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Consolidated Financial Results for the Six Months Ended September 30, 2023 [Japanese GAAP]



October 27, 2023

Company name: SYSTEM RESEARCH CO., LTD.

Stock exchange listing: Tokyo Stock Exchange

Code number: 3771

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Scheduled date of filing quarterly securities report: November 10, 2023

Scheduled date of commencing dividend payments: -

Availability of supplementary briefing materials on quarterly financial results: Available

Schedule of quarterly financial results briefing session: Scheduled (for investors and securities analysts)

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

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

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

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
Six months ended								
September 30, 2023	11,308	7.8	1,186	11.0	1,209	13.0	898	88.0
September 30, 2022	10,489	23.2	1,068	44.3	1,069	42.9	477	(6.5)

(Note) Comprehensive income: Six months ended September 30, 2023: ¥901 million [138.0%]
Six months ended September 30, 2022: ¥378 million [(24.9)%]

	Basic earnings per share	Diluted earnings per share
Six months ended	Yen	Yen
September 30, 2023	107.52	-
September 30, 2022	57.16	-

(2) Consolidated Financial Position

	Total assets	Net assets	Equity ratio
	Million yen	Million yen	%
As of September 30, 2023	14,335	9,451	65.8
As of March 31, 2023	14,181	9,135	64.3

(Reference) Equity: As of September 30, 2023: ¥9,437 million

As of March 31, 2023: ¥9,123 million

2. Dividends

	Annual dividends				
	1st quarter-end	2nd quarter-end	3rd quarter-end	Fiscal year-end	Total
	Yen	Yen	Yen	Yen	Yen
Fiscal year ended March 31, 2023	-	0.00	-	70.00	70.00
Fiscal year ending March 31, 2024	-	0.00			
Fiscal year ending March 31, 2024 (Forecast)			-	70.00	70.00

Note: Revisions to the forecast of cash dividends most recently announced: No

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.)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent		Basic earnings per share
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen
Full year	23,815	10.4	2,516	0.5	2,542	1.0	1,817	13.4	217.47

Note: Revisions to the financial result forecast most recently announced: No

* Notes:

(1) Changes in significant subsidiaries during the period : No

(2) Adoption of accounting treatment specific to the preparation of quarterly consolidated financial statements: Yes

(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: No

(ii) Changes in accounting policies due to other reasons: No

(iii) Changes in accounting estimates: No

(iv) Restatement: No

(4) Number of issued shares (common shares)

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

As of September 30, 2023: 8,360,000 shares

As of March 31, 2023: 8,360,000 shares

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

As of September 30, 2023: 2,042 shares

As of March 31, 2023: 2,008 shares

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

Six months ended September 30, 2023: 8,357,968 shares

Six months ended September 30, 2022: 8,358,037 shares

* These quarterly consolidated financial results are outside the scope of quarterly review by certified public accountants or audit firms.

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

(Notes on forward-looking statements, etc.)

The financial results forecast and other forward-looking statements herein are based on information currently available to the Company and certain assumptions that the Company deems reasonable, and the Company does not intend to guarantee that they will be achieved. In addition, actual results may differ significantly from these forecasts due to a wide range of factors. For the conditions assumed for the financial results forecast, precautions for the use of the financial results forecast, etc., please refer to “(3) Explanation of Consolidated Financial Results Forecasts and Other Forward-looking Information” on page 3 of the attachments.

(Access to supplementary briefing materials on quarterly financial results)

The Company will hold a quarterly financial results briefing session on Monday, November 13, 2023, for investors and securities analysts. The materials to be distributed at this session will be posted on the Company’s website on the same day.

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1. Qualitative information on quarterly financial results

(1) Explanation of Operating Results

During the six months ended September 30, 2023, the Japanese economy was on a moderate recovery trend, as consumer spending and capital investment picked up, thanks to the normalization of economic and social activities resulting from the easing of measures against COVID-19. Meanwhile, the impact of the rise in prices and global inflationary pressures brought by the prolonged surge in raw material and energy costs, and other factors on the domestic economy and corporate earnings remains uncertain.

In the information service industry, in which the Group operates, the industry's total net sales for August 2023 grew by 7.7% compared with a year earlier, marking a year-on-year increase for 17 months in a row, according to the Current Survey of Selected Service Industries released by the Ministry of Economy, Trade and Industry. Specifically, sales of "Software Ordered," the main segment, increased by 10.4% year on year, sales of "Software Products" decreased by 2.1% year on year, and "System Management on Commission" increased by 4.7% year on year. These results show that although the companies' IT investment demand remains strong, mainly for the renewal of corporate systems and digital transformation (DX), actual results differed depending on the type of operation.

In this business environment, for the six months ended September 30, 2023, net sales of SI Services Business were 4,279 million yen (an increase of 5.7% year on year), due to a steady IT investment demand from the automotive-related, electrical equipment manufacturing, wholesale and retail industries, the Company's major customer sectors. Net sales of the Software Development Business were 6,482 million yen (an increase of 7.9% year on year), as the Company stably secured continuing contracts with existing customers. Net sales of Software Products Business, which conducts businesses including sales of packaged software, were 180 million yen (an increase of 16.0% year on year) due to increased sales of Simplex, sales and customers management software for the mail order business, among other factors. Net sales of Merchandise Sales were 198 million yen (an increase of 7.2% year on year) due to the purchase and sale of personal computers and IT devices as well as software products, among other items. Net sales of Website Administration and Cloud Services (SaaS) in the other category were 167 million yen (an increase of 68.9% year on year), backed by increases in the number of new EC-mall shop openings and in merchandise value.

In terms of earnings, IT investment by client companies remained strong, and the Company successfully maintained a high operating rate of engineers. In addition, the Company received high-profit projects from its major customer sectors while also making efforts such as the risk management (PRM) activities, resulting in securing profit.

As a result, for the six months ended September 30 2023, net sales were 11,308 million yen (an increase of 7.8% year on year), with operating profit of 1,186 million yen (an increase of 11.0% year on year), ordinary profit of 1,209 million yen (an increase of 13.0% year on year), and profit attributable to owners of parent of 898 million yen (an increase of 88.0% year on year), on a consolidated basis.

(2) Explanation of Financial Position

1) Analysis of the status of assets, liabilities and net assets

Total assets as of September 30, 2023 increased by 153 million yen year on year to 14,335 million yen, due to an increase in other under property, plant and equipment, among other factors.

Liabilities as of September 30, 2023 decreased by 162 million yen year on year to 4,883 million yen, due to decreases in income taxes payable and provision for bonuses, among other factors, despite an increase in short-term borrowings.

Net assets as of September 30, 2023 increased by 315 million yen year on year to 9,451 million yen, due to an increase in retained earnings, among other factors, despite the payment of dividends from retained earnings.

2) Analysis of the status of cash flows

Cash and cash equivalents (hereinafter referred to as “cash”) as of September 30, 2023 amounted to 7,486 million yen, an increase of 150 million yen from 6,348 million yen as of March 31, 2023.

Cash flows from operating activities, investing activities, and financing activities and their major factors for the six months ended September 30, 2023 are as follows.

(Cash flows from operating activities)

Net cash provided by operating activities during the period under review amounted to 798 million yen (while net cash provided by operating activities during the same period of the previous fiscal year amounted to 437 million yen) due primarily to the effect of the factors contributing to an increase in cash, such as profit before income taxes of 1,209 million yen, more than offsetting the effect of the factors contributing to a decrease in cash, such as decreases of 227 million yen in provision for bonuses and of 395 million yen in income taxes paid.

(Cash flows from investing activities)

Net cash used in investing activities during the period under review amounted to 207 million yen (while net cash used in investing activities during the same period of the previous fiscal year amounted to 27 million yen) due primarily to the purchase of property, plant and equipment of 166 million yen, among other factors.

(Cash flows from financing activities)

Net cash used in financing activities during the period under review amounted to 439 million yen (while net cash used in financing activities during the same period of the previous fiscal year amounted to 375 million yen) due primarily to proceeds from long-term borrowings and short-term borrowings of 840 million yen, repayments of long-term borrowings and short-term borrowings of 694 million yen, and dividends paid of 585 million yen.

(3) Explanation of Consolidated Financial Results Forecasts and Other Forward-looking Information

No change has been made to the financial results forecasts for the six months ended September 30, 2023 and the full year ending March 31, 2024, announced on October 23, 2023.

2. Quarterly Consolidated Financial Statements and Principal Notes

(1) Quarterly Consolidated Balance Sheets

(Thousand yen)

	As of March 31, 2023	As of September 30, 2023
Assets		
Current assets		
Cash and deposits	7,371,297	7,521,771
Trade receivables and contract asset	4,420,921	4,304,216
Merchandise	2,948	3,271
Supplies	6,397	6,406
Other	102,975	91,375
Allowance for doubtful accounts	(427)	-
Total current assets	11,904,112	11,927,042
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	374,564	363,252
Land	746,460	746,460
Other, net	21,919	188,998
Total property, plant and equipment	1,142,943	1,298,711
Intangible assets		
Goodwill	245,754	212,986
Software	137,156	144,088
Other	6,941	8,056
Total intangible assets	389,852	365,131
Investments and other assets		
Other	744,851	744,613
Total investments and other assets	744,851	744,613
Total non-current assets	2,277,647	2,408,455
Total assets	14,181,759	14,335,498

(Thousand yen)

	As of March 31, 2023	As of September 30, 2023
Liabilities		
Current liabilities		
Accounts payable - trade	885,608	899,434
Short-term borrowings	-	176,000
Current portion of long-term borrowings	741,676	744,416
Income taxes payable	458,257	364,533
Provision for bonuses	1,130,038	902,203
Other	1,169,550	1,169,610
Total current liabilities	4,385,131	4,256,196
Non-current liabilities		
Long-term borrowings	661,036	627,722
Total non-current liabilities	661,036	627,722
Total liabilities	5,046,167	4,883,918
Net assets		
Shareholders' equity		
Share capital	550,150	550,150
Capital surplus	517,550	517,550
Retained earnings	8,050,238	8,363,848
Treasury shares	(1,252)	(1,333)
Total shareholders' equity	9,116,686	9,430,214
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	6,545	6,976
Total accumulated other comprehensive income	6,545	6,976
Non-controlling interests	12,360	14,388
Total net assets	9,135,592	9,451,579
Total liabilities and net assets	14,181,759	14,335,498

(2) Quarterly Consolidated Statements of Income and Comprehensive Income

Quarterly Consolidated Statements of Income

Six Months Ended September 30

(Thousand yen)

	For the six months ended September 30, 2022	For the six months ended September 30, 2023
Net sales	10,489,948	11,308,312
Cost of sales	8,278,697	8,788,047
Gross profit	2,211,250	2,520,264
Selling, general and administrative expenses	1,142,428	1,333,370
Operating profit	1,068,822	1,186,894
Non-operating income		
Interest income	7	9
Dividend income	330	-
Subsidy income	4,120	24,490
Other	667	2,003
Total non-operating income	5,125	26,502
Non-operating expenses		
Interest expenses	3,915	4,148
Other	185	3
Total non-operating expenses	4,100	4,152
Ordinary profit	1,069,847	1,209,245
Extraordinary income		
Gain on sale of investment securities	1,286	-
Total extraordinary income	1,286	-
Extraordinary losses		
Loss on retirement of non-current assets	1	58
Loss on termination of retirement benefit plan	363,811	-
Total extraordinary losses	363,813	58
Profit before income taxes	707,320	1,209,186
Income taxes	227,834	308,488
Profit	479,486	900,697
Profit attributable to non-controlling interests	1,706	2,028
Profit attributable to owners of parent	477,779	898,669

Quarterly Consolidated Statements of Comprehensive Income

Six Months Ended September 30

(Thousand yen)

	For the six months ended September 30, 2022	For the six months ended September 30, 2023
Profit	479,486	900,697
Other comprehensive income		
Valuation difference on available-for-sale securities	(899)	430
Remeasurements of defined benefit plans, net of tax	(100,102)	-
Total other comprehensive income	(101,002)	430
Comprehensive income	378,483	901,127
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	376,776	899,099
Comprehensive income attributable to non-controlling interests	1,706	2,028

(3) Quarterly Consolidated Statements of Cash Flows

(Thousand yen)

	For the six months ended September 30, 2022	For the six months ended September 30, 2023
Cash flows from operating activities		
Profit before income taxes	707,320	1,209,186
Depreciation	48,314	54,000
Amortization of goodwill	32,767	32,767
Loss on termination of retirement benefit plan	363,811	-
Increase (decrease) in provision for bonuses	(185,043)	(227,835)
Increase(decrease) for retirement benefits asset liability	(12,713)	-
Decrease (increase) in trade receivables	(56,676)	136,294
Decrease (increase) in inventories	(798)	(332)
Increase (decrease) in trade payables	33,521	18,398
Gain on sales of investment securities	(1,286)	-
Other, net	(100,860)	(24,547)
Subtotal	828,357	1,197,931
Income taxes paid	(387,323)	(395,613)
Other, net	(3,693)	(4,265)
Net cash provided by (used in) operating activities	437,340	798,052
Cash flows from investing activities		
Purchase of property, plant and equipment	(4,881)	(166,478)
Purchase of intangible assets	(36,676)	(41,385)
Proceeds from sale of investment securities	14,188	-
Other, net	10	-
Net cash provided by (used in) investing activities	(27,359)	(207,863)
Cash flows from financing activities		
Proceeds from short-term borrowings	440,000	440,000
Repayments of short-term borrowings	(264,000)	(264,000)
Proceeds from long-term borrowings	400,000	400,000
Repayments of long-term borrowings	(449,992)	(430,574)
Purchase of treasury shares	(98)	(81)
Dividends paid	(501,484)	(585,059)
Net cash provided by (used in) financing activities	(375,574)	(439,715)
Net increase (decrease) in cash and cash equivalents	34,405	150,474
Cash and cash equivalents at beginning of period	6,314,386	7,336,297
Cash and cash equivalents at end of period	6,348,792	7,486,771

(4) Notes to the Quarterly Consolidated Financial Statements

(Notes on going concern assumption)

There are no relevant matters.

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

There are no relevant matters.

(Accounting policies adopted specially for the preparation of quarterly consolidated financial statements)

(Calculation of tax expenses)

The Company reasonably estimates the effective tax rate after applying tax effect accounting to profit before income taxes for the fiscal year ending March 31, 2024, and multiplies profits before income taxes for the quarter by the estimated effective tax rate. However, if the estimated effective tax rate used to calculate tax expenses would be significantly unreasonable, the normal effective statutory tax rate is used.

3. Other

Status of Production, Receipt of Orders, and Sales

(1) Production

The amount of production by business category for the six months ended September 30, 2023 is as follows:

Business category	For the six months ended September 30, 2023	
	Amount of production (million yen)	Change from the previous corresponding period (%)
SI Services Business	4,279	105.7
Software Development Business	6,482	107.9
Software Products Business	180	116.0
Other	167	168.9
Total	11,110	107.8

(Note) Amounts are presented based on sales prices.

(2) Outsourcing

The amount of outsourcing by business category for the six months ended September 30, 2023 is as follows:

Business category	For the six months ended September 30, 2023	
	Amount of outsourcing (million yen)	Change from the previous corresponding period (%)
SI Services Business	1,677	104.9
Software Development Business	2,654	106.4
Software Products Business	40	172.3
Total	4,371	106.2

(3) Purchases

The amount of purchases by business category for the six months ended September 30, 2023 is as follows:

Business category	For the six months ended September 30, 2023	
	Amount of purchases (million yen)	Change from the previous corresponding period (%)
Merchandise Sales	160	103.3

(Note) Amounts are presented based on purchase prices.

(4) Receipt of Orders

The amount of orders received by business category for the six months ended September 30, 2023 is as follows:

Business category	For the six months ended September 30, 2023			
	Orders received (million yen)	Change from the previous corresponding period (%)	Backlog of orders (million yen)	Change from the previous corresponding period (%)
SI Services Business	4,957	108.9	2,658	106.4
Software Development Business	6,500	99.5	2,440	98.9
Software Products Business	171	124.2	95	114.0
Merchandise Sales	169	100.9	20	84.9
Total	11,798	103.6	5,214	102.8

(5) Sales

The amount of sales by business category for the six months ended September 30, 2023 is as follows:

Business category	For the six months ended September 30, 2023	
	Amount of sales (million yen)	Change from the previous corresponding period (%)
SI Services Business	4,279	105.7
Software Development Business	6,482	107.9
Software Products Business	180	116.0
Merchandise Sales	198	107.2
Other	167	168.9
Total	11,308	107.8

(Note) The amount of sales by major customer and the share of the sales in total sales are as follows:

Customer	For the six months ended September 30, 2022		For the six months ended September 30, 2023	
	Amount of sales (million yen)	Share (%)	Amount of sales (million yen)	Share (%)
TOYOTA SYSTEMS CORPORATION	1,499	14.2	1,742	15.4