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Consolidated Financial Results for the Six Months Ended July 31, 2024 [Japanese GAAP]



September 11, 2024

Company name: NEOJAPAN Inc.

Stock exchange listing: Tokyo Stock Exchange

Code number: 3921

URL: <https://www.neo.co.jp/en/>

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Scheduled date of filing semi-annual securities report: September 11, 2024

Scheduled date of commencing dividend payments: October 4, 2024

Preparation of supplementary materials on financial results: Yes

Schedule of financial results briefing session: Scheduled (for analysts and institutional investors (online))

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

1. Consolidated Financial Results for the Six Months Ended July 31, 2024 (February 1, 2024–July 31, 2024)

(1) Consolidated Operating Results (% 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 | % |
| Six months ended July 31, 2024 | 3,366 | 4.4 | 847 | 40.8 | 896 | 38.4 | 602 | 25.0 |
| July 31, 2023 | 3,224 | 9.8 | 602 | (1.3) | 647 | (5.8) | 481 | 4.1 |

(Note) Comprehensive income: Six months ended July 31, 2024: ¥631 million [33.5%]

Six months ended July 31, 2023: ¥473 million [(7.2)%]

| | Basic earnings per share | | Diluted earnings per share | |
|--------------------------------|--------------------------|--|----------------------------|--|
| | Yen | | Yen | |
| Six months ended July 31, 2024 | 42.49 | | 42.40 | |
| July 31, 2023 | 32.43 | | 32.37 | |

(2) Consolidated Financial Position

| | Total assets | Net assets | Equity ratio |
|------------------------|--------------|-------------|--------------|
| | Million yen | Million yen | % |
| As of July 31, 2024 | 8,236 | 5,689 | 69.0 |
| As of January 31, 2024 | 8,622 | 6,339 | 73.4 |

(Reference) Equity: As of July 31, 2024: ¥5,682 million

As of January 31, 2024: ¥6,332 million

2. Dividends

| | Annual dividends | | | | |
|--|------------------|-----------------|-----------------|----------|-------|
| | 1st quarter-end | 2nd quarter-end | 3rd quarter-end | Year-end | Total |
| | Yen | Yen | Yen | Yen | Yen |
| Fiscal year ended January 31, 2024 | – | 0.00 | – | 23.00 | 23.00 |
| Fiscal year ending January 31, 2025 | – | 14.00 | | | |
| Fiscal year ending January 31, 2025 (Forecast) | | | – | 14.00 | 28.00 |

(Note) Revision to the dividend forecast announced most recently: None

3. Consolidated Financial Results Forecast for the Fiscal Year Ending January 31, 2025 (February 1, 2024–January 31, 2025)

(% indicates changes from the previous corresponding period.)

| | Net sales | | Operating profit | | Ordinary profit | | Profit attributable to owners of parent | | Basic earnings per share |
|-----------|-------------|-----|------------------|------|-----------------|------|---|------|--------------------------|
| Full year | Million yen | % | Million yen | % | Million yen | % | Million yen | % | Yen |
| | 7,037 | 6.4 | 1,605 | 23.8 | 1,619 | 17.8 | 1,098 | 14.8 | 78.55 |

(Note) Revision to the financial results forecast announced most recently: None

* We have implemented price revisions, etc. for our cloud services since September 1, 2024, and expect that these revisions will have a positive impact on consolidated financial results for the fiscal year ending January 31, 2025. However, since it is difficult to reliably calculate the impact on the consolidated financial results forecast at this time, we have left unchanged the forecast announced before. For details, please refer to “1. Qualitative Information on Semi-annual Financial Results (3) Explanation of Consolidated Financial Results Forecast and Other Forward-looking Information” on page 6 of the attached materials.

* Notes:

(1) Significant changes in the scope of consolidation during the period under review: Yes

Newly included: 1 company (NEOPhilippine Tech Inc.), Excluded: – ()

(2) Accounting methods adopted particularly for the preparation of semi-annual 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 and outstanding shares (common shares)

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

July 31, 2024: 14,068,400 shares

January 31, 2024: 14,914,800 shares

2) Total number of treasury shares at the end of the period:

July 31, 2024: 79,182 shares

January 31, 2024: 85,565 shares

3) Average number of shares during the period:

Six months ended July 31, 2024: 14,177,738 shares

Six months ended July 31, 2023: 14,860,568 shares

* These semi-annual consolidated financial results are outside the scope of review by certified public accountants or an audit firm.

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

The earnings forecasts and other forward-looking statements herein are based on information currently available to the Group and certain premises that the Group deems to be reasonable, and are not guarantees of future performance. Actual results may differ significantly from these forecasts due to a wide range of factors.

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1. Qualitative Information on Semi-annual Financial Results

(1) Explanation of Operating Results

The Japanese economy in the six months ended July 31, 2024 continued on the gradual path to recovery against a backdrop of improving corporate earnings, employment and income. The economy is expected to continue its gradual recovery; however, there are certain factors which require noting, including rising prices, the situation in the Middle East, and trends in financial markets.

The IT industry, to which the Group belongs, continues to witness an increase in software investment, and is expected to continue to see solid investments in IT on the back of corporate earnings improvement and labor shortages, among other factors.

Under such circumstances, in March 2024, we improved our mobile apps and released desknet's NEO version 8.5, which added 14 new functions and 80 items, including compatibility with Teams. We also made a wholesale revamp of the mobile app for the business chat tool ChatLuck, which became available in April 2024.

In May 2024, we began operation of a system for evacuation security plans and a system for evacuation drills utilizing our products (desknet's NEO and AppSuite), following the implementation of demonstration experiments of the systems in the "YOKOHAMA Hack!" project, which promotes digital transformation of administrative services by utilizing digital technology from the private sector and has been implemented by the City of Yokohama since the previous fiscal year, as part of "strengthening measures for evacuation security plans to ensure the safety of users of facilities requiring special consideration." Going forward, we will contribute to disaster prevention and reduction by recommending the introduction of the system for evacuation security plans to local governments throughout Japan.

In June 2024, desknet's NEO and ChatLuck received four awards across two categories in the BOXIL SaaS AWARD Summer 2024, which recognizes the most valued SaaS of the moment and is organized by SMARTCAMP Co., Ltd. ChatLuck received the highest rankings for satisfaction in functionality and for customization in the service evaluation by word of mouth. In July 2024, our three principal products (desknet's NEO, AppSuite, and ChatLuck) were awarded "LEADER," the highest award, across four categories, in the ITreview Grid Award 2024 Summer, organized by IT product comparison and review website ITreview. Now desknet's NEO has received the award 21 consecutive times since 2019.

Also in June 2024, the Company was certified as a digital transformation (DX)-certified operator based on the DX Certification initiative established by the Ministry of Economy, Trade and Industry. We will continue striving to achieve both economic development and solutions to social issues by supporting our customers' new work styles and digitalization through the making of excellent products.

In addition, we have concluded a sub-license agreement for FanVoice AI, a service offered by a U.S. company FanKave Inc., and started providing the service in Japan in March 2024. This is the first instance where we made locally offered service available for sale in Japan, a feat achieved through the market research activities of our U.S. subsidiary.

Furthermore, in April 2024, we established a subsidiary company in the Philippines, the third ASEAN country in which we now have a subsidiary company. We will strive to expand sales of our products and services in the Philippines, a country expected to see strong economic growth and to have higher demand by local businesses for solutions to help transition to IT infrastructures.

As a result, for the six months ended July 31, 2024, the Company posted net sales of ¥3,366,193 thousand (up 4.4% year on year), operating profit of ¥847,915 thousand (up 40.8% year on year), ordinary profit of ¥896,559 thousand (up 38.4% year on year), and profit attributable to owners of parent of ¥602,371 thousand (up 25.0% year on year).

Operating results for the six months ended July 31, 2024 by segment are as follows.

(Software business)

The status by business sector is indicated as follows.

| Business sector | For the six months ended July 31, 2023 | | For the six months ended July 31, 2024 | | |
|---------------------------|--|--------------------------|--|--------------------------|------------|
| | Net sales (Thousand yen) | Percentage breakdown (%) | Net sales (Thousand yen) | Percentage breakdown (%) | Change (%) |
| Cloud services | 1,446,607 | 64.4 | 1,541,880 | 65.4 | 6.6 |
| Packaged products | 763,127 | 34.0 | 777,638 | 33.0 | 1.9 |
| Technological development | 35,220 | 1.6 | 39,000 | 1.6 | 10.7 |
| Total | 2,244,955 | 100.0 | 2,358,518 | 100.0 | 5.1 |

1) Cloud services

Net sales by principal cloud service are as follows.

| | For the six months ended July 31, 2023 | For the six months ended July 31, 2024 | Change (Thousand yen) | Change (%) |
|--|--|--|-----------------------|------------|
| | Net sales (Thousand yen) | Net sales (Thousand yen) | | |
| desknet's NEO cloud | 1,202,065 | 1,289,084 | 87,019 | 7.2 |
| AppSuite cloud | 82,336 | 107,531 | 25,195 | 30.6 |
| ChatLuck cloud | 35,669 | 39,868 | 4,198 | 11.8 |
| Other monthly recurring revenue | 100,544 | 91,154 | (9,389) | (9.3) |
| Total monthly recurring revenue | 1,420,615 | 1,527,639 | 107,024 | 7.5 |
| Other services, etc. | 25,991 | 14,240 | (11,750) | (45.2) |
| Cloud services total | 1,446,607 | 1,541,880 | 95,273 | 6.6 |

Net sales of desknet's NEO cloud for the six months ended July 31, 2024 increased by ¥87,019 thousand year on year to ¥1,289,084 thousand (up 7.2% year on year), due to an increase in the number of users, and were generally in line with the initial plan. However, in projects with 300 or less users, the average unit price per project was about 70% of the price in the same period of the previous fiscal year, despite an increase in the number of orders, and the average number of users of the service is 84 users per company. Although the monthly churn rate (*1) is 0.35%, with no particular signs of an increase seen even after we announced a price revision for September 2024 onward, we will continue working to keep the rate at a low level. Net sales of AppSuite cloud increased by ¥25,195 thousand year on year, increasing again by over 30% year on year to ¥107,531 thousand (up 30.6% year on year), due to an increase in the number of users. As of July 31, 2024, the number of users of the service accounted for about 12% of the number of desknet's NEO cloud users. Regarding the set plan for combined use with desknet's NEO cloud, which will be introduced in September 2024, as the price setting will make it easy to also use AppSuite cloud, we will strive to make the plan more appealing and increase the number of users. Net sales of ChatLuck cloud increased by ¥4,198 thousand year on year to ¥39,868 thousand (up 11.8% year on year). Although this accounts for a small proportion of overall net sales, growth is expected in the field. We will therefore strive to expand the number of ChatLuck users who also use desknet's NEO by continuously working to enhance functions. Other monthly recurring revenue decreased by ¥9,389 thousand year on year to ¥91,154 thousand (down 9.3% year on year), primarily due to the impact of the termination of a service provided by the Company. Net sales of other services, etc. decreased by ¥11,750 thousand year on year to ¥14,240 thousand (down 45.2% year on year). This was primarily due to a reduction in sales of data migration services.

As a result, the overall net sales of cloud services increased by ¥95,273 thousand year on year to ¥1,541,880

thousand (up 6.6% year on year).

(*1) The churn rate for desknet's NEO cloud users is calculated by averaging the figures of "amount of MRR (*2) decreased during a month caused by cancellation of the service ÷ MRR at the end of the previous month" for the six months ended July 31, 2024.

(*2) MRR (Monthly Recurring Revenue) is calculated based on the monthly charge for continuously billed users as of the end of the target month or the total amount of 1/12 of the annual charge.

2) Packaged products

Net sales by principal packaged product are as follows.

| | For the six months ended July 31, 2023 | For the six months ended July 31, 2024 | Change (Thousand yen) | Change (%) |
|--------------------------------|---|---|--------------------------|---------------|
| | Net sales (Thousand yen) | Net sales (Thousand yen) | | |
| desknet's NEO (*1) | 109,668 | 84,822 | (24,846) | (22.7) |
| AppSuite | 59,945 | 38,450 | (21,495) | (35.9) |
| ChatLuck | 29,581 | 18,348 | (11,233) | (38.0) |
| Other license sales | 4,615 | 5,533 | 917 | 19.9 |
| Total license sales | 203,811 | 147,154 | (56,657) | (27.8) |
| Support | 415,361 | 452,860 | 37,498 | 9.0 |
| Customization | 69,198 | 47,045 | (22,153) | (32.0) |
| Other services, etc. | 74,756 | 130,578 | 55,822 | 74.7 |
| Packaged products total | 763,127 | 777,638 | 14,510 | 1.9 |

(*1) Following the change to the licensing system in February 2024, desknet's NEO Enterprise license and desknet's NEO Small license, which were reported separately up until the previous period, have been reclassified to desknet's NEO.

Net sales of desknet's NEO license decreased by ¥24,846 thousand year on year to ¥84,822 thousand (down 22.7% year on year), a figure about 14% lower than the value in the initial plan, due mainly to a reduction in new and additional licenses for less than 1,000 users, although net sales of new licenses for 1,000 users or more remained roughly in line with the previous fiscal year. Regarding the particularly significant decrease of ¥15,310 thousand in net sales of new and additional licenses for 300 or less users, we believe that the change to the licensing system implemented at the beginning of the current fiscal year has had the effect of expanding the price increase compared with the previous price of the Small license.

AppSuite license and ChatLuck license are often purchased simultaneously with desknet's NEO license. Net sales of AppSuite license decreased by ¥21,495 thousand year on year to ¥38,450 thousand (down 35.9% year on year), a figure about 13% lower than the value in the initial plan. This was due mainly to a decline in the number of large-sized projects; more specifically, the number of new licenses for 5,000 users or more decreased by six year on year, while the number of new licenses for 1,000 users or more decreased by three year on year. Net sales of ChatLuck license decreased by ¥11,233 thousand year on year to ¥18,348 thousand (down 38.0% year on year). As with AppSuite licenses, this was due mainly to a decline in the number of large-sized projects, for example, the number of new licenses for 5,000 users or more decreased by three year on year. However, the net sales were significantly higher than the value in the initial plan due mainly to additional installations for government agencies.

Net sales of customization decreased by ¥22,153 thousand year on year to ¥47,045 thousand (down 32.0% year on year) mainly because of a year-on-year decrease in the number of mid-sized projects. Net sales of support increased by ¥37,498 thousand year on year to ¥452,860 thousand (up 9.0% year on year), mainly because net sales of support for desknet's NEO increased by ¥21,669 thousand year on year to ¥371,622 thousand (up 6.2%

year on year). Net sales of other services, etc. increased by ¥55,822 thousand year on year to ¥130,578 thousand (up 74.7% year on year), mainly because sales and services of other companies' ID integrated management systems increased.

As a result, the overall net sales of packaged products increased by ¥14,510 thousand year on year to ¥777,638 thousand (up 1.9% year on year).

3) Technological development

Our policy is not to actively accept development contracts. Net sales of technological development increased by ¥3,780 thousand year on year to ¥39,000 thousand (up 10.7% year on year). This was mainly because of the sales associated with ongoing projects from the past.

As a result, the software business posted net sales of ¥2,358,518 thousand (up 5.1% year on year) and segment profit of ¥877,254 thousand (up 56.0% year on year).

(System development service business)

The system development service business consists of businesses operated by our subsidiary, Pro-SPIRE Inc., develops engineers based on the cloud integration and system integration know-how it cultivated over the years, and mainly provides system engineering services that meet new customer needs by taking advantage of cutting-edge technologies.

For the six months ended July 31, 2024, net sales remained roughly in line with the previous fiscal year. Cost of sales increased by ¥5,910 thousand overall, due mainly to an increase in outsourcing expenses associated with the increase in net sales and an increase in salary expenses resulting from the increased number of personnel and a raise in salaries, despite a year-on-year decrease of ¥11,220 thousand in bonuses and provision for bonuses recorded in cost of sales, which was mainly the result of reforms to the salary and bonus system (review of bonus allocation for the first and second halves). Selling, general and administrative expenses increased by ¥2,144 thousand due to an increase in personnel expenses.

As a result, the system development service business posted net sales of ¥1,003,040 thousand (up 1.1% year on year) and segment profit of ¥30,917 thousand (up 8.3% year on year).

(Overseas business)

The overseas business consists of businesses of four overseas subsidiaries, which include selling desknet's NEO license and providing cloud services to local companies. Further, NEOPhilippine Tech Inc., which was newly established in the Philippines in April 2024, began operations on April 23, 2024.

The main products sold in the ASEAN region are desknet's NEO and AppSuite. In Malaysia and Thailand, we are making efforts such as training our sales staff to enhance their sales capabilities, raising awareness of our products and services on a local level by opening booths at exhibitions, and developing new local sales agents. With regard to our ASEAN subsidiaries (Malaysia and Thailand), we continue to focus our efforts on marketing activities for a steady accumulation of recurring sales. In the U.S., we continue to be engaged in contract development of new services, which were transferred from our U.S. subsidiary to the Company and are currently under development.

As a result, the overseas business posted net sales of ¥54,920 thousand (down 20.4% year on year) and segment loss of ¥61,586 thousand (segment profit of ¥7,593 thousand for the same period of the previous fiscal year).

(2) Explanation of Financial Position

[1] Status of assets, liabilities, and net assets

(Assets)

Total assets as of July 31, 2024 decreased by ¥386,534 thousand from the end of the previous fiscal year to ¥8,236,420 thousand. This was mainly due to decreases of ¥647,586 thousand in cash and deposits resulting mainly from the purchase of treasury shares in March 2024, dividends paid, and income taxes paid, and of ¥343,009 thousand in other under current assets resulting mainly from a decrease in accounts receivable – other associated with the sale of investment securities, while securities and investment securities increased by ¥521,772 thousand resulting primarily from the purchase of new bonds (corporate bonds).

(Liabilities)

Total liabilities as of July 31, 2024 increased by ¥263,987 thousand from the end of the previous fiscal year to ¥2,547,121 thousand. This was mainly due to an increase of ¥59,952 thousand in income taxes payable, in addition to an increase of ¥185,169 thousand in contract liabilities for cloud services, etc.

(Net assets)

Total net assets as of July 31, 2024 decreased by ¥650,521 thousand from the end of the previous fiscal year to ¥5,689,299 thousand. This was mainly due to a recording of ¥602,371 thousand in profit attributable to owners of parent, while retained earnings decreased by ¥622,886 thousand in total as a result of the payment of a dividend of surplus of ¥341,072 thousand and a decrease of ¥884,184 thousand in retained earnings due to cancellation of treasury shares.

[2] Status of cash flows

Cash and cash equivalents (hereinafter referred to as “cash”) as of July 31, 2024 were ¥4,532,245 thousand, a decrease of ¥707,969 thousand compared with the end of the previous fiscal year.

The status of cash flows and their factors in the six months ended July 31, 2024 are as follows.

(Cash flows from operating activities)

Cash provided by operating activities amounted to ¥937,271 thousand. This was mainly due to an increase of cash resulting from the recording of profit before income taxes of ¥896,559 thousand, an increase of ¥185,133 thousand in contract liabilities, and the recording of depreciation of ¥120,706 thousand, despite a decrease of cash resulting from income taxes paid of ¥236,211 thousand.

(Cash flows from investing activities)

Cash used in investing activities amounted to ¥361,243 thousand. This was mainly due to a decrease of cash resulting from outflows caused by purchase of investment securities of ¥537,499 thousand, purchase of intangible assets of ¥149,798 thousand, and payment of leasehold and guarantee deposits of ¥41,240 thousand.

(Cash flows from financing activities)

Cash used in financing activities amounted to ¥1,292,231 thousand. This was mainly due to dividends paid of ¥341,023 thousand and purchase of treasury shares of ¥951,199 thousand.

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

The Company has made no changes to the full-year consolidated financial results forecast announced in “Consolidated Financial Results for the Fiscal Year Ended January 31, 2024 [Japanese GAAP]” dated March 13, 2024. However, as stated in “Notice of Price Revision for Groupware Desknet’s NEO Cloud” announced on April 16, 2024, the Company has begun revising prices of previous plans and sales of new set plans on September 1, 2024. As a result, although we expect a positive effect on the consolidated financial results for the fiscal year ending January 31, 2025, it is difficult to provide any reliable calculation of the impact on the consolidated financial results forecast at this time, as this is the first price increase for desknet’s NEO cloud since sales of the product began in February 2013. Therefore, we have made no changes to the existing consolidated financial results forecast, but we will provide notification of any matters that should be disclosed promptly upon their occurrence.

2. Semi-annual Consolidated Financial Statements and Principal Notes

(1) Semi-annual Consolidated Balance Sheets

(Thousand yen)

| | As of January 31, 2024 | As of July 31, 2024 |
|---|------------------------|---------------------|
| Assets | | |
| Current assets | | |
| Cash and deposits | 5,209,119 | 4,561,532 |
| Accounts receivable and contract assets | 708,131 | 729,574 |
| Securities | 195,198 | 138,415 |
| Supplies | 2,644 | 2,411 |
| Other | 481,472 | 138,463 |
| Allowance for doubtful accounts | (1,508) | (1,501) |
| Total current assets | 6,595,058 | 5,568,896 |
| Non-current assets | | |
| Property, plant and equipment | 48,076 | 45,379 |
| Intangible assets | | |
| Goodwill | 78,377 | 71,461 |
| Other | 302,344 | 338,334 |
| Total intangible assets | 380,722 | 409,795 |
| Investments and other assets | | |
| Investment securities | 1,027,093 | 1,605,648 |
| Other | 572,323 | 607,210 |
| Allowance for doubtful accounts | (319) | (510) |
| Total investments and other assets | 1,599,097 | 2,212,348 |
| Total non-current assets | 2,027,896 | 2,667,523 |
| Total assets | 8,622,954 | 8,236,420 |

(Thousand yen)

| | As of January 31, 2024 | As of July 31, 2024 |
|---|------------------------|---------------------|
| Liabilities | | |
| Current liabilities | | |
| Accounts payable - trade | 156,793 | 156,075 |
| Income taxes payable | 248,057 | 308,009 |
| Contract liabilities | 1,033,370 | 1,218,539 |
| Provision for bonuses | 105,341 | 95,381 |
| Other | 340,892 | 368,303 |
| Total current liabilities | 1,884,455 | 2,146,309 |
| Non-current liabilities | | |
| Retirement benefit liability | 371,099 | 373,253 |
| Other | 27,579 | 27,557 |
| Total non-current liabilities | 398,678 | 400,811 |
| Total liabilities | 2,283,133 | 2,547,121 |
| Net assets | | |
| Shareholders' equity | | |
| Share capital | 297,161 | 297,455 |
| Capital surplus | 334,566 | 287,455 |
| Retained earnings | 5,706,096 | 5,083,210 |
| Treasury shares | (77,482) | (87,481) |
| Total shareholders' equity | 6,260,342 | 5,580,639 |
| Accumulated other comprehensive income | | |
| Valuation difference on available-for-sale securities | 53,282 | 84,279 |
| Foreign currency translation adjustment | 18,913 | 17,097 |
| Total accumulated other comprehensive income | 72,195 | 101,377 |
| Non-controlling interests | 7,282 | 7,282 |
| Total net assets | 6,339,821 | 5,689,299 |
| Total liabilities and net assets | 8,622,954 | 8,236,420 |

(2) Semi-annual Consolidated Statements of Income and Comprehensive Income
Semi-annual Consolidated Statements of Income

(Thousand yen)

| | For the six months ended July 31, 2023 | For the six months ended July 31, 2024 |
|--|---|---|
| Net sales | 3,224,896 | 3,366,193 |
| Cost of sales | 1,459,652 | 1,500,397 |
| Gross profit | 1,765,244 | 1,865,795 |
| Selling, general and administrative expenses | 1,163,097 | 1,017,880 |
| Operating profit | 602,147 | 847,915 |
| Non-operating income | | |
| Interest income | 18,965 | 34,842 |
| Gain on sale of securities | 17,686 | 3,904 |
| Foreign exchange gains | 7,809 | 5,901 |
| Other | 3,773 | 8,034 |
| Total non-operating income | 48,235 | 52,683 |
| Non-operating expenses | | |
| Interest expenses | 17 | 18 |
| Loss on investments in investment partnerships | 2,621 | 1,397 |
| Organization expenses | – | 2,513 |
| Other | 17 | 109 |
| Total non-operating expenses | 2,656 | 4,039 |
| Ordinary profit | 647,725 | 896,559 |
| Extraordinary income | | |
| Gain on sale of non-current assets | 4,375 | – |
| Gain on redemption of investment securities | 38,463 | – |
| Total extraordinary income | 42,838 | – |
| Profit before income taxes | 690,564 | 896,559 |
| Income taxes | 211,073 | 294,187 |
| Profit | 479,490 | 602,371 |
| Loss attributable to non-controlling interests | (2,444) | – |
| Profit attributable to owners of parent | 481,935 | 602,371 |

Semi-annual Consolidated Statements of Comprehensive Income

(Thousand yen)

| | For the six months ended July 31, 2023 | For the six months ended July 31, 2024 |
|--|---|---|
| Profit | 479,490 | 602,371 |
| Other comprehensive income | | |
| Valuation difference on available-for-sale securities | (8,806) | 30,997 |
| Foreign currency translation adjustment | 2,409 | (1,816) |
| Total other comprehensive income | (6,396) | 29,181 |
| Comprehensive income | 473,093 | 631,552 |
| Comprehensive income attributable to | | |
| Comprehensive income attributable to owners of parent | 475,561 | 631,552 |
| Comprehensive income attributable to non-controlling interests | (2,467) | – |

(3) Semi-annual Consolidated Statements of Cash Flows

(Thousand yen)

| | For the six months ended July 31, 2023 | For the six months ended July 31, 2024 |
|--|---|---|
| Cash flows from operating activities | | |
| Profit before income taxes | 690,564 | 896,559 |
| Depreciation | 119,971 | 120,706 |
| Amortization of goodwill | 6,915 | 6,915 |
| Increase (decrease) in allowance for doubtful accounts | 324 | 184 |
| Increase (decrease) in provision for bonuses | 42,372 | (9,959) |
| Increase (decrease) in retirement benefit liability | (3,496) | 2,154 |
| Interest and dividend income | (18,965) | (34,842) |
| Interest expenses | 17 | 18 |
| Foreign exchange losses (gains) | (8,546) | (5,757) |
| Loss (gain) on sale of securities | (17,686) | (3,904) |
| Loss (gain) on investments in investment partnerships | 2,621 | 1,397 |
| Loss (gain) on redemption of investment securities | (38,463) | – |
| Loss (gain) on sale and retirement of non-current assets | (4,375) | – |
| Surrender value of insurance policies | (655) | – |
| Decrease (increase) in trade receivables and contract assets | (9,005) | (21,373) |
| Decrease (increase) in inventories | 1,371 | 232 |
| Decrease (increase) in prepaid expenses | (36,304) | (13,950) |
| Increase (decrease) in trade payables | (5,713) | (718) |
| Increase (decrease) in accounts payable - other | (106,709) | (16,991) |
| Increase (decrease) in accrued expenses | 16,377 | 13,276 |
| Increase (decrease) in accrued consumption taxes | (4,674) | 18,218 |
| Increase (decrease) in deposits received | 18,033 | 12,248 |
| Increase (decrease) in contract liabilities | 131,216 | 185,133 |
| Other, net | (1,319) | 595 |
| Subtotal | 773,871 | 1,150,141 |
| Interest and dividends received | 19,173 | 23,360 |
| Interest paid | (17) | (18) |
| Income taxes paid | (280,231) | (236,211) |
| Net cash provided by (used in) operating activities | 512,796 | 937,271 |
| Cash flows from investing activities | | |
| Purchase of property, plant and equipment | (14,504) | (1,182) |
| Proceeds from sale of property, plant and equipment | 9,982 | 128 |
| Purchase of intangible assets | (112,091) | (149,798) |
| Purchase of investment securities | (234,192) | (537,499) |
| Proceeds from sale of investment securities | – | 371,511 |
| Proceeds from redemption of investment securities | 150,553 | – |
| Proceeds from distributions from investment partnerships | 4,200 | 7,500 |
| Payments into time deposits | (3,600) | (3,600) |
| Payments of leasehold and guarantee deposits | (1,135) | (41,240) |
| Purchase of insurance funds | (7,575) | (7,748) |
| Proceeds from maturity of insurance funds | 4,371 | 1,275 |
| Other, net | (152) | (587) |
| Net cash provided by (used in) investing activities | (204,144) | (361,243) |

(Thousand yen)

| | For the six months ended July 31, 2023 | For the six months ended July 31, 2024 |
|---|---|---|
| Cash flows from financing activities | | |
| Proceeds from issuance of shares | – | 586 |
| Purchase of treasury shares | (90,400) | (951,199) |
| Dividends paid | (297,933) | (341,023) |
| Other, net | (527) | (594) |
| Net cash provided by (used in) financing activities | (388,861) | (1,292,231) |
| Effect of exchange rate change on cash and cash equivalents | 33,864 | 8,233 |
| Net increase (decrease) in cash and cash equivalents | (46,345) | (707,969) |
| Cash and cash equivalents at beginning of period | 4,917,378 | 5,240,215 |
| Cash and cash equivalents at end of period | 4,871,033 | 4,532,245 |

(4) Notes to Semi-annual Consolidated Financial Statements

(Notes on going concern assumption)

Not applicable.

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

On March 14, 2024, the Company purchased 850,000 treasury shares based on a resolution of the Board of Directors meeting held on March 13, 2024. In addition, on July 31, 2024, the Company cancelled 850,000 treasury shares based on a resolution of the Board of Directors meeting held on May 30, 2024. Due to this cancellation, the balance of other capital surplus became negative, and therefore, is treated as zero and the negative balance is deducted from retained earnings.

As a result, other capital surplus, retained earnings brought forward, and treasury shares decreased by ¥49,965 thousand, ¥884,184 thousand, and ¥934,150 thousand, respectively, during the six months ended July 31, 2024, resulting in ¥287,455 in capital surplus, ¥5,083,210 thousand in retained earnings brought forward, ¥87,481 thousand in treasury shares as of July 31, 2024.

(Accounting methods adopted particularly for the preparation of semi-annual consolidated financial statements)

(Calculation of tax expenses)

Tax expenses are calculated by reasonably estimating the effective tax rate after the application of tax effect accounting for profit before income taxes in the fiscal year that includes the six months ended July 31, 2024, and multiplying profit before income taxes by the estimated effective tax rate.

(Segment information, etc.)

[Segment information]

I. For the six months ended July 31, 2023

1. Information on net sales and profit (loss) by reportable segment

(Thousand yen)

| | Reportable segment | | | | Adjustment (Note 1) | Amount recorded in semi-annual consolidated statements of income (Note 2) |
|--|----------------------|---|----------------------|-----------|------------------------|--|
| | Software business | System development service business | Overseas business | Total | | |
| Net sales | | | | | | |
| Net sales to outside customers | 2,243,846 | 975,213 | 5,837 | 3,224,896 | — | 3,224,896 |
| Intersegment net sales or transfers | 1,108 | 17,393 | 63,153 | 81,655 | (81,655) | — |
| Total | 2,244,955 | 992,606 | 68,991 | 3,306,552 | (81,655) | 3,224,896 |
| Segment profit | 562,302 | 28,538 | 7,593 | 598,434 | 3,713 | 602,147 |

(Notes) 1. The segment profit adjustment of ¥3,713 thousand represents the elimination of intersegment transactions.

2. Segment profit was adjusted based on operating profit reported on the semi-annual consolidated statements of income.

II. For the six months ended July 31, 2024

1. Information on net sales and profit (loss) by reportable segment

(Thousand yen)

| | Reportable segment | | | | Adjustment (Note 1) | Amount recorded in semi-annual consolidated statements of income (Note 2) |
|--|----------------------|---|----------------------|-----------|------------------------|--|
| | Software business | System development service business | Overseas business | Total | | |
| Net sales | | | | | | |
| Net sales to outside customers | 2,355,811 | 996,740 | 13,641 | 3,366,193 | – | 3,366,193 |
| Intersegment net sales or transfers | 2,707 | 6,300 | 41,278 | 50,285 | (50,285) | – |
| Total | 2,358,518 | 1,003,040 | 54,920 | 3,416,479 | (50,285) | 3,366,193 |
| Segment profit (loss) | 877,254 | 30,917 | (61,586) | 846,586 | 1,329 | 847,915 |

(Notes) 1. The segment profit (loss) adjustment of ¥1,329 thousand represents the elimination of intersegment transactions.

2. Segment profit (loss) was adjusted based on operating profit reported on the semi-annual consolidated statements of income.

(Revenue recognition accounting)

Disaggregation of revenue from contracts with customers

For the six months ended July 31, 2023

(Thousand yen)

| | Reportable segment | | | Total |
|--|--------------------|---|-------------------|-----------|
| | Software business | System development service business | Overseas business | |
| Recurring revenue (Note 1) | 1,839,668 | 932,853 | 3,815 | 2,776,336 |
| One-time revenue (Note 2) | 404,178 | 42,359 | 2,022 | 448,560 |
| Revenue from contracts with customers | 2,243,846 | 975,213 | 5,837 | 3,224,896 |
| Net sales to outside customers | 2,243,846 | 975,213 | 5,837 | 3,224,896 |

(Notes) 1. Main contents of recurring revenue are as follows.

| Segment | Main contents | When to recognize revenue |
|--|---|----------------------------------|
| Software business and overseas business | Revenue from usage fees for cloud services provided, packaged software support fees, ASP license fees, etc. | Over a certain period of time |
| System development service business | Revenue from quasi-entrustment contracts and dispatching contracts (including contracts covering 12 months or longer through the renewal of contracts) under which sales are recognized for the same customer for consecutive 12 months or longer immediately before the last day of each accounting period | Over a certain period of time |

2. Main contents of one-time revenue are as follows.

| Segment | Main contents | When to recognize revenue |
|---|---|-------------------------------|
| Software business and overseas business | Revenue from packaged products license fees | At a point in time |
| | Revenue from service contracts such as product customization and services including product installation, data migration and education | Over a certain period of time |
| System development service business | Revenue from quasi-entrustment contracts and dispatching contracts and service contracts, which does not fall under the category of recurring revenue | Over a certain period of time |

For the six months ended July 31, 2024

(Thousand yen)

| | Reportable segment | | | Total |
|---------------------------------------|--------------------|-------------------------------------|-------------------|-----------|
| | Software business | System development service business | Overseas business | |
| Recurring revenue (Note 1) | 1,980,950 | 941,607 | 10,628 | 2,933,186 |
| One-time revenue (Note 2) | 374,861 | 55,132 | 3,012 | 433,006 |
| Revenue from contracts with customers | 2,355,811 | 996,740 | 13,641 | 3,366,193 |
| Net sales to outside customers | 2,355,811 | 996,740 | 13,641 | 3,366,193 |

(Notes) 1. Main contents of recurring revenue are as follows.

| Segment | Main contents | When to recognize revenue |
|---|---|-------------------------------|
| Software business and overseas business | Revenue from usage fees for cloud services provided, packaged software support fees, ASP license fees, etc. | Over a certain period of time |
| System development service business | Revenue from quasi-entrustment contracts and dispatching contracts (including contracts covering 12 months or longer through the renewal of contracts) under which sales are recognized for the same customer for consecutive 12 months or longer immediately before the last day of each accounting period | Over a certain period of time |

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| Segment | Main contents | When to recognize revenue |
|---|---|-------------------------------|
| Software business and overseas business | Revenue from packaged products license fees | At a point in time |
| | Revenue from service contracts such as product customization and services including product installation, data migration and education | Over a certain period of time |
| System development service business | Revenue from quasi-entrustment contracts and dispatching contracts and service contracts, which does not fall under the category of recurring revenue | Over a certain period of time |