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Consolidated Financial Results for the Three Months Ended June 30, 2022 [Japanese GAAP]



August 9, 2022

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 Stock exchange listing: Tokyo Stock Exchange
 Code number: 6324
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 Scheduled date of filing quarterly securities report: August 10, 2022
 Scheduled date of commencing dividend payments: –
 Availability of supplementary explanatory materials on quarterly financial results: Not available
 Schedule of quarterly financial results briefing session: Not scheduled

(Amounts less than one million yen are rounded down.)

1. Consolidated Financial Results for the Three Months Ended June 30, 2022 (April 1, 2022 – June 30, 2022)

(1) Consolidated Operating Results (% indicates changes from the previous corresponding period.)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
Three months ended June 30, 2022	15,692	31.9	2,126	19.2	2,297	34.5	1,204	7.4
June 30, 2021	11,901	27.7	1,784	–	1,707	588.9	1,121	861.4

(Note) Comprehensive income: Three months ended June 30, 2022: ¥3,317 million [651.1%]
 Three months ended June 30, 2021: ¥441 million [(79.2) %]

	Basic earnings per share	Diluted earnings per share
Three months ended	Yen	Yen
June 30, 2022	12.55	–
June 30, 2021	11.65	–

(2) Consolidated Financial Position

	Total assets	Net assets	Equity ratio
	Million yen	Million yen	%
As of June 30, 2022	148,449	99,125	66.8
As of March 31, 2022	143,289	98,856	69.0

(Reference) Equity: As of June 30, 2022: ¥99,125 million
 As of March 31, 2022: ¥98,856 million

2. Dividends

	Annual dividends				
	1st quarter-end	2nd quarter-end	3rd quarter-end	Year-end	Total
	Yen	Yen	Yen	Yen	Yen
Fiscal year ended March 31, 2022	–	10.00	–	11.00	21.00
Fiscal year ending March 31, 2023	–				
Fiscal year ending March 31, 2023 (Forecast)		11.00	–	18.00	29.00

(Note) Revision to the forecast for dividends announced most recently: None

3. Consolidated Financial Results Forecast for the Fiscal Year Ending March 31, 2023 (April 1, 2022 – March 31, 2023)

(% indicates changes from the previous corresponding period.)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent		Basic earnings per share
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen
First half	35,000	32.9	5,500	55.9	5,500	54.2	3,500	57.8	36.36
Full year	75,000	31.4	13,000	48.7	13,000	42.7	9,000	35.5	93.49

(Note) Revision to the financial results forecast announced most recently: None

* Notes:

- (1) Changes in significant subsidiaries during the period under review: None
- (2) Accounting methods adopted particularly for the preparation of quarterly consolidated financial statements: None
- (3) Changes in accounting policies, changes in accounting estimates and retrospective restatement
 - 1) Changes in accounting policies due to the revision of accounting standards: Yes
 - 2) Changes in accounting policies other than 1) above: None
 - 3) Changes in accounting estimates: None
 - 4) Retrospective restatement: None
- (4) Total number of issued and outstanding shares (common shares)
 - 1) Total number of issued and outstanding shares at the end of the period (including treasury shares):

June 30, 2022:	96,315,400 shares
March 31, 2022:	96,315,400 shares
 - 2) Total number of treasury shares at the end of the period:

June 30, 2022:	641,036 shares
March 31, 2022:	52,336 shares
 - 3) Average number of shares outstanding during the period:

Three months ended June 30, 2022:	95,986,581 shares
Three months ended June 30, 2021:	96,263,100 shares

* These quarterly consolidated financial results are outside the scope of quarterly review by certified public accountants or an audit firm.

* Explanation of the proper use of financial results forecasts and other notes

The financial results forecasts and other forward-looking statements contained herein are based on information currently available to the Company and certain assumptions deemed reasonable by the Company. These statements do not represent a guarantee from the Company that it will achieve such results. The actual financial results may differ significantly due to various factors. Refer to “1. Qualitative Information on Quarterly Financial Results (3) Explanation of Consolidated Financial Results Forecast and Other Forward-looking Information” on page 3 of the Attachments for conditions on which the financial results forecasts are premised and notes on the use of financial results forecasts.

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1. Qualitative Information on Quarterly Financial Results

(1) Explanation of Operating Results

During the three months ended June 30, 2022 (April 1, 2022 to June 30, 2022), the world economy faced rising uncertainty, such as the hike in resource prices resulting from lockdowns in major Chinese cities such as Shanghai following the spread of COVID-19 and the situation in Ukraine, in addition to the shortage of semiconductors and other electronic components. Against this backdrop, the business environment surrounding the Harmonic Drive Systems Group (hereinafter “the Group”) was generally favorable with the continuing growth in demand in the semiconductor market and aggressive capital investment related to rechargeable batteries in line with the shift to EVs in the automotive market.

Regarding net sales trends by application, net sales increased year on year for industrial robots used in production automation for cars, smartphones, home appliances and others. Net sales also increased for semiconductor manufacturing equipment, automotive, and other general industrial machinery applications.

As a result, net sales for the three months ended June 30, 2022 increased 31.9% year on year to ¥15,692 million.

In terms of profit and loss, depreciation cost increased as a result of investments made to increase production capacity, and manufacturing costs and selling, general and administrative expenses also rose mainly due to personnel increase in the manufacturing and other sectors. However, operating profit increased to ¥2,126 million, up 19.2% year on year, due to the effect of increased profit from higher net sales. Profit attributable to owners of parent also increased to ¥1,204 million, up 7.4% year on year, mainly due to an increase in operating profit.

In terms of net sales by product group, speed reducers totaled ¥12,904 million, up 33.0% year on year, and mechatronics products reached ¥2,788 million, up 26.9% year on year. They accounted for 82.2% and 17.8% of the total net sales, respectively.

Financial results by segment are as follows.

(Japan)

Sales to China temporarily declined due to the impact of COVID-19 lockdowns. However, demand for industrial robots increased due to aggressive capital investment for upgrading and automating production. Demand for semiconductor manufacturing equipment and automotive applications also rose on strong demand for semiconductors and cars, among others. As a result, net sales increased 33.6% year on year to ¥10,227 million. Segment profit (ordinary profit) rose 21.9% year on year to ¥3,082 million due to increased sales.

(North America)

Demand for semiconductor manufacturing equipment increased in line with growing demand for semiconductors. Demand also grew for advanced medical applications (related to surgical robots) as normalization from the COVID-19 proceeded. As a result, net sales increased 41.1% year on year to ¥1,936 million. Segment profit (ordinary profit) increased 158.7% year on year to ¥150 million due to increased sales.

(Europe)

While the impact of the Ukrainian situation remained limited, demand for capital investment expanded, resulting in higher demand mainly for industrial robots and general industrial machinery. As a result, net sales increased 22.8% year on year to ¥3,528 million. Segment profit (ordinary profit) totaled ¥177 million, up from the segment loss of ¥58 million in the same period of the previous year. This is due to the increase in sales, which absorbed the amortization cost of ¥417 million on intangible assets posted at the time of acquisition of shares in Harmonic Drive SE.

(2) Explanation of Financial Position

(Assets)

Total assets at the end of the first quarter of the fiscal year under review increased ¥5,159 million, up 3.6% from the end of the previous fiscal year to ¥148,449 million. This was mainly due to a ¥1,188 million or 6.0% decrease in cash and deposits from the end of the previous fiscal year resulting from the repurchase of shares, while non-current assets increased ¥2,657 million or 2.7%, merchandise and finished goods and work in process increased ¥1,932 million or 38.4% from the end of the previous fiscal year.

(Liabilities)

Liabilities increased ¥4,890 million, up 11.0% from the end of the previous fiscal year to ¥49,324 million. This was mainly due to a ¥2,114 million or 81.2% decrease in income taxes payable from the end of the previous fiscal year, while other current liabilities increased ¥3,318 million or 113.3% and short-term borrowings for financing the repurchase of shares increased ¥3,000 million or 917.3% from the end of the previous fiscal year.

(Net Assets)

Net assets increased ¥268 million, up 0.3% from the end of the previous fiscal year to ¥99,125 million. This was mainly due to a ¥1,843 million or 2.1% decrease in total shareholders' equity from the end of the previous fiscal year due to the repurchase of shares, while foreign currency translation adjustment increased ¥2,390 million or 63.7% from the end of the previous fiscal year due to the effect of exchange rate fluctuations.

As a result, equity ratio fell from 69.0% at the end of the previous fiscal year to 66.8%.

(3) Explanation of Consolidated Financial Results Forecast and Other Forward-looking Information

There is no change to the financial results forecast for the fiscal year ending March 31, 2023, which was announced on May 13, 2022 in the “Consolidated Financial Results for the Fiscal Year Ended March 31, 2022 [Japanese GAAP].” Should any revisions be deemed necessary in the future, they shall be disclosed in a timely manner.

2. Quarterly Consolidated Financial Statements and Principal Notes

(1) Quarterly Consolidated Balance Sheets

(Thousands of yen)

	As of March 31, 2022	As of June 30, 2022
Assets		
Current assets		
Cash and deposits	19,901,290	18,712,468
Notes receivable - trade	6,963,283	7,170,537
Accounts receivable - trade	8,621,584	9,261,344
Securities	27,616	30,168
Merchandise and finished goods	1,146,401	2,027,306
Work in process	3,883,587	4,935,301
Raw materials and supplies	4,374,176	4,857,521
Other	976,918	1,400,756
Allowance for doubtful accounts	(22,146)	(21,020)
Total current assets	45,872,713	48,374,385
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	19,679,146	19,946,469
Machinery, equipment and vehicles, net	14,068,453	13,792,144
Other, net	10,220,002	12,166,816
Total property, plant and equipment	43,967,603	45,905,430
Intangible assets		
Goodwill	15,336,072	15,739,069
Software	250,811	258,648
Customer related assets	19,589,451	20,104,218
Technical assets	5,232,055	5,369,542
Other	27,468	27,191
Total intangible assets	40,435,860	41,498,670
Investments and other assets		
Investment securities	11,129,188	10,756,256
Shares of subsidiaries and associates	90,821	97,104
Retirement benefit asset	1,207,717	1,220,568
Deferred tax assets	454,910	463,229
Other	136,704	139,317
Allowance for doubtful accounts	(5,600)	(5,600)
Total investments and other assets	13,013,742	12,670,876
Total non-current assets	97,417,205	100,074,978
Total assets	143,289,918	148,449,363

(Thousands of yen)

	As of March 31, 2022	As of June 30, 2022
Liabilities		
Current liabilities		
Notes and accounts payable - trade	3,856,847	4,785,234
Short-term borrowings	327,135	3,327,993
Current portion of long-term borrowings	1,942,662	1,945,342
Lease liabilities	471,703	510,052
Income taxes payable	2,604,300	489,981
Provision for bonuses	1,342,333	719,675
Provision for bonuses for directors (and other officers)	305,941	143,891
Provision for loss on compensation for after-care of products	62,294	59,518
Other	3,214,171	6,668,567
Total current liabilities	14,127,390	18,650,256
Non-current liabilities		
Long-term borrowings	14,617,513	14,127,372
Lease liabilities	3,548,469	3,547,764
Deferred tax liabilities	9,938,302	10,403,881
Provision for retirement benefits for directors (and other officers)	490,413	3,000
Other provisions	129,193	64,650
Retirement benefit liability	1,009,659	990,674
Other	572,673	1,536,464
Total non-current liabilities	30,306,225	30,673,806
Total liabilities	44,433,616	49,324,063
Net assets		
Shareholders' equity		
Share capital	7,100,036	7,100,036
Capital surplus	22,762,168	22,762,168
Retained earnings	59,361,329	59,506,702
Treasury shares	(38,897)	(2,028,256)
Total shareholders' equity	89,184,636	87,340,650
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	5,911,738	5,629,053
Foreign currency translation adjustment	3,753,287	6,143,740
Remeasurements of defined benefit plans	6,640	11,855
Total accumulated other comprehensive income	9,671,666	11,784,649
Total net assets	98,856,302	99,125,300
Total liabilities and net assets	143,289,918	148,449,363

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

(Thousands of yen)

	For the three months ended June 30, 2021	For the three months ended June 30, 2022
Net sales	11,901,335	15,692,599
Cost of sales	6,950,263	9,888,087
Gross profit	4,951,071	5,804,511
Selling, general and administrative expenses	3,166,919	3,677,785
Operating profit	1,784,152	2,126,726
Non-operating income		
Interest income	5,043	790
Dividend income	1,420	1,179
Share of profit of entities accounted for using equity method	—	6,282
Foreign exchange gains	—	202,493
Subsidy income	9,548	733
Other	57,279	52,685
Total non-operating income	73,291	264,165
Non-operating expenses		
Interest expenses	27,776	36,359
Sales discounts	1,675	3,400
Share of loss of entities accounted for using equity method	314	—
Foreign exchange losses	65,914	—
Rental expenses	41,829	36,049
Other	12,406	17,884
Total non-operating expenses	149,917	93,694
Ordinary profit	1,707,526	2,297,197
Extraordinary income		
Gain on sale of non-current assets	—	49
Total extraordinary income	—	49
Extraordinary losses		
Loss on retirement of non-current assets	6,385	5,940
Extra retirement payments	1,792	—
Special extra for retirement payments	12,500	501,537
Total extraordinary losses	20,677	507,477
Profit before income taxes	1,686,849	1,789,769
Income taxes - current	510,774	398,427
Income taxes - deferred	63,767	187,075
Total income taxes	574,542	585,503
Profit	1,112,306	1,204,266
Loss attributable to non-controlling interests	(9,506)	—
Profit attributable to owners of parent	1,121,812	1,204,266

Quarterly Consolidated Statement of Comprehensive Income

(Thousands of yen)

	For the three months ended June 30, 2021	For the three months ended June 30, 2022
Profit	1,112,306	1,204,266
Other comprehensive income		
Valuation difference on available-for-sale securities	(2,026,747)	(282,684)
Foreign currency translation adjustment	1,348,004	2,390,452
Remeasurements of defined benefit plans, net of tax	8,083	5,215
Total other comprehensive income	(670,659)	2,112,983
Comprehensive income	441,646	3,317,249
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	259,058	3,317,249
Comprehensive income attributable to non-controlling interests	182,588	—

(3) Notes to Quarterly Consolidated Financial Statements

(Notes on going concern assumption)

Not applicable.

(Notes in case of significant changes in shareholders' equity)

Following a resolution of the Board of Directors meeting held on May 13, 2022, the Company repurchased 588,700 of its own shares. As a result, treasury shares increased by ¥1,989,359 thousand during the three months ended June 30, 2022. This resulted in treasury shares of ¥2,028,256 thousand as of June 30, 2022.

(Changes in accounting policies)

The Company has applied the "Implementation Guidance on Accounting Standard for Fair Value Measurement" (ASBJ Guidance No. 31, June 17, 2021; hereinafter the "Guidance on Fair Value Measurement Standard") from the beginning of the first quarter of the fiscal year under review, and will prospectively apply the new accounting policies stipulated by the Guidance on Fair Value Measurement Standard in accordance with the transitional treatment provided in Paragraph 27-2 of the Guidance on Fair Value Measurement Standard. The application does not affect the quarterly consolidated financial statements.

(Segment information, etc.)

[Segment information]

I For the three months ended June 30, 2021 (from April 1, 2021 to June 30, 2021)

1. Information on net sales and profit/loss by reportable segment

(Thousands of yen)

	Reportable segment				Adjustment	Consolidated
	Japan	North America	Europe	Total		
Net sales						
Net sales to third parties	7,656,830	1,372,109	2,872,395	11,901,335	–	11,901,335
Inter-segment net sales or transfers	1,244,183	1,128	21,575	1,266,887	(1,266,887)	–
Total	8,901,014	1,373,237	2,893,970	13,168,222	(1,266,887)	11,901,335
Segment profit (loss)	2,529,441	58,033	(58,351)	2,529,123	(821,596)	1,707,526

- (Notes) 1. The segment profit (loss) adjustment of ¥ (821,596) thousand includes the eliminated inter-segment transaction profit of ¥ (291,387) thousand and the general administrative expenses that are not allocated to any reportable segment, totaling ¥ (530,209) thousand. The general administrative expenses that are not allocated to any reportable segment consist mainly of the basic research and development expenses and certain administrative expenses related to the General Affairs and Accounting Department.
2. The “Japan” segment includes the net sales and expenses related to the European and Asian markets, in addition to the Japanese market.
3. The “North America” segment includes net sales of ¥1,204,087 thousand originating from the United States of America, which represents 10% or more of net sales recorded on the consolidated statements of income.
4. Segment profit is adjusted to ordinary profit in the quarterly consolidated statements of income.

II For the three months ended June 30, 2022 (from April 1, 2022 to June 30, 2022)

1. Information on net sales and profit/loss by reportable segment

(Thousands of yen)

	Reportable segment				Adjustment	Consolidated
	Japan	North America	Europe	Total		
Net sales						
Net sales to third parties	10,227,970	1,936,144	3,528,484	15,692,599	–	15,692,599
Inter-segment net sales or transfers	1,482,516	4,167	126,489	1,613,173	(1,613,173)	–
Total	11,710,486	1,940,312	3,654,973	17,305,773	(1,613,173)	15,692,599
Segment profit	3,082,879	150,113	177,756	3,410,749	(1,113,552)	2,297,197

- (Notes) 1. The segment profit (loss) adjustment of ¥ (1,113,552) thousand includes the eliminated inter-segment transaction profit of ¥ (494,740) thousand and the general administrative expenses that are not allocated to any reportable segment, totaling ¥ (618,811) thousand. The general administrative expenses that are not allocated to any reportable segment consist mainly of the basic research and development expenses and certain administrative expenses related to the General Affairs and Accounting Department.
2. The “Japan” segment includes the net sales and expenses related to the European and Asian markets, in addition to the Japanese market.
3. Segment profit is adjusted to ordinary profit in the quarterly consolidated statements of income.

3. Other Matters

(1) Status of Production, Orders Received and Sales

a. Production

Production results by segment for the three months ended June 30, 2022 (April 1, 2022 to June 30, 2022) are as follows:

Segment name		Production output (thousands of yen)	YoY change (%)
Japan	Speed reducers	10,766,318	47.6
	Mechatronic products	1,418,673	7.9
North America	Speed reducers	763,158	65.9
	Mechatronic products	724,611	77.2
Europe	Speed reducers	2,534,033	42.0
	Mechatronic products	772,996	57.9
Total		16,979,791	44.5

- (Notes)
1. Inter-segment transactions are offset and eliminated.
 2. The above amounts are sales prices and exclude consumption taxes.
 3. The Group's reportable segments are classified on a location basis (Japan, North America and Europe).
 4. Although the Group is solely engaged in handling the same types and series of precision speed reducers and its business operations fall within a single industry segment based on the similarities in the types, natures, manufacturing methods and markets of their products, the above table presents figures by product for each segment.
 5. The production results of Winbel Co., Ltd., a subsidiary engaged in the development, manufacturing and sales of magnetic application equipment, are classified, counted and presented as mechatronic products.

b. Orders received

The results of orders received by segment for the three months ended June 30, 2022 (April 1, 2022 to June 30, 2022) are as follows:

Segment name		Orders received (thousands of yen)	YoY change (%)	Order backlog (thousands of yen)	YoY change (%)
Japan	Speed reducers	7,319,373	(53.2)	29,110,479	85.9
	Mechatronic products	1,073,758	(23.7)	2,509,173	137.8
North America	Speed reducers	1,084,836	(13.6)	4,468,890	173.5
	Mechatronic products	2,481,303	88.5	7,126,587	273.8
Europe	Speed reducers	3,081,964	19.1	5,668,441	80.7
	Mechatronic products	1,183,850	65.4	2,593,997	92.0
Total		16,225,086	(29.2)	51,477,570	108.1

- (Notes)
1. Inter-segment transactions are offset and eliminated.
 2. The above amounts exclude consumption taxes.
 3. The Group's reportable segments are classified on a location basis (Japan, North America and Europe).
 4. Although the Group is solely engaged in handling the same types and series of precision speed reducers and its business operations fall within a single industry segment based on the similarities in the types, natures, manufacturing methods and markets of their products, the above table presents figures by product for each segment.
 5. The results of orders received of Winbel Co., Ltd., a subsidiary engaged in the development, manufacturing and sales of magnetic application equipment, are classified, counted and presented as mechatronic products.
 6. The order backlog excludes ¥540,541 thousand of order cancellations. The cancellations took place during the three months ended June 30, 2022 mainly in the Japan segment.

c. Sales

Sales results by segment for the three months ended June 30, 2022 (April 1, 2022 to June 30, 2022) are as follows:

Segment name		Sales volume (thousands of yen)	YoY change (%)
Japan	Speed reducers	9,371,650	37.1
	Mechatronic products	856,320	4.4
North America	Speed reducers	890,338	24.1
	Mechatronic products	1,045,805	59.7
Europe	Speed reducers	2,642,358	22.9
	Mechatronic products	886,125	22.7
Total		15,692,599	31.9

(Notes) 1. Inter-segment transactions are offset and eliminated.

2. Sales by primary customer and the ratio of the sales to the total sales are as follows:

Customer	Three months ended June 30, 2022	
	Sales (thousands of yen)	Ratio (%)
Haneda & Co., Ltd.	1,831,310	11.7

3. The above amounts exclude consumption taxes.

4. The Group's reportable segments are classified on a location basis (Japan, North America and Europe).

5. Although the Group is solely engaged in handling the same types and series of precision speed reducers and its business operations fall within a single industry segment based on the similarities in the types, natures, manufacturing methods and markets of their products, the above table presents figures by product for each segment.

6. The sales results of Winbel Co., Ltd., a subsidiary engaged in the development, manufacturing and sales of magnetic application equipment, are classified, counted and presented as mechatronic products.

(2) Net Sales outside Japan

Net sales outside Japan for the three months ended June 30, 2022 (April 1, 2022 to June 30, 2022) are as follows:

	Europe	North America	Other regions	Total
I Net sales outside Japan (thousands of yen)	3,528,484	1,936,144	1,460,391	6,925,019
II Consolidated net sales (thousands of yen)	–	–	–	15,692,599
III Ratio of net sales outside Japan to consolidated net sales (%)	22.5	12.3	9.3	44.1

(Notes) 1. The categorization of countries or regions is based on geographical proximity.

2. Primary countries or regions that belong to each category

(1) Europe: Germany

(2) North America: the U.S.

(3) Other regions: China, South Korea, Taiwan and Oceania

3. Net sales outside Japan are net sales that were recorded by the Company and its consolidated subsidiaries in countries or regions other than Japan.