

Note: This document has been translated from the Japanese original for reference purposes only. In the event of any discrepancy between this translated document and the Japanese original, the original shall prevail.

May 13, 2022

Consolidated Financial Results for the Three Months Ended March 31, 2022 (Under Japanese GAAP)

Company name: LaKeel, Inc.
 Listing: Tokyo Stock Exchange
 Securities code: 4074
 URL: <https://www.lakeel.com/>
 Representative: Kubo Tsutomu, Chief Executive Officer
 Inquiries: Nishimura Hiroshi, Director and Senior Executive Officer, Corporate Department
 Telephone: +81-3-6441-3850
 Scheduled date to file quarterly securities report: May 13, 2022
 Scheduled date to commence dividend payments: –
 Preparation of supplementary material on quarterly financial results: Yes
 Holding of quarterly financial results briefing: None

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

1. Consolidated financial results for the three months ended March 31, 2022 (from January 1, 2022 to March 31, 2022)

(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	%
Three months ended								
March 31, 2022	1,635	28.3	120	92.3	110	136.5	67	272.6
March 31, 2021	1,274	–	62	–	46	–	18	–

Note: Comprehensive income For the three months ended March 31, 2022: ¥82 million [163.5%]
 For the three months ended March 31, 2021: ¥31 million [–%]

	Basic earnings per share	Diluted earnings per share
	Yen	Yen
Three months ended		
March 31, 2022	8.95	8.87
March 31, 2021	2.85	–

- Notes: 1. The Company has applied the “Accounting Standard for Revenue Recognition” (ASBJ Statement No. 29, March 31, 2020) and relevant ASBJ regulations from the beginning of the first quarter of the current fiscal year, and each figure for the three months ended March 31, 2022, is the figure after applying the accounting standard and relevant ASBJ regulations.
2. The Company did not prepare consolidated financial statements for the three months ended March 31, 2020. Therefore, the year-on-year changes for the three months ended March 31, 2021 cannot be shown.
3. Regarding the results for diluted earnings per share for the three months ended March 31, 2021, while the Company does have dilutive shares, the Company’s shares were unlisted as of March 31, 2021. As a result, average share prices for the period 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			
March 31, 2022	5,356	2,875	53.3
December 31, 2021	5,442	2,817	51.4

Reference: Equity
 As of March 31, 2022: ¥2,856 million
 As of December 31, 2021: ¥2,798 million

Note: The Company has applied the “Accounting Standard for Revenue Recognition” (ASBJ Statement No. 29, March 31, 2020) and relevant ASBJ regulations from the beginning of the first quarter of the current fiscal year, and each figure for the three months ended March 31, 2022, is the figure after applying the accounting standard and relevant ASBJ regulations.

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, 2021	–	0.00	–	0.00	0.00
Fiscal year ending December 31, 2022	–				
Fiscal year ending December 31, 2022 (Forecast)		0.00	–	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, 2022 (from January 1, 2022 to December 31, 2022)

(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, 2022	6,784	16.4	659	20.0	651	32.1	421	33.0	55.62

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

Note: The Company has applied the “Accounting Standard for Revenue Recognition” (ASBJ Statement No. 29, March 31, 2020) and relevant ASBJ regulations from the beginning of the first quarter of the current fiscal year, and the consolidated earnings forecasts for the fiscal year ending December 31, 2022 reflect figures after applying the accounting standard and relevant ASBJ regulations.

*** 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: Yes
 - (ii) Changes in accounting policies due to other reasons: None
 - (iii) Changes in accounting estimates: None
 - (iv) Restatement: None

Note: For details, please refer to page 8, section “2. Quarterly Consolidated Financial Statements and Significant Notes Thereof,” item “(3) Notes to quarterly consolidated financial statements (Notes on changes in accounting policies)” of the attached document.

(4) Number of issued shares (common shares)

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

As of March 31, 2022	7,625,500 shares
As of December 31, 2021	7,580,500 shares

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

As of March 31, 2022	48 shares
As of December 31, 2021	48 shares

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

Three months ended March 31, 2022	7,593,644 shares
Three months ended March 31, 2021	6,388,500 shares

* 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 “(3) Explanation regarding consolidated earnings forecasts and other forward-looking statements” of “1. Qualitative Information Regarding Results for the Three Months” on page 3 of the attached material.

Attached Material

Index

1. Qualitative Information Regarding Results for the Three Months.....	2
(1) Explanation regarding operating results	2
(2) Explanation regarding financial position.....	2
(3) Explanation regarding consolidated earnings forecasts and other forward-looking statements	3
2. Quarterly Consolidated Financial Statements and Significant Notes Thereto	4
(1) Quarterly consolidated balance sheet	4
(2) Quarterly consolidated statement of income and quarterly consolidated statement of comprehensive income	6
Quarterly consolidated statement of income	6
Quarterly consolidated statement of comprehensive income	7
(3) Notes to quarterly consolidated financial statements.....	8
Notes on uncertainties of entity’s ability to continue as going concern	8
Notes when there is significant change in amount of equity	8
Notes on changes in accounting policies	8
Additional information	9
Segment information, etc.....	9

1. Qualitative Information Regarding Results for the Three Months

(1) Explanation regarding operating results

The outlook for the Japanese economy in the first three months of the current fiscal year remained uncertain due to factors including the impact of the COVID-19 pandemic, rising prices of raw materials and crude oil, and the rapid depreciation of the yen.

The Group is part of the information services industry, and with companies needing to promote digital transformation (DX) and shift to cloud-based services, the Company anticipates ongoing growth for a variety of related services.

In this environment, the Group continues to support the digital transformation of client companies, providing LaKeel DX, a digital business platform, and LaKeel Apps, a suite of products that operate on this platform. LaKeel DX uses our proprietary technology to develop software as part of a system, creating a product that enables clients to develop their own systems to suit their business needs in a short period of time. We will continue to expand the LaKeel product lineup and its functionality, while focusing on our Product Business.

As a result of these efforts, net sales for the period under review were ¥1,635,572 thousand (+28.3% year-on-year), operating profit was ¥120,414 thousand (+92.3% year-on-year), ordinary profit was ¥110,227 thousand (+136.5% year-on-year), and profit attributable to owners of parent was ¥67,952 thousand (+272.6% year-on-year).

In addition, the Company has applied the “Accounting Standard for Revenue Recognition” (ASBJ Statement No. 29, March 31, 2020) and relevant ASBJ regulations from the start of the first quarter of the current fiscal year. Details are as explained in section “2. Quarterly Consolidated Financial Statements and Significant Notes Thereto,” item “(3) Notes to quarterly consolidated financial statements (Notes on changes in accounting policies) (Application of Accounting Standard for Revenue Recognition, etc.)”

Additionally, as all of the Group’s business falls under the single segment of LaKeel Business, segment information has not been included. However, sales by service are as follows.

Sales of Product Business amounted to ¥957,340 thousand (+67.4% year-on-year). Sales of new licenses for LaKeel products and subscription based usage fees, as well as associated consulting services, have all seen significant growth.

Sales of Professional Services Business amounted to ¥678,232 thousand (-3.5% year-on-year). The decrease resulted from fewer orders for new system development and a shift to the Product Business. However, recurring revenue derived from the maintenance and operation of existing systems remained stable.

Type of services	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)		Year-on-year	
	Amounts (Thousands of yen)	Composition (%)	Amounts (Thousands of yen)	Composition (%)	Amounts of change (Thousands of yen)	Percentage of change (%)
Product Business	571,806	44.9	957,340	58.5	385,533	67.4
Professional Services Business	702,974	55.1	678,232	41.5	(24,742)	(3.5)
Total	1,274,781	100.0	1,635,572	100.0	360,791	28.3

(2) Explanation regarding financial position

Assets

Current assets as of March 31, 2022 were ¥3,817,582 thousand, a decrease of ¥59,161 thousand compared with the end of the previous fiscal year. This was mainly due to a decrease of ¥46,042 thousand in notes and accounts receivable - trade, and contract assets (notes and accounts receivable - trade in the previous fiscal year). Non-current assets were ¥1,538,562 thousand, a decrease of ¥27,243 thousand compared with

the end of the previous fiscal year. This was mainly due to a decrease of ¥39,265 thousand in intangible assets due to depreciation of software and goodwill of LaKeel products.

As a result, total assets were ¥5,356,144 thousand, a decrease of ¥86,405 thousand compared with the end of the previous fiscal year.

Liabilities

Current liabilities as of March 31, 2022, were ¥1,818,348 thousand, a decrease of ¥130,132 thousand compared with the end of the previous fiscal year. This was mainly due to a decrease of ¥121,018 thousand in income taxes payable on finalized income tax returns. Non-current liabilities were ¥662,460 thousand, a decrease of ¥14,120 thousand compared with the end of the previous fiscal year. This was primarily because long-term borrowings decreased by ¥8,568 thousand thanks to their repayment.

As a result, total liabilities were ¥2,480,808 thousand, a decrease of ¥144,252 thousand compared with the end of the previous fiscal year.

Net assets

Total net assets as of March 31, 2022 were ¥2,875,335 thousand, an increase of ¥57,847 thousand compared with the end of the previous fiscal year. This was mainly due to an increase in retained earnings of ¥38,564 thousand and an increase in foreign currency translation adjustments of ¥14,645 thousand. The increase in retained earnings resulted from an increase of ¥67,952 thousand in profit attributable to owners of parent and a decrease of ¥29,388 thousand due to the retroactive application of Accounting Standards for Revenue Recognition, etc. at the beginning of the first quarter of the fiscal year ending December 31, 2022.

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

The consolidated earnings forecast for the fiscal year ending December 31, 2022 remains unchanged from the forecast in the “Consolidated Financial Results for the Fiscal Year Ended December 31, 2021” that was released on February 14, 2022.

2. Quarterly Consolidated Financial Statements and Significant Notes Thereto

(1) Quarterly consolidated balance sheet

(Thousands of yen)

	As of December 31, 2021	As of March 31, 2022
Assets		
Current assets		
Cash and deposits	2,570,866	2,579,536
Notes and accounts receivable - trade	1,186,991	-
Notes and accounts receivable - trade, and contract assets	-	1,140,948
Work in process	2,618	426
Other	116,267	96,671
Total current assets	3,876,744	3,817,582
Non-current assets		
Property, plant and equipment		
Buildings	182,682	182,907
Accumulated depreciation	(27,499)	(30,507)
Buildings, net	155,182	152,400
Tools, furniture and fixtures	72,865	76,018
Accumulated depreciation	(50,079)	(53,949)
Tools, furniture and fixtures, net	22,785	22,068
Leased assets	108,026	108,026
Accumulated depreciation	(46,900)	(52,861)
Leased assets, net	61,126	55,165
Total property, plant and equipment	239,094	229,634
Intangible assets		
Goodwill	470,542	461,925
Software	469,867	427,508
Software in progress	-	13,359
Other	59,283	57,633
Total intangible assets	999,692	960,427
Investments and other assets		
Leasehold and guarantee deposits	303,098	307,011
Deferred tax assets	23,919	41,259
Other	-	229
Total investments and other assets	327,017	348,499
Total non-current assets	1,565,805	1,538,562
Total assets	5,442,549	5,356,144

(Thousands of yen)

	As of December 31, 2021	As of March 31, 2022
Liabilities		
Current liabilities		
Accounts payable - trade	248,758	255,869
Short-term borrowings	600,000	600,000
Current portion of long-term borrowings	186,829	164,609
Lease obligations	23,304	22,904
Accounts payable - other	79,463	59,380
Accrued expenses	104,641	67,880
Income taxes payable	180,240	59,221
Accrued consumption taxes	96,378	94,041
Advances received	306,326	–
Contract liabilities	–	353,683
Provision for bonuses	38,458	86,428
Other	84,080	54,329
Total current liabilities	1,948,480	1,818,348
Non-current liabilities		
Long-term borrowings	584,308	575,740
Lease obligations	40,459	34,907
Asset retirement obligations	51,813	51,813
Total non-current liabilities	676,580	662,460
Total liabilities	2,625,061	2,480,808
Net assets		
Shareholders' equity		
Share capital	1,011,888	1,014,138
Capital surplus	1,119,836	1,122,086
Retained earnings	647,494	686,059
Treasury shares	(110)	(110)
Total shareholders' equity	2,779,109	2,822,174
Accumulated other comprehensive income		
Foreign currency translation adjustment	19,617	34,262
Total accumulated other comprehensive income	19,617	34,262
Share acquisition rights	600	600
Non-controlling interests	18,161	18,299
Total net assets	2,817,488	2,875,335
Total liabilities and net assets	5,442,549	5,356,144

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

Quarterly consolidated statement of income

(Thousands of yen)

	Three months ended March 31, 2021	Three months ended March 31, 2022
Net sales	1,274,781	1,635,572
Cost of sales	889,001	1,127,119
Gross profit	385,779	508,453
Selling, general and administrative expenses	323,159	388,039
Operating profit	62,620	120,414
Non-operating income		
Interest income	21	25
Subsidy income	–	6,254
Other	142	98
Total non-operating income	163	6,378
Non-operating expenses		
Interest expenses	2,422	2,003
Foreign exchange losses	13,762	14,561
Other	0	0
Total non-operating expenses	16,184	16,565
Ordinary profit	46,598	110,227
Profit before income taxes	46,598	110,227
Income taxes - current	47,892	47,301
Income taxes - deferred	(18,685)	(4,369)
Total income taxes	29,207	42,932
Profit	17,391	67,295
Loss attributable to non-controlling interests	(844)	(657)
Profit attributable to owners of parent	18,235	67,952

Quarterly consolidated statement of comprehensive income

(Thousands of yen)

	Three months ended March 31, 2021	Three months ended March 31, 2022
Profit	17,391	67,295
Other comprehensive income		
Foreign currency translation adjustment	14,011	15,440
Total other comprehensive income	14,011	15,440
Comprehensive income	31,403	82,735
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	31,526	82,598
Comprehensive income attributable to non-controlling interests	(122)	137

(3) 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 policies

Application of Accounting Standard for Revenue Recognition, etc.

The Company has applied the "Accounting Standard for Revenue Recognition" (ASBJ Statement No. 29, March 31, 2020) and relevant ASBJ regulations effective from the beginning of the first quarter of the current fiscal year, and it has recognized revenue at the time that the control of promised goods or services is transferred to the customer at the amount expected to be received upon exchange of said goods or services.

The main changes from the application of the Accounting Standard for Revenue Recognition, etc. are as follows.

1. Identification of performance obligations and allocation of transaction prices

For software license products, including maintenance services for the first year, the Company previously recognized revenue at a particular point in time. Now, however, we identify software licenses and maintenance services as separate obligations and allocate transaction prices according to separate sales prices, and recognize revenue over time as performance obligations are satisfied.

2. Revenue recognition related to construction contracts

As regards software development and similar activities contracted by the Group, it previously applied the percentage of completion method for some software development projects in which the outcome of construction work in progress was deemed certain, and the completed work method for other projects. However, from the start of the first quarter of the fiscal year ending December 31, 2022, the Company has changed the way it recognizes earnings over a particular time period based on the rate of progress toward satisfaction of performance obligations, making reasonable estimates concerning progress. As for the method of estimating progress towards satisfaction of performance obligations, the degree of progress is calculated by the proportion of actual cost to estimated total cost (input method). For less significant construction contracts, revenue is recognized when the performance obligation is fully satisfied.

In accordance with the transitional treatment provided for in the proviso to paragraph 84 of the Accounting Standard for Revenue Recognition, the cumulative effect of the retroactive application of said standard was added to or subtracted from the retained earnings at the beginning of the first quarter of the fiscal year ending December 31, 2022, and the new accounting policies have been applied from the starting balance.

As a result, net sales, operating profit, ordinary profit, and profit before income taxes each increased by ¥7,386 thousand during the period under review. In addition, the balance of retained earnings at the start of the period decreased by ¥29,388 thousand.

Due to the application of the Accounting Standard for Revenue Recognition, etc., "Notes and accounts receivable - trade" under current assets of the consolidated balance sheet as of the end of the previous fiscal year has been included in "Notes and accounts receivable - trade, and contract assets" under current assets from the quarterly consolidated balance sheet as of the end of the first quarter of the current fiscal year. "Advances received" that were displayed under "Current liabilities" have been included with "Contract liabilities" from the first quarter of the current fiscal year.

In accordance with the transitional treatment provided for in paragraph 89-2 of the Accounting Standard for Revenue Recognition, figures for the previous fiscal year have not been restated in accordance with the new approach to presentation.

Application of 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) and relevant ASBJ regulations from the beginning of the first quarter of the fiscal year under review, and it has applied the new accounting policy provided for by the Accounting Standard for Fair Value Measurement, etc. prospectively in accordance with the transitional measures provided for in paragraph 19 of the Accounting Standard For Fair Value Measurement, and paragraph 44-2 of the “Accounting Standard for Financial Instruments” (ASBJ Statement No. 10, July 4, 2019). There was no impact on profit and loss for the first quarter of the fiscal year ending December 31, 2022.

Additional information

Accounting estimates associated with the spread of COVID-19

There have been no material changes to the assumptions concerning the impact of COVID-19 set out in the “Additional information” section of the Annual Securities Report for the previous fiscal year.

Segment information, etc.

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