

Disclaimer:

This financial report is solely a translation of the "Kessan Tanshin" (in Japanese, including attachments), which has been prepared in accordance with accounting principles and practices generally accepted in Japan, for the convenience of readers who prefer an English translation.

October 30, 2023

SB Technology Corp.
Consolidated Financial Report for the Second Quarter of Fiscal Year Ending March 31, 2024
(Six Months Ended September 30, 2023)

[Japanese GAAP]

Company name: SB Technology Corp. (Tokyo Stock Exchange/Code No. 4726)

(URL <https://www.softbanktech.co.jp/>)

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Scheduled date of filing of Quarterly Report: November 13, 2023

Scheduled date of payment of dividend: December 1, 2023

Preparation of supplementary materials for quarterly financial results: Yes

Holding of quarterly financial results meeting: Yes (for institutional investors and analysts)

(All amounts are rounded down to the nearest million yen)

1. Consolidated Financial Results for the Six Months Ended September 30, 2023 (April 1, 2023 – September 30, 2023)

(1) Consolidated Results of Operations (Percentages represent year-on-year changes)

	Net sales		Operating income		Ordinary income		Profit attributable to owners of parent	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
Six Months ended Sep. 30, 2023	32,206	1.6	2,282	0.6	2,182	△1.8	6,272	365.9
Six Months ended Sep. 30, 2022	31,706	1.2	2,270	2.9	2,222	1.5	1,346	2.3

Note: Comprehensive income (million yen) Six Months ended Sep. 30, 2023: 6,400 (up 335.8%)

Six Months ended Sep. 30, 2022: 1,468 (up 4.7%)

	Net income per share	Diluted net income per share
	Yen	Yen
Six Months ended Sep. 30, 2023	315.63	315.35
Six Months ended Sep. 30, 2022	66.99	66.32

(2) Consolidated Financial Position

	Total assets	Net assets	Shareholders' equity ratio	Net assets per share
	Million yen	Million yen	%	Yen
As of Sep. 30, 2023	48,140	30,963	58.6	1,417.91
As of Mar. 31, 2023	45,466	25,167	49.4	1,131.42

Reference: Shareholders' equity (million yen)

As of Sep. 30, 2023: 28,218

As of Mar. 31, 2023: 22,475

2. Dividends

	Dividends per share				
	1Q-end	2Q-end	3Q-end	Year-end	Total
	Yen	Yen	Yen	Yen	Yen
Fiscal year ended Mar. 31, 2023	—	25.00	—	35.00	60.00
Fiscal year ending Mar. 31, 2023	—	30.00			
Fiscal year ending Mar. 31, 2023 (forecast)			—	30.00	60.00

Note: Revisions to the most recently announced dividend forecast: None

3. Forecast of Consolidated Financial Results for the Fiscal Year Ending March 31, 2024 (April 1, 2023 – March 31, 2024)

(Percentages represent year-on-year changes)

	Net sales		Operating income		Ordinary income		Profit attributable to owners of parent		Net income per share
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen
Full year	68,000	1.1	5,900	6.2	5,750	4.6	8,200	134.5	412.60

Note: Revisions to the most recently announced consolidated forecast: None

*** Notes**

(1) Changes in significant subsidiaries during the period (changes in specified subsidiaries resulting in changes in scope of consolidation): None

(2) Application of special accounting for presenting quarterly consolidated financial statements: None

(3) Changes in accounting policies and accounting estimates, and restatements

- i. Changes in accounting policies due to revisions in accounting standards, others: None
- ii. Changes in accounting policies other than i. above: None
- iii. Changes in accounting estimates: None
- iv. Restatements: None

(4) Number of outstanding shares (common stock)

- i. Number of shares outstanding at the end of the period (including treasury shares)

As of Sep. 30, 2023:	22,757,800 shares	As of Mar. 31, 2023:	22,757,800 shares
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- ii. Number of treasury shares at the end of the period

As of Sep. 30, 2023:	2,856,020 shares	As of Mar. 31, 2023:	2,892,930 shares
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- iii. Average number of shares outstanding during the period

Six Months ended Sep. 30, 2023:	19,874,019 shares	Six Months ended Sep. 30, 2022:	20,095,960 shares
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* This consolidated financial report is not subject to quarterly review procedures by a certified public accountant or audit company.

* Explanation for appropriate use of operating forecasts, and other special items

Cautionary statement with respect to forward-looking statements

Forecasts regarding future performance in this report are based on assumptions based upon valid and other reasonable information available to the Company at the time this report was created. This report is not promised by the Company regarding future performance. The actual performance may differ significantly from these forecasts for a variety of reasons.

How to view supplementary information at the financial results meeting

The Company plans to hold the financial results meeting for institutional investors and analysts on October 30, 2023.

Supplementary materials for financial results will be disclosed, using the Timely Disclosure network (TDnet), and will be available on the Company's website (<https://www.softbanktech.co.jp/corp/ir/>).

○Appendix

Table of Contents

1. Qualitative Information on Financial Results of the Period Under Review	2
(1) Explanation of Business Results	2
(2) Explanation of Financial Position	6
(3) Explanation on Consolidated Forecast and Other Forward-looking Statements	6
2. Quarterly Consolidated Financial Statements	7
(1) Quarterly Consolidated Balance Sheet	7
(2) Quarterly Consolidated Statements of Income and Comprehensive Income	9
(For the Six-month Period)	9
(3) Quarterly Consolidated Statement of Cash Flows.....	10
(4) Notes to Quarterly Consolidated Financial Statements	12
(Going Concern Assumption)	12
(Notes to Quarterly Consolidated Statements of Income and Comprehensive Income).....	12
(Business Combination, etc.)	12

1. Overview of Business Results

(1) Explanation of Business Results

During the first quarter under review, prices of energy resources and commodities soared due in part to concerns about the global situation and the weaker yen associated with higher interest rates overseas to control inflation. However, the Japanese economy saw continuous movement toward a recovery with social and economic activities normalizing and domestic economic activities revitalizing, albeit modestly, as a result of the reclassification of COVID-19 as a class 5 infectious disease.

In this operating environment, companies pursued a number of initiatives, including advancing digital transformation (DX) using digital technologies and promoting the use of the cloud to address workstyle changes, as well as enhancing security measures to address cyberattacks, toward their goal of transforming their business. As a result, Japanese corporate demand for investment in digital transformation (DX) has steadily increased.

In addition, moves to use state-of-the-art technologies to reduce cost, improve business efficiency and create new workstyles have been further revitalized, as exemplified by the attention that has been drawn to ChatGPT, a type of generative AI. The Company will also aim to increase operational efficiency in a range of business applications using its core technologies to improve response accuracy, applying the expertise acquired through internal use and joint demonstration experiments with our customers.

Additionally, the number of cybercrimes targeting weaknesses in security measures continued to increase. The government made it mandatory for its contractors to take cybersecurity measures conforming to the US government standard within the fiscal year ending March 31, 2024. In these conditions, it has become apparent that both individual companies and entire supply chains need to take cyber security measures.

The Company and other ICT-related companies are expected to respond to rapid social changes through the promotion of DX accompanied with support for security measures, as well as develop human resources with high-level DX technology literacy.

Amid this business environment, the ICT services business remained strong, and full-year net sales, gross profit, operating income, and ordinary income all reached record highs.

- Telecommunication

Sales in the Telecommunication segment fell year on year as forecast at the beginning of the fiscal year, due to a decrease in vendor management projects for SoftBank Corp. and the impact of investment control. However, profit margins for the segment improved, reflecting the increased efficiency of system development.

- Enterprise

Projects for developing and operating cloud services for a group of key customers remained strong. Sales of the Company's own Managed Security Services (MSS) grew approximately 1.5 times year on year and continue to grow steadily.

- Public Sector

Both sales and profits in the Public Sector segment grew year on year. Sales increased because large-scale projects, including projects for an electronic application platform and digital maps for the Ministry of Agriculture, Forestry and Fisheries and Local Government Information Security Cloud, entered the operation phase, and seasonal fluctuations in sales decreased. Profit margins also improved.

- Consumer

Both sales and profit in the Consumer segment sank year on year, impacted by changes in the contract with NortonLifeLock Inc. in the business operating e-commerce sites as an agent. The declines in sales and profits were in accordance with the Company's forecasts at the beginning of the current fiscal year.

The Group's financial results for the consolidated fiscal year under review were as follows.

Net sales, gross profit, and operating income reached record highs for the first six months of a fiscal year. Moreover, the share transfer of Fontworks Inc. resulted in record high profit attributable to owners of parent.

(Millions of yen)

	Six-month ended September 30, 2022	Six -month ended September 30, 2023	Change (Amount)	Change (Ratio)
Net sales	31,706	32,206	499	1.6%
Gross profit	6,944	7,597	653	9.4%
Total selling, general and administrative expenses	4,673	5,315	641	13.7%
Operating income	2,270	2,282	12	0.6%
Ordinary income	2,222	2,182	(40)	(1.8)%
Profit attributable to owners of parent	1,346	6,272	4,926	365.9%
EBITDA(*)	3,093	3,156	63	2.1%
Net income per share	JPY66.99	JPY 315.63	JPY 248.64	371.1%

*Note: EBITDA=Operating income + Amortization of goodwill (Total selling, general and administrative expenses) + Depreciation

The Group operates in a single reportable segment of the ICT Services segment. Refer to "Segment Explanation" on page 5 for details on the content and performance of the solutions that comprise the ICT Services segment.

< Progress in the Fourth Medium-Term Management Plan >

The Company and its consolidated subsidiaries (the "Group") established the Fourth Medium-Term Management Plan covering three years from the fiscal year ending March 31, 2023 to the fiscal year ending March 31, 2025, and began implementing initiatives based on the Plan.

(i) Basic business policy

The Group's mission reads: "Information Revolution, Happiness for everyone - Technologies Design the Future-" It thus enhances its advanced technologies and creativity in an environment that supports diverse work styles and attempts in an aim to be a company that continues to offer new value to society. In line with this management philosophy, it formulated a long-term vision of becoming a leader of cloud consulting and service company to increase enterprise Japanese company's competitiveness.

Furthermore, the Group is addressing a range of social issues through its corporate activities for the realization of a sustainable society. The Group identified six material issues (important issues) as themes for advancing activities for the realization of sustainability. Please see the Company's website for more information about sustainability and the material issues.

<https://www.softbanktech.co.jp/corp/sustainability/>

The Group has a management policy of creating a prosperous information society through the provision of ICT services.

(ii) Priority theme

Progress on the priority themes under the Fourth Medium-Term Management Plan is as follows.

< Three Priority Themes and Initiatives Based on the Themes >

- Providing security and operation services to support customer's DX (The force of pushing up)
- Promote co-creation-type DX utilizing data that realizes customer transformation (The force of pulling up)
- DX Consultation and IT education for the development and creation of DX human resources (The force of moving ahead)

The use of generative AI has become considered in many scenes to increase the efficiency of customers' operations and digital transformation (DX). Meanwhile, the Company has received reports of primarily two issues faced by customers when using data held internally for business purposes. The first is that individual users of data end up being responsible for risks associated with security and privacy due to their ability to directly question generative AI, making it difficult for companies to manage and control such risks. The second is that answers returned from internal data tend to lack accuracy, failing to help increase operational efficiency. To address these issues, the Company has developed core technologies linked to Azure OpenAI Service, which allows the secure use of generative AI, and launched in May 2023 a joint demonstration experiment with Kyowa Kirin Co., Ltd. for business use of generative AI. The Company has verified the accuracy, convenience, etc. of responses from generative AI in order to reduce the time needed to search data from an enormous amount of R&D-related document files stored in Kyowa Kirin's SharePoint Online. The result indicated appropriate responses received in the document search, which confirmed the validity of operational efficiency. Based on the expertise it has obtained from using the system internally and engaging in a joint demonstration experiment, in addition to the technical capabilities related to Microsoft solutions cultivated to date and its knowledge regarding security when using cloud services safely, the Company has begun to develop services using the Azure OpenAI Service, aiming to contribute to customers' DX.

(3) Targeted management indicators

The Company made cloud security services a Group priority business in the Fourth Medium-Term Management Plan covering the period from the fiscal year ending March 31, 2023 to the fiscal year ending March 31, 2025. In the plan, the Company aims to expand this business and increase its value. The management indicator targets for the fiscal year ending March 31, 2025 in the final fiscal year of the Fourth Medium-Term Management Plan adopted by the Company are consolidated operating profit of 7.1 billion yen, consolidated operating income ratio above 9%, and cloud security service sales above 50 billion yen. The Company will advance initiatives to achieve these targets.

< Sustainability initiatives >

The SoftBank Group seeks to become a group of companies that provides the services and technologies that are most needed by people around the world based on its management policy of Information Revolution — Happiness for everyone. To be this kind of group, the SoftBank Group aims to resolve social issues of all kinds using the digital technologies it increasingly supplies to society. Another goal of the SoftBank Group is the realization of a decarbonized society. Accordingly, the SoftBank Group established the target of achieving carbon neutrality in fiscal 2030. This target means that it will reduce greenhouse gas emissions from all of its business activities to virtually zero by fiscal 2030. The Company also views initiatives regarding social issues as important management challenges that it faces. The Company will advance initiatives toward the goal of achieving carbon neutrality in fiscal 2030.

The Company believes that leveraging its strengths in cloud and security services is essential for its environmental initiatives. Regarding the material issue of contribution to the global environment through cloud services, the Company will work to contribute to the reduction of greenhouse gas emissions by advancing the highly efficient cloud services provided by data centers to reduce the amount of electricity consumed. Concerning the material issues of increasing accessibility and advancing applications for data using advanced technologies, the Company will help reduce greenhouse gas emissions and improve energy efficiency by visualizing environment-related data, such as greenhouse gas emissions and power consumption, through customers' promotion of DX and the high-safety use of data.

With the target of achieving carbon neutrality in fiscal 2030, the Company will work to reduce the Group's total greenhouse gas emissions and contribute to the realization of a decarbonized society. Moreover, the Company will achieve sustainable growth and continuously supply new value to society through efforts to promote sustainability management. In this context, the Company has set 12 key performance indicators (KPIs) to resolve the six Material issues (Materiality).

< Segment Explanation >

The Group operates in a single reportable segment of the ICT Services segment. Details and results of the main category that make up the ICT Services segment are as follows.

Amounts for the same period of the previous fiscal year for each segment are calculated in accordance with the current booking method.

Category	Details	Core companies
Telecommunication	[For Telecommunication] - Construction, operation and maintenance of on-premises systems (including private cloud) - Cloud consulting/Migration assistance / Construction / Operation - Security monitoring operation service, etc	- SB Technology Corp. - DENEN Co. Ltd.
Enterprise	[For Enterprise] - Cloud consulting/Migration assistance / Construction / Operation / IT education service, AI/IoT/DX Solution - Security consulting/Introduction support/Monitoring operation service, - Electronic authentication solution, etc	- SB Technology Corp. - M-SOLUTIONS, Inc. - Kan Corporation - Cybertrust Japan Co., Ltd. - I/O system integration Co., LTD.
Public Sector	[For Public sector] - Cloud migration assistance/Construction/Operation/IT education service, AI/IoT/DX Solution - Security consulting/Introduction support/Monitoring operation service, etc	- SB Technology Corp. - ASORA Tech Corp. - REDEN Corp.
Consumer	- EC site operation Substitute such as Norton Store, - EC sales of font licenses, etc	- SB Technology Corp. - Fontworks Inc.

The Company transferred all of its holdings in Fontworks Inc., comprising the Consumer segment, on September 1, 2023. The financial results of Fontworks Inc. until the last day of the first six months under review are posted for the fiscal year under review.

(Millions of yen)

		Six month period ended September 30, 2022	Six month period ended September 30, 2023	Change (Amount)	Change (Ratio)
Telecommunication	Net Sales	9,810	7,515	(2,295)	(23.4)%
	Gross profit	1,591	1,363	(227)	(14.3)%
	Profit margins	16.2%	18.1%	1.9pt.	—
Enterprise	Net Sales	14,562	16,020	1,458	10.0%
	Gross profit	3,689	4,070	380	10.3%
	Profit margins	25.3%	25.4%	0.1pt.	—
Public Sector	Net Sales	5,302	6,779	1,476	27.9%
	Gross profit	399	916	517	129.4%
	Profit margins	7.5%	13.5%	6.0pt.	—
Consumer	Net Sales	2,030	1,890	(140)	(6.9)%
	Gross profit	1,262	1,246	(16)	(1.3)%
	Profit margins	62.2%	66.0%	3.8pt.	—
Total	Net Sales	31,706	32,206	499	1.6%
	Gross profit	6,944	7,597	653	9.4%
	Profit margins	21.9%	23.6%	1.7 pt.	—

(2) Explanation of Financial Position

Assets, Liabilities and Net assets

(Millions of yen)

	As of March 31, 2023	As of September 30, 2023	(Reference) As of June 30, 2022
Total assets	45,466	48,140	39,782
Net assets	25,167	30,963	23,289
Shareholder's equity ratio	49.4%	58.6%	52.4%

(Assets)

Total assets decreased 2,673 million yen from the end of the previous fiscal year, to 48,140 million yen at the end of the three-month period under review.

Current assets increased 2,469 million yen from the end of the previous fiscal year mainly due to an increase in cash and deposits, which more than offset a decrease in notes and accounts receivable - trade, and contract assets.

Non-current assets increased 205 million yen from the end of the previous fiscal year as a result primarily of an increase in investments and other assets, which more than offset a decrease in intangible assets.

(Liabilities)

Total liabilities decreased 3,122 million yen from the end of the previous fiscal year, to 17,176 million yen at the end of the three-month period under review.

Current liabilities decreased 2,704 million yen, mainly due to decreases in accounts payable.

Non-current liabilities decreased 417 million yen from the end of the previous fiscal year as a result primarily of a fall in long-term borrowings.

(Net assets)

Net assets at the end of the first six months under review totaled 30,963 million yen, an increase of 5,796 million yen from the end of the previous fiscal year, which was mainly due to an increase in retained earnings caused by posing of 6,562 million yen as a gain on transfer from business divestitures.

(3) Explanation on Consolidated Forecast and Other Forward-looking Statements

The forecast of financial results is based on information currently available, and actual figures may differ from the forecast due to a range of factors.

The forecast of consolidated financial results for the fiscal year ending March 31, 2024, which we announced on July 19, 2023, remains unchanged.

Quarterly Consolidated Financial Statements

(1) Quarterly Consolidated Balance Sheet

(Millions of yen)

	As of March 31, 2023	As of September 30, 2023
Assets		
Current assets		
Cash and deposits	8,221	14,568
Notes and accounts receivable - trade, and contract assets	24,133	16,882
Merchandise	131	82
Other	3,136	6,558
Allowance for doubtful accounts	△0	△0
Total current assets	35,622	38,092
Non-current assets		
Property, plant and equipment		
Buildings, net	684	502
Tools, furniture and fixtures, net	991	841
Other, net	5	45
Total property, plant and equipment	1,681	1,389
Intangible assets		
Goodwill	836	671
Software	2,531	2,038
Software in progress	476	692
Customer relationships	189	41
Other	86	66
Total intangible assets	4,120	3,509
Investments and other assets		
Investment securities	667	663
Deferred tax assets	1,297	1,069
Other	2,075	3,416
Total investments and other assets	4,040	5,148
Total non-current assets	9,842	10,047
Deferred assets		
Share issuance costs	1	0
Total deferred assets	1	0
Total assets	45,466	48,140

(Millions of yen)

	As of March 31, 2023	As of September 30, 2023
Liabilities		
Current liabilities		
Accounts payable - trade	7,020	4,132
Current portion of long-term borrowings	309	289
Lease liabilities	14	10
Accounts payable - other	4,493	4,925
Income taxes payable	1,372	1,344
Contract liabilities	2,186	2,488
Provision for bonuses	1,784	1,375
Provision for bonuses for directors (and other officers)	—	47
Provision for loss on orders received	626	576
Provision for defect repair	39	—
Other	742	695
Total current liabilities	18,590	15,885
Non-current liabilities		
Long-term borrowings	489	255
Lease liabilities	81	76
Contract liabilities	670	579
Retirement benefit liability	60	4
Asset retirement obligations	336	319
Other	69	55
Total non-current liabilities	1,708	1,290
Total liabilities	20,298	17,176
Net assets		
Shareholders' equity		
Share capital	1,270	1,270
Capital surplus	1,613	1,662
Retained earnings	22,182	27,838
Treasury shares	△2,600	△2,567
Total shareholders' equity	22,466	28,204
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	3	7
Foreign currency translation adjustment	5	7
Total accumulated other comprehensive income	9	14
Share acquisition rights	320	292
Non-controlling interests	2,371	2,451
Total net assets	25,167	30,963
Total liabilities and net assets	45,466	48,140

**(2) Quarterly Consolidated Statements of Income and Comprehensive Income
(For the Six-month Period)**

(Millions of yen)

	Six months ended September 30, 2022	Six months ended September 30, 2023
Net sales	31,706	32,206
Cost of sales	24,762	24,608
Gross profit	6,944	7,597
Selling, general and administrative expenses	4,673	5,315
Operating profit	2,270	2,282
Non-operating income		
Interest income	0	0
Dividend income	2	1
Share of profit of entities accounted for using equity method	1	4
Foreign exchange gains	—	1
Miscellaneous income	12	7
Total non-operating income	16	15
Non-operating expenses		
Interest expenses	4	3
Commission expenses	20	95
Donations	10	10
Foreign exchange losses	18	—
Loss on investments in investment partnerships	2	4
Miscellaneous losses	8	2
Total non-operating expenses	64	115
Ordinary profit	2,222	2,182
Extraordinary income		
Compensation income	16	—
Gain on reversal of share acquisition rights	14	32
Gain on transfer from business divestitures	—	6,562
Total extraordinary income	30	6,594
Extraordinary losses		
Industrial accident settlement	—	70
Amortization of goodwill	—	63
Total extraordinary losses	—	133
Profit before income taxes	2,253	8,643
Income taxes - current	421	2,032
Income taxes - deferred	366	215
Total income taxes	788	2,248
Profit	1,465	6,394
Profit attributable to		
Profit attributable to owners of parent	1,346	6,272
Profit attributable to non-controlling interests	118	121
Other comprehensive income		
Valuation difference on available-for-sale securities	2	3
Foreign currency translation adjustment	1	1
Total other comprehensive income	3	5
Comprehensive income	1,468	6,400
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	1,349	6,278
Comprehensive income attributable to non-controlling interests	118	121

(3) Quarterly Consolidated Statement of Cash Flows

(Millions of yen)

	Six months ended September 30, 2022	Six months ended September 30, 2023
Cash flows from operating activities		
Profit before income taxes	2,253	8,643
Depreciation	694	772
Amortization of goodwill	128	165
Share-based payment expenses	55	34
Increase (decrease) in allowance for doubtful accounts	0	△0
Increase (decrease) in provision for bonuses	△546	△350
Increase (decrease) in provision for bonuses for directors (and other officers)	53	47
Increase (decrease) in retirement benefit liability	3	4
Increase (decrease) in provision for loss on orders received	△192	△49
Increase (decrease) in provision for defect repair	△9	△39
Interest and dividend income	△2	△2
Interest expenses	4	3
Commission expenses	20	95
Share of loss (profit) of entities accounted for using equity method	△1	△4
Loss (gain) on investments in investment partnerships	2	4
Gain on transfer from business divestitures	—	△6,562
Decrease (increase) in notes and accounts receivable-trade and contract assets	6,941	6,919
Decrease (increase) in inventories	△26	66
Decrease (increase) in trade receivables	△791	△1,191
Increase (decrease) in trade payables	△2,784	△2,839
Increase (decrease) in contract liabilities	510	220
Increase (decrease) in accrued consumption taxes	△101	△59
Increase (decrease) in trade payables	△320	△122
Other, net	△10	△33
Subtotal	5,881	5,721
Interest and dividends received	2	8
Interest paid	△4	△2
Income taxes paid	△1,178	△1,975
Net cash provided by (used in) operating activities	4,700	3,751
Cash flows from investing activities		
Purchase of property, plant and equipment	△237	△120
Purchase of intangible assets	△570	△695
Proceeds from sale of investment securities	0	—
Proceeds from business divestitures	—	3,485
Proceeds from collection of loans receivable	3	0
Payments of guarantee deposits	△3	△3
Proceeds from refund of guarantee deposits	0	3
Other, net	△20	6
Net cash provided by (used in) investing activities	△826	2,676

(Millions of yen)

	Six months ended September 30, 2022	Six months ended September 30, 2023
Cash flows from financing activities		
Proceeds from short-term borrowings	—	951
Repayments of short-term borrowings	—	△100
Repayments of long-term borrowings	△227	△254
Proceeds from issuance of shares	32	—
Purchase of treasury shares	△1,098	△0
Proceeds from disposal of treasury shares	69	66
Dividends paid	△607	△694
Dividends paid to non-controlling interests	—	△58
Repayments of lease liabilities	△9	△9
Proceeds from share issuance to non-controlling shareholders	14	12
Net cash provided by (used in) financing activities	△1,825	△88
Effect of exchange rate change on cash and cash equivalents	9	7
Net increase (decrease) in cash and cash equivalents	2,057	6,347
Cash and cash equivalents at beginning of period	8,701	8,160
Cash and cash equivalents at end of period	10,758	14,507

(4) Notes to Consolidated Financial Statements

Going Concern Assumption

Not applicable.

Significant Changes in Shareholders' Equity

At a meeting of the Board of Directors held on July 19, 2023, the Company passed a resolution on the transfer of all the shares that the Company holds in Fontworks Inc., its consolidated subsidiary, to Monotype K.K., and the transfer of intangible assets related to Fontworks' business to Monotype Imaging Inc. The Transfer was executed on September 1, 2023.

Due to the Transfer, because of recording a gain on transfer from business divestitures of 6,562million yen, retained earnings at the end of the second quarter consolidated accounting period was 27,838million yen.

(Notes to Quarterly Consolidated Statements of Income and Comprehensive Income)

(Gain on transfer from business divestitures)

This resulted from the transfer of all shares and intangible assets related to the business of Fontworks Inc., then a consolidated subsidiary, to an external party. Details are provided in Notes to Business Combinations.

Business Combination, etc.

(Business divestiture)

By resolution of the Board of Directors at a meeting held on July 19,2023, the Company decided to transfer all of its shares in Fontworks Inc., a consolidated subsidiary of the Company ("the Company's Shares"), to Monotype Inc. and intangible assets related to the business of Fontworks (the "Intangible Assets") to Monotype Imaging Inc. This was enforced on September 1, 2023. As a result, Fontworks Inc. was excluded from the Company's consolidated subsidiaries.

1. Main reason for conducting business divestiture

Under its management policy, namely, "Achieve Significant Growth," the Company acquired Fontworks Inc., a company that engages in the planning, development and sale of digital fonts, the development of software, and the provision of technical services and OEM services, etc. in June 2013, making it a consolidated subsidiary. Fontworks Inc. continued to contribute to the Group's business expansion in the e-commerce area. However, its digital font business and the growth that it had been achieving through synergies with the Company in the e-commerce area have plateaued, while the Group has started to shift its strategic area of focus to cloud security. In this situation, the Company has agreed to the transfer because it believes that operating business as part of Monotype Imaging Inc. and Monotype Inc. is mutually beneficial as an environment where Fontworks can achieve further growth and pursue business synergies including global development.

2. Name of successor enterprise

Monotype Inc

Monotype Imaging Inc.

3. Date of business divestiture

September 1, 2023 (deemed sale date: September 30, 2023)

4. Name and business description of the divested business

(1) Name

Fontworks Inc.

(2) Outline of the business

Planning, development and sale of digital fonts (fonts), software development, technical services, OEM services, etc.

5. Other matters including legal form

Transfer of shares and intangible assets for cash consideration

6. Overview of accounting procedures implemented

(1) Amount of gain (loss) on transfer

Gain on transfer from
business divestitures 6,562 million yen

(2) Appropriate book value of assets and liabilities relating to the business transferred and the major breakdown thereof

Current assets	817	million yen
Non-current assets	892	million yen
Total assets	1,710	million yen
Current liabilities	1,161	million yen
Non-current liabilities	127	million yen
Total liabilities	1,288	million yen

(3) Accounting

The difference between the consolidated book value and the transfer price of the relevant shares and intangible assets is recorded as a "gain on transfer from business divestitures" in extraordinary income.

7. Name of the reportable segment in which the divested business is included

The Group operates a single segment and is included in the ICT services business.

8. Estimated profit/loss of the divested business posted in the consolidated statement of income and comprehensive income for the fiscal year under review

	Six months
Net sales	1,091 million yen
Operating profit	355 million yen

(Note) Amortization of goodwill and customer-related assets identified through acquisition cost allocation is included.

Disclaimer:

This financial report is solely a translation of "Kessan Tanshin" (in Japanese, including attachments), which has been prepared in accordance with accounting principles and practices generally accepted in Japan, for the convenience of readers who prefer an English translation.