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August 12, 2022

Consolidated Financial Results for the Three Months Ended June 30, 2022 (Under Japanese GAAP)

Company name: RAKUS Co., Ltd.
 Listing: Tokyo Stock Exchange
 Securities code: 3923
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 Scheduled date to file quarterly securities report: August 12, 2022
 Scheduled date to commence dividend payments: —
 Preparation of supplementary material on quarterly financial results: Yes
 Holding of quarterly financial results briefing: None

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

1. Consolidated financial results for the three months ended June 30, 2022 (from April 1, 2022 to June 30, 2022)

(1) Consolidated operating result (cumulative)

(Percentages indicate year-on-year changes.)

| | Net sales | | Operating profit | | Ordinary profit | | Profit attributable to owners of parent | |
|--------------------|-----------------|------|------------------|--------|-----------------|--------|---|--------|
| Three months ended | Millions of yen | % | Millions of yen | % | Millions of yen | % | Millions of yen | % |
| June 30, 2022 | 6,165 | 33.7 | 286 | (44.9) | 293 | (44.2) | 182 | (47.1) |
| June 30, 2021 | 4,613 | 33.3 | 519 | (42.9) | 526 | (42.5) | 346 | (43.8) |

Note: Comprehensive income For the three months ended June 30, 2022: ¥204 million [(41.0)%]
 For the three months ended June 30, 2021: ¥346 million [(43.8)%]

| | Basic earnings per share | Diluted earnings per share |
|--------------------|--------------------------|----------------------------|
| Three months ended | Yen | Yen |
| June 30, 2022 | 1.01 | — |
| June 30, 2021 | 1.91 | — |

Note: Diluted earnings per share are not stated because there are no dilutive shares.

(2) Consolidated financial position

| | Total assets | Net assets | Equity-to-asset ratio |
|----------------|-----------------|-----------------|-----------------------|
| As of | Millions of yen | Millions of yen | % |
| June 30, 2022 | 11,691 | 8,477 | 72.5 |
| March 31, 2022 | 11,700 | 8,617 | 73.6 |

Reference: Equity
 As of June 30, 2022: ¥8,477 million
 As of March 31, 2022: ¥8,617 million

2. Cash dividends

| | Annual dividends per share | | | | |
|--|----------------------------|--------------------|-------------------|-----------------|-------|
| | First quarter-end | Second quarter-end | Third quarter-end | Fiscal year-end | Total |
| | Yen | Yen | Yen | Yen | Yen |
| Fiscal year ended March 31, 2022 | — | 0.00 | — | 1.90 | 1.90 |
| Fiscal year ending March 31, 2023 | — | | | | |
| Fiscal year ending March 31, 2023 (Forecast) | | 0.00 | — | 1.95 | 1.95 |

Note: Revisions to the forecast of cash dividends most recently announced: None

3. Consolidated earnings forecasts for the year ending March 31, 2023 (from April 1, 2022 to September 30, 2022)

(Percentages indicate year on year changes.)

| | Net sales | | Operating profit | | Ordinary profit | | Profit attributable to owners of parent | | Basic earnings per share |
|---|-----------------|------|------------------|--------|-----------------|--------|---|--------|--------------------------|
| | Millions of yen | % | Millions of yen | % | Millions of yen | % | Millions of yen | % | |
| Six months ending September 30, 2022 (cumulative) | 12,773 | 34.8 | 492 | (44.6) | 492 | (45.3) | 298 | (49.3) | Yen 1.64 |

Notes 1. Revisions to the consolidated earnings forecasts most recently announced: None

- Only earnings forecasts for the six months ending September 30, 2022 (cumulative) have been disclosed in the consolidated earnings forecasts for the year ending March 31, 2023. For details, please refer to “1. Qualitative information on quarterly financial results (3) Explanation regarding information on consolidated financial results forecasts and other forward-looking statements” on page 3 of the attachment. The Company plans to disclose earnings forecasts for the full year when financial results for the six months ending September 30, 2022 are announced.

*** Notes**

- (1) Changes in significant subsidiaries during the period (changes in specified subsidiaries resulting in the change in scope of consolidation): None
- (2) Adoption of accounting treatment specific to the preparation of quarterly 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)

| | |
|----------------------|--------------------|
| As of June 30, 2022 | 181,216,000 shares |
| As of March 31, 2022 | 181,216,000 shares |

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

| | |
|----------------------|--------------|
| As of June 30, 2022 | 1,566 shares |
| As of March 31, 2022 | 1,494 shares |

- (iii) Average number of shares outstanding during the period (cumulative from the beginning of the fiscal year)

| | |
|----------------------------------|--------------------|
| Three months ended June 30, 2022 | 181,214,462 shares |
| Three months ended June 30, 2021 | 181,214,510 shares |

* Quarterly financial results reports are exempt from quarterly review conducted by certified public accountants or an audit corporation.

* Proper use of earnings forecasts, and other special matters

(Note concerning forward-looking statements)

Forward-looking statements such as earnings forecasts contained in this document are based on information currently available to the Company and certain assumptions deemed to be reasonable by the Company and are not intended to be a promise by the Company to achieve them. Furthermore, actual performance, etc. may vary significantly due to a variety of factors. Please refer to “1. Qualitative information on quarterly financial results (3) Explanation regarding information on consolidated financial results forecasts and other forward-looking statements” on page 3 of the attachment for the conditions assumed in earnings forecasts and notes on use of earnings forecasts.

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1. Qualitative information on quarterly financial results

(1) Explanation of operating results

In the telecommunications service market in which the Company operates, attention is being drawn to the shift to digitalization of corporate operations associated with the review of work styles due to the impact of the novel coronavirus infections (COVID-19) and the promotion of improvement of operating efficiency due to the labor shortage.

In such a management environment, using performance in the fiscal year ended March 31, 2021 as a baseline, the Group is working toward the new medium term management targets of net sales CAGR (compound annual growth rate) of 26% to 30% over five years until the fiscal year ending March 31, 2026, profit attributable to owners of parent of ¥10 billion or more and net assets of ¥20 billion or more in the fiscal year ending March 31, 2026. In order to achieve maximum net sales target CAGR of 30%, which is being particularly emphasized among these, the Group plans to engage in strengthening growth investment while swiftly verifying the effect of responses and measures to address the external environment by formulating measures and budgets for each six-month period for the first four years.

In the first three months of the current fiscal year, the cloud business realized a high rate of growth in net sales due to growth investment in core services made from the previous fiscal year leading to an increase in orders received. In the IT outsourcing business, the Group significantly increased personnel to respond to customers' strong need for IT engineers, and assignments progressed smoothly.

As a result, during the first three months of the current fiscal year, net sales were ¥6,165 million (up 33.7% year on year), operating profit was ¥286 million (down 44.9% year on year), ordinary profit was ¥293 million (down 44.2% year on year) and profit attributable to owners of parent was ¥182 million (down 47.1% year on year).

Operating results by segment were as follows.

a. Cloud business

Net sales in the cloud business were ¥5,011 million (up 35.1% year on year) as a result of strong new orders for Raku Raku Seisan, Raku Raku Meisai and Raku Raku Hambai. In terms of profit, segment profit was ¥161 million (down 61.7% year on year) due to the continuation of active growth investment in line with the medium term management targets.

b. IT outsourcing business

In the IT outsourcing business, net sales were ¥1,154 million (up 27.8% year on year) and segment profit was ¥124 million (up 24.8% year on year) as a result of realizing significant increases in personnel and steadily increasing working engineers due to continuing active hiring against the backdrop of strong customer needs.

(2) Explanation of financial position

a. Assets

Current assets at the end of the first quarter of the current fiscal year were ¥8,483 million, an increase of ¥64 million from the end of the previous fiscal year. The main factors were increases of ¥161 million in accounts receivable - trade, ¥105 million in prepaid expenses (“other” under current assets) and ¥74 million in accounts receivable - other (“other” under current assets) despite of a decrease of ¥314 million in cash and deposits. Non-current assets were ¥3,207 million, a decrease of ¥73 million from the previous fiscal year. The main factors were decreases of ¥85 million in deferred tax assets, ¥40 million in goodwill, and ¥30 million in tools, furniture and fixtures despite of increases of ¥66 million in guarantee deposits and ¥35 million in buildings and structures.

As a result, total assets were ¥11,691 million, a decrease of ¥9 million from the previous fiscal year.

b. Liabilities

Current liabilities at the end of the first quarter of the current fiscal year were ¥3,053 million, an increase of ¥76 million from the end of the previous fiscal year. The main factors were increases of ¥375 million in provision for bonuses, ¥182 million in deposits received (“other” under current liabilities), ¥141 million in accrued consumption taxes and ¥69 million in accounts payable - other despite of a decrease of ¥674 million in accrued expenses. Non-current liabilities were ¥160 million, an increase of ¥53 million from the previous fiscal year. This was mainly due to an increase of ¥55 million in long-term accrued expenses.

As a result, total liabilities were ¥3,213 million, an increase of ¥130 million from the end of the previous fiscal year.

c. Net assets

Total net assets at the end of the first quarter of the current fiscal year were ¥8,477 million, a decrease of ¥140 million from the end of the previous fiscal year. This was mainly due to a decrease of ¥344 in retained earnings as a result of dividends of surplus despite of an increase of ¥182 million as a result of recording profit attributable to owners of parent.

(3) Explanation regarding information on consolidated financial results forecasts and other forward-looking statements

Using performance in the fiscal year ended March 31, 2021 as a baseline, the Group established the medium-term management targets of net sales CAGR of 26% to 30% over five years until the fiscal year ending March 31, 2026, profit attributable to owners of parent of ¥10 billion or more and net assets of ¥20 billion or more in the fiscal year ending March 31, 2026. In order to achieve maximum net sales target CAGR of 30%, which is being particularly emphasized among these, the Group plans to engage in strengthening investment with the aim of the fastest rate of growth while verifying the effect of responses and measures to address the external environment by formulating measures and budgets for each six-month period for the first four years. In the final year, the Group intends to achieve its profit targets by engaging in the streamlining of investment.

During the period covered by the medium-term management targets, operating profit is expected to bottom out in the fiscal year ending March 31, 2023, and profit is expected to increase from the fiscal year ending March 31, 2024 until the final fiscal year.

During the fiscal year ended March 31, 2022, which is the first year covered by the medium-term management targets, the Group will continue capturing the strong digitization needs and plans to further strengthen investment in order to realize further high growth, and in the six months ending September 30, 2022, the Group plans net sales of ¥12,773 million (up 34.8% year on year), operating profit of ¥492 million (down 44.6% year on year), ordinary profit of ¥492 million (down 45.3% year on year) and profit attributable to owners of parent of ¥298 million (down 49.3% year on year).

Amid such conditions, some of the expenses planned for recruitment were directed to marketing measures due to slight delays in the plan to actively increase personnel for high growth.

2. Quarterly consolidated financial statements and notes thereto

(1) Quarterly consolidated balance sheet

(Millions of yen)

| | As of March 31, 2022 | As of June 30, 2022 |
|---|----------------------|---------------------|
| Assets | | |
| Current assets | | |
| Cash and deposits | 4,861 | 4,547 |
| Accounts receivable - trade | 3,104 | 3,265 |
| Income taxes refund receivable | 131 | 143 |
| Other | 333 | 537 |
| Allowance for doubtful accounts | (11) | (11) |
| Total current assets | 8,419 | 8,483 |
| Non-current assets | | |
| Property, plant and equipment | | |
| Buildings and structures, net | 175 | 211 |
| Tools, furniture and fixtures, net | 710 | 679 |
| Total property, plant and equipment | 886 | 891 |
| Intangible assets | | |
| Goodwill | 627 | 586 |
| Customer-relationship | 61 | 42 |
| Software | 34 | 33 |
| Total intangible assets | 723 | 663 |
| Investments and other assets | | |
| Investment securities | 0 | 0 |
| Shares of subsidiaries and associates | 52 | 52 |
| Long-term loans receivable from subsidiaries and associates | 36 | 35 |
| Guarantee deposits | 888 | 955 |
| Deferred tax assets | 685 | 599 |
| Other | 12 | 14 |
| Allowance for doubtful accounts | (4) | (5) |
| Total investments and other assets | 1,671 | 1,653 |
| Total non-current assets | 3,281 | 3,207 |
| Total assets | 11,700 | 11,691 |

(Millions of yen)

| | As of March 31, 2022 | As of June 30, 2022 |
|--|----------------------|---------------------|
| Liabilities | | |
| Current liabilities | | |
| Accounts payable - trade | 1 | 0 |
| Short-term borrowings | — | 20 |
| Current portion of long-term borrowings | 4 | 4 |
| Accounts payable - other | 1,285 | 1,355 |
| Accrued expenses | 754 | 79 |
| Income taxes payable | 116 | 51 |
| Accrued consumption taxes | 198 | 340 |
| Contract liabilities | 549 | 576 |
| Provision for bonuses | — | 375 |
| Other | 67 | 249 |
| Total current liabilities | 2,977 | 3,053 |
| Non-current liabilities | | |
| Long-term borrowings | 36 | 35 |
| Long-term accrued expenses | 69 | 124 |
| Total non-current liabilities | 106 | 160 |
| Total liabilities | 3,083 | 3,213 |
| Net assets | | |
| Shareholders' equity | | |
| Share capital | 378 | 378 |
| Capital surplus | 308 | 308 |
| Retained earnings | 7,918 | 7,757 |
| Treasury shares | (0) | (0) |
| Total shareholders' equity | 8,604 | 8,442 |
| Accumulated other comprehensive income | | |
| Deferred gains or losses on hedges | 2 | 12 |
| Foreign currency translation adjustment | 10 | 22 |
| Total accumulated other comprehensive income | 13 | 34 |
| Total net assets | 8,617 | 8,477 |
| Total liabilities and net assets | 11,700 | 11,691 |

(2) Quarterly consolidated statements of income and quarterly consolidated statements of comprehensive income

(Quarterly consolidated statements of income)

(Millions of yen)

| | Three months ended June 30, 2021 | Three months ended June 30, 2022 |
|--|-------------------------------------|-------------------------------------|
| Net sales | 4,613 | 6,165 |
| Cost of sales | 1,441 | 1,967 |
| Gross profit | 3,171 | 4,198 |
| Selling, general and administrative expenses | 2,652 | 3,912 |
| Operating profit | 519 | 286 |
| Non-operating income | | |
| Interest income | 0 | 0 |
| Foreign exchange gains | – | 5 |
| Compensation income | 0 | 0 |
| Subsidy income | 6 | 0 |
| Other | 0 | 0 |
| Total non-operating income | 7 | 7 |
| Non-operating expenses | | |
| Interest expenses | – | 0 |
| Foreign exchange losses | 0 | – |
| Other | 0 | 0 |
| Total non-operating expenses | 0 | 0 |
| Ordinary profit | 526 | 293 |
| Extraordinary losses | | |
| Loss on retirement of non-current assets | – | 0 |
| Total extraordinary losses | – | 0 |
| Profit before income taxes | 526 | 293 |
| Income taxes - current | 89 | 29 |
| Income taxes - deferred | 90 | 81 |
| Total income taxes | 180 | 110 |
| Profit | 346 | 182 |
| Profit attributable to owners of parent | 346 | 182 |

(Quarterly consolidated statements of comprehensive income)

(Millions of yen)

| | Three months ended June 30, 2021 | Three months ended June 30, 2022 |
|---|-------------------------------------|-------------------------------------|
| Profit | 346 | 182 |
| Other comprehensive income | | |
| Deferred gains or losses on hedges | (0) | 9 |
| Foreign currency translation adjustment | 0 | 11 |
| Total other comprehensive income | 0 | 21 |
| Comprehensive income | 346 | 204 |
| Comprehensive income attributable to | | |
| Comprehensive income attributable to owners of parent | 346 | 204 |

(3) Notes to quarterly consolidated financial statements**(Notes regarding assumption of going concern)**

Not applicable.

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

Not applicable.

(Additional information)

(Provision for bonuses)

The finalized amount of employees' bonuses was recorded as accrued expenses in the previous fiscal year, but the projected amount is recorded as provision for bonuses in the first three months of the current fiscal year because the amount to be paid has not been finalized. The finalized amount of ¥644 million paid was recorded as accrued expenses in the previous fiscal year.

(Segment information, etc.)

[Segment information]

I First three months of the previous fiscal year (from April 1, 2021 to June 30, 2021)

Information on the amounts of net sales, profit or loss by reportable segment

(Millions of yen)

| | Reportable segment | | | Adjustment | Amount on quarterly consolidated statements of income |
|--|--------------------|-------------------------|-------|------------|---|
| | Cloud business | IT outsourcing business | Total | | |
| Net sales | | | | | |
| Net sales to external customers | 3,709 | 903 | 4,613 | — | 4,613 |
| Intersegmental net sales and transfers | 0 | 14 | 14 | (14) | — |
| Total | 3,709 | 917 | 4,627 | (14) | 4,613 |
| Segment profit | 422 | 99 | 521 | (2) | 519 |

Notes: 1. Profits of reportable segments are figures based on operating profit.
 2. The adjustment of negative ¥2 million for segment profit is operating expenses unable to be allocated, which is not attributable to the reportable segments.

II First three months of the current fiscal year (from April 1, 2022 to June 30, 2022)

Information on the amounts of net sales, profit or loss by reportable segment

(Millions of yen)

| | Reportable segment | | | Adjustment | Amount on quarterly consolidated statements of income |
|--|--------------------|-------------------------|-------|------------|---|
| | Cloud business | IT outsourcing business | Total | | |
| Net sales | | | | | |
| Net sales to external customers | 5,011 | 1,154 | 6,165 | — | 6,165 |
| Intersegmental net sales and transfers | 0 | 12 | 12 | (12) | — |
| Total | 5,011 | 1,167 | 6,178 | (12) | 6,165 |
| Segment profit | 161 | 124 | 285 | 0 | 286 |

Notes: 1. Profits of reportable segments are figures based on operating profit.
 2. The adjustment of ¥0 million for segment profit is operating expenses unable to be allocated, which is not attributable to the reportable segments.