



Consolidated Financial Results for the First Half of the Fiscal Year Ending January 31, 2024

September 8, 2023

Company Name: Computer Engineering & Consulting Ltd. Stock Listing: Tokyo Stock Exchange
 Stock Code: 9692 URL <https://www.cec-ltd.co.jp/en/>
 Representative: (Name) Takashi Himeno (Title) Representative Director & President
 Any Inquiry to: (Name) Yoshiyuki Nakamura (Title) General Manager, Accounting & Finance Division Tel.: +81-(0)46-252-4111
 Scheduled Date of Filing of Quarterly Report: September 11, 2023 Scheduled Date of Dividend Payments: September 29, 2023
 Supplemental Materials Prepared for Quarterly Financial Results: Yes
 Briefing Held for Quarterly Financial Results: Yes (For institutional investors and analysts)

(Figures are rounded down to nearest million yen.)

1. Consolidated Earnings for the First Half of the Fiscal Year Ending January 31, 2024 (February 1, 2023 to July 31, 2023)

(1) Consolidated Operating Results for the Six Months (Percentages indicate increase/decrease from the same period of the previous fiscal year.)

| | Net sales | | Operating income | | Ordinary income | | Net income attributable to owners of parent | |
|--------------------|-------------|------|------------------|--------|-----------------|--------|---|--------|
| | Million yen | % | Million yen | % | Million yen | % | Million yen | % |
| 2Q ended Jul. 2023 | 26,445 | 12.6 | 3,525 | 79.0 | 3,549 | 78.5 | 2,452 | (29.9) |
| 2Q ended Jul. 2022 | 23,478 | 4.6 | 1,969 | (11.3) | 1,988 | (11.6) | 3,495 | 127.5 |

(Note) Comprehensive income 2Q ended Jul. 2023 2,685 million yen (22.7%) 2Q ended Jul. 2022 3,476 million yen 85.9%

| | Net income per share | Diluted net income per share |
|--------------------|----------------------|------------------------------|
| | Yen | Yen |
| 2Q ended Jul. 2023 | 73.00 | 72.90 |
| 2Q ended Jul. 2022 | 101.09 | 100.62 |

(2) Consolidated Financial Position

| | Total assets | Net assets | Equity ratio |
|--------------------|--------------|-------------|--------------|
| | Million yen | Million yen | % |
| 2Q ended Jul. 2023 | 47,585 | 39,397 | 82.7 |
| FY ended Jan. 2023 | 46,333 | 37,379 | 80.5 |

(Reference) Total shareholders' equity 2Q ended Jul. 2023 39,370 million yen FY ended Jan. 2023 37,309 million yen

2. Dividends

| | Dividends per share | | | | |
|--------------------------------|---------------------|--------|--------|--------|-------|
| | 1Q-end | 2Q-end | 3Q-end | FY-end | Total |
| | Yen | Yen | Yen | Yen | Yen |
| FY ended Jan. 2023 | — | 25.00 | — | 20.00 | 45.00 |
| FY ending Jan. 2024 | — | 25.00 | | | |
| FY ending Jan. 2024 (Forecast) | | | — | 25.00 | 50.00 |

(Notes) 1. Adjustments from the dividend forecasts announced most recently: No

2. Breakdown of dividends at the end of the second quarter of the fiscal year ended January 31, 2023: Ordinary dividend 20.00 yen, special dividend 5.00 yen

3. Consolidated Earnings Forecasts for Fiscal Year Ending January 31, 2024 (February 1, 2023 to January 31, 2024)

(Percentages indicate increase/decrease from the previous fiscal year.)

| | Net sales | | Operating income | | Ordinary income | | Net income attributable to owners of parent | | Net income per share |
|-----------|-------------|-----|------------------|------|-----------------|------|---|--------|----------------------|
| | Million yen | % | Million yen | % | Million yen | % | Million yen | % | Yen |
| Full year | 52,000 | 7.9 | 6,070 | 38.8 | 6,100 | 38.2 | 4,200 | (18.9) | 124.98 |

(Note) Adjustments from the earnings forecasts announced most recently: Yes

*Notes

(1) Significant changes in subsidiaries during the first six months of the fiscal year ending January 31, 2024 (Transfer of particular subsidiaries following a change in the scope of consolidation): None

(2) Application of special accounting methods in the preparation of quarterly consolidated financial statements: None

(3) Changes in accounting rules, procedures, or method of presentation relating to the preparation of the consolidated financial statements:

1) Changes based on revision of accounting standards: Yes

2) Changes other than 1) above: None

3) Changes in accounting estimates: None

4) Restatements: None

(Note) For details, please refer to “(4) Notes to Quarterly Consolidated Financial Statements (Changes in accounting policies)” in “2. Quarterly Consolidated Financial Statements and Major Notes” on page 12 of the accompanying material of the quarterly report.

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

| | | | | |
|---|--------------------|-------------------|--------------------|-------------------|
| 1) Number of shares issued and outstanding (including treasury stock) | 2Q ended Jul. 2023 | 37,600,000 shares | FY ended Jan. 2023 | 37,600,000 shares |
| 2) Number of treasury stock | 2Q ended Jul. 2023 | 3,983,860 shares | FY ended Jan. 2023 | 4,032,960 shares |
| 3) Average number of shares for each period | 2Q ended Jul. 2023 | 33,593,353 shares | 2Q ended Jul. 2022 | 34,580,350 shares |

*The quarterly financial results are not subject to audit by certified public accountants or auditing firms.

*Proper use of forward-looking statements and cautionary statement

(Matters to be noted regarding statements about the future)

Forward-looking statements including earnings forecasts contained in this document are based on information currently available to the Company and certain assumptions deemed to be reasonable. Actual results may vary from forecasts due to a variety of factors.

For the conditions serving as assumptions underlying the earnings forecasts and notes on using the earnings forecasts, please see “Explanation on Consolidated Earnings Forecasts and Other Forward-Looking Information” on page 5 of the accompanying material of the quarterly report.

(Briefing for quarterly financial results and the method of obtaining supplementary briefing material on quarterly financial results)

The Company will hold a briefing for financial results for institutional investors and analysts on Wednesday, September 13, 2023 via livestreaming. The materials used in the briefing will be posted on our website. The video of the briefing for financial results is scheduled to be released on Friday, September 15.

Table of Contents for Accompanying Material

| | |
|--|----|
| 1. Qualitative Information on Quarterly Financial Results..... | 4 |
| (1) Explanation on Operating Results | 4 |
| (2) Explanation on Financial Position | 5 |
| (3) Explanation on Consolidated Earnings Forecasts and Other Forward-looking Information..... | 5 |
| 2. Quarterly Consolidated Financial Statements and Major Notes..... | 6 |
| (1) Quarterly Consolidated Balance Sheet..... | 6 |
| (2) Quarterly Consolidated Statement of Income and Quarterly Consolidated Statement of Comprehensive Income..... | 8 |
| Quarterly Consolidated Statement of Income | |
| First Six Months Ended July 31, 2023 | 8 |
| Quarterly Consolidated Statement of Comprehensive Income | |
| First Six Months Ended July 31, 2023 | 9 |
| (3) Quarterly Consolidated Statement of Cash Flows | 10 |
| (4) Notes to Quarterly Consolidated Financial Statements | 12 |
| (Notes to going concern assumption)..... | 12 |
| (Notes on substantial changes in the amount of shareholders' equity) | 12 |
| (Changes in accounting policies)..... | 12 |
| (Segment information, etc.)..... | 12 |
| 3. Others | 13 |
| Orders received and orders in hand | 13 |

1. Qualitative Information on Quarterly Financial Results

(1) Explanation on Operating Results

During the first six months of the fiscal year ending January 31, 2024 (from February 1, 2023 to July 31, 2023), the Japanese economy showed a moderate recovery as employment and income conditions improved. However, there is a risk of the Japanese economy declining due to downturns in overseas economies amid continued global monetary tightening. In addition, there is a need to closely monitor domestic price increases, fluctuations in financial and capital markets and other factors, and the future remains uncertain.

In the information service industry, DX-related investment continued to be strong owing to growing needs for operational reforms accompanied by system reforms to enhance productivity and competitiveness as well as for business models and business structure reforms. This happened even as companies were cautious in making decisions on business performance due to the impact of rising raw material prices and other factors caused by prolonged geopolitical risks. Furthermore, many companies are investing in security measures as a management issue in order to respond to the ever-growing sophistication of cyber-attacks, and demand for cyber security measures tends to remain high.

Under these circumstances, the CEC Group pursued its business under the basic policy of “strengthening business capabilities,” “strengthening human resources and technical capabilities,” and “strengthening management foundation.” This is based on its three-year medium-term management plan from the fiscal year ended January 2023 to the fiscal year ending January 2025, and has the aim of realizing “a sustainable society” and “the sustained growth of the CEC Group.” During the first six months ended July 31, 2023, we strived to strengthen sales of in-house products and services through making proposals that were in line with the priority investment fields of customers and concluding partnership agreements. In addition, in order to meet the strong demand for DX, we strengthened the recruitment of experienced personnel aimed at boosting medium-to-long-term strategies and introduced a new personnel system as well as improved employment terms. Further, in order to strengthen our technical capabilities, we set up recommended training and experience projects by level in order to refine the definition of a project manager, and promoted the acquisition of necessary skills. From the viewpoint of sustainability management, we expanded the scope of application of ISO14001 to major sites nationwide outside the Tokyo metropolitan area, and moved forward with our environmental initiatives.

As a result of these efforts, in the first six months ended July 31, 2023, net sales increased 2,967 million yen (12.6%) from the same period of the previous fiscal year to 26,445 million yen, thanks to the successful approach of making proposals on the use of ICT in line with the priority investment fields of main customers in both our focused business areas*¹ and our core business*². In terms of profits, operating income was 3,525 million yen, up 1,555 million yen (79.0%) from the same period of the previous fiscal year, and ordinary income was 3,549 million yen, up 1,560 million yen (78.5%) year on year. This was attributable to our continuous efforts to expand sales of in-house products and services and improve productivity, in addition to achieving higher profits on higher revenues. Net income attributable to owners of parent was 2,452 million yen, down 1,043 million yen (29.9%) from a year earlier due to the impact of the dissipation of gain on sale of investment securities recorded in the same period of the previous fiscal year.

*1 The Company defines its six focused business areas as:

(1) Production and logistics solutions, (2) Mobility services, (3) Services in cooperation with Microsoft Japan, (4) Migration services, (5) Security services, and (6) DX cloud platform.

*2 Core business: The Company defines its core business as the stable and foundation business that supports the Company, including commissioned development, which is our revenue base, provision of ICT infrastructure using data centers, construction and operations business, development of car-mounted and built-in devices, and verification business.

Operating results by segment are as follows.

(Digital Industry Business)

In mobility services, which is one of our focused business areas, big data and smartphone application development in the MaaS field performed well. Production and logistics solutions performed steadily in general, thanks to the growth in ICT solution projects for enhancing logistics efficiency, although performance was flat in the smart factory-related areas. In addition, in our nishinohon and chubu services of our core business, system development remained strong, against the backdrop of active ICT investment by customers in the manufacturing industry. As a result, net sales grew 792 million yen (9.6%) from the same period of the previous fiscal year to 9,052 million yen. In terms of profits, operating income came to 2,109 million yen, up 148 million yen (7.6%) from the same period of the previous fiscal year, due to higher profits in line with stronger sales.

(Service Integration Business)

Migration services, one of our focused businesses, performed well due to a growing trend in needs for migration services against the backdrop of DX promotion. Services in cooperation with Microsoft continued to be favorable as inquiries for business negotiations on CRM and Power Platform were brisk. In security services, performance was flat due to strong demand for our products, although there was some impact from a decline in stocking and sales. In the core business, the ICT infrastructure construction business performed well as the semiconductor supply system normalized on top of the completion of handling unprofitable projects. As a result, net sales grew 2,175 million yen (14.3%) from the same period of the previous fiscal year to 17,393 million yen. In terms of profits, operating income came to 3,524 million yen, up 1,457 million yen (70.5%) from the same period of the previous fiscal year, due to higher profits on higher sales as well as expanded sales of our products and services.

(2) Explanation on Financial Position

(Total assets)

Total assets as of the end of the second quarter were 47,585 million yen, an increase of 1,251 million yen from the end of the previous fiscal year. This was mainly due to an increase of 2,090 million yen in cash and deposits and a decrease of 660 million yen in notes and accounts receivable - trade, and contract assets.

(Liabilities)

Total liabilities as of the end of the second quarter amounted to 8,188 million yen, down 765 million yen from the end of the previous fiscal year. This was mainly due to a decrease of 433 million yen in allowance for loss on orders received and a decrease of 331 million yen in income taxes payable.

(Net assets)

Net assets as of the end of the second quarter were 39,397 million yen, an increase of 2,017 million yen from the end of the previous fiscal year. This was mainly due to an increase of 1,780 million yen in retained earnings and an increase of 223 million yen in remeasurements of defined benefit plans.

(Cash flows)

Cash and cash equivalents (hereinafter, "funds") as of the end of the second quarter of the current fiscal year were 25,382 million yen, an increase of 2,080 million yen from the end of the previous fiscal year.

1) Cash flows from operating activities

The increase in funds resulting from operating activities was 3,095 million yen (income increased by 1,364 million yen from the same period of the previous fiscal year). This was mainly due to profit before income taxes of 3,548 million yen.

2) Cash flows from investing activities

The decrease in funds resulting from investing activities was 332 million yen (income decreased by 2,503 million yen from the same period of the previous fiscal year). This was mainly due to an expense of 277 million yen for purchase of non-current assets.

3) Cash flows from financing activities

The decrease in funds resulting from financing activities was 685 million yen (expenses decreased by 1,639 million yen from the same period of the previous fiscal year). This was mainly due to the dividend payment amount of 672 million yen.

(3) Explanation on Consolidated Earnings Forecasts and Other Forward-looking Information

The CEC Group is promoting a medium-term management plan covering the three-year period from the fiscal year ended January 31, 2023 to the fiscal year ending January 31, 2025, with the fiscal year ending January 31, 2024 being the second year of the plan. Based on the three pillars of our basic policies of (1) strengthening business capabilities, (2) strengthening human resources and technical capabilities, and (3) strengthening the management foundation, we are striving to solve social and industrial issues through our business activities and continuously improve our corporate value. For the consolidated earnings forecasts for the full year of the fiscal year ending January 31, 2024, please refer to "Notice Concerning Differences between Consolidated Earnings Forecast Figures and Actual Figures for the First Half of Fiscal Year Ending January 31, 2024 and Adjustments to Full-Year Earnings Forecast" announced today.

* The forecast figures signify projections made based on currently available information and are not intended to guarantee the achievement of those projections by the Company. Actual results, etc. may differ from the forecast figures due to changes in business conditions and other factors.

2. Quarterly Consolidated Financial Statements and Major Notes

(1) Quarterly Consolidated Balance Sheet

(Unit: Thousands of yen)

| | Previous Fiscal Year (January 31, 2023) | First Half of the Current Fiscal Year (July 31, 2023) |
|--|--|---|
| Assets | | |
| Current assets | | |
| Cash and deposits | 23,302,042 | 25,392,460 |
| Notes and accounts receivable—trade, and contract assets | 10,103,576 | 9,443,571 |
| Product | 254,597 | 249,079 |
| Work in progress | 504,914 | 507,367 |
| Other accounts receivable | 32,350 | 15,884 |
| Others | 1,013,313 | 1,055,462 |
| Allowance for doubtful accounts | (2,067) | (1,336) |
| Total current assets | 35,208,727 | 36,662,490 |
| Non-current assets | | |
| Property, plant and equipment | | |
| Buildings and structures, net | 3,773,022 | 3,651,518 |
| Land | 2,004,644 | 2,004,644 |
| Other, net | 837,667 | 821,258 |
| Total property, plant and equipment | 6,615,333 | 6,477,420 |
| Intangible assets | | |
| Others | 258,067 | 241,669 |
| Total intangible assets | 258,067 | 241,669 |
| Investments and other assets | | |
| Others | 4,263,463 | 4,215,959 |
| Allowance for doubtful accounts | (11,909) | (11,909) |
| Total investments and other assets | 4,251,553 | 4,204,049 |
| Total non-current assets | 11,124,954 | 10,923,138 |
| Total assets | 46,333,682 | 47,585,629 |

(Unit: Thousands of yen)

| | Previous Fiscal Year (January 31, 2023) | First Half of the Current Fiscal Year (July 31, 2023) |
|---|--|---|
| Liabilities | | |
| Current liabilities | | |
| Accounts payable-trade | 2,251,585 | 2,003,306 |
| Short-term loans payable | 350,000 | 350,000 |
| Current portion of long-term loans payable | 13,600 | 13,800 |
| Income taxes payable | 965,599 | 633,727 |
| Allowance for bonuses | 585,623 | 670,042 |
| Provision for performance-linked compensation | — | 11,420 |
| Provision for stock-based compensation | — | 3,373 |
| Allowance for loss on orders received | 488,092 | 54,627 |
| Others | 3,656,595 | 3,778,942 |
| Total current liabilities | 8,311,096 | 7,519,239 |
| Non-current liabilities | | |
| Long-term loans payable | 13,800 | — |
| Long-term accounts payable-other | 22,120 | 22,120 |
| Provision for directors' retirement benefits | 19,064 | 12,750 |
| Net defined benefit liability | 106,227 | 110,317 |
| Asset retirement obligations | 481,579 | 487,424 |
| Others | 123 | 36,594 |
| Total non-current liabilities | 642,914 | 669,207 |
| Total liabilities | 8,954,010 | 8,188,447 |
| Net assets | | |
| Shareholders' equity | | |
| Capital stock | 6,586,000 | 6,586,000 |
| Capital surplus | 6,733,706 | 6,737,978 |
| Retained earnings | 27,105,988 | 28,886,952 |
| Treasury shares | (3,505,438) | (3,462,771) |
| Total shareholders' equity | 36,920,256 | 38,748,159 |
| Accumulated other comprehensive income | | |
| Valuation difference on available-for-sale securities | 371,132 | 375,667 |
| Foreign currency translation adjustment | 7,138 | 12,602 |
| Remeasurements of defined benefit plans | 10,713 | 234,351 |
| Total accumulated other comprehensive income | 388,983 | 622,621 |
| Subscription rights to shares | 70,431 | 26,401 |
| Total net assets | 37,379,671 | 39,397,182 |
| Total liabilities and net assets | 46,333,682 | 47,585,629 |

(2) Quarterly Consolidated Statement of Income and Quarterly Consolidated Statement of Comprehensive Income
(Quarterly Consolidated Statement of Income)
(First Six Months Ended July 31, 2023)

(Unit: Thousands of yen)

| | First Six Months of the Previous Fiscal Year (From February 1, 2022 to July 31, 2022) | First Six Months of the Current Fiscal Year (From February 1, 2023 to July 31, 2023) |
|--|--|---|
| Net sales | 23,478,472 | 26,445,979 |
| Cost of sales | 18,067,432 | 19,284,282 |
| Gross profit | 5,411,040 | 7,161,697 |
| Selling, general and administrative expenses | 3,441,407 | 3,636,163 |
| Operating income | 1,969,632 | 3,525,533 |
| Non-operating income | | |
| Interest income | 1,187 | 240 |
| Dividend received | 12,508 | 12,525 |
| Dividends from insurance | 12,849 | 7,953 |
| Others | 10,289 | 7,465 |
| Total non-operating income | 36,835 | 28,185 |
| Non-operating expenses | | |
| Interest expenses | 1,783 | 1,438 |
| Foreign exchange loss | 12,304 | 2,674 |
| Others | 3,871 | 226 |
| Total non-operating expenses | 17,959 | 4,340 |
| Ordinary income | 1,988,507 | 3,549,378 |
| Extraordinary income | | |
| Gain on sale of investment securities | 2,265,000 | — |
| Total extraordinary income | 2,265,000 | — |
| Extraordinary loss | | |
| Loss on retirement of non-current assets | 221 | 669 |
| Impairment loss | 704 | — |
| Total extraordinary loss | 925 | 669 |
| Profit before income taxes | 4,252,582 | 3,548,709 |
| Income taxes—current | 968,258 | 597,188 |
| Income taxes—deferred | (211,479) | 499,216 |
| Total income taxes | 756,779 | 1,096,404 |
| Net income | 3,495,802 | 2,452,304 |
| Net income attributable to owners of parent | 3,495,802 | 2,452,304 |

(Quarterly Consolidated Statement of Comprehensive Income)
(First Six Months Ended July 31, 2023)

(Unit: Thousands of yen)

| | First Six Months of the Previous Fiscal Year (From February 1, 2022 to July 31, 2022) | First Six Months of the Current Fiscal Year (From February 1, 2023 to July 31, 2023) |
|---|--|---|
| Net income | 3,495,802 | 2,452,304 |
| Other comprehensive income | | |
| Valuation difference on available-for-sale securities | 109,550 | 4,534 |
| Foreign currency translation adjustment | 14,219 | 5,464 |
| Remeasurements of defined benefit plans | (143,540) | 223,638 |
| Total other comprehensive income | (19,770) | 233,637 |
| Comprehensive income | 3,476,032 | 2,685,942 |
| (Comprehensive income attributable to) | | |
| Comprehensive income attributable to owners of parent | 3,476,032 | 2,685,942 |

(3) Quarterly Consolidated Statement of Cash Flows

(Unit: Thousands of yen)

| | First Six Months of the Previous Fiscal Year (From February 1, 2022 to July 31, 2022) | First Six Months of the Current Fiscal Year (From February 1, 2023 to July 31, 2023) |
|--|--|---|
| Cash flows from operating activities | | |
| Profit before income taxes | 4,252,582 | 3,548,709 |
| Depreciation | 375,239 | 324,735 |
| Impairment loss | 704 | — |
| Increase (decrease) in provision for bonuses | 82,840 | 83,887 |
| Increase (decrease) in provision for performance-linked compensation | — | 11,420 |
| Increase (decrease) in provision for stock-based compensation | — | 3,373 |
| Increase (decrease) in provision for loss on order received | (96,496) | (433,464) |
| Increase (decrease) in provision for directors' retirement benefits | 1,406 | (6,314) |
| Increase (decrease) in net defined benefit liability | 3,939 | 4,089 |
| Decrease (increase) in net defined benefit asset | (158,792) | (147,080) |
| Increase (decrease) in allowance for doubtful accounts | (2,006) | (731) |
| Interest and dividend income | (13,695) | (12,766) |
| Interest expenses | 1,783 | 1,438 |
| Loss on retirement of non-current assets | 221 | 669 |
| Loss (gain) on sale of investment securities | (2,265,000) | — |
| Increase (decrease) in contract liabilities | 507,848 | 24,671 |
| Decrease (increase) in notes and accounts receivable - trade | 992,228 | 661,123 |
| Decrease (increase) in inventories | 44,169 | 3,518 |
| Decrease (increase) in other accounts receivable | 43,761 | 16,465 |
| Decrease (increase) in other current assets | (517,807) | (48,935) |
| Increase (decrease) in notes and accounts payable - trade | (89,978) | (248,421) |
| Increase (decrease) in accrued consumption taxes | (179,471) | 55,257 |
| Increase (decrease) in accounts payable - other | 271,545 | 32,758 |
| Increase (decrease) in accrued expenses | (17,788) | 103,755 |
| Increase (decrease) in long-term accounts payable - other | (464,975) | — |
| Increase (decrease) in other current liabilities | 128,539 | (31,448) |
| Others | 195,844 | 64,332 |
| Subtotal | 3,096,643 | 4,011,043 |
| Interest and dividend income received | 13,695 | 12,765 |
| Interest expenses paid | (1,788) | (1,442) |
| Income taxes refund (paid) | (1,377,647) | (927,044) |
| Cash flows from operating activities | 1,730,902 | 3,095,322 |

(Unit: Thousands of yen)

| | First Six Months of the Previous Fiscal Year (From February 1, 2022 to July 31, 2022) | First Six Months of the Current Fiscal Year (From February 1, 2023 to July 31, 2023) |
|---|--|---|
| Cash flows from investing activities | | |
| Payments into time deposits | — | (9,625) |
| Purchase of non-current assets | (594,534) | (277,485) |
| Proceeds from sale of non-current assets | — | 60 |
| Payments for asset retirement obligations | (549) | (721) |
| Payments for lease and guarantee deposits | (34,025) | (5,234) |
| Proceeds from collection of lease and guarantee deposits | 4,122 | 10,125 |
| Purchase of investment securities | — | (50,000) |
| Proceeds from sale of investment securities | 2,295,200 | — |
| Proceeds from redemption of investment securities | 500,000 | — |
| Cash flows from investing activities | 2,170,212 | (332,879) |
| Cash flows from financing activities | | |
| Repayment of long-term loans payable | (13,600) | (13,600) |
| Purchase of treasury shares | (1,611,616) | — |
| Dividend payment amount | (700,319) | (672,153) |
| Proceeds from exercise of employee share options | 218 | 49 |
| Cash flows from financing activities | (2,325,317) | (685,703) |
| Effect of exchange rate change on cash and cash equivalents | 8,748 | 3,859 |
| Net increase (decrease) in cash and cash equivalents | 1,584,546 | 2,080,598 |
| Cash and cash equivalents at the beginning of period | 22,430,915 | 23,302,042 |
| Cash and cash equivalents at the end of period | 24,015,462 | 25,382,640 |

(4) Notes to Quarterly Consolidated Financial Statements

(Notes to going concern assumption)

Not applicable

(Notes on substantial changes in the amount of shareholders' equity)

Not applicable

(Changes in accounting policies)

(Application of Implementation Guidance on Accounting Standard for Fair Value Measurement)

The Company decided to adopt the "Implementation Guidance on Accounting Standard for Fair Value Measurement" (ASBJ Guidance No. 31, June 17, 2021; hereinafter, "Fair Value Accounting Standard Implementation Guidance") from the beginning of the first quarter and apply the new accounting policy provided for in the Fair Value Accounting Standard Implementation Guidance in accordance with the transitional treatment prescribed in Paragraph 27-2 of the Fair Value Accounting Standard Implementation Guidance going forward. This has no impact on the quarterly consolidated financial statements.

(Segment information, etc.)

[Segment information]

First six months of the previous fiscal year (from February 1, 2022, to July 31, 2022)

1. Information relating to net sales and income or loss by reportable segment

(Unit: Thousands of yen)

| | Reportable segment | | | Adjustment (Note 1) | Total (Note 2) |
|----------------------------------|------------------------------|---------------------------------|------------|------------------------|-------------------|
| | Digital Industry Business | Service Integration Business | Total | | |
| Net sales | | | | | |
| Sales to external customers | 8,260,356 | 15,218,115 | 23,478,472 | — | 23,478,472 |
| Inter-segment sales or transfers | 617 | 246,283 | 246,901 | (246,901) | — |
| Total | 8,260,973 | 15,464,399 | 23,725,373 | (246,901) | 23,478,472 |
| Segment profit | 1,961,025 | 2,066,672 | 4,027,697 | (2,058,064) | 1,969,632 |

(Notes) 1. The adjustment of negative 2,058,064 thousand yen made to the segment profit includes primarily corporate expenses that are not allocated to individual reportable segments. Corporate expenses are primarily composed of administrative expenses that are not allocated to individual reportable segments.

2. Segment profit adjustments are based on operating income reported on the quarterly consolidated statement of income.

First six months of the current fiscal year (from February 1, 2023, to July 31, 2023)

1. Information relating to net sales and income or loss by reportable segment

(Unit: Thousands of yen)

| | Reportable segment | | | Adjustment (Note 1) | Total (Note 2) |
|----------------------------------|------------------------------|---------------------------------|------------|------------------------|-------------------|
| | Digital Industry Business | Service Integration Business | Total | | |
| Net sales | | | | | |
| Sales to external customers | 9,052,527 | 17,393,451 | 26,445,979 | — | 26,445,979 |
| Inter-segment sales or transfers | 171 | 350,099 | 350,270 | (350,270) | — |
| Total | 9,052,698 | 17,743,550 | 26,796,249 | (350,270) | 26,445,979 |
| Segment profit | 2,109,455 | 3,524,355 | 5,633,810 | (2,108,277) | 3,525,533 |

(Notes) 1. The adjustment of negative 2,108,277 thousand yen made to the segment profit includes primarily corporate expenses that are not allocated to individual reportable segments. Corporate expenses are primarily composed of administrative expenses that are not allocated to individual reportable segments.

2. Segment profit adjustments are based on operating income reported on the quarterly consolidated statement of income.

3. Others

Orders received and orders in hand

Orders received and orders in hand in the digital industry business during the first six months ended July 31, 2023 remained strong as a result of steadily grasping the strong demand for ICT investment by customers in the manufacturing industry. In addition, orders received and orders in hand in the service integration business remained strong against the backdrop of needs to promote DX and an increase in projects in the infrastructure construction business, including security.

Orders received by segment during the first six months ended July 31, 2023, are as follows.

(Unit: Thousands of yen)

| Segment name | Orders received | Change from the same period of previous fiscal year (%) | Orders in hand | Change from the same period of previous fiscal year (%) |
|------------------------------|-----------------|---|----------------|---|
| Digital Industry Business | 8,921,498 | 106.3 | 3,209,682 | 101.9 |
| Service Integration Business | 18,311,833 | 102.2 | 13,235,654 | 118.6 |
| Total | 27,233,332 | 103.5 | 16,445,336 | 114.9 |