



Consolidated Financial Results for the First Quarter of the Fiscal Year Ending January 31, 2024

June 9, 2023

Company Name: Computer Engineering & Consulting Ltd.

Stock Listing: Tokyo Stock Exchange

Stock Code: 9692 URL <https://www.cec-ltd.co.jp/en/>

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Scheduled Date of Filing of Quarterly Report: June 12, 2023 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, 2024 (February 1, 2023 to April 30, 2023)

(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. 2023	13,222	12.0	1,842	104.6	1,853	104.2	1,286	53.6
1Q ended Apr. 2022	11,801	2.8	900	(35.0)	907	(34.9)	837	(12.3)

(Note) Comprehensive income 1Q ended Apr. 2023 1,302 million yen 59.1% 1Q ended Apr. 2022 818 million yen (29.6%)

	Net income per share	Diluted net income per share
	Yen	Yen
1Q ended Apr. 2023	38.33	38.24
1Q ended Apr. 2022	24.02	23.84

(2) Consolidated Financial Position

	Total assets	Net assets	Equity ratio	Net assets per share
	Million yen	Million yen	%	Yen
1Q ended Apr. 2023	47,779	38,013	79.5	1,130.04
FY ended Jan. 2023	46,333	37,379	80.5	1,111.48

(Reference) Total shareholders' equity 1Q ended Apr. 2023 37,987 million yen FY ended Jan. 2023 37,309 million yen

2. Dividends

	Dividends per share				
	1Q-end	2Q-end	3Q-end	FY-end	Total
	Yen	Yen	Yen	Yen	Yen
FY ended Jan. 2023	—	25.00	—	20.00	45.00
FY ending Jan. 2024	—				
FY ending Jan. 2024 (Forecast)		25.00	—	25.00	50.00

(Notes) 1. Adjustments from the dividend forecasts announced most recently: No

2. Breakdown of dividends at the end of the second quarter of the fiscal year ended January 31, 2023: Ordinary dividend 20.00 yen, special dividend 5.00 yen

3. Consolidated Earnings Forecasts for Fiscal Year Ending January 31, 2024 (February 1, 2023 to January 31, 2024)

(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	25,600	9.0	3,000	52.3	3,010	51.4	2,070	(40.8)	61.62
Full year	51,000	5.8	5,550	26.9	5,570	26.2	3,840	(25.9)	114.40

(Note) Adjustments from the earnings forecasts announced most recently: Yes

Notes

(1) Significant changes in subsidiaries during the first three months of the fiscal year ending January 31, 2024 (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 10 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. 2023	37,600,000 shares	FY ended Jan. 2023	37,600,000 shares
2) Number of treasury stock	1Q ended Apr. 2023	3,983,860 shares	FY ended Jan. 2023	4,032,960 shares
3) Average number of shares for each period	1Q ended Apr. 2023	33,569,798 shares	1Q ended Apr. 2022	34,870,767 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 9, 2023.

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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, 2024 (from February 1, 2023 to April 30, 2023), the Japanese economy showed signs of recovery as economic activities normalized due to the effects of various policies under the stance of coexisting with COVID-19. However, there is a risk of the Japanese economy declining due to downturns in overseas economies amid continued global monetary tightening. In addition, there is a need to closely monitor domestic price increases, supply constraints, fluctuations in financial and capital markets and other factors, and the future remains uncertain.

In the information service industry, DX-related investment continued to be strong owing to growing needs for operational reforms accompanied by system reforms to enhance productivity and competitiveness as well as for business models and business structure reforms. This happened even as companies were cautious in making decisions on business performance due to the impact of rising raw material prices and other factors caused by prolonged geopolitical risks. Furthermore, many companies are investing in security measures as a management issue in order to respond to the ever-growing sophistication of cyber-attacks, and demand for cyber security products and services is increasing.

Under these circumstances, the CEC Group pursued its business under the basic policy of “strengthening business capabilities,” “strengthening human resources and technical capabilities,” and “strengthening management foundation.” This is based on its three-year medium-term management plan from the fiscal year ended January 2023 to the fiscal year ending January 2025, and has the aim of realizing “a sustainable society” and “the sustained growth of the CEC Group.” During the first three months ended April 30, 2023, we strived to unearth new business opportunities and acquire highly profitable business opportunities by cultivating major customers through promoting cross-selling and up-selling across the whole company. In addition, we introduced a new personnel system and improved working conditions in order to strengthen the recruitment of new graduates and experienced personnel, while boosting the satisfaction of young and mid-career employees and retaining skilled engineers.

From the perspective of sustainability management, as part of our efforts to resolve social issues through our business activities, we introduced virtually CO2-free electricity at three facilities in Kanagawa Prefecture. These facilities accounted for about 80% of the Company’s total CO2 emissions. In this way, we achieved 100% green power. Furthermore, to ensure fairness and transparency, as well as to increase corporate value, we have introduced a compensation system for the Company’s Directors consisting of fixed compensation and performance-linked compensation as an incentive to achieve sustainable growth.

As a result of these efforts, in the first three months ended April 30, 2023, ICT investment remained strong primarily among manufacturing companies which are our main customers. The operating status remained above plan in both our focused business areas*1 and our core business*2. Consequently, net sales increased 1,421 million yen (12.0%) from the same period of the previous fiscal year to 13,222 million yen. In terms of profits, income increased as a result of higher revenue as well as a reactionary increase related to allowance for loss on orders received posted in the same period of the previous fiscal year. As a result, operating income was 1,842 million yen, up 942 million yen (104.6%) from the same period of the previous fiscal year, ordinary income came to 1,853 million yen, up 945 million yen (104.2%) from the same period of the previous fiscal year, and net income attributable to owners of parent recorded 1,286 million yen, up 449 million yen (53.6%) from the same period of the previous fiscal year.

*1 The Company defines its six focused business areas as:

- (1) Production and logistics solutions, (2) Mobility services, (3) Services in cooperation with Microsoft Japan, (4) Migration services, (5) Security services, and (6) DX cloud platform.

*2 Core business: The Company defines its core business as the stable and foundation business that supports the Company, including commissioned development, which is our revenue base, provision of ICT infrastructure using data centers, construction and operations business, development of car-mounted and built-in devices, and verification business.

Operating results by segment are as follows.

(Digital Industry Business)

In mobility services, which is one of our focused business areas, big data and smartphone application development in the MaaS field performed well. Production and logistics solutions performed steadily, thanks to strong needs for development of production management systems for DX promotion of customers' plants and an increase in inquiries on ICT solutions for enhancing logistics efficiency on the back of strong needs for automation ranging from berth management to warehouse operations. In addition, in our nishinohon and chubu services of our core business, system development remained strong, against the backdrop of active ICT investment by customers in the manufacturing industry. As a result, net sales increased 545 million yen (13.3%) from the same period of the previous fiscal year to 4,642 million yen. In terms of profits, operating income came to

1,171 million yen, up 136 million yen (13.2%) from the same period of the previous fiscal year, due to higher profits in line with stronger sales.

(Service Integration Business)

Migration services, one of our focused businesses, performed well due to a growing trend in needs for migration services against the backdrop of DX promotion. In security services, sales fell due to a decline in stocking and sales, despite strong demand for product services. In the core business, the impact of unprofitable projects in the ongoing process remained within the expected range, and the ICT infrastructure construction business performed well as the semiconductor supply system normalized. As a result, net sales increased 875 million yen (11.4%) from the same period of the previous fiscal year to 8,580 million yen. In terms of profits, operating income came to 1,668 million yen, up 744 million yen (80.6%) from the same period of the previous fiscal year. This was due to higher profits in line with stronger sales as well as a reactionary increase related to allowance for loss on orders received posted in the same period of the previous fiscal year.

(2) Explanation on Financial Position

(Total assets)

Total assets as of the end of the first quarter were 47,779 million yen, an increase of 1,445 million yen from the end of the previous fiscal year. This was mainly due to an increase of 2,315 million yen in cash and deposits and a decrease of 1,113 million yen in notes and accounts receivable - trade, and contract assets.

(Liabilities)

Total liabilities as of the end of the first quarter amounted to 9,765 million yen, up 811 million yen from the end of the previous fiscal year. This was mainly due to an increase of 585 million yen in provision for bonuses and a rise of 391 million yen in contract liabilities included in others under current liabilities.

(Net assets)

Net assets as of the end of the first quarter were 38,013 million yen, an increase of 634 million yen from the end of the previous fiscal year. This was mainly due to an increase of 615 million yen in retained earnings.

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

The CEC Group is promoting a medium-term management plan covering the three-year period from the fiscal year ended January 31, 2023 to the fiscal year ending January 31, 2025, with the fiscal year ending January 31, 2024 being the second year of the plan. Based on the three pillars of our basic policies of (1) strengthening business capabilities, (2) strengthening human resources and technical capabilities, and (3) strengthening the management foundation, we are striving to solve social and industrial issues through our business activities and continuously improve our corporate value. For the consolidated earnings forecasts for the first six months ending July 31, 2023 and for the full year of the fiscal year ending January 31, 2024, 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. Quarterly Consolidated Financial Statements and Major Notes

(1) Quarterly Consolidated Balance Sheet

(Unit: Thousands of yen)

	Previous Fiscal Year (January 31, 2023)	First Three Months of the Current Fiscal Year (April 30, 2023)
Assets		
Current assets		
Cash and deposits	23,302,042	25,617,301
Notes and accounts receivable - trade, and contract assets	10,103,576	8,990,066
Product	254,597	216,542
Work in progress	504,914	583,957
Other accounts receivable	32,350	10,283
Others	1,013,313	1,126,186
Allowance for doubtful accounts	(2,067)	(1,555)
Total current assets	35,208,727	36,542,783
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	3,773,022	3,723,188
Land	2,004,644	2,004,644
Other, net	837,667	810,155
Total property, plant and equipment	6,615,333	6,537,988
Intangible assets		
Others	258,067	240,613
Total intangible assets	258,067	240,613
Investments and other assets		
Others	4,263,463	4,470,007
Allowance for doubtful accounts	(11,909)	(11,909)
Total investments and other assets	4,251,553	4,458,097
Total non-current assets	11,124,954	11,236,699
Total assets	46,333,682	47,779,483

(Unit: Thousands of yen)

	Previous Fiscal Year (January 31, 2023)	First Three Months of the Current Fiscal Year (April 30, 2023)
Liabilities		
Current liabilities		
Accounts payable - trade	2,251,585	2,503,233
Short-term loans payable	350,000	350,000
Current portion of long-term loans payable	13,600	13,600
Income taxes payable	965,599	635,636
Allowance for bonuses	585,623	1,171,018
Allowance for loss on order received	488,092	120,511
Others	3,656,595	4,331,987
Total current liabilities	8,311,096	9,125,987
Non-current liabilities		
Long-term loans payable	13,800	13,800
Long-term accounts payable - other	22,120	22,120
Provision for directors' retirement benefits	19,064	12,166
Net defined benefit liability	106,227	108,251
Asset retirement obligations	481,579	483,120
Others	123	147
Total non-current liabilities	642,914	639,606
Total liabilities	8,954,010	9,765,594
Net assets		
Shareholders' equity		
Capital stock	6,586,000	6,586,000
Capital surplus	6,733,706	6,737,978
Retained earnings	27,105,988	27,721,213
Treasury shares	(3,505,438)	(3,462,771)
Total shareholders' equity	36,920,256	37,582,420
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	371,132	349,965
Foreign currency translation adjustment	7,138	9,603
Remeasurements of defined benefit plans	10,713	45,497
Total accumulated other comprehensive income	388,983	405,067
Subscription rights to shares	70,431	26,401
Total net assets	37,379,671	38,013,888
Total liabilities and net assets	46,333,682	47,779,483

(2) Quarterly Consolidated Statement of Income and Quarterly Consolidated Statement of Comprehensive Income
(Quarterly Consolidated Statement of Income)
(First three months ended April 30, 2023)

(Unit: Thousands of yen)

	First three months of the previous fiscal year (From February 1, 2022 to April 30, 2022)	First three months of the current fiscal year (From February 1, 2023 to April 30, 2023)
Net sales	11,801,241	13,222,568
Cost of sales	9,191,935	9,688,259
Gross profit	2,609,305	3,534,309
Selling, general and administrative expenses	1,708,966	1,691,968
Operating income	900,339	1,842,340
Non-operating income		
Interest income	1,143	109
Foreign exchange gains	—	142
Dividends from insurance	12,849	7,953
Others	4,616	3,491
Total non-operating income	18,609	11,696
Non-operating expenses		
Interest expenses	565	475
Foreign exchange loss	8,936	—
Others	1,715	98
Total non-operating expenses	11,217	573
Ordinary income	907,730	1,853,463
Extraordinary loss		
Loss on retirement of non-current assets	192	454
Impairment loss	704	—
Total extraordinary loss	897	454
Profit before income taxes	906,833	1,853,009
Income taxes - current	396,424	664,403
Income taxes - deferred	(327,049)	(97,959)
Total income taxes	69,375	566,444
Net income	837,458	1,286,565
Net income attributable to owners of parent	837,458	1,286,565

(Quarterly Consolidated Statement of Comprehensive Income)
(First three months ended April 30, 2023)

(Unit: Thousands of yen)

	First three months of the previous fiscal year (From February 1, 2022 to April 30, 2022)	First three months of the current fiscal year (From February 1, 2023 to April 30, 2023)
Net income	837,458	1,286,565
Other comprehensive income		
Valuation difference on available-for-sale securities	87,117	(21,167)
Foreign currency translation adjustment	7,261	2,465
Remeasurements of defined benefit plans	(112,958)	34,784
Total other comprehensive income	(18,579)	16,083
Comprehensive income	818,878	1,302,649
(Comprehensive income attributable to)		
Comprehensive income attributable to owners of parent	818,878	1,302,649

(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 Implementation Guidance on Accounting Standard for Fair Value Measurement)

The Company decided to adopt the "Implementation Guidance on Accounting Standard for Fair Value Measurement" (ASBJ Guidance No. 31, June 17, 2021; hereinafter, "Fair Value Accounting Standard Implementation Guidance") from the beginning of the first quarter of the fiscal year ending January 31, 2024, and apply the new accounting policy provided for in the Fair Value Accounting Standard Implementation Guidance in accordance with the transitional treatment prescribed in Paragraph 27-2 of the Fair Value Accounting Standard Implementation Guidance 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, 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.

First three months of the current fiscal year (from February 1, 2023 to April 30, 2023)

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	4,642,497	8,580,071	13,222,568	—	13,222,568
Inter-segment sales or transfers	85	177,012	177,097	(177,097)	—
Total	4,642,582	8,757,083	13,399,666	(177,097)	13,222,568
Segment profit	1,171,947	1,668,336	2,840,283	(997,943)	1,842,340

(Notes) 1. The adjustment of negative 997,943 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.

3. Others

Orders received and orders in hand

Orders received and orders in hand in the digital industry business during the first three months ended April 30, 2023, increased from the same period of the previous fiscal year due to strong ICT investment by customers in the manufacturing industry. In addition, orders received in the service integration business remained at the same level as in the same period of the previous fiscal year against the backdrop of needs to promote DX, and orders in hand increased significantly compared with the same period of the previous fiscal year due to an increase in long-term projects in the infrastructure construction business, including security.

Orders received by segment during the first three months ended April 30, 2023, are as follows.

(Unit: Thousands of yen)

Segment name	Orders received	Change from the same period of previous fiscal year (%)	Orders in hand	Change from the same period of previous fiscal year (%)
Digital Industry Business	4,835,739	109.4	3,533,954	105.7
Service Integration Business	10,390,860	101.3	14,128,060	128.2
Total	15,226,600	103.7	17,662,015	122.9