



# Q3 FY2023 Financial Results

11/2023

LTS, Inc.

(TSE Prime Market Securities code 6560)

- 1. Business Overview**
- 2. Conversion of HCS Holdings into Subsidiary**
- 3. Overview of Q3 FY2023 Financial Results**
- 4. Revision of Forecast for FY2023**
- 5. Purchase of Treasury Shares**
- 6. Medium-Term Business Plan**

	Service(s)	Mission	Synergy of services	Customers	Main profit model
Professional services business	Strategy & innovation	DX project implementation/ maximization of value	<ul style="list-style-type: none"> <li>Establishment of business strategy</li> <li>Administration</li> <li>Management reform and organizational strategy</li> </ul> <p>↓ Creation of DX projects</p>	Major corporations (and group companies)	Project-based contracts (high gross profit)
	Business process & technology				<ul style="list-style-type: none"> <li>Data analytics &amp; AI</li> <li>Business process &amp; operations</li> <li>Digital transformation</li> <li>IT service management</li> </ul>
	Social & public	Realization of sustainable society	<ul style="list-style-type: none"> <li>Social service creation</li> <li>Public-private collaboration</li> <li>Administrative management</li> </ul> <p>↑ Provision of human resources</p>		Public services/Local/SME
Platform business	Professional Hub		<ul style="list-style-type: none"> <li>Support for activities of independent consultants</li> </ul>		Membership dues +service fee-based
	Assign Navi	IT industry innovation	<ul style="list-style-type: none"> <li>Matching of projects, professionals, and IT companies</li> </ul>	IT service industry/companies	
	Growth Company Club		<ul style="list-style-type: none"> <li>Community of growing IT companies</li> <li>CS Clip: Media for searching DX case studies</li> <li>CS Survey: Visualization of customer reputation/evaluation</li> </ul>		

# Professional Services

By **supporting the reform** of various organizations, including companies, government, and NPOs, we aim to realize a free and vibrant human society.



## Strategy & innovation

**Creating discontinuous organizational growth**

We put our heads together with customers to create **highly agile businesses and management organizations** in a world of constant change.



## Business process & technology

**Acquiring work site capabilities for the digital age**

We support the shift in capabilities required of organizations and human resources, including **data, technology, and business processes** to develop new work site capabilities.



## Social & public

**Creating the foundation for an affluent society**

We create a path to **realize a sustainable society** by promoting the realization of the SDGs by companies, improvement of administrative/NPO operational capabilities, and public-private collaboration.

# Platform service

With a mission of creating a world where there are good opportunities for good people and good companies, we operate a matching and referral service that connects IT professionals with companies and independent consultants with companies and municipalities as well as a community service that aims to grow IT companies and the industry.



**Assign Navi**

**Connecting IT professionals and companies**

One of the largest matching sites in Japan collecting information on real projects and human resources in the IT industry and facilitating many encounters



**Professional Hub**

**Referral of high-end projects for independent consultants**

Service supporting resolution of problems facing companies and municipalities by around 2,000 professionals



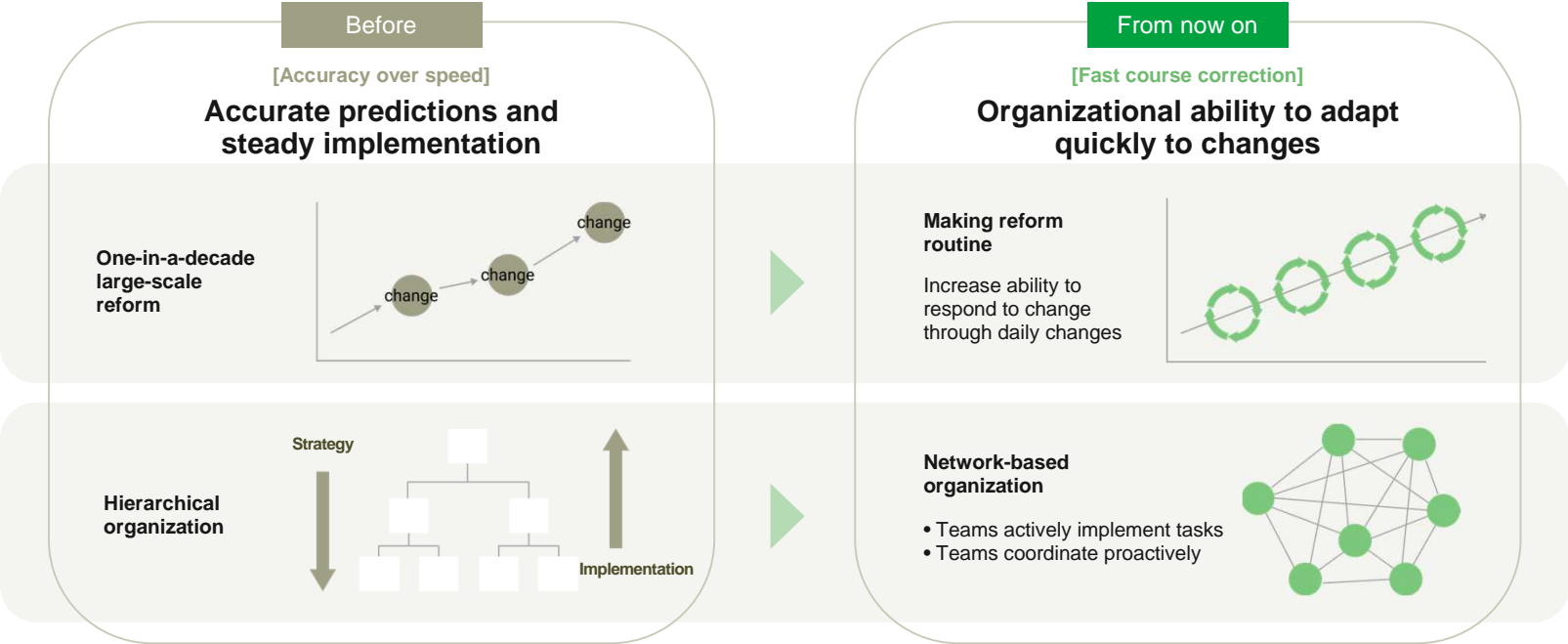
**Growth Company Club**

**Supporting business growth of IT companies**

Members-only community for IT companies seeking growth of their own company, their customers, and the IT industry as a whole

# Making Reform Routine (Background behind Favorable Performance of Professional Services)

In these times, companies work on various reform, whether large, medium, or small, on a daily basis, and it is necessary not only to promote individual projects but to acquire the ability to respond to change

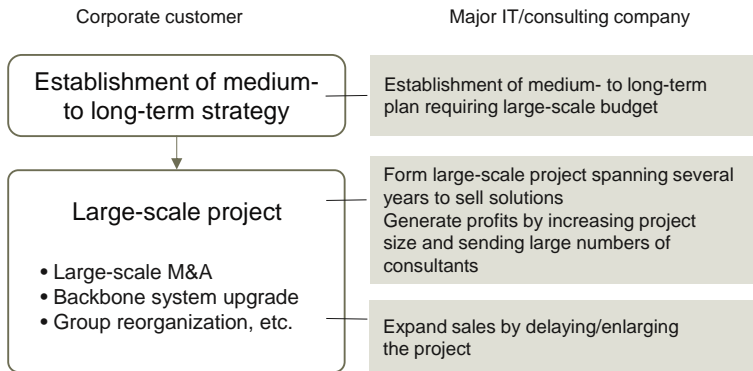


# Characteristic 1 of Professional Services Business

LTS supports the promotion of individual projects and the acquisition of the ability to respond to change

## Conventional consulting/IT services

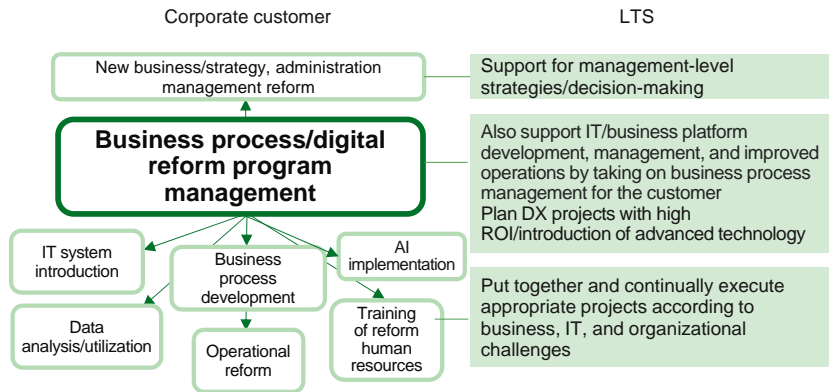
**Growth support does not equal support for success of large-scale projects**



- Large scale of measures makes them easily affected by sudden environmental changes, delaying response
- Withdraws at the end of the project and looks for a new customer with a large project
- Solves customer challenges that conform to its own solutions

## LTS professional services

**Growth support equals acquiring the ability to respond to change and support for promoting high ROI project planning**



- Can quickly respond to environmental changes with reform planning
- Medium- to long-term relationship with customer that does not end with individual projects
- Launch various projects according to customer challenges and respond with a system that includes platform service members (freelancers and IT/DX companies)

# Characteristic 2 of Professional Services Business

Receives a large number of inquiries from new customers by promoting a customer cultivation model and quickly producing a track record of support for advanced topics

## Business model

Business process management

Long-term support



Project

Comprehensive support from DX project consulting to IT development

## Uniqueness/strengths

Visualization of business process (operational and management issues)

Building of long-term customer relationships and continuous cycle of reform

Grasping of reform cycle (issue selection, budgeting, etc.)

Seizing opportunities for progressive projects and acquiring ability to attract new customers

### Major customers (of 10 years or more)

- ITOCHU Corporation
- ORIX Corporation
- Kirin Holdings Company, Limited
- Yazaki Corporation
- DIC Corporation
- Nissan Motor Co., Ltd.

### Major themes

- Comprehensive DX support
- Automation of shelving allocation utilizing AI
- DX/SX for municipalities

### New customers (2019-2022)

- Hiroshima, Shizuoka, Shizuoka City, Ichikawa City, Kagoshima City
- NEC Corporation
- Osaka Metro
- Suzuyo System Technology Co., Ltd.
- SEVEN-ELEVEN JAPAN CO., LTD.



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# Summary

- **Acquired more than 90% of** HCS Holdings Co., Ltd. (Securities code 4200, “HCS”) **shares**. Following the shareholder squeeze-out, HCS was unlisted and made a **wholly owned subsidiary**. **No equity financing** such as capital increase is planned for this (total purchase price: ¥5,120 million).
- FY2023 includes related **one-off expenses (revised forecast for this year)**. On the other hand, **the amount of profit after consolidation is expected to exceed the amount of goodwill** generated from FY2024 and beyond. There will be **a positive impact** on FY2024 results and medium- to long-term results.
- HCS is engaged in three businesses: information services, ERP, and digital marketing, and expects **to generate a great deal of synergy with the LTS Group**, which provides services in the DX domain. This is **an important step toward realizing the LTS vision of becoming the “Best Partner for the Digital Era.”**
- **The financial standing of HCS is very stable**. It has consolidated net assets of ¥3,680 million and net cash of ¥1,234 million, as well as real estate for rental (book value of ¥1,189 million ⇔ market value of ¥1,569 million) and shares of listed affiliates (book value of ¥138 million ⇔ market value of ¥649 million) (figures as of March 31, 2023).

# Financial Results of Acquiree

Excerpt from materials  
disclosed on August 31  
(Partially revised)

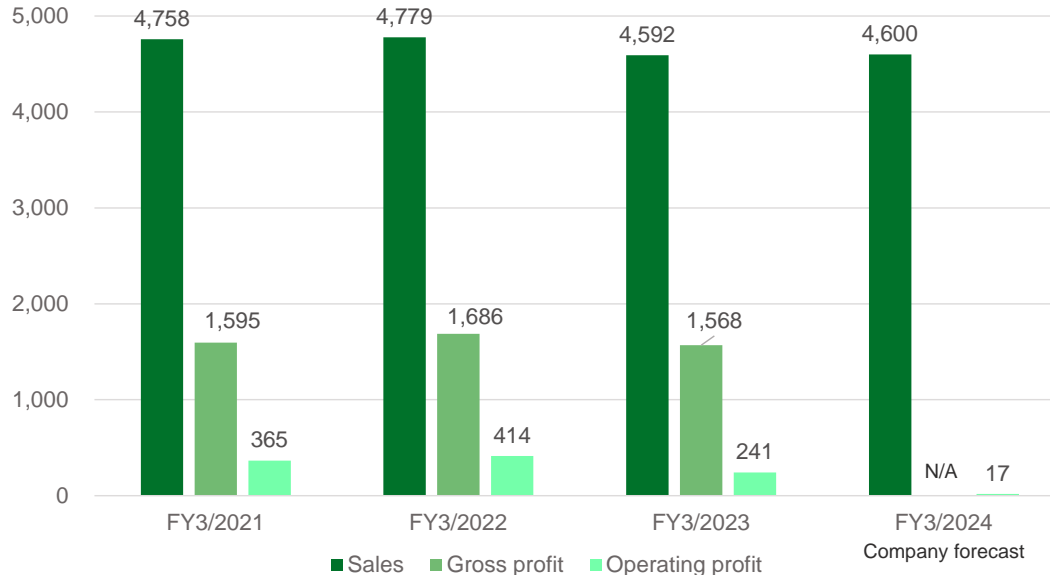


In FY3/2024 (company forecast), the profit plan is temporarily low due to restructuring (review of business portfolio), but the average operating profit for the past three years is ¥340 million.

The company plans to create synergy and increase profits through the business integration with the LTS Group.

## Trend in HCS Financial Results

(Millions of yen)



# Acquiree Balance Sheet and Anticipated Goodwill

The amount of profit after consolidation is expected to exceed the amount of goodwill generated.

Excerpt from materials disclosed on August 31 (Partially revised)

## HCS Balance Sheet for FYE March 2023

(Millions of yen) Rounded down to nearest million

Cash and deposits	1,510	Current liabilities	783
		Non-current liabilities	49
		Liabilities	833
Current assets	2,174	Net assets	3,680
Property, plant and equipment	1,688		
Intangible fixed assets	246		
Total assets	4,514	Liabilities + net assets	4,514

Total amount of purchase:  
¥5,120 million (planned)

**Goodwill = Total amount of purchase - Net assets**

\* The details of the goodwill amount are under careful review, **but the valuation of net assets is expected to be larger** than the data for the fiscal year ended March 31, 2023 shown on the left, and **the goodwill amount is expected to be less than the simple calculation.** (Because the valuation of assets such as real estate for rent is based on market value calculations)

**Goodwill amortization period: 7-12 years**

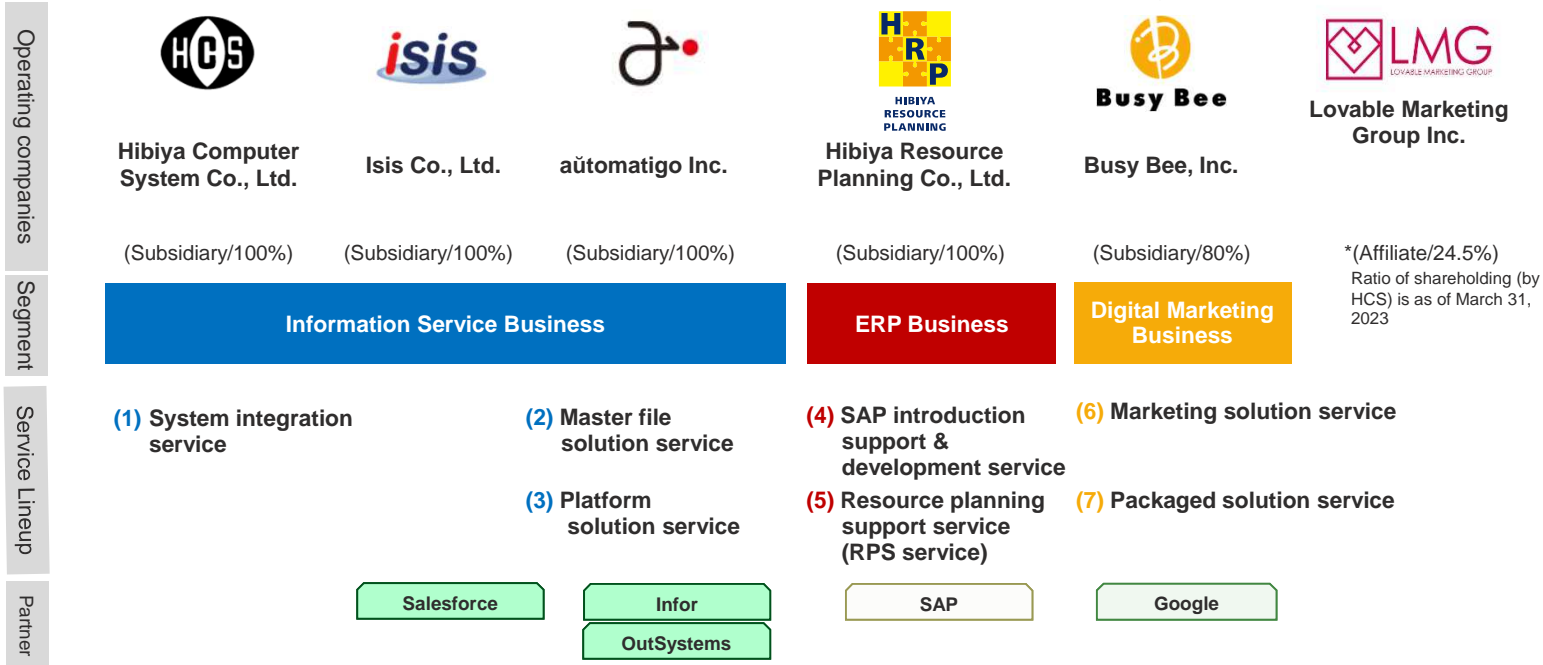
\* The goodwill amortization period is provided as a range at this time because it needs to be carefully reviewed with the audit firm and other related organizations.

# HCS Business Description

Excerpt from materials disclosed on August 31 (Partially revised)



HCS Holdings Co., Ltd.

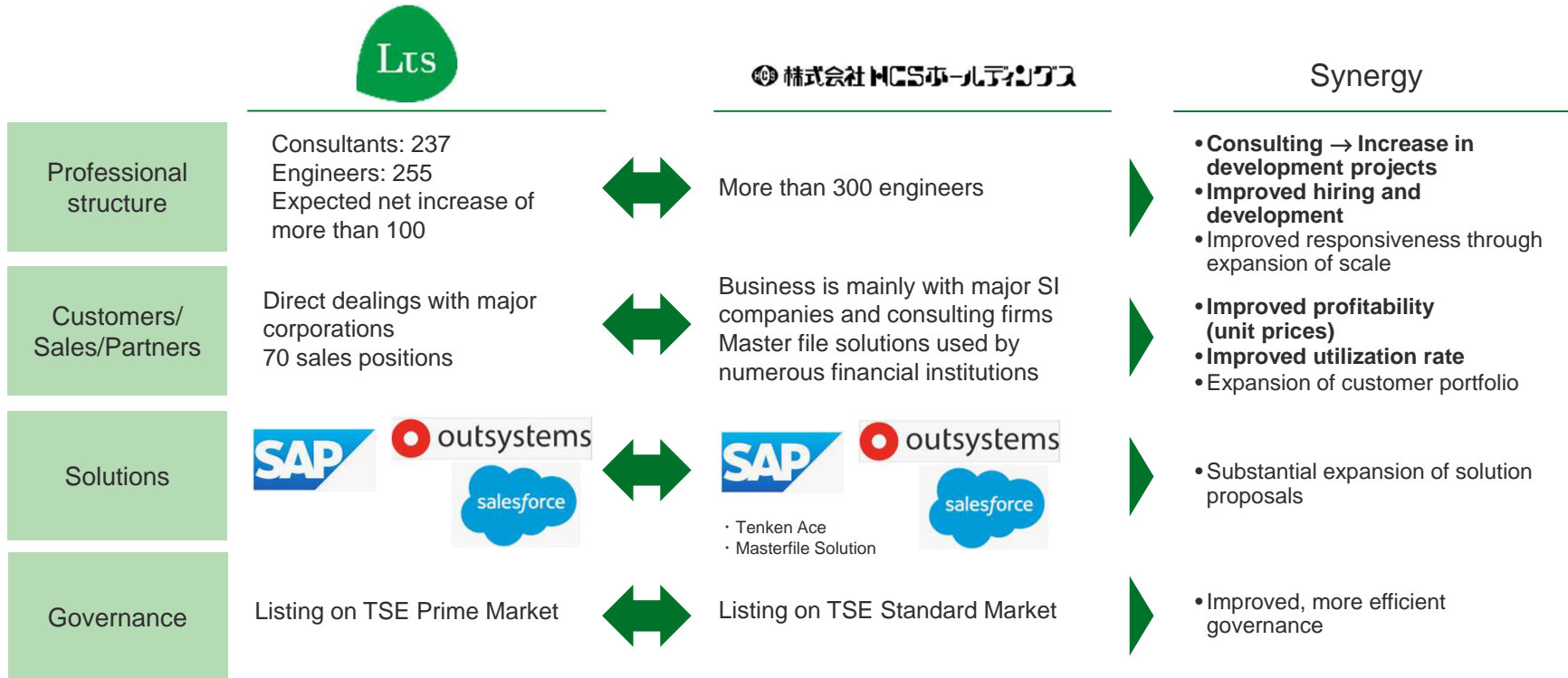


# Synergy

Excerpt from materials disclosed on August 31 (Partially revised)



We expect the partnership to be attractive to our stakeholders (shareholders, employees, customers, etc.) as there are numerous opportunities to generate synergy in terms of structure, sales, and solutions.

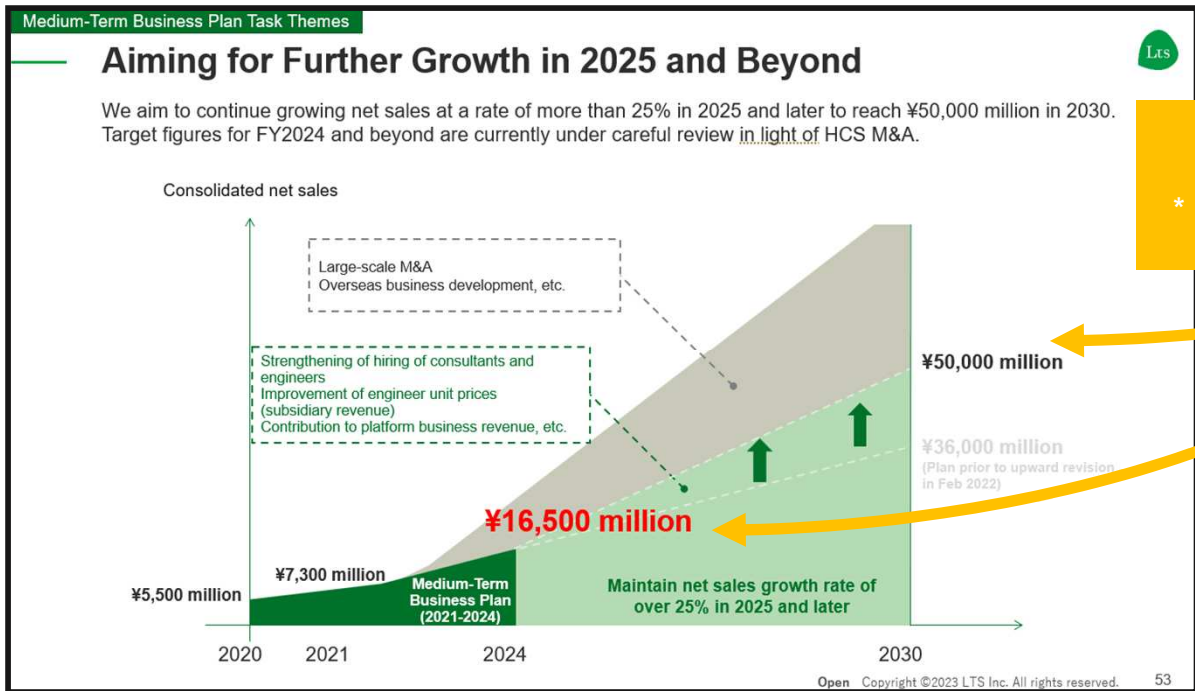


# Aiming for Further Growth in 2025 and Beyond

This deal will accelerate medium- to long-term growth and have a positive impact on the existing goal “to continue growing net sales at a rate of more than 25% in 2025 and later to reach ¥50,000 million in 2030.”

Excerpt from materials disclosed on August 31 (Partially revised)

## Excerpt from Medium-Term Business Plan Part of Financial Results



**Accelerate medium- to long-term growth**  
\* Details of impact on results under careful review

# Impact on Numerical Targets through 2024

Excerpt from materials disclosed on August 31 (Partially revised)

LTS

Although the specific impact on next year's results is under careful review, we anticipate seeing a positive impact starting in 2024.

## Excerpt from Medium-Term Business Plan Part of Financial Results

### Numerical Targets

Compound average growth rate of net sales

30% in 2023 and beyond

Operating margin

12% by 2024

	2020	2021	2022	2023	2024
	Results	Results	Results	Forecast	Medium-Term Plan
Consolidated net sales	¥5,500 million	¥7,300 million	¥9,600 million	¥12,700 million	¥16,500 million
Consolidated operating profit	¥470 million	¥600 million	¥500 million	¥950 million	¥2,000 million
Consolidated operating margin	8.6%	8.1%	5.2%	7.5%	12.1%

Anticipation of positive impact

\*Specific impact on results is under careful review

- Consolidation as of Q4 FY23
- Revise FY23 forecast to reflect one-off M&A expenses to be recorded this fiscal year and HCS's financial results forecast

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# Q3 FY2023 Summary (Cumulative)

## LTS Group overall

Net sales: ¥8,231 million (up 17.3% YoY)  
 Operating profit: ¥545 million (up 27.7% YoY)  
 Ordinary profit: ¥580 million (up 38.2% YoY)

⇒ **Net sales, operating profit, and ordinary profit all reached record high for the first nine months**

(Excluding 50M expense related to HCS M&A)

- Operating profit: ¥595 million
- YoY: +39.4%

## Professional services business

Net sales: ¥7,329 million (up 19.2% YoY)  
 Operating profit: ¥503 million (up 24.1% YoY)

⇒ **Record high for first nine months owing to increase in number of consultants and engineers**

(Excluding 50M expense related to HCS M&A)

- Operating profit: ¥553 million
- YoY: +36.5%

## Platform business

Net sales: ¥1,469 million (up 22.7% YoY)  
 Operating profit: ¥42 million (up 95.8% YoY)

⇒ **Record high for first nine months owing to development of sales positions**

# Q3 FY2023 Consolidated Profit and Loss Statement

Unit: Millions of yen	Q3	Q3	YoY % change	FY2023	FY2022	YoY % change	FY2023	Percentage achievement
	FY2023	FY2022		Total for first nine months	Total for first nine months		forecast	
<b>Net sales</b>	<b>2,725</b>	2,366	+15.2%	<b>8,231</b>	7,014	+17.3%	<b>12,700</b>	<b>64.8%</b>
<b>Gross profit</b>	<b>916</b>	761	+20.3%	<b>2,854</b>	2,340	+21.9%	-	-
<b>Gross profit margin</b>	<b>33.6%</b>	32.2%	+1.4pts	<b>34.7%</b>	33.4%	+1.3pts	-	-
<b>SG&amp;A</b>	<b>766</b>	686	+11.7%	<b>2,309</b>	1,913	+20.6%	-	-
<b>EBITDA*</b>	<b>174</b>	103	+69.1%	<b>618</b>	493	+25.5%	<b>1,059</b>	<b>58.4%</b>
<b>EBITDA margin</b>	<b>6.4%</b>	4.4%	+2.0pts	<b>7.5%</b>	7.0%	+0.5pts	-	-
<b>Operating profit</b>	<b>149</b>	75	+98.3%	<b>545</b>	426	+27.7%	<b>950</b>	<b>57.4%</b>
<b>Operating margin</b>	<b>5.5%</b>	3.2%	+2.3pts	<b>6.6%</b>	6.1%	+0.5pts	-	-
<b>Ordinary profit</b>	<b>117</b>	71	+66.0%	<b>580</b>	419	+38.2%	<b>900</b>	<b>64.5%</b>
<b>Profit before income taxes</b>	<b>117</b>	71	+66.0%	<b>580</b>	419	+38.2%	-	-
<b>Profit attributable to owners of parent</b>	<b>52</b>	33	+54.4%	<b>369</b>	273	+34.9%	<b>560</b>	<b>66.0%</b>

\* EBITDA = Operating profit + depreciation + amortization of goodwill

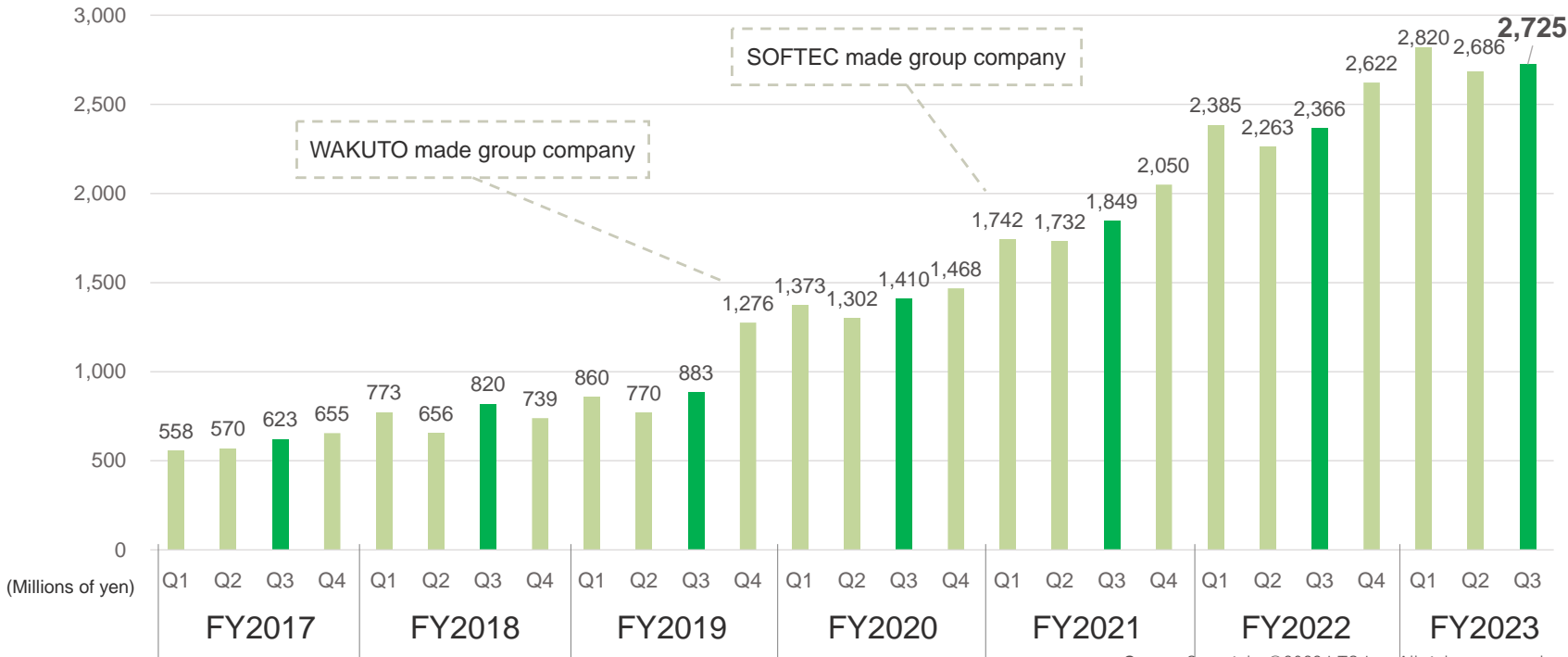
# Q3 FY2023 Consolidated Balance Sheet

We borrowed a total of ¥1.6 billion during the quarter to secure funds for working capital and growth investments.

(Millions of yen)	FY2022	Q3 FY2023	Change
<b>Current assets</b>	4,615	<b>6,541</b>	<b>+1,926</b>
(Cash and deposits, etc.)	2,982	<b>4,630</b>	<b>+1,647</b>
<b>Non-current assets</b>	980	<b>971</b>	<b>-8</b>
<b>Total assets</b>	5,595	<b>7,513</b>	<b>+1,918</b>
<b>Current liabilities</b>	1,828	<b>2,275</b>	<b>+447</b>
(Income taxes payable)	60	<b>153</b>	<b>+92</b>
<b>Non-current liabilities</b>	517	<b>1,578</b>	<b>+1,060</b>
<b>Net assets</b>	3,249	<b>3,659</b>	<b>+409</b>

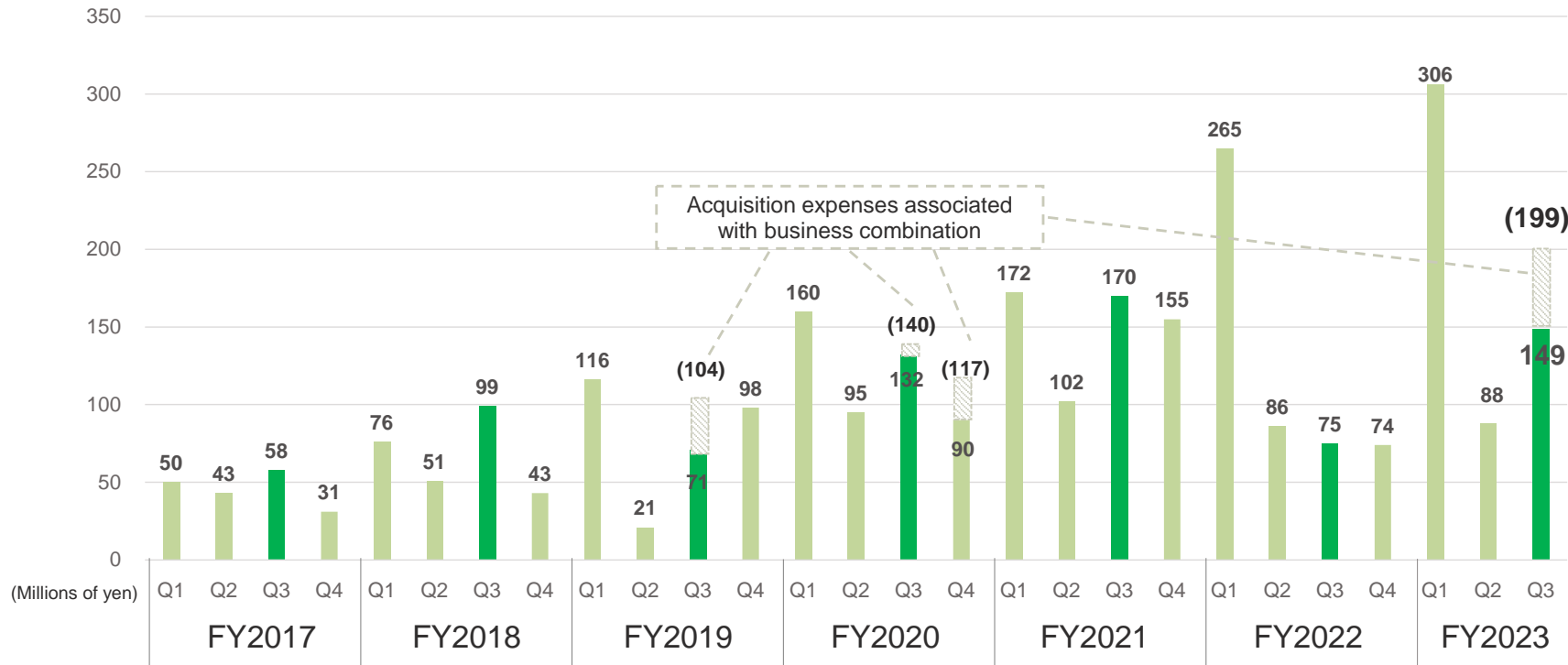
# Quarterly Trend in Consolidated Net Sales

+¥358 million YoY (+15.2%). After completing the acceptance period for new graduate employees, the plan was to return to a revenue growth trend in Q3. However, the temporary drop in the utilization rate due to accepting the largest-ever number of new graduates and the impact of HCS becoming a subsidiary, as well as the delay in progress in the platform business, caused net sales to fall short of the Q3 plan. In Q4, we expect sales to increase owing to a recovery in the utilization rate and the inclusion of HCS in the scope of consolidation.



# Quarterly Trend in Consolidated Operating Profit

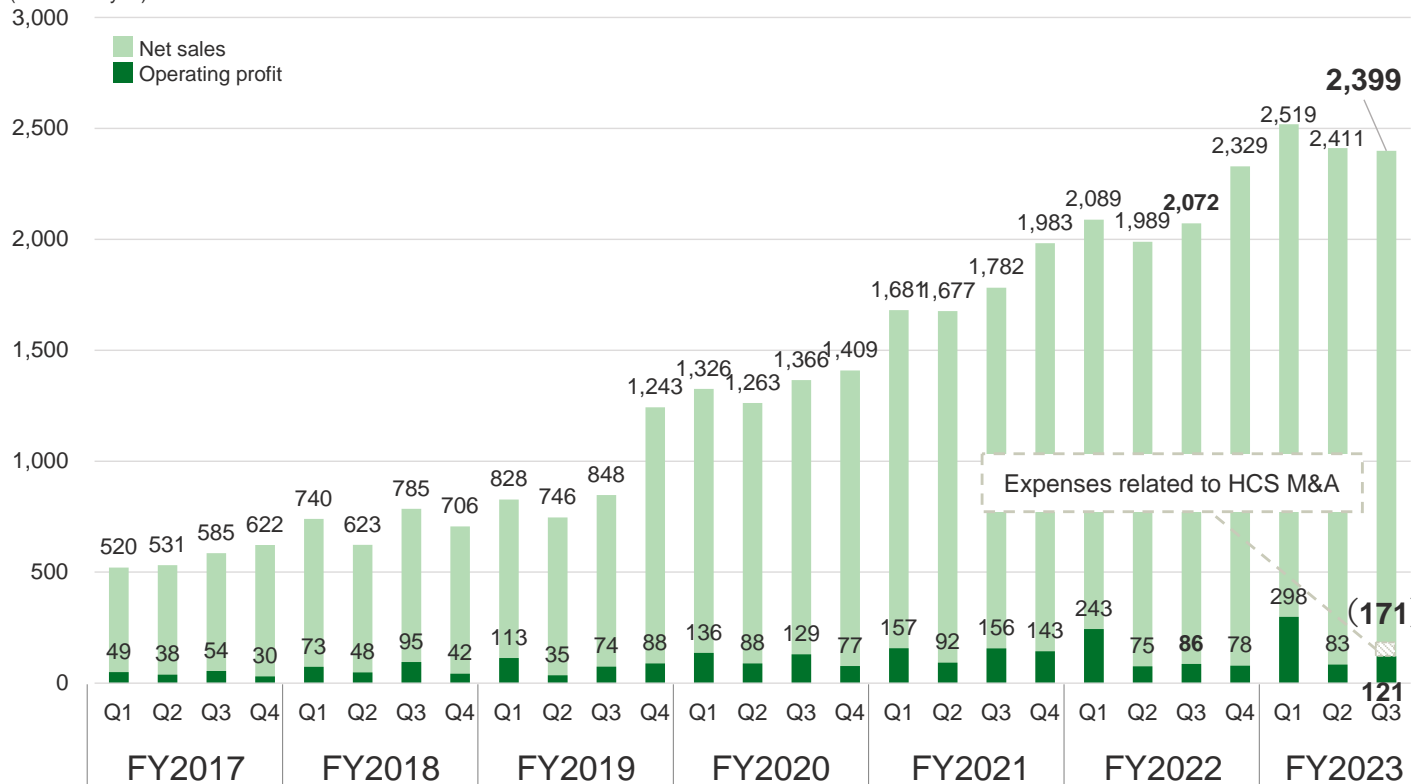
+¥74 million YoY (+98.3%). Partial expenses related to the HCS M&A were recorded in Q3. In addition, the temporary drop in the utilization rate due to accepting the largest-ever number of new graduates and the impact of HCS becoming a subsidiary caused profit to fall short of the Q3 plan. We will promote recovery in Q4 by restoring the utilization rate and controlling costs.



# Quarterly Trend in Professional Services Business Results

Net sales +¥326 million YoY (+15.8%), and operating profit +¥34 million (+40.4%) YoY.

(Millions of yen)



- Partial expenses related to the M&A of HCS were recorded. (50M)
- Although demand for operational reform promotion projects was firm, both net sales and operating profit fell short of the plan due to a temporary drop in the utilization rate resulting from the hiring of new employees and the conversion of HCS into a subsidiary, as well as a reduction in outsourced projects. (We expect a recovery in Q4 with the restoration of the utilization rate. HCS will also be included in the scope of consolidation.)

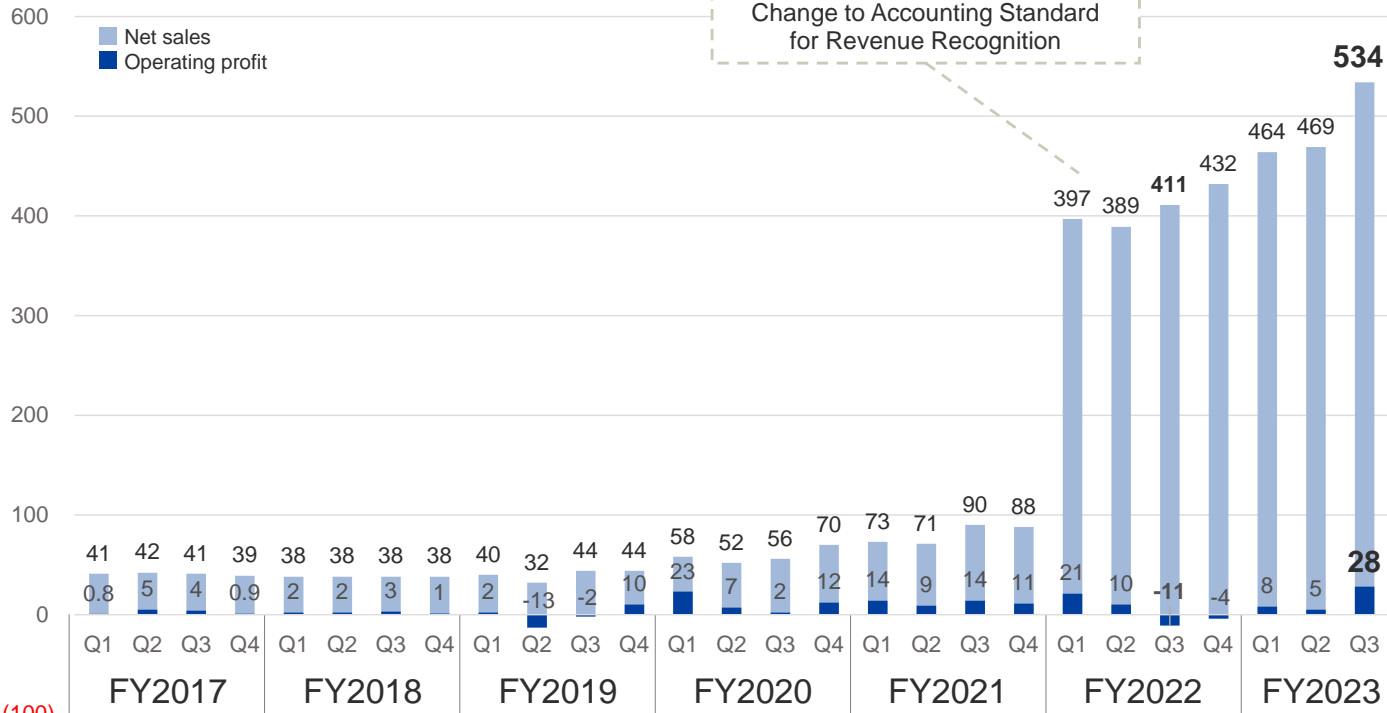
Expenses related to HCS M&A

\* Net sales includes internal sales

# Quarterly Trend in Platform Business Results

Net sales +¥123 million YoY (+30.0%), operating profit +¥39 million YoY (-%)

(Millions of yen)



- The number of Assign Navi members continues to increase.
  - Companies: 4,957 (cumulative)
  - Individuals: 8,310 (cumulative)
- In Professional Hub (formerly Consultant Job), the total number of active employees continued to grow in Q3, up 20% YoY.
- Progress was made on development of new graduates in sales positions, supporting increased sales and profits, but the initial targets were not met.

(100)

\* Net sales includes internal sales



# Gross Profit & SG&A (Cumulative)

Personnel expenses for consultants and engineers recorded under SG&A were higher than expected due to the impact of lower utilization rate in Q3.

## Gross profit

(Millions of yen)

	2023 initial forecast	2023 Q3 results (cumulative)
Net sales	12,700	8,231
<b>Gross profit</b>	<b>4,215</b>	<b>2,854</b>
<b>Gross profit margin</b>	<b>33.2%</b>	<b>34.7%</b>
SG&A	3,265	2,309
SG&A ratio	25.7%	28.1%
Operating profit	950	545
Operating margin	7.5%	6.6%

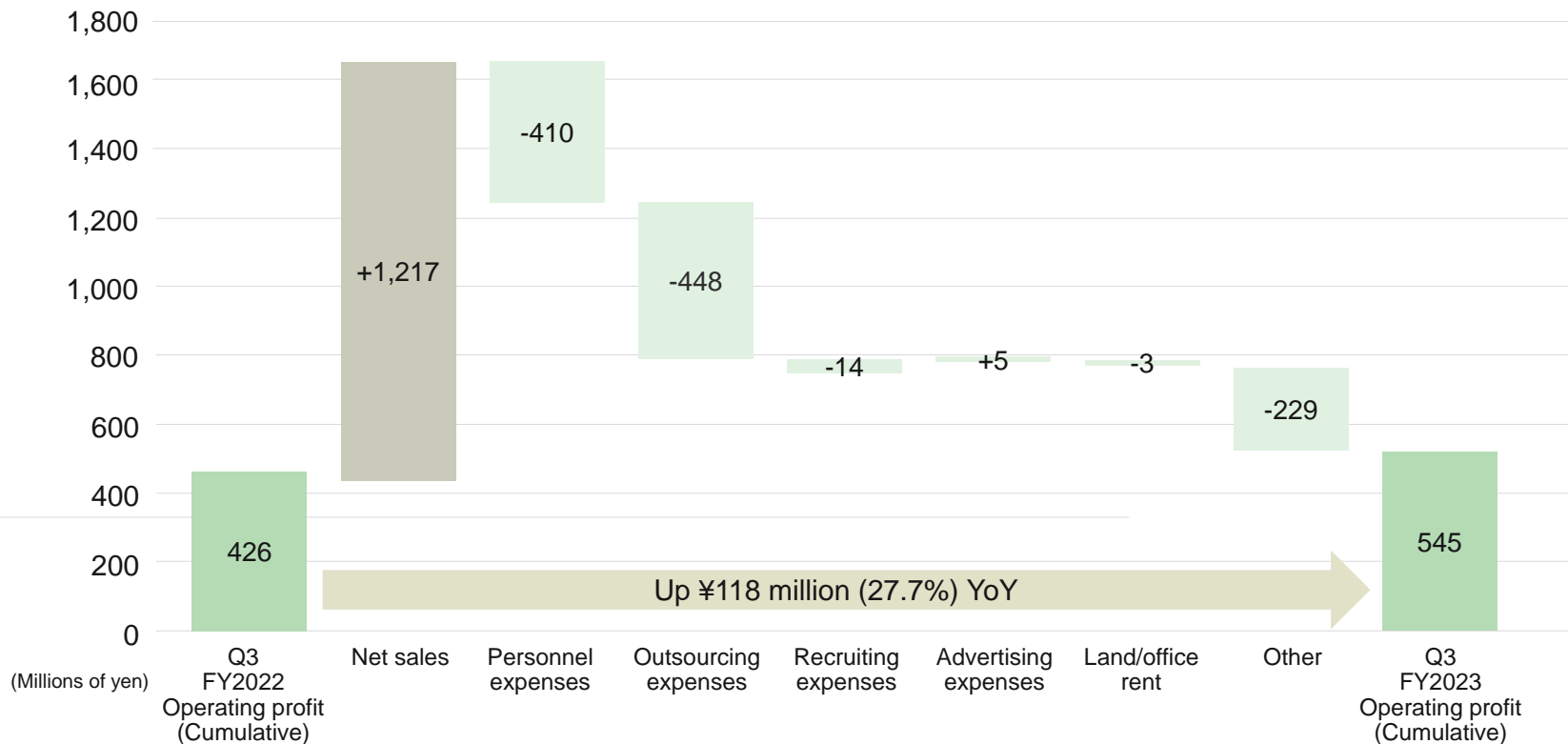
## Breakdown of SG&A

(Millions of yen)

	Initial forecast for 2023		Q3 results (cumulative)	
	Amount	Vs. net sales	Amount	Vs. net sales
Consolidated net sales	12,700	-	8,231	-
<b>SG&amp;A</b>	<b>3,265</b>	25.7%	<b>2,309</b>	28.1%
Personnel expenses	1,938	15.2%	1,597	19.4%
Hiring/ training expenses	328	2.5%	141	1.7%
Advertising expense	180	1.4%	95	1.2%
Land/office rent	75	0.5%	49	0.6%
IT/operations platform development	143	1.1%	102	1.2%
Remuneration paid/ commission expenses	192	1.5%	109	1.3%
Amortization of goodwill	40	0.3%	30	0.4%
Depreciation and amortization	42	0.3%	18	0.2%
Outsourcing expenses	120	0.9%	77	0.9%
Other	202	1.5%	85	1.0%

# Factors Behind Change in Consolidated Operating Profit in Q3 FY2023 (Cumulative)

Sales expansion and cost control from strengthening the business structure boosted operating profit YoY.

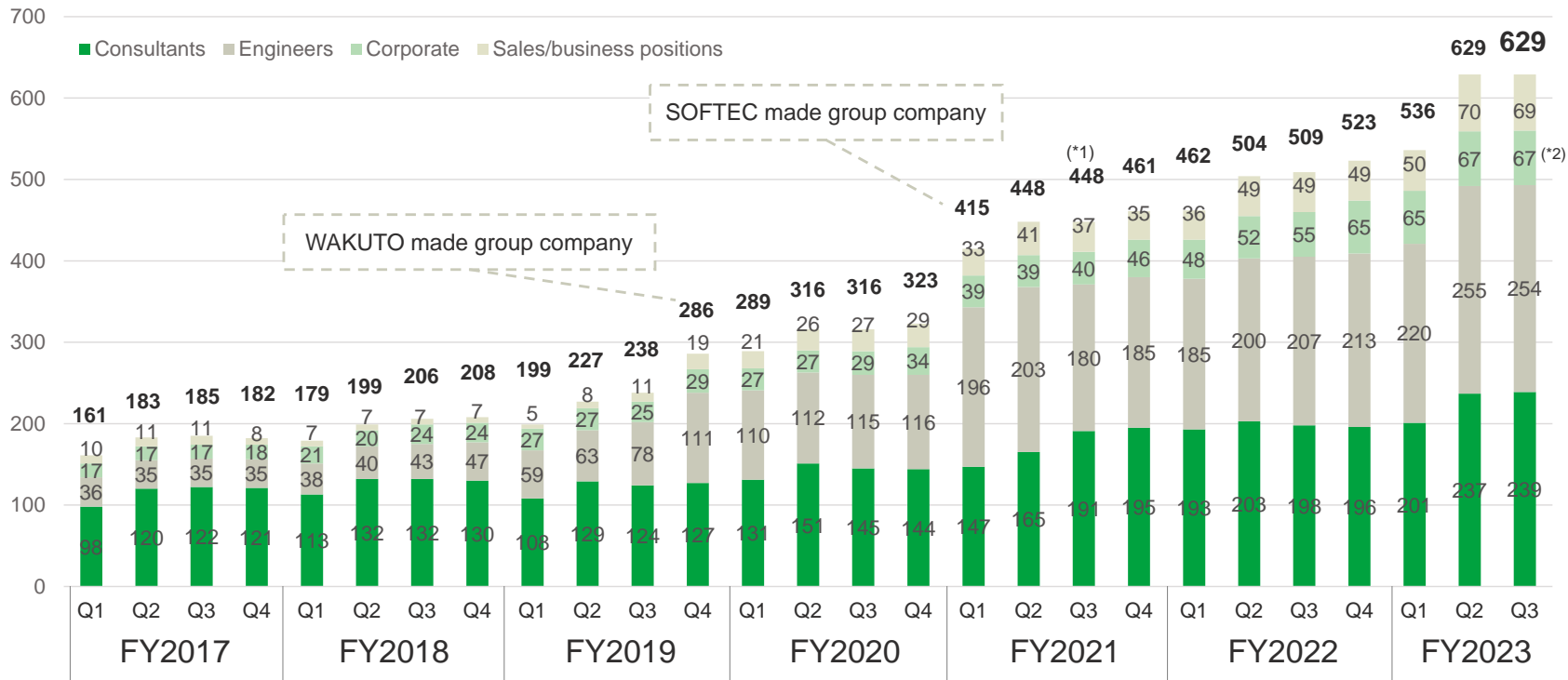


# Quarterly Trend in Number of Employees (Consolidated)

Compared to end of previous fiscal year, number of consultants & engineers increased by 84 (+20.5%) and number of sales positions increased by 20 (+40.8%).

The turnover rate was maintained at a constant level (6.1%) despite expanding the scale of hiring.

(People)



\*1. Changes were made to the tabulation method for employee numbers by job type from Q3 2021. \*2. Including Yotsuba Saien contract employees

# Progress on Hiring Consultants / Engineers

Total of 114 people hired in the first nine months for net increase of 84. (Turnover rate maintained at constant level of 6.1%.)

Continuing to engage in active hiring activities to further enhance the human resources base. Currently (as of end of October) planning to hire 13 people in Q4.

**Consultants / engineers**  
Plan for number at year-end (consolidated)

	2020	2021	2022	2023	2024
	Results	Results	Results	Plan	Plan
Number of consultants	168	195	196	256	336
Number of engineers	93	185	213	268	343
<b>Total</b>	<b>261</b>	<b>380</b>	<b>409</b>	<b>524</b>	<b>679</b>
Vs. previous year	-	+17.6% <sup>*1</sup>	+7.6%	+28.1%	+29.6%

**Consultants / engineers**  
Hiring plan (consolidated)

	2021	2022	2023	2024
	Results	Results	Plan	Plan
Number of consultants	39	30	75	100
Number of engineers	26	44	75	100
<b>Total</b>	<b>65</b>	<b>74</b>	<b>150</b>	<b>200</b>

**Achieving a net increase of more than 100 per year**

**Hiring results and forecast** (As of October 2023)

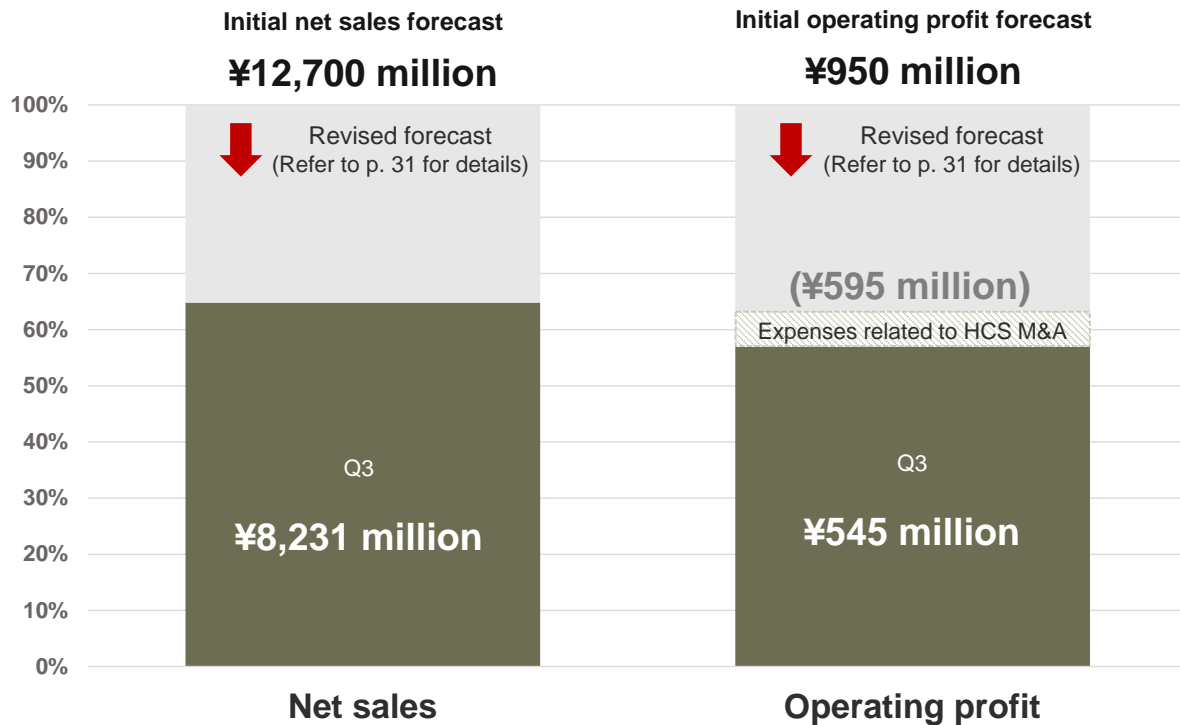
	Q1 results	Q2 results	Q3 results	Q4 forecast <sup>*2</sup>
Consultants	10	46	4	8
Engineers	10	39	5	5

\*1. Comparison is based on number (307 in 2021) prior to SOFTEC (73 engineers) joining the Group in 2021

\*2. Does not include number of HCS employees

# Q3 FY2023 Progress (Cumulative)

Net sales and operating profit both fell short of Q3 plan due primarily to HCS M&A expenses, a temporary decline in the utilization rate in the professional services business, and delayed progress in the platform business. We will work on recovery in Q4. The full-year forecast has been revised mainly due to recording one-off expenses related to M&A (refer to page 31 and later for details).



Vs. initial forecast

Sales progress  
**64.8%**

Operating profit progress  
**57.4%**  
(62.7% when excluding expenses related to HCS M&A)

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# Revised Forecast for FY2023 (Summary)

(Millions of yen)

	FY2022 results	Initial FY2023 forecast	Not considering HCS M&A	Revised forecast (reflecting M&A)
Net sales	9,637	12,700	11,300 (+17.2% YoY)	12,300 (+27.6% YoY)
Operating profit	501	950	920 (+83.6% YoY)	710 (+41.6% YoY)
Ordinary profit	489	900	910 (+86.1% YoY)	710 (+45.0% YoY)
Profit	232	560	570 (+145.7% YoY)	440 (+89.2% YoY)

With both net sales and profit at each stage reaching record highs, a certain level of growth was maintained in Q3 results, but we are **revising the full-year forecast downward** mainly due to **recording one-off expenses mainly related to HCS M&A**. Although the platform business fell partially short of the plan, **if the impact of the M&A is excluded, results were within the range of the initial plan for the most part.**

- Net sales:  
Net sales increased with the inclusion of HCS in the scope of consolidation (from Q4), but there was a delay in progress on the plan in the platform business and internal transaction offsets exceeded the forecast.
- Operating profit:  
HCS was made a wholly owned subsidiary (via shareholder squeeze-out) ahead of schedule. As such, the expected amount of expenses recorded in relation to M&A in the fiscal year ending December 2023 has increased. One-off expenses related to HCS TOB have been reflected.
- Ordinary profit:  
Non-operating profit is expected to exceed the initial forecast due to the recording of equity in earnings from improved performance of group companies and HCS real estate rental income, but the decrease in operating profit will have an impact.

# Revised Forecast for FY2023 (Summary)

(Supplementary information for next fiscal year and beyond)

- The mainstay **professional services business** fell short of the plan particularly in Q3 due to the acceptance of new graduates, but both utilization rates and profitability have recovered. Due in part to robust demand, we expect **business growth to be according to plan next year and beyond.**
- For **HCS**, the recording of expenses related to the TOB has been included in one-off expenses in Q4. Starting in the next fiscal year, we expect to **record profit in excess of amortization of goodwill** as listing maintenance and other costs decrease and progress is made on structural reform as detailed in the release published on August 31, so we aim to pursue Group synergy and maximize profit in the medium to long term.
- In the **platform business**, we did not properly account for the expected amount of internal transactions in this year's budget, due in part to conducting business operations with an emphasis on gross profit. Going forward, we will work on **improving the budget setting process** so that we can set appropriate figures based on past results and forecasts.



# Forecast for FY2023: Revision

The full-year forecast has been revised as shown below based on HCS becoming a subsidiary and other factors.

## LTS Group overall

(Millions of yen)	FY2022 results	FY2023 full-year forecast		FY2023 full-year forecast	
		Beginning of year	YoY % change	After revision	YoY % change
<b>Net sales</b>	9,637	<b>12,700</b>	<b>+31.8%</b>	<b>12,300</b>	<b>+27.6%</b>
<b>EBITDA*</b>	604	<b>1,059</b>	<b>+75.1%</b>	<b>840</b>	<b>+39.1%</b>
<b>Operating profit</b>	501	<b>950</b>	<b>+89.5%</b>	<b>710</b>	<b>+41.6%</b>
<b>Ordinary profit</b>	489	<b>900</b>	<b>+83.8%</b>	<b>710</b>	<b>+45.0%</b>
<b>Profit attributable to owners of parent</b>	232	<b>560</b>	<b>+140.8%</b>	<b>440</b>	<b>+89.2%</b>

(Millions of yen)

**Lowering of net sales forecast: -400**

[Breakdown]

- Increase from HCS sales: **+1,000**
- Delay in progress of platform business: **-600**
- Increase in internal transactions in platform business: **-400**
- Temporary drop in utilization rate and reduction of outsourcing projects in professional services business: **-400**

(Millions of yen)

**Lowering of operating profit forecast: -240**

[Breakdown]

- Recording of HCS M&A expenses: **-175**  
(Conversion into wholly owned subsidiary expected to be completed this year ahead of schedule, so full amount of related expenses to be recorded this year. No expenses to be recorded next year.)
- Reflection of HCS performance forecast: **-35**  
(Reflection of current performance forecast including TOB-related expenses for HCS and amortization of goodwill. HCS will also not record TOB-related expenses next year.)
- Delay in progress of platform business: **-30**
- Temporary drop in utilization rate in professional services business to be made up for with cost control: **± 0**

\*EBITDA = Operating profit + depreciation + amortization of goodwill

# FY2023 Forecasts by Segment: Revisions

The full-year forecasts have been revised as shown below based on HCS becoming a subsidiary and other factors.

## Professional services business

Millions of yen	FY2022 results	FY2023 full-year forecast	
		Beginning of year	YoY % change
Net sales	8,480	10,562	+24.5%
Operating profit	484	850	+75.9%

FY2023 full-year forecast	
After revision	YoY % change
11,100	+30.9%
640	+32.2%

### Raising of net sales forecast (Millions of yen)

[Main Factors]

1. Increase from HCS sales: **+1,000**
2. Drop in utilization rate and reduction of outsourcing projects: **-400**

### Lowering of operating profit forecast (Millions of yen)

[Main Factors]

1. Recording of HCS M&A expenses: **-175**
2. Reflection of HCS performance forecast: **-35**

## Platform business

Millions of yen	FY2022 results	FY2023 full-year forecast	
		Beginning of year	YoY % change
Net sales	1,629	2,618	+60.6%
Operating profit	17	100	+477.5%

FY2023 full-year forecast	
After revision	YoY % change
2,000	+22.8%
70	+411.8%

### Lowering of net sales forecast (Millions of yen)

[Main Factor(s)]

1. Delay in business progress: **-600**

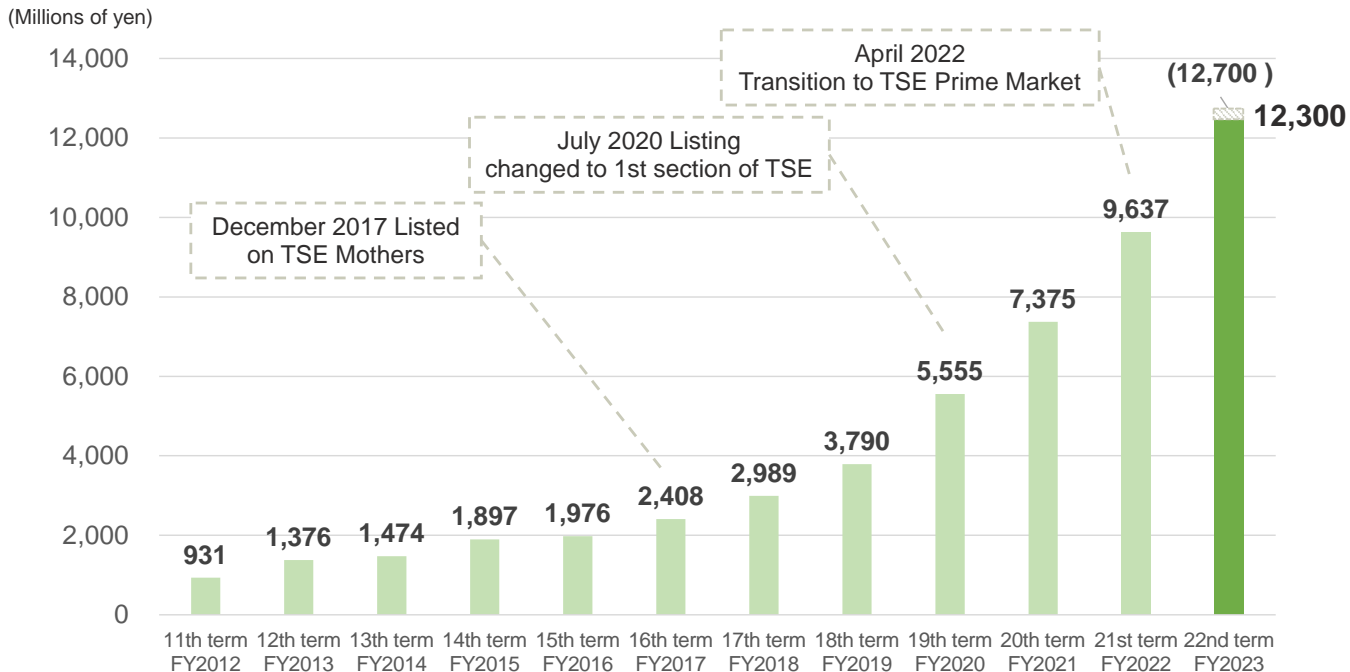
### Lowering of operating profit forecast (Millions of yen)

[Main Factor(s)]

1. Delay in business progress: **-30**

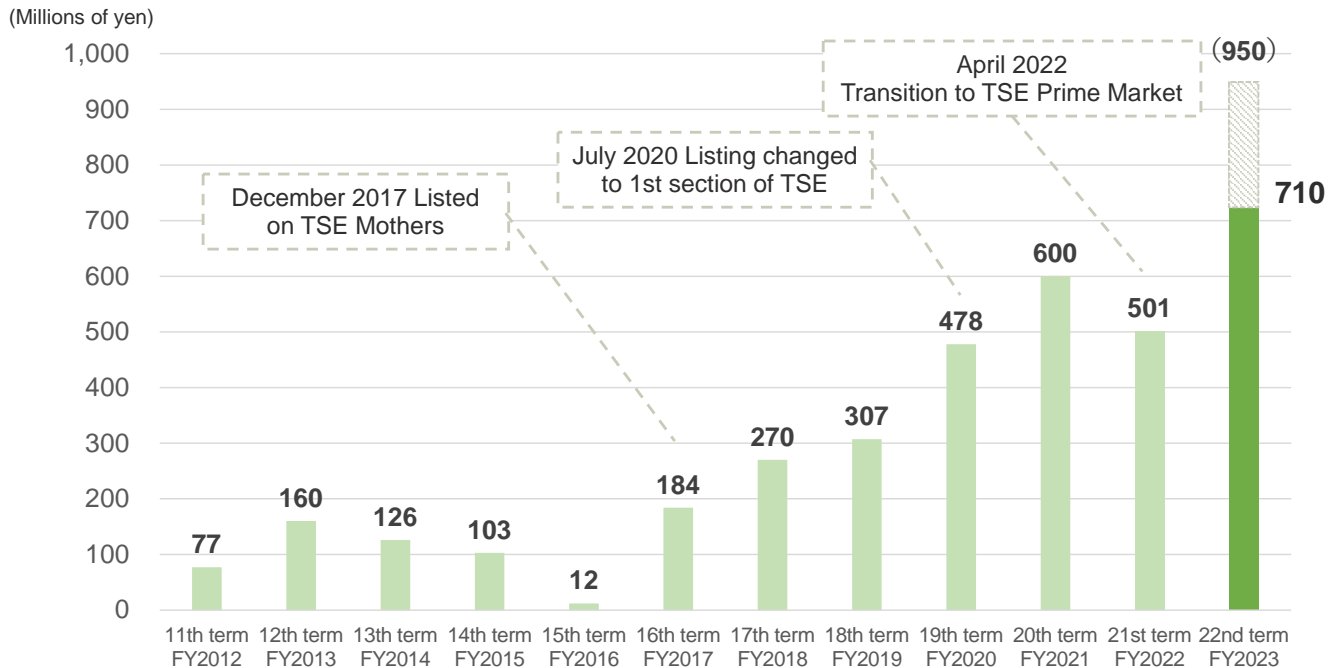
# FY2023 Consolidated Net Sales Forecast

As noted on p. 31, although sales will increase from HCS, the full-year forecast for net sales has been lowered in light of delayed progress and increased internal transactions in the platform business and lower utilization rates in the professional services business.



# FY2023 Consolidated Operating Profit Forecast

As noted on p. 31, the full-year forecast for operating profit has been lowered in light of HCS M&A expenses, the HCS performance forecast, and delayed progress in the platform business.



# FY2023 Non-Consolidated/Group Company Sales Forecast

Non-consolidated and group company sales growing steadily. HCS to be included in scope of consolidation starting in Q4.

	Non-consolidated sales	Group company sales <small>*Excluding new sales from M&amp;A during the year</small>	New sales from M&A during the year	Elimination of intra-company transactions
FY22 results	¥6,319 million	¥4,116 million	—	-¥798 million
	¥9,637 million (+¥2,262 million YoY)			
FY23 forecast	¥7,600 million	¥4,700 million	¥1,000 million	-¥1,000 million
	¥12,300 million (+¥2,662 million YoY)			

1. **Business Overview**
2. **Conversion of HCS Holdings into Subsidiary**
3. **Overview of Q3 FY2023 Financial Results**
4. **Revision of Forecast for FY2023**
5. **Purchase of Treasury Shares**
6. **Medium-Term Business Plan**

# Notice of Purchase of Treasury Shares

Resolution was passed at the Board of Directors meeting held on November 10, 2023 to purchase treasury shares.

## Purpose

To implement flexible capital policies, improve capital efficiency, and allow for shareholder return  
Some shares will be utilized in the share-based compensation system for executives and employees

## Upper limit of purchase

Number of shares: 75,000 shares  
(Percentage of total outstanding shares [excluding treasury shares]: 1.66%)  
Amount: ¥200 million

## Period of purchase

Monday, November 13, 2023 to Friday, December 15, 2023

## Method of purchase

Market purchase on Tokyo Stock Exchange

1. **Business Overview**
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# Vision

## Best Partner for the Digital Era

Our society continues to change rapidly with advances in digital technology.

Our customers are all companies looking to address such rapid changes in the social structure.

In the coming era, taking the lead in bringing about change rather than simply adapting to changes in the social structure will be the key to survival.

Shifting to an organizational structure that is better equipped to respond to change and producing human resources that create change by fully leveraging digital technology is essential for surviving and thriving in this era.

Providing support to help customers improve their ability to implement change, we aim to be the best partner for companies that continue to change themselves and take the lead in social changes.

# Numerical Targets

Compound average growth rate of net sales

**30% in 2023 and beyond**

Operating margin

**12% by 2024**

	2020	2021	2022	2023		2024
	Results	Results	Results	Initial forecast	Revised forecasts	Medium-Term Plan
Consolidated net sales	¥5,500 million	¥7,300 million	¥9,600 million	¥12,700 million	→ <b>¥12,300 million</b>	<b>¥16,500 million</b>
Consolidated operating profit	¥470 million	¥600 million	¥500 million	¥950 million	→ <b>¥710 million</b>	<b>¥2,000 million</b>
Consolidated operating margin	8.6%	8.1%	5.2%	7.5%	→ <b>5.8%</b>	<b>12.1%</b>

- In the financial forecasts for 2023, **profit is up 1.4x YoY**. Revenue and profit back up after 2022 budget for higher revenue and less profit. Operating profit for 2023 was lowered (from ¥0.95 billion to ¥0.71 billion) from the initial forecast due to HCS M&A expenses and other factors.
- **FY2024 figures are currently under careful review** in light of HCS M&A.

# Human Resources

The consultant/engineer structure is steadily expanding. Unit prices on the rise. Also working on sharing knowledge across the Group. HCS to be included in Group results starting in Q4.

## Enhancement of hiring

- ✓ Aim for net increase of 100 people annually across Group
- ✓ Continue to promote hiring activities separate from M&A

## Enhancement of education

- ✓ Enhance educational measures with Group education system and production site initiative
- ✓ Active human resources exchange (including temporary transfers) within Group and with partners
- ✓ Enhance opportunities for consultant and engineer career change

## Coordination of knowledge

- ✓ Establish special organization for coordinating knowledge within Group
- ✓ Reorganize knowledge, redesign education system, and enhance structure

Number of employees

Individual skills

Organizational ability

## Q3 FY2023 Results

- Around 300 engineers from HCS will join the LTS Group (in Q4)
- Implemented information and communication measures to enhance brand & recruiting power
  - Interview with our human resources manager published in "Asking HR Managers What Talent They Want Right Now" in TACNEWS (November 2023 issue)
  - Introduced as recommended manufacturing industry consultant in consulting industry media "Consul-career" operated by Flow Group Co.,Ltd.
  - Interview of President Kabashima published in Adviser Navi Corporation's asset management media "My IFA"

# Customers

Strengthened relationship with progressive DX companies. Promoted cooperation and tie-ups for each service. Developed services through industry-academia collaboration and provided programs to municipalities.

## Strengthening of relationships with progressive companies

- ✓ Further strengthen relationships with progressive companies with strong intent to change through the provision of LTS Group services

Service development

Customer base

## Expansion of area

- ✓ Strengthen system in West Japan area
- ✓ Engage in full-scale service provision in Asia and globally (coordination with FPT)

Customer base

## Promotion of industry-academia collaboration and services for municipalities and SMEs

- ✓ Further promotion of industry-academia collaboration involving customers and research institutes
- ✓ Further promotion of services for municipalities and SMEs

Service development

Brand improvement

## Q3 FY2023 Results

- Further expanded client portfolio with the addition of HCS clients (leading operating companies, major consulting firms, and major Slers) (starting in Q4)
- “Enjin,” Higashihiroshima City’s entrepreneurship program for co-creation of solutions to social issues, launched
- LTS customer satisfaction survey results (2021-2022) announced

# Services

We are promoting various initiatives centered on strengthening services and overseas business development in the IT solutions domain.

Will further strengthen IT solution functions by making HCS a wholly owned subsidiary.

## Strengthening services

- ✓ Strengthening IT solutions services
- ✓ Mutual acquisition of projects with FPT Group and YOKOGAWA Group
- ✓ Joint system establishment with FPT Group and YOKOGAWA Group
- ✓ Hiring and development of human resources
- ✓ Strengthening of partnerships with other solution providers

## Overseas business development

- ✓ Joint development of services with FPT Group and YOKOGAWA Group
- ✓ Customer cultivation
- ✓ Launch of overseas business locations
- ✓ Regular acquisition of overseas projects
- ✓ Non-consolidated profit as overseas business

## Partnering with both groups

- ✓ OT and IT recruiting and development program
- ✓ Supply of freelancers and support for collaboration with IT companies  
Promotion of collaboration centered on support customers
- ✓ Promotion of collaboration centered on services
- ✓ Joint capital investment (M&A) in Japanese market

## Q3 FY2023 Results

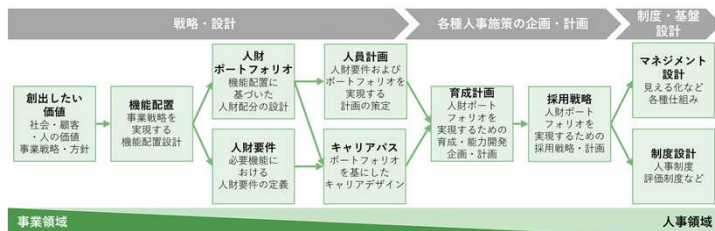
- HCS made a wholly owned subsidiary (starting in Q4)
  - Integrated management of SAP, Salesforce, and Outsystems solutions businesses
  - Acquired Tenken Ace and Masterfile Solution services
- Launched full-scale human capital strategy consulting service to strengthen human capital management
- Launched services for corporate use of large language models like ChatGPT
- Signed partnership agreement with Apptio, which supports enhancement of IT financing
- Strengthened collaboration with Delight in promotion of DX at call centers
- Formed capital and business alliances with FUNDINNO and METATEAM

# Services: Expanding Services According to Market Needs

Launched full-scale consulting services related to human capital management and generative AI and large language models (LLM), which are attracting attention in the market.

## Launched human capital consulting service to strengthen human capital management

Human capital management is a method that emphasizes people who can accept change as the source of a company's competitive advantage rather than traditional differentiation of products and processes amid accelerating changes.



Accumulated service case studies and made improvements to service menu prior to release. Services are still being provided in multiple projects.

## Launched services for corporate use of large language models like ChatGPT

Launched services for business application of large language models (LLM), such as ChatGPT, at companies.

LLM: Large Language Models

### Examples of LLM-related services provided

- Architecture re-creation consulting
- Support for planning and designing technical verification projects
- Support for implementing technical verification projects
- Business operation design for continuous improvement

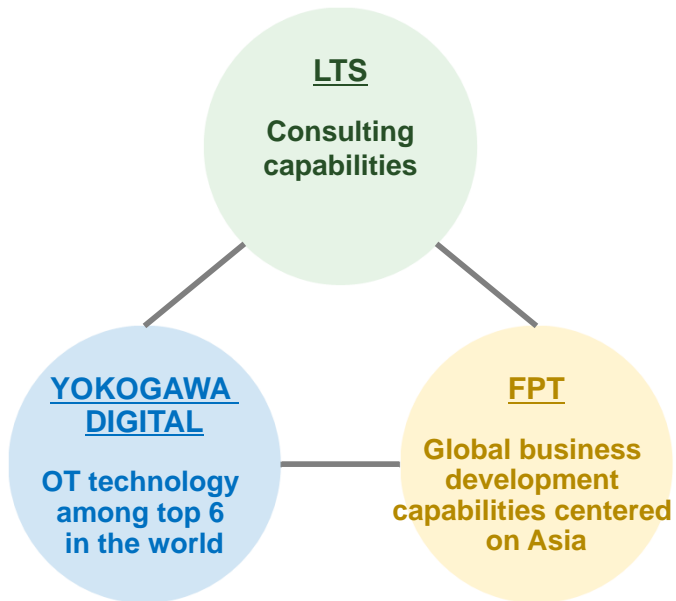


Held seminars to explain corporate use of generative AI in August and September

Customer consultations/inquiries increasing

# Services: Domains Strengthened through Capital and Business Alliances

Acquired new capabilities in various domains through alliances with the YOKOGAWA Group and the FPT Group. We will provide never-before-seen services by strengthening the alliance between the three companies. In 2023, we will promote activities to ensure feasibility in 2024 and beyond



Acquired capabilities below through alliances with these companies

- OT technology among top 6 in the world
- Global business development capabilities centered on Asia
- Global branding capabilities

**Create new markets and value** by integrating the consulting capabilities that LTS has developed

Specific themes of activities take shape for priority investment. \*See next page

### YOKOGAWA Group

- Provide consulting services **for manufacturing DX/IT upstream processes** with YOKOGAWA DIGITAL as the hub
- **Look into overseas expansion** based on the global branding capabilities of the YOKOGAWA Group in the OT domain

### FPT Group

- **Joint promotion of projects** utilizing the FPT Group's consulting and engineering resources and its business development capabilities in Asia, mainly in Vietnam

# Group Management

Increased number of cross-Group project deliveries to improve corporate value

## Creation of synergy

- ✓ Optimize sales personnel, improve unit prices, and expand support topics by cultivating customers and acquiring projects utilizing Group assets
- ✓ Increase project delivery across the Group and further promote the provision of value as an all-around team

Increased value

Streamlining

## Enhancement of corporate functions

- ✓ Balance improving functions with optimizing costs by communizing the management functions of group companies
- ✓ Establish new work styles and improve productivity by strengthening the Group's IT infrastructure and relocating offices

increased value

Streamlining

### Q3 FY2023 Results

- The number of comprehensive proposals from the LTS Group and cross-Group deliveries continued to increase
- Strengthened cross-Group sales activities
- Further promoted shared corporate functions (including dispatching administrative employees)



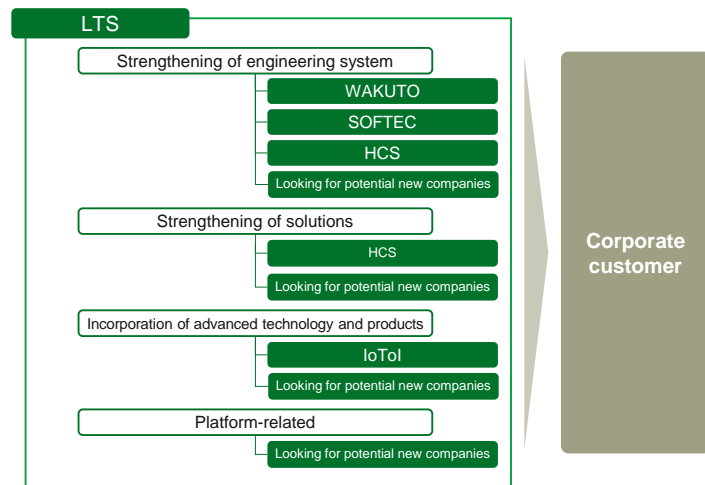
# Group Management: M&A

Policy is to continue actively promoting M&A as part of recruiting and team-building efforts

## LTS M&A Policy

- The customer base and customer relationships have been steadily growing stronger, and believing it is important to **strengthen our solution support system** to further enhance support for individual transformation, our policy is to actively promote M&A.
- Main target domains are as follows:
  - Strengthening of engineering system (development-infrastructure operations)**  
→ Further strengthening on top of WAKUTO, SOFTEC and HCS
  - Strengthening of solutions**  
→ MS365, SAP, SFDC, outsystems, PMO, etc.
  - Incorporation of advanced technology and products**
  - Services contributing to platform business expansion**
- After a company joins the Group, LTS will utilize its past experience to provide end-to-end services while accurately identifying entry requirements starting from upstream processes.

## Strengthen Group Structure and Improve Profitability through M&A



Sales

subsidiaries can propose appropriate services at appropriate prices while LTS accurately identifies entry requirements starting from upstream processes

Cost

Cross-selling and sharing of corporate functions possible

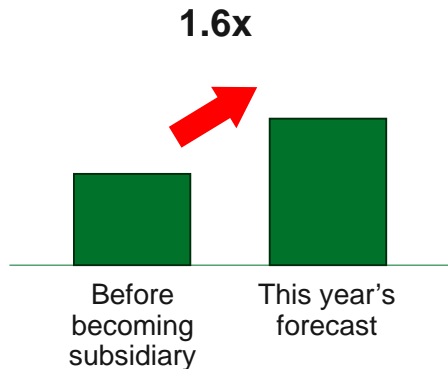
# Group Management: Post-M&A Results

Changes in business figures for each company before and after M&A provided below. Steady growth owing to improved unit prices from participation in main LTS projects and leveling up of business management

## Post-M&A growth of 3 subsidiaries (except for HCS)

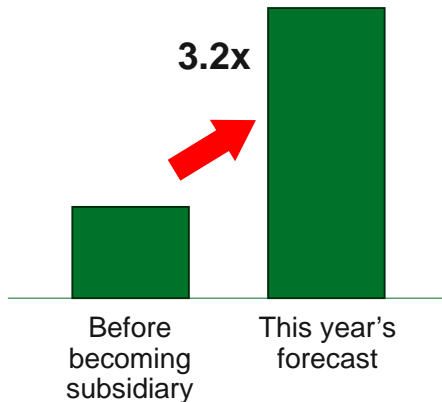
### Sales

Comparison of total sales in fiscal year immediately prior to becoming subsidiary\*1 and forecast for current fiscal year



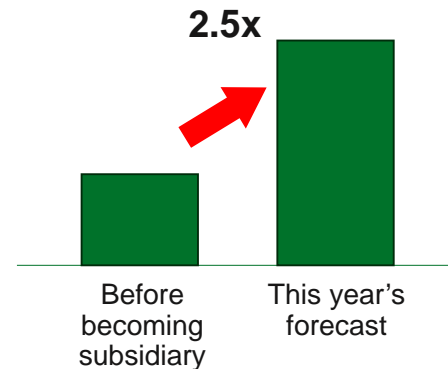
### Operating profit

Comparison of total operating profit in fiscal year immediately prior to becoming subsidiary\*1 and forecast for current fiscal year



### Operating margin

Comparison of average operating profit in fiscal year immediately prior to becoming subsidiary\*1 and average from forecast for current fiscal year

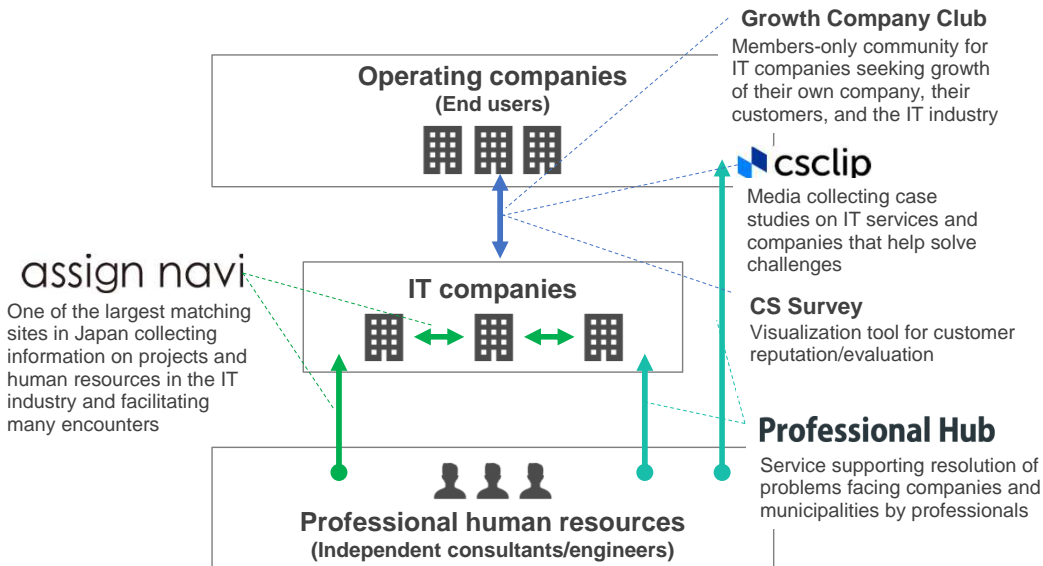


\*1 2018 figures for WAKUTO, and 2019 figures for IoTol and SOFTEC

# Platform Business

The investment phase is complete. Going forward, while generating a certain level of profit in the platform business alone, we will realize further growth of each service and contribution to the improvement of the LTS Group's business results

## Positioning of each service in the platform business



## Contribution to the LTS Group as a whole

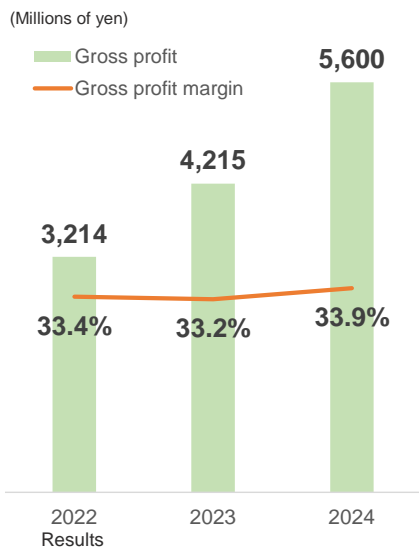
- ✓ Provision of independent consultants to Professional Services
- ✓ Provision of information on excellent IT/DX companies to Professional Services
- ✓ Reference for companies considering M&A using member base and various data

# Gross Profit & SG&A Plan

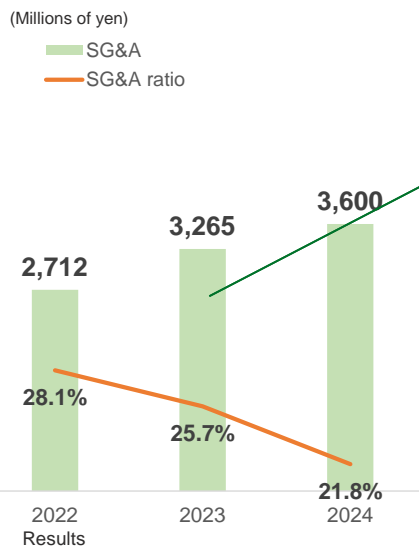
The gross margin has remained at a certain level despite the increase in sales from expanding the system, improving unit prices, and utilizing partners. The absolute amount of SG&A will increase with the investments in office relocation and enhancing the Corporate Division coming full circle in 2022, but we will keep the ratio to net sales down.

**(Forecasts below are initial forecasts that do not include HCS figures.)**

Gross profit on sales results/forecast



SG&A results/forecast

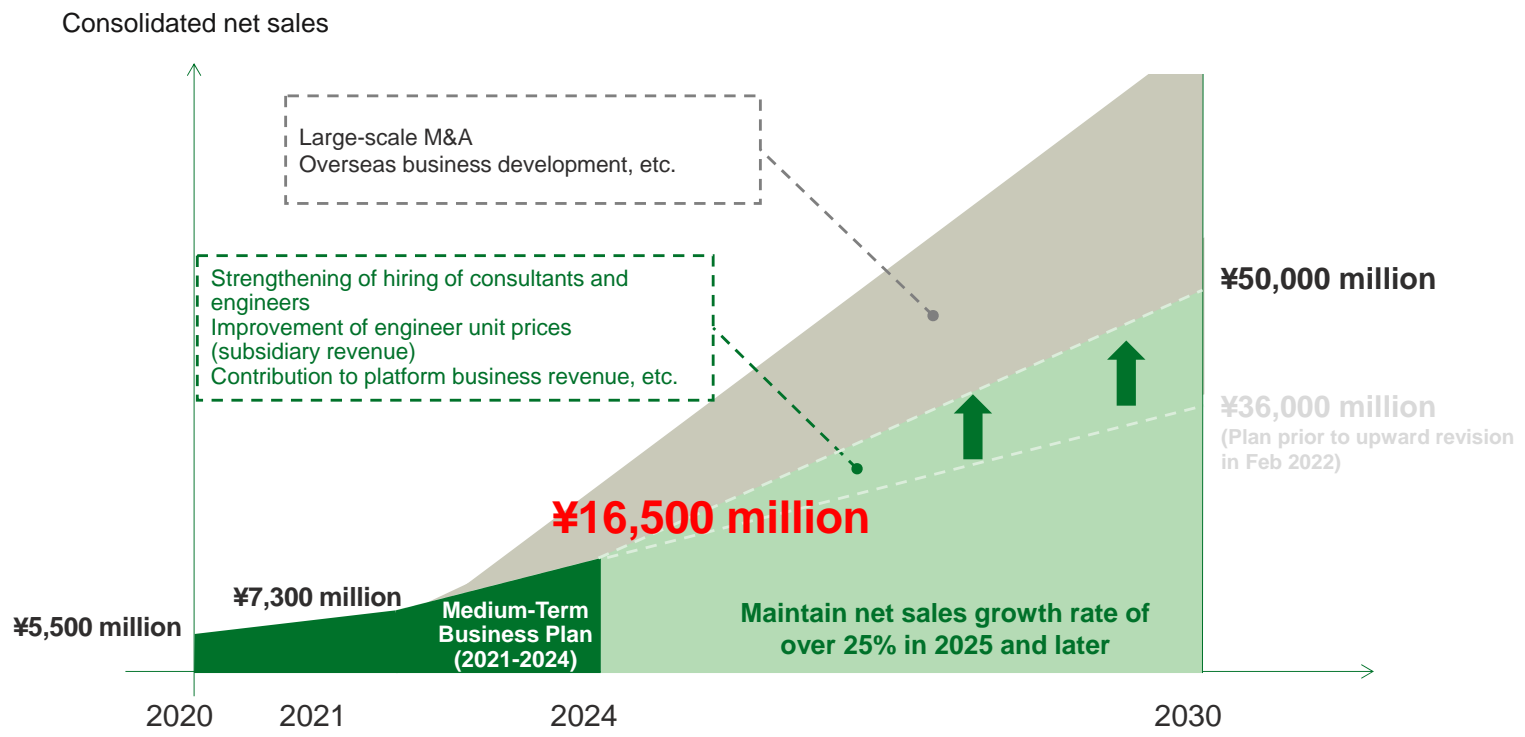


SG&A details

(Millions of yen)	2022	2023	Vs. previous year
	Results	Forecast	
Consolidated net sales	9,637	12,700	31.8%
<b>SG&amp;A</b>	<b>2,712</b>	<b>3,265</b>	20.4%
Personnel expenses	1,780	1,938	8.8%
Hiring/training expenses	182	328	79.8%
Advertising expense	125	180	44.7%
Land/office rent	74	75	1.1%
IT/operations platform development	120	143	19.2%
Remuneration paid/commission expenses	114	192	68.3%
Amortization of goodwill	40	40	—
Depreciation and amortization	19	42	114.4%
Outsourcing expenses	87	120	38.2%
Other	167	202	21.4%

# Aiming for Further Growth in 2025 and Beyond

We aim to continue growing net sales at a rate of more than 25% in 2025 and later to reach ¥50,000 million in 2030. Target figures for FY2024 and beyond are currently under careful review in light of HCS M&A.



# Policy on Dividends and Stock Splits

This is our current policy on the two items below for which we receive many inquiries from shareholders:

- Dividends

We have previously shared our policy of “paying dividends once the Group reaches a certain level of growth and enters a stable growth trajectory.” (By “stable growth trajectory,” we mean the stage at which we determine that we can achieve the target figures for 2024 as set forth in our Medium-Term Business Plan.)

- Stock splits

The Tokyo Stock Exchange specifies a desirable investment unit as being above 50,000 yen and below 500,000 yen. We anticipate conducting a stock split once it looks like our stock price will hit 5,000 yen.

# Disclaimer and Note

## ● Disclaimer

- **LTS, Inc. (“the Company”) provides financial information, management indicators, and other information only as a reference. No representations or warranties are made, express or implied, with regard to the content herein.**
- **The Company prepared this material using current generally known information about social and economic conditions and certain assumptions that we deemed to be reasonable. The information found in this material is subject to change without notice due to changes in business conditions or for other reasons.**

## ● Note on Forward-Looking Statements

- **The material and information provided with this announcement contain forward-looking statements. These forward-looking statements are based on current expectations, forecasts, and assumptions that are subject to risks and include uncertainties, which may cause actual results to differ substantially from these statements.**
- **These risks and uncertainties include general industry and market conditions as well as general Japanese and international economic conditions such as changes in interest rates and exchange rates.**
- **The Company has no obligation to update or correct the forward-looking statements contained in this material, regardless of any new information, future events, etc.**



**End of File**