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Consolidated Financial Results for the Fiscal Year Ended January 31, 2023 [Japanese GAAP]



March 13, 2023

Company name: NEOJAPAN Inc.

Stock exchange listing: Tokyo Stock Exchange

Code number: 3921

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Scheduled date of annual general meeting of shareholders: April 27, 2023

Scheduled date of commencing dividend payments: April 28, 2023

Scheduled date of filing securities report: April 27, 2023

Preparation of supplementary materials on annual financial results: Yes

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

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

1. Consolidated Financial Results for the Fiscal Year Ended January 31, 2023 (February 1, 2022–January 31, 2023)

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

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent	
Fiscal year ended	Million yen	%	Million yen	%	Million yen	%	Million yen	%
January 31, 2023	6,007	1.5	1,241	(0.5)	1,335	(1.9)	812	(6.2)
January 31, 2022	5,920	11.2	1,247	35.5	1,361	43.5	866	27.9

(Note) Comprehensive income: Fiscal year ended January 31, 2023: ¥776 million [(14.1)%]

Fiscal year ended January 31, 2022: ¥903 million [36.0%]

	Basic earnings per share	Diluted earnings per share	Return on equity	Ratio of ordinary profit to total assets	Ratio of operating profit to net sales
Fiscal year ended	Yen	Yen	%	%	%
January 31, 2023	54.50	54.38	15.0	17.4	20.7
January 31, 2022	58.17	57.97	18.1	19.4	21.1

(Reference) Equity in earnings of affiliated companies: Fiscal year ended January 31, 2023: ¥- million

Fiscal year ended January 31, 2022: ¥- 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 fiscal year under review, the figures for the fiscal year ended January 31, 2023 represent the figures after the application of the accounting standard, etc.

(2) Consolidated Financial Position

	Total assets	Net assets	Equity ratio	Net assets per share
	Million yen	Million yen	%	Yen
As of January 31, 2023	8,025	5,727	71.2	383.36
As of January 31, 2022	7,287	5,165	70.7	345.53

(Reference) Equity: As of January 31, 2023: ¥5,717 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 fiscal year under review, the figures for the fiscal year ended January 31, 2023 represent the figures after the application of the accounting standard, etc.

(3) Consolidated Cash Flows

	Cash flows from operating activities	Cash flows from investing activities	Cash flows from financing activities	Cash and cash equivalents at year-end
Fiscal year ended	Million yen	Million yen	Million yen	Million yen
January 31, 2023	1,190	(174)	(207)	4,917
January 31, 2022	1,107	(326)	(255)	4,059

2. Dividends

	Annual dividends					Total dividends (annual)	Payout ratio (consolidated)	Ratio of dividends to net assets (consolidated)
	1st quarter-end	2nd quarter-end	3rd quarter-end	Year-end	Total			
Fiscal year ended	Yen	Yen	Yen	Yen	Yen	Million yen	%	%
January 31, 2022	–	0.00	–	14.00	14.00	208	24.1	4.4
January 31, 2023	–	0.00	–	20.00	20.00	298	36.7	5.5
January 31, 2024 (Forecast)	–	0.00	–	23.00	23.00		54.5	

(Note) Breakdown of the year-end dividend for the fiscal year ended January 31, 2023

Ordinary dividend: 19.00 yen

Commemorative dividend: 1.00 yen

3. Consolidated Financial Results Forecast for the Fiscal Year Ending January 31, 2024 (February 1, 2023–January 31, 2024)

(% 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
	6,359	5.9	937	(24.4)	951	(28.8)	629	(22.6)	42.20

* Notes:

(1) Changes in significant subsidiaries during the period under review: None

(Changes in specified subsidiaries resulting in changes in the scope of consolidation)

(2) 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

(3) Total number of issued and outstanding shares (common shares)

1) Total number of issued and outstanding shares at the end of the period (including treasury shares):

January 31, 2023: 14,914,800 shares

January 31, 2022: 14,908,800 shares

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

January 31, 2023: 223 shares

January 31, 2022: 223 shares

3) Average number of shares during the period:

Fiscal year ended January 31, 2023: 14,911,167 shares

Fiscal year ended January 31, 2022: 14,893,989 shares

(Reference) Summary of Non-consolidated Financial Results

1. Non-consolidated Financial Results for the Fiscal Year Ended January 31, 2023 (February 1, 2022–January 31, 2023)

(1) Non-consolidated Operating Results (% indicates changes from the previous corresponding period.)

	Net sales		Operating profit		Ordinary profit		Profit	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
Fiscal year ended January 31, 2023	4,212	7.3	1,229	5.5	1,277	0.6	694	△14.0
January 31, 2022	3,926	13.4	1,165	50.9	1,270	61.0	806	39.8

	Basic earnings per share	Diluted earnings per share
	Yen	Yen
Fiscal year ended January 31, 2023	46.55	46.44
January 31, 2022	54.18	54.00

(2) Non-consolidated Financial Position

	Total assets	Net assets	Equity ratio	Net assets per share
	Million yen	Million yen	%	Yen
As of January 31, 2023	7,321	5,408	73.9	362.60
As of January 31, 2022	6,718	4,971	74.0	333.46

(Reference) Equity: As of January 31, 2023: ¥5,408 million

As of January 31, 2022: ¥4,971 million

* These financial results are outside the scope of audit 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. Analysis of Operating Results and Financial Position

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 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) Analysis of Operating Results and (2) Analysis 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) Analysis of Operating Results

The Japanese economy in the fiscal year ended January 31, 2023 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 caused by global monetary tightening, 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 July 2022, our business chat tool ChatLuck version 5.0 was released. 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. Furthermore, ChatLuck version 5.5 was released in January 2023 with newly added “topic” functions and other features.

In addition, not only 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 in March 2022, but also our three principal products (desknet’s NEO, ChatLuck, and AppSuite) received awards in the ITreview Grid Award 2023 Winter, organized by IT product comparison and review website ITreview in January 2023. Groupware desknet’s NEO, our business chat tool ChatLuck, and AppSuite, a tool for creating apps with no coding were awarded for the 16th consecutive year, 10th consecutive year, and first time, respectively.

Furthermore, 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 addition, in November 2022, we were selected as the first demonstration experiment provider for the “YOKOHAMA Hack!” project, which promotes digital transformation of administrative services by utilizing digital technology from the private sector solicited by the City of Yokohama. We have started a demonstration experiment for “strengthening measures for evacuation security plans to ensure the safety of users of facilities requiring special consideration” in collaboration with the City of Yokohama, utilizing our AppSuite, a tool for creating apps with no coding, and groupware desknet’s NEO. Through the demonstration experiment, we will strive to contribute to improving the effectiveness of evacuation security plans in the event of a disaster, increasing the implementation rate of evacuation drills, and reducing the workload of facility managers and relevant city departments.

As a result, the performance of the software business remained strong while sales in the system development service business decreased until the third quarter 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. In the overseas business, we focused on the development of new services at our U.S. subsidiary and increased related investments. In addition, tax expenses for the fiscal year ended January 31, 2023 increased as a result of a reversal of deferred tax assets, etc., in conjunction with an expected decrease in taxable income in the next fiscal year due to an increase in advertising expenses to raise awareness. With these reasons as main factors, for the fiscal year ended January 31, 2023, the Company posted net sales of ¥6,007,080 thousand (up 1.5% year on

year) and operating profit of ¥1,241,167 thousand (down 0.5% year on year), while ordinary profit was ¥1,335,761 thousand (down 1.9% year on year), and profit attributable to owners of parent was ¥812,641 thousand (down 6.2% year on year).

As a result of the application of the Revenue Recognition Accounting Standard, etc., for the fiscal year ended January 31, 2023, net sales increased by ¥4,260 thousand and cost of sales decreased by ¥1,524 thousand, while operating profit, ordinary profit, and profit before income taxes increased by ¥5,784 thousand, respectively. Details are explained in “3. Consolidated Financial Statements and Principal Notes, (5) Notes to Consolidated Financial Statements (Changes in accounting policies).”

Operating results for the fiscal year ended January 31, 2023 by segment are as follows.

(Software business)

Business sector	For the fiscal year ended January 31, 2022		For the fiscal year ended January 31, 2023		
	Net sales (Thousand yen)	Percentage breakdown (%)	Net sales (Thousand yen)	Percentage breakdown (%)	Change (%)
Cloud services	2,411,545	61.4	2,702,621	64.1	12.1
Packaged products	1,447,844	36.9	1,435,839	34.1	(0.8)
Technological development	67,565	1.7	73,961	1.8	9.5
Total	3,926,955	100.0	4,212,421	100.0	7.3

1) Cloud services

Net sales by principal cloud service are as follows.

	For the fiscal year ended January 31, 2022	For the fiscal year ended January 31, 2023	Change (Thousand yen)	Change (%)
	Net sales (Thousand yen)	Net sales (Thousand yen)		
desknet's NEO cloud	2,001,724	2,236,647	234,923	11.7
AppSuite cloud	92,121	134,276	42,155	45.8
ChatLuck cloud	62,513	66,764	4,250	6.8
Other monthly recurring revenue	195,807	197,846	2,039	1.0
Total monthly recurring revenue	2,352,167	2,635,535	283,368	12.0
Other services, etc.	59,377	67,085	7,707	13.0
Cloud services total	2,411,545	2,702,621	291,075	12.1

Net sales of desknet's NEO cloud increased by ¥234,923 thousand year on year to ¥2,236,647 thousand (up 11.7% year on year), as the number of users grew steadily. There were many users who migrated to desknet's NEO cloud during the fiscal year ended January 31, 2022, 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 in line with 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 the circumstances during the fiscal year ended January 31, 2023, we implemented additional measures in the fourth quarter to raise awareness, including taxi advertisements and TV commercials. We will measure the effectiveness of these advertisements in the future, and we plan to conduct more advertisements than we have so far to further increase awareness in the next fiscal year. Since the churn rate (* 1) of desknet's NEO cloud remains low at 0.32%, we recognize that its sales will remain stable in the future. AppSuite cloud has been increasing the number of its users steadily, and

net sales increased by ¥42,155 thousand year on year to ¥134,276 thousand (up 45.8% year on year), and annual sales have grown to over 100 million yen, 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 AppSuite cloud 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 the end of the fiscal year under review. Other monthly recurring revenue remained almost unchanged year on year at ¥197,846 (up 1.0% year on year). Net sales of other services, etc. amounted to ¥67,085 thousand (up 13.0% 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 ¥291,075 thousand year on year to ¥2,702,621 thousand (up 12.1% 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 fiscal year under review.

(* 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 fiscal year ended January 31, 2022	For the fiscal year ended January 31, 2023	Change (Thousand yen)	Change (%)
	Net sales (Thousand yen)	Net sales (Thousand yen)		
desknet's NEO Enterprise license version	203,200	164,139	(39,060)	(19.2)
desknet's NEO Small license version	51,912	40,889	(11,023)	(21.2)
AppSuite	60,245	79,309	19,063	31.6
ChatLuck	48,373	38,440	(9,932)	(20.5)
Other license sales	6,105	10,466	4,360	71.4
Total license sales	369,837	333,245	(36,592)	(9.9)
Support	714,966	801,083	86,116	12.0
Customization	168,615	73,020	(95,594)	(56.7)
Other services, etc. (*1)	194,424	228,489	34,064	17.5
Packaged products total	1,447,844	1,435,839	(12,005)	(0.8)

Net sales of desknet's NEO Enterprise license, which is for large-scale users, were generally at the same level as in the previous fiscal year until the third quarter, but the number of projects in the fourth quarter declined from the same period of the previous fiscal year, resulting in sales of ¥164,139 thousand, which is lower than that in the previous fiscal year (down 19.2% year on year). This result is generally in line with the revised forecasts incorporated in the "Notice of Changes to the Consolidated Financial Results Forecast," which was announced on September 14, 2022. 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, and demand from government agencies is expected to continue. 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 ¥11,023 thousand year on year to ¥40,889 thousand (down 21.2% 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, in addition to the increasing trend in the number of customers choosing cloud services. 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, as in the case of Kamakura City, where our three principal products were introduced in the fiscal year under review. Net sales of AppSuite license increased by ¥19,063 thousand year on year to ¥79,309 thousand yen (up 31.6% year on year) in the fiscal year ended January 31, 2023 due to additional installations and additional licenses for existing users of desknet's NEO enterprise license. On the other hand, net sales of ChatLuck license decreased by ¥9,932 thousand to ¥38,440 thousand (down 20.5% year on year), generally the same level as the decrease in net sales of desknet's NEO enterprise license.

Net sales of support increased by ¥86,116 thousand year on year to ¥801,083 thousand (up 12.0% year on year), mainly because net sales of support for desknet's NEO increased by ¥59,571 thousand year on year to ¥689,683 thousand (up 9.5% year on year), and net sales of support for AppSuite increased by ¥17,034 thousand year on year to ¥45,778 thousand (up 59.3% year on year). Net sales of customization decreased by ¥95,594 thousand year on year to ¥73,020 thousand (down 56.7% year on year), mainly because of decrease in large-scale projects like those seen in the previous fiscal year.

As a result, the overall net sales of packaged products decreased by ¥12,005 thousand year on year to ¥1,435,839 thousand (down 0.8% year on year).

3) Technological development

While our policy is not to actively accept development contracts, net sales of technological development increased by ¥6,396 thousand year on year to ¥73,961 thousand (up 9.5% 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 ¥4,212,421 thousand (up 7.3% year on year) and segment profit of ¥1,229,464 thousand (up 5.5% year on year). The rate of increase in segment profit is smaller than that of increase in net sales due mainly to an increase in research and development expenses of ¥51,343 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 fiscal year ended January 31, 2023, net sales decreased by ¥208,411 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 ¥188,306 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 ¥12,626 thousand due mainly to an increase in personnel expenses. 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, resulting in an increase of ¥51,790 thousand yen in net sales in the fourth quarter compared to the third quarter, with sales recovering to a level close to that of the fourth quarter in the previous fiscal year.

As a result, the system development service business posted net sales of ¥1,815,662 thousand (down 10.3% year on year) and segment profit of ¥94,088 thousand (down 25.8% 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, in the fiscal year ended January 31, 2023, the Company 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. The two subsidiaries in the ASEAN region conducted marketing activities with the aim of continuously posting positive profits in the fiscal year under review. However, progress on generating recurring sales has not been made as planned, and the aim has not been achieved. 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 the U.S., the Company continued activities to offer new services based on local market surveys, while outsourcing transactions with the parent company decreased.

As a result, the overseas business posted net sales of ¥9,822 thousand (down 61.0% year on year) and segment loss of ¥82,361 thousand (segment loss of ¥45,306 thousand for the same period of the previous fiscal year). The decrease in net sales was mainly attributable to a decrease in internal transactions mentioned above.

(2) Analysis of Financial Position

(Assets)

Total assets as of January 31, 2023 increased by ¥738,089 thousand from the end of the previous fiscal year to ¥8,025,505 thousand. This was mainly due to an increase of ¥822,957 thousand in cash and deposits resulting from profit, while securities and investment securities decreased by ¥41,317 thousand due to a decrease in the valuation of bonds resulting from higher interest rates, and loans receivable decreased by ¥24,599 thousand due to collection.

(Liabilities)

Total liabilities as of January 31, 2023 increased by ¥175,226 thousand from the end of the previous fiscal year to ¥2,297,594 thousand. This was mainly due to an increase of ¥120,237 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, as well as an increase of ¥44,841 thousand in retirement benefit liability.

(Net assets)

Total net assets as of January 31, 2023 increased by ¥562,862 thousand from the end of the previous fiscal year to ¥5,727,911 thousand. This was mainly due to a recording of ¥812,641 thousand in profit attributable to owners of parent, while retained earning increased by ¥598,309 thousand as a result of the payment of a dividend of surplus of ¥208,720 thousand.

(3) Analysis of Cash Flows

Cash and cash equivalents (hereinafter referred to as "cash") as of January 31, 2023 was ¥4,917,378 thousand, an increase of ¥857,991 thousand compared with the end of the previous fiscal year.

(Cash flows from operating activities)

Cash provided by operating activities amounted to ¥1,190,208 thousand (cash inflow of ¥1,107,344 thousand in the previous fiscal year). The main inflows were an increase of cash resulting from profit before income taxes of ¥1,332,276 thousand, depreciation of ¥258,900 thousand, and an increase in contract liabilities of ¥120,237 thousand, despite a decrease of cash resulting from income taxes paid of ¥483,692 thousand.

(Cash flows from investing activities)

Cash used in investing activities amounted to ¥174,402 thousand (cash outflow of ¥326,334 thousand in the

previous fiscal year). This was mainly due to a decrease in cash due to purchase of intangible assets of ¥231,375 thousand and purchase of investment securities of ¥110,000 thousand, despite an increase in cash resulting from proceeds from redemption of investment securities of ¥137,910 thousand, proceeds from maturity of insurance funds of ¥33,539 thousand, and proceeds from collection of loans receivable of ¥24,599 thousand.

(Cash flows from financing activities)

Cash used in financing activities amounted to ¥207,261 thousand (cash outflow of ¥255,828 thousand in the previous fiscal year). This was mainly due to dividends paid of ¥208,794 thousand.

(Reference) Trends of cash flow-related indicators

	Fiscal year ended January 31, 2022	Fiscal year ended January 31, 2023
Equity ratio (%)	70.7	71.2
Equity ratio on a market value basis (%)	209.0	183.6
Ratio of interest-bearing liabilities to cash flows (year)	0.0	0.0
Interest coverage ratio (times)	1,508.3	82,395.9

(Notes) 1. The calculation method for each indicator is as follows.

Equity ratio: $\text{equity} \div \text{total assets}$

Equity ratio on a market value basis: $\text{market capitalization} \div \text{total assets}$

Ratio of interest-bearing liabilities to cash flows: $\text{interest-bearing liabilities} \div \text{Cash flows from operating activities}$

Interest coverage ratio: $\text{cash flows from operating activities} \div \text{interest payments}$

- All indicators are calculated using financial values on a consolidated basis.
- Market capitalization is calculated by multiplying the closing share price at the end of the fiscal year by the number of issued shares (after deducting treasury shares) at the end of the fiscal year.
- Cash flows from operating activities use cash flows on the Consolidated Statements of Cash Flows.
- Interest-bearing liabilities cover all liabilities recorded on the Consolidated Balance Sheets that the Company pays interest. Interest payments use the interest paid on the Consolidated Statement of Cash Flows.

(4) Future Outlook

For the fiscal year ending January 31, 2024, the Group forecasts consolidated net sales of ¥6,359 million (up 5.9% year on year), operating profit of ¥937 million (down 24.4% year on year), ordinary profit of ¥951 million (down 28.8% year on year), and profit attributable to owners of parent of ¥629 million yen (down 22.6% year on year).

As for net sales, we plan to increase net sales mainly from the cloud services in the software business, and system development service businesses. In the cloud services of the software business, monthly net sales are expected to increase by approximately 9%, and we expect net sales of desknet's NEO cloud, our principal service, to grow at about the same rate. However, as monthly net sales increase, the growth rate of net sales has been declining, and we recognize that one of the main reasons for this is the low level of awareness of our products and services compared to services of competitors. To address this issue, we implemented taxi advertisements and TV commercials in some areas during the fourth quarter of the fiscal year ended January 31, 2023, and plan to increase investment in TV commercials and other activities to increase awareness of our products and services in the fiscal year ending January 31, 2024. Due to these increases in advertising expenses and higher personnel expenses resulting from higher-than-usual wage increases, the Company plans to report a decrease in each of the profit items under operating profit for the fiscal year ending January 31, 2024.

We will consider how best to spend advertising expenses for the fiscal year ending January 31, 2025 and beyond, taking into consideration the effects of advertising planned for the fiscal year ending January 31, 2024 on product and service recognition and on personnel recruitment. At present, however, we plan to continue investments to improve awareness of our products and services at generally the same level as in the fiscal year ending January 31, 2024 until the fiscal year ending January 31, 2026.

Although operating profit for the fiscal year ending January 31, 2024 will decrease due to the above factors, we forecast a bottoming out in the fiscal year ending January 31, 2024 and aim for net sales of ¥7,875 million and operating profit of ¥1,695 million for the fiscal year ending January 31, 2026 as our medium-term financial results goals. For the fiscal year ending January 31, 2024, we plan to pay a dividend of ¥23 per share, an increase of ¥3, adding another ¥1.5 to the cost of the shareholder benefit program (1.5 yen). In the medium term, we aim at ¥31 per share (payout ratio of approximately 40%) for the fiscal year ending January 31, 2026.

2. Basic Policy on Selection of Accounting Standards

The Company plans to prepare its consolidated financial statements in accordance with generally accepted accounting practices in Japan, taking into account the comparability of consolidated financial statements between different accounting periods and against different companies. In adopting the international financial reporting standards (IFRS), the Company will take appropriate action considering the conditions and trends in Japan and abroad.

3. Consolidated Financial Statements and Principal Notes

(1) Consolidated Balance Sheets

(Thousand yen)

	As of January 31, 2022	As of January 31, 2023
Assets		
Current assets		
Cash and deposits	4,018,261	4,841,218
Accounts receivable - trade, and contract assets	–	687,633
Accounts receivable - trade	663,361	–
Securities	307,499	378,245
Work in process	5,031	–
Supplies	4,822	2,797
Other	89,956	80,302
Allowance for doubtful accounts	(2,055)	(1,646)
Total current assets	5,086,876	5,988,551
Non-current assets		
Property, plant and equipment		
Buildings	92,575	92,575
Accumulated depreciation	(57,049)	(61,064)
Buildings, net	35,526	31,511
Vehicles	21,143	21,305
Accumulated depreciation	(8,201)	(12,672)
Vehicles, net	12,942	8,632
Tools, furniture and fixtures	146,425	109,519
Accumulated depreciation	(135,892)	(102,014)
Tools, furniture and fixtures, net	10,532	7,505
Right of use assets	1,235	1,003
Accumulated depreciation	(1,029)	(835)
Right of use assets, net	205	167
Total property, plant and equipment	59,207	47,816
Intangible assets		
Goodwill	106,039	92,208
Software	223,133	201,803
Software in progress	41,949	50,464
Other	677	677
Total intangible assets	371,800	345,154
Investments and other assets		
Investment securities	1,237,460	1,119,398
Long-term loans receivable	9,059	–
Deferred tax assets	278,100	276,487
Other	245,262	248,355
Allowance for doubtful accounts	(352)	(258)
Total investments and other assets	1,769,531	1,643,983
Total non-current assets	2,200,539	2,036,954
Total assets	7,287,416	8,025,505

(Thousand yen)

	As of January 31, 2022	As of January 31, 2023
Liabilities		
Current liabilities		
Accounts payable - trade	127,265	141,938
Income taxes payable	278,483	295,087
Contract liabilities	–	999,091
Provision for bonuses	77,870	79,133
Unearned revenue	640,191	–
Lease liabilities	240	207
Other	417,299	386,672
Total current liabilities	1,541,350	1,902,131
Non-current liabilities		
Retirement benefit liability	323,004	367,845
Lease liabilities	124	104
Other	257,887	27,512
Total non-current liabilities	581,016	395,462
Total liabilities	2,122,367	2,297,594
Net assets		
Shareholders' equity		
Share capital	296,672	297,161
Capital surplus	332,956	333,445
Retained earnings	4,449,727	5,048,037
Treasury shares	(384)	(384)
Total shareholders' equity	5,078,973	5,678,260
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	67,958	23,836
Foreign currency translation adjustment	4,390	15,509
Total accumulated other comprehensive income	72,349	39,345
Non-controlling interests	13,726	10,304
Total net assets	5,165,048	5,727,911
Total liabilities and net assets	7,287,416	8,025,505

(2) Consolidated Statements of Income and Comprehensive Income

Consolidated Statements of Income

(Thousand yen)

	For the fiscal year ended January 31, 2022	For the fiscal year ended January 31, 2023
Net sales	5,920,092	6,007,080
Cost of sales	2,890,583	2,774,775
Gross profit	3,029,509	3,232,305
Selling, general and administrative expenses	1,782,097	1,991,138
Operating profit	1,247,411	1,241,167
Non-operating income		
Interest income	24,723	31,495
Gain on sale of securities	4,550	29,149
Surrender value of insurance policies	62,498	17,319
Foreign exchange gains	5,689	11,642
Other	17,036	5,994
Total non-operating income	114,498	95,600
Non-operating expenses		
Organization expenses	615	–
Interest expenses	179	14
Loss on investments in investment partnerships	–	922
Other	7	69
Total non-operating expenses	802	1,006
Ordinary profit	1,361,107	1,335,761
Extraordinary income		
Gain on sale of non-current assets	575	–
Gain on redemption of investment securities	–	35,899
Total extraordinary income	575	35,899
Extraordinary losses		
Loss on retirement of non-current assets	0	–
Impairment losses	49,208	1,571
Loss on redemption of investment securities	482	–
Loss on valuation of investment securities	52,499	37,813
Total extraordinary losses	102,190	39,384
Profit before income taxes	1,259,492	1,332,276
Income taxes - current	442,171	500,787
Income taxes - deferred	(44,023)	22,927
Total income taxes	398,147	523,714
Profit	861,344	808,561
Loss attributable to non-controlling interests	(4,982)	(4,079)
Profit attributable to owners of parent	866,326	812,641

Consolidated Statements of Comprehensive Income

(Thousand yen)

	For the fiscal year ended January 31, 2022	For the fiscal year ended January 31, 2023
Profit	861,344	808,561
Other comprehensive income		
Valuation difference on available-for-sale securities	35,697	(44,122)
Foreign currency translation adjustment	6,930	11,776
Total other comprehensive income	42,628	(32,345)
Comprehensive income	903,973	776,216
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	908,377	779,637
Comprehensive income attributable to non-controlling interests	(4,404)	(3,421)

(3) Consolidated Statements of Changes in Equity

Fiscal year ended January 31, 2022 (from February 1, 2021 to January 31, 2022)

(Thousand yen)

	Shareholders' equity				
	Share capital	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at beginning of period	295,303	331,587	3,763,453	(384)	4,389,960
Changes during period					
Issuance of new shares - exercise of share acquisition rights	1,369	1,369			2,738
Dividends of surplus			(163,809)		(163,809)
Profit attributable to owners of parent			866,326		866,326
Change in scope of consolidation			(16,243)		(16,243)
Net changes in items other than shareholders' equity					
Total changes during period	1,369	1,369	686,274	-	689,012
Balance at end of period	296,672	332,956	4,449,727	(384)	5,078,973

	Accumulated other comprehensive income			Non-controlling interests	Total net assets
	Valuation difference on available-for-sale securities	Foreign currency translation adjustment	Total accumulated other comprehensive income		
Balance at beginning of period	32,260	(1,962)	30,298	10,847	4,431,107
Changes during period					
Issuance of new shares - exercise of share acquisition rights					2,738
Dividends of surplus					(163,809)
Profit attributable to owners of parent					866,326
Change in scope of consolidation					(16,243)
Net changes in items other than shareholders' equity	35,697	6,353	42,050	2,878	44,929
Total changes during period	35,697	6,353	42,050	2,878	733,941
Balance at end of period	67,958	4,390	72,349	13,726	5,165,048

Fiscal year ended January 31, 2023 (from February 1, 2022 to January 31, 2023)

(Thousand yen)

	Shareholders' equity				
	Share capital	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at beginning of period	296,672	332,956	4,449,727	(384)	5,078,973
Cumulative effects of changes in accounting policies			(5,611)		(5,611)
Restated balance	296,672	332,956	4,444,116	(384)	5,073,361
Changes during period					
Issuance of new shares - exercise of share acquisition rights	489	489			978
Dividends of surplus			(208,720)		(208,720)
Profit attributable to owners of parent			812,641		812,641
Net changes in items other than shareholders' equity					
Total changes during period	489	489	603,921	-	604,899
Balance at end of period	297,161	333,445	5,048,037	(384)	5,678,260

	Accumulated other comprehensive income			Non-controlling interests	Total net assets
	Valuation difference on available-for-sale securities	Foreign currency translation adjustment	Total accumulated other comprehensive income		
Balance at beginning of period	67,958	4,390	72,349	13,726	5,165,048
Cumulative effects of changes in accounting policies					(5,611)
Restated balance	67,958	4,390	72,349	13,726	5,159,437
Changes during period					
Issuance of new shares - exercise of share acquisition rights					978
Dividends of surplus					(208,720)
Profit attributable to owners of parent					812,641
Net changes in items other than shareholders' equity	(44,122)	11,118	(33,003)	(3,421)	(36,425)
Total changes during period	(44,122)	11,118	(33,003)	(3,421)	568,474
Balance at end of period	23,836	15,509	39,345	10,304	5,727,911

(4) Consolidated Statements of Cash Flows

(Thousand yen)

	For the fiscal year ended January 31, 2022	For the fiscal year ended January 31, 2023
Cash flows from operating activities		
Profit before income taxes	1,259,492	1,332,276
Depreciation	234,309	258,900
Impairment losses	49,208	1,571
Amortization of goodwill	13,831	13,831
Increase (decrease) in allowance for doubtful accounts	(427)	(502)
Increase (decrease) in provision for bonuses	(38,005)	1,262
Increase (decrease) in retirement benefit liability	9,884	44,841
Interest and dividend income	(24,723)	(31,495)
Foreign exchange losses (gains)	(5,876)	(15,456)
Interest expenses	179	14
Loss (gain) on sale of securities	(4,550)	(29,149)
Loss (gain) on investments in investment partnerships	(4,707)	922
Loss (gain) on redemption of investment securities	482	(35,899)
Loss (gain) on valuation of investment securities	52,499	37,813
Loss (gain) on sale and retirement of non-current assets	(575)	–
Surrender value of insurance policies	(62,498)	(17,319)
Decrease (increase) in trade receivables	59,707	–
Decrease (increase) in trade receivables and contract assets	–	(18,670)
Decrease (increase) in inventories	1,515	1,988
Decrease (increase) in advance payments to suppliers	(37)	(18)
Decrease (increase) in prepaid expenses	(9,657)	1,141
Increase (decrease) in trade payables	(25,058)	14,673
Increase (decrease) in accounts payable - other	(131,832)	8,530
Increase (decrease) in accrued expenses	(20,172)	(3,831)
Increase (decrease) in accrued consumption taxes	(9,069)	(24,372)
Increase (decrease) in advances received	64	–
Increase (decrease) in deposits received	(8,983)	(11,192)
Increase (decrease) in contract liabilities	–	120,237
Increase (decrease) in unearned revenue	69,990	–
Increase (decrease) in long-term unearned revenue	26,616	–
Other, net	8,566	(6,943)
Subtotal	1,440,172	1,643,152
Interest and dividends received	24,726	30,762
Interest paid	(73)	(14)
Income taxes paid	(403,272)	(483,692)
Insurance premiums refunded cancellation received	45,790	–
Net cash provided by (used in) operating activities	1,107,344	1,190,208

(Thousand yen)

	For the fiscal year ended January 31, 2022	For the fiscal year ended January 31, 2023
Cash flows from investing activities		
Payments into time deposits	(10,503)	(7,202)
Proceeds from withdrawal of time deposits	80,079	–
Purchase of property, plant and equipment	(18,152)	(1,933)
Proceeds from sale of property, plant and equipment	575	–
Purchase of intangible assets	(273,751)	(231,375)
Purchase of investment securities	(143,896)	(110,000)
Proceeds from redemption of investment securities	12,932	137,910
Proceeds from collection of loans receivable	10,800	24,599
Proceeds from distributions from investment partnerships	4,000	2,500
Payments of leasehold and guarantee deposits	(855)	(848)
Proceeds from refund of leasehold and guarantee deposits	105	1,155
Purchase of insurance funds	(16,150)	(16,007)
Proceeds from maturity of insurance funds	36,090	33,539
Other, net	(7,609)	(6,738)
Net cash provided by (used in) investing activities	(326,334)	(174,402)
Cash flows from financing activities		
Repayments of long-term borrowings	(100,929)	–
Proceeds from issuance of shares	2,738	978
Dividends paid	(163,709)	(208,794)
Proceeds from share issuance to non-controlling shareholders	7,282	–
Other, net	(1,211)	554
Net cash provided by (used in) financing activities	(255,828)	(207,261)
Effect of exchange rate change on cash and cash equivalents	37,402	49,446
Net increase (decrease) in cash and cash equivalents	562,583	857,991
Cash and cash equivalents at beginning of period	3,418,613	4,059,387
Increase in cash and cash equivalents resulting from inclusion of subsidiaries in consolidation	78,190	–
Cash and cash equivalents at end of period	4,059,387	4,917,378

(5) Notes to Consolidated Financial Statements

(Notes on going concern assumption)

Not applicable.

(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 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 fiscal year under review, has been added to or subtracted from retained earnings at the beginning of the fiscal year under review, and the new accounting policies have been applied from the said beginning balance.

As a result, for fiscal year ended January 31, 2023, net sales increased by ¥4,260 thousand and cost of sales decreased by ¥1,524 thousand, while operating profit, ordinary profit, and profit before income taxes increased by ¥5,784 thousand, respectively. In addition, the balance of retained earnings at the beginning of the period decreased by ¥5,611 thousand.

The impact on the per share information is stated in the relevant section.

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-trade and contract assets” starting from 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 fiscal year under review. In addition, “decrease (increase) in trade receivables” which was presented under “cash flows from operating activities” in the consolidated statements of cash flows for the previous fiscal year is included in “decrease (increase) in trade receivables and contract assets” starting from the fiscal year under review, and “increase (decrease) in unearned revenue,” “increase (decrease) in advances received” and “increase (decrease) in long-term unearned revenue” are included in “increase (decrease) in contract liabilities.” 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 89-3 of the Revenue Recognition Accounting Standard, the Company does not present the note “Revenue recognition accounting”

for the fiscal year ended January 31, 2022.

(Application of the accounting standard for fair value measurement, etc.)

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 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 consolidated financial statements.

In addition, in the “Notes on Financial Instruments,” the Company has decided to provide notes on items such as the breakdown of the fair value of financial instruments by level of fair value. However, in accordance with the transitional treatment prescribed in Paragraph 7-4 of the “Implementation Guidance on Disclosures about Fair Value of Financial Instruments” (ASBJ Guidance No. 19, July 4, 2019), the Company does not present such notes for the fiscal year ended January 31, 2022.

(Changes in presentation)

(Consolidated statements of income)

“Foreign exchange gains” which was included in “other” under “non-operating income” in the previous fiscal year, is presented independently in the fiscal year under review because it has become significant in terms of amount. The consolidated financial statements for the previous fiscal year have been reclassified to reflect this change in presentation.

As a result, ¥22,726 thousand presented as “other” under “non-operating income” in the consolidated statements of income for the previous fiscal year has been reclassified into “foreign exchange gains” of ¥5,689 thousand and “other” of ¥17,036 thousand.

(Revenue recognition accounting)

1. Disaggregation of revenue from contracts with customers

(Thousand yen)

	Reportable segment			Total
	Software business	System development service business	Overseas business	
Recurring revenue (Note 1)	3,445,595	1,683,145	4,790	5,133,531
One-time revenue (Note 2)	764,377	104,139	5,031	873,549
Revenue from contracts with customers	4,209,972	1,787,284	9,822	6,007,080
Net sales to outside customers	4,209,972	1,787,284	9,822	6,007,080

(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

2. Information providing a basis for understanding revenue from contracts with customers

The principal performance obligations in the Company and its consolidated subsidiaries' principal businesses relating to revenue from contracts with customers and the usual time at which such performance obligations are fulfilled (the usual time at which revenue is recognized) are as follows.

1) Software business and overseas business

In the software business and overseas business, the Company mainly provides cloud services, such as groupware desknet's NEO, license sales (licensing), support services, and product customization.

For cloud services and support services, the Company discerns a performance obligation as the provision of services based on a contract with a customer over the contract period. The performance obligation is determined to be fulfilled over time, and revenue is recognized over the contract period in the amount of consideration promised in the contract with the customer.

For license sales, the Company discerns a performance obligation as the granting of a license based on a contract with a customer. The performance obligation is deemed to be fulfilled at the time the license is

granted and revenue is recognized at the time (point in time) the license is granted. When license sales include support services, the Company discerns license sales and support services as separate performance obligations, allocates the transaction prices based on their stand-alone selling prices, and recognizes revenue for license sales and support services separately.

For development contracts, such as product customization, the Company discerns a performance obligation as the provision of software with specifications required based on a contracts with a customer. The performance obligation is deemed to be fulfilled over a certain period of time, and the Company estimates the degree of progress toward fulfilling the performance obligation and recognizes revenue over a certain period of time based on the degree of completion of the performance obligation. The progress of the fulfillment of performance obligations is estimated by the input method, calculating the ratio of costs incurred to the total estimated amount of costs. If the progress of completion cannot be reasonably estimated, but it is expected that the costs incurred will be recovered, revenue is recognized using the cost recovery method.

2) System development service business

In the system development services business, the Company mainly provides system engineering services based on quasi-entrustment contracts with customers.

For systems engineering services under quasi-entrustment contracts with customers, the Company discerns a performance obligation as the provision of engineering work based on a contracts with a customer. The performance obligation is deemed to be fulfilled over time, and the amount of consideration promised in the contract with the customer is recognized as revenue over the contract period.

According to the terms of payment related to the Company and its consolidated subsidiaries' transactions, payment is generally due within a short period of time and significant financial elements are not included in a contract.

3. Information about the relationship between the fulfillment of performance obligations based contracts with customers and cash flows arising from such contracts, and the amount and timing of revenue expected to be recognized in the following fiscal year or later from contracts with customers that existed at the end of the fiscal year under review

1) Balance of contract assets and contract liabilities, etc.

(Thousand yen)

	Fiscal year ended January 31, 2023	
	Balance at February 1, 2022	Balance at January 31, 2023
Claims arising from contracts with customers	662,933	676,355
Contract assets	6,002	11,277
Contract liabilities	878,850	999,091

Contract assets primarily relate to the Group's rights to consideration for contracts for made-to-order software, such as product customization, for which revenue is recognized because the performance obligation has been fulfilled as of the balance sheet date, but an invoice has not been issued. Once the Group has unconditional rights to consideration, it reclassifies contract assets to receivables from contracts with customers.

Contract liabilities primarily relate to advances received from customers for cloud and support services. Contract liabilities are reversed when revenue is recognized.

The amount of revenue recognized in the fiscal year ended January 31, 2023 that was included in the contract liability balance as of February 1, 2022 was ¥604,146 thousand. The increase in contract liabilities of ¥120,237 thousand in the fiscal year ended January 31, 2023 was mainly due to an increase in advances received for support services.

In addition, the amount of revenue recognized from performance obligations that were fulfilled (or partially fulfilled) in prior periods was insignificant in the fiscal year ended January 31, 2023.

2) Transaction prices allocated to remaining performance obligations

The aggregate transaction prices allocated to the remaining performance obligations and the period over which revenue is expected to be recognized are as follows.

(Thousand yen)

	Fiscal year ended January 31, 2023
Within 1 year	707,851
More than 1 year but within 2 years	122,547
More than 2 years but within 3 years	93,843
More than 3 years	74,848
Total	999,091

(Segment information, etc.)

[Segment information]

1. Summary of reportable segments

The Group's reportable segments are the units of the Group for which discrete financial information is available and for which the Board of Directors regularly conducts reviews to make decisions on the allocation of management resources and evaluates the segments' performances.

The Company has been conducting performance evaluations for the Company and each consolidated subsidiaries. Therefore, the Company defines each company as constituent units of business segments and designates three reportable segments: "Software business," "System development service business" and "Overseas business".

The "software business" is a business operated by the Company and it mainly provides groupware products through cloud service, having desknet's NEO as the flagship product. The software business also sells licenses as packaged products, provides services related to the above products, and undertakes contract development of products that will lead to future products and services.

The "system development service business" is operated by 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.

The "overseas business" is operated by overseas subsidiaries and sells our products and services mainly in the ASEAN region.

2. Method of calculating the amounts of net sales, profit or loss, assets, liabilities and other accounts by reportable segment

The accounting procedures for reportable business segments use the same principles and procedures of the accounting procedures adopted to prepare the consolidated financial statements. Segment profit consists of figures based on operating profit. Intersegment net sales or transfers are based on prevailing market prices.

Segment assets and liabilities are not disclosed as they are not provided to the Board of Directors on a regular basis and are not subject to examinations for decisions on the allocation of management resources and performance evaluations.

As described in "Changes in accounting policies," the Company has applied the Accounting Standard for Revenue Recognition, etc. from the consolidated financial statements for the fiscal year under review, and has changed its accounting method for revenue recognition. Therefore, the method for calculating profit or loss by business segment has similarly been changed.

As a result of this change, net sales and segment profit of the "software business" increased by ¥4,469 thousand and ¥5,994 thousand, respectively, and net sales and segment profit of the "overseas business" decreased by ¥209 thousand in the fiscal year under review compared with the previous method. There is no impact on the system development services business.

3. Information on the amounts of net sales, profit or loss, assets, liabilities and other items by reportable segment
For the fiscal year ended January 31, 2022 (from February 1, 2021 to January 31, 2022)

(Thousand yen)

	Reportable segment				Adjustment	Amount recorded in consolidated financial statements
	Software business	System development service business	Overseas business	Total		
Net sales						
Net sales to outside customers	3,925,031	1,992,061	2,998	5,920,092	–	5,920,092
Intersegment net sales or transfers	1,923	32,011	22,231	56,167	(56,167)	–
Total	3,926,955	2,024,073	25,230	5,976,259	(56,167)	5,920,092
Segment profit (loss)	1,165,699	126,819	(45,306)	1,247,212	198	1,247,411
Other accounts						
Depreciation	226,611	3,767	3,930	234,309	–	234,309
Amortization of goodwill	–	13,831	–	13,831	–	13,831
Impairment losses	41,800	–	7,408	49,208	–	49,208

(Notes) 1. The segment profit (loss) adjustment of ¥198 thousand represents elimination of intersegment transactions.

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

3. Depreciation includes amortization of long-term prepaid expenses.

For the fiscal year ended January 31, 2023 (from February 1, 2022 to January 31, 2023)

(Thousand yen)

	Reportable segment				Adjustment	Amount recorded in consolidated financial statements
	Software business	System development service business	Overseas business	Total		
Net sales						
Net sales to outside customers	4,209,972	1,787,284	9,822	6,007,080	–	6,007,080
Intersegment net sales or transfers	2,448	28,377	–	30,826	(30,826)	–
Total	4,212,421	1,815,662	9,822	6,037,906	(30,826)	6,007,080
Segment profit (loss)	1,229,464	94,088	(82,361)	1,241,192	(25)	1,241,167
Other accounts						
Depreciation	253,701	3,495	1,703	258,900	–	258,900
Amortization of goodwill	–	13,831	–	13,831	–	13,831
Impairment losses	–	–	1,571	1,571	–	1,571

(Notes) 1. The segment profit (loss) adjustment of ¥(25) thousand represents elimination of intersegment transactions.

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

3. Depreciation includes amortization of long-term prepaid expenses.

[Related information]

Fiscal year ended January 31, 2022 (from February 1, 2021 to January 31, 2022)

1. Information on product and service

Description is omitted since similar information is disclosed in the segment information.

2. Information by region

(1) Net sales

Description is omitted as net sales to external customers in Japan exceed 90% of net sales on the consolidated statements of income.

(2) Property, plant and equipment

Description is omitted as the amount of property, plant and equipment located in Japan exceeds 90% of the amount of property, plant and equipment on the consolidated balance sheet.

3. Information on major customer

(Thousand yen)

Customer	Net sales	Relevant segment
DAIWABO INFORMATION SYSTEM CO., LTD.	688,338	Software business

Fiscal year ended January 31, 2023 (from February 1, 2022 to January 31, 2023)

1. Information for each product and service

Description is omitted since similar information is disclosed in the segment information.

2. Information by region

(1) Net sales

Description is omitted as net sales to external customers in Japan exceed 90% of net sales on the consolidated statements of income.

(2) Property, plant and equipment

Description is omitted as the amount of property, plant and equipment located in Japan exceeds 90% of the amount of property, plant and equipment on the consolidated balance sheet.

3. Information on major customer

(Thousand yen)

Customer	Net sales	Relevant segment
DAIWABO INFORMATION SYSTEM CO., LTD.	766,132	Software business

[Information on impairment losses on non-current assets by reportable segment]

For the fiscal year ended January 31, 2022 (from February 1, 2021 to January 31, 2022)

(Thousand yen)

	Software business	System development service business	Overseas business	Corporate and elimination	Total
Impairment losses	41,800	–	7,408	49,208	49,208

For the fiscal year ended January 31, 2023 (from February 1, 2022 to January 31, 2023)

(Thousand yen)

	Software business	System development service business	Overseas business	Corporate and elimination	Total
Impairment losses	–	–	1,571	1,571	1,571

[Information on amortization of goodwill and balance of unamortized goodwill by reportable segment]

For the fiscal year ended January 31, 2022 (from February 1, 2021 to January 31, 2022)

(Thousand yen)

	Reportable segment				Corporate and elimination	Total
	Software business	System development service business	Overseas business	Total		
Depreciation for the period under review	–	13,831	–	13,831	–	13,831
Balance at end of period	–	106,039	–	106,039	–	106,039

For the fiscal year ended January 31, 2023 (from February 1, 2022 to January 31, 2023)

(Thousand yen)

	Reportable segment				Corporate and elimination	Total
	Software business	System development service business	Overseas business	Total		
Depreciation for the period under review	–	13,831	–	13,831	–	13,831
Balance at end of period	–	92,208	–	92,208	–	92,208

[Information on gain on negative goodwill by reportable segment]

Not applicable.

(Per share information)

	For the fiscal year ended January 31, 2022	For the fiscal year ended January 31, 2023
Net assets per share	¥345.53	¥383.36
Basic earnings per share	¥58.17	¥54.50
Diluted earnings per share	¥57.97	¥54.38

(Notes) 1. The basis for calculating basic earnings per share and diluted earnings per share is as follows:

	For the fiscal year ended January 31, 2022	For the fiscal year ended January 31, 2023
Basic earnings per share		
Profit attributable to owners of parent (thousand yen)	866,326	812,641
Amount not attributable to shareholders of common shares (thousand yen)	–	–
Profit attributable to owners of parent relevant to common shares (thousand yen)	866,326	812,641
Average number of common shares during the period (shares)	14,893,989	14,911,167
Diluted earnings per share		
Adjustment of profit attributable to owners of parent (thousand yen)	–	–
Increase in common shares (shares)	49,463	32,507
(Of which, number of share acquisition rights (shares))	(49,463)	(32,507)
Overview of potential shares that were not included in the calculation of diluted earnings per share due to no diluting effect	–	–

2. As described in “Changes in accounting policies,” the Company has applied “Accounting Standard for Revenue Recognition” (ASBJ Statement No. 29, March 31, 2020), etc. from the beginning of the fiscal year under review, in accordance with the transitional treatment provided for in the proviso to Paragraph 84 of the “Accounting Standard for Revenue Recognition.” The effect of this change on per share information for the fiscal year ended January 31, 2023 was minor.

3. The basis for calculating net assets per share is as follows:

	As of January 31, 2022	As of January 31, 2023
Total amount of net assets (thousand yen)	5,165,048	5,727,911
Amount to be deducted from total net assets (thousand yen)	13,726	10,304
Net assets at the end of the period associated with common shares (thousand yen)	5,151,322	5,717,606
Number of common shares at the end of the period used to calculate net assets per share (shares)	14,908,577	14,914,577

(Significant subsequent events)

(Purchase of treasury shares)

At a meeting of the Board of Directors held on March 13, 2023, the Company resolved matters pertaining to purchase of treasury shares based on Article 156 of the Companies Act as applied mutatis mutandis pursuant to Article 165, Paragraph 3 of same Act.

1. Reason for purchase of treasury shares

The Company will purchase treasury shares in order to improved capital efficiency and to implement a flexible capital policy in response to the business environment.

2. Details of matters related to the purchase

- | | |
|--|---|
| (1) Type of shares to be acquired: | Common shares of the Company |
| (2) Total number of shares that may be acquired: | 100,000 shares (maximum)
(0.67% of the total number of issued shares
(excluding treasury shares)) |
| (3) Total purchase price of shares: | ¥100,000,000 (maximum) |
| (4) Period of purchase: | March 14, 2023 to May 31, 2023 |
| (5) Method of purchase: | Market purchase on the Tokyo Stock Exchange based
on discretionary transaction agreements |