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Consolidated Financial Results for the Three Months Ended June 30, 2022 [Japanese GAAP]



July 29, 2022

Company name: KANEMATSU ELECTRONICS LTD.

Stock exchange listing: Tokyo Stock Exchange

Code number: 8096

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

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Scheduled date of filing quarterly securities report: August 4, 2022

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 Three Months Ended June 30, 2022 (April 1, 2022 - June 30, 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	%
Three months ended June 30, 2022	12,792	14.1	1,275	38.4	1,301	36.8	866	30.8
June 30, 2021	11,207	5.0	921	15.3	951	4.0	661	7.6

Note: Comprehensive income: Three months ended June 30, 2022: ¥521 million [(18.6) %]

Three months ended June 30, 2021: ¥640 million [2.1 %]

	Basic earnings per share	Diluted earnings per share
	Yen	Yen
Three months ended June 30, 2022	30.27	–
June 30, 2021	23.14	–

(2) Consolidated Financial Position

	Total assets	Net assets	Equity ratio
	Million yen	Million yen	%
As of June 30, 2022	75,887	60,161	79.2
As of March 31, 2022	82,446	61,928	75.1

Reference: Equity: As of June 30, 2022: ¥60,114 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	–				
Fiscal year ending March 31, 2023 (Forecast)		75.00	–	80.00	155.00

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

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	
First half	35,000	2.7	5,950	(2.1)	6,000	(2.1)	4,000	(4.5)	139.81	
Full year	72,000	0.9	12,750	0.5	12,800	0.1	8,600	(2.1)	300.58	

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):

June 30, 2022:	28,633,952 shares
March 31, 2022:	28,633,952 shares
 - 2) Total number of treasury shares at the end of the period:

June 30, 2022:	21,012 shares
March 31, 2022:	20,992 shares
 - 3) Average number of shares during the period:

Three months ended June 30, 2022:	28,612,960 shares
Three months ended June 30, 2021:	28,605,512 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 three months ended June 30, 2022, the Japanese economy continued to show signs of recovery thanks to the effects of various policies, as social and economic activities proceeded to go back to normal. Meanwhile, with rising concerns for the international situation including the protracted conflict in Ukraine and the constraints on economic activities in China, compounded with the depreciating yen and the soaring prices of natural resources, 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 rapidly 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 service-oriented businesses centered on the 3Ks*.

As a result of the above, in the three months ended June 30, 2022, net sales increased by 1,585 million yen year on year to 12,792 million yen (up 14.1% year on year). Operating profit increased by 353 million yen year on year to 1,275 million yen (up 38.4% year on year), and ordinary profit increased by 350 million yen year on year to 1,301 million yen (up 36.8% year on year), while profit attributable to owners of parent increased by 204 million yen year on year to 866 million yen (up 30.8% year on year).

*3Ks: The service business cluster comprising KEL Briefing Center (KBC); KEL Custom Cloud (KCC); and KEL Managed Service (KMS).

The status of reportable segments was as follows:

(IT Systems Business)

Net sales in the IT Systems Business increased by 1,507 million yen year on year to 8,031 million yen (up 23.1% year on year), mainly due to strong performances in the server-related business for the service industry and government agencies as well as an increase in income from labor charges from system construction.

(Services and Support Business)

Net sales in the Services and Support Business increased by 78 million yen year on year to 4,761 million yen (up 1.7% 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 First Quarter under Review

(Assets)

Current assets decreased by 8.0% from the end of the previous fiscal year to 69,025 million yen. This was mainly attributable to a decrease in notes and accounts receivable – trade of 8,166 million yen.

Non-current assets decreased by 7.5% from the end of the previous fiscal year to 6,862 million yen. This was mainly attributable to a decrease in investment securities of 464 million yen.

(Liabilities)

Current liabilities decreased by 26.9% from the end of the previous fiscal year to 13,133 million yen. This was mainly attributable to a decrease in income taxes payable of 2,523 million yen.

Non-current liabilities increased by 1.6% from the end of the previous fiscal year to 2,592 million yen. This was mainly attributable to an increase in other non-current liabilities of 26 million yen.

(Net assets)

Net assets decreased by 2.9% from the end of the previous fiscal year to 60,161 million yen. This was mainly attributable to a decrease in retained earnings by 1,422 million yen due to the recording of profit attributable to owners of parent of 866 million yen and the payment of dividends of 2,289 million yen. As a result, the equity ratio rose to 79.2% 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, there have been no changes to the financial results forecast announced on April 28, 2022.

2. Quarterly Consolidated Financial Statements and Principal Notes
 (1) Quarterly Consolidated Balance Sheets

(Thousand yen)

	As of March 31, 2022	As of June 30, 2022
Assets		
Current assets		
Cash and deposits	49,668,376	49,761,228
Notes and accounts receivable - trade	17,808,143	9,641,313
Inventories	3,146,103	4,767,048
Other	4,409,190	4,855,711
Total current assets	75,031,813	69,025,302
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	1,089,297	1,111,313
Other, net	749,512	762,308
Total property, plant and equipment	1,838,810	1,873,622
Intangible assets		
Other	758,842	855,673
Total intangible assets	758,842	855,673
Investments and other assets		
Investment securities	2,770,787	2,306,640
Deferred tax assets	1,035,525	818,280
Other	1,018,745	1,015,610
Allowance for doubtful accounts	(7,644)	(7,644)
Total investments and other assets	4,817,413	4,132,887
Total non-current assets	7,415,067	6,862,183
Total assets	82,446,880	75,887,485

(Thousand yen)

	As of March 31, 2022	As of June 30, 2022
Liabilities		
Current liabilities		
Notes and accounts payable - trade	8,198,715	5,747,641
Income taxes payable	2,576,420	53,208
Contract liabilities	3,463,319	4,089,440
Provision for bonuses	1,235,705	477,095
Provision for bonuses for directors (and other officers)	144,200	33,909
Other	2,348,371	2,732,141
Total current liabilities	17,966,731	13,133,436
Non-current liabilities		
Retirement benefit liability	1,947,931	1,946,057
Asset retirement obligations	585,572	602,655
Other	17,887	44,040
Total non-current liabilities	2,551,390	2,592,753
Total liabilities	20,518,122	15,726,189
Net assets		
Shareholders' equity		
Share capital	9,031,257	9,031,257
Capital surplus	7,159,524	7,159,524
Retained earnings	44,439,446	43,016,459
Treasury shares	(20,208)	(20,287)
Total shareholders' equity	60,610,020	59,186,954
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	1,179,326	857,239
Deferred gains or losses on hedges	(512)	(24,924)
Foreign currency translation adjustment	94,998	105,393
Remeasurements of defined benefit plans	1,222	(10,219)
Total accumulated other comprehensive income	1,275,035	927,489
Non-controlling interests	43,702	46,851
Total net assets	61,928,758	60,161,295
Total liabilities and net assets	82,446,880	75,887,485

(2) Quarterly Consolidated Statements of Income and Comprehensive Income
Quarterly Consolidated Statements of Income
Three Months Ended June 30

(Thousand yen)

	For the three months ended June 30, 2021	For the three months ended June 30, 2022
Net sales	11,207,116	12,792,879
Cost of sales	8,211,809	9,315,741
Gross profit	2,995,306	3,477,138
Selling, general and administrative expenses	2,074,022	2,202,027
Operating profit	921,284	1,275,110
Non-operating income		
Interest income	1,270	1,363
Dividend income	12,720	22,006
Subsidy income	15,866	841
Miscellaneous income	1,511	5,608
Total non-operating income	31,369	29,819
Non-operating expenses		
Interest expenses	0	–
Foreign exchange losses	–	2,560
Miscellaneous expenses	1,273	687
Total non-operating expenses	1,273	3,248
Ordinary profit	951,380	1,301,681
Extraordinary income		
Gain on sale of non-current assets	871	–
Total extraordinary income	871	–
Extraordinary losses		
Loss on retirement of non-current assets	1,653	21
Total extraordinary losses	1,653	21
Profit before income taxes	950,599	1,301,660
Income taxes - current	(15,333)	33,666
Income taxes - deferred	305,686	400,835
Total income taxes	290,352	434,502
Profit	660,246	867,158
Profit (loss) attributable to non-controlling interests	(1,667)	1,107
Profit attributable to owners of parent	661,913	866,050

Quarterly Consolidated Statements of Comprehensive Income

Three Months Ended June 30

(Thousand yen)

	For the three months ended June 30, 2021	For the three months ended June 30, 2022
Profit	660,246	867,158
Other comprehensive income		
Valuation difference on available-for-sale securities	(5,502)	(322,087)
Deferred gains or losses on hedges	(113)	(24,412)
Foreign currency translation adjustment	3,351	12,436
Remeasurements of defined benefit plans, net of tax	(17,418)	(11,442)
Total other comprehensive income	(19,683)	(345,505)
Comprehensive income	640,563	521,653
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	643,738	518,504
Comprehensive income attributable to non-controlling interests	(3,175)	3,149

(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 three months ended June 30, 2022 (from April 1, 2022 to June 30, 2022)

Not applicable.

(Segment information, etc.)

[Segment information]

I. For the three months ended June 30, 2021 (from April 1, 2021 to June 30, 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	6,523,913	4,683,202	11,207,116
Inter-segment sales or transfers	20,116	69,297	89,413
Total	6,544,029	4,752,500	11,296,529
Segment profit	53,667	832,452	886,119

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	886,119
Elimination of inter-segment transactions	35,164
Operating profit in the quarterly consolidated statements of income	921,284

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

Not applicable.

II. For the three months ended June 30, 2022 (from April 1, 2022 to June 30, 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	8,031,482	4,761,396	12,792,879
Inter-segment sales or transfers	11,668	66,534	78,202
Total	8,043,151	4,827,930	12,871,081
Segment profit	314,722	920,425	1,235,148

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	1,235,148
Elimination of inter-segment transactions	39,962
Operating profit in the quarterly consolidated statements of income	1,275,110

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

Not applicable.