

Consolidated Financial Results
for the Six Months Ended December 31, 2023 (Japanese GAAP)

February 14, 2024

Company name: Ai Holdings Corporation
 Stock code: 3076
 Representative: Hideyoshi Sasaki, Chairman and CEO
 Contact: Shuji Yoshida, Director and General Manager of Administration
 Tel: +81-3-3249-6335

Listing Stock Exchange: Tokyo
 URL: <https://www.aiholdings.co.jp/>

Scheduled date to file quarterly securities report: February 14, 2024
 Scheduled date for dividend payment: March 6, 2024
 Preparation of supplemental explanatory materials: Yes
 Results briefing to be held: Yes (For securities analysts and institutional investors)

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

1. Consolidated Financial Results for the Six Months Ended December 31, 2023
(July 1, 2023 to December 31, 2023)

(1) Consolidated operating results

(Percentages indicate YoY changes)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
Six months ended December 31, 2023	24,764	6.2	5,118	5.1	11,104	117.3	9,202	140.7
Six months ended December 31, 2022	23,318	1.6	4,871	(2.8)	5,110	(3.8)	3,823	0.4

(Note) Comprehensive income: Six months ended December 31, 2023: 9,207 million yen [161.9%]
 Six months ended December 31, 2022: 3,515 million yen [(16.6)%]

	Earnings per share	Diluted earnings per share
	Yen	Yen
Six months ended December 31, 2023	194.31	—
Six months ended December 31, 2022	80.73	—

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio	Net assets per share
	Million yen	Million yen	%	Yen
As of December 31, 2023	89,777	74,251	82.3	1,567.81
As of June 30, 2023	80,524	67,271	83.2	1,420.43

(Reference) Equity: As of December 31, 2023: 73,862 million yen
 As of June 30, 2023: 67,017 million yen

2. Dividends

	Annual dividend per share				
	End of Q1	End of Q2	End of Q3	Year-end	Total
	Yen	Yen	Yen	Yen	Yen
Fiscal year ended June 30, 2023	—	35.00	—	45.00	80.00
Fiscal year ending June 30, 2024	—	45.00			
Fiscal year ending June 30, 2024 (forecast)			—	45.00	90.00

(Note) Revisions to the most recently announced dividend forecast during the period: None

3. Consolidated Earnings Forecast for the Fiscal Year Ending June 30, 2024 (July 1, 2023 to June 30, 2024)

(Percentages indicate YoY change)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent		Earnings per share
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen
Full-year	53,000	14.2	10,700	13.4	15,800	50.2	12,800	55.3	270.26

(Note) Revisions to the most recently announced financial forecast during the period: None

*Notes

(1) Changes in significant subsidiaries during the period under review: None
(Transfers of specified subsidiaries associated with changes in the Company's scope of consolidation)

(2) Application of special accounting methods for preparing quarterly consolidated financial statements: None

(3) Changes in accounting policies and accounting estimates and retrospective restatements

1. Accounting policy changes due to accounting standard revisions, etc.: None
2. Other accounting policy changes: None
3. Changes in accounting estimates: None
4. Retrospective restatements: None

(4) Number of shares outstanding (common stock)

1. Shares outstanding (including treasury shares) at the end of the period	As of December 31, 2023	56,590,410	As of June 30, 2023	56,590,410
2. Treasury shares outstanding at the end of the period	As of December 31, 2023	9,230,693	As of June 30, 2023	9,230,386
3. Average number of shares outstanding during the period	Six months ended December 31, 2023	47,359,841	Six months ended December 31, 2022	47,360,329

*Summaries of quarterly financial statements are not subject to audit through certified public accountants or auditing corporations.

*Appropriate use of earnings forecast and other special notes

(Notes on forward-looking statements, etc.)

The forward-looking statements including the forecasts for the financial results contained in this document are based on information currently available to the Company and certain assumptions that the Company deems to be reasonable, and actual results may differ from such statements due to a variety of factors. For the conditions assumed for the results forecasts and notes on the use of such forecasts, please refer to "1. Qualitative Information on Quarterly Consolidated Financial Results, (3) Consolidated Financial Forecasts and Other Forward-Looking Statements on page 3 of the Accompanying Materials.

Accompanying Materials — Contents

1. Qualitative Information on Quarterly Consolidated Financial Results	2
(1) Explanation of Operating Results	2
(2) Explanation of Financial Position	2
(3) Consolidated Financial Forecasts and Other Forward-Looking Statements	3
2. Quarterly Consolidated Financial Statements and Primary Notes	4
(1) Quarterly Consolidated Balance Sheet	4
(2) Quarterly Consolidated Statement of Income and Comprehensive Income	6
(3) Quarterly Consolidated Statement of Cash Flows	8
(4) Primary Notes on Quarterly Consolidated Financial Statements	10
(Notes to going concern assumptions)	10
(Changes in scope of consolidation and application of the equity method)	10
(Additional information)	10
(Significant changes in the amount of shareholders' equity)	10
(Application of special accounting methods for preparation of quarterly consolidated financial statements)	10
(Changes in accounting estimates)	10
(Segment information, etc.)	11

1. Qualitative Information on Quarterly Consolidated Financial Results

(1) Explanation of Operating Results

During the first six months of the fiscal year ending June 30, 2024, the Japanese economy has been on a gradual path to recovery, aided by the normalization of social conditions after COVID-19 was downgraded to a Class 5 infectious disease. However, the domestic economy faces potential risks from the downturn in overseas economies, driven by global financial tightening and uncertainties surrounding the future of the Chinese economy. It is essential to closely monitor the impacts of rising material prices and fluctuations in the financial and capital markets.

In this economic environment, the Group reacted quickly and flexibly to changes in the business environment, strengthened and improved its internal systems with an eye toward efficiency and profitability, and promoted profit-oriented management.

Iwatsu Electric Co., Ltd. has been included within the scope of equity method accounting starting from the second quarter of the consolidated fiscal year, resulting in the recording of share of profit of entities accounted for using equity method.

As a result, in the first six months of the fiscal year ending June 30, 2024, net sales were 24,764 million yen (+6.2% YoY), operating profit was 5,118 million yen (+5.1% YoY), ordinary profit was 11,104 million yen (+117.3% YoY), and profit attributable to owners of parent was 9,202 million yen (+140.7% YoY).

Segment results were as follows.

1. Security Equipment

In the Security Equipment business, contract renewals and new orders for condominium security systems continued to be strong, and there were acquisitions of large-scale projects for public agencies, financial institutions, and factories. As a result, net sales were 7,110 million yen (+2.7% YoY) and segment profit was 2,931 million yen (+1.7% YoY).

2. Card Equipment and Other Office Equipment

In the Card Equipment and Other Office Equipment business, stable performance was observed in the card equipment business for hospitals and the CAD software business for the steel construction industry, where the Company already held a high market share. As a result, net sales were 1,514 million yen (-3.1% YoY) and segment profit was 347 million yen (-14.0% YoY).

3. Peripheral Computer Equipment

In the Peripheral Computer Equipment business, sales of commercial cutting machines rebounded due to an uptick in capital investments among customer companies and the resolution of semiconductor shortages. However, sales of personal cutting machines were affected by the timing of the changeover between old and new products. As a result, net sales were 8,554 million yen (+3.1% YoY) and segment profit was 989 million yen (-14.9% YoY).

4. Design

In the Design business, there were stable orders for specialized structural design from general contractors. As a result, net sales were 2,421 million yen (+6.0% YoY) and segment profit was 137 million yen (+11.0% YoY).

(2) Explanation of Financial Position

Total assets as of December 31, 2023, were 89,777 million yen, an increase of 9,253 million yen from the end of the previous consolidated fiscal year. The main changes under current assets were a 4,702 million yen decrease in cash and deposits, a 1,204 million yen increase in merchandise and finished goods, and a 1,595 million yen increase in notes and accounts receivable – trade, and contract assets. Under non-current assets, there was a 9,521 million yen increase in shares of subsidiaries and associates. The underlying reasons for these changes were an increase in inventory in the Peripheral Computer Equipment business and an increase in non-current assets due to the manufacture of new products and the purchase of shares of subsidiaries and associates.

Total liabilities amounted to 15,526 million yen, an increase of 2,273 million yen from the end of the previous consolidated fiscal year. The main factors were a 1,229 million yen increase in notes and accounts payable – trade and a 704 million yen increase in advances received (included in “other”) under current liabilities. These changes primarily reflected an increase in accounts payable due to higher inventory.

Net assets were 74,251 million yen, an increase of 6,979 million yen from the end of the previous consolidated fiscal year. This was chiefly due to the recording of 9,202 million yen in profit attributable to owners of parent and 2,131

million yen in dividends paid.

As a result, the equity ratio rose to 82.3%, up from 83.2% at the end of the previous consolidated fiscal year.

(Cash Flows)

Cash and cash equivalents ("cash") as of December 31, 2023 amounted to 32,754 million yen, a decrease of 4,811 million yen from the end of the previous consolidated fiscal year. Adding an increase of 76 million yen in cash and cash equivalents resulting from the inclusion of subsidiaries and affiliates in the scope of consolidation, the total was 32,831 million yen.

The status of each cash flow category during the six months ended December 31, 2023 and the factors contributing to them are outlined below.

(Cash flows from operating activities)

Net cash provided by operating activities was 3,421 million yen (compared to a net cash inflow of 284 million yen in the same period of the previous year). This primarily reflected 10,889 million yen in profit before income taxes, 591 million yen in depreciation and amortization, 1,278 million yen from an increase in trade payables, and 1,061 million yen in income taxes refund, which were partially offset by 1,623 million yen from an increase in trade receivables, 1,127 million yen from an increase in inventories, 2,291 million yen in income taxes paid, and 5,830 million yen from share of profit of entities accounted for using equity method.

(Cash flows from investing activities)

Net cash used in investing activities was 5,902 million yen (compared to a net cash outflow of 136 million yen in the same period of the previous year). The main uses of cash were 4,108 million yen for the purchase of shares of subsidiaries and associates and 1,401 million yen for the purchase of property, plant and equipment.

(Cash flows from financing activities)

Net cash used in financing activities amounted to 2,159 million yen (compared to a net cash outflow of 1,494 million yen in the same period of the previous year). The primary use of cash was 2,129 million yen for dividends paid.

(3) Consolidated Financial Forecasts and Other Forward-Looking Statements

The Company has made no changes to its consolidated earnings forecast as stated in the "Notice Regarding Revision of Financial Forecast for FY06/24: Ai Holdings Completes the Purchase of Stake in Iwatsu Electric Co., Ltd. via Third-Party Share Allocation" dated December 18, 2023.

Should any revisions be made to the earnings forecast, the Company will promptly disclose such revisions.

2. Quarterly Consolidated Financial Statements and Primary Notes

(1) Quarterly Consolidated Balance Sheet

(Millions of yen)

	As of June 30, 2023	As of December 31, 2023
Assets		
Current assets		
Cash and deposits	37,594	32,892
Notes and accounts receivable - trade, and contract assets	6,783	8,378
Investments in leases	866	782
Merchandise and finished goods	7,813	9,017
Work in process	103	128
Costs on uncompleted construction contracts	50	44
Raw materials and supplies	1,126	934
Other	2,220	2,612
Allowance for doubtful accounts	(13)	(3)
Total current assets	56,544	54,786
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	1,728	1,717
Land	6,052	6,052
Other	2,439	3,382
Total property, plant and equipment	10,221	11,152
Intangible assets		
Goodwill	1,622	1,691
Other	237	463
Total intangible assets	1,859	2,154
Investments and other assets		
Investment securities	3,490	3,916
Shares of subsidiaries and associates	5,522	15,044
Other	2,973	2,810
Allowance for doubtful accounts	(87)	(87)
Total investments and other assets	11,899	21,684
Total non-current assets	23,980	34,991
Total assets	80,524	89,777

(Millions of yen)

	As of June 30, 2023	As of December 31, 2023
Liabilities		
Current liabilities		
Notes and accounts payable - trade	3,855	5,085
Lease liabilities	440	442
Income taxes payable	826	1,144
Provision for bonuses	187	189
Provision for product warranties	11	9
Provision for loss on orders received	5	13
Liabilities related to paid supply transactions	295	122
Other	3,860	4,751
Total current liabilities	9,482	11,757
Non-current liabilities		
Lease liabilities	944	932
Net defined benefit liability	1,350	1,388
Other	1,475	1,447
Total non-current liabilities	3,770	3,769
Total liabilities	13,253	15,526
Net assets		
Shareholders' equity		
Capital stock	5,000	5,000
Capital surplus	9,065	8,971
Retained earnings	54,673	61,706
Treasury shares	(4,705)	(4,706)
Total shareholders' equity	64,033	70,971
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	297	462
Foreign currency translation adjustment	2,649	2,391
Remeasurements of defined benefit plans	37	37
Total accumulated other comprehensive income	2,984	2,890
Non-controlling interests	253	389
Total net assets	67,271	74,251
Total liabilities and net assets	80,524	89,777

(2) Quarterly Consolidated Statement of Income and Comprehensive Income

Quarterly Consolidated Statement of Income

(Six months ended December 31, 2023)

(Millions of yen)

	Six months ended December 31, 2022	Six months ended December 31, 2023
Net sales	23,318	24,764
Cost of sales	11,850	12,304
Gross profit	11,468	12,459
Selling, general and administrative expenses		
Director's compensations	204	212
Payroll and allowance	2,157	2,275
Bonuses	424	461
Provision for bonuses	139	173
Defined benefit expenses	85	120
Other	3,585	4,098
Total selling, general and administrative expenses	6,596	7,341
Operating profit	4,871	5,118
Non-operating income		
Interest income	33	64
Dividend income	9	10
Share of profit of entities accounted for using equity method	210	5,830
Foreign exchange gains	—	5
Other	38	181
Total non-operating income	292	6,091
Non-operating expenses		
Interest expenses	1	4
Foreign exchange losses	19	—
Commission expenses	30	99
Other	2	1
Total non-operating expenses	54	104
Ordinary profit	5,110	11,104
Extraordinary income		
Gain on sale of investment securities	0	—
Gain on sale of non-current assets	1	—
Gain on sale of shares of subsidiaries	4	—
Reversal of allowance for doubtful accounts	60	—
Gain on bad debts recovered	98	—
Total extraordinary income	164	—
Extraordinary losses		
Loss on retirement of non-current assets	16	1
Loss on retirement of inventories	—	183
Loss on disaster	2	—
Other	—	30
Total extraordinary losses	19	214
Profit before income taxes	5,256	10,889
Income taxes – current	1,517	1,521
Income taxes – deferred	(71)	66
Total income taxes	1,445	1,588
Profit	3,810	9,301
Profit (loss) attributable to non-controlling interests	(13)	98
Profit attributable to owners of parent	3,823	9,202

Quarterly Consolidated Statement of Comprehensive Income
(Six months ended December 31, 2023)

(Millions of yen)

	Six months ended December 31, 2022	Six months ended December 31, 2023
Profit	3,810	9,301
Other comprehensive income		
Valuation difference on available-for-sale securities	(127)	165
Foreign currency translation adjustment	(282)	(326)
Remeasurements of defined benefit plans, net of tax	0	(0)
Share of other comprehensive income of entities accounted for using equity method	114	68
Total other comprehensive income	(295)	(93)
Comprehensive income	3,515	9,207
(Breakdown)		
Comprehensive income attributable to owners of parent	3,528	9,109
Comprehensive income attributable to non-controlling interests	(13)	98

(3) Quarterly Consolidated Statement of Cash Flows

(Millions of yen)

	Six months ended December 31, 2022	Six months ended December 31, 2023
Cash flows from operating activities		
Profit before income taxes	5,256	10,889
Depreciation	437	591
Amortization of goodwill	82	54
Increase (decrease) in provision for product warranties	0	6
Increase (decrease) in allowance for doubtful accounts	(125)	(13)
Increase (decrease) in provision for bonuses	(12)	3
Interest and dividend income	(33)	(63)
Interest expenses	1	3
Share of loss (profit) of entities accounted for using equity method	(210)	(5,830)
Decrease (increase) in trade receivables	(1,417)	(1,623)
Decrease (increase) in inventories	(2,114)	(1,127)
Increase (decrease) in trade payables	834	1,278
Increase (decrease) in accounts payable - other	(285)	45
Increase (decrease) in advances received	(8)	734
Decrease (increase) in investments in leases	(7)	(5)
Other	194	(444)
Subtotal	2,590	4,501
Interest and dividends received	101	153
Interest paid	(1)	(3)
Income taxes paid	(2,421)	(2,291)
Income taxes refund	15	1,061
Net cash provided by (used in) operating activities	284	3,421
Cash flows from investing activities		
Payments into time deposits	—	(30)
Proceeds from sale of investment securities	640	—
Purchase of property, plant and equipment	(245)	(1,401)
Purchase of intangible assets	(18)	(155)
Purchase of investment securities	(0)	(210)
Purchase of shares of subsidiaries and associates	(341)	(4,108)
Payments of loans receivable	(259)	(22)
Proceeds from collection of loans receivable	79	6
Other	8	18
Net cash provided by (used in) investing activities	(136)	(5,902)

(Millions of yen)

	Six months ended December 31, 2022	Six months ended December 31, 2023
Cash flows from financing activities		
Dividends paid	(1,655)	(2,129)
Purchase of shares of subsidiaries not resulting in change in scope of consolidation	—	(30)
Proceeds from sale of shares of subsidiaries not resulting in change in scope of consolidation	165	—
Other	(3)	0
Net cash provided by (used in) financing activities	(1,494)	(2,159)
Effect of exchange rate change on cash and cash equivalents	(121)	(170)
Net increase (decrease) in cash and cash equivalents	(1,467)	(4,811)
Cash and cash equivalents at beginning of period	36,435	37,566
Increase in cash and cash equivalents resulting from inclusion of subsidiaries in consolidation	445	76
Cash and cash equivalents at end of period	35,413	32,831

(4) Primary Notes on Quarterly Consolidated Financial Statements

(Notes to going concern assumptions)

None to be reported.

(Changes in scope of consolidation and application of the equity method)

(1) Significant changes in scope of consolidation

Effective from the first quarter of the current fiscal year, Innovation Farm, Inc. is included in the scope of consolidation due to its increased importance.

(2) Significant changes in scope of application of the equity method

Effective from the second quarter of the current fiscal year, Iwatsu Electric Co., Ltd. is included in the scope of equity method accounting due to investment.

(Additional information)

(Acquisition of shares in Iwatsu Electric Co., Ltd. to make it an equity method affiliate)

At a Board of Directors meeting on November 30, 2023, the Company resolved to enter a capital and business alliance with Iwatsu Electric Co., Ltd. and acquire 32.89% of the total voting rights of the company through the underwriting of a third-party allocation of shares, making it an equity method affiliate. Based on this resolution, the Company concluded a capital and business alliance agreement on November 30, 2023, and acquired the shares on December 18, 2023

1. Purpose of acquiring equity method affiliate

The Group's main businesses are the Security Equipment business for surveillance camera systems and the Peripheral Computer Equipment business centered on commercial and personal cutting machines, and its businesses also include the Card Equipment and Other Office Equipment business, the Measuring Devices business, and the Design business. The Company is also launching a Decarbonization System business, which it aims to develop into a third pillar. In addition to the growth and development of each business, the Company actively promotes business alliances and business operations including M&A in both domestic and overseas markets.

Meanwhile, Iwatsu Electric provides high-quality products and services tailored to diverse customer needs in the fields of telecommunications, printing systems, and electronic measurement.

Both the Company Group and Iwatsu Electric are engaged in the measuring devices business, and our businesses have a high level of affinity. There is potential for mutual complementarity in sales, development, and manufacturing processes, and the Company has determined that the acquisition may promote the stability of business operations and enhance corporate value at the two companies.

2. Overview of goodwill generated

As of the end of the second quarter of the consolidated fiscal year, the Company has conducted provisional accounting treatment as the allocation of the acquisition cost has not been completed. As a result, the calculated amount equivalent to the negative goodwill generated has been recorded under share of profit of entities accounted for using equity method.

(Significant changes in the amount of shareholders' equity)

None to be reported.

(Application of special accounting methods for preparation of quarterly consolidated financial statements)

None to be reported.

(Changes in accounting estimates)

None to be reported.

(Segment Information, etc.)

[Segment Information]

I Six months ended December 31, 2022 (from July 1 to December 31, 2022)

1. Sales, profit or loss for each reportable segment

(Millions of yen)

	Reportable segments					Other*1	Adjustments *2	Amount recorded in consolidated financial statements * 3
	Security Equipment	Card Equipment and Other Office Equipment	Peripheral Computer Equipment	Design	Total			
Sales								
Sales generated through external customers	6,926	1,562	8,300	2,284	19,074	4,243	—	23,318
Intersegment sales and transfers	66	15	9	0	92	41	(133)	—
Total	6,993	1,578	8,309	2,285	19,166	4,285	(133)	23,318
Segment profit	2,881	404	1,162	124	4,572	233	65	4,871

Notes: 1. "Other" is a business segment not included in the reportable segments and includes the development, manufacture, and sale of power and energy saving systems; manufacture and sale of card readers and automatic wet hand towel dispensers; development and sale of software; maintenance services for security equipment, card equipment, etc.; lease and installment sales business; development, manufacture, and sale of measuring equipment; and others.

2. Segment profit adjustments include 2 million yen in intersegment eliminations, 407 million yen in corporate income not allocated to individual reportable segments, and -344 million yen in corporate expenses. Corporate income was mainly management guidance fees from group companies, while corporate expenses were mainly general and administrative expenses not belonging to any reportable segment.

3. "Segment profit" is adjusted based on operating profit in the quarterly consolidated statement of income.

2. Information regarding impairment loss on non-current assets and goodwill by reportable segment

(Significant impairment loss associated with non-current assets)

None to be reported.

(Significant changes in amount of goodwill)

None to be reported.

(Significant gains on negative goodwill)

None to be reported.

II Six months ended December 31, 2023 (from July 1 to December 31, 2023)

1. Sales, profit or loss for each reportable segment

	Reportable segments					Other*1	Adjustments *2	Amount recorded in consolidated financial statements * 3
	Security Equipment	Card Equipment and Other Office Equipment	Peripheral Computer Equipment	Design	Total			
Sales								
Sales generated through external customers	7,110	1,514	8,554	2,421	19,600	5,163	—	24,764
Intersegment sales and transfers	31	19	7	1	61	96	(157)	—
Total	7,142	1,534	8,561	2,423	19,661	5,260	(157)	24,764
Segment profit	2,931	347	989	137	4,407	696	14	5,118

Notes: 1. "Other" is a business segment not included in the reportable segments and includes the development, manufacture, and sale of power and energy saving systems; manufacture and sale of card readers and automatic wet hand towel dispensers; development and sale of software; maintenance services for security equipment, card equipment, etc.; lease and installment sales business; development, manufacture, and sale of measuring equipment; and others.

2. Segment profit adjustments include -2 million yen in intersegment eliminations, 358 million yen in corporate income not allocated to individual reportable segments, and -341 million yen in corporate expenses. Corporate income was mainly management guidance fees from group companies, while corporate expenses were mainly general and administrative expenses not belonging to any reportable segment.

3. "Segment profit" is adjusted based on operating profit in the quarterly consolidated statement of income.

2. Information regarding impairment loss on non-current assets and goodwill by reportable segment

(Significant impairment loss associated with non-current assets)

None to be reported.

(Significant changes in amount of goodwill)

None to be reported.

(Significant gains on negative goodwill)

In the second quarter of the consolidated fiscal year, the Company acquired shares of Iwatsu Electric Co., Ltd., making it an equity method affiliate and recorded the amount equivalent to the negative goodwill under share of profit of entities accounted for using equity method.

Since the share of profit of entities accounted for using equity method resulting from this event is considered non-operating income, it is not included in segment profit.