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

October 13, 2023

Company name: Serverworks Co.,Ltd.

Stock exchange listing: Tokyo

Code number: 4434

URL: <https://www.serverworks.co.jp/>

Representative: Ryo Oishi

Representative Director, President

Contact: Hiroyuki Oshio

Director

Phone: +81-3 (5579) 8029

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

Scheduled date of commencing dividend payments: -

Availability of supplementary briefing material on quarterly financial results: Yes

Schedule of quarterly financial results briefing session: Yes

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

1. Consolidated Financial Results for the Six Months Ended August 31, 2023 (March 1, 2023 to August 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	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
Six months ended August 31, 2023	12,480	76.4	403	20.2	445	34.3	230	(13.4)
August 31, 2022	7,075	39.0	335	(8.1)	331	(8.7)	266	7.9

(Note) Comprehensive income: Six months ended August 31, 2023: ¥ 527 million [51.4%]
Six months ended August 31, 2022: ¥ 348 million [203.9%]

	Basic earnings per share	Diluted earnings per share
	Yen	Yen
Six months ended August 31, 2023	29.58	29.06
August 31, 2022	34.46	33.61

(2) Consolidated Financial Position

	Total assets	Net assets	Capital adequacy ratio
	Millions of yen	Millions of yen	%
As of August 31, 2023	15,883	10,214	64.3
February 28, 2023	14,743	9,683	65.5

(Reference) Equity: As of August 31, 2023: ¥ 10,208 million
As of February 28, 2023: ¥ 9,663 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 February 28, 2023	-	0.00	-	0.00	0.00
Fiscal year ending February 29, 2024	-	0.00			
Fiscal year ending February 29, 2024 (Forecast)			-	0.00	0.00

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

(Note) Breakdown of the 2nd quarter dividend for the fiscal year ending February 29, 2024 :

Commemorative dividend	- yen
Special dividend	- yen

3. Consolidated Financial Results Forecast for the Fiscal Year Ending February 29, 2024(March 1, 2023 to February 29, 2024)

(% indicates changes from the previous corresponding period.)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent		Basic earnings per share
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Yen
Full year	25,495	47.4	536	(2.8)	595	(4.6)	354	(21.8)	45.53

(Note) Revision to the financial results forecast announced most recently: Yes

* Notes:

(1) Changes in significant subsidiaries during the six months ended August 31, 2023

(changes in specified subsidiaries resulting in changes in scope of consolidation): No

New - (Company name:)

Exclusion: - (Company name:)

(2) Accounting policies adopted specially 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: No

3) Changes in accounting estimates: No

4) Retrospective restatement: No

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

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

August 31, 2023: 7,811,089 shares

February 28, 2023: 7,753,506 shares

2) Number of treasury shares at the end of the period:

August 31, 2023: 557 shares

February 28, 2023: 520 shares

3) Average number of shares outstanding during the period:

Six months ended August 31, 2023: 7,791,395 shares

Six months ended August 31, 2022: 7,722,165 shares

Quarterly Consolidated Financial Statements
Quarterly Consolidated Balance Sheets

(Thousands of yen)

	As of February 28, 2023	As of August 31, 2023
Assets		
Current assets		
Cash and deposits	5,652,391	6,426,181
Accounts receivable - trade, and contract assets	2,959,720	3,210,071
Advance payments to suppliers	2,034,204	1,732,398
Other	188,271	190,425
Allowance for doubtful accounts	(1,260)	(1,218)
Total current assets	10,833,326	11,557,857
Non-current assets		
Property, plant and equipment	58,756	58,019
Intangible assets		
Goodwill	1,049,529	973,878
Other	113,807	113,642
Total intangible assets	1,163,336	1,087,520
Investments and other assets		
Investment securities	2,518,745	3,013,889
Shares of subsidiaries and associates	95,528	95,136
Distressed receivables	-	1,877
Other	74,236	71,429
Allowance for doubtful accounts	-	(1,877)
Total investments and other assets	2,688,510	3,180,456
Total non-current assets	3,910,604	4,325,996
Total assets	14,743,930	15,883,854

(Thousands of yen)

	As of February 28, 2023	As of August 31, 2023
Liabilities		
Current liabilities		
Accounts payable - trade	2,780,494	2,652,057
Income taxes payable	166,486	141,367
Contract liabilities	1,278,478	1,852,444
Provision for bonuses	88,065	213,616
Provision for bonuses for directors (and other officers)	8,530	-
Short-term borrowings	-	100,000
Provision for loss on orders received	39,897	11,489
Other	452,513	315,251
Total current liabilities	4,814,466	5,286,227
Non-current liabilities		
Deferred tax liabilities	231,560	368,333
Asset retirement obligations	14,310	14,310
Total non-current liabilities	245,870	382,643
Total liabilities	5,060,337	5,668,870
Net assets		
Shareholders' equity		
Share capital	3,235,215	3,250,993
Capital surplus	3,225,941	3,241,719
Retained earnings	2,472,391	2,675,741
Treasury shares	(2,386)	(2,485)
Total shareholders' equity	8,931,162	9,165,969
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	732,149	1,042,056
Total accumulated other comprehensive income	732,149	1,042,056
Non-controlling interests	20,281	6,957
Total net assets	9,683,593	10,214,983
Total liabilities and net assets	14,743,930	15,883,854

Quarterly Consolidated Statements of Income and Comprehensive Income

Quarterly Consolidated Statements of Income (For the six months)

(Thousands of yen)

	For the six months ended August 31, 2022	For the six months ended August 31, 2023
Net sales	7,075,033	12,480,477
Cost of sales	6,076,629	10,889,700
Gross profit	998,403	1,590,777
Selling, general and administrative expenses	663,225	1,187,753
Operating profit	335,177	403,023
Non-operating income		
Dividend income	8,300	8,225
Share of profit of entities accounted for using equity method	4,788	-
Foreign exchange gains	-	41,537
Other	2,678	23,979
Total non-operating income	15,767	73,742
Non-operating expenses		
Share of loss of entities accounted for using equity method	-	391
Loss on investments in investment partnerships	13,584	29,104
Foreign exchange losses	4,424	-
Other	1,451	2,177
Total non-operating expenses	19,459	31,673
Ordinary profit	331,485	445,091
Extraordinary losses		
Special retirement payments	-	49,100
Loss on valuation of investment securities	-	63,239
Total extraordinary losses	-	112,339
Profit before income taxes	331,485	332,752
Income taxes	128,218	115,582
Profit	203,266	217,170
Loss attributable to non-controlling interests	(62,864)	(13,323)
Profit attributable to owners of parent	266,131	230,494

Quarterly Consolidated Statements of Comprehensive Income (For the six months)

(Thousands of yen)

	For the six months ended August 31, 2022	For the six months ended August 31, 2023
Profit	203,266	217,170
Other comprehensive income		
Valuation difference on available-for-sale securities	144,945	309,906
Total other comprehensive income	144,945	309,906
Comprehensive income	348,211	527,077
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	411,076	540,401
Comprehensive income attributable to non-controlling interests	(62,864)	(13,323)

Quarterly Consolidated Statements of Cash Flows

(Thousands of yen)

	For the six months ended August 31, 2022	For the six months ended August 31, 2023
Cash flows from operating activities		
Profit before income taxes	331,485	332,752
Depreciation	31,461	32,684
Amortization of goodwill	-	56,738
Increase (decrease) in allowance for doubtful accounts	(300)	1,831
Interest expenses	-	172
Increase (decrease) in provision for bonuses	10,265	114,431
Increase (decrease) in provision for loss on orders received	(4,976)	(4,104)
Interest and dividend income	(10,978)	(19,656)
Foreign exchange losses (gains)	(245)	(90)
Share-based payment expenses	8,677	8,517
Share issuance costs	997	1,047
Share of loss (profit) of entities accounted for using equity method	(4,788)	391
Loss (gain) on investments in investment partnerships	13,584	29,104
Special merit rewards	-	49,100
Decrease (increase) in trade receivables	(355,915)	-
Decrease (increase) in trade receivables, and contract assets	-	(230,405)
Decrease (increase) in deposits paid	(254)	392
Decrease (increase) in advance payments to suppliers	229,100	301,297
Increase (decrease) in trade payables	416,862	(85,741)
Increase (decrease) in provision for bonuses for directors (and other officers)	-	(8,530)
Loss (gain) on valuation of investment securities	-	63,239
Increase (decrease) in accounts payable - other	(72,455)	(56,485)
Increase (decrease) in contract liabilities	(234,870)	601,156
Decrease (increase) in distressed receivables	-	(1,877)
Other, net	(103,561)	(51,605)
Subtotal	254,089	1,134,362
Interest and dividends received	10,978	19,656
Interest paid	-	(172)
Payments of special retirement payments	-	(49,100)
Income taxes paid	(133,140)	(136,091)
Income taxes refund	0	-
Net cash provided by (used in) operating activities	131,927	968,654

(Thousands of yen)

	For the six months ended August 31, 2022	For the six months ended August 31, 2023
Cash flows from investing activities		
Purchase of property, plant and equipment	(2,410)	(4,636)
Purchase of intangible assets	(20,017)	(27,031)
Purchase of investment securities	(225,795)	(136,729)
Payments of guarantee deposits	-	(20)
Purchase of shares of subsidiaries resulting in change in scope of consolidation	(345,633)	-
Other, net	(122)	(112)
Net cash provided by (used in) investing activities	(593,979)	(168,530)
Cash flows from financing activities		
Proceeds from short-term borrowings	-	100,000
Proceeds from issuance of shares	13,179	13,484
Purchase of treasury shares	(174)	(99)
Proceeds from share issuance to non-controlling shareholders	30,000	-
Net cash provided by (used in) financing activities	43,005	113,385
Effect of exchange rate change on cash and cash equivalents	245	90
Net increase (decrease) in cash and cash equivalents	(418,801)	913,600
Cash and cash equivalents at beginning of period	6,798,191	5,642,391
Increase (decrease) in cash and cash equivalents resulting from change in accounting period of subsidiaries	-	(139,810)
Cash and cash equivalents at end of period	6,379,390	6,416,181