

Consolidated Financial Results
for the Second Quarter of the Fiscal Year Ending December 31, 2024
(Six Months Ended June 30, 2024)

[Japanese GAAP]

July 30, 2024

Company name: Fenwal Controls of Japan, Ltd.

Listing: Tokyo Stock Exchange

Stock code: 6870

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Scheduled date of filing of Semi-annual Report:

August 9, 2024

Scheduled date of payment of dividend:

September 6, 2024

Preparation of supplementary materials for financial results:

Yes

Holding of 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 2024 (January 1 to June 30, 2024)

(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, 2024	6,496	0.2	978	62.7	1,122	67.1	922	229.6
Six months ended Jun. 30, 2023	6,486	10.1	601	(4.2)	671	(8.0)	279	(12.8)

Note: Comprehensive income (millions of yen)

Six months ended Jun. 30, 2024: 1,275 (up 162.8%)

Six months ended Jun. 30, 2023: 485 (up 63.8%)

	Net income per share	Diluted net income per share
	Yen	Yen
Six months ended Jun. 30, 2024	164.53	-
Six months ended Jun. 30, 2023	49.92	-

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio	Net assets per share
	Million yen	Million yen	%	Yen
As of Jun. 30, 2024	19,308	13,547	70.2	2,416.05
As of Dec. 31, 2023	19,075	12,680	66.5	2,261.30

Reference: Shareholders' equity (millions of yen)

As of Jun. 30, 2024: 13,547

As of Dec. 31, 2023: 12,680

2. Dividends

	Dividends per share				
	1Q-end	2Q-end	3Q-end	Year-end	Total
	Yen	Yen	Yen	Yen	Yen
2023	-	0.00	-	72.00	72.00
2024	-	37.00			
2024 (forecast)			-	37.00	74.00

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

3. Consolidated Forecast for 2024 (January 1 to December 31, 2024)

(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	12,790	1.5	907	(12.3)	944	(18.5)	508	31.7	90.66

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

* Notes

(1) Significant changes in the scope of consolidation during the period: None

(2) Application of special accounting methods for presenting interim 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, 2024:	5,893,000 shares	As of Dec. 31, 2023:	5,893,000 shares
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2) Number of treasury shares at the end of the period

As of Jun. 30, 2024:	285,522 shares	As of Dec. 31, 2023:	285,522 shares
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3) Average number of shares during the period

Six months ended Jun. 30, 2024:	5,607,478 shares	Six months ended Jun. 30, 2023:	5,606,231 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 (semi-annual) 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 Interim 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 financial results

The Japanese version of the supplementary materials for the financial results will be posted on the Company's website on August 23, 2024. The English version will be posted as soon as the translation is completed.

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1. Qualitative Information on Interim Consolidated Financial Performance

(1) Explanation of Results of Operations

During the first six months of 2024, the Japanese economy continued to be uncertain, reflecting the impact of ongoing high interest rates in the US and Europe, concerns about the future of the Chinese economy, soaring resource prices associated with the international situation, and the depreciation of the yen. Nonetheless, the economy remained on a gradual recovery trend thanks to the normalization of economic activities.

In this environment, orders received posted a year-on-year increase, mainly due to large orders received by the fire pump segment for fire engines, and net sales also grew year-on-year as a result mainly of the completion of a large fire control facility in the SSP segment.

As a result, orders received were 6,351 million yen, up 0.7% year-on-year, and sales were 6,496 million yen, up 0.2%.

In terms of profit, operating profit was 978 million yen, up 62.7% year-on-year, due in part to an increase in gross profit as a result primarily of the sale of high value-added products. Ordinary profit was 1,122 million yen, up 67.1% year-on-year, reflecting mostly an increase in foreign exchange gains due to the depreciation of the yen. Profit attributable to owners of parent was 922 million yen, up 229.6% year-on-year.

Business segment performance was as follows:

Safety Security Protection (SSP)

Orders received in this segment decreased principally due to weak demand for repair works and renewal of gas fire extinguishing facilities. Meanwhile, sales rose thanks to the completion of large projects such as halon fire extinguishing facilities, which more than offset a decrease in equipment sales partly due to inventory adjustment of customers.

As a result, orders received were 2,592 million yen, down 12.3% year-on-year, and sales were 2,825 million yen, up 12.4%.

Regarding the future outlook, we expect that the amount of orders received will remain steady due to a recovery in settings for receiving orders in equipment sales and an increase in safety measure projects at plants. On the other hand, we expect that sales will remain low for the time being due to responses to product failures two years ago and interruptions in sales activities caused by prolonged responses to numerous product failures.

As for the progress of development, we are continuing renewal development such as the renewal of UL specifications using a failure detector in May 2024 and control units of disaster prevention receivers and failure detectors.

Thermal

In this segment, sales of sensors used in semiconductor manufacturing equipment, one of our mainstay products, decreased due to customers' inventory adjustment. In contrast, orders received for hot plates used in semiconductor manufacturing equipment increased because of growth in demand for AI-related products.

As a result, orders received were 917 million yen, up 9.3% year-on-year, and sales were 1,016 million yen, down 23.8%.

Regarding the future outlook, we expect that business performance will remain strong as the semiconductor market will emerge from the adjustment phase in the second half of fiscal 2024, demand for hot plates will grow, and shipment volume of sensors will recover.

As for development, we are focusing on development aiming to improve the functions and performance of hot plates in anticipation of the next-generation semiconductor manufacturing equipment.

Medical

In this segment, orders received decreased due to customers' inventory adjustment caused by a reaction to a year-on-year increase in the sale of our mainstay product, i.e., artificial kidney dialysis equipment and associated products for overseas markets.

As a result, orders received were 650 million yen, down 3.9% year-on-year, and sales were 655 million yen, up 20.3%.

In our future outlook, we expect that sluggish sales of artificial kidney dialysis equipment, our mainstay product, for overseas markets and associated products will continue.

In development operation, we continue to develop elements to expand the range of technical application.

Printed Wiring Board Assembly (PWBA)

In this segment, both orders received and sales increased due to recovery in demand for products used for industrial equipment.

As a result, orders received were 506 million yen, up 9.9% year-on-year, and sales were 463 million yen, up 6.7%.

In our future outlook, we expect that harsh conditions will continue as we face a number of challenges in attracting new customers.

Fire Pumps

In this segment, orders received increased as a result of large orders for fire engines for the use by the national and local governments and successful bidding for fire pumps for the Chinese market. Meanwhile, sales of fire engines for the national and local governments and fire pumps for overseas markets decreased.

As a result, orders received were 1,684 million yen, up 22.6% year-on-year, and sales were 1,536 million yen, down 7.5%.

In Japan, although the fire department budgets of national and local governments are showing a gradual recovery trend, we expect the future to remain uncertain as the supply of base vehicles for fire engines remains unstable.

In terms of development, we have commenced the development of derivative models of new water-cooled fire pump models.

(2) Explanation of Financial Position

1) Assets, liabilities and net assets

Total assets amounted to 19,308 million yen at the end of the second quarter of 2024, an increase of 233 million yen or 1.2% compared with 19,075 million yen at the end of 2023. The main factor of increase was 713 million yen in investment securities (up 42.7%) and the main factor of decrease was 472 million yen in notes and accounts receivable-trade (down 26.5%).

Total liabilities amounted to 5,760 million yen, a decrease of 634 million yen or 9.9% compared with 6,395 million yen at the end of 2023. The main factors for the decrease were 404 million yen (down 21.6%) in notes and accounts payable-trade, and 228 million yen (down 30.0%) in provision for loss on product repair.

Net assets totaled 13,547 million yen, an increase of 867 million yen or 6.8% compared with 12,680 million yen at the end of 2023. Major factors included a 495 million yen increase in valuation difference on available-for-sale securities (up 63.1%).

2) Cash flows

The balance of cash and cash equivalents (hereinafter, “cash”) increased 325 million yen from the end of 2023 to total 7,144 million yen at the end of the first six months of the fiscal year under review.

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

Cash flows from operating activities

Net cash provided by operating activities totaled 1,079 million yen, a decrease of 629 million yen from the same period of the previous fiscal year. This was caused principally by 1,164 million yen in profit before income taxes.

Cash flows from investing activities

Cash used in investing activities was 417 million yen (727 million yen provided in the same period of the previous fiscal year). This was chiefly owing to 405 million yen in the purchase of property, plant and equipment.

Cash flows from financing activities

Net cash used in financing activities totaled 458 million yen, an increase of 64 million yen from the same period of the previous fiscal year. This was caused mainly by dividends paid of 406 million yen.

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

There are no revisions to the consolidated earnings forecast for 2024, which was disclosed on February 9, 2024.

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

	(Thousands of yen)	
	2023 (As of Dec. 31, 2023)	Second quarter of 2024 (As of Jun. 30, 2024)
Assets		
Current assets		
Cash and deposits	6,819,624	7,144,899
Notes and accounts receivable-trade	*1 1,782,615	*1 1,309,732
Electronically recorded monetary claims-operating	*1 1,330,956	*1 1,085,821
Accounts receivable from completed construction contracts and contract assets	1,344,241	1,197,555
Securities	502,444	500,729
Finished goods	727,770	709,661
Work in process	314,936	281,668
Raw materials	1,796,717	1,931,735
Other	210,768	92,737
Allowance for doubtful accounts	(3,899)	(3,899)
Total current assets	14,826,175	14,250,641
Non-current assets		
Property, plant and equipment	1,291,918	1,624,107
Intangible assets		
Goodwill	810,766	752,854
Other	142,119	132,275
Total intangible assets	952,886	885,130
Investments and other assets		
Investment securities	1,670,353	2,384,211
Other	354,784	185,383
Allowance for doubtful accounts	(20,650)	(20,650)
Total investments and other assets	2,004,488	2,548,944
Total non-current assets	4,249,293	5,058,181
Total assets	19,075,468	19,308,823
Liabilities		
Current liabilities		
Notes and accounts payable-trade	*1 1,872,503	*1 1,468,117
Accounts payable for construction contracts	563,035	475,240
Short-term borrowings	600,000	700,000
Current portion of long-term borrowings	295,920	295,920
Income taxes payable	89,465	318,673
Provision for bonuses for directors (and other officers)	-	9,872
Provision for product warranties	315,712	285,765
Other	980,724	743,984
Total current liabilities	4,717,361	4,297,572
Non-current liabilities		
Long-term borrowings	640,300	492,340
Provision for share awards for directors (and other officers)	6,658	8,653
Retirement benefit liability	232,376	212,605
Asset retirement obligations	23,852	58,458
Provision for loss related to product repair	759,607	531,415
Other	15,118	159,806
Total non-current liabilities	1,677,914	1,463,278
Total liabilities	6,395,275	5,760,851

	(Thousands of yen)	
	2023	Second quarter of 2024
	(As of Dec. 31, 2023)	(As of Jun. 30, 2024)
Net assets		
Shareholders' equity		
Share capital	996,600	996,600
Capital surplus	1,460,517	1,460,517
Retained earnings	9,329,785	9,844,800
Treasury shares	(413,653)	(413,653)
Total shareholders' equity	11,373,249	11,888,264
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	785,366	1,281,027
Foreign currency translation adjustment	481,633	344,068
Remeasurements of defined benefit plans	39,942	34,611
Total accumulated other comprehensive income	1,306,943	1,659,707
Total net assets	12,680,192	13,547,971
Total liabilities and net assets	19,075,468	19,308,823

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

	(Thousands of yen)	
	First six months of 2023 (Jan. 1 - Jun. 30, 2023)	First six months of 2024 (Jan. 1 - Jun. 30, 2024)
Net sales	6,486,321	6,496,788
Cost of sales	4,427,270	4,153,797
Gross profit	2,059,051	2,342,991
Selling, general and administrative expenses	1,457,406	1,364,344
Operating profit	601,644	978,647
Non-operating income		
Interest income	17,356	580
Dividend income	27,764	34,495
Foreign exchange gains	25,087	109,633
Other	6,241	5,720
Total non-operating income	76,450	150,429
Non-operating expenses		
Interest expenses	5,989	5,497
Other	431	1,164
Total non-operating expenses	6,421	6,662
Ordinary profit	671,674	1,122,414
Extraordinary income		
Gain on sale of investment securities	6,388	-
Reversal of provision for loss related to product repair	-	56,214
Total extraordinary income	6,388	56,214
Extraordinary losses		
Provision for loss related to product repair	246,591	-
Office relocation expenses	-	14,069
Total extraordinary losses	246,591	14,069
Profit before income taxes	431,471	1,164,559
Income taxes-current	89,874	298,307
Income taxes-deferred	61,715	(56,367)
Total income taxes	151,589	241,939
Profit	279,882	922,619
Profit attributable to owners of parent	279,882	922,619

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

(Thousands of yen)

	First six months of 2023 (Jan. 1 - Jun. 30, 2023)	First six months of 2024 (Jan. 1 - Jun. 30, 2024)
Profit	279,882	922,619
Other comprehensive income		
Valuation difference on available-for-sale securities	119,819	495,661
Foreign currency translation adjustment	79,744	(137,565)
Remeasurements of defined benefit plans, net of tax	5,785	(5,331)
Total other comprehensive income	205,349	352,764
Comprehensive income	485,231	1,275,383
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	485,231	1,275,383

(3) Interim Consolidated Statement of Cash Flows

(Thousands of yen)

	First six months of 2023 (Jan. 1 – Jun. 30, 2023)	First six months of 2024 (Jan. 1 – Jun. 30, 2024)
Cash flows from operating activities		
Profit before income taxes	431,471	1,164,559
Depreciation	99,417	122,320
Amortization of goodwill	57,911	57,911
Increase (decrease) in provision for product warranties	115,713	(29,947)
Increase (decrease) in allowance for doubtful accounts	(302,097)	-
Increase (decrease) in provision for bonuses for directors (and other officers)	8,124	9,872
Increase (decrease) in retirement benefit liability	(7,793)	(27,455)
Increase (decrease) in provision for share awards for directors (and other officers)	(2,114)	1,994
Increase (decrease) in provision for loss related to product repair	19,539	(228,192)
Interest and dividend income	(45,121)	(35,075)
Interest expenses	5,989	5,497
Foreign exchange losses (gains)	(19,884)	(112,810)
Loss (gain) on sale of investment securities	(6,388)	-
Decrease (increase) in trade receivables	1,658,847	864,704
Decrease (increase) in inventories	(391,229)	(83,641)
Increase (decrease) in trade payables	(117,730)	(492,181)
Increase (decrease) in contract liabilities	93,915	(209,121)
Other, net	264,983	30,849
Subtotal	1,863,554	1,039,283
Interest and dividends received	39,715	36,790
Interest paid	(6,089)	(5,620)
Income taxes paid	(187,823)	(95,099)
Income taxes refund	-	104,160
Net cash provided by (used in) operating activities	1,709,356	1,079,515
Cash flows from investing activities		
Proceeds from withdrawal of time deposits	679,950	-
Purchase of short-term and long-term investment securities	(516)	(588)
Proceeds from sale and redemption of short-term and long-term investment securities	212,408	-
Purchase of property, plant and equipment	(104,459)	(405,311)
Purchase of software	(64,235)	(15,415)
Proceeds from collection of loans receivable	3,000	3,000
Other, net	1,409	718
Net cash provided by (used in) investing activities	727,557	(417,596)
Cash flows from financing activities		
Net increase (decrease) in short-term borrowings	150,000	100,000
Repayments of long-term borrowings	(147,960)	(147,960)
Proceeds from disposal of treasury shares	2,762	-
Dividends paid	(395,055)	(406,386)
Other, net	(4,004)	(4,131)
Net cash provided by (used in) financing activities	(394,258)	(458,478)
Effect of exchange rate change on cash and cash equivalents	66,920	121,834
Net increase (decrease) in cash and cash equivalents	2,109,576	325,275
Cash and cash equivalents at beginning of period	5,387,851	6,819,624
Cash and cash equivalents at end of period	7,497,427	7,144,899

(4) Notes to Interim Consolidated Financial Statements**Going Concern Assumption**

Not applicable.

Significant Changes in Shareholders' Equity

Not applicable.

Notes to Interim Consolidated Balance Sheet

*1 Notes payable and electronically recorded monetary claims-operating maturing at the end of the first six months of the fiscal year

Accounting treatment of notes payable and electronically recorded monetary claims-operating maturing at the end of the first six months of the fiscal year is performed on the date of clearing or settlement. Notes payable and electronically recorded monetary claims-operating maturing at the end of the first six months of the next fiscal year is included in the balance at the end of the fiscal year due to the last day of the fiscal year falling under a non-business day of financial institutions.

	(Thousands of yen)	
	2023 (As of Dec. 31, 2023)	Second quarter of 2024 (As of Jun. 30, 2024)
Notes receivable-trade	62,361	70,128
Electronically recorded monetary claims-operating	40,351	40,231
Notes payable-trade	111,899	62,605

Notes to Interim Consolidated Statement of Income

*1 Major components and their amounts of the selling, general and administrative expenses are as follows.

	(Thousands of yen)	
	First six months of 2023 (Jan. 1 – Jun. 30, 2023)	First six months of 2024 (Jan. 1 – Jun. 30, 2024)
Salaries	547,665	568,080
Retirement benefit expenses	33,549	16,928
Provision for share awards for directors (and other officers)	624	1,994
Provision for bonuses for directors (and other officers)	8,124	9,872
Provision for product warranties	122,505	20,765

*2 Reversal of provision for loss related to product repair

First six months of 2023 (Jan. 1 – Jun. 30, 2023)

Not applicable.

First six months of 2024 (Jan. 1 – Jun. 30, 2024)

Due to malfunctioning of our detectors, we have posted a provision for loss on product repair as the expenses for recalling and replacing. As a result of correcting the expenses for recalling and replacing, we have posted a reversal of provision for loss on product repair of 56,214 thousand yen as extraordinary income.

*3 Provision for loss related to product repair

First six months of 2023 (Jan. 1 – Jun. 30, 2023)

In response to the malfunction of detectors we manufacture and sell, we will voluntarily recall and replace the products and have posted 246,591 thousand yen, an amount that can be reasonably estimated at this point as the expenses for recall and replacement, as an extraordinary loss incurred in the first six months of the fiscal year under review.

First six months of 2024 (Jan. 1 – Jun. 30, 2024)

Not applicable.

Segment and Other Information

Segment Information

I 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 interim 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 interim consolidated statement of income.

II First six months of 2024 (Jan. 1– Jun. 30, 2024)

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 interim 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	356,093	1,016,026	655,175	463,349	1,536,336	4,026,980	-	4,026,980
Goods or services that are transferred over a certain period of time	2,469,807	-	-	-	-	2,469,807	-	2,469,807
Revenue from contracts with customers	2,825,901	1,016,026	655,175	463,349	1,536,336	6,496,788	-	6,496,788
Other revenue	-	-	-	-	-	-	-	-
External sales	2,825,901	1,016,026	655,175	463,349	1,536,336	6,496,788	-	6,496,788
Inter-segment sales and transfers	-	-	-	-	-	-	-	-
Total	2,825,901	1,016,026	655,175	463,349	1,536,336	6,496,788	-	6,496,788
Segment profit	978,961	201,196	28,001	52,290	41,801	1,302,251	(323,604)	978,647

Notes: 1. The adjustment of negative 323,604 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 interim 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.