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## Consolidated Financial Results for the Nine Months Ended October 31, 2022 [Japanese GAAP]



December 13, 2022

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 Stock exchange listing: Tokyo Stock Exchange  
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 Scheduled date of filing quarterly securities report: December 14, 2022  
 Scheduled date of commencing dividend payments: —  
 Preparation of supplementary materials on quarterly financial results: Yes  
 Schedule of quarterly financial results briefing session: No

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

### 1. Consolidated Financial Results for the Nine Months Ended October 31, 2022 (February 1, 2022–October 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	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
Nine months ended October 31, 2022	4,462	1.9	960	(3.0)	1,052	(3.3)	707	(4.6)
October 31, 2021	4,378	11.5	991	20.4	1,088	30.2	741	43.8

(Note) Comprehensive income: Nine months ended October 31, 2022: ¥780 million [(0.2)%]  
 Nine months ended October 31, 2021: ¥781 million [41.6%]

	Basic earnings per share	Diluted earnings per share
	Yen	Yen
Nine months ended October 31, 2022	47.45	47.34
October 31, 2021	49.81	49.65

(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 nine months ended October 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 October 31, 2022	7,801	5,731	73.3
As of January 31, 2022	7,287	5,165	70.7

(Reference) Equity: As of October 31, 2022: ¥5,719 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 nine months ended October 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)				20.00	20.00

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

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

Foreword to consolidated financial results forecasts

(% 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: None

### \* Notes:

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

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):

October 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:

October 31, 2022: 223 shares

January 31, 2022: 223 shares

3) Average number of shares during the period:

Nine months ended October 31, 2022: 14,910,387 shares

Nine months ended October 31, 2021: 14,893,135 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.

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## 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 those for 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 nine months ended October 31, 2022 saw signs of gradual 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 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. In other areas, 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 September 2022, desknet’s NEO version 7.1 was released, making extension components such as handwriting input and reaction components available for use with the addition of plug-in functions to AppSuite, a tool for creating business apps with no coding.

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 October 2022, our groupware desknet’s NEO was recognized as “Leader” for the 15th consecutive period in the Groupware Category and Workflow Category of the ITreview Grid Award 2022 Fall, organized by IT product comparison and review website ITreview. Our business chat tool ChatLuck has been recognized as “Leader” for the 2nd consecutive period in the Business Chat Category.

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 nine months ended October 31, 2022, the Company posted net sales of ¥4,462,834 thousand (up 1.9% year on year) and operating profit of ¥960,853 thousand (down 3.0% year on year), while ordinary profit was ¥1,052,815 thousand (down 3.3% year on year), and profit attributable to owners of parent was ¥707,474 thousand (down 4.6% year on year).

As a result of the application of the Revenue Recognition Accounting Standard, etc., for the nine months ended October 31, 2022, net sales increased by ¥21,978 thousand and cost of sales increased by ¥7,635 thousand, while operating profit, ordinary profit, and profit before income taxes increased by ¥14,342 thousand, respectively. Details are explained in “2. Quarterly Consolidated Financial Statements and Principal Notes, (3) Notes to Quarterly Consolidated Financial Statements (Changes in accounting policies).”

Operating results for the nine months ended October 31, 2022 by segment are as follows.

(Software business)

The status by business sector is indicated as follows.

Business sector	For the nine months ended October 31, 2021		For the nine months ended October 31, 2022		
	Net sales (Thousand yen)	Percentage breakdown (%)	Net sales (Thousand yen)	Percentage breakdown (%)	Change (%)
Cloud services	1,768,197	61.3	1,997,811	63.4	13.0
Packaged products	1,068,558	37.0	1,094,617	34.8	2.4
Technological development	49,435	1.7	56,561	1.8	14.4
Total	2,886,192	100.0	3,148,989	100.0	9.1

#### 1) Cloud services

Net sales by principal cloud service are as follows.

	For the nine months ended October 31, 2021	For the nine months ended October 31, 2022	Change (Thousand yen)	Change (%)
	Net sales (Thousand yen)	Net sales (Thousand yen)		
desknet's NEO cloud	1,480,206	1,656,923	176,716	11.9
AppSuite cloud	64,524	97,528	33,004	51.2
ChatLuck cloud	45,450	50,358	4,908	10.8
Other monthly recurring revenue	146,973	147,927	953	0.6
<b>Total monthly recurring revenue</b>	<b>1,737,155</b>	<b>1,952,738</b>	<b>215,582</b>	<b>12.4</b>
Other services, etc.	31,042	45,072	14,030	45.2
<b>Cloud services total</b>	<b>1,768,197</b>	<b>1,997,811</b>	<b>229,613</b>	<b>13.0</b>

Net sales of desknet's NEO cloud increased by ¥176,716 thousand year on year to ¥1,656,923 thousand (up 11.9% year on year), as the service increased the number of users. There were many users who migrated to desknet's NEO cloud during the nine months ended October 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 97% of the initial plan, although these net sales were 100% of the revised forecast incorporated in the "Notice of Changes to the Consolidated Financial Results Forecast," which was announced on September 14, 2022. In light of these circumstances, we will take additional measures in the fourth quarter to raise awareness, including taxi advertisements and TV commercials. Since the churn rate (\* 1) of the service remains low at 0.29%, we recognize that sales of desknet's NEO cloud will remain stable in the future. AppSuite cloud has been increasing the number of its users steadily, and net sales increased by ¥33,004 thousand year on year to ¥97,528 thousand (up 51.2% 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 9% of the number of desknet's NEO cloud users as of October 31, 2022. Other monthly recurring revenue remained almost unchanged year on year at ¥147,927 thousand (up 0.6% year on year). Net sales of other services, etc. increased by ¥14,030 thousand to ¥45,072 thousand (up 45.2% 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 ¥229,613 thousand year on year to ¥1,997,811 thousand (up 13.0% 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 nine months ended October 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 nine months ended October 31, 2021	For the nine months ended October 31, 2022	Change (Thousand yen)	Change (%)
	Net sales (Thousand yen)	Net sales (Thousand yen)		
desknet's NEO Enterprise license version	145,231	136,938	(8,292)	(5.7)
desknet's NEO Small license version	41,205	31,940	(9,264)	(22.5)
AppSuite	50,510	68,226	17,715	35.1
ChatLuck	33,144	23,034	(10,109)	(30.5)
Other license sales	5,028	7,410	2,382	47.4
<b>Total license sales</b>	<b>275,120</b>	<b>267,551</b>	<b>(7,568)</b>	<b>(2.8)</b>
Support	531,277	596,300	65,023	12.2
Customization	93,920	54,656	(39,264)	(41.8)
Other services, etc.	168,240	176,109	7,868	4.7
<b>Packaged products total</b>	<b>1,068,558</b>	<b>1,094,617</b>	<b>26,059</b>	<b>2.4</b>

Net sales of desknet's NEO Enterprise license, which is for large-scale users, was generally in line with the budget, but decreased by ¥8,292 thousand year on year to ¥136,938 thousand (down 5.7% year on year), due mainly to a decrease in sales for additional license. 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 ¥9,264 thousand year on year to ¥31,940 thousand (down 22.5% 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 ¥17,715 thousand year on year to ¥68,226 thousand (up 35.1% year on year) while net sales of ChatLuck license decreased by ¥10,109 thousand year on year to ¥23,034 thousand (down 30.5% year on year).

The performance of customization has been greater than initially expected. However, net sales decreased by ¥39,264 thousand year on year to ¥54,656 thousand (down 41.8% year on year) as there was a relatively large-scale project in the third quarter of the previous fiscal year. Net sales of support increased by ¥65,023 thousand year on year to ¥596,300 thousand (up 12.2% year on year), mainly because net sales of support for desknet's NEO increased by ¥44,913 thousand year on year to ¥514,697 thousand (up 9.6% year on year).

As a result, the overall net sales of packaged products increased by ¥26,059 thousand year on year to ¥1,094,617 thousand (up 2.4% year on year).

### 3) Technological development

While our policy is not to actively accept development contracts, net sales of technological development increased by ¥7,125 thousand year on year to ¥56,561 thousand (up 14.4% 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 ¥3,148,989 thousand (up 9.1% year on year) and segment profit of ¥985,172 thousand (up 6.6% 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 ¥64,960 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 nine months ended October 31, 2022, net sales decreased by ¥186,865 thousand as compared with the same period of the previous fiscal year due to the 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 ¥147,983 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. In addition, selling, general and administrative expenses increased by ¥13,655 thousand due mainly to increases in personnel expenses, training expenses, and system maintenance fees. To address the decrease in net sales, we are focusing on additional proposals to existing customers and acquisition of new customers, taking measures to retain employees and promoting mid-career hiring.

As a result, the system development service business posted net sales of ¥1,328,142 thousand (down 12.3% year on year) and segment profit of ¥48,725 thousand (down 51.9% 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 through such efforts as reviewing marketing activities and opening booths at local exhibitions since the first quarter of the fiscal year under review. The two subsidiaries in the ASEAN region are conducting marketing activities with the aim of continuously posting positive profits in each month of the fourth quarter of the fiscal year under review. However, progress on generating recurring sales has fallen short of plan. Our priority in Malaysia is to generate additional projects, whereas our priority in Thailand is to reduce the lead time for winning project orders. In addition, in the U.S., the Company has continued activities to offer new services since 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 ¥7,061 thousand (down 61.0% year on year) and segment loss of ¥72,963 thousand (segment loss of ¥34,610 thousand for the same period of 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 October 31, 2022 increased by ¥513,629 thousand from the end of the previous fiscal year to ¥7,801,046 thousand. This was mainly due to an increase of ¥88,938 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 ¥513,726 thousand in cash and deposits, while there was a decrease of ¥32,244 thousand in intangible assets due mainly to depreciation and amortization as well as a decrease of ¥36,625 thousand in other under investments and other assets, resulting mainly from a decrease in deferred tax assets associated with the valuation of securities and investment securities at market value.

#### (Liabilities)

Total liabilities as of October 31, 2022 decreased by ¥52,931 thousand from the end of the previous fiscal year to ¥2,069,436 thousand. While there was a substantial increase of ¥152,065 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, the decrease in total liabilities was mainly due to a decrease of ¥143,422 thousand in income taxes payable primarily as a result of the interim payment of taxes, as well as a decrease of ¥133,246 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 October 31, 2022 increased by ¥566,560 thousand from the end of the previous fiscal year to ¥5,731,609 thousand. This was mainly due to an increase of ¥493,142 thousand in retained earnings resulting from the payment of a dividend of surplus of ¥208,720 thousand and an increase of ¥56,339 thousand in valuation difference on available-for-sale securities as a result of the valuation of securities at market value, while ¥707,474 thousand in profit attributable to owners of parent was recorded.

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

The Company has made no changes to the full-year consolidated financial results forecast announced in “Notice of Changes to the Consolidated Financial Results Forecast” dated September 14, 2022.

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

## 2. Quarterly Consolidated Financial Statements and Principal Notes

### (1) Quarterly Consolidated Balance Sheets

(Thousand yen)

	As of January 31, 2022	As of October 31, 2022
<b>Assets</b>		
Current assets		
Cash and deposits	4,018,261	4,531,987
Accounts receivable - trade, and contract assets	–	652,425
Accounts receivable - trade	663,361	–
Securities	307,499	418,679
Work in process	5,031	–
Supplies	4,822	2,784
Other	89,956	95,346
Allowance for doubtful accounts	(2,055)	(1,664)
<b>Total current assets</b>	<b>5,086,876</b>	<b>5,699,559</b>
Non-current assets		
Property, plant and equipment	59,207	51,376
Intangible assets		
Goodwill	106,039	95,666
Other	265,760	243,889
<b>Total intangible assets</b>	<b>371,800</b>	<b>339,556</b>
Investments and other assets		
Investment securities	1,237,460	1,215,220
Other	532,423	495,797
Allowance for doubtful accounts	(352)	(463)
<b>Total investments and other assets</b>	<b>1,769,531</b>	<b>1,710,554</b>
<b>Total non-current assets</b>	<b>2,200,539</b>	<b>2,101,486</b>
<b>Total assets</b>	<b>7,287,416</b>	<b>7,801,046</b>

(Thousand yen)

	As of January 31, 2022	As of October 31, 2022
<b>Liabilities</b>		
Current liabilities		
Accounts payable - trade	127,265	131,724
Income taxes payable	278,483	135,060
Contract liabilities	–	1,030,916
Provision for bonuses	77,870	107,553
Unearned revenue	640,191	–
Other	417,539	284,292
Total current liabilities	1,541,350	1,689,547
Non-current liabilities		
Retirement benefit liability	323,004	352,264
Other	258,011	27,623
Total non-current liabilities	581,016	379,888
Total liabilities	2,122,367	2,069,436
<b>Net assets</b>		
Shareholders' equity		
Share capital	296,672	297,064
Capital surplus	332,956	333,348
Retained earnings	4,449,727	4,942,870
Treasury shares	(384)	(384)
Total shareholders' equity	5,078,973	5,572,898
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	67,958	124,298
Foreign currency translation adjustment	4,390	22,732
Total accumulated other comprehensive income	72,349	147,030
Non-controlling interests	13,726	11,680
Total net assets	5,165,048	5,731,609
Total liabilities and net assets	7,287,416	7,801,046

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

(Thousand yen)

	For the nine months ended October 31, 2021	For the nine months ended October 31, 2022
Net sales	4,378,871	4,462,834
Cost of sales	2,128,307	2,095,264
Gross profit	2,250,563	2,367,569
Selling, general and administrative expenses	1,259,528	1,406,716
Operating profit	991,035	960,853
Non-operating income		
Interest income	18,432	23,706
Gain on sale of securities	4,550	29,149
Foreign exchange gains	4,768	21,259
Surrender value of insurance policies	61,362	17,319
Other	9,373	1,508
Total non-operating income	98,487	92,942
Non-operating expenses		
Interest expenses	173	16
Loss on investments in investment partnerships	–	922
Organization expenses	615	–
Other	13	41
Total non-operating expenses	803	980
Ordinary profit	1,088,719	1,052,815
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	1,088,812	1,052,815
Income taxes	350,583	348,145
Profit	738,228	704,670
Loss attributable to non-controlling interests	(3,661)	(2,804)
Profit attributable to owners of parent	741,889	707,474

## Quarterly Consolidated Statements of Comprehensive Income

(Thousand yen)

	For the nine months ended October 31, 2021	For the nine months ended October 31, 2022
Profit	738,228	704,670
Other comprehensive income		
Valuation difference on available-for-sale securities	37,667	56,339
Foreign currency translation adjustment	5,770	19,099
Total other comprehensive income	43,438	75,439
Comprehensive income	781,666	780,110
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	784,775	782,155
Comprehensive income attributable to non-controlling interests	(3,109)	(2,045)

### (3) Notes to Quarterly Consolidated Financial Statements

(Notes on going concern assumption)

Not applicable.

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

Not applicable.

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

(Calculation of tax expenses)

Tax expenses are calculated by reasonably estimating the effective tax rate after the application of tax effect accounting for profit before income taxes in the fiscal year that includes the third 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 nine months ended October 31, 2022, net sales increased by ¥21,978 thousand and cost of sales increased by ¥7,635 thousand, while operating profit, ordinary profit, and profit before income taxes increased by ¥14,342 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 present the disaggregation of revenue from contracts with customers for the nine months ended October 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 nine months ended October 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	2,884,897	1,492,607	1,366	4,378,871	—	4,378,871
Intersegment net sales or transfers	1,294	22,400	16,738	40,432	(40,432)	—
Total	2,886,192	1,515,007	18,104	4,419,304	(40,432)	4,378,871
Segment profit (loss)	924,376	101,263	(34,610)	991,029	5	991,035

(Notes) 1. The segment profit (loss) adjustment of ¥5 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 nine months ended October 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	3,147,339	1,308,432	7,061	4,462,834	–	4,462,834
Intersegment net sales or transfers	1,650	19,709	–	21,359	(21,359)	–
Total	3,148,989	1,328,142	7,061	4,484,194	(21,359)	4,462,834
Segment profit (loss)	985,172	48,725	(72,963)	960,934	(81)	960,853

(Notes) 1. The segment profit (loss) adjustment of ¥(81) thousand represents elimination of intersegment transactions.

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

(Revenue recognition accounting)

Disaggregation of revenue from contracts with customers

For the nine months ended October 31, 2022

(Thousand yen)

	Reportable segment			Total
	Software business	System development service business	Overseas business	
Recurring revenue (Note 1)	2,556,275	1,046,596	3,144	3,606,015
One-time revenue (Note 2)	591,064	261,836	3,917	856,818
Revenue from contracts with customers	3,147,339	1,308,432	7,061	4,462,834
Net sales to outside customers	3,147,339	1,308,432	7,061	4,462,834



(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