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Consolidated Financial Results for the Nine Months Ended September 30, 2023 [Japanese GAAP]



November 13, 2023

Company name: Core Concept Technologies Inc.
 Stock exchange listing: Tokyo Stock Exchange
 Code number: 4371
 URL: <https://www.cct-inc.co.jp>
 Representative: Takeshi Kaneko, Representative Director, President, CEO
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 Scheduled date of filing quarterly securities report: November 13, 2023
 Scheduled date of commencing dividend payments: -
 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 Nine Months Ended September 30, 2023 (January 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	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
Nine months ended September 30, 2023	11,570	-	1,368	-	1,378	-	985	-
September 30, 2022	-	-	-	-	-	-	-	-

Note: Comprehensive income As of September 30, 2023: 985 million yen (- %)
 As of September 30, 2022: - million yen (- %)

	Basic earnings per share	Diluted earnings per share
Nine months ended September 30, 2023	Yen 57.00	Yen 54.00
September 30, 2022	-	-

Note: Since quarterly consolidated financial statements have been prepared since the six months ended June 30, 2023, figures for the nine months ended September 30, 2022 and the year-on-year percentage changes for the nine months ended September 30, 2022 have not been provided.

(2) Consolidated Financial Position

	Total assets	Net assets	Equity capital ratio
As of September 30, 2023	Million yen 6,147	Million yen 3,702	%
As of December 31, 2022	-	-	-

Reference: Equity As of September 30, 2023: 3,701 million yen
 As of December 31, 2022: - million yen

Note: Since quarterly consolidated financial statements have been prepared since the six months ended June 30, 2023, figures for the fiscal year ended December 31, 2022 have not been provided.

2. Dividends

	Annual dividends per share				
	1st quarter-end	2nd quarter-end	3rd quarter-end	Year-end	Total
Fiscal year ended December 31, 2022	Yen -	Yen 0.00	Yen -	Yen 0.00	Yen -
Fiscal year ending December 31, 2023	-	0.00	-		
Fiscal year ending December 31, 2023 (Forecast)				0.00	-

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

3. Consolidated Financial Results Forecast for the Fiscal Year Ending December 31, 2023 (January 1, 2023 to December 31, 2023)

(Percentages indicate year-on-year changes.)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent		Basic earnings per share
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen
Full year	16,093	-	1,608	-	1,626	-	1,133	-	65.23

Notes: 1. Revisions to the financial results forecast most recently announced: None

2. Since quarterly consolidated financial statements have not been prepared for the fiscal year ended December 31, 2022, year-on-year percentage changes have not been prepared.

* Notes:

- (1) Changes in significant subsidiaries during the period (changes in specified subsidiaries resulting in changes in scope of consolidation): None
 Newly included: – company (Company name) –
 Excluded: – company (Company name)
- (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 retrospective restatement
 - 1) Changes in accounting policies due to the revision of accounting standards: None
 - 2) Changes in accounting policies other than 1) above: None
 - 3) Changes in accounting estimates: None
 - 4) Retrospective restatement: None
- (4) Total number of issued shares (common shares)
 - 1) Total number of issued shares at the end of the period (including treasury shares):
 As of September 30, 2023: 17,375,200 shares
 As of December 31, 2022: 16,512,000 shares
 - 2) Total number of treasury shares at the end of the period:
 As of September 30, 2023: 64,350 shares
 As of December 31, 2022: 150 shares
 - 3) Average number of shares outstanding during the period (cumulative from the beginning of the fiscal year):
 Nine months ended September 30, 2023: 17,284,261 shares
 Nine months ended September 30, 2022: 16,117,002 shares

Note: The Company conducted a 2-for-1 stock split of its common stock on April 1, 2022 and October 1, 2022. Total number of issued shares (common shares) is calculated on the assumption that the stock split was conducted at the beginning of the fiscal year ended December 31, 2022.

* 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

(Cautionary statement regarding forward-looking statements)

The earnings forecasts and other forward-looking statements herein are based on information currently available to the Company and certain assumptions that the Company deems reasonable, and are not intended as a guarantee that they will be achieved by the Company. Actual results may differ significantly from these forecasts due to a wide range of factors. For the assumptions used as the basis for the earnings forecasts and precautions regarding their use, please refer to “1. Qualitative Information on Quarterly Financial Results (3) Consolidated Financial Results Forecast and Other Forward-looking Information” on page 4 of the attachments.

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1. Qualitative Information on Quarterly Financial Results

(1) Explanation of Operating Results

During the nine months ended September 30, 2023, the Japanese economy experienced a moderate economic recovery as restrictions on social and economic activities designed to prevent the spread of the novel coronavirus had for the most part been lifted. However, the outlook for business conditions remained uncertain, with rapid price increases due to restrictions on the supply of resources and energy resulting from the prolonged Russia-Ukraine situation, as well as fears of a recession against the backdrop of monetary tightening around the world.

Under such an economic environment, in the information service industry to which the Group belongs, with the scale of the system integration (SI) market expected to expand moderately over the medium to long term, the share attributable to the digital transformation (DX) market, in which the Group provides services, is expected to expand rapidly. The Group is focusing on the manufacturing, construction, and logistics industries. These industries are facing substantial business challenges, including responding to workforce shortages, passing on know-how from veteran employees, and engaging in decarbonization. Not only the digitalization of some operations up to now, but companywide DX investment is accelerating, mainly among large corporations, and this is driving market expansion.

The scale of the business process outsourcing (BPO) market in the IT industry is also growing due to the increasing scale of the DX market. However, there is a shortage of the IT engineers needed to drive DX, and staffing demand and supply is tight. In this market environment, the Group has the extensive business partner network “Ohgi,” and has built a system for swiftly finding the appropriate personnel to meet the IT staffing demand of its clients. “Ohgi,” a database of small- and medium-sized IT enterprises and their employees, is still expanding the scale of its network to meet client staffing needs. Further, by building a project system using Ohgi, the Group can receive orders for a larger number of DX projects than the number of its employees. This represents another strength of the Group.

Under these conditions, with regard to support for DX, the Group has increased supporting results, etc., which has led to gradually greater recognition that we are a company engaged in DX for the manufacturing and construction industries, resulting in an increasing trend in inquiries for new projects. As a result of focusing its efforts on following up with existing clients and acquiring new clients, net sales increased 28.5% year on year to 5,509,308 thousand yen.

Regarding support for IT personnel staffing, the Group is continuing to focus on steadily expanding transactions with existing major system integrators and developing new clients. Orders have been growing steadily as a result of on-going strengthening of our operating structure by increasing the number of sales personnel, and supply capacity is trending upward due to the expansion of our business partner network “Ohgi.” In addition, the Group has newly consolidated the profit and loss of P.G.System Co., Ltd. from the nine months ended September 30, 2023. The result was net sales of 6,060,721 thousand yen (up 35.1% year on year).

For the nine months ended September 30, 2023, net sales were 11,570,029 thousand yen (up 31.9% year on year), operating profit was 1,368,090 thousand yen (up 45.0% year on year), ordinary profit was 1,378,634 thousand yen (up 42.8% year on year), and profit attributable to owners of parent was 985,218 thousand yen (up 38.9% year on year).

Since the Group operates in a single segment of DX-related business, segment information is not presented.

(2) Explanation of Financial Position

1) Status of financial position

(Assets)

Total assets as of September 30, 2023 increased by 1,033,578 thousand yen from the end of the previous year to 6,147,972 thousand yen. This is mainly attributable to increases in accounts receivable - trade, and contract assets of 869,194 thousand yen due to an increase in net sales, goodwill of 248,329 thousand yen on account of business combinations, customer-related assets of 55,304 thousand yen, and software in progress of 95,286 thousand yen due to replacement costs of core systems, despite a decrease in cash and deposits of 351,610 thousand yen due to purchase of shares of subsidiaries and associates, etc.

(Liabilities)

Liabilities as of September 30, 2023 increased by 176,649 thousand yen from the end of the previous year to 2,445,011 thousand yen. This is mainly attributable to increases in accounts payable - trade of 68,810 thousand yen due to an increase in outsourcing expenses, current portion of long-term borrowings of 24,138 thousand yen due to the consolidation of the balance sheet on account of business combinations, and long-term borrowings of 87,663 thousand yen.

(Net assets)

Net assets as of September 30, 2023 increased by 856,928 thousand yen from the end of the previous year to 3,702,961 thousand yen. This is attributable to an increase of 985,218 thousand yen from the posting of profit attributable to owners of parent, despite the purchase of treasury shares of 186,605 thousand yen. As a result, equity capital ratio stood at 60.2% (55.6% at the end of the previous year).

(3) Consolidated Financial Results Forecast and Other Forward-looking Information

The current financial results forecast remains unchanged from that announced on August 10, 2023.

2. Quarterly Consolidated Financial Statements and Primary Notes

(1) Quarterly Consolidated Balance Sheets

(Thousand yen)

As of September 30, 2023	
Assets	
Current assets	
Cash and deposits	1,847,575
Notes and accounts receivable - trade, and contract assets	2,863,812
Work in process	76,995
Other	122,295
Allowance for doubtful accounts	(12,328)
Total current assets	4,898,350
Non-current assets	
Property, plant and equipment	338,617
Intangible assets	
Goodwill	257,996
Customer-related assets	55,304
Other	129,077
Total intangible assets	442,379
Investments and other assets	468,625
Total non-current assets	1,249,622
Total assets	6,147,972
Liabilities	
Current liabilities	
Accounts payable - trade	913,772
Short-term borrowings	100,000
Current portion of bonds payable	19,000
Current portion of long-term borrowings	24,138
Income taxes payable	264,471
Provision for bonuses	131,486
Reserve for quality assurance	49,263
Provision for loss on orders received	37,782
Other	676,981
Total current liabilities	2,216,894
Non-current liabilities	
Bonds payable	35,000
Long-term borrowings	87,663
Asset retirement obligations	57,320
Other	48,133
Total non-current liabilities	228,117
Total liabilities	2,445,011
Net assets	
Shareholders' equity	
Share capital	561,813
Capital surplus	526,095
Retained earnings	2,801,071
Treasury shares	(187,067)
Total shareholders' equity	3,701,911
Share acquisition rights	1,050
Total net assets	3,702,961
Total liabilities and net assets	6,147,972

(2) Quarterly Consolidated Statements of Income and Comprehensive Income
Quarterly Consolidated Statement of Income
For the nine months ended September 30

(Thousand yen)

	For the nine months ended September 30, 2023
Net sales	11,570,029
Cost of sales	8,515,380
Gross profit	3,054,649
Selling, general and administrative expenses	1,686,558
Operating profit	1,368,090
Non-operating income	
Interest income	21
Share of profit of entities accounted for using equity method	21,430
Subsidy income	9,090
Other	875
Total non-operating income	31,418
Non-operating expenses	
Interest expenses	840
Commission expenses	19,004
Other	1,028
Total non-operating expenses	20,874
Ordinary profit	1,378,634
Profit before income taxes	1,378,634
Income taxes	393,415
Profit	985,218
Profit attributable to owners of parent	985,218

Quarterly Consolidated Statement of Comprehensive Income
For the nine months ended September 30

(Thousand yen)

	For the nine months ended September 30, 2023
Profit	985,218
Comprehensive income	985,218
Comprehensive income attributable to	
Comprehensive income attributable to owners of parent	985,218

(3) Notes to the Quarterly Consolidated Financial Statements

(Notes on going concern assumption)

Not applicable.

(Notes in the event of significant changes in shareholders' equity)

Not applicable.

(Adoption of accounting treatment specific to the preparation of quarterly consolidated financial statements)

	For the nine months ended September 30, 2023
Calculation of tax expenses	Tax expenses are calculated by reasonably estimating the effective tax rate after applying tax effect accounting to profit before income taxes for the current fiscal year, including the nine months ended September 30, 2023, and multiplying quarterly profit before income taxes by the estimated effective tax rate.

(Business combinations, etc.)

Business combination through acquisition

1. Overview of business combination

(1) Name of the acquired company and details of its business

Name of acquired company: denso.co.ltd (hereinafter referred to as “denso”)

Details of business: Commissioned development of software, operation and maintenance of systems

(2) Primary reasons for business combination

Based in Kawasaki City, Kanagawa Prefecture, denso develops, operates, and maintains various systems for financial institutions and government offices/local governments.

By making denso into a subsidiary of the Company, we will secure resources and further expand our business. We have determined that we can realize the development of both companies by contributing to denso's growth through participation in projects for which we have received orders, improving our ability to obtain orders, and providing know-how on recruitment and human resource development.

(3) Date of business combination

August 1, 2023 (date of share acquisition)

September 30, 2023 (deemed acquisition date)

(4) Legal form of business combination

Share acquisition for cash consideration

(5) Name of company post combination

No change

(6) Proportion of voting rights acquired

100%

(7) Principal basis for deciding the acquiring company

Because the Company acquired the shares for consideration in cash

2. Period of the acquired company's financial results included in the consolidated statements of income for the period

Since only the balance sheet is consolidated for the period under review, the financial results of the acquired company are not included.

3. Acquisition costs of the acquired company and the consideration paid by type

Consideration for acquisition	Cash and deposits	10,000 thousand yen
Acquisition cost		10,000 thousand yen

4. Details and amount of major expenses related to acquisition

Advisory expenses, etc. of 27,764 thousand yen

5. Amount of goodwill generated by acquisition, reason therefor, amortization method, and amortization period

- (1) Amount of goodwill generated

91,961 thousand yen

The above amount is tentatively calculated.

- (2) Reason

The accrual arises from the future excess earning power expected from future business development.

- (3) Amortization method and period

The investment will be equally amortized over the period during which the investment effect is realized.

6. Amount of assets accepted and liabilities assumed on the date of the business combination, and the major breakdown thereof

Current assets	49,895 thousand yen
Non-current assets	10,287 thousand yen
Total assets	60,182 thousand yen
Current liabilities	32,970 thousand yen
Non-current liabilities	109,173 thousand yen
Total liabilities	142,143 thousand yen

Finalization of tentative treatment for business combination

The accounting treatment of the business combination with P.G.System Co., Ltd. conducted on May 19, 2023, which was tentatively accounted for in the six months ended June 30, 2023, was finalized in the nine months ended September 30, 2023.

As a result, the amount of goodwill decreased by 37,289 thousand yen from the tentatively calculated amount of 202,137 thousand yen to 164,848 thousand yen.