Summary of Financial Results for First Quarter of the Year Ending December 2024 [Japan GAAP] (Consolidated)

May 13, 2024

Name of Company: LTS, Inc. Stock Exchange Listing: Tokyo
Stock Code: 6560 URL http:// lt-s.jp/en/
Representative: Title: Representative Director, President, Executive Officer Name: Hiroaki Kabashima
Contact Person: Title: Director, Vice President Executive Officer Name: Sungil Lee (Tel:) +81-3-6897-6140
Date of filing of quarterly report: May 15,2024
Date of commencement of dividend payment: –
Preparation of quarterly supplementary materials: Yes
Convening of a quarterly results meeting: No

(Amounts less than one million are rounded down)

1. Financial results for first quarter of fiscal year ending December 2024 (January 1, 2024 - March 31, 2024)

(1) Operating results (consolidated) (Percentage figures represent year-on-year change)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent	
	million yen	%	million yen	%	million yen	%	million yen	%
Q1 of the year ending December 2024	4,066	44.2	358	16.7	377	11.4	311	35.8
Q1 of the year ended December 2023	2,820	18.3	306	15.7	338	29.1	229	26.9

(Note) Comprehensive income Q1 FY2024: 318 million yen (38.6%) Q1 FY2023: 230 million yen (24.7%)

	Profit per share	Profit per share fully diluted
	yen	yen
Q1 of the year ending December 2024	69.23	67.78
Q1 of the year ended December 2023	51.02	49.34

(2) Financial position (consolidated)

	Total assets	Net assets	Capital adequacy ratio
	million yen	million yen	%
Q1 of the year ending December 2024	11,464	3,822	32.6
Year ended December 2023	11,887	3,614	29.4

(Reference) Shareholders' equity Q1 FY2024: 3,734 million yen FY2023: 3,495 million yen

2. Dividends

	Dividend per share				
	End of Q1	End of Q2	End of Q3	End of FY	Total
	yen	yen	yen	yen	yen
Year ended December 2023	–	0.00	–	0.00	0.00
Year ending December 2024	–				
Year ending December 2024 (forecast)		0.00	–	30.00	30.00

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

3. Forecast for the fiscal year ending December 2024 (January 1, 2024 - December 31, 2024)

(Percentage figures represent year-on-year change)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent		Profit per share
	million yen	%	million yen	%	million yen	%	million yen	%	yen
Full year	16,500	34.8	1,250	74.3	1,150	52.6	690	51.2	153.06

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

* Notice

(1) Changes in main subsidiaries during year to quarter end: No

(Changes in specific subsidiaries accompanied by changes in the scope of consolidation)
New consolidations: company(ies) (Company name(s)); Exclusions: company(ies) (Company name(s))

(2) Application of accounting treatment specific to the preparation of the quarterly consolidated financial statements: No

(3) Changes in accounting policies, accounting estimates, and restatements

(a) Changes in accounting policies due to revision of accounting standards: No

(b) Changes in accounting policies other than those in (a): No

(c) Changes in accounting estimates: No

(d) Restatements: No

(4) Number of shares outstanding (common shares)

(a) Shares outstanding (including treasury shares) at end of period	Q1 of year ending December 2024	4,569,075 shares	Year ended December 2023	4,563,475 shares
(b) Treasury shares at end of period	Q1 of year ending December 2024	90,528 shares	Year ended December 2023	55,487 shares
(c) Average number of shares during period	Q1 of year ending December 2024	4,498,997 shares	Q1 of year ended December 2023	4,495,375 shares

* Quarterly financial results summaries are not subject to audit.

* Cautionary statement regarding business results forecasts and special notes

The financial forecasts and other forward-looking statements herein are based on currently available information and assumptions considered by the Company to be reasonable and do not represent a commitment from the Company that they will be achieved. Actual results may differ substantially due to various factors.

(Change in unit for displaying monetary amounts)

The monetary amounts of accounts and other items presented in the Company's quarterly consolidated financial statements were previously stated in thousands of yen, but effective from the first quarter of the fiscal year under review and the first three months of the fiscal year, the amounts are now stated in millions of yen. For ease of comparison, the figures for the previous consolidated fiscal year and the first three months of the previous fiscal year are also presented in millions of yen.

○ Contents of Accompanying Materials

1. Qualitative Information related to the Consolidated Business Results....4
(1) Explanation of Operating Results....4
(2) Explanation of Financial Position....5
(3) Explanation of Consolidated Earnings Forecasts and Other Future Projections....5
2. Quarterly Consolidated Financial Statements and Main Notes....6
(1) Quarterly Consolidated Balance Sheet....6
(2) Quarterly Consolidated Statement of Income and Quarterly Consolidated Statement of Comprehensive Income....8
(3) Notes to the Quarterly Consolidated Financial Statements....10
(Notes Related to Going Concern Assumptions)....10
(Additional Information)....10
(Segment Information)....11
(Revenue Recognition)....11

1. Qualitative Information related to the Consolidated Business Results

(1) Explanation of Operating Results

During the first three months of the fiscal year (January 1 to March 31, 2024), the Japanese economy showed a gradual recovery trend as the employment and income environment continued to improve, despite some signs of stagnation. On the other hand, there is still a risk that a downturn in overseas economies could put downward pressure on Japan's economy. This includes heightened geopolitical risks in the Middle East and elsewhere, the impact of rising prices worldwide and the resulting monetary tightening, as well as concerns about the future of the Chinese economy. As such, the situation remains uncertain.

In the information services industry, which is the main business domain of our Group, digital transformation (DX) initiatives are in full swing to respond to changes in the social environment. Demand for diversified project support remained steady due to the high-priority need for services to support internal reform activities, including introducing task performing robots such as AI and RPA (robotic process automation) and promoting telecommuting and other work style reform.

Under these business circumstances, the Group sought to become the "Best Partner for the Digital Era" by not only supporting individual reform projects but also providing services beyond the framework of consulting to help our customers implement change as a partner in creating people, businesses, and organizations that can respond to change and pave the way for the future. We have been developing a professional services business that offers one-stop support catered to the customer's unique challenges and reform objectives and a platform business for solving IT personnel shortages. In our professional services business, we worked on business collaboration with HCS Holdings Co., Ltd., which was made a subsidiary in October 2023, and continued actively hiring human resources and providing training activities as we promoted initiatives to expand our ability to provide services in a stable manner. In our platform business, we worked on developing the organizational structure and focused on expanding existing services centered on our Professional Hub service.

As a result of the above, during the first three months of the fiscal year under review, we achieved net sales of ¥4,066 million (up 44.2% year on year), operating profit of ¥358 million (up 16.7% year on year), and ordinary profit of ¥377 million (up 11.4% year on year), and profit attributable to owners of parent of ¥311 million (up 35.8% year on year).

A summary of operating results by segment (net sales includes internal sales) is provided below.

(Professional Services Business)

In our professional services business, the environment surrounding our IT division is changing as corporate activities, which were restricted due to the COVID-19 pandemic, return to normal. Amid these circumstances, favorable conditions created by robust demand for DX provided a boost for us to steadily acquire traditional consulting projects (operational analysis/design, IT introduction support, onsite deployment) based on our strength of visualizing and improving operations utilizing business process management. In addition to enhancing our track record with advanced companies, such as the joint development of a DX project management application with ITOCHU Corporation, we actively expanded our service offerings. This included the full-scale launch of "Agile Development Support Services" to help organizations become more adaptable to change and the establishment of ME-lab Japan, Inc., which supports companies in addressing climate change and other challenges through Green Transformation (GX).

As a result, net sales in the professional services business came to ¥3,700 million (up 46.9% year on year) and segment profit (operating profit) came to ¥340 million (up 14.2% year on year).

(Platform Business)

In the platform business, the number of members in the Assign Navi platform, which provides business matching and a learning forum specialized for the IT industry, grew to 13,558 including both corporate and individual members as of March 31, 2024. This steady growth represents a 130-member increase over the end of the previous year. In addition to the increased results of the Assign Navi and Professional Hub matching and member services in conjunction with expansion of the membership base, we steadily expanded our platform services based on connecting IT business operators with professional human resources, including ongoing support for the introduction and operation of a subscription platform in the cloud business. At the same time, we worked on strengthening the organizational structure for expanding revenue in existing services, including conducting a review of our sales structure.

As a result, net sales in the platform business came to ¥484 million (up 4.2% year on year), and the segment profit (operating profit) came to ¥17 million (up 106.3% year on year).

(2) Explanation of Financial Position

Total assets at the end of the first three months of the fiscal year were ¥11,464 million, down ¥422 million from the end of the previous fiscal year. This was primarily due to a ¥331 million decrease in cash and deposits and a ¥157 million decrease in goodwill.

Liabilities came to ¥7,642 million, down ¥630 million from the end of the previous fiscal year. This was primarily due to a ¥227 million decrease in long-term borrowings and a ¥187 million decrease in accounts payable - other.

Net assets amounted to ¥3,822 million, an increase of ¥208 million from the end of the previous fiscal year. This was primarily due to a ¥318 million increase in retained earnings. The equity ratio was 32.6%.

(3) Explanation of Consolidated Earnings Forecasts and Other Future Projections

In regard to the consolidated earnings forecast for the fiscal year ending December 2024, no changes have been made to the full-year consolidated earnings forecast announced on February 13, 2024.

2. Quarterly Consolidated Financial Statements and Main Notes

(1) Quarterly Consolidated Balance Sheet

(Millions of yen)

	Previous consolidated fiscal year (ended December 31, 2023)	First three months of the current fiscal year (ended March 31, 2024)
Assets		
Current assets		
Cash and deposits	3,845	3,514
Accounts receivable and contract assets	2,282	2,243
Electronically recorded monetary claims - operating	136	151
Work in process	21	22
Other	202	242
Allowance for doubtful accounts	(1)	(1)
Total current assets	6,487	6,172
Non-current assets		
Property, plant and equipment		
Land	1,963	1,963
Other	751	765
Total property, plant and equipment	2,714	2,729
Intangible fixed assets		
Goodwill	977	820
Software	91	96
Software in progress	17	13
Other	3	2
Total intangible fixed assets	1,090	932
Investments and other assets		
Leasehold and guarantee deposits	304	301
Deferred tax assets	221	206
Investment securities	1,005	1,056
Other	63	65
Total investments and other assets	1,595	1,630
Total non-current assets	5,400	5,292
Total assets	11,887	11,464

(Millions of yen)

	Previous consolidated fiscal year (ended December 31, 2023)	First three months of the current fiscal year (ended March 31, 2024)
Liabilities		
Current liabilities		
Accounts payable - trade	926	890
Short-term borrowings	280	250
Current portion of long-term borrowings	901	901
Accounts payable - other	682	495
Income taxes payable	255	128
Provision for bonuses	156	175
Provision for bonuses for directors (and other officers)	12	9
Contract liabilities	42	36
Provision for loss on order received	16	0
Other	418	438
Total current liabilities	3,692	3,327
Non-current liabilities		
Long-term borrowings	4,011	3,785
Retirement benefit liabilities	123	128
Deferred tax liabilities	396	356
Other	49	45
Total non-current liabilities	4,581	4,315
Total liabilities	8,273	7,642
Net assets		
Shareholders' equity		
Share capital	742	743
Capital surplus	993	995
Retained earnings	1,966	2,284
Treasury shares	(200)	(293)
Total shareholders' equity	3,501	3,729
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	(7)	2
Foreign currency translation adjustment	1	1
Total accumulated other comprehensive income	(5)	4
Subscription rights to shares	75	88
Non-controlling interests	43	–
Total net assets	3,614	3,822
Liabilities and net assets	11,887	11,464

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

Quarterly consolidated statement of income

First three months of the fiscal year

(Millions of yen)

	First three months of the previous fiscal year (January 1 - March 31, 2023)	First three months of the current fiscal year (January 1 - March 31, 2024)
Net sales	2,820	4,066
Cost of sales	1,828	2,621
Gross profit	991	1,444
Selling, general and administrative expenses	684	1,086
Operating profit	306	358
Non-operating income		
Subsidy income	12	10
Share of profit of entities accounted for using equity method	17	6
Rent on real estate	–	19
Other	1	6
Total non-operating income	32	42
Non-operating expenses		
Interest expenses	1	12
Real estate rental expense	–	2
Other	0	8
Total non-operating expenses	1	23
Ordinary profit	338	377
Profit before income taxes	338	377
Income taxes-current	85	96
Income taxes-deferred	22	(28)
Total income taxes	108	68
Profit	230	308
Profit (loss) attributable to non-controlling interests	0	(2)
Profit attributable to owners of parent	229	311

Quarterly consolidated statement of comprehensive income

First three months of the fiscal year

(Millions of yen)

	First three months of the previous fiscal year (January 1 - March 31, 2023)	First three months of the current fiscal year (January 1 - March 31, 2024)
Profit	230	308
Other comprehensive income		
Valuation difference on available-for-sale securities	–	9
Foreign currency translation adjustment	(0)	0
Total other comprehensive income	(0)	10
Comprehensive income	230	318
(Breakdown)		
Comprehensive income attributable to owners of parent	229	321
Comprehensive income attributable to non-controlling interests	0	(2)

(3) Notes to the Quarterly Consolidated Financial Statements

(Notes Related to Going Concern Assumptions)

Not applicable.

(Additional Information)

First three months of the current fiscal year (January 1 - March 31, 2024)
(Important Changes in Scope of Consolidation) During the first quarter of the fiscal year under review, HCS Holdings Co., Ltd., a consolidated subsidiary of the Company, sold a portion of its shares in Busy Bee, Inc., which was previously a consolidated subsidiary of the Company, on February 1, 2024. With January 1, 2024 as the deemed sale date, Busy Bee, Inc. became an equity-method affiliate of the Company. In addition, newly established Me-lab Japan, Inc. is included within the scope of consolidation as of the first quarter of the fiscal year under review. (Important Changes in Scope of Application of Equity Method) During the first quarter of the fiscal year under review, HCS Holdings Co., Ltd., a consolidated subsidiary of the Company, sold a portion of its shares in Busy Bee, Inc., which was previously a consolidated subsidiary of the Company, on February 1, 2024. With January 1, 2024 as the deemed sale date, Busy Bee, Inc. became an equity-method affiliate of the Company. During the first quarter of the fiscal year under review, Hibiya Computer System Co., Ltd., a consolidated subsidiary of the Company, sold a portion of its shares in Lovable Marketing Group Inc., which was previously an equity-method affiliate of the Company, on March 7, 2024. With March 31, 2024 as the deemed sale date, Lovable Marketing Group Inc. was removed from the scope of equity-method application.

(Segment Information)

First three months of the current fiscal year (January 1 - March 31, 2024)

1. Information Regarding Amounts of Net Sales, Profit, and Loss for Each Reporting Segment

(Millions of yen)

	Reporting Segment			Adjustment	Total Shown in Quarterly Consolidated Statement of Income (Note)
	Professional Services Business	Platform Business	Total		
Net sales					
Net sales to unaffiliated customers	3,696	369	4,066	–	4,066
Transactions with other segments	3	114	118	(118)	–-
Total	3,700	484	4,184	(118)	4,066
Segment profit	340	17	358	–	358

(Note) Segment profit is reconciled to operating profit presented in the quarterly consolidated statement of income.

2. Impairment Loss or Goodwill on Non-current Assets for Each Reporting Segment

(Important Changes in Amount of Goodwill)

In the first quarter of the fiscal year under review, Busy Bee, Inc., which was previously a consolidated subsidiary of the Company, was removed from the scope of consolidation and became an equity-method affiliate. As a result, goodwill in the Professional Services Business decreased by ¥130 million.

(Revenue Recognition)

First three months of the current fiscal year (January 1 - March 31, 2024)

(Millions of yen)

	Reporting Segment		Total
	Professional Services Business	Platform Business	
Business Process & Technology	3,442	–	3,442
Strategy & Innovation	207	–	207
Social & Public	46	–	46
Assign Navi	–	12	12
Professional Hub	–	356	356
Growth Company Club	–	0	0
Revenue from contracts with customers	3,696	369	4,066
Net sales to unaffiliated customers	3,696	369	4,066