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Consolidated Financial Results for the Three Months Ended June 30, 2023 (Under IFRS)



July 28, 2023

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 Listing: Tokyo Stock Exchange
 Securities code: 2327
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 Scheduled date of filing quarterly securities report: August 4, 2023
 Scheduled date of commencing dividend payments: –
 Preparation of supplementary material on quarterly financial results: Yes
 Holding of quarterly financial results briefing: Yes (for analysts)

(Amounts of less than one million yen are rounded down.)

1. Consolidated Financial Results for the Three Months Ended June 30, 2023 (April 1, 2023 to June 30, 2023)

(1) Consolidated Operating Results (cumulative) (% indicates changes from the previous corresponding period.)

	Revenue		Operating profit		Profit before tax		Profit attributable to owners of parent	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
Three months ended June 30, 2023	68,773	5.6	6,581	1.5	6,875	3.4	4,022	(7.6)
June 30, 2022	65,132	(0.6)	6,484	(11.9)	6,652	(12.7)	4,352	(8.4)

	Total comprehensive income		Basic earnings per share	Diluted earnings per share
	Million yen	%	Yen	Yen
Three months ended June 30, 2023	10,015	–	43.97	–
June 30, 2022	(5,784)	–	47.57	–

(2) Consolidated Financial Position

	Total assets	Total equity	Equity attributable to owners of parent	Ratio of equity attributable to owners of parent to total assets
	Million yen	Million yen	Million yen	%
As of June 30, 2023	325,638	213,841	206,654	63.5
March 31, 2023	319,908	207,800	200,523	62.7

2. Cash Dividends

	Annual dividends				
	1st quarter-end	2nd quarter-end	3rd quarter-end	Year-end	Total
Fiscal year ended March 31, 2023	Yen –	Yen 35.00	Yen –	Yen 40.00	Yen 75.00
Fiscal year ending March 31, 2024	–				
Fiscal year ending March 31, 2024 (Forecast)		40.00	–	40.00	80.00

(Note) Revision to the forecast for dividends announced most recently: None

3. Consolidated Financial Results Forecast for the Fiscal Year Ending March 31, 2024 (April 1, 2023 to March 31, 2024)

(% indicates changes from the previous corresponding period.)

	Revenue		Operating profit		Profit before tax		Profit attributable to owners of parent		Basic earnings per share
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen
First half	140,000	3.9	14,000	(0.0)	14,300	0.4	9,400	0.0	102.75
Full year	305,000	4.6	33,500	5.5	34,000	5.9	22,800	3.6	249.22

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

*** Notes:**

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

(2) Changes in accounting policies and changes in accounting estimates

1) Changes in accounting policies required by IFRS: None

2) Changes in accounting policies other than 1) above: None

3) Changes in accounting estimates: None

(3) Total number of issued shares (common stock)

1) Total number of issued shares at the end of the period (including treasury shares):

As of June 30, 2023: 91,501,000 shares

As of March 31, 2023: 91,501,000 shares

2) Total number of treasury shares at the end of the period:

As of June 30, 2023: 18,091 shares

As of March 31, 2023: 4,845 shares

3) Average number of shares outstanding during the period:

Three months ended June 30, 2023: 91,487,671 shares

Three months ended June 30, 2022: 91,492,073 shares

* This quarterly consolidated financial results report is exempt from the quarterly review conducted by certified public accountants or an audit corporation.

* Explanation of the proper use of financial results forecast and other notes

- The forecasts stated above are based on information available as of the date of publication of this document. Actual results may differ from these forecasts due to a wide range of factors hereafter.

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1. Qualitative Information on Quarterly Financial Results

(1) Operating Results

Analysis of operating results

Japan saw signs of a mild economic recovery during the three months ended June 30, 2023, but the outlook remains uncertain. There is a risk of a slowdown in the Japanese economy as it faces downward pressure from the downturn of overseas economies mainly due to global monetary tightening. In addition, close attention should be paid to the impact of rising prices, supply-side constraints, and fluctuations in financial markets.

Corporate earnings have generally improved, and the system investment by client companies has increased moderately.

Based on the Medium-term Business Strategy 2021–2025 published in April 2021, NS Solutions Corporation (hereinafter, the “Company,” and the Company and its subsidiaries are collectively referred to as the “Group”) defined four focus areas for business growth: digital transformation (DX) in the manufacturing industry, digital platformer, digital workplace solutions, and IT outsourcing. We are endeavoring to expand our business by capturing customer needs for DX to the greatest extent possible.

As part of our efforts to promote customers’ DX, the Company has introduced an “AI-powered demand forecasting system” to improve the efficiency and sophistication of demand forecasting operations for beverage companies’ manufacturing and shipping process. Also, for educational institutions, the Company has started offering “CampusSquare S Edition” as a subscription service for the “CampusSquare” an administrative work system for universities and colleges, which has been provided to more than 100 schools nationwide since 1995. Moreover, as part of our efforts towards growth, the Company entered a business alliance with AI startup company ExaWizards Inc. in May of this year and is working to expand its business area and strengthen its execution capabilities through sales and provision of the commercial products of ExaWizards Inc. and provision of consulting services for promotion of customers’ DX.

In addition, our virtual desktop service “M³DaaS@absonne” ranked first in the “DaaS market share” for the 10th consecutive year (referencing from Fuji Chimera Research Institute, Inc., “2023 Current Trends and Future Prospects of Cloud Computing”) and the cumulative number of documents registered on “CONTRACTHUB,” an electronic transaction and contract service, exceeded 30 million at the end of April 2023. We are striving for growth in our focus areas.

To promote sustainability management, we have organized our value creation process based on our goals to achieve the purpose of our existence in society, defined five material issues, and are working to address them. The Company has been committed to fostering a corporate culture in which everyone can work with vigor and enthusiasm, including the promotion of D&I. Continuing from the last year, the Company supported and co-sponsored “TOKYO RAINBOW PRIDE 2023” and is engaged in various business activities from an ESG perspective to create a prosperous society. As a result of these efforts, the Company was selected again as an index component of the FTSE4Good Index Series, FTSE Blossom of Japan Index, and FTSE Blossom Japan Sector Relative Index, which are ESG investment benchmarks.

Revenue for the three months ended June 30, 2023 amounted to 68,773 million yen, an increase of 3,640 million yen compared to 65,132 million yen for the same period of the previous fiscal year. This was due to higher sales of Internet platformer-related business and increased sales to major banks and Nippon Steel Corporation. Operating profit amounted to 6,581 million yen, an increase of 96 million yen compared to 6,484 million yen for the same period of the previous fiscal year due to a rise in selling, general and administrative expenses resulting from the accelerated implementation of sales capability enhancement and internal infrastructure improvement, despite an increased gross profit including an improved gross profit margin.

(2) Financial Position

1) Analysis of financial position

Total assets at the end of the three months ended June 30, 2023 amounted to 325,638 million yen, an increase of 5,730 million yen compared to 319,908 million yen at the end of the previous fiscal year. This was mainly due to increases of 11,007 million yen in cash and cash equivalents, 9,374 million yen in inventories, 5,490 million yen in contract assets, and 4,733 million yen in other financial assets, partly offset by a decrease of 24,329 million yen in trade and other receivables.

Total liabilities at the end of the three months ended June 30, 2023 amounted to 111,797 million yen, a decrease of 310 million yen compared to 112,108 million yen at the end of the previous fiscal year. This was mainly due to decreases of 5,535 million yen in bonus payable included in other current liabilities, 3,493 million yen in trade and other payables, and 3,271 million yen in income taxes payable, partly offset by an increase of 12,262 million yen in contract liabilities.

Total equity at the end of the three months ended June 30, 2023 amounted to 213,841 million yen, an increase of 6,040 million yen compared to 207,800 million yen at the end of the previous fiscal year. The breakdown mainly includes 4,195 million yen of profit, 5,819 million yen of other comprehensive income, minus 3,659 million yen of dividends paid, and minus 51 million yen of purchase of treasury shares. As a result, the ratio of equity attributable to owners of parent to total assets was 63.5%.

2) Cash flows

Statement of cash flows

The balance of cash and cash equivalents at the end of the three months June 30, 2023 was 112,330 million yen. Net increase in cash and cash equivalents for the first quarter of the current fiscal year was 11,007 million yen, compared to a net decrease of 490 million yen for the same period of the previous fiscal year. Cash flows by activity type are as follows.

i) Cash flows from operating activities

Cash flows from operating activities for the three months ended June 30, 2022 resulted in a cash inflow of 6,477 million yen. This mainly consists of 6,652 million yen of profit before tax and 3,102 million yen of depreciation and amortization, a 14,733 million yen decrease in trade and other receivables, a 3,100 million yen increase in contract assets, and a 6,470 million yen increase in inventories, partly offset by a 6,152 million yen increase in trade and other payables, a 5,142 million yen decrease in bonus payable, and income taxes paid of 6,185 million yen. On the other hand, cash flows from operating activities for the three months ended June 30, 2023 resulted in a cash inflow of 14,275 million yen. This mainly consists of 6,875 million yen of profit before tax and 3,022 million yen of depreciation and amortization, a 23,450 million yen decrease in trade and other receivables, a 5,483 million yen increase in contract assets, and a 9,356 million yen increase in inventories, partly offset by a 11,237 million yen increase in trade and other payables, a 5,536 million yen decrease in bonus payable, and income taxes paid of 6,525 million yen.

ii) Cash flows from investing activities

Cash flows from investing activities for the three months ended June 30, 2022 resulted in a cash outflow of 1,507 million yen. This mainly consists of 2,229 million yen of purchase of other financial assets and 1,253 million yen of purchase of property, plant and equipment, and intangible assets, partly offset by 2,036 million yen of proceeds from sale and redemption of other financial assets. On the other hand, cash flows from investing activities for the three months ended June 30, 2023 resulted in a cash inflow of 2,604 million yen. This mainly consists of 4,632 million yen of proceeds from sale and redemption of other financial

assets, partly offset by 1,142 million yen of purchase of other financial assets and 1,130 million yen of purchase of property, plant and equipment, and intangible assets.

iii) Cash flows from financing activities

Cash flows from financing activities for the three months ended June 30, 2022 resulted in a cash outflow of 5,592 million yen. This mainly consists of 3,294 million yen of dividends paid and 2,040 million yen of repayments of lease liabilities. On the other hand, cash flows from financing activities for the three months ended June 30, 2023 resulted in a cash outflow of 5,922 million yen. This mainly consists of 3,659 million yen of dividends paid and 1,947 million yen of repayments of lease liabilities.

Information on capital resources and liquidity of funds

i) Basic policy

The Group believes that it is important to continuously maintain and strengthen its competitiveness and increase its corporate value into the future.

Therefore, we seek to maintain sufficient internal reserves to prepare for capital requirements for business growth and business risks such as wide-area disasters. The capital requirements include those for initiatives to steadily capture evolving DX needs, continuously enhance high-value-added businesses and overall corporate value, further strengthen acquisition and training of excellent human resources, and conduct thorough internal controls and risk management. At the same time, regarding profit distribution, our basic policy is to implement appropriate and stable distribution of dividends to shareholders.

We aim for a consolidated dividend payout ratio of 30%, with a focus on returning profits to shareholders in line with consolidated performance.

ii) Capital requirements and financing

Major capital requirements of the Group include capital expenditures and operating expenses such as material costs, outsourcing costs, labor costs, overhead costs, and selling, general and administrative expenses. Those capital requirements are satisfied by own funds.

As for working capital on hand, the Company concentrates surplus funds from subsidiaries in the Company for centralized management by implementing the cash management system (CMS) and also having certain of its domestic subsidiaries implement the same system. Note that the Company's CMS is administered by Nippon Steel Corporation with 105,069 million yen deposited in the system as of June 30, 2023 being presented as part of cash and cash equivalents.

For unexpected capital requirements, the Company has overdraft arrangements with major banks and Nippon Steel Corporation, its parent company, to prepare for liquidity risks.

(3) Consolidated Financial Results Forecast and Other Forward-looking Information

No revisions have been made to the consolidated financial results forecast announced on April 28, 2023.

2. Condensed Quarterly Consolidated Financial Statements and Primary Notes

(1) Condensed Quarterly Consolidated Statements of Financial Position

(Millions of yen)

	As of March 31, 2023	As of June 30, 2023
Assets		
Current assets		
Cash and cash equivalents	101,322	112,330
Trade and other receivables	65,822	41,492
Contract assets	14,059	19,549
Inventories	21,526	30,901
Other financial assets	2,472	1,234
Other current assets	2,180	3,121
Total current assets	207,383	208,630
Non-current assets		
Property, plant and equipment	18,661	18,327
Right-of-use assets	24,939	23,658
Goodwill	2,923	2,923
Intangible assets	3,731	3,867
Investments accounted for using equity method	181	172
Other financial assets	58,132	64,103
Deferred tax assets	3,814	3,829
Other non-current assets	141	125
Total non-current assets	112,525	117,008
Total assets	319,908	325,638

(Millions of yen)

	As of March 31, 2023	As of June 30, 2023
Liabilities		
Current liabilities		
Trade and other payables	24,656	21,162
Contract liabilities	16,282	28,544
Lease liabilities	7,242	7,095
Other financial liabilities	1,145	3,926
Income taxes payable	6,445	3,173
Provisions	526	496
Other current liabilities	16,320	7,365
Total current liabilities	72,619	71,765
Non-current liabilities		
Lease liabilities	17,786	16,598
Other financial liabilities	216	106
Retirement benefit liability	10,944	11,102
Provisions	3,111	3,065
Deferred tax liabilities	3,352	5,082
Other non-current liabilities	4,077	4,078
Total non-current liabilities	39,489	40,032
Total liabilities	112,108	111,797
Equity		
Share capital	12,952	12,952
Capital surplus	9,951	9,951
Retained earnings	153,016	155,075
Treasury shares	(17)	(69)
Other components of equity	24,620	28,743
Total equity attributable to owners of parent	200,523	206,654
Non-controlling interests	7,277	7,187
Total equity	207,800	213,841
Total liabilities and equity	319,908	325,638

(2) Condensed Quarterly Consolidated Statements of Profit or Loss and Condensed Quarterly Consolidated Statements of Comprehensive Income

Condensed Quarterly Consolidated Statements of Profit or Loss

Three months ended June 30, 2022 and 2023

(Millions of yen)

	Three months ended June 30, 2022	Three months ended June 30, 2023
Revenue	65,132	68,773
Cost of sales	(50,360)	(52,653)
Gross profit	14,771	16,120
Selling, general and administrative expenses	(8,280)	(9,566)
Share of profit (loss) of investments accounted for using equity method	(9)	(8)
Other income	27	54
Other expenses	(24)	(18)
Operating profit	6,484	6,581
Finance income	283	322
Finance costs	(116)	(29)
Profit before tax	6,652	6,875
Income tax expense	(2,225)	(2,679)
Profit	4,426	4,195
Profit attributable to		
Owners of parent	4,352	4,022
Non-controlling interests	74	172
Earnings per share		
Basic earnings per share (yen)	47.57	43.97

Condensed Quarterly Consolidated Statements of Comprehensive Income

Three months ended June 30, 2022 and 2023

(Millions of yen)

	Three months ended June 30, 2022	Three months ended June 30, 2023
Profit	4,426	4,195
Other comprehensive income, net of tax effect		
Items that will not be reclassified to profit or loss		
Remeasurement of net defined benefit liability (asset)	(40)	(0)
Net change in fair value of equity instruments designated as measured at fair value through other comprehensive income	(10,345)	5,754
Total of items that will not be reclassified to profit or loss	(10,386)	5,754
Items that may be reclassified to profit or loss		
Exchange differences on translation of foreign operations	175	65
Total of items that may be reclassified to profit or loss	175	65
Total other comprehensive income, net of tax effect	(10,211)	5,819
Comprehensive income	(5,784)	10,015
Comprehensive income attributable to		
Owners of parent	(5,863)	9,841
Non-controlling interests	78	173
	(5,784)	10,015

(3) Condensed Quarterly Consolidated Statements of Changes in Equity

Three months ended June 30, 2022 (April 1, 2022 to June 30, 2022)

(Millions of yen)

	Equity attributable to owners of parent					
	Share capital	Capital surplus	Retained earnings	Treasury shares	Other components of equity	
					Net change in fair value of equity instruments designated as measured at fair value through other comprehensive income	Remeasurement of net defined benefit liability (asset)
Balance at beginning of period	12,952	9,950	134,844	(2)	39,892	–
Profit	–	–	4,352	–	–	–
Other comprehensive income	–	–	–	–	(10,345)	(40)
Comprehensive income	–	–	4,352	–	(10,345)	(40)
Dividends of surplus	–	–	(3,294)	–	–	–
Purchase of treasury shares	–	–	–	(49)	–	–
Transfer from other components of equity to retained earnings	–	–	621	–	(661)	40
Total transactions with owners	–	–	(2,672)	(49)	(661)	40
Balance at end of period	12,952	9,950	136,524	(52)	28,884	–

	Equity attributable to owners of parent			Non-controlling interests	Total equity
	Other components of equity		Total		
	Exchange differences on translation of foreign operations	Total			
Balance at beginning of period	193	40,086	197,831	6,738	204,569
Profit	–	–	4,352	74	4,426
Other comprehensive income	170	(10,215)	(10,215)	4	(10,211)
Comprehensive income	170	(10,215)	(5,863)	78	(5,784)
Dividends of surplus	–	–	(3,294)	(207)	(3,501)
Purchase of treasury shares	–	–	(49)	–	(49)
Transfer from other components of equity to retained earnings	–	(621)	–	–	–
Total transactions with owners	–	(621)	(3,343)	(207)	(3,551)
Balance at end of period	364	29,249	188,623	6,609	195,233

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

(Millions of yen)

	Equity attributable to owners of parent					
	Share capital	Capital surplus	Retained earnings	Treasury shares	Other components of equity	
					Net change in fair value of equity instruments designated as measured at fair value through other comprehensive income	Remeasurement of net defined benefit liability (asset)
Balance at beginning of period	12,952	9,951	153,016	(17)	24,159	–
Profit	–	–	4,022	–	–	–
Other comprehensive income	–	–	–	–	5,754	(0)
Comprehensive income	–	–	4,022	–	5,754	(0)
Dividends of surplus	–	–	(3,659)	–	–	–
Purchase of treasury shares	–	–	–	(51)	–	–
Transfer from other components of equity to retained earnings	–	–	1,696	–	(1,696)	0
Total transactions with owners	–	–	(1,963)	(51)	(1,696)	0
Balance at end of period	12,952	9,951	155,075	(69)	28,217	–

	Equity attributable to owners of parent			Non-controlling interests	Total equity
	Other components of equity		Total		
	Exchange differences on translation of foreign operations	Total			
Balance at beginning of period	460	24,620	200,523	7,277	207,800
Profit	–	–	4,022	172	4,195
Other comprehensive income	64	5,818	5,818	1	5,819
Comprehensive income	64	5,818	9,841	173	10,015
Dividends of surplus	–	–	(3,659)	(263)	(3,923)
Purchase of treasury shares	–	–	(51)	–	(51)
Transfer from other components of equity to retained earnings	–	(1,696)	–	–	–
Total transactions with owners	–	(1,696)	(3,711)	(263)	(3,974)
Balance at end of period	525	28,743	206,654	7,187	213,841

(4) Condensed Quarterly Consolidated Statements of Cash Flows

(Millions of yen)

	Three months ended June 30, 2022	Three months ended June 30, 2023
Cash flows from operating activities		
Profit before tax	6,652	6,875
Depreciation and amortization	3,102	3,022
Interest income	(62)	(65)
Dividend income	(172)	(160)
Interest expenses	27	21
Share of loss (profit) of investments accounted for using equity method	9	8
Decrease (increase) in trade and other receivables	14,733	23,450
Decrease (increase) in contract assets	(3,100)	(5,483)
Decrease (increase) in inventories	(6,470)	(9,356)
Increase (decrease) in trade and other payables	6,152	11,237
Increase (decrease) in bonus payable	(5,142)	(5,536)
Increase (decrease) in consumption tax payable etc.	(2,965)	(3,297)
Other	(312)	(123)
Subtotal	12,451	20,591
Interest received	75	70
Dividends received	163	160
Interest paid	(27)	(21)
Income taxes paid	(6,185)	(6,525)
Net cash provided by (used in) operating activities	6,477	14,275
Cash flows from investing activities		
Payments into time deposits	(43)	–
Proceeds from withdrawal of time deposits	–	252
Purchase of property, plant and equipment, and intangible assets	(1,253)	(1,130)
Purchase of other financial assets	(2,229)	(1,142)
Proceeds from sale and redemption of other financial assets	2,036	4,632
Other	(17)	(8)
Net cash provided by (used in) investing activities	(1,507)	2,604
Cash flows from financing activities		
Repayments of lease liabilities	(2,040)	(1,947)
Dividends paid	(3,294)	(3,659)
Dividends paid to non-controlling interests	(207)	(263)
Purchase of treasury shares	(49)	(51)
Net cash provided by (used in) financing activities	(5,592)	(5,922)
Effect of exchange rate changes on cash and cash equivalents	131	49
Net increase (decrease) in cash and cash equivalents	(490)	11,007
Cash and cash equivalents at beginning of period	95,706	101,322
Cash and cash equivalents at end of period	95,215	112,330

(5) Notes to Condensed Quarterly Consolidated Financial Statements

Going concern assumption

Not applicable.