

Summary of Non-consolidated Financial Results

for the first half of Fiscal Year Ending June 2024 (Japanese GAAP)

February 7, 2024

1. Financial results for this term (July 1, 2023 to December 31, 2023)

(Percentage represents year-on-year change)

(Rounded down to the nearest million yen)

(1) Results of operations (cumulative)

	Net sales		Operating income		Ordinary income		Net income	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
1 st half, June 2024	6,946	2.3	852	6.1	859	4.3	584	4.8
1 st half, June 2023	6,789	38.9	803	67.8	824	64.9	558	65.1

	EPS		Fully diluted EPS	
	Yen		Yen	
1 st half, June 2024	22.28		—	
1 st half, June 2023	21.23		—	

(2) Financial position

	Total assets		Net assets		Shareholders' equity ratio	
	Million yen		Million yen		%	
1 st half, June 2024	14,179		8,780		61.9	
FY ended June 2023	13,683		8,799		64.3	

(Reference) Shareholders' equity: As of 1st half, June 2024 ¥8,780 million. As of June 2023 ¥8,799 million.

2. Dividends

	Dividend per share				
	Q1-end	Q2-end	Q3-end	Year-end	Annual
	Yen	Yen	Yen	Yen	Yen
Year ended June 30, 2023	—	0.00	—	20.00	20.00
Year ending June 30, 2024	—	15.00			
Year ending June 30, 2024 (Forecast)			—	25.00	40.00

(Note) Revision of forecasts on the dividends: No

(Note) Breakdown of dividends for the fiscal year ending June 2024 (forecast):

Ordinary dividend: 15.00 yen

Commemorative dividend: 10.00 yen

3. Forecast of financial results for the fiscal year ending June 30, 2024 (July 1, 2023 to June 30, 2024)

	Net sales		Operating income		Ordinary income		Net income		EPS	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen	
Full year	15,000	12.2	2,250	44.5	2,290	42.8	1,590	36.5	60.50	

(Note) Revision of forecast on the financial results: No

Notes

(1) Adaption of unique accounting method for quarterly financial statements: No

(2) Changes in Accounting Policies and Accounting Estimates / Restatements

(i) Changes in accounting policies due to revisions of accounting standards, etc.: No

(ii) Changes in accounting policies other than (i) above: No

(iii) Changes in accounting estimates: No

(iv) Restatements: No

(3) Number of shares issued

(i) Number of shares issued as of the period-end (including treasury stock)	As of December 31, 2023	26,340,000	As of June 30, 2023	26,340,000
(ii) Number of shares of treasury stock as of the period end	As of December 31, 2023	158,286	As of June 30, 2023	60,051
(iii) Average number of shares during the period	As of December 31, 2023	26,256,773	As of December 31, 2022	26,281,264

Note: The company has implemented a stock compensation system, "Board Benefit Trust (BBT)", from the second quarter of this fiscal year. The number of treasury shares at the end of the period includes the shares of the company held by the trust (98,200 shares in the second quarter of the fiscal year ending June 2024). Furthermore, the shares of the company held by the trust are included in the treasury shares deducted in the calculation of the average number of shares during the period (23,149 shares in the second quarter of the fiscal year ending June 2024).

Note: Summary of financial results are not subject to audit by a certified public accountant or audit corporations.

Note: Explanation on the proper use of financial forecasts

Forward-looking statements contained in these materials are based on currently available information and include uncertainties. Actual results may differ from forecast figures due to changes in business conditions.

Please refer to "1. Overview of Operation Results (3) Statement for the Future Forecast such as Business Forecast" on page 4 of the accompanying materials for the assumptions underlying the performance and notes to the use of earnings forecasts.

The company intends to hold financial results briefing for institutional investors and securities analysts on February 9, 2024. The materials for this presentation will be uploaded to the company's website soon after the event.

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1. Overview of Operating Results

(1) Report of Operating Results

In the first half of FY06/2024, the domestic economy made a moderate recovery. Although some capital investment stalled, software investment increased. Business performance remained solid. In the credit card industry, our main area of business, the volume of transactions of credit card companies also rose year on year due to a recovery in consumer spending. According to calculations by the Ministry of Economy, Trade and Industry (METI), the cashless payment ratio in 2022 was 36.0%, and the cashless payment value was ¥111 trillion, exceeding ¥100 trillion for the first time. METI has set a goal of raising the cashless payment ratio to around 40% by 2025.

In the credit card industry, demand for fraud detection is growing rapidly, and the move to cloud services is accelerating for system modernization and cost-effectiveness. There is also a growing appetite for IT investment in security across all industries.

In this business environment, our company is promoting a medium-term business plan for the three-year period concluding in the fiscal year ending June 30, 2025. We are strengthening and expanding our business foundation by reforming our business structure and extending our business domains. At the same time, we are working to establish a foundation for human resources and co-creation for our own sustainable growth.

To strengthen our business foundation, we are expanding our recurring-revenue* business by growing the cloud service, expanding our payment business domains by utilizing payment data and supporting customers' IT strategies. We are also expanding our business domains beyond the payment and financial industry, based on our technologies and experience in the payment and finance businesses, which are our strengths. Regarding human capital foundation, we have established the Human Capital Management Promotion Office and are promoting human capital strategies that are consistent with our business strategies. With regard to our co-creation foundation, we are deepening cross-organizational and all-employee participation-based initiatives and dialogues through internal activities such as the Business Reliability Project and the Co-Creation Project.

In the first half of the fiscal year under review, even following the large-scale hardware sales for the renewal of the FEP system* in the same period of the previous year, sales and profits increased year on year owing to growth in sales in the three main areas of system development, cloud services, and security. In the FEP area, which is our core business, there were large fluctuations in sales during the system renewal period, as system renewals for existing customers are accompanied by hardware sales. For the current fiscal year, however, sales increased year on year due to the expansion of recurring-revenue businesses such as cloud services and security, as well as the expansion of the payment business domains outside the FEP area.

In the payment and finance business, sales from system development rose due to increases large-scale projects for credit card company and growth in the number of projects for existing credit card company. As for cloud services, sales increased due to expansion of the user base, especially for our fraud detection cloud service, "IFINDS." In security, sales increased due to narrowing down the number of products handled and strengthening sales of key management solutions (HSM) and ID management solutions. As a result, net sales were ¥6,946 million (up 2.3% year on year).

Gross profit increased due to higher sales in system development and cloud services, as well as strong profit margins on large-scale project and other system development. Selling, general and administrative (SG&A) expenses increased due to investments in human capital and improvements to the office environment. However, we are working to curb SG&A expenses by eliminating waste and making progress as planned. As a result, operating income was ¥852 million (up 6.1% year on year), ordinary income was ¥859 million (down 4.3% year on year), and quarterly net income was ¥584 million (up 4.8% year on year).

Orders received amounted to ¥9,772 million (up 51.3% year on year) and orders on hand were ¥13,800 million (up 49.5% year on year). The number of projects with multi-year contracts increased in the payment and finance business, cloud services, and the security business, resulting in a significant increase.

In cloud services, which we are aiming to expand under our medium-term business plan, net sales were ¥1,180 million (up 33.9% year on year) and gross profit was ¥180 million (up 7.2 times year on year). Profits

increased year on year due to changes in the service composition ratio and stabilization of the operation system. Orders for cloud services are mainly multi-year contracts, with orders on hand at ¥7,098 million as of the end of December 2023. In the fiscal year ending June 30, 2024, we plan to generate sales of ¥2.5 billion and are making steady progress.

In the payment business domain, we are primarily developing front-end processing (FEP) systems and fraud detection system for credit card companies. The core of the system consists of In-house products, such as “NET+1” and “ACEPlus”. In the development of FEP systems, we record separately the sales of in-house products and sales of system development that are customized to meet the functional requirements of customers and the sales of hardware equipped with developed software. In the security business domain, we are developing and selling “CWAT”, an in-house product, to prevent leaks of companies’ internal information, as well as third-party products for cyber security measures.

*1 Recurring revenue: Revenue generated from projects and contracts on a regular basis

*2 Front-end processing (FEP) system: Hardware and software with network connectivity, card usage authentication, and other functions required for credit card payment processing

(2) Report of Financial Position

(Assets)

As of December 31, 2023, total assets were ¥14,179 million, up by ¥496 million from the end of the previous fiscal year. Current assets amounted to ¥7,532 million, down ¥331 million from the end of the previous fiscal year. This was mainly due to increases in notes and accounts receivable - trade, and contract assets of ¥299 million, advances of ¥215 million and prepaid expenses of ¥123 million included in others, and a decrease in cash and deposits of ¥1,068 million.

Non-current assets totaled ¥6,647 million, up ¥827 million from the end of the previous fiscal year. This was mainly due to an increase of ¥123 million in tools, fixtures, and equipment under property, plant and equipment, an increase of ¥463 million in developing software in intangible assets, and an increase of ¥133 million in investment securities.

(Liabilities)

As of December 31, 2023, total liabilities amounted to ¥5,398 million, up ¥514 million from the end of the previous fiscal year. This was mainly due to increases in notes and accounts payable - trade of ¥252 million and advances received of ¥242 million.

(Net Assets)

Net assets amounted to ¥8,780 million as of December 31, 2023, down ¥18 million from June 30, 2023. This was mainly due to an increase in retained earnings of ¥59 million and the acquisition of treasury shares of ¥99 million by introducing the Board Benefit Trust (BBT).

(Report of Cash Flows)

As of the end of the first half of the current period, cash and cash equivalents amounted to ¥3,619 million (compared to ¥4,336 million at the end of the same period in the previous year). The status of each cash flow and the factors affecting them are as follows:

(Cash Flows from Operating Activities)

Net cash provided by operating activities in the first half of the current fiscal year amounted to ¥764 million (compared to ¥1,717 million for the same period of the previous fiscal year). This was mainly due to the recording of income before taxes of ¥859 million and depreciation expenses of ¥512 million, an increase in notes and accounts receivable – trade and contract assets of ¥57 million, an increase in inventories of ¥74 million, an increase in notes and accounts payable – trade of ¥31 million, and income taxes paid of ¥282 million.

(Cash Flows from Investing Activities)

Net cash from investing activities in the first half of the current fiscal year was an expenditure of ¥1,213 million (compared to ¥864 million for the same period of the previous fiscal year). This was mainly due to an expenditure of ¥915 million for the purchase of intangible fixed assets for the development of software for sales purposes and internal use.

(Cash Flows from Financing Activities)

Net cash from financing activities in the first half of the current fiscal year was an expenditure of ¥624 million (compared to ¥447 million for the same period of the previous fiscal year). This was mainly due to cash dividends paid of ¥524 million.

(3) Statement for the Future Forecast such as Business Forecast

There is no revision to the business forecast announced on August 2, 2023, "Summary of Non-consolidated

Financial Results for the Fiscal Year Ended June 2023."

2. Financial Statements

(1) Balance Sheet

	Thousands of yen	
	Previous term end (as of June 30,2023)	Current term end (as of December 31,2023)
Assets		
Current assets		
Cash and deposits	4,694,621	3,625,712
Notes and accounts receivable - trade, and contract assets	1,982,679	2,282,347
Inventories	247,624	322,098
Other	938,544	1,301,912
Total current assets	7,863,470	7,532,070
Non-current assets		
Property, plant and equipment	1,025,781	1,160,632
Intangible assets		
Software	2,340,911	2,470,711
Other	397,955	861,150
Total intangible assets	2,738,867	3,331,861
Investments and other assets		
Investment securities	1,179,719	1,312,970
Other	875,803	842,122
Total investments and other assets	2,055,522	2,155,093
Total non-current assets	5,820,170	6,647,587
Total assets	13,683,641	14,179,658
Liabilities		
Current liabilities		
Notes and accounts payable - trade	473,097	725,654
Income taxes payable	314,629	319,498
Advances received	2,324,707	2,566,944
Provision for bonuses	303,957	300,890
Provision for bonuses for directors	41,782	16,708
Other	707,578	728,631
Total current liabilities	4,165,752	4,658,329
Non-current liabilities		
Provision for retirement benefits	606,007	621,142
Provision for retirement benefits for directors	12,975	—
Provision for share awards	—	1,397
Provision for share awards for directors	—	2,973
Asset retirement obligations	97,050	97,121
Other	2,213	18,022
Total non-current liabilities	718,247	740,657
Total liabilities	4,883,999	5,398,987

	Thousands of yen	
	Previous term end (as of June 30,2023)	Current term end (as of December 31,2023)
Net assets		
Shareholders' equity		
Capital stock	843,750	843,750
Capital surplus	573,099	573,099
Retained earnings	6,918,282	6,977,627
Treasury shares	(26,712)	(126,570)
Total shareholders' equity	8,308,419	8,267,907
Valuation and translation adjustments		
Valuation difference on available-for-sale securities	491,222	512,763
Total valuation and translation adjustments	491,222	512,763
Total net assets	8,799,641	8,780,671
Total liabilities and net assets	13,683,641	14,179,658

(2) Income Statement

Thousands of yen

	Previous term (from July 1,2022 to December 31,2022	Current term (from July 1,2023 to December 31,2023
Net sales	6,789,862	6,946,167
Cost of sales	4,669,260	4,745,888
Gross profit	2,120,602	2,200,279
Selling, general and administrative expenses	1,317,122	1,348,108
Operating income	803,479	852,170
Non-operating income		
Interest income	340	1,580
Dividend income	24,344	24,603
Insurance claim income	—	22,772
Other	5,257	4,712
Total non-operating income	29,943	53,668
Non-operating expenses		
Commitment fees	2,765	3,016
Foreign exchange losses	5,220	3,968
Compensation expenses	388	36,504
Other	859	2,351
Total non-operating expenses	9,234	45,841
Ordinary income	824,189	859,997
Income before income taxes	824,189	859,997
Income taxes - current	320,523	288,474
Income taxes - deferred	(54,343)	(13,420)
Total income taxes	266,179	275,053
Net income	558,009	584,943

(3) Cash Flow Statement

Thousands of yen

	Previous term (from July 1,2022 to December 31,2022)	Current term (from July 1,2023 to December 31,2023)
Cash flows from operating activities		
Income before income taxes	824,189	859,997
Depreciation	447,207	512,462
Share-based payment expenses	16,880	-
Increase (decrease) in provision for bonuses	(7,542)	(3,066)
Increase (decrease) in provision for bonuses for directors	(15,591)	(25,073)
Increase (decrease) in provision for retirement benefits	24,445	15,134
Increase (decrease) in provision for retirement benefits for directors	(11,620)	(12,975)
Increase (decrease) in provision for share awards	-	1,397
Increase (decrease) in provision for share awards for directors	-	2,973
Interest and dividend income	(24,685)	(26,183)
Insurance claim income	-	(22,772)
Commitment fee	2,765	3,016
Compensation expenses	388	36,504
Decrease (increase) in notes and accounts receivable – trade and contract assets	1,082,937	(57,430)
Decrease (increase) in inventories	(41,043)	(74,474)
Increase (decrease) in notes and accounts payable - trade	(568,927)	31,390
Other, net	266,588	(214,383)
Subtotal	1,995,992	1,026,518
Interest and dividends received	24,680	25,794
Commitment fee paid	(2,393)	(2,378)
Compensation expenses paid	(388)	(3,144)
Income taxes paid	(300,579)	(282,405)
Cash flows from operating activities	1,717,311	764,383
Cash flows from investing activities		
Purchase of property, plant and equipment	(216,601)	(220,611)
Purchase of intangible assets	(660,842)	(915,208)
Purchase of investment securities	(1,984)	(102,203)
Proceeds from collection of loans receivable	80	-
Proceeds from cancellation of insurance funds	14,840	22,884
Other, net	(60)	1,143
Cash flows from investing activities	(864,568)	(1,213,994)
Cash flows from financing activities		
Repayments of lease obligations	(2,033)	(603)
Dividends paid	(445,736)	(524,110)
Purchase of treasury shares	-	(99,857)
Cash flows from financing activities	(447,770)	(624,571)
Effect of exchange rate change on cash and cash equivalents	(933)	(741)
Net increase (decrease) in cash and cash equivalents	404,038	(1,074,924)
Cash and cash equivalents at beginning of period	3,932,647	4,694,621
Cash and cash equivalents at end of period	4,336,685	3,619,697

(4) Notes

(Notes on the Going Concern Assumption)

Not applicable.

(Significant Changes in the Amount of Shareholders' Equity)

For the first half of the current fiscal year (July 1, 2023 to December 31, 2023),

Not applicable.

(Adaption of unique accounting method for quarterly financial statements)

For the first half of the current fiscal year (July 1, 2023 to December 31, 2023),

Not applicable.

(Additional Information)

(Introduction of Board Benefit Trust (BBT))

Based on the resolution of the 40th annual general meeting of shareholders held on September 27, 2023, the company has introduced a stock compensation system, Board Benefit Trust (BBT), for our directors (excluding external directors and non-residents of Japan) and executive officers (hereinafter referred to as "Directors, etc.") from the second quarter of the current fiscal period.

(1) Transaction overview

Under the Board Benefit Trust (BBT) stock compensation system, the company acquires its own stock through a trust using company-contributed funds. This stock, or its equivalent value in cash, is then provided to Directors, etc., generally at the time of their retirement, in accordance with our internal regulations.

(2) Company stock remaining in the trust

The company stock remaining in the abovementioned trust is recorded as treasury shares in the net assets section at book value (excluding incidental expenses). As of the end of the second quarter of the current fiscal period, the book value and the number of such treasury shares are ¥99,825 thousand and 98,200 shares, respectively.

(3) Book value of borrowings accounted for by application of the gross method

Not applicable.

(Business Segment)

Business segment information is omitted because the company has a single reportable segment.

(Revenue recognition)

Categorized information on revenue from contracts with customers

(Thousands of yen)

	1 st half of FY06/23 (cumulative) (from July 1, 2022 to December 30, 2022)	1 st half of FY06/24 (cumulative) (from July 1, 2023 to December 30, 2023)
Net sales		
Software Development	2,346,664	2,701,111
In-house products	110,590	70,391
System Service	15,407	1,500
Third-party products	1,220,623	497,457
Maintenance	1,496,994	1,743,407
Maintenance of third-party products	351,550	375,731
Own services	997,765	1,293,646
Other services	250,265	262,921
Total	6,789,862	6,946,167
Timing of revenue recognition		
Goods and services transferred at a point in time	2,420,745	1,732,195
Goods and services transferred over a period of time	4,369,117	5,213,972
Total	6,789,862	6,946,167