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October 30 2023

Summary of Financial Results for the Second Quarter Ended September 30, 2023 (Consolidated)

Company name: SAKURA internet Inc.
 Listing: Tokyo Stock Exchange
 Securities code: 3778
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 Scheduled date to file quarterly report: November 9, 2023
 Scheduled date to commence dividend payment: —
 Preparation of supplementary material on quarterly financial results: Yes
 Holding of quarterly financial results briefing: Yes(For institutional investors and securities analysts)

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

1. Consolidated financial results for the six months ended September 30, 2023 (from April 1, 2023, to September 30, 2023)

(1) Consolidated operating results (YTD) (%: Changes from the corresponding period of the previous fiscal year)

	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, 2023	10,343	3.5	249	(42.8)	172	(54.3)	175	(29.1)
Six months ended September 30, 2022	9,989	3.4	436	120.6	377	192.6	247	-

Note: Comprehensive income Six months ended September 30, 2023 ¥336 million [30.7%]
 Six months ended September 30, 2022 ¥257 million [-%]

	Net income per share	Diluted net income per share
	Yen	Yen
Six months ended September 30, 2023	4.91	-
Six months ended September 30, 2022	6.76	-

(2) Consolidated financial conditions

	Total assets	Net assets	Equity-to-asset ratio
	Millions of yen	Millions of yen	%
Six months ended September 30, 2023	27,248	8,889	32.0
Fiscal year ended March 31, 2023	26,256	8,486	31.8

Reference: Shareholders' equity Six months ended September 30, 2023 ¥8,713 million
 Fiscal year ended March 31, 2023 ¥8,348 million

2. Cash dividends

	Annual dividends per share				
	1st quarter-end	2nd quarter-end	3rd quarter-end	Fiscal year-end	Total
	Yen	Yen	Yen	Yen	Yen
Fiscal year ended March 31, 2023	-	0.00	-	3.50	3.50
Fiscal year ending March 31, 2024	-	0.00			
Fiscal year ending March 31, 2024 (forecast)			-	3.50	3.50

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

3. Consolidated forecast for the fiscal year ending March 31, 2024 (from April 1, 2023, to March 31, 2024)

(%: Changes from the corresponding period of the previous fiscal year)

	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	22,800	10.6	1,450	32.7	1,300	34.6	850	27.5	23.81

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

The Company disposed of treasury shares as restricted share compensation on July 7, 2023. "Net income per share" in the consolidated earnings forecast takes this effect into consideration.

* Notes:

- (1) Changes in significant subsidiaries during the three months ended September 30, 2023 (changes in specified subsidiaries resulting in the change in scope of consolidation): None
 Newly included: - company
 Excluded: - company
- (2) Application of accounting methods specific to the preparation of quarterly consolidated financial statements: None
- (3) Changes in accounting policies, changes in accounting estimates, and restatement
 - (i) Changes in accounting policies due to revisions to accounting standards and other regulations : None
 - (ii) Changes in accounting policies due to other reasons: None
 - (iii) Changes in accounting estimates : None
 - (iv) Restatement: None
- (4) Number of issued shares (common shares)
 - (i) Total number of issued shares at the end of the period (including treasury shares)

Six months ended September 30, 2023	37,620,700 shares
Fiscal year ended March 31, 2023	37,620,700 shares
 - (ii) Number of treasury shares at the end of the period

Six months ended September 30, 2023	1,911,815 shares
Fiscal year ended March 31, 2023	1,958,144 shares
 - (iii) Average number of shares of common stock during the six months

Six months ended September 30, 2023	35,684,328 shares
Six months ended September 30, 2022	36,538,166 shares

Note: The Company has introduced Stock Benefit Trust (J-ESOP). The shares of the Company's stock held by the Stock Benefit Trust are included in treasury shares which are deducted when calculating the number of treasury shares at year-end and the average number of shares during period.

* Financial results reports are exempt from a quarterly review conducted by certified public accountants or an audit corporation.

* Proper use of earnings forecasts, and other special matters

1. These forward-looking statements, including forecasts, in this material are based on data currently available to management and certain assumptions that management believes are reasonable, and are not intended as a guarantee that the Company will achieve these targets. The actual results may differ materially from those projected herein depending on various factors. For the conditions underlying earnings forecasts and notes on using earnings forecasts, please refer to "(3) Explanation of consolidated earnings forecasts and other forward-looking information" in "1. Qualitative information on the quarterly financial results" on page 3 of the attached document.

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1. Qualitative information on the quarterly financial results

(1) Explanation of operating results

During the six months ended September 30, 2023, there has been an expectation for a moderate economic recovery to continue partly due to the positive effect of various policies as the employment and income situation improved. However, slowdowns in overseas economies, mainly due to the adverse effect of continued global monetary tightening and concern over the outlook of China's economy, have been a risk that may weigh down Japan's economy. In addition, careful attention must be paid to the effects of price hikes and fluctuations in financial and capital markets.

As digital transformation progresses, almost all companies are expected to accelerate the use of a third platform (Cloud, Mobility, Big Data, Social Technologies) and migrate their IT infrastructure to a cloud based one on a full scale. We anticipate that the cloud Internet infrastructure market, to which the Group belongs, will continue to expand as expectations for a domestic public cloud are growing.

In these circumstances, the Group aims to support the realization of what customers "want to do" by providing the Group's one-stop services from system integration and development to provision, maintenance, operation and customer support, etc. of internet infrastructure services. With the main goal of realizing the success of more than 480,000 existing customers and potential customers, the Company focuses on expanding cloud-services that have high growth potential in the future.

Net sales were 10,343,168 thousand yen (up 3.5% year on year) mainly due to the steady growth of cloud-services sales.

Operating profit fell to 249,492 thousand yen (down 42.8% year on year) mainly due to an increase in expenses to invest in human resources and strengthen marketing for further medium- to long-term growth, higher electricity costs due to surging crude oil prices and higher domain acquisition costs due to the weaker yen, despite the increase in net sales.

Ordinary profit was 172,680 thousand yen (down 54.3% year on year) mainly due to a decrease in operating profit.

Profit attributable to owners of parent was 175,138 thousand yen (down 29.1% year on year) mainly due to a decrease in ordinary profit, despite recording a gain on sale of investment securities.

Sales by service category are as follows:

(i) Cloud-Services

Net sales of cloud-services were 6,248,620 thousand yen (up 7.9% year on year) mainly owing to the favorable performance of SAKURA's cloud and VPS.

(ii) Physical base services

Net sales of physical base services were 1,787,851 thousand yen (down 3.1% year on year), mainly due to the shift to other services and cancelations.

(iii) Other services

Net sales of other services were 2,306,696 thousand yen (down 2.0% year on year), mainly due to a decrease in sales of Group companies.

(2) Overview of financial condition

Assets, liabilities and net assets at the end of the six months ended September 30, 2023, and the factors affecting them are as follows:

(i) Assets

The balance of total assets at the end of the six months ended September 30, 2023, grew 992,790 thousand yen (up 3.8% year on year) to 27,248,899 thousand yen. This was mainly due to an increase in property, plant and equipment as a result of procuring service equipment, and an increase in investment securities because the investee company went public and the company's shares were evaluated at fair value.

(ii) Liabilities

Total liabilities at the end of the six months ended September 30, 2023, were up 589,428 thousand yen (up 3.3% year on year) to 18,359,399 thousand yen. This was mainly due to an increase in lease liabilities relating to service equipment.

(iii) Net assets

The balance of net assets at the end of the six months ended September 30, 2023, rose 403,361 yen (up 4.8%) year on year to 8,889,500 thousand yen. This was mainly due to an increase in valuation difference on available for sale securities, and an increase in retained earnings associated with the recording of profit attributable to owners of parent.

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

Consolidated net sales, operating profit, and ordinary profit for the six months ended September 30, 2023 achieved the expected level, while the earnings of some group companies fell below expectations. On the other hand, profit attributable to owners of parent was greater than expected mainly due to selling the Company's partial holdings in ABEJA, Inc., which went public, and recording a gain on sale of investment securities.

Since the effects of GPU cloud service on earnings for the current fiscal year and earnings forecasts of the group companies are under examination as we continue to strengthen recruitment, sales and marketing in order to achieve the initial targets that aim for further growth, the consolidated earnings forecasts for the fiscal year ending March 31, 2024, are unchanged from those publicized in the Consolidated Financial Results for the Fiscal Year Ended March 31, 2023 (Japanese GAAP) dated April 27, 2023.

Note: If a revision of the earnings forecasts is considered necessary in accordance with future business developments, the Company will announce it immediately.

2. Consolidated Quarterly Financial Statements and Major Notes

(1) Consolidated quarterly balance sheets

(Thousands of yen)

	Fiscal year ended March 31, 2023 (as of March 31, 2023)	Six months ended September 30, 2023 (as of September 30, 2023)
Assets		
Current assets		
Cash and deposits	4,810,628	4,483,819
Accounts receivable—trade	2,392,419	2,269,628
Merchandise and finished goods	13,384	14,330
Supplies	526,641	631,444
Other	1,201,459	1,403,173
Allowance for doubtful accounts	(13,545)	(14,470)
Total current assets	8,930,987	8,787,926
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	6,899,139	6,628,811
Tools, furniture and fixtures, net	1,981,395	2,064,167
Leased assets, net	5,176,950	6,117,077
Other, net	658,617	658,588
Total property, plant and equipment	14,716,102	15,468,644
Intangible assets		
Other	508,025	486,917
Total Intangible assets	508,025	486,917
Investments and other assets		
Other	2,106,718	2,511,016
Allowance for doubtful accounts	(5,724)	(5,604)
Total investments and other assets	2,100,994	2,505,411
Total non-current assets	17,325,122	18,460,973
Total assets	26,256,109	27,248,899

(Thousands of yen)

	Fiscal year ended March 31, 2023 (as of March 31, 2023)	Six months ended September 30, 2023 (as of September 30, 2023)
Liabilities		
Current liabilities		
Accounts payable–trade	917,034	888,208
Short-term borrowings	320,000	410,000
Current portion of long-term borrowings	813,183	802,785
Income taxes payable	230,986	163,555
Advances received	4,864,278	4,877,176
Provision for bonuses	390,795	427,644
Provision for bonuses for directors (and other officers)	6,750	-
Other	2,297,485	2,432,487
Total current liabilities	9,840,514	10,001,857
Non-current liabilities		
Long-term borrowings	2,662,253	2,269,861
Lease liabilities	4,537,003	5,356,094
Asset retirement obligations	680,274	681,705
Provision for share awards	28,666	43,861
Other	21,258	6,019
Total non-current liabilities	7,929,456	8,357,541
Total liabilities	17,769,970	18,359,399
Net assets		
Shareholders' equity		
Share capital	2,256,921	2,256,921
Capital surplus	1,378,747	1,481,332
Retained earnings	5,847,035	5,896,396
Treasury shares	(1,145,475)	(1,118,373)
Total shareholders' equity	8,337,228	8,516,276
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	4,632	185,648
Foreign currency translation adjustment	7,024	11,373
Deferred gains or losses on hedges	(175)	39
Total accumulated other comprehensive income	11,482	197,061
Non-controlling interests	137,428	176,163
Total net assets	8,486,139	8,889,500
Total liabilities and net assets	26,256,109	27,248,899

(2) Consolidated quarterly statement of income and consolidated quarterly statement of comprehensive income

Consolidated quarterly statement of income

Six months ended September 30, 2023

(Thousands of yen)

	Six months ended September 30, 2022 (From April 1, 2022, to September 30, 2022)	Six months ended September 30, 2023 (From April 1, 2023, to September 30, 2023)
Net sales	9,989,816	10,343,168
Cost of sales	7,489,731	7,703,923
Gross profit	2,500,085	2,639,245
Selling, general and administrative expenses		
Provision of allowance for doubtful accounts	1,111	1,258
Salaries and allowances	607,807	695,959
Provision for bonuses	134,420	155,495
Other	1,320,271	1,537,039
Total selling, general and administrative expenses	2,063,610	2,389,752
Operating profit	436,474	249,492
Non-operating income		
Interest income	20	20
Share of profit of entities accounted for using equity method	7,034	-
Reversal of allowance for doubtful accounts	904	454
Gain on sale of crypto assets	8,759	-
Secondment income	9,827	10,641
Other	18,219	28,536
Total non-operating income	44,767	39,653
Non-operating expenses		
Interest expenses	78,093	84,163
Share of loss of entities accounted for using equity method	-	6,292
Other	25,621	26,009
Total non-operating expenses	103,715	116,465
Ordinary profit	377,525	172,680
Extraordinary income		
Gain on sale of non-current assets	1,759	-
Gain on sale of investment securities	-	61,318
Total extraordinary income	1,759	61,318
Extraordinary losses		
Loss on retirement of non-current assets	4,049	1,334
Loss on cancellation of leases	1,314	114
Total extraordinary losses	5,363	1,449
Profit before income taxes	373,922	232,548
Income taxes - current	66,987	130,872
Income taxes - deferred	63,607	(49,372)
Total income taxes	130,595	81,500
Profit	243,327	151,047
Net loss attributable to non-controlling interests	(3,687)	(24,091)
Profit attributable to owners of parent	247,014	175,138

Consolidated quarterly statement of comprehensive income

Six months ended September 30, 2023

(Thousands of yen)

	Six months ended September 30, 2022 (From April 1, 2022, to September 30, 2022)	Six months ended September 30, 2023 (From April 1, 2023, to September 30, 2023)
Profit	243,327	151,047
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	52	174,760
Deferred gains or losses on hedges	-	214
Foreign currency translation adjustment	5,575	4,348
Share of other comprehensive income of entities accounted for using equity method	8,577	6,255
Total other comprehensive income	14,205	185,579
Comprehensive income	257,532	336,627
(Breakdown)		
Comprehensive income attributable to owners of parent	261,220	360,718
Comprehensive income attributable to non-controlling interests	(3,687)	(24,091)

(3) Notes to consolidated quarterly financial statements

(Notes on the assumption of going concern)

There are no applicable matters to be reported.

(Notes on significant changes in the amount of shareholders' equity)

There are no applicable matters to be reported during the six months ended September 30, 2023.