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

May 15, 2020

| | | | |
|---|---|---|---|
| Name of Company: | LTS, Inc. | Stock Exchange Listing: Tokyo | |
| Stock Code: | 6560 | URL | https://lt-s.jp/ |
| 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 filing of quarterly report: May 15, 2020
Date of commencement of dividend payment (tentative): –
Preparation of quarterly supplementary materials: Yes
Convening of a quarterly results meeting: No

(Note: Amounts are rounded to nearest million yen.)

1. Financial results for first quarter of fiscal year ending December 2020 (January 1, 2020 - March 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 | % |
| 1Q FY2020 | 1,373 | 59.6 | 160 | 38.2 | 153 | 32.2 | 101 | 32.7 |
| 1Q FY2019 | 860 | 11.3 | 116 | 52.0 | 115 | 51.3 | 76 | 47.3 |

(Note) Comprehensive income 1Q FY2020: 99 million yen (29.6%) 1Q FY2019: 76 million yen (48.3%)

| | Profit per share | Profit per share fully diluted |
|---|---|---|
| | yen | yen |
| 1Q FY2020 | 25.00 | 23.28 |
| 1Q FY2019 | 18.74 | 17.30 |

(2) Financial position (consolidated)

| | Total assets | Net assets | Capital adequacy ratio |
|---|---|---|---|
| | million yen | million yen | % |
| 1Q FY2020 | 2,547 | 1,504 | 58.6 |
| FY2019 | 2,451 | 1,503 | 61.3 |

(Reference) Shareholders' equity 1Q FY2020: 1,493 million yen FY2019: 1,503 million yen

2. Dividends

| | Dividend per share | | | | |
|---|---|---|---|---|---|
| | End of 1Q | End of 2Q | End of 3Q | End of FY | Total |
| | yen | yen | yen | yen | yen |
| FY2019 | – | 0.00 | – | 0.00 | 0.00 |
| FY2020 | – | | | | |
| FY2020 (forecast) | | 0.00 | – | 0.00 | 0.00 |

3. Forecast for the fiscal year ending December 2020 (January 1, 2020 - December 31, 2020)

(Percentage figures represent year-on-year change)

| | Net sales | | Operating profit | | Ordinary profit | | Profit attributable to owners of parent | | Profit per share |
|---|---|---|---|---|---|---|---|---|---|
| | million yen | % | million yen | % | million yen | % | million yen | % | yen |
| Full year | 5,000 | 31.9 | 400 | 30.0 | 350 | 17.4 | 240 | 19.0 | 58.66 |

(Note) Revisions to the most recently announced earnings forecast: No
(Note) There is no first half forecast.

*Notice:

(1) Changes in main subsidiaries during year to quarter end (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) Application of accounting treatment specific to the preparation of the consolidated quarterly financial statements: No

(3) 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

(4) Number of shares outstanding (common shares)

| | | | | |
|---|---|---|---|---|
| (a) Shares outstanding (including treasury shares) at end of period | 1Q of year ending December 2020 | 4,151,200 shares | Year ended December 2019 | 4,151,100 shares |
| (b) Treasury shares at end of period | 1Q of year ending December 2020 | 120,000 shares | Year ended December 2019 | 60,000 shares |
| (c) Average number of shares during period | 1Q of year ending December 2020 | 4,058,795 shares | 1Q of year ended December 2019 | 4,080,480 shares |

*Quarterly 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.

○Contents of Accompanying Materials

1. Qualitative Information related to the Consolidated Business Results....4
(1) Explanation of Operating Results....4
(2) Explanation of Financial Position....5
(3) Explanation of Consolidated Earnings Forecasts and Other Future Projections....5
2. Quarterly Consolidated Financial Statements and Main Notes....6
(1) Quarterly Consolidated Balance Sheet....6
(2) Quarterly Consolidated Statement of Income and Quarterly Consolidated Statement of Comprehensive Income....8
(3) Notes to the Quarterly Consolidated Financial Statements....10
(Notes Related to Going Concern Assumptions)....10
(Notes on Significant Changes in Shareholders' Equity)....10
(Segment Information)....10
(Notes - Business Combinations)....11
(Significant Subsequent Events)....13

## 1. Qualitative Information related to the Consolidated Business Results

### (1) Explanation of Operating Results

During the first three months of the fiscal year (January 1 to March 31, 2020), the Japanese economy exhibited a gentle recovery owing to steady improvements in the employment environment and corporate earnings. However, the negative impact of the COVID-19 pandemic on the global economy will be unavoidable, and concern over the future of the economy spread rapidly.

In the information services industry, which is the main business domain of our Group (the Company and its consolidated subsidiaries, the same applies hereinafter), although corporate customers have become more aware of costs, management interest in digital transformation (DX) remains high. Strategic IT investments to ensure competitiveness are going strong in response to changes in the market environment. These include the introduction of task performing robots such as AI and RPA (robotic process automation) and digital marketing that utilizes big data.

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 expect solutions, utilizing robotics, AI, and business process management to provide one-stop support catered to the customer's unique challenges and reform objectives. We promoted partnerships with outside companies, including M&A while also putting together a track record of support utilizing technology and hiring/training human resources to strengthen our foundation for providing digital utilization services. In our platform business, we solve IT personnel shortages and, in addition to actively 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 first three months of the fiscal year, we achieved net sales of ¥1,373.2 million (up 59.6% year on year), operating profit of ¥160.288 million (up 38.2% year on year), ordinary profit of ¥153.154 million (up 32.2% year on year), and profit attributable to owners of parent of ¥101.450 million (up 32.7% year on year).

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

(Professional Services Business)

As the environment surrounding the IT division changes, our professional services business has strengthened our relationship with our customers and steadily acquired traditional consulting projects based on our strengths in business process management for implementing strategies. t. In addition, we have continued to steadily expand our digital utilization services (data analysis, RPA, etc.). We also actively worked on expanding our services and further improving the quality thereof, primarily with respect to digital transformation projects, by promoting closer collaboration with technology companies and other outside companies, including making IoToI Japan Inc., which supports innovation utilizing IoT, a consolidated subsidiary.

As a result, net sales in the professional services business came to ¥1,326.612 million (up 60.1% year on year) and segment profit (operating profit) came to ¥136.685 million (up 20.2% 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 8,771 including both corporate and individual members as of March 31, 2020. This steady growth represents a 396-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 actively worked on efforts to expand future profitability and build a stable business foundation, such as continued investment in strengthening our organizational structure and CS Clip, which is being planned and developed as a new service.

As a result, net sales in the platform business came to ¥58.841 million (up 46.4% year on year), and the segment profit (operating profit) came to ¥23.602 million (up 947.6% year on year).

## (2) Explanation of Financial Position

Total assets at the end of the first three months of the fiscal year were ¥2,547.674 million, up ¥95.698 million from the end of the previous fiscal year. This was primarily due to a ¥98.2 million increase in accounts receivable - trade.

Liabilities amounted to ¥1,043.109 million, up ¥94.767 million from the end of the previous fiscal year. This was primarily due to a ¥43.234 million increase in provision for bonuses, and a ¥50 million increase in short-term borrowings.

Net assets amounted to ¥1,504.564 million, up ¥0.93 million from the end of the previous fiscal year. This was primarily due to a ¥111.18 million increase in treasury shares, and a ¥101.450 million increase in retained earnings. The equity ratio was 58.6%.

## (3) Explanation of Consolidated Earnings Forecasts and Other Future Projections

With the global spread of COVID-19, it is becoming increasingly likely that economic forecasts will be impossible for the time being. The business environment is rapidly deteriorating, and a short-term drop in investor enthusiasm is unavoidable. Nevertheless, strategic investment in IT to ensure competitiveness in anticipation of business growth after the COVID-19 pandemic comes to an end and digital transformation (DX) initiatives for management such as operational streamlining, telecommuting, and other work style reform are expected to continue expanding in the medium to long term. Owing in part to the fact that some of our major customers are in industries that are not as susceptible to the impact of the COVID-19 pandemic, the number of projects that have been postponed or canceled has been limited so far. In many cases, in the projects that the Group is working on, we are ensuring the health and safety of employees while maintaining customer service and operational quality through telecommuting and other efforts with the cooperation of our corporate customers.

Based on these circumstances, we believe that business results for the fiscal year ending December 2020 will come in mostly as planned, and we have left the full-year consolidated earnings forecast announced on February 7, 2020 with the Summary of Financial Results as-is.

We will continue to monitor the impact of COVID-19 on the Group’s business results and will engage in prompt disclosure in the event that there is a need to revise the earnings forecast.

2. Quarterly Consolidated Financial Statements and Main Notes

(1) Quarterly Consolidated Balance Sheet

(Thousands of yen)

| | Previous consolidated fiscal year (ended December 31, 2019) | First three months of the fiscal year (March 31, 2020) |
|---|---|---|
| Assets | | |
| Current assets | | |
| Cash and deposits | 1,385,445 | 1,382,701 |
| Electronically recorded monetary claims - operating | 74,279 | 79,614 |
| Accounts receivable - trade | 601,973 | 700,174 |
| Work in process | 44,589 | 34,997 |
| Allowance for doubtful accounts | (2,159) | (2,153) |
| Other | 57,196 | 46,888 |
| Total current assets | 2,161,325 | 2,242,223 |
| Non-current assets | | |
| Property, plant and equipment | 45,175 | 42,933 |
| Intangible fixed assets | | |
| Goodwill | 83,366 | 98,964 |
| Software | 8,678 | 8,422 |
| Software in progress | 24,703 | 35,904 |
| Total intangible fixed assets | 116,748 | 143,291 |
| Investments and other assets | | |
| Deferred tax assets | 57,352 | 61,990 |
| Leasehold and guarantee deposits | 40,157 | 40,255 |
| Investment securities | 20,330 | 11,489 |
| Other | 10,885 | 5,490 |
| Total investments and other assets | 128,726 | 119,225 |
| Total non-current assets | 290,650 | 305,451 |
| Total assets | 2,451,976 | 2,547,674 |

(Thousands of yen)

| | Previous consolidated fiscal year (ended December 31, 2019) | First three months of the fiscal year (March 31, 2020) |
|---|---|---|
| Liabilities | | |
| Current liabilities | | |
| Accounts payable - trade | 405,963 | 446,518 |
| Current portion of long-term borrowings | 36,170 | 38,004 |
| Short-term borrowings | - | 50,000 |
| Accounts payable - other | 129,819 | 70,723 |
| Income taxes payable | 87,863 | 65,047 |
| Provision for bonuses | 103,390 | 146,625 |
| Provision for bonuses for directors (and other officers) | 4,424 | 4,424 |
| Other | 126,614 | 177,106 |
| Total current liabilities | 894,247 | 998,449 |
| Non-current liabilities | | |
| Long-term borrowings | 52,495 | 42,994 |
| Other | 1,600 | 1,666 |
| Total non-current liabilities | 54,095 | 44,660 |
| Total liabilities | 948,342 | 1,043,109 |
| Net assets | | |
| Shareholders' equity | | |
| Share capital | 516,510 | 516,540 |
| Capital surplus | 446,835 | 446,865 |
| Retained earnings | 623,734 | 725,185 |
| Treasury shares | (83,738) | (194,918) |
| Total shareholders' equity | 1,503,342 | 1,493,673 |
| Accumulated other comprehensive income | | |
| Foreign currency translation adjustment | 291 | 281 |
| Total accumulated other comprehensive income | 291 | 281 |
| Non-controlling interests | - | 10,610 |
| Total net assets | 1,503,633 | 1,504,564 |
| Liabilities and net assets | 2,451,976 | 2,547,674 |

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

Quarterly consolidated statement of income

First three months of the fiscal year

(Thousands of yen)

| | First three months of the previous fiscal year (January 1 - March 31, 2019) | First three months of the fiscal year (January 1 - March 31, 2020) |
|---|---|---|
| Net sales | 860,401 | 1,373,200 |
| Cost of sales | 495,531 | 875,558 |
| Gross profit | 364,870 | 497,641 |
| Selling, general and administrative expenses | 248,856 | 337,353 |
| Operating profit | 116,013 | 160,288 |
| Non-operating income | | |
| Interest income | 0 | 11 |
| Foreign exchange gains | 11 | 9 |
| Surrender value of insurance policies | - | 3,670 |
| Other | 171 | 27 |
| Total non-operating income | 184 | 3,718 |
| Non-operating expenses | | |
| Interest expenses | 200 | 695 |
| Share of loss of entities accounted for using equity method | - | 8,840 |
| Other | 150 | 1,316 |
| Total non-operating expenses | 350 | 10,851 |
| Ordinary profit | 115,847 | 153,154 |
| Profit before income taxes | 115,847 | 153,154 |
| Income taxes - current | 41,004 | 58,719 |
| Income taxes - deferred | (1,632) | (4,638) |
| Total income taxes | 39,372 | 54,081 |
| Profit | 76,475 | 99,073 |
| Loss attributable to non-controlling interests | - | (2,377) |
| Profit attributable to owners of parent | 76,475 | 101,450 |

Quarterly consolidated statement of comprehensive income

First three months of the fiscal year

(Thousands of yen)

| | First three months of the previous fiscal year (January 1, 2019 - March 31, 2019) | First three months of the fiscal year (January 1 - March 31, 2020) |
|---|---|---|
| Profit | 76,475 | 99,073 |
| Other comprehensive income | | |
| Foreign currency translation adjustment | (14) | (9) |
| Total other comprehensive income | (14) | (9) |
| Comprehensive income | 76,460 | 99,063 |
| (Breakdown) | | |
| Comprehensive income attributable to owners of parent | 76,460 | 101,440 |
| Comprehensive income attributable to non-controlling interests | - | (2,377) |

## (3) Notes to the Quarterly Consolidated Financial Statements

### (Notes Related to Going Concern Assumptions)

Not applicable.

### (Notes on Significant Changes in Shareholders' Equity)

The Company purchased 60,000 treasury shares on February 10, 2020 in accordance with the resolution at the Board of Directors meeting held on February 7, 2020. As a result, the amount of treasury shares increased 111,180,000 yen during the first three months of the fiscal year to 194,918,000 yen as of March 31, 2020.

### (Segment Information)

First three months of the fiscal year (January 1 - March 31, 2020)

1. Information Regarding Amounts of Net Sales, Profit, and Loss for Each Reporting Segment

(Thousands of yen)

| | Reporting Segment | | | Adjustment | Total Shown in Quarterly Consolidated Statement of Income *1 |
|---|---|---|---|---|---|
| | Professional Services Business | Platform Business | Total | | |
| Net sales | | | | | |
| Net sales to unaffiliated customers | 1,326,612 | 46,588 | 1,373,200 | - | 1,373,200 |
| Transactions with other segments | - | 12,253 | 12,253 | (12,253) | - |
| Total | 1,326,612 | 58,841 | 1,385,454 | (12,253) | 1,373,200 |
| Segment profit | 136,685 | 23,602 | 160,288 | - | 160,288 |

*1. Segment profit is reconciled to operating profit presented in the quarterly consolidated statement of income.

2. Impairment Loss or Goodwill on Non-current Assets for Each Reporting Segment

(Significant change in the amount of goodwill)

In the professional services business, we acquired shares of IoToI Japan Inc. and made it a consolidated subsidiary during the first three months of the fiscal year. The resulting goodwill was 21,037,000 yen.

The amount of goodwill is a provisional calculation as the acquisition cost has not been allocated. This is because as of the date of business combination, identification of identifiable assets and liabilities and estimation of market value had not been completed.

(Notes - Business Combinations)

Business combination through acquisition

1. Overview of business combination

(1) Name of acquired company and description of business

Name: 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

(2) 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.

(3) Date of business combination

January 31, 2020

(4) Legal form of business combination

Acquisition of shares

(5) Name of company after business combination

No change.

(6) Percentage of voting rights acquired

75%

(7) Grounds for determining acquiring company

The Company purchased the shares with cash.

2. Period of acquired company’s results included in quarterly consolidated statement of income

January 1 - March 31, 2020

3. Acquisition cost and type of consideration

| | | |
|---|---|---|
| Consideration | Cash | ¥60 million |
| Acquisition cost | | ¥60 million |

4. Amount of goodwill arising from acquisition, reason for goodwill, and method and period of amortization

(1) Amount of goodwill

¥21.037 million

The amount of goodwill is a provisional calculation as the acquisition cost has not been allocated. This is because as of the date of business combination, identification of identifiable assets and liabilities and estimation of market value had not been completed.

(2) Reason

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

(3) Method and period of amortization

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

(Significant Subsequent Events)

(Borrowing of large sum)

At the Board of Directors meeting held on April 16, 2020, it was resolved to borrow funds, and the loan was executed on April 30, 2020.

(1) Long-term borrowings

Use of funds: Working capital

Lender: MUFG Bank, Ltd.

Amount borrowed: 300,000,000 yen

Interest: Fixed rate

Loan execution date: April 30, 2020

Term: 5 years

Collateral: None

(2) Long-term borrowings

Use of funds: Working capital

Lender: Resona Bank, Limited.

Amount borrowed: 300,000,000 yen

Interest: Variable rate

Loan execution date: April 30, 2020

Term: 5 years

Collateral: None

(3) Long-term borrowings

Use of funds: Working capital

Lender: Mizuho Bank, Ltd.

Amount borrowed: 200,000,000 yen

Interest: Variable rate

Loan execution date: April 30, 2020

Term: 5 years

Collateral: None