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FY 2024 Q1 Consolidated Financial Results [Japanese GAAP]

August 8, 2024

Listed company name Solasto Corporation — Listing: Tokyo Stock Exchange
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Scheduled date of commencement of dividend payment :—
Preparation of supplementary material on financial results : Yes
Holding of presentation meeting for financial results : Yes (For institutional investors and analysts)

(Amounts are less than one million yen have been rounded down)

1. FY2024 Q1 Consolidated Financial Results (April 1, 2024 — June 30, 2024)

(1) Consolidated Results of Operations (% : Changes from the previous period)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
FY2024 Q1	34,101	3.6	1,714	43.5	1,596	47.7	853	−74.8
FY2023 Q1	32,923	2.7	1,195	−19.5	1,081	−31.2	3,390	273.3

NOTE: Comprehensive income FY2024 Q1 847 Million yen −75.0% FY2023 Q1 3,385 Million yen 272.5%

	Basic earnings per Share	Diluted earnings per share
	Yen	Yen
FY2024 Q1	9.26	—
FY2023 Q1	35.82	35.82

(2) Consolidated Financial Position

	Total assets	Net assets	Capital adequacy ratio
	Million yen	Million yen	%
FY2024 Q1	71,179	20,411	28.7
FY2023	75,199	20,485	27.2

Reference: Shareholders' equity FY2024 Q1 20,403Million yen FY2023 20,477Million yen

2.Dividends

	Dividend per share				
	End of first quarter	End of second quarter	End of the third quarter	Year end	Total
	Yen	Yen	Yen	Yen	Yen
FY2023	—	10.00	—	10.00	20.00
FY2024	—				
FY2024 (forecast)		10.00	—	10.00	20.00

NOTE: Revisions to the most recently announced dividend forecast: None

3.Forecast of Consolidated Financial Results for FY 2024 (April 1, 2024 to March 31, 2025)

	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
Full year	139,000	2.9	6,200	12.4	6,050	8.7	2,500	10.7	26.69

NOTE: Revisions to the most recently announced earnings forecast: None

* Notes

(1) Changes in significant subsidiaries during the period (changes in specific subsidiaries resulting in changes in the scope of consolidation): None

(2) Adoption of special accounting methods for preparation of consolidated statements: Yes

NOTE: Please refer to "2. Consolidated Financial Statements and Supplementary Notes (4) Notes to Consolidated Financial Statements (Notes on Special Accounting Methods for Preparation of Consolidated Statements)" in P.8 of the Attached Material.

(3) Changes in accounting policies and changes or restatement of accounting estimates

(i) Changes in accounting policies due to revision of accounting standards: Yes
(ii) (i) Changes in accounting policies other than the above: None
(iii) Changes in accounting estimates: None
(iv) Restatement of revisions: None

NOTE: Please refer to "2. Consolidated Financial Statements and Supplementary Notes (4) Notes to Consolidated Financial Statements (Notes to Changes in Accounting Policies)" in P.8 of the Attached Material.

(4) Number of shares outstanding (common shares)

(i) Number of shares outstanding at the end of the period, including treasury stock	FY2024 Q1	94,741,793 Shares	FY 2023	94,741,793 Shares
(ii) Number of treasury stock at the end of the period	FY2024 Q1	2,567,370 Shares	FY 2023	2,531,133 Shares
(iii) Average number of shares during the period	FY2024 Q1	92,205,860 Shares	FY 2023 Q1	94,652,029 Shares

* Review of the accompanying quarterly consolidated financial statements by a certified public accountant or auditing firm: None

* Explanations and other special notes concerning the appropriate use of business performance forecasts

(1) The earnings forecasts and other forward-looking statements herein are based on information currently available to the Company and on certain assumptions deemed to be reasonable, and do not constitute guarantees by the Company of future performance. Actual results may differ materially from the forecast depending on a range of factors. Please refer to "1. Analysis of Operating Results and Financial Position (3) Explanation of Consolidated Earnings Forecasts and Other Forward-Looking Statements" in P.4 of the Attached Materials for the assumptions on which the forecasts are based and notes for using the forecasts.

(2) Supplementary materials for financial results and materials for the financial results briefing (live distribution, language available in Japanese only) for institutional investors and analysts scheduled to be held on August 9, 2024 are scheduled to be posted on our website before the briefing on August 9.

(Company website URL)
https://www.solasto.co.jp/en/ir/

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1.Analysis of Operating Results and Financial Position

(1) Analysis of Operating results

In the first quarter of the fiscal year (April－June 2024), net sales increased 3.6% year on year to 34,101 million yen, thanks to the strong performance of the medical business, the elderly care business and the children business. Operating profit increased 43.5% year on year to 1,714 million yen due to the increase in profit due to higher sales, improved profitability resulting from the restructuring of the Smart hospital business and the reduction 47.744 of selling, general and administrative expenses as a result of increased efficiency. Ordinary profit increased 47.7% year on year to 1,596 million yen. Profit attributable to owners of parent for the period amounted to 853 million yen. It decreased 74.8% from the same period of the previous year due to the effect of a gain on negative goodwill of 2,828 million yen recorded in the same period of the previous year following the acquisition of subsidiaries Solasto Care Corporation (former name: Mitsui Sumitomo Insurance Care Net Co., Ltd.) and Solasto Care Network Corporation (former name: Sogo Care Network Co., Ltd.) in June 2023.

Results in the first quarter of FY2024

(Millions of yen)

	FY 2023 Q1 (April－June 2023)	FY 2024 Q1 (April－June 2024)	YoY Change	YoY %	(Reference) FY2023
Net sales	32,923	34,101	+1,178	+3.6%	135,139
Operating profit	1,195	1,714	+519	+43.5%	5,517
Margin	3.6%	5.0%			4.1%
Ordinary profit	1,081	1,596	+515	+47.7%	5,564
Margin	3.3%	4.7%			4.1%
Profit attributable to owners of parent	3,390	853	－2,536	－74.8%	2,257
Margin	10.3%	2.5%			1.7%

<Results by Business Segment>

As announced in the financial results for FY2023 released on May 10, 2024, the Company has changed the method it uses to measure the sales and profit or loss of its reportable segments beginning in FY2024. In addition, the name of the Medical Outsourcing Business has been changed to the Medical Business, and the Education Business, which was previously included in the "Other" category, has been included in the Medical Business. Additionally, the method used to allocate corporate expenses has been revised to more appropriately show how the performance of the reportable segments is managed.

Net sales and operating profit by business segment in the table below are compared with the previous year using reference figures that reflect the FY2023 results and the segment changes in FY2024.

[Medical Business]

Net sales decreased 0.4% year on year to 17,741 million yen, almost the same as the first quarter of the previous year, due to the contributions of new orders for contracted services and worker dispatching services received during the previous fiscal year and the effect of price revisions, despite a decrease of approximately 670 million yen in sales due to the end of COVID-19 related services. Operating profit increased 7.5% year on year to 1,158 million yen, mainly due to an increase in profit from an increase in sales of contracted services and worker dispatching services and the absence of the new start-up costs that were higher than expected that were recorded in the previous fiscal year which exceeded the negative impact of the decrease in profit due to the decline of sales of COVID-19 related services.

[Elderly Care Business]

Net sales increased 9.1% year on year to 13,763 million yen due to the continued recovery following the COVID-19 pandemic, as well as the contributions of a total of four companies that became subsidiaries in FY2023, including Possible Medical Science Corporation and Solasto Care Corporation, and newly opened business centers. Operating profit rose 43.9% year on year to 529 million yen, a significant increase due to the increase in sales, efficiency improvements including the consolidation and closing of elderly care centers and the impact of lower depreciation expenses following the recording of impairment losses in the previous fiscal year.

[Children Business]

Net sales increased 3.8% year on year to 2,540 million yen, mainly due to an increase in the number of children attending the company's child-care facilities. Operating profit increased significantly year on year to 52 million yen, mainly due to an increase in sales and a decrease in recruiting expenses.

[Others]

In the Smart Hospitality Business, net sales increased 10.1% year on year thanks to the steady acquisition of new customers, despite changes in service plans. In terms of profit and loss, although we continued to post a loss in the first quarter, profitability has been steadily improving since the restructuring of the business beginning in October 2023, and it has improved to a record high level.

As a result of the above, net sales in the Others segment increased 23.2% year on year to 56 million yen, with an operating loss of 25 million yen.

[Net sales]

(Millions of yen)

	FY 2023 Q1 (April－June 2023)	FY 2024 Q1 (April－June 2024)	YoY Change	YoY %	(Reference) FY2023
Medical Business	17,811	17,741	－69	－0.4%	70,833
Elderly Care Business	12,619	13,763	+1,144	+9.1%	53,895
Children Business	2,466	2,540	+93	+3.8%	10,174
Others	45	56	+10	+23.2%	236
Total	32,923	34,101	+1,178	+3.6%	135,139

[Operating profit and margin]

(Millions of yen)

	FY 2023 Q1 (April－June 2023)	FY 2024 Q1 (April－June 2024)	YoY Change	YoY %	(Reference) FY2023
Medical Business	1,078	1,158	+80	+7.5%	4,301
Margin	6.1%	6.5%			6.1%
Elderly Care Business	367	529	+161	+43.9%	1,482
Margin	2.9%	3.8%			2.8%
Children Business	－72	52	+124	－	307
Margin	－	2.1%			3.0%
Others	－178	－25	+152	－	－575
Margin	－	－			－
Total	1,195	1,714	+519	+43.5%	5,517
Margin	3.6%	5.0%			4.1%

NOTE: "Net sales" in "Business Segment Information" above is "Net sales to outside customers" in "2. (2) Quarterly Consolidated Financial Statements and Main Notes (4) Notes to Quarterly Consolidated Financial Statements (Segment Information)."

[Numbers of elderly care centers and childcare centers]

	End of June, 2023	End of March, 2024	End of June, 2024
Number of Elderly care centers	678	724	715
Number of Childcare centers	68	68	67

(2) Analysis of Financial Position

At the end of the first quarter of FY2024, total assets decreased by 4,020 million yen from the end of FY2023. The main reasons were a decrease in cash and deposits due to repayment of short-term and long-term loans payable, and a decrease in investments and other assets due to the cancellation of a lump-sum payment protection trust for fee-based nursing care facilities, etc.

Total liabilities decreased by 3,946 million yen from the end of FY2023. The main reason for the decrease was a decrease in short-term loans payable and long-term loans payable, and a decrease in accrued bonuses due to the payment of bonuses.

Net assets fell 74 million yen from the end of FY2023. This was attributable to Profit attributable to owners of parent of the parent of 853 million yen recorded for the first quarter and 922 million yen in cash dividends paid.

(3) Explanation of Consolidated Earnings Forecasts and Other Forward-Looking Statements

There are no changes to the earnings forecast announced on May 10, 2024 for the fiscal year ending March 31, 2025.

2. Consolidated Financial Statements and Supplementary Notes

(1) Consolidated Balance Sheet

(Millions of yen)

	As of March 31, 2024	As of June 30, 2024
Assets		
Current assets		
Cash and deposits	15,115	12,907
Accounts receivable	15,017	15,355
Inventory	99	98
Others	2,264	2,154
Allowance for doubtful accounts	－212	－219
Total current assets	32,284	30,296
Fixed assets		
Fixed assets		
Buildings and structures, net	9,252	9,150
Land	5,685	5,685
Other, net	2,565	2,566
Total fixed asset, plant and equipment	17,503	17,402
Intangible assets		
Goodwill	15,377	14,964
Others	1,230	1,233
Total intangible assets	16,608	16,197
Investments and other assets		
Investment and other assets	8,824	7,302
Allowance for doubtful accounts	－21	－20
Total investments and other assets	8,803	7,282
Total noncurrent assets	42,915	40,882
Total assets	75,199	71,179
Liabilities		
Current liabilities		
Short-term borrowings	500	－
Current portion of long-term borrowings	4,782	4,782
Accounts payable-other	10,859	10,770
Income taxes payable	1,359	906
Provision for bonuses	2,219	1,285
Provision for directors' bonuses	15	5
Allowance other	22	22
Others	4,821	4,598
Total current liabilities	24,582	22,373
Long-term liabilities		
Long-term debt	19,942	18,622
Provision for loss on compensation for damages	383	383
Obligations for retirement pay	2,083	2,101
Asset retirement obligations	1,467	1,468
Others	6,254	5,818
Total long-term liabilities	30,132	28,394
Total liabilities	54,714	50,767

(Millions of yen)

	As of March 31, 2024	As of June 30, 2024
Net assets		
Shareholders' equity		
Capital	686	686
Capital surplus	5,586	5,586
Retained earnings	15,629	15,561
Treasury Stock	－1,500	－1,500
Total shareholders' equity	20,402	20,334
Other accumulated comprehensive income		
Remeasurements of defined benefit plans	74	68
Total other accumulated comprehensive income	74	68
Stock acquisition rights	8	8
Total net assets	20,485	20,411
Total liabilities and net assets	75,199	71,179

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

(Consolidated Profit and Loss Statement)

(Millions of yen)

	Three months ended June 30, 2023	Three months ended June 30, 2024
Net sales	32,923	34,101
Cost of sales	27,585	28,491
Gross profit	5,338	5,610
Selling, general and administrative expenses	4,143	3,895
Operating profit	1,195	1,714
Non-operating profit		
Subsidy income	42	30
Others	27	24
Total non-operating profit	69	54
Non-operating expenses		
Interest expenses	68	74
Others	115	97
Total non-operating expenses	183	172
Ordinary profit	1,081	1,596
Extraordinary gains		
The gain from negative goodwill	2,828	—
Total extraordinary profit	2,828	—
Income before income taxes	3.909	1,596
Income taxes	519	742
Net income	3,390	853
Profit attributable to owners of parent	3,390	853

(Consolidated Statements of Comprehensive Income)

(Millions of yen)

	Three months ended June 30, 2023	Three months ended June 30, 2024
Net income	3,390	853
Other comprehensive income		
Adjustments for retirement benefits	−5	−6
Total other comprehensive income	−5	−6
Comprehensive income	3,385	847
Comprehensive income attributable to		
Comprehensive profit attributable to owners of the parent	3,385	847
Comprehensive income attributable to non-controlling interests	—	—

(3) Consolidated Statements of Cash Flows

(Millions of yen)

	Three months ended June 30, 2023	Three months ended June 30, 2024
Net cash provided by (used in) operating activities		
Income before income taxes	3,909	1,596
Depreciation and amortization	359	350
Amortization of goodwill	428	413
Increase (decrease) in accrued bonuses	−986	−934
Increase (decrease) in provision for directors' bonuses	−15	−9
Increase (decrease) in liability for retirement benefits	34	17
Interest expenses	68	74
The gain from negative goodwill	−2,828	−
Decrease in notes and accounts receivable-trade	−93	−337
Decrease (increase) in inventory	24	1
Decrease (increase) in prepaid expenses	56	−81
Increase (decrease) in accounts payable-other	242	244
Increase (decrease) in accrued consumption taxes	185	−83
Increase (decrease) in deposits received	553	155
Others	−237	−406
Subtotal	1,701	999
Interest expenses paid	−72	−78
Subsidy received	297	−
Income taxes paid	−1,272	−1,008
Payment of Levy for Employment of Persons with Disabilities	−	−91
Payments for restructuring charges	−	−143
Others	9	13
Net cash provided by (used in) operating activities	662	−309
Net cash provided by (used in) investing activities		
Purchase of fixed asset, plant and equipment	−285	−145
Proceeds from sales of fixed asset, plant and equipment	−	0
Purchase of intangible assets	−106	−192
Proceeds from cancellation of monetary held in trust	−	1,107
Payments for lease and guarantee deposits	−7	−24
Proceeds from collection of lease and guarantee deposits	11	146
Acquisition of newly consolidated subsidiaries	−74	−
Proceeds from acquisition of newly consolidated subsidiaries	384	−
Others	−42	−5
Net cash provided by (used in) investing activities	−120	887
Net cash provided by (used in) financing activities		
Net increase (decrease) in short-term borrowings	2,500	−500
Proceeds from long-term debt	500	−
Repayment of long-term loans payable	−770	−1,320
Dividends paid	−942	−916
Principal payments under finance lease obligations	−47	−50
Others	−0	−0
Net cash provided by (used in) financing activities	1,239	−2,786
Net increase (decrease) in cash and cash equivalents	1,781	−2,208
Cash and cash equivalents, beginning of year	11,857	15,115
Cash and cash equivalents, end of year	13,638	12,907

(4) Notes to Consolidated Financial Statements

(Notes on Changes in Accounting Policies)

(Application of Accounting Standard for Current Income Taxes, etc.)

The “Accounting Standard for Current Income Taxes" (ASBJ Statement No.27, October 28, 2022; hereinafter "2022 Revised Accounting Standard") applied from the beginning of the current Q1 consolidated accounting period.

Revisions concerning the recognition classification of income taxes follow the transitional treatment set forth in the proviso of paragraph 20-3 of the 2022 Revised Accounting Standard and in the proviso of paragraph 65-2 (2) of the Guidance on Accounting Standard for Tax Effect Accounting (ASBJ Guidance No. 28; October 28, 2022; hereinafter, “2022 Revised Guidance”). This change in accounting policy has no impact on the quarterly consolidated financial statements.

Regarding the revisions related to the review of treatment in consolidated financial statements when conducting a tax deferral of gains or losses on sale arising from the sale of subsidiary shares, etc. between consolidated companies, the 2022 Revised Guidance has been applied since the beginning of the first-quarter period. This change in accounting policy is applied retrospectively, and the consolidated financial statements for the previous year’s quarters and the previous consolidated fiscal year are after retrospective application. This change in accounting policy has no impact on the consolidated financial statements for the previous year’s quarters and the previous consolidated fiscal year.

(Notes on Special Accounting Methods for Preparation of Consolidated Statements)

(Calculation of Tax Expense)

Tax expenses are calculated by multiplying income before income taxes by an effective tax rate that was reasonably estimated by applying tax effect accounting to estimated Income before income taxes for the fiscal year ending March 31, 2025, including the period for the three months ended June 30, 2024.

(Segment Information)

I. Three months ended June 30, 2023 (April 1, 2023 to June 30, 2023)

1.Information on net sales, income or loss, assets, and other items by reportable segment and breakdown of revenue

(Millions of yen)

	Reportable segments				Others NOTE:1	Carrying value NOTE:2
	Medical Business	Elderly Care Business	Children Business	Total		
Net sales						
Medical: Contracted service	15,580	—	—	15,580	—	15,580
Medical: Worker dispatching	1,912	—	—	1,912	—	1,912
Elderly care	—	12,618	—	12,618	—	12,618
Children	—	—	2,446	2,446	—	2,446
Others	317	—	—	317	41	358
Income from contracts with customers	17,811	12,618	2,446	32,876	41	32,917
Other income	—	0	—	0	4	5
Sales to customers	17,811	12,619	2,446	32,877	45	32,923
Intersegment sales	—	—	—	—	—	—
Total	17,811	12,618	2,446	32,877	45	32,923
Segment profit (loss)	1,078	367	−72	1,373	−178	1,195

NOTE: 1. The "Others" category includes Smart Hospital Business and, real estate leasing and non-life insurance agency operations that are not included in the reportable segments.

2. Segment profit (loss) is reconciled to operating profit in the Consolidated Profit and Loss Statement.

2. Information on assets by the reportable segment

(Significant increase in assets due to acquisition of subsidiaries)

In the Elderly Care Business, the segment assets as of the end of June 2024 increased by 4,656 million yen from the end of the previous fiscal year due to the acquisition of shares of Solasto Care Inc. and Solasto Care Network Co., Ltd. and their inclusion in the scope of consolidation.

3. Information on Impairment Loss on Fixed Assets and Goodwill by the reportable segment

(Significant gain on negative goodwill)

In the Elderly Care Business, a gain on negative goodwill was recognized due to the acquisition of shares of Solasto Care Inc. and Solasto Care Network Co., Ltd. and their inclusion in the scope of consolidation. The amount of the gain on negative goodwill recognized due to this matter is 2,828 million yen. The gain on negative goodwill is not included in the above segment income because it is an extraordinary gain.

II Three months ended June 30, 2024 (April 1, 2024 to June 30, 2024)

1. Information on net sales, income or loss, assets, and other items by reportable segment and breakdown of revenue

(Millions of yen)

	Reportable segments				Others NOTE:1	Carrying value NOTE:2
	Medical Business	Elderly Care Business	Children Business	Total		
Net sales						
Medical: Contracted service	15,648	—	—	15,648	—	15,648
Medical: Worker dispatching	1,730	—	—	1,730	—	1,730
Elderly care	—	13,720	—	13,720	—	13,720
Children	—	—	2,540	2,540	—	2,540
Others	361	41	—	403	45	448
Income from contracts with customers	17,741	13,761	2,540	34,043	45	34,088
Other income	—	1	—	1	11	13
Sales to customers	17,741	13,763	2,540	34,045	56	34,101
Intersegment sales	—	—	—	—	—	—
Total	17,741	13,763	2,540	34,045	56	34,101
Segment profit (loss)	1,158	529	52	1,740	−25	1,714

NOTE: 1. The “Others” category includes Smart Hospital Business and, real estate leasing and non-life insurance agency operations that are not included in the reportable segments.

2. Segment profit (loss) is reconciled to operating profit in the Consolidated Statements.

2. Matters related to changes in the reportable segments, etc.

Due to a change in business management classification effective April 1, 2024, the name of " Medical Outsourcing Business " was changed to "Medical Business" and "Education Business," which was previously included in the "Others", was included in the "Medical Business".

In addition, the Company has also revised the method of allocating corporate expenses in order to more appropriately indicate how it manages the performance of its reportable segments. As a result, the Company has changed its method of measuring net sales and income (loss) by reportable segment, effective from FY2024 Q1 consolidated accounting period.

The segment information for the previous Q1 is disclosed based on the measurement method after the change.

3. Information on Impairment Loss on Fixed Assets and Goodwill by the reportable segment

Not applicable.

(Notes in the Event of Significant Changes in the Amount of Shareholders' Equity)

Not applicable.

(Notes on Going Concern Assumptions)

Not applicable.