



Summary of Consolidated Financial Results for the Fiscal Year Ended August 31, 2020

[Japanese GAAP]

October 15, 2020

Company name: SERAKU Co., Ltd.

Stock code: 6199

Representative: Tatsumi Miyazaki, Representative Director

Contact: Tomoharu Kozeki, Executive Director, General Manager of Corporate Management Division

Tel: +81-(0)3-3227-2321

Listing: Tokyo Stock Exchange (First Section)

URL: <http://www.seraku.co.jp>

Scheduled date of Annual General Meeting of Shareholders: November 20, 2020

Scheduled date of filing of Annual Securities Report: November 27, 2020

Scheduled date of payment of dividend: November 24, 2020

Preparation of supplementary materials for financial results: Yes

Holding of financial results meeting: Yes (for analysts)

(All amounts are rounded down to the nearest million yen)

1. Consolidated Financial Results for the Fiscal Year Ended August 31, 2020 (Sep. 1, 2019 to Aug. 31, 2020)

(1) Consolidated results of operations

(Percentages represent year-on-year changes)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
Fiscal year ended Aug. 31, 2020	13,771	20.7	1,134	55.9	1,165	58.0	654	48.3
Fiscal year ended Aug. 31, 2019	11,410	26.5	727	33.8	737	40.2	440	41.5

Note: Comprehensive income (millions of yen) Fiscal year ended Aug. 31, 2020: 659 (up 50.7%)

Fiscal year ended Aug. 31, 2019: 437 (up 40.1%)

	Net income per share	Diluted net income per share	Return on equity	Ordinary profit on total assets	Operating profit to net sales
	Yen	Yen	%	%	%
Fiscal year ended Aug. 31, 2020	47.50	47.47	21.0	18.3	8.2
Fiscal year ended Aug. 31, 2019	32.03	32.00	16.9	15.4	6.4

Reference: Equity in earnings of affiliates (millions of yen) Fiscal year ended Aug. 31, 2020: -

Fiscal year ended Aug. 31, 2019: -

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio	Net assets per share
	Millions of yen	Millions of yen	%	Yen
As of Aug. 31, 2020	7,342	3,429	46.7	248.82
As of Aug. 31, 2019	5,370	2,811	52.3	204.09

Reference: Shareholders' equity (millions of yen)

As of Aug. 31, 2020: 3,425

As of Aug. 31, 2019: 2,809

(3) Consolidated cash flows

	Cash flows from operating activities	Cash flows from investing activities	Cash flows from financing activities	Cash and cash equivalents at end of period
	Millions of yen	Millions of yen	Millions of yen	Millions of yen
Fiscal year ended Aug. 31, 2020	995	(160)	724	4,282
Fiscal year ended Aug. 31, 2019	655	(255)	57	2,723

2. Dividends

	Dividend per share					Total dividends	Payout ratio (consolidated)	Dividend on equity (consolidated)
	1Q-end	2Q-end	3Q-end	Year-end	Total			
	Yen	Yen	Yen	Yen	Yen	Millions of yen	%	%
Fiscal year ended Aug. 31, 2019	-	0.00	-	3.20	3.20	44	10.0	1.7
Fiscal year ended Aug. 31, 2020	-	0.00	-	4.60	4.60	63	9.7	2.0
Fiscal year ending Aug. 31, 2021 (forecast)	-	0.00	-	5.60	5.60		8.1	

3. Consolidated Earnings Forecast for the Fiscal Year Ending August 31, 2021 (Sep. 1, 2020 to Aug. 31, 2021)

(Percentages represent year-on-year changes)

	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
First half	7,270	11.0	585	32.5	853	91.2	495	73.9	35.96
Full year	15,020	9.1	1,370	20.8	1,650	41.6	957	46.3	69.51

* Notes

(1) Changes in significant subsidiaries during the period (changes in specified subsidiaries resulting in changes in scope of consolidation): None

Newly added: - Excluded: -

(2) Changes in accounting policies and accounting estimates, and restatements

1) Changes in accounting policies due to revisions in accounting standards, others: None

2) Changes in accounting policies other than 1) above: None

3) Changes in accounting estimates: None

4) Restatements: None

(3) Number of shares issued (common shares)

1) Number of shares issued as of the end of the period (including treasury shares)

As of Aug. 31, 2020: 13,767,200 shares As of Aug. 31, 2019: 13,767,200 shares

2) Number of treasury shares as of the end of the period

As of Aug. 31, 2020: 62 shares As of Aug. 31, 2019: 39 shares

3) Average number of shares during the period

Fiscal year ended Aug. 31, 2020: 13,767,158 shares Fiscal year ended Aug. 31, 2019: 13,764,607 shares

Reference: Summary of Non-consolidated Financial Results

1. Non-consolidated Financial Results for the Fiscal Year Ended August 31, 2020 (Sep. 1, 2019 to Aug. 31, 2020)

(1) Non-consolidated results of operations (Percentages represent year-on-year changes)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
Fiscal year ended Aug. 31, 2020	13,335	19.5	1,181	49.2	1,217	51.8	706	39.7
Fiscal year ended Aug. 31, 2019	11,157	24.2	791	42.0	801	48.6	505	55.4

	Net income per share	Diluted net income per share
	Yen	Yen
Fiscal year ended Aug. 31, 2020	51.30	51.26
Fiscal year ended Aug. 31, 2019	36.74	36.70

(2) Non-consolidated financial position

	Total assets	Net assets	Equity ratio	Net assets per share
	Millions of yen	Millions of yen	%	Yen
As of Aug. 31, 2020	7,399	3,557	48.0	258.06
As of Aug. 31, 2019	5,398	2,893	53.6	210.03

Reference: Shareholders' equity (millions of yen) As of Aug. 31, 2020: 3,552 As of Aug. 31, 2019: 2,891

* The current financial report is not subject to audit by certified public accountants or auditing firms.

* Explanation of appropriate use of earnings forecasts and other special items

Forecasts of future performance in these materials are based on assumptions judged to be valid and information available to the management of Seraku at the time these materials were prepared, but are not promised by Seraku regarding future performance. Actual results may differ significantly from these forecasts for a number of reasons. For discussion of the assumptions and other factors considered by Seraku in preparing the above projections, please refer to page 5 of the attachments "1. Overview of Results of Operations, (4) Outlook."

Contents of Attachments

1. Overview of Results of Operations	2
(1) Results of Operations	2
(2) Financial Position	3
(3) Cash Flows	4
(4) Outlook	5
2. Basic Approach to the Selection of Accounting Standards	5
3. Consolidated Financial Statements and Notes	6
(1) Consolidated Balance Sheet	6
(2) Consolidated Statements of Income and Comprehensive Income	8
Consolidated Statement of Income	8
Consolidated Statement of Comprehensive Income	9
(3) Consolidated Statement of Changes in Equity	10
(4) Consolidated Statement of Cash Flows	12
(5) Notes to Consolidated Financial Statements	13
Going Concern Assumption	13
Additional Information	13
Segment and Other Information	13
Per Share Information	16
Material Subsequent Events	16

1. Overview of Results of Operations

(1) Results of Operations

There was initially a slow recovery of the Japanese economy in the fiscal year that ended in August 2020 as the labor market and personal income continued to improve. However, later in the fiscal year there was a major shift in the economy because of the effects on the global economy of prolonged U.S.-China trade friction, Britain's departure from the EU and other events as well as the COVID-19 outbreak. The impact on the Japanese and global economy, volatility in financial markets and other effects of these events make the outlook for the economy uncertain.

In Japan's IT services industry, which is the primary business field of the Seraku Group, the scope of activities is expanding rapidly to cover new technologies such as IoT services, big data and artificial intelligence (AI). Investments are expected to grow in all of these areas. IT services are also expanding in the field of security services for protection against highly sophisticated cyberattacks. As a result, recruiting and training skilled engineers who can meet the requirements of IT service companies are becoming increasingly important.

To provide services with even greater value, the Seraku Group recruited and trained many highly skilled engineers during the current fiscal year. Using our Midori Cloud remote monitoring system to increase our market share in the agricultural IT sector was another priority. In the next fiscal year, we will need to pay close attention to revisions, reductions and other actions by companies regarding their IT investment plans in response to the COVID-19 crisis.

Net sales increased 20.7% year-on-year to 13,771 million yen, operating profit increased 55.9% year-on-year to 1,134 million yen, ordinary profit increased 58.0% year-on-year to 1,165 million yen, and profit attributable to owners of parent increased 48.3% year-on-year to 654 million yen.

Results by business segment were as follows.

1) System Integration

System Integration includes IT infrastructure and cloud technologies, a business sector with long-term stability that primarily involves IT support in existing technology domains. This segment also provides digital creative services, web operations, web system development and many other services.

One activity in this segment during the current fiscal year was recruiting people for growing business domains such as cloud operations, project management and digital marketing. Many companies sharply reduced their new ICT investments in the second half of the current fiscal year due to the worsening market conditions because of COVID-19. However, there was no significant negative effect of this crisis on services involving operations, which is the largest category of this segment.

To offset the decline in new business, we reduced recruiting activities and focused on capturing orders in the public service sector, increasing sales of services that help companies start using teleworking, and enabling new college graduates that we hired to quickly become productive members of our workforce.

Sales in the System Integration segment were 10,914 million yen, up 9.9% year on year, and the segment profit was 1,021 million yen, up 29.1%.

2) Digital Transformation

This segment encompasses many services that utilize advanced technologies. Activities include cybersecurity for protecting the information assets of companies, the use of the IoT, AI and data science to solve customers' problems, the use of data visualization and robotic process automation (RPA) to make business processes more efficient, and Midori Cloud, which uses IT for the profitability of agricultural businesses.

The performance of the data science sector was negatively impacted by COVID-19 but all other categories of this segment performed generally as planned during the current fiscal year. Most significantly, a new marketing initiative in the salesforce retention support business resulted in the acquisition of many new customers.

Engineers in this segment received salesforce technology training in order to achieve a digital transformation shift of these engineers and enable them to provide services with more added value.

In the agricultural services sector, we provided customized versions of Midori Cloud and Farm Cloud. This contributed to the receipt of a large number of orders for creating solutions for specific issues involving agriculture.

We established an alliance with a distributor of fresh fruit and vegetables in order to launch a new platform called Midori Market.

Sales in the Digital Transformation segment were 2,421 million yen, up 98.1% year on year, and the segment profit was 160 million yen, compared with profit of 1 million yen in the previous fiscal year.

3) Mechanical Design and Engineering

This segment is the operations of consolidated subsidiary P's Engineering. This company provides 3D CAD technologies, designs machines, dies and other items for other companies, and provides technologies for experiments, performance tests and other aspects of quality assurance activities.

There was a decline in orders because of COVID-19. P's Engineering responded to the difficult market conditions by targeting new business fields with good prospects (communication infrastructure construction, machine tools/robots) and providing services backed by people with hands-on experience acquired from practical internal projects.

Sales in the Mechanical Design and Engineering segment were 435 million yen, up 78.2% year on year, and the segment loss was 32 million yen, compared with a loss of 36 million yen in the previous fiscal year.

4) Others

This segment is the operations of consolidated subsidiary Seraku ECA, which is primarily engaged in job placement and temporary staffing services and services for training IT engineers.

During the current fiscal year, Seraku ECA matched highly skilled IT engineers with a broad range of requirements at companies for these people. IT professionals in Japan tend to change jobs relatively often. To supply educational services for the employees of companies in a broad range of fields, including sectors outside the IT domain, Seraku ECA focused on providing services that precisely meet the needs of job seekers and on establishing relationships with more companies that need to hire people. Beginning in April, the recruiting requirements of many client companies decreased and these companies reduced, suspended or postponed recruiting activities because of the state of emergency and other effects of the COVID-19 crisis.

Sales in the Other segment were 27 million yen, up 110.7% year on year, and the segment loss was 13 million yen, compared with a loss of 25 million yen in the previous fiscal year.

(2) Financial Position

Assets

Total assets increased 1,971 million yen from the end of the previous fiscal year to 7,342 million yen as of the end of the current fiscal year. The main reasons were increases of 1,557 million yen in cash and deposits and 229 million yen in notes and accounts receivable-trade.

Liabilities

Total liabilities increased 1,353 million yen to 3,912 million yen. The main reasons were increases of 793 million yen in long-term borrowings, 240 million yen in accrued consumption taxes, 117 million yen in accounts payable-other, 102 million yen in income taxes payable and 92 million yen in provision for bonuses.

Net assets

Total net assets increased 618 million yen to 3,429 million yen. The main reason was an increase of 609 million yen in retained earnings.

(3) Cash Flows

Cash and cash equivalents (hereinafter “net cash”) at the end of the current fiscal year amounted to 4,282 million yen.

Cash flows and the main reasons for changes are as follows.

Cash flows from operating activities

Net cash provided by operating activities totaled 995 million yen.

Although there were negative factors including income taxes paid of 419 million yen and an increase in trade receivables of 229 million yen, there were positive factors including profit before income taxes of 1,063 million yen, loss on valuation of investment securities of 88 million yen, depreciation of 25 million yen, impairment loss of 13 million yen, and increases in accrued consumption taxes of 240 million yen, accounts payable-other of 116 million yen, provision for bonuses of 92 million yen, retirement benefit liability of 20 million yen and trade payables of 17 million yen.

Cash flows from investing activities

Net cash used in investing activities totaled 160 million yen.

Negative factors include purchase of property, plant and equipment of 63 million yen, payments of leasehold and guarantee deposits of 55 million yen and purchase of insurance funds of 54 million yen.

Cash flows from financing activities

Net cash provided by financing activities totaled 724 million yen.

Although there were negative factors including repayments of long-term borrowings of 136 million yen and dividends paid of 41 million yen, there were positive factors including proceeds from long-term borrowings of 900 million yen.

Reference: Trends in cash flow indicators

	FY8/17	FY8/18	FY8/19	FY8/20
Equity ratio (%)	62.4	57.4	52.3	46.7
Market value-based equity ratio (%)	328.9	222.4	176.1	289.7
Interest-bearing debt to cash flow ratio (year)	0.5	0.4	0.5	1.1
Interest coverage ratio (time)	160.9	641.3	802.4	442.0

Equity ratio: Shareholders' equity / Total assets

Market value-based equity ratio: Market capitalization / Total assets

Interest-bearing debt to cash flow ratio: Interest-bearing debt / Cash flows

Interest coverage ratio: Cash flows / Interest payments

Notes: 1. Cash flows are calculated using the figures for operating cash flows in the consolidated statement of cash flows.

2. Interest-bearing debt includes all debts on the consolidated balance sheet that incur interest.

(4) Outlook

The outlook for the Japanese economy is unclear because of the worldwide COVID-19 pandemic.

In the IT services industry, we believe that companies will be making substantial IT investments because of the increasing need to improve efficiency, strategic investments for the digital transformation and other requirements. Many companies also need to make labor-saving investments because of Japan's labor shortage. To meet the expected growth in the needs of companies concerning IT personnel, we plan to further strengthen our training programs for engineers.

We are also concentrating on becoming more technologically competitive in leading-edge categories of the IT domain and continuing to upgrade our services.

Although the negative impact of COVID-19 on our business activities has not been significant, we will continue to be vigilant about upcoming effects of this crisis on the economy. In addition, we will establish a framework for our businesses that can adapt to any changes in market conditions.

Overall, we forecast consolidated net sales of 15,020 million yen, operating profit of 1,370 million yen, ordinary profit of 1,650 million yen and profit attributable to owners of parent of 957 million yen for the fiscal year ending August 31, 2021.

This forecast is based on information available at the time this report was released. Actual results may differ for a variety of reasons.

2. Basic Approach to the Selection of Accounting Standards

The Seraku Group currently prepares consolidated financial statements using Generally Accepted Accounting Principles in Japan to permit comparisons with prior years and with the financial data of other companies. We will take suitable actions with regard to the application of International Financial Reporting Standards (IFRS) by taking into account associated factors in Japan and other countries.

3. Consolidated Financial Statements and Notes**(1) Consolidated Balance Sheet**

	(Thousands of yen)	
	FY8/19	FY8/20
	(As of Aug. 31, 2019)	(As of Aug. 31, 2020)
Assets		
Current assets		
Cash and deposits	2,772,268	4,329,351
Notes and accounts receivable-trade	1,597,154	1,826,711
Work in process	18,034	19,453
Raw materials	28,634	36,816
Other	67,328	107,482
Allowance for doubtful accounts	(2,689)	(4,124)
Total current assets	4,480,730	6,315,690
Non-current assets		
Property, plant and equipment		
Buildings, net	72,425	111,892
Tools, furniture and fixtures, net	13,947	22,794
Other	97	0
Total property, plant and equipment	86,470	134,686
Intangible assets		
Goodwill	34,217	25,093
Software	26,267	8,692
Other	1,959	1,844
Total intangible assets	62,445	35,630
Investments and other assets		
Investment securities	222,440	132,702
Deferred tax assets	279,521	383,832
Leasehold and guarantee deposits	168,440	214,613
Other	70,678	125,216
Total investments and other assets	741,080	856,364
Total non-current assets	889,996	1,026,681
Total assets	5,370,727	7,342,372

	(Thousands of yen)	
	FY8/19	FY8/20
	(As of Aug. 31, 2019)	(As of Aug. 31, 2020)
Liabilities		
Current liabilities		
Accounts payable-trade	39,748	57,323
Current portion of long-term borrowings	136,215	106,660
Accounts payable-other	806,252	924,007
Income taxes payable	267,537	369,631
Accrued consumption taxes	263,997	504,583
Provision for bonuses	547,582	639,927
Provision for loss on order received	365	-
Other	161,993	170,966
Total current liabilities	2,223,693	2,773,098
Non-current liabilities		
Long-term borrowings	212,230	1,005,570
Retirement benefit liability	122,915	133,900
Other	196	72
Total non-current liabilities	335,342	1,139,542
Total liabilities	2,559,036	3,912,641
Net assets		
Shareholders' equity		
Share capital	297,974	297,974
Capital surplus	495,724	495,724
Retained earnings	2,018,270	2,628,218
Treasury shares	(32)	(62)
Total shareholders' equity	2,811,937	3,421,855
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	972	65
Remeasurements of defined benefit plans	(3,159)	3,647
Total accumulated other comprehensive income	(2,186)	3,712
Share acquisition rights	1,940	4,162
Total net assets	2,811,690	3,429,730
Total liabilities and net assets	5,370,727	7,342,372

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

	(Thousands of yen)	
	FY8/19	FY8/20
	(Sep. 1, 2018 – Aug. 31, 2019)	(Sep. 1, 2019 – Aug. 31, 2020)
Net sales	11,410,214	13,771,620
Cost of sales	8,792,469	10,486,525
Gross profit	2,617,745	3,285,095
Selling, general and administrative expenses	1,890,153	2,150,623
Operating profit	727,592	1,134,471
Non-operating income		
Interest and dividend income	1,954	2,038
Subsidy income	6,700	31,091
Other	1,894	1,442
Total non-operating income	10,548	34,572
Non-operating expenses		
Interest expenses	816	2,252
Other	49	1,549
Total non-operating expenses	865	3,801
Ordinary profit	737,275	1,165,242
Extraordinary income		
Gain on reversal of share acquisition rights	155	233
Total extraordinary income	155	233
Extraordinary losses		
Loss on retirement of non-current assets	1,921	-
Impairment loss	36,138	13,825
Loss on valuation of investment securities	-	88,429
Total extraordinary losses	38,060	102,254
Profit before income taxes	699,370	1,063,220
Income taxes-current	356,605	516,132
Income taxes-deferred	(98,180)	(106,913)
Total income taxes	258,425	409,218
Profit	440,945	654,002
Profit attributable to owners of parent	440,945	654,002

Consolidated Statement of Comprehensive Income

(Thousands of yen)

	FY8/19 (Sep. 1, 2018 – Aug. 31, 2019)	FY8/20 (Sep. 1, 2019 – Aug. 31, 2020)
Profit	440,945	654,002
Other comprehensive income		
Valuation difference on available-for-sale securities	972	(907)
Remeasurements of defined benefit plans, net of tax	(4,024)	6,806
Total other comprehensive income	(3,051)	5,898
Comprehensive income	437,894	659,901
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	437,894	659,901

(3) Consolidated Statement of Changes in Equity

FY8/19 (Sep. 1, 2018 – Aug. 31, 2019)

(Thousands of yen)

	Shareholders' equity				
	Share capital	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at beginning of period	297,794	495,544	1,614,473	(32)	2,407,780
Changes during period					
Issuance of new shares	180	180			360
Dividends of surplus			(37,149)		(37,149)
Profit attributable to owners of parent			440,945		440,945
Purchase of treasury shares				-	-
Net changes in items other than shareholders' equity					
Total changes during period	180	180	403,796	-	404,156
Balance at end of period	297,974	495,724	2,018,270	(32)	2,811,937

	Accumulated other comprehensive income			Share acquisition rights	Total net assets
	Valuation difference on available-for-sale securities	Remeasurements of defined benefit plans	Total accumulated other comprehensive income		
Balance at beginning of period	-	865	865	1,421	2,410,067
Changes during period					
Issuance of new shares					360
Dividends of surplus					(37,149)
Profit attributable to owners of parent					440,945
Purchase of treasury shares					-
Net changes in items other than shareholders' equity	972	(4,024)	(3,051)	518	(2,532)
Total changes during period	972	(4,024)	(3,051)	518	401,623
Balance at end of period	972	(3,159)	(2,186)	1,940	2,811,690

FY8/20 (Sep. 1, 2019 – Aug. 31, 2020)

(Thousands of yen)

	Shareholders' equity				
	Share capital	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at beginning of period	297,974	495,724	2,018,270	(32)	2,811,937
Changes during period					
Issuance of new shares	-	-			-
Dividends of surplus			(44,054)		(44,054)
Profit attributable to owners of parent			654,002		654,002
Purchase of treasury shares				(29)	(29)
Net changes in items other than shareholders' equity					
Total changes during period	-	-	609,948	(29)	609,918
Balance at end of period	297,974	495,724	2,628,218	(62)	3,421,855

	Accumulated other comprehensive income			Share acquisition rights	Total net assets
	Valuation difference on available-for-sale securities	Remeasurements of defined benefit plans	Total accumulated other comprehensive income		
Balance at beginning of period	972	(3,159)	(2,186)	1,940	2,811,690
Changes during period					
Issuance of new shares					-
Dividends of surplus					(44,054)
Profit attributable to owners of parent					654,002
Purchase of treasury shares					(29)
Net changes in items other than shareholders' equity	(907)	6,806	5,898	2,222	8,120
Total changes during period	(907)	6,806	5,898	2,222	618,039
Balance at end of period	65	3,647	3,712	4,162	3,429,730

(4) Consolidated Statement of Cash Flows

	(Thousands of yen)	
	FY8/19	FY8/20
	(Sep. 1, 2018 – Aug. 31, 2019)	(Sep. 1, 2019 – Aug. 31, 2020)
Cash flows from operating activities		
Profit before income taxes	699,370	1,063,220
Depreciation	32,774	25,381
Impairment loss	36,138	13,825
Amortization of goodwill	9,124	9,124
Loss (gain) on valuation of investment securities	-	88,429
Increase (decrease) in allowance for doubtful accounts	147	1,435
Increase (decrease) in provision for bonuses	196,688	92,344
Increase (decrease) in retirement benefit liability	26,381	20,795
Interest and dividend income	(1,954)	(2,038)
Subsidy income	-	(31,091)
Interest expenses	816	2,252
Loss on retirement of non-current assets	1,921	-
Decrease (increase) in trade receivables	(433,428)	(229,556)
Decrease (increase) in inventories	(6,474)	(9,600)
Decrease (increase) in prepaid expenses	(6,521)	(39,692)
Increase (decrease) in trade payables	21,466	17,574
Increase (decrease) in accounts payable-other	169,342	116,946
Increase (decrease) in accrued consumption taxes	70,661	240,585
Other, net	94,306	4,809
Subtotal	910,762	1,384,744
Interest and dividends received	1,954	1,448
Interest paid	(798)	(2,620)
Proceeds from subsidy income	-	31,091
Income taxes paid	(256,861)	(419,133)
Net cash provided by (used in) operating activities	655,055	995,530
Cash flows from investing activities		
Payments into time deposits	(2,103)	(2,504)
Proceeds from withdrawal of time deposits	-	5,060
Purchase of property, plant and equipment	(22,815)	(63,700)
Purchase of intangible assets	(17,081)	(4,194)
Purchase of investment securities	(120,288)	-
Payments of leasehold and guarantee deposits	(28,916)	(55,602)
Net decrease (increase) in short-term loans receivable	(15,000)	15,000
Purchase of insurance funds	(54,538)	(54,538)
Other proceeds	4,773	25
Net cash provided by (used in) investing activities	(255,969)	(160,453)
Cash flows from financing activities		
Proceeds from long-term borrowings	250,000	900,000
Repayments of long-term borrowings	(152,197)	(136,215)
Repayments of lease obligations	(4,671)	(235)
Proceeds from issuance of shares	360	-
Dividends paid	(37,009)	(41,413)
Proceeds from issuance of share acquisition rights	674	2,455
Purchase of treasury shares	-	(29)
Other payments	(155)	-
Net cash provided by (used in) financing activities	57,001	724,561
Effect of exchange rate change on cash and cash equivalents	(0)	0
Net increase (decrease) in cash and cash equivalents	456,087	1,559,639
Cash and cash equivalents at beginning of period	2,266,927	2,723,014
Cash and cash equivalents at end of period	2,723,014	4,282,653

(5) Notes to Consolidated Financial Statements

Going Concern Assumption

Not applicable.

Additional Information

Impact of the spread of the COVID-19 pandemic on accounting estimates

The COVID-19 pandemic is having an enormous impact on the global economy and the activities of companies. The outlook for the Japanese economy will probably remain unclear for some time.

Although this crisis has negatively affected the performance of the Seraku Group during the fiscal year ended on August 31, 2020, we do not think this effect has been significant.

Consequently, the recoverability of deferred tax assets and other estimates for the fiscal year that ended on August 31, 2020 are based on the outlook for only a small negative impact of COVID-19.

However, there is a risk of this crisis lasting a long time and resulting in a larger than anticipated reduction in the demand for the Seraku Group's services. If this happens, there may be a negative impact on the group's performance and financial position in the fiscal year ending on August 31, 2021 and afterward.

Segment and Other Information

Segment Information

1. Overview of reportable segments

Segments used for financial reporting are the Seraku Group's constituent units for which separate financial information is available and for which the Board of Directors performs periodic studies for the purposes of determining the allocation of resources and evaluating performance.

The Seraku Group has three reportable segments based on categories used for management that reflect the characteristics of business activities, applicable laws and regulations, and other factors: System Integration, Digital Transformation and Mechanical Design and Engineering.

The main activities of the System Integration segment are IT infrastructure and cloud technologies, digital creative services, web operations, the development of web systems, and other activities. The main activities of the Digital Transformation segment are cybersecurity, data science using the IoT and AI, business intelligence using RPA, and sales and services for the Midori Cloud agricultural remote monitoring system. The main activities of the Mechanical Design and Engineering segment are 3D CAD technologies and the design of machines, dies and other items for other companies.

2. Calculation methods for net sales, profit/loss, assets, liabilities and other items for each reportable segment

The accounting methods for reportable segments are generally the same as those listed in "Significant Accounting Policies." The profit for reportable segments is operating profit.

3. Information related to net sales, profit/loss, assets, liabilities and other items in reportable segments

FY8/19 (Sep. 1, 2018 – Aug. 31, 2019)

(Thousands of yen)

	Reportable segment				Other (Note 1)	Total	Adjustment (Note 2)	Amount in the consolidated financial statements (Note 3)
	System Integration	Digital Transfor- mation	Mechanical Design and Engineering	Total				
Net sales								
Sales to external customers	9,933,784	1,222,217	243,210	11,399,211	11,002	11,410,214	-	11,410,214
Inter-segment sales and transfers	-	-	1,380	1,380	2,250	3,630	(3,630)	-
Total	9,933,784	1,222,217	244,590	11,400,591	13,252	11,413,844	(3,630)	11,410,214
Segment profit (loss)	790,678	1,046	(36,878)	754,845	(25,873)	728,972	(1,380)	727,592
Segment assets	-	55,835	140,992	196,828	76,842	273,671	5,097,056	5,370,727
Other items								
Amortization of goodwill	-	-	9,124	9,124	-	9,124	-	9,124
Depreciation	17,085	15,358	330	32,774	-	32,774	-	32,774
Increase in property, plant and equipment, and intangible assets	-	12,670	-	12,670	-	12,670	24,435	37,106
Impairment loss	-	36,138	-	36,138	-	36,138	-	36,138

- Notes: 1. The “Other” business segment consists of activities that are not included in any of the reportable segments, and is primarily engaged in job placement and temporary staffing services and services for training IT engineers.
2. The adjustment to segment profit (loss) includes corporate costs that are not allocated to any of the reportable segments. Corporate costs mainly include general and administrative expense that cannot be attributed to any of the reportable segments. The adjustment to segment profit (loss) includes inter-segment transaction elimination of minus 3,630 thousand yen.
3. Segment profit (loss) is adjusted with operating profit shown on the consolidated statement of income.
4. The adjustment of 5,097,056 thousand yen to segment assets includes corporate assets that are not allocated to reportable segments.
5. Corporate assets are not allocated to specific reportable segments, but corporate costs and other expenses associated with these assets are allocated to specific reportable segments using reasonable standards.
6. The 24,435 thousand yen adjustment to increase in property, plant and equipment and intangible assets includes capital expenditures associated with the head office and branch office buildings of 22,815 thousand yen.

FY8/20 (Sep. 1, 2019 – Aug. 31, 2020)

(Thousands of yen)

	Reportable segment				Other (Note 1)	Total	Adjustment (Note 2)	Amount in the consolidated financial statements (Note 3)
	System Integration	Digital Transfor- mation	Mechanical Design and Engineering	Total				
Net sales								
Sales to external customers	10,914,039	2,421,604	426,299	13,761,943	9,677	13,771,620	-	13,771,620
Inter-segment sales and transfers	-	-	9,628	9,628	18,242	27,871	(27,871)	-
Total	10,914,039	2,421,604	435,928	13,771,572	27,920	13,799,492	(27,871)	13,771,620
Segment profit (loss)	1,021,026	160,152	(32,780)	1,148,397	(13,926)	1,134,471	-	1,134,471
Segment assets	-	51,276	130,923	182,199	63,891	246,090	7,096,281	7,342,372
Other items								
Amortization of goodwill	-	-	9,124	9,124	-	9,124	-	9,124
Depreciation	17,758	7,371	252	25,381	-	25,381	-	25,381
Increase in property, plant and equipment, and intangible assets	-	3,001	293	3,294	-	3,294	66,438	69,732
Impairment loss	-	13,825	-	13,825	-	13,825	-	13,825

- Notes: 1. The “Other” business segment consists of activities that are not included in any of the reportable segments, and is primarily engaged in job placement and temporary staffing services and services for training IT engineers.
2. The adjustment to segment profit (loss) includes corporate costs that are not allocated to any of the reportable segments. Corporate costs mainly include general and administrative expense that cannot be attributed to any of the reportable segments. The adjustment to segment profit (loss) includes inter-segment transaction elimination of minus 27,871 thousand yen.
3. Segment profit (loss) is adjusted with operating profit shown on the consolidated statement of income.
4. The adjustment of 7,096,281 thousand yen to segment assets includes corporate assets that are not allocated to reportable segments.
5. Corporate assets are not allocated to specific reportable segments, but corporate costs and other expenses associated with these assets are allocated to specific reportable segments using reasonable standards.
6. The 66,438 thousand yen adjustment to increase in property, plant and equipment and intangible assets includes capital expenditures associated with the head office and branch office buildings of 65,538 thousand yen.

Per Share Information

(Yen)

	FY8/19 (Sep. 1, 2018 – Aug. 31, 2019)	FY8/20 (Sep. 1, 2019 – Aug. 31, 2020)
Net assets per share	204.09	248.82
Net income per share	32.03	47.50
Diluted net income per share	32.00	47.47

Note: The basis of calculating the net income per share and diluted net income per share is as follows:

(Thousands of yen)

	FY8/19 (Sep. 1, 2018 – Aug. 31, 2019)	FY8/20 (Sep. 1, 2019 – Aug. 31, 2020)
Net income per share		
Profit attributable to owners of parent	440,945	654,002
Amounts not attributable to common shareholders	-	-
Profit attributable to owners of parent applicable to common shares	440,945	654,002
Average number of common shares outstanding during the period (Shares)	13,764,607	13,767,158
Diluted net income per share		
Adjustment to profit attributable to owners of parent	-	-
Increase in the number of common shares (Shares)	13,729	9,914
[of which share acquisition rights (Shares)]	[13,729]	[9,914]
Summary of potential stock not included in the calculation of diluted net income per share since there was no dilutive effect	Four types of share acquisition rights (Number of share acquisition rights: 2,726)	Five types of share acquisition rights (Number of share acquisition rights: 4,325)

Material Subsequent Events

Not applicable.

This financial report is solely a translation of “Kessan Tanshin” (in Japanese, including attachments), which has been prepared in accordance with accounting principles and practices generally accepted in Japan, for the convenience of readers who prefer an English translation.