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



January 27, 2023

Company name: KANEMATSU ELECTRONICS LTD.

Stock exchange listing: Tokyo Stock Exchange

Code number: 8096

URL: <https://www.kel.co.jp/english/>

Representative: Akira Watanabe, Representative Director, President & CEO

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Scheduled date of filing quarterly securities report: February 3, 2023

Scheduled date of commencing dividend payments: –

Availability of supplementary explanatory materials on quarterly financial results: Available

Schedule of quarterly financial results briefing session: None

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

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

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

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
Nine months ended December 31, 2022	57,182	20.5	8,940	18.9	8,969	18.3	5,886	14.5
December 31, 2021	47,447	9.2	7,516	21.0	7,579	19.4	5,141	20.1

Note: Comprehensive income: Nine months ended December 31, 2022: ¥4,730 million [(16.6) %]

Nine months ended December 31, 2021: ¥5,674 million [31.9 %]

	Basic earnings per share	Diluted earnings per share
Nine months ended	Yen	Yen
December 31, 2022	205.71	–
December 31, 2021	179.72	–

(2) Consolidated Financial Position

	Total assets	Net assets	Equity ratio
	Million yen	Million yen	%
As of December 31, 2022	80,329	62,110	77.3
As of March 31, 2022	82,446	61,928	75.1

Reference: Equity: As of December 31, 2022: ¥62,066 million

As of March 31, 2022: ¥61,885 million

2. Dividends

	Annual dividends				
	1st quarter-end	2nd quarter-end	3rd quarter-end	Year-end	Total
	Yen	Yen	Yen	Yen	Yen
Fiscal year ended March 31, 2022	—	75.00	—	80.00	155.00
Fiscal year ending March 31, 2023	—	80.00	—		
Fiscal year ending March 31, 2023 (Forecast)				0.00	80.00

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

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

(% indicates changes from the previous corresponding period.)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent		Basic earnings per share
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen
Full year	77,000	7.9	13,400	5.6	13,500	5.6	9,100	3.6	318.00

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

* Notes:

- (1) Changes in significant subsidiaries during the period under review: No
(Changes in specified subsidiaries resulting in changes in scope of consolidation)
Newly included: – ()
Excluded: – ()
- (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: None
 - 2) Changes in accounting policies other than 1) above: None
 - 3) Changes in accounting estimates: None
 - 4) Retrospective restatement: None
- (4) Total number of shares issued and outstanding (common shares)
 - 1) Total number of shares issued and outstanding at the end of the period (including treasury shares):

December 31, 2022:	28,633,952 shares
March 31, 2022:	28,633,952 shares
 - 2) Total number of treasury shares at the end of the period:

December 31, 2022:	13,354 shares
March 31, 2022:	20,992 shares
 - 3) Average number of shares during the period:

Nine months ended December 31, 2022:	28,617,992 shares
Nine months ended December 31, 2021:	28,610,192 shares

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

* Explanation on the proper use of financial results forecasts and other notes

The financial results forecasts and other forward-looking statements herein are based on information currently available to the Company and certain assumptions deemed reasonable, and are not intended to be a promise by the Company to achieve them. As such, actual results may differ significantly from these forecasts due to a wide range of factors. For the assumptions used as the basis for the financial results forecast and notes on their use, please refer to “1. Qualitative Information on Quarterly Financial Results (3) Explanation of Consolidated Financial Results Forecast and Other Forward-looking Information” on page 3 of the Attachments.

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1. Qualitative Information on Quarterly Financial Results

(1) Explanation of Operating Results

During the nine months ended December 31, 2022, the Japanese economy continued to show signs of recovery thanks to the effects of various policies such as easing immigration restrictions in Japan amid the continued impact of the COVID-19 pandemic. Meanwhile, with a series of rises in policy interest rates by central banks around the world, compounded with concerns for the international situation including the protracted conflict in Ukraine, the outlook of the Japanese economy remained uncertain.

In the Japanese IT industry, amid the sense of increasing uncertainty due to the restrictions on supply brought on by the shortage of semiconductors and other components and the disrupted supply chain as well as the impact of the depreciating yen on procurement costs, the new normal under the COVID-19 pandemic has firmly established itself facilitating changes in lifestyles and work styles, which, in turn, has accelerated corporate efforts toward digital transformation (DX). Furthermore, in addition to the rising demand for security measures to combat increasingly sophisticated and varied cyberattacks, such as those by ransomware, strategic IT investments for promoting operational efficiency and automation amid manpower shortages have acquired added significance.

In such an environment, KANEMATSU ELECTRONICS LTD. (the “Company”) and its consolidated subsidiaries (collectively, the “Group”) continued to focus on developing its infrastructure construction business pivoting on the technological capability it has accumulated, as well as its solutions business mainly in the areas of virtualization and security, which are the foundation of its business. The Group also worked on building remote working environments for its customers, among others.

Specifically, the Group worked on workstyle reform and COVID-19 countermeasures through the construction of robust environments for virtual desktop infrastructure (VDI) and security solutions in line with the era of zero trust networks. At the same time, the Group further expanded sales of its businesses offering our unique “as a Service.” Furthermore, in October 2022, the Company made GLOBAL SECURITY EXPERTS Inc. an equity method affiliate and, in November the same year, made NIHON ACCESS CO., LTD. a consolidated subsidiary, aiming to increase the corporate value of the Company over the medium- to long-term and further expand the business.

As a result of the above, in the nine months ended December 31, 2022, net sales increased by 9,734 million yen year on year to 57,182 million yen (up 20.5% year on year). Operating profit increased by 1,423 million yen year on year to 8,940 million yen (up 18.9% year on year), and ordinary profit increased by 1,389 million yen year on year to 8,969 million yen (up 18.3% year on year), while profit attributable to owners of parent increased by 745 million yen year on year to 5,886 million yen (up 14.5% year on year).

The status of reportable segments was as follows:

(IT Systems Business)

Net sales in the IT Systems Business increased by 9,308 million yen year on year to 42,010 million yen (up 28.5% year on year), mainly due to strong performances in the server-related business for the manufacturing industry.

(Services and Support Business)

Net sales in the Services and Support Business increased by 425 million yen year on year to 15,171 million yen (up 2.9% year on year), mainly due to an increase in sales related to the cloud services for the manufacturing industry.

(2) Explanation of Financial Position for the Third Quarter under Review

(Assets)

Current assets decreased by 5.3% from the end of the previous fiscal year to 71,075 million yen. This was mainly attributable to a decrease in cash and deposits of 6,786 million yen.

Non-current assets increased by 24.8% from the end of the previous fiscal year to 9,254 million yen. This was mainly attributable to an increase in goodwill of 806 million yen.

(Liabilities)

Current liabilities decreased by 13.1% from the end of the previous fiscal year to 15,606 million yen. This was mainly attributable to a decrease in income taxes payable of 2,243 million yen.

Non-current liabilities increased by 2.4% from the end of the previous fiscal year to 2,613 million yen. This was mainly attributable to an increase in retirement benefit liability of 32 million yen.

(Net assets)

Net assets increased by 0.3% from the end of the previous fiscal year to 62,110 million yen. This was mainly attributable to an increase in retained earnings by 1,308 million yen due to the recording of profit attributable to owners of parent of 5,886 million yen and the payment of dividends of 4,578 million yen. As a result, the equity ratio rose to 77.3% from 75.1% at the end of the previous fiscal year.

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

As for the consolidated financial results forecast for the fiscal year ending March 31, 2023, there have been no changes to the financial results forecast announced on October 28, 2022.

2. Quarterly Consolidated Financial Statements and Principal Notes

(1) Quarterly Consolidated Balance Sheets

(Thousand yen)

	As of March 31, 2022	As of December 31, 2022
Assets		
Current assets		
Cash and deposits	49,668,376	42,882,202
Notes and accounts receivable - trade	17,808,143	17,243,831
Inventories	3,146,103	6,435,770
Other	4,409,190	4,513,357
Total current assets	75,031,813	71,075,162
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	1,089,297	1,210,638
Other, net	749,512	762,603
Total property, plant and equipment	1,838,810	1,973,241
Intangible assets		
Goodwill	-	806,058
Other	758,842	946,470
Total intangible assets	758,842	1,752,529
Investments and other assets		
Investment securities	2,770,787	3,360,543
Deferred tax assets	1,035,525	1,138,980
Other	1,018,745	1,036,782
Allowance for doubtful accounts	(7,644)	(7,644)
Total investments and other assets	4,817,413	5,528,663
Total non-current assets	7,415,067	9,254,434
Total assets	82,446,880	80,329,596

(Thousand yen)

	As of March 31, 2022	As of December 31, 2022
Liabilities		
Current liabilities		
Notes and accounts payable - trade	8,198,715	8,153,403
Income taxes payable	2,576,420	332,677
Contract liabilities	3,463,319	3,724,534
Provision for bonuses	1,235,705	529,488
Provision for bonuses for directors (and other officers)	144,200	106,729
Other	2,348,371	2,759,437
Total current liabilities	17,966,731	15,606,272
Non-current liabilities		
Retirement benefit liability	1,947,931	1,980,213
Asset retirement obligations	585,572	615,560
Other	17,887	17,499
Total non-current liabilities	2,551,390	2,613,273
Total liabilities	20,518,122	18,219,546
Net assets		
Shareholders' equity		
Share capital	9,031,257	9,031,257
Capital surplus	7,159,524	7,181,969
Retained earnings	44,439,446	45,747,674
Treasury shares	(20,208)	(12,990)
Total shareholders' equity	60,610,020	61,947,910
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	1,179,326	41,727
Deferred gains or losses on hedges	(512)	(2,814)
Foreign currency translation adjustment	94,998	112,808
Remeasurements of defined benefit plans	1,222	(33,104)
Total accumulated other comprehensive income	1,275,035	118,617
Non-controlling interests	43,702	43,522
Total net assets	61,928,758	62,110,050
Total liabilities and net assets	82,446,880	80,329,596

(2) Quarterly Consolidated Statements of Income and Comprehensive Income
Quarterly Consolidated Statements of Income
Nine Months Ended December 31

(Thousand yen)

	For the nine months ended December 31, 2021	For the nine months ended December 31, 2022
Net sales	47,447,788	57,182,177
Cost of sales	33,122,646	40,913,898
Gross profit	14,325,141	16,268,278
Selling, general and administrative expenses	6,808,506	7,327,796
Operating profit	7,516,634	8,940,482
Non-operating income		
Interest income	3,680	3,866
Dividend income	18,874	27,831
Subsidy income	19,618	1,362
Compensation for forced relocation	15,649	–
Miscellaneous income	6,679	18,170
Total non-operating income	64,502	51,230
Non-operating expenses		
Interest expenses	0	–
Share of loss of entities accounted for using equity method	–	17,184
Miscellaneous expenses	1,285	5,388
Total non-operating expenses	1,285	22,572
Ordinary profit	7,579,851	8,969,140
Extraordinary income		
Gain on sale of non-current assets	1,571	1,224
Gain on sale of golfclub membership	4,417	–
Total extraordinary income	5,989	1,224
Extraordinary losses		
Loss on retirement of non-current assets	2,985	2,084
Loss on sale of investment securities	1,113	90,000
Loss on change in equity	–	91,206
Total extraordinary losses	4,099	183,291
Profit before income taxes	7,581,741	8,787,074
Income taxes - current	2,118,950	2,456,278
Income taxes - deferred	329,629	445,497
Total income taxes	2,448,579	2,901,775
Profit	5,133,161	5,885,299
Loss attributable to non-controlling interests	(8,675)	(1,614)
Profit attributable to owners of parent	5,141,836	5,886,913

Quarterly Consolidated Statements of Comprehensive Income

Nine Months Ended December 31

(Thousand yen)

	For the nine months ended December 31, 2021	For the nine months ended December 31, 2022
Profit	5,133,161	5,885,299
Other comprehensive income		
Valuation difference on available-for-sale securities	588,476	(1,136,186)
Deferred gains or losses on hedges	(386)	(2,302)
Foreign currency translation adjustment	5,955	19,245
Share of other comprehensive income of entities accounted for using equity method	—	(1,412)
Remeasurements of defined benefit plans, net of tax	(52,256)	(34,327)
Total other comprehensive income	541,788	(1,154,983)
Comprehensive income	5,674,950	4,730,315
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	5,685,345	4,730,495
Comprehensive income attributable to non-controlling interests	(10,395)	(179)

(3) Notes to Quarterly Consolidated Financial Statements

(Notes on going concern assumption)

Not applicable.

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

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

Not applicable.

(Segment information, etc.)

[Segment information]

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

1. Information on net sales and profit or loss

(Thousand yen)

	IT Systems Business	Services and Support Business	Total
Net sales			
Net sales to external customers	32,701,582	14,746,205	47,447,788
Inter-segment sales or transfers	93,509	239,823	333,333
Total	32,795,092	14,986,028	47,781,121
Segment profit	4,626,273	2,795,972	7,422,246

2. Reconciliation between the total amount of profit or loss of reportable segments and the amount recorded in the quarterly consolidated statements of income and the main details of adjustments

(Thousand yen)

Profit	Amount
Total of reportable segments	7,422,246
Elimination of inter-segment transactions	94,388
Operating profit in the quarterly consolidated statements of income	7,516,634

3. Information on losses on impairment or goodwill of non-current assets by reportable segment

Not applicable.

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

1. Information on net sales and profit or loss

(Thousand yen)

	IT Systems Business	Services and Support Business	Total
Net sales			
Net sales to external customers	42,010,318	15,171,859	57,182,177
Inter-segment sales or transfers	43,971	259,307	303,278
Total	42,054,289	15,431,167	57,485,456
Segment profit	6,092,707	2,749,708	8,842,416

2. Reconciliation between the total amount of profit or loss of reportable segments and the amount recorded in the quarterly consolidated statements of income and the main details of adjustments

(Thousand yen)

Profit	Amount
Total of reportable segments	8,842,416
Elimination of inter-segment transactions	98,066
Operating profit in the quarterly consolidated statements of income	8,940,482

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

In the “Services and Support Business” segment, we have made NIHON ACCESS CO., LTD. a consolidated subsidiary by acquiring its shares. This event has resulted in an 819,720 thousand yen increase in goodwill for the nine months ended December 31, 2022.

The allocation of the acquisition cost was not completed as of December 31, 2022 and therefore, the amount of goodwill was provisionally calculated based on rational information available at that time.

(Significant subsequent events)

(Tender offer for the Company's shares by KANEMATSU CORPORATION, the controlling shareholder)

The Company, at the Board of Directors meeting held on January 27, 2023, has resolved to express its opinion in favor of the tender offer (hereinafter, the "Tender Offer") for the Company's common shares (hereinafter, the "Company's Shares") to be conducted by KANEMATSU CORPORATION, the controlling shareholder (hereinafter, the "Tender Offeror"), and to recommend that the Company's shareholders apply for the Tender Offer.

The aforementioned resolution of the Board of Directors was made on the assumption that the Company's Shares are planned to be delisted through the Tender Offer and a subsequent series of procedures by the Tender Offeror.

For details, please refer to "Announcement Concerning Expression of Opinion in Favor of Tender Offer for the Company's Shares by KANEMATSU CORPORATION, the Controlling Shareholder, and Recommendation of Application for Tender Offer" disclosed on January 27, 2023.