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Consolidated Financial Results for the Six Months Ended September 30, 2023 [Japanese GAAP]



October 30, 2023

Company name: TAKAOKA TOKO CO., LTD.

Stock exchange listing: Tokyo Stock Exchange

Code number: 6617

URL: <https://www.tktk.co.jp/>

Representative: Takashi Ichinose, President and Representative Director

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Scheduled date of filing quarterly securities report: October 31, 2023

Scheduled date of commencing dividend payments: December 1, 2023

Availability of supplementary explanatory materials on quarterly financial results: Available

Schedule of quarterly financial results briefing session: Scheduled (for analysts)

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

1. Consolidated Financial Results for the Six Months Ended September 30, 2023 (April 1, 2023 - September 30, 2023)

(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	%
Six months ended September 30, 2023	43,774	3.6	2,253	(2.1)	2,406	(3.4)	1,442	(11.0)
September 30, 2022	42,243	5.7	2,301	86.6	2,489	95.8	1,620	41.1

(Note) Comprehensive income: Six months ended September 30, 2023: ¥2,065 million [5.2%]

Six months ended September 30, 2022: ¥1,963 million [17.4%]

	Basic earnings per share		Diluted earnings per share	
	Yen		Yen	
Six months ended September 30, 2023	89.48		-	
September 30, 2022	100.37		-	

(2) Consolidated Financial Position

	Total assets		Net assets		Equity ratio	
	Million yen		Million yen		%	
As of September 30, 2023	102,961		59,858		53.3	
As of March 31, 2023	106,322		58,460		50.6	

(Reference) Equity: As of September 30, 2023: ¥54,862 million

As of March 31, 2023: ¥53,785 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, 2023	–	30.00	–	25.00	55.00
Fiscal year ending March 31, 2024	–	25.00			
Fiscal year ending March 31, 2024 (Forecast)			–	25.00	50.00

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

(Note) Breakdown of the 2nd quarter-end dividends for the fiscal year ended March 31, 2023:

Ordinary dividends: 25.00 yen; 10th anniversary commemorative dividends: 5.00 yen

3. Consolidated Financial Results Forecast for the Fiscal Year Ending March 31, 2024 (April 1, 2023 - March 31, 2024)

(% 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	100,000	2.3	4,500	(7.2)	4,600	(2.2)	3,400	16.4	210.51

(Note) Revision to the financial results forecast announced most recently: None

*** Notes:**

- (1) Changes in significant subsidiaries during the period under review: None
(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: None
- (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 issued and outstanding shares (common shares)
- 1) Total number of issued and outstanding shares at the end of the period (including treasury shares):
- | | |
|---------------------|-------------------|
| September 30, 2023: | 16,276,305 shares |
| March 31, 2023: | 16,276,305 shares |
- 2) Total number of treasury shares at the end of the period:
- | | |
|---------------------|----------------|
| September 30, 2023: | 240,269 shares |
| March 31, 2023: | 122,164 shares |
- 3) Average number of shares during the period:
- | | |
|--------------------------------------|-------------------|
| Six months ended September 30, 2023: | 16,125,318 shares |
| Six months ended September 30, 2022: | 16,147,876 shares |

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

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

The financial results forecast and other forward-looking statements contained in this material are based on the information currently available to the Company and certain assumptions deemed reasonable, and the Company does not guarantee the achievement of these projections. In addition, actual financial results, etc. may differ significantly due to various factors. For preconditions for the financial results forecast and precautions for using the financial results forecast, please see “1. Qualitative Information on Quarterly Financial Results (3) Explanation of Consolidated Financial Results Forecast and Other Forward-looking Information” on page 4 of the attachments.

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1. Qualitative Information on Quarterly Financial Results

(1) Explanation of Operating Results

In May 2023, we identified and then made a subsequent announcement of improper cases related to transformers (improper preparation of type test reports, improper labeling of country of origin, and preparation of false pre-shipment inspection reports). We would like to again express our deepest apologies to our customers, shareholders, and other stakeholders for any inconvenience and concern this may have caused. We have reconfigured the way we perform investigations based on analysis of factors that led to oversight in the full inspection performed in light of the previous instance of an improper case (matters pertaining to inspections of gas insulated switchgear discovered in August 2021), and are currently carrying out a comprehensive investigation on all products of the Company. Furthermore, we will investigate the direct cause of this incident and look to identify the root of the problem, which has remained unidentified and unaddressed for a long period. We will also evaluate the effectiveness of the recurrence prevention measures that are currently being implemented and consider and put in place any additional measures deemed necessary as a result of this investigation. Please also note the impact of this incident on the results for the six months ended September 30, 2023 is minimal.

Regarding the overall situation for the Group, the business environment is changing significantly and becoming increasingly severe in the electric power industry, which is our largest customer. Global fuel prices have risen rapidly due to the situation in Ukraine and competition has further intensified in the retail business amid growing demands for realizing carbon neutrality, ensuring stable electricity supply and demand, strengthening disaster prevention functions and resilience within local communities, and a revenue cap system—a new system for wheeling charges. Against this background, companies in the industry are working to improve productivity and thoroughly reduce business costs. Meanwhile, the Japanese government has declared its intention to become carbon neutral by 2050 as part of its efforts to realize a decarbonized society. In Japan, that has encouraged the further spread of distributed energy-related equipment, including renewable energy, and there are signs of nascent demand for fast chargers for electric vehicles.

In April 2021, the Group formulated its 2030 VISION and Medium-term Management Plan 2023. Based on the three pillar policies of deepening and transforming our core businesses, transforming the structure of our business foundations, and taking on challenges to cultivate the future vision for 2030, we have started pursuing an ambidextrous management style that strives to simultaneously transform existing businesses and develop new businesses, in order to achieve our 2030 VISION.

In August 2023, we revised the “Takaoka Toko Group Charter of Corporate Behavior” and established the “Human Rights Policy of Takaoka Toko Group^{*1}” with the aim of further materializing and accelerating our efforts regarding “respect for human rights,” one of the issues surrounding sustainability. Going forward, we plan to continuously implement human rights due diligence^{*2}. In line with the revision of the Charter of Corporate Behavior, we are reviewing the content of our sustainability initiatives^{*3}.

In September 2023, we published the Integrated Report 2023^{*4}. It provides an interview with the General Manager of the newly established Human Resource Development Center as part of our initiatives to become a comprehensive energy business provider, the aim set forth in our 2030 VISION (announced in April 2021), and a discussion meeting with Independent Outside Directors as a topic to reveal the effectiveness of the Board of Directors of the Company. In addition, we have enhanced disclosure of information, including the above-mentioned “Human Rights Policy of Takaoka Toko Group,” the implementation status of dialogue with shareholders, and the status of our response to the TCFD (Task Force on Climate-related Financial Disclosures), and have changed the name of the TAKAOKA TOKO REPORT through FY2022 to the Integrated Report. Its cover features “Paralym Art,” which we sponsor to support the social participation and independence of disabled people.

We will continue to implement various initiatives to enhance communication with all of our stakeholders.

- *1: Posted on the Company's website (<https://www.tktk.co.jp/news/entry/000414.html>)
 - *2: To regularly assess manifest and potential negative impacts on human rights in our business activities and to establish mechanisms to prevent and mitigate such impacts
 - *3: Published on the Company's website (https://ssl4.eir-parts.net/doc/6617/ir_material/212690/00.pdf)
 - *4: Published on the Company's website (<https://www.tktk.co.jp/csr/report/>)
- (*1, *3 and *4 : available in Japanese)

At the end of March 2023, the Tokyo Stock Exchange issued a notice titled, "Action to Implement Management that is Conscious of Cost of Capital and Stock Price." The situation for the Company with regard to this as of March 31, 2023 was as follows: ROE = 5.5%; PBR = 0.7x. The stock price, ROE and PBR has been on an improving trend relative to March 31, 2019 (ROE = 2.1%; PBR = 0.4x); however, they fall short of the standards detailed in the aforementioned notice and we fully acknowledge that there are still issues.

Going forward, we will begin by analyzing the current situation with reference to the content of the above notice (form an accurate understanding of the Company's capital costs and returns on capital, and analyze and evaluate the current situation with regard to this and the market evaluation at meetings of the Board of Directors), then formulate and disclose our plans.

As part of these efforts, we are analyzing metrics and identifying issues on a by business-segment or by model level, to improve initiatives focused on ROIC metrics toward the realization of business management and operations that take into account capital costs and return on capital.

Furthermore, in order to improve ROS, we will accelerate kaizen and DX initiatives while also engaging in structural reforms of existing core businesses (selection and centralization, reform of supply chains, reshuffling of production bases, etc.), formulating takeoff strategies for new businesses, investing in growth, and creating intangible assets through investment in human resource and R&D. Each of these shall be disclosed in the form of easy-to-follow growth stories and we will actively work on improving dialogue with our investors.

Despite a decline in sales for general plant projects and 3D inspection systems, net sales for the six months ended September 30, 2023 totaled 43,774 million yen (up 3.6% year on year), mainly due to increases in sales across the entire Metering Business segment and power distribution equipment.

On the profit front, despite the increases in sales for power distribution equipment and smart meters, these were not enough to cover the decreases in sales for general plant projects and 3D inspection systems, with operating profit totaling 2,253 million yen (down 2.1% year on year), ordinary profit decreasing to 2,406 million yen (down 3.4% year on year), and profit attributable to owners of parent decreasing to 1,442 million yen (down 11.0% year on year).

The operating results for each business segment are detailed below.

In the Electric Equipment business segment, net sales for the segment as a whole increased to 24,863 million yen (up 1.6% year on year) due to increases in sales for overseas construction projects and power distribution equipment, for which prices have been revised. However, this was not enough to cover the reduced sales for general plant projects, with segment profit decreasing to 2,358 million yen (down 5.6% year on year).

In the Metering Business segment, net sales for the segment as a whole rose to 13,954 million yen (up 8.7% year on year) due to increases in sales for replacement of expired meters and smart meters, for which prices have been revised, with segment profit increasing to 1,880 million yen (up 44.6% year on year).

In the GX Solution Business segment, net sales for the segment as a whole increased to 3,166 million yen (up 28.7% year on year) due to a recovery process in sales volume for fast chargers from the impact of longer delivery lead times for parts procurement, and an increase in sales related to the data business, which was newly launched. Segment losses narrowed to 339 million yen (compared to segment loss of 447 million yen in the previous fiscal year).

In the Applied Optics Inspection System Business segment, sales of 3D inspection system decreased due to

stagnating demand for semiconductors. As a result, net sales for the segment as a whole decreased to 1,302 million yen (down 33.2% year on year) and segment profit also decreased to 357 million yen (down 53.1% year on year).

In Other Businesses segment, a decline in real estate leasing revenue resulted in a decline in net sales for the segment as a whole to 488 million yen (down 3.6% year on year) and a contraction of segment profit to 329 million yen (down 4.6% year on year).

(2) Explanation of Financial Position

Total assets at the end of the second quarter under review decreased by 3,361 million yen compared to the end of the previous fiscal year to 102,961 million yen. This was primarily due to a decrease in notes and accounts receivable - trade, and contract assets despite an increase in inventories.

Liabilities decreased by 4,759 million yen from the end of the previous fiscal year to 43,103 million yen. This was primarily due to decreases in notes and accounts payable - trade, accrued consumption taxes, and income taxes payable, despite an increase in contract liabilities.

Net assets increased by 1,397 million yen from the end of the previous fiscal year to 59,858 million yen. This was primarily due to an increase in retained earnings owing to the recording of profit attributable to owners of parent and an increase in non-controlling interests, despite decreases resulting from dividends paid and purchase of treasury shares.

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

Regarding the full-year consolidated financial results forecast, we have not made any changes to the consolidated financial results forecast announced on April 26, 2023.

2. Quarterly Consolidated Financial Statements and Principal Notes

(1) Quarterly Consolidated Balance Sheets

(Million yen)

	As of March 31, 2023	As of September 30, 2023
Assets		
Current assets		
Cash and deposits	10,659	10,734
Notes and accounts receivable - trade, and contract assets	26,024	17,414
Electronically recorded monetary claims - operating	2,016	1,381
Merchandise and finished goods	2,508	2,167
Work in process	15,419	20,360
Raw materials and supplies	7,304	8,044
Other	1,851	2,329
Allowance for doubtful accounts	(4)	(4)
Total current assets	65,780	62,428
Non-current assets		
Property, plant and equipment		
Buildings and structures	33,010	33,101
Accumulated depreciation	(21,998)	(22,350)
Buildings and structures, net	11,012	10,751
Machinery, equipment and vehicles	22,035	22,399
Accumulated depreciation	(19,850)	(20,105)
Machinery, equipment and vehicles, net	2,184	2,293
Tools, furniture and fixtures	11,547	11,856
Accumulated depreciation	(10,822)	(11,018)
Tools, furniture and fixtures, net	725	838
Land	20,490	20,490
Construction in progress	330	208
Total property, plant and equipment	34,742	34,581
Intangible assets		
Other	1,971	1,947
Total intangible assets	1,971	1,947
Investments and other assets		
Investment securities	1,614	1,699
Long-term loans receivable	36	—
Retirement benefit asset	746	815
Deferred tax assets	598	629
Other	832	858
Total investments and other assets	3,828	4,003
Total non-current assets	40,542	40,532
Total assets	106,322	102,961

As of March 31, 2023

As of September 30, 2023

	As of March 31, 2023	As of September 30, 2023
Liabilities		
Current liabilities		
Notes and accounts payable - trade	15,992	13,554
Electronically recorded obligations - operating	65	89
Short-term borrowings	1,990	2,130
Income taxes payable	1,125	533
Contract liabilities	2,346	3,242
Provision for bonuses	2,067	2,009
Other	5,428	3,314
Total current liabilities	29,015	24,874
Non-current liabilities		
Long-term borrowings	1,300	850
Deferred tax liabilities	1,175	1,430
Provision for repairs	1,302	1,347
Provision for environmental measures	171	170
Provision for product warranties	1,314	1,047
Provision for share awards for directors (and other officers)	122	119
Retirement benefit liability	12,710	12,511
Other	750	750
Total non-current liabilities	18,847	18,228
Total liabilities	47,862	43,103
Net assets		
Shareholders' equity		
Share capital	8,000	8,000
Capital surplus	7,408	7,408
Retained earnings	38,063	39,100
Treasury shares	(195)	(458)
Total shareholders' equity	53,275	54,049
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	185	285
Deferred gains or losses on hedges	35	70
Foreign currency translation adjustment	397	489
Remeasurements of defined benefit plans	(108)	(32)
Total accumulated other comprehensive income	509	812
Non-controlling interests	4,675	4,995
Total net assets	58,460	59,858
Total liabilities and net assets	106,322	102,961

(2) Quarterly Consolidated Statements of Income and Comprehensive Income
Quarterly Consolidated Statements of Income
Six Months Ended September 30

(Million yen)

	For the six months ended September 30, 2022	For the six months ended September 30, 2023
Net sales	42,243	43,774
Cost of sales	31,938	32,931
Gross profit	10,304	10,842
Selling, general and administrative expenses	8,002	8,589
Operating profit	2,301	2,253
Non-operating income		
Interest income	1	1
Dividend income	22	18
Foreign exchange gains	126	59
Rental income from facilities	36	37
Sold power expenses	34	16
Compensation received	—	42
Other	62	38
Total non-operating income	283	214
Non-operating expenses		
Interest expenses	15	11
Sold power	10	10
Share of loss of entities accounted for using equity method	55	33
Other	13	5
Total non-operating expenses	95	60
Ordinary profit	2,489	2,406
Extraordinary income		
Gain on sale of non-current assets	0	3
Total extraordinary income	0	3
Extraordinary losses		
Loss on abandonment of non-current assets	3	13
Office relocation expenses	0	15
Loss on valuation of investment securities	—	67
Total extraordinary losses	3	96
Profit before income taxes	2,486	2,313
Income taxes - current	327	455
Income taxes - deferred	311	119
Total income taxes	639	575
Profit	1,847	1,737
Profit attributable to non-controlling interests	226	294
Profit attributable to owners of parent	1,620	1,442

Quarterly Consolidated Statements of Comprehensive Income

Six Months Ended September 30

(Million yen)

	For the six months ended September 30, 2022	For the six months ended September 30, 2023
Profit	1,847	1,737
Other comprehensive income		
Valuation difference on available-for-sale securities	(2)	99
Deferred gains or losses on hedges	2	55
Foreign currency translation adjustment	53	22
Remeasurements of defined benefit plans, net of tax	11	74
Share of other comprehensive income of entities accounted for using equity method	51	76
Total other comprehensive income	116	328
Comprehensive income	1,963	2,065
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	1,723	1,746
Comprehensive income attributable to non-controlling interests	240	319

(3) Notes to Quarterly Consolidated Financial Statements

(Notes on going concern assumption)

Not applicable.

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

Not applicable.

(Segment information, etc.)

[Segment information]

I. For the six months ended September 30, 2022 (from April 1, 2022 to September 30, 2022)

1. Information on net sales and profit or loss by reportable segment and information on disaggregated revenue

(Million yen)

	Reportable segment					Others (Note 1)	Total
	Electric Equipment Business	Metering Business	GX Solution Business	Applied Optics Inspection System Business	Total		
Net sales							
Revenue arising from contracts with customers	24,482	12,842	2,460	1,950	41,736	—	41,736
Other revenue (Note 2)	—	—	—	—	—	506	506
Net sales to outside customers	24,482	12,842	2,460	1,950	41,736	506	42,243
Inter-segment net sales or transfers	655	2,216	405	—	3,277	246	3,523
Total	25,138	15,058	2,866	1,950	45,013	753	45,767
Segment profit (loss)	2,499	1,300	(447)	762	4,114	345	4,459

(Notes) 1. The "Other" includes a real estate leasing business.

2. Other revenue includes real estate leasing revenue included in the scope of "Accounting Standard for Lease Transactions."

2. Differences between total profit or loss of reportable segments and amounts in quarterly consolidated statements of income and main details (Description of adjustments)

(Million yen)

Profit	Amount
Total segment profit of reportable segments	4,114
Segment profit of "Other"	345
Elimination of intersegment transactions	22
Corporate expenses (Note)	(2,192)
Other adjustments	12
Operating profit in the quarterly consolidated statements of income	2,301

(Note) Corporate expenses mainly represent general and administrative expenses not attributable to any reportable segments.

II. For the six months ended September 30, 2023 (from April 1, 2023 to September 30, 2023)

1. Information on net sales and profit or loss by reportable segment and information on disaggregated revenue

(Million yen)

	Reportable segment					Others (Note 1)	Total
	Electric Equipment Business	Metering Business	GX Solution Business	Applied Optics Inspection System Business	Total		
Net sales							
Revenue arising from contracts with customers	24,863	13,954	3,166	1,302	43,285	—	43,285
Other revenue (Note 2)	—	—	—	—	—	488	488
Net sales to outside customers	24,863	13,954	3,166	1,302	43,285	488	43,774
Inter-segment net sales or transfers	804	2,432	503	—	3,739	249	3,989
Total	25,667	16,386	3,669	1,302	47,025	738	47,764
Segment profit (loss)	2,358	1,880	(339)	357	4,257	329	4,587

(Notes) 1. The “Other” includes a real estate leasing business.

2. Other revenue includes real estate leasing revenue included in the scope of “Accounting Standard for Lease Transactions.”

2. Differences between total profit or loss of reportable segments and amounts in quarterly consolidated statements of income and main details (Description of adjustments)

(Million yen)

Profit	Amount
Total segment profit of reportable segments	4,257
Segment profit of “Other”	329
Elimination of intersegment transactions	23
Corporate expenses (Note)	(2,363)
Other adjustments	5
Operating profit in the quarterly consolidated statements of income	2,253

(Note) Corporate expenses mainly represent general and administrative expenses not attributable to any reportable segments.