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Consolidated Financial Results for the 3 Months Ended June 30, 2023 (Based on Japanese GAAP)

July 28, 2023

Company name: Socionext Inc. Stock exchange listing: Tokyo
Code number: 6526 URL: <https://www.socionext.com/en/>
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Scheduled filing date of statutory quarterly financial report: August 10, 2023
Scheduled dividend payment date: -
Supplementary material: Yes
Quarterly financial results presentation: Yes (for institutional investors and analysts)

(Monetary amounts are rounded to the nearest millions of yen)

1. Consolidated financial results for the 3 months ended June 30, 2023 (From April 1, 2023 to June 30, 2023)

(1) Consolidated financial results (Percentage represents change from the same period of the previous fiscal year)

	Net sales		Operating income		Ordinary income		Profit attributable to owners of parent	
	millions of yen	%	millions of yen	%	millions of yen	%	millions of yen	%
3 months ended								
June 30, 2023	61,447	53.9	10,109	80.7	11,109	67.2	7,952	57.2
June 30, 2022	39,934	-	5,594	-	6,644	-	5,058	-

Note:

Comprehensive income: 3 months ended June 30, 2023: 8,738 million yen (54.5%) 3 months ended June 30, 2022: 5,655 million yen (-%)

	Basic earnings per share	Diluted earnings per share
3 months ended	yen	yen
June 30, 2023	232.42	221.40
June 30, 2022	150.24	-

Notes:

- The Company did not prepare consolidated financial statements for the 3 months ended June 30, 2021, as a result, the change of the 3 months ended June 30, 2022 from the same period of the previous fiscal year is not presented.
- Basic earnings per share for the 3 months ended June 30, 2022 is computed based on the assumption that the share consolidation and other events in September, 2022 were conducted at the beginning of the year ended March 31, 2023.
- Diluted earnings per share for 3 months ended June 30, 2022 is not presented because the Company's shares are unlisted as of June 30, 2022, therefore an average quoted stock price is not available although there are dilutive shares.

(2) Consolidated financial position

	Total assets	Net assets	Shareholders' equity ratio
As of	millions of yen	millions of yen	%
June 30, 2023	184,043	115,472	62.7
March 31, 2023	193,945	109,864	56.6

Reference: Shareholder's equity: As of June 30, 2023: 115,326 million yen

As of March 31, 2023: 109,852 million yen

2. Dividends per share

	Annual dividends				
	1st quarter-end	2nd quarter-end	3rd quarter-end	Year-end	Total
Year end	yen	yen	yen	yen	yen
March 31, 2023	-	0.00	-	210.00	210.00
March 31, 2024	-				
March 31, 2024(Forecast)		105.00	-	105.00	210.00

Note: Revision of the latest dividends forecast: No

3. Consolidated earnings forecast for the fiscal year ending March 31, 2024 (From April 1, 2023 to March 31, 2024)

(Percentage represents change from the same period of the previous fiscal year)

	Net sales		Operating income		Ordinary income		Profit attributable to owners of parent		Basic earnings per share
	millions of yen	%	millions of yen	%	millions of yen	%	millions of yen	%	yen
Year ending March 31, 2024	200,000	3.8	22,500	3.6	22,500	(4.0)	17,500	(11.5)	504.55

Notes: Revision of the latest consolidated earnings forecast: No

※ Notes

(1) Changes in significant subsidiaries during the current reporting period

(Changes in specified subsidiaries resulting from changes in the scope of consolidation): No

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

(3) Changes in accounting policies, accounting estimates and retrospective restatements for consolidated financial statements

① Changes in accounting policies due to revisions of the accounting standards and other regulations: No

② Changes arising from factors other than ①: No

③ Changes in accounting estimates: No

④ Retrospective restatements: No

(4) Number of issued shares (Common stock)

① Number of shares issued at the end of the period (including treasury stock)

1st quarter ended June 30, 2023	34,838,421	Year ended March 31, 2023	33,666,666
② Number of treasury stock held at the end of the period	55	Year ended March 31, 2023	-
③ Average number of shares during the period	34,213,614	1st quarter ended June 30, 2022	33,666,666

② Number of treasury stock held at the end of the period

③ Average number of shares during the period

Note: Average number of shares during 1st quarter ended June 30, 2022 is computed based on the assumption that the share consolidation and other events in September, 2022 was conducted at the beginning of the year ended March 31, 2023.

※ These quarterly consolidated financial results are not subject to the review procedure of external auditors' quarterly review.

※ Explanation of the proper use of earnings forecast and other special notes

These materials may contain forward-looking statements that are based on management's current information, actual results may differ materially from these forward-looking statements for various reasons. For information regarding the assumptions used to prepare the forecast and cautionary note of the forecast, please refer to "1. Qualitative information regarding the quarterly consolidated financial results (3) Consolidated earnings forecast and other forward-looking information" on page 3 for more details.

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1. Qualitative information regarding the quarterly consolidated financial results

(1) Description of operating results

During the 3 months ended June 30, 2023, the global economy has shown a gentle upward trend in terms of both supply and demand. However, the economic recovery has slowed down due to factors such as rising interest rates, mainly in the United States and Europe, as the countermeasures against soaring prices. Additionally, the prolongation of the conflict in Ukraine, US-China trade frictions, as well as deteriorating economic growth in countries and regions have further increased uncertainties regarding future economic developments. Furthermore, differences in monetary policies among countries and regions resulted in volatility of the Japanese yen.

The demand for semiconductor products declined due to the subsiding special demand derived from COVID-19 as well as the weakening demand for products such as smartphones, PCs, and consumer electronics resulted by economic slowdown. On the other hand, manufacturing capacity constraints of manufacturers (foundries as well as OSAT) that led to limitations in semiconductor supply have been easing.

Under such circumstances, the Group (“the Group”, “the Company”, “we” and “our” refer to Socionext Inc., and its consolidated subsidiaries, or Socionext Inc. on a non-consolidated basis, as the context may require) achieved the completion of the design and development stage of certain design wins acquired from 2019 based on 7nm and finer process nodes in our focus areas including data center & networking, automotive, and entered the mass production stage, which has been contributed to increased net sales especially in product revenue of advanced technologies.

As a result, the consolidated net sales for the 3 months ended June 30, 2023 were 61,447 million yen, an increase of 53.9% from the 3 months ended June 30, 2022. Product revenue was 52,920 million yen, increased by 70.5% compared to the 3 months ended June 30, 2022. The increase was due mainly to an increase in net sales from our design wins projects acquired from 2019 that have sequentially entered the mass production stage and increased production volumes, in particular of products using cutting-edge processes, short-term special demand from a Chinese customer, as well as the positive impact of the depreciation of the Japanese yen. NRE revenue was 8,381 million yen, which is consistent with the corresponding period of the previous fiscal year, resulted from ongoing development projects of products using advanced process technologies.

[Net sales]	(millions of yen)	
	3 months ended June 30, 2022	3 months ended June 30, 2023
Semiconductor products (product revenue)	31,032	52,920
Non-recurring engineering (NRE revenue)	8,732	8,381
Others	170	146
Total	39,934	61,447

Cost of sales was 34,496 million yen, an increase of 73.7% from the corresponding period of the previous fiscal year due to increased product revenue and the depreciation of the Japanese yen. Selling, general and administrative expenses were 16,842 million yen, an increase of 16.3% from the 3 months ended June 30, 2022, including research and development costs of 12,160 million yen (an increase of 15.0% compared to the corresponding period of the previous fiscal year). The increase in selling, general and administrative expenses was due to increasing development projects of products using advanced process technologies and the depreciation of the Japanese yen. Operating income in the 3-month period ended June 30, 2023 increased by 80.7% from the 3 months ended June 30, 2022 to 10,109 million yen. Ordinary income was 11,109 million yen, an increase of 67.2% from the corresponding period of the previous fiscal year, due mainly to foreign exchange gain. Profit attributable to owners of parent increased by 57.2% from the 3 months ended June 30, 2022, to 7,952 million yen. The Japanese yen/U.S. dollar average exchange rate for the 3 months ended June 30, 2023 was ¥137.4=U.S. \$1, a depreciation of ¥7.8 compared to the 3 months ended June 30, 2022.

The Group has a single segment of Solution SoC business.

(2) Description of financial position

① Assets, liabilities and net assets

(Assets)

Current assets as of June 30, 2023 decreased by 8,374 million yen from the end of the previous fiscal year to 147,693 million yen. This is due mainly to the decrease in Cash on hand and in banks, which resulted from the payment of the dividends and income taxes

despite the proceeds from the exercise of stock options. In addition, there are increase in accounts receivable as well as decrease in inventories in accordance with the increased product revenue. Non-current assets as of June 30, 2023 decreased by 1,528 million yen from the end of the previous fiscal year to 36,350 million yen. The main capital expenditures in the period include the acquisition of reticles, IP, etc. in connection with products development of acquired design wins, and the expansion of data centers in accordance with increasing development scale.

As a result, total assets as of June 30, 2023 decreased by 9,902 million yen from the end of the previous fiscal year to 184,043 million yen.

(Liabilities)

Current liabilities as of June 30, 2023 decreased by 15,569 million yen from the end of the previous fiscal year to 66,769 million yen. This is due mainly to the payment of income taxes, the decrease in accounts payables related to upfront procurement on customer-requested wafer inventories, and the decrease in liabilities related to chargeable subcontracting in accordance with increased product revenue.

As a result, total liabilities as of June 30, 2023 decreased by 15,510 million yen from the end of the previous fiscal year to 68,571 million yen.

(Net assets)

Net assets as of June 30, 2023 increased by 5,608 million yen from the end of the previous fiscal year to 115,472 million yen. This is due mainly to 7,952 million yen in profit attributable to owners of parent for 3 months ended June 30, 2023 and the proceeds from the exercise of stock options, which offset the impact of distribution of surplus.

As a result, the shareholders' equity ratio has been 62.7%, increased by 6.1% from the end of the previous fiscal year. This is due mainly to the decrease in upfront procurement on customer-requested wafer inventories in accordance with increased product revenue.

② Cash flows

Cash and cash equivalents as of June 30, 2023 decreased by 11,202 million yen from the end of the previous fiscal year to 33,934 million yen.

Net cash used in operating activities was 4,508 million yen for the 3 months ended June 30, 2023. This is due mainly to profit before income taxes of 11,109 million yen, income taxes paid of 6,099 million yen, a decrease in inventories of 3,922 million yen and an increase in accounts receivable of 4,375 million yen in accordance with increased product revenue. The decrease in inventories is due mainly to the decrease in upfront procurement on customer-requested wafer inventories. Meanwhile such decrease has been contributed to the increase in product revenue. The impact of such upfront procurement is also included in "Decrease (increase) in other assets" and "Increase (decrease) in other liabilities" of consolidated statements of cash flows.

Net cash used in investing activities was 4,227 million yen for the 3 months ended June 30, 2023. This is due mainly to the purchases of 3,485 million yen of property, plant and equipment including reticles and test boards using for products development related to acquired design wins, and those for improving the environment of design and development, and the purchases of 738 million yen of intangible assets including IP.

Net cash used in financing activities was 3,356 million yen and this is due to payment of the dividends of 7,070 million yen despite the proceeds from exercise of stock options of 2,684 million yen and deposits for subscriptions of shares of 1,123 million yen.

(3) Consolidated earnings forecast and other forward-looking information

The forecast for the consolidated earnings for the current fiscal year ending March 31, 2024 remains the same as the announcement in "Consolidated Financial Results for the Fiscal Year Ended March 31, 2023" on April 28, 2023.

2. Quarterly consolidated financial statements and principal notes

(1) Quarterly consolidated balance sheets

(Millions of yen)

	As of March 31, 2023	As of June 30, 2023
Assets		
Current assets		
Cash on hand and in banks	45,136	33,934
Accounts receivable-trade, net	40,809	47,253
Finished goods	8,187	10,731
Work in process	39,528	33,063
Accounts receivable-other	16,209	15,344
Other current assets	6,198	7,368
Total current assets	156,067	147,693
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	2,583	2,636
Machinery and equipment, net	8	8
Tools, furniture and fixtures, net	13,438	15,229
Land	800	800
Construction in progress	351	366
Total property, plant and equipment, net	17,180	19,039
Intangible assets		
Technology assets	11,494	10,476
Other	1,468	1,681
Total intangible assets	12,962	12,157
Investments and other assets		
Investment securities	0	0
Deferred tax assets	6,897	4,307
Other assets	839	847
Total investments and other assets	7,736	5,154
Total non-current assets	37,878	36,350
Investments and other assets	193,945	184,043
Liabilities		
Current liabilities		
Accounts payable-trade	23,421	21,339
Accounts payable-other	24,551	23,453
Accrued expenses	5,755	3,660
Income taxes payable	6,942	925
Liabilities related to chargeable subcontracting	18,869	12,989
Other current liabilities	2,800	4,403
Total current liabilities	82,338	66,769
Long-term liabilities		
Asset retirement obligations	343	348
Other long-term liabilities	1,400	1,454
Total long-term liabilities	1,743	1,802
Total liabilities	84,081	68,571

(Millions of yen)

	As of March 31, 2023	As of June 30, 2023
Net assets		
Shareholders' equity		
Common stock	30,200	31,542
Deposits for subscriptions of shares	-	1,123
Capital surplus	30,200	31,542
Retained earnings	48,630	49,512
Treasury stock	-	(1)
Total shareholders' equity	109,030	113,718
Accumulated other comprehensive income		
Foreign currency translation adjustments	822	1,608
Total accumulated other comprehensive income	822	1,608
Share award rights	-	146
Share subscription rights	12	-
Total net assets	109,864	115,472
Total liabilities and net assets	193,945	184,043

(2) Quarterly consolidated statements of income and comprehensive income

Quarterly consolidated statements of income

(For 3 months)

(Millions of yen)

	3 months ended June 30, 2022	3 months ended June 30, 2023
Net sales	39,934	61,447
Cost of sales	19,858	34,496
Gross profit	20,076	26,951
Selling, general and administrative expenses	14,482	16,842
Operating income	5,594	10,109
Non-operating income		
Foreign exchange gain	1,049	943
Other income	6	71
Total non-operating income	1,055	1,014
Non-operating expenses		
Other expenses	5	14
Total non-operating expenses	5	14
Ordinary income	6,644	11,109
Profit before income taxes	6,644	11,109
Income taxes-current	896	482
Income taxes-deferred	690	2,675
Total income taxes	1,586	3,157
Profit	5,058	7,952
Profit attributable to non-controlling interests	5,058	7,952

Quarterly consolidated statements of comprehensive income
(For 3 months)

(Millions of yen)

	3 months ended June 30, 2022	3 months ended June 30, 2023
Profit	5,058	7,952
Other comprehensive income		
Foreign currency translation adjustments	597	786
Total other comprehensive income	597	786
Comprehensive income	5,655	8,738
Total comprehensive income attributable to:		
Owners of parent	5,655	8,738

(3) Quarterly consolidated statements of cash flows

(Millions of yen)

	3 months ended June 30, 2022	3 months ended June 30, 2023
Operating activities		
Profit before income taxes	6,644	11,109
Depreciation and amortization	2,388	2,894
Interest and dividend income	(5)	(56)
Loss on retirement of non-current assets	22	506
Loss (gain) on sale of non-current assets	(10)	-
Decrease (increase) in accounts receivable	(5,626)	(4,375)
Decrease (increase) in inventories	(2,891)	3,922
Increase (decrease) in accounts payable	1,942	(4,119)
Decrease (increase) in other assets	(11,138)	(367)
Increase (decrease) in other liabilities	5,556	(8,235)
Other	(255)	256
Subtotal	(3,373)	1,535
Interest and dividends received	5	56
Income taxes paid	(2,109)	(6,099)
Net cash provided by (used in) operating activities	(5,477)	(4,508)
Investing activities		
Purchases of property, plant and equipment	(2,812)	(3,485)
Purchases of intangible assets	(1,703)	(738)
Proceeds from sales of non-current assets	10	-
Other	-	(4)
Net cash used in investing activities	(4,505)	(4,227)
Financing activities		
Repayments of lease obligations	(79)	(92)
Proceeds from exercise of stock options	-	2,684
Deposits for subscriptions of shares	-	1,123
Purchase of treasury stock	-	(1)
Dividends paid	-	(7,070)
Net cash used in financing activities	(79)	(3,356)
Effect of exchange rate changes on cash and cash equivalents	956	889
Increase (decrease) in cash and cash equivalents	(9,105)	(11,202)
Cash and cash equivalents at the beginning of the fiscal year	46,271	45,136
Cash and cash equivalents at the end of the period	37,166	33,934

(4) Notes to consolidated financial statements

Assumptions of a going concern

None.

Significant changes in shareholders' equity

None.

Segment information

1. 3 months ended June 30, 2022

(From April 1, 2022 to June 30, 2022)

The Group has a single segment primarily of SoC developed with the solution SoC business model.

2. 3 months ended June 30, 2023

(From April 1, 2023 to June 30, 2023)

The Group has a single segment primarily of SoC developed with the solution SoC business model.