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August 10, 2023

Consolidated Financial Results for the Fiscal Year ended June 30, 2023 (Under Japanese GAAP)

Company name: BrainPad Inc.
 Listing: Tokyo Stock Exchange
 Securities code: 3655
 URL: <https://www.brainpad.co.jp/english/>
 Representative: Tomohiro Sekiguchi CEO
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 Scheduled date of annual general meeting of shareholders: September 27, 2023
 Scheduled date to commence dividend payments: September 28, 2023
 Scheduled date to file annual securities report: September 27, 2023
 Preparation of supplementary material on financial results: Yes
 Holding of financial results briefing: Yes (for analysts)

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

1. Consolidated financial results for the fiscal year ended June 30, 2023 (from July 1, 2022 to June 30, 2023)

(1) Consolidated operating results (cumulative)

(Percentages indicate year-on-year changes.)

Fiscal year ended	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
June 30, 2023	9,797	—	680	—	752	—	515	—
June 30, 2022	—	—	—	—	—	—	—	—

Note: Comprehensive income For the fiscal year ended June 30, 2023: ¥502 million [- %]
 For the fiscal year ended June 30, 2022: ¥ - million [- %]

Fiscal year ended	Basic earnings per share	Diluted earnings per share	Return on equity	Ratio of ordinary profit to total assets	Ratio of operating profit to net sales
	Yen	Yen	%	%	%
June 30, 2023	23.72	-	10.6	11.9	6.9
June 30, 2022	-	-	-	-	-

Note: The Company disclosed non-consolidated business results for the third quarter of the fiscal year ending June 30, 2022, but has been disclosing consolidated business results since the first quarter of the fiscal year ending June 30, 2023.

Therefore, "Consolidated operating results (cumulative)" and "Percentage change from the same period of the previous year" for the third quarter of the fiscal year ending June 30, 2022 are not shown.

(2) Consolidated financial position

As of	Total assets	Net assets	Equity-to-asset ratio	Net assets per share
	Millions of yen	Millions of yen	%	Yen
June 30, 2023	6,516	4,895	75.1	227.98
June 30, 2022	-	-	-	-

Reference: Equity As of June 30, 2023: ¥4,895 million
 As of June 30, 2022: ¥ - million

Note: The Company disclosed non-consolidated business results for the third quarter of the fiscal year ending June 30, 2022, but has been disclosing consolidated business results since the first quarter of the fiscal year ending June 30, 2023.
 Therefore, "Consolidated financial position" for the fiscal year ending June 30, 2022 is not shown.

(3) Consolidated cash flows

	Cash flows from operating activities	Cash flows from investing activities	Cash flows from financing activities	Cash and cash equivalents at end of period
Fiscal year ended	Millions of yen	Millions of yen	Millions of yen	Millions of yen
June 30, 2023	889	△788	△503	2,506
June 30, 2022	-	-	-	-

Note: The Company disclosed non-consolidated business results for the third quarter of the fiscal year ending June 30, 2022, but has been disclosing consolidated business results since the first quarter of the fiscal year ending June 30, 2023. Therefore, "Consolidated cash flows" for the fiscal year ending June 30, 2022 is not shown.

2. Cash dividends

	Annual dividends per share					Total cash dividends (Total)	Payout ratio (Consolidated)	Ratio of dividends to net assets (Consolidated)
	First quarter-end	Second quarter-end	Third quarter-end	Fiscal year-end	Total			
	Yen	Yen	Yen	Yen	Yen	Millions of yen	%	%
Fiscal year ended June 30, 2022	-	0.00	-	0.00	0.00	-	-	-
Fiscal year ending June 30, 2023	-	0.00	-	8.00	8.00	171	33.7	3.6
Fiscal year ending June 30, 2024 (Forecast)		0.00	-	8.00	8.00		22.9	

3. Forecast of Consolidated Financial Results for the Fiscal Year Ending June 30, 2024 (July 1, 2023 - June 30, 2024)

(Percentages indicate year-on-year changes.)

	Net sales		Operating profit		Ordinary profit		Profit		Basic earnings per share
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	
First half-year	5,200	9.9	400	△6.6	430	△10.2	280	△13.2	13.04
Full year	11,000	12.3	1,100	61.6	1,140	51.5	750	45.6	34.93

* **Notes**

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

Newly included: - companies (Company name)

Excluded: - companies (Company name)

(2) Changes in accounting policies, changes in accounting estimates, and restatement

(i) Changes in accounting policies due to revisions to accounting standards and other regulations: Yes

(ii) Changes in accounting policies due to other reasons: None

(iii) Changes in accounting estimates: None

(iv) Restatement: None

Note: For details, please refer to "3. Consolidated Financial Statements and Main Notes (5) Notes to Consolidated Financial Statements (Changes in Accounting Policies)" on page 14 of the attached document.

(3) Number of issued shares (common shares)

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

As of June 30, 2023	22,300,596 shares
As of June 30, 2022	22,300,596 shares

(ii) Number of treasury shares at the end of the period

As of June 30, 2023	826,604 shares
As of June 30, 2022	372,594 shares

(iii) Average number of shares outstanding during the period (cumulative from the beginning of the fiscal year)

Fiscal year ended June 30, 2023	21,718,011 shares
Fiscal year ended June 30, 2022	21,989,762 shares

[Reference] Overview of non-consolidated financial results

1. Non-consolidated financial results for the fiscal year ended June 30, 2023 (from July 1, 2022 to June 30, 2023)

(1) Non-consolidated operating results

(Percentages indicate year-on-year changes.)

	Net sales		Operating profit		Ordinary profit		Profit	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
Fiscal year ended								
June 30, 2023	9,477	10.7	758	△33.8	830	△28.8	596	△25.7
June 30, 2022	8,561	20.6	1,144	36.0	1,166	31.2	803	49.3

	Basic earnings per share	Diluted earnings per share
Fiscal year ended	Yen	Yen
June 30, 2023	27.47	—
June 30, 2022	36.53	—

(2) Non-consolidated financial position

	Total assets	Net assets	Equity-to-asset ratio	Net assets per share
As of	Millions of yen	Millions of yen	%	Yen
June 30, 2023	6,460	4,976	77.0	231.77
June 30, 2022	6,148	4,847	78.8	221.07

Reference: Equity

As of June 30, 2023: ¥4,976 million

As of June 30, 2022: ¥4,847 million

- * Financial results reports are exempt from review conducted by certified public accountants or an audit corporation.
- * Proper use of earnings forecasts, and other special matters
 1. The forward-looking statements, including business forecasts, contained in this document are based on information currently available to the Company and certain assumptions that the Company considers reasonable, and are not intended to be a promise by the Company that it will achieve them. Actual results may differ materially from these forecasts due to various factors. Please refer to "(3) Explanations on forward-looking statements, including earnings forecasts" on page 4 of the attached materials for the conditions that form the assumptions for earnings forecasts and cautions concerning the use of earnings forecasts.
 2. Qualitative Information on Consolidated Financial Position Supplementary materials for financial results are disclosed on TDnet on the same day.
 3. The Company shifted from non-consolidated to consolidated financial statements from the first quarter of the fiscal year ending June 30, 2023, following the acquisition of TimeTechnologies Ltd. on July 29, 2022.

Contents of attachment

1. Qualitative Information on Consolidated Financial Results for the fiscal year Ended June 30, 2023	2
(1) Explanation of business results	2
(2) Explanation of Financial Position	3
(3) Analysis of Cash Flows	3
(4) Explanations regarding the forecast of business results and other future information	4
2. Basic Policy on Selection of Accounting Standards	5
3. Consolidated Financial Statements and Major Notes	6
(1) Consolidated Balance Sheet	6
(2) Consolidated Statements of Income and Consolidated Statements of Comprehensive Income	8
Consolidated Statements of Income	8
Consolidated Statements of Comprehensive Income	9
(3) Consolidated Statements of Changes in net assets	10
(4) Consolidated Statements of Cash Flows	11
(5) Notes to Consolidated Financial Statements	12
(Notes on Going Concern Assumption).	12
(Basis of Presenting Consolidated Financial Statements)	12
(Change in accounting policy)	14
(Notes to Consolidated Statements of Income)	14
(Segment Information, etc.)	15
(Per share information)	16

1. Qualitative Information on consolidated Financial Results for the Fiscal Year Ended June 30, 2023

(1) Explanation of business results

We have prepared consolidated financial statements from the first quarter of the current fiscal year following the acquisition of TimeTechnologies Ltd. on July 29, 2022, making it a consolidated subsidiary.

Therefore, comparative analysis with the same period of the previous year and the end of the previous fiscal year is not performed.

During the consolidated fiscal year under review, the Japanese economy continued to grow at a moderate pace due to factors supporting the economy, such as the normalization of socioeconomic activities after the impact of the spread of the new coronavirus infection, recovery of service consumption and inbound consumption, and a lull in imported inflation, even as higher policy interest rates in the United States and European countries and the stagnant Chinese economy weighed on global economic growth. In the domestic ICT market, while solid growth continued on the back of the migration of corporate systems to the cloud and the expansion of subscription business, and the arrival of the generation AI boom further strengthened companies' willingness to invest in IT, while the ability to support DX (Digital Transformation) from both IT and business perspectives The shortage of human resources capable of supporting DX (Digital Transformation) from both IT and business perspectives is becoming even more serious.

Under these circumstances, the current consolidated fiscal year, our 20th fiscal year, is the final year of our medium-term management plan (4 years from June 2020 to June 2023), and we targeted sales growth of around 20% over the previous year, based on the expectation that strong demand for IT vendors would continue due to the growing willingness of Japanese companies to promote DX and the shortage of digital human resources. However, due to a contraction in sales to certain large customers that was not anticipated at the beginning of the period, as well as the fact that new orders did not grow as expected, sales exceeded the results of the previous period, but the pace of growth was less than planned at the beginning of the period.

On the profit side, the lower-than-expected sales led to lower employee utilization ratio in the Professional Services business, provision for contract losses related to multi-year cloud computing contracts in the Products business, amortization of goodwill associated with making TimeTechnologies Ltd. a consolidated subsidiary, and outsourcing costs associated with the business integration of the two companies that began this fiscal year were among the factors that contributed to the decline in profit margin.

As a result, for the fiscal year, net sales totaled 9,797,938-thousand-yen, operating profit totaled 680,650 thousand yen, ordinary profit totaled 752,401 thousand yen, and profit attributable to owners of parent totaled 515,083 thousand yen.

The following is a summary of results by segment.

(Professional Services Business)

The professional services business supports client companies in their use of data through consulting and human support, including data analysis and system development.

During the fiscal year ended June 30, 2023, net sales grew steadily each quarter while steadily capturing DX demand from Japanese companies. However, sales fell short of the plan at the beginning of the period, despite a year-on-year increase, due to a contraction in sales for certain large projects that was not anticipated at the beginning of the period and new orders that did not grow as anticipated.

On the other hand, since the company had been expanding its workforce as a prior investment until the first quarter of the fiscal year, net sales fell short of the plan, resulting in a lower employee utilization ratio, and profits were lower than planned in the previous fiscal year and at the beginning of the fiscal year.

As a result, net sales totaled 6,735,658 thousand yen and segment profit totaled 2,346,980 thousand yen.

(Product Business)

The product business provides support for client companies' data utilization through the provision of our own and other companies' products.

During the fiscal year ended June 30, 2023, we focused on recovering sales and improving profit margins of Brainpad Inc. on a stand-alone basis by concentrating management resources on core products and strengthening sales and marketing process functions and sales capabilities by promoting departmental collaboration. In addition, the increase in sales reflected the results of consolidated subsidiary Time Technologies, Inc. from October 1, 2022, to June 30, 2023.

While Brainpad Inc. on a stand-alone basis showed a recovery trend in segment profit margin in normal times, profits fell short of the previous year and the plan at the beginning of the fiscal year due to the recording of a provision for contract losses for the amount expected to be unused in the future in the multi-

year usage commitment contract related to cloud computing expenses, amortization of goodwill associated with making Time Technologies Ltd. a consolidated subsidiary and outsourcing expenses related to business integration as of this fiscal year.

As a result, net sales totaled 3,062,280 thousand yen and segment profit totaled 443,793 thousand yen.

(2) Explanation of Financial Position

Analysis of Financial Position

(Assets)

Current assets at the end of the current consolidated fiscal year totaled 4,141,465 thousand yen. The main breakdown was cash and deposits of 2,506,556 thousand yen and accounts receivable of 1,225,389 thousand yen.

The balance of noncurrent assets was 2,374,800 thousand yen. The major breakdown was 557,079 thousand yen in goodwill, 445,702 thousand yen in buildings (net), 295,014 thousand yen in customer-related assets, 278,563 thousand yen in investment securities, and 263,238 thousand yen in guarantee deposits.

As a result, total assets amounted to 6,516,266 thousand yen.

(Liabilities)

Current liabilities at the end of the current fiscal year totaled 1,382,169 thousand yen. The main breakdown was 243,178 thousand yen in other current liabilities, 223,433 thousand yen in income taxes payable, 204,637 thousand yen in accrued expenses, 194,618 thousand yen in contract liabilities, and 193,570 thousand yen in accounts payable.

The balance of noncurrent liabilities was 238,550 thousand yen. The main components were asset retirement obligations of 147,965 thousand yen and deferred tax liabilities of 90,333 thousand yen.

As a result, total liabilities amounted to 1,620,720 thousand yen.

(Net assets)

Total net assets as of the end of the current consolidated fiscal year totaled 4,895,546 thousand yen. The main breakdown is retained earnings of 4,801,394 thousand yen.

As a result, the equity ratio was 75.1%.

(3) Analysis of Cash Flows

Cash and cash equivalents ("cash") at the end of the current consolidated fiscal year amounted to 2,506,556 thousand yen.

The status of each cash flow and its factors are as follows.

(Cash flows from operating activities)

Net cash provided by operating activities was 889,693 thousand yen. This was mainly due to income before income taxes and minority interests of 785,938-thousand-yen, depreciation and amortization of 301,297 thousand yen, and an increase in accounts receivable of 276,378 thousand yen.

(Cash flows from investing activities)

Net cash used in investing activities was 788,121 thousand yen. This was mainly due to the expenditure of 894,145 thousand yen for the acquisition of shares of a subsidiary involving a change in the scope of consolidation and the expenditure of 104,944 thousand yen for the acquisition of tangible fixed assets, while there was 199,995 thousand yen in proceeds from the collection of guarantee deposits.

(Cash flows from financing activities)

Net cash used in financing activities was 503,254 thousand yen. This was mainly due to purchase of treasury stock amounting to 503,250 thousand yen.

[Reference] Trends in cash flow indicators

	June 30, 2022	June 30, 2023
Equity ratio (%)	-	75.1
Equity ratio based on market value (%)	-	320.3
Ratio of interest-bearing debt to cash flow (years)	-	—
Interest coverage ratio (times)	-	—

(Note 1) Equity ratio: shareholders' equity/total assets.

Equity ratio based on market value: Market capitalization / Total assets.

Interest-bearing debt to cash flow ratio: interest-bearing debt/cash flow

Interest coverage ratio: Cash flows/Interest payments

(Note 2) All figures are calculated based on consolidated financial figures.

(Note 3) Market capitalization is calculated based on the number of shares issued excluding treasury stock.

(Note 4) Cash flow is based on operating cash flow.

(Note 5) Interest-bearing debt includes all liabilities on the consolidated balance sheets for which interest is paid.

(4) Explanations regarding the forecast of business results and other future information

The "Basic Policies for Economic and Fiscal Management and Reform 2023" announced by the Japanese government in June 2023 calls for "Acceleration of New Capitalism" and includes as measures to support capacity building through reskilling to strengthen investment in people and to respond to DX and generative AI for the formation of a digital society. The background to this is the lack of IT human resources in Japan. Behind this is the worsening shortage of IT human resources in Japan, and the reality is that many Japanese companies are facing a major dilemma: the more they rush into DX, the more dependent they are on external human resources, and the more they try to bring IT in-house, the more difficult it is to recruit human resources.

In light of this market environment and the recent business conditions of our group, we have announced a major shift in management policy and structure in our new medium-term management plan (for the period ending June 30, 2024 to June 30, 2026), which was released in May of this year. Under the new medium-term management plan, we will shift our focus from achieving growth by expanding the scale of our organization to profit-oriented management, and will place emphasis on "rebuilding the foundation for growth through structural reforms and management evolution. Based on this, we forecast consolidated net sales of 11,000 million yen, operating profit of 1,100 million yen, ordinary profit of 1,140 million yen, and net income attributable to shareholders of the parent company of 750 million yen for the fiscal year ending June 30, 2024.

The financial targets of the new medium-term management plan include EBITDA margin as a profit indicator, and a supplementary explanation of the EBITDA margin target for the fiscal year ending June 30, 2024 is provided in the "Supplementary Financial Data for the Fiscal Year Ended June 30, 2023," which was released today.

(Forecasts are based on information available at the time of preparation and include uncertain factors. As such, actual results may differ from these forecasts due to changes in various factors, including the economic environment.)

2. Basic Policy on Selection of Accounting Standards

In order to ensure comparability with other domestic companies in the same industry, the Group applies Japanese GAAP for accounting standards.

3. Consolidated Financial Statements and Major Notes

(1) Consolidated Balance Sheet

(Unit: thousand yen)

As of June 30, 2023

Assets	
Current assets	
Cash and deposits	2,506,556
notes receivable	60,522
accounts receivable	1,225,389
work in progress	29,224
prepaid expenses	318,584
Other	1,188
Total current assets	4,141,465
fixed assets	
property, plant and equipment	
Buildings	523,298
Accumulated depreciation	△77,595
Buildings, net	445,702
Equipment	274,418
Accumulated depreciation	△184,649
Equipment, net	89,768
Total current assets	535,471
Intangible fixed assets	
Software	145,700
Software in progress	21,585
Goodwill	557,079
Customer-related assets	295,014
Total intangible fixed assets	1,019,380
Investments and other assets	
Investment securities	278,563
Guarantee deposits	263,238
Deferred tax assets	220,556
Others	57,590
Total investments and other assets	819,948
Total fixed a	2,374,800
Total assets	6,516,266

(Unit: thousand yen)

As of June 30, 2023

Liabilities	
current liabilities	
accounts payable – trade	130,525
accounts payable – other	193,570
accrued expenses	204,637
Income taxes payable	223,433
contract liabilities	194,618
Allowance for bonuses	109,564
Allowance for loss on orders received	17,926
Allowance for loss on contracts	64,714
Other	243,178
Total current liabilities	1,382,169
fixed liabilities	
Asset retirement obligations	147,965
deferred tax liabilities	90,333
Other	250
total fixed liabilities	238,550
total liabilities	1,620,720
Total net assets	
capital stock	
capital stock	597,809
Capital surplus	574,509
Retained earnings	4,801,394
treasury stock	△1,078,764
Total shareholders' equity	4,894,950
Valuation and translation adjustments	
Net unrealized gains (losses) on available-for-sale securities, net of taxes	596
Total valuation and translation adjustments	596
Total net assets	4,895,546
Total liabilities and net assets	6,516,266

(2) Consolidated Statements of Income and Consolidated Statements of Comprehensive Income
(Consolidated Statements of Income)

(Unit: thousand yen)

Fiscal year ended June 30, 2023

Net sales	9,797,938
cost of sales	※ 1 5,867,265
Gross profit	3,930,673
Selling, general and administrative expenses	※ 2, ※ 3 3,250,022
Operating income	680,650
Non-operating income	
interest income, Dividends received	12
Sales incentives received	7,840
Subsidy income	37,940
Equity in earnings of affiliates	30,324
Other	12,303
Total non-operating income	88,421
Non-operating expenses	
foreign exchange loss	803
Equity in losses of affiliates	11,259
Loss on investment partnership management	3,458
Fees and commissions	1,148
Other	16,670
Ordinary income	752,401
Extraordinary income	
Gain on sales of investment securities	※ 4 41,471
Total extraordinary income	41,471
Extraordinary loss	
Loss on retirement of fixed assets	※ 5 5,234
Loss on valuation of stocks of subsidiaries and affiliates	※ 6 2,699
Total extraordinary loss	7,934
Income before income taxes and minority interests	785,938
Corporate, inhabitant and enterprise taxes	314,038
Income taxes-deferred	△43,183
Total income taxes	270,854
Net income	515,083
Net income attributable to noncontrolling interests	—
Net income attributable to owners of parent	515,083

(Consolidated Statements of Comprehensive Income)

(Unit: thousand yen)

Fiscal year ended June 30, 2023

Net income	515,083
Other comprehensive income	
Net unrealized gains (losses) on available-for-sale securities, net of taxes	△12,534
Total other comprehensive income	△12,534
Comprehensive income	502,549
(Breakdown)	
Comprehensive income attributable to parent company shareholders	502,549
Comprehensive income attributable to noncontrolling interests	—

(3) Consolidated Statements of Changes in net assets
(Fiscal year ended June 30, 2023)

(Unit: thousand yen)

	Shareholders' Equity				
	Capital stock	Capital surplus	Retained earnings	treasury stock	Total shareholders' equity
Balance at beginning of period	597,809	578,813	4,313,788	△655,901	4,834,510
Change of items during the period					
Net income attributable to owners of the parent			515,083		515,083
Acquisition of treasury stock				△499,918	△499,918
Disposal of treasury stock		△4,303	△27,477	77,055	45,274
Net changes of items other than shareholders' equity					
Total changes of items during the period	—	△4,303	487,605	△422,862	60,439
Balance at the end of the period	597,809	574,509	4,801,394	△1,078,764	4,894,950

	Accumulated other comprehensive income		Net assets
	Unrealized gains (losses) on available-for-sale securities	Total accumulated other comprehensive income	
Balance at beginning of period	13,130	13,130	4,847,640
Change of items during the period			
Net income attributable to owners of the parent			515,083
Acquisition of treasury stock			△499,918
Disposal of treasury stock			45,274
Net changes of items other than shareholders' equity	△12,534	△12,534	△12,534
Total changes of items during the period	△12,534	△12,534	47,905
Balance at the end of the period	596	596	4,895,546

(4) Consolidated Statements of Cash Flows

(Unit: thousand yen)

Fiscal year ended June 30, 2023

Cash flows from operating activities	
Income before income taxes and minority interests	785,938
Depreciation and amortization	301,297
Amortization of goodwill	98,308
Loss (gain) on sales of investment securities	△41,471
Increase (decrease) in provision for bonuses	37,969
Increase (decrease) in allowance for loss on orders received	17,926
Increase (decrease) in allowance for loss on contracts	64,714
Interest and dividend income	△12
Equity in (earnings) losses of affiliated companies	△30,324
Loss on disposal of fixed assets	5,234
Loss (gain) on investment in partnership	11,259
Decrease (increase) in notes and accounts receivable-trade	△276,378
(Increase) decrease in inventories	62,350
Increase (decrease) in notes and accounts payable-trade	17,347
Increase (decrease) in accounts payable-other	△19,498
Increase (decrease) in accrued expenses	△4,999
Increase (decrease) in accrued consumption taxes	77,224
Increase (decrease) in contract liabilities	△42,378
Other	19,118
Subtotal	1,083,626
Interest and dividends received	19,996
Income taxes paid	△213,929
Net cash provided by (used in) operating activities	889,693
Cash flows from investing activities	
Payments for acquisition of property, plant and equipment	△104,944
Payments for acquisition of intangible fixed assets	△56,456
Proceeds from sales of investment securities	91,348
Purchase of investments in subsidiaries resulting in change in scope of consolidation	△894,145
Proceeds from collection of guarantee deposits	199,995
Payments for fulfillment of asset retirement obligations	△23,920
Net cash provided by (used in) investing activities	△788,121
Cash flows from financing activities	
Purchase of treasury stock	△503,250
Other	△4
Net cash provided by (used in) financing activities	△503,254
Effect of exchange rate changes on cash and cash equivalents	—
Net increase (decrease) in cash and cash equivalents	△401,683
Cash and cash equivalents at beginning of period	2,908,239
Cash and cash equivalents at end of year	2,506,556

(5) Notes to Consolidated Financial Statements

(Note on going concern assumption)

Not applicable.

(Basis of Presenting Consolidated Financial Statements)

1 Scope of Consolidation

1.1 Number of consolidated subsidiaries: 1 company

Name of consolidated subsidiary: Time Technologies, Ltd.

Time Technologies Ltd. was included in the scope of consolidation due to the acquisition of new shares in the current consolidated fiscal year.

1.2 Non-consolidated subsidiaries

Name of non-consolidated subsidiary: BrainPad US Inc.

(Reason for exclusion from scope of consolidation)

The non-consolidated subsidiary is small in size, and its total assets, net sales, net income or loss (the amount corresponding to the Company's equity interest), and retained earnings (the amount corresponding to the Company's equity interest) have no material impact on the consolidated financial statements.

2 Application of Equity Method

2.1 Number of affiliates accounted for by the equity method: 1

Name of the affiliate: Dentsu Cross Brain Ltd.

2.2 A non-consolidated subsidiary not accounted for by the equity method (BrainPad US Inc.) is excluded from the scope of application of the equity method because its net income or loss (as calculated by the equity method) and retained earnings (as calculated by the equity method) have a minimal effect on the consolidated financial statements and its overall importance is limited.

2.3 For those companies accounted for by the equity method whose closing dates differ from the consolidated closing date, provisional financial statements as of the consolidated closing date are used.

3 Fiscal Year of Consolidated Subsidiaries

The fiscal year end of consolidated subsidiaries differs from the consolidated fiscal year end as follows.

The financial statements of consolidated subsidiaries with different closing dates are based on the provisional financial statements of the subsidiaries as of the consolidated closing date.

Company Name	Closing date
TimeTechnologies, Ltd	December 31

4 Matters Related to Accounting Policies

4.1 Valuation standards and methods for important assets

4.1.1 Marketable securities

Available-for-sale securities

Other than stocks and other securities without market quotations

Market value method (unrealized gains or losses are reported as a separate component of net assets, and the cost of securities sold is determined by the moving-average method).

Non-marketable stocks and other securities

Stated at cost determined by the moving-average method.

4.1.2 Inventories

Work in process

Stated at cost determined by the specific identification method (balance sheet values are calculated by writing down the book value of inventories based on a decline in profitability).

4.2 Depreciation and amortization methods for significant depreciable assets

4.2.1 Tangible fixed assets

Depreciated mainly by the declining-balance method. However, buildings and structures acquired on or after April 1, 2016 are depreciated using the straight-line method.

The useful lives of major depreciable assets are as follows:

Buildings: 3-8 years

Equipment: 3-20 years

4.2.2 Intangible fixed assets

Software

Software intended for sale in the market is amortized using the larger of an amortizable amount based on estimated sales revenue or an amortizable amount equally distributed over the remaining useful life (3 years).

Software for internal use is amortized mainly by the straight-line method over the estimated useful life (3 to 5 years).

Customer-related assets

Amortized by the straight-line method over the effective period (5 years).

4.3 Accounting standards for significant allowances

4.3.1 Allowance for doubtful accounts

To provide for losses due to bad debt, an allowance for doubtful accounts is provided for the estimated amount of uncollectible receivables. For general receivables, the allowance is computed based on historical bad debt ratios. There is no balance as of the end of the current consolidated fiscal year.

4.3.2 Allowance for bonuses

To provide for the payment of bonuses to employees, an amount accrued for the current fiscal year among the estimated bonus payments is recorded.

4.3.3 Provision for loss on order received

To prepare for future losses on order contracts, an allowance is provided for the estimated amount of future losses on order contracts that are highly probable of incurring losses and for which the amount of losses can be reasonably estimated. In cases where work in process is recorded for order contracts that are likely to incur losses, the estimated amount of such future losses is directly deducted from the balance of work in process to the extent of the balance of such work in process, and the balance after deduction is recorded as allowance for loss on order contracts.

4.3.4 Allowance for losses on contracts

To provide for possible future losses arising from the fulfillment of contracts, the estimated amount of losses is recorded as allowance for losses on contracts.

4.4 Basis for recognition of significant revenues and expenses

4.4.1 Professional services business

4.4.1.1 Consulting/analytics

The Group has performance obligations to provide services such as data application consulting by consultants and data analysis by data scientists. Such performance obligations are determined to be satisfied primarily over a certain period of time, and the Group recognizes revenue as the services are provided.

4.4.1.2 Engineering

The Group has performance obligations to develop systems such as data utilization environments by system engineers. Such performance obligations are determined to be satisfied at a point in time and revenue is recognized upon completion of delivery of the deliverables, mainly in the case of system development involving the delivery of deliverables under a subcontract agreement. In the system development support business, which mainly provides human resources based on quasi-contractual agreements, the Group recognizes revenue as the services are provided, based on the judgment that the obligations are fulfilled over a certain period of time.

4.4.2 Product business

The Group has performance obligations to support its clients' use of data through the provision of its own and third-party products. The Group recognizes revenue as it provides its services,

primarily because the performance obligations are expected to be satisfied over a specified period of time.

- 5 Basis of translation of significant assets and liabilities denominated in foreign currencies into Japanese yen
Monetary assets and liabilities denominated in foreign currencies are translated into Japanese yen at the exchange rates prevailing at the balance sheet date.
- 6 Amortization method and period of goodwill
Goodwill is amortized by the straight-line method over 5 years.
- 7 Scope of cash and cash equivalents in the consolidated statements of cash flows
Cash and cash equivalents consist of cash on hand, deposits that can be withdrawn on demand, and short-term investments with maturities of three months or less at the time of acquisition that are readily convertible into cash and are exposed to insignificant risk of changes in value.

(Change in accounting policy)

(Application of Accounting Standards for Calculation of Fair Value, etc.)

We have applied the "Accounting Standard for Measurement of Fair Value" (ASBJ Statement No. 31, June 17, 2021; hereinafter referred to as the "Accounting Standard for Measurement of Fair Value"), etc. from the beginning of the first quarter of the fiscal year ending June 30, 2023, and in accordance with the transitional treatment prescribed in Paragraph 27-2 of the Accounting Standard for Measurement of Fair Value, we have decided to apply the new accounting policy prescribed by the Accounting Standard for Measurement of Fair Value, etc. prospectively.

The adoption of this accounting standard has no impact on the quarterly consolidated financial statements.

(Notes to Consolidated Statements of Income)

※ 1 Provision for loss on order received included in cost of sales

	Fiscal year ended June 30, 2023
	17,926 thousand yen

※ 2 Major items and amounts of selling, general and administrative expenses are as follows.

	Fiscal year ended June 30, 2023
Salaries and allowances	1,341,160 thousand yen
Provision for bonuses	109,394 thousand yen

※ 3 Total research and development expenses included in general and administrative expenses

	Fiscal year ended June 30, 2023
	53,761 thousand yen

※ 4 Gain on sales of investment securities

This was due to the sale of a portion of investment securities (one listed stock) held by the Company.

※ 5 Details of loss on disposal of fixed assets are as follows

	Fiscal year ended June 30, 2023
Software	737 thousand yen
Software in progress	4,496 thousand yen

※ 6 Loss on valuation of stocks of subsidiaries and affiliates

The Company recognized impairment loss on the shares of BrainPad US Inc., a non-consolidated subsidiary of the Company, due to a significant decline in its real value

(Segment Information, etc.)

1. Overview of Reportable Segments

The reportable segments of the Company and its consolidated subsidiaries (hereinafter referred to as the "Group") are constituent units for which separate financial information is available and which are subject to periodic review by the Board of Directors in order to determine the allocation of management resources and evaluate their performance.

The Group has divisions and subsidiaries by product and service. Therefore, the Group consists of product and service segments based on divisions and subsidiaries, and has two reportable segments: the Professional Services business and the Product business.

The Professional Services business supports client companies' use of data through consulting and human resources support, including data analysis and system development, while the Product business supports client companies' use of data through the provision of in-house and third-party products.

2. Method of calculating sales, profit or loss, assets, liabilities and other items by reportable segment

The accounting method for reported business segments is generally the same as that described in "Basis of Presenting Consolidated Financial Statements. Income of reportable segments is based on operating income.

3. Information on sales, income (loss), assets, liabilities and other items by reportable segment

(Unit: thousand yen)

	Reportable segment			Adjustment amount (Note) 1	Amount on Statement of Income (Note) 2
	Professional Services Business	Product Business	Total		
Net sales					
Net sales to external customers	6,735,658	3,062,280	9,797,938	—	9,797,938
Intersegment sales and transfers	—	—	—	—	—
Total	6,735,658	3,062,280	9,797,938	—	9,797,938
Segment profit (loss)	2,346,980	443,793	2,790,774	△2,110,123	680,650

Notes:

1. Adjustment of segment income includes corporate expenses of 2,110,123 thousand yen that are not allocated to each reportable segment. Corporate expenses mainly consist of selling, general and administrative expenses of sales and administrative departments that do not belong to any reportable segment.
2. Segment income is adjusted with operating profit in the consolidated statements of income.
3. Assets by reportable segment are not shown because the Company does not allocate assets to each reportable segment for internal management purposes.

(Per share information)

	Fiscal year ended June 30, 2023
Net assets per share	227.98Yen
Net income per share	23.72 Yen

(Note) 1. Diluted net income per share is not shown since there are no residual shares.

2. The basis for calculation of net assets per share is as follows

	Fiscal year ended June 30, 2023
Total net assets (Thousands of yen)	4,895,546
Amount deducted from total net assets (thousand yen)	—
Net assets related to common stock at the end of the period (thousand yen)	4,895,546
Number of shares of common stock used in the calculation of net assets per share at the end of the fiscal year (shares)	21,473,992

3. The basis for calculating net income per share is as follows

	Fiscal year ended June 30, 2023
Net income per share	
Net income attributable to shareholders of the parent company (thousand yen)	515,083
Amount not attributable to common shareholders (thousand yen)	—
Net income attributable to shareholders of the parent company for common stock (thousand yen)	515,083
Average number of shares of common stock during the period (shares)	21,718,011