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Consolidated Financial Results
for the Six Months Ended September 30, 2023
<under Japanese GAAP>

F-TECH INC.

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1. Qualitative information regarding financial results for the period under review

(1) Information regarding operating results

The global economy in the six months ended September 30, 2023 continued to face an uncertain outlook due to the impact of persistently high resource and energy prices amid the protracted situation in Ukraine, interest rate hikes in Europe and the U.S., and concerns over the economic slowdown in China. In the automotive industry, although the semiconductor shortage is easing, the business environment remains challenging due to the tight supply-demand balance for labor in the U.S., the impact of the United Auto Workers (UAW) strikes, and sluggish sales for Japanese automakers due to the rapid shift to EVs in China.

In this business environment, the Group launched the 15th medium-term management plan in April 2023. While maintaining the foundations of the “Back to Basics” and “Challenge for New” policies, the Group has established a global policy of “We contribute to society by improving earning power and achieving sustainable growth” under the slogan of “Pursuing the essence of Monozukuri (manufacturing).” At regional sites and headquarters, the Group has been accelerating company-wide measures with an eye to enhancing earning power and improving financial structure as set forth in the “Back to Basics” policy, and strategically pursuing growing business opportunities and establishing sustainability management, in line with the “Challenge for New” policy.

As a result of these activities, during the six months ended September 30, 2023, net sales increased by 14.9% year on year to 139,303 million yen, operating loss was 1,290 million yen (an operating loss of 1,090 million yen in the same period of the previous year), ordinary loss was 915 million yen (ordinary profit of 213 million yen in the same period of the previous year), and loss attributable to owners of parent was 516 million yen (profit attributable to owners of parent of 1,118 million yen in the same period of the previous year).

Profit attributable to owners of the parent for the same period of the previous year has been revised from 661 million yen to 1,118 million yen for comparison. This is because the accounting amount of gain on negative goodwill resulting from the conversion of India Steel Summit Private Limited into a subsidiary was tentatively 765 million yen in the same period of the previous year, but was fixed at 1,237 million yen at the end of the previous fiscal year, and this amount was reflected in the same period of the previous year.

Operating results by segment are as follows.

(Japan)

Net sales increased by 36.6% year on year to 13,816 million yen due partly to a trend toward an increase in production volume at major customers resulting from improvement in semiconductor shortages, the effect of mass production of parts ordered by new customers, and the impact of a weaker yen. In terms of profit and loss, operating income rose by 104.4% year on year to 372 million yen, due to an increase in production volume.

(North America)

Net sales increased by 23.6% year on year to 97,004 million yen due partly to a trend toward an increase in production volume at major customers resulting from improvement in semiconductor shortages, the effect of mass production of newly ordered parts, and the impact of a weaker yen. In terms of profit and loss, operating loss was 1,486 million yen (an operating loss of 2,205 million yen in the same period of the previous year), due to difficulties with hiring new employees amid the tight labor market, rising labor costs, and declines in production efficiency and quality, which outweighed benefits from an increase in production volume and the effect of mass production of newly ordered parts.

(Asia)

While the production volume of major customers remained solid outside the Chinese region, production volume decreased overall due to the rapid shift to EVs in the Chinese region, and net sales decreased by 12.8% year on year to 28,483 million yen. In terms of profit and loss, operating loss was 173 million yen (operating profit of 705 million yen in the same period of the previous year), due to a decrease in production volume.

(2) Information regarding financial position

As of September 30, 2023, total assets increased by 18,958 million yen compared with the end of the previous fiscal year to 195,096 million yen, reflecting increases in cash and deposits, buildings and structures, and machinery, equipment and vehicles. Liabilities increased by 14,686 million yen from the end of the previous fiscal year to 126,067 million yen, reflecting increases in notes and accounts payable - trade, and short-term loans payable. Net assets increased by 4,272 million yen to 69,029 million yen, reflecting an increase in foreign currency translation adjustment.

(3) Information regarding consolidated earnings forecasts and other forward-looking statements

For the fiscal year ending March 31, 2024, we have revised the earnings forecasts announced on May 15, 2023, based on currently available information and projections.

For details, please see the Notice Concerning Revision of Earnings Forecasts for the Fiscal Year Ending March 31, 2024, released today.

2. Quarterly consolidated financial statements and significant notes thereto

(1) Consolidated balance sheets

(Millions of yen)

	As of March 31, 2023	As of September 30, 2023
Assets		
Current assets		
Cash and deposits	5,491	10,512
Notes and accounts receivable - trade	37,806	39,755
Merchandise and finished goods	5,296	6,498
Work in process	7,632	8,240
Raw materials and supplies	12,702	13,716
Other	3,729	4,343
Allowance for doubtful accounts	(55)	(54)
Total current assets	72,603	83,012
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	18,884	22,337
Machinery, equipment and vehicles, net	45,363	51,598
Construction in progress	13,005	9,032
Other, net	15,030	15,104
Total property, plant and equipment	92,284	98,073
Intangible assets	285	328
Investments and other assets		
Investment securities	7,464	8,767
Other	3,500	4,914
Total investments and other assets	10,965	13,681
Total non-current assets	103,534	112,084
Total assets	176,137	195,096

(Millions of yen)

	As of March 31, 2023	As of September 30, 2023
Liabilities		
Current liabilities		
Notes and accounts payable - trade	24,169	29,884
Short-term loans payable	27,832	36,200
Current portion of long-term loans payable	12,995	13,877
Income taxes payable	942	375
Provision for directors' bonuses	85	32
Other	9,520	11,576
Total current liabilities	75,544	91,946
Non-current liabilities		
Long-term loans payable	29,908	27,899
Provision for directors' retirement benefits	53	55
Net defined benefit liability	1,003	1,059
Negative goodwill	33	30
Other	4,836	5,075
Total non-current liabilities	35,836	34,120
Total liabilities	111,380	126,067
Net assets		
Shareholders' equity		
Capital stock	6,790	6,790
Capital surplus	6,733	6,733
Retained earnings	27,979	27,276
Treasury shares	(60)	(79)
Total shareholders' equity	41,443	40,721
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	543	941
Deferred gains or losses on hedges	386	445
Foreign currency translation adjustment	7,731	11,751
Remeasurements of defined benefit plans	(65)	(45)
Total accumulated other comprehensive income	8,595	13,092
Non-controlling interests	14,717	15,215
Total net assets	64,756	69,029
Total liabilities and net assets	176,137	195,096

(2) Consolidated statements of income and comprehensive income

(Millions of yen)

	Six months ended September 30, 2022	Six months ended September 30, 2023
Net sales	121,260	139,303
Cost of sales	114,257	131,589
Gross profit	7,002	7,714
Selling, general and administrative expenses	8,093	9,005
Operating profit (loss)	(1,090)	(1,290)
Non-operating income		
Interest income	39	58
Dividend income	31	31
Share of profit of entities accounted for using equity method	16	287
Foreign exchange gains	1,747	1,237
Other	115	167
Total non-operating income	1,951	1,782
Non-operating expenses		
Interest expenses	630	1,276
Other	16	131
Total non-operating expenses	647	1,407
Ordinary profit (loss)	213	(915)
Extraordinary income		
Gain on change in equity	-	157
Gain on sales of non-current assets	21	6
Gain on negative goodwill	1,237	-
Total extraordinary income	1,258	163
Extraordinary losses		
Loss on sales of non-current assets	6	1
Loss on retirement of non-current assets	10	10
Total extraordinary losses	17	12
Profit (loss) before income taxes	1,454	(764)
Income taxes - current	951	1,392
Income taxes - deferred	(391)	(1,275)
Total income taxes	560	117
Profit (loss)	894	(881)
Profit (loss) attributable to		
Profit (loss) attributable to owners of parent	1,118	(516)
Profit (loss) attributable to non-controlling interests	(224)	(365)
Other comprehensive income		
Valuation difference on available-for-sale securities	(107)	467
Deferred gains or losses on hedges	294	60
Foreign currency translation adjustment	7,240	4,940
Remeasurements of defined benefit plans, net of tax	(0)	6
Share of other comprehensive income of entities accounted for using equity method	358	206
Total other comprehensive income	7,785	5,681
Comprehensive income	8,679	4,799
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	7,390	3,980
Comprehensive income attributable to non-controlling interests	1,288	818

(3) Consolidated statements of cash flows

(Millions of yen)

	Six months ended September 30, 2022	Six months ended September 30, 2023
Cash flows from operating activities		
Profit (loss) before income taxes	1,454	(764)
Depreciation	5,984	7,064
Loss (gain) on change in equity	-	(157)
Amortization of goodwill	(2)	(2)
Increase (decrease) in assets and liabilities related to retirement benefits	9	31
Increase (decrease) in provision for directors' retirement benefits	(1)	1
Increase (decrease) in provision for directors' bonuses	(7)	(52)
Interest and dividend income	(71)	(89)
Interest expenses	630	1,276
Foreign exchange losses (gains)	(1,171)	(801)
Share of loss (profit) of entities accounted for using equity method	(16)	(287)
Loss (gain) on sales of property, plant and equipment	(15)	(4)
Loss on retirement of property, plant and equipment	10	10
Decrease (increase) in notes and accounts receivable - trade	2,599	1,147
Decrease (increase) in inventories	1,285	(591)
Increase (decrease) in notes and accounts payable - trade	(1,066)	3,894
Gain on negative goodwill	(1,237)	-
Increase (decrease) in contract liabilities	1,403	355
Decrease (increase) in accounts receivable - other	(474)	(226)
Other, net	1,014	1,526
Subtotal	10,327	12,331
Interest and dividend income received	106	132
Interest expenses paid	(631)	(1,305)
Income taxes paid	(1,368)	(1,906)
Net cash provided by (used in) operating activities	8,434	9,251
Cash flows from investing activities		
Purchase of property, plant and equipment	(9,476)	(5,515)
Proceeds from sales of property, plant and equipment	104	108
Purchase of intangible assets	(17)	(35)
Purchase of investment securities	(24)	(23)
Purchase of shares of subsidiaries resulting in change in scope of consolidation	(632)	-
Other, net	(13)	(52)
Net cash provided by (used in) investing activities	(10,061)	(5,517)

(Millions of yen)

	Six months ended September 30, 2022	Six months ended September 30, 2023
Cash flows from financing activities		
Net increase (decrease) in short-term loans payable	(8,613)	5,375
Proceeds from long-term loans payable	20,734	3,200
Repayments of long-term loans payable	(5,711)	(6,656)
Purchase of treasury shares	(0)	(18)
Cash dividends paid	(186)	(187)
Dividends paid to non-controlling interests	(665)	(306)
Repayments of lease obligations	(505)	(532)
Proceeds from sales of treasury shares	1	-
Other, net	430	-
Net cash provided by (used in) financing activities	5,485	874
Effect of exchange rate change on cash and cash equivalents	697	413
Net increase (decrease) in cash and cash equivalents	4,556	5,021
Cash and cash equivalents at beginning of period	1,981	5,491
Cash and cash equivalents at end of period	6,537	10,512

(4) Notes to quarterly consolidated financial statements

Uncertainties of entity's ability to continue as going concern

Not applicable.

Substantial changes in the amount of shareholders' equity

Not applicable.

Changes in the scope of consolidation and equity method application

(Significant changes in the scope of consolidation)

F-Tech North America Inc., a newly established company, is included in the scope of consolidation from the first quarter of the current fiscal year.

Application of special accounting for preparing quarterly consolidated financial statements

(Calculation of tax expenses)

Tax expenses in the quarterly consolidated financial statements for a portion of consolidated subsidiaries are calculated first by reasonably estimating the effective tax rate after applying tax effect accounting against profit before income taxes for the fiscal year including the second quarter ended September 30, 2023, and next by multiplying the quarterly profit (loss) before income taxes by such estimated effective tax rate.

Segment information, etc.

Segment information

I. Six months ended September 30, 2022

1. Disclosure of net sales and profit (loss) for each reportable segment

(Millions of yen)

	Reportable segments			Total
	Japan	North America	Asia	
Net sales				
Net sales to external customers	10,117	78,468	32,674	121,260
Intersegment sales and transfers	7,678	595	890	9,164
Total	17,795	79,064	33,564	130,424
Segment profit (loss)	182	(2,205)	705	(1,318)

2. Differences between total amounts of profit (loss) for reportable segments and amounts in the consolidated statements of income and comprehensive income and main details of these differences (matters relating to difference adjustments)

(Millions of yen)

Profit	Amount
Reportable segments total	(1,318)
Elimination of intersegment transactions	227
Operating loss in the consolidated statements of income and comprehensive income	(1,090)

3. Disclosure of impairment loss on non-current assets and goodwill, etc. for each reportable segment

(Significant gain on negative goodwill)

A gain on negative goodwill of 1,237 million yen was recorded in the first quarter ended June 30, 2022 as a result of acquiring shares in India Steel Summit Private Limited to make it a consolidated subsidiary. The amount of gain on negative goodwill is disclosed based on the amount after a significant revision of the initial allocation of acquisition cost due to the finalization of the provisional accounting treatment for the business combination.

II. Six months ended September 30, 2023

1. Disclosure of net sales and profit (loss) for each reportable segment

(Millions of yen)

	Reportable segments			Total
	Japan	North America	Asia	
Net sales				
Net sales to external customers	13,816	97,004	28,483	139,303
Intersegment sales and transfers	4,528	774	1,350	6,653
Total	18,345	97,778	29,834	145,957
Segment profit (loss)	372	(1,486)	(173)	(1,287)

2. Differences between total amounts of profit (loss) for reportable segments and amounts in the consolidated statements of income and comprehensive income and main details of these differences (matters relating to difference adjustments)

(Millions of yen)

Profit	Amount
Reportable segments total	(1,287)
Elimination of intersegment transactions	(3)
Operating loss in the consolidated statements of income and comprehensive income	(1,290)

3. Disclosure of impairment loss on non-current assets and goodwill, etc. for each reportable segment
Not applicable.

Significant events after reporting period

Not applicable.