Translation

Notice: This document has been translated from the Japanese original for reference purposes. In the event of any discrepancy between this translated document and the Japanese original, the latter shall prevail.

Summary of Consolidated Financial Results for the First Two Quarters of the Fiscal Year Ending January 2024 (Based on Japanese GAAP)

September 14, 2023

Company name: Appirits Inc. Listing exchange: Tokyo Stock Exchange

Securities code: 4174 URL: https://appirits.com/

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Scheduled date for filing quarterly securities report: September 14, 2023

Scheduled date for commencing dividend payments: October 13, 2023

Preparation of supplementary materials on quarterly financial results: Yes

Holding of quarterly financial results briefing session: Yes

(Amounts are rounded down to the nearest million yen, unless otherwise noted)

1. Consolidated Financial Results for the First Two Quarters (February 1, 2023 to July 31, 2023) of the Fiscal Year Ending January 31, 2024

(1) Consolidated Operating Results (Cumulative) (Percentage figures represent year-on-year changes)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
First two quarters ended July 31, 2023	4,137	32.1	258	54.7	257	67.8	151	63.8
First two quarters ended July 31, 2022	3,131	–	167	–	153	–	92	–

(Note) Comprehensive income
First two quarters ended July 31, 2023: 151 million yen [63.8%]
First two quarters ended July 31, 2022: 92 million yen [– %]

	Basic earnings per share	Diluted earnings per share
	Yen	Yen
First two quarters ended July 31, 2023	36.96	35.11
First two quarters ended July 31, 2022	23.12	21.51

(Note) As the Company started preparation of consolidated financial statements from the end of the fiscal year ended January 31, 2022, the year-on-year changes for the first two quarters of the fiscal year ended January 31, 2023, are not indicated.

(2) Consolidated Financial Position

	Total assets	Net assets	Equity ratio
	Millions of yen	Millions of yen	%
As of July 31, 2023	4,408	2,266	51.1
As of January 31, 2023 (end of previous fiscal year)	4,198	2,121	50.4

(Reference) Total shareholders' equity
As of July 31, 2023: 2,253 million yen As of January 31, 2023: 2,115 million yen

2. Cash Dividends

	Annual dividends per share				
	End of 1st quarter	End of 2nd quarter	End of 3rd quarter	Fiscal year-end	Total
	Yen	Yen	Yen	Yen	Yen
Fiscal year ended January 2023	–	5.00	–	5.00	10.00
Fiscal year ending January 2024	–	6.00			
Fiscal year ending January 2024 (Forecast)			–	6.00	12.00

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

3. Forecast of Financial Results for the Fiscal Year Ending January 31, 2024 (from February 1, 2023 to January 31, 2024)

(Percentage figures represent 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	8,734	19.3	550	18.8	545	22.6	327	55.7	81.32

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

* Explanatory notes

(1) Changes in significant subsidiaries during the first two quarters (changes in specified subsidiaries resulting in change in scope of consolidation): No

Newly consolidated: No Excluded from consolidation: No

(2) Application of accounting treatments specific to the preparation of quarterly consolidated financial statements: Yes

(3) Changes in accounting policies, changes in accounting estimates, and restatement of prior period financial statements

1) Changes in accounting policies due to revisions to accounting standards and other regulations: Yes
2) Changes in accounting policies other than those in 1) above: No
3) Changes in accounting estimates: No
4) Restatement of prior period financial statements: No

(4) Number of issued shares (common shares)

1) Total number of issued shares at the end of the period (including treasury shares)

As of July 31, 2023	4,151,400 shares	As of January 31, 2023	4,133,700 shares

2) Number of treasury shares at the end of the period

As of July 31, 2023	50,038 shares	As of January 31, 2023	50,038 shares

3) Average number of shares during the period (cumulative from the beginning of the fiscal year)

First two quarters ended July 31, 2023	4,091,248 shares	First two quarters ended July 31, 2022	3,991,566 shares

* This summary of financial results is not subject to quarterly review procedures by a public accountant or audit corporation.

* Explanation regarding the appropriate use of earnings forecasts, and other notes

(Notes on forward-looking statements)

The earnings outlook and other forward-looking statements contained in this document are based on information currently available to the Company and certain assumptions that are thought to be reasonable by the Company. Accordingly, such statements should not be construed as a guarantee of achieving the results by the Company. Actual financial results and the like may differ materially due to various factors.

(How to obtain supplementary materials on quarterly financial results and details of the quarterly financial results briefing session)

The Company plans to promptly post the explanation (video) and explanatory materials regarding the financial results on its website.

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1. Qualitative Information on the Financial Results for the Period under Review

Forward-looking statements in this document were determined by Appirits Inc. ("the Company") as of the end of the second quarter (July 31, 2023) of the current fiscal year.

(1) Explanation of Operating Results

During the first two quarters of the current fiscal year ending January 2024, the Japanese economy began to return to normalization as COVID-19 was re-classified as a Class 5 infectious disease under the Infectious Diseases Control Law and is expected to pick up. The outlook remains uncertain, however, due to concerns about the impact of an economic slowdown caused by factors such as prolonged geopolitical risks, rising natural resources and raw material prices, foreign exchange fluctuations led by the sharp depreciation of the yen, and higher policy interest rates against global inflation.

The Internet industry and online gaming industry, to which the Company and its group of companies ("the Group") belong, continue to see a strong trend of new digitalization, which brings about drastic changes to business models and the industry structure through digital transformation (DX), mainly at large companies. The need to respond to new lifestyles through digitalization is solid and strong, and companies continue to expand their investments in information technology (IT).

Given such a business environment, the Group has set forth its mission of "Always make Internet services that delight and enrich the world" under its vision of "The Internet Company." To achieve this mission, the Group conducts three main businesses: Web Solutions, Digital Talent Development and Staffing, and Online Gaming, and works to expand earnings with the trend of DX bolstering its endeavor.

Moreover, the Group has achieved an M&A strategy, a part of its growth strategies, by the Company acquiring Moving Crew Co., Ltd., which is engaged in the planning, development, and operation of fan community websites, in January 2022, and Y's Inc., which conducts IT talent staffing business and website production, in July 2022. With these companies becoming fully owned subsidiaries, the group is striving to secure and develop digital talents and expand the relevant business areas.

As a result of the above, the Group achieved the following results for the first two quarters under review:

Net sales	4,137,025 thousand yen (up 32.1% year on year)
Operating profit	258,533 thousand yen (up 54.7% year on year)
Ordinary profit	257,784 thousand yen (up 67.8% year on year)
Profit attributable to owners of parent	151,203 thousand yen (up 63.8% year on year)

Operating results by segment for the first two quarters under review are as follows:

Note that, effective from the second quarter of the previous fiscal year, the Company changed its business segmentation to three segments, adding the Digital Talent Development and Staffing business to the existing Web Solutions business and Online Gaming business.

The following year-on-year comparisons of net sales and segment profit (loss) are calculated by assuming that the segment change occurred at the beginning of the previous fiscal year.

1) Web Solutions business

In the Web Solutions business, which includes the development, operations, and support of large-scale cloud-based systems for transforming clients' business models and processes, the Company carries out a series of operations, from service design to development and maintenance tailored to client needs. Through this, the Company has established a customer loyalty loop and steadily increased the number of continuing orders and projects requiring composite services. The Company also understands that a material issue for its business expansion is the growth of young people engaged in the development of these services. The Company works to improve their skills as development engineers by having them experience responsible positions and, after they have grown, they convey the skills and expertise to young, less experienced engineers, thereby creating a growth spiral through the cycle. As a result, based on these endeavors, the Web Solutions business has been able to steadily expand its performance by receiving steady orders for ongoing projects as a partner to realize DX for its clients, steadily securing new projects under the active market environment, and increasing unit prices due to the larger size of the projects themselves.

As a result, the segment posted net sales of 1,736,327 thousand yen (up 25.7% year on year) for the first two quarters under review, with segment profit amounting to 567,446 thousand yen (up 45.5% year on year).

2) Digital Talent Development and Staffing business

The Digital Talent Development and Staffing business is a newly launched business that integrates the functions of the digital talent staffing business, which had been included in the Web Solutions business and Online Gaming business segments, and Y's Inc., which became a wholly owned subsidiary in July 2022. As seen in the recent trends for DX, the gap between supply and demand for digital talents to support the rapid progress of digital business has become a structural issue. For more flexible responses, the Company has separated the business into a new segment to provide solutions for the issue of the inadequate supply of digital talent.

By hiring people with little experience and actively providing them with quality training that has been accumulated over the years, the Company has been able to prepare high-quality digital talents for its clients. Although sales increased significantly from the year-earlier period, segment profit remained at the same level as the costs for proactive hiring and training accrued ahead of sales before turning to profit in the third and fourth quarters of the fiscal year.

As a result, the segment posted net sales of 910,802 thousand yen (up 165.3% year on year) for the first two quarters under review, with segment profit amounting to 24,945 thousand yen (down 0.1% year on year).

3) Online Gaming business

In the Online Gaming business, which is mainly focused on mobile games, efforts were made to maintain sales of the “in-house game development” products through a variety of events for existing titles. Additionally, development of a new game title, “Shikihime Project,” is proceeding diligently for release in the next fiscal year. As for contracted game development with collaborators, the Company has been entrusted by other companies for the outsourced development, operation such as updating the content and adding new features, and maintenance of games they have developed and copyrighted, as well as the operation of games for which copyrights have been transferred to the Company. In April, the Company participated as a major operator in “Senjyushi: Rhodoknight,” provided by Marvelous Inc., for which the Company had been entrusted with the operation. Moreover, regarding “UNI'S ON AIR,” the Company fell short of its projected profit plan due to an increase in certain content expenses and unstable sales, despite measures taken to reduce costs through streamlining the operation system after the operation was transferred and through shifting to in-house production from outsourcing.

As a result, the segment posted net sales of 1,489,895thousand yen (up 5.9% year on year) for the first two quarters under review, with segment profit amounting to 11,806 thousand yen (down 84.1% year on year).

(2) Financial Position

1) Assets, liabilities and net assets

(Assets)

Total assets at the end of the second quarter of the current fiscal year amounted to 4,408,544 thousand yen, an increase of 210,035 thousand yen from the end of the previous fiscal year. Current assets decreased by 161,937 thousand yen to 3,124,114 thousand yen, mainly due to a decrease of 187,514 thousand yen in cash and deposits, a decrease of 55,768 thousand yen in accounts receivable - trade and contract assets, and an increase of 72,954 thousand yen in items categorized as other. Non-current assets increased by 371,973 thousand yen to 1,284,429 thousand yen, mainly due to an increase of 413,871 thousand yen in guarantee deposits and a decrease of 33,829 thousand yen in goodwill.

(Liabilities)

Total liabilities at the end of the second quarter of the current fiscal year amounted to 2,141,828 thousand yen, an increase of 64,623 thousand yen from the end of the previous fiscal year. This was mainly due to an increase of 300,000 thousand yen in short-term borrowings, a decrease of 48,604 thousand yen in accounts payable-trade, a decrease of 19,695 thousand yen in accounts payable-other, a decrease of 98,302 thousand yen in income taxes payable, a decrease of 12,155 thousand yen in the items categorized as other in current liabilities, and a decrease of 55,000 thousand yen in long-term borrowings.

(Net assets)

Net assets at the end of the second quarter of the current fiscal year amounted to 2,266,715 thousand yen, an increase of 145,411 thousand yen from the end of the previous fiscal year. This was mainly due to an increase of 151,203 thousand yen in retained earnings because of recording profit attributable to owners of parent, against a decrease of 20,418 thousand yen in retained earnings through dividend payments.

2) Cash flows

Cash and cash equivalents (“net cash”) at the end of the second quarter of the current fiscal year amounted to 1,634,884 thousand yen, a decrease of 187,514 thousand yen from the end of the previous fiscal year.

The status of cash flows in the first two quarters under review and their contributing factors are as follows.

(Cash flows from operating activities)

Net cash provided by operating activities amounted to 15,513 thousand yen (compared to net cash provided, amounting to 176,093 thousand yen in the year-earlier period). This was mainly due to factors including profit before income taxes of 257,784 thousand yen, depreciation of 40,162 thousand yen, amortization of goodwill of 33,829 thousand yen, decrease in trade receivables and contract assets of 55,768 thousand yen, increase in inventories of 8,390 thousand yen, decrease in trade payables 48,604 thousand yen, decrease in accounts payable - other of 30,599 thousand yen, other, net of 78,362 thousand yen, and income taxes paid of 203,992 thousand yen.

(Cash flows from investing activities)

Net cash used in investing activities amounted to 434,76 thousand yen (compared to net cash used, amounting to 60,428 thousand yen in the year-earlier period). This was mainly due to such factors as payments of guarantee deposits of 418,665 thousand yen.

(Cash flows from financing activities)

Net cash provided by financing activities amounted to 231,733 thousand yen (compared to net cash provided, amounting to 2,068 thousand yen in the year-earlier period). This was mainly due to factors including increase in short-term borrowings of 300,000 thousand yen and proceeds from issuance of shares resulting from exercise of share acquisition rights of 7,131 thousand yen, against such factors as repayments of long-term borrowings of 55,000 thousand yen and dividends paid of 20,397 thousand yen.

(3) Explanations on Consolidated Earnings Forecast and Other Forecast Information

Concerning earnings forecast, no change has been made to the forecast for the entire fiscal year announced on March 17, 2023, in the Summary of Consolidated Financial Results for the Fiscal Year Ended January 2023 (Based on Japanese GAAP).

2. Quarterly Consolidated Financial Statements and Significant Notes Thereto

(1) Quarterly Consolidated Balance Sheets

(Thousands of yen)

	Previous fiscal year (As of January 31, 2023)	Second quarter of current fiscal year (As of July 31, 2023)
Assets		
Current assets		
Cash and deposits	1,822,398	1,634,884
Accounts receivable - trade and contract assets	1,164,242	1,108,474
Work in process	26,249	34,639
Other	273,162	346,117
Total current assets	3,286,052	3,124,114
Non-current assets		
Property, plant and equipment	99,020	111,866
Intangible assets		
Goodwill	290,462	256,632
Other	69,878	43,871
Total intangible assets	360,340	300,504
Investments and other assets		
Guarantee deposits	268,737	682,608
Other	184,358	189,450
Total investments and other assets	453,095	872,059
Total non-current assets	912,456	1,284,429
Total assets	4,198,509	4,408,544

(Thousands of yen)

	Previous fiscal year (As of January 31, 2023)	Second quarter of current fiscal year (As of July 31, 2023)
Liabilities		
Current liabilities		
Accounts payable - trade	313,446	264,842
Short-term borrowings	-	300,000
Current portion of long-term borrowings	110,000	110,000
Accounts payable - other	547,556	527,860
Income taxes payable	228,011	129,708
Other	379,072	366,916
Total current liabilities	1,578,086	1,699,328
Non-current liabilities		
Long-term borrowings	497,500	442,500
Other	1,618	-
Total non-current liabilities	499,118	442,500
Total liabilities	2,077,205	2,141,828
Net assets		
Shareholders' equity		
Share capital	619,694	623,260
Capital surplus	517,864	521,430
Retained earnings	1,035,327	1,166,112
Treasury shares	(57,029)	(57,029)
Total shareholders' equity	2,115,858	2,253,773
Share acquisition rights	5,445	12,941
Total net assets	2,121,303	2,266,715
Total liabilities and net assets	4,198,509	4,408,544

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

Quarterly Consolidated Statements of Income

(Cumulative)

(Thousands of yen)

	First two quarters of previous fiscal year (February 1, 2022 – July 31, 2022)	First two quarters of current fiscal year (February 1, 2023 – July 31, 2023)
Net sales	3,131,420	4,137,025
Cost of sales	2,364,405	3,164,088
Gross profit	767,015	972,936
Selling, general and administrative expenses	599,884	714,403
Operating profit	167,130	258,533
Non-operating income		
Commission income	123	578
Other	195	717
Total non-operating income	318	1,296
Non-operating expenses		
Interest expenses	1,099	2,004
Foreign exchange losses	4,639	41
Settlement payments	8,040	-
Total non-operating expenses	13,778	2,045
Ordinary profit	153,671	257,784
Profit before income taxes	153,671	257,784
Income taxes	61,370	106,581
Profit	92,300	151,203
Profit attributable to non-controlling interests	-	-
Profit attributable to owners of parent	92,300	151,203

Quarterly Consolidated Statements of Comprehensive Income
(Cumulative)

(Thousands of yen)

	First two quarters of previous fiscal year (February 1, 2022 – July 31, 2022)	First two quarters of current fiscal year (February 1, 2023 – July 31, 2023)
Profit	92,300	151,203
Comprehensive income	92,300	151,203
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	92,300	151,203
Comprehensive income attributable to non-controlling interests	-	-

(3) Quarterly Consolidated Statements of Cash Flows

(Thousands of yen)

	First two quarters of previous fiscal year (February 1, 2022 – July 31, 2022)	First two quarters of current fiscal year (February 1, 2023 – July 31, 2023)
Cash flows from operating activities		
Profit before income taxes	153,671	257,784
Depreciation	18,887	40,162
Amortization of goodwill	45,224	33,829
Decrease (increase) in trade receivables and contract assets	(370,694)	55,768
Decrease (increase) in inventories	(100)	(8,390)
Increase (decrease) in trade payables	206,525	(48,604)
Increase (decrease) in accounts payable - other	75,710	(30,599)
Other, net	44,116	(78,362)
Subtotal	173,341	221,588
Income taxes paid	(2,695)	(203,992)
Income taxes refund	6,728	-
Interest and dividends received	5	14
Interest paid	(1,599)	(2,097)
Other, net	312	-
Net cash provided by (used in) operating activities	176,093	15,513
Cash flows from investing activities		
Purchase of property, plant and equipment	(12,557)	(15,797)
Purchase of intangible assets	(300)	(299)
Payments of guarantee deposits	(8,557)	(418,665)
Proceeds from refund of guarantee deposits	16,624	-
Purchase of shares of subsidiaries resulting in change in scope of consolidation	(55,638)	-
Net cash provided by (used in) investing activities	(60,428)	(434,762)
Cash flows from financing activities		
Increase (decrease) in short-term borrowings	(300,000)	300,000
Proceeds from long-term borrowings	300,000	-
Repayments of long-term borrowings	(4,814)	(55,000)
Redemption of bonds	(9,900)	-
Proceeds from issuance of shares resulting from exercise of share acquisition rights	35,287	7,131
Dividends paid	(18,504)	(20,397)
Net cash provided by (used in) financing activities	2,068	231,733
Effect of exchange rate change on cash and cash equivalents	3	2
Net increase (decrease) in cash and cash equivalents	117,737	(187,514)
Cash and cash equivalents at the beginning of period	1,439,134	1,822,398
Cash and cash equivalents at the end of period	1,556,871	1,634,884

(4) Notes to Quarterly Consolidated Financial Statements

(Notes on Going Concern Assumption)

Not applicable.

(Notes in Case of Significant Changes in the Amounts of Shareholder's Equity)

Not applicable.

(Application of accounting treatments specific to the preparation of quarterly consolidated financial statements)

Tax expenses are calculated by reasonably estimating the effective tax rate after applying tax effect accounting to profit before income taxes for the consolidated fiscal year, including the second quarter under review, and multiplying profit before income taxes for the quarter by the estimated effective tax rate.

(Changes in Accounting Policies)

The Company has applied the "Implementation Guidance on Accounting Standard for Fair Value Measurement" (Accounting Standards Board of Japan Guidance No. 31, issued on June 17, 2021; the "Implementation Guideline") from the beginning of the first quarter of the current fiscal year. In accordance with the transitional treatment stipulated in Paragraph 27-2 of the Implementation Guidance, the new accounting policy stipulated by the Implementation Guidance is to be applied prospectively. Note that the application has not affected the quarterly consolidated financial statements.

(Segment Information, Etc.)

[Segment information]

First two quarters of the previous fiscal year (February 1, 2022 to July 31, 2022)

1. Information regarding net sales, profit or losses by reportable segment, and breakdown of revenue

(Thousands of yen)

	Reportable segment				Adjustment (Note 1)	Amount recorded in quarterly consolidated statements of income (Note 2)
	Web Solutions business	Online Gaming business	Digital Talent Development and Staffing business	Total		
Net sales						
Transactions related to fixed-price contracts	612,165	520,217	-	1,132,383	-	1,132,383
Transactions related to time and materials contracts	769,413	32,178	-	801,591	-	801,591
Transactions related to online game distribution services	-	854,124	-	854,124	-	854,124
Transactions related to talent staffing	-	-	343,321	343,321	-	343,321
Revenue from contracts with customers	1,381,579	1,406,520	343,321	3,131,420	-	3,131,420
Sales to outside customers	1,381,579	1,406,520	343,321	3,131,420	-	3,131,420
Inter-segment sales or transfers	-	-	-	-	-	-
Total	1,381,579	1,406,520	343,321	3,131,420	-	3,131,420
Segment profit (loss)	389,917	74,418	24,972	489,307	(322,177)	167,130

(Notes) 1. Adjustments of segment profit (-322,177 thousand yen) are corporate expenses that are not allocated to any reportable segment. Corporate expenses are mainly general and administrative expenses that do not belong to any reportable segment.

2. Segment profit has been adjusted with the operating profit in the Quarterly Consolidated Statements of Income.

First two quarters of the current fiscal year (February 1, 2023 to July 31, 2023)

1. Information regarding net sales, profit or losses by reportable segment, and breakdown of revenue

(Thousands of yen)

	Reportable segment				Adjustment (Note 1)	Amount recorded in quarterly consolidated statements of income (Note 2)
	Web Solutions business	Online Mobile Gaming business	Digital Talent Development and Staffing business	Total		
Net sales						
Transactions related to fixed-price contracts	707,196	443,618	-	1,150,814	-	1,150,814
Transactions related to time and materials contracts	1,029,131	80,043	-	1,109,175	-	1,109,175
Transactions related to online game distribution services	-	966,233	-	966,233	-	966,233
Transactions related to talent staffing	-	-	910,802	910,802	-	910,802
Revenue from contracts with customers	1,736,327	1,489,895	910,802	4,137,025	-	4,137,025
Sales to outside customers	1,736,327	1,489,895	910,802	4,137,025	-	4,137,025
Inter-segment sales or transfers	-	-	-	-	-	-
Total	1,736,327	1,489,895	910,802	4,137,025	-	4,137,025
Segment profit (loss)	567,446	11,806	24,945	604,199	(345,665)	258,533

(Notes) 1. Adjustments of segment profit (-345,665 thousand yen) are corporate expenses that are not allocated to any reportable segment. Corporate expenses are mainly general and administrative expenses that do not belong to any reportable segment.

2. Segment profit has been adjusted with the operating profit in the Quarterly Consolidated Statements of Income.

(Significant Subsequent Events)

[Purchase of treasury shares]

At the Board of Directors' meeting held on September 14, 2023, the Company passed a resolution on matters pertaining to the purchase of treasury shares in accordance with the provisions of Article 156 of the Companies Act as applied pursuant to Article 165, Paragraph 3 of the said Act.

1. Reasons for purchasing treasury shares

To improve capital efficiency and enhance shareholder returns, and to implement a flexible capital policy in response to changes in the business environment.

2. Details of matters relating to the purchase

(1) Type of shares to be purchased:	Common stock of the Company
(2) Total number of shares that may be purchased:	Up to 50,000 shares (Percentage of total number of issued shares: 1.20%)
(3) Total purchase price of shares:	Up to 80,000,000 yen
(4) Purchase period:	From September 15, 2023 to March 15, 2024
(5) Purchase method:	Market purchase on the Tokyo Stock Exchange (Discretionary trading by securities companies)