

Summary of Financial Results for Second Quarter of the Year Ending December 2021 [Japanese GAAP] (Consolidated)

August 6, 2021

Name of Company:	LTS, Inc.	Stock Exchange Listing:	Tokyo
Stock Code:	6560	URL	https://lt-s.jp/
Representative:	Title: President and CEO	Name:	Hiroaki Kabashima
Contact Person:	Executive Vice President and Manager of Group Management Office	Name:	Sungil Lee
		Phone:	+81-3-5919-0512
Date of filing of quarterly report:	August 13, 2021		
Date of commencement of dividend payment:	-		
Preparation of quarterly supplementary materials:	Yes		
Convening of a quarterly results meeting:	Yes		

(Amounts less than one million are rounded down)

1. Financial results for second quarter of fiscal year ending December 2021 (January 1, 2021 – June 30, 2021)

(1) Operating results (consolidated) (Percentage figures represent year-on-year change)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent	
	million yen	%	million yen	%	million yen	%	million yen	%
Q2 FY2021	3,474	29.8	274	7.2	258	11.8	166	11.4
Q2 FY2020	2,676	64.1	255	85.8	231	68.4	149	68.3

(Note) Comprehensive income Q2 FY2021: 164 million yen (12.9%) Q2 FY2020: 145 million yen (63.7%)

	Profit per share	Profit per share fully diluted
	yen	yen
Q2 FY2021	40.37	37.51
Q2 FY2020	36.96	34.30

(2) Financial position (consolidated)

	Total assets	Net assets	Capital adequacy ratio
	million yen	million yen	%
Q2 FY2021	4,491	1,801	40.1
FY2020	4,290	1,732	40.3

(Reference) Shareholders' equity Q2 FY2021: 1,801 million yen FY2020: 1,729 million yen

(Note) During the first three months of the fiscal year ending December 2021, provisional accounting associated with business combination was finalized, and the figures for the fiscal year ended December 2020 have been restated to reflect this.

2. Dividends

	Dividend per share				
	End of Q1	End of Q2	End of Q3	End of FY	Total
	yen	yen	yen	yen	yen
FY2020	-	0.00	-	0.00	0.00
FY2021	-	0.00			
FY2021 (forecast)			-	0.00	0.00

(Note) Revision to the most recently announced dividend forecast: No

3. Forecast for the fiscal year ending December 2021 (January 1, 2021 - December 31, 2021)

(Percentage figures represent year-on-year change)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent		Profit per share
	million yen	%	million yen	%	million yen	%	million yen	%	yen
Full year	7,000	26.0	580	21.2	530	18.5	341	26.1	82.97

(Note) Revision to the most recently announced earnings forecast: No

(Note) There is no first half forecast.

*Notice:

(1) Changes in main subsidiaries during year to quarter end (Changes in specific subsidiaries accompanied by changes in the scope of consolidation): No

New consolidations: company(ies) (Company name(s)); Exclusions: company(ies) (Company name(s))

(2) Application of accounting treatment specific to the preparation of the consolidated quarterly financial statements: No

(3) Changes in accounting policies, accounting estimates, and restatements

(a) Changes in accounting policies due to revision of accounting standards: No

(b) Changes in accounting policies other than those in (a): No

(c) Changes in accounting estimates: No

(d) Restatements: No

(4) Number of shares outstanding (common shares)

(a) Shares outstanding (including treasury shares) at end of period

Q2 of year ending December 2021	4,271,400 shares	Year ended December 2020	4,197,400 shares
Q2 of year ending December 2021	127,765 shares	Year ended December 2020	87,658 shares
Q2 of year ending December 2021	4,133,410 shares	Q2 of year ended December 2020	4,053,392 shares

(b) Treasury shares at end of period

(c) Average number of shares during period

*Quarterly financial results summaries are not subject to audit.

*Cautionary statement regarding business results forecasts and special notes

The financial forecasts and other forward-looking statements herein are based on currently available information and assumptions considered by the Company to be reasonable and do not represent a commitment from the Company that they will be achieved. Actual results may differ substantially due to various factors.

○ Contents of Accompanying Materials

1. Quantitative Information related to the Consolidated Business Results.....	4
(1) Explanation of Operating Results.....	4
(2) Explanation of Financial Position	5
(3) Explanation of Consolidated Earnings Forecasts and Other Future Projections.....	5
2. Quarterly Consolidated Financial Statements and Main Notes.....	6
(1) Quarterly Consolidated Balance Sheet.....	6
(2) Quarterly Consolidated Statement of Income and Quarterly Consolidated Statement of Comprehensive Income	8
(3) Notes to the Quarterly Consolidated Financial Statements	10
(Notes Related to Going Assumptions).....	10
(Notes on Significant Changes in Shareholders' Equity)	10
(Segment Information).....	10
(Notes - Business Combinations).....	11
(Additional Information).....	11

1. Quantitative Information related to the Consolidated Business Results

(1) Explanation of Operating Results

During the first six months of the fiscal year (January 1 to June 30, 2021), the Japanese economy continued to struggle due to COVID-19. Although there were some sign of a recovery in imports and exports and in production activities, COVID-19 variants have emerged, so the future of the economy remains uncertain.

In the information services industry, which is the main business domain of our Group, COVID-19 has had a prolonged impact on corporate management. Digital transformation (DX) continues to attract a high level of attention for addressing changes in the social environment during and after the COVID-19 pandemic. As such, demand remains strong for providing support for such internal reform activities as work style reform, including introducing task performing robots such as AI and RPA (robotic process automation) and promoting telecommuting.

Under these circumstances, the Group has established a medium-term business plan with this year as the first year of the plan and has been developing a professional services business and a platform business as a company that supports and promotes corporate transformation and work style reform. In our professional services business, we enter our customers' work sites and deliver expected solutions, utilizing robotics, AI, and business process management to provide one-stop support catered to the customer's unique challenges and reform objectives. We promoted partnerships with outside companies and new projects via telecommuting while also actively hiring and training human resources. In our platform business, we solve IT personnel shortages and, in addition to actively rolling out existing Assign Navi and Consultant Job services, we promoted development of our new CS Clip service that matches operating companies with DX companies.

As a result of the above, during the first six months of the fiscal year, we achieved net sales of ¥3,474.748 million (up 29.8% year on year), operating profit of ¥274.234 million (up 7.2% year on year), ordinary profit of ¥258.972 million (up 11.8% year on year), and profit attributable to owners of parent of ¥166.861 million (up 11.4% year on year).

A summary of financial results by segment (net sales includes internal sales) is provided below.

(Professional Services Business)

In our professional services business, the environment surrounding our IT division is undergoing drastic changes due to various restrictions on corporate activities. In the midst of these circumstances, we steadily acquired traditional consulting projects (operational analysis/design, IT introduction support, on-site deployment) based on our strength of visualizing and improving operations utilizing business process management. This was a result of actively promoting business development amid favorable conditions created by robust demand for DX. We also promoted closer collaboration with technology companies and other outside companies. In addition to expanding our business in the Shizuoka and Tokai area by making SOFTEC Co., Ltd. a consolidated subsidiary, we promoted digital transformation in the administrative domain by entering a business alliance with Loglass Inc and Outlook Consulting Co., Ltd. Furthermore, we actively communicated information on our services by publishing books, holding seminars, and more.

As a result, net sales in the professional services business came to ¥3,359.184 million (up 29.7% year on year) and segment profit (operating profit) came to ¥250.047 million (up 11.1% year on year).

(Platform Business)

In the platform business, the number of members in the Assign Navi platform, which provides business matching and a learning forum specialized for the IT industry, grew to 10,955 including both corporate and individual members as of June 30, 2021. This steady growth represents a 749-member increase over the end of the previous year. Our track record with Assign Navi and Consultant Job matching and member services has also expanded in conjunction with growth of our member base, and sales were strong. At the same time, we continued to invest in the development of our new CS Clip service and actively invested in expanding the profitability of existing services, including enhancement of our organizational structure and promotion of marketing activities.

As a result, net sales in the platform business came to ¥144.494 million (up 30.3% year on year), and the segment profit (operating profit) came to ¥24.186 million (down 21.5% year on year).

(2) Explanation of Financial Position

Total assets at the end of the first six months of the fiscal year were ¥4,491.421 million, up ¥201.143 million from the end of the previous fiscal year. This was primarily due to a ¥171.072 million decrease in cash and deposits, a ¥121.741 million increase in accounts receivable – trade, and a ¥112.650 million increase in investment securities.

Liabilities amounted to ¥2,690.094 million, up ¥132.363 million from the end of the previous fiscal year. This was primarily due to a ¥173.560 million decrease in long-term borrowings, and a ¥387.838 million increase in other (suspense receipts).

Net assets amounted to ¥1,801.326 million, up ¥68.779 million from the end of the previous fiscal year. This was primarily due to a ¥166.861 million increase in retained earnings and a ¥141.546 million increase in treasury shares. The equity ratio was 40.1%.

The business combination with SOFTEC Co., Ltd., which was conducted on December 3, 2020, was provisionally accounted for in the previous fiscal year, but the accounting was finalized during the first quarter of the fiscal year. In conjunction with the finalization of this provisional accounting treatment, the revision of the allocation of acquisition costs has been reflected in the comparative information contained in the quarterly consolidated financial statements for the second quarter under review. Additionally, for comparison and analysis with the end of the previous fiscal year, the amounts reflect the revision of the initially allocated acquisition cost made when finalizing the provisional accounting treatment.

(3) Explanation of Consolidated Earnings Forecasts and Other Future Projections

In regard to the consolidated earnings forecast for the fiscal year ending December 2021, no changes have been made to the full-year consolidated earnings forecast announced on February 12, 2021.

The impact of COVID-19 on the Group's business results is currently limited, but we will continue to monitor any changes in the situation and will engage in prompt disclosure in the event that there is a need to revise the earnings forecast.

2. Quarterly Consolidated Financial Statements and Main Notes

(1) Quarterly Consolidated Balance Sheet

(Thousands of yen)

	Previous consolidated fiscal year (ended December 31, 2020)	First six months of the current fiscal year (ended June 30, 2021)
Assets		
Current assets		
Cash and deposits	2,682,739	2,511,667
Electronically recorded monetary claims - operating	81,126	112,191
Accounts receivable - trade	813,535	935,277
Work in process	55,660	120,288
Allowance for doubtful accounts	(2,035)	(1,789)
Other	75,995	109,533
Total current assets	3,707,022	3,787,169
Non-current assets		
Property, plant and equipment	40,966	52,917
Intangible fixed assets		
Goodwill	198,607	176,132
Software	6,128	3,726
Software in progress	86,768	112,826
Total intangible fixed assets	291,505	292,685
Investments and other assets		
Deferred tax assets	119,187	103,100
Leasehold and guarantee deposits	42,077	50,781
Investment securities	29,657	142,308
Other	59,861	62,458
Total investments and other assets	250,783	358,648
Total non-current assets	583,255	704,252
Total assets	4,290,278	4,491,421

(Thousands of yen)

	Previous consolidated fiscal year (ended December 31, 2020)	First six months of the current fiscal year (ended June 30, 2021)
Liabilities		
Current liabilities		
Accounts payable - trade	504,577	513,136
Current portion of long-term borrowings	305,005	276,853
Short-term borrowings	-	17,142
Accounts payable - other	265,694	198,079
Income taxes payable	149,904	93,850
Provision for bonuses	111,813	68,800
Provision for bonuses for directors (and other officers)	22,123	-
Other	215,185	681,564
Total current liabilities	1,574,304	1,849,426
Non-current liabilities		
Long-term borrowings	883,868	738,460
Retirement benefit liability	96,603	99,052
Deferred tax liabilities	539	539
Other	2,415	2,615
Total non-current liabilities	983,427	840,668
Total liabilities	2,557,731	2,690,094
Net assets		
Shareholders' equity		
Share capital	529,020	548,090
Capital surplus	454,020	480,865
Retained earnings	889,202	1,056,063
Treasury shares	(142,469)	(284,016)
Total shareholders' equity	1,729,773	1,801,003
Accumulated other comprehensive income		
Foreign currency translation adjustment	62	323
Total accumulated other comprehensive income	62	323
Non-controlling interests	2,710	-
Total net assets	1,732,546	1,801,326
Liabilities and net assets	4,290,278	4,491,421

(2) Quarterly Consolidated Statement of Income and Quarterly Consolidated Statement of Comprehensive Income

Quarterly consolidated statement of income

First six months of the fiscal year

(Thousands of yen)

	First six months of the previous fiscal year (January 1 - June 30, 2020)	First six months of the current fiscal year (January 1 - June 30, 2021)
Net sales	2,676,097	3,474,748
Cost of sales	1,705,676	2,249,006
Gross profit	970,421	1,225,742
Selling, general and administrative expenses	714,543	951,507
Operating profit	255,878	274,234
Non-operating profit		
Interest income	21	16
Dividend income	-	43
Foreign exchange gains	53	-
Surrender value of insurance policies	3,670	139
Subsidy income	-	3,770
Other	27	286
Total non-operating income	3,773	4,255
Non-operating expenses		
Interest expenses	2,358	3,195
Foreign exchange losses	-	236
Listing expenses	4,000	-
Share of loss of entities accounted for using equity method	20,330	14,849
Other	1,387	1,236
Total non-operating expenses	28,076	19,518
Ordinary profit	231,574	258,972
Profit before income taxes	231,574	258,972
Income taxes - current	66,490	78,734
Income taxes - deferred	19,465	16,087
Total income taxes	85,956	94,821
Profit	145,618	164,150
Loss attributable to non-controlling interests	(4,194)	(2,710)
Profit attributable to owners of parent	149,813	166,861

Quarterly consolidated statement of comprehensive income

First six months of the fiscal year

(Thousands of yen)

	First six months of the previous fiscal year (January 1 - June 30, 2020)	First six months of the current fiscal year (January 1 - June 30, 2021)
Profit	145,618	164,150
Other comprehensive income		
Foreign currency translation adjustment	(55)	261
Total other comprehensive income	(55)	261
Comprehensive income	145,563	164,411
(Breakdown)		
Comprehensive income attributable to owners of parent	149,758	167,122
Comprehensive income attributable to non- controlling interests	(4,194)	(2,710)

(3) Notes to the Quarterly Consolidated Financial Statements

(Notes Related to Going Assumptions)

Not applicable.

(Notes on Significant Changes in Shareholders' Equity)

At the Board of Directors meeting held on April 16, 2021, the Company resolved to dispose of treasury shares for restricted stock compensation, and in accordance with this, 3,000 shares were disposed of on May 6, 2021. Furthermore, in accordance with a resolution passed at the Board of Directors meeting held on June 3, 2021, 43,000 treasury shares were acquired on June 4, 2021. As a result, during the first six months of the fiscal year under review, treasury shares increased by ¥141.546 million. In addition, with the exercise of stock acquisition rights granted under the stock options plans, during the first six months of the fiscal year under review, share capital increased by ¥19.070 million, and capital reserves increased by ¥19.070 million.

As a result, as of June 30, 2021, share capital was ¥548.090 million, capital surplus was ¥480.865 million, and treasury shares were ¥284.016 million.

(Segment Information)

First six months of the fiscal year (January 1 - June 30, 2021)

1. Information Regarding Amounts of Net Sales, Profit, and Loss for Each Reporting Segment

(Thousands of yen)

	Reporting Segment			Adjustment	Total Shown in Quarterly Consolidated Statement of Income *1
	Professional Services Business	Platform Business	Total		
Net sales					
Net sales to unaffiliated customers	3,359,184	115,563	3,474,748	-	3,474,748
Transactions with other segments	-	28,931	28,931	(28,931)	-
Total	3,359,184	144,494	3,503,679	(28,931)	3,474,748
Segment profit	250,047	24,186	274,234	-	274,234

*1. Segment profit is reconciled to operating profit presented in the quarterly consolidated statement of income.

2. Impairment Loss or Goodwill on Non-current Assets for Each Reporting Segment

(Significant change in the amount of goodwill)

In the professional services business, allocation of the acquisition cost related to the business combination carried out with SOFTEC Co., Ltd. during the previous fiscal year was not complete, so the amount of goodwill was based on a provisional calculation. The allocation was completed during the first quarter of the fiscal year, and the provisional accounting was finalized, so the amount of goodwill has been revised.

Details are provided in Notes - Business Combinations.

(Notes - Business Combinations)

Finalization of provisional accounting related to business combination

The business combination with SOFTEC Co., Ltd., which was conducted on December 3, 2020, was provisionally accounted for in the previous fiscal year, but the accounting was finalized during the first quarter of the fiscal year.

In conjunction with the finalization of this provisional accounting treatment, the significant revision of the initial allocation of acquisition costs has been reflected in the comparative information contained in the quarterly consolidated financial statements for the first six months of the fiscal year. Provisionally calculated at ¥121.842 million, the amount of goodwill was changed to ¥115.961 million as a result of finalizing the amount allocated to acquisition cost. The decrease in goodwill was primarily due to a ¥1.739 million decrease in deferred tax assets, a ¥4.921 decrease in accounts payable - other, a ¥3.283 million decrease in other current liabilities, and a ¥0.584 million increase in income taxes payable. The consolidated statement of income for the previous fiscal year is not impacted by the finalization of accounting treatment.

(Additional Information)

First six months of the current fiscal year (January 1 - June 30, 2021)
--

(Application of Tax Effect Accounting Relating to Transition from Consolidated Taxation System to Group Tax Sharing System)

LTS, Inc. and some domestic subsidiaries have calculated the amounts of deferred tax assets and deferred tax liabilities according to the tax acts before they were amended based on the treatment of Paragraph 3 of “Practical Solution on the Treatment of Tax Effect Accounting for the Transition from the Consolidated Taxation System to the Group Tax Sharing System” (ASBJ Practical Issues Task Force No.39, March 31, 2020) instead of applying the provision of Paragraph 44 of “Implementation Guidance on Tax Effect Accounting” (ASBJ Guidance No.28, February 16, 2018) with respect to the transition to the group tax sharing system established in “Act for Partial Amendment of the Income Tax Act, etc.” (Act No. 8 of 2020) and items for which the nonconsolidated taxation system has been reviewed in the line with the transition to the group tax sharing system.
