Consolidated Financial Results for the Third Quarter of the Fiscal Year Ending March 31, 2022 (JGAAP)

January 28, 2022

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Stock code: 8157 URL: https://www.tsuzuki.co.jp/
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Scheduled date for quarterly report submission: February 4, 2022
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, 2022 (April 1, 2021, to December 31, 2021)

(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	
Third quarter, year ending March 31, 2022	80,941	1.4	1,339	389.6 %	1,545	268.4 %	941	367.0 %
Third quarter, year ended March 31, 2021	79,858	(6.3)	273	(82.8 %)	419	(75.6 %)	201	(82.0 %)

Note: Comprehensive income was 1,218 million yen (+62.1 %) in the third quarter of year ending March 31, 2022; 751 million yen (-39.2%) in third quarter of year ended March 31, 2021.

	Earnings per share (yen)	Diluted earnings per share (yen)
Third quarter, year ending March 31, 2022	53.38	—
Third quarter, year ended March 31, 2021	11.53	—

(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, 2022	73,409	31,587	42.6%	1,767.53
Year ended March 31, 2021	76,200	31,171	40.6%	1,760.87

Reference: Shareholders' equity at the third quarter of year ending March 31, 2022; 31,288 million yen; in year ended March 31, 2021; 30,934 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, 2021	—	15.00	—	31.00	46.00
Year ending March 31, 2022	—	23.00			
Year ending March 31, 2022 (forecast)			—	24.00	47.00

Note: Revisions to most recent dividend forecast: None

3. Forecast of consolidated financial results for the fiscal year ending March 31, 2022 (April 1, 2021, to March 31, 2022)

% 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	122,000	1.7%	4,000	24.9%	4,050	20.5%	2,700	15.1%	152.94

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, 2022	20,177,894	Year ended March 31, 2021	20,177,894
2. Number of shares at year end (treasury stock)	Third quarter, year ending March 31, 2022	2,476,163	Year ended March 31, 2021	2,610,056
3. Average number of shares over the period	Third quarter, year ending March 31, 2022	17,637,843	Third quarter, year ended March 31, 2021	17,482,814

Note: The number of treasury shares includes those held in the Employee Stock Ownership Plan (ESOP) trust account (133,800 in the third quarter of year ending March 2022; 210,100 in year ended March 2021), Directors’ Compensation Board Incentive Plan (BIP) trust account (346,034 in the third quarter of year ending March 2022; 380,905 in year ended March 2021); and Stock-grant ESOP trust account (463,576 in the third quarter of year ending March 2022; 486,750 in year ended March 2021).

*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.

Content of attachment

1. Qualitative information on quarterly results

(1) Earnings

In the first nine months of the fiscal year ending March 2022, the Japanese economy showed signs of recovery from the impact of the COVID-19 pandemic, but the situation continued to be severe due partly to the spread of virus variants. The outlook remains uncertain, and downside risks to the economy posed by supply-side constraints must continue to be monitored closely.

Our group belongs to the information and communications services industry. While we expect ICT demand to continue to grow driven by various digital transformation (DX) initiatives, including pandemic-induced changes in work practices, there is no room for optimism as some companies continue to constrain their ICT capex due to deteriorating earnings. The electronic device industry performed well as semiconductor demand grew further due to a shift toward electric vehicles in the automobile industry and growing investment in data centers.

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 see the COVID-19 pandemic as a turning point, and are continuing with initiatives aimed at sustainable growth and enhancing corporate value by reforming our business structure and strengthening our management base. During the third quarter of the current fiscal year, our group announced the Total SolutionService Framework (TSF), a new service framework aimed at helping customers rapidly achieve digital transformation. Under this new framework, we released three new services, including DagreeX, an integrated management service for electronic contracts and vouchers. In addition, we have started collaborations with JIG-SAW Inc. and Nextgen, Inc.

In the first nine months of the fiscal year, the Group posted net sales of ¥80,941 million (up 1.4% year-on-year), operating income of ¥1,339 million (up 389.6 % year-on-year), ordinary income of ¥1,545 million (up 268.4 % year-on-year), and profit attributable to owners of parent of ¥941 million (up 367.0 % year-on-year).

In the Information Network Solutions segment, the service business including cloud services grew steadily, while the development and construction business also remained firm. However, orders and net sales were below year-earlier levels as large projects and GIGA School Concept-related orders that contributed in the previous year dropped out, and computer orders declined as remote working related demand ran its course. Furthermore, delivery delays caused by semiconductor shortages dragged performance. Meanwhile, profit grew significantly year-on-year on improved cost of sales for development and construction projects and equipment orders as well as on profit from growing service sales.

In the Electronic Devices segment, both orders and net sales significantly exceeded year-earlier levels. Following on from the second quarter, robust demand in the factory automation (FA) equipment, industrial equipment, and automotive industries continued to drive strong results. Demand was especially strong for semiconductors, as well as onboard automotive information devices and HDDs used in consumer electronics. Profit also rose substantially year-on-year due to sales growth and cost cuts.

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 Third quarter of the fiscal year ending March 31, 2022, the Information Network Solutions business booked orders of ¥71,335 million (down 4.0% year-on-year), net sales of ¥60,574 million (down 5.2% year-on-year), and operating income of ¥867 million (up 432.0% year-on-year). While orders and net sales were down on the year earlier, operating profit increased significantly.

Results by business model

Equipment: In the equipment business, we made progress in installing tablets and PCs for customers in the financial industry and public sector. However, the business was affected by the absence of large orders and GIGA School Concept-related orders seen in the same period a year earlier and lower orders for PCs used for teleworking, as well as some delivery delays due to the semiconductor shortage. As a result, both orders and net sales were down significantly from a year earlier, totaling ¥28,653 million (down 16.7% year-on-year) and ¥21,295 million (down 21.7% year-on-year), respectively.

Development and construction: Although sales from large development and construction projects fell slightly compared to the same period a year earlier, network and speech recognition platform construction projects remained robust and demand for small- and medium-sized system development projects increased. Consequently, results were up substantially compared to the same period in the previous year, with orders of ¥11,484 million (down 8.0% year-on-year) and net sales of ¥9,833 million (down 6.3% year-on-year). There were also signs of lower sales due to the shift to the service model (LCM services)

Service: Following on from the second quarter, the business posted significant growth from contracts for LCM services and growth in cloud-based contact center services. As a result, orders totaled ¥31,196 million (up 6.5% year-on-year) and net sales were ¥29,446 million (up 7.2% year-on-year).

Profit increased significantly from year-earlier levels. In addition to improved cost of sales in development and construction projects and equipment contracts, increased service sales from cloud-based contact center and other services contributed to profit.

Electronic Devices

The Electronic Devices segment booked orders of ¥27,145 million (up 60.6% year-on-year), net sales of ¥20,366 million (up 27.7% year-on-year), and operating income of ¥453 million (up 310.9% year-on-year). Orders, net sales, and operating income all significantly surpassed year-earlier levels. Orders in particular grew sharply as efforts to secure components accelerated during the global semiconductor shortage following on from the second quarter.

In the devices business, orders and sales were strong. In addition to strong demand in the factory automation (FA) equipment and industrial equipment industries in Japan and overseas, sales of custom LSIs, power semiconductors, and electronic components were robust thanks to expanding demand for electric vehicles. Furthermore, customers made progress in strategically securing components in response to the prolonged component shortage.

In the systems business, orders and net sales grew significantly. Although the component shortage led to difficulties in securing server-related products, demand for LCD panels and SSDs for onboard automotive information devices and HDDs used in consumer electronics continued to increase.

Profit grew sharply from the same period a year ago. In both the devices and systems businesses, there was a positive impact from higher sales as we worked to procure volume amid a tight supply of components. In addition, lower costs attributable to holding efficient online meetings with customers and suppliers in light of the pandemic, as well as teleworking among employees, contributed to higher profits.

The following tables show sales and orders by segment in the third quarter of the fiscal year ending March, 2022.

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

		Third quarter, year ended March 2021	Third quarter, year ending March 2022		
				Versus third quarter of previous year	
Information Network Solutions		63,908	60,574	(3,333)	94.8%
	Equipment	27,182	21,295	(5,887)	78.3%
	Development and construction	9,246	9,833	586	106.3%
	Service	27,479	29,446	1,967	107.2%
Electronic Devices		15,950	20,366	4,415	127.7%
Total		79,858	80,941	1,082	101.4%

Note: Inter-segment transactions are offset and eliminated.

(2) Orders by segment (millions of yen)

		Third quarter, year ended March 2021	Third quarter, year ending March 2022		
				Versus third quarter of previous year	
Information Network Solutions		74,330	71,335	(2,994)	96.0%
	Equipment	34,400	28,653	(5,746)	83.3%
	Development and construction	10,631	11,484	853	108.0%
	Service	29,298	31,196	1,898	106.5%
Electronic Devices		16,906	27,145	10,238	160.6%
Total		91,236	98,480	7,243	107.9%

Note: Inter-segment transactions are offset and eliminated.

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

		Third quarter, year ended March 2021	Third quarter, year ending March 2022		
				Versus third quarter of previous year	
Information Network Solutions		25,720	25,345	(375)	98.5%
	Equipment	16,516	16,183	(332)	98.0%
	Development and construction	5,237	5,282	44	100.9%
	Service	3,966	3,878	(87)	97.8%
Electronic Devices		6,472	14,661	8,189	226.5%
Total		32,193	40,006	7,813	124.3%

Note: Inter-segment transactions are offset and eliminated.

(2) Financial position

Assets totaled ¥73,409 million at the end of the quarter under review, down by ¥2,791 million from the end of the previous fiscal year. The main factors were a decline of ¥6,995 million in trade notes and accounts receivable and contract assets, and an increase of ¥3,949 million in inventory assets.

Liabilities totaled ¥41,822 million at the end of the quarter, down by ¥3,207 million from the end of the previous year. The main factor was a decline of ¥3,958 million in trade notes and accounts payable.

Net assets totaled ¥31,587 million at the end of the quarter, increasing ¥416 million from the end of the previous year, and the shareholders' equity ratio was 42.6% (40.6% at the end of the previous year). The main factors in the increase were the disposal of treasury stock for ¥189 million due to the transfer of shares under the stock-grant schemes for directors and employees, and an increase of ¥111 million yen in remeasurements of defined benefit plans.

Due to the application of the Accounting Standard for Revenue Recognition, retained earnings at the start of the year increased by ¥76 million.

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

In the first nine months of the fiscal year, the Group's business performance was largely in line with initial expectations, helped by changes in the environment such as lifting of declarations of state of emergency and quasi-state of emergency, which eased restrictions on sales activities.

However, the outlook for the global economy remains uncertain owing to the spread of COVID-19 variants. As such, there is no change to the consolidated earnings outlook for the year ending March 2022 announced on May 14, 2021.

The Company will promptly inform our stakeholders if material matters arise due to a change in the COVID-19 situation or other factors.

2. Consolidated financial statements and notes

(1) Quarterly consolidated balance sheet

(Millions of yen)

	As of March 31, 2021	As of December 31, 2021
Assets		
Current assets		
Cash and deposits	15,944	16,008
Notes and accounts receivable – trade	27,948	—
Notes and accounts receivable – trade and contract assets	—	20,952
Electronically recorded monetary claims	3,817	4,158
Inventories	7,619	11,569
Income taxes receivable	98	—
Other	1,390	2,027
Allowance for doubtful accounts	(77)	(73)
Total current assets	56,740	54,643
Noncurrent assets		
Property, plant and equipment		
Buildings and structures	1,696	2,132
Accumulated depreciation	(891)	(909)
Buildings and structures (net)	805	1,222
Machinery, equipment and vehicles	7	7
Accumulated depreciation	(6)	(6)
Machinery, equipment and vehicles (net)	1	1
Land	1,769	1,804
Lease assets	5,777	5,740
Accumulated depreciation	(3,240)	(3,687)
Lease assets (net)	2,536	2,053
Construction in progress	821	121
Other	1,006	1,151
Accumulated depreciation	(676)	(672)
Other (net)	329	478
Total property, plant and equipment	6,264	5,682
Intangible assets		
Goodwill	226	158
Lease assets	549	951
Other	2,191	2,108
Total intangible assets	2,967	3,217
Investments and other assets		
Investment securities	4,766	4,447
Long-term loans receivable	34	33
Deferred tax assets	4,131	4,181
Other	1,377	1,257
Allowance for doubtful accounts	(81)	(53)
Investments and other assets	10,228	9,866
Total noncurrent assets	19,460	18,766
Total assets	76,200	73,409

(Millions of yen)

	As of March 31, 2021	As of December 31, 2021
Liabilities		
Current liabilities		
Notes and accounts payable – trade	15,875	11,917
Short-term loans payable	4,894	5,529
Current portion of long-term loans payable	161	4,261
Lease obligations	1,428	1,371
Income taxes payable	241	482
Provision for bonuses	2,415	1,130
Provision for loss on order received		1
Other	5,020	6,128
Total current liabilities	30,037	30,822
Noncurrent liabilities		
Long-term loans payable	4,443	190
Lease obligations	1,921	1,866
Deferred tax liabilities	7	6
Net defined benefit liability	7,959	8,136
Long-term accounts payable – other	26	26
Other provision	548	635
Other	82	136
Total noncurrent liabilities	14,991	10,999
Total liabilities	45,029	41,822
Net assets		
Shareholders' equity		
Capital stock	9,812	9,812
Capital surplus	2,581	2,581
Retained earnings	21,150	21,163
Treasury stock	(2,472)	(2,284)
Total shareholders' equity	31,072	31,273
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	1,485	1,504
Deferred gains or losses on hedges	(3)	(16)
Foreign currency translation adjustment	52	87
Remeasurements of defined benefit plans	(1,672)	(1,560)
Total accumulated other comprehensive income	(137)	14
Noncontrolling interests	236	299
Total net assets	31,171	31,587
Total liabilities and net assets	76,200	73,409

(2) Quarterly consolidated statements of income and comprehensive income

(Quarterly consolidated statement of income)

(Millions of yen)

	Nine months ended December 31, 2020	Nine months ended December 31, 2021
Net sales	79,858	80,941
Cost of sales	66,141	65,927
Gross profit	13,717	15,013
Selling, general, and administrative expenses	13,444	13,674
Operating income	273	1,339
Non-operating income		
Interest income	1	3
Dividend income	96	103
Foreign exchange gains	—	33
Insurance income	—	58
Dividends income of insurance	123	67
Other	47	50
Total non-operating income	269	317
Non-operating expenses		
Interest expenses	93	94
Foreign exchange losses	14	–
Other	15	16
Total non-operating expenses	123	111
Ordinary income	419	1,545
Extraordinary income		
Gain on step acquisitions	13	–
Gain on sales of investment securities	36	62
Total extraordinary income	49	62
Extraordinary loss		
Loss on retirement of noncurrent assets	4	1
Loss on sale of investment securities	0	0
Loss on valuation of investment securities	107	28
Total extraordinary losses	112	30
Income before income taxes and others	356	1,576
Income taxes	119	510
Net income	237	1,066
Profit attributable to noncontrolling interests	35	124
Profit attributable to owners of parent	201	941

(Quarterly consolidated statement of comprehensive income)

(Millions of yen)

	Nine months ended December 31, 2020	Nine months ended December 31, 2021
Net income	237	1,066
Other comprehensive income		
Valuation difference on available for sale securities	502	18
Deferred gains or losses on hedges	(3)	(13)
Foreign currency translation adjustment	(12)	35
Remeasurements of defined benefit plans	28	111
Other comprehensive income	514	152
Comprehensive income	751	1,218
Breakdown		
Comprehensive income attributable to owners of parent	716	1,093
Comprehensive income attributable to noncontrolling interests	35	124

(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 Revenue Recognition)

The Company began applying the Accounting Standard for Revenue Recognition (ASBJ Statement No. 29, March 31, 2020, “revenue recognition standard” below) from the start of the first quarter. The Company recognizes revenue when control of promised goods or services is transferred to the customer, in the amount expected to be received in exchange for the goods or services.

Previously, the Company applied the percentage of completion method for systems development contracts when the outcome was deemed certain. However the Company has changed its revenue recognition method. Now, when control over goods or services is transferred to the customer over a certain period, the Company recognizes revenue for that period as its obligation to transfer the goods or services to the customer is satisfied. To measure the progress toward fulfilling obligations for each reporting period, costs incurred until the last day of the period as a percentage of total expected costs are calculated. Also, when it is not possible to reasonably estimate progress in the initial phase of a contract, but the Company expects to recover costs incurred, the Company recognizes revenue under the cost recovery method. For contracts with a very short period from the start of the transaction until the obligation is expected to be fully satisfied, the Company applies an alternative treatment under which revenue is not recognized for a set period but only when the obligation is fully satisfied.

The Company has applied the revenue recognition standard in accordance with transitional treatment prescribed in the proviso to paragraph 84 of the Accounting Standard for Revenue Recognition. The cumulative effect of retroactively applying the new accounting policy prior to the beginning of the first quarter was added to or deducted from retained earnings at the beginning of the first quarter, and the new accounting policy was applied from the opening balance at the start of the first quarter. However, the Company has followed the treatment prescribed in paragraph 86 of the Accounting Standard for Revenue Recognition, and did not retrospectively apply the new accounting policy to contracts for which almost all of the revenue was recognized under the previous treatment before the start of the first quarter. In addition, the Company has applied the treatment prescribed in proviso 1 of paragraph 86 of the Accounting Standard for Revenue Recognition and accounted for contract changes made before the beginning of the first quarter based on the contract terms after reflecting all contract changes, and added or subtracted the cumulative effect of such changes to retained earnings at the beginning of the first quarter.

As a result, third quarter net sales increased by ¥1,276 million, cost of sales increased by ¥1,027 million, and operating income, ordinary income, and income before income taxes each increased by ¥247 million. Retained earnings at the start of the year increased by ¥76 million. Because the Company applied the revenue recognition standard, what was displayed as “Notes and accounts receivable – trade” under the current assets section of the previous year’s balance sheet is “Notes and accounts receivable – trade, and contract assets” in the current year. Further, in accordance with the transitional treatment prescribed in paragraph 89-2 of the Accounting Standard for

Revenue Recognition, the prior year's consolidated financial statements have not been reclassified to conform to the new presentation.

(Application of Accounting Standard for Fair Value Measurement)

The Company applied the Accounting Standard for Fair Value Measurement (ASBJ Statement No. 30, July 4, 2019, “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, 2020, to **December 31**, 2020)

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	63,908	15,950	79,858	—	79,858
Intersegment net sales and transfers	4	152	156	(156)	—
Total	63,912	16,102	80,015	(156)	79,858
Segment profit	163	110	273	0	273

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, 2021, to **December 31**, 2021)

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	60,574	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.

2. Notes relating to changes in reporting segments, etc.

As noted in the section on accounting policy changes, the Company changed its accounting policy and applied the Accounting Standard for Revenue Recognition from the start of the first quarter, and segment profit and loss calculation methods have changed accordingly.

Due to the above changes, compared with the previous accounting treatment, Information Network Solutions net sales increased by ¥1,276 million and segment profit by ¥247 million.