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Consolidated Financial Results for the Nine Months Ended February 28, 2023 [Japanese GAAP]



April 13, 2023

Company name: SATORI ELECTRIC CO., LTD.
 Stock exchange listing: Tokyo Stock Exchange
 Code number: 7420
 URL: <https://www.satori.co.jp/english/>
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 Scheduled date of filing quarterly securities report: April 13, 2023
 Scheduled date of commencing dividend payments: –
 Availability of supplementary briefing materials 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 February 28, 2023 (June 1, 2022 to February 28, 2023)

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

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent	
Nine months ended	Million yen	%	Million yen	%	Million yen	%	Million yen	%
February 28, 2023	107,492	15.1	3,193	67.4	2,525	18.9	1,787	16.2
February 28, 2022	93,386	21.6	1,907	338.1	2,124	269.1	1,537	–

(Note) Comprehensive income: Nine months ended February 28, 2023: ¥2,589 million [64.4%]
 Nine months ended February 28, 2022: ¥1,575 million [343.0%]

	Basic earnings per share	Diluted earnings per share
Nine months ended	Yen	Yen
February 28, 2023	108.62	–
February 28, 2022	93.45	–

(2) Consolidated Financial Position

	Total assets	Net assets	Equity ratio
	Million yen	Million yen	%
As of February 28, 2023	78,764	34,567	42.5
As of May 31, 2022	74,492	32,457	43.3

(Reference) Equity: As of February 28, 2023: ¥33,440 million
 As of May 31, 2022: ¥32,240 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 May 31, 2022	—	18.00	—	44.00	62.00
Fiscal year ending May 31, 2023	—	26.00	—		
Fiscal year ending May 31, 2023 (Forecast)				44.00	70.00

(Note) Revision to the forecast for dividends announced most recently: Yes

3. Consolidated Financial Results Forecast for the Fiscal Year Ending May 31, 2023 (June 1, 2022 to May 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	147,000	16.8	3,700	42.2	3,000	15.3	2,300	20.5
								139.78

(Note) Revision to the financial results forecast announced most recently: No

* Notes:

- (1) Changes in significant subsidiaries during the period under review (changes in specified subsidiaries resulting in changes in scope of consolidation): Yes

Newly included: 1 company (Company name: SM Electronic Technologies Pvt. Ltd.)

Excluded: – (Company name)

- (2) Accounting methods adopted particularly for the preparation of quarterly consolidated financial statements: No

- (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

(Note) For details, please refer to “(3) Notes to Quarterly Consolidated Financial Statements (Changes in accounting policies)” in “2. Quarterly Consolidated Financial Statements and Primary Notes” on page 8 of the Attachments.

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

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

February 28, 2023: 17,946,826 shares

May 31, 2022: 17,946,826 shares

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

February 28, 2023: 1,492,375 shares

May 31, 2022: 1,492,158 shares

3) Average number of shares during the period:

Nine months ended February 28, 2023: 16,454,574 shares

Nine months ended February 28, 2022: 16,454,822 shares

(Note) The total number of treasury shares at the end of the period includes the Company's shares held by a trust in connection with the stock compensation plan (505,100 shares as of February 28, 2023). The Company's shares held by the trust have been included in the treasury shares deducted in calculation of the average number of shares during the period (505,100 shares for the nine months ended February 28, 2023).

* These quarterly consolidated financial results are outside the scope of quarterly review by certified public accountants or audit firms.

* Explanation of the proper use of financial results forecast and other notes

The earnings forecasts and other forward-looking statements herein are based on information currently available to the Company and certain assumptions that the Company deems reasonable, and are not intended to guarantee the achievement of the forecasts. Actual results may differ significantly from these forecasts due to a wide range of factors. For the assumptions of financial results forecast and notes on using financial results forecast, please refer to "(3) Explanation of Consolidated Financial Results Forecast and Other Forward-looking Information" in "1. Qualitative Information on Quarterly Financial Results" on page 3 of the Attachments.

Table of Contents - Attachments

1. Qualitative Information on Quarterly Financial Results	2
(1) Explanation of Operating Results	2
(2) Explanation of Financial Position	3
(3) Explanation of Consolidated Financial Results Forecast and Other Forward-looking Information ...	3
2. Quarterly Consolidated Financial Statements and Primary Notes	4
(1) Quarterly Consolidated Balance Sheets	4
(2) Quarterly Consolidated Statements of Operations and Comprehensive Income	6
(3) Notes to Quarterly Consolidated Financial Statements	8
(Notes on going concern assumption)	8
(Notes in case of significant changes in shareholders' equity)	8
(Changes in accounting policies)	8
(Segment information, etc.)	9
(Business combination)	10
(Significant subsequent events)	12
3. Others	12
(1) Information by Product and Service Line	12
(2) Net Sales by Region	12

1. Qualitative Information on Quarterly Financial Results

(1) Explanation of Operating Results

The Japanese economy during the nine months ended February 28, 2023 continued to face uncertain factors such as Russia's prolonged invasion of Ukraine and the tightening of monetary policies in various countries due to global inflation, despite continued global easing of COVID movement restrictions and China's lifting of its zero-COVID policy.

In such an environment, regarding the financial results for the nine months ended February 28, 2023, net sales amounted to ¥107,492 million (an increase of 15.1% year on year), due to such factors as the strong sales of semiconductors for automotive applications manufactured by foreign companies and the procurement management services, as well as the effects of the depreciation of yen. Regarding profits, operating profit amounted to ¥3,193 million (an increase of 67.4% year on year) mainly driven by an increase in gross profit in conjunction with the increased net sales and other factors, despite an increase in selling, general and administrative expenses. Ordinary profit amounted to ¥2,525 million (an increase of 18.9% year on year) reflecting an increase in operating profit, despite increases in interest expenses and loss on sale of receivables. Profit attributable to owners of parent amounted to ¥1,787 million (an increase of 16.2% year on year).

The financial results of the segments are as follows.

Starting from the first quarter of the fiscal year ending May 31, 2023, changes were made to the business segments presented as reportable segments. Accordingly, the analysis and comparison of the nine months ended February 28, 2023 are based on the segments after the change.

1) Industrial Infrastructure business

Net sales amounted to ¥22,302 million (an increase of 7.3% year on year), and segment profit amounted to ¥994 million (an increase of 38.7% year on year), due to the increased sales of control devices for semiconductor manufacturing equipment in the Industrial Solutions Division and other factors.

2) Enterprise business

Net sales amounted to ¥38,558 million (an increase of 22.5% year on year), and segment profit amounted to ¥1,907 million (an increase of 118.1% year on year), driven by the increased sales in the Procurement Management Division and the effects of the depreciation of yen.

3) Mobility business

Net sales amounted to ¥9,899 million (an increase of 28.0% year on year), and segment profit amounted to ¥872 million (an increase of 69.2% year on year), driven by the increased sales in STAR ELECTRONICS CO., LTD., a subsidiary of the Company.

4) Global business

Net sales amounted to ¥36,732 million (an increase of 10.0% year on year), and segment profit amounted to ¥296 million (a decrease of 34.1% year on year). This is attributable to the increased sales of unit products for office equipment, despite the decreased sales of electronic components due to a decline in demand for personal computers.

(2) Explanation of Financial Position

Total assets at the end of the third quarter of the current fiscal year were ¥78,764 million, an increase of ¥4,271 million compared with ¥74,492 million at the end of the previous fiscal year. This is mainly attributable to an increase of ¥1,549 million in notes and accounts receivable - trade and an increase of ¥4,459 million in merchandise and finished goods.

Liabilities at the end of the third quarter of the current fiscal year were ¥44,196 million, an increase of ¥2,161 million compared with ¥42,035 million at the end of the previous fiscal year. This is mainly attributable to an increase of ¥5,921 million in short-term borrowings, despite a decrease of ¥5,719 million in notes and accounts payable - trade.

Net assets at the end of the third quarter of the current fiscal year were ¥34,567 million, an increase of ¥2,110 million compared with ¥32,457 million at the end of the previous fiscal year. This is mainly attributable to an increase of ¥622 million in retained earnings, an increase of ¥597 million in foreign currency translation adjustment, and an increase of ¥910 million in non-controlling interests. Equity ratio changed to 42.5% from 43.3% at the end of the previous fiscal year.

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

There is no revision to the consolidated financial results forecast for the fiscal year ending May 31, 2023 as announced in the “Notice on the Difference between the Consolidated Financial Results Forecast for the First Six Months of the Fiscal Year Ending May 31, 2023 and the Actual Results, and on the Revision of the Full-year Consolidated Financial Results Forecast” dated January 13, 2023.

Regarding dividends, the dividends forecast announced on July 14, 2022 has been revised, after comprehensively considering factors such as the financial forecast, financial position, and payout ratio of the period under review.

For details, please refer to the “Notice on the Revision of the Dividends Forecast for the Fiscal Year Ending May 31, 2023” announced today.

2. Quarterly Consolidated Financial Statements and Primary Notes

(1) Quarterly Consolidated Balance Sheets

(Million yen)

	As of May 31, 2022	As of February 28, 2023
Assets		
Current assets		
Cash and deposits	7,996	7,863
Notes and accounts receivable - trade	32,719	34,268
Merchandise and finished goods	18,646	23,105
Work in process	240	547
Raw materials and supplies	854	646
Other	4,897	3,055
Allowance for doubtful accounts	(7)	(9)
Total current assets	65,347	69,477
Non-current assets		
Property, plant and equipment	3,123	3,347
Intangible assets		
Goodwill	—	270
Other	1,170	985
Total intangible assets	1,170	1,255
Investments and other assets		
Other	5,381	5,246
Allowance for doubtful accounts	(530)	(562)
Total investments and other assets	4,851	4,683
Total non-current assets	9,145	9,286
Total assets	74,492	78,764
Liabilities		
Current liabilities		
Notes and accounts payable - trade	22,922	17,202
Short-term borrowings	5,567	11,489
Income taxes payable	438	429
Other	7,042	8,856
Total current liabilities	35,971	37,978
Non-current liabilities		
Bonds payable	1,400	1,400
Long-term borrowings	2,800	2,837
Retirement benefit liability	1,389	1,423
Other	474	557
Total non-current liabilities	6,063	6,218
Total liabilities	42,035	44,196

(Million yen)

	As of May 31, 2022	As of February 28, 2023
Net assets		
Shareholders' equity		
Share capital	2,611	2,611
Capital surplus	3,558	3,447
Retained earnings	25,229	25,852
Treasury shares	(1,725)	(1,761)
Total shareholders' equity	29,674	30,149
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	1,433	1,598
Deferred gains or losses on hedges	(0)	(37)
Revaluation reserve for land	22	22
Foreign currency translation adjustment	1,110	1,707
Total accumulated other comprehensive income	2,566	3,291
Non-controlling interests	216	1,127
Total net assets	32,457	34,567
Total liabilities and net assets	74,492	78,764

(2) Quarterly Consolidated Statements of Operations and Comprehensive Income

Quarterly Consolidated Statements of Operations

Nine Months Ended February 28

(Million yen)

	For the nine months ended February 28, 2022	For the nine months ended February 28, 2023
Net sales	93,386	107,492
Cost of sales	84,935	97,395
Gross profit	8,451	10,096
Selling, general and administrative expenses	6,543	6,903
Operating profit	1,907	3,193
Non-operating income		
Interest income	1	5
Dividend income	64	90
Compensation income	325	174
Other	75	84
Total non-operating income	467	354
Non-operating expenses		
Interest expenses	59	181
Loss on sale of receivables	24	383
Foreign exchange losses	123	373
Other	42	82
Total non-operating expenses	250	1,021
Ordinary profit	2,124	2,525
Extraordinary losses		
Loss on step acquisitions	—	77
Loss on retirement of non-current assets	4	13
Total extraordinary losses	4	90
Profit before income taxes	2,120	2,434
Income taxes - current	332	526
Income taxes - deferred	202	43
Total income taxes	534	570
Profit	1,585	1,864
Profit attributable to non-controlling interests	47	77
Profit attributable to owners of parent	1,537	1,787

Quarterly Consolidated Statements of Comprehensive Income

Nine Months Ended February 28

(Million yen)

	For the nine months ended February 28, 2022	For the nine months ended February 28, 2023
Profit	1,585	1,864
Other comprehensive income		
Valuation difference on available-for-sale securities	(353)	164
Deferred gains or losses on hedges	0	(37)
Foreign currency translation adjustment	343	597
Share of other comprehensive income of entities accounted for using equity method	—	(0)
Total other comprehensive income	(9)	725
Comprehensive income	1,575	2,589
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	1,528	2,518
Comprehensive income attributable to non-controlling interests	47	70

(3) Notes to Quarterly Consolidated Financial Statements

(Notes on going concern assumption)

There is no relevant information.

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

There is no relevant information.

(Changes in accounting policies)

The Company has applied the “Implementation Guidance on Accounting Standard for Fair Value Measurement” (ASBJ Guidance No. 31, June 17, 2021; hereinafter referred to as “Fair Value Measurement Accounting Standard Implementation Guidance”) from the beginning of the first quarter of the fiscal year ending May 31, 2023. In accordance with the transitional treatment set forth in Paragraph 27-2 of the Fair Value Measurement Accounting Standard Implementation Guidance, the Company decided to prospectively apply the new accounting policy prescribed in the Fair Value Measurement Accounting Standard Implementation Guidance. This change has no impact on the quarterly consolidated financial statements.

(Segment information, etc.)

I. For the nine months ended February 28, 2022 (from June 1, 2021 to February 28, 2022)

Information on net sales and profit or loss by reportable segment and information on the disaggregation of revenue

(Million yen)

	Reportable segment					Reconciliation (Note) 1	Amount recorded in Quarterly Consolidated Statements of Operations (Note) 2
	Industrial Infra- structure business	Enterprise business	Mobility business	Global business	Total		
Net sales							
Revenue from contracts with customers	20,778	31,465	7,736	33,406	93,386	—	93,386
Net sales to outside customers	20,778	31,465	7,736	33,406	93,386	—	93,386
Inter-segment net sales or transfers	179	3,460	2,414	162	6,217	(6,217)	—
Total	20,957	34,926	10,150	33,569	99,604	(6,217)	93,386
Segment profit	716	874	515	450	2,557	(649)	1,907

(Notes) 1. The reconciliation of segment profit in an amount of ¥(649) million includes the elimination of inter-segment transactions.

2. Segment profit is reconciled with operating profit in the Quarterly Consolidated Statements of Operations.

II. For the nine months ended February 28, 2023 (from June 1, 2022 to February 28, 2023)

1. Information on net sales and profit or loss by reportable segment and information on the disaggregation of revenue

(Million yen)

	Reportable segment					Reconciliation (Note) 1	Amount recorded in Quarterly Consolidated Statements of Operations (Note) 2
	Industrial Infra- structure business	Enterprise business	Mobility business	Global business	Total		
Net sales							
Revenue from contracts with customers	22,302	38,558	9,899	36,732	107,492	—	107,492
Net sales to outside customers	22,302	38,558	9,899	36,732	107,492	—	107,492
Inter-segment net sales or transfers	202	4,130	2,505	80	6,919	(6,919)	—
Total	22,504	42,689	12,404	36,813	114,411	(6,919)	107,492
Segment profit	994	1,907	872	296	4,071	(877)	3,193

(Notes) 1. The reconciliation of segment profit in an amount of ¥(877) million includes the elimination of inter-segment transactions.

2. Segment profit is reconciled with operating profit in the Quarterly Consolidated Statements of Operations.

2. Matters related to changes in reportable segments

The Group had previously promoted its business operations based on the double pillars of the Device Solution and System Solution businesses. However, starting from the first quarter of the fiscal year ending May 31, 2023, in conjunction with organizational changes, the Group has decided to change its reportable segments to align with their respective markets.

Segment information for the nine months ended February 28, 2022 has been prepared based on the segment classifications after the change.

The details of each reportable segment are as follows.

(1) Industrial Infrastructure business

The Industrial Infrastructure business is mainly engaged in the development and sales of system solutions, and the sales of communications components and electronic equipment, for industrial and social infrastructures.

(2) Enterprise business

The Enterprise business is mainly engaged in the sales of semiconductors and electronic components, procurement management services, the development and sales of switching devices, and the provision of solutions, for domestic customers.

(3) Mobility business

The Mobility business is mainly engaged in the sales of semiconductors and electronic equipment and the provision of solutions, for automotive applications.

(4) Global business

The Global business is mainly engaged in the sales of semiconductors and electronic components, and the provision of solutions, for overseas customers.

(5) Corporate Items and Eliminations

Corporate Items and Eliminations segment mainly involves business development and corporate staff functions.

3. Information on impairment losses on non-current assets, or goodwill and other items by reportable segment (Significant changes in amount of goodwill)

In the third quarter of the current fiscal year, the Company recorded goodwill of ¥270 million in the Mobility business as a result of its acquisition of additional shares in SM Electronic Technologies Pvt. Ltd. (which was an equity method affiliate), converting it into a consolidated subsidiary of the Company.

(Business combination)

(Business combination due to acquisition)

The Company acquired additional shares in its equity method affiliate, SM Electronic Technologies Pvt. Ltd. (hereinafter referred to as “SM Electronic”) on February 28, 2023, making it a consolidated subsidiary (50.1%) of the Company.

As a result of partial payment for the acquisition of additional shares of SM Electronic through an in-kind contribution of shares of SINGAPORE SATORI PTE. LTD. (now known as SMET SINGAPORE PTE. LTD.) (hereinafter referred to as the “SG Company”), which was a consolidated subsidiary of the Company, the SG Company has become a wholly owned subsidiary of SM Electronic (consolidated sub-subsubsidiary of the Company).

1. Summary of business combination

(1) Name and business of acquired company

Name SM Electronic Technologies Pvt. Ltd.
Business description Wholesale of electronic components

(2) Main reason for undertaking the business combination

On April 13, 2022, the Company acquired shares in SM Electronic (representing 25.1% of the total number of shares issued), and made SM Electronic an equity method affiliate of the Company. The Company has been engaged in business activities regarding semiconductors and related products in India targeting local companies through SM Electronic, while deploying its development know-how and product lines.

The Company has acquired the shares of SM Electronic (conversion to a subsidiary) for the purpose of increasing the Company's corporate value through SM Electronic's conversion to a consolidated subsidiary, taking it into account that the Indian market is an attractive market expected to continue to grow in the future, and based on the potential for the Company to make further strides in the market.

(3) Date of business combination

Deemed acquisition date December 31, 2022

(4) Legal form of business combination

Acquisition of shares in consideration of cash and acquisition of shares by an in-kind contribution (shares of SG Company)

(5) Company name after business combination

There was no change to the company name.

(6) Ratio of voting rights acquired

Ratio of voting rights held immediately before the business combination	25.1%
Ratio of voting rights additionally acquired on the date of the business combination	25.0%
Ratio of voting rights held after the business combination	50.1%

(7) Main basis for determining the acquired company

The basis was that the acquisition of SM Electronic's shares would result in the Company's acquisition of 50.1% of the voting rights in that company.

2. Period of the acquired company's financial results which are included in the Quarterly Consolidated Statements of Operations for the quarterly consolidated financial statements

As the deemed acquisition date is December 31, 2022, which is within three months away from the closing date of the period under review, only the balance sheet is consolidated for the third quarter of the current fiscal year.

The financial results for the nine months ended February 28, 2023 are recorded as non-operating expenses (other) in the quarterly consolidated statements of operations for the period under review.

3. Acquisition costs of the acquired company and breakdown thereof

The acquisition price is not disclosed pursuant to the confidential agreement under the Memorandum of Understanding entered into with the counterparty.

Adequate measures have been taken to verify the reasonableness of the price by way of suitable due diligence conducted by a third party.

4. Difference between acquisition costs of the acquired company and the total amount of acquisition costs of each transaction leading to the acquisition

Loss on step acquisitions ¥77 million

5. The amount of goodwill that occurred, the cause for the occurrence, the amortization method, and the amortization period

(1) The amount of goodwill that occurred
¥270 million

(2) The cause for the occurrence
The excess earnings expected from future business activities.

(3) The amortization method and amortization period
Straight-line method over a period of 5 years

(Significant subsequent events)

There is no relevant information.

3. Others

(1) Information by Product and Service Line

For the nine months ended February 28, 2022 (from June 1, 2021 to February 28, 2022)

(Million yen)

	Semiconductors	General electronic components	Electric equipment	Products	Total
Net sales to outside customers	33,144	39,706	15,939	4,596	93,386

For the nine months ended February 28, 2023 (from June 1, 2022 to February 28, 2023)

(Million yen)

	Semiconductors	General electronic components	Electric equipment	Products	Total
Net sales to outside customers	42,420	40,342	21,028	3,701	107,492

(2) Net Sales by Region

For the nine months ended February 28, 2022 (from June 1, 2021 to February 28, 2022)

(Million yen)

Japan	Overseas						Total
	China	Taiwan	Thailand	Other Asia	Other	Subtotal	
42,826	32,192	2,433	5,702	5,403	4,827	50,560	93,386

(Notes) 1. Net sales are distributed to each country or region based on the actual destinations of the products.

2. In the table above, the region “China” includes Hong Kong.

For the nine months ended February 28, 2023 (from June 1, 2022 to February 28, 2023)

(Million yen)

Japan	Overseas						Total
	China	Taiwan	Thailand	Other Asia	Other	Subtotal	
51,269	33,046	1,337	8,818	7,622	5,398	56,223	107,492

(Notes) 1. Net sales are distributed to each country or region based on the actual destinations of the products.

2. In the table above, the region “China” includes Hong Kong.