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August 14, 2023

Consolidated Financial Results for the Six Months Ended June 30, 2023 (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 14, 2023
 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, 2023 (from January 1, 2023 to June 30, 2023)

(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, 2023	3,708	9.8	291	8.5	287	18.3	192	28.1
June 30, 2022	3,378	26.4	268	36.4	242	45.0	150	60.3

Note: Comprehensive income For the six months ended June 30, 2023: ¥204 million [14.8%]
 For the six months ended June 30, 2022: ¥177 million [60.7%]

	Basic earnings per share	Diluted earnings per share
Six months ended	Yen	Yen
June 30, 2023	25.20	24.45
June 30, 2022	19.74	19.09

(2) Consolidated financial position

	Total assets	Net assets	Equity-to-asset ratio
As of	Millions of yen	Millions of yen	%
June 30, 2023	6,010	3,477	57.6
December 31, 2022	5,787	3,271	56.2

Reference: Equity
 As of June 30, 2023: ¥3,459 million
 As of December 31, 2022: ¥3,254 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, 2022	–	0.00	–	0.00	0.00
Fiscal year ending December 31, 2023	–	0.00			
Fiscal year ending December 31, 2023 (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, 2023 (from January 1, 2023 to December 31, 2023)

(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, 2023	8,409	22.2	901	16.7	894	22.3	567	21.5	74.39

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: None
 - (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, 2023	7,653,500 shares
As of December 31, 2022	7,628,500 shares

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

As of June 30, 2023	123 shares
As of December 31, 2022	81 shares

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

Six months ended June 30, 2023	7,635,820 shares
Six months ended June 30, 2022	7,610,472 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 “(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

Although socioeconomic activity has been returning to levels prior to the spread of COVID-19 due to the easing of restrictions in response to the pandemic, the outlook for the Japanese economy in the first six months of the current fiscal year remained uncertain due to the impact of factors including the rising prices of raw materials, high commodity prices associated with that, and concerns regarding a downturn in the economy caused by global monetary tightening.

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, net sales for the period under review were ¥3,708,423 thousand (+9.8% year-on-year), operating profit was ¥291,481 thousand (+8.5% year-on-year), ordinary profit was ¥287,261 thousand (+18.3% year-on-year), and profit attributable to owners of parent was ¥192,403 thousand (+28.1% year-on-year).

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

Sales of Product Business amounted to ¥2,128,106 thousand (+7.9% year-on-year). Sales of new licenses for LaKeel products and subscription-based usage fees, as well as associated consulting services, have all seen growth.

Sales of Professional Services Business amounted to ¥1,580,316 thousand (+12.4% year-on-year). Recurring revenue derived from the maintenance and operation of existing systems provided by the Company in the past remained stable.

Type of services	Six months ended June 30, 2022 (from January 1, 2022 to June 30, 2022)		Six months ended June 30, 2023 (from January 1, 2023 to June 30, 2023)		Year-on-year	
	Amounts (Thousands of yen)	Composition (%)	Amounts (Thousands of yen)	Composition (%)	Amounts of change (Thousands of yen)	Percent change (%)
Product Business	1,972,625	58.4	2,128,106	57.4	155,481	7.9
Professional Services Business	1,406,309	41.6	1,580,316	42.6	174,007	12.4
Total	3,378,934	100.0	3,708,423	100.0	329,489	9.8

(2) Explanation regarding financial position

Assets

Current assets as of June 30, 2023, were ¥4,367,260 thousand, an increase of ¥183,934 thousand compared with the end of the previous fiscal year. This was mainly due to increases of ¥153,088 thousand in notes and accounts receivable - trade and contract assets, ¥9,244 thousand in work in process, and ¥15,864 thousand in prepaid expenses included in other. Non-current assets were ¥1,642,988 thousand, an increase of ¥38,747 thousand compared with the end of the previous fiscal year. This was mainly due to a decrease of ¥17,837 thousand in property, plant and equipment due to depreciation, etc., despite an increase of ¥54,487 thousand in intangible assets due to factors including the production of software and content assets.

As a result, total assets were ¥6,010,248 thousand, an increase of ¥222,681 thousand compared with the end of the previous fiscal year.

Liabilities

Current liabilities as of June 30, 2023, were ¥2,467,797 thousand, an increase of ¥32,335 thousand compared with the end of the previous fiscal year. This was mainly due to a decrease of ¥56,390 thousand in the current portion of long-term borrowings, a decrease of ¥50,020 thousand in income taxes payable, and a decrease of ¥36,481 thousand in accrued consumption taxes, despite an increase of ¥114,639 thousand in accounts payable - trade due to an increase in outsourcing expenses and an increase of ¥62,611 thousand in contract liabilities due to an increase in new advances. Non-current liabilities were ¥64,467 thousand, a decrease of ¥16,079 thousand compared with the end of the previous fiscal year. This was mainly due to decreases of ¥8,604 thousand in long-term borrowings and ¥7,475 thousand in lease liabilities.

As a result, total liabilities were ¥2,532,265 thousand, an increase of ¥16,256 thousand compared with the end of the previous fiscal year.

Net assets

Total net assets as of June 30, 2023, were ¥3,477,983 thousand, an increase of ¥206,425 thousand compared with the end of the previous fiscal year. This was mainly due to an increase in retained earnings of ¥192,403 thousand.

(3) Explanation regarding cash flows

Cash and cash equivalents (hereinafter “cash”) as of June 30, 2023 were ¥3,233,229 thousand, an increase of ¥3,013 thousand compared with the end of the previous fiscal year. The status of each cash flow and the factors influencing them during the period under review are as follows.

Cash flows from operating activities

Net cash provided by operating activities amounted to ¥284,219 thousand (compared with ¥632,122 thousand provided in the previous fiscal year). Primary positive factors were profit before income taxes of ¥287,168 thousand, depreciation of ¥159,902 thousand, and an increase in trade payables of ¥114,260 thousand. On the other hand, an increase in trade receivables of ¥151,396 thousand and payment of income taxes amounting to ¥147,325 thousand had a negative impact.

Cash flows from investing activities

Net cash used in investing activities amounted to ¥213,491 thousand (compared with ¥155,446 thousand used in the previous fiscal year). This was primarily for expenses of ¥212,077 thousand tied to the purchase of intangible assets for software development of LaKeel products.

Cash flows from financing activities

Net cash used in financing activities amounted to ¥73,082 thousand (compared with ¥111,259 thousand used in the previous fiscal year). This was primarily due to repayments of long-term borrowings of ¥64,994 thousand and repayments of lease liabilities of ¥10,492 thousand.

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

The consolidated earnings forecasts for the fiscal year ending December 31, 2023, remain unchanged from the forecasts in the “Consolidated Financial Results for the Fiscal Year Ended December 31, 2022” that was released on February 14, 2023.

2. Quarterly Consolidated Financial Statements and Significant Notes Thereto

(1) Quarterly consolidated balance sheet

(Thousands of yen)

	As of December 31, 2022	As of June 30, 2023
Assets		
Current assets		
Cash and deposits	3,230,215	3,233,229
Notes and accounts receivable - trade, and contract assets	828,785	981,873
Work in process	782	10,026
Supplies	262	210
Income taxes refund receivable	–	325
Other	123,278	141,594
Total current assets	4,183,325	4,367,260
Non-current assets		
Property, plant and equipment		
Buildings	182,907	182,907
Accumulated depreciation	(39,566)	(45,605)
Buildings, net	143,341	137,301
Tools, furniture and fixtures	77,581	80,209
Accumulated depreciation	(59,762)	(63,925)
Tools, furniture and fixtures, net	17,819	16,283
Leased assets	108,026	108,026
Accumulated depreciation	(70,052)	(80,315)
Leased assets, net	37,974	27,711
Total property, plant and equipment	199,135	181,297
Intangible assets		
Goodwill	436,074	418,841
Software	404,357	384,514
Software in progress	–	88,581
Content assets	109,893	116,176
Other	52,683	49,383
Total intangible assets	1,003,009	1,057,497
Investments and other assets		
Investment securities	62,931	62,291
Leasehold and guarantee deposits	306,487	306,641
Deferred tax assets	11,897	14,661
Other	20,781	20,599
Total investments and other assets	402,096	404,193
Total non-current assets	1,604,241	1,642,988
Total assets	5,787,567	6,010,248

(Thousands of yen)

	As of December 31, 2022	As of June 30, 2023
Liabilities		
Current liabilities		
Accounts payable - trade	292,583	407,223
Short-term borrowings	600,000	600,000
Current portion of long-term borrowings	575,704	519,314
Lease liabilities	20,329	17,312
Accounts payable - other	71,040	78,581
Accrued expenses	87,860	82,943
Income taxes payable	171,036	121,015
Accrued consumption taxes	100,788	64,307
Contract liabilities	399,985	462,597
Provision for bonuses	33,776	37,339
Other	82,356	77,163
Total current liabilities	2,435,461	2,467,797
Non-current liabilities		
Long-term borrowings	8,604	–
Lease liabilities	20,130	12,654
Asset retirement obligations	51,813	51,813
Total non-current liabilities	80,547	64,467
Total liabilities	2,516,009	2,532,265
Net assets		
Shareholders' equity		
Share capital	1,014,288	1,015,538
Capital surplus	1,122,236	1,123,486
Retained earnings	1,085,157	1,277,561
Treasury shares	(187)	(283)
Total shareholders' equity	3,221,495	3,416,303
Accumulated other comprehensive income		
Foreign currency translation adjustment	32,602	43,092
Total accumulated other comprehensive income	32,602	43,092
Share acquisition rights	600	600
Non-controlling interests	16,860	17,988
Total net assets	3,271,557	3,477,983
Total liabilities and net assets	5,787,567	6,010,248

(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, 2022	Six months ended June 30, 2023
Net sales	3,378,934	3,708,423
Cost of sales	2,273,443	2,439,998
Gross profit	1,105,490	1,268,425
Selling, general and administrative expenses	836,726	976,943
Operating profit	268,764	291,481
Non-operating income		
Interest income	50	175
Subsidy income	6,254	6,350
Other	1,257	157
Total non-operating income	7,562	6,683
Non-operating expenses		
Interest expenses	3,957	3,290
Foreign exchange losses	29,166	6,972
Loss on investments in investment partnerships	–	639
Other	479	0
Total non-operating expenses	33,603	10,903
Ordinary profit	242,722	287,261
Extraordinary losses		
Loss on retirement of non-current assets	–	93
Total extraordinary losses	–	93
Profit before income taxes	242,722	287,168
Income taxes - current	80,418	96,970
Income taxes - deferred	13,532	(2,763)
Total income taxes	93,951	94,206
Profit	148,771	192,961
Profit (loss) attributable to non-controlling interests	(1,466)	558
Profit attributable to owners of parent	150,237	192,403

Quarterly consolidated statement of comprehensive income

(Thousands of yen)

	Six months ended June 30, 2022	Six months ended June 30, 2023
Profit	148,771	192,961
Other comprehensive income		
Foreign currency translation adjustment	28,983	11,059
Total other comprehensive income	28,983	11,059
Comprehensive income	177,754	204,021
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	177,728	202,893
Comprehensive income attributable to non-controlling interests	25	1,128

(3) Quarterly consolidated statement of cash flows

(Thousands of yen)

	Six months ended June 30, 2022	Six months ended June 30, 2023
Cash flows from operating activities		
Profit before income taxes	242,722	287,168
Depreciation	138,607	159,902
Amortization of goodwill	17,233	17,233
Loss (gain) on investments in investment partnerships	–	639
Foreign exchange losses (gains)	–	5,473
Increase (decrease) in provision for bonuses	(2,918)	2,883
Increase (decrease) in provisions	3,101	–
Interest income	(50)	(175)
Subsidy income	(6,254)	(6,350)
Interest expenses	3,957	3,290
Loss on retirement of non-current assets	–	93
Decrease (increase) in trade receivables	294,803	(151,396)
Decrease (increase) in inventories	(2,756)	(9,165)
Decrease (increase) in other current assets	(20,988)	(18,196)
Increase (decrease) in trade payables	57,639	114,260
Increase (decrease) in accounts payable - other	(14,459)	6,898
Increase (decrease) in accrued expenses	(19,045)	(5,132)
Increase (decrease) in accrued consumption taxes	(26,544)	(36,524)
Increase (decrease) in other current liabilities	113,883	57,418
Other, net	393	–
Subtotal	779,325	428,322
Interest received	49	172
Interest paid	(4,116)	(3,306)
Subsidies received	6,254	6,350
Income taxes paid	(149,389)	(147,325)
Income taxes refund	–	6
Net cash provided by (used in) operating activities	632,122	284,219
Cash flows from investing activities		
Purchase of property, plant and equipment	(1,949)	(1,413)
Purchase of intangible assets	(93,414)	(212,077)
Purchase of investment securities	(56,398)	–
Payments of leasehold deposits	(3,684)	–
Net cash provided by (used in) investing activities	(155,446)	(213,491)
Cash flows from financing activities		
Repayments of long-term borrowings	(103,879)	(64,994)
Repayments of lease liabilities	(12,103)	(10,492)
Purchase of treasury shares	(76)	(95)
Proceeds from issuance of shares resulting from exercise of share acquisition rights	4,800	2,500
Net cash provided by (used in) financing activities	(111,259)	(73,082)
Effect of exchange rate change on cash and cash equivalents	27,528	5,368
Net increase (decrease) in cash and cash equivalents	392,945	3,013
Cash and cash equivalents at beginning of period	2,570,866	3,230,215
Cash and cash equivalents at end of period	2,963,811	3,233,229

(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.

Segment information, etc.

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