

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

August 10, 2023

Name of Company:	LTS, Inc.	Stock Exchange Listing:	Tokyo	
Stock Code:	6560	URL	https://lt-s.jp/en/	
Representative:	Title: President and CEO	Name:	Hiroaki Kabashima	
Contact Person:	Title: Executive Vice President and Manager of Group Management Office	Name:	Sungil Lee	Phone: 03-6897-6140
Date of filing of quarterly report:	August 14, 2023			
Date of commencement of dividend payment:	-			
Preparation of quarterly supplementary materials:	Yes			
Convening of a quarterly results meeting:	Yes			

(Amounts less than one million are rounded down)

1. Financial results for second quarter of fiscal year ending December 2023 (January 1, 2023 - June 30, 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	%
Q2 of the year ending December 2023	5,506	18.5	395	12.6	462	32.5	316	32.2
Q2 of the year ended December 2022	4,648	33.8	351	28.2	348	34.6	239	43.7

(Note) Comprehensive income Q2 FY2023: 317 million yen (30.0%) Q2 FY2022: 244 million yen (48.7%)

	Profit per share	Profit per share fully diluted
	yen	yen
Q2 of the year ending December 2023	70.37	68.14
Q2 of the year ended December 2022	57.86	55.44

(2) Financial position (consolidated)

	Total assets	Net assets	Capital adequacy ratio
	million yen	million yen	%
Q2 of the year ending December 2023	5,834	3,594	60.7
Year ended December 2022	5,595	3,249	57.5

(Reference) Shareholders' equity Q2 FY2023: 3,540 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
Year ended December 2022	yen -	yen 0.00	yen -	yen 0.00	yen 0.00
Year ending December 2023	-	0.00			
Year ending December 2023 (forecast)					

(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: 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

Q2 of year ending December 2023	4,515,375 shares	Year ended December 2022	4,495,375 shares
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(b) Treasury shares at end of period

Q2 of year ending December 2023	-shares	Year ended December 2022	-shares
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(c) Average number of shares during period

Q2 of year ending December 2023	4,504,215 shares	Q2 of year ended December 2022	4,145,551 shares
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* 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.

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1. Qualitative Information related to the Consolidated Business Results

(1) Explanation of Operating Results

During the first six months of the fiscal year under review (January 1 to June 30, 2023), the Japanese economy showed signs of recovery in consumer spending and capital investment as economic activity returned to normal despite the lingering impact of COVID-19. On the other hand, prolonged geopolitical risks and rising prices worldwide along with the continued monetary tightening carried out in response mean that 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 solve IT personnel shortages and 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 six months of the fiscal year under review, we achieved net sales of ¥5,506.727 million (up 18.5% year on year), operating profit of ¥395.901 million (up 12.6% year on year), and ordinary profit of ¥462.145 million (up 32.5% year on year), and profit attributable to owners of parent of ¥316.982 million (up 32.2% 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, the environment surrounding our IT division is changing as corporate activities, which were restricted due to the COVID-19 pandemic, return to normal. Amid 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, onsite deployment) based on our strength of visualizing and improving operations utilizing business process management. In addition to collaborating with FPT Japan Holdings Co., Ltd. and Yokogawa Digital Corporation as part of a capital and business alliance formed last fiscal year and actively working with Busy Bee, Inc. in the area of data analytics & AI services, 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 case studies in Shizuoka, Hiroshima, and Gunma Prefectures.

As a result, net sales in the professional services business came to ¥4,930.612 million (up 20.9% year on year) and segment profit (operating profit) came to ¥381.808 million (up 19.7% 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 13,085 including both corporate and individual members as of June 30, 2023. This steady growth represents a 591-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 ¥934.915 million (up 18.8% year on year), and the segment profit (operating profit) came to ¥14.092 million (down 56.8% year on year).

(2) Explanation of Financial Position

Total assets at the end of the first six months of the fiscal year were ¥5,834.832 million, up ¥239.107 million from the end of the previous fiscal year. This was primarily due to a ¥1,200.000 million increase in securities and a ¥147.126 million increase in accounts receivable and contract assets despite a ¥1,129.200 million decrease in cash and deposits.

Liabilities came to ¥2,240.142 million, down ¥106.173 million from the end of the previous fiscal year. This was primarily due to a ¥142.716 million decrease in long-term borrowings, a ¥115.507 million decrease in accounts payable – other, and a ¥24.883 million decrease in provision for bonuses despite a ¥92.846 million increase in income taxes payable.

Net assets amounted to ¥3,594.689 million, an increase of ¥345.281 million from the end of the previous fiscal year. This was primarily due to a ¥316.982 million increase in retained earnings. The equity ratio was 60.7%.

(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 six months of the current fiscal year (ended June 30, 2023)
Assets		
Current assets		
Cash and deposits	2,982,895	1,853,694
Electronically recorded monetary claims - operating	133,082	129,716
Accounts receivable and contract assets	1,384,481	1,531,608
Securities	–	1,200,000
Work in process	22,497	16,966
Allowance for doubtful accounts	(1,837)	(1,970)
Other	94,197	135,140
Total current assets	4,615,316	4,865,156
Non-current assets		
Property, plant and equipment	272,728	267,727
Intangible fixed assets		
Goodwill	100,291	79,919
Software	466	206
Software in progress	2,423	15,254
Total intangible fixed assets	103,180	95,380
Investments and other assets		
Deferred tax assets	176,091	162,679
Leasehold and guarantee deposits	206,003	148,859
Investment securities	163,724	235,522
Other	58,679	59,506
Total investments and other assets	604,498	606,568
Total non-current assets	980,407	969,675
Total assets	5,595,724	5,834,832

(Thousands of yen)

	Previous consolidated fiscal year (ended December 31, 2022)	First six months of the current fiscal year (ended June 30, 2023)
Liabilities		
Current liabilities		
Accounts payable - trade	780,447	787,764
Current portion of long-term borrowings	273,456	265,820
Accounts payable - other	394,798	279,291
Income taxes payable	60,620	153,466
Provision for bonuses	111,496	86,612
Provision for bonuses for directors (and other officers)	4,950	–
Provision for loss on order received	–	13,818
Contract liabilities	20,224	20,671
Other	182,633	240,472
Total current liabilities	1,828,626	1,847,917
Non-current liabilities		
Long-term borrowings	408,760	273,680
Retirement benefit liabilities	107,041	116,655
Deferred tax liabilities	539	539
Other	1,349	1,349
Total non-current liabilities	517,689	392,224
Total liabilities	2,346,316	2,240,142
Net assets		
Shareholders' equity		
Share capital	728,090	730,590
Capital surplus	978,992	981,492
Retained earnings	1,510,195	1,827,178
Total shareholders' equity	3,217,278	3,539,261
Accumulated other comprehensive income		
Foreign currency translation adjustment	891	1,139
Total accumulated other comprehensive income	891	1,139
Subscription rights to shares	26,386	48,951
Non-controlling interests	4,851	5,337
Total net assets	3,249,408	3,594,689
Liabilities and net assets	5,595,724	5,834,832

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

Quarterly consolidated statement of income

First six months of the fiscal year

(Thousands of yen)

	First six months of the previous fiscal year (January 1 - June 30, 2022)	First six months of the current fiscal year (January 1 - June 30, 2023)
Net sales	4,648,735	5,506,727
Cost of sales	3,069,824	3,568,719
Gross profit	1,578,911	1,938,007
Selling, general and administrative expenses	1,227,365	1,542,105
Operating profit	351,545	395,901
Non-operating income		
Interest income	9	9
Dividend income	1,800	1,925
Surrender value of insurance policies	12	5
Subsidy income	–	12,815
Share of profit of entities accounted for using equity method	–	51,797
Other	296	1,811
Total non-operating income	2,119	68,364
Non-operating expenses		
Interest expenses	2,732	1,869
Foreign exchange losses	489	238
Purchase of treasury shares	1,499	–
Other	249	13
Total non-operating expenses	4,970	2,121
Ordinary profit	348,694	462,145
Profit before income taxes	348,694	462,145
Income taxes-current	57,348	131,264
Income taxes-deferred	47,371	13,412
Total income taxes	104,720	144,676
Profit	243,973	317,468
Profit attributable to non-controlling interests	4,126	485
Profit attributable to owners of parent	239,847	316,982

Quarterly consolidated statement of comprehensive income

First six months of the fiscal year

(Thousands of yen)

	First six months of the previous fiscal year (January 1 - June 30, 2022)	First six months of the current fiscal year (January 1 - June 30, 2023)
Profit	243,973	317,468
Other comprehensive income		
Foreign currency translation adjustment	508	247
Total other comprehensive income	508	247
Comprehensive income	244,482	317,715
(Breakdown)		
Comprehensive income attributable to owners of parent	240,355	317,229
Comprehensive income attributable to noncontrolling interests	4,126	485

(3) Notes to the Quarterly Consolidated Financial Statements

(Notes Related to Going Concern Assumptions)

Not applicable.

(Notes on Significant Changes in Shareholders' Equity)

With the exercise of stock acquisition rights granted under the stock options plans, share capital increased by ¥2.5 million and capital reserves increased by ¥2.5 million during the first six months of fiscal year under review. As a result, at the end of the second quarter, share capital was ¥730.590 million and capital surplus was ¥981.492 million.

(Changes in Accounting Policies)

First six months of the current fiscal year (January 1 - June 30, 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) was applied from the beginning of the first quarter of the fiscal year. 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 six months of the current fiscal year (January 1 - June 30, 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. 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 six months of the current fiscal year (January 1 - June 30, 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	4,908,752	597,974	5,506,727	–	5,506,727
Transactions with other segments	21,860	336,941	358,801	(358,801)	–
Total	4,930,612	934,915	5,865,528	(358,801)	5,506,727
Segment profit	381,808	14,092	395,901	–	395,901

(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 six months of the current fiscal year (January 1 - June 30, 2023)

(Thousands of yen)

	Reporting Segment		Total
	Professional Services Business	Platform Business	
Business Process & Technology	4,441,929	—	4,441,929
Strategy & Innovation	416,474	—	416,474
Social & Public	50,348	—	50,348
Assign Navi	—	28,967	28,967
Consultant Job	—	566,727	566,727
Growth Company Club	—	2,280	2,280
Revenue from contracts with customers	4,908,752	597,974	5,506,727
Net sales to unaffiliated customers	4,908,752	597,974	5,506,727

(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. The information detailing the breakdown of revenue from contracts with customers during the first six months of the previous fiscal year is presented based on the post-change classification.

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

(Significant Subsequent Events)

Borrowing of Significant Funds

At the Board of Directors meeting held on July 27, 2023, it was resolved to borrow funds, and the loan was executed.

(1) Long-term borrowing

Use of funds: Working capital
Lender: MUFG Bank, Ltd.
Amount borrowed: ¥400.000 million
Interest rate: Fixed
Loan execution date: July 31, 2023
Term of loan: 5 years
Collateral: None

(2) Long-term borrowing

Use of funds: Working capital
Lender: Resona Bank, Limited
Amount borrowed: ¥400.000 million
Interest rate: Variable
Loan execution date: July 31, 2023
Term of loan: 5 years
Collateral: None

(3) Long-term borrowing

Use of funds: Working capital
Lender: Sumitomo Mitsui Banking Corporation
Amount borrowed: ¥400.000 million
Interest rate: Variable
Loan execution date: August 10, 2023
Term of loan: 5 years
Collateral: None

(4) Long-term borrowing

Use of funds: Working capital
Lender: Mizuho Bank, Ltd.
Amount borrowed: ¥400.000 million
Interest rate: Variable
Loan execution date: August 15, 2023 (planned)
Term of loan: 5 years
Collateral: None