

Consolidated Financial Results
for the First Quarter of the Fiscal Year Ending December 31, 2023
(Three Months Ended March 31, 2023)

[Japanese GAAP]

April 28, 2023

Company name: Fenwal Controls of Japan, Ltd. Listing: Tokyo Stock Exchange
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 Scheduled date of filing of Quarterly Report: May 10, 2023
 Scheduled date of payment of dividend: -
 Preparation of supplementary materials for quarterly financial results: None
 Holding of quarterly financial results meeting: None

(All amounts are rounded down to the nearest million yen)

1. Consolidated Financial Results for the First Three Months of 2023 (January 1 to March 31, 2023)

(1) Consolidated results of operations (Percentages represent year-on-year changes)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
Three months ended Mar. 31, 2023	4,064	27.7	624	55.1	630	48.8	424	42.6
Three months ended Mar. 31, 2022	3,181	(19.9)	402	(9.7)	424	(5.5)	297	9.8

Note: Comprehensive income (millions of yen) Three months ended Mar. 31, 2023: 508 (up 118.5%)

Three months ended Mar. 31, 2022: 232 (down 41%)

	Net income per share	Diluted net income per share
	Yen	Yen
Three months ended Mar. 31, 2023	75.77	-
Three months ended Mar. 31, 2022	53.21	-

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio	Net assets per share
	Million yen	Million yen	%	Yen
As of Mar. 31, 2023	19,435	12,425	63.9	2,216.56
As of Dec. 31, 2022	18,813	12,312	65.4	2,196.73

Reference: Shareholders' equity (millions of yen) As of Mar. 31, 2023: 12,425 As of Dec. 31, 2022: 12,312

2. Dividends

	Dividends per share				
	1Q-end	2Q-end	3Q-end	Year-end	Total
	Yen	Yen	Yen	Yen	Yen
2022	-	0.00	-	70.00	70.00
2023	-	-	-	-	-
2023 (forecast)	-	0.00	-	72.00	72.00

Note: Revisions to the most recently announced dividend forecast: None

3. Consolidated Forecast for 2023 (January 1 to December 31, 2023)

(Percentages represent year-on-year changes)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent		Net income per share
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen
Full year	13,039	5.1	1,255	(4.2)	1,310	(11.4)	712	(13.8)	127.09

Note: Revisions to the most recently announced consolidated forecast: None

* Notes

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

(2) Application of special accounting methods for presenting quarterly consolidated financial statements: None

(3) Changes in accounting policies and accounting-based estimates, and restatements

1) Changes in accounting policies due to revisions in accounting standards, others: None

2) Changes in accounting policies other than 1) above: None

3) Changes in accounting-based estimates: None

4) Restatements: None

(4) Number of shares issued (common stock)

1) Number of shares issued at the end of the period (including treasury shares)

As of Mar. 31, 2023:	5,893,000 shares	As of Dec. 31, 2022:	5,893,000 shares
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2) Number of treasury shares at the end of the period

As of Mar. 31, 2023:	287,122 shares	As of Dec. 31, 2022:	287,922 shares
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3) Average number of shares during the period

Three months ended Mar. 31, 2023:	5,605,274 shares	Three months ended Mar. 31, 2022:	5,596,927 shares
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Note: The number of treasury shares excluded from the calculation of the number of treasury shares at the end of the period and average number of shares during the period include the shares of the Company held by Custody Bank of Japan, Ltd. (Trust Account) as trust assets for distributing stock to officers.

* The current financial report is not subject to quarterly review by certified public accountants or auditing firms.

* Cautionary statement with respect to forward-looking statements, and other special items

Cautionary statement with respect to forecasts

Forecasts of future performance in this document are based on assumption judged to be valid and information currently available to the Company's management, but are not promises by the Company regarding future performance. Actual results may differ materially from the forecasts for a number of reasons. Please refer to "1. Qualitative Information on Quarterly Consolidated Financial Performance, (3) Explanation of Consolidated Forecast and Other Forward-looking Statements" on page 4 for forecast assumptions and notes of caution for usage.

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1. Qualitative Information on Quarterly Consolidated Financial Performance

(1) Explanation of Results of Operations

During the first quarter of 2023, there was a slow recovery of the Japanese economy as economic activity began to return to normal due to the lifting of restrictions on various activities and the government stimulus measures as pandemic safety measures continue.

The outlook for the economy remains uncertain because of concerns about a global economic downturn as countries worldwide raise interest rates and about the rising cost of resources caused by numerous events worldwide.

We are continuing to focus on measures to resolve the misconduct incident and take actions to prevent this type of problem from happening again, such as by revising and strengthening our corporate culture. We are determined to restore the trust of all our stakeholders. In addition, we are making substantial expenditures for developing the skills of our workforce, adding more production equipment and taking other actions to achieve medium to long-term growth.

Orders received decreased mainly because of a downturn in orders in the thermal segment caused by the slowdown of the market for equipment used in the semiconductor industry. Sales were higher than one year earlier in part because of a recovery of sales in the fire pumps segment.

Orders received were 2,649 million yen, down 12.6% year-on-year and sales were 4,064 million yen, up 27.7%. Operating profit was 624 million yen, up 55.1%, due to the increase in gross profit resulting from the increase in sales. Ordinary profit was 630 million yen, up 48.8%, and profit attributable to owners of parent was 424 million yen, up 42.6%.

Business segment performance was as follows:

Safety Security Protection (SSP)

Sales increased with the support of strong sales of fire prevention equipment updating projects, alarms for the electric power industry, fire extinguishing systems, and explosion-resistant products for various types of equipment. Orders received decreased due partly to the negative impact of the misconduct incident on sales activities.

Orders received were 1,189 million yen, down 15.3% year-on-year, and sales were 1,489 million yen, up 27.3%.

Activities concerning the misconduct incident will continue along with measures for increasing orders and sales. We are working on enhancing the performance of all products in the alarm, fire extinguishing and explosion-resistant product categories. There are also sales activities for updating and renovating equipment and for products and services involving the electric power industry and testing chambers with specific characteristics. Skill enhancement programs are another priority. By strengthening education, training and other activities for employees, we plan to build a sound framework for consistent growth in the future.

Technology and product development activities are continuing for the next lineup of relays used in automatic fire detection equipment, updated detectors and other products.

Thermal

Orders decreased mainly because of downturns in orders for hot plates and sensors used in semiconductor manufacturing equipment, the main category of this segment, as investments in the semiconductor equipment market declined, chiefly in the memory device sector. Sales continued to increase.

Orders received were 452 million yen, down 34.7% year-on-year, and sales were 705 million yen, up 44.2%.

Companies in the semiconductor manufacturing equipment industry are likely to remain cautious. One reason is the decline in investments associated with export restrictions to begin in July 2023. Nevertheless, the market for this equipment is expected to continue to expand and we will reinforce our manufacturing capabilities in this sector for more growth.

Activities are continuing for the development of hot plates, the main product in this segment, with even better functions and performance in order to meet the needs of individual customers and the market overall. We are supplying customers with prototypes for the assessment of performance. In the temperature sensor and thermo switch categories as well, there are numerous development programs with emphasis on customized products for specific customers.

Medical

There was a challenging business climate caused by declining budgets and demand in overseas markets due to the prolonged pandemic and by inventory reductions by customers. Difficulties in the market for artificial kidney dialysis equipment for export, the main product of this segment, and associated products also held down sales. Products used with artificial kidney dialysis equipment were down in Japan too, a category that had been performing well. This is attributable mainly to the continuing limitations on the ability to supply these products caused by the difficulty of procuring parts and the high cost of raw materials. Orders increased because customers are placing orders for delivery well into the future due to concerns about the long time required to procure parts.

Orders received were 340 million yen, up 40.8% year-on-year, and sales were 263 million yen, down 9.3%.

The outlook is for a slow upturn in shipments to customers outside Japan of artificial kidney dialysis equipment and associated products, the primary product of this segment. As a result, we expect the performance of this segment to approach the level in our initial plan.

The development of more advanced functions and control software is continuing in order to produce a new type of artificial kidney dialysis equipment that is even easier to use. Another theme of development programs is new medical devices and improvements to current key components.

Printed Wiring Board Assembly (PWBA)

Orders received and sales were down. Both declines are attributable to lower production of industrial products caused by limited supplies of some electronic components and by customers' reductions of inventories of products for office equipment.

Orders received were 221 million yen, down 35.6% year-on-year, and sales were 229 million yen, down 27.6%.

Although demand in the medical equipment and industrial equipment categories is recovering, production is down for products used in industrial equipment and office equipment because of shortages of electronic components. Furthermore, customers are reducing inventories. As a result, the business climate in this segment is expected to remain challenging.

Fire Pumps

Sales in Japan increased because of a large volume of sales of fire engines and fire pumps to local governments and the Ministry of Internal Affairs and Communications.

Outside Japan, sales of fire pumps remained strong in China and Taiwan. The number of firefighting equipment orders submitted for bids in China increased as the country lowered or ended pandemic restrictions, resulting in an increase in overseas orders received.

Orders received were 446 million yen, up 27.5% year-on-year, and sales were 1,376 million yen, up 50.4%. Due to the characteristics of the firefighting pump business, most of the deliveries of products for which orders were received in second half of the previous fiscal year were in the first quarter of this fiscal year. As a result, there is often a big difference between first quarter sales and orders.

Orders in Japan are beginning to increase, chiefly for fire engines, as budgets of the national and local governments recover. However, we expect that the high cost of raw materials and other difficulties will continue to exert downward pressure on earnings in Japan and other countries.

Development programs are continuing for new models of air-cooled and water-cooled fire pumps.

(2) Explanation of Financial Position

Total assets amounted to 19,435 million yen at the end of the first quarter of 2023, an increase of 622 million yen or 3.3% compared with 18,813 million yen at the end of 2022. The main reasons were a 508 million yen increase in notes and accounts receivable-trade (up 25.0%) and a 191 million yen increase in raw materials (up 12.4%).

Total liabilities amounted to 7,009 million yen, an increase of 509 million yen or 7.8% compared with 6,500 million yen at the end of 2022. This increase was mainly due to a 596 million yen increase in notes and accounts payable-trade (up 32.4%) and a 73 million yen decrease in long-term borrowings (down 7.9%).

Net assets totaled 12,425 million yen, an increase of 112 million yen or 0.9% compared with 12,312 million yen at the end of 2022. The main reason was a 72 million yen increase in valuation difference on available-for-sale securities (up 13.6%).

(3) Explanation of Consolidated Forecast and Other Forward-looking Statements

There are no revisions to the consolidated earnings forecast for 2023, which was disclosed on February 10, 2023.

2. Quarterly Consolidated Financial Statements and Notes**(1) Quarterly Consolidated Balance Sheet**

	(Thousands of yen)	
	2022 (As of Dec. 31, 2022)	First quarter of 2023 (As of Mar. 31, 2023)
Assets		
Current assets		
Cash and deposits	6,316,751	6,419,876
Notes and accounts receivable-trade	2,037,864	2,546,631
Electronically recorded monetary claims-operating	1,219,146	1,372,662
Accounts receivable from completed construction contracts and contract assets	1,766,471	1,687,430
Finished goods	527,609	538,020
Work in process	425,536	397,809
Raw materials	1,543,158	1,734,455
Other	115,249	111,529
Allowance for doubtful accounts	(3,899)	(3,899)
Total current assets	13,947,889	14,804,515
Non-current assets		
Property, plant and equipment	1,254,861	1,279,019
Intangible assets		
Goodwill	926,590	897,634
Other	168,924	172,281
Total intangible assets	1,095,515	1,069,915
Investments and other assets		
Investment securities	2,015,209	1,909,511
Other	822,600	393,192
Allowance for doubtful accounts	(322,747)	(20,650)
Total investments and other assets	2,515,062	2,282,054
Total non-current assets	4,865,439	4,630,989
Total assets	18,813,328	19,435,505
Liabilities		
Current liabilities		
Notes and accounts payable-trade	1,841,883	2,438,011
Accounts payable for construction contracts	427,671	421,696
Short-term borrowings	550,000	700,000
Current portion of long-term borrowings	295,920	295,920
Income taxes payable	206,922	141,213
Provision for bonuses	-	95,160
Provision for bonuses for directors (and other officers)	-	4,062
Provision for product warranties	119,972	138,906
Other	1,045,206	897,652
Total current liabilities	4,487,576	5,132,622
Non-current liabilities		
Long-term borrowings	936,220	862,240
Provision for share awards for directors (and other officers)	7,124	6,925
Retirement benefit liability	330,053	322,407
Asset retirement obligations	23,852	23,852
Provision for loss related to product repair	696,800	644,271
Other	18,883	17,428
Total non-current liabilities	2,012,935	1,877,125
Total liabilities	6,500,512	7,009,747

	(Thousands of yen)	
	2022 (As of Dec. 31, 2022)	First quarter of 2023 (As of Mar. 31, 2023)
Net assets		
Shareholders' equity		
Share capital	996,600	996,600
Capital surplus	1,460,517	1,460,517
Retained earnings	9,340,161	9,368,575
Treasury shares	(416,416)	(415,495)
Total shareholders' equity	11,380,862	11,410,197
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	531,606	603,920
Foreign currency translation adjustment	418,441	426,839
Remeasurements of defined benefit plans	(18,093)	(15,200)
Total accumulated other comprehensive income	931,954	1,015,559
Total net assets	12,312,816	12,425,757
Total liabilities and net assets	18,813,328	19,435,505

(2) Quarterly Consolidated Statements of Income and Comprehensive Income
(Quarterly Consolidated Statement of Income)
(For the Three-month Period)

	(Thousands of yen)	
	First three months of 2022 (Jan. 1 – Mar. 31, 2022)	First three months of 2023 (Jan. 1 - Mar. 31, 2023)
Net sales	3,181,575	4,064,240
Cost of sales	2,162,225	2,785,810
Gross profit	1,019,350	1,278,430
Selling, general and administrative expenses	616,570	653,528
Operating profit	402,779	624,901
Non-operating income		
Interest income	1,467	8,232
Foreign exchange gains	18,951	76
Other	4,409	1,235
Total non-operating income	24,828	9,543
Non-operating expenses		
Interest expenses	3,489	3,043
Other	25	431
Total non-operating expenses	3,515	3,475
Ordinary profit	424,093	630,969
Extraordinary income		
Gain on sale of investment securities	33,670	6,388
Total extraordinary income	33,670	6,388
Profit before income taxes	457,763	637,357
Income taxes-current	130,516	132,320
Income taxes-deferred	29,429	80,339
Total income taxes	159,946	212,660
Profit	297,817	424,697
Profit attributable to owners of parent	297,817	424,697

(Quarterly Consolidated Statement of Comprehensive Income)
(For the Three-month Period)

	(Thousands of yen)	
	First three months of 2022 (Jan. 1 - Mar. 31, 2022)	First three months of 2023 (Jan. 1 - Mar. 31, 2023)
Profit	297,817	424,697
Other comprehensive income		
Valuation difference on available-for-sale securities	(152,037)	72,314
Foreign currency translation adjustment	87,221	8,398
Remeasurements of defined benefit plans, net of tax	(366)	2,892
Total other comprehensive income	(65,182)	83,605
Comprehensive income	232,634	508,302
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	232,634	508,302

(3) Notes to Quarterly Consolidated Financial Statements**Going Concern Assumption**

Not applicable.

Significant Changes in Shareholders' Equity

Not applicable.

Segment and Other Information

Segment Information

I First three months of 2022 (Jan. 1 – Mar. 31, 2022)

Information related to net sales and profit or loss for each reportable segment and breakdown of revenue

(Thousands of yen)

	Reportable segment						Adjustment (Note 1)	Amounts shown on quarterly consolidated statement of income (Note 2)
	Safety Security Protection	Thermal	Medical	Printed Wiring Board Assembly	Fire Pumps	Total		
Net sales								
Goods or services that are transferred at a point in time	86,080	489,339	290,931	316,421	915,208	2,097,981	-	2,097,981
Goods or services that are transferred over a certain period of time	1,083,594	-	-	-	-	1,083,594	-	1,083,594
Revenue from contracts with customers	1,169,674	489,339	290,931	316,421	915,208	3,181,575	-	3,181,575
Other revenue	-	-	-	-	-	-	-	-
External sales	1,169,674	489,339	290,931	316,421	915,208	3,181,575	-	3,181,575
Inter-segment sales and transfers	-	-	-	-	-	-	-	-
Total	1,169,674	489,339	290,931	316,421	915,208	3,181,575	-	3,181,575
Segment profit	252,914	122,680	18,418	72,934	76,181	543,129	(140,349)	402,779

Notes: 1. The adjustment of negative 140,349 thousand yen to segment profit includes corporate expenses related to the administration division that cannot be attributed to any reportable segments.

2. Segment profit is adjusted with operating profit shown on the quarterly consolidated statement of income.

II First three months of 2023 (Jan. 1– Mar. 31, 2023)

Information related to net sales and profit or loss for each reportable segment and breakdown of revenue

(Thousands of yen)

	Reportable segment						Adjustment (Note 1)	Amounts shown on quarterly consolidated statement of income (Note 2)
	Safety Security Protection	Thermal	Medical	Printed Wiring Board Assembly	Fire Pumps	Total		
Net sales								
Goods or services that are transferred at a point in time	213,386	705,717	263,818	229,149	1,376,363	2,788,435	-	2,788,435
Goods or services that are transferred over a certain period of time	1,275,805	-	-	-	-	1,275,805	-	1,275,805
Revenue from contracts with customers	1,489,191	705,717	263,818	229,149	1,376,363	4,064,240	-	4,064,240
Other revenue	-	-	-	-	-	-	-	-
External sales	1,489,191	705,717	263,818	229,149	1,376,363	4,064,240	-	4,064,240
Inter-segment sales and transfers	-	-	-	-	-	-	-	-
Total	1,489,191	705,717	263,818	229,149	1,376,363	4,064,240	-	4,064,240
Segment profit	351,072	165,777	24,952	23,363	199,334	764,499	(139,597)	624,901

Notes: 1. The adjustment of negative 139,597 thousand yen to segment profit includes corporate expenses related to the administration division that cannot be attributed to any reportable segments.

2. Segment profit is adjusted with operating profit shown on the quarterly consolidated statement of income.

This financial report is solely a translation of “Kessan Tanshin” (in Japanese, including attachments), which has been prepared in accordance with accounting principles and practices generally accepted in Japan, for the convenience of readers who prefer an English translation.