Summary of Financial Results for First Quarter of the Year Ending December 2021 [Japan GAAP] (Consolidated)

May 14, 2021

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 14, 2021
Date of commencement of dividend payment: –
Preparation of quarterly supplementary materials: Yes
Convening of a quarterly results meeting: No

(Amounts less than one million are rounded down)

1. Financial results for first quarter of fiscal year ending December 2021 (January 1, 2021 - March 31, 2021)

(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	%
Q1 FY2021	1,742	26.9	172	7.4	178	16.5	121	19.6
Q1 FY2020	1,373	59.6	160	38.2	153	32.2	101	32.7

(Note) Comprehensive income Q1 FY2021: 121 million yen (22.2%) Q1 FY2020: 99 million yen (29.6%)

	Profit per share	Profit per share fully diluted
	yen	yen
Q1 FY2021	29.39	27.31
Q1 FY2020	25.00	23.28

(2) Financial position (consolidated)

	Total assets	Net assets	Capital adequacy ratio
	million yen	million yen	%
Q1 FY2021	4,190	1,868	44.5
FY2020	4,290	1,732	40.3

(Reference) Shareholders' equity Q1 FY2021: 1,866 million yen FY2020: 1,729 million yen

2. Dividends

	Dividend per share				
	End of Q1	End of Q1	End of Q1	End of Q1	End of Q1
	yen	yen	yen	yen	yen
FY2020	–	0.00	–	0.00	0.00
FY2021	–				
FY2021 (forecast)		0.00	–	0.00	0.00

(Note) Revisions to the most recently announced earnings forecast: No

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 patent		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) 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	Q1 of year ending December 2021	4,231,400 shares	Year ended December 2020	4,197,400 shares
(b) Treasury shares at end of period	Q1 of year ending December 2021	87,733 shares	Year ended December 2020	87,658 shares
(c) Average number of shares during period	Q1 of year ending December 2021	4,128,958 shares	Q1 of year ended December 2020	4,058,795 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 three months of the fiscal year (January 1 to March 31, 2021), the Japanese economy continued to struggle due to COVID-19. Although there were some signs of a recovery in imports and exports and in production activities, COVID-19 variants that could pose a new threat have emerged, 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), COVID-19 has had a prolonged impact on corporate management. Digital transformation (DX) continues to attract a high level of attention for addressing changes in the social environment during and after the COVID-19 pandemic. 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 established a medium-term business plan with this year as the first year of the plan and 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. We promoted partnerships with outside companies and new projects via telecommuting while also actively hiring and training 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 three months of the fiscal year, we achieved net sales of ¥1,742.609 million (up 26.9% year on year), operating profit of ¥172.147 million (up 7.4% year on year), ordinary profit of ¥178.494 million (up 16.5% year on year), and profit attributable to owners of parent of ¥121.358 million (up 19.6% 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, the environment surrounding our IT division is undergoing drastic changes due to various restrictions on corporate activities. In the midst of these circumstances, we steadily acquired traditional consulting projects (operational analysis/design, IT introduction support, on-site deployment) based on our strength of visualizing and improving operations utilizing business process management. This was a result of actively promoting business development addressing strong demand for reform. We also promoted closer collaboration with technology companies and other outside companies. In addition to expanding our business in the Shizuoka and Tokai area by making SOFTEC Co., Ltd. a consolidated subsidiary, we promoted digital transformation in the administrative domain by entering a business alliance with Loglass Inc. Furthermore, we actively communicated information on our services by publishing books, holding seminars, and more.

As a result, net sales in the professional services business came to ¥1,681.817 million (up 26.8% year on year) and segment profit (operating profit) came to ¥157.529 million (up 15.2% 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 10,599 including both corporate and individual members as of March 31, 2021. This steady growth represents a 393-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. Meanwhile, in addition to developing and growing our existing services, we continued to invest in the development of our new CS Clip service and actively invested in expanding future profitability, including enhancement of our organizational structure and dynamic sales activities.

As a result, net sales in the platform business came to ¥73.114 million (up 24.3% year on year), and the segment profit (operating profit) came to ¥14.617 million (down 38.1% year on year).

(2) Explanation of Financial Position

Total assets at the end of the first three months of the fiscal year were ¥ 4,190.339 million, down ¥ 99.939 million from the end of the previous fiscal year. This was primarily due to a ¥265.058 million decrease in cash and deposits and a ¥149.809 million increase in accounts receivable - trade.

Liabilities amounted to ¥2,321.613 million, down ¥236.118 million from the end of the previous fiscal year. This was primarily due to a ¥103.439 million decrease in income taxes payable, an ¥85.566 million decrease in accounts payable - other, and a ¥72.383 million decrease in long-term borrowings.

Net assets amounted to ¥1,868.725 million, up ¥136.179 million from the end of the previous fiscal year. This was primarily due to a ¥121.358 million increase in retained earnings. The equity ratio was 44.5%.

The business combination with SOFTEC Co., Ltd., which was conducted on December 3, 2020, was provisionally accounted for in the previous fiscal year, but the accounting was finalized during the first quarter under review. In conjunction with the finalization of this provisional accounting treatment, the revision of the allocation of acquisition costs has been reflected in the comparative information contained in the quarterly consolidated financial statements for the first quarter under review. Additionally, for comparison and analysis with the end of the previous fiscal year, the amounts reflect the revision of the initially allocated acquisition cost made when finalizing the provisional accounting treatment.

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

In regard to the consolidated earnings forecast for the fiscal year ending December 2021, no changes have been made to the full-year consolidated earnings forecast announced on February 12, 2021.

The impact of COVID-19 on the Group’s business results is currently limited, but we will continue to monitor any changes in the situation 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, 2020)	First three months of the current fiscal year (ended March 31, 2021)
Assets		
Current assets		
Cash and deposits	2,682,739	2,417,680
Electronically recorded monetary claims - operating	81,126	76,701
Accounts receivable - trade	813,535	963,345
Work in process	55,660	90,986
Allowance for doubtful accounts	(2,035)	(1,771)
Other	75,995	60,627
Total current assets	3,707,022	3,607,570
Non-current assets		
Property, plant and equipment	40,966	44,084
Intangible fixed assets		
Goodwill	198,607	187,370
Software	6,128	4,927
Software in progress	86,768	100,158
Total intangible fixed assets	291,505	292,456
Investments and other assets		
Deferred tax assets	119,187	100,933
Leasehold and guarantee deposits	42,077	52,235
Investment securities	29,657	36,625
Other	59,861	56,433
Total investments and other assets	250,783	246,227
Total non-current assets	583,255	582,768
Total assets	4,290,278	4,190,339

(Thousands of yen)

	Previous consolidated fiscal year (ended December 31, 2020)	First three months of the current fiscal year (ended March 31, 2021)
Liabilities		
Current liabilities		
Accounts payable - trade	504,577	576,419
Current portion of long-term borrowings	305,005	297,004
Accounts payable - other	265,694	180,127
Income taxes payable	149,904	46,464
Provision for bonuses	111,813	73,763
Provision for bonuses for directors (and other officers)	22,123	-
Other	215,185	237,767
Total current liabilities	1,574,304	1,411,547
Non-current liabilities		
Long-term borrowings	883,868	811,485
Retirement benefit liability	96,603	95,525
Deferred tax liabilities	539	539
Other	2,415	2,515
Total non-current liabilities	983,427	910,066
Total liabilities	2,557,731	2,321,613
Net assets		
Shareholders' equity		
Share capital	529,020	536,750
Capital surplus	454,020	461,750
Retained earnings	889,202	1,010,560
Treasury shares	(142,469)	(142,784)
Total shareholders' equity	1,729,773	1,866,277
Accumulated other comprehensive income		
Foreign currency translation adjustment	62	320
Total accumulated other comprehensive income	62	320
Non-controlling interests	2,710	2,128
Total net assets	1,732,546	1,868,725
Liabilities and net assets	4,290,278	4,190,339

(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, 2020)	First three months of the current fiscal year (January 1 - March 31, 2021)
Net sales	1,373,200	1,742,609
Cost of sales	875,558	1,125,972
Gross profit	497,641	616,637
Selling, general and administrative expenses	337,353	444,489
Operating profit	160,288	172,147
Non-operating profit		
Interest income	11	14
Foreign exchange gains	9	-
Surrender value of insurance policies	3,670	-
Subsidy income	-	1,080
Share of profit of entities accounted for using equity method	-	6,968
Other	27	295
Total non-operating income	3,718	8,357
Non-operating expenses		
Interest expenses	695	1,662
Foreign exchange losses	-	231
Share of loss of entities accounted for using equity method	8,840	-
Other	1,316	116
Total non-operating expenses	10,851	2,010
Ordinary profit	153,154	178,494
Profit before income taxes	153,154	178,494
Income taxes - current	58,719	39,464
Income taxes - deferred	(4,638)	18,254
Total income taxes	54,081	57,718
Profit	99,073	120,776
Loss attributable to non-controlling interests	(2,377)	(582)
Profit attributable to owners of parent	101,450	121,358

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 - March 31, 2020)	First three months of the current fiscal year (January 1 - March 31, 2021)
Profit	99,073	120,776
Other comprehensive income		
Foreign currency translation adjustment	(9)	257
Total other comprehensive income	(9)	257
Comprehensive income	99,063	121,034
(Breakdown)		
Comprehensive income attributable to owners of parent	101,440	121,616
Comprehensive income attributable to non-controlling interests	(2,377)	(582)

(3) Notes to the Quarterly Consolidated Financial Statements

(Notes Related to Going Concern Assumptions)

Not applicable.

(Notes on Significant Changes in Shareholders' Equity)

During the first three months of the fiscal year under review, with the exercise of stock acquisition rights granted under the stock options plans, share capital increased by ¥7.730 million, and capital reserves increased by ¥7.730 million. As of March 31, 2021, share capital was ¥536.750 million and capital surplus was ¥461.750 million.

(Segment Information)

First three months of the fiscal year (January 1 - March 31, 2021)

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	1,681,817	60,792	1,742,609	-	1,742,609
Transactions with other segments	-	12,321	12,321	(12,321)	-
Total	1,681,817	73,114	1,754,931	(12,321)	1,742,609
Segment profit	157,529	14,617	172,147	-	172,147

*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, allocation of the acquisition cost related to the business combination carried out with SOFTEC Co., Ltd. during the previous fiscal year was not complete, so the amount of goodwill was based on a provisional calculation. The allocation was completed during the first quarter under review, and the provisional accounting was finalized, so the amount of goodwill has been revised.

Details are provided in Notes - Business Combinations.

(Notes - Business Combinations)

Finalization of provisional accounting related to business combination

The business combination with SOFTEC Co., Ltd., which was conducted on December 3, 2020, was provisionally accounted for in the previous fiscal year, but the accounting was finalized during the first quarter under review.

In conjunction with the finalization of this provisional accounting treatment, the significant revision of the initial allocation of acquisition costs has been reflected in the comparative information contained in the quarterly consolidated financial statements for the first three months of the fiscal year. Provisionally calculated at ¥121.842 million, the amount of goodwill was changed to ¥115.961 million as a result of finalizing the amount allocated to acquisition cost. The decrease in goodwill was primarily due to a ¥1.739 million decrease in deferred tax assets, a ¥4.921 decrease in accounts payable - other, a ¥3.283 million decrease in other current liabilities, and a ¥0.584 million increase in income taxes payable. The consolidated statement of income for the previous fiscal year is not impacted by the finalization of accounting treatment.

(Additional Information)

First three months of the current fiscal year (January 1 - March 31, 2021)
(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.