

Explanatory Materials for Financial Results

Fiscal year ended March 31, 2022

IWATSU ELECTRIC CO., LTD. | May 26, 2022

IWATSU

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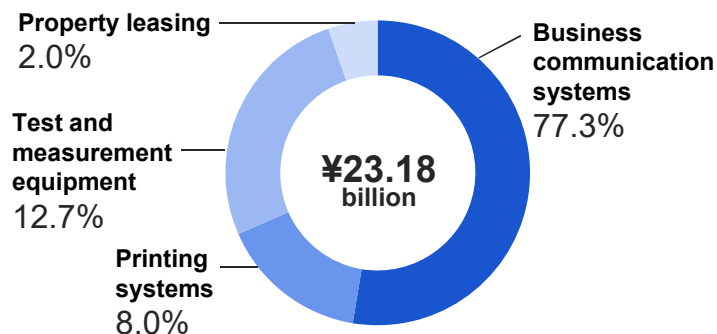
IWATSU

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1 Business Overview

The Company, founded in 1938, and the Group are mainly engaged as a manufacturer of business communication systems, printing systems and test and measurement equipment, as well as property leasing.

Revenue composition ratio (FY 2021)



Business communication systems

The Company was founded as a telephone manufacturer. The Company has built up a history of manufacturing and selling business phones and providing contact center systems, and has begun offering cloud services as well as IoT products and web communication services in recent years.



Example of an office with the "Frespec" business phone system

Printing systems

Starting with the manufacture and sale of platemakers, which are machines used to create printing plates, the Company has captured the wave of digitalization in the printing market in recent years and has responded to new needs by introducing digital label printing machines to the market.



産業用デジタルラベル印刷機
Label Meister
EM-250W / EM-250A

Test and measurement equipment

For more than 60 years, since oscilloscopes were first introduced in Japan, we have pursued higher performance and multifunctionality in test and measurement equipment used not only in industry but many other research and development and educational fields.



Semiconductor Curve Tracer
CS-8000 Series

Property leasing

The Company leases and manages property holdings, strategically and efficiently linking its property leasing to business performance and improving the Group's profitability.



Prime Terrace
KAMIYACHO (Exterior)

Group companies

- Iwatsu Manufacturing Co., Ltd.
- Iwatsu Network Solution Co., Ltd.
- Dentsu Service Co., Ltd.
- Iwatsu System & Software Co., Ltd.
- Iwatsu Business Services Co., Ltd.
- Tohtsu Industry Co., Ltd.
- groxi.Inc
- Iwatsu (Malaysia) Sdn. Bhd.

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**Results for the
Fiscal Year Ended
March 31, 2022**

The external environment and the major impacts on the Company's business, on which the results for the fiscal year ended March 31, 2022, are based, are as follows.

External Environment

- The global economy is recovering from the COVID-19 pandemic as the compatibility of health and economic measures progresses, but the domestic economy's recovery is slowing slightly due to a sharp increase in the number of new cases of the omicron strain of the COVID-19 virus that appeared in 2022.
- The number of staff attending the office, which declined due to the pandemic, has not fully recovered, and a hybrid work style combining office and remote work has partially taken hold. Offices are shifting from a centralized model to a decentralized model, and the reduction of office space is accelerating.
- Shortages and price increases in manufacturing components is continuing due to global semiconductor shortages, etc.



Major Impacts on Business

Business communication systems

Revenue increased with the signing of contracts for projects that had been suspended in the previous fiscal year due to the impact of the pandemic. On the other hand, in terms of production, its continuity was maintained but profitability declined.

Printing systems

Struggled due to the trend of stagnation in the printing market as a whole due to the impact of the pandemic.

Test and measurement equipment

of power electronics-related products increased due to the rebound from the previous fiscal year's restraints on capital investment and the impact of increased semiconductor demand brought about by the global semiconductor shortage.

Property leasing

The pandemic's impact was minimal and income-producing properties generally operated smoothly.

Financial Highlights for the Fiscal Year Ended March 31, 2022

While there were signs of economic recovery, stagnation in production activities due to supply shortages of manufacturing components, in particular semiconductors, and increases in raw material prices continued, and their impact on earnings became apparent, but the Company achieved increases in both revenue and profit.

(¥100 million)

	Results for the fiscal year ended March 31, 2021	Results for the fiscal year ended March 31, 2022	Change from previous year
Revenue	217.1	231.8	+14.8 [+6.8%]
Operating profit	(9.7)	5.0	+14.7 [-]
Ordinary profit	(9.0)	5.9	+14.9 [-]
Profit attributable to owners of parent	52.3	6.0	(46.4) [(88.6%)]
ROE	23.6%	2.4%	(21.2%)

Revenue

Increased by focusing on parts procurement and production activities despite supply shortages of manufacturing parts, particularly semiconductor parts, and increases in raw material prices.

Operating profit

Increased in line with growth in revenue, decreased loss from inventory valuation and reduced fixed costs, despite increases in raw material prices and transportation costs.

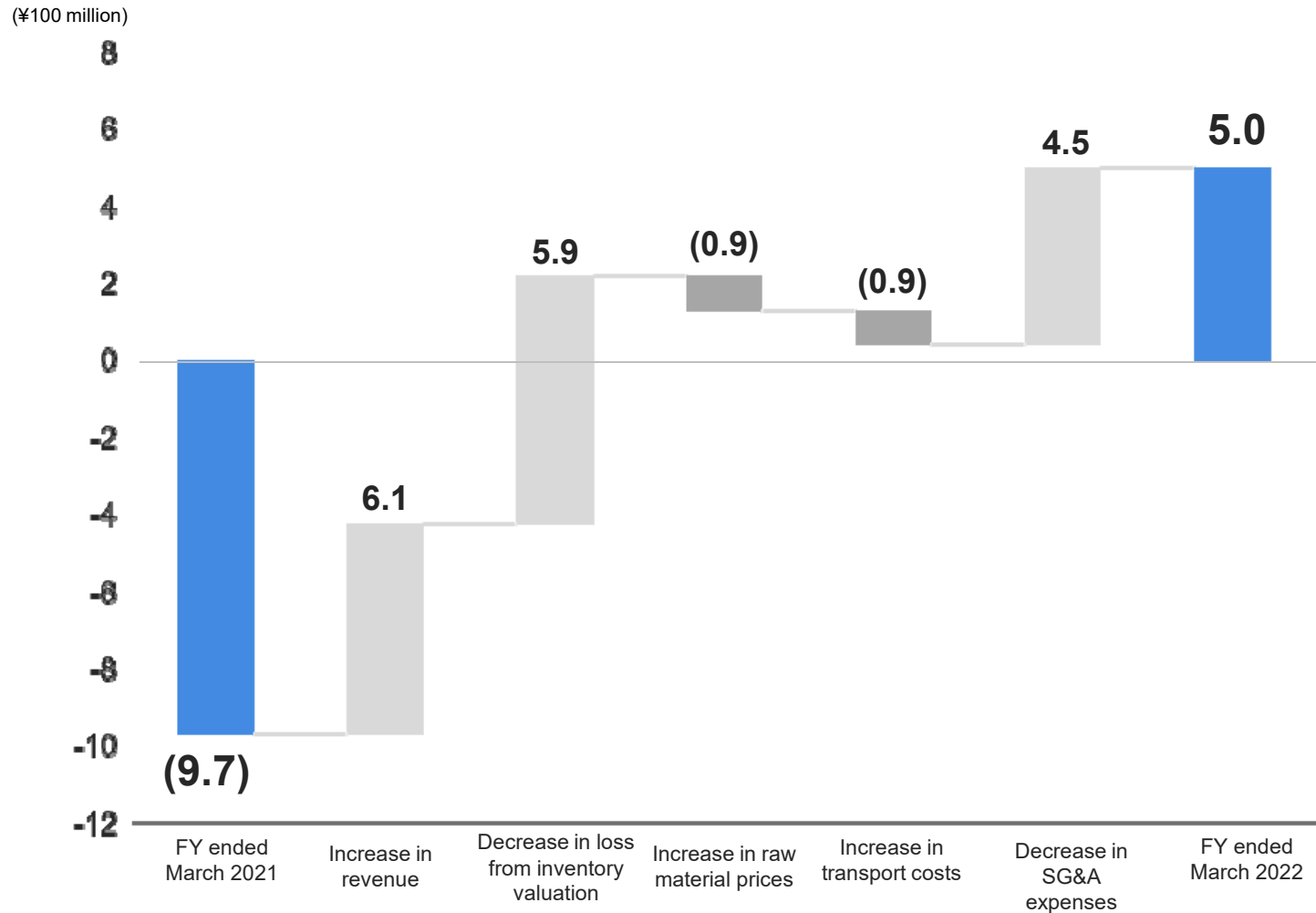
Profit

Decreased due to the income taxes-current of ¥160 million and income taxes-deferred of ¥2.0 billion in connection with recording of a gain on sale of land of ¥8.33 billion as extraordinary income in the previous fiscal year.

Analysis of Changes in Consolidated Operating Profit for the Fiscal Year Ended March 31, 2022

Main causes of change

- Increase in revenue: +¥610 million**
 Operating profit increased in line with growth in revenue
- Decrease in loss from inventory valuation: +¥590 million**
 Cost of sales improved due to a decrease in loss from inventory valuation, which was caused by arrangements made in advance to prepare for the difficulty in obtaining raw materials that occurred in the previous fiscal year and changeovers to mainstay products.
- Increase in raw material prices: - ¥90 million**
 Cost of sales deteriorated due to shortages in supply of manufactured parts
- Increase in transport costs: - ¥90 million**
 Cost of sales deteriorated due to higher transport costs resulting from higher fuel prices
- Decrease in selling, general and administrative expenses: +¥450 million**
 Decrease in personnel costs and expenses due to reduction in headcount and changes in workforce composition



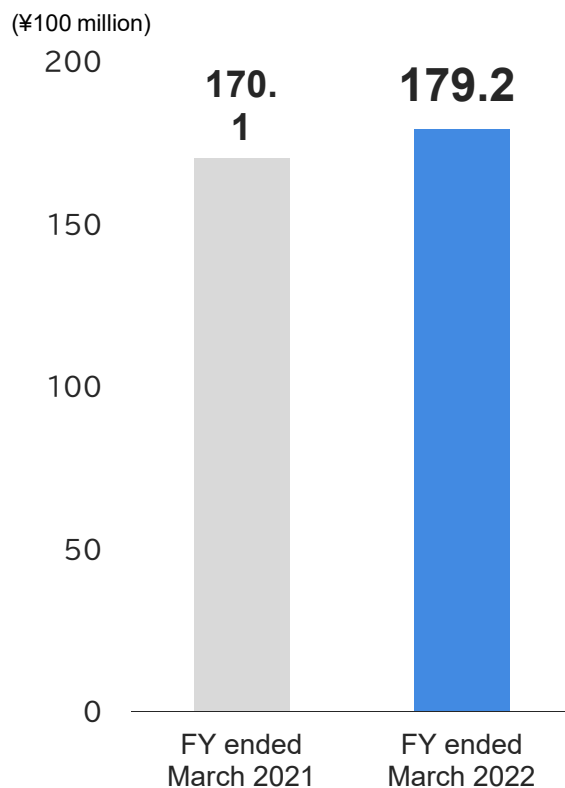
Performance Highlights by Segment for the Fiscal Year Ended March 31, 2022

IWATSU

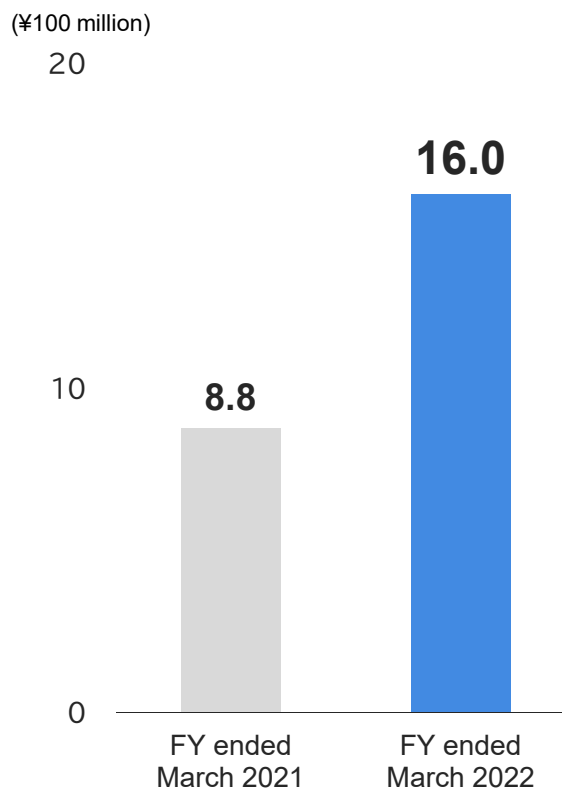
(¥100 million)

		Results for the fiscal year ended March 31, 2021	Results for the fiscal year ended March 31, 2022	Change from previous year (%)
Business communication systems	Revenue	170.1	179.2	+9.1 [+5.3%]
	Segment profit/loss	8.8	16.0	+7.2 [+81.9%]
Printing systems	Revenue	17.5	18.5	+1.0 [+5.9%]
	Segment profit/loss	(2.7)	0.2	+2.9 [-]
Test and measurement equipment	Revenue	25.5	29.5	+4.0 [+15.7%]
	Segment profit/loss	(1.1)	2.2	+3.3 [-]
Property leasing	Revenue	4.0	4.6	+0.6 [+16.3%]
	Segment profit/loss	1.2	1.0	(0.1) [+11.4%]
Adjustment	Revenue	-	-	-
	Segment profit/loss	(15.8)	(14.3)	+1.4 [-]
Total	Revenue	217.1	231.8	+14.8 [+6.8%]
	Operating profit	(9.7)	5.0	+14.7 [-]

● Revenue



● Segment Profit/Loss



Main causes of change

● Revenue

Revenue was ¥17.92 billion, an increase of ¥910 million (5.3%) from the previous fiscal year due to increases in the main product of business phones and contract production at the production subsidiary

● Segment profit/loss: +¥720 million

Increase in revenue: +270

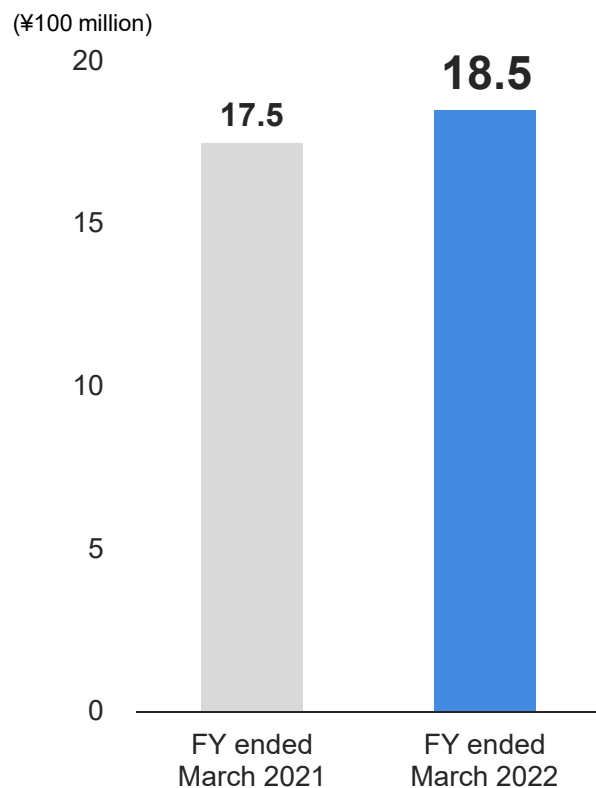
Decrease in loss from inventory valuation: +410

Increase in raw material prices: -90

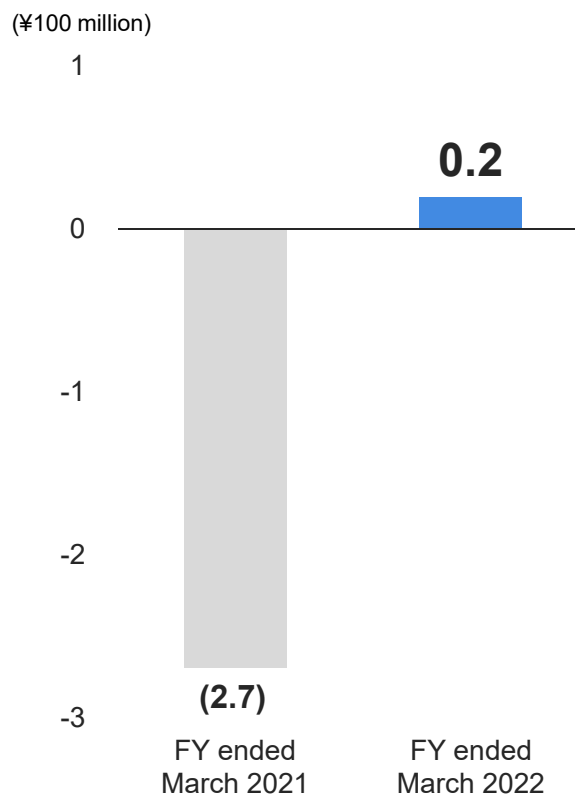
Increase in import costs: -80

Decrease in SG&A expenses: +210

● Revenue



● Segment Profit/Loss



Main causes of change

● Revenue

Revenue was ¥1.85 billion, an increase of ¥100 million (5.9%) from the previous fiscal year, mainly due to an increase in revenue of consumables despite a decrease in revenue of printing-related equipment

● Segment profit/loss: +¥290 million

Increase in revenue: +120

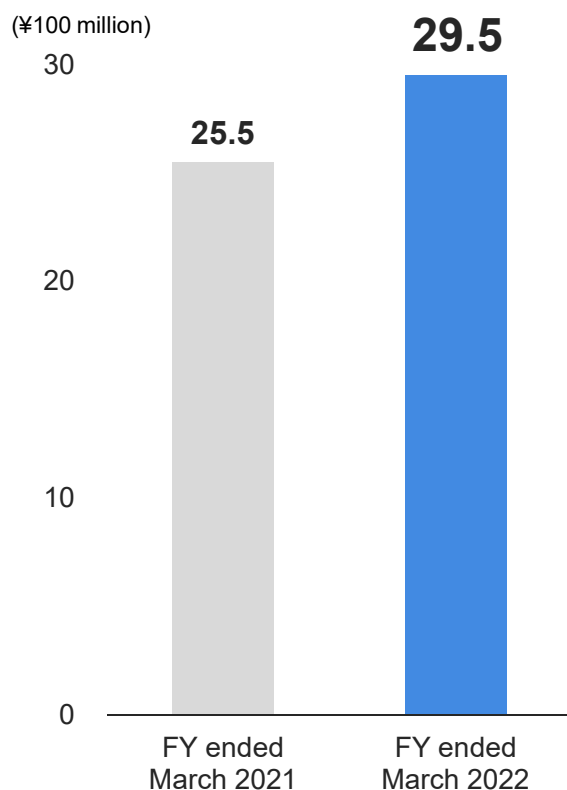
Decrease in loss from inventory valuation: +110

Increase in raw material prices: -0

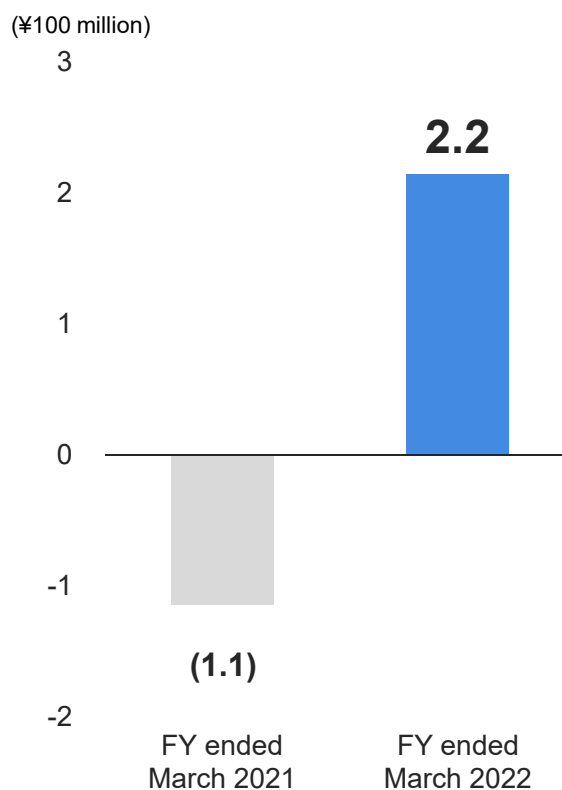
Increase in import costs: -

Decrease in SG&A expenses: +60

● Revenue



● Segment Profit/Loss



Main causes of change

● Revenue

Revenue was ¥2.95 billion, an increase of ¥400 million (15.7%) from the previous fiscal year, mainly due to an increase in revenue of power electronics-related products and electronic components

● Segment profit/loss: +¥330 million

Increase in revenue: +230

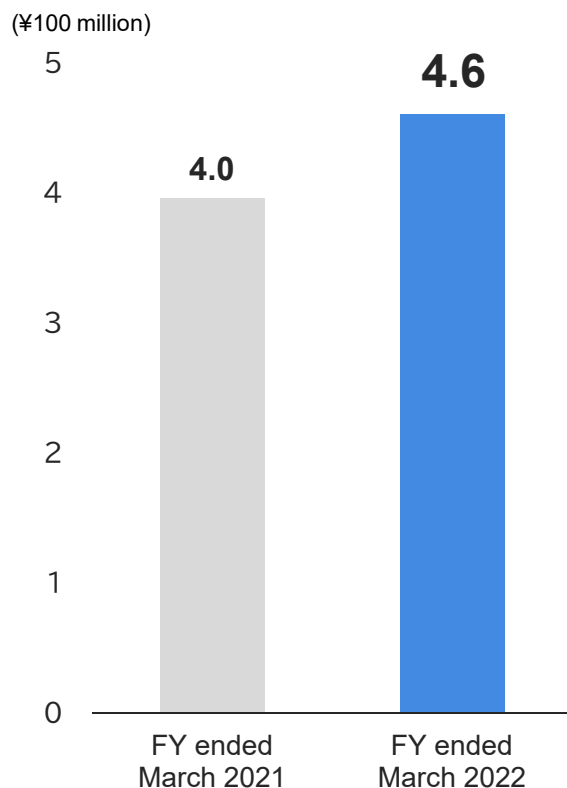
Decrease in loss from inventory valuation: +70

Increase in raw material prices: -0

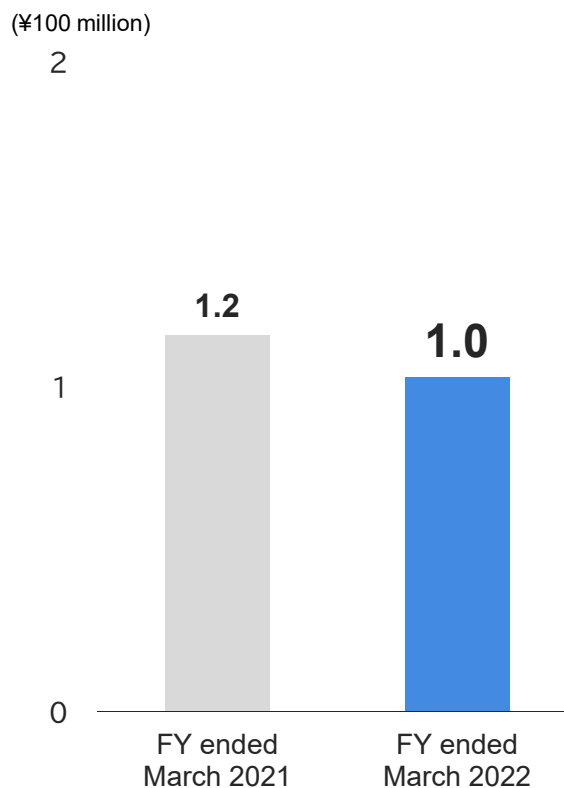
Increase in import costs: -10

Decrease in SG&A expenses: +40

● Revenue



● Segment Profit/Loss



Main causes of change

● Revenue

Revenue was ¥460 million, an increase of ¥60 million (16.3%) from the previous fiscal year, mainly due to an increase in revenue from income-producing properties

● Segment profit/loss: -¥10 million

One-time expenses such as leasing costs: -10

Consolidated Balance Sheet for the Fiscal Year Ended March 31, 2022

IWATSU

(¥100 million)

	As of March 31, 2021	As of March 31, 2022	Change from previous year
Current assets	163.0	172.3	+9.4
Non-current assets	198.2	192.1	(6.1)
Total assets	361.1	364.4	+3.3
Current liabilities	42.5	42.8	+0.2
Non-current liabilities	68.9	68.1	(0.8)
Total liabilities	111.4	110.8	(0.6)
Net assets	249.7	253.6	+3.9
Total liabilities and net assets	361.1	364.4	+3.3

Main causes of change

- Current assets: +¥940 million**
 Cash and deposits: +390
 Electronically recorded monetary claims-operating: +200
 Merchandise and finished goods: +270
 Raw materials and supplies: +650
 Accounts receivable-trade: -260
 Other: -290, etc.
- Non-current assets: -¥610 million**
 Property, plant and equipment: -200
 Intangible assets: -300
 Investments and other assets: -110
- Current liabilities: +¥20 million**
 Accounts payable-other: +220
 Notes and accounts payable-trade: -150, etc.
- Non-current liabilities: -¥80 million**
 Retirement benefit liability: -70, etc.
- Net assets: +¥390 million**
 Retained earnings: +200
 Foreign currency translation adjustment: +130

Consolidated Statement of Cash Flows for the Fiscal Year Ended March 31, 2022

IWATSU

Cash and cash equivalents at the end of the fiscal year ended March 31, 2022 were ¥5.76 billion, an increase of ¥390 million from the previous fiscal year

(¥100 million)

	Fiscal year ended March 31, 2021	Fiscal year ended March 31, 2022	Change from previous year
Cash flows from operating activities	(6.5)	13.2	+19.7
Cash flows from investing activities	(19.1)	(5.5)	+13.6
Free cash flows	(25.6)	7.7	+33.3
Cash flows from financing activities	(0.1)	(4.1)	(3.9)
Cash and cash equivalents	53.6	57.6	+3.9

Major breakdown items

● Cash flows from operating activities

Profit before income taxes: ¥650 million
 Depreciation: ¥1,080 million
 Decrease in trade receivables: ¥110 million
 Increase in inventories: -¥850 million
 Decrease in trade payables: -¥170 million
 Other, net: +¥590 million

● Cash flows from investing activities

Purchase of property, plant and equipment: -¥530 million
 Purchase of intangible assets: -¥200 million
 Proceeds from sale of investment securities: +¥170 million

● Cash flows from financing activities

Dividends paid: -¥390 million

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Forecast for the Fiscal Year Ending March 31, 2023

The external environment and the major impacts on the Company's business, on which the forecast for the whole of the fiscal year ending March 31, 2023, are based on, are as follows.

External Environment

- With the global progress in living with the COVID-19 virus through vaccination and other measures, autonomous recovery is expected to take full effect, led by consumption and investment. Once the pandemic peaks out, the Japanese economy is also expected to recover, with employment and income conditions to improve and capital investment to recover as economic activity normalizes.
- It is expected that supply shortages of semiconductors and other manufacturing components will not be resolved and restrictions on production and procurement will continue.
- Prolonged Russian aggression in Ukraine may lead to higher raw material prices and the risk of economic decline.



Major Impacts on Business

Business communication systems

While demand for cloud services is expected to increase, there is also expected to be a certain level of demand in the Company's main area of business of on-premises services. In addition, the risk of profit deterioration in parts procurement is expected to continue.

Printing systems

The difficult environment is expected to continue due to the uncertain conditions for the recovery of the printing market.

Test and measurement equipment

While the normalization of economic activities will ease the restraints on domestic and overseas business development, the risk of delivery delays in parts procurement is expected to persist.

Property leasing

It is expected that careful leasing will be required to minimize the impact of office decentralization and downsizing.

Consolidated Whole-Year Forecast for the Fiscal Year Ending March 31, 2023

While revenue is expected to increase, operating loss, ordinary loss and loss are expected to be recorded on the profit side due to the implementation of drastic structural reforms based on the medium-term management plan.

(¥100 million)

	Results for the fiscal year ended March 31, 2022	Forecast for the fiscal year ending March 31, 2023	Change from previous year (%)
Revenue	231.8	237.0	+5.2 [+2.2%]
Operating profit	5.0	(4.0)	(9.0) [-]
Ordinary profit	5.9	(3.5)	(9.4) [-]
Profit attributable to owners of parent	6.0	(3.5)	(9.5) [-]
ROE	2.4%	(1.5%)	(3.9%)

Revenue

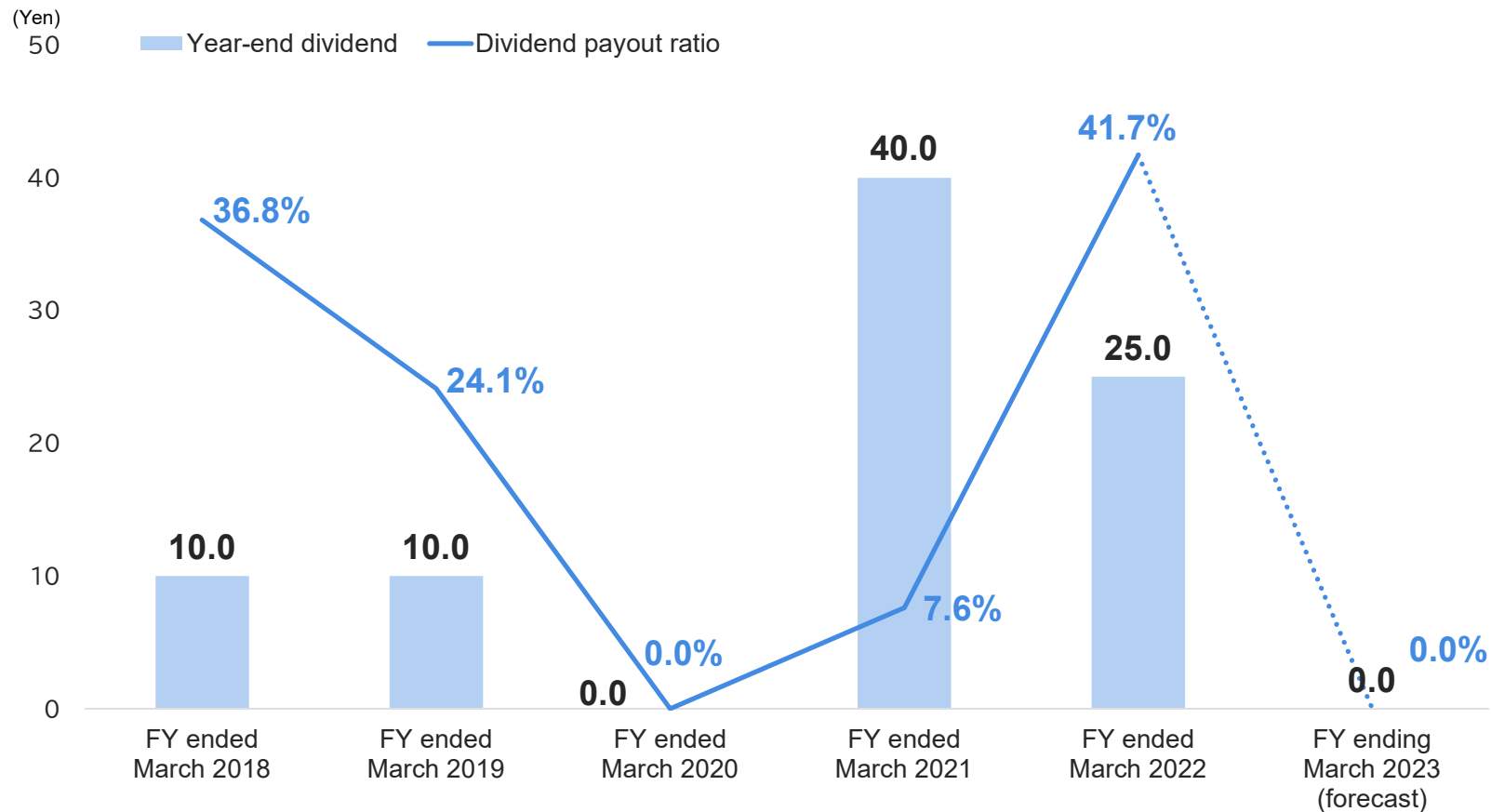
- Revenue is expected to increase due to the expected end of the pandemic and normalization of economic activities

Operating profit Ordinary profit Profit

- Deteriorating cost rate is expected due to increasing raw material prices caused by the prolonging of the situation in Ukraine
- An operating loss, ordinary loss and loss are expected to be recorded due to one-time expenses aimed towards the future as we promote structural reforms based on the new medium-term management plan "REBORN"

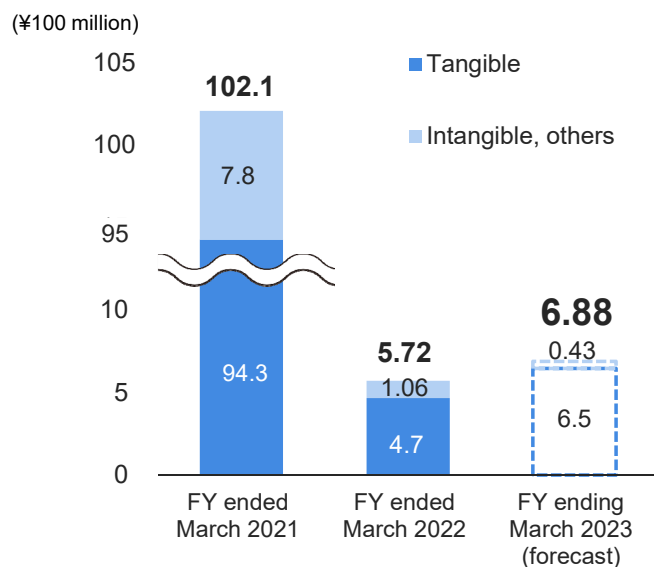
Dividend Forecast for the Fiscal Year Ending March 31, 2023

The Company plans to pay a dividend of ¥25 per share for the fiscal year ended March 31, 2022. For the fiscal year ending March 31, 2023, a year-end dividend will not be paid due to the forecast of the planned net loss based on the new medium-term management plan. In the future, the Group will make a concerted effort to further enhance corporate value and strengthen shareholder returns.



Capital Investment, R&D Expenses and Depreciation Forecast for the Fiscal Year Ending March 31, 2023

● Capital Investment



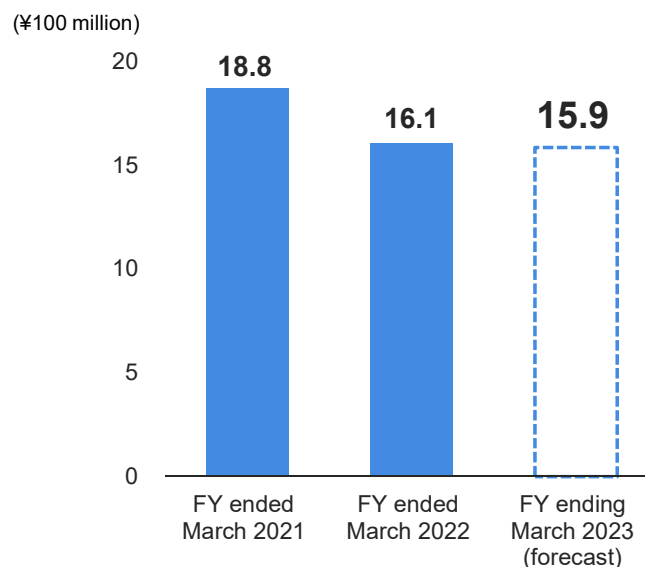
Fiscal year ended March 31, 2022

- Tangible capital investment decreased ¥8.96 billion due to the acquisition of ¥8.80 billion of new income-producing properties in the previous fiscal year
- Intangible and other capital investment decreased ¥670 million because the software for the successors to the mainstay products was recorded in the previous fiscal year

Fiscal year ending March 31, 2023

- Tangible, intangible and others forecast to increase ¥120 million compared to the previous fiscal year

● R&D Expenses



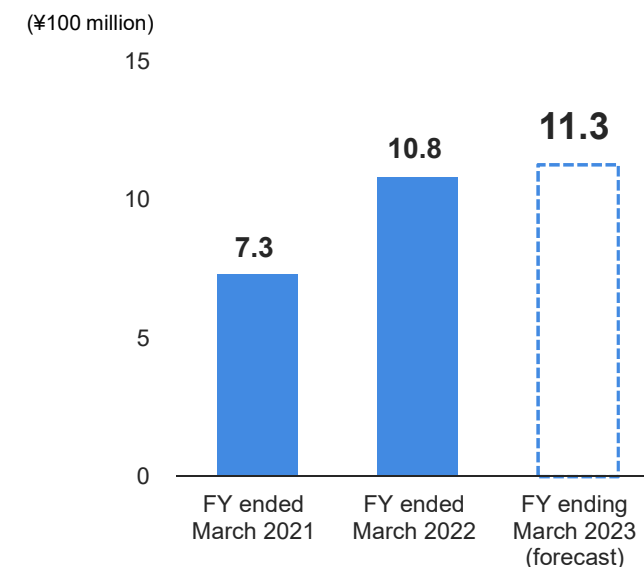
Fiscal year ended March 31, 2022

- Decreased ¥270 million due to development costs of the successors to the mainstay products in the previous year

Fiscal year ending March 31, 2023

- Forecast to decrease ¥20 million compared to the previous fiscal year

● Depreciation



Fiscal year ended March 31, 2022

- Increased ¥350 million due to investment in development of the successor models to the mainstay products and depreciation of new income-producing properties

Fiscal year ending March 31, 2023

- Forecast to increase ¥50 million compared to the previous fiscal year

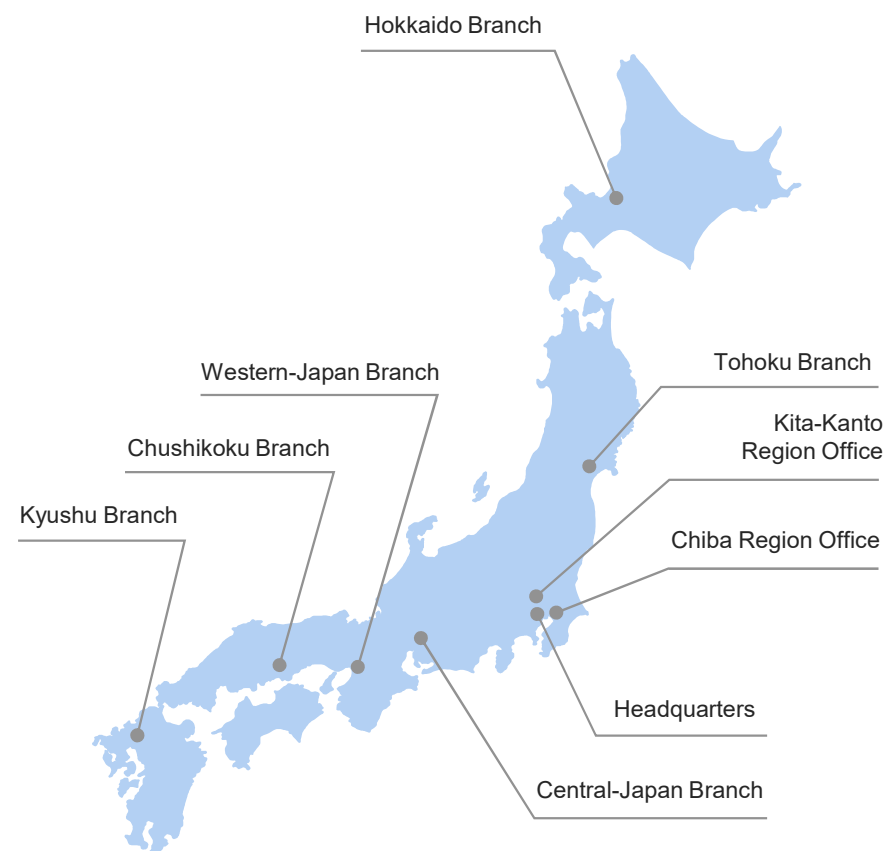
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Supplementary Materials

● Company Outline

Company Name	IWATSU ELECTRIC CO., LTD.
Established	August 14, 1938
Headquarters Address	1-7-41 Kugayama, Suginami-ku, Tokyo 168-8501, Japan
Tel./Fax	Tel: 03-5370-5111 Fax: 03-5370-5115 (main)
Details of Business	<ul style="list-style-type: none"> ● Development, manufacture and sale of equipment and service provision in the business communication systems, printing systems and test and measurement equipment fields ● Property leasing, etc. Company Brochure (PDF)
Representative	Toru Nishido, President
Capital	¥6 billion (as of March 31, 2022)
Revenue	Consolidated ¥23.1 billion (FY 2021)
Number of Employees	Non-consolidated 433; Consolidated 1,258 (as of March 31, 2022)
Major Financial Institutions	MUFG Bank, Ltd. Mitsubishi UFJ Trust and Banking Corporation Mizuho Bank, Ltd. Sumitomo Mitsui Banking Corporation
Construction License	Licensed by Minister of Land, Infrastructure, Transport and Tourism (Han-3) No. 26305 Telecommunications work and electrical work

● Domestic Locations



- **August 1938** IWATSU ELECTRIC CO., LTD. established in Yoyogi-Uehara-cho, Shibuya-ku, Tokyo
- **October 1943** New office building completed in Kugayama, Suginami-ku, Tokyo
Headquarters moved from Yoyogi-Uehara-cho
- **December 1945** Branch office established in Nagoya City (now Central-Japan Branch)
- **December 1952** Branch office established in Osaka City (now Western-Japan Branch)
- **June 1954** Branch office established in Fukuoka City (now Kyushu Branch)
- **March 1957** Listed on the First Section of the Tokyo Stock Exchange
- **April 1970** Fukushima Iwatsu Co., Ltd. (now Iwatsu Manufacturing Co., Ltd., a consolidated subsidiary) established in Fukushima Prefecture as a production base for button phones
- **April 1991** Iwatsu (Malaysia) Sdn. Bhd. (a consolidated subsidiary) established in Malaysia
- **July 2009** Acquired shares of Lee, Netsolutions Co., Ltd. (now groxi.Inc, a consolidated subsidiary)
- **October 2009** Acquired shares of Dentsu Service Co., Ltd. (a consolidated subsidiary)
- **July 2016**
 - Integration of three subsidiaries: Iwatsu Sales Co., Ltd., Iwatsu Test Instruments Corporation and Media Comfort Corporation
 - Merged Fukushima Iwatsu Co., Ltd. with Denshi Kako Co., Ltd. and changed its name to Iwatsu Manufacturing Co., Ltd.
- **October 2019** Lee, Netsolutions Co., Ltd. changed its name to groxi.Inc
- **July 2021** Iwatsu Network Solution Co., Ltd. (a consolidated subsidiary) was established by spinning off part of IWATSU ELECTRIC CO., LTD.'s business communication systems business in the Tokyo metropolitan area and Iwatsu Business Services Co., Ltd.'s business communication systems sales and installation business

Caution Regarding Forward-Looking Information

Statements in this document regarding future plans, forecasts, strategies and other future information of the Company and the Group are based on certain assumptions that the Company determines to be reasonable based on information available at the time this document was prepared, and actual results may differ significantly from these assumptions. These statements regarding forward-looking information involve a variety of risks and uncertainties, the principal ones are listed below, but this list is not exhaustive.

- Trends at major customers
- Bias towards second-half performance
- Intensifying market competition with competitors
- Deterioration in business performance of business partners, etc.
- Litigation and other legal proceedings
- Natural disasters, etc.
- information leaks
- Spread of infectious disease
- Procurement risks (e.g., supply shortages due to rapid changes in international conditions and increasing procurement prices)
- Economic trends

The statements contained herein do not constitute a public offering of securities.