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November 14, 2022

Consolidated Financial Results for the Nine Months Ended September 30, 2022 (Under Japanese GAAP)

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 Scheduled date to file quarterly securities report: November 14, 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 nine months ended September 30, 2022 (from January 1, 2022 to September 30, 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	%
Nine months ended								
September 30, 2022	5,130	22.2	519	49.3	487	60.4	314	62.3
September 30, 2021	4,197	–	347	–	304	–	194	–

Note: Comprehensive income For the nine months ended September 30, 2022: ¥342 million [60.7%]
 For the nine months ended September 30, 2021: ¥213 million [–%]

	Basic earnings per share	Diluted earnings per share
Nine months ended	Yen	Yen
September 30, 2022	41.35	40.03
September 30, 2021	29.01	27.31

- 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 nine months ended September 30, 2022, is the figure after applying the accounting standard and relevant ASBJ regulations.
2. The Company did not prepare consolidated financial statements for the nine months ended September 30, 2020. Therefore, the year-on-year changes for the nine months ended September 30, 2021 cannot be shown.

(2) Consolidated financial position

	Total assets	Net assets	Equity-to-asset ratio
As of	Millions of yen	Millions of yen	%
September 30, 2022	5,625	3,135	55.4
December 31, 2021	5,442	2,817	51.4

Reference: Equity
 As of September 30, 2022: ¥3,116 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 nine months ended September 30, 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	—	0.00	—		
Fiscal year ending December 31, 2022 (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, 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 “Notes on changes in accounting policies” under the section of “(3) Notes to quarterly consolidated financial statements” of “2. Quarterly Consolidated Financial Statements and Significant Notes Thereto” on page 8 of the attached material.

(4) Number of issued shares (common shares)

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

As of September 30, 2022	7,628,500 shares
As of December 31, 2021	7,580,500 shares

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

As of September 30, 2022	81 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)

Nine months ended September 30, 2022	7,616,547 shares
Nine months ended September 30, 2021	6,689,100 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 Nine Months” on page 3 of the attached material.

Attached Material

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1. Qualitative Information Regarding Results for the Nine Months

(1) Explanation regarding operating results

Despite signs of recovery due to diminishing concerns about a downturn in the economy due to the COVID-19 pandemic, the outlook for the Japanese economy in the first nine months of the current fiscal year remained uncertain and the situation will continue to be unpredictable due to factors including 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 ¥5,130,754 thousand (+22.2% year on year), operating profit was ¥519,287 thousand (+49.3% year on year), ordinary profit was ¥487,833 thousand (+60.4% year on year), and profit attributable to owners of parent was ¥314,962 thousand (+62.3% 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 beginning of the first quarter of the current fiscal year. Details are as explained in “Application of Accounting Standard for Revenue Recognition, etc.” under “Notes on changes in accounting policies” in the section of “(3) Notes to quarterly consolidated financial statements” of “2. Quarterly Consolidated Financial Statements and Significant Notes Thereto.”

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.

Net sales of Product Business amounted to ¥2,977,294 thousand (+44.1% 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.

Net sales of Professional Services Business amounted to ¥2,153,459 thousand (+1.0% year on year). With fewer orders for new system development and a shift to the Product Business, recurring revenue derived from the maintenance and operation of existing systems provided by the Company in the past remained stable.

Type of services	Nine months ended September 30, 2021 (from January 1, 2021 to September 30, 2021)		Nine months ended September 30, 2022 (from January 1, 2022 to September 30, 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	2,066,115	49.2	2,977,294	58.0	911,179	44.1
Professional Services Business	2,131,563	50.8	2,153,459	42.0	21,895	1.0
Total	4,197,679	100.0	5,130,754	100.0	933,074	22.2

(2) Explanation regarding financial position

Assets

Current assets as of September 30, 2022, were ¥3,998,425 thousand, an increase of ¥121,680 thousand compared with the end of the previous fiscal year. This was mainly due to an increase of ¥481,320 thousand

in cash and deposits, despite a decrease of ¥370,643 thousand in notes and accounts receivable - trade, and contract assets (notes and accounts receivable - trade in the previous fiscal year). Non-current assets were ¥1,627,216 thousand, an increase of ¥61,410 thousand compared with the end of the previous fiscal year. This was mainly due to an increase of ¥95,297 thousand in investments and other assets due to purchase of investment securities, etc., despite a decrease of ¥30,268 thousand in property, plant and equipment due to depreciation of leased assets, etc.

As a result, total assets were ¥5,625,641 thousand, an increase of ¥183,091 thousand compared with the end of the previous fiscal year.

Liabilities

Current liabilities as of September 30, 2022, were ¥1,900,285 thousand, a decrease of ¥48,195 thousand compared with the end of the previous fiscal year. This was mainly due to a decrease of ¥55,550 thousand in the current portion of long-term borrowings, a decrease of ¥40,370 thousand in accrued expenses, and a decrease of ¥87,191 thousand in income taxes payable, despite an increase of ¥55,389 thousand in accounts payable - trade and an increase of ¥84,388 thousand in contract liabilities (advances received in the previous fiscal year). Non-current liabilities were ¥589,698 thousand, a decrease of ¥86,882 thousand compared with the end of the previous fiscal year. This was mainly due to a decrease of ¥71,420 thousand in long-term borrowings due to their repayments.

As a result, total liabilities were ¥2,489,983 thousand, a decrease of ¥135,077 thousand compared with the end of the previous fiscal year.

Net assets

Total net assets as of September 30, 2022 were ¥3,135,657 thousand, an increase of ¥318,168 thousand compared with the end of the previous fiscal year. This was mainly due to an increase in retained earnings of ¥285,573 thousand and an increase in foreign currency translation adjustment of ¥27,960 thousand. The increase in retained earnings resulted from an increase of ¥314,962 thousand in profit attributable to owners of parent and a decrease of ¥29,388 thousand due to the cumulative effect of retroactive application of Accounting Standards for Revenue Recognition, etc. prior to 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 forecasts for the fiscal year ending December 31, 2022 remain unchanged from the forecasts 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 September 30, 2022
Assets		
Current assets		
Cash and deposits	2,570,866	3,052,186
Notes and accounts receivable - trade	1,186,991	–
Notes and accounts receivable - trade, and contract assets	–	816,347
Work in process	2,618	5,292
Other	116,267	124,598
Total current assets	3,876,744	3,998,425
Non-current assets		
Property, plant and equipment		
Buildings	182,682	182,907
Accumulated depreciation	(27,499)	(36,546)
Buildings, net	155,182	146,361
Tools, furniture and fixtures	72,865	78,646
Accumulated depreciation	(50,079)	(59,606)
Tools, furniture and fixtures, net	22,785	19,039
Leased assets	108,026	108,026
Accumulated depreciation	(46,900)	(64,601)
Leased assets, net	61,126	43,425
Total property, plant and equipment	239,094	208,826
Intangible assets		
Goodwill	470,542	444,691
Software	469,867	293,952
Software in progress	–	93,983
Content assets	–	109,113
Other	59,283	54,333
Total intangible assets	999,692	996,074
Investments and other assets		
Investment securities	–	59,931
Leasehold and guarantee deposits	303,098	306,712
Deferred tax assets	23,919	34,735
Other	–	20,935
Total investments and other assets	327,017	422,315
Total non-current assets	1,565,805	1,627,216
Total assets	5,442,549	5,625,641

(Thousands of yen)

	As of December 31, 2021	As of September 30, 2022
Liabilities		
Current liabilities		
Accounts payable - trade	248,758	304,147
Short-term borrowings	600,000	600,000
Current portion of long-term borrowings	186,829	131,279
Lease obligations	23,304	20,983
Accounts payable - other	79,463	62,643
Accrued expenses	104,641	64,271
Income taxes payable	180,240	93,049
Accrued consumption taxes	96,378	85,258
Advances received	306,326	–
Contract liabilities	–	390,715
Provision for bonuses	38,458	97,508
Provisions	–	719
Other	84,080	49,709
Total current liabilities	1,948,480	1,900,285
Non-current liabilities		
Long-term borrowings	584,308	512,888
Lease obligations	40,459	24,997
Asset retirement obligations	51,813	51,813
Total non-current liabilities	676,580	589,698
Total liabilities	2,625,061	2,489,983
Net assets		
Shareholders' equity		
Share capital	1,011,888	1,014,288
Capital surplus	1,119,836	1,122,236
Retained earnings	647,494	933,068
Treasury shares	(110)	(187)
Total shareholders' equity	2,779,109	3,069,406
Accumulated other comprehensive income		
Foreign currency translation adjustment	19,617	47,578
Total accumulated other comprehensive income	19,617	47,578
Share acquisition rights	600	600
Non-controlling interests	18,161	18,072
Total net assets	2,817,488	3,135,657
Total liabilities and net assets	5,442,549	5,625,641

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

Quarterly consolidated statement of income

(Thousands of yen)

	Nine months ended September 30, 2021	Nine months ended September 30, 2022
Net sales	4,197,679	5,130,754
Cost of sales	2,737,106	3,367,269
Gross profit	1,460,572	1,763,484
Selling, general and administrative expenses	1,112,855	1,244,196
Operating profit	347,716	519,287
Non-operating income		
Interest income	66	79
Subsidy income	414	6,254
Other	305	1,465
Total non-operating income	786	7,799
Non-operating expenses		
Interest expenses	7,067	5,832
Foreign exchange losses	20,176	30,737
Share issuance costs	12,633	–
Listing expenses	4,435	–
Loss on investments in investment partnerships	–	2,196
Other	5	487
Total non-operating expenses	44,317	39,253
Ordinary profit	304,185	487,833
Extraordinary losses		
Loss on retirement of non-current assets	1,164	–
Total extraordinary losses	1,164	–
Profit before income taxes	303,020	487,833
Income taxes - current	140,984	172,324
Income taxes - deferred	(30,587)	2,153
Total income taxes	110,397	174,478
Profit	192,622	313,355
Loss attributable to non-controlling interests	(1,410)	(1,607)
Profit attributable to owners of parent	194,033	314,962

Quarterly consolidated statement of comprehensive income

(Thousands of yen)

	Nine months ended September 30, 2021	Nine months ended September 30, 2022
Profit	192,622	313,355
Other comprehensive income		
Foreign currency translation adjustment	20,658	29,479
Total other comprehensive income	20,658	29,479
Comprehensive income	213,281	342,834
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	213,627	342,923
Comprehensive income attributable to non-controlling interests	(346)	(88)

(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 performance obligations and allocate transaction prices on a relative stand-alone selling price basis, and recognize revenue from maintenance services 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 beginning of the first quarter of the fiscal year ending December 31, 2022, the Company has changed the way it recognizes revenue 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 rate 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.

The application of the Accounting Standard for Revenue Recognition and relevant ASBJ regulations is subject to 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, assuming the new accounting policy had been applied to periods prior to the beginning of the first quarter of the fiscal year ending December 31, 2022, 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 thus the new accounting policy has been applied from the beginning balance.

As a result, net sales, operating profit, ordinary profit, and profit before income taxes each increased by ¥25,659 thousand during the period under review. In addition, the balance of retained earnings at the beginning 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 current fiscal year, 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 treatment 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 nine months 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.