Consolidated Financial Results for the nine months ended September 30, 2022 [Japanese GAAP]

November 11, 2022

Company name:	Cyberlinks Co., Ltd.
Listing:	The Prime Market of the Tokyo Stock Exchange
Code number:	3683
URL:	https://www.cyber-l.co.jp/
Representative:	Tsuneo Murakami President
Contact:	Takayuki Torii, Executive Officer, General Administration Manager Tel: +81-(0)50-3500-2797

Scheduled date of filing of Quarterly Report:	November 11, 2022
Scheduled date of dividend payment	-
Preparation of supplementary materials for quarterly financial results:	Yes
Holding of quarterly financial results meeting:	Not scheduled

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

1. Consolidated Financial Results for the Nine Months Ended September 30, 2022（January 1, 2022 to September 30, 2022）

(1) Consolidated Operating Results (cumulative)

(Percentages indicate rates of year-on-year change)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent	
Nine months ended	Million yen	%	Million yen	%	Million yen	%	Million yen	%
September 30, 2022	9,101	(5.5)	912	16.0	922	15.6	600	11.6
September 30, 2021	9,631	1.5	786	9.3	797	8.5	538	9.9

(Note) Comprehensive income: For the nine months ended September 30, 2022: ¥600 million (up 11.6% year on year)
For the nine months ended September 30, 2021: ¥538 million (up 9.9% year on year)

	Basic earnings per share	Diluted earnings per share
Nine months ended	Yen	Yen
September 30, 2022	58.01	57.16
September 30, 2021	52.10	50.76

(2) Consolidated Financial Position

	Total assets	Net assets	Equity ratio
	Million yen	Million yen	%
As of September 30, 2022	10,797	5,944	54.3
As of December 31, 2021	9,682	5,418	55.1

(Reference) Shareholders’ equity: As of September 30, 2022: ¥5,865 million
As of December 31, 2021: ¥5,340 million

2. Dividends

	Annual dividends				
	1st quarter-end	2nd quarter-end	3rd quarter-end	Year-end	Total
	Yen	Yen	Yen	Yen	Yen
Fiscal year ended December 31, 2021	—	0.00	—	12.00	12.00
Fiscal year ending December 31, 2022	—	0.00	—		
December 31, 2022 (Forecast)				13.00	13.00

(Note) Changes in dividend forecast from the most recent announcement: None

3. Consolidated Financial Results Forecast for the Fiscal Year Ending December 31, 2022 (January 1, 2022 to December 31, 2022)

(Percentages indicate rates of year-on-year change)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent		Basic earnings per share
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen
Full-year	13,267	0.2	1,043	10.4	1,046	9.1	670	3.8	64.78

(Note) Changes in financial results forecast from the most recent announcement: None

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

(2) Application of special accounting treatment in preparing the quarterly financial statements: None

(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): None
3) Changes in accounting estimates: None
4) Retrospective restatement: None

(4) Total number of issued shares (common stock)
1) Total number of issued shares at the end of the period (including treasury shares):
September 30, 2022: 10,570,215 shares
December 31, 2021: 10,557,972 shares

2) Total number of treasury shares at the end of the period:
September 30, 2022: 215,420 shares
December 31, 2021: 215,420 shares

3) Average number of shares outstanding during the period:
Nine months ended September 30, 2022: 10,349,314 shares
Nine months ended September 30, 2021: 10,328,775 shares

* The quarterly financial statements are outside the scope of quarterly reviews by certified public accountants and auditing firms.

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

Disclaimer regarding forward-looking statements
The forward-looking statements, including financial results forecasts, contained in this document are based on information currently available to the Company and on certain assumptions deemed to be reasonable.

Quarterly Consolidated Financial Statements and Primary Notes

(1) Consolidated Balance Sheet

(Millions of yen)

	As of December 31, 2021	As of September 30, 2022
Assets		
Current assets		
Cash and deposits	2,552	1,882
Notes and accounts receivable - trade	2,306	–
Notes receivable–trade, accounts receivable–trade, and contract assets	–	2,217
Lease receivables and investments in leases	318	273
Merchandise and finished goods	85	135
Work in process	384	119
Raw materials and supplies	9	12
Other	239	274
Allowance for doubtful accounts	(1)	(8)
Total current assets	5,896	4,907
Non-current assets		
Property, plant and equipment		
Buildings and structures	2,369	2,396
Accumulated depreciation	(1,480)	(1,473)
Buildings and structures, net	888	923
Land	1,399	1,844
Other	2,001	2,213
Accumulated depreciation	(1,546)	(1,711)
Other, net	455	501
Total property, plant and equipment	2,743	3,269
Intangible assets		
Goodwill	–	1,113
Other	495	803
Total intangible assets	495	1,917
Investments and other assets	547	703
Total non-current assets	3,786	5,889
Total assets	9,682	10,797

(Millions of yen)

	As of December 31, 2021	As of September 30, 2022
Liabilities		
Current liabilities		
Accounts payable - trade	655	433
Short-term borrowings	—	300
Current portion of bonds payable	—	14
Current portion of long-term borrowings	304	345
Income taxes payable	347	270
Provision for bonuses	39	213
Provision for loss on order received	3	15
Asset retirement obligations	6	—
Other	883	1,072
Total current liabilities	2,240	2,665
Non-current liabilities		
Bonds payable	—	30
Long-term borrowings	1,775	1,773
Asset retirement obligations	32	54
Other	215	329
Total non-current liabilities	2,023	2,187
Total liabilities	4,264	4,853
Net assets		
Shareholders' equity		
Share capital	851	858
Capital surplus	1,303	1,310
Retained earnings	3,496	4,008
Treasury shares	(311)	(311)
Total shareholders' equity	5,340	5,865
Share acquisition rights	78	78
Total net assets	5,418	5,944
Total liabilities and net assets	9,682	10,797

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

Consolidated Statement of Income

(Millions of yen)

	For the nine months ended September 30, 2021	For the nine months ended September 30, 2022
Net sales	9,631	9,101
Cost of sales	6,825	6,067
Gross profit	2,806	3,033
Selling, general and administrative expenses	2,019	2,120
Operating profit	786	912
Non-operating income		
Interest income	0	1
Dividend income	0	0
Rental income from real estate	8	10
Subsidies for shop renovation etc.	6	—
Other	9	7
Total non-operating income	23	20
Non-operating expenses		
Interest expenses	9	8
Rental costs on real estate	2	2
Other	1	0
Total non-operating expenses	13	10
Ordinary profit	797	922
Extraordinary income		
Other	0	—
Total extraordinary income	0	—
Extraordinary losses		
Loss on retirement of non-current assets	2	0
Total extraordinary losses	2	0
Profit before income taxes	796	922
Income taxes - current	305	423
Income taxes - deferred	(47)	(101)
Total income taxes	257	322
Profit	538	600
Profit attributable to owners of parent	538	600

Consolidated Statement of Comprehensive Income

(Millions of yen)

	For the nine months ended September 30, 2021	For the nine months ended September 30, 2022
Profit	538	600
Comprehensive income	538	600
(Breakdown)		
Comprehensive income attributable to owners of parent	538	600

(3) Notes to quarterly financial statements

(Notes to going concern assumptions)

None to be reported.

(In case of significant changes to shareholders' equity)

None to be reported.

(Application of special accounting treatment in preparing the quarterly financial statements)

None to be reported.

(Change in accounting policy)

From the beginning of the first quarter of the fiscal year ending December 31, 2022, the Group has adopted the Accounting Standard for Revenue Recognition (Accounting Standard Board of Japan [ASBJ] No. 29, March 31, 2020). As a result, the Group now recognizes revenue at the time control of promised goods or services is transferred to the customer in the amount it expects to receive in exchange for the goods or services. Previously, for contracts for construction projects and custom software development, the Group applied the percentage-of-completion method for those for which the results of the proportion of work completed could be reliably confirmed and the completed-contract method for all others. However, from the first quarter of the fiscal year under review, for performance obligations to be satisfied over a period of time, except for construction and software development projects for which the period is extremely short, the Group estimates progress toward satisfying the performance obligations and recognizes revenue based on the estimated progress over a period of time. For performance obligations to be satisfied at a single point in time, the Group recognizes revenue at the time of completion of construction or software development. Progress toward satisfying performance obligations is estimated using the ratio of costs incurred to total estimated costs (the input method). Note, however, that for construction and software development contracts for which the period from the starting date of the transaction to the expected time of satisfying performance obligations is extremely short, the Group applies an alternative accounting method, and instead of recognizing revenue over a period of time, recognizes revenue at the time all performance obligations have been satisfied.

The Group has applied the Accounting Standard for Revenue Recognition and other related accounting standards in accordance with the transitional treatment prescribed in the proviso of Paragraph 84 of the Accounting Standard for Revenue Recognition. The cumulative effect of retroactively applying the new accounting policy to periods prior to the beginning of the first quarter of the fiscal year under review was reflected in retained earnings at the beginning of said period, and the new accounting policy has been applied starting from the beginning balance of said period. However, in accordance with the method prescribed in the Paragraph 86 of the Accounting Standard for Revenue Recognition, the new accounting policy was not retroactively applied to contracts prior to the beginning of the first quarter of the fiscal year under review for which almost all revenue amounts were recognized based on the previous accounting standards. Further, based on the method provided in item (1) of the supplementary provisions of Paragraph 86 of the Accounting Standard for Revenue Recognition, for contracts to which changes were made prior to the beginning of the first quarter of the fiscal year under review, an accounting treatment was applied based on the contractual terms that reflected all the changes, and the cumulative effect of this application was reflected in retained earnings at the beginning of said period.

As a result, in the third quarter of fiscal year ending December 31, 2022, net sales was decreased by ¥21 million and also cost of sales by ¥50 million decreased. Each of operating profit, ordinary profit and profit before income taxes was increased by ¥29 million. Further, the balance of retained earnings at the beginning of the fiscal year under review rose by ¥35 million.

As a result of the application of the Accounting Standard for Revenue Recognition, etc., "Notes and accounts receivable–trade" shown under the "Current assets" section of the consolidated balance sheet in the fiscal year ended December 31, 2021 is included in and shown as "Notes receivable–trade, accounts receivable–trade, and contract assets" starting from the first quarter of the fiscal year under review. Note, however, that in accordance with the transitional treatment set forth in the Paragraph 89-2 of the Accounting Standard for Revenue Recognition, no revision was made to the consolidated balance sheet for the previous fiscal year to comply with the new representation method. Further, based on the transitional treatment prescribed in the Paragraph 28-15 of the Accounting Standard for Quarterly Financial Reporting (ASBJ No. 12, March 31, 2020), no information on the breakdown of revenue arising from contracts concluded with customers in the third of the previous fiscal year has been provided.

(Segment information, etc.)

Segment information

Nine Months Ended September 30, 2021(January 1, 2021 to September 30, 2021)

1. Sales and profit by reportable segment

(Millions of yen)

	Reportable segments					Adjustments (Note 1)	Amount stated in the consolidated statement of income (Note 2)
	Distribution Cloud	Government Cloud	Trust	Mobile Network	Total		
Net sales							
Sales to outside customers	2,858	4,482	52	2,238	9,631	—	9,631
Intersegment sales and transfers	127	14	12	0	153	(153)	—
Total	2,985	4,496	64	2,238	9,785	(153)	9,631
Segment profit (loss)	375	454	(172)	321	979	(182)	797

(Note) 1. Adjustments to segment loss of ¥182 million are company-wide expenses that are not allocated to any reportable segment. Company-wide expenses mainly comprise general administrative expenses that do not belong to any reportable segment.

2. Segment profit is adjusted with ordinary profit in the quarterly consolidated statement of income.

Nine Months Ended September 30, 2022(January 1, 2022 to September 30, 2022)

1. Sales and profit by reportable segment

(Millions of yen)

	Reportable segments					Adjustments (Note 1)	Amount stated in the consolidated statement of income (Note 2)
	Distribution Cloud	Government Cloud	Trust	Mobile Network	Total		
Net sales							
Sales to outside customers	3,171	3,986	36	1,906	9,101	—	9,101
Intersegment sales and transfers	134	21	3	0	159	(159)	—
Total	3,306	4,008	40	1,906	9,261	(159)	9,101
Segment profit (loss)	582	567	(177)	184	1,156	(234)	922

(Note) 1. Adjustments to segment loss of ¥234 million are company-wide expenses that are not allocated to any reportable segment. Company-wide expenses mainly comprise general administrative expenses that do not belong to any reportable segment.

2. Segment profit is adjusted with ordinary profit in the quarterly consolidated statement of income.

2. Information on assets by reportable segment

(Significant increase in assets due to acquisition of a subsidiary)

In the third quarter of the consolidated fiscal year ending December 31, 2022, assets of the Government Cloud business increased by ¥1,617 million from the end of the previous consolidated fiscal year due to the acquisition of shares of Synergy Inc. and its inclusion in the scope of consolidation.

3. Change in reportable segments

As stated in Change in accounting policy above, the Group has applied the Accounting Standard for Revenue Recognition, etc. from the beginning of the first quarter of the fiscal year under review and accordingly changed accounting treatment methods for revenue recognition. As a result, the Group has also changed the method of calculating profits and losses for each business segment based on the new accounting standards.

Due to this change, compared to what each figure would have been under the previous accounting standards, for the nine months ended September 30, 2022 under review net sales in Distribution Cloud was increased by ¥66 million and segment profit by ¥20 million; net sales in Government Cloud was decreased by ¥78 million and segment profit was increased by ¥8 million; and net sales in Mobile Network was decreased by ¥10 million while there was no impact on segment profit.

4. Information on impairment loss on non-current assets and goodwill by reportable segment

(Significant changes in the amount of goodwill)

Due to the acquisition of shares of Synergy Inc., the Company has included Synergy in the scope of consolidation in the Government Cloud business. The increase in goodwill due to this change was ¥1,113 million as of the end of the third quarter of the consolidated fiscal year ending December 31, 2022. The amount of goodwill is a preliminary estimate since the allocation of the acquisition cost has not been completed as of the end of the third quarter of the consolidated fiscal year under review.

(Significant subsequent events)

(Simple share swap and simple merger with Mobile Media Link Co., Ltd.)

At its Board of Directors meeting on October 11, 2022, the Company resolved to conduct a share swap, in which the Company serves as the wholly owning parent and Mobile Media Link Co., Ltd. (hereinafter "MML") as a wholly owned subsidiary, and an absorption-type merger in which the Company is the surviving company and MML is the absorbed company. Based on this resolution, on the same day, the Company entered share swap and absorption-type merger agreements with MML.

(1) Purpose of share swap and merger

Cyberlinks operates seven Docomo stores in Wakayama Prefecture, and MML operates two in Wakayama City.

NTT Docomo, Inc., is promoting a shift to a hybrid sales channel model using a combination of online and offline stores and is conducting a review to determine whether the number and size of Docomo stores is appropriate for each area. As a strong sales partner in Wakayama Prefecture, Cyberlinks seeks to provide stores more likely to be chosen by customers.

As a result of the share swap and merger, the Company will operate four of ten Docomo stores in Wakayama City area. By increasing its share of stores, the Company aims to enhance its competitiveness in the area and contribute to the promotion of digitalization of the local community as an "information and communications technology support base" for the region.

(2) Schedule for share swap and merger

Board of Directors resolution approving share swap and merger agreements (both companies)	October 11, 2022
Conclusion of share swap and merger agreements (both companies)	October 11, 2022
General meeting of shareholders to approve share swap agreement (MML)	November 1, 2022
Effective date of share swap	November 30, 2022 (planned)
Effective date of merger	December 1, 2022 (planned)

(Notes) 1. Since the share swap is a simple share swap based on Article 796, Paragraph 2, of the Companies Act, Cyberlinks will conduct the exchange without obtaining approval of the share swap agreement at a general meeting of shareholders.

2. Since the merger is a simple merger based on Article 796, Paragraph 2, of the Companies Act, Cyberlinks will conduct the merger without obtaining approval of the merger agreement at a general meeting of shareholders.

3. Since the Company is assumed to be the Special Controlling Company (Article 468, Paragraph 1, of the Companies Act) of MML on the day before the effective date of the merger, the merger is to be a short-form merger under Article 784, Paragraph 1, of the Companies Act, and MML will participate in the merger without obtaining approval of the merger agreement at a general meeting of shareholders.

(3) Allotment in relation to share swap

	Cyberlinks (wholly owning parent in share swap)	MML (wholly owned subsidiary in share swap)
Detail of allotment in relation to share swap	1	750
Number of shares to be delivered in share swap	360,000 shares of common stock (planned)	

(Notes) 1. Share allotment ratio

Cyberlinks will deliver 750 of its own shares in exchange for each share of MML stock. However, no shares shall be allotted for shares of MML's common stock already held by Cyberlinks (100 shares as of October 10, 2022).

2. Number of shares to be delivered through the share swap

Cyberlinks plans to deliver all 360,000 shares (planned) to be delivered in this share swap by issuing new shares of common stock.

3. Treatment of fractional shares

In the event that MML shareholders would be eligible for fractional shares of common stock in Cyberlinks as a result of this share swap, the Company will, in accordance with Article 234 of the Companies Act and other relevant laws and regulations, sell the number of shares equivalent to the total sum of the fractional shares (in cases where the total sum includes a fractional share, such fractional share is to be rounded off) and deliver the proceeds to such persons in proportion to the fractional shares attributed to them.

(4) Allotment related to merger

Since a condition of the merger is the effective implementation of the share swap, in which the Company serves as the wholly owning parent and MML as a wholly owned subsidiary, it is assumed that MML will have become a wholly owned subsidiary of Cyberlinks by the day preceding the effective date of the merger. For this reason, Cyberlinks will allocate no shares, money, or other consideration to MML shareholders in connection with the merger.

(5) Overview of company to be merged

Name of company to be merged	Mobile Media Link Co., Ltd.
Business	Sale of mobile communications devices
Net sales	¥551 million (FY12/21)
Net profit	¥17 million (FY12/21)
Total assets	¥493 million (FY12/21)
Net assets	¥391 million (FY12/21)

(Simple share swap and simple merger with KO-PLAN Co., Ltd.)

At its Board of Directors meeting on October 11, 2022, the Company resolved to conduct a share swap, in which the Company serves as the wholly owning parent and KO-PLAN Co., Ltd. (hereinafter "KO-PLAN") as a wholly owned subsidiary, and an absorption-type merger in which the Company is the surviving company and KO-PLAN is the absorbed company. Based on this resolution, on the same day, the Company entered share swap and absorption-type merger agreements with KO-PLAN.

(1) Purpose of share swap and merger

Cyberlinks operates seven Docomo stores in Wakayama Prefecture, and KO-PLAN operates two in Wakayama City.

NTT Docomo, Inc., is conducting a review to determine whether the number and size of Docomo stores is appropriate for each area. As a strong sales partner in Wakayama Prefecture, Cyberlinks seeks to provide stores more likely to be chosen by customers.

As a result of the share swap and merger, the Company will have Docomo stores in southern Wakayama Prefecture, an area where
it has not previously had any sales bases. This means it will now operate Docomo stores in all areas of Wakayama Prefecture. Including the stores gained by the aforementioned merger with Mobile Media Link Co., Ltd., the Company will operate 11 of 23, or nearly half of all Docomo stores in Wakayama Prefecture. By increasing its share of stores in Wakayama Prefecture, the Company aims to strengthen its position as a partner of NTT Docomo, Inc., and contribute to the promotion of digitalization of the local community as an “information and communications technology support base” throughout the prefecture.

(2) Schedule for share swap and merger

Date of resolution and decision by Board of Directors approving share swap and merger agreements (both companies)	October 11, 2022
Conclusion of share swap and merger agreements (both companies)	October 11, 2022
General meeting of shareholders to approve share swap agreement (KO-PLAN)	November 1, 2022
Effective date of share swap	November 30, 2022 (planned)
Effective date of merger	December 1, 2022 (planned)

(Notes) 1. Since the share swap is a simple share swap based on Article 796, Paragraph 2, of the Companies Act, Cyberlinks will conduct the exchange without obtaining approval of the share swap agreement at a general meeting of shareholders.

2. Since the merger is a simple merger based on Article 796, Paragraph 2, of the Companies Act, Cyberlinks will conduct the merger without obtaining approval of the merger agreement at a general meeting of shareholders.

3. Since the Company is assumed to be the Special Controlling Company (Article 468, Paragraph 1, of the Companies Act) of KO-PLAN on the day before the effective date of the merger, the merger is to be a short-form merger under Article 784, Paragraph 1, of the Companies Act, and KO-PLAN will participate in the merger without obtaining approval of the merger agreement at a general meeting of shareholders.

(3) Allotment in relation to share swap

	Cyberlinks (wholly owning parent in share swap)	KO-PLAN (wholly owned subsidiary in share swap)
Detail of allotment in relation to share swap	1	406
Number of shares to be delivered in share swap	389,760 shares of common stock (planned)	

(Notes) 1. Share allotment ratio

Cyberlinks will deliver 750 of its own shares in exchange for each share of KO-PLAN stock. However, no shares shall be allotted for shares of KO-PLAN’s common stock already held by Cyberlinks (100 shares as of October 10, 2022).

2. Number of shares to be delivered through the share swap

Cyberlinks plans to deliver all 389,760 shares (planned) to be delivered in this share swap by issuing new shares of common stock.

3. Treatment of fractional shares

In the event that KO-PLAN shareholders would be eligible for fractional shares of common stock in Cyberlinks as a result of this share swap, the Company will, in accordance with Article 234 of the Companies

Act and other relevant laws and regulations, sell the number of shares equivalent to the total sum of the fractional shares (in cases where the total sum includes a fractional share, such fractional share is to be rounded off) and deliver the proceeds to such persons in proportion to the fractional shares attributed to them.

(4) Allotment related to merger

Since a condition of the merger is the effective implementation of the share swap, in which the Company serves as the wholly owning parent and KO-PLAN as a wholly owned subsidiary, it is assumed that KO-PLAN will have become a wholly owned subsidiary of Cyberlinks by the day preceding the effective date of the merger. For this reason, Cyberlinks will allocate no shares, money, or other consideration to KO-PLAN shareholders in connection with the merger.

(5) Overview of company to be merged

Name of company to be merged	KO-PLAN Co., Ltd.
Business	Sale of mobile communications devices
Net sales	¥731 million (FY05/22)
Net loss	¥52 million (FY05/22)
Total assets	¥490 million (FY05/22)
Net assets	¥433 million (FY05/22)