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Consolidated Financial Results for the Three Months Ended March 31, 2022 [Japanese GAAP]



May 12, 2022

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 Scheduled date of filing quarterly securities report: May 12, 2022
 Scheduled date of commencing dividend payments: –
 Availability of supplementary explanatory materials on quarterly financial results: None
 Schedule of quarterly financial results briefing session: None

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

1. Consolidated Financial Results for the Three Months Ended March 31, 2022 (January 1, 2022 - March 31, 2022)

(1) Consolidated Operating Results (% indicates changes from the previous corresponding period.)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
Three months ended March 31, 2022	6,396	14.2	1,656	2.2	1,672	(0.4)	1,131	(4.7)
March 31, 2021	5,601	(4.8)	1,621	31.1	1,679	35.8	1,187	39.3

(Note) Comprehensive income: Three months ended March 31, 2022: ¥1,144 million [(4.3)%]
 Three months ended March 31, 2021: ¥1,196 million [88.0%]

	Basic earnings per share	Diluted earnings per share
Three months ended	Yen	Yen
March 31, 2022	118.72	—
March 31, 2021	124.55	—

(Note) The Company has applied the “Accounting Standard for Revenue Recognition” (ASBJ Statement No. 29, March 31, 2020) and other standards since the beginning of the first quarter of the fiscal year ending December 31, 2022, and the figures related to the three months ended March 31, 2022 are based on figures after applying these accounting standards.

(2) Consolidated Financial Position

	Total assets	Net assets	Equity ratio	Net assets per share
	Million yen	Million yen	%	Yen
As of March 31, 2022	29,342	22,670	77.1	2,372.85
As of December 31, 2021	27,516	21,505	78.0	2,250.65

(Reference) Equity: As of March 31, 2022: ¥22,619 million
 As of December 31, 2021: ¥21,455 million

(Note) The Company has applied the “Accounting Standard for Revenue Recognition” (ASBJ Statement No. 29, March 31, 2020) and other standards since the beginning of the first quarter of the fiscal year ending December 31, 2022, and the figures as of March 31, 2022 are based on figures after applying these accounting standards.

2. Dividends

	Annual dividends				
	1st quarter-end	2nd quarter-end	3rd quarter-end	Year-end	Total
	Yen	Yen	Yen	Yen	Yen
Fiscal year ended December 31, 2021	—	30.00	—	35.00	65.00
Fiscal year ending December 31, 2022	—				
Fiscal year ending December 31, 2022 (Forecast)		35.00	—	35.00	70.00

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

3. Consolidated Financial Results Forecast for the Fiscal Year Ending December 31, 2022 (January 1, 2022 - December 31, 2022)

(% indicates changes from the previous corresponding period.)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent		Basic earnings per share
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen
First half (Cumulative)	—	—	—	—	—	—	—	—	—
Full year	20,000	3.5	2,800	1.5	2,860	0.0	1,940	0.5	203.51

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

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1. Qualitative Information on Quarterly Financial Results

(1) Explanation of Operating Results

During the three months ended March 31, 2022, amid the prolonged effects of the COVID-19 pandemic, the economies of both Japan and overseas had been expected to recover, as economic activities went back to normal with the lifting of the movement restrictions and other developments in conjunction with the rollout of the COVID-19 vaccine. However, due to heightened geopolitical risk as a result of the Russian invasion of Ukraine, conditions remained unstable.

In the water supply and sewerage sector, risks threatening health and safety including the spread of COVID-19 and intensifying climate change have been increasing and efforts to carry out measures against the spread of COVID-19, measures against global warming and disaster countermeasures as well as life-supporting infrastructure such as water and sewerage systems have taken on added importance. Furthermore, there is a need for enhanced functions and efficient management to cope with intensifying natural disasters and respond to the drive to achieve a low-carbon society.

To meet these demands, the NJS Group (the “Group”) has formulated the “NJS Group PLAN 2030: Growth Strategies in a Low-carbon Age,” by upholding the purpose of “Handing down healthy water and environment to the next generation.” Under the concept of providing water and an environment that will protect the health and safety of the next generation, we intend to build a low-carbon society and achieve growth and the enhancement of corporate value. We will cultivate a consultant business for a new era as well as create a broad range of technology and services that go beyond consulting.

As a result, for the three months ended March 31, 2022, the Group reported consolidated work orders received of ¥2,091 million (down 25.8% year on year) and consolidated net sales of ¥6,396 million (up 14.2% year on year).

In terms of profits, the Group reported operating profit of ¥1,656 million (up 2.2% year on year), ordinary profit of ¥1,672 million (down 0.4% year on year), and profit attributable to owners of parent of ¥1,131 million (down 4.7% year on year).

Additionally, the “Accounting Standard for Revenue Recognition” (ASBJ Statement No. 29, March 31, 2020) has been applied from the beginning of the first quarter of the fiscal year ending December 31, 2022. Details are as stated in “2. Quarterly Consolidated Financial Statements and Principal Notes (3) Notes to Quarterly Consolidated Financial Statements (Changes in accounting policies) and (Segment information, etc.)”

Operating results by segment are as follows.

(Domestic operations)

In domestic operations, we have been engaged in research and design for the reconstruction of infrastructure; disaster prevention, mitigation and resilience improvement projects in response to intensifying natural disasters; inspection services to raise the efficiency of inspections and surveys of infrastructure; PPP services and operations to promote public-private collaborative projects, etc.

As a result, the domestic operations segment reported work orders received of ¥1,955 million (down 9.2% year on year), net sales of ¥5,875 million (up 13.6% year on year), and operating profit of ¥1,648 million (up 0.6% year on year).

(Overseas operations)

In overseas operations, we promoted projects to develop water-related infrastructure in the emerging countries of Asia, the Middle East, Africa, etc.

As a result, the overseas operations segment reported work orders received of ¥135 million (down 79.5% year on year), net sales of ¥463 million (up 24.9% year on year), and an operating loss of ¥20 million (an operating loss of ¥47 million in the same period of the previous fiscal year).

(2) Explanation of Financial Position

Total assets as of March 31, 2022 increased by ¥1,826 million compared to the end of the previous fiscal year to ¥29,342 million. This was mainly attributable to increases of ¥2,148 million in cash and deposits and ¥3,414 million in notes, accounts receivable-completed operation and contract assets (notes and accounts receivable-completed operation in the previous fiscal year) and a decrease of ¥3,814 million in costs on service contracts in progress under current assets.

Total liabilities as of March 31, 2022 increased by ¥661 million compared to the end of the previous fiscal year to ¥6,672 million. This was mainly attributable to increases of ¥521 million in income taxes payable and ¥575 million in contract liabilities (advances received on service contracts in progress in the previous fiscal year) under current liabilities.

Total net assets as of March 31, 2022 increased by ¥1,164 million compared to the end of the previous fiscal year to ¥22,670 million. This was mainly attributable to an increase of ¥1,151 million in retained earnings. As a result, the equity ratio was 77.1%.

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

There have been no changes from the consolidated financial results forecast announced on February 14, 2022.

While the impact of the COVID-19 pandemic on the Group's financial results has been minimal at present, we will continue to closely monitor various trends and promptly disclose any revisions of the financial results forecast, should they become necessary.

2. Quarterly Consolidated Financial Statements and Principal Notes

(1) Quarterly Consolidated Balance Sheets

(Thousands of yen)

	As of December 31, 2021	As of March 31, 2022
Assets		
Current assets		
Cash and deposits	13,460,637	15,609,079
Notes and accounts receivable-completed operation	3,316,142	—
Notes, accounts receivable-completed operation and contract assets	—	6,730,728
Costs on service contracts in progress	4,489,659	675,372
Other	459,626	516,156
Allowance for doubtful accounts	(25,944)	(26,387)
Total current assets	21,700,121	23,504,949
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	910,171	900,206
Land	1,446,831	1,446,831
Construction in progress	148,500	168,982
Other, net	135,279	143,023
Total property, plant and equipment	2,640,782	2,659,043
Intangible assets	449,222	476,567
Investments and other assets		
Investment securities	1,255,384	1,235,079
Other	1,521,528	1,520,771
Allowance for doubtful accounts	(50,952)	(54,062)
Total investments and other assets	2,725,960	2,701,788
Total non-current assets	5,815,966	5,837,399
Total assets	27,516,087	29,342,349

(Thousands of yen)

	As of December 31, 2021	As of March 31, 2022
Liabilities		
Current liabilities		
Accounts payable - operating	1,140,954	1,161,310
Current portion of long-term borrowings	2,856	2,856
Income taxes payable	611,599	1,133,345
Advances received on service contracts in progress	720,984	—
Contract liabilities	—	1,296,392
Provision for bonuses	659,995	696,809
Provision for share awards for directors (and other officers)	14,170	—
Provision for loss on order received	28,374	19,885
Provision for loss compensation	78,800	—
Other	1,574,417	1,264,540
Total current liabilities	4,832,152	5,575,141
Non-current liabilities		
Long-term borrowings	1,436	484
Retirement benefit liability	898,727	841,396
Other	278,166	255,020
Total non-current liabilities	1,178,329	1,096,901
Total liabilities	6,010,482	6,672,042
Net assets		
Shareholders' equity		
Share capital	520,000	520,000
Capital surplus	300,120	300,120
Retained earnings	21,061,671	22,213,318
Treasury shares	(806,724)	(806,724)
Total shareholders' equity	21,075,066	22,226,714
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	442,578	426,350
Foreign currency translation adjustment	(38,757)	(14,540)
Remeasurements of defined benefit plans	(23,877)	(18,648)
Total accumulated other comprehensive income	379,943	393,161
Non-controlling interests	50,595	50,430
Total net assets	21,505,605	22,670,306
Total liabilities and net assets	27,516,087	29,342,349

(2) Quarterly Consolidated Statements of Income and Comprehensive Income
Quarterly Consolidated Statements of Income
Three Months Ended March 31

(Thousands of yen)

	For the three months ended March 31, 2021	For the three months ended March 31, 2022
Net sales	5,601,363	6,396,178
Cost of sales	2,840,835	3,598,968
Gross profit	2,760,528	2,797,210
Selling, general and administrative expenses	1,139,406	1,140,240
Operating profit	1,621,121	1,656,969
Non-operating income		
Interest income	1,894	2,602
Dividend income	3,757	5,010
Reversal of allowance for doubtful accounts	16,651	—
Foreign exchange gains	33,343	1,894
Other	2,340	5,970
Total non-operating income	57,988	15,477
Non-operating expenses		
Interest expenses	22	8
Other	—	43
Total non-operating expenses	22	51
Ordinary profit	1,679,086	1,672,395
Profit before income taxes	1,679,086	1,672,395
Income taxes - current	523,871	487,644
Income taxes - deferred	(31,497)	53,208
Total income taxes	492,373	540,853
Profit	1,186,713	1,131,541
Loss attributable to non-controlling interests	(593)	(164)
Profit attributable to owners of parent	1,187,306	1,131,706

Quarterly Consolidated Statements of Comprehensive Income

Three Months Ended March 31

(Thousands of yen)

	For the three months ended March 31, 2021	For the three months ended March 31, 2022
Profit	1,186,713	1,131,541
Other comprehensive income		
Valuation difference on available-for-sale securities	(18,043)	(16,227)
Foreign currency translation adjustment	24,828	24,217
Remeasurements of defined benefit plans, net of tax	2,898	5,228
Total other comprehensive income	9,683	13,218
Comprehensive income	1,196,396	1,144,759
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	1,196,989	1,144,924
Comprehensive income attributable to non-controlling interests	(593)	(164)

(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.

(Changes in accounting policies)

(Application of Accounting Standard for Revenue Recognition, and other standards)

The Group has applied the "Accounting Standard for Revenue Recognition" (ASBJ Statement No. 29, March 31, 2020, hereinafter "Revenue Recognition Standard") and other standards from the beginning of the first quarter of the fiscal year ending December 31, 2022. Accordingly, revenue in the amount expected to be received in exchange for goods or services is recognized when control of the promised goods or services is transferred to the customer.

As a result, while the Group had previously applied the completed contract method, starting from the first quarter of the fiscal year ending December 31, 2022, the Group has changed its method so that in cases where the control of the goods and services is transferred to the customer over a period of time, revenue is recognized over a period of time as the performance obligation to transfer the goods and services to the customer is fulfilled. Additionally, for work for which estimates of the progress rate toward fulfillment of obligations cannot reasonably be made but the costs incurred are expected to be recovered, the cost recovery method is applied. It should be noted that in cases where the period from the commencement of the transaction stated in the contract to the point at which the performance obligations are completely fulfilled is extremely short, an alternative treatment is applied and instead of the recognition of revenue over a period of time, revenue is recognized at the point in time when the performance obligations are completely fulfilled.

In applying the Revenue Recognition Standard and other standards, the Group has complied with the transitional treatment set forth in the proviso to Paragraph 84 of the Revenue Recognition Standard. As such, the cumulative effect of retroactively applying the new accounting policy prior to the beginning of the first quarter of the fiscal year ending December 31, 2022, has been added to or subtracted from the beginning balance of retained earnings, and the application of the new accounting policy starts from that point. However, the Group applied the method provided for in Paragraph 86 of the Revenue Recognition Standard and did not retroactively apply the new accounting policy to contracts under which almost all revenue had been recognized in accordance with the previous treatment before the beginning of the first quarter of the fiscal year ending December 31, 2022.

As a result, for the three months ended March 31, 2022, net sales and cost of sales increased by ¥507 million and ¥508 million, respectively, while operating profit, ordinary profit, and profit before income taxes decreased by ¥1 million, respectively. Additionally, the beginning balance of retained earnings decreased by ¥58 million.

Due to the application of the Revenue Recognition Standard and other standards, starting from the first quarter of the fiscal year ending December 31, 2022, "Notes and accounts receivable-completed operation," which was presented under "Current assets" in the consolidated balance sheet for the previous fiscal year, is included in and presented as "Notes, accounts receivable-completed operation and contract assets," and "Advances received on service contracts in progress," which had been presented under "Current liabilities" in the consolidated balance for the previous fiscal year, is included in and presented as "Contract liabilities." In accordance with the transitional treatment prescribed in Paragraph 89-2 of the Revenue Recognition Standard, no reclassification has been made to conform to the new presentation for the previous fiscal year. Furthermore, in accordance with the transitional treatment prescribed in Paragraph 28-15 of the "Accounting Standard for Quarterly Financial Reporting" (ASBJ Statement No. 12, March 31, 2020), the Group has not presented disaggregated information on revenue from contracts with customers for the three months ended March 31,

2021.

(Application of Accounting Standard for Fair Value Measurement and other standards)

The Group has applied the “Accounting Standard for Fair Value Measurement” (ASBJ Statement No. 30, July 4, 2019, hereinafter the “Fair Value Measurement Standard”) and other standards from the beginning of the first quarter of the fiscal year ending December 31, 2022. In accordance with the transitional treatment stipulated in Paragraph 19 of the Fair Value Measurement Standard and Paragraph 44-2 of the “Accounting Standard for Financial Instruments” (ASBJ Statement No. 10, July 4, 2019), the Group will prospectively apply the new accounting policies stipulated by the Fair Value Measurement Standard and other standards. This change has had no impact on the quarterly consolidated financial statements.

(Additional information)

(Accounting estimates related to the impact of the spread of the COVID-19 infection)

There have been no significant changes to the assumptions related to the impact of the COVID-19 infection, which were stated in (Additional information) (Accounting estimates related to the spread of the COVID-19 infection) of the Annual Securities Report for the previous fiscal year.

(Segment information, etc.)

[Segment information]

I. For the three months ended March 31, 2021 (from January 1, 2021 to March 31, 2021)

1. Information on net sales and profit (loss) by reportable segment

(Thousands of yen)

	Reportable segments			Others (Note 1)	Total	Adjustments (Note 2)	Amount recorded in Quarterly Consolidated Statements of Income (Note 3)
	Domestic operations	Overseas operations	Total				
Net sales							
Net sales to outside customers	5,173,594	371,355	5,544,949	56,413	5,601,363	—	5,601,363
Intersegment net sales or transfers	—	—	—	—	—	—	—
Total	5,173,594	371,355	5,544,949	56,413	5,601,363	—	5,601,363
Segment profit (loss)	1,638,318	(47,070)	1,591,247	29,873	1,621,121	—	1,621,121

(Notes) 1. Others consist of businesses that are not included in the reportable segments, mainly the real estate leasing business.

2. The adjustments of segment profit (loss) are eliminations of intersegment transactions.

3. Segment profit (loss) is adjusted to correspond with operating profit reported on the quarterly consolidated statements of income.

2. Information on impairment loss on non-current assets and goodwill by reportable segment

Not applicable.

II. For the three months ended March 31, 2022 (from January 1, 2022 to March 31, 2022)

1. Information on net sales and profit (loss) by reportable segment and disaggregation of revenue

(Thousands of yen)

	Reportable segments			Others (Note 1)	Total	Adjustments (Note 2)	Amount recorded in Quarterly Consolidated Statements of Income (Note 3)
	Domestic operations	Overseas operations	Total				
Net sales							
Water supply systems	1,442,046	297,304	1,739,350	—	1,739,350	—	1,739,350
Sewerage systems	4,296,369	48,562	4,344,931	—	4,344,931	—	4,344,931
Environmental systems and others	137,152	117,832	254,984	—	254,984	—	254,984
Revenue from contracts with customers	5,875,568	463,699	6,339,267	—	6,339,267	—	6,339,267
Other revenue	—	—	—	56,911	56,911	—	56,911
Net sales to outside customers	5,875,568	463,699	6,339,267	56,911	6,396,178	—	6,396,178
Intersegment net sales or transfers	—	—	—	—	—	—	—
Total	5,875,568	463,699	6,339,267	56,911	6,396,178	—	6,396,178
Segment profit (loss)	1,648,090	(20,363)	1,627,726	29,242	1,656,969	—	1,656,969

(Notes) 1. Others consist of businesses that are not included in the reportable segments, mainly the real estate leasing business.

2. The adjustments of segment profit (loss) are eliminations of intersegment transactions.

3. Segment profit (loss) is adjusted to correspond with operating profit reported on the quarterly consolidated statements of income.

2. Information on impairment loss on non-current assets and goodwill by reportable segment

Not applicable.

3. Matters related to changes in reportable segments

As stated in (Changes in accounting policies), the Group applied the Revenue Recognition Standard and other standards from the beginning of the first quarter of the fiscal year ending December 31, 2022 and changed the method of accounting in connection with the recognition of revenue. Accordingly, the Group changed the method of calculating the profit or loss of its business segments.

As a result of this change, for the three months ended March 31, 2022, net sales in “Domestic operations” increased by ¥408 million and segment profit decreased by ¥19 million, while in “Overseas operations,” net sales increased by ¥98 million and segment loss decreased by ¥18 million, compared to the previous method.

(Significant subsequent events)

Not applicable.