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In the event a difference arises regarding the meaning herein, the original Japanese version will prevail as the official authoritative version.

July 31, 2024

Consolidated Financial Results for the Second Quarter of Fiscal Year Ending December 31, 2024 (Japanese GAAP)

Name of Listed Company: DENTSU SOKEN INC.
Listed Exchange: Tokyo
Code Number: 4812
URL: <https://www.dentsusoken.com/english>
Representative: Hirohisa Iwamoto, President, CEO and COO
Contact for Inquiries: Naoto Momiki, Executive Office
Tel: +81-3-6713-6160

Date of scheduled filing of securities report: August 2, 2024
Date of scheduled payment of dividends: September 2, 2024
Quarterly earnings supplementary explanatory documents: Yes
Quarterly earnings presentation: Yes (For analysts, institutional investors, etc.)

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

1. Consolidated Business Performance for the Second Quarter of FY2024 (from January 1, 2024 to June 30, 2024)

(1) Consolidated Operating Results (Cumulative)

Percentages indicate year-on-year increase/(decrease)

	Net sales		Operating profit (loss)		Ordinary profit (loss)		Net profit (loss)*	
	(million yen)	(%)	(million yen)	(%)	(million yen)	(%)	(million yen)	(%)
Second Quarter of FY2024	74,235	6.3	10,360	(2.7)	10,262	(4.9)	7,248	(2.7)
Second Quarter of FY2023	69,849	13.7	10,652	10.6	10,785	11.8	7,446	6.0

* Profit attributable to owners of parent

Note: Comprehensive profit: Second Quarter of FY2024: 7,604 million yen (down0.3%); Second Quarter of FY2023: 7,625 million yen (up1.9%)

	Net profit (loss) per share	Net profit per share after dilution
	(yen)	(yen)
Second Quarter of FY2024	111.38	–
Second Quarter of FY2023	114.44	–

(2) Consolidated Financial Position

	Total assets	Net assets	Equity ratio
	(million yen)	(million yen)	(%)
As of June 30, 2024	143,597	86,944	60.5
As of December 31, 2023	133,333	82,971	62.2

Reference: Total shareholders' equity: As of June 30, 2024: 86,944 million yen; As of December 31, 2023: 82,971 million yen

2. Dividends

Record date	Dividends per share				
	End of first quarter	End of second quarter	End of third quarter	Fiscal year-end	Full year
	(yen)	(yen)	(yen)	(yen)	(yen)
FY2023	–	44.00	–	56.00	100.00
FY2024	–	54.00			
FY2024 (forecast)			–	54.00	108.00

Note: Revision to the dividend forecasts from the latest announcement: No

3. Consolidated Forecasts for FY2024(from January 1, 2024 to December 31, 2024)

Percentages indicate year-on-year increase/(decrease)

	Net sales		Operating profit		Ordinary profit		Net profit *		EPS
	(million yen)	(%)	(million yen)	(%)	(million yen)	(%)	(million yen)	(%)	(yen)
FY2024	155,000	8.7	22,500	7.0	22,500	5.9	15,700	7.1	241.28

* Profit attributable to owners of parent

Note: Revision to the consolidated forecasts from the latest announcement: No

Notes

- Changes in the scope of consolidation for significant subsidiaries (Changes in specified subsidiaries resulting in change in the scope of consolidation): Yes

New: 1 Company name: Mitsue-Links Co., Ltd.

Exclusion: - Company name: -

- Application of special accounting practices in the preparation of the quarterly consolidated financial statements: None

- Changes in accounting policies, changes in accounting estimates and restatements:

1) Changes in accounting policies in accordance with revision of accounting standards: None

2) Changes in accounting policies other than 1) above: None

3) Changes in accounting estimate: None

4) Restatements: None

- Issued and outstanding common stock

- Number of shares issued and outstanding at the end of the period, including treasury stock

June 30, 2024:	65,182,480 shares	December 31, 2023:	65,182,480 shares
June 30, 2024:	107,821 shares	December 31, 2023:	112,297shares
Six months ended June 30, 2024:	65,072,442 shares	Six months ended June 30, 2023:	65,069,066 shares

- Number of treasury stock at the end of the period

- Average number of shares outstanding for each period

This quarterly financial report is outside the scope of quarterly review procedures under the Financial Instruments and Exchange Act.

Explanation regarding the appropriate use of forecasts of business results

Forecast figures are projections based on information available at the time of release and are not intended as a guarantee that the Company will achieve these targets. Actual results may differ significantly from the above forecasts as a result of changes in the business environment and other factors.

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I. Qualitative Information on the Consolidated Financial Results for the Subject Period

1. Explanation of Business Results

(Millions of yen)

	Second quarter of FY2023 (cumulative)	Second quarter of FY2024 (cumulative)	YoY	
			Variance	% change
Net sales	69,849	74,235	4,386	6.3
Operating profit	10,652	10,360	(292)	(2.7)
Operating profit margin	15.3%	14.0%	(1.3p)	-
Ordinary profit	10,785	10,262	(523)	(4.9)
Profit attributable to owners of parent	7,446	7,248	(198)	(2.7)

During the Second quarter of the current consolidated fiscal year (January 1, 2024 to June 30, 2024), the Japanese economy continued to show a moderate recovery trend with improvement in the employment and income environment, despite downside risks such as global monetary tightening and rising prices. The business environment surrounding our group also remained firm, with strong corporate appetite for digital investment.

Amid these circumstances, we changed our company name from Information Services International-Dentsu, Ltd. to DENTSU SOKEN INC. on January 1, 2024. At the same time, we expanded our business functions and made a fresh start as a company that drives societal evolution combining system integration, consulting, and think tanks.

In the current consolidated fiscal year, which is the final year of medium-term management plan "X (Cross) Innovation 2024." Under the four activity policies "Business domain expansion," "New capability acquisition," "Earnings model innovation," and "Management foundation innovation", we will maximize our new corporate brand and business functions, and aim to achieve the current fiscal year's forecasts and the quantitative targets of the medium-term management plan simultaneously. We also believe that the three-year period beginning in 2025 will be extremely important for the realization of our long-term management vision "Vision 2030," and the entire company will work together to formulate the next medium-term management plan in order to achieve growth that is not an extension of the previous plan.

In the Second quarter of the current consolidated fiscal year, net sales were ¥74,235 million (up 6.3% year on year), operating profit was ¥10,360 million (down 2.7% year on year), ordinary profit was ¥10,262 million (down 4.9% year on year) and profit attributable to owners of parent was ¥7,248 million (down 2.7% year on year).

Net sales increased mainly in the Financial Solutions Segment and Manufacturing Solutions Segment. Operating profit increased due to the effect of increased sales, all profits items declined due to higher selling, general, and administrative expenses. These expenses were driven by increased personnel costs resulting from an increase in the number of personnel, higher base salaries, and an increase in unpaid man-hours spent by engineers.

Net sales, operating profit, and business results by reportable segment are as follows.

Net sales and operating profit (loss) by reportable segment

(Millions of yen)

Reportable segment	Second quarter of FY2023 (cumulative)			Second quarter of FY2024 (cumulative)			Variance	
	Net sales	Operating profit	Operating margin	Net sales	Operating profit	Operating margin	Net sales	Operating profit
Financial Solutions	14,721	1,416	9.6%	16,109	1,840	11.4%	1,388	424
Business Solutions	11,653	3,152	27.0%	11,717	2,781	23.7%	64	(371)
Manufacturing Solutions	19,795	2,171	11.0%	22,694	2,727	12.0%	2,899	556
Communication IT	23,678	3,910	16.5%	23,713	3,010	12.7%	35	(900)
Total	69,849	10,652	15.3%	74,235	10,360	14.0%	4,386	(292)

Status of business operations by reportable segment

Financial Solutions

The main business of this segment is providing IT solutions that support various financial operations at financial institutions and other companies.

Net sales and operating profit increased due to expanded sales and implementation of third-party software in the accounting area to the banking industry and sales and installations of Lamp, leasing and finance business management package, increased to the leasing industry.

Business Solutions

The main business of this segment is providing IT solutions for business management operations, centered on accounting and human resources.

Net sales were flat YoY due to the peak out of several projects in the accounting area, although sales and implementation of POSITIVE, human capital management solution, expanded mainly in the insurance industry. Profit decreased due to a significant increase in personnel expenses in line with strategic personnel recruitment.

Manufacturing Solutions

The main business of this segment is providing IT solutions for the entire product lifecycle, from product development and production to sales and maintenance in the manufacturing industry.

Net sales and operating profit increased due to the expansion of consulting to support system grand design and engineering, as well as sales and implementation of Teamcenter, product lifecycle management solution, mainly to the electric appliances and precision instruments industry.

Communication IT

The main business of this segment is providing IT solutions that support companies optimize their value chains and business processes, from marketing to core business areas.

Net sales were flat YoY due to sluggish performance in collaboration with the Dentsu group, despite expanded implementation of SAP solutions mainly to the machinery industry. Profit decreased due to an increase in personnel expenses and the impact of a project that was unprofitable in the previous fiscal year remaining at a low profit level.

2. Explanation of Financial Position

Status of Assets, Liabilities and Net Assets

(1) Assets

Total assets at the end of the second quarter of the current consolidated fiscal year increased by ¥10,264 million from the end of the previous consolidated fiscal year to ¥143,597 million. Current assets increased by ¥1,237 million from the end of the previous consolidated fiscal year to ¥116,050 million, due to an increase in funds (cash and deposits, and deposits paid) resulting from an increase in contract liabilities and collection of trade receivables, and an increase in advance payments related to subscription and maintenance contracts for services to customers, despite an expense for the acquisition of shares of Mitsue-Links Co., Ltd. Non-current assets increased by ¥9,027 million from the end of the previous consolidated fiscal year to ¥27,547 million, mainly due to an increase in goodwill due to acquisition of Mitsue-Links Co., Ltd.

(2) Liabilities

Total liabilities at the end of the second quarter of the current consolidated fiscal year increased by ¥6,291 million from the end of the previous consolidated fiscal year to ¥56,653 million. Current liabilities increased by ¥6,033 million from the end of the previous consolidated fiscal year to ¥53,655 million, mainly due to an increase in contract liabilities associated with the provision of maintenance and subscription-based services. Non-current liabilities increased by ¥259 million from the end of the previous consolidated fiscal year to ¥2,998 million.

(3) Net assets

Net assets at the end of the second quarter of the current consolidated fiscal year increased by ¥3,973 million from the end of the previous consolidated fiscal year to ¥86,944 million, mainly as a result of an increase in retained earnings due to the recording of profit attributable to owners of parent, despite the payment of dividends from retained earnings.

3. Explanation of Consolidated Financial Results Forecasts

Based on recent performance trends, DENTSU SOKEN has revised its consolidated financial forecast announced on February 14, 2024 as of July 24, as follows. For the full year, the forecast for net sales remains unchanged from the initial forecast, but the forecast has been revised, taking into account the effect of making Mitsue-Links Co., Ltd. a subsidiary. As for profits, the forecast for all profit items remains unchanged because orders received increased 16.3% in the second quarter and improvement are expected in the second half of the fiscal year, despite profits were severe during the current first half of the consolidated fiscal year. The impact of the company becoming a subsidiary on profits is expected to be minimal due to the amortization of goodwill.

Revision to consolidated financial forecast for the fiscal year ending December 31, 2024(January 1, 2024 – December 31, 2024)

	Net sales	Operating profit	Ordinary profit	Net profit*	Net profit per Share
	Millions of yen	Millions of yen	Millions of yen	Millions of yen	Yen
Previous Forecast (A) (Announced on February 14, 2024)	153,000	22,500	22,500	15,700	241.28
Revised Forecast (B) (Announced on July 24, 2024)	155,000	22,500	22,500	15,700	241.28
Variance (B – A)	2,000	-	-	-	-
Percentage Change (%)	1.3%	-	-	-	-
(Ref.) Previous fiscal year (Ended December 31,2023)	142,608	21,028	21,244	14,663	225.35

* Profit attributable to owners of parent

Note: Forecast figures are projections based on information available at the time of release and are not intended as a guarantee that we will achieve these targets. Actual results may differ significantly from the above forecasts because of changes in the business environment.

II. Consolidated Financial Statement

1. Consolidated Balance Sheets

(Millions of yen)

	As of December 31, 2023	As of June 30, 2024
Assets		
Current assets		
Cash and deposits	5,626	6,168
Notes and accounts receivable - trade, and contract assets	35,437	28,356
Merchandise and finished goods	65	65
Raw materials and supplies	12	17
Advance payments to suppliers	19,611	25,166
Deposits paid	52,406	54,305
Other	1,657	1,975
Allowance for doubtful accounts	(4)	(4)
Total current assets	114,813	116,050
Non-current assets		
Property, plant and equipment	3,386	3,760
Intangible assets		
Goodwill	143	7,990
Other	5,615	5,732
Total intangible assets	5,758	13,723
Investments and other assets		
Investments and other assets	9,376	10,064
Allowance for doubtful accounts	(1)	(1)
Total investments and other assets	9,375	10,063
Total non-current assets	18,520	27,547
Total assets	133,333	143,597
Liabilities		
Current liabilities		
Notes and accounts payable - trade	14,358	15,915
Income taxes payable	3,462	3,308
Contract liabilities	15,872	20,943
Provision for loss on orders received	180	95
Asset retirement obligations	-	19
Provision for share awards	18	-
Other	13,730	13,374
Total current liabilities	47,622	53,655
Non-current liabilities		
Retirement benefit liability	71	86
Asset retirement obligations	849	952
Provision for share awards	147	212
Other	1,671	1,746
Total non-current liabilities	2,739	2,998
Total liabilities	50,362	56,653

(Millions of yen)

	As of December 31, 2023	As of June 30, 2024
Net assets		
Shareholders' equity		
Share capital	8,180	8,180
Capital surplus	15,270	15,270
Retained earnings	58,909	62,508
Treasury shares	(406)	(389)
Total shareholders' equity	81,953	85,569
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	285	289
Foreign currency translation adjustment	732	1,085
Total accumulated other comprehensive income	1,018	1,374
Total net assets	82,971	86,944
Total liabilities and net assets	133,333	143,597

2. Consolidated Statements of Income and Consolidated Statements of Comprehensive Income
 [Consolidated Statements of Income]

(Millions of yen)

	Six months ended June 30, 2023	Six months ended June 30, 2024
Net sales	69,849	74,235
Cost of sales	44,286	47,159
Gross profit	25,562	27,076
Selling, general and administrative expenses	14,910	16,715
Operating profit	10,652	10,360
Non-operating income		
Interest and dividend income	26	55
Foreign exchange gains	42	–
Dividend income of insurance	47	51
Subsidy income	24	10
Gain on investments in investment partnerships	3	–
Miscellaneous income	7	12
Total non-operating income	151	130
Non-operating expenses		
Interest expenses	13	18
Share of loss of entities accounted for using equity method	0	83
Loss on investments in investment partnerships	–	18
Foreign exchange losses	–	102
Miscellaneous losses	4	6
Total non-operating expenses	18	228
Ordinary profit	10,785	10,262
Extraordinary income		
Gain on sale of investment securities	135	320
Total extraordinary income	135	320
Extraordinary losses		
Impairment losses	74	25
Loss on valuation of investment securities	302	–
Total extraordinary losses	377	25
Profit before income taxes	10,544	10,557
Income taxes – current	2,681	2,922
Income taxes – deferred	414	386
Total income taxes	3,096	3,309
Profit	7,447	7,248
Profit attributable to non-controlling interests	1	–
Profit attributable to owners of parent	7,446	7,248

[Consolidated Statements of Comprehensive Income]

(Millions of yen)

	Six months ended June 30, 2023	Six months ended June 30, 2024
Profit	7,447	7,248
Other comprehensive income		
Valuation difference on available-for-sale securities	(6)	3
Foreign currency translation adjustment	183	353
Total other comprehensive income	177	356
Comprehensive income	7,625	7,604
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	7,624	7,604
Comprehensive income attributable to non-controlling interests	1	—

3. Notes on Quarterly Consolidated Financial Statement

(Notes regarding Assumption of a Going Concern)

Not applicable

(Notes on Significant Changes in Shareholders' Equity)

Not applicable

(Segment Information and other)

Segment Information

(1) The Second quarter cumulative period of FY2023 (from January 1, 2023 to June 30, 2023)

1) Information on net sales and operational profit or loss by reportable segment

(Millions of yen)

	Reportable segment				
	Financial Solutions	Business Solutions	Manufacturing Solutions	Communication IT	Total
Net sales					
Sales to customers	14,721	11,653	19,795	23,678	69,849
Inter-segment sales and transfers	-	-	-	-	-
Total	14,721	11,653	19,795	23,678	69,849
Segment profit	1,416	3,152	2,171	3,910	10,652

Note: Total values for segment profit match those for the operating profit on the "Consolidated Statements of Income."

(2) The Second quarter cumulative period of FY2024 (from January 1, 2024 to June 30, 2024)

1) Information on net sales and operational profit or loss by reportable segment

(Millions of yen)

	Reportable segment				
	Financial Solutions	Business Solutions	Manufacturing Solutions	Communication IT	Total
Net sales					
Sales to customers	16,109	11,717	22,694	23,713	74,235
Inter-segment sales and transfers	-	-	-	-	-
Total	16,109	11,717	22,694	23,713	74,235
Segment profit	1,840	2,781	2,727	3,010	10,360

Notes: Total values for segment profit match those for the operating profit on the "Consolidated Statements of Income."

2) Information on impairment loss on non-current assets and goodwill by reportable segment

(Significant changes in the amount of goodwill)

In the current interim consolidated accounting period, goodwill was recognized in the Communication IT segment due to the acquisition of Mitsue-Links Co., Ltd. as a subsidiary. The increase in goodwill due to this event was ¥7,892 million yen.

The amount of goodwill due to this event is a tentatively calculated amount because the allocation of acquisition cost has not been completed as of the end of the current interim consolidated accounting period.