



Consolidated Financial Results for the Six Months Ended September 30, 2023 (Under Japanese GAAP)

November 10, 2023

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, 2023 Scheduled date to commence dividend payments: December 4, 2023

Preparation of supplementary material on quarterly financial results: Yes

Holding of briefing on quarterly financial results: Yes (For institutional investors and analysts)

(Yen amounts are rounded down to millions)

1. Consolidated financial results for the six months ended September 30, 2023 (from April 1, 2023 to September 30, 2023)

(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, 2023	12,529	(5.0)	(1,163)	—	(1,037)	—	(811)	—
Six months ended September 30, 2022	13,185	(11.3)	(1,192)	—	(906)	—	(637)	—

Note: Comprehensive income Six months ended September 30, 2023 189 million yen (-%) Six months ended September 30, 2022 (319) million yen (-%)

	Net income per share	Diluted net income per share
	yen	yen
Six months ended September 30, 2023	(79.92)	—
Six months ended September 30, 2022	(56.69)	—

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio
	Millions of yen	Millions of yen	%
Six months ended September 30, 2023	52,175	40,462	76.6
Fiscal year ended March 31, 2023	55,134	41,801	74.8

(Reference) Net asset excluding non-controlling interests Six months ended September 30, 2023 39,953 million yen Fiscal year ending March 31, 2023 41,247 million 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, 2023	—	30.00	—	30.00	60.00
Fiscal year ending March 31, 2024	—	30.00	—	—	—
Fiscal year ending March 31, 2024 (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, 2024 (from April 1, 2023 to March 31, 2024)

(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	30,500	(4.1)	(1,500)	—	(1,300)	—	(1,100)	—	(108.29)

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, 2023 (changes in specific subsidiaries resulting in changes in scope of consolidation): None

(Note) Although it doesn't fall under the category of changes in specific subsidiaries, DKC Co., Ltd. (DKC) and Koshuha Co., Ltd. (Koshuha), which had been consolidated subsidiaries of DKK Co. Ltd. (the Company) were removed from the scope of consolidation from the beginning of the first quarter of the current fiscal year. This was due to the fact that as a result of a merger where the Company was the surviving company, and DKC and Koshuha were dissolved companies. In the second quarter of the current fiscal year, Cybercore Co., Ltd. was included in the scope of consolidation because the Company acquired shares of Cybercore Co., Ltd. as of September 29, 2023. In addition, Cyber Core Vietnam Co., Ltd., a subsidiary of the company, was also included to the scope of consolidation.

(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.: None
- (b) Changes in accounting policies other than (a): Yes
- (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 11 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, 2023	12,100,000 shares	Fiscal year ended March 31, 2023	12,100,000 shares
(b) Treasury stock at the end of the period	Six months ended September 30, 2023	2,128,891 shares	Fiscal year ended March 31, 2023	1,638,476 shares
(c) Average number of shares during the period (six months)	Six months ended September 30, 2023	10,158,220 shares	Six months ended September 30, 2022	11,236,924 shares

*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 6 of the attachment for the assumptions used in earnings forecast and notes on the use of earnings forecast.

The Company will have a live webcast of the financial results briefing for institutional investors and analysts on Thursday, November 30, 2023. The materials used for the briefing will be posted to the Company's website as soon as the briefing session ends.

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1. Qualitative information on quarterly financial results

(1) Explanation of operating results

During the six months ended September 30, 2023, the Japanese economy gradually recovered, mainly in domestic demand as behavioral restrictions due to COVID-19 alleviated, and capital investments remained strong backed by high levels of corporate earnings. At the same time, there existed multiple risk factors such as continued rising commodity prices and soaring material prices associated with the depreciation yen on top of the slowing down of the overseas economy and some weakness in consumption. As a result, the outlook remained unpredictable.

In the telecommunications-related industry, where our group is involved, demand for 5G facilities in the mobile communications field has remained stagnant or put on hold since the previous fiscal period due to revision of capital investment plans by customers. Meanwhile, in the fixed wireless-related field, demand for administrative radio systems for disaster prevention is recovering, and in the broadcasting field, demand for equipment renewal by broadcasters continued to be sluggish. The applied high-frequency devices industry showed signs of recovery in demand for capital investment in the automotive-related field, but the underlying tone remained moderate. In all fields of business, cost raising factors such as spikes in prices of energy and components, etc. as well as labor costs continued to have an impact.

As a result, the Group posted orders received of 13,956 million yen, down 28.3% from a year earlier, and net sales of 12,529 million yen, down 5.0% year on year, for the six months ended September 30, 2023.

As for profits, the Group posted operating loss of 1,163 million yen (compared to operating loss of 1,192 million yen for the year-earlier period), ordinary loss of 1,037 million yen (compared to ordinary loss of 906 million yen for the year-earlier period), net loss attributable to shareholders of parent company of 811 million yen (compared to net loss attributable to shareholders of parent company of 637 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, capital investment by mobile communication businesses remained limited overall, and demand for 5G capital investment was also stagnant or put on hold. In the fixed wireless-related field, demand for administrative radio systems for disaster prevention to improve and digitalize disaster prevention system in local governments was recovering due to extension of periods for emergency disaster prevention and reduction bonds. Defense-related demand was also on an increasing trend. In the broadcasting-related field, demand among broadcast operators for maintenance was increasing; however, demand for upgrading digital broadcasting equipment remained on hold. In the solutions-related field, the Company has been tapping new demand, leveraging synergetic effects gained from the Company's technologies in collaboration with other companies. Furthermore, to swiftly establish the solution business, the Company acquired shares of Cybercore Co., Ltd. on September 29, 2023 and made it a subsidiary of the Company. By combining the wireless communication technology and sensing technology centered on various cameras that the Company has been cultivating and the image AI technology and sensing AI technology of Cybercore Co., Ltd., the Company will efficiently and arduously build the solution business that utilizes the strengths of both companies. In other fields, the Company was continuously securing demand for outdoor construction steel frames and surface treatment for steel structures, and actively pioneering demand for eco-friendly products such as LED airplane warning lights and fuel cells.

Under such environment, we aggressively worked in this business field to capture demand and improve productivity. However, factors such as delayed delivery of parts and soaring raw material costs remained.

As a result, orders received decreased 29.8% year on year to 9,692 million yen, and net sales decreased 12.2% year on year to 8,034 million yen. Segment loss (operating loss) came to 291 million yen (compared to segment loss of 387 million yen in the year-earlier period).

(b) Radio Frequency Business

In the mainstay high-frequency induction heating equipment business, demand from capital spending in the automotive industry was on a recovery track, and the global semiconductor shortages and longer lead time for orders for components, etc. has been gradually easing. In the field of contract heat treating service, demand is on a recovery trend, owing to the end of production adjustment at automobile manufactures; however, the rise in costs due to soaring energy costs remained. In the new radio frequency related field, we have been working on the sophistication of superheated steam technology and verification of the peripheral technologies for commercialization, in a bid to create demand for treatment of food and waste using superheated steam equipment. We have overcome challenges and accumulated data and expertise through repeated demonstration experiments with various organizations and companies with which we had not worked before, and we have been making steady progress for pioneering new business domains.

Under such business environment, this business also experiences rising costs due to soaring raw material costs and energy costs, etc; however, we have been striving to increase profit by improving productivity and reviewing the sales price.

As a result, orders received decreased 24.6% year on year to 4,264 million yen, while net sales increased 11.5% year on year to 4,451 million yen. Segment income (operating income) decreased 20.6% year on year to 462 million yen.

(2) Explanation of financial position

Total assets totaled 52,175 million yen as of September 30, 2023, down 2,958 million yen from the end of the previous fiscal year.

Current assets decreased 7,005 million yen from the end of the previous fiscal year to 33,656 million yen. The main factors were increases of 655 million yen in inventories and 351 million yen in deposits paid included in “Other businesses” despite decreases of 4,754 million yen in cash and deposits and 3,426 million yen in trade receivables including notes receivable-trade.

Non-current assets increased 4,047 million yen from the end of the previous fiscal year to 18,519 million yen. The main factors were increases of 374 million yen in property, plant, and equipment, 1,397 million yen in goodwill, 961 million yen in investment securities and 1,000 million yen in long-term time deposits.

Current liabilities decreased 1,608 million yen from the end of the previous fiscal year to 7,559 million yen. The main factors were decreases of 1,334 million yen in trade payables including notes payable-trade and 244 million yen in contract liabilities.

Non-current assets decreased 10 million yen from a year earlier to 4,154 million yen. The main factors were increases of 55 million yen in long-term loans payable, despite decreases of 28 million yen in net defined benefit liability, 18 million yen in lease obligations and 15 million yen in long-term accounts payable included in other.

Net assets decreased 1,339 million yen from the end of the previous fiscal year to 40,462 million yen. The main factors were increases of 666 million yen in valuation difference on available-for-sale securities and 361 million yen in foreign currency translation adjustment, despite decreases of 1,128 million yen in retained earnings and 1,136 million yen in treasury stocks due to purchase of treasury stocks.

(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, 2024 announced in “Consolidated Financial Results for the Fiscal Year Ended March 31, 2023” dated May 11, 2023.

For details, please refer to “Revisions to the Forecast of the Consolidated Operating Results” separately released today.

2. Quarterly consolidated financial statements and major notes

(1) Quarterly consolidated balance sheet

(Millions of yen)

	Previous consolidated fiscal year (March 31, 2023)	Current consolidated fiscal half (September 30, 2023)
Assets		
Current assets		
Cash and deposits	19,759	15,004
Notes receivable-trade	419	415
Electronically recorded monetary claims-operating	1,537	1,795
Accounts receivable from completed construction contracts	5,108	1,441
Accounts receivable-trade	3,175	3,331
Contract assets	3,715	3,546
Costs on uncompleted construction contracts	17	106
Other inventories	5,720	6,286
Other Businesses	1,211	1,732
Allowance for doubtful accounts	(2)	(3)
Total current assets	40,662	33,656
Non-current assets		
Property, plant, and equipment		
Buildings and structures	11,179	11,164
Machinery, equipment, and vehicles	9,799	10,224
Tools, furniture, and fixtures	7,475	7,357
Land	2,251	2,256
Lease assets	268	249
Construction in progress	169	124
Accumulated depreciation	(24,614)	(24,474)
Total property, plant, and equipment	6,529	6,903
Intangible assets		
Goodwill	—	1,397
Other Businesses	598	545
Total Intangible assets	598	1,942
Investments and other assets		
Investment securities	4,549	5,510
Long-term loans receivable	1	2
Net defined benefit assets	831	821
Long-term time deposits	—	1,000
Deferred tax assets	886	1,020
Other Businesses	1,123	1,365
Allowance for doubtful accounts	(47)	(47)
Total investments and other assets	7,344	9,672
Total non-current assets	14,472	18,519
Total assets	55,134	52,175

(Millions of yen)

	Previous consolidated fiscal year (March 31, 2023)	Current consolidated fiscal half (September 30, 2023)
Liabilities		
Current liabilities		
Notes payable, accounts payable for construction contracts, and others	4,045	2,711
Short-term loans payable	2,200	2,360
Long-term loans payable to be repaid within a year	90	241
Lease obligations	48	43
Income taxes payable	116	109
Contract liabilities	728	483
Allowance for warranties on completed construction contracts	18	17
Allowance for product warranties	83	78
Allowance for employees' bonuses	662	684
Allowance for directors' bonuses	9	—
Allowances for losses on construction contracts	6	27
Allowances for losses on liquidation of subsidiaries and affiliates	76	23
Other Businesses	1,079	778
Total current liabilities	9,168	7,559
Fixed liabilities		
Long-term loans payable	1,260	1,316
Lease obligations	75	56
Allowance for product warranties	18	18
Allowances for share-based remuneration for directors and corporate auditors	75	77
Net defined benefit liability	2,626	2,598
Asset retirement obligations	49	49
Other Businesses	58	38
Total fixed liabilities	4,164	4,154
Total liabilities	13,332	11,713
Net assets		
Shareholders' equity		
Capital	8,774	8,774
Capital surplus	9,693	9,693
Retained earnings	25,019	23,891
Treasury stock	(3,897)	(5,034)
Total shareholders' equity	39,589	37,324
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	736	1,402
Deferred gains or losses on hedges	2	—
Foreign currency translation adjustment	494	855
Remeasurements of defined benefit plans	424	369
Total accumulated other comprehensive income	1,658	2,628
Non-controlling interests	553	508
Total net assets	41,801	40,462
Total liabilities and net assets	55,134	52,175

(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, 2022 to September 30, 2022)	Current consolidated fiscal half (from April 1, 2023 to September 30, 2023)
Net sales		
Sales of completed construction contracts	4,383	4,160
Net sales of goods	8,744	8,310
Sales in other business	57	58
Total net sales	13,185	12,529
Cost of sales		
Cost of sales of completed construction contracts	4,208	3,958
Cost of finished goods sold	7,293	6,916
Cost of sales in other business	22	20
Total cost of sales	11,523	10,895
Gross profit		
Gross profit on completed construction contracts	175	202
Gross profit on finished goods	1,451	1,394
Gross profit on other business	35	37
Total gross profit	1,662	1,633
Selling, general, and administrative expenses	2,854	2,796
Operating loss	(1,192)	(1,163)
Non-operating income		
Interest income	9	10
Dividend income	91	81
Other Businesses	348	134
Total non-operating income	449	226
Non-operating expenses		
Interest expenses	13	19
Commitment fees	124	20
Other Businesses	26	61
Total non-operating expenses	163	101
Ordinary loss	(906)	(1,037)
Extraordinary income		
Gain on sales of investment securities	105	—
Total extraordinary income	105	—
Net loss before income taxes	(800)	(1,037)
Income taxes-current	55	77
Income taxes-deferred	(201)	(302)
Total income taxes	(145)	(224)
Net loss	(655)	(812)
Net loss attributable to non-controlling interests	(18)	(1)
Net loss attributable to shareholders of parent company	(637)	(811)

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

(Millions of yen)

	Year-earlier consolidated fiscal half (from April 1, 2022 to September 30, 2022)	Current consolidated fiscal half (from April 1, 2023 to September 30, 2023)
Net loss	(655)	(812)
Other comprehensive income		
Valuation difference on available-for-sale securities	(114)	666
Deferred gains or losses on hedges	(33)	(2)
Foreign currency translation adjustment	536	393
Remeasurements of defined benefit plans, net of tax	(53)	(55)
Total other comprehensive income	335	1,002
Comprehensive income	(319)	189
(Breakdown)		
Comprehensive income attributable to shareholders of parent	(390)	159
Comprehensive income attributable to non- controlling interests	70	29

(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)

(Changes in inventory valuation)

The Company had adopted the moving-average cost method for valuation of inventories held as raw materials and supplies; however, in the beginning of the first quarter of the current fiscal year, the Company changed the method to the gross-average cost method.

The purpose of the change is to reflect more accurate periodic profit and loss, taking into account longer cycles of raw materials and supplies and changes in their procurement prices.

The effect of the change on the past period is de-minimis.

(Additional information)

There are no matters to be noted.

(Segment information, etc.)

[Segment information]

I 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.

II Six months ended September 30, 2023 (from April 1, 2023 to September 30, 2023)

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	8,019	4,451	12,471	58	12,529	—	12,529
Intersegment sales or transfers	14	—	14	80	95	(95)	—
Total	8,034	4,451	12,486	138	12,625	(95)	12,529
Segment income (loss)	(291)	462	170	70	241	(1,404)	(1,163)

(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 (1,404) million yen includes elimination of intersegment transactions of (35) million yen and corporate expenses of (1,369) 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.

3. Supplementary information

(1) Production, orders and sales

(a) Production results

Production results by reportable segment for the six months ended September 30, 2023 are shown below.

Reportable segment	Output (millions of yen)	Year-on-year change (%)
Telecommunication Business	3,639	(34.5)
Radio Frequency Business	4,611	7.1
Total	8,251	(16.3)

(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, 2023 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	9,692	(29.8)	10,203	(24.4)
Radio Frequency Business	4,264	(24.6)	3,326	(24.8)
Total	13,956	(28.3)	13,530	(24.5)

(c) Sales results

Sales results by reportable segment for the six months ended September 30, 2023 are shown below.

Reportable segment	Net sales (millions of yen)	Year-on-year change (%)
Telecommunication Business		
Construction work	4,160	(5.1)
Equipment and materials sales	3,858	(18.8)
Subtotal of Telecommunication Business	8,019	(12.2)
Radio Frequency Business	4,451	11.5
Total of reportable segments	12,471	(5.0)
Other Businesses	58	0.8
Total	12,529	(5.0)

(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.