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Consolidated Financial Results for the Six Months Ended August 31, 2024 [Japanese GAAP]

October 15, 2024

Company name: Serverworks Co.,Ltd.

Listing: Tokyo

Securities code: 4434

URL: <https://www.serverworks.co.jp/>

Representative: Ryo Oishi

Representative Director, President

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Director

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Scheduled date to file semi-annual securities report: October 15, 2024

Scheduled date to commence dividend payments: -

Preparation of supplementary material on financial results: Yes

Holding of financial results briefing: Yes

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

1. Consolidated Financial Results for the Six Months Ended August 31, 2024 (March 1, 2024 to August 31, 2024)

(1) Consolidated Operating Results

(Percentages indicate 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	%
Six months ended August 31, 2024	17,291	38.6	602	49.6	577	29.8	355	54.0
August 31, 2023	12,480	76.4	403	20.2	445	34.3	230	(13.4)

(Note) Comprehensive income: Six months ended August 31, 2024: ¥ 524 million [(0.4) %]
Six months ended August 31, 2023: ¥ 527 million [51.4%]

	Basic earnings per share	Diluted earnings per share
	Yen	Yen
Six months ended August 31, 2024	45.28	44.70
August 31, 2023	29.58	29.06

(2) Consolidated Financial Position

	Total assets	Net assets	Capital adequacy ratio
	Millions of yen	Millions of yen	%
As of August 31, 2024	19,371	11,666	60.2
February 29, 2024	18,056	10,667	59.0

(Reference) Equity: As of August 31, 2024: ¥ 11,666 million
As of February 29, 2024: ¥ 10,660 million

2. Dividends

	Annual dividends				
	1st quarter-end	2nd quarter-end	3rd quarter-end	Year-end	Total
	Yen	Yen	Yen	Yen	Yen
Fiscal year ended February 29, 2024	-	0.00	-	0.00	0.00
Fiscal year ending February 28, 2025	-	0.00			
Fiscal year ending February 28, 2025 (Forecast)			-	0.00	0.00

(Note) Revision to the forecast for dividends announced most recently: None

(Note) Breakdown of the 2nd quarter dividend for the fiscal year ending February 28, 2025 :

Commemorative dividend - yen
Special dividend - yen

3. Consolidated Financial Results Forecast for the Fiscal Year Ending February 28, 2025(March 1, 2024 to February 28, 2025)

(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	33,392	21.4	668	(25.5)	492	(52.3)	254	(60.2)	32.56

(Note) Revision to the financial results forecast announced most recently: None

* Notes:

(1) Significant changes in the scope of consolidation during the period: Yes

Newly included: - (Company name:)
Excluded: 1 (Company name:)

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

(3) Changes in accounting policies, changes in accounting estimates, and restatement

- 1) Changes in accounting policies due to revisions to accounting standards and other regulations: None
- 2) Changes in accounting policies due to other reasons: None
- 3) Changes in accounting estimates: None
- 4) Restatement: None

(4) Number of issued shares (common shares)

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

August 31, 2024: 7,853,175 shares
February 29, 2024: 7,836,033 shares

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

August 31, 2024: 618 shares
February 29, 2024: 618 shares

3) Average number of shares outstanding during the period:

Six months ended August 31, 2024: 7,842,150 shares
Six months ended August 31, 2023: 7,791,395 shares

* Semi-annual financial results reports are exempt from review conducted by certified public accountants or an audit firm.

* Proper use of earnings forecasts, and other special matters

Semi-annual Consolidated Financial Statements

Semi-annual Consolidated Balance Sheets

(Thousands of yen)

	As of February 29, 2024	As of August 31, 2024
Assets		
Current assets		
Cash and deposits	6,890,619	7,225,240
Accounts receivable - trade, and contract assets	4,238,927	4,498,682
Advance payments to suppliers	2,223,446	2,322,021
Other	175,866	250,291
Allowance for doubtful accounts	(1,060)	(2,410)
Total current assets	13,527,799	14,293,825
Non-current assets		
Property, plant and equipment	53,254	50,428
Intangible assets		
Goodwill	910,565	851,693
Other	106,791	106,697
Total intangible assets	1,017,356	958,390
Investments and other assets		
Investment securities	3,294,679	3,560,325
Shares of subsidiaries and associates	93,775	423,899
Distressed receivables	-	80
Other	69,989	84,524
Allowance for doubtful accounts	-	(80)
Total investments and other assets	3,458,444	4,068,749
Total non-current assets	4,529,055	5,077,569
Total assets	18,056,854	19,371,394

(Thousands of yen)

	As of February 29, 2024	As of August 31, 2024
Liabilities		
Current liabilities		
Accounts payable - trade	4,082,251	4,068,840
Short-term borrowings	100,000	-
Contract liabilities	1,828,104	2,351,523
Income taxes payable	279,288	225,277
Provision for bonuses	295,558	260,747
Provision for bonuses for directors (and other officers)	22,117	-
Allowance officer retirement special service money	34,000	-
Provision for loss on orders received	10,225	55,721
Other	468,198	408,127
Total current liabilities	7,119,744	7,370,236
Non-current liabilities		
Deferred tax liabilities	255,463	320,817
Asset retirement obligations	14,310	14,310
Total non-current liabilities	269,773	335,127
Total liabilities	7,389,518	7,705,363
Net assets		
Shareholders' equity		
Share capital	3,255,144	3,267,068
Capital surplus	3,245,870	3,736,398
Retained earnings	3,083,606	3,438,673
Treasury shares	(2,724)	(2,724)
Total shareholders' equity	9,581,896	10,439,415
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	1,078,536	1,226,616
Total accumulated other comprehensive income	1,078,536	1,226,616
Non-controlling interests	6,904	-
Total net assets	10,667,336	11,666,031
Total liabilities and net assets	18,056,854	19,371,394

Semi-annual Consolidated Statements of Income and Comprehensive Income

(Thousands of yen)

	For the six months ended August 31, 2023	For the six months ended August 31, 2024
Net sales	12,480,477	17,291,818
Cost of sales	10,889,700	15,261,207
Gross profit	1,590,777	2,030,610
Selling, general and administrative expenses	1,187,753	1,427,633
Operating profit	403,023	602,976
Non-operating income		
Interest income	11,431	59,464
Dividend income	8,225	17,053
Foreign exchange gains	41,537	-
Other	12,548	1,752
Total non-operating income	73,742	78,271
Non-operating expenses		
Share of loss of entities accounted for using equity method	391	38,476
Loss on investments in investment partnerships	29,104	12,075
Foreign exchange losses	-	48,922
Other	2,177	4,125
Total non-operating expenses	31,673	103,599
Ordinary profit	445,091	577,648
Extraordinary losses		
Special retirement payments	49,100	-
Loss on valuation of investment securities	63,239	-
Total extraordinary losses	112,339	-
Profit before income taxes	332,752	577,648
Income taxes	115,582	200,901
Profit	217,170	376,747
Profit (loss) attributable to non-controlling interests	(13,323)	21,680
Profit attributable to owners of parent	230,494	355,067

(Thousands of yen)

	For the six months ended August 31, 2023	For the six months ended August 31, 2024
Profit	217,170	376,747
Other comprehensive income		
Valuation difference on available-for-sale securities	309,906	148,080
Total other comprehensive income	309,906	148,080
Comprehensive income	527,077	524,827
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	540,401	503,147
Comprehensive income attributable to non-controlling interests	(13,323)	21,680

Semi-annual Consolidated Statements of Cash Flows

(Thousands of yen)

	For the six months ended August 31, 2023	For the six months ended August 31, 2024
Cash flows from operating activities		
Profit before income taxes	332,752	577,648
Depreciation	32,684	33,862
Amortization of goodwill	56,738	54,685
Increase (decrease) in allowance for doubtful accounts	1,831	1,430
Interest expenses	172	501
Increase (decrease) in provision for bonuses	114,431	(34,811)
Increase (decrease) in provision for loss on orders received	(4,104)	45,495
Interest and dividend income	(19,656)	(76,518)
Foreign exchange losses (gains)	(90)	101,305
Share-based payment expenses	8,517	7,950
Share issuance costs	1,047	1,162
Share of loss (profit) of entities accounted for using equity method	391	38,476
Loss (gain) on investments in investment partnerships	29,104	12,075
Special merit rewards	49,100	-
Decrease (increase) in trade receivables, and contract assets	(230,405)	(259,755)
Decrease (increase) in deposits paid	392	(90)
Decrease (increase) in advance payments to suppliers	301,297	(98,575)
Increase (decrease) in trade payables	(85,741)	(13,411)
Increase (decrease) in provision for bonuses for directors (and other officers)	(8,530)	(22,117)
Allowance officer retirement special service money increase and decrease	-	(34,000)
Loss (gain) on valuation of investment securities	63,239	-
Increase (decrease) in accounts payable - other	(56,485)	(32,665)
Increase (decrease) in contract liabilities	601,156	523,419
Decrease (increase) in distressed receivables	(1,877)	(80)
Other, net	(51,605)	(90,242)
Subtotal	1,134,362	735,743
Interest and dividends received	19,656	76,518
Interest paid	(172)	(501)
Payments of special retirement payments	(49,100)	-
Income taxes paid	(136,091)	(263,423)
Net cash provided by (used in) operating activities	968,654	548,336

(Thousands of yen)

	For the six months ended August 31, 2023	For the six months ended August 31, 2024
Cash flows from investing activities		
Purchase of property, plant and equipment	(4,636)	(2,859)
Purchase of intangible assets	(27,031)	(28,082)
Proceeds from sale of intangible assets	-	5,000
Purchase of investment securities	(136,729)	(130,115)
Purchase of shares of subsidiaries and associates	-	(300,600)
Payments of guarantee deposits	(20)	(9,197)
Other, net	(112)	(122)
Net cash provided by (used in) investing activities	(168,530)	(465,977)
Cash flows from financing activities		
Proceeds from short-term borrowings	100,000	-
Repayments of short-term borrowings	-	(100,000)
Proceeds from issuance of shares	13,484	3,546
Purchase of treasury shares	(99)	-
Proceeds from share issuance to non-controlling shareholders	-	450,020
Net cash provided by (used in) financing activities	113,385	353,566
Effect of exchange rate change on cash and cash equivalents	90	(101,305)
Net increase (decrease) in cash and cash equivalents	913,600	334,620
Cash and cash equivalents at beginning of period	5,642,391	6,880,619
Increase (decrease) in cash and cash equivalents resulting from change in accounting period of subsidiaries	(139,810)	-
Cash and cash equivalents at end of period	6,416,181	7,215,240