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



August 10, 2023

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 Stock exchange listing: Tokyo Stock Exchange
 Code number: 2325
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 Scheduled date of filing quarterly securities report: August 10, 2023
 Scheduled date of commencing dividend payments: September 12, 2023
 Availability of supplementary explanatory materials on quarterly financial results: None
 Schedule of quarterly financial results briefing session: Yes (for institutional investors and analysts)

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

1. Consolidated Financial Results for the Six Months Ended June 30, 2023 (January 1, 2023 - June 30, 2023)

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

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
Six months ended June 30, 2023	12,622	12.5	2,341	(9.0)	2,426	(8.7)	1,648	(23.1)
June 30, 2022	11,221	2.5	2,574	3.7	2,657	3.3	2,144	20.7

(Note) Comprehensive income: Six months ended June 30, 2023: ¥1,772 million [(19.7%)]
 Six months ended June 30, 2022: ¥2,206 million [26.9%]

	Basic earnings per share	Diluted earnings per share
Six months ended	Yen	Yen
June 30, 2023	172.80	—
June 30, 2022	224.87	—

(2) Consolidated Financial Position

	Total assets	Net assets	Equity ratio	Net assets per share
	Million yen	Million yen	%	Yen
As of June 30, 2023	31,148	24,471	78.4	2,559.45
As of December 31, 2022	28,178	23,082	81.7	2,413.81

(Reference) Equity: As of June 30, 2023: ¥24,419 million
 As of December 31, 2022: ¥23,030 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 December 31, 2022	–	35.00	–	40.00	75.00
Fiscal year ending December 31, 2023	–	40.00			
Fiscal year ending December 31, 2023 (Forecast)			–	40.00	80.00

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

3. Consolidated Financial Results Forecast for the Fiscal Year Ending December 31, 2023 (January 1, 2023 - December 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	21,350	11.0	2,650	37.0	2,730	35.6	1,800	4.2	188.66

(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 six months ended June 30, 2023, the global economy showed a gradual recovery trend as economic activities gradually began to normalize due to the easing of behavioral restrictions associated with COVID-19. However, the outlook remains uncertain due to soaring energy and food prices and high global inflation caused by the prolonged situation in Ukraine and other factors.

As for the effects of climate change, greenhouse gas emissions continue to increase and are becoming more serious, with a succession of major floods, heat waves, droughts, forest fires, etc. occurring in many parts of the world. In response, COP27 held last November agreed to a loss and damage fund, and Japan announced a GX investment of 150 trillion yen over 10 years. In addition, the GX Promotion Law and the GX Decarbonized Power Supply Law were enacted in May of this year, accelerating the movement toward the realization of a decarbonized society. There is a growing recognition that environmental initiatives are essential even in uncertain economic times.

Japan's water supply and wastewater utilities face many challenges, such as aging facilities, intensifying disasters, declining population, and decarbonization, while their importance is growing as a business that protects the safety of communities against the spread of COVID-19 and the progression of climate change. Along with maintaining the health of infrastructure, a wide range of initiatives are needed, including disaster countermeasures, management efficiency, and decarbonization.

To meet these demands, the NJS Group (the "Group") is promoting efforts to protect healthy water and the environment and build a sustainable society through the four fields of consulting, software, inspection, and operations. Going forward, we will further develop these technologies and businesses to create next-generation infrastructure management and propose solutions that combine them.

As a result, for the six months ended June 30, 2023, the Group reported consolidated work orders received of ¥9,780 million (up 17.4% year on year) and consolidated net sales of ¥12,622 million (up 12.5% year on year).

In terms of profits, the Group reported operating profit of ¥2,341 million yen (down 9.0% year on year), ordinary profit of ¥2,426 million yen (down 8.7% year on year), and profit attributable to owners of parent of ¥1,648 million yen (down 23.1% year on year).

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; and PPP services and operations to promote public-private collaborative projects, etc.

As a result, the domestic operations segment reported work orders received of ¥7,701 million (down 0.7% year on year), net sales of ¥10,253 million (up 2.9% year on year), and operating profit of ¥2,281 million (down 15.3% 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 ¥2,079 million (up 264.5% year on year) and net sales of ¥2,253 million (up 97.5% year on year); and operating profit of ¥200 million (an operating loss of ¥165 million in the same period of the previous fiscal year).

(2) Explanation of Financial Position

(a) Status of assets, liabilities and net assets

Total assets as of June 30, 2023, increased by ¥2,969 million from the end of the previous fiscal year to ¥31,148 million. This was mainly attributable to a ¥4,669 million increase in cash and deposits, offsetting decreases of ¥1,467 million in notes receivable, accounts receivable for completed operations and contract assets, and ¥464 million in costs on uncompleted operations.

Total liabilities as of June 30, 2023, increased by ¥1,580 million from the end of the previous fiscal year to ¥6,676 million. This was mainly due to a ¥447 million increase in income taxes payable and a ¥1,191 million increase in contract liabilities.

Total net assets as of June 30, 2023, increased by ¥1,389 million from the end of the previous fiscal year to ¥24,471 million. This was mainly attributable to an increase in retained earnings by ¥1,266 million. As a result, the equity ratio was 78.4%.

(b) Status of cash flows

As of June 30, 2023, the balance of cash and cash equivalents amounted to ¥18,649 million, up ¥4,669 million from the end of the previous fiscal year.

The following is a summary of cash flow activities for the six months ended June 30, 2023.

(Cash flows from operating activities)

Funds provided by operating activities were ¥5,334 million yen (an inflow of ¥6,768 million in the same period of the previous year).

This is mainly attributable to income before income taxes and minority interests of ¥2,426 million, a decrease of ¥1,513 million in notes receivable, accounts receivable from completed operations, and contract assets, a decrease of ¥491 million in costs on uncompleted contracts, and an increase of ¥1,188 million in contract liabilities.

(Cash flows from investing activities)

Funds used in investing activities were ¥332 million (an outflow of ¥622 million in the same period of the previous year).

This is mainly attributable to ¥298 million for payments into time deposits.

(Cash flows from financing activities)

Funds used in financing activities were ¥385 million (an outflow of ¥334 million in the same period of the previous year).

This is mainly attributable to dividends paid of ¥382 million.

(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, 2023.

2. Quarterly Consolidated Financial Statements and Principal Notes

(1) Quarterly Consolidated Balance Sheets

(Thousands of yen)

	As of December 31, 2022	As of June 30, 2023
Assets		
Current assets		
Cash and deposits	13,980,087	18,649,385
Notes, accounts receivable-completed operation and contract assets	5,404,355	3,936,651
Costs on service contracts in progress	1,720,956	1,256,445
Other	466,568	567,658
Allowance for doubtful accounts	(30,032)	(43,619)
Total current assets	21,541,934	24,366,521
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	1,436,967	1,377,231
Land	1,447,464	1,447,464
Other, net	185,746	183,717
Total property, plant and equipment	3,070,179	3,008,414
Intangible assets		
Goodwill	110,752	98,886
Other	603,101	571,903
Total intangible assets	713,854	670,789
Investments and other assets		
Investment securities	1,241,524	1,413,687
Other	1,667,998	1,752,285
Allowance for doubtful accounts	(56,669)	(62,884)
Total investments and other assets	2,852,853	3,103,088
Total non-current assets	6,636,886	6,782,292
Total assets	28,178,821	31,148,813

(Thousands of yen)

	As of December 31, 2022	As of June 30, 2023
Liabilities		
Current liabilities		
Accounts payable - operating	1,384,059	1,477,111
Current portion of long-term borrowings	1,436	—
Income taxes payable	334,641	781,917
Contract liabilities	252,984	1,444,434
Provision for bonuses	770,541	594,425
Provision for loss on order received	49,800	65,481
Other	1,446,417	1,417,567
Total current liabilities	4,239,880	5,780,937
Non-current liabilities		
Retirement benefit liability	534,451	557,622
Other	322,035	338,273
Total non-current liabilities	856,486	895,896
Total liabilities	5,096,367	6,676,834
Net assets		
Shareholders' equity		
Share capital	520,000	520,000
Capital surplus	276,555	276,555
Retained earnings	22,473,675	23,739,838
Treasury shares	(792,470)	(792,569)
Total shareholders' equity	22,477,761	23,743,825
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	442,797	562,648
Foreign currency translation adjustment	(16,593)	50,908
Remeasurements of defined benefit plans	126,435	62,448
Total accumulated other comprehensive income	552,639	676,006
Non-controlling interests	52,053	52,147
Total net assets	23,082,454	24,471,979
Total liabilities and net assets	28,178,821	31,148,813

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

(Thousands of yen)

	For the six months ended June 30, 2022	For the six months ended June 30, 2023
Net sales	11,221,651	12,622,741
Cost of sales	5,870,690	7,564,122
Gross profit	5,350,961	5,058,618
Selling, general and administrative expenses	2,776,796	2,717,321
Operating profit	2,574,164	2,341,297
Non-operating income		
Interest income	3,844	5,932
Dividend income	25,290	29,625
Foreign exchange gains	42,396	33,989
Other	11,946	28,880
Total non-operating income	83,478	98,428
Non-operating expenses		
Interest expenses	13	1
Provision of allowance for doubtful accounts	—	12,810
Other	43	238
Total non-operating expenses	56	13,051
Ordinary income	2,657,585	2,426,673
Extraordinary income		
Settlement received	441,248	—
Subsidy income	—	28,582
Total extraordinary income	441,248	28,582
Extraordinary losses		
Loss on sale and retirement of non-current assets	0	482
Loss on tax purpose reduction entry of non-current assets	—	28,422
Loss on sale of investment securities	1,068	—
Total extraordinary losses	1,068	28,905
Profit before income taxes	3,097,765	2,426,350
Income taxes - current	790,069	699,589
Income taxes - deferred	164,278	77,959
Total income taxes	954,348	777,549
Profit	2,143,417	1,648,800
Profit (loss) attributable to non-controlling interests	(918)	94
Profit attributable to owners of parent	2,144,336	1,648,706

Quarterly Consolidated Statements of Comprehensive Income

Six Months Ended June 30

(Thousands of yen)

	For the six months ended June 30, 2022	For the six months ended June 30, 2023
Profit	2,143,417	1,648,800
Other comprehensive income		
Valuation difference on available-for-sale securities	(26,173)	119,851
Foreign currency translation adjustment	79,001	67,501
Remeasurements of defined benefit plans, net of tax	10,457	(63,986)
Total other comprehensive income	63,285	123,366
Comprehensive income	2,206,703	1,772,167
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	2,207,621	1,772,072
Comprehensive income attributable to non-controlling interests	(918)	94

(3) Quarterly Consolidated Statement of Cash Flows

(Thousands of yen)

	For the six months ended June 30, 2022	For the six months ended June 30, 2023
Cash flows from operating activities		
Profit before income taxes	3,097,765	2,426,350
Depreciation	122,958	161,674
Amortization of goodwill	—	11,866
Interest and dividend income	(29,135)	(35,557)
Interest expenses	13	1
Foreign exchange losses (gains)	(56,914)	(58,610)
Settlement received	(441,248)	—
Loss (gain) on sale of investment securities	1,068	—
Loss (gain) on retirement of non-current asset	0	482
Loss on tax purpose reduction entry of non-current assets	—	28,422
Subsidy income	—	(28,582)
Decrease (increase) in notes, accounts receivable- completed operation and contract assets	592,101	1,513,529
Decrease (increase) in costs on uncompleted services	3,542,897	491,964
Increase (decrease) in accounts payable-operation	(234,321)	88,432
Increase (decrease) in contract liabilities	773,065	1,188,301
Increase (decrease) in accrued consumption taxes	86,992	241,396
Increase (decrease) in allowance for doubtful accounts	19,389	17,163
Increase (decrease) in provision for bonuses	(200,736)	(176,116)
Increase (decrease) in retirement benefit liability	(95,600)	23,171
Other, net	(312,321)	(352,450)
Subtotal	6,865,975	5,541,439
Interest and dividends received	29,742	36,165
Interest paid	(13)	(1)
Settlement package received	441,248	—
Subsidy received	—	28,582
Income taxes paid	(568,718)	(271,887)
Net cash provided by (used in) operating activities	6,768,235	5,334,298
Cash flows from investing activities		
Proceeds from withdrawal of time deposits	183,771	125,351
Payments into time deposits	(193,404)	(298,234)
Purchase of property, plant and equipment	(217,736)	(75,805)
Purchase of intangible assets	(153,613)	(121,075)
Purchase of investment securities	(1,800)	—
Proceeds from sale of investment securities	10,187	—
Purchase of shares of subsidiaries and associates	(253,503)	—
Payments of leasehold and guarantee deposits	(3,188)	(4,876)
Proceeds from refund of leasehold and guarantee deposits	11,803	13,600
Other, net	(5,505)	28,618
Net cash provided by (used in) investing activities	(622,988)	(332,423)
Cash flows from financing activities		
Repayments of long-term borrowings	(1,666)	(1,436)
Dividends paid	(334,177)	(382,013)
Other, net	1,652	(2,184)
Net cash provided by (used in) financing activities	(334,191)	(385,633)

(Thousands of yen)

	For the six months ended June 30, 2022	For the six months ended June 30, 2023
Effect of exchange rate change on cash and cash equivalents	50,912	53,057
Net increase (decrease) in cash and cash equivalents	5,861,969	4,669,298
Cash and cash equivalents at beginning of period	13,460,637	13,980,087
Cash and cash equivalents from newly consolidated subsidiaries at the beginning of the year	367,376	—
Cash and cash equivalents at end of period	19,689,983	18,649,385

(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.

(Changes in accounting policies)

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

The Company has applied the "Guidance on Accounting Standard for Measurement of Fair Value" (ASBJ Guidance No. 31, June 17, 2021; hereinafter referred to as "Guidance on Accounting Standard for Measurement of Fair Value") from the beginning of the first quarter of the current fiscal year, and the new accounting policy prescribed by the Guidance is applied prospectively in accordance with the transitional treatment prescribed in Section 27-2 of the Guidance on Accounting Standard for Measurement of Fair Value. There is no impact on the quarterly consolidated financial statements.

(Additional information)

(Adoption of the Practical Solution on the Accounting and Disclosure Under the Group Tax Sharing System)

Effective from the first quarter of the current fiscal year, the Company and some of its domestic consolidated subsidiaries have shifted from a consolidated tax payment system to a group tax sharing system. In accordance with this change, the accounting treatment and disclosure of corporate and local income taxes and tax effect accounting are based on the " Practical Solution on the Accounting and Disclosure Under the Group Tax Sharing System " (PITF No. 42, August 12, 2021); the Company has assumed that there is no effect of the change in accounting policy due to the application of Paragraph 32-(1) of PITF No. 42.

(Segment information, etc.)

[Segment information]

I. For the six months ended June 30, 2022 (from January 1, 2022, to June 30, 2022)

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							
Water supply systems	2,480,554	683,079	3,163,633	—	3,163,633	—	3,163,633
Sewerage systems	7,250,793	108,995	7,359,788	—	7,359,788	—	7,359,788
Environmental systems and others	234,857	349,210	584,068	—	584,068	—	584,068
Revenue from contracts with customers	9,966,204	1,141,285	11,107,490	—	11,107,490	—	11,107,490
Other revenue	—	—	—	114,160	114,160	—	114,160
Net sales to outside customers	9,966,204	1,141,285	11,107,490	114,160	11,221,651	—	11,221,651
Intersegment net sales or transfers	—	—	—	—	—	—	—
Total	9,966,204	1,141,285	11,107,490	114,160	11,221,651	—	11,221,651
Segment profit (loss)	2,693,910	(165,578)	2,528,331	45,832	2,574,164	—	2,574,164

(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

Not applicable.

II. For the six months ended June 30, 2023 (from January 1, 2023, to June 30, 2023)

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	2,582,558	1,578,405	4,160,964	—	4,160,964	—	4,160,964
Sewerage systems	7,239,005	141,362	7,380,367	—	7,380,367	—	7,380,367
Environmental systems and others	431,827	534,122	965,950	—	965,950	—	965,950
Revenue from contracts with customers	10,253,391	2,253,890	12,507,282	—	12,507,282	—	12,507,282
Other revenue	—	—	—	115,458	115,458	—	115,458
Net sales to outside customers	10,253,391	2,253,890	12,507,282	115,458	12,622,741	—	12,622,741
Intersegment net sales or transfers	—	—	—	—	—	—	—
Total	10,253,391	2,253,890	12,507,282	115,458	12,622,741	—	12,622,741
Segment profit (loss)	2,281,541	2,787	2,284,329	56,967	2,341,297	—	2,341,297

(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

Not applicable.

(Significant subsequent events)

Not applicable.