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FY 2024 Q2 Consolidated Financial Results [Japanese GAAP]

November 11, 2024

Listed company name	Solasto Corporation			Listing: Tokyo Stock Exchange
Code No.	6197	URL: https://www.solasto.co.jp/en/ir/		
Representative	Title:	President and Representative Director CEO	Name: Toru Noda	
Contact	Title:	General Manager of Corporate Communications and IR Department	Name: Akane Unno	TEL: 03(6890)8904
Scheduled date for submission of Semiannual Report	: November 12, 2024		Scheduled date of commencement of dividend payment	: November 25, 2024

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. FY 2024 Q2 Consolidated Financial Results (April 1, 2024 – September 30, 2024)

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

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent	
Six months ended	Million yen	%	Million yen	%	Million yen	%	Million yen	%
September 30, 2024	68,388	2.1	3,678	46.5	3,455	39.1	1,935	-50.2
September 30, 2023	66,983	2.8	2,510	-19.5	2,483	-24.0	3,890	110.1

NOTE: Comprehensive income Six months ended September 30, 2024 1,923 Million yen, -50.4%

Six months ended September 30, 2023 3,880 Million yen, 103.6%

	Basic earnings per Share	Diluted earnings per share
Six months ended	Yen	Yen
September 30, 2024	20.99	–
September 30, 2023	41.14	41.14

(2) Consolidated Financial Position

	Total assets	Net assets	Capital adequacy ratio
	Million yen	Million yen	%
September 30, 2024	70,496	21,529	30.5
March 31, 2024	75,199	20,485	27.2

Reference: Shareholders' equity September 30, 2024 21,523 Million yen, March 31, 2024 20,477 Million yen

2. Dividends

	Dividend per share				
	End of first quarter	End of second quarter	End of third quarter	Year end	Total
	Yen	Yen	Yen	Yen	Yen
FY2023	–	10.00	–	10.00	20.00
FY2024	–	10.00			
FY2024 (forecast)			–	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 – 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.9 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.9 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	September 30, 2024	94,741,793	Year ended March 31, 2024	94,741,793
(ii) Number of treasury stock at the end of the period	September 30, 2024	2,474,233	Year ended March 31, 2024	2,531,133
(iii) Average number of shares during the period	Six months ended September 30, 2024	92,216,644	Six months ended September 30, 2024	94,576,555

* 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 November 12, 2024 are scheduled to be posted on our website before the briefing on November 12.

(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 interim consolidated accounting period of the fiscal year (April - September 2024), net sales increased 2.1% year on year to 68,388 million yen, due to the strong performance of the Medical, the Elderly Care and the Children Business. Operating profit increased 46.5% year on year to 3,678 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 of selling, general and administrative expenses due to increased efficiency. Ordinary profit increased 39.1% year on year to 3,455 million yen. Profit attributable to owners of parent for the period amounted to 1,935 million yen. It decreased 50.2% 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 interim consolidated accounting period of FY2024

(Millions of yen)

	Six months ended September 30, 2023	Six months ended September 30, 2024	Change	YoY	Ref. Prev. FY Apr. 2023– Mar. 2024
Net sales	66,983	68,388	+1,405	+2.1%	135,139
Operating profit Margin	2,510 3.7%	3,678 5.4%	+1,167	+46.5%	5,517 4.1%
Ordinary profit Margin	2,483 3.7%	3,455 5.1%	+971	+39.1%	5,564 4.1%
Net income Margin	3,890 5.8%	1,935 2.8%	-1,955	-50.2%	2,257 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 by 0.2% year on year to 35,444 million yen, almost the same as the interim consolidated accounting period of the previous year, due to the contributions of new orders for contracted services received during the previous fiscal year and the effect of price revisions, despite a decrease of approximately 1,130 million yen in sales due to the end of COVID-19 related services. Operating profit increased by 12.3% year on year to 2,373 million yen, due to the increase in income from the increase in sales of contracted service, the absence of the higher-than-expected new start-up costs recorded in the previous year, and the decrease in selling, general and administrative expenses due to the improvement in productivity from the transition of next-generation operations that was carried out in the previous year exceeded the negative impact of the decrease in income from COVID-19 related services.

[Elderly Care Business]

Net sales increased by 4.9% year on year to 27,782 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 61.8% year on year to 1,258 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 by 3.0% year on year to 5,034 million yen, mainly due to an increase in the number of children attending the company's child-care centers. Operating profit increased significantly year on year to 78 million yen, mainly due to an increase in sales and a decrease in recruiting expenses.

[Others]

In the Smart Hospitality Business, net sales increased by 15.0% year on year thanks to the steady acquisition of new customers, despite changes in service plans for clinics and private hospitals. In terms of profit and loss, although we continued to post a loss in the interim consolidated accounting period, profitability has been steadily improving since the restructuring of the business beginning in October 2023, and it has improved to the highest level ever, including achieving a monthly profit in September.

As a result of the above, net sales in the Others segment increased by 13.9% year on year to 126 million yen, with an operating loss of 32 million yen.

[Net sales]

(Millions of yen)

	Six months ended September 30, 2023	Six months ended September 30, 2024	Change	YoY	Ref. Prev. FY Apr. 2023－Mar. 2024
Medical Business	35,503	35,444	-58	-0.2%	70,833
Elderly Care Business	26,480	27,782	+1,301	+4.9%	53,895
Children Business	4,887	5,034	+146	+3.0%	10,174
Others	111	126	+15	+13.9%	236
Total	66,983	68,388	+1,405	+2.1%	135,139

[Operating profit and margin]

(Millions of yen)

	Six months ended September 30, 2023	Six months ended September 30, 2024	Change	YoY	Ref. Prev. FY Apr. 2023－Mar. 2024
Medical Business	2,113	2,373	+260	+12.3%	4,301
Margin	6.0%	6.7%			6.1%
Elderly Care Business	777	1,258	+480	+61.8%	1,482
Margin	2.9%	4.5%			2.8%
Children Business	-46	78	+124	—	307
Margin	—	1.6%			3.0%
Others	-333	-32	+301	—	-575
Margin	—	—			—
Total	2,510	3,678	+1,167	+46.5%	5,517
Margin	3.7%	5.4%			4.1%

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

[Numbers of Elderly Care Business and Child-care Centers]

	End of September, 2023	End of March, 2024	End of September, 2024
Number of elderly care business centers	728	724	715
Number of child-care centers	68	68	67

(2) Financial Condition

At the end of the interim consolidated accounting period of FY2024, total assets decreased by 4,703 million yen from the end of FY2023. The main reasons for this were a decrease in cash and deposits due to the 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 centers, etc.

Total liabilities decreased by 5,747 million yen from the end of FY2023. The main reason for the decrease were decreases in short-term loans payable and long-term loans payable, as well as a decrease in accrued social insurance premiums and deposits received, which were carried over to FY2024 due to the fact that the end of FY2023 was a bank holiday.

Net assets increased by 1,044 million yen from the end of FY2023. This was attributable to profit attributable to owners of the parent for the interim consolidated accounting period of 1,935 million yen, despite the payment of 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 September 30, 2024
Assets		
Current assets		
Cash and deposits	15,115	12,305
Accounts receivable	15,017	15,240
Inventory	99	92
Others	2,264	2,539
Allowance for doubtful accounts	-212	−27
Total current assets	32,284	30,150
Fixed assets		
Fixed assets		
Buildings and structures, net	9,252	9,060
Land	5,685	5,685
Other, net	2,565	2,526
Total fixed asset, plant and equipment	17,503	17,273
Intangible assets		
Goodwill	15,377	14,553
Others	1,230	1,234
Total intangible assets	16,608	15,788
Investments and other assets		
Investment and other assets	8,824	7,305
Allowance for doubtful accounts	-21	−20
Total investments and other assets	8,803	7,285
Total noncurrent assets	42,915	40,346
Total assets	75,199	70,496
Liabilities		
Current liabilities		
Short-term borrowings	500	—
Current portion of long-term borrowings	4,782	4,782
Accounts payable-other	10,859	9,360
Income taxes payable	1,359	1,888
Provision for bonuses	2,219	2,517
Provision for directors' bonuses	15	11
Allowance other	22	29
Others	4,821	3,126
Total current liabilities	24,582	21,717
Long-term liabilities		
Long-term debt	19,942	17,551
Provision for loss on compensation for damages	383	383
Obligations for retirement pay	2,083	2,142
Asset retirement obligations	1,467	1,480
Others	6,254	5,690
Total long-term liabilities	30,132	27,249
Total liabilities	54,714	48,967

(Millions of yen)

	As of March 31, 2024	As of September 30, 2024
Net assets		
Shareholders' equity		
Capital	686	686
Capital surplus	5,586	5,575
Retained earnings	15,629	16,643
Treasury Stock	-1,500	−1,444
Total shareholders' equity	20,402	21,460
Other accumulated comprehensive income		
Remeasurements of defined benefit plans	74	62
Total other accumulated comprehensive income	74	62
Stock acquisition rights	8	6
Total net assets	20,485	21,529
Total liabilities and net assets	75,199	70,496

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

(Consolidated Profit and Loss Statement)

(Millions of yen)

	Six months ended September 30, 2023	Six months ended September 30, 2024
Net sales	66,983	68,388
Cost of sales	56,123	57,053
Gross profit	10,859	11,335
Selling, general and administrative expenses	8,348	7,656
Operating profit	2,510	3,678
Non-operating profit		
Subsidy income	101	43
Compensation income	57	—
Others	55	42
Total non-operating profit	215	86
Non-operating expenses		
Interest expenses	139	147
Others	103	161
Total non-operating expenses	242	309
Ordinary profit	2,483	3,455
Extraordinary profit		
The gain from negative goodwill	2,828	—
Total extraordinary profit	2,828	—
Extraordinary expenses		
Levy for Employment of Persons with Disabilities	187	—
Transfer-related expenses	161	—
Total extraordinary expenses	348	—
Income before income taxes	4,963	3,455
Income taxes	1,072	1,519
Net income	3,890	1,935
Profit attributable to owners of parent	3,890	1,935

(Consolidated Statements of Comprehensive Income)

(Millions of yen)

	Six months ended September 30, 2023	Six months ended September 30, 2024
Net income	3,890	1,935
Other comprehensive income		
Adjustments for retirement benefits	−10	−12
Total other comprehensive income	−10	−12
Comprehensive income	3,880	1,923
Comprehensive income attributable to		
Comprehensive profit attributable to owners of the parent	3,880	1,923
Comprehensive income attributable to non-controlling interests	—	—

(3) Consolidated Statements of Cash Flows

(Millions of yen)

	Six months ended September 30, 2023	Six months ended September 30, 2024
Net cash provided by (used in) operating activities		
Income before income taxes	4,963	3,455
Depreciation and amortization	737	711
Amortization of goodwill	893	828
Transfer-related expenses	161	—
Increase (decrease) in accrued bonuses	103	297
Increase (decrease) in provision for directors' bonuses	−9	−4
Increase (decrease) in provision for loss on compensation damages	−121	—
Increase (decrease) in liability for retirement benefits	117	58
Interest expenses	139	147
The gain from negative goodwill	−2,828	—
Decrease in notes and accounts receivable-trade	−547	−222
Decrease (increase) in inventory	18	7
Decrease (increase) in prepaid expenses	−366	−454
Increase (decrease) in accounts payable-other	1,195	−1,125
Increase (decrease) in accrued consumption taxes	245	−536
Increase (decrease) in deposits received	814	−878
Others	−172	−434
Subtotal	5,344	1,851
Interest expenses paid	−141	−147
Subsidy received	297	—
Income taxes paid	−1,279	−1,003
Payment of Levy for Employment of Persons with Disabilities	—	−179
Payments for restructuring charges	—	−158
Amount of transfer-related expenses paid	−118	—
Others	20	20
Net cash provided by (used in) operating activities	4,123	381
Net cash provided by (used in) investing activities		
Purchase of fixed asset, plant and equipment	−803	−210
Proceeds from sales of fixed asset, plant and equipment	0	0
Purchase of intangible assets	−232	−263
Proceeds from cancellation of monetary held in trust	—	1,107
Payments for lease and guarantee deposits	−25	−43
Proceeds from collection of lease and guarantee deposits	20	171
Acquisition of newly consolidated subsidiaries	−1,659	—
Proceeds from acquisition of newly consolidated subsidiaries	384	—
Others	−77	−41
Net cash provided by (used in) investing activities	−2,394	720
Net cash provided by (used in) financing activities		
Net increase (decrease) in short-term borrowings	2,980	−500
Proceeds from long-term debt	500	—
Repayment of long-term loans payable	−2,031	−2,391
Purchase of treasury shares	−392	−0
Increase (decrease) in deposits for share buybacks	−265	—
Dividends paid	−946	−919
Principal payments under finance lease obligations	−95	−100
Others	−0	−0
Net cash provided by (used in) financing activities	−252	−3,912
Net increase (decrease) in cash and cash equivalents	1,476	−2,810
Cash and cash equivalents, beginning of year	11,857	15,115
Cash and cash equivalents, end of year	13,333	12,305

(4) Notes to Consolidated Financial Statements

(Notes on Going Concern Assumptions)

Not applicable.

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

Not applicable.

(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 six months ended September 30, 2024.

(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 interim 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 interim 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 interim period. This change in accounting policy is applied retrospectively, and the consolidated financial statements for the previous interim period 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 interim period and the previous consolidated fiscal year.

(Segment Information)

I. Six months ended September 30, 2023 (April 1, 2023 － September 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	31,056	－	－	31,056	－	31,056
Medical: Worker dispatching	3,792	－	－	3,792	－	3,792
Elderly care	－	26,456	－	26,456	－	26,456
Children	－	－	4,887	4,887	－	4,887
Others	654	22	－	676	90	767
Income from contracts with customers	35,503	26,478	4,887	66,869	90	66,960
Other income	－	2	－	2	20	23
Sales to customers	35,503	26,480	4,887	66,871	111	66,983
Intersegment sales	－	－	－	－	－	－
Total	35,503	26,480	4,887	66,871	111	66,983
Segment profit (loss)	2,113	777	−46	2,844	−333	2,510

NOTE: 1. The "Others" category includes Smart Hospital Business, real estate leasing and non-life insurance agency services, etc., which 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 September 2024 increased by 8,004 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, Possible Medical Science Co., Ltd. and other companies have become new consolidated subsidiaries. The increase in goodwill due to this stock acquisition was 2,063 million yen in the current interim consolidated accounting period.

II Six months ended September 30, 2024 (April 1, 2024 － September 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	31,346	－	－	31,346	－	31,346
Medical: Worker dispatching	3,421	－	－	3,421	－	3,421
Elderly care	－	27,701	－	27,701	－	27,701
Children	－	－	5,034	5,034	－	5,034
Others	677	77	－	754	104	859
Income from contracts with customers	35,444	27,778	5,034	68,257	104	68,362
Other income	－	3	－	3	22	26
Sales to customers	35,444	27,782	5,034	68,261	126	68,388
Intersegment sales	－	－	－	－	－	－
Total	35,444	27,782	5,034	68,261	126	68,388
Segment profit (loss)	2,373	1,258	78	3,710	−32	3,678

NOTE: 1. The “Others” category includes Smart Hospital Business, real estate leasing and non-life insurance agency services, etc., which 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 profit (loss) by reportable segment, effective from FY2024 Q2 consolidated accounting period.

The segment information for the previous Q2 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.