



Consolidated Financial Results for the First Quarter of the Fiscal Year Ending January 31, 2023

June 10, 2022

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 Stock Code: 9692 URL <https://www.cec-ltd.co.jp/en/>
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 Scheduled Date of Filing of Quarterly Report: June 13, 2022 Scheduled Date of Dividend Payments: -
 Supplemental Materials Prepared for Quarterly Financial Results: Yes
 Briefing Held for Quarterly Financial Results: No

(Figures are rounded down to nearest million yen.)

1. Consolidated Performance for the First Quarter of the Fiscal Year Ending January 31, 2023 (February 1, 2022 to April 30, 2022)

(1) Consolidated Operating Results for the First Three Months (Percentages indicate increase/decrease from the same quarter of the previous fiscal year.)

	Net sales		Operating income		Ordinary income		Net income attributable to owners of parent	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
1Q ended Apr. 2022	11,801	2.8	900	(35.0)	907	(34.9)	837	(12.3)
1Q ended Apr. 2021	11,484	(9.0)	1,385	(9.9)	1,393	(10.1)	954	(10.7)

(Note) Comprehensive income 1Q ended Apr. 2022 818 million yen (29.6%) 1Q ended Apr. 2021 1,163 million yen 76.8%

	Net income per share	Diluted net income per share
	Yen	Yen
1Q ended Apr. 2022	24.02	23.84
1Q ended Apr. 2021	27.27	27.08

(Note) The Company has applied the "Accounting Standard for Revenue Recognition" (ASBJ Statement No. 29, March 31, 2020) and relevant ASBJ regulations from the beginning of the first quarter of the fiscal year ending January 31, 2023, and the figures relating to the said first quarter represent the amounts based on the aforementioned accounting standard and other relevant regulations.

(2) Consolidated Financial Position

	Total assets	Net assets	Equity ratio	Net assets per share
	Million yen	Million yen	%	Yen
1Q ended Apr. 2022	45,816	35,380	77.1	1,015.33
FY ended Jan. 2022	45,147	35,736	78.7	1,015.48

(Reference) Total shareholders' equity 1Q ended Apr. 2022 35,318 million yen FY ended Jan. 2022 35,534 million yen

(Note) The Company has applied the "Accounting Standard for Revenue Recognition" (ASBJ Statement No. 29, March 31, 2020) and relevant ASBJ regulations from the beginning of the first quarter of the fiscal year ending January 31, 2023, and the figures relating to the said first quarter represent the amounts based on the aforementioned accounting standard and other relevant regulations.

2. Dividends

	Dividends per share				
	1Q-end	2Q-end	3Q-end	FY-end	Total
	Yen	Yen	Yen	Yen	Yen
FY ended Jan. 2022	—	20.00	—	20.00	40.00
FY ending Jan. 2023	—				
FY ending Jan. 2023 (Forecast)		20.00	—	20.00	40.00

(Note) Adjustments from the dividend forecasts announced most recently: No

3. Consolidated Earnings Forecasts for Fiscal Year Ending January 31, 2023 (February 1, 2022 to January 31, 2023)

(Percentages indicate year-on-year increase/decrease.)

	Net sales		Operating income		Ordinary income		Net income attributable to owners of parent		Net income per share
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen
First half	23,300	3.8	1,800	(18.9)	1,810	(19.6)	1,450	(5.7)	41.68
Full year	48,000	6.1	4,500	7.0	4,540	6.0	3,300	8.6	94.87

(Notes) 1. Adjustments from the earnings forecasts announced most recently: Yes

2. The Company has applied the “Accounting Standard for Revenue Recognition” (ASBJ Statement No. 29, March 31, 2020) and relevant ASBJ regulations from the beginning of the first quarter of the fiscal year ending January 31, 2023, and the consolidated earnings forecasts above represent the amounts based on the aforementioned accounting standard and other relevant regulations.

Notes

(1) Significant changes in subsidiaries during the first three months of the fiscal year ending January 31, 2023 (Transfer of particular subsidiaries following a change in the scope of consolidation): None

(2) Application of special accounting methods in the preparation of quarterly consolidated financial statements: None

(3) Changes in accounting rules, procedures, or method of presentation relating to the preparation of the consolidated financial statements:

- 1) Changes based on revision of accounting standards: Yes
- 2) Changes other than 1) above: None
- 3) Changes in accounting estimates: None
- 4) Restatements: None

(Note) For details, please refer to “(3) Notes to Quarterly Consolidated Financial Statements (Changes in accounting policies)” in “2. Quarterly Consolidated Financial Statements and Major Notes” on page 12 of the accompanying material of the quarterly report.

(4) Number of shares issued and outstanding (common stock)

1) Number of shares issued and outstanding (including treasury stock)	1Q ended Apr. 2022	37,600,000 shares	FY ended Jan. 2022	37,600,000 shares
2) Number of treasury stock	1Q ended Apr. 2022	2,814,660 shares	FY ended Jan. 2022	2,606,760 shares
3) Average number of shares for each period	1Q ended Apr. 2022	34,870,767 shares	1Q ended Apr. 2021	34,993,280 shares

• The quarterly financial results are not subject to audit by certified public accountants or auditing firms.

• Proper use of forward-looking statements and cautionary statement:

(Matters to be noted regarding statements about the future)

Forward-looking statements including earnings forecasts contained in this document are based on information currently available to the Company and certain assumptions deemed to be reasonable. Actual results may vary from forecasts due to a variety of factors. For the conditions serving as assumptions underlying the earnings forecasts and notes on using the earnings forecasts, please see “Explanation on Consolidated Earnings Forecasts and Other Forward-Looking Information” on page 5 of the accompanying material of the quarterly report.

(Method of obtaining supplementary briefing material on quarterly financial results)

Supplementary materials for the quarterly financial results will be available on our company website (<https://www.cec-ltd.co.jp>) on Friday, June 10, 2022.

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1. Qualitative Information on Quarterly Financial Results

(1) Explanation on Operating Results

During the first quarter of the fiscal year ending January 31, 2023 (from February 1, 2022 to April 30, 2022), the Japanese economy experienced easing of severe conditions caused by COVID-19 and a resumption in investments on the backdrop of a moderate recovery in economic conditions. Meanwhile, in addition to the shortage of semiconductors, there are concerns about geopolitical risks due to the situation in Ukraine, etc., and there is a need to closely monitor the impact of soaring raw material prices, fluctuations in financial and capital markets and other factors.

In the information service industry, demand remained strong, particularly for digital transformation (DX), which promotes business strengthening and innovation. Meanwhile, threats in cyberspace continue to be extremely serious, and the need for security measures across the entire supply chain has become apparent, further increasing the demand for cybersecurity products and services.

Under these circumstances, the CEC Group has newly formulated a medium-term management plan covering three years from the fiscal year ending January 31, 2023 to the fiscal year ending January 31, 2025, with the aim of realizing “a sustainable society” and “the sustained growth of the CEC Group.” We define our vision for the future as “a company that creates the future with ICT technologies” and work to solve social and industrial issues through our business activities to increase our corporate value.

During the first three months ended April 30, 2022, we made efforts to resolve various issues with a view to expanding focused business areas, shifting to service-oriented business, and creating a synergy of business across the whole company as set forth in the medium-term management plan. In particular, in the focused business areas of the digital industry business, we conducted demonstration tests concerning the acquisition of indoor and outdoor location information by linking the Company’s ICT solution for logistics efficiency “LogiPull®” with location information services provided by major telecommunications carriers. By visualizing the current location of trucks, we aim to assist customers with logistics DX, such as labor-saving and automation of warehouse operations. On the other hand, in the focused business areas of the service integration business, we added a zero-trust security solution specializing in cloud services and remote work security measures to the lineup of “Cyber NEXT®” to improve the efficiency of security monitoring and operations, which is an urgent issue for companies and government agencies.

As a result of these efforts, in the first three months ended April 30, 2022, the operating status generally progressed as planned also in the focused business areas, the customers’ tendency to pursue selective ICT investment was gradually eliminated, and orders remained steady. Consequently, net sales increased by 316 million yen (2.8%) from the same period of the previous fiscal year to 11,801 million yen. In terms of profits, the impact of unprofitable projects in the previous fiscal year increased due to delays in delivery dates, and an additional provision for loss on orders was posted in the first three months ended April 30, 2022. As a result, operating income was 900 million yen, a decrease of 485 million yen (35.0%) from the same period of the previous fiscal year, ordinary income was 907 million yen, down 486 million yen (34.9%) year-on-year, and net income attributable to owners of parent was 837 million yen, a decrease of 116 million yen (12.3%) year-on-year.

The Company has applied the “Accounting Standard for Revenue Recognition” (ASBJ Statement No. 29, March 31, 2020) and relevant ASBJ regulations from the beginning of the first quarter of the fiscal year ending January 31, 2023. As a result, net sales for the first three months ended April 30, 2022 fell 6 million yen, and operating income, ordinary income, and profit before income taxes dropped 10 million yen, respectively. For details, please refer to “(3) Notes to Quarterly Consolidated Financial Statements (Changes in accounting policies)” in “2. Quarterly Consolidated Financial Statements and Major Notes.”

Operating results by segment are as follows.
(Digital Industry Business)

Sales of production and logistics solutions and mobility services, which are the focused business areas, declined slightly due to the extension of large-scale business negotiations and the overlapping of the search period for the next theme of development projects. On the other hand, in our core business areas, nishinohon and chubu district performed well, as the tendency for selective ICT investment by our major customers improved. As a result, net sales were up 100 million yen (2.5%) from the same period of the previous fiscal year to 4,096 million yen. Operating income was 1,035 million yen, an increase of 183 million yen (21.5%) year-on-year, due to the end of unprofitable projects that had occurred in some system development projects in the previous fiscal year and the overall favorable business environment.

(Service Integration Business)

As for the focused business areas in services in collaboration with Microsoft and migration services, ICT investments for DX, promotion of cloud computing, etc. were active and drove the favorable performance. In the security service business, the number of business negotiations increased due to the expansion of security threats in Japan, and the business performed well. On the other hand, in the infrastructure construction business, which is one of our core business areas, sales fell due to the impact of the stagnation in business negotiations caused by the semiconductor supply shortage. Group subsidiaries continued to show signs of

recovery due to an increase in inquiries amid improvements in the business environment. As a result, net sales increased by 215 million yen (2.9%) from the same period of the previous fiscal year to 7,704 million yen. Operating income came to 923 million yen, down 481 million yen (34.3%) from the same period of the previous fiscal year. This was because the impact of certain unprofitable systems development projects that occurred in the previous fiscal year expanded in the first three months ended April 30, 2022.

(2) Explanation on Financial Position

(Total assets)

Total assets as of the end of the first quarter were 45,816 million yen, an increase of 669 million yen from the end of the previous fiscal year. This was mainly due to an increase of 747 million yen in cash and deposits.

(Liabilities)

Total liabilities as of the end of the first quarter amounted to 10,436 million yen, up 1,025 million yen from the end of the previous fiscal year. This was mainly due to an increase of 530 million yen in contract liabilities included in others under current liabilities and an increase of 528 million increase in provision for bonuses.

(Net assets)

Net assets as of the end of the first quarter were 35,380 million yen, a decrease of 356 million yen from the end of the previous fiscal year. This was mainly due to an increase of 369 million yen in treasury stock.

(3) Explanation on Consolidated Earnings Forecasts and Other Forward-looking Information

For the consolidated earnings forecasts for the first six months ending July 31, 2022 and for the full year of the fiscal year ending January 31, 2023, please refer to "Notice Concerning Adjustments to Earnings Forecasts" announced today.

*The forecast figures signify projections made based on currently available information and are not intended to guarantee the achievement of those projections by the Company. Actual results, etc. may differ from the forecast figures due to changes in business conditions and other factors.

2. Consolidated Financial Statements and Major Notes

(1) Quarterly Consolidated Balance Sheet

(Unit: Thousands of yen)

	Previous Fiscal Year (January 31, 2022)	First Three Months of the Current Fiscal Year (April 30, 2022)
Assets		
Current assets		
Cash and deposits	22,430,915	23,178,487
Notes and accounts receivable - trade	9,943,170	—
Notes and accounts receivable - trade, and contract assets	—	9,050,956
Product	175,365	212,251
Work in progress	567,946	597,372
Other accounts receivable	55,208	23,683
Others	893,784	1,549,849
Allowance for doubtful accounts	(6,025)	(5,208)
Total current assets	34,060,367	34,607,392
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	3,112,508	3,957,565
Land	2,004,644	2,004,644
Construction in progress	606,540	—
Other, net	843,795	860,309
Total property, plant and equipment	6,567,488	6,822,519
Intangible assets		
Others	244,274	224,538
Total intangible assets	244,274	224,538
Investments and other assets		
Others	4,290,406	4,177,086
Allowance for doubtful accounts	(14,784)	(14,784)
Total investments and other assets	4,275,621	4,162,301
Total non-current assets	11,087,384	11,209,359
Total assets	45,147,751	45,816,752

(Unit: Thousands of yen)

	Previous Fiscal Year (January 31, 2022)	First Three Months of the Current Fiscal Year (April 30, 2022)
Liabilities		
Current liabilities		
Accounts payable - trade	2,538,726	2,903,679
Short-term loans payable	350,000	350,000
Current portion of long-term loans payable	13,600	13,600
Income taxes payable	992,300	394,337
Allowance for bonuses	523,301	1,052,122
Allowance for loss on order received	391,877	981,255
Allowance for loss compensation	411,484	—
Others	3,089,511	4,104,386
Total current liabilities	8,310,802	9,799,381
Non-current liabilities		
Long-term loans payable	27,400	27,400
Long-term accounts payable - other	487,095	26,370
Provision for directors' retirement benefits	16,256	16,959
Net defined benefit liability	98,282	100,252
Asset retirement obligations	471,003	465,682
Others	172	197
Total non-current liabilities	1,100,210	636,861
Total liabilities	9,411,012	10,436,243
Net assets		
Shareholders' equity		
Capital stock	6,586,000	6,586,000
Capital surplus	6,733,706	6,733,706
Retained earnings	23,439,194	23,610,718
Treasury shares	(1,663,539)	(2,032,804)
Total shareholders' equity	35,095,361	34,897,620
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	237,918	325,036
Foreign currency translation adjustment	524	7,785
Remeasurements of defined benefit plans	201,174	88,215
Total accumulated other comprehensive income	439,616	421,036
Subscription rights to shares	201,761	61,852
Total net assets	35,736,739	35,380,509
Total liabilities and net assets	45,147,751	45,816,752

(2) Quarterly Consolidated Statement of Income and Quarterly Consolidated Statement of Comprehensive Income
(Quarterly Consolidated Statement of Income)
(First three months ended April 30, 2022)

(Unit: Thousands of yen)

	First three months of the previous fiscal year (From February 1, 2021 to April 30, 2021)	First three months of the current fiscal year (From February 1, 2022 to April 30, 2022)
Net sales	11,484,420	11,801,241
Cost of sales	8,450,038	9,191,935
Gross profit	3,034,382	2,609,305
Selling, general and administrative expenses	1,648,982	1,708,966
Operating income	1,385,400	900,339
Non-operating income		
Interest income	1,117	1,143
Reversal of allowance for doubtful accounts	2,177	—
Dividends from insurance	—	12,849
Insurance claim income	2,771	—
Others	4,649	4,616
Total non-operating income	10,716	18,609
Non-operating expenses		
Interest expenses	485	565
Foreign exchange loss	1,468	8,936
Others	215	1,715
Total non-operating expenses	2,169	11,217
Ordinary income	1,393,946	907,730
Extraordinary income		
Gain on sale of non-current assets	6	—
Gain on sale of investment securities	1,395	—
Total extraordinary income	1,402	—
Extraordinary loss		
Loss on retirement of non-current assets	2,070	192
Impairment loss	—	704
Loss on sales of marketable securities	1,269	—
Total extraordinary loss	3,340	897
Profit before income taxes	1,392,009	906,833
Income taxes - current	572,612	396,424
Income taxes - deferred	(135,009)	(327,049)
Total income taxes	437,602	69,375
Net income	954,406	837,458
Net income attributable to owners of parent	954,406	837,458

(Quarterly Consolidated Statement of Comprehensive Income)

(First three months ended April 30, 2022)

(Unit: Thousands of yen)

	First three months of the previous fiscal year (From February 1, 2021 to April 30, 2021)	First three months of the current fiscal year (From February 1, 2022 to April 30, 2022)
Net income	954,406	837,458
Other comprehensive income		
Valuation difference on available-for-sale securities	77,645	87,117
Foreign currency translation adjustment	4,731	7,261
Remeasurements of defined benefit plans	127,124	(112,958)
Total other comprehensive income	209,502	(18,579)
Comprehensive income	1,163,908	818,878
(Comprehensive income attributable to)		
Comprehensive income attributable to owners of parent	1,163,908	818,878

(3) Notes to Quarterly Consolidated Financial Statements

(Notes to going concern assumption)

Not applicable

(Notes on substantial changes in the amount of shareholders' equity)

Not applicable

(Changes in accounting policies)

(Application of Accounting Standard for Revenue Recognition)

The Company has applied the "Accounting Standard for Revenue Recognition" (ASBJ Statement No. 29, March 31, 2020; hereinafter, "Accounting Standard for Revenue Recognition") and relevant ASBJ regulations from the beginning of the first quarter of the fiscal year ending January 31, 2023. Accordingly, revenue is recognized in the amount expected to be received in exchange for the promised goods or services when control of such goods or services is transferred to the customer.

The application of the Accounting Standard for Revenue Recognition, etc. is in accordance with the transitional treatment provided for in the proviso to Paragraph 84 of the Accounting Standard for Revenue Recognition. The amount of cumulative effect of the retrospective application, assuming the new accounting policy had been applied to periods prior to the beginning of the first quarter of the fiscal year ending January 31, 2023, was added to or deducted from the balance of retained earnings at the beginning of the first quarter of the fiscal year ending January 31, 2023, and thus the accounting policy was applied from such opening balance.

As a result, for the first three months of the fiscal year ending January 31, 2023, net sales decreased by 6,221 thousand yen, cost of sales increased by 4,626 thousand yen, and operating income, ordinary income, and profit before income taxes decreased by 10,848 thousand yen, respectively. In addition, the balance of retained earnings at the beginning of the fiscal year increased by 44,304 thousand yen.

Due to the application of the Accounting Standard for Revenue Recognition, etc., "notes and accounts receivable - trade," which was presented under "current assets" in the consolidated balance sheet for the previous fiscal year, is included in "notes and accounts receivable, and contract assets" from the first quarter of the fiscal year under review. In addition, "advances received" included in "others" under "current liabilities" has been included in "others" as "contract liabilities" and "advances received" from the first quarter of the fiscal year under review. Similarly, "allowance for loss compensation" presented under "current liabilities" has been included in "provision for loss on orders received" from the first quarter of the fiscal year under review, as a result of the reduction from the transaction price in the related contracts with customers.

In accordance with the transitional treatment prescribed in Paragraph 89-2 of the Accounting Standard for Revenue Recognition, no reclassification has been made for the previous fiscal year using the new presentation method.

(Application of Accounting Standard for Fair Value Measurement, Etc.)

The Company decided to adopt the "Accounting Standard for Fair Value Measurement" (ASBJ Statement No. 30, July 4, 2019; hereinafter, "Fair Value Accounting Standard") and relevant ASBJ regulations from the beginning of the first quarter of the fiscal year ending January 31, 2023 and apply the new accounting policy provided for in the Fair Value Accounting Standard, etc. in accordance with the transitional treatment prescribed in Paragraph 19 of the Fair Value Accounting Standard and Paragraph 44-2 of the "Accounting Standard for Financial Instruments" (ASBJ Statement No. 10, July 4, 2019) going forward. This has no impact on the quarterly consolidated financial statements.

(Segment information, etc.)

[Segment information]

First three months of the previous fiscal year (from February 1, 2021 to April 30, 2021)

1. Information relating to net sales and income or loss by reportable segment

(Unit: Thousands of yen)

	Reportable segment			Adjustment (Note 1)	Total (Note 2)
	Digital Industry Business	Service Integration Business	Total		
Net sales					
Sales to external customers	3,995,896	7,488,524	11,484,420	—	11,484,420
Inter-segment sales or transfers	199	128,298	128,497	(128,497)	—
Total	3,996,096	7,616,822	11,612,918	(128,497)	11,484,420
Segment profit	852,304	1,405,285	2,257,589	(872,189)	1,385,400

(Notes) 1. The adjustment of negative 872,189 thousand yen made to the segment profit includes primarily corporate expenses that are not allocated to individual reportable segments. Corporate expenses are primarily composed of administrative expenses that are not allocated to individual reportable segments.

2. Segment profit adjustments are based on operating income reported on the quarterly consolidated statement of income.

First three months of the current fiscal year (from February 1, 2022 to April 30, 2022)

1. Information relating to net sales and income or loss by reportable segment

(Unit: Thousands of yen)

	Reportable segment			Adjustment (Note 1)	Total (Note 2)
	Digital Industry Business	Service Integration Business	Total		
Net sales					
Sales to external customers	4,096,816	7,704,425	11,801,241	—	11,801,241
Inter-segment sales or transfers	532	123,896	124,428	(124,428)	—
Total	4,097,348	7,828,322	11,925,670	(124,428)	11,801,241
Segment profit	1,035,496	923,753	1,959,250	(1,058,911)	900,339

(Notes) 1. The adjustment of negative 1,058,911 thousand yen made to the segment profit includes primarily corporate expenses that are not allocated to individual reportable segments. Corporate expenses are primarily composed of administrative expenses that are not allocated to individual reportable segments.

2. Segment profit adjustments are based on operating income reported on the quarterly consolidated statement of income.

2. Matters concerning changes in reportable segments, etc.

As described in “Changes in accounting policies,” since the Company applied the Accounting Standard for Revenue Recognition, etc. from the beginning of the first quarter of the fiscal year under review and changed the accounting method for revenue recognition, the method of measuring income or loss of reportable segments has been changed accordingly.

As a result of this change, compared with the results under the previous method, in the Digital Industry Business, sales to external customers increased by 24,172 thousand yen and segment profit grew 3,563 thousand yen, while in the Service Integration Business, sales to external customers fell 30,393 thousand yen, and segment profit decreased by 14,411 thousand yen, for the first three months of the fiscal year under review.