

Summary of Financial Results for First Quarter of the Year Ending December 2023 [Japan GAAP] (Consolidated)

2023

Name of Company: LTS, Inc.	Stock Exchange Listing: Tokyo
Stock Code: 6560	URL: https://lt-s.jp
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Date of filing of quarterly report: May 15, 2023	
Date of commencement of dividend payment: -	
Preparation of quarterly supplementary materials: Yes	
Convening of a quarterly results meeting: No	

(Amounts less than one million are rounded down)

1. Financial results for first quarter of fiscal year ending December 2023 (January 1, 2023 - March 31, 2023)

(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	%
Q1 of the year ending December 2023	2,820	18.3	306	15.7	338	29.1	229	26.9
Q1 of the year ended December 2022	2,385	36.9	265	54.0	262	46.8	180	48.9

(Note) Comprehensive income Q1 FY2023: 230 million yen (24.7%) Q1 FY2022: 184 million yen (52.5%)

	Profit per share	Profit per share fully diluted
	yen	yen
Q1 of the year ending December 2023	51.02	49.34
Q1 of the year ended December 2022	43.11	41.40

(2) Financial position (consolidated)

	Total assets	Net assets	Capital adequacy ratio
	million yen	million yen	%
Q1 of the year ending December 2023	5,764	3,490	59.8
Year ended December 2022	5,595	3,249	57.5

(Reference) Shareholders' equity Q1 FY2023: 3,447 million yen FY2022: 3,218 million yen

2. Dividends

	Dividend per share				
	End of Q1	End of Q2	End of Q3	End of FY	Total
	yen	yen	yen	yen	yen
Year ended December 2022	-	0.00		0.00	0.00
Year ending December 2023	-				
Year ending December 2023 (forecast)		0.00		0.00	0.00

(Note) Revision to the most recently announced dividend forecast: No

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

(Note) Revisions to the most recently announced earnings forecast: No

* Notice

(1) Changes in main subsidiaries during year to quarter end (Changes in specific subsidiaries accompanied by changes in the scope of consolidation): No

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

(2) Application of accounting treatment specific to the preparation of the quarterly consolidated financial statements: No

(3) 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

(4) 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

Q1 of year ending December 2023	4,495,375shares	Year ended December 2022	4,495,375shares
Q1 of year ending December 2023	-shares	Year ended December 2022	-shares
Q1 of year ending December 2023	4,495,375shares	Q1 of year ended December 2022	4,191,328shares

* Quarterly financial results summaries are not subject to audit.

* Cautionary statement regarding business results forecasts and special notes

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1. Qualitative Information related to the Consolidated Business Results

(1) Explanation of Operating Results

During the first three months of the fiscal year (January 1 to March 31, 2023), the Japanese economy showed signs of a gradual recovery in consumer spending and capital investment, despite the lingering impact of COVID-19. On the other hand, prolonged geopolitical risks and continued tightening of global monetary policy have led to rising prices, supply-side constraints, and fluctuations in financial and capital markets. As such, the future of the global economy remains uncertain.

In the information services industry, which is the main business domain of our Group, digital transformation (DX) initiatives are in full swing to respond to changes in the social environment. Demand for services to support internal reform activities, including introducing task performing robots such as AI and RPA (robotic process automation) and promoting telecommuting and other work style reform, also increased, while demand for diversified project support remained steady.

Under these circumstances, the Group sought to become the “Best Partner for the Digital Era” by not only supporting individual reform projects but also providing services beyond the framework of consulting to help our customers implement change as a partner in creating people, businesses, and organizations that can respond to change and pave the way for the future. 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 continued actively hiring human resources and providing training activities as we promoted initiatives to expand our ability to provide services in a stable manner. In our platform business, we actively promoted the development of Growth Company Club, which facilitates growth and collaboration among IT companies, on top of existing services Assign Navi and Consultant Job.

As a result of the above, during the first three months of the fiscal year under review, we achieved net sales of ¥2,820.712 million (up 18.3% year on year), operating profit of ¥306.930 million (up 15.7% year on year), and ordinary profit of ¥338.304 million (up 29.1% year on year), and profit attributable to owners of parent of ¥229.371 million (up 26.9% year on year).

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

(Professional Services Business)

In our professional services business, as the environment surrounding our IT division is undergoing drastic changes due to various restrictions on corporate activities that were put in place to prevent the spread of COVID-19 were eased, 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, onsite deployment) based on our strength of visualizing and improving operations utilizing business process management. In addition to actively working with FPT Japan Holdings Co., Ltd. and Yokogawa Digital Corporation as part of a capital and business alliance formed last fiscal year, we participated in the 9th International Conference on Flood Management (ICFM9), exhibiting our supply chain impact visualization service using flood hazard maps, satellite data, and AI technology. We also promoted the dissemination of information externally, including activities leading to DX and Sustainability Transformation (SX) of local governments and regions through the Digital Innovation Human Resource Development Program in Shizuoka Prefecture and case studies in Hiroshima and Gunma Prefectures.

As a result, net sales in the professional services business came to ¥2,519.2 million (up 20.6% year on year) and segment profit (operating profit) came to ¥298.614 million (up 22.6% 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 12,804 including both corporate and individual members as of March 31, 2023. This steady growth represents a 310-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. At the same time, we actively pursued marketing activities to expand and increase the profitability of Growth Company Club, which was launched as a members-only community for IT companies seeking to grow their own company, their customers, and the IT industry. We also strengthened our organizational structure to handle earnings growth from existing services.

As a result, net sales in the platform business came to ¥464.926 million (up 16.9% year on year), and the segment profit (operating profit) came to ¥8.316 million (down 61.7% year on year).

(2) Explanation of Financial Position

Total assets at the end of the first three months of the fiscal year were ¥5,764.120 million, up ¥168.395 million from the end of the previous fiscal year. This was primarily due to a ¥1,200 million increase in securities, a ¥235.006 million increase in accounts receivable and contract assets, and a ¥1,194.418 million decrease in cash and deposits.

Liabilities came to ¥2,274.078 million, down ¥72.237 million from the end of the previous fiscal year. This was primarily due to a ¥150.503 million decrease in accounts payable - other and a ¥74.382 million decrease in long-term borrowings.

Net assets amounted to ¥3,490.041 million, an increase of ¥240.633 million from the end of the previous fiscal year. This was primarily due to a ¥229.371 million increase in retained earnings. The equity ratio was 59.8%.

(3) Explanation of Consolidated Earnings Forecasts and Other Future Projections

In regard to the consolidated earnings forecast for the fiscal year ending December 2023, no changes have been made to the full-year consolidated earnings forecast announced on February 10, 2023.

2. Quarterly Consolidated Financial Statements and Main Notes

(1) Quarterly Consolidated Balance Sheet

(Thousands of yen)

	Previous consolidated fiscal year (ended December 31, 2022)	First three months of the current fiscal year (ended March 31, 2023)
Assets		
Current assets		
Cash and deposits	2,982,895	1,788,476
Electronically recorded monetary claims - operating	133,082	133,564
Accounts receivable and contract assets	1,384,481	1,619,488
Securities	–	1,200,000
Work in process	22,497	17,950
Allowance for doubtful accounts	(1,837)	(1,963)
Other	94,197	83,530
Total current assets	4,615,316	4,841,047
Non-current assets		
Property, plant and equipment	272,728	281,370
Intangible fixed assets		
Goodwill	100,291	90,105
Software	466	309
Software in progress	2,423	6,591
Total intangible fixed assets	103,180	97,006
Investments and other assets		
Deferred tax assets	176,091	153,127
Leasehold and guarantee deposits	206,003	151,284
Investment securities	163,724	181,596
Other	58,679	58,687
Total investments and other assets	604,498	544,695
Total non-current assets	980,407	923,073
Total assets	5,595,724	5,764,120

(Thousands of yen)

	Previous consolidated fiscal year (ended December 31, 2022)	First three months of the current fiscal year (ended March 31, 2023)
Liabilities		
Current liabilities		
Accounts payable - trade	780,447	828,279
Current portion of long-term borrowings	273,456	269,954
Accounts payable - other	394,798	244,294
Income taxes payable	60,620	96,077
Provision for bonuses	111,496	94,860
Provision for bonuses for directors (and other officers)	4,950	4,950
Contract liabilities	20,224	25,237
Other	182,633	259,484
Total current liabilities	1,828,626	1,823,140
Non-current liabilities		
Long-term borrowings	408,760	337,880
Retirement benefit liabilities	107,041	111,169
Deferred tax liabilities	539	539
Other	1,349	1,349
Total non-current liabilities	517,689	450,938
Total liabilities	2,346,316	2,274,078
Net assets		
Shareholders' equity		
Share capital	728,090	728,090
Capital surplus	978,992	978,992
Retained earnings	1,510,195	1,739,567
Total shareholders' equity	3,217,278	3,446,650
Accumulated other comprehensive income		
Foreign currency translation adjustment	891	889
Total accumulated other comprehensive income	891	889
Subscription rights to shares	26,386	36,817
Non-controlling interests	4,851	5,683
Total net assets	3,249,408	3,490,041
Liabilities and net assets	5,595,724	5,764,120

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

Quarterly consolidated statement of income

First three months of the fiscal year

(Thousands of yen)

	First three months of the previous fiscal year (January 1 - March 31, 2022)	First three months of the current fiscal year (January 1 - March 31, 2023)
Net sales	2,385,332	2,820,712
Cost of sales	1,565,567	1,828,799
Gross profit	819,764	991,913
Selling, general and administrative expenses	554,593	684,982
Operating profit	265,171	306,930
Non-operating income		
Interest income	6	7
Foreign exchange gains	–	1
Surrender value of insurance policies	7	–
Subsidy income	–	12,815
Share of profit of entities accounted for using equity method	–	17,871
Other	104	1,698
Total non-operating income	118	32,394
Non-operating expenses		
Interest expenses	1,409	1,007
Foreign exchange losses	166	–
Purchase of treasury shares	1,499	–
Other	137	13
Total non-operating expenses	3,212	1,020
Ordinary profit	262,077	338,304
Profit before income taxes	262,077	338,304
Income taxes-current	43,034	85,137
Income taxes-deferred	34,631	22,963
Total income taxes	77,666	108,101
Profit	184,411	230,203
Profit attributable to non-controlling interests	3,715	832
Profit attributable to owners of parent	180,695	229,371

Quarterly consolidated statement of comprehensive income

First three months of the fiscal year

(Thousands of yen)

	First three months of the previous fiscal year (January 1 - March 31, 2022)	First three months of the current fiscal year (January 1 - March 31, 2023)
Profit	184,411	230,203
Other comprehensive income		
Foreign currency translation adjustment	170	(1)
Total other comprehensive income	170	(1)
Comprehensive income	184,581	230,202
(Breakdown)		
Comprehensive income attributable to owners of parent	180,866	229,369
Comprehensive income attributable to noncontrolling interests	3,715	832

(3) Notes to the Quarterly Consolidated Financial Statements

(Notes Related to Going Concern Assumptions)

Not applicable.

(Changes in Accounting Policies)

First three months of the current fiscal year (January 1 - March 31, 2023)
(Application of Implementation Guidance for the Accounting Standard for Fair Value Measurement) The Implementation Guidance for the Accounting Standard for Fair Value Measurement (ASBJ Implementation Guidance No. 31, June 17, 2021) has been applied from the beginning of the first quarter of the fiscal year under review. Following the transitional treatment set forth in paragraph 27-2 of the Implementation Guidance for the Accounting Standard for Fair Value Measurement, 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 quarterly financial statements.

(Additional Information)

First three months of the current fiscal year (January 1 - March 31, 2023)
(Treatment of Accounting and Disclosure When Applying the Group Tax Sharing System) LTS, Inc. and some subsidiaries have transitioned from the consolidated taxation system to the group tax sharing system as of the first quarter of the fiscal year under review. In conjunction with this, the Company is following “Treatment of Accounting and Disclosure When Applying the Group Tax Sharing System” (ASBJ Practical Issues Task Force [PITF] No. 42, August 12, 2021) for accounting treatment and disclosure of corporate and local income taxes and tax effect accounting. Moreover, in accordance with paragraph 32 (1) of PITF No. 42, the Company has assumed that there is no impact from the change in accounting policy resulting from the application of PITF No. 42.

(Segment Information)

First three months of the current fiscal year (January 1 - March 31, 2023)

1. Information Regarding Amounts of Net Sales, Profit, and Loss for Each Reporting Segment

(Thousands of yen)

	Reporting Segment			Adjustment	Total Shown in Quarterly Consolidated Statement of Income (Note)
	Professional Services Business	Platform Business	Total		
Net sales					
Net sales to unaffiliated customers	2,510,920	309,791	2,820,712	—	2,820,712
Transactions with other segments	8,280	155,135	163,415	(163,415)	—
Total	2,519,200	464,926	2,984,127	(163,415)	2,820,712
Segment profit	298,614	8,316	306,930	—	306,930

(Note) Segment profit is reconciled to operating profit presented in the quarterly consolidated statement of income.

(Revenue Recognition)

Breakdown of revenue from contracts with customers

First three months of the current fiscal year (January 1 - March 31, 2023)

(Thousands of yen)

	Reporting Segment		Total
	Professional Services Business	Platform Business	
Business Process & Technology	2,247,017	–	2,247,017
Strategy & Innovation	240,386	–	240,386
Social & Public	23,516	–	23,516
Assign Navi	–	15,459	15,459
Consultant Job	–	293,192	293,192
Growth Company Club	–	1,140	1,140
Revenue from contracts with customers	2,510,920	309,791	2,820,712
Net sales to unaffiliated customers	2,510,920	309,791	2,820,712

(Note) Due to the redefinition of service domains for further business growth, the Company has changed the method of presentation of information that breaks down revenue from contracts with customers as of the first quarter of the fiscal year under review.

Post-change classifications are as follows:

New classification	Details of new classification (main services)	Old classification
Business Process & Technology	Data Analytics & AI, Business Processes & Operations, Digital Transformation, and IT Service Management	Business Process Management, Consulting/Engineering, and Strategy Establishment/Digital Utilization
Strategy & Innovation	Business Strategy, Business Management, and Management Reform/Organizational Strategy	Business Process Management, Consulting/Engineering, and Strategy Establishment/Digital Utilization
Social & Public	Social Development, Public-Private Partnerships, and Sustainable Transformation	Consulting/Engineering
Assign Navi	Project, Professional, and IT Company Matching	Assign Navi
Consultant Job	Support for Advancement of Independent Consultants	Consultant Job
Growth Company Club	Growth Company Club, Case Study Media, and CS Survey	CS Clip