



Consolidated Financial Results for the Six Months Ended September 30, 2022 (Under Japanese GAAP)

November 11, 2022

Listing: Tokyo Stock Exchange

Company name: DKK Co., Ltd.

Securities code: 6706 URL <https://denkikogyo.co.jp/>

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Scheduled date to file quarterly securities report: November 14, 2022

Scheduled date to commence dividend payments: December 5, 2022

Preparation of supplementary material on quarterly financial results: Yes

Holding of briefing on quarterly financial results: Yes

(Yen amounts are rounded down to millions)

1. Consolidated financial results for the six months ended September 30, 2022 (from April 1, 2022 to September 30, 2022)

(1) Consolidated operating results

(Percentages indicate year-on-year changes.)

	Net sales		Operating income		Ordinary income		Net income attributable to shareholders of parent company	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
Six months ended September 30, 2022	13,185	(11.3)	(1,192)	-	(906)	-	(637)	-
Six months ended September 30, 2021	14,870	(5.0)	(281)	-	(181)	-	18	-

Note: Comprehensive income Six months ended September 30, 2022 (319) Millions of yen (-%) Six months ended September 30, 2021 9 Millions of yen (-%)

	Net income per share	Diluted net income per share
Six months ended September 30, 2022	yen (56.69)	yen -
Six months ended September 30, 2021	yen 1.52	yen -

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio
	Millions of yen	Millions of yen	%
Six months ended September 30, 2022	56,040	43,741	76.8
Fiscal year ended March 31, 2022	56,336	46,609	81.5

(Reference) Net asset excluding non-controlling interests Six months ended September 30, 2022 43,040 Millions of yen Fiscal year ended March 31, 2022 45,903 Millions of yen

2. Dividends

	Annual dividends				
	End of first quarter	End of second quarter	End of third quarter	End of fiscal year	Total
	yen	yen	yen	yen	yen
Fiscal year ended March 31, 2022	-	0.00	-	60.00	60.00
Fiscal year ending March 31, 2023	-	30.00			
Fiscal year ending March 31, 2023 (forecast)			-	30.00	60.00

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

3. Forecast of consolidated operating results for the fiscal year ending March 31, 2023 (from April 1, 2022 to March 31, 2023)

(Percentages indicate year-on-year changes.)

	Net sales		Operating income		Ordinary income		Net income attributable to shareholders of parent company		Net income per share
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	yen
Full year	37,000	8.9	100	88.3	400	(10.7)	300	(57.5)	26.70

Note: Revision to the most recently announced forecast of operating results: Yes

*Notes:

(1) Changes in significant subsidiaries during the six months ended September 30, 2022 (changes in specific subsidiaries, changes in scope of consolidation): None

(2) Application of accounting procedures particular to the preparation of quarterly consolidated financial statements: None

(3) Changes in accounting policies and accounting estimates, and restatement

(a) Changes in accounting policies due to revision of accounting standards, etc.: Yes

(b) Changes in accounting policies other than (a): None

(c) Changes in accounting estimates: None

(d) Restatement: None

Note: For details, refer to “2. Quarterly consolidated financial statements and major notes, (3) Notes to quarterly consolidated financial statements (Changes in accounting policies)” on page 8 of the attached document.

(4) Number of shares issued (common stock)

(a) Shares issued (including treasury stock) at the end of the period

Six months ended September 30, 2022	14,084,845 shares	Fiscal year ended March 31, 2022	14,084,845 shares
Six months ended September 30, 2022	3,150,398 shares	Fiscal year ended March 31, 2022	2,430,669 shares
Six months ended September 30, 2022	11,236,924 shares	Six months ended September 30, 2021	11,937,932 shares

(b) Treasury stock at the end of the period

(c) Average number of shares during the period (six months)

*This Quarterly Consolidated Financial Results report is not subject to quarterly review by certified public accountants or an auditing firm.

*Explanation of appropriate use of earnings forecast, and other special notes

The forecast and other future projections in this report are based on information currently available to the Company and certain assumptions the Company believes to be reasonable, and are not intended to be a promise by the Company that they will be achieved. Actual results may differ significantly due to various factors. Refer to “1. Qualitative information on quarterly financial results, (3) Explanation of forecast of consolidated operating results and other future projections” on page 3 of the attachment for the assumptions used in earnings forecast and notes on the use of earnings forecast.

The Company plans to hold a financial results briefing because we believe it is important to disclose information about the Company to the financial markets in a timely and appropriate manner. However, the event will be live-streamed to avoid the COVID-19 infections, as the health and safety of all participants is our first priority. The live-streamed briefing will be available on the Company’s website at a later date.

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1. Qualitative information on quarterly financial results

(1) Explanation of operating results

During the six months ended September 30, 2022, the Japanese economy showed signs of gradual recovery as people grew accustomed to the “life with COVID-19,” although the impacts from the new coronavirus infection still remained. However, there is a risk that the momentum of economic recovery may be lost due to spikes in resources prices induced by the tense situations in Ukraine and rising prices driven by a cheaper yen. As such, the future of the Japanese economy still remains uncertain.

In terms of the business environment for the DKK Group, demand is on a gradual recovery as that from capital spending in the automotive-related industry has recovered slowly. However, corporate earnings have been affected by such factors as spikes in prices of energy, components, etc. and higher costs of procurement from overseas due to a weaker yen, in addition to continuous impacts of semiconductor shortage, restrained customer investments, and the delay in components being delivered caused mainly by a longer time it now takes for orders for them to be fulfilled.

In such circumstances the Group posted orders received of 19.47 billion yen, up 9.7% from a year earlier, and net sales of 13.185 billion yen, down 11.3% year on year, for the six months ended September 30, 2022.

As for profits, the Group posted operating loss of 1.192 billion yen (compared to operating loss of 281 million yen for the year-earlier period), ordinary loss of 906 million yen (compared to ordinary loss of 181 million yen for the year-earlier period), and net loss attributable to shareholders of parent company of 637 million yen (compared to net income attributable to shareholders of parent company of 18 million yen for the year-earlier period).

Results by segment are as follows. (Results of reportable segments, etc. include intersegment sales, etc.)

(a) Telecommunication Business

In the mobile communications-related field, while our customers revised their investment plans, we felt the impact of higher prices of components and rises in procurement costs due to a weaker yen. In the fixed wireless communication-related field, construction schedules have been delayed due to intensified competition fueled by biddings, higher outsourcing costs, and longer lead time for orders for components, etc. Still, deals postponed due to the COVID-19 pandemic are coming back on. In the broadcasting-related field, demand was expected to increase driven by moves to update digital broadcasting equipment, but such demand, as well as demand from maintenance needs, have been postponed. In the solutions-related field, which has been designated as a growth field, we have been working to generate demand in the network-related markets, mainly for the local 5G business. We have won orders for the Ministry of Internal Affairs and Communications’ development and testing project, for example. We are also working to strengthen collaboration with partner companies.

This segment has been facing a tough situation, affected by not only restrained spending by customers but also higher procurement costs and delivery delays, etc. caused by longer lead time for orders for components, etc. In such an environment, we continued to work to generate demand and improve productivity in this segment, but posted orders received totaling 13.816 billion yen, up 0.2% year on year, and net sales of 9.150 billion yen, down 15.3% year on year. Segment loss (operating loss) came to 387 million yen (compared to segment income of 697 million yen in the year-earlier period).

(b) Radio Frequency Business

For the mainstay induction heating equipment-related field, demand from capital spending in the automotive-related industry is on a recovery track and orders received have remained solid. However, longer lead time for orders for components, etc. and a spike in prices of energy, components, etc. have had an impact on the field. The contract heat treating service-related field has faced demand decreases due to production adjustment moves mainly in Japan by automakers, and cost-increasing factors, including a spike in power bills, still remain. In the new radio frequency areas-related field, which has been designated as a growth field, we have been doing sales activities aggressively, targeting mainly the industrial waste processing and food industries. In some areas, we have also launched a trial operation using actual equipment. In such an environment, we have worked in this business to capture demand and improve productivity according to the business environment.

As a result, orders received increased 42.5% year on year to 5.654 billion yen, while net sales decreased 0.8% year on year to 3.994 billion yen. Segment income (operating income) increased 7.5% year on year to 582 million yen.

(2) Explanation of financial position

Total assets totaled 56.040 billion yen as of September 30, 2022, down 296 million yen from the end of the previous fiscal year.

Current assets decreased 843 million yen from the end of the previous fiscal year to 40.145 billion yen. The main factors were decreases of 2.3 billion yen in trade receivables including notes receivable-trade and 1.773 billion yen in deposits paid included in “Other Businesses,” despite increases of 3.042 billion yen in cash and deposits and 395 million yen in inventories.

Non-current assets increased 547 million yen from the end of the previous fiscal year to 15.895 billion yen. The main factors were increases of 184 million yen in investment securities and 312 million yen in deferred tax assets.

Current liabilities increased 1.543 billion yen from the end of the previous fiscal year to 7.873 billion yen. The main factors were an increase of 2.170 billion yen in short-term loans payable, despite a decrease of 759 million yen in trade payables including notes payable-trade.

Fixed liabilities increased by 1.027 billion yen from the end of the previous fiscal year to 4.425 billion yen. The main factor was an increase of 1.019 billion yen in long-term loans payable.

Net assets decreased 2.867 billion yen from the end of the previous fiscal year to 43.741 billion yen. The main factors were decreases of 1.341 billion yen in retained earnings and 1.767 billion yen in treasury stock as a result of acquisition, etc.

(3) Explanation of forecast of consolidated operating results and other future projections

As a result of reviewing earnings forecasts to reflect recent earnings trends, etc., we revised the forecast of the consolidated operating results for the fiscal year ending March 31, 2023 announced in “Consolidated Financial Results for the Three Months Ended June 30, 2022” dated August 9, 2022.

2. Quarterly consolidated financial statements and major notes

(1) Quarterly consolidated balance sheet

(Millions of yen)

	Previous consolidated fiscal year (March 31, 2022)	Current consolidated fiscal half (September 30, 2022)
Assets		
Current assets		
Cash and deposits	18,886	21,928
Notes receivable-trade	440	259
Electronically recorded monetary claims-operating	878	1,188
Accounts receivable from completed construction contracts	5,127	1,229
Accounts receivable-trade	4,489	4,103
Contract assets	1,832	3,686
Costs on uncompleted construction contracts	117	144
Other inventories	5,890	6,258
Other Businesses	3,328	1,348
Allowance for doubtful accounts	(2)	(2)
Total current assets	40,989	40,145
Non-current assets		
Property, plant, and equipment		
Buildings and structures	11,061	11,120
Machinery, equipment, and vehicles	9,540	9,642
Tools, furniture, and fixtures	7,510	7,535
Land	2,241	2,253
Lease assets	237	237
Construction in progress	186	424
Accumulated depreciation	(23,869)	(24,320)
Total property, plant, and equipment	6,907	6,894
Intangible assets	648	629
Investments and other assets		
Investment securities	5,465	5,650
Long-term loans receivable	2	2
Net defined benefit assets	611	600
Deferred tax assets	780	1,093
Other Businesses	980	1,075
Allowance for doubtful accounts	(49)	(49)
Total investments and other assets	7,791	8,372
Total non-current assets	15,347	15,895
Total assets	56,336	56,040

(Millions of yen)

	Previous consolidated fiscal year (March 31, 2022)	Current consolidated fiscal half (September 30, 2022)
Liabilities		
Current liabilities		
Notes payable, accounts payable for construction contracts, and others	3,916	3,156
Short-term loans payable	80	2,250
Long-term loans payable to be repaid within a year	180	198
Lease obligations	53	52
Income taxes payable	221	113
Contract liabilities	323	539
Allowance for warranties on completed construction contracts	26	13
Allowance for product warranties	173	160
Allowance for employees' bonuses	621	676
Allowance for directors' bonuses	6	-
Allowances for losses on construction contracts	47	32
Other Businesses	680	680
Total current liabilities	6,330	7,873
Fixed liabilities		
Long-term loans payable	279	1,298
Lease obligations	67	56
Allowance for product warranties	29	26
Allowances for share-based remuneration for directors and corporate auditors	52	62
Net defined benefit liability	2,840	2,865
Asset retirement obligations	49	49
Other Businesses	78	66
Total fixed liabilities	3,397	4,425
Total liabilities	9,727	12,299
Net assets		
Shareholders' equity		
Capital	8,774	8,774
Capital surplus	9,723	9,723
Retained earnings	32,028	30,686
Treasury stock	(5,940)	(7,707)
Total shareholders' equity	44,586	41,477
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	873	759
Deferred gains or losses on hedges	37	3
Foreign currency translation adjustment	87	535
Remeasurements of defined benefit plans	318	264
Total accumulated other comprehensive income	1,317	1,563
Non-controlling interests	705	700
Total net assets	46,609	43,741
Total liabilities and net assets	56,336	56,040

(2) Quarterly consolidated statement of income and quarterly consolidated statement of comprehensive income
(Quarterly consolidated statement of income)
(Six months ended September 30)

(Millions of yen)

	Year-earlier consolidated fiscal half (from April 1, 2021 to September 30, 2021)	Current consolidated fiscal half (from April 1, 2022 to September 30, 2022)
Net sales		
Sales of completed construction contracts	5,756	4,383
Net sales of goods	9,062	8,744
Sales in other business	51	57
Total net sales	14,870	13,185
Cost of sales		
Cost of sales of completed construction contracts	4,850	4,208
Cost of finished goods sold	7,267	7,293
Cost of sales in other business	22	22
Total cost of sales	12,140	11,523
Gross profit		
Gross profit on completed construction contracts	905	175
Gross profit on finished goods	1,794	1,451
Gross profit on other business	28	35
Total gross profit	2,729	1,662
Selling, general, and administrative expenses	3,011	2,854
Operating loss	(281)	(1,192)
Non-operating income		
Interest income	4	9
Dividend income	97	91
Foreign exchange gains	-	295
Other Businesses	62	52
Total non-operating income	163	449
Non-operating expenses		
Interest expenses	13	13
Commitment fees	38	124
Other Businesses	11	26
Total non-operating expenses	63	163
Ordinary loss	(181)	(906)
Extraordinary income		
Gain on sales of investment securities	33	105
Total extraordinary income	33	105
Net loss before income taxes	(147)	(800)
Income taxes-current	96	55
Income taxes-deferred	(254)	(201)
Total income taxes	(157)	(145)
Net income (loss)	10	(655)
Net loss attributable to non-controlling interests	(8)	(18)
Net income (loss) attributable to shareholders of parent company	18	(637)

(Quarterly consolidated statement of comprehensive income)
(Six months ended September 30)

(Millions of yen)

	Year-earlier consolidated fiscal half (from April 1, 2021 to September 30, 2021)	Current consolidated fiscal half (from April 1, 2022 to September 30, 2022)
Net income (loss)	10	(655)
Other comprehensive income		
Valuation difference on available-for-sale securities	4	(114)
Deferred gains or losses on hedges	(5)	(33)
Foreign currency translation adjustment	52	536
Remeasurements of defined benefit plans, net of tax	(50)	(53)
Total other comprehensive income	(0)	335
Comprehensive income	9	(319)
(Breakdown)		
Comprehensive income attributable to shareholders of parent	17	(390)
Comprehensive income attributable to non- controlling interests	(8)	70

(3) Notes to quarterly consolidated financial statements

(Notes on going concern assumptions)

There are no matters to be noted.

(Notes in case of significant changes in shareholders' equity)

There are no matters to be noted.

(Changes in accounting policies)

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

The Company began applying the "Revised Implementation Guidance on Accounting Standard for Fair Value Measurement" (Revised ASBJ Guidance No. 31 released June 17, 2021; the "Guidance" hereafter) at the beginning of the three months ended June 30, 2022 and decided to continue to apply the new accounting policies prescribed in the Guidance in accordance with the transitional procedures stipulated in Paragraph 27-2 of the Guidance. There is no impact on the quarterly consolidated financial statements.

(Additional information)

(Impacts of COVID-19 pandemic on accounting estimates)

The impact of the spread of COVID-19 on the Group has been easing but still remains. The industry the Group is involved in also experienced some impacts on sales activities. Although it is difficult to predict how COVID-19 will spread and when it will be contained, we assume based on information from internal and external sources that this trend will continue for a certain period of time, and have made accounting estimates for impairment losses on non-current assets and the recoverability of deferred tax assets, etc. We note that if COVID-19 pandemic further spreads or remains for longer, it may affect the Group's earnings and financial position.

(Segment information, etc.)

[Segment information]

I Six months ended September 30, 2021 (from April 1, 2021 to September 30, 2021)

Information on amounts of net sales and income/loss by reportable segment

(Millions of yen)

	Reportable segment			Other Businesses (Note) 1	Total	Adjustments (Note) 2	Amount recorded in quarterly consolidated statement of income (Note) 3
	Telecommunication Business	Radio Frequency Business	Total				
Net sales							
Sales to external customers	10,793	4,025	14,818	51	14,870	-	14,870
Intersegment sales or transfers	7	-	7	115	122	(122)	-
Total	10,801	4,025	14,826	166	14,993	(122)	14,870
Segment income (loss)	697	542	1,239	86	1,325	(1,607)	(281)

(Notes) 1 The “Other Businesses” segment, which is not included in reportable segments, includes equipment leasing and electric power sales businesses.

2 The segment income (loss) adjustment of (1,607) million yen includes elimination of intersegment transactions of (57) million yen and corporate expenses of (1,549) million yen that are not allocated to any reportable segment. Corporate expenses are mainly general and administrative expenses that are not attributable to any reportable segments.

3 Adjustments are made to reconcile segment income (loss) with operating loss in the quarterly consolidated statement of income.

II Six months ended September 30, 2022 (from April 1, 2022 to September 30, 2022)

Information on amounts of net sales and income/loss by reportable segment

(Millions of yen)

	Reportable segment			Other Businesses (Note) 1	Total	Adjustments (Note) 2	Amount recorded in quarterly consolidated statement of income (Note) 3
	Telecommunication Business	Radio Frequency Business	Total				
Net sales							
Sales to external customers	9,133	3,994	13,128	57	13,185	-	13,185
Intersegment sales or transfers	16	-	16	96	113	(113)	-
Total	9,150	3,994	13,144	154	13,299	(113)	13,185
Segment income (loss)	(387)	582	195	77	272	(1,465)	(1,192)

(Notes) 1 The “Other Businesses” segment, which is not included in reportable segments, includes equipment leasing and electric power sales businesses.

2 The segment income (loss) adjustment of (1,465) million yen includes elimination of intersegment transactions of (42) million yen and corporate expenses of (1,422) million yen that are not allocated to any reportable segment. Corporate expenses are mainly general and administrative expenses that are not attributable to any reportable segments.

3 Adjustments are made to reconcile segment income (loss) with operating loss in the quarterly consolidated statement of income.

(Material subsequent events)

(Cancellation of treasury stock)

Cancellation of treasury stock was resolved at the Company's Board of Directors' Meeting on November 11, 2022 in accordance with Article 178 of the Companies Act.

(1) Reason of cancellation

In order to enhance shareholder returns in accordance with the policy on acquisition and cancellation of treasury stock, which was disclosed on February 10, 2022.

(2) Details of shares to be cancelled

(a) Type of shares to be cancelled: Common stock of the Company

(b) Total number of shares to be cancelled: 1,984,845

(Ratio to the pre-cancellation total number of shares issued (excluding treasury stock): 18.31%)

(c) Effective date: November 30, 2022

(Reference) Post-cancellation total number of shares issued: 12,100,000

3. Supplementary information

(1) Production, orders and sales

(a) Production results

Production results by reportable segment for the six months ended September 30, 2022 are shown below.

Reportable segment	Output (millions of yen)	Year-on-year change (%)
Telecommunication Business	5,559	0.9
Radio Frequency Business	4,304	6.9
Total	9,863	3.5

(Notes) 1 Amounts are based on sales prices, and intersegment transactions have been offset.

2 In the Telecommunication Business, production results related to construction projects are excluded from the above production results due to difficulty in defining the results.

(b) Results of orders received

Results of orders received by reportable segment for the six months ended September 30, 2022 are shown below.

Reportable segment	Orders received (millions of yen)	Year-on-year change (%)	Order backlog (millions of yen)	Year-on-year change (%)
Telecommunication Business	13,816	0.2	13,498	22.3
Radio Frequency Business	5,654	42.5	4,426	92.6
Total	19,470	9.7	17,924	34.4

(c) Sales results

Sales results by reportable segment for the six months ended September 30, 2022 are shown below.

Reportable segment	Net sales (millions of yen)	Year-on-year change (%)
Telecommunication Business		
Construction work	4,383	(23.8)
Equipment and materials sales	4,750	(5.7)
Subtotal of Telecommunication Business	9,133	(15.4)
Radio Frequency Business	3,994	(0.8)
Total of reportable segments	13,128	(11.4)
Other Businesses	57	12.3
Total	13,185	(11.3)

(Notes) 1 Intersegment transactions have been offset.

2 The "Other Businesses" segment, which is not included in reportable segments, includes equipment leasing and electric power sales businesses.