

Summary of Financial Results for Second Quarter of the Year Ending December 2022 [Japanese GAAP] (Consolidated)

August 12, 2022

Name of Company:	LTS, Inc.	Stock Exchange Listing:	Tokyo
Stock Code:	6560	URL	https://lt-s.jp/en/
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Date of filing of quarterly report:	August 15, 2022		
Date of commencement of dividend payment:	-		
Preparation of quarterly supplementary materials:	Yes		
Convening of a quarterly results meeting:	Yes		

(Amounts less than one million are rounded down)

1. Financial results for second quarter of fiscal year ending December 2022 (January 1, 2022 – June 30, 2022)

(1) Operating results (consolidated) (Percentage figures represent year-on-year change)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent	
	million yen	%	million yen	%	million yen	%	million yen	%
Q2 of the year ending December 2022	4,648	33.8	351	28.2	348	34.6	239	43.7
Q2 of the year ended December 2021	3,474	29.8	274	7.2	258	11.8	166	11.4

(Note) Comprehensive income Q2 FY2022: 244 million yen (48.7%) Q2 FY2021: 164 million yen (12.9%)

	Profit per share	Profit per share fully diluted
	yen	yen
Q2 of the year ending December 2022	57.86	55.44
Q2 of the year ended December 2021	40.37	37.51

(2) Financial position (consolidated)

	Total assets	Net assets	Capital adequacy ratio
	million yen	million yen	%
Q2 of the year ending December 2022	4,201	2,027	48.0
Year ended December 2021	5,080	2,076	40.9

(Reference) Shareholders' equity Q2 FY2022: 2,017 million yen FY2021: 2,076 million yen

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

2. Dividends

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

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

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

(Percentage figures represent year-on-year change)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent		Profit per share
	million yen	%	million yen	%	million yen	%	million yen	%	yen
Full year	9,300	26.1	480	-20.0	460	-20.7	297	-23.5	69.99

(Note) Revisions to the most recently announced earnings forecast: Yes

(Note) There is no first half forecast.

* Notice

(1) Changes in main subsidiaries during year to quarter end (Changes in specific subsidiaries accompanied by changes in the scope of consolidation): None

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

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

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

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

(b) Changes in accounting policies other than those in (a): No

(c) Changes in accounting estimates: No

(d) Restatements: No

(4) Number of shares outstanding (common shares)

(a) Shares outstanding (including treasury shares) at end of period

Q2 of year ending December 2022	4,371,500 shares	Year ended December 2021	4,371,000 shares
Q2 of year ending December 2022	271,225 shares	Year ended December 2021	127,802 shares
Q2 of year ending December 2022	4,145,551 shares	Q2 of year ended December 2021	4,133,410 shares

(b) Treasury shares at end of period

(c) Average number of shares during period

*Quarterly financial results summaries are not subject to audit.

* Cautionary statement regarding business results forecasts and special notes

The financial forecasts and other forward-looking statements herein are based on currently available information and assumptions considered by the Company to be reasonable and do not represent a commitment from the Company that they will be achieved.

Actual results may differ substantially due to various factors.

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1. Qualitative Information related to the Consolidated Business Results

(1) Explanation of Operating Results

During the first six months of the fiscal year (January 1 to June 30, 2022), COVID-19 continued to impact the Japanese economy. Although there were some signs of economic normalization, the number of cases continued to fluctuate up and down in Japan and around the world. The future of the global economy has grown even more uncertain with the situation in Ukraine, the semiconductor shortage, higher prices associated with soaring energy and material prices, and other developments.

In the information services industry, which is the main business domain of our Group, COVID-19 has had a prolonged impact on corporate management. Digital transformation (DX) continues to attract a high level of attention for addressing changes in the social environment during and after the COVID-19 pandemic. As such, demand remains strong for providing support for such internal reform activities as work style reform, including introducing task performing robots such as AI and RPA (robotic process automation) and promoting telecommuting.

Under these circumstances, the Group has been developing a professional services business and a platform business as a company that supports and promotes corporate transformation and work style reform based on the Medium-Term Business Plan established in the previous year. In our professional services business, we enter our customers' work sites and deliver expected solutions, utilizing robotics, AI, and business process management to provide one-stop support catered to the customer's unique challenges and reform objectives. In this business, we actively hired human resources to promote efforts to expand our capacity to provide stable services. In our platform business, we solve IT personnel shortages and, in addition to actively rolling out existing Assign Navi and Consultant Job services, we promoted development of our new CS Clip service that matches operating companies with DX companies. In addition, efforts to further enhance the corporate culture and brand have been promoted to mark the Group's 20th anniversary.

As a result of the above, during the first six months of the fiscal year under review, we achieved net sales of ¥4,648.735 million (same period last year ¥3,474.748 million), operating profit of ¥351.545 million (up 28.2% year on year), and ordinary profit of ¥348.694 million (up 34.6% year on year), and profit attributable to owners of parent of ¥239.847 million (up 43.7% year on year).

A summary of financial results by segment (net sales includes internal sales) is provided below.

(Professional Services Business)

In our professional services business, the environment surrounding our IT division is undergoing drastic changes due to various restrictions on corporate activities. In the midst of these circumstances, favorable conditions created by robust demand for DX provided a boost for us to steadily acquire traditional consulting projects (operational analysis/design, IT introduction support, onsite deployment) based on our strength of visualizing and improving operations utilizing business process management. In Hiroshima Prefecture, we carried out our DX approach leading to municipal and regional sustainability transformation, our effectuation mentoring activities, and communication of information to the outside through various seminars and media. We continued to focus on hiring activities, which are important for improving service provision capabilities, and received an award from a job search website operator for our new graduate hiring activities.

As a result, net sales in the professional services business came to ¥4,078.318 million (up 21.4% year on year) and segment profit (operating profit) came to ¥318.959 million (up 27.6% year on year).

(Platform Business)

In the platform business, the number of members in the Assign Navi platform, which provides business matching and a learning forum specialized for the IT industry, grew to 11,948 including both corporate and individual members as of June 30, 2022. This steady growth represents a 512-member increase over the end of the previous year. Net sales were strong as the Assign Navi and Consultant Job matching and member service results increased in conjunction with expansion of the membership base. We continued to invest in development in our new CS Clip service, conducted more aggressive marketing activities aimed at monetization, and reinforced our organizational structure for boosting the profitability of existing services.

As a result, net sales in the platform business came to ¥786.649 million (same period last year ¥144.494 million), and the segment profit (operating profit) came to ¥32.586 million (up 34.7% year on year).

(2) Explanation of Financial Position

Total assets at the end of the first six months of the fiscal year were ¥4,201.850 million, down ¥878.253 million from the end of the previous fiscal year. This was primarily due to a ¥447.320 million decrease in cash and deposits, a ¥280.589 million decrease in advance payment made, and a ¥100.897 million decrease in work in process.

Liabilities amounted to ¥2,173.985 million, down ¥829.349 million from the end of the previous fiscal year. This was primarily due to a ¥482.632 million decrease in advances received, a ¥147.424 million decrease in long-term borrowings, a ¥102.428 million decrease in accounts payable – other, and a ¥66.827 million decrease in provision for bonuses.

Net assets amounted to ¥2,027.865 million, down ¥48.904 million from the end of the previous fiscal year. This was primarily due to a ¥299.918 million increase in treasury shares, and a ¥239.847 million in retained earnings. The equity ratio was 48.0%.

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

In regard to the consolidated earnings forecast for the fiscal year ending December 2022, the full-year consolidated earnings forecast announced on February 10, 2022 has been revised.

Refer to the “Notice Concerning Revision of Full-Year Consolidated Earnings Forecast for the Fiscal Year Ending December 2022” published separately today (August 12, 2022) for details.

2. Quarterly Consolidated Financial Statements and Main Notes

(1) Quarterly Consolidated Balance Sheet

(Thousands of yen)

	Previous consolidated fiscal year (ended December 31, 2021)	First six months of the current fiscal year (ended June 30, 2022)
Assets		
Current assets		
Cash and deposits	2,430,782	1,983,461
Electronically recorded monetary claims - operating	132,014	112,713
Accounts receivable - trade	1,155,870	–
Accounts receivable and contract assets	–	1,148,146
Work in process	127,772	26,875
Advance payments made	280,589	–
Allowance for doubtful accounts	(1,891)	(1,888)
Other	81,113	111,350
Total current assets	4,206,251	3,380,659
Non-current assets		
Property, plant and equipment	52,850	61,573
Intangible fixed assets		
Goodwill	141,034	120,662
Software	2,150	1,264
Software in progress	138,519	157,904
Total intangible fixed assets	281,704	279,831
Investments and other assets		
Deferred tax assets	147,779	100,407
Leasehold and guarantee deposits	197,780	188,578
Investment securities	127,500	127,500
Other	66,236	63,299
Total investments and other assets	539,297	479,785
Total non-current assets	873,851	821,190
Total assets	5,080,103	4,201,850

(Thousands of yen)

	Previous consolidated fiscal year (ended December 31, 2021)	First six months of the current fiscal year (ended June 30, 2022)
Liabilities		
Current liabilities		
Accounts payable - trade	654,178	662,980
Current portion of long-term borrowings	283,668	278,960
Accounts payable - other	295,972	193,543
Income taxed payable	117,010	74,105
Provision for bonuses	146,765	79,938
Provision for bonuses for directors (and other officers)	12,500	–
Advances received	506,432	23,800
Other	199,102	212,463
Total current liabilities	2,215,629	1,525,793
Non-current liabilities		
Long-term borrowings	682,216	539,500
Retirement benefit liabilities	102,133	105,303
Deferred tax liabilities	539	539
Other	2,815	2,849
Total non-current liabilities	787,704	648,192
Total liabilities	3,003,334	2,173,985
Net assets		
Shareholders' equity		
Share capital	575,000	575,150
Capital surplus	507,775	507,925
Retained earnings	1,277,611	1,517,458
Treasury shares	(284,164)	(584,082)
Total shareholders' equity	2,076,223	2,016,451
Accumulated other comprehensive income		
Foreign currency translation adjustment	426	935
Total accumulated other comprehensive income	426	935
Subscription rights to shares	–	6,232
Non-controlling interests	119	4,245
Total net assets	2,076,769	2,027,865
Liabilities and net assets	5,080,103	4,201,850

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

Quarterly consolidated statement of income

First six months of the fiscal year

(Thousands of yen)

	First six months of the previous fiscal year (January 1 - June 30, 2021)	First six months of the current fiscal year (January 1 - June 30, 2022)
Net sales	3,474,748	4,648,735
Cost of sales	2,249,006	3,069,824
Gross profit	1,225,742	1,578,911
Selling, general and administrative expenses	951,507	1,227,365
Operating profit	274,234	351,545
Non-operating profit		
Interest income	16	9
Dividend income	43	1,800
Surrender value of insurance policies	139	12
Subsidy income	3,770	–
Other	286	296
Total non-operating income	4,255	2,119
Non-operating expenses		
Interest expenses	3,195	2,732
Foreign exchange losses	236	489
Commission for purchase of treasury shares	–	1,499
Share of loss of entities accounted for using equity method	14,849	–
Other	1,236	249
Total non-operating expenses	19,518	4,970
Ordinary profit	258,972	348,694
Profit before income taxes	258,972	348,694
Income taxes-current	78,734	57,348
Income taxes-deferred	16,087	47,371
Total income taxes	94,821	104,720
Profit	164,150	243,973
Profit (loss) attributable to non-controlling interests	(2,710)	4,126
Profit attributable to owners of parent	166,861	239,847

Quarterly consolidated statement of comprehensive income

First six months of the fiscal year

(Thousands of yen)

	First six months of the previous fiscal year (January 1 - June 30, 2021)	First six months of the current fiscal year (January 1 - June 30, 2022)
Profit	164,150	243,973
Other comprehensive income		
Foreign currency translation adjustment	261	508
Total other comprehensive income	261	508
Comprehensive income	164,411	244,482
(Breakdown)		
Comprehensive income attributable to owners of parent	167,122	240,355
Comprehensive income attributable to non-controlling interests	(2,710)	4,126

(3) Notes to the Quarterly Consolidated Financial Statements

(Notes Related to Going Concern Assumption)

Not applicable.

(Notes on Significant Changes in Shareholders' Equity)

In the first six months of the fiscal year under review, treasury shares increased by ¥299.918 million with the purchase of 143,400 treasury shares based on the resolution passed at the Board of Directors meeting held on February 10, 2022. In addition, with the exercise of stock acquisition rights granted under the stock options plans, share capital increased by ¥0.15 million and capital reserves increased by ¥0.15 million during the first six months of fiscal year under review.

As a result, at the end of the second quarter, share capital was ¥575.150 million, capital surplus was ¥507.925 million, and treasury shares were ¥584.082 million.

(Change in Accounting Policies)

First six months of the current fiscal year
(January 1, 2022 – June 30, 2022)

(Change in Accounting Policies)

(Application of Accounting Standard for Revenue Recognition)

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

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

In addition, in regard to revenue from Consultant Job matching in the platform business, the net amount after deducting payments to the supplier from the total amount received from the customer was previously recognized as revenue. However, for transactions in which the Company's role is as the principal providing goods or services to the customer, the total amount received from the customer is now recognized as revenue.

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

As a result, net sales increased by ¥337.688 million in the first six months of the fiscal year under review and cost of sales increased ¥337.688 million, while operating profit, ordinary profit, and profit before income taxes were unaffected. There was also no impact on the beginning balance of retained earnings.

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

(Application of Accounting Standard for Fair Value Measurement)

The Accounting Standard for Fair Value Measurement (ASBJ Statement No. 30, July 4, 2019) has been applied from the beginning of the first quarter of the fiscal year. Following the transitional treatment set forth in Paragraph 19 of the Accounting Standard for Fair Value Measurement and Paragraph 44-2 of the Accounting Standard for Financial Instruments (ASBJ Statement No. 10, July 4, 2019), the new accounting policy set forth in the Accounting Standard for Fair Value Measurement will be applied into the future. This has no impact on the quarterly consolidated financial statements.

(Additional Information)

First six months of the current fiscal year
(January 1 - June 30, 2022)

(Application of Tax Effect Accounting Relating to Transition from Consolidated Taxation System to Group Tax Sharing System)

LTS, Inc. and some domestic subsidiaries have calculated the amounts of deferred tax assets and deferred tax liabilities according to the tax acts before they were amended based on the treatment of Paragraph 3 of "Practical Solution on the Treatment of Tax Effect Accounting for the Transition from the Consolidated Taxation System to the Group Tax Sharing System" (ASBJ Practical Issues Task Force No.39, March 31, 2020) instead of applying the provision of Paragraph 44 of "Implementation Guidance on Tax Effect Accounting" (ASBJ Guidance No.28, February 16, 2018) with respect to the transition to the group tax sharing system established in "Act for Partial Amendment of the Income Tax Act, etc." (Act No. 8 of 2020) and items for which the nonconsolidated taxation system has been reviewed in the line with the transition to the group tax sharing system.

(Segment Information)

First six months of the current fiscal year (January 1 - June 30, 2022)

1. Information Regarding Amounts of Net Sales, Profit, and Loss for Each Reporting Segment

(Thousands of yen)

	Reporting Segment			Adjustment	Total Shown in Quarterly Consolidated Statement of Income *1
	Professional Services Business	Platform Business	Total		
Net sales					
Net sales to unaffiliated customers	4,059,435	589,300	4,648,735	–	4,648,735
Transactions with other segments	18,883	197,348	216,231	(216,231)	–
Total	4,078,318	786,649	4,864,967	(216,231)	4,648,735
Segment profit	318,959	32,586	351,545	–	351,545

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

*2. As stated under Changes in Accounting Policies, the Accounting Standard for Revenue Recognition was applied from the beginning of the first quarter of the fiscal year, which changed the accounting treatment related to revenue recognition. As a result, compared to the previous method, net sales (including internal sales) in the professional services business decreased by ¥100.674 million in the first six months of the fiscal year under review, and cost of sales decreased by ¥100.674 million, and net sales (including internal sales) in the platform business increased by ¥581.449 million in the first six months of the fiscal year under review, and cost of sales increased by ¥581.449 million, while segment profit was unaffected.

(Revenue Recognition)

Breakdown of revenue from contracts with customers

First six months of the current fiscal year (January 1 - June 30, 2022)

(Thousands of yen)

	Reporting Segment		Total
	Professional Services Business	Platform Business	
Business process management	651,562	–	651,562
Consulting/engineering	2,709,238	–	2,709,238
Strategy establishment/digital utilization	698,634	–	698,634
Assign Navi	–	24,737	24,737
Consultant Job	–	564,563	564,563
Revenue from contracts with customers	4,059,435	589,300	4,648,735
Net sales to unaffiliated customers	4,059,435	589,300	4,648,735