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Consolidated Financial Results for the Six Months Ended September 30, 2024 [Japanese GAAP]

November 11, 2024

Company name: Quest Co., Ltd.

Listing: Tokyo

Securities code: 2332

URL: <https://www.quest.co.jp/>

Representative: Ichiro Seizawa Representative Director, Chairman, President and Chief Executive Officer

Inquiries: Yutaka Koizumi Director, Senior Executive Officer

Telephone: +81-50-3785-3965

Scheduled date to file semi-annual securities report: November 13, 2024

Scheduled date to commence dividend payments: -

Preparation of supplementary material on financial results: Yes

Holding of financial results briefing: Yes (for Analyst)

(Yen amounts are rounded down to millions, unless otherwise noted.)

1. Consolidated Financial Results for the Six Months Ended September 30, 2024 (April 1, 2024 to September 30, 2024)

(1) Consolidated Operating Results

(Percentages indicate 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	%
Six months ended September 30, 2024	7,234	3.3	496	9.6	535	9.8	356	9.2
September 30, 2023	7,001	0.8	453	(9.7)	487	(9.0)	326	(9.5)

(Note) Comprehensive income: Six months ended September 30, 2024: ¥256 million [(26.3) %]

Six months ended September 30, 2023: ¥348 million [7.3 %]

	Basic earnings per share	Diluted earnings per share
	Yen	Yen
Six months ended September 30, 2024	66.54	-
September 30, 2023	61.02	-

EBITDA: Six months ended September 30, 2024: ¥616 million

Six months ended September 30, 2024: ¥575 million

EBITDA margin: Six months ended September 30, 2024: 8.5%

Six months ended September 30, 2024: 8.2%

Please refer to "1.Summary of Business Results, (1) Summary of Business Results for the Six Months Ended September 30, 2024 of the Consolidated Fiscal Year Ending March 31, 2025" for above formula.

(2) Consolidated Financial Position

	Total assets	Net assets	Capital adequacy ratio	Net assets per share
	Millions of yen	Millions of yen	%	Yen
As of September 30, 2024	9,111	6,789	74.5	1,266.81
March 31, 2024	9,460	6,787	71.7	1,267.74

(Reference) Equity: As of September 30, 2024: ¥6,789 million

As of March 31, 2024: ¥6,787 million

2. Dividends

	Annual dividends				
	1st quarter-end	2nd quarter-end	3rd quarter-end	Year-end	Total
	Yen	Yen	Yen	Yen	Yen
Fiscal year ended March 31, 2024	-	0.00	-	49.00	49.00
Fiscal year ending March 31, 2025	-	0.00			
Fiscal year ending March 31, 2025 (Forecast)			-	49.00	49.00

(Note) Revision to the forecast for dividends announced most recently: None

3. Consolidated Financial Results Forecast for the Fiscal Year Ending March 31, 2025(April 1, 2024 to March 31, 2025)

(Percentages indicate year-on-year changes.)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent		Basic earnings per share
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Yen
Full year	15,000	5.4	1,050	5.2	1,090	2.7	720	3.4	134.52

(Note) Revision to the financial results forecast announced most recently: None

* Notes:

(1) Significant changes in the scope of consolidation during the period: None

Newly included: - (Company name:)

Excluded: - (Company name:)

(2) Adoption of accounting treatment specific to the preparation of semi-annual consolidated financial statements: None

(3) Changes in accounting policies, changes in accounting estimates, and restatement

1) Changes in accounting policies due to revisions to accounting standards and other regulations: None

2) Changes in accounting policies due to other reasons: None

3) Changes in accounting estimates: None

4) Restatement: None

(4) Number of issued shares (common shares)

1) Total number of issued shares at the end of the period (including treasury shares):

September 30, 2024: 5,487,768 shares

March 31, 2024: 5,487,768 shares

2) Number of treasury shares at the end of the period:

September 30, 2024: 127,928 shares

March 31, 2024: 133,579 shares

3) Average number of shares outstanding during the period:

Six months ended September 30, 2024: 5,356,547 shares

Six months ended September 30, 2023: 5,351,016 shares

* Semi-annual financial results reports are exempt from review conducted by certified public accountants or an audit firm.

* Proper use of earnings forecasts, and other special matters

- The financial forecasts contained in this document are based on the information currently available and certain assumptions deemed reasonable, and are not intended as a promise that they will be achieved.

And actual results may differ significantly due to various factors. For the assumptions used in forecasting business results and precautions regarding the use of earnings forecasts, please refer to "1. Summary of Business Results (3) Explanation of consolidated financial forecasts and other forward-looking information.

* Supplementary on quarterly financial results in Japanese

- The semi-annual financial results meeting for the analysts is scheduled on November 29, 2024. The meeting material will be available on our website immediately after the meeting.

1.Summary of Business Results

(1) Summary of Business Results for the Six Months Ended September 30,2024 of the Consolidated Fiscal Year Ending March 31, 2025

During the six months ended September 30,2024 of the current consolidated fiscal year, the Japanese economy showed signs of gradual recovery due to improvements in the employment and income environment. On the other hand, the outlook remains uncertain due to geopolitical risks, soaring energy and raw material prices caused by the weak yen, and rising interest rates.

In the information services industry, to which our group belongs, the Ministry of Economy, Trade and Industry's "Current Survey of Selected Service Industries, August 2024", showed that total sales in the information services industry (cumulative total for April - August) increased 4.2% compared to the same month of the previous year. The sales of "made-to-order software" increased 6.9% and the sales of "outsourced system operations and maintenance" increased 3.7%, compared to the same month of the previous year. In addition to business process efficiency needs and information security measures, the shift to cloud computing for IT infrastructure is gaining importance, and demand for IT and DX-related investments is expected to continue to grow.

In this business environment, we are carrying out the activities to strengthen its foundation and steady growth based on the following basic policies set forth in the "Medium-term management plan for fiscal years 2024 –2026", as the second phase of the medium- to long-term vision "Quest Vision 2030" (*1).

■ Transformation of Business Portfolio

- Aiming to improve profitability through deepening our existing customer- oriented business (core services) which is one of our strengths, and expanding our solution services.
- Reorganizing the organizational structure of our business units based on Customer/Industry and IT technology to expand our value providing to customers and our service menu, from the beginning of FY2024.

■ Future Investment in Employees and Technology

- Expanding human capital investment and keeping on investing in the acquisition of new technologies, particularly in priority areas.
- Strengthening human resource development, technology development, and business design in order to establish solution services that bring high added value.

■ Strengthening Business Structure and Management Bases

- Building a solid business foundation that supports the realization of sustainable growth and increased corporate value.
- Working to raise awareness and improve executing ability through project base activities, aimed at achieving high resource mobility and data-driven management.

As a result of the above, the business results of our group for the six months ended September 30,2024 of the current consolidated fiscal year are as follows.

We conduct portfolio management by defining eight client industries as three domains, "priority strengthening domains", "stable growth domains" and "social issues solver domains", while allocating resources appropriately according to the supply and demand trends of client industries,

Net sales increased by 3.3% to 7,234 million yen, compared to the same period of the previous consolidated fiscal year, due to an increase in new orders from customers in the semiconductor sector (image sensor) of priority strengthening domains, entertainment sector of stable growth domains, public & social sector and transport & logistics sector of social issues solver domains.

Regarding the profits, despite an increase in education-related expenses as an investment for growth, due to the effect of increased revenue and the absence of one-time expenses (head office relocation cost) which incurred in the previous fiscal year, operating profit amounted 496 million yen, increased by 9.6%, ordinary profit amounted 535 million yen, increased by 9.8% and net profit attributable to owners of parent amounted 356 million yen, increased by 9.2%, compared to the same period of the previous consolidated fiscal year respectively.

Applying the consolidated accounting, amortization expense of Customer-related assets and goodwill will be recorded over a certain period of the time. As an indicator to ensure comparability, EBITDA (*2) and EBITDA margin (*3) for the six months ended September 30, 2024 of the consolidated fiscal year were 616 million yen and 8.5%, respectively. As a reference, EBITDA and EBITDA margin for the same period of the previous consolidated fiscal year were 575 million yen and 8.2%, respectively.

Operating results by segment are as follows.

In the system development business, due to an increase in development project orders from the customers in the semiconductor sector, our main customers, and entertainment sector, net sales amounted 4,498 million yen, increased by 5.5% compared to the same period of the previous consolidated fiscal year, and segment profit was 829 million yen, increased by 22.1% compared to the same period of the previous consolidated fiscal year.

In the infrastructure services business, despite an increase of services provided to the customers in the manufacturing sector and public & social sector, due to a decrease of services provided to the customers in the finance sector, net sales amounted 2,717 million yen, decreased by 0.4% compared to the same period of the previous consolidated fiscal year, and segment profit was 417 million yen, decreased by 9.7% compared to the same period of the previous consolidated fiscal year.

(Notes) 1. Inter-segment transactions are offset and eliminated.

2. Segment profit is before allocation of corporate expenses, etc.

3. In April 2024, a major reorganization was implemented to strengthen the business foundation, including subcontractor management. As a result, the allocation of increased overhead costs has resulted in large fluctuations in segment profit versus the same period of the previous year among segments.

*1. Quest Vision2030 : Please refer to our website.

https://www.quest.co.jp/irinfo/quest_vision2030/

*2. EBITDA: Net profit before income taxes + Interest expense + Depreciation and amortization
+ Amortization of Customer-related assets + Amortization of goodwill

*3. EBITDA margin: EBITDA divided by net sales.

(2) Summary of Financial Position for the Six Months Ended September 30, 2024 of the Consolidated Fiscal Year Ending March 31, 2025

1) Summary of Assets, Liabilities and Net Assets

<Assets>

Total assets at the end of the six months ended September 30, 2024 of this consolidated fiscal year, decreased 349 million yen from the end of the previous consolidated fiscal year to 9,111 million yen. This was mainly due to a decrease of 180 million yen in Notes and accounts receivable - trade and contract assets, and a decrease of 156 million yen in Investment securities.

<Liabilities>

Total liabilities at the end of the six months ended September 30, 2024 of this consolidated fiscal year, decreased 351 million yen from the end of the previous consolidated fiscal year to 2,321 million yen. This was mainly due to a decrease of 109 million yen in Provision for bonuses and a decrease of 49 million yen in Income taxes payable.

<Net Assets>

Net assets at the end of the six months ended September 30, 2024 of this consolidated fiscal year, increased 2 million yen from the end of the previous consolidated fiscal year to 6,789 million yen. This was mainly due to an increase of 94 million yen in Retained earnings and a decrease of 100 million yen in Valuation difference on available-for-sale securities. Retained earnings increased 94 million yen in total. It is due to an increase of 356 million yen in Profit attributable to owners of parent and a decrease of 262 million yen by dividend payment.

2) Summary of Cash Flows

Cash and cash equivalents (hereinafter referred to as "funds") at the end of the six months ended September 30, 2024 of this consolidated fiscal year amounted to 3,154 million yen, an increase of 40 million yen compared to the end of the previous consolidated fiscal year.

Cash flows and factors affecting cash flows at the end of the six months ended September 30, 2024 of this consolidated fiscal year are as follows.

<Cash Flows from Operating Activities>

Operating activities resulted in a net cash inflow of 292 million yen. This was mainly due to Profit before income taxes of 535 million yen, an increase in funds due to a Decrease in accounts receivable - trade, and contract assets of 180 million yen and decrease in funds due to Income taxes paid of 166 million yen and a decrease in Provision for bonuses of 109 million yen.

<Cash Flows from Investing Activities>

Investing activities resulted in a net cash inflow of 10 million yen. This was mainly due to Proceeds from withdrawal of investment securities of 11 million yen.

<Net cash used in financing activities>

Financing activities resulted in a net outflow of 263 million yen. This was mainly due to Dividends paid of 261 million yen.

(3) Explanation of consolidated financial forecasts and other forward-looking information

No revisions have been made to the consolidated earnings forecast announced on May 13, 2024.

Semi-annual Consolidated Financial Statements

Semi-annual Consolidated Balance Sheets

(Thousands of yen)

	As of March 31, 2024	As of September 30, 2024
Assets		
Current assets		
Cash and deposits	2,914,570	2,954,874
Notes and accounts receivable - trade, and contract assets	3,209,986	3,029,012
Securities	80,941	91,536
Money held in trust	200,000	200,000
Work in process	3,338	3,252
Other	266,974	192,761
Total current assets	6,675,811	6,471,436
Non-current assets		
Property, plant and equipment	220,638	216,214
Intangible assets		
Customer-related assets	463,070	442,022
Goodwill	229,437	191,198
Other	15,157	13,238
Total intangible assets	707,665	646,458
Investments and other assets		
Investment securities	998,214	842,088
Other	858,168	935,292
Total investments and other assets	1,856,382	1,777,380
Total non-current assets	2,784,686	2,640,052
Total assets	9,460,497	9,111,488

(Thousands of yen)

	As of March 31, 2024	As of September 30, 2024
Liabilities		
Current liabilities		
Accounts payable - trade	418,334	426,014
Income taxes payable	207,101	158,076
Contract liabilities	26,102	26,961
Provision for bonuses	792,026	682,284
Provision for bonuses for directors (and other officers)	7,535	12,500
Provision for loss on projects	2,466	1,054
Other	757,972	544,878
Total current liabilities	2,211,539	1,851,769
Non-current liabilities		
Provision for retirement benefits for directors (and other officers)	55,422	58,817
Retirement benefit liability	262,525	269,067
Asset retirement obligations	-	10,639
Other	143,299	131,314
Total non-current liabilities	461,247	469,838
Total liabilities	2,672,787	2,321,608
Net assets		
Shareholders' equity		
Share capital	491,031	491,031
Capital surplus	607,586	611,349
Retained earnings	5,383,869	5,477,946
Treasury shares	(93,829)	(89,872)
Total shareholders' equity	6,388,658	6,490,454
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	399,039	298,524
Remeasurements of defined benefit plans	11	901
Total accumulated other comprehensive income	399,051	299,425
Total net assets	6,787,709	6,789,880
Total liabilities and net assets	9,460,497	9,111,488

Semi-annual Consolidated Statements of Income and Comprehensive Income

(Thousands of yen)

	For the six months ended September 30, 2023	For the six months ended September 30, 2024
Net sales	7,001,143	7,234,892
Cost of sales	5,720,180	5,876,708
Gross profit	1,280,962	1,358,183
Selling, general and administrative expenses		
Salaries and bonuses	208,291	236,265
Provision for bonuses	58,739	68,130
Provision for bonuses for directors (and other officers)	6,775	4,964
Retirement benefit expenses	6,489	6,697
Provision for retirement benefits for directors (and other officers)	10,027	3,395
Other	537,335	541,772
Total selling, general and administrative expenses	827,658	861,226
Operating profit	453,304	496,957
Non-operating income		
Interest income	12	292
Dividend income	20,349	9,954
Gain on investments in investment partnerships	4,836	16,875
Share of profit of entities accounted for using equity method	3,318	-
Other	8,049	11,501
Total non-operating income	36,566	38,623
Non-operating expenses		
Interest expenses	258	449
Loss on retirement of non-current assets	2,196	-
Other	0	0
Total non-operating expenses	2,454	449
Ordinary profit	487,417	535,131
Profit before income taxes	487,417	535,131
Income taxes - current	97,770	119,265
Income taxes - deferred	63,146	59,433
Total income taxes	160,917	178,699
Profit	326,500	356,432
Profit attributable to owners of parent	326,500	356,432

(Thousands of yen)

	For the six months ended September 30, 2023	For the six months ended September 30, 2024
Profit	326,500	356,432
Other comprehensive income		
Valuation difference on available-for-sale securities	21,584	(100,514)
Remeasurements of defined benefit plans, net of tax	3,553	889
Share of other comprehensive income of entities accounted for using equity method	(3,046)	-
Total other comprehensive income	22,091	(99,625)
Comprehensive income	348,591	256,806
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	348,591	256,806

Semi-annual Consolidated Statements of Cash Flows

(Thousands of yen)

	For the six months ended September 30, 2023	For the six months ended September 30, 2024
Cash flows from operating activities		
Profit before income taxes	487,417	535,131
Depreciation	28,285	21,152
Amortization of customer-related assets	21,048	21,048
Amortization of goodwill	38,239	38,239
Increase (decrease) in provision for bonuses	(98,181)	(109,741)
Increase (decrease) in provision for bonuses for directors (and other officers)	6,775	4,964
Increase (decrease) in provision for loss on project contracts	(478)	(1,412)
Increase (decrease) in provision for retirement benefits for directors (and other officers)	6,752	3,395
Share-based payment expenses	4,122	3,960
Interest and dividend income	(20,362)	(10,246)
Loss (gain) on investments in investment partnerships	(4,836)	(16,875)
Share of loss (profit) of entities accounted for using equity method	(3,318)	-
Interest expenses	258	449
Loss on retirement of non-current assets	2,196	-
Decrease (increase) in accounts receivable - trade, and contract assets	(43,516)	180,973
Decrease (increase) in inventories	(1,665)	86
Decrease (increase) in retirement benefit asset	(82,000)	(87,082)
Increase (decrease) in trade payables	(42,195)	7,679
Increase (decrease) in contract liabilities	(9,612)	858
Increase (decrease) in retirement benefit liability	490	6,364
Other, net	(40,853)	(149,586)
Subtotal	248,563	449,360
Interest and dividends received	20,813	10,246
Interest paid	(256)	(316)
Income taxes paid	(166,851)	(166,808)
Net cash provided by (used in) operating activities	102,268	292,481
Cash flows from investing activities		
Purchase of property, plant and equipment	(193,995)	-
Purchase of intangible assets	(2,340)	-
Proceeds from withdrawal of investment securities	-	11,250
Proceeds from collection of loans receivable	1,000	-
Payments of leasehold deposits	(9,507)	(7,444)
Proceeds from refund of leasehold deposits	98,812	-
Proceeds from distributions from investment partnerships	8,082	6,280
Net cash provided by (used in) investing activities	(97,948)	10,085
Cash flows from financing activities		
Repayments of lease liabilities	(3,007)	(1,663)
Purchase of treasury shares	-	(25)
Dividends paid	(210,430)	(261,940)
Net cash provided by (used in) financing activities	(213,438)	(263,629)
Effect of exchange rate change on cash and cash equivalents	-	1,365
Net increase (decrease) in cash and cash equivalents	(209,118)	40,303
Cash and cash equivalents at beginning of period	2,659,343	3,114,570
Cash and cash equivalents at end of period	2,450,225	3,154,874