



**SERAKU Summary of Consolidated Financial Results
for the Third Quarter of the Fiscal Year Ending August 31, 2021
(Nine Months Ended May 31, 2021)**

[Japanese GAAP]

July 14, 2021

Company name: SERAKU Co., Ltd.

Listing: Tokyo Stock Exchange (First Section)

Stock code: 6199

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Scheduled date of filing of Quarterly Report:

July 15, 2021

Scheduled date of payment of dividend:

-

Preparation of supplementary materials for quarterly financial results: Yes

Holding of quarterly financial results meeting: Yes

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

1. Consolidated Financial Results for the Third Quarter Ended May 31, 2021 (Sep. 1, 2020 to May 31, 2021)

(1) Consolidated results of operations

(Percentages represent year-on-year changes)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
Nine months ended May 31, 2021	11,313	12.0	1,155	55.7	1,582	111.7	963	107.8
Nine months ended May 31, 2020	10,096	22.1	742	71.5	747	69.5	463	81.9

Note: Comprehensive income (millions of yen) Nine months ended May 31, 2021: 961 (up 112.3%)

Nine months ended May 31, 2020: 452 (up 77.9%)

	Net income per share	Diluted net income per share
	Yen	Yen
Nine months ended May 31, 2021	69.82	69.18
Nine months ended May 31, 2020	33.67	33.65

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio
	Millions of yen	Millions of yen	%
As of May 31, 2021	8,611	4,331	50.2
As of Aug. 31, 2020	7,342	3,429	46.7

Reference: Shareholders' equity (millions of yen)

As of May 31, 2021: 4,327

As of Aug. 31, 2020: 3,425

2. Dividends

	Dividend per share				
	1Q-end	2Q-end	3Q-end	Year-end	Total
	Yen	Yen	Yen	Yen	Yen
Fiscal year ended Aug. 31, 2020	-	0.00	-	4.60	4.60
Fiscal year ending Aug. 31, 2021	-	0.00	-	-	-
Fiscal year ending Aug. 31, 2021 (forecast)	-	-	-	5.60	5.60

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

3. Consolidated Earnings Forecast for the Fiscal Year Ending August 31, 2021 (Sep. 1, 2020 to Aug. 31, 2021)

(Percentages represent year-on-year changes)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent		Net income per share
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Yen
Full year	15,020	9.1	1,370	20.8	1,650	41.6	957	46.3	69.51

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

* Notes

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

Newly added: - Excluded: -

(2) Application of special accounting methods in the preparation of the quarterly consolidated financial statements:
None

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

1) Changes in accounting policies due to revisions in accounting standards, others: None

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

3) Changes in accounting estimates: None

4) Restatements: None

(4) Number of shares issued (common shares)

1) Number of shares issued as of the end of the period (including treasury shares)

As of May 31, 2021:	13,834,800 shares	As of Aug. 31, 2020:	13,767,200 shares
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2) Number of treasury shares as of the end of the period

As of May 31, 2021:	84 shares	As of Aug. 31, 2020:	62 shares
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3) Average number of shares during the period

Nine months ended May 31, 2021:	13,800,333 shares	Nine months ended May 31, 2020:	13,767,161 shares
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* The current financial report is not subject to quarterly review by certified public accountants or auditing firms.

* Explanation of appropriate use of earnings forecasts and other special items

Forecasts of future performance in these materials are based on assumptions judged to be valid and information available to the management of Seraku at the time these materials were prepared, but are not promised by Seraku regarding future performance. Actual results may differ significantly from these forecasts for a number of reasons. For discussion of the assumptions and other factors considered by Seraku in preparing the above projections, please refer to page 4 of the attachments "1. Qualitative Information on Quarterly Consolidated Financial Performance, (3) Explanation of Consolidated Earnings Forecast and Other Forward-looking Statements."

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1. Qualitative Information on Quarterly Consolidated Financial Performance

(1) Explanation of Results of Operations

In the first nine months of the fiscal year ending in August 2021, the worldwide COVID-19 pandemic continued to have a negative impact on the Japanese economy. The state of emergency has ended and many regions of Japan have shifted their focus to preventing the spread of infections. There is also progress with vaccinations. Although these developments are creating hopes for an economic recovery, the economic outlook is expected to remain unclear.

In Japan's IT services industry, which is the primary business sector of the Seraku Group, there is increasing use of tools for creating remote working environments that give people flexibility for doing their jobs. There is also a large volume of IT investments for increasing the efficiency of business processes, upgrading information security and other improvements.

Although the business climate will remain uncertain for the time being, the digital transformation (DX) is expected to continue to gain momentum. For example, governments are increasing the use of digital technologies and companies are using these technologies for business process improvements and innovations. As a result, recruiting and training skilled engineers who can meet the requirements of IT service companies are becoming increasingly important.

To provide services with even greater value, the Seraku Group is recruiting and training many highly skilled engineers. There are also even more activities aimed at increasing our market share in the agricultural IT sector by using Midori Cloud with the goal of achieving the digital transformation of a primary industry.

Net sales increased 12.0% year-on-year to 11,313 million yen, operating profit increased 55.7% year on year to 1,155 million yen, ordinary profit increased 111.7% year on year to 1,582 million yen, and profit attributable to owners of parent increased 107.8% year on year to 963 million yen.

Results by business segment were as follows.

1) System Integration

System Integration includes IT infrastructure and cloud technologies, a business sector with long-term stability that primarily involves IT support in existing technology domains. This segment also provides digital creative services, web operations, web system development and many other services.

In the fiscal year's first nine months, recruitment and training activities were a priority and there were many initiatives to increase the utilization of external resources by strengthening ties with all of our business partners. The reason is the good prospects for continuing to capture new business involving system development and operation, design and construction of IT infrastructure, project management and other business domains.

To enable engineers with no experience to become productive workers quickly, we started operating a project room for training with equipment that faithfully recreates actual workplaces. We will utilize this project room to give people at all levels, from younger engineers to experienced people and individuals in leadership positions, expertise concerning the latest technologies.

Sales in the System Integration segment were 8,048 million yen, up 0.4% year on year, and the segment profit was 815 million yen, up 22.4% year on year.

2) Digital Transformation

This segment encompasses many services that utilize advanced technologies. Activities include cybersecurity for protecting the information assets of companies, customer success services that solve the unsolvable problem for Salesforce.com users, the use of robotic process automation (RPA) to make business processes more efficient, and Midori Cloud, which uses IT for the profitability of agricultural businesses.

In the fiscal year's first nine months, sales increased significantly because of the continuing growth of customers' needs in all technology categories of this segment.

In the customer success business, existing Salesforce retention support services posted strong growth and performance also benefited from meeting the need for multi-faceted retention support, including Pardot, a marketing tool for B-to-B, and Tableau, an analysis platform. In addition, we have started Salesforce retention services in collaboration with NTT DATA Corporation.

In the agricultural services sector, we are creating many proposals concerning the use of Midori Cloud and Farm Cloud for the digital transformation of agriculture, both crops and livestock, for prospective customers to capture orders. Sales activities target farms, livestock operations, local governments, and other potential users of these services. In April 2021, Midori Cloud was selected as an Innovative Agricultural Business Support Model Development project by the Japanese Ministry of Agriculture, Forestry and Fisheries. We are using this as a base for activities aimed at increasing the value of Midori Cloud assets.

Sales in the Digital Transformation segment were 2,920 million yen, up 65.6% year on year, and the segment profit was 305 million yen, up 166.9% year on year.

3) Mechanical Design and Engineering

This segment is the operations of consolidated subsidiary P's Engineering. This company provides 3D CAD technologies, designs machines, dies and other items for other companies, and provides technologies for experiments, performance tests and other aspects of quality assurance activities.

Although the COVID-19 pandemic impacted market conditions during the first nine months, there has been a slow recovery in the need for the services of P's Engineering. The resulting increase in the company's capacity utilization contributed to higher sales. Due to the outlook for more opportunities to receive orders, this company is continuing to conduct recruiting and training activities to build a base for more growth.

Sales in the Mechanical Design and Engineering segment were 348 million yen, up 10.4% year on year, and the segment profit was 35 million yen, compared with a loss of 32 million yen in the same period of the previous fiscal year.

4) Others

This segment is the operations of consolidated subsidiary Seraku ECA, which is primarily engaged in job placement and temporary staffing services and services for training IT engineers.

During the first nine months, the business climate continued to decline because of the COVID-19 pandemic. Due to this downturn, we are examining the outlook for Seraku ECA and its role within the Seraku Group.

Sales in the Other segment were 2 million yen, down 89.8% year on year, and the segment loss was 925 thousand yen, compared with a loss of 5 million yen in the same period of the previous fiscal year.

(2) Explanation of Financial Position

Assets

Total assets increased 1,269 million yen from the end of the previous fiscal year to 8,611 million yen as of the end of the third quarter. The main reasons were increases of 1,157 million yen in cash and deposits, 96 million yen in deferred tax assets, 85 million yen in other under investments and other assets, 46 million yen in work in process and 33 million yen in buildings, net, while there were decreases of 130 million yen in notes and accounts receivable-trade and 30 million yen in other under current assets.

Liabilities

Total liabilities increased 368 million yen from the end of the previous fiscal year to 4,280 million yen. The main reasons were increases of 804 million yen in accounts payable-other, 160 million yen in current portion of long-term borrowings and 129 million yen in income taxes payable, while there were decreases of 260 million yen in provision for bonuses, 249 million yen in long-term borrowings and 222 million yen in accrued consumption taxes.

Net assets

Total net assets increased 901 million yen to 4,331 million yen. The main reason was an increase of 900 million yen in retained earnings.

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

There are no revisions to the full year earnings forecasts for the fiscal year ending on August 31, 2021 which were announced on October 15, 2020 in “Summary of Consolidated Financial Results for the Fiscal Year Ended August 31, 2020.”

2. Quarterly Consolidated Financial Statements and Notes**(1) Quarterly Consolidated Balance Sheet**

(Thousands of yen)

	FY8/20 (As of Aug. 31, 2020)	Third Quarter of FY8/21 (As of May 31, 2021)
Assets		
Current assets		
Cash and deposits	4,329,351	5,486,738
Notes and accounts receivable-trade	1,826,711	1,696,161
Work in process	19,453	66,298
Raw materials	36,816	58,984
Other	107,482	77,335
Allowance for doubtful accounts	(4,124)	(2,564)
Total current assets	6,315,690	7,382,954
Non-current assets		
Property, plant and equipment		
Buildings, net	111,892	145,746
Tools, furniture and fixtures, net	22,794	33,121
Other	0	2,782
Total property, plant and equipment	134,686	181,649
Intangible assets		
Goodwill	25,093	18,249
Software	8,692	5,488
Other	1,844	1,758
Total intangible assets	35,630	25,496
Investments and other assets		
Investment securities	132,702	121,061
Deferred tax assets	383,832	480,176
Leasehold and guarantee deposits	214,613	210,242
Other	125,216	210,343
Total investments and other assets	856,364	1,021,823
Total non-current assets	1,026,681	1,228,970
Total assets	7,342,372	8,611,925

	(Thousands of yen)	
	FY8/20 (As of Aug. 31, 2020)	Third Quarter of FY8/21 (As of May 31, 2021)
Liabilities		
Current liabilities		
Accounts payable-trade	57,323	86,568
Current portion of long-term borrowings	106,660	266,660
Accounts payable-other	924,007	1,728,740
Income taxes payable	369,631	498,827
Accrued consumption taxes	504,583	282,091
Provision for bonuses	639,927	379,029
Other	170,966	153,098
Total current liabilities	2,773,098	3,395,016
Non-current liabilities		
Long-term borrowings	1,005,570	755,575
Retirement benefit liability	133,900	127,865
Other	72	2,354
Total non-current liabilities	1,139,542	885,794
Total liabilities	3,912,641	4,280,811
Net assets		
Shareholders' equity		
Share capital	297,974	299,495
Capital surplus	495,724	497,245
Retained earnings	2,628,218	3,528,401
Treasury shares	(62)	(98)
Total shareholders' equity	3,421,855	4,325,043
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	65	1,137
Remeasurements of defined benefit plans	3,647	911
Total accumulated other comprehensive income	3,712	2,048
Share acquisition rights	4,162	4,021
Total net assets	3,429,730	4,331,113
Total liabilities and net assets	7,342,372	8,611,925

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

(Thousands of yen)

	First nine months of FY8/20 (Sep. 1, 2019 – May 31, 2020)	First nine months of FY8/21 (Sep. 1, 2020 – May 31, 2021)
Net sales	10,096,933	11,313,064
Cost of sales	7,696,226	8,512,739
Gross profit	2,400,706	2,800,324
Selling, general and administrative expenses	1,658,259	1,644,396
Operating profit	742,447	1,155,928
Non-operating income		
Interest income	1,624	1,199
Subsidy income	4,000	417,812
Compensation income	149	—
Other	1,076	11,151
Total non-operating income	6,850	430,162
Non-operating expenses		
Interest expenses	1,228	3,094
Miscellaneous loss	249	1
Total non-operating expenses	1,477	3,096
Ordinary profit	747,820	1,582,995
Extraordinary income		
Gain on reversal of share acquisition rights	233	141
Total extraordinary income	233	141
Extraordinary losses		
Loss on retirement of non-current assets	—	571
Loss on valuation of investment securities	—	13,185
Total extraordinary losses	—	13,757
Profit before income taxes	748,053	1,569,379
Income taxes-current	410,964	701,480
Income taxes-deferred	(126,544)	(95,609)
Total income taxes	284,419	605,871
Profit	463,633	963,508
Profit attributable to owners of parent	463,633	963,508

Quarterly Consolidated Statement of Comprehensive Income
(For the Nine-month Period)

	(Thousands of yen)	
	First nine months of FY8/20 (Sep. 1, 2019 – May 31, 2020)	First nine months of FY8/21 (Sep. 1, 2020 – May 31, 2021)
Profit	463,633	963,508
Other comprehensive income		
Valuation difference on available-for-sale securities	(13,012)	1,071
Remeasurements of defined benefit plans, net of tax	2,369	(2,735)
Total other comprehensive income	(10,643)	(1,663)
Comprehensive income	452,990	961,844
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	452,990	961,844

(3) Notes to Quarterly Consolidated Financial Statements**Going Concern Assumption**

Not applicable.

Additional Information**Impact of the spread of the COVID-19 pandemic on accounting estimates**

The COVID-19 pandemic is having an enormous impact on the global economy and the activities of companies. The outlook for the Japanese economy will probably remain unclear for some time. Regarding the impact of this crisis on the performance of the Seraku Group, there is no significant change at this time in the “Impact of the spread of the COVID-19 pandemic on accounting estimates” which was presented in additional information in the summary of consolidated financial results for the fiscal year ended August 31, 2020.

Significant Changes in Shareholders' Equity

Not applicable.

Segment and Other Information

Segment Information

First nine months of FY8/20 (Sep. 1, 2019 – May 31, 2020)

1. Information related to net sales and profit/loss in reportable segments

(Thousands of yen)

	Reportable segment				Other (Note 1)	Total	Adjustment (Note 2)	Amount in the quarterly consolidated statement of income (Note 3)
	System Integration	Digital Transfor- mation	Mechanical Design and Engineering	Total				
Net sales								
Sales to external customers	8,015,842	1,764,163	307,250	10,087,255	9,677	10,096,933	-	10,096,933
Inter-segment sales and transfers	-	-	8,415	8,415	18,242	26,658	(26,658)	-
Total	8,015,842	1,764,163	315,666	10,095,671	27,920	10,123,592	(26,658)	10,096,933
Segment profit (loss)	666,335	114,604	(32,791)	748,149	(5,701)	742,447	-	742,447

- Notes: 1. The “Other” business segment consists of activities that are not included in any of the reportable segments, and is primarily engaged in job placement and temporary staffing services and services for training IT engineers.
2. The adjustment to segment profit (loss) includes corporate costs that are not allocated to any of the reportable segments. Corporate costs mainly include general and administrative expense that cannot be attributed to any of the reportable segments. The adjustment to segment profit (loss) includes inter-segment transaction elimination of minus 26,658 thousand yen.
3. Segment profit (loss) is adjusted with operating profit shown on the quarterly consolidated statement of income.

First nine months of FY8/21 (Sep. 1, 2020 – May 31, 2021)

1. Information related to net sales and profit/loss in reportable segments

(Thousands of yen)

	Reportable segment				Other (Note 1)	Total	Adjustment (Note 2)	Amount in the quarterly consolidated statement of income (Note 3)
	System Integration	Digital Transfor- mation	Mechanical Design and Engineering	Total				
Net sales								
Sales to external customers	8,048,852	2,920,599	341,576	11,311,028	2,035	11,313,064	—	11,313,064
Inter-segment sales and transfers	—	—	6,947	6,947	800	7,747	(7,747)	—
Total	8,048,852	2,920,599	348,523	11,317,975	2,835	11,320,811	(7,747)	11,313,064
Segment profit (loss)	815,815	305,858	35,179	1,156,853	(925)	1,155,928	—	1,155,928

Notes: 1. The “Other” business segment consists of activities that are not included in any of the reportable segments, and is primarily engaged in job placement and temporary staffing services and services for training IT engineers.

2. The adjustment to segment profit (loss) includes corporate costs that are not allocated to any of the reportable segments. Corporate costs mainly include general and administrative expense that cannot be attributed to any of the reportable segments. The adjustment to segment profit (loss) includes inter-segment transaction elimination of minus 7,747 thousand yen.

3. Segment profit (loss) is adjusted with operating profit shown on the quarterly consolidated statement of income.

Material Subsequent Events

Not applicable.

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.