

Consolidated Financial Results for the Six Months Ended July 31, 2022 [Japanese GAAP]



August 31, 2022

Company name: ACCESS CO., LTD.

Stock exchange listing: Tokyo Stock Exchange

Securities code: 4813

URL: <https://www.access-company.com>

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Scheduled date of filing quarterly securities report: September 7, 2022

Scheduled date of commencing dividend payments: -

Availability of supplementary briefing material on quarterly financial results: Available

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

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

1. Consolidated Financial Results for the Six Months Ended July 31, 2022 (February 1, 2022 to July 31, 2022)

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

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
Six months ended								
July 31, 2022	5,139	30.4	(2,016)	-	(1,692)	-	(1,743)	-
July 31, 2021	3,941	26.8	(1,818)	-	(1,337)	-	(1,412)	-

(Note) Comprehensive income: Six months ended July 31, 2022: ¥(584) million [-%]

Six months ended July 31, 2021: ¥(785) million [-%]

	Basic earnings per share	Diluted earnings per share
	Yen	Yen
Six months ended		
July 31, 2022	(44.66)	-
July 31, 2021	(36.17)	-

(2) Consolidated Financial Position

	Total assets	Net assets	Equity ratio
	Million yen	Million yen	%
As of July 31, 2022	26,753	24,368	90.9
As of January 31, 2022	27,962	25,393	90.6

(Reference) Equity: As of July 31, 2022: ¥24,319 million

As of January 31, 2022: ¥25,339 million

2. Dividends

	Annual dividends				
	1st quarter-end	2nd quarter-end	3rd quarter-end	Year-end	Total
	Yen	Yen	Yen	Yen	Yen
Fiscal year ended January 31, 2022	-	0.00	-	0.00	0.00
Fiscal year ending January 31, 2023	-	0.00	-	-	-
Fiscal year ending January 31, 2023 (Forecast)	-	-	-	0.00	0.00

(Note) Revision to the forecast for dividends announced most recently: No

3. Consolidated Financial Results Forecast for the Fiscal Year Ending January 31, 2023 (February 1, 2022 to January 31, 2023)

(% indicates changes from the previous corresponding period.)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent		Basic earnings per share
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen
Full year	11,800	19.8	(1,500)	-	(1,550)	-	(1,750)	-	(44.68)

(Note) Revision to the financial results forecast announced most recently: No

* Notes:

- (1) Changes in significant subsidiaries during the period under review (changes in specified subsidiaries resulting in changes in scope of consolidation): No
Newly added: - (Name) - Excluded: - (Name) -
 - (2) Accounting policies adopted specifically for the preparation of quarterly consolidated financial statements: No
 - (3) Changes in accounting policies, changes in accounting estimates and retrospective restatement
 - 1) Changes in accounting policies due to the revision of accounting standards: Yes
 - 2) Changes in accounting policies other than 1) above: No
 - 3) Changes in accounting estimates: No
 - 4) Retrospective restatement: No
 - (4) Total number of issued shares (common stock)
 - 1) Total number of issued shares at the end of the period (including treasury shares):
July 31, 2022: 39,633,000 shares
January 31, 2022: 39,633,000 shares
 - 2) Total number of treasury shares at the end of the period:
July 31, 2022: 1,171,621 shares
January 31, 2022: 466,421 shares
 - 3) Average number of shares during the period:
Six months ended July 31, 2022: 39,031,283 shares
Six months ended July 31, 2021: 39,059,316 shares
- * The number of treasury shares includes the number of the Company's shares held by the Employee Stock Ownership Plan (six months ended July 31, 2022: 404,800 shares, fiscal year ended January 31, 2022: 465,100 shares).
- * These quarterly financial results are outside the scope of quarterly review by certified public accountants or audit firms.
- * Explanation of the proper use of financial results forecast and other notes
Financial results forecasts stated herein are determined based on information available to the Company and the Group as of the disclosure date of this document and contain various inherent risks and uncertainties. Please be advised that actual results may differ significantly from the financial results forecasts stated herein due to various factors including the economic conditions surrounding the Company and the Group's business, market trends, and exchange rates.

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1. Qualitative Information on the Quarterly Results

(1) Explanation of Business Results

During the six months ended July 31, 2022 (February 1, 2022 to July 31, 2022), the outlook for the global economy remained uncertain due to the resurgence of COVID-19 caused by the Omicron variant, soaring raw material prices, supply chain disruptions, Russia's invasion of Ukraine, and other factors.

During the six months ended July 31, 2022, all business segments progressed generally as planned. The number of non-recurring development projects in the IoT Business increased and the number of new orders for the white box solution OcNOS® in the Network Business increased, which led to an increase in net sales year on year. By contrast, due to the impact of exchange rate fluctuations, in the Network Business segment, which has business bases in the U.S. and where both net sales and expenses are mainly denominated in US dollars, net sales and expenses after conversion to yen increased, and thus resulting in an increase in net sales and operating loss.

As a result, for the consolidated business performance for the six months ended July 31, 2022, the Company reported ¥5,139 million in net sales (up 30.4% year on year) and ¥2,016 million in operating loss (operating loss of ¥1,818 million in the same period of the previous consolidated fiscal year).

Moreover, the Company has applied the "Accounting Standard for Revenue Recognition" (ASBJ Statement No. 29, March 31, 2020) and other standards from the beginning of the first quarter of the fiscal year under review. Details are as described in "2. Quarterly Consolidated Financial Statements and Primary Notes (4) Notes to the Quarterly Consolidated Financial Statements (Changes in Accounting Policies) (Application of Accounting Standard for Revenue Recognition, etc.)."

Initiatives of each business segment are as follows.

As of the current fiscal year, we have changed our business segments with the intention of strengthening global collaboration for products and services and creating further synergies. They are divided into the "IoT Business," which includes the IoT field and Digital Publishing field, the "Web Platform Business," which includes the Japanese Web Platform field and overseas bases in Europe, China, and South Korea, and the "Network Business," centered on a U.S. subsidiary IP Infusion Inc. Accordingly, the following comparisons and analyses for the six months ended July 31, 2022 are based on segment classification after this change. Details on the segments are described in "2. Quarterly Consolidated Financial Statements and Primary Notes (4) Notes to the Quarterly Consolidated Financial Statements (Segment Information) Segment Information 3. Matters related to changes in reportable segments."

IoT Business

The Group's IoT business is focused on two major fields, as follows. In the IoT field, we provide solutions to accelerate the promotion of digital transformation (DX) of enterprises and various IoT solutions by taking advantage of our strength in providing one-stop services for sensor technology, communication technology, cloud technology, application development capabilities, etc. In the Digital Publishing field, centered on the EPUB 3 compatible digital publishing solution, "PUBLUS®," we provide publishing solutions that combine advanced expressive ability with the versatility to support a wide range of content, and offer a comprehensive range of products, from user applications to content distribution systems and server systems. In addition, through our Taiwanese subsidiary, we provide the CROS® cloud service, which integrates business support systems and advertising analysis functions, to Japanese mail-order businesses entering Asian regions including Taiwan and Singapore.

With regard to the business performance of this segment for the six months ended July 31, 2022, in the IoT field, inquiries for non-recurring development projects for the telecommunication service and construction industries, as well as inquiries for our own products, including the "Linkit®" series that includes an indoor/outdoor location sharing business chat, increased, which led to an increase in net sales and profits year on year.

	(Million yen)		
IoT Business	Six months ended July 31, 2021	Six months ended July 31, 2022	Year-on-year change
Net sales to external customers	1,942	2,586	33.2%
Segment profit or loss	(309)	(48)	–

Web Platform Business

In collaboration with local subsidiaries in Germany, China, and South Korea, in domestic and overseas markets, we provide embedded software products including the “NetFront[®] Browser” series, a high-performance, high-functionality web browser with a rich track record of being installed on smart devices, information appliances, and various other devices. We also provide content distribution and service platforms for in-vehicle infotainment, and are working to expand our global market share of TV as a browser application and in-vehicle browsers.

With regard to the business performance of this segment for the six months ended July 31, 2022, net sales and profits decreased year on year, mainly due to changes in contract timing for some in-vehicle browser projects in Japan.

	(Million yen)		
Web Platform Business	Six months ended July 31, 2021	Six months ended July 31, 2022	Year-on-year change
Net sales to external customers	1,009	895	(11.3%)
Segment profit or loss	(108)	(154)	–

Network Business

The Company has established local subsidiaries in India, Canada, and other countries, centered on its U.S. subsidiary, IP Infusion Inc., and is working to maintain the foundation of its existing business, the “ZebOS[®]” series, which is a base software platform for network equipment, while focusing on expanding the OcNOS[®] business, an integrated Network OS for white box. As we enter the era of 5G, with the expected further increase in communication traffic, the market for white box is growing worldwide, since data center operators, telecommunications carriers, and IXP (Internet Exchange Point) operators see white box as an effective means to significantly reduce network infrastructure capital investment and operation costs, while increasing the degree of freedom in their operations. Under these circumstances, IP Infusion Inc. has expanded our wide range of white box solutions, such as Cell Site Router (CSR) applications in common platforms for both wide area and local area networking for telecommunication service providers, Universal Customer Premise Equipment (uCPE) applications, and the commercial version of “SONiC distribution” for data centers. Furthermore, we are working on the stable provision of white box solutions and support for telecommunication service providers through partnership with major distributors including KGPCo, and TechData, and global system integrators including Wipro Limited.

With regard to the business performance of this segment for the six months ended July 31, 2022, in addition to the number of new customers who have adopted IP Infusion Inc.’s solutions, including OcNOS[®], reaching approximately 40, the amount of orders received and the number of repeat orders increased as well. Expenses increased due to increased personnel expenses associated with enhancement of personnel structure and depreciation for software. Due to these factors, US dollar-denominated net sales increased, and operating loss expanded slightly. In addition, due to the impact of exchange rate fluctuations, net sales and operating loss after conversion to yen increased, resulting in an increase in net sales but a decrease in profits year on year.

Network Business	(Million yen)		
	Six months ended July 31, 2021	Six months ended July 31, 2022	Year-on-year change
Net sales to external customers	989	1,657	67.5%
Segment profit or loss	(1,403)	(1,820)	–

Moreover, foreign exchange gains of ¥569 million is reported as non-operating income, and loss on investments in investment partnerships of ¥267 million is reported as non-operating expenses.

As a result, for the consolidated business performance for the six months ended July 31, 2022, the Company reported ¥5,139 million in net sales (up 30.4% year on year), ¥2,016 million in operating loss (operating loss of ¥1,818 million in the same period of the previous consolidated fiscal year), ¥1,692 million in ordinary loss (ordinary loss of ¥1,337 million in the same period of the previous consolidated fiscal year), and ¥1,743 million in loss attributable to owners of parent (loss attributable to owners of parent of ¥1,412 million in the same period of the previous consolidated fiscal year).

(2) Explanation of Financial Position

Total assets as of the end of the consolidated six months under review decreased by ¥1,208 million from the end of the previous fiscal year to ¥26,753 million. This was mainly due to decreases in cash and deposits and work in process.

Total liabilities decreased by ¥183 million from the end of the previous fiscal year to ¥2,384 million. This was mainly due to a decrease in income taxes payable.

Net assets decreased by ¥1,025 million from the end of the previous fiscal year to ¥24,368 million due mainly to a decrease of ¥458 million due to purchase of treasury shares, an increase of ¥1,129 million in foreign currency translation adjustment, and the reporting of ¥1,743 million in loss attributable to owners of parent.

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

Regarding the consolidated financial results forecast for the fiscal year ending January 31, 2023, there is no change from the Consolidated Financial Results for the Fiscal Year Ended January 31, 2022 released on March 15, 2022.

The outlook remains uncertain due to Russia's invasion of Ukraine and the continued depreciation of the yen. The Company has client companies in Russia and other countries, but we are aware that the sales of client companies in Russia and Ukraine will not be large in the consolidated budget for the fiscal year ending January 31, 2023, and we recognize that the scale is recoverable with sales from other regions.

Furthermore, following the recent global supply chain disruptions, if the number of shipments of TVs and in-vehicle devices where our browser products are installed decreases, or the procurement of network equipment by telecommunication service providers becomes difficult, it may lead to the risk of decrease of royalty income, or license income from software for white box, to be received by the Company. We will continue to carefully assess the impact on financial results, and if it becomes clear that any significant impact arises, we will promptly disclose it.

2. Quarterly Consolidated Financial Statements and Primary Notes

(1) Quarterly Consolidated Balance Sheets

(Thousand yen)

	As of January 31, 2022	As of July 31, 2022
Assets		
Current assets		
Cash and deposits	15,148,137	13,581,283
Notes and accounts receivable - trade, and contract assets	—	3,084,876
Notes and accounts receivable - trade	2,920,779	—
Securities	95,999	—
Merchandise and finished goods	61,618	198,308
Work in process	215,544	88,324
Other	633,265	633,750
Allowance for doubtful accounts	(90,641)	(98,156)
Total current assets	18,984,703	17,488,386
Non-current assets		
Property, plant and equipment		
Buildings and structures	347,440	371,461
Accumulated depreciation	(196,797)	(227,377)
Buildings and structures, net	150,643	144,083
Tools, furniture and fixtures	1,093,923	1,264,722
Accumulated depreciation	(827,470)	(913,674)
Tools, furniture and fixtures, net	266,453	351,047
Leased assets	3,602	3,602
Accumulated depreciation	(2,041)	(2,401)
Leased assets, net	1,560	1,200
Right of use assets	90,784	74,338
Accumulated depreciation	(53,051)	(17,677)
Right of use assets, net	37,733	56,660
Total property, plant and equipment	456,391	552,993
Intangible assets		
Software	5,110,043	5,363,046
Goodwill	605,715	613,623
Other	260,221	253,253
Total intangible assets	5,975,980	6,229,924
Investments and other assets		
Investment securities	854,959	636,054
Deferred tax assets	339,375	314,356
Other	1,367,269	1,569,790
Allowance for doubtful accounts	(16,509)	(38,046)
Total investments and other assets	2,545,095	2,482,153
Total non-current assets	8,977,466	9,265,071
Total assets	27,962,170	26,753,457

(Thousand yen)

	As of January 31, 2022	As of July 31, 2022
Liabilities		
Current liabilities		
Accounts payable - trade	215,348	199,771
Income taxes payable	223,988	25,879
Provision for bonuses	180,270	174,106
Provision for share awards	37,764	115
Provision for loss on litigation	4,335	4,738
Other	1,427,667	1,403,083
Total current liabilities	2,089,374	1,807,696
Non-current liabilities		
Deferred tax liabilities	4,238	16,271
Retirement benefit liability	172,833	208,971
Provision for share awards	—	8,972
Asset retirement obligations	95,264	98,101
Long-term accounts payable - other	30,031	14,151
Other	176,522	230,477
Total non-current liabilities	478,891	576,945
Total liabilities	2,568,266	2,384,641
Net assets		
Shareholders' equity		
Share capital	29,538,781	17,000,000
Capital surplus	153,860	12,132,404
Retained earnings	(2,184,137)	(3,348,598)
Treasury shares	(278,180)	(737,140)
Total shareholders' equity	27,230,324	25,046,665
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	36,706	69,836
Foreign currency translation adjustment	(1,927,212)	(797,437)
Total accumulated other comprehensive income	(1,890,505)	(727,601)
Share acquisition rights	39,312	39,312
Non-controlling interests	14,771	10,438
Total net assets	25,393,904	24,368,816
Total liabilities and net assets	27,962,170	26,753,457

(2) Quarterly Consolidated Statements of Income and Comprehensive Income

Quarterly Consolidated Statements of Income

Six Months Ended July 31

(Thousand yen)

	For the six months ended July 31, 2021	For the six months ended July 31, 2022
Net sales	3,941,685	5,139,168
Cost of sales	3,745,230	4,698,173
Gross profit	196,454	440,994
Selling, general and administrative expenses	2,015,214	2,457,710
Operating loss	(1,818,759)	(2,016,716)
Non-operating income		
Interest income	3,803	4,756
Gain on investments in investment partnerships	452,147	—
Share of profit of entities accounted for using equity method	22,542	17,422
Foreign exchange gains	233	569,842
Consumption taxes refund	542	—
Other	3,392	3,383
Total non-operating income	482,661	595,405
Non-operating expenses		
Interest expenses	624	379
Loss on investments in investment partnerships	—	267,014
Other	831	3,518
Total non-operating expenses	1,456	270,912
Ordinary loss	(1,337,554)	(1,692,223)
Extraordinary income		
Gain on sale of non-current assets	84	—
Gain on sale of investment securities	45	—
Total extraordinary income	130	—
Extraordinary losses		
Loss on retirement of non-current assets	6,003	318
Total extraordinary losses	6,003	318
Loss before income taxes	(1,343,428)	(1,692,542)
Income taxes - current	73,000	55,329
Income taxes - deferred	(8,464)	1,851
Total income taxes	64,536	57,181
Loss	(1,407,964)	(1,749,723)
Profit (loss) attributable to non-controlling interests	4,732	(6,580)
Loss attributable to owners of parent	(1,412,697)	(1,743,143)

Quarterly Consolidated Statements of Comprehensive Income

Six Months Ended July 31

(Thousand yen)

	For the six months ended July 31, 2021	For the six months ended July 31, 2022
Loss	(1,407,964)	(1,749,723)
Other comprehensive income		
Valuation difference on available-for-sale securities	8,214	33,129
Foreign currency translation adjustment	614,555	1,132,021
Total other comprehensive income	622,770	1,165,151
Comprehensive income	(785,193)	(584,572)
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	(790,321)	(580,239)
Comprehensive income attributable to non-controlling interests	5,127	(4,332)

(3) Quarterly Consolidated Statements of Cash Flows

(Thousand yen)

	For the six months ended July 31, 2021	For the six months ended July 31, 2022
Cash flows from operating activities		
Loss before income taxes	(1,343,428)	(1,692,542)
Depreciation	1,439,189	1,878,134
Amortization of goodwill	106,238	84,746
Interest and dividend income	(3,803)	(4,756)
Share of loss (profit) of entities accounted for using equity method	(22,542)	(17,422)
Loss (gain) on investments in investment partnerships	(452,147)	267,014
Interest expenses	624	379
Foreign exchange losses (gains)	(26,960)	(528,742)
Loss (gain) on sale of property, plant and equipment	(84)	—
Loss on retirement of non-current assets	6,003	318
Loss (gain) on sale of investment securities	(45)	—
Decrease (increase) in trade receivables	689,501	—
Decrease (increase) in trade receivables and contract assets	—	(9,219)
Decrease (increase) in inventories	(9,069)	(8,728)
Decrease (increase) in prepaid expenses	(313,030)	(22,936)
Decrease (increase) in long-term prepaid expenses	124,454	44,485
Decrease/increase in consumption taxes receivable/payable	60,402	(160,994)
Increase (decrease) in allowance for doubtful accounts	4,367	20,614
Increase (decrease) in trade payables	(9,322)	(52,791)
Increase (decrease) in provision for bonuses	22,284	(27,175)
Increase (decrease) in provision for loss on order received	8,804	—
Increase (decrease) in provision for share awards	36,844	6,115
Increase (decrease) in accounts payable - other	8,325	(81,000)
Increase (decrease) in accrued expenses	14,929	23,774
Increase (decrease) in advances received	98,170	—
Increase (decrease) in contract liabilities	—	18,623
Increase (decrease) in retirement benefit liability	(5,265)	36,137
Other, net	32,313	103,470
Subtotal	466,755	(122,493)
Interest and dividends received	28,835	23,088
Interest paid	(624)	(379)
Income taxes paid	(110,873)	(262,348)
Income taxes refund	131,257	13,450
Net cash provided by (used in) operating activities	515,351	(348,681)
Cash flows from investing activities		
Payments into time deposits	(143,885)	(211,934)
Proceeds from withdrawal of time deposits	104,025	107,851
Purchase of property, plant and equipment	(70,137)	(107,698)
Proceeds from sale of property, plant and equipment	1,188	186
Purchase of intangible assets	(1,297,264)	(1,269,501)
Purchase of investment securities	(2,500)	(3,838)
Proceeds from sale of investment securities	282	—
Payments for asset retirement obligations	(46,156)	—
Proceeds from distributions from investment partnerships	227,998	1,349
Payment for guarantee deposits	(3,357)	(3,345)
Proceeds from collection of lease deposits and guarantee deposits	58,643	10,946
Net cash provided by (used in) investing activities	(1,171,163)	(1,475,982)

	For the six months ended July 31, 2021	For the six months ended July 31, 2022
Cash flows from financing activities		
Purchase of treasury shares	(37)	(493,752)
Dividends paid	(223)	(52)
Other, net	(26,126)	(19,420)
Net cash provided by (used in) financing activities	(26,387)	(513,224)
Effect of exchange rate change on cash and cash equivalents	204,309	553,580
Net increase (decrease) in cash and cash equivalents	(477,889)	(1,784,308)
Cash and cash equivalents at beginning of period	16,545,097	15,092,885
Cash and cash equivalents at end of period	16,067,208	13,308,576

(4) Notes to the Quarterly Consolidated Financial Statements

(Notes on Going Concern Assumption)

There is no relevant information.

(Notes in Case of Significant Changes in Shareholders' Equity)

I. For the six months ended July 31, 2021 (February 1, 2021 to July 31, 2021)

1. Cash dividends paid

There is no relevant information.

2. Dividends for which the record date falls within the consolidated six months under review, but the effective date is subsequent to that period

There is no relevant information.

3. Significant changes in shareholders' equity

Pursuant to a resolution of the meeting of the Board of Directors held on April 26, 2021, the Company issued new shares as restricted stock compensation on May 25, 2021. As such, during the six months ended July 31, 2021, share capital and capital surplus increased by ¥66,118 thousand and ¥66,118 thousand, respectively.

As a result, share capital and capital surplus amounted to ¥29,538,781 thousand and ¥153,860 thousand, respectively, as of the end of the consolidated six months under review.

II. For the six months ended July 31, 2022 (February 1, 2022 to July 31, 2022)

1. Cash dividends paid

There is no relevant information.

2. Dividends for which the record date falls within the consolidated six months under review, but the effective date is subsequent to that period

There is no relevant information.

3. Significant changes in shareholders' equity

(Reduction of share capital, capital surplus and retained earnings, and appropriation of surplus)

Pursuant to a resolution of the 38th Ordinary General Meeting of Shareholders held on April 20, 2022, the Company reduced share capital, capital surplus and retained earnings, as well as appropriated surplus on May 20, 2022.

As a result, share capital decreased by ¥12,538,781 thousand, capital surplus increased by ¥11,978,543 thousand, and retained earnings increased by ¥560,237 thousand.

This has no effect on the total amount of shareholders' equity.

(Purchase of treasury shares)

At the Board of Directors meeting held on May 31, 2022, the Company resolved matters related to the acquisition of treasury shares pursuant to the provisions of Article 156 of the Companies Act, which is applied by replacing the terms of the provisions of Article 165, Paragraph 3 of the Companies Act, and acquired 686,000 treasury shares during the six months ended July 31, 2022.

As a result, treasury shares increased by ¥493,752 thousand during the six months ended July 31, 2022.

(Changes in Accounting Policies)

(Application of the Accounting Standard for Revenue Recognition, etc.)

The Company has applied the “Accounting Standard for Revenue Recognition” (ASBJ Statement No. 29, March 31, 2020; hereinafter “Revenue Recognition Standard”) and other standards from the beginning of the first quarter of the fiscal year under review. The Company recognizes revenue when control of a promised good or service is transferred to a customer in an amount that reflects the consideration to which the Company expects to be entitled in exchange for those goods and services. Accordingly, while revenue was previously recognized as a performance obligation satisfied at a point in time for some transactions in service contracts and quasi-mandate contracts, we have changed the method for recognizing revenue to one that is recognized over time according to the rate of progress, judging it to be a performance obligation to be satisfied over time.

The Company applies the Revenue Recognition Standard, etc. in accordance with the transitional treatment provided for in the proviso to Paragraph 84 of the Revenue Recognition Standard. The cumulative impact of retrospectively applying the new accounting policies to prior periods is adjusted to retained earnings at the beginning of the first quarter of the fiscal year, with the new accounting policies applied from the beginning balance. However, the Company applies the method provided for in Paragraph 86 of the Revenue Recognition Standard, and does not apply the new accounting policies retrospectively to contracts for which substantially all revenue amounts had been recognized prior to the beginning of the first quarter of the fiscal year in accordance with the previous treatment. In addition, applying the method stipulated in proviso (1) to Paragraph 86 of the Revenue Recognition Standard, contract modifications that occurred prior to the beginning of the first quarter of the fiscal year were accounted for based on the terms of the contract after reflecting all contract modifications, with the cumulative impact adjusted to retained earnings at the beginning of the first quarter of the fiscal year.

As a result, for the six months ended July 31, 2022, net sales increased by ¥111,263 thousand, cost of sales increased by ¥62,386 thousand, and operating profit, ordinary profit, and profit before income taxes each increased by ¥48,877 thousand. In addition, the beginning balance of retained earnings for the period under review increased by ¥18,445 thousand.

Due to the application of the Revenue Recognition Standard, etc. “notes and accounts receivable - trade,” which was presented under “current assets” in the consolidated balance sheets for the previous fiscal year, has been included in “notes and accounts receivable - trade, and contract assets” as of the first quarter of the fiscal year. Moreover, “decrease (increase) in trade receivables,” which was presented under “cash flows from operating activities” in the quarterly consolidated statements of cash flows for the second quarter of the previous fiscal year, has been included in “decrease (increase) in trade receivables and contract assets” as of the second quarter of the fiscal year under review. In addition, “increase (decrease) in advances received” has been included in “increase (decrease) in contract liabilities” as of the second quarter of the fiscal year under review.

In accordance with the transitional treatment set forth in Paragraph 89-2 of the Revenue Recognition Standard, figures for the previous fiscal year have not been reclassified based on the new presentation method. Moreover, in accordance with the transitional treatment set forth in Paragraph 28-15 of the “Accounting Standard for Quarterly Financial Reporting” (ASBJ Statement No. 12, March 31, 2020), information on disaggregation of revenue from contracts with customers during the six months ended July 31, 2021 is not provided.

(Application of the Accounting Standard for Fair Value Measurement, etc.)

The Company has applied the “Accounting Standard for Fair Value Measurement” (ASBJ Statement No. 30, July 4, 2019; hereinafter “Fair Value Measurement Standard”) and other standards from the beginning of the first quarter of the fiscal year under review, and will prospectively apply the new accounting policies stipulated by the Fair Value Measurement Standard, etc. in accordance with the transitional treatment provided in Paragraph 19 of the Fair Value Measurement Standard and Paragraph 44-2 of the “Accounting Standard for Financial Instruments” (ASBJ Statement No. 10, July 4, 2019). There is no impact on the quarterly consolidated financial statements.

(Segment Information)

[Segment information]

I. For the six months ended July 31, 2021 (February 1, 2021 to July 31, 2021)

1. Information on the amounts of net sales and profit or loss by reportable segment

(Thousand yen)

	Reportable segment			Total	Adjustment (Note) 1	Amount recorded in Quarterly Consolidated Financial Statements (Note) 2
	IoT Business	Web Platform Business	Network Business			
Net sales						
Net sales to external customers	1,942,310	1,009,939	989,435	3,941,685	–	3,941,685
Inter-segment net sales or transfers	40,140	1,064	–	41,205	(41,205)	–
Total	1,982,451	1,011,004	989,435	3,982,891	(41,205)	3,941,685
Segment loss	(309,672)	(108,186)	(1,403,130)	(1,820,989)	2,229	(1,818,759)

(Notes)

1. The ¥2,229 thousand adjustment for segment loss comprises the elimination of inter-segment transactions.
2. Segment loss was adjusted based on operating loss reported in the quarterly consolidated statements of income.

2. Information on impairment loss on non-current assets, or goodwill by reportable segment

There is no relevant information.

II. For the six months ended July 31, 2022 (February 1, 2022 to July 31, 2022)

1. Information on the amounts of net sales and profit or loss by reportable segment and revenue disaggregation information

(Thousand yen)

	Reportable segment			Total	Adjustment (Note) 1	Amount recorded in Quarterly Consolidated Financial Statements (Note) 2
	IoT Business	Web Platform Business	Network Business			
Net sales						
Japan	2,220,021	573,270	404,812	3,198,104	–	3,198,104
Asia	364,140	234,449	509,696	1,108,287	–	1,108,287
Europe	873	83,864	322,657	407,394	–	407,394
U.S.	1,167	4,092	411,629	416,889	–	416,889
Other regions	–	–	8,491	8,491	–	8,491
Revenue from contracts with customers	2,586,204	895,677	1,657,287	5,139,168	–	5,139,168
Revenue from other sources	–	–	–	–	–	–
Net sales to external customers	2,586,204	895,677	1,657,287	5,139,168	–	5,139,168
Inter-segment net sales or transfers	33,027	709	–	33,737	(33,737)	–
Total	2,619,231	896,386	1,657,287	5,172,905	(33,737)	5,139,168
Segment loss	(48,177)	(154,815)	(1,820,700)	(2,023,693)	6,977	(2,016,716)

(Notes)

1. The ¥6,977 thousand adjustment for segment loss comprises the elimination of inter-segment transactions.
2. Segment loss was adjusted based on operating loss reported in the quarterly consolidated statements of income.

2. Information on impairment loss on non-current assets, or goodwill by reportable segment

There is no relevant information.

3. Matters related to changes in reportable segments

As of the first quarter of the fiscal year, we have changed our business segments with the intention of strengthening global collaboration for products and services and creating further synergies. They are divided into the “IoT Business,” which includes the IoT field and Digital Publishing field, the “Web Platform Business,” which includes the Japanese Web Platform field and overseas bases in Europe, China, and South Korea, and the “Network Business,” centered on a U.S. subsidiary IP Infusion Inc. Accordingly, the reportable segments have been changed from the previous three divisions of “Domestic Business,” “Overseas Business,” and “Network Business” to the three divisions of “IoT Business,” “Web Platform Business,” and “Network Business.”

The segment information for the six months ended July 31, 2021 is based on the segment classification after this change.

Segment name	Business details
IoT Business	<ul style="list-style-type: none">• The head office, domestic subsidiaries, and Taiwanese subsidiaries offer IoT-related software and digital publishing-related software and solutions, among others, in the domestic market
Web Platform Business	<ul style="list-style-type: none">• The head office and German, Chinese and South Korean subsidiaries offer web platform-related solutions, including embedded browsers, in domestic and overseas markets
Network Business	<ul style="list-style-type: none">• U.S. and Indian subsidiaries offer software for network equipment and solutions related to network virtualization, among others

In addition, as described in “(Changes in Accounting Policies) (Application of the Accounting Standard for Revenue Recognition, etc.),” the Company has applied the Accounting Standard for Revenue Recognition, etc. and changed the accounting method for revenue recognition from the beginning of the first quarter of the fiscal year under review. Accordingly, the method of calculating profit or loss for the business segments has also been changed.

As a result of this change, compared to the previous method, net sales for the IoT Business increased by ¥105,047 thousand and segment profit increased by ¥47,204 thousand, and net sales for the Web Platform Business increased by ¥6,215 thousand and segment profit increased by ¥1,673 thousand for the six months ended July 31, 2022.

(Significant Subsequent Events)

There is no relevant information.