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July 31, 2023

Summary of Financial Results for the First Quarter Ended June 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: August 8, 2023
 Scheduled date to commence dividend payment: —
 Preparation of supplementary material on quarterly financial results: Yes
 Holding of quarterly financial results briefing: No

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

1. Consolidated financial results for the three months ended June 30, 2023 (from April 1, 2023, to June 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	%
Three months ended June 30, 2023	5,105	2.9	104	(57.4)	73	(66.0)	108	(24.1)
Three months ended June 30, 2022	4,964	3.0	244	120.6	214	218.5	142	184.3

Note: Comprehensive income Three months ended June 30, 2023 ¥339 million [117.9%]
 Three months ended June 30, 2022 ¥155 million [217.9%]

	Net income per share	Diluted net income per share
	Yen	Yen
Three months ended June 30, 2023	3.04	-
Three months ended June 30, 2022	3.92	-

(2) Consolidated financial conditions

	Total assets	Net assets	Equity-to-asset ratio
	Millions of yen	Millions of yen	%
Three months ended June 30, 2023	26,978	8,828	32.0
Fiscal year ended March 31, 2023	26,256	8,486	31.8

Reference: Shareholders' equity Three months ended June 30, 2023 ¥8,637 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	-				
Fiscal year ending March 31, 2024 (forecast)		0.00	-	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
Six months ending September 30, 2023	10,500	5.1	250	(42.7)	180	(52.3)	120	(51.4)	3.36
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 June 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)

Three months ended June 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

Three months ended June 30, 2023	1,958,144 shares
Fiscal year ended March 31, 2023	1,958,144 shares

(iii) Average number of shares of common stock during the three months ended June 30, 2023

Three months ended June 30, 2023	35,662,556 shares
Three months ended June 30, 2022	36,480,056 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.

Financial Results for the Three Months Ended June 30, 2023 (Consolidated)

2. The financial results materials were posted on the Company's website on Monday, July 31, 2023.

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1. Qualitative information on the quarterly financial results

(1) Explanation of operating results

During the three months ended June 30, 2023, slowdowns in overseas economies mainly due to continued global monetary tightening have been a risk that may weigh down Japan's economy, while there has been an expectation for a moderate economic recovery to continue partly due to the effects of various policies. In addition, careful attention must be paid to the impact of price hikes and financial and capital market fluctuations, etc.

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 5,105,658 thousand yen (up 2.9% year on year) mainly due to the steady growth of cloud-services sales.

Operating profit fell to 104,411 thousand yen (down 57.4% 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 73,061 thousand yen (down 66.0% year on year) mainly due to a decrease in operating profit.

Profit attributable to owners of parent was 108,466 thousand yen (down 24.1% 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 3,096,209 thousand yen (up 7.4% year on year) mainly owing to the favorable performance of SAKURA's cloud and VPS.

(ii) Physical base service

Net sales of physical base services were 881,820 thousand yen (down 5.8% year on year), mainly due to the shift to other services and cancelations.

(iii) Other services

Net sales of other services were 1,127,627 thousand yen (down 1.5% 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 three months ended June 30, 2023, and the factors affecting them are as follows:

(i) Assets

The balance of total assets at the end of the three months ended June 30, 2023, grew 721,951 thousand yen (up 2.7% year on year) to 26,978,061 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 three months ended June 30, 2023, were up 379,371 thousand yen (up 2.1% year on year) to 18,149,342 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 three months ended June 30, 2023, rose 342,579 yen (up 4.0%) year on year to 8,828,718,000 yen. This was mainly due to an increase in valuation difference on available-for-sale securities.

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

The consolidated earnings forecasts for the six months ending September 30, 2023, are unchanged from those publicized in the Consolidated Financial Results for the Fiscal Year Ended March 31, 2023 (Japanese GAAP) dated April 27, 2023. This is because net sales, operating profit, and ordinary profit will achieve the initially expected level, while profit attributable to owners of parent is greater than expected due to selling the Company's partial holdings in ABEJA, Inc. that went public and recording a gain on sale of investment securities.

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)	Three months ended June 30, 2023 (as of June 30, 2023)
Assets		
Current assets		
Cash and deposits	4,810,628	4,828,643
Accounts receivable—trade	2,392,419	2,058,681
Merchandise and finished goods	13,384	11,329
Work in process	-	16,950
Supplies	526,641	559,240
Other	1,201,459	1,484,460
Allowance for doubtful accounts	(13,545)	(13,914)
Total current assets	8,930,987	8,945,391
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	6,899,139	6,756,483
Tools, furniture and fixtures, net	1,981,395	1,806,906
Leased assets, net	5,176,950	5,936,915
Other, net	658,617	648,839
Total property, plant and equipment	14,716,102	15,149,145
Intangible assets		
Other	508,025	493,555
Total Intangible assets	508,025	493,555
Investments and other assets		
Other	2,106,718	2,395,633
Allowance for doubtful accounts	(5,724)	(5,664)
Total investments and other assets	2,100,994	2,389,969
Total non-current assets	17,325,122	18,032,669
Total assets	26,256,109	26,978,061

	(Thousands of yen)	
	Fiscal year ended March 31, 2023 (as of March 31, 2023)	Three months ended June 30, 2023 (as of June 30, 2023)
Liabilities		
Current liabilities		
Accounts payable–trade	917,034	494,134
Short-term borrowings	320,000	515,000
Current portion of long-term borrowings	813,183	809,466
Income taxes payable	230,986	18,110
Advances received	4,864,278	5,026,752
Provision for bonuses	390,795	211,267
Provision for bonuses for directors (and other officers)	6,750	-
Other	2,297,485	2,710,248
Total current liabilities	9,840,514	9,784,980
Non-current liabilities		
Long-term borrowings	2,662,253	2,426,752
Lease liabilities	4,537,003	5,208,935
Asset retirement obligations	680,274	680,990
Provision for share awards	28,666	36,478
Other	21,258	11,206
Total non-current liabilities	7,929,456	8,364,362
Total liabilities	17,769,970	18,149,342
Net assets		
Shareholders' equity		
Share capital	2,256,921	2,256,921
Capital surplus	1,378,747	1,444,686
Retained earnings	5,847,035	5,829,723
Treasury shares	(1,145,475)	(1,145,475)
Total shareholders' equity	8,337,228	8,385,855
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	4,632	238,289
Foreign currency translation adjustment	7,024	10,189
Deferred gains or losses on hedges	(175)	3,113
Total accumulated other comprehensive income	11,482	251,591
Non-controlling interests	137,428	191,270
Total net assets	8,486,139	8,828,718
Total liabilities and net assets	26,256,109	26,978,061

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

Consolidated quarterly statement of income
Three months ended June 30, 2023

	(Thousands of yen)	
	Three months ended June 30, 2022 (From April 1, 2022, to June 30, 2022)	Three months ended June 30, 2023 (From April 1, 2023, to June 30, 2023)
Net sales	4,964,130	5,105,658
Cost of sales	3,723,488	3,819,854
Gross profit	1,240,641	1,285,803
Selling, general and administrative expenses		
Provision of allowance for doubtful accounts	791	681
Salaries and allowances	303,674	343,655
Provision for bonuses	67,815	76,674
Other	623,497	760,380
Total selling, general and administrative expenses	995,778	1,181,391
Operating profit	244,863	104,411
Non-operating income		
Interest income	7	8
Share of profit of entities accounted for using equity method	4,246	-
Reversal of allowance for doubtful accounts	745	373
Gain on sale of crypto assets	4,923	-
Secondment income	5,502	7,407
Subsidy income	2,613	6,943
Other	9,981	9,837
Total non-operating income	28,020	24,571
Non-operating expenses		
Interest expenses	39,371	40,787
Share of loss of entities accounted for using equity method	-	4,625
Other	18,652	10,508
Total non-operating expenses	58,023	55,921
Ordinary profit	214,860	73,061
Extraordinary income		
Gain on sale of non-current assets	11	-
Gain on sale of investment securities	-	61,318
Total extraordinary income	11	61,318
Extraordinary losses		
Loss on retirement of non-current assets	293	0
Loss on cancellation of leases	1,314	114
Total extraordinary losses	1,607	114
Profit before income taxes	213,263	134,264
Income taxes - current	19,459	2,648
Income taxes - deferred	53,866	32,410
Total income taxes	73,326	35,058
Profit	139,937	99,205
Net loss attributable to non-controlling interests	(2,889)	(9,260)
Profit attributable to owners of parent	142,827	108,466

Consolidated quarterly statement of comprehensive income
Three months ended June 30, 2023

	(Thousands of yen)	
	Three months ended June 30, 2022 (From April 1, 2022, to June 30, 2022)	Three months ended June 30, 2023 (From April 1, 2023, to June 30, 2023)
Profit	139,937	99,205
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	33	229,173
Deferred gains or losses on hedges	7,006	3,288
Foreign currency translation adjustment	2,887	3,165
Share of other comprehensive income of entities accounted for using equity method	5,854	4,483
Total other comprehensive income	15,782	240,109
Comprehensive income	155,720	339,315
(Breakdown)		
Comprehensive income attributable to owners of parent	158,610	348,576
Comprehensive income attributable to non-controlling interests	(2,889)	(9,260)

(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 three months ended June 30, 2023.

(Significant subsequent events)

(Disposal of treasury shares as restricted stock compensation)

The Company resolved at a meeting of the Board of Directors held on June 22, 2023, to dispose of treasury shares (the "Disposal") as restricted stock compensation, and executed the Disposal on July 7, 2023.

1. Outline of the Disposal

(1) Execution date	July 7, 2023		
(2) Class and number of shares to be disposed of	Common stock of the Company		46,329
(3) Disposal price	1,370 yen per share		
(4) Total disposal value	63,470,730 yen		
(5) Recipients of disposed shares	Directors of the Company*	4	29,242 shares
	Executive officers of the Company	7	17,087 shares
	* Excluding outside directors.		
(6) Other	Prior to the Disposal, the Company filed the securities registration statement under the Financial Instruments and Exchange Act.		

2. Purpose of and reasons for Disposal

At the 23rd Annual General Meeting of Shareholders of the Company held on June 23, 2022, the Company was approved to introduce a stock compensation plan (the "Plan") to allocate restricted shares to eligible directors for the purpose of encouraging eligible directors to share the merit and risk of stock price fluctuations with shareholders and contribute to a stock price rise and the improvement of corporate value. The terms of the Plan approved at the meeting include that: the total amount of monetary compensation claims to be paid as a restricted share-based compensation, etc. to eligible Directors is 100,000 thousand yen per year; the number of restricted shares to be allocated to eligible Directors for each business year is up to 200,000 shares; and the restricted period of the restricted shares is from the day the restricted shares are allocated until the day of resignation or retirement from either position of the Company's Directors, Executive Officers, or employees.

The Company decided at the meeting of its Board of Directors held on June 22, 2023, to allot 46,329 shares of its common stock as specified shares with restriction on transfer. Specifically, the Company will grant monetary remuneration receivables totaling 63,470,730 yen to four Eligible Directors and seven Executive Officers of the Company as Restricted Share-based remuneration for the period from the date of the Company's 24th Annual General Meeting of Shareholders to the date of its 25th Annual General Meeting of Shareholders to be convened in June 2024. Thereafter, the Eligible Allottees will pay all the monetary remuneration receivables so granted in the form of property contributed in kind. The amount of monetary remuneration receivables payable to each Eligible Allottee by the Company has been respectively determined, comprehensively taking into account various matters such as the level of contribution by the relevant Eligible Allottee to the Company. The aforementioned monetary remuneration receivables are paid subject to the respective Eligible Allottees executing with the Company an allotment agreement for Restricted Shares.