

Consolidated Financial Results
for the Second Quarter of the Fiscal Year Ending December 31, 2023
(Six Months Ended June 30, 2023)

[Japanese GAAP]

July 31, 2023

Company name: Fenwal Controls of Japan, Ltd. Listing: Tokyo Stock Exchange
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 Scheduled date of filing of Quarterly Report: August 9, 2023
 Scheduled date of payment of dividend: -
 Preparation of supplementary materials for quarterly financial results: Yes
 Holding of quarterly financial results meeting: Yes (for analysts)

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

1. Consolidated Financial Results for the First Six Months of 2023 (January 1 to June 30, 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	%
Six months ended Jun. 30, 2023	6,486	10.1	601	(4.2)	671	(8.0)	279	(12.8)
Six months ended Jun. 30, 2022	5,891	(9.4)	628	(8.8)	730	3.0	320	(27.2)

Note: Comprehensive income (millions of yen) Six months ended Jun. 30, 2023: 485 (up 63.8%)
 Six months ended Jun. 30, 2022: 296 (down 40.1%)

	Net income per share	Diluted net income per share
	Yen	Yen
Six months ended Jun. 30, 2023	49.92	-
Six months ended Jun. 30, 2022	57.34	-

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio	Net assets per share
	Million yen	Million yen	%	Yen
As of Jun. 30, 2023	18,789	12,404	66.0	2,212.14
As of Dec. 31, 2022	18,813	12,312	65.4	2,196.73

Reference: Shareholders' equity (millions of yen) As of Jun. 30, 2023: 12,404 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	-	0.00	-	-	-
2023 (forecast)	-	-	-	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 Jun. 30, 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 Jun. 30, 2023:	285,522 shares	As of Dec. 31, 2022:	287,922 shares
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3) Average number of shares during the period

Six months ended Jun. 30, 2023:	5,606,231 shares	Six months ended Jun. 30, 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.

How to view supplementary materials for quarterly financial results

The Japanese version of the supplementary materials for the quarterly financial results will be posted on the Company's website on August 22, 2023. The English version will be posted as soon as the translation is completed.

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1. Qualitative Information on Quarterly Consolidated Financial Performance

(1) Explanation of Results of Operations

During the first half of 2023, there was a slow recovery of the Japanese economy as economic activity began to return to normal due to the easing of pandemic restrictions.

As countries worldwide raise interest rates, the outlook for the economy remains uncertain because of concerns about a global economic downturn, the rising cost of resources caused by numerous events worldwide, and foreign exchange rate volatility.

Orders received decreased mainly because of a downturn in the thermal segment caused by the slowdown of the semiconductor industry. Sales were higher than in the first half of the previous fiscal year because of a big increase in shipments in the fire pumps segment.

On July 7, 2023, we made an announcement concerning the voluntary recall and exchange of products affected by the misconduct incident. We will continue to work on determining the true causes of the frequent occurrence of product problems and on measures centered on strengthening our corporate culture to prevent this type of problem from happening again.

Orders received were 6,306 million yen, down 0.9% year-on-year and sales were 6,486 million yen, up 10.1%. Operating profit was 601 million yen, down 4.2%, due to the increase in selling, general and administrative expenses. Ordinary profit was 671 million yen, down 8.0%, and profit attributable to owners of parent was 279 million yen, down 12.8% due to a provision for loss related to product repairs as an extraordinary loss.

Business segment performance was as follows:

Safety Security Protection (SSP)

Sales decreased for fire extinguishing system container valve inspections, where an amended law has been enacted, and new projects involving gas fire extinguishing systems. However, total sales in this segment increased because of the large volume of updating work for alarms, fire extinguishing systems and other systems in the electric power and other key industries.

Orders received were down mainly because of the severe impact of the suspension of some sales activities due to the improper conduct incident that happened in the previous fiscal year.

Orders received were 2,955 million yen, down 8.0% year-on-year, and sales were 2,514 million yen, up 3.6%.

Currently, the highest priority is the collection and replacement of products that are not operating properly. We are also focusing on improving earnings by capturing orders for maintenance inspections, replacements and other existing business activities.

Technology and product development activities are continuing for the next lineup of relays used in automatic fire detection equipment and for updates to detectors and control units concerning the internal temperatures of equipment and dangerously high temperatures.

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 manufacturing equipment market declined, chiefly in the memory device sector. Sales remained firm.

Orders received were 839 million yen, down 31.7% year-on-year, and sales were 1,332 million yen, up 31.7%.

Looking ahead, we expect the adjustment phase in the semiconductor manufacturing equipment market to continue after the third quarter, and although the impact of semiconductor export restrictions to China and other factors are uncertain, we will reinforce our manufacturing capabilities for more growth in this sector.

Activities are continuing for the development of hot plates and thermo switches for certain customers and for products with functions and even better performance to meet specific requirements. Work is also proceeding at projects for updating existing products in the temperature control unit category.

Medical

The recovery in demand for artificial kidney dialysis equipment outside Japan is slow because of the pandemic and other reasons. As a result, shipments of dialysis equipment and associated products, the main products of this segment, continue to be low. Sales of products used with artificial kidney dialysis equipment were down in Japan too, which is a category that had been performing well. This decline 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 677 million yen, up 19.4% year-on-year, and sales were 544 million yen, down 12.9%.

Signs of a recovery are slowly emerging, including the resumption of sales activities outside Japan as economic activity returns to normal. Consequently, we expect an upturn in shipments of artificial kidney dialysis equipment and associated products to overseas customers, which is the main business of this segment.

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 improvements to current key components.

Printed Wiring Board Assembly (PWBA)

Orders and sales were lower than one year earlier. Although this business segment benefited from a recovery in the inventories of customers in the office equipment sector, performance was held down by the significant negative impact of the continuing difficulty of purchasing some types of electronic components on the ability to manufacture products used in industrial equipment.

Orders received were 460 million yen, down 28.2% year-on-year, and sales were 434 million yen, down 32.4%.

We expect that the business climate in this segment will remain challenging due to the continuation of the long lead times for the procurement of some types of electronic components.

Fire Pumps

Sales and orders received in Japan increased because of a large volume of sales of fire engines and fire pumps to the Ministry of Internal Affairs and Communications and local governments. Outside Japan, sales of fire pumps remained strong in China and South Korea. The number of firefighting equipment orders submitted for bids in China increased as the country ended pandemic restrictions, resulting in an increase in overseas orders received.

Orders received were 1,374 million yen, up 92.8% year-on-year, and sales were 1,660 million yen, up 40.0%.

In Japan, there is some uncertainty about the delivery times of vehicles based on fire trucks. We are strengthening ties with factories for outfitting fire trucks and using many activities to win public-sector orders by submitting bids to sell products to local governments.

Outside Japan, we expect that orders and sales will remain strong, chiefly in China, South Korea and Taiwan. We will increase activities for capturing orders in the Philippines, Vietnam and other countries in Southeast Asia.

A project to develop the next model of an air-cooled fire pump has been completed. We are currently concentrating on completing the development of a new model of a water-cooled fire pump.

(2) Explanation of Financial Position

1) Assets, liabilities and net assets

Total assets amounted to 18,789 million yen at the end of the second quarter of 2023, a decrease of 24 million yen or 0.1% compared with 18,813 million yen at the end of 2022. The main reasons were a 906 million yen decrease in notes and accounts receivable-trade (down 44.5%), a 571 million yen decrease in accounts receivable from completed construction contracts and contract assets (down 32.3%) and a 1,470 million yen increase in cash and deposits (up 23.3%).

Total liabilities amounted to 6,384 million yen, a decrease of 115 million yen or 1.8% compared with 6,500 million yen at the end of 2022. This decrease was mainly due to a 147 million yen decrease in long-term

borrowings (down 15.8%).

Net assets totaled 12,404 million yen, an increase of 91 million yen or 0.7% compared with 12,312 million yen at the end of 2022. The main reason was a 119 million yen increase in valuation difference on available-for-sale securities (up 22.5%).

2) Cash flows

Cash and cash equivalents (hereinafter “net cash”) at the end of the second quarter of the current fiscal year increased 2,109 million yen from the end of the previous fiscal year to 7,497 million yen.

The cash flow components during the first half and the main reasons for changes are as described below.

Cash flows from operating activities

Net cash provided by operating activities totaled 1,709 million yen, an increase of 691 million yen from the same period of the previous fiscal year. Main factors include decrease (increase) of 1,658 million yen in trade receivables.

Cash flows from investing activities

Net cash provided by investing activities totaled 727 million yen, compared with 202 million yen used in the same period of the previous fiscal year. Main factors include proceeds from withdrawal of time deposits of 679 million yen.

Cash flows from financing activities

Net cash used in financing activities totaled 394 million yen, a decrease of 5 million yen from the same period of the previous fiscal year. Main factors include dividends paid of 395 million yen.

(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)	Second quarter of 2023 (As of Jun. 30, 2023)
Assets		
Current assets		
Cash and deposits	6,316,751	7,787,407
Notes and accounts receivable-trade	2,037,864	1,131,064
Electronically recorded monetary claims-operating	1,219,146	1,038,398
Accounts receivable from completed construction contracts and contract assets	1,766,471	1,195,265
Finished goods	527,609	736,478
Work in process	425,536	364,409
Raw materials	1,543,158	1,787,844
Other	115,249	97,455
Allowance for doubtful accounts	(3,899)	(3,899)
Total current assets	13,947,889	14,134,424
Non-current assets		
Property, plant and equipment	1,254,861	1,272,693
Intangible assets		
Goodwill	926,590	868,678
Other	168,924	169,014
Total intangible assets	1,095,515	1,037,692
Investments and other assets		
Investment securities	2,015,209	1,974,509
Other	822,600	390,589
Allowance for doubtful accounts	(322,747)	(20,650)
Total investments and other assets	2,515,062	2,344,449
Total non-current assets	4,865,439	4,654,835
Total assets	18,813,328	18,789,260
Liabilities		
Current liabilities		
Notes and accounts payable-trade	1,841,883	1,756,492
Accounts payable for construction contracts	427,671	395,331
Short-term borrowings	550,000	700,000
Current portion of long-term borrowings	295,920	295,920
Income taxes payable	206,922	102,181
Provision for bonuses for directors (and other officers)	-	8,124
Provision for product warranties	119,972	235,686
Other	1,045,206	1,027,886
Total current liabilities	4,487,576	4,521,622
Non-current liabilities		
Long-term borrowings	936,220	788,260
Provision for share awards for directors (and other officers)	7,124	5,010
Retirement benefit liability	330,053	313,921
Asset retirement obligations	23,852	23,852
Provision for loss related to product repair	696,800	716,340
Other	18,883	15,724
Total non-current liabilities	2,012,935	1,863,109
Total liabilities	6,500,512	6,384,731

	(Thousands of yen)	
	2022 (As of Dec. 31, 2022)	Second quarter of 2023 (As of Jun. 30, 2023)
Net assets		
Shareholders' equity		
Share capital	996,600	996,600
Capital surplus	1,460,517	1,460,517
Retained earnings	9,340,161	9,223,760
Treasury shares	(416,416)	(413,653)
Total shareholders' equity	11,380,862	11,267,224
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	531,606	651,425
Foreign currency translation adjustment	418,441	498,186
Remeasurements of defined benefit plans	(18,093)	(12,308)
Total accumulated other comprehensive income	931,954	1,137,303
Total net assets	12,312,816	12,404,528
Total liabilities and net assets	18,813,328	18,789,260

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

(Thousands of yen)

	First six months of 2022 (Jan. 1 - Jun. 30, 2022)	First six months of 2023 (Jan. 1 - Jun. 30, 2023)
Net sales	5,891,219	6,486,321
Cost of sales	3,992,637	4,427,270
Gross profit	1,898,581	2,059,051
Selling, general and administrative expenses	1,270,425	1,457,406
Operating profit	628,155	601,644
Non-operating income		
Interest income	4,574	17,356
Dividend income	24,202	27,764
Foreign exchange gains	65,438	25,087
Other	14,791	6,241
Total non-operating income	109,006	76,450
Non-operating expenses		
Interest expenses	6,885	5,989
Other	40	431
Total non-operating expenses	6,926	6,421
Ordinary profit	730,236	671,674
Extraordinary income		
Gain on sale of investment securities	33,670	6,388
Total extraordinary income	33,670	6,388
Extraordinary losses		
Provision for loss on related to product repairs	212,621	246,591
Total extraordinary losses	212,621	246,591
Profit before income taxes	551,285	431,471
Income taxes-current	196,155	89,874
Income taxes-deferred	34,194	61,715
Total income taxes	230,349	151,589
Profit	320,935	279,882
Profit attributable to owners of parent	320,935	279,882

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

(Thousands of yen)

	First six months of 2022 (Jan. 1 - Jun. 30, 2022)	First six months of 2023 (Jan. 1 - Jun. 30, 2023)
Profit	320,935	279,882
Other comprehensive income		
Valuation difference on available-for-sale securities	(249,996)	119,819
Foreign currency translation adjustment	226,116	79,744
Remeasurements of defined benefit plans, net of tax	(732)	5,785
Total other comprehensive income	(24,613)	205,349
Comprehensive income	296,322	485,231
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	296,322	485,231

(3) Quarterly Consolidated Statement of Cash Flows

(Thousands of yen)

	First six months of 2022 (Jan. 1 – Jun. 30, 2022)	First six months of 2023 (Jan. 1 – Jun. 30, 2023)
Cash flows from operating activities		
Profit before income taxes	551,285	431,471
Depreciation	109,266	99,417
Amortization of goodwill	57,911	57,911
Increase (decrease) in provision for product warranties	-	115,713
Increase (decrease) in allowance for doubtful accounts	-	(302,097)
Increase (decrease) in provision for bonuses	13,200	-
Increase (decrease) in provision for bonuses for directors (and other officers)	8,084	8,124
Increase (decrease) in retirement benefit liability	(22,079)	(7,793)
Increase (decrease) in provision for share awards for directors (and other officers)	2,543	(2,114)
Increase (decrease) in provision for loss on related to product repair	113,374	19,539
Interest and dividend income	(28,777)	(45,121)
Interest expenses	6,885	5,989
Foreign exchange losses (gains)	(44,667)	(19,884)
Loss (gain) on sale of investment securities	(33,670)	(6,388)
Decrease (increase) in trade receivables	649,619	1,658,847
Decrease (increase) in inventories	172,254	(391,229)
Increase (decrease) in trade payables	(349,517)	(117,730)
Increase (decrease) in contract liabilities	266,248	93,915
Other, net	(173,671)	264,983
Subtotal	1,298,290	1,863,554
Interest and dividends received	5,660	39,715
Interest paid	(6,964)	(6,089)
Income taxes paid	(279,187)	(187,823)
Net cash provided by (used in) operating activities	1,017,798	1,709,356
Cash flows from investing activities		
Payments into time deposits	(1,108,440)	-
Proceeds from withdrawal of time deposits	1,231,600	679,950
Purchase of short-term and long-term investment securities	(171,104)	(516)
Proceeds from sale and redemption of short-term and long-term investment securities	44,467	212,408
Purchase of property, plant and equipment	(142,640)	(104,459)
Purchase of software	(24,478)	(64,235)
Proceeds from collection of loans receivable	455	3,000
Loan advances	(30,000)	-
Other, net	(2,746)	1,409
Net cash provided by (used in) investing activities	(202,886)	727,557
Cash flows from financing activities		
Net increase (decrease) in short-term borrowings	150,000	150,000
Repayments of long-term borrowings	(147,960)	(147,960)
Redemption of bonds	(16,000)	-
Proceeds from disposal of treasury shares	-	2,762
Dividends paid	(377,796)	(395,055)
Other, net	(7,710)	(4,004)
Net cash provided by (used in) financing activities	(399,467)	(394,258)
Effect of exchange rate change on cash and cash equivalents	87,244	66,920
Net increase (decrease) in cash and cash equivalents	502,689	2,109,576
Cash and cash equivalents at beginning of period	5,740,268	5,387,851
Cash and cash equivalents at end of period	6,242,957	7,497,427

(4) 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 six months of 2022 (Jan. 1 – Jun. 30, 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	187,950	1,011,603	625,111	641,967	1,186,181	3,652,812	-	3,652,812
Goods or services that are transferred over a certain period of time	2,238,406	-	-	-	-	2,238,406	-	2,238,406
Revenue from contracts with customers	2,426,356	1,011,603	625,111	641,967	1,186,181	5,891,219	-	5,891,219
Other revenue	-	-	-	-	-	-	-	-
External sales	2,426,356	1,011,603	625,111	641,967	1,186,181	5,891,219	-	5,891,219
Inter-segment sales and transfers	-	-	-	-	-	-	-	-
Total	2,426,356	1,011,603	625,111	641,967	1,186,181	5,891,219	-	5,891,219
Segment profit (loss)	542,016	249,024	34,355	95,401	(2,177)	918,620	(290,464)	628,155

Notes: 1. The adjustment of negative 290,464 thousand yen to segment profit (loss) includes corporate expenses related to the administration division that cannot be attributed to any reportable segments.

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

II First six months of 2023 (Jan. 1– Jun. 30, 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	388,024	1,332,721	544,576	434,155	1,660,560	4,360,038	-	4,360,038
Goods or services that are transferred over a certain period of time	2,126,283	-	-	-	-	2,126,283	-	2,126,283
Revenue from contracts with customers	2,514,307	1,332,721	544,576	434,155	1,660,560	6,486,321	-	6,486,321
Other revenue	-	-	-	-	-	-	-	-
External sales	2,514,307	1,332,721	544,576	434,155	1,660,560	6,486,321	-	6,486,321
Inter-segment sales and transfers	-	-	-	-	-	-	-	-
Total	2,514,307	1,332,721	544,576	434,155	1,660,560	6,486,321	-	6,486,321
Segment profit	430,352	293,790	50,578	39,695	103,327	917,744	(316,099)	601,644

Notes: 1. The adjustment of negative 316,099 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.