

# Summary of Financial Results for the Year Ended December 2020 [Japan GAAP] (Consolidated)

February 12, 2021

Name of Company: LTS, Inc.	Stock Exchange Listing: Tokyo
Stock Code: 6560	URL <a href="https://lt-s.jp/">https://lt-s.jp/</a>
Representative: Title: President and CEO	Name: Hiroaki Kabashima
Contact Person: Title: Executive Officer and Manager of Group Management Office	Name: Hiroyuki Komatsu Phone: +81-3-5919-0512
Date of regular general meeting of shareholders:	March 17, 2021
Date of filing of securities report:	March 18, 2021
Date of commencement of dividend payment:	—
Preparation of supplementary materials:	Yes
Convening of a results meeting:	Yes

(Amounts less than one million are rounded down)

## 1. Financial results for the current fiscal year (January 1, 2020 – December 31, 2020)

### (1) Operating results (consolidated)

(Percentage figures represent year-on-year change)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent	
	million yen	%	million yen	%	million yen	%	million yen	%
Year ended December 2020	5,555	46.6	478	55.5	447	50.0	270	34.0
Year ended December 2019	3,790	26.8	307	13.9	298	10.5	201	9.2

(Note) Comprehensive income Year ended December 2020: 259 million yen (28.8%) Year ended December 2019: 201 million yen (9.2%)

	Profit per share	Profit per share fully diluted	Return on equity	Ratio of ordinary profit to assets	Ratio of operating profit to net sales
	yen	yen	%	%	%
Year ended December 2020	66.47	61.08	16.7	13.3	8.6
Year ended December 2019	49.29	45.64	14.2	13.7	8.1

### (2) Financial position (consolidated)

	Total assets	Net assets	Capital adequacy ratio	Net assets per share
	million yen	million yen	%	yen
Year ended December 2020	4,297	1,732	40.2	420.91
Year ended December 2019	2,451	1,503	61.3	367.54

(Reference) Shareholders' equity Year ended December 2020: 1,729 million yen Year ended December 2019: 1,503 million yen

### (3) Cash flow position (consolidated)

	Cash flows from operating activities	Cash flows from investing activities	Cash flows from financing activities	Cash and cash equivalents at end of period
	million yen	million yen	million yen	million yen
Year ended December 2020	468	-163	988	2,479
Year ended December 2019	239	-125	-112	1,185

## 2. Dividends

	Dividend per share					Total annual dividend	Payout ratio (consolidated)	Dividends/net assets (consolidated)
	End of 1Q	End of 2Q	End of 3Q	End of FY	Total			
	yen	yen	yen	yen	yen	million yen	%	%
Year ended December 2019	—	0.00	—	0.00	0.00	—	—	—
Year ended December 2020	—	—	—	—	—	—	—	—
Year ended December 2020 (forecast)		0.00	—	0.00	0.00		—	

3. Forecast for the fiscal year ending December 2021 (January 1, 2021 – December 31, 2021)

(Percentage figures represent year-on-year change)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parents		Profit per share
	million yen	%	million yen	%	million yen	%	million yen	%	yen
Full year	7,000	26.0	580	21.2	530	18.5	341	26.1	82.97

(Note) There is no first half forecast.

\* Notice

(1) Changes in main subsidiaries (Changes in specific subsidiaries accompanied by changes in the scope of consolidation): No

New consolidations: company(ies) (Company name(s)); Exclusions: company(ies) (Company name(s))

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

(a) Changes in accounting policies due to revision of accounting standards: No

(b) Changes in accounting policies other than those in (a): No

(c) Changes in accounting estimates: No

(d) Restatements: No

(3) Number of shares outstanding (common shares)

(a) Shares outstanding (including treasury shares) at end of period

(b) Treasury shares at end of period

(c) Average number of shares during period

Year ended December 2020	4,197,400 shares	Year ended December 2019	4,151,100 shares
Year ended December 2020	87,658 shares	Year ended December 2019	60,000 shares
Year ended December 2020	4,067,130 shares	Year ended December 2019	4,093,279 shares

\* Financial results summaries are not subject to audit.

\* Cautionary statement regarding business results forecasts and special notes

The financial forecasts and other forward-looking statements herein are based on currently available information and assumptions considered by the Company to be reasonable and do not represent a commitment from the Company that they will be achieved. Actual results may differ substantially due to various factors.

## O Contents of Accompanying Materials

1. Analysis of Operating Performance and Financial Position .....	4
(1) Overview of Operating Results .....	4
(2) Overview of Financial Position .....	5
(3) Overview of Cash Flows .....	5
(4) Future Outlook .....	5
2. Basic Approach to Selection of Accounting Standards .....	6
3. Consolidated Financial Statements and Main Notes .....	7
(1) Consolidated Balance Sheet .....	7
(2) Consolidated Statement of Income and Consolidated Statement of Comprehensive Income .....	9
(3) Consolidated Statement of Changes in Net Assets .....	11
(4) Consolidated Statement of Cash Flows .....	13
(5) Notes to the Consolidated Financial Statements .....	14
(Notes Related to Going Concern Assumptions) .....	14
(Additional Information) .....	14
(Retirement Benefits) .....	14
(Notes - Business Combinations) .....	15
(Segment Information) .....	19
(Per Share Information) .....	22
(Significant Subsequent Events) .....	22

# 1. Analysis of Operating Performance and Financial Position

## (1) Overview of Operating Results

During the fiscal year under review, the Japanese economy was impacted by the spread of COVID-19 with social and economic activities becoming stagnant and the business environment rapidly deteriorating as a result. Social and economic activities have gradually been resuming, and there are signs of a recovery in exports and production, but the virus continues to spread worldwide, so the future of the economy remains uncertain.

In the information services industry, which is the main business domain of our Group (the Company and its consolidated subsidiaries, the same applies hereinafter), demand has decreased from some quarters due to an overall decline in economic activity. On the other hand, there is a high level of interest in management digital transformation (DX) activities to respond to changes in the social environment in the midst of the peri- and post-COVID-19 situations. As such, demand remains strong for providing support for such internal reform activities as work style reform, including introducing task performing robots such as AI and RPA (robotic process automation) and promoting telecommuting.

Under these circumstances, the Group has been developing a professional services business and a platform business as a company that supports and promotes corporate transformation and work style reform. In our professional services business, we enter our customers' work sites and deliver expected solutions, utilizing robotics, AI, and business process management to provide one-stop support catered to the customer's unique challenges and reform objectives. In addition to strengthening our collaborations with other companies through M&A and other means, we promoted telecommuting in conjunction with changes in social circumstances and worked actively on project execution via new formats along with hiring and training of human resources. In our platform business, we solve IT personnel shortages and, in addition to rolling out existing Assign Navi and Consultant Job services, we promoted development of our new CS Clip service that matches operating companies with DX companies.

As a result of the above, during the fiscal year under review, we achieved net sales of ¥5,555.735 million yen (up 46.6% year on year), operating profit of ¥478.608 million (up 55.5% year on year), and ordinary profit of ¥447.220 million (up 50.0% year on year), and profit attributable to owners of parent of ¥270.326 million (up 34.0% year on year).

A summary of financial results by segment (net sales includes internal sales) is provided below.

### (Professional Services Business)

In our professional services business, we steadily acquired traditional consulting projects based on our strengths in business process management for implementing strategies. This was a result of our focus on strengthening relationships with corporate customers while making use of telecommuting. We did this in the midst of significant changes in the environment surrounding our IT Division in response to various restrictions imposed on corporate activities. We promoted partnerships with outside companies, primarily technology companies, and actively communicated information to outside parties with a focus on advanced topics such as digital transformation (DX) projects. This included making IoT Japan Inc., which supports innovation utilizing IoT, a consolidated subsidiary, along with SOFTEC Co., Ltd., which is engaged in everything from system planning and development to operations and maintenance, and strengthening our efforts in the management consulting domain through collaboration with Integratto Inc.

As a result, net sales in the professional services business came to ¥5,367.051 million (up 46.3% year on year) and segment profit (operating profit) came to ¥432.969 million (up 38.8% year on year).

### (Platform Business)

In the platform business, the number of members in the Assign Navi platform, which provides business matching and a learning forum specialized for the IT industry, grew to 10,206 including both corporate and individual members as of December 31, 2020. This steady growth represents a 1,831-member increase over the end of the previous year. Our track record with Assign Navi and Consultant Job matching and member services has also expanded in conjunction with growth of our member base, and sales were strong. In addition to developing and growing our existing services, we continued to invest in development of our new service, CS Clip. At the same time, we also reviewed the billing system of Assign Navi, which has been revitalized in the midst of the

COVID-19 pandemic, to increase profitability. In these ways, we actively promoted activities to expand future profitability and build a stable business foundation.

As a result, net sales in the platform business came to ¥237.548 million (up 47.1% year on year), and the segment profit (operating profit) came to ¥45.639 million (as opposed to a loss of ¥4.197 million the previous year).

## (2) Overview of Financial Position

Total assets at the end of the fiscal year under review were ¥4,297.898 million, up ¥1,845.922 million from the end of the previous fiscal year. This was primarily due to a ¥1,297.294 million increase in cash and deposits and a ¥211.562 million increase in accounts receivable - trade.

Liabilities amounted to ¥2,565.352 million, up ¥1,617.009 million from the end of the previous fiscal year. This was primarily due to an ¥831.373 million increase in long-term borrowings, a ¥268.835 million increase in current portion of long-term borrowings, and a ¥140.795 million increase in accounts payable – other.

Net assets amounted to ¥1,732.546 million, up ¥228.912 million from the end of the previous fiscal year. This was primarily due to a ¥265.467 million increase in retained earnings, a ¥12.510 million increase in share capital, a ¥7.185 million increase in capital surplus, and a ¥58.731 million increase in treasury shares. The equity ratio was 40.2%.

## (3) Overview of Cash Flows

Cash and cash equivalents (hereinafter referred to as “funds”) at the end of the fiscal year under review totaled ¥2,479.226 million, an increase of ¥1,293.827 million year on year. Below is an overview of cash flows during the fiscal year under review and the factors involved.

### (Operating Activities)

Net cash provided by operating activities amounted to ¥468.933 million. This was a result of an ¥80.223 million increase in trade payables, ¥27.343 million in depreciation, and ¥26.122 million increase in provision for bonuses, despite a ¥124.356 million increase in trade receivables and ¥130.794 million in income taxes paid.

### (Investment Activities)

Net cash used in investing activities amounted to ¥163.607 million. This was a result of a ¥62.064 million purchase of intangible assets, a ¥55.827 million purchase of shares of subsidiaries resulting in change in scope of consolidation, a ¥30.000 million purchase of investment securities, and a ¥17.522 million purchase of property, plant and equipment.

### (Financing Activities)

Net cash provided by financing activities amounted to ¥988.730 million. This was primarily a result of ¥1,260.000 million in proceeds from long-term borrowings despite a ¥111.359 million purchase of treasury shares and ¥184.930 million in repayment of long-term borrowings.

## (4) Future Outlook

In the professional services business in the fiscal year ending December 2021, COVID-19 will continue to have an impact, but we expect to continue to see strong demand for management digital transformation (DX), including strategic IT investment to ensure competitiveness and work style reform such as telecommuting for operational efficiency and adapting to new lifestyles, as companies look ahead to growing their businesses after the virus fades. Our Group customers include many companies that had already been actively promoting digital transformation efforts. We will leverage the business foundation we have built to promote acquisition of digital transformation projects while also promoting collaboration with IT companies and their engineers. Additionally, we will continue to strengthen our business relationships with leading digital companies, which are our main customers while securing outstanding human resources to serve as the foundation of our service provision by actively hiring and training consultants, data scientists, and engineers as we prepare to expand the size of our business.

Additionally, in the platform business, we will meet the diverse needs of IT businesses and operating companies by expanding the member base of Assign Navi and utilization of the service as well as by promoting matching with independent consultants via Consultant Job. While maintaining a certain level of immediate profits, we will also promote development of CS Clip, which creates partnerships with operating companies and excellent IT and DX companies as we aim to diversify revenue streams and further expand profitability in the medium to long term.

By promoting the measures above, in the next fiscal year, the Group expects to achieve net sales of ¥7,000 million (a year-on-year increase of 26.0%), operating profit of ¥580 million (a year-on-year increase of 21.2%), ordinary profit of ¥530 million (a year-on-year increase of 18.5%), and profit attributable to owners of parent of ¥341 million (a year-on-year increase of 26.1%).

## 2. Basic Approach to Selection of Accounting Standards

The Group prepares consolidated financial statements based on Japanese standards. We will address application of International Financial Reporting Standards (IFRS) as appropriate based on circumstances at home and abroad.

### 3. Consolidated Financial Statements and Main Notes

#### (1) Consolidated Balance Sheet

(Thousands of yen)

	Previous consolidated fiscal year (ended December 31, 2019)	Current consolidated fiscal year (ended December 31, 2020)
<b>Assets</b>		
Current assets		
Cash and deposits	1,385,445	2,682,739
Electronically recorded monetary claims - operating	74,279	81,126
Accounts receivable - trade	601,973	813,535
Work in process	44,589	55,660
Allowance for doubtful accounts	-2,159	-2,035
Other	57,196	75,995
Total current assets	2,161,325	3,707,022
Non-current assets		
Property, plant and equipment		
Buildings and structures	27,410	27,615
Accumulated depreciation	-10,852	-12,808
Buildings and structures, net	16,558	14,807
Tools, furniture and fixtures	106,011	130,959
Accumulated depreciation	-77,394	-104,801
Tools, furniture and fixtures, net	28,616	26,158
Total property, plant and equipment	45,175	40,966
Intangible fixed assets		
Goodwill	83,366	204,488
Software	8,678	6,128
Software in progress	24,703	86,768
Total intangible assets	116,748	297,386
Investments and other assets		
Leasehold and guarantee deposits	40,157	42,077
Deferred tax assets	57,352	120,927
Investment securities	20,330	29,657
Other	10,885	59,861
Total investments and other assets	128,726	252,523
Total non-current assets	290,650	590,876
Total assets	2,451,976	4,297,898

(Thousands of yen)

	Previous consolidated fiscal year (ended December 31, 2019)	Current consolidated fiscal year (ended December 31, 2020)
<b>Liabilities</b>		
Current liabilities		
Accounts payable - trade	405,963	504,577
Current portion of long-term borrowings	36,170	305,005
Accounts payable - other	129,819	270,615
Income taxes payable	87,863	149,319
Provision for bonuses	103,390	111,813
Provision for bonuses for directors (and other officers)	4,424	22,123
Other	126,614	218,469
Total current liabilities	894,247	1,581,924
Non-current liabilities		
Long-term borrowings	52,495	883,868
Retirement benefit liability	-	96,603
Deferred tax liabilities	-	539
Other	1,600	2,415
Total non-current liabilities	54,095	983,427
Total liabilities	948,342	2,565,352
<b>Net assets</b>		
Shareholders' equity		
Share capital	516,510	529,020
Capital surplus	446,835	454,020
Retained earnings	623,734	889,202
Treasury shares	-83,738	-142,469
Total shareholders' equity	1,503,342	1,729,773
Accumulated other comprehensive income		
Foreign currency translation adjustment	291	62
Total accumulated other comprehensive income	291	62
Non-controlling interests	-	2,710
Total net assets	1,503,633	1,732,546
Liabilities and net assets	2,451,976	4,297,898



## (2) Consolidated Statement of Income and Consolidated Statement of Comprehensive Income

## Consolidated statement of income

(Thousands of yen)

	Previous consolidated fiscal year (January 1, 2019 - December 31, 2019)	Current consolidated fiscal year (January 1, 2020 - December 31, 2020)
Net sales	3,790,640	5,555,735
Cost of sales	2,297,366	3,509,085
Gross profit	1,493,274	2,046,649
Selling, general and administrative expenses	1,185,485	1,568,040
Operating profit	307,789	478,608
Non-operating income		
Interest income	11	24
Foreign exchange gains	34	219
Surrender value of insurance policies	-	3,670
Subsidy income	-	2,000
Other	566	40
Total non-operating income	611	5,954
Non-operating expenses		
Interest expenses	1,850	6,026
Listing expenses	-	27,677
Share of loss of entities accounted for using equity method	7,669	1,854
Other	793	1,785
Total non-operating expenses	10,313	37,342
Ordinary profit	298,087	447,220
Extraordinary losses		
Loss on valuation of investment securities	-	18,818
Total extraordinary losses	-	18,818
Profit before income taxes	298,087	428,401
Income taxes-current	113,302	178,902
Income taxes-deferred	-16,958	-10,551
Total income taxes	96,343	168,351
Profit	201,744	260,050
Loss attributable to non-controlling interests	-	-10,276
Profit attributable to owners of parent	201,744	270,326

## Consolidated statement of comprehensive income

(Thousands of yen)

	Previous consolidated fiscal year (ended December 31, 2019)	Current consolidated fiscal year (ended December 31, 2020)
Profit	201,744	260,050
Other comprehensive income		
Foreign currency translation adjustment	-43	-229
Total other comprehensive income	-43	-229
Comprehensive income	201,700	259,820
(Breakdown)		
Comprehensive income attributable to owners of parent	201,700	270,097
Comprehensive income attributable to non-controlling interests	-	-10,276

## (3) Consolidated Statement of Changes in Net Assets

Previous fiscal year (January 1, 2019 - December 31, 2019)

(Thousands of yen)

	Shareholders' equity				
	Share capital	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at beginning of period	496,760	427,085	421,990	-	1,345,836
Changes during period					
Issuance of new shares	19,750	19,750	-	-	39,500
Profit attributable to owners of parent	-	-	201,744	-	201,744
Purchase of treasury shares	-	-	-	-83,738	-83,738
Disposal of treasury shares	-	-	-	-	-
Increase in consolidated subsidiaries - non-controlling interests	-	-	-	-	-
Net changes of items other than shareholders' equity	-	-	-	-	-
Total changes during period	19,750	19,750	201,744	-83,738	157,506
Balance at end of period	516,510	446,835	623,734	-83,738	1,503,342

	Accumulated other comprehensive income		Non-controlling interests	Total net assets
	Foreign currency translation adjustment	Total accumulated other comprehensive income		
Balance at beginning of period	335	335	-	1,346,171
Changes during period				
Issuance of new shares	-	-	-	39,500
Profit attributable to owners of parent	-	-	-	201,744
Purchase of treasury shares	-	-	-	-83,738
Disposal of treasury shares	-	-	-	-
Increase in consolidated subsidiaries - non-controlling interests	-	-	-	-
Net changes of items other than shareholders' equity	-43	-43	-	-43
Total changes during period	-43	-43	-	157,462
Balance at end of period	291	291	-	1,503,633

Current fiscal year (January 1, 2020 - December 31, 2020)

(Thousands of yen)

	Shareholders' equity				
	Share capital	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at beginning of period	516,510	446,835	623,734	-83,738	1,503,342
Changes during period					
Issuance of new shares	12,510	12,510	-	-	25,020
Profit attributable to owners of parent	-	-	270,326	-	270,326
Purchase of treasury shares	-	-	-	-111,359	-111,359
Disposal of treasury shares	-	-5,324	-4,859	52,627	42,444
Increase in consolidated subsidiaries - non-controlling interests	-	-	-	-	-
Net changes of items other than shareholders' equity	-	-	-	-	-
Total changes during period	12,510	7,185	265,467	-58,731	226,431
Balance at end of period	529,020	454,020	889,202	-142,469	1,729,773

	Accumulated other comprehensive income		Non-controlling interests	Total net assets
	Foreign currency translation adjustment	Total accumulated other comprehensive income		
Balance at beginning of period	291	291	-	1,503,633
Changes during period				
Issuance of new shares	-	-	-	25,020
Profit attributable to owners of parent	-	-	-	270,326
Purchase of treasury shares	-	-	-	-111,359
Disposal of treasury shares	-	-	-	42,444
Increase in consolidated subsidiaries - non-controlling interests	-	-	12,987	12,987
Net changes of items other than shareholders' equity	-229	-229	-10,276	-10,505
Total changes during period	-229	-229	2,710	228,912
Balance at end of period	62	62	2,710	1,732,546

## (4) Consolidated Statement of Cash Flows

(Thousands of yen)

	Previous consolidated fiscal year (January 1, 2019 - December 31, 2019)	Current consolidated fiscal year (January 1, 2020 - December 31, 2020)
<b>Cash flows from operating activities</b>		
Profit before income taxes	298,087	428,401
Depreciation	23,534	27,343
Amortization of goodwill	4,387	21,758
Increase (decrease) in allowance for doubtful accounts	-253	-150
Increase (decrease) in provision for bonuses	43,608	26,122
Loss (gain) on valuation of investment securities	-	18,818
Interest income	-11	-24
Interest expenses	1,850	6,026
Decrease (increase) in trade receivables	-82,090	-124,356
Decrease (increase) in inventories	2,307	4,621
Increase (decrease) in trade payables	28,789	80,223
Increase (decrease) in accrued consumption taxes	19,263	55,590
Increase (decrease) in advances received	-9,351	-2,568
Increase (decrease) in accounts payable - other	-5,297	24,800
Share of loss (profit) of entities accounted for using equity method	7,669	1,854
Other, net	-1,449	36,501
Subtotal	331,044	604,962
Interest received	11	24
Interest paid	-1,824	-6,303
Income taxes paid	-90,179	-130,794
Income taxes refund	-	1,045
Net cash provided by (used in) operating activities	239,050	468,933
<b>Cash flows from investing activities</b>		
Payments into time deposits	-100,008	-16
Purchase of property, plant and equipment	-20,559	-17,522
Purchase of intangible assets	-24,703	-62,064
Payments of leasehold and guarantee deposits	-836	-3,398
Proceeds from refund of leasehold and guarantee deposits	-	225
Proceeds from purchase of shares of subsidiaries resulting in change in scope of consolidation	40,705	-
Purchase of shares of subsidiaries resulting in change in scope of consolidation	-	-55,827
Purchase of investment securities	-28,000	-30,000
Proceeds from cancellation of insurance funds	8,000	4,997
Net cash provided by (used in) investing activities	-125,402	-163,607
<b>Cash flows from financing activities</b>		
Proceeds from short-term borrowings	-	50,000
Repayments of short-term borrowings	-	-50,000
Proceeds from long-term borrowings	-	1,260,000
Repayments of long-term borrowings	-62,808	-184,930
Redemption of bonds	-5,000	-
Proceeds from issuance of shares	39,500	25,020
Purchase of treasury shares	-83,738	-111,359
Net cash provided by (used in) financing activities	-112,046	988,730
Effect of exchange rate change on cash and cash Equivalent	-43	-229
Net increase (decrease) in cash and cash equivalents	1,558	1,293,827
Cash and cash equivalents at beginning of period	1,183,840	1,185,398
Cash and cash equivalents at end of period	1,185,398	2,479,226

## (5) Notes to the Consolidated Financial Statements

(Notes Related to Going Concern Assumptions)

Not applicable.

(Additional Information)

(Application of Tax Effect Accounting Relating to Transition from Consolidated Taxation System to Group Tax Sharing System)

LTS, Inc. and some domestic subsidiaries have calculated the amounts of deferred tax assets and deferred tax liabilities according to the tax acts before they were amended based on the treatment of Paragraph 3 of “Practical Solution on the Treatment of Tax Effect Accounting for the Transition from the Consolidated Taxation System to the Group Tax Sharing System” (ASBJ Practical Issues Task Force No.39, March 31, 2020) instead of applying the provision of Paragraph 44 of “Implementation Guidance on Tax Effect Accounting” (ASBJ Guidance No.28, February 16, 2018) with respect to the transition to the group tax sharing system established in “Act for Partial Amendment of the Income Tax Act, etc.” (Act No. 8 of 2020) and items for which the nonconsolidated taxation system has been reviewed in the line with the transition to the group tax sharing system.

(Retirement Benefits)

### 1. Overview of our retirement benefits system

Some consolidated subsidiaries have adopted lump-sum retirement payment systems. The simple method of using the amount required for voluntary resignations at fiscal year-end as the retirement benefit obligation is applied when calculating retirement benefit liability and retirement benefit expenses.

### 2. Balance of retirement benefit liabilities at year-end: ¥96.603 million

(Notes - Business Combinations)

(Business combination through acquisition)

Acquisition of shares of IoToI Japan Inc.

(1) Overview of business combination

(a) Name of acquired company and description of business

Name of acquired company: IoToI Japan Inc.

Description of business: Introducing companies looking into utilization of IoT in their businesses to companies capable of providing solutions to specific needs  
Consulting related to commercialization of businesses utilizing IoT  
Business rebuilding promoting commercialization of projects stuck at the PoC stage

(b) Main reason(s) for business combination

Up until now, the Company has provided consulting services covering the stages from strategy forming to implementation support, and in the area of corporate digital transformation and new business development/business restructuring, we have provided comprehensive services related to business needs and utilizing technology to address them.

Meanwhile, IoToI Japan Inc. was established in 2017 for the purpose of providing a place for open innovation specializing in the initial stage of building IoT businesses. The place brings together companies that develop products and services looking to implement IoT in their businesses and companies that provide technologies and solutions required in the initial design of IoT businesses. The company possesses a track record of providing services for a wide range of projects in manufacturing, distribution, transportation, medicine, and other business domains.

The Company has been engaged in a business tie-up with IoToI Japan Inc. since December 20, 2019 for IoT business support, which has enjoyed a tremendous response from the market. While working on specific efforts, we determined that it was necessary to promote integration of our services through a closer relationship. It was for this purpose that we acquired a stake in IoToI Japan Inc.

The environment surrounding our business is changing rapidly, and companies must adapt quickly to customer expectations and market changes. We also continue to expand our new business development consulting services by shifting our mission from “accurate yet slow decisions” to “swift and continually course correcting decisions”. At the same time, utilization of technology is essential in new business development today. New technologies, interpretations, and case studies are announced on a daily basis, making it difficult to determine which technology a company should adopt and which company to partner with.

We are deeply involved in current corporate IT/service development, implementation, and reform and also possess a deep understanding of advanced technologies. IoToI Japan Inc. possesses extensive expertise with respect to assessing technology companies and supporting the implementation process. With this capital tie-up, we aim to accelerate the process from new business planning to implementation and provide services tailored to times of rapid change by combining the strengths and services of both companies.

(c) Date of business combination

January 31, 2020

(d) Legal form of business combination

Acquisition of shares

(e) Name of company after business combination

No change

(f) Percentage of voting rights acquired

75%

(g) Grounds for determining acquiring company

The Company purchased the shares with cash.

(2) Period of acquired company's results included in consolidated financial statements

January 1 to December 31, 2020

(3) Acquisition cost and type of consideration

Consideration	Cash	¥60 million
Acquisition cost		¥60 million

(4) Description and amount of main expense related to acquisition

Not applicable.

(5) Amount of goodwill arising from acquisition, reason for goodwill, and method and period of amortization

(a) Amount of goodwill

¥21.037 million

The acquisition cost had not been allocated as of the end of the first quarter, so a provisional calculation of the amount of goodwill had been provided, but the amount was finalized by the end of the fiscal year under review.

(b) Reason

Goodwill arose in relation to excess profit expected with future business development.

(c) Method and period of amortization

Amortized over a 5-year period on a straight-line basis

(6) Amounts and breakdown of assets and liabilities taken over on date of business combination

Current assets	¥23.640 million
Non-current assets	¥1.348 million
Total assets	¥24.989 million
Current liabilities	¥13.040 million
Non-current liabilities	-
Total liabilities	¥13.040 million



## Acquisition of shares of SOFTEC Co., Ltd.

### (1) Overview of business combination

#### (a) Name of acquired company and description of business

Name of acquired company: SOFTEC Co., Ltd.

Description of business: Design and development of computer systems  
Maintenance and administration of computer systems  
Operational support services and information provision services

#### (b) Main reason(s) for business combination

The Company's service policy is to "commit to executing strategies by going to the customer's work site and engaging with the people there," and we support corporate transformation, work style reform, and digital transformation. Through our knowledge of business process management and advanced technologies, we provide effective transformation support services based on autonomy and sustainability.

The mission of SOFTEC Co., Ltd. ("SOFTEC") is to "contribute to customers and society and achieve corporate growth through IT services." Founded in Shizuoka in October 1993, it got its start with four founding members and has continued to grow for more than 25 years since that time, supported by the trust of customers in Shizuoka and the Tokyo metropolitan area. It has developed solutions in a wide range of domains from system planning and development to operations and maintenance, starting with its BPO business in which it handles overall system operations and maintenance for corporate customers.

In recent years, utilization of digital technology had become a management issue for all kinds of companies and organizations, but the social changes brought about by COVID-19 have further increased the importance and urgency of the issue. Requests for support have increased all the more against this backdrop based on our strengths in business side consulting for business strategy establishment, process redesign, and utilization of technology and data.

Bringing SOFTEC, which is engaged in BPO for IT platforms and system planning, development, operations, and maintenance in an area where many mid-sized to major manufacturing companies are located, into our Group will allow us to promote business expansion in the Shizuoka and Tokai areas, where we have had a customer base since our founding. It will also enhance our support of telecommuting and other digital transformation of system maintenance and operations, which has become necessary for companies during the COVID-19 pandemic.

#### (c) Date of business combination

December 3, 2020

#### (d) Legal form of business combination

Cash acquisition of shares

#### (e) Name of company after business combination

No change

#### (f) Percentage of voting rights acquired

100%

#### (g) Grounds for determining acquiring company

The Company's cash acquisition of shares giving it 100% of the voting rights in the acquired company.

### (2) Period of acquired company's results included in consolidated financial statements

December 31, 2020 is the deemed acquisition date, and only the balance sheet entry falls within the scope of consolidated activities, so the performance of the acquired company is not included in the fiscal year under review.

### (3) Acquisition cost and type of consideration

Consideration	Cash	¥135 million
Acquisition cost		¥135 million

(4) Description and amount of main expense related to acquisition

Advisory and other expenses: ¥35.215 million

(5) Amount of goodwill arising from acquisition, reason for goodwill, and method and period of amortization

(a) Amount of goodwill

¥121.842 million

The amount of goodwill has been provisionally calculated because the acquisition cost has not been allocated as of the end of the fiscal year under review.

(b) Reason

Goodwill arose in relation to excess profit expected with future business development.

(c) Method and period of amortization

Amortized over a 5-year period on a straight-line basis

(6) Amounts and breakdown of assets and liabilities taken over on date of business combination

Current assets	¥196.905 million
Non-current assets	¥92.032 million
Total assets	¥288.938 million
Current liabilities	¥171.967 million
Non-current liabilities	¥105.036 million
Total liabilities	¥277.004 million

(7) Estimated impact of business combination on consolidated statement of income for fiscal year under review if it had been completed at beginning of fiscal year and method of calculation

Net sales: ¥730.602 million

Operating profit: ¥67.394 million

(Method of calculation)

The estimated impact is the difference between the net sales and profit and loss information calculated as if the business combination had been completed at the beginning of the fiscal year and the net sales and profit and loss information provided in the consolidated statement of income of the acquired company.

(Segment Information)

(Segment Information)

# 1. Overview of Reporting Segments

## (1) Method of Determining Reporting Segments

The reporting segments of the Group are constituent units for which separate financial information is available and that are subject to periodic review by the Board of Directors to determine the allocation of management resources and assess their respective operating results.

The Group provides a wide range of services centered on business process management (business integration). Business segment composition takes into account the service domains and form of provision, so our reporting segments are the professional services business and the platform business.

## (2) Types of Products and Services in Each Reporting Segment

In the professional services business, we provide services primarily in the consulting, business process management, and digital utilization service domains.

In the platform business, we primarily provide operational services for Assign Navi, an IT business community.

On January 31, 2020, we acquired shares of IoToI Japan Inc., and on December 3, 2020, we acquired shares of SOFTEC Co. Ltd., making them both subsidiaries. As such, they have been included within the scope of consolidation, and as of the fiscal year under review, they have been added to the professional services business.

# 2. Method Used for Calculating Net Sales, Profit, Loss, Assets, Liabilities, and Other Items for Each Reporting Segment

Accounting treatment of the reported business segments is, for the most part, as set forth in “Notes - Significant accounting policies for preparation of consolidated financial statements.”

Figures for reporting segment profit are based on operating profit. Intersegment transactions are priced in accordance with prevailing market prices.

# 3. Information Regarding Amounts of Net Sales, Profit, Loss, Assets, Liabilities, and Other Items for Each Reporting Segment

Previous fiscal year (January 1, 2019 - December 31, 2019)

(Thousands of yen)

	Reporting Segment			Adjustment	Total Shown in Consolidated Financial Statement *1
	Professional Services Business	Platform Business	Total		
Net sales					
Net sales to unaffiliated customers	3,654,760	135,880	3,790,640	-	3,790,640
Transactions with other segments	12,920	25,554	38,474	-38,474	-
Total	3,667,680	161,435	3,829,115	-38,474	3,790,640
Segment profit	311,987	-4,197	307,789	-	307,789
Segment assets	2,394,120	57,855	2,451,976	-	2,451,976
Other items					
Depreciation	23,534	-	23,534	-	23,534
Increase in property, plant and equipment and intangible assets	28,732	24,703	53,436	-	53,436

\*1. Segment profit is reconciled to operating profit presented in the consolidated financial statement.

\*2. The increase in property, plant and equipment and intangible assets in the platform business is software in progress related to new services in the business.

Current fiscal year (January 1, 2020 - December 31, 2020)

(Thousands of yen)

	Reporting Segment			Adjustment	Total Shown in Consolidated Financial Statement *1
	Professional Services Business	Platform Business	Total		
Net sales					
Net sales to unaffiliated customers	5,367,051	188,683	5,555,735	-	5,555,735
Transactions with other segments	-	48,864	48,864	-48,864	-
Total	5,367,051	237,548	5,604,599	-48,864	5,555,735
Segment profit	432,969	45,639	478,608	-	478,608
Segment assets	4,123,549	174,349	4,297,898	-	4,297,898
Other items					
Depreciation	27,343	-	27,343	-	27,343
Increase in property, plant and equipment and intangible assets	18,064	62,064	80,129	-	80,129

\*1. Segment profit is reconciled to operating profit presented in the consolidated financial statement.

\*2. The increase in property, plant and equipment and intangible assets in the platform business is software in progress related to new services in the business.

(Related Information)

Previous fiscal year (January 1, 2019 - December 31, 2019)

#### 1. Information for Each Product or Service

Information for each product and service has been omitted because the same information is disclosed within segment information.

#### 2. Information for Each Region

##### (1) Net sales

The Group has no net sales to unaffiliated customers outside of Japan, so this does not apply.

##### (2) Property, plant and equipment

The Group has no property, plant and equipment outside of Japan, so this does not apply.

#### 3. Information for Each Major Customer

(Thousands of yen)

Name of Customer	Net Sales	Relevant Segment
Kirin Holdings Company, Limited	414,840	Professional services

Current fiscal year (January 1, 2020 - December 31, 2020)

#### 1. Information for Each Product or Service

Information for each product and service has been omitted because the same information is disclosed within segment information.

#### 2. Information for Each Region

##### (1) Net sales

Net sales to unaffiliated customers in Japan account for more than 90% of net sales in the consolidated statement of income, so this information has been omitted.

(2) Property, plant and equipment

The Group has no property, plant and equipment outside of Japan, so this does not apply.

3. Information for Each Major Customer

(Thousands of yen)

Name of Customer	Net Sales	Relevant Segment
Kirin Holdings Company, Limited	606,371	Professional services

(Impairment Loss on Non-current Assets for Each Reporting Segment)

Previous fiscal year (January 1, 2019 - December 31, 2019)

Not applicable.

Current fiscal year (January 1, 2020 - December 31, 2020)

Not applicable.

(Amortization and Unamortized Balance of Goodwill for Each Reporting Segment)

Previous fiscal year (from January 1, 2019 - December 31, 2019)

	Reporting Segment			Adjustment	Total Shown in Consolidated Financial Statement
	Professional services	Platform	Total		
Depreciation	4,387	-	4,387	-	4,387
Balance at end of period	83,366	-	83,366	-	83,366

Current fiscal year (from January 1, 2020 - December 31, 2020)

	Reporting Segment			Adjustment	Total Shown in Consolidated Financial Statement
	Professional services	Platform	Total		
Depreciation	21,758	-	21,758	-	21,758
Balance at end of period	204,488	-	204,488	-	204,488

(Gain on Negative Goodwill for Each Reporting Segment)

Previous fiscal year (January 1, 2019 - December 31, 2019)

Not applicable.

Current fiscal year (January 1, 2020 - December 31, 2020)

Not applicable.

## (Per Share Information)

	Previous consolidated fiscal year (January 1, 2019 - December 31, 2019)	Current consolidated fiscal year (January 1, 2020 - December 31, 2020)
Net assets per share	367.54 yen	420.91 yen
Profit per share	49.29 yen	66.47 yen
Profit per share fully diluted	45.64 yen	61.08 yen

\*1. The basis for calculating profit per share and profit per share fully diluted is provided below

Item	Previous consolidated fiscal year (January 1, 2019 - December 31, 2019)	Current consolidated fiscal year (January 1, 2020 - December 31, 2020)
Profit per share		
Profit attributable to owners of parent	201,744	270,326
Income not attributable to common shareholders (thousands of yen)	-	-
Profit attributable to owners of parent associated with common shares (thousands of yen)	201,744	270,326
Average number of shares during period	4,093,279	4,067,130
Profit per share fully diluted		
Adjusted profit attributable to owners of parent (thousands of yen)	-	-
Increase in common shares	327,163	358,559
(Stock acquisition rights)	327,163	358,559
Overview of potentially dilutive shares not included in calculation of profit per share fully diluted due to anti-dilutive effect	-	-

3. The basis for calculating net assets per share is provided below.

Item	Previous consolidated fiscal year (ended December 31, 2019)	Current consolidated fiscal year (ended December 31, 2020)
Total net assets (thousands of yen)	1,503,633	1,732,546
Amount deducted from total net assets (thousands of yen)	-	2,710
Net assets associated with common shares at end of period (thousands of yen)	1,503,633	1,729,835
Number of common shares at end of period used for calculation of net assets per share	4,151,100	4,197,400

## (Significant Subsequent Events)

Not applicable.