

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

November 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	Name:	Sungil Lee (Tel: +81-3-6897-6140)
Date of filing of quarterly report:	November 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 third quarter of fiscal year ending December 2023 (January 1, 2023 - September 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	%
Q3 of the year ending December 2023	8,231	17.3	545	27.7	580	38.2	369	34.9
Q3 of the year ended December 2022	7,014	31.7	426	-4.1	419	-1.1	273	4.2

(Note) Comprehensive income	Q3 FY2023: 369 million yen (32.4%)	Q3 FY2022: 279 million yen (7.3%)
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	Profit per share	Profit per share fully diluted
	yen	yen
Q3 of the year ending December 2023	81.96	79.35
Q3 of the year ended December 2022	66.23	63.43

(2) Financial position (consolidated)

	Total assets	Net assets	Capital adequacy ratio
	million yen	million yen	%
Q3 of the year ended December 2023	7,513	3,659	47.8
Year ended December 2022	5,595	3,249	57.5

(Reference) Shareholders' equity	Q3 2023: 3,592 million yen	FY2022 3,218 million yen
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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	-	0	0
Year ending December 2023	-	0	-		
Year ending December 2023 (forecast)				0	0

(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	12,300	27.6	710	41.6	710	45.0	440	89.2	97.45

(Note) Revisions to the most recently announced earnings forecast: Yes

* Notice

(1) Changes in main subsidiaries during year to quarter end: No

(Changes in specific subsidiaries accompanied by changes in the scope of consolidation)

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

Q3 of year ending December 2023	4,515,375 shares	Year ended December 2022	4,495,375 shares
Q3 of year ending December 2023	87 shares	Year ended December 2022	- shares
Q3 of year ending December 2023	4,507,957 shares	Q3 of year ended December 2022	4,134,372 shares

* 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 nine months of the fiscal year under review (January 1 to September 30, 2023), the Japanese economy showed signs of a moderate recovery as employment and income conditions improved with the easing of COVID-19 infection control measures. 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 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 changed the name of existing service Consultant Job to Professional Hub in July 2023 and actively promoted the development of existing services Assign Navi and Growth Company Club, which facilitates growth and collaboration among IT companies.

As a result of the above, during the first nine months of the fiscal year under review, we achieved net sales of ¥8,231.818 million (up 17.3% year on year), operating profit of ¥545.219 million (up 27.7% year on year), and ordinary profit of ¥580.135 million (up 38.2% year on year), and profit attributable to owners of parent of ¥369.452 million (up 34.9% 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, 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 strengthening our collaboration with FPT Japan Holdings Co., Ltd. and Yokogawa Digital Corporation as part of a capital and business alliance formed last fiscal year, we collaborated with Busy Bee, Inc. in the area of data analytics & AI services. We also actively worked on alliances with other companies, such as collaborating with FUNDINNO, Inc. in the area of support for system and service development and signing a partnership agreement with Apptio, which supports enhancement of IT financing. Meanwhile, 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 ¥7,329.904 million (up 19.2% year on year) and segment profit (operating profit) came to ¥503.123 million (up 24.1% 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 13,267 including both corporate and individual members as of September 30, 2023. This steady growth represents a 773-member increase over the end of the previous year. Net sales were strong as the Assign Navi and Professional Hub 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 profit growth from existing services.

As a result, net sales in the platform business came to ¥1,469.295 million (up 22.7% year on year), and the segment profit (operating profit) came to ¥42.096 million (up 95.8% year on year).

(2) Explanation of Financial Position

Total assets at the end of the first nine months of the fiscal year were ¥7,513.805 million, up ¥1,918.080 million from the end of the previous fiscal year. This was primarily due to a ¥1,647.892 million increase in cash and deposits and a ¥238.397 million increase in accounts receivable and contract assets despite a ¥54.123 million decrease in leasehold and guarantee deposits.

Liabilities came to ¥3,854.419 million, up ¥1,508.103 million from the end of the previous fiscal year. This was primarily due to a ¥1,367.419 million increase in long-term borrowings and a ¥92.460 million increase in income taxes payable despite a ¥42.252 million decrease in accounts payable – other.

Net assets amounted to ¥3,659.386 million, an increase of ¥409.977 million from the end of the previous fiscal year. This was primarily due to a ¥369.452 million increase in retained earnings. The equity ratio was 47.8%.

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

In regard to the consolidated earnings forecast for the fiscal year ending December 2023, we revised the full-year consolidated earnings forecast announced with the summary of financial results on February 10, 2023.

For details, please refer to the “Notice Concerning Revision of Full-Year Earnings Forecast for Fiscal Year Ending December 2023,” which was announced separately today (November 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 nine months of the current fiscal year (ended September 30, 2023)
Assets		
Current assets		
Cash and deposits	2,982,895	4,630,787
Electronically recorded monetary claims - operating	133,082	136,293
Accounts receivable and contract assets	1,384,481	1,622,879
Work in process	22,497	18,237
Other	94,197	135,677
Allowance for doubtful accounts	(1,837)	(1,985)
Total current assets	4,615,316	6,541,888
Non-current assets		
Property, plant and equipment	272,728	257,551
Intangible fixed assets		
Goodwill	100,291	69,733
Software	466	12,423
Software in progress	2,423	11,437
Total intangible fixed assets	103,180	93,594
Investments and other assets		
Deferred tax assets	176,091	171,645
Leasehold and guarantee deposits	206,003	151,880
Investment securities	163,724	235,989
Other	58,679	61,256
Total investments and other assets	604,498	620,770
Total non-current assets	980,407	971,916
Total assets	5,595,724	7,513,805

(Thousands of yen)

	Previous consolidated fiscal year (ended December 31, 2022)	First nine months of the current fiscal year (ended September 30, 2023)
Liabilities		
Current liabilities		
Accounts payable - trade	780,447	796,156
Current portion of long-term borrowings	273,456	594,488
Accounts payable - other	394,798	352,546
Income taxes payable	60,620	153,080
Provision for bonuses	111,496	89,179
Provision for bonuses for directors (and other officers)	4,950	–
Provision for loss on order received	–	24,396
Contract liabilities	20,224	16,220
Other	182,633	249,781
Total current liabilities	1,828,626	2,275,849
Non-current liabilities		
Long-term borrowings	408,760	1,455,146
Retirement benefit liabilities	107,041	121,534
Deferred tax liabilities	539	539
Other	1,349	1,349
Total non-current liabilities	517,689	1,578,570
Total liabilities	2,346,316	3,854,419
Net assets		
Shareholders' equity		
Share capital	728,090	730,590
Capital surplus	978,992	981,492
Retained earnings	1,510,195	1,879,647
Treasury shares	–	(312)
Total shareholders' equity	3,217,278	3,591,418
Accumulated other comprehensive income		
Foreign currency translation adjustment	891	1,237
Total accumulated other comprehensive income	891	1,237
Subscription rights to shares	26,386	62,081
Non-controlling interests	4,851	4,648
Total net assets	3,249,408	3,659,386
Liabilities and net assets	5,595,724	7,513,805

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

Quarterly consolidated statement of income

First nine months of the fiscal year

(Thousands of yen)

	First nine months of the previous fiscal year (January 1 - September 30, 2022)	First nine months of the current fiscal year (January 1 - September 30, 2023)
Net sales	7,014,958	8,231,818
Cost of sales	4,674,191	5,377,565
Gross profit	2,340,767	2,854,253
Selling, general and administrative expenses	1,913,931	2,309,034
Operating profit	426,835	545,219
Non-operating income		
Interest income	13	14
Dividend income	1,800	2,030
Surrender value of insurance policies	35	16
Subsidy income	–	12,838
Share of profit of entities accounted for using equity method	–	22,264
Other	455	2,114
Total non-operating income	2,305	39,278
Non-operating expenses		
Interest expenses	3,936	4,015
Foreign exchange losses	678	333
New share issuing expenses	2,218	–
Purchase of treasury shares	1,499	–
Other	1,027	13
Total non-operating expenses	9,360	4,361
Ordinary profit	419,781	580,135
Profit before income taxes	419,781	580,135
Income taxes-current	110,689	206,441
Income taxes-deferred	30,547	4,445
Total income taxes	141,236	210,886
Profit	278,544	369,249
Profit (loss) attributable to non-controlling interests	4,721	(202)
Profit attributable to owners of parent	273,822	369,452

Quarterly consolidated statement of comprehensive income

First nine months of the fiscal year

(Thousands of yen)

	First nine months of the previous fiscal year (January 1 - September 30, 2022)	First nine months of the current fiscal year (January 1 - September 30, 2023)
Profit	278,544	369,249
Other comprehensive income		
Foreign currency translation adjustment	707	346
Total other comprehensive income	707	346
Comprehensive income	279,252	369,595
(Breakdown)		
Comprehensive income attributable to owners of parent	274,530	369,798
Comprehensive income attributable to non-controlling interests	4,721	(202)

(3) Notes to the Quarterly Consolidated Financial Statements

(Notes Related to Going Concern Assumptions)

Not applicable.

(Changes in Accounting Policies)

First nine months of the current fiscal year
(January 1 - September 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 nine months of the current fiscal year
(January 1 - September 30, 2023)

(Treatment of Accounting and Disclosure When Applying the Japanese group relief 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 nine months of the current fiscal year (January 1 – September 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	7,281,946	949,872	8,231,818	–	8,231,818
Transactions with other segments	47,957	519,423	567,380	(567,380)	–
Total	7,329,904	1,469,295	8,799,199	(567,380)	8,231,818
Segment profit	503,123	42,096	545,219	–	545,219

(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 nine months of the current fiscal year (January 1 – September 30, 2023)

(Thousands of yen)

	Reporting Segment		Total
	Professional Services Business	Platform Business	
Business Process & Technology	6,637,539	–	6,637,539
Strategy & Innovation	563,783	–	563,783
Social & Public	80,623	–	80,623
Assign Navi	–	42,803	42,803
Professional Hub	–	904,388	904,388
Growth Company Club	–	2,680	2,680
Revenue from contracts with customers	7,281,946	949,872	8,231,818
Net sales to unaffiliated customers	7,281,946	949,872	8,231,818

(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.

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
Professional Hub	Support for Advancement of Independent Consultants	Consultant Job
Growth Company Club	A membership-based community for growing IT companies, Case Study Media, and CS Survey	CS Clip

(Significant Subsequent Events)

Business combination through acquisition

At the Board of Directors meeting held on August 31, 2023, the Company resolved to acquire common shares of HCS Holdings Co., Ltd. through a tender offer based on the Financial Instruments and Exchange Act. The shares were purchased on October 23, 2023, and the company and its five consolidated subsidiaries were made subsidiaries of the Company. Additionally, one of its equity-method affiliates became an equity-method affiliate of the Company.

1. Overview of business combination

(1) Name of acquired company and description of business

Name of acquiree: HCS Holdings Co., Ltd.

Description of business: Establishment of management strategies for the corporate group consisting of the information services, ERP, and digital marketing businesses, development of corporate governance, optimal allocation of management resources within the group, etc.

(2) Main reason(s) for business combination

The Company and the acquiree had been looking into expanding and developing their respective businesses while engaging in complementary businesses, such as the Group's professional services business and the acquiree's information services, ERP, and digital marketing businesses. Through discussions with the acquiree, the Company reached the conclusion that the business combination would produce synergy and benefits, such as the establishment of a service delivery system that meets customer needs by utilizing engineers with extensive development experience and know-how from the acquiree, the provision of training and opportunities for engineers to play an active role through participation in consulting projects further upstream, and the realization of increased profitability through higher unit prices. The purpose of the business combination is to enhance the corporate value of both the Company and the acquiree by leveraging this synergy. This involves the Company making the acquiree a wholly-owned subsidiary through a tender offer, sharing management resources, collaboratively advancing projects, and employing other strategic measures.

(3) Date of business combination

October 23, 2023

(4) Legal form of business combination

Cash-based acquisition of shares

(5) Name of company after business combination

No change.

(6) Percentage of voting rights acquired

96.04% (as of November 10, 2023)

The purpose is to make the acquiree a wholly owned subsidiary. As such, the Company intends to file a demand for sale of shares applying to all non-controlling shareholders in the future, thereby increasing the percentage of voting rights to 100.00%.

2. Acquisition cost and type of consideration (as of November 10, 2023)

Consideration	Cash	¥5,021.884 million
Acquisition cost		¥5,021.884 million

3. Description and amount of expenses related to acquisition

To be determined.

4. Amount of goodwill arising from acquisition, reason for goodwill, and method and period of amortization

To be determined.

5. Amounts and breakdown of assets and liabilities taken over on date of business combination

To be determined.

Borrowing of Significant Funds

The loan below was executed based on the resolution passed at the Board of Directors meeting held on August 31, 2023.

Long-term borrowing

Use of funds: Purchase of shares through tender offer and payment of incidental expenses

Lender: MUFG Bank, Ltd.

Amount borrowed: ¥3,000.000 million

Interest rate: Variable

Loan execution date: October 20, 2023

Term of loan: 10 years

Collateral: None

Financial covenants:

- (i) The borrower shall not record two consecutive ordinary losses in the audited consolidated income statement for each fiscal year ending on or after the contract signing date (October 17, 2023).
- (ii) For each fiscal year ending on or after the contract signing date (October 17, 2023), the borrower shall ensure that the net assets on the audited consolidated balance sheet are at least 75% of either the previous fiscal year's amount or the amount from the fiscal year ended December 2022, whichever is higher.