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Consolidated Financial Results for the 6 Months Ended September 30, 2024 (Based on Japanese GAAP)

October 31, 2024

Company name: Socionext Inc. Stock exchange listing: Tokyo
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Scheduled filing date of semi-annual securities report: November 14, 2024
Scheduled dividend payment date: November 27, 2024
Supplementary material: Yes
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 6 months ended September 30, 2024 (From April 1, 2024 to September 30, 2024)

(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	%
6 months ended								
September 30, 2024	99,181	(15.2)	15,556	(16.7)	14,637	(28.4)	11,586	(24.2)
September 30, 2023	116,988	41.3	18,676	78.6	20,448	66.3	15,293	52.7

Note:

Comprehensive income: 6 months ended September 30, 2024: 10,986 million yen [(32.7) %]
6 months ended September 30, 2023: 16,322 million yen [50.3 %]

	Basic earnings per share	Diluted earnings per share
6 months ended	yen	yen
September 30, 2024	64.70	64.00
September 30, 2023	87.90	84.91

Note:

The Company implemented a stock split on January 1, 2024 at a ratio of 1 common stock to 5 shares. Basic earnings per share and diluted earnings per share are computed base on the assumption that the stock split was implemented at the beginning of the year ended March 31, 2024.

(2) Consolidated financial position

	Total assets	Net assets	Shareholders' equity ratio
As of	millions of yen	millions of yen	%
September 30, 2024	177,843	137,934	77.6
March 31, 2024	186,840	131,020	70.1

Reference: Shareholder's equity: As of September 30, 2024: 137,934 million yen

As of March 31, 2024: 131,020 million yen

2. Dividends per share

	Annual dividends				
	1st quarter-end	2nd quarter-end	3rd quarter-end	Year-end	Total
Year ended/ending	yen	yen	yen	yen	yen
March 31, 2024	-	115.00	-	25.00	-
March 31, 2025	-	25.00	-	-	-
March 31, 2025 (Forecast)	-	-	-	25.00	50.00

Note: Revision of the latest dividends forecast: No

The Company implemented a stock split on January 1, 2024 at a ratio of 1 common stock to 5 shares. Dividends for 2nd quarter of fiscal year ended March 31, 2024 are presented in actual value terms on a pre-split basis. The total annual dividend per share for fiscal year ended March 31, 2024 is presented as “-” considering the effect of the stock split. The total annual dividend per share for the fiscal year ended March 31, 2024 is 48.00 yen after the stock split.

3. Consolidated earnings forecast for the fiscal year ending March 31, 2025 (From April 1, 2024 to March 31, 2025)

(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, 2025	200,000	(9.6)	27,000	(24.0)	27,000	(27.3)	19,500	(25.4)	108.79

Note: Revision of the latest consolidated earnings forecast: No

At the meeting of Board of Directors held on October 31, 2024, a resolution was passed to determine matters related to the acquisition of treasury stock. However, basic earnings per share forecast for the fiscal year ending March 31, 2025 does not take into account the impact of such acquisition of treasury stock. Please refer to “2. Semi-annual consolidated financial statements and principal notes (4) Notes to semi-annual consolidated financial statements: Subsequent Events” on page 11 for more details.

※ Notes

- (1) Significant changes in the scope of consolidation during the current reporting period: No
- (2) Application of special accounting methods for semi-annual 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: Yes
 - ② Changes arising from factors other than ①: No
 - ③ Changes in accounting estimates: No
 - ④ Retrospective restatements: No

Note: Please refer to “2. Semi-annual consolidated financial statements and principal notes (4) Notes to semi-annual consolidated financial statements: Changes in accounting policies” on page 10 for more details.

(4) Number of issued shares (Common stock)

① Number of shares issued at the end of the period (including treasury stock)	As of September 30, 2024	179,398,855	As of March 31, 2024	178,687,405
② Number of treasury stock held at the end of the period	As of September 30, 2024	852	As of March 31, 2024	788
③ Average number of shares during the period	6 months ended September 30, 2024	179,081,280	6 months ended September 30, 2023	173,980,535

Note: The Company implemented a stock split on January 1, 2024 at a ratio of 1 common stock to 5 shares. “Average number of shares during the period” is computed based on the assumption that the stock split was implemented at the beginning of the year ended March 31, 2024.

※ These semi-annual consolidated financial results reports are not subject to the review procedure of external auditors’ 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. Overview of operating results (3) Consolidated earnings forecast and other forward-looking information” on page 4 for more details.

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1. Overview of operating results

(1) Overview of operating results for the 6 months ended September 30, 2024

During the 6 months ended September 30, 2024, the global economy has continued to experience strong inflationary pressures exacerbated by expanding regional conflicts, including Russian invasion of Ukraine and escalation in Middle East tensions, as well as stagnant domestic demand in China. Moreover, the narrowing interest rate gap between Japan and the U.S. has resulted in a reversal of the depreciation of the Japanese yen.

Logic ICs sector have achieved growth compared to the 6 months ended September 30, 2023, due to inventory adjustments and robust demand in data centers. In terms of applications, there are varied recovery patterns. There has been an expansion in demand for data centers driven by the strong demand for generative AI, as well as a recovery in demand for smartphones and PCs. However, demand for industrial equipment, office equipment, and automotive applications remained either negative or flat compared to the 6 months ended September 30, 2023.

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) has been acquiring more design wins in its focus areas including automotive and data center & networking. In the 6 months ended September 30, 2024, we acquired design wins from North America and India in data center area, which have entered the design and development stage. This success is due to the transformation of the business model, shift of focus areas to high-growth and cutting-edge business areas where more global large-scale businesses are expected, as well as structural reform including bold transformation in business structure, all implemented by current CEO since his appointment in April 2018 (which we refer to as phase 1 transformation). Through the transformation, we have acquired design win amount (a foreign exchange assumption of ¥100=U.S. \$1 has been used) of roughly 200 billion yen during each of the fiscal years ended March 31, 2020, 2021 and 2022, an increase from the design win amount of roughly 100 billion yen for the fiscal year ended March 31, 2019. From the fiscal year ended March 31, 2023, we have been further achieving design win amount of 250 billion yen. Additionally, the acquired design wins have entered the mass production stage and are steadily contributing to net sales. Moreover, we are also proceeding with our next stage of transformation, which we call phase 2 transformation. This phase aims to establish a competitive R&D structure and create a dynamic business culture as a global company. We are intensifying our efforts to transform our corporate systems, organizational structures, and employee awareness through ongoing communication with global customers, players in the semiconductor ecosystem and investors.

Additionally, we established the Global Leading Group, aiming to create a structure tasked with large-scale advanced technology projects as model cases. With the Global Leading Group at the core, we have been continuously improving by integrating several key activities: establishing a computer-architecture-based design and development platform as well as standard design and development processes suitable for the Solution SoC business model, enhancing both the efficiency and visibility of these processes, alongside reforms in design and development management. We have been strengthening our global design and development capabilities, beginning with the branch office in Bangalore, India, which was opened in previous fiscal year ended March 31, 2024. We also have opened Nagoya office as a design and development base, replacing Kozoji office, which was closed and sold due to its deterioration. Our research and development costs consist of both upfront investments in advanced technologies for acquiring design wins in our focus areas and investments in product development linked to acquired design wins. For the 6 months ended September 30, 2024, our research and development costs increased by 16.8% to 28,769 million yen, due mainly to product development related with increasing acquired design wins. To utilize the latest advanced technologies in the evolving ecosystem, we closely collaborate with partners including Arm and TSMC, and actively invest in advanced technologies including 2nm and finer process nodes, advanced packaging technologies such as chiplet, application of latest EDA tools as well as platformization. The development of SoCs for Advanced Driver Assistance Systems (ADAS)/ Autonomous Driving (AD) using 3nm automotive process is also progressing smoothly. Besides, we will continue to be engaged in advanced technologies including the adoption of AI for design and development processes. Moreover, we have integrated the related organizations of the production planning, control and supply chain management in Taiwan and Japan to enhance our global production and procurement system. Given the concentration of suppliers in Taiwan, we have allocated a production control team there to establish a direct interface and strengthen our coordination with these suppliers. As a result, we have been developing a structure that allows us to respond swiftly to any changes in manufacturing capacities of our manufacturing partners.

As we acquired design wins of large-scale projects for advanced development over the past few years, we have strengthened our relationships with global companies that form the ecosystem across the semiconductor industry. We have particularly made progress in joint development projects in advanced technology areas by establishing and enhancing management-level relationships with global companies headquartered in North America and Taiwan and so on.

The consolidated net sales for the 6 months ended September 30, 2024 were 99,181 million yen, a decrease of 15.2% from the 6

months ended September 30, 2023. Our net sales consist of product revenue from the applicable products which entered the mass production stage and NRE revenue received from customers based on costs incurred in scheduled milestones during the design and development process. Product revenue was 79,952 million yen, decreased by 21.2% compared to the 6 months ended September 30, 2023. The decrease was due mainly to the special demand of 5G base stations from a Chinese customer concluded, the decline in demand related to telecommunications in Chinese market of data center and networking areas, along with the continued weakening demand for FA and office equipment in the industrial area. NRE revenue was 18,756 million yen, an increase of 23.3% from the 6 months ended September 30, 2023, due to ongoing development projects of products requiring 7nm and finer process nodes in automotive and data center areas.

[Net sales]	(millions of yen)	
	6 months ended September 30, 2023	6 months ended September 30, 2024
Semiconductor products (product revenue)	101,439	79,952
Non-recurring engineering (NRE revenue)	15,215	18,756
Others	334	473
Total	116,988	99,181

Cost of sales in the 6 months ended September 2024 was 45,190 million yen. Selling, general and administrative expenses were 38,435 million yen due to increasing development projects of products using advanced process technologies. Operating income decreased by 16.7% from the 6 months ended September 30, 2023 to 15,556 million yen. Ordinary income was 14,637 million yen decreased by 28.4% from the 6 months ended September 30, 2023. This is due mainly to foreign exchange losses arising from valuation and translation differences on foreign currency-denominated receivables and payables, due to the rapid appreciation of the Japanese yen at the end of the period. Extraordinary income was 1,790 million yen due to gain on sale of non-current assets in accordance with the sale of Kozoji office. Profit attributable to owners of parent decreased by 24.2% from the 6 months ended September 30, 2023, to 11,586 million yen.

The Japanese yen/U.S. dollar average exchange rate for the 6 months ended September 30, 2024 was ¥152.6=U.S. \$1, a depreciation of ¥11.6 compared to the 6 months ended September 30, 2023.

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

(2) Overview of financial position for the 6 months ended September 30, 2024

① Assets, liabilities and net assets

(Assets)

Current assets as of September 30, 2024 decreased by 6,649 million yen from the end of the previous fiscal year to 132,252 million yen. This is due mainly to accounts receivable-trade collection and the decrease in inventories in accordance with decreased customer-requested upfront procurement despite the increase in cash on hand and in banks.

Non-current assets as of September 30, 2024 decreased by 2,348 million yen from the end of the previous fiscal year to 45,591 million yen. This is due mainly to depreciation expenses exceeding the capital investment including the acquisition of reticles, IP, etc., as well as the sale of Kozoji office.

As a result, total assets as of September 30, 2024 decreased by 8,997 million yen from the end of the previous fiscal year to 177,843 million yen.

(Liabilities)

Current liabilities as of September 30, 2024 decreased by 15,726 million yen from the end of the previous fiscal year to 37,368 million yen. This is due mainly to the decrease of income taxes payable and accrued expenses related with the payment of income taxes and bonuses, as well as the decrease in liabilities related to chargeable subcontracting related to customer-requested upfront procurement.

As a result, total liabilities as of September 30, 2024 decreased by 15,911 million yen from the end of the previous fiscal year to 39,909 million yen.

(Net assets)

Net assets as of September 30, 2024 increased by 6,914 million yen from the end of the previous fiscal year to 137,934 million yen. This is due mainly to 11,586 million yen in profit attributable to owners of parent for 6 months ended September 30, 2024 and the proceeds from the exercise of stock options.

As a result, the shareholders' equity ratio has been 77.6%, increased by 7.5 percent points from the end of the previous fiscal year.

② Cash flows

Cash and cash equivalents as of September 30, 2024 increased by 4,229 million yen from the end of the previous fiscal year to 73,967 million yen.

Net cash provided by operating activities was 14,143 million yen for the 6 months ended September 30, 2024, compared to 14,648 million yen provided for the 6 months ended September 30, 2023. This is due mainly to profit before income taxes of 16,427 million yen and depreciation of 7,703 million yen, despite the payment of income taxes of 5,662 million yen.

Net cash used in investing activities was 4,722 million yen for the 6 months ended September 30, 2024, compared to 10,934 million yen used for the 6 months ended September 30, 2023. This is due mainly to the purchases of 4,617 million yen of property, plant and equipment including reticles and test boards for product development for the acquired design wins, as well as those for improving the environment of design and development, and the purchases of 2,279 million yen of intangible assets including IP despite the proceeds from sale of non-current assets of 2,331 million yen.

Net cash used in financing activities was 4,320 million yen, compared to 2,665 million yen used for the 6 months ended September 30, 2023, and this is due to payment of the dividends of 4,467 million yen.

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

During the 6 months ended September 30, 2024, the exchange rate had the positive impact as Japanese yen depreciated more than forecasted. However, considering the factors such as the decline in demand in Chinese market, along with the continued weakening demand for FA and office equipment in the industrial area, the forecast for the consolidated earnings for the current fiscal year ending March 31, 2025 remains the unchanged as the announcement in "Consolidated Financial Results for the Fiscal Year Ended March 31, 2024" on April 26, 2024.

2. Semi-annual consolidated financial statements and principal notes

(1) Semi-annual consolidated balance sheets

(Millions of yen)

	As of March 31, 2024	As of September 30, 2024
Assets		
Current assets		
Cash on hand and in banks	69,738	73,967
Accounts receivable-trade, net	35,257	29,834
Finished goods	6,090	6,597
Work in process	19,414	12,946
Accounts receivable-other	2,935	3,735
Other current assets	5,467	5,173
Total current assets	138,901	132,252
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	3,441	3,184
Machinery and equipment, net	6	59
Tools, furniture and fixtures, net	17,318	18,371
Land	800	-
Construction in progress	235	1,079
Total property, plant and equipment, net	21,800	22,693
Intangible assets		
Technology assets	16,166	15,383
Other intangible assets	2,298	2,241
Total intangible assets	18,464	17,624
Investments and other assets		
Investment securities	0	0
Deferred tax assets	6,740	4,316
Other assets	935	958
Total investments and other assets	7,675	5,274
Total non-current assets	47,939	45,591
Total assets	186,840	177,843

(Millions of yen)

	As of March 31, 2024	As of September 30, 2024
Liabilities		
Current liabilities		
Accounts payable-trade	15,764	12,547
Accounts payable-other	9,334	10,224
Accrued expenses	8,859	5,456
Income taxes payable	6,817	3,496
Liabilities related to chargeable subcontracting	9,319	3,250
Other current liabilities	3,001	2,395
Total current liabilities	53,094	37,368
Long-term liabilities		
Asset retirement obligations	350	349
Lease liabilities	2,042	1,846
Other long-term liabilities	334	346
Total long-term liabilities	2,726	2,541
Total liabilities	55,820	39,909
Net assets		
Shareholders' equity		
Common stock	32,656	32,892
Deposits for subscriptions of shares	85	8
Capital surplus	32,656	32,892
Retained earnings	63,604	70,723
Treasury stock	(3)	(3)
Total shareholders' equity	128,998	136,512
Accumulated other comprehensive income		
Foreign currency translation adjustments	2,022	1,422
Total accumulated other comprehensive income	2,022	1,422
Total net assets	131,020	137,934
Total liabilities and net assets	186,840	177,843

(2) Semi-annual consolidated statements of income and comprehensive income

Semi-annual consolidated statements of income

(Millions of yen)

	6 months ended September 30, 2023	6 months ended September 30, 2024
Net sales	116,988	99,181
Cost of sales	62,737	45,190
Gross profit	54,251	53,991
Selling, general and administrative expenses	35,575	38,435
Operating income	18,676	15,556
Non-operating income		
Interest income	139	232
Foreign exchange gain	1,628	-
Other income	35	24
Total non-operating income	1,802	256
Non-operating expenses		
Foreign exchange losses	-	1,149
Other expenses	30	26
Total non-operating expenses	30	1,175
Ordinary income	20,448	14,637
Extraordinary income		
Gain on sale of non-current assets	-	1,790
Total extraordinary income	-	1,790
Profit before income taxes	20,448	16,427
Income taxes-current	3,496	2,429
Income taxes-deferred	1,659	2,412
Total income taxes	5,155	4,841
Profit	15,293	11,586
Profit attributable to owners of parent	15,293	11,586

Semi-annual consolidated statements of comprehensive income

(Millions of yen)

	6 months ended September 30, 2023	6 months ended September 30, 2024
Profit	15,293	11,586
Other comprehensive income		
Foreign currency translation adjustments	1,029	(600)
Total other comprehensive income	1,029	(600)
Comprehensive income	16,322	10,986
Comprehensive income attributable to:		
Owners of parent	16,322	10,986

(3) Semi-annual consolidated statements of cash flows

(Millions of yen)

	6 months ended September 30, 2023	6 months ended September 30, 2024
Cash flows from operating activities		
Profit before income taxes	20,448	16,427
Depreciation and amortization	6,006	7,703
Interest and dividend income	(139)	(232)
Loss on retirement of non-current assets	673	192
Decrease (increase) in accounts receivable	-	(1,790)
Decrease (increase) in inventories	6,362	4,703
Increase (decrease) in accounts payable	8,534	5,961
Decrease (increase) in other assets	(9,959)	(3,481)
Increase (decrease) in other liabilities	8,839	(585)
Other	(19,920)	(9,523)
Subtotal	(213)	198
Interest and dividends received	20,631	19,573
Income taxes paid	139	232
Net cash provided by (used in) operating activities	(6,122)	(5,662)
Cash flows from operating activities	14,648	14,143
Cash flows from investing activities		
Purchases of property, plant and equipment	(6,029)	(4,617)
Purchases of intangible assets	(4,900)	(2,279)
Proceeds from sale of non-current assets	-	2,331
Other	(5)	(157)
Net cash used in investing activities	(10,934)	(4,722)
Cash flow from financing activities		
Repayments of lease obligations	(191)	(248)
Proceeds from exercise of stock options	4,364	313
Deposits for subscriptions of shares	88	(77)
Purchase of treasury stock	146	159
Dividends paid	(2)	-
Net cash used in financing activities	(7,070)	(4,467)
Cash flow from financing activities	(2,665)	(4,320)
Effect of exchange rate changes on cash and cash equivalents	1,272	(872)
Increase (decrease) in cash and cash equivalents	2,321	4,229
Cash and cash equivalents at the beginning of the fiscal year	45,136	69,738
Cash and cash equivalents at the end of the period	47,457	73,967

(4) Notes to semi-annual consolidated financial statements

Changes in accounting policies

(Application of Accounting Standard for Current Income Taxes)

Accounting Standard for Current Income Taxes (ASBJ Statement No. 27, October 28, 2022) (hereinafter referred to as “Revised Accounting Standard 2022”), have been adopted from the beginning of the current fiscal year ended March 31, 2025 under review. The amendment to categories in which current income taxes should be recorded (taxes on other comprehensive income) follows the transitional treatment prescribed in the proviso of paragraph 20-3 of the Revised Accounting Standard 2022 and the transitional treatment prescribed in the proviso (2) of the paragraph 65-2 of Implementation Guidance on Tax Effect Accounting (ASBJ Guidance No. 28, October 28, 2022) (hereinafter referred to as “Revised Implementation Guidance 2022”). These changed in accounting policies have no impact on the consolidated financial statements.

For the amendment to changes in accounting treatment of the consolidated financial statements, when gains and losses on sales of shares in subsidiaries resulting from transactions between the consolidated companies were deferred for tax purposes, the Revised Implementation Guidance 2022 have been adopted from the beginning of semi-annual of the year ending March 31, 2025. The changes in accounting policies were applied retrospectively. Hence, the consolidated financial statements for the previous semi-annual ended September 30, 2023 and the previous fiscal year ended March 31, 2024 were modified retrospectively. This change in accounting policies has no impact on the consolidated financial statements for the previous semi-annual ended September 30, 2023 and the previous fiscal year ended March 31, 2024.

Segment information

1. 6 months ended September 30, 2023

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

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

2. 6 months ended September 30, 2024

(From April 1, 2024 to September 30, 2024)

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

Significant changes in shareholders' equity

None.

Assumptions of a going concern

None.

Subsequent Events

(Acquisition of Treasury Stock)

At the meeting of its Board of Directors held on October 31, 2024, a resolution was passed to determine matters related to the acquisition of treasury stock pursuant to the provisions of Article 459, paragraph 1 of the Companies Act and Article 35 of the Company's Articles of Incorporation, as shown below.

1. Reasons for Acquisition of Treasury Stock:

The Company is considering the introduction of a new stock-based compensation system with the aim of acquiring and securing directors, personnel equivalent to directors, and global technical and management personnel. The Company acquires treasury stock in consideration of the possibility that the Company may (i) use them as the shares to be granted in connection with the aforementioned system, and/or (ii) utilize them for flexible business management in response to changes in the future business environment.

2. Matters Related to the Acquisition:

- | | |
|--|--|
| (1) Class of Shares to be Acquired: | Common Stock |
| (2) Total Number of Shares to be Acquired: | Up to 2,500,000 shares
(Represents 1.39% of the total number of the issued shares (excluding treasury stock)) |
| (3) Total of the Acquisition Price for the Shares: | Up to 5 billion yen |
| (4) Acquisition Period: | from November 1, 2024 to November 29, 2024 |
| (5) Method of Acquisition: | Market purchase at the Tokyo Stock Exchange |