Note: This document has been translated from the Japanese original for reference purposes only. In the event of any discrepancy between this translated document and the Japanese original, the original shall prevail.

May 10, 2022

Consolidated Financial Results for the Fiscal Year Ended March 31, 2022 (Under IFRS)

Company name: Members Co., Ltd.
Listing: Tokyo Stock Exchange
Securities code: 2130
URL: https://www.members.co.jp/
Representative: Tadashi Kenmochi, Representative Director and President
Inquiries: Akihiko Takano, Director and Senior Managing Executive Officer
Telephone: +81-3-5144-0660
Scheduled date of annual general meeting of shareholders: June 17, 2022
Scheduled date to commence dividend payments: June 20, 2022
Scheduled date to file annual securities report: June 20, 2022
Preparation of supplementary material on financial results: Yes
Holding of financial results briefing: Yes (for analysts and institutional investors)

(Yen amounts are rounded down to millions, unless otherwise noted.)

1. Consolidated financial results for the fiscal year ended March 31, 2022 (from April 1, 2021 to March 31, 2022)

(1) Consolidated operating results (cumulative)

(Percentages indicate year-on-year changes.)

	Revenue		Operating profit		Profit before tax		Profit	
Fiscal year ended	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
March 31, 2022	14,938	23.6	1,876	48.7	1,896	52.0	1,404	56.7
March 31, 2021	12,087	13.9	1,261	1.0	1,248	0.6	896	2.6

	Profit attributable to owners of parent		Total comprehensive income		Basic earnings per share	Diluted earnings per share
Fiscal year ended	Millions of yen	%	Millions of yen	%	Yen	Yen
March 31, 2022	1,404	56.7	1,404	56.4	107.73	105.42
March 31, 2021	896	4.0	898	5.3	69.69	67.86

	Return on equity attributable to owners of parent	Ratio of profit before tax to total assets	Ratio of operating profit to revenue
Fiscal year ended	%	%	%
March 31, 2022	26.7	19.9	12.6
March 31, 2021	20.5	15.5	10.4

Reference: Share of profit (loss) of investments accounted for using equity method
For the fiscal year ended March 31, 2022: ¥ - million
For the fiscal year ended March 31, 2021: ¥ - million

(2) Consolidated financial position

	Total assets	Total equity	Equity attributable to owners of parent	Ratio of equity attributable to owners of parent to total assets	Equity attributable to owners of parent per share
As of	Millions of yen	Millions of yen	Millions of yen	%	Yen
March 31, 2022	10,404	5,895	5,895	56.7	449.08
March 31, 2021	8,648	4,614	4,614	53.4	357.96

(3) Consolidated cash flows

	Cash flows from operating activities	Cash flows from investing activities	Cash flows from financing activities	Cash and cash equivalents at end of period
Fiscal year ended	Millions of yen	Millions of yen	Millions of yen	Millions of yen
March 31, 2022	1,653	(98)	(468)	5,226
March 31, 2021	1,834	(57)	(751)	4,140

2. Cash dividends

	Annual dividends per share					Total cash dividends (Total)	Payout ratio (Consolidated)	Ratio of dividends to equity attributable to owners of parent (Consolidated)
	First quarter-end	Second quarter-end	Third quarter-end	Fiscal year-end	Total			
	Yen	Yen	Yen	Yen	Yen	Millions of yen	%	%
Fiscal year ended March 31, 2021	-	0.00	-	17.50	17.50	225	25.1	5.2
Fiscal year ended March 31, 2022	-	0.00	-	25.00	25.00	328	23.2	6.2
Fiscal year ending March 31, 2023 (Forecast)	-	0.00	-	30.00	30.00		24.9	

3. Consolidated earnings forecast for the fiscal year ending March 31, 2023 (from April 1, 2022 to March 31, 2023)

(Percentages indicate year-on-year changes.)

	Revenue		Operating profit		Profit before tax		Profit	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
First half(cumulative)	8,280	21.9	450	22.8	445	22.2	320	23.2
Full year	18,200	21.8	2,200	17.3	2,185	15.2	1,573	12.0

	Profit attributable to owners of parent		Basic earnings per share
	Millions of yen	%	Yen
First half(cumulative)	320	23.2	24.55
Full year	1,573	12.0	120.65

1. The above consolidated earnings forecast is based on IFRS.
2. “Basic earnings per share” was calculated based on the average number of shares in FY 3/2022 (13,037,276).

* **Notes**

(1) Changes in significant subsidiaries during the period (changes in specified subsidiaries resulting in the change in scope of consolidation): None

Newly included: —
Excluded: —

(2) Changes in accounting policies and changes in accounting estimates

(i) Changes in accounting policies required by IFRS: None

(ii) Changes in accounting policies due to other reasons: None

(iii) Changes in accounting estimates: None

(3) Number of issued shares (ordinary shares)

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

As of March 31, 2022	13,217,900 shares
As of March 31, 2021	12,980,300 shares

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

As of March 31, 2022	90,124 shares
As of March 31, 2021	90,046 shares

(iii) Average number of shares outstanding during the period

Fiscal year ended March 31, 2022	13,037,276 shares
Fiscal year ended March 31, 2021	12,861,722 shares

* Financial results reports are exempt from the review conducted by certified public accountants or an audit corporation.

* Proper use of earnings forecasts, and other special matters

(Notes regarding the description, etc. related to the future)

The descriptions about the future, such as the business forecast, in this document are based on the information the company has obtained so far and certain assumptions that are considered reasonable, and our company does not guarantee that the results will be as forecasted. There is a possibility that actual business performance, etc. will be considerably different from the forecast due to various factors. For the assumptions for the earnings forecast, notes for the use of the forecast, etc., please refer to “1. Overview of Business Results, (1) Overview of Business Results for the Current Fiscal Year and (4) Future Outlook” on page 2 of the Appendix.

(How to obtain the material for supplementary explanations on financial results and the contents of the session for briefing financial results)

The material for supplementary explanations on financial results will be uploaded to the website of our company on Tuesday, May 10, 2022.

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1. Overview of Business Results

(1) Overview of Business Results for the Current Fiscal Year

Management's Explanation and Analysis of Business Results

Due to the climate change caused by global warming, severe natural disasters have been occurring frequently all over the world. As the Sixth Assessment Report of Intergovernmental Panel on Climate Change (IPCC) mentions "there is no doubt that human activities have warmed the atmosphere, ocean, and land areas" (Japan Meteorological Agency, The Sixth Assessment Report of IPCC, the first working group report Climate Change 2021: Scientific grounds, Summary for Policymakers [SPM] Provisional Translation [the Sep. 1, 2021 version]), the entire society is at a crossroads to survive.

In Japan, the Carbon-Neutral policy to virtually eliminate the emission of greenhouse gases such as carbon dioxide, which are a major cause of global warming, by 2050 was announced, and the debate around deregulation to proactively utilize this policy began. We are expecting businesses, including marketing activities, to transform into a model for decarbonization or resolving societal issues by accelerate corporate transformations through the utilization of digital technologies for continuous value creation.

As the digital business becomes more active, each company is having difficulty to recruit and train creative personnel who are versed in the Internet and digital technology on its own, and such personnel shortage is now a huge hurdle to digitalization. About 80% of Japanese enterprises recognize the qualitative and quantitative insufficiency of personnel who can take charge of innovation in business strategies. It has been reported that the ratio of enterprises that answered that their initiatives for digitalization called "digital transformation (DX)" was successful was less than 50% (Information-technology Promotion Agency: White Paper on DX 2021; issued on Oct. 11, 2021).

Under such circumstances, we uphold to create a spiritually rich society through "MEMBERSHIP" as its mission, and aims to convert our customer companies' management style, marketing activities, services, and products into "Sustainable Ones for the Earth and Society." During the 26th Regular General Meeting of Stockholders held in June 2021, we decided to specify "Initiatives Toward Societal Issues such as Climate Change and Depopulation" in the articles of incorporation.

In April 2021, we agreed with the recommendations of the Task Force on Climate related Financial Disclosures (TCFD), and following these recommendations, we conducted a scenario analysis, etc. and disclosed the relevant information on our website. (https://www.members.co.jp/company/tcfd/)

Our corporate group will continue to work toward building a sustainable society.

We are primarily developing two businesses (EMC business and PGT business) centered around the digital domain.

<EMC Business Outline>

In the EMC business, we have organized the Engagement Marketing Center (EMC), which consists of teams dedicated to continuously improve business results and user engagement for the customers of large companies centered on EMC Company by using digital means. It offers a comprehensive support service from discovering issues and requirement definition from the point of view of customer companies, to the development and operation of digital services and products.

In the current consolidated fiscal year, existing customers grew steadily thanks to the acceleration of digital shift among enterprises, so the sales revenue was as healthy as 10,514 million yen (IFRS*Reference Value: Up 14.2% year on year), and the number of digital creators belonging to the EMC business was 900 (up 125 from the end of previous fiscal year).

In addition, we actively proposed the EMC model to new customers, and the number of customers to whom we provide the EMC model increased significantly in the fourth quarter of the current fiscal year and was 54 at the end of the current fiscal year (up 7 from the end of the previous fiscal year).

<PGT Business Outline>

In the PGT (Product Growth Team) business, since this fiscal year ended March 31, 2022, we have shifted the focus of its services from "the conventional business that was offering creators with specialized skills," to "supporting customer's product growth in the field of new technology."

The PGT business mainly provide services to Internet and start-up companies with high growth potential, which are also proactive in digital and IT technology investment, by sending autonomous teams of our digital creators supporting these clients' product growth. The PGT business creates occupations in the New Technology and Growth Support domains, centered around Members Career Company and Members Edge Company, which are core companies for this business.

In this fiscal year ended March 2022, we were actively launching companies specializing in high-value-added engineering fields to enhance profitability by achieving high unit prices and high operation rates. Hence, we have established the following in-house companies.

-SaaS Plus Company (established in April 2021), which offers a SaaS-based growth team business

-DevOps (*1) Lead Company (established in July 2021), which supports the promotion of DevOps by offering a team of professional personnel

In the results, the sales revenue of the entire PGT business was 5,157 million yen (IFRS * Reference Value: Up 48.6% from the previous fiscal year) due to the improvement in profitability as a result of the steady expansion of high value-added specialized field support services. The number of customer companies reached 212 (up 36 from the end of the previous fiscal year), and the number of digital creators belonging to the PGT business reached 723 (up 194 from the end of the previous fiscal year).

The business continues to grow steadily due to the rapid expansion of support services in specialized fields such as the data fields and UX (*2) and engineering fields, driving the entire group's growth.

<Our Corporate Group's Policies and Initiatives>

Our corporate group engages in continuous recruitment as upfront investment, predicting a significant shortage of creators who are versed in digital technology and the Internet. We have been extensively recruiting graduates of art universities, technical colleges, technical schools on Web-related creation, four-year universities, and graduate schools. A total of 364 newly graduates joined us in April 2021 (including local bases), up 128 from the previous fiscal year. We assigned new employees' tasks earlier than usual in this consolidated fiscal year ended March 2022 and started business operations with them in June. In April 2022, 481 new graduates joined our company as planned.

Through the continuous expansion in the service domain of both EMC and PGT businesses, along with the early training and early operation for new employees, we will increase profitability and strengthen our investments in recruitment and training.

Further, our corporate group has been promoting a company-wide work-from-home workstyle and the utilization of remote environments. We will continue capital investment for office strategy and the implementation of a smooth remote work, to establish a work system that will produce even better results.

<Overview of Consolidated Financial Statements>

For this consolidated fiscal year ended March 2022, revenue was 14,938 million yen (up 23.6% in the same term of the previous fiscal year), operating profit was 1,876 million yen (up 48.7% in the same term of the previous fiscal year), profit before income taxes was 1,896 million yen (up 52.0% in the same term of the previous fiscal year), and profit attributable to the owners of the parent was 1,404 million yen (up 56.7% in the same term of the previous fiscal year). In this consolidated fiscal year ended March 2022, sales revenue and operating profit increased 23.6% and 48.7%, respectively, year on year, recording the highest sales and profit ever and maintaining a high growth rate. This was attributed to the progress of high-value-added support services in specialized fields and the good performance of digital marketing support for existing customers

The impacts of COVID-19 and geopolitical issues on the Japanese economy are still uncertain, but we expect that enterprises will invest in digitalization at an accelerated pace. Under these circumstances, our corporate group will enhance our efforts to increase new customers and concentrate on the recruitment of mid-career workers, to increase the number of digital creators, who will become profit sources. In parallel, we will further invest in education in specialized fields and transfer creators to other in-house companies with high unit prices, to improve added value sales per person.

As we continue to work on fulfilling our long-term vision, VISION 2030 (https://www.members.co.jp/ir/pdf/20200508_04.pdf), we will take initiatives with the aim of achieving the important KPIs of 100,000 social creators (*3), the total amount of social engagement (*4) of 10 billion, 10,000 employees, and an operating profit of 10 billion yen in 2030.

(*1) DevOps: Concept or system for offering swift and flexible services based on the close cooperation between developers and operators using development methods and tools
(*2) UX (User Experience): The experience one gains by using a product or service.
(*3) Social Creator: A motivated creator (artisan) with design thinking, who tries to resolve societal issues through the promotion of business, systemic design, and output.
(*4) Social Engagement: The number of contacts with the contents, products, and services worked on by Members Group as its policy to resolve societal issues.

(2) Overview of Financial Standing for the Current Fiscal Year

The total assets at the end of the consolidated fiscal year ended March 2022 were 10,404 million yen (up 1,755 million yen from the end of the previous consolidated fiscal year). This was primarily due to an increase of 1,085 million yen in cash and cash equivalents, an increase of 233 million yen in trade receivables and other receivables, and an increase of 222 million yen in rights to use as assets.

Total liabilities stood at 4,509 million yen (up 474 million yen from the end of the previous consolidated fiscal year). This was primarily due to a decrease of 204 million yen in contract liabilities, along with an increase of 93 million yen in trade payables and other payables, an increase of 206 million yen in lease liabilities, and an increase of 355 million yen in other current liabilities.

Total equity was 5,895 million yen (up 1,281 million yen from the end of the previous consolidated fiscal year). This was primarily due to an increase of 52 million yen in capital stock, an increase of 52 million yen in capital surplus, and an increase of 1,178 million yen in retained earnings.

(3) Overview of Status of Cash Flows for the Current Fiscal Year

The cash and cash equivalent (hereinafter referred to as "funds") at the end of this consolidated term was 5,226 million yen, up 1,085 million yen from the end of the previous consolidated fiscal year. The status of each cash flow for this consolidated fiscal year and the factors behind them are as follows.

(Cash Flows from Operating Activities)

The funds acquired during this consolidated fiscal year as a result of operating activities amounted to 1,653 million yen (1,834 million yen in the same period of the previous year). The income was mainly from 1,896 million yen of profit before income taxes, and 366 million yen of depreciation and amortization, the expenditure was mainly from 578 million yen as income taxes paid, and an increase in trade and other receivables of 437 million yen.

(Cash Flows from Investing Activities)

The funds used during this consolidated fiscal year as a result of investing activities amounted to 98 million yen (57 million yen in the same period of the previous year). The expenditure was mainly from 87 million yen in payments for leasehold deposits and guarantee deposits.

(Cash Flows from Financing Activities)

The funds used during this consolidated fiscal year as a result of financing activities amounted to 468 million yen (751 million yen in the same period of the previous year). The income was mainly from 92 million yen of proceeds from exercise of share acquisition rights. The expenditure was mainly from 345 million yen in repayment of lease liabilities and 225 million yen as dividends paid.

The variations in cash flow-related indicators of our corporate group are as tabulated below.

	FY 3/2018	FY 3/2019	FY 3/2020	FY 3/2021	FY 3/2022
Ratio of equity attributable to the owners of the parent company [%]	56.8	56.1	55.6	53.4	56.7
Ratio of market value-based equity attributable to the owners of the parent company [%]	303.4	364.7	234.4	371.9	404.4
Ratio of interest-bearing liabilities / cash flow [years]	0.4	0.2	0.48	0.21	0.36
Interest coverage ratio	550.5	316.9	250.2	465.7	352.8

Ratio of equity attributable to the owners of the parent company: Equity attributable to the owners of the parent company / total assets

Ratio of market value-based equity attributable to the owners of the parent company: Market capitalization / total assets

Ratio of interest-bearing liabilities / cash flow: Interest-bearing liabilities / cash flow

Interest coverage ratio: Cash flow / interest paid

Notes

1. Each indicator was calculated from the figures in the consolidated financial statements.
2. Market capitalization was obtained by multiplying the closing price at the end of the term by the number of outstanding shares as of the end of the term (after deduction of treasury shares).
3. Interest-bearing liabilities mean all of the liabilities posted in the consolidated financial statements for which interest is paid.
4. Cash flow and interest paid were taken from "Cash flow from operating activities" and "Interest paid" posted in the consolidated cash flow statement.

(4) Future Outlook

Our corporate group expects that enterprises will be required to keep up with the speed of digitalization through insourcing instead of outsourcing since the digitalization and digital investments of the society and enterprises are going to progress at an accelerated pace and digital business is going to expand from now on as well.

In the term ending March 2023, in both of our businesses, the EMC and the PGT businesses, the teams comprising more than 3 digital creators exclusively in charge of customer companies will engage in the digitalization and the support for establishing an in-house section for digital business of the customer companies.

Moreover, we shall strive for further expansion of our services by investing mainly in recruitment and training, especially on elevating profitability through the reinforcement of mid-career worker employment and the training of new graduates for their early deployment. In addition, sales function will be enhanced by establishing a dedicated sales organization and focusing on acquiring new customers.

＜EMC Business＞

Mainly on the digital marketing field of large enterprises, our digital creators shall support customer companies in establishing customer's own digital organizations in the long term, based on their skills and know-how fostered in digital business management support, while devising and implementing measures as if they were employees of the customer companies.

＜PGT Business＞

Mainly for the companies offering digital services, our digital creators shall support customers' digital product and service development from the planning phase and support insourcing for customers' organization. Our corporate group shall achieve high unit price in order to expand high added value and engineering field, etc. by establishing new in-house companies specialized in technological fields, proactively.

Our corporate group shall contribute to the society by promoting the digitalization of more companies along with our customer companies. To this end, we offer high value to our customers by supporting customer's digital organization into insourcing through both businesses: the EMC business and the PGT business.

Based on the above-mentioned policy, for the term ending March 2023, we are forecasting a consolidated sales revenue of 18,200 million yen (up 21.8% year on year), an operating profit of 2,200 million yen (up 17.3% year on year), a profit before income tax of 2,185 million yen (up 15.2% year on year) and a net profit of 1,573 million yen (up 12.0% year on year).

(5) Basic Policy for Profit Distribution, and Dividends in the Current Fiscal Year and the Following Fiscal Year

As our corporate group's basic policy, we maintain internal reserves for new business investments and business expansions for long-term growth of profitability, from our standpoint to adequately return profits to our shareholders and to strive to further improve our corporate value, and we properly distribute profits commensurate with the growth of operating results and continuously increase the dividend amount. Our mid-term goal is to achieve a ratio of Consolidated Dividend to Equity Attributable to Owners of the Parent (DOE) of around 5%. In the term ended March 2022, we plan to pay a year-end dividend of 25.00 yen/share (up 7.5 yen/share year on year from the previous term).

Furthermore, we plan to raise the year-end dividend to 30.00 yen in the term ending March 2023, as a result of the comprehensive consideration of DOE and payout ratio.

(6) Business Risks

Out of matters concerning the business situation, accounting situation, etc. of our corporate group, mainly the following matters may possibly have a significant impact on the judgement of investors. In addition, unless otherwise specified, matters related to future in this section are based on the judgement by our corporate group at the date of the announcement of the financial report and may differ from actual results as they are subject to uncertainties.

1) Environment surrounding the business of our corporate group

The forte of our corporate group is to provide services with high added value, such as the consulting, planning and project management of website operation and digital business, and services related to Internet advertising. However, as the barriers for entry into the digital business field and Internet-related industry are low and the speed of the technology evolution is high, the forte of our corporate group may disappear due to the emergence of new entrants, technologies and services, and there is a possibility that the core service of our corporate group will be downsized, price competition will grow fierce, and so on.

Furthermore, the advertising market tends to be easily influenced by economic trends. While Internet advertising is a growing market compared to other advertising, the growth rate may slow down due to economic trends. Therefore, the fluctuations in Japan's economic climate may influence the business results of our corporate group.

2) Variation in performance due to new businesses, etc.

Our corporate group has proactively operated new businesses, etc., but not all new businesses have achieved results as planned. Our corporate group plans to proactively keep operating new businesses centered on services in the digital business field in order to avoid our business contents becoming obsolete, but the new business may not meet the demand of society after they are launched in some cases. It may be difficult to recoup the investment costs in such cases, impacting the business results and financial standing of our corporate group.

3) Seasonality of revenue and profit

As the proportion of commissioned tasks for website creation, advertising, etc. is comparatively high in our corporate group, the deliveries thereof tend to concentrate in September and March, i.e. the end of the second quarter and the end of the accounting period, leading to larger sales revenues. In addition, as we systematically recruit and train a considerable number of new graduates with the objective of securing excellent digital creators, SGA (selling, general and administrative) expenses tend to increase at the beginning of the term. Since the amount of orders grows toward the end of the term in addition to the increase in the operation rate of new employees fresh out of college owing to the improvement of their skills and productivity, profit tends to increase toward the end of each accounting period.

The variation in performance in the previous fiscal year and the current fiscal year is as follows.

	Previous fiscal year (April 1st, 2020 to March 31st, 2021)	
	Cumulative second quarter	Full fiscal year
Revenue (thousand yen) (Composition ratio)	5,411,183 (44.8%)	12,087,276 (100%)
Operating profit (thousand yen) (Composition ratio)	146,970 (11.6%)	1,261,855 (100%)
Net profit (thousand yen) (Composition ratio)	119,563 (13.3%)	896,363 (100%)

	Current fiscal year (April 1st, 2021 to March 31st, 2022)	
	Cumulative second quarter	Full fiscal year
Revenue (thousand yen) (Composition ratio)	6,795,096 (45.5%)	14,938,719 (100%)
Operating profit (thousand yen) (Composition ratio)	366,387 (19.5%)	1,876,325 (100%)
Net profit (thousand yen) (Composition ratio)	259,835 (18.5%)	1,404,546 (100%)

4) Business practices in the advertising industry

As a business practice in the advertising industry, an advertising company engages in transactions with media companies, etc. under its own name and responsibility, which is no different in the Internet advertising industry. Therefore, even in case when an advertiser becomes incapable of paying the advertising fee due to bankruptcy, etc., our corporate group undertakes the duty to pay the advertising fee to the media company, etc., and bears the credit risk of the advertiser. In order to keep such credit risk as low as possible, our corporate group usually engages in transactions with quality companies which have a certain level of credibility, but such risks remain.

In addition, as a business practice of the advertising industry, it can be said that contracts and other written documents are rarely exchanged in regard to contracts pertaining to advertising transactions including Internet advertising. This is because of the high necessity to swiftly and flexibly conclude and change the contract based on the trust relationship between transaction parties, while there is a risk that discrepancies in the agreements between the transaction parties occur and develop into trouble. Our corporate group is making efforts to leave the contract contents in writing such as requesting the submission of an order form from our customers when an advertising transaction arises in order to avoid such risk as much as possible, but there are cases where the customer does not comply with the submission request. Therefore, trouble may occur in regard to the conclusion or contents of contracts pertaining to advertising transactions which have not been put into writing and impact the business results of our corporate group.

5) Utilization of outsourcing

Our corporate group selects specific partner companies in each specialized field and provides services to customers in cooperation with the partner companies. In such case, if an unexpected situation occurs to the partner company or the cost of ordering from the partner company rises due to the stringency of the market, it may influence the business and business results of our corporate group.

In addition, our corporate group takes care in selecting partner companies by taking into account their performance, reputation in the industry, previous trade relations with our corporate group, etc., and on top of that strictly monitors the business operations of each partner company, inspects the deliverables and evaluates the quality level thereof even after the selection of partner companies. However, it cannot be said that there is no possibility of a concealed defect existing in the deliverables provided by a partner company, and in case damage is inflicted on a customer of our corporate group due to such defect, the business results of our corporate group may be impacted by claims for damages and other liability claims made against our corporate group or the fall of our corporate group's social credibility.

6) System trouble

Our corporate group's business is dependent on computer systems, and as we conduct some business transactions with customer companies through Internet connections, we set up almost all of our servers in the data centers and take measures focusing on system protection and system security when we select office properties. However, when our computer systems shut down or Internet connections become unavailable due to unexpected system failure, natural disasters, cyberattacks, or terrorism, there is a risk that our corporate group's business will be interrupted. If such risk is materialized, our corporate group's business performance may be impacted by opportunity loss, refunds, payment of damages, loss of social credibility, etc.

7) Data security and personal data protection

Our corporate group considers that appropriately protecting our customers' confidential information and personal data by preventing risks of system failure, information outflow, leakage, and falsification arising from system defects, computer viruses, unauthorized access, etc., as well as ensuring data security, form the foundation on which our customers build their confidence in us, and that it is our top management priority. As such, our corporate group obtained Privacy Mark and Information Security Management System "ISO/IEC27001 (JISQ27001)" qualified and granted by the Japan Information Economy and Society Promotion Association, and establishes and operates our data security system by consistently conducting proper data management based on these management methods. Nevertheless, even though we have been taking such measures, no data security system can ever be perfect, and if these issues arise due to some sort of cause, there may be room for outflow, falsification, and unauthorized usage of our customers' confidential information and personal data to occur. In such cases, there is a risk that our corporate group's business performance will be impacted by damage claims and liabilities against us, or loss of social credibility of our corporate group, etc.

8) Statutory regulations

i. Regulations pertaining to internet advertising

At present, there are no statutory regulations or voluntary regulations in the Internet advertising industry that can be a direct detriment to our corporate group's business. However, while Internet transactions have become prevalent, there is a possibility that regulations pertaining to Internet advertising business or voluntary regulations in the Internet advertising industry will be tightened if the social situation changes drastically, due to frequent occurrence of crimes exploiting Internet advertising. At this point, it is difficult to predict the details of regulations that may be tightened, however, depending on the contents, it could significantly affect our corporate group's business operation.

Further, there are some laws that regulate advertisers, such as the Act against Unjustifiable Premiums and Misleading Representations and the Act on Specified Commercial Transactions. Even though advertisers' violation of such laws will not make advertising transactions by an advertising agency unlawful instantly, behavior of our corporate group as an advertising agency can be subject to damage claims for facilitating unlawful behavior, or there is a risk that it will diminish our corporate group's social credibility. As our basic policy, our corporate group makes advertising transactions only with advertisers with a certain degree of credibility and we shall not make advertising transactions pertaining to adult entertainment business, and we take preventive measures not to get involved in posting illegal advertisements, however, it does not completely eliminate room for the above-mentioned risk to rise up to the surface.

Moreover, as mentioned above, our corporate group co-operates with outside vendors for providing services, but in the case where we select small business owners as our subcontractors, if we abuse its dominant bargaining position and delay payments or the like, there is a risk that the Fair Trade Commission will deem our action as a violation of the Act against Delay in Payment of Subcontract Proceeds, etc., and recommend us to rectify or demand restitution from us. Our corporate group has never allowed such risk to materialize, and we have been managing contracts to prevent any risks from materializing, however, it cannot be stated that absolutely no such risk exists.

ii. Regulations pertaining to worker dispatching services

The worker dispatching service our corporate group provides in PGT business has been licensed by the Minister of Health Labor as General Worker Dispatching Business based on "Act for Securing the Proper Operation of Worker Dispatching Undertakings and Improved Working Conditions for Dispatched Workers (Worker Dispatch Law)" to provide such service.

To ensure a proper operation of worker dispatching business, the Worker Dispatch Law stipulates that the Minister of Health Labor may revoke a business license or order the suspension of business operations, if a corporate group is disqualified as a general worker dispatching business owner (Worker Dispatch Law Article 6) and becomes subject to the Revocation of License (Article 14).

As far as we are currently aware, there is no fact on our end that is subject to such disqualification or revocation as specified by these laws. However, in the future, if revocation of our license, etc. occurs for some reason, our corporate group's service operation may be interrupted in a great deal, and our performance and financial conditions may get impacted significantly.

9) Intellectual property

Our corporate group runs business such as system development and website production so that we do not infringe third party's intellectual property such as copyright and patents, however, it is impossible to conduct rigorous research on all of such developments and productions to identify if there is any copyright infringement, and there is no guarantee that such developments and productions are not infringing on the intellectual property rights. By any chance, if our corporate group infringe third party's intellectual property rights, our corporate group's business performance may be impacted by injunction claims against the use of such developments and productions, damage compensation claims, and claims for payment of license charges, etc.

10) New accounting systems and changes in the taxation system

Our corporate group calculates its taxes in accordance with the accounting system and the taxation system of our country, and files our taxes appropriately.

Nonetheless, there is a possibility that our business performance and financial conditions will be impacted by unexpected additions and changes to the accounting standards and the taxation system. Moreover, our corporate group may incur more tax burden than anticipated as a consequence of changes made to the taxation system or a divergence in opinions with Tax Authority on the tax return.

11) Risk of goodwill impairment losses

Our corporate group also carries out M&A for acceleration of business growth if necessary. As a result, we hold goodwill.

Regarding goodwill, we perform impairment tests at least once a year or more frequently whenever a sign of impairment is recognized. In the event this impairment test determines that these assets no longer generate enough cash flow, a need to recognize an impairment emerges. When a large amount of impairment loss is recognized, our financial conditions as well as our business performance may be impacted in a great deal.

12) Securing, training and labor management for human resources

In order for our corporate group to continue to provide high value-added services and keep expanding in the digital business area as well as in the Internet industry where the barrier of entry is low and technology advances rapidly, securing human resources with advanced specialized knowledge and abilities and developing them are the highest priority. However, because the digital business area and the Internet industry are relatively new and fast-growing, the variety of human resources is limited, and recruiting talented personnel has been challenging due to increasing demand for engineers, mainly in the digital business area.

Our corporate group reinforced its policy to recruit and educate college graduates, on top of any other measures such as recruitment of excellent mid-career talents and reduction of the turnover rate of existing employees; and additionally, we have been strengthening our recruitment efforts in regional centers including Sendai and the global recruitment. On the other hand, when we face challenges in securing human resources due to Japan's dwindling population and further acceleration in the declining birthrate and aging population, as well as delays in securing mid-career recruitment and training of college graduates to become the substantial part of workforce compared to the speed of business expansion, or when the turnover rate of recruited and trained employees is high, our corporate group's business performance may be affected.

Also, our corporate group has established our internal control system and training system appropriately through the setting and application of regulations, etc. We develop and operate our internal control system thoroughly according to the business circumstances, and are committed to preventing unlawful actions and adhering to compliance, by establishing a Risk Management and Compliance Committee, etc. However, regardless of defects of our corporate group, its executives and employees, unexpected trouble may arise among executives and employees, which may affect our corporate group's business performance.

13) Dividend policy

As our corporate group's basic policy, we maintain internal reserves for new business investments and business expansions for long-term growth of profitability, from our standpoint to adequately return profits to our shareholders and to strive to further improve our corporate value, and we properly distribute profits commensurate with the growth of operating results and continuously increase the dividend amount. Our mid-term goal is to achieve a ratio of Consolidated Dividend to Equity Attributable to Owners of the Parent (DOE) of around 5%. However, depending on our business performance and financial conditions in the future, we may face challenges in returning profits to our shareholders by dividends, etc.

14) Stock options

Our corporate group issues stock options to motivate our executives and employees to improve our long-term corporate value. Upon exercise of currently issued stock options or stock options to be issued in the future, the total number of outstanding shares will increase, which may dilute the stock value per share, and such dilution of stock value may impact stock price.

15) Natural disaster, etc.

As mentioned above, our corporate group implements measures against disasters and accidents when installing our servers in a data center and selecting an office. We have improved our systems for telework and working from home and formulated a business continuity plan (BCP), in order to minimize the impacts of the pandemics of contagious and infectious diseases, large-scale disasters, such as earthquakes and floods, crimes, such as terrorism, the malfunction of information systems, etc., which would hinder our business operations.

However, if an unexpected natural disaster or the like happens, it may cause a huge loss to our office, equipment, and personnel, leading to the temporary or mid/long-term suspension of all or part of our business, affecting the business results of our corporate group.

In addition, if electric power supply becomes insufficient due to a power outage, power restriction, a planned power outage, or the like in the wake of disaster, our corporate group's business activities and services may be suspended, significantly affecting the business results, etc. of our corporate group.

Even in the case where our corporate group is not directly affected by a natural disaster or the like, it may lead to the slowdown of the global economy, affect our customers or affiliates, decrease consumer spending, and enterprises' voluntary restraint of advertisement, resulting in the curtailment of costs for advertisement, sales promotion, etc. and then affecting the business results of our corporate group.

16) Risks related to climate change

Our corporate group has declared that we would focus on “environmental changes due to global warming and climate change,” which are social issues induced by conventional marketing activities, and tackle these social issues. In addition, our corporate group agreed with the final recommendation of “Task Force on Climate-related Financial Disclosures (TCFD)” and joined the TCFD consortium in April 2021. Following the recommendation of TCFD, we analyze scenarios for identifying business risks and opportunities attributable to climate change, and strive to grasp, analyze, and manage risks further and disclose appropriate information on them.

As a result of qualitative evaluation based on scenario analysis, we identified the following risks that could degrade our corporate group’s business execution, financial status, and performance moderately or seriously.

<Risk of new regulations> Augmentation of costs for dealing with them by strengthening energy-saving measures, etc.
<Market risk> (1) Uncertainty of procurement of electric power, (2) Skyrocketing prices of environmental value certificates for electric power; Augmentation of costs for procuring electric power and certificates
<Physical risk of emergency> Increase of business operations and costs due to the rise in the seriousness and frequency of abnormal weather, such as typhoons and floods
<Chronic physical risk> Impact of the augmentation of costs for air-conditioning, etc. due to the increase of scorching hot days and the tight power supply, and the rise in sea level

Our corporate group grasps and grades risks as mentioned above, discloses more information, and takes measures against risks, but if national policies, laws, and regulations regarding climate change, etc. are tightened further than expected or climate change progresses further than assumed, it may further affect the financial standing and business performance of our corporate group.

17) Risks related to large-scale projects

Our corporate group sometimes undertakes a project for large-scale system development or the like through transactions with customers, so we recognize that it is indispensable to acquire and improve project management skills for dealing with large-scale projects. However, the number of project managers engaging in large-scale projects is insufficient in the entire market, actual costs may deviate from the initial estimates due to the differences in recognition of man-hours and specifications, increasing additional costs, unexpected trouble may occur, and specifications may be changed. Such various factors may lead to the change of delivery time, affect sales and profit more seriously than small/medium-scale projects, require manpower and induce the loss of opportunities. As a result, they may affect the financial standing and business performance of our corporate group.

To cope with these kinds of risks, our corporate group has multiple audit systems for the stage of estimating prices before receiving orders, checks man-hours, etc. at a specialized audit division, shift to agile development, refrain from receiving orders for projects that have a long delivery schedule and choose projects with a short delivery schedule, to enhance the check system.

In addition, when undertaking a project of a certain scale that would probably affect our business performance and financial standing, our group management council monitors it, to reduce risk.

2. Situation of Our Corporate Group

The core business of our corporate group, which is composed of 13 in-house companies and 1 consolidated subsidiary (as of May 10, 2022), is the support for Internet business.

3 in-house companies operate EMC business, 10 in-house companies operate PGT business, 1 in-house company and 1 consolidated subsidiary operate other business.

<Internet business support business>

・EMC business

Based on EMC Company, the dedicated team of digital creators operates Engagement Marketing Center (EMC), to support leading companies in establishing an in-house section for digital business. By utilizing their skills and know-how nurtured through digital business operation support so far, we will trigger innovation in "business processes," "relationships between enterprises and customers," and "business models," and contribute to the actualization of a sustainable society.

・PGT (Product Growth Team) business

In PGT business, we support digital service providers in growing products with an autonomous team. In this business, we will actively establish a company specializing in the high value-added engineering field, create jobs in new technological fields and growth support fields, and realize high unit price and high operation rate, to enhance profitability.

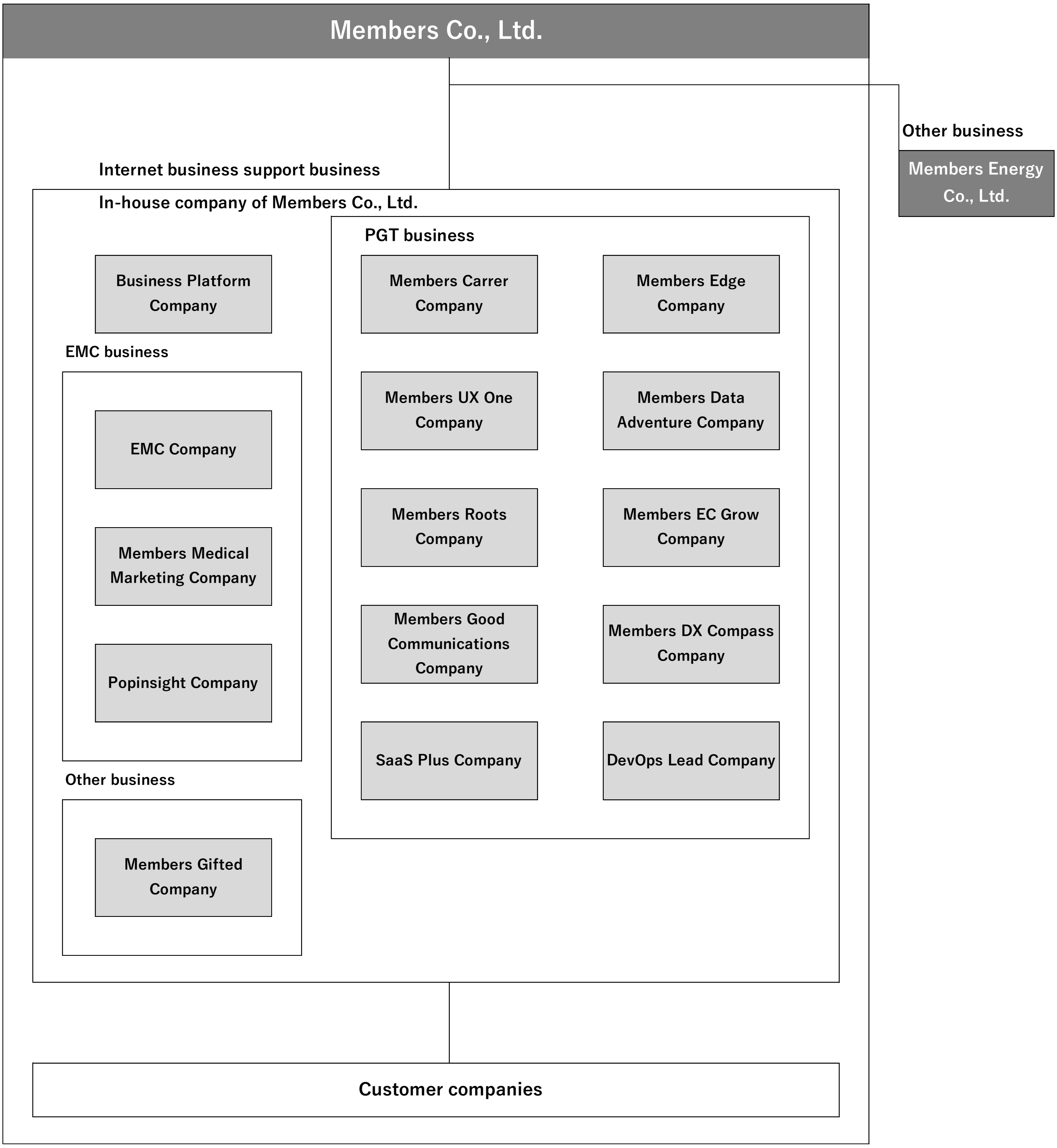
・Other business

We offer the service of supporting the employment of disabled people and operate the business of generating power from renewable energy.

(Note)

The number of business segments of our corporate group is only one, that is, the Internet business support business. Accordingly, we do not omit the section for performance in each business segment.

The positioning related to business of our corporate group is as follows.



(as of May 10, 2022)

3. Basic Policy on Selection of Accounting Standards

Our company has been using IFRS since the term ended March 2018, for the purpose of improving international comparability of our financial information in the capital market.

4. Consolidated Financial Statements and Major Notes

(1) Consolidated Balance Sheets

[unit: thousand yen]

	Previous consolidated accounting year (Mar. 31, 2021)	Current consolidated accounting year (Mar. 31, 2022)
Assets		
Current assets		
Cash and cash equivalents	4,140,847	5,226,706
Trade receivables and other receivables	2,842,456	3,075,859
Inventory assets	31,803	48,632
Other current assets	173,103	224,303
Total currents assets	7,188,210	8,575,502
Non-current assets		
Tangible fixed assets	252,811	237,803
Rights to use as assets	491,002	713,578
Goodwill	116,115	116,115
Intangible assets	8,436	12,425
Other financial assets	266,909	373,657
Deferred tax assets	323,802	375,346
Other non-current assets	1,309	—
Total non-current assets	1,460,387	1,828,927
Total assets	8,648,597	10,404,429

[unit: thousand yen]

	Previous consolidated accounting year (Mar. 31, 2021)	Current consolidated accounting year (Mar. 31, 2022)
Liabilities and shareholders' equity		
Liabilities		
Current liabilities		
Lease liabilities	234,773	400,434
Trade payables and other payables	974,844	1,068,471
Income taxes payable	356,050	370,219
Contract liabilities	234,351	30,200
Other current liabilities	1,970,892	2,326,547
Total current liabilities	3,770,912	4,195,872
Non-current liabilities		
Lease liabilities	157,327	197,817
Allowance	106,181	115,362
Total non-current liabilities	263,509	313,180
Total liabilities	4,034,422	4,509,052
Shareholders' equity		
Capital stock	910,405	963,358
Capital surplus	228,752	281,704
Treasury shares	(8,240)	(8,477)
Other components of equity	55,622	52,190
Retained earnings	3,427,635	4,606,602
Total equity attributable to owners of the parent	4,614,175	5,895,377
Total shareholders' equity	4,614,175	5,895,377
Total liabilities and equity	8,648,597	10,404,429

(2) Consolidated Statements of Income and Consolidated Statements of Comprehensive Income

(Consolidated Statements of Income)

[unit: thousand yen]

	FY2021 (Apr. 1, 2020 to Mar. 31, 2021)	FY2022 (Apr. 1, 2021 to Mar. 31, 2022)
Revenue	12,087,276	14,938,719
Cost of sales	8,231,592	10,182,290
Gross profit	3,855,684	4,756,429
Selling, general and administrative expenses	2,557,698	2,901,342
Other income	37,854	27,063
Other expenses	73,984	5,825
Operating profit (loss)	1,261,855	1,876,325
Finance income	30	26,943
Finance costs	13,752	6,539
Profit (loss) before income taxes	1,248,133	1,896,729
Income taxes	351,770	492,182
Profit (loss) for the period	896,363	1,404,546
Profit (loss) attributable to		
Owners of parent	896,363	1,404,546
Net profit (loss)	896,363	1,404,546
Earnings per share		
Basic earnings (loss) per share (yen)	69.69	107.73
Diluted earnings (loss) per share (yen)	67.86	105.42

(Consolidated Statements of Comprehensive Income)

[unit: thousand yen]

	FY2021 (Apr. 1, 2020 to Mar. 31, 2021)	FY2022 (Apr. 1, 2021 to Mar. 31, 2022)
Profit (loss) for the period	896,363	1,404,546
Other comprehensive income		
Items that will not be reclassified to profit or loss		
Financial assets measured at fair value through other comprehensive income	1,881	–
Total of items that will not be reclassified to profit or loss	1,881	–
Total comprehensive income	1,881	–
Comprehensive income	898,245	1,404,546
Comprehensive income attributable to		
Owners of parent	898,245	1,404,546
Comprehensive income	898,245	1,404,546

(3) Consolidated Statements of Changes in Equity

Previous consolidated fiscal year (Apr. 1, 2020 to Mar. 31, 2021)

[unit: thousand yen]

	Equity attributable to owners of parent						Non-controlling interests	Total equity
	Capital stock	Capital surplus	Treasury shares	Other components of equity	Retained earnings	Total		
Balance on April 1, 2020	901,143	474,594	(7,922)	44,627	2,709,135	4,121,578	67,513	4,189,092
Profit for the period	―	―	―	―	896,363	896,363	―	896,363
Other comprehensive income	―	―	―	1,881	―	1,881	―	1,881
Total comprehensive income	―	―	―	1,881	896,363	898,245	―	898,245
Exercise of share acquisition rights	9,262	9,262	―	(2,270)	―	16,254	―	16,254
Issuance of share acquisition rights	―	―	―	13,395	―	13,395	―	13,395
Expiration of share acquisition rights	―	―	―	(129)	129	―	―	―
Purchase of treasury shares	―	―	(318)	―	―	(318)	―	(318)
Dividends	―	―	―	―	(179,874)	(179,874)	―	(179,874)
Transfer to retained earnings	―	―	―	(1,881)	1,881	―	―	―
Purchase of non-controlling interests	―	(255,104)	―	―	―	(255,104)	(67,513)	(322,618)
Total transactions with owners	9,262	(245,842)	(318)	9,113	(177,863)	(405,648)	(67,513)	(473,162)
Balance on March 31, 2021	910,405	228,752	(8,240)	55,622	3,427,635	4,614,175	―	4,614,175

Current consolidated fiscal year (Apr. 1, 2021 to Mar. 31, 2022)

[unit: thousand yen]

	Equity attributable to owners of parent						Total equity
	Capital stock	Capital surplus	Treasury shares	Other components of equity	Retained earnings	Total	
Balance on April 1, 2021	910,405	228,752	(8,240)	55,622	3,427,635	4,614,175	4,614,175
Profit for the period	－	－	－	－	1,404,546	1,404,546	1,404,546
Other comprehensive income	－	－	－	－	－	－	－
Total comprehensive income	－	－	－	－	1,404,546	1,404,546	1,404,546
Exercise of share acquisition rights	52,952	52,952	－	(12,948)	－	92,956	92,956
Issuance of share acquisition rights	－	－	－	9,516	－	9,516	9,516
Purchase of treasury shares	－	－	(236)	－	－	(236)	(236)
Dividends	－	－	－	－	(225,579)	(225,579)	(225,579)
Total transactions with owners	52,952	52,952	(236)	(3,432)	(225,579)	(123,344)	(123,344)
Balance on March 31, 2022	963,358	281,704	(8,477)	52,190	4,606,602	5,895,377	5,895,377

(4) Consolidated Statements of Cash Flows

[unit: thousand yen]

	FY2021 (Apr. 1, 2020 to Mar. 31, 2021)	FY2022 (Apr. 1, 2021 to Mar. 31, 2022)
Cash flows from operating activities		
Profit before income taxes	1,248,133	1,896,729
Depreciation and amortization	350,613	366,653
Impairment loss	50,196	—
Finance income	(30)	(26,943)
Finance costs	13,213	5,771
(Increase) decrease in inventories	5,636	(16,829)
(Increase) decrease in trade and other receivables	(14,032)	(437,538)
Increase (decrease) in trade and other payables	(72,524)	87,302
Other	582,486	283,167
Subtotal	2,163,694	2,158,312
Interest and dividends received	3,533	5,425
Proceeds from subsidy income	6,558	1,508
Proceeds from insurance income	3,000	6,000
Interest paid	(3,939)	(4,687)
Income taxes paid	(345,705)	(578,884)
Income taxes refund	7,489	65,940
Cash flows from operating activities	1,834,630	1,653,616
Cash flows from investing activities		
Purchase of property, plant and equipment	(56,722)	(8,302)
Purchase of intangible assets	—	(5,277)
Proceeds from sales of investments	7,746	—
Payments for leasehold deposits and guarantee deposits	(24,550)	(87,466)
Proceeds from collection of leasehold deposits and guarantee deposits	37,005	2,236
Payments for asset retirement obligations	(22,970)	—
Other	1,687	—
Cash flows from investing activities	(57,803)	(98,810)
Cash flows from financing activities		
Repayments of lease liabilities	(278,437)	(345,470)
Proceeds from issuance of share acquisition rights	13,395	9,516
Proceeds from exercise of share acquisition rights	16,254	92,956
Payments for purchase of treasury shares	(318)	(236)
Dividends paid	(179,950)	(225,711)
Purchase of non-controlling interests	(322,618)	—
Cash flows from financing activities	(751,675)	(468,947)
Net increase (decrease) in cash and cash equivalents	1,025,151	1,085,858
Cash and cash equivalents at beginning of period	3,115,696	4,140,847
Cash and cash equivalents at end of period	4,140,847	5,226,706

(5) Notes to Consolidated Financial Statements

(Notes of Going Concern Assumption)

There is no related information.

(Changes in Presentation Method)

(Consolidated statement of changes in equity)

The items "Exercise of stock options," "Issue of stock options," and "Invalidation of stock options" in "Total transactions with owners" used in the consolidated fiscal year 2021 were changed to "Exercise of share acquisition rights," "Issuance of share acquisition rights," and "Expiration of share acquisition rights," respectively, to indicate the actual situation more explicitly, and we started using these new titles in the consolidated fiscal year 2022.

(Consolidated statements of cash flow)

In the consolidated fiscal year 2022, we started indicating the items "Payments for leasehold deposits and guarantee deposits" and "Proceeds from collection of leasehold deposits and guarantee deposits," which were included and indicated in "Other" of "Cash flows from investing activities," as separate categories, in order to indicate the actual situation more explicitly. In order to reflect this change in the presentation method, we revised the consolidated financial statements for the previous consolidated fiscal year. As a result, the 14,142 thousand yen indicated in "Other" of "Cash flows from investing activities" in the consolidated cash flow statement for the consolidated fiscal year 2021 was divided into negative 24,550 thousand yen in "Payments for leasehold deposits and guarantee deposits," 37,005 thousand yen in "Proceeds from collection of leasehold deposits and guarantee deposits," and 1,687 thousand yen in "Other."

The items "Proceeds from issuance of stock options" and "Proceeds from exercise of stock options" in "Cash flows from financing activities" in the consolidated fiscal year 2021 were changed to "Proceeds from issuance of share acquisition rights" and "Proceeds from exercise of share acquisition rights," respectively, to indicate the actual situation more explicitly, and we started using these new titles in the consolidated fiscal year 2022.

(Segment Information)

The number of business segments of our corporate group is only one, that is, the Internet business support business. Accordingly, we omit the section for performance in each business segment.

(Per Share Information)

Basic earnings per share, diluted earnings per share, and items for calculating them are as follows.

	Consolidated fiscal year 2021 (From Apr. 1, 2020 to Mar. 31, 2021)	Consolidated fiscal year 2022 (From Apr. 1, 2021 to Mar. 31, 2022)
Net income attributable to the owners of the parent company [thousand yen]	896,363	1,404,546
Profit adjustment [thousand yen]	—	—
Net income used for calculating diluted earnings per share [thousand yen]	896,363	1,404,546
Weighted average number of outstanding common shares	12,861,722	13,037,276
Increase of common shares		
Increase from the exercise of stock options	346,776	285,752
Weighted average number of diluted common shares	13,208,498	13,323,028
Basic earnings per share [yen]	69.69	107.73
Diluted earnings per share [yen]	67.86	105.42
Issuable shares not included in the calculation because they do not have the dilutive effect	The 16th share acquisition right (67,100 common shares)	The 18th share acquisition right (146,400 shares)

(Significant Subsequent Events)

There is no related information.