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Consolidated Financial Results for the Six Months Ended July 31, 2023 [Japanese GAAP]



September 13, 2023

Company name: NEOJAPAN Inc.

Stock exchange listing: Tokyo Stock Exchange

Code number: 3921

URL: <https://www.neo.co.jp/en/>

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Scheduled date of filing quarterly securities report: September 13, 2023

Scheduled date of commencing dividend payments: —

Preparation of supplementary materials on quarterly financial results: Yes

Schedule of quarterly 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 Six Months Ended July 31, 2023 (February 1, 2023–July 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	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
Six months ended July 31, 2023	3,224	9.8	602	(1.3)	647	(5.8)	481	4.1
July 31, 2022	2,936	3.3	610	(4.9)	687	(5.0)	463	(6.2)

(Note) Comprehensive income: Six months ended July 31, 2023: ¥473 million [(7.2)%]

Six months ended July 31, 2022: ¥510 million [(1.8)%]

	Basic earnings per share		Diluted earnings per share	
	Yen		Yen	
Six months ended July 31, 2023	32.43		32.37	
July 31, 2022	31.06		30.99	

(2) Consolidated Financial Position

	Total assets	Net assets	Equity ratio
	Million yen	Million yen	%
As of July 31, 2023	8,131	5,817	71.4
As of January 31, 2023	8,025	5,727	71.2

(Reference) Equity: As of July 31, 2023: ¥5,809 million

As of January 31, 2023: ¥5,717 million

2. Dividends

	Annual dividends				
	1st quarter-end	2nd quarter-end	3rd quarter-end	Year-end	Total
	Yen	Yen	Yen	Yen	Yen
Fiscal year ended January 31, 2023	—	0.00	—	20.00	20.00
Fiscal year ending January 31, 2024	—	0.00			
Fiscal year ending January 31, 2024 (Forecast)			—	23.00	23.00

(Note) Revision to the dividend forecast announced most recently: None

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	42.20

(Note) Revision to the financial results forecast announced most recently: None

* Notes:

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

Newly included: – (), Excluded: – ()

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

(3) Changes in accounting policies, changes in accounting estimates and retrospective restatement

1) Changes in accounting policies due to the revision of accounting standards: Yes

2) Changes in accounting policies other than 1) above: None

3) Changes in accounting estimates: None

4) Retrospective restatement: None

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

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

July 31, 2023: 14,914,800 shares

January 31, 2023: 14,914,800 shares

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

July 31, 2023: 94,263 shares

January 31, 2023: 223 shares

3) Average number of shares during the period:

Six months ended July 31, 2023: 14,860,568 shares

Six months ended July 31, 2022: 14,908,868 shares

* These quarterly consolidated financial results are outside the scope of quarterly review by certified public accountants or an audit firm.

* Explanation of the proper use of financial results forecast and other notes

The earnings forecasts and other forward-looking statements herein are based on information currently available to the Group and certain premises that the Group deems to be reasonable, and are not guarantees of future performance. Actual results may differ significantly from these forecasts due to a wide range of factors.

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1. Qualitative Information on Quarterly Financial Results

(1) Explanation of Operating Results

The Japanese economy in the six months ended July 31, 2023 saw signs of gradual recovery given the improving trend in personal consumption and capital investment. The economy is expected to continue its recovery thanks to the effect of various government initiatives premised on coexistence with COVID-19. However, as there are certain factors requiring attention, such as global monetary tightening, rising prices, supply constraints, and unstable exchange rate fluctuations, the outlook remains uncertain.

The IT industry, to which the Group belongs, witnesses a moderate increase in software investment, and is expected to continue to see solid investments in IT on the back of improvement in corporate earnings.

Under such circumstances, in March 2023, desknet's NEO version 7.5 was released as an updated version with enhancement of 50 items or more for 15 functions in response to the needs of users.

In addition, our three principal products (desknet's NEO, ChatLuck, and AppSuite) received ten awards in the respective three categories in the BOXIL SaaS AWARD Spring 2023 (March 2023), followed by the BOXIL SaaS AWARD Summer 2023 (June 2023), which recognizes the most valued SaaS of the moment and is organized by SMARTCAMP Co., Ltd., while AppSuite, a tool for creating apps with no coding, received a record six awards. Our three principal products also received awards in the ITreview Grid Award 2023 Summer, organized by IT product comparison and review website ITreview in July 2023. Groupware desknet's NEO and our business chat tool ChatLuck were awarded as "LEADER" for the 18th consecutive year and 5th consecutive year, respectively, while AppSuite, a tool for creating apps with no coding was awarded for the 3rd consecutive year.

In addition, following the selection 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 implemented a demonstration experiment for "strengthening measures for evacuation security plans to ensure the safety of users of facilities requiring special consideration," utilizing our AppSuite, a tool for creating apps with no coding, and groupware desknet's NEO. We systemized the evacuation security plans and achieved a 41% reduction in the entire workload of concerned parties. Going forward, we will strive to provide the similar function to other local governments, in addition to the City of Yokohama.

With regard to the advertising investments scheduled for the fiscal year under review to increase awareness of our products and services, we aired TV commercials from late May to early June 2023 as originally scheduled, and about ¥150,000 thousand has been appropriated.

As a result, for the six months ended July 31, 2023, the Company posted net sales of ¥3,224,896 thousand (up 9.8% year on year), operating profit of ¥602,147 thousand (down 1.3% year on year), ordinary profit of ¥647,725 thousand (down 5.8% year on year), and profit attributable to owners of parent of ¥481,935 thousand (up 4.1% year on year).

Operating results for the six months ended July 31, 2023 by segment are as follows.

(Software business)

The status by business sector is indicated as follows.

Business sector	For the six months ended July 31, 2022		For the six months ended July 31, 2023		
	Net sales (Thousand yen)	Percentage breakdown (%)	Net sales (Thousand yen)	Percentage breakdown (%)	Change (%)
Cloud services	1,308,855	63.8	1,446,607	64.4	10.5
Packaged products	703,966	34.3	763,127	34.0	8.4
Technological development	38,208	1.9	35,220	1.6	(7.8)
Total	2,051,030	100.0	2,244,955	100.0	9.5

1) Cloud services

Net sales by principal cloud service are as follows.

	For the six months ended July 31, 2022	For the six months ended July 31, 2023	Change (Thousand yen)	Change (%)
	Net sales (Thousand yen)	Net sales (Thousand yen)		
desknet's NEO cloud	1,091,586	1,202,065	110,479	10.1
AppSuite cloud	62,668	82,336	19,668	31.4
ChatLuck cloud	34,395	35,669	1,273	3.7
Other monthly recurring revenue	98,407	100,544	2,136	2.2
Total monthly recurring revenue	1,287,057	1,420,615	133,557	10.4
Other services, etc.	21,798	25,991	4,193	19.2
Cloud services total	1,308,855	1,446,607	137,751	10.5

Net sales of desknet's NEO cloud increased by ¥110,479 thousand year on year to ¥1,202,065 thousand (up 10.1% year on year), due to an increase in the number of users and price revisions following the termination of campaign pricing that had been offered in anticipation of the termination of services which allowed users to bring in their own license. The average number of users of the service is 84 users per company, indicating that most of the customers are with less than 100 users. On the other hand, we see a gradual increase in the number of customers choosing the cloud service even among those with the user scale that had traditionally often chosen the packaged version. Since the churn rate (* 1) remains low at 0.24%, we recognize that its sales will remain stable in the future. Net sales of AppSuite cloud increased by ¥19,668 thousand year on year to ¥82,336 thousand (up 31.4% year on year), due to an increase in the number of users. As of July 31, 2023, the number of users of the service accounted for about 10% of the number of desknet's NEO cloud users, and we strive for further sales expansion as there is large room for growth. Net sales of ChatLuck cloud remained almost same level from the previous year, ¥35,669 thousand (up 3.7% year on year). We will strive to expand the number of users by working on collaboration with ChatGPT and other measures. Other monthly recurring revenue increased by ¥2,136 thousand year on year to ¥100,544 thousand (up 2.2% year on year), almost unchanged from the previous year. Net sales of other services, etc. increased by ¥4,193 thousand year on year to ¥25,991 thousand (up 19.2% year on year). This was primarily due to an increase in the service provision such as data migration.

As a result, the overall net sales of cloud services increased by ¥137,751 thousand year on year to ¥1,446,607 thousand (up 10.5% 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 six months ended July 31, 2023.

(* 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 six months ended July 31, 2022	For the six months ended July 31, 2023	Change (Thousand yen)	Change (%)
	Net sales (Thousand yen)	Net sales (Thousand yen)		
desknet’s NEO Enterprise license	88,878	80,962	(7,916)	(8.9)
desknet’s NEO Small license	20,943	28,705	7,762	37.1
AppSuite	43,702	59,945	16,243	37.2
ChatLuck	18,796	29,581	10,784	57.4
Other license sales	5,276	4,615	(660)	(12.5)
Total license sales	177,597	203,811	26,214	14.8
Support	393,981	415,361	21,379	5.4
Customization	34,097	69,198	35,101	102.9
Other services, etc.	98,290	74,756	(23,533)	(23.9)
Packaged products total	703,966	763,127	59,161	8.4

Net sales of desknet’s NEO Enterprise license, which is for large-scale users, decreased by ¥7,916 thousand year on year to ¥80,962 thousand (down 8.9% year on year), due mainly to a decrease of three customers of 5,000 users or more, despite an increase in additional licenses.

Net sales of desknet’s NEO Small license, which is for small- and medium-scale users, had been on the decline due to the increasing trend in the number of customers choosing cloud services, however, net sales for the second quarter of the fiscal year under review increased by ¥7,762 thousand year on year to ¥28,705 thousand (up 37.1% year on year). This is deemed to result from the switch to our products away from competing products that terminated provision of the packaged versions. We recognize the trend of decrease in desknet’s NEO Small license sales as a result of the widespread use of the cloud services.

AppSuite license and ChatLuck license are often purchased simultaneously with desknet’s NEO Enterprise license. For the six months ended July 31, 2023, net sales of AppSuite license increased by ¥16,243 thousand year on year to ¥59,945 thousand (up 37.2% year on year), and net sales of ChatLuck license increased by ¥10,784 thousand year on year to ¥29,581 thousand (up 57.4% year on year), due to additional installations for government agencies and financial institutions.

Net sales of customization increased by ¥35,101 thousand year on year to ¥69,198 thousand (up 102.9% year on year) mainly because of a year-on-year increase in the number of mid-sized projects. Net sales of support increased by ¥21,379 thousand year on year to ¥415,361 thousand (up 5.4% year on year), mainly because net sales of support for desknet’s NEO increased by ¥9,298 thousand year on year to ¥349,952 thousand (up 2.7% year on year) and net sales of support for AppSuite increased by ¥8,410 thousand year on year to ¥28,970 thousand (up 40.9% year on year).

As a result, the overall net sales of packaged products increased by ¥59,161 thousand year on year to ¥763,127 thousand (up 8.4% year on year).

3) Technological development

Our policy is not to actively accept development contracts. Net sales of technological development decreased by ¥2,988 thousand year on year to ¥35,220 thousand (down 7.8% 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 ¥2,244,955 thousand (up 9.5% year on year) and segment profit of ¥562,302 thousand (down 11.6% 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 six months ended July 31, 2023, a recovery trend in net sales continued from the fourth quarter of the previous fiscal year, and net sales increased by ¥100,193 thousand to ¥992,606 thousand (up 11.2% year on year) as compared with the same period of the previous fiscal year in which net sales decreased 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. Cost of sales also increased by ¥85,196 thousand due mainly to an increase in outsourcing expenses paid to partner companies associated with the increase in net sales. Selling, general and administrative expenses were ¥4,522 thousand (up 3.8% year on year) due mainly to an increase in personnel expenses.

As a result, the system development service business posted net sales of ¥992,606 thousand (up 11.2% year on year) and segment profit of ¥28,538 thousand (up 58.0% 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. In Malaysia and Thailand where subsidiaries of the Company conduct business activities, we strive to raise awareness of our products and services by enhancing sales staff and opening booths at exhibitions, after resuming full-fledged sales activities in the previous fiscal year. While sales are gradually increasing in the two subsidiaries in the ASEAN region, we focus our efforts on marketing activities for steady accumulation of recurring sales in order to achieve positive profits stably on a monthly basis. In addition, in the U.S., services that had been under development since the previous fiscal year based on local market surveys were transferred to the Company during the second quarter of the fiscal year under review.

As a result, the overseas business posted net sales of ¥68,991 thousand (up 1,193.5% year on year) and segment profit of ¥7,593 thousand (segment loss of ¥43,765 thousand for the same period of the previous fiscal year). The increase in net sales in the overseas business is mainly attributable to the transfer of rights to services that had been under development by our U.S. subsidiary to the Company.

(2) Explanation of Financial Position

[1] Status of assets, liabilities and net assets

(Assets)

Total assets as of July 31, 2023 increased by ¥106,023 thousand from the end of the previous fiscal year to ¥8,131,528 thousand. This was mainly due to an increase of ¥50,306 thousand in securities and investment securities resulting mainly from gains on valuation of foreign-currency-denominated securities caused by a weaker yen, as well as an increase of ¥33,367 thousand in other under current assets resulting mainly from an increase in prepaid expenses for annual insurance.

(Liabilities)

Total liabilities as of July 31, 2023 increased by ¥16,305 thousand from the end of the previous fiscal year to ¥2,313,899 thousand. This was mainly due to an increase of ¥131,221 thousand in contract liabilities for cloud services, etc. and an increase of ¥42,372 thousand in provision for bonuses, despite a decrease of ¥75,728 thousand in other under current liabilities resulting from payment of advertising-related accounts payable and a decrease of ¥72,333 thousand in income taxes payable resulting mainly from tax payment.

(Net assets)

Total net assets as of July 31, 2023 increased by ¥89,717 thousand from the end of the previous fiscal year to ¥5,817,629 thousand. This was mainly due to an increase of ¥84,970 thousand in treasury shares, as well as the recording of ¥481,935 thousand in profit attributable to owners of parent and an increase of ¥183,643 thousand in retained earnings resulting from the payment of a dividend of surplus of ¥298,291 thousand.

[2] Status of cash flows

Cash and cash equivalents (hereinafter referred to as “cash”) as of July 31, 2023 were ¥4,871,033 thousand, a decrease of ¥46,345 thousand compared with the end of the previous fiscal year.

The status of cash flows and their factors in the six months ended July 31, 2023 are as follows.

(Cash flows from operating activities)

Cash provided by operating activities amounted to ¥512,796 thousand. This was mainly due to an increase of cash resulting from the recording of profit before income taxes of ¥690,564 thousand, an increase of ¥131,216 thousand in contract liabilities, and the recording of depreciation of ¥119,971 thousand, despite a decrease of cash resulting from a decrease in accounts payable - other of ¥106,709 thousand and income taxes paid of ¥280,231 thousand.

(Cash flows from investing activities)

Cash used in investing activities amounted to ¥204,144 thousand. This was mainly due to a decrease of cash resulting from outflows caused by purchase of investment securities of ¥234,192 thousand and purchase of intangible assets of ¥112,091 thousand, despite an increase of cash resulting from proceeds from redemption of investment securities of ¥150,553 thousand.

(Cash flows from financing activities)

Cash used in financing activities amounted to ¥388,861 thousand. This was mainly due to dividends paid of ¥297,933 thousand and purchase of treasury shares of ¥90,400 thousand.

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

The Company has made no changes to the full-year consolidated financial results forecast announced in “Consolidated Financial Results for the Fiscal Year Ended January 31, 2023 [Japanese GAAP]” dated March 13, 2023.

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

2. Quarterly Consolidated Financial Statements and Principal Notes

(1) Quarterly Consolidated Balance Sheets

(Thousand yen)

	As of January 31, 2023	As of July 31, 2023
Assets		
Current assets		
Cash and deposits	4,841,218	4,845,988
Accounts receivable and contract assets	687,633	696,725
Securities	378,245	185,544
Supplies	2,797	1,426
Other	80,302	113,670
Allowance for doubtful accounts	(1,646)	(1,669)
Total current assets	5,988,551	5,841,686
Non-current assets		
Property, plant and equipment	47,816	52,909
Intangible assets		
Goodwill	92,208	85,292
Other	252,945	252,023
Total intangible assets	345,154	337,316
Investments and other assets		
Investment securities	1,119,398	1,362,405
Other	524,843	537,770
Allowance for doubtful accounts	(258)	(560)
Total investments and other assets	1,643,983	1,899,616
Total non-current assets	2,036,954	2,289,842
Total assets	8,025,505	8,131,528

(Thousand yen)

	As of January 31, 2023	As of July 31, 2023
Liabilities		
Current liabilities		
Accounts payable - trade	141,938	136,225
Income taxes payable	295,087	222,754
Contract liabilities	999,091	1,130,312
Provision for bonuses	79,133	121,506
Other	386,880	311,152
Total current liabilities	1,902,131	1,921,951
Non-current liabilities		
Retirement benefit liability	367,845	364,348
Other	27,616	27,599
Total non-current liabilities	395,462	391,948
Total liabilities	2,297,594	2,313,899
Net assets		
Shareholders' equity		
Share capital	297,161	297,161
Capital surplus	333,445	333,331
Retained earnings	5,048,037	5,231,681
Treasury shares	(384)	(85,354)
Total shareholders' equity	5,678,260	5,776,820
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	23,836	15,029
Foreign currency translation adjustment	15,509	17,942
Total accumulated other comprehensive income	39,345	32,971
Non-controlling interests	10,304	7,837
Total net assets	5,727,911	5,817,629
Total liabilities and net assets	8,025,505	8,131,528

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

(Thousand yen)

	For the six months ended July 31, 2022	For the six months ended July 31, 2023
Net sales	2,936,386	3,224,896
Cost of sales	1,397,929	1,459,652
Gross profit	1,538,456	1,765,244
Selling, general and administrative expenses	928,135	1,163,097
Operating profit	610,321	602,147
Non-operating income		
Interest income	15,426	18,965
Gain on sale of securities	29,149	17,686
Foreign exchange gains	12,271	7,809
Other	20,376	3,773
Total non-operating income	77,223	48,235
Non-operating expenses		
Interest expenses	60	17
Loss on investments in investment partnerships	–	2,621
Other	25	17
Total non-operating expenses	86	2,656
Ordinary profit	687,458	647,725
Extraordinary income		
Gain on sale of non-current assets	–	4,375
Gain on redemption of investment securities	–	38,463
Total extraordinary income	–	42,838
Profit before income taxes	687,458	690,564
Income taxes	225,668	211,073
Profit	461,790	479,490
Loss attributable to non-controlling interests	(1,333)	(2,444)
Profit attributable to owners of parent	463,123	481,935

Quarterly Consolidated Statements of Comprehensive Income

(Thousand yen)

	For the six months ended July 31, 2022	For the six months ended July 31, 2023
Profit	461,790	479,490
Other comprehensive income		
Valuation difference on available-for-sale securities	34,727	(8,806)
Foreign currency translation adjustment	13,542	2,409
Total other comprehensive income	48,269	(6,396)
Comprehensive income	510,059	473,093
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	510,799	475,561
Comprehensive income attributable to non-controlling interests	(739)	(2,467)

(3) Quarterly Consolidated Statements of Cash Flows

(Thousand yen)

	For the six months ended July 31, 2022	For the six months ended July 31, 2023
Cash flows from operating activities		
Profit before income taxes	687,458	690,564
Depreciation	141,313	119,971
Amortization of goodwill	6,915	6,915
Increase (decrease) in allowance for doubtful accounts	108	324
Increase (decrease) in provision for bonuses	38,589	42,372
Increase (decrease) in retirement benefit liability	18,986	(3,496)
Interest and dividend income	(15,426)	(18,965)
Interest expenses	60	17
Foreign exchange losses (gains)	(11,741)	(8,546)
Loss (gain) on sale of securities	(29,149)	(17,686)
Loss (gain) on investments in investment partnerships	(1,950)	2,621
Loss (gain) on redemption of investment securities	–	(38,463)
Loss (gain) on sale and retirement of non-current assets	–	(4,375)
Surrender value of insurance policies	(17,319)	(655)
Decrease (increase) in trade receivables and contract assets	(33,234)	(9,005)
Decrease (increase) in inventories	2,399	1,371
Decrease (increase) in prepaid expenses	(30,758)	(36,304)
Increase (decrease) in trade payables	(7,722)	(5,713)
Increase (decrease) in accounts payable - other	(112,504)	(106,709)
Increase (decrease) in accrued expenses	24,444	16,377
Increase (decrease) in accrued consumption taxes	(27,446)	(4,674)
Increase (decrease) in deposits received	18,176	18,033
Increase (decrease) in contract liabilities	195,782	131,216
Other, net	(1,680)	(1,319)
Subtotal	845,301	773,871
Interest and dividends received	14,072	19,173
Interest paid	(60)	(17)
Income taxes paid	(262,078)	(280,231)
Net cash provided by (used in) operating activities	597,234	512,796
Cash flows from investing activities		
Purchase of property, plant and equipment	(1,855)	(14,504)
Proceeds from sale of property, plant and equipment	–	9,982
Purchase of intangible assets	(121,229)	(112,091)
Purchase of investment securities	(100,000)	(234,192)
Proceeds from redemption of investment securities	–	150,553
Proceeds from distributions from investment partnerships	2,500	4,200
Payments into time deposits	(3,600)	(3,600)
Proceeds from collection of loans receivable	24,599	–
Purchase of insurance funds	(7,471)	(7,575)
Proceeds from maturity of insurance funds	33,441	4,371
Other, net	352	(1,288)
Net cash provided by (used in) investing activities	(173,261)	(204,144)

(Thousand yen)

	For the six months ended July 31, 2022	For the six months ended July 31, 2023
Cash flows from financing activities		
Proceeds from issuance of shares	782	–
Purchase of treasury shares	–	(90,400)
Dividends paid	(208,510)	(297,933)
Other, net	(554)	(527)
Net cash provided by (used in) financing activities	(208,283)	(388,861)
Effect of exchange rate change on cash and cash equivalents	58,330	33,864
Net increase (decrease) in cash and cash equivalents	274,019	(46,345)
Cash and cash equivalents at beginning of period	4,059,387	4,917,378
Cash and cash equivalents at end of period	4,333,407	4,871,033

(4) Notes to Quarterly Consolidated Financial Statements

(Notes on going concern assumption)

Not applicable.

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

The Company purchased 100,000 treasury shares based on a resolution of the Board of Directors meeting held on March 13, 2023. Primarily due to this purchase, treasury shares increased by ¥84,970 thousand during the six months ended July 31, 2023, resulting in ¥85,354 thousand in treasury shares as of July 31, 2023.

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

(Calculation of tax expenses)

Tax expenses are calculated by reasonably estimating the effective tax rate after the application of tax effect accounting for profit before income taxes in the fiscal year that includes the second quarter of the fiscal year under review, and multiplying profit before income taxes by the estimated effective tax rate.

(Changes in accounting policies)

(Application of Implementation Guidance on Accounting Standard for Fair Value Measurement)

The Company has applied the "Implementation Guidance on Accounting Standard for Fair Value Measurement" (ASBJ Guidance No. 31, June 17, 2021, hereinafter referred to as the "Fair Value Measurement Implementation Guidance") from the beginning of the first quarter of the fiscal year under review, and plans to prospectively apply the new accounting policies stipulated by the Fair Value Measurement Implementation Guidance in accordance with the transitional treatment set forth in Paragraph 27-2 of the Fair Value Measurement Implementation Guidance. This application has no impact on the Company's quarterly consolidated financial statements.

(Segment information, etc.)

[Segment information]

I. For the six months ended July 31, 2022

1. Information on net sales and profit (loss) by reportable segment

(Thousand yen)

	Reportable segment				Adjustment (Note 1)	Amount recorded in quarterly consolidated statements of income (Note 2)
	Software business	System development service business	Overseas business	Total		
Net sales						
Net sales to outside customers	2,049,886	881,166	5,333	2,936,386	—	2,936,386
Intersegment net sales or transfers	1,144	11,246	—	12,390	(12,390)	—
Total	2,051,030	892,412	5,333	2,948,777	(12,390)	2,936,386
Segment profit (loss)	636,114	18,063	(43,765)	610,412	(91)	610,321

(Notes) 1. The segment profit (loss) adjustment of ¥(91) thousand represents elimination of intersegment transactions.

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

II. For the six months ended July 31, 2023

1. Information on net sales and profit (loss) by reportable segment

(Thousand yen)

	Reportable segment				Adjustment (Note 1)	Amount recorded in quarterly consolidated statements of income (Note 2)
	Software business	System development service business	Overseas business	Total		
Net sales						
Net sales to outside customers	2,243,846	975,213	5,837	3,224,896	–	3,224,896
Intersegment net sales or transfers	1,108	17,393	63,153	81,655	(81,655)	–
Total	2,244,955	992,606	68,991	3,306,552	(81,655)	3,224,896
Segment profit	562,302	28,538	7,593	598,434	3,713	602,147

(Notes) 1. The segment profit adjustment of ¥3,713 thousand represents elimination of intersegment transactions.

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

(Revenue recognition accounting)

Disaggregation of revenue from contracts with customers

For the six months ended July 31, 2022

(Thousand yen)

	Reportable segment			Total
	Software business	System development service business	Overseas business	
Recurring revenue (Note 1)	1,686,028	810,039	1,795	2,497,863
One-time revenue (Note 2)	363,857	71,127	3,538	438,523
Revenue from contracts with customers	2,049,886	881,166	5,333	2,936,386
Net sales to outside customers	2,049,886	881,166	5,333	2,936,386

(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

For the six months ended July 31, 2023

(Thousand yen)

	Reportable segment			Total
	Software business	System development service business	Overseas business	
Recurring revenue (Note 1)	1,839,668	932,853	3,815	2,776,336
One-time revenue (Note 2)	404,178	42,359	2,022	448,560
Revenue from contracts with customers	2,243,846	975,213	5,837	3,224,896
Net sales to outside customers	2,243,846	975,213	5,837	3,224,896

(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