

## Summary of Financial Results for First Quarter of the Year Ending December 2022 [Japan GAAP] (Consolidated)

May 13, 2022

Name of Company:	LTS, Inc.	Stock Exchange Listing:	Tokyo
Stock Code:	6560	URL	<a href="https://lt-s.jp/en/">https://lt-s.jp/en/</a>
Representative:	Title: President and CEO	Name:	Hiroaki Kabashima
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Date of filing of quarterly report:	May 13, 2022		
Date of commencement of dividend payment:	-		
Preparation of quarterly supplementary materials:	Yes		
Convening of a quarterly results meeting:	No		

(Amounts less than one million are rounded down)

### 1. Financial results for first quarter of fiscal year ending December 2022 (January 1, 2022 - March 31, 2022)

#### (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	%
Q1 of the year ending December 2022	2,154	23.6	265	54.0	262	46.8	180	48.9
Q1 of the year ended December 2021	1,742	26.9	172	7.4	178	16.5	121	19.6

(Note) Comprehensive income      Q1 FY2022: 184 million yen (52.5%)      Q1 FY2021: 121 million yen (22.2%)

	Profit per share	Profit per share fully diluted
	yen	yen
Q1 of the year ending December 2022	43.11	41.40
Q1 of the year ended December 2021	29.39	27.31

(Note) The Accounting Standard for Revenue Recognition (ASBJ Statement No. 29, March 31, 2020) has been applied from the beginning of the first quarter of the year under review. Figures for the first quarter of the year ending December 31, 2022 have been restated to reflect application of the standard.

#### (2) Financial position (consolidated)

	Total assets	Net assets	Capital adequacy ratio
	million yen	million yen	%
Q1 of the year ending December 2022	4,290	1,961	45.6
Year ended December 2021	5,080	2,076	40.9

(Reference) Shareholders' equity      Q1 FY2022: 1,957 million yen      FY2021: 2,076 million yen

(Note) The Accounting Standard for Revenue Recognition (ASBJ Statement No. 29, March 31, 2020) has been applied from the beginning of the first quarter of the year under review. Figures for the first quarter of the year ending December 31, 2022 have been restated to reflect application of the standard.

### 2. Dividends

	Dividend per share				
	End of Q1	End of Q2	End of Q3	End of FY	Total
	yen	yen	yen	yen	yen
Year ended December 2021	-	0.00	-	0.00	0.00
Year ending December 2022	-	-	-	-	-
Year ending December 2022 (forecast)	-	0.00	-	0.00	0.00

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

3. Forecast for the fiscal year ending December 2022 (January 1, 2022 - December 31, 2022)

(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	8,542	15.8	480	-20.0	460	-20.7	297	-23.5	69.99

(Note) Revisions 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): None

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

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

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

(a) Changes in accounting policies due to revision of accounting standards: Yes

(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

(b) Treasury shares at end of period

(c) Average number of shares during period

Q1 of year ending December 2022	4,371,500 shares	Year ended December 2021	4,371,100 shares
Q1 of year ending December 2022	271,202 shares	Year ended December 2021	127,802 shares
Q1 of year ending December 2022	4,191,328 shares	Q1 of year ended December 2021	4,128,958 shares

\*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.

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# 1. Qualitative Information related to the Consolidated Business Results

## (1) Explanation of Operating Results

During the first three months of the fiscal year (January 1 to March 31, 2022), the Japanese economy continued to struggle due to COVID-19. Although there were some signs of economic normalization, the number of cases has continued to fluctuate up and down in Japan and around the world, and the uncertainty in the global economy has further increased with the Russian invasion of Ukraine on top of soaring energy and material prices.

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 been developing a professional services business and a platform business as a company that supports and promotes corporate transformation and work style reform based on the Medium-Term Business Plan established in the previous year. 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. In this business, we actively hired human resources to promote efforts to expand our capacity to provide stable services. 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. In addition, efforts to further enhance the corporate culture and brand have begun to mark the Group's 20th anniversary.

As a result of the above, during the first three months of the fiscal year under review, we achieved net sales of ¥2,154.172 million (up 23.6% year on year), operating profit of ¥265.171 million (up 54.0% year on year), and ordinary profit of ¥262.077 million (up 46.8% year on year), and profit attributable to owners of parent of ¥180.695 million (up 48.9% 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, favorable conditions created by robust demand for DX provided a boost for us to steadily acquire 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. We focused on communicating information to the outside on such topics as our DX approach leading to municipal and regional sustainability transformation (SX) through the example in Hiroshima Prefecture and our effectuation mentoring activities as well as on structural expansion to enhance hiring. We also received an award from a job search website operator for our new graduate hiring activities.

As a result, net sales in the professional services business came to ¥2,089.298 million (up 24.2% year on year) and segment profit (operating profit) came to ¥243.485 million (up 54.6% 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 11,654 including both corporate and individual members as of March 31, 2022. This steady growth represents a 218-member increase over the end of the previous year. Net sales were strong as the Assign Navi and Consultant Job matching and member service results increased in conjunction with expansion of the membership base. We continued to invest in development in our new CS Clip service, 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 ¥100.602 million (up 37.6% year on year), and the segment profit (operating profit) came to ¥21.686 million (up 48.4% year on year).

## (2) Explanation of Financial Position

Total assets at the end of the first three months of the fiscal year were ¥4,290.902 million, down ¥789.201 million from the end of the previous fiscal year. This was primarily due to a ¥409.976 million decrease in cash and deposits, a ¥280.589 million decrease in advance payments made, and a ¥70.277 million increase in accounts receivable and contract assets (accounts receivable - trade the previous fiscal year).

Liabilities amounted to ¥2,329.101 million, down ¥674.233 million from the end of the previous fiscal year. This was primarily due to a ¥483.626 million decrease in advances received, a ¥98.763 million decrease in accounts payable - other, a ¥65.651 million decrease in income taxes payable, a ¥62.896 million decrease in provision for bonuses, and a ¥74.382 decrease in long-term borrowings.

Net assets amounted to ¥1,961.800 million, down ¥114.968 million from the end of the previous fiscal year. This was primarily due to a ¥299.850 million increase in treasury shares, and a ¥180.695 million increase in retained earnings. The equity ratio was 45.6%.

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

In regard to the consolidated earnings forecast for the fiscal year ending December 2022, no changes have been made to the full-year consolidated earnings forecast announced on February 10, 2022.

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, 2021)	First three months of the current fiscal year (ended March 31, 2022)
<b>Assets</b>		
Current assets		
Cash and deposits	2,430,782	2,020,805
Electronically recorded monetary claims - operating	132,014	121,718
Accounts receivable - trade	1,155,870	–
Accounts receivable and contract assets	–	1,226,147
Work in process	127,772	16,473
Advance payments made	280,589	–
Allowance for doubtful accounts	(1,891)	(1,995)
Other	81,113	75,369
<b>Total current assets</b>	<b>4,206,251</b>	<b>3,458,519</b>
Non-current assets		
Property, plant and equipment	52,850	55,060
Intangible fixed assets		
Goodwill	141,034	130,848
Software	2,150	1,707
Software in progress	138,519	147,410
<b>Total intangible fixed assets</b>	<b>281,704</b>	<b>279,966</b>
Investments and other assets		
Deferred tax assets	147,779	113,147
Leasehold and guarantee deposits	197,780	192,045
Investment securities	127,500	127,500
Other	66,236	64,662
<b>Total investments and other assets</b>	<b>539,297</b>	<b>497,355</b>
<b>Total non-current assets</b>	<b>873,851</b>	<b>832,382</b>
<b>Total assets</b>	<b>5,080,103</b>	<b>4,290,902</b>

(Thousands of yen)

	Previous consolidated fiscal year (ended December 31, 2021)	First three months of the current fiscal year (ended March 31, 2022)
<b>Liabilities</b>		
Current liabilities		
Accounts payable - trade	654,178	698,139
Current portion of long-term borrowings	283,668	282,168
Accounts payable - other	295,972	197,209
Income taxes payable	117,010	51,358
Provision for bonuses	146,765	83,868
Provision for bonuses for directors (and other officers)	12,500	—
Advances received	506,432	22,805
Other	199,102	278,698
Total current liabilities	2,215,629	1,614,248
Non-current liabilities		
Long-term borrowings	682,216	607,834
Retirement benefit liabilities	102,133	103,629
Deferred tax liabilities	539	539
Other	2,815	2,849
Total non-current liabilities	787,704	714,852
Total liabilities	3,003,334	2,329,101
<b>Net assets</b>		
Shareholders' equity		
Share capital	575,000	575,150
Capital surplus	507,775	507,925
Retained earnings	1,277,611	1,458,306
Treasury shares	(284,164)	(584,014)
Total shareholders' equity	2,076,223	1,957,368
Accumulated other comprehensive income		
Foreign currency translation adjustment	426	597
Total accumulated other comprehensive income	426	597
Non-controlling interests	119	3,835
Total net assets	2,076,769	1,961,800
Liabilities and net assets	5,080,103	4,290,902



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

Quarterly consolidated statement of income

First three months of the fiscal year

(Thousands of yen)

	First three months of the previous fiscal year (January 1 - March 31, 2021)	First three months of the current fiscal year (January 1 - March 31, 2022)
Net sales	1,742,609	2,154,172
Cost of sales	1,125,972	1,334,407
Gross profit	616,637	819,764
Selling, general and administrative expenses	444,489	554,593
Operating profit	172,147	265,171
Non-operating income		
Interest income	14	6
Surrender value of insurance policies	–	7
Subsidy income	1,080	–
Share of profit of entities accounted for using equity method	6,968	–
Other	295	104
Total non-operating income	8,357	118
Non-operating expenses		
Interest expenses	1,662	1,409
Foreign exchange losses	231	166
Purchase of treasury shares	–	1,499
Other	116	137
Total non-operating expenses	2,010	3,212
Ordinary profit	178,494	262,077
Profit before income taxes	178,494	262,077
Income taxes-current	39,464	43,034
Income taxes-deferred	18,254	34,631
Total income taxes	57,718	77,666
Profit	120,776	184,411
Profit (loss) attributable to non-controlling interests	(582)	3,715
Profit attributable to owners of parent	121,358	180,695

Quarterly consolidated statement of comprehensive income

First three months of the fiscal year

(Thousands of yen)

	First three months of the previous fiscal year (January 1 - March 31, 2021)	First three months of the current fiscal year (January 1 - March 31, 2022)
Profit	120,776	184,411
Other comprehensive income		
Foreign currency translation adjustment	257	170
Total other comprehensive income	257	170
Comprehensive income	121,034	184,581
(Breakdown)		
Comprehensive income attributable to owners of parent	121,616	180,866
Comprehensive income attributable to non- controlling interests	(582)	3,715

### (3) Notes to the Quarterly Consolidated Financial Statements

(Notes Related to Going Concern Assumptions)

Not applicable.

(Notes on Significant Changes in Shareholders' Equity)

In the first three months of the fiscal year under review, treasury shares increased by ¥299.850 million with the purchase of 143,400 treasury shares based on the resolution passed at the Board of Directors meeting held on February 10, 2022. In addition, with the exercise of stock acquisition rights granted under the stock options plans, share capital increased by ¥0.15 million and capital reserves increased by ¥0.15 million during the first three months of fiscal year under review.

As a result, at the end of the first quarter, share capital was ¥575.150 million, capital surplus was ¥507.925 million, and treasury shares were ¥584.014 million.

(Changes in Accounting Policies)

First three months of the current fiscal year  
(January 1 - March 31, 2022)

(Changes in Accounting Policies)

(Application of Accounting Standard for Revenue Recognition)

The Accounting Standard for Revenue Recognition (ASBJ Statement No. 29, March 31, 2020) has been applied as of the beginning of the first quarter of the fiscal year under review. The amount to be received in exchange for goods or services is recognized as revenue at the point when control of the promised goods or services is transferred to the customer.

Previously, all revenue from consulting, software development, and other work received by the Group was recognized at the time of the acceptance inspection, but starting with the first quarter of the fiscal year under review, this has been changed to a method in which a reasonable estimate is prepared for progress on fulfillment of performance obligations during a certain period and revenue is recognized over that period based on the progress made. The method of estimating progress on fulfillment of performance obligations is to calculate the percentage of costs incurred with respect to total estimated costs (input method). If a reasonable estimate cannot be made for progress but costs incurred are expected to be recovered, revenue is recognized based on the cost recovery method. An alternative treatment is applied to software development contracts that have very short periods between the transaction start date and when the performance obligation is expected to be completely fulfilled. Rather than recognizing revenue over a certain period, it is recognized when the performance obligation is completely fulfilled.

In regard to application of the Accounting Standard for Revenue Recognition, following the transitional treatment set forth in the proviso in Paragraph 84 of the Accounting Standard for Revenue Recognition, the Company has applied a new accounting policy from the beginning of the fiscal year under review in which the cumulative effect is added to or subtracted from retained earnings at the beginning of the first quarter when a new accounting policy is applied retroactively from before the beginning of the first quarter.

As a result, net sales decreased by ¥113.234 million in the first three months of the fiscal year under review, and cost of sales decreased by ¥113.234 million, while operating profit, ordinary profit, and profit before income taxes were unaffected. There was also no impact on the beginning balance of retained earnings.

Because the Accounting Standard for Revenue Recognition was applied, accounts receivable - trade, which was presented under current assets in the consolidated balance sheet for the previous fiscal year, is included under accounts receivable and contract assets as of the first quarter of the fiscal year under review. Following the transitional treatment set forth in Paragraph 89-2 of the Accounting Standard for Revenue Recognition, the Company has not restated the financial results of the previous fiscal year to reflect the new method of presentation. Furthermore, following the transitional treatment set forth in Paragraph 28-15 of the Accounting Standard for Quarterly Financial Reporting (ASBJ Statement No. 12, March 31, 2020), there is no information on a breakdown of revenue from contracts with customers in the first three months of the previous fiscal year.

(Application of Accounting Standard for Fair Value Measurement)

The Accounting Standard for Fair Value Measurement (ASBJ Statement No. 30, July 4, 2019) has been applied from the beginning of the first quarter of the fiscal year under review. Following the transitional treatment set forth 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), the new accounting policy set forth in the Accounting Standard for Fair Value Measurement will be applied into the future. This has no impact on the quarterly consolidated financial statements.

(Additional Information)

First three months of the current fiscal year  
(January 1 - March 31, 2022)

(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.

## (Segment Information)

First three months of the current fiscal year (January 1 - March 31, 2022)

## 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	2,085,338	68,833	2,154,172	–	2,154,172
Transactions with other segments	3,960	31,768	35,728	(35,728)	–
Total	2,089,298	100,602	2,189,900	(35,728)	2,154,172
Segment profit	243,485	21,686	265,171	–	265,171

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

\*2. As stated under Changes in Accounting Policies, the Accounting Standard for Revenue Recognition was applied from the beginning of the first quarter of the fiscal year under review, which changed the accounting treatment related to revenue recognition. As a result, compared to the previous method, net sales in the professional services business decreased by ¥113.234 million in the first three months of the fiscal year under review, and cost of sales decreased by ¥113.234 million, while segment profit was unaffected.

## (Revenue Recognition)

Breakdown of revenue from contracts with customers

First three months of the current fiscal year (January 1 - March 31, 2022)

(Thousands of yen)

	Reporting Segment		Total
	Professional Services Business	Platform Business	
Business process management	285,099	–	285,099
Consulting/engineering	1,425,676	–	1,425,676
Strategy establishment/digital utilization	374,561	–	374,561
Assign Navi	–	11,532	11,532
Consultant Job	–	57,301	57,301
Revenue from contracts with customers	2,085,338	68,833	2,154,172
Net sales to unaffiliated customers	2,085,338	68,833	2,154,172