

Summary of Financial Results for the Year Ended December 2023 [Japan GAAP] (Consolidated)

February 13, 2024

Name of Company: LTS, Inc. Stock Exchange Listing: Tokyo
 Stock Code: 6560 URL <http://lt-s.jp/en/>
 Representative: Title: President and CEO Name: Hiroaki Kabashima
 Contact Person: Title: Executive Vice President Name: Sungil Lee (Tel:) +81-3-6897-6140
 Date of regular general meeting of shareholders: March 19, 2024
 Date of commencement of dividend payment: -
 Date of filing of securities report: March 21, 2024
 Preparation of supplementary materials: Yes
 Convening of a results meeting: Yes

(Amounts less than one million are rounded down)

1. Financial results for the current fiscal year (January 1, 2023 - December 31, 2023)

(1) Operating results (consolidated) (Percentage figures represent year-on-year change)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent	
	million yen	%	million yen	%	million yen	%	million yen	%
Year ended December 2023	12,242	27.0	717	43.0	753	53.9	456	96.2
Year ended December 2022	9,637	30.7	501	-16.5	489	-15.6	232	-40.1

(Note) Comprehensive income Year ended December 2023: 439 million yen (85.0%)
 Year ended December 2022: 237 million yen (-38.4%)

	Profit per share	Profit per share fully diluted	Return on equity	Ratio of ordinary profit to assets	Ratio of operating profit to net sales
	yen	yen	%	%	%
Year ended December 2023	101.19	98.08	13.6	8.6	5.9
Year ended December 2022	55.35	53.07	8.8	9.2	5.2

(Reference) Share of loss (profit) of entities accounted for using equity method Year ended December 2023: 45 million yen
 Year ended December 2022: -3 million yen

(2) Financial position (consolidated)

	Total assets	Net assets	Capital adequacy ratio	Net assets per share
	million yen	million yen	%	yen
Year ended December 2023	11,887	3,614	29.4	775.38
Year ended December 2022	5,595	3,249	57.5	715.88

(Reference) Shareholders' equity Year ended December 2023: 3,495 million yen
 Year ended December 2022: 3,218 million yen

(3) Cash flow position (consolidated)

	Cash flows from operating activities	Cash flows from investing activities	Cash flows from financing activities	Cash and cash equivalents at end of period
	million yen	million yen	million yen	million yen
Year ended December 2023	626	-3,635	4,072	3,840
Year ended December 2022	255	-329	626	2,776

2. Dividends

	Dividend per share					Total annual dividend	Payout ratio (consolidated)	Dividends/net assets (consolidated)
	End of Q1	End of Q2	End of Q3	End of FY	Total			
	yen	yen	yen	yen	yen	million yen	%	%
Year ended December 2023	-	0	-	0	0	-	-	-
Year ended December 2022	-	0	-	0	0	-	-	-
Year ending December 2024 (forecast)	-	0	-	30.0	30.0		19.8	

3. Forecast for the fiscal year ending December 2024 (January 1, 2024 - December 31, 2024)

(Percentage figures represent year-on-year change)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent		Profit per share
	million yen	%	million yen	%	million yen	%	million yen	%	yen
Total for first six months	-	-	-	-	-	-	-	-	-
Full year	16,500	34.8	1,250	74.3	1,150	52.6	690	51.2	153.06

* Notice

- (1) Changes in main subsidiaries (Changes in specific subsidiaries accompanied by changes in the scope of consolidation): Yes
 New consolidations: 3 companies (HCS HOLDINGS CO.,LTD., HIBIYA COMPUTER SYSTEM CO.,LTD. and Isis CO.,LTD.) ;
 Exclusions: -
- (2) Changes in accounting policies, accounting estimates, and restatements
 (a) Changes in accounting policies due to revision of accounting standards: Yes
 (b) Changes in accounting policies other than those in (a) : No
 (c) Changes in accounting estimates: No
 (d) Restatements: No

(3) Number of shares outstanding (common shares)

- (a) Shares outstanding (including treasury shares) at end of period
- (b) Treasury shares at end of period
- (c) Average number of shares during period

Year ended December 2023	4,563,475 shares	Year ended December 2022	4,495,375 Shares
Year ended December 2023	55,487 shares	Year ended December 2022	- Shares
Year ended December 2023	4,509,032 shares	Year ended December 2022	4,202,400 Shares

* Quarterly financial results summaries are not subject to audit.

* Cautionary statement regarding business results forecasts and special notes

The financial forecasts and other forward-looking statements herein are based on currently available information and assumptions considered by the Company to be reasonable and do not represent a commitment from the Company that they will be achieved. Actual results may differ substantially due to various factors.

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1. Analysis of Operating Performance and Financial Position

(1) Overview of Operating Results

During the fiscal year under review, the Japanese economy showed signs of a moderate recovery as employment and income conditions improved with the subsiding of the COVID-19 pandemic. On the other hand, prolonged geopolitical risks and rising prices worldwide along with the continued monetary tightening carried out in response and concerns about the future of the Chinese economy mean that the future of the global economy remains uncertain.

In the information services industry, which is the main business domain of our Group, digital transformation (DX) initiatives are in full swing to respond to changes in the social environment. Demand for diversified project support remained steady due to the high-priority need for services to support internal reform activities, including introducing task performing robots such as AI and RPA (robotic process automation) and promoting telecommuting and other work style reform.

Under these business circumstances, the Group sought to become the “Best Partner for the Digital Era” by not only supporting individual reform projects but also providing services beyond the framework of consulting to help our customers implement change as a partner in creating people, businesses, and organizations that can respond to change and pave the way for the future. We have been developing a professional services business that offers one-stop support catered to the customer’s unique challenges and reform objectives and a platform business for solving IT personnel shortages. In our professional services business, we promoted active hiring of human resources and training activities, and we made HCS Holdings Co., Ltd. a subsidiary, thereby enhancing our ability to provide services as a group. In our platform business, we changed the name of existing service Consultant Job to Professional Hub in July 2023 and actively promoted the development of existing services with Assign Navi and Growth Company Club, which facilitates growth and collaboration among IT companies.

As a result of the above, during the fiscal year under review, we achieved net sales of ¥12,242.659 million (up 27.0% year on year), operating profit of ¥717.171 million (up 43.0% year on year), and ordinary profit of ¥753.555 million (up 53.9% year on year), and profit attributable to owners of parent of ¥456.261 million (up 96.2% year on year).

A summary of financial results by segment (net sales includes internal sales) is provided below.

(Professional Services Business)

In our professional services business, the environment surrounding our IT division is changing as corporate activities, which were restricted due to the COVID-19 pandemic, return to normal. Amid these circumstances, favorable conditions created by robust demand for DX provided a boost for us to steadily acquire traditional consulting projects (operational analysis/design, IT introduction support, onsite deployment) based on our strength of visualizing and improving operations utilizing business process management. In addition to strengthening our collaboration with FPT Japan Holdings Co., Ltd. and Yokogawa Digital Corporation as part of a capital and business alliance formed last fiscal year, we collaborated with FUNDINNO, Inc. in the area of support for system and service development and signed a partnership agreement with Apptio, which supports enhancement of IT financing. On top of actively pursuing alliances with external companies, we made HCS Holdings Co., Ltd., which has the potential to generate various synergies with the LTS Group as we provide various services in the DX domain, a subsidiary. We also participated in the 9th International Conference on Flood Management (ICFM9), exhibiting our supply chain impact visualization service using flood hazard maps, satellite data, and AI technology. Moreover, we promoted the dissemination of information externally, including activities leading to DX and Sustainability Transformation (SX) of local governments and regions through case studies in Shizuoka, Hiroshima, and Gunma Prefectures.

As a result, net sales in the professional services business came to ¥10,979.825 million (up 29.5% year on year) and segment profit (operating profit) came to ¥652.500 million (up 34.8% year on year).

(Platform Business)

In the platform business, the number of members in the Assign Navi platform, which provides business matching and a learning forum specialized for the IT industry, grew to 13,428 including both corporate and individual members as of December 31, 2023. This steady growth represents a 934-member increase over the end of the previous year. In addition to the increased results of the Assign Navi and Professional Hub matching and member services in conjunction with expansion of the membership base, we steadily expanded our platform services based on connecting IT business operators with professional human resources, including the launch of support for the introduction and operation of a subscription platform in the cloud business. Net sales were strong as a result. At the same time, we actively pursued marketing activities to expand and increase the profitability of Growth Company Club, which was launched as a members-only community for IT companies seeking to grow their own company, their customers, and the IT industry. We also strengthened our organizational structure to handle profit growth from existing services.

As a result, net sales in the platform business came to ¥1,967.791 million (up 20.7% from the previous month), and the segment profit (operating profit) came to ¥64.670 million (up 273.6% year on year).

(2) Explanation of Financial Position

Total assets at the end of the fiscal year under review were ¥11,887.560 million, up ¥6,291.835 million from the end of the previous fiscal year. This was primarily due to an ¥862.881 million increase in cash and deposits, an ¥898.456 million increase in notes receivable, accounts receivable and contract assets, a ¥1,963.200 million increase in land, an ¥877.464 million increase in goodwill, and an ¥842.211 million increase in investment securities in conjunction with making HCS Holdings Co., Ltd. a subsidiary.

Liabilities came to ¥8,273.543 million, up ¥5,927.227 million from the end of the previous fiscal year. This was primarily due to a ¥4,231.511 million increase in long-term borrowings.

Net assets amounted to ¥3,614.017 million, an increase of ¥364.608 million from the end of the previous fiscal year. This was primarily due to a ¥456.261 million increase in retained earnings, a ¥14.040 million increase in share capital, a ¥14.040 million increase in the capital surplus, and a ¥200.307 million increase in treasury shares. The equity ratio was 29.4%.

(3) Overview of Cash Flows

Cash and cash equivalents (hereinafter referred to as “funds”) at the end of the fiscal year under review totaled ¥3,840.726 million, an increase of ¥1,063.758 million year on year. Below is an overview of cash flows during the fiscal year under review and the factors involved.

(Operating Activities)

Net cash provided by operating activities amounted to ¥626.637 million. This was a result of a ¥239.867 million increase in accounts payable - other, a ¥55.328 million increase in trade payables, ¥78.657 million in depreciation, and ¥60.279 million in amortization of goodwill, despite a ¥433.765 million increase in trade receivables, and ¥142.886 million in income taxes paid.

(Investment Activities)

Net cash used in investing activities amounted to ¥3,635.089 million. This was primarily a result of a ¥3,580.924 million in purchase of shares of subsidiaries resulting in change in scope of consolidation, and a ¥160.463 million payment for lease and guarantee deposits.

(Financing Activities)

Net cash provided by financing activities amounted to ¥4,072.015 million. This was primarily a result of ¥4,600.000 million in proceeds from long-term borrowings and ¥28.080 million in proceeds from issuance of shares, despite a ¥200.307 million purchase of treasury shares and ¥385.119 million in repayments of long-term borrowings.

(4) Future Outlook

In the professional services business in the fiscal year ending December 2024, we expect to see continued business growth against a backdrop of robust demand for management digital transformation (DX). In addition to the track record we have built up with advanced digital companies, making HCS Holdings Co., Ltd. a subsidiary has helped us make progress on building a structure that enables us to provide comprehensive consulting services by bringing our consultants and engineers together. We will also continue to ramp up our collaboration with external companies, including the strategic capital and business alliances with Yokogawa Digital Corporation and FPT Japan Holdings Co., Ltd., and promote initiatives for sustainable growth over the medium to long term. While continuing to invest aggressively in the hiring and development of consultants and engineers, we will promote appropriate control of SG&A for efficient business operations. We expect this to enable steady profit growth.

In our platform business, in addition to expanding the membership base, promoting utilization, and promoting freelance consultant matching, we will work on launching a support service for IT companies to introduce a subscription platform. We aim to expand earnings in the medium to long term through the development of a community of growing IT companies and secure a certain level of profit in the platform business.

By promoting the measures above, in the next fiscal year, the Group expects to achieve net sales of ¥16,500 million (a year-on-year increase of 34.8%), operating profit of ¥1,250 million (a year-on-year increase of 74.3%), ordinary profit of ¥1,150 million (a year-on-year increase of 52.6%), and profit attributable to owners of parent of ¥690 million (a year-on-year increase of 51.2%).

The forecasts above have been prepared based on information available to us as of the day of presentation. Actual results may vary due to various factors.

2. Basic Approach to Selection of Accounting Standards

The Group prepares consolidated financial statements based on Japanese standards. We will address application of International Financial Reporting Standards (IFRS) as appropriate based on circumstances at home and abroad.

3. Consolidated Financial Statements and Main Notes

(1) Consolidated Balance Sheet

(Thousands of yen)

	Previous consolidated fiscal year (ended December 31, 2022)	Current consolidated fiscal year (ended December 31, 2023)
Assets		
Current assets		
Cash and deposits	2,982,895	3,845,776
Notes receivable, accounts receivable and contract assets	1,384,481	2,282,938
Electronically recorded monetary claims -operating	133,082	136,741
Work in process	22,497	21,179
Other	94,197	202,538
Allowance for doubtful accounts	(1,837)	(1,928)
Total current assets	4,615,316	6,487,247
Non-current assets		
Property, plant and equipment		
Buildings and structures	175,866	637,643
Accumulated depreciation	(3,775)	(21,285)
Buildings and structures, net	172,090	616,358
Tools, furniture and fixtures	224,664	286,119
Accumulated depreciation	(124,026)	(168,679)
Tools, furniture and fixtures, net	100,638	117,439
Land	–	1,963,200
Other	–	17,815
Total property, plant and equipment	272,728	2,714,812
Intangible fixed assets		
Goodwill	100,291	977,755
Software	466	91,907
Software in progress	2,423	17,648
Other	–	3,023
Total intangible fixed assets	103,180	1,090,335
Investments and other assets		
Leasehold and guarantee deposits	206,003	304,078
Deferred tax assets	176,091	221,858
Investment securities	163,724	1,005,935
Other	58,679	63,292
Total investments and other assets	604,498	1,595,165
Total non-current assets	980,407	5,400,313
Total assets	5,595,724	11,887,560

(Thousands of yen)

	Previous consolidated fiscal year (ended December 31, 2022)	Current consolidated fiscal year (ended December 31, 2023)
Liabilities		
Current liabilities		
Accounts payable - trade	780,447	926,501
Short-term borrowings	–	280,000
Current portion of long-term borrowings	273,456	901,777
Accounts payable - other	394,798	682,422
Income taxes payable	60,620	255,306
Provision for bonuses	111,496	156,817
Provision for bonuses for directors (and other officers)	4,950	12,146
Contract liabilities	20,224	42,644
Provision for loss on order received	–	16,607
Other	182,633	418,086
Total current liabilities	1,828,626	3,692,310
Non-current liabilities		
Long-term borrowings	408,760	4,011,949
Retirement benefit liabilities	107,041	123,554
Deferred tax liabilities	539	396,262
Other	1,349	49,465
Total non-current liabilities	517,689	4,581,232
Total liabilities	2,346,316	8,273,543
Net assets		
Shareholders' equity		
Share capital	728,090	742,130
Capital surplus	978,992	993,032
Retained earnings	1,510,195	1,966,457
Treasury shares	–	(200,307)
Total shareholders' equity	3,217,278	3,501,312
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	–	(7,001)
Foreign currency translation adjustment	891	1,086
Total accumulated other comprehensive income	891	(5,915)
Subscription rights to shares	26,386	75,045
Non-controlling interests	4,851	43,574
Total net assets	3,249,408	3,614,017
Liabilities and net assets	5,595,724	11,887,560

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

Consolidated statement of income

(Thousands of yen)

	Previous consolidated fiscal year (January 1, 2022 - December 31, 2022)	Current consolidated fiscal year (January 1, 2023 - December 31, 2023)
Net sales	9,637,207	12,242,659
Cost of sales	6,423,152	7,969,707
Gross profit	3,214,055	4,272,952
Selling, general and administrative expenses	2,712,628	3,555,781
Operating profit	501,426	717,171
Non-operating income		
Interest income	13	16
Dividend income	1,800	2,030
Surrender value of insurance policies	62	42
Subsidy income	1,029	15,507
Share of profit of entities accounted for using equity method	–	45,789
Rent on real estate	–	20,465
Other	600	4,476
Total non-operating income	3,506	88,328
Non-operating expenses		
Interest expenses	4,998	14,149
Foreign exchange losses	450	184
New share issuing expenses	4,588	–
Share of loss of entities accounted for using equity method	3,775	–
Real estate rental expense	–	3,508
Commission expenses	–	32,510
Other	1,563	1,590
Total non-operating expenses	15,375	51,943
Ordinary profit	489,557	753,555
Extraordinary losses		
Impairment loss	139,933	–
Other	3,668	–
Total extraordinary losses	143,601	–
Profit before income taxes	345,955	753,555
Income taxes-current	136,950	303,075
Income taxes-deferred	(28,311)	3,730
Total income taxes	108,638	306,805
Profit	237,316	446,749
Profit (loss) attributable to non-controlling interests	4,732	(9,511)
Profit attributable to owners of parent	232,584	456,261

Consolidated statement of comprehensive income

(Thousands of yen)

	Previous consolidated fiscal year (January 1, 2022 - December 31, 2022)	Current consolidated fiscal year (January 1, 2023 - December 31, 2023)
Profit	237,316	446,749
Other comprehensive income		
Valuation difference on available-for-sale securities	–	(7,001)
Foreign currency translation adjustment	464	194
Total other comprehensive income	464	(6,807)
Comprehensive income	237,781	439,942
(Breakdown)		
Comprehensive income attributable to owners of parent	233,049	449,454
Comprehensive income attributable to non-controlling interests	4,732	(9,511)

(3) Consolidated Statement of Changes in Net assets

Previous consolidated fiscal year (January 1, 2022 - December 31, 2022)

(Thousands of yen)

	Shareholders' equity				
	Share capital	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at beginning of period	575,000	507,775	1,277,611	(284,164)	2,076,223
Changes during period					
Issuance of new shares	153,090	153,090	-	-	306,180
Profit attributable to owners of parent	-	-	232,584	-	232,584
Purchase of treasury shares	-	-	-	(299,918)	(299,918)
Disposal of treasury shares	-	318,126	-	584,082	902,209
Increase (decrease) in non-controlling interests from increase in consolidated subsidiaries	-	-	-	-	-
Net changes of items other than shareholders' equity	-	-	-	-	-
Total changes during period	153,090	471,216	232,584	284,164	1,141,055
Balance at end of period	728,090	978,992	1,510,195	-	3,217,278

	Accumulated other comprehensive income			Subscription rights to shares	Non-controlling interests	Total net assets
	Valuation difference on available-for-sale securities	Foreign currency translation adjustment	Total accumulated other comprehensive income			
Balance at beginning of period	-	426	426	-	119	2,076,769
Changes during period						
Issuance of new shares	-	-	-	-	-	306,180
Profit attributable to owners of parent	-	-	-	-	-	232,584
Purchase of treasury shares	-	-	-	-	-	(299,918)
Disposal of treasury shares	-	-	-	-	-	902,209
Increase (decrease) in non-controlling interests from increase in consolidated subsidiaries	-	-	-	-	-	-
Net changes of items other than shareholders' equity	-	464	464	26,386	4,732	31,583
Total changes during period	-	464	464	26,386	4,732	1,172,639
Balance at end of period	-	891	891	26,386	4,851	3,249,408

Current consolidated fiscal year (January 1, 2023 - December 31, 2023)

(Thousands of yen)

	Shareholders' equity				
	Share capital	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at beginning of period	728,090	978,992	1,510,195	–	3,217,278
Changes during period					
Issuance of new shares	14,040	14,040	–	–	28,080
Profit attributable to owners of parent	–	–	456,261	–	456,261
Purchase of treasury shares	–	–	–	(200,307)	(200,307)
Disposal of treasury shares	–	–	–	–	–
Increase (decrease) in non-controlling interests from increase in consolidated subsidiaries	–	–	–	–	–
Net changes of items other than shareholders' equity	–	–	–	–	–
Total changes during period	14,040	14,040	456,261	(200,307)	284,033
Balance at end of period	742,130	993,032	1,966,457	(200,307)	3,501,312

	Accumulated other comprehensive income			Subscription rights to shares	Non-controlling interests	Total net assets
	Valuation difference on available-for-sale securities	Foreign currency translation adjustment	Total accumulated other comprehensive income			
Balance at beginning of period	–	891	891	26,386	4,851	3,249,408
Changes during period						
Issuance of new shares	–	–	–	–	–	28,080
Profit attributable to owners of parent	–	–	–	–	–	456,261
Purchase of treasury shares	–	–	–	–	–	(200,307)
Disposal of treasury shares	–	–	–	–	–	–
Increase (decrease) in non-controlling interests from increase in consolidated subsidiaries	–	–	–	–	48,234	48,234
Net changes of items other than shareholders' equity	(7,001)	194	(6,807)	48,658	(9,511)	32,340
Total changes during period	(7,001)	194	(6,807)	48,658	38,723	364,608
Balance at end of period	(7,001)	1,086	(5,915)	75,045	43,574	3,614,017

(4) Consolidated Statement of Cash Flows

(Thousands of yen)

	Previous consolidated fiscal year (January 1, 2022 - December 31, 2022)	Current consolidated fiscal year (January 1, 2023 - December 31, 2023)
Cash flows from operating activities		
Profit before income taxes	345,955	753,555
Depreciation	62,777	78,657
Amortization of goodwill	40,743	60,279
Increase (decrease) in allowance for doubtful accounts	(54)	21
Increase (decrease) in provision for bonuses	(42,819)	(72,439)
Increase (decrease) in provision for loss on order received	–	16,607
Impairment loss	139,933	–
Interest income and dividends received	(1,814)	(2,046)
Interest expenses	4,998	14,149
Decrease (increase) in trade receivables	(105,281)	(433,765)
Decrease (increase) in inventories	(20,125)	13,145
Increase (decrease) in trade payables	126,268	55,328
Increase (decrease) in net defined benefit liability	4,907	16,513
Increase (decrease) in accrued consumption taxes	(18,569)	66,644
Increase (decrease) in advances received	(484,702)	–
Increase (decrease) in contract liabilities	(1,505)	(2,353)
Increase (decrease) in accounts payable – other	98,825	239,867
Decrease (increase) in advance payments made	280,589	–
Share of loss (profit) of entities accounted for using equity method	3,775	(45,789)
Other, net	20,873	29,009
Subtotal	454,775	787,385
Interest and dividends received	1,814	2,046
Interest paid	(5,028)	(20,340)
Income taxes paid	(197,978)	(142,886)
Income taxes refund	1,672	433
Net cash provided by (used in) operating activities	255,254	626,637
Cash flows from investing activities		
Payments into time deposits	(3,003)	(2,803)
Proceeds from withdrawal of time deposits	3,600	203,680
Purchase of property, plant and equipment	(269,065)	(28,115)
Purchase of intangible fixed assets	(19,385)	(31,303)
Payments of leasehold and guarantee deposits	(181)	(160,463)
Proceeds from refund of leasehold and guarantee deposits	475	53,125
Income from collection of loans receivable	1,946	–
Purchase of securities	–	(1,200,000)
Proceeds from redemption of securities	–	1,200,000
Purchase of shares of subsidiaries resulting in change in scope of consolidation	–	(3,580,924)
Purchase of investment securities	(40,000)	(79,880)
Purchase of insurance funds	(9,969)	(10,911)
Proceeds from cancellation of insurance funds	5,721	2,506
Net cash provided by (used in) investing activities	(329,860)	(3,635,089)

(Thousands of yen)

	Previous consolidated fiscal year (January 1, 2022 - December 31, 2022)	Current consolidated fiscal year (January 1, 2023 - December 31, 2023)
Cash flows from financing activities		
Proceeds from short-term borrowings	–	40,000
Repayments of short-term borrowings	–	(10,000)
Proceeds from long-term borrowings	–	4,600,000
Repayments of long-term borrowings	(283,668)	(385,119)
Proceeds from issuance of shares	306,180	28,080
Proceeds from disposal of treasury shares	902,209	–
Purchase of treasury shares	(299,918)	(200,307)
Proceeds from issuance of subscription rights to shares	2,047	–
Repayments of lease obligations	–	(637)
Net cash provided by (used in) financing activities	626,850	4,072,015
Effect of exchange rate change on cash and cash equivalent	464	194
Net increase (decrease) in cash and cash equivalents	552,709	1,063,758
Cash and cash equivalents at beginning of period	2,224,258	2,776,968
Cash and cash equivalents at end of period	2,776,968	3,840,726

(5) Notes to the Consolidated Financial Statements

(Notes Related to Going Concern Assumptions)

Not applicable.

(Changes in Accounting Policies)

(Application of Implementation Guidance for the Accounting Standard for Fair Value Measurement)

The Implementation Guidance for the Accounting Standard for Fair Value Measurement (ASBJ Implementation Guidance No. 31, June 17, 2021) has been applied from the beginning of the fiscal year under review. Following the transitional treatment set forth in paragraph 27-2 of the Implementation Guidance for the Accounting Standard for Fair Value Measurement, the new accounting policy set forth in the Accounting Standard for Fair Value Measurement will be applied into the future. This has no impact on the financial statements for the fiscal year under review.

(Additional Information)

(Accounting Treatment of Corporate and Local Income Taxes or Application of Tax Effect Accounting for These Taxes)

LTS, Inc. and some subsidiaries have applied the group tax sharing system as of the fiscal year under review. The Company is following “Treatment of Accounting and Disclosure When Applying the Group Tax Sharing System” (ASBJ Practical Issues Task Force [PITF] No. 42, August 12, 2021) for accounting treatment and disclosure of corporate and local income taxes and tax effect accounting.

(Notes - Business Combinations)

Business combination through acquisition

At the Board of Directors meeting held on August 31, 2023, the Company resolved to acquire common shares of HCS Holdings Co., Ltd. through a tender offer based on the Financial Instruments and Exchange Act. The shares were purchased on October 23, 2023, and the company and its five consolidated subsidiaries were made subsidiaries of the Company. Additionally, one of its equity-method affiliates became an equity-method affiliate of the Company.

1. Overview of business combination

(1) Name of acquired company and description of business

Name of acquiree: HCS Holdings Co., Ltd.

Description of business: Establishment of management strategies for the corporate group consisting of the information services, ERP, and digital marketing businesses, development of corporate governance, optimal allocation of management resources within the group, etc.

(2) Main reason(s) for business combination

The Company and the acquiree had been looking into expanding and developing their respective businesses while engaging in complementary businesses, such as the Group’s professional services business and the acquiree’s information services, ERP, and digital marketing businesses. Through discussions with the acquiree, the Company reached the conclusion that the business combination would produce synergy and benefits, such as the establishment of a service delivery system that meets customer needs by utilizing engineers with extensive development experience and know-how from the acquiree, the provision of training and opportunities for engineers to play an active role through participation in consulting projects further upstream, and the realization of increased profitability through higher unit prices. The purpose of the business combination is to enhance the corporate value of both the Company and the acquiree by leveraging this synergy. This involves the Company making the acquiree a wholly-owned subsidiary through a tender offer, sharing management resources, collaboratively advancing projects, and employing other strategic measures.

(3) Date of business combination

October 23, 2023 (deemed acquisition date: October 1, 2023)

(4) Legal form of business combination

Cash-based acquisition of shares

(5) Name of company after business combination

No change.

(6) Percentage of voting rights acquired

100%

2. Period of acquired company's results included in consolidated financial statements

October 1 to December 31, 2023

3. Acquisition cost and type of consideration

Consideration	Cash	¥5,233.650 million
Acquisition cost		¥5,233.650 million

4. Description and amount of main expenses related to acquisition

Advisory and other expenses ¥124.683 million

5. Amount of goodwill arising from acquisition, reason for goodwill, and method and period of amortization

(1) Amount of goodwill arising from acquisition

¥937.743 million

The calculated amount of goodwill is tentative as of the end of the fiscal year under review because the specification of identifiable assets and liabilities and estimation of their fair value as of the date of the business combination are not yet complete, and the allocation of acquisition costs has not been completed due to the shortness of the period from the date of the business combination to the closing date.

(2) Reason for goodwill

Goodwill arose in relation to excess profit expected with future business development.

(3) Method and period of amortization

Amortized over a 12-year period on a straight-line basis

6. Amounts and breakdown of assets and liabilities taken over on date of business combination

Current assets	¥2,228.884 million
Non-current assets	¥3,462.762 million
(Land)	¥1,963.200 million
(Building)	¥460.363 million
Total assets	¥5,691.646 million
Current liabilities	¥772.960 million
Non-current liabilities	¥433.101 million
Total liabilities	¥1,206.062 million

7. Estimated impact of business combination on consolidated statement of income for fiscal year under review if it had been completed at beginning of fiscal year and method of calculation

Net sales ¥3,172.593 million

Operating profit ¥8.662 million

(Method of calculation)

The estimated impact is the difference between the net sales and profit and loss information calculated as if the business combination had been completed at the beginning of the fiscal year and the net sales and profit and loss information provided in the consolidated statement of income of the acquired company.

(Revenue Recognition)

Breakdown of revenue from contracts with customers

Previous fiscal year (January 1, 2022 - December 31, 2022)

(Thousands of yen)

	Reporting Segment		Total
	Professional Services Business	Platform Business	
Business Process & Technology	8,111,043	–	8,111,043
Strategy & Innovation	276,747	–	276,747
Social & Public	60,135	–	60,135
Assign Navi	–	52,471	52,471
Professional Hub	–	1,134,929	1,134,929
Growth Company Club	–	1,880	1,880
Revenue from contracts with customers	8,447,926	1,189,281	9,637,207
Net sales to unaffiliated customers	8,447,926	1,189,281	9,637,207

Current consolidated fiscal year (January 1, 2023 - December 31, 2023)

(Thousands of yen)

	Reporting Segment		Total
	Professional Services Business	Platform Business	
Business Process & Technology	10,032,877	–	10,032,877
Strategy & Innovation	766,606	–	766,606
Social & Public	123,449	–	123,449
Assign Navi	–	54,682	54,682
Professional Hub	–	1,262,364	1,262,364
Growth Company Club	–	2,680	2,680
Revenue from contracts with customers	10,922,933	1,319,726	12,242,659
Net sales to unaffiliated customers	10,922,933	1,319,726	12,242,659

(Note) Due to the redefinition of service domains for further business growth, the Company has changed the method of presentation of information that breaks down revenue from contracts with customers as of the beginning of the fiscal year under review. Information that breaks down revenue from contracts with customers for the previous fiscal year is presented based on the classification after this change.

Post-change classifications are as follows:

New classification	Details of new classification (main services)	Old classification
Business Process & Technology	Data Analytics & AI, Business Processes & Operations, Digital Transformation, and IT Service Management	Business Process Management, Consulting/Engineering, and Strategy Establishment/Digital Utilization
Strategy & Innovation	Business Strategy, Business Management, and Management Reform/Organizational Strategy	Business Process Management, Consulting/Engineering, and Strategy Establishment/Digital Utilization
Social & Public	Social Development, Public-Private Partnerships, and Sustainable Transformation	Consulting/Engineering
Assign Navi	Project, Professional, and IT Company Matching	Assign Navi
Professional Hub	Support for Advancement of Independent Consultants	Consultant Job
Growth Company Club	A membership-based community for growing IT companies, Case Study Media, and CS Survey	CS Clip

(Segment Information)

(Segment Information)

1. Overview of Reporting Segments

(1) Method of Determining Reporting Segments

The reporting segments of the Group are constituent units for which separate financial information is available and that are subject to periodic review by the Board of Directors to determine the allocation of management resources and assess their respective operating results.

The Group provides a wide range of services centered on business process management (business integration). Business segment composition takes into account the service domains and form of provision, so our reporting segments are the professional services business and the platform business.

(2) Types of Products and Services in Each Reporting Segment

In the professional services business, we provide services primarily in the Business Process & Technology, Strategy & Innovation, and Social & Public domains.

The platform business consists mainly of the services of Assign Navi, an IT business community, Professional Hub, which specializes in matching independent consultants, and Growth Company Club, which matches operating companies with DX companies.

On October 23, 2023, the Company acquired the shares of HCS Holdings Co., Ltd., making it a subsidiary of the Company along with its consolidated subsidiaries. They are included in the scope of consolidation and have been added to the professional services business as of the fiscal year under review.

2. Method Used for Calculating Net Sales, Profit, Loss, Assets, Liabilities, and Other Items for Each Reporting Segment

Accounting treatment of the reported business segments is, for the most part, as set forth in “Notes - Significant accounting policies for preparation of consolidated financial statements.” Figures for reporting segment profit are based on operating profit. Intersegment transactions are priced in accordance with prevailing market prices.

3. Information Regarding Amounts of Net Sales, Profit, Loss, Assets, Liabilities, and Other Items for Each Reporting Segment

Previous fiscal year (January 1, 2022 - December 31, 2022)

(Thousands of yen)

	Reporting Segment			Adjustment	Total Shown in Consolidated Financial Statement *1
	Professional Services Business	Platform Business	Total		
Net sales					
Net sales to unaffiliated customers	8,447,926	1,189,281	9,637,207	–	9,637,207
Transactions with other segments	32,903	440,461	473,365	(473,365)	–
Total	8,480,829	1,629,742	10,110,572	(473,365)	9,637,207
Segment profit	484,115	17,310	501,426	–	501,426
Segment assets	5,380,143	215,581	5,595,724	–	5,595,724
Other items					
Depreciation	47,229	15,548	62,777	–	62,777
Amortization of goodwill	40,743	–	40,743	–	40,743
Equity in losses of affiliates	3,775	–	3,775	–	3,775
Extraordinary losses	–	–	–	–	–
(Impairment loss)	–	139,933	139,933	–	139,933
(Other)	3,668	–	3,668	–	3,668
Increase in property, plant and equipment and intangible fixed assets	269,091	19,385	288,476	–	288,476

Note: Segment profit is reconciled to operating profit presented in the consolidated income statement.

Current consolidated fiscal year (January 1, 2023 - December 31, 2023)

(Thousands of yen)

	Reporting Segment			Adjustment	Total Shown in Consolidated Financial Statement *1
	Professional Services Business	Platform Business	Total		
Net sales					
Net sales to unaffiliated customers	10,922,933	1,319,726	12,242,659	–	12,242,659
Transactions with other segments	56,892	648,065	704,957	(704,957)	–
Total	10,979,825	1,967,791	12,947,617	(704,957)	12,242,659
Segment profit	652,500	64,670	717,171	–	717,171
Segment assets	11,595,222	292,338	11,887,560	–	11,887,560
Other items					
Depreciation	77,282	1,374	78,657	–	78,657
Amortization of goodwill	60,279	–	60,279	–	60,279
Equity in earnings of affiliates	45,789	–	45,789	–	45,789
Increase in property, plant and equipment and intangible fixed assets	36,387	33,709	70,097	–	70,097

*1. Segment profit is reconciled to operating profit presented in the consolidated income statement.

*2. The increase in property, plant and equipment and intangible fixed assets does not include the increase from the acquisition of HCS Holdings Co., Ltd. and its consolidated subsidiaries in October 2023.

(Related Information)

Previous consolidated fiscal year (January 1, 2022 - December 31, 2022)

1. Information for Each Product or Service

Information for each product and service has been omitted because the same information is disclosed within segment information.

2. Information for Each Region

(1) Net sales

Net sales to unaffiliated customers in Japan account for more than 90% of net sales in the consolidated statement of income, so this information has been omitted.

(2) Property, plant and equipment

The Group has no property, plant and equipment outside of Japan, so this does not apply.

3. Information for Each Major Customer

(Thousands of yen)

Name of Customer	Net sales	Relevant Segment
FamilyMart Co., Ltd.	946,015	Professional services business

Current consolidated fiscal year (January 1, 2023 - December 31, 2023)

1. Information for Each Product or Service

Information for each product and service has been omitted because the same information is disclosed within segment information.

2. Information for Each Region

(1) Net sales

Net sales to unaffiliated customers in Japan account for more than 90% of net sales in the consolidated statement of income, so this information has been omitted.

(2) Property, plant and equipment

The Group has no property, plant and equipment outside of Japan, so this does not apply.

3. Information for Each Major Customer

(Thousands of yen)

Name of Customer	Net sales	Relevant Segment
FamilyMart Co., Ltd.	1,315,358	Professional services business

(Impairment Loss on Non-current Assets for Each Reporting Segment)

Previous consolidated fiscal year (January 1, 2022 - December 31, 2022)

An impairment loss on software has been recorded in "Platform." The amount of the impairment loss was ¥139.933 million.

Current consolidated fiscal year (January 1, 2023 - December 31, 2023)

Not applicable.

(Amortization and Unamortized Balance of Goodwill for Each Reporting Segment)

Previous consolidated fiscal year (January 1, 2022 - December 31, 2022)

	Reporting Segment			Adjustment	Total Shown in Consolidated Financial Statement
	Professional Services Business	Platform Business	Total		
Depreciation	40,743	–	40,743	–	40,743
Balance at end of period	100,291	–	100,291	–	100,291

Current consolidated fiscal year (January 1, 2023 - December 31, 2023)

	Reporting Segment			Adjustment	Total Shown in Consolidated Financial Statement
	Professional Services Business	Platform Business	Total		
Depreciation	60,279	–	60,279	–	60,279
Balance at end of period	977,755	–	977,755	–	977,755

(Gain on Negative Goodwill for Each Reporting Segment)

Previous consolidated fiscal year (January 1, 2022 - December 31, 2022)

Not applicable.

Current consolidated fiscal year (January 1, 2023 - December 31, 2023)

Not applicable.

(Per Share Information)

	Previous consolidated fiscal year (January 1, 2022 - December 31, 2022)	Current consolidated fiscal year (January 1, 2023 - December 31, 2023)
Net assets per share	715.88 yen	775.38 yen
Profit per share	55.35 yen	101.19 yen
Profit per share fully diluted	53.07 yen	98.08 yen

*1. The basis for calculating profit per share and profit per share fully diluted is provided below.

Item	Previous consolidated fiscal year (January 1, 2022 - December 31, 2022)	Current consolidated fiscal year (January 1, 2023 - December 31, 2023)
Profit per share		
Profit attributable to owners of parent	232,584	456,261
Income not attributable to common shareholders (thousands of yen)	—	—
Profit attributable to owners of parent associated with common shares (thousands of yen)	232,584	456,261
Average number of shares during period	4,202,400	4,509,032
Profit per share fully diluted		
Adjusted profit attributable to owners of parent (thousands of yen)	—	—
Increase in common shares	180,393	142,757
(Stock acquisition rights)	(180,393)	(142,757)
Overview of potentially dilutive shares not included in calculation of profit per share fully diluted due to anti-dilutive effect	2 types of stock acquisition rights (118,600 common shares)	2 types of stock acquisition rights (118,400 common shares)

*2. The basis for calculating net assets per share is provided below.

Item	Previous consolidated fiscal year (ended December 31, 2022)	Current consolidated fiscal year (ended December 31, 2023)
Total net assets (thousands of yen)	3,249,408	3,614,017
Amount deducted from total net assets (thousands of yen)	31,238	118,620
Net assets associated with common shares at end of period (thousands of yen)	3,218,170	3,495,397
Number of common shares at end of period used for calculation of net assets per share	4,495,375	4,507,988

(Significant Subsequent Events)

Not applicable.