

Consolidated Financial Results for the first three months of the FYE March 31, 2023 (JGAAP)

July 29, 2022

Company name: SRE Holdings Corporation

Stock exchange listing: Tokyo

Stock code: 2980

URL: <https://sre-group.co.jp/>

Representative: Kazuo Nishiyama, President & Chief Executive Officer

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Scheduled date of dividend payment: –

Scheduled date to submit the Quarterly Report: August 10, 2022

Earnings Supplementary Explanatory Documents: Yes

Holding of financial results presentation meeting: No

(Figures of less than one million are rounded down.)

1. Consolidated Results for the first three months of the FYE March 31, 2023 (April 1, 2022 – June 30, 2022)

(1) Consolidated operating results (% shows the year-on-year change)

	Net sales		Operating profit		Ordinary profit		Quarterly Profit attributable to owners of parent	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
Three months ended June 30, 2022	2,922	63.9	230	30.9	200	19.3	66	(42.4)
June 30, 2021	1,782	71.4	175	42.6	168	34.7	115	88.0

(Note) Comprehensive income: Three months ended June 30, 2022: ¥66 million (42.6%)

Three months ended June 30, 2021: ¥115 million 88.0%

	Basic quarterly profit per share	Diluted quarterly profit per share
Three months ended	Yen	Yen
June 30, 2022	4.13	4.10
June 30, 2021	7.46	7.27

(2) Consolidated financial condition

	Total assets	Net assets	Equity ratio
As of	Million yen	Million yen	%
June 30, 2022	21,502	9,939	45.9
March 31, 2022	23,018	9,798	42.3

(Reference) Equity capital: As of June 30, 2022: ¥9,863 million As of March 31, 2022: ¥9,729 million

2. Dividends

	Annual dividend per share				
	End of first quarter	End of second quarter	End of third quarter	Year end	Total
FYE March 31, 2022	Yen –	Yen 0.00	Yen –	Yen 0.00	Yen 0.00
FYE March 31, 2023	–				
FYE March 31, 2023 (forecast)		0.00	–	0.00	0.00

3. Consolidated Financial Forecasts for the FYE March 31, 2023 (April 1, 2022 to March 31, 2023)

(% shows the year-on-year change)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent		Basic profit per share
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen
Full year	16,300	20.1	1,650	18.5	1,500	15.3	930	4.2	58.35

(Note) Revision of the forecasts most recently announced: No

* Notes

(1) Changes in significant subsidiaries during the first three months of FYE March 31, 2023 (changes of specified subsidiaries with change of the scope of consolidation): No

(2) Changes in accounting principles, changes in accounting estimates, and retrospective restatements

(i) Changes in accounting principles accompanying the amendment of accounting standards: Yes

(ii) Changes in accounting policies other than (i): None

(iii) Changes in accounting estimates: None

(iv) Restatement: None

(Note) For details, please refer to "1. Quarterly Consolidated Financial Statements and Important Notes (3) Notes to Quarterly Consolidated Financial Statements, (Changes in Accounting Policies) on page 5 of the attached document.

(3) Number of issued shares (common shares)

(i) Number of shares outstanding at end of the period (including treasury shares)

As of June 30, 2022: 16,154,597 shares

As of March 31, 2022: 15,937,237 shares

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

As of June 30, 2022: 173 shares

As of March 31, 2022: 173 shares

(iii) Average number of shares during the period

The first three months of FYE March 2023: 16,116,381 shares

The first three months of FYE March 2022: 15,508,665 shares

* The results are not subject to an audit by a certified public accountant or an auditing firm.

* Explanation concerning the appropriate use of financial result forecasts and other special notes

(Note on forward-looking statements)

Forward-looking statements such as results forecasts provided in this document are prepared based on currently available information and assumptions that are deemed reasonable, but the Company does not intend to guarantee its achievement. A variety of factors could cause actual results to differ materially from forecasts.

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1. Quarterly Consolidated Financial Statements and Important Notes

(1) Quarterly Consolidated balance sheets

(Unit: Thousand yen)

	As of March 31, 2022	As of June 30, 2022
ASSETS		
Current assets:		
Cash and deposits	2,999,148	1,955,281
Accounts receivable – trade and contract assets	411,868	481,274
Operating investments in capital	649,696	646,003
Inventories	15,813,956	15,065,298
Others	390,538	566,494
Less - allowance for doubtful accounts	(1,196)	(1,196)
Total current assets	20,264,011	18,713,157
Non-current assets:		
Property, plant and equipment	615,358	527,929
Intangible assets:		
Software	605,052	644,171
Goodwill	151,339	147,900
Others	29,536	25,130
Total intangible assets	785,929	817,202
Investments and other assets	1,250,805	1,353,764
Total non-current assets	2,652,093	2,698,896
Deferred Asset		
Offering expenses	102,798	90,327
Total deferred Assets	102,798	90,327
Total assets	23,018,904	21,502,380
LIABILITIES		
Current liabilities:		
Accounts payable – trade	119,348	155,389
Short-term borrowings	3,797,090	4,067,590
Accounts payable - other	74,182	63,501
Accrued expenses	398,500	316,992
Income taxes payable	249,743	49,971
Accrued compensation	169,632	74,508
Others	332,827	394,052
Total current liabilities	5,141,325	5,122,004
Non-current liabilities:		
Long-term debt	7,844,000	6,208,500
Liability for retirement benefits	60,688	62,242
Others	174,557	170,396
Total non-current liabilities	8,079,246	6,441,138
Total liabilities	13,220,571	11,563,142
NET ASSETS		
Shareholders' equity:		
Capital stock	4,088,600	4,122,339
Capital surplus	4,088,600	4,122,339
Retained earnings	1,554,424	1,621,038
Treasury stock, at cost	(1,233)	(1,233)
Total shareholders' equity	9,730,392	9,864,483
Unrealized holding losses on securities	(686)	(981)
Total accumulated other comprehensive losses	(686)	(981)
Stock acquisition rights	68,626	75,735
Total net assets	9,798,332	9,939,237
Total liabilities and net assets	23,018,904	21,502,380

(2) Quarterly Consolidated statements of income and consolidated statements of comprehensive income
(Quarterly Consolidated statements of income)

(Unit: Thousand yen)

	For the three months ended June 30, 2021	For the three months ended June 30, 2022
Net sales	1,782,910	2,922,373
Cost of sales	1,042,409	1,924,657
Gross profit	740,501	997,715
Selling, general and administrative expenses	564,589	767,486
Operating income	175,911	230,229
Non-operating income:		
Share of profit of entities accounted for using equity method	87	3,896
Other non-operating income	38	994
Total non-operating income	125	4,890
Non-operating expenses:		
Interest expenses	7,181	20,612
Offering expenses	—	12,921
Other non-operating expenses	347	598
Total non-operating expenses	7,529	34,133
Ordinary income	168,508	200,987
Extraordinary losses:		
Office relocation related losses	—	104,266
Total extraordinary losses	—	104,266
Income before income taxes	168,508	96,720
Income taxes:		
Current	22,456	38,954
Deferred	30,368	(8,848)
Total income taxes	52,825	30,106
Net income	115,682	66,613
Net income attributable to owners of the parent	115,682	66,613

(Quarterly Consolidated statements of comprehensive income)

(Unit: Thousand yen)

	For the three months ended June 30, 2021	For the three months ended June 30, 2022
Net income	115,682	66,613
Other comprehensive income:		
Unrealized holding losses on securities	(241)	(295)
Total accumulated other comprehensive losses	(241)	(295)
Comprehensive income	115,440	66,318
Comprehensive income attributable to:		
Owners of the parent	115,440	66,318
Non-controlling interests	—	—

(3) Notes to Quarterly Consolidated Financial Statements

(Note to going concern assumptions)

Not applicable.

(Notes on significant fluctuations in the amount of shareholders' equity)

Not applicable.

(Change in accounting policy)

Application of the "Guidance on Accounting Standard for Measurement of Fair Value" (ASBJ Guidance No. 31, June 17, 2021. Hereafter "Guidance of Accounting Standard for Measurement of Fair Value") has been applied since the beginning of FYE March 2023, and the new accounting policy prescribed by the "Guidance of Accounting Standard for Measurement of Fair Value" is applied prospectively in accordance with the transitional treatment prescribed in paragraph 27-2 of the "Guidance of Accounting Standard for Measurement of Fair Value".

This change has no impact on the quarterly consolidated financial statements.

(Segment information, etc.)

[Segment information]

I. For the three months ended June 30, 2021

1. Information on net sales and profit or loss amounts by reportable segment

(Unit: Thousand yen)

	Reportable segment			Adjustment (Note 1)	Amount on consolidated statement of income (Note 2)
	AI Cloud & Consulting	Real Estate Tech	Total		
Net sales					
Sales to third parties	314,518	1,468,392	1,782,910	—	1,782,910
Inter-segment sales and transfers	70,252	—	70,252	(70,252)	—
Total	384,771	1,468,392	1,853,163	(70,252)	1,782,910
Segment profit	156,300	38,590	194,890	(18,978)	175,911

(Notes) 1. The adjustment to segment profit of (18,978) thousand yen represents the elimination of intersegment transactions.

2. The segment profit or loss has been adjusted to the operating profit stated in the quarterly consolidated income statement.

II. For the three months ended June 30, 2022

1. Information on net sales and profit or loss amounts by reportable segment

(Unit: Thousand yen)

	Reportable segment			Adjustment (Note 1)	Amount on consolidated statement of income (Note 2)
	AI Cloud & Consulting	Real Estate Tech	Total		
Net sales					
Sales to third parties	517,488	2,404,884	2,922,373	—	2,922,373
Inter-segment sales and transfers	173,181	41	173,222	(173,222)	—
Total	690,669	2,404,925	3,095,595	(173,222)	2,922,373
Segment profit or loss	254,329	(4,198)	250,131	(19,901)	230,229

(Notes) 1. The adjustment to segment profit or loss of (19,901) thousand yen represents the elimination of intersegment transactions.

2. The segment profit or loss has been adjusted to the operating profit stated in the quarterly consolidated income statement.

(Significant subsequent events)

(Conclusion of important contracts)

At the board of directors meeting held on July 29, 2022, the Company resolved to acquire additional shares of gig sales Co., Ltd. (hereinafter referred to as "gig sales"), which is an equity method affiliate, and make it a consolidated subsidiary. On the same day, gig sales became a consolidated subsidiary of the Company by concluding an investment contract and a shareholder agreement, taking over the shares of gig sales, and it is recognized that the company is substantially controlling the decision-making body of the gig sales.

1. Purposes of the acquisition of shares

The purpose of the acquisition of gig sales shares by the Company is as follows.

(1) Joint development and sales of cloud services in the sales tech field

2. Outline of the company whose shares were acquired

(1) Name: gig sales Co., Ltd.

(2) Location: 7th floor of Hiroo Office Building, 1-3-18 Hiroo, Shibuya-ku, Tokyo

(3) Title and name of representative: Representative Director Tatsuhiro Kobayashi

(4) Business description: BtoB sales support business, media management business, etc.

(5) Capital: 108,770-thousand-yen (Note)

(Note) Amount of capital at time of acquisition of shares.

(6) Date of establishment: March 1, 2017

3. Timing of acquisition of shares

(1) Date of conclusion of the investment contract and shareholder agreement: July 29, 2022

(2) Date of conclusion of the share underwriting agreement and share transfer agreement: July 29, 2022

(3) Date of execution of the share underwriting and share transfer: July 29, 2022

4. Number of shares to be acquired and the state of share ownership before and after the acquisition

(1) Number of shares owned before transfer: 852,000 shares(Number of voting rights: 852,000) (Ownership ratio:36.0%)

(2) Number of shares acquired: 125,300 shares(Number of voting rights: 125,300)

(3) Number of shares owned after transfer: 977,300 shares(Number of voting rights: 977,300) (Ownership ratio:40.0%)

5. Procurement and payment method of payment funds

Own resources

6 Details and amount of major acquisition-related costs

Not applicable

7. Amount of assets accepted, and liabilities assumed on the business combination date and their main breakdown

It has not been finalized at this time.

8. Amount of goodwill generated, cause of occurrence, amortization method and amortization period

It has not been finalized at this time.

The acquisition price is not disclosed because the counterparty to the share acquisition is an individual. However, the acquisition price was determined and agreed upon as a reasonable price calculated by the Company based on objective criteria.