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Key Points of Interest Expected in the Financial Results for the 1st Quarter of the Fiscal Year Ending January 31, 2026

The Company has published a list of anticipated questions and answers in relation to the "Consolidated Financial Results for the 1st Quarter of the Fiscal Year Ending January 31, 2026" and other information announced today. Please see attached a list of expected questions and answers.

Key Points of Interest Expected in the Financial Results for the 1st Quarter of the Fiscal Year Ending January 31, 2026

■Financial Results for the First Quarter and Progress toward Forecasts

Q1: Compared to the 1H forecasts, the progress rate for net sales is 47.2% and the progress rate for operating income is -¥22 million, which is against the 1H forecast of -¥236 million. We would like to know in more detail the probability of achieving the 1H forecast and the assessment of the Q1 results. When 1Q results are subtracted from the 1H forecast, 2Q operating income forecast will be a large deficit, so we would like to know the actual outlook.

1Q sales fell slightly short of the company's internal plan due to Overseas Solutions shortfalls, operating income exceeded the plan in Domestic Solutions and Media Contents, and Overseas Solutions missed the plan. The topics for each business are as follows.

In Domestic Solutions, although sales increased year on year, the gross margin declined due to the impact of an EC large-scale project with high earnings closed in May of the previous fiscal year. SG&A expenses increased due to higher expenses resulting from the hiring of personnel to expand software testing and development, advertising activities to raise awareness, and hiring of AI related specialists and investing in systems.

In Overseas Solutions, the large-scale spot-related projects that we had anticipated were pushed back, and this was a factor behind the shortfall in 1Q sales and earnings. However, this project is expected to be booked sequentially after 2Q. In addition, amid rising personnel costs at various locations, expenses such as relocation of offices to expand personnel were incurred at offshore locations with low personnel costs, while profitability was delayed, resulting in a 1Q loss of ¥94 million. With regard to SG&A expenses, the Group incurred ¥72 million in rebranding expenses to unify the brand names of Side to improve sales, marketing efficiency, and recognition, as a result of business expansion through M&A and other means, which resulted in the dispersion of several brands.

As announced at the end of the previous fiscal year, Media Contents significantly reduced its new investments. We are implementing fundamental restructuring measures in all of our businesses other than contract manufacturing, which is expected to generate stable revenues. As a consequence, the loss in 1Q has narrowed more than planned.

With regard to 2Q outlook, there is a possibility that unused SG&A expenses in 1Q will be incurred in 2Q for Domestic Solutions. In Overseas Solutions, it may take time for offshore bases to become profitable. In Media Contents, the development costs of the game “To Heart”, which AQUAPLUS CO., Ltd is expected to release on June 26 will be amortized in a lump sum to 2Q and recorded as cost of sales. In addition, sales after July 1 will be booked as 3Q sales (the Company will incorporate a 1-month delay in consolidated accounting). As a result, there is a possibility that the deficit will increase. Based on the above, we have left our forecasts conservatively unchanged at this point.

Q2: While the full-year earnings forecast appears to be a fairly high hurdle compared to the first half, is a sharp recovery in earnings expected? Are there any fears of a downward revision?

Looking at the ratio of sales (1H: 2H), the results for FY1/2024 are (47%: 53%), the results for FY1/2025 are (47%: 53%), and the current fiscal year plan is (49%: 51%), which are basically the same assumptions as in the usual years. Also, home video game software debugging tends to become more active in the second half of the fiscal year and there is a seasonality in the delivery of anime productions and entertainment in the stage business being more prevalent in the second half of the year. In Overseas Solutions business, as in the previous fiscal year, large-scale projects are expected to be concentrated in the second half of the fiscal year under review.

With regard to profits, we believe that the full-year profit targets are achievable in view of the following factors: sales growth in the second half of the fiscal year in Overseas Solutions and Media Contents, as explained in Q1, expenses will be greatly incurred in the first half of the fiscal year due to the lump-sum amortization of game development costs. In addition, the various SG&A expenses that Domestic Solutions has strategically estimated in the current fiscal year are also delayed due to budget execution, which may eventually be partially undelivered.

We are seriously aware of the situation in which the forecasts have been revised downward for three consecutive fiscal years. Consequently, we have conservatively estimated both sales and expenses, and we are making concerted efforts to achieve results that exceed these forecasts.

Q3: In P.5 of the Supplementary Information on Financial Results, personnel-related expenses have increased significantly year-on-year and we want to hear the details.

In Domestic Solutions, we are focusing on creating a sales structure to strengthen orders for software development/testing from outside the large-scale gaming market. As for software testing and development, not only engineers whose personnel costs are booked as costs, but as we are hiring wide range of sales personnel to expand orders, salaries and recruitment expenses for these personnel increased year on year as SG&A expenses. In anticipation of labor shortages and further AI penetration in the future, we are hiring and training AI specialists and we are investing in creating an environment where we can use AI to provide services that meet clients' needs.

As described in Q2 of " Key Points of Interest Expected in the Full Year Financial Results for the Fiscal Year Ended January 31, 2025", each of Overseas Solutions and Media Contents' core companies, Side International Holdings Limited and HIKE Inc., adopted a CFO to review their business management systems. Under the respective CFO, the companies are reviewing its business management systems as an organization, and the associated personnel costs are increasing. As for Overseas Solutions (Side Group), the Group had concentrated its finance operations in India, where personnel costs are relatively low, but in order to support the growth of Overseas Solutions and its business sites and strengthen internal controls over the medium to long term as the scale of operations expands, the Group is shifting to a structure in which the finance functions are dispersed among the business sites in the U.K., India, and each country. Specifically, despite lower labor costs than in the U.S. and other countries, we are conducting global control and advanced operations in the U.K., where we can recruit talented human resources and we are concentrating our paying and recording sales operations in India, where labor costs are low. Also, for sites with large scale operations, we have assigned local management accounting personnel to improve the profitability of the sites.

Q4: Currently, the exchange rate is volatile, but we would like to know the impact on the current financial results.

In Overseas Solutions, sales increased ¥560 million from ¥4.3 billion in previous fiscal year 1Q to current fiscal year 1Q of ¥4.86 billion. Out of which, the impact of exchange rates is an increase of ¥150 million. Compared to assumed exchange rate of 145 yen per US dollar, while the actual exchange rate for 1Q (average rate for the period) is 152.95 yen to the U.S. dollar.

Q5: Please tell us the reasons why foreign exchange losses (non-operating expenses) are very large.

In our group, we mainly record intra-group loans (foreign currency-denominated assets) to foreign subsidiaries in Overseas Solutions. The foreign exchange rate for these loans appreciated from 154.43 yen per US dollar at the end of the previous period to 142.57 yen per US dollar at the end of the first quarter of the current period (fiscal year-end rate), resulting in a foreign exchange loss of 332 million yen on these loans. With respect to this loan, foreign exchange gains and losses are incurred in accordance with exchange rate fluctuations.

■ Business Environment and Strategies for Each Operation

Q6: With regard to Domestic Solutions, the recent profit margins have been much lower than in the past. Will they recover in the future?

In Domestic Solutions business, sales are projected to increase from the previous fiscal year, but SG&A expenses will also increase significantly, so profits are projected to decline from the previous fiscal year. As explained in Q1 & Q3, SG&A expenses are increasing in various measures. In addition, with the aim of improving the working environment for employees and improving the efficiency of operations, we are implementing the consolidation of sites that we have been working on for some time. The development of new sites has proven to improve employee turnover and recruiting efficiency by increasing employee satisfaction (ES), and will be promoted as part of human capital investment with an eye to future cost reductions. We are also conducting R&D on advanced technologies to improve operational AI and DX, and introducing management systems to monitor and improve profitability.

Although the implementation of these measures is expected to increase one-time expenses, therefore resulting in a decrease in profit for Domestic Solutions, we believe that this is a growth investment necessary to respond quickly to client needs and expand the scale of our business, and an investment that can be recovered through future sales and profit growth.

Q7: Overseas Solutions posted a loss in 1Q, but can sales and profits achieve the forecasts for the first half and full year?

Regarding sales, as explained in Q1, the delay of the large spot projects we had expected was a major factor, but we already have adequate orders in the pipeline (orders received) for 2Q and beyond, and we expect to be able to achieve our full-year forecast by regaining delays.

Regarding profit, as explained in Q1, although the company posted a loss in 1Q due to a combination of various expenses, the monetization of offshore bases has been slower than expected, and the profit forecast for the 1H and full year may not be achieved. On the other hand, since Domestic Solutions and Media Contents are exceeding the profit plan, overall profit is expected to be in line with the 1H and full-year forecasts.

Q8: Please tell us about Media Contents' restructuring and business reorganization.

In Media Contents, given that we were unable to achieve profitability on our projected timetable and continue to post significant losses, we have significantly reduced our new investments. We are implementing fundamental restructuring measures in all of our businesses other than contract production, which is expected to generate stable revenues. As a result, our current losses have been narrowing more than planned. We will promptly announce any matters that require disclosure.

■ Future Management Policies

Q9: I would like to know your vision for business growth.

Previously, we had targeted sales of 100 billion yen and an operating profit margin of 10% for FY1/2029, but we are considering revising these targets due to changes in our Media Contents' growth policy. We are considering postponing the target of achieving 100 billion yen, changing the operating profit margin to EBITDA margin, and achieving the target of 10% ahead of schedule. We will notify you as soon as the review is completed.

[Disclaimer]