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



November 10, 2022

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 Stock exchange listing: Tokyo Stock Exchange
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 Scheduled date of filing quarterly securities report: November 10, 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 Nine Months Ended September 30, 2022 (January 1, 2022 - 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	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
Nine months ended September 30, 2022	14,519	5.4	1,971	(13.0)	2,097	(10.2)	1,813	13.8
September 30, 2021	13,780	(10.8)	2,266	(6.7)	2,335	(5.3)	1,593	(4.9)

(Note) Comprehensive income: Nine months ended September 30, 2022: ¥1,904 million [18.7%]
 Nine months ended September 30, 2021: ¥1,604 million [(1.0)%]

	Basic earnings per share	Diluted earnings per share
Nine months ended	Yen	Yen
September 30, 2022	190.09	—
September 30, 2021	167.13	—

(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 nine months ended September 30, 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 September 30, 2022	28,659	23,077	80.3	2,413.27
As of December 31, 2021	27,516	21,505	78.0	2,250.65

(Reference) Equity: As of September 30, 2022: ¥23,025 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 September 30, 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	–	35.00	–		
Fiscal year ending December 31, 2022 (Forecast)				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
Full year	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen
	20,000	3.5	2,800	1.5	2,860	0.0	1,940	0.5	203.39

(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: – (Company Name-), Excluded: – (Company name -)
- (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: Yes
 - 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 shares (common shares)
- 1) Total number of issued shares at the end of the period (including treasury shares):

September 30, 2022:	10,048,000 shares
December 31, 2021:	10,048,000 shares
 - 2) Total number of treasury shares at the end of the period:

September 30, 2022:	506,909 shares
December 31, 2021:	515,209 shares
 - 3) Average number of shares outstanding during the period (cumulative from the beginning of the fiscal year):

Nine months ended September 30, 2022:	9,537,691 shares
Nine months ended September 30, 2021:	9,532,846 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

Forward-looking statements and other statements about the future in this document are based on information currently available to the Company and certain assumptions deemed reasonable, actual performance and other results may differ significantly due to various factors.

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1. Qualitative Information on Quarterly Financial Results

(1) Explanation of Operating Results

During the nine months ended September 30, 2022, the outlook for both Japanese and worldwide economies continued to remain uncertain, mainly due to the rise in prices triggered by the crisis in Ukraine and the delay in procurement of raw materials caused by the reemergence of COVID-19 and China's zero-tolerance COVID-19 policy.

In our business field of water supply, wastewater and environmental infrastructure, there has been a rash of accidents caused by aging facilities, including the water leakage at the Meiji Canal water headworks, raising the urgency to inspect the status of infrastructure assets for established asset management. Meanwhile, Japan was again hit by disasters caused by heavy rainfall this summer, which highlighted the necessity of mitigation and adaptation to climate change as a major challenge.

The NJS Group has, in response, made further advancement in its infrastructure inspection technologies for aging facilities that incorporate drones and other digital transformation (DX) technologies to develop new solutions such as WaterSlider, an airboat-like drone, and WATERi, an underwater drone. In the field of climate change measures, we have set up Regional & Energy Development Department to offer technologies and services for local decarbonization solutions.

To strengthen our business foundation, we have set "passing healthy water and environment to future generations" as our corporate purpose and are working to improve sustainability of all stakeholders. Going forward, we will continue offering solution services across the lifecycle of infrastructures by increasing values of human development resources.

Regarding the situations, for the nine months ended September 30, 2022, the Group reported consolidated work orders received of ¥14,418 million (down 1.8% year on year) and consolidated net sales of ¥14,519 million (up 5.4% year on year).

In terms of profits, the Group reported operating profit of ¥1,971 million (down 13.0% year on year), ordinary profit of ¥2,097 million (down 10.2% year on year), and profit attributable to owners of parent of ¥1,813 million (up 13.8% year on year).

Additionally, the "Accounting Standard for Revenue Recognition" (ASBJ Statement No. 29, March 31, 2020) and other standards have 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 projects for the reconstruction of aging infrastructure facilities; 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; and PPP services and operations to promote public-private collaborative projects, etc.

As a result, the domestic operations segment reported work orders received of ¥13,609 million (up 1.3% year on year), net sales of ¥12,637 million (up 3.8% year on year), and operating profit of ¥2,164 million (down 0.4% 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 ¥809 million (down 35.1% year on year) and net sales of ¥1,710 million (up 18.8% year on year); the segment, however, reported an operating loss of ¥265 million (an operating profit of ¥25 million in the same period of the previous fiscal year) due to the increased costs related to the arbitration in Oman, etc.

(2) Explanation of Financial Position

Total assets as of September 30, 2022, increased by ¥1,143 million from the end of the previous fiscal year to ¥28,659 million. This was mainly attributable to an increase in cash and deposits by ¥3,442 million as a result of an acceptance of assets associated with new consolidation of subsidiaries and the receipt of payments for services, an increase in notes, accounts receivable-completed operation and contract assets (notes and accounts receivable-completed operation in the previous fiscal year) by ¥277 million, and a decrease in costs on service contracts in progress by ¥3,188 million.

Total liabilities as of September 30, 2022, decreased by ¥428 million from the end of the previous fiscal year to ¥5,582 million. This was mainly attributable to a decrease in accounts payable - operating by ¥140 million, a decrease in income taxes payable by ¥267 million, an increase in contract liabilities (advances received on service contracts in progress in the previous fiscal year) by ¥332 million under current liabilities.

Total net assets as of September 30, 2022, increased by ¥1,571 million from the end of the previous fiscal year to ¥23,077 million. This was mainly attributable to an increase in retained earnings by ¥1,498 million. As a result, the equity ratio was 80.3%.

(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 September 30, 2022
Assets		
Current assets		
Cash and deposits	13,460,637	16,903,454
Notes and accounts receivable-completed operation	3,316,142	—
Notes, accounts receivable-completed operation and contract assets	—	3,594,073
Costs on service contracts in progress	4,489,659	1,301,250
Other	459,626	517,386
Allowance for doubtful accounts	(25,944)	(38,893)
Total current assets	21,700,121	22,277,270
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	910,171	910,350
Land	1,446,831	1,447,464
Construction in progress	148,500	317,482
Other, net	135,279	145,689
Total property, plant and equipment	2,640,782	2,820,987
Intangible assets		
Goodwill	—	128,079
Other	449,222	529,437
Total intangible assets	449,222	657,516
Investments and other assets		
Investment securities	1,255,384	1,201,240
Other	1,521,528	1,761,709
Allowance for doubtful accounts	(50,952)	(59,396)
Total investments and other assets	2,725,960	2,903,553
Total non-current assets	5,815,966	6,382,057
Total assets	27,516,087	28,659,328

(Thousands of yen)

	As of December 31, 2021	As of September 30, 2022
Liabilities		
Current liabilities		
Accounts payable - operating	1,140,954	1,000,409
Current portion of long-term borrowings	2,856	1,912
Income taxes payable	611,599	343,629
Advances received on service contracts in progress	720,984	—
Contract liabilities	—	1,053,110
Provision for bonuses	659,995	855,851
Provision for share awards for directors (and other officers)	14,170	—
Provision for loss on order received	28,374	47,435
Provision for loss compensation	78,800	—
Other	1,574,417	1,103,871
Total current liabilities	4,832,152	4,406,219
Non-current liabilities		
Long-term borrowings	1,436	—
Retirement benefit liability	898,727	840,211
Other	278,166	335,843
Total non-current liabilities	1,178,329	1,176,054
Total liabilities	6,010,482	5,582,274
Net assets		
Shareholders' equity		
Share capital	520,000	520,000
Capital surplus	300,120	267,117
Retained earnings	21,061,671	22,559,939
Treasury shares	(806,724)	(792,470)
Total shareholders' equity	21,075,066	22,554,587
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	442,578	414,654
Foreign currency translation adjustment	(38,757)	64,182
Remeasurements of defined benefit plans	(23,877)	(8,191)
Total accumulated other comprehensive income	379,943	470,645
Non-controlling interests	50,595	51,820
Total net assets	21,505,605	23,077,053
Total liabilities and net assets	27,516,087	28,659,328

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

(Thousands of yen)

	For the nine months ended September 30, 2021	For the nine months ended September 30, 2022
Net sales	13,780,073	14,519,088
Cost of sales	8,087,743	8,353,341
Gross profit	5,692,329	6,165,746
Selling, general and administrative expenses	3,425,790	4,194,210
Operating profit	2,266,538	1,971,536
Non-operating income		
Interest income	7,908	6,625
Dividend income	29,854	26,273
Reversal of allowance for doubtful accounts	17,936	—
Foreign exchange gains	5,527	76,158
Other	7,629	17,593
Total non-operating income	68,855	126,650
Non-operating expenses		
Interest expenses	42	17
Other	—	306
Total non-operating expenses	42	323
Ordinary profit	2,335,352	2,097,864
Extraordinary income		
Settlement received	40,627	458,758
Gain on step acquisitions	—	73,309
Total extraordinary income	40,627	532,068
Extraordinary losses		
Loss on sale and retirement of non-current assets	88	0
Loss on sale of investment securities	—	1,068
Total extraordinary losses	88	1,068
Profit before income taxes	2,375,891	2,628,863
Income taxes - current	692,303	739,277
Income taxes - deferred	88,412	75,307
Total income taxes	780,716	814,585
Profit	1,595,175	1,814,278
Profit attributable to non-controlling interests	1,958	1,225
Profit attributable to owners of parent	1,593,217	1,813,052

Quarterly Consolidated Statements of Comprehensive Income

Nine Months Ended September 30

(Thousands of yen)

	For the nine months ended September 30, 2021	For the nine months ended September 30, 2022
Profit	1,595,175	1,814,278
Other comprehensive income		
Valuation difference on available-for-sale securities	(24,400)	(27,924)
Foreign currency translation adjustment	25,136	102,939
Remeasurements of defined benefit plans, net of tax	8,694	15,686
Total other comprehensive income	9,429	90,701
Comprehensive income	1,604,604	1,904,979
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	1,602,646	1,903,754
Comprehensive income attributable to non-controlling interests	1,958	1,225

(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 nine months ended September 30, 2022, net sales and cost of sales decreased by ¥300 million and ¥271 million, respectively, while operating profit, ordinary profit, and profit before income taxes each increased by ¥29 million. 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 was presented under "Current liabilities" in the consolidated balance sheet 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 nine months ended September 30, 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.

(Adoption of the treatment of tax effect accounting for the transition from the consolidated taxation system to the group tax sharing system)

The Company and some of its domestic consolidated subsidiaries do not apply Paragraph 44 of the “Implementation Guidance on Tax Effect Accounting” (ASBJ Guidance No. 28, February 16, 2018) to items revised under the non-consolidated taxation system in connection with the transition from the consolidated taxation system to the group tax sharing system established under the “Act on the Partial Revision of the Income Tax Act, etc.” (Act No. 8 of 2020) due to the application of Paragraph 3 of the “Practical Solution on the Treatment of Tax Effect Accounting for the Transition from the Consolidated Taxation System to the Group Tax Sharing System” (ASBJ Practical Issues Task Force Report No. 39, March 31, 2020), and instead apply the pre-revision income tax law provisions to the amount of deferred tax assets and deferred tax liabilities.

(Segment information, etc.)

[Segment information]

I. For the nine months ended September 30, 2021 (from January 1, 2021 to September 30, 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	12,171,141	1,438,572	13,609,714	170,358	13,780,073	—	13,780,073
Intersegment net sales or transfers	—	1,500	1,500	—	1,500	(1,500)	—
Total	12,171,141	1,440,072	13,611,214	170,358	13,781,573	(1,500)	13,780,073
Segment profit	2,173,324	25,636	2,198,960	68,133	2,267,093	(554)	2,266,538

(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 are eliminations of intersegment transactions.

3. Segment profit 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 nine months ended September 30, 2022 (from January 1, 2022 to September 30, 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	3,257,773	971,228	4,229,002	—	4,229,002	—	4,229,002
Sewerage systems	9,041,602	177,960	9,219,563	—	9,219,563	—	9,219,563
Environmental systems and others	337,663	560,984	898,647	—	898,647	—	898,647
Revenue from contracts with customers	12,637,040	1,710,173	14,347,213	—	14,347,213	—	14,347,213
Other revenue	—	—	—	171,875	171,875	—	171,875
Net sales to outside customers	12,637,040	1,710,173	14,347,213	171,875	14,519,088	—	14,519,088
Intersegment net sales or transfers	—	—	—	—	—	—	—
Total	12,637,040	1,710,173	14,347,213	171,875	14,519,088	—	14,519,088
Segment profit (loss)	2,164,817	(265,057)	1,899,760	71,776	1,971,536	—	1,971,536

(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 partly due to 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

(Significant changes in the amount of goodwill)

In the “Domestic operations” segment, goodwill was generated from the acquisition of shares in FUYO CONSULTANT CO., LTD., which was converted into the Company’s subsidiary. The amount of goodwill generated was ¥130,250,000.

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 nine months ended September 30, 2022, net sales in “Domestic operations” decreased by ¥40 million and segment profit decreased by ¥2 million, while in “Overseas operations,” net sales increased by ¥341 million and segment loss decreased by ¥31 million, compared to the previous method.

(Significant subsequent events)

Not applicable.