August 10, 2023

Consolidated Financial Results for the Three Months Ended June 30, 2023 (Under Japanese GAAP)

Company name: MIMAKI ENGINEERING CO., LTD.
Listing: Tokyo
Securities Code: 6638
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Scheduled date to file Quarterly Securities Report: August 10, 2023
Scheduled date to commence dividend payments: –
Preparation of supplementary material on quarterly financial results: Yes
Holding of quarterly financial results meeting: No

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

1. Consolidated financial results for the three months ended June 30, 2023 (from April 1, 2023 to June 30, 2023)

(1) Consolidated operating results (cumulative)

(Percentages indicate year-on-year changes.)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
Three months ended June 30, 2023	16,502	3.3	539	(37.0)	485	(46.3)	254	(62.2)
Three months ended June 30, 2022	15,975	13.4	856	10.3	903	13.1	674	2.4

Note: Comprehensive income Three months ended June 30, 2023 ¥1,417 million [(12.3)%]
Three months ended June 30, 2022 ¥1,616 million [88.7%]

	Basic earnings per share	Diluted earnings per share
	Yen	Yen
Three months ended June 30, 2023	8.86	8.85
Three months ended June 30, 2022	23.44	23.43

(2) Consolidated financial position

	Total assets	Net assets	Equity-to-asset ratio
	Millions of yen	Millions of yen	%
As of June 30, 2023	71,767	23,201	32.2
As of March 31, 2023	69,789	22,056	31.5

Reference: Equity As of June 30, 2023 ¥23,088 million
As of March 31, 2023 ¥21,952 million

2. Cash dividends

	Annual dividends per share				
	First quarter-end	Second quarter-end	Third quarter-end	Fiscal year-end	Total
	Yen	Yen	Yen	Yen	Yen
Year ended March 31, 2023	–	7.50	–	10.00	17.50
Year ending March 31, 2024	–				
Year ending March 31, 2024 (Forecast)		10.00	–	10.00	20.00

Note: Revision of cash dividend forecast most recently announced: No

3. Forecast of consolidated financial results for the year ending March 31, 2024 (from April 1, 2023 to March 31, 2024)

(% Display is the year-on-year rate of increase/decrease for the full year and the year-on-year rate for the quarter)

	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
Second quarter (cumulative)	37,200	9.5	1,850	(1.9)	1,590	(7.0)	1,100	(15.2)	38.22
Full year	78,000	10.5	4,400	3.7	3,860	1.8	2,850	1.5	99.03

Note: Revision of consolidated financial results forecast most recently announced: No

*** Notes**

(1) Changes in significant subsidiaries during the three months ended June 30, 2023
(changes in specified subsidiaries resulting in the change in scope of consolidation): No

(2) Application of special accounting for preparing quarterly consolidated financial statements: No

(3) Changes in accounting policies, changes in accounting estimates, and restatement of prior period financial statements

Changes in accounting policies due to revisions to accounting standards and other regulations: No

Changes in accounting policies due to other reasons: No

Changes in accounting estimates: No

Restatement: No

(4) Number of issued shares (common shares)

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

As of June 30, 2023	32,040,000 shares
As of March 31, 2023	32,040,000 shares

(ii) Number of treasury shares at the end of the period

As of June 30, 2023	3,260,767 shares
As of March 31, 2023	3,260,767 shares

(iii) Average number of shares during the period (cumulative from the beginning of the fiscal year)

Three months ended June 30, 2023	28,779,233 shares
Three months ended June 30, 2022	28,776,233 shares

* Quarterly financial results reports are exempt from quarterly review conducted by certified public accountants or an audit corporation.

* Proper use of earnings forecasts, and other special matters
The forecasts and other forward-looking statements in this report are based on currently available information and certain assumptions determined as rational. Consequently, any statements herein do not constitute assurances regarding actual results by the Company. In addition, actual business results may differ significantly due to various factors. Please refer to “Qualitative information on quarterly consolidated financial results, (3) Explanation of consolidated financial forecasts and other forward-looking statements” on page 4 of the attached materials for the conditions that are the premise of the business forecast and precautions when using the business forecast.

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1. Qualitative information on quarterly consolidated financial results

(1) Explanation of operating results

During the three months ended June 30, 2023 (hereinafter referred to as “the period under review”), the global economy experienced a marked economic slowdown in Europe, the United States, and Asia/Oceania, with the exception of some countries such as Japan and India, due to continued high levels of inflation triggered by Russia’s invasion of Ukraine, and the impact of monetary policies by central banks and governments. Japan’s economic measures have resulted in favorable conditions. In addition to rebound in personal consumption and capital investment accompanying the end of the COVID-19 crisis, recovery in inbound demand from the pandemic’s long-term effects is expected to spur sustainable economic recovery.

Under such circumstances, the Group has continued to launch new products and expand sales, develop its business in anticipation of rapid changes in the market environment and customer needs, and build a foundation to improve profitability, based on the priority measures set forth in the “Mimaki V10” mid- to long-term growth strategy established in December 2020. In order to respond to demand recovery and future business expansion, we continued to promote strategies aimed at expanding sales during the period under review, including the relocation of the JP Demonstration Center, one of our largest showrooms in Japan, the announcement of new products and new technologies for the textile and apparel market at ITMA, the world’s largest equipment exhibition for the textile and apparel market held once every four years in Milan, Italy, and the establishment of a sales subsidiary in Vietnam, where economic growth is remarkable.

As for net sales by product market for the period under review, FA business sales increased significantly while sales to SG (Sign Graphics), IP (Industrial Products), and TA (Textile Apparel) markets decreased as a result of a decline in ink demand and slowing growth of main unit sales due to the overall economic downturn. By region, sales were strong in Japan and India as economic activity intensified, while sales in China increased compared to the same period of the previous fiscal year when demand was significantly sluggish due to the COVID-19 pandemic. On the other hand, sales in North America, Europe, and Asia/Oceania decreased due to the significant impact of the economic recession. Despite such a difficult environment, a weaker yen had a positive effect, resulting in an increase in sales compared to the same period of the previous fiscal year. In terms of profit, the cost of sales ratio remained at the same year on year level despite continued sales of products using high-cost materials such as semiconductors procured in the previous fiscal year. We reviewed sales prices in response to overall increase in costs due to advancing inflation. Besides, the transportation costs decreased following the end of the global logistics turmoil. On the other hand, SG&A expenses increased due to several factors. These include the rise in expenses related to research and development for upcoming new technologies and products. Also, increased personnel expenses and heightened sales activities, which were prompted by active participation in global exhibitions, contributed to the rise in expenses. As a result, year on year profits decreased in spite of the positive effect of exchange rates.

As a result of the above, for the period under review, the Group posted net sales of 16,502 million yen (up 3.3% year on year), operating profit of 539 million yen (down 37.0% year on year), ordinary profit of 485 million yen (down 46.3% year on year), and profit attributable to owners of parent of 254 million yen (down 62.2% year on year).

In addition, the major exchange rates (average rates from April 2023 to June 2023) for the period under review were 1 US$ = 137.37 yen (129.57 yen in the same period of the previous fiscal year) and 1 EUR = 149.46 yen (138.10 yen in the same period of the previous fiscal year).

The operating results by segment are as follows.

(Japan, Asia, and Oceania)

Net sales were 7,280 million yen (up 7.0% year on year). In response to the recovery in economic activity in the period after the COVID-19 pandemic in Japan, sales of main units to the SG market were firm and maintained the same year on year levels. As for the IP market, compact flatbed printers (hereinafter referred to as “FB”) and large FB printers performed well, and sales including ink increased significantly. TxF150-75, a new product for the TA market, made a strong start and saw a significant increase in sales, while in the FA business, sales of semiconductor production equipment and FA equipment were strong, resulting in a significant increase in sales. As a result, sales increased significantly. Despite the impact of the economic slowdown in countries such as Australia and Indonesia, sales for Asia/Oceania remained at the same year on year levels due to the recovery of demand in China, strong sales resulting from economic growth in nations such as India and the Philippines, and the positive impact of foreign exchange rates.

(North America and Latin America)

Net sales were 4,462 million yen (down 0.8% year on year). While measures to revitalize the sales channels for the SG market are still in progress in North America, the impact of the economic recession became apparent, and sales to the SG market decreased significantly due to a decrease in demand caused by restrained investment, such as capital investment. Furthermore, although sales to the TA market were strong, sales to the IP market remained at the same year on year level, resulting in a decrease in sales despite the positive impact of exchange rates. Latin America secured increases in sales with sales remaining strong except for decreased sales in Brazil and Mexico.

(Europe, the Middle East, and Africa)

Net sales were 4,759 million yen (up 1.8% year on year). As for Europe, new main unit products for the TA market got off to a good start and sales were strong, but sales to the SG market remained at the same year on year level while sales to the IP market decreased due to the impact of the economic downturn. By country, sales declined mainly in Germany, the United Kingdom, and Italy while strong sales continued in countries such as Portugal, France, and Turkey. Combined with the positive impact of foreign exchange rates, overall sales were on par with the same period of the previous fiscal year.

The details of net sales by market are as follows.

	Net sales (Thousands of yen)	Component ratio (%)	Year-on-year changes (%)
SG market	6,769,797	41.0	1.9
IP market	4,677,893	28.3	2.7
TA market	1,596,100	9.7	1.9
FA business	1,050,213	6.4	26.7
Other	2,408,974	14.6	1.1
Total	16,502,979	100.0	3.3

(SG market)

Net sales were 6,769 million yen (up 1.9% year on year). Sales increased slightly as a result of the positive impact of foreign exchange rates with firm ink sales and increased sales of main units for flagship models and entry-level models, however, decrease in sales focused on mainstay models.

(IP market)

Net sales were 4,677 million yen (up 2.7% year on year). Although sales of compact and large FB models and ink, which had been strong in the same period of the previous fiscal year, decreased in the period under review, an increase in sales was secured due to the positive impact of exchange rates.

(TA market)

Net sales were 1,596 million yen (up 1.9% year on year). Main unit sales increased slightly due to the positive impact of exchange rates, with sales of existing models and ink decreasing while new products launched in April performed well.

(FA business)

Net sales were 1,050 million yen (up 26.7% year on year). Sales of semiconductor production equipment to specific customers increased significantly, while sales of FA equipment, PCB mounting equipment, and PCB inspection equipment also grew strongly, resulting in a large increase in sales.

The details of net sales by product category are as follows.

	Net sales (Thousands of yen)	Component ratio (%)	Year-on-year changes (%)
Machines	6,572,891	39.8	4.5
Ink	6,345,160	38.4	5.0
Spare parts	1,364,308	8.3	1.1
Other	2,220,619	13.5	(3.1)
Total	16,502,979	100.0	3.3

(2) Explanation of financial position

(Assets)

Total assets as of June 30, 2023 increased 1,977 million yen from the end of the previous fiscal year to 71,767 million yen. Total current assets increased 1,478 million yen from the end of the previous fiscal year to 55,170 million yen. This was due to an increase in cash and deposits, as well as an increase in merchandise and finished goods, and raw materials and supplies caused by sluggish sales compared to the plan. Total non-current assets increased 499 million yen from the end of the previous fiscal year to 16,596 million yen.

(Liabilities)

Total liabilities as of June 30, 2023 increased 831 million yen from the end of the previous fiscal year to 48,565 million yen. Total current liabilities increased 1,474 million yen from the end of the previous fiscal year to 41,619 million yen. This was mainly due to an increase in short-term borrowings. Total non-current liabilities decreased 642 million yen from the end of the previous fiscal year to 6,946 million yen. This was due to a decrease in long-term borrowings.

(Net assets)

Total net assets as of June 30, 2023 increased 1,145 million yen from the end of the previous fiscal year to 23,201 million yen. This was mainly due to an increase in foreign currency translation adjustment.

(3) Explanation of consolidated financial forecasts and other forward-looking statements

There is no change to the consolidated earnings forecast for the second quarter cumulative period and the full year announced on May 15, 2023 in the Consolidated Financial Results for the Year Ended March 31, 2023.

Although the results for the period under review were below levels that were the basis for the consolidated earnings forecast for the second quarter cumulative period, we decided to leave the consolidated earnings forecast unchanged, taking into account the recovery from the second quarter onwards.

In terms of net sales, we strive for solid launches and expanded sales of the new products “330 Series” and “TxF150” that were launched from the previous fiscal year to the current fiscal year, and new machines such as “Tiger600” and “CFX” that will be introduced from the second quarter onwards. We also proactively develop sales activities that specify priority areas, products, and channels, and vigorously develop new channels and projects. In terms of profits, from the second quarter onwards, we will thoroughly review the details of SG&A expenses and the timing of their execution on a company-wide basis in order to improve the SG&A ratio. The above measures are being deployed globally.

The main exchange rates assumed for the second quarter onwards are 1 US$: ¥133, and 1 EUR: ¥136, which are unchanged from the previous forecast.

2. Quarterly consolidated financial statements and significant notes thereto

(1) Quarterly consolidated balance sheets

(Thousands of yen)

	As of March 31, 2023	As of June 30, 2023
Assets		
Current assets		
Cash and deposits	10,485,252	11,496,929
Notes and accounts receivable - trade, and contract assets	11,052,972	10,323,699
Merchandise and finished goods	18,437,653	19,540,547
Work in process	2,281,747	2,360,697
Raw materials and supplies	7,296,450	7,757,257
Other	4,255,288	3,723,228
Allowance for doubtful accounts	(116,695)	(31,593)
Total current assets	53,692,668	55,170,765
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	3,823,702	3,827,221
Land	3,462,323	3,451,638
Other, net	4,725,520	5,084,021
Total property, plant and equipment	12,011,546	12,362,882
Intangible assets		
Goodwill	167,874	156,954
Other	743,611	1,000,846
Total intangible assets	911,485	1,157,800
Investments and other assets		
Investment securities	155,962	163,831
Deferred tax assets	1,856,277	1,813,140
Other	1,988,759	2,149,932
Allowance for doubtful accounts	(826,806)	(1,050,862)
Total investments and other assets	3,174,193	3,076,041
Total non-current assets	16,097,225	16,596,725
Total assets	69,789,894	71,767,490

(Thousands of yen)

	As of March 31, 2023	As of June 30, 2023
Liabilities		
Current liabilities		
Notes and accounts payable - trade	4,264,456	3,552,697
Electronically recorded obligations - operating	4,839,398	4,950,679
Short-term borrowings	18,580,604	20,525,440
Current portion of long-term borrowings	2,944,827	2,839,964
Lease liabilities	416,684	496,216
Income taxes payable	797,708	266,861
Provision for bonuses	1,170,425	692,432
Provision for bonuses for directors (and other officers)	67,148	19,711
Provision for product warranties	1,513,463	1,408,844
Other	5,550,084	6,866,246
Total current liabilities	40,144,802	41,619,094
Non-current liabilities		
Long-term borrowings	5,476,071	4,656,740
Lease liabilities	1,433,528	1,607,001
Deferred tax liabilities	60,311	63,150
Retirement benefit liability	348,634	348,762
Asset retirement obligations	147,352	149,687
Provision for retirement benefits for directors (and other officers)	45,900	45,900
Provision for loss on sanctions	9,554	10,331
Other	67,702	65,170
Total non-current liabilities	7,589,056	6,946,744
Total liabilities	47,733,858	48,565,839
Net assets		
Shareholders' equity		
Share capital	4,357,456	4,357,456
Capital surplus	4,617,296	4,617,296
Retained earnings	14,325,906	14,309,086
Treasury shares	(1,949,426)	(1,949,426)
Total shareholders' equity	21,351,232	21,334,412
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	14,424	19,631
Foreign currency translation adjustment	508,542	1,662,998
Remeasurements of defined benefit plans	78,086	71,773
Total accumulated other comprehensive income	601,053	1,754,403
Share acquisition rights	33,423	33,254
Non-controlling interests	70,324	79,580
Total net assets	22,056,035	23,201,651
Total liabilities and net assets	69,789,894	71,767,490

(2) Quarterly consolidated statements of income and consolidated statements of comprehensive income

Quarterly consolidated statements of income (cumulative)

(Thousands of yen)

	Three months ended June 30, 2022	Three months ended June 30, 2023
Net sales	15,975,586	16,502,979
Cost of sales	9,414,685	9,533,827
Gross profit	6,560,900	6,969,152
Selling, general and administrative expenses	5,704,139	6,429,720
Operating profit	856,760	539,431
Non-operating income		
Interest income	5,810	4,954
Dividend income	786	687
Insurance claim income	43,700	6,010
Purchase discounts	2,653	2,951
Foreign exchange gains	33,034	25,274
Subsidy income	20,370	21,737
Share of profit of entities accounted for using equity method	–	13,867
Other	23,343	20,300
Total non-operating income	129,699	95,783
Non-operating expenses		
Interest expenses	46,726	83,978
Share of loss of entities accounted for using equity method	27,324	–
Inflation accounting adjustment	–	39,101
Other	8,517	26,348
Total non-operating expenses	82,568	149,428
Ordinary profit	903,891	485,785
Extraordinary income		
Gain on sale of non-current assets	22,248	1,137
Other	25	169
Total extraordinary income	22,274	1,306
Extraordinary losses		
Loss on sale of non-current assets	10	–
Total extraordinary losses	10	–
Profit before income taxes	926,155	487,092
Income taxes - current	198,137	178,010
Income taxes - deferred	48,602	51,057
Total income taxes	246,740	229,067
Profit	679,415	258,025
Profit attributable to non-controlling interests	4,840	3,034
Profit attributable to owners of parent	674,574	254,990

Quarterly consolidated statements of comprehensive income (cumulative)

(Thousands of yen)

	Three months ended June 30, 2022	Three months ended June 30, 2023
Profit	679,415	258,025
Other comprehensive income		
Valuation difference on available-for-sale securities	44	5,207
Foreign currency translation adjustment	924,226	1,172,012
Remeasurements of defined benefit plans, net of tax	18,208	(6,312)
Share of other comprehensive income of entities accounted for using equity method	(5,597)	(11,335)
Total other comprehensive income	936,882	1,159,570
Comprehensive income	1,616,297	1,417,596
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	1,610,125	1,408,340
Comprehensive income attributable to non-controlling interests	6,172	9,255

(3) Notes on quarterly consolidated financial statements

(Note on going concern assumption)

Not applicable.

(Notes on significant changes in the amount of shareholders' equity)

Not applicable.

(Changes in significant subsidiaries during the three months ended June 30, 2023)

Not applicable.

Although it does not fall under the category of "changes in specified subsidiaries," MIMAKI VIETNAM CO., LTD. was newly established in the first quarter of the current fiscal year, so it is included in the consolidated scope.

(Additional information)

(Accounting estimate for the impact of the spread of the COVID-19)

The Group makes accounting estimates such as impairment accounting for non-current assets and recoverability of deferred tax assets based on the information available at the time of preparation of consolidated financial statements. Although the impact of the COVID-19 on the Group's business varies depending on the business, the accounting estimate is made based on the assumption that the impact will continue for a certain period of the fiscal year ending March 31, 2024.

(Accounting for hyperinflation)

During the previous fiscal year, because the cumulative three-year inflation rate in Turkey exceeded 100%, the Group determined that its subsidiary in Turkey, whose functional currency is the Turkish lira, is operating in a hyperinflationary economy. Therefore, from the second quarter ended September 30, 2022, the Group has made accounting adjustments to the financial statements of its Turkish subsidiary in accordance with the requirements set forth in IAS 29 "Financial Reporting in Hyperinflationary Economies."

IAS 29 requires that the financial statements of subsidiaries in a hyperinflationary economy to be restated by applying the unit of measurement as of the end of the reporting period before inclusion in the consolidated financial statements.

The Group uses conversion factors calculated from the Consumer Price Index (CPI) of Turkey published by the Turkish Statistical Institute (TURKSTAT) for the purpose of adjusting the financial statements of its subsidiary in Turkey.

For the subsidiary in Turkey, non-monetary items such as property, plant and equipment presented at cost are adjusted using conversion factors based on the acquisition date. Monetary and non-monetary items presented at current cost are not adjusted, since they are considered to be presented in the unit of measurement as of the end of the reporting period. The effect of inflation on net monetary items is presented in non-operating expenses in the quarterly consolidated statements of income.

The financial statements of the Turkish subsidiary are translated at the exchange rate as of June 30, 2023, and reflected in the quarterly consolidated financial statements of the Group.

(Significant accounting policies)

Allowance for loss related to sanctions

In order to prepare for fines imposed by overseas regulatory authorities, an amount reasonably estimated to the extent possible is recognized.

(Transactions that violate or may violate sanctions)

There are concerns of potential violation of sanctions imposed on Russia and Belarus occurring at the Company's European subsidiary MIMAKI EUROPE B.V. (the Netherlands). Through an inspection conducted by external legal experts since January 2023, certain transactions were found to violate the sanctions. No investigation has been conducted by the regulatory authorities.

We reasonably estimated the provision regarding the transactions found to violate the sanctions and recognized it as a provision for loss on sanctions.

In contrast, the provision for fines regarding the sanctions remains difficult to be estimated reasonably due to its high level of uncertainty. Unless the authorities conduct investigations, whether or not some of the relevant transactions are applicable to sanction violations cannot be determined.

Regarding the transactions for which it was not clear whether there was a violation of sanctions, we received a response from the Tax and Customs Administration of the Netherlands in the first quarter of the current fiscal year indicating that printers shipped from MIMAKI EUROPE B.V. did not violate the sanctions. We have also submitted an inquiry to the Tax and Customs Administration of the Netherlands to confirm whether or not maintenance parts and cutting plotters shipped from MIMAKI EUROPE B.V. violated the sanctions. Regarding the transactions for which it was not clear whether there was a violation of sanctions among the shipments during the period of the sanctions, printers made up 78.6% on a monetary basis.

The sanction provision under the Dutch Penal Code stipulates six categories of fines, as follows, depending on the nature of crimes.

Category 1	450 euro
Category 2	4,500 euro
Category 3	9,000 euro
Category 4	22,500 euro
Category 5	90,000 euro
Category 6	900,000 euro

In the case that (i) the crime is subject to the fine of the sixth category, (ii) the crime was deliberate, and (iii) the sixth category fine of 900,000 euro determined for the crime does not allow for an appropriate penalty, the code determines that a fine can be imposed with a maximum penalty of ten percent of the annual revenue of the legal entity.

In the event that the fine is imposed with a maximum of ten percent of the annual revenue, it is difficult, at the end of the first quarter of the current fiscal year, to decide how to specify the annual revenue since February 22, 2022, when the illicit transactions began. MIMAKI EUROPE B.V.'s annual revenue for the fiscal year ended March 31, 2022 was 148,101 thousand euro, and its annual revenue for the fiscal year ended March 31, 2023 was 152,274 thousand euro.

(Contingent debt)

MIMAKI BRASIL COMERCIO E IMPORTACAO LTDA (hereinafter referred to as Mimaki Brazil), a consolidated subsidiary of the Company, was investigated by the Brazilian tax authorities regarding the importation of our inkjet printers and received two additional tax notices totaling 84,920 thousand Brazilian reals (113,283 thousand Brazilian reals with interest for delay added). Mimaki Brazil disagrees with the findings of the authorities and has filed a tax case with the court in December 2019 with respect to the 44,494 thousand Brazilian reals (61,906 thousand Brazilian reals with added interest for the delay) for which it received a notice of additional taxation in September 2018. In addition, we filed a complaint with the tax authorities in December 2018 regarding the 40,425 thousand Brazilian reals (51,376 thousand Brazilian reals with late interest added) that received the additional tax notice in November 2018.

Mimaki Brazil will take appropriate measures based on the idea that this additional taxation is groundless. Therefore, it is difficult to estimate the amount of impact on the Group's business performance at this time.