



Consolidated Financial Results for the 3rd Quarter of the Fiscal Year Ending September 30, 2023 (Japanese GAAP)

August 8, 2023

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 Scheduled date to file quarterly securities report: August 8, 2023 Scheduled date to commence dividend payment: __
 Preparation of supplementary materials for quarterly results: Yes
 Holding of financial results meeting: Yes (For institutional investors and securities analysts)

(Millions of yen with fractional amounts rounded down, unless otherwise noted)

1. Consolidated Financial Results for the 3rd Quarter of the Fiscal Year Ending September 30, 2023 (from October 1, 2022 to June 30, 2023)

(1) Consolidated operating results (cumulative)

(Percentages indicate year-on-year changes.)

	Net sales		Adjusted operating income (loss)		Operating income (loss)		Ordinary income (loss)		Ordinary income (loss) attributable to owners of parent	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
Nine months ended June 30, 2023	6,310	16.5	(272)	—	(548)	—	(591)	—	(647)	—
June 30, 2022	5,418	—	—	—	(633)	—	(720)	—	(676)	—

Notes: 1. Comprehensive income Nine months ended June 30, 2023 (634) millions of yen (—%) Nine months ended June 30, 2022 (699) millions of yen (—%)

2. Adjusted operating income (loss) = Operating income + Goodwill amortization + Stock-based compensation expenses + Other non-recurring expenses

	Net income (loss) per share	Diluted income (loss) per share
	Yen	Yen
Nine months ended June 30, 2023	(16.60)	—
June 30, 2022	(17.72)	—

(2) Consolidated financial position

	Total assets	Net assets	Equity-to-asset ratio
	Millions of yen	Millions of yen	%
As of June 30, 2023	7,748	4,242	52.3
September 30, 2022	7,091	4,070	57.2

Reference: Equity As of June 30, 2023 4,055millions of yen As of September 30, 2022 4,052millions of yen

2. Dividends

	Dividend per share				
	End of first quarter	End of second quarter	End of third quarter	Year-end	Annual
	Yen	Yen	Yen	Yen	Yen
Fiscal year ended September 30, 2022	—	0.00	—	0.00	0.00
Fiscal year ending September 30, 2023	—	0.00	—		
Fiscal year ending September 30, 2023 (Forecast)				0.00	0.00

Notes Revisions to the forecasts of cash dividends most recently announced: None

3. Forecast of Consolidated Results for Fiscal Year Ending September 30, 2023 (from October 1, 2022 to September 30, 2023)

(Percentages represent year-on-year changes.)

	Net sales		Adjusted operating income (loss)	
Full Year	Millions of yen 8,523	% 16.8	Millions of yen (630)	% —

Notes: 1. Revisions to the forecast of results most recently announced: Yes

2. Adjusted operating income (loss) = Operating income + Goodwill amortization + Stock-based compensation expenses + Other non-recurring expenses

* Notes:

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

(2) Application of specific accounting methods for preparing the quarterly consolidated financial statements: : None

(3) Changes in accounting policies, accounting estimates and restatement
a. Changes in accounting policies due to revisions to accounting standards and other regulations : None
b. Changes in accounting policies due to other reasons : None
c. Changes in accounting estimates : None
d. Restatement : None

(4) Number of issued shares (Common shares)

a. Total number of issued shares at the end of the period (including treasury shares)	As of June 30, 2023	39,339,617shares	As of September 30, 2022	38,606,900shares
b. Number of treasury shares at the end of the period	As of June 30, 2023	137shares	As of September 30, 2022	63shares
c. Average number of outstanding shares during the period (cumulative from the beginning of the fiscal year)	As of June 30, 2023	39,023,155shares	As of June 30, 2022	38,207,281shares

* This quarterly financial results report is out of scope from quarterly review conducted by certified public accountants or audit firms.

* Explanation of the appropriate use of earnings forecasts and other special notes

(Disclaimer regarding forward-looking statements, etc.)

The earnings forecasts and other forward-looking statements contained in this document are based on information currently available to the Company and on certain assumptions deemed reasonable by the Company. They are not intended as a promise by the Company that they will be achieved. Further, actual earnings, etc. may differ materially due to a variety of factors.

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1. Qualitative Information Regarding Results for the Period

(1) Overview of Operating Results

With the mission to “Maximize the Value of People with the Power of Data,” the Company aims to return consumers (Note 1) the enormous amounts of diverse data that exists in the world as something valuable and distributing rich experiences as well, by its CX (Customer Experience) (Note 2) platform KARTE via the cloud (Note 3) to companies that operate websites, smartphone apps, and other similar businesses.

With so many services now available online, including shopping, travel, and finance, the Company believes that consumers do not want only simple conveniences such as being able to shop or make reservations from home. Rather, customers want high-quality communications and experiences that enable them to receive optimal proposals matched to their interests and situations.

Meanwhile, in order to respond to such consumers’ needs, companies need to correctly understand the situations of each individual through the accumulation, integration, and analysis of data. Based on this, companies are required to either create appropriate communications or build a system to personalize their websites or smartphone apps for their customers. However, these efforts are currently so complex and difficult for companies.

Through using KARTE, companies can analyze a variety of data, most notably real-time behavioral data on websites and smartphone apps, on a per-user basis. This allows the interests and status of each user to be visualized, therefore the Company believes that this will make it easier to understand users not only in terms of PVs (Note 4) or UUs (Note 5) as figures, but also as individual people. Companies can then implement various communication measures that have been matched to the interests and situations of each individual user and verify the results of it through using KARTE.

As companies are increasingly interested in improving customer experience and utilizing data, KARTE is being used not only in the area of marketing on websites and smartphone apps, but also in a variety of corporate activities such as customer support. By enhancing the functions of KARTE and providing various products, we will continue to expand the data environment that enables companies to comprehensively understand their users in an integrated manner.

During the current 3rd Quarter Consolidated Cumulative Period, the Company made organizational changes and increased its workforce to strengthen sales of KARTE, and also took steps to further expand its business domain.

As a result, for the end of the current 3rd Quarter Consolidated Cumulative Period, the Company’s ARR (Note 6) was 7,603,077 thousand yen. Meanwhile, the Company’s financial results for the same period were net sales of 6,310,827 thousand yen, an operating loss of 548,137 thousand yen, an ordinary loss of 591,745 thousand yen, and a net loss attributable to the parent company of 647,921 thousand yen.

The description by segment is omitted because the Group is the only segment in the SaaS business.

(Note 1) “Consumers” refers to all of the general, unspecified number of people in the world, while “Users” refers to the people to whom companies provide products and services.

(Note 2) CX stands for Customer Experience, which is defined to include the experience that the customers feel good, i.e., “the value that the customers realize through the experience.”

(Note 3) The term “cloud” here means cloud computing, which is a general term for the provision of software and other systems as a service through the internet.

(Note 4) PV stands for Page Views. It refers to the number of times a particular page in a website is opened. It is an indicator used to measure how much a website is being viewed.

(Note 5) UU stands for Unique Users. It refers to the number of distinct individuals who visited a particular website or accessed a particular smartphone app during any given period.

(Note 6) ARR stands for Annual Recurring Revenue. It is calculated by multiplying the monthly subscription revenue at the end of each quarter by 12. It is a performance indicator for net sales, which are expected to be obtained only from the existing subscription contracts during the 12 months starting the month following the final month of this quarter, based on the assumption that all existing subscriptions will be renewed with the same conditions at the timing of renewal.

(2) Overview of Financial Position Results

(Assets)

Current assets as of the end of the 3rd quarter consolidated accounting period was 5,621,186 thousand yen, up 472,337 thousand yen from the end of the previous consolidated fiscal year. This was mainly due to an increase of 263,808 thousand yen in accounts receivable - trade and an increase of 322,031 thousand yen in other current assets. Non-current assets were 2,127,468 thousand yen, up 185,016 thousand yen from the end of the previous consolidated fiscal year. This was mainly due to an increase of 65,425 thousand yen in goodwill and an increase of 138,204 thousand yen in long-term prepaid expenses under investments and other assets.

As a result, total assets were 7,748,654 thousand yen, up 657,353 thousand yen from the end of the previous consolidated fiscal year.

(Liabilities)

Current liabilities as of the end of the 3rd quarter consolidated accounting period were 2,544,170 thousand yen, up 662,253 thousand yen from the end of the previous consolidated fiscal year. This was mainly due to an increase of 236,853 thousand yen in contract liabilities and an increase of 412,961 thousand yen in accounts payable. Non-current liabilities were 962,454 thousand yen, a decrease of 176,789 thousand yen from the end of the previous fiscal year. This was mainly due to a decrease of 183,821 thousand yen in long-term debt.

As a result, total liabilities were 3,506,624 thousand yen, up 485,463 thousand yen from the end of the previous fiscal year.

(Net assets)

Total net assets as of the end of the 3rd quarter consolidated accounting period were 4,242,030 thousand yen, up 171,889 thousand yen from the end of the previous fiscal year. This was mainly due to the posting of a net loss attributable to the owners of the parent company of 647,921 thousand yen despite an increase in common stock of 255,666 thousand yen, an increase of capital surplus of 379,134 thousand yen and an increase of non-controlling interests of 167,698 thousand yen. As a result, the equity-to-asset ratio was 52.3% (57.2% as of the end of the fiscal year).

(3) Explanation of Consolidated Financial Results Forecasts and Other Forward-looking Statements

Please refer to the “Announcement of Revision of Full-year Consolidated Earnings Guidance” released today (August 8, 2023) for the revised consolidated earnings forecasts for the fiscal year ending September 30, 2023, which were announced on November 8, 2022.

2. Quarterly Consolidated Financial Statements and Significant Notes Thereto

(1) Quarterly Consolidated Balance Sheets

(Thousands of yen)

	Previous consolidated fiscal year (ended Sep. 30, 2022)	3rd quarter consolidated accounting period (ended Jun. 30, 2023)
Assets		
Current assets		
Cash and deposits	4,240,577	4,127,074
Notes and accounts receivable - trade	710,444	974,253
Other	197,826	519,858
Total current assets	5,148,848	5,621,186
Non-current assets		
Property and equipment	60,814	68,727
Intangible non-current assets		
Goodwill	1,444,600	1,510,025
Total non-current intangible assets	1,444,600	1,510,025
Investments and other assets		
Investment securities	110,395	64,603
Bankruptcy reorganization claims, etc.	—	3,388
Deferred tax assets	—	25,148
Lease and guarantee deposits	310,218	305,966
Long-term loans to employees	16,414	4,775
Long-term loans to directors	—	10,007
Other	10	138,214
Allowance for doubtful receivables	—	(3,388)
Total investments and other assets	437,038	548,716
Total non-current assets	1,942,452	2,127,468
Total assets	7,091,301	7,748,654
Liabilities		
Current liabilities		
Accounts payable	5,632	9,270
Short-term debt	200,000	4,162
Current portion of long-term debt	513,076	284,708
Accounts payable	456,581	869,542
Income taxes payable	32,272	38,750
Contract liabilities	396,699	633,552
Allowance for losses on order received	9,289	76,210
Other	268,366	627,973
Total current liabilities	1,881,916	2,544,170
Long-term liabilities		
Long-term debt	1,126,438	942,617
Deferred tax liabilities	12,805	19,837
Total long-term liabilities	1,139,243	962,454
Total liabilities	3,021,160	3,506,624

(Thousands of yen)

	Previous consolidated fiscal year (ended Sep. 30, 2022)	Current 3rd quarter consolidated accounting period (ended Jun. 30, 2023)
Net assets		
Shareholders' equity		
Common stock	2,690,028	2,945,695
Capital surplus	4,650,030	5,029,165
Retained earnings	(3,315,980)	(3,963,901)
Treasury shares	(228)	(279)
Total shareholders' equity	4,023,850	4,010,679
Accumulated other comprehensive income (loss)		
Deferred gains or losses on hedges	29,015	44,947
Total accumulated other comprehensive income (loss)	29,015	44,947
Stock acquisition rights	5,718	7,147
Non-controlling interests	11,557	179,255
Total net assets	4,070,140	4,242,030
Total liabilities and net assets	7,091,301	7,748,654

(2) Quarterly Consolidated Statements of Profit & Loss and Quarterly Consolidated Statements of Comprehensive Income
(Quarterly Consolidated Statement of Income (Loss))
(3rd Quarter Consolidated Cumulative Period)

	(Thousands of yen)	
	Previous 3rd Quarter Consolidated Cumulative Period (from October 1, 2021 to June 30, 2022)	Current 3rd Quarter Consolidated Cumulative Period (from October 1, 2022 to June 30, 2023)
Net sales	5,418,937	6,310,827
Cost of sales	1,468,992	1,770,850
Gross profit	3,949,945	4,539,977
Selling, general and administrative expenses	4,583,852	5,088,115
Operating income (loss)	(633,906)	(548,137)
Non-operating income		
Interest income	174	152
Subsidy income	661	225
Commissions received	970	223
Dividend income	—	0
Other	337	2,496
Total non-operating income	2,144	3,097
Non-operating expenses		
Interest expenses	21,105	15,957
Foreign exchange loss	51,710	11,365
Other	15,621	19,382
Total non-operating expenses	88,436	46,705
Ordinary income (loss)	(720,199)	(591,745)
Extraordinary losses		
Loss on valuation of investment securities	—	45,791
Total extraordinary losses	—	45,791
Quarterly income (loss) before income taxes	(720,199)	(637,536)
Income taxes - current	3,303	11,996
Income tax adjustments	—	1,232
Total income taxes	3,303	13,228
Net income (loss)	(723,502)	(650,765)
Net income (loss) attributable to non-controlling interests	(46,653)	(2,843)
Net income (loss) attributable to owners of parent	(676,848)	(647,921)

(Quarterly Consolidated Statement of Comprehensive Income (Loss))
(3rd Quarter Consolidated Cumulative Period)

	(Thousands of yen)	
	Previous 3rd Quarter Consolidated Cumulative Period (from October 1, 2021 to June 30, 2022)	Current 3rd Quarter Consolidated Cumulative Period (from October 1, 2022 to June 30, 2023)
Net income (loss)	(723,502)	(650,765)
Other comprehensive income		
Deferred gains or losses on hedges	24,294	15,932
Total other comprehensive income (loss)	24,294	15,932
Comprehensive income (loss)	(699,208)	(634,832)
(Breakdown)		
Comprehensive income attributable to owners of the parent	(652,554)	(631,989)
Comprehensive income attributable to non-controlling interests	(46,653)	(2,843)

(3) Notes on Quarterly Consolidated Financial Statements

(Notes regarding Assumption of a Going Concern)

Not applicable.

(Notes on Significant Changes in the Amount of Shareholders' Equity)

The Company issued new shares as restricted stock compensation to executive officers and employees on December 19, 2022 by resolution of a Board of Directors meeting held on November 8, 2022. In addition, the Company issued new shares as restricted stock compensation to directors on June 15, 2023 by resolution of a Board of Directors meeting held on May 25, 2023. As a result, common stock increased 236,104 thousand yen, and the capital surplus increased 236,104 thousand yen as of the end of the 3rd quarter consolidated cumulative period.

In addition, the capital surplus increased 123,468 thousand yen as of the end of the 3rd quarter consolidated accounting period, mainly due to the allocation of new shares to third parties conducted by its consolidated subsidiary EmotionTech, Inc.

As a result, common stock was 2,945,695 thousand yen, and the capital surplus was 5,029,165 thousand yen as of the end of the 3rd quarter consolidated accounting period.

(Business combinations, etc.)

1. Finalization of provisional accounting treatment of business combination

The business combination with agito, Inc., which took place on October 12, 2022, was accounted for provisionally in the 1st consolidated accounting period, but the accounting treatment was finalized in the 3rd consolidated accounting period. There is no change in the amount of goodwill due to the finalization of this provisional accounting treatment.

Amount of goodwill, basis of recognizing goodwill, and the method and period of amortization

(1) Amount of goodwill

202,700 thousand yen

(2) Basis of recognizing goodwill

Goodwill mainly represents the expected future profitability of agito's business.

(3) Method and period of amortization

Straight-line amortization over 6 years

Transactions under common control, etc.

(Additional acquisition of subsidiary shares)

At a meeting of the Board of Directors held on May 25, 2023, the Company resolved to underwrite a portion of a third-party allotment of new shares to be conducted by its consolidated subsidiary Emotion Tech, Inc. and to acquire shares from non-controlling shareholders, and the payment was completed on May 29 and May 30, 2023.

(1) Transition Overview

(i) Description of the Merging Companies and Their Businesses

Name of Merging Company: Emotion Tech, Inc.

Business activities: Development and operation of the customer experience (CX) management cloud "EmotionTech CX" and the employee experience (EX) management cloud "EmotionTech EX"

(ii) Date of combination

May 29, 2023 (acquisition of shares from non-controlling shareholders)

May 30, 2023 (acquisition of shares by underwriting a third-party allotment of new shares)

June 30, 2023 (Deemed acquisition date)

(iii) Legal form of business combination

Allocation of new shares to third parties other than the Company and its subsidiaries and acquisition of shares from non-controlling shareholders

(iv) Name of company after combination

No change.

(v) Other details of the transaction

Since its establishment in March 2013, Emotion Tech, Inc. has supported more than 500 companies in the field of experience management (XM), which leverages feedback from customers and employees in business activities. This business combination was implemented with the aim of further strengthening the service development and organizational structure.

As a result of this transaction, the Company's ownership ratio decreased from 64.0% to 62.9%.

- (2) Acquisition cost of additionally acquired subsidiary shares and breakdown by type of consideration
 - Consideration for acquisition (Cash and deposits) 297,375 thousand yen
 - Acquisition cost 297,375 thousand yen
- (3) Details of the accounting treatment
 - In accordance with the "Accounting Standard for Business Combinations" (ASBJ Statement No. 21, January 16, 2019) and the "Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures" (ASBJ Guidance No. 10, January 16, 2019), the transaction was treated as a transaction with a non-controlling shareholder, which falls under transactions under common control, etc.
- (4) Matters Related to Changes in the Company's Interest in Relation to Transactions with Non-controlling Shareholders
 - (i) Main reasons for changes in capital surplus
 - Allocation of new shares to third parties other than the Company and its subsidiaries and change in equity due to acquisition of additional shares
 - (ii) Amount of capital surplus increased by transactions with noncontrolling shareholders
 - 123,468thousand yen