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August 13, 2021

Consolidated Financial Results for the Six Months Ended June 30, 2021 (Under Japanese GAAP)

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 Listing: Tokyo Stock Exchange
 Securities code: 4074
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 Scheduled date to file quarterly securities report: August 13, 2021
 Scheduled date to commence dividend payments: –
 Preparation of supplementary material on quarterly financial results: Yes
 Holding of quarterly financial results briefing: Yes

(Yen amounts are rounded down to millions, unless otherwise noted.)

1. Consolidated financial results for the six months ended June 30, 2021 (from January 1, 2021 to June 30, 2021)

(1) Consolidated operating results (cumulative)

(Percentages indicate year-on-year changes.)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
Six months ended								
June 30, 2021	2,673	–	196	–	167	–	93	–
June 30, 2020	–	–	–	–	–	–	–	–

Note: Comprehensive income For the six months ended June 30, 2021: ¥110 million [–%]
 For the six months ended June 30, 2020: ¥– million [–%]

	Basic earnings per share	Diluted earnings per share
	Yen	Yen
Six months ended		
June 30, 2021	14.67	–
June 30, 2020	–	–

Notes: 1. The Company did not prepare consolidated financial statements for the six months ended June 30, 2020. Therefore, figures for the six months ended June 30, 2020, and year-on-year change for the six months ended June 30, 2021, cannot be shown.

2. Regarding the results for diluted earnings per share, while the Company does have dilutive shares, the Company's shares were unlisted in the year ended December 31, 2020, and the six months ended June 30, 2021. As a result, average share prices for these periods cannot be calculated; therefore, diluted earnings per share cannot be shown.

(2) Consolidated financial position

	Total assets	Net assets	Equity-to-asset ratio
	Millions of yen	Millions of yen	%
As of			
June 30, 2021	3,775	1,240	32.4
December 31, 2020	3,736	1,129	29.7

Reference: Equity

As of June 30, 2021: ¥1,221 million
 As of December 31, 2020: ¥1,110 million

2. Cash dividends

	Annual dividends per share				
	First quarter-end	Second quarter-end	Third quarter-end	Fiscal year-end	Total
	Yen	Yen	Yen	Yen	Yen
Fiscal year ended December 31, 2020	–	0.00	–	0.00	0.00
Fiscal year ending December 31, 2021	–	0.00			
Fiscal year ending December 31, 2021 (Forecast)			–	0.00	0.00

Note: Revisions to the forecast of cash dividends most recently announced: None

3. Consolidated earnings forecasts for the fiscal year ending December 31, 2021 (from January 1, 2021 to December 31, 2021)

(Percentages indicate year-on-year changes.)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent		Basic earnings per share
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Yen
Fiscal year ending December 31, 2021	5,809	9.0	402	58.6	346	42.7	223	60.0	32.94

Note: Revisions to the earnings forecasts most recently announced: None

* **Notes**

- (1) Changes in significant subsidiaries during the period (changes in specified subsidiaries resulting in the change in scope of consolidation): None
- (2) Adoption of accounting treatment specific to the preparation of quarterly consolidated financial statements: None
- (3) Changes in accounting policies, changes in accounting estimates, and restatement
- (i) Changes in accounting policies due to revisions to accounting standards and other regulations: None
 - (ii) Changes in accounting policies due to other reasons: None
 - (iii) Changes in accounting estimates: Yes
 - (iv) Restatement: None
- (4) Number of issued shares (common shares)

- (i) Total number of issued shares at the end of the period (including treasury shares)

As of June 30, 2021	6,388,500 shares
As of December 31, 2020	6,388,500 shares

- (ii) Number of treasury shares at the end of the period

As of June 30, 2021	– shares
As of December 31, 2020	– shares

- (iii) Average number of shares outstanding during the period (cumulative from the beginning of the fiscal year)

Six months ended June 30, 2021	6,388,500 shares
Six months ended June 30, 2020	– shares

Note: The Company did not prepare quarterly consolidated financial statements for the six months ended June 30, 2020. Therefore, the average number of shares outstanding for the six months ended June 30, 2020, cannot be shown.

- * Quarterly financial results reports are exempt from quarterly review conducted by certified public accountants or an audit corporation.

- * Proper use of earnings forecasts, and other special matters

The forward-looking statements, including earnings forecasts, contained in these materials are based on information currently available to the Company and on certain assumptions deemed to be reasonable by the Company. Actual business and other results may differ substantially due to various factors. For the suppositions that form the assumptions for earnings forecasts and cautions concerning the use thereof, please refer to the section of “(4) Explanation regarding consolidated earnings forecasts and other forward-looking statements” of “1. Qualitative Information Regarding Results for the Six Months” on page 3 of the attached material.

Attached Material

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1. Qualitative Information Regarding Results for the Six Months

(1) Explanation regarding operating results

Forward-looking statements within this document are based on the judgments as of the end of the second quarter of the fiscal year ending December 31, 2021. LaKeel, Inc. (hereinafter “the Company”) did not prepare consolidated financial statements for the first six months of the fiscal year ended December 31, 2020. Therefore, we are unable to carry out comparative analysis with results for the same period of the previous fiscal year.

Under the philosophy of “aiming to be a company that realizes continuous growth together with people as The Human Based Company,” the Company and its subsidiaries (hereinafter “the Group”) consider ourselves to be companies of digital natives, and we work to contribute to maximizing the value of customers’ businesses by providing not just technology alone, but a comprehensive combination of products, services, and methods.

In the period under review, the Japanese economy showed signs of recovery, such as a revival in corporate earnings. However, due to factors such as another declaration of a state of emergency, the outlook remains unclear. In the information services industry in which the Group is active, the importance of products and services adapted to this period of living with the novel coronavirus disease (COVID-19), including products and services that expand remote working and facilitate digitalization, was clear and there was even greater interest in corporate digital transformation (DX) and shifting to cloud-based services. As a result, expectations regarding services in the Group’s business area grew on a daily basis.

Within this environment and amid the growing need for DX, the Group has worked to further expand our user base by concentrating management resources in related services, particularly LaKeel DX, a next-generation cloud-based digital business platform, and by continuing to invest in new product development.

Sales of Professional Services Business amounted to ¥1,399,684 thousand. Recurring revenue derived from the maintenance and operation of existing systems contributed as a stable revenue base.

Sales of Product Business amounted to ¥1,273,860 thousand. Significant growth in LaKeel product installations and consulting services resulted in steady performance.

Sales by type of services are shown below.

Type of services	Six months ended June 30, 2021 (from January 1, 2021 to June 30, 2021)	
	Amounts (Thousands of yen)	Composition (%)
Professional Services Business	1,399,684	52.4
Product Business	1,273,860	47.6
Total	2,673,544	100.0

As a result of the above, net sales for the period under review were ¥2,673,544 thousand, operating profit was ¥196,977 thousand, ordinary profit was ¥167,384 thousand, and profit attributable to owners of parent was ¥93,724 thousand.

Additionally, as all of the Group’s business falls under the single segment of LaKeel Business, segment information has not been included.

(2) Explanation regarding financial position

Assets

Current assets as of June 30, 2021, were ¥2,261,902 thousand, a decrease of ¥3,875 thousand compared with the end of the previous fiscal year. This was primarily because cash and deposits declined by ¥156,791 thousand due to the repayment of borrowings and other factors, and despite increases of ¥96,552 thousand in notes and accounts receivable - trade, and ¥58,417 thousand in other current assets, which included an increase in prepaid expenses. Non-current assets were ¥1,513,416 thousand, an increase of ¥42,579 thousand compared with the end of the previous fiscal year. This was primarily because of an increase of ¥27,340 thousand in property, plant and equipment due to interior work carried out following the expansion of our offices among other factors, and an increase of ¥10,632 thousand in intangible assets, due to the development of LaKeel product software and other factors.

As a result, total assets were ¥3,775,318 thousand, an increase of ¥38,704 thousand compared with the end of the previous fiscal year.

Liabilities

Current liabilities as of June 30, 2021, were ¥1,763,942 thousand, an increase of ¥40,878 thousand compared with the end of the previous fiscal year. This was primarily because advances received increased by ¥65,740 thousand due to an increase in new advance payment transactions. Non-current liabilities were ¥770,895 thousand, a decrease of ¥112,765 thousand compared with the end of the previous fiscal year. This was primarily because long-term borrowings decreased by ¥103,879 thousand due to the repayment of borrowings.

As a result, total liabilities were ¥2,534,838 thousand, a decrease of ¥71,886 thousand compared with the end of the previous fiscal year.

Net assets

Total net assets as of June 30, 2021, were ¥1,240,480 thousand, an increase of ¥110,590 thousand compared with the end of the previous fiscal year. This was primarily because of an increase of ¥93,724 thousand in retained earnings from profit attributable to owners of parent and an increase of ¥17,041 thousand in foreign currency translation adjustment.

(3) Explanation regarding cash flows

Cash and cash equivalents (hereinafter “Cash”) as of June 30, 2021, amounted to ¥1,166,857 thousand.

The status of cash flows during the period under review, and the primary factors responsible for these results are as follows.

Cash flows from operating activities

Net cash provided by operating activities amounted to ¥78,048 thousand. The main positive factors were profit before income taxes of ¥167,384 thousand, depreciation of ¥86,877 thousand, and an increase in other current liabilities of ¥51,662 thousand. The main negative factors were an increase in trade receivables of ¥94,361 thousand, an increase in other current assets of ¥58,010 thousand, a decrease in accrued consumption taxes of ¥38,543 thousand, and ¥57,382 thousand in income taxes paid.

Cash flows from investing activities

Net cash used in investing activities amounted to ¥131,013 thousand. This was primarily due to ¥90,810 thousand in purchase of intangible assets connected to the development of LaKeel product software.

Cash flows from financing activities

Net cash used in financing activities amounted to ¥120,929 thousand. This was primarily due to ¥103,879 thousand in repayments of long-term borrowings and ¥11,437 thousand in repayments of lease obligations.

(4) Explanation regarding consolidated earnings forecasts and other forward-looking statements

Regarding earnings forecasts for the fiscal year ending December 31, 2021, there has been no change from the earnings forecasts included in the Notification on Financial Information, etc., Accompanying the Company’s Listing on the TSE Mothers released on July 16, 2021.

2. Quarterly Consolidated Financial Statements and Significant Notes Thereto

(1) Quarterly consolidated balance sheet

(Thousands of yen)

	As of December 31, 2020	As of June 30, 2021
Assets		
Current assets		
Cash and deposits	1,323,648	1,166,857
Notes and accounts receivable - trade	848,329	944,882
Work in process	4,640	2,605
Income taxes receivable	19	-
Other	89,139	147,556
Total current assets	2,265,777	2,261,902
Non-current assets		
Property, plant and equipment		
Buildings	119,927	159,000
Accumulated depreciation	(14,794)	(21,630)
Buildings, net	105,132	137,370
Tools, furniture and fixtures	104,135	107,210
Accumulated depreciation	(84,964)	(90,258)
Tools, furniture and fixtures, net	19,170	16,951
Leased assets	99,053	108,026
Accumulated depreciation	(23,327)	(34,978)
Leased assets, net	75,726	73,048
Total property, plant and equipment	200,030	227,371
Intangible assets		
Goodwill	505,009	487,776
Software	258,862	197,350
Software in progress	114,286	206,964
Other	65,883	62,583
Total intangible assets	944,041	954,674
Investments and other assets		
Leasehold and guarantee deposits	317,373	317,373
Deferred tax assets	9,341	13,997
Other	49	-
Total investments and other assets	326,764	331,370
Total non-current assets	1,470,837	1,513,416
Total assets	3,736,614	3,775,318

(Thousands of yen)

	As of December 31, 2020	As of June 30, 2021
Liabilities		
Current liabilities		
Accounts payable - trade	140,600	156,494
Short-term borrowings	600,000	600,000
Current portion of long-term borrowings	192,364	192,364
Lease obligations	21,297	23,738
Accounts payable - other	67,570	66,403
Accrued expenses	108,186	85,863
Income taxes payable	77,945	98,425
Accrued consumption taxes	106,231	67,422
Advances received	281,227	346,968
Provision for bonuses	20,469	25,864
Asset retirement obligations	—	4,162
Other	107,170	96,234
Total current liabilities	1,723,063	1,763,942
Non-current liabilities		
Long-term borrowings	771,137	667,258
Lease obligations	56,548	51,824
Asset retirement obligations	55,975	51,813
Total non-current liabilities	883,660	770,895
Total liabilities	2,606,724	2,534,838
Net assets		
Shareholders' equity		
Share capital	341,062	341,062
Capital surplus	449,010	449,010
Retained earnings	330,450	424,175
Total shareholders' equity	1,120,524	1,214,249
Accumulated other comprehensive income		
Foreign currency translation adjustment	(9,780)	7,260
Total accumulated other comprehensive income	(9,780)	7,260
Share acquisition rights	600	600
Non-controlling interests	18,546	18,370
Total net assets	1,129,889	1,240,480
Total liabilities and net assets	3,736,614	3,775,318

(2) Quarterly consolidated statement of income and quarterly consolidated statement of comprehensive income

Quarterly consolidated statement of income

(Thousands of yen)

	Six months ended June 30, 2021
Net sales	2,673,544
Cost of sales	1,776,902
Gross profit	896,642
Selling, general and administrative expenses	699,665
Operating profit	196,977
Non-operating income	
Interest income	33
Other	438
Total non-operating income	471
Non-operating expenses	
Interest expenses	4,821
Foreign exchange losses	18,418
Share issuance costs	2,492
Listing expenses	4,331
Other	0
Total non-operating expenses	30,064
Ordinary profit	167,384
Profit before income taxes	167,384
Income taxes - current	79,416
Income taxes - deferred	(4,655)
Total income taxes	74,761
Profit	92,623
Loss attributable to non-controlling interests	(1,101)
Profit attributable to owners of parent	93,724

Quarterly consolidated statement of comprehensive income

(Thousands of yen)

Six months ended
June 30, 2021

Profit	92,623
Other comprehensive income	
Foreign currency translation adjustment	17,966
Total other comprehensive income	17,966
Comprehensive income	110,590
Comprehensive income attributable to	
Comprehensive income attributable to owners of parent	110,766
Comprehensive income attributable to non-controlling interests	(176)

(3) Quarterly consolidated statement of cash flows

(Thousands of yen)

Six months ended
June 30, 2021

Cash flows from operating activities	
Profit before income taxes	167,384
Depreciation	86,877
Amortization of goodwill	17,233
Increase (decrease) in provision for bonuses	5,395
Interest income	(33)
Interest expenses	4,821
Share issuance costs	2,492
Listing expenses	4,331
Decrease (increase) in trade receivables	(94,361)
Decrease (increase) in inventories	2,153
Decrease (increase) in other current assets	(58,010)
Increase (decrease) in trade payables	13,638
Increase (decrease) in accounts payable - other	(2,648)
Increase (decrease) in accrued expenses	(22,323)
Increase (decrease) in accrued consumption taxes	(38,543)
Increase (decrease) in other current liabilities	51,662
Other, net	242
Subtotal	140,311
Interest received	32
Interest paid	(4,913)
Income taxes paid	(57,382)
Net cash provided by (used in) operating activities	78,048
Cash flows from investing activities	
Purchase of property, plant and equipment	(40,202)
Purchase of intangible assets	(90,810)
Net cash provided by (used in) investing activities	(131,013)
Cash flows from financing activities	
Repayments of long-term borrowings	(103,879)
Repayments of lease obligations	(11,437)
Payments for issuance of shares	(2,282)
Payments of listing expenses	(3,331)
Net cash provided by (used in) financing activities	(120,929)
Effect of exchange rate change on cash and cash equivalents	17,103
Net increase (decrease) in cash and cash equivalents	(156,791)
Cash and cash equivalents at beginning of period	1,323,648
Cash and cash equivalents at end of period	1,166,857

(4) Notes to quarterly consolidated financial statements

Notes on uncertainties of entity's ability to continue as going concern

Not applicable.

Notes when there is significant change in amount of equity

Not applicable.

Notes on changes in accounting estimates

In the period under review, regarding asset retirement obligations recorded to restore our Head Office site to its original condition based on a real estate lease contract, the accounting estimate was changed due to an alteration to the period of expected use accompanying an extension of the contract period.

The impact of this change on operating profit, ordinary profit, and profit before income taxes for the period under review, is insignificant.

Additional information

Accounting estimates associated with the spread of COVID-19

Although the spread of COVID-19 is having a certain amount of impact on the Group's business activities, changes have been made to accounting estimates, such as impairment of non-current assets and the possibility of the realization of deferred tax assets, based on the assumption that this impact will be limited.

However, the significant uncertainty over the impact of the spread of COVID-19 and future changes in the business environment could have a serious effect on the Group's financial position and operating results.

Segment information, etc.

Segment information

Six months ended June 30, 2021 (from January 1, 2021 to June 30, 2021)

As all of the Group's business falls under the single segment of LaKeel Business, segment information has been omitted.

Significant events after reporting period

1. Issuance of new shares through public offering

On July 16, 2021, the Company was listed on the Tokyo Stock Exchange's Mothers, an acronym for market of the high-growth and emerging stocks (hereinafter "the TSE Mothers"). On the occasion of this listing, a resolution to issue new shares was made at the meeting of the Board of Directors held on June 11, 2021, and payment for the new shares was completed on July 15, 2021. An overview of the issuance is as follows.

(1) Class and number of shares offered	840,000 common shares of the Company
(2) Issue price	¥1,400 per share
(3) Subscription price	¥1,288 per share
(4) Payment date	July 15, 2021
(5) Amount incorporated into capital	¥644 per share
(6) Total issue price	¥1,176,000 thousand
(7) Total subscription price	¥1,081,920 thousand
(8) Total amount incorporated into capital	Amount of increased shareholders' equity: ¥540,960 thousand Amount of increased legal capital surplus: ¥540,960 thousand
(9) Method of offering	Public offering of new shares (offering using the book-building method)
(10) Purpose of funds	The funds are to be allocated as follows. (i) Expenses associated with development of the Company's products (ii) Expenses associated with the recruitment and training of technical personnel (iii) Advertising expenses (iv) Repayment of borrowings

2. Issuance of new shares through third-party allotment

On July 16, 2021, the Company was listed on the TSE Mothers. On the occasion of this listing, a resolution to issue new shares through a third-party allotment was made at the meeting of the Board of Directors held on June 11, 2021. This will take the form of an offering of the Company's shares through an overallotment to Nomura Securities Co., Ltd. The details are as follows.

(1) Class and number of shares offered	189,000 common shares of the Company
(2) Price per allotted share	¥1,288 per share
(3) Payment date	August 16, 2021
(4) Amount incorporated into capital	¥644 per share
(5) Total price of allotment	¥243,432 thousand
(6) Total amount incorporated into capital	Amount of shareholders' equity to be increased: ¥121,716 thousand Amount of legal capital surplus to be increased: ¥121,716 thousand
(7) Allottee	Nomura Securities Co., Ltd.
(8) Purpose of funds	The funds are to be allocated as follows. (i) Expenses associated with development of the Company's products (ii) Expenses associated with the recruitment and training of technical personnel (iii) Advertising expenses (iv) Repayment of borrowings