

Summary of Consolidated Financial Results for the Third Quarter of the Fiscal Year Ending January 31, 2025 [Japanese GAAP]

December 9, 2024

Name of listed company: Computer Engineering & Consulting Ltd. Listed exchange: Tokyo
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Scheduled date of dividend payments: –
 Supplementary materials prepared for financial results: Yes
 Briefing held on financial results: No

(Rounded down to the nearest million yen)

1. Consolidated financial results for the third quarter of the fiscal year ending January 31, 2025 (February 1, 2024 through October 31, 2024)

(1) Consolidated operating results (Cumulative) (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	%
3Q of FY ending Jan. 2025	41,223	5.0	4,794	(3.0)	4,820	(3.0)	3,277	(3.9)
3Q of FY ended Jan. 2024	39,275	11.3	4,940	50.7	4,969	50.7	3,410	(22.2)

(Note) Comprehensive income: 3Q of FY ending January 2025 3,639 million yen 5.3%
 3Q of FY ended January 2024 3,456 million yen (16.8)%

	Quarterly net income per share	Diluted quarterly net income per share
	Yen	Yen
3Q of FY ending Jan. 2025	98.46	98.36
3Q of FY ended Jan. 2024	101.49	101.36

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio
	Million yen	Million yen	%
3Q of FY ending Jan. 2025	52,497	40,388	76.9
FY ended Jan. 2024	51,391	40,787	79.3

(Reference) Total shareholders' equity: 3Q of FY ending January 2025 40,352 million yen
 FY ended January 2024 40,760 million yen

2. Dividends

	Annual dividends				
	Q1 end	Q2 end	Q3 end	Year 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) Revision to most recently announced dividend forecast: No

3. Forecasts of consolidated financial results for the fiscal year ending January 31, 2025
(February 1, 2024 through 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
Full year	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen
	56,500	6.4	6,280	(1.3)	6,300	(1.7)	3,700	(18.5)	112.04

(Note) Revision to most recently announced dividend forecast: Yes

*Notes

(1) Significant changes in scope of consolidation during the current quarterly consolidated cumulative period: None

(2) Application of accounting policies specific to the preparation of quarterly consolidated financial statements: None

(3) Changes in accounting policies or estimates, restatements:

- (i) Changes in accounting policies accompanying revisions of accounting standards, etc.: None
- (ii) Changes other than those under (i) above: None
- (iii) Changes in accounting estimates: None
- (iv) Restatements: None

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

(i) Number of shares issued and outstanding (including treasury stock)	3Q of FY ending Jan. 2025	37,600,000 shares	FY ended Jan. 2024	37,600,000 shares
(ii) Ended number of shares of treasury stock	3Q of FY ending Jan. 2025	5,130,410 shares	FY ended Jan. 2024	3,983,862 shares
(iii) Average number of shares during period (quarterly cumulative total)	3Q of FY ending Jan. 2025	33,292,321 shares	3Q of FY ended Jan. 2024	33,601,032 shares

* Review of Quarterly Consolidated Financial Statements by certified public accountant or audit firm: None

* Notes on forward-looking statements and other notes

(Forward-looking statements)

Forward-looking statements, including the forecasts of financial results contained herein, are based on information currently available to the Company and certain assumptions the Company deems reasonable. Actual results and performance may differ significantly from forecasts for various reasons. Please see page 5 (Notes on Forecasts of Consolidated Financial Results and Other Forward-Looking Information) of the accompanying materials for the conditions on which assumptions underlying the forecasts are based, important points concerning the use of forecasts, and other related information.

(How to obtain quarterly supplementary briefing materials)

The Company plans to publish supplementary briefing materials on the Company website (<https://www.cec-ltd.co.jp>) on December 9, 2024.

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1. Summary of Operating Results

(1) Summary of Operating Results for the Quarter Under Review

Due to the effects of government economic stimulus policies, Japan's economy continued to experience gentle recovery during the third quarter consolidated cumulative period under review (February 1, 2024 through October 31, 2024), with improving employment and income conditions. One potential risk is that the downturn in overseas economies will exert downward pressure on the domestic economy. Key related factors include continuing high interest rates in Europe and US and a stagnant Chinese economy. Other notable factors include inflation and fluctuations in financial and capital markets.

In the information services industry, the appetite for investments in digital transformation (DX) to improve corporate productivity and competitive strengths remains high. Demand for digitalization, including system upgrades and migration to the cloud as part of business structural reforms, is expected to continue to grow. In particular, with growing interest in workstyle reforms and the application of AI to improve operational efficiency, demand remains high for cybersecurity solutions to protect against increasingly sophisticated cyberattacks.

Under these circumstances, the CEC Group 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. In line with the goals of the plan—to realize a sustainable society and sustained growth—the CEC Group engaged in business activities in accordance with three basic policies: (i) strengthening business capabilities; (ii) strengthening human resources and technical capabilities; and (iii) strengthening management foundations. At a meeting held June 7, 2024, the Board of Directors approved a resolution concerning the acquisition and retirement of up to three billion yen in the Company's treasury shares by the end of December 2024 as part of the Company's efforts to improve capital efficiency in accordance with its capital policy.

During the cumulative third-quarter consolidated period under review, thanks to increased ICT investments by customer companies, both core businesses*¹ and focus business areas*² saw progress in line with plans, with net sales growing by 1,947 million yen (5.0%) YoY to 41,223 million yen. In terms of profit, due to rising selling, general, and administrative expenses, including investments for growth, operating income fell YoY by 145 million yen (3.0%) to 4,794 million yen. Ordinary income fell YoY by 148 million yen (3.0%) to 4,820 million yen. Quarterly net income attributable to owners of parent declined YoY by 132 million yen (3.9%) to 3,277 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.

Business results in the individual segments are reviewed below.

(Digital Industry Business)

In the core businesses, services in both central and western Japan benefited from strong progress in systems development, backed by active ICT investment by manufacturing customers, particularly in the automotive industry. In the focus business area of Mobility Services, both big data analysis platform building and cloud development within the MaaS domain grew. In Production and Logistics Solutions, although the impact of restrained investment by major customers persisted, factory automation development increased, as did the development of logistics systems for the automobile industry. As a result, net sales grew 1,141 million yen (8.4%) YoY to 14,660 million yen, while operating income rose 572 million yen (18.6%) YoY to 3,646 million yen, backed by growth in focus business areas and higher net sales.

(Service Integration Business)

Our Systems Development Business, a core business, remained strong overall. In our focus business area of Services Provided in Cooperation with Microsoft Japan, demand for Power Platform low-code solutions increased while Migration Services saw higher sales and profits thanks to growth in demand for cloud migration and security enhancements against a backdrop of DX promotion. In Security Services, demand for security measures remained stable in both the public and private sectors, accompanied by steady growth in inquiries. Net sales grew 805 million yen (3.1%) YoY to 26,562 million yen. Due to a comparative decline from a large project recorded in the previous year, as well as rising selling, general, and administrative expenses, operating income fell by 98 million yen (2.0%) YoY to 4,893 million yen.

(2) Summary of Financial Position for the Quarter Under Review

(Total assets)

Total assets grew 1,105 million yen from the end of the previous consolidated fiscal year to 52,497 million yen, due mainly to an increase of 417 million yen in investment securities, which is classified under investments and other assets - others, as well

as an increase of 362 million yen in guarantee and security deposits and an increase of 315 million yen in net defined benefit assets.

(Liabilities)

Total liabilities amounted to 12,108 million yen, up 1,505 million yen from the end of the previous consolidated fiscal year, due mainly to an increase of 829 million yen in contract liabilities classified under current liabilities - others, and an increase of 768 million yen in the allowance for bonuses.

(Net assets)

Net assets fell by 399 million yen from the end of the previous consolidated fiscal year to 40,388 million yen, due mainly to the decline attributable to an increase of 2,208 million yen in treasury shares, which was offset by an increase of 1,439 million yen in retained earnings, as well as an increase of 289 million yen in valuation difference on available-for-sale securities.

(3) Research and Development Activities

During the cumulative third-quarter consolidated period under review, research and development activities proceeded with the goal of creating distinctive products and services capable of meeting the changing needs of customers. These efforts were promoted mainly by the Company.

Specifically, we undertook the activities indicated below based on the following two themes: (i) strengthening the competitiveness of our products, including the development of new products; (ii) strengthening the technological capabilities that make it possible for us to provide valuable ICT services to our customers.

Research and development expenses during the cumulative third-quarter consolidated period under review totaled 273 million yen (up 94.3% YoY). The major research and development activities were as follows:

(Digital Industry Business)

We undertook the following research and development activities in the area of Smart Factories, which supports the digitalization of manufacturing and logistics, and in the Connected Services area, which primarily develops products and services for the automotive industry.

- Technical research on Connected CI®
- Technical research in the Connected Services area
- Survey research into demand for the SimuField® series and verification of real-world applications
- Survey research on cloud-related services in the Connected Services area and verification of real-world applications
- Development to expand the functionality of LogiPull®

Research and development expenses during the cumulative third-quarter consolidated period under review came to 59 million yen (down 25.6% YoY).

(Service Integration Business)

We pursued the following research and development activities in the Security Services area, which safeguards against a wide range of threats in the business environment, as well as in the area of Cloud Services, which are becoming indispensable in accelerating business growth.

- Development to add functionality to SmartSESAME®, research studies on related services, and verification of real-world applications
- Verification of real-world applications for cloud-related services
- Development of at Claps®
- Development to expand Convergent® functionality

Research and development expenses during the cumulative third-quarter consolidated period under review came to 214 million yen (up 249.8% YoY).

(4) Notes on Forecasts of Consolidated Financial Results and Other Forward-Looking Information

Please refer to the “Announcement of Recording of Extraordinary Losses and Revision of Full-Year Financial Forecasts in Connection with the Reorganization of the Data Center Business” released today for forecasts of consolidated financial results for the fiscal year ending January 31, 2025.

* 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. Quarterly Consolidated Financial Statements and Major Notes

(1) Quarterly Consolidated Balance Sheet

(Unit: Million yen)

	Previous Consolidated Fiscal Year (January 31, 2024)	Current Third Quarter Consolidated Accounting Period (October 31, 2024)
Assets		
Current assets		
Cash and deposits	26,714	25,599
Notes and accounts receivable - trade, and contract assets	10,343	10,021
Product	319	418
Work in progress	531	691
Other accounts receivable	30	9
Others	1,075	2,287
Allowance for doubtful accounts	(9)	(9)
Total current assets	39,005	39,017
Non-current assets		
Property, plant, and equipment		
Buildings and structures, net	4,561	4,295
Land	2,004	2,004
Other, net	871	793
Total property, plant, and equipment	7,438	7,093
Intangible assets		
Others	239	399
Total intangible assets	239	399
Investments and other assets		
Others	4,719	5,997
Allowance for doubtful accounts	(11)	(11)
Total investments and other assets	4,707	5,985
Total non-current assets	12,385	13,479
Total assets	51,391	52,497

(Unit: Million yen)

	Previous Consolidated Fiscal Year (January 31, 2024)	Current Third Quarter Consolidated Accounting Period (October 31, 2024)
Liabilities		
Current liabilities		
Accounts payable - trade	2,211	2,160
Short-term loans payable	350	350
Current portion of long-term loans payable	13	—
Income taxes payable	795	1,331
Allowance for bonuses	716	1,484
Allowance for performance-linked remuneration	—	34
Allowance for share-based remuneration	—	10
Provision for loss on orders received	2	2
Others	4,916	5,334
Total current liabilities	9,006	10,707
Non-current liabilities		
Long-term accounts payable	22	22
Provision for directors' retirement benefits	15	7
Net defined benefit liability	111	111
Asset retirement obligations	1,396	1,260
Others	53	0
Total non-current liabilities	1,597	1,401
Total liabilities	10,603	12,108
Net assets		
Shareholder equity		
Capital stock	6,586	6,586
Capital surplus	6,737	6,737
Retained earnings	30,135	31,574
Treasury shares	(3,462)	(5,671)
Total shareholder equity	39,997	39,227
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	455	745
Foreign currency translation adjustment	12	15
Remeasurements of defined benefit plans	295	363
Total accumulated other comprehensive income	763	1,125
Subscription rights to shares	26	35
Total net assets	40,787	40,388
Total liabilities and net assets	51,391	52,497

(2) Quarterly Consolidated Statement of Income and Quarterly Consolidated Statement of Comprehensive Income
(Quarterly Consolidated Statement of Income)
(Third Quarter Consolidated Cumulative Period)

(Unit: Million yen)

	Previous Third Quarter Consolidated Cumulative Period (February 1, 2023 - October 31, 2023)	Current Third Quarter Consolidated Cumulative Period (February 1, 2024 - October 31, 2024)
Net sales	39,275	41,223
Cost of sales	28,867	30,132
Gross profit	10,408	11,090
Selling, general, and administrative expenses	5,467	6,295
Operating income	4,940	4,794
Non-operating income		
Interest income	0	2
Dividend received	12	13
Dividends from insurance	7	7
Others	15	12
Total non-operating income	36	35
Non-operating expenses		
Interest expenses	1	2
Loss on retirement of non-current assets	—	1
Foreign exchange loss	5	2
Treasury share acquisition expenses	—	1
Others	0	1
Total non-operating expenses	7	9
Ordinary income	4,969	4,820
Extraordinary income		
Loss on retirement of non-current assets	0	—
Total extraordinary loss	0	—
Quarterly net income before income taxes	4,968	4,820
Income taxes - current	1,283	1,831
Income taxes - deferred	275	(289)
Total income taxes	1,558	1,542
Quarterly net income	3,410	3,277
Quarterly net income attributable to owners of parent	3,410	3,277

(Quarterly Consolidated Statement of Comprehensive Income)
(Third Quarter Consolidated Cumulative Period)

(Unit: Million yen)

	Previous Third Quarter Consolidated Cumulative Period (February 1, 2023 - October 31, 2023)	Current Third Quarter Consolidated Cumulative Period (February 1, 2024 - October 31, 2024)
Quarterly net income	3,410	3,277
Other comprehensive income		
Valuation difference on available-for-sale securities	4	289
Foreign currency translation adjustment	8	3
Remeasurements of defined benefit plans	34	68
Total other comprehensive income	46	361
Quarterly comprehensive income	3,456	3,639
(Comprehensive income attributable to)		
Quarterly comprehensive income attributable to owners of parent	3,456	3,639

(3) Notes on the Quarterly Consolidated Financial Statements

(Segment Information, etc.)

[Segment information]

Previous Third Quarter Consolidated Cumulative Period (February 1, 2023 - October 31, 2023)

1. Information on net sales and income/loss by reporting segment

(Unit: Million yen)

	Reporting segment			Adjustment (Note 1)	Amount on Quarterly Consolidated Statement of Income (Note 2)
	Digital Industry Business	Service Integration Business	Total		
Net sales					
Sales to external customers	13,518	25,757	39,275	—	39,275
Inter-segment sales or transfers	0	518	518	(518)	—
Total	13,518	26,275	39,794	(518)	39,275
Segment profit	3,073	4,992	8,066	(3,125)	4,940

(Notes) 1. The adjustment of (negative) 3,125 million yen to segment profit consists mainly of Companywide expenses not allocated to individual reporting segments. Companywide expenses consist mainly of administrative-section expenses not allocated to individual reporting segments.

2. Segment profits are adjusted against operating income reported on the Quarterly Consolidated Statement of Income.

Current Third Quarter Consolidated Cumulative Period (February 1, 2024 - October 31, 2024)

1. Information on net sales and income/loss by reporting segment

(Unit: Million yen)

	Reporting segment			Adjustment (Note 1)	Amount on Quarterly Consolidated Statement of Income (Note 2)
	Digital Industry Business	Service Integration Business	Total		
Net sales					
Sales to external customers	14,660	26,562	41,223	—	41,223
Inter-segment sales or transfers	0	452	452	(452)	—
Total	14,660	27,014	41,675	(452)	41,223
Segment profit	3,646	4,893	8,540	(3,745)	4,794

(Notes) 1. The adjustment of (negative) 3,745 million yen to segment profit consists mainly of Companywide expenses not allocated to individual reporting segments. Companywide expenses consist mainly of administrative-section expenses not allocated to individual reporting segments.

2. Segment profits are adjusted against operating income reported on the Quarterly Consolidated Statement of Income.

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

(Acquisition and cancellation of treasury shares)

At the June 7, 2024 meeting of the Board of Directors, the Company resolved to acquire its own treasury shares pursuant to Article 156 of the Companies Act, as applied pursuant to Article 165, Paragraph 3 of the Act, and to retire said treasury shares pursuant to Article 178 of the Act. The status of said acquisition is as follows:

Status of acquisition of treasury shares (as of October 31, 2024)

Total number of shares acquired: 1,146,500 shares

Total acquisition price: 2,208 million yen

(Reference) Details of the Resolution at the Board of Directors Meeting held on June 7, 2024

1. Reason for acquisition and retirement of treasury shares
To improve capital efficiency and further increase shareholder returns, the Company will repurchase treasury shares and retire all such shares.
2. Details of acquisition
 - (1) Type of shares to be acquired: Common stock of the Company
 - (2) Total number of shares to be acquired: 2,000,000 shares (maximum)
(Percentage of total shares issued and outstanding [excluding treasury shares]: 5.95%)
 - (3) Total price of shares to be acquired: 3,000 million yen (maximum)
 - (4) Acquisition period: June 10, 2024 to December 31, 2024
 - (5) Method of acquisition: Market purchase on the Tokyo Stock Exchange
(Market purchase based on discretionary trading contractors regarding the acquisition of treasury shares)
3. Details of retirement
 - (1) Type of shares to be retired: Common stock of the Company
 - (2) Total number of shares to be retired: All treasury shares acquired in accordance with 2. above
(Percentage of total shares issued and outstanding before retirement: 5.32% [maximum])
 - (3) Scheduled date of retirement: January 17, 2025

(Notes on the Going Concern Assumption)

Not applicable

(Notes on the Quarterly Consolidated Statements of Cash Flows)

Quarterly consolidated statements of cash flows have not been prepared for the cumulative third-quarter consolidated period under review. Depreciation and amortization expenses (including amortization expenses for non-current assets) for the cumulative third-quarter consolidated period under review are as follows:

	Previous Third Quarter Consolidated Cumulative Period (February 1, 2023 - October 31, 2023)	Current Third Quarter Consolidated Cumulative Period (February 1, 2024 - October 31, 2024)
Depreciation and amortization expenses	484 million yen	620 million yen

3. Other

Orders received and outstanding balances of orders received

Orders received and the outstanding balance of orders received in the Digital Industry Business remained strong during the third-quarter consolidated cumulative period under review, as we were able to capture ICT investment demand from manufacturing customers, particularly in the automotive industry. Orders received grew for the Service Integration Business, especially in focus business areas. However, the outstanding balance of orders declined YoY due to the recording of the sale of goods.

Orders received during the third-quarter consolidated cumulative period are broken down below by business segment as follows:

Segment	Orders received (million yen)	YoY change (%)	Balance of orders received (million yen)	YoY change (%)
Digital Industry Business	15,774	113.6	4,531	122.1
Service Integration Business	27,665	101.5	13,440	97.3
Total	43,440	105.6	17,971	102.5