

Translation

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Summary of Consolidated Financial Results for the Six Months Ended September 30, 2023 (Based on Japanese GAAP)

November 14, 2023

Company name: SOURCENEXT CORPORATION
 Stock exchange listing: Tokyo
 Stock code: 4344 URL <http://www.sourcenext.com>
 Representative: President & COO Tomoaki Kojima
 Inquiries: Director & CFO Fumihiko Aoyama TEL 03-6254-5231
 Scheduled date to file Quarterly Securities Report: November 14, 2023
 Scheduled date to commence dividend payments: –
 Preparation of supplementary material on quarterly financial results: Yes
 Holding of quarterly financial results meeting: Yes (for analysts and institutional investors)

(Amounts less than one million yen are rounded down)

1. Consolidated financial results for the six months ended September 30, 2023 (from April 1, 2023 to September 30, 2023)

(1) Consolidated operating results (cumulative)

Percentages indicate year-on-year changes

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
Six months ended September 30, 2023	5,226	13.4	(1,424)	–	(1,320)	–	(1,150)	–
Six months ended September 30, 2022	4,608	(7.8)	(1,304)	–	(1,120)	–	(1,063)	–

	Earnings per share		Diluted earnings per share	
	Yen		Yen	
Six months ended September 30, 2023	(8.49)		–	
Six months ended September 30, 2022	(7.85)		–	

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio	Net assets per share
	Millions of yen	Millions of yen	%	Yen
As of September 30, 2023	18,344	8,613	44.1	59.64
As of March 31, 2023	19,639	9,903	46.9	67.92

2. Cash dividends

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

3. Forecast of consolidated financial results for the year ending March 31, 2024 (from April 1, 2023 to March 31, 2024)

Percentages indicate year-on-year changes

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent		Earnings per share
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Yen
Full year	13,846	33.8	21	–	65	–	29	–	0.22

4. Notes

- (1) Changes in significant subsidiaries during the six months ended September 30, 2023
(changes in specified subsidiaries resulting in the change in scope of consolidation): No
- (2) Application of special accounting methods for preparing quarterly consolidated financial statements: No
- (3) Changes in accounting policies, changes in accounting estimates, and restatement of prior period financial statements
- Changes in accounting policies due to revisions to accounting standards and other regulations: No
- Changes in accounting policies due to other reasons: No
- Changes in accounting estimates: No
- Restatement of prior period financial statements: No

(4) Number of issued shares (common shares)

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

As of September 30, 2023	136,358,300 shares	As of March 31, 2023	136,349,600 shares
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Number of treasury shares at the end of the period

As of September 30, 2023	800,024 shares	As of March 31, 2023	800,024 shares
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Average number of shares during the period (cumulative from the beginning of the fiscal year)

Six months ended September 30, 2023	135,549,624 shares	Six months ended September 30, 2022	135,497,712 shares
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Quarterly consolidated financial statements
Consolidated balance sheets

(Thousands of yen)

	As of March 31, 2023	As of September 30, 2023
Assets		
Current assets		
Cash and deposits	6,484,572	4,702,529
Accounts receivable - trade	1,264,988	1,785,744
Merchandise and finished goods	3,345,704	2,867,134
Raw materials and supplies	65,426	102,896
Advance payments to suppliers	860,637	786,807
Other	485,574	520,840
Total current assets	12,506,905	10,765,951
Non-current assets		
Property, plant and equipment		
Property, plant and equipment	394,441	399,372
Accumulated depreciation	(316,987)	(329,910)
Total property, plant and equipment	77,453	69,462
Intangible assets		
Software	1,183,049	2,297,438
Contract based intangible assets	1,078,590	1,039,838
Other	813,793	272,380
Total intangible assets	3,075,433	3,609,657
Investments and other assets		
Investment securities	3,372,612	3,367,839
Deferred tax assets	506,055	437,271
Other	100,878	93,906
Total investments and other assets	3,979,545	3,899,017
Total non-current assets	7,132,432	7,578,138
Total assets	19,639,337	18,344,090
Liabilities		
Current liabilities		
Accounts payable - trade	259,289	428,960
Short-term borrowings	4,600,000	4,600,000
Current portion of long-term borrowings	520,080	520,080
Accounts payable - other	913,133	1,342,683
Income taxes payable	36,712	30,450
Unearned revenue	439,529	454,227
Provision for bonuses	26,115	96,128
Other	609,696	226,544
Total current liabilities	7,404,557	7,699,075
Non-current liabilities		
Long-term borrowings	2,129,820	1,869,780
Long-term unearned revenue	201,928	161,516
Total non-current liabilities	2,331,748	2,031,296
Total liabilities	9,736,305	9,730,371

(Thousands of yen)

	As of March 31, 2023	As of September 30, 2023
Net assets		
Shareholders' equity		
Share capital	3,701,935	3,703,401
Capital surplus	7,332,327	7,333,794
Retained earnings	(1,889,953)	(3,040,142)
Treasury shares	(163,122)	(163,122)
Total shareholders' equity	8,981,187	7,833,931
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	125,156	165,774
Foreign currency translation adjustment	99,631	84,937
Total accumulated other comprehensive income	224,788	250,711
Share acquisition rights	258,724	272,299
Non-controlling interests	438,332	256,776
Total net assets	9,903,032	8,613,719
Total liabilities and net assets	19,639,337	18,344,090

Consolidated statements of income (cumulative) and consolidated statements of comprehensive income (cumulative)

Consolidated statements of income (cumulative)

(Thousands of yen)

	Six months ended September 30, 2022	Six months ended September 30, 2023
Net sales	4,608,697	5,226,709
Cost of sales	2,482,212	2,498,846
Gross profit	2,126,485	2,727,863
Selling, general and administrative expenses	3,431,091	4,152,843
Operating loss	(1,304,606)	(1,424,979)
Non-operating income		
Interest income	4,877	117
Dividend income	2,088	2,271
Foreign exchange gains	298,152	187,765
Other	1,270	5,762
Total non-operating income	306,389	195,917
Non-operating expenses		
Interest expenses	22,870	34,578
Share of loss of entities accounted for using equity method	99,430	42,293
Other	399	15,000
Total non-operating expenses	122,699	91,872
Ordinary loss	(1,120,916)	(1,320,934)
Extraordinary income		
Gain on sale of investment securities	–	21,384
Gain on reversal of share acquisition rights	3,773	24,550
Total extraordinary income	3,773	45,934
Loss before income taxes	(1,117,143)	(1,275,000)
Income taxes - current	3,417	3,399
Income taxes - deferred	1,488	50,857
Total income taxes	4,905	54,257
Loss	(1,122,049)	(1,329,257)
Loss attributable to non-controlling interests	(58,941)	(179,069)
Loss attributable to owners of parent	(1,063,107)	(1,150,188)

Consolidated statements of comprehensive income (cumulative)

(Thousands of yen)

	Six months ended September 30, 2022	Six months ended September 30, 2023
Loss	(1,122,049)	(1,329,257)
Other comprehensive income		
Valuation difference on available-for-sale securities	79,080	40,617
Foreign currency translation adjustment	37,657	(17,180)
Total other comprehensive income	116,737	23,437
Comprehensive income	(1,005,311)	(1,305,820)
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	(947,730)	(1,121,075)
Comprehensive income attributable to non-controlling interests	(57,580)	(184,745)

Consolidated statements of cash flows

(Thousands of yen)

	Six months ended September 30, 2022	Six months ended September 30, 2023
Cash flows from operating activities		
Loss before income taxes	(1,117,143)	(1,275,000)
Depreciation	194,756	201,535
Amortization of software	329,576	317,772
Amortization of goodwill	14,425	–
Share-based payment expenses	32,443	38,986
Amortization of trademark right	1,642	1,716
Increase (decrease) in provision for bonuses	(45,744)	64,319
Interest and dividend income	(6,965)	(2,388)
Interest expenses	22,870	34,578
Share of loss (profit) of entities accounted for using equity method	99,430	42,293
Loss (gain) on sale of investment securities	–	(21,384)
Gain on reversal of share acquisition rights	(3,773)	(24,550)
Decrease (increase) in trade receivables	(202,427)	(507,038)
Decrease (increase) in inventories	492,127	489,913
Decrease (increase) in advance payments to suppliers	214,677	73,830
Increase (decrease) in trade payables	(118,624)	152,346
Increase (decrease) in accounts payable - other	(172,286)	(39,509)
Increase (decrease) in unearned revenue	3,089	14,697
Increase (decrease) in long-term unearned revenue	41,226	(40,411)
Increase/decrease in consumption taxes payable/consumption taxes refund receivable	130,134	(347,759)
Other, net	(192,845)	(256,041)
Subtotal	(283,411)	(1,082,093)
Interest and dividends received	7,039	2,463
Interest paid	(22,886)	(34,029)
Income taxes paid	(4,820)	(4,568)
Income taxes refund	28,155	–
Net cash provided by (used in) operating activities	(275,924)	(1,118,227)
Cash flows from investing activities		
Payments into time deposits	–	(70,485)
Purchase of property, plant and equipment	(1,853)	(2,802)
Purchase of software	(481,572)	(576,425)
Proceeds from sale of investment securities	–	98,815
Payments from collection of lease and guarantee deposits	75,522	–
Net cash provided by (used in) investing activities	(407,903)	(550,897)
Cash flows from financing activities		
Net increase (decrease) in short-term borrowings	(1,000,000)	–
Repayments of long-term borrowings	(431,040)	(260,040)
Proceeds from issuance of shares resulting from exercise of share acquisition rights	4,334	2,071
Dividends paid	(67)	(5)
Net cash provided by (used in) financing activities	(1,426,773)	(257,974)
Effect of exchange rate change on cash and cash equivalents	223,623	70,265
Net increase (decrease) in cash and cash equivalents	(1,886,978)	(1,856,833)
Cash and cash equivalents at beginning of period	5,451,092	6,484,572
Cash and cash equivalents at end of period	3,564,113	4,627,739