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Consolidated Financial Results for the Six Months Ended September 30, 2024 [Japanese GAAP]

November 14, 2024

Company name: SUNCORPORATION
Listing: Tokyo
Securities code: 6736
URL: https://www.sun-denshi.co.jp
Representative: Ryusuke Utsumi President and Representative Director
Inquiries: Yoshimi Kimura Representative and Executive managing director
Telephone: +81-52-756-5981
Scheduled date to file semi-annual securities report: November 14, 2024
Scheduled date to commence dividend payments: December 12, 2024
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 September 30, 2024 (April 1, 2024 to September 30, 2024)

(1) Consolidated Operating Results (Percentages indicate year-on-year changes.)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent	
Six months ended	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
September 30, 2024	5,794	24.7	(24)	-	91	-	401	-
September 30, 2023	4,648	(78.1)	71	-	(4,448)	-	(4,229)	-

(Note) Comprehensive income: Six months ended September 30, 2024: ¥ (2,931) million [-%]
Six months ended September 30, 2023: ¥ (1,393) million [-%]

	Basic earnings per share	Diluted earnings per share
Six months ended	Yen	Yen
September 30, 2024	18.05	18.02
September 30, 2023	(189.88)	-

(Note) Diluted earnings per share for the first half of the fiscal year ending March 2024 is not stated because, although there are residual shares, diluted earnings per share is negative.

(2) Consolidated Financial Position

	Total assets	Net assets	Capital adequacy ratio
As of	Millions of yen	Millions of yen	%
September 30, 2024	43,159	33,464	77.4
March 31, 2024	46,838	37,259	79.3

(Reference) Equity: As of September 30, 2024: ¥ 33,403 million
As of March 31, 2024: ¥ 37,157 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 March 31, 2024	-	0.00	-	40.00	40.00
Fiscal year ending March 31, 2025	-	50.00			
Fiscal year ending March 31, 2025 (Forecast)			-	-	-

(Note) The year-end dividend forecast for the fiscal year ending March 2025 is currently undecided.

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

(Percentages indicate year-on-year changes.)

	Net sales		Operating profit	
	Millions of yen	%	Millions of yen	%
Full year	12,285	22.29	709	126.66

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

As it is difficult to reasonably calculate the impact on our business results of changes in fair value for the price adjustment clause, specific restricted stock and derivative warrant liabilities recognised by our equity method affiliate, Cellebrite DI Ltd., we have not yet determined the impact on each stage of profit below ordinary income.

* Notes:

(1) Significant changes in the scope of consolidation during the period: None

(2) Adoption of accounting treatment specific to the preparation of semi-annual consolidated financial statements: None

(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: Yes
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):

September 30, 2024: 24,007,728 shares
March 31, 2024: 24,007,728 shares

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

September 30, 2024: 1,743,797 shares
March 31, 2024: 1,769,277 shares

3) Average number of shares outstanding during the period:

Six months ended September 30, 2024: 22,251,599 shares
Six months ended September 30, 2023: 22,272,742 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

The forward-looking statements, including earnings forecasts, contained in this document are based on information currently available to the company and on certain assumptions deemed to be reasonable. Actual business and other results may differ substantially due to various factors.

1. Qualitative Information on Financial Results for the Six Months Ended September 30, 2024

(1) Explanation of Operating Results

Forward-looking statements contained in this document are based on judgments of the Group as of September 30, 2024.

<External environment>

The data intelligence market, which our Global Data Intelligence business serves, saw a favorable response to the Case-to-Closure platform of Cellebrite DI Ltd. (hereafter, "Cellebrite"), suggesting that the new InsEYEts digital forensic software have been gaining popularity. Meanwhile, leading-edge digital intelligence tools, such as InsEYEts, are now indispensable solutions and have been adopted by an increasing number of law enforcement agencies and others in Japan as well as overseas.

Regarding the pachinko and pachislot market, one of the markets that our Entertainment-related business serves, smart game machines began being introduced in November 2022, and now there are popular games for these machines. Thus, the demand for such machines, mainly smart pachislot machines, has been increasing. Meanwhile, although there have been signs of recovery from the semiconductor supply crunch due to the global shortage, there are still issues such as the ongoing upsurge of raw material prices and a decrease in number of pachinko parlors. The future of the market thus remains uncertain.

Although games were established as enjoyable home entertainment during the COVID-19 pandemic, now that other leisure consumption has also recovered, we can see a slight contraction trend in the game content market in developed countries. Furthermore, the market has been increasingly competitive as the number of games released has been increasing in an accelerated manner because the technological advancement has made it possible for a single person to develop video game with a single PC.

In the Internet of things (IoT) market, one of the markets that our New IT-related business serves, demand for monitoring and control systems that can access from remote locations to alleviate labor shortages and improve productivity is increasing, and the industrial network device Rooster capable of stably operating for a long period of time, which is our strength, has been widely installed. Furthermore, migration from 3G to LTE (4G) is smoothly ongoing as communication carriers are scheduled to successively terminate 3G services by March 2026. While the crunch in overall semiconductor supply is easing, component prices are continuing to soar, which may have impacts on supply of our products and our profits, and the impacts remain uncertain at present.

The market environments of some of our core businesses are uncertain as described above. Against this backdrop, we will work to establish new core products and services in line with the current social trend of moving towards utilization of leading-edge technologies, such as IoT, augmented reality (AR), and artificial intelligence (AI) for further improvement of the Group's business performance.

<Competitive advantages>

In the Global Data Intelligence business, the Company served law enforcement agencies who deal with tech-savvy criminals (criminal organizations) as well as explosive increases in digital evidence. More specifically, we have provided them with state-of-the-art digital intelligence tools, as well as training and services over the years, to enhance the productivity of investigation resources. The next-generation solution "InsEYEts," which was released in January 2024, combines the advanced extraction of Premium with next-generation UFED, as an all-in digital forensic solution that encompasses the functions of Physical Analyzer (including reader), Cloud and Commander, contributing to a significant reduction in the work time of investigation agencies. In the Japanese market, full-scale deliveries began in April 2024. Additionally, in August 2024, the Company entered into a strategic partnership agreement for sales with TRM Labs, a US leading blockchain intelligence company. This agreement covers sales in Japan. We will make proactive efforts to sell products from TRM Labs, which has an abundance of experience in having their products adopted by organizations, such as law enforcement agencies, regulatory agencies, tax agencies, and crypto asset exchanges, in the United States, Central and South America, Europe, and the Asia Pacific Region.

In the game machine business of our Entertainment-related business, the Company specializes in certain business fields and customers to establish strong trustful relationships and step up our expressive and technical abilities in the specific areas. This enables us to execute development of contents highly attractive as products, as well as development of high-quality control boards, thus allowing us to enhance our competitive advantages.

In the game content business, the Company internally handles all phases, from development to operation, of console games and mobile games under the famous Shanghai brand. This enables us to maintain cost-efficient profits over a long term. Furthermore, having a number of intellectual properties (IPs) in the genre of retro games, which is regaining popularity mainly in the European and American market, we have the prospect of further profit expansion through effective utilization of the IPs.

In the New IT-related business, our efforts center on the following: to maintain technological competitive advantages by establishing strong trustful relationships with our partners such as individual communication carriers and system integrators, and acquiring patents related to migration from 3G to LTE (4G) networks based on technologies accumulated over many years; and to further reinforce our competitiveness by developing products with keywords being 5G and edge AI. Rooster, an industrial network device, supports dual SIM and is capable of making a system redundant using different communication carriers. This device automatically detects a failure in a communication carrier network and switches from the main network to the sub-network, thereby eliminating the effects of network communication failures and enabling uninterrupted operation of remote monitoring and control, and data collection. Thus, sales of Rooster have been growing steadily.

In the IoT field, a problem is to alleviate increasing operational management burdens of a large number of IoT devices installed in remote locations as they move from the introduction to operational phase. To address this issue, our device management service called SunDMS enables alive monitoring and centralized control of Rooster, enabling remote and secure operational management. As a result, on-site maintenance costs such as personnel, operational adjustments, and travel time can be cut down, and the operational burden can be greatly reduced. We are also developing SunDMS-Insight. This makes it possible to collect, control, and visualize any device or network data, such as OKUDAKE Sensor and Programmable Logic Controllers (PLCs). In the future, BI/AI will be used for aggregation, analysis, and detection to improve the efficiency and security of remote operational management in the IoT field, thereby securing a competitive advantage.

<Management initiatives>

We have reviewed our existing business strategies, and have formulated the new Medium-Term Management Plan, which covers three years starting from the fiscal year ending March 2025, with an aim of establishing our future growth base. The quantitative targets for the fiscal year ending March 2027, the last fiscal year covered by the new Medium-Term Management Plan, are net sales of ¥19,200 million and operating profit of ¥2,100 million.

Furthermore, the medium- to long-term management targets after the new Medium-Term Management Plan period have been set to net sales of ¥50,000 million and an operating profit margin of 15% in pursuit of our sustainable growth and corporate value enhancement.

To achieve the above goals, we set up specific strategic themes: 1) Improving our earning power in existing businesses; 2) Creating new growth drivers; and 3) Establishing management base to support business. Under these themes, the following business development is being planned for individual business divisions.

The Global Data Intelligence business will aspire for contributing to global human safety and security and provide products, solutions, and services that are needed to achieve that goal. Specifically, we will strengthen our sales activities based on up-selling and cross-selling and reduce the churn rate so as to expand stock businesses, that is, to acquire stable profit opportunities.

Furthermore, as an initiative related to “creating new growth driver,” aiming for providing new digital tool solutions not limited to the digital forensics field, we will advance our search for products with high added value by leveraging the networks we have developed to date, such as one in Israel.

In the Entertainment-related business, as an initiative related to “improving our earning power in existing businesses,” we will focus on promoting measures such as increasing the number of newly developed games in the

game machine business, as well as developing new IPs and promoting overseas marketing in the game business.

The New IT-related business will seek ways to shift from the conventional hardware-based business to a solution business that covers IoT and video solutions, as well as collection, control, visualization, and analysis of data on Rooster and networks. Furthermore, we will strive to shift into the field of intelligence to be capable of, for example, advanced data processing of device data on a network using artificial intelligence (AI).

Meanwhile, we created the R&D Department in October 2022 by combining the Marketing Department and Technology Development to improve our earning power. In consideration of the Company's future business development, the R&D Department has already started technological development in AI, information security, and healthcare fields under its immediate theme of moving forward with data businesses. Additionally, in research and development, we are aiming to develop differentiated products by conducting joint research with a university that owns a technological seed.

<Overview of products and services>

In the Global Data Intelligence business, we are moving forward with providing products, services, and support related to threat intelligence and active cyber defense in addition to Cellebrite's digital intelligence products that have been conventionally sold in Japan. Aiming to expand sales of Cybersixgill as a new product that can search for usually invisible information on the dark web, we are making active efforts including showcasing the product at an exhibition for industrial sectors.

Furthermore, we sell a crypto asset trade analyzing tool available from the US leading blockchain intelligence company TRM Labs, with which we entered into a strategic partnership in August 2024. After showcasing it at occasions such as exhibitions, we have been receiving a lot of inquiries on the tool against the backdrop of an increase in crimes of fraudulently using crypto assets. To accelerate the adoption of this tool in Japan, we will proactively work on sales activities.

In the game machine business of the Entertainment-related business, we work as a contractor responsible for all phases of content development for pachinko and pachislot games, including planning, designing, video production, and programming, as well as all phases related to control boards from designing to manufacturing. In addition, leveraging on our know-how in content development, we also offer smartphone applications simulating real pachinko and pachislot machines to contribute to the operation of real pachinko and pachislot machines in the market and raise awareness of contents.

In the game content business, several plans utilizing IPs related to retro games are now underway. Ikki Unite was released for Nintendo Switch™ on April 18, 2024. In addition, early access (an arrangement offered before the full release of a game to enable playing it in its development phrase) to Ark of Charon, an all-new product for Steam (PC), was started on July 9, 2024. In addition, a package version of Nintendo Switch™ software Ikki Unite that allows 16 players to play it was released on September 19, 2024.

In the New IT-related business, several major beverage vendors adopted our strategic products for beverage vending machines, A330 and A900, in order to reduce management costs and improve operational efficiency, including product replenishment, and more than 500,000 units have already been introduced. Our router products such as Rooster are promoted as products differentiated from those of other companies with the emphasis on features of network redundancy and linkage with the device management service SunDMS, and have been producing steady sales. Aiming to further expand our businesses, we have released an edge computer named LBX8110 in September 2023, where AI image analysis can be implemented. Serving us as a new product in the new IoT field, this edge computer offers new solutions based on the AI technologies such as image analysis. Lastly, our sensor device OKUDAKE Sensor has entered the full-scale introduction phase for Hazard Analysis and Critical Control Points (HACCP)-based temperature management or predictive maintenance based on acceleration (vibration) sensor. Furthermore, in September 2024, we released Rooster Camera Solution, a product that combines a mobile network with a video security function, saving the users' trouble of communication line construction and network security and enabling easy remote monitoring.

<Overview of the consolidated statements of income>

The Group posted consolidated net sales of ¥5,794 million (up 24.7% year-on-year) as our efforts to reinforce our strategies for the existing businesses were successful taken in line with the new Medium-Term Management Plan from the fiscal year ending March 2025. Although the growth in net sales, gross profit, indicative of the added value created by the Group, was affected by factors such as soaring raw material prices. While gross profit increased to ¥1,495 million (up 7.3% year-on-year), the gross profit margin decreased to 25.8% (down by 4.2 points year-on-year).

Consolidated net sales

Segment	Six months ended September 30, 2023 (Millions of yen)	Six months ended September 30, 2024 (Millions of yen)	Year-on-year change in percent (%)
Global Data Intelligence	484	577	19.0
Entertainment-related	2,742	3,633	32.5
New IT-related	1,430	1,678	17.3
Adjustment	(9)	(94)	-
Total	4,648	5,794	24.7

Gross profit

Segment	Six months ended September 30, 2023 (Millions of yen)	Six months ended September 30, 2024 (Millions of yen)	Year-on-year change in percent (%)
Global Data Intelligence	110	143	30.4
Entertainment-related	814	766	(5.9)
New IT-related	458	490	6.8
Adjustment	9	94	-
Total	1,393	1,495	7.3

Gross profit margin

Segment	Six months ended September 30, 2023 (%)	Six months ended September 30, 2024 (%)
Global Data Intelligence	22.8	24.9
Entertainment-related	29.7	21.1
New IT-related	32.1	29.2
Total	30.0	25.8

<Overview of selling, general and administrative expenses>

Consolidated selling, general and administrative expenses came to ¥1,520 million (up 15.0% year-on-year). This is mainly because the expenses for the enhancement of the operational base and the corporate functions for the future increased.

Selling, general and administrative expenses

Segment	Six months ended September 30, 2023 (Millions of yen)	Six months ended September 30, 2024 (Millions of yen)	Year-on-year change in percent (%)
Global Data Intelligence	51	68	35.0
Entertainment-related	482	470	(2.5)
New IT-related	354	385	8.7
Adjustment	434	595	-
Total	1,322	1,520	15.0

Research and development expenses

Segment	Six months ended September 30, 2023 (Millions of yen)	Six months ended September 30, 2024 (Millions of yen)	Year-on-year change in percent (%)
Global Data Intelligence	-	0	-
Entertainment-related	323	290	(10.1)
New IT-related	109	115	5.8
Adjustment	66	58	-
Total	499	465	(6.8)

<Overview of operating profit (loss)>

The Company posted operating loss of ¥24 million (operating profit of ¥71 million for the six months ended September 30, 2023) on a consolidated basis. This is because selling, general and administrative expenses increased while gross profit increased year-on-year.

Operating profit (loss)

Segment	Six months ended September 30, 2023 (Millions of yen)	Six months ended September 30, 2024 (Millions of yen)	Year-on-year change in percent (%)
Global Data Intelligence	59	74	26.5
Entertainment-related	341	391	14.4
New IT-related	104	105	0.5
Adjustment	(434)	(595)	-
Total	71	(24)	-

<Overview of ordinary profit and profit attributable to owners of parent>

The Company posted ordinary profit of ¥91 million (ordinary loss of ¥4,448 million for the six months ended September 30, 2023) on a consolidated basis. This is attributable to a year-on-year rebound from the previous period for which it recognized loss on valuation of derivatives in Cellebrite and recorded share of loss of entities accounted for using equity method, amounting to ¥4,498 million. The Company posted profit attributable to owners of parent of ¥401 million due to the adoption of tax effect accounting (loss attributable to owners of parent of ¥4,229 million for the six months ended September 30, 2023).

<Overview of individual segments>

[Global Data Intelligence business]

	Six months ended September 30, 2023 (Millions of yen)	Six months ended September 30, 2024 (Millions of yen)	Year-on-year change in amount (Millions of yen)	Year-on-year change in percent (%)
Net sales	484	577	92	19.0
Segment profit	59	74	15	26.5

Net sales and profit for the Global Data Intelligence business both increased year-on-year mainly due to an increase in the amount of orders in the subscription business.

[Entertainment-related business]

	Six months ended September 30, 2023 (Millions of yen)	Six months ended September 30, 2024 (Millions of yen)	Year-on-year change in amount (Millions of yen)	Year-on-year change in percent (%)
Net sales	2,742	3,633	891	32.5
Segment profit	341	391	49	14.4

Net sales and profit for the game machine business both increased year-on-year because pachinko and pachislot game machines that we developed under contracts were strong in sales and popularity.

[New IT-related business]

	Six months ended September 30, 2023 (Millions of yen)	Six months ended September 30, 2024 (Millions of yen)	Year-on-year change in amount (Millions of yen)	Year-on-year change in percent (%)
Net sales	1,430	1,678	247	17.3
Segment profit	104	105	0	0.5

While net sales for the M2M business increased due to strong sales, segment profit only slightly increased by 0.5% year-on-year due to reasons such as soaring raw material prices and increased expenses for the enhancement of the operational base.

(2) Explanation of Financial Position

(i) State of assets, liabilities, and net assets

(Assets)

Total assets stood at ¥43,159 million, a decrease of ¥3,678 million from the end of the previous fiscal year.

Current assets stood at ¥24,496 million, an increase of ¥1,047 million from the end of the previous fiscal year. The main factors for increase were increases of ¥838 million in other and ¥727 million in notes and accounts receivable - trade. The main factor for decrease was a decrease of ¥391 million in cash and deposits.

Non-current assets stood at ¥18,662 million, a decrease of ¥4,725 million from the end of the previous fiscal year. The main factor for decrease was a decrease of ¥4,706 million in investment securities.

(Liabilities)

Total liabilities stood at ¥9,695 million, an increase of ¥116 million from the end of the previous fiscal year.

Current liabilities stood at ¥6,920 million, an increase of ¥2,015 million from the end of the previous fiscal year. The main factors for increase were increases of ¥1,798 million in short-term borrowings and ¥256 million in other.

Non-current liabilities stood at ¥2,774 million, a decrease of ¥1,899 million from the end of the previous fiscal year. The main factor for decrease was a decrease of ¥1,879 million in deferred tax liabilities.

(Net assets)

Total net assets stood at ¥33,464 million, a decrease of ¥3,795 million from the end of the previous fiscal year. The main factors for decrease were decreases of ¥3,369 million in valuation difference on available-for-sale securities and ¥487 million in retained earnings.

(ii) State of cash flows

Cash and cash equivalents (hereafter referred to as “cash”) as of September 30, 2024 was ¥1,156 million, down ¥363 million from the end of the previous fiscal year. The state of cash flows in the six months ended September 30, 2024 and their primary factors are explained below.

(Cash flows from operating activities)

Net cash used in operating activities in the six months ended September 30, 2024 amounted to ¥1,155 million, compared with ¥3,816 million provided in the six months ended September 30, 2023. The main factors for decrease in cash were an increase in deposits paid of ¥789 million, an increase in trade receivables of ¥712 million, and income taxes paid of ¥364 million. The main factor for increase was an increase in contract liabilities of ¥180 million.

(Cash flows from investing activities)

Net cash used in investing activities in the six months ended September 30, 2024 amounted to ¥124 million, compared with ¥3,495 million used in the six months ended September 30, 2023. The main factors for decrease in cash were ¥52 million spent in purchase of property, plant and equipment, and ¥46 million spent in purchase of intangible assets.

(Cash flows from financing activities)

Net cash provided by financing activities in the six months ended September 30, 2024 amounted to ¥918 million, compared with ¥1,385 million provided in the six months ended September 30, 2023. The main factor for increase in cash was a net increase in short-term borrowings of ¥1,797 million. The main factor for decrease was dividends paid of ¥889 million.

Semi-annual Consolidated Financial Statements
Semi-annual Consolidated Balance Sheets

(Thousands of yen)

	As of March 31, 2024	As of September 30, 2024
Assets		
Current assets		
Cash and deposits	1,732,014	1,340,201
Money held in trust	14,200,000	14,200,000
Notes and accounts receivable - trade	1,812,896	2,540,283
Accounts receivable	86,655	15,757
Finished goods	744,912	743,389
Work in process	447,404	393,729
Raw materials	3,711,585	3,710,377
Other	714,601	1,553,150
Allowance for doubtful accounts	(499)	(299)
Total current assets	23,449,570	24,496,590
Non-current assets		
Property, plant and equipment		
Land	949,043	949,043
Other, net	630,967	667,378
Total property, plant and equipment	1,580,010	1,616,421
Intangible assets		
Goodwill	457,630	423,007
Other	229,538	209,077
Total intangible assets	687,169	632,084
Investments and other assets		
Investment securities	20,663,685	15,956,946
Shares of subsidiaries and associates	1,000	1,000
Other	457,012	456,532
Total investments and other assets	21,121,697	16,414,479
Total non-current assets	23,388,877	18,662,985
Total assets	46,838,448	43,159,575

(Thousands of yen)

	As of March 31, 2024	As of September 30, 2024
Liabilities		
Current liabilities		
Notes and accounts payable - trade	1,989,206	1,859,688
Short-term borrowings	1,095,392	2,893,445
Current portion of long-term borrowings	37,445	36,504
Accrued expenses	246,421	281,009
Income taxes payable	361,112	70,814
Advances received	63,373	217,544
Contract liabilities	891,842	1,072,641
Provision for bonuses	149,664	161,375
Other	70,553	327,397
Total current liabilities	4,905,012	6,920,421
Non-current liabilities		
Long-term borrowings	257,366	239,269
Deferred tax liabilities	4,372,346	2,493,054
Deferred tax liabilities for land revaluation	9,920	9,920
Retirement benefit liability	10,741	11,334
Other	23,670	21,235
Total non-current liabilities	4,674,045	2,774,814
Total liabilities	9,579,057	9,695,236
Net assets		
Shareholders' equity		
Share capital	2,097,606	2,097,606
Capital surplus	3,316,731	3,332,126
Retained earnings	26,543,187	26,055,369
Treasury shares	(3,643,498)	(3,591,099)
Total shareholders' equity	28,314,026	27,894,002
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	9,269,293	5,899,928
Revaluation reserve for land	(434,203)	(434,203)
Foreign currency translation adjustment	8,197	43,875
Total accumulated other comprehensive income	8,843,288	5,509,600
Share award rights	24,012	14,565
Share acquisition rights	78,064	46,170
Total net assets	37,259,391	33,464,339
Total liabilities and net assets	46,838,448	43,159,575

Semi-annual Consolidated Statements of Income and Comprehensive Income

(Thousands of yen)

	For the six months ended September 30, 2023	For the six months ended September 30, 2024
Net sales	4,648,104	5,794,474
Cost of sales	3,254,613	4,298,980
Gross profit	1,393,491	1,495,494
Selling, general and administrative expenses	1,322,034	1,520,340
Operating profit (loss)	71,456	(24,845)
Non-operating income		
Interest and dividend income	15,730	142,957
Other	25,807	4,104
Total non-operating income	41,538	147,062
Non-operating expenses		
Interest expenses	1,823	9,548
Foreign exchange losses	29,640	13,731
Share of loss of entities accounted for using equity method	4,498,420	-
Commission for purchase of treasury shares	22,704	-
Other	8,789	7,742
Total non-operating expenses	4,561,378	31,021
Ordinary profit (loss)	(4,448,383)	91,194
Extraordinary income		
Gain on sale of non-current assets	-	749
Gain on reversal of share acquisition rights	476	16,878
Total extraordinary income	476	17,628
Extraordinary losses		
Impairment losses	-	26,717
Loss on liquidation of subsidiaries	2,342	-
Other	0	0
Total extraordinary losses	2,342	26,717
Profit (loss) before income taxes	(4,450,248)	82,105
Income taxes - current	228,027	79,977
Income taxes - deferred	(449,213)	(399,592)
Total income taxes	(221,186)	(319,615)
Profit (loss)	(4,229,062)	401,720
Profit (loss) attributable to owners of parent	(4,229,062)	401,720

(Thousands of yen)

	For the six months ended September 30, 2023	For the six months ended September 30, 2024
Profit (loss)	(4,229,062)	401,720
Other comprehensive income		
Valuation difference on available-for-sale securities	1,795,472	(3,369,365)
Foreign currency translation adjustment	9,715	35,677
Share of other comprehensive income of entities accounted for using equity method	1,029,900	-
Total other comprehensive income	2,835,087	(3,333,687)
Comprehensive income	(1,393,974)	(2,931,967)
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	(1,393,974)	(2,931,967)

Semi-annual Consolidated Statements of Cash Flows

(Thousands of yen)

	For the six months ended September 30, 2023	For the six months ended September 30, 2024
Cash flows from operating activities		
Profit (loss) before income taxes	(4,450,248)	82,105
Depreciation	119,285	117,833
Amortization of goodwill	26,315	34,623
Share-based payment expenses	26,165	-
Increase (decrease) in allowance for doubtful accounts	(198)	(200)
Increase (decrease) in provision for bonuses	(45,857)	12,859
Increase (decrease) in retirement benefit liability	9	-
Interest and dividend income	(15,730)	(142,957)
Interest expenses	1,823	9,548
Foreign exchange losses (gains)	(19,370)	12,738
Share of loss (profit) of entities accounted for using equity method	4,498,420	-
Impairment losses	-	26,717
Gain on reversal of share acquisition rights	(476)	(16,878)
Decrease (increase) in trade receivables	796,132	(712,081)
Decrease (increase) in inventories	(1,761,585)	57,086
Increase (decrease) in trade payables	522,999	(134,991)
Decrease (increase) in prepaid expenses	(112,726)	(37,213)
Decrease (increase) in deposits paid	-	(789,259)
Increase (decrease) in contract liabilities	338,163	180,766
Increase (decrease) in accrued expenses	63,134	37,029
Increase (decrease) in deposits received	-	51,867
Other, net	(26,698)	349,575
Subtotal	(40,444)	(860,828)
Interest and dividends received	15,730	35,550
Interest paid	(1,823)	(9,548)
Income taxes paid	(673)	(364,495)
Income taxes refund	3,844,031	43,920
Net cash provided by (used in) operating activities	3,816,820	(1,155,400)

(Thousands of yen)

	For the six months ended September 30, 2023	For the six months ended September 30, 2024
Cash flows from investing activities		
Net decrease (increase) in time deposits	(1)	39,756
Proceeds from cancellation of money held in trust	700,000	10,000,000
Investments in money held in trust	(4,000,000)	(10,000,000)
Purchase of investment securities	-	(11,900)
Proceeds from redemption of investment securities	46,484	-
Purchase of property, plant and equipment	(87,435)	(52,067)
Purchase of intangible assets	(159,916)	(46,520)
Other, net	5,593	(53,697)
Net cash provided by (used in) investing activities	(3,495,276)	(124,428)
Cash flows from financing activities		
Net increase (decrease) in short-term borrowings	(9,062)	1,797,313
Repayments of long-term borrowings	(30,261)	(23,944)
Dividends paid	(452,648)	(889,538)
Proceeds from exercise of employee share options	11,988	37,565
Purchase of treasury shares	(903,099)	(169)
Other, net	(2,097)	(2,854)
Net cash provided by (used in) financing activities	(1,385,180)	918,372
Effect of exchange rate change on cash and cash equivalents	21,974	(1,677)
Net increase (decrease) in cash and cash equivalents	(1,041,662)	(363,134)
Cash and cash equivalents at beginning of period	2,934,094	1,519,890
Cash and cash equivalents at end of period	1,892,432	1,156,755

(4) Notes on Semi-annual Consolidated Financial Statements

(Notes regarding assumption of going concern)

Not applicable

(Notes if there are significant changes in the amount of shareholders' equity)

Not applicable

(Changes in accounting policies)

The Company has applied the Accounting Standard for Current Income Taxes (ASBJ Statement No. 27, October 28, 2022; hereafter, “Revised Accounting Standard 2022”) and other standards from the beginning of the six months ended September 30, 2024.

Regarding the revisions to the classification of income taxes (taxation on other comprehensive income), the Company follows the transitional treatment stipulated in the proviso to paragraph 20-3 of Revised Accounting Standard 2022 and the transitional treatment stipulated in the proviso to paragraph 65-2 (2) of the Guidance on Accounting for Tax Effect Accounting (ASBJ Guidance No. 28, October 28, 2022; hereafter, “Revised Guidance 2022”). The adoption of this accounting standard has no impact on the semi-annual consolidated financial statements.

Furthermore, the Company has applied Revised Guidance 2022 from the beginning of the six months ended September 30, 2024, regarding the revisions to the treatment in consolidated financial statements of gains or losses arising from the sale of shares in subsidiaries, etc. between consolidated companies when they are deferred for tax purposes. The Company has applied this change in accounting policy retrospectively, and has adjusted the semi-annual consolidated financial statements for the six months ended September 30, 2023 and the consolidated financial statements for the previous fiscal year accordingly. This change in accounting policy has no impact on the semi-annual consolidated financial statements for the six months ended September 30, 2023 and the consolidated financial statements for the previous fiscal year.

(Additional information)

(Debt instruments in Cellebrite)

Cellebrite, which is the Company's associate accounted for using equity method, assessed certain restricted shares and warrant liabilities, both of which it inherited from TWC Tech Holdings II Corp. (hereafter, "TWC Corp."), at fair value and recognized them as liabilities based on the price adjustment clause in the merger agreement signed on August 30, 2021 when it was listed on the NASDAQ market in the United States of America.

The Company therefore reports share of loss (profit) of entities accounted for using equity method as a result of changes in fair value of the liabilities due to the fluctuation of Cellebrite's share price, etc. as non-operating income/expenses.

(1) Price adjustment clauses based on the merger agreement

As consideration adjustment after the closing of the transaction, if the volume weighted average price (VWAP) of Cellebrite's share exceeds USD 12.5, USD 15 and USD 17.5 for 20 days out of any 30 days within five years from the closing date, every time each condition is satisfied, Cellebrite will issue 5,000,000 shares respectively (up to 15,000,000 shares) for the shareholders at the time of closing, including the Company, according to their holding ratios. Also, if change of control which is defined in the merger agreement takes place in the same period, 15,000,000 shares will be issued at the timing of occurrence of the event.

The conditions of USD 12.5 and USD 15 were met on August 14, 2024 and September 13, 2024, respectively.

(2) Restricted shares

Cellebrite has inherited restricted shares for TWC Corp.'s sponsors. If Cellebrite's volume weighted average price (VWAP) exceeds USD 12.5 and USD 15 for 20 days out of any 30 days within seven years from the closing date, rights on 3,000,000 shares will be vested, respectively. When it exceeds USD 30, rights on 1,500,000 shares will be vested. Also, if change of control which is defined in the merger agreement takes place in the same period, 7,500,000 shares will be issued at the timing of occurrence of the event.

The conditions of USD 12.5 and USD 15 were met on August 14, 2024 and September 13, 2024, respectively.

(3) Warrant liabilities

Cellebrite has inherited the warrant liabilities (publicly offered warrant liability and privately offered warrant liability) issued by TWC Corp. under the merger agreement with the latter. Holders of the warrant liabilities have rights to purchase shares of Cellebrite at the price of USD 11.5 per share on and after September 29, 2021. The warrant liabilities will expire upon either of five years after the closing date, redemption by Cellebrite based on certain requirements, or Cellebrite's liquidation.

The redemption of all of the warrant liabilities was completed on September 16, 2024.

(Segment information, etc.)

[Segment information]

I. Six months ended September 30, 2023 (April 1 to September 30, 2023)

1. Information on net sales and profit (loss) for each reportable segment and information on the disaggregation of revenue

(Thousands of yen)

	Global Data Intelligence business	Entertain-ment-related business	New IT-related business	Total	Adjusted amount (Note 1)	Amount reported on semi-annual consolidated statements of income (Note 2)
Sales						
Goods transferred at a point in time	41,466	2,732,334	1,406,629	4,180,430	-	4,180,430
Goods transferred over time	443,462	-	24,211	467,673	-	467,673
Revenue from contracts with customers	484,928	2,732,334	1,430,841	4,648,104	-	4,648,104
Revenue from external customers	484,928	2,732,334	1,430,841	4,648,104	-	4,648,104
Transactions with other segments	-	9,687	-	9,687	(9,687)	-
Total	484,928	2,742,022	1,430,841	4,657,792	(9,687)	4,648,104
Segment profit (loss)	59,251	341,747	104,559	505,558	(434,102)	71,456

(Notes) 1. Adjusted amount for segment profit of ¥(434,102) thousand includes company-wide expenses not allocated to each reportable segment of ¥(434,102) thousand. The company-wide expenses mainly consist of general and administrative expenses not attributable to reportable segments.

2. Segment profit (loss) has been adjusted with operating profit on the semi-annual consolidated statements of income.

2. Information on assets for each reportable segment

In the six months ended September 30, 2023, segment assets of the Global Data Intelligence business decreased by ¥3,567,450 thousand as the Company reported share of loss of entities accounted for using equity method regarding Cellebrite, which is the Company's associate accounted for using equity method.

II. Six months ended September 30, 2024 (April 1 to September 30, 2024)

1. Information on net sales and profit (loss) for each reportable segment and information on the disaggregation of revenue

(Thousands of yen)

	Global Data Intelligence business	Entertain-ment-related business	New IT-related business	Total	Adjusted amount (Note 1)	Amount reported on quarterly consolidated statements of income (Note 2)
Sales						
Goods transferred at a point in time	60,482	3,539,120	1,348,538	4,948,141	-	4,948,141
Goods transferred over time	516,731	-	329,601	846,333	-	846,333
Revenue from contracts with customers	577,213	3,539,120	1,678,140	5,794,474	-	5,794,474
Revenue from external customers	577,213	3,539,120	1,678,140	5,794,474	-	5,794,474
Transactions with other segments	-	94,627	-	94,627	(94,627)	-
Total	577,213	3,633,748	1,678,140	5,889,102	(94,627)	5,794,474
Segment profit (loss)	74,951	391,035	105,090	571,078	(595,924)	(24,845)

(Notes) 1. Adjusted amount for segment profit of ¥(595,924) thousand includes elimination of intersegment transactions of ¥73 thousand and company-wide expenses not allocated to each reportable segment of ¥(595,997) thousand. The company-wide expenses mainly consist of general and administrative expenses not attributable to reportable segments

2. Segment profit (loss) has been adjusted with operating loss on the semi-annual consolidated statements of income.

(Significant subsequent events)

In relation to the price adjustment clauses based on the merger agreement held by Cellebrite, Cellebrite's volume weighted average price exceeded USD 17.5 on November 1, 2024. Specific information on this matter is as presented in "(Debt instruments in Cellebrite) in Notes (Additional information)."