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November 10, 2023

Consolidated Financial Results for the Six Months Ended September 30, 2023 (Under Japanese GAAP)

Company name: Nippon Computer Dynamics Co., Ltd.
 Listing: Tokyo Stock Exchange
 Securities code: 4783
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 Scheduled date to file quarterly securities report: November 10, 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: Yes

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

1. Consolidated financial results for the six months ended September 30, 2023 (from April 1, 2023 to September 30, 2023)

(1) Consolidated operating results (cumulative)

(Percentages indicate year-on-year changes.)

	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 September 30, 2023	11,904	11.5	900	75.2	907	73.6	600	85.2
September 30, 2022	10,672	15.4	513	24.9	523	24.7	324	20.2

Note: Comprehensive income For the six months ended September 30, 2023: ¥635 million [87.6%]
 For the six months ended September 30, 2022: ¥339 million [30.9%]

	Basic earnings per share	Diluted earnings per share
	Yen	Yen
Six months ended September 30, 2023	74.04	—
September 30, 2022	40.19	—

(2) Consolidated financial position

	Total assets	Net assets	Equity-to-asset ratio
	Millions of yen	Millions of yen	%
As of September 30, 2023	12,585	5,681	44.7
March 31, 2023	12,387	5,045	40.4

Reference: Equity
 As of September 30, 2023: ¥5,631 million
 As of March 31, 2023: ¥5,001 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	—	7.00	—	13.00	20.00
Fiscal year ending March 31, 2024	—	16.00			
Fiscal year ending March 31, 2024 (Forecast)			—	16.00	32.00

Note: Revisions to the forecast of cash dividends most recently announced: None

3. Forecast of Consolidated Financial Results for the Fiscal Year Ending March 31, 2024 (from 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	23,500	2.8	1,400	17.1	1,400	15.5	850	26.4	104.34

Note: Revisions to the forecast of consolidated financial results most recently announced: None

*Notes

- (1) Changes in significant subsidiaries during the period (changes in specified subsidiaries resulting in the change in scope of consolidation): None
- (2) Adoption of accounting treatment specific to the preparation of quarterly consolidated financial statements: Yes
- (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	8,800,000 shares
As of March 31, 2023	8,800,000 shares

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

As of September 30, 2023	619,732 shares
As of March 31, 2023	728,932 shares

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

Six months ended September 30, 2023	8,111,646 shares
Six months ended September 30, 2022	8,071,068 shares

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

* Appropriate use of earnings forecasts, and other special matters

The forward-looking statements, such as the financial forecast, provided in this material are based on information currently available to the Company and certain assumptions that the Company believes are reasonable, and are not intended as a guarantee that the Company will achieve the same. In addition, actual results, including financial performance, may significantly differ due to various factors.

Table of Contents of Attachments

1. Qualitative Information on Financial Results for the Quarter under Review	4
(1) Explanation of Operating Results	4
2. Quarterly Consolidated Financial Statements and Major Notes	6
(1) Quarterly Consolidated Balance Sheet.....	6
(2) Quarterly Consolidated Statement of Income and Quarterly Consolidated Statement of Comprehensive Income	8
(3) Notes to Quarterly Consolidated Financial Statements	10
(Notes on Assumptions for Going Concerns)	10
(Notes on Significant Changes in the Amount of Shareholders' Equity)	10
(Application of Accounting Specific to Preparation of Quarterly Consolidated Financial Statements)	10
(Significant Subsequent Events)	10

1. Qualitative Information on Financial Results for the Quarter under Review

(1) Explanation of Operating Results

During the first six months of the fiscal year under review (April 1, 2023 to September 30, 2023), the Japanese economy showed a moderate pick-up, with socioeconomic activity being normalized further due to the easing of various restrictions, including the lowering of the classification of COVID-19 to Class 5 under the Act on the Prevention of Infectious Diseases and Medical Care for Patients with Infectious Diseases. However, the outlook remains uncertain due to the effects of the prolonged war in Ukraine, rising raw materials prices and rapid exchange rate fluctuations, among others.

In the information services industry to which the Group belongs, efforts to modernize core systems ^(*1) and cloud migration ^(*2) among others, are expected to accelerate as DX makes progress. The Company's customers are also making progress in the renewal of core systems in anticipation of medium to long-term business expansion and in the use of cloud services in response to heightened security awareness. In addition, we expect IT investments to grow in the future, as there is a trend toward outsourcing system maintenance, operation and other works to respond to the shortage of IT personnel and to work on BCP. The Group continues to focus on human capital management by strengthening its human resources development and recruitment activities, and works to expand the scope of existing customers and attract new customers by promoting full IT outsourcing as a key strategy under its medium-term management plan, "Vision 2026" (from the fiscal year ending March 2024 to March 2026). As part of this, the Company resolved at the Board of Directors meeting held today, November 10, to make Japan Computer Services, Inc. a subsidiary.

(*1) Replacing software and hardware that are running in the system with the latest products and designs while taking advantage of the assets in operation

(*2) Migrating the system operating environment from a physical base (on-premises environment) to a virtual base (cloud environment) on the Internet

In the bicycle-parking industry, people have more opportunities to go out due to the relaxation of various restrictions, and bicycle-parking use has been on the rise. However, due to concerns about risks arising from the external environment, such as behavioral changes resulting from the diversification of working styles, it is necessary to shift to a business model that can respond flexibly to environmental changes and fluctuations in demand. In order to stabilize profitability, the Group is accelerating structural reforms of the business, such as further promotion of rate revisions and introduction of DX into bicycle parking operations. In addition, we work to enhance the added value of our services by expanding the number of convenient unmanned bicycle parking lots that meet market needs and the number of next-generation bicycle parking lots that accommodate diverse mobility. In addition to the head office, we opened a bicycle parking support center in the Nagasaki office in November 2023. Through our two-site organization in Tokyo and Nagasaki, we will strive to ensure the safety and security of our users as a BCP measure, while also reducing costs through the use of our regional sites.

During the first six months of the fiscal year under review, both sales and profit increased year on year mainly due to the expansion of business areas in the IT-related business (System Development Business, Support and Service Business) and the increase in bicycle parking fee revenues in the Parking System Business.

As a result, net sales for the first six months of the fiscal year under review were 11,904 million yen (up 11.5% year on year), operating profit was 900 million yen (up 75.2% year on year), ordinary profit was 907 million yen (up 73.6% year on year), and quarterly net profit attributable to owners of parent was 600 million yen (up 85.2% year on year).

Results by segment for the first six months of the fiscal year under review are as follows.

System Development Business

Sales increased year on year mainly due to the expansion of business areas in system development projects for new products of insurance companies and core system renewal project for the manufacturing company. On the profit side, we saw a significant year-on-year increase as we successfully built up profits thanks to smooth management of various projects. As a result, net sales were 4,903 million yen (up 12.9% year on year) and segment profit was 704 million yen (up 42.7% year on year).

Support and Service Business

Sales increased year on year due to steady growth in outsourcing projects for information systems divisions of the major company and expansion of business areas such as cloud-related projects for insurance companies. On the profit side, we saw a year-on-year increase due to collection of upfront costs such as personnel expenses incurred in acquiring new customers. As a result, net sales were 3,556 million yen (up 10.4% year on year) and segment profit was 367 million yen (up 10.1% year on year).

Parking System Business

In addition to the relaxation of various restrictions related to COVID-19, good weather contributed to an increase in opportunities to go out, in turn leading to increased bicycle-parking use. Parking rates revision also contributed, resulting in bicycle parking fee revenues greatly exceeding pre-COVID-19 levels. As a result, sales increased year on year. Profits significantly increased year on year as profitability of bicycle parking lots greatly improved due to a significant increase in bicycle parking fee revenues and efforts were made to promote insourcing of outsourced operations by using Group subsidiaries. As a result, net sales were 3,429 million yen (up 10.9% year on year) and segment profit was 612 million yen (up 66.8% year on year).

2. Quarterly Consolidated Financial Statements and Major Notes

(1) Quarterly Consolidated Balance Sheet

(Thousands of yen)

	As of March 31, 2023	As of September 30, 2023
Assets		
Current assets		
Cash and deposits	3,913,476	4,585,800
Notes and accounts receivable - trade, and contract assets	3,608,452	3,169,732
Securities	-	200,246
Merchandise and finished goods	150,613	219,762
Work in process	112,706	186,347
Other	794,741	770,262
Allowance for doubtful accounts	(832)	-
Total current assets	8,579,158	9,132,151
Non-current assets		
Property, plant and equipment	1,486,419	1,436,795
Intangible assets	239,082	221,150
Investments and other assets	2,082,861	1,795,793
Total non-current assets	3,808,363	3,453,739
Total assets	12,387,522	12,585,890
Liabilities		
Current liabilities		
Accounts payable - trade	1,010,312	879,558
Short-term borrowings	807,368	852,401
Income taxes payable	202,865	349,763
Provision for bonuses	928,640	651,515
Provision for share-based payments	125,148	-
Asset retirement obligations	-	518
Other	1,811,206	1,855,205
Total current liabilities	4,885,542	4,588,961
Non-current liabilities		
Provision for retirement benefits for directors (and other officers)	46,753	51,780
Provision for share-based payments	-	15,438
Retirement benefit liability	1,224,320	1,230,704
Asset retirement obligations	205,205	211,327
Other	980,384	806,373
Total non-current liabilities	2,456,662	2,315,623
Total liabilities	7,342,205	6,904,585

(Thousands of yen)

	As of March 31, 2023	As of September 30, 2023
Net assets		
Shareholders' equity		
Share capital	438,750	438,750
Capital surplus	954,989	1,019,556
Retained earnings	3,842,025	4,337,746
Treasury shares	(269,509)	(229,135)
Total shareholders' equity	4,966,255	5,566,917
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	50,492	70,023
Foreign currency translation adjustment	1,948	3,757
Remeasurements of defined benefit plans	(17,674)	(8,837)
Total accumulated other comprehensive income	34,766	64,943
Non-controlling interests	44,295	49,443
Total net assets	5,045,317	5,681,304
Total liabilities and net assets	12,387,522	12,585,890

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

Quarterly Consolidated Statement of Income

(Thousands of yen)

	Six months ended September 30, 2022	Six months ended September 30, 2023
Net sales	10,672,690	11,904,030
Cost of sales	8,857,568	9,546,801
Gross profit	1,815,122	2,357,229
Selling, general and administrative expenses	1,301,264	1,456,811
Operating profit	513,857	900,417
Non-operating income		
Interest income	57	2,260
Dividend income	3,993	4,752
Rental income from buildings	7,500	8,302
Other	11,049	5,845
Total non-operating income	22,600	21,161
Non-operating expenses		
Interest expenses	11,871	12,069
Other	1,399	1,515
Total non-operating expenses	13,271	13,585
Ordinary profit	523,186	907,994
Extraordinary loss		
Loss on sale of non-current assets	4,638	-
Impairment losses	14,185	-
Loss on transfer to retirement benefit plan	40,570	-
Total Extraordinary loss	59,394	-
Profit before income taxes	463,792	907,994
Income taxes	136,635	302,201
Profit	327,156	605,792
Profit attributable to non-controlling interests	2,751	5,148
Profit attributable to owners of parent	324,404	600,644

Quarterly Consolidated Statement of Comprehensive Income

(Thousands of yen)

	Six months ended September 30, 2022	Six months ended September 30, 2023
Profit	327,156	605,792
Other comprehensive income		
Valuation difference on available-for-sale securities	(5,868)	19,530
Foreign currency translation adjustment	3,145	1,809
Remeasurements of defined benefit plans, net of tax	14,583	8,837
Total other comprehensive income	11,860	30,177
Comprehensive income	339,016	635,970
(Breakdown)		
Comprehensive income attributable to owners of parent	336,264	630,822
Comprehensive income attributable to non-controlling interests	2,751	5,148

(3) Notes to Quarterly Consolidated Financial Statements

(Notes on Assumptions for Going Concerns)

Not applicable.

(Notes on Significant Changes in the Amount of Shareholders' Equity)

Not applicable.

(Application of Accounting Specific to Preparation of Quarterly Consolidated Financial Statements)

Calculation of Tax Expense

For tax expense, the Company reasonably estimates the effective tax rate after tax effect accounting is applied to profit before income taxes for the consolidated fiscal year including the second quarter of the fiscal year under review, and calculates the tax expense by multiplying quarterly profit before income taxes or quarterly loss before income taxes by the estimated effective tax rate.

However, if the calculation of tax expense using the estimated effective tax rate leads to significantly irrational results, the statutory effective tax rate is used.

(Significant Subsequent Events)

(Business Combination by Acquisition)

At the Board of Directors meeting held on November 10, 2023, the Company resolved to acquire the ownership of a company to make it a subsidiary and entered into a share transfer agreement on the same date.

1. Overview of the Business Combination

(1) Name of the Acquired Company and Details of Its Business

Name of the acquired company: Japan Computer Services, Inc.

Business: Contracted software development business

(2) Main Reasons for the Business Combination

Since its establishment in 1981, Japan Computer Services, Inc. (hereinafter referred to as "JCS") has been consistently engaged in system development, operation and maintenance, and has been growing steadily on the back of its stable technological capabilities and the trust of its customers. Many of its business partners are large corporations and their group companies, but there is little overlap with the Group's business partners. In addition, JCS has established a management policy of respecting the individuality and diversity of its employees, and we believe that it is highly compatible with the Group's corporate culture.

Based on the above, we have concluded that this acquisition will contribute to the enhancement of the Group's corporate value by integrating the technological capabilities and customer base cultivated by the Company and JCS, and to the realization of JCS's further development by strengthening its management base including human capital management.

(3) Date of the Business Combination

December 21, 2023 (planned)

(4) Legal Form of the Business Combination

Acquisition of shares for cash consideration

(5) Name of the Combined Entity

There are no plans to change the name of the combined entity.

(6) Percentage of Voting Rights Acquired

Ratio of voting rights acquired on the date of the business combination: 73.9% or more

(7) Main Rationale for Determining the Acquired Company

This is due to the acquisition of shares by the Company for cash consideration.

2. Acquisition Cost of the Acquired Company and Breakdown of Consideration by Type

They have not been finalized at this time.

3. Details and Amounts of Main Acquisition-Related Expenses

They have not been finalized at this time.

4. Amount, Cause, Amortization Method, and Amortization Period of Goodwill Generated

They have not been finalized at this time.

5. Amounts of Assets Accepted and Liabilities Assumed on the Date of the Business Combination and Main Breakdown Thereof

They have not been finalized at this time.