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November 11, 2022

Consolidated Financial Results for the Six Months Ended September 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: November 11, 2022
Scheduled date to commence dividend payments: –
Preparation of supplementary material on quarterly financial results: Yes
Holding of quarterly financial results briefing: Yes

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

1. Consolidated financial results for the six months ended September 30, 2022 (from April 1, 2022 to September 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	
Six months ended	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
September 30, 2022	12,736	34.4	677	(23.7)	697	(22.4)	423	(28.0)
September 30, 2021	9,473	33.9	888	(47.9)	898	(47.6)	587	(54.8)

Note: Comprehensive income For the six months ended September 30, 2022: ¥449 million [(23.9)%]
For the six months ended September 30, 2021: ¥590 million [(54.5)%]

	Basic earnings per share	Diluted earnings per share
Six months ended	Yen	Yen
September 30, 2022	2.33	–
September 30, 2021	3.24	–

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	%
September 30, 2022	12,649	8,722	69.0
March 31, 2022	11,700	8,617	73.6

Reference: Equity
As of September 30, 2022: ¥8,722 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	–	0.00			
Fiscal year ending March 31, 2023 (Forecast)			–	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 March 31, 2023)

(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	%	Yen
Full year	27,302	32.3	1,424	(9.8)	1,447	(9.3)	934	(13.4)	5.15

Note: Revisions to the consolidated earnings forecasts most recently announced: Yes

*** 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 September 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 September 30, 2022	1,610 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)

Six months ended September 30, 2022	181,214,429 shares
Six months ended September 30, 2021	181,214,509 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 4 of the attachment for the conditions assumed in earnings forecasts and notes on use of earnings forecasts.

(How to obtain supplementary material on financial results and the content of financial results briefings)

The Company plans to hold a web conference for analysts on November 14, 2022. The material distributed in the web conference will be disclosed on TDnet at the same time as the financial results, and also be published on the Company’s website.

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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 the 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 first six months of the current fiscal year, the cloud business continued to see a high rate of growth, mainly due to its core services, and performed strongly with annual recurring revenue (ARR) surpassing ¥20 billion for the first time. In the IT outsourcing business, strong needs for IT engineers persisted, and engineering assignments progressed smoothly. In terms of expenses, despite not fully achieving the hiring plan, we proactively invested in advertising, continuing to make growth investment in line with our policy.

Shares of subsidiaries and associates were impaired because non-consolidated subsidiaries' results deviated from the anticipated business plan.

As a result, during the first six months of the current fiscal year, net sales were ¥12,736 million (up 34.4% year on year), operating profit was ¥677 million (down 23.7% year on year), ordinary profit was ¥697 million (down 22.4% year on year) and profit attributable to owners of parent was ¥423 million (down 28.0% year on year).

Operating results by segment were as follows.

a. Cloud business

Net sales in the cloud business were ¥10,349 million (up 34.9% year on year) as a result of strong new orders, mainly contributed by Raku Raku Seisan, and strong growth in subscription sales. In terms of profit, segment profit was ¥436 million (down 42.5% 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 ¥2,387 million (up 32.4% year on year) and segment profit was ¥240 million (up 84.3% year on year) as a result of steadily increasing working engineers as we continued active hiring against the backdrop of strong customer needs.

(2) Explanation of financial position

a. Assets, liabilities and net assets

(Assets)

Current assets at the end of the second quarter of the current fiscal year were ¥9,230 million, an increase of ¥811 million from the end of the previous fiscal year. This was mainly due to increases of ¥433 million in cash and deposits and ¥350 million in accounts receivable - trade. Non-current assets were ¥3,418 million, an increase of ¥137 million from the end of the previous fiscal year. The main factors were increases of ¥133 million in deferred tax assets, ¥57 million in tools, furniture and fixtures, ¥45 million in guarantee deposits, and ¥32 million in buildings and structures despite of an ¥81 million decrease in goodwill.

As a result, total assets were ¥12,649 million, an increase of ¥948 million from the end of the previous fiscal year.

(Liabilities)

Current liabilities at the end of the second quarter of the current fiscal year were ¥3,781 million, an increase of ¥803 million from the end of the previous fiscal year. This was mainly due to increases of ¥324 million in income taxes payable, ¥225 million in accrued expenses, ¥125 million in accrued consumption taxes, and ¥58 million in accounts payable. Non-current liabilities were ¥145 million, an increase of ¥39 million from the end of the previous fiscal year. This was due to an increase of ¥41 million in long-term accrued expenses.

As a result, total liabilities were ¥3,926 million, an increase of ¥843 million from the end of the previous fiscal year.

(Net assets)

Total net assets at the end of the second quarter of the current fiscal year were ¥8,722 million, an increase of ¥104 million from the end of the previous fiscal year. This was due to an increase of ¥423 million in retained earnings as a result of recording profit attributable to owners of parent despite a decrease of ¥344 million in retained earnings as a result of dividends of surplus.

b. Cash flows

Cash and cash equivalents increased by ¥433 million from the end of the previous fiscal year to ¥5,295 million in the first six months of the current fiscal year. Cash flows and the respective factors contributing thereto during the first six months of the current fiscal year were as follows.

(Cash flows from operating activities)

Cash flows from operating activities increased by ¥1,450 million year on year, resulting in ¥1,136 million in net cash provided. Decreases were mainly attributable to a ¥294 million increase in trade receivables, ¥118 million in income taxes paid, and increases were mainly attributable to ¥676 million in profit before income taxes, an increase of ¥266 million in accrued expenses, ¥202 million in depreciation, income taxes refund of ¥132 million, and a ¥124 million increase in accrued consumption taxes.

(Cash flows from investing activities)

Cash flows from investing activities increased by ¥53 million year on year, resulting in ¥372 million in net cash used. This was mainly attributable to ¥286 million in purchase of property, plant and equipment and ¥139 million in payments of guarantee deposits despite proceeds from refund of guarantee deposits of ¥53 million.

(Cash flows from financing activities)

Cash flows from financing activities decreased by ¥29 million year on year, resulting in ¥346 million in net cash used. This was mainly attributable to ¥344 million in dividends paid.

(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.

The Group will continue capturing the strong digitization needs and plans to continue proactive investment in order to realize further high growth, and in the fiscal year ending March 31, 2023, the Group plans net sales of ¥27,302 million (up 32.3% year on year), operating profit of ¥1,424 million (down 9.8% year on year), ordinary profit of ¥1,447 million (down 9.3% year on year) and profit attributable to owners of parent of ¥934 million (down 13.4% year on year).

2. Quarterly consolidated financial statements and notes thereto

(1) Quarterly consolidated balance sheet

(Millions of yen)

	As of March 31, 2022	As of September 30, 2022
Assets		
Current assets		
Cash and deposits	4,861	5,295
Accounts receivable - trade	3,104	3,454
Income taxes refund receivable	131	–
Other	333	489
Allowance for doubtful accounts	(11)	(9)
Total current assets	8,419	9,230
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	175	208
Tools, furniture and fixtures, net	710	768
Construction in progress	–	20
Total property, plant and equipment	886	997
Intangible assets		
Goodwill	627	545
Customer-relationship	61	24
Software	34	29
Total intangible assets	723	599
Investments and other assets		
Investment securities	0	0
Shares of subsidiaries and associates	52	27
Long-term loans receivable from subsidiaries and associates	36	34
Guarantee deposits	888	934
Deferred tax assets	685	818
Other	12	13
Allowance for doubtful accounts	(4)	(7)
Total investments and other assets	1,671	1,821
Total non-current assets	3,281	3,418
Total assets	11,700	12,649

(Millions of yen)

	As of March 31, 2022	As of September 30, 2022
Liabilities		
Current liabilities		
Accounts payable - trade	1	1
Current portion of long-term borrowings	4	4
Accounts payable - other	1,285	1,343
Accrued expenses	754	980
Income taxes payable	116	441
Accrued consumption taxes	198	324
Contract liabilities	549	605
Other	67	80
Total current liabilities	2,977	3,781
Non-current liabilities		
Long-term borrowings	36	34
Long-term accrued expenses	69	111
Total non-current liabilities	106	145
Total liabilities	3,083	3,926
Net assets		
Shareholders' equity		
Share capital	378	378
Capital surplus	308	308
Retained earnings	7,918	7,997
Treasury shares	(0)	(0)
Total shareholders' equity	8,604	8,682
Accumulated other comprehensive income		
Deferred gains or losses on hedges	2	12
Foreign currency translation adjustment	10	27
Total accumulated other comprehensive income	13	39
Total net assets	8,617	8,722
Total liabilities and net assets	11,700	12,649

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

(Quarterly consolidated statements of income) (cumulative)

(Millions of yen)

	Six months ended September 30, 2021	Six months ended September 30, 2022
Net sales	9,473	12,736
Cost of sales	3,022	4,060
Gross profit	6,450	8,676
Selling, general and administrative expenses	5,562	7,998
Operating profit	888	677
Non-operating income		
Interest income	0	0
Foreign exchange gains	–	15
Compensation income	0	0
Subsidy income	7	1
Insurance claim income	2	–
Other	1	2
Total non-operating income	11	19
Non-operating expenses		
Interest expenses	–	0
Foreign exchange losses	1	–
Other	0	0
Total non-operating expenses	1	0
Ordinary profit	898	697
Extraordinary income		
Settlement income	–	5
Total extraordinary income	–	5
Extraordinary losses		
Loss on retirement of non-current assets	0	0
Loss on valuation of shares of subsidiaries and associates	–	25
Total extraordinary losses	0	25
Profit before income taxes	898	676
Income taxes - current	371	391
Income taxes - deferred	(60)	(137)
Total income taxes	310	253
Profit	587	423
Profit attributable to owners of parent	587	423

(Quarterly consolidated statements of comprehensive income) (cumulative)

(Millions of yen)

	Six months ended September 30, 2021	Six months ended September 30, 2022
Profit	587	423
Other comprehensive income		
Deferred gains or losses on hedges	0	9
Foreign currency translation adjustment	2	16
Total other comprehensive income	2	26
Comprehensive income	590	449
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	590	449

(3) Quarterly consolidated statements of cash flows

(Millions of yen)

	Six months ended September 30, 2021	Six months ended September 30, 2022
Cash flows from operating activities		
Profit before income taxes	898	676
Depreciation	182	202
Amortization of goodwill	81	81
Increase (decrease) in allowance for doubtful accounts	(3)	(0)
Interest income	(0)	(0)
Interest expenses	–	0
Foreign exchange losses (gains)	0	(2)
Settlement income	–	(5)
Loss on valuation of shares of subsidiaries and associates	–	25
Loss on retirement of non-current assets	0	0
Decrease (increase) in trade receivables	(225)	(294)
Decrease (increase) in inventories	0	–
Increase (decrease) in trade payables	(0)	0
Increase (decrease) in accounts payable - other	272	77
Increase (decrease) in accrued expenses	127	266
Increase (decrease) in accrued consumption taxes	(477)	124
Other, net	(65)	(36)
Subtotal	792	1,116
Interest and dividends received	0	0
Interest paid	–	(0)
Settlement income received	–	5
Income taxes paid	(1,106)	(118)
Income taxes refund	–	132
Net cash provided by (used in) operating activities	(314)	1,136
Cash flows from investing activities		
Purchase of property, plant and equipment	(302)	(286)
Purchase of intangible assets	(5)	(2)
Payments of guarantee deposits	(24)	(139)
Proceeds from refund of guarantee deposits	6	53
Proceeds from collection of loans receivable	–	2
Purchase of shares of subsidiaries and associates	(100)	–
Net cash provided by (used in) investing activities	(425)	(372)
Cash flows from financing activities		
Repayments of long-term borrowings	–	(2)
Purchase of treasury shares	(0)	(0)
Dividends paid	(316)	(344)
Net cash provided by (used in) financing activities	(316)	(346)
Effect of exchange rate change on cash and cash equivalents	1	16
Net increase (decrease) in cash and cash equivalents	(1,054)	433
Cash and cash equivalents at beginning of period	6,035	4,861
Cash and cash equivalents at end of period	4,980	5,295

(4) 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.

(Segment information, etc.)

[Segment information]

I First six months of the previous fiscal year (from April 1, 2021 to September 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	7,671	1,802	9,473	–	9,473
Intersegmental net sales and transfers	0	28	28	(28)	–
Total	7,671	1,831	9,502	(28)	9,473
Segment profit	758	130	888	(0)	888

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

II First six months of the current fiscal year (from April 1, 2022 to September 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	10,349	2,387	12,736	–	12,736
Intersegmental net sales and transfers	0	20	20	(20)	–
Total	10,349	2,407	12,756	(20)	12,736
Segment profit	436	240	677	0	677

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.