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Consolidated Financial Results for the Six Months Ended July 31, 2022 [Japanese GAAP]



September 14, 2022

Company name: NEOJAPAN Inc.

Stock exchange listing: Tokyo Stock Exchange

Code number: 3921

URL: <https://www.neo.co.jp/en/>

Representative: Akinori Saito, Representative Director

Contact: Makoto Tokiwa, Director in Charge of Accounting and Finance

Phone: +81-45-640-5917

Scheduled date of filing quarterly securities report: September 14, 2022

Scheduled date of commencing dividend payments: –

Preparation of supplementary materials on quarterly financial results: Yes

Schedule of quarterly financial results briefing session: Scheduled (for analysts and institutional investors (online))

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

1. Consolidated Financial Results for the Six Months Ended July 31, 2022 (February 1, 2022–July 31, 2022)

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

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent	
Six months ended	Million yen	%	Million yen	%	Million yen	%	Million yen	%
July 31, 2022	2,936	3.3	610	(4.9)	687	(5.0)	463	(6.2)
July 31, 2021	2,842	8.4	641	12.6	723	23.5	493	24.1

(Note) Comprehensive income: Six months ended July 31, 2022: ¥510 million [(1.8)%]

Six months ended July 31, 2021: ¥519 million [24.4%]

	Basic earnings per share	Diluted earnings per share
Six months ended	Yen	Yen
July 31, 2022	31.06	30.99
July 31, 2021	33.17	33.06

(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 six months ended July 31, 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 July 31, 2022	7,703	5,461	70.7
As of January 31, 2022	7,287	5,165	70.7

(Reference) Equity: As of July 31, 2022: ¥5,448 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 six months ended July 31, 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	–	0.00			
Fiscal year ending January 31, 2023 (Forecast)			–	19.00	19.00

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

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	
	5,989	1.2	1,094	(12.3)	1,182	(13.1)	782	(9.7)	52.48

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

* Notes:

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

Newly included: – (), Excluded: – ()

(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):

July 31, 2022: 14,913,600 shares

January 31, 2022: 14,908,800 shares

2) Total number of treasury shares at the end of the period:

July 31, 2022: 223 shares

January 31, 2022: 223 shares

3) Average number of shares during the period:

Six months ended July 31, 2022: 14,908,868 shares

Six months ended July 31, 2021: 14,891,995 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

(Cautionary notes regarding forward-looking statements, etc.)

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	6
(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) Quarterly Consolidated Statements of Cash Flows	11
(4) Notes to Quarterly Consolidated Financial Statements	13
(Notes on going concern assumption)	13
(Notes in case of significant changes in shareholders' equity)	13
(Accounting methods adopted particularly for the preparation of quarterly consolidated financial statements)	13
(Changes in accounting policies)	13
(Segment information, etc.)	14
(Revenue recognition accounting)	15

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 six months ended July 31, 2022 saw signs of recovery as restrictions on economic and social activities have become less severe despite the impact of COVID-19 infection. However, the economic outlook remains uncertain due to a rapid increase in COVID-19 cases in the seventh wave of infections, the prolonged situation in Ukraine, soaring prices of energy and raw materials, volatile exchange rates and other matters.

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. Besides, our business chat tool ChatLuck version 5.0 was released in July 2022. It features a new and additional reaction function and supports SAML authentication to enhance its convenience.

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 July 2022, our groupware desknet’s NEO was recognized as “Leader” for the 14th consecutive period in the Groupware Category and Workflow Category of the ITreview Grid Award 2022 Summer, organized by IT product comparison and review website ITreview. Our business chat tool ChatLuck had been recognized as “High Performer” for the 7th consecutive period until the previous ceremony in the Business Chat Category, and was recognized as “Leader” for the first time this time.

As a result, the performance of the software business remained strong while sales in the system development service business have been decreasing since the first quarter of the fiscal year under review 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. With these reasons as main factors, for the six months ended July 31, 2022, the Company posted net sales of ¥2,936,386 thousand (up 3.3% year on year) and operating profit of ¥610,321 thousand (down 4.9% year on year), while ordinary profit was ¥687,458 thousand (down 5.0% year on year), and profit attributable to owners of parent was ¥463,123 thousand (down 6.2% year on year).

As a result of the application of the Revenue Recognition Accounting Standard, etc., for the six months ended July 31, 2022, net sales increased by ¥1,038 thousand and cost of sales decreased by ¥404 thousand, while operating profit, ordinary profit, and profit before income taxes increased by ¥1,442 thousand, respectively. Details are explained in “2. Quarterly Consolidated Financial Statements and Principal Notes, (4) Notes to Quarterly Consolidated Financial Statements (Changes in accounting policies).”

Operating results for the six months ended July 31, 2022 by segment are as follows.

(Software business)

The status by business sector is as follows.

Business sector	For the six months ended July 31, 2021		For the six months ended July 31, 2022		
	Net sales (Thousand yen)	Percentage breakdown (%)	Net sales (Thousand yen)	Percentage breakdown (%)	Change (%)
Cloud services	1,162,184	62.5	1,308,855	63.8	12.6
Packaged products	666,855	35.8	703,966	34.3	5.6
Technological development	31,206	1.7	38,208	1.9	22.4
Total	1,860,246	100.0	2,051,030	100.0	10.3

1) Cloud services

Net sales by principal cloud service are as follows.

	For the six months ended July 31, 2021	For the six months ended July 31, 2022	Change (Thousand yen)	Change (%)
	Net sales (Thousand yen)	Net sales (Thousand yen)		
desknet's NEO cloud	976,544	1,091,586	115,041	11.8
AppSuite cloud	40,159	62,668	22,508	56.0
ChatLuck cloud	29,357	34,395	5,038	17.2
Other monthly recurring revenue	98,097	98,407	310	0.3
Total monthly recurring revenue	1,144,159	1,287,057	142,898	12.5
Other services, etc.	18,025	21,798	3,772	20.9
Cloud services total	1,162,184	1,308,855	146,671	12.6

Net sales of desknet's NEO cloud increased by ¥115,041 thousand year on year to ¥1,091,586 thousand (up 11.8% year on year), as the service increased the number of users. There were many users who migrated to desknet's NEO cloud during the six months ended July 31, 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. Net sales of desknet's NEO cloud were roughly 98% of the initial plan, and in light of the current situation, we are planning to take additional measures to raise awareness in the second half of the fiscal year. Since the churn rate (* 1) of the service remains low at 0.35%, 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 ¥22,508 thousand year on year to ¥62,668 thousand (up 56.0% 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 that could be achieved by raising the awareness and focusing on cross-selling and other matters as it is about 8% of the number of desknet's NEO cloud users as of July 31, 2022. Other monthly recurring revenue remained almost unchanged year on year at ¥98,407 thousand (up 0.3% year on year). Net sales of other services, etc. increased by ¥3,772 thousand to ¥21,798 thousand (up 20.9% year on year). This was primarily due to an increase in customization for application service providers (ASPs).

As a result, the overall net sales of cloud services increased by ¥146,671 thousand year on year to ¥1,308,855 thousand (up 12.6% 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 six months ended July 31, 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 six months ended July 31, 2021	For the six months ended July 31, 2022	Change (Thousand yen)	Change (%)
	Net sales (Thousand yen)	Net sales (Thousand yen)		
desknet's NEO Enterprise license version	97,957	88,878	(9,078)	(9.3)
desknet's NEO Small license version	28,069	20,943	(7,125)	(25.4)
AppSuite	28,066	43,702	15,635	55.7
ChatLuck	21,012	18,796	(2,215)	(10.5)
Other license sales (*1)	3,805	5,276	1,470	38.7
Total license sales	178,911	177,597	(1,314)	(0.7)
Support	350,696	393,981	43,285	12.3
Customization	43,417	34,097	(9,320)	(21.5)
Other services, etc.	93,829	98,290	4,460	4.8
Packaged products total	666,855	703,966	37,111	5.6

(*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 six months ended July 31, 2021 shown above have been restated accordingly.

Net sales of desknet's NEO Enterprise license, which is for large-scale users, was generally in line with the budget, but decreased by ¥9,078 thousand year on year to ¥88,878 thousand (down 9.3% year on year), due mainly to a decrease in sales for additional license with 100 users or less. 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 ¥7,125 thousand year on year to ¥20,943 thousand (down 25.4% year on year), as part of the net sales are recorded in net sales of the support over the period of support contract following the application of the Revenue Recognition Accounting Standard. We recognize the trend of decrease in desknet's NEO Small license sales as a result of the widespread use of the cloud services, while we expect that there will be demand for license with 100 users or more for the time being.

AppSuite license and ChatLuck license are often purchased simultaneously with desknet's NEO Enterprise license. Net sales of AppSuite license increased by ¥15,635 thousand year on year to ¥43,702 thousand (up 55.7% year on year) while net sales of ChatLuck license decreased by ¥2,215 thousand year on year to ¥18,796 thousand (down 10.5% year on year).

The performance of customization has been greater than initially expected. However, net sales decreased by ¥9,320 thousand year on year to ¥34,097 thousand (down 21.5% year on year) as there was a relatively large-scale project in the second quarter of the previous fiscal year. Net sales of support increased by ¥43,285 thousand year on year to ¥393,981 thousand (up 12.3% year on year), mainly because net sales of support for desknet's NEO increased by ¥29,377 thousand year on year to ¥340,653 thousand (up 9.4% year on year).

As a result, the overall net sales of packaged products increased by ¥37,111 thousand year on year to

¥703,966 thousand (up 5.6% year on year).

3) Technological development

While our policy is not to actively accept development contracts, net sales of technological development increased by ¥7,001 thousand year on year to ¥38,208 thousand (up 22.4% 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 ¥2,051,030 thousand (up 10.3% year on year) and segment profit of ¥636,114 thousand (up 3.5% year on year). The rate of increase in segment profit is smaller than that of increase in net sales due mainly to an increase in amortization of software for sale of ¥67,338 thousand 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 six months ended July 31, 2022, net sales decreased by ¥104,796 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 ¥79,754 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. To address a decrease in net sales, we will focus on additional proposals to existing customers and acquisition of new customers, take measures to retain employees and promote mid-career hiring.

As a result, the system development service business posted net sales of ¥892,412 thousand (down 10.5% year on year) and segment profit of ¥18,063 thousand (down 63.7% 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, the Company has 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 since the first quarter of the fiscal year under review. The two subsidiaries in the ASEAN region aim to post positive profits in each month of the fourth quarter of the fiscal year under review, and the sales activities have gradually produced results as we had a month in which we posted positive profits due to the selling of license in the second quarter of the fiscal year under review. We will continue to focus on the sales activities. In addition, in the U.S., the Company commenced activities to offer new services in the first quarter of the fiscal year under review based on local market surveys, while outsourcing transactions with the parent company decreased.

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 ¥5,333 thousand (down 62.1% year on year) and segment loss of ¥43,765 thousand (segment loss of ¥22,309 thousand for the previous fiscal year). The decrease in net sales was attributable to a decrease in internal transactions mentioned above.

(2) Explanation of Financial Position

[1] Status of assets, liabilities and net assets

(Assets)

Total assets as of July 31, 2022 increased by ¥415,983 thousand from the end of the previous fiscal year to ¥7,703,400 thousand. This was mainly due to an increase of ¥50,511 thousand in securities and investment securities resulting mainly from gains on valuation of foreign-currency-denominated securities caused by weaker yen and an increase of ¥372,232 thousand in cash and deposits.

(Liabilities)

Total liabilities as of July 31, 2022 increased by ¥119,473 thousand from the end of the previous fiscal year to ¥2,241,840 thousand. This was mainly due to a substantial increase of ¥195,782 thousand in contract liabilities, in line with an increase in the number of users, for cloud services, support services, etc. considering the effect of transfer of accounts as a result of the application of the Revenue Recognition Accounting Standard, despite a decrease of ¥96,012 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.

(Net assets)

Total net assets as of July 31, 2022 increased by ¥296,510 thousand from the end of the previous fiscal year to ¥5,461,559 thousand. This was mainly due to an increase of ¥248,792 thousand in retained earnings resulting from the payment of a dividend of surplus of ¥208,720 thousand and an increase of ¥34,727 thousand in valuation difference on available-for-sale securities as a result of the valuation of securities at market value, while ¥463,123 thousand in profit attributable to owners of parent was recorded.

[2] Status of cash flows

Cash and cash equivalents (hereinafter referred to as “cash”) as of July 31, 2022 were ¥4,333,407 thousand, an increase of ¥274,019 thousand compared with the end of the previous fiscal year.

The status of cash flows and their factors in the six months ended July 31, 2022 are as follows.

(Cash flows from operating activities)

Cash provided by operating activities amounted to ¥597,234 thousand. This was mainly due to an increase of cash resulting from recording of profit before income taxes of ¥687,458 thousand, an increase of ¥195,782 thousand in contract liabilities and recording of depreciation of ¥141,313 thousand, despite a decrease of cash resulting from a decrease in accounts payable - other of ¥112,504 thousand and income taxes paid of ¥262,078 thousand.

(Cash flows from investing activities)

Cash used in investing activities amounted to ¥173,261 thousand. This was mainly due to a decrease of cash resulting from outflows caused by purchase of investment securities of ¥100,000 thousand and purchase of intangible assets of ¥121,229 thousand, despite an increase of cash resulting from proceeds from maturity of insurance funds of ¥33,441 thousand and proceeds from collection of loans receivable of ¥24,599 thousand.

(Cash flows from financing activities)

Cash used in financing activities amounted to ¥208,283 thousand. This was mainly due to dividends paid of ¥208,510 thousand.

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

The Company has made 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, considering the trends in financial results up to the six months ended July 31, 2022.

For details, please refer to “Notice of Changes to the Consolidated Financial Results Forecast” announced today.

2. Quarterly Consolidated Financial Statements and Principal Notes

(1) Quarterly Consolidated Balance Sheets

(Thousand yen)

	As of January 31, 2022	As of July 31, 2022
Assets		
Current assets		
Cash and deposits	4,018,261	4,390,494
Accounts receivable and contract assets	–	702,278
Accounts receivable - trade	663,361	–
Securities	307,499	380,830
Work in process	5,031	–
Supplies	4,822	2,387
Other	89,956	105,976
Allowance for doubtful accounts	(2,055)	(2,074)
Total current assets	5,086,876	5,579,892
Non-current assets		
Property, plant and equipment	59,207	54,492
Intangible assets		
Goodwill	106,039	99,124
Other	265,760	253,445
Total intangible assets	371,800	352,569
Investments and other assets		
Investment securities	1,237,460	1,214,641
Other	532,423	502,246
Allowance for doubtful accounts	(352)	(441)
Total investments and other assets	1,769,531	1,716,446
Total non-current assets	2,200,539	2,123,508
Total assets	7,287,416	7,703,400

(Thousand yen)

	As of January 31, 2022	As of July 31, 2022
Liabilities		
Current liabilities		
Accounts payable - trade	127,265	119,542
Income taxes payable	278,483	240,056
Contract liabilities	–	1,074,635
Provision for bonuses	77,870	116,460
Unearned revenue	640,191	–
Other	417,539	321,527
Total current liabilities	1,541,350	1,872,222
Non-current liabilities		
Retirement benefit liability	323,004	341,990
Other	258,011	27,627
Total non-current liabilities	581,016	369,618
Total liabilities	2,122,367	2,241,840
Net assets		
Shareholders' equity		
Share capital	296,672	297,064
Capital surplus	332,956	333,348
Retained earnings	4,449,727	4,698,520
Treasury shares	(384)	(384)
Total shareholders' equity	5,078,973	5,328,547
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	67,958	102,686
Foreign currency translation adjustment	4,390	17,339
Total accumulated other comprehensive income	72,349	120,025
Non-controlling interests	13,726	12,986
Total net assets	5,165,048	5,461,559
Total liabilities and net assets	7,287,416	7,703,400

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

(Thousand yen)

	For the six months ended July 31, 2021	For the six months ended July 31, 2022
Net sales	2,842,848	2,936,386
Cost of sales	1,369,053	1,397,929
Gross profit	1,473,794	1,538,456
Selling, general and administrative expenses	832,204	928,135
Operating profit	641,590	610,321
Non-operating income		
Interest income	12,200	15,426
Gain on sale of securities	4,550	29,149
Foreign exchange gains	2,476	12,271
Surrender value of insurance policies	60,326	17,319
Other	4,383	3,057
Total non-operating income	83,937	77,223
Non-operating expenses		
Interest expenses	153	60
Loss on investments in investment partnerships	1,210	–
Organization expenses	624	–
Other	12	25
Total non-operating expenses	2,000	86
Ordinary profit	723,526	687,458
Extraordinary income		
Gain on sale of non-current assets	575	–
Total extraordinary income	575	–
Extraordinary losses		
Loss on redemption of investment securities	482	–
Total extraordinary losses	482	–
Profit before income taxes	723,619	687,458
Income taxes	232,152	225,668
Profit	491,467	461,790
Loss attributable to non-controlling interests	(2,502)	(1,333)
Profit attributable to owners of parent	493,969	463,123

Quarterly Consolidated Statements of Comprehensive Income

(Thousand yen)

	For the six months ended July 31, 2021	For the six months ended July 31, 2022
Profit	491,467	461,790
Other comprehensive income		
Valuation difference on available-for-sale securities	26,940	34,727
Foreign currency translation adjustment	937	13,542
Total other comprehensive income	27,877	48,269
Comprehensive income	519,345	510,059
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	521,767	510,799
Comprehensive income attributable to non-controlling interests	(2,422)	(739)

(3) Quarterly Consolidated Statements of Cash Flows

(Thousand yen)

	For the six months ended July 31, 2021	For the six months ended July 31, 2022
Cash flows from operating activities		
Profit before income taxes	723,619	687,458
Depreciation	78,995	141,313
Amortization of goodwill	6,915	6,915
Increase (decrease) in allowance for doubtful accounts	160	108
Increase (decrease) in provision for bonuses	194	38,589
Increase (decrease) in retirement benefit liability	8,394	18,986
Interest and dividend income	(12,200)	(15,426)
Interest expenses	153	60
Foreign exchange losses (gains)	(2,770)	(11,741)
Loss (gain) on sale of securities	(4,550)	(29,149)
Loss (gain) on investments in investment partnerships	1,210	(1,950)
Loss (gain) on redemption of investment securities	482	–
Loss (gain) on sale and retirement of non-current assets	(575)	–
Surrender value of insurance policies	(60,326)	(17,319)
Decrease (increase) in trade receivables	31,954	–
Decrease (increase) in trade receivables and contract assets	–	(33,234)
Decrease (increase) in inventories	(2,522)	2,399
Decrease (increase) in prepaid expenses	(42,211)	(30,758)
Increase (decrease) in trade payables	3,217	(7,722)
Increase (decrease) in advances received	144	–
Increase (decrease) in accounts payable - other	(201,913)	(112,504)
Increase (decrease) in accrued expenses	871	24,444
Increase (decrease) in accrued consumption taxes	(31,086)	(27,446)
Increase (decrease) in deposits received	(544)	18,176
Increase (decrease) in contract liabilities	–	195,782
Increase (decrease) in unearned revenue	108,971	–
Increase (decrease) in long-term unearned revenue	(7,307)	–
Other, net	8,819	(1,680)
Subtotal	608,095	845,301
Interest and dividends received	12,072	14,072
Interest paid	(48)	(60)
Income taxes paid	(222,797)	(262,078)
Insurance premiums refunded cancellation received	45,790	–
Net cash provided by (used in) operating activities	443,112	597,234

(Thousand yen)

	For the six months ended July 31, 2021	For the six months ended July 31, 2022
Cash flows from investing activities		
Purchase of property, plant and equipment	(15,878)	(1,855)
Proceeds from sale of property, plant and equipment	575	–
Purchase of intangible assets	(145,954)	(121,229)
Purchase of investment securities	(109,760)	(100,000)
Proceeds from redemption of investment securities	12,932	–
Proceeds from distributions from investment partnerships	4,000	2,500
Payments into time deposits	(5,400)	(3,600)
Proceeds from collection of loans receivable	4,320	24,599
Purchase of insurance funds	(7,315)	(7,471)
Proceeds from maturity of insurance funds	31,012	33,441
Other, net	(7,700)	352
Net cash provided by (used in) investing activities	(239,168)	(173,261)
Cash flows from financing activities		
Repayments of long-term borrowings	(88,459)	–
Proceeds from issuance of shares	586	782
Proceeds from share issuance to non-controlling shareholders	7,282	–
Dividends paid	(163,624)	(208,510)
Other, net	(594)	(554)
Net cash provided by (used in) financing activities	(244,808)	(208,283)
Effect of exchange rate change on cash and cash equivalents	18,992	58,330
Net increase (decrease) in cash and cash equivalents	(21,871)	274,019
Cash and cash equivalents at beginning of period	3,418,613	4,059,387
Increase in cash and cash equivalents resulting from inclusion of subsidiaries in consolidation	78,190	–
Cash and cash equivalents at end of period	3,474,931	4,333,407

(4) 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 second 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, 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 six months ended July 31, 2022, net sales increased by ¥1,038 thousand and cost of sales decreased by ¥404 thousand, while operating profit, ordinary profit, and profit before income taxes increased by ¥1,442 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 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 six months ended July 31, 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 six months ended July 31, 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	1,859,325	982,809	712	2,842,848	—	2,842,848
Intersegment net sales or transfers	921	14,400	13,360	28,681	(28,681)	—
Total	1,860,246	997,209	14,073	2,871,530	(28,681)	2,842,848
Segment profit (loss)	614,739	49,725	(22,309)	642,154	(564)	641,590

(Notes) 1. The segment profit (loss) adjustment of ¥(564) 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 six months ended July 31, 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	2,049,886	881,166	5,333	2,936,386	–	2,936,386
Intersegment net sales or transfers	1,144	11,246	–	12,390	(12,390)	–
Total	2,051,030	892,412	5,333	2,948,777	(12,390)	2,936,386
Segment profit (loss)	636,114	18,063	(43,765)	610,412	(91)	610,321

(Notes) 1. The segment profit (loss) adjustment of ¥(91) 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 six months ended July 31, 2022 increased by ¥1,038 thousand and segment profit increased by ¥1,442 thousand as compared with the previous method.

(Revenue recognition accounting)

Disaggregation of revenue from contracts with customers

For the six months ended July 31, 2022

(Thousand yen)

	Reportable segment			Total
	Software business	System development service business	Overseas business	
Recurring revenue (Note 1)	1,686,028	810,039	1,795	2,497,863
One-time revenue (Note 2)	363,857	71,127	3,538	438,523
Revenue from contracts with customers	2,049,886	881,166	5,333	2,936,386
Net sales to outside customers	2,049,886	881,166	5,333	2,936,386

(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 and 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