

Consolidated Financial Results for the Third Quarter of the Fiscal Year Ending June 30, 2022
(Nine Months Ended March 31, 2022)

[Japanese GAAP]

May 13, 2022

Company name: Smartvalue Co., Ltd.

Listing: Tokyo Stock Exchange

Securities code: 9417

URL: <https://www.smartvalue.ad.jp/>

Representative: Jun Shibuya, President and CEO

Contact: Tomoe Daimon, Division Manager, President's Office

Tel: +81-(0)6-6227-5577

Scheduled date of filing of Quarterly Report:

May 13, 2022

Scheduled date of payment of dividend:

-

Preparation of supplementary materials for quarterly financial results:

None

Holding of quarterly financial results meeting:

None

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

1. Consolidated Financial Results for the Third Quarter of the Fiscal Year Ending June 30, 2022
(July 1, 2021 to March 31, 2022)

(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 Mar. 31, 2022	2,900	16.7	23	-	50	-	19	-
Nine months ended Mar. 31, 2021	2,485	(52.1)	(271)	-	(260)	-	(176)	-

Note: Comprehensive income (millions of yen) Nine months ended Mar. 31, 2022: 35 (-%)

Nine months ended Mar. 31, 2021: (176) (-%)

	Net income per share	Diluted net income per share
	Yen	Yen
Nine months ended Mar. 31, 2022	1.98	1.97
Nine months ended Mar. 31, 2021	(17.62)	-

Note: Diluted net income per share for the nine months ended Mar. 31, 2021 is not presented, because net loss was posted despite the existence of latent shares with a dilution effect.

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio
	Millions of yen	Millions of yen	%
As of Mar. 31, 2022	4,217	2,463	51.1
As of Jun. 30, 2021	2,740	2,117	77.3

Reference: Shareholders' equity (millions of yen)

As of Mar. 31, 2022: 2,153

As of Jun. 30, 2021: 2,117

2. Dividends

	Dividend per share				
	1Q-end	2Q-end	3Q-end	Year-end	Total
	Yen	Yen	Yen	Yen	Yen
Fiscal year ended Jun. 30, 2021	-	0.00	-	8.00	8.00
Fiscal year ending Jun. 30, 2022	-	0.00	-		
Fiscal year ending Jun. 30, 2022 (forecast)				8.00	8.00

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

3. Consolidated Earnings Forecast for the Fiscal Year Ending June 30, 2022 (July 1, 2021 to June 30, 2022)

(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	4,518	31.1	78	-	112	-	92	-	9.25

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

*** Notes**

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

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

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

1) Changes in accounting policies due to revisions in accounting standards, others: Yes

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

3) Changes in accounting-based estimates: None

4) Restatements: None

(4) Number of shares outstanding (common shares)

1) Number of shares outstanding at the end of the period (including treasury shares)

As of Mar. 31, 2022:	10,264,800 shares	As of Jun. 30, 2021:	10,264,800 shares
----------------------	-------------------	----------------------	-------------------

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

As of Mar. 31, 2022:	225,490 shares	As of Jun. 30, 2021:	227,890 shares
----------------------	----------------	----------------------	----------------

3) Average number of shares outstanding during the period

Nine months ended Mar. 31, 2022:	10,039,214 shares	Nine months ended Mar. 31, 2021:	10,011,825 shares
----------------------------------	-------------------	----------------------------------	-------------------

* The current quarterly financial report is not subject to the quarterly review by certified public accountants or auditing firms.

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

Cautionary statement with respect to forecasts

Forecasts of future performance in these materials are based on assumptions judged to be valid and information available to Smartvalue's management at the time these materials were prepared. Actual results may differ significantly from these forecasts for a number of reasons. Please refer to the section "1. Qualitative Information on Quarterly Consolidated Financial Performance, (3) Explanation of Consolidated Earnings Forecast and Other Forward-looking Statements" on page 4 of the attachments regarding preconditions or other related matters for the forecasts.

Contents of Attachments

1. Qualitative Information on Quarterly Consolidated Financial Performance	2
(1) Explanation of Results of Operations	2
(2) Explanation of Financial Position	3
(3) Explanation of Consolidated Earnings Forecast and Other Forward-looking Statements	4
2. Quarterly Consolidated Financial Statements and Notes	5
(1) Quarterly Consolidated Balance Sheet	5
(2) Quarterly Consolidated Statements of Income and Comprehensive Income	7
(3) Notes to Quarterly Consolidated Financial Statements	9
Going Concern Assumption	9
Significant Changes in Shareholders' Equity	9
Changes in Accounting Policies	9
Additional Information	10
Segment and Other Information	10
Revenue Recognition	11
Subsequent Events	11

1. Qualitative Information on Quarterly Consolidated Financial Performance

(1) Explanation of Results of Operations

During the first nine months of the current fiscal year, the Japanese economy was affected by the COVID-19 pandemic and the sixth wave in Japan around January 2022. However, due to the decline in the number of cases as measures were taken to prevent the spread of infections in Japan and overseas, restrictions and other pandemic safety measures ended, which resulted in signs of an economic recovery. Despite these positive signs, the outlook for the economy is unclear mainly because of the high price of energy caused by the Ukraine crisis and economic sanctions imposed on Russia by many countries.

Consumer spending in Japan was sluggish in some categories due to requests to stay home as much as possible and to negative consumer sentiment. Caution is needed because of the risk of a global economic downturn due to changes in the severity of the pandemic caused by new variants of the coronavirus and the Ukraine crisis. Digital Government, which provides cloud-based services to municipalities and local governments, has not been affected significantly by the current business climate. However, Mobility Services, which provides commercial vehicle sharing services for businesses, has been affected by mobility constraints and the increase in the cost of operating vehicles because of the high cost of energy. In addition, there is a risk of contract cancellations by existing customers due to the economic downturn.

The outlook for the economy in the second half and next fiscal year includes the risk of a global economic downturn caused by a worsening of the Ukraine crisis and the risk of another upturn of the pandemic. Depending on the severity of upcoming events, there may be issues that cannot be completely resolved by activities of the Smartvalue Group alone. We are working on GaaS (note 1), Kuruma Base (note 2) and the creation of smart cities to provide services for living with the pandemic and developing services that are in step with today's digital society. We are well aware of the urgent need to establish a business model that is not vulnerable to changes in the economy or in the severity of the pandemic.

In this challenging business climate, the activities of the Smartvalue Group are guided by the goal of "combining 'smart' systems and technologies to create social systems that can thrive for many years."

We are in the process of shifting our entire business to a sustainable growth model and the actions we have taken since the previous fiscal year are starting to produce benefits. Consequently, a significant year-on-year improvement has been achieved. Moreover, we are also taking actions to create highly profitable businesses by establishing sources of consistent earnings, strengthening our positions in business domains with excellent prospects for growth and launching businesses that can take the Smartvalue Group in new directions.

In the first nine months of the fiscal year, consolidated net sales increased 16.7% to 2,900 million yen. There was an operating profit of 23 million yen compared with a loss of 271 million yen one year earlier and an ordinary profit of 50 million yen compared with a loss of 260 million yen one year earlier.

As a result, profit attributable to owners of parent was 19 million yen compared with a loss of 176 million yen one year earlier.

We will continue to take many actions with the goal of building a stronger profit structure by creating a new business model that is an extension of our current operations. Examples of these activities include measures for increasing monthly recurring revenue (MRR) in the Cloud Solutions business, improving efficiency in all of our businesses, and making more progress with smart cities and other digital community creation programs.

Results by business segment were as follows.

Digital Government

This business provides products and services that are a platform for digital government, which involves the digitalization of government services (e-government) linked to a new concept for public services. One activity is Smart L-Gov (note 3), a cloud solution for open government (note 4) that distributes information in order to increase the transparency of local governments. Another component of this digital government platform is GaaS, a cloud service that increases participation and linkage by providing online ties between governments and the people they serve.

During the first nine months, the priorities of this business were capturing orders from new customers and expanding relationships with existing customers. In addition, this business continued to implement many cost-cutting measures. Sales to local governments and other public-sector organizations resulting from orders received through competitive bids remained strong because of activities by the Japanese government to increase the use of e-government. There was amortization of goodwill for Storcks Co., Ltd., which became a consolidated subsidiary in April 2021. As a result, segment sales increased 34.5% from one year earlier to 1,701 million yen and the segment profit increased 19.5% from one year earlier to 207 million yen.

Mobility Services

The car solutions business, which dates back to Smartvalue's establishment, involves the sale of safety assistance equipment and information devices placed in automobiles. These devices target opportunities created by the growing use of electrical equipment in automobiles, often viewed as an automobile industry revolution on a scale that happens only once in a century. The diverse activities of the mobility IoT business include the CiEMS Series (note 5), which is a connected car (note 6) service, the provision of platforms and software development for the utilization of automobile data, and Kuruma Base, which is a platform that supports car sharing and other car-as-a-service applications.

One noteworthy event is the start of a car sharing platform for electric vehicles by using automobiles made by Tesla. We believe this platform demonstrates the significant growth potential of the Mobility Services business.

During the first nine months, in the car sharing sector, despite the impact of the decline in the use of commercial vehicles by businesses due to mobility constraints, the Kuruma Base business is benefiting from the dramatic shift in the utilization of automobiles from ownership to sharing. As interest in carbon neutrality grows, demand is increasing for electric vehicles. We will continue to strengthen our ability to provide solutions.

In addition, cost of sales has been curtailed due to a fall in depreciation and amortization along with other factors and we are controlling selling, general and administrative expenses by improving operational efficiency. Segment sales decreased 1.7% from one year earlier to 1,199 million yen and the segment profit was 178 million yen compared with a loss of 72 million yen one year earlier.

Explanation of terms

Notes:

1. GaaS: Government as a Service is a cloud-based solution provided by Smartvalue for online government procedures
2. Kuruma Base: A platform for the integration of everything from car connectivity to car services for use primarily with car sharing services, fully automated rental car operations and other applications
3. Smart L-Gov: A local information cloud platform provided by Smartvalue for local governments and public-sector agencies
4. Open government: A concept for measures aimed at making national and local government activities more open that is based on three basic principles: (1) Transparency, (2) Participation of the public, and (3) Public/private-sector cooperation
5. CiEMS Series: The Car intelligent Energy Management System analyzes and utilizes a broad array of data associated with the operation of motor vehicles to eliminate traffic accidents, reduce traffic jams, operate vehicles more efficiently and provide other benefits. By fully utilizing data obtained from the operation of cars, this system also has the goal of helping solve a variety of social issues.
6. Connected car: Automobiles that use the internet to send and receive information

(2) Explanation of Financial Position

1) Assets

Total assets at the end of the third quarter increased 1,477 million yen from the end of the previous fiscal year to 4,217 million yen.

Current assets increased 1,534 million yen to 3,295 million yen. Major items include a decrease of 199 million yen in income taxes receivable, while there were increases of 1,366 million yen in cash and deposits and 375 million yen in notes and accounts receivable-trade, and contract assets.

Non-current assets decreased 59 million yen to 918 million yen. Major items include decreases of 58 million yen in software in progress, 13 million yen in buildings and structures, 12 million yen in goodwill and 8 million yen in deferred tax assets, while there was an increase of 45 million yen in software.

Deferred assets increased 2 million yen to 3 million yen. Major items include an increase of 2 million yen in share issuance cost.

2) Liabilities

Total liabilities increased 1,131 million yen from the end of the previous fiscal year to 1,754 million yen.

Current liabilities increased 1,153 million yen to 1,644 million yen. Major items include increases of 1,043 million yen in short-term borrowings, 61 million yen in accrued consumption taxes, 23 million yen in advances received and 20 million yen in income taxes payable.

Non-current liabilities decreased 21 million yen to 109 million yen. Major items include decreases of 11 million yen in long-term borrowings and 9 million yen in lease obligations.

3) Net assets

Net assets increased 345 million yen from the end of the previous fiscal year to 2,463 million yen. This increase was mainly the result of an increase in capital surplus of 90 million yen due to a third-party allotment to non-controlling shareholders to a consolidated subsidiary Storcs Co., Ltd., an increase in capital surplus of 5 million yen due to a third-party allotment in One Bright KOBE Co. Ltd., an increase of 294 million yen in non-controlling interests and an increase in retained earnings of 19 million yen due to a profit attributable to owners of parent, while there was a decrease of 80 million yen in retained earnings due to dividend payments.

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

There are no revisions to the full-year consolidated earnings forecast for the fiscal year ending June 30, 2022 that was announced in the “Consolidated Financial Results for the Fiscal Year Ended June 30, 2021 (Japanese GAAP)” on August 13, 2021.

An announcement will be made promptly if a revision to the forecast is required due to upcoming changes in the operating environment.

2. Quarterly Consolidated Financial Statements and Notes

(1) Quarterly Consolidated Balance Sheet

	(Thousands of yen)	
	FY6/21 (As of Jun. 30, 2021)	Third quarter of FY6/22 (As of Mar. 31, 2022)
Assets		
Current assets		
Cash and deposits	770,682	2,137,488
Notes and accounts receivable-trade, and contract assets	550,147	925,962
Electronically recorded monetary claims-operating	1,903	-
Merchandise	155,265	118,460
Work in process	6,281	11,026
Income taxes receivable	199,838	-
Other	77,362	102,862
Allowance for doubtful accounts	(24)	(106)
Total current assets	1,761,456	3,295,693
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	221,448	207,550
Other, net	67,621	59,115
Total property, plant and equipment	289,069	266,666
Intangible assets		
Goodwill	158,365	146,183
Software	147,090	192,672
Other	63,138	5,850
Total intangible assets	368,594	344,706
Investments and other assets		
Deferred tax assets	104,437	95,558
Leasehold and guarantee deposits	205,779	205,765
Other	10,475	5,922
Total investments and other assets	320,692	307,245
Total non-current assets	978,356	918,619
Deferred assets		
Organization expenses	563	474
Share issuance costs	-	2,737
Total deferred assets	563	3,211
Total assets	2,740,375	4,217,524
Liabilities		
Current liabilities		
Accounts payable-trade	93,175	114,085
Short-term borrowings	-	1,043,000
Current portion of long-term borrowings	6,664	14,173
Income taxes payable	2,671	23,607
Provision for bonuses	40,216	41,587
Other	348,433	407,916
Total current liabilities	491,161	1,644,369
Non-current liabilities		
Long-term borrowings	59,674	48,000
Asset retirement obligations	55,292	55,394
Other	16,333	6,441
Total non-current liabilities	131,299	109,836
Total liabilities	622,461	1,754,206

(Thousands of yen)

	FY6/21 (As of Jun. 30, 2021)	Third quarter of FY6/22 (As of Mar. 31, 2022)
Net assets		
Shareholders' equity		
Share capital	959,454	959,454
Capital surplus	949,720	1,044,888
Retained earnings	334,392	273,323
Treasury shares	(125,810)	(124,485)
Total shareholders' equity	2,117,756	2,153,180
Share acquisition rights	157	150
Non-controlling interests	-	309,986
Total net assets	2,117,913	2,463,317
Total liabilities and net assets	2,740,375	4,217,524

(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 FY6/21 (Jul. 1, 2020 – Mar. 31, 2021)	First nine months of FY6/22 (Jul. 1, 2021 – Mar. 31, 2022)
Net sales	2,485,256	2,900,985
Cost of sales	1,822,305	1,892,348
Gross profit	662,951	1,008,636
Selling, general and administrative expenses	934,529	985,183
Operating profit (loss)	(271,578)	23,453
Non-operating income		
Interest income	9	12
Subsidy income	7,275	27,134
Penalty income	1,975	2,183
Other	1,402	2,160
Total non-operating income	10,662	31,490
Non-operating expenses		
Interest expenses	-	4,057
Amortization of share issuance costs	-	573
Amortization of organization expenses	-	88
Other	-	35
Total non-operating expenses	-	4,755
Ordinary profit (loss)	(260,915)	50,188
Extraordinary losses		
Loss on retirement of non-current assets	13	0
Early termination fee	5,220	-
Total extraordinary losses	5,233	0
Profit (loss) before income taxes	(266,149)	50,188
Income taxes-current	5,285	6,289
Income taxes-deferred	(95,066)	8,878
Total income taxes	(89,781)	15,168
Profit (loss)	(176,367)	35,020
Profit attributable to non-controlling interests	-	15,155
Profit (loss) attributable to owners of parent	(176,367)	19,864

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

	(Thousands of yen)	
	First nine months of FY6/21 (Jul. 1, 2020 – Mar. 31, 2021)	First nine months of FY6/22 (Jul. 1, 2021 – Mar. 31, 2022)
Profit (loss)	(176,367)	35,020
Comprehensive income	(176,367)	35,020
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	(176,367)	19,864
Comprehensive income attributable to non-controlling interests	-	15,155

(3) Notes to Quarterly Consolidated Financial Statements

Going Concern Assumption

Not applicable.

Significant Changes in Shareholders' Equity

Not applicable.

Changes in Accounting Policies

Application of the Accounting Standard for Revenue Recognition

Smartvalue has applied the Accounting Standard for Revenue Recognition (Accounting Standards Board of Japan (ASBJ) Statement No. 29, March 31, 2020) from the beginning of the first quarter of the current fiscal year. Based on this standard, revenue expected to be received in exchange for the provision of goods and services is recognized when the control of the goods and services is transferred to customers. The main change due to the application of the Accounting Standard for Revenue Recognition is that Smartvalue previously applied the percentage-of-completion method to construction contracts for which the outcome was deemed certain and the completed-contract method when this requirement was not met; however, the method was changed to recognize revenue over a certain period of time as the performance obligation to transfer goods or services to customers is satisfied. Moreover, the method of estimating progress related to the fulfillment of performance obligations is calculated by the input method based on the ratio of incurred costs to the total estimated construction costs. The cost recovery standard is applied when it is expected that the costs incurred on construction projects for which the progress cannot be reasonably estimated will be collected. For construction contracts with a very short development period, Smartvalue applies an alternative method of recognizing revenue when the performance obligation is fully satisfied.

For the application of the Accounting Standard for Revenue Recognition, in accordance with the transitional measures in the proviso to Paragraph 84 of this standard, the cumulative effect of the retrospective application of the new accounting standard, if it is applied prior to the first quarter of the current fiscal year, is added to or subtracted from retained earnings at the beginning of the first quarter of the current fiscal year. The new standard is then applied beginning with this amount of retained earnings.

The effect of this change on retained earnings at the beginning of the first quarter of the current fiscal year and profit in the first nine months of the current fiscal year is insignificant.

Due to the application of the Accounting Standard for Revenue Recognition, "Notes and accounts receivable-trade" that were presented under the current assets in the consolidated balance sheets in the previous fiscal year is, from the first quarter of the current fiscal year, included in "Notes and accounts receivable-trade, and contract assets." Furthermore, in accordance with the transitional treatment prescribed in paragraph 28-15 of the Accounting Standard for Quarterly Financial Reporting (ASBJ Statement No. 12, March 31, 2020), Smartvalue has not presented information on revenue from contracts with customers broken down for the first nine months of the previous fiscal year.

Application of the Accounting Standard for Fair Value Measurement

Smartvalue has applied the Accounting Standard for Fair Value Measurement (ASBJ Statement No. 30, July 4, 2019) from the beginning of the first quarter of the current fiscal year, and has applied the new accounting standard set forth by the Accounting Standard for Fair Value Measurement prospectively in accordance with the transitional treatment prescribed in Paragraph 19 of the Accounting Standard for Fair Value Measurement and Paragraph 44-2 of the Accounting Standard for Financial Instruments (ASBJ Statement No. 10, July 4, 2019).

There is no effect of the application of these standards on the quarterly consolidated financial statements.

Additional Information

There have been no significant changes to the key assumptions used in the accounting estimates for the impact of COVID-19 described in Notes (Significant Accounting Estimates) in the Annual Securities Report for the fiscal year ended June 30, 2021.

Segment and Other Information

Segment Information

First nine months of FY6/21 (Jul. 1, 2020 – Mar. 31, 2021)

1. Information related to net sales and profit or loss for each reportable segment

(Thousands of

yen)

	Reportable segment			Adjustment (Note 1)	Amounts shown on quarterly consolidated statement of income (Note 2)
	Digital Government	Mobility Services	Total		
Net sales					
External sales	1,264,504	1,220,752	2,485,256	-	2,485,256
Inter-segment sales and transfers	-	-	-	-	-
Total	1,264,504	1,220,752	2,485,256	-	2,485,256
Segment profit (loss)	173,709	(72,214)	101,494	(373,072)	(271,578)

Notes: 1. The negative adjustment of 373 million yen to segment profit (loss) includes corporate expenses that are not allocated to any of the reportable segments and mainly consist of general and administrative expenses and goodwill amortization that cannot be attributed to any reportable segments.

2. Segment profit (loss) is adjusted to be consistent with operating loss in the quarterly consolidated statement of income.

2. Information related to assets for each reportable segment

Not applicable.

3. Information related to impairment losses of non-current assets or goodwill, etc. for each reportable segment

Not applicable.

First nine months of FY6/22 (Jul. 1, 2021 – Mar. 31, 2022)

1. Information related to net sales and profit or loss for each reportable segment

(Thousands of

yen)

	Reportable segment			Adjustment (Note 1)	Amounts shown on quarterly consolidated statement of income (Note 2)
	Digital Government	Mobility Services	Total		
Net sales					
Goods or services that are transferred at a point in time	170,199	652,596	822,796	-	822,796
Goods or services that are transferred over a certain period of time	1,531,032	547,156	2,078,189	-	2,078,189
Revenue from contracts with customers	1,701,231	1,199,753	2,900,985	-	2,900,985
Other revenue	-	-	-	-	-
External sales	1,701,231	1,199,753	2,900,985	-	2,900,985
Inter-segment sales and transfers	-	-	-	-	-
Total	1,701,231	1,199,753	2,900,985	-	2,900,985
Segment profit	207,534	178,090	385,624	(362,170)	23,453

Notes: 1. The negative adjustment of 362 million yen to segment profit includes corporate expenses that are not allocated to any of the reportable segments and mainly consist of general and administrative expenses and goodwill amortization that cannot be attributed to any reportable segments.

2. Segment profit is adjusted to be consistent with operating profit in the quarterly consolidated statement of income.

2. Information related to assets for each reportable segment

Not applicable.

3. Information related to impairment losses of non-current assets or goodwill, etc. for each reportable segment

Not applicable.

4. Information related to revisions to reportable segments

As described in Changes in Accounting Policies, Smartvalue has applied the Accounting Standard for Revenue Recognition from the beginning of the first quarter of FY6/22 and changed the accounting method for revenue recognition. Accordingly, the method for calculating segment profit or loss has been changed as well.

The effect of this change on sales and segment profit or loss of the reporting segments is insignificant.

Revenue Recognition

Information on revenue from contracts with customers broken down is described in the Notes, Segment and Other Information.

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.