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May 12, 2023

Consolidated Financial Results for the fiscal year ended March 31, 2023 (Under Japanese GAAP)

Company name: ESPEC CORP.
 Listing: Tokyo Stock Exchanges, Prime Market
 Securities code: 6859
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 Scheduled date of annual general meeting of shareholders: June 23, 2023
 Scheduled date to commence dividend payments: June 26, 2023
 Scheduled date to file annual securities report: June 26, 2023
 Preparation of supplementary material on financial results: Yes
 Holding of financial results briefing: Yes (An on-demand video of the presentation meeting is scheduled to be posted on the Company's website.)

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

1. Consolidated financial results for the fiscal year ended March 31, 2023 (from April 1, 2022 to March 31, 2023)

(1) Consolidated operating results

(Percentages indicate year-on-year changes.)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent	
Fiscal year ended	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
March 31, 2023	52,892	26.4	4,366	121.8	4,664	100.9	3,330	74.8
March 31, 2022	41,852	8.2	1,968	(23.5)	2,322	(18.2)	1,905	(2.8)

Note: Comprehensive income For the fiscal year ended March 31, 2023 ¥ 4,118 million 46.0 %
 For the fiscal year ended March 31, 2022 ¥ 2,820 million (13.8) %

	Basic earnings per share	Diluted earnings per share	Return on equity	Ratio of ordinary profit to total assets	Ratio of operating profit to net sales
Fiscal year ended	Yen	Yen	%	%	%
March 31, 2023	150.34	—	7.2	7.2	8.3
March 31, 2022	84.89	—	4.2	3.9	4.7

Reference: Share of profit (loss) of entities accounted for using equity method

For the fiscal year ended March 31, 2023 ¥ - million

For the fiscal year ended March 31, 2022 ¥ - million

(2) Consolidated financial position

	Total assets	Net assets	Equity-to-asset ratio	Net assets per share
As of	Millions of yen	Millions of yen	%	Yen
March 31, 2023	67,176	47,172	69.9	2,150.64
March 31, 2022	61,922	45,592	73.3	2,028.44

Reference: Equity As of March 31, 2023 ¥46,953 million

As of March 31, 2022 ¥45,378 million

(3) Consolidated cash flows

	Cash flows from operating activities	Cash flows from investing activities	Cash flows from financing activities	Cash and cash equivalents at end of period
Fiscal year ended	Millions of yen	Millions of yen	Millions of yen	Millions of yen
March 31, 2023	1,916	(1,061)	(2,898)	14,298
March 31, 2022	2,018	(932)	(2,830)	16,157

2. Cash dividends

	Annual dividends per share					Total cash dividends (Total)	Payout ratio (Consolidated)	Ratio of dividends to net assets (Consolidated)
	First quarter-end	Second quarter-end	Third quarter-end	Fiscal year-end	Total			
	Yen	Yen	Yen	Yen	Yen	Millions of yen	%	%
Fiscal year ended March 31, 2022	—	18.00	—	42.00	60.00	1,352	70.7	3.0
Fiscal year ended March 31, 2023	—	24.00	—	45.00	69.00	1,520	45.9	3.3
Fiscal year ending March 31, 2024 (Forecast)	—	25.00	—	45.00	70.00		41.9	

Note: Components of the interim dividend for the fiscal year ending March 31, 2023

Ordinary dividend ¥22 Commemorative dividend ¥2

Components of the year-end dividend for the fiscal year ending March 31, 2023

Ordinary dividend ¥43 Commemorative dividend ¥2

3. Forecasts of consolidated operating results for fiscal 2023, ending March 31, 2024 (From April 1, 2023 to March 31, 2024)

(Percentages indicate year-on-year changes.)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent		Basic earnings per share
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Yen
Six months ending September 30, 2023	26,000	13.3	1,850	32.5	1,950	12.6	1,300	32.1	59.54
Fiscal year ending March 31, 2024	56,000	5.9	5,000	14.5	5,100	9.3	3,650	9.6	167.18

* Notes

(1) Changes in significant subsidiaries during the period

(changes in specified subsidiaries resulting in the change in scope of consolidation): None

Newly included: (Company name:)

Excluded: (Company name:)

(2) Changes in accounting policies, changes in accounting estimates, and restatement

1) Changes in accounting policies due to revisions to accounting standards and other regulations: None

2) Changes in accounting policies due to other reasons: None

3) Changes in accounting estimates: None

4) Restatement: None

(3) Number of issued shares (common shares)

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

As of March 31, 2023	23,781,394 shares
As of March 31, 2022	23,781,394 shares

2) Number of treasury shares at the end of the period

As of March 31, 2023	1,948,980 shares
As of March 31, 2022	1,410,246 shares

3) Average number of shares outstanding during the period

fiscal year ended March 31, 2023	22,156,396 shares
fiscal year ended March 31, 2022	22,453,148 shares

Reference: Overview of non-consolidated financial results

Non-consolidated financial results for the fiscal year ended March 31, 2023 (from April 1, 2022 to March 31, 2023)

(1) Non-consolidated operating results

(Percentages indicate year-on-year changes.)

	Net sales		Operating profit		Ordinary profit		Profit	
Fiscal year ended	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
March 31, 2023	31,277	18.9	1,905	85.5	2,381	49.8	1,881	20.3
March 31, 2022	26,307	1.6	1,027	(30.3)	1,590	(12.1)	1,563	16.3

	Basic earnings per share	Diluted earnings per share
Fiscal year ended	Yen	Yen
March 31, 2023	84.93	—
March 31, 2022	69.65	—

(2) Non-consolidated financial position

	Total assets	Net assets	Equity-to-asset ratio	Net assets per share
As of	Millions of yen	Millions of yen	%	Yen
March 31, 2023	48,970	37,551	76.7	1,720.00
March 31, 2022	47,035	37,952	80.7	1,696.48

Reference: Equity As of March 31, 2023 ¥37,551 million

As of March 31, 2022 ¥37,952 million

* Financial results reports are exempt from audit conducted by certified public accountants or an audit corporation.

* Proper use of earnings forecasts, and other special matters

Statements concerning the future such as the results forecasts, etc., included in this document are based on currently available information and certain assumptions judged reasonable and actual results, etc., may differ due to various factors.

Note: For details, see "Outlook for Fiscal 2023" on p. 4.

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1. Summary of Business Results

Forward-looking statements contained herein are based on the Group's judgment as of March 31, 2023.

(1) Overview of Fiscal 2022 Operating Results

1) Operating Results for Fiscal 2022

During fiscal 2022, the year ended March 31, 2023, the ESPEC Group's business environment saw favorable electronics- and automotive-related investments against a backdrop of digitalization and decarbonization in society. Demand continued to be strong mainly in the market related to 5G and IoT, as well as automated driving and electrification of automobiles. From the production aspect, the Group secured production volume by implementing all types of measures, including strategically accumulating inventories, procuring alternatives and changing designs in response to parts procurement difficulties.

Looking at the Company's operating results for fiscal 2022, orders received increased 16.0% year on year to ¥59,521 million, a record high. This result was due partly to advance orders resulting from extended product delivery schedules in connection with parts procurement difficulties and the impact of exchange rate fluctuations, in addition to growing demand centered on cutting-edge technology fields. Net sales increased 26.4% year on year to ¥52,892 million, a record high. On the profit front, the Company recorded operating profit of ¥4,366 million, a 121.8% increase year on year. This increase was mainly due to higher sales, which offset the impact of surging component prices and electricity fees, as well as the impact of an increase in selling, general and administrative expenses accompanying the expansion of orders received. Profit attributable to owners of parent increased 74.8% year on year to ¥3,330 million. In addition, return on equity (ROE) stood at 7.2%.

	Year Ended March 31, 2022 (Millions of yen)	Year Ended March 31, 2023 (Millions of yen)	Change (%)
Orders received	51,303	59,521	16.0
Net sales	41,852	52,892	26.4
Operating profit	1,968	4,366	121.8
Ordinary profit	2,322	4,664	100.9
Profit attributable to owners of parent	1,905	3,330	74.8

2) Performance by Segment

Consolidated results by operating segment for fiscal 2022

	Orders received (Millions of yen)	Net sales (Millions of yen)	Operating profit (Millions of yen)
Equipment Business	51,446	45,031	3,919
Service Business	6,963	6,788	428
Other Business	1,469	1,404	16
Elimination	(359)	(330)	1
Total	59,521	52,892	4,366

Equipment Business

In the environmental test chambers field, in the Japanese market orders received and net sales both increased year on year for both highly versatile standardized and customized products, despite the impact of parts procurement difficulties. In overseas markets, orders received were also strong. Net sales increased year on year in China, North America, Europe, Southeast Asia and Korea. In addition, the Company revised product prices in response to rising component prices. However, these revised product prices had only a negligible effect on the Company's operating results for fiscal 2022 as the order backlog had already been accumulated.

In the energy devices equipment field, orders received substantially increased year on year due to strong sales of chambers for charge-discharge testing mainly in the Japanese market due to the expansion of investment for electrification of automobiles. However, net sales in this field remained level year on year due to the impact of parts procurement difficulties.

In the semiconductor equipment field, orders received and net sales were both on a par with the previous fiscal year, although they were impacted by factors such as delays in customer plans for mainstay burn-in chambers.

As a result, the equipment business on the whole saw orders received increase 18.2% year on year to ¥51,446 million and net sales increase 30.5% year on year to ¥45,031 million. On the profit front, operating profit increased 186.0% year on year to ¥3,919 million, mainly due to an increase in net sales.

	Year Ended March 31, 2022 (Millions of yen)	Year Ended March 31, 2023 (Millions of yen)	Change (%)
Orders received	43,535	51,446	18.2
Net sales	34,518	45,031	30.5
Operating profit	1,370	3,919	186.0

Service Business

In the after-sales service and engineering field, both orders received and net sales increased year on year as a result of progress on obtaining previously difficult-to-procure parts for repair services, along with a strong performance in preventative maintenance services such as maintenance agreements.

In laboratory testing services and facility rentals, orders received and net sales were both on a par with the previous fiscal year, due to a strong performance in laboratory testing services, centered on automotive rechargeable batteries.

As a result, the service business on the whole saw orders received increase 2.8% year on year to ¥6,963 million and net sales increase 5.9% to ¥6,788 million. On the profit front, the Company recorded operating profit of ¥428 million, a year-on-year decrease of 30.8%, due to the impact of surging electricity fees in laboratory testing services and an increase in selling, general and administrative expenses due mainly to an increase in personnel and operating expenses for new after-sales services.

	Year Ended March 31, 2022 (Millions of yen)	Year Ended March 31, 2023 (Millions of yen)	Change (%)
Orders received	6,771	6,963	2.8
Net sales	6,407	6,788	5.9
Operating profit	618	428	(30.8)

Other Business

In the other business field, which is centered on the environmental preservation and plant production systems business, forest creation and waterfront biotope restoration performed sluggishly, but orders received and net sales for plant research devices and plant factories increased year on year. As a result, orders received increased 16.1% year on year to ¥1,469 million, and net sales increased 18.2% to ¥1,404 million. On the profit front, the Company recorded operating profit of ¥16 million, a positive change of ¥39 million from the operating loss recorded in the previous fiscal year due to higher sales.

	Year Ended March 31, 2022 (Millions of yen)	Year Ended March 31, 2023 (Millions of yen)	Change (%)
Orders received	1,265	1,469	16.1
Net sales	1,188	1,404	18.2
Operating profit (loss)	(23)	16	—

(2) Overview of Fiscal 2022 Consolidated Financial Situation

Total assets at the end of the fiscal year consolidated accounting period were ¥67,176 million, an increase of ¥5,254 million over the end of the previous consolidated fiscal year. Major factors included an increase of ¥3,435 million in trade receivables (notes and accounts receivable – trade, contract assets, and electronically recorded monetary claims – operating), an increase of ¥2,946 million in inventories, such as raw materials and supplies due to an increase in order backlog, and a decrease of ¥2,599 million in securities accompanying the conversion of securities into cash. Other major factors included an increase of ¥743 million in cash and deposits accompanying the conversion of securities into cash, an increase of ¥404 million in other current assets, and an increase of ¥224 million in investment securities due to fair market valuation.

Liabilities were ¥20,003 million, an increase of ¥3,673 million from the end of the previous consolidated fiscal year. Major factors included an increase of ¥2,318 million in trade payables (notes and accounts payable – trade and electronically recorded obligations – operating) due to an increase in production and sales activities from increased sales, an increase of ¥1,011 million in contract liabilities associated with the increase in orders received, and an increase of ¥269 million in other current liabilities.

Net assets were ¥47,172 million, an increase of ¥1,580 million against the end of the previous fiscal year. Major factors included the recording of ¥3,330 million in profit attributable to owners of parent in fiscal 2022, and an increase of ¥1,836 million in retained earnings mainly due to appropriation of ¥1,488 million as dividends. Other major factors included a decrease of ¥1,081 million mainly due to the purchase of treasury shares in accordance with a flexible capital policy in response to changes in the business environment, an increase of ¥560 million in foreign currency translation adjustment, and an increase of ¥249 million in valuation difference on available-for-sale securities.

As a result, the equity-to-asset ratio stood at 69.9%, a decrease of 3.4 points from the end of the previous fiscal year.

(3) Overview of Fiscal 2022 Cash Flows

Cash and cash equivalents (hereinafter, “cash”) at the end of the fiscal year under review were ¥14,298 million, a decrease of ¥1,859 million from the beginning of the fiscal year. This was mainly the result of net cash provided by operating activities of ¥1,916 million, net cash used in investing activities of ¥1,061 million, and net cash used in financing activities of ¥2,898 million, and an increase in effect of exchange rate change on cash and cash equivalents of ¥183 million.

The status of each category of cash flow and the underlying factors for fiscal 2022 are as follows.

Net cash provided by operating activities was ¥1,916 million, compared with net cash provided of ¥2,018 million in the previous fiscal year. The main cash flow items were an increase in cash from the recording of profit before income taxes of ¥4,670 million, the recording of depreciation of ¥1,339 million, a decrease in cash of ¥3,202 million due to an increase in trade receivables associated with the increase in net sales, a decrease in cash of ¥3,138 million due to an increase in inventories associated with the increase in order backlog, and an increase in cash of ¥2,159 million due to an increase in trade payables.

Net cash used in investing activities was ¥1,061 million, compared with net cash used of ¥932 million in the previous fiscal year. This was primarily due to payment of ¥969 million for the purchase of property, plant and equipment and intangible assets.

Net cash used in financing activities was ¥2,898 million, compared with net cash used of ¥2,830 million in the previous fiscal year. This was mainly due to cash dividends paid of ¥1,484 million and purchase of treasury shares of ¥1,294 million.

(4) Outlook for Fiscal 2023

To realize its long-term vision, ESPEC Vision 2025, the Company has been implementing a medium-term management plan every four years (Stage I through Stage III). Since fiscal 2022 (the year ended March 31, 2023), the Company has been advancing the medium-term management plan “Progressive Plan 2025,” which is the final stage. Under this medium-term management plan, the Company has been steadily executing investment and strategies for growth under the basic policy, “Breaking through the inertia and the habits of individuals and workplaces and contributing to the practical application of advanced technologies,” with the aim of realizing the long-term vision.

In regard to the business environment in the fiscal year ending March 31, 2024, the Company expects demand for environmental testing to remain brisk, mainly in cutting-edge technology fields such as IoT and next-generation automobiles. Using this opportunity to its advantage, the Company will capture demand by enhancing and expanding products and services that satisfy the needs of customers in cutting-edge technology fields. Meanwhile, the Company expects parts procurement to remain unstable, and component prices, electricity fees, and personnel expenses to surge even higher. Based on this business environment, the Company’s forecast for fiscal 2023 (the year ending March 31, 2024) is for net sales of ¥56.0 billion, operating profit of ¥5.0 billion, profit attributable to owners of parent of ¥3.65 billion, and ROE of 7.5%. The Company will make every effort to normalize product delivery schedules and clear its order backlog, while considering measures to increase profitability, such as considering an additional increase in product prices.

Forecasts of consolidated operating results for fiscal 2023, ending March 31, 2024

(Percentages indicate year-on-year changes.)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent		Basic earnings per share
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Yen
Six months ending September 30, 2023	26,000	13.3	1,850	32.5	1,950	12.6	1,300	32.1	59.54
Fiscal year ending March 31, 2024	56,000	5.9	5,000	14.5	5,100	9.3	3,650	9.6	167.18

Forecasts of consolidated operating results by segment for fiscal 2023 (Full-term)

	Orders received (Millions of yen)	Net sales (Millions of yen)	Operating profit (Millions of yen)
Equipment Business	45,500	47,700	4,670
Service Business	7,000	6,900	300
Other Business	1,800	1,700	30
Elimination	(300)	(300)	0
Total	54,000	56,000	5,000

* There are marked seasonal fluctuations in the Group’s performance based on quarterly sales because of a strong trend towards contractual deliveries occurring in the second and fourth quarters as a result of customers’ budget implementation.

(5) Basic Policy on Profit Distributions and Dividends for Fiscal 2022 and Fiscal 2023

The Company recognizes that the return of profits to shareholders is an important management priority, and that constantly raising enterprise value is the key element in ensuring improved shareholder returns. Accordingly, the Company’s basic policy on profit distributions is to determine dividends in consideration of continuity and the consolidated dividend payout ratio. Specifically, while maintaining dividend payments with a target consolidated dividend payout ratio of around 30%, in cases where the balance of cash and cash equivalents exceeds the planned necessary funds for uses such as dividends, corporate taxes, operating capital, capital investment, and strategic investment, the Company will also add around one-third of the excess to the dividend. Moreover, the Company will maintain a dividend of ¥20 as a stable dividend, regardless of the level of profit, but may review this in cases where the Company records consolidated net losses for two consecutive fiscal years.

In addition, the Company will flexibly examine treasury share acquisitions, bearing in mind the necessary level of internal reserves and considering factors such as changes in the business environment and its financial position.

Regarding dividends for the fiscal year under review, the Company plans to pay a year-end dividend of ¥45 per share (including a commemorative dividend of ¥2). The Company has paid an interim dividend of ¥24 per share (including a commemorative dividend of ¥2). Therefore, the annual dividend will be ¥69 per share (including a commemorative dividend of ¥4).

In addition, the Company plans to pay an annual dividend of ¥70 per share for fiscal 2023. The interim dividend will be ¥25 per share.

2. Basic Stance on the Selection of Accounting Standards

The Company’s policy is to create consolidated financial statements in accordance with Japanese standards, in consideration of enabling comparisons of fiscal periods for the consolidated financial statements and enabling comparisons with other companies, and also on taking into account that many of its stakeholders are shareholders and creditors within Japan. The Company intends to consider the adoption of international accounting standards in light of factors such as trends in the adoption of international accounting standards by peer companies in the same industry in Japan, and changes in the composition of foreign shareholders in those companies.

3. Consolidated Financial Statements
(1) Consolidated Balance Sheets

(Millions of yen)

	As of March 31, 2022	As of March 31, 2023
Assets		
Current assets		
Cash and deposits	13,254	13,998
Notes and accounts receivable - trade, and contract assets	13,595	16,097
Electronically recorded monetary claims - operating	2,607	3,540
Securities	2,902	302
Merchandise and finished goods	2,036	3,010
Work in process	2,805	3,562
Raw materials and supplies	3,670	4,885
Other	2,236	2,641
Allowance for doubtful accounts	(30)	(37)
Total current assets	43,076	48,000
Non-current assets		
Property, plant and equipment		
Buildings and structures	12,673	12,982
Accumulated depreciation	(7,758)	(7,969)
Buildings and structures, net	4,915	5,013
Machinery, equipment and vehicles	3,096	3,156
Accumulated depreciation	(2,088)	(2,166)
Machinery, equipment and vehicles, net	1,007	989
Tools, furniture and fixtures	5,309	5,788
Accumulated depreciation	(4,063)	(4,367)
Tools, furniture and fixtures, net	1,245	1,420
Land	4,632	4,662
Leased assets	899	869
Accumulated depreciation	(326)	(481)
Leased assets, net	573	388
Construction in progress	13	26
Total property, plant and equipment	12,388	12,501
Intangible assets		
Goodwill	698	601
Other	586	625
Total intangible assets	1,284	1,227
Investments and other assets		
Investment securities	2,912	3,136
Retirement benefit asset	502	497
Deferred tax assets	544	575
Other	1,215	1,240
Allowance for doubtful accounts	(2)	(2)
Total investments and other assets	5,172	5,447
Total non-current assets	18,845	19,176
Total assets	61,922	67,176

(Millions of yen)

	As of March 31, 2022	As of March 31, 2023
Liabilities		
Current liabilities		
Notes and accounts payable - trade	3,478	4,469
Electronically recorded obligations - operating	3,817	5,145
Contract liabilities	2,488	3,500
Current portion of long-term borrowings	82	90
Income taxes payable	428	603
Provision for bonuses	487	519
Provision for bonuses for directors (and other officers)	10	14
Provision for share awards for directors (and other officers)	82	—
Provision for product warranties	178	189
Provision for loss on orders received	16	10
Other	2,465	2,734
Total current liabilities	13,537	17,277
Non-current liabilities		
Long-term borrowings	269	203
Deferred tax liabilities	560	729
Retirement benefit liability	245	243
Provision for share awards for directors (and other officers)	93	128
Provision for retirement benefits for directors (and other officers)	4	4
Asset retirement obligations	22	23
Deferred tax liabilities for land revaluation	534	534
Other	1,063	859
Total non-current liabilities	2,792	2,726
Total liabilities	16,330	20,003
Net assets		
Shareholders' equity		
Share capital	6,895	6,895
Capital surplus	7,120	7,158
Retained earnings	31,836	33,673
Treasury shares	(2,236)	(3,318)
Total shareholders' equity	43,616	44,408
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	1,109	1,359
Revaluation reserve for land	(663)	(663)
Foreign currency translation adjustment	1,294	1,854
Remeasurements of defined benefit plans	21	(6)
Total accumulated other comprehensive income	1,762	2,544
Non-controlling interests	213	218
Total net assets	45,592	47,172
Total liabilities and net assets	61,922	67,176

(2) Consolidated Statements of Income and Consolidated Statements of Comprehensive Income

Consolidated Statements of Income

(Millions of yen)

	Fiscal year ended March 31, 2022	Fiscal year ended March 31, 2023
Net sales	41,852	52,892
Cost of sales	27,849	34,935
Gross profit	14,003	17,957
Selling, general and administrative expenses		
Salaries and allowances	3,891	4,371
Research and development expenses	1,035	1,041
Provision for bonuses	153	174
Provision for product warranties	119	131
Provision for share awards for directors (and other officers)	17	34
Commission expenses	1,513	1,835
Provision for bonuses for directors (and other officers)	10	14
Amortization of goodwill	99	123
Other	5,193	5,863
Total selling, general and administrative expenses	12,034	13,590
Operating profit	1,968	4,366
Non-operating income		
Interest income	53	21
Dividend income	95	128
Subsidy income	4	67
Foreign exchange gains	184	44
Other	82	83
Total non-operating income	419	346
Non-operating expenses		
Interest expenses	40	34
Commission expenses	8	8
Other	16	4
Total non-operating expenses	66	48
Ordinary profit	2,322	4,664
Extraordinary income		
Gain on sale of non-current assets	2	7
Gain on sale of investment securities	396	12
Total extraordinary income	399	20
Extraordinary losses		
Loss on retirement of non-current assets	10	8
Loss on sale of non-current assets	0	5
Total extraordinary losses	10	14
Profit before income taxes	2,711	4,670
Income taxes - current	946	1,381
Income taxes - deferred	(145)	(46)
Total income taxes	800	1,334
Profit	1,910	3,336
Profit attributable to non-controlling interests	4	5
Profit attributable to owners of parent	1,905	3,330

Consolidated Statements of Comprehensive Income

(Millions of yen)

	Fiscal year ended March 31, 2022	Fiscal year ended March 31, 2023
Profit	1,910	3,336
Other comprehensive income		
Valuation difference on available-for-sale securities	(391)	249
Foreign currency translation adjustment	1,278	560
Remeasurements of defined benefit plans, net of tax	22	(27)
Total other comprehensive income	909	782
Comprehensive income	2,820	4,118
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	2,815	4,113
Comprehensive income attributable to non-controlling interests	4	5

(3) Consolidated Statements of Changes in Net Assets

Previous consolidated fiscal year (from April 1, 2021 to March 31, 2022)

(Millions of yen)

	Shareholders' equity				
	Share capital	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at beginning of period	6,895	7,120	31,297	(1,181)	44,132
Cumulative effects of changes in accounting policies			(12)		(12)
Restated balance	6,895	7,120	31,285	(1,181)	44,120
Changes during period					
Dividends of surplus			(1,350)		(1,350)
Profit attributable to owners of parent			1,905		1,905
Purchase of treasury shares				(1,066)	(1,066)
Disposal of treasury shares				11	11
Other			(3)		(3)
Net changes in items other than shareholders' equity					
Total changes during period	—	—	551	(1,055)	(503)
Balance at end of period	6,895	7,120	31,836	(2,236)	43,616

	Accumulated other comprehensive income					Non-controlling interests	Total net assets
	Valuation difference on available-for-sale securities	Revaluation reserve for land	Foreign currency translation adjustment	Remeasurements of defined benefit plans	Total accumulated other comprehensive income		
Balance at beginning of period	1,501	(663)	15	(0)	852	—	44,984
Cumulative effects of changes in accounting policies							(12)
Restated balance	1,501	(663)	15	(0)	852	—	44,972
Changes during period							
Dividends of surplus							(1,350)
Profit attributable to owners of parent							1,905
Purchase of treasury shares							(1,066)
Disposal of treasury shares							11
Other							(3)
Net changes in items other than shareholders' equity	(391)	—	1,278	22	909	213	1,123
Total changes during period	(391)	—	1,278	22	909	213	619
Balance at end of period	1,109	(663)	1,294	21	1,762	213	45,592

This consolidated fiscal year (from April 1, 2022 to March 31, 2023)

(Millions of yen)

	Shareholders' equity				
	Share capital	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at beginning of period	6,895	7,120	31,836	(2,236)	43,616
Cumulative effects of changes in accounting policies					—
Restated balance	6,895	7,120	31,836	(2,236)	43,616
Changes during period					
Dividends of surplus			(1,488)		(1,488)
Profit attributable to owners of parent			3,330		3,330
Purchase of treasury shares				(1,294)	(1,294)
Disposal of treasury shares		38		212	251
Other			(6)		(6)
Net changes in items other than shareholders' equity					
Total changes during period	—	38	1,836	(1,081)	792
Balance at end of period	6,895	7,158	33,673	(3,318)	44,408

	Accumulated other comprehensive income					Non-controlling interests	Total net assets
	Valuation difference on available-for-sale securities	Revaluation reserve for land	Foreign currency translation adjustment	Remeasurements of defined benefit plans	Total accumulated other comprehensive income		
Balance at beginning of period	1,109	(663)	1,294	21	1,762	213	45,592
Cumulative effects of changes in accounting policies							—
Restated balance	1,109	(663)	1,294	21	1,762	213	45,592
Changes during period							
Dividends of surplus							(1,488)
Profit attributable to owners of parent							3,330
Purchase of treasury shares							(1,294)
Disposal of treasury shares							251
Other							(6)
Net changes in items other than shareholders' equity	249	—	560	(27)	782	5	787
Total changes during period	249	—	560	(27)	782	5	1,580
Balance at end of period	1,359	(663)	1,854	(6)	2,544	218	47,172

(4) Consolidated Statements of Cash Flows

(Millions of yen)

	Fiscal year ended March 31, 2022	Fiscal year ended March 31, 2023
Cash flows from operating activities		
Profit before income taxes	2,711	4,670
Depreciation	1,298	1,339
Amortization of goodwill	99	123
Increase (decrease) in allowance for doubtful accounts	(52)	13
Increase (decrease) in provision for bonuses for directors (and other officers)	(7)	3
Increase (decrease) in provision for share awards for directors (and other officers)	18	15
Increase (decrease) in retirement benefit liability	20	(2)
Interest and dividend income	(148)	(150)
Interest expenses	40	34
Decrease (increase) in trade receivables	389	(3,202)
Decrease (increase) in inventories	(2,388)	(3,138)
Increase (decrease) in trade payables	545	2,159
Other, net	97	993
Subtotal	2,624	2,861
Interest and dividends received	197	201
Interest paid	(41)	(34)
Income taxes refund (paid)	(761)	(1,112)
Net cash provided by (used in) operating activities	2,018	1,916
Cash flows from investing activities		
Net decrease (increase) in trust beneficiary right	(65)	(215)
Purchase of property, plant and equipment and intangible assets	(680)	(969)
Proceeds from sale of property, plant and equipment and intangible assets	5	16
Proceeds from sale and redemption of investment securities	643	107
Proceeds from collection of loans receivable	0	—
Purchase of shares of subsidiaries resulting in change in scope of consolidation	(846)	—
Other, net	10	—
Net cash provided by (used in) investing activities	(932)	(1,061)
Cash flows from financing activities		
Dividends paid	(1,346)	(1,484)
Net increase (decrease) in short-term borrowings	(152)	—
Repayments of long-term borrowings	(76)	(91)
Purchase of treasury shares	(1,066)	(1,294)
Proceeds from disposal of treasury shares	—	188
Other, net	(188)	(215)
Net cash provided by (used in) financing activities	(2,830)	(2,898)
Effect of exchange rate change on cash and cash equivalents	600	183
Net increase (decrease) in cash and cash equivalents	(1,144)	(1,859)
Cash and cash equivalents at beginning of period	17,301	16,157
Cash and cash equivalents at end of period	16,157	14,298

(5) Notes to the Consolidated Financial Statements

Notes on the assumption of a going concern

Not applicable

Important Matters Concerning the Basis for Preparing Consolidated Financial Statements

1. Scope of Consolidation

(1) Number of consolidated subsidiaries: 13

Name of main consolidated subsidiary: ESPEC NORTH AMERICA, INC.

(2) Name of main non-consolidated subsidiary: ESPEC ENGINEERING VIETNAM CO., LTD.

Reason for exclusion from scope of consolidation:

The non-consolidated subsidiaries have been excluded from the scope of consolidation because of their small size and because their total assets, net sales, net income (corresponding to equity) and retained earnings (corresponding to equity) have a negligible effect on the consolidated financial statements.

2. Application of the Equity Method

(1) Number of non-consolidated subsidiaries accounted for using the equity method: None

(2) Number of affiliates accounted for using the equity method: None

(3) Some non-consolidated subsidiaries (ESPEC ENGINEERING VIETNAM CO., LTD. and others) not accounted for using the equity method have been excluded from the scope of companies accounted for by the equity method as they have a negligible effect on the consolidated net income and retained earnings, and are immaterial overall.

3. Fiscal Year of Consolidated Subsidiaries

The fiscal year-ends of consolidated subsidiaries SHANGHAI ESPEC ENVIRONMENTAL EQUIPMENT CORP., ESPEC ENVIRONMENTAL EQUIPMENT (SHANGHAI) CO., LTD., ESPEC TEST TECHNOLOGY (SHANGHAI) CO., LTD., ESPEC TEST EQUIPMENT (GUANGDONG) CO., LTD., and ESPEC (CHINA) LIMITED are December 31. These subsidiaries are included in the scope of consolidation based on a provisional financial closing of accounts on March 31, the consolidated closing date.

4. Summary of Significant Accounting Policies

(1) Valuation standards and accounting treatment for important assets

1) Marketable securities:

Among available-for-sale securities, with those other than non-listed stocks, etc. the value is determined by the market price, with unrealized gains and losses, net of applicable taxes, reported in a separate component of net assets, and the cost of stocks sold determined by the moving average method. With non-listed stocks, etc. the cost is determined by the moving average method.

2) Derivatives: Market value

3) Inventories:

Work in process is mainly stated by the specific identification method; other inventories are mainly stated using the acquisition cost method, cost being determined by the weighted average method (the book value in the balance sheet is reduced when the profitability has declined).

(2) Method for depreciating and amortizing important assets

1) Property, plant and equipment (excluding lease assets):

The Company uses the straight-line method.
Estimated useful lives are as follows: Buildings 15-50 years

2) Intangible assets (excluding lease assets):

The Company uses the straight-line method.
Estimated useful lives are as follows: Software used by the Company 5 years

3) Lease assets:

Depreciation equivalents are accounted for by the straight-line method, assuming the lease period to be the useful lives and the residual value to be zero.

(3) Accounting for important allowances

1) Allowance for doubtful accounts:

The allowance for doubtful accounts provides for possible losses arising from default on accounts receivable. It comprises a general reserve for accounts receivable based on historical default rates, and an estimated credit loss for accounts receivable based on an individual assessment of each account.

2) Allowance for bonuses:

The allowance for employees' bonuses is based on the estimated requirements for the fiscal year.

3) Allowance for directors' bonuses:

The allowance for directors' bonuses is based on the estimated requirements for the fiscal year.

4) Reserve for product warranties:

The reserve for product warranties is provided to cover the after service expenses, which are free during the warranty period, and are calculated based on historical claim rates for warranty expenses proportional to net sales.

5) Allowance for loss on orders received:

The allowance for loss on orders received provides for possible losses in the future arising from the orders the Company received. The amount of potential loss on orders received as of the end of the fiscal year under review in this report that can be rationally estimated is recorded as an allowance for conceivable losses on orders received in subsequent fiscal years.

6) Allowance for directors' retirement benefits:

For the Company's domestic consolidated subsidiaries, the Board of Directors has decided to terminate retirement benefits for directors. The Company books an allowance for the monetary amount for the period served by current directors up to the date of termination of retirement benefits.

7) Executive share benefit reserve:

The Company posted provision for delivery of shares based on the estimated amount of the share-benefit obligation at the end of the fiscal year under review in preparation for providing Company shares to the Directors, etc.

Additional Information

Performance-linked share-based remuneration system

Since August 2018, the Company has introduced a performance-linked share-based remuneration system (hereinafter referred to as "the System"), for the Company's Directors (excluding Outside Directors) and Executive Officers (hereinafter, Directors other than Outside Directors and Executive Officers who do not concurrently serve as Directors are collectively referred to as "Directors, etc."). Furthermore, in connection with the transition to a Company with Audit & Supervisory Committee, the Company resolved at the 69th Ordinary General Meeting of Shareholders held on June 23, 2022 to abolish the compensation limits of the System that had been previously determined by resolution of the 65th Ordinary General Meeting of Shareholders, and resolved once again to determine compensation limits related to the System for directors (excluding outside directors and directors who are Audit & Supervisory Committee members).

The System is a performance-linked, share-based remuneration system under which the Company shares are acquired through a trust (hereinafter, referred to as "the Trust") using funds contributed by the Company, and the Directors, etc. are provided with the Company shares and money equivalent to the market value of the Company shares (hereinafter referred to as "the Company shares, etc.") through the Trust in accordance with the Regulations for Delivery of Shares to Officers stipulated by the Company. Regarding the accounting procedure for the System, the Company applies the gross method whereby the Trust's assets, liabilities, and profit and loss are included in the Company's consolidated financial statements. Moreover, the Company posted provision for delivery of shares to officers based on the estimated amount of the share-benefit obligation at the end of fiscal 2022 in preparation for providing Company shares to the Directors, etc. in accordance with the Regulations for Delivery of Shares to Officers. The following shows the book value and the number of treasury stocks held.

	Previous consolidated fiscal year March 31, 2022	This consolidated fiscal year March 31, 2023
Book value of treasury stocks	2,236 Millions of yen	3,318 Millions of yen
Book value of treasury stocks held by the Company	1,854 Millions of yen	2,810 Millions of yen
Book value of treasury stocks held by the Trust	382 Millions of yen	507 Millions of yen
Number of treasury stocks	1,410,246 shares	1,948,980 shares
Number of treasury stocks held by the Company	1,231,846 shares	1,708,580 shares
Number of treasury stocks held by the Trust	178,400 shares	240,400 shares

(4) Accounting method of retirement benefits

1) Attribution method for projected retirement benefits

As regards calculating retirement benefit obligations, the method for attributing projected retirement benefits to accounting periods at the end of the consolidated fiscal year under review is the benefit formula method.

2) Amortization method of actuarial gains or losses

Actuarial gains or losses are amortized from the consolidated fiscal year following the consolidated fiscal year in which they arise, using the straight-line method over a fixed number of years (10 years), but no more than the average remaining years of service of employees.

(5) Standard for recording significant revenues and expenses

1) Details of the main obligations based on contracts with customers in the main businesses

The Group's main businesses comprise the Equipment Business and the Service Business. Their performance obligations include manufacturing and sales of environmental testing chambers, etc., installation of the products, onsite calibration operations, relocation, maintenance, repair, and laboratory testing services. With the exception of deposits, the consideration for transactions is mainly received within one year from the satisfaction of the performance obligations and does not include a significant financial component.

2) Ordinary timing for recognition of revenue from main performance obligations

- a. For provision of products and services that does not involve installation and onsite calibration operations, the performance obligation is satisfied at the time when the product is delivered or the service provided, and so revenue is recognized at the time of product delivery or service provision.
- b. For provision of products and services that involves installation and onsite calibration operations, the performance obligation is satisfied at the time when the product installation and onsite calibration operations are completed, and so revenue is recognized at the time of completion of product installation and onsite calibration.
- c. For sales of certain products and relocation of products, etc., the customer controls the product as the asset is generated or the value of the asset increases, and revenue is therefore recognized by estimating the progress of the satisfaction of the performance obligation is estimated and recognizing revenue by set periods based on the degree of progress. The method for estimating the progress of satisfaction of the performance obligation is the input method based on cost. The measurement of the degree of progress is based on the ratio of the costs incurred by the period end to the total estimated cost for each contract.
- d. For product maintenance contracts and so forth, the performance obligations are satisfied over a certain period, and revenue is recognized according to the degree of progress on satisfaction of the performance obligations over the contract period.

3) Information regarding performance obligations in the case where warranties and related obligations are included in contracts

Sales contracts for environmental testing chambers and so forth contain product warranty obligations to provide free repair or exchange for faults due to product defects arising within around one year to five years after delivery. These warranty obligations are recognized as reserve for product warranties since they provide customers with a warranty that the product will function as intended in accordance with the specifications stipulated in the contract with the customer.

(6) Standards for translation of material foreign currency-denominated assets and liabilities into Japanese Yen

Monetary receivables and payables denominated in foreign currencies are translated into Japanese yen at the current exchange rates at the balance sheet date, with the foreign currency exchange gains and losses from translation recognized in the statement of income. The assets and liabilities of foreign subsidiaries, etc. are translated into Japanese yen at the current exchange rates at the balance sheet date. Revenue and expenses of foreign subsidiaries, etc. are translated into Japanese yen at the average rate for the year. Differences arising from such translation are shown as "Foreign currency translation adjustments" as separate components of net assets.

(7) Method and period of goodwill amortization

Goodwill is amortized by the straight-line method, equally allocating the cost over a period of no longer than 20 years.

(8) Scope of cash and cash equivalents on the consolidated statements of cash flows

Cash and cash equivalents include cash in hand and deposits as well as short-term investments that are readily convertible into cash and that are exposed to insignificant risk of changes in value, all of which mature or become due within three months of the date of acquisition.

Segment Information and Others

Segment Information

1. Overview of reportable segments

ESPEC's reportable segments refer to those components of the Company for which separate financial information is available and such information is reviewed regularly by the Board of Directors in determining the allocation of resources and in evaluating performance.

The Company classifies its business activities into segments according to the business format. There are three reportable segments: Equipment Business, Service Business, and Other Business.

The Equipment Business provides environmental test chambers, energy device equipment and semiconductor equipment. The Service Business is engaged in after-sales service and engineering and laboratory testing services and facility rentals. The Other Business is involved with environmental preservation and plant production systems.

2. Method of calculating the monetary values of net sales, income or loss, assets, and other items of each reportable segment

Accounting treatment methods for reportable segments are the same as the methods shown in the "Important Matters Concerning the Basis for Preparing Consolidated Financial Statements." Inter-segment sales and transfers are based on market prices and certain other factors.

3. Information concerning the monetary values of net sales, income or loss, assets and other items of each reportable segment

Previous consolidated fiscal year (from April 1, 2021 to March 31, 2022)

(Millions of yen)

	Reportable segment			Total	Adjustment *1	Carried amount on consolidated financial statements *2
	Equipment Business	Service Business	Other Business			
Net sales						
Sales to external customers	34,499	6,167	1,184	41,852	—	41,852
Internal sales or transfers between segments	18	239	3	261	(261)	—
Total	34,518	6,407	1,188	42,114	(261)	41,852
Segment profit (loss)	1,370	618	(23)	1,966	2	1,968
Segment assets	42,346	5,772	1,251	49,370	12,551	61,992
Other						
Depreciation expenses	961	271	19	1,253	—	1,253
Amortization of goodwill	99	—	—	99	—	99
Increases in property, plant and equipment and intangible assets	640	207	6	855	54	910

*1. Adjustments are as follows.

- 1) "Adjustment" for segment sales mainly represents eliminations of inter-segment transactions.
- 2) "Adjustment" for segment profit (loss) mainly represents eliminations of inter-segment transactions.
- 3) "Adjustment" for segment assets mainly represents eliminations of inter-segment transactions and company-wide assets.
Company-wide assets of ¥12,996 million primarily consist of surplus working capital at the parent company (cash and deposits, short-term investment securities, etc.), long-term investment funds (investment securities) and assets related to administrative divisions.
- 4) "Adjustment" for depreciation expenses mainly represents eliminations of inter-segment transactions.
- 5) "Adjustment" for increases in property, plant and equipment and intangible assets mainly represents eliminations of intersegment transactions and company-wide assets.

*2. Segment profit is adjusted to be consistent with the operating profit stated in the consolidated statements of profit.

This consolidated fiscal year (from April 1, 2022 to March 31, 2023)

(Millions of yen)

	Reportable segment			Total	Adjustment *1	Carried amount on consolidated financial statements *2
	Equipment Business	Service Business	Other Business			
Net sales						
Sales to external customers	45,005	6,507	1,380	52,892	—	52,892
Internal sales or transfers between segments	25	280	24	330	(330)	—
Total	45,031	6,788	1,404	53,223	(330)	52,892
Segment profit	3,919	428	16	4,364	1	4,366
Segment assets	48,466	6,005	1,325	55,797	11,378	67,176
Other						
Depreciation expenses	1,029	287	12	1,328	—	1,328
Amortization of goodwill	123	—	—	123	—	123
Increases in property, plant and equipment and intangible assets	646	531	6	1,184	127	1,311

*1. Adjustments are as follows.

- 1) “Adjustment” for segment sales mainly represents eliminations of inter-segment transactions.
- 2) “Adjustment” for segment profit mainly represents eliminations of inter-segment transactions.
- 3) “Adjustment” for segment assets mainly represents eliminations of inter-segment transactions and company-wide assets.
Company-wide assets of ¥11,723 million primarily consist of surplus working capital at the parent company (cash and deposits, short-term investment securities, etc.), long-term investment funds (investment securities) and assets related to administrative divisions.
- 4) “Adjustment” for depreciation expenses mainly represents eliminations of inter-segment transactions.
- 5) “Adjustment” for increases in property, plant and equipment and intangible assets mainly represents eliminations of inter-segment transactions and company-wide assets.

*2. Segment profit is adjusted to be consistent with the operating profit stated in the consolidated statements of profit.

Related Information

Previous consolidated fiscal year (from April 1, 2021 to March 31, 2022)

1. Information by product and service

(Millions of yen)

	Equipment Business	Service Business	Other Business	Total
Sales to external customers	34,499	6,167	1,184	41,852

2. Information by region

(1) Net sales

(Millions of yen)

Japan	U.S.	China	Others in Asia	Others	Total
20,771	4,466	9,083	4,897	2,633	41,852

(2) Property, plant and equipment

(Millions of yen)

Japan	U.S.	China	Others in Asia	Others	Total
9,040	1,743	1,384	215	4	12,388

This consolidated fiscal year (from April 1, 2022 to March 31, 2023)

1. Information by product and service

(Millions of yen)

	Equipment Business	Service Business	Other Business	Total
Sales to external customers	45,005	6,507	1,380	52,892

2. Information by region

(1) Net sales

(Millions of yen)

Japan	U.S.	China	Others in Asia	Others	Total
25,008	6,627	11,858	6,089	3,307	52,892

(2) Property, plant and equipment

(Millions of yen)

Japan	U.S.	China	Others in Asia	Others	Total
9,146	1,801	1,340	208	4	12,501

Information on non-current assets and impairment loss by reportable segment

Previous consolidated fiscal year (from April 1, 2021 to March 31, 2022)

No items to report

This consolidated fiscal year (from April 1, 2022 to March 31, 2023)

No items to report

Information on amortization of goodwill and unamortized balance by reportable segment

Previous consolidated fiscal year (from April 1, 2021 to March 31, 2022)

(Millions of yen)

	Equipment Business	Service Business	Other Business	Corporate and elimination	Total
Amortization	99	—	—	—	99
Unamortized balance	698	—	—	—	698

This consolidated fiscal year (from April 1, 2022 to March 31, 2023)

(Millions of yen)

	Equipment Business	Service Business	Other Business	Corporate and elimination	Total
Amortization	123	—	—	—	123
Unamortized balance	601	—	—	—	601

Information on gain on negative goodwill by reportable segment

Previous consolidated fiscal year (from April 1, 2021 to March 31, 2022)

No items to report

This consolidated fiscal year (from April 1, 2022 to March 31, 2023)

No items to report

Per-Share Information

FY2021 (from April 1, 2021 to March 31, 2022)		FY2022 (from April 1, 2022 to March 31, 2023)	
	Yen		Yen
Net assets per share	2,028.44	Net assets per share	2,150.64
Basic earnings per share	84.89	Basic earnings per share	150.34
Diluted basic earnings per share is not shown as there are no dilutive securities.		Diluted basic earnings per share is not shown as there are no dilutive securities.	

*The Company's shares set up by the Board Benefit Trust (BBT) are recognized as treasury stock in the Company's consolidated financial statements. Accordingly, the number of common shares used to calculate the amount of net assets per share for the previous and current consolidated fiscal year was calculated after deducting the relevant number of those shares.
For the purpose of calculating net assets per share, the number of treasury shares at term end that was deducted was 178,400 in the previous fiscal year and 240,400 in the fiscal year under review.

Note: The basis of calculation for basic earnings per share is as follows

	FY2021 (from April 1, 2021 to March 31, 2022)	FY2022 (from April 1, 2022 to March 31, 2023)
Basic earnings per share		
Profit attributable to owners of parent (Millions of yen)	1,905	3,330
Net income available to minority interests (Millions of yen)	—	—
Profit attributable to owners of parent available to common shares (Millions of yen)	1,905	3,330
Average number of shares outstanding during the period (Thousand Shares)	22,453	22,156
Dilutive shares omitted from the calculation of diluted basic earnings per share, due to absence of a dilution effect	—	—

*The Company's shares set up by the Board Benefit Trust (BBT) are recognized as treasury stock in the Company's consolidated financial statements. Accordingly, Average number of shares outstanding during the period for the previous and current consolidated fiscal year was calculated after deducting the relevant number of those shares.
For the purpose of calculating basic earnings per share, the average number of treasury shares during the term that was deducted was 179,750 in the previous fiscal year and 164,033 in the fiscal year under review.

Material Subsequent Events

No applicable