



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

July 30, 2021

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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, 2022 (April 1, 2021, to June 30, 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	
	Amount	% change	Amount	% change	Amount	% change	Amount	% change
First quarter, year ending March 31, 2022	24,821	5.0%	(262)	—	(230)	—	(244)	—
First quarter, year ended March 31, 2021	23,642	7.2%	(869)	—	(841)	—	(672)	—

Note: Comprehensive income was (75) million yen (—%) in first quarter of year ending March 31, 2022; (421) million yen (—%) in first quarter of year ended March 31, 2021.

	Earnings per share (yen)	Diluted earnings per share (yen)
First quarter, year ending March 31, 2022	(13.89)	—
First quarter, year ended March 31, 2021	(38.53)	—

(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, 2022	72,774	30,582	41.7%	1,725.07
Year ended March 31, 2021	76,200	31,171	40.6%	1,760.87

Reference: Shareholders' equity at first quarter, year ending March 31, 2022; 30,365 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	—				
Year ending March 31, 2022 (forecast)		23.00	—	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%	153.43

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)	First 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)	First quarter, year ending March 31, 2022	2,575,444	Year ended March 31, 2021	2,610,056
3. Average number of shares over the period	First quarter, year ending March 31, 2022	17,582,961	First quarter, year ended March 31, 2021	17,439,953

Note: The number of treasury shares includes those held in the Employee Stock Ownership Plan (ESOP) trust account (186,300 in first quarter, year ending March 2022; 210,100 in year ended March 2021), Directors' Compensation Board Incentive Plan (BIP) trust account (377,196 in first quarter, year ending March 2022; 380,905 in year ended March 2021); and Stock-grant ESOP trust account (479,500 in first quarter, 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 achieve. 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 quarter of the fiscal year ending March 2022, economic conditions in Japan remained severe, despite some recovery from the impact of the COVID-19 pandemic. While there are prospects for an economic recovery as vaccine administration progresses, development in the pandemic have a significant impact on the Japanese and overseas economies, and the outlook remains uncertain.

Our group belongs to the information and communications services industry. While growing ICT demand is in prospect as factors such as changing work styles due to COVID-19 accelerate moves toward digital transformation (DX), some companies continue to constrain their ICT capex due to deteriorating earnings, so optimism is unwarranted. In the electronic device industry, conditions are strong as semiconductor demand is growing further due to a recovery 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 initiatives of client companies and become 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.

In the first quarter of the second year of our plan, the Group posted net sales of ¥24,821 million (up 5.0% year-on-year), operating loss of ¥262 million (operating loss of ¥869 million in year earlier), ordinary loss of ¥230 million (ordinary loss of ¥841 million in year earlier), and loss attributable to owners of parent of ¥244 million (loss of ¥672 million in year earlier).

In the Information Network Solutions segment, orders and net sales were below the year-earlier levels. Service sales increased, and we won projects to strengthen networks, enhance security, and build contact centers due to growing demand during the pandemic. However, large projects that contributed in the previous year dropped out, and computer orders declined as demand associated with remote working ran its course. On the profit front, we exceeded year-earlier levels as gross profit grew due to improved cost of sales for equipment orders and improved utilization rate for engineers as development and construction projects increased. Results also benefited from the consolidation of ComDesign Inc., which became a subsidiary on September 30, 2020.

In the Electronic Devices segment, both orders and net sales significantly exceeded year-earlier levels. In addition to growing demand for onboard automotive information devices and semiconductors, the business benefited from special Olympics-related demand. Profit also increased on the year earlier due to sales growth and cost cuts.

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

The Information Network Solutions business booked orders of ¥25,007 million (down 1.7% year-on-year), net sales of ¥18,376 million (down 4.8% year-on-year), and operating loss of ¥359 million (operating loss of ¥872 million in year earlier). While orders and net sales were down on the year earlier, the operating loss narrowed significantly.

Results by business model

Equipment: Although the business won orders for PCs for the public sector and financial industry, there was a reactionary drop-off compared to first quarter of the year ended March 2021, which featured several large orders. Furthermore, a sharp upswing in PC orders driven by remote working demand during the pandemic ran its course last year. Therefore, orders significantly declined over the year earlier. Orders totaled ¥10,073 million (down 12.7% year-on-year) and net sales ¥6,027 million (down 30.0% year-on-year).

Development and construction: Many customers made progress in remote working arrangements (moving online), leading to increased demand for expanded networks and enhanced security, and negotiations for associated projects increased. Work had been delayed and orders had been postponed due to the pandemic last year, but progressed smoothly in the latest quarter, contributing to net sales. However, orders for large projects received in the first quarter last year for systems development and infrastructure building dropped out. Orders also declined due to a shift to the life cycle management (LCM) service model for some customers. As a result, orders totaled ¥2,815 million (down 22.8% year-on-year) and net sales ¥2,474 million (up 9.4% year-on-year).

Service: In addition to growth in LCM service and cloud service business, the consolidation of ComDesign Inc. contributed to significant growth in orders and net sales. Orders totaled ¥12,119 million (up 18.2% year-on-year) and net sales ¥9,874 million (up 17.0% year-on-year).

Profit exceeded year-earlier levels. The cost of sales for equipment orders improved (in the year ended March 2021, large equipment orders accepted for strategic purposes pushed up the cost of sales) and gross profit increased on improved utilization rate for engineers thanks to growth in development and construction projects. Profit also benefited from the consolidation of ComDesign Inc., which was consolidated in October 2020.

Electronic Devices

The Electronic Devices segment booked orders of ¥8,349 million (up 86.6% year-on-year), net sales of ¥6,444 million (up 48.7% year-on-year), and operating income of ¥95 million (operating loss of ¥42 million in year earlier). Orders, sales, and operating income all improved significantly on the year earlier. Orders in particular posted a significant increase amid an ongoing acceleration in efforts to secure products during the global semiconductor shortage.

In the devices business, following recoveries in the factory automation (FA) equipment and automotive industries, the Group saw increased demand for semiconductors and other electronic components among customers. Amid a global semiconductor shortage, net sales in Japan and overseas were strong as we focused to secure supplies.

In the systems business, there was increased demand for LCD panels for on-board automotive information devices and SSD products. The Olympics sparked a sharp increase in demand for HDDs used in Blu-ray disc recorders and other consumer electronics. Orders and net sales were strong.

Profit grew sharply on the year earlier due to higher sales and lower costs as the Company used teleworking and curtailed business trips in Japan and overseas during the pandemic.

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

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

	First quarter, year ended March 2021	First quarter, year ending March 2022		
			Versus first quarter of previous year	
Information Network Solutions	19,309	18,376	(932)	95.2%
Equipment	8,608	6,027	(2,581)	70.0%
Development and construction	2,262	2,474	212	109.4%
Service	8,437	9,874	1,436	117.0%
Electronic Devices	4,333	6,444	2,111	148.7%
Total	23,642	24,821	1,178	105.0%

Note:

1 Inter-segment transactions are offset and eliminated.

2 The above figures do not include consumption tax.

(2) Orders by segment (millions of yen)

	First quarter, year ended March 2021	First quarter, year ending March 2022		
			Versus first quarter of previous year	
Information Network Solutions	25,444	25,007	(436)	98.3%
Equipment	11,541	10,073	(1,468)	87.3%
Development and construction	3,645	2,815	(830)	77.2%
Service	10,256	12,119	1,862	118.2%
Electronic Devices	4,473	8,349	3,875	186.6%
Total	29,918	33,357	3,439	111.5%

Note:

1 Inter-segment transactions are offset and eliminated.

2 The above figures do not include consumption tax.

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

	First quarter, year ended March 2021	First quarter, year ending March 2022		
			Versus first quarter of previous year	
Information Network Solutions	21,434	21,216	(217)	99.0%
Equipment	12,304	12,871	567	104.6%
Development and construction	5,107	3,971	(1,136)	77.8%
Service	4,022	4,373	350	108.7%
Electronic Devices	5,656	9,787	4,130	173.0%
Total	27,091	31,003	3,912	114.4%

Note:

1 Inter-segment transactions are offset and eliminated.

2 The above figures do not include consumption tax.

(2) Financial position

Assets totaled ¥72,774 million at the end of the quarter under review, down by ¥3,426 million from the end of the previous fiscal year. The main factors were a ¥9,935 million decline in trade notes and accounts receivable and contract assets, a ¥5,175 million increase in cash and deposits, and a ¥579 million increase in inventory assets.

Liabilities totaled ¥42,191 million at the end of the quarter, down by ¥2,837 million from the end of the previous year. The main factor was a ¥5,745 million decline in trade notes and accounts payable.

Net assets totaled ¥30,582 million at the end of the quarter, down by ¥589 million from the end of the previous year, and the shareholders' equity ratio was 41.7% (40.6% at the end of the previous year). The main factor in the decline was a reduction in retained earnings of ¥578 million due to the payment of dividends from surplus.

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

Emergency declarations and measures to prevent the spread of COVID-19 are being issued continuously, raising concerns that extended self-restraint on going out will continue to constrain marketing activities. However, events have unfolded largely in line with expectations at the beginning of the fiscal year, so 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 coronavirus 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 June 30, 2021
Assets		
Current assets		
Cash and deposits	15,944	21,120
Notes and accounts receivable – trade	27,948	–
Notes and accounts receivable – trade and contract assets	–	18,013
Electronically recorded monetary claims	3,817	3,947
Inventories	7,619	8,198
Income taxes receivable	98	163
Other	1,390	1,633
Allowance for doubtful accounts	(77)	(77)
Total current assets	56,740	52,999
Noncurrent assets		
Property, plant and equipment		
Buildings and structures	1,696	1,947
Accumulated depreciation	(891)	(906)
Buildings and structures (net)	805	1,040
Machinery, equipment and vehicles	7	7
Accumulated depreciation	(6)	(6)
Machinery, equipment and vehicles (net)	1	1
Land	1,769	1,769
Lease assets	5,777	6,083
Accumulated depreciation	(3,240)	(3,504)
Lease assets (net)	2,536	2,579
Construction in progress	821	143
Other	1,006	1,149
Accumulated depreciation	(676)	(717)
Other (net)	329	432
Total property, plant and equipment	6,264	5,965
Intangible assets		
Goodwill	226	203
Lease assets	549	930
Other	2,191	2,269
Total intangible assets	2,967	3,403
Investments and other assets		
Investment securities	4,766	4,874
Long-term loans receivable	34	33
Deferred tax assets	4,131	4,225
Other	1,377	1,329
Allowance for doubtful accounts	(81)	(56)
Investments and other assets	10,228	10,405
Total noncurrent assets	19,460	19,775
Total assets	76,200	72,774

(Millions of yen)

	As of March 31, 2021	As of June 30, 2021
Liabilities		
Current liabilities		
Notes and accounts payable – trade	15,875	10,130
Short-term loans payable	4,894	5,198
Current portion of long-term loans payable	161	161
Lease obligations	1,428	1,510
Income taxes payable	241	73
Provision for bonuses	2,415	1,271
Other	5,020	8,385
Total current liabilities	30,037	26,730
Noncurrent liabilities		
Long-term loans payable	4,443	4,370
Lease obligations	1,921	2,256
Deferred tax liabilities	7	6
Net defined benefit liability	7,959	8,065
Long-term accounts payable – other	26	26
Other provision	548	614
Other	82	121
Total noncurrent liabilities	14,991	15,460
Total liabilities	45,029	42,191
Net assets		
Shareholders' equity		
Capital stock	9,812	9,812
Capital surplus	2,581	2,581
Retained earnings	21,150	20,405
Treasury stock	(2,472)	(2,422)
Total shareholders' equity	31,072	30,376
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	1,485	1,574
Deferred gains or losses on hedges	(3)	(2)
Foreign currency translation adjustment	52	52
Remeasurements of defined benefit plans	(1,672)	(1,635)
Total accumulated other comprehensive income	(137)	(11)
Noncontrolling interests	236	216
Total net assets	31,171	30,582
Total liabilities and net assets	76,200	72,774

(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, 2020	Three months ended June 30, 2021
Net sales	23,642	24,821
Cost of sales	20,080	20,659
Gross profit	3,561	4,161
Selling, general, and administrative expenses	4,431	4,424
Operating income (loss)	(869)	(262)
Non-operating income		
Interest income	0	0
Dividend income	45	48
Foreign exchange gains	—	4
Other	15	13
Total non-operating income	61	67
Non-operating expenses		
Interest expenses	31	32
Foreign exchange losses	0	—
Other	1	3
Total non-operating expenses	32	35
Ordinary income (loss)	(841)	(230)
Extraordinary loss		
Loss on retirement of noncurrent assets	3	—
Loss on valuation of investment securities	62	29
Total extraordinary losses	66	29
Income (loss) before income taxes and others	(907)	(260)
Income taxes	(235)	(58)
Profit (loss)	(672)	(201)
Profit attributable to noncontrolling interests	—	42
Profit (loss) attributable to owners of parent	(672)	(244)

(Quarterly consolidated statement of comprehensive income)

First quarter

(Millions of yen)

	Three months ended June 30, 2020	Three months ended June 30, 2021
Profit (loss)	(672)	(201)
Other comprehensive income		
Valuation difference on available for sale securities	249	88
Deferred gains or losses on hedges	(0)	0
Foreign currency translation adjustment	(5)	(0)
Remeasurements of defined benefit plans	6	37
Other comprehensive income	250	126
Comprehensive income	(421)	(75)
Breakdown		
Comprehensive income attributable to owners of parent	(421)	(118)
Comprehensive income attributable to noncontrolling interests	—	42

(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.

(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 quarter under review. 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 quarter under review was added to or deducted from retained earnings at the beginning of the quarter, and the new accounting policy was applied from the opening balance at the start of the 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 quarter under review. 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 quarter under review 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, first quarter net sales increased by ¥134 million, cost of sales increased by ¥116 million, and operating income, ordinary income, and income before income taxes each increased by ¥18 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 First quarter of previous year (April 1, 2020, to June 30, 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	19,309	4,333	23,642	—	23,642
Intersegment net sales and transfers	0	63	63	(63)	—
Total	19,309	4,396	23,705	(63)	23,642
Segment profit (loss)	(827)	(42)	(870)	0	(869)

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, 2021, to June 30, 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	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.

3 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.

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

Due to the above changes, compared with the previous accounting treatment, Information Network Solutions net sales increased by ¥134 million and segment profit by ¥18 million.