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Consolidated Financial Results for the Three Months Ended June 30, 2024 [Japanese GAAP]

July 26, 2024

Company name: SYSTEM RESEARCH CO., LTD.
Stock exchange listing: Tokyo Stock Exchange
Code number: 3771
URL: https://www.sr-net.co.jp/
Representative: Hiroshi Hirayama, Representative Director and President
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Scheduled date to commence dividend payments: -
Preparation of supplementary material on financial results: Not available
Holding of financial results briefing: Not scheduled

(Amounts of less than one million yen are rounded down.)

1. Consolidated Financial Results for the Three Months Ended June 30, 2024 (April 1, 2024 to June 30, 2024)

(1) Consolidated Operating Results (cumulative) (% indicates changes from the previous corresponding period.)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent	
Three months ended	Million yen	%	Million yen	%	Million yen	%	Million yen	%
June 30, 2024	6,190	11.4	474	0.2	489	0.8	352	(4.2)
June 30, 2023	5,555	8.3	472	9.7	485	12.4	367	766.1

(Note) Comprehensive income: Three months ended June 30, 2024: ¥352 million [(4.6)%]
Three months ended June 30, 2023: ¥369 million [- %]

	Basic earnings per share	Diluted earnings per share
Three months ended	Yen	Yen
June 30, 2024	21.18	-
June 30, 2023	22.01	-

(Note) A two-for-one common share split was issued on April 1, 2024. Basic earnings per share is calculated on the assumption that the share split was conducted at the beginning of the previous consolidated fiscal year.

(2) Consolidated Financial Position

	Total assets	Net assets	Equity ratio
	Million yen	Million yen	%
As of June 30, 2024	14,888	9,985	66.9
As of March 31, 2024	16,145	10,524	65.0

(Reference) Equity: As of June 30, 2024: ¥9,969 million
As of March 31, 2024: ¥10,508 million

2. Dividends

	Annual dividends				
	1st quarter-end	2nd quarter-end	3rd quarter-end	Fiscal year-end	Total
	Yen	Yen	Yen	Yen	Yen
Fiscal year ended March 31, 2024	-	0.00	-	80.00	80.00
Fiscal year ending March 31, 2025	-				
Fiscal year ending March 31, 2025 (Forecast)		0.00	-	40.00	40.00

Notes: 1. Revisions to the forecast of cash dividends most recently announced: No
2. A two-for-one common share split was issued on April 1, 2024. For the fiscal year ended March 31, 2024, the actual dividend amount before the share split is shown.

3. Consolidated Financial Results Forecast for the Fiscal Year Ending March 31, 2025 (April 1, 2024 to March 31, 2025)

(% indicates changes from the previous corresponding period.)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent		Basic earnings per share
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen
Six months ending September 30, 2024	12,386	9.5	1,045	(11.8)	1,076	(10.9)	778	(13.4)	46.54
Full year	26,718	14.5	3,084	14.0	3,114	12.4	2,198	11.6	131.53

Note: Revisions to the financial result forecast most recently announced: No

*** Notes:**

(1) Significant changes in the scope of consolidation during the period : No

(2) Adoption of accounting treatment specific to the preparation of quarterly consolidated financial statements: Yes

(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: No
- (ii) Changes in accounting policies due to other reasons: No
- (iii) Changes in accounting estimates: No
- (iv) Restatement: No

(4) Number of issued shares (common shares)

(i) Total number of issued shares at the end of the period (including treasury shares):
As of June 30, 2024: 16,720,000 shares
As of March 31, 2024: 16,720,000 shares

(ii) Number of treasury shares at the end of the period:
As of June 30, 2024: 154,224 shares
As of March 31, 2024: 4,224 shares

(iii) Average number of shares outstanding during the period (cumulative from the beginning of the fiscal year):
Three months ended June 30, 2024: 16,640,776 shares
Three months ended June 30, 2023: 16,715,950 shares

(Note) A two-for-one common share split was issued on April 1, 2024. Total number of issued shares (common shares) is calculated based on the assumption that the share split was conducted at the beginning of the previous consolidated fiscal year.

* Review of the Japanese-language originals of the attached consolidated quarterly financial statements by certified public accountants or audit firms: No

* Explanation of the proper use of financial results forecast and other notes

(Notes on forward-looking statements, etc.)

The financial results forecast and other forward-looking statements herein are based on information currently available to the Company and certain assumptions that the Company deems reasonable, and the Company does not intend to guarantee that they will be achieved. In addition, actual results may differ significantly from these forecasts due to a wide range of factors. For the conditions assumed for the financial results forecast, precautions for the use of the financial results forecast, etc., please refer to "(3) Explanation of Consolidated Financial Results Forecasts and Other Forward-looking Information" on page 2 of the attachments.

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1. Qualitative Information on Quarterly Financial Results

(1) Explanation of Operating Results

During the three months ended June 30, 2024, the Japanese economy was on a moderate recovery path as corporate earnings and employment situations, among other factors, showed signs of improvement amid the progress of the normalization of economic activities, despite the persisted impact of the surge in prices brought by unstable international affairs and the depreciation of the Japanese yen. Meanwhile, the outlook remains uncertain due to the continued global monetary tightening, surging raw materials and energy prices, worsening labor shortages, and other factors.

In the information service industry, in which the Group operates, the industry's total net sales for May 2024 grew by 3.9% compared with a year earlier, according to the Current Survey of Selected Service Industries released by the Ministry of Economy, Trade and Industry. Specifically, sales of "Software Ordered," the main segment, increased by 3.9% year on year, sales of "Software Products" increased by 0.8% year on year, and sales of "System Management on Commission" increased by 3.1% year on year. These results show that companies' IT investment demand remains strong as they reconstruct mainframe systems, and develop products to reform their business operations and expand their business utilizing digital transformation (DX) technology.

In this business environment, for the three months ended June 30, 2024, net sales of SI Services Business were 2,513 million yen (an increase of 22.5% year on year), due to a steady IT investment demand from automotive related sectors, the Company's major customer sectors, among others. Net sales of Software Development Business were 3,358 million yen (an increase of 3.5% year on year), as the Company stably secured continuing contracts with existing customers. Net sales of Software Products Business, which conducts businesses including sales of packaged software, were 90 million yen (an increase of 11.3% year on year) due to factors such as an increase in sales of maintenance services for existing customers. Net sales of Merchandise Sales were 112 million yen (an increase of 8.4% year on year) due to the purchase and sale of personal computers and IT devices as well as software products, among other items. Net sales of Website Administration and Cloud Services (SaaS) in other category were 116 million yen (an increase of 53.2% year on year) backed by increases in the number of new on-line shop openings of and in merchandise value of "easy my shop," a cloud service for opening and operating on-line shops.

In terms of earnings, IT investment by client companies remained strong, and the Company successfully maintained a high operating rate of engineers. Meanwhile, expenses increased due to increase in subcontracting costs due to higher orders to subcontractors, increase in recruiting expenses due to strengthened recruiting activities, and increase in training expenses due to expanded education, among other factors.

As a result, for the three months ended June 30 2024, net sales were 6,190 million yen (an increase of 11.4% year on year), with operating profit of 474 million yen (an increase of 0.2% year on year), ordinary profit of 489 million yen (an increase of 0.8% year on year), and profit attributable to owners of parent of 352 million yen (a decrease of 4.2% year on year), on a consolidated basis.

(2) Explanation of Financial Position

Total assets as of June 30, 2024 decreased by 1,256 million yen year on year to 14,888 million yen, due to decreases in cash and deposits, and trade receivables and contract asset, among other factors.

Liabilities as of June 30, 2024 decreased by 718 million yen year on year to 4,903 million yen, due to decreases in income taxes payable and provision for bonuses, among other factors, despite an increase in short-term borrowings.

Net assets as of June 30, 2024 decreased by 538 million yen year on year to 9,985 million yen, due to the payment of dividends from retained earnings, among other factors.

(3) Explanation of Consolidated Financial Results Forecasts and Other Forward-looking Information

No change has been made to the financial results forecasts for the six months ending September 30, 2024 and the full year ending March 31, 2025, announced on May 8, 2024.

2. Quarterly Consolidated Financial Statements and Principal Notes

(1) Quarterly Consolidated Balance Sheets

(Thousand yen)

	As of March 31, 2024	As of June 30, 2024
Assets		
Current assets		
Cash and deposits	8,326,378	7,196,613
Trade receivables and contract asset	4,585,551	4,425,696
Merchandise	1,771	6,244
Supplies	6,497	6,493
Other	68,992	118,769
Total current assets	12,989,191	11,753,818
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	811,906	802,260
Land	1,133,800	1,133,800
Other, net	79,340	74,743
Total property, plant and equipment	2,025,047	2,010,804
Intangible assets		
Goodwill	180,219	163,836
Software	159,966	171,805
Other	7,956	7,889
Total intangible assets	348,141	343,530
Investments and other assets		
Other	783,358	780,619
Total investments and other assets	783,358	780,619
Total non-current assets	3,156,547	3,134,954
Total assets	16,145,739	14,888,773

(Thousand yen)

	As of March 31, 2024	As of June 30, 2024
Liabilities		
Current liabilities		
Accounts payable - trade	945,181	1,022,971
Short-term borrowings	-	440,000
Current portion of long-term borrowings	780,510	738,828
Income taxes payable	428,087	154,962
Provision for bonuses	1,266,018	399,775
Other	1,540,600	1,568,712
Total current liabilities	4,960,397	4,325,249
Non-current liabilities		
Long-term borrowings	661,086	577,768
Total non-current liabilities	661,086	577,768
Total liabilities	5,621,483	4,903,017
Net assets		
Shareholders' equity		
Share capital	550,150	550,150
Capital surplus	517,550	517,550
Retained earnings	9,434,561	9,118,390
Treasury shares	(1,571)	(223,721)
Total shareholders' equity	10,500,689	9,962,368
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	8,183	7,039
Total accumulated other comprehensive income	8,183	7,039
Non-controlling interests	15,382	16,347
Total net assets	10,524,256	9,985,755
Total liabilities and net assets	16,145,739	14,888,773

(2) Quarterly Consolidated Statements of Income and Comprehensive Income

Quarterly Consolidated Statements of Income

Three Months Ended June 30

(Thousand yen)

	For the three months ended June 30, 2023	For the three months ended June 30, 2024
Net sales	5,555,783	6,190,518
Cost of sales	4,375,461	4,893,174
Gross profit	1,180,322	1,297,344
Selling, general and administrative expenses	707,429	823,193
Operating profit	472,893	474,151
Non-operating income		
Interest income	3	0
Subsidy income	12,970	17,825
Other	1,586	89
Total non-operating income	14,559	17,915
Non-operating expenses		
Interest expenses	1,849	2,118
Other	3	-
Total non-operating expenses	1,853	2,118
Ordinary profit	485,599	489,948
Extraordinary losses		
Loss on retirement of non-current assets	0	-
Total extraordinary losses	0	-
Profit before income taxes	485,599	489,948
Income taxes	116,420	136,524
Profit	369,179	353,424
Profit attributable to non-controlling interests	1,201	964
Profit attributable to owners of parent	367,978	352,459

Quarterly Consolidated Statements of Comprehensive Income

Three Months Ended June 30

(Thousand yen)

	For the three months ended June 30, 2023	For the three months ended June 30, 2024
Profit	369,179	353,424
Other comprehensive income		
Valuation difference on available-for-sale securities	158	(1,143)
Total other comprehensive income	158	(1,143)
Comprehensive income	369,337	352,280
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	368,136	351,316
Comprehensive income attributable to non-controlling interests	1,201	964

(3) Notes to the Quarterly Consolidated Financial Statements

(Notes on going concern assumption)

There are no relevant matters.

(Notes in the case of significant changes in shareholders' equity)

There are no relevant matters.

(Accounting policies adopted specially for the preparation of quarterly consolidated financial statements)

(Calculation of tax expenses)

The Company reasonably estimates the effective tax rate after applying tax effect accounting to profit before income taxes for the fiscal year ending March 31, 2025, and multiplies profit before income taxes for the quarter by the estimated effective tax rate. However, if the estimated effective tax rate used to calculate tax expenses would be significantly unreasonable, the normal effective statutory tax rate is used.

(Notes to segment information, etc.)

[Segment information]

I. For the three months ended June 30, 2023 (from April 1, 2023 to June 30, 2023)

The Group omits the description of business segments because it has only one segment, the software related business.

II. For the three months ended June 30, 2024 (from April 1, 2024 to June 30, 2024)

The Group omits the description of business segments because it has only one segment, the software related business.

(Notes to statements of cash flows)

Quarterly consolidated statements of cash flows for the three months ended June 30, 2024 are not prepared. Depreciation, which includes depreciation for intangible assets excluding goodwill, and amortization of goodwill for the three months ended June 30 are as follows:

	For the three months ended June 30, 2023	For the three months ended June 30, 2024
Depreciation	26,577 thousand yen	34,629 thousand yen
Amortization of goodwill	16,383 thousand yen	16,383 thousand yen

3. Other

Status of Production, Receipt of Orders, and Sales

(1) Production

The amount of production by business category for the three months ended June 30, 2024 is as follows:

Business category	For the three months ended June 30, 2024	
	Amount of production (million yen)	Change from the previous corresponding period (%)
SI Services Business	2,513	122.5
Software Development Business	3,358	103.5
Software Products Business	90	111.3
Other	116	153.2
Total	6,078	111.4

(Note) Amounts are presented based on sales prices.

(2) Outsourcing

The amount of outsourcing by business category for the three months ended June 30, 2024 is as follows:

Business category	For the three months ended June 30, 2024	
	Amount of outsourcing (million yen)	Change from the previous corresponding period (%)
SI Services Business	1,095	138.2
Software Development Business	1,344	100.9
Software Products Business	26	134.1
Total	2,465	115.0

(3) Purchases

The amount of purchases by business category for the three months ended June 30, 2024 is as follows:

Business category	For the three months ended June 30, 2024	
	Amount of purchases (million yen)	Change from the previous corresponding period (%)
Merchandise Sales	94	110.1

(Note) Amounts are presented based on purchase prices.

(4) Receipt of Orders

The amount of orders received by business category for the three months ended June 30, 2024 is as follows:

Business category	For the three months ended June 30, 2024			
	Orders received (million yen)	Change from the previous corresponding period (%)	Backlog of orders (million yen)	Change from the previous corresponding period (%)
SI Services Business	2,980	118.1	2,776	113.2
Software Development Business	3,533	110.3	2,625	110.3
Software Products Business	84	113.1	120	121.5
Merchandise Sales	121	149.2	50	186.2
Total	6,720	114.3	5,573	112.4

(5) Sales

The amount of sales by business category for the three months ended June 30, 2024 is as follows:

Business category	For the three months ended June 30, 2024	
	Amount of sales (million yen)	Change from the previous corresponding period (%)
SI Services Business	2,513	122.5
Software Development Business	3,358	103.5
Software Products Business	90	111.3
Merchandise Sales	112	108.4
Other	116	153.2
Total	6,190	111.4

(Note) The amount of sales by major customer and the share of the sales in total sales are as follows:

Customer	For the three months ended June 30, 2023		For the three months ended June 30, 2024	
	Amount of sales (million yen)	Share (%)	Amount of sales (million yen)	Share (%)
TOYOTA SYSTEMS CORPORATION	847	15.2	1,083	17.4