

Summary of Financial Results for the Year Ended December 2022 [Japan GAAP] (Consolidated)

February 10, 2023

Name of Company: LTS, Inc.	Stock Exchange Listing: Tokyo
Stock Code: 6560	URL https://lt-s.jp/
Representative: Title: President and CEO	Name: Hiroaki Kabashima
Contact Person: Executive Vice President and Manager of Group Management Office	Name: Sungil Lee Phone: +81-3-6897-6140
Date of regular general meeting of shareholders: March 23, 2023	
Date of filing of securities report: March 24, 2023	
Date of commencement of dividend payment: -	
Preparation of supplementary materials: Yes	
Convening of a results meeting: Yes	

(Amounts less than one million are rounded down)

1. Financial results for the current fiscal year (January 1, 2022 - December 31, 2022)

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

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent	
	million yen	%	million yen	%	million yen	%	million yen	%
Year ended December 2022	9,637	30.7	501	-16.5	489	-15.6	232	-40.1
Year ended December 2021	7,375	32.7	600	25.4	579	29.6	388	43.7

(Note) Comprehensive income	Year ended December 2022: 237 million yen (-38.4%)	Year ended December 2021: 386 million yen (48.6%)
-----------------------------	---	--

	Profit per share	Profit per share fully diluted	Return on equity	Ratio of ordinary profit to assets	Ratio of operating profit to net sales
	yen	yen	%	%	%
Year ended December 2022	55.35	53.07	8.8	9.2	5.2
Year ended December 2021	94.24	87.56	20.4	12.4	8.1

(Reference) Share of loss (profit) of entities accounted for using equity method	Year ended December 2022: (3 million yen)	Year ended December 2021: (18 million yen)
--	--	---

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

(2) Financial position (consolidated)

	Total assets	Net assets	Capital adequacy ratio	Net assets per share
	million yen	million yen	%	yen
Year ended December 2022	5,595	3,249	57.5	715.88
Year ended December 2021	5,080	2,076	40.9	489.41

(Reference) Shareholders' equity	FY: million yen	FY: million yen
----------------------------------	--------------------	--------------------

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

(3) Cash flow position (consolidated)

	Cash flows from operating activities	Cash flows from investing activities	Cash flows from financing activities	Cash and cash equivalents at end of period
	million yen	million yen	million yen	million yen
Year ended December 2022	255	-329	626	2,776
Year ended December 2021	421	-399	-277	2,224

2. Dividends

	Dividend per share					Total annual dividend	Payout ratio (consolidated)	Dividends/net assets (consolidated)
	End of Q1	End of Q2	End of Q3	End of FY	Total			
	yen	yen	yen	yen	yen	million yen	%	%
Year ended December 2021	–	0.00	–	0.00	0.00	–	–	–
Year ended December 2022	–	0.00	–	0.00	0.00	–	–	–
Year ending December 2023 (forecast)	–	0.00	–	0.00	0.00		–	

3. Forecast for the fiscal year ending December 2023 (January 1, 2023 - December 31, 2023)

(Percentage figures represent year-on-year change)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent		Profit per share
	million yen	%	million yen	%	million yen	%	million yen	%	yen
Full year	12,700	31.8	950	89.6	900	84.0	560	141.4	124.57

* Notice

(1) Changes in main subsidiaries (Changes in specific subsidiaries accompanied by changes in the scope of consolidation): None

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

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

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

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

(c) Changes in accounting estimates: No

(d) Restatements: No

(3) Number of shares outstanding (common shares)

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

(b) Treasury shares at end of period

(c) Average number of shares during period

Year ended December 2022	4,495,375 shares	Year ended December 2021	4,371,000 shares
Year ended December 2022	– shares	Year ended December 2021	127,802 shares
Year ended December 2022	4,202,400 shares	Year ended December 2021	4,165,590 shares

*Quarterly financial results summaries are not subject to audit.

* Cautionary statement regarding business results forecasts and special notes

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

○ Contents of Accompanying Materials

1. Analysis of Operating Performance and Financial Position	5
(1) Overview of Operating Results	5
(2) Explanation of Financial Position	6
(3) Overview of Cash Flows	6
(4) Future Outlook	7
2. Basic Approach to Selection of Accounting Standards	7
3. Consolidated Financial Statements and Main Notes	8
(1) Consolidated Balance Sheet	8
(2) Consolidated Statement of Income and Consolidated Statement of Comprehensive Income	10
(3) Consolidated Statement of Changes in Net assets	12
(4) Consolidated Statement of Cash Flows	14
(5) Notes to the Consolidated Financial Statements	16
(Notes Related to Going Concern Assumptions)	16
(Change in Accounting Policies).....	16
(Additional Information).....	17
(Segment Information).....	17
(Revenue Recognition)	20
(Per Share Information)	21
(Significant Subsequent Events)	21

1. Analysis of Operating Performance and Financial Position

(1) Overview of Operating Results

During the fiscal year under review, there were signs of a return to normal economic activity in Japan despite some remaining effects of COVID-19. However, the future of the global economy remains uncertain due to factors that include prolonged geopolitical risks, the semiconductor shortage, rising prices associated with soaring energy and raw material prices, and financial market volatility arising from higher policy interest rates in various countries.

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

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

As a result of the above, during the fiscal year under review, we achieved net sales of ¥9,637.207 million (compared to ¥7,375.205 million the previous year), operating profit of ¥501.426 million (down 16.5% year on year), and ordinary profit of ¥489.557 million (down 15.6% year on year), and profit attributable to owners of parent of ¥232.584 million (down 40.1% year on year).

The Accounting Standard for Revenue Recognition (ASBJ Statement No. 29, March 31, 2020) was applied from the beginning of the fiscal year under review. Therefore, the explanation of operating results for the fiscal year under review does not include the amount or percentage of change in net sales from the previous consolidated fiscal year. See "(5) Notes to the Consolidated Financial Statements (Changes in Accounting Policies) (Application of Accounting Standard for Revenue Recognition)" under "3. Consolidated Financial Statements and Main Notes" for details.

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

(Professional Services Business)

In our professional services business, the environment surrounding our IT division is undergoing drastic changes due to various restrictions on corporate activities. In the midst of these circumstances, favorable conditions created by robust demand for DX provided a boost for us to steadily acquire traditional consulting projects (operational analysis/design, IT introduction support, on-site deployment) based on our strength of visualizing and improving operations utilizing business process management. To integrate knowledge from the information technology (IT) and operational technology (OT) domains, we formed a capital and business alliance with Yokogawa Digital Corporation. Meanwhile, to secure knowledge and engineering resources in the domain of advanced technology and utilize their global business development capabilities, we formed a capital and business alliance with FPT JAPAN HOLDINGS CO., LTD. We also actively provided support for solving the challenges faced by municipalities, including carrying out our DX approach leading to municipal and regional sustainability transformation (SX) in Hiroshima and providing support for DX promotion in Kagoshima City. We also continued to focus on communication with the outside through various seminars and media and on hiring activities, which are important for increasing our service provision capabilities. Moreover, we also received an award from a job search website operator for our new graduate hiring activities.

As a result, net sales in the professional services business came to ¥8,480.829 million (compared to ¥7,125.017 million the previous year), and segment profit (operating profit) came to ¥484.115 million (down 12.1% year on year).

(Platform Business)

In the platform business, the number of members in the Assign Navi platform, which provides business matching and a learning forum specialized for the IT industry, grew to 12,494 including both corporate and individual members as of December 31, 2022. This steady growth represents a 1,058-member increase over the end of the previous year. Net sales were strong as the Assign Navi and Consultant Job matching and member service results increased in conjunction with expansion of the membership base. We have continued to invest in development of our new CS Clip service and launched service provision in July 2022. We also promoted collaboration with the Growth Company Club, which was launched as a members-only community for IT companies seeking to grow themselves, their customers, and the IT industry. However, costs increased as we worked on strengthening our organizational structure to expand revenue in existing services and recorded depreciation in relation to CS Clip.

As a result, net sales in the platform business came to ¥1,629.742 million (compared to ¥323.282 million the previous year), and segment profit (operating profit) came to ¥17.310 million (down 65.2% year on year).

(2) Explanation of Financial Position

Total assets at the end of the fiscal year under review were ¥5,595.724 million, up ¥515.621 million from the end of the previous fiscal year. This was primarily due to a ¥552.113 million increase in cash and deposits and a ¥228.611 million increase in accounts receivable and contract assets.

Liabilities amounted to ¥2,346.316 million, down ¥657.018 million from the end of the previous consolidated fiscal year. This was primarily due to a ¥486.208 million decrease in advances received (contract liabilities) and a ¥283.668 million decrease in long-term borrowings.

Net assets amounted to ¥3,249.408 million, down ¥1,172.639 million from the end of the previous consolidated fiscal year. This was primarily due to a ¥232.584 million increase in retained earnings, a ¥153.090 million increase in share capital, a ¥471.216 million increase in the capital surplus, and a ¥284.164 million decrease in treasury shares. The capital adequacy ratio came to 57.5%.

(3) Overview of Cash Flows

Cash and cash equivalents (hereinafter referred to as “funds”) at the end of the fiscal year under review totaled ¥2,776.968 million, an increase of ¥552.709 million year on year. Below is an overview of cash flows during the fiscal year under review and the factors involved.

(Operating Activities)

Net cash provided by operating activities amounted to ¥255.254 million. This was a result of a ¥280.589 million decrease in advance payments made, ¥139.933 million in impairment loss, a ¥126.268 million increase in trade payables, a ¥98.825 million increase in accounts payable - other, ¥62.777 million in depreciation, and ¥40.743 million in amortization of goodwill, despite a ¥390.000 million decrease in advances received, ¥197.978 million in income taxes paid, and a ¥105.281 million increase in trade receivables.

(Investment Activities)

Net cash used in investing activities amounted to ¥329.860 million. This was primarily a result of a ¥269.065 million in purchase of property, plant and equipment, a ¥40.000 million purchase of stock of affiliated company, and a ¥19.385 million purchase of intangible fixed assets.

(Financing Activities)

Net cash provided by financing activities amounted to ¥626.850 million. This was primarily a result of a ¥299.918 million purchase of treasury shares, ¥283.668 million in repayments of long-term borrowings, a ¥902.209 million disposal of treasury shares, and ¥306.180 million in proceeds from issuance of shares.

(4) Future Outlook

In the professional services business in the fiscal year ending December 2023, we expect to see strategic IT investment to ensure competitiveness and continued strong demand for management digital transformation (DX). Leveraging the business relationships with advanced digital companies and business foundation we have built, we will promote the expansion of our business. In addition, we will ramp up our activities (strengthening services and overseas development) related to the strategic capital and business alliances with Yokogawa Digital Corporation and FPT JAPAN HOLDINGS CO., LTD. and promote initiatives for sustainable growth over the medium to long term. We will continue to invest aggressively in the hiring and development of consultants and engineers for business growth and expand our structure with an emphasis on new graduates. Through continued aggressive hiring and appropriate control of SG&A expenses, we expect a substantial improvement in profit levels and to get back on track for growth.

Additionally, in the platform business, we will promote expansion of the member base of Assign Navi and utilization of the service, promote matching with independent consultants via Consultant Job. We will redefine the CS Clip service and expand earnings in the medium to long term by developing a community of growing IT companies to secure a certain level of profit in the platform business.

By promoting the measures above, in the next fiscal year, the Group expects to achieve net sales of ¥12,700 million (a year-on-year increase of 31.8%), operating profit of ¥950 million (a year-on-year increase of 89.6%), ordinary profit of ¥900 million (a year-on-year increase of 84.0%), and profit attributable to owners of parent of ¥560 million (a year-on-year increase of 141.4%).

The forecasts above have been prepared based on information available to us as of the day of presentation. Actual results may vary due to various factors.

2. Basic Approach to Selection of Accounting Standards

The Group prepares consolidated financial statements based on Japanese standards. We will address application of International Financial Reporting Standards (IFRS) as appropriate based on circumstances at home and abroad.

3. Consolidated Financial Statements and Main Notes

(1) Consolidated Balance Sheet

(Thousands of yen)

	Previous consolidated fiscal year (ended December 31, 2021)	Current consolidated fiscal year (ended December 31, 2022)
Assets		
Current assets		
Cash and deposits	2,430,782	2,982,895
Electronically recorded monetary claims - operating	132,014	133,082
Accounts receivable - trade	1,155,870	–
Accounts receivable and contract assets	–	1,384,481
Work in process	127,772	22,497
Advance payments made	280,589	–
Other	81,113	94,197
Allowance for doubtful accounts	(1,891)	(1,837)
Total current assets	4,206,251	4,615,316
Non-current assets		
Property, plant and equipment		
Buildings and structures	32,329	175,866
Accumulated depreciation	(17,653)	(3,775)
Buildings and structures, net	14,675	172,090
Tools, furniture and fixtures	150,478	224,664
Accumulated depreciation	(114,303)	(124,026)
Tools, furniture and fixtures, net	36,174	100,638
Construction in process	2,000	–
Total property, plant and equipment	52,850	272,728
Intangible fixed assets		
Goodwill	141,034	100,291
Software	2,150	466
Software in progress	138,519	2,423
Total intangible fixed assets	281,704	103,180
Investments and other assets		
Leasehold and guarantee deposits	197,780	206,003
Deferred tax assets	147,779	176,091
Investment securities	127,500	163,724
Other	66,236	58,679
Total investments and other assets	539,297	604,498
Total non-current assets	873,851	980,407
Total assets	5,080,103	5,595,724

(Thousands of yen)

	Previous consolidated fiscal year (ended December 31, 2021)	Current consolidated fiscal year (ended December 31, 2022)
Liabilities		
Current liabilities		
Account payable - trade	654,178	780,447
Current portion of long-term borrowings	283,668	273,456
Accounts payable - other	295,972	394,798
Income taxes payable	117,010	60,620
Provision for bonuses	146,765	111,496
Provision for bonuses for directors (and other officers)	12,500	4,950
Advances received	506,432	–
Contract liabilities	–	20,224
Other	199,102	182,633
Total current liabilities	2,215,629	1,828,626
Non-current liabilities		
Long-term borrowings	682,216	408,760
Retirement benefit liabilities	102,133	107,041
Deferred tax liabilities	539	539
Other	2,815	1,349
Total non-current liabilities	787,704	517,689
Total liabilities	3,003,334	2,346,316
Net assets		
Shareholders' equity		
Share capital	575,000	728,090
Capital surplus	507,775	978,992
Retained earnings	1,277,611	1,510,195
Treasury shares	(284,164)	–
Total shareholders' equity	2,076,223	3,217,278
Accumulated other comprehensive income		
Foreign currency translation adjustment	426	891
Total accumulated other comprehensive income	426	891
Subscription rights to shares	–	26,386
Non-controlling interests	119	4,851
Total net assets	2,076,769	3,249,408
Liabilities and net assets	5,080,103	5,595,724

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

Consolidated statement of income

(Thousands of yen)

	Previous consolidated fiscal year (January 1, 2021 - December 31, 2021)	Current consolidated fiscal year (January 1, 2022 - December 31, 2022)
Net sales	7,375,205	9,637,207
Cost of sales	4,748,104	6,423,152
Gross profit	2,627,101	3,214,055
Selling, general and administrative expenses	2,026,902	2,712,628
Operating profit	600,198	501,426
Non-operating income		
Interest income	20	13
Dividend income	43	1,800
Surrender value of insurance policies	346	62
Subsidy income	5,015	1,029
Other	448	600
Total non-operating income	5,875	3,506
Non-operating expenses		
Interest expenses	6,104	4,998
Foreign exchange losses	347	450
New share issuing expenses	–	4,588
Share of loss of entities accounted for using equity method	18,476	3,775
Other	1,413	1,563
Total non-operating expenses	26,342	15,375
Ordinary profit	579,730	489,557
Extraordinary losses		
Loss on valuation of investment securities	11,181	–
Impairment loss	12,622	139,933
Other	–	3,668
Total extraordinary losses	23,803	143,601
Profit before income taxes	555,926	345,955
Income taxes-current	198,701	136,950
Income taxes-deferred	(28,591)	(28,311)
Total income taxes	170,109	108,638
Profit	385,817	237,316
Profit (loss) attributable to non-controlling interests	(2,591)	4,732
Profit attributable to owners of parent	388,409	232,584

Consolidated statement of comprehensive income

(Thousands of yen)

	Previous consolidated fiscal year (January 1, 2021 - December 31, 2021)	Current consolidated fiscal year (January 1, 2022 - December 31, 2022)
Profit	385,817	237,316
Other comprehensive income		
Foreign currency translation adjustment	364	464
Total other comprehensive income	364	464
Comprehensive income	386,182	237,781
(Breakdown)		
Comprehensive income attributable to owners of parent	388,773	233,049
Comprehensive income attributable to non-controlling interests	(2,591)	4,732

(3) Consolidated Statement of Changes in Net assets

Previous consolidated fiscal year (January 1, 2021 - December 31, 2021)

(Thousands of yen)

	Shareholders' equity				
	Share capital	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at beginning of period	529,020	454,020	889,202	(142,469)	1,729,773
Changes during period					
Issuance of new shares	45,980	45,980	—	—	91,960
Profit attributable to owners of parent	—	—	388,409	—	388,409
Purchase of treasury shares	—	—	—	(146,579)	(146,579)
Disposal of treasury shares	—	7,774	—	4,885	12,660
Net changes of items other than shareholders' equity	—	—	—	—	—
Total changes during period	45,980	53,754	388,409	(141,694)	346,449
Balance at end of period	575,000	507,775	1,277,611	(284,164)	2,076,223

	Accumulated other comprehensive income		Subscription rights to shares	Non-controlling interests	Total net assets
	Foreign currency translation adjustment	Total accumulated other comprehensive income			
Balance at beginning of period	62	62	—	2,710	1,732,546
Changes during period					
Issuance of new shares	—	—	—	—	91,960
Profit attributable to owners of parent	—	—	—	—	388,409
Purchase of treasury shares	—	—	—	—	(146,579)
Disposal of treasury shares	—	—	—	—	12,660
Net changes of items other than shareholders' equity	364	364	—	(2,591)	(2,227)
Total changes during period	364	364	—	(2,591)	344,222
Balance at end of period	426	426	—	119	2,076,769

Current consolidated fiscal year (January 1, 2022 - December 31, 2022)

(Thousands of yen)

	Shareholders' equity				
	Share capital	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at beginning of period	575,000	507,775	1,277,611	(284,164)	2,076,223
Changes during period					
Issuance of new shares	153,090	153,090	–	–	306,180
Profit attributable to owners of parent	–	–	232,584	–	232,584
Purchase of treasury shares	–	–	–	(299,918)	(299,918)
Disposal of treasury shares	–	318,126	–	584,082	902,209
Net changes of items other than shareholders' equity	–	–	–	–	–
Total changes during period	153,090	471,216	232,584	284,164	1,141,055
Balance at end of period	728,090	978,992	1,510,195	–	3,217,278

	Accumulated other comprehensive income		Subscription rights to shares	Non-controlling interests	Total net assets
	Foreign currency translation adjustment	Total accumulated other comprehensive income			
Balance at beginning of period	426	426	–	119	2,076,769
Changes during period					
Issuance of new shares	–	–	–	–	306,180
Profit attributable to owners of parent	–	–	–	–	232,584
Purchase of treasury shares	–	–	–	–	(299,918)
Disposal of treasury shares	–	–	–	–	902,209
Net changes of items other than shareholders' equity	464	464	26,386	4,732	31,583
Total changes during period	464	464	26,386	4,732	1,172,639
Balance at end of period	891	891	26,386	4,851	3,249,408

(4) Consolidated Statement of Cash Flows

(Thousands of yen)

	Previous consolidated fiscal year (January 1, 2021 - December 31, 2021)	Current consolidated fiscal year (January 1, 2022 - December 31, 2022)
Cash flows from operating activities		
Profit before income taxes	555,926	345,955
Depreciation	29,334	62,777
Amortization of goodwill	44,950	40,743
Increase (decrease) in allowance for doubtful accounts	(144)	(54)
Increase (decrease) in provision for bonuses	25,327	(42,819)
Loss (gain) on valuation of investment securities	11,181	–
Impairment loss	12,622	139,933
Interest income and dividends received	(64)	(1,814)
Interest expenses	6,104	4,998
Decrease (increase) in trade receivables	(393,222)	(105,281)
Decrease (increase) in inventories	(70,594)	(20,125)
Increase (decrease) in trade payables	149,600	126,268
Increase (decrease) in net defined benefit liability	5,529	4,907
Increase (decrease) in accrued consumption taxes	(6,471)	(18,569)
Increase (decrease) in advances received	493,109	(390,000)
Increase (decrease) in contract liabilities	–	(96,208)
Increase (decrease) in accounts payable – other	31,618	98,825
Decrease (increase) in advance payments made	(280,589)	280,589
Share of loss (profit) of entities accounted for using equity method	18,476	3,775
Other, net	28,626	20,873
Subtotal	661,322	454,775
Interest and dividends received	64	1,814
Interest paid	(5,868)	(5,028)
Income taxes paid	(234,813)	(197,978)
Income taxes refund	1,251	1,672
Net cash provided by (used in) operating activities	421,956	255,254
Cash flows from investing activities		
Payments into time deposits	(3,010)	(3,003)
Proceeds from withdrawal of time deposits	–	3,600
Purchase of property, plant and equipment	(37,320)	(269,065)
Purchase of intangible fixed assets	(52,989)	(19,385)
Payments of leasehold and guarantee deposits	(164,026)	(181)
Proceeds from refund of leasehold and guarantee deposits	37	475
Income from collection of loans receivable	778	1,946
Purchase of memberships	(9,438)	–
Purchase of investment securities	(127,500)	(40,000)
Purchase of insurance funds	(10,610)	(9,969)
Proceeds from cancellation of insurance funds	4,398	5,721
Net cash provided by (used in) investing activities	(399,680)	(329,860)

(Thousands of yen)

	Previous consolidated fiscal year (January 1, 2021 - December 31, 2021)	Current consolidated fiscal year (January 1, 2022 - December 31, 2022)
Cash flows from financing activities		
Proceeds from short-term borrowings	20,000	–
Repayments of short-term borrowings	(20,000)	–
Proceeds from long-term borrowings	90,000	–
Repayments of long-term borrowings	(312,989)	(283,668)
Proceeds from issuance of shares	91,960	306,180
Proceeds from disposal of treasury shares	–	902,209
Purchase of treasury shares	(146,579)	(299,918)
Proceeds from issuance of subscription rights to shares	–	2,047
Net cash provided by (used in) financing activities	(277,608)	626,850
Effect of exchange rate change on cash and cash equivalent	364	464
Net increase (decrease) in cash and cash equivalents	(254,967)	552,709
Cash and cash equivalents at beginning of period	2,479,226	2,224,258
Cash and cash equivalents at end of period	2,224,258	2,776,968

(5) Notes to the Consolidated Financial Statements

(Notes Related to Going Concern Assumptions)

Not applicable.

(Change in Accounting Policies)

(Application of Accounting Standard for Revenue Recognition)

The Accounting Standard for Revenue Recognition (ASBJ Statement No. 29, March 31, 2020) has been applied as of the beginning of the fiscal year under review. The amount to be received in exchange for goods or services is recognized as revenue at the point when control of the promised goods or services is transferred to the customer. Previously, all revenue from consulting, software development, and other work received by the Group was recognized at the time of the acceptance inspection, but starting with the fiscal year under review, this has been changed to a method in which a reasonable estimate is prepared for progress on fulfillment of performance obligations during a certain period and revenue is recognized over that period based on the progress made. The method of estimating progress on fulfillment of performance obligations is to calculate the percentage of costs incurred with respect to total estimated costs (input method). If a reasonable estimate cannot be made for progress but costs incurred are expected to be recovered, revenue is recognized based on the cost recovery method. An alternative treatment is applied to software development contracts that have very short periods between the transaction start date and when the performance obligation is expected to be completely fulfilled. Rather than recognizing revenue over a certain period, it is recognized when the performance obligation is completely fulfilled.

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

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

As a result, net sales increased by ¥804.186 million in the fiscal year under review and cost of sales increased ¥804.186 million, while operating profit, ordinary profit, and profit before income taxes were unaffected. There was also no impact on the beginning balance of retained earnings.

Because the Accounting Standard for Revenue Recognition was applied, accounts receivable - trade, which was presented under current assets in the consolidated balance sheet for the previous fiscal year, is included under accounts receivable and contract assets as of the fiscal year under review. In addition, a portion of advances received, which was presented under current liabilities in the consolidated balance sheet for the previous fiscal year, is included under contract liabilities as of the fiscal year under review. Following the transitional treatment set forth in Paragraph 89-2 of the Accounting Standard for Revenue Recognition, the Company has not restated the financial results of the previous fiscal year to reflect the new method of presentation. Furthermore, following the transitional treatment set forth in Paragraph 89-3 of the Accounting Standard for Revenue Recognition, there is no information on a breakdown of revenue from contracts with customers in the previous fiscal year.

(Application of Accounting Standard for Fair Value Measurement)

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

(Additional Information)

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

LTS, Inc. and some domestic subsidiaries will transition from the consolidated taxation system to the group tax sharing system in the next fiscal year. However, the amounts of deferred tax assets and deferred tax liabilities have been calculated according to the tax acts before they were amended based on the treatment of Paragraph 3 of “Practical Solution on the Treatment of Tax Effect Accounting for the Transition from the Consolidated Taxation System to the Group Tax Sharing System” (ASBJ Practical Issues Task Force No.39, March 31, 2020) instead of applying the provision of Paragraph 44 of “Implementation Guidance on Tax Effect Accounting” (ASBJ Guidance No.28, February 16, 2018) with respect to the transition to the group tax sharing system established in “Act for Partial Amendment of the Income Tax Act, etc.” (Act No. 8 of 2020) and items for which the nonconsolidated taxation system has been reviewed in the line with the transition to the group tax sharing system. “Treatment of Accounting and Disclosure When Applying the Group Tax Sharing System” (ASBJ Practical Issues Task Force No. 42, August 12, 2021), which defines accounting treatment and disclosure of corporate and local income taxes and tax effect accounting when the group tax sharing system is applied, will be applied from the beginning of the next fiscal year.

(Segment Information)

(Segment Information)

1. Overview of Reporting Segments

(1) Method of Determining Reporting Segments

The reporting segments of the Group are constituent units for which separate financial information is available and that are subject to periodic review by the Board of Directors to determine the allocation of management resources and assess their respective operating results.

The Group provides a wide range of services centered on business process management (business integration). Business segment composition takes into account the service domains and form of provision, so our reporting segments are the professional services business and the platform business.

(2) Types of Products and Services in Each Reporting Segment

In the professional services business, we provide services primarily in the consulting, business process management, and digital utilization service domains.

The platform business consists mainly of the services of Assign Navi, an IT business community, Consultant Job, which specializes in matching independent consultants, and CS Clip, which matches operating companies with DX companies.

2. Method Used for Calculating Net Sales, Profit, Loss, Assets, Liabilities, and Other Items for Each Reporting Segment

Accounting treatment of the reported business segments is, for the most part, as set forth in “Notes - Significant accounting policies for preparation of consolidated financial statements.” Figures for reporting segment profit are based on operating profit. Intersegment transactions are priced in accordance with prevailing market prices.

3. Information Regarding Amounts of Net Sales, Profit, Loss, Assets, Liabilities, and Other Items for Each Reporting Segment

Previous fiscal year (January 1, 2021 - December 31, 2021)

(Thousands of yen)

	Reporting Segment			Adjustment	Total Shown in Consolidated Financial Statement *1
	Professional Services Business	Platform Business	Total		
Net sales					
Net sales to unaffiliated customers	7,117,733	257,471	7,375,205	–	7,375,205
Transactions with other segments	7,283	65,811	73,095	(73,095)	–
Total	7,125,017	323,282	7,448,300	(73,095)	7,375,205
Segment profit	550,462	49,736	600,198	–	600,198
Segment assets	4,800,963	279,140	5,080,103	–	5,080,103
Other items					
Depreciation	29,334	–	29,334	–	29,334
Increase in property, plant and equipment and intangible fixed assets	39,663	49,327	88,990	–	88,990

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

*2. The increase in property, plant and equipment and intangible fixed assets in the platform business is software in progress related to new services in the business.

Current consolidated fiscal year (January 1, 2022 - December 31, 2022)

(Thousands of yen)

	Reporting Segment			Adjustment	Total Shown in Consolidated Financial Statement *1
	Professional Services Business	Platform Business	Total		
Net sales					
Net sales to unaffiliated customers	8,447,926	1,189,281	9,637,207	–	9,637,207
Transactions with other segments	32,903	440,461	473,365	(473,365)	–
Total	8,480,829	1,629,742	10,110,572	(473,365)	9,637,207
Segment profit	484,115	17,310	501,426	–	501,426
Segment assets	5,380,143	215,581	5,595,724	–	5,595,724
Other items					
Depreciation	47,229	15,548	62,777	–	62,777
Increase in property, plant and equipment and intangible fixed assets	269,091	19,385	288,476	–	288,476

*1. Segment profit is reconciled to operating profit presented in the consolidated financial statement.

*2. As stated under Changes in Accounting Policies, the Accounting Standard for Revenue Recognition was applied from the beginning of the fiscal year under review, which changed the accounting treatment related to revenue recognition. As a result, compared to the previous method, net sales (including internal net sales) in the professional services business decreased by ¥83.138 million in the fiscal year under review, and cost of sales decreased by ¥83.138 million. Net sales (including internal net sales) in the platform business increased by ¥1,204.457 million, and cost of sales increased by ¥1,204.457 million, while segment profit was unaffected.

(Related Information)

Previous consolidated fiscal year (January 1, 2021 - December 31, 2021)

1. Information for Each Product or Service

Information for each product and service has been omitted because the same information is disclosed within segment information.

2. Information for Each Region

(1) Net sales

Net sales to unaffiliated customers in Japan account for more than 90% of net sales in the consolidated statement of income, so this information has been omitted.

(2) Property, plant and equipment

The Group has no property, plant and equipment outside of Japan, so this does not apply.

3. Information for Each Major Customer

Out of net sales to unaffiliated customers, there are no customers accounting for 10% or more of net sales in the consolidated statement of income, so this information has been omitted.

Current consolidated fiscal year (January 1, 2022 - December 31, 2022)

1. Information for Each Product or Service

Information for each product and service has been omitted because the same information is disclosed within segment information.

2. Information for Each Region

(1) Net sales

Net sales to unaffiliated customers in Japan account for more than 90% of net sales in the consolidated statement of income, so this information has been omitted.

(2) Property, plant and equipment

The Group has no property, plant and equipment outside of Japan, so this does not apply.

3. Information for Each Major Customer

Out of net sales to unaffiliated customers, there are no customers accounting for 10% or more of net sales in the consolidated statement of income, so this information has been omitted.

(Impairment Loss on Non-current Assets for Each Reporting Segment)

Previous consolidated fiscal year (January 1, 2021 - December 31, 2021)

An impairment loss on goodwill has been recorded in “professional Services.” The amount of the impairment loss was ¥12.622 million.

Current consolidated fiscal year (January 1, 2022 - December 31, 2022)

An impairment loss on software has been recorded in “Platform.” The amount of the impairment loss was ¥139.933 million.

(Amortization and Unamortized Balance of Goodwill for Each Reporting Segment)

Previous consolidated fiscal year (January 1, 2021 - December 31, 2021)

	Reporting Segment			Adjustment	Total Shown in Consolidated Financial Statement
	Professional Services Business	Platform Business	Total		
Depreciation	44,950	–	44,950	–	44,950
Balance at end of period	141,034	–	141,034	–	141,034

(Note) An impairment loss on goodwill of ¥12.622 million has been recorded in “Professional services.”

Current consolidated fiscal year (January 1, 2022 - December 31, 2022)

	Reporting Segment			Adjustment	Total Shown in Consolidated Financial Statement
	Professional Services Business	Platform Business	Total		
Depreciation	40,743	–	40,743	–	40,743
Balance at end of period	100,291	–	100,291	–	100,291

(Gain on Negative Goodwill for Each Reporting Segment)

Previous consolidated fiscal year (January 1, 2021 - December 31, 2021)

Not applicable.

Current consolidated fiscal year (January 1, 2022 - December 31, 2022)

Not applicable.

(Revenue Recognition)

Breakdown of revenue from contracts with customers

Current consolidated fiscal year (January 1, 2022 - December 31, 2022)

(Thousands of yen)

	Reporting Segment		Total
	Professional Services Business	Platform Business	
Business process management	1,355,122	–	1,355,122
Consulting/engineering	5,681,956	–	5,681,956
Strategy establishment/digital utilization	1,410,847	–	1,410,847
Assign Navi	–	52,471	52,471
Consultant Job	–	1,134,929	1,134,929
CS Clip	–	1,880	1,880
Revenue from contracts with customers	8,447,926	1,189,281	9,637,207
Net sales to unaffiliated customers	8,447,926	1,189,281	9,637,207

(Per Share Information)

	Previous consolidated fiscal year (January 1, 2021 - December 31, 2021)	Current consolidated fiscal year (January 1, 2022 - December 31, 2022)
Net assets per share	489.41 yen	715.88 yen
Profit per share	93.24 yen	55.35 yen
Profit per share fully diluted	87.56 yen	53.07 yen

*1. The basis for calculating profit per share and profit per share fully diluted is provided below

Item	Previous consolidated fiscal year (January 1, 2021 - December 31, 2021)	Current consolidated fiscal year (January 1, 2022 - December 31, 2022)
Profit per share		
Profit attributable to owners of parent	388,409	232,584
Income not attributable to common shareholders (thousands of yen)	–	–
Profit attributable to owners of parent associated with common shares (thousands of yen)	388,409	232,584
Average number of shares during period	4,165,590	4,202,400
Profit per share fully diluted		
Adjusted profit attributable to owners of parent (thousands of yen)	–	–
Increase in common shares	270,115	180,393
(Stock acquisition rights)	270,115	180,393
Overview of potentially dilutive shares not included in calculation of profit per share fully diluted due to anti-dilutive effect	–	2 types of stock acquisition rights (118,600 common shares)

2. The basis for calculating net assets per share is provided below.

Item	Previous consolidated fiscal year (ended December 31, 2021)	Current consolidated fiscal year (ended December 31, 2022)
Total net assets (thousands of yen)	2,076,769	3,249,408
Amount deducted from total net assets (thousands of yen)	119	31,238
Net assets associated with common shares at end of period (thousands of yen)	2,076,649	3,218,170
Number of common shares at end of period used for calculation of net assets per share	4,243,198	4,495,375

(Significant Subsequent Events)

Not applicable.