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May 12, 2023

Consolidated Financial Results for the Six Months Ended March 31, 2023 (Under Japanese GAAP)

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 Listing: Tokyo Stock Exchange
 Securities code: 6050
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 Scheduled date to file quarterly securities report: May 12, 2023
 Scheduled date to commence dividend payments: -
 Preparation of supplementary material on quarterly financial results: Yes
 Holding of quarterly financial results briefing: Yes (for institutional investors and analysts)

(Yen amounts are rounded down to millions, unless otherwise noted.)

1. Consolidated financial results for the six months ended March 31, 2023 (from October 1, 2022 to March 31, 2023)

(1) Consolidated operating results (cumulative)

(Percentages indicate year-on-year changes.)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
Six months ended								
March 31, 2023	6,148	7.1	940	(20.5)	961	(22.2)	653	(32.3)
March 31, 2022	5,739	20.6	1,182	36.2	1,234	36.1	965	100.0

Note: Comprehensive income For the six months ended March 31, 2023: ¥650 million [(33.0%)]
 For the six months ended March 31, 2022: ¥970 million [101.0%]

	Basic earnings per share	Diluted earnings per share
	Yen	Yen
Six months ended		
March 31, 2023	65.18	-
March 31, 2022	96.25	-

Note: For the calculation of “Basic earnings per share” and “Diluted earnings per share,” the Company’s shares held by the Company’s Board Benefit Trust (BBT) are included in treasury shares, which are deducted from the average number of shares outstanding during the period.

(2) Consolidated financial position

	Total assets	Net assets	Equity-to-asset ratio
	Millions of yen	Millions of yen	%
As of			
March 31, 2023	8,732	6,889	78.9
September 30, 2022	8,414	6,482	77.0

Reference: Equity
 As of March 31, 2023: ¥6,889 million
 As of September 30, 2022: ¥6,482 million

2. Cash dividends

	Annual dividends per share				
	First quarter-end	Second quarter-end	Third quarter-end	Fiscal year-end	Total
	Yen	Yen	Yen	Yen	Yen
Fiscal year ended September 30, 2022	-	0.00	-	24.00	24.00
Fiscal year ending September 30, 2023	-	0.00			
Fiscal year ending September 30, 2023 (Forecast)			-	26.00	26.00

Note: Revisions to the forecast of cash dividends most recently announced: None

3. Forecasts of consolidated financial results for the fiscal year ending September 30, 2023 (from October 1, 2022 to September 30, 2023)

(Percentages indicate year-on-year changes.)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent		Basic earnings per share
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	yen
Full year	12,850	9.3	2,195	(3.4)	2,220	(4.1)	1,500	(11.2)	150.76

Note: Revisions to the forecast of consolidated financial results most recently announced: Yes

For revisions to the forecast of consolidated financial results, please refer to the “Notice on the Revision to the Forecast of the Full-Year Financial Results” announced today (May 9, 2023).

For the calculation of “Basic earnings per share,” the Company’s shares held by the Company’s Board Benefit Trust (BBT) are included in treasury shares, which are deducted from the average number of shares outstanding during the period.

* **Notes**

- (1) Changes in significant subsidiaries during the period (changes in specified subsidiaries resulting in the change in scope of consolidation): None
- (2) Adoption of accounting treatment specific to the preparation of quarterly consolidated financial statements: None
- (3) Changes in accounting policies, changes in accounting estimates, and restatement
- (i) Changes in accounting policies due to revisions to accounting standards and other regulations: None
 - (ii) Changes in accounting policies due to other reasons: None
 - (iii) Changes in accounting estimates: None
 - (iv) Restatement: None

(4) Number of issued shares (common shares)

- (i) Total number of issued shares at the end of the period (including treasury shares)

As of March 31, 2023	10,405,800 shares
As of September 30, 2022	10,405,800 shares

- (ii) Number of treasury shares at the end of the period

As of March 31, 2023	372,608 shares
As of September 30, 2022	372,608 shares

- (iii) Average number of shares outstanding during the period (cumulative from the beginning of the fiscal year)

Six months ended March 31, 2023	10,033,192 shares
Six months ended March 31, 2022	10,033,585 shares

Note 1: Total number of treasury shares at the end of the period includes the number of the Company's shares held by the Company's Board Benefit Trust (BBT). The number of treasury shares deducted in the calculation of Average number of shares during the period includes the number of the Company's shares held by Board Benefit Trust (BBT).

- * Quarterly financial results reports are exempt from quarterly reviews conducted by certified public accountants or an audit corporation.

- * Explanation regarding proper use of earnings forecasts, and other special matters

The results forecast and other forward-looking statements contained in this document are based on information currently available to the Company and certain assumptions deemed to be reasonable. Actual business results may differ materially from the forecast due to variety of factors. Please refer to "Explanation of Consolidated Earnings Forecasts and Other Forward-Looking Information" on page 7 of the Consolidated Financial Results for the Six Months Ended March 31, 2023 (Attachments) for the assumptions for earnings forecasts and notes on using earnings forecasts.

(Methods for obtaining supplementary material on quarterly financial results and the details of the quarterly financial results briefing)

The Company plans to hold a financial results briefing for institutional investors and analysts on Wednesday, May 24, 2023.

The financial results presentation material to be used on the said date will be posted on TDnet and the Company website in advance. The proceedings and presentation details of the financial results briefing will be posted on the Company website promptly after the briefing.

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1. Qualitative Information on Quarterly Financial Results

(1) Explanation of Operating Results

In the domestic Internet-related market surrounding the Group, video-watching, e-commerce (online shopping) services, and Fintech-related services are expanding, continuing on a growth trend.

In addition, with robust consumption behavior, including traveling and purchasing with the COVID-19 pandemic having settled down for the time being, companies are also actively placing advertisements. Amid such situation, demand for advertising screening services is growing as consumers increasingly show interest in the validity of what is advertised.

While various related services are expected to develop in the future with further advancement in the technological innovation of the Internet, Internet security issues are becoming more serious every year, such as growing security concerns associated with the establishment and expansion of remote work and the exposure of all things to the risk of a cyberattack due to the development of IoT^{*1}. The demand for security is increasing to ensure that all Internet users can use the Internet with a sense of security.

^{*1} Abbreviation for Internet of Things. A system of connecting various objects such as buildings, cars, and electronic equipment to servers and cloud services through a network to exchange information with each other.

Under this market environment, the Group, as a comprehensive Internet security company with the management philosophy “We Guard All,” has been providing high-quality and highly efficient one-stop security services based on the strength of its “AI-human hybrid” systems.

Against the backdrop of the above, during the six months ended March 31, 2023, net sales increased as customer support on the e-commerce websites, eKYC services^{*2}, which support identity authentication required in Fintech-related services, and advertising support businesses grew.

The Group also focused on capturing existing and new demand for vulnerability diagnosis services in the cyber security business, mainly from corporate customers whose fiscal year ends in March. This initiative also contributed to higher sales. On the other hand, despite the increase in net sales, profit decreased significantly year-on-year basis due to the impact of part of the costs for establishing the new Hakata Center and the low profitability of certain large-scale projects that had lasted until the six months ended March 31, 2023. The recording of the costs for establishing the Hakata Center has been completed, and earnings are improving for low-profit projects.

^{*2} Abbreviation for electronic Know Your Customer. A system for identity authentication completed online.

As a result, for the six months ended March 31, 2023, net sales were ¥6,148.126 million (up 7.1% year-on-year), operating profit was ¥940.202 million (down 20.5% year-on-year), ordinary profit was ¥961.296 million (down 22.2% year-on-year), and profit attributable to owners of parent was ¥653.955 million (down 32.3% year-on-year).

Segment information is not provided as the Group has a single segment. Business results by type of business are as follows:

(i) SNS related support

SNS related support provides post monitoring, customer support, and reputation research for various Internet services such as social web services.

The eKYC services expanded with the expansion of customer support on the e-commerce websites, which became established during the COVID-19 pandemic, and cashless payment amid the Fintech boom, as well as stricter identity authentication.

In collaboration with Fabeee, Inc., which is engaged in the DX promotion business, we also developed an integrated system that provides support ranging from corporate DX promotion to customer support operations.

As a result, net sales increased 8.6% year-on-year to ¥3,536.428 million.

(ii) Game related support

Game related support is mainly engaged in customer support and debugging services for social games.

Net sales decreased due to the impact of the domestic game market slowdown, which lacked opportunities for big-hit titles, despite significant growth in localization business at overseas game companies.

As a result, net sales decreased 9.8% year-on-year to ¥942.464 million.

(iii) Advertisement related support

Advertisement related support provides Internet advertising screening and outsourced administration services.

Orders for advertising screening projects remained steady owing to the track record of orders and steady execution of public office projects and accumulated know-how and knowledge. To respond promptly to the growing demand for agents for advertising screening, we also opened the new Hakata Center. The system has been strengthened to enable the provision of stable services in relation to the demand from the expanding digital advertising market by focusing on developing professional human resources.

As a result, net sales increased 20.6% year-on-year to ¥790.216 million.

(iv) Cyber security

In cyber security, we mainly provide WAF^{*3}, vulnerability diagnosis, and SOC^{*4} services.

In vulnerability diagnosis, we steadily captured increased demand, mainly from corporate customers whose fiscal year ends in March, and by combining the Group's resources (such as security services and technology, engineers, consulting sales, and customers), created a synergy that can respond to many kinds of demand and requests as a one-stop solution. Taking advantage of this, we steadily increased sales through deep marketing to existing customers and new customer development.

Furthermore, we launched a new service for our software-based WAF, loading an additional country filter function that enables easy control of overseas access while expanding OS support.

As a result, net sales increased 17.5% year-on-year to ¥404.606 million.

^{*3} Abbreviation for Web Application Firewall. A security product designed to protect websites by detecting and preventing attacks that exploit vulnerabilities in web applications.

^{*4} Abbreviation for Security Operation Center. A department or professional organization that monitors the IT infrastructure of a company or organization 24 hours a day, 365 days a year to analyze threats and provide advice.

(v) Other

We mainly provide debugging services for hardware.

Our wholly-owned subsidiary, EG Testing Services, Inc., was able to make steady progress in deep marketing to existing customers and new customer development, taking advantage of its long-standing know-how and track record of trust. As a result, net sales increased 7.8% year-on-year to ¥474.410 million.

(2) Explanation of Financial Position

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

(Assets)

The balance of current assets as of March 31, 2023 was ¥6,943.827 million, an increase of ¥433.782 million (or up 6.7%) from ¥6,510.045 million as of September 30, 2022.

This was mainly due to an increase of ¥80.201 million in cash and deposits, ¥241.984 million in accounts receivable - trade, and ¥109.104 million in other.

The balance of non-current assets as of March 31, 2023 was ¥1,788.771 million, a decrease of ¥115.226 million (or down 6.1%) from ¥1,903.997 million as of September 30, 2022.

This was mainly due to a decrease of ¥72.503 million in investments and other assets.

As a result, total assets as of March 31, 2023 were ¥8,732.598 million, up 3.8% from September 30, 2022.

(Liabilities)

The balance of liabilities as of March 31, 2023 was ¥1,843.581 million, a decrease of ¥87.700 million (or down 4.5%) from ¥1,931.282 million as of September 30, 2022.

This was mainly due to a decrease of ¥154.017 million in income taxes payable, despite an increase of ¥51.537 million in accounts payable - other.

(Net assets)

The balance of net assets as of March 31, 2023 was ¥6,889.016 million, an increase of ¥406.256 million (or up 6.3%) from ¥6,482.760 million as of September 30, 2022.

This was mainly due to the recording of ¥653.955 million in profit attributable to owners of parent, despite the payment of ¥245.399 million in dividends of surplus.

(ii) Status of cash flows

The balance of cash and cash equivalents (hereinafter, "cash") as of March 31, 2023 was ¥5,031.307 million, an increase of ¥80.201 million from ¥4,951.106 million in cash as of September 30, 2022. The status of each cash flow during the six months ended March 31, 2023 and the factors therefor are as follows.

(Cash flows from operating activities)

Net cash provided by operating activities was ¥381.496 million (compared with net cash provided of ¥651.159 million in the same quarter of the previous fiscal year).

This was mainly due to an increase of ¥242.399 million in trade receivables and ¥398.568 million in income tax paid, despite the recording of ¥961.467 million in profit before income taxes.

(Cash flows from investing activities)

Net cash used in investing activities was ¥60.246 million (compared with net cash used of ¥239.911 million in the same quarter of the previous fiscal year).

This was mainly due to the purchase of property, plant and equipment of ¥54.118 million and the purchase of intangible assets of ¥10.894 million.

(Cash flows from financing activities)

Net cash used in financing activities was ¥238.862 million (compared with net cash used of ¥138.535 million in the same quarter of the previous fiscal year).

This was mainly due to the expenditure of ¥238.862 million in dividends paid.

(3) Explanation of Consolidated Earnings Forecasts and Other Forward-Looking Information

We have revised the forecast of the full-year consolidated financial results announced on November 7, 2022. For details, please refer to the "Notice on the Revision to the Forecast of the Full-Year Financial Results" announced today (May 9, 2023).

2. Quarterly Consolidated Financial Statements and Key Notes

(1) Quarterly Consolidated Balance Sheet

(Thousands of yen)

	As of September 30, 2022	As of March 31, 2023
Assets		
Current assets		
Cash and deposits	4,951,106	5,031,307
Accounts receivable - trade	1,414,590	1,656,574
Work in process	4,704	7,196
Other	139,698	248,803
Allowance for doubtful accounts	(55)	(55)
Total current assets	6,510,045	6,943,827
Non-current assets		
Property, plant and equipment	602,737	622,761
Intangible assets		
Goodwill	481,269	433,142
Software	25,227	31,577
Other	168,079	147,108
Total intangible assets	674,576	611,829
Investments and other assets		
Leasehold and guarantee deposits	421,644	421,434
Other	374,330	301,848
Allowance for doubtful accounts	(169,292)	(169,103)
Total investments and other assets	626,682	554,179
Total non-current assets	1,903,997	1,788,771
Total assets	8,414,042	8,732,598
Liabilities		
Current liabilities		
Accounts payable - trade	6,326	4,777
Accounts payable - other	778,577	830,114
Accrued expenses	15,410	10,539
Income taxes payable	389,996	235,978
Accrued consumption taxes	176,675	234,383
Provision for bonuses	104,333	64,765
Other	133,607	147,496
Total current liabilities	1,604,927	1,528,056
Non-current liabilities		
Provision for share awards for directors (and other officers)	141,340	156,050
Long-term guarantee deposits	74,062	56,913
Other	110,951	102,562
Total non-current liabilities	326,354	315,525
Total liabilities	1,931,282	1,843,581
Net assets		
Shareholders' equity		
Share capital	364,280	364,280
Capital surplus	382,380	383,397
Retained earnings	6,348,617	6,757,173
Treasury shares	(639,298)	(639,298)
Total shareholders' equity	6,455,980	6,865,553
Accumulated other comprehensive income		
Foreign currency translation adjustment	26,779	23,463
Total accumulated other comprehensive income	26,779	23,463
Total net assets	6,482,760	6,889,016
Total liabilities and net assets	8,414,042	8,732,598

(2) Quarterly Consolidated Statements of Income and Quarterly Consolidated Statements of Comprehensive Income
(Quarterly Consolidated Statements of Income)
(Consolidated six-month period)

(Thousands of yen)

	Six months ended March 31, 2022 (From October 1, 2021 to March 31, 2022)	Six months ended March 31, 2023 (From October 1, 2022 to March 31, 2023)
Net sales	5,739,780	6,148,126
Cost of sales	3,825,174	4,439,451
Gross profit	1,914,606	1,708,675
Selling, general and administrative expenses	732,041	768,473
Operating profit	1,182,565	940,202
Non-operating income		
Subsidy income	43,893	20,548
Other	12,514	1,305
Total non-operating income	56,407	21,853
Non-operating expenses		
Interest expenses	4	-
Foreign exchange losses	4,035	506
Other	20	251
Total non-operating expenses	4,061	758
Ordinary profit	1,234,911	961,296
Extraordinary income		
Gain on sale of non-current assets	178	-
Reversal of allowance for doubtful accounts	-	188
Total extraordinary income	178	188
Extraordinary losses		
Loss on retirement of non-current assets	862	17
Fraud-related loss	11,200	-
Total extraordinary losses	12,062	17
Profit before income taxes	1,223,028	961,467
Income taxes - current	359,809	248,108
Income taxes - deferred	(102,481)	59,403
Total income taxes	257,328	307,512
Profit	965,700	653,955
Profit attributable to owners of parent	965,700	653,955

(Quarterly Consolidated Statements of Comprehensive Income)

(Consolidated six-month period)

(Thousands of yen)

	Six months ended March 31, 2022 (From October 1, 2021 to March 31, 2022)	Six months ended March 31, 2023 (From October 1, 2022 to March 31, 2023)
Profit	965,700	653,955
Other comprehensive income		
Foreign currency translation adjustment	5,209	(3,316)
Total other comprehensive income	5,209	(3,316)
Comprehensive income	970,910	650,638
Comprehensive income attributable to:		
Owners of parent	970,910	650,638

(3) Quarterly consolidated statement of cash flows

(Thousands of yen)

	Six months ended March 31, 2022 (From October 1, 2021 to March 31, 2022)	Six months ended March 31, 2023 (From October 1, 2022 to March 31, 2023)
Cash flows from operating activities		
Profit before income taxes	1,223,028	961,467
Depreciation	49,525	47,067
Amortization of goodwill	49,093	48,126
Depreciation and amortization on other	20,971	20,971
Interest and dividend income	(31)	(27)
Increase (decrease) in allowance for doubtful accounts	-	(188)
Interest expenses	4	-
Loss on retirement of non-current assets	862	17
Fraud-related loss	11,200	-
Decrease (increase) in trade receivables	(191,084)	(242,399)
Decrease (increase) in inventories	(2,602)	(2,493)
Increase (decrease) in trade payables	968	(1,334)
Increase (decrease) in provision for bonuses	14,629	(39,527)
Increase (decrease) in accounts payable - other	32,996	36,413
Increase (decrease) in accrued consumption taxes	(10,045)	57,751
Increase (decrease) in provision for share awards for directors (and other officers)	14,709	14,709
Other	(40,510)	(120,517)
Subtotal	1,173,715	780,037
Interest and dividends received	31	27
Interest paid	(4)	-
Income tax paid	(522,582)	(398,568)
Cash flows from operating activities	651,159	381,496
Cash flows from investing activities		
Purchase of property, plant and equipment	(152,550)	(54,118)
Purchase of intangible assets	(25,148)	(10,894)
Payments of guarantee deposits	(71,821)	(34,235)
Proceeds from refund of guarantee deposits	9,598	39,002
Other	10	-
Cash flows from investing activities	(239,911)	(60,246)
Cash flows from financing activities		
Repayments of lease liabilities	(340)	-
Dividends paid	(138,106)	(238,862)
Proceeds from disposal of treasury shares	87,207	-
Purchase of treasury shares	(87,295)	-
Cash flows from financing activities	(138,535)	(238,862)
Effect of exchange rate change on cash and cash equivalents	4,475	(2,186)
Net increase (decrease) in cash and cash equivalents	277,188	80,201
Cash and cash equivalents at beginning of period	3,693,310	4,951,106
Cash and cash equivalents at end of period	3,970,499	5,031,307

(4) Notes to Quarterly Consolidated Financial Statements

(Notes on Going Concern Assumptions)

Not applicable.

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

Not applicable.

(Notes on Significant Subsequent Events)

The Company has resolved to acquire its treasury stock at the Board of Directors meeting held on May 9, 2023, as per the provisions of Article 156 of the Companies Act as applied by replacing certain terms under the provisions of Article 165, paragraph (3) of the same Act.

1. Reason of acquisition of treasury stock

To enhance shareholder returns and capital efficiency, and to implement a flexible capital policy in response to changes in the business environment

2. Details of acquisition

(1) Kind of shares to acquire	Common stock of the Company
(2) Total number of shares to acquire	20,000 shares (up to (% of issued shares (not including treasury stock): 1.99%)
(3) Total acquisition cost	500 million yen (up to)
(4) Acquisition period	From May 10, 2023 to June 30, 2023
(5) Acquisition method	Market purchases based on the discretionary dealing contract regarding repurchase of own shares