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November 10, 2022

Consolidated Financial Results for the Six Months Ended September 30, 2022

[Under Japanese GAAP]

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

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

1. Consolidated financial results for the six months ended September 30, 2022 (from April 1, 2022 to September 30, 2022)

(1) Consolidated operating results (cumulative)

(Percentages indicate Year-on-Year changes.)

	Net sales		Operating profit		Ordinary profit		Net Profit attributable to owners of parent	
Six months ended	Millions of Yen	%	Millions of Yen	%	Millions of Yen	%	Millions of Yen	%
September 30, 2022	8,775	-12.9	-565	-	-583	-	-609	-
September 30, 2021	10,072	-	624	-	605	-	439	-

Note: Comprehensive income Six months ended September 30, 2022: ¥ -281 million [-%]
Six months ended September 30, 2021: ¥ 265 million [-%]

	Earnings per share	Diluted earnings per share
Six months ended	Yen	Yen
September 30, 2022	-84.06	-
September 30, 2021	60.79	-

Notes: 1. As the Company has not prepared its quarterly consolidated financial statements for the six months ended September 30, 2020, this document does not contain financial data and Year-on-Year quarterly changes for the same period as well as for the six months ended September 30, 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 previous consolidated fiscal year.
3. For the six months ended September 30, 2021, Diluted earnings per share is not shown in the table above, as there are no residual shares.
4. For the six months ended September 30, 2022, Diluted earnings per share is not shown in the table above, as it is a loss-making financial result.

(2) Consolidated financial position

	Total assets	Net assets	Equity-to-asset ratio
	Millions of Yen	Millions of Yen	%
Six months ended September 30, 2022	19,356	5,608	28.9
Fiscal year ended March 31, 2022	18,034	5,755	31.9

Reference: Equity
As of September 30, 2022: ¥5,587 million
As of March 31, 2022: ¥5,755 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, 2022	-	0.00	-	0.00	0.00
Fiscal year ending March 31, 2023	-				
Fiscal year ending March 31, 2023 (Forecast)		0.00	-	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, 2023 (from April 1, 2022 to March 31, 2023)

(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 2022	17,700	-13.9	-1,000	-	-1,200	-	-1,100	-	-151.66

Notes: Revision of most recently announced consolidated financial results forecasts: Yes

* 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 other than reason (i) : 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 September 30, 2022	7,296,900 shares
Fiscal year ended March 31, 2022	7,250,000 shares

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

As of September 30, 2022	- shares

Fiscal year ended March 31, 2022	- shares

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

As of September 30, 2022	7,253,190 shares
As of September 30, 2021	7,227,049 shares

Note: The Company conducted a 3,000-for-one stock split of its common stock as of April 23, 2021. Total number of issued shares at the end of the period (including treasury shares) and Average number of shares outstanding during the period (cumulative from the beginning of the fiscal year) 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 2 of the Appendix.

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

(1) Explanation on Operating Results

During the consolidated cumulative second quarter under review, the global economy had been in a state of flux, with shortages of raw materials and other supplies and logistics networks remaining stagnant for a prolonged period, energy and resource prices continued to rise due to the protracted situation in Ukraine, and currency exchange rates fluctuated widely in the wake of the U.S. interest rate hikes.

In the U.S., the economic activity expanded, especially in retail consumption, however, it led to price hikes and higher policy interest rates, and the outlook for the future became more uncertain. In China, the strict 'zero-COVID policy' remained in place, underscoring a severely constrained economic activity situation. In Japan, energy prices and sundry costs continued to surge due to soaring crude oil prices, and the rapid depreciation of the Yen in the foreign exchange market required caution in its impact on economic activities.

In the market for automotive LIBs (Lithium-Ion secondary Batteries), the trend toward electrification of powertrains continued to expand, although the effects of global chip shortages and stagnant distribution networks remained, and major xEV manufacturers continued to hold back their production plans.

In the electronic components industry which is the main market for Circuit Board Copper Foils, shipment volume of major Chinese smartphone manufactures had been sluggish. Although, 5G-compatible devices continued to be applied in the US and Japan.

Sales performance as the company, for the EV Battery Copper Foils, the order volume slow down due to curbs on production plans by major xEV manufacturers. For the Circuit Board Copper Foils, it was sluggish as the demand for major Chinese smartphone manufacturers stayed low.

In terms of earnings, each stage of profit including Operating Income on downwards was at a loss due to a decrease in capacity utilization caused by a decline in order volumes, an increase in manufacturing costs caused by soaring electricity prices, and a lower production volume due to machine stoppages and production disruptions caused by partial facility modifications at our U.S. subsidiary.

During the consolidated cumulative second quarter of the current fiscal year, the company's total production volume was 4,247 metric tons (down 31.9% from the same period of the previous year), Net sales was 8,775 million yen (down 12.9%), Operating loss was 565 million yen (operating profit of 624 million yen in the same period last year), ordinary loss was 583 million yen (ordinary profit of 605 million yen in the same period last year), and Net loss attributable to owners of the parent was 609 million yen (Net profit attributable to owners of the parent of 439 million yen in the same period last year).

(2) Explanation on Financial Position

① Status of Assets, Liabilities and Shareholders' Equity

(Assets)

Total assets as of the end of the second quarter of current consolidated fiscal year was 19,356 million yen, up 7.3% (1,322 million yen) from the end of the previous consolidated fiscal year.

Current assets decreased 1,929 million yen (20.2%) to 7,613 million yen, mainly due to a 466 million yen decrease in Cash and Deposits, 863 million yen decrease in Accounts Receivable, a 414 million yen decrease in Products, a 95 million yen increase in Work in Process, and a 180 million yen decrease in Raw Materials and Supplies. Fixed assets increased 3,251 million yen (38.3%) to 11,743 million yen, mainly due to a 3,291 million yen increase in Construction in Progress.

(Liabilities)

Total liabilities at the end of the second quarter increased 1,469 million yen (12.0%) from the end of the previous fiscal year to 13,748 million yen. Current liabilities increased 1,600 million yen (31.7%) to 6,650 million yen, mainly due to a 380 million yen decrease in Account payable, a 1,500 million yen increase in Short-term borrowings, and a 400 million yen increase in Current portion of long-term borrowings. Noncurrent liabilities decreased 131 million yen (1.8%) to 7,098 million yen, mainly due to a decrease of 296 million yen in Long-term borrowings.

(Shareholders' Equity)

Total assets at the end of the second quarter were 5,608 million yen, down 147 million yen (2.6%) from the end of the previous fiscal year, mainly due to a Net loss attributable to owners of parent of 609 million yen, an increase in Common stock and Capital surplus of 57 million yen each resulting from the exercise of New Share Warrants, an increase in Foreign currency translation adjustments of 337 million yen, and a decrease in Remeasurements of defined benefit plans of 9 million yen.

As a result, the equity ratio fell 3.0 percentage points from 31.9% at the end of the previous fiscal year to 28.9%.

② Status of Cash Flows

Cash and Cash equivalents (hereinafter referred to as "Cash") at the end of the second quarter was 2,034 million yen, a decrease of 466 million yen from the end of the previous fiscal year. The status of cash flows is as follows.

(Cash Flows by operating activities)

Net Cash provided by operating activities amounted to 1,145 million yen during the consolidated cumulative second quarter of the current fiscal year (241 million yen decrease in the same period of the previous year). It was mainly due to Net loss before income taxes of 596 million yen, Depreciation and amortization of 625 million yen, and a decrease in Account receivables of 1,081 million yen.

(Cash Flows by investment activities)

Net cash used in investing activities amounted to 3,003 million yen in the cumulative second quarter of the current fiscal year, compared with 679 million yen in the same period of the previous year. It was mainly due to 3,000 million yen used for the purchase of property, plant and equipment.

(Cash Flows by financing activities)

Net cash provided by financing activities amounted to 1,142 million yen, compared with an increase of 16 million yen in the same period of the previous year. It was mainly due to a net increase in Short-term loans payable of 1,500 million yen, repayment of Long-term loans payable of 479 million yen, and proceeds from Issuance of New share of 111 million yen.

(3) Explanation on Forecast Information such as Consolidated Earnings Forecast, etc.

The company revised Financial Forecast for FY2022, which was previously announced on August 10, 2022, as described below.

Revision of Consolidated Financial Forecast for FY2022 (April 1, 2022 – March 31, 2023)

	Net Sales	Operating Profit	Ordinary Profit	Profit attributable to owners of parent	Net profit per share
Previous Forecast (A)	Million yen 18,000	Million yen △500	Million yen △800	Million yen △800	Yen △110.34
New Forecast (B)	17,700	△1,000	△1,200	△1,100	△151.66
Difference (B-A)	△300	△500	△400	△300	―
(Ref.) FY2021 Full Year Results	20,558	1,004	976	848	117.22

2. Reasons for Revision

Demand for EV Battery Copper Foil remained sluggish as major xEV manufacturers curbed their production plans, and in the area of Circuit Board Copper Foil, orders for high-end products for smartphones, mainly from major Chinese smartphone manufacturers, were sluggish.

Consequently, consolidated Net Sales are expected to fall short of the earnings forecast announced on August 10, 2022 (hereinafter referred to as the "Previous Forecast"). In addition, due to a decline in capacity utilization, as well as higher costs such as electricity price hike, Operating Profits and each of the other income categories are also expected to fall short of the Previous Forecast.

■ Forecast of Net Sales

Consolidated Net Sales will be 17,700 million yen (18,000 million yen in the Previous Forecast), a decrease of approximately 300 million yen from the Previous Forecast, mainly due to a sales share reduction at a major customer, sluggish demand for smartphones in China.

■ Forecast of Operating Profits

Operating Profits is estimated to be a loss of approximately 1,000 million yen, down approximately 500 million yen from the Previous Forecast.

This is due to the factors (additional negative impact of approximately 300 million yen on Operating Profits since the Previous Forecast) described in the previous section ‘Forecast of Net Sales’, in addition to electricity price hike (-100 million yen), increase in copper price (+200 Million Yen), soaring material costs (-100 million yen), and a recovery in profitability through passing electricity prices on product prices, improving production efficiency and yields, reducing labor costs, and cutting expenses and other cost reductions (+200 Million Yen).

3. Current Status and Profit Recovery Measures

The Company is going through difficult time with lower capacity utilization, electricity price hike and other cost-increasing factors.

To overcome the current situation and regain sustainable growth, The Company is working to increase sales to new customers as well as existing customers such as next-generation batteries, and to circuit board copper foil for 5G communication and beyond. Company will also promote measures such as investments to improve productivity (expansion of IoT, etc.) to secure sales and restore profitability.

》Disclaimer《

These documents include forward-looking statements including current plans, outlook, estimates and forecasts. Forward-looking statements are based on the intentions of our management based on the information available as of August 10, 2022.

2. Quarterly Consolidated Financial Statements and Major Notes

(1) Quarterly Consolidated Balance Sheet

(Thousands of Yen)

	As of March 31, 2022	As of September 30, 2022
Assets		
Current assets		
Cash and deposits	2,500,768	2,034,526
Account receivable	3,161,612	2,297,883
Finished goods	1,269,727	855,427
Work in process	1,260,657	1,356,651
Raw materials and supplies	844,290	663,790
Other current assets	505,610	404,922
Total current assets	9,542,665	7,613,201
Non-current assets		
Tangible fixed assets		
Buildings and structures, net	1,471,378	1,471,167
Machinery, equipment and vehicles, net	3,674,909	3,608,248
Construction in progress	2,015,752	5,307,173
Other fixed assets, net	1,103,812	1,111,745
Total tangible fixed assets	8,265,853	11,498,335
Intangible fixed assets	33,834	31,396
Investments and other assets		
Deferred tax assets	72,279	57,867
Net defined benefit assets	70,910	101,276
Ohters	48,649	54,626
Total investments and other assets	191,838	213,770
Total non-current assets	8,491,526	11,743,502
Total assets	18,034,191	19,356,703

（Thousands of Yen）

	As of March 31, 2022	As of September 30, 2022
Liabilities		
Current liabilities		
Account payable	1,809,957	1,429,661
Short-term borrowings	800,000	2,300,000
Current portion of long-term borrowings	958,760	1,358,760
Income taxes payable	186,400	15,707
Provision for bonuses	148,970	123,857
Provision for directors' bonuses	16,012	2,432
Other current liabilities	1,128,951	1,419,592
Total current liabilities	5,049,052	6,650,012
Non-current liabilities		
Long-term borrowings	6,831,320	6,534,860
Deferred tax liabilities	4,026	1,892
Other non-current liabilities	394,359	561,748
Total non-current liabilities	7,229,705	7,098,501
Total liabilities	12,278,758	13,748,513
Net assets		
Shareholders' equity		
Common stock	143,937	201,073
Capital surplus	2,343,937	2,401,073
Retained earnings	3,091,573	2,481,881
Total shareholders' equity	5,579,448	5,084,027
Accumulated other comprehensive income		
Foreign exchange translation adjustment	151,883	489,691
Remeasurements of defined benefit plans	24,101	14,258
Total accumulated other comprehensive income	175,984	503,949
New share warrants	—	20,213
Total net assets	5,755,433	5,608,190
Total liabilities and net assets	18,034,191	19,356,703

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

Quarterly Consolidated Statement of Income

The consolidated cumulative second quarter

(Thousands of Yen)

	From April 1, 2021 to September 30, 2021	From April 1, 2022 to September 30, 2022
Net sales	10,072,398	8,775,863
Cost of sales	8,928,915	8,679,085
Gross profit (loss)	1,143,483	96,778
Selling, general and administrative expenses	519,262	662,654
Operating profit (loss)	624,221	(565,875)
Non-operating income		
Interest received	25	315
Income from sale of scraps	13,515	18,240
Foreign exchange gains	4,596	90,274
Gain on valuation of currency swap	15,000	―
Other non-operating income	174	2,375
Total non-operating income	33,312	111,205
Non-operating expenses		
Interest expense	28,903	92,567
Listing expenses	8,450	―
Other non-operating expenses	14,506	36,103
Total non-operating expenses	51,860	128,671
Ordinary profit (loss)	605,673	(583,340)
Extraordinary losses		
Loss on disposal of non-current assets	21,458	13,249
Total extraordinary losses	21,458	13,249
Net profit (loss) before income taxes	584,214	(596,590)
Income taxes – current	153,976	1,347
Income taxes – deferred	△9,114	11,754
Total Income taxes	144,861	13,101
Net profit (loss) for the period	439,353	(609,692)
Net profit (loss) attributable to owners of parent	439,353	(609,692)

Quarterly Consolidated Statement of Comprehensive Income

The consolidated cumulative second quarter

(Thousands of Yen)

	From April 1, 2021 to September 30, 2021	From April 1, 2022 to September 30, 2022
Profit (loss) for the period	439,353	(609,692)
Other comprehensive income		
Foreign currency translation adjustment	—	337,807
Remeasurements of defined benefit plans, net of tax	(173,731)	(9,843)
Total other comprehensive income	(173,731)	327,964
Quarterly comprehensive income (loss)	265,622	(281,727)
（Breakdown of comprehensive income）		
Comprehensive income attributable to owners of parent	265,622	(281,727)

(3) Consolidated Statement of Cash Flow

(Thousands of Yen)

	From April 1, 2021 to September 30, 2021	From April 1, 2022 to September 30, 2022
Cash flows by operating activities		
Net profit (loss) before income taxes	584,214	(596,590)
Depreciation	618,346	625,249
Increase (decrease) in provision for bonuses	15,782	(27,232)
Increase (decrease) in provision for directors' bonuses benefits	(13,146)	(14,151)
Decrease (increase) in net defined benefit assets	—	(16,084)
Increase (decrease) in net defined benefit liabilities	(13,177)	—
Retirement benefit expenses	(175,075)	(13,197)
Interest income	(25)	(315)
Interest expence	28,903	92,567
Foreign exchange loss (gain)	(4,487)	(89,377)
Decrease (increase) in accounts receivable – trade	(447,263)	1,081,528
Decrease (increase) in inventories	(868,509)	686,798
Increase (decrease) in notes and account payable – trade	209,605	(442,007)
Decrease or increase in consumption taxes refund receivable or accounts payable - other	(33,455)	24,958
Other cash flows from operating activities	(2,024)	19,556
Subtotal cash flows from operating activities	(100,314)	1,331,701
Received interest income	25	315
Paid interest expenses	(27,014)	(89,175)
Income taxes (paid) refund	(114,263)	(96,954)
Cash flows from operating activities	(241,567)	1,145,887
Cash flows by investment activities		
Purchase of property, plant and equipment	(675,405)	(3,000,242)
Purchase of intangible assets	(4,692)	(3,700)
Other cash flows from investment activities	213	—
Cash flows from investment activities	(679,884)	(3,003,942)
Cash flows by financial activities		
Net increase (decrease) in short-term loans payable	427,452	1,500,000
Proceeds from long-term loans payable	(479,380)	(479,380)
Proceeds from issuance of common shares	86,726	111,531
Proceeds from issuance of new share warrants	—	20,754
Repayments of lease obligations	(18,135)	(10,303)
Other cash flows from financial activities	68	—
Cash flow from financial activities	16,731	1,142,602
Effect of exchange rate change on cash and cash equivalents	(6,039)	249,210
Net increase (decrease) in cash and cash equivalents	(910,760)	(466,242)
Cash and cash equivalents at beginning of period	1,662,196	2,500,768
Cash and cash equivalents at end of period	751,436	2,034,526

(4) Notes to Quarterly Consolidated Financial Statements

(Notes on going concern assumption)

Not applicable

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

During the six months ended September 30, 2022, Common stock and Capital reserve increased by 57,136 thousand yen and 57,136 thousand yen, respectively, as a result of the exercise of new share warrants.

Accordingly, Common stock and Capital surplus amounted to 201,073 thousand yen and 2,401,073 thousand yen, respectively, as of September 30, 2022.

(Changes in accounting policies)

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

The Company adopted the “Accounting Standard for Fair Value Measurement” (ASBJ Statement No. 31 issued on June 17, 2021; 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 27-2 of “Accounting Standard for Financial Instruments”. This has no effect on the quarterly consolidated financial statements.

(Segment information, etc.)

The consolidated cumulative second quarter under review (from April 1, 2021 to September 30, 2021)

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

The consolidated cumulative second quarter under review (from April 1, 2022 to September 30, 2021)

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