

Financial Results for the Third Quarter Ended July 31, 2022 [Japan GAAP] (Consolidated)

Date: September 12, 2022
 Company Name and Code: Tomoe Engineering Co., Ltd. and Subsidiaries - 6309
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 Stock exchange listing: 1st Section, Tokyo Stock Exchange
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 Date to report Quarterly Consolidated Financial Statement: September 14, 2022
 Date for Dividend Payment: Not applicable to this financial quarter
 Preparation of Supplementary Explanatory Materials for Quarterly Operating Results: Not prepared
 Briefing Session for Quarterly Operating Results: Not planned

* Any fractional sums less than one million (or one thousand) yen are disregarded

1. Consolidated Financial Data for the Third Quarter Ended July 31, 2022

(1) Results of Operation (Consolidated) (Percent: Change from the same quarter of the previous year)

	Net Sales		Operating Income		Ordinary Income	
	Millions of Yen	Percent	Millions of Yen	Percent	Millions of Yen	Percent
Quarter Ended July 31, 2022	32,746	—	2,230	1.9	2,340	4.7
Quarter Ended July 31, 2021	33,416	17.6	2,190	34.6	2,235	35.5

	Net Income Attributable to Owners of the Parent		Net Income per Share	Fully Diluted Quarterly Net Income per Share
	Millions of Yen	Percent	Yen	Yen
Quarter Ended July 31, 2022	1,913	14.5	191. ⁷⁹	—
Quarter Ended July 31, 2021	1,670	55.4	167. ⁴⁶	—

(Note) Comprehensive income

Third Quarter ended July 31, 2022: 2,247 million yen (19.5%) Third Quarter ended July 31, 2021: 1,880 million yen (118.3%)

(Note) We have applied Accounting Standard for Revenue Recognition (ASBJ Statement No. 29) from the beginning of the consolidated first quarter, and the figures for the third quarter of the fiscal year ending October 31, 2022, are figures after applying the said accounting standard. Because a significant impact on net sales arises, the year-on-year percentage change in net sales is not shown.

(2) Financial Condition (Consolidated)

	Total Assets (A) (Millions of Yen)	Net Assets (B) (Millions of Yen)	Net Assets Ratio (B) / (A) (Percent)
Quarter Ended July 31, 2022	45,281	33,589	74.2
Year Ended October 31, 2021	43,254	31,841	73.6

(Reference) Net assets

Third Quarter ended July 31, 2022: 33,589 million yen Year Ended October 31, 2021: 31,841 million yen

2. Dividend Status

(Record Date)	Annual Dividend (Yen)				
	First Quarter	Interim Term	Third Quarter	End of Fiscal Year	Annual
Year Ended October 31, 2021	—	25. ⁰⁰	—	25. ⁰⁰	50. ⁰⁰
Year Ending October 31, 2022	—	25. ⁰⁰	—		
Year Ending October 31, 2022 (Prospect)				28. ⁰⁰	53. ⁰⁰

(Note) Revisions since the most recently released dividend projection: None

3. Forecast for Earnings for the Year Ending October 31, 2022 (Consolidated)

(Percent change from the previous Full Business Year)

	Net Sales		Operating Income		Ordinary Income	
	(Millions of Yen)	(Percent)	(Millions of Yen)	(Percent)	(Millions of Yen)	(Percent)
Full Business Year	45,100	—	3,150	10.8	3,230	11.2

	Net Income Attributable to Owners of the Parent		Net Income per Share
	(Millions of Yen)	(Percent)	Yen
Full Business Year	2,510	19.0	251. ⁵⁵

(Note) Revisions since the most recently released earnings forecast: None

We have applied Accounting Standard for Revenue Recognition from the beginning of the consolidated first quarter, and the forecasts are based on the said accounting standard. Because a significant impact on net sales arises, the percentage change against the net sales result for the fiscal year ended October 31, 2021, before application of the said standard, is not shown.

Notes

(1) Significant changes in subsidiaries during this period (changes in specific subsidiaries involving changes in the scope of consolidation): None

Number of new subsidiaries: __ (Company names):

Number of eliminated subsidiaries: __ (Company names):

(2) Adoption of the specific accounting method to create quarterly consolidated financial statements: None

(3) Changes in accounting policies, accounting estimates, and retrospective restatements.

1) Change in accounting policies due to revision of accounting standard: Yes

2) Other changes than the above 1): None

3) Change in accounting estimates: None

4) Retrospective restatements: None

Please refer to the Attachments for the details on page 8, (3) [Notes on Quarterly Consolidated Financial Statements] (Changes in accounting policies) of 2. [Quarterly Consolidated Financial Statements and Notes].

(4) Number of outstanding shares (Common stock)

1) Number of outstanding shares as of quarter-end and year-end (including treasury stocks)

At July 31, 2022: 10,533,200 shares At October 31, 2021: 10,533,200 shares

2) Number of treasury stocks as of quarter-end and year-end

At July 31, 2022: 554,940 shares At October 31, 2021: 554,911 shares

3) Number of average shares (accumulated quarterly total)

At July 31, 2022: 9,978,272 shares At July 31, 2021: 9,978,313 shares

*The quarterly earnings report is exempt from the quarterly review by certified public accountant or audit firm.

*Explanations for appropriate use of the earnings forecast and other special instructions

The forward-looking statements such as a forecast of our financial results described herein are based on the information currently available to us and certain assumptions that we believe are reasonable. Actual results could differ materially due to various factors.

Please refer to the Attachments on page 3, (3) [Analysis of Future Forecast on Quarterly Consolidated Earnings Forecast] of 1. [Qualitative Information on Quarterly Consolidated Operating Results] for the operating results forecast.

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1. Qualitative Information on Quarterly Consolidated Operating Results

(1) Analysis of Operating Results

During the third quarter of the current consolidated fiscal year, after getting off to a good start at the beginning of the quarter, Japan's economy leveled off on factors including a resurgence of COVID-19 infections. Recently, however, economic growth has been positive mainly due to a recovery in personal consumption and an increase in capital investment. Meanwhile, overseas, although the European economy has maintained momentum for recovery, the U.S. economy has continued to record negative growth amid tight labor market conditions, and the growth rate in the Chinese economy has slowed.

Given these circumstances, net sales in the third quarter of the current consolidated fiscal year were 32,746 million yen. With respect to earnings, against a backdrop of an increase in profits in the Chemical Products Business, operating income increased 1.9% year on year to 2,230 million yen, ordinary income increased 4.7% year on year to 2,340 million yen, and, because the Company recorded a profit on sales of noncurrent assets, net income attributable to owners of the parent increased 14.5% year on year to 1,913 million yen.

The figures for net sales revised due to the effect of the change of the revenue recognition standard decreased 118 million yen in the Machinery & Equipment Business and 4,979 million yen in the Chemical Products Business respectively.

Operating results by segment were as follows.

(Machinery & Equipment Business)

In the Machinery & Equipment Business, despite growth in net sales of machinery for domestic public sector demand, net sales of equipment and construction works, and components and repair services were stagnant. Despite growth in net sales of equipment and construction works, and components and repair services for domestic private sector demand, net sales of machinery and machinery for overseas markets sharply declined, further net sales of components and repair services remained low.

(Millions of Yen)

	Product classification	Machinery	Equipment and construction works	Components and repair services	TOTAL
Public sector	July, 2021 (previous standard)	313	1,025	2,214	3,553
	July, 2022 (new standard)	562	755	2,134	3,452
	July, 2022 (previous standard) *	562	873	2,134	3,570
Private sector	July, 2021 (previous standard)	533	4	1,386	1,924
	July, 2022 (new standard)	183	88	1,449	1,720
	July, 2022 (previous standard) *	183	88	1,449	1,720
Overseas markets	July, 2021 (previous standard)	1,837	0	1,909	3,748
	July, 2022 (new standard)	820	0	1,550	2,371
	July, 2022 (previous standard) *	821	0	1,550	2,372
TOTAL	July, 2021 (previous standard)	2,685	1,031	5,510	9,226
	July, 2022 (new standard)	1,566	843	5,134	7,544
	July, 2022 (previous standard) *	1,567	961	5,134	7,663

*For net sales in the consolidated quarter under review, the asterisk mark indicates the figure revised due to the effect of the change of the revenue recognition standard.

With respect to earnings, operating income was 409 million yen, 36.9% down from the same period one year earlier, reflecting lower revenue in the field of components and repair services for domestic public sector demand.

(Chemical Products Business)

In the Chemical Products Business, net sales of materials mainly for building and fireproof in the industrial materials and mineral products sectors, materials for paint and ink applications in the fine chemical products sector, and materials for semiconductor manufacturing devices in the electronic materials sector, and of all other sectors expanded.

(Millions of Yen)

	July, 2021 (previous standard)	July, 2022 (new standard)	July, 2022 (previous standard) *
Synthetic resin sector	6,184	3,887	7,634
Industrial materials sector	3,719	4,484	4,714
Mineral products sector	3,151	3,599	3,600
Chemical products sector	5,204	6,135	6,721
Advanced materials sector	2,715	2,969	3,344
Electronic materials sector	3,016	3,931	3,971
Other products (foreign liquor)	198	194	194
Total	24,189	25,202	30,181

*For net sales in the consolidated quarter under review, the asterisk mark indicates the figure revised due to the effect of the change of the revenue recognition standard.

With respect to earnings during the period, operating income was 1,821 million yen, 18.1% up from the same period one year earlier, reflecting strong sales in all sectors.

(2) Analysis of Financial Condition

Total assets as of the end of the consolidated third quarter under review were 45,281 million yen, increased by 2,027 million yen from the end of the previous consolidated fiscal year. This mainly reflected decrease in cash and deposits, and increases in merchandise and finished goods, and electronically recorded monetary claims.

Liabilities were 11,691 million yen, increased by 279 million yen from the end of the previous consolidated fiscal year, mainly because of increases in contract liabilities against advances received, and notes and accounts payable-trade, despite decreases in income taxes payable, and provision for bonuses.

Net assets stood at 33,589 million yen, increased by 1,748 million from the end of the previous consolidated fiscal year. This mainly reflected increase in retained earnings recorded under quarterly net income attributable to owners of the parent, despite decrease in valuation difference on available-for-sale securities.

As a result of the above changes, the equity ratio at the end of the consolidated third quarter under review stood at 74.2%, increased by 0.6 point compared with the end of the previous consolidated fiscal year.

(3) Analysis of Future Forecast on Consolidated Earnings Forecast

There are no revisions to the consolidated earnings forecast figures for the fiscal year ending October 31, 2022 as announced in the "Notice on changes in earnings forecast" released on September 2, 2022.

2. Quarterly Consolidated Financial Statement and Notes
(1) Quarterly Consolidated Balance Sheets (Third Quarter)

(Thousands of Yen)

Assets	End of Previous Year (October. 31, 2021)	End of Third Quarter (July 31, 2022)
Current Assets		
Cash and Deposits	12,607,490	10,037,741
Notes and Accounts Receivable-Trade	11,694,334	–
Notes, Accounts Receivable-Trade and Contract Assets	–	12,905,929
Electronically Recorded Monetary Claims	3,279,411	4,195,736
Merchandise and Finished Goods	3,589,851	5,680,426
Work in Process	1,290,848	1,308,370
Raw Materials and Supplies	743,778	1,169,316
Others	263,549	258,272
Allowance for Doubtful Accounts	-64,455	-78,561
Total Current Assets	33,404,810	35,477,231
Noncurrent Assets		
Property, Plant and Equipment		
Buildings and Structures	5,236,376	5,130,559
Accumulated Depreciation	-2,183,281	-2,168,926
Buildings and Structures, Net	3,053,095	2,961,632
Machinery, Equipment and Vehicles	3,992,687	4,188,886
Accumulated Depreciation	-3,555,668	-3,799,928
Machinery, Equipment and Vehicles, Net	437,019	388,957
Land	2,302,076	2,303,477
Construction in progress	16,246	75,999
Others	1,097,469	1,151,667
Accumulated Depreciation	-995,989	-1,052,311
Others, Net	101,480	99,355
Total Property, Plant and Equipment	5,909,917	5,829,423
Intangible Assets	81,073	71,899
Investments and Other Assets		
Investment Securities	1,425,438	1,288,107
Guarantee Deposits	402,260	553,212
Net Defined Benefit Assets	1,956,842	1,998,561
Deferred Tax Assets	13,508	65
Others	82,045	85,191
Allowance for Doubtful Accounts	-21,892	-21,992
Total Investments and Other Assets	3,858,203	3,903,146
Total Noncurrent Assets	9,849,194	9,804,469
Total Assets	43,254,004	45,281,700

(Thousands of Yen)

Liabilities and Net Assets	End of Previous Year (October. 31, 2021)	End of Third Quarter (July 31, 2022)
Liabilities		
Current Liabilities		
Notes and Accounts Payable-Trade	4,208,592	4,865,928
Electronically Recorded Monetary Debt	2,306,052	2,193,281
Accounts Payable-Others	685,729	860,288
Income Taxes Payable	775,198	231,227
Advances Received	308,942	-
Contract Liabilities	-	1,055,216
Provision for Bonuses	1,406,031	952,533
Provision for Directors' Bonuses	80,979	69,282
Allowance for Product Warranty	363,270	218,283
Others	536,079	365,715
Total Current Liabilities	10,670,876	10,811,756
Noncurrent Liabilities		
Provision for Directors' Retirement Benefits	5,460	5,460
Net Defined Benefit Liabilities	67,772	71,155
Deferred Tax Liabilities	668,441	803,340
Total Noncurrent Liabilities	741,673	879,955
Total Liabilities	11,412,550	11,691,712
Net Assets		
Shareholders' Equity		
Capital Stock	1,061,210	1,061,210
Capital Surplus	1,483,410	1,483,410
Retained Earnings	28,721,695	30,136,526
Treasury Stock	-364,081	-364,148
Total Shareholders' Equity	30,902,234	32,316,997
Accumulated Other Comprehensive Income		
Valuation Difference on Available-for-Sale Securities	450,885	345,723
Deferred Gains or Losses on Hedges	7,785	-10,291
Foreign Currency Translation Adjustment	213,842	704,417
Total Adjustment on Net Defined Benefit	266,705	233,139
Total Accumulated Other Comprehensive Income	939,220	1,272,990
Total Net Assets	31,841,454	33,589,987
Total Liabilities and Net Assets	43,254,004	45,281,700

(2) Quarterly Consolidated Statements of Income & Quarterly Consolidated Statements of Comprehensive Income

Quarterly Consolidated Statements of Income (Third Quarter)

(Thousands of Yen)

	Third Quarter Ended July 31, 2021	Third Quarter Ended July 31, 2022
Net Sales	33,416,070	32,746,291
Cost of Sales	25,853,523	24,804,988
Gross Profit	7,562,547	7,941,303
Selling, General and Administrative Expenses	5,372,325	5,710,383
Operating Income	2,190,221	2,230,919
Non-Operating Income		
Interest Income	1,997	1,546
Dividends Income	31,627	41,628
Rent Income	5,488	5,650
Foreign Exchange Gain	6,418	43,963
Others	18,819	30,046
Total Non-Operating Income	64,352	122,834
Non-Operating Expenses		
Interest Expenses	1,835	2,914
Commission Paid	8,243	8,243
Sales Discount	4,816	-
Others	4,536	2,058
Total Non-Operating Expenses	19,432	13,216
Ordinary Income	2,235,140	2,340,537
Extraordinary Profits		
Profit on Sales of Noncurrent Assets	-	460,722
Profit on Sales of Investment Securities	23,927	1,254
Gain on Liquidation of Affiliated Company	62,996	-
Total Extraordinary Profits	86,924	461,976
Income before Income Taxes	2,322,065	2,802,514
Income Taxes-Current	596,681	671,634
Income Taxes-Deferred	54,383	217,135
Total Income Taxes	651,065	888,769
Net Income	1,670,999	1,913,744
Net Income <i>Attributable to Owners of the Parent</i>	1,670,999	1,913,744

Quarterly Consolidated Statements of Comprehensive Income (Third Quarter)

(Thousands of Yen)

	Third Quarter Ended July 31, 2021	Third Quarter Ended July 31, 2022
Net Income	1,670,999	1,913,744
Other Comprehensive Income		
Valuation Difference on Available-for-sale Securities	113,713	-105,162
Deferred Gains or Losses (-) on Hedges	691	-18,076
Foreign Currency Translation Adjustment	104,974	490,575
Adjustment on Net Defined Benefit	-9,637	-33,566
Total Other Comprehensive Income	209,741	333,770
Comprehensive Income	1,880,741	2,247,514
(Breakdown)		
Comprehensive Income Attributable to Owners of the Parent	1,880,741	2,247,514

(3) Notes on Quarterly Consolidated Financial Statements

(Note for premise of going concern)

There are no pertinent matters to report.

(Notes for significant changes in shareholder's equity)

There are no pertinent matters to report.

(Changes in accounting policies)

(Application of Accounting Standard for Revenue Recognition)

We have applied Accounting Standard for Revenue Recognition (ASBJ Statement No. 29; hereinafter referred to as Accounting Standard for Revenue Recognition) from the beginning of the consolidated first quarter under review, and when control of the promised goods or services is transferred to the customer, we recognize as revenue the amount expected to be received in exchange for the said goods or services. As a result, for recognition of revenue, mainly the following changes have arisen.

1) Performance obligation identification and transaction price allocation

Regarding construction contracts that include machinery sales and construction, we have changed to the method of allocating transaction prices on the basis of standalone selling prices after recognizing the performance obligations relating to machinery sales and construction as separate performance obligations, and then recognizing revenue when each of the performance obligations is satisfied.

2) Revenue recognition for construction contracts

In the past, regarding construction contracts for which the outcomes of the construction activities were deemed certain during the courses of the activities, we applied the percentage-of-completion method, and for other construction contracts, we applied the completed-contract method. However, we have changed to the method of recognizing revenue over a specified period of time as the performance obligations are satisfied. Furthermore, regarding construction for which the percent complete relating to satisfying the performance obligation cannot reasonably be estimated, we recognize revenue based on the completed-contract method.

3) Revenue recognition for agent transactions

Regarding transactions for which it is judged that the Company's performance obligations in the contracts with customers are agent services to make arrangement for goods or services to be provided by other principals, we record revenue on a net basis by offsetting net sales to customers that were formerly recorded on a gross basis with the corresponding costs of sales.

4) Sales discounts

Sales discounts, which we formerly included in non-operating expenses, are deducted from net sales.

Regarding application of Accounting Standard for Revenue Recognition, we comply with the transitional treatment prescribed in the Article 84 provision of Accounting Standard for Revenue Recognition. The cumulative effect of retroactively applying the new accounting policy to periods prior to the beginning of the consolidated first quarter has been added to or subtracted from the retained earnings at the beginning of the quarter under review, and we apply the new accounting policy beginning from the relevant balance at the beginning of the period. However, applying the method prescribed in Article 86 of Accounting Standard for Revenue Recognition, we have not retroactively applied the new accounting policy to contracts for which almost all the revenue amounts were recognized in compliance with the prior treatment until before the beginning of the consolidated first quarter under review.

As a result, in the third quarter of the current consolidated fiscal year, net sales decreased by 5,098,496,000 yen, cost of sales decreased by 5,091,889 yen, operating income decreased by 6,607,000 yen respectively, and ordinary income and income before income taxes and minority interests increased by 168,000 yen respectively.

Because we applied Accounting Standard for Revenue Recognition, the notes and accounts receivable-trade that were shown under current assets in the consolidated balance sheet for the previous consolidated fiscal year are shown included in notes and accounts receivable - trade, and contract assets beginning from the consolidated first quarter. Furthermore, in compliance with the transitional treatment prescribed in Article 89-2 of Accounting Standard for Revenue Recognition, for the previous consolidated fiscal year, we have not performed a restatement by using the new presentation method.

(Application of Accounting Standard for Fair Value Measurement)

We have applied Accounting Standard for Fair Value Measurement (ASBJ Statement No. 30; hereinafter referred to as Accounting Standard for Fair Value Measurement) from the beginning of the consolidated first quarter, and in compliance with the transitional treatment prescribed in Article 19 of Accounting Standard for Fair Value Measurement and Article 44-2 of Accounting Standard for Financial Instruments (ASBJ Statement No. 10), we will in the future apply the new accounting policy prescribed by Accounting Standard for Fair Value Measurement. Furthermore, there is no effect on the quarterly consolidated financial statements.

(Segment Information, etc.)

[Segment Information]

I Third Quarter Ended July 31, 2021

Information Pertaining to the Amount of Net Sales or Net Loss of Each Reporting Segment

(Thousands of Yen)

	Reported Segment			Grand Total
	Machinery & Equipment Business	Chemical Products Business	Total	
Net Sales				
Net Sales to Unaffiliated Customers	9,226,753	24,189,316	33,416,070	33,416,070
Internal Net Sales among Segments or Amount Transferred	—	—	—	—
Total	9,226,753	24,189,316	33,416,070	33,416,070
Segment Profit	648,089	1,542,131	2,190,221	2,190,221

(Note) The total amount of segment profit is identical to the operating income reported on the Quarterly Consolidated Statements of Income.

II Third Quarter Ended July 31, 2022

Information Pertaining to the Amount of Net Sales or Net Loss of Each Reporting Segment

(Thousands of Yen)

	Reported Segment			Grand Total
	Machinery & Equipment Business	Chemical Products Business	Total	
Net Sales				
Net Sales to Unaffiliated Customers	7,544,189	25,202,102	32,746,291	32,746,291
Internal Net Sales among Segments or Amount Transferred	—	—	—	—
Total	7,544,189	25,202,102	32,746,291	32,746,291
Segment Profit	409,011	1,821,907	2,230,919	2,230,919

(Note) The total amount of segment profit is identical to the operating income reported on the Quarterly Consolidated Statements of Income.