices and the new operation of rental apartments

# Consolidated Balance Sheet

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| (¥100 million) | As of March 31, 2023 | As of September 30, 2023 | Change from previous year |
|---|---|---|---|
| Current assets | 168.7 | 158.8 | (9.9) |
| Non-current assets | 184.4 | 269.7 | +85.4 |
| **Total assets** | **353.0** | **428.5** | **+75.5** |
| Current liabilities | 41.3 | 37.1 | (4.2) |
| Non-current liabilities | 70.2 | 131.9 | +61.7 |
| **Total liabilities** | **111.5** | **169.0** | **+57.5** |
| **Net assets** | **241.5** | **259.5** | **+18.0** |
| **Total liabilities and net assets** | **353.0** | **428.5** | **+75.5** |

## Main causes of change

- **Current assets: -¥990 million**
  Accounts receivable-trade: -1,080
  Cash and deposits: -200
  Raw materials and supplies: -100
  Merchandise and finished goods: +80
  Work in process: +80
  Other: +210 etc.
- **Non-current assets: +¥8,540 million**
  Land: +5,090
  Buildings and structures: +3,180 etc.
- **Current liabilities: -¥420 million**
  Notes and accounts payable-trade: -130
  Provision for bonuses: -70
  Other: -220 etc.
- **Non-current liabilities: +¥6,170 million**
  Long-term borrowings: +5,990
  Retirement benefit liability: +50 etc.
- **Net assets: +¥1,800 million**
  Non-controlling interests: +1,360
  Retained earnings: +300
  Valuation difference on available-for-sale securities: +280 etc.

# Consolidated Statement of Cash Flows

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## Cash and cash equivalents were ¥4.47 billion, down ¥0.20 billion from the end of the previous fiscal year.

| (¥100 million) | Results for the six months ended September 30, 2022 | Results for the six months ended September 30, 2023 | Year-on-year |
|---|---|---|---|
| **Cash flows from operating activities** | (0.5) | +7.6 | +8.1 |
| **Cash flows from investing activities** | (1.8) | (83.5) | (81.7) |
| **Free cash flows** | (2.3) | (75.9) | (73.6) |
| **Cash flows from financing activities** | (2.5) | +73.6 | +76.2 |
| **Cash and cash equivalents** | 53.2 | 44.7 | (8.6) |

### Major breakdown items

- **Cash flows from operating activities: +¥760 million**
  Profit before income taxes: +260
  Depreciation: +560
  Loss (gain) on sale of shares of subsidiaries and associates: -880
  Increase in inventories: -610
  Other, net: +1,340 etc.
- **Cash flows from investment activities: -¥8,350 million**
  Purchase of property, plant and equipment: -8,920
  Proceeds from (payments for) sale of shares of subsidiaries resulting in change in scope of consolidation: +590 etc.
- **Cash flows from financing activities: +¥7,360 million**
  Proceeds from long-term borrowings: +6,000
  Proceeds from share issuance to non-controlling shareholders: +1,370 etc.

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# Forecast for the Fiscal Year Ending March 31, 2024

# Forecast for the Fiscal Year Ending March 31, 2024

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**The forecast was revised in light of lack and postponement of possible projects, deterioration of the profit ratio stemming from a rise in outsourced work and inventory adjustment of distributors while the domestic communication equipment market was sagging mainly for business phones, in addition to the exclusion of a subsidiary (Iwatsu (Malaysia) Sdn. Bhd.) from consolidation through share transfer being a cause of decreasing revenue.**

| (¥100 million) | Previous forecast for the fiscal year ending March 31, 2024* | Revised forecast for the fiscal year ending March 31, 2024 | Change from previous forecast (%) | Results for the fiscal year ended March 31, 2023 | Change from results for the previous fiscal year |
|---|---|---|---|---|---|
| **Revenue** | 221.0 | 210.0 | (11.0) [(5.0%)] | 229.0 | (19.0) [(8.3%)] |
| **Operating profit** | 5.0 | 0.0 | (5.0) [ – ] | (9.8) | +9.8 [ – ] |
| **Ordinary profit** | 6.0 | 0.0 | (6.0) [ – ] | (9.1) | +9.1 [ – ] |
| **Profit attributable to owners of parent** | 13.0 | 8.0 | (5.0) [(38.5%)] | (11.8) | +19.8 [ – ] |
| **ROE** | 5.4% | 3.3% | (2.1%) | (4.8%) | +8.1% |
| **Dividend per share** | 25.0 yen | 25.0 yen | 0.0 yen | 0.0 yen | +25.0 yen |

* Announced on May 23, 2023

# Analysis of Change in Operating Profit Compared to the Previous Forecast

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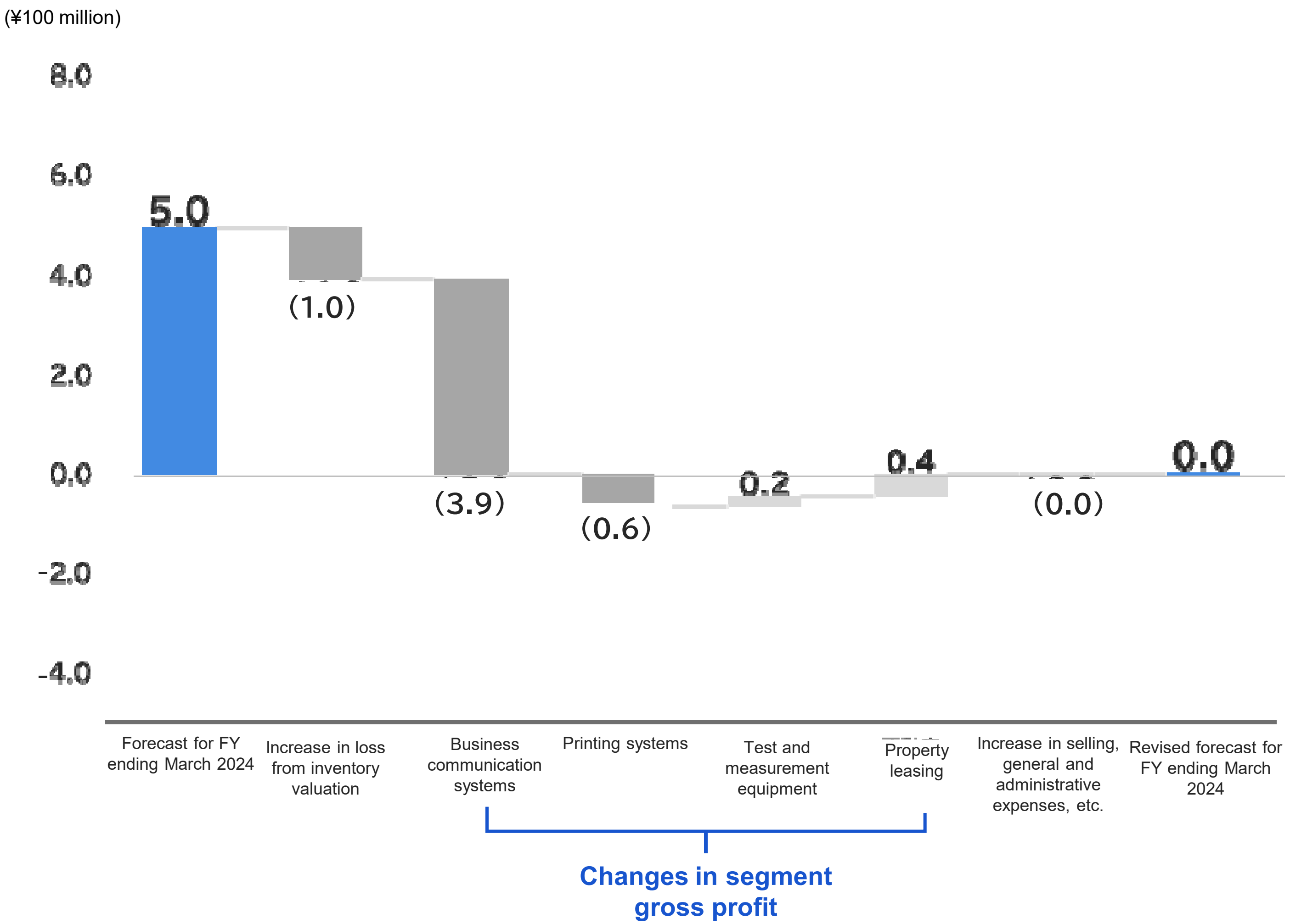


## Main causes of change

- **Increase in loss from inventory valuation:**

  **-¥100 million**

  Estimated amount of valuation loss on inventories which is expected to increase at this time due to overall improvement in the components supply environment. However, measures to reduce inventories and valuation loss are being promoted through improvement of purchasing methods and other means.

- **Changes in segment gross profit (total):**

  **-¥400 million**

  **Reference: "By Segment" section**

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

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(¥100 million)

| Segment | Item | Previous forecast for the fiscal year ending March 31, 2024 | Revised forecast for the fiscal year ending March 31, 2024 | Change from previous forecast | Main causes of change |
|---|---|---|---|---|---|
| Business communication systems | Revenue | 164.4 | 152.5 | (11.9) | Decreased revenue and profit are expected in light of fluctuations in demand for business phones and effects of project delays for new contract production in addition to effects of the transfer of shares of a subsidiary (Iwatsu (Malaysia) Sdn. Bhd.). |
| | Segment profit/loss | **16.2** | **10.7** | (5.5) | |
| Printing systems | Revenue | 15.4 | 15.7 | +0.3 | Mostly progressing to the previous forecast |
| | Segment profit/loss | **(0.5)** | **(0.8)** | (0.3) | |
| Test and measurement equipment | Revenue | 33.3 | 33.9 | +0.6 | |
| | Segment profit/loss | **4.2** | **4.6** | +0.4 | |
| Property leasing | Revenue | 7.9 | 7.9 | +0.0 | |
| | Segment profit/loss | **2.1** | **2.5** | +0.4 | |
| Adjustment amount | | - | - | - | - |
| | Selling, general and administrative expenses | (17.0) | **(17.0)** | (0.0) | |
| Total | Revenue | 221.0 | 210.0 | (11.0) | - |
| | Operating profit | **5.0** | **0.0** | (5.0) | |

# Forecasts of Capital Investment/R&D Expenses/Depreciation

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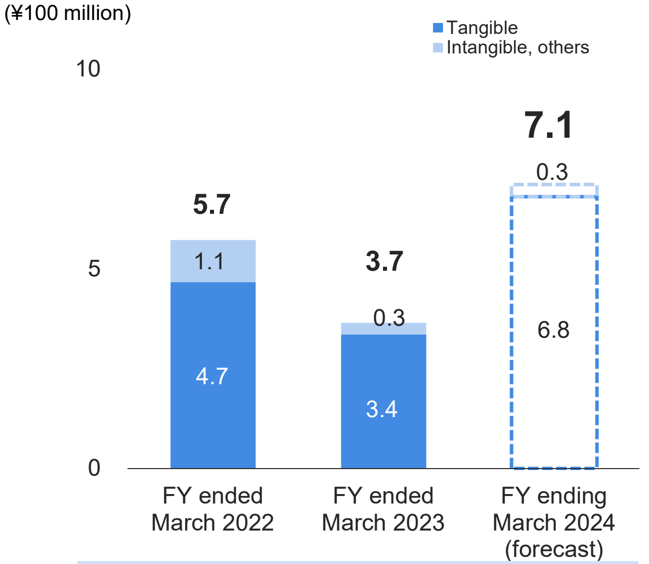
## No change from the initial forecast.

### ● Capital Investment



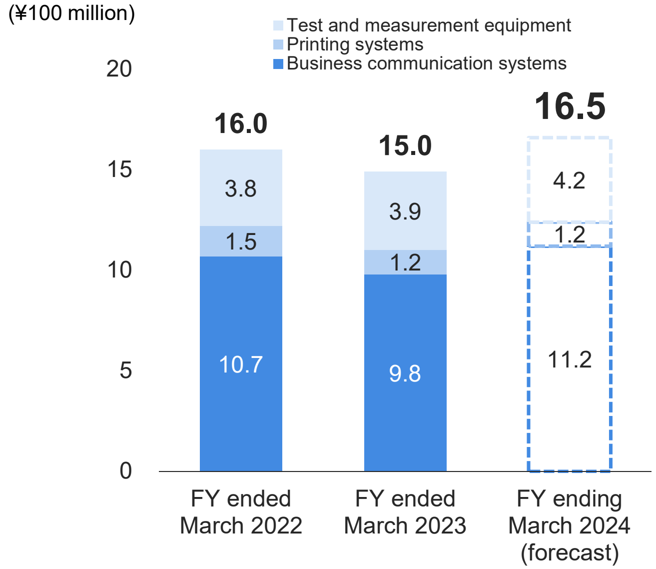

**Fiscal year ended March 31, 2023**

- 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



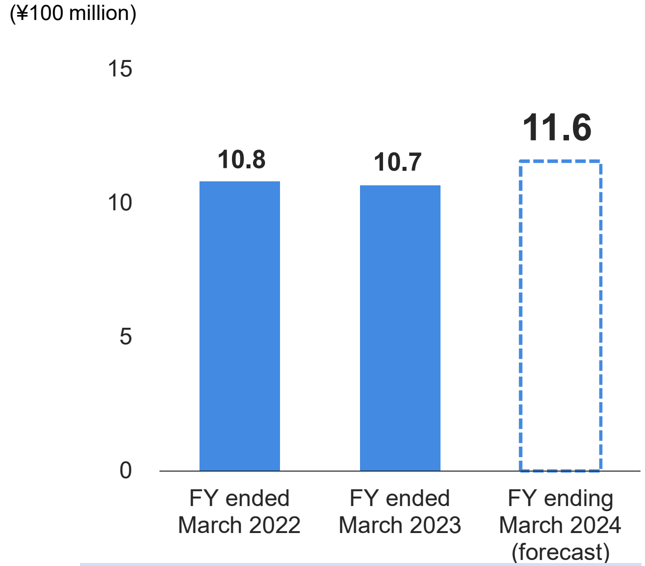

**Fiscal year ended March 31, 2023**

- 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 year

**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.