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February 1, 2024

Consolidated Financial Results for the Three Months Ended December 31, 2023 (Under Japanese GAAP)

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 Listing: Tokyo Stock Exchange
 Securities code: 6050
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 Scheduled date to file quarterly securities report: February 8, 2024
 Scheduled date to commence dividend payments: -
 Preparation of supplementary material on quarterly financial results: None
 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 December 31, 2023 (from October 1, 2023 to December 31, 2023)

(1) Consolidated operating results (cumulative)

(Percentages indicate 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	%
Three months ended								
December 31, 2023	2,839	(6.5)	401	(14.4)	393	(17.9)	216	(34.8)
December 31, 2022	3,037	10.3	469	(13.1)	479	(11.2)	332	(13.3)

Note: Comprehensive income For the three months ended December 31, 2023: ¥226 million [(30.7)%]
 For the three months ended December 31, 2022: ¥326 million [(15.5)%]

	Basic earnings per share	Diluted earnings per share
Three months ended	Yen	Yen
December 31, 2023	19.06	-
December 31, 2022	33.11	-

Note: For the calculation of “Basic earnings per share” and “Diluted earnings per share,” the Company’s shares held by the Company’s Board Benefit Trust (BBT) are included in treasury shares, which are deducted from the average number of shares outstanding during the period.

(2) Consolidated financial position

	Total assets	Net assets	Equity-to-asset ratio
As of	Millions of yen	Millions of yen	%
December 31, 2023	12,220	10,557	86.4
September 30, 2023	9,112	7,386	81.0

Reference: Equity
 As of December 31, 2023: ¥10,557 million
 As of September 30, 2023: ¥7,386 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 September 30, 2023	-	0.00	-	26.00	26.00
Fiscal year ending September 30, 2024	-				
Fiscal year ending September 30, 2024 (forecast)		0.00	-	27.00	27.00

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

3. Forecasts of consolidated financial results for the fiscal year ending September 30, 2024 (from October 1, 2023 to September 30, 2024)

(Percentages indicate year-on-year changes for the full year and quarter, respectively)

	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	%	Yen
Second quarter (cumulative)	6,491	5.6	948	0.8	956	(0.6)	557	(14.8)	48.35
Full year	13,300	11.7	1,940	9.1	1,950	7.9	1,260	2.5	109.37

Note: Revisions to the forecast of consolidated financial results most recently announced: None

For the calculation of "Basic earnings per share," the Company's shares held by the Company's Board Benefit Trust (BBT) are included in treasury shares, which are deducted from the average number of shares outstanding during the period.

* **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 December 31, 2023	11,933,516 shares
As of September 30, 2023	10,405,800 shares

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

As of December 31, 2023	413,054 shares
As of September 30, 2023	412,854 shares

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

Three months ended December 31, 2023	11,354,488 shares
Three months ended December 31, 2022	10,033,192 shares

Note 1: Total number of treasury shares at the end of the period includes the number of the Company's shares held by the Company's Board Benefit Trust (BBT). The number of treasury shares deducted in the calculation of Average number of shares outstanding during the period includes the number of the Company's shares held by Board Benefit Trust (BBT).

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

- * Explanation regarding proper use of earnings forecasts, and other special matters

The results forecast and other forward-looking statements contained in this document are based on information currently available to the Company and certain assumptions deemed to be reasonable. Actual business results may differ materially from the forecast due to variety of factors. Please refer to "Explanation of Consolidated Earnings Forecasts and Other Forward-Looking Information" on page 7 of the Consolidated Financial Results for the Three Months Ended December 31, 2023 (Attachments) for the assumptions for earnings forecasts and notes on using earnings forecasts.

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1. Qualitative Information on Quarterly Financial Results

(1) Explanation of Operating Results

During the three months ended December 31, 2023, the Japanese economy recovered moderately, driven by the ongoing normalization of economic activity and other factors, alongside positive developments in employment and income conditions. On the other hand, the outlook remains uncertain due to price increases in response to the protracted instability in world affairs and the effects of global monetary tightening.

In the domestic Internet-related market surrounding the Group, video-watching, e-commerce (online shopping) services, and fintech-related services are expanding, continuing on a growth trend. In addition, while various related services are expected to develop in the future with further advancement in the technological innovation of the Internet, cyber security issues are becoming more serious every year, such as growing security concerns associated with the establishment and expansion of remote work and the cyber risks to supply chains. The demand for security continues to rise to ensure that everyone can use the Internet with a sense of security.

Under this environment, the Group, as a comprehensive Internet security company with the management philosophy “We Guard All,” has been providing high-quality and highly efficient one-stop security services based on the strength of its “AI-human hybrid” systems. Furthermore, the Company entered into a capital and business alliance agreement with CHANGE Holdings, Inc. (hereinafter referred to as “CHANGE HD”), listed on the Tokyo Stock Exchange Prime Market. With a capital increase through a third-party allotment to CHANGE HD, we have become its consolidated subsidiary, commencing various initiatives to establish ourselves as a top cyber security vendor in Japan.

SNS related support services, which are the Group’s core services, and cyber security, which is positioned as a growth area, are essential for making the Internet safe and secure, and we will continue to work to strengthen service quality, as well as improve and enhance our products.

During the three months ended December 31, 2023, customer support services for e-commerce and flea market sites expanded steadily. In addition, the cyber security business grew significantly due to the expansion of sales of vulnerability diagnosis and WAF*1.

Simultaneously, the Company has continued its efforts to strengthen its internal structure, centering on hiring and training, along with sales activities aimed at expanding the enterprise digital BPO domain. We have also launched multiple projects as part of our collaborative initiatives with CHANGE HD. Within our core business, including SNS related support services, and the cyber security business, we have initiated preparations for the transfer of CHANGE HD’s existing outsourcing operations to us, mutual utilization of customer bases, and the development of joint proposals.

In the respective domestic centers, some low-profit projects that had negatively impacted profitability were improved by the end of the previous fiscal year. Consequently, during the period under review, our priority has been to continuously strengthen the structure of our centers and enhance profitability management.

Definition of term

*1 Abbreviation for Web Application Firewall. A security product designed to protect websites by detecting and preventing attacks that exploit vulnerabilities in web applications.

As a result, for the three months ended December 31, 2023, net sales were ¥2,839.862 million (down 6.5% year-on-year), operating profit was ¥401.790 million (down 14.4% year-on-year), ordinary profit was ¥393.846 million (down 17.9% year-on-year), and profit attributable to owners of parent was ¥216.427 million (down 34.8% year-on-year).

As outlined in the “(Progress of the Former Disclosure) Announcement of Establishment of the Intermediate Holding Company by Our Parent Company” disclosed on December 15, 2023, CHANGE HD, the parent company of the Company, established CyLeague Holdings, Inc. (hereinafter referred to as “CyLeague HD”), an intermediate holding company, with the aim of restructuring the cyber security industry. Mr. Yasuhisa Takatani, President & CEO of the Company, who has successfully led the cyber security business, has been appointed as President and Representative Director of CyLeague HD.

Going forward, the Company intends to maximize the synergy effects resulting from the establishment of CyLeague HD, coupled with the capital and business alliance with CHANGE HD, and continue to strive for accelerated growth not only in our core business but also in the cyber security field.

Segment information is not provided as the Group has a single segment. Business results by type of business are as follows:

(i) SNS related support

SNS related support provides post monitoring, customer support, and reputation research for various Internet services such as social web services.

During the three months ended December 31, 2023, customer support services for e-commerce and flea market sites remained strong.

In addition, we worked on carrying out thorough engagement with existing customers and acquiring new projects, aiming to expand the enterprise digital BPO domain. Concurrently, we focused our efforts on transferring the existing outsourcing operations from the CHANGE HD Group to our organization.

As a result, net sales decreased 5.1% year on year to ¥1,662.372 million.

(ii) Game related support

Game related support is mainly engaged in customer support and debugging services for social games.

During the three months ended December 31, 2023, our focus was on developing cross-selling opportunities arising from localization projects (support for language translation, adaptation, etc.) for overseas game companies.

As the domestic game market was once again not blessed with major hit titles, game related support experienced a decline in sales.

As a result, net sales decreased 11.4% year on year to ¥421.052 million.

(iii) Advertisement related support

Advertisement related support provides Internet advertising screening and outsourced administration services.

During the three months ended December 31, 2023, we focused on expanding projects for existing customers and developing new customers to further capture the increased demand due to stricter regulations in the digital advertising market, etc.

As a result, net sales decreased 12.9% year on year to ¥354.907 million.

(iv) Cyber security

Cyber security business mainly provides vulnerability diagnosis, WAF, and consulting services to solve security management issues.

During the three months ended December 31, 2023, the cyber security business grew significantly due to the expansion of sales of vulnerability diagnosis and WAF.

In addition, we strengthened our hiring and training efforts while implementing marketing measures to achieve extended growth. Simultaneously, we focused on joint proposals and other initiatives with CHANGE HD.

Furthermore, the Company began offering the “Scanner-Driven Web Vulnerability Diagnosis Internalization Course” as a new component of the “Vulnerability Diagnosis Internalization Support” in December 2023, aiming to address the increasing needs for vulnerability diagnosis internalization.

As a result, net sales increased 21.3% year on year to ¥212.092 million.

(v) Other

For other, we mainly provide debugging services for hardware. EG Testing Services Inc., a wholly-owned subsidiary, promoted high-quality services backed by more than 30 years of experience and expertise, and engaged in in-depth marketing and new development.

As a result, net sales decreased 16.9% year on year to ¥189.436 million.

(2) Explanation of Financial Position

(Assets)

The balance of current assets as of December 31, 2023, was ¥10,612.325 million, an increase of ¥3,208.302 million (or up 43.3%) from ¥7,404.023 million as of September 30, 2023.

This was mainly due to increases of ¥3,159.374 million in cash and deposits resulting from the third-party allotment, ¥32.953 million in accounts receivable - trade, and ¥9.340 million in Other.

The balance of non-current assets as of December 31, 2023, was ¥1,608.353 million, a decrease of ¥100.579 million (or down 5.9%) from ¥1,708.932 million as of September 30, 2023.

This was mainly due to a decrease of ¥24.063 million in goodwill.

As a result, total assets as of December 31, 2023, were ¥12,220.678 million, up 34.1% from September 30, 2023.

(Liabilities)

The balance of liabilities as of December 31, 2023, was ¥1,662.991 million, a decrease of ¥63.800 million (or down 3.7%) from ¥1,726.791 million as of September 30, 2023.

This was mainly due to a decrease of ¥61.921 million in accrued consumption taxes in current liabilities, despite an increase of ¥28.544 million in income taxes payable.

(Net assets)

The balance of net assets as of December 31, 2023, was ¥10,557.687 million, an increase of ¥3,171.523 million (or up 42.9%) from ¥7,386.163 million as of September 30, 2023.

This was mainly due to increases of ¥1,603.337 million in share capital and capital surplus, respectively, resulting from the issuance of new shares through the third-party allotment, and the recording of ¥216.427 million in profit attributable to owners of parent, while making a payment of ¥264.802 million in dividends of surplus.

(3) Explanation of Consolidated Earnings Forecasts and Other Forward-Looking Information

Regarding the full-year earnings forecast for the fiscal year ending September 30, 2024, there are no changes to the forecast announced on November 6, 2023 at this time.

2. Quarterly Consolidated Financial Statements and Key Notes

(1) Quarterly Consolidated Balance Sheet

(Thousands of yen)

	As of September 30, 2023	As of December 31, 2023
Assets		
Current assets		
Cash and deposits	5,749,760	8,909,134
Accounts receivable - trade	1,430,711	1,463,664
Work in process	9,827	16,122
Other	214,474	223,814
Allowance for doubtful accounts	(751)	(411)
Total current assets	7,404,023	10,612,325
Non-current assets		
Property, plant and equipment	639,528	618,580
Intangible assets		
Goodwill	385,015	360,952
Software	32,762	30,981
Other	126,137	115,652
Total intangible assets	543,916	507,585
Investments and other assets		
Leasehold and guarantee deposits	411,433	418,322
Other	114,054	63,863
Total investments and other assets	525,487	482,186
Total non-current assets	1,708,932	1,608,353
Total assets	9,112,955	12,220,678
Liabilities		
Current liabilities		
Accounts payable - trade	4,832	4,306
Accounts payable - other	811,761	815,596
Accrued expenses	8,192	8,035
Income taxes payable	78,605	107,149
Accrued consumption taxes	241,508	179,586
Provision for bonuses	48,974	39,066
Other	221,998	216,698
Total current liabilities	1,415,872	1,370,439
Non-current liabilities		
Provision for share awards for directors (and other officers)	149,958	153,769
Long-term guarantee deposits	61,675	62,630
Other	99,285	76,151
Total non-current liabilities	310,918	292,551
Total liabilities	1,726,791	1,662,991
Net assets		
Shareholders' equity		
Share capital	364,280	1,967,618
Capital surplus	384,454	1,991,855
Retained earnings	7,332,787	7,284,412
Treasury shares	(729,300)	(729,766)
Total shareholders' equity	7,352,222	10,514,120
Accumulated other comprehensive income		
Foreign currency translation adjustment	33,941	43,566
Total accumulated other comprehensive income	33,941	43,566
Total net assets	7,386,163	10,557,687
Total liabilities and net assets	9,112,955	12,220,678

(2) Quarterly Consolidated Statements of Income and Quarterly Consolidated Statements of Comprehensive Income
(Quarterly Consolidated Statements of Income)
(Consolidated three-month period)

(Thousands of yen)

	Three months ended December 31, 2022 (October 1, 2022 to December 31, 2022)	Three months ended December 31, 2023 (October 1, 2023 to December 31, 2023)
Net sales	3,037,352	2,839,862
Cost of sales	2,204,195	2,012,434
Gross profit	833,156	827,427
Selling, general and administrative expenses	363,774	425,637
Operating profit	469,381	401,790
Non-operating income		
Subsidy income	10,548	553
Subsidy income2	202	715
Other	787	917
Total non-operating income	11,537	2,186
Non-operating expenses		
Foreign exchange losses	1,137	9,956
Other	17	173
Total non-operating expenses	1,155	10,129
Ordinary profit	479,763	393,846
Extraordinary losses		
Loss on retirement of non-current assets	-	4,474
Expenses related to capital and business alliance and capital increase	-	57,960
Total extraordinary losses	-	62,435
Profit before income taxes	479,763	331,411
Income taxes - current	99,091	87,720
Income taxes - deferred	48,507	27,262
Total income taxes	147,598	114,983
Profit	332,165	216,427
Profit attributable to owners of parent	332,165	216,427

(Quarterly Consolidated Statements of Comprehensive Income)

(Consolidated three-month period)

(Thousands of yen)

	Three months ended December 31, 2022 (October 1, 2022 to December 31, 2022)	Three months ended December 31, 2023 (October 1, 2023 to December 31, 2023)
Profit	332,165	216,427
Other comprehensive income		
Foreign currency translation adjustment	(6,103)	9,625
Total other comprehensive income	(6,103)	9,625
Comprehensive income	326,061	226,053
Comprehensive income attributable to:		
Owners of parent	326,061	226,053

(3) Notes to Quarterly Consolidated Financial Statements

(Notes on Going Concern Assumptions)

Not applicable.

(Notes on Significant Changes in the Amount of Shareholders' Equity)

In accordance with a resolution passed during the Board of Directors meeting on August 2, 2023, the Company received payment for the capital increase through the third-party allotment from CHANGE Holdings, Inc. on October 11, 2023. As a result, share capital and capital surplus as of December 31, 2023, were ¥1,967.618 million and ¥1,991.855 million, respectively, each experiencing an increase of ¥1,603.337 million during the three months ended December 31, 2023.