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Non-consolidated Financial Results for the Six Months Ended October 31, 2024 [Japanese GAAP]

December 13, 2024

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 Listing: Tokyo
 Securities code: 4431
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 Scheduled date to file semi-annual securities report: December 13, 2024
 Scheduled date to commence dividend payments: -
 Preparation of supplementary material on financial results: Yes
 Holding of financial results briefing: Yes

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

1. Non-consolidated Financial Results for the Six Months Ended October 31, 2024 (May 1, 2024 to October 31, 2024)

(1) Non-consolidated Operating Results

(Percentages indicate year-on-year changes.)

	Net sales		Operating profit		Ordinary profit		Net income	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
Six months ended October 31, 2024	5,152	30.5	1,195	43.1	1,184	41.9	792	41.9
October 31, 2023	3,947	49.4	835	113.1	835	111.8	558	11.7

	Basic earnings per share	Diluted earnings per share
	Yen	Yen
Six months ended October 31, 2024	41.20	41.14
October 31, 2023	29.16	29.04

(2) Non-consolidated Financial Position

	Total assets	Net assets	Capital adequacy ratio
	Millions of yen	Millions of yen	%
As of October 31, 2024	9,216	6,820	74.0
April 30, 2024	7,952	5,969	75.1

(Reference) Equity: As of October 31, 2024: ¥ 6,820 million

As of April 30, 2024: ¥ 5,969 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 April 30, 2024	-	0.00	-	0.00	0.00
Fiscal year ending April 30, 2025	-	0.00			
Fiscal year ending April 30, 2025 (Forecast)			-	15.00	15.00

(Note) 1 Revision to the forecast for dividends announced most recently: Yes

2 Regarding the revision to the cash dividends forecast, please refer to the "Announcement of Revision to FY2025 Dividend Forecast (First Dividend)" disclosed on December 13, 2024.

3. Non-consolidated Financial Results Forecast for the Fiscal Year Ending April 30, 2025(May 1, 2024 to April 30, 2025)
(Percentages indicate year-on-year changes.)

	Net sales		Operating profit		Ordinary profit		Net income		Basic earnings per share
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Yen
Full year	10,688	27.5	2,033	17.2	2,033	19.8	1,414	16.6	73.60

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

* Notes:

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

(2) 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

(3) Number of issued shares (common shares)

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

October 31, 2024: 19,689,400 shares

April 30, 2024: 19,672,400 shares

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

October 31, 2024: 430,129 shares

April 30, 2024: 453,702 shares

3) Average number of shares outstanding during the period:

Six months ended October 31, 2024: 19,240,393 shares

Six months ended October 31, 2023: 19,165,024 shares

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

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1. Qualitative Information on Semi-Annual Financial Performance

(1) Explanation of Results of Operations

During the interim accounting period (May 1, 2024, to October 31, 2024), the Japanese economy experienced a gradual recovery driven by improvements in employment and income conditions. However, the economy remains under observation due to downward pressures such as sharp fluctuations in exchange rates and stock prices, as well as heightened geopolitical risks.

In the restaurant and retail industries, which represent the primary users of our POS system, challenges such as sluggish sales of seasonal goods due to lingering summer heat and heightened consumer frugality due to inflation were observed. Nevertheless, positive factors like rising real wages and inbound demand have kept the economic environment stable overall.

Our performance during the interim period:

Revenue growth was driven by multiple factors, including active cross-selling initiatives during sales negotiations that increased average customer spending, successful hiring and onboarding of sales staff, and the positive impact of advertising campaigns such as television commercials. These efforts contributed to steady growth in the number of paid stores.

Expenses:

Selling, general, and administrative (SG&A) expenses increased due to proactive hiring to strengthen organizational capabilities, leading to higher personnel costs. Additional factors included rental costs for new showrooms and Amortization of goodwill related to the acquisition of the "Rece ONE Plus" business. However, we also focused on cost efficiency, including streamlining recruitment expenses, which helped offset some of the cost increases.

Financial results:

As a result, we achieved:

Net sales: ¥5,152 million (+30.5% YoY)

Operating profit: ¥1,195 million (+43.1% YoY)

Ordinary profit: ¥1,184 million (+41.9% YoY)

Profit for the interim period: ¥792 million (+41.9% YoY)

Since we operate as a single segment in the cloud services business, we have omitted segment-specific details.

Semi-Annual Sales Comparison

(Thousand yen)

Category	First six months of FY4/24 (May 1, 2023 – Oct. 31, 2023)	First six months of FY4/25 (May 1, 2024 – Oct. 31, 2024)	YoY (%)
Monthly fees and others	2,383,014	3,351,885	+ 40.7
Sales of products and others	1,473,603	1,639,831	+ 11.3
Others	90,415	160,570	+ 77.6
Total	3,947,033	5,152,287	+ 30.5

Note: The "Others" category in the table primarily includes the following:

- Revenue generated from System Engineering Services (SES), aimed at fostering young engineers and skilled workers as well as developing advanced IT talent.
- Revenue generated from operating actual retail stores, intended to incorporate on-site needs into service development.

ARR Trends

(Million yen)

	April 2021	April 2022	April 2023	April 2024	October 2024
ARR	2,076	2,920	4,303	5,932	6,998

Note: ARR (Annual Recurring Revenue) is calculated by multiplying the MRR (Monthly Recurring Revenue) of the final month of each fiscal period by 12.

The following tables show Smaregi's number of Fee-paying stores and active stores, and cumulative transaction volume.

Number of Fee-paying Stores

	April 2021	April 2022	April 2023	April 2024	October 2024
Premium	3,212	4,345	5,647	7,081	7,437
Premium plus	6,425	8,196	9,793	12,562	14,411
Food business	3,179	3,865	4,711	5,665	6,157
Retail business	6,604	7,782	8,885	10,204	10,754
Food & retail	148	260	374	494	568
Total (Fee-paying)	19,568	24,448	29,410	36,006	39,327

Note: The store count provided above represents the number of fee-paying stores, that have signed up for the Smaregi POS service. If a client company operates multiple stores, each store is counted. No-fee stores paying a fee due to the use of an optional service are not included in this graph.

Number of Active Stores and Ratio (%) of Active Stores

	April 2021	April 2022	April 2023	April 2024	October 2024
Total	24,759 (25.7)	30,355 (27.4)	36,375 (28.7)	43,923 (30.3)	47,089 (30.6)

Note: The number of stores that recorded commercial transactions (sales) in the most recent one-month period using Smaregi's cash register function, irrespective of the type of plan. Even when the stores utilize inventory management and other functions, if there are no commercial transactions then they are not counted.

Cumulative Transaction Volume

(Million yen)

	April 2021	April 2022	April 2023	April 2024	October 2024
Cumulative transaction volume	3,468,715	4,605,960	6,243,138	8,457,026	9,738,948

Note: Cumulative transaction volume is the amount of products and services sold using Smaregi since the start of this cloud-based POS service.

(2) Explanation of Financial Position

1) Assets

As of the end of the semi-annual accounting period, total current assets amounted to ¥7,704 million, an increase of ¥801 million compared to the end of the previous fiscal year. This increase was primarily due to a ¥749 million rise in cash and deposits. Non-current assets increased by ¥461 million from the end of the previous fiscal year, reaching ¥1,512 million. This was mainly attributable to increases of ¥176 million in intangible assets and ¥158 million in property, plant, and equipment.

As a result, total assets increased by ¥1,263 million compared to the end of the previous fiscal year, amounting to ¥9,216 million.

2) Liabilities

As of the end of the semi-annual accounting period, total current liabilities stood at ¥2,238 million, an increase of ¥359 million compared to the end of the previous fiscal year. This increase was primarily due to a ¥254 million rise in deposits received, a ¥159 million increase in provision for bonuses, and a ¥133 million rise in income taxes payable. These increases offset decreases of ¥66 million in accrued consumption taxes and ¥65 million in accounts payable - trade. Non-current liabilities increased by ¥52 million compared to the previous fiscal year, amounting to ¥157 million.

As a result, total liabilities increased by ¥412 million, reaching ¥2,396 million.

3) Net Assets

As of the end of the semi-annual accounting period, total net assets were ¥6,820 million, an increase of ¥850 million compared to the end of the previous fiscal year. This was mainly driven by the recording of ¥792 million in profit for the period.

4) Cash Flows

As of the end of the semi-annual accounting period, cash and cash equivalents (hereinafter referred to as “funds”) amounted to ¥6,033 million, an increase of ¥749 million compared to the end of the previous fiscal year. The details of each cash flow category during the semi-annual accounting period and the factors contributing to their changes are as follows:

Cash Flows from Operating Activities:

Net cash provided by operating activities totaled ¥1,281 million (compared to ¥893 million in the previous semi-annual period). This was primarily due to ¥1,184 million in profit before income taxes, a ¥254 million increase in deposits received, a ¥159 million increase in provision for bonuses, and ¥113 million in depreciation. These gains were partially offset by ¥280 million in income taxes paid and a ¥74 million increase in accounts receivable - trade.

Cash Flows from Investing Activities:

Net cash used in investing activities totaled ¥534 million (compared to ¥201 million used in the previous semi-annual period). This was primarily due to ¥186 million payments for acquisition of businesses, ¥177 million spent on purchase of property, plant, and equipment, and ¥123 million in payments of guarantee deposits.

Cash Flows from Financing Activities:

Net cash provided by financing activities totaled ¥1 million (compared to ¥7 million in the previous semi-annual period), primarily due to proceeds from issuance of shares totaling ¥1 million.

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

There have been no changes to the forecast for the fiscal year ending April 2025, as announced on June 13, 2024.

2. Semi-Annual Non-consolidated Financial Statements

(1) Semi-Annual Non-consolidated Balance Sheets

(Thousands of yen)

	As of April 30, 2024	As of October 31, 2024
Assets		
Current assets		
Cash and deposits	5,284,561	6,033,790
Accounts receivable - trade	611,981	669,840
Merchandise	695,761	712,186
Prepaid expenses	90,482	111,914
Other	220,470	176,902
Allowance for doubtful accounts	(398)	(437)
Total current assets	6,902,858	7,704,198
Non-current assets		
Property, plant and equipment		
Buildings, net	142,019	203,100
Tools, furniture and fixtures, net	167,332	264,566
Total property, plant and equipment	309,352	467,667
Intangible assets		
Goodwill	-	167,771
Trademark right	649	576
Software	215,443	211,470
Software in progress	32,402	44,853
Total intangible assets	248,494	424,671
Investments and other assets		
Investment securities	42,281	32,280
Investments in capital of subsidiaries and associates	12,849	12,849
Leasehold deposits	236,585	359,221
Deferred tax assets	193,400	212,950
Other	7,176	2,420
Total investments and other assets	492,293	619,721
Total non-current assets	1,050,140	1,512,060
Total assets	7,952,998	9,216,259

(Thousands of yen)

	As of April 30, 2024	As of October 31, 2024
Liabilities		
Current liabilities		
Accounts payable - trade	295,868	230,246
Accounts payable - other	381,527	373,840
Accrued expenses	76,638	81,674
Income taxes payable	318,658	452,446
Accrued consumption taxes	169,874	103,595
Advances received	465,434	448,663
Deposits received	115,828	369,855
Provision for bonuses	-	159,696
Asset retirement obligations	-	3,570
Other	54,902	15,048
Total current liabilities	1,878,731	2,238,638
Non-current liabilities		
Asset retirement obligations	105,115	157,529
Total non-current liabilities	105,115	157,529
Total liabilities	1,983,847	2,396,168
Net assets		
Shareholders' equity		
Share capital	1,154,961	1,155,791
Capital surplus	1,160,942	1,184,440
Retained earnings	4,284,563	5,077,358
Treasury shares	(631,316)	(597,499)
Total shareholders' equity	5,969,150	6,820,090
Total net assets	5,969,150	6,820,090
Total liabilities and net assets	7,952,998	9,216,259

(2) Semi-Annual Non-consolidated Statements of Income

(Thousands of yen)

	For the six months ended October 31, 2023	For the six months ended October 31, 2024
Net sales	3,947,033	5,152,287
Cost of sales	1,495,896	2,008,452
Gross profit	2,451,137	3,143,835
Selling, general and administrative expenses	1,615,980	1,948,785
Operating profit	835,156	1,195,050
Non-operating income		
Interest income	20	553
Other	1,605	1,019
Total non-operating income	1,625	1,572
Non-operating expenses		
Loss on valuation of investment securities	-	10,000
Other	1,534	1,793
Total non-operating expenses	1,534	11,794
Ordinary profit	835,247	1,184,828
Profit before income taxes	835,247	1,184,828
Income taxes - current	272,063	411,582
Income taxes - deferred	4,325	(19,549)
Total income taxes	276,389	392,033
Profit	558,858	792,795

(3) Semi-Annual Non-consolidated Statements of Cash Flows

(Thousands of yen)

	For the six months ended October 31, 2023	For the six months ended October 31, 2024
Cash flows from operating activities		
Profit before income taxes	835,247	1,184,828
Depreciation	94,693	113,693
Amortization of long-term prepaid expenses	900	1,413
Amortization of goodwill	2,002	18,457
Increase (decrease) in allowance for doubtful accounts	(103)	39
Increase (decrease) in provision for bonuses	143,730	159,696
Interest and dividend income	(20)	(553)
Loss (gain) on valuation of investment securities	-	10,000
Decrease (increase) in trade receivables	181,724	(74,630)
Decrease (increase) in inventories	(152,579)	(16,425)
Increase (decrease) in trade payables	(42,941)	(65,621)
Increase (decrease) in accounts payable - other	45,865	(7,686)
Increase (decrease) in deposits received	(46,235)	254,027
Increase (decrease) in accrued consumption taxes	(21,918)	(66,279)
Other, net	(11,564)	51,127
Subtotal	1,028,800	1,562,088
Interest and dividends received	20	553
Income taxes paid	(134,862)	(280,962)
Net cash provided by (used in) operating activities	893,959	1,281,680
Cash flows from investing activities		
Purchase of property, plant and equipment	(169,502)	(177,188)
Purchase of intangible assets	(28,392)	(47,376)
Purchase of investment securities	(10,001)	-
Payments of guarantee deposits	(6,519)	(123,509)
Proceeds from refund of guarantee deposits	8,595	26
Payments for asset retirement obligations	(1,269)	-
Payments for acquisition of businesses	-	(186,228)
Other, net	6,060	167
Net cash provided by (used in) investing activities	(201,029)	(534,110)
Cash flows from financing activities		
Proceeds from issuance of shares	7,850	1,660
Net cash provided by (used in) financing activities	7,850	1,660
Net increase (decrease) in cash and cash equivalents	700,779	749,229
Cash and cash equivalents at beginning of period	3,957,469	5,284,561
Cash and cash equivalents at end of period	4,658,249	6,033,790

(4) Notes to Semi-Annual Non-consolidated Financial Statements

Going Concern Assumption

Not applicable

Significant Changes in Shareholders' Equity

Not applicable

Segment Information

As we operate in a single segment, the cloud services business, segment information is omitted.

Business Combinations and Related Matters

(Acquisition of Business)

On April 16, 2024, the Board of Directors resolved to enter into a business transfer agreement with Ligua Inc. (hereinafter "Ligua") for the acquisition of its Rece ONE Plus business. The agreement was signed on the same day, and the business transfer was completed on May 1, 2024

(1) Overview of Business Transfer

a. Name and Business of Acquired Company: Name: Ligua Inc.

Business: Management consulting and support services for Osteopathic clinics and the healthcare industry

b. Purpose of the Business Combination:

In September 2023, we updated our Medium-Term Management Plan and implemented a new market segmentation strategy to achieve our "VISION2031." This strategy divides our target segments by "industry and business type" and "scale" rather than just by the broad categories of "retail" and "food and beverage." The goal is to improve sales and marketing efficiency and capture the top share in specific target industries.

Rece ONE Plus, acquired from Ligua, is software that combines patient information management, billing, and POS functions, specifically targeting chiropractic clinics. The decision to acquire this business aligns with our market segmentation strategy.

c. Date of Business Combination: May 1, 2024

d. Legal Form of Business Combination: Business acquisition for cash consideration

e. Basis for Determining Acquiring Company: The business was acquired for cash consideration by the company

(2) Period Covered by the Acquired Business's Performance Included in the Semi-Annual Statement of Income

From May 1, 2024, to October 31, 2024

(3) Acquisition Cost of the Transferred Business and Breakdown by Type of Consideration

Consideration for the Acquisition: Cash and deposits ¥176,329 thousand

Acquisition Cost: ¥176,329 thousand

(4) Amount, Cause, Amortization Method, and Amortization Period of Goodwill

a. Amount of Goodwill: ¥176,329 thousand

Note: The amount of goodwill is provisional as of the end of the semi-annual accounting period, as the allocation of the acquisition cost has not been finalized.

b. Cause: The goodwill arose from the expectation of future excess profitability anticipated through business expansion.

c. Amortization Method and Period: Amortized evenly over a period of five years.

(5) Allocation of Acquisition Cost

As of the end of the semi-annual accounting period, the identification and valuation of identifiable assets and liabilities as of the business combination date have not been completed. Therefore, provisional accounting treatment has been applied based on reasonable information available as of this date.

Significant Events After Reporting Period Semi Annual Non-consolidated Financial Statements

(Business Combination through Acquisition)

At the Board of Directors meeting held on December 13, 2024, we resolved to acquire 100% of the shares of Netshop Supporters Co., Ltd., making it a subsidiary.

(1) Overview of the Business Combination

a. Name and Business Description of the Acquired Company

Name: Netshop Supporters Co., Ltd.

Business Description: System development, online shop creation, and software sales

b. Purpose of the Business Combination:

In recent years, the use of e-commerce (EC) in the retail industry has become standard, and seamless integration of information between physical stores and EC platforms has become a fundamental requirement.

We have long provided solutions that go beyond point-of-sale (POS) and sales analysis functions for retailers. Our offerings include tools to support back-office operations such as ordering, purchasing, product registration, inventory management, and customer relationship management. However, while we have already developed EC-specific solutions, they have not been significantly enhanced.

The company we are acquiring as a subsidiary, Netshop Supporters, offers comprehensive solutions tailored to EC operations, including specialized inventory and order management systems as well as BtoB cart systems. These solutions provide seamless support for EC businesses, accelerating sales channel expansion and driving revenue growth. Additionally, we expect enhanced development capabilities through the integration of expertise. This strategic acquisition has been decided with these factors in mind.

Both EC and physical stores have unique strengths and limitations. When combined, they can complement each other to generate significant synergies. However, solutions in this field are still evolving. With this acquisition as a foundation, we are committed to pursuing further innovation and development.

c. Date of Business Combination: Scheduled for December 27, 2024

d. Legal Form of the Business Combination: Share acquisition

e. Post-Combination Company Name: No change in name

f. Percentage of Voting Rights Acquired: 100.0%

g. Basis for Determining Acquiring Company: We are acquiring shares in exchange for cash consideration.

(2) Acquisition Cost and Breakdown by Type of Consideration

Consideration for the Acquisition: Cash and deposits ¥1,100,000 thousand

Acquisition Cost: ¥1,100,000 thousand

(3) Breakdown and Amount of Major Acquisition-Related Expenses

Details are yet to be determined.

(4) Amount, Cause, Amortization Method, and Amortization Period of Goodwill

Details are yet to be determined.

(5) Amount and Breakdown of Assets Acquired and Liabilities Assumed as of the Business Combination Date

Details are yet to be determined.