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Consolidated Financial Results for the Three Months Ended March 31, 2022 [Japanese GAAP]



May 11, 2022

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 Stock exchange listing: Tokyo Stock Exchange
 Code number: 9621
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 Scheduled date of filing quarterly securities report: May 12, 2022
 Scheduled date of commencing dividend payments: —
 Availability of supplementary explanatory materials on quarterly financial results: Not available
 Schedule of quarterly financial results briefing session: Not scheduled

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

1. Consolidated Financial Results for the Three Months Ended March 31, 2022 (January 1, 2022 - March 31, 2022)

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

	Sales		Operating income		Ordinary profit		Net income attributable to owners of the parent	
	million yen	%	million yen	%	million yen	%	million yen	%
Three months ended March 31, 2022	23,538	—	3,490	—	3,531	—	2,444	—
March 31, 2021	12,741	10.5	441	275.0	501	281.7	326	360.8

(Note) Comprehensive income: Three months ended March 31, 2022: 2,715 million yen [-%]
 Three months ended March 31, 2021: 1,034 million yen [-%]

	Net income per share	Net income per share after adjustment of potential shares
Three months ended March 31, 2022	yen 172.89	yen —
March 31, 2021	yen 23.10	yen —

(Note) The Company has applied the “Accounting Standard for Revenue Recognition” (Accounting Standards Board of Japan [ASBJ] Statement No. 29, March 31, 2020) and other standards from the beginning of the period under review. Figures for the period under review reflect these accounting standards. Accordingly, changes from the previous corresponding period are not presented.

(2) Consolidated Financial Position

	Total assets	Net assets	Net worth ratio
	million yen	million yen	%
As of March 31, 2022	69,737	44,313	63.3
As of December 31, 2021	71,880	38,820	53.8

(Reference) Net worth: As of March 31, 2022: 44,151 million yen
 As of December 31, 2021: 38,672 million yen

(Note) The Company has applied the “Accounting Standard for Revenue Recognition” (ASBJ Statement No. 29, March 31, 2020) and other standards from the beginning of the period under review. Figures for the period under review reflect these accounting standards.

2. Dividends

	Annual dividends				
	1st quarter-end	2nd quarter-end	3rd quarter-end	Year-end	Total
Fiscal year ended December 31, 2021	yen –	yen 0.00	yen –	yen 60.00	yen 60.00
Fiscal year ending December 31, 2022	–				
Fiscal year ending December 31, 2022 (Forecast)		0.00	–	60.00	60.00

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

3. Consolidated Financial Results Forecast for the Fiscal Year Ending December 31, 2022 (January 1, 2022 - December 31, 2022)

(% indicates changes from the previous corresponding period.)

	Sales		Operating income		Ordinary profit		Net income attributable to owners of the parent		Net income per share
Full year	million yen 78,000	% –	million yen 6,400	% –	million yen 6,500	% –	million yen 4,300	% –	yen 304.11

(Note) Revision to the financial results forecast announced most recently: None

- * The Company has applied the “Accounting Standard for Revenue Recognition” (ASBJ Statement No. 29, March 31, 2020) and other standards from the beginning of the fiscal year ending December 31, 2022. Figures for the consolidated financial results forecast above reflect these accounting standards. Accordingly, changes from the previous corresponding period are not presented.

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1. Qualitative Information on Quarterly Financial Results

(1) Explanation of Operating Results

CTI Engineering Co., Ltd. (hereinafter the “Company”) has applied the “Accounting Standard for Revenue Recognition” (ASBJ Statement No. 29, March 31, 2020; hereinafter “Revenue Recognition Standard”) and other standards from the beginning of the period under review.

In 2021, the Company formulated its management strategy, the CTI Group medium- to long-term vision SPRONG 2030, and its first step, the Medium-term Business Plan 2024. In the fiscal year ending December 31, 2022, the first year of the Medium-term Business Plan 2024, the Company will focus on the following priority agenda items, under the slogan of “Steadily conducting business structural reform and promoting sustainability management with production system reform as the main pillar.”

- (1) Steady promotion of production system reform
- (2) Promotion of business structural reform through greater cooperation among Group companies
- (3) Strengthening of corporate governance
- (4) Promotion of sustainability management

With regard to the business environment that the CTI Group finds itself in, the domestic consulting engineering business remains robust, on the back of the bolstering of government-led projects for disaster prevention/mitigation and the promotion of measures to build national resilience for the maintenance of aging infrastructure. The overseas consulting engineering business, on the other hand, has begun to see signs of social and economic activities being normalized in the Asian and the British markets in the form of easing COVID-19 restrictions or otherwise, but the future course of this business demands careful observation as the global economy has been thrown into turmoil in the wake of the situation in Ukraine.

As a result of the above, orders received by the Group during the period under review increased by 18.9% year-on-year to 24,647 million yen (20,721 million yen for the corresponding period of the previous year). Meanwhile, sales amounted to 23,538 million yen (12,741 million yen for the corresponding period of the previous year), which is equivalent to 30.2% of the sales forecast for the fiscal year ending December 31, 2022. Ordinary profit amounted to 3,531 million yen (501 million yen for the corresponding period of the previous year), or 54.3% of the full-year forecast for ordinary profit, and net income attributable to owners of the parent was 2,444 million yen (326 million yen for the corresponding period of the previous year), or 56.9% of the full-year forecast for net income attributable to owners of the parent. The CTI Group’s sales are heavily dependent on public works in Japan, with the result that its sales and profit/income tend to be concentrated in the first quarter of each fiscal year as many projects show much progress toward the end of March every year.

(2) Explanation of Financial Position

(Assets)

At the end of the period under review, the Group’s total assets totaled 69,737 million yen, a decrease of 2,143 million yen compared to the end of the previous fiscal year. This was mainly due to an increase in “notes receivable, completed work receivables and contract assets” and decreases in “notes receivable and completed work receivables” and “prepaid expenses for uncompleted services” following the application of the Revenue Recognition Standard, etc., as well as a decrease in “cash and bank deposits.”

(Liabilities)

Total liabilities at the end of the period under review were 25,424 million yen, a decrease of 7,635 million yen compared to the end of the previous fiscal year. This was mainly due to an increase in “contract liabilities” and a decrease in “advances received from uncompleted services” following the application of the Revenue Recognition Standard, etc.

(Net assets)

Net assets at the end of the period under review totaled 44,313 million yen, an increase of 5,492 million yen compared to the end of the previous fiscal year. This was mainly due to an increase in the opening balance of profit surplus following the application of the Revenue Recognition Standard, etc., as well as the posting of net income attributable to owners of the parent.

(3) Explanation of Consolidated Financial Results Forecast and Other Forward-looking Information
The Company has not revised its consolidated financial results forecast released on February 14, 2022.

2. Quarterly Consolidated Financial Statements and Principal Notes
(1) Quarterly Consolidated Balance Sheet

(million yen)

	Previous Consolidated Fiscal Year (as of December 31, 2021)	Three Months Ended March 31, 2022 (as of March 31, 2022)
Assets		
Current assets		
Cash and bank deposits	20,527	13,844
Notes receivable and completed work receivables	9,804	-
Notes receivable, completed work receivables and contract assets	-	31,937
Prepaid expenses for uncompleted services	17,345	158
Other	965	1,286
Allowance for doubtful accounts	-456	-487
Total current assets	48,187	46,738
Fixed assets		
Tangible fixed assets		
Land	4,816	4,816
Other, net	4,881	5,212
Total tangible fixed assets	9,698	10,029
Intangible fixed assets		
Goodwill	4,208	4,291
Other	758	708
Total intangible fixed assets	4,967	4,999
Investments and other assets		
Other	9,150	8,092
Allowance for doubtful accounts	-123	-123
Total investments and other assets	9,027	7,969
Total fixed assets	23,693	22,998
Total assets	71,880	69,737
Liabilities		
Current liabilities		
Accounts payable	2,302	4,736
Short-term borrowings	900	1,140
Accrued income taxes	1,831	1,263
Advances received from uncompleted services	14,268	-
Contract liabilities	-	6,184
Reserve for bonuses	2,843	1,326
Reserve for bonuses to directors	215	46
Allowance for losses in operations	118	51
Provision for warranties for completed operation	198	188
Other	6,686	5,732
Total current liabilities	29,365	20,670
Fixed liabilities		
Long-term borrowings	-	232
Provision for warranties for completed operation	776	833
Net defined benefit liability	1,002	1,045
Asset retirement obligations	241	250
Other	1,673	2,391
Total fixed liabilities	3,694	4,753
Total liabilities	33,059	25,424

(million yen)

	Previous Consolidated Fiscal Year (as of December 31, 2021)	Three Months Ended March 31, 2022 (as of March 31, 2022)
Net assets		
Shareholders' equity		
Capital	3,025	3,025
Capital surplus	3,610	3,610
Profit surplus	29,861	35,101
Treasury stock	-13	-13
Total shareholders' equity	36,484	41,723
Accumulated other comprehensive income		
Other valuation difference on available-for-sale securities	1,414	1,418
Foreign currency translation adjustment	391	628
Remeasurements of defined benefit plans	381	381
Total accumulated other comprehensive income	2,187	2,428
Non-controlling interests	148	161
Total net assets	38,820	44,313
Total liabilities and net assets	71,880	69,737

(2) Quarterly Consolidated Profit and Loss Account and Quarterly Consolidated Statements of Comprehensive Income
Quarterly Consolidated Profit and Loss Account
Three Months Ended March 31, 2022

(million yen)

	Three Months Ended March 31, 2021 (from January 1, 2021 to March 31, 2021)	Three Months Ended March 31, 2022 (from January 1, 2022 to March 31, 2022)
Sales	12,741	23,538
Cost of sales	9,130	16,455
Gross profit	3,610	7,082
Selling, general and administrative expenses	3,169	3,592
Operating income	441	3,490
Non-operating revenues		
Interest earned	4	3
Dividend earned	8	11
Foreign exchange gains	18	25
House rent earned	23	9
Other	32	6
Total non-operating revenues	86	56
Non-operating expenses		
Interest expense	13	13
Rental expenses	13	-
Other	0	2
Total non-operating expenses	26	15
Ordinary profit	501	3,531
Extraordinary loss		
Loss on sale of investment securities	-	1
Other	-	0
Total extraordinary loss	-	1
Net income before income tax	501	3,530
Income taxes	164	1,077
Net income	336	2,452
Net income attributable to non-controlling interests	9	7
Net income attributable to owners of the parent	326	2,444

Quarterly Consolidated Statements of Comprehensive Income
Three Months Ended March 31, 2022

(million yen)

	Three Months Ended March 31, 2021 (from January 1, 2021 to March 31, 2021)	Three Months Ended March 31, 2022 (from January 1, 2022 to March 31, 2022)
Net income	336	2,452
Other comprehensive income		
Other valuation difference on available-for-sale securities	103	3
Foreign currency translation adjustment	552	259
Remeasurements of defined benefit plans, net of tax	41	-0
Total other comprehensive income	697	262
Comprehensive income	1,034	2,715
(Comprehensive income attributable to)		
Comprehensive income attributable to owners of the parent	1,017	2,685
Comprehensive income attributable to non-controlling interests	16	29

(3) Notes to Quarterly Consolidated Financial Statements

(Notes on going concern assumption)

Not applicable.

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

Not applicable.

(Changes in accounting policies)

(Application of the Accounting Standard for Revenue Recognition, etc.)

The Company has applied the "Accounting Standard for Revenue Recognition" (ASBJ Statement No. 29, March 31, 2020; hereinafter "Revenue Recognition Standard") and other standards from the beginning of the period under review. The Company now recognizes revenue when control of a promised good or service is transferred to a customer in an amount that reflects the consideration to which the Company expects to be entitled in exchange for such a good or service.

As a result of this application, revenue from contracts expected to satisfy performance obligations over time is recognized over time by estimating progress towards satisfaction of performance obligations and revenue from contracts expected to satisfy performance obligations at a point in time is recognized when performance obligations are satisfied, whereas the completed-contract method was previously applied to the recording of sales, except for construction work the outcome of whose activity is deemed certain during the course of the activity, to which the percentage-of-completion method was previously applied.

Progress toward satisfaction of performance obligations is estimated using the ratio of actual costs to estimated total costs (input method). Furthermore, revenue is recognized by the cost recovery method when it is not possible to reasonably estimate progress toward satisfaction of performance obligations, but it is probable that the costs incurred will be recovered.

The Company applies the Revenue Recognition Standard, etc. in accordance with the transitional treatment as set forth in the proviso to Paragraph 84 of the Revenue Recognition Standard. The cumulative impact of retrospectively applying the new accounting policies to prior periods is adjusted to profit surplus at the beginning of the period under review, with the new accounting policies applied from the beginning balance. In addition, applying the method stipulated in proviso (1) to Paragraph 86 of the Revenue Recognition Standard, contract modifications that occurred prior to the beginning of the period under review were accounted for based on the terms of the contract after reflecting all contract modifications, with the cumulative impact adjusted to profit surplus at the beginning of the period under review.

As a result, for the period under review, sales and the cost of sales increased by 12,724 million yen and 8,519 million yen, respectively, while operating income, ordinary profit, and net income before income tax each increased by 4,204 million yen. The opening balance of profit surplus also showed an increase of 3,650 million yen.

Following the application of the Revenue Recognition Standard, etc., "notes receivable and completed work receivables," which were previously presented under "current assets" on the Consolidated Balance Sheet for the previous fiscal year, are now included in "notes receivable, completed work receivables and contract assets" beginning in the period under review, and "advances received from uncompleted services," which were previously presented under "current liabilities," are now included under "contract liabilities" beginning in the period under review. In accordance with the transitional treatment as set forth in Paragraph 89-2 of the Revenue Recognition Standard, figures for the previous fiscal year have not been reclassified based on the new presentation method. Furthermore, in accordance with the transitional treatment as set forth in Paragraph 28-15 of the Accounting Standard for Quarterly Financial Reporting (ASBJ Statement No. 12, March 31, 2020), information on disaggregation of revenue from contracts with customers for the three months ended March 31, 2021 is not disclosed.

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

The Company has applied the “Accounting Standard for Fair Value Measurement” (ASBJ Statement No. 30, July 4, 2019; hereinafter “Fair Value Measurement Standard”) and other standards from the beginning of the period under review, and will prospectively apply the new accounting policies stipulated by the Fair Value Measurement Standard, etc. in accordance with the transitional treatment as set forth in Paragraph 19 of the Fair Value Measurement Standard and Paragraph 44-2 of the “Accounting Standard for Financial Instruments” (ASBJ Statement No. 10, July 4, 2019). This does not affect the quarterly consolidated financial statements.

(Accounting methods adopted particularly for the preparation of quarterly consolidated financial statements)

(Calculation of tax expenses)

The Company calculates tax expenses by multiplying net income before income tax for the period under review by a reasonably estimated effective tax rate for net income before income tax for the fiscal year ending December 31, 2022 after the application of tax effect accounting.

(Additional information)

Due to restrictions, etc. in various countries following the spread of COVID-19, some of the Group’s overseas projects are experiencing delays, extension of work, or other circumstances. However, its impact on the overall performance of the Group is negligible.

Because of the difficulty in foreseeing when the COVID-19 pandemic will end, the Company makes accounting estimates such as impairment of fixed assets, including goodwill, based on the information available at the time of the preparation of consolidated financial statements, on the assumption that the impacts of the pandemic will linger at least until the end of the current fiscal year.