

Consolidated Financial Results for the Third Quarter of the Fiscal Year Ending June 30, 2024 (Nine Months Ended March 31, 2024)

[Japanese GAAP]

May 15, 2024

Company name: Smartvalue Co., Ltd.

Listing: Tokyo Stock Exchange

Securities code: 9417

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Scheduled date of filing of Quarterly Report:

May 15, 2024

Scheduled date of payment of dividend:

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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, 2024 (July 1, 2023 to March 31, 2024)

(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, 2024	2,839	(4.6)	(304)	-	(305)	-	(293)	-
Nine months ended Mar. 31, 2023	2,975	2.6	1	(94.5)	1	(96.4)	41	109.2

Note: Comprehensive income (millions of yen)

Nine months ended Mar. 31, 2024: (325) (-%)

Nine months ended Mar. 31, 2023: (14) (-%)

	Net income per share	Diluted net income per share
	Yen	Yen
Nine months ended Mar. 31, 2024	(28.25)	-
Nine months ended Mar. 31, 2023	4.15	4.14

Note: Diluted net income per share for the nine months ended March 31, 2024 is not presented because there are no 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, 2024	4,166	2,222	41.9
As of Jun. 30, 2023	3,866	2,441	54.9

Reference: Shareholders' equity (millions of yen)

As of Mar. 31, 2024: 1,744

As of Jun. 30, 2023: 2,121

2. Dividends

	Dividend per share				
	1Q-end	2Q-end	3Q-end	Year-end	Total
	Yen	Yen	Yen	Yen	Yen
Fiscal year ended Jun. 30, 2023	-	0.00	-	8.00	8.00
Fiscal year ending Jun. 30, 2024	-	0.00	-		
Fiscal year ending Jun. 30, 2024 (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, 2024 (July 1, 2023 to June 30, 2024)

(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	4,454	15.0	23	-	16	-	15	-	1.56

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: None

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, 2024:	10,679,800 shares	As of Jun. 30, 2023:	10,679,800 shares
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2) Number of treasury shares at the end of the period

As of Mar. 31, 2024:	287,490 shares	As of Jun. 30, 2023:	287,490 shares
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3) Average number of shares outstanding during the period

Nine months ended Mar. 31, 2024:	10,392,310 shares	Nine months ended Mar. 31, 2023:	10,018,270 shares
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* 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 the Company'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 5 of the attachments regarding preconditions or other related matters for the forecasts.

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1. Qualitative Information on Quarterly Consolidated Financial Performance

(1) Explanation of Results of Operations

There was a slow recovery of the Japanese economy during the first nine months of the current fiscal year as economic activity continued to return to normal as the impact of the pandemic subsided. Pandemic restrictions have ended and demand created by foreign tourists in Japan has recovered. The outlook for the economy is still unclear because of the prolonged Ukraine conflict, the Israel-Hamas conflict and other sources of geopolitical risk as well as the rising cost of energy, food and other items, the yen's depreciation and the effects of interest rate policies in other countries.

Smartvalue (the "Company")'s Digital Government segment, which provides cloud services to local governments, is performing well as many governments shift activities to digital technologies. Competition in the digital government market is increasing because of its significant growth potential. In addition, a decline in the percentage of sales calls resulting in firm orders in some categories is beginning to affect the performance of this segment. In the Mobility Services segment, which provides services mainly for the fleets of companies, performance is affected by the risk to some degree of losing business opportunities because of the declining use of company vehicles as companies alter how they conduct business operations and due to a suspension of some automobile shipments caused by fraud at a manufacturer involving vehicle quality. Market conditions for this business are also likely to be affected by an increase in interest rates on bank loans following the Bank of Japan's decision to end negative interest rates.

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

In the first nine months, there were activities to generate monthly recurring revenue (MRR) in the cloud solutions business, shift to a business model capable of sustained growth, such as by continuing to step up activities for the digitalization of government services, and create a new profit structure based on a medium to long-term perspective.

In the Smart Venues segment, preparations are progressing as planned for the April 2025 opening of GLION ARENA KOBE (note 1) and expenditures are increasing. At this time, the priority is adding large sponsorship agreements and other activities for generating sales.

Consolidated net sales decreased 4.6% to 2,839 million yen. There was an operating loss of 304 million yen compared with a profit of 1 million yen one year earlier, an ordinary loss of 305 million yen compared with a profit of 1 million yen one year earlier, and loss attributable to owners of parent of 293 million yen compared with a profit of 41 million yen one year earlier.

In the first nine months, sales were lower than in the same period of the previous fiscal year and there were losses. Although substantial sales were expected in the third quarter due to the characteristics of business operations, performance was held down by decline in the percentage of sales calls resulting in firm orders in the cloud solutions business, an increase in investments in the Smart Venues segment, instability of the performance of consolidated subsidiary Storks Co., Ltd., and other factors.

The percentage of sales calls resulting in firm orders is recovering and there is progress with sales generated by new sponsorship agreements in the Smart Venues segment prior to the opening of its arena. As a result, sales and earnings are expected to improve somewhat in the fourth quarter. In the cloud solutions business, we are continuing to take actions for steady growth of MRR in the SaaS market, where growth is expected to continue, and for cutting expenses. In the Smart Venues segment, which is expected to become the "third pillar" of our business with Digital Government and Mobility Services, we are focusing on the creation of services that can play a role in creating digital communities, such as activities for smart cities linked to the GLION ARENA KOBE, which is to open in 2025. The objective of these initiatives is the creation of a profit model that can be a driver of more growth.

Business segment performance for the first nine months was as follows.

Digital Government

This segment provides Gabukura (note 2), a cloud suite for local governments that is designed to increase transparency, participation and linkage of local government digital transformation open government (note 3).

An increasing number of governments in Japan are using online procedures and other digital operations. As a result,

the shift to the cloud is gaining momentum, including use of the government cloud (note 4) and digital marketplace (note 5). To meet needs involving the increasing use of digital technologies in the public sector, the cloud suite Gabukura enables the dissemination of information by local governments as governments continue to use digital technologies for the transition to a new concept for public services. This cloud suite has components such as Smart-L-Gov, CMS (note 6) for the production and operation of websites and GaaS (note 7) for increasing participation and linkage for online ties between governments and the people they serve. With these capabilities, Gabukura can be used for community creation in a sustainable and democratic manner.

During the first nine months, the priorities of the Digital Government segment were capturing orders from new customers and expanding relationships with existing customers. In addition, this business continued to implement many cost-cutting measures. Although progress with activities by the Japanese government to increase the use of e-government is continuing, sales to local governments and other public-sector organizations due to orders received through competitive bids were lower than one year earlier. This decrease is attributable to a lower percentage of winning bids caused by more intense competition in some market sectors. Higher personnel and business travel expenses and up-front investments for starting the new wellbeing business at Grand Green Osaka, a large urban development project near Osaka Station, also affected this segment's performance. As a result, sales and earnings were lower than one year earlier. As local governments continue to increase the use of digital technologies, the Company and alliance partner WingArc1st Inc. developed the Rakuriza ("easy reservation") government facility reservation system as one way to speed up the digital transformation of the public sector. Sales of this service started in April 2024.

As a result, segment sales decreased 14.3% from one year earlier to 1,350 million yen and the segment profit decreased 40.7% from one year earlier to 241 million yen.

Mobility Services

The car solutions business, which dates back to the Company'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 8), which is a connected car (note 9) service, the provision of platforms and software development for the utilization of automobile data, and Kuruma Base (note 10), which is a platform that supports car sharing and other car-as-a-service applications.

During the first nine months, there were measures to cut costs and improve efficiency. Despite these activities, sales and earnings decreased mainly because of the decline in the number of company cars and delays in deliveries of new cars. The new vehicle key management service of Kuruma Base and the fully automated construction machinery rental service, provided jointly with construction machinery rental company AKTIO Corporation, are both performing well. Activities are continuing to upgrade capabilities for providing solutions, generate earnings and operate more efficiently.

Segment sales decreased 5.7% from one year earlier to 1,107 million yen and the segment profit decreased 42.3% from one year earlier to 131 million yen.

Smart Venues

The Smart Venues segment has the goal of creating new markets based on the concepts of stadium and arena innovations and smart venues, which governments are positioning as growing business sectors. Operations of this business are centered on GLION ARENA KOBE, which is scheduled to open in April 2025. In addition, in terms of earnings too, preparations are proceeding for making the Smart Venues Business the third core business along with Digital Government and Mobility Services.

During the first nine months, to create a framework for medium to long-term sales and earnings, there was progress generally as planned for establishing a sound environment for the start of operations of GLION ARENA KOBE in 2025. Sales in this segment increased significantly mainly because of the arena naming rights agreement with the GLION Co., Ltd. and other sponsorship agreements. However, the segment loss increased because of up-front investments and the instability of the performance of consolidated subsidiary Storks Co., Ltd.

Segment sales increased 69.7% from one year earlier to 382 million yen and the segment loss was 310 million yen compared with a loss of 255 million yen one year earlier.

Explanation of terms

Notes:

1. GLION ARENA KOBE: A multi-purpose arena under construction in the second jetty of the New Port Jetty West Area in the City of Kobe based on the Kobe Arena Project, which was established and is operated by the private sector and consists of a consortium of NTT Urban Development Corporation, NTT DOCOMO, INC, and the Company. The arena was officially named GLION ARENA KOBE in February 2024.
2. Gabukura A regional information cloud platform suite for local governments and other public-sector institutions
3. 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
4. Government cloud: An environment for using numerous cloud services for the purposes of creating a unified platform and providing functions concerning data systems for governments
5. Digital marketplace: A framework for the registration of vendors and services using the same requirements and for the easy procurement of goods and services from registered services and companies by the public sector with no need to ask for bids.
6. CMS: A Content Management System facilitates the centralized storage and management of all information concerning the content of a website, such as text, images, designs (templates) and other items
7. GaaS: Government as a Service is a service for online procedures for the digitalization of government services
8. 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.
9. Connected car: Automobiles that use the internet to send and receive information
10. Kuruma Base: An integrated platform provided by the Company that encompasses car connectivity and car-as-a-service applications

(2) Explanation of Financial Position

1) Assets

Total assets at the end of the third quarter increased 300 million yen from the end of the previous fiscal year to 4,166 million yen.

Current assets decreased 279 million yen to 2,737 million yen. Major items include a decrease of 691 million yen in cash and deposits, and an increase of 371 million yen in notes and accounts receivable-trade, and contract assets.

Non-current assets increased 580 million yen to 1,424 million yen. Major items include increases of 424 million yen in construction in progress, 33 million yen in guarantee deposits, and 81 million yen in other property, plant and equipment.

Deferred assets decreased 1 million yen to 4 million yen. Major items include a decrease of 1 million yen in share issuance cost.

2) Liabilities

Total liabilities increased 519 million yen from the end of the previous fiscal year to 1,944 million yen.

Current liabilities increased 469 million yen to 1,586 million yen. Major items include increases of 18 million yen in accounts payable-trade, 207 million yen in short-term borrowings, and 248 million yen in other current liabilities.

Non-current liabilities increased 49 million yen to 357 million yen. Major items include an increase of 77 million

yen in other non-current liabilities and a decrease of 29 million yen in long-term borrowings.

3) Net assets

Net assets decreased 219 million yen from the end of the previous fiscal year to 2,222 million yen. This decrease was mainly the result of an increase of 189 million yen in non-controlling interests due to a third-party allotment in a consolidated subsidiary One Bright KOBE Co. Ltd., a decrease in retained earnings of 376 million yen due to dividend payments of 83 million yen and a loss attributable to owners of parent of 293 million yen, and a decrease of 32 million yen in non-controlling interests due to a loss attributable to non-controlling interests.

(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, 2024 that was announced in the “Consolidated Financial Results for the Fiscal Year Ended June 30, 2023 (Japanese GAAP)” on August 14, 2023.

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)

	FY6/23 (As of Jun. 30, 2023)	Third quarter of FY6/24 (As of Mar. 31, 2024)
Assets		
Current assets		
Cash and deposits	2,339,306	1,648,213
Notes and accounts receivable-trade, and contract assets	472,324	843,567
Electronically recorded monetary claims-operating	1,683	-
Merchandise	110,333	89,803
Work in process	9,491	534
Other	83,285	155,178
Allowance for doubtful accounts	(20)	(33)
Total current assets	3,016,404	2,737,264
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	184,387	168,721
Construction in progress	9,300	434,013
Other, net	64,191	145,921
Total property, plant and equipment	257,879	748,656
Intangible assets		
Goodwill	125,880	113,698
Software	128,447	113,770
Other	16,112	54,091
Total intangible assets	270,439	281,560
Investments and other assets		
Deferred tax assets	100,962	87,688
Leasehold and guarantee deposits	205,526	238,531
Other	9,308	68,046
Total investments and other assets	315,797	394,266
Total non-current assets	844,115	1,424,483
Deferred assets		
Organization expenses	325	237
Share issuance costs	5,269	4,201
Total deferred assets	5,595	4,438
Total assets	3,866,115	4,166,187

	(Thousands of yen)	
	FY6/23 (As of Jun. 30, 2023)	Third quarter of FY6/24 (As of Mar. 31, 2024)
Liabilities		
Current liabilities		
Accounts payable-trade	92,212	110,896
Short-term borrowings	488,560	695,600
Current portion of long-term borrowings	79,440	86,060
Income taxes payable	15,440	5,620
Provision for bonuses	44,046	42,507
Other	396,750	645,469
Total current liabilities	1,116,449	1,586,152
Non-current liabilities		
Long-term borrowings	247,120	217,730
Asset retirement obligations	55,564	56,614
Other	5,807	83,634
Total non-current liabilities	308,492	357,979
Total liabilities	1,424,941	1,944,131
Net assets		
Shareholders' equity		
Share capital	1,044,944	1,044,944
Capital surplus	1,114,988	1,114,988
Retained earnings	116,161	(260,536)
Treasury shares	(154,411)	(154,411)
Total shareholders' equity	2,121,682	1,744,984
Non-controlling interests	319,491	477,071
Total net assets	2,441,173	2,222,055
Total liabilities and net assets	3,866,115	4,166,187

(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 FY6/23 (Jul. 1, 2022 – Mar. 31, 2023)	First nine months of FY6/24 (Jul. 1, 2023 – Mar. 31, 2024)
Net sales	2,975,715	2,839,646
Cost of sales	1,972,205	2,054,852
Gross profit	1,003,510	784,793
Selling, general and administrative expenses	1,002,230	1,089,031
Operating profit (loss)	1,279	(304,238)
Non-operating income		
Interest income	16	14
Subsidy income	3,458	1,074
Penalty income	3,057	4,799
Lecture fee revenue	490	680
Other	468	582
Total non-operating income	7,490	7,150
Non-operating expenses		
Interest expenses	5,795	6,275
Amortization of organization expenses	88	88
Amortization of share issuance costs	923	1,987
Other	151	547
Total non-operating expenses	6,959	8,899
Ordinary profit (loss)	1,810	(305,987)
Extraordinary income		
Gain on reversal of share acquisition rights	36	-
Total extraordinary income	36	-
Extraordinary losses		
Loss on retirement of non-current assets	226	11
Total extraordinary losses	226	11
Profit (loss) before income taxes	1,619	(305,998)
Income taxes-current	17,654	6,658
Income taxes-deferred	(1,581)	13,273
Total income taxes	16,073	19,931
Loss	(14,453)	(325,929)
Loss attributable to non-controlling interests	(56,005)	(32,369)
Profit (loss) attributable to owners of parent	41,551	(293,559)

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

	(Thousands of yen)	
	First nine months of FY6/23 (Jul. 1, 2022 – Mar. 31, 2023)	First nine months of FY6/24 (Jul. 1, 2023 – Mar. 31, 2024)
Loss	(14,453)	(325,929)
Comprehensive income	(14,453)	(325,929)
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	41,551	(293,559)
Comprehensive income attributable to non-controlling interests	(56,005)	(32,369)

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

Not applicable.

Significant Changes in Shareholders' Equity

Not applicable.

Segment and Other Information**Segment Information**

First nine months of FY6/23 (Jul. 1, 2022 – Mar. 31, 2023)

1. Information about net sales and profit or loss for reportable segments and breakdown of revenue

	Reportable segments				Adjustment (Note 1)	(Thousands of yen) Amounts shown on quarterly consolidated statement of income (Note 2)
	Digital Government	Mobility Services	Smart Venues	Total		
Net sales						
Goods or services that are transferred at a point in time	20,911	541,154	62,731	624,797	-	624,797
Goods or services that are transferred over a certain period of time	1,554,836	633,403	162,678	2,350,918	-	2,350,918
Revenue from contracts with customers	1,575,748	1,174,558	225,409	2,975,715	-	2,975,715
Other revenue	-	-	-	-	-	-
External sales	1,575,748	1,174,558	225,409	2,975,715	-	2,975,715
Inter-segment sales and transfers	-	-	-	-	-	-
Total	1,575,748	1,174,558	225,409	2,975,715	-	2,975,715
Segment profit (loss)	407,274	227,976	(255,174)	380,077	(378,797)	1,279

Notes: 1. The negative adjustment of 378 million yen to segment profit (loss) includes corporate expenses that are not allocated to any reportable segment and mainly consist of general and administrative expenses and goodwill amortization that cannot be attributed to any reportable segment.

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

2. Information related to assets for reportable segments

Not applicable.

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

Not applicable.

First nine months of FY6/24 (Jul. 1, 2023 – Mar. 31, 2024)

1. Information about net sales and profit or loss for reportable segments and breakdown of revenue

	Reportable segments				Adjustment (Note 1)	(Thousands of yen) Amounts shown on quarterly consolidated statement of income (Note 2)
	Digital Government	Mobility Services	Smart Venues	Total		
Net sales						
Goods or services that are transferred at a point in time	5,217	488,697	116,762	610,677	-	610,677
Goods or services that are transferred over a certain period of time	1,344,887	618,429	265,652	2,228,969	-	2,228,969
Revenue from contracts with customers	1,350,105	1,107,126	382,414	2,839,646	-	2,839,646
Other revenue	-	-	-	-	-	-
External sales	1,350,105	1,107,126	382,414	2,839,646	-	2,839,646
Inter-segment sales and transfers	-	-	-	-	-	-
Total	1,350,105	1,107,126	382,414	2,839,646	-	2,839,646
Segment profit (loss)	241,473	131,520	(310,424)	62,568	(366,807)	(304,238)

Notes: 1. The negative adjustment of 366 million yen to segment profit (loss) includes corporate expenses that are not allocated to any reportable segment and mainly consist of general and administrative expenses that cannot be attributed to any reportable segment.

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 reportable segments

Not applicable.

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

Not applicable.

Revenue Recognition

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

** 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.*