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Consolidated Financial Results for the Three Months Ended June 30, 2023 [Japanese GAAP]



July 27, 2023

Company name: TAKAOKA TOKO CO., LTD.

Stock exchange listing: Tokyo Stock Exchange

Code number: 6617

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

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Scheduled date of filing quarterly securities report: August 4, 2023

Scheduled date of commencing dividend payments: –

Availability of supplementary explanatory 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 Three Months Ended June 30, 2023 (April 1, 2023 - June 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	%
Three months ended June 30, 2023	21,739	8.5	1,133	(18.4)	1,192	(21.3)	699	(29.8)
June 30, 2022	20,042	(1.8)	1,388	56.9	1,515	61.5	996	53.4

(Note) Comprehensive income: Three months ended June 30, 2023: ¥1,118 million [(5.7)%]

Three months ended June 30, 2022: ¥1,185 million [42.3%]

	Basic earnings per share		Diluted earnings per share	
	Yen		Yen	
Three months ended June 30, 2023	43.29		–	
June 30, 2022	61.73		–	

(2) Consolidated Financial Position

	Total assets		Net assets		Equity ratio	
	Million yen		Million yen		%	
As of June 30, 2023	102,189		59,173		53.1	
As of March 31, 2023	106,322		58,460		50.6	

(Reference) Equity: As of June 30, 2023: ¥54,255 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	–				
Fiscal year ending March 31, 2024 (Forecast)		25.00	–	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):
- | | |
|-----------------|-------------------|
| June 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:
- | | |
|-----------------|----------------|
| June 30, 2023: | 122,289 shares |
| March 31, 2023: | 122,164 shares |
- 3) Average number of shares during the period:
- | | |
|-----------------------------------|-------------------|
| Three months ended June 30, 2023: | 16,154,100 shares |
| Three months ended June 30, 2022: | 16,143,090 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. Moving forward, we will reconfigure 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 carry 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 three months ended June 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.

As part of our initiatives to become a comprehensive energy business provider, the aim set forth in our 2030 VISION, we revised our organization on June 29, 2023 and established the Human Resource Development Center. Our focus in doing this is to develop both human resources who can hone and deepen the existing businesses and those who can create added value in new areas and contribute to profit making in a way that is more systematic, effective, efficient, and agile than ever before. From such perspective, we will promote “boosting employees’ desire to grow” and “developing top-notch talents in the industry,” with the aim to enhance and effectively utilize human capital for increased corporate value. In addition, as part of our sustainability initiatives, we made an information disclosure on the Company’s website* on June 16, 2023 in line with the recommendations of the TCFD (Task Force on Climate-related Financial Disclosures) which we endorsed in June 2022. The gist of the “Risks & Opportunities” section in the disclosed content is that increased material unit prices and in-house manufacturing costs following the introduction of a carbon tax present a major risk. The Company is promoting measures in response to this risk, including reducing the amount of materials used by reviewing current designs, reducing costs by improving productivity, and reducing manufacturing costs through self-wheeling of renewable energy. On the other hand, the increased opportunity for orders of fast chargers and other related businesses due to the increasing adoption rate of EVs presents a huge opportunity for the Group. Moving forward, we will, among other measures, further expand our lineup of products, provide a one-stop service to include everything from design and construction right through to maintenance, reduce costs

in terms of both products and construction, and promote the move toward IoT. In doing this, we will continue to respond to the various demands of our customers regarding the usage of EVs. The business segments covered in this disclosure are the Electric Equipment Business and a part of the GX Solution Business, both on a non-consolidated basis. This fiscal year, we will begin expanding the business segments subject to disclosure while continuing to analyze risks and opportunities, make further considerations with regard to measures in response to these, and carry out information disclosures.

*Notification posted on our website:

https://www.tktk.co.jp/news/assets/pdf/news_20230616.pdf (Japanese only)

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 = 2.2%; 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.

We will begin these efforts by analyzing metrics and identifying issues on a by business-segment or by model level, such that we may 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 capital 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 three months ended June 30, 2023 totaled 21,739 million yen (up 8.5% year on year), mainly due to increases in sales across the entire Metering Business segment and overseas construction projects.

On the profit front, despite the increases in sales of instrument transformers and smart meters for electric power companies in the Metering Business segment, these were not enough to cover the decreases in sales for general plant projects, including disconnecting switches, and 3D inspection systems, with operating profit totaling 1,133 million yen (down 18.4% year on year), ordinary profit 1,192 million yen (down 21.3% year on year), and profit attributable to owners of parent 699 million yen (down 29.8% 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 12,483 million yen (up 5.1% 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, including disconnecting switches, with segment profit decreasing to 1,096 million yen (down 29.8% year on year).

In the Metering Business segment, net sales for the segment as a whole rose to 7,131 million yen (up 21.2% year on year) due to increases in sales for instrument transformers and smart meters for electric power companies, for which prices have been revised, with segment profit increasing to 1,026 million yen (up 82.6% year on year).

In the GX Solution Business segment, net sales for the segment as a whole increased to 1,096 million yen (up 15.2% year on year) due to an increase in sales related to the data business, which was newly launched, and

a recovery in sales volume for fast chargers owing to the impact of longer delivery lead times for parts procurement. Segment losses narrowed to 234 million yen (compared to segment loss of 263 million yen in the previous fiscal year). Segment results for the previous fiscal year have been reclassified based on the new segments after organizational revision for the purpose of comparison.

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 782 million yen (down 26.8% year on year) and segment profit also decreased to 248 million yen (down 40.1% 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 244 million yen (down 6.4% year on year) and a contraction of segment profit to 163 million yen (down 8.2% year on year).

(2) Explanation of Financial Position

Total assets at the end of the first quarter under review decreased by 4,133 million yen compared to the end of the previous fiscal year to 102,189 million yen. This was primarily due to a decrease in notes and accounts receivable - trade, and contract assets despite increases in cash and deposits and inventories.

Liabilities decreased by 4,846 million yen from the end of the previous fiscal year to 43,015 million yen. This was primarily due to decreases in notes and accounts payable - trade, provision for bonuses, and long-term borrowings, despite an increase in contract liabilities.

Net assets increased by 712 million yen from the end of the previous fiscal year to 59,173 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 a decrease resulting from dividends paid.

(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 June 30, 2023
Assets		
Current assets		
Cash and deposits	10,659	11,820
Notes and accounts receivable - trade, and contract assets	26,024	17,858
Electronically recorded monetary claims - operating	2,016	2,031
Merchandise and finished goods	2,508	2,735
Work in process	15,419	17,616
Raw materials and supplies	7,304	7,921
Other	1,851	1,769
Allowance for doubtful accounts	(4)	(4)
Total current assets	65,780	61,749
Non-current assets		
Property, plant and equipment		
Buildings and structures	33,010	33,043
Accumulated depreciation	(21,998)	(22,217)
Buildings and structures, net	11,012	10,825
Machinery, equipment and vehicles	22,035	22,661
Accumulated depreciation	(19,850)	(20,503)
Machinery, equipment and vehicles, net	2,184	2,158
Tools, furniture and fixtures	11,547	11,737
Accumulated depreciation	(10,822)	(11,054)
Tools, furniture and fixtures, net	725	683
Land	20,490	20,490
Construction in progress	330	456
Total property, plant and equipment	34,742	34,614
Intangible assets		
Other	1,971	1,958
Total intangible assets	1,971	1,958
Investments and other assets		
Investment securities	1,614	1,566
Long-term loans receivable	36	—
Retirement benefit asset	746	785
Deferred tax assets	598	640
Other	832	875
Total investments and other assets	3,828	3,867
Total non-current assets	40,542	40,440
Total assets	106,322	102,189

	As of March 31, 2023	As of June 30, 2023
Liabilities		
Current liabilities		
Notes and accounts payable - trade	15,992	14,427
Electronically recorded obligations - operating	65	88
Short-term borrowings	1,990	2,130
Income taxes payable	1,125	136
Contract liabilities	2,346	2,529
Provision for bonuses	2,067	1,076
Other	5,428	4,204
Total current liabilities	29,015	24,593
Non-current liabilities		
Long-term borrowings	1,300	850
Deferred tax liabilities	1,175	1,403
Provision for repairs	1,302	1,325
Provision for environmental measures	171	170
Provision for product warranties	1,314	1,253
Provision for share awards for directors (and other officers)	122	130
Retirement benefit liability	12,710	12,538
Other	750	750
Total non-current liabilities	18,847	18,422
Total liabilities	47,862	43,015
Net assets		
Shareholders' equity		
Share capital	8,000	8,000
Capital surplus	7,408	7,408
Retained earnings	38,063	38,356
Treasury shares	(195)	(196)
Total shareholders' equity	53,275	53,569
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	185	231
Deferred gains or losses on hedges	35	89
Foreign currency translation adjustment	397	418
Remeasurements of defined benefit plans	(108)	(53)
Total accumulated other comprehensive income	509	686
Non-controlling interests	4,675	4,917
Total net assets	58,460	59,173
Total liabilities and net assets	106,322	102,189

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

(Million yen)

	For the three months ended June 30, 2022	For the three months ended June 30, 2023
Net sales	20,042	21,739
Cost of sales	14,721	16,331
Gross profit	5,320	5,407
Selling, general and administrative expenses	3,932	4,273
Operating profit	1,388	1,133
Non-operating income		
Interest income	0	0
Dividend income	21	18
Foreign exchange gains	78	35
Rental income from facilities	18	19
Sold power	20	16
Other	33	10
Total non-operating income	172	100
Non-operating expenses		
Interest expenses	8	6
Sold power	5	5
Share of loss of entities accounted for using equity method	24	29
Other	6	1
Total non-operating expenses	45	41
Ordinary profit	1,515	1,192
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	0	9
Office relocation expenses	0	—
Loss on valuation of investment securities	—	67
Total extraordinary losses	0	77
Profit before income taxes	1,515	1,118
Income taxes - current	50	96
Income taxes - deferred	373	103
Total income taxes	424	199
Profit	1,090	918
Profit attributable to non-controlling interests	94	218
Profit attributable to owners of parent	996	699

Quarterly Consolidated Statements of Comprehensive Income

Three Months Ended June 30

(Million yen)

	For the three months ended June 30, 2022	For the three months ended June 30, 2023
Profit	1,090	918
Other comprehensive income		
Valuation difference on available-for-sale securities	21	45
Deferred gains or losses on hedges	5	77
Foreign currency translation adjustment	27	6
Remeasurements of defined benefit plans, net of tax	14	55
Share of other comprehensive income of entities accounted for using equity method	26	15
Total other comprehensive income	94	200
Comprehensive income	1,185	1,118
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	1,084	876
Comprehensive income attributable to non-controlling interests	101	242

(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.