

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

November 5, 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:	November 12, 2021		
Date of commencement of dividend payment:	-		
Preparation of quarterly supplementary materials:	Yes		
Convening of a quarterly results meeting:	None		

(Amounts less than one million are rounded down)

1. Financial results for third quarter of fiscal year ending December 2021 (January 1, 2021 – September 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	%
Q3 FY2021	5,324	30.3	444	14.6	424	24.8	262	19.8
Q3 FY2020	4,086	62.5	388	85.4	340	63.5	219	71.1

(Note) Comprehensive income Q3 FY2021: 260 million yen (22.5%) Q3 FY2020: 212 million yen (65.9%)

	Profit per share	Profit per share fully diluted
	yen	yen
Q3 FY2021	63.31	59.15
Q3 FY2020	54.03	49.80

(2) Financial position (consolidated)

	Total assets	Net assets	Capital adequacy ratio
	million yen	million yen	%
Q3 FY2021	4,658	1,932	41.5
FY2020	4,290	1,732	40.3

(Reference) Shareholders' equity Q3 FY2021: 1,932 million yen FY2020: 1,729 million yen

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

*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

Q3 of year ending December 2021	4,336,700 shares	Year ended December 2020	4,197,400 shares
Q3 of year ending December 2021	127,802 shares	Year ended December 2020	87,658 shares
Q3 of year ending December 2021	4,148,609 shares	Q3 of year ended December 2020	4,058,138 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. Qualitative 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. Qualitative Information related to the Consolidated Business Results

(1) Explanation of Operating Results

During the first nine months of the fiscal year (January 1 to September 30, 2021), the Japanese economy continued to struggle due to COVID-19. Despite the recovery trend seen in the economy from the progress with vaccine rollouts and effects of stimulus measures, 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 nine months of the fiscal year, we achieved net sales of ¥5,324.455 million (up 30.3% year on year), operating profit of ¥444.870 million (up 14.6% year on year), ordinary profit of ¥424.482 million (up 24.8% year on year), and profit attributable to owners of parent of ¥262.667 million (up 19.8% 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. We expanded our business in the Shizuoka and Tokai area by making SOFTEC Co., Ltd. a consolidated subsidiary and promoted digital transformation in the administrative domain by entering a business alliance with Loglass Inc and Outlook Consulting Co., Ltd. Furthermore, we moved ahead with innovative projects in the field of DX, including development of an AI-driven automated shelving planning algorithm jointly with Kao Group Customer Marketing Co., Ltd.

Also, we actively communicated information on our services by publishing books, holding seminars, and more, with the aim of increasing our visibility and strengthening branding.

As a result, net sales in the professional services business came to ¥5,141.724 million (up 29.9% year on year) and segment profit (operating profit) came to ¥406.497 million (up 14.5% 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 11,248 including both corporate and individual members as of September 30, 2021. This steady growth represents a 1,042-member increase over the end of the previous year. Net sales trended strongly due to increased matching in conjunction with growth of our member base and changes in the rate plans for Assign Navi and Consultant Job aimed at further activation. At the same time, we continued to invest in the development of our new CS Clip service, as well as conducted more aggressive marketing activities aimed at monetization and reinforced our organizational structure for boosting the profitability of existing services.

As a result, net sales in the platform business came to ¥234.506 million (up 40.3% year on year), and the segment profit (operating profit) came to ¥38.372 million (up 15.6% year on year).

(2) Explanation of Financial Position

Total assets at the end of the first nine months of the fiscal year were ¥4,658.051 million, up ¥367.773 million from the end of the previous fiscal year. This was primarily due to a ¥178.920 million increase in accounts receivable - trade, a ¥99.935 million increase in work in process, and a ¥97.842 million increase in investment securities.

Liabilities amounted to ¥2,725.769 million, up ¥168.037 million from the end of the previous fiscal year. This was primarily due to a ¥246.101 million decrease in long-term borrowings, and a ¥388.137 million increase in other (suspense receipts).

Net assets amounted to ¥1,932.282 million, up ¥199.735 million from the end of the previous fiscal year. This was primarily due to a ¥262.667 million increase in retained earnings, a ¥36.710 million increase in share capital, a ¥44.484 million increase in capital surplus, and a ¥141.694 million increase in treasury shares. The equity ratio was 41.5%.

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 third 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 nine months of the current fiscal year (ended September 30, 2021)
Assets		
Current assets		
Cash and deposits	2,682,739	2,485,501
Electronically recorded monetary claims – operating	81,126	123,548
Accounts receivable – trade	813,535	992,456
Work in process	55,660	155,595
Allowance for doubtful accounts	(2,035)	(1,857)
Other	75,995	197,503
Total current assets	3,707,022	3,952,747
Non-current assets		
Property, plant and equipment	40,966	47,799
Intangible fixed assets		
Goodwill	198,607	164,894
Software	6,128	2,525
Software in progress	86,768	127,215
Total intangible fixed assets	291,505	294,635
Investments and other assets		
Deferred tax assets	119,187	125,091
Leasehold and guarantee deposits	42,077	50,187
Investment securities	29,657	127,500
Other	59,861	60,090
Total investments and other assets	250,783	362,869
Total non-current assets	583,255	705,304
Total assets	4,290,278	4,658,051

(Thousands of yen)

	Previous consolidated fiscal year (ended December 31, 2020)	First nine months of the current fiscal year (ended September 30, 2021)
Liabilities		
Current liabilities		
Accounts payable – trade	504,577	566,901
Current portion of long-term borrowings	305,005	270,354
Short-term borrowings	–	8,568
Accounts payable – other	265,694	202,080
Income taxes payable	149,904	72,287
Provision for bonuses	111,813	129,203
Provision for bonuses for directors (and other officers)	22,123	–
Other	215,185	700,952
Total current liabilities	1,574,304	1,950,346
Non-current liabilities		
Long-term borrowings	883,868	672,418
Retirement benefit liability	96,603	99,749
Deferred tax liabilities	539	539
Other	2,415	2,715
Total non-current liabilities	983,427	775,422
Total liabilities	2,557,731	2,725,769
Net assets		
Shareholders' equity		
Share capital	529,020	565,730
Capital surplus	454,020	498,505
Retained earnings	889,202	1,151,869
Treasury shares	(142,469)	(284,164)
Total shareholders' equity	1,729,773	1,931,941
Accumulated other comprehensive income		
Foreign currency translation adjustment	62	340
Total accumulated other comprehensive income	62	340
Non-controlling interests	2,710	–
Total net assets	1,732,546	1,932,282
Liabilities and net assets	4,290,278	4,658,051

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

Quarterly consolidated statement of income

First nine months of the fiscal year

(Thousands of yen)

	First nine months of the previous fiscal year (January 1 – September 30, 2020)	First nine months of the current fiscal year (January 1 - September 30, 2021)
Net sales	4,086,817	5,324,455
Cost of sales	2,590,786	3,422,434
Gross profit	1,496,030	1,902,021
Selling, general and administrative expenses	1,107,854	1,457,151
Operating profit	388,175	444,870
Non-operating profit		
Interest income	23	20
Dividend income	–	43
Foreign exchange gains	127	–
Surrender value of insurance policies	3,670	139
Subsidy income	–	3,770
Other	2,038	443
Total non-operating income	5,861	4,418
Non-operating expenses		
Interest expenses	4,328	4,703
Foreign exchange losses	–	273
Listing expenses	27,677	–
Share of loss of entities accounted for using equity method	20,330	18,476
Other	1,488	1,352
Total non-operating expenses	53,824	24,806
Ordinary profit	340,212	424,482
Extraordinary losses		
Loss on valuation of investment securities	–	11,181
Total extraordinary losses	–	11,181
Profit before income taxes	340,212	413,301
Income taxes – current	119,426	159,248
Income taxes – deferred	8,258	(5,903)
Total income taxes	127,685	153,344
Profit	212,526	259,956
Loss attributable to non-controlling interests	(6,754)	(2,710)
Profit attributable to owners of parent	219,281	262,667

Quarterly consolidated statement of comprehensive income

First nine months of the fiscal year

(Thousands of yen)

	First nine months of the previous fiscal year (January 1 - September 30, 2020)	First nine months of the current fiscal year (January 1 - September 30, 2021)
Profit	212,526	259,956
Other comprehensive income		
Foreign currency translation adjustment	(134)	278
Total other comprehensive income	(134)	278
Comprehensive income	212,392	260,234
(Breakdown)		
Comprehensive income attributable to owners of parent	219,146	262,945
Comprehensive income attributable to non-controlling interests	(6,754)	(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 nine months of the fiscal year under review, treasury shares increased by ¥141.694 million. In addition, with the exercise of stock acquisition rights granted under the stock options plans, during the first nine months of the fiscal year under review, share capital increased by ¥36.710 million, and capital reserves increased by ¥36.710 million.

As a result, as of September 30, 2021, share capital was ¥565.730 million, capital surplus was ¥498.505 million, and treasury shares were ¥284.164 million.

(Segment Information)

First nine months of the fiscal year (January 1 - September 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	5,138,404	186,051	5,324,455	—	5,324,455
Transactions with other segments	3,320	48,455	51,775	(51,775)	—
Total	5,141,724	234,506	5,376,230	(51,775)	5,324,455
Segment profit	406,497	38,372	444,870	—	444,870

*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 nine 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 million 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 nine months of the current fiscal year
(January 1 - September 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.