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October 28, 2024

Summary of Financial Results for the Second Quarter Ended September 30, 2024 (Interim Period) (Consolidated)

Company name: SAKURA internet Inc.
 Listing: Tokyo Stock Exchange
 Securities code: 3778
 URL: <https://www.sakura.ad.jp>
 Representative: Kunihiro Tanaka, President and Chief Executive Officer
 Inquiries: Masataka Kawada, Director, CFO
 Telephone: +81-06-6476-8790
 Scheduled date to file semiannual report: November 11, 2024
 Scheduled date to commence dividend payment: —
 Preparation of supplementary material on financial results: Yes
 Holding of financial results briefing: Yes (for institutional investors and securities analysts)

(Yen amounts are rounded down to millions, unless otherwise noted.)

1. Consolidated financial results for the six months ended September 30, 2024 (Interim Period: from April 1, 2024, to September 30, 2024)

(1) Consolidated operating results (YTD) (%: Changes from the corresponding interim period of the previous fiscal year)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
Six months ended September 30, 2024 (interim period)	13,271	28.3	1,295	419.4	1,102	538.2	710	305.4
Six months ended September 30, 2023 (interim period)	10,343	3.5	249	(42.8)	172	(54.3)	175	(29.1)

Note: Comprehensive income Six months ended September 30, 2024 (interim period) ¥636 million [89.1%]
 Six months ended September 30, 2023 (interim period) ¥336 million [30.7%]

	Net income per share	Diluted net income per share
	Yen	Yen
Six months ended September 30, 2024 (interim period)	18.64	-
Six months ended September 30, 2023 (interim period)	4.91	-

(2) Consolidated financial conditions

	Total assets	Net assets	Equity-to-asset ratio
	Millions of yen	Millions of yen	%
Six months ended September 30, 2024 (interim period)	62,257	27,961	44.6
Fiscal year ended March 31, 2024	30,224	9,321	30.2

Reference: Shareholders' equity Six months ended September 30, 2024 (interim period) ¥27,777 million
 Fiscal year ended March 31, 2024 ¥9,135 million

2. Cash dividends

	Cash dividends per share				
	1st quarter-end	2nd quarter-end	3rd quarter-end	Fiscal year-end	Annual
	Yen	Yen	Yen	Yen	Yen
Fiscal year ended March 31, 2024	-	0.00	-	3.50	3.50
Fiscal year ending March 31, 2025	-	0.00			
Fiscal year ending March 31, 2025 (forecast)			-	4.00	4.00

Note: Revisions to the most recently announced dividend forecast: None

3. Consolidated forecast for the fiscal year ending March 31, 2025 (from April 1, 2024, to March 31, 2025)

(%: Changes from the corresponding period of the previous fiscal year.)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent		Net income per share
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Yen
Full year	29,000	32.9	2,600	193.9	2,450	220.6	1,550	137.8	39.71

Note: Revisions to the most recently announced earnings forecast: None

* Notes:

(1) Material changes in subsidiaries during the interim period: Yes

Newly included: Number of subsidiaries newly consolidated: 1 Name of subsidiaries newly consolidated: Tellus Inc.

Excluded: - company

Note: For details, please refer to "2. Interim Consolidated Financial Statements and Major Notes (3) Notes to interim consolidated financial statements (Significant changes in the scope of consolidation)" on page 8 of the attached documents.

(2) Application of accounting methods specific to the preparation of interim consolidated financial statements: None

(3) Changes in accounting policies, changes in accounting estimates, and restatement

(i) Changes in accounting policies due to revisions to accounting standards and other regulations: None

(ii) Changes in accounting policies due to other reasons: None

(iii) Changes in accounting estimates: None

(iv) Restatement: None

(4) Number of issued shares (common shares)

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

Six months ended September 30, 2024 (interim period)	41,890,700 shares
Fiscal year ended March 31, 2024	37,620,700 shares

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

Six months ended September 30, 2024 (interim period)	1,890,958 shares
Fiscal year ended March 31, 2024	1,911,842 shares

(iii) Average number of shares of common stock during the period (interim period)

Six months ended September 30, 2024 (interim period)	38,098,328 shares
Six months ended September 30, 2023 (interim period)	35,684,328 shares

Note: The Company has introduced Stock Benefit Trust (J-ESOP). The shares of the Company's stock held by the Stock Benefit Trust are included in treasury shares which are deducted when calculating the number of treasury shares at year-end and the average number of shares during period.

* Interim financial results reports are exempt from audits conducted by certified public accountants or an audit corporation.

* Proper use of earnings forecasts, and other special matters

1. These forward-looking statements, including forecasts, in this material are based on data currently available to management and certain assumptions that management believes are reasonable, and are not intended as a

guarantee that the Company will achieve these targets. The actual results may differ materially from those projected herein depending on various factors. For the conditions underlying earnings forecasts and notes on using earnings forecasts, please refer to “(3) Explanation of consolidated earnings forecasts and other forward-looking information” in “1. Qualitative Information on the Interim Financial Results” on page 3 of the attached document.

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1. Qualitative Information on the Interim Financial Results

(1) Explanation of operating results

During the six months ended September 30, 2024, there was an expectation for a moderate economic recovery to continue partly due to the positive effect of various policies as the employment and income situation improved. However, slowdowns in overseas economies, mainly due to the adverse effect of continued high interest rates in Europe and the U.S. and continued stagnancy in the Chinese real estate market, have been a risk that may weigh down Japan's economy. In addition, careful attention must be paid to the impact of price hikes, the situation concerning the Middle East, and financial and capital market fluctuations, etc.

As digital transformation progresses, almost all companies are expected to accelerate the use of a third platform (Cloud, Mobility, Big Data, Social Technologies) and migrate their IT infrastructure to a cloud based one on a full scale. We anticipate that the cloud Internet infrastructure market, to which the Group belongs, will continue to expand as expectations for a domestic public cloud are growing.

In these circumstances, the Group aims to support the realization of what customers "want to do" by providing the Group's one-stop services from system integration and development, and provision, maintenance, operation and customer support, etc. of internet infrastructure services. With the main goal of realizing the success of more than 480,000 existing customers and potential customers, the Company focuses on expanding cloud services that have high growth potential in the future.

Net sales were 13,271,670 thousand yen (up 28.3% year on year), mainly due to the recording of sales of GPU cloud services whose offering was started in January 2024, and steady growth in cloud services sales.

Operating profit grew to 1,295,887 thousand yen (up 419.4% year on year) due to the increase in net sales, despite an increase in expenses mainly due to aggressive investments for further enhancing the functional development of cloud services and recruiting and marketing, etc. to promote sales.

Ordinary profit was 1,102,108 thousand yen (up 538.2% year on year) due to increased operating profit, despite the recording of share issuance costs associated with the issuance of new shares through public offering.

Profit attributable to owners of parent was 710,071 thousand yen (up 305.4% year on year) mainly due to increased ordinary profit.

Net sales by service category are as follows: GPU cloud services which were launched in January 2024 have been added as a service category, starting from the first quarter ended June 30, 2024.

(i) Cloud services

Net sales of cloud services were 6,813,126 thousand yen (up 9.0% year on year) mainly because SAKURA's cloud and VPS continued to perform favorably.

(ii) Physical base services

Net sales of physical base services were 1,867,873 thousand yen (up 4.5% year on year), mainly due to an increase in the use of the exclusive server service.

(iii) GPU cloud services

With regard to GPU cloud services, the Company fully launched Koukaryoku PHY service in June 2024 following the partial launch in January 2024. As a result, net sales of GPU cloud services were 2,018,498 thousand yen.

(iv) Other services

Net sales of other services were 2,572,171 thousand yen (up 11.5% year on year) mainly due to an increase in sales of group companies.

(2) Explanation of financial condition

Assets, liabilities and net assets at the end of the six months ended September 30, 2024, and the factors affecting them are as follows:

(i) Assets

Total assets at the end of the six months ended September 30, 2024 increased 32,032,637 thousand yen (up 106.0% year on year) to 62,257,085 thousand yen. This was mainly due to an increase in cash and deposits resulting from the issuance of new shares through public offering, and an increase in property, plant and equipment as a result of procuring service equipment for GPU cloud services, etc.

(ii) Liabilities

The balance of total liabilities at the end of the six months ended September 30, 2024 grew 13,392,389 thousand yen (up 64.1% year on year) to 34,295,627 thousand yen. This was mainly due to an increase in borrowings relating to service equipment.

(iii) Net assets

The balance of net assets at the end of the six months ended September 30, 2024 grew 18,640,248 thousand yen (up 200.0% year on year) to 27,961,457 thousand yen. This was mainly due to increases in share capital and capital surplus resulting from the issuance of new shares through a public offering.

(3) Explanation of consolidated earnings forecasts and other forward-looking information

Since the effect of GPU cloud services on earnings for the current fiscal year is still under examination as we continue to strengthen recruitment, sales and marketing for achieving further growth while making additional investment to quickly establish the GPU platform for the GPU cloud services against the backdrop of strong demand for AI development, the consolidated earnings forecasts for the fiscal year ending March 31, 2025 are unchanged from those publicized in the Notice on Adjustments to Earnings Forecasts dated September 20, 2024.

Note: If a revision of the earnings forecasts is considered necessary in accordance with future business developments, the Company will announce it immediately.

2. Interim Consolidated Financial Statements and Major Notes

(1) Interim consolidated balance sheets

	(Thousands of yen)	
	Fiscal year ended March 31, 2024 (as of March 31, 2024)	Six months ended September 30, 2024 (as of September 30, 2024)
Assets		
Current assets		
Cash and deposits	5,257,805	29,648,927
Notes and accounts receivable—trade, and contract assets	3,241,165	2,892,986
Merchandise and finished goods	16,747	2,886,899
Work in process	-	10,479
Supplies	508,314	432,392
Other	1,564,390	2,659,475
Allowance for doubtful accounts	(14,223)	(15,263)
Total current assets	10,574,200	38,515,896
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	6,369,459	6,517,002
Tools, furniture and fixtures, net	2,764,895	6,264,253
Leased assets, net	6,841,909	6,927,598
Other, net	680,429	694,938
Total property, plant and equipment	16,656,693	20,403,792
Intangible assets		
Other	505,262	688,015
Total Intangible assets	505,262	688,015
Investments and other assets		
Other	2,493,775	2,654,743
Allowance for doubtful accounts	(5,484)	(5,364)
Total investments and other assets	2,488,291	2,649,379
Total non-current assets	19,650,247	23,741,188
Total assets	30,224,447	62,257,085

(Thousands of yen)

	Fiscal year ended March 31, 2024 (as of March 31, 2024)	Six months ended September 30, 2024 (as of September 30, 2024)
Liabilities		
Current liabilities		
Accounts payable–trade	628,323	701,133
Short-term borrowings	417,668	3,969,000
Current portion of long-term borrowings	740,210	601,105
Income taxes payable	204,779	592,636
Advances received	4,984,218	5,628,605
Provision for bonuses	451,171	500,877
Provision for bonuses for directors (and other officers)	4,500	-
Other	3,167,494	8,931,995
Total current liabilities	10,598,366	20,925,354
Non-current liabilities		
Long-term borrowings	3,617,408	6,646,052
Lease liabilities	5,935,858	5,956,715
Asset retirement obligations	683,136	684,338
Provision for share awards	59,329	75,550
Other	9,139	7,616
Total non-current liabilities	10,304,872	13,370,273
Total liabilities	20,903,238	34,295,627
Net assets		
Shareholders' equity		
Share capital	2,256,921	11,283,167
Capital surplus	1,478,896	10,577,023
Retained earnings	6,372,974	6,950,300
Treasury shares	(1,119,643)	(1,107,704)
Total shareholders' equity	8,989,147	27,702,787
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	133,781	66,618
Foreign currency translation adjustment	11,890	9,941
Deferred gains or losses on hedges	183	(2,182)
Total accumulated other comprehensive income	145,855	74,376
Non-controlling interests	186,206	184,293
Total net assets	9,321,209	27,961,457
Total liabilities and net assets	30,224,447	62,257,085

(2) Interim consolidated statement of income and interim consolidated statement of comprehensive income

Interim consolidated statement of income

Six months ended September 30, 2024

(Thousands of yen)

	Six months ended September 30, 2023 (From April 1, 2023, to September 30, 2023)	Six months ended September 30, 2024 (From April 1, 2024, to September 30, 2024)
Net sales	10,343,168	13,271,670
Cost of sales	7,703,923	8,922,447
Gross profit	2,639,245	4,349,223
Selling, general and administrative expenses		
Provision of allowance for doubtful accounts	1,258	1,316
Salaries and allowances	695,959	918,054
Provision for bonuses	155,495	181,937
Other	1,537,039	1,952,027
Total selling, general and administrative expenses	2,389,752	3,053,335
Operating profit	249,492	1,295,887
Non-operating income		
Interest income	20	1,767
Reversal of allowance for doubtful accounts	454	396
Subsidy income	6,943	45,358
Other	32,234	28,401
Total non-operating income	39,653	75,923
Non-operating expenses		
Share issuance costs	1,459	109,528
Interest expenses	84,163	113,459
Share of loss of entities accounted for using equity method	6,292	12,414
Other	24,550	34,300
Total non-operating expenses	116,465	269,703
Ordinary profit	172,680	1,102,108
Extraordinary income		
Gain on sale of non-current assets	-	34
Gain on sale of investment securities	61,318	-
National subsidies	-	3,709,381
Total extraordinary income	61,318	3,709,415
Extraordinary losses		
Loss on retirement of non-current assets	1,334	128
Loss on valuation of investment securities	-	29,999
Loss on cancellation of leases	114	-
Loss on tax purpose reduction entry of non-current assets	-	3,709,381
Total extraordinary losses	1,449	3,739,509
Profit before income taxes	232,548	1,072,013
Income taxes - current	130,872	494,726
Income taxes - deferred	(49,372)	(130,872)
Total income taxes	81,500	363,854
Profit	151,047	708,158
Net loss attributable to non-controlling interests	(24,091)	(1,912)
Profit attributable to owners of parent	175,138	710,071

Interim consolidated statement of comprehensive income

Six months ended September 30, 2024

(Thousands of yen)

	Six months ended September 30, 2023 (From April 1, 2023, to September 30, 2023)	Six months ended September 30, 2024 (From April 1, 2024, to September 30, 2024)
Profit	151,047	708,158
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	174,760	(63,812)
Deferred gains or losses on hedges	214	(2,366)
Foreign currency translation adjustment	4,348	(1,948)
Share of other comprehensive income of entities accounted for using equity method	6,255	(3,350)
Total other comprehensive income	185,579	(71,478)
Comprehensive income	336,627	636,680
(Breakdown)		
Comprehensive income attributable to owners of parent	360,718	638,593
Comprehensive income attributable to non-controlling interests	(24,091)	(1,912)

(3) Notes to interim consolidated financial statements

(Notes on the assumption of going concern)

There are no applicable matters to be reported.

(Notes on significant changes in the amount of shareholders' equity)

Six months ended September 30, 2024 (from April 1, 2024, to September 30, 2024)

The Company issued new shares through a public offering (general offering) pursuant to a resolution at the meeting of the Board of Directors held on June 5, 2024. Share capital and capital surplus increased by 9,026,246 thousand yen each due to the new issuance of 4,270,000 shares through public offering with the payment date of June 21, 2024.

This resulted in share capital and a capital surplus of 11,283,167 thousand yen and 10,577,023 thousand yen, respectively, at the end of the six months ended September 30, 2024.

(Significant change in the scope of consolidation)

Tellus Inc., which was previously an unconsolidated subsidiary, has been included in the scope of consolidation from the six months ended September 30, 2024, because of its increased importance as a result of the payment for the shares offered as of April 1, 2024.