

Summary of Non-consolidated Financial Results

for the third quarter of the Fiscal Year Ending June 2024 (Japanese GAAP)

May 8, 2024

1. Financial results for this term (July 1, 2023 to March 31, 2024)

(Percentages represent year-on-year changes)

(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	%
3 rd quarter, June 2024	10,751	8.6	1,496	31.7	1,503	29.9	1,027	31.6
3 rd quarter, June 2023	9,896	26.3	1,136	20.4	1,157	19.9	780	18.5

	EPS		Fully diluted EPS	
	Yen		Yen	
3 rd quarter, June 2024	39.16		—	
3 rd quarter, June 2023	29.71		—	

(2) Financial position

	Total assets		Net assets		Shareholders' equity ratio	
	Million yen		Million yen		%	
3 rd quarter, June 2024	15,704		8,849		56.4	
FY ended June 2023	13,683		8,799		64.3	

(Reference) Shareholders' equity: As of 3rd quarter, June 2024, ¥8,849 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 dividends: No

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 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 period-end (including treasury stock)

As of March 31, 2024	26,340,000	As of June 30, 2023	26,340,000
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(ii) Number of shares of treasury stock as of period-end

As of March 31, 2024	158,286	As of June 30, 2023	60,051
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(iii) Average number of shares during period

As of March 31, 2024	26,231,936	As of March 31, 2024	26,280,832
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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 third 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 (47,984 shares in the third quarter of the fiscal year ending June 2024).

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

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) Explanation of Future Forecast Information Such as Financial Results Forecasts" on page 4 of the accompanying materials for the assumptions underlying the performance and notes on the utilization of earnings forecasts.

The company intends to hold a financial results briefing for institutional investors and securities analysts on May 10, 2024. The materials for this presentation will be posted on 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 three quarters of FY06/2024, the domestic economy made a moderate recovery. Despite a slight stall in the recovery of consumer spending, capital investment picked up and software investment also 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 2023 was 39.3%, and the cashless payment value was ¥126.7 trillion. 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 services, 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 our 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 initiatives and dialogues involving all employees through internal activities such as the Business Reliability Project and the Co-Creation Project.

In the first three quarters of the fiscal year under review, net sales were ¥10,751 million (up 8.6% year on year) and operating income was ¥1,496 million (up 31.7% year on year). 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 payment business domains outside the FEP area.

As for the breakdown of sales, in the payment and finance business, sales from system development rose due to increased large-scale projects for credit card company. In cloud services, sales increased due to expansion of the user base, especially for our fraud detection cloud service, "IFINDS." In security, sales of key management solutions (HSM) and ID management solutions contributed to increased revenues in the current financial year, in addition to narrowing down the number of products handled.

Gross profit increased due to higher sales and improved gross margins in systems development and cloud services. Selling, general and administrative (SG&A) expenses remained at the same level as in the previous year, thanks to cost optimization, and are progressing well against the full-year plan. As a result, operating income was ¥1,496 million (up 31.7% year on year), ordinary income was ¥1,503 million (up 29.9% year on year), and quarterly net income was ¥1,027 million (up 31.6% year on year).

Orders received amounted to ¥13,773 million (up 15.9% year on year) and orders on hand were ¥13,995 million (up 21.2% year on year). In cloud services, orders received decreased year-on-year, but orders on hand increased due to a long-term multi-year contract in the previous year. In system development, both orders received and orders on hand increased year on year, while for security, both orders and order backlogs increased due to long-term multi-year contracts.

In cloud services, which we are aiming to expand under our medium-term business plan, net sales were ¥1,799 million (up 33.2% year on year) and gross profit was ¥274 million (up 3.9 times year on year). Sales increased significantly, mainly due to an increase in the number of “IFINDS” users. 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 ¥7,371 million as of the end of March 2024. 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 systems for credit card companies. The core of the systems consists of In-house products, such as “NET+1” and “ACEPlus.” In the development of FEP systems, we separately record sales of in-house products, system development sales that are customized to meet the functional requirements of customers, and sales of hardware equipped with software we have developed. 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 March 31, 2024, total assets were ¥15,704 million, up ¥2,020 million from the end of the previous fiscal year. Current assets amounted to ¥8,558 million, up ¥695 million from the end of the previous fiscal year. This was mainly due to a decrease in cash and deposits of ¥389 million, an increase in notes and accounts receivable – trade, and contract assets of ¥180 million, advances of ¥693 million included in others, and prepaid expenses of ¥114 million.

Non-current assets totaled ¥7,145 million, up ¥1,325 million from the end of the previous fiscal year. This was mainly due to an increase of ¥166 million in property, plant and equipment, an increase of ¥939 million in intangible assets, and an increase of ¥163 million in investment securities.

(Liabilities)

As of March 31, 2024, total liabilities amounted to ¥6,854 million, up ¥1,970 million from the end of the previous fiscal year. This was mainly due to increases in notes and accounts payable - trade of ¥285 million, advances received of ¥1,313 million, and provision for bonuses of ¥241 million.

(Net Assets)

Net assets amounted to ¥8,849 million as of March 31, 2024, up ¥49 million from June 30, 2023. This was mainly due to the acquisition of ¥99 million in treasury shares by introducing the Board Benefit Trust (BBT) system and increases of ¥107 million in retained earnings and ¥42 million in valuation difference on available-for-sale securities.

(3) Explanation of Future Forecast Information Such as Financial Results Forecasts

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 March 31, 2024)
Assets		
Current assets		
Cash and deposits	4,694,621	4,304,843
Notes and accounts receivable - trade, and contract assets	1,982,679	2,163,508
Inventories	247,624	324,529
Other	938,544	1,765,903
Total current assets	7,863,470	8,558,785
Non-current assets		
Property, plant and equipment	1,025,781	1,192,527
Intangible assets		
Software	2,340,911	2,627,628
Other	397,955	1,050,371
Total intangible assets	2,738,867	3,678,000
Investments and other assets		
Investment securities	1,179,719	1,343,095
Other	875,803	931,848
Total investments and other assets	2,055,522	2,274,943
Total non-current assets	5,820,170	7,145,470
Total assets	13,683,641	15,704,256
Liabilities		
Current liabilities		
Notes and accounts payable - trade	473,097	758,220
Income taxes payable	314,629	349,454
Advances received	2,324,707	3,638,601
Provision for bonuses	303,957	545,798
Provision for bonuses for directors	41,782	24,090
Other	707,578	666,761
Total current liabilities	4,165,752	5,982,926
Non-current liabilities		
Provision for retirement benefits	606,007	621,200
Provision for retirement benefits for directors	12,975	—
Provision for share awards	—	2,795
Provision for share awards for directors	—	5,946
Asset retirement obligations	97,050	97,156
Other	2,213	144,803
Total non-current liabilities	718,247	871,903
Total liabilities	4,883,999	6,854,830
Net assets		
Shareholders' equity		
Capital stock	843,750	843,750
Capital surplus	573,099	573,099
Retained earnings	6,918,282	7,025,712
Treasury shares	(26,712)	(126,570)
Total shareholders' equity	8,308,419	8,315,991
Valuation and translation adjustments		
Valuation difference on available-for-sale securities	491,222	533,434
Total valuation and translation adjustments	491,222	533,434
Total net assets	8,799,641	8,849,425
Total liabilities and net assets	13,683,641	15,704,256

(2) Income Statement

	Thousands of yen	
	Previous term (from July 1, 2022 to March 31, 2023)	Current term (from July 1, 2023 to March 31, 2024)
Net sales	9,896,709	10,751,997
Cost of sales	6,775,946	7,273,082
Gross profit	3,120,762	3,478,915
Selling, general and administrative expenses	1,984,584	1,982,369
Operating income	1,136,178	1,496,546
Non-operating income		
Interest income	797	2,478
Dividend income	24,344	24,713
Insurance claim income	—	13,000
Other	7,088	5,921
Total non-operating income	32,230	46,114
Non-operating expenses		
Commitment fees	4,310	4,325
Foreign exchange losses	4,514	2,569
Compensation expenses	1,438	27,532
Other	859	4,620
Total non-operating expenses	11,123	39,047
Ordinary income	1,157,285	1,503,612
Income before income taxes	1,157,285	1,503,612
Income taxes - current	486,803	585,568
Income taxes - deferred	(110,270)	(109,183)
Total income taxes	376,533	476,385
Net income	780,752	1,027,226

(3) Notes

(Notes on the Going Concern Assumption)

Not applicable.

(Significant Changes in the Amount of Shareholders' Equity)

For the third quarter of the current fiscal year (July 1, 2023 to March 31, 2024),

Not applicable.

(Adaption of Unique Accounting Method for Quarterly Financial Statements)

For the third quarter of the current fiscal year (July 1, 2023 to March 31, 2024),

Not applicable.

(Additional Information)

(Introduction of Board Benefit Trust (BBT))

Based on the resolution at the 40th annual general meeting of shareholders held on September 27, 2023, we have introduced a stock compensation system, Board Benefit Trust (BBT), for the company's 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 third 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)

	3 rd quarter of FY06/23 (cumulative) (from July 1, 2022 to March 31, 2023)	3 rd quarter of FY06/24 (cumulative) (from July 1, 2023 to March 31, 2024)
Net sales		
Software Development	3,507,845	3,998,882
In-house products	153,501	74,447
System Service	20,027	6,000
Third-party products	1,454,187	1,079,334
Maintenance	2,304,858	2,617,417
Maintenance of third-party products	541,512	572,935
Own services	1,526,391	1,975,498
Other services	388,384	427,483
Total	9,896,709	10,751,997
Timing of revenue recognition		
Goods and services transferred at a point in time	3,213,311	2,866,306
Goods and services transferred over a period of time	6,683,397	7,885,691
Total	9,896,709	10,751,997