

May 14, 2024

Consolidated Financial Results for the Six Months of the Fiscal Year Ending September 30, 2024

Name of Company	Japan Business Systems, Inc.
Stock exchange	Standard Market of Tokyo Stock Exchange (Code: 5036)
URL	https://corp.jbs.co.jp/en
Representative	Yukihiro Makita, President & CEO
Contact	Kohei Katsuta, Director & CFO
TEL	+81-3-6778-7336

Scheduled date to submit Quarterly Securities Report	May 14, 2024
Scheduled date to commence dividend payments:	June 14, 2024
Preparation of supplementary material on quarterly financial results:	Yes

- Notes:
- The accompanying financial statements have been prepared in accordance with accounting principles and practices generally accepted in Japan.
 - Amounts are rounded down to the nearest million yen.

1. Consolidated financial highlights for the six months of the fiscal year ending September 30, 2024 (from October 1, 2023 to March 31, 2024)

(1) Consolidated operating results (cumulative)

Note: Percentages indicate changes from the same period of the previous fiscal year.

	Six months ended			
	March 31, 2023		March 31, 2024	
		%		%
Net sales (Millions of yen)	46,614	-	53,937	15.7
Operating profit (Millions of yen)	2,211	-	2,507	13.4
Ordinary profit (Millions of yen)	2,168	-	2,470	13.9
Profit attributable to owners of parent (Millions of yen)	1,430	-	370	(74.1)
Earnings per share (Yen):				
Basic	31.75		8.13	
Diluted	30.19		7.75	

- Notes:
- Comprehensive income
 - For the six months ended March 31, 2024: 412 million yen [(71.5%)]
 - For the six months ended March 31, 2023: 1,445 million yen [- %]
 - The Company is preparing quarterly consolidated financial statements from the first quarter of the fiscal year end September 30, 2023. Therefore, year-on-year changes for the second quarter of the fiscal year ended September 2023 are not shown.
 - On April 1, 2023, the Company executed a 2 for 1 split of its common stock. Earnings per share and diluted earnings per share have been calculated assuming that this stock split was conducted at the beginning of the previous fiscal year.

(2) Consolidated financial position

	As of	
	September 30, 2023	March 31, 2024
Total assets (Millions of yen)	49,608	53,404
Total net assets (Millions of yen)	22,221	22,180
Equity ratio (%)	44.8	41.5
Equity:	22,180 million yen (as of March 31, 2024)	22,221 million yen (as of September 30, 2023)

2. Cash dividends

	Year ended		Year ending
	September 30, 2023	September 30, 2024	September 30, 2024
1Q-end dividends per share (Yen)	-	-	
2Q-end dividends per share (Yen)	20.00	12.00	
3Q-end dividends per share (Yen)	-		-
Year-end dividends per share (Yen)	10.00		13.00
Annual dividends per share (Yen)	-		25.00

Notes: 1. Revisions to the forecasts of cash dividends most recently announced: None
 2. On April 1, 2023, the Company executed a 2 for 1 split of its common stock. The year-end dividend per share for the fiscal year ending September 30, 2023 is the amount that takes into account the impact of the stock split, and the total annual dividend is indicated as "-". Without taking into account the stock split, the year-end dividend per share for the fiscal year ending September 30, 2023 will be 20.00 yen, and the annual dividend per share will be 40.00 yen.

3. Consolidated financial forecasts for the fiscal year ending September 30, 2024 (from October 1, 2023 to September 30, 2024)

	Year ending	
	September 30, 2024	%
Net sales (Millions of yen)	126,800	12.4
Operating income (Millions of yen)	5,100	21.6
Ordinary income (Millions of yen)	5,100	17.3
Profit attributable to owners of parent (Millions of yen)	1,500	(55.2)
Profit per share (Yen):	32.91	

Notes: Revisions to the financial forecasts most recently announced: Yes
 Refer to "Notice of Recording of Extraordinary Loss (Goodwill Impairment Loss) and Revision of Full-Year Earnings Forecasts" released today (May 14, 2024) for the revision of the consolidated earnings forecast.

4. Notes

(1) Changes in significant subsidiaries during the three months under review (changes in specified subsidiaries resulting in the change in scope of consolidation): No

(2) Application of special accounting in preparing consolidated quarterly financial statements: Yes

Note: Details are described in "2. Quarterly Consolidated Financial Statements and Main Notes - (4) Notes to Quarterly Consolidated Financial Statements (Application of special accounting in preparing consolidated quarterly financial statements)" on page 10 of the attached document.

(3) Changes to accounting policy, changes/restatements to accounting estimates

- | | |
|---|------|
| 1) Changes in accounting policy due to revision of accounting standards, etc. | : No |
| 2) Changes in accounting policy other than number 1 above | : No |
| 3) Changes in accounting estimates | : No |
| 4) Restatement | : No |

(2) Number of shares issued and outstanding (common stock)

1) Number of shares issued at the end of the period (including treasury stock)

As of May 31, 2024 : 48,366,400 shares

As of September 30, 2023 : 48,366,400 shares

2) Number of treasury stock shares at end of period

As of May 31, 2024 : 2,784,385 shares

As of September 30, 2023 : 2,794,679 shares

3) Average number of shares during the period

As of May 31, 2024 : 45,576,425 shares

As of May 31, 2023 : 45,053,822 shares

Note: On April 1, 2023, the Company conducted a stock split at a ratio of 2 shares to 1 share of common stock. The average number of shares during the period are calculated assuming that the stock split was conducted at the beginning of the previous fiscal year.

* Quarterly earnings reports are not subject to quarterly reviews by certified public accountants or audit firms

* Explanation regarding the appropriate use of business forecasts and other special notes

The forward-looking statements in this document, including business outlooks, are based on information currently available to the Company and certain assumptions deemed reasonable by the Company. These statements are not a promise that the Company will achieve them. Furthermore, actual results may differ significantly due to various factors. For the conditions forming the assumptions for the business forecasts and notes regarding the use of business forecasts, please refer to "Explanation about the future outlook, including forecast for consolidated earnings" on page 5.

Supplementary materials for the quarterly financial results will be posted on the Company's website.

1. Overview of Business Results, etc.

Any forward-looking statements in the following information are based on judgments as of the end of the first quarter of the consolidated fiscal year under review.

(1) Summary of Business Results for the Current Period

During the second quarter of the current fiscal year (October 1, 2023 to March 31, 2024), the Japanese economy continued its moderate recovery, with improved employment and income conditions and increased inbound demand, despite price hikes due to soaring energy and raw material prices and foreign exchange movements due to interest rate fluctuations.

In this economic environment, the domestic IT market saw companies across a wide range of industries remain eager to invest in digital transformation (DX), and demand for IT investment to support digitalization to improve productivity, enhance competitiveness, and reduce costs remained firm. Furthermore, with the accelerating development competition among cloud vendors and manufacturers for generative AI, and with Microsoft and other manufacturers aggressively investing in Japan, cloud technology and cloud services will likely be increasingly used in a variety of fields.

In this environment, the JBS Group has expanded its businesses by dealing directly with major enterprises, leveraging its strengths in the provision of a comprehensive range of solutions from designing value to construction and promoting utilization in the continually expanding public cloud market, particularly involving Microsoft products. In particular, we are focusing on support in security and generative AI, where customer needs are strong, and have begun offering new services in each of these areas.

In security, in addition to expanding the service lineup of JBS SOC, a security monitoring service released in October 2023, we began offering Cloud Security Assessment for Microsoft 365 in February 2024 in collaboration with GLOBAL SECURITY EXPERTS Inc. We will continue to strengthen our support for zero-trust in the cloud-native era.

In generated AI, we have started to provide implementation and adoption support services to our customers to keep pace with the market launch of Microsoft Copilot for Microsoft365 by Microsoft Corporation in November 2023. In addition, in order to strengthen our knowledge of generative AI, we have begun company-wide implementation of Microsoft Copilot for Microsoft 365, the first of its kind in Japan in the IT services industry, ahead of other companies, and will utilize the data collected and analyzed for in-house utilization to develop and support future service offerings.

As a result, business results for the second quarter under review recorded net sales of 53,937 million yen (up 15.7% year-on-year), operating profit of 2,507 million yen (up 13.4% year-on-year), ordinary profit of 2,470 million yen (up 13.9% year-on-year). On the other hands, profit attributable to owners of parent decreased by 74.1% year-on-year to 370 million yen due to a record of goodwill impairment loss concerning to our consolidated subsidiary, NEXTSCAPE Inc.

Operating results by segment (net sales exclude intersegment sales or transfers) are as follows.

(Cloud integration business)

During the second quarter under review, sales expanded due to an increase in projects backed by strong cloud demand. On the other hand, costs increased due to changes in delivery dates for some large projects and the lengthening of projects at NEXTSCAPE Inc., resulting in net sales of 11,633 million yen (up 7.6% year-on-year) and segment profit of 1,604 million yen (down 4.8% year-on-year).

(Cloud service business)

In the second quarter under review, net sales increased by 17.9% year-on-year to 9,036 million yen and segment profit increased by 36.0% year-on-year to 1,496 million yen, as a result of sales expansion through the acquisition of new clients and the expansion of contracts with existing clients, as well as an improved gross profit margin due to increased sales of in-house services such as managed services.

(Licenses and products business)

In the second quarter under review, up-selling and cross-selling of licenses to existing customers progressed due to the promotion of cloud utilization by clients, and sales of goods were strong, resulting in net sales of 33,261 million yen (up 18.3% year-on-year) and segment profit of 983 million yen (up 21.1% year-on-year).

(2) Summary of Financial Position in the Current Period

(Assets)

Current assets at the end of the second quarter accounting period under review increased by 2,976 million yen from the end of the previous fiscal year to 28,811 million yen. This was mainly due to an increase of 4,913 million yen in notes and accounts receivable - trade and contract assets, while cash and deposits decreased by 1,767 million yen. Fixed assets increased by 819 million yen from the end of the previous fiscal year to 24,593 million yen. This was mainly due to an increase in property, plant and equipment of 2,637 million yen and a decrease in intangible fixed assets of 1,899 million yen.

As a result, total assets increased by 3,795 million yen from the end of the previous fiscal year to 53,404 million yen.

(Liabilities)

Current liabilities at the end of the second quarter accounting period under review increased by 4,136 million yen from the end of the previous fiscal year to 21,322 million yen. This was mainly due to an increase of 5,050 million yen in accounts payable - trade. Fixed liabilities decreased by 300 million yen from the end of the previous fiscal year to 9,901 million yen. This was mainly due to a decrease of 319 million yen in long-term borrowings.

As a result, total liabilities increased by 3,836 million yen from the end of the previous fiscal year to 31,224 million yen.

(Net assets)

Total net assets at the end of the second quarter accounting period under review decreased by 40 million yen from the end of the previous fiscal year to 22,180 million yen. This was mainly due to a decrease of 85 million yen in earnings surplus.

As a result, the equity ratio was 41.5% (44.8% at the end of the previous fiscal year).

(3) Summary of cash flows for the current period

The balance of cash and cash equivalents (hereinafter, "Cash") at the end of the first six months under review decreased 1,767 million yen from the end of the previous fiscal year to 3,578 million yen.

This was due to a decrease of 1,695 million yen in total cash flows from operating activities, investing activities, and financing activities and a decrease of 71 million yen due to the effect of exchange rate change on cash and cash equivalents.

Cash flows in the first six months under review and major contributing factors are as follows.

(Cash flows from business activities)

Cash provided by operating activities increased by 1,583 million yen (decrease of 2,372 million yen in the same period of the previous year).

This was mainly due to an increase in trade payables of 5,050 million yen and impairment losses of 1,720 million yen, while there was an increase in trade receivables and contract assets of 4,294 million yen and a decrease in contract liabilities of 1,599 million yen.

(Cash flows from investing activities)

Cash provided by investing activities decreased by 2,356 million yen (decrease of 3,536 million yen in the same period of the previous year).

This was mainly due to a decrease of 2,210 million yen in purchase of property, plant and equipment and intangible assets, and a decrease of 73 million yen in purchase of investment securities.

(Cash flows from financing activities)

Cash provided by financing activities decreased by 922 million yen (increase of 1,605 million yen in the same period of the previous year).

This was mainly caused by a decrease due to a repayment of 769 million yen for long-term borrowings and 455 million yen in dividends paid, in contrast to an increase due to proceeds from long-term borrowings of 500 million yen.

(4) Future Outlook

As stated in the “Notice of Recording of Extraordinary Loss (Goodwill Impairment Loss) and Revision of Full-Year Earnings Forecasts” released today (May 14, 2024), the consolidated earnings forecast for the fiscal year ending September 30, 2024, we have recorded goodwill on the assumption of excess earning power at the time of acquisition of our consolidated subsidiary, NEXTSCAPE Inc. As a result of a review of the business plan, the Company has determined that achieving the initially projected earnings is unlikely and has recorded an extraordinary loss of 1,720 million yen (goodwill impairment loss) for the second quarter of the fiscal year ending September 30, 2024. Due to the extraordinary loss, we have revised the profit attributable to owners of parent in the consolidated full-year earnings forecast as follows.

The forecasts are based on information currently available and actual results may differ from these forecasts due to a variety of factors.

	Net sales	Operating profit	Ordinary profit	Profit attributable to owners of the parent company	Basic earnings per share
	Million yen	Million yen	Million yen	Million yen	yen
Previous forecast (A)	126,800	5,100	5,100	3,450	75.70
Revised forecast (B)	126,800	5,100	5,100	1,500	32.91
Change (B-A)	-	-	-	(1,950)	
Rate of change (%)	-	-	-	(56.5)	
(Reference) Actual result for the previous fiscal year ended September 30, 2023	112,800	4,192	4,349	3,350	73.96
Year-On-Year change (%)	12.4	21.6	17.3	(55.2)	

3. Consolidated financial statements and main notes

(1) Consolidated balance sheet

(Unit: Millions of yen)

	As of September 30, 2023	As of March 31, 2024
Assets		
Current assets		
Cash and deposits	5,345	3,578
Notes and accounts receivable - trade, and contract assets, net	15,904	20,818
Inventories	1,044	1,867
Other	3,558	2,550
Allowance for doubtful accounts	(17)	(3)
Total current assets	25,834	28,811
Non-current assets		
Property, plant and equipment		
Buildings (net)	7,486	8,099
Land	7,552	8,652
Other (net)	1,138	2,062
Total property, plant and equipment	16,177	18,815
Intangible fixed assets		
Goodwill	1,835	-
Other	443	378
Total intangible fixed assets	2,278	378
Investments and other assets		
Other	5,337	5,427
Allowance for doubtful accounts	(19)	(28)
Total investments and other assets	5,318	5,399
Total non-current assets	23,774	24,593
Total assets	49,608	53,404

(Unit: Millions of yen)

	As of September 30, 2023	As of March 31, 2024
Liabilities		
Current liabilities		
Accounts payable - trade	5,228	10,279
Short-term borrowings	1,500	1,300
Current portion of long-term borrowings	1,538	1,588
Income taxes payable	333	440
Provision for bonuses	1,790	1,612
Provision for loss on orders received	40	239
Other	6,752	5,862
Total current liabilities	17,185	21,322
Non-current liabilities		
Long-term borrowings	9,285	8,966
Provision for retirement benefits for directors (and other officers)	376	359
Provision for repairs	165	200
Other	374	375
Total Non-current liabilities	10,201	9,901
Total liabilities	27,387	31,224
Net assets		
Shareholder equity		
Share capital	539	539
Capital surplus	8,648	8,650
Retained earnings	13,089	13,004
Treasury shares	(298)	(297)
Total shareholders' equity	21,979	21,896
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	241	283
Total accumulated other comprehensive income	241	283
Share acquisition rights	0	0
Total net assets	22,221	22,180
Total liabilities and net assets	49,608	53,404

(2) Consolidated statements of income and consolidated statements of comprehensive income
Consolidated statements of income

(Unit: Millions of yen)

	Previous fiscal year (From October 1, 2022 to March 31, 2023)	Current fiscal year (From October 1, 2023 to March 31, 2024)
Net sales	46,614	53,937
Cost of sales	40,455	46,869
Gross profit	6,158	7,067
Selling, general and administrative expenses	3,947	4,560
Operating profit	2,211	2,507
Non-operating income		
Share of profit of entities accounted for using equity method	64	43
Surrender value of insurance policies	-	40
Other	56	34
Total non-operating income	121	119
Non-operating expenses		
Interest expenses	20	32
Foreign exchange losses	41	98
Other	101	25
Total non-operating expenses	163	156
Ordinary profit	2,168	2,470
Extraordinary profit		
Gain on sales of non-current assets	-	3
Gain on reversal of share acquisition rights	0	0
Total extraordinary profit	0	3
Extraordinary loss		
Impairment Loss	-	1,720
Other	2	0
Total extraordinary loss	2	1,720
Profit before income taxes	2,166	752
Income taxes	736	382
Profit	1,430	370
Profit attributable to non-controlling interests	-	-
Profit attributable to owners of parent	1,430	370

Consolidated statements of comprehensive income

(Unit: Millions of yen)

	Previous fiscal year (From October 1, 2022 to March 31, 2023)	Current fiscal year (From October 1, 2023 to March 31, 2024)
Profit (loss)	1,430	370
Other comprehensive income		
Valuation difference on available-for-sale securities	15	41
Total other comprehensive income	15	41
Comprehensive income	1,445	412
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	1,445	412
Comprehensive income attributable to non-controlling interests	-	-

(3) Consolidated Statements of Cash Flows

(Unit: Millions of yen)

	Previous fiscal year (From October 1, 2022 to March 31, 2023)	Current fiscal year (From October 1, 2023 to March 31, 2024)
Cash flows from operating activities		
Profit before income taxes	2,166	752
Depreciation	249	321
Impairment Loss	-	1,720
Amortization of goodwill	61	114
Increase (decrease) in provision for bonuses	(64)	(43)
Interest and dividend income	(3)	(6)
Interest expenses	20	32
Foreign exchange losses (gains)	49	69
Decrease (Increase) in trade receivables and contract assets	(5,401)	(4,294)
Decrease (increase) in inventories	261	(823)
Decrease (increase) in prepaid expenses	163	205
Decrease (increase) in accounts receivable - other	1,626	5,050
Increase (decrease) in accrued expenses	251	148
Increase (Decrease) in contract liabilities	(361)	(1,599)
Increase (decrease) in accrued consumption taxes	(203)	(125)
Other, net	180	219
Subtotal	(1,003)	1,741
Interest and dividends received	3	7
Interest paid	(21)	(32)
Surrender value of insurance policies	-	40
Income taxes refund (paid)	(1,350)	(174)
Net cash provided by (used in) operating activities	(2,372)	1,583
Cash flows from investing activities		
Purchase of property, plant and equipment and intangible assets	(919)	(2,210)
Purchase of investment securities	(246)	(73)
Proceeds from sale of investment securities	95	39
Purchase of shares of subsidiaries resulting in change in scope of consolidation	(2,576)	-
Payments of leasehold and guarantee deposits	(67)	(43)
Net decrease (increase) in short-term loans receivable	193	0
Other, net	(15)	(69)
Net cash provided by (used in) investing activities	(3,536)	(2,356)
Cash flows from financing activities		
Net increase (decrease) in short-term borrowings	-	(200)
Proceeds from long-term borrowings	2,800	500
Repayments of long-term borrowings	(479)	(769)
Dividends paid	(897)	(455)
Net decrease (increase) in treasury shares	181	2
Net cash provided by (used in) financing activities	1,605	(922)
Effect of exchange rate change on cash and cash equivalents	(21)	(71)
Net increase (decrease) in cash and cash equivalents	(4,325)	(1,767)
Cash and cash equivalents at beginning of period	7,569	5,345
Cash and cash equivalents at end of period	3,243	3,578

(4) Notes to consolidated quarterly financial statements

(Notes on going concern assumption)

Not applicable

(Notes in the case of material changes in shareholders' equity)

Not applicable

(Application of special accounting in preparing consolidated quarterly financial statements)

(Calculation of tax expenses)

Tax expenses are calculated by reasonably estimating the effective tax rate after applying tax effect accounting to quarterly net income before income taxes for the consolidated fiscal year including the consolidated cumulative second quarter under review, and then multiplying quarterly net income before income taxes by the estimated effective tax rate. However, if calculating tax expenses using the reasonably estimating the effective tax rate would result in extremely unreasonable results, the statutory effective tax rate is used.

(Segment information, etc.)

(Segment information)

Previous Fiscal year (From October 1, 2022 to March 31, 2023)

1. Information regarding amounts of net sales and profit/loss by reportable segment

(Million yen)

	Reportable segments			Segments total	Others *Note1	Adjustment *Note2	Total *Note3
	Cloud Integration Business	Cloud Service Business	License & Products Business				
Net sales							
Sales to external customers	10,816	7,666	28,124	46,606	7	-	46,614
Intersegment sales or transfers	7	7	-	14	-	(14)	-
Total	10,823	7,673	28,124	46,621	7	(14)	46,614
Segment profit	1,685	1,100	811	3,596	3	(1,389)	2,211

Note: 1. The "Other" category includes business segments not included in reportable segments; for example, real estate leasing.

2. The adjusted segment profit of (1,389 million yen) includes amortization of goodwill of (61 million yen) and corporate expenses of (1,328 million yen) that are not allocated to reportable segments. Corporate expenses are mainly general and administrative expenses that do not belong to reportable segments.

3. Segment profit is adjusted with operating profit on quarterly statements of income.

2. Information regarding impairment loss of non-current assets or regarding goodwill by reportable segment

(Material change in the goodwill amount)

With respect to the business combination with NEXTSCAPE Inc. conducted in the first quarter of the previous consolidated fiscal year, the amount of goodwill was tentatively calculated because the allocation of the acquisition cost had not been completed, but was finalized at the end of the previous consolidated fiscal year. No adjustment to the amount of goodwill occurred as a result of the finalization of this provisional accounting.

Company's Assets are not allocated to business segments.

Current Fiscal year (From October 1, 2023 to March 31, 2024)

1. Information regarding amounts of net sales and profit/loss by reportable segment

(Million yen)

	Reportable segments			Segments total	Others *Note1	Adjustment *Note2	Total *Note3
	Cloud Integration Business	Cloud Service Business	License & Products Business				
Net sales							
Sales to external customers	11,633	9,036	33,261	53,931	6	-	53,937
Intersegment sales or transfers	13	-	20	34	-	(34)	-
Total	11,646	9,036	33,282	53,965	6	(34)	53,937
Segment profit	1,604	1,496	983	4,083	3	(1,579)	2,507

Note: 1. The "Other" category includes business segments not included in reportable segments; for example, real estate leasing.

2. The adjusted segment profit of (1,579 million yen) includes amortization of goodwill of (114 million yen) and corporate expenses of (1,465 million yen) that are not allocated to reportable segments. Corporate expenses are mainly general and administrative expenses that do not belong to reportable segments.

3. Segment profit is adjusted with operating profit on quarterly statements of income.
2. Information regarding impairment loss of non-current assets or regarding goodwill by reportable segment
(Material change in the goodwill amount)
Goodwill decreased by 1,720 million yen in the second quarter of the current fiscal year due to the recording of an impairment loss on goodwill.
Company's Assets are not allocated to business segments.