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Consolidated Financial Results for the Nine Months Ended December 31, 2023 [Japanese GAAP]



January 31, 2024

Company name: SYSTEM RESEARCH CO., LTD.

Stock exchange listing: Tokyo Stock Exchange

Code number: 3771

URL: <https://www.sr-net.co.jp/>

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Scheduled date of filing quarterly securities report: February 9, 2024

Scheduled date of commencing dividend payments: -

Availability of supplementary briefing materials on quarterly financial results: Not available

Schedule of quarterly financial results briefing session: Not scheduled

(Amounts of less than one million yen are rounded down.)

1. Consolidated Financial Results for the Nine Months Ended December 31, 2023 (April 1, 2023 to December 31, 2023)

(1) Consolidated Operating Results (cumulative) (% indicates changes from the previous corresponding period.)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
Nine months ended								
December 31, 2023	17,240	8.0	1,965	11.1	1,993	12.0	1,474	53.0
December 31, 2022	15,953	20.8	1,767	33.2	1,778	32.8	963	5.0

(Note) Comprehensive income: Nine months ended December 31, 2023: ¥1,477 million [70.7%]

Nine months ended December 31, 2022: ¥865 million [(4.5)%]

	Basic earnings per share	Diluted earnings per share
	Yen	Yen
Nine months ended		
December 31, 2023	176.43	-
December 31, 2022	115.27	-

(2) Consolidated Financial Position

	Total assets	Net assets	Equity ratio
	Million yen	Million yen	%
As of December 31, 2023	14,938	10,028	67.0
As of March 31, 2023	14,181	9,135	64.3

(Reference) Equity: As of December 31, 2023: ¥10,012 million

As of March 31, 2023: ¥9,123 million

2. Dividends

	Annual dividends				
	1st quarter-end	2nd quarter-end	3rd quarter-end	Fiscal year-end	Total
	Yen	Yen	Yen	Yen	Yen
Fiscal year ended March 31, 2023	-	0.00	-	70.00	70.00
Fiscal year ending March 31, 2024	-	0.00	-		
Fiscal year ending March 31, 2024 (Forecast)				80.00	80.00

Note: Revisions to the forecast of cash dividends most recently announced: Yes

Please refer to “Notice on Share Split, Partial Amendment to Articles of Incorporation, and Revisions to Dividend Forecast” announced today (January 31, 2024; in Japanese).

3. Consolidated Financial Results Forecast for the Fiscal Year Ending March 31, 2024 (April 1, 2023 to March 31, 2024)

(% indicates changes from the previous corresponding period.)

	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	23,815	10.4	2,516	0.5	2,542	1.0	1,817	13.4	217.47

Note: Revisions to the financial result forecast most recently announced: No

* Notes:

(1) Changes in significant subsidiaries during the period : No

(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: No

(ii) Changes in accounting policies due to other reasons: No

(iii) Changes in accounting estimates: No

(iv) Restatement: No

(4) Number of issued shares (common shares)

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

As of December 31, 2023: 8,360,000 shares

As of March 31, 2023: 8,360,000 shares

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

As of December 31, 2023: 2,112 shares

As of March 31, 2023: 2,008 shares

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

Nine months ended December 31, 2023: 8,357,951 shares

Nine months ended December 31, 2022: 8,358,024 shares

* These quarterly consolidated financial results are outside the scope of quarterly review by certified public accountants or audit firms.

* Explanation of the proper use of financial results forecast and other notes

(Notes on forward-looking statements, etc.)

The financial results forecast and other forward-looking statements herein are based on information currently available to the Company and certain assumptions that the Company deems reasonable, and the Company does not intend to guarantee that they will be achieved. In addition, actual results may differ significantly from these forecasts due to a wide range of factors. For the conditions assumed for the financial results forecast, precautions for the use of the financial results forecast, etc., please refer to “(3) Explanation of Consolidated Financial Results Forecasts and Other Forward-looking Information” on page 2 of the attachments.

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1. Qualitative Information on Quarterly Financial Results

(1) Explanation of Operating Results

During the nine months ended December 31, 2023, the Japanese economy continued on a moderate recovery trend, boosted by the improved performance of export-related companies, such as the automotive industry, due to a steady recovery of the demand for inbound tourism and the depreciation of the Japanese yen. Meanwhile, the outlook remains uncertain due to the impact of the rise in commodity prices brought by the surge in import prices of raw materials, global inflationary pressures, unstable international affairs, and other factors on the domestic economy and corporate earnings.

In the information service industry, in which the Group operates, the industry's total net sales for November 2023 grew by 4.0% compared with a year earlier, according to the Current Survey of Selected Service Industries released by the Ministry of Economy, Trade and Industry. Specifically, sales of "Software Ordered," the main segment, increased by 8.1% year on year, sales of "Software Products" decreased by 13.5% year on year, and sales of "System Management on Commission" increased by 0.7% year on year. Although performance trends varied depending on the service category, these results show that demand remains robust for IT investment demand involving digital transformation (DX) to eliminate labor shortages, promote labor-saving and streamline operations.

In this business environment, for the nine months ended December 31, 2023, net sales of SI Services Business were 6,662 million yen (an increase of 9.1% year on year), due to an increase in orders received, backed by steady IT investment demand from the Company's major customer sectors, including the automotive-related. Net sales of the Software Development Business were 9,814 million yen (an increase of 6.8% year on year), as the Company stably secured continuing contracts with existing customers. Net sales of Software Products Business, which conducts businesses including sales of packaged software, were 269 million yen (an increase of 14.6% year on year) due to the reactionary demand to the introduction of the invoice system and the enforcement of the Act concerning Preservation of Electronic Books. Net sales of Merchandise Sales were 287 million yen (an increase of 4.2% year on year) due to the purchase and sale of personal computers and IT devices as well as software products, among other items. Net sales of Website Administration and Cloud Services (SaaS) in the other category were 205 million yen (an increase of 35.9% year on year), backed by an increase in the number of new EC-mall shop openings.

In terms of earnings, the Company successfully maintained a high operating rate of engineers against a backdrop of strong IT investment demand from customers. An increase in net sales of SI services, which is a high-margin business, and efforts to eliminate unprofitable projects through project risk management (PRM) activities also led to an increased profit.

As a result, for the nine months ended December 31 2023, net sales were 17,240 million yen (an increase of 8.0% year on year), with operating profit of 1,965 million yen (an increase of 11.1% year on year), ordinary profit of 1,993 million yen (an increase of 12.0% year on year), and profit attributable to owners of parent of 1,474 million yen (an increase of 53.0% year on year), on a consolidated basis.

(2) Explanation of Financial Position

Total assets as of December 31, 2023 increased by 756 million yen year on year to 14,938 million yen, due to increases in land and other under property, plant and equipment, among other factors.

Liabilities as of December 31, 2023 decreased by 136 million yen year on year to 4,910 million yen, due to decreases in income taxes payable and provision for bonuses, among other factors, despite an increase in short-term borrowings.

Net assets as of December 31, 2023 increased by 892 million yen year on year to 10,028 million yen, due to an increase in retained earnings, among other factors.

(3) Explanation of Consolidated Financial Results Forecasts and Other Forward-looking Information

No change has been made to the financial results forecasts for the full year ending March 31, 2024, announced on May 10, 2023.

2. Quarterly Consolidated Financial Statements and Principal Notes

(1) Quarterly Consolidated Balance Sheets

(Thousand yen)

	As of March 31, 2023	As of December 31, 2023
Assets		
Current assets		
Cash and deposits	7,371,297	7,626,153
Trade receivables and contract asset	4,420,921	4,174,678
Merchandise	2,948	2,473
Supplies	6,397	6,406
Other	102,975	75,085
Allowance for doubtful accounts	(427)	-
Total current assets	11,904,112	11,884,796
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	374,564	365,233
Land	746,460	1,219,317
Other, net	21,919	355,572
Total property, plant and equipment	1,142,943	1,940,122
Intangible assets		
Goodwill	245,754	196,603
Software	137,156	145,916
Other	6,941	8,009
Total intangible assets	389,852	350,529
Investments and other assets		
Other	744,851	762,890
Total investments and other assets	744,851	762,890
Total non-current assets	2,277,647	3,053,542
Total assets	14,181,759	14,938,339

(Thousand yen)

	As of March 31, 2023	As of December 31, 2023
Liabilities		
Current liabilities		
Accounts payable - trade	885,608	931,459
Short-term borrowings	-	330,000
Current portion of long-term borrowings	741,676	744,412
Income taxes payable	458,257	187,258
Provision for bonuses	1,130,038	698,428
Other	1,169,550	1,407,517
Total current liabilities	4,385,131	4,299,075
Non-current liabilities		
Long-term borrowings	661,036	611,073
Total non-current liabilities	661,036	611,073
Total liabilities	5,046,167	4,910,148
Net assets		
Shareholders' equity		
Share capital	550,150	550,150
Capital surplus	517,550	517,550
Retained earnings	8,050,238	8,939,777
Treasury shares	(1,252)	(1,571)
Total shareholders' equity	9,116,686	10,005,905
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	6,545	6,681
Total accumulated other comprehensive income	6,545	6,681
Non-controlling interests	12,360	15,603
Total net assets	9,135,592	10,028,190
Total liabilities and net assets	14,181,759	14,938,339

(2) Quarterly Consolidated Statements of Income and Comprehensive Income
Quarterly Consolidated Statements of Income
Nine Months Ended December 31

(Thousand yen)

	For the nine months ended December 31, 2022	For the nine months ended December 31, 2023
Net sales	15,953,941	17,240,297
Cost of sales	12,476,439	13,315,848
Gross profit	3,477,502	3,924,449
Selling, general and administrative expenses	1,709,915	1,959,131
Operating profit	1,767,586	1,965,317
Non-operating income		
Interest income	8	9
Dividend income	390	-
Subsidy income	13,039	28,470
Other	4,037	6,468
Total non-operating income	17,475	34,948
Non-operating expenses		
Interest expenses	5,955	6,336
Other	261	3
Total non-operating expenses	6,217	6,339
Ordinary profit	1,778,844	1,993,925
Extraordinary income		
Gain on sale of investment securities	1,286	-
Total extraordinary income	1,286	-
Extraordinary losses		
Loss on retirement of non-current assets	1	58
Loss on termination of retirement benefit plan	363,811	-
Total extraordinary losses	363,813	58
Profit before income taxes	1,416,317	1,993,867
Income taxes	449,992	516,025
Profit	966,325	1,477,841
Profit attributable to non-controlling interests	2,839	3,242
Profit attributable to owners of parent	963,486	1,474,599

Quarterly Consolidated Statements of Comprehensive Income

Nine Months Ended December 31

(Thousand yen)

	For the nine months ended December 31, 2022	For the nine months ended December 31, 2023
Profit	966,325	1,477,841
Other comprehensive income		
Valuation difference on available-for-sale securities	(491)	136
Remeasurements of defined benefit plans, net of tax	(100,102)	-
Total other comprehensive income	(100,594)	136
Comprehensive income	865,731	1,477,977
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	862,891	1,474,735
Comprehensive income attributable to non-controlling interests	2,839	3,242

(3) Notes to the Quarterly Consolidated Financial Statements

(Notes on going concern assumption)

There are no relevant matters.

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

There are no relevant matters.

(Accounting policies adopted specially for the preparation of quarterly consolidated financial statements)

(Calculation of tax expenses)

The Company reasonably estimates the effective tax rate after applying tax effect accounting to profit before income taxes for the fiscal year ending March 31, 2024, and multiplies profit before income taxes for the quarter by the estimated effective tax rate. However, if the estimated effective tax rate used to calculate tax expenses would be significantly unreasonable, the normal effective statutory tax rate is used.

(Material subsequent events)

(Share split and partial amendment to the Articles of Incorporation)

At a Board of Directors meeting held on January 31, 2024, the Company has resolved to perform a share split and partially amend its Articles of Incorporation as described below.

1. Purpose of the share split

The share split aims at increasing the liquidity of the Company's shares through a reduced minimum investment amount to facilitate investment for investors and further expand the Company's investor base.

2. Overview of the share split

(1) Method

On the record date March 31, 2024, each of the Company's common shares held by shareholders listed or recorded in the closing register of shareholders on that day will be split into two shares.

(2) Increases in shares upon the share split

- Total number of issued shares before the share split	8,360,000 shares
- Increase in shares due to the share split	8,360,000 shares
- Total number of issued shares after the share split	16,720,000 shares
- Total number of authorized shares after the share split	54,400,000 shares

(3) Schedule of share split

(i) Public notice of record date	March 14, 2024
(ii) Record date	March 31, 2024
(iii) Effective date	April 1, 2024

(4) Impact on per share information

Basic earnings per share assuming that the share split was performed at the beginning of the fiscal year ended March 31, 2023 is as follows.

	For the nine months ended December 31, 2022	For the nine months ended December 31, 2023
Basic earnings per share (Yen)	57.63	88.21

3. Partial amendment to the Articles of Incorporation for the share split

(1) Reason for the amendment

In line with the above share split, pursuant to Article 184, Paragraph 2 of the Companies Act, the Company will amend the total number of authorized shares in Article 6 of its Articles of Incorporation effective April 1, 2024.

(2) Detail of the amendment

The amendment is as follows.

(Underlines indicate amended sections.)

Current Articles of Incorporation	Proposed amendment
(Total number of authorized shares) Article 6 The total number of shares authorized to be issued by the Company shall be <u>twenty-seven million and two hundred thousand (27,200,000)</u> shares.	(Total number of authorized shares) Article 6 The total number of shares authorized to be issued by the Company shall be <u>fifty-four million and four hundred thousand (54,400,000)</u> shares.

(3) Schedule of the amendment to the Articles of Incorporation

Effective date April 1, 2024

4. Other

Change in the amount of share capital

There will be no change in the amount of share capital upon this share split.

3. Other

Status of Production, Receipt of Orders, and Sales

(1) Production

The amount of production by business category for the nine months ended December 31, 2023 is as follows:

Business category	For the nine months ended December 31, 2023	
	Amount of production (million yen)	Change from the previous corresponding period (%)
SI Services Business	6,662	109.1
Software Development Business	9,814	106.8
Software Products Business	269	114.6
Other	205	135.9
Total	16,952	108.1

(Note) Amounts are presented based on sales prices.

(2) Outsourcing

The amount of outsourcing by business category for the nine months ended December 31, 2023 is as follows:

Business category	For the nine months ended December 31, 2023	
	Amount of outsourcing (million yen)	Change from the previous corresponding period (%)
SI Services Business	2,685	110.8
Software Development Business	3,986	104.9
Software Products Business	58	145.4
Other	0	74.2
Total	6,730	107.4

(3) Purchases

The amount of purchases by business category for the nine months ended December 31, 2023 is as follows:

Business category	For the nine months ended December 31, 2023	
	Amount of purchases (million yen)	Change from the previous corresponding period (%)
Merchandise Sales	233	102.0

(Note) Amounts are presented based on purchase prices.

(4) Receipt of Orders

The amount of orders received by business category for the nine months ended December 31, 2023 is as follows:

Business category	For the nine months ended December 31, 2023			
	Orders received (million yen)	Change from the previous corresponding period (%)	Backlog of orders (million yen)	Change from the previous corresponding period (%)
SI Services Business	7,401	110.0	2,718	103.9
Software Development Business	9,991	104.3	2,598	111.6
Software Products Business	264	117.5	100	109.1
Merchandise Sales	259	95.5	21	57.2
Total	17,916	106.6	5,438	107.2

(5) Sales

The amount of sales by business category for the nine months ended December 31, 2023 is as follows:

Business category	For the nine months ended December 31, 2023	
	Amount of sales (million yen)	Change from the previous corresponding period (%)
SI Services Business	6,662	109.1
Software Development Business	9,814	106.8
Software Products Business	269	114.6
Merchandise Sales	287	104.2
Other	205	135.9
Total	17,240	108.0

(Note) The amount of sales by major customer and the share of the sales in total sales are as follows:

Customer	For the nine months ended December 31, 2022		For the nine months ended December 31, 2023	
	Amount of sales (million yen)	Share (%)	Amount of sales (million yen)	Share (%)
TOYOTA SYSTEMS CORPORATION	2,306	14.4	2,687	15.5