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February 13, 2023

Consolidated Financial Results for the Nine Months Ended December 31, 2022 (Under Japanese GAAP)

Company name: RAKUS Co., Ltd.
Listing: Tokyo Stock Exchange
Securities code: 3923
URL: https://www.rakus.co.jp/en/
Representative: Takanori Nakamura, Representative Director and President
Inquiries: Yoshifumi Matsushima, Director, Strategic Planning Department
Telephone: +81-50-8880-3200
Scheduled date to file quarterly securities report: February 13, 2023
Scheduled date to commence dividend payments: –
Preparation of supplementary material on quarterly financial results: Yes
Holding of quarterly financial results briefing: None

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

1. Consolidated financial results for the nine months ended December 31, 2022 (from April 1, 2022 to December 31, 2022)

(1) Consolidated operating result (cumulative)

(Percentages indicate year-on-year changes.)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent	
Nine months ended	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
December 31, 2022	19,818	33.6	1,110	(7.5)	1,121	(7.5)	679	(13.4)
December 31, 2021	14,839	34.3	1,200	(56.9)	1,211	(56.7)	784	(61.4)

Note: Comprehensive income For the nine months ended December 31, 2022: ¥686 million [(13.1)%]
For the nine months ended December 31, 2021: ¥789 million [(61.0)%]

	Basic earnings per share	Diluted earnings per share
Nine months ended	Yen	Yen
December 31, 2022	3.75	–
December 31, 2021	4.33	–

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	%
December 31, 2022	12,647	8,958	70.8
March 31, 2022	11,700	8,617	73.6

Reference: Equity
As of December 31, 2022: ¥8,958 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	27,366	32.7	1,498	(5.1)	1,508	(5.5)	1,111	3.0	6.13

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 December 31, 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 December 31, 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)

Nine months ended December 31, 2022	181,214,417 shares
Nine months ended December 31, 2021	181,214,508 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 3 of the attachment for the conditions assumed in earnings forecasts and notes on use of earnings forecasts.

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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 the first nine 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 in part given a steadily increasing number of new corporate customers. In the IT outsourcing business, engineering assignments steadily increased against the backdrop of strong customer needs. In terms of expenses, we continued to proactively invest in advertising.

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

As a result, during the first nine months of the current fiscal year, net sales were ¥19,818 million (up 33.6% year on year), operating profit was ¥1,110 million (down 7.5% year on year), ordinary profit was ¥1,121 million (down 7.5% year on year) and profit attributable to owners of parent was ¥679 million (down 13.4% year on year).

Operating results by segment were as follows.

a. Cloud business

Net sales in the cloud business were ¥16,110 million (up 34.1% year on year) as a result of favorable financial results centered on Raku Raku Series, its core service. In terms of profit, segment profit was ¥768 million (down 21.0% year on year) due to the continuation of active growth investment centered on advertising costs in line with the medium term management targets.

b. IT outsourcing business

In the IT outsourcing business, net sales were ¥3,708 million (up 31.3% year on year) and segment profit was ¥341 million (up 50.5% year on year) as a result of a steadily increasing number of working engineers along with our efforts to firmly maintain hiring amid continuance of strong customer needs.

(2) Explanation of financial position

a. Assets

Current assets at the end of the third quarter of the current fiscal year were ¥9,345 million, an increase of ¥926 million from the end of the previous fiscal year. The main factors were increases of ¥643 million in accounts receivable - trade and ¥296 million in cash and deposits. Non-current assets were ¥3,301 million, an increase of ¥19 million from the end of the previous fiscal year. The main factors were increases of ¥96 million in guarantee deposits, ¥77 million in buildings and structures, ¥55 million in deferred tax assets, and ¥47 million in tools, furniture and fixtures, despite decreases of ¥122 million in goodwill, ¥55 million in customer-relationship, and ¥52 million in shares of subsidiaries and associates.

As a result, total assets were ¥12,647 million, an increase of ¥946 million from the end of the previous fiscal year.

b. Liabilities

Current liabilities at the end of the third quarter of the current fiscal year were ¥3,556 million, an increase of ¥579 million from the end of the previous fiscal year. The main factors were increases of ¥438 million in provision for bonuses, ¥225 million in accrued consumption taxes, ¥196 million in deposits received (“other” under current liabilities), ¥147 million in accounts payable - other, ¥85 million in contract liabilities, and ¥74 million in income taxes payable, despite a decrease of ¥591 million in accrued expenses. Non-current liabilities were ¥132 million, an increase of ¥25 million from the end of the previous fiscal year. This was due to an increase of ¥28 million in long-term accrued expenses.

As a result, total liabilities were ¥3,688 million, an increase of ¥604 million from the end of the previous fiscal year.

c. Net assets

Total net assets at the end of the third quarter of the current fiscal year were ¥8,958 million, an increase of ¥341 million from the end of the previous fiscal year. This was due to an increase of ¥679 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.

(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 the 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 fiscal year ending March 31, 2023, whereas the Group will continue proactive investment while reviewing specifics of investment as appropriate in order to capture strong digitization needs and realize further high growth, it also expects to record extraordinary income associated with the company split of the rental server business of its consolidated subsidiary. As such, the Group plans net sales of ¥27,366 million (up 32.7% year on year), operating profit of ¥1,498 million (down 5.1% year on year), ordinary profit of ¥1,508 million (down 5.5% year on year) and profit attributable to owners of parent of ¥1,111 million (up 3.0% year on year).

For details regarding the company split of the rental server business of a consolidated subsidiary, please refer to the “Announcement Regarding the Company Split (Absorption-type Split) with a Consolidated Subsidiary (RAKUS Light Cloud Co., Ltd.) and NHN Techorus Corp.,” released on November 30, 2022.

2. Quarterly consolidated financial statements and notes thereto

(1) Quarterly consolidated balance sheet

(Millions of yen)

	As of March 31, 2022	As of December 31, 2022
Assets		
Current assets		
Cash and deposits	4,861	5,158
Accounts receivable - trade	3,104	3,747
Income taxes refund receivable	131	–
Other	333	450
Allowance for doubtful accounts	(11)	(10)
Total current assets	8,419	9,345
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	175	252
Tools, furniture and fixtures, net	710	758
Total property, plant and equipment	886	1,011
Intangible assets		
Goodwill	627	505
Customer-relationship	61	6
Software	34	27
Total intangible assets	723	539
Investments and other assets		
Investment securities	0	–
Shares of subsidiaries and associates	52	–
Long-term loans receivable from subsidiaries and associates	36	33
Guarantee deposits	888	984
Deferred tax assets	685	740
Other	12	15
Allowance for doubtful accounts	(4)	(24)
Total investments and other assets	1,671	1,750
Total non-current assets	3,281	3,301
Total assets	11,700	12,647

(Millions of yen)

	As of March 31, 2022	As of December 31, 2022
Liabilities		
Current liabilities		
Accounts payable - trade	1	0
Current portion of long-term borrowings	4	4
Accounts payable - other	1,285	1,433
Accrued expenses	754	162
Income taxes payable	116	191
Accrued consumption taxes	198	424
Contract liabilities	549	634
Provision for bonuses	–	438
Other	67	267
Total current liabilities	2,977	3,556
Non-current liabilities		
Long-term borrowings	36	33
Long-term accrued expenses	69	98
Total non-current liabilities	106	132
Total liabilities	3,083	3,688
Net assets		
Shareholders' equity		
Share capital	378	378
Capital surplus	308	308
Retained earnings	7,918	8,253
Treasury shares	(0)	(0)
Total shareholders' equity	8,604	8,938
Accumulated other comprehensive income		
Deferred gains or losses on hedges	2	2
Foreign currency translation adjustment	10	17
Total accumulated other comprehensive income	13	19
Total net assets	8,617	8,958
Total liabilities and net assets	11,700	12,647

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

(Quarterly consolidated statements of income) (cumulative)

(Millions of yen)

	Nine months ended December 31, 2021	Nine months ended December 31, 2022
Net sales	14,839	19,818
Cost of sales	4,781	6,290
Gross profit	10,058	13,528
Selling, general and administrative expenses	8,857	12,418
Operating profit	1,200	1,110
Non-operating income		
Interest income	0	0
Foreign exchange gains	–	21
Compensation income	0	0
Subsidy income	7	4
Insurance claim income	2	–
Other	1	2
Total non-operating income	11	28
Non-operating expenses		
Interest expenses	–	0
Foreign exchange losses	0	–
Provision of allowance for doubtful accounts for subsidiaries and associates	–	16
Other	0	0
Total non-operating expenses	0	16
Ordinary profit	1,211	1,121
Extraordinary income		
Gain on sale of investment securities	–	10
Settlement income	–	5
Total extraordinary income	–	15
Extraordinary losses		
Loss on retirement of non-current assets	0	0
Loss on valuation of shares of subsidiaries and associates	–	52
Total extraordinary losses	0	52
Profit before income taxes	1,211	1,084
Income taxes - current	401	460
Income taxes - deferred	25	(55)
Total income taxes	427	405
Profit	784	679
Profit attributable to owners of parent	784	679

(Quarterly consolidated statements of comprehensive income) (cumulative)

(Millions of yen)

	Nine months ended December 31, 2021	Nine months ended December 31, 2022
Profit	784	679
Other comprehensive income		
Deferred gains or losses on hedges	0	(0)
Foreign currency translation adjustment	5	6
Total other comprehensive income	5	6
Comprehensive income	789	686
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	789	686

(3) 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.

(Additional information)

(Provision for bonuses)

The finalized amount of employees' bonuses was recorded as accrued expenses in the previous fiscal year, but the projected amount is recorded as provision for bonuses in the first nine months of the current fiscal year because the amount to be paid has not been finalized. The finalized amount of ¥644 million paid was recorded as accrued expenses in the previous fiscal year.

(Segment information, etc.)

[Segment information]

I First nine months of the previous fiscal year (from April 1, 2021 to December 31, 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	12,014	2,824	14,839	–	14,839
Intersegmental net sales and transfers	0	45	45	(45)	–
Total	12,014	2,870	14,884	(45)	14,839
Segment profit	972	226	1,199	0	1,200

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.

II First nine months of the current fiscal year (from April 1, 2022 to December 31, 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	16,110	3,708	19,818	–	19,818
Intersegmental net sales and transfers	0	24	25	(25)	–
Total	16,110	3,733	19,843	(25)	19,818
Segment profit	768	341	1,109	0	1,110

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.