



Summary of Consolidated Financial Results for the Second Quarter (First Half) of the Fiscal Year Ending January 31, 2025 [Japanese GAAP]

September 9, 2024

Company Name: Computer Engineering & Consulting Ltd. Stock Listing: Tokyo Stock Exchange
 Stock Code: 9692 URL <https://www.cec-ltd.co.jp/en/>
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 Scheduled Date of Filing of Quarterly Report: September 10, 2024 Scheduled Date of Dividend Payments: September 30, 2024
 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, 2025 (February 1, 2024 to July 31, 2024)

(1) Consolidated Operating Results for the Six Months

(Percentages indicate year-on-year changes.)

	Net sales		Operating income		Ordinary income		Net income attributable to owners of parent	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
1H of FY ending Jan. 2025	27,570	4.3	3,250	(7.8)	3,268	(7.9)	2,213	(9.7)
1H of FY ended Jan. 2024	26,445	12.6	3,525	79.0	3,549	78.5	2,452	(29.9)

(Note) Comprehensive income 1H of FY ending Jan. 2025 2,612 million yen (2.7)%
 1H of FY ended Jan. 2024 2,685 million yen (22.7)%

	Net income per share	Diluted net income per share
	Yen	Yen
1H of FY ending Jan. 2025	65.99	65.92
1H of FY ended Jan. 2024	73.00	72.90

(2) Consolidated Financial Position

	Total assets	Net assets	Equity ratio
	Million yen	Million yen	%
1H of FY ending Jan. 2025	52,439	41,561	79.2
FY ended Jan. 2024	51,391	40,787	79.3

(Reference) Total shareholders' equity 1H of FY ending Jan. 2025 41,525 million yen FY ended Jan. 2024 40,760 million yen

2. Dividends

	Dividends per share				
	1Q-end	2Q-end	3Q-end	FY-end	Total
	Yen	Yen	Yen	Yen	Yen
FY ended Jan. 2024	—	25.00	—	30.00	55.00
FY ending Jan. 2025	—	25.00			
FY ending Jan. 2025 (Forecast)			—	30.00	55.00

(Note) Adjustments from the dividend forecasts announced most recently: No

3. Consolidated Earnings Forecasts for Fiscal Year Ending January 31, 2025 (February 1, 2024 to January 31, 2025)

(Percentages indicate year-on-year changes.)

	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	56,500	6.4	6,280	(1.3)	6,300	(1.7)	4,300	(5.3)	127.91

(Note) Adjustments from the earnings forecasts announced most recently: No

*Notes

- (1) Significant changes in the scope of consolidation during the current half: None
- (2) Application of accounting policies specific to the preparation of interim 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: None
 - 2) Changes other than 1) above: None
 - 3) Changes in accounting estimates: None
 - 4) Restatements: None
- (4) Number of shares issued and outstanding (common stock)

1) Number of shares issued and outstanding (including treasury stock)	1H of FY ending Jan. 2025	37,600,000 shares	FY ended Jan. 2024	37,600,000 shares
2) Number of treasury stock	1H of FY ending Jan. 2025	4,383,410 shares	FY ended Jan. 2024	3,983,862 shares
3) Average number of shares during period (first half)	1H of FY ending Jan. 2025	33,548,799 shares	1H of FY ended Jan. 2024	33,593,353 shares

*The Summary of Financial Results for the Second Quarter (First Half) is not subject to quarterly review by a certified public accountant or audit firm.

*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 3 of the accompanying material of the interim report.

(Briefing on financial results and how to obtain supplementary briefing materials)

On Monday, September 9, 2024, the Company plans to publish supplementary briefing materials on the Company website (<https://www.cec-ltd.co.jp>) alongside the Summary of Financial Results. A briefing for institutional investors and analysts on the financial results will be held Wednesday, September 11, 2024. The Company plans to post a video of the briefing on financial results Friday, September 13, 2024.

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1. Qualitative Information on Financial Results for the Half Under Review

(1) Explanation on Operating Results

Due to government policies to bolster the economy, Japan's economy experienced gentle recovery during the interim consolidated period under review (February 1, 2024 through July 31, 2024), with improving employment and income conditions. Nevertheless, the future outlook continues to pose the risk that an economic downturn overseas will exert downward pressure on the domestic economy. Examples include concerns about prolonged high interest rates in Europe and North America and concerns for the future of the Chinese economy. Other factors warranting continued attention include inflation and fluctuations in financial and capital markets.

In the information services industry, appetite remains high for investments in digital transformation (DX) to improve corporate productivity and competitive strengths. Demand for digitalization, including system upgrades and migration to the cloud as part of structural business reforms, is expected to continue to grow. In particular, AI-based business efficiency improvements and workstyle reforms are attracting attention, while demand for investments in cybersecurity solutions continues to grow in response to the increasing sophistication of cyberattacks.

Under these circumstances, as it entered the final year of its medium-term management plan for the three-year period from the fiscal year ended January 2023 through the fiscal year ending January 2025, the CEC Group engaged in business in accordance with its three basic policies: (i) strengthening business capabilities; (ii) strengthening human resources and technical capabilities; and (iii) strengthening the management foundations. In its meeting held in June 2024, the Board of Directors resolved to acquire and extinguish up to 3 billion yen in treasury stock through the end of December 2024 based on the goals of improving capital efficiency and growing shareholder returns.

The business results for the interim consolidated period under review showed positive results due to overall firmness in ICT investments and progress proceeded as planned in both core businesses*¹ and focus business areas*², driving net sales up 1,124 million yen (4.3%) from the same period of the previous year to 27,570 million yen. In terms of profit, due to higher expenses resulting from investments in growth, alongside a decline relative to the effects of several large-scale projects in the preceding year, operating income decreased by 275 million yen (7.8%) year on year to 3,250 million yen, while ordinary income decreased by 280 million yen (7.9%) year on year to 3,268 million yen. Interim net income attributable to owners of the parent fell by 238 million yen (9.7%) year on year to 2,213 million yen.

- *1 Core businesses: The Company defines its core business as those that function as stable foundations supporting the Company's operations, including contracted development, which serves as the basis of Company sales; provision and operation of ICT infrastructure, development of onboard devices, embedded development, and the testing business.
- *2 Focus business areas: The Company's six focus business areas are (1) production and logistics solutions, (2) mobility services, (3) services provided in cooperation with Microsoft Japan, (4) migration services, (5) security services, and (6) DX cloud platforms.

Operating results by segment are as follows.

(Digital Industry Business)

In core businesses, services in both Chubu and Nishinohon benefited from firmness in systems development, backed by aggressive ICT investments by manufacturing customers, automakers in particular. The focus business area of mobility services demonstrated positive trends in various areas, including Big Data analytics platform building and cloud development in the MaaS domain. In production and logistics solutions, demand for factory automation showed strong growth, while demand for logistics remained largely unchanged from the previous year, even with the lingering effects of restrained investment by major customers. As a result, net sales grew by 598 million yen (6.6%) from the same period in the previous year to 9,650 million yen. Due to the growth of focus businesses and higher sales, operating income rose by 284 million yen (13.5%) over the same period to 2,394 million yen.

(Service Integration Business)

Overall, the core businesses of systems development trended firmly. Services provided in cooperation with Microsoft Japan, one of the Company's focus businesses, maintained favorable performance thanks to growth in Microsoft's Power Platform for low-code development. Migration services also saw strong performance thanks to growth in demand for cloud migration and security enhancements, against a backdrop of DX promotion. Security services continued to show favorable performance and growing numbers of inquiries thanks to steady security demand in both the public and private sectors. As a result, net sales grew by 525 million yen (3.0%) from the same period in the previous year to 17,919 million yen. Operating income fell by 180 million yen (5.1%) over the same period to 3,343 million yen due to a decline relative to the effects of several large-scale projects in the preceding year and higher selling and administrative expenses.

(2) Explanation on Financial Position

(Total assets)

Total assets as of the end of the period stood at 52,439 million yen, up 1,048 million yen from the end of the previous consolidated fiscal year. This was due mainly to increases of 355 million yen in assets related to retirement benefits, included under other investment assets, 354 million yen in investment securities, and 290 million yen in guarantees and deposits.

(Liabilities)

Total liabilities amounted to 10,877 million yen, up 273 million yen from the end of the previous consolidated fiscal year. This was due mainly to an increase of 433 million yen in income taxes payable.

(Net assets)

Net assets grew by 774 million yen from the end of the previous consolidated fiscal year to 41,561 million yen. This was mainly due to increases of 1,205 million yen in retained earnings and 245 million yen in valuation difference on available-for-sale securities and a decrease in net assets resulting from 839 million yen increase in treasury stock.

(Overview of Cash Flows)

Cash and cash equivalents (“funds” hereinafter) as of the end of the interim consolidated period under review stood at 26,265 million yen, down 449 million yen from the end of the previous fiscal year.

1) Cash flow from operating activities

Funds increased by 3,505 million yen as a result of operating activities (for an increase of 410 million yen in proceeds year on year). This was due mainly to income before income taxes of 3,268 million yen.

2) Cash flow from investing activities

Funds decreased by 941 million yen as a result of investing activities (for a decrease of 609 million yen in proceeds year on year). This was due mainly to expenditures of 489 million yen on purchases of non-current assets and 316 million yen on payments for lease and guarantee deposits.

3) Cash flow from financial activities

Funds decreased by 3,020 million yen as a result of financial activities (for an increase of 2,335 million yen in spending year on year). This was due mainly to payments of 1,159 million yen on decrease (increase) in deposits for acquisition of treasury stock, 1,007 million yen in dividends, and 839 million yen on acquisition of treasury stock.

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

There are no changes in forecasts of consolidated financial results announced March 8, 2024 for the fiscal year ending January 31, 2025. We will promptly disclose revised forecasts should it become necessary in light of future circumstances and business trends.

* Forecasts of business results reflect judgments based on information currently available. They do not guarantee that the Company will achieve the forecast results. Actual results may vary from forecast figures due to changing business conditions and other factors.

2. Interim Consolidated Financial Statements and Major Notes

(1) Interim Consolidated Balance Sheet

(Unit: Thousands of yen)

	Previous Fiscal Year (January 31, 2024)	Current Interim Consolidated Accounting Period (July 31, 2024)
Assets		
Current assets		
Cash and deposits	26,714,532	26,265,413
Notes and accounts receivable—trade, and contract assets	10,343,099	9,688,960
Product	319,019	153,093
Work in progress	531,948	574,673
Other accounts receivable	30,346	18,593
Others	1,075,983	2,446,105
Allowance for doubtful accounts	(9,394)	(9,607)
Total current assets	39,005,535	39,137,230
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	4,561,882	4,373,454
Land	2,004,644	2,004,644
Other, net	871,959	810,632
Total property, plant and equipment	7,438,487	7,188,731
Intangible assets		
Others	239,307	401,723
Total intangible assets	239,307	401,723
Investments and other assets		
Others	4,719,660	5,723,770
Allowance for doubtful accounts	(11,909)	(11,909)
Total investments and other assets	4,707,750	5,711,860
Total non-current assets	12,385,544	13,302,315
Total assets	51,391,080	52,439,546

(Unit: Thousands of yen)

	Previous Fiscal Year (January 31, 2024)	Current Interim Consolidated Accounting Period (July 31, 2024)
Liabilities		
Current liabilities		
Accounts payable–trade	2,211,551	2,186,307
Short-term loans payable	350,000	350,000
Current portion of long-term loans payable	13,800	–
Income taxes payable	795,357	1,229,191
Allowance for bonuses	716,224	691,563
Provision for performance-linked compensation	–	22,886
Provision for stock-based compensation	–	6,733
Allowance for loss on orders received	2,835	2,185
Others	4,916,547	4,760,365
Total current liabilities	9,006,316	9,249,233
Non-current liabilities		
Long-term accounts payable–other	22,120	22,120
Provision for directors' retirement benefits	15,050	6,700
Net defined benefit liability	111,131	115,167
Asset retirement obligations	1,396,138	1,266,446
Others	53,118	218,042
Total non-current liabilities	1,597,558	1,628,476
Total liabilities	10,603,874	10,877,710
Net assets		
Shareholders' equity		
Capital stock	6,586,000	6,586,000
Capital surplus	6,737,978	6,737,978
Retained earnings	30,135,872	31,341,329
Treasury shares	(3,462,774)	(4,302,036)
Total shareholders' equity	39,997,076	40,363,271
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	455,482	701,243
Foreign currency translation adjustment	12,611	22,739
Remeasurements of defined benefit plans	295,633	438,651
Total accumulated other comprehensive income	763,727	1,162,634
Subscription rights to shares	26,401	35,929
Total net assets	40,787,205	41,561,835
Total liabilities and net assets	51,391,080	52,439,546

(2) Interim Consolidated Statement of Income and Interim Consolidated Statement of Comprehensive Income

(Interim Consolidated Statement of Income)
(First Six Months Ended July 31, 2024)

(Unit: Thousands of yen)

	Previous Interim Consolidated Period (From February 1, 2023 to July 31, 2023)	Current Interim Consolidated Period (From February 1, 2024 to July 31, 2024)
Net sales	26,445,979	27,570,330
Cost of sales	19,284,282	20,131,400
Gross profit	7,161,697	7,438,929
Selling, general and administrative expenses	3,636,163	4,188,415
Operating income	3,525,533	3,250,514
Non-operating income		
Interest income	240	923
Dividend received	12,525	13,234
Dividends from insurance	7,953	7,175
Others	7,465	8,614
Total non-operating income	28,185	29,947
Non-operating expenses		
Interest expenses	1,438	1,374
Loss on retirement of non-current assets	—	1,072
Foreign exchange loss	2,674	6,914
Others	226	2,601
Total non-operating expenses	4,340	11,962
Ordinary income	3,549,378	3,268,499
Extraordinary loss		
Loss on retirement of non-current assets	669	—
Total extraordinary loss	669	—
Profit before income taxes	3,548,709	3,268,499
Income taxes—current	597,188	1,056,021
Income taxes—deferred	499,216	(1,463)
Total income taxes	1,096,404	1,054,558
Net income	2,452,304	2,213,940
Net income attributable to owners of parent	2,452,304	2,213,940

(Interim Consolidated Statement of Comprehensive Income)
(Interim Consolidated Period)

(Unit: Thousands of yen)

	Previous Interim Consolidated Period (From February 1, 2023 to July 31, 2023)	Current Interim Consolidated Period (From February 1, 2024 to July 31, 2024)
Net income	2,452,304	2,213,940
Other comprehensive income		
Valuation difference on available-for-sale securities	4,534	245,761
Foreign currency translation adjustment	5,464	10,127
Remeasurements of defined benefit plans	223,638	143,018
Total other comprehensive income	233,637	398,907
Comprehensive income	2,685,942	2,612,848
(Comprehensive income attributable to)		
Comprehensive income attributable to owners of parent	2,685,942	2,612,848

(3) Interim Consolidated Statement of Cash Flows

(Unit: Thousands of yen)

	Previous Interim Consolidated Period (From February 1, 2023 to July 31, 2023)	Current Interim Consolidated Period (From February 1, 2024 to July 31, 2024)
Cash flows from operating activities		
Profit before income taxes	3,548,709	3,268,499
Depreciation	324,735	428,130
Impairment loss	—	1,363
Increase (decrease) in provision for bonuses	83,887	(25,793)
Increase (decrease) in provision for performance- linked compensation	11,420	22,886
Increase (decrease) in provision for stock-based compensation	3,373	6,733
Increase (decrease) in provision for loss on order received	(433,464)	(649)
Increase (decrease) in provision for directors' retirement benefits	(6,314)	(8,350)
Increase (decrease) in net defined benefit liability	4,089	4,036
Decrease (increase) in net defined benefit asset	(147,080)	(149,550)
Increase (decrease) in allowance for doubtful accounts	(731)	213
Interest and dividend income	(12,766)	(14,158)
Interest expenses	1,438	1,374
Loss on retirement of non-current assets	669	1,072
Increase (decrease) in contract liabilities	24,671	169,295
Decrease (increase) in notes and accounts receivable - trade	661,123	657,614
Decrease (increase) in inventories	3,518	123,761
Decrease (increase) in other accounts receivable	16,465	11,752
Decrease (increase) in other current assets	(48,935)	(209,985)
Increase (decrease) in notes and accounts payable - trade	(248,421)	(25,568)
Increase (decrease) in accrued consumption taxes	55,257	(292,925)
Increase (decrease) in accounts payable - other	32,758	139,196
Increase (decrease) in accrued expenses	103,755	61,088
Increase (decrease) in other current liabilities	(31,448)	(44,311)
Others	64,332	(11,054)
Subtotal	4,011,043	4,114,671
Interest and dividend income received	12,765	14,157
Interest expenses paid	(1,442)	(1,395)
Income taxes refund (paid)	(927,044)	(621,731)
Cash flows from operating activities	3,095,322	3,505,701

(Unit: Thousands of yen)

	Previous Interim Consolidated Period (From February 1, 2023 to July 31, 2023)	Current Interim Consolidated Period (From February 1, 2024 to July 31, 2024)
Cash flows from investing activities		
Payments into time deposits	(9,625)	—
Purchase of non-current assets	(277,485)	(489,082)
Proceeds from sale of non-current assets	60	8,322
Payments for asset retirement obligations	(721)	(98,794)
Payments for lease and guarantee deposits	(5,234)	(316,478)
Proceeds from collection of lease and guarantee deposits	10,125	26,955
Purchase of investment securities	(50,000)	—
Purchase of shares of subsidiaries resulting in change in scope of consolidation	—	(21,585)
Other	—	(51,295)
Cash flows from investing activities	(332,879)	(941,958)
Cash flows from financing activities		
Repayment of long-term loans payable	(13,600)	(13,800)
Purchase of treasury shares	—	(839,176)
Decrease (increase) in deposits for acquisition of treasury stock	—	(1,159,992)
Dividend payment amount	(672,153)	(1,007,756)
Proceeds from exercise of employee share options	49	—
Cash flows from financing activities	(685,703)	(3,020,725)
Effect of exchange rate change on cash and cash equivalents	3,859	7,863
Net increase (decrease) in cash and cash equivalents	2,080,598	(449,119)
Cash and cash equivalents at the beginning of period	23,302,042	26,714,532
Cash and cash equivalents at the end of period	25,382,640	26,265,413

(4) Notes on the Interim Consolidated Financial Statements

(Notes to going concern assumption)

Not applicable

(Notes on material changes in shareholder equity)

(Acquisition and extinguishment of treasury stock)

In its meeting held June 7, 2024, the Company Board of Directors resolved to acquire treasury stock under Article 156 of the Companies Act applicable mutatis mutandis under Article 165, Paragraph 3 of the Companies Act and to extinguish treasury stock under Article 178 of the Companies Act. The status of this acquisition of treasury stock is summarized below:

Status of acquisition of treasury stock (as of July 31, 2024)

Total shares acquired: 399,500

Total acquisition price: 839,176,400 yen

(Reference) Details of the resolution of the Board of Directors meeting held June 7, 2024

1. Reason for acquisition and extinguishment of treasury stock

To acquire treasury stock and then extinguish all shares of the treasury stock acquired, thereby improving capital efficiency and further growing shareholder returns.

2. Details of matters related to acquisition

- | | |
|--|--|
| (1) Class of stock to be acquired: | Company common stock |
| (2) Total number of shares to be acquired: | 2,000,000 shares (maximum)
(Corresponding to 5.95% of total shares issued and outstanding
[excluding treasury stock]) |
| (3) Total acquisition price of stock: | 3,000,000,000 yen (maximum) |
| (4) Acquisition period: | June 10 – December 31, 2024 |
| (5) Method of acquisition: | Market purchase on the Tokyo Stock Exchange
(Market purchase through a discretionary agreement on acquisition of
treasury stock) |

3. Details of matters related to extinguishment

- | | |
|--|---|
| (1) Class of stock to be extinguished: | Company common stock |
| (2) Total number of shares to be extinguished: | All shares of treasury stock acquired under 2 above
(Corresponding to 5.32% [maximum] of total shares issued and outstanding
prior to the extinguishment) |
| (3) Planned date of extinguishment: | January 17, 2025 |

(Changes in accounting policies)

Not applicable

(Segment information, etc.)

[Segment information]

First six months of the previous 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)	Amount on Interim Consolidated Statement of Income (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 interim consolidated statement of income.

First six months of the current fiscal year (from February 1, 2024, to July 31, 2024)

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

(Unit: Thousands of yen)

	Reportable segment			Adjustment (Note 1)	Amount on Interim Consolidated Statement of Income (Note 2)
	Digital Industry Business	Service Integration Business	Total		
Net sales					
Sales to external customers	9,650,972	17,919,358	27,570,330	—	27,570,330
Inter-segment sales or transfers	171	304,334	304,505	(304,505)	—
Total	9,651,143	18,223,692	27,874,835	(304,505)	27,570,330
Segment profit	2,394,223	3,343,533	5,737,756	(2,487,242)	3,250,514

- (Notes) 1. The adjustment of negative 2,487,242 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 interim consolidated statement of income.

3. Others

Orders received and orders in hand

Orders received and the outstanding balance of orders received in the Digital Industry Business exhibited positive trends in the interim consolidated period under review. Appetite for ICT investment was strong, chiefly among automakers. Orders received and the outstanding balance of orders received in the Service Integration Business remained at the same levels as in the previous year, as growth in DX demand centered on our focus business areas.

Orders received by segment during the interim consolidated period under review, 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	10,391,805	116.5	4,158,296	129.6
Service Integration Business	18,646,234	101.8	13,064,085	98.7
Total	29,038,040	106.6	17,222,382	104.7