



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

January 27, 2023

Company name: Tsuzuki Denki Co., Ltd. Listing Stock Exchange: Tokyo
 Stock code: 8157 URL: <https://www.tsuzuki.co.jp/>
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Scheduled date for quarterly report submission: February 3, 2023
 Scheduled date for dividend payment: —
 Preparation of supplemental explanatory materials: None
 Results briefing to be held: None

1. Consolidated financial results for the Third quarter of the fiscal year ending March 31, 2023 (April 1, 2022, to December 31, 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	
	Amount	% change	Amount	% change	Amount	% change	Amount	% change
Third quarter, year ending March 31, 2023	82,545	2.0 %	1,407	5.1 %	1,642	6.3 %	973	3.4 %
Third quarter, year ended March 31, 2022	80,941	1.4 %	1,339	389.6 %	1,545	268.4 %	941	367.0 %

Note: Comprehensive income was 1,348 million yen (+10.6 %) in the third quarter of year ending March 31, 2023; 1,218 million yen (+62.1%) in third quarter of year ended March 31, 2022.

	Earnings per share (yen)	Diluted earnings per share (yen)
Third quarter, year ending March 31, 2023	54.68	—
Third quarter, year ended March 31, 2022	53.38	—

(2) Consolidated financial position

	Total assets (millions of yen)	Net assets (millions of yen)	Shareholders' equity ratio	Net assets per share (yen)
Third quarter, year ending March 31, 2023	79,806	33,738	41.8 %	1,863.52
Year ended March 31, 2022	79,226	33,199	41.5 %	1,853.68

Reference: Shareholders' equity at the third quarter of year ending March 31, 2023; 33,351 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	—	25.00			
Year ending March 31, 2023 (forecast)			—	25.00	50.00

Note: Revisions to most recent dividend forecast: None

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	121,000	1.4%	4,500	12.2%	4,630	9.5%	3,090	10.4%	173.34

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: | Yes |
| 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)	Third 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)	Third quarter, year ending March 31, 2023	2,280,617	Year ended March 31, 2022	2,457,908
3. Average number of shares over the period	Third quarter, year ending March 31, 2023	17,803,153	Third quarter, year ended March 31, 2022	17,637,843

Note: The number of treasury shares includes those held in the Employee Stock Ownership Plan (ESOP) trust account (25,800 in the third quarter of year ending March 2023; 121,000 in year ended March 2022), Directors' Compensation Board Incentive Plan (BIP) trust account (290,547 in the third quarter of year ending March 2023; 346,034 in year ended March 2022); and Stock-grant ESOP trust account (431,416 in the third quarter of 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 make. Actual results may vary materially from forecasts due to a variety of factors.

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1. Qualitative information on quarterly results

(1) Earnings

In the first nine months of the fiscal year ending March 31, 2023, the Japanese economy continued to recover gradually amid the ongoing normalization of economic and social activity. That being said, the outlook continued to remain uncertain, as the global economic downturn caused by monetary tightening among other factors weighed on the domestic economy, and as this was further exacerbated by rising prices, supply-side constraints, and fluctuations in financial and capital markets.

In the information and communications services industry where the Group operates, digital transformation (DX) in the corporate sector accelerated propelled by the COVID-19 pandemic, and capital investments in ICT continued to grow.

As for the electronic device industry, while the supply-demand balance for semiconductors was moving toward normalization, the market showed signs of slowing down due to changes in the operating environment, including a decline in personal consumption as prices rose globally.

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 the management base to tap into growing DX needs with a view to sustainable growth and enhanced corporate value.

In the first nine months of the fiscal year ending March 31, 2023, the final year of the medium-term management plan, net sales were ¥82,545 million (up 2.0% year-on-year), operating income was ¥1,407 million (up 5.1% year-on-year), ordinary income was ¥1,642 million (up 6.3% year-on-year), and profit attributable to owners of parent was ¥973 million (up 3.4% year-on-year).

In the Information Network Solution segment, development and construction projects declined due to the shift to the cloud, but service contracts increased. Equipment installation projects, despite robust demand, were affected by extended delivery periods caused by semiconductor shortages. As a result, net sales were down year-on-year, but orders and order backlog grew sharply. Profit fell below the year-ago level due to a rise in SG&A expenses. The rise in the SG&A expenses was attributed to an increase in sales activities (to win orders) amid brisk business negotiations.

In the Electronic Devices segment, advanced order placements and other arrangements by clients, a trend which had continued since the previous fiscal year, abated thanks to normalization of some production activities and improved supply and demand balance amid protracted global semiconductor shortages. Sales of semiconductors and electronic devices for factory automation equipment and industrial markets were robust, as were sales of power semiconductors for use in decarbonization/energy-saving products. As a result, while orders were down year-on-year, net sales and order backlog exceeded year-ago levels. Profit grew substantially year-on-year owing to higher net sales, notwithstanding an increase in SG&A expenses.

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

*Note regarding quarterly earnings for the Group

Many of the Group's customers have business years from April through March of 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 nine months of the fiscal year ending March 31, 2023, orders totaled ¥75,244 million (up 5.5% year-on-year), net sales were ¥60,454 million (down 0.2% YoY), and operating income was ¥640 million (down 26.2% year-on-year). Versus the same period of the previous fiscal year, orders grew but net sales and operating profit declined.

Results by business model

Equipment: Large orders accumulated, including those for smartphone for the financial industry and PCs for the telecommunications industry and medical institutions, but some projects were affected by extended delivery periods caused by semiconductor shortages. As a result, orders amounted to ¥32,359 million (up 12.9% year-on-year) and net sales were ¥20,922 million (down 1.8% year-on-year). While orders grew sharply versus the same period of the previous fiscal year, sales declined slightly.

Development and construction: Network construction projects for various clients operating in a range of industries, including the manufacturing and wholesale industries, continued to hold firm, but large orders for system development and IT infrastructure construction declined. Some orders were also affected by the shift to the cloud (transition to the service model). As a result, both orders and sales fell sharply versus the same period of the previous fiscal year, with orders at ¥10,306 million (down 10.3% year-on-year) and net sales ¥8,781 million (down 10.7% year-on-year).

Service: Despite the impact of the expiration of large service contracts for some clients in Q1, results were buoyed by growth in equipment maintenance services owing to an increase in equipment installation projects and strong performance of cloud services overall. As a result, orders and net sales grew versus the same period of the previous fiscal year, with orders amounting to ¥32,578 million (up 4.4% year-on-year) and net sales ¥30,750 million (up 4.4% year-on-year).

Profit declined year-on-year, due to higher SG&A expenses. The rise in the SG&A expenses was attributed to an increase in sales activities since the second quarter of the fiscal year under review accompanied by brisk business negotiations.

Electronic Devices

In the first three months of the fiscal year under review, orders were ¥25,331 million (down 6.7% year-on-year), net sales were ¥22,091 million (up 8.5% year-on-year), operating income was ¥740 million (up 63.2% year-on-year). Orders declined year-on-year, but net sales and operating income exceeded year-ago levels.

In the devices business, advanced order placements and other arrangement by clients, a trend which had continued since the previous fiscal year, abated as electronic devices for consumer products normalized and the supply and demand balance improved amid ongoing global semiconductor shortages. Meanwhile, sales of semiconductors and electronic components for factory automation equipment and the industrial market, as well as those of power semiconductors for battery equipment used in decarbonization/energy-saving products (electric vehicles, etc.), were robust. As a result, while orders fell below the year-ago levels, net sales grew substantially year-on-year.

In the systems business, orders held firm backed by increased demand for servers for industrial equipment. Sales of electronic components for servers and PCs were brisk, while sales of LCD panels for automotive equipment and SSDs declined due to the discontinuation of some products and production adjustments caused by semiconductor shortages. As a result, orders were up but net sales were down versus the same period of the previous fiscal year.

Profit grew sharply on the back of higher net sales, despite a rise in personnel expenses aimed at expanding existing businesses and establishing new business models.

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

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

	Third quarter, year ended March 2022	Third quarter, year ending March 2023		
			Versus third quarter of previous year	
Information Network Solutions	60,574	60,454	(120)	99.8%
Equipment	21,295	20,922	(373)	98.2%
Development and construction	9,833	8,781	(1,051)	89.3%
Service	29,446	30,750	1,304	104.4%
Electronic Devices	20,366	22,091	1,725	108.5%
Total	80,941	82,545	1,604	102.0%

Note: Inter-segment transactions are offset and eliminated.

(2) Orders by segment (millions of yen)

	Third quarter, year ended March 2022	Third quarter, year ending March 2023		
			Versus third quarter of previous year	
Information Network Solutions	71,335	75,244	3,909	105.5%
Equipment	28,653	32,359	3,705	112.9%
Development and construction	11,484	10,306	(1,178)	89.7%
Service	31,196	32,578	1,381	104.4%
Electronic Devices	27,145	25,331	(1,813)	93.3%
Total	98,480	100,576	2,096	102.1%

Note: Inter-segment transactions are offset and eliminated.

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

	Third quarter, year ended March 2022	Third quarter, year ending March 2023		
			Versus third quarter of previous year	
Information Network Solutions	25,345	32,064	6,719	126.5%
Equipment	16,183	21,755	5,571	134.4%
Development and construction	5,282	5,997	714	113.5%
Service	3,878	4,312	433	111.2%
Electronic Devices	14,661	19,676	5,015	134.2%
Total	40,006	51,741	11,734	129.3%

Note: Inter-segment transactions are offset and eliminated.

(2) Financial position

As of December 31, 2022, assets totaled ¥79,806 million, up ¥580 million from the end of the previous fiscal year. The main factors were increases of ¥8,508 million in inventory assets, ¥994 million in other current assets, and ¥199 million in electronically recorded monetary claims, partially offset by declines of ¥8,195 million in trade notes and accounts receivable and contract assets and ¥920 million in cash and deposits.

As of December 31, 2022, liabilities totaled ¥46,068 million, up ¥41 million from the end of the previous fiscal year. The decline was primarily attributed to decreases of ¥1,124 million in provision for bonuses and ¥987 million in income taxes payable, partially offset by an increase of ¥1,990 million in trade notes and accounts payable.

As of December 31, 2022, net assets totaled ¥33,738 million, up ¥538 million from the end of the previous fiscal year, and the shareholders' equity ratio was 41.8% (41.5% at the end of the previous fiscal year). The main factors were an increase in retained earnings due to the recording of ¥973 million in profit attributable to owners of parent, the disposal of treasury shares worth ¥252 million to grant shares to directors and employees under the stock benefit trust plan, and an increase of ¥121 million in remeasurements of defined benefit plans. These factors were partially offset by a decline in retained earnings due to the payment of dividends from surplus of ¥932 million.

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

The Company has maintained the consolidated earnings forecast announced on October 28, 2022, as earnings were largely in line with plan in the first nine months of the fiscal year under review.

2. Consolidated financial statements and notes

(1) Quarterly consolidated balance sheet

(Millions of yen)

	As of March 31, 2022	As of December 31, 2022
Assets		
Current assets		
Cash and deposits	19,162	18,241
Notes and accounts receivable – trade and contract assets	28,113	19,918
Electronically recorded monetary claims	4,645	4,845
Inventories	7,483	15,992
Other	1,861	2,855
Allowance for doubtful accounts	(70)	(7)
Total current assets	61,195	61,847
Noncurrent assets		
Property, plant and equipment		
Buildings and structures	2,145	2,140
Accumulated depreciation	(933)	(998)
Buildings and structures (net)	1,212	1,142
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	5,318
Accumulated depreciation	(3,330)	(3,475)
Lease assets (net)	1,820	1,842
Construction in progress	126	142
Other	1,177	1,196
Accumulated depreciation	(713)	(829)
Other (net)	463	366
Total property, plant and equipment	5,428	5,299
Intangible assets		
Goodwill	135	67
Lease assets	883	890
Other	2,053	2,061
Total intangible assets	3,072	3,020
Investments and other assets		
Investment securities	4,096	4,103
Long-term loans receivable	32	29
Deferred tax assets	4,204	4,381
Other	1,247	1,176
Allowance for doubtful accounts	(52)	(50)
Investments and other assets	9,528	9,640
Total noncurrent assets	18,030	17,959
Total assets	79,226	79,806

(Millions of yen)

	As of March 31, 2022	As of December 31, 2022
Liabilities		
Current liabilities		
Notes and accounts payable – trade	15,307	17,298
Short-term loans payable	5,137	5,159
Current portion of long-term loans payable	4,291	141
Lease obligations	1,267	1,178
Income taxes payable	1,268	280
Provision for bonuses	2,303	1,179
Other	5,310	6,152
Total current liabilities	34,886	31,388
Noncurrent liabilities		
Long-term loans payable	152	4,114
Lease obligations	1,658	1,726
Deferred tax liabilities	7	7
Net defined benefit liability	8,531	7,999
Long-term accounts payable – other	29	28
Other provision	629	647
Other	130	155
Total noncurrent liabilities	11,139	14,679
Total liabilities	46,026	46,068
Net assets		
Shareholders' equity		
Capital stock	9,812	9,812
Capital surplus	2,581	2,581
Retained earnings	23,018	23,060
Treasury stock	(2,257)	(2,010)
Total shareholders' equity	33,155	33,443
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	1,343	1,335
Deferred gains or losses on hedges	(37)	37
Foreign currency translation adjustment	145	172
Remeasurements of defined benefit plans	(1,760)	(1,638)
Total accumulated other comprehensive income	(307)	(91)
Noncontrolling interests	352	386
Total net assets	33,199	33,738
Total liabilities and net assets	79,226	79,806

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

(Millions of yen)

	Nine months ended December 31, 2021	Nine months ended December 31, 2022
Net sales	80,941	82,545
Cost of sales	65,927	66,934
Gross profit	15,013	15,610
Selling, general, and administrative expenses	13,674	14,203
Operating income	1,339	1,407
Non-operating income		
Interest income	3	4
Dividend income	103	97
Foreign exchange gains	33	40
Insurance income	58	42
Dividends income of insurance	67	73
Other	50	78
Total non-operating income	317	336
Non-operating expenses		
Interest expenses	94	87
Other	16	13
Total non-operating expenses	111	101
Ordinary income	1,545	1,642
Extraordinary income		
Gain on sales of investment securities	62	0
Total extraordinary income	62	0
Extraordinary loss		
Loss on retirement of noncurrent assets	1	4
Loss on sale of investment securities	0	—
Loss on valuation of investment securities	28	—
Total extraordinary losses	30	4
Income before income taxes and others	1,576	1,638
Income taxes	510	506
Net income	1,066	1,132
Profit attributable to noncontrolling interests	124	158
Profit attributable to owners of parent	941	973

(Quarterly consolidated statement of comprehensive income)

(Millions of yen)

	Nine months ended December 31, 2021	Nine months ended December 31, 2022
Net income	1,066	1,132
Other comprehensive income		
Valuation difference on available for sale securities	18	(7)
Deferred gains or losses on hedges	(13)	74
Foreign currency translation adjustment	35	27
Remeasurements of defined benefit plans	111	121
Other comprehensive income	152	215
Comprehensive income	1,218	1,348
Breakdown		
Comprehensive income attributable to owners of parent	1,093	1,189
Comprehensive income attributable to noncontrolling interests	124	158

(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 third quarter, and multiplying quarterly income before income taxes by the estimated effective tax rate.

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

(Changes in accounting policies)

(Application of Accounting Standard for Fair Value Measurement)

The Company applied the Implementation Guidance on Accounting Standard for Fair Value Measurement (ASBJ Statement No. 30, July 4, 2019, "Implementation Guidance of fair value standard" below) from the start of the first quarter. In accordance with the transitional treatment prescribed in paragraph 19 of the fair value standard and paragraph 44-2 of the Accounting Standard for Financial Instruments (ASBJ Statement No. 10, July 4, 2019), the new accounting policy prescribed in the fair value standard will be applied prospectively. There is no impact on the quarterly consolidated financial statements.

(Segment and other information)

Segment information

I Third quarter of previous year (April 1, 2021, to December 31, 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	60,574	20,366	80,941	—	80,941
Intersegment net sales and transfers	25	122	148	(148)	—
Total	60,600	20,489	81,089	(148)	80,941
Segment profit	867	453	1,321	18	1,339

Notes:

1 Adjustments to segment profit are elimination of intersegment transactions.

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

II Third quarter in current year (April 1, 2022, to December 31, 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	60,454	22,091	82,545	—	82,545
Intersegment net sales and transfers	19	140	160	(160)	—
Total	60,473	22,232	82,705	(160)	82,545
Segment profit	640	740	1,380	26	1,407

Notes:

1 Adjustments to segment profit are elimination of intersegment transactions.

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

(Significant subsequent events)

At a meeting held on January 27, 2023, the Company's board of directors resolved to transfer noncurrent assets of consolidated subsidiary Tsuzuki Embedded Solutions Co., Ltd. as below.

1. Overview of consolidated subsidiary

(1) Trade name	Tsuzuki Embedded Solutions Co., Ltd.
(2) Address	2-5-3 Nishishinbashi, Minato-ku, Tokyo
(3) Title and name of representative	President and Representative Director Masato Tozawa
(4) Business	Sales, maintenance, and support of ICT products, electronic devices, electronic components and other embedded products; sales of office supplies
(5) Capital	¥350 million

2. Reason for transfer

The Company decided to transfer noncurrent assets of Tsuzuki Embedded Solutions to effectively utilize management resources and increase asset efficiency.

3. Overview of noncurrent assets to be transferred

(1) Address	2-5-3 Nishishinbashi, Minato-ku, Tokyo
(2) Land area	476.47sqm
(3) Building floor area	1,792.62sqm
(4) Gain on transfer *	About ¥1,609 million
(5) Current status	Tokyo Office, Tsuzuki Embedded Solutions Co., Ltd.

The Company has not disclosed the transfer price, book value, etc. based on an agreement with the buyer, but will transfer the assets at an appropriate price reflective of the market price.

*Gain on transfer was calculated by subtracting the estimate of various expenses from the transfer price.

4. Overview of transferee (buyer)

The buyer is a corporation in Japan, but we have refrained from disclosing the identity of the buyer due to an agreement reached with the latter.

There is no capital, personal, or business relationship between the Group and the buyer, nor any related party to be disclosed of.

5. Timeline of transfer

(1) Date of board resolution	January 27, 2023
(2) Contract signing date (scheduled)	January 30, 2023
(3) Asset transfer date (scheduled)	September 29, 2023

6. Outlook

As a result of the transfer of noncurrent assets, the Company expects to record a gain on sales of noncurrent assets of ¥1,609 million as an extraordinary gain in the second quarter of the fiscal year ending March 31, 2024. Because the asset transfer is scheduled for September 2023, the transaction will have no impact on the consolidated earnings forecast for the fiscal year ending March 31, 2023.