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October 25, 2023

Consolidated Financial Results for the First Six Months of the Fiscal Year Ending March 31, 2024 <Under Japanese GAAP>

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 Listing: Tokyo Stock Exchange
 Securities code: 3839
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 Scheduled date to file quarterly securities report: November 2, 2023
 Scheduled date to commence dividend payments: December 4, 2023
 Preparation of supplementary material on quarterly financial results: Yes
 Holding of quarterly financial results briefing: None

(Yen amounts are rounded down to millions, unless otherwise noted.)

1. Consolidated financial results for the first six months of the fiscal year ending March 31, 2024 (April 1, 2023 to September 30, 2023)

(1) Consolidated operating results (cumulative)

(Percentages indicate year-on-year changes.)

Six months ended	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
September 30, 2023	1,935	3.4	(284)	–	(270)	–	(203)	–
September 30, 2022	1,871	8.5	(390)	–	(375)	–	(271)	–

Note: Comprehensive income For the six months ended September 30, 2023: ¥(178) million [–%]
 For the six months ended September 30, 2022: ¥(279) million [–%]

Six months ended	Basic earnings per share	Diluted earnings per share
	Yen	Yen
September 30, 2023	(25.15)	–
September 30, 2022	(33.18)	–

Note: In the third quarter of the fiscal year ended March 31, 2023, ODK Solutions Company, Ltd. (the “Company”) finalized the provisional accounting treatment for business combinations. Accordingly, the figures for the six months ended September 30, 2022 reflect the finalized content of the provisional accounting treatment.

(2) Consolidated financial position

As of	Total assets	Net assets	Equity-to-asset ratio	Net assets per share
	Millions of yen	Millions of yen	%	Yen
September 30, 2023	7,796	5,578	71.6	688.96
March 31, 2023	8,537	5,797	67.9	715.95

Reference: Equity

As of September 30, 2023 ¥5,578 million
 As of March 31, 2023 ¥5,797 million

2. Cash dividends

	Annual dividends per share				
	First quarter-end	Second quarter-end	Third quarter-end	Fiscal year-end	Total
	Yen	Yen	Yen	Yen	Yen
Fiscal year ended March 31, 2023	–	5.00	–	5.00	10.00
Fiscal year ending March 31, 2024	–	5.00			
Fiscal year ending March 31, 2024 (Forecast)			–	5.00	10.00

Note: Revision of the forecasted dividends from most recently announced figures: None

3. Consolidated earnings forecasts for the fiscal year ending March 31, 2024 (April 1, 2023 to March 31, 2024)

(Percentages indicate year-on-year changes.)

	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
Fiscal year ending March 31, 2024	6,200	11.4	340	(19.2)	360	(19.9)	240	1.4	29.64

Note: Revision of the forecasted earnings from most recently announced figures: None

* Notes

- (1) Changes in significant subsidiaries during the period (changes in specified subsidiaries resulting in the change in scope of consolidation): None
- (2) Application of accounting treatment special to the preparation of quarterly consolidated financial statements: None
- (3) Changes in accounting policies, changes in accounting estimates, and restatement
- (i) Changes in accounting policies due to revisions to accounting standards and other regulations: None
 - (ii) Changes in accounting policies due to other reasons: None
 - (iii) Changes in accounting estimates: None
 - (iv) Restatement: None

(4) Number of issued shares (common shares)

- (i) Total number of issued shares at the end of the period (including treasury shares)

As of September 30, 2023	8,200,000 shares
As of March 31, 2023	8,200,000 shares

- (ii) Number of treasury shares at the end of the period

As of September 30, 2023	102,712 shares
As of March 31, 2023	102,712 shares

- (iii) Average number of shares outstanding during the period (cumulative from the beginning of the fiscal year)

Six months ended September 30, 2023	8,097,288 shares
Six months ended September 30, 2022	8,195,699 shares

* Quarterly financial results reports are exempt from quarterly review conducted by certified public accountants or an audit corporation.

* Proper use of earnings forecasts, and other special matters

The above forecasts are based on information currently available to the Company and its subsidiaries (collectively the “Group”). Actual results may differ from these forecasts due to various factors. Please refer to “1. Qualitative information on quarterly financial results, (3) Explanation on consolidated earnings forecasts and other forward-looking statements” on page 3 of the quarterly financial results report (attached materials) for matters relating to earnings forecasts.

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1. Qualitative information on quarterly financial results

In the third quarter of the previous fiscal year, the Company finalized the provisional accounting treatment for business combinations. The amounts used for the comparison and analysis with the first six months of the previous fiscal year are those that reflect the material revision of the initially allocated amounts of the acquisition costs due to the finalization of the provisional accounting treatment.

(1) Explanation on operating results

In the Japanese economy in the six months ended September 30, 2023, there was a gradual economic recovery trend against the backdrop of COVID-19 being reclassified as a Class V Infectious Disease in May 2023. However, inflation continued together with the weak Japanese yen, and the situation still requires vigilance concerning the impacts due to monetary policies and conflicts overseas, etc.

In the information services industry, interest remains high in systems investments, such as for addressing labor shortages and using digital technologies for automation, streamlining, labor savings, etc., and the trend towards greater use of IT remains strong. [From the “Survey of Selected Service Industries,” Ministry of Economy, Trade and Industry, August 2023 (confirmed data)]

In this environment, the Group set “ODK Group expansion” as the basic policy for the medium-term management plan (from the fiscal year ending March 31, 2024 to the fiscal year ending March 31, 2026) and is carrying out various initiatives of “promoting a new business portfolio,” “generating group synergies,” and “promotion of M&A and alliances,” as the priority challenges for the fiscal year.

Concerning the non-consolidated operations, the Company has set “Create new value by strengthening expertise” as the basic policy for the medium-term management plan and has made “Tighten management of individual revenue sources,” “Demonstrate consulting capabilities,” and “Promote R&D” the priority challenges for the fiscal year.

As specific initiatives for priority challenges for the Group and the Company’s non-consolidated operations, we are proceeding with development of various services based on the next-generation solution “Updemy®” to certify experiences utilizing NFTs^{(*)1}. As one of those initiatives, the consolidated subsidiary Pottos, Inc. began providing the career experience platform “Career Port.” This platform aims to break free from the typical job hunting (short-term, intensive, simultaneous recruiting of new graduates) and promote social implementation of a career experience accumulating type of job hunting. Together with client companies, this platform provides opportunities for students to prepare for their career formation without placing an excessive burden on their schoolwork, and by making their efforts visible through the issuance of experience NFTs, the platform enables the students from their early school years to easily establish contacts with companies.

In addition, amid the promotion of measures to encourage individuals to engage in investment, such as reviewing the new NISA system and improving financial literacy, we refreshed our securities trading services as the “SAKIX” series in preparation for rising systems demand from the financial industry, and began providing “WITH-X®”^{(*)2}, which is a core service within that series, to new users.

While developing UCARO® as a data platform that will serve as a hub that connects the various business domains, the Company has also aimed to expand the volume and types of data stored by strengthening external contact points, enhancing services, etc. Going forward, the Company will continue to create new value through the data business by following growth strategies focused on the services of this site.

In terms of results, net sales increased by 3.4% year on year to ¥1,935,058 thousand mainly due to the increase in sales from the “WITH-X®” and “KIZUNA-X®”^{(*)3} securities operations and from cultivating business with existing customers of the subsidiary Fplus, Inc. Operating loss was ¥284,316 thousand (operating loss of ¥390,937 thousand in the first six months of the previous fiscal year) mainly due to a decrease in retirement benefit expenses and outsourcing expenses as a result of optimizing development and operation systems. Furthermore, ordinary loss was ¥270,288 thousand (ordinary loss of ¥375,384 thousand in the first six months of the previous fiscal year), and loss attributable to owners of parent was ¥203,612 thousand (loss attributable to owners of parent of ¥271,942 thousand in the first six months of the previous fiscal year).

As the Group’s business has characteristics of a sharp spike in profits from entrance examination operations at universities and other operations in the fourth quarter, sales for the first six months tend to be comparatively small. However, as the fixed costs of personnel expenses, etc. do not change from quarter to quarter, profit/loss for the first six months is at an extremely low level compared with other quarters. In a typical year, a loss is recorded for the first nine months but in the full-fiscal year, that loss is offset by the profit of the fourth quarter.

(*1) NFT:

Abbreviation of Non-Fungible Token. This token is registered on a blockchain to guarantee its uniqueness. It is also possible to verify the ownership and transaction log of the token cryptographically.

(*2) WITH-X[®]:

This comprehensive securities system is equipped with functions for work from front-office operations to back-office operations at securities companies, and can be flexibly customized.

(*3) KIZUNA-X[®]:

This is an online investment trust transaction and management system for independent financial advisors (IFAs).

The breakdown of net sales is as follows.

Systems operation

Net sales increased by 1.5% year on year to ¥1,799,853 thousand mainly due to the increase in sales from the “WITH-X[®]” and “KIZUNA-X[®]” securities operations by cultivating business with existing customers and due to sales of the human resources training support business that was transferred in the second quarter of the previous fiscal year.

System development, maintenance

Net sales increased by 43.7% year on year to ¥99,476 thousand mainly due to “KIZUNA-X[®]”-related development in securities operations.

Machine sales

Net sales increased by 18.1% year on year to ¥35,728 thousand mainly due to sales of tablet products for medical systems.

(2) Explanation on financial position

Total assets at the end of the second quarter under review were ¥7,796,413 thousand, a decrease of ¥741,470 thousand compared with the end of the previous fiscal year. This was primarily the result of a decrease in trade receivables.

Liabilities were ¥2,217,716 thousand, a decrease of ¥522,932 thousand compared with the end of the previous fiscal year. The decrease was primarily the result of repayments of long-term borrowings.

Net assets were ¥5,578,696 thousand, a decrease of ¥218,537 thousand compared with the end of the previous fiscal year. This was primarily the result of a decrease in retained earnings.

(3) Explanation on consolidated earnings forecasts and other forward-looking statements

Financial results in the first six months of the current fiscal year were substantially as originally expected, and there is no change in the full-year consolidated earnings forecast from the forecast figures announced on April 28, 2023.

2. Quarterly consolidated financial statements and significant notes thereto

(1) Quarterly consolidated balance sheet

(Thousands of yen)

	As of March 31, 2023	As of September 30, 2023
Assets		
Current assets		
Cash and deposits	2,811,258	3,109,163
Accounts receivable - trade and contract assets	2,253,528	1,021,422
Merchandise	24,750	8,250
Work in process	23,258	29,092
Other	117,900	198,613
Allowance for doubtful accounts	(2,178)	(939)
Total current assets	5,228,516	4,365,602
Non-current assets		
Property, plant and equipment		
Buildings, net	92,950	86,795
Tools, furniture and fixtures, net	95,923	78,117
Leased assets, net	149,106	119,835
Construction in progress	–	8,520
Total property, plant and equipment	337,981	293,268
Intangible assets		
Goodwill	83,962	79,204
Customer-related intangible assets	93,425	88,375
Software	1,105,993	1,137,319
Software in progress	177,441	229,824
Other	7,454	9,587
Total intangible assets	1,468,277	1,544,311
Investments and other assets		
Investment securities	978,678	1,009,103
Deferred tax assets	231,146	296,732
Guarantee deposits	172,363	171,653
Other	120,919	115,742
Total investments and other assets	1,503,108	1,593,231
Total non-current assets	3,309,367	3,430,810
Total assets	8,537,884	7,796,413

(Thousands of yen)

	As of March 31, 2023	As of September 30, 2023
Liabilities		
Current liabilities		
Accounts payable - trade	234,917	131,909
Short-term borrowings	316,349	317,183
Lease liabilities	60,917	59,370
Accounts payable - other	120,156	67,207
Accrued expenses	96,325	130,113
Income taxes payable	147,132	17,827
Provision for bonuses	127,830	138,716
Other	329,975	217,048
Total current liabilities	1,433,604	1,079,375
Non-current liabilities		
Long-term borrowings	777,525	618,850
Lease liabilities	100,426	70,642
Retirement benefit liability	429,093	448,848
Total non-current liabilities	1,307,045	1,138,341
Total liabilities	2,740,649	2,217,716
Net assets		
Shareholders' equity		
Share capital	637,200	637,200
Capital surplus	695,020	695,020
Retained earnings	4,403,654	4,159,555
Treasury shares	(60,789)	(60,789)
Total shareholders' equity	5,675,085	5,430,986
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	122,149	147,710
Total accumulated other comprehensive income	122,149	147,710
Non-controlling interests	–	–
Total net assets	5,797,234	5,578,696
Total liabilities and net assets	8,537,884	7,796,413

(2) Quarterly consolidated statement of income and quarterly consolidated statement of comprehensive income**(Quarterly consolidated statement of income)****[For the six months]**

(Thousands of yen)

	Six months ended September 30, 2022	Six months ended September 30, 2023
Net sales	1,871,887	1,935,058
Cost of sales	1,627,457	1,581,058
Gross profit	244,430	354,000
Selling, general and administrative expenses	635,368	638,316
Operating loss	(390,937)	(284,316)
Non-operating income		
Interest income	267	30
Dividend income	15,198	16,984
Commission income	506	483
Surrender value of insurance policies	5,164	4,452
Other	1,123	215
Total non-operating income	22,260	22,167
Non-operating expenses		
Interest expenses	3,274	2,717
Loss on investments in investment partnerships	2,872	4,507
Other	559	914
Total non-operating expenses	6,707	8,139
Ordinary loss	(375,384)	(270,288)
Extraordinary losses		
Loss on retirement of non-current assets	3,146	0
Total extraordinary losses	3,146	0
Loss before income taxes	(378,531)	(270,288)
Income taxes - current	25,927	10,169
Income taxes - deferred	(128,134)	(76,845)
Total income taxes	(102,206)	(66,675)
Loss	(276,324)	(203,612)
Loss attributable to non-controlling interests	(4,381)	-
Loss attributable to owners of parent	(271,942)	(203,612)

(Quarterly consolidated statement of comprehensive income)
[For the six months]

(Thousands of yen)

	Six months ended September 30, 2022	Six months ended September 30, 2023
Loss	(276,324)	(203,612)
Other comprehensive income		
Valuation difference on available-for-sale securities	(3,487)	25,561
Total other comprehensive income	(3,487)	25,561
Comprehensive income	(279,812)	(178,051)
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	(275,430)	(178,051)
Comprehensive income attributable to non-controlling interests	(4,381)	—

(3) Notes to quarterly consolidated financial statements

Notes on premise of going concern

Not applicable.

Notes when there are significant changes in amounts of equity

Not applicable.

Business combinations, etc.

Material revision of the initially allocated amounts of the acquisition costs in comparative information

Regarding the business acquired from Kushim Inc. on July 1, 2022, although provisional accounting treatment was applied in the second quarter of the previous fiscal year, the provisional accounting treatment was finalized in the third quarter of the previous fiscal year.

In accordance with the finalization of the provisional accounting treatment, the comparative information included in the quarterly consolidated financial statements for the first six months of the current fiscal year reflects the material revision of the initially allocated amounts of the acquisition costs.

As a result of finalizing the accounting treatment, the final calculation for goodwill amounted to ¥41,083 thousand, which was a decrease of ¥70,114 thousand from the provisional calculation of ¥111,197 thousand. In addition, customer-related intangible assets increased by ¥101,000 thousand and deferred tax liabilities increased by ¥30,885 thousand.

The impact on the quarterly consolidated statement of income for the six months ended September 30, 2022 was immaterial.