April 11, 2022

Consolidated Financial Results for the Third Quarter of the Fiscal Year Ending May 31, 2022 <Japanese GAAP>

Listed company: INTER ACTION Corporation
Listed stock exchange: Tokyo
Securities code: 7725
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Submission of quarterly report: April 12, 2022
Dividend payment commencement date: –
Preparation of explanatory materials for quarterly financial results: None
Holding of a briefing on quarterly financial results: Yes

(Amounts of less than one million yen are truncated)

1. Consolidated Financial Results for the Cumulative Third Quarter of the Fiscal Year Ending May 31, 2022 (June 1, 2021 to February 29, 2022)

(1) Consolidated operating results (Cumulative)

(% figures show year-on-year change)

	Net sales		Operating income		Ordinary income		Profit attributable to owners of parent	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
Nine months ended February 28, 2022	4,131	(19.1)	741	(46.7)	768	(45.4)	482	(48.3)
Nine months ended February 28, 2021	5,108	3.2	1,391	45.6	1,408	47.4	932	50.8

(Note) Comprehensive income: Nine months ended February 28, 2022: ¥481 million / -49.1%
Nine months ended February 28, 2021: ¥946 million / 57.2%

	Profit per share	Profit per share–diluted
	Yen	Yen
Nine months ended February 28, 2022	43.99	—
Nine months ended February 28, 2021	85.03	—

(2) Consolidated financial position

	Total assets	Net assets	Shareholders’ equity ratio
	Millions of yen	Millions of yen	%
As of February 28, 2022	10,860	9,043	83.3
As of May 31, 2021	11,564	9,038	78.2

(Reference) Shareholders’ equity: As of February 28, 2022: ¥9,043 million
As of May 31, 2021: ¥9,038 million

2. Dividends

	Annual dividends				
	First quarter-end	Second quarter-end	Third quarter-end	Fiscal year-end	Total
	Yen	Yen	Yen	Yen	Yen
Fiscal year ended May 31, 2021	–	0.00	–	20.00	20.00
Fiscal year ending May 31, 2022	–	0.00	–		
Fiscal year ending May 31, 2022 (Forecast)				20.00	20.00

(Note) Amendment to forecasts of dividends recently announced: None

3. Forecast of Consolidated Financial Results for the Fiscal Year Ending May 31, 2022 (June 1, 2021 to May 31, 2022)

(% figures show year-on-year change for the full year and quarter)

	Net sales		Operating income		Ordinary income		Profit attributable to owners of parent		Profit per share
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Yen
Full year	5,903	(10.9)	1,123	(35.9)	1,153	(34.0)	685	(40.9)	62.63

(Note) 1. Amendment to forecasts of dividends recently announced: Yes

2. The Company has implemented an ESOP and Directors' stock compensation plan both in the form of stock benefit trusts. Accordingly, profit per share is calculated based on the average number of shares during the fiscal year, excluding the number of treasury shares, which includes Inter Action stock held by the stock benefit ESOP trust accounts and Directors' compensation stock benefit trust accounts.

* **Notes**

(1) Change in significant subsidiaries during nine months ended February 28, 2022 (changes in specified subsidiaries affecting the scope of consolidation): None

New: - (Company name:) Excluded: - (Company name:)

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

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

(i) Changes in accounting policies in accordance with revision of accounting standards: Yes
(ii) Changes in accounting policies other than item (i) above: None
(iii) Changes in accounting estimates: None
(iv) Retrospective restatements: None

(Note) For details, refer to "(3) Note regarding the quarterly consolidated financial statements (Changes in accounting policies)" under "2. Quarterly Consolidated Financial Statements and Notes" (page 10) of the Attached Materials.

(4) Number of shares issued (common stock)

(i) Number of shares outstanding at end of period (including treasury shares)

As of February 28, 2022	11,510,200 shares
As of May 31, 2021	11,510,200 shares

(ii) Number of treasury shares at end of period

As of February 28, 2022	647,164 shares
As of May 31, 2021	514,513 shares

(iii) Average number of shares during period

For the nine months ended February 28, 2022	10,964,962 shares
For the nine months ended February 28, 2021	10,970,172 shares

(Note) The Company has implemented an ESOP and Directors' stock compensation plan both in the form of stock benefit trusts. Accordingly, treasury shares, as stated, include Inter Action stock held by the stock benefit ESOP trust accounts and Directors' compensation stock benefit trust accounts.

* Quarterly financial results are not subject to auditing by a certified public accountant or an audit firm.

* Proper use of earnings forecasts, and other special matters

The above forecasts of consolidated financial results are based on certain assumptions on economic situation, market trends, etc. deemed to be reasonable when the forecasts were made. Consequently, actual results may differ from the forecasts due to a variety of future factors. Consequently, actual results may differ from the forecasts due to a variety of future factors. For details of the above forecasts, refer to"(3) Explanation of forward-looking information including consolidated earnings forecasts" under "1. Qualitative Information on Quarterly Results" (page 5) of the Attached Materials.

[Attached Materials]

Index

1. Qualitative Information on Quarterly Result

(1) Explanation of operating results

The Inter Action Group conducts business in three segments: Internet of things related works; environmental energy related works; and promotion business of Industry 4.0. The business environment in each segment is as described below.

In the Internet of things related works segment, we manufacture inspection illuminators and pupil lens modules used for quality inspections in the image sensor production process and sell them to image sensor manufacturers. Currently, in the image sensor market, there are a dozen or so manufacturers of image sensors, of which Japanese and Korean companies account for over 60% of the market share. Aside from these existing makers, there have recently been moves by Chinese manufacturers to enter the business. Judging from the trends of image sensor manufacturers, we anticipate that the image sensor market will continue to expand.

The market for image sensors tends to hinge on the manufacturing and selling situation of smartphones, as such devices currently account for about 60–70% of image sensor applications. Demand for smartphones remains firm compared with the previous fiscal year, driven in particular by increased time spent at home amid the COVID-19 pandemic and the spread of 5G-compatible devices. However, a shortage of semiconductors and other components continues to affect the production and shipment of smartphones, in volume terms, calling for close monitoring of the market trend in the period ahead.

The increasing number of image sensors (cameras) installed per smartphone and the growing popularity of smartphones equipped with multiple image sensors (cameras) in recent years means that image sensor manufacturers will probably need to continue increasing production capacity.

In the short-term, demand for image sensors remains focused on conventional imaging devices that capture visible light in order to take photos and videos.

In the medium to long term, we anticipate the demand trend to shift from imaging to sensing needs, driving up demand for image sensors that can capture three-dimensional information needed for self-driving vehicles, industrial applications (machine-vision, surveillance cameras, etc.), and IoT devices equipped with image sensors as deployment of 5G mobile communication expands.

Specific devices envisaged are ToF (time-of-flight) sensors and LiDAR (light detection and ranging) sensors, which aim to capture three-dimensional information such as the distance between objects. Use of these sensors in smartphones is gaining momentum and a further increase in demand is anticipated with the development of various applications.

In the environmental energy related works segment, we manufacture and sell drying deodorizers used together with rotary presses (commercial printing presses) for large-volume printing and exhaust gas treatment systems for factories.

In the printing machinery industry, although new capital investment is diminishing due to the growing prevalence of information technologies, a certain number of rotary presses are replaced every year due to age-related degradation, and there is also demand for periodic maintenance. As there is minimal competition, the Inter Action Group is able to stably accommodate this demand at present. At present, customers' appetite for capital investment in new and large-scale projects is gradually beginning to recover in anticipation of a post-COVID-19 future.

In the promotion business of Industry 4.0 segment, we mainly manufacture precision vibration isolation systems for removing vibrations that are a hindrance in the production process for displays and sell the systems to display manufacturers. We also manufacture testing systems for investigating whether gears are of the shape designed and sell them to gear manufacturers. In addition, as new businesses for the Group, we are actively working on businesses related to FA (factory automation) image processing and laser processing equipment.

Currently, in the flat panel and OLED display industries, although appetite for capital investment is showing signs of gradual recovery particularly among overseas customers, uncertainties persist including the impact of the COVID-19 pandemic.

Moreover, the gear testing systems market has essentially conformed to conditions of the machine tools market and is susceptible to economic fluctuations. While the COVID-19 pandemic led to a plunge in market conditions that at one point went deeper than that observed during the global financial crisis, a recovery trend is emerging notably among the robotics and automobile industries and in overseas (emerging country) industries.

In our new business related to FA image processing, we have developed and commercialized a gear inspection device that can automatically detect defective products based on images taken of small scratches that occur during the process of manufacturing metal gears. We began selling it through our subsidiary Tokyo Technical Instruments in November 2020, and have received high praise and numerous inquiries from customers. In the future, with the intention of completely automating gear inspections, we will introduce robots that pick up gears through to inspection systems, and continue to expand product sales while investigating use in applications outside the gear field.

As for the laser processing machines-related business, which is also a new business, in the field of micromachining using lasers, we have proposed short-pulse laser ablation technology (processing that reduces thermal damage to materials by irradiating light for short periods of time) to businesses involved in ceramic processing, and have received inquiries from multiple companies. While continuing to approach companies that handle ceramics and other hard-to-process materials, we launched a joint study with Nagasaki University in August 2021, as part of our program to conduct tests with a view to applying semiconductor manufacturing to a range of processing applications. In recent years, attention has been drawn to next-generation power semiconductors using such materials as SiC (silicon carbide) that can reduce power losses and control at high speed. In the joint research, the focus is to conduct research on efficient methods of processing SiCs and other highly brittle materials with the objective of developing new processing equipment. The research period is scheduled to run until March 31, 2024. The laser processing machines-related business is promoted by Lastech. Co., Ltd., an unconsolidated subsidiary not accounted for by the equity method.

As a result, consolidated net sales in the first nine months of the fiscal year under review decreased by 19.1% year on year to 4,131 million yen (compared with 5,108 million yen in the previous fiscal year), and gross profit declined by 29.7% year on year to 1,893 million yen (compared with 2,692 million yen in the previous fiscal year) due to the fall in sales and other factors. Operating income declined 46.7% year on year to 741 million yen (compared with 1,391 million yen in the previous fiscal year), ordinary income fell 45.4% year on year to 768 million yen (compared with 1,408 million yen in the previous fiscal year), and profit attributable to owners of parent excluding income taxes decreased 48.3% year on-year to 482 million yen (compared with 932 million yen in the previous fiscal year).

The overall performance of each business segment was as follows.

(Internet of things related works)

The segment recorded year-on-year decreases in both net sales and profits. This is attributable to a year-on-year decline in sales of products for overseas customers, although sales of products for domestic customers remained firm. However, orders and the backlog of orders grew significantly, with the highest backlog of orders yet recorded.

The shortage of parts and other materials causing problems in the manufacturing industry gave rise to adjustments such as delays in delivery due to various elements of confusion in supply chains, although it did not lead to any delivery delays for our products thanks to advance procurement and similar measures.

Sales of inspection illuminators to domestic customers increased year on year. However, sales for the three months ended February 28, 2022 were subdued. We believe that this is mainly attributable to the postponement of capital investment by customers amid confusion in supply chains due to the shortage of parts and other materials. Meanwhile, sales of pupil lens modules were robust, maintaining the levels recorded in the same period of the previous fiscal year.

Looking ahead, we anticipate demand for inspection illuminators and pupil lens modules to grow due to the continued implementation of large-scale capital investment in the inspection process at customers' new factories.

Regarding the status of sales of inspection illuminators to overseas customers, net sales recorded a year-on-year decrease. We believe that this is a result primarily of large-scale capital investment that customers had carried out in the same period of the previous fiscal year, and customers' prioritization of products apart from image sensors in line with increased demand for these products in the three months ended February 28, 2022.

At the same time, we understand from the year-on-year increase in orders from overseas customers that they will be implementing large-scale capital investment in the inspection process, and we expect sales of inspection illuminators to overseas customers to grow, mainly during the next fiscal year.

Concerning the full-scale introduction of pupil lens modules at major overseas customers, verification by customers continues. At this stage, these customers are already submitting detailed requests regarding delivery and specifications, and we are progressing steadily toward mass production.

We are continuing to engage in active business discussions regarding our products with both domestic and overseas customers for the next fiscal year. Despite the risk of postponed delivery due to the shortage of parts and other materials, we see no change in the plan among customers to continue strengthening their production capacity given the high level of both orders and the backlog of orders, and therefore believe that customers' capital investment appetite will remain robust. We also intend to implement measures, possibly including measures to strengthen production capacity and shorten delivery times, to respond to this trend.

During the nine months ended February 28, 2022, net sales to this segment's external customers fell by 25.4% year on year to 2,609 million yen (in comparison with 3,500 million yen in the previous fiscal year), and segment income fell by 35.6% year on year to 1,259 million yen (in comparison with 1,956 million yen in the previous fiscal year).

(Environmental energy related works)

Both segment net sales and profits decreased year on year, with revenue recognition postponed as a result of delays in several high-profit maintenance projects, mainly due to the impact of the shortage of parts and other materials. Meanwhile, orders and order backlog both showed year-on-year increases due to a gradual recovery in customers' new capital investment in equipment such as printing press-related drying deodorizers and exhaust gas treatment systems in anticipation of a post-COVID-19 future. However, the timing of this investment by customers remains uncertain, with delivery times for equipment lengthening due to the impact of the shortage of parts and other materials.

Concerning our initiatives in new fields, we are continuing to make steady progress in the development of a new failure prediction system that uses acoustic emission sensors (sensors that detect sound and vibration waves). We have also changed the organizational structure from April 2022, establishing a section focused on developing new products. We will proceed to consider various possibilities for further new product development in the future.

During the nine months ended February 28, 2022, net sales to this segment's external customers fell by 26.7% year on year to 501 million yen (in comparison with 683 million yen in the previous fiscal year), and segment income fell by 90.7% year on year to 3 million yen (in comparison with 34 million yen in the previous fiscal year).

(Promotion business of Industry 4.0)

In precision vibration isolation systems, net sales were sluggish and both sales and profits decreased year on year. Inquiries are increasing overseas, however, due to our efforts to rebuild the sales structure of overseas subsidiaries.

The development of new products is progressing as planned, and is currently in the trial production, evaluation, and improvement stage of the mass-production model. We plan to release some of our new products next fiscal year, and we will continue to step up our efforts in developing new products and strengthening our sales activities, while paying attention to the parts and materials procurement situation and overseas customers' capital investment trend.

In gear testing systems, market conditions for the gear manufacturing industry showed signs of recovery, supported by persistently strong demand for machine tools in emerging countries, primarily China, and the buoyant robotics industry in Japan and overseas. This led to the continuation of robust capital investment appetite of both domestic and overseas customers, and resulted in year-on-year increases in net sales, orders, and order backlog.

Regarding the new FA image processing system business, we continued to receive inquiries from automakers and several other companies. We also engaged in testing and trial production based on the samples received from each customer. We will continue to focus efforts on developing new products, expanding sales of FA image processing systems, and enhancing our overall product competitiveness.

During the nine months ended February 28, 2022, net sales to this segment's external customers rose by 10.4% year on year to 1,020 million yen (in comparison with 924 million yen in the previous fiscal year), and the segment recorded a loss of 26 million yen (in comparison with loss of 78 million yen in the previous fiscal year).

(2) Explanation of financial position

As of the end of the first nine month of the consolidated fiscal year under review, net assets amounted to 10,860 million yen, a decrease of 703 million yen compared with the end of the previous consolidated fiscal year.

Current assets amounted to 9,591 million yen, a fall of 554 million yen compared with the end of the previous consolidated fiscal year. This is mainly due to an 869 million yen decline in cash and deposits and a 302 million yen decline in electronically recorded monetary claims - operating, despite a 186 million yen rise in notes and accounts receivable - trade and a 224 million yen rise in work in process.

Non-current assets amounted to 1,269 million yen, a decrease of 148 million yen compared with the end of the previous consolidated fiscal year.

As of the end of the first nine months of the consolidated fiscal year under review, liabilities amounted to 1,816 million yen, a decrease of 709 million yen compared with the end of the previous consolidated fiscal year. This is mainly attributable to a decrease of 458 million yen in income taxes payable and a 196 million yen decrease in bonds and loans payable including the current portions thereof.

As of the end of the first nine months of the consolidated fiscal year under review, net assets amounted to 9,043 million yen, an increase of 5 million yen compared with the end of the previous consolidated fiscal year. This is mainly due to booking of 482 million yen in profit attributable to owners of parent, despite 225 million yen of year-end dividends in the previous fiscal year and a 250 million yen increase in treasury shares.

(3) Explanation of forward-looking information including consolidated earnings forecasts

In light of the recent business performance trends, we have revised our consolidated earnings forecast for the fiscal year ending May 31, 2022 which was announced on January 12, 2022. For details, please refer to “Notice regarding revision to full-year consolidated earnings forecast and publication of full-year non-consolidated earnings forecast for the fiscal year ending May 31, 2022” announced today (April 11, 2022).

Note that the full-year earnings forecast published at this time may fluctuate in the future to reflect changes in the social situation, domestic and overseas market trends and other factors, and a variety of factors may cause actual results to differ from those projected.

2. Quarterly Consolidated Financial Statements and Notes

(1) Quarterly consolidated balance sheets

(Unit: Thousands of yen)

	As of May 31, 2021	As of February 28, 2022
Assets		
Current assets		
Cash and deposits	7,224,091	6,354,279
Notes and accounts receivable - trade	675,519	862,018
Electronically recorded monetary claims - operating	754,129	451,289
Operational investment securities	38,077	36,549
Merchandise and finished goods	148,305	205,080
Work in process	797,317	1,021,479
Raw materials and supplies	466,966	529,168
Other	69,290	157,380
Allowance for doubtful accounts	(27,308)	(25,708)
Total current assets	10,146,389	9,591,537
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	283,370	267,644
Land	165,149	165,149
Other, net	220,138	194,602
Total property, plant and equipment	668,658	627,396
Intangible assets		
Goodwill	234,725	198,093
Other	37,392	29,207
Total intangible assets	272,117	227,300
Investments and other assets		
Investment securities	130,423	130,410
Other	427,901	365,810
Allowance for doubtful accounts	(80,967)	(81,621)
Total investments and other assets	477,356	414,600
Total non-current assets	1,418,133	1,269,298
Total assets	11,564,522	10,860,835

(Unit: Thousands of yen)

	As of May 31, 2021	As of February 28, 2022
Liabilities		
Current liabilities		
Notes and accounts payable - trade	360,701	372,623
Short-term borrowings	210,000	190,000
Current portion of bonds payable	60,000	30,000
Current portion of long-term borrowings	144,815	84,761
Income taxes payable	476,487	18,251
Provision for bonuses	—	36,658
Provision for product warranties	23,887	18,193
Provision for share awards for directors (and other officers)	194,300	85,400
Other	304,022	311,737
Total current liabilities	1,774,214	1,147,625
Non-current liabilities		
Bonds payable	30,000	—
Long-term borrowings	593,856	537,868
Provision for share awards	3,842	8,686
Retirement benefit liability	97,941	93,862
Asset retirement obligations	10,150	10,150
Other	16,515	18,749
Total non-current liabilities	752,305	669,317
Total liabilities	2,526,520	1,816,943
Net assets		
Shareholders’ equity		
Share capital	1,760,299	1,760,299
Capital surplus	3,352,855	3,352,855
Retained earnings	4,826,850	5,083,973
Treasury shares	(892,028)	(1,142,596)
Total shareholders’ equity	9,047,977	9,054,532
Accumulated other comprehensive income		
Foreign currency translation adjustment	(9,976)	(10,640)
Total accumulated other comprehensive income	(9,976)	(10,640)
Total net assets	9,038,001	9,043,891
Total liabilities and net assets	11,564,522	10,860,835

(2) Quarterly consolidated statements of income and consolidated statements of comprehensive income
(Quarterly consolidated statements of income)
(June 1, 2021 – February 28, 2022)

(Unit: Thousands of yen)

	Nine months ended February 28, 2021	Nine months ended February 28, 2022
Net sales	5,108,444	4,131,205
Cost of sales	2,416,202	2,237,775
Gross profit	2,692,241	1,893,430
Selling, general and administrative expenses	1,300,292	1,151,925
Operating income	1,391,949	741,504
Non-operating income		
Interest income	462	285
Dividend income	50	50
Income from assets for rent	9,784	7,073
Foreign exchange gains	708	19,986
Subsidy income	8,672	5,755
Other	12,698	11,123
Total non-operating income	32,376	44,274
Non-operating expenses		
Interest expenses	6,358	6,514
Expenses of assets for rent	7,611	7,072
Share of loss of entities accounted for using equity method	646	528
Other	1,542	3,131
Total non-operating expenses	16,159	17,245
Ordinary income	1,408,166	768,533
Extraordinary income		
Gain on sale of non-current assets	—	276
Total extraordinary income	—	276
Extraordinary loss		
Loss on retirement of non-current assets	7,775	6,829
Total extraordinary losses	7,775	6,829
Profit before income taxes	1,400,390	761,980
Income taxes - current	468,850	217,526
Income taxes - deferred	(1,253)	62,126
Total income taxes	467,596	279,653
Profit	932,793	482,327
Profit attributable to owners of parent	932,793	482,327

(Quarterly consolidated statements of comprehensive income)
(June 1, 2021 – February 28, 2022)

(Unit: Thousands of yen)

	Nine months ended February 28, 2021	Nine months ended February 28, 2022
Profit	932,793	482,327
Other comprehensive income		
Foreign currency translation adjustment	13,892	(509)
Share of other comprehensive income of entities accounted for using equity method	(174)	(155)
Total other comprehensive income	13,717	(664)
Comprehensive income	946,511	481,662
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	946,511	481,662
Comprehensive income attributable to non-controlling interests	—	—

(3) Note regarding the quarterly consolidated financial statements

(Notes on premise of going concern)

No items to report.

(Notes on significant changes in the amount of shareholders' equity)

A major change in the cumulative third quarter of the consolidated fiscal year under review is acquisition of treasury shares through repurchase of 58,200 shares (134,986,000 yen) in accordance with the resolution of the Board of Directors passed at its meeting held on July 12, 2021. Further, from the directors' compensation stock benefit trust, 27,000 shares of the Company's stock (77,900,000 yen) were sold for cash distribution to the eligible directors and a distribution of 36,900 shares (106,464,000 yen) was made to the eligible directors.

As a result, treasury shares increased by 250,567,000 yen to 1,142,596,000 yen as of the end of the third quarter of the consolidated fiscal year under review.

(Changes in accounting policies)

(Application of accounting standard for revenue recognition and related guidance)

The Group has applied the "Accounting Standard for Revenue Recognition" (ASBJ Statement No. 29, March 31, 2020; hereinafter, "Accounting Standard for Revenue Recognition") from the beginning of the first quarter of the consolidated fiscal year under review. Accordingly, revenue is recognized at a point in time when control of promised goods or services is transferred to customers, at the amount that is expected to be received in exchange for the goods or services. There is no change in accounting treatment associated with the foregoing.

Therefore, the adoption of the Accounting Standard for Revenue Recognition and related guidance has no impact on the quarterly consolidated financial statements.

Furthermore, as permitted by the transitional treatment set forth in Paragraph 28-15 of the Accounting Standard for Quarterly Financial Reporting (ASBJ Statement No. 12, March 31, 2020), disaggregated information on revenue from contracts with customers during the third quarter of the previous consolidated fiscal year has not been disclosed.

(Application of accounting standard for fair value measurement and related guidance)

The Group has applied the "Accounting Standard for Fair Value Measurement" (ASBJ Statement No. 30, July 4, 2019; hereinafter, "Accounting Standard for Fair Value Measurement") and related guidance from the beginning of the first quarter of the consolidated fiscal year under review. In accordance with the transitional treatment set forth in Paragraph 19 of the Accounting Standard for Fair Value Measurement and Paragraph 44-2 of the "Accounting Standard for Financial Instruments" (ASBJ Statement No. 10, July 4, 2019), the new accounting policy prescribed by the Accounting Standard for Fair Value Measurement and related guidance will be applied into the future.

This will have no impact on the quarterly consolidated financial statements.

(Additional information)

(Stock benefit trust system that delivers company shares to employees through the trust)

1. Overview of transactions

The Company has adopted an incentive plan “Employee Stock Ownership Plan (J-ESOP)” (hereinafter, “the System”) for employees that offers them a stake in the Company’s shares. We hope this will help to enhance employee motivation and morale, and thereby the Company’s stock price and performance, by increasing the correlation between our stock price, business performance, and the treatment of employees, and sharing the economic effects with our shareholders.

The system is a mechanism for distributing the Company’s shares to employees that meet certain criteria in accordance with the stock benefit regulations established in advance by the Company. The Company will award employees points according to their personal contribution, etc. and distribute shares equivalent to the points awarded when the entitlement is gained under certain conditions.

2. Shares of the company remaining in trust

Company shares remaining in trust are to be recorded at book value as “treasury shares” (excluding the amount of incidental costs) under net assets. At the end of the previous fiscal year and at the end of the third quarter of the consolidated fiscal year under review, the treasury shares in question had a book value of 13,736,000 yen (27,400 shares).

(A performance-linked stock compensation system that distributes the company's shares via a trust to the directors)

1. Overview of transactions

We have adopted a “Board Benefit Trust” (hereinafter, “BBT”) that awards the Company’s shares to directors. The purpose of the BBT is to further clarify the correlation between the remuneration of directors and the Company’s performance and stock value. We hope this will not only contribute to boosting the stock price, but also contribute to increasing awareness of the importance of improving earnings and expanding corporate value over the longer term by sharing the risk of stock price downside with shareholders.

In the BBT system, the Company’s stock is acquired through a trust using funds contributed by the Company. The BBT is a performance-based stock compensation plan in which the Company’s stock is paid annually through a trust based on points granted to directors in accordance with their position and performance based on the director stock benefit regulations established by the Board of Directors.

2. Shares of the company remaining in trust

Company shares remaining in trust are to be recorded at book value as “treasury shares” (excluding the amount of incidental costs) under net assets. At the end of the previous fiscal year, the treasury shares in question had a book value of 684,166,000 yen (237,128 shares). And at the end of the third quarter of the consolidated fiscal year under review, the treasury shares in question had a book value of 499,801,000 yen (173,228 shares).

(Implications of COVID-19 for accounting estimates)

We have made no significant change in our assumptions regarding when the COVID-19 pandemic might subside from those announced in “Implications of COVID-19 for accounting estimates” in the “Additional information” section of our full-year financial results for the fiscal year ended May 31, 2021.

(Segment information)

I. For the cumulative third quarter of the fiscal year ended May 31, 2021 (June 1, 2020 to February 28, 2021)

1. Information on net sales and the amount of profits (losses) by reportable segment

(Unit: Thousands of yen)

	Internet of things related works	Environmental energy related works	Promotion business of Industry 4.0	Total
Net sales				
Sales to external customers	3,500,467	683,747	924,229	5,108,444
Intra-segment internal sales and transfer amount	—	—	—	—
Total	3,500,467	683,747	924,229	5,108,444
Segment income (loss)	1,956,580	34,156	(78,080)	1,912,656

2. Difference between total amount of income or loss of reportable segments and the corresponding amount reported in the quarterly consolidated statements of income, and the key components of such difference (reconciliation)

(Unit: Thousands of yen)

Income	Amount
Total of reportable segments	1,912,656
Company-wide expenses(Note)	(502,012)
Inter-segment eliminations	526
Adjustment of inventories	(19,221)
Operating income in the quarterly consolidated statements of income	1,391,949

(Note) Company-wide expenses mainly consist of expenses incurred by the Company's head office administrative operations that are not attributable to the reportable segments.

3. Information on impairment loss for non-current assets or goodwill of each reportable segment

No items to report.

II. For the cumulative third quarter of the fiscal year ending May 31, 2022 (June 1, 2021 to February 28, 2022)

1. Information on net sales and the amount of profits (losses) by reportable segment

(Unit: Thousands of yen)

	Internet of things related works	Environmental energy related works	Promotion business of Industry 4.0	Total
Net sales				
Sales to external customers	2,609,868	501,174	1,020,163	4,131,205
Intra-segment internal sales and transfer amount	—	—	—	—
Total	2,609,868	501,174	1,020,163	4,131,205
Segment income (loss)	1,259,857	3,159	(26,985)	1,236,031

2. Difference between total amount of income or loss of reportable segments and the corresponding amount reported in the quarterly consolidated statements of income, and the key components of such difference (reconciliation)

(Unit: Thousands of yen)

Income	Amount
Total of reportable segments	1,236,031
Company-wide expenses(Note)	(479,396)
Inter-segment eliminations	309
Adjustment of inventories	(15,440)
Operating income in the quarterly consolidated statements of income	741,504

(Note) Company-wide expenses mainly consist of expenses incurred by the Company's head office administrative operations that are not attributable to the reportable segments.

3. Information on impairment loss for non-current assets or goodwill of each reportable segment

No items to report.

(Revenue recognition-related information)

Disaggregated information on revenue from contracts with customers

For the cumulative third quarter of the fiscal year ending May 31, 2022 (June 1, 2021 to February 28, 2022)

(Unit: Thousands of yen)

	Internet of things related works	Environmental energy related works	Promotion business of Industry 4.0	Total
Goods transferred at a point in time	2,609,868	498,702	1,020,163	4,128,733
Goods transferred over time	—	—	—	—
Revenue from contracts with customers	2,609,868	498,702	1,020,163	4,128,733
Other revenue(Note)	—	2,471	—	2,471
Sales to external customers	2,609,868	501,174	1,020,163	4,131,205

(Note) Other revenue is that recognized in "Accounting Standard for Financial Instruments" (Accounting Standards Board of Japan (ASBJ) Statement No. 10).

3. Supplementary Explanation of Consolidated Financial Results for the Third Quarter of the Fiscal Year Ending May 31, 2022

(1) Status of orders

In the first three quarters of the consolidated fiscal year under review, although net sales of the Group as a whole declined compared to the same period of the previous year, significant increases were recorded in both the amount of orders received and backlog of orders notably in the internet of things related works, with backlog of orders marking a record high.

While there is risk that shortage of parts and materials could cause postponement of delivery dates, given the high levels of the amount of orders received and backlog of orders, we see no change in the stance of both domestic and overseas customers to continue strengthening their production capacity, and therefore believe that their capital investment appetite will remain robust.

Orders received

Segment	3Q of the previous consolidated fiscal year (June 1, 2020 to February 28, 2021)		3Q of the current consolidated fiscal year (June 1, 2021 to February 28, 2022)		Change	
	Amount of orders received (Thousands of Yen)	Backlog of orders (Thousands of Yen)	Amount of orders received (Thousands of Yen)	Backlog of orders (Thousands of Yen)	Amount of orders received (Thousands of Yen)	Backlog of orders (Thousands of Yen)
Internet of things related works	3,055,171	928,065	4,280,348	3,386,212	1,225,176	2,458,147
Environmental energy related works	445,345	158,192	638,051	427,078	192,705	268,886
Promotion business of Industry 4.0	817,650	176,550	1,035,804	340,082	218,154	163,532
Total	4,318,167	1,262,808	5,954,204	4,153,374	1,636,036	2,890,566

(Note) The above amounts do not include results of the operations which engage in make-to-stock production.