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Consolidated Financial Results for the Six Months Ended September 30, 2022 [Japanese GAAP]

November 8, 2022

Company name: Nippon Signal Co., Ltd.
Stock exchange listing: Tokyo
Code number: 6741
URL: https://www.signal.co.jp
Representative: Hidehiko Tsukamoto President and CEO and COO
Contact: Hiromasa Fujimoto General Manager, General Affairs Department
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Scheduled date of filing quarterly securities report: November 9, 2022
Scheduled date of commencing dividend payments: December 1, 2022
Availability of supplementary briefing material on quarterly financial results: Available
Schedule of quarterly financial results briefing session: Scheduled

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

1. Consolidated Financial Results for the Six Months Ended September 30, 2022 (April 01, 2022 to September 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	
Six months ended	Million yen	%	Million yen	%	Million yen	%	Million yen	%
September 30, 2022	35,054	(0.4)	992	16.7	1,673	1.3	727	(23.3)
September 30, 2021	35,201	0.0	850	(29.2)	1,651	(4.9)	948	(30.5)

(Note) Comprehensive income: Six months ended September 30, 2022: ¥ 836 million [98.7%]
Six months ended September 30, 2021: ¥ 420 million [(73.3)%]

	Basic earnings per share	Diluted earnings per share
Six months ended	Yen	Yen
September 30, 2022	11.67	-
September 30, 2021	15.21	-

(2) Consolidated Financial Position

	Total assets	Net assets	Capital adequacy ratio
As of	Million yen	Million yen	%
September 30, 2022	132,365	86,329	65.2
March 31, 2022	134,086	86,740	64.7

(Reference) Equity: As of September 30, 2022: ¥ 86,329 million
As of March 31, 2022: ¥ 86,740 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	-	7.00	-	20.00	27.00
Fiscal year ending March 31, 2023	-	7.00			
Fiscal year ending March 31, 2023 (Forecast)			-	20.00	27.00

(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 01, 2022 to 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	95,000	11.7	7,000	29.9	7,800	19.3	5,200	15.5	83.37

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

* Notes:

(1) Changes in significant subsidiaries during the period under review (changes in specified subsidiaries resulting in changes in scope of consolidation): No

(2) Accounting methods adopted particularly for the preparation of quarterly consolidated financial statements:Yes

(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

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

1) Total number of issued shares at the end of the period (including treasury shares):
As of September 30, 2022: 68,339,704 shares
As of March 31, 2022: 68,339,704 shares

2) Total number of treasury shares at the end of the period:
As of September 30, 2022: 5,968,188 shares
As of March 31, 2022: 5,968,067 shares

3) Average number of shares during the period:
Six months ended September 30, 2022: 62,371,603 shares
Six months ended September 30, 2021: 62,371,677 shares

* These quarterly consolidated financial results reports are exempt from quarterly review conducted by certified public accountants or an audit corporation.

* Proper use of earnings forecasts, and other special matters

The statements regarding forecast of financial results in this report are based on the information that is available to the Company, as well as certain assumptions that are deemed to be reasonable by management. Therefore, there might be cases in which actual results differ materially from forecast values due to various factors.

For the forecast of financial results, please refer to “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

During the six months ended September 30, 2022 (April 1, 2022 to September 30, 2022), the outlook for the global economy remains uncertain, as China's zero-COVID policy and Russia's prolonged invasion of Ukraine have led to soaring prices for energy and materials and increased inflationary pressures, as well as exchange rate fluctuations associated with a significant increase in the U.S. policy interest rate.

In the Japanese economy, despite expectations for economic activities to normalize as the spread of COVID-19 has subsided, there are concerns about future economic deterioration due to factors such as the rapid depreciation of the yen and soaring material prices.

Under these circumstances, the Group will continue to solve social issues in Japan and overseas by supporting the evolution of infrastructure with safe and comfortable solutions and promote adaptation to changes in the business environment in and after the COVID-19 era, based on the second medium-term management plan "Next Stage 24" that began in FY2022. We have worked to address the impact of the difficulty in obtaining semiconductor components on the production process by making design changes.

The Company's business results for the six months ended September 30, 2022 were 63,303 million yen in orders received (up 70.4% year-on-year) and 35,054 million yen in net sales (down 0.4% year-on-year). Operating profit was 992 million yen (up 16.7% year-on-year), ordinary profit was 1,673 million yen (up 1.3% year-on-year), and profit attributable to owners of parent was 727 million yen (down 23.3% year-on-year).

An overview of the Company's business by segment is as follows.

[Transportation Infrastructure]

In Railway Signal Systems, we received orders and recorded sales of Automatic Train Control (ATC) systems and electronic interlocking devices as well as Centralized Traffic Control (CTC) systems, for railroad operators in the Japanese market.

We are also pursuing development of products providing solutions to support customers' structural reforms in the post-COVID-19 era, and are receiving increasing inquiries for Traio, which enables comprehensive monitoring across railway facilities and station devices to facilities around stations, thereby accelerating our business activities toward their social implementation.

In overseas markets, we received orders and recorded sales of Simple-structure and high-Performance ATC by Radio Communication System (SPARCS) in the Philippines, India, and China. We will contribute to the creation of comfortable and safe communities by building a system that helps reduce train headway and save energy.

For Smart Mobility Systems, particularly Road Traffic Safety Systems, we received orders and recorded sales for MVNO (network provision service business) that are being rolled out across Japan and the renewal of traffic control systems.

In addition, we are actively participating in various projects for verification testing of autonomous driving, which will enable us to continue to provide superior products both in terms of quality and cost.

As a result of the above, orders received were 42,264 million yen (up 114.2% year-on-year) and net sales were 19,157 million yen (down 3.2% year-on-year). Segment profit was 1,435 million yen (down 15.8% year-on-year).

[ICT Solutions]

In AFC, particularly Station Service Network Systems, in the domestic market, we received orders for and recorded sales of various types of platform doors and ticket vending machines.

The introduction of platform doors utilizing the system of fare revisions to promote barrier-free facilities at train stations is currently planned nationwide. We will expand our business activities by leveraging our strengths in areas such as platform doors and platform monitoring equipment, which offer a diverse lineup to meet the needs of each

installation location.

We will also develop products and services that support digital ticketing and electronic payment as solutions for seamless travel.

In overseas markets, we received orders and recorded sales for AFC systems and platform doors and others in Bangladesh and Egypt.

In Smart City Systems, particularly Security Solution Systems, we received orders for and recorded sales of various types of security products and robot products, mainly 3D sensors to be installed in platform doors, construction machinery, and farm equipment.

Further, as the number of installations of security gates, which provide a one-stop solution for managing the entry and exit of people and vehicles, has been on the rise in newly constructed buildings and amusement parks, we promoted the development of new systems in addition to meeting the demand for replacements.

As a result of the above, orders received were 21,038 million yen (up 20.8% year-on-year) and net sales were 15,897 million yen (up 3.2% year-on-year). Segment profit was 1,275 million yen (up 68.6% year-on-year).

(2) Explanation of Financial Position

(i) Assets, Liabilities and Net Assets

Total assets as of September 30, 2022 were 132,365 million yen, a decrease of 1,720 million yen from the end of the previous fiscal year, mainly due to a 10,322 million yen decrease in notes and accounts receivable - trade, and contract assets, despite a 5,352 million yen increase in inventories and a 1,405 million yen increase in cash and deposits.

Liabilities decreased by 1,309 million yen compared with the end of the previous fiscal year to 46,036 million yen, mainly due to a 1,485 million yen decrease in notes and accounts payable - trade, and a 696 million yen decrease in electronically recorded obligations - operating, despite an 890 million yen increase in short-term borrowings.

Net assets were 86,329 million yen, a decrease of 411 million yen compared with the end of the previous fiscal year, mainly due to a 1,247 million yen decrease in retained earnings from dividends, despite a 727 million yen profit attributable to owners of parent for the quarter and a 121 million yen in valuation difference on available-for-sale securities.

(ii) Cash Flows

The balance of cash and cash equivalents (“cash”) as of September 30, 2022 totaled 7,761 million yen, an increase of 1,416 million yen from the end of the previous fiscal year.

Cash flows in each area of activity during the six months ended September 30, 2022 are as follows.

(Cash flows from operating activities)

Net cash provided by operating activities was 3,001 million yen, compared with a cash inflow of 8,012 million yen in the same period of the previous fiscal year. The principal cash inflow factor was a decrease in trade receivables, despite an increase in inventories and a decrease in trade payables.

(Cash flows from investing activities)

Net cash used in investing activities was 1,097 million yen, compared with a cash outflow of 1,019 million yen in the same period of the previous fiscal year. The principal cash outflow factor was the acquisition of property, plant and equipment.

(Cash flow from financing activities)

Net cash used in financing activities was 548 million yen, compared with a cash outflow of 11,389 million yen in the same period of the previous fiscal year. The principal cash outflow factor was dividend payments, despite an increase in cash from short-term borrowings.

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

There are no revisions to the full-year consolidated earnings forecast for the fiscal year ending March 31, 2023 (April 1, 2022 to March 31, 2023) announced on May 10, 2022.

Among the Group's main businesses, Railway Signal Systems and Smart Mobility Systems in the Transportation Infrastructure segment and AFC in the ICT Solutions segment tend to have a higher proportion of the Group's sales at the end of each fiscal year, as capital investment by domestic railroad operators, which are our major customers, and public investment by police and other entities are the main drivers.

2. Quarterly Consolidated Financial Statements and Principal Notes

(1) Quarterly Consolidated Balance Sheets

(Million yen)

	As of March 31, 2022	As of September 30, 2022
Assets		
Current assets		
Cash and deposits	6,397	7,803
Notes and accounts receivable - trade, and contract assets	60,698	50,375
Electronically recorded monetary claims - operating	1,188	1,803
Merchandise and finished goods	3,774	5,560
Work in process	9,110	11,434
Raw materials and supplies	3,436	4,679
Other	2,052	3,386
Allowance for doubtful accounts	(1)	(1)
Total current assets	86,657	85,043
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	6,796	6,669
Machinery, equipment and vehicles, net	1,055	1,061
Tools, furniture and fixtures, net	1,560	1,755
Land	5,488	5,488
Leased assets, net	89	83
Construction in progress	1,621	1,294
Total property, plant and equipment	16,611	16,352
Intangible assets	1,900	1,848
Investments and other assets		
Investment securities	23,435	23,647
Long-term loans receivable	2	2
Retirement benefit asset	2,551	2,613
Deferred tax assets	1,273	1,204
Other	1,677	1,676
Allowance for doubtful accounts	(23)	(23)
Total investments and other assets	28,916	29,120
Total non-current assets	47,429	47,322
Total assets	134,086	132,365

(Million yen)

	As of March 31, 2022	As of September 30, 2022
Liabilities		
Current liabilities		
Notes and accounts payable - trade	10,367	8,881
Electronically recorded obligations - operating	4,231	3,535
Short-term borrowings	11,782	12,672
Lease liabilities	61	88
Income taxes payable	886	768
Provision for bonuses	2,603	2,413
Provision for loss on orders received	676	588
Other	6,428	6,693
Total current liabilities	37,037	35,641
Non-current liabilities		
Long-term deposits received	99	99
Long-term accounts payable - other	52	29
Lease liabilities	109	111
Deferred tax liabilities	602	611
Retirement benefit liability	9,444	9,542
Total non-current liabilities	10,307	10,394
Total liabilities	47,345	46,036
Net assets		
Shareholders' equity		
Share capital	10,000	10,000
Capital surplus	7,585	7,585
Retained earnings	65,806	65,287
Treasury shares	(6,570)	(6,571)
Total shareholders' equity	76,821	76,301
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	9,805	9,926
Remeasurements of defined benefit plans	114	101
Total accumulated other comprehensive income	9,919	10,027
Total net assets	86,740	86,329
Total liabilities and net assets	134,086	132,365

(2) Quarterly Consolidated Statements of Income and Comprehensive Income

Six Months Ended September 30

(Million yen)

	For the six months ended September 30, 2021	For the six months ended September 30, 2022
Net sales	35,201	35,054
Cost of sales	27,689	26,975
Gross profit	7,512	8,079
Selling, general and administrative expenses	6,662	7,086
Operating profit	850	992
Non-operating income		
Interest income	0	0
Dividend income	412	273
Dividend income of life insurance	145	155
Rental income from real estate	157	156
Nursing services income	13	7
Other	159	157
Total non-operating income	888	750
Non-operating expenses		
Interest expenses	19	16
Rental expenses on real estate	24	25
Taxes and dues	22	9
Nursing services expense	20	17
Other	0	1
Total non-operating expenses	86	70
Ordinary profit	1,651	1,673
Extraordinary income		
Gain on sale of non-current assets	0	—
Total extraordinary income	0	—
Extraordinary losses		
Loss on sale and retirement of non-current assets	3	1
Loss on valuation of investment securities	0	—
Loss on valuation of golf club membership	—	15
Total extraordinary losses	4	16
Profit before income taxes	1,648	1,656
Income taxes	699	928
Profit	948	727
(Details)		
Profit attributable to owners of parent	948	727

(Million yen)

	For the six months ended September 30, 2021	For the six months ended September 30, 2022
Other comprehensive income		
Valuation difference on available-for-sale securities	(584)	121
Remeasurements of defined benefit plans, net of tax	56	(12)
Total other comprehensive income	(527)	108
Comprehensive income	420	836
(Details)		
Comprehensive income attributable to owners of parent	420	836

(3) Quarterly Consolidated Statements of Cash Flows

(Million yen)

	For the six months ended September 30, 2021	For the six months ended September 30, 2022
Cash flows from operating activities		
Profit before income taxes	1,648	1,656
Depreciation	969	1,150
Loss (gain) on sale and retirement of non-current assets	3	1
Interest and dividend income	(412)	(273)
Interest expenses	19	16
Decrease (increase) in trade receivables	13,596	9,707
Decrease (increase) in inventories	81	(5,352)
Increase (decrease) in trade payables	(4,915)	(2,109)
Increase (decrease) in contract liabilities	(317)	1,371
Increase (decrease) in retirement benefit liability	190	106
Other, net	(2,072)	(2,979)
Subtotal	8,790	3,295
Interest and dividends received	412	273
Interest paid	(19)	(16)
Income taxes paid	(1,170)	(666)
Income taxes refund	—	114
Net cash provided by (used in) operating activities	8,012	3,001
Cash flows from investing activities		
Payments into time deposits	(43)	(38)
Proceeds from withdrawal of time deposits	49	49
Purchase of property, plant and equipment	(794)	(750)
Purchase of intangible assets	(190)	(308)
Purchase of investment securities	(88)	(8)
Proceeds from sale of investment securities	0	—
Other, net	48	(41)
Net cash provided by (used in) investing activities	(1,019)	(1,097)
Cash flows from financing activities		
Net increase (decrease) in short-term borrowings	(10,011)	800
Proceeds from deposits received from an affiliated company	—	40
Proceeds from deposits received from an unaffiliated entity	(130)	(100)
Repayments of lease liabilities	(3)	(44)
Dividends paid	(1,244)	(1,244)
Decrease (increase) in treasury shares	(0)	(0)
Net cash provided by (used in) financing activities	(11,389)	(548)
Effect of exchange rate change on cash and cash equivalents	25	60
Net increase (decrease) in cash and cash equivalents	(4,369)	1,416
Cash and cash equivalents at beginning of period	13,250	6,344
Cash and cash equivalents at end of period	8,880	7,761

(4) Notes to Quarterly Consolidated Financial Statements

(Notes on going concern assumption)

Not applicable

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

Not applicable

(Accounting methods adopted particularly for the preparation of quarterly consolidated financial statements)

(Deferral of cost variances)

Cost variances arising from seasonally fluctuating operating rates are expected to be mostly eliminated by the end of the cost accounting period (end of the fiscal year or the second quarter of the fiscal year); therefore, such cost variances are deferred as current assets (other) or current liabilities (other) at the end of the first and third quarters of the fiscal year.

(Calculation of tax expenses)

Tax expenses are calculated by reasonably estimating the effective tax rate after applying tax effect accounting to profit before income taxes for the consolidated fiscal year, including the second quarter of the fiscal year under review, and multiplying income/loss before income taxes for the quarter by the estimated effective tax rate.

(Changes in accounting policies)

The Company has adopted the "Implementation Guidance on Accounting Standard for Fair Value Measurement" (ASBJ Guidance No. 31, June 17, 2021; hereinafter "Fair Value Measurement Guidance") from the beginning of the first quarter of the fiscal year under review, and will prospectively apply the new accounting policies stipulated by the Fair Value Measurement Guidance in accordance with the transitional treatment provided in Paragraph 27-2 of the Fair Value Measurement Guidance. This adoption has no effect on the quarterly consolidated financial statements.

(Segment information, etc.)

[Segment information]

I For the six months ended September 30, 2021 (from April 1, 2021 to September 30, 2021)

Information on net sales and profit (loss) by reportable segment and classification of revenues

(Millions of yen)

	Reportable segment			Adjustments (Note 1)	Quarterly consolidated statements of income and comprehensive income (Note 2)
	Transportation Infrastructure	ICT Solutions	Total		
Net sales					
Net sales to external customers	19,798	15,403	35,201	–	35,201
Intersegment internal sales or transfers	–	–	–	–	–
Total	19,798	15,403	35,201	–	35,201
Goods or services transferred at a point in time	5,284	5,531	10,816	–	10,816
Goods or services transferred over time	14,514	9,871	24,385	–	24,385
Total	19,798	15,403	35,201	–	35,201
Segment profit	1,703	756	2,459	(1,609)	850

Notes: 1. Adjustments of (1,609) million yen in segment profit represent corporate expenses that are not allocated to reportable segments. Corporate expenses are primarily expenses of the administration divisions of the parent company's headquarters that are not attributable to any of the reportable segments.

2. Segment profit is adjusted with operating profit in the quarterly consolidated statements of income and comprehensive income.

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

Information on net sales and profit (loss) by reportable segment and classification of revenues

(Millions of yen)

	Reportable segment			Adjustments (Note 1)	Quarterly consolidated statements of income and comprehensive income (Note 2)
	Transportation Infrastructure	ICT Solutions	Total		
Net sales					
Net sales to external customers	19,157	15,897	35,054	–	35,054
Intersegment internal sales or transfers	–	–	–	–	–
Total	19,157	15,897	35,054	–	35,054
Goods or services transferred at a point in time	4,478	4,982	9,461	–	9,461
Goods or services transferred over time	14,678	10,914	25,593	–	25,593
Total	19,157	15,897	35,054	–	35,054
Segment profit	1,435	1,275	2,710	(1,717)	992

Notes: 1. Adjustments of (1,717) million yen in segment profit represent corporate expenses that are not allocated to reportable segments. Corporate expenses are primarily expenses of the administration divisions of the parent company's headquarters that are not attributable to any of the reportable segments.

2. Segment profit is adjusted with operating profit in the quarterly consolidated statements of income and comprehensive income.