May 7, 2024

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Notice Regarding Recording of Impairment Losses and Revision to the Financial Results Forecast

Harmonic Drive Systems Inc. (hereinafter “the Company”) hereby announces for the full year of the fiscal year ended March 31, 2024, impairment losses are expected to be recorded for intangible assets (such as goodwill) which were recognized upon making the German consolidated subsidiary, Harmonic Drive SE, a subsidiary, as described below. Furthermore, in conjunction, we hereby announce that in consideration of recent financial results trends, the financial results forecast for the full year of the fiscal year ended March 31, 2024 (consolidated and non-consolidated) announced on November 9, 2023 were revised as described below.

1. Recording of Impairment Losses

The Harmonic Drive Systems Group (hereinafter “the Group”) acquired Harmonic Drive AG (currently Harmonic Drive SE), previously an equity-method affiliate, making it a subsidiary, in order to further strengthen the business foundation of the European market, which is expected to grow significantly in the future, on March 22, 2017. After making it a subsidiary, the Group sought synergies in sales, manufacturing, and development, and whereas Harmonic Drive SE experienced constant fluctuations in financial results, the business foundation was strengthened to where we presently stand. Although further growth can be expected in the future, the situation is where there has been a delay in achieving the income plan anticipated at the time of acquisition. Due to this, indications of impairment were recognized for intangible assets (goodwill, customer related assets, and technical assets) that were generated as a result of the above subsidiary, and as a result of determining whether impairment losses should be recognized, for the fiscal year ended March 31, 2024, impairment losses (¥28,159 million) are expected to be recorded as extraordinary losses for some of the amount. Due to recording the impairment losses, some of deferred tax liabilities will be reversed, so the impact of this matter on “profit attributable to owners of parent” is expected to be ¥24,220 million.

The Group, in accordance with Japanese accounting standards, amortizes the above intangible assets using the straight-line method (amortization period of 20 years), and for the fiscal year ended March 31, 2024, although approximately ¥3,000 million per year is expected to be recorded as amortization cost in selling, general and administrative expenses, due to the recording of the above impairment losses, the amount is expected to decrease to approximately ¥1,000 million per year from the fiscal year ending March 31, 2025 onwards.

2. Revision to the Financial Results Forecast for the Full Year of the Fiscal Year Ended March 31, 2024

(1) Revision to the Consolidated Financial Results Forecast for the Full Year of the Fiscal Year Ended March 31, 2024
(April 1, 2023 – March 31, 2024)

	Net sales	Operating profit	Ordinary profit	Profit attributable to owners of parent	Basic earnings per share
Previous forecast (A)	Million yen 55,000	Million yen (400)	Million yen (200)	Million yen (800)	Yen (8.41)
Revised forecast (B)	55,700	100	500	(24,800)	(260.92)
Differences (B – A)	700	500	700	(24,000)	
Changes (%)	1.3	-	-	-	
(Reference) Financial results for the previous fiscal year (Fiscal year ended March 31, 2023)	71,527	10,224	10,757	7,595	79.67

<<Reasons for revision to the financial results forecast>>

This revision is mainly due to expectations of consolidated net sales to exceed the previous forecast, and expectations of consolidated operating profit and consolidated ordinary profit to also exceed the previous forecast, with the expectation of securing a profit.

Profit attributable to owners of parent has been revised down mainly due to the above forecast of impairment losses.

(2) Revision to the Non-Consolidated Financial Results Forecast for the Full Year of the Fiscal Year Ended March 31, 2024
(April 1, 2023 – March 31, 2024)

	Net sales	Operating profit	Ordinary profit	Net income	Basic earnings per share
Previous forecast (A)	Million yen 28,000	Million yen (500)	Million yen 2,300	Million yen 2,300	Yen 24.19
Revised forecast (B)	28,500	(500)	2,300	(18,500)	(194.64)
Differences (B – A)	500	-	-	(20,800)	
Changes (%)	1.8	-	-	-	
(Reference) Financial results for the previous fiscal year (Fiscal year ended March 31, 2023)	50,883	8,927	9,378	6,880	72.17

<<Reasons for revision to the financial results forecast>>

Although net sales are expected to exceed the forecast, there are no changes to the forecast for operating profit and ordinary profit as the cost of sales is expected to increase due to the recording of provision for inventories, etc. For profit, as impairment losses are expected to be recorded on intangible assets related to Harmonic Drive SE on a consolidated basis, due to the expected deterioration of the financial condition of GK HD Management, a consolidated subsidiary of the Company that holds shares of Harmonic Drive SE, it is expected that ¥20,513 million in loss on valuation of investments in capital of subsidiaries and associates will be recorded as extraordinary losses in the non-consolidated financial results for the fiscal year ended March 31, 2024, and has been revised down.

There are no changes to the forecast for year-end dividends for the fiscal year ended March 31, 2024. Financial results for the fiscal year ended March 31, 2024 and the new medium-term management plan (fiscal 2024 – 2026) are scheduled to be announced on May 13, 2024.

3. Reduction in Compensation for Directors

Taking the above recording of impairment losses and revision to the financial results forecast seriously, in order to clarify management responsibilities, there will be a reduction in compensation for Directors as follows.

(1) Details of the reduction in compensation for Directors

Chairperson and Director	30% of monthly compensation
President and Representative Director	30% of monthly compensation
Representative Director and Senior Executive Officer	15% of monthly compensation
Director and Executive Officer	10% of monthly compensation

(2) Effective period

Two months from May 2024

<Notes on financial results forecasts>

The statements on financial results forecasts contained herein are based on information currently available to the Company and certain assumptions deemed reasonably by the Company. The actual financial results may differ significantly due to various factors.