Summary of Financial Results for Third Quarter of the Year Ending December 2020 [Japanese GAAP] (Consolidated)

November 13, 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: November 13, 2020
Date of commencement of dividend payment (tentative): –
Preparation of quarterly supplementary materials: Yes
Convening of a quarterly results meeting: None

(Amounts less than one million are rounded down)

1. Financial results for third quarter of fiscal year ending December 2020 (January 1, 2020 – September 30, 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	%
3Q FY2020	4,086	62.5	388	85.4	340	63.5	219	71.1
3Q FY2019	2,514	11.8	209	(7.6)	208	(7.9)	128	(16.0)

(Note) Comprehensive income 3Q FY2020: 212 million yen (65.9%) 3Q FY2019: 128 million yen (28.4%)

	Profit per share	Profit per share fully diluted
	yen	yen
3Q FY2020	54.03	49.80
3Q FY2019	31.29	28.93

(2) Financial position (consolidated)

	Total assets	Net assets	Capital adequacy ratio
	million yen	million yen	%
3Q FY2020	3,721	1,672	44.8
FY2019	2,451	1,503	61.3

(Reference) Shareholders' equity 3Q FY2020: 1,665 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	5,500	45.1	450	46.2	390	30.8	250	23.9	61.50

(Note) Revisions to the most recently announced earnings forecast: Yes

*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	3Q of year ending December 2020	4,173,300 shares	Year ended December 2019	4,151,100 shares
(b) Treasury shares at end of period	3Q of year ending December 2020	87,600 shares	Year ended December 2019	60,000 shares
(c) Average number of shares during period	3Q of year ending December 2020	4,058,138 shares	3Q of year ended December 2019	4,095,902 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.

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1. Qualitative Information related to the Consolidated Business Results

(1) Explanation of Operating Results

During the first nine months of the fiscal year (January 1 to September 30, 2020), 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. There is concern over spread of the virus in Japan and around the world as well as fluctuations in the financial and capital markets among others. As such, the future of the economy is 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, but interest is high in digital transformation (DX) of management in anticipation of the peri- and post-COVID-19 situations. Demand remains strong for providing support for such corporate 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 expect 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 worked actively on project execution in conjunction with telecommuting as well as 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 first nine months of the fiscal year, we achieved net sales of ¥4,086.817 million (up 62.5% year on year), ordinary profit of ¥388.175 million (up 85.4% year on year), ordinary profit of ¥340.212 million (up 63.5% year on year), and profit attributable to owners of parent of ¥219.281 million (up 71.1% 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 also actively worked on communicating information to the outside. This primarily involved digital transformation (DX) projects and other advanced themes as well as enhanced collaboration with technology companies and other outside companies, including making IoToI Japan Inc., which supports innovation utilizing IoT, a consolidated subsidiary and partnering with Integratto Inc.

As a result, net sales in the professional services business came to ¥3,957.313 million (up 63.3% year on year) and segment profit came to ¥354.983 million (up 58.6% 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 9,682 including both corporate and individual members as of September 30, 2020. This steady growth represents a 1,307-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 ¥167.129 million (up 42.7% year on year), and the segment profit came to ¥33.192 million (as opposed to a loss of ¥14.421 million the previous year).

(2) Explanation of Financial Position

Total assets at the end of the first nine months of the fiscal year were ¥3,721.997 million, up ¥1,270.021 million from the end of the previous fiscal year. This was primarily due to a ¥1,158.585 million increase in cash and deposits and a ¥57.543 million increase in accounts receivable – trade.

Liabilities amounted to ¥2,049.899 million, up ¥1,101.556 million from the end of the previous fiscal year. This was primarily due to a ¥22.255 million increase in accounts payable – trade, an ¥841.277 million increase in long-term borrowings, and a ¥241.994 million increase in current portion of long-term borrowings.

Net assets amounted to ¥1,672.098 million, up ¥168.464 million from the end of the previous fiscal year. This was primarily due to a ¥214.422 million increase in retained earnings, a ¥6.000 million increase in share capital, a ¥675,000 increase in capital surplus, and a ¥58.731 million increase in treasury shares. The equity ratio was 44.8%.

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

In regard to the consolidated earnings forecast for the fiscal year ending December 2020, in light of recent performance trends and other factors, we revised the full-year consolidated earnings forecast announced on February 7, 2020.

For details, please refer to the “Notice Concerning Revision of Full-Year Earnings Forecast for Fiscal Year Ending December 2020,” which was announced separately today (November 13, 2020).

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 nine months of the current fiscal year (ended September 30, 2020)
Assets		
Current assets		
Cash and deposits	1,385,445	2,544,030
Electronically recorded monetary claims - operating	74,279	77,460
Accounts receivable - trade	601,973	659,516
Work in process	44,589	23,152
Allowance for doubtful accounts	(2,159)	(1,993)
Other	57,196	69,499
Total current assets	2,161,325	3,371,666
Non-current assets		
Property, plant and equipment	45,175	38,517
Intangible fixed assets		
Goodwill	83,366	88,085
Software	8,678	6,010
Software in progress	24,703	70,777
Total intangible fixed assets	116,748	164,873
Investments and other assets		
Deferred tax assets	57,352	49,093
Leasehold and guarantee deposits	40,157	41,844
Investment securities	20,330	30,000
Other	10,885	26,002
Total investments and other assets	128,726	146,940
Total non-current assets	290,650	350,331
Total assets	2,451,976	3,721,997

(Thousands of yen)

	Previous consolidated fiscal year (ended December 31, 2019)	First nine months of the current fiscal year (ended September 30, 2020)
Liabilities		
Current liabilities		
Accounts payable - trade	405,963	428,219
Current portion of long-term borrowings	36,170	278,164
Accounts payable - other	129,819	83,651
Income taxes payable	87,863	72,862
Provision for bonuses	103,390	97,980
Provision for bonuses for directors (and other officers)	4,424	–
Other	126,614	193,182
Total current liabilities	894,247	1,154,060
Non-current liabilities		
Long-term borrowings	52,495	893,772
Other	1,600	2,066
Total non-current liabilities	54,095	895,838
Total liabilities	948,342	2,049,899
Net assets		
Shareholders' equity		
Share capital	516,510	522,510
Capital surplus	446,835	447,510
Retained earnings	623,734	838,157
Treasury shares	(83,738)	(142,469)
Total shareholders' equity	1,503,342	1,665,708
Accumulated other comprehensive income		
Foreign currency translation adjustment	291	156
Total accumulated other comprehensive income	291	156
Non-controlling interests	–	6,233
Total net assets	1,503,633	1,672,098
Liabilities and net assets	2,451,976	3,721,997

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

Quarterly consolidated statement of income

First nine months of the fiscal year

(Thousands of yen)

	First nine months of the previous fiscal year (January 1 - September 30, 2019)	First nine months of the current fiscal year (January 1 – September 30, 2020)
Net sales	2,514,545	4,086,817
Cost of sales	1,467,228	2,590,786
Gross profit	1,047,317	1,496,030
Selling, general and administrative expenses	837,943	1,107,854
Operating profit	209,373	388,175
Non-operating profit		
Interest income	11	23
Foreign exchange gains	131	127
Surrender value of insurance policies	–	3,670
Other	378	2,038
Total non-operating profit	520	5,861
Non-operating expenses		
Interest expenses	527	4,328
Listing expenses	–	27,677
Share of loss of entities accounted for using equity method	1,098	20,330
Other	150	1,488
Total non-operating expenses	1,775	53,824
Ordinary profit	208,118	340,212
Profit before income taxes	208,118	340,212
Income taxes - current	75,733	119,426
Income taxes - deferred	4,213	8,258
Total income taxes	79,947	127,685
Profit	128,171	212,526
Loss attributable to non-controlling interests	–	(6,754)
Profit attributable to owners of parent	128,171	219,281

Quarterly consolidated statement of comprehensive income

First nine months of the fiscal year

(Thousands of yen)

	First nine months of the previous fiscal year (January 1 – September 30, 2019)	First nine months of the current fiscal year (January 1 – September 30, 2020)
Profit	128,171	212,526
Other comprehensive income		
Foreign currency translation adjustment	(147)	(134)
Total other comprehensive income	(147)	(134)
Comprehensive income	128,023	212,392
(Breakdown)		
Comprehensive income attributable to owners of parent	128,023	219,146
Comprehensive income attributable to non-controlling interests	–	(6,754)

(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. Additionally, it was resolved at the Board of Directors meeting held on April 16, 2020 to dispose of treasury shares for restricted stock compensation, and in accordance with this, 32,400 shares were disposed of on May 15, 2020. Moreover, with the exercise of stock acquisition rights granted under the stock options plans, during the first nine months of the fiscal year under review, share capital increased by ¥6.000 million, capital reserves by ¥6.000 million, and treasury shares by ¥58.731 million. As of September 30, 2020, share capital was ¥522.510 million, capital surplus was ¥447.510 million, and treasury shares were ¥142.469 million.

(Segment Information)

First nine months of the current fiscal year (January 1 - September 30, 2020)

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

(Thousands of yen)

	Reporting Segment			Adjustments	Total Shown in Quarterly Consolidated Statement of Income *1
	Professional Services Business	Platform Business	Total		
Net sales					
Net sales to unaffiliated customers	3,957,313	129,504	4,086,817	–	4,086,817
Transactions with other segments	–	37,625	37,625	(37,625)	–
Total	3,957,313	167,129	4,124,443	(37,625)	4,086,817
Segment profit	354,983	33,192	388,175	–	388,175

*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.

(Additional Information)

First Nine Months of the Fiscal Year Under Review (January 1 to September 30, 2020)
(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.

(Significant Subsequent Events)

Business combination through acquisition

1. Overview of business combination

At the Board of Directors meeting held on November 13, 2020, the Company resolved to make SOFTECH Co., Ltd. a subsidiary by acquiring all of its shares, and a share transfer agreement was signed on the same date.

(1) Name of acquired company and description of business

Name: SOFTECH Co., Ltd.

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

(2) 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 SOFTECH Co., Ltd. ("SOFTECH") 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 SOFTECH, 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.

(3) Date of business combination

December 3, 2020 (planned)

December 31, 2020 (deemed acquisition date)

(4) Legal form of business combination

Cash acquisition of shares

(5) Name of company after business combination

No change

(6) Percentage of voting rights acquired

100%

(7) Grounds for determining acquiring company

The Company purchased the shares with cash.

2. Acquisition cost and type of consideration

Consideration	Cash	¥135 million
Acquisition cost		¥135 million

3. Description and amounts of main costs related to acquisition

Advisory expenses ¥33.200 million

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

To be determined.

5. Amount and breakdown of assets and liabilities to be assumed on date of business combination

To be determined.