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Consolidated Financial Results for the Three Months Ended April 30, 2022 [Japanese GAAP]



June 10, 2022

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 Stock exchange listing: Tokyo Stock Exchange
 Code number: 3921
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 Scheduled date of filing quarterly securities report: June 10, 2022
 Scheduled date of commencing dividend payments: –
 Preparation of supplementary materials on quarterly financial results: Yes
 Schedule of quarterly financial results briefing session: No

(Amounts of less than one million yen are rounded down.)

1. Consolidated Financial Results for the Three Months Ended April 30, 2022 (February 1, 2022–April 30, 2022)

(1) Consolidated Operating Results (% indicates changes from the previous corresponding period.)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
Three months ended April 30, 2022	1,496	9.8	309	12.2	327	(6.3)	221	(6.8)
April 30, 2021	1,362	3.1	275	(2.5)	349	18.8	237	18.3

(Note) Comprehensive income: Three months ended April 30, 2022: ¥262 million [5.0%]
 Three months ended April 30, 2021: ¥249 million [39.5%]

	Basic earnings per share	Diluted earnings per share
	Yen	Yen
Three months ended April 30, 2022	14.83	14.79
April 30, 2021	15.92	15.87

(Note) As the Company has applied the “Accounting Standard for Revenue Recognition” (ASBJ Statement No. 29, March 31, 2020), etc. from the beginning of the first quarter of the fiscal year under review, the figures for the three months ended April 30, 2022 represent the figures after the application of the accounting standard, etc.

(2) Consolidated Financial Position

	Total assets	Net assets	Equity ratio
	Million yen	Million yen	%
As of April 30, 2022	7,294	5,213	71.3
As of January 31, 2022	7,287	5,165	70.7

(Reference) Equity: As of April 30, 2022: ¥5,199 million

As of January 31, 2022: ¥5,151 million

(Note) As the Company has applied the “Accounting Standard for Revenue Recognition” (ASBJ Statement No. 29, March 31, 2020), etc. from the beginning of the first quarter of the fiscal year under review, the figures for the three months ended April 30, 2022 represent the figures after the application of the accounting standard, etc.

2. Dividends

	Annual dividends				
	1st quarter-end	2nd quarter-end	3rd quarter-end	Year-end	Total
	Yen	Yen	Yen	Yen	Yen
Fiscal year ended January 31, 2022	–	0.00	–	14.00	14.00
Fiscal year ending January 31, 2023	–				
Fiscal year ending January 31, 2023 (Forecast)		0.00	–	19.00	19.00

(Note) Revision to the dividend forecast announced most recently: Yes

3. Consolidated Financial Results Forecast for the Fiscal Year Ending January 31, 2023 (February 1, 2022– January 31, 2023)

(% indicates changes from the previous corresponding period.)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent		Basic earnings per share
Full year	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen
	6,271	5.9	1,271	1.9	1,359	(0.1)	920	6.3	61.77

(Note) Revision to the financial results forecast announced most recently: None

* Notes:

- (1) Changes in significant subsidiaries during the period under review (changes in specified subsidiaries resulting in changes in the scope of consolidation): None
- (2) Accounting methods adopted particularly for the preparation of quarterly consolidated financial statements: Yes
- (3) Changes in accounting policies, changes in accounting estimates and retrospective restatement
 - 1) Changes in accounting policies due to the revision of accounting standards: Yes
 - 2) Changes in accounting policies other than 1) above: None
 - 3) Changes in accounting estimates: None
 - 4) Retrospective restatement: None
- (4) Total number of issued and outstanding shares (common shares)
 - 1) Total number of issued shares at the end of the period (including treasury shares):

April 30, 2022:	14,908,800 shares
January 31, 2022:	14,908,800 shares
 - 2) Total number of treasury shares at the end of the period:

April 30, 2022:	223 shares
January 31, 2022:	223 shares
 - 3) Average number of shares during the period:

Three months ended April 30, 2022:	14,908,577 shares
Three months ended April 30, 2021:	14,891,777 shares

* These quarterly consolidated financial results are outside the scope of quarterly review by certified public accountants or an audit firm.

* Explanation of the proper use of financial results forecast and other notes

The earnings forecasts and other forward-looking statements herein are based on information currently available to the Group and certain premises that the Group deems to be reasonable, and are not guarantees of future performance. Actual results may differ significantly from these forecasts due to a wide range of factors.

Table of Contents - Attachments

1. Qualitative Information on Quarterly Financial Results	2
(1) Explanation of Operating Results	2
(2) Explanation of Financial Position	5
(3) Explanation of Consolidated Financial Results Forecast and Other Forward-looking Information ..	6
2. Quarterly Consolidated Financial Statements and Principal Notes	7
(1) Quarterly Consolidated Balance Sheets	7
(2) Quarterly Consolidated Statements of Income and Comprehensive Income	9
(3) Notes to Quarterly Consolidated Financial Statements	11
(Notes on going concern assumption)	11
(Notes in case of significant changes in shareholders' equity)	11
(Accounting methods adopted particularly for the preparation of quarterly consolidated financial statements)	11
(Changes in accounting policies)	11
(Segment information, etc.)	12
(Revenue recognition)	13

1. Qualitative Information on Quarterly Financial Results

The Company has applied the “Accounting Standard for Revenue Recognition” (ASBJ Statement No. 29, March 31, 2020; hereinafter referred to as the “Revenue Recognition Accounting Standard”), etc. from the first quarter of the fiscal year under review. Accordingly, the figures for the same period of the previous fiscal year and with the end of the previous fiscal year stated in (1) Explanation of Operating Results and (2) Explanation of Financial Position are calculated based on the consolidated financial results of the previous fiscal year before the application of said accounting standard, etc.

(1) Explanation of Operating Results

The Japanese economy in the three months ended April 30, 2022 saw signs of recovery as the challenging environment has weakened following the full lifting of the quasi-emergency measures against COVID-19 infection in March 2022, despite a temporary rebound of COVID-19 cases. However, the projected rate of economic growth was revised downward in IMF’s World Economic Outlook published in April 2022, due to such an impact as Russia’s incursion into Ukraine, and the economic outlook remains uncertain.

The IT industry, to which the Group belongs, is expected to continue to see investments in IT for productivity improvement in association with the promotion of digital transformation (DX) and continued initiatives toward workstyle reforms undertaken by the government.

Under such circumstances, desknet’s NEO version 7.0 was released in March 2022, as an updated version with a “presence” function which visualizes the teleworking status within organizations.

In addition, in March 2022, desknet’s NEO was selected as an “IT Trend Good Product,” which is selected by “IT Trend,” a website that compares IT products and services for enterprises, and on top of that, the Company was certified for the 3rd consecutive year as an enterprise working on health and productivity management under the “Certified Health & Productivity Management Outstanding Organizations Recognition Program (large enterprise category).” In April 2022, our groupware desknet’s NEO was recognized as “Leader” for the 13th consecutive period in the Groupware Category and Workflow Category of the ITreview Grid Award 2022 Spring, organized by IT product comparison and review website ITreview. Our business chat tool ChatLuck was recognized as “High Performer” for the 7th consecutive period in the Business Chat Category.

As a result, for the three months ended April 30, 2022, the Company robustly posted net sales of ¥1,496,923 thousand (up 9.8% year on year) and operating profit of ¥309,176 thousand (up 12.2% year on year), while ordinary profit was ¥327,767 thousand (down 6.3% year on year), due to a decrease of ¥57,649 thousand in non-operating income which is mainly attributable to a decrease in surrender value of insurance policies, and profit attributable to owners of parent was ¥221,086 thousand (down 6.8% year on year).

As a result of the application of the Revenue Recognition Accounting Standard, etc., for the three months ended April 30, 2022, net sales increased by ¥2,435 thousand and cost of sales increased by ¥1,888 thousand, while operating profit, ordinary profit, and profit before income taxes increased by ¥547 thousand, respectively. Details are explained in “2. Quarterly Consolidated Financial Statements and Principal Notes, (3) Notes to Quarterly Consolidated Financial Statements (Changes in accounting policies).”

Operating results for the three months ended April 30, 2022 by segment are as follows.

(Software business)

The status by business sector is as follows.

Business sector	For the three months ended April 30, 2021		For the three months ended April 30, 2022		
	Net sales (Thousand yen)	Percentage breakdown (%)	Net sales (Thousand yen)	Percentage breakdown (%)	Change (%)
Cloud services	572,421	65.0	643,676	61.4	12.4
Packaged products	294,866	33.5	385,264	36.8	30.7
Technological development	12,977	1.5	19,150	1.8	47.6
Total	880,265	100.0	1,048,090	100.0	19.1

1) Cloud services

Net sales by principal cloud service are as follows.

	For the three months ended April 30, 2021	For the three months ended April 30, 2022	Change (Thousand yen)	Change (%)
	Net sales (Thousand yen)	Net sales (Thousand yen)		
desknet's NEO cloud	481,290	539,217	57,927	12.0
AppSuite cloud	18,524	30,150	11,626	62.8
ChatLuck cloud	14,267	17,313	3,045	21.3
Other monthly recurring revenue	49,316	49,215	(100)	(0.2)
Total monthly recurring revenue	563,398	635,897	72,498	12.9
Other services, etc.	9,022	7,779	(1,243)	(13.8)
Cloud services total	572,421	643,676	71,254	12.4

Net sales of desknet's NEO cloud increased by ¥57,927 thousand year on year to ¥539,217 thousand (up 12.0% year on year), as the service increased the number of users. There were many users who migrated to desknet's NEO cloud during the three months ended April 30, 2021, due to the termination of services which allow users to bring in their own license. As a result, the rate of increase is lower as compared with the same period of the previous fiscal year. However, the rate is generally in line with the budget for the fiscal year under review. Since the churn rate (* 1) of the service remains low at 0.29%, we recognize that sales of desknet's NEO cloud will remain stable in the future. AppSuite cloud has been increasing the number of its users steadily, and net sales increased by ¥11,626 thousand year on year to ¥30,150 thousand (up 62.8% year on year), while accounting for a relatively small proportion of the overall sales of cloud services. We recognize that there is great growth potential for the number of users of the service as it is about 8% of the number of desknet's NEO cloud users as of April 30, 2022. Other monthly recurring revenue decreased by ¥100 thousand year on year to ¥49,215 thousand (down 0.2% year on year). This was primarily due to a decrease in the sales of individual projects other than principal services. Net sales of other services, etc. decreased by ¥1,243 thousand to ¥7,779 thousand (down 13.8% year on year). This was primarily due to a decrease in services related to data migration, etc.

As a result, the overall net sales of cloud services increased by ¥71,254 thousand year on year to ¥643,676 thousand (up 12.4% year on year).

(* 1) The churn rate for desknet's NEO cloud users is calculated by averaging the figures of "amount of MRR (* 2) decreased during a month caused by cancellation of the service ÷ MRR at the end of the previous month" for the three months ended April 30, 2022.

(* 2) MRR (Monthly Recurring Revenue) is calculated based on the monthly charge for continuously billed users

as of the end of the target month or the total amount of 1/12 of the annual charge.

2) Packaged products

Net sales by principal packaged product are as follows.

	For the three months ended April 30, 2021	For the three months ended April 30, 2022	Change (Thousand yen)	Change (%)
	Net sales (Thousand yen)	Net sales (Thousand yen)		
desknet's NEO Enterprise license version	38,307	58,053	19,745	51.5
desknet's NEO Small license version	14,860	10,104	(4,756)	(32.0)
AppSuite	6,824	21,635	14,811	217.0
ChatLuck	4,095	12,424	8,328	203.4
Other license sales	2,700	3,168	467	17.3
Total license sales	66,790	105,386	38,596	57.8
Support	174,581	194,824	20,243	11.6
Customization	2,924	16,037	13,113	448.5
Other services, etc.	50,571	69,015	18,443	36.5
Packaged products total	294,866	385,264	90,397	30.7

(*1) From the nine months ended October 31, 2021, the amount of discount is included in other services, etc., instead of other license sales. The figures for the three months ended April 30, 2021 shown above have been restated accordingly.

Net sales of desknet's NEO Enterprise license, which is for large-scale users, increased by ¥19,745 thousand year on year to ¥58,053 thousand (up 51.5% year on year), due mainly to an increase in sales for 5,000 users or more as compared with the same period of the previous fiscal year. Large-scale user enterprises often have a proper environment, including personnel in charge of operation. In addition, the larger the scale of the user is, the lower the unit cost becomes compared with the cloud version. Demand for desknet's NEO Enterprise license, therefore, is not expected to decrease significantly in the near future. We consider it important to commit to the field as much as we commit to desknet's NEO cloud, since we can leverage the strength of our product.

Net sales of desknet's NEO Small license, which is for small- and medium-scale users, decreased by ¥4,756 thousand year on year to ¥10,104 thousand (down 32.0% year on year), as an increasing number of customers are choosing the cloud services, and in addition, net sales of the support for the initial year which had been included in the license is now separated from net sales of the license, following the application of the Revenue Recognition Accounting Standard starting from the beginning of the first quarter of the fiscal year under review. We recognize the trend of decrease in desknet's NEO Small license sales over the long term as a result of the widespread use of the cloud services.

AppSuite license and ChatLuck license are often purchased simultaneously with desknet's NEO Enterprise license. Net sales of AppSuite license increased by ¥14,811 thousand year on year to ¥21,635 thousand (up 217.0% year on year) and net sales of ChatLuck license increased by ¥8,328 thousand year on year to ¥12,424 thousand (up 203.4% year on year), following the increase in net sales of desknet's NEO Enterprise license.

Net sales of customization increased by ¥13,113 thousand year on year to ¥16,037 thousand (up 448.5% year on year) due mainly to the change in the timing of revenue recognition in which revenue from projects for which revenue had previously been recognized at the time of acceptance inspection is now recognized over a certain period of time, following the application of the Revenue Recognition Accounting Standard starting from the beginning of the first quarter of the fiscal year under review. Net sales of support increased by ¥20,243 thousand year on year to ¥194,824 thousand (up 11.6% year on year), mainly because net sales of support for

desknet's NEO increased by ¥14,054 thousand year on year to ¥168,941 thousand (up 9.1% year on year).

As a result, the overall net sales of packaged products increased by ¥90,397 thousand year on year to ¥385,264 thousand (up 30.7% year on year).

3) Technological development

While our policy is not to actively accept development contracts, net sales of technological development increased by ¥6,172 thousand year on year to ¥19,150 thousand (up 47.6% year on year). This was mainly because of the sales associated with ongoing projects from the past.

As a result, the software business posted net sales of ¥1,048,090 thousand (up 19.1% year on year) and segment profit of ¥322,550 thousand (up 19.4% year on year).

(System development service business)

The system development service business consists of businesses operated by our subsidiary, Pro-SPIRE Inc., develops engineers based on the cloud integration and system integration know-how it cultivated over the years, and mainly provides system engineering services that meet new customer needs by taking advantage of cutting-edge technologies.

For the three months ended April 30, 2022, net sales decreased by ¥35,090 thousand as compared with the same period of the previous fiscal year due to an impact of a reduction in the size of systems undertaken by major customers and a decrease in the number of personnel for such reasons as retirement. Meanwhile, cost of sales also decreased by ¥23,306 thousand due mainly to a decrease in outsourcing expenses paid to partner companies associated with the decrease in net sales, as well as a decrease in personnel expenses. Selling, general and administrative expenses were generally on the same level as the previous fiscal year.

As a result, the system development service business posted net sales of ¥454,866 thousand (down 7.2% year on year) and segment profit of ¥7,898 thousand (down 64.4% year on year).

(Overseas business)

The overseas business consists of businesses of three overseas subsidiaries, which include selling desknet's NEO license and providing cloud services to local companies.

The main products sold in the ASEAN region are desknet's NEO and AppSuite. Sales activities did not make progress as planned in the previous fiscal year in Malaysia and Thailand where subsidiaries of the Company conduct business activities, owing to reasons such as restrictions imposed on corporate activities due to the spread of COVID-19. However, economic activities have been on a trend toward the normalization during the three months ended April 30, 2022, in these countries, and the Company focused on hiring local sales representatives to resume full-fledged sales activities and generating projects with the aim of attaining the annual plan through such efforts as reviewing marketing activities. The two subsidiaries in the ASEAN region aim to post positive profits in a month in the fourth quarter of the fiscal year under review. In addition, in the U.S., the Company commenced activities to start up new services based on local market surveys.

While subsidiaries in the ASEAN region aim to post positive profits in a month in the fiscal year under review as mentioned above, the overseas business is expected to post a loss for the full fiscal year under review.

As a result, the overseas business posted net sales of ¥831 thousand (up 25.6% year on year) and segment loss of ¥21,285 thousand (segment loss of ¥16,177 thousand for the previous fiscal year).

(2) Explanation of Financial Position

(Assets)

Total assets as of April 30, 2022 increased by ¥6,620 thousand from the end of the previous fiscal year to ¥7,294,036 thousand. This was mainly due to an increase of ¥111,913 thousand in investment securities resulting mainly from purchase of bonds (corporate bonds), as well as an increase of ¥34,856 thousand in securities resulting mainly from gains on valuation of foreign-currency-denominated securities caused by weaker yen and an increase of ¥18,312 thousand in other under current assets resulting mainly from an increase

in prepaid expenses for annual insurance premiums, despite a decrease of ¥164,218 thousand in cash and deposits caused by payment of taxes, etc.

(Liabilities)

Total liabilities as of April 30, 2022 decreased by ¥41,447 thousand from the end of the previous fiscal year to ¥2,080,920 thousand. This was mainly due to a decrease of ¥162,899 thousand in income taxes payable resulting mainly from tax payment and a decrease of ¥34,106 thousand in other under current liabilities resulting mainly from a decrease in accounts payable - other resulting from payment of advertising expenses and other payments in the fourth quarter of the previous fiscal year, despite an increase in contract liabilities for cloud services, etc. As a result of the application of the Revenue Recognition Accounting Standard, etc. starting from the beginning of the first quarter of the fiscal year under review, contract liabilities increased by ¥1,019,053 thousand, while unearned revenue decreased by ¥640,191 thousand, advances received included in other under current liabilities decreased by ¥266 thousand, and long-term unearned revenue included in other under non-current liabilities decreased by ¥230,375 thousand.

(Net assets)

Total net assets as of April 30, 2022 increased by ¥48,067 thousand from the end of the previous fiscal year to ¥5,213,116 thousand. This was mainly due to an increase of ¥6,754 thousand in retained earnings resulting from the payment of a dividend of surplus of ¥208,720 thousand and an increase of ¥33,037 thousand in valuation difference on available-for-sale securities as a result of the valuation of securities at market value, while ¥221,086 thousand in profit attributable to owners of parent was recorded.

(3) Explanation of Consolidated Financial Results Forecast and Other Forward-looking Information

The Company has made no changes to the full-year consolidated financial results forecast announced in “Consolidated Financial Results for the Fiscal Year Ended January 31, 2022 [Japanese GAAP]” dated March 17, 2022.

The consolidated financial results forecast was prepared based on currently available information, and actual consolidated financial results may vary from the forecast due to various reasons.

2. Quarterly Consolidated Financial Statements and Principal Notes

(1) Quarterly Consolidated Balance Sheets

(Thousand yen)

	As of January 31, 2022	As of April 30, 2022
Assets		
Current assets		
Cash and deposits	4,018,261	3,854,043
Accounts receivable - trade, and contract assets	–	702,208
Accounts receivable - trade	663,361	–
Securities	307,499	342,355
Work in process	5,031	–
Supplies	4,822	3,925
Other	89,956	108,268
Allowance for doubtful accounts	(2,055)	(2,193)
Total current assets	5,086,876	5,008,607
Non-current assets		
Property, plant and equipment	59,207	57,517
Intangible assets		
Goodwill	106,039	102,581
Other	265,760	262,238
Total intangible assets	371,800	364,820
Investments and other assets		
Investment securities	1,237,460	1,349,374
Other	532,423	514,118
Allowance for doubtful accounts	(352)	(401)
Total investments and other assets	1,769,531	1,863,091
Total non-current assets	2,200,539	2,285,429
Total assets	7,287,416	7,294,036

(Thousand yen)

	As of January 31, 2022	As of April 30, 2022
Liabilities		
Current liabilities		
Accounts payable - trade	127,265	130,133
Income taxes payable	278,483	115,583
Contract liabilities	–	1,019,053
Provision for bonuses	77,870	76,703
Unearned revenue	640,191	–
Other	417,539	383,433
Total current liabilities	1,541,350	1,724,906
Non-current liabilities		
Retirement benefit liability	323,004	328,376
Other	258,011	27,637
Total non-current liabilities	581,016	356,013
Total liabilities	2,122,367	2,080,920
Net assets		
Shareholders' equity		
Share capital	296,672	296,672
Capital surplus	332,956	332,956
Retained earnings	4,449,727	4,456,482
Treasury shares	(384)	(384)
Total shareholders' equity	5,078,973	5,085,728
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	67,958	100,995
Foreign currency translation adjustment	4,390	13,270
Total accumulated other comprehensive income	72,349	114,266
Non-controlling interests	13,726	13,121
Total net assets	5,165,048	5,213,116
Total liabilities and net assets	7,287,416	7,294,036

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

(Thousand yen)

	For the three months ended April 30, 2021	For the three months ended April 30, 2022
Net sales	1,362,851	1,496,923
Cost of sales	668,561	723,631
Gross profit	694,289	773,291
Selling, general and administrative expenses	418,816	464,115
Operating profit	275,473	309,176
Non-operating income		
Interest income	5,887	7,266
Gain on sale of securities	4,550	–
Gain on investments in investment partnerships	–	1,950
Foreign exchange gains	2,327	9,034
Surrender value of insurance policies	60,016	33
Other	3,488	335
Total non-operating income	76,270	18,620
Non-operating expenses		
Interest expenses	83	3
Loss on investments in investment partnerships	1,210	–
Organization expenses	628	–
Other	3	25
Total non-operating expenses	1,925	28
Ordinary profit	349,817	327,767
Profit before income taxes	349,817	327,767
Income taxes	113,932	107,716
Profit	235,885	220,050
Loss attributable to non-controlling interests	(1,209)	(1,036)
Profit attributable to owners of parent	237,094	221,086

Quarterly Consolidated Statements of Comprehensive Income

(Thousand yen)

	For the three months ended April 30, 2021	For the three months ended April 30, 2022
Profit	235,885	220,050
Other comprehensive income		
Valuation difference on available-for-sale securities	12,588	33,037
Foreign currency translation adjustment	1,456	9,311
Total other comprehensive income	14,045	42,348
Comprehensive income	249,930	262,399
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	250,817	263,004
Comprehensive income attributable to non-controlling interests	(887)	(604)

(3) Notes to Quarterly Consolidated Financial Statements

(Notes on going concern assumption)

Not applicable.

(Notes in case of significant changes in shareholders' equity)

Not applicable.

(Accounting methods adopted particularly for the preparation of quarterly consolidated financial statements)

(Calculation of tax expenses)

Tax expenses are calculated by reasonably estimating the effective tax rate after the application of tax effect accounting for profit before income taxes in the fiscal year that includes the first quarter of the fiscal year under review, and multiplying profit before income taxes by the estimated effective tax rate.

(Changes in accounting policies)

(Application of accounting standard for revenue recognition, etc.)

The Company has applied the "Accounting Standard for Revenue Recognition" (ASBJ Statement No. 29 issued on March 31, 2020, hereinafter referred to as the "Revenue Recognition Accounting Standard"), etc. from the beginning of the first quarter of the fiscal year under review, and has decided to recognize revenue in the amount expected to be received in exchange for promised goods or services when the control of the goods or services is transferred to customers.

As a result, the method of revenue recognition for part of support has been changed from the one in which sales are recognized as part of license (packaged products) sales at the time of shipment to the one in which net sales are recognized over a certain period of time as the performance obligations are fulfilled, as with the case of other support services.

In addition, with regard to service contracts such as product customization, previously, the percentage-of-completion method was applied for cases where outcome from the progress can be verified, and the completed-contract method was applied for other service contracts that do not meet the aforementioned requirement. However, starting from the fiscal year under review, the Company has changed to the method of recognizing the revenue of such contracts over a certain period of time as performance obligations are fulfilled. The progress of the fulfillment of performance obligations is estimated by calculating the ratio of costs incurred to the total estimated amount of work costs (input method). If the progress of the fulfillment of performance obligations cannot be estimated reasonably, then the cost recovery method is applied.

The Company has applied the Revenue Recognition Accounting Standard, etc., in accordance with the transitional treatment provided for in the proviso to Paragraph 84 of the Revenue Recognition Accounting Standard. The cumulative effect of retrospectively applying the new accounting policies to the periods prior to the beginning of the first quarter of the fiscal year under review, has been added to or subtracted from retained earnings at the beginning of the first quarter of the fiscal year under review, and the new accounting policies have been applied from the said beginning balance.

As a result, for the three months ended April 30, 2022, net sales increased by ¥2,435 thousand and cost of sales increased by ¥1,888 thousand, while operating profit, ordinary profit, and profit before income taxes increased by ¥547 thousand, respectively. In addition, the balance of retained earnings at the beginning of the period decreased by ¥5,611 thousand.

Due to the application of the Revenue Recognition Accounting Standard, etc., "accounts receivable - trade" which was presented under "current assets" in the consolidated balance sheet for the previous fiscal year is included in "accounts receivable - trade, and contract assets" starting from the first quarter of the fiscal year under review, and "unearned revenue" which was presented under "current liabilities," "advances received" which was included in "other" under "current liabilities" and "long-term unearned revenue" which was presented under "non-current liabilities" are included in "contract liabilities" under "current liabilities" starting from the first quarter of the fiscal year under review. In accordance with the transitional treatment as provided

for in Paragraph 89-2 of the Revenue Recognition Accounting Standard, the Company has made no reclassification for the previous fiscal year by using the new presentation method. Furthermore, in accordance with the transitional treatment as provided for in Paragraph 28-15 of the “Accounting Standard for Quarterly Financial Reporting” (ASBJ Statement No. 12, March 31, 2020), the Company does not state on the disaggregation of revenue from contracts with customers for the three months ended April 30, 2021.

(Application of the accounting standard for fair value measurement)

The Company has applied the “Accounting Standard for Fair Value Measurement” (ASBJ Statement No. 30, July 4, 2019, hereinafter “Fair Value Measurement Standard”), etc. from the beginning of the first quarter of the fiscal year under review, and plans to prospectively apply the new accounting policies stipulated by the Fair Value Measurement Standard, etc. in accordance with the transitional treatment set forth in Paragraph 19 of the Fair Value Measurement Standard and Paragraph 44-2 of the “Accounting Standards for Financial Instruments” (ASBJ Statement No. 10, July 4, 2019). The application has no impact on the Company’s quarterly consolidated financial statements.

(Segment information, etc.)

[Segment information]

I. For the three months ended April 30, 2021

1. Information on net sales and profit (loss) by reportable segment

(Thousand yen)

	Reportable segment				Adjustment (Note 1)	Amount recorded in quarterly consolidated statements of income (Note 2)
	Software business	System development service business	Overseas business	Total		
Net sales						
Net sales to outside customers	879,727	482,757	366	1,362,851	—	1,362,851
Intersegment net sales or transfers	538	7,200	295	8,033	(8,033)	—
Total	880,265	489,957	661	1,370,885	(8,033)	1,362,851
Segment profit (loss)	270,089	22,188	(16,177)	276,100	(627)	275,473

(Notes) 1. The segment profit (loss) adjustment of ¥(627) thousand represents elimination of intersegment transactions.

2. Segment profit (loss) was adjusted based on operating profit reported on the quarterly consolidated statements of income.

II. For the three months ended April 30, 2022

1. Information on net sales and profit (loss) by reportable segment

(Thousand yen)

	Reportable segment				Adjustment (Note 1)	Amount recorded in quarterly consolidated statements of income (Note 2)
	Software business	System development service business	Overseas business	Total		
Net sales						
Net sales to outside customers	1,047,671	448,420	831	1,496,923	–	1,496,923
Intersegment net sales or transfers	419	6,446	–	6,865	(6,865)	–
Total	1,048,090	454,866	831	1,503,788	(6,865)	1,496,923
Segment profit (loss)	322,550	7,898	(21,285)	309,163	12	309,176

(Notes) 1. The segment profit (loss) adjustment of ¥12 thousand represents elimination of intersegment transactions.

2. Segment profit (loss) was adjusted based on operating profit reported on the quarterly consolidated statements of income.

2. Matters concerning changes, etc. in reportable segments

As stated in “Changes in accounting policies,” the Company has applied the Revenue Recognition Accounting Standard, etc. from the beginning of the first quarter of the fiscal year under review and changed the accounting policy for revenue recognition. The calculation method of profit (loss) by business segment has been changed accordingly.

As a result of this change, net sales of the “software business” for the three months ended April 30, 2022 increased by ¥2,435 thousand and segment profit increased by ¥547 thousand as compared with the previous method.

(Revenue recognition)

Disaggregation of revenue from contracts with customers

For the three months ended April 30, 2022

(Thousand yen)

	Reportable segment			Total
	Software business	System development service business	Overseas business	
Recurring revenue (Note 1)	833,231	413,009	802	1,247,043
One-time revenue (Note 2)	214,439	35,410	28	249,879
Revenue from contracts with customers	1,047,671	448,420	831	1,496,923
Net sales to outside customers	1,047,671	448,420	831	1,496,923

(Notes) 1. Main contents of recurring revenue are as follows.

Segment	Main contents	When to recognize revenue
Software business and overseas business	Revenue from usage fees for cloud services provided, packaged software support fees, ASP license fees, etc.	Over a certain period of time
System development service business	Revenue from quasi-entrustment contracts and dispatching contracts (including contracts covering 12 months or longer through renewal of contracts) under which sales are recognized for the same customer for consecutive 12 months or longer immediately before the last day of each accounting period	Over a certain period of time

2. Main contents of one-time revenue are as follows.

Segment	Main contents	When to recognize revenue
Software business and overseas business	Revenue from packaged products license fees	At a point in time
	Revenue from service contracts such as product customization, services including product installation, data migration and education	Over a certain period of time
System development service business	Revenue from quasi-entrustment contracts and dispatching contracts and service contracts which does not fall under the category of recurring revenue	Over a certain period of time