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Consolidated Financial Results for the Nine Months Ended December 31, 2022 [Japanese GAAP]

February 7, 2023

Company name: Nippon Signal Co., Ltd.

Stock exchange listing: Tokyo

Code number: 6741

URL: <https://www.signal.co.jp>

Representative: Hidehiko Tsukamoto

President and CEO and COO

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Scheduled date of filing quarterly securities report: February 8, 2023

Scheduled date of commencing dividend payments: —

Availability of supplementary briefing material on quarterly financial results: Not available

Schedule of quarterly financial results briefing session: Not scheduled

(Amounts of less than one million yen are rounded down)

1. Consolidated Financial Results for the Nine Months Ended December 31, 2022 (April 1, 2022 to December 31, 2022)

(1) Consolidated Operating Results (% indicates changes from the previous corresponding period.)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
Nine months ended December 31, 2022	53,711	(1.6)	1,213	22.2	1,985	(1.3)	789	(24.7)
December 31, 2021	54,612	0.1	993	(40.4)	2,012	(12.0)	1,048	(43.4)

(Note) Comprehensive income: Nine months ended December 31, 2022: ¥ 1,860 million [— %]
 Nine months ended December 31, 2021: ¥ (1,227) million [— %]

	Basic earnings per share	Diluted earnings per share
Nine months ended	Yen	Yen
December 31, 2022	12.66	-
December 31, 2021	16.82	-

(2) Consolidated Financial Position

	Total assets	Net assets	Capital adequacy ratio
As of	Million yen	Million yen	%
December 31, 2022	138,844	86,916	62.6
March 31, 2022	134,086	86,740	64.7

(Reference) Equity: As of December 31, 2022: ¥ 86,916 million
 As of March 31, 2022: ¥ 86,740 million

2. Dividends

	Annual dividends				
	1st quarter-end	2nd quarter-end	3rd quarter-end	Year-end	Total
	Yen	Yen	Yen	Yen	Yen
Fiscal year ended March 31, 2022	-	7.00	-	20.00	27.00
Fiscal year ending March 31, 2023	-	7.00	-		
Fiscal year ending March 31, 2023 (Forecast)				20.00	27.00

(Note) Revision to the forecast for dividends announced most recently: None

3. Consolidated Financial Results Forecast for the Fiscal Year Ending March 31, 2023 (April 1, 2022 to March 31, 2023)

(% indicates changes from the previous corresponding period.)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent		Basic earnings per share
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen
Full year	95,000	11.7	7,000	29.9	7,800	19.3	5,200	15.5	83.37

(Note) Revision to the financial results forecast announced most recently: None

* Notes:

(1) Changes in significant subsidiaries during the period under review (changes in specified subsidiaries resulting in changes in scope of consolidation): No

(2) Accounting methods adopted particularly for the preparation of quarterly consolidated financial statements: Yes

(3) Changes in accounting policies, changes in accounting estimates and retrospective restatement

1) Changes in accounting policies due to the revision of accounting standards: Yes

2) Changes in accounting policies other than 1) above: No

3) Changes in accounting estimates: No

4) Retrospective restatement: No

(4) Total number of issued shares (common shares)

1) Total number of issued shares at the end of the period (including treasury shares):

As of December 31, 2022: 68,339,704 shares

As of March 31, 2022: 68,339,704 shares

2) Total number of treasury shares at the end of the period:

As of December 31, 2022: 5,968,270 shares

As of March 31, 2022: 5,968,067 shares

3) Average number of shares during the period:

Nine months ended December 31, 2022: 62,371,551 shares

Nine months ended December 31, 2021: 62,371,673 shares

* These quarterly consolidated financial results reports are exempt from quarterly review conducted by certified public accountants or an audit corporation.

* Proper use of earnings forecasts, and other special matters

The statements regarding forecast of financial results in this report are based on the information that is available to the Company, as well as certain assumptions that are deemed to be reasonable by management. Therefore, there might be cases in which actual results differ materially from forecast values due to various factors.

For the forecast of financial results, please refer to “1. Qualitative Information on Quarterly Financial Results, (3) Explanation of Consolidated Financial Results Forecast and Other Forward-looking Information” on page 4 of the Attachments.

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1. Qualitative Information on Quarterly Financial Results

(1) Explanation of Operating Results

During the nine months ended December 31, 2022 (April 1, 2022 to December 31, 2022), even with the COVID-19 pandemic easing to a certain extent, the global economy continued to face nagging concerns, including soaring energy prices and rising inflationary pressures around the world due to Russia's prolonged invasion of Ukraine, and a slowdown in economic activities in the wake of China's zero-COVID policy.

The Japanese economy has shown good signs, such as increased demand from international visitors, growing consumer consumption, and recovery in earnings of companies, following a travel discount program and the relaxation of border control measures against COVID-19 led by the Japanese Government. However, the outlook remains uncertain, with real income falling because of a surge in prices, and raw material prices soaring, among other factors.

Under these circumstances, the Group continues to solve social issues in Japan and overseas by supporting the evolution of infrastructure with safe and comfortable solutions and promote adaptation to changes in the business environment in the COVID-19 era, based on the second medium-term management plan "Next Stage 24" that began in FY2022.

In addition, as part of initiatives under the plan, we established a new company in Dhaka, the capital city of Bangladesh, in November 2022, as our fourth overseas site. We will engage in long-term business development in the country, where aggressive infrastructure investment is expected to continue, aiming to further expand business.

Moreover, we have been working on an ongoing basis to address the impact of the difficulty in obtaining semiconductor components on the production process by making design changes.

The Company's business results for the nine months ended December 31, 2022 were 79,313 million yen in orders received (up 52.2% year-on-year) and 53,711 million yen in net sales (down 1.6% year-on-year). Operating profit was 1,213 million yen (up 22.2% year-on-year), ordinary profit was 1,985 million yen (down 1.3% year-on-year), and profit attributable to owners of parent was 789 million yen (down 24.7% year-on-year).

An overview of the Company's business by segment is as follows.

[Transportation Infrastructure]

In Railway Signal Systems, we received orders and recorded sales of Automatic Train Control (ATC) systems and electronic interlocking devices as well as Centralized Traffic Control (CTC) systems, for railroad operators in the Japanese market.

As an initiative for the future, we are also pursuing development of products providing solutions to support customers' structural reforms in the COVID-19 era, and accelerating our business activities toward social implementation of Traio, a system to monitor the status of railway facilities.

In overseas markets, we received orders and recorded sales of Simple-structure and high-Performance ATC by Radio Communication System (SPARCS) in the Philippines, India, and China. We will contribute to the creation of comfortable and safe communities through traffic infrastructure by building a system that helps reduce train headway and save energy.

For Smart Mobility Systems, particularly Road Traffic Safety Systems, we received orders and recorded sales for MVNO (network provision service business) that are being rolled out across Japan and the renewal of traffic control systems.

As an initiative for the future, we are actively participating in various projects for verification testing of autonomous driving, which will enable us to continue to provide superior products both in terms of quality and cost.

As a result of the above, orders received were 50,151 million yen (up 78.2% year-on-year) and net sales were 28,588 million yen (down 6.1% year-on-year). Segment profit was 1,685 million yen (down 15.0% year-on-year).

[ICT Solutions]

In AFC, particularly Station Service Network Systems, in the domestic market, we received orders for and recorded sales of various types of platform doors and ticket vending machines.

As an initiative for the future, we will work to introduce platform doors on the back of a plan to accelerate the promotion of barrier-free facilities at train stations led by the Ministry of Land, Infrastructure, Transport and Tourism, and also to develop products and services that support digital ticketing and electronic payment as solutions for seamless travel.

In overseas markets, we received orders and recorded sales for AFC systems and platform doors and others in Bangladesh and Egypt.

In Smart City Systems, particularly Security Solution Systems, we received orders for and recorded sales of various types of security products and robot products, mainly 3D sensors to be installed in platform doors, construction machinery, and farm equipment.

As an initiative for the future, we have been promoting the development of multiple handling vehicle, which is a humanoid robot for railway work in high places, since March 2021, and working toward its social implementation with the aim of eliminating heavy labor and dangerous work on site, which is a social issue.

As a result of the above, orders received were 29,161 million yen (up 21.6% year-on-year) and net sales were 25,123 million yen (up 3.9% year-on-year). Segment profit was 2,085 million yen (up 49.7% year-on-year).

(2) Explanation of Financial Position

(i) Assets, Liabilities and Net Assets

Total assets as of December 31, 2022 were 138,844 million yen, an increase of 4,757 million yen from the end of the previous fiscal year, mainly due to an 8,253 million yen increase in inventories, a 2,697 million yen increase in cash and deposits, and a 2,291 million yen increase in investment securities due in part to a rise in fair value, despite a 9,484 million yen decrease in notes and accounts receivable - trade, and contract assets.

Liabilities increased by 4,581 million yen compared with the end of the previous fiscal year to 51,927 million yen, mainly due to a 5,419 million yen increase in short-term borrowings, despite a 1,232 million yen decrease in notes and accounts payable - trade.

Net assets were 86,916 million yen, an increase of 176 million yen compared with the end of the previous fiscal year, mainly due to a 789 million yen profit attributable to owners of parent for the quarter and a 1,089 million yen in valuation difference on available-for-sale securities, despite a 1,684 million yen decrease in retained earnings from dividends.

(ii) Cash Flows

The balance of cash and cash equivalents (“cash”) as of December 31, 2022 totaled 9,053 million yen, an increase of 2,708 million yen from the end of the previous fiscal year.

Cash flows in each area of activity during the nine months ended December 31, 2022 are as follows.

(Cash flows from operating activities)

Net cash provided by operating activities was 1,523 million yen, compared with a cash inflow of 3,566 million yen in the same period of the previous fiscal year. The principal cash inflow factor was a decrease in trade receivables, despite an increase in inventories.

(Cash flows from investing activities)

Net cash used in investing activities was 2,397 million yen, compared with a cash outflow of 1,575 million yen in the same period of the previous fiscal year. The principal cash outflow factor was the acquisition of property, plant and equipment and investment securities.

(Cash flow from financing activities)

Net cash provided by financing activities was 3,592 million yen, compared with a cash outflow of 7,740 million yen in the same period of the previous fiscal year. The principal cash inflow factor was an increase in cash from short-term borrowings, despite dividend payments.

(3) Explanation of Consolidated Financial Results Forecast and Other Forward-looking Information

There are no revisions to the full-year consolidated earnings forecast for the fiscal year ending March 31, 2023 (April 1, 2022 to March 31, 2023) announced on May 10, 2022.

Among the Group's main businesses, Railway Signal Systems and Smart Mobility Systems in the Transportation Infrastructure segment and AFC in the ICT Solutions segment tend to have a higher proportion of the Group's sales at the end of each fiscal year, as capital investment by domestic railroad operators, which are our major customers, and public investment by police and other entities are the main drivers.

2. Quarterly Consolidated Financial Statements and Principal Notes

(1) Quarterly Consolidated Balance Sheets

(Million yen)

	As of March 31, 2022	As of December 31, 2022
Assets		
Current assets		
Cash and deposits	6,397	9,095
Notes and accounts receivable - trade, and contract assets	60,698	51,213
Electronically recorded monetary claims - operating	1,188	1,523
Merchandise and finished goods	3,774	6,460
Work in process	9,110	12,571
Raw materials and supplies	3,436	5,543
Other	2,052	3,497
Allowance for doubtful accounts	(1)	(1)
Total current assets	86,657	89,904
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	6,796	6,573
Machinery, equipment and vehicles, net	1,055	1,071
Tools, furniture and fixtures, net	1,560	1,603
Land	5,488	5,488
Leased assets, net	89	80
Construction in progress	1,621	1,329
Total property, plant and equipment	16,611	16,146
Intangible assets	1,900	1,804
Investments and other assets		
Investment securities	23,435	25,726
Long-term loans receivable	2	2
Retirement benefit asset	2,551	2,640
Deferred tax assets	1,273	851
Other	1,677	1,788
Allowance for doubtful accounts	(23)	(20)
Total investments and other assets	28,916	30,989
Total non-current assets	47,429	48,939
Total assets	134,086	138,844

(Million yen)

	As of March 31, 2022	As of December 31, 2022
Liabilities		
Current liabilities		
Notes and accounts payable - trade	10,367	9,134
Electronically recorded obligations - operating	4,231	3,988
Short-term borrowings	11,782	17,201
Lease liabilities	61	88
Income taxes payable	886	445
Provision for bonuses	2,603	1,287
Provision for loss on orders received	676	476
Other	6,428	8,871
Total current liabilities	37,037	41,494
Non-current liabilities		
Long-term deposits received	99	99
Long-term accounts payable - other	52	29
Lease liabilities	109	90
Deferred tax liabilities	602	612
Retirement benefit liability	9,444	9,602
Total non-current liabilities	10,307	10,432
Total liabilities	47,345	51,927
Net assets		
Shareholders' equity		
Share capital	10,000	10,000
Capital surplus	7,585	7,585
Retained earnings	65,806	64,912
Treasury shares	(6,570)	(6,571)
Total shareholders' equity	76,821	75,926
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	9,805	10,895
Remeasurements of defined benefit plans	114	94
Total accumulated other comprehensive income	9,919	10,990
Total net assets	86,740	86,916
Total liabilities and net assets	134,086	138,844

(2) Quarterly Consolidated Statements of Income and Comprehensive Income

Nine Months Ended December 31

(Million yen)

	For the nine months ended December 31, 2021	For the nine months ended December 31, 2022
Net sales	54,612	53,711
Cost of sales	43,297	41,678
Gross profit	11,315	12,033
Selling, general and administrative expenses	10,322	10,820
Operating profit	993	1,213
Non-operating income		
Interest income	0	0
Dividend income	480	443
Dividend income of life insurance	145	155
Rental income from real estate	234	234
Nursing services income	22	14
Other	251	64
Total non-operating income	1,135	912
Non-operating expenses		
Interest expenses	26	30
Rental expenses on real estate	36	38
Taxes and dues	22	18
Nursing services expense	30	26
Other	0	27
Total non-operating expenses	116	141
Ordinary profit	2,012	1,985
Extraordinary income		
Gain on sale of non-current assets	0	0
Gain on sale of investment securities	—	0
Total extraordinary income	0	0
Extraordinary losses		
Loss on sale and retirement of non-current assets	3	2
Loss on valuation of investment securities	0	—
Loss on valuation of golf club membership	—	12
Total extraordinary losses	4	15
Profit before income taxes	2,008	1,969
Income taxes	959	1,180
Profit	1,048	789
(Details)		
Profit attributable to owners of parent	1,048	789

(Million yen)

	For the nine months ended December 31, 2021	For the nine months ended December 31, 2022
Other comprehensive income		
Valuation difference on available-for-sale securities	(2,361)	1,089
Remeasurements of defined benefit plans, net of tax	85	(19)
Total other comprehensive income	(2,276)	1,070
Comprehensive income	(1,227)	1,860
(Details)		
Comprehensive income attributable to owners of parent	(1,227)	1,860

(3) Quarterly Consolidated Statements of Cash Flows

(Million yen)

	For the nine months ended December 31, 2021	For the nine months ended December 31, 2022
Cash flows from operating activities		
Profit before income taxes	2,008	1,969
Depreciation	1,589	1,764
Loss (gain) on sale and retirement of non-current assets	3	2
Loss (gain) on sale of investment securities	—	(0)
Interest and dividend income	(481)	(444)
Interest expenses	26	30
Decrease (increase) in trade receivables	10,360	9,150
Decrease (increase) in inventories	(402)	(8,253)
Increase (decrease) in trade payables	(5,119)	(1,425)
Increase (decrease) in contract liabilities	(678)	2,625
Increase (decrease) in retirement benefit liability	341	170
Other, net	(2,850)	(3,470)
Subtotal	4,797	2,118
Interest and dividends received	481	444
Interest paid	(26)	(30)
Income taxes paid	(1,685)	(1,123)
Income taxes refund	—	114
Net cash provided by (used in) operating activities	3,566	1,523
Cash flows from investing activities		
Payments into time deposits	(46)	(38)
Proceeds from withdrawal of time deposits	49	49
Purchase of property, plant and equipment	(1,229)	(1,095)
Purchase of intangible assets	(297)	(393)
Purchase of investment securities	(92)	(754)
Proceeds from sale of investment securities	0	0
Other, net	39	(165)
Net cash provided by (used in) investing activities	(1,575)	(2,397)
Cash flows from financing activities		
Net increase (decrease) in short-term borrowings	(5,923)	5,400
Proceeds from deposits received from an affiliated company	—	40
Proceeds from deposits received from an unaffiliated entity	(130)	(100)
Repayments of lease liabilities	(5)	(65)
Dividends paid	(1,681)	(1,681)
Decrease (increase) in treasury shares	(0)	(0)
Net cash provided by (used in) financing activities	(7,740)	3,592
Effect of exchange rate change on cash and cash equivalents	17	(9)
Net increase (decrease) in cash and cash equivalents	(5,732)	2,708
Cash and cash equivalents at beginning of period	13,250	6,344
Increase in cash and cash equivalents resulting from merger with unconsolidated subsidiaries	37	—
Cash and cash equivalents at end of period	7,556	9,053

(4) Notes to Quarterly Consolidated Financial Statements

(Notes on going concern assumption)

Not applicable

(Notes in case of significant changes in shareholders' equity)

Not applicable

(Accounting methods adopted particularly for the preparation of quarterly consolidated financial statements)

(Deferral of cost variances)

Cost variances arising from seasonally fluctuating operating rates are expected to be mostly eliminated by the end of the cost accounting period (end of the fiscal year or the second quarter of the fiscal year); therefore, such cost variances are deferred as current assets (other) at the end of the third quarter of the fiscal year under review.

(Calculation of tax expenses)

Tax expenses are calculated by reasonably estimating the effective tax rate after applying tax effect accounting to profit before income taxes for the consolidated fiscal year, including the third quarter of the fiscal year under review, and multiplying income/loss before income taxes for the quarter by the estimated effective tax rate.

(Changes in accounting policies)

The Company has adopted the "Implementation Guidance on Accounting Standard for Fair Value Measurement" (ASBJ Guidance No. 31, June 17, 2021; hereinafter "Fair Value Measurement Guidance") from the beginning of the first quarter of the fiscal year under review, and will prospectively apply the new accounting policies stipulated by the Fair Value Measurement Guidance in accordance with the transitional treatment provided in Paragraph 27-2 of the Fair Value Measurement Guidance. This adoption has no effect on the quarterly consolidated financial statements.

(Segment information, etc.)

[Segment information]

I For the nine months ended December 31, 2021 (from April 1, 2021 to December 31, 2021)

Information on net sales and profit (loss) by reportable segment and classification of revenues

(Millions of yen)

	Reportable segment			Adjustments (Note 1)	Quarterly consolidated statements of income and comprehensive income (Note 2)
	Transportation Infrastructure	ICT Solutions	Total		
Net sales					
Net sales to external customers	30,431	24,181	54,612	—	54,612
Intersegment internal sales or transfers	—	—	—	—	—
Total	30,431	24,181	54,612	—	54,612
Goods or services transferred at a point in time	7,796	8,243	16,039	—	16,039
Goods or services transferred over time	22,635	15,937	38,573	—	38,573
Total	30,431	24,181	54,612	—	54,612
Segment profit	1,983	1,393	3,376	(2,383)	993

Notes: 1. Adjustments of (2,383) million yen in segment profit represent corporate expenses that are not allocated to reportable segments. Corporate expenses are primarily expenses of the administration divisions of the parent company's headquarters that are not attributable to any of the reportable segments.

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

II For the nine months ended December 31, 2022 (from April 1, 2022 to December 31, 2022)

Information on net sales and profit (loss) by reportable segment and classification of revenues

(Millions of yen)

	Reportable segment			Adjustments (Note 1)	Quarterly consolidated statements of income and comprehensive income (Note 2)
	Transportation Infrastructure	ICT Solutions	Total		
Net sales					
Net sales to external customers	28,588	25,123	53,711	—	53,711
Intersegment internal sales or transfers	—	—	—	—	—
Total	28,588	25,123	53,711	—	53,711
Goods or services transferred at a point in time	7,126	7,778	14,904	—	14,904
Goods or services transferred over time	21,462	17,345	38,807	—	38,807
Total	28,588	25,123	53,711	—	53,711
Segment profit	1,685	2,085	3,771	(2,557)	1,213

Notes: 1. Adjustments of (2,557) million yen in segment profit represent corporate expenses that are not allocated to reportable segments. Corporate expenses are primarily expenses of the administration divisions of the parent company's headquarters that are not attributable to any of the reportable segments.

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