

Consolidated Financial Results for the Six Months Ended December 31, 2022 (Japanese GAAP)

February 14, 2023

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Scheduled date to file quarterly securities report: February 14, 2023
 Scheduled date for dividend payment: March 6, 2023
 Preparation of supplemental explanatory materials: Yes
 Results briefing to be held: Yes (For securities analysts and institutional investors)

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

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

(1) Consolidated operating results

(Percentages indicate YoY changes)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
Six months ended December 31, 2022	23,318	1.6	4,871	(2.8)	5,110	(3.8)	3,823	0.4
Six months ended December 31, 2021	22,958	(1.4)	5,012	7.3	5,313	13.1	3,809	18.4

Note: Comprehensive income for the six months ended December 31, 2022 was 3,515 million yen (Δ 16.6% YoY).
 Comprehensive income for the six months ended December 31, 2021 was 4,216 million yen (39.3% YoY).

	Earnings per share	Diluted earnings per share
	Yen	Yen
Six months ended December 31, 2022	80.73	—
Six months ended December 31, 2021	80.45	—

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio	Net assets per share
	Million yen	Million yen	%	Yen
As of December 31, 2022	77,137	63,193	81.6	1,334.32
As of June 30, 2022	75,418	61,337	81.2	1,295.11

Reference: Equity capital amounted to 62,961 million yen as of December 31, 2022 and 61,255 million yen as of June 30, 2022.

2. Dividends

	Annual dividend per share				
	End of Q1	End of Q2	End of Q3	Year-end	Total
Fiscal year ended June 30, 2022	Yen —	Yen 25.00	Yen —	Yen 35.00	Yen 60.00
Fiscal year ended June 30, 2023	—	35.00			
Fiscal year ending June 30, 2023 (forecast)			—	40.00	75.00

(Note) Revisions to the most recently announced dividend forecast during the period: None

3. Consolidated Earnings Forecast for the Fiscal Year Ending June 30, 2023 (July 1, 2022 to June 30, 2023)

(Percentages indicate YoY change)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent		Earnings per share
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen
Full-year	48,000	2.0	10,300	4.6	10,700	(1.4)	8,000	3.4	168.92

(Note) Revisions to the most recently announced financial forecast during the period: None

*Notes

(1) Changes in significant subsidiaries during the period under review: None
(Transfers of specified subsidiaries associated with changes in the Company's scope of consolidation)

(2) Application of special accounting methods for preparing quarterly consolidated financial statements: None

(3) Changes in accounting policies and accounting estimates and retrospective restatements

- Accounting policy changes due to accounting standard revisions, etc.: Yes
- Other accounting policy changes: None
- Changes in accounting estimates: None
- Retrospective restatements: None

(4) Number of shares outstanding (common stock)

1. Shares outstanding (including treasury shares) at the end of the period	As of December 31, 2022	56,590,410	As of June 30, 2022	56,590,410
2. Treasury shares outstanding at the end of the period	As of December 31, 2022	9,230,157	As of June 30, 2022	9,229,915
3. Average number of shares outstanding during the period	Six months ended December 31, 2022	47,360,329	Six months ended December 31, 2021	47,358,055

*Summaries of quarterly financial statements are not subject to audit through certified public accountants or auditing corporations.

*Appropriate use of earnings forecast and other special notes

(Notes on forward-looking statements, etc.)

The forward-looking statements including the forecasts for the financial results contained in this document are based on information currently available to the Company and certain assumptions that the Company deems to be reasonable, and actual results may differ from such statements due to a variety of factors. For the conditions assumed for the results forecasts and notes on the use of such forecasts, please refer to "1. Qualitative Analysis of Quarterly Financial Results, (3) Consolidated Financial Forecasts and Other Forward-Looking Statements on page 3 of the Accompanying Materials

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1. Qualitative Analysis of Quarterly Financial Results

(1) Explanation of Operating Results

During the Second quarter of the fiscal year ending June 30, 2023, amid concerns about the 8th wave of COVID-19, the outlook for the Japanese economy remained uncertain due to factors such as the volatility in the exchange rate under the influence of the interest rate policies of Japan and the United States, rising worldwide inflation, difficulties in procuring semiconductor components and other electronic components, economic slowdowns in Europe, the United States, and China, and the prolonged war between Russia and Ukraine.

In this economic environment, the Group reacted quickly and flexibly to changes in the business environment, strengthened and improved its internal systems with an eye toward efficiency and profitability, and promoted profit-oriented management.

As a result, for the Second quarter of the fiscal year ending June 30, 2023, net sales were 23,318 million yen (+1.6% YoY), operating profit was 4,871 million yen (-2.8% YoY), ordinary profit was 5,110 million yen (-3.8% YoY), and profit attributable to owners of parent was 3,823 million yen (+0.4% YoY).

Segment results were as follows.

1. Security Equipment

In the Security Equipment business, net sales amounted to 6,926 million yen (+1.5% YoY) and segment profit was 2,881 million yen (+0.9% YoY), due to steady renewal of agreements for use of the Company's security systems and new orders for condominium, as well as robust sales to corporate clients.

2. Card Equipment and Other Office Equipment

In the Card Equipment and Other Office Equipment business, sales activities to hospitals and financial institutions, the main customers for card equipment, remained strong. Segment results, however, were impacted by the Company's sale of shares of two group companies to Matica Fintec; in June 2022, the Company sold the shares of Card Technology Corporation, a US sub-subsidiary, and NBS Technologies Limited, a UK sub-subsidiary, to Matica Fintec. As a result, net sales were 1,562 million yen (-22.2% YoY) and segment profit was 404 million yen (-1.2% YoY).

3. Peripheral Computer Equipment

In the Peripheral Computer Equipment business, both sales and profits were affected by difficulties in procuring semiconductor components and other electronic components, as well as the economic slowdown in Europe and in the US, the primary sales destinations for small cutting machines. As a result, net sales were 8,300 million yen (-3.9% YoY) and segment profit was 1,162 million yen (-16.8% YoY).

4. Design

In the Design business, the Company shifted its revenue focus from seismic diagnosis to structural design. As a result, net sales totaled 2,284 million yen (+2.0% YoY) and segment profit was 124 million yen (+0.2% YoY).

(2) Explanation of Financial Position

Total assets as of December 31, 2022 were 77,137 million yen, an increase of 1,719 million yen from the end of the previous consolidated fiscal year. This was mainly due to increases of 1,767 million in merchandise and finished goods, 1,401 million yen in notes and accounts receivable-trade, and contract assets, 1,404 million yen in investment securities under non-current assets, partially offset by decreases of 1,020 million yen in cash and deposits under current assets and 2,230 million yen in accounts receivable-other included in other. These changes mainly reflect an increase in inventory at Graphtec and receipt of shares as consideration for M&A projects.

Total liabilities amounted to 13,943 million yen, a decrease of 137 million yen from the end of the previous consolidated fiscal year. This was primarily due to a decrease of 918 million yen in income taxes payable under current liabilities, partially offset by an increase of 753 million yen in notes and accounts payable-trade under current liabilities. These changes mainly reflect the payment of income taxes and an increase in notes and accounts-payable trade due to increased inventories.

Net assets totaled 63,193 million yen, an increase of 1,856 million yen from the end of the previous consolidated fiscal year. This was chiefly due to the recording of 3,823 million yen in profit attributable to owners of parent, 1,657 million yen in dividends paid, and decrease of 151 million yen in foreign currency translation adjustment resulting from the strong yen. As a result, the equity ratio rose to 81.6%, up from 81.2% at the end of the previous consolidated fiscal year.

(Cash Flows)

Cash and cash equivalents ("cash") as of December 31, 2022 amounted to 34,968 million yen, a decrease of 1,467 million yen from the end of the previous consolidated fiscal year, and adding an increase of 445 million yen in cash and cash equivalents resulting from inclusion of subsidiaries in consolidation, the total was 35,413 million yen.

The status of each cash flow category during the six months ended December 31, 2022 and the factors contributing to them are outlined below.

(Cash flows from operating activities)

Net cash provided by operating activities was 284 million yen (in the previous fiscal year, net cash inflow of 3,305 million yen). The principal sources of cash were 5,256 million yen in profit before income taxes, 437 million yen in depreciation and amortization, and 834 million yen from an increase in trade payables, which were offset in part by 1,417 million yen from an increase in trade receivables, 2,114 million yen from an increase in inventories, and 2,421 million yen in income taxes paid.

(Cash flows from investing activities)

Net cash used in investing activities was 28 million yen (in the previous fiscal year, net cash outflow of 402 million yen). The main uses of cash were 640 million yen in purchase of investment securities, 259 million yen in payments of loans receivable, 341 million yen in purchase of shares of subsidiaries and associates, 245 million yen in purchase of property, plant and equipment, which were offset in part by 640 million yen in proceeds from sale of investment securities.

(Cash flows from financing activities)

Net cash used in financing activities was 1,659 million yen (in the previous fiscal year, net cash outflow of 1,177 million yen). The primary use of cash was 1,655 million yen for dividends paid.

(3) Consolidated Financial Forecasts and Other Forward-Looking Statements

The Company has made no change to its consolidated earnings forecast announced in Consolidated Financial Results for the Fiscal Year Ended June 30, 2022, dated August 19, 2022. Should any revisions be made to the earnings forecast, the Company will promptly disclose such revisions.

2. Quarterly Consolidated Financial Statements and Principal Notes

(1) Quarterly Consolidated Balance Sheet

(Millions of yen)

	Fiscal year ended June 30, 2022 (as of June 30, 2022)	Six months ended December 31, 2022 (as of December 31, 2022)
Assets		
Current assets		
Cash and deposits	36,483	35,463
Notes and accounts receivable - trade, and contract assets	7,049	8,450
Investments in leases	846	853
Merchandise and finished goods	5,651	7,419
Work in process	99	121
Costs on uncompleted construction contracts	62	40
Raw materials and supplies	631	909
Other	4,829	2,258
Allowance for doubtful accounts	(140)	(14)
Total current assets	55,513	55,502
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	1,754	1,707
Land	6,052	6,052
Other	1,772	1,721
Total property, plant and equipment	9,579	9,481
Intangible assets		
Goodwill	1,566	1,690
Other	285	265
Total intangible assets	1,852	1,956
Investments and other assets		
Investment securities	1,685	3,090
Shares of subsidiaries and associates	5,034	5,225
Other	1,839	1,967
Allowance for doubtful accounts	(86)	(86)
Total investments and other assets	8,473	10,197
Total non-current assets	19,905	21,635
Total assets	75,418	77,137

(Millions of yen)

	Fiscal year ended June 30, 2022 (as of June 30, 2022)	Six months ended December 31, 2022 (as of December 31, 2022)
Liabilities		
Current liabilities		
Notes and accounts payable - trade	3,951	4,704
Lease liabilities	446	443
Income taxes payable	1,842	924
Provision for bonuses	174	162
Provision for product warranties	12	12
Provision for loss on orders received	1	6
Liabilities related to paid supply transactions	166	232
Other	3,861	4,042
Total current liabilities	10,457	10,529
Non-current liabilities		
Lease liabilities	986	965
Net defined benefit liability	1,385	1,371
Other	1,251	1,077
Total non-current liabilities	3,623	3,414
Total liabilities	14,081	13,943
Net assets		
Shareholders' equity		
Capital stock	5,000	5,000
Capital surplus	9,048	9,065
Retained earnings	49,927	51,911
Treasury shares	(4,704)	(4,705)
Total shareholders' equity	59,270	61,271
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	210	65
Foreign currency translation adjustment	1,761	1,610
Remeasurements of defined benefit plans	12	13
Total accumulated other comprehensive income	1,984	1,689
Non-controlling interests	81	232
Total net assets	61,337	63,193
Total liabilities and net assets	75,418	77,137

(2) Quarterly Consolidated Statement of Income and Comprehensive Income

Quarterly Consolidated Statement of Income

(Millions of yen)

	Six months ended December 31, 2021 (from July 1, 2021 to December 31, 2021)	Six months ended December 31, 2022 (from July 1, 2021 to December 31, 2022)
Net sales	22,958	23,318
Cost of sales	11,760	11,850
Gross profit	11,198	11,468
Selling, general and administrative expenses		
Director's compensations	170	204
Payroll and allowance	2,053	2,157
Bonuses	396	424
Provision for bonuses	144	139
Defined benefit expenses	114	85
Other	3,306	3,585
Total selling, general and administrative expenses	6,185	6,596
Operating profit	5,012	4,871
Non-operating income		
Interest income	11	33
Dividend income	1	9
Share of profit of entities accounted for using equity method	180	210
Foreign exchange gains	127	—
Other	17	38
Total non-operating income	337	292
Non-operating expenses		
Interest expenses	2	1
Foreign exchange losses	—	19
Customs duties for prior periods	30	—
Commission expenses	—	30
Other	4	2
Total non-operating expenses	36	54
Ordinary profit	5,313	5,110
Extraordinary income		
Gain on sale of investment securities	59	0
Gain on sale of non-current assets	—	1
Gain on sale of shares of subsidiaries	—	4
Reversal of allowance for doubtful accounts	—	60
Gain on bad debts recovered	—	98
Total extraordinary income	59	164
Extraordinary losses		
Loss on retirement of non-current assets	0	16
Business restructuring expenses	38	—
Loss on disaster	2	2
Total extraordinary losses	40	19
Profit before income taxes	5,332	5,256
Income taxes – current	1,503	1,517
Income taxes – deferred	12	(71)
Total income taxes	1,516	1,445
Profit	3,816	3,810
Profit (loss) attributable to non-controlling interests	6	(13)
Profit attributable to owners of parent	3,809	3,823

Quarterly Consolidated Statement of Comprehensive Income

(Millions of yen)

	Six months ended December 31, 2021 (from July 1, 2021 to December 30, 2021)	Six months ended December 31, 2022 (from July 1, 2022 to December 30, 2022)
Profit	3,816	3,810
Other comprehensive income		
Valuation difference on available-for-sale securities	(50)	(127)
Foreign currency translation adjustment	352	(282)
Remeasurements of defined benefit plans, net of tax	1	0
Share of other comprehensive income of entities accounted for using equity method	97	114
Total other comprehensive income	400	(295)
Comprehensive income	4,216	3,515
(Breakdown)		
Comprehensive income attributable to owners of parent	4,210	3,528
Comprehensive income attributable to non-controlling interests	6	(13)

(3) Quarterly Consolidated Statement of Cash Flows

	(Millions of yen)	
	Six months ended December 31, 2021 (from July 1, 2021 to December 30, 2021)	Six months ended December 31, 2022 (from July 1, 2022 to December 30, 2022)
Cash flows from operating activities		
Profit before income taxes	5,332	5,256
Depreciation	433	437
Amortization of goodwill	82	82
Loss (gain) on sale of investment securities	(59)	—
Increase (decrease) in provision for product warranties	7	0
Increase (decrease) in allowance for doubtful accounts	—	△125
Increase (decrease) in provision for bonuses	4	(12)
Increase (decrease) in provision for loss on orders received	(13)	—
Interest and dividend income	(12)	(33)
Interest expenses	2	1
Share of loss (profit) of entities accounted for using equity method	(180)	(210)
Decrease (increase) in trade receivables	(981)	(1,417)
Decrease (increase) in inventories	(450)	(2,114)
Increase (decrease) in trade payables	(29)	834
Increase (decrease) in accounts payable - other	22	(285)
Increase (decrease) in advances received	(98)	(8)
Decrease (increase) in investments in leases	(6)	(7)
Other	380	194
Subtotal	4,432	2,590
Interest and dividends received	112	101
Interest paid	(2)	(1)
Income taxes paid	(1,247)	(2,421)
Income taxes refund	11	15
Net cash provided by (used in) operating activities	3,305	284
Cash flows from investing activities		
Payments into time deposits	(35)	—
Proceeds from withdrawal of time deposits	35	—
Proceeds from sale of investment securities	61	640
Purchase of property, plant and equipment	(351)	(245)
Purchase of intangible assets	(8)	(18)
Purchase of investment securities	(40)	(0)
Proceeds from sale of shares of subsidiaries not resulting in change in scope of consolidation	—	165
Purchase of shares of subsidiaries and associates	—	(341)
Payments of loans receivable	(100)	(259)
Proceeds from collection of loans receivable	4	79
Other	32	8
Net cash provided by (used in) investing activities	(402)	28

	(Millions of yen)	
	Six months ended December 31, 2021 (from July 1, 2021 to December 31, 2021)	Six months ended December 31, 2022 (from July 1, 2022 to December 31, 2022)
Cash flows from financing activities		
Dividends paid	(1,088)	(1,655)
Other	(88)	(3)
Net cash provided by (used in) financing activities	(1,177)	(1,659)
Effect of exchange rate change on cash and cash equivalents	226	(121)
Net increase (decrease) in cash and cash equivalents	1,952	(1,467)
Cash and cash equivalents at beginning of period	32,012	36,435
Increase in cash and cash equivalents resulting from inclusion of subsidiaries in consolidation	—	445
Cash and cash equivalents at end of period	33,964	35,413

(4) Primary Notes on Consolidated Financial Statements

(Notes to going concern assumptions)

None to be reported.

(Changes in scope of consolidation and application of the equity method)

(1) Significant changes in scope of consolidation

Effective from the first quarter of the current fiscal year, Winglet Systems Inc., and Social Area Networks Co., Ltd., are included in scope of consolidation due to their increased importance.

(2) Significant changes in scope of application of the equity method

None to be reported.

(Significant changes in the amount of shareholders' equity)

None to be reported.

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

None to be reported.

(Changes in accounting policies)

(Application of Revised Implementation Guidance on Accounting Standard for Fair Value Measurement)

The Company adopted the Revised Implementation Guidance on Accounting Standard for Fair Value Measurement (ASBJ Guidance No. 31, June 17, 2021, hereinafter referred to as the "Guidance on Accounting Standard for Fair Value Measurement") from the beginning of the first quarter of the current fiscal year under review. The new accounting policy prescribed by the Guidance on Accounting Standard for Fair Value Measurement is applied prospectively in accordance with the transitional treatment prescribed in Section 27-2. This change had no impact on results recorded in the quarterly consolidated financial statements.

(Changes in accounting estimates)

None to be reported.

(Changes in presentation)

(Notes to consolidated quarterly statement of cash flows)

In our quarterly consolidated statement of cash flows, "Depreciation and amortization of goodwill" and "Increase (decrease) in accounts payable - other" have become more significant. To provide greater clarity, we have separated these items from "Other" under "Cash flows from operating activities" starting in the first half of the current fiscal year. As a result of this change in presentation, the "Other" category of 485 million yen in the quarterly consolidated statement of cash flows for the six months ended December 31, 2022 has been reclassified as 82 million yen for "Amortization of goodwill," 22 million yen for "Increase (decrease) in accounts payable - other," and 380 million yen for "Other."

(Additional information)

(1) Impact of COVID-19 pandemic on the application of accounting estimates

No significant changes were made to the accounting estimates and assumptions underlying such estimates used in the Company's securities report for the previous fiscal year, specifically in the management's discussion and analysis of financial position, operating results, and cash flows.

(2) Application of the Practical Solution on the Accounting and Disclosure Under the Group Tax Sharing System

Effective from the first quarter of the current fiscal year, the Company and some of its subsidiaries transitioned from a consolidated taxation system to a group tax sharing system. Consequently, the accounting treatment and disclosure of corporate and local income taxes and tax effect accounting has been implemented in accordance with the Practical

Solution on the Accounting and Disclosure Under the Group Tax Sharing System (PITF No. 42, August 12, 2021). Furthermore, in accordance with Paragraph 32 (1) of the PITF No. 42, the Company has deemed that there is no impact on financial results reported in the period under review from the change in accounting policy resulting from the application of the PITF No. 42.

(Segment Information)

[Segment Information]

Second quarter of the fiscal year ending June 30, 2022 (from July 1 to December 31, 2021)

1. Sales, profit or loss for each reportable segment

(Millions of yen)

	Reportable segments					Other*1	Adjustments *2	Amount recorded in consolidated financial statements * 3
	Security Equipment	Card Equipment and Other Office Equipment	Peripheral Computer Equipment	Design	Total			
Sales								
Sales generated through external customers	6,825	2,009	8,634	2,240	19,709	3,248	-	22,958
Intersegment sales and transfers	68	22	19	1	111	47	△ 158	-
Total	6,893	2,031	8,654	2,241	19,821	3,295	△ 158	22,958
Segment profit (or loss)	2,854	408	1,398	124	4,785	257	△ 31	5,012

Notes: 1. "Other" is a business segment not included in the reportable segments and includes the manufacture and sale of card readers and automatic wet hand towel dispensers; development and sale of software; maintenance services for security equipment, card equipment, etc.; lease and installment sales business; development, manufacture and sale of measuring equipment and metal testing equipment; and others.

2. In "Segment profit (loss)", (31 million yen) includes intersegment eliminations of (5 million yen) and company-wide amount of (25 million yen) that is not allocated to each reportable segment.

3. "Segment profit (loss)" is adjusted based on operating profit in the quarterly consolidated statement of income.

2. Information regarding impairment loss on non-current assets and goodwill by reportable segment

(Significant impairment loss associated with non-current assets)

None to be reported.

(Significant changes in amount of goodwill)

None to be reported.

(Significant gains on negative goodwill)

None to be reported.

Second quarter of the fiscal year ending June 30, 2023 (from July 1 to December 31, 2022)

1. Sales, profit or loss for each reportable segment

	Reportable segments					Other*1	Adjustments *2	Amount recorded in consolidated financial statements * 3
	Security Equipment	Card Equipment and Other Office Equipment	Peripheral Computer Equipment	Design	Total			
Sales								
Sales generated through external customers	6,926	1,562	8,300	2,284	19,074	4,243	—	23,318
Intersegment sales and transfers	66	15	9	0	92	41	△133	—
Total	6,993	1,578	8,309	2,285	19,166	4,285	△133	23,318
Segment profit	2,881	404	1,162	124	4,572	233	65	4,871

Notes: 1. "Other" is a business segment not included in the reportable segments and includes the development, manufacture, and sale of power and energy saving systems; manufacture and sale of card readers and automatic wet hand towel dispensers; development and sale of software; maintenance services for security equipment, card equipment, etc.; lease and installment sales business; development, manufacture, and sale of measuring equipment; and others.

2. "Segment profit" totaling 65 million yen include intersegment eliminations of 2 million yen and company-wide amount of 63 million yen that is not allocated to each reportable segment.

3. "Segment profit" is adjusted based on operating profit in the quarterly consolidated statement of income.

2. Information regarding impairment loss on non-current assets and goodwill by reportable segment

(Significant impairment loss associated with non-current assets)

None to be reported.

(Significant changes in amount of goodwill)

None to be reported.

(Significant gains on negative goodwill)

None to be reported.