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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.

April 26, 2024

Consolidated Financial Results for the First 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>
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Date of scheduled filing of securities report: May 10, 2024

Date of scheduled payment of dividends: --

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 First Quarter of FY2024 (from January 1, 2024 to March 31, 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)	(%)
First Quarter of FY2024	37,099	6.7	5,757	1.4	5,734	(0.8)	4,118	7.3
First Quarter of FY2023	34,779	16.0	5,676	7.0	5,781	8.4	3,837	(4.8)

* Profit attributable to owners of parent

Note: Comprehensive profit: First Quarter of FY2024: 4,265million yen (up8.3%); First Quarter of FY2023: 3,937million yen (down8.6%)

	Net profit (loss) per share	Net profit per share after dilution
	(yen)	(yen)
First Quarter of FY2024	63.29	--
First Quarter of FY2023	58.98	--

(2) Consolidated Financial Position

	Total assets	Net assets	Equity ratio
	(million yen)	(million yen)	(%)
As of March 31, 2024	134,657	83,597	62.1
As of December 31, 2023	133,333	82,971	62.2

Reference: Total shareholders' equity: As of March 31, 2024: 83,597 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	--				
FY2024(forecast)		54.00	--	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)
Second half	74,000	5.9	11,000	3.3	11,000	2.0	7,700	3.4	118.33
FY2024	153,000	7.3	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

1. Changes in the scope of consolidation for significant subsidiaries (Changes in specified subsidiaries resulting in change in the scope of consolidation): None
2. Application of special accounting practices in the preparation of the quarterly consolidated financial statements: None
3. 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

4. Issued and outstanding common stock

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

March 31, 2024:	65,182,480 shares	December 31, 2023:	65,182,480 shares
March 31, 2024:	109,897 shares	December 31, 2023:	112,297 shares
Three months ended March 31, 2024:	65,070,579 shares	Three months ended March 31, 2023:	65,068,028 shares

2) Number of treasury stock at the end of the period

3) 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)

	First quarter of FY2023 (cumulative)	First quarter of FY2024 (cumulative)	YoY	
			Variance	% change
Net sales	34,779	37,099	2,320	6.7
Operating profit	5,676	5,757	81	1.4
Operating profit margin	16.3%	15.5%	(0.8p)	-
Ordinary profit	5,781	5,734	(47)	(0.8)
Profit attributable to owners of parent	3,837	4,118	281	7.3

During the first quarter of the current consolidated fiscal year (January 1, 2024 to March 31, 2024), the Japanese economy continued to show a moderate recovery trend with improvement in the employment and income environment, despite 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 first quarter of the current consolidated fiscal year, net sales were ¥37,099 million (up 6.7% year on year), operating profit was ¥5,757 million (up 1.4% year on year), ordinary profit was ¥5,734 million (down 0.8% year on year) and profit attributable to owners of parent was ¥4,118 million (up 7.3% 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, despite an increase in cost and sales, general and administrative expenses, due to increased personnel and higher base salaries. Ordinary profit decreased due to a deterioration in non-operating income/expenses from foreign exchange losses and other factors, but net profit attributable to owners of the parent increased due to an improvement in extraordinary income/loss resulting from a gain on sales of investment securities and a decrease in loss on valuation of investment securities.

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	First quarter of FY2023 (cumulative)			First quarter of FY2024 (cumulative)			Variance	
	Net sales	Operating profit	Operating margin	Net sales	Operating profit	Operating margin	Net sales	Operating profit
Financial Solutions	7,315	523	7.1%	7,886	967	12.3%	571	444
Business Solutions	5,674	1,571	27.7%	5,606	1,235	22.0%	(68)	(336)
Manufacturing Solutions	10,155	1,284	12.6%	11,712	1,847	15.8%	1,557	563
Communication IT	11,633	2,297	19.7%	11,893	1,706	14.3%	260	(591)
Total	34,779	5,676	16.3%	37,099	5,757	15.5%	2,320	81

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 increased provision of custom system development service in the customer contact point area, mainly to general business companies.

Business Solutions

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

Although sales and implementation of the POSITIVE, an integrated human resource solution, expanded mainly for the service industry, in the accounting area, sales and implementation of solutions were sluggish due to the peak-out of several projects. As a result, net sales remained on a par the same period of the previous year. Profit decreased due to a significant increase in personnel expenses accompanying strategic staffing.

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 the Teamcenter, a product lifecycle management solution, mainly to the transportation equipment and electric appliances and precision instruments industries.

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 increased due to expanded implementation of SAP solutions mainly in the machinery industry. Profit decreased due to factors such as an increase in personnel expenses associated with an increase in the number of employees and the impact of the continued low profitability of projects that were unprofitable in the previous fiscal year.

2. Explanation of Financial Position

Status of Assets, Liabilities and Net Assets

(1) Assets

Total assets at the end of the first quarter of the current consolidated fiscal year increased by ¥1,324 million from the end of the previous consolidated fiscal year to ¥134,657 million. Current assets increased by ¥221 million from the end of the previous consolidated fiscal year to ¥115,034 million, due to a decrease in trade receivables because of collection of receivables related to large projects, etc., and deposits received increased, as well as increase in advance payments related to subscription and maintenance contracts for services to customers. Non-current assets increased by ¥1,102 million from the end of the previous consolidated fiscal year to ¥19,622 million, mainly due to an increase in deferred tax assets.

(2) Liabilities

Total liabilities at the end of the first quarter of the current consolidated fiscal year increased by ¥697 million from the end of the previous consolidated fiscal year to ¥51,059 million. Current liabilities increased by ¥632 million from the end of the previous consolidated fiscal year to ¥48,254 million, mainly due to an increase in trade payables despite a decrease in contract liabilities associated with the provision of subscription-based services. Non-current liabilities increased by ¥66 million from the end of the previous consolidated fiscal year to ¥2,805 million.

(3) Net assets

Net assets at the end of the first quarter of the current consolidated fiscal year increased by ¥625 million from the end of the previous consolidated fiscal year to ¥83,597 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

There are no changes to our forecasts for the first half and the full fiscal year, as announced on February 14, 2024.

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 as a result of changes in the business environment.

II. Consolidated Financial Statement

1. Consolidated Balance Sheets

(Millions of yen)

	As of December 31, 2023	As of March 31, 2024
Assets		
Current assets		
Cash and deposits	5,626	5,199
Notes and accounts receivable - trade, and contract assets	35,437	28,664
Merchandise and finished goods	65	16
Raw materials and supplies	12	10
Advance payments to suppliers	19,611	22,581
Deposits paid	52,406	56,211
Other	1,657	2,354
Allowance for doubtful accounts	(4)	(4)
Total current assets	114,813	115,034
Non-current assets		
Property, plant and equipment	3,386	3,459
Intangible assets	5,758	5,609
Investments and other assets		
Investments and other assets	9,376	10,555
Allowance for doubtful accounts	(1)	(1)
Total investments and other assets	9,375	10,554
Total non-current assets	18,520	19,622
Total assets	133,333	134,657
Liabilities		
Current liabilities		
Notes and accounts payable - trade	14,358	16,244
Income taxes payable	3,462	2,701
Contract liabilities	15,872	14,673
Provision for loss on orders received	180	15
Provision for share awards	18	21
Asset retirement obligations	—	19
Other	13,730	14,580
Total current liabilities	47,622	48,254
Non-current liabilities		
Retirement benefit liability	71	78
Asset retirement obligations	849	871
Provision for share awards	147	180
Other	1,671	1,675
Total non-current liabilities	2,739	2,805
Total liabilities	50,362	51,059

(Millions of yen)

	As of December 31, 2023	As of March 31, 2024
Net assets		
Shareholders' equity		
Share capital	8,180	8,180
Capital surplus	15,270	15,270
Retained earnings	58,909	59,378
Treasury shares	(406)	(397)
Total shareholders' equity	81,953	82,431
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	285	269
Foreign currency translation adjustment	732	895
Total accumulated other comprehensive income	1,018	1,165
Total net assets	82,971	83,597
Total liabilities and net assets	133,333	134,657

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

(Millions of yen)

	Three months ended March 31, 2023	Three months ended March 31, 2024
Net sales	34,779	37,099
Cost of sales	22,004	23,533
Gross profit	12,774	13,566
Selling, general and administrative expenses	7,098	7,809
Operating profit	5,676	5,757
Non-operating income		
Interest and dividend income	13	10
Share of profit of entities accounted for using equity method	5	—
Foreign exchange gains	7	—
Dividend income of insurance	47	51
Subsidy income	20	4
Gain on investments in investment partnerships	17	—
Miscellaneous income	3	6
Total non-operating income	115	73
Non-operating expenses		
Interest expenses	9	8
Share of loss of entities accounted for using equity method	—	5
Loss on investments in investment partnerships	—	3
Foreign exchange losses	—	73
Miscellaneous losses	1	4
Total non-operating expenses	11	96
Ordinary profit	5,781	5,734
Extraordinary income		
Gain on sale of investment securities	—	265
Total extraordinary income	—	265
Extraordinary losses		
Impairment losses	74	25
Loss on valuation of investment securities	302	—
Total extraordinary losses	377	25
Profit before income taxes	5,403	5,974
Income taxes - current	2,452	2,483
Income taxes - deferred	(887)	(626)
Total income taxes	1,565	1,856
Profit	3,838	4,118
Profit attributable to non-controlling interests	0	—
Profit attributable to owners of parent	3,837	4,118

[Consolidated Statements of Comprehensive Income]

(Millions of yen)

	Three months ended March 31, 2023	Three months ended March 31, 2024
Profit	3,838	4,118
Other comprehensive income		
Valuation difference on available-for-sale securities	36	(16)
Foreign currency translation adjustment	62	163
Total other comprehensive income	99	147
Comprehensive income	3,937	4,265
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	3,937	4,265
Comprehensive income attributable to non-controlling interests	0	—

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 first quarter cumulative period of FY2023 (from January 1, 2023 to March 31, 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	7,315	5,674	10,155	11,633	34,779
Inter-segment sales and transfers	-	-	-	-	-
Total	7,315	5,674	10,155	11,633	34,779
Segment profit	523	1,571	1,284	2,297	5,676

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

(2) The first quarter cumulative period of FY2024 (from January 1, 2024 to March 31, 2024)

2) 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	7,886	5,606	11,712	11,893	37,099
Inter-segment sales and transfers	-	-	-	-	-
Total	7,886	5,606	11,712	11,893	37,099
Segment profit	967	1,235	1,847	1,706	5,757

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

(Significant subsequent events)

(Business combination through Acquisition)

The Company resolved at a Board of Directors' meeting held on March 22, 2024, the acquisition of share in Mitsue-Links Co., Ltd., and following the execution of a share transfer agreement on April 1, 2024, the Company acquired shares of Mitsue-Links Co., Ltd. on April 26, 2024.

(1) Outline of business combination

1) Name of acquired company and its business description

Name of acquired company: Mitsue-Links Co., Ltd.

Business description: Web Integration, Web Consulting, System Development, Audio / Video Content

2) Main reasons for the business combination

We changed our company name on January 1, 2024, and have set up the business concept of "Driving Societal Evolution" in which we go beyond the framework of a system integrator to implement social evolution by providing our customers with optimal solutions in terms of both "Creating Value" and "Improving Customer Experiences," which are the foundation of corporate value, through collaboration among system integration, consulting, and think tank. In addition, in our long-term management vision "Vision 2030," we have defined "conceptual and design capabilities" as one of the new capabilities required for self-improvement, and we have been working to strengthen these capabilities.

For corporations, it is vital to design the entire service so that the optimal customer experience can be provided through websites, smartphone applications, etc., and to build and operate it as a highly usable system. In addition, in promoting DX in human resources, accounting, and other core corporate operations, it is essential not only to meet business requirements, but also to design and build systems that are easy for employees and related parties to use.

By bringing Mitsue-Links Co., Ltd. into our group, we will combine our industry/business knowledge and technology implementation capabilities with the design capabilities that Mitsue-Links Co., Ltd. has cultivated, as well as our ability to build and operate websites, smartphone applications, and other applications. In this way, we will strengthen the capabilities required for both "Creating Value" and "Improving Customer Experiences" at companies. Through these initiatives, we will accelerate our efforts to realize "Vision2030" and our business concept of "Driving Societal Evolution."

3) Date of the business combination

Scheduled for June 2024

4) Legal form of the business combination

Acquisition of shares for cash

5) Name of the company after combination

No change.

6) Ratio of voting rights acquired

100.0%

7) Main reason for determining the acquiring company

The Company acquired the shares for cash.

(2) Acquisition cost of the acquired company and breakdown by type of consideration

<u>Consideration for acquisition</u>	<u>Cash</u>	<u>8,419 million yen</u>
Acquisition cost		8,419 million yen

(3) Description and amount of major acquisition-related expenses

Nothing is confirmed at this time.

(4) Amount, causes, amortization method and amortization period of goodwill incurred

Nothing is confirmed at this time.

(5) Amounts of assets acquired and liabilities assumed on the date of combination and major breakdown

Nothing is confirmed at this time.