Management's Discussion and Analysis of Business Results and Financial Position

AIDA ENGINEERING, LTD. and Consolidated Subsidiaries
Years ended March 31

Orders, Net Sales and Earnings

In the fiscal year ended March 31, 2023, the global economy was recovering as progress was made towards normalization from COVID-19, but remained in a slowdown phase due to the impacts of persistently high inflation, prolongation of the conflict between Russia and Ukraine, energy shortages, shortages of semiconductors affecting the automotive sector, and other factors. Going forward, the outlook remains uncertain due to further downward pressure on the economy stemming from monetary tightening and concerns about geopolitical risks such as U.S.-China tensions. In the metalforming machinery industry, the Japan Forming Machinery Association reported that orders for presses received in the fiscal year under review increased 7.0% year on year to ¥153.3 billion, reflecting robust domestic demand.

Under these conditions, orders received by AIDA ENGINEERING, LTD. (the "Company") and its Group companies (collectively, the "Group") in the fiscal year ended March 31, 2023 reached a record high of ¥83.9 billion, up 7.2% year on year, supported by increased demand related to electric vehicles, and the order backlog as of March 31, 2023 also hit a new record of ¥70.3 billion, up 27.6% from the end of the previous fiscal year. Net sales rose 10.1% year on year to ¥68.7 billion, mainly due to increased demand related to electric vehicles and the impact of foreign exchange rates. In terms of profit, operating income declined 38.5% to ¥1.5 billion and ordinary income declined 29.7% to ¥1.7 billion due to factors negatively impacted by sharply higher material, outsourcing, and transport costs, and the posting of an allowance for doubtful accounts. However, net income attributable to owners of parent was ¥1.2 billion, up 44.5% year on year, due to factors such as the elimination of impairment losses at an overseas subsidiary and losses resulting from decreased production due to COVID-19 recorded in the previous fiscal year, as well as gains on the sale of cross-shareholdings and gains on the liquidation of an overseas subsidiary in the fiscal year ended March 31, 2023.

The Group's basic policy regarding shareholder returns is to provide stable shareholder returns by aiming for a consolidated dividend payout ratio of 40% or higher while taking into consideration the need to ensure the stability of our management and financial foundations and our strategic investments for sustainable growth, which is consistent with our management policy of growing together with our stakeholders. Prioritizing the maintaining of a stable dividend, the Group declared an ordinary dividend of ¥30 per share for the fiscal year ended March 31, 2023 (equivalent to a consolidated payout ratio of 138.3%).

Segment Analysis

Results by Business Segment

Presses

Orders in this segment grew 7.4% to ¥64.3 billion, supported by robust demand relating to electric vehicles. Supplementing the growth from EV-related demand, currency movements helped segment sales to increase 11.3% to ¥49.4 billion.

Service (Press-Related)

Overseas subsidiaries reported a high level of activity in press-related service, except in China due to the impact of COVID lockdowns. Orders in this segment increased 11.5% to ¥14.8 billion, while segment sales rose 10.8% to ¥15.3 billion.

Others (REJ Co., Ltd.)

Reflecting a shortage of electronic components and other factors at REJ, orders declined 6.2% to ¥4.8 billion and segment sales fell 5.0% to ¥3.9 billion.

Results by Geographic Segment

Japan

Net sales in Japan increased 9.1% to ¥41.6 billion due to strong sales of presses. However, segment profit fell 43.2% to ¥455 million due to the negative impact of higher raw material costs and other factors on gross margins.

China

Higher sales of mid-size and small presses drove the 24.5% increase in sales in China to ¥11.0 billion. However, the segment posted a loss of ¥149 million (compared with segment profit of ¥741 million in the prior fiscal year) due to the posting of an allowance for doubtful accounts.

Asia

Net sales in Asia rose 39.6% to ¥10.6 billion due to higher sales of presses and related services and the effects of a weaker yen. Segment profit rose 22.0% to ¥909 million.

The Americas

Net sales in the Americas rose 21.1% to ¥16.7 billion due to higher press-related service sales and the effects of a weaker yen. However, segment profit only grew 6.2% to ¥286 million due to sharp increases in raw materials and outsourcing, and other costs, which negatively affected gross margins.

Europe

Net sales in Europe increased 1.6% to ¥12.8 billion due to higher press-related service sales and the effects of a weaker yen. Reflecting an improvement in the gross margin, segment profit increased 104.9% to ¥227 million.

Financial Position

Analysis of Financial Position

Total assets as of March 31, 2023 were ¥116.2 billion, an increase of ¥2.3 billion compared with the previous fiscal year-end. This is attributable to a ¥4.5 billion decrease in cash and deposits, a ¥4.7 billion increase in trade receivables (including notes and accounts receivable — trade, and contract assets) and electronically recorded monetary claims — operating, a ¥4.2 billion increase in inventories, a ¥1.2 billion decrease in investment securities, and a ¥1.3 billion decrease in insurance funds.

Total liabilities were ¥38.2 billion, an increase of ¥2.9 billion compared with the previous fiscal year-end. This principally reflected an increase in contract liabilities of ¥3.3 billion.

Net assets declined by ¥620 million compared with the prior fiscal year-end, to ¥78.0 billion. As a result, the shareholders' equity ratio as of the fiscal year-end was 67.0%.

Cash Flow

The balance of cash and cash equivalents as of March 31, 2023, was ¥30.5 billion, a decrease of ¥4.5 billion compared with the previous fiscal year-end.

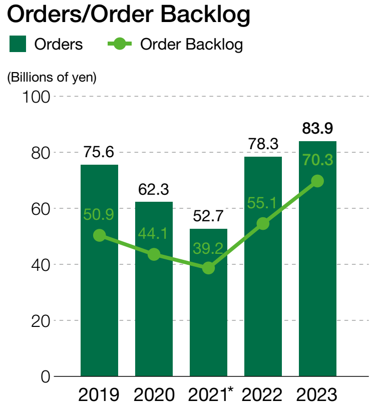
Cash flows from activities in the fiscal year under review and related major factors are summarized below.

(i) Cash flows from operating activities
Net cash used in operating activities was ¥1.1 billion (compared with a net cash inflow of ¥5.9 billion in the previous fiscal year). The principal factors in terms of cash inflows were income before income taxes of ¥1.9 billion, and depreciation of ¥1.8 billion; and, in terms of cash outflows, an increase in trade receivables of ¥1.2 billion, and an increase in inventories of ¥3.3 billion.

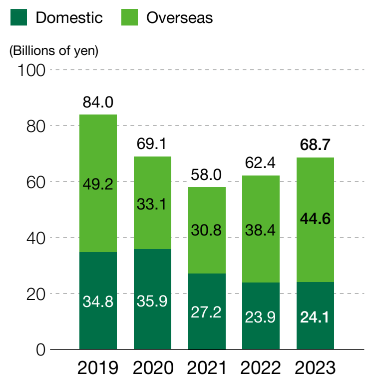
(ii) Cash flows from investing activities
Net cash used in investing activities was ¥1.8 billion, compared with ¥2.8 billion in the previous fiscal year. This mainly reflected the cash outflow of ¥2.3 billion from property, factory, equipment, and intangible asset purchases.

(iii) Cash flows from financing activities
Net cash used in financing activities was ¥2.1 billion, compared with ¥1.5 billion in the previous fiscal year. This mainly reflected the cash outflow of ¥1.6 billion due to the payment of cash dividends.

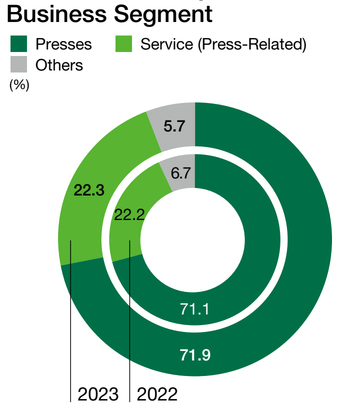
Orders/Order Backlog



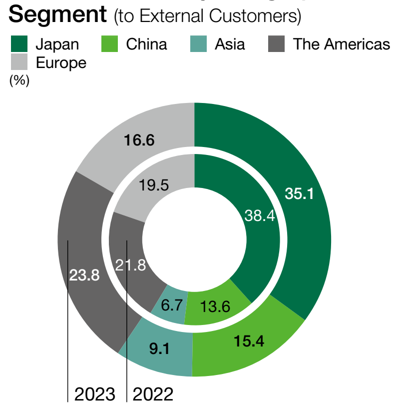
Net Sales



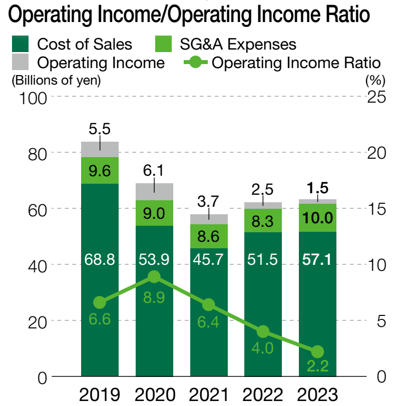
Net Sales Ratio by Business Segment



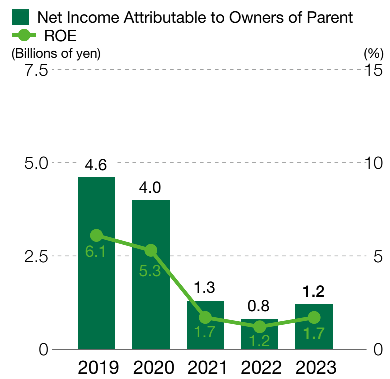
Net Sales Ratio by Geographic Segment (to External Customers)



Cost of Sales/SG&A Expenses/Operating Income/Operating Income Ratio



Net Income Attributable to Owners of Parent/ROE



* The Company has been applying the Accounting Standards for Revenue Recognition, etc., since the beginning of the fiscal year ended March 2022. The effects of this change have been added to the order backlog for the year ended March 2021.

Capital Expenditures

Capital expenditures totaled ¥2.8 billion in the fiscal year ended March 31, 2023.

The main items of capital spending by segment were as follows: in the Japan segment, ¥545 million for plant construction and streamlining associated with increasing production of high-speed presses, and ¥732 million to add machining centers; and in the Asia segment, ¥516 million to lease a site in Malaysia. No significant Group facilities were either retired or sold.

Research and Development

The Group conducts research and development in accordance with the basic policy of strengthening and establishing fundamental technologies, upgrading core products, and developing eco-friendly flagship products. R&D activities are led by the Research and Development Headquarters in collaboration with the Production Headquarters. In the fiscal year ended March 31, 2023, R&D expenses totaled ¥1.0 billion and were mostly recorded in the Japan segment.

The major R&D activities during the fiscal year under review are listed below.

Development of new and fundamental technologies
(1) Development of press servo motors
(2) Development of DX/AI technologies
(3) Development of simulation technology
(4) Development of precision forming methods for thick plates

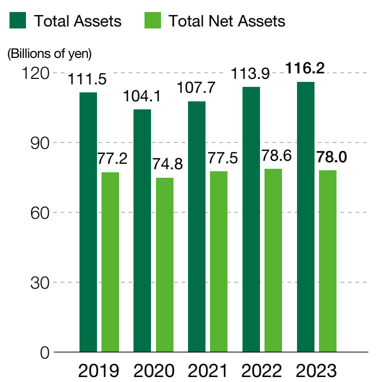
Upgrading core products
(1) NC1 development
(2) Upgrading high-speed automatic presses (MSP Series)
(3) Developing peripheral production line equipment for high-speed precision presses

Capital Resources and Funding Liquidity

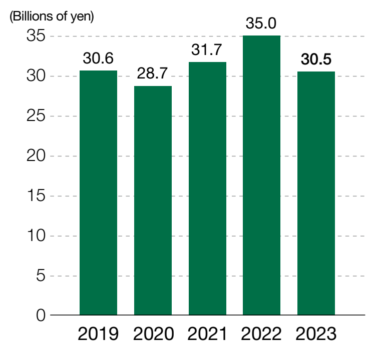
The Group utilizes working capital primarily for manufacturing expenses such as the purchase of raw materials and parts and for outsourced machining, along with selling, general and administrative expenses.
The Group's basic policy is to fund capital spending using internal financial resources, which are primarily allocated to the construction of in-house production systems.

Capital expenditures totaled ¥2.8 billion in the fiscal year ended March 31, 2023, an increase of ¥962 million over the previous year. In terms of working capital, the balance of cash and cash equivalents at the fiscal year-end was ¥30.5 billion (a year-on-year decline of ¥4.5 billion), reflecting reduced operating cash flows and other factors. Management does not believe the Group is faced with any liquidity issues.

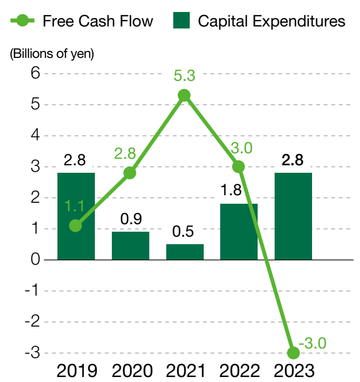
Total Assets/Total Net Assets



Cash and Cash Equivalents at the End of the Year



Free Cash Flow/Capital Expenditures



Consolidated Segment Information

AIDA ENGINEERING, LTD. and Consolidated Subsidiaries
Years ended March 31

				Millions of yen		% change
	2019	2020	2021	2022	2023	2022 vs. 2023
Business Division:						
Net sales						
Press machines	¥ 63,177	¥ 48,540	¥ 41,237	¥ 44,443	**¥ 49,476**	11.3
Service	14,852	14,961	12,422	13,865	**15,370**	10.8
Others	6,052	5,657	4,439	4,156	**3,948**	(5.0)
Total	¥ 84,082	¥ 69,159	¥ 58,099	¥ 62,466	**¥ 68,795**	10.1
Geographic Segment:						
Net sales						
Japan	¥ 51,263	¥ 48,655	¥ 40,237	¥ 38,188	**¥ 41,648**	9.1
China	13,909	6,731	7,422	8,851	**11,021**	24.5
Asia	9,649	8,228	7,212	7,646	**10,676**	39.6
Americas	16,625	11,817	10,451	13,869	**16,792**	21.1
Europe	15,485	11,189	9,584	12,658	**12,864**	1.6
Adjustments	(22,851)	(17,463)	(16,808)	(18,747)	**(24,207)**	—
Total	¥ 84,082	¥ 69,159	¥ 58,099	¥ 62,466	**¥ 68,795**	10.1
Operating income						
Japan	¥ 2,431	¥ 4,726	¥ 3,087	¥ 802	**¥ 455**	(43.2)
China	723	240	(284)	741	**(149)**	—
Asia	1,398	1,062	673	745	**909**	22.0
Americas	693	542	515	269	**286**	6.2
Europe	4	(243)	(121)	110	**227**	104.9
Adjustments	310	(155)	(148)	(164)	**(189)**	—
Total	¥ 5,561	¥ 6,173	¥ 3,722	¥ 2,505	**¥ 1,540**	(38.5)

Quarterly Information

AIDA ENGINEERING, LTD. and Consolidated Subsidiaries
Years ended March 31

				Millions of yen		% change
	2019	2020	2021	2022	2023	2022 vs. 2023
Net sales						
1st Quarter	¥ 18,862	¥ 16,007	¥ 10,559	¥ 13,079	**¥ 13,665**	4.5
2nd Quarter	21,449	18,267	15,202	13,830	**18,498**	33.7
3rd Quarter	20,945	16,534	13,476	17,192	**15,970**	(7.1)
4th Quarter	22,825	18,349	18,862	18,363	**20,660**	12.5
Total	¥ 84,082	¥ 69,159	¥ 58,099	¥ 62,466	**¥ 68,795**	10.1
Operating Income						
1st Quarter	¥ 1,203	¥ 1,097	¥ 179	¥ 270	**¥ (121)**	—
2nd Quarter	1,130	1,929	1,364	528	**837**	58.5
3rd Quarter	1,389	1,287	892	601	**277**	(53.8)
4th Quarter	1,837	1,858	1,287	1,105	**545**	(50.6)
Total	¥ 5,561	¥ 6,173	¥ 3,722	¥ 2,505	**¥ 1,540**	(38.5)