



Consolidated Financial Results for the First Quarter of the Fiscal Year Ending March 31, 2023 (JGAAP)

July 29, 2022

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 Scheduled date for dividend payment: —
 Preparation of supplemental explanatory materials: No
 Results briefing to be held: No

1. Consolidated financial results for the first quarter of the fiscal year ending March 31, 2023 (April 1, 2022, to June 30, 2022)

(1) Consolidated operating results

Millions of yen (rounded down), % figures are year-on-year change

	Net sales		Operating income		Ordinary income		Quarterly profit attributable to owners of parent	
First quarter, year ending March 31, 2023	24,609	(0.9)	(202)	—	(109)	—	(147)	—
First quarter, year ended March 31, 2022	24,821	5.0%	(262)	—	(230)	—	(244)	—

Note: Comprehensive income was (100) million yen (—%) in first quarter of year ending March 31, 2023; (75) million yen (—%) in first quarter of year ended March 31, 2022.

	Earnings per share (yen)	Diluted earnings per share (yen)
First quarter, year ending March 31, 2023	(8.30)	—
First quarter, year ended March 31, 2022	(13.89)	—

(2) Consolidated financial position

	Total assets (millions of yen)	Net assets (millions of yen)	Shareholders' equity ratio	Net assets per share (yen)
First quarter, year ending March 31, 2023	73,243	32,558	44.1%	1,818.21
Year ended March 31, 2022	79,226	33,199	41.5%	1,853.68

Reference: Shareholders' equity at first quarter, year ending March 31, 2023; 32,280 million yen; in year ended March 31, 2022; 32,847 million yen.

2. Dividends

	Dividends per share for the fiscal year (yen)				
	End of first quarter	End of second quarter	End of third quarter	Year-end	Total
Year ended March 31, 2022	—	23.00	—	25.00	48.00
Year ending March 31, 2023	—				
Year ending March 31, 2023 (forecast)		25.00	—	25.00	50.00

Note:

1.Revisions to most recent dividend forecast: None

2.The interim dividend for the year ended March 31, 2023 included a commemorative dividend of 2.0 yen per share to celebrate 90th Anniversary of its founding.

3. Forecast of consolidated financial results for the fiscal year ending March 31, 2023 (April 1, 2022, to March 31, 2023)

% figures are year-on-year change

	Net sales (millions of yen)		Operating income (millions of yen)		Ordinary income (millions of yen)		Profit attributable to owners of parent (millions of yen)		Earnings per share (yen)
		%		%		%		%	
Full year	120,000	0.6%	4,000	(0.3%)	4,130	(2.3%)	2,760	(1.4%)	155.49

Note: Revisions to most recent earnings forecast: None

*Notes

(1) Changes in significant subsidiaries (which affected scope of consolidation) during the quarter: None

Newly added ___ companies (names)

No longer consolidated ___ companies (names)

(2) Special accounting methods used in preparation of quarterly consolidated financial statements: Yes

Note: For details, please refer to Attachment page 13: "2. Consolidated financial statements and notes (3)

Notes to quarterly consolidated financial statements (Application of special accounting methods in the preparation of quarterly consolidated financial statements)."

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

1. Changes in accounting policies due to changes in accounting standards: None

2. Changes in accounting policies not due to changes in accounting standards: None

3. Changes in accounting estimates: None

4. Restatements: None

(4) Number of shares outstanding (common stock)

1. Number of shares outstanding at year end (including treasury stock)	First quarter, year ending March 31, 2023	20,177,894	Year ended March 31, 2022	20,177,894
2. Number of shares at year end (treasury stock)	First quarter, year ending March 31, 2023	2,423,670	Year ended March 31, 2022	2,457,908
3. Average number of shares over the period	First quarter, year ending March 31, 2023	17,737,271	First quarter, year ended March 31, 2022	17,582,961

Note: The number of treasury shares includes those held in the Employee Stock Ownership Plan (ESOP) trust account (92,800 in first quarter, year ending March 2023; 121,000 in year ended March 2022), Directors' Compensation Board Incentive Plan (BIP) trust account (346,034 in first quarter, year ending March 2023; 346,034 in year ended March 2022); and Stock-grant ESOP trust account (452,018 in first quarter, year ending March 2023; 458,056 in year ended March 2022).

*The financial information in this quarterly report is not subject to review by certified public accountants or auditing firms.

*Appropriate use of earnings forecast and other special notes.

(Note on forward-looking statements)

The earnings forecasts and other forward-looking statements contained in this document are based on information currently available to the Company, and certain assumptions it considers reasonable, but are not intended to be a promise that the Company will achieve. Actual results may vary materially from forecasts due to a variety of factors.

Content of attachment

- 1. Qualitative information on quarterly results**5
- (1) Earnings5
- (2) Financial position8
- (3) Consolidated earnings forecasts and other information concerning the outlook8
- 2. Consolidated financial statements and notes**9
- (1) Quarterly consolidated balance sheet9
- (2) Quarterly consolidated statements of income and comprehensive income11
- (3) Notes to quarterly consolidated financial statements.....13
 - (Notes on premise of going concern).....13
 - (Notes on significant changes in the amount of shareholders equity.).....13
 - (Application of special accounting methods in the preparation of quarterly consolidated financial statements)13
 - (Segment and other information).....14

1. Qualitative information on quarterly results

(1) Earnings

In the first quarter of the fiscal year ending March 2023, while the Japanese economy continued to recover from the impact of the COVID-19 pandemic, uncertainty about the outlook persisted as the extended Ukraine conflict and constraints on economic activities in China led to rises in raw material prices and supply bottlenecks.

Our group belongs to the information and communications (ICT) services industry. We expect ICT demand to remain strong as companies step up their digital transformation (DX) initiatives in the wake of the pandemic, but some companies continued to curtail their ICT capex due to the delay in recovery in business performance. The electronic device industry performed well as semiconductor demand continued to expand, driven by growing investment in data centers and accelerated efforts in decarbonization and use of renewable energy in the automotive, industrial, and infrastructure sectors.

In these circumstances, our group is carrying out the initiatives outlined in our medium-term management plan ending in the year ending March 2023, titled Innovation 2023, as part of our aim to support the DX efforts of client companies and to be more competitive by becoming an innovation service provider. We are reforming our business structure and strengthening our management base to tap into growing digital transformation needs with a view to sustainable growth and improvements in corporate value.

In the first quarter of the final year of our plan, the Group posted net sales of ¥24,609 million (down 0.9% year-on-year), operating loss of ¥202 million (operating loss of ¥262 million in year earlier), ordinary loss of ¥109 million (ordinary loss of ¥230 million in year earlier), and loss attributable to owners of parent of ¥147 million (loss of ¥244 million in year earlier).

In the Information Network Solutions segment, while orders were strong and above year-earlier levels, sales were lower than the first quarter of the previous year as the semiconductor shortage delayed project deliveries. However this also caused an increase in order backlog, which was significantly above year-earlier levels. Profit declined slightly due to an increase in SG&A expenses and lower sales.

In the Electronic Devices segment, orders and sales were above year-earlier levels, driven by continued frontloading of orders from customers accompanying the semiconductor shortage and strong demand from the factory automation (FA) equipment and industrial equipment industries and electric vehicle industry, aimed at decarbonization. The order backlog increased significantly as many orders were aimed at securing parts from a longer term perspective. Despite an increase in SG&A expenses, profit increased significantly on the year earlier due to higher sales.

The following section discusses earnings by segment in the first quarter.

*Note regarding quarterly earnings for the Group

Many of the Group's customers have business years from April through March the following year. Further, fulfilment obligations for many transactions are judged to be satisfied at a certain point, so the Group's sales and profit tend to be concentrated in September and March, the halfway and endpoints of the fiscal year

Information Network Solutions

In the first quarter of the fiscal year ending March 2023, the Information Network Solutions business booked orders of ¥26,620 million (up 6.4% year-on-year), net sales of ¥17,851 million (down 2.9% year-on-year), and an operating loss of ¥392 million (loss of ¥359 million in the same quarter a year earlier).

Results by business model

Equipment: Orders totaled ¥11,630 million (up 15.5% year-on-year) as network enhancement orders remained brisk and the Company won large orders for smartphones used by salespeople in the financial industry. Net sales came to ¥5,540 million (down 8.1% year-on-year) despite large PC orders for local governments and PBX installation orders for financial institutions owing to a significant impact from delayed deliveries of PCs, servers, and network equipment due to the global semiconductor shortage.

Development and construction: Orders for small and medium-sized systems and network development and construction projects increased, and on the sales side, we made steady progress in booking sales from the order backlog outstanding at the end of the previous fiscal year, including small and medium-sized systems development projects and major cloud PBX construction projects for the financial sector. Orders came to ¥2,881 million (up 2.3% year-on-year) and net sales came to ¥2,576 million (up 4.2% year-on-year).

Service: Following on from the fiscal year ended March 2022, the business posted significant growth in contracts for cloud-based contact center services and other cloud services, but it was impacted by the end of major contracts for LCM services for some customers. As a consequence, results were flat on the year earlier with orders of ¥12,108 million (down 0.1% year-on-year) and net sales of ¥9,734 million (down 1.5% year-on-year).

On the profit front, margins for the equipment, development and construction, and service businesses improved following our efforts to improve expense ratios. However profit declined due to an increase in personnel and SG&A expenses and lower sales.

Electronic Devices

In the first quarter of the fiscal year ending March 2023, the Electronic Devices segment booked orders of ¥10,596 million (up 26.9% year-on-year), net sales of ¥6,758 million (up 4.9% year-on-year), and operating income of ¥179 million (up 88.5% year-on-year). Orders, net sales, and operating income all increased year-on-year.

In the devices business, following on from the fiscal year ended March 2022, there was strong demand in Japan and overseas from the FA equipment and industrial equipment industries and growing demand from the electric vehicle industry for decarbonization, driving strong sales of custom LSIs and power semiconductors. At our overseas locations, orders and sales were both strong despite interrupted economic activities and disrupted logistics due to lockdowns in China (Shanghai) during the pandemic.

The systems business put in a solid performance as we worked to secure supplies amid an ongoing shortage of electronic parts for servers and PCs. However, orders and net sales declined on the year earlier as production adjustments accompanying the switchover to new products saw lower demand for LCD panels and SSD products used in on-board automotive information devices.

Despite an increase in SG&A expenses, profit rose significantly on the year earlier due to higher sales.

The following tables show sales and orders by segment in the first quarter of the fiscal year ending March, 2023.

(1) Net sales by segment (millions of yen)

	First quarter, year ended March 2022	First quarter, year ending March 2023		
			Versus first quarter of previous year	
Information Network Solutions	18,376	17,851	(525)	97.1%
Equipment	6,025	5,540	(485)	91.9%
Development and construction	2,472	2,576	104	104.2%
Service	9,879	9,734	(144)	98.5%
Electronic Devices	6,444	6,758	313	104.9%
Total	24,821	24,609	(211)	99.1%

Note: Inter-segment transactions are offset and eliminated.

(2) Orders by segment (millions of yen)

	First quarter, year ended March 2022	First quarter, year ending March 2023		
			Versus first quarter of previous year	
Information Network Solutions	25,007	26,620	1,612	106.4%
Equipment	10,073	11,630	1,557	115.5%
Development and construction	2,815	2,881	66	102.3%
Service	12,119	12,108	(10)	99.9%
Electronic Devices	8,349	10,596	2,246	126.9%
Total	33,357	37,216	3,859	111.6%

Note: Inter-segment transactions are offset and eliminated.

(3) Order backlog by segment (millions of yen)

	First quarter, year ended March 2022	First quarter, year ending March 2023		
			Versus first quarter of previous year	
Information Network Solutions	21,216	26,043	4,827	122.8%
Equipment	12,871	16,408	3,536	127.5%
Development and construction	3,971	4,777	805	120.3%
Service	4,373	4,857	484	111.1%
Electronic Devices	9,787	20,274	10,487	207.2%
Total	31,003	46,318	15,314	149.4%

Note: Inter-segment transactions are offset and eliminated.

(2) Financial position

Assets totaled ¥73,243 million at the end of the quarter under review, down by ¥5,982 million from the end of the previous fiscal year. The main factors were a ¥10,799 million decline in trade notes and accounts receivable and contract assets, a ¥3,279 million increase in cash and deposits, and a ¥1,504 million increase in inventory assets.

Liabilities totaled ¥40,684 million at the end of the quarter, down by ¥5,341 million from the end of the previous year. The main factor was a ¥4,421 million decline in trade notes and accounts payable.

Net assets totaled ¥32,558 million at the end of the quarter, down by ¥641 million from the end of the previous year, and the shareholders' equity ratio was 44.1% (41.5% at the end of the previous year). The main factor in the decline was a reduction in retained earnings of ¥466 million due to the payment of dividends from surplus.

(3) Consolidated earnings forecasts and other information concerning the outlook

Progress has been largely in line with our expectations at the beginning of the year, and we have an ample order backlog, but the environment surrounding the Japanese economy is constantly changing, as seen in rising raw material prices due to the extended conflict in Ukraine and the weakening of the yen. We are thus concerned that customers affected may curtail their ICT investments. Furthermore, the impact of delayed deliveries of a range of equipment due to the global semiconductor shortage is notable, and it remains unclear when the situation will be resolved, so there is no change to the consolidated earnings forecast for the year ending March 2023 that we announced on May 13, 2022. The Company will promptly inform our stakeholders if material matters arise due to a change in circumstances or other factors.

2. Consolidated financial statements and notes

(1) Quarterly consolidated balance sheet

(Millions of yen)

	As of March 31, 2022	As of June 30, 2022
Assets		
Current assets		
Cash and deposits	19,162	22,441
Notes and accounts receivable – trade	28,113	17,314
Electronically recorded monetary claims	4,645	4,677
Inventories	7,483	8,988
Other	1,861	1,861
Allowance for doubtful accounts	(70)	(71)
Total current assets	61,195	55,210
Noncurrent assets		
Property, plant and equipment		
Buildings and structures	2,145	2,126
Accumulated depreciation	(933)	(937)
Buildings and structures (net)	1,212	1,189
Machinery, equipment and vehicles	7	7
Accumulated depreciation	(6)	(6)
Machinery, equipment and vehicles (net)	1	1
Land	1,804	1,804
Lease assets	5,150	5,179
Accumulated depreciation	(3,330)	(3,523)
Lease assets (net)	1,820	1,655
Construction in progress	126	159
Other	1,177	1,188
Accumulated depreciation	(713)	(755)
Other (net)	463	433
Total property, plant and equipment	5,428	5,242
Intangible assets		
Goodwill	135	113
Lease assets	883	843
Other	2,053	2,100
Total intangible assets	3,072	3,056
Investments and other assets		
Investment securities	4,096	3,964
Long-term loans receivable	32	31
Deferred tax assets	4,204	4,527
Other	1,247	1,261
Allowance for doubtful accounts	(52)	(52)
Investments and other assets	9,528	9,733
Total noncurrent assets	18,030	18,032
Total assets	79,226	73,243

(Millions of yen)

	As of March 31, 2022	As of June 30, 2022
Liabilities		
Current liabilities		
Notes and accounts payable – trade	15,307	10,886
Short-term loans payable	5,137	5,060
Current portion of long-term loans payable	4,291	4,286
Lease obligations	1,267	1,185
Income taxes payable	1,268	212
Provision for bonuses	2,303	1,118
Other	5,310	7,001
Total current liabilities	34,886	29,751
Noncurrent liabilities		
Long-term loans payable	152	83
Lease obligations	1,658	1,510
Deferred tax liabilities	7	7
Net defined benefit liability	8,531	8,501
Long-term accounts payable – other	29	28
Other provision	629	657
Other	130	142
Total noncurrent liabilities	11,139	10,933
Total liabilities	46,026	40,684
Net assets		
Shareholders' equity		
Capital stock	9,812	9,812
Capital surplus	2,581	2,581
Retained earnings	23,018	22,405
Treasury stock	(2,257)	(2,207)
Total shareholders' equity	33,155	32,592
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	1,343	1,245
Deferred gains or losses on hedges	(37)	(75)
Foreign currency translation adjustment	145	237
Remeasurements of defined benefit plans	(1,760)	(1,719)
Total accumulated other comprehensive income	(307)	(311)
Noncontrolling interests	352	277
Total net assets	33,199	32,558
Total liabilities and net assets	79,226	73,243

(2) Quarterly consolidated statements of income and comprehensive income
(Quarterly consolidated statement of income)

Consolidated income statement for the first quarter

(Millions of yen)

	Three months ended June 30, 2021	Three months ended June 30, 2022
Net sales	24,821	24,609
Cost of sales	20,659	20,082
Gross profit	4,161	4,527
Selling, general, and administrative expenses	4,424	4,730
Operating income (loss)	(262)	(202)
Non-operating income		
Interest income	0	1
Dividend income	48	42
Foreign exchange gains	4	45
Other	13	38
Total non-operating income	67	127
Non-operating expenses		
Interest expenses	32	29
Other	3	5
Total non-operating expenses	35	34
Ordinary income (loss)	(230)	(109)
Extraordinary loss		
Loss on retirement of noncurrent assets	—	1
Loss on valuation of investment securities	29	—
Total extraordinary losses	29	1
Income (loss) before income taxes and others	(260)	(111)
Income taxes	(58)	(13)
Profit (loss)	(201)	(97)
Profit attributable to noncontrolling interests	42	49
Profit (loss) attributable to owners of parent	(244)	(147)

(Quarterly consolidated statement of comprehensive income)

First quarter

(Millions of yen)

	Three months ended June 30, 2021	Three months ended June 30, 2022
Profit (loss)	(201)	(97)
Other comprehensive income		
Valuation difference on available for sale securities	88	(97)
Deferred gains or losses on hedges	0	(38)
Foreign currency translation adjustment	(0)	91
Remeasurements of defined benefit plans	37	40
Other comprehensive income	126	(3)
Comprehensive income	(75)	(100)
Breakdown		
Comprehensive income attributable to owners of parent	(118)	(150)
Comprehensive income attributable to noncontrolling interests	42	49

(3) Notes to quarterly consolidated financial statements

(Notes on premise of going concern)

Not applicable.

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

Not applicable.

(Application of special accounting methods in the preparation of quarterly consolidated financial statements)

(Calculation of tax expense)

Tax expenses are calculated by reasonably estimating the effective tax rate after applying tax effect accounting to income before income taxes for the fiscal year, including the first quarter, and multiplying quarterly income before income taxes by the estimated effective tax rate.

Note: Income taxes – deferred are included in income taxes.

(Segment and other information)

Segment information

I First quarter of previous year (April 1, 2021, to June 30, 2021)

1. Information on net sales and profit or loss by reporting segment

(Millions of yen)

	Reporting segment			Adjustments (Note 1)	Amount recorded in quarterly consolidated financial statements (Note 2)
	Information Network Solutions	Electronic Devices	Total		
Net sales					
Net sales from external customers	18,376	6,444	24,821	—	24,821
Intersegment net sales and transfers	3	39	43	(43)	—
Total	18,379	6,484	24,864	(43)	24,821
Segment profit (loss)	(359)	95	(264)	1	(262)

Notes:

1 Adjustments to segment profit (loss) are elimination of intersegment transactions.

2 Segment profit (loss) is adjusted with operating income (loss) in the quarterly consolidated income statements.

II First quarter in current year (April 1, 2022, to June 30, 2022)

1. Information on sales and profit or loss by reporting segment

(Millions of yen)

	Reporting segment			Adjustments (Note 1, 2, 3)	Amount recorded in quarterly consolidated financial statements (Note 2)
	Information Network Solutions	Electronic Devices	Total		
Net sales					
Net sales from external customers	17,851	6,758	24,609	—	24,609
Intersegment net sales and transfers	1	60	62	(62)	—
Total	17,852	6,819	24,671	(62)	24,609
Segment profit (loss)	(392)	179	(212)	10	(202)

Notes:

1 Adjustments to segment profit (loss) are elimination of intersegment transactions.

2 Segment profit (loss) is adjusted with operating income (loss) in the quarterly consolidated income statements.