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February 10, 2022

Consolidated Financial Results for the Nine Months Ended December 31, 2021

[Under Japanese GAAP]

Company name: Nippon Denkai, Ltd.
Stock listing: Tokyo Stock Exchange
Stock ticker number: 5759
URL: https://www.nippon-denkai.co.jp/
Representative: Hidemasa Nakajima, President and CEO
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Scheduled date to file the Quarterly Securities Report: February 10, 2022
Scheduled date to commence dividend payments: None
Preparation of supplementary material on quarterly financial results: Yes
Holding of quarterly financial results briefing: None

(Yen amounts are rounded down to millions, unless otherwise noted.)

1. Consolidated financial results for the nine months ended December 31, 2021 (from April 1, 2021 to December 31, 2021)

(1) Consolidated operating results (cumulative)

(Percentages indicate Year-on-Year changes.)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent	
Nine months ended	Millions of Yen	%	Millions of Yen	%	Millions of Yen	%	Millions of Yen	%
December 31, 2021	15,469	47.5	890	60.8	874	79.6	632	126.7
December 31, 2020	10,489	-	553	-	486	-	278	-

Note: Comprehensive income Nine months ended December 31, 2021: ¥ 442 million [138.3%]
Nine months ended December 31, 2020: ¥ 185 million [-%]

	Basic earnings per share	Diluted earnings per share
Nine months ended	Yen	Yen
December 31, 2021	87.37	-
December 31, 2020	38.72	-

(Reference) EBITDA for the nine months ended December 31, 2021: 1,827 million Yen (-%)

Notes: 1. As the Company has not prepared its quarterly consolidated financial statements for the nine months ended December 31, 2020, this document does not contain financial data and Year-on-Year quarterly changes for the same period as well as for the nine months ended December 31, 2021.

2. The Company conducted a 3,000-for-one stock split of its common stock as of April 23, 2021. The amount of quarterly net income per share was calculated based on the assumption that the stock split was conducted at the beginning of the current consolidated accounting year.

(2) Consolidated financial position

	Total assets	Net assets	Equity-to-asset ratio
	Millions of Yen	Millions of Yen	%
Nine months ended December 31, 2021	15,815	5,476	34.6
Fiscal year ended March 31, 2021	13,643	4,946	36.3

Reference: Equity
As of December 31, 2021: ¥5,476 million
As of March 31, 2021: ¥4,946 million

2. Cash dividends

	Annual dividends per share				
	First quarter-end	Second quarter-end	Third quarter-end	Fiscal year-end	Total
	Yen	Yen	Yen	Yen	Yen
Fiscal year ended March 31, 2021	-	0.00	-	0.00	0.00
Fiscal year ending March 31, 2022	-	0.00	-		
Fiscal year ending March 31, 2022 (Forecast)				0.00	0.00

Note: Revisions to the forecast of cash dividends most recently announced: None

3. Consolidated financial results forecast for the year ending March 31, 2022 (from April 1, 2021 to March 31, 2022)

(Percentages indicate Year-on-Year changes.)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent		Earnings per share
	Millions of Yen	%	Millions of Yen	%	Millions of Yen	%	Millions of Yen	%	Yen
FY 2021	20,282	39.1	1,051	99.4	1,000	127.1	843	335.9	116.46

Notes: Revision of most recently announced consolidated financial results forecasts: None

*** Notes**

(1) Changes in significant subsidiaries during the period (changes in specified subsidiaries resulting in the change in scope of consolidation): None

Newly included: - companies (-)
Excluded: - companies (-)

(2) Adoption of accounting treatment specific to the preparation of quarterly consolidated financial statements: None

(3) Changes in accounting policies, changes in accounting estimates, and restatement

(i) Changes in accounting policies due to revisions to accounting standards and other regulations: Yes

(ii) Changes in accounting policies due to other reasons: None

(iii) Changes in accounting estimates: None

(iv) Restatement: None

(4) Number of issued shares (common shares)

(i) Total number of issued shares at the end of the period (including treasury shares)

As of December 31, 2021	7,250,000 shares
Fiscal year ended March 31, 2021	7,200,000 shares

(ii) Number of treasury shares at the end of the period

As of December 31, 2021	- shares
Fiscal year ended March 31, 2021	- shares

(iii) Average number of shares outstanding during the period (cumulative from the beginning of the fiscal year)

As of December 31, 2021	7,234,727 shares
As of December 31, 2020	7,200,000 shares

Note: The Company conducted a 3,000-for-one stock split of its common stock as of April 23, 2021. The total number of outstanding shares as of the end of the period, the total number of treasury shares as of the end of the period, and the average number of shares outstanding during the period were calculated based on the assumption that the stock split was conducted at the beginning of the previous consolidated fiscal year.

* Quarterly financial results reports are exempt from quarterly review conducted by certified public accountants or an audit corporation.

* Proper use of earnings forecasts, and other special matters

Actual results may differ materially from forward-looking statements contained herein, including the forecasts of results of operations, as such statements are based on the information currently available to the Company and certain assumptions that are deemed reasonable for the Company. For cautions to be exercised when using the forecasts of financial results and assumptions that underlie the forecasts, please refer to "1. Qualitative Information on Financial Results of the Quarter under Review - (3) Explanation on Forecast Information Such as Consolidated Earnings Forecast, etc." on Page 3 of the Appendix.

* Provision of supplementary material on quarterly financial results

"Financial Results for FY2021 Q3" as the supplementary material on quarterly financial results is available in IR Library on our website.
https://www.nippon-denkai.co.jp/ir/library.html

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1. Qualitative Information on Financial Results of the Quarter under Review

(1) Explanation on Operating Results

During the consolidated cumulative third quarter under review, the global economy showed an expansionary trend, mainly in developed countries, as both quarantine measures against the new coronavirus and economic activities progressed. However, the pace of recovery remained moderate, hampered by shortages in the supply of components and raw materials, including semiconductors, and rising resource prices.

In the U.S., personal consumption expenditure grew significantly, supporting economic activity "with Corona," but the pace of recovery slowed due to the spread of the Delta strain, shortages in the supply of labor and raw materials, and rising resource prices. In Europe, there was a widespread movement to resume economic activities while utilizing digital COVID certificates along with the spread of vaccinations, and corporate capital investments in plants and equipment and production activities were also brisk, resulting in a steady overall trend. In China, the outlook for business confidence remained uncertain due to the emergence of financial risks triggered by credit concerns about real estate development companies, restrictions on manufacturing operations due to electric power shortages, and urban lockdowns due to the spread of mutated strains.

In Japan, capital investments in plants and equipment and production activities expanded in the manufacturing industry due to the recovery of demand overseas. Although additional vaccinations and other quarantine systems have been strengthened, and domestic economic activities and personal consumption expenditure are expected to be revitalized, the manufacturing industry needed to pay attention to supply shortages of raw materials and rising energy and material prices.

In lithium-ion batteries for automobile applications, demand remained strong due to the accelerating shift toward the electrification of automotive powertrains. However, the global shortage of semiconductor supplies and stagnation in the parts supply network caused major xEV manufacturers to reconsider their production plans and seek a recovery.

Amid the prolonged and increasingly tense US-China trade negotiations, the electronic component industry faced with weak demand for smartphones made in China. On the other hand, the US and Japanese markets saw successive launches of 5G-compatible models, and Japanese careers continued to expand their 5G coverage areas.

In sales of the Company, demand for copper foil for automotive batteries expanded in response to the global trend toward electrification of automobiles. However, it slowed down from the latter half of Q2 due to disruptions in the supply chain, including shortages of semiconductor-related components at major xEV manufacturers, and the effects remained in Q3.

Demand for copper foil for circuit boards, the impact of the U.S.-China trade negotiations continued to linger and demand for smartphones decreased. On the other hand, demand for automotive circuit boards for Southeast Asia remained strong.

As a result, in the first nine months of the current fiscal year, the Company's total production volume (metric tons) of all products was 9,309 metric tons (up 26.0% from the same period of the previous year), Net sales were 15,469 million yen (up 47.5%), Operating profit was 890 million yen (up 60.8%), Ordinary profit was 874 million yen (up 79.6%), and Profit attributable to owners of parent was 632 million yen (up 126.7%).

(2) Explanation on Financial Position

(Assets)

Total assets as of the end of the third quarter of the current consolidated accounting period was 15,815 million yen, up 15.9% (2,172 million yen) from the end of the previous consolidated fiscal year.

Current assets increased by 21.1% (1,408 million yen) to 8,083 million yen, mainly due to a decrease of 637 million yen in Cash and deposits, an increase of 902 million yen in Accounts receivable, an increase of 610 million yen in Finished goods, an increase of 273 million yen in Work in process, and an increase of 230 million yen in Raw materials and supplies. Fixed assets increased by 11.0% (764 million yen) to 7,731 million yen mainly due to a decrease of 67 million yen in Buildings and structures, a decrease of 396 million yen in Machinery, equipment and vehicles, and an increase of 1,268 million yen in Construction in progress.

(Liabilities)

Total liabilities as of the end of the third quarter of the current consolidated accounting period was 10,339 million yen, up 18.9% (1,641 million yen) from the end of the previous consolidated fiscal year. Current liabilities increased by 58.7% (2,152 million yen) to 5,821 million yen, mainly due to an increase of 446 million yen in Accounts payable and an increase of 1,779 million yen in Short-term borrowings. Non-current liabilities decreased by 10.1% (510 million yen) to 4,518 million yen, mainly due to a decrease of 479 million yen in Long-term borrowings, a decrease of 16 million yen in Deferred tax liabilities, and a decrease of 19 million yen in Retirement benefit liabilities.

(Net assets)

Total equity as of the end of the third quarter of the current consolidated accounting period increased by 10.7% (530 million yen) from the end of the previous consolidated fiscal year to 5,476 million yen, mainly due to Profit attributable to owners of parent of 632 million yen, a decrease of 234 million yen in Remeasurements of defined benefit plans; an increase of 43 million yen in Share capital and Capital surplus which resulted from the Company’s listing on the Mothers market of the Tokyo Stock Exchange.

As a result of the above, the Equity-to-asset ratio decreased by 1.7 points to 34.6% from 36.3% at the end of the previous consolidated fiscal year.

(3) Consolidated Financial Forecast and Other Future Prospects

There is no change to the consolidated earnings forecast for the fiscal year ending March 31, 2022 from the "Notice Regarding the Revision of the Consolidated Financial Forecast for the Fiscal Year Ending March 31, 2022" announced on November 10, 2021.

Although the forecast is based on information currently available, actual results may vary due to various factors, including the supply situation of materials and raw materials, including semiconductors, and changes in energy and resource prices.

2. Quarterly Consolidated Financial Statements and Major Notes

(1) Quarterly Consolidated Balance Sheet

(Thousands of Yen)

	As of March 31, 2021	As of December 31, 2021
Assets		
Current assets		
Cash and deposits	1,662,196	1,024,461
Accounts receivable	2,482,219	3,385,146
Finished goods	753,855	1,364,523
Work in process	951,358	1,224,458
Raw materials and supplies	423,886	654,035
Other current assets	402,188	431,133
Total current assets	6,675,703	8,083,759
Non-current assets		
Tangible non-current assets		
Buildings and structures, net	1,472,553	1,405,014
Machinery, equipment and vehicles, net	4,127,516	3,730,751
Other non-current assets, net	1,257,063	2,511,383
Total tangible non-current assets	6,857,133	7,647,149
Intangible non-current assets	33,123	36,779
Investments and other assets		
Deferred tax assets	77,239	47,892
Others	78	10
Total investments and other assets	77,317	47,902
Total non-current assets	6,967,574	7,731,832
Total assets	13,643,278	15,815,591

(Thousands of Yen)

	As of March 31, 2021	As of December 31, 2021
Liabilities		
Current Liabilities		
Accounts payable	1,478,990	1,925,733
Short-term borrowings	135,238	1,914,318
Current portion of long-term borrowings	958,760	958,760
Income taxes payable	114,259	145,631
Provision for bonuses	152,334	101,159
Provision for directors' bonuses	17,636	5,668
Other current liabilities	811,700	769,736
Total current liabilities	3,668,920	5,821,006
Non-current liabilities		
Long-term borrowings	4,607,940	4,128,560
Deferred tax liabilities	24,437	8,434
Retirement benefit liabilities	36,391	17,104
Other non-current liabilities	359,562	364,029
Total non-current liabilities	5,028,331	4,518,128
Total liabilities	8,697,251	10,339,135
Equity		
Shareholders' equity		
Common stock	100,000	143,937
Capital surplus	2,300,000	2,343,937
Retained earnings	2,243,086	2,875,176
Total shareholders' equity	4,643,086	5,363,051
Accumulated other comprehensive income		
Foreign exchange translation adjustment	—	44,928
Remeasurements of defined benefit plans	302,940	68,475
Total accumulated other comprehensive income	302,940	113,404
Total equity	4,946,026	5,476,456
Total liabilities and equity	13,643,278	15,815,591

(2) Quarterly Consolidated Statement of Income and Quarterly Consolidated Statement of Comprehensive Income

Quarterly Consolidated Statement of Income

The consolidated cumulative third quarter

(Thousands of Yen)

	(from April 1, 2020 to December 31, 2020)	(from April 1, 2021 to December 31, 2021)
Net Sales	10,489,971	15,469,442
Cost of sales	9,084,915	13,789,906
Gross profit	1,405,055	1,679,535
Selling, general and administrative expenses	851,209	788,814
Operating profit	553,846	890,721
Non-operating income		
Interest income	18	25
Income from sale of scraps	15,530	20,296
Gain on valuation of currency swaps	—	16,187
Foreign exchange gains	—	16,406
Other non-operating incomes	8,243	4,221
Total non-operating income	23,791	57,137
Non-operating expenses		
Interest expense	48,614	44,223
Listing expenses	—	8,450
Foreign exchange losses	20,746	—
Other non-operating expenses	21,429	20,687
Total non-operating expenses	90,790	73,360
Ordinary profit	486,847	874,498
Extraordinary incomes		
Gain on transfer of retirement benefit plan	53,059	—
Employment adjustment subsidy	18,870	—
Public subsidies	131,677	—
Other extraordinary incomes	40,566	—
Total extraordinary incomes	244,173	—
Extraordinary losses		
Loss on disposal of non-current assets	87,674	33,020
Non recurring loss	184,775	—
Other extraordinary losses	9,356	—
Total extraordinary losses	281,805	33,020
Net profit before income taxes	449,215	841,477
Income taxes - current	141,394	196,423
Income taxes - deferred	29,041	12,963
Income taxes - total	170,435	209,387
Profit for the period	278,780	632,090
Profit attributable to owners of parent	278,780	632,090

Quarterly Consolidated Statement of Comprehensive Income

The consolidated cumulative third quarter

(Thousands of Yen)

	(from April 1, 2020 to December 31, 2020)	(from April 1, 2021 to December 31, 2021)
Profit for the period	278,780	632,090
Other comprehensive income		
Deferred gains or losses on hedges	15,420	—
Foreign currency translation adjustment	(108,502)	44,928
Remeasurements of defined benefit plans, net of tax	—	(234,464)
Total other comprehensive income	(93,081)	(189,535)
Quarterly comprehensive income	185,698	442,554
(Breakdown of comprehensive income)		
Comprehensive income attributable to owners of parent	185,698	442,554

(3) Notes to Quarterly Consolidated Financial Statements

(Notes on going concern assumption)

Not applicable

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

On June 25, 2021, Nippon Denkai, Ltd. was listed on the Mothers market of the Tokyo Stock Exchange. At the time of listing, the Company issued 50,000 new shares through public offering using the book-building method, with the payment date of June 24, 2021. This increased the Company's share capital and legal capital surplus by 43,937 thousand yen, respectively.

As a result, its share capital and capital surplus stood at 143,937 thousand yen and 2,343,937 thousand yen, respectively, as of the end of the third quarter under review.

(Changes in accounting policies)

(Adoption of the accounting standard for revenue recognition)

The Company adopted the "Accounting Standard for Revenue Recognition" (ASBJ Statement No. 29 issued on March 31, 2020; hereinafter referred to as the "Accounting Standard for Revenue Recognition") as of the beginning of the first quarter under review. Under the Accounting Standard, the Company recognizes revenue at the time when control over the promised goods or services is transferred to customers, at the amount equal to the consideration expected to be received for the said goods or services.

The Company also applies the alternative treatment prescribed in paragraph 98 of the "Implementation Guidance on Accounting Standard for Revenue Recognition" (ASBJ Guidance No. 30, March 26, 2021), and recognizes revenue from domestic sales of goods or products at the time of shipment, as far as the period between the time of shipment and the time when control over the goods or products is transferred to customers spans a reasonable number of days.

In line with the adoption of the Accounting Standard for Revenue Recognition, etc., the Company applied the transitional treatment prescribed in the proviso of paragraph 84 of the Standard. It applied the new accounting policy by adding or subtracting the cumulative effect of retrospectively adopting the new accounting policy prior to the beginning of the first quarter under review to/from retained earnings at the beginning of the quarter.

This change had no effect either on profit and loss for the consolidated cumulative third quarter under review or the beginning balance of retained earnings.

(Adoption of the accounting standard, etc. for fair value measurement)

The Company adopted the "Accounting Standard for Fair Value Measurement" (ASBJ Statement No. 30 issued on July 4, 2019; hereinafter referred to as the "Accounting Standard for Fair Value Measurement") as of the beginning of the first quarter under review. It also prospectively applies new accounting policies prescribed in the Accounting Standard for Fair Value Measurement, according to the transitional treatment provided for in paragraph 19 thereof and paragraph 44-2 of ASBJ Statement No. 10 "Accounting Standard for Financial Instruments" (revised on July 4, 2019). This has no effect on the quarterly consolidated financial statements.

(Segment information, etc.)

The consolidated cumulative third quarter under review (from April 1, 2020 to December 31, 2020)

Segment information is omitted as the Company operates in a single segment of the Manufacturing of Electrodeposited Copper foil.

The consolidated cumulative third quarter under review (from April 1, 2021 to December 31, 2021)

Segment information is omitted as the Company operates in a single segment of the Manufacturing of Electrodeposited Copper foil.

(Notes to Significant Subsequent Events)

(Large amount of Bank Borrowing)

In accordance with the resolution of the Board of Directors' meeting held on December 28, 2021, Nippon Denkai have entered into a Syndicated Loan Agreement on January 27, 2022.

The outline of the Agreements is as follows.

Loan amount	26 Million US Dollars
Execution date of agreement	January 25, 2022
Date of borrowing	January 27, 2022
Final payment date	January 27, 2032
Borrowing interest rate	3.30% per annum（Fixed）
Method of repayment	Deferment for 2 years, Equal repayment every 6 months after July 2024
Arranger / Agent	Sumitomo Mitsui Banking Corporation
Participating financial institutions	Sumitomo Mitsui Banking Corporation The Joyo Bank, Ltd. The Ashikaga Bank, Ltd.
Collateral, etc.	Unsecured and unguaranteed
Purposes of the Loan	To raise funds for Denkai America Inc., a consolidated subsidiary of Nippon Denkai, to remodel its current production facilities in order to start production of products for lithium-ion batteries.